The current issue and full text archive of this journal is available on Emerald Insight at:
www.emeraldinsight.com/2045-2101.htm

Received 16 July 2012
Revised 11 September 2013
Accepted 11 September 2013

Financing small and medium enterprises in Asia and the Pacific

Masato Abe
Business and Development Section, Trade and Investment Division, United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), Bangkok, Thailand, and
Michael Troilo and Orgil Batsaikhan
School of Finance, Operations and International Business, Collins College of Business, University of Tulsa, Tulsa, Oklahoma, USA

Abstract

Purpose – The purpose of this paper is to propose policy suggestions for the financing of small and medium enterprises (SMEs) in the Asia-Pacific region. Recent literature suggests that lack of capital is the most severe constraint for SME survival and growth. Enabling policymakers to assist SMEs in their search for financing will boost economic growth.

Design/methodology/approach – The methodology includes both quantitative and qualitative components. Current World Bank data on the strength of various financial institutions in the countries of interest is analyzed to discover areas of improvement. Additionally, 32 experts from East and South Asia were interviewed several times to determine areas of concern in financing SMEs. Their responses and the evidence from the World Bank data form the basis of the policy prescriptions in the paper.

Findings – Financing is a critical constraint for SMEs for several reasons. Many SME owners do not manage working capital effectively, information asymmetry between banks and SMEs retards the loan application and approval process, and underdeveloped equity markets deny SMEs future growth opportunities. Policymakers can ameliorate conditions by serving as facilitators and communicators; governments should not provide financing directly if possible.

Practical implications – It is hoped and expected that the policy prescriptions offered herein will enhance the growth and survival prospects of SMES, thereby creating more employment, innovation, and economic growth.

Originality/value – The main contribution of this work is its scope. While the financing of SMEs is a familiar topic, the review of issues and policies in East and South Asia, and their distillation into practical advice for officialdom, is what makes this manuscript unique.

Keywords Policy, SMEs, Cash flow, Financing, Capital markets, Asia-Pacific region

Paper type General review

Introduction

While not every small and medium enterprise (SME) turns into a large enterprise, they all face the same issues in their early days: finding the right type of finance at an affordable cost to start and grow the business. Although the various regions of the world differ significantly in their socio-economic characteristics, the fundamental financing difficulties that SMEs face around the globe are essentially similar (Boocock and Wahab, 2001). The ability of SMEs to develop, grow, sustain, and strengthen themselves is heavily determined by their capacity to access and manage finance. Unfortunately, SMEs, including micro-enterprises and start-ups, in the developing countries of East and South

The authors appreciate useful inputs provided by Sailendra Narain, Diana Dai, Paradai Adisayathepkul, Linghe Ye, and Julia Huepfl. The opinions expressed in this paper are those of the authors and do not necessarily reflect the views of the United Nations.

Journal of Entrepreneurship and Public Policy
Vol. 4 No. 1, 2015
pp. 2-32
© Emerald Group Publishing Limited
2045-2101
DOI 10.1108/JEPP-07-2012-0036

المنارة للاستشارات
www.

Asia consistently cite lack of access to finance as a serious obstacle to their development and the necessity of effective governmental interventions have been suggested (Economic and Social Commission for Asia and the Pacific (ESCAP), 2009). In this paper we include the East Asian countries of Cambodia, China, Indonesia, Lao People's Democratic Republic (PDR), Malaysia, the Philippines, Thailand, and Viet Nam, and the South Asian nations of Bangladesh, India, Nepal, Pakistan, and Sri Lanka for analysis.

SME financing refers to a range of mechanisms to provide additional funds for development of SMEs. There are several noteworthy aspects of SME financing. The ability to increase capital relatively quickly in response to SMEs' growth is a key feature; this is most evident with venture capital in high-tech sectors. Another salient characteristic of SME financing is complementarity, as it augments existing traditional sources of financing in many contexts. Effective finance is also sustainable in the sense that the funding of successful SMEs begets more capital for future SMEs, thereby creating a virtuous cycle.

This paper[1] begins with a brief description of SME definitions and types. It continues with an examination of the current situation of SME financing in the region and the financing needs of SMEs in different growth stages. We discuss various financial instruments available for SMEs (cf. Berger and Udell, 2005; Zavatta, 2008). We then review literature pertinent to SME financing and policy. Our methodology consists of an analysis of World Bank data covering debt and equity markets of the nations in our study, as well as a series of interviews with experts in the SME policy sector. We conclude the paper with policy prescriptions generated by our methodology, covering potential market distortion by public interventions.

Definition and typology of SMEs

Definitions of what constitutes an SME in East and South Asia vary quite widely from country to country and even within single countries, depending on the business sector concerned, such as agriculture, natural resources, manufacturing, services, and retailing (ESCAP, 2009). There is no universal determinant or criterion of an SME. Much depends on the character of the respective host country, and the profile of its own particular corporate sector, from which a relative measure of an SME including financing is then typically made, sometimes on a rather arbitrary basis. The three main parameters that have been generally applied to define SMEs are:

(1) number of employees;

(2) turnover of business; and

(3) capital investments.

Table I summarizes the definitions of SMEs among selected East and South Asian countries and multilateral organizations. Both the number of employees and the size of investment are mainly used for such national definitions, while some countries also set separate definitions among different SME segments, such as manufacturing and services. Developing countries in East and South Asia typically define SMEs, including micro-enterprises, as commercial entities with <100-300 employees (Asian Association of Management Organizations (AAMO), 2007).

The definition in each national context facilitates the targeting of policy interventions to a specific group of enterprises, such as the provision of technical assistance, fiscal and financial concessions, and other incentives. It also makes the physical identification of SMEs on the micro level possible, encouraging better

www.

Table I. Definitions of SMEs in East and South Asia and multilateral organizations

Country	Category of enterprises	Criteria and country's official definition	Measure
China	Manufacturing		Employment and turnover
	Small	< 300 employees; turnover < 20 million yuan	
	Medium	300-1,000 employees; turnover 20-40 million yuan	
India	Manufacturing		Manufacturing enterprises are defined in terms of investment in plant and machinery
	Micro	⩽Rs. 2.5 Million	
	Small	⩽Rs. 50 Million	
	Medium	⩽Rs. 100 Million	
	Services		Service enterprises are defined in terms of investment in equipment
	Micro	⩽Rs. 1 Million	
	Small	⩽Rs. 20 Million	
	Medium	⩽Rs. 50 Million	
Indonesia	SME	< 100 employees	Employment
Malaysia	Manufacturing (including agro-based industries and manufacturing related services)		Employment or annual sales turnover
	Micro	< 5 employees or < RM 250,00	
	Small	5-50 employees or RM 250,00-RM 10 Million	
	Medium	51-150 employees or RM 10-25 Million	
	Services (including ICT) and primary agriculture		
	Micro	< 5 employees or < RM 200,000	
	Small	5-19 employees or RM 200,00-RM 1 Million	
	Medium	20-50 employees or RM1-RM5 Million	

(continued)

المنارة للاستشارات
www.

Table I.

Country	Category of enterprises	Criteria and country's official definition	Measure
Thailand	Manufacturing and services		Employment and capital
	Small	⩽50 employees or capital ⩽ 50 million baht	
	Medium	51-200 employees or capital 51-200 million baht	
Viet Nam	SME	⩽300 employees; capital ⩽ VND 10 billion	Employment and capital
Asian Development Bank	SME	No definition	None
United Nations Development Programme (UNDP)	SME	⩽200 employees	Employment
World Bank	SME	⩽300 employees; turnover ⩽ US$15 million; assets ⩽ US$15 million	Employment, turnover, and asset

Sources: Agency for SME Development (2011), China Briefing (2011), Directorate of Micro and Small Scale Enterprises (2011), Gibson and van der Vaart (2008), Office of SMEs Promotion (2011), Small Industries Development Bank of India (2010), Small and Medium Enterprise Administration (SMEA) (2011)

www.

articulation of the problems and prospects of the sector. It indicates that the more precise the definition is, the more effective the crafting of SME policies[2].

Table II offers various categories for the SME typology influencing SME foundation, survival, and growth. The table specifically explains the category-based system where several indicators of business could be considered for SME development policies. This system might be used to assist policymaking for taxation, capital requirements, and market orientation/access (cf. International Finance Corporation, 2007). Each SME unit should fall in a particular grid based on the categories explained below, which in turn provides policymakers guidance and flexibility while drafting policies. For example, appropriate financing measures from policymakers may help the company, which is innovative but is domestic market oriented, to enter into foreign markets.

The business life cycle and the need for cash

Figure 1 explains that the crucial cash flow periods, or cash drains, for SMEs occur from start-up to growth as well as at the transition stage. In the first period, it is common for profitable SMEs to fail because, while they have paper profits, they do

Topic	Category 1	Category 2	Category 3 (if applicable)
Stage of economic development[a]	Low income $1,025 or less, e.g. Lao PDR	Middle income $1,006 to $12, 475, e.g. Thailand	High income $12,476 or more, e.g. Japan
Market orientation	Domestic	Gradual global	Born global
Pace of innovation	Incremental	Radical	
Use of technology	Isolated	Connected	
Corporate life stage	Nascent (<2 years)	Young (2-5 years)	Mature (5+years)

Note: [a]Followed the country classification of the World Bank (2012) based on income per-capita

Table II. Categories for SME typology

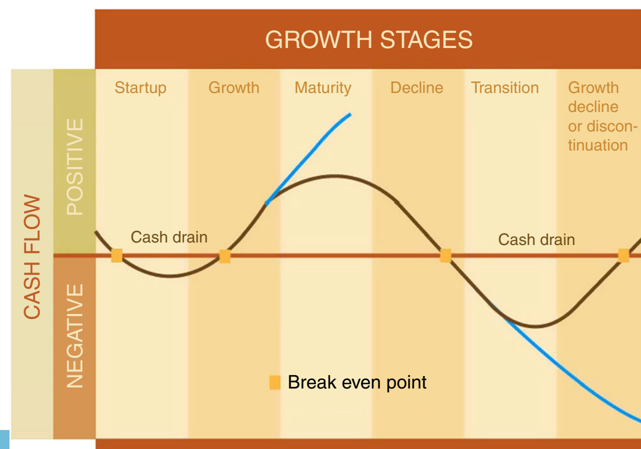


Figure 1. Business growth stages and cash flows

www.

not have the cash in hand from their customers to pay the bills. In the second period, it is necessary for money-losing SMEs to undertake measures to improve profitability, by either increasing sales or reducing costs, which is required to stay in business and to support further growth. While long-term financing, or positive working capital generation, is necessary for enterprises' continuous growth and development, short-term, and quick, financing is often critical for SMEs during the cash drains.

Figure 2 explains that time gap between receivables and payables, which is difficult for SME to avoid, requires additional funds for operations. This time gap between cash inflows and outflows is the biggest reason for SME failure.

SME financing: findings from academic literature

Empirical research strongly backs the notion that access to finances plays a critical role in a person's decision to become an entrepreneur. In their seminal paper on SME financing constraints, Blanchflower and Oswald (1998) use inheritance as a proxy for an external financial source and find that its effects on whether or not one becomes an entrepreneur are economically and statistically significant. They found that individuals who receive 5,000 pounds of inheritance are twice as likely to be self-employed compared to those who receive no inheritance (Blanchflower and Oswald, 1998). A more recent study by Gohmann (2012) adds a nuance to the understanding that lack of finances deters the would-be entrepreneurs. He finds that latent entrepreneurs, people who are wage-employed but who would rather be entrepreneurs rarely have an accurate understanding of the true financing costs. Thus, they are deterred more by the perception of financing costs rather than the actual costs (Gohmann, 2012). This finding has an important implication that educating latent entrepreneurs on true financings needs for start-up would allow them to make better informed decisions regarding their employment.

Even after a person decides to engage in an entrepreneurial endeavor, financial constraints are shown to impact his or her enterprise severely. A formative study by Holtz-Eakin *et al.* (1994) finds that the size of an inheritance plays a direct role in the survival of an entrepreneurial endeavor as well as the enterprise's profits. The higher the entrepreneur's wealth, the higher the likelihood that the enterprise will continue (Holtz-Eakin *et al.*, 1994). There is also empirical evidence to suggest that the size of wealth directly relates to the size of a start-up (Hvide and Moen, 2010). Both studies mentioned above find that wealth plays a positive role in the performance of the entrepreneurial enterprise.

Much of the previously discussed literature examined financing constraints of entrepreneurs and SMEs in the West. However, empirical research suggests that similar constraints would also be prevalent in East and South Asia, including the developing economies of the continent. In fact, when Boocock and Wahab (2001)

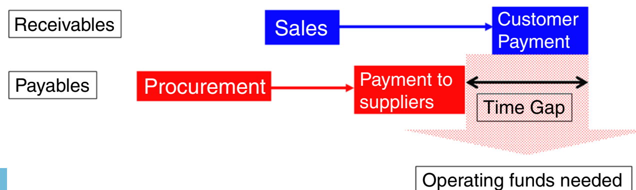


Figure 2. Time gap between receivables and payables

المنارة للاستشارات
www.

compared the financing difficulties that SMEs face in the UK and in Malaysia through surveys distributed to businesses with <50 employees in both countries, they did not find significant differences despite significant differences in socio-economic characteristics of the two nations as well as differences in SME characteristics such as age of firms, use of external advisers, development of business plans, and education, training and experiences of the entrepreneurs.

According to a 2009 Asian Development Bank survey of SMEs in 13 countries, obtaining capital is the top constraint for firm formation and growth (Asian Development Bank, 2009). Chittithaworn *et al.* (2011) surveyed SMEs in Thailand and find that financing is among the top factors constraining entrepreneurs and their enterprises in the country, along with SME characteristic, customer and market, the way of doing business and external environment.

In Viet Nam, Rand (2007) conducted an analysis on SME credit data collected in 2000 and 2001, and estimated that 14-25 percent of all SMEs in the country face credit constraints, who would increase their debt exposure by 40-115 percent if the borrowing requirements were relaxed. Interestingly, Rand (2007) also finds that non-family-owned enterprises are more likely to be credit constrained than similar family-owned enterprises. The author suggests that this finding is perhaps an indication that policy should be shifted from family-owned enterprises to limited liability companies and private corporations (Rand, 2007).

Khandker *et al.*'s (2013) investigation of financing constraints in Bangladesh reveal that fewer than 10 percent of SMEs have access to institutional finance, such as bank loans or microcredit. The authors estimate that a lack of finance can decrease an enterprise's profit margin by as much as 13.6 percent (Khandker *et al.*, 2013). This finding depicts a severe deprivation of access to finance for SMEs in Bangladesh.

If a country lacks SME financing programs or only provides inadequate ones, then SMEs often approach informal sources for their financing needs. An important study by Tanaka and Molnar (2008) in China find that informal lenders tend to focus on the borrower's current operations, particularly the size of receivables, while formal lenders such as banking institutions, largely focus on past performance. This suggests that there is an active market for receivables factoring in China that can be a source of finance for a constrained SME (Tanaka and Molnar, 2008).

In addition to informal financing sources, companies can also tap trade credit with their suppliers. McMillan and Woodruff (1999) examine trade credit in Viet Nam and find that the fewer the suppliers that a firm has the more likely it is to receive a trade credit. To be specific, when an SME has multiple suppliers that it can do business with, the extended credit is on average 0.15 percent less. They also find that the longevity of the supplier relationship has a positive impact on trade credit. After two years of doing business together, the credit is on average 0.14 percent higher than when the relationship first started. Interestingly, the effect gradually diminishes with time (McMillan and Woodruff, 1999).

The idea of long-term business relationships can also be extended to banking and lending institutions. Through a study on SMEs in the USA in the period 1988-1989, Berger and Udell (1995) found that the longer the business relationship between an SME and a bank, the lower the borrowing rates and the less likely a requirement for a collateral. On average, an SME with a ten-year lending relationship with its bank pays 0.33 percent less on its loans than a comparable firm with only one year lending relationship (Berger and Udell, 1995). Baas and Schrooten (2006) enhance this understanding with their theoretical analysis of relationship lending using a Bertrand

المنارة للاستشارات
www.

competition framework and model, where they find that lending institutions primarily rely on accounting information when making financing decisions. Their theoretical model suggests that better information management practices in SMEs would not only improve their access to credit, but would do so with more favorable terms (Baas and Schrooten, 2006). SMEs have weaker accounting systems and East and South Asian developing countries have weaker accounting standards (ESCAP, 2012). Thus, SMEs in developing countries are very much likely to suffer from inadequate information management practices, implying that developing countries could start with information management education and regulations in their attempts to spur growth of SMEs.

In addition to improving its accounting systems, an SME wanting better access to credit can also look into going public. Through their analysis of over 3,000 SMEs in the UK, Chittenden *et al.* (1996) find that listed firms tend have better access to credit compared to unlisted firms, even when controlling for age and profitability. Once an SME is listed, there is increased access to long-term debt, less need for collateral and liquidity that is independent of age and profitability. This may have to do with the added credibility that comes with a public listing (Chittenden *et al.*, 1996).

While various financial institutions supporting the development of SMEs in East and South Asia have become increasingly active in the past decade, the commercial banking sector remains the most important source of external financing for SMEs (Park *et al.*, 2008). Commercial banks offer diversified loans with different terms and various supplementary financing instruments such as export credit and discounting. Commercial banks in some countries also provide special loans targeted at priority sectors and key segments of the population as identified by the government, including SMEs.

However, SME development funds through commercial banks are not typically successful. Bank loans to SMEs as a percent of total lending have fallen over the past decade (Hall, 2009). Table III contains data based on a global survey of 91 banks in 45 countries, conducted in 2008. It indicates that SMEs are strongly discriminated against by banks during loan issuance. The survey result supports a commonly shared idea that the smaller the size the higher the risk. It partially rationalizes banks' discriminatory behaviors toward SMEs.

From the banks' perspective, the scarcity of loanable funds, especially in East and South Asian developing countries, means there is less incentive to seek out the profitable SMEs when larger and more qualified clients are available. Formal

	Share of total loans (%)		Loan fees (% of size of loan)		Share of non-performing loans (% of total loans)	
	Mean for developed countries	Mean for developing countries	Mean for developed countries	Mean for developing countries	Mean for developed countries	Mean for developing countries
Small Enterprise	12.0	2.5	0.4	1.2	11.0	7.0
Medium enterprise	10.1	13.7	0.4	1.0	8.4	5.5
Large enterprise	27.9	32.8	0.2	0.8	2.5	4.1

Source: Developed from Beck *et al.* (2008)

Table III. Different bank loan features of enterprises by size, 2008

المنارة للاستشارات

www.

financial institutions often face higher transaction costs when dealing with the rather fragmented SME sector because the credit monitoring process requires an extensive branch network with more staff. The poor accounting system of many SMEs and insufficient collateral due to limited fixed investment also create obstacles to meeting the terms and conditions for borrowing from banks (Economic and Social Commission for Asia and the Pacific, 1998). Lack of risk management skills related to SME lending has contributed to significant non-performing loan (NPL) problems in the past, which demonstrated an inconsistency between commercial banks and SMEs, and discouraged banks from further lending to SMEs.

In addition to the general case shown in the last two columns of Table III, East and South Asia has also seen the rising percentage of non-performing SME loans in the last few years. In China, the China Banking Regulatory Commission reported that NPLs to SMEs hit 22.1 percent in China by the end of July in 2008, about two times of the average 14.7 percent of China (*Xinhua Economic News*, 2008). The State Bank of India, the country's largest lender, also reported that NPLs were rising, particularly in the SME sector (Choudhury and Rodrigues, 2010). The State Bank of Pakistan reported that NPLs in the SME sector increased by Rs 5.1 billion to Rs 96 billion by the end of 2010 (Small Business Banking Network (SBBN), 2011).

The need for financial institutions to provide more suitable products and services for SMEs, develop comprehensive risk management skills, and improve information transparency has been recognized. In particular, a number of financial institutions have moved to offer non-financial assistance to SMEs for their capacity building to enhance their profitability (e.g. Bank Perusahaan Kecil and Sederhana Malaysia Berhad, 2012; Korean Development Bank, 2010).

Policy measures aimed at easing financing constraints

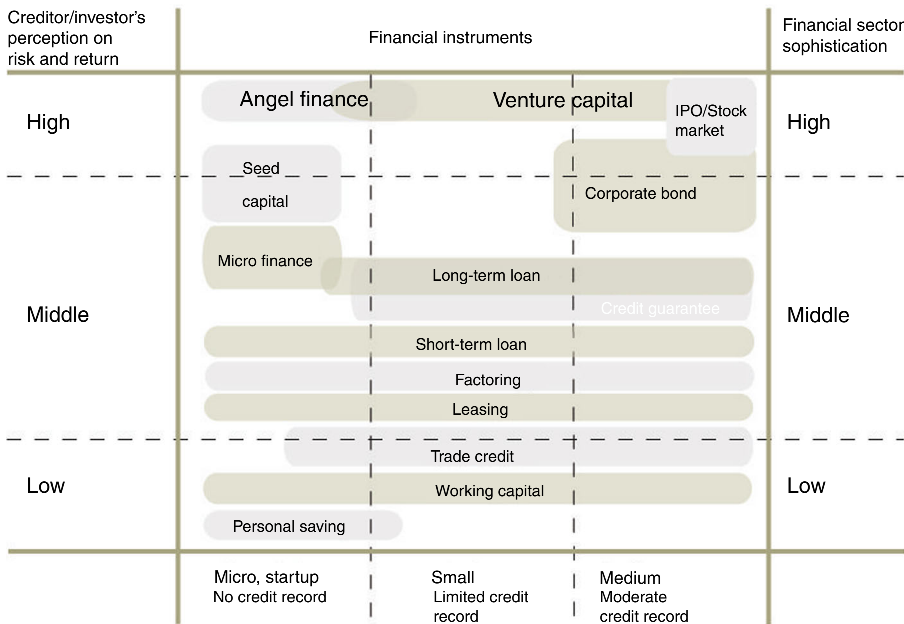
SME financing characteristics

Various financing methods for SMEs emerged at the end of the twentieth century in developed economies to exploit opportunities that banks considered to be too small or too risky for their loan portfolios. These methods are now finding a role in the developing countries of East and South Asia at the start of this millennium (AAMO, 2007). Figure 3 displays the methods of SME financing, which are categorized based on the sizes of enterprises and their credit history as well as creditors' perceptions on risk and return and the level of financial sector's sophistication in an economy (cf. Berger and Udell, 2005; Szabó, 2005; Zavatta, 2008). They are not mutually exclusive; often policymakers use several methods in concert to support SMEs.

While commercial banking plays a key role in formal SME financing, informal financing such as own funds and loans from relatives and associates, as well as internal financing, such as retained earnings and trade credit, dominate the financial sources of SMEs in East and South Asia (cf. Hussain *et al.*, 2006; RAM Consultancy Services, 2005). Let's take the example of Malaysia; Table IV illustrates financing sources for Malaysian SMEs in different life cycle stages. Almost 68 percent of SMEs in the sample make use of self-financing during their start-up period but this figure falls down quickly with the growth of the firms. Venture capital shares a similar trend to self-financing even though the percentage is much lower. In comparison, long-term loans become more and more accessible to established and matured SMEs, and bank loans are the most important source for them. Other financial sources such as government schemes and non-bank institutional financing are equally distributed to SMEs in each stage of development with a number around 10 percent.

المنارة للاستشارات

www.



Source: Modified from Szabó (2005)

Figure 3. Methods of finance for SMEs

Phase of life cycle/financing sources	Start-up	Established	Matured
Self-financing	68.0	21.0	25.0
Government schemes	7.8	13.0	9.0
Venture capitals	10.8	8.5	4.5
Short-term loans from banks	20.8	28.6	23.1
Medium-term loans from banks	10.4	32.6	21.8
Long-term loans from banks	7.4	23.7	37.2
Non-bank financial institutions	8.7	7.1	10.9

Notes: Short-term loan is granted for less than one year; medium-term loan is for one to three years; and long-term loan is for more than three years
Source: Rozali *et al.* (2006)

Table IV. Financial sources for Malaysia SMEs, 2004, percentage

Besides formal financial institutions, informal financing networks also appear to play a significant role in SME financing. A study conducted in Viet Nam reveals that as much as 35 percent of financing for SMEs may be coming from informal networks (Rand, 2007). Moreover, research suggests that informal lenders tend to emphasize different factors when approving a loan compared to formal institutions. The former is more likely to focus on the current performance of the applicant, particularly its accounts receivable, while the latter is more likely to look into the credit history and past performance (Tanaka and Molnar, 2008).

Policy experiences

To help ease financing constraints of SMEs, both developed and developing countries, have implemented a number of financing measures, mainly credit guarantee schemes

www.

and soft loans, coupled with other policy instruments such as tax breaks and subsidies. Although the focus of this paper is on developing economies of East and South Asia, there is much to be learned from experiences of developed countries, not only because SMEs face similar constraints, but also because developed countries implemented many of these measures while they were developing.

Japan. In the late 1990s, as a response to the Asian Currency Crisis, Japan implemented a credit guarantee program where the government backed 100 percent of qualified SME loans. Despite the good intentions, Uesugi *et al.*'s (2008) comparative evaluation of performance between program participants and non-participants reveal that the participants' performance declined after receiving guaranteed loans relative to non-participants, with the exception of high net-worth firms. This finding suggests that it is possible for well-intended credit guarantee programs to end up hurting recipient SMEs largely through the effects of moral hazard (Uesugi *et al.*, 2008). In addition to the impact on borrowers, the program had an impact on lenders' loan portfolio. As the program covered the full default cost, lenders were less incentivized to require collateral and to adequately monitor the guaranteed loans (Uesugi *et al.*, 2008).

In addition to credit guarantee programs, Japan has experience implementing other, more targeted measures to spur SMEs access to finance. In 1995, Japan enacted a Creative Business Promotion Law (CBPL), a ten-year law that combined measures of tax breaks and credit guarantees to assist innovative SMEs. The effort was successful in influencing growth of the SMEs in terms of assets, while growth in sales and employment was not found to be significant (Honjo and Harada, 2006). A little later, Japan also tried an R&D subsidy program to spur growth and innovation in high-tech SMEs. An analysis of the beneficiary SMEs by Koga (2005) reveals that the subsidized R&D ended up complementing private R&D instead of replacing it as many people feared previously. The program proved to be especially successful among mature firms, who directed the subsidies mostly into hiring additional research personnel (Koga, 2005). When comparing the CBPL with the R&D subsidy program, it is important to note that while the CBPL promoted asset growth, the R&D subsidy promoted employment growth. Thus, policymakers should keep this difference in mind when determining which financing program to institute.

Republic of Korea. Republic of Korea also experimented with various programs attempting to alleviate financing problems of SMEs. In 1990, Republic of Korea introduced a credit guarantee fund simultaneously with a requirement that financial institutions allocate a minimum portion of their portfolio to SMEs. The measures were effective in significantly increasing SME access to external finance, with an increase of 1,500 percent participation in the guaranteed loan program between 1990 and 1998, although it is difficult to evaluate which of the measures on its own, if at all, played a more important role (Nugent and Yhee, 2002).

Later in the early 2000s, Republic of Korea reintroduced the credit guarantee program on its own, which was also found to have positively impacted SMEs in the country (Kang and Heshmati, 2007). Kang and Heshmati's (2007) empirical models show that a percentage increase in funds borrowed through a guarantee fund increased sales growth by 0.26 percent, and improved employee productivity by 0.21 percent, both at a statistically significant level. However, the effect of the guarantee fund on employment growth was inconclusive as statistical significance was not reached. In addition, it is important to note that the impact varied with recipient characteristics,

المنارة للاستشارات
www.

where a great positive impact was placed on larger and older firms, perhaps highlighting the importance of management experience and maturity (Kang and Heshmati, 2007).

Developing countries in Asia. There is substantial experience coming from developing East and South Asian countries as well. Malaysia, for instance, has had a credit guarantee program since 1972. However, for much of its history, the participating lenders bore much of the default costs, where due to mainly poor program administration, only a small portion of loss claims were processed (Boocock and Shariff, 2005). In 1995-1998, only 6 percent of loss claims submitted by lenders to the fund were processed, while the rate further dropped to 3.8 percent in 1999 at the onset of the Asian Financial Crisis (Boocock and Shariff, 2005). The World Bank's soft loan scheme in Sri Lanka is another example of a program aimed at alleviating financing constraints in a developing country in East and South Asia. Aivazian and Santor's (2008) examination of the soft loan scheme reveals that the program increased investments in fixed assets and equipment at statistically significant levels. However, the authors are reluctant to label the program a success as the evidence for the overall economic efficiency of the program is rather inconclusive (Aivazian and Santor, 2008).

Experiences from other countries/international contexts. Outside Asia, there are valuable lessons to learn from all other countries around the world as well. Beck *et al.* (2008) examine partial credit guarantee programs around the world with 76 funds in 46 countries on five continents, and find that the most likely flaw of such programs are the shortfalls in their risk management efforts and inadequate use of risk-based pricing. The study also finds that default rates positively correlate with fund age, which the authors suggest may be due to the lags associated with loan issuance and subsequent default (Beck *et al.*, 2008). Levitsky (1997) performed a meta-analysis on case studies of various credit guarantee schemes, both full and partial, all around the world: 23 developed countries, six countries in Eastern Europe, 15 countries in Latin America, 11 countries in Asia and six in Africa. He concluded that a program has higher likelihood of succeeding in countries with sound banking institutions with dedicated SME portfolio staff as well as competitive financial sector where there is considerable competition for clients by the competing banks (Levitsky, 1997).

Bennett *et al.* (2005) examine credit guarantee programs in Chile, Egypt, India, and Poland. By looking at the impact of credit guarantee programs on lender behavior, they determine that such programs can indeed be effective in promoting sustainable changes in SME financing (Bennett *et al.*, 2005). However, to do so, the authors identify several key macro and micro factors. Macro factors are as follows:

(1) open and competitive banking industry;

(2) expanding business sector;

(3) a policy environment where government initiatives do not crowd out market-driven initiatives;

(4) sufficient liquidity and stable interest rates;

(5) a framework for business that is supportive of enterprise of all forms;

(6) support from a competent agency; and

(7) a credit bureau that provides efficient access to credit information.

المنارة للاستشارات

www.

Micro factors (credit guarantee scheme) are as follows:

(1) emphasis on fostering competition among lenders;
(2) approach that targets a permanent deepening of the financial sector;
(3) understanding of and empathy with market forces;
(4) continual client focus;
(5) long-term vision and approach;
(6) a balanced partnership between donors, credit guarantee scheme, and lenders;
(7) ownership by lenders;
(8) an influential champion especially during its establishment stage; and
(9) extensive transfer of appropriate lending technology.

Other policy considerations

In addition to implementing credit guarantee schemes and soft loans, policymakers can address financing constraints of SMEs by assisting the due diligence efforts of SMEs engaged in the financing process. Rand's study of credit constraints of Vietnamese manufacturing firms reveal that many SMEs resort to costlier, informal sources of finances due to the time-consuming, bureaucratic processes that entail formal sources of finance (Rand, 2007). This suggests that policymakers can improve SME financing by standardizing and streamlining loan procedures, so the SMEs can tap formal sources of financing for their time-sensitive financing needs.

Baas and Schrooten's (2006) research reveals SMEs would enjoy not only a better access to financing, but do so at lower cost, if they could provide banks and lending institutions with better quality accounting information, thereby reducing information asymmetry. This result is further supported by Hyytinen and Vaananen's (2006) study that finds inadequate information to be the main cause of external financing issues that SMEs face. This finding suggests that governments can also help SME financing needs by standardizing accounting and reporting performed by SMEs. Policymakers can also make it easier for SMEs to access equity markets. Chittenden *et al.* (1996) find that once firms achieve flotation, they gain improved access to long-term debt with less need for collateral. This may have to do with the greater credibility that comes with public listing.

Aung Kyaw (2008) performs an in-depth study of SME financing constraints in Myanmar and provides an extensive list of insightful policy recommendations. Although Kyaw specifically focusses on Myanmar, many of the recommendations can be applied to other developing economies of Asia. The key recommendations are summarized as follows:

- Prioritize financing to export-oriented SMEs.
- Divert state-sponsored enterprises from industries where there is direct competition with local SMEs and direct their activities instead to industries where SMEs cannot compete effectively, such as those that require substantial capital investment.
- Strengthen bankruptcy law. Uncertainty around bankruptcy leads to inefficient allocation of credit by banks who end up over-emphasizing collateral.

المنارة للاستشارات
www.

- Establish a national fund to support SME activity, e.g., funding a credit guarantee scheme.
- Develop a centralized database of SMEs that can later be linked to a credit bureau:
  - reduce information asymmetry;
  - provide data for studies and research on formulating effective policy measures; and
  - better accounting and financial records keeping standards.
- Promote education among entrepreneurs on important subjects such as financial management, financial record keeping and business plan preparation.

Methodology: interviews and comparison metrics

Our methodology involves two components. Having reviewed relevant literature about SME financing and policies to improve it, we utilize specific data that can focus policymaking efforts for the developing countries in East and South Asia. We use the Doing Business Indicators from the World Bank to gain a sense of investors' perception of financial risk and the relative sophistication of both debt and equity markets. We analyze this according to the stage of economic development of the country; our comparative analysis follows from the discussion surrounding Table II, differences among nations, as well as Figure 3 depicting the levels of sophistication of the financial sector. Policy metrics for methods of financing at low levels of sophistication, such as personal saving, working capital, and trade credit, are not widely available. Some of the measures, such as the strength of bankruptcy law and the completeness of credit bureau information, hearken directly to the above literature review (e.g. Kyaw, 2008). The data give an overall view of a given nation's financial institutions[3] and a sense of the constraints that SMEs face.

The second approach is more specific, in that it involves interviews of experts in the SME policy sector from East Asia and South Asia. The purpose of this approach was to gain the perspective "on the ground" and to provide context for the World Bank data (Glaser and Strauss, 1967). Following the first draft of this paper, two regional expert group meetings were held separately (nearly three days in total) to review the manuscript and obtain additional data (Glaser and Strauss, 1967). The attendees included SME development agencies, commercial banks, SME/EXIM banks, credit guarantee agencies, international development agencies, international financial institutions, business associations, industry experts, and academics from the region (35 people in total from 15 countries). Their feedback, also through follow-up communications, was incorporated to the extent possible. We documented specific policy implications and guidelines based on various countries' strategies, their practices, and their applicability in the context of financing of SMEs in East and South Asia. Combining the wisdom of these sources with the World Bank data leads to the major policy prescriptions in the next section, though we offer some general policy advice after reviewing each section of the data.

Table V depicts comparison metrics for the eight developing countries of East Asia and the five developing countries of South Asia for sourcing debt. Together these 13 nations account for approximately half of the world's population and over a quarter of global production (*CIA World Factbook*, 2013). We also indicate the stage of

المنارة للاستشارات
www.

Table V.
Comparison metrics for debt sourcing

Country	Population (millions)	PPP GDP ($ billions)	Per-capita GDP	World Bank income level	Getting credit rank (1-185)	Legal rights (0-10)	Credit info (0-6)	Total credit (0-16)	Credit registry % of adults
East Asia									
China	1,343.20	$11,300	$8,400	Upper middle	70	6	4	10	27.7
Indonesia	248.65	$1,125	$4,700	Lower middle	129	3	4	7	36.0
Philippines	103.78	$391	$4,100	Lower middle	129	4	3	7	9.0
Viet Nam	91.52	$300	$3,400	Lower middle	40	8	4	12	37.8
Thailand	67.09	$602	$9,400	Upper middle	70	5	5	10	44.1
Malaysia	29.18	$464	$16,200	Upper middle	1	10	6	16	82-100
Cambodia	14.95	$34	$2,200	Low	53	8	3	11	12.1
Lao PDR	6.59	$17	$2,800	Low	167	4	0	4	0.0
Total	1,904.96	$14,233	$7,471.55						
South Asia									
India	1,205.07	$4,421	$3,700	Lower middle	23	8	5	13	14.9
Pakistan	190.29	$488	$2,800	Lower middle	70	6	4	10	9.2
Bangladesh	161.08	$284	$1,900	Lower middle	83	7	2	9	0.8
Nepal	29.89	$38	$1,200	Low	70	7	3	10	0.5
Sri Lanka	21.48	$116	$5,700	Lower middle	70	5	5	10	33.6
Total	1,607.81	$5,347	$3,325.64						
Grand Total	3,512.77	$19,580	$5,573.95						

World Bank Doing Business Indicators (World Bank, 2013)

Getting credit rank	Rank of country out of 185 countries rated
Strength of legal rights index (0-10)	Protection of borrowers and lenders and ease of lending due to collateral and bankruptcy laws, creditors' rights
Depth of credit information index (0-6)	Quality of credit information, multiple sources such as retail, utilities, financial services, inclusion of firms and individuals, positive and negative information
Extent of credit registry	Percentage of adults (age 15+) listed by either a private or public registry with information on their borrowing history for the past 5 years. This is measured but not included in the rankings

Notes: Developing countries only: stage of development is upper-middle income or lower according to the World Bank Countries with populations less than 5 million are excluded: *CIA World Factbook* January 30, 2013 is the source for population, PPP GDP, and Per-capita GDP

www.

economic development according to the World Bank, as we did in Table II. We begin with debt, which is at a middle level of financial sophistication, and consider equity next, since it is at a higher level of capital market development.

For access to debt, the last five columns give indications of national performance. The Getting Credit[4] rank is a function of the Total Credit column, which is the sum of Legal Rights and Credit Information. The Credit Registry column does not figure into the rankings; it is additional information about the national credit environment. We observe that Malaysia ranks first out of 185 countries with the highest possible total credit score of 16. In contrast, Lao PDR is last among the thirteen countries with an overall rank of 167th and a total score of only four. Five countries are tied for 70th: China, Thailand, Pakistan, Nepal, and Sri Lanka.

Before going into detail about the respective countries and their scores, it is useful to gain an overall picture of how these nations compare with regard to both their economic development and their ability to address credit risk. Figure 4 depicts the scatterplot of each country's rank for businesses obtaining credit by per-capita GDP. There are four notable clusters. In the bottom left corner we find six countries, India, Viet Nam, Cambodia, Pakistan, Nepal, and Bangladesh. Despite their relatively low level of economic development, they are in the upper half of country rankings. In the bottom right corner we have three nations, Indonesia, the Philippines, and Lao PDR, which are both lagging in development and in their ability to make credit available. In the middle are three countries, China, Thailand, and Sri Lanka, which are equal to Pakistan and Nepal in the credit rankings but at a higher level on national income. Last, there is Malaysia far up the *Y*-axis, a true outlier for the group in its credit ranking and in income.

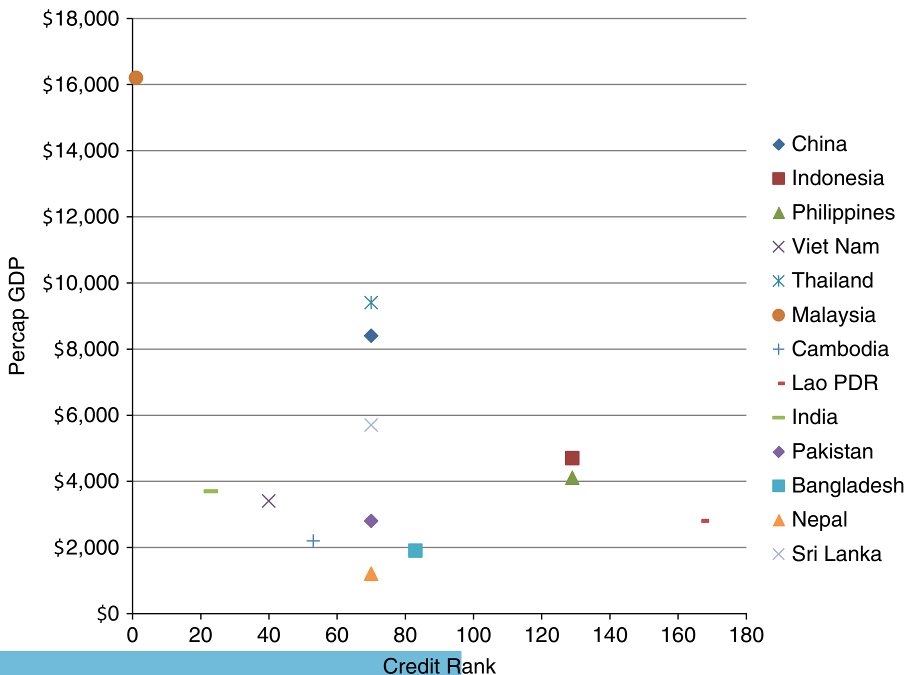


Figure 4.
Credit rank by per-capita GDP

المنارة للاستشارات
www.

The Credit Information scale ranges from 0-6 and captures the quality of credit information available. It awards higher scores for the use of multiple sources of credit information on individuals and firms, e.g., retail, utilities, financial services, whether both positive and negative information is included, and the degree to which both businesses and individuals are represented. With the exception of Lao PDR, all of the East Asian nations are at three or above. Among South Asian countries, both India and Sri Lanka are high at five, while Bangladesh is the low scorer at two. Gathering and disseminating credit information is clearly a huge task for countries at the level of development of Lao PDR and Bangladesh, but perhaps if policymakers could at least begin the process they would do their SMEs a service. One of the big issues in lending to SMEs is the lack of credit information, and funding SME start-up and growth with debt will remain hampered until the information is available.

The Legal Rights index measures the strength of collateral and bankruptcy laws protecting both borrowers and lenders. Some items include the rights of creditors in the event of insolvency, the degree to which businesses can use categories of assets as collateral, and whether there is a collateral database/registry indexed by debtor name. Among the eight countries of East Asia, Malaysia (ten) and Viet Nam (eight) are exemplary in the legal protection afforded to debtors and creditors. Indonesia (three), Lao PDR (four), and the Philippines (four) are below average on this scale; policymakers in these countries should buttress the regulations around borrowing to facilitate SME access to debt. Among the five South Asian countries, India (eight) stands out, but all of them score a five or better. Note that both Malaysia and India have common-law systems, which have been observed to afford better protection to investors overall (La Porta *et al.*, 1998).

A further source of credit information is the percentage of adults (age 15+) that appear on at least one national credit registry with information on their borrowing history for the past five years. This measure is the sum of the percentages on both public and private registries in the Doing Business Credit Registry data for each country (World Bank, 2013). While it is possible for some double-counting, i.e., individuals may be on both public and private registries, this would not result in a material difference in the overall picture this information provides. Countries that have registries have predominance, if not exclusivity, for one or the other, e.g., all of India's registrants are on private credit bureaus while all of China's are found on public credit registries. Moreover, this is just an approximation of how many adults are on credit rolls of one kind or another.

We find that Malaysia, unsurprisingly, leads in this category as it has the others; a minimum of 82 percent perhaps 100 percent of its adult population is registered. Even the lower bound puts it well ahead of its nearest rival, Thailand, which has only 44.1 percent registered. Lao PDR, Nepal, and Bangladesh have <1 percent registered. India and China, due to their total population as well as the percentage that are rural and difficult to reach, have only 14.9 and 27.7 percent registered, respectively. It would be a real boon to economic development for policymakers to redouble their efforts in collecting credit information in the countryside, since rural enterprises are an important source of SME start-up and growth.

Table VI displays comparison metrics for equity sourcing. The first category is Protecting Investors[5], which considers safeguards for minority shareholders against directors in related-party transactions.

The numbers in this column represent the rank of the individual country out of 185 countries surveyed by the World Bank for investor protection; a lower number is

المنارة للاستشارات

www.

Table VI. Comparison metrics for equity sourcing

Country	Population (millions)	PPP GDP ($ billions)	Per-capita GDP	World Bank income level	Protecting investors rank (1-185)	Disclosure index (0-10)	Director liability (0-10)	Shareholder suits (0-10)	Investor protection average (0-10)
East Asia									
China	1,343.20	$11,300	$8,400	Upper middle	100	10	1	4	5.0
Indonesia	248.65	$1,125	$4,700	Lower middle	49	10	5	3	6.0
Philippines	103.78	$391	$4,100	Lower middle	128	2	3	8	4.3
Viet Nam	91.52	$300	$3,400	Lower middle	169	6	1	2	3.0
Thailand	67.09	$602	$9,400	Upper middle	13	10	7	6	7.7
Malaysia	29.18	$464	$16,200	Upper middle	4	10	9	7	8.7
Cambodia	14.95	$34	$2,200	Low	82	5	9	2	5.3
Lao PDR	6.59	$17	$2,800	Low	184	2	1	2	1.7
Total	1,904.96	$14,233	$7,471.55						
South Asia									
India	1,205.07	$4,421	$3,700	Lower middle	49	7	4	7	6.0
Pakistan	190.29	$488	$2,800	Lower middle	32	6	6	7	6.3
Bangladesh	161.08	$284	$1,900	Lower middle	25	6	7	7	6.7
Nepal	29.89	$38	$1,200	Low	82	6	1	9	5.3
Sri Lanka	21.48	$116	$5,700	Lower middle	49	6	5	7	6.0
Total	1,607.81	$5,347	$3,325.64						
Grand Total	3,512.77	$19,580	$5,573.95						

World Bank Doing Business Indicators (World Bank, 2013)

Protecting investors rank	Rank of country out of 185 countries rated
Extent of disclosure index (0-10)	Measures approval and disclosure of related-party transactions
Extent of director liability index (0-10)	Measures the degree to which directors of the company are held liable for fraud, negligence, and other violations of fiduciary duty
Ease of shareholder suits (0-10)	Measures the ability of shareholders to examine records and to challenge board decisions
Strength of investor protection index (0-10)	Simple average of the three measures above

Note: Developing countries only: Stage of development is upper-middle income or lower according to the World Bank. Countries with populations less than 5 million are excluded: *CIA World Factbook* January 30, 2013 is the source for population, PPP GDP, and Per-capita GDP

www.

preferable. The rank order is a function of a simple average of the three components of equity investor protection: the extent of disclosure index, the extent of director liability index, and the ease of shareholder suits. The range of the ranks covers nearly the entire survey, with Malaysia ranking an enviable fourth while Lao PDR is second from the bottom at 184th.

Figure 5 portrays the Investor Rank by per-capita GDP scatterplot for a snapshot of where the developing nations of East and South Asia cluster.

Moving from left to right, we see first that Malaysia and Thailand are in a class by themselves when it comes to protecting investors; they rank in the top 20 and also enjoy relatively high levels of income. Next is a grouping of five nations: Bangladesh, Pakistan, India, Indonesia, and Sri Lanka, which score between 20th and 60th for investor protection and are at relatively modest income levels. They do well considering their level of development. A third group of Nepal, Cambodia, and China rank between 80th and 100th; the first two are low-income countries while China is an upper-middle-income nation. The last group are lagging: the Philippines Viet Nam, and Lao PDR. They have the most room to improve investor protections.

The Extent of Disclosure Index includes both the level of approval needed for related-party transactions and the amount of disclosure required for such transactions, e.g., is the transaction disclosed on the annual report, and is the nature of the conflict of interest for the director noted? A higher number for this index is better. What is notable is that countries as different as China, Indonesia, Thailand, and Malaysia all earn top marks (ten) for the amount of disclosure required. Both Lao PDR and the Philippines score low (two) in this category, while the five South Asian nations are moderately high with India at seven and the others at six. Both Lao PDR and the Philippines should take greater action to increase transparency and thus reduce the potential for minority shareholder abuse. Reform is more possible for the Philippines as a lower-middle

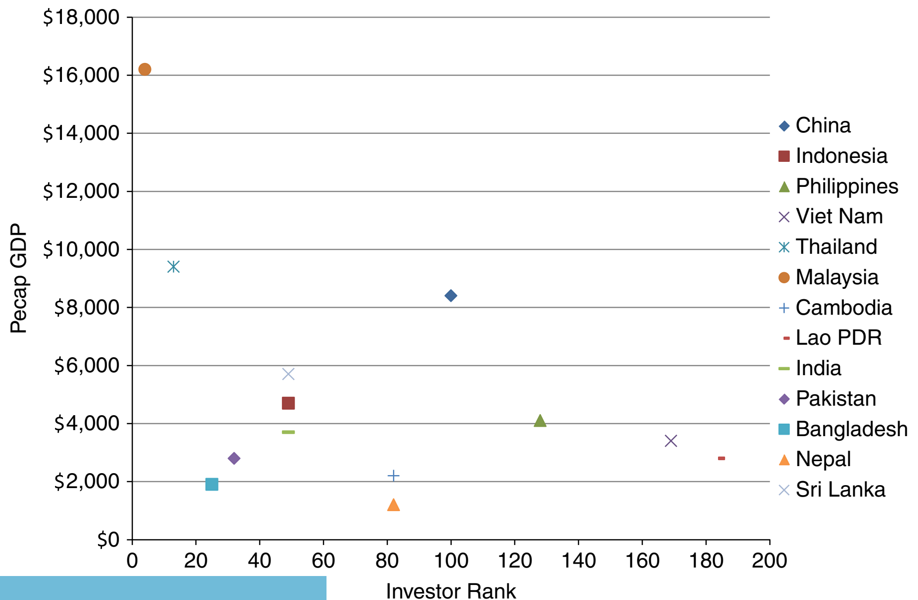


Figure 5.
Investor rank by per-capita GDP

المنارة للاستشارات
www.

income nation that could use further development of its equity capital markets to expand its SME sector. Reform for Lao PDR may be more of a long-term objective since as a low-income nation it is less likely to rely on highly sophisticated sources of financing such as equity and venture capital to fund its SMEs.

Director Liability indicates the options available to minority shareholders to hold individual directors and the board as a whole accountable for any damages as a result of self-dealing and related-party transactions. Components of this index include the degree of punishment (fines and imprisonment), the degree of wrongdoing (fraud, negligence, or merely prejudicial to other shareholders), the power of courts to rescind a transaction, and the degree to which a director must pay damages and repay profits from shady transactions. China steps down from its lofty disclosure score to a mere one on director liability; there is ample disclosure but it is difficult to hold directors liable for breach of fiduciary duty. Viet Nam, Lao PDR, and Nepal also score only a one on director liability, while Malaysia and Cambodia lead the way with a tally of 9. Overall, holding directors accountable is an area where policymakers might improve in order to encourage more equity financing to SMEs in East and South Asia. Again, this is both more feasible and more pressing for the relatively wealthier nations, which can use more balanced funding for the next level of economic development.

Ease of Shareholder Suits is the degree to which minority shareholders can gain access to documents and cross-examine defendants and witnesses in the event of filing a lawsuit, as well as whether the standard of proof for a civil suit is less than that required for a criminal case. Here the South Asian countries are relatively strong: Nepal leads with a score of nine whereas the other four have a respectable score of seven. East Asia is a different matter. Cambodia, Lao PDR, and Viet Nam are difficult places for minority shareholders to bring suit; these countries all score a two. Indonesia and China are barely better at three and four, respectively. Only the Philippines (eight), Malaysia (seven), and Thailand (six) score well for allowing shareholders ease of filing suits. Policymakers should mandate both more access and timely access to documentation to minority shareholders, and permit them more leeway to challenge board decisions, in order to spur equity financing.

Results and implications for policymakers

We learned from our document review and expert interviews that while there exist a number of schemes to address SME financing gaps, they are contingent upon: an attitudinal environment that welcomes innovation and entrepreneurship, formal legal institutions that protect property rights, and institutional financing procedures that are consumer-friendly. Policymakers therefore need to ensure that the existing overall business climate is conducive for people to engage in entrepreneurial activities with adequate and timely financial assistance. This advice dovetails with some of the findings from our study of the World Bank data. We summarize our results from the qualitative methodology under the italicized headings below.

Maximizing working capital

In a number of developing countries in East and South Asia, the sophistication of their financial sector still remains low and debt and equity markets have yet to be developed adequately; thus, formal, institutional financing is difficult for SMEs to access. For those countries (e.g., least developed countries), one of the most effective policy options in the short run would be to maximize working capital of SMEs through the

المنارة للاستشارات
www.

effective utilization of both informal financing (e.g. own funds and trade credit) and internal financing (e.g. retained earnings). Both informal financing and internal financing could provide large flexibility to SMEs' working capital management mainly by reducing the needs of external financing (e.g. bank loans). Policymakers can encourage SMEs to use those financial instruments in order to maximize their working capital by: developing a pro-business regulatory framework and tax system; protecting property rights; and improving managerial skills of entrepreneurs and SME owners. Within this context, policymakers may wish to collaborate to provide services and training through an existing web of business associations/networks, such as local chambers of commerce and industry.

Narrowing the gap in SME financing

Some agencies have pointed out that in developing countries there has been a growing financial gap between commercial debt financing and microfinance (International Finance Corporation, 2010; Japan Finance Corporation (JFC), 2011). While the traditional term loans have focussed on financing large firms or SMEs with relatively healthy performance and sufficient financial records, microfinance targets the poor, low-income groups, and informal sector with small size of loans as well as high interest rates. Between those target groups by commercial banks and micro finance institutions, small (and micro) enterprises have difficulty in raising funds from commercial banks because they have inadequate collateral and financial record while they are not satisfied with microfinance loans due to its small size and high interest rate (see Figure 6). To narrow the gap, policymakers may consider some options. First, microfinance as it has been growing rapidly in the region may expand its operations to target small businesses, providing a large loan with a discounted interest rate. Second, commercial banks may wish to extend their financial services to those small players perhaps in cooperation with public credit guarantee agencies, where public support is required. Third, governments could launch and further develop various direct financial assistances to them.

Develop and balance both debt and equity markets

Although the roles of debt and equity markets are clear theoretically, in practice these two financial systems differ widely across countries in East and South Asia. In general, countries with bank-centered debt financing systems tend to be less conducive to entrepreneurial activity than stock market-centered systems. However, a bank-centered system may be a preferable option for countries with poor information infrastructures (Benston, 1994). On the other hand, stock markets take more time to develop. Within

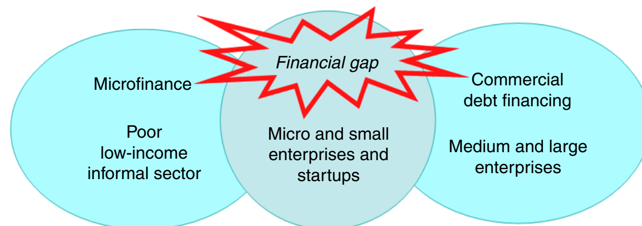


Figure 6.
Financial gap in SME financing

Source: Modified from JFC (2011)

المنارة للاستشارات
www.

East and South Asia, some of the major stock markets in China; Hong Kong, China; Singapore; Taiwan Province of China; India; and Republic of Korea are well-established, while other developing economies are working hard to strengthen their stock markets. Policymakers in most East and South Asian countries should focus on SME access to debt primarily through their banking sector, but with an eye toward establishing the regulations essential to a functional stock market, e.g., financial reporting requirements and statutes protecting minority shareholders.

Reduce information asymmetry

Inadequate or insufficient information is one of the main obstacles hampering finance to SMEs. With information asymmetry, banks cannot be sure of the creditworthiness of SMEs, and potential equity investors may forego the equity offerings of SMEs unless otherwise policymakers do implement expensive safeguards. SMEs, however, usually lack the financial and administrative skills to provide this information, or may even lack the basic knowledge about what kind of information should be prepared. Policy intervention can be essential to address this issue. Policymakers not only need to educate SMEs about related regulations, standards, and practices but they must also strive to streamline them. There is a careful balancing act policymakers must consider between the needs of creditors/investors to feel secure and informed, and the ability of SMEs to meet these needs. Regulating policies are needed to promote transparent lending terms and conditions of financial institutions. An information-sharing mechanism among institutional lenders and investors such as credit rating and databases containing SME credit information and borrowing history could be adopted by policymakers to increase information sharing and transparency.

Facilitate equity funding

Many governments have programs for the direct injection of equity (or seed/start-up capital) into SME ventures; however, the operational results of such programs are not encouraging. Direct government programs generally lack both the appropriate incentive structures and the expertise to administer the program in a professional manner (Organisation for Economic Cooperation and Development, 2009). A better alternative is for policymakers to work alongside private sources of equity to meet SME needs, while building the institutional capacity of equity markets with pro-business securities regulation. Transparency and shareholder protection allow higher-end types of financing, such as venture capital, to flourish while being comprehensible enough to invite SME participation, albeit often with professional legal counsel. Within this context, the public sector is expected to serve as a conduit to build trust between SMEs and private capitals. Apt examples involve capital injection to private equity funds targeting certain objectives (e.g. high-tech and start-ups), supporting angel groups to professionalize their industry, and helping venture capitals to develop networks and connect with potential stakeholders.

Combine financial services and business development services (BDS)

A suitable combination of financial and non-financial services for SME development is needed. In this sense, BDS providers, including various business associations such as chambers of commerce and federations of industries, can add value to bank lending due to their proximity to the clients and their direct knowledge of the enterprises' financial status and past performance. This complementary nature between BDS providers and financial services helps to minimize both the risk and transaction cost to creditors and

المنارة للاستشارات

www.

investors, and makes access to credit and equity less costly and cumbersome for SMEs. Policymakers should encourage SMEs to work BDS providers and banks to resolve both financial and operational issues.

Strengthening the bank-SME relationship

Despite the efforts of policymakers to enable SMEs to access bank loans, there is still much room for improvement. As mentioned earlier, banks may not appreciate the SMEs' dire need for quick capital, while SME owners may not understand bank policies for mitigating risk. While policymakers may craft effective strategies, their efforts may be frustrated when applied in practice. Intermediaries may lack either the incentives or the competence to build and sustain bank-SME relations. There needs to be an ongoing program of communication and education that policymakers implement both for SMEs and for banks, about expectations. Such a program must be both convenient and relevant to both SMEs and banks in order to be credible. We also summarize the key issues and suggestions for strengthening bank-SME relationships in Table VII.

Introduce a four-tier national financial system

Figure 7 illustrates a four-tier national system for SME financing. This system aims to establish the significance and importance of restructuring the institutional network of the financial sector into a simplified framework for clear division of labor so that its reach and institutional coordination are further improved.

Besides having the apex bank for SMEs, micro-financing institutions (MFIs)'s role in this framework also assumes greater importance. They should be given national recognition and legal status in the country's financial system so that they are able to serve an increasing number of micro-enterprises. The four-tier national financial system is described as follows:

(1) First tier: an apex bank (or agency) for SMEs at the top that oversees policy prescriptions, credit guarantee schemes, new financing schemes and programs, BDS and training, and the flow of credit (and equity) to the sector. Above all, the apex bank should augment financial resources for all the concerned players and give them institutional support from time to time.

(2) Second tier: national financial institutions, commercial banks, specialized DFIs, such as export-import banks, credit guarantee agencies, credit information providers (e.g. credit registries), venture capitalist associations/networks, and support institutions, such as national BDS provider associations/networks and national chambers of commerce and industry, should play the role of credit providers or facilitators to the organized sector of SMEs. In addition, corporate bond markets (and stock markets as an extreme case) also fall in this category for open market borrowings (and share offering).

(3) Third tier: subnational development financial institutions, regional banks, BDS providers, and local chambers of commerce and industry have a manageable specified region or a command area for serving the specific sector.

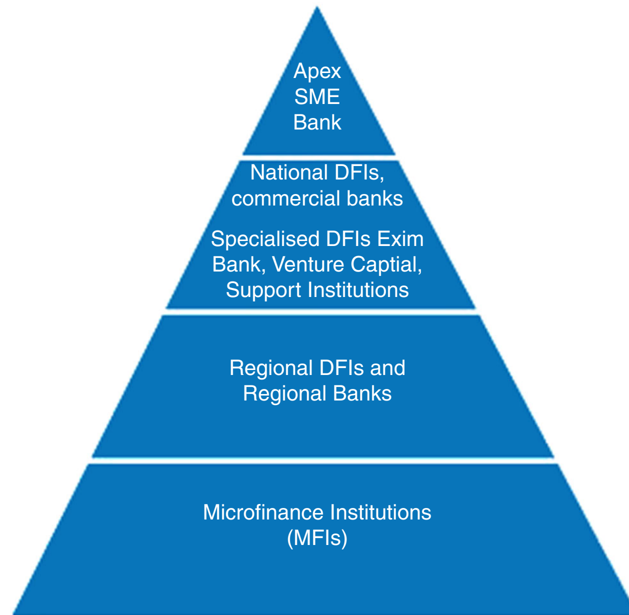
(4) Fourth tier: at the base of the pyramid, MFIs cover the unorganized micro-enterprises and self-help groups through the provision of microcredit. MFIs have been placed at the base of the system because it has to cover the biggest segment and largest number of enterprises and individual entrepreneurs in the field. The MFI system is experienced and best suited to keep close contact with clients and to ensure full recovery of loans. They are also equipped to give non-financial support to entrepreneurs.

المنارة للاستشارات
www.

Table VII. Issues and suggestions for strengthening bank-SME relationships

Issue	Bank	SME
Insufficiency of credit	Fear of non-payment should be addressed via proper assessment of risk and moral support from relevant government agencies Update credit databases to include SMEs Joint appraisal with commercial banks/DFIs and BDS providers	Careful planning for credit needs based on a concrete workable business plan Supporting documents for verification should be kept ready Be open to banks to discuss all financial problems Prepare thoroughly for presentation, interview, etc.
Delays in credit sanctions	All data requirements for credit appraisal should be communicated to SMEs in one instalment The appraisal process should be explained in the initial interview The appraisal should continue even if a credit officer goes on leave but one person should ultimately be accountable for each SME application A single-window approach should be followed for appraisal The appraisal process should be a focus for continuous improvement, including the models used for risk measurement	Produce all data requirements and documents in one instalment Keep financial records current and accurate Extend cooperation to the bank to comply with the head office guidelines
Collateral requirement is too high	Get second opinion on need for collateral, perhaps from a BDS provider Consider future cash flow as the primary security for SMEs	Work with the bank and BDS providers to reduce risks Offer some collateral if feasible
Information requirements are too high or not available	Checklist of information on requirements to be prepared for SMEs with due care Use of computers for data storage and analysis Standardize the data requirements for loan applications across different institutions	Keep financial and operating records current and accurate Use computers where feasible Appreciate data needs of the bank
Compliance with loan agreement, including audits	Arrange audits to minimize inconvenience to borrowers Explain timing and procedures for loan compliance	Cooperate with the bank since post-sanction formalities are also for their benefit Regular submissions of statements and returns

www.



Source: AAMO (2007)

Figure 7.
Four-tier financial system for SMEs

Conclusions

Financing remains a major constraint for SME survival and growth in East and South Asia as in other parts of the world. The problem is particularly acute for developing countries. Using data from the World Bank as well as qualitative methods, we have pinpointed some areas of improvement for the use of debt and equity for policymakers. Maximizing working capital, lowering information asymmetries, developing capital markets, strengthening the bank-SME relationship, and creating a four-level financial system for SMEs would provide the greatest benefit. In all cases, policymakers will have to consider the local context, particularly the existing level of economic development, to enact these suggestions in a viable manner.

Notes

1. Some material from this manuscript, including the definition and typology of SMEs and certain policy prescriptions, as well as several figures and tables, appeared originally in Economic and Social Commission for Asia and the Pacific (ESCAP) (2012) Policy Guidebook for SME Development in Asia and the Pacific.
2. This is a generalization, since too nuanced definitions of SMEs would create many small categories and thereby increase the total transaction costs of reaching all of them, thus undermining effective policy.
3. We use "institutions" here in North's (1990) sense of the term as meta-systems or "rules of game" around which organizations arrange their activities. The World Bank data measures financial institutional strength in this sense, and all businesses, including SMEs, respond to the incentives/disincentives inherent in these systems.

المنارة للاستشارات
www.

4. The methodology is originally from Djankov *et al.* (2007) but may also be found at www.doingbusiness.org/methodology/getting-credit.
5. The definitions and descriptions of the indices are taken from the World Bank Protecting Investors Methodology web site at www.doingbusiness.org/methodology/protecting-investors.

References

Agency for SME Development (2011), "ASMEDF business portal", available at: www.business.gov.vn/index.aspx (accessed April 6, 2013).

Aivazian, V.A. and Santor, E. (2008), "Financial constraints and investment: assessing the impact of a world bank credit program on SMEs in Sri Lanka", *The Canadian Journal of Economics*, Vol. 41 No. 2, pp. 475-500.

Asian Association of Management Organizations (AAMO) (2007), *SMEs in Asian Region – Harnessing the Growth Potential*, AAMO, New Delhi.

Asian Development Bank (2009), *Enterprises in Asia: Fostering Dynamism in SMEs: Key Indicators for Asia and the Pacific 2009: Special Chapter*, Asian Development Bank, Manila.

Baas, T. and Schrooten, M. (2006), "Relationship banking and SMEs: a theoretical analysis", *Small Business Economics*, Vol. 27 Nos 2/3, pp. 127-137.

Bank Perusahaan Kecil and Sederhana Malaysia Berhad (2012), "About us", available at: www.smebank.com.my/web/guest/home (accessed May 13, 2013).

Beck, T., Demirgüç-Kunt, A. and Peria, M.S.M., (2008), "Banking SMEs around the world: lending practices, business models, drivers and obstacles", World Bank Policy Research Working Paper No. 4785, World Bank Group, Washington, DC.

Beck, T., Klapper, L.F. and Mendoza, J.C. (2008), *The Typology of Partial Credit Guarantee Funds Around the World*, The World Bank Development Research Group, Washington, DC.

Bennett, F., Doran, A. and Billington, H. (2005), *Do Credit Guarantees Lead to Improved Access to Financial Services? Recent Evidence from Chile, Egypt, India and Poland*", Department of International Development, London.

Benston, G.J. (1994), "Universal banking", *The Journal of Economic Perspectives*, Vol. 8 No. 3, pp. 121-143.

Berger, A. and Udell, G. (1995), "Relationship lending and lines of credit in small firm finance", *Journal of Business*, Vol. 68 No. 3, pp. 351-382.

Berger, A.N. and Udell, G.F. (2005), "A More *Complete Conceptual Framework for Financing of Small and Medium Enterprises*", World Bank Policy Research Working Paper No. 3795, World Bank Group, Washington, DC.

Blanchflower, D.G. and Oswald, A.J. (1998), "What makes an entrepreneur?", *Journal of Labor Economics*, Vol. 16 No. 1, pp. 26-60.

Boocock, B. and Wahab, I. (2001), "The financing of small firms: different continents, the same problems?", *New England Journal of Entrepreneurship*, Vol. 4 No. 2, pp. 13-31.

Boocock, G. and Shariff, M.N. (2005), "Measuring the effectiveness of credit guarantee schemes. evidence from Malaysia", *International Small Business Journal*, Vol. 23 No. 4, pp. 427-454.

China Briefing (2011), "China issues classification standards for SMEs", July 7, available at: www.chinabriefing. com/news/2011/07/07/china-issuesclassification-standards-for-smes.html (accessed April 6, 2013).

المنارة للاستشارات

www.

Chittenden, F., Bell, G. and Hutchinson, P. (1996), "Small firm growth, access to capital markets and financial structure: review of issues and an empirical investigation", *Small Business Economics*, Vol. 8 No. 1, pp. 59-67.

Chittithaworn, C., Islam, A., Keawchana, T. and Yusuf, D.H. (2011), "Factors affecting business success of small & medium enterprises (SMEs) in Thailand", *Asian Social Science*, Vol. 7 No. 5, pp. 180-190.

Choudhury, S.D. and Rodrigues, J. (2010), "Bad loans in SME sector rising – SBI chief", Reuters, January 11, available at: http://in.reuters.com/article/2010/01/11/idINIndia-45296220100111 (accessed May 13, 2013).

CIA World Factbook (2013), available at: www.cia.gov/library/publications/the-world-factbook/goes/ni.html (accessed August 7, 2013).

Directorate of Micro and Small Scale Enterprises (2011), "The micro, small & medium enterprise development Act, 2006: main features & implications", available at: www.mssewb.org/htm/msme_definition.html (accessed April 21, 2013).

Djankov, S., McLiesh, C. and Shleifer, A. (2007), "Private credit in 129 countries," *Journal of Financial Economics*, Vol. 84 No. 2, pp. 299-329.

Economic and Social Commission for Asia and the Pacific (1998), "Financing of small and medium-sized enterprises: problems and recommendations", *Small Industry Bulletin for Asia and the Pacific*, No. 30, United Nations, New York, NY.

Economic and Social Commission for Asia and the Pacific (ESCAP) (2009), *Globalization of Production and the Competitiveness of Small and Medium-sized Enterprises in Asia and the Pacific: Trends and Prospects, Studies in Trade and Investment No. 65*, United Nations, Bangkok.

Economic and Social Commission for Asia and the Pacific (ESCAP) (2012), "Financing a business," in Abe, M., Troilo, M., Juneja, J.S. and Narain, S. (Eds), *Policy Guidebook for SME Development in Asia and the Pacific*, Chapter 5, United Nations, New York, NY.

Gibson, T. and van der Vaart, H.J. (2008), *Defining SMEs: A Less Imperfect Way of Defining Small and Medium Enterprises in Developing Countries*, The Brookings Institution, Washington, DC.

Glaser, B.G. and Strauss, A. (1967), *Discovery of Grounded Theory: Strategies for Qualitative Research*, Aldine Publishing Company, Chicago, IL.

Gohmann, S.F. (2012), "Institutions, latent entrepreneurship, and self-employment: an international comparison", *Entrepreneurship Theory and Practice*, Vol. 36 No. 2, pp. 295-321.

Hall, C. (2009), "SMEs financing in the Asia-Pacific region amid the financial crisis: status, challenges and trends", presentation at Workshop on SMEs Financing in the Asia-Pacific Region: Crisis and Countermeasures, Shanghai, June available at: www.afdc.org.cn/afdc/event.asp?info_id=31 (accessed May 13, 2013).

Holtz-Eakin, D., Joulfaian, D. and Rosen, H.S. (1994), "Sticking it out: entrepreneurial survival and liquidity constraints", *Journal of Political Economy*, Vol. 102 No. 1, pp. 53-75.

Honjo, Y. and Harada, N. (2006), "SME Policy, financial structure and firm growth: evidence from Japan", *Small Business Economics*, Vol. 27 Nos 4/5, pp. 289-300.

Hussain, J., Millman, C. and Matlay, H. (2006), "SME financing in the UK and in China: a comparative perspective", *Journal of Small Business and Enterprise Development*, Vol. 13 No. 4, pp. 584-599.

Hvide, H.K. and Moen, J. (2010), "Lean and hungry or fat and content? Entrepreneurs' wealth and start-up performance", *Management Science*, Vol. 56 No. 8, pp. 1242-1258.

www.

Hyytinen, A. and Vaananen, L. (2006), "Where do financial constraints originate from? An empirical analysis of adverse selection and moral hazard in capital markets", *Small Business Economics*, Vol. 27 Nos 4/5, pp. 323-348.

International Finance Corporation (2007), *Designing A Tax System for Micro and Small Business: Guide for Practitioners*, International Finance Cooperation, Washington, DC.

International Finance Corporation (2010), *Scaling-Up SME Access to Financial Services in the Developing World*, International Finance Cooperation, Washington, DC.

Japan Finance Corporation (JFC) (2011), *JFC-Micro 2011: Outline and International Cooperation*, Japan Finance Corporation Micro Business and Individual Unit, Tokyo.

Kang, J.W., and Heshmati, A. (2007), "Effect of credit guarantee policy on survival and performance of SMEs in republic of Korea", *Small Business Economics*, Vol. 31 No. 4, pp. 445-462.

Khandker, S.R., Samad, H.A. and Ali, R. (2013), "Does access to finance matter in microenterprise growth? Evidence from Bangladesh", The World Bank Policy Research Working Paper No. 6333, Washington, DC.

Koga, T. (2005), "R&D Subsidy and self-financed R&D: the case of Japanese high-technology start-ups", *Small Business Economics*, Vol. 24 No. 1, pp. 53-62.

Korean Development Bank (2010), "Our business", available at: www.kdb.co.kr/screen/jsp/IHEng/IHEngUMan00000001E.jsp (accessed May 13, 2013).

Kyaw, A. (2008), "Financing small and medium enterprises in myanmar", IDE Discussion Paper No. 148, Tokyo.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A. and Vishny, R. (1998), "Lawand finance", *Journal of Political Economy*, Vol. 106 No. 6, pp. 1113-1155.

Levitsky, J. (1997), "Credit guarantee schemes for SMEs – an international review", *Small Enterprise Development*, Vol. 8 No. 2, pp. 4-17.

McMillan, J. and Woodruff, C. (1999), "Interfirm relationships and informal credit in Vietnam", *The Quarterly Journal of Economics*, Vol. 114 No. 4, pp. 1285-1320.

North, D. (1990), *Institutions, Institutional Change, and Economic Performance*, Cambridge University Press, Cambridge.

Nugent, J.B. and Yhee, S.J. (2002), "Small and medium enterprises in Korea: achievements, constraints and policy issues", *Small Business Economics*, Vol. 18 Nos 1/3, pp. 85-119.

Office of SMEs Promotion (2011), "The white paper of SMEs of Thailand in 2010 and trends 2011", available at: http://eng.sme.go.th/Lists/EditorInput/view2.aspx (accessed May 1, 2013).

Organisation for Economic Cooperation and Development (OECD) (2009), *The Impact of the Global Crisis on SME and Entrepreneurship Financing and Policy Responses*, OECD, Paris.

Park, J., Lim, B.l. and Koo, J. (2008), *Developing the Capital Market to Widen and Diversify Sme Financing: The Korean Experience*, Korea Institute of Finance, Seoul.

RAM Consultancy Services (2005), "SME access to financing: addressing the supply side of SME financing", REPSF Project No. 04/003 Final Main Report, Kaula Lumpur, available at: www.asean.org/aadcp/repsf/docs/04-003-FinalMainReport.pdf (accessed April 6, 2013).

Rand, J. (2007), "Credit constraints and determinants of the cost of capital in vietnamese manufacturing", *Small Business Economics*, Vol. 29 Nos 1/2, pp. 1-13.

Rozali, M.B., Taib, H.M., Latif, F.A. and Salim, M. (2006), "Small firms' demand for finance in Malaysia", *Proceedings of International Conference on Business and Information (BAI), Singapore, July 12-14*.

المنارة للاستشارات

www.

Small and Medium Enterprise Administration (SMEA) (2011), "The Definition of SMEs", available at: www.moeasmea.gov.tw/ct.asp?xItem=70&CtNode=261&mp=2 (accessed May 1, 2013).

Small Business Banking Network (SBBN) (2011), available at: www.sbbnetwork.org/resource-center/blogs/19/389 (accessed February 24, 2015).

Small Industries Development Bank of India (2010), *SIDBI Report on Micro, Small and Medium Enterprises Sector*, Small Industries Development Bank of India, New Delhi.

Szabó, A. (2005), "Microfinance and credit guarantee schemes: experiences in the Economies in transition", paper for BSEC Workshop on Financing SMEs, Belgrade.

Tanaka, K. and Molnar, M. (2008), "What is different about informal finance? Financing of private firms in China", *Revue Economique*, Vol. 59 No. 6, pp. 1131-1144.

Uesugi, I., Sakai, K., and Yamashiro, G.M. (2008), "The effectiveness of public credit guarantees in the Japanese loan market", Discussion Paper No. 06-E-004, Research Institute of Economy, Trade and Industry, Tokyo.

World Bank (2012), "How we classify countries", available at: data.worldbank.org/about/country-classifications (accessed April 6, 2013).

World Bank (2013), "World Bank doing business indicators database", available at: www.doingbusiness.org/ (accessed July 24, 2013).

Xinhua Economic News (2008), "Non-performing loan ratio of SMEs hit 22.1 per cent in China", Xinhua Economic News, September 19, available at: http://chinareference.eu/cbn/news.php?action=fullnews&id=1924 (accessed May 1, 2013).

Zavatta, R. (2008), *Financing Technology Entrepreneurs & SMEs in Developing Countries: Challenges and Opportunities*, World Bank, Washington, DC.

Further reading

Asset Based Finance Association (ABFA) (2011), "FAQs", available at: www.abfa.org.uk/public/faq.asp (accessed May 1, 2013).

Association for Promotion of International Cooperation (APIC) (2011), "A guide to Japan's aid", available at: www.mofa.go.jp/policy/oda/guide/1998/3-4.html (accessed May 1, 2013).

Avantage Ventures (2011), *Beyond The Margin Redirecting Asia's Capitalism*, Avantage Ventures, Hong Kong.

Becchetti, L. and Trovato, G. (2002), "The determinants of growth of small and medium sized firms. the role of the availability of external finance", *Small Business Economics*, Vol. 19 No. 4, pp. 291-306.

Berger, A.N. and Udell, G.F. (2002), "Small business credit availability and relationship lending: the importance of bank organizational structure", *The Economic Journal*, Vol. 112 No. 477, pp. F32-F53.

Business Angel Network South East Asia (BANSEA) (2012), "Welcome to BANSEA", available at: http://bansea.org/index.php?option=com_content&view=article&id=106 (accessed May 13, 2013).

Business Development Bank of Canada (BDC) (2011), "Overview", available at: www.bdc.ca/EN/about/overview/Pages/overview1.aspx (accessed May 1, 2013).

Business Owner's Toolkit (2012a), "Asset-based financing", available at: www.toolkit.com/small_business_guide/sbg.aspx?nid=P10_3000 (accessed May 1, 2013).

Business Owner's Toolkit (2012b), "Working Capital Lines of Credit", available at: www.toolkit.com/small_business_guide/sbg.aspx?nid=P10_3310 (accessed May 1, 2013).

المنارة للاستشارات

www.

Campbell, A. (2009), "Trade credit: what it is and why you should pay attention", available at: http://smallbiztrends.com/2009/05/trade-credit-what-it-is-and-why-you-should-pay-attention.html (accessed April 6, 2013).

China International Marine Containers (CIMC) (2011), "Financing service", available at: www.cimc.com/res/service_en/finance/201001/t20100106_4211.shtml (accessed April 21, 2013).

Consultative Group to Assist the Poor (CGAP) (2011), "What is microfinance?", available from www.cgap.org/p/site/c/template.rc/1.26.1302/ (accessed April 21, 2013).

European Commission (EC) (2007), *Transparency and Dialogue: Final Report*, Enterprise Publications, Brussels.

EURO-Phoenix (2011), "Factoring: a financing option for small and medium-sized enterprises (SMEs)", available at: www.europhoenix.com/node/671 (accessed April 21, 2013).

Fliiby (2009), "Banking in Pakistan", available at: www.scribd.com/doc/5131283/banking-in-Pakistan (accessed May 1, 2013).

Freear, J., Sohl, J. and Wetzel, W.E. (1994), "Angels and non-angels: are there differences?", *Journal of Business Venturing*, Vol. 9 No. 2, pp. 109-123.

Grameen Foundation (2010), "Debating the merits of for-profit microfinance", available at: www.grameenfoundation.org/debating-merits-profit-microfinance (accessed May 1, 2013).

International Finance Corporation (IFC) (2009), *The SME Banking Knowledge Guide,* International Finance Cooperation, Washington, DC.

Japan Small Business Research Institute (JSBRI) (2011), *2011 White Paper on Small and Medium Enterprises in Japan: Rebuilding from the Earthquake and Surmounting Growth Constraints*, Ministry of Economy, Trade and Industry and Japan Small Business Research Institute.

Kappel, V., Krauss, A. and Lontzek, L. (2010), *Over-indebtedness and Microfinance: Constructing an Early Warning Index, Center for Microfinance*, University of Zurich.

Klapper, L. (2006), "The role of factoring for SME finance", *Access Finance*, No. 15, pp. 1-4.

Microfinance Information Exchange (MIX) (2010), *Asia 2009 Microfinance Analysis and Benchmarking Report*, Microfinance Information Exchange, Washington, DC.

Obamuyi, T.M. (2007), "An exploratory study of loan delinquency among small and medium enterprises (SMEs) in Ondo State, Nigeria", *Labour and Management in Development Journal*, Vol. 8, pp. 1-11.

Okuda, H. (1993), "Japanese two step loans: the Japanese approach to development finance", *Hitotsubashi Journal of Economics*, Vol. 34 No. 1, pp. 67-85.

Organisation for Economic Co-operation and Development (OECD) (2006), *The SME Financing Gap Theory and Evidence Volume I*, Organisation for Economic Co-operation and Development, Paris.

Ross, S.A., Westerfield, R.W. and Jordan, B.D. (2008), *Fundamentals of Corporate Finance*, 6th ed., McGraw-Hill, Boston, MA.

Small Industries Development Bank of India (SIDBI) (2011), "History", available at: www.sidbi.in/history.asp (accessed April 6, 2013).

SME Bank Pakistan (undated), "FAQs", available at: www.smebank.org/faq.htm (accessed April 6, 2013).

SME Centre for Asia (2011), "Programs & services", available at: www.smecenterforasia.com/programs-services/ (accessed April 6, 2013).

Sridhar, S. (2008), "Innovative financing for small and medium enterprises", *UN ESCAP Conference on Financing for Development*, available at: www.unescap.org/pdd/calendar/FFD2008/papers/SSridhar_paper.pdf

المنارة للاستشارات

www.

Thunderbird Angel Network (2010), "Difference between venture capitalists and angel investors", available at: www.thunderbirdangelnetwork.org/angel-investor-phoenix-blog/bid/50468/Difference-Between-Venture-Capitalists-and-Angel-Investors/index.html (accessed May 13, 2013).

Tiwari, D. (2010), "SBI turn venture capitalist, to lend Rs 10 lakh free of interest", The Economic Times, February, 16, available from: http://articles.economictimes.indiatimes.com/2010-02-16/news/27631481_1_new-scheme-loan-sme (accessed April 6, 2013).

Touch Financial (2000), "Start-up business finance options", available at: www.is4profit.com/business-advice/starting-up/start-up-business-finance-options.html (accessed May 1, 2013).

Tradecredit (2008), "Advantage of trade credit", available at: www.tradecredit.co.uk/advantages-of-trade-credit.html (accessed May 1, 2013).

United Nations Conference on Trade and Development (UNCTAD) (2001a), *E-finance and Small and Medium – Size Enterprises (SMEs) in Developing and Transition Economies*, United Nations, New York, NY and Geneva.

United Nations Conference on Trade and Development (UNCTAD) (2001b), *Improving the Competitiveness of SMEs in Developing Countries – The Role of Finance to Enhance Enterprise Development*, United Nations, New York, NY and Geneva.

Wang, Y. (2004), "Financing difficulties and structural characteristics of SMEs in China", *China & World Economy*, Vol. 12 No. 2, pp. 34-49.

World Bank (2005), *Financial Sector Assessment – A Handbook*, World Bank, Washington, DC.

Zero2IPO (2010), "China venture capital annual report 2010", available at www.zero2ipogroup.com/en/research/reportdetails.aspx?r=b68ff1e5-a03a-4aa2-8f9e-93ff57769436d (accessed May 13, 2013).

About the authors

Dr Masato Abe is an Economic Affairs Officer in the Business and Development Section, Trade and Investment Division, United Nations Economic and Social Commission for Asia and the Pacific (ESCAP). He has extensive experience in enterprise development with special emphasis on the SME sector and supply chain management. Prior to joining the secretariat of the United Nations, he worked in the global automotive, electronics and high-technology industries. He holds degrees in marketing, business administration and economics, and is a Research Fellow at the Thammasat University, Bangkok.

Dr Michael Troilo is the Wellspring Assistant Professor of International Business at the University of Tulsa. His research interests revolve around the role of institutions for entrepreneurship and economic development. He earned his PhD from the University of Michigan. Dr Michael Troilo is the corresponding author and can be contacted at: mike-troilo@utulsa.edu

Orgil Batsaikhan is a corporate finance analyst at the Access Midstream Partners in Oklahoma City. Prior to that, Orgil served as a Graduate Research Assistant in the Department of Finance, Operations and International Business at the Collins College of Business at the University of Tulsa, while obtaining Master of Business Administration and Master of Science in Finance dual degrees.

For instructions on how to order reprints of this article, please visit our website:
www.emeraldgrouppublishing.com/licensing/reprints.htm
Or contact us for further details: **permissions@emeraldinsight.com**

المنارة للاستشارات

www.

Reproduced with permission of copyright owner. Further reproduction prohibited without permission.

المنارة للاستشارات

www.