



**Asia-Pacific
Economic Cooperation**

2014/FMM/014
Agenda Item: 6.2

Asia SME Finance Monitor 2013

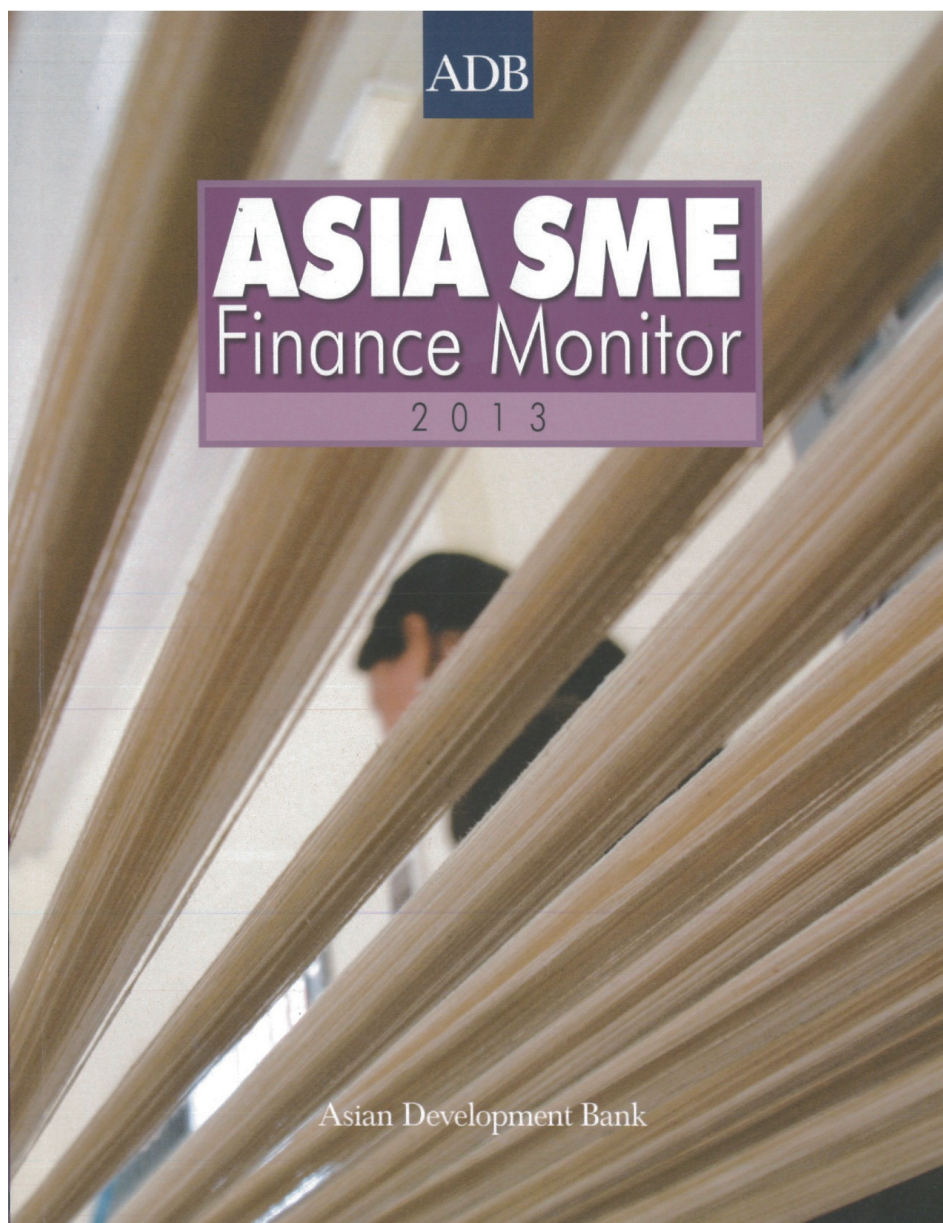
Purpose: Information
Submitted by: ADB



21st Finance Ministers' Meeting
Beijing, China
21-22 October 2014

ADB

Asia SME Finance Monitor 2013



<http://www.adb.org/sites/default/files/pub/2014/asia-sme-finance-monitor-2013.pdf>

Highlights

SMEs are the backbone of Asia's economies. Further development can support inclusive growth, employment, and the effort to overcome middle-income traps

Small and medium-sized enterprises (SMEs) are the backbone of the economies of Asia, accounting for 98% of all enterprises and 66% of the national labor force on average during 2007–2012.

SMEs contributed 38% of the gross domestic product or manufacturing value added in Asia on average in 2007–2012, suggesting their contribution to the region's economies can be expanded further.

SMEs influence trade. Thirty percent of total export value was brought by SMEs in Asia on average in 2007–2012. In the People's Republic of China (PRC), SMEs accounted for 41.5% of total export value in 2012, up 6.8% year-on-year, while in Thailand they made up 28.8% of total export value with 3.7% year-on-year growth. SMEs that are part of the global supply chain have the potential to promote international trade and mobilize domestic demand.

Poor access to finance limits the ability of SMEs to survive and grow. Further bank efficiency is needed

Adequate access to finance is crucial if SMEs are to survive and grow. Growing SME access to bank credit is helping to reduce the supply–demand gap in SME lending. In many Asian economies, public credit guarantees are contributing to enhancing SME bankability. However, SMEs still have large unmet demand for financing.

SME loans made up 25% of total bank lending in Asia and the Pacific on average in 2012, down from 27% in 2011. SME loans grew at 10% year-on-year in 2012, down from 19% in 2011. This indicates banks are raising risk consciousness to SME credit from the perspective of banking stability.

SME loans constitute a large portion of overall nonperforming loans in developing Asia, suggesting

banks need better ways to assess SME creditworthiness and more risk-based approaches to finance viable SMEs.

Improving the financial infrastructure for SME lending would help. Examples include the centralized national credit bureau in the Philippines and the collateral registry for movable properties in Solomon Islands. The PRC has also set up the Movable Assets Financing Public Registry System serving SMEs.

Limitations of bank lending require diversified SME financing models

Past financial crises have highlighted the need for SMEs to be able to access finance beyond conventional bank credit and for economies to diversify their domestic financial systems, behind which there is the condition that the prudential requirement to ensure stable banking systems does not allow banks to easily expand lending to SMEs.

Economic expansion in Asia and the Pacific has created a foundation of growth-oriented SMEs with a need for long-term financing for further growth. Accordingly, the development of diversified financing models to help SMEs raise long-term growth capital has become a new challenge in SME finance.

Capital market financing—such as equity finance, corporate bonds, and mezzanine finance—is one such diversified financing model that can be developed in Asia. Although still in the early stage of development, examples include the SME Board of the Shenzhen Stock Exchange and the SME Collective Note in the PRC; the new SME equity finance venue, KONEX, of the Korea Exchange and the qualified institutional buyers system for trading SME bonds in the Republic of Korea; and dedicated SME exchanges of the Bombay Stock Exchange and the National Stock Exchange in India.

Access to finance is a critical part of SME policies

Many economies in Asia and the Pacific view SMEs as key to developing a resilient, inclusive economy and as a source of job creation, and have established comprehensive medium-term action plans to promote SME growth.

National SME development plans include encouraging market access, productivity enhancement, creating a sound competitive environment, formalizing informal SMEs, capacity development, concessional business regulations, and helping SMEs adapt technology for innovative business. Access to finance is critical to realizing these policies.

SME policies are generally administered and implemented by a special government unit, specialized SME agency, or line ministries responsible for SME promotion, generally with strong cooperation with the central bank.

SME finance policies focus on bankability; more work is need on nonbank financing

Many measures have been developed at the national level to improve SME access to finance. These include public credit guarantee schemes in Indonesia (People's Business Credit) and Thailand (portfolio guarantee scheme), mandatory lending in the Philippines, secured transaction reforms to establish collateral registries and promote movable asset financing in the Pacific region, refinancing schemes in Bangladesh and Malaysia, and the establishment of a centralized credit bureau in Viet Nam.

However, policies focus mainly on enhancing bankability in Asia and the Pacific, while policies on nonbank financing avenues and capital market financing for SMEs have yet to be widely developed.

SME finance policies should be addressed in a holistic manner that goes beyond already established ways

There is no single solution for financing SMEs. Rather, national policy makers need to develop a comprehensive suite of policy options that support innovative and diversified financing models that serve the financing needs of SMEs at different business stages.

An increasingly globalized economy will bring more SME internationalization—particularly in supporting industries—and bring new financing demands from SMEs, such as funding in offshore currencies.

SMEs in Southeast Asia will be exposed to further liberalized trade and investment after the establishment of the Association of Southeast Asian Nations Economic Community in 2015. This new environment will require new financing solutions for SME exporters and importers, suggesting an increased demand for supply chain finance and trade finance facilitation.

Globalization will encourage Asia's policy makers to use more flexible and holistic policy approaches for SME financing beyond measures already established.