

**SPEECH BY MR LEE YI SHYAN, MINISTER OF STATE FOR TRADE AND INDUSTRY,  
DURING THE COMMITTEE OF SUPPLY DEBATE (MINISTRY OF TRADE AND  
INDUSTRY) UNDER HEAD V, ON MONDAY, 9 FEBRUARY 2009**

**“WORKING TOGETHER TO WEATHER THE DOWNTURN”**

**INTRODUCTION**

1. Mr Chairman, I would like to add my thanks to the members who spoke passionately on the best ways to support our SMEs during this time of crisis. MTI remains firmly committed to helping our SMEs now and in future.

2. More so than in other countries, our SMEs are closely connected to the global economy. Many of our SMEs play an important role in our key manufacturing clusters like electronics, petrochemicals and precision engineering, supporting larger companies. Many export to overseas markets<sup>1</sup> and some of them have grown to become small multinationals themselves, with operations in the region and beyond.

3. Without a doubt, the slowdown is affecting many of our SMEs. In the manufacturing sector, many SME suppliers have seen sharp reductions in their order books. In the services sector, lower tourist arrivals and consumer spending mean slower businesses for hospitality, retail and the F&B business. Operating in an open economy like ours, our SMEs have not been immune to the severe shifts in the global market conditions.

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<sup>1</sup> According to the DP Info SME Development Survey 2008, two-thirds of SMEs engage in overseas operations (through exports or setting up of overseas offices). The top three markets are Malaysia (69%), China (67%) and Indonesia (60%) in that order.

## **SUPPORTING OUR SMES**

4. Mr Inderjit Singh and Mdm Ho Geok Choo have asked what the Government would do to help our SMEs to ride out this crisis. We will do so through an enhanced SME strategy comprising four pillars. One, alleviate costs and facilitate credit; two, support internationalisation; three, develop capabilities and service excellence; and four, support entrepreneurship. Let me elaborate.

### ***Alleviating Cost and Facilitating Credit***

5. The Budget contains many measures that assist all companies, including SMEs, in managing costs and accessing finance.

6. In the area of managing costs, businesses will enjoy as much as \$840 million in savings on property and transport related costs through the tax rebates announced. For companies that take advantage of the downturn to make capital investments in areas such as renovation and refurbishment, they will get accelerated write-downs. Most importantly, companies that retain their employees will get substantial relief in their wage costs through the Jobs Credit scheme. For an SME employing about 10 workers, this translates to potential savings of as much as \$36,000 a year<sup>2</sup>.

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<sup>2</sup> Based on total SME numbers and employment statistics, the average employment per SME is about 10. Under the Jobs Credit scheme, the annual savings on each employee is 12% x \$2,500 x 12 mths.

7. The Budget also contains enhanced measures to facilitate business financing. Let me emphasise that the main beneficiaries will be SMEs.<sup>3</sup> Mr Seah Kian Peng has asked how SPRING will make known the availability of these credit schemes to SMEs. Since December 2008 SPRING has conducted 14 financial seminars and briefings to date, reaching out to nearly 2000 participants. Members would have noticed too, SPRING's advertisements in our local media publicising the many enhanced loan programmes.

8. Ms Penny Low has expressed concerns with the processing of loan applications. To ensure efficient implementation, SPRING helps SMEs in two ways. First, it refers unsuccessful applicants to other participating financial institutions. Second, SPRING makes available experienced financial advisers to advise SMEs on writing up their loan applications and even on alternative financing options and this is for free. Since the launch of this Financial Facilitator Programme (FFP)<sup>4</sup>, on 11 January this year, 285 enquiries have been handled. Of course, I should add that these advisory initiatives are in addition to the many relationship managers from the 14 participating financial institutions<sup>5</sup>, meeting SMEs daily on the ground.

9. But the role of Government can only be facilitative. Ms Penny Low is right that civil servants do not have the experience or expertise to assess credit worthiness. Government officers seek to supplement, but not supplant the role of bank credit officers in loan credit assessments.

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<sup>3</sup> From 1 Dec 08 till 30 Jan 09, 1649 loan applications have been received by the PFIs. Of these 694 loans have been approved, out of which 688 (or 99%) are SME loans.

<sup>4</sup> These Financial Facilitators are located at SPRING's 5 EDCs and SBF's EnterpriseOne Business Information Services (EBIS) centre. They are fully sponsored by SPRING and are ex-bankers and financial consultants/advisors. They are employed on a salaried basis.

### ***Supporting Internationalisation***

10. I must add, however, that even in this global economic downturn and with declining demand, there remain opportunities for SMEs, so long as they are quick to adapt and able to seize new opportunities. IE hopes to work through industry and trade associations to help SMEs from different industries to penetrate existing markets and tap new ones.

11. Mr Inderjit Singh has suggested that IE Singapore do more for SMEs which want to export and internationalise. Well, as a matter of fact, of the 35,000 companies supported by IE Singapore last year through its broad-based programmes, more than 80 per cent were SMEs.

12. As highlighted by Minister Lim, IE Singapore will introduce the Export Development Programme (EDP) to develop export competency of first-timer exporters, especially the SMEs. In addition, IE will be increasing the number of trade missions by more than 55% to 340, benefiting some 5,000 companies. It will step up its efforts to help companies secure trade credit insurance. In particular, IE will subsidise 50 per cent of insurance premiums for SMEs under its new Export Coverage Scheme (ECS) that facilitates access to trade credit.<sup>6</sup> The ECS is expected to benefit 1,000 Singapore based companies and cover up to \$4 billion worth of trade insured. As such, addressing Ms

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<sup>5</sup> As at end Jan 09, there are 3750 inquiries. 1650 applications, 40% approved, 35% rejected, remaining 25% being processed. For every application, there are 2.3 inquiries.

<sup>6</sup> Insurance scheme to insure exporters against buyer's default. IE comes in to aggregate supply (insurance players) and demand (fragmented exporters). Government will also be the final underwriter if there is insufficient from the market.

Penny Low's query, we have indeed expanded our efforts in helping export-oriented SMEs.

***Helping to Develop Capabilities and Service Excellence***

13. Next, let me re-emphasise the need for SMEs to build new capability and capacity even in this period of downturn. This is, in our view, the best way to stay afloat and stay ahead.

14. SPRING offers a comprehensive range of capability development programs, ranging from IT upgrading to design, branding and business management systems, process re-engineering and product development. Over the past year, these programmes have helped some 2,600 businesses to upgrade their capabilities. Many have become leaner and stronger. Others managed to increase sales with more effective design and branding.

15. Consider Tungsan Food Industries, a local manufacturer of sauces. With SPRING's support, it has automated its sauce production process and increased production capacity by 150 per cent. The improved operational efficiency has enabled Tungsan Food Industries to sell more at a lower cost per unit.

16. To help our SMEs stay focused on long term capability building, SPRING will launch a new \$200 million Business Upgrading Initiatives for Long-Term Development (or BUILD) programme as mentioned by Minister Lim. BUILD has two important components.

17. For individual SMEs, SPRING will increase funding support from 50 per cent to 70 per cent under its capability development programmes. For example, with support from SPRING, Nanyang Optical has built up a strong in-house product development capability. As a result, it will be rolling out a new series of mid-range eyewear targeted at trendy and yet budget-conscious consumers. With increased funding levels under BUILD, SPRING hopes to help other SMEs to continue to upgrade their capabilities.

18. For industry level projects, SPRING will raise funding support from 70 per cent to 80 per cent under the Local Enterprise and Association Development or LEAD programme. Several of our industry associations have been pro-active in responding to this crisis. For example, the Singapore Furniture Industries Council (SFIC) launched the \$1 million Member Assistance Scheme (MAS), which helps eligible members lower business costs and strengthen business capabilities. The funding can also be used to support missions to explore new business opportunities. We agree with Mr Heng Chee How that agencies and industry associations must work together for collective competitiveness. This enhancement to LEAD will allow associations to provide more customised services to their members.

19. Mr Chairman, a large number of our SMEs are in the services industry. The productivity of the service workers, their inclination and ability to serve with excellence, will have a direct impact on Singapore's aspiration to be an international hub for business and tourism. In fact, as we prepare to welcome several world-class events, such as the F1 races, APEC meetings and the inaugural Youth Olympic Games, the task of raising our service sector productivity has become even more urgent.

20. To ensure that we are up to the challenge, SPRING, STB and WDA, NTUC and ISES of SMU recently launched a \$100 million GEMS-Plus program to raise the service standard of our industries in some very fundamental ways. The agencies hope that through the funding, applied in three areas namely, research on service standards and methodologies two, capability development and adoption of best practices and three, promotion and recognition of role models, would raise the service standard of our workers, and the productivity of our service firms to new and international levels.

### ***Supporting Entrepreneurship***

21. Mr Chairman, Mr Inderjit Singh, Ms Penny Low and Mdm Ho Geok Choo have spoken on the importance of entrepreneurship even in this period of downturn. I agree wholeheartedly with them. Start-ups bring renewal and dynamism to our economy, and are the seeds of tomorrow's large enterprises. Our efforts to promote entrepreneurship will not waver even in this downturn.

22. The Action Community for Entrepreneurship (ACE), is an important initiative in driving entrepreneurship. Over the years, ACE has reached out to 32,000 aspiring entrepreneurs. Together with other entrepreneurship groupings, ACE has created a strong fraternity, promoting a pro-enterprise culture and the sharing of best practices amongst them. More educated and young Singaporeans are now willing to consider entrepreneurial undertaking as so-called "career choices". Our recent survey suggests that 65 per cent of startups' founders are below 40 years old. And more than one-third of our start-ups are started by graduates.<sup>7</sup>

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<sup>7</sup> DP Info STEPS survey 2008. DP will only release results from its 2009 survey later in the year.

23. We have created a conducive environment for start-ups. Our smaller companies and start-ups already enjoy the world's lowest effective tax rates<sup>8</sup>. It takes less than 15 minutes and \$300 to register a company in Singapore. Singapore has been ranked by the World Bank as the world's easiest place to do business for three years running.

24. But we are not contented. Recognising that start-ups too will be affected by this crisis, we have recently enhanced our support in three ways: Providing working capital and equity; Encouraging further investments in innovation; Providing greater opportunities for student entrepreneurs.

#### Providing Working Capital and Equity for Start-ups

25. In the current economic climate, start-ups, like all enterprises, may be vulnerable to cash-flow problems. Our Government loan schemes, especially the enhanced \$100,000 micro-loan programme, will provide loan assistance to all small enterprises, including start-ups.

26. Recognising that equity capital may also be affected, SPRING recently enhanced the Start-up Enterprise Development Scheme, or SEEDS in three ways. Funding ratio is now increased from 1:1 to 2:1. We would also allow follow-on funding after the initial investment. The funding cap is also raised from \$500,000 to \$1 million per start-up. The enhancements will be available to both new and existing start-ups.

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<sup>8</sup> Currently, all companies are eligible for MOF's partial tax exemption scheme, where 75% of up to the first \$10,000 of a company's income are exempt; and 50% of up to the next \$290,000 of the company's income

### Encouraging Investments in Innovation by Start-ups

27. Beyond increasing funding options for start-ups, we are also helping nascent start-ups to commercialise their ideas. The Technology Enterprise Commercialisation Scheme (TECS) launched last year provides \$50 million to help start-ups create their first prototypes for market trials and acceptance. So far, SPRING has supported 17 such technology projects, providing up to \$500,000 for each start-up.

### Providing Opportunities for Student Entrepreneurs

28. Recognising that the spirit of enterprise has to be inculcated from young, SPRING introduced The Young Entrepreneur Scheme or YES! in October last year, providing \$4.5 million of funding to help schools develop entrepreneurship learning contents. Under YES!, we would also fund student ventures with a 4:1 matching ratio.

29. One example of a recent YES! startup is Slow Loris, a manufacturer of designer bags catering to the increasingly environmentally conscious commuter. A recent graduate of the Singapore Management University, Miss Sarah Yip chanced upon the opportunity when she observed cyclists in Europe sporting stylish messenger bags as a lifestyle accessory. Such an ability to smell business opportunities and to convert an idea into a commercial proposition are what we would like to see more of amongst our youth.

## **PROTECTING CONSUMERS**

30. Let me now turn to issues related to consumer protection raised by the Members.

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are exempt. For start-ups < 3 yrs old, this is further enhanced such that the first \$100,000 is fully exempt,

### ***Update on CPFTA***

31. Mr Lim Biow Chuan asked for an update on the amendments to the Consumer Protection (Fair Trading) Act (or CPFTA). The CPFTA Amendment Bill was passed in Parliament in August last year. Since then, we have been working with agencies and stakeholders to finalise the supporting regulations<sup>9</sup>, taking into account feedback received during the public consultation exercise. The finalised regulations will be published later this month and will come into operation thereafter in April.

### ***Investment Fraud Division***

32. Mr Lim also recommended that an Investment Fraud Division be set up to deal with fraudulent investment schemes. The Commercial Affairs Department (CAD) of the Singapore Police Force already has the responsibility and power to deal with such scams.

### ***MoneySENSE***

33. Mr Lim suggested that the MoneySENSE programme to deliver financial education be extended to more people through different avenues. MoneySENSE already does this. Besides the various channels mentioned by my Minister in his reply to Ms Penny Low last Thursday, MoneySENSE also partners with the media to arrange print and broadcast programmes. For instance, it had arranged radio programmes which have a total listener-ship exceeding 1 million.

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and 50% of the next \$200,000 is exempt.

<sup>9</sup> The regulations are the amended Consumer Protection (Fair Trading) (Cancellation of Contracts) Regulations; and the new Consumer Protection (Fair Trading) (Regulated Financial Products and Services) Regulations, Consumer Protection (Fair Trading) (Motor Vehicle Dealer Deposits) Regulations, and Consumer Protection (Fair Trading) (Opt-out Practices) Regulations.

### ***Update on Timeshare Regulations***

34. Both Mr Lim and Mr Yeo Guat Kwang suggested introducing laws to regulate the timeshare industry. Based on the feedback from CASE, we are strengthening the CPFTA to give consumers even stronger protection with respect to timeshare contracts. The cooling-off period will be extended from three to five days, and will extend to businesses that claim to help consumers resell their rights under timeshare contracts. We are also stipulating a 60-day refund period for contracts that are cancelled within the cooling-off period. The Police will also investigate if there are allegations of cheating or other criminal offences. We should let these new measures take effect and re-assess the needs for further tightening from there.

35. I must also reiterate the fundamental pillar of our consumer protection framework, which is one based on caveat emptor, free market principles in the provision of goods and services, and the sanctity of contracts. The best protection for consumers is still founded on their ability to discern the best deals for themselves, being vigilant to any unrealistic promises and to walk away from pressure selling with bath towel or otherwise.

### ***Extension of Cooling-Off Period to Beauty Industry***

36. Mr Lim proposed to extend the cooling-off period to the beauty industry and related industries as well. Before introducing legislation to protect consumers against a particular industry, we will consider whether consumers need protection because (a) the product or service is complex and beyond the reasonable understanding of consumers; (b) the method of selling is complex; and (c) existing provisions are inadequate to protect the customers.

37. In the case of beauty-related products and services, many of the complaints are related to high pressure selling. Consumers victimised by high pressure selling already have clear recourse under the CPFTA against such unfair practices. Members of this committee would probably also agree that facial products and slimming treatments are neither complex nor hard to understand. Patrons of beauty-related industries would probably be better off if they develop a heightened sense of vigilance and self-defence, which would serve them well both shopping here and overseas.

38. We have also noted the increased number of complaints in the beauty care industry, but the numbers are still much<sup>10</sup> smaller than the time-share industry. This is despite the fact that the beauty care industry is much larger and does not have a mandatory cooling-off period, unlike the timeshare industry. Thus, we believe that consumer education and industry-led accreditation are still the best way forward. In any event, consumers victimised in high pressure selling already have clear recourse under the CPFTA against such unfair practices.

### ***Lemon Law***

39. Lastly, Mr Yeo asked about the progress of the Lemon Law Taskforce. The Taskforce, co-chaired by CASE and MTI, and comprising representatives from the industries, has been deliberating on the issue. The Taskforce is nearing completion of its work and formal recommendations will be made shortly.

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<sup>10</sup> In 2008, number of Beauty Care complaints is 97 while Timeshare complaints is 216.