



SMEs in Asia need easier access to credit

Small and medium-sized enterprises are the backbone of Asia's economies.

The Asian Development Bank's most recent SME survey covered 20 countries in Central, East, South, Southeast Asia, and the Pacific and showed that SMEs accounted for an average of 96% of all enterprises and 62% of the national labor force.

SMEs contributed an average of 42% of the gross domestic product or manufacturing value added in these countries, and continued to influence trade.

The latest data show that SMEs in the People's Republic of China and India accounted for more than 40% of total export value, followed by 26% in Thailand, 19% in the Republic of Korea, and 16% in Indonesia.

Yet their development is hindered because of the difficulty accessing affordable credit.

This is particularly true in lower-income countries.

Bank loans to SMEs made up 18.7% of total bank lending in the Asian countries surveyed.

The banks say that this is mostly because small companies have unclear accounting statements, making it difficult to assess credit risk.

The stricter requirements stipulated by the recent Basel III international framework for banks may have further limited SMEs, particularly start-up companies, in getting bank loans.

Either the banks turn down the loan requests or they grant the loans, but ask the SMEs to pay higher rates of interest or to offer precious collateral such as real estate.

Bank caution may hinder development and job market growth in lower-income countries.

But there are ways to help improve access to loans by SMEs in Asian countries.

Banks and lending institutions need more information on the SMEs and particularly on the credit risk they represent, so financial and nonfinancial information on them must be compiled, analyzed, and made available to lending institutions.

The Credit Risk Database (CRD), established in Japan by the Ministry of Economy, Trade and Industry and the Small and Medium Enterprise Agency, plays such a role.

The CRD's 181 member-financial institutions can access data covering 2.2 million incorporated SMEs and more than 1 million sole-proprietor SMEs, allowing them to match loan pricing with credit risk.

In the wake of the Asian financial crisis, Thailand in 1998 set up a National Credit Bureau to collect information on financial institutions' clients and answer inquiries with client consent.

Such systems would improve the prospect of SMEs getting loans by giving banks and financial institutions enough information to set interest rates and ceilings on loans.

A comprehensive credit-rating method developed in 2014 by Naoyuki Yoshino, dean of the Asian Development Bank Institute and professor emeritus at Keio University, in Tokyo, and Farhad Taghizadeh-Hesary, assistant-professor of economics also at Keio University, could streamline lending to SMEs.

It classifies SMEs into three simple groups—healthy, medium risk, and financially risky—to help banks and credit guarantee corporations better adjust lending conditions to SMEs while limiting the risk of nonperforming loans.

Another path to credit access for SMEs is to diversify the channels of financing, which is already under way in some Asian countries.

Governments can develop credit guarantee schemes, sharing the risk associated with lending, with the guarantor of the loan—usually the government or a trade association—with low liability conditions to encourage checking the creditworthiness of the borrower.

These schemes are widely used in India, Indonesia, Japan, Kazakhstan, the Republic of Korea, Malaysia, the Philippines, Sri Lanka, Thailand, and Viet Nam.

Another method is to establish specialized banks for SMEs financing, and a good example is Japan's *shinkin* banks, which are deposit-taking cooperative financial institutions providing loans to member SMEs within a specific region.

In Korea, the Industrial Bank of Korea plays a major role in financing troubled SMEs and supporting creative enterprises and start-up companies.

Community-based funds, what Japan's calls "hometown investment trust funds," are taking to the Internet to find financing for risky projects and start-up companies, trying to match investors with analyzed companies and projects under the supervision of the government's Financial Services Agency.

Investors in this sphere are generally not looking to make a profit but to fulfill a direct interest in the success of the venture, such as local communities wanting to build wind-power generators rather than wait for bureaucratic action.

This episode was based on [research](#) by Naoyuki Yoshino, dean of ADBI, and Farhad Taghizadeh-Hesary, assistant professor of economics at Keio University, Tokyo.

Listen to podcast

- <https://soundcloud.com/adbinstitute/smes-in-asia-need-easier-access-to-credit>

Know more about ADBI's work on SMEs

- <http://bit.ly/2EIPHnb>
- <http://bit.ly/2CdtNwf>

Related Podcast

- [What can governments in Asia do to help SMEs succeed in export markets?](#)
- [Education, jobs, SMES needed to spread wealth. Haruhiko Kuroda, Bank of Japan governor](#)