Budget 2020: Enhancing SMEs’ survivability in times of crisis

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This year’s Budget, presented by Deputy Prime Minister and Finance Minister Heng Swee Keat, contains various schemes to ensure the survival of small and medium-sized enterprises (SMEs) in the face of a possible recession and of concern over Covid-19. The Budget seeks as well to place SMEs in a strong position for long-term, sustainable growth.

Singapore has rolled out an expansive Budget to boost the economy, with an overall deficit for financial year 2020 expected. The Government expects the overall budget balance to be a deficit of $10.9 billion (or 2.1 per cent of gross domestic product). Such expansionary fiscal policies are to be expected, given the economic uncertainty Singapore will face because of the lingering effects of the United States-China trade war, shifting global supply chains and the coronavirus outbreak.

The Stabilisation and Support Package and a temporary Jobs Support Scheme to offset wages were announced to help Singapore-based companies retain local employees. In addition, firms will receive assistance to alleviate cash flow problems, in the form of a corporate income tax rebate.

Other support programmes include the doubling of the Enterprise Financing Scheme’s (EFS) Working Capital Loan amount, a loan scheme to ease daily operational cash flow needs and increase flexibility of rental payments for tenants of government-managed properties.

In particular, the outbreak of Covid-19 has had a severe impact on the tourism, transport and retail industries. Budget 2020 addresses problems in these industries by introducing an enhanced Adapt and Grow initiative to promote the reskilling of employees during this “down time” to address long-term skills needs, and property tax rebates for companies in the tourism industry.

CONCERNS AMONG SMEs

While these support packages are well-received by its primary beneficiaries, SMEs, there are lingering concerns over the implementation of these policies.

Many of the financial support schemes have included vague clauses such as business viability, with little clarity over what constitutes business viability within the context of an SME. Many SMEs avoid taking up grants relevant to their business operations because of concerns over bureaucratic hassle and lack of reassurances over grant requirements and the quality of deliverables.

SMEs have noted that grants such as the Market Readiness Assistance, which is aimed at encouraging SMEs to venture overseas, have rigid bureaucratic requirements and long approval waiting times. As business is time-sensitive, SMEs tend to lose out on opportunities due to these delays.

Thus, greater clarity over the details of these schemes and grants is needed to ensure that these grants remain effective and part of the overall plan for business transformation.

SMEs are also concerned over the EFS Working Capital Loan. While the doubling of the loan amount to $600,000 is helpful, it remains worrying that SMEs continue to face higher interest rates payable to local-based participating financial institutions compared with larger companies, especially during times of recession, when SMEs face significantly more cash-flow problems compared with larger companies. The interest rates set by participating financial institutions remain high despite the co-sharing of up to 80 per cent of loan default risk by Enterprise Singapore. This reduces the competitiveness of SMEs operating in Singapore.

Some SMEs have suggested “interest holidays” where financial institutions waive interest rates for a period of time to provide breathing space for SMEs to consolidate their operations. Given that SMEs employ approximately 60 per cent of Singaporeans, it remains vital to ensure that they can continue to thrive.

ADDRESSING IMMEDIATE CONCERNS

While businesses directly affected by Covid-19 have had some of their concerns addressed by the Budget, the reality is that SMEs in Singapore are deeply integrated across industries. Many SMEs beyond the tourism or retail industries are being indirectly and significantly hurt by the virus outbreak. Many of the initiatives announced in the Budget have long-term objectives. While it is important to consider future needs, Covid-19 and the probable recession necessitate measures that will help businesses immediately.

Aside from interest holidays, SMEs have suggested that, in addition to property tax rebates, more robust rental rebates could be considered for both government and privately managed properties.

Property tax rebates which were announced in Budget 2020 can only indirectly alleviate the rental costs of SMEs. However, a rental rebate by both government and privately managed properties, meanwhile, would directly address the biggest financial concern for SMEs now, which is rent.

OPPORTUNITIES FOR SMEs

In countries such as Germany or Japan, SMEs play an important role as local suppliers for large businesses. With concerns over supply chains originating in China, many local SMEs stand to benefit as larger companies in Singapore have begun diversifying and sourcing locally for production materials and components. Toyo Chromium Engineering, for example, an SME providing chrome-plating services, has seen greater interest from larger companies for its hard chrome-plating services in the light of the supply chain disruptions.

Local SMEs should seize this growth opportunity by collaborating with other SMEs and larger companies to become an integral part of Singapore’s global supply chain network.

SMEs, through trade associations and unions, should also continue to engage with policymakers. SMEs, as front-line stakeholders of the economy, can and should continue to provide valuable feedback to policymakers to ensure effective policy formulation and implementation. In times of uncertainty, the Government, business and workers need to come together to ensure that Singapore overcomes this crisis.

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