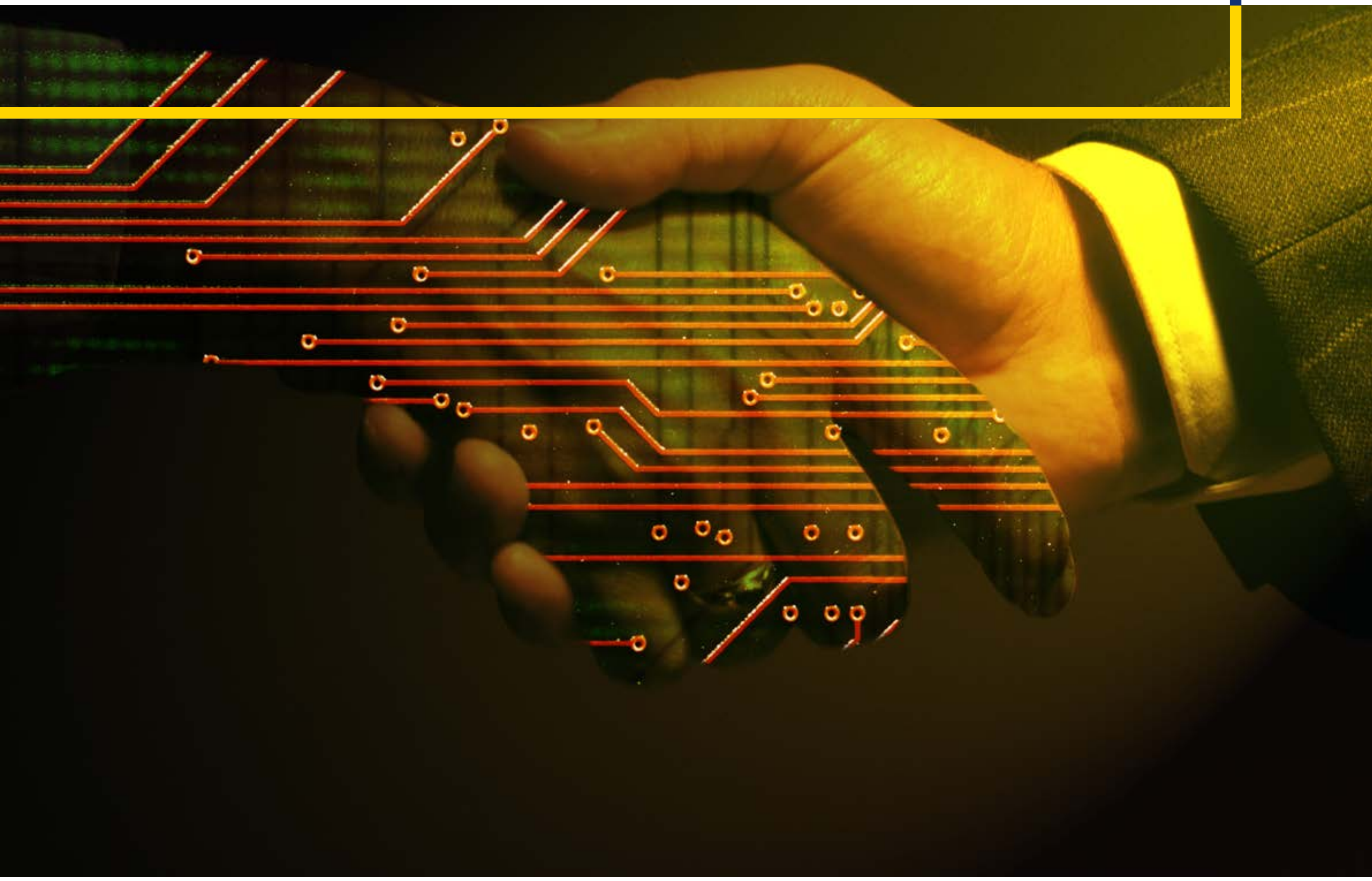
ASEAN SMEs

Are you transforming for the future?



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Contents

Foreword

With the Association of Southeast Asian Nations (ASEAN) having celebrated its 50th anniversary recently, it was time to look at the progress and potential of one of the biggest contributors to the region's prosperity.

Small- and medium-sized enterprises (SMEs) are known as the backbone of local economies across ASEAN. SMEs now account for more than 50% of a country's gross domestic product (GDP) and up to 30% of its exports.

In the region, SMEs are often the largest source of local employment across all economic sectors. In countries such as Thailand and Vietnam for example, they account for nearly 99% of all registered businesses and employ more than 70% of the workforce.

With SMEs making such a significant contribution to the development and prosperity of ASEAN, EY, United Overseas Bank (UOB) and Dun & Bradstreet (D&B) have prepared a report on the insights into the challenges ASEAN SMEs face and the support they need to achieve sustainable business growth.

More than 1,200 SMEs were surveyed in late 2017 across the six largest ASEAN countries: Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam. The findings are presented in this inaugural *ASEAN SME Transformation Survey.*

The report holds detailed observations covering the growth strategies and expectations of ASEAN SMEs, their operational challenges, investment plans and their attitudes towards globalization. It examines how SMEs engage with their banks, their sources of financing and the benefits to be derived from digital solutions, of which several case studies are included.

The report also explores how governments can further facilitate SME development. It offers guidance to SMEs on adapting to the challenges and changes so as to seize the opportunities ahead.

As these SMEs work their way through the complexities of change today, we hope that this report provides them, their governments, supporting financial institutions and service providers with fresh insights into how the ecosystem can support more fully the growth of SMEs for the long term.

With the continued success of the SMEs in the region, the economic progress of ASEAN is more assured.

Change is imminent. But are SMEs transforming quick enough?

Change is essential if enterprises are to be competitive, resilient, flexible and to flourish for the long term. However, it can be challenging for SMEs to embark on transformation while taking a business-as-usual approach. Those who are open to innovation and transformation, raising efficiencies, attracting talent and strengthening their offerings are the ones most likely to thrive in the digital economy.

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The ASEAN growth story for SMEs

Rise of the region

Established in 2015, the ASEAN Economic Community (AEC) ushered in a new era of growth, cooperation and opportunity among the group's 10 members.

As a diverse and dynamic region both demographically and economically, ASEAN's GDP in 2017 surpassed that of the United Kingdom and is expected to exceed Japan's by 2030.[i] The coming decade will see ASEAN continue to be an attractive base for SMEs within and outside the region, spurred by:

Young demographic profile

ASEAN is in a 'demographic sweet spot' with a youthful workforce and generous consumer base of more than 646 million people. Unlike more mature countries such as Japan, the region's working population surpasses its older dependents, spurring economic expansion, generous consumer and investment spending and wealth accumulation.

Burgeoning middle class

Less than half of ASEAN's population is located in urban areas, much lower than the average of 80% in higher-income countries. ASEAN is poised to experience one of the fastest urbanisation rates globally as the workforce transitions to higher-value roles, in turn accelerating incomes expansion and wealth accumulation.

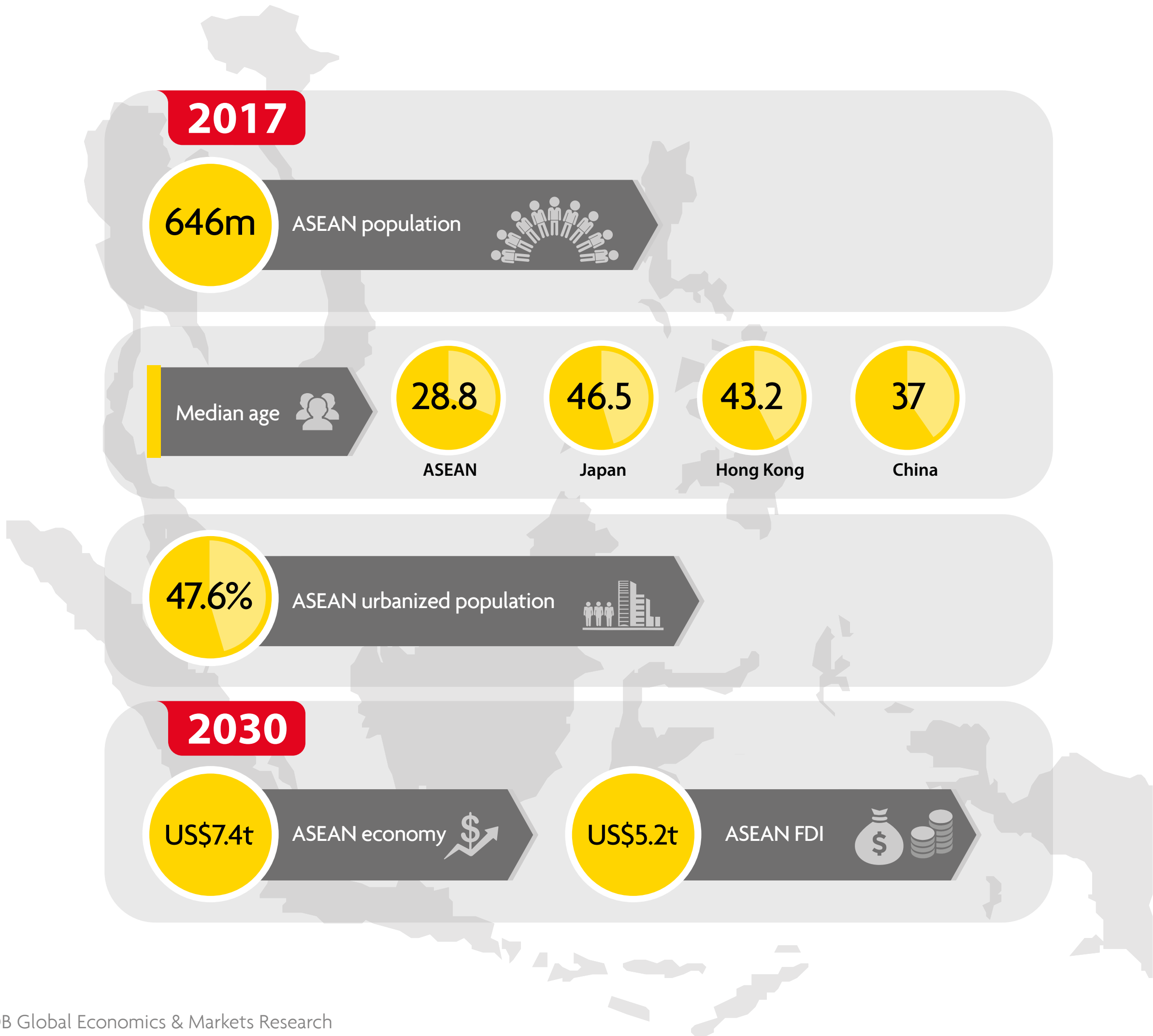
Expanding domestic and foreign investments

Foreign direct investment (FDI) into ASEAN is expected to nearly triple by 2030. This presents immense expansion opportunities for SMEs particularly as foreign investment and talent help to enhance ASEAN's production value chain and grow regional exports.

Rise of China

The China-ASEAN connection will be another growth catalyst for the region. Several initiatives such as the upgrading of the China-ASEAN free-trade agreement (FTA), formation of the Asian Infrastructure Investment Bank in 2016, and China's current Belt and Road Initiative (BRI) will promote further cooperation between both regions.

These four drivers are paving the way for ASEAN's regional integration, with SMEs well-positioned to benefit from the resulting economic, trade, financial and social cohesion.



Source: UOB Global Economics & Markets Research

ASEAN at a glance

ASEAN-6 country outlook in 2018-19

Indonesia

- GDP growth from higher private consumption
- Robust agriculture, manufacturing and services
- Government investments in construction and transportation

Philippines

- Stellar GDP growth from rise in imports and external demand
- Firm domestic consumption
- Manufacturing and services are key drivers

Thailand

- Growth momentum picking up
- Stronger exports, tourism and improved public infrastructure investment
- Higher private consumption from agricultural income

Malaysia

- Benefits from the recovery in commodity prices, world trade and rising exports
- Strong expansion in domestic consumption and private investment
- Services and transportation sectors to profit from rising tourism

Singapore

- GDP growth remains healthy
- Export-oriented manufacturers and service sectors are key performers
- Construction and shipping remain lacklustre

Vietnam

- GDP expansion remains high
- Increasing trade opportunities driving manufacturing growth
- Construction, transportation and services boosted by FDIs

Source: Dun & Bradstreet

In the next two years, the economies of ASEAN are poised for strong expansion driven by private consumption and public investment:

- The region's rising middle class, stable labour market conditions and real wage acceleration will drive an increase in consumer spending enabled by new technologies
- Investment will be supported by public spending on infrastructure projects, particularly in markets such as Indonesia, the Philippines, Thailand, and Vietnam.
- Strong external demand in major economies and particularly China, ASEAN's biggest importer, will accelerate the region's growth.

Such immense growth opportunities, greater economic integration and intraregional trade will influence the outlook for SMEs in the ASEAN-6, as highlighted below:

Operational outlook for ASEAN SMEs

Indonesia

- Economic growth accelerated since 2015 as a result of government reforms
- Pro-business policies, such as tax incentives and streamlining business license applications, have supported SME growth
- Climbed the rankings to reach 72 out of 190 in the 2018 World Bank's Ease of Doing Business Index[1]
- Stable credit environment enables higher disbursements of SME loans by financial institutions

Malaysia

- Strong increase in domestic consumption and private investment
- Increased government spending in public infrastructure and utilities a boost to employment
- Ranked 24 out of 190 in 2018 World Bank's Ease of Doing Business Index
- Rising Chinese FDI will benefit SMEs through job creation and infrastructure projects

Philippines

- Increased government spending in infrastructure benefitting transport and construction sectors; stable household consumption and rising incomes boosting domestic activities
- Improved relations with China facilitating cross-border trades and driving enterprise expansion plans
- Ease of Doing Business can be improved at 133 out of 190 in 2018
- Rapid loan growth could lead to potential non-performing loan concerns and pullback in SME financing

Source: Dun & Bradstreet

[1] According to the World Bank's Ease of Doing Business Index for 2018, 190 economies were ranked on their ease of doing business, with highest rankings for those with regulatory environments being most conducive to the starting and operation of a local enterprise. Scores were tabulated based on these 10 factors and applicable as of June 2017: (1) Starting a Business (2) Dealing with construction permits (3) Getting Electricity (4) Registering Property (5) Getting Credit (6) Protecting minority investors (7) Paying Taxes (8) Trading across borders (9) Enforcing contracts and (10) Resolving insolvency. For more details, please reference: http://www.doingbusiness.org/rankings

Singapore

- Solid public finances and fiscal buffers negate potential economic shocks
- Came in 2nd out of 190 globally in the 2018 World Bank's Ease of Doing Business Index, and the best in ASEAN
- Asset deterioration plateaued for oil and gas sector but cash flow issues from increased payment delays plague transport and storage sectors
- Proactive government initiatives raise capability development, productivity, internationalisation, digitalisation and skills

Thailand

- Government spending on infrastructure supports transport and construction sectors
- Ranked 26 of 190 in 2018 World Bank's Ease of Doing Business Index
- Economic measures introduced to curb overcharging borrowers with exorbitant lending rates by microfinance institutions
- Lower household debt levels will boost domestic activities

Vietnam

- Improvements in business transparency will enhance competitiveness and attract higher foreign investments
- Ranked 68 out of 190 in 2018 World Bank's Ease of Doing Business Index
- Rising private sector debts could dampen SME financing
- Pro-business initiatives like corporate tax reductions will spur growth of SMEs

ASEAN SME Transformation Survey

This section shares our observations on these regional enterprises' strategy and operations, their banking engagements and channel preferences, source of financing and their views on the role of governments in facilitating SME development.

To understand how ASEAN SMEs are positioning themselves to participate in the region's growth story and to adapt in the changing environment, we interviewed 1,235 SMEs across a number of sectors in the ASEAN-6.[2]

[2] Survey results are based on aggregated findings from 1,235 SMEs interviewed across 6 ASEAN markets in late 2017. Responses are based on feedback from individuals representing these enterprises during the survey period, and may not necessarily be fully reflective of the regional SME markets as a whole. See the Appendix for full demographic details.

Survey highlights

- **1-in-2** SMEs forecast revenue expansion in **FY18**
- Optimism highest in agriculture, manufacturing, financial services
- Operational obstacles: labour shortages, manpower cost, forex volatility, access to reasonably priced capital
- **37%** of SMEs currently have an overseas presence
- **47%** are satisfied with their core financial provider, but **37%** want deeper engagement and holistic business advice
- **66%** connect online with their banks at least weekly
- **73%** have existing loans from banks and finance companies
- The average loan approval process takes **15** days
- **58%** are open to alternative funding sources
- **4-in-5** SMEs value government support that provides:
  - Access to finance
  - Subsidies/tax incentives
  - Digital enhancements
  - Cross-border assistance

Our interviews revealed that the operational prospects for ASEAN SMEs are improving amid growth in regional markets. The need for change is intensifying. Enterprises must continue implementing productivity improvements, upskilling talent and embracing technological enablers to enhance and differentiate their product and services. This will help achieve sustainable growth in today's digital economy.

For a more granular view of the SME Survey results, go to Regional SME transformation survey to customise your information by country and sector or to cross-reference responses.

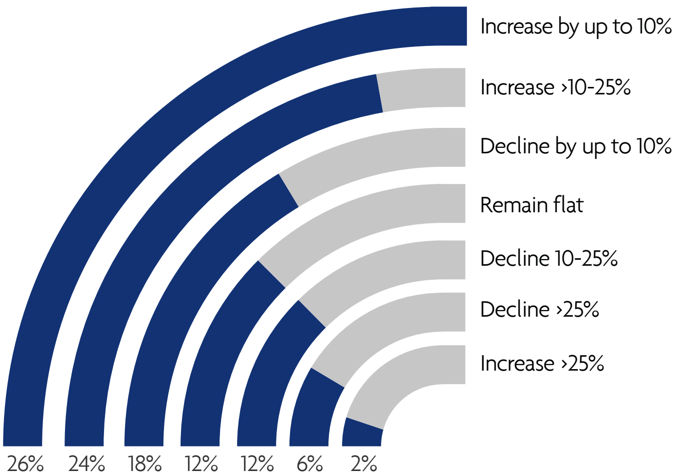
Strategy and operations

What are the growth expectations and operational challenges of ASEAN SMEs, their strategic focus, planned investments and views on globalisation for continued growth in the digital economy?

Growth expectations

Despite global economic headwinds and challenging local conditions such as rising costs and flagging productivity, ASEAN SMEs generally have an optimistic outlook, with 52% of survey respondents anticipating revenue growth and 25% projecting a double-digit expansion in revenue. This reflects the region's positive environment – nations experiencing muted growth are approaching the tail end of their economic slowdown and restructuring, while those approaching a 'demographic sweet spot' will benefit from multiple factors to fuel SME growth.

Figure 1: Revenue expectations in financial year 2018 (FY18)



Source: ASEAN SME Transformation Survey, 2018

Note: All subsequent Figures are similarly sourced, with N=1,235, unless otherwise stated. Please refer to demographic details in the Appendix.

The **countries** where SMEs are most likely to project revenue improvements in FY18 are:

- **Vietnam (68%)** – as buoyant economic growth is supported by its manufacturing sector and bilateral FTAs. An example is the 2018 EU-Vietnam FTA that eliminates import tariffs and export duties, creates market access opportunities in the services and finance sector and levels the playing field between state-owned and private firms.
- **Indonesia (67%)** – with strong business sentiment reinforced by recovering commodity prices, rising manufacturing exports and ongoing regulatory reform.

Conversely, Thailand SMEs remain cautious, with 64% of respondents anticipating weaker year-on-year revenue. Despite this restrained outlook, we expect a modest improvement as exports, tourism and public investment rise and business confidence picks up.

Among the six core **industries** that represent almost 75% of our respondents, the sectors that have the highest expectations for an increase in revenue in FY18 are:

- **Agriculture** (58%) – buoyed by the recovery of international commodity prices such as palm oil and rubber.
- **Manufacturing** (53%) – benefiting from strong global demand for semiconductors and related equipment from the electronics industry.
- **Financial services** (53%) – as urbanisation and regional prosperity drives demand for financial offerings, while rising digital penetration helps increase financial inclusion for the previously unbanked populations.

In contrast, given the past quarters of lacklustre oil prices, 65% of transport and storage industry respondents are anticipating flat revenues.

Operational challenges

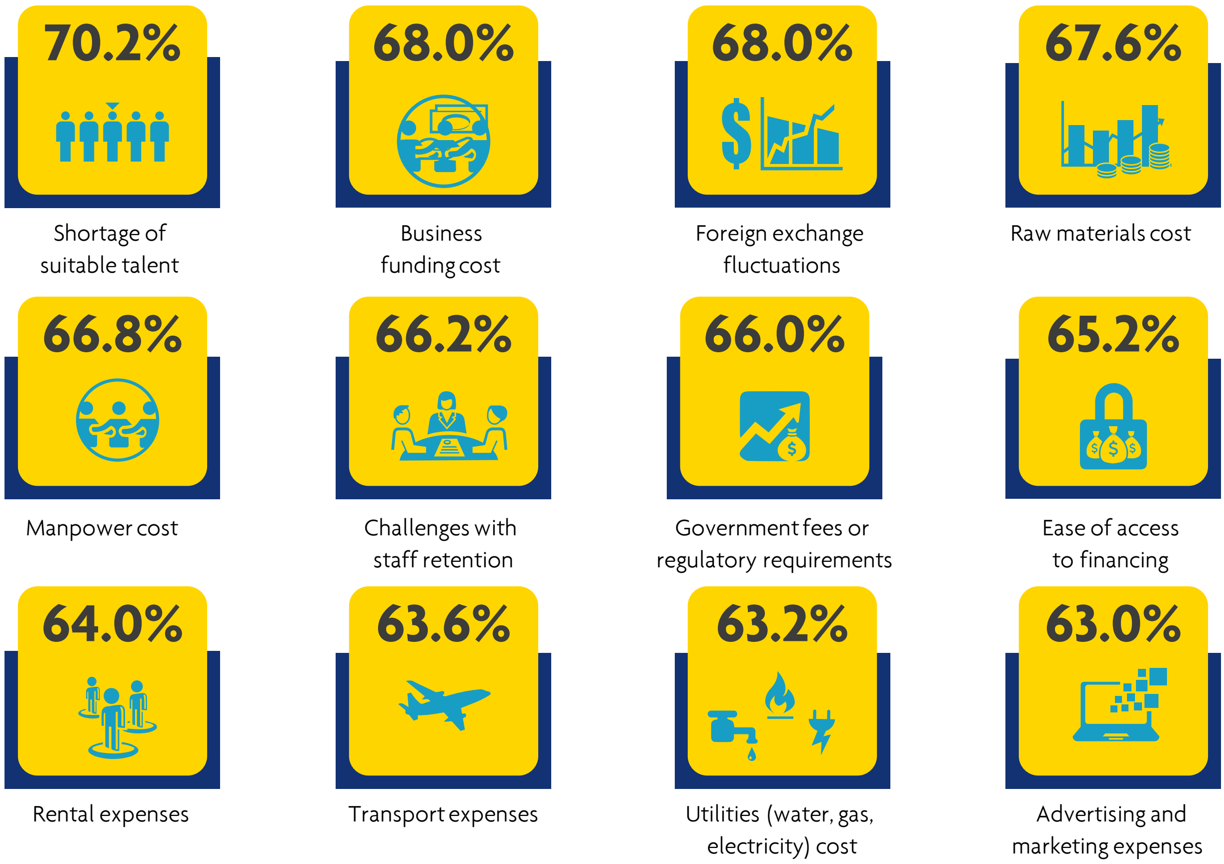
Respondents' top three concerns are: lack of talent, finance expenses and currency fluctuations.

Talent scarcity is more prevalent in emerging nations where enrolment in tertiary education and vocational training remains relatively lower and employers must groom new hires to counter skills shortages. For instance, SMEs in Vietnam ranked this concern a 4.5 out of 5, much higher than the regional average of 3.5 out of 5.

At the other end of the spectrum, Singapore, with the region's highest cost of living, struggles with a persistently tight market for service industries such as finance, education and healthcare that require skilled workforce. Tightening manpower policies, foreign labour curbs and rising demand for digitally-skilled workers will serve to further aggravate labour shortages.

Meanwhile, borrowing costs have risen in tandem with gradually rising interbank rates (e.g., SIBOR in Singapore, KLIBOR in Malaysia) to the point where some enterprises need to increase their collateral to maintain their loans. But while SMEs sourcing goods and raw materials from overseas or those needing to pay overseas staff salaries are concerned about currency fluctuations, exporters conversely welcome weaker domestic currencies which make local pricing more competitive overseas.

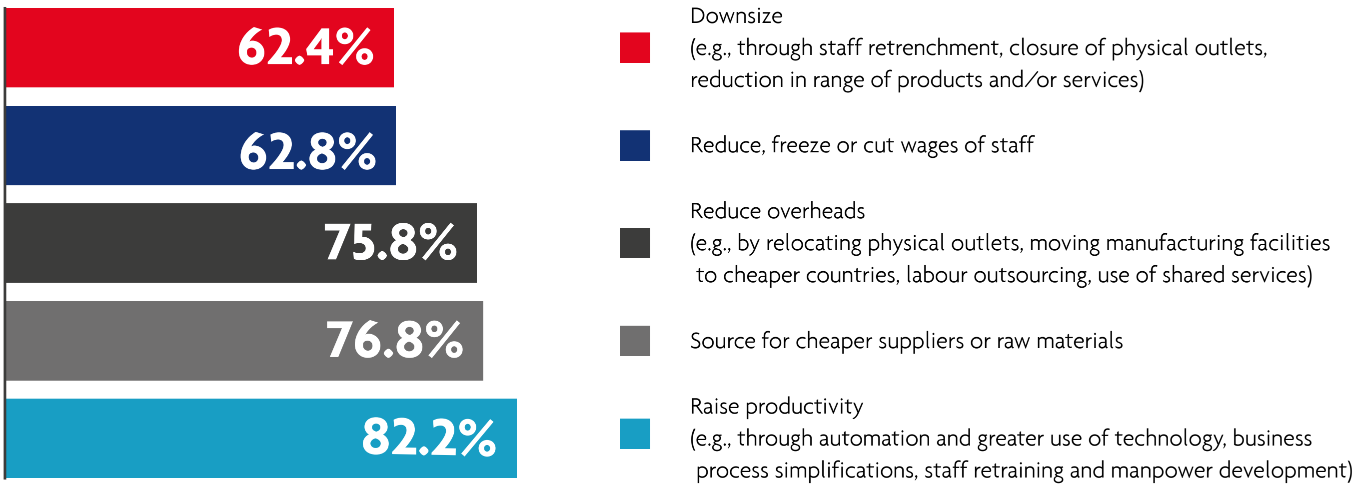
Figure 2: Operational concerns



Note: Based on a ranking of 1 to 5, with 1 being the lowest and 5 the highest, and with similar scores permitted. This similarly applies for all subsequent questions with a numerical (1-5) ranking.

In response to these challenges, SMEs are changing to be leaner, more effective organisations, gaining productivity improvements by harnessing digital technology or upskilling their workforce. Given productivity levels at some SMEs can be as low as 20% when compared with large corporations, narrowing this gap is critical to remain competitive. Given the limited resources that most SMEs have, governments can support their automation efforts by partially subsidising salaries or providing training to improve their digital readiness and capabilities.

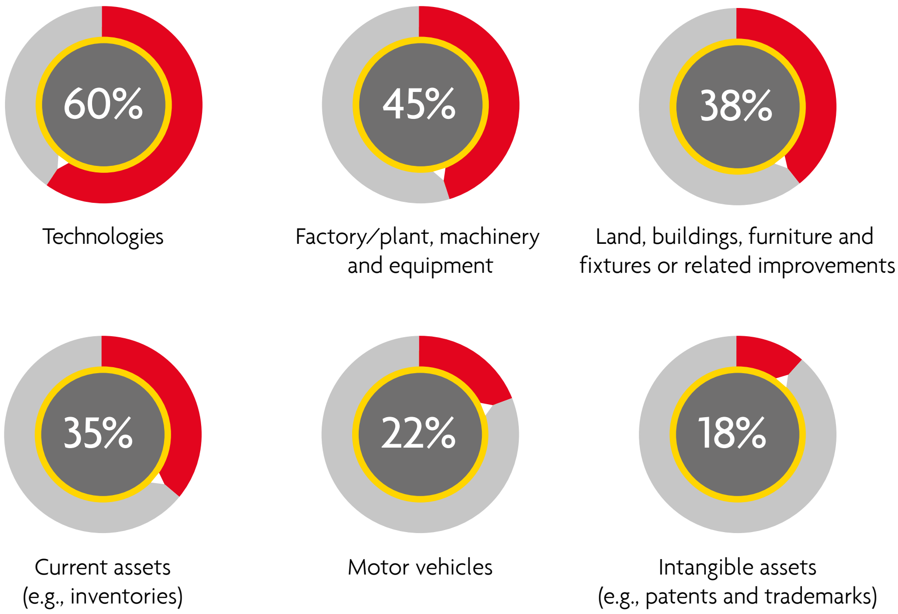
Figure 3: Preferred cost management methods



Investment initiatives

Three in five respondents are keen to invest in technology solutions to drive business performance, with more placing urgency on IT over conventional fixed asset spending. Despite a guarded outlook in Thailand, Thai SMEs lead the region when it comes to planned technology spend (73%). This may be attributable to the government's plans to create a digital economy and e-commerce hub and to form seven smart cities by 2021. Malaysia and Singapore SMEs, at 65% and 63% respectively, also place a priority on technology investments.

Figure 4: Assets SMEs are keen to invest in for FY18



Note: Responses are an indication of interest to invest in the various assets, though we expect absolute dollar spending to still be higher for traditional assets like factory and machinery versus technologies.

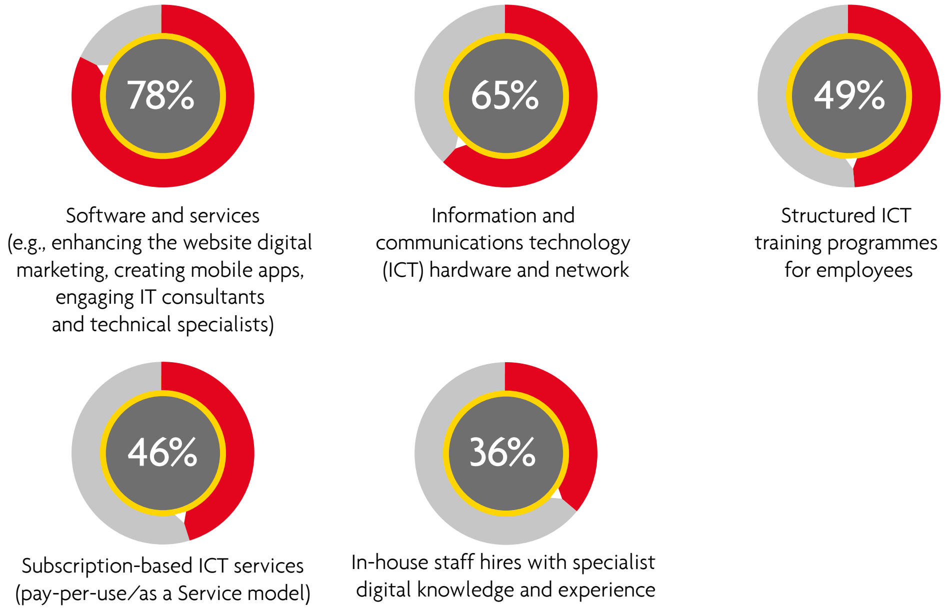
For this question, respondents were asked to select all options that are relevant to their circumstances (i.e. more than one response was permitted.) This similarly applies for all subsequent questions with a percentage ranking.

SMEs are most likely to focus their future technology investment in software and services, followed by the underpinning hardware and infrastructure. They have typically been cautious in adopting cutting-edge applications, opting instead to focus on business-oriented tools including online commerce solutions, customer relationship management (CRM) and business intelligence, content and database management, accounting and billing management, business process management, enterprise resource planning and supply chain management. But anecdotal evidence suggests that new technologies such as robotics process automation, artificial intelligence and 3D printing are beginning to rouse the curiosity of SMEs.

Interestingly, lower on their list of investment priorities are Software-as-a-Service (SaaS) and digital talent. SaaS has yet to gain critical mass despite being cheaper to implement versus a traditional on-premises application. This suggests respondents are more familiar with traditional licensed software than applications delivered as web-hosted services. In time, we anticipate SMEs will increasingly subscribe to web-hosted applications to free themselves from managing IT functions internally.

Separately, about one-third of SMEs are investing in digital expertise. Eventually, we expect enterprises will need to hire data specialists and analysts, user experience or interface designers and digital marketers to transform their business for the digital economy.

Figure 5: Specific areas of technology investment



Note: N=747, for enterprises that indicates an investment for technologies.

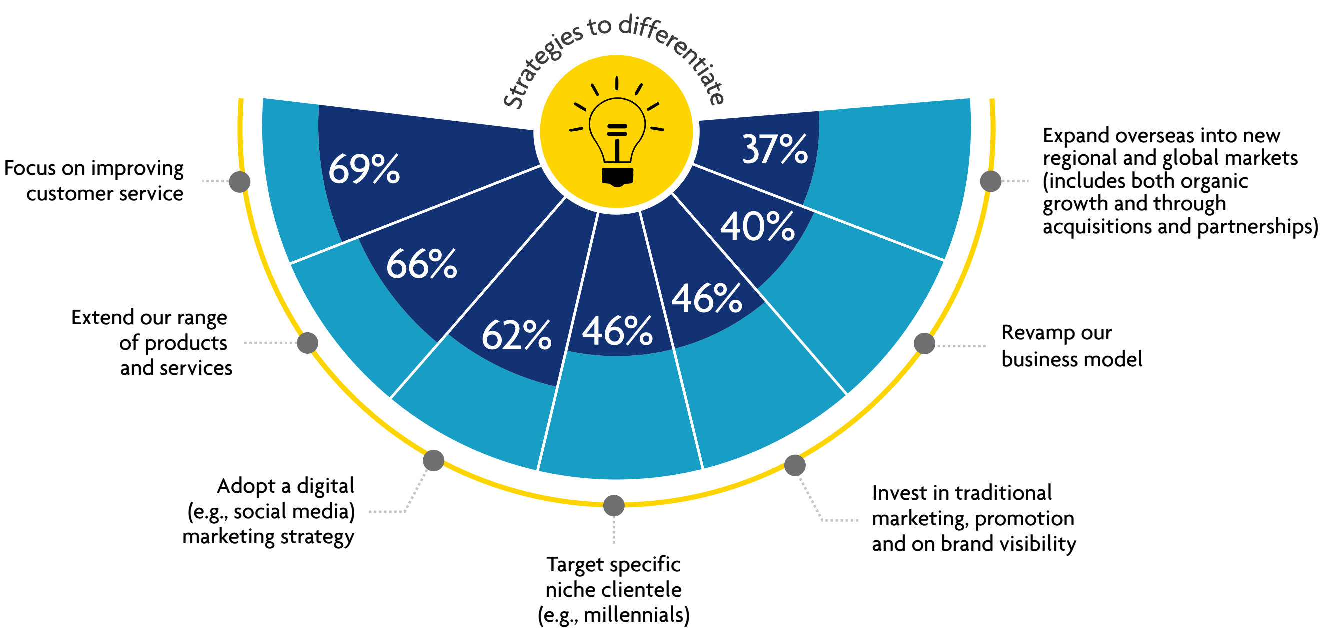
Strategic direction

Respondents' top three competitive strategies are to:

1. Go back to basics and focus on building stronger customer relationships
2. Craft and deliver offerings that cater to increasingly rigorous customer requirements
3. Orient their organisation towards a digital-first customer culture. This is a top priority for almost three-quarters of SMEs in financial services

In addition, more than a third of respondents have ambitions for overseas expansion.

Figure 6: Strategies to differentiate



Overseas operations already account for up to 30% of revenues for 60% of respondents and more than 30% of revenues for the remaining 40%. And while 87% have regional operations outside their immediate home market as shown in Figure 7a, many plan to explore further afield in the medium term.

In fact, SMEs expect North Asia, Europe and the Middle East and Africa (EMEA) to generate more of their revenue than ASEAN by as early as 2020. Herein, interest in North Asia stems from greater China influence in the entire region, while EMEA ambitions reflect deepening of bilateral trade and investment ties with the Gulf Cooperation Council countries, particularly with oil corporations from UAE, Kuwait and Qatar investing in more upstream and downstream energy projects in ASEAN.

Figure 7: Revenues from external markets

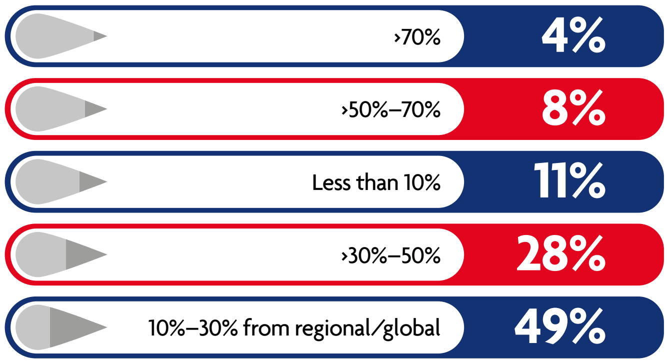
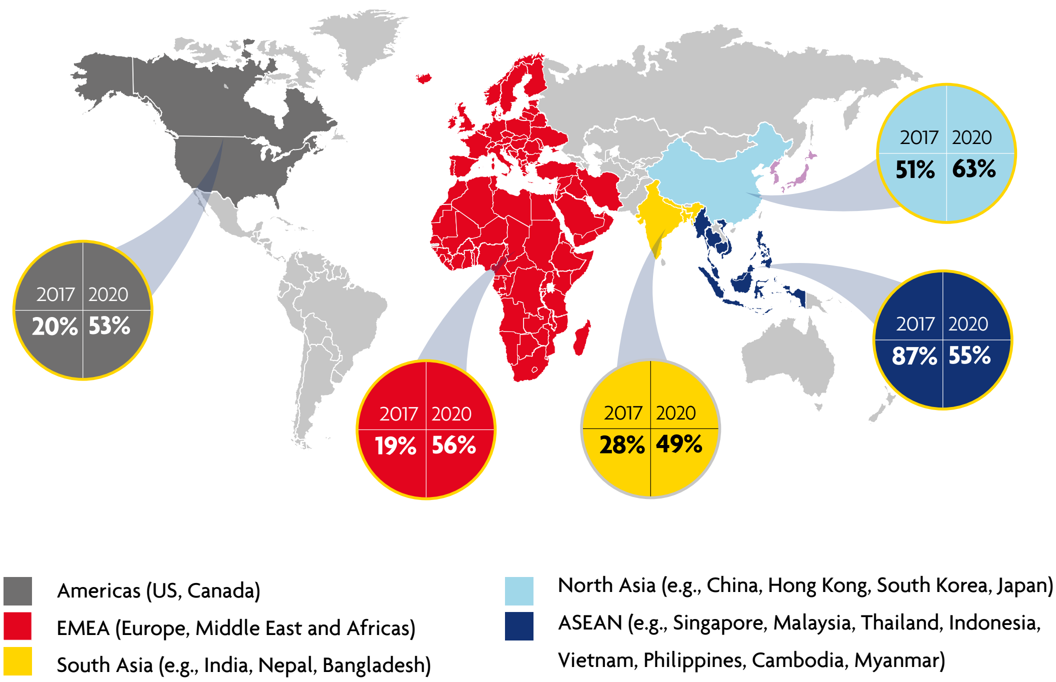


Figure 7a: Current and projected regional revenue contributions



Note: N=459 (37% of total), for enterprises that are planning to expand, or have expanded overseas.

The regional expansion agenda of SMEs will be supported by:

- Opportunities arising from the AEC's freer flow of goods and services, skilled labour, investments and capital, leading to Cross-border growth prospects and lower trading costs
- Cross-border collaborations from the BRI. The plan to build trade links between 65 countries in Asia, Europe and Africa offers ample prospects for business development and supply linkages for regional SMEs in industrial and service sectors.

Prospects from the AEC and BRI will help to counter any opportunities lost from rising trade protectionism. In this regard, SMEs stand to benefit more than corporates as regional integration leads to Cross-border growth prospects and lowers trading costs.

International expansion remains challenging

However, with little experience and limited international connections, many SMEs struggle with overseas expansion due to competition from established incumbents, uncertainty in foreign currency movements and protective regulations. SMEs find incumbency particularly tough to overcome in the face of unfamiliar and potentially less welcoming consumer cultures. In response, those targeting retail customers may need to invest aggressively in advertising, brand management and strategy development to build up customer recognition and brand acceptance.

Figure 8: Internationalisation challenges

- **79%** Intense competition from incumbents and limited brand recognition overseas
- **67%** Foreign exchange fluctuations impacting revenues and cost
- **63%** Regulatory restrictions on foreign entrants
- **57%** Limited market and consumer knowledge on those countries
- **51%** Lack of suitable (overseas and established Singapore) business partners/contacts
- **48%** Difficulties in hiring reliable staff overseas
- **44%** Unsuitable business environment or weak infrastructure
- **44%** Weaker credit standing with overseas financial institutions
- **38%** Lack of trade financing from financial institutions

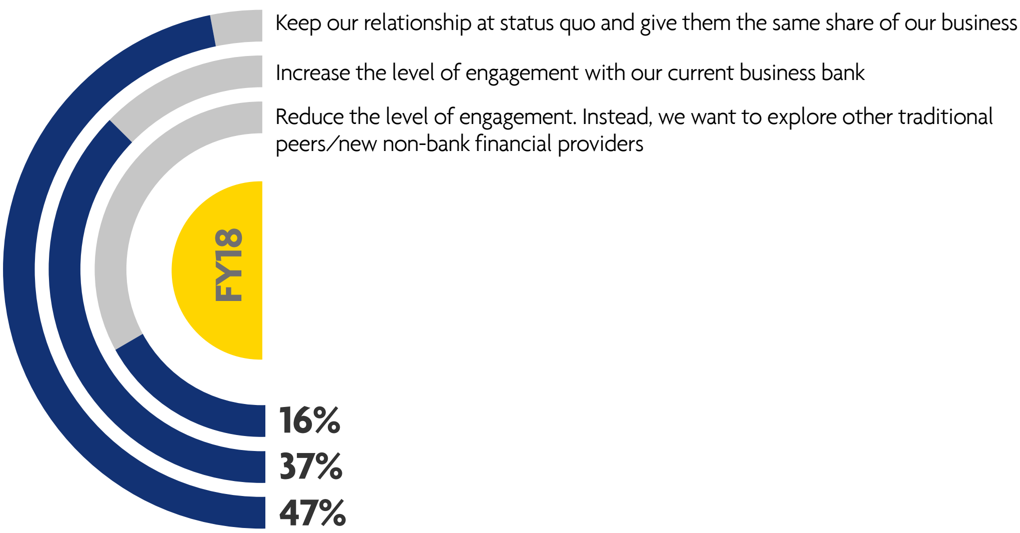
Note: N=459, for enterprises are planning to expand or have expanded overseas.

Banking engagement

To manage finance-related operational issues, SMEs are turning to banks for more sophisticated solutions and holistic support. We examine how SME expectations of their bankers are evolving, looking at the solutions required and how entrepreneurs want to connect with their banks digitally.

Operational issues ...	... requiring financing solutions to:
• Globalisation of trade	• Provide quick and safe international trade solutions and simplified foreign exchange products
• Volatility of currencies and commodity prices	• Hedge risks to minimise the impact on cash flow and margins
• High levels of default from their customers and suppliers affecting the supply chain	• Mitigate customer and supplier risks
• Increased shareholder focus on cash	• More effectively manage cash and liquidity

Figure 9: How SMEs would like to engage with their primary business banks in FY18



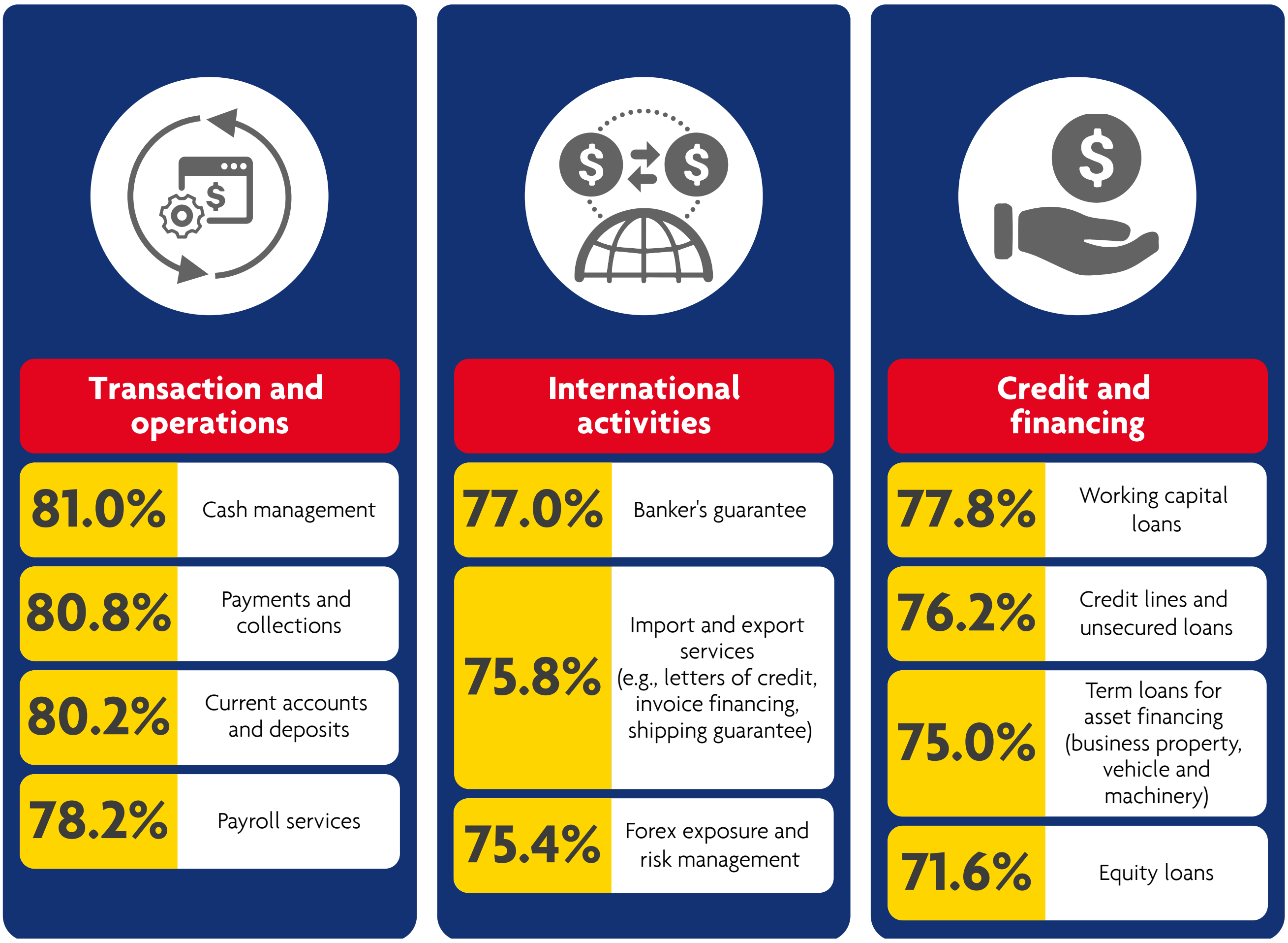
Eight in ten respondents are satisfied with their primary financial provider, with 47% reporting they will retain their current banking arrangements.[ii] This resonates with industry literature that SMEs historically have low churn rates and tend to remain with the same bank – often due to the fact that executives already have personal bank accounts with these providers.

However, 37% would like to raise their level of engagement with their financial services provider, with SMEs in Vietnam (55%) and Indonesia (42%) indicating the strongest desire for this. SMEs thus expect their banks to reassess their strategies to ensure that their increasingly complex business requirements are met. They are no longer satisfied with being treated by their banks as extensions of retail customers or simplified corporates, and instead, want personalised attention, differentiated products and more granular pricing.

At the most basic level, SMEs expect core offerings such as transaction and operational support to be executed well. They will also need their banks to function as international trade partners, offering banker's guarantees, import and export services and assistance in managing trade and credit risks as they diversify internationally.

Demand for international solutions is particularly strong in the construction and engineering, information and communications technology (ICT), retail trade, manufacturing and mining sectors. These have high transaction volumes, large networks and typically transact in multiple currencies, thus requiring transaction banking services for business control and liquidity.

Figure 10: Importance of banking services



How do SMEs choose their banks?

Despite operating on tight margins, SMEs favour transaction speed and using an established financial brand over cost when it comes to selecting their bank. Fees will always be a factor but it is heartening that respondents also select banks based on efficiencies in transaction processing and market reputation. Important value-added services include real-time opening of additional accounts or e-invoicing services that give SMEs faster access to working capital funds.

Figure 11: Factors impacting selection of provider

82.8%	Speedy processing time for transactions
81.0%	Strong reputation for business banking
81.0%	Competitive pricing and fees (e.g., cost of funding, transaction and processing fees)
79.8%	Uses of innovative digital platforms
79.8%	Customer service and dedicated relationship manager with relevant expertise and proactive support
79.0%	Range of SME products and services to meet our business needs
78.6%	Good presence in the overseas markets we are operating in and targeting to enter
78.4%	Provision of insights on industry trends and developments for local and target markets
76.4%	Locations of bank branches and ATMs

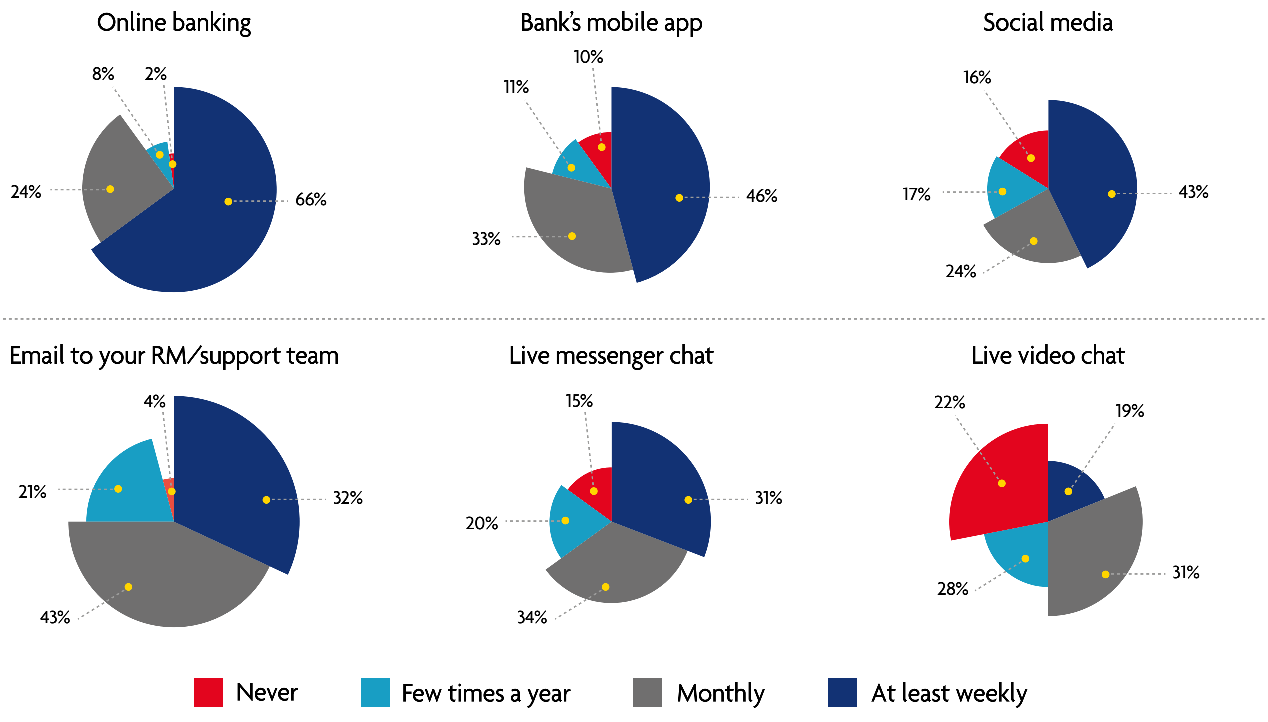
Digital or personal interactions

As digital channels and intuitive user interfaces emerge as new norms in banking, more SMEs, particularly younger start-ups are expecting real-time accessibility, immediate response to enquiries, online convenience and faster turnaround especially in problem rectification, credit applications, account balance and fee enquiries.

Self-service banking channels are a must-have for many SMEs. In fact, 66% of respondents access online banking and 46% log into their bank's mobile app weekly, with SMEs in Indonesia being the region's most prolific users of online and mobile banking. We believe that mobile banking services rank particularly high in emerging markets as reasonable network coverage, affordable data plans and handset costs mean that mobile internet can sometimes be more accessible than desktop internet connectivity.

In line with industry norms, social media interactions are also becoming increasingly important for ASEAN's SMEs. On average across the region, 43% of interviewees say they visit their banks' social media channels weekly, increasing to 51% in Thailand. Entrepreneurs are gravitating towards these channels to communicate more dynamically with their bankers for near real-time response and to perform secure payment transactions via social messaging apps without having to log into separate mobile banking apps.

Figure 12: Frequency of digital utilisation



Beyond digital channels, SMEs also attach almost equal value to having a dedicated and knowledgeable relationship manager, one who can act as a sounding board on major strategic decisions or assist with urgent problem resolution. As such, it is clear that SMEs expect their banks to provide an integrated and omni-channel experience that enables them to interact seamlessly between self-service and human-assisted channels.

Figure 13: Preferred mode of interaction with their banks

Self-service (digitally via emails/web portal/mobile app, or at ATMs or kiosks)	80.4%
Calling our relationship manager or customer service hotline	79.8%
Visiting the branch	73.8%
The postal service	66.0%

What extra value-add could banks offer?

In addition to the speed of service and banking costs, a majority of SMEs expressed an interest in looking to their banks for non-financial services to address their broader business needs. Such deeper engagement makes strategic sense given that banks are typically well connected to an ecosystem of professional advisers such as accountants, lawyers or investors, as well as new players including financial technology companies (FinTechs) that are entering the SME space with digital offerings. By offering budding SMEs business advice and practical expertise, banks can contribute to lifting their early survival rate by offering solutions that could help them run their business better or increase sales. Our survey shows two emerging demands:

- **Guidance on digital offerings** – Three in four respondents welcome suggestions on relevant technology partners to help enhance customer-facing applications or to consolidate traditional back-end functions. These solutions help address traditional needs in a more innovative and cost-effective way. For instance, instead of using slow and cumbersome manual payments such as cheques, SMEs can use enterprise resource planning software to send payment ` month-end reconciliation.
- **Guidance on pay-per-use offerings** – More than two-thirds value input on SaaS solutions, which are more predictable in cost and provide for accurate budgeting. SaaS also reduces the need for employees to manage back office IT infrastructure, instead they can focus on serving customers. Of interest are cloud-based software solutions for tax and accounting, legal, finance and HR management, especially for SMEs with limited time and resources. The section on "Leading digital innovations for SMEs" provides case studies on SMEs that have incorporated digital solutions in their operations.

Figure 14: What SMEs want from their banks

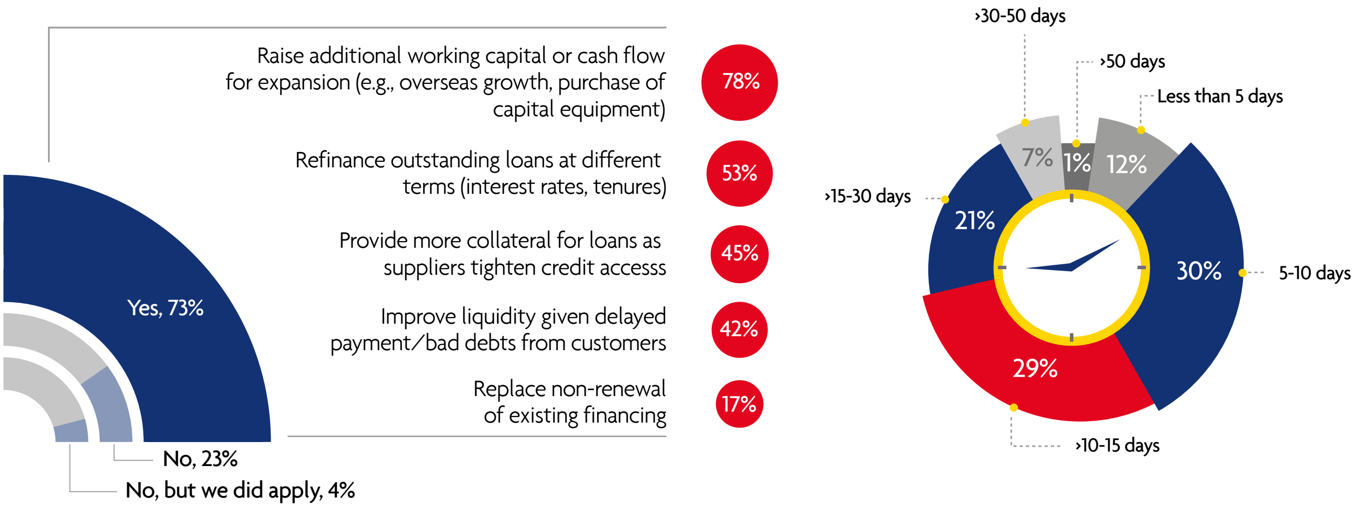
75%	Recommending solution providers to help solve business problems (e.g., accounting and finance systems, HR management and e-payment systems)
68%	Introducing pay-per-use/SaaS solution providers
58%	Suggesting alternative lenders to new or micro SMEs that do not qualify for bank loans

Sources of funding

Newer SMEs that do not have a financial track record and those operating in more cyclical industries often find themselves with limited options for affordable financing. This is particularly true for micro enterprises in emerging markets and during volatile economic times when credit is not as readily available. In these instances, alternatives sources of financing such as crowdfunding could be a potential lifeline.

Almost three-quarters of respondents had at least one existing loan in FY17, mainly to raise working capital or cash flow to support growth. Not surprisingly, SMEs from the capital-intensive mining (89%), agricultural (78%) and utilities (77%) sectors have a stronger need for loans. Of those with existing loans, more than half had applied for fresh funds to refinance at better terms and 45% had to raise collateral for loans in response to tighter credit terms.

Figure 15: SMEs with outstanding financing in FY17 and time taken for formal approval



Note: N=900 for enterprises with existing loans from traditional banks and non-bank finance companies (i.e. 73% of total respondents).

Given SMEs can sometimes have challenges obtaining formal financing, it is heartening that only 4% of respondents were unable to obtain loans in FY17, although rejection rates may were as low as 92% for respondents operating for at least three years with stable operations and credit history. Most of those denied loans were operating in segments such as transport and logistics, retail trade and food and beverage, where competitive pressures and thinning margins have led to above average business mortality rates.

Interestingly, the ability to obtain a loan does not appear to be correlated to enterprise size. While 30% of those who were not able to access loan facilities were smaller enterprises with annual revenues below US$3m, 46% already had revenues of more than US$10m. The majority who did not qualify for formal loans were unable to because of a shortage of assets for collateral, lack of guarantors, inadequate financial statements or business plans, or weak credit histories.

On average, SMEs report that some loan approvals take 15 days but can sometimes take many weeks. While noting the time consuming nature of risk scoring SMEs, this is an area for improvement. Overall, enterprises would like their:

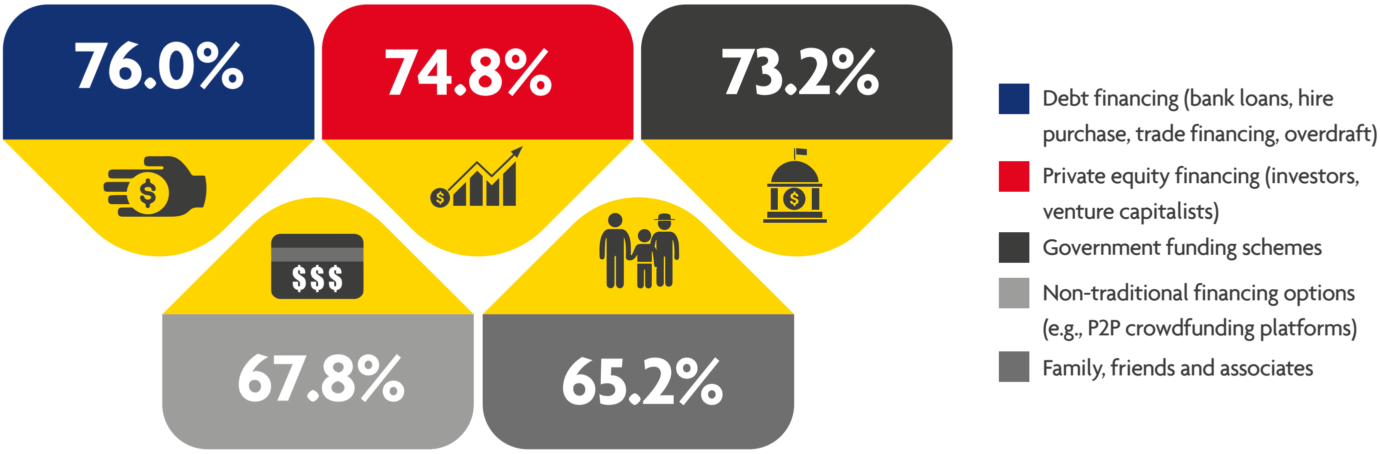
- Banks to raise efficiencies in loan approvals by having dedicated credit teams for SMEs, more streamlined risk assessment processes and well-tiered approving matrixes.
- Regulators and governments to consider moving to a digital identity and an electronic know-your-customer (e-KYC) ecosystem for loan processing. This ideally replaces the current need for signatures on hardcopy documents which incurs days of postal time and added administrative cost. Already in Singapore, a Corporate and SME KYC industry utility is being assessed.

Alternative lenders appeal to underserved SMEs

SMEs remain primarily funded through bank loans. However, tighter covenant enforcement and tough credit requirements mean that many are increasingly receptive to other sources of funding, including private equity finance and government schemes. In Thailand for instance, government agencies such as the Digital Economy Promotion Agency help innovative software firms qualify for loans from the state-owned Thai Credit Guarantee Corporation.

Unfortunately, these are not always readily available. Venture capital investors tend to gravitate towards high-growth sectors while government funding schemes may not be permanent and are often subject to specific conditions. This opens up opportunities for non-bank digital SME lenders, such as peer-to-peer (P2P) crowdfunding platforms to offer merchant and e-commerce financing, invoice financing and online trade financing specifically tailored for SMEs.

Figure 16: Preferred sources of financing



Sixty-eight per cent of our respondents – including more established enterprises – are open to non-traditional lenders. The main appeal is a much faster loan approval process with some alternative lenders capable of performing credit underwriting processes to qualify applications based on borrowers' risk scores in almost real time. Basic requirements for obtaining finance are also more flexible, typically without the need for a guarantor, asset security or a visit to the physical bank branch, which shortens processing times by hours, if not weeks.

Alternative financing platforms: Regional first movers

Alternative financing platforms appeal to SMEs as they become increasingly tech-savvy, sensitive to slower service, primed for digitalisation and are inclined to shop around to fulfil unmet financing requirements. Global crowdfunding platforms such as Funding Circle, Zopa, OnDeck, Kabbage and Lending Club are targeting smaller SMEs with inadequate credit history or in high-risk industries. They originate business loans of up to one to two years from prospective investors, charging a 3-5% service fee of the funds raised.

These alternative lenders fast track credit decision-making with automated credit screening models that assess SMEs based on data analytics from a variety of sources. For example, the UK's largest P2P lender, Funding Circle, auto-populates underwriting information from multiple sources into its credit decision engine allowing for quick decisions. While it still accesses traditional data such as the value of collaterals and personal assets, it also takes alternative metrics such as real-time cash flow and customer reviews into consideration.

While more nascent in ASEAN, regional P2P financing platforms are emerging. These include:

Crowdo

Launched in 2013, Crowdo is Southeast Asia's crowdfunding pioneer, offering a full portfolio of debt and equity funding solutions in a community of more than 28,000 members. Crowdo has already financed more than 1,000 projects through its offices in Singapore, Kuala Lumpur and Jakarta.[iii]

CoAssets

Southeast Asia's first listed crowdfunding site, CoAssets has a presence in Singapore, Indonesia, Malaysia, Australia and China. It has crowdfunded more than S$48m (US$35m) worth of transactions through its platform in the two years to October 2017, raising monies for SMEs requiring funds of S$0.1m-5m (US$0.7m-3.7m).[iv]

Funding Societies

Launched in Singapore in 2015, with a presence in Malaysia since 2017 and a sister site in Indonesia, Funding Societies has crowd-funded S$78m (US$57m) in loans by October 2017 with default rates of just 1.7%.

B2B FinPAL

Launched in mid-2017, B2B FinPAL provides P2P financing for SMEs through business expansion financing and micro-invoice factoring. It already has clients from its home base in Malaysia as well as from Cambodia, China, Indonesia and Vietnam.[v]

As well as exploring the use of alternative data as a means to assess credit-worthiness when providing SME financing, these lenders further differentiate themselves by offering lower quantum loans, shorter tenure requirements and faster applications. For instance:

- **Investree** focuses on invoice financing for SMEs seeking short-term loans averaging a two-month term and with an average ticket size of US$25k, completing its end-to-end loan processing in three days.[vi]
- **MoolahSense** offers loans in the S$50k-100k (US$37k-73k) range, with 50% raising required funds within an hour and 75% within 24 hours.[vii]

On the flipside, speed and convenience command a higher price. The effective interest rates (EIRs) that SMEs pay on alternative financing platforms are generally higher than those offered by traditional banks. For instance, P2P platforms in Singapore typically charge EIRs of 9% to 30% per annum, and up to 5% per month, making the charges double or even triple that of conventional unsecured loans.

Nonetheless, non-traditional financing can be a lifeline especially for small start-ups. We envision options such as P2P crowdfunding becoming increasingly popular in the financing scene, to the benefit of smaller enterprises in ASEAN.

Government support

With SMEs forming the backbone of ASEAN economies, regional governments have an important role to play in facilitating SME development. They need to ensure a vibrant enterprise sector that supports sustainable, inclusive and broad-based economic and social progress.

The ASEAN-6 governments have various forms of pro-business policies to facilitate SME growth, including structured action plans, development initiatives and public-private partnership frameworks. Currently, strategies include those that:

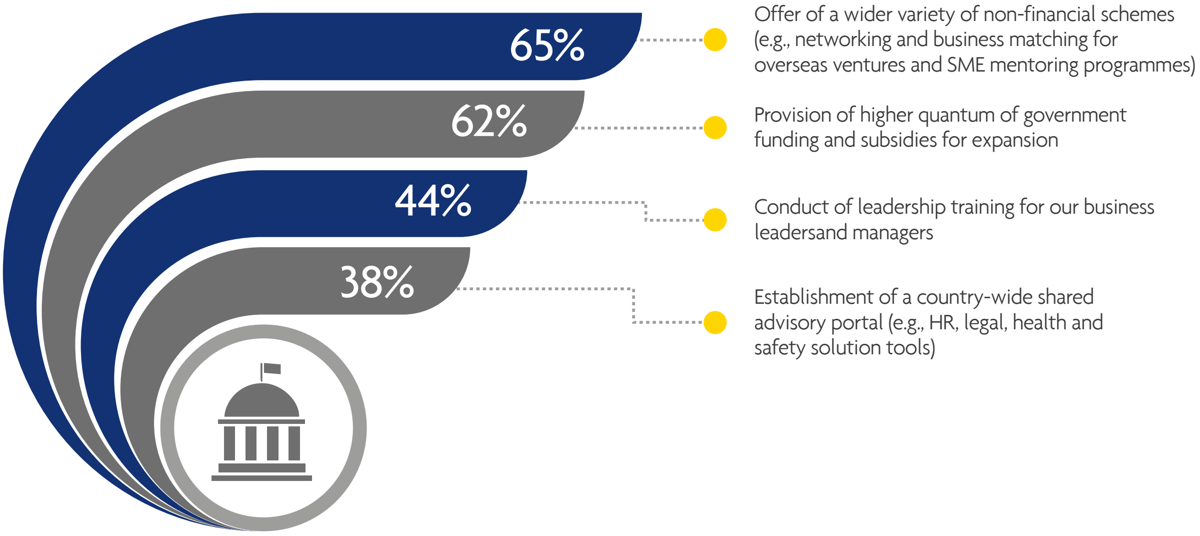
- Create suitable business environments through simplified legal and regulatory frameworks and good governance
- Develop capacity and infrastructure particularly within emerging markets
- Assist in capital funding, technical and creative support
- Guide IT and digital innovation
- Support manpower and talent management

Figure 17: Important government-led initiatives

80%	Help in funding adoption of digital technologies (to automate, reduce cost and raise productivity, reduce manpower requirements, or enhance product and services offered)	79%	Creation of a conducive regulatory environment to encourage an innovative ecosystem and risk-taking
78%	Subsidies to ease burden from rising manpower cost	77%	Organisation of continuous education and training programmes to upskill staff (especially for older and retrenched workers and relating to digital adoption)
77%	Government bridging loan to help indebted enterprises develop a practical debt restructuring plan	77%	Provision of support in the sale of our products and services in overseas markets
76%	Assistance in forming consortiums, or partnering with established or government-linked companies to venture overseas	75%	Industry transformation maps tailored for my particular sector

When asked about the impact of national policies, SMEs rank the above initiatives almost equally. The most valued are government assistance for SMEs to adopt digital technologies for greater automation, better cost efficiencies and regulatory environments that do not penalise innovative risk-taking.

Figure 18: Additional forms of government support



It is no surprise that respondents feel their governments can do more to support their growth agendas. Smaller enterprises particularly value government support to promote networking and collaboration among local and overseas peers as well as enterprise mentoring programmes to transfer knowledge and management skills from multinationals to local enterprises. Other suggestions include larger government subsidies to offset lack of accessible financing, subsidised leadership training and skill upgrading programmes.

Where not already instituted, governments should consider:

- **Forming credit bureau** to establish the credit standing of new or smaller enterprises, to improve transparency and disclosure and to increase opportunities to access formal financing.
- **Creating government credit guarantee institutions** to enhance the eligibility of SMEs that otherwise do not have sufficient collateral to qualify for loans.
- **Incorporating bankruptcy regimes** into their financial development agenda. These regulate efficient exiting of the market for failed ventures, provide for stronger creditor rights and help to resolve claims in an orderly manner. Such insolvency regulations would raise the comfort level of lenders and encourage higher loan disbursements.
- **Establishing industrial parks** in emerging ASEAN markets with the appropriate infrastructure for suppliers or business incubators to support SME development initiatives.
- **Hosting industry clusters** to position their countries in new sectors such as pharmaceutical and biomedical, infrastructure financing and global arbitration. Other niches may include digital science, robotic machines and artificial intelligence. These clusters would enhance economic diversity, strengthen resilience and create fertile grounds for SMEs to flourish.
- **Cutting regulatory red tape** given that SMEs – particularly those in emerging ASEAN markets – continue to face regulations that hinder commerce, innovation, limits foreign investments and add to business cost.

Example of Singapore Inc. initiatives

SMEs account for 99% of all enterprises, employ 70% of Singapore's workforce and contribute to nearly half of the Republic's GDP. Given their importance to Singapore's vast economic remit, the government is continually introducing new fiscal and financial incentives to help SMEs prosper locally and globally. Recent initiatives aim to:

Accelerate digitalisation

Singapore SMEs have largely embraced automation but are not moving fast enough to get themselves on the digital wave. Hence, the government has rolled out several assistance plans to get local SMEs future ready.

For instance, the Infocommunications Media Development Authority's (IMDA) SMEs Go Digital programme is designed to provide a more structured support for SMEs to harness digital technologies to enhance their capabilities in areas such as cyber security, data protection and data analytics; and boost their productivity.

Under the programme, IMDA will make digitalisation simple for SMEs through sector-specific Industry Digital Plans (IDPs).

Through the IDPs, SMEs are able to:

- assess and identify their digital readiness and digitalisation opportunities
- gain access to pre-approved digital solutions
- receive advanced digital consultancy at the SME Digital Tech Hub
- enjoy new growth through projects that uplift whole sectors
- raise employees' digital skills to keep up with the digitalisation demands

Manage manpower cost

To address job losses for professionals, managers, executives and technicians (PMETs) due to economic restructuring and structural shifts, workforce initiatives include the Lean Enterprise Development scheme to help SMEs to raise productivity.

There are also subsidies to ease labor expenses while organisations upskill their staff under the Workfare Income Supplement (WIS) and Workfare Training Support (WTS) Schemes.

Improve financing access

Bridging loan schemes are available for promising new enterprises or those in cyclical industries. These include SPRING Singapore offering SMEs up to S$5m (US$3.7m) each to finance operations and bridge cash flow gaps and the government agency International Enterprise (IE) Singapore's expanded internationalisation finance scheme. IE Singapore promotes international trade and partners Singapore companies to go global. The government shares up 70% of the default risk in both schemes, with expectations that these would catalyse S$1.6b (US$1.2b) of loans over one year.

Meanwhile, the Monetary Authority of Singapore now allows non-bank financing companies (NBFCs) to offer more unsecured SME financing (25%, up from 10% of capital), freeing up S$550m (US$404m) in additional SME loans.[viii]

Support internationalisation

Singapore's International Partnership Fund, an equity investment scheme with a government commitment of S$600m (US$446m) is helping more established firms to scale up on the global arena.[ix]

Meanwhile, IE Singapore is helping local enterprises access key technology and source innovative solutions. It is also forging agreements with Chinese technology partners to help Singapore FinTechs understand and gain access to the Chinese market, test-bed products and gain access to China and its innovation ecosystem. It is also making arrangements with Thailand's technology ecosystems players to access a local immersion programme and co-working spaces in Bangkok.[x]

IE Singapore further formed a Singapore Manufacturing Innovation Centre in Guangzhou to facilitate partnerships between Singapore manufacturing technology providers and Chinese enterprises looking to adopt such solutions.

Another recent deal with the International Financial Corporation will provide in-depth market and financing insights to help Singapore's SMEs capture infrastructure projects in emerging Asia and Africa.[xi]

Leading digital innovations for SMEs

With the digital economy potentially adding US$1t to ASEAN's GDP by 2025,[xii] SMEs must transform their businesses to seize digital opportunities.

Those in heavily disrupted industries such as travel, logistics and retail are largely keeping pace but most have been slow to adopt enterprise technology in their daily operations.

To drive future growth, SMEs need to adopt an innovative mind-set and embrace digital transformation to do business differently. Fortunately, enterprise technology solutions which previously catered predominantly to large corporates have now become widely available for SMEs in a cost-effective manner. From accounting software and CRM tools to big data analytics and cybersecurity, SMEs can access technology solutions to increase productivity, manage business costs, scale up operations and explore new revenue opportunities. With digitalisation, SMEs can make better use of their customer and user data to improve the customer experience, leading to higher satisfaction and loyalty over the long term.

Our survey found three-quarters of respondents wanting to innovate so that they can continue seizing business opportunities and growing their top line, with seven in 10 looking to differentiate through customer service. Of the six in 10 considering an investment into technology assets, 78% are targeting software and services.

To help SMEs prioritise and get the most of their ICT spend, this section identifies six critical areas where innovative solutions are helping enterprises to enhance businesses through time savings and operational efficiencies.

Figure 19. Operational excellence model for SMEs

Source: UOB

1. Manage my business

SAP Business One is an affordable business management software solution designed specifically for retail, consumer products, professional services, wholesale distribution, and industrial manufacturing SMEs.

It offers six modular capabilities in a single, integrated solution:

1. Financial management
2. Sales and customer management
3. Purchasing and inventory control
4. Production planning
5. Business intelligence
6. Analytics and reporting

Benefits

- Streamlined processes
- Single, all-encompassing view of the business
- Real-time information, anytime, anywhere via any mobile device
- 43 country-specific versions, 27 languages
- No need for multiple software installation

PT Asia Citra Pratama is a textile manufacturer in the green industrial zone of Karawang, West Java, Indonesia. Operating on legacy IT systems, the company relied heavily on manual data reporting from multiple sources, which was not only time consuming but also increased running costs due to high paper wastage. To overcome inaccurate reporting, reduce data processing across various departments in different locations and to ensure scalability to meet the needs of domestic and international markets, the company turned to SAP Business One.

SAP Business One helped us make better strategic planning decisions as we are able to access real-time data from various departments. In addition, we are able to better manage costs for running the business. This investment allows us to scale and meet future demands as we grow.

Julius Hendarta
Managing Director

Results

- Greater accuracy in data processing
- Financial reports created within three days instead of two weeks
- Integrated system connectivity leading to higher operational efficiencies
- Improved agility with quicker decision making

Penkhun Co. Ltd. is a distributor of household products such as sewing machines, steam irons and small kitchen appliances in Thailand. Relying on a manual system for all their accounting transactions, paperwork inaccuracies slowed down their entire business process. In addition, the company had difficulty tracking their stock and could not manage inventory efficiently. They needed real-time information and system reliability, and chose SAP Business One for their complete back office management.

SAP Business One helps us manage our back office better. Now, our inventory is reduced by more than 50%, and we can estimate the product demands and send purchase orders more quickly.

Sirikhan Phuriakharapongthada
Managing Director

Results

- Real-time stock control and traceability
- 30% reduction in manual work
- 50% reduction in inventory holdings
- Better demand forecasting

2. Grow my sales

tradegecko

TradeGecko offers SMEs cloud-based inventory and order management SaaS, enabling e-commerce and wholesale merchants to grow their online stores and operations. Used by 15,000 SMEs in 90 countries, TradeGecko's software automates order and inventory management, and is able to seamlessly integrate with partners such as Shopify (for e-commerce) and Xero (for accounting).

Benefits

- Synchronisation between customer orders and inventory to manage stock availability
- Accurate and current sales, inventory and business insights for better decisions
- Real-time inventory management across multiple channels, warehouses and currencies
- Customer-specific insights to enable smarter, targeted offers
- Greater opportunities to grow and expand sales channels

We have a lean team and need to move fast. If the system hinders instead of helps us, we don't need it. TradeGecko and Xero suit us because they are very user-friendly, easy-to-learn and effective. For something to work, people must be able to use it well.

Shirley Lee
General Manager
Innova Distribution
Singapore

We started our business with an excel sheet and then moved on to TradeGecko — what a lifesaver! We found the user interface intuitive and integration with Xero made invoicing and reconciliation a breeze.

Andrew Lim
Product & Operations
Box Green
Singapore

TradeGecko has really impacted us by saving a lot of time and helping us to develop unique experiences for our customers. I would recommend TradeGecko to businesses that are attempting to sell both online and offline. I think they would benefit greatly from this technology because it helps them structure the way they think about their organisation.

Jeremy Tan
CEO
Paula's Choice Singapore

3. Expand my markets

Figure 20. Complete online business on a single platform

Shopmatic provides the entire integrated ecosystem for SMEs wanting to sell online. Used by more than 100,000 SMEs globally, Shopmatic enables customers to build their online presence in less than 30 minutes. A dedicated local e-commerce consulting team supports SMEs in growing their business.

Benefits

- 60+ industry specific templates
- Free Shopmatic domain and the ability to purchase a unique domain from a domain partner
- Local and international payment acceptance
- Local and international shipping
- Marketplace and social channel selling
- Analytics and insights dashboard
- Financial and advisory services
- Shopmatic Go – mobile app

Currently available in Singapore, Hong Kong and India, Shopmatic will launch in Indonesia, Malaysia , the Philippines and Thailand in the next six months.

Fat Buddies LLP is dedicated to bee conservation, with a successful offline business supplying traditional honey to F&B outlets and retail stores in Singapore. To take the business online, Fat Buddies launched www.ceranahoney.com using the Shopmatic platform.

Results

- Lift in product enquiries
- 10% growth in sales
- Brand recognition

It was by chance we came upon Shopmatic while searching around for a website builder. Shopmatic provides competitive rates and easy-to-use tools to start-up our website and e-commerce. The service team is always there to answer our questions and provide assistance, which saves us a lot of time. Kudos to the team for being proactive and keeping us on track of our progress in starting up. We are glad we have chosen Shopmatic.

Steve Tan
Cerana Honey

4. Manage my finances

Xero is a leading cloud-based accounting software that helps more than a million SMEs in 180 countries to manage their finances and business in real-time. SMEs can view their sales, cash flow and expenses instantly to make informed decisions on how to and to grow their business on-the-go.

Benefits

- Easy invoicing to send invoices online, provide automatic reminders and electronic collection for faster payments
- Multi-currency functionality to reconcile foreign currency accounts with updated exchange rates
- Direct bank feeds with secure connections to more than 100 major financial institutions globally, allowing bank statements to flow automatically into Xero daily
- Integration with an ecosystem of 600+ third-party apps with industry-specific features such as a retail point-of-sale system, inventory tracking, debtor tracking, conversions as well as time and job management capabilities
- Suggestions on running a successful business and other educational content through Xero's small business guides, webinars and training courses

DishTheFish is a fishmonger that operates both a traditional wet market stall and an e-commerce platform in Singapore. The company uses a cloud-based system for its online portal, enabling easy tracking of inventory, identifying loyal customers, analysing spending patterns and observing sales trends in real-time. Using Xero's accounting software and HReasily's HR solutions, which are both available as part of UOB BizSmart, has made administration and HR matters more efficient, enabling the business to dedicate more time and resources into core operations and expanding into the wholesale business.

All these data and the communication that we get on digital outlets actually give us the ability to plan forward. We can observe when sales are dipping for a certain product, for instance, and when sales are increasing.

Angeline
Co-owner

There is very low capital expenditure involved. If at any point in time you don't feel like using the systems, you can actually terminate them. On the other hand, you need not worry about support. It's very easy – we can chat with someone 24 hours a day.

Jeffrey
Co-owner

invoiceinterchange

InvoiceInterchange is an online invoice finance service that helps SMEs to unlock cash flow from their outstanding invoices that are otherwise tied up for between 30 to 120 days. Businesses who trade with large debtors often suffer from long payment terms and late payments. With InvoiceInterchange, businesses can now upload their invoice on the platform and access finance as fast as 24 hours, while maintaining full control of the customer relationship.

Benefits

- Quick setup with no security arrangement
- Flexibility to fund one or many invoices
- Access funds in 24 hours
- Business owners maintain control of their customer relationship
- Transparent pay-as-you-go pricing

InvoiceInterchange has been invaluable in allowing us to access funds tied-up in our slow paying customers and reinvest to help grow our business. This is the solution which most SMEs would need in times where there is a credit crunch and yet business is sluggish. The system is transparent and funds are readily available.

Aaron Lee
Director,
Gabkotech Innovations Pte Ltd
Singapore

5. Simplify my banking

UOB BUSINESS

The UOB Business app gives SMEs a single view of and access to all their banking functions. Users can access account information, perform and approve transactions and check transaction status securely, without the need for a separate app login.

The app helps SMEs manage currency volatility by offering live updates on foreign exchange rates. Users can set alerts when the price of a currency reaches a specified level. Once an alert is triggered, they can use the app to connect with the Bank's foreign exchange specialists for advice and to execute a trade.

This free app also enables SMEs in Singapore, Malaysia, Thailand and Vietnam to keep track of market and industry developments that could affect their businesses or investments through reports on the latest economic and currency trends from the UOB Global Economics and Markets Research team.

In addition, the UOB InBusiness section focuses on taking complex issues faced by businesses and dissects them to practical insights to give SMEs a better sense of the business environment today.

6. Manage my employees

HReasily

HReasily is a cloud-based all-in-one HR solution that enables SMEs to automate workflow processes and increase productivity. HReasily streamlines payroll, claims, staff and leave management while allowing real-time access to users across multiple devices. Even staff without knowledge of HR processes can use the system with ease.

Benefits

- Run payroll processes in minutes
- Localised solutions in four languages across seven countries
- Automated calculation of Central Provident Fund (CPF)[4] contributions, claims and leave
- Generation of GIRO[5]
- CPF contribution, tax files and data reports
- Itemised pay slips, detailed employment records and key employment terms
- Time and attendance modules integrate with existing attendance soft or hardware

[4] Singapore's mandatory social security savings scheme funded by contributions from employers and employees. For countries outside Singapore, solutions for local mandatory savings schemes are available.
[5] Automated electronic payment service which allows payment to the billing organisation from one's bank account.

Due to the diverse nature of our programmes, we have a vast work scope relative to staff resources and as a result, an effective HR system such as HReasily is essential to meet our needs in managing our staff and freeing up time for us to do what we do best, which is curriculum planning.

Tser Puan
Director
Raffles Early Learning Centre
Singapore

HReasily has helped us automate a huge part of our work process. With LEAVEasily and TIMEeasily, time attendance and leave are easily monitored and recorded. With CLAIMSeasily, our claims are now paperless with applications done with HReasily's app. With managing multiple branches in different countries, HReasily takes care of everything in one place.

Wong Tuck Wai
Founder
WTW & Co
Malaysia

The way forward

All giants grow from humble beginnings. Legend, formed in 1984 with 25,000 CNY (US$3,800) has grown to become today's Lenovo, a US$32b Chinese multinational IT organisation.

India's Infosys started with US$250, growing into a global behemoth providing business consulting, IT and outsourcing services, generating revenues of more than US$10.2b. These two companies did not become successful multinationals by sheer luck or chance alone but by having management with foresight, ambition and determination.

Generating such spectacular, let alone consistent, growth is never easy, particularly in the face of today's rapidly changing operating environment. How then, can ASEAN SMEs effectively transform in the digital economy? In our view, SMEs should look at getting themselves future-ready in five areas:

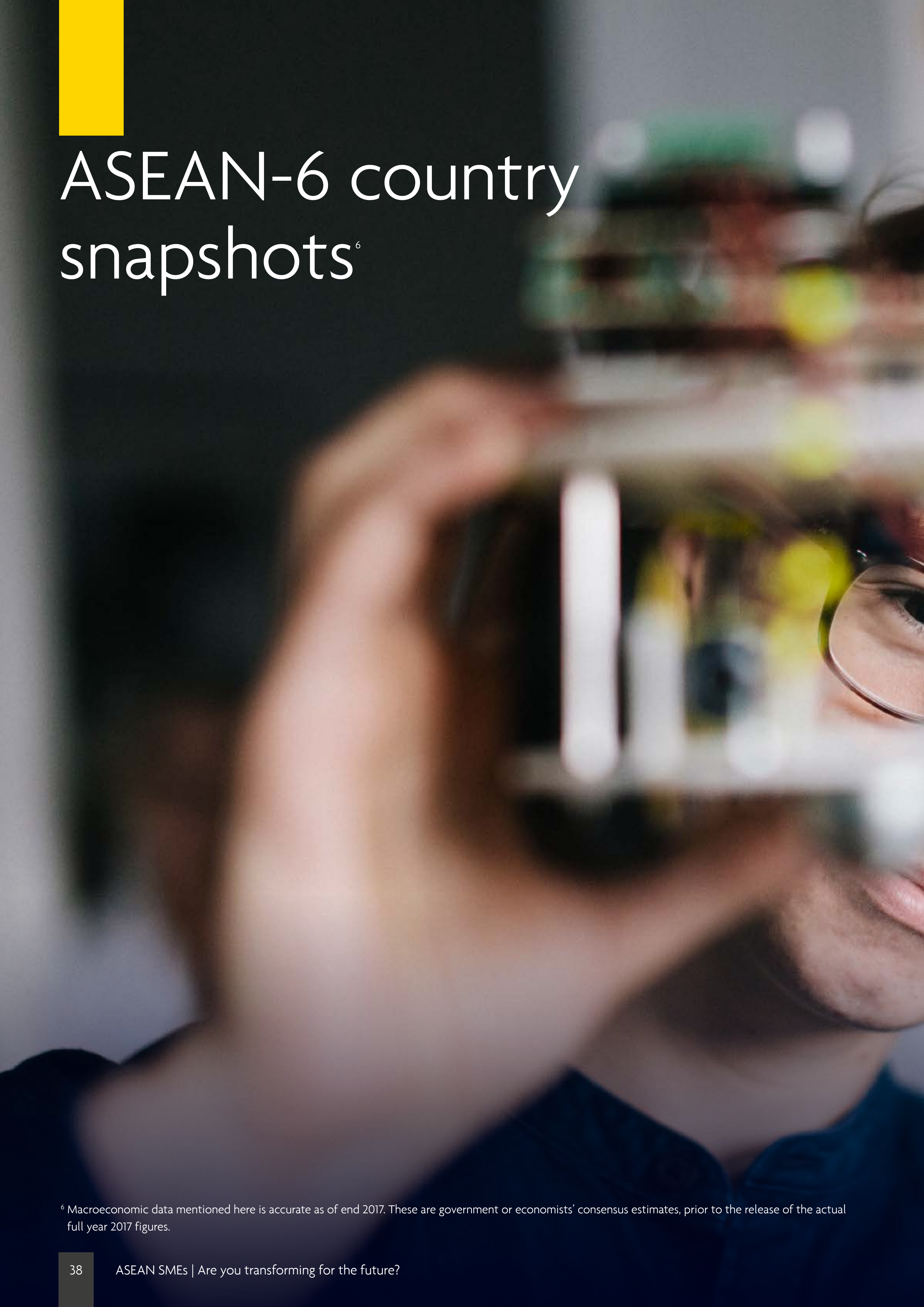
1. **Seize ASEAN opportunities:** The opportunities afforded by an integrated economic community will pave the way for greater regional investments, enhancing trade, and supporting financial and social integration. The removal of tariffs for goods moving within ASEAN economies is one of the initiatives that will encourage investments in the manufacturing industry. Entrepreneurs need to understand developments such as the AEC, ASEAN-China FTA and BRI will impact their industries and how best to use them to their advantage.
2. **Leverage the SME ecosystem:** Government agencies, business associations, trade bodies and banks recognise the immense growth prospects of greater economic integration and intraregional trade. SMEs wanting to take part in this exciting journey should embrace this support network and tap into the assistance each ecosystem player is offering – whether it is access to technology, finance or training opportunities, or beneficial tax schemes to enhance overall productivity and profitability.
3. **Treat your bank as a business partner:** SMEs should seek out banks that are not just efficient in transaction processing or reputable but a partner that truly understands the nuances of their local markets and can help enterprises navigate the complexity of ASEAN and the fast-changing landscape. With operating costs a constant concern, banks that can offer value-added services, such as digital marketing workshops and initiatives to guide SMEs in adopting digital technology should be the preferred choice.
4. **Be open to alternative financing:** Access to financing is no longer confined to traditional lending from banks. The proliferation of crowdfunding and P2P lending platforms offer a viable alternative for SMEs, especially for start-ups requiring short-term funding to seize opportunities. These alternative lenders complement the role of traditional banks within the funding ecosystem and offer a potential lifeline for smaller enterprises or those in tighter credit situations. However, entrepreneurs should be mindful that such forms of financing come at a premium. Evaluate cash flow positions and providers' lending terms carefully before committing to any loan decision.
5. **Harness technology:** SMEs have to adapt their operating model to meet the challenges that the digital economy will bring. Industry 4.0 and digital technologies can enable smaller enterprises to operate as efficiently as large corporations. A digitally-enabled operation ensures that SME owners can focus their energy on growing their business, gaining better insights on their customers and scaling quickly in times of expansion. Contrary to what most SMEs believe, automation does not necessarily involve large investments. SMEs can look to implement digital solutions to improve many areas of their business which can help to reduce operations cost, reach new markets to increase sales and simplify their banking.

ASEAN societies have always been strongly entrepreneurial and we are seeing the private and public sectors work together more closely to foster innovation in the SME ecosystem. For instance, governments in the region are working alongside financial institutions and FinTechs to understand the rapidly evolving business landscape and seek a direction that best suits the country. In the last two years, regulators in ASEAN have already looked to leverage FinTechs to improve the lives of their citizens – from financial inclusion to improving efficiency through digitalisation.

The ASEAN region offers huge business opportunities for local enterprises. As a priority, SMEs must take decisive action to set themselves up for long-term success.

We – EY, UOB and D&B – envision exciting times ahead for the region's enterprises and look forward to supporting growth and innovation within the ASEAN-6 SME ecosystem.

ASEAN-6 country snapshots[6]



[6] Macroeconomic data mentioned here is accurate as of end 2017. These are government or economists' consensus estimates, prior to the release of the actual full year 2017 figures.

In this section, we provide more insight on the macroeconomic climate of the ASEAN-6 nations, comprising the original five founding members, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and the newest member Vietnam.

Growth shows no signs of abating

Southeast Asia's largest economy is enjoying a period of prosperity as reviving investments, consumption and continued regulatory reforms generate growth. GDP growth is forecast at 5.3% in 2018, up from 5.1% in 2017. Given Indonesia's abundance of natural resources, business expectations are optimistic for the next two years.

Sound consumer confidence, rising household purchasing power and more attractive borrowing rates will sustain Indonesia's private consumption from its 265 million strong domestic market, which accounts for around half of its GDP. Local demand will drive performance in agriculture and services. Meanwhile, robust private consumption, ongoing recovery in commodity prices and higher exports continue to benefit wholesale and manufacturing, as well as boosting international trade for textile and garments, food production, palm oil and coal.

Indonesia's sectoral outlook for 2018-19

Agriculture	Construction	Manufacturing	Mining	Services	Transportation	Wholesale
Excellent	Good	Good	Fair	Excellent	Good	Fair

Source: Dun & Bradstreet

Potential headwinds include Indonesia's relatively high levels of household poverty, partly linked to a lack of effective educational reforms, accelerating inflation and weak governance in some provinces. However, we expect strong economic growth on the back of President Joko Widodo's structural reforms and high infrastructure spending.

Indonesian SMEs: Benefitting from reforms

Indonesia's business environment continues to improve. In 2015, economic growth was still lacklustre due to poor infrastructure, cumbersome business procedures and a weak institutional framework. In September the same year, a series of economic policy packages began stimulating investment and accelerating growth. These reform packages untangled regulatory red tape and created a conducive business environment for local enterprises and foreign investors. Consequently, Indonesia climbed almost 20 spots in the World Bank's Ease of Doing Business Index , from a ranking of 91 in 2017 to 72 this year.

SMEs have benefited as Indonesia's buoyant economic growth, solid private consumption and decline in bankruptcies have stabilised the credit environment. They reaped further efficiencies from streamlined business license application processes, enjoyed tax incentives and greater access to credit and global supply chains.

Government support for SMEs

Financial assistance

- **Credit for Business (Kredit Usaha Rakyat)** – providing credit, working capital and investment financing schemes dedicated to micro, SMEs and co-opoeratives.
- **Programme for Eastern Indonesian Small and Enterprise Assistance** – collaborating with the International Finance Centre to provide financial assistance to SMEs in the poorest areas of Indonesia.

Digitisation and technological innovation

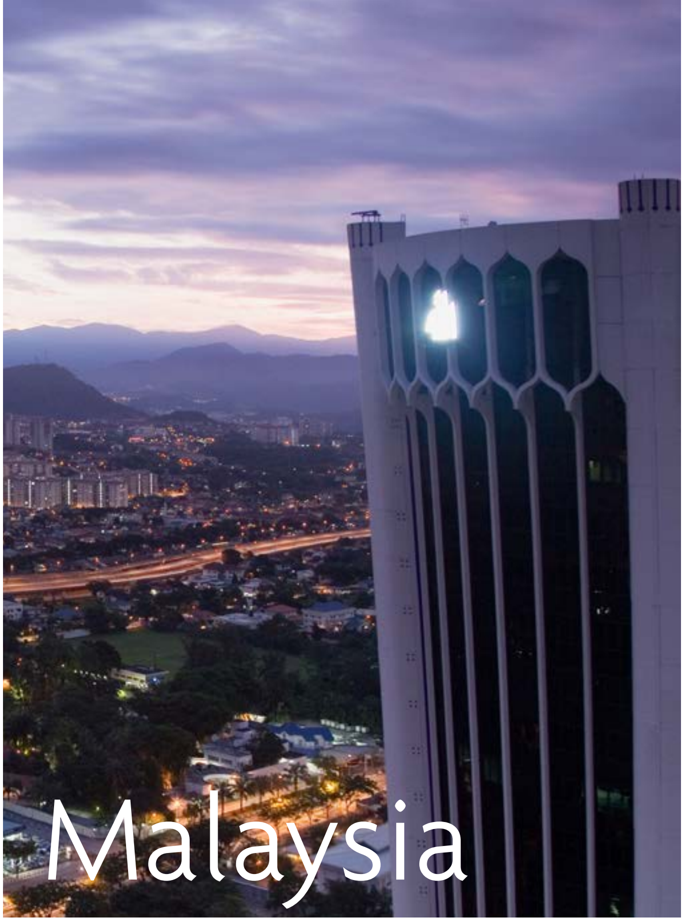
- **The Ministry of Cooperative and SME Start-up Incubator Programme** – promoting local entrepreneurs through the provision of additional business opportunities.
- **1,000 Start-ups Movement** – aiming to create 200 new start-ups across 10 cities annually leading to 1,000 start-ups by the end of 2020, with an expected total valuation around US$10b.

Economy on a growth trajectory

Southeast Asia's third largest economy has picked up after bottoming out in 2016, with economic bodies such as the International Monetary Fund and the Asian Development Bank currently bullish on its near-term performance. Expansion will largely be underpinned by robust private sector investments and improvement in domestic and external demand. Rapid growth has come from continued spending in the manufacturing and services sector, stable labour market conditions and higher consumption. The World Bank expects Malaysia's GDP to grow 4.8% in 2017 and increase another 5% per annum in the next two years.

These positive indicators have led to broad-based growth across a range of diversified sectors. The outlook is particularly good for the agricultural industry where fewer disruptive weather patterns from El Niño have boosted plantation production. Optimism also abounds for the following industries:

- Manufacturing and wholesale, underpinned by sustained global demand for semiconductors and stronger export growth;
- Mining supported by double-digit growth in commodity exports; and



- Transportation, with the government's significant budget allocation to boost public transport in 2018 and upskill manpower in the national rail sector.

Malaysia's Sectoral Outlook for 2018

Agriculture	Construction	Manufacturing	Mining	Services	Transportation	Wholesale
Good	Good	Good	Good	Good	Excellent	Good

Source: Dun & Bradstreet

Clouds on the horizon include Malaysia's high household debt ratios and increasing consumer inflation of 3.9% – double that of a year ago – which could slow down consumer spending and dampen household sentiment. Already, we are seeing muted sentiment in construction, reflecting latent problems plaguing the sector from foreign labour shortages, rising minimum wages and late payments. External debt in corporates and banks may also pose exchange rate risks to the strengthening Ringgit.

However, with Malaysia's abundance of natural resources and already well-equipped with infrastructure, we expect current economic growth to continue in the near term. Rising global demand for Malaysia's commodity exports (crude oil, liquefied natural gas and palm oil) and a new agricultural frontier in Eastern Malaysia will continue to drive expansion.

Malaysian SMEs: Positive sentiments from government spend and Chinese FDIs

Malaysia's overall SME business sentiment remains positive. This is supported by budget sweeteners, including investments in schools, hospitals and rural infrastructure ahead of the 2018 general election and the relative ease of conducting cross-border trades. Malaysia ranks 24th in the World Bank's Ease of Doing Business Ranking, the second highest in ASEAN after Singapore.

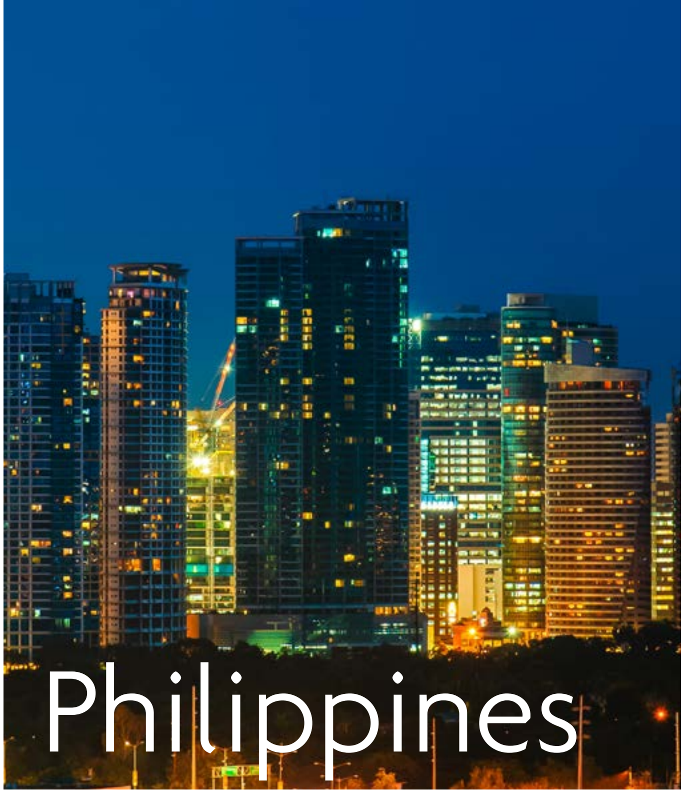
However, enterprises see risks arising from US protectionism, higher costs from raw materials and business operations and potential interest rate hikes in 2018. Also, as Beijing reins in debt risks, moderating growth in China could impact Malaysia's economy given the very significant trade relations between both countries.

Against this backdrop, the government introduced programmes to boost labour productivity, upgrade employee skills and infrastructure to boost Malaysia's competitiveness in higher value-added domestic sectors such as technology and precision engineering.

Government support for SMEs

Financial assistance
• **Financial assistance and tax incentives** for the agricultural sector, including rice farmers, rubber smallholders and fisheries. • **Government-guaranteed loans** to enable SMEs to automate. Shariah-compliant SME financing scheme with subsidy rate of 2%, soft loans, grants and training under SME Corp and insurance coverage credit facility for SME exporters. • **Credit Guarantee Corporation** (CGC), in collaboration with SME Corp and Credit Bureau Malaysia, offers loan guarantee and financing facilities and advisory, credit information and credit rating services. Through the Bureau, CGC helps SMEs to improve their creditworthiness.
Digitisation and technological innovation
• **Digital Free Trade Zone** facilitates cross-border trade through e-commerce and market access for SMEs to reach global customers with greater ease. This includes setting up an e-Fulfilment Hub to export products easily, a Satellite Service Hub to connect SMEs with leading service providers in financing, last mile fulfilment and insurance, and an eServices Platform to manage cargo clearance and other processes required for cross-border trade. • **National Transformation (TN50)** – US$59.6m has been allocated to establish Science, Technology, Engineering and Mathematics centres and add Computer Science modules such as coding. • **Tax reliefs** and **grant allocation** to incentivise manufacturers to adopt new technologies. • **Transformation to Industry 4.0** offering tax incentives for ICT equipment and software. • **Domestic Investment Strategic Fund** offering matching grants to enhance smart manufacturing facilities worth RM245m (US$59m).
Productivity and capability development
• **Skim Jaminan Pembiayaan Perniagaan –** US$1.7b to drive SME growth and productivity, such as automating production and reducing foreign labour. An additional US$238m will be loaned to SMEs with 70% guaranteed by the Government.
Manpower development
• **Manpower training and upgrading** – US$48m allocated to SMEs for training programmes, grants and soft loans under the SME Corp.

Ushering in a new era of growth



With the World Bank forecasting real GDP growth of 6.7% for 2018 and 2019, the Philippines is on track to be one of the region's fastest growing economies.[xiii] The positive outlook is buoyed by declining unemployment rates and a consumption boom from the growing middle-income population.

Expansion is expected to be anchored primarily by manufacturing and services, bolstered by rising external demand from trading partners, strong consumer spending and high public investment. Notably, this includes the Philippines' ambitious P9t (US$176b) infrastructure "Build, Build, Build" programme, which will restore crumbling roads and bridges, revamp airports and introduce the Philippines' first subway. This public infrastructure initiative also bodes well for construction and transportation, elevating capital outlays and creating new employment.

Philippines' sectoral outlook for 2018-19

Agriculture	Construction	Manufacturing	Mining	Services	Transportation	Wholesale
Fair	Good	Excellent	Good	Excellent	Good	Good

Source: Dun & Bradstreet

Potential risks include resistance to the tax reform Bill needed to secure finance for the planned infrastructure programmes, but in late 2017, parliament formally approved the initial phase of President Duterte's tax reforms. However, the massive imports required to fuel the infrastructure programme will also create a trade deficit, putting the Peso under pressure.

As a result, we view the well-intended plans to transform the Philippines into a high middle-income economy by 2022 as ambitious. Structural problems are likely to include cross-sector skills shortages, nascent technological maturity, insufficiently robust anti-corruption frameworks, weak legal and regulatory provision and enforcement and a somewhat opaque tax system. These factors, along with investment restrictions for retail enterprises where only locals can own firms with less than US$2.5m capital, put the Philippines at 133 or within the bottom 30th percentile in the World Bank's Ease of Doing Business Index.

Philippines SMEs: Buoyant prospects but potential loan tightening

Local SMEs, particularly in services and manufacturing are benefitting from buoyant macro conditions, with improving income levels and stable household consumption from expanding credit and sustained remittances. Business operations continue to be anchored by stronger government spending as the Duterte Administration pushes ahead with its infrastructure investment drive. The local elections in 2019 will further boost domestic activities from 2H2018. Improved relations with China should support cross-border trade and help local SMEs expand into Greater China.

However, tighter prudential standards may reduce loans to certain SMEs. In the last four years, bank loan growth in the Philippines has expanded at roughly twice the pace of nominal GDP. In response, the Central Bank, Bangko Sentral ng Pilipinas (BSP) is placing closer scrutiny on real estate loans and project financing. Although the Philippines' NPL ratio has remained benign at 2% and asset bubbles are not anticipated, tighter prudential standards might make banks more cautious about lending to SMEs. In anticipation, BSP has introduced initiatives to allow greater access to financing and reform the micro-financing system.

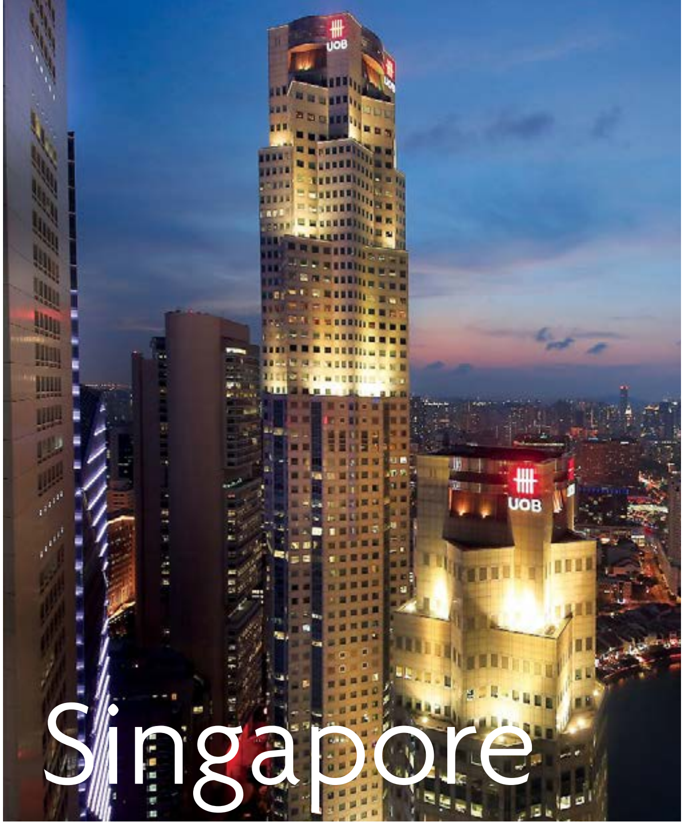
Government support for SMEs

Financial assistance

- **Credit Surety Fund** helps cooperatives manage and administer credit surety funds to enhance access to finance for micro and SME entrepreneurs, cooperatives and non-government organisations.
- **Pondo Para sa Pagbabago at Pagasenso (P3)** – President Duterte's flagship microfinancing initiative that sets aside US$20m with lower lending rates to eradicate the underground money lender scheme (56 scheme) and shift micro businesses and other legal microfinancing facilities.

Digitisation and technological innovation

- **National Retail Payment System** defines high-level policies, standards and governance principles covering retail payment operations and infrastructures. It aims to: accelerate the digitising of consumer payments through an effective electronic retail payment system; and promote a cash-light economy.



A strong, resilient economy

Singapore's economy expanded at an estimated 3.5% in 2017 – a modest but respectable growth for the most mature of the ASEAN-6 economies. While the external environment faces some downside risks, economists expect another year of steady 3% growth with a cautiously positive outlook for 2018.

Manufacturing, at a quarter of GDP, continues to outperform, especially in its technology and biomedical manufacturing clusters. The resurgence in global chip demand by China, South Korea and Thailand paved the way for stronger growth in export-oriented manufacturing. Services is also anticipating growth, particularly financial services, wealth management, business and professional and tourism-related businesses. However, optimism is lower among sub-segments such as retail and food services. The Singapore Statistics Office's F&B Services Index for restaurants contracted 9% year-on-year in the first half of 2017 after adjusting for inflation.

Singapore sectoral outlook for 2018-19

Construction	Financial	Manufacturing	Services	Transportation	Wholesale
Poor	Good	Good	Good	Fair	Good

Source: Dun & Bradstreet

Construction is most pessimistic, with growth forecasts trimmed owing to weak demand for private industrial and commercial projects. In response, the Singapore government – the construction industry's largest client – announced S$1.4b (US$1b) of public amenities projects within the next two years to offset the drop in private sector demand. These projects, which include upgrading community clubs, sports centres and police posts, will benefit almost 8,000 SME contractors who typically do not benefit from mega-infrastructure opportunities.

Singaporean SMEs: Enhanced government transformation schemes

External macro uncertainties and internal rising operating costs, skilled labour shortages and intensifying competition are perennial concerns for Singapore's SMEs. Although asset quality and profitability deterioration have peaked for oil and gas, transportation, storage and many other sectors, they are still contending with cash flow challenges from payment delays. In 2018, we expect Singapore's loan growth to be higher as more SMEs seek working capital finance.

Despite these challenges, we see reason for local enterprises to be cautiously optimistic. Singapore continues to remain as one of the region's most reliable economies, with solid financial and fiscal buffers to negate potential economic shocks. The city state's robust public finances, stable political environment, pro-business policies and influx of foreign investments bode well for domestic SMEs. This is clearly illustrated in the World Bank's Ease of Doing Business Index with the island nation retaining its number two spot in 2018, behind New Zealand.

Meanwhile, the Singapore government continues to proactively support SMEs with numerous schemes and subsidies to help build capabilities, raise productivity, expand internationally, go digital and groom talent.

Government support for SMEs

Financial assistance

- **Global Company Partnership Grant** and **Market Readiness Assistance Grant** – offer SMEs up to 70% funding support for overseas expansion projects in capability building, market access and manpower development. The grants support overseas setup, business partner identification and marketing.

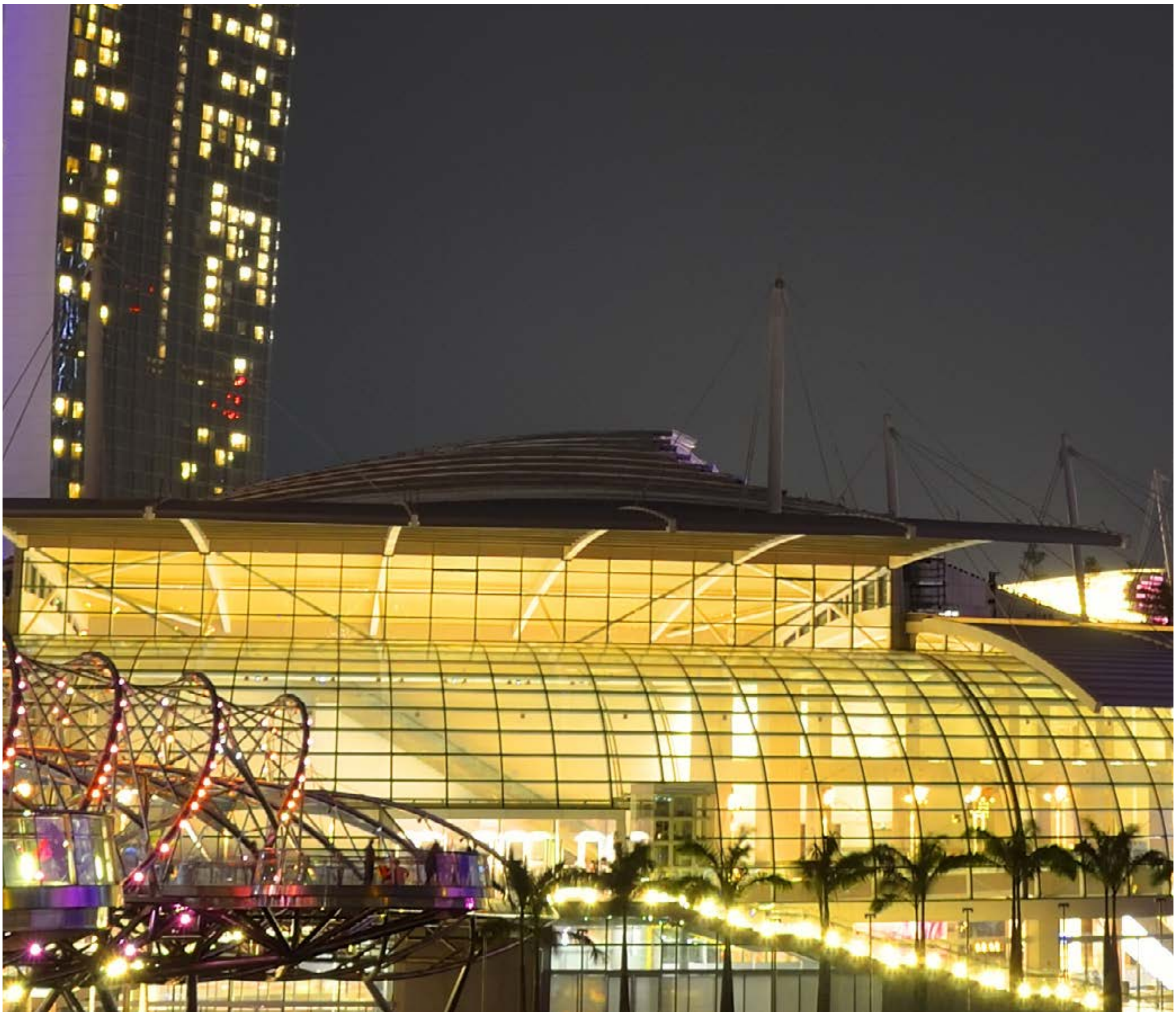
Digitisation and technological innovation

- **SMEs Go Digital** – the Infocommunications Media Development Authority is providing more structured support for SMEs to harness digital technologies to enhance their capabilities in areas such as cyber security, data protection and data analytics; and boost their productivity.
- **Enhanced International Scheme and Tech Access Initiative** – help SMEs to internationalise, innovate and scale their digitalisation projects.

Productivity and capability development

- **Capability Development Grant** – support SMEs' capabilities in product development, human capital development, process enhancements and business model transformations. SMEs receive up to 70% of qualifying project costs, such as consultancy, training, certification and equipment costs.

Note: Refer to "Example of Singapore Inc. initiatives" in the earlier section for details.



Strengthening economic fortunes

Thailand's outlook still lags that of regional emerging markets, with private investment remaining weak and household debt among the highest in Asia, crimping consumption. However, Southeast Asia's second-largest economy has been staging a modest turnaround, with GDP expanding from 3.2% in 2016 to 3.9% in 2017, and projected to rise by 3.6-4.6% in 2018. Exports rose an estimated 8% in 2017 following four consecutive years of contraction. Future growth will mainly be driven by stronger exports, continued increases in government spending on public infrastructure, tourism and improved private consumption and investment.

The agriculture sector has an optimistic outlook backed by an uptrend in the international price of rice and other agricultural goods. Companies in the services and transportation sector are also expected to do well, supported by international tourists, particularly those from China, switching destinations from western countries to Southeast Asia for political and security reasons. Tourism is expected to accelerate following the end of the mourning period in October 2017 for King Bhumibol Adulyadej, with the Tourism Authority of Thailand forecasting US$92b in tourism revenues in 2018. The construction and transportation sectors will also benefit from a surge in government infrastructure spending with projects totalling more than US$9.1b in 2018.

Furthermore, a new personal income tax structure introduced to increase disposable income means that private consumption – the main engine of Thailand's economic growth – will boost economic activity in most sectors.

Thailand's sectoral outlook for 2018-19

Agriculture	Construction	Manufacturing	Mining	Services	Transportation	Utilities
Good	Good	Fair	Poor	Fair	Good	Fair

Source: Dun & Bradstreet

The risks to growth momentum for the Thai economy include the potential of a strong Thai Baht denting export competitiveness, uncertainties over US economic and foreign trade policy and the impact of economic structural reforms in China.

Thai SMEs: Fairer skies ahead with Thailand 4.0 reforms

The Thai government is supporting SMEs by focusing on developing skilled workers through quality education, promoting innovation and investing in public infrastructure to improve the country's global business competitiveness. This has already borne fruit with Thailand surging 20 places in the World Bank's Ease of Doing Business ranking from 46 to a highly respectable 26 in 2018 – putting it in the top 10 economies to have improved most in the ease of doing business. One major improvement has been the cutting of red tape to reduce the time taken to start a business from 27.5 days previously to just 4.5 days. The government also introduced regulation to fix the long-standing issues of microfinance institutions overcharging vulnerable borrowers with exorbitant lending rates.

Another positive reform was the increased controls over unsecured consumer credit as a means of curbing rising household debt which is close to 80% of GDP. More sustainable consumer spending and lower debt levels could help increase confidence, reinvigorate household consumption and create flow through benefits to SMEs.

Government support for SMEs

Financial assistance
• **SME Transformation Loan for Thailand 4.0** – offering SMEs access to credit of up to 15m Baht (US$0.45m). SMEs applying for a loan of less than 5m Baht (US$0.15m) can make fixed interest payments for the first three years without collateral, with the Thai Credit Guarantee Corporation acting as guarantor.
Digitisation and technological innovation
• **Boosting Entrepreneurship for SME 4.0** – This SME one-stop service includes an electronic SME registration and tracking system and an SME e-commerce catalogue to promote public procurement.[xiv]
Productivity and capability development
• **Infrastructure for SME 4.0** – developing and upgrading incubation sectors, providing co-working spaces, and establishing design and creative centres with the intention for SMEs to contribute 50% of the nation's GDP by 2021.
Manpower development
• **Nurturing citizen 4.0** – Strategic Talent Center to identify available experts, specialists and researchers in science and technology and match their talents with the private sector's needs.

Economy remains buoyant

The Vietnamese economy achieved a highly respectable growth rate of 6.7%[xv] in 2017, with projections for another 6.5% in 2018. This positive outlook is due to robust domestic demand and increased trade opportunities from the new bilateral FTA with the European Union.

Such developments, alongside Vietnam's labour cost competitiveness and proximity to the Chinese production chains, make it a premier location for SMEs to set up manufacturing hubs. With a globally competitive manufacturing sector integrated into regional supply chains, Vietnam is expected to be one of the top five emerging logistics markets in the medium term.

Other than agriculture which is vulnerable to climatic uncertainties, the near-term outlook for all other sectors is positive. Manufacturing production will be boosted by continued opening of new foreign-invested factories. Construction will continue to benefit from high FDI disbursements to set up new factories, a strengthening housing sector and continued high transport and energy infrastructure investments. Growth in services is projected to remain strong with tourist arrivals boosted by the new e-marketing campaign launched by the government.

Vietnam's sectoral outlook for 2018-19

Agriculture	Construction	Manufacturing	Services	Transportation	Mining	Utilities
Fair	Excellent	Excellent	Excellent	Excellent	Good	Good

Source: Dun & Bradstreet

Economic growth could be dampened by Vietnam's long-standing structural constraints, including a highly-leveraged banking sector, inefficient State-Owned Enterprises (SOEs) and government bureaucracies.

Vietnamese SMEs: Improving regulatory environment but watch for credit risks

Vietnam's overall outlook for SMEs appears positive as the government continues to overhaul the business regulatory system. Initiatives such as simplifying business procedures, enhancing national competitiveness, improving transparency and trimming corporate taxes will create a more conducive environment that will help facilitate greater internationalisation and trade growth for SMEs. The positive effects are already being felt, with Vietnam rising 14 places from 82 in 2017 to 68 in 2018 in the World Bank's Ease of Doing Business Index.

However, rising income inequality, economic inefficiencies and the lack of business knowledge and skills may impede Vietnam's growth. Slower growth in China could undermine trade given China accounted for US$19.2b of Vietnam's exports in 2016. Separately, rising local nationalist sentiments may affect demand for foreign imported goods and services, impeding plans by neighbouring countries to expand into Vietnam.

Also, with concerns around growing credit risks for the financial sector, the credit environment outlook is expected to deteriorate. SOEs and real estate segments will be key sources of fragility. Rising levels of private sector debt and NPLs could dampen SME loans from traditional financial institutions and force enterprises to seek alternative and costly sources of finance to support growth.

It is thus encouraging that the Vietnamese government is instituting pro-business initiatives, including active and flexible fiscal policies, such as providing tax breaks, reducing corporate taxes and offering business support packages to spur growth and position Vietnam as a regional business hub.

Government support for SMEs

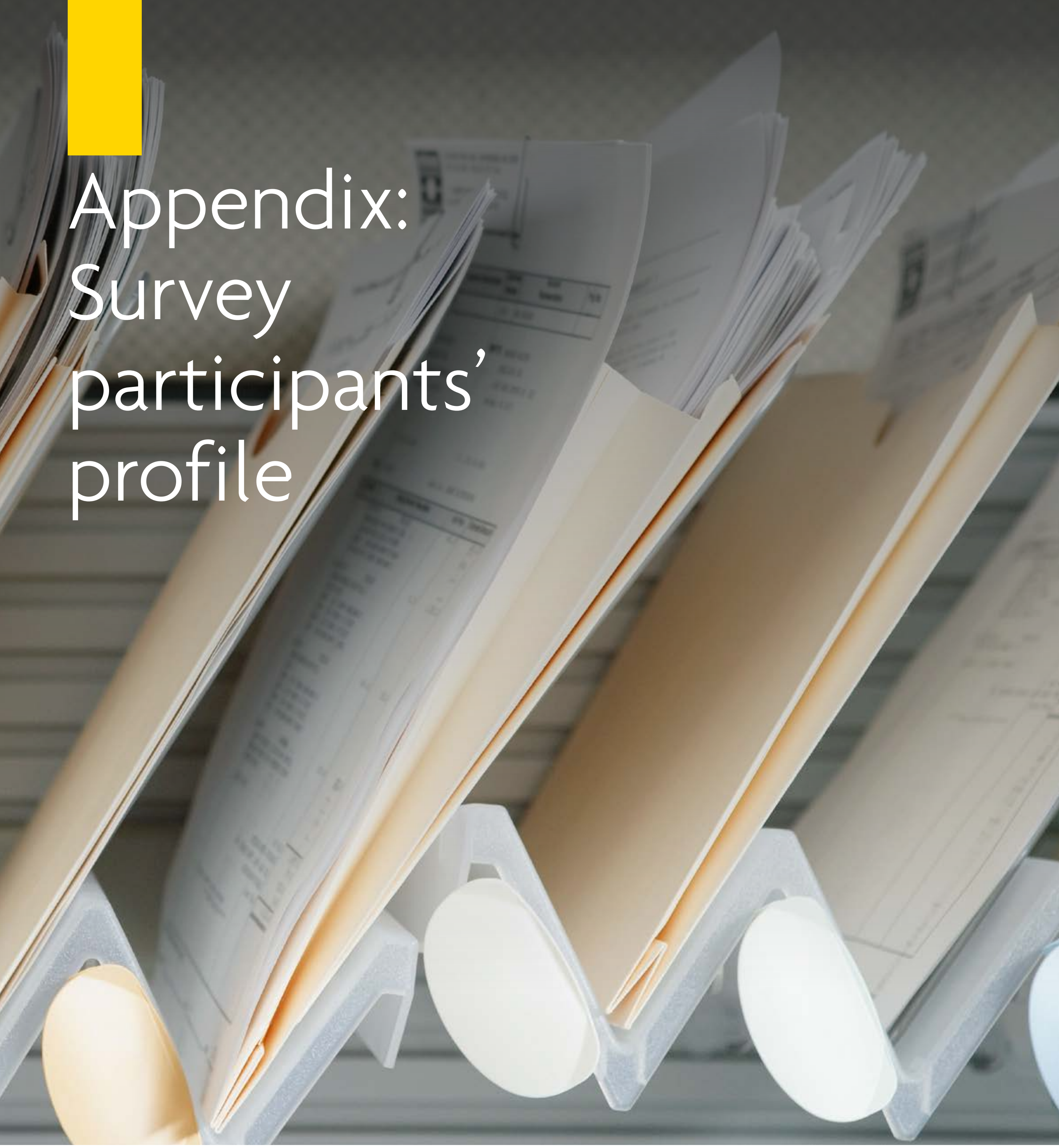
Financial assistance

- **Increase access to financing and new legislation** – US$24.7m for four preferential loan programmes under the SME Development Fund, covering innovation, agriculture, processing and manufacturing, water supply, management and treatment.
- **SME Law** – from 2019, SMEs will be taxed at a lower rate than corporates and enjoy other non-tax incentives, such as lower land use fees and land rents and access to credit.

Digitisation and technological innovation

- **Investments in ICT** – a policy to establish venture capital funds to develop new technologies among SMEs.

Appendix: Survey participants' profile

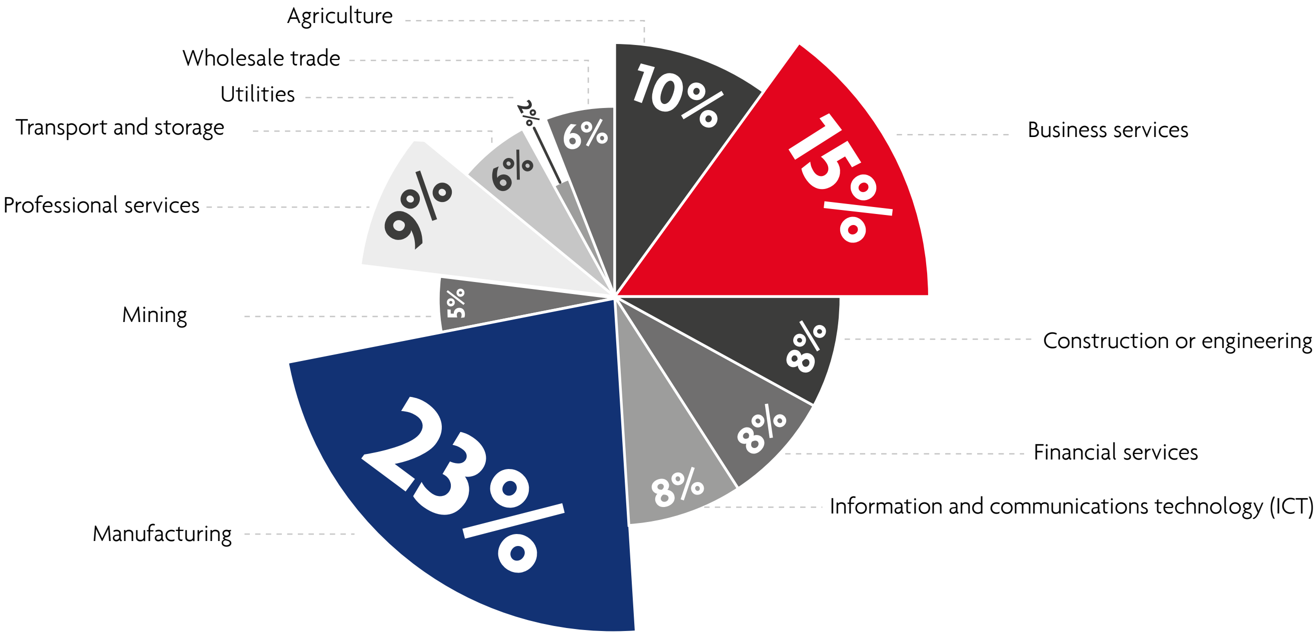


Demographics of SME respondents

The *ASEAN SME Transformation Survey* polled SMEs from the six core ASEAN markets (the ASEAN-6) of Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam, with results aggregating the responses of entrepreneurs from about 200 SMEs in each country. Phone and online interviews were conducted with senior decision makers responsible for business strategy, operations or finance.

This survey focuses on SMEs with annual revenues of between US$1 million and US$20 million to capture to capture general characteristics of these enterprises but excludes micro or larger enterprises that might present other unique sets of opportunities and challenges. Interviews were completed in late 2017, with the intention of revisiting the survey every two years.

Figure A1: Respondents by business sectors

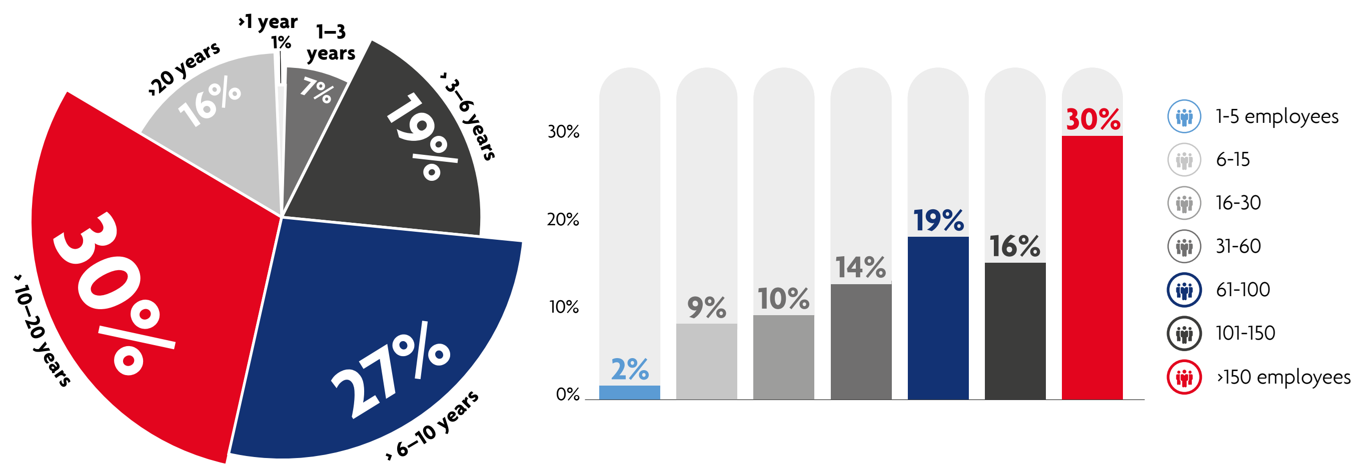


Notes: Classification of SMEs was as follows: Business services included: retail trade, food & beverage (F&B), property, tourism & accommodation; Professional services: law, accounting, education, healthcare; Transport and storage: vehicles and shipping-related industries; and Utilities covered: water, gas, electricity-related business.
Source: ASEAN SME Transformation Survey, 2018 (N=1,235, with 203 respondents from Indonesia, 210 from Malaysia, 209 from the Philippines, 203 from Singapore, 207 from Thailand, and 203 from Vietnam)

Industry representation varies across the six markets depending on contributions of various sectors to the respective country's GDP. These aggregate to regional percentages in Figure A1, with manufacturing accounting for the largest segment of respondents at 23%, followed by business services and agriculture at 15% and 10% respectively.

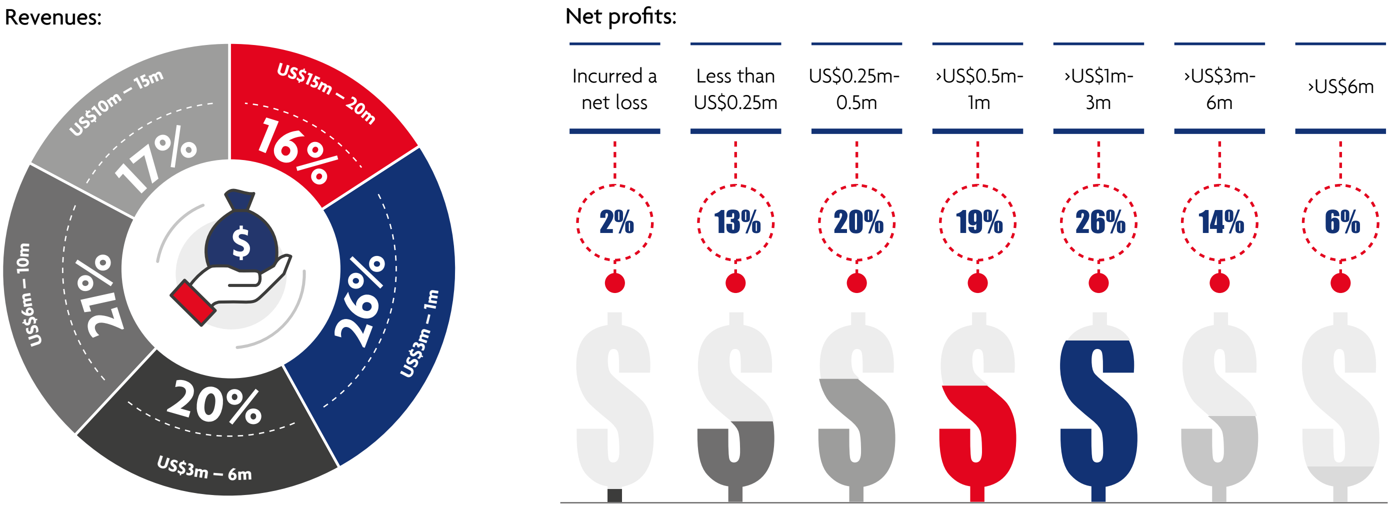
At the country level, 31% of SME interviewees from Thailand are product manufacturers, reflecting the country being the largest global manufacturer of electrical, electronic equipment and automotive components. Likewise, manufacturing is a core sub-sector for Indonesia and Malaysia, accounting for a quarter of respondents in these markets. 20% of Singapore's respondents are from the manufacturing sector, which is moving up the value-chain to include more complex and higher value-added activities such as research and development, chemicals and biomedical sciences.

Figure A2: Number of years in operations and current full-time employees



Respondents are mostly from well-established enterprises, with 8% being newer entrants operating for less than three years. Correspondingly, 60%, have more than 60 full-time employees (FTEs), with staff strength being highest in Vietnam and lowest in Singapore given the latter's higher labour expenses. Among Vietnamese respondents, 43% employ more than 150 FTEs, partly attributed to 40% operating in the labour-intensive agriculture and mining sectors. In contrast, the percentage of respondents with more than 150 FTEs is just 16% for Singapore.

Figure A3: Most recent annual revenues and net profits (FY17)



Respondents' revenue sizes are evenly distributed across the spectrum, with more than a quarter earning US$1 million and US$3 million for their last full financial year (FY17), and 20% with US$3 million to US$6 million. Of those with revenues between US$15 million and US$20 million, 31% and 22% of respondents were from the emerging markets of Vietnam and Indonesia respectively. The largest organisations are from mining, manufacturing and the financial services sector. The smallest are from the wholesale trade, transport and storage and professional services sector.

Respondents' average net profit in FY17 was US$1 million to US$3 million, with the median value slightly lower at US$0.5 million and U$1 million. With some exceptions, profits typically track revenues, with established players above US$10 million accounting for 88% of profits above US$6 million, while those in the lowest revenue category (US$1 million to US$3 million) responsible for 63% of organisations reporting net losses. As a percentage of their sectors, respondents from mining, manufacturing, financial services and ICT generated relatively more substantial profits, while those in transport and storage, and utilities had thinner margins.

Note: While standard industry classification on industry groupings, revenue and profit are applied for the purposes of data aggregation and analysis, individual SMEs may well operate and behave very differently despite similarities in size and structure. For a more granular view of the responses, to customise by countries, sectors, or to cross-reference various responses, please go to Regional SME transformation survey

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i. Source: UOB Global Economics & Markets Research

ii. Contact EY for specific details across 6 ASEAN countries on primary SME service providers and the top-rated banks for: credit and financing (e.g., working capital loans and credit lines, asset financing); transaction and operations (e.g., current accounts and deposits, payments and cash management); and international activities (for enterprises with overseas presence: e.g., letters of credit, forex management)

iii. Source: https://p2psg.crowdo.com/page/about_us

iv. Source: https://www.coassets.com/asx/about/

v. Source: The six P2P lending operators in Malaysia, 21 November 2016, Cihan News Agency (CNA)

vi. Source: Indonesia Based P2P Lending Startup Investree Is Banking On Invoice Financing To Crack A $70 Bn Market, 27 July 2017, FARS News Agency

vii. Source: https://www.moolahsense.com/statistics.php

viii. Source: http://www.mas.gov.sg/News-and-Publications/Media-Releases/2017/Changes-to-Finance-Company-Regulations-to-Enhance-their-Ability-to-Finance-SMEs.aspx

ix. Source: http://www.straitstimes.com/singapore/singapore-budget-2017-new-partnership-fund-to-help-singapore-based-firms-scale-up-globally

x. Source: http://www.opengovasia.comt/articles/8086-ie-singapore-signs-two-mous-to-help-singapore-companies-access-chinese-market-and-innovation-ecosystem

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xii. Source: The ASEAN Digital Revolution" – A.T. Kearney and Axiata

xiii. Source: https://www.rappler.com/business/184305-world-bank-cuts-philippine-gdp-forecast-2017-2018

xiv. Source: http://mddb.apec.org/Documents/2016/MM/SMEMM/16_smemm_010.pdf

xv. Source: http://www.worldbank.org/en/news/press-release/2017/12/11/vietnam-sees-stronger-growth-momentum

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