

## **Annex 4 Recent Government Initiatives to Promote Small and Medium Enterprises**

Much of the dynamism of the PRC economy in the reform era is due to the vigor of small- and medium-sized enterprises (SMEs). Beginning with the emergence of the renowned township and village enterprises (TVEs), SMEs under all forms of ownership have contributed much to the sustained rapid growth of the PRC economy. For much of the past two decades, SMEs prospered despite many obstacles to their success. Recently, however, the PRC Government initiated a series of policy and legislative measures designed to promote the role of SMEs in the PRC economy. One component of those measures will be to formulate a working definition of SMEs to unify the proliferation of specifications that now apply to different industries.

### **The First SETC Initiative**

On 6 July 2000, the PRC's State Economic and Trade Commission (SETC) propagated its "Policy Measures for Encouraging and Promoting Development of Small and Medium Enterprises." The SMEs covered under these measures comprise almost all forms of ownership: state-owned enterprises, collectives, shareholding corporations, partnerships, and sole proprietorships. In the "Policy Measures," the Government proposed 25 specific measures to promote SMEs under eight broad categories:

- encourage structural adjustment;
- promote technology modernization;
- expand fiscal support;
- widen financing channels;
- accelerate the establishment of a credit guarantee system;
- establish a social service support system;
- create a fair, competitive environment; and
- strengthen leadership and guidance

The measures advocated by the SETC include general actions to improve the regulatory environment and business infrastructure, for example, the elimination of illicit fees and the simplification of approval procedures. They also encourage the provision of better services to firms, in such areas as financing, accounting, management consulting, and information technology. In addition are specific measures to facilitate access of SMEs to credit and better technology. One measure receiving particular emphasis is the call for a credit guarantee system, established by budgetary appropriations at all levels of government. A number of cities were to be selected for pilot programs for credit guarantee and re-guarantee, with the intention eventually to establish a state re-guarantee agency. Banks, including shareholding banks, urban commercial banks, and rural credit cooperatives, were given incentives to lend to SMEs, specifically, a wider band for the interest rates that can be charged.

When the international consultant conducted its fieldwork in October 2001, private firms exhibited very limited awareness of either the "Policy Measures," or the implementation of pilot

programs. This reflects the extent to which private enterprises lacked systematic, timely access to information on new developments in government policies, laws, and regulations. For policies to be effective, the Government has to communicate and disseminate its initiatives much more effectively to both the potential beneficiaries and the local agencies responsible for implementing the initiatives.

## **Subsequent Actions**

In December 2001, the ninth session of the National People's Congress (NPC) agreed to establish an SME Development Fund that will be financed by the Central Government's budget. The Ninth Standing Committee of the NPC also proposed legislation to improve the operating environment of SMEs. The Finance and Economics Committee of the NPC was tasked with the responsibility of drafting the "SME Promotion Law," the final version of which is to be discussed during the congressional meeting in late 2002. The draft "SME Promotion Law" comprises seven sections with a total of 44 articles.

## **Purposes of the Legislation**

By creating a competitive external environment for all types of ownership, the SME Promotion Law aims to extend to SMEs the same rights as other enterprises, including equal legal protection and appropriate regulatory oversight.

## **Policy and Measures**

The central and local governments should take the following measures to promote SMEs:

- provide credit, fiscal, and tax support for SMEs;
- promote technological research and development; and encourage firms to improve their technologies and equipment;
- diffuse management expertise and improve business administration capabilities;
- establish and enhance a system of support services that could include training, providing information, consulting, exchanging qualified personnel, marketing, and so on;
- expand channels for international economic and technological cooperation and exchange; and
- implement other measures that assist SMEs.

## **Credit and Guarantee**

The Government will encourage banks to specialize in lending to SMEs, as demonstrated by rising shares of their loan portfolios that finance SMEs. In addition, commercial banks should extend the range of financial services they provide to SMEs. Nonbank financial institutions should also support SMEs through financing in accordance with the law and the Government's industrial policy. The SMEs that have established a sound system of management, finance, and accounting and have regularly honored their tax obligations should receive priority in lending by financial institutions and credit guarantee companies.

The Government will also encourage natural persons, legal entities, and other organizations to provide loan guarantees for SMEs in conformity with the legal provisions. Municipal governments can also set up credit guarantee institutions to provide credit guarantee for SMEs.

### **Preferential Tax Treatment**

The State Council and provincial governments should grant tax concessions to qualified SMEs for a specified period. Detailed information regarding preferential taxes will be stipulated separately.

### **Technological Transformation and Innovations**

The Government will take such concrete measures as interest rate subsidies on loans to encourage SMEs to upgrade technology, and invest in more advanced equipment in accordance with market demand and the relevant industrial policies. A development fund for SMEs will be established to finance improvements in the technologies employed by SMEs. At the same time, SMEs will be encouraged to cooperate with research institutions and universities in transforming research and development into tangible increases in productivity.

### **Coordination between Large Enterprises and SMEs**

The Government will assist large enterprises and SMEs to coordinate regularly on various aspects of business operations, for example, in the supply of raw materials and intermediate products, research and development, production, sales, and the like. The Government will also encourage SMEs to capture economies of scale through mergers and acquisitions.

### **Additional Recent Regulations**

In anticipation of the promulgation of the “SME Promotion Law,” the Government issued four specific rules during 2001:

- Rule on strengthening business credit management, especially for SMEs;
- Rule No.77 issued by the National Tax Bureau, which stipulates that revenues that accrue to credit guarantee institutions from guarantees on lending to SMEs can be exempted from corporate tax for 3 years;
- Rule No.368 issued by the Ministry of Finance, which standardizes procedures for guaranteeing loans to SMEs; and
- Rule on product quality assurance issued by the State Economic and Trade Commission