

The Institutional Environment for Small and Medium Enterprises (SMEs) and Roles for the Accounting Profession

ASEAN PERSPECTIVES

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Given our location in the capital of Australia, we are interested in our local communities and we have a focus on emerging economies and especially whether the advanced tools and techniques of business, management, law are 'best practices' for our emerging neighbours. We are particularly interested in South-East Asia, but we have a broader international focus around international financial institutions and other international organisations involved in justice. We are interested in private and public contexts and we are interested in the power of information and how information systems both engender change, but also impact in multi-ways with business, law, government and society. We proudly hold that our research has a broad ambit, but we focus our research on governance as business, government and law are significant institutions in society, with the ability to impact both positively and negatively on society. This project is part of the Commons Research Programme in the neXus research centre.

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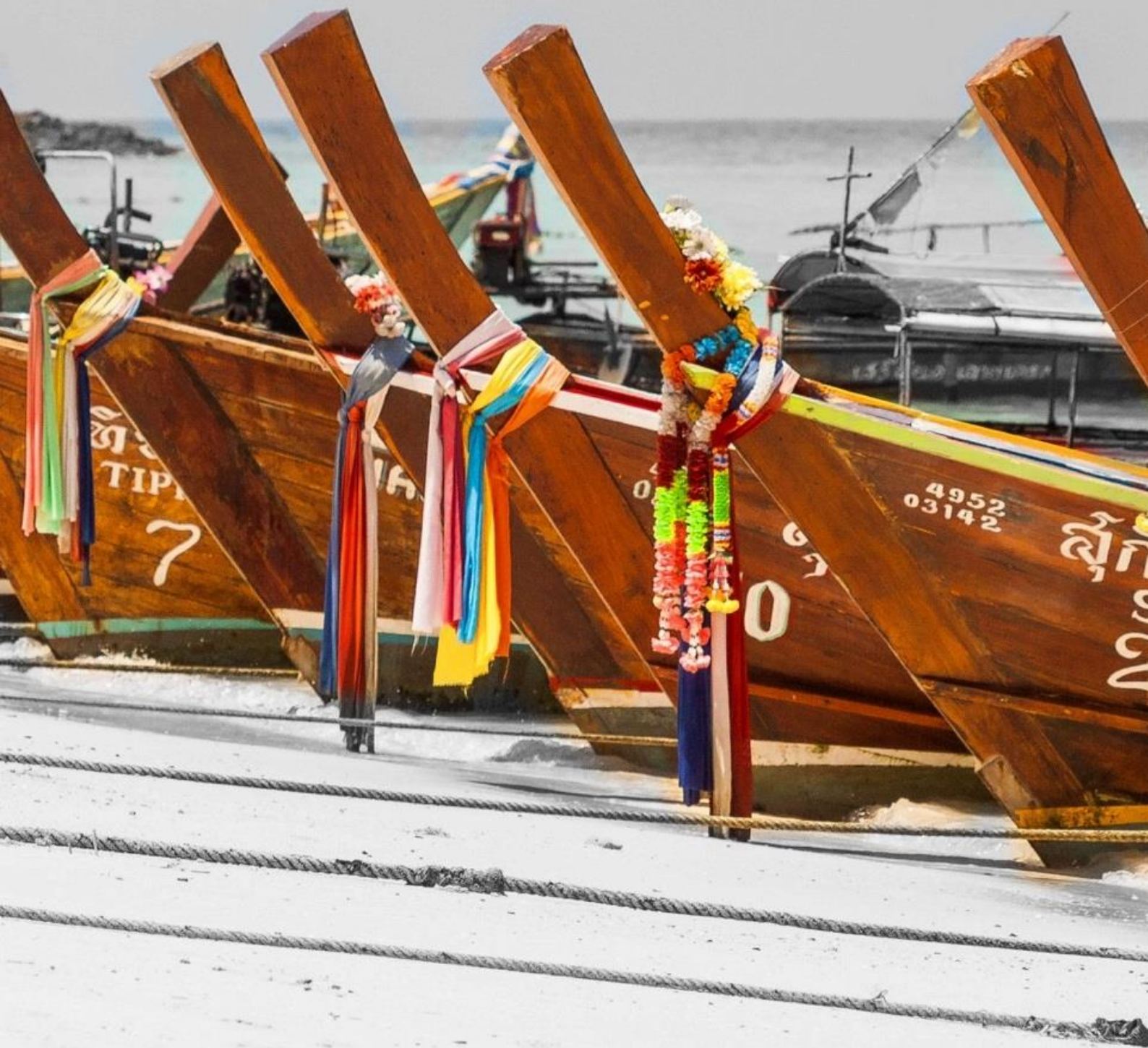
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EXECUTIVE SUMMARY

Given the uncertainty of the global economic and political outlook and the associated challenges, there is confidence that the ten member-nations of the Association of Southeast Asian Nations (ASEAN) are transitioning toward effective economic integration. This research project is positioned as an evaluation of the preparedness and opportunities with respect to Small to Medium Entities (SMEs) within the ASEAN region pertinent to professional accounting organisations and professional accountants.

Definitions for ASEAN SMEs

Key Findings

- Significant issues were identified surrounding inconsistent and arbitrary definitions of SMEs. Within a country and between countries, for example, the definition of SMEs varies across regulatory bodies, government departments, the banking sector, tax authorities and professional institutions;
- Differences in existing laws, rules and regulatory frameworks, as well as divergent social and economic conditions are likely to make it difficult (although not impossible) to negotiate and adopt a common, coherent definition throughout the ASEAN region; and
- There need to be continued focus on micro SMEs within the regulatory and institutional frameworks of ASEAN nations. There is often too much focus on medium entities and the transition to listing and the need for international credit.

Implications

- Our report suggests that there are challenges associated with the development of a common ASEAN definition for SMEs;
- The underlying arbitrariness in definitions based on quantitative characteristics and the development-relativity across the region suggest that an ASEAN regional definition is likely to impact positively on some member nations, but may impact negatively on other nations; and
- An emphasis on access to international finance and international trade likely benefits the most developed ASEAN nations in comparison to less developed economies in the region and favours medium entities over other forms of SMEs.

Recommendations

- Be cautious in the adoption of a common definition;
- A common definition will only be useful if properly integrated, which will require support from every ASEAN Government, Governmental agencies and ministries with an interest in SMEs (including taxation authorities), peak industry bodies, the AFA and regional Professional Accounting Organisations, as well as associated support from the World Bank, the IMF and other supranational regulators and interest groups;
- The following should be considered in the framing of a common definition:
 - Possible resistance from ASEAN members;
 - Key economic and financial parameters of SMEs 's success;
 - Methods for neutralising disparities in economic conditions, such as multipliers based on GNI per capita, GINI coefficient, or poverty rates;
 - Integration with government tax policies; and
- Consideration should be given to retaining local definition for domestic purposes, as per the EU model. This would enable national policy makers to address initiatives to local challenges and conditions, while facilitating a ASEAN wide response to regional strategies.

The Professional Landscape: Accounting in the ASEAN Region and SMEs

Key Findings

- Common challenges faced by SMEs in the ASEAN region include the lack of skills to understand, prepare and utilize financial information for business decision making and to add value to firms through strategic partnerships and business expansion;
- Persistent obstacles, particularly for micro enterprises include limited access to basic business skills, financing, innovation and technology and the incompatibility of government approaches to SMEs; and
- The complexity of accounting languages, the actual cost of compliance and the need for business and financial literacy limit the effectiveness of professional accountants in the support of ASEAN SME activity.

Implications

- Existing developmental pathways within traditional business cycle for SMEs do not scale down to micros-entities;

- Much of the focus of training in the region is on tax compliance and financial reporting for the purposes of investment and financing. While relevant to some SMEs in the region, this assumes significant financial literacy and is outside of the scope of consideration of most micro and small-entities in the ASEAN region;
- There might be some benefit in *IFRS for SMEs* for medium entities and some small entities, especially those seeking international finance, but with any accounting system there are costs and benefits, and the literature on the benefits of adoption is still mixed; and
- Alternative SME accounting models and simplified versions of *IFRS for SMEs* are still not simple enough in the assumed levels of financial literacy.

Recommendations

- Focus more on understanding and developing support systems for micro-SMEs;
- ASEAN regional business incubation is essential;
- Bottom-up simple accounting and taxation systems would better support micro and small-entities;
- Accountants should be leading the development of regional financial literacy with the support of PAOs;
- Encourage membership of international accounting bodies;
- Encourage professional accountants to establish cooperation between governments and PAOs in assisting SMEs in terms of business advisory services, accessing basic reporting skills, taxes and other management issues confronting the sector. This may include:
 - Contribution of pro-bono hours by professional accountants through their respective accounting bodies; and
 - A voucher system providing newly registered enterprises with access to business planning workshops, or individual access to a professional accountant.

The Forward View: Constructing the Trusted Business Professional

Key Findings

- Participants overwhelmingly anticipated significant future demand in planning and advisory services, including tax, and business and financial planning;
- There seems to be doubt in the efficacy of current accounting qualifications (through multiple pathways) in preparing professional accountants for the demands and distinctiveness of the SME environment; and
- Despite their unique relationship with the SME sector, and capacity to advocate on behalf of SME clients, participants did not foresee a significant future role in lobbying and communication.

Implications

- Accounting for micro-, small- and medium entities differs in scale, scope and purpose from accounting for large and listed entities; and
- Given the challenges of technology and the risk posed by automation of bookkeeping, understanding the client and making justified decision against a multiplicity of accounting options is critical to the future of the accounting profession.

Recommendations

- AFA and PAOs play a central role in advocating and advising on regional economic development especially with respect to micro and small entities;
- AFA and PAOs, while traditionally focused on listed entities, occupy a key position, as they can advocate on behalf of SMEs, while advocating to them on behalf of governments and interested parties;
- AFA and PAOs should ensure that regional educational pathways involved in training accountants include SME-focused education (as against a traditional focus on listed entities);
- Development of specific educational resources focused on SMEs in association with AFA and PAOs;
- Development and implementation of accredited vocational accounting/book-keeping programs focused on SMEs to assist in alleviating the pressure on professional accountants to provide extensive support services; and
- Augmenting the understanding of the SME operating environment, and relevant accounting needs at a technical level by developing, implementing, and promoting new Continuing Professional Development units and programs.

Careful consideration of both survey data, and comments from interview subjects indicates significant incongruity and divergence of interests amongst stakeholders. While the distinctive needs of “small business” are broadly recognised, various arguments circulate advocating the exclusion of either micro, or medium enterprises from the SME definition, and consequently programs and initiatives. Although the immediate financial returns might be greater with respect to small and medium entities, the future development of the ASEAN region will be driven from development and growth in micro-entities. While the vast majority of micro enterprises are locally focused, and many have no aspiration to become large enterprises or to trade internationally, this does not diminish their significant economic and social contribution, both in terms of economic productivity, and as self-employers.





INTRODUCTION

Given the uncertainty of the global economic and political outlook, there is confidence that the ten member-nations of the Association of Southeast Asian Nations (ASEAN) are transitioning toward effective economic integration. Recent meetings in Vietnam and Philippines between ASEAN and significant trading economies indicates the continued pursuit of the integration objective, where trade, development and economic growth are common regional goals. This research project is positioned as an evaluation of the preparedness and opportunities with respect to SMEs within the ASEAN region. This provides a context within which to examine the current legal and accounting regulatory environment for SMEs across the ASEAN region, identify opportunities for this vital sector, and consider any challenges for SMEs and accountants. This research paper highlights key findings with respect to regulating and understanding SMEs, comparisons to other jurisdictions and identifies similarities, differences and best practice. This study examines the existing accounting and financial management practices for SMEs in the ASEAN region and potential strategies that professional accounting bodies across the ASEAN region might consider in supporting the potential of SMEs. Finally, this study identifies the key financial, accounting and management needs of SMEs across the ASEAN region, the state of educational resources and training for accountants, as well as a reflection on educational needs, training and support for SMEs practitioners and SME accountants pertinent to the SME environment and the implications associated with *IFRS for SMEs* as a mechanism for accessing alternative sources of finance.

The SME Sectoral Body for the ASEAN region reports (2017) that:

Small Medium Enterprises (SMEs), including micro enterprises are integral to the economic development and growth of the ASEAN Member States. They constitute the largest number of establishments and contribute significantly to the labour force of ASEAN Member States (AMS). SMEs account for between 88.8% and 99.9% total establishments in AMS and between 51.7% and 97.2% of total employment. The contribution of these enterprises to each AMS' GDP is between 30% and 53% and the contribution of SMEs to exports is between 10% and 29.9%.

This highlights the regional importance of SMEs and why their effective regulation, and the support of accountants, is important.

Definitions and Institutional Environment of SMEs

The current regulatory framework of SMEs across the ASEAN region reveals significant inconsistencies that would inhibit the adoption of a common, coherent definition for SMEs. This contrasts with the objective of establishing a common business reporting framework and a common accounting reporting framework for SMEs across the region and internationally. While there are benefits to the adoption of a shared definition across regions, it is important to recognise that a regional solution to the core definitional components of an SME definition could limit the potential of SMEs as drivers of economic growth in the region, given the differences in economic development contexts across the region and the significant variety of SMEs within the region. Equally, there are currently

definitional variations within the definitions of SMEs across regulatory bodies, government departments, finance institutions, tax authorities and professional institutions.

Key Challenges for SMEs

From an accounting perspective, a key challenge for all SMEs, from micro-to-small-to-medium, is the value added by accounting. In particular, this reflects a need to develop skills at the financial literacy level for SME owners and users to understand and use financial reporting systems. There is potentially a gap between the usefulness of accounting information and who we are reporting to. Our research illustrates that core challenges facing SMEs today in the ASEAN region range from accessing knowledge and advice with respect to key business skills (marketing, human capital, human resources and production), financing, innovation, technology and governmental approaches to and cohesiveness of SME regulation and policies. The challenge for the ASEAN accounting profession is to provide leadership and support for SMEs beyond traditional technical services such as reporting, taxation and assurance services.

Research Questions

Our questions focus on each of the challenges posed for SMEs in the ASEAN region and thus, we have grouped these accordingly:

Regulation and Definitions:

- a) What are the parameters of current approaches to regulating/defining SMEs in the ASEAN region?
- b) What are the similarities and differences to these approaches across ASEAN members?
- c) How are these definitions similar or different to other jurisdictional and International approaches to defining SMEs

- d) Is there a 'best practice'/more appropriate approach to understanding SMEs?

Professional Support for Accountants

- a) What are the existing accounting and financial management practices in place for SMEs in ASEAN nations?
- b) To what extent is there information sharing between ASEAN nations? Is that targeted to different SME needs and different institutional and economic support structures within ASEAN nations?
- c) What strategies are available to accounting professional bodies in the ASEAN region to support and enhance the potential of SMEs?

The Accountant as Trusted Business Professional

- a) What are the key financial, accounting and management needs of SMEs in ASEAN?
- b) What are the daily practices of SME accountants in the ASEAN region?
- c) Are there sufficient resources and training for accountants in the ASEAN region to understand and learn the 'business' challenges for SMEs?
- d) What training and educational supports are needed by SMEs or by SME accountants to understand the business implications of SMEs? What training and educational supports are needed by SMEs or by SME accountants to understand the implications of *IFRS for SMEs* as a mechanism for accessing alternative sources of finance?

What SMEs Really Need

Our research indicates that genuine empowerment of SMEs with the ASEAN region requires attention in several areas. Our

research indicates that the central role of accountants with respect to SMEs is with respect to planning and advisory services. The most significant area for future demand and SME growth and empowerment relates to business development including, but not limited to, tax and financial planning. Our respondents highlighted that accountants need to provide financial leadership with respect to controllership and value-added activities. Equally, our research indicates that there is a current gap in educational frameworks in the region, in that accounting qualifications could dedicate more resource and time to educating about the distinct challenges and business environments of SMEs. Research subjects from countries such as Brunei Darussalam and Indonesia identified the significant role of accountants in helping to improve regional financial literacy, which is likely to have a flow on effect concerning the capabilities of SME clients. This includes understanding financial reports and reporting standards, as well as planning and financial engagement. This constructs the accountant as a trusted business professional. In the business development cycle, the expertise of the professional accountant in association with the accumulated trust upon which the relationship develops, suggests that the role of the SME accountant is less technocratic and more of a business professional.

Rationale and Prior Literature

Numerous recent SME-focused studies concentrated on understanding the key challenges faced by SMEs and how to strengthen the supporting roles of government and institutions to assist in the empowerment of this critical sector. It is also widely believed that accounting professionals play a central role in empowering SMEs by providing professional assistance with respect to

business services, accounting, reporting, taxes, auditing and organisational planning and development. This reinforces the idea that accounting professionals are a source of trusted business advice. In terms of research, prior studies in this area offer a variety of perspectives in terms of methodologies, and in relation to key business obstacles, government support and policies, internationalization of reporting rules, regional development and the empowerment potential of intelligent technologies in the context of SMEs.

Raisa and Thanghia (2017) cite the infrastructure and trade promotion initiatives of the Malaysian government as a positive example of government support measures. They suggest that size is not relevant to the potential for technological assistance and the intensity of technology use. Tuanmat and Smith (2011) similarly argue that companies with a strategic approach to technological change demonstrate better performance in responding to current business environments and possess a greater capacity to benefit from such changes. Similarly, Lambrecht and Pirnay (2005) suggest that subsidised private consultancy services in Belgium assisted in the growth and development of SMEs. Similarly, the use of private external consultants was influenced by educational levels and by SME sector. Our study illustrates that interaction with accounting professionals will have greater impact where effective government support facilitates the full engagement of accounting professionals in providing services tailored to SMEs within the ASEAN context, a recent study by Lee *et al* (2017, p. 3) illustrated:

Overall, there is still a low level of awareness about the ASEAN economic integration amongst SMEs, especially in some of the less developed ASEAN member countries. In these countries,

there is significant uncertainty amongst SMEs about how the AEC will impact their businesses. The uneven progress in the implementation of the National Single Window — which affects customs procedures — is also reflected in the findings of this study. An important facilitator of SME internationalization is the use of free trade agreements. The relatively low utilization rate of FTAs amongst SMEs, especially in the less developed Southeast Asian countries, indicates that the barriers to using FTAs remain real and substantial. Government support for SME development — including initiatives aimed at supporting SMEs to export — remains uneven across ASEAN member countries. As ASEAN moves towards its vision of a more integrated community in 2025, more attention needs to be paid to SME development to ensure that the fruits of regional integration can be equitably shared.

However, despite this range of SME research, there remains a lack of empirical studies examining the nature of the roles of accountants in providing effective and meaningful support to SMEs. Additionally, the survey data informing prior studies tended to reflect participants representing established medium enterprises.

As Fearnley and Hines (2007) argue, despite SMEs being the dominant employer in many economies, their voices are often ignored in debates dominated by larger, global players. This contributes to low levels of responsiveness from SMEs. A study by Van Wyk and Rossouw (2009) details scepticism from accounting professionals as to whether modified IFRS (*IFRS for SMEs*) will reduce the

financial reporting burden for SMEs. Albu *et al.*'s (2013) study presents support for the implementation of *IFRS for SMEs* in the Czech Republic, Hungary, Romania and Turkey, despite differences between stakeholder groups and between countries regarding the preferred approach to implementation (mandatory vs voluntary adoption or convergence of national regulations with *IFRS for SMEs*). This is not surprising as the IASB traditionally focuses on advanced financial capital. In a critical sense, this engenders a 'cosy arrangement for a narrow band of stakeholders such as investment bankers, international institutional investors and Big Four accounting firms, but not for other member groups of the global community that IAS/IFRS claim to serve' (Brown, 2004, p. 385). There are criticisms questioning the broader public interest focus of the IASB (see for example, Gallhofer and Haslam, 2003, 2007; Gaffikin 2008; Dellaportas and Davenport, 2008; Chiapello 2007; Botzem and Quack 2009; Botzem, 2012; Cortese, Irvine and Kaidonis, 2010). Developing nations, and specifically SMEs, were largely excluded from the international radar simply because they were not significant players in international capital markets (Brown 2004). Meanwhile, to comprehensively address critical issues, challenges and solutions needed by SMEs, including micro entities, the interests of SMEs must be represented by those groups concerned with SMEs both in developed and emerging economies and those involved and engaged directly or indirectly with SMEs and their activities. Thus, our intention in this study is to contribute to these gaps.

Contribution of this Study

Our study contributes to the ongoing debate around the relationship between SMEs and the accounting profession, internationalization of SME reporting requirements and the role of

governments in empowering SMEs. In practice, this research will be useful in providing a greater understanding of the environment in which SMEs operate (with a special focus on the ASEAN region), the key challenges confronting SMEs and SME accountants, and opportunities by which to address these challenges. For public policy, the research provides insight for policy makers and professional and regulatory organisations in the setting of appropriate rules, recommendations, strategies and programs with the potential to nurture and develop the vast economic potential of SMEs in the ASEAN region.

Research Methodology

Our research methodology involved multiple phases. We focused on understanding SMEs within the region and thus, we drew on multiple sources of information to develop our approach.

- 1) Phase one of the project involved document collection and analysis. We collected and analysed publicly available, official and research documents in relation to:
 - (a) The nature as well as the economic, employment and other contributions of SMEs in all ASEAN members,
 - (b) Definitions, legal and institutional frameworks surrounding SMEs in all ASEAN members countries (and in other jurisdictions) of SMEs,
 - (c) Services needed by SMEs in ASEAN members nations from accounting professionals and professional accounting bodies; and
 - (d) Key challenges faced by SMEs in all ASEAN members in today's economy.
- 2) Phase two involved a regulatory and institutional survey. We approached, through the ASEAN Federation of Accountants, professional accounting bodies within each member nation to collect core documents and important information. We were pleased with the assistance afforded by almost all the professional bodies.
- 3) Phase three involved a survey of professional accountants and a time-use survey. We developed a survey to help us to map the time allocations of accountants in regular practise with SMEs. This allowed us to understand the nature of the work of accountants in the ASEAN region. We delivered this survey electronically through Survey Monkey. We aimed for 400 responses from the region, but we received over 200 responses. This is considered an appropriate number for analytical purposes. We were pleased that we had respondents from all the member nations:
 - Indonesia (19.90%)
 - Thailand (31.84%)
 - Malaysia (4.48%)
 - Philippines (24.38%)
 - Singapore (1.99%)
 - Other ASEAN (17.41%)
- 4) Phase four involved interviews with SME participants across the region. This involved regulators, peak industry bodies, SME accountants, SME owners and others related to the SME process. Our methodology for selecting participants reflects a form of stratified respondents reflecting the interests in SMEs. In total, we had 65 respondents from Indonesia, Thailand, Malaysia, Singapore and Brunei Darussalam.
- 5) Phase 5 focused on more detailed case studies of three economies. We conducted

more detailed case studied in Thailand (a more advanced economy), Indonesia (an emerging economy) and Brunei Darussalam (a developing economy). In the case studies, following appropriate ethical clearance, we interviewed practicing accountants involved in SME practice and constituents of SMEs. Accounting researchers have emphasised the necessity to understand accounting practices at the 'coal-face' (at the practical level) (Nor-Aziah & Scapens, 2007; Dambrin et al., 2007; Harun et al, 2015; 2016). A number of studies suggest that the case study method should be used in all accounting study (Cooper & Morgan, 2008). In practice, this means that the researcher must be in the field, so as to understand the context of the

practice and is broadly ethnographical in approach (Crotty, 1998). Thus, to 'get in touch with the field' (Ahrens and Chapman, 2006), we immersed ourselves alongside accountant working with SMEs and interviewed those benefitting from their work.

The methodological approach enabled us to generate a 'deep understanding' of SME needs, challenges facing this crucial ASEAN sector, the roles for accountants and opportunities for professional accountancy organisations.



DEFINITIONS FOR ASEAN SMES

There is significant variation between the AMS definitions of SMEs. [Appendix 1 details the exact specification for SMEs in each AMS and in the national, transnational and supranational entities that we refer to]. In our estimation, this reflects the complexity of the region, and is especially reflective of the differences from the most developed of the AMS in comparison to those AMS who have more recently commenced the development journey. Currently, the ASEAN region recognises local definitions of AMS. While there might be benefits in developing a shared definition in providing a foundation for regional solutions to take advantage of the opportunities for the SME sector across the region, including the potential for economic growth, there are risks associated with the imposition of a common definition, given the relativity across the region in terms of development, access to finance, infrastructure and support systems like business incubators. Negotiating a consensus around a common ASEAN SME definition may prove inherently problematic, as a study of the existing AMS SME regulatory frameworks reveals significant inconsistencies.

Despite initial encouragement for AMSs to adopt a common SME definition, in preparation for the formation of the ASEAN economic community, most AMSs have instituted their own individual approaches. Some AMSs have no legislative source for a SME definition. The challenges associated with the adoption of singular definition with clear legal basis become apparent when considering the regulatory framework approaches of more advanced economies, and indeed, development agencies and other NGOs. The simple point is that definitions based on numbers of employees, assets, revenue or some other parameter are ultimately arbitrary criteria that potentially impacts on growth, development and other consequences. There is no 'correct' SME definition and all definitions have limits. We see

evidence of this complexity in many ways: a) The Asian Development Bank has no definition of SMEs; b) the IASB in the standard, *IFRS for SMEs*, chooses to define not by criteria, but by their nature (not having public accountability, but might benefit from reporting to external users); and Federal states, such as the United States of America and Australia have multiple definitions of SMEs that vary in criteria and parameters across different regulators and agencies. There is conflicting literature on this point. Some argue that the adoption of a common definition is necessary to ensure that SME policies are effectively targeted, while an alternative literature suggests that a universal definition may not be appropriate in ensuring that specific programme objectives are targeted. While the European Union has adopted a common definition for SMEs based on parameters including employee numbers, revenue and other financial data, member states also retain local definitions for domestic purposes.

Given the complexities associated with the adoption of a common definition within national borders., we believe that these are compounded when considering the adoption of a common SME definition across national borders. This was a common theme within our interviews. One of our interviewees, a senior Accounting Professor, comments:

"At this stage, I find it difficult to find and set up a common definition of SMEs for all ASEAN nations. And the key question is whether all governments in the ASEAN are willing to have a common definition and whether they can negotiate if there are differences."

Furthermore, we see risks for development agendas, as certain regulatory options are likely to enhance the interests of more developed economies in comparison to less developed

economies. Table 1 summarises the regulatory approaches of AMS, as well as other international, supranational and transnational approaches. This table illustrates the differences in definition and parameters across the region. It also illustrates that there is no international consensus on how to define an SME.

While there are significant variations in definitions of SMEs, the majority of AMSs adopt criteria based upon quantitative parameters, such as number of employees and financial criteria. However, this is not necessarily the norm. Certain of the transnational bodies have moved away from quantitative parameters. For example, the OECD recognises that SMEs employ ‘fewer’ (comparative to larger entities) but abstains from the articulation of any parameters. The OECD definition for SMEs is that they are “non-subsidiary, independent firms which employ fewer than a given number of employees”, which varies across countries (OECD, 2005). The International Accounting Standards Board, in recognition arguably of the complexity and arbitrariness of measurement-based criteria determined to define SMEs by their function:

Small and medium-sized entities are entities that:

- (a) do not have public accountability, and*
- (b) publish general purpose financial statements for external users.*

Definitions based on size are inherently problematic, due a fundamental arbitrariness. What really is the incremental effect of a 51-employee business vis-à-vis a 49-employee business, if the criteria were based on 50 employees? The rigidity of size-oriented criteria fails to acknowledge or address contextual factors such as social and economic conditions and development needs. This is particularly relevant to the ASEAN community, as AMSs exhibit diversity across the quantitative parameters. As one of our interviewees (a senior practitioner) comments:



“The definitions of SMEs are so complicated and even the definitions between government rules are different.”

Appendix 1 provides a summary of economic and social development indicators across AMSs, as well as definitional parameters for SMEs.

Table 1: SME Definitions – Summary of Features

Country	Legal Basis/Regulatory framework	Features					Notes
		No of Employees	Turnover	Other Financial	Sector	Distinguishes between micro, small and medium enterprises	
Brunei Darussalam	Ministry of Industry and Primary Resources	100				✓	
Cambodia	Small and Medium Enterprise Development Framework, 2005 RGC Subcommittee on small and medium enterprises	100		✓		✓	Definition bases of full time employees used for statistical purposes. The financial definition may be used if more suitable for other purposes. Financial criteria in US\$, not in the Cambodian Riel (\$).
Indonesia	Ministry for Cooperatives and Small Medium Enterprises (Law No. 20/2008 Regarding Micro, Small and Medium Enterprises, article 6)	✗		✓		✓	
Laos	The Decree on SME division, number 25/LG, dated January 16, 2017	100	✓	✓		✓	
Malaysia	SME Corp Malaysia endorsed at the 14th NSDC Meeting in July 2013	200	✓		✓	✓	
Myanmar	Department of Small and Medium Enterprises Development. Law on the development of small and medium businesses - Pyidaungsu Hluttaw Law No. 23/2015	600	✓	✓	✓	✓	Financial criteria differ by sector.
Philippines	The Department Trade Industry (DTI) <i>Micro, Small and Medium Enterprise Development (MSMED) Council</i> . Republic Act No. 9501. Magna Carta for Micro, Small and Medium Enterprises (MSMEs)	✗		✓		✓	

Singapore	SPRING Singapore	200	✓	✓	✓	Requirement for 30 per cent local shareholding
Thailand	Office of SME Promotion (OSMEP), a government agency under the governance of the Ministry of Industry,	200	✓	✓	✓	
Vietnam	Government Decree No. 56/2009/ND-CP The Enterprise Development Department of the Ministry of Planning and Investment	300	✓	✓	✓	
Japan	SME Basic Act Different criteria in the Corporation Tax Act (financial)	✓	✓	✓	✓	Different criteria based on sector (Manufacturing, Wholesale, Services, Retail). Distinguishes Micro from SMEs
Australia		200	✓	✓	✓	No universal definition. Classification criteria vary across government agencies.
USA		1500		✓	✓	No universal definition. Classification criteria vary according to industry, and across government agencies and programs.
IFRS	<i>IFRS for SMEs</i>					Definition not based on quantitative criteria
IFC		300	✓	✓	✓	
EU		250	✓	✓	✓	
Asian Development Bank	No definition					No Definition. Accepts legal/regulators definition within each jurisdiction.

Approaches to a Common Definition

The EU definition, at present, constitutes the only common definition for SME's that crosses national borders. Adopting a similar approach within ASEAN and the AEC may assist in the design and implementation of regional SME development programmes and initiatives. This opens an opportunity for investors within and beyond ASEAN to engage meaningfully through international business partnerships and investment with SMEs in the region. A similar approach also facilitates international trade to grow as an important stimulant for economic development with a better access to technologies, materials and services. However, as explored in this section, legal definitions currently differ significantly across member nations. Additionally, AMSs experience varying economic and social landscapes in terms of population size, the economy, levels of poverty, social and human development, as well as industrial development. The more profound such variances, the greater the difficulties associated with the adoption of a common definition; definitions based on size become particularly unhelpful as conditions become increasingly diverse.

The most common size-based approach is currently based on number of employees. This may be a useful measure for statistical comparability, however, it has obvious shortcomings. An enterprise employing 100 people in a service or labour-intensive manufacturing industry is likely to be far smaller in terms of assets and turnover than a software engineering enterprise employing the same number. Several nations have attempted to overcome such shortcomings by incorporating industry or sector differentiation into their definitions. Yet similar inadequacies persist simply by virtue of the diversity of economic and social conditions. An enterprise employing 100 people in Vietnam or Cambodia, is for instance a relatively

much larger enterprise than a similar sized enterprise with a high per capita GNI such as Singapore.

Assets remains equally problematic, as the relevance of this measure is also heavily impacted by the nature of the industry. Additionally, fluctuations in inflation, as well as the local currency would inhibit comparability in this respect. Currently, even the term "assets" with regards to SMEs is subject to numerous definitions across AMSs (especially in terms of the inclusion of fixed assets, land, and buildings). Turnover, represents perhaps the most comparable of quantitative criteria, if indexed to a common currency. However, even turnover retains the problem of relative comparability across varying economic and social landscapes, similar to number of employees.

In seeking to describe the nature of SMEs, the defining features of such enterprises are qualitative rather than quantitative. Independence, for example would seem to be a necessary descriptor. Some ASEAN members have incorporated independence into their national definition, thus differentiating subsidiaries and branches of multinationals from local enterprise. SMEs typically have a high degree of owner involvement, they are flexible, but often poorly planned, and have generally lower access to finance and skilled labour. SMEs are generally closely tied to their communities, on which they rely for both custom and employment, and are highly responsive to the needs of this community. The notion of 'productive output' could also be considered within any universal definition. Genuine SMEs offer or produce something – they do not exist to meet pre-production, post production or administrative needs of another enterprise.

While SMEs are best defined by their characteristics and attributes, these are difficult to 'measure', and subsequently definitions tend to

be quantitative in nature. In developing such a definition within ASEAN, participants need to be highly cognisant that quantitative criteria should be regarded only as a proxy for the qualitative, and not the defining features in themselves. As such, methods for neutralising disparities in economic conditions, such as multipliers based on GNI per capita, GINI coefficient, or poverty rates will need to be considered.

Furthermore, there is considerable variation across the SME sector with respect to definition for Small and Medium and whether to differentiate micro SMEs, as different. As an example, a Thai academic argued:

“The definition is required for medium, national and transnational companies, but is not really relevant [to] the micro firms.”

The inclusion of micro-entities is varied between AMS, as Cambodia, Indonesia, Malaysia and Vietnam do define micros through some combination of employees and other financial criteria, but employees seem to be the driving criteria (Brunei Darussalam only uses employee-number for example). The Philippines, uniquely, distinguishes only by Total Assets excluding land. However, Thailand, Singapore, Laos and Myanmar do not differentiate between Small and Micro. The literature tends to be split on this. Some literature suggests that micro should be excluded, as they are contributing small amounts to an economy and thus, their growth potential is largely irrelevant (see Gibson and Van der Vart, 2008). The competing argument is that micros are increasingly being included in definitional schemes from the World Bank, the European Union and the OECD.

This indicates that there are potential risks associated with the development of a common regional definition. Each articulation of an SME definition involves choice and is ultimately arbitrary, whether this reflects the boundaries

between micro, small and medium entities; whether to differentiate between the three types, employee numbers, sector variations or the specification of financial measures such as turnover, fixed assets, total capital or similar. This is rendered more complex by differentiations across institutional, governmental and taxation regimes. Consequently, without a whole of region approach, with government buy-in, any further layer of definition is likely to be counter-productive. In this sense, no current definitional approach is better than the other. The more general *IFRS for SMEs* approach, for example, avoids the arbitrariness around measurement, but perhaps, introduces another arbitrariness with respect to when and whether certain SMEs do have external users. This also does not deal with those entities that are within the informal economies in the region or with companies that do not meet reporting/taxation requirements.

We also hold that any approach needs to reflect the actual numbers of SMEs within the region, including micro, small and medium entities. We argue that there appears to be a lack of focus on micro SMEs within the regulatory and institutional frameworks in the broader sense. While the immediate financial returns might be greater with respect to small and medium entities, the future development of the ASEAN region will be driven from development and growth in micro-entities.

Case Study 1: Indonesia

Discussions with the owner of a micro enterprise in Jakarta and the owner of a rice factory in Bima District in Indonesia indicate that the most imminent problems faced by these entities are the lack of access to, or even awareness of basic business skills. As a consequence, their access to government supports such as training and subsidised financial aid is limited.

They believe that at the root of the problem, is a structural disengagement in the policy making, and the development of regulations and supports for SMEs. In other words, they are structurally beyond the scope of support programs and training activities provided by government institutions, professional bodies and international organisations.

They state that while accounting training and business mentoring programs are provided, these do not address the immediate, day- to-day challenges faced by these enterprises, and therefore, are not a prioritised need. For these entrepreneurs, accounting is regarded a far too advanced business language to cope with.

THE PROFESSIONAL LANDSCAPE - ACCOUNTING IN THE ASEAN REGION

Discussions surrounding the practice of accounting tend to focus on the changing needs, practices, and regulation of large business, and corporate entities. However, such organisations typically internalise some of their accounting and their finance functions. While a great many professional accountants are employed in internal roles, and thus share these concerns, the landscape is different for accountants in public practice.

Our survey data from public accountants within the ASEAN region reveal that the SME sector collectively represents 90% of client organisations. This reflects the role of micro-, small- and medium-entities in the region, where proportionately approximately 99% of all organisations are micro, small or medium (with approximate proportions of 98%, 1% and 0.08%). The results exemplify the pattern of professional contact particularly in transition phases from micro-to-small and from small-to-medium, as enterprises move through the business lifecycle. However, this is not to say that all micro-, small- or medium firms want to be large or listed. Contact with professional accountants tend to reflect skill and knowledge shortages. In recognising the skill-set deficit, one practicing accounting discusses this challenge with respect to connected small and medium entities with international contracts:

"I find some of my clients are technically able to operate their business with [their overseas partners], but they fail to report appropriately as their overseas counterparts require them to produce international based financial information and the company fails to produce and provide this information."

Figure 1

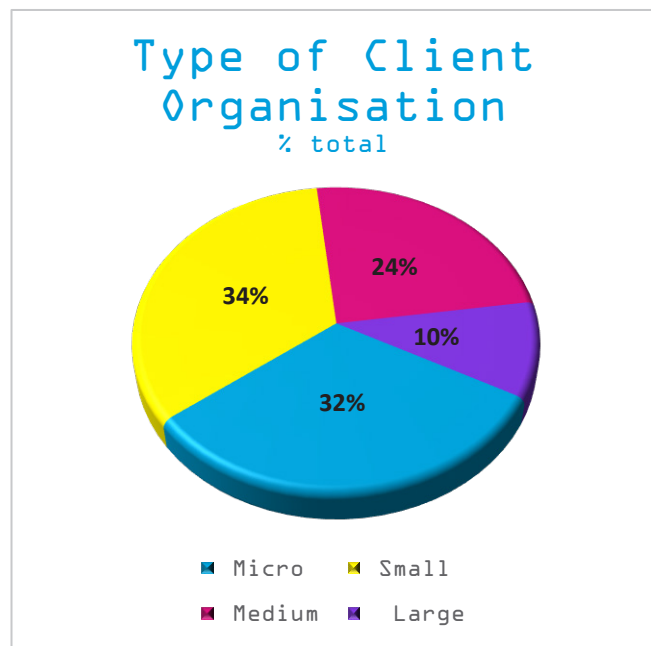
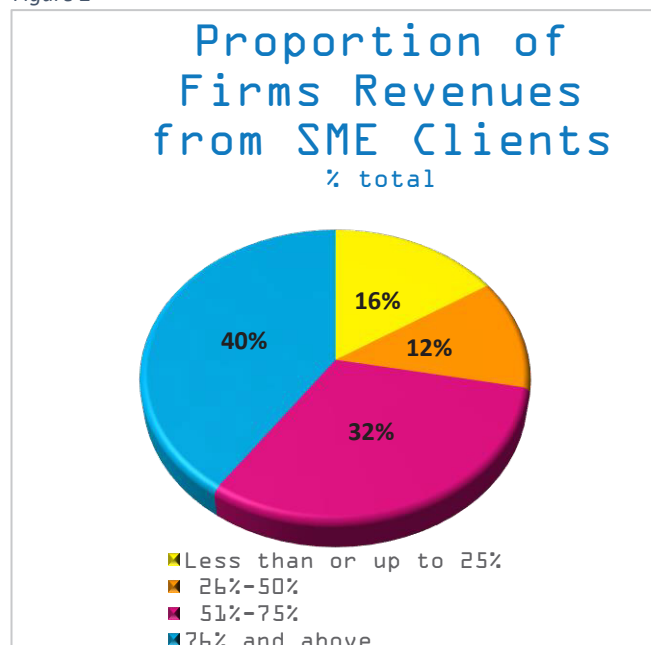


Figure 2



Over the course of the business lifecycle, the reliance on external expertise reduces as in-house capabilities are developed.

SME clients represented over 75% of firm's revenues for 40% of respondents, demonstrating the vested interest of the accounting industry in the future of the sector. It is also worth noting however, that while large enterprises constitute only 10% of client organisations, they represent up to 50% of revenues for most accounting practices. This may indicate that the services retained as clients expand tend to be 'high value' services.

Existing Accounting and Financial Management Practices

The dominance of SMEs as a proportion of clients and revenues for public accounting firms facilitates an insight into the current accounting and financial management practices within this sector. Through data gathered from an online time-use survey and interviews, we have an overview of relevant accounting practices. However, it must be noted that evidence from interviews, as well as a review of prior studies, indicates that significant challenges remain surrounding the regulatory status of micro and small enterprises within AMSs. Therefore, the data and analysis with respect to current practices can be said to pertain only to those enterprises that have taken steps towards formalisation and compliance. Evidence indicates that the majority of (the not insignificant) remainder, employ no formal accounting and financial management practices at all.

As expected, the traditional reporting and compliance functions of accountants are well represented in time use survey data of services provided to SME clients in the previous two years. Such activities, including financial reporting, preparation of taxes, and external audit and assurance services comprised an average of 31%

of participants' time. Interview subjects in Indonesia indicated the perceived role of professional accountants as being largely restricted to reporting and compliance functions within the local context. Survey data does indicate a limited demand for technical accounting services that are not related to reporting and compliance functions, such as budgeting, forecasting and planning.

Figure 3

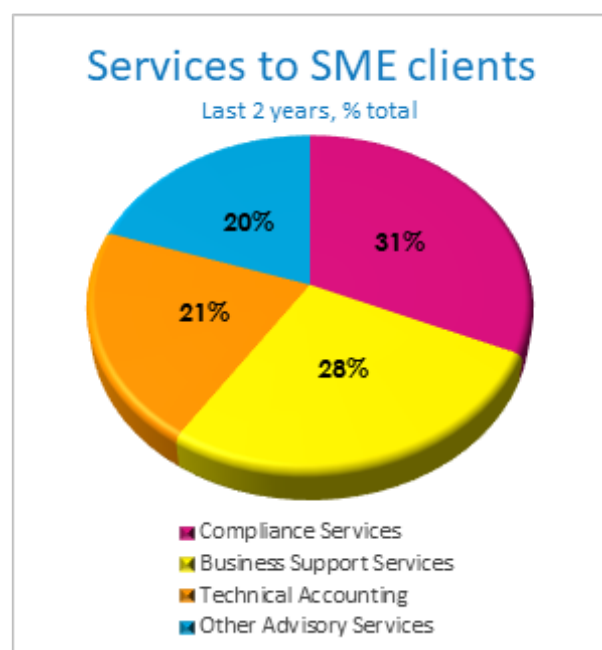


Figure 4



(Kompas, 2017)

However, within the ASEAN region more broadly, both survey respondents and interview participants indicated that significant time (28%), was devoted to the provision of support services. Such services as book keeping and payroll activities, while often financially oriented, do not require the services of a professional accountant, and would typically be performed in-house given the availability of administrative resources, and the required financial literacy. Interview participants in Thailand in particular, described a significant role for professional accountants in providing assistance with such activities, as well as with personal tax matters. Subjects in Brunei Darussalam, Singapore and Malaysia discussed the support role of accountants more in terms of providing training aimed at increasing administrative and financial capabilities within the SME sector. While Indonesian participants indicated a dearth of financial literacy and basic business skills, the assistance provided by professional accountants remains largely confined to technical compliance. A general theme in our interviews was recognising the role of accounting information in a broader context of financial literacy. For example, one interview, discussing this matter commented that the major issue was

“The lack of understanding regarding the roles of financial reports.”

This was reflected by the majority of our interviewees. For example, this was succinctly stated by another interviewee, who commented:

“...I think most firms are micro firms and they provide most of the nation’s employments. It is great to see all firms to be able to produce and make use of financial reports, but if we are honest about empowering SMEs, what they need the most is not about having international based financial information but how to survive for everyday live.”

Consulting and advisory services, refer to activities that are not financially oriented, and fall outside of the technical accounting and compliance function such as environmental and workplace safety issues, human capital development, and business management services. These services contributed 48% of the activities. Thus, just a little over half (52%) was to technical/compliance activities and a little under half of the time (48%) was focused on business support and other advisory. This was an interesting outcome to us.

Despite the role of the professional accountant traditionally being associated with the conventional functions of compliance and technical accounting, evidence of time-use survey indicates that this accounts for, in reality, only half of the picture. Evidence from the survey and through interview responses illustrates that demand from SME clients necessitated the evolution of the accountants’ role, to include extensive business support and advisory functions.

To better understand the relationship between the functions performed by professional accountants on behalf of SME clients, and the

challenges confronting SMEs, survey responses were further categorised as either governance and compliance related, training and development related, or value added, growth and development oriented in nature.

Governance and compliance related activities are those that relate to internal control and reporting such as budget variance analysis, setting of performance targets and preparation of financial reports, as well as activities required to meet various legal obligations. These may include tax requirements, employer obligations, and social and sustainability reporting where required. Value added, growth and development-oriented activities include budgeting, forecasting, planning and analysis of financial information, as well as issues relating to finance and mergers and expansion, and those relating to human capital requirements. Training and skill development refers both to undertaking professional development activities and providing training services to clients.

Figure 5

Services to SME Clients by Activity Type

Last 2 years, % total

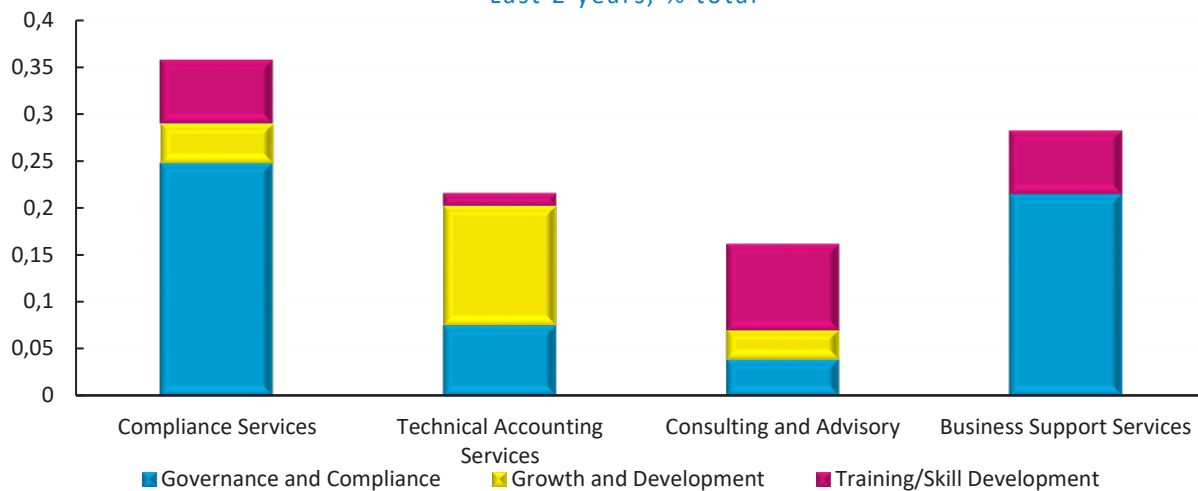
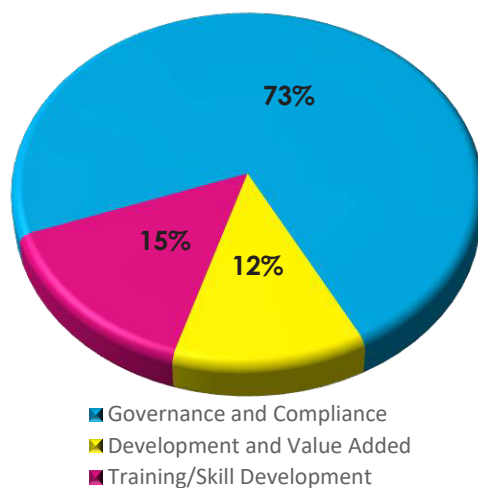


Figure 6

Compliance Services

% time



Predictably, the majority of accountant's time in compliance services was spent on compliance type activities, such as audit processes and preparation of taxes. However, over a quarter of time spent on compliance Services was devoted to training and skill development, and value-added type activities. These included analysis of financial information, and training on various regulatory requirements.

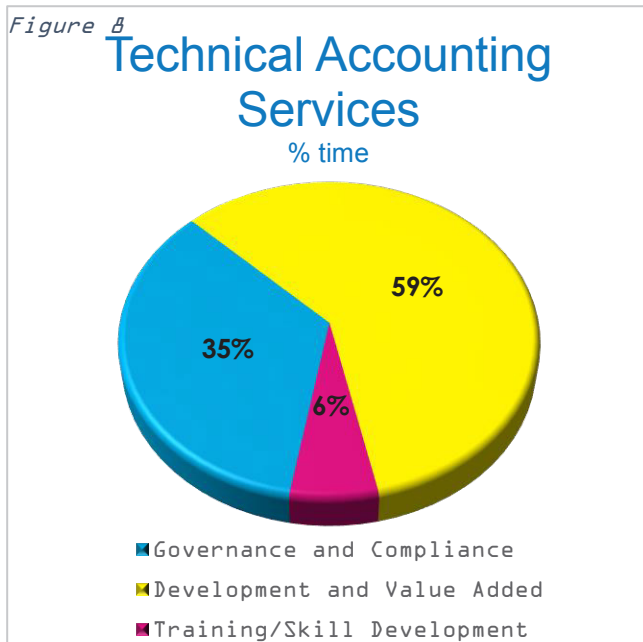
Governance and compliance oriented activities also dominated business support functions. This is indicative of the administrative burden represented by legal obligations, and the maintenance of records required to support the compliance function. Again, a significant 24% of time within the business support function was dedicated to training and skill development activities.

Figure 7

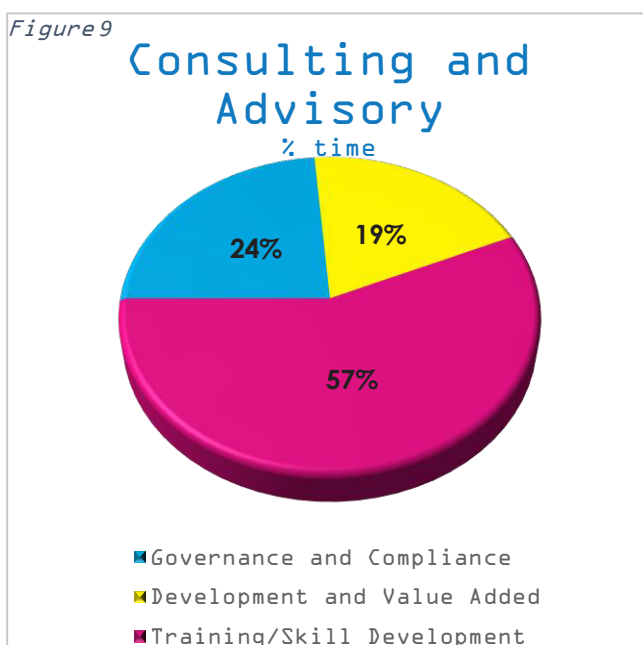
Business Support Services

% time





suggested that, comparatively, the regulatory compliance levels and cost of compliance is unfairly burdensome for SMEs. Certainly, interview participants typically described IFRS as too complex, too costly and beyond the needs of the majority of SMEs. The complexity of reporting standards determines the extent to which SMEs can undertake financial management activities in-house given the requisite financial literacy. Where complexity demands a level of technical expertise, beyond the financial skills required for effective business management, SMEs not only are forced to expend precious resources on accountants, but understandably feel that they do so in return for financial information that is not relevant, useful or meaningful. This resonated strongly with the majority of our interviewees.



Time use within the technical accounting function was heavily geared towards activities of a value added, growth and development nature such as budgeting and activities associated with mergers, expansion, financing, equity valuation, acquisition, and expansion. Governance and compliance activities such as asset valuation and budget variance analysis consumed most of the remainder.

Within the consulting and advisory function, training and skill development type activities consumed the largest portion of time. Training and skill development covered a diverse range of areas including ethics, environment and workplace safety, and human resource policy and procedure. Governance and compliance activities within this function refer mainly to the setting of performance targets.

Time usage data strongly corresponds with anecdotal evidence from interviews suggesting that accountants are being called upon to respond to skill shortfalls within the SME sector. Additionally, a view emerges where the accountant, in the role of trusted advisor assists in navigating the plethora of challenges confronting SME clients.

Overall, the role of accountants is varied between compliance and organisational development activities. Some of our interview subjects

Table 2 provides a summary of financial reporting requirements across the ASEAN region. The formal adoption of IFRS or the plan to adopt IFRS (at varying stages and to varying degrees) is almost universal across AMSs. However, there are also a significant number of non-reporting, non-formalised entities as well. In this context, it must be acknowledged, that increasing the complexity of reporting standards may act as a significant disincentive to further formalisation, due to multiple definitions across regulatory agencies (accounting, tax, etc) and issues with financial literacy and cost of compliance. For instance, many interviewees shared this sentiment, expressed by a practicing accountant:

“I know most of my firms have financial literacy problems, but the issue is who will pay for their access to information necessary for them to understand more formal accounting.”

While there are some advantages to universal reporting standards, particularly in terms of economic integration, certain considerations will determine their net impact on the SME sector and consequently the accounting industry. First, the requirement to comply with *IFRS for SMEs* must be weighed against the relevance and complexity. Most SMEs in the ASEAN region are not seeking international capital and are not engaged in international trade. Notably, the *IFRS for SMEs* approach also would likely exclude many SME firms across the region as they do not necessarily have to ‘publish general purpose financial statements for external users’. Furthermore, SMEs must be developed as educated consumers of the financial information that they are required to collect and provide.

Case Study 2: Thailand

Interviews were carried out with several professional accountants providing business advice and accounting services in SMES in Thailand. They suggest that the foremost needs for assistance are associated with developing more advanced business skills such marketing, effective IT technologies, and product designs, as well as political and economic certainty. In this case, having the ability to use accounting information for decision making and business planning plays a crucial role in managing their business operation.

They strongly believe that the ability to prepare financial reports based on international accounting reporting rules is critical to establishing business relationships with international investors, car makers, and other multinational firms. In this case, the inability to comply with international reporting rules such IFRS prevents the companies from achieving their business potential. For these companies, like national and multinational corporations, a failure to comply with international reporting rules inhibits them from expanding their businesses through international partnerships that would provide access to markets, capital and technologies.

Information Sharing Between ASEAN Nations

Information sharing between ASEAN nations for the purposes of promoting professional development within the accounting industry, and supporting regional development forms a key part of the mission and objectives of the AFA. This is facilitated through conferences, the sharing of resources, and the funding and commissioning of research, such as this.

ASEAN also facilitates the information sharing of AMS through its online document archive and funding of various reports and studies that contribute to info sharing such as ASEAN Finance Monitor, and ASEAN SME policy index. Additionally, information sharing, and research collaboration is facilitated through the ERIA research organisation, which exists with this objective.

However, from survey respondents of professional accountants throughout ASEAN, only 38% held membership of an international accounting body, indicating that despite formal efforts to facilitate information sharing, only the minority of accountants independently pursue such opportunities.

Figure 10

Membership of International Professional...

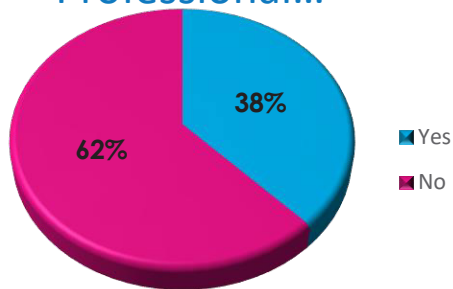


Table 2: Reporting Standards and Requirements of ASEAN Member States

	IFRS Adoption	IFRS for SMEs	Audit Requirement	Comments
Brunei Darussalam	✓			Brunei Darussalam is currently in the process of considering suitable accounting standards for SMEs. Brunei Darussalam does not have a stock exchange, therefore, while IFRS has been adopted, it applies only to publicly accountable entities such as financial institutions and insurance companies
Cambodia	✓	✓	✓	Statutory audit is required for companies meeting thresholds of revenue, assets, and employee numbers. SMEs that are not publicly accountable, but subject to statutory audit have a choice of <i>IFRS for SMEs</i> or full IFRS.
Indonesia			✓	The Indonesian Financial Accounting standards Board has developed Tier 2 – SAK ETAP for entities with no public accountability using <i>IFRS for SMEs</i> as a reference
Laos	✓	✓	✓	The LFRS for SMEs is based on <i>IFRS for SMEs</i> year 2009, and required to be adopted by Large-sized entities and SMEs (please see the LFRS for non-public interest enterprises);
Malaysia	✓	✓	✓	SMEs are permitted to use the Malaysian Private Entities Reporting Standard (MPERS). These are essentially the <i>IFRS for SMEs</i> verbatim, excepting income tax and property development requirements, and some terminology changes.
Myanmar	✓	✓	✓	Myanmar has already signed the Open License Agreement with IFRS Foundation and full IFRS will soon be adopted nation-wide by issue of the Notification by MAC.As such, SMEs shall be required to use IFRS for SMEs. SMEs not using the IFRS for SMEs must use full IFRSs.
Philippines	✓	✓	✓	Large or publicly accountable entities must use the Philippine equivalent of IFRS of full FFRS. Small and medium-sized entities that are not publicly accountable are eligible to use the Philippine equivalent of IFRS for SMEs, subject to specific criteria. Effective January 1, 2019, small entities that meet specific criteria are allowed to use the PFRS for small entities with early adoption permitted.
Singapore	✓	✓	✓	Entities that are not publicly accountable are eligible to use the Singapore equivalent of <i>IFRS for SMEs</i> , the SFRS for Small entities, subject to specific criteria
Thailand	✓	In Progress	✓	Thailand is in the process of adopting <i>IFRS for SMEs</i> in full. The criteria for determining which entities are permitted or required to use TFRS for SMEs is under consideration
Vietnam	✓		✓	The Ministry of Finance has developed a simplified version of the Vietnamese Accounting Standards for use by SMEs

Data source: IFRS.org

Strategies for Accounting Bodies to Support SME's

Feedback from interviews almost universally identified a role for accounting bodies across the ASEAN nations in improving financial literacy, as well as the need for sound financial management. Thai subjects went even further, to identify a “financial leadership” role for the profession. Accounting bodies in Indonesia, Brunei Darussalam and elsewhere in this region already undertake significant public awareness and education initiatives. Importantly, however, interview subjects maintained that such initiatives are at present insufficient, and their impact insignificant relative to the range and scale of obstacles and challenges faced by SMEs. Meanwhile, in Indonesia, despite the benefits of undertaking such initiatives being recognised by participants, the associated costs presented an insurmountable obstacle.

In developing and implementing strategies for supporting SMEs, accounting bodies must be cognisant of a number of factors:

- Significant differences exist between the needs, and obstacles of SMEs, and those faced by listed entities. These are not merely matters of scale, but of character, nature, and environment. Attempts to address the support requirements of SMEs with scaled down strategies designed for large and listed entities will simply result in the construction of a procrustean bed.
- The needs, obstacles and challenges experienced by SMEs do not only vary from those of large and listed entities. In contrast to established firms, SMEs are engaged in a process of development and evolution as they move through the enterprise life cycle. Flexibility is required to ensure appropriate support at each from pre-start up to maturity.
- The challenges experienced by SMEs include technical compliance but are not limited or

defined by this. Designing support strategies around compliance and technical accounting services will fail to adequately address the complexity and breadth of support required for a robust and resilient SME sector. Additionally, this is no more in the interests of the accounting profession than that of their SME clients. Constraining and restricting the role and image of accountants to that of technocrat will inevitably result in eventual obsolescence, as businesses grow and develop these capabilities internally. This will be expedited by advances in smart technologies, that already widely utilised in advanced industrial economies, and will only become more effective and accessible.

- The technical accounting and reporting requirements of SMEs are best determined by SMEs, rather than imposed upon them. Accounting frameworks handed down from above will inevitably be regarded with resentment, cynicism and contempt. Relevance to users must be the starting point to a bottom-up approach capable of delivering real and improved outcomes to SME constituents, as well as building and maintaining trust in the profession.
- While SMEs universally face significant challenges, the challenges are not universal. This is because SMEs are not homogenous across sector, or location, or nationality. Therefore, homogenous support strategies are unlikely to be of any significant assistance. Effective support strategies will be appropriate and sympathetic given the contextual and cultural distinctions across AMSs, including divergent stages of economic and social development.

We believe, given that the accounting profession is regarded as a trusted partner in business, this social capital can and should be transformed into an effective conduit between the governments and SMEs across the ASEAN region. For this to

occur, accounting bodies must encourage their constituents to acknowledge and accept the imperative to advocate on behalf of their SME clients on one hand, while advocating to them on behalf of governments and their profession on the other. At the ASEAN level, AFA is well placed to facilitate such a culture across accounting bodies.

In practical terms, it must be accepted amongst professional accountants and accounting bodies that the development and implementation of any effective support strategy cannot come without cost. The AFA and accounting bodies will realistically be required to share this burden. This may occur through the encouragement of professional accountants to contribute pro-bono hours through their respective accounting bodies in a manner similar to that employed by the Law Society in Australia. However, in accounting speak, such a contribution should be regarded as a capital investment rather than an expense. Early intervention and effective support for SMEs will reward the industry with that invaluable trust, as well as creating educated consumers of accounting services. In conjunction with government bodies, this pro-bono time could be used to institute a voucher system, where upon registration, fledgling businesses are provided either with access to business planning workshops, or individual access to a professional accountant.

Business planning workshops should be accessible, could perhaps take place over a number of days (three to five), and culminate in the completion of a business plan. The business plan must be relevant to operator, and therefore focused on operational planning including any licencing and legal requirements, as well as supply and distribution/ marketing mechanisms. A sound financial plan including costing, pricing, budgeting, forecasting, and financing will also be critical. Individual access to professional accountants may be more appropriate according to either the circumstances of the operator, or the contextual implications of each economy. This should be

focused on financial planning, and ensuring that sound financial record keeping systems are “set up” for new enterprises

There is a need to focus more on understanding and developing support systems for micro-SMEs. This was reflected in many of our interviews:

“For the micro entrepreneurs, the real support that they need is basic access to education, capital and skills. This is important to be taken into account as they are the back-bone of employment.”

Thus, what is lacking in the accounting frameworks within the region and from pan-ASEAN SME bodies is targeted support and development with respect to micro-SMEs. With respect to SMEs (in particular) there exists, already, strong traditional developmental pathways as part of a traditional business lifecycle, but this information does not scale down to micros. The current challenge is that accounting languages, the cost of compliance and the need for business and financial literacy are too advanced. As an interviewee states,

“Help in preparing business plan is key to support SMEs.”

This is a significant opportunity for PAOs and accounting professionals.

This suggests that there is a significant challenge region-wide with respect to financial literacy. Too many accounting studies argue that for ‘users’ and ‘SME owners’, accounting information is largely unused or unhelpful, as it is pitched at a level above the financial and business acumen of many SME operators. One interviewee succinctly states:

“Accountants must upgrade their skills and knowledge, explore new areas particularly gaining general knowledge on the latest trends of events or development within the region.”

This issue is of further importance given the ageing population in the ASEAN region and the

opportunities for empowerment with respect to women and indigenous communities. In this sense, we suggest a range of opportunities for each PAO, which are essential to development:

- a) Business incubation is essential tailored to local situations in consultation with accounting professional, universities, business development professionals, financial institutions, non-governmental organisations and other interested stakeholders. AFA, in association with the ASEAN SME sectoral body, AMS PAOs and national, regional and local governmental SME organisations should focus on business incubation. This was reflected by many of our interviewees. One stated:

“Because accounting professionals know better how business works, they should be an effective bridge between the SMEs and micro firms particularly with all government in this ASEAN region in supporting SMEs and the micros.”

Business is difficult and without support and development of this vital sector, the ASEAN region is losing opportunities for substantive development.

- b) There are challenges region wide with respect to financial literacy, and there is an opportunity here for professional accountants with the support of PAOs. This involves existing organisations, communities and may extend to the informal economy, as more knowledge may help to encourage formalisation. Many of our interviewees illustrated this point. For

development and opportunity, investment in financial literacy, with support from accounting organisations and accountant is central.

- c) For many medium entities and some small entities, especially those considering seeking international sources of finance, there might be some benefit in IFRS for SMEs, but with any accounting system there are costs and benefits and the literature on this is still somewhat mixed. However, what our study illustrates is that micro-SME accountants and micro SME owners find the demands of accounting complex and costly. An interested stakeholder commented from our interviews:

“Accounting bodies should initiate the development of very simple reporting regime for SMEs and integrate these reports for taxation purposes and accessing government subsidies.”

- d) While some countries have developed alternative SME accounting models and simplified versions of IFRS for SMEs, we hold that this is not simple enough. Many of these systems are top-down systems. This transferred to accounting and taxation as well. Simple, bottom-up accounting and taxation systems are necessary. In a very real sense, simple cash accounting is probably sufficient for many of these businesses and they possess little incentive to satisfy the cost of compliance of advanced accounting systems.

Case Study 3: Brunei Darussalam

According the representatives of a professional accounting body in Brunei Darussalam, the key challenges faced by SMEs in the nation are small markets and the lack of advanced business skills. It is also argued that most local SMEs require better human resource capabilities, access to finance, financial literacy and working capital management. In the context of this study, it is also important to note, given that SMEs owners are positioned in a wealthy nation with sustentative government support. Accordingly, their basic economic and business support needs differ sharply from the economic status of micro enterprises such as food street sellers in Indonesia or other nations within the region. This is illustrative of the diversity and complex economic and social environments of SMEs particularly, micros enterprises across the ASEAN region.

THE FORWARD VIEW: CONSTRUCTING THE TRUSTED BUSINESS PROFESSIONAL

Given the highly level of interaction with the SME sector, the accounting industry can be considered a key stakeholder in its future. In many ways, the relationship between professional accountants facilitates a unique insight into the business environment of SME clients, and challenges confronting the sector as a whole. Often, the accountant represents the first point of professional contact for SMEs, and often the first step towards formalisation. The services of an accountant are often initially sought out of necessity, perhaps resulting from a need for finance, or some form of regulatory compliance. With the relationship between accountant and client established in the infancy of an enterprise, and due to the management characteristics of small enterprises, a close working relationship typically develops.

Financial, Accounting and Management Needs of SMEs in ASEAN

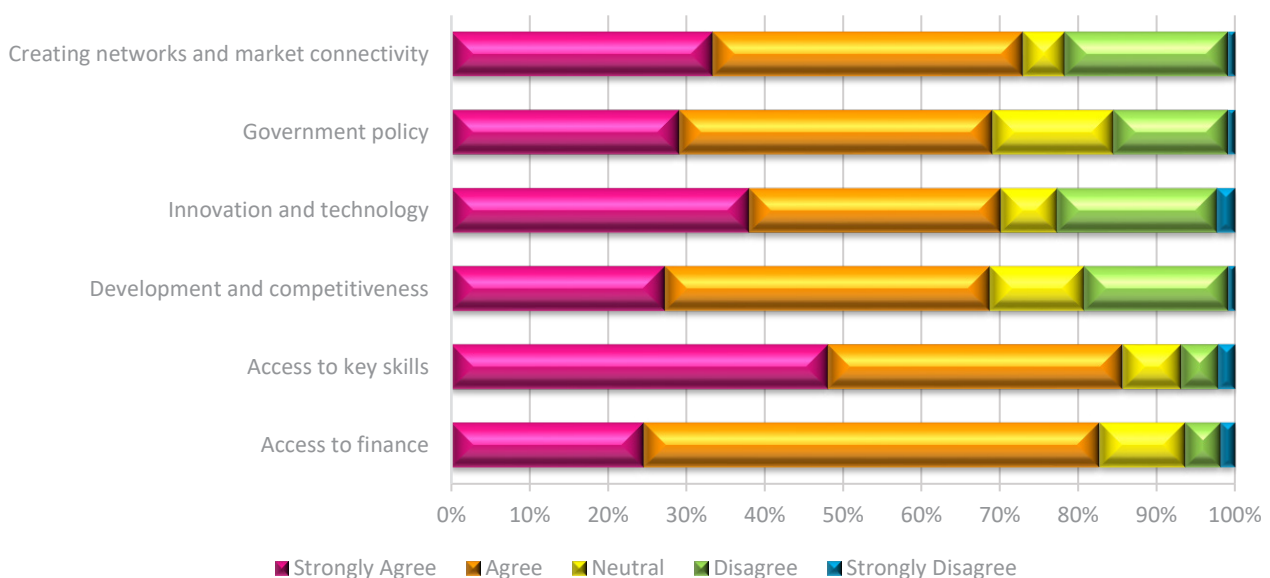
Through data gathered from an online time use survey, and interviews conducted with

professional accountants, a view emerges of both the current climate, and the terrain ahead for small enterprises, and the SME sector as a whole. The mapping of time use provides a telling view of current needs and is reinforced by participants' perceptions of current challenges faced by SMEs. Results pertaining to the anticipated future needs of SMEs reflect both the present demand for services, and the intimate familiarity of public accountants with the SME environment.

The importance of SMEs as potential drivers of economic growth has underscored much recent exploration of factors that may inhibit this. Access to finance, the availability of skilled human capital, government policy, development of markets, and access to technology have been widely identified as such issues. Interview findings, as well as survey results confirm the concerns examined by previous work in this area, including ASEAN SME Policy Index, SMEs in Developing Asia (ADB), Development of Small and Medium Enterprises in the ASEAN Economies (Sato, 2013), and others. Surprisingly however, and perhaps due to the significant attention this area has received, access

Figure 11

Challenges Experienced by SMEs in ASEAN Region



to finance does not emerge as the foremost challenge anticipated by accountants servicing the ASEAN SME sector. While 80.53% of respondents agreed that SMEs faced challenges related to finance, this was surpassed by access to key skills, with 84.91% agreement.

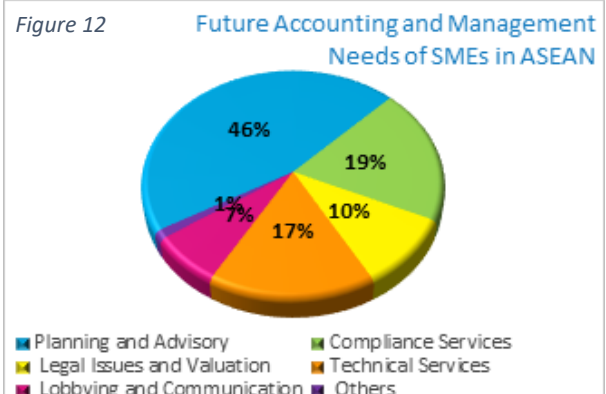
Access to key skills, including skilled human capital, as well as financial literacy, business and management skills also emerged as dominant concerns in interviews, particularly in Brunei Darussalam where all three components were commonly identified. Indonesian subjects also identified enormous challenges with respect to basic accounting and financial literacy skills amongst SME operators, as well as skilled human capital. Limited access to finance did, however, remain a dominant concern with Indonesian interviewees, suggesting that government efforts to address this have fallen short. Government approach and cohesiveness of SME policies in general were of significant concern to Indonesian interview subjects, despite ranking the least concern to survey participants at 67.86% agreement.

Concerns relating to the development of markets and market access were also commonly expressed in interviews, particularly in Brunei Darussalam. General concerns relating to the marketing and competitiveness of SMEs featured strongly in Indonesia and Thailand, as well as concern relating to economic conditions. The survey results reflect a similar pattern of concerns. Innovation and technology did not emerge as a key concern from interview participants, despite the survey data indicating 'strong agreement' response of 37.33%, second only to access to key skills at 47.63 %.

Given the importance of SME clients to the accounting industry, it is inevitable that the profession responds to the challenges confronting SME clients, and that such a response will inform and shape the evolution of the accounting profession.

Survey participants overwhelmingly anticipated that planning and advisory services, including tax and financial planning, and business planning, would represent the most significant area of future demand. This is supported by responses from interview subjects with Thai participants highlighting the financial leadership role for accountants in undertaking controllership and value-added activities. These participants also identified the need for the particular challenges and business environments of SMEs to be addressed within accounting qualifications. Interestingly, despite their unique relationship with the SME sector, and capacity to advocate on behalf of SME clients, participants did not foresee a significant future role in lobbying and communication.

Interviewees in Brunei Darussalam and Indonesia identified the significant role of accountants in improving financial literacy and capabilities of SME clients, including understanding of financial reports and reporting standards, as well as planning and financial management. The high representation of planning and advisory services relative to other anticipated future need reflects the assumption that as SMEs mature and develop the necessary capacity, administrative, technical and compliance activities are increasingly internalised. At this stage of the business development cycle, the expertise of the professional accountant, combined with the accumulated trust upon which the relationship has developed completes the evolution of the accountants' role from technocrat to trusted business advisor.



Educational Supports Needed by SME Accountants

Our online examination of accounting curricula of major universities across ASEAN, as well as feedback from interview participants in Thailand, Malaysia, Indonesia and Singapore – indicates a lack of coherent association between the needs of SMEs and the university approach to accounting education. The teaching of technical accounting skills, including the preparation and analysis of financial reports centres around the nature and requirements of larger enterprises, and corporate entities. Furthermore, if as the evidence indicates, the future role of the accounting profession with respect to SMEs extends beyond the basic accounting function, then the inadequacy of higher education offerings is compounded. Accounting graduates from major universities are lacking in an awareness of management, strategic, and governance issues with respect to SMEs. Teachings designed around the needs and realities of large corporations cannot simply be scaled down to fit the needs, characteristics, and environment of SMEs. This phenomenon is not peculiar to ASEAN.

Our research examined the content of accounting courses in the three universities in each AMS with the highest QS rankings where available. Only one university each in Myanmar, Laos and Brunei Darussalam feature in world rankings. A total of 25 Institutions were examined. Of those universities that provide details of course structure and content online, only De La Salle University (Philippines), provides for the specifics of accounting in the SME environment (see box1, p44). This stands in contrast to the majority of accounting qualifications, and to the apparent complete absence of any accounting qualification in Myanmar and Brunei Darussalam. While accounting degrees are offered through several Indonesian universities, the University of Phnom Penh, Indonesia's largest university does not offer accounting or business qualifications of any kind.

The imperative to address the dearth of SME specific content of current accounting qualifications has long been recognised within ASEAN. This has led to the development of the common curriculum for an entrepreneurship degree developed by ASEAN specifically to address the business & management skill/knowledge shortfall facing SMEs. The program is thoughtfully designed, and certainly has merit, however it is insufficient to address the deficit in SME relevant training specifically within the accounting profession. Additionally, while providing an excellent foundation in business skills for potential entrepreneurs, it includes only one basic, introductory accounting subject, thereby failing to adequately address the deficit in financial literacy. Furthermore, this program does not include training in compliance related concerns such as tax, registration and licensing, employer obligations etc, - for which our data indicates SMEs rely heavily on accountants.

The common curriculum will assist enormously in the development of an ASEAN wide culture of entrepreneurship, supported by essential business skills. However, while this may result in the wider future availability of business and strategic advisory and consultancy services, these are more likely to be addressed towards the small minority of well-resourced start-ups. The majority of small business operators, particularly those commencing as fledgling micro or cottage industries are already in possession of significant and valuable skill and expertise. They are however, experts in their field of endeavour, not business experts. The vast majority are not positioned or resourced, and therefore highly unlikely, to undertake a four-year tertiary program prior to commencing their business operations. Furthermore, national and regional economic and industrial development is better served by facilitating and expediting the contribution of specialised skills possessed by these operators, supported by experienced and effective business and financial expertise. Although the majority of

SME operators tend to lack the financial resources to engage business advisory services, interaction with accountants quickly becomes essential to meeting legal obligations. It is therefore prudent to develop and expand the expertise of accountants, such that they may readily and comprehensively respond to the needs of SME clients.

The recommended approach to augmenting the education of accountants to address the distinctiveness of SME concerns is to emulate, expand and improve the means by which this is accommodated into the accounting curriculum at De La Salle University (Philippines). A more extensive suite of subjects, such as some of those included in the ASEAN common curriculum could be offered as electives, giving students who intend to go into public practice the opportunity to specialise. In order to more immediately alleviate the skill shortage with respect to accounting services, it would be astute to develop, expand and promote lesser, though rigorously regulated and accredited accounting qualifications. In Australia the formal education requirements for registration as a bookkeeper, or tax agent are met at certificate IV or diploma level. Increased participation in vocational training qualifications such as these will assist in alleviating the pressure on professional accountants to provide extensive support services, enabling them to focus on higher value services. This would also assist in ensuring that competent cost-effective support services are available to professional accountants, and SME operators alike.

Thus, we argue that there is a need to emphasise SME specific training for accountants, with a focus on communication. This is across all entry pathways into the profession. While there is limited evidence of SME-specific content within accounting curricula in universities. There seems to be better coverage of this in vocational training bodies, but this tends to focus on the technical, compliance activities, rather than the broader

range of business development and advice skill-sets, which our research illustrates is central to the practice of many SME accountants.

Given the challenges of technology and the risk posed by technology with respect to automation of bookkeeping, the crucial accounting skill revolves around understanding the client and making justified decision against a multiplicity of accounting options. This suggests we still need to develop our communication skills to our clients and to users of accounting information. However, it also illustrates that there is a need for specific training for accountants with respect to the challenges and opportunities that correspond with accounting with micro-, small- and medium entities. In short, accounting for micro-, small- and medium entities differs in scale, scope and purpose from accounting for large and listed entities. The fundamental principle at play here is 'know your client'. This central opportunity here is for training on SME accounting (at the business conceptual and developmental sense) in all entry pathways (including universities), in professional accreditation, and in material for continuing professional development.

De La Salle University: Bachelor of Science in Accountancy.

Includes the following subjects:

Introductory Accounting for Service Enterprise (ACTBAS1)

This course deals with analysing, recording and processing business transactions commonly engaged by a sole proprietor of a service enterprise.

Introductory Accounting for Merchandising Enterprise (ACTBAS2)

This course deals with the accounting cycle for a sole proprietorship form of business engaged in merchandising activities.

Partnership and Corporation Accounting (ACTPACO)

This course deals with transactions, financial statements and problems peculiar to the operations of partnerships and corporations as distinguished from the sole proprietorship

**'Merchandising' is understood to refer to retail or trade in merchandise, rather than the marketing activity*



RECOMMENDATIONS AND CONCLUSION

Conclusion

According to our examination of documents sources, online surveys and interviews with accounting professionals and representatives of accounting bodies, a number of conclusions may be drawn:

Firstly, significant issues were identified surrounding incoherent and contradictory definitions of SMEs. Within a country, for example, the definition of SMEs may vary across regulatory bodies, government departments, banking, tax authorities and professional institutions. We find that the existing government laws / rules and regulatory framework for SMEs reveals significant inconsistencies that will impede the negotiation and adoption of a common and coherent definition throughout ASEAN. This is in contrast to the need to establish a common business reporting and accounting parameters for SMEs in the region and beyond. Undoubtedly, a shared definition forms the foundation of any regional solution to the factors limiting the potential of SMEs as drivers of economic growth. Our finding support Singleton's (2016) assessment which shows that, while accounting requirements for listed companies around the world are increasingly moving toward a common approach based on International Financial Reporting Standards, requirements for private companies — and particularly for SMEs — still vary widely internationally. This pattern is also evident in the US and the EU.

Secondly, in relation to accounting practices, the common challenges faced by SMEs in the ASEAN region include the lack of skills to understand, prepare and utilize financial information for business decision making and to add value to firms through strategic partnerships and business expansion. Beyond this, our data shows that persistent obstacles, particularly for micro enterprises include limited access to basic

business skills (marketing, human capital and human resources, and production), financing, innovation and technology, and government approach to, and cohesiveness of SME policies. Clearly, the challenge ahead for the accounting profession in this region is to provide leadership and support for SMEs, beyond traditional services such as reporting, taxing and auditing services.

Thirdly, participants overwhelmingly anticipated that that planning and advisory services, including tax, and business and financial planning will represent the most significant area of future demands. This is supported by responses from interview subjects highlighting the financial leadership role of accountants in providing controllership and value-added activities. Weaknesses were also identified in relation to the efficacy of current accounting qualifications, in preparing professional accountants for the demands and distinctiveness of the SME environment. Interestingly, despite their unique relationship with the SME sector, and capacity to advocate on behalf of SME clients, participants did not foresee a significant future role in lobbying and communication. Interviewees in Brunei Darussalam and Indonesia identified the significant role of accountants in improving financial literacy and capabilities of SME clients, including understanding of financial reports and reporting standards, as well as planning and financial engagement. At this stage of a business development cycle, the expertise of the professional accountant, combined with the accumulated trust upon which the relationship has developed completes the evolution of the accountants' role from technocrat to trusted business professional.

Finally, it is important to note given that the majority of SMEs are micro enterprises, that ultimately, they have substantively different business problems requiring tailored solutions in

comparison to medium and larger companies with greater market opportunities. The contention that adoption of a reporting rules (IFRS for example), are a prioritized concern for all SMEs across nations in the ASEAN is a naïve assumption. Nonetheless, this does not suggest that having the ability to prepare and effectively utilise financial reports is not important for all types of enterprises, irrespective of location and size. The research implicitly suggests that despite accounting information being theoretically and practically useful in alleviating inconsistencies associated with reporting and measuring business assets, debt and productivity of all entities, it is beyond the prioritized concerns of micro entrepreneurs. Improved access to basic educational skills in business, genuine and consistent government support and greater ease of doing business are almost universally identified as priorities. Public policy makers and professional accounting bodies should be cognisant of these findings in their efforts to develop and implement solutions for the empowerment of SMEs throughout ASEAN economies.

Implications

Careful consideration of both survey data, and comments from interview subjects indicates significant incongruity and divergence of interests amongst stakeholders. In ensuring that future policy initiatives are not unduly biased, and potentially destructive to either SME constituents, the disconnect of these stakeholders' interest with international agenda must be recognised and avoided. The proliferation of regulations and initiatives based on a narrow, partial or diminished notion of stakeholder interests may be damaging to both the SME sector, and the accounting profession. The imposition of regulatory regimes and programs designed around the assumptions, and primacy of dominant global interests bear the risk of failing to bring SME constituents along with the development agenda. The cost of compliance, for example is often understated in relative terms, particularly in respect to small and micro

enterprises. While regulation certainly plays a fundamental role in addressing social and economic concerns, the costs - both holistically, and in micro terms must not be underestimated. Excessive levels and costs of compliance soak up economic and social capital. Furthermore, increased focus on and expansion of technical obligations bears the potential to unravel the progress of the accounting profession on the evolutionary path towards the trusted business advisor. Reaffirming perceptions of accountants as technocratic agents of compliance may erode trust in the profession, as well as exposing the industry to increased risk of obsolescence, as smart technologies increasingly meet this need.

Policies and initiatives directed at SMEs must also acknowledge the different types of SMEs. While the distinctive needs of "small business" are broadly recognised, various arguments circulate advocating the exclusion of either micro, or medium enterprises from the SME definition, and consequently programs and initiatives. There is an inherent duality to the nature of micro enterprises that influences the argument in this respect. Many initiatives are motivated by an international trade agenda. However, it must be accepted that the vast majority of micro enterprises are locally focused, and many have no aspiration to become large enterprises or to trade internationally. Even in advanced industrial economies, micro enterprises as cottage industries, or the very popular 'home business' make a significant economic and social contribution, both in terms of economic productivity, and as self-employers. The reality that they will probably never develop significant employer potential, does not diminish this contribution. Conversely, it must also be remembered that the likes of Google, Microsoft, and Apple all began their existence as micro enterprises, and emerged as major economic powers as a result of private and public support initiatives.

Findings and Recommendations

A number of recurring themes emerge from this research in respect of the nature of support required by SMEs, particularly micro enterprises. These may be broadly categorised as improved access to finance, supportive government policies, and assistance in accessing markets and consumers. Financial and budgeting issues are also important. In Indonesia for example, the efforts to adopt a reporting system for SMEs were driven by Indonesia's Investment Board that is assigned to supervise financial institutions which allocate credits to micro companies. This is much more about supervision not about how to empower SMEs. For Thailand, their engagement with multinational is greater, but in many cases the lack of compliance with international based accounting standards prevents SMEs from engaging with potential partners in Thailand. The accounting profession as "a trusted business advisor" should bridge the void between SMEs and governments throughout the ASEAN community in mapping key problems faced by SMEs and possible solutions. Governments in that region should be encouraged to cooperate with accounting professional bodies in assisting SMEs in terms of business advisory services, accessing basic reporting skills, taxes and other management issues confronting the sector. If the ASEAN region seeks to achieve solid and meaningful economic integration, diverse definitions of SMEs must be integrated with government tax policies. A holistic approach is required to ensure that SMEs are nurtured, and not cynically targeted as a source of taxation revenue, and a lucrative market for advanced financial capital. In terms accounting education, higher education providers retain an approach to the teaching of accounting as the language of major and medium enterprises. Conversely, despite the majority share of economic activity and employment attributed to SMEs, greater efforts are required in preparing students for the roles of trusted financial and business leaders of the future. This imperative should drive all

stakeholders to strengthen meaningful partnerships among government institutions, employers, higher education institutions, political parties, and non-government organizations to design teaching curriculums which effectively and equitably accommodate the needs of micro, small, medium and large firms within ASEAN community.

The following practical and specific recommendations may assist in addressing these concerns:

Definition

- The notion of independence should be included in any definition of SMEs, thus differentiating between subsidiaries and branches of multinationals, and local enterprise.
- The notion of "productive output" should also be considered within any universal definition. Genuine SMEs offer or produce something – they do not exist to meet pre-production, post production, or administrative need of another enterprise.
- Quantitative criteria should be regarded only as a proxy for the qualitative, and not the defining features in themselves. As such, methods for neutralising disparities in economic conditions, such as multipliers based on GNI per capita, GINI coefficient, or poverty rates will need to be considered.
- Definitions of SMEs must be integrated with government tax policies. A holistic approach is required to ensure that SMEs are nurtured, and not cynically targeted as a source of taxation revenue, and a lucrative market for advanced financial capital. The principal of congruence as per the Japanese model should be considered to minimise the disincentive of regulation and minimise confusion and compliance costs.
- Consideration should be given to retaining local definition for domestic purposes, as per the EU model. This would enable national policy makers to address initiatives to local

challenges and conditions, while facilitating a ASEAN wide response to regional strategies.

Strategies for Accounting Bodies to Support SME's

- Encourage membership of international accounting bodies.
- The encouragement of professional accountants to contribute pro-bono hours through their respective accounting bodies.
- Institute a voucher system, where upon registration, fledgling businesses are provided either with access to business planning workshops, or individual access to a professional accountant.

Constructing the Trusted Business Professional

- Accounting bodies must encourage their constituents to acknowledge and accept the imperative to advocate on behalf of their SME clients on one hand, while advocating to them on behalf of governments and their profession on the other. At the ASEAN level, AFA is well placed to facilitate such a culture across accounting bodies.
- The accounting profession as "a trusted business advisor" should bridge the void between SMEs and governments throughout the ASEAN community in mapping key problems faced by SMEs and possible solutions.

Educational Supports

- Augmenting the education of future accountants to address the distinctiveness of SME concerns by developing, the means by which this is accommodated into the accounting curriculum by expanding SME specific, technical accounting subjects.
- To develop and implement lesser, though rigorously regulated and accredited accounting qualifications. In Australia the educational requirements for registration as a bookkeeper, or tax agent are met at certificate

IV or diploma level. Increasing availability and accessibility of vocational training qualifications would assist in alleviating the pressure on professional accountants to provide extensive support services.

- Augmenting the understanding of the SME operating environment, and relevant accounting needs at a technical level by developing, implementing, and promoting new Continuing Professional Development units and programs.

Limitations

- This study provides comprehensive exploration of key problems faced by SMEs within ASEAN through the investigation of persistent obstacles confronting them and constraining the growth and expansion of SMEs throughout AMSs. The potential contribution of the accounting profession in addressing these concerns and fostering a supportive and nurturing environment SME development is also extensively explored. However, this study is subject to a number of limitations:
- Participation in the survey was limited to professional accountants.
- The survey sample size, while sufficient and credible for the purposes of this study, is limited by the rate of responses within the relatively short time frame.
- Survey responses were not further analysed and interpreted according to nationality of respondents.
- Resources and time frame for this study did not allow for interviews to be conducted, and case studies collected across all ten AMSs.
- On-line examination of accounting curricula was limited to top ranked universities in each country. Resources did not permit a more extensive examination of universities, or research into other accounting qualifications through technical advocational training institutions, or observations of content, materials, or delivery.

Opportunities for Support and Development for ASEAN Professional Accountancy Organisations

1) Be cautious in the adoption of a common regional definition

Our report suggests that there are potential risks associated with the development of a common regional definition (as in some ways, each articulation of an SME definition illustrates particular choices and is ultimately arbitrary). This includes size in terms of employee numbers, differentiations between sectors and financial measures including, but not limited to, turnover and capital. Equally, there are variations across the ASEAN region with respect to taxation policies. In some ways, a further layer of regulatory intervention in the form of another alternative definition is likely to be counter-productive. There exist strong institutional pressures to adopt a common SME definition, but in our estimation, the variations across the region, the underlying arbitrariness in definitions based on economic and employee number, and the relativity between development levels across the region (least developed to most developed) suggest that it is worth being cautious over the 'temptation' of a common regional definition which is likely to create winners and losers. Equally, an overarching emphasis on access to international finance and international trade will likely suit the most developed ASEAN nations more in comparison to less developed economies in the region and will likely favour medium entities much more than micro entities (which overwhelmingly are the dominant economic form in the region. If there are movements towards a common definition, this will only be useful if it is properly integrated. That is, the ASEAN region as one, with support from every AMS Government, and with the support of Governmental agencies and ministries (with an interest in SMEs, including taxation authorities), peak industry bodies (including AMS SME offices), and with AFA and regional Professional

Accounting Organisations and associated support from the World Bank, the IMF and other supranational regulators and interest groups. However, we also hold that such an approach needs to reflect the actual numbers of SMEs within the region, including micro, small and medium entities. We see that there appears to be a lack of focus on micro SMEs within the regulatory and institutional frameworks in the nation, and thus, comparatively, too much focus on small and medium entities. While the immediate financial returns might be greater with respect to small and medium entities, the future development of the ASEAN region will be driven from development and growth in micro-entities.

2) Focus more on understanding and developing support systems for micro-SMEs

Thus, what is lacking in the accounting frameworks within the region and from pan-ASEAN SME bodies is targeted support and development with respect to micro-SMEs. With respect to Small and Medium Enterprises (in particular) there exists, already, strong traditional developmental pathways as part of a traditional business lifecycle, but this information does not scale down to micros. The challenges for micro SMEs are greater, but the employment and wealth development of many ASEAN nations will drive out of micro SMEs. In effect, the current problem is that accounting languages, the cost of compliance and the need for business and financial literacy are all too advanced. In our opinion, the PAOs and accounting professionals should be at the heart of the drive towards developing the capacity of the Micro SME sector. This might involve fundamental introductory courses on financial literacy and the very basics of business acumen. The assumptions for these courses should be there is little financial literacy and should pitch, at least initially, at first principles. If the ASEAN region works together for development, then the whole region benefits. Much of the focus of training in the region is on tax compliance and financial reporting for the

purposes of investment and financing. This might be relevant to a small percentage of SMEs in the region, but equally, in our opinion, this is pitched at a level that assumes a significant financial literacy and is largely irrelevant to most business in the region. There is an assumed knowledge problem here. Reflect on the old saying: *Give a person a fish and feed them for a day; teach the person to fish and feed them for life*. In this scenario, some of our respondents are telling us that people do not even know what a fish is: without fundamental knowledge and development, even the best accounting frameworks are, in effect, rendered useless. This might involve short-term cost, but it is for long-term development.

3) Regional financial literacy, business incubation and 'simple' accounting and tax systems

This suggests that there is a significant challenge region-wide with respect to financial literacy. Too many accounting studies argue that for 'users' and 'SME owners', accounting information is largely unused or unhelpful, as it is pitched at a level above the financial and business acumen of many SME operators. This issue is of further importance given the ageing population in the ASEAN region and the opportunities for empowerment with respect to women and indigenous communities. In this sense, we suggest a range of opportunities for each PAO, which are essential to development:

a) Business incubation is essential. In consultation with accounting professional, universities, business development professionals, financial institutions, non-governmental organisations and other interested stakeholders, there is a regional opportunity, and potentially a responsibility to provide fundamental business incubators tailored to local situations. AFA, in association with the ASEAN SME sectoral body, AMS PAOs and national, regional and local governmental SME organisations should focus on business incubation. The fundamental

construct here is community development through shared knowledge. There are amazing opportunities right for empowerment and development, and opportunities unique to the ASEAN region. During a recent visit to a province in Indonesia, the research team were disappointed to learn that there were a significant number of micro-community development activities (especially with local indigenous communities) that had 'failed' or did not even start (after product identification and development), due to a fundamental lack of business incubation. Business is difficult and without support and development of this vital sector, the ASEAN region is losing opportunities for substantive development.

b) Accountants should be leading financial literacy with support of PAOs. This applies to the community more generally. Not only are there responsibilities with respect to business incubation, we argue that there are responsibilities with respect to financial literacy for communities more generally. We recognise those that are already doing this. However, under the 'public interest' professional obligation (common to many accounting codes of conduct), this community development, we argue is an ultimate act in the public interest.

c) For many medium entities and some small entities, especially those considering seeking international sources of finance, there might be some benefit in *IFRS for SMEs*, but with any accounting system there are costs and benefits and the literature on this is still somewhat mixed. However, what our study illustrates is that micro-SME accountants and micro SME owners find the demands of accounting complex and costly. We acknowledge that some countries have developed alternative SME accounting models and simplified versions of *IFRS for SMEs*. We hold that this is not simple enough; what may appear simple to us as accountants is still complex to those with

little exposure to the special languages of accounting, business, taxation and accounting. Many of these systems are top-down systems. We also know that taxation compliance is a vexed issue in the region and we hold that the assumed knowledge and financial literacy (as well as a better argument for tax compliance) within self-assessment systems is part of the problem. We believe that bottom-up simple accounting and taxation systems are necessary. There is strong evidence, in the micro-SME-sector that micro-credit is normally on the basis of cash projections and business plans. That focus would be helpful. In a very real sense, simple cash accounting is probably sufficient for many of these businesses and they possess little incentive to satisfy the cost of compliance of advanced accounting systems.

4) Emphasis on SME specific training for accountants, with a focus on communication

Countless studies in accounting illustrate that professional accountants are not necessarily good communicators. Given the challenges of technology and the risk posed by technology with respect to automation of bookkeeping, the crucial accounting skill revolves around understanding the client and making justified decision against a multiplicity of accounting options. This suggests we still need to develop our communication skills to our clients and to users of accounting information. However, it also illustrates that there is a need for specific training for accountants with respect to the challenges and opportunities that correspond with accounting with micro-, small- and medium entities. In short, accounting for micro-, small- and medium entities differs in scale, scope and purpose from accounting for large and listed entities. The fundamental principle as play here is 'know your client'.

Thus, we argue, for the ASEAN region, there is a special case for specific training for accountants

focusing on SME accounting. We argue that this is across all accounting education:

- Between PAOs across the ASEAN region, supported by AFA;
- In all entry pathways (including universities);
- In professional accreditation; and in
- Continuing professional development.

We believe that AFA and PAOs should seek that regional educational facilities involved in training accountants *must* include SME-focused education. This also involves a need to understand local customs and contexts. Accounting for micro-, small- and medium entities is contextually and culturally different. We would be excited to work on developing specific educational resources in association with AFA and PAOs.

This extends to knowledge sharing, recognising local context and custom, between PAOs and between ASEAN countries. We were pleased to see a strong spirit of regional cooperation in our study and this knowledge sharing will result in regional development.

Further Opportunities for Research

Further studies should seek to expand both sample size and demographic. While the current survey provides significant insight from the perspective of the accounting profession, future studies would benefit from the participation of a larger and more comprehensive sample of stakeholders. Target demographics for future studies should extend beyond those with direct professional affiliations with SMEs, including business owners, representatives of government and development agencies, educators, and other community representatives. Analysis and interpretation of data by country of origin would also provide greater dimension, and a more comprehensive understanding of the diverse social, economic, and environmental contexts, and factors constraining SME development.

Comparison of interview data from Indonesia, Thailand, Malaysia and Singapore indicate significantly disparate views and experiences across AMSs.

Throughout this study, we observed clear instances of a need to develop easier ways of accessing small finance opportunities, but also for sourcing alternative methods of financing. This is a challenging question, and the associated complexities beyond the scope of this study. Further research with a focus on alternative financing models for micro entities would seem critical, and we would argue that this should be directed towards the exploration of resource sharing alternatives as a means of meeting the needs of micro enterprise minus the debt imperative.

The relevance of accountant training to SMEs is critical to the future development of both the accounting profession, and the SME sector. Future studies should provide a thorough and extensive examination of the structure, content, delivery and materials of a broad sample of accounting education providers. While higher education remains key to equipping practitioners with the conceptual and analytical skills requisite to advisory and value-added roles, as well as technical skills, the contribution and importance of technical and vocational institutions as presents a void in accounting education research.

These limitations provide a space for future studies to contribute to the ongoing debate surrounding SMEs at the global, regional and national levels, and role and contribution of the accounting profession in the empowerment of SMEs.



Appendix 1: ASEAN Economic and Development Profiles and Legal Definitions by Regulatory Regime

Notes: This appendix provides a brief economic and social profile of AMSs, summarising the discussion on p 20—23, as well as an expansion of SME definitions provided in Table 1. For legislative or regulatory sources of SME definitions please refer to Table 1



Brunei Darussalam

Population

417,200

GNI per Capita (PPP)

US\$82,250.00 (2016)

Gini coefficient

37.6

Human Development Index

Very High

Rank: 30

Value: 0.865

GDP per Capita

US\$26,938.50 (2016)

Sectors

Agriculture: 1.1% Industry: 60.2% Services: 38.7% (2016)

Major exports

Petroleum gas, crude petroleum, chemical products

Major imports

Transportation equipment (passenger and cargo ships, cars, planes helicopters), machinery, metals, food, beverage and tobacco products

Adoption of IFRS for SMEs

Currently considering suitable accounting standards for SMEs. Brunei does not have a stock exchange, therefore, while IFRS has been adopted, it applies only to publicly accountable entities such as financial institutions and insurance companies.

SME definition

	Micro	Small	Medium	Large
Employees	1-5	6-50	51-100	101+



Brunei has no legislated definition for SMEs. The definition specified in the Commonwealth Secretariat Final Report on Marketing Services for Brunei Darussalam Small and Medium Enterprises (SMEs) in 2008 is applied by the agencies responsible for SME development. In a similar sense to other AMS SME definitions, Brunei includes the number of employees as a criterion. However, the Brunei definition is unusual in that it does not apply any financial criteria. The size parameter of 100 employees is low relative to other countries, but this reflects Brunei's population.

While Brunei is classified as highly developed under the HDI, and enjoys a high GNI, the relatively high standard of living has historically been supported by oil and natural gas exports. In light of recent production declines in the sector the government has implemented a suite of programs and policies designed to increase economic diversification through growth of the SME sector. The agencies responsible for planning and implementing development programs for SMEs are the Brunei Economic Development Board (BEDB) and the Ministry of Primary Resources (MIPR).

Although Brunei's definition does not include criterion related to local ownership, or legal form, many loan and grant programs require that the entity be a registered company, which specifies local ownership requirements. Notably, Brunei does not levy personal income taxes or income tax on sole traders and partnerships. Companies, however, are subject to corporate tax. A three-year tax reprieve for start-ups provides an incentive for enterprises seeking growth and access to government assistance.



Cambodia

Population	15,600,000
GNI per Capita (PPP)	US\$3,510.00 (2016)
Gini coefficient	30.8
Human Development Index	Medium

Rank: 143
Value: 0.563

GDP per Capita	US\$1,269.91 (2016)
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Sectors	Agriculture: 26.7% Industry: 29.8% Services: 43.5% (2016)
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Major exports	Clothing, timber, rubber, rice, fish, tobacco, footwear
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Major imports	Petroleum products, cigarettes, gold, construction materials, machinery, motor vehicles, pharmaceutical products
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Adoption of IFRS for SMEs	Statutory audit is required for companies meeting thresholds of revenue, assets, and employee numbers. SMEs that are not publicly accountable, but subject to statutory audit have a choice of IFRS for SMEs or full IFRS.
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SME definition

	Micro	Small	Medium	Large
Employees	<10	11-50	51-100	>100
Assets Excluding Land	<\$50 000	\$50 000 - \$250 000	\$250 000 - \$500 000	>\$500 000

In Cambodia, the definition of SMEs was issued by the RGC Subcommittee on small and medium enterprises as part of the Small and Medium Enterprise Development Framework 2005. Like the majority of definitions examined, Cambodia utilises the number of employee criteria. While this is the sole defining criteria for statistical purposes, alternate financial criteria based on assets (start-up capital) excluding land is provided as an alternate or complimentary criterion where more suitable. The financial criteria applied in Cambodia differs from that of others examined, in that it provides a parameter in US dollars, rather than the local currency.

Cambodia is classified as of medium development, ranking 143 on the HDI, the second lowest amongst AMSs. GNI per capita in Cambodia is lowest of ASEAN nations, however, a sustained period of economic growth has resulted in a significant reduction in poverty, as well as an increase in household consumption. The textiles industry is historically the backbone of Cambodia's economy; however, the tourism industry has experienced substantial growth with the previous decade. These industries, and indeed almost the entire Cambodian economy is reliant on SMEs. As such, continued economic growth and improvements in human development conditions such as health care and education, will depend on growth of the SME sector.

The Royal Cambodian Government recognises the key role of SMEs in Cambodia's economy, and has undertaken a host of initiatives aimed at supporting the development of the sector. The Ministry of Industry, Mines and Energy is charged with the implementation of the government policy with respect to SMEs. The limited jurisdiction of MIME over the growing services sector, or the retail/wholesale trade sector may weaken the efficacy of SME policies and programs.



Indonesia

Population	257,600,000
GNI per Capita (PPP)	US\$11,220.00 (2016)
Gini coefficient	39.5
Human Development Index	Medium <i>Rank: 133</i> <i>Value: 0.689</i>



GDP per Capita	US\$3,570.29 (2016)
Sectors	Agriculture: 13.7%; Industry: 40.3%; Services: 46% (2016)
Major exports	Oil and gas, cement, food, electrical appliances, construction, plywood, textiles, rubber
Major imports	Machinery and equipment, chemicals, fuels, foodstuffs
Adoption of IFRS for SMEs	No. The Indonesian Financial Accounting standards Board has developed Tier 2 – SAK ETAP for entities with no public accountability using <i>IFRS for SMEs</i> as a reference
SME definition	The Indonesian definition of SME requires that an enterprise qualify under one of the following criteria:

	Micro	Small	Medium
Total Annual Sales	Up to Rp300m	Rp300M–Rp 2.5b	Rp2.5b–Rp 50b
Assets Excluding Land & Buildings	Up to Rp50m	Rp50m–Rp500m	Rp500m–Rp10b

Indonesia's approach in defining SMEs is complicated. The definition of SMEs in Indonesia is contained in Law no 20/2008 Regarding Micro, Small, and Medium enterprises. This definition is based on alternate financial criteria – being either net assets excluding land and buildings, or gross sales. However, the Indonesian National Statistics Office does apply the employee number criteria for statistical purposes, the upper parameter being 100 employees. The Indonesian definition also imposes a local ownership requirement, as well as excluding subsidiaries and branch offices.

Complications surrounding the institutional framework represent challenges to the implementation of government policies. Jurisdiction for SME development is not limited to the Ministry for Cooperatives and SMEs, and professional accountants in Indonesia described inconsistent approaches across departments. Particularly with respect to taxation requirements. Generally low business, management, and financial literacy skill levels, as well as a lack of awareness of legal obligations resulting in low levels of business registration also compromise Indonesia's regulatory framework and SME environment. Indonesia boasts the largest economy in ASEAN. It is classified as having medium human development and ranks 133 on the HDI. Indonesia has also experienced a dramatic decline in poverty over the last decade. Indonesia is rich in natural resources, with oil and gas, being key exports.



Laos

Population	6,8900,000
GNI per Capita (PPP)	US\$5,920.00 (2016)
Gini coefficient	37.9
Human Development Index	Medium Rank: 138 Value: 0.586
GDP per Capita	US\$2,353.15 (2016)
Sectors	Agriculture: 21.3%; Industry: 32.5%; Services: 39.4% (2016)
Major exports	Wood products, garments, electricity, coffee, tin, copper, gold
Major imports	Machinery and equipment, vehicles, fuel, consumer goods
Adoption of IFRS for SMEs	LFRS for SMEs is based on IFRS and required to be adopted by non-public interest entities with assets exceeding 50 b Kip.
SME definition	The Laos definition of SME requires that an enterprise qualify under one of the following criteria:



	Small	Medium
Employees	Fewer than 20	Fewer than 100
Total Assets	Up to K250m	Up to K1 200 m
Annual turnover	Up to K400 m	Up to K1 000 m

In Laos, the legal definition of SMEs is stipulated in the Decree on SME division, number 25/LG, dated January 16th, 2017. The definition offers a choice of three criteria, including number of employees, as well as total assets, and annual turnover. Land and buildings are not excluded from the value of assets. Reference to legal structure and local ownership are restricted to the requirement that Small and medium enterprises be “independent”.

Laos is classified at medium human development, at a rank of 138. However, subsistence agriculture still accounts for the most significant portion of economic activity, and significant foreign aid is required. Economic growth has predominantly been driven by foreign investment, particularly in the mining sector. Services and tourism, both sectors dominated by SMEs have also experienced growth



Malaysia

Population	30,300,000
GNI per Capita (PPP)	US\$26,900.00 (2016)
Gini coefficient	46.3
Human Development Index	High Rank: 59 Value: 0.789
GDP per Capita	US\$9,502.97 (2016)
Sectors	Agriculture: 8.2% Industry: 37.8% Services: 54% (2016)
Major exports	Semiconductor/electronic products, palm oil, liquefied natural gas, petroleum, chemicals, machinery, vehicles, optical & scientific equipment, manufactures of metal, rubber, wood and wood products
Major imports	Electrical/electronic products, machinery, chemicals, petroleum, plastics, vehicles, manufactures of metal, iron and steel products
Adoption of IFRS for SMEs	SMEs are permitted to use the Malaysian Private Entities Reporting Standard (MPERS). These are essentially the <i>IFRS for SMEs</i> , word for word, excepting income tax and property development requirements, and some terminology changes.
SME definition	The Malaysian definition of SME requires that an enterprise qualify under one of the following criteria:



Sector		Micro	Small	Medium
Manufacturing	Annual Sales Turnover	Less than RM300,000	RM300,000- RM15 million	RM15 million- RM50 million
	Full-time Employees	Less than 5	5-74	75-200
Services and other sectors	Annual Sales Turnover	Less than RM300,000	RM300,000- RM3 million	RM3 million- RM20 million
	Full-time Employees	Less than 5	5-29	30-75

The Malaysian definition of SMEs was issued in 2005 Directive of the National SME Development Council, with the NSDC endorsing a new definition in 2013. Criteria are provided as either number of employees, or sales turnover providing the alternate financial criteria. Employees are further stipulated as full-time employees. The Malaysian definition provides for differentiation according to sector. Thresholds for micro enterprises remain consistent for both manufacturing and service sectors; higher thresholds for both criteria applicable to the manufacturing sector for small and medium enterprises. Differentiation by sector is also practiced by Myanmar, Thailand and Vietnam within ASEAN. Definitions in force by some United States agencies include a far greater degree of differentiation, with thresholds varying vastly according to a complex industry classification system.

Malaysia is classified as highly developed, with an HDI ranking of 59, although significant economic inequality prevails. The nation enjoys relatively consistent and stable economic growth, driven by the industrial sector. The economy is largely dependent on export of goods, particularly integrated circuits, and palm oil. The Malaysian government aims to diversify the economy, and significantly reduce the export of palm oil. Macroeconomic policy emphasis is directed at developing the tourism industry, technology, and innovation.



Myanmar



Population	53,900,000
GNI per Capita (PPP)	US\$5,070.00 (2015)
Gini coefficient	37.9
Human Development Index	Medium Rank: 145 Value: 0.556
GDP per Capita	US\$1,275.02 (2016)
Sectors	Agriculture: 26.3% Industry: 27.5% Services: 46.2% (2016)
Major exports	Natural gas, wood products, pulses, beans, fish, rice, clothing, jade and gems
Major imports	Fabric, petroleum products, plastics, fertiliser, machinery, transport equipment, cement, construction materials, crude oil; food products, edible oil
Adoption of IFRS for SMEs	Myanmar has adopted the <i>IFRS for SMEs</i> as the Myanmar Financial Reporting Standard for SMEs. SMEs not using the MFRS for SMEs must use full MFRSs which are identical to IFRS.
SME definition	Myanmar uses capital as the financial criteria indicator for manufacturing industries only. Turnover serves as the financial criteria indicator for all other industries.

Sector		Small	Medium
Manufacturing	Capital (C)	Up to Ks500m	Ks500m<CKs1,000m
	Employees	Up to 50	51–300
Labour intensive manufacturing	Capital (C)	Up to Ks500m	Ks500m<CKs1,000m
	Employees	Up to 300	301–600
Wholesale business	Turnover (T)	Up to Ks100m	Ks100m<TKs300m
	Employees	Upto30	31–60
Retail business	Turnover (T)	Up to Ks50m	Ks50m<TKs100m
	Employees	Upto30	31–60
Services	Turnover (T)	Up to Ks100m	Ks100m<TKs200m
	Employees	Upto30	51–100
Other Sectors	Turnover (T)	Up to Ks50m	Ks50 m<TKs100m
	Employees	Upto30	31–60

The Law on the Development of Small and Medium Businesses - Pyidaungsu Hluttaw Law No. 23/2015, provides the definition of SMEs for Myanmar. The definition, like most within ASEAN provides for criteria based on number of employees, as well as alternate financial criteria, and like that of Malaysia, differentiates according to industry or sector. The degree of differentiation is greater than that applied in Malaysia, while not approaching the complexities of the US classification system. The approach to a industry differentiation in Myanmar, is distinctive however, in that the financial criteria differs in nature, - not only in threshold or parameter, according to sector. Myanmar's definition for SMEs does not provide parameters for micro enterprises.

Myanmar ranks 145 on the HDI and is classified as being of medium human development. This is one of ASEAN's poorest nations, subject to a lack of social and economic infrastructure, and economic and trade sanctions imposed by several nations outside of ASEAN. Despite production of exceptionally high-quality gems, Myanmar encounters difficulty in trading these internationally. While effort to stimulate the tourism industry have been undertaken by the government, lack of transport infrastructure hinders tourist access.



Philippines

Population	103,320,220
GNI per Capita (PPP)	US\$ 9,390.00 (2016)
Gini coefficient	40.10
Human Development Index	Medium Rank: 116 Value: 0.682
GDP per Capita	US\$2,951.07 (2016)
Sectors	Agriculture: 9.7% Industry: 30.8% Services: 59.5% (2016)
Major exports	Semiconductor/electronic products, transport equipment, copper products, coconut oil, fruit
Major imports	Electronic products, mineral fuels, machinery and transport equipment, iron and steel, textile fabrics, grains, chemicals, plastic
Adoption of IFRS for SMEs	Private entities with assets between Pesos 3,000,000 and Pesos 350, 000,000, or liabilities between Pesos 3, 000, 000 and Pesos 250, 000, 000 may use the PFRS for SMEs. Larger entities, or those having sold securities to the public must use the full PFRS



SME definition		Micro	Small	Medium
Total assets excluding land		No more than P3,000,000	P3,000,001 – P15,000,000	P15,000,000 – P1,000,000,000

The definition for SMEs in the Philippines is contained in the Magna Carta for Micro, Small and Medium Enterprises. In keeping with most AMSs, the Philippine definition distinguishes between micro, small and medium enterprises, and does not distinguish by sector. However, this definition differs from the approach common within ASEAN in that it applies only a sole financial criterion: assets not including land. For statistical purposes, the national statistics agencies utilise a definition based on employees, with an upper threshold of 200 employees.

The Philippines is classified as being of medium human development and ranks 116 on the HDI. Despite a relatively high level of industrialisation and strong manufacturing sector, the fruits of economic growth and industrialisation have not benefited the population equally, and a significant portion of the population derives an income below the international poverty line. Primary exports include semiconductors, computers and electronic products. However, the Philippines is becoming an increasingly popular tourist destination.



Singapore

Population	5,500,000
GNI per Capita (PPP)	US\$85,050.00 (2016)
Gini coefficient	45.8
Human Development Index	Very High <i>Rank: 5</i> <i>Value: 0.925</i>
GDP per Capita	US\$52,950.71 (2016)
Sectors	Agriculture: 0% Industry: 26.6% Services: 73.4% (2016)
Major exports	Machinery and Equipment, Electronics and Telecommunications, Pharmaceuticals/Chemicals, Refined Petroleum Products
Major imports	Machinery and Equipment, mineral fuels, chemicals, foodstuffs, consumer goods
Adoption of IFRS for SMEs	Entities that are not publicly accountable are eligible to use the Singapore equivalent of <i>IFRS for SMEs</i> , the SFRS for Small entities, subject to specific criteria
SME definition	Small Medium Enterprises (SME) in Singapore are defined as companies with at least 30% local shareholding, group annual sales turnover of less than \$100 million or group employment size of not more than 200 workers.



Singapore's definition of SMEs is issued by the Government of Singapore through the Ministry of Trade and Industry. We were unable to locate a legislative basis for this, but Singapore's definitional approach entitles eligible organisations to support from SPRING Singapore and other interested bodies. Singapore is in the minority of ASEAN nations in that no distinction is made between micro, small, and medium enterprises. Rather, an enterprise qualifies as an SME subject to meeting criteria based on either number of employees, or annual sales turnover. The definition has no legislative basis and is issued primarily for the purpose of determining eligibility to development and assistance programs. The additional requirement of a minimum of 30% local ownership applies for access to SME development program. This definition was amended in 2011, having previously provided differing criteria for manufacturing, and non-manufacturing sectors. The financial criteria, previously Net Fixed Assets, which applied only to manufacturing enterprises, has been amended to Annual sales turnover. This approach to financial criteria is more consistent with that of other ASEAN nations.

Singapore enjoys very high human development, ranking 5th on the HDI. The Singaporean economy is highly sophisticated, innovative, diverse, and competitive economy. The country boasts exceptional political stability, generous social services and infrastructure, and low unemployment. Socially, financially, economically, and industrially, Singapore is at a level far removed from most of its ASEAN neighbours.



Thailand



Population	68,000,000
GNI per Capita (PPP)	US\$16,070.00 (2016)
Gini coefficient	37.9
Human Development Index	High Rank: 87 Value: 0.740
GDP per Capita	US\$5,907.91 (2016)
Sectors	Agriculture: 8.9% Industry: 35.9% Services: 55.3% (2016)
Major exports	Textiles, footwear, fishery products, rice, rubber, jewellery, automobiles, computers and electrical appliances
Major imports	Capital and intermediate goods, raw materials, consumer goods, fuels
Adoption of IFRS for SMEs	Thailand is in the process of adopting <i>IFRS for SMEs</i> in full. The criteria for determining which entities are permitted or required to use TFRS for SMEs is under consideration.
SME definition	The Thai definition of SME requires that an enterprise qualify under the lower of the following criteria.

Sector		Small	Medium
Manufacturing and Service (Either/Or)	Employees	Not more than 50	Not more than 50
	Fixed assets (excluding Land)	Not more than B50 million	Not more than B50 million
Trading: Wholesale (Either/Or)	Employees	Not more than 25	Not more than 25
	Fixed assets (excluding Land)	Not more than B50 million	Not more than B50 million
Trading: Retail (Either/Or)	Employees	Not more than 15	Not more than 15
	Fixed assets (excluding Land)	Not more than B50 million	Not more than B50 million

The Thai definition of SMEs is articulated in Ministerial Regulation B.E.2545 (2002). Thailand is one of four AMSs that distinguishes according to sector in its definition of SMEs. The definition provides for alternate criteria based on either number of employees, or fixed assets. In keeping with a number of other AMSs, land is excluded from the calculation of fixed assets. Although distinguishing between small and medium enterprises, the Thai definition does not provide for micro enterprises.

Thailand ranks 87 on the HDI and is classified as having a medium level of human development. Socially, industrially and economically, the nation places more or less mid field relative to its ASEAN neighbours. The economy has long been manufacturing export dependent, particularly strengthened by the motor vehicle industry. Much of Thailand manufacturing is conducted under contracts to large multinational firms. However, Thailand enjoys a strong and growing tourism industry, and is presently one of the most popular destinations in Asia.



Vietnam

Population	97,100,000
GNI per Capita (PPP)	US\$6,050.00 (2016)
Gini coefficient	37.6
Human Development Index	Medium Rank: 115 Value: 0.683
GDP per Capita	US\$2,185.69 (2016)
Sectors	Agriculture: 17% Industry: 39% Services: 44% (2016)
Major exports	Clothes, shoes, marine products, crude oil, electronics, wooden products, rice, coffee, machinery
Major imports	Machinery and equipment, petroleum products, steel products, raw materials for the clothing and shoe industries, electronics, plastics, automobiles
Adoption of IFRS for SMEs	Thailand is in the process of adopting <i>IFRS for SMEs</i> in full. The criteria for determining which entities are permitted or required to use TFRS for SMEs is under consideration.
SME definition	The definition of SME in Vietnam specifies that financial indicators as the priority criteria.



Sector		Micro	Small	Medium
Agriculture, Forestry and Fishery	Number of employees	1-10	≤ D20 million	D20 billion ≤ to D100 billion
	Total capital		11-200	201- 300
Industry and Construction	Number of employees	1-10	≤ D20 million	D20 billion ≤ D100 billion
	Total capital		11-200	201- 300
Commerce and services	Number of employees	1-10	≤D10 million	D10 billion ≤ D50 billion
	Total capital		11-50	51-100

Government Decree No. 56/2009/ND-CP specifies the definition for SMEs in Vietnam according to both employee numbers and total capital – which is further defined as equivalent to total assets. Many SME definitions within ASEAN and beyond provide financial criteria as an alternative or even sole definition. However, the Vietnamese definition is unusual, in that while the employee-based criteria is provided, the legislation specifies that ‘total funding is the priority criteria’. Vietnam is among AMSs that distinguishes according to sector with its definition of SMEs and takes the majority approach of providing for the distinction of micro enterprises.

Vietnam is classified as being of medium human development at an HDI rank of 115. While historically a poor agrarian economy, Vietnam is exhibiting significant economic growth, accompanying rapid industrial development. Agricultural exports, particularly coffee and rice contribute the largest share of economic activity. However, high tech manufacturing has expanded to represent a significant share of exports over the last decade.

Appendix 2: International, Supranational and Transnational SME Definitions

Australia

There is no universal definition for SMEs in Australia. Regulators use a variety of legal definitions as follows:

ASIC: A “small proprietary company” is required to meet two of the following three criteria

- an annual revenue of less than \$25 million
- fewer than 50 employees at the end of the financial year, and
- consolidated gross assets of less than \$12.5 million at the end of the financial year.

Australian Taxation Office: a small business has annual revenue turnover (excluding GST) of less than \$2 million.

Fair Work Australia: a small business is one that has less than 15 employees.

Australian Bureau of Statistics: MSMEs defined as:

Micro enterprise: 0-5 employees

Small enterprise: 5-19 employees

Medium enterprise: 20-200 employees

United States of America

There is no universal definition for SMEs in the US. Classification criteria vary in type and boundary according to industry, and across government agencies and programs. For the purposes of government contracting, the Small Business Administration Size Standards based on the North American Industry Classification System is used.

International Accounting Standards Board in *IFRS for SMEs*

IFRS utilises the International Accounting Standards Board definition for SMEs as follows:

“Small and medium-sized entities are entities that:

(a) do not have public accountability, and

(b) publish general purpose financial statements for external users. Examples of external users include owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies. General purpose financial statements are those that present fairly financial position, operating results, and cash flows for external capital providers and others.”

IFC

The International Finance Corporation defines SMEs as an enterprise qualifying under two of the following three indicators:

	Micro	Small	Medium
Employees	<10	10<50	50<300
Total Annual Sales	<\$100 000	\$100,000<\$3m	\$3m<\$15m
Assets Excluding Land & Buildings	<\$100 000	\$100,000<\$3m	\$3m<\$15m

Recognising that information on employee numbers and financial criteria may not be readily accessible, the IFC also provides a proxy definition based on loan size as follows:

1. Microenterprise if loan < US\$10,000 at origination
2. Small Business if loan < US\$100,000 at origination
3. Medium Business if loan <US\$ 1 million at origination (US\$2 million for more advanced countries)

EU

The EU definition is based on three criteria. All criteria must be satisfied.

	Micro	Small	Medium
Employees	<10	≤ €2 m	≤ €2 m
Turnover	<50	≤ €10 m	≤ €10 m
Balance sheet total	<250	≤ €50 m	≤ €43 m

Asian Development Bank

The Asian development bank does not provide a common or universal definition for SMEs, instead recognising national definitions.

Appendix 3: Key Findings from Interviews


Issues	Indonesia	Thailand	Brunei Darussalam
Obstacles to SME Growth		SMEs are dependent on licences to produce the products of multinational companies.	Small population represents a limited market. Other problems: Market access Human resource capability Access to finance Financial literacy and working capital management.
Definition	<p>There is no definition of SMEs at ASEAN level</p> <p>The current SME definition is too broad, encompassing relatively large entities.</p> <p>Adoption of SME reporting requirements was driven by Indonesia's Investment Board, which is charged with supervision of financial institutions and their allocation of credits to micro enterprise.</p> <p>SME definition is inconsistent across government departments, public and legal institutions</p> <p>Definition does not distinguish between micro, small and medium enterprises</p>		
Accounting Skills and SMEs	<p>Recognise need for financial literacy training, but cost perceived as insurmountable obstacle.</p> <p>Access to capital is dependent on financial reports compliant with globally recognised accounting standards and this is the key – a major obstacle for micro enterprises.</p>	<p>SMEs producing goods on behalf of multinational corporations are required to adopt internationally recognized reporting standards.</p> <p>Lack of financial reports impedes the development of business relationships with multinational firms.</p> <p>There is a tendency for firms to overvalue assets and make inaccurate contingent liability disclosures.</p>	

Government Initiatives	Government initiatives provide insufficient support for micro enterprises Insufficient credits allocated to micro enterprises, despite relatively stronger performance of this sector during economic crisis Government approach to SMEs is mainly focused on tax revenue		Darussalam Enterprise, a Statutory Body was set up in 2015 with the aim of assisting SMEs in every possible way. Accounting and finance workshops are offered, as well as assistance in accessing alternate sources of finance.
Current Role of Accounting Profession	Very traditional and focuses on reporting issues. Assistance provided by accounting profession is inadequate		Accounting forums, school visits, workshops and roadshows are undertaken with a view to promoting awareness of proper financial reporting amongst SMEs. Such programs have been running for more than 15 years and are conducted 4-6 times a year.
Suggestions from Interviewees	Simpler reporting system is required for micro firms. SME definition for tax purposes should be consistent with that of other authorities.	A regional licencing regime for accountants would be beneficial.	
Future Role of Accounting Profession	AFA will launch initiatives to work together with relevant government departments in promoting awareness and acceptance of UKM reporting system.	Should focus more on business advisers and financial leaderships in budgeting, controllership and value adding services There a need for an increased SME focus in accounting education, particularly in bachelors and master's degrees.	The accounting profession can play a key role in facilitating financial literacy courses and workshops. These should focus on the importance of preparing accounts, business management issues, and the importance of effective and disciplined capital management.
Services Currently Provided by Accounting Firms	Reporting services There is an increasing demand for tax services from SME clients	Bookkeeping Monthly tax administration Annual tax return Business registration Personal taxing	
Current Needs of Micro Sized Firms	Financial access, marketing, qualified and highly skilled human capital		Technical accounting and bookkeeping services. Particularly amongst owner operated micro enterprise employing less than five employees, which dominate the MSME (Micro Small Medium Enterprises) landscape in Brunei Darussalam.
Future Concerns of SMEs		Economic slow down Price and quality of products	

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‘It turns out that advancing equal opportunity and economic empowerment is both morally right and good economics, because discrimination, poverty and ignorance restrict growth, while investments in education, infrastructure and scientific and technological research increase it, creating more good jobs and new wealth for all of us. ‘

William J. Clinton

‘It turns out that advancing equal

