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Improving SME Access to Formal Finance

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Acknowledgements

This Study has been carried out by the Central Institute for Economic Management (CIEM) and the Bank for Foreign Trade of Vietnam (VCB), under the framework of Finance Working Group of APEC Business Advisory Council (ABAC). Its objectives are to identify the significance of, and obstacles to SMEs' access to formal finance. The findings from the Study are critical in that they enable the drafting of policy recommendations to facilitate such access, which is in turn of vital importance to SME development. This prioritized activity in the APEC 2006 agenda has been strongly encouraged and supported by the ABAC.

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Executive summary

There has been a vast literature on the development of SMEs who play an important role in economic growth and development in both advanced and less advanced countries. A large part of the literature is also for the discussion of impediments to SME development, including their lack of access to formal finance. Under the framework of ABAC Finance Working Group, this Study attempts to investigate the significance of, and obstacles to, SMEs' access to formal finance. In doing so, it briefly reviews the literature on SMEs development, and employs questionnaire survey to extract the views of commercial banks and SMEs on those issues.

It has been well-argued in the literature that the SMEs play a significant role in generating employment and income, particularly in the transition period. In addition, they also help to promote deeper specialization and export. While they are vital in alleviating poverty, they do contribute to creating entrepreneurial skills and promoting innovation. With the presence of SMEs, a resilient, flexible and interlinked industrial system can be built up, whilst the dynamic entrepreneurial activity can be allowed for to promote formation of new industries. Yet SME development can be impeded by complex administrative procedures, lack of qualified human resources and access to technology, and unfavorable market conditions. The lack of access to formal finance also prevents adequate development of SMEs, and this is addressed in the outcomes of survey in the Asia – Pacific region.

Most of the banks have experience in dealing with, and are not biased against, SMEs' loan requests. The shares of loans to SMEs, in total bank loans and in SMEs' total capital, have been increasing over the recent period from 2001-05. Long-term loans seem more likely in the MAEs than in LAEs, as reflected by views of both banks and SMEs. The key obstacles to SMEs' access to bank loans include their lack of collateral and experience, inadequate accounting standard, costly information gathering, high administrative costs, and less reliable projects.

Apart from SMEs' efforts, it is essential that both the banks and governments in the Asia – Pacific make important provisions to facilitate SMEs' access to formal finance. Beside loans, factoring, forfeiting, leasing, credit rating and corporate guarantee scheme are seen as the most important by the banks. In fact, these are also the most popular provisions by the banks. Meanwhile, the role of government is critical, particularly in providing state guarantee, credit rating, and special funds to lend to SMEs. In fact, SME development has been prioritized by the government, with clear visions and/or strategy. Yet both the banks and SMEs feel that government policies are probably more favorable to large enterprises, than to the latter themselves.

From those findings, some recommendations can be drawn out as follows. For the governments, policies should be on a non-discriminatory basis to both SMEs and large enterprises. The procedures need to be simplified, whilst improving the accounting standard is necessary. Information and training about the sources of formal finance should be disseminated. The current supports, such as guarantee scheme, should be continued, whereas the search for other supports, particularly from donors, is still signified. The role of business associations should be emphasized in helping to establish a network linkage between the SMEs, and between the SMEs and the banks.

The banks should properly acknowledge the significance of SMEs as a clientele. With such acknowledgement, banks should continue to provide credit ratings for the SMEs. In line with this, the banks should also strengthen their capacity in SME credit evaluation. Lastly, participating in corporate guarantee schemes to facilitate SME access to bank credits should still be emphasized. Meanwhile, the SMEs should learn to properly prepare their business plans. They should also actively promote the disclosure of their information. Different sources of equity finance should be searched for. Finally, SMEs' linkages with other enterprises, with banks and business associations should be enhanced.

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LIST OF ABBREVIATIONS

ABAC	APEC Business Advisory Council
APEC	Asia Pacific Economic Cooperation forum
LAEs	Less Advanced Economies
MAEs	More Advanced Economies
MNC	Multi-national Corporation
MOFA	Ministry of Foreign Affairs
NPL	Non-performing loan
OECD	Organization for Economic Cooperation and Development
PNG	Papua New Guinea
R&D	Research and Development
SME	Small and Medium Enterprise
SOE	State-Owned Enterprise
VC	Venture Capital

Introduction

The small and medium-sized enterprises (SMEs) have had significant contribution to the global economy in general, and to the Asia - Pacific countries in particular. This contribution is in the forms of employment and income, entrepreneurial skills, and innovation, largely generated by the SMEs. Accordingly, their role is vital in strengthening economic growth and development, alleviating poverty and other socially related matters. In the forthcoming years, for developing countries, SMEs will continue to be the engine for stronger, better and more sustainable growth, whereas in developed countries, SMEs are indispensable in the revitalization of the economies.

With such significance, it makes no surprise to witness increasing interests of the policy makers, business associations and researchers in the development of SMEs. In fact, strengthening the competitiveness of SMEs for further economic development and integration has been adopted as one of APEC 2006 priorities. Nevertheless, it is essential that the major obstacles to SME development, particularly in the Asia - Pacific region, be thoroughly investigated and understood. As documented in the extensive works by APEC, APEC Business Advisory Council (ABAC) and other organizations, inadequate access to formal finance is one of those major obstacles.

This Study is an attempt to investigate access to formal finance by SMEs in the Asia - Pacific region. Specifically, it seeks to identify the impediments to SMEs' access to formal finance, the role of such access to SMEs, and how formal channels of financing for SMEs can be diversified. This is the basis for some policy recommendations to help SMEs obtain formal finance. To do so, the Study combines both the literature review on SME development and survey questionnaires on banks and SMEs in the Asia - Pacific region, on the issues related to access to formal finance of the latter.

The structure of this Study is as follows. Section 0 briefly reviews the literature on the role of SMEs, as well as key issues in their development. This Section also makes some notes about the limited access to formal finance - the theme of this research. Section 0 then summarizes the survey outcome from questionnaires to banks and SMEs in APEC Member countries. The first parts of this Section describe in brief the surveys, and profiles of banks and SMEs with responses. It then presents major findings on SMEs' access to formal finance, from the perspectives of both banks and SMEs. Finally, on that basis, some policy recommendations are drawn out for the government and business associations, the commercial banks, and the SMEs themselves.

Some observations from literature review

There has been a vast literature on the SMEs, on a number of aspects related to their development. To facilitate better understanding of SME development, this section briefly reviews the literature on the role of SMEs, as well as the key issues in their development.

Role of SMEs

Firstly, SMEs play a significant role in generating employment and income. This can be explained by their tendency to employ more labor-intensive technology than the larger counterparts. In fact, it has been found that the share of SMEs in productive employment was significant, of roughly 50-70 percent in developing countries, 72 percent in Japan and 66 percent in the European Union (EU) (Luetkenhorst, 2004). In this respect, therefore, SMEs do contribute to the promotion of growth. In the transition period, this contribution is even more important, particularly for those losing the jobs in privatized, restructured or bankrupt State-Owned Enterprises (SOEs), since the social and economic burdens of job loss in privatization and restructuring process may otherwise become serious.

Secondly, SMEs help to promote deeper specialization, which proves to be of increasing importance. In the current international marketplace with strong emphasis on efficiency and competitiveness, the firms are finding that specialization, rather than diversification, is crucial to achieve prosperity (Global Facilitation Partnership for Transportation and Trade, 2005). As the world marketplace develops, specialization then enables SMEs to participate more effectively in the global supply chain, thereby serving the ultimate goal of economic growth. In fact, SMEs have played an important role in raising export revenues in some advanced and less advanced countries. In Taiwan, the share of SMEs in direct exports was roughly 18 percent, whereas in the US, SMEs account for about 27 percent of total export earnings¹. The share of SME in manufacture exports is also remarkable in developing countries (Table 1).

Table 1: SME Shares of Manufactured Exports in Developing Economies

Economy	Year	Definition of an SME	% SME in manufacture exports
<i>Developing Economies</i>			
Chinese Taipei	Early 1990s	<100 employees	56
China	Early 1990s	<100 employees	40-60
Korea	1995	<300 employees	42.4
Vietnam	Early 1990s	<200 employees	20
India	1991/1992	<Rs 30m in plant & machinery	31.5
Singapore	Early 1990s	<100 employees	16
Malaysia	Early 1990s	<75 employees	15
Indonesia	Early 1990s	<100 employees	11
Thailand	Early 1990s	<100 employees	10

Source: Wignaraja (2003).

¹ In 2003.

Thirdly, the role of SMEs is also vital in reducing poverty incidence in many countries. On the one hand, as mentioned above, SMEs provide job access to less qualified and/or young people in their relatively labor-intensive production process (Weller, 2004). On the other hand, there has been some empirical evidence for the contribution of small industrial enterprises in promoting more equitable income distribution. This in turn reduces ex-post redistributive pressure, as well as economic disparities between urban and rural areas, thereby ensuring long-term social stability (Luetkenhorst, 2004).

Fourthly, SMEs are also crucial in creating entrepreneurial skills and promoting innovation. They allow for entrepreneurs, who are unlikely to get management positions in large enterprises, to access and organize the use of resources to reap the opportunities i.e. to exercise their talents. With the successes and even failures with their SMEs, the entrepreneurs gradually become more experienced in dealing with various issues, and acquire other skills necessary in business management. In addition, SMEs are important in applying new technologies to better satisfy consumer needs, and contribute most innovations in immature, relatively unconcentrated economies (Luetkenhorst, 2004).

Besides, SMEs help to build up an industrial system that is resilient, flexible and interlinked, with significant positive externalities to surrounding economy. This potential linkage is critical in attracting foreign direct investment, since the investing multinational corporations (MNCs) generally seek domestic enterprises, with sufficient reliability, for domestic outsourcing in building up their supply chain. That is, in the competition for foreign investment, the good network of domestic supporting industries and enterprises is likely to add a premium (United Nations Conference on Trade and Development, 2001). Conversely, the linkage with MNCs does make the SMEs more resilient even in time of crisis, as in the case of Thailand, since MNCs acted to prevent their SME contractors from going bankrupt during the Asian financial crisis (Regnier, 2005).

Finally, in a knowledge-based economy, SMEs allow for dynamic entrepreneurial activity which is essential to the formation of new industries (Ministry of Foreign Affairs of Japan, 2002). With the emergence of a knowledge-based society exemplified in information technology during the 1990s, expectations have been heightened towards the role of venture business in meeting the growing demand for software and content. It was recognized that dynamic entrepreneurial activity is crucial to the formation of new industries. In this respect, SMEs play an important role in the process.

Key problems in SME development

Acknowledging the role of SMEs in economic growth and development, there has been a vast literature on the key impediments to SME development. The first and foremost of them is the overlapping of rules and complexity of administrative procedures. For example, the complex and intransparent procedures for setting up a new business may significantly increase initial

fixed costs for the SMEs, whilst the delay in granting business licence may prevent them from grasping at the usually short-lived business opportunities. In another instance, the overlapping of rules may require the SMEs to obtain numerous licences before initiating their productions. In such cases, the SMEs have to incur additional economic and time costs that could otherwise be avoided if the rules and procedures have been made simple and transparent enough (MOFA of Japan, 2002).

Besides, it has frequently been noted that the SMEs possess neither qualified human resources nor adequate capacity to train their personnel to palliate their weakness (MOFA of Japan, 2002). On the one hand, their limited scale may not allow the recruitment of personnel with relevant experience. Investing in the training may prove too costly for the SMEs to adopt. On the other hand, even if they are able and choose to do so, the SMEs then bear the risk of losing their personnel, as they may opt to move to other companies with better opportunities and earnings. Hence, in most cases, they lack specialized know-ledge and adequate expertise in dealing with matters such as logistic arrangements, communicating with foreign customers, etc. Also, they are usually unable to increase production capacity to meet excess demand (APEC and OECD, 2006).

Furthermore, the SMEs severely lack access to technology, whilst having limited scope to undertake research and development (R&D) on their own. Small budget, again, seems to incapacitate the SMEs to apply state-of-the-art technology right from business commencement. Meanwhile, undertaking R&D is also less likely, since they usually lack qualified personnel, as mentioned above. In many countries, the linkages between domestic SMEs and MNCs are yet to be developed, for various reasons. As a result, the SMEs are unlikely to benefit from the technological transfer and diffusion generated by those MNCs. Even if such linkages exist, the benefits from technological transfer and diffusion may be limited, due to SMEs' lack of qualified personnel. The lack of access to technology, therefore, poses another challenge to the development of the SMEs.

Other factors that may hinder the development of SMEs include the unfavorable market conditions. The macroeconomic environment with unfavorable movements may create little incentives for business sector to develop. Meanwhile, in time of high macroeconomic uncertainty, the financial institutions, particularly banks, are reluctant to make loans to the SMEs. Without necessary linkages, even the task of existence may prove too challenging for the SMEs. The presence of certain market distortions, such as monopsonies and unfair competition from large enterprises, presents another challenge to the SMEs, since their limited scales allow for no significant bargaining power. Although macroeconomic conditions affect the whole business sector, the SMEs generally encounter more hardship than large counterparts (Weller, 2004).

Finally, the SMEs' failure to properly development may be attributed to the inadequate access to bank credits and equity. Despite the designed mechanism in various countries, the banks and development financial institutions are still reluctant to provide formal credit to the SMEs (Mustafa and Khan, 2005). A number of reasons are possible for this reluctance, such as SMEs' lack of collateral, high administrative costs over loans to SMEs, short period since business commencement, non-compliant accounting standard and procedures, etc.

The last obstacle to the development of SMEs - inadequate access to formal finance - is really the focus of this study. Accordingly, the views of surveyed banks and SMEs in the APEC member countries are compiled to produce the observations, at the aggregate level, about the significance of, and obstacles to SMEs.

Significance of, and obstacles to SME access to formal finance

Description of the survey

This survey has been undertaken under the framework of Finance Working Group of APEC Business Advisory Council (ABAC). The aim of the survey is to investigate the significance of, and the impediments to SMEs' access to formal finance in the Asia - Pacific region. In doing so, it asks for the views of banks and SMEs in the region on these issues. Specifically, a questionnaire is sent to banks in the 21 economies in the Asia - Pacific region, with a minimum number of surveyees of three in each economy. Another separate questionnaire is required for SMEs throughout the region, and it is sent to at least 9 SMEs in each economy.

There are a couple of things to note. *Firstly*, definition of SMEs differs markedly among APEC Member countries. In one instance, Thailand and Indonesia define SMEs as the enterprises with less than 100 employees. Meanwhile, the maximum thresholds for SMEs in Japan and USA are 300 and 500 employees, respectively. As for the case of Vietnam, the SMEs are those with less than 300 employees or less than VND10 billion of capital. *Secondly*, formal finance includes bank credits, bonds and equity finance. Nevertheless, as issuing bonds is hardly feasible as an instrument for the SMEs, the access to formal finance in this Study necessarily implies bank credits and equity finance.

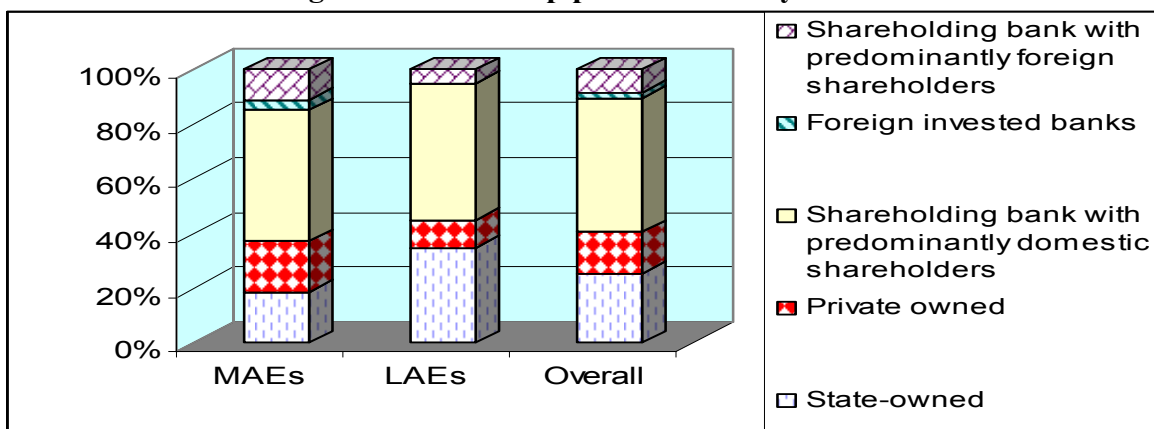
The questionnaire to banks firstly seeks the profiles, lending information of the banks. On that basis, it requires the surveyed banks to provide their own perception of what the main risks and obstacles of lending to SMEs are, as well as their own policies in lending to SMEs. The banks are then asked to assess the availability, type and usefulness of governments' policies, supports and regulations. In a similar manner, a separate questionnaire is designed to investigate SMEs' views of access to formal finance. Apart from general questions on profile of the SMEs, the questionnaire also asks the SMEs to make own evaluations of the significance of access to bank credit and other source of formal finance. Their perception of the role of government policies and schemes, as well as the assistance of business

associations, in facilitating access to formal finance is also collected. Such design of questionnaires on banks and SMEs serves the purpose of checking for consistency between the views of banks and SMEs, thereby justifying the study findings.

Profile of banks and SMEs with responses²

There are 48 responses from banks in the Asia - Pacific region; of which, there are 28 from seven more advanced economies (MAEs), and 20 others from seven less advanced economies (LAEs)³. No responses are collected from banks in Brunei, Mexico, New Zealand, PNG, Peru, Philippines, and Russia. Ignoring one response with no answer to the question on ownership, the shareholding banks with predominantly domestic shareholders account for the largest share, of roughly one half. The share of state-owned banks in the responses is also significant, of about 19 percent in the MAEs and 35 percent in the LAEs. Notably, the proportion of foreign-invested banks in the response is insignificant, and is even zero in the LAEs (Figure 1).

Figure 1: Ownership profile of surveyed banks



Source: Authors' calculations.

Meanwhile, 60 survey responses are received from the SMEs in the Asia - Pacific region. By group of economies, there are 31 responses from SMEs in seven MAEs; whilst the other 29 responses come from six LAEs. By country, the number of responses from Taiwan is the largest, of 16. There has, in fact, been no response from Canada, Korea, New Zealand, Chile, Mexico, Papua New Guinea (PNG), Peru, and Russia. The majority of these surveyed SMEs, about 56 percent, are private with single owner, while there is a significant proportion of shareholding SMEs with predominantly domestic shareholders, of roughly 31 percent (Table

² As of May 30, 2006.

³ In this study, the MAEs are those in APEC member countries with GDP per capita of more than US\$10,000. In the Asia - Pacific, these countries are Australia, Brunei, Canada, Hong Kong, Japan, Korea, New Zealand, Singapore, Taiwan, and United States. Meanwhile, the LAEs have GDP per capita of less than US\$10,000. This group includes Chile, China, Indonesia, Malaysia, Mexico, PNG, Peru, Philippines, Russia, Thailand, Vietnam.

2). The percentage of responses from SOEs is rather small, of about 6 percent in MAEs and 11 percent in LAEs.

Table 2: Classification of responses from SMEs by type of ownership and group of countries

Unit: percent

	<i>MAEs</i>	<i>LAEs</i>	<i>Overall</i>
Private with proprietary ownership	48.39	64.29	55.93
State-owned	6.45	10.71	8.47
Joint venture	3.23	0.00	1.69
Shareholding with predominantly domestic shareholders	35.48	25.00	30.51
Shareholding with predominantly foreign shareholders	3.23	0.00	1.69
Others	3.23	0.00	1.69

Source: Authors' calculations.

The majority of surveyed SMEs, about 55 percent, operate mainly in the manufacturing and other sectors. Meanwhile, around 27 percent of surveyed SMEs have the core business in service sector - excluding wholesaling and retailing services. There has also been no remarkable difference in the distribution of SME responses by ownership in the two groups of economies - MAEs and LAEs.

In another aspect, most of the SMEs with responses have been in business for more than five years. The proportion of such SMEs in the responses from LAEs is roughly 72 percent, whereas for MAEs, such proportion is even higher, of about 90 percent. Notably, none of the responses is from the SMEs with operation of less than one year of business experience.

The size of SMEs can be reflected either by the number of employees, or by the total assets. In terms of employment size⁴, most of surveyed SMEs (95 percent) have at least 10 employees. The proportion of those with number of employees between 10 and 30 is the largest, of slightly over one-third. The distribution of the surveyed SMEs in terms of total assets is, nevertheless, different. About 42 percent of them have more than US\$3 million of total assets, whilst total assets are somewhere between US\$1 million and US\$3 million in about 28 percent of the surveyed SMEs. Also, a significant proportion of SMEs, of around 15 percent, have no more than US\$200,000 of total asset. Again, regardless of whether the size of SMEs is measured in terms of employment or total assets, there has been almost no significant difference between the distributions of responses from in MAEs and LAEs.

Surveyed outcomes from bank's perspective⁵

Most of the banks claim to have experience in dealing with SMEs' loan requests (88%). However, the patterns in MAEs and LAEs are slightly different. Whilst roughly 54 percent of the banks in MAEs are very experienced in processing loan requests from SMEs, the

⁴ As of December 31, 2005.

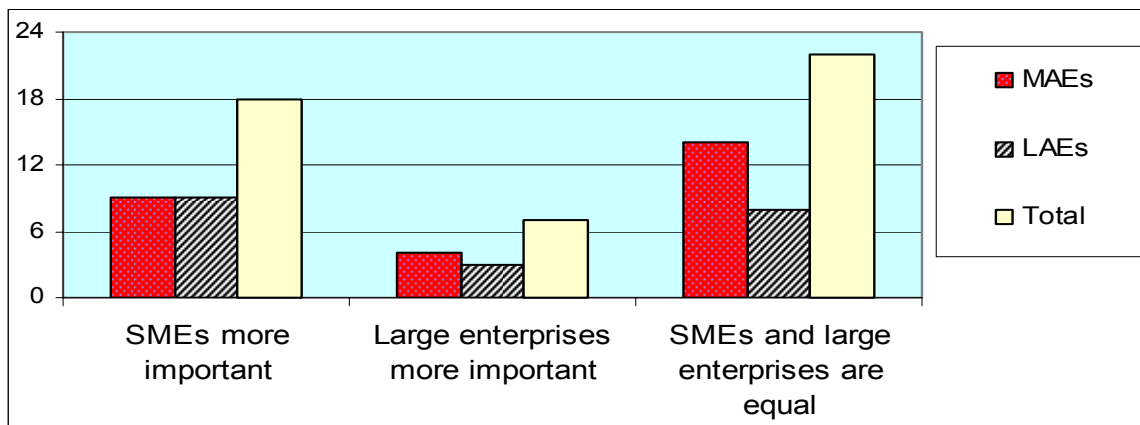
⁵ For simplicity, this section only refers to the surveyed banks.

corresponding proportion of banks in LAEs is only 30 percent. It seems accordingly that the banks in MAEs have more experience in such activities than their counterparts in LAEs. A couple of explanations are possible for this. *Firstly*, the banks in MAEs may have more qualified analysts and professionals, with better expertise at evaluating credit risk from SMEs. *Secondly*, the financial markets in MAEs have for long developed, which allows for the earlier access to formal credit by those enterprises. Even so, it is worth to note that the degree of experience as implied by the claim “very experience” can be different between the banks. It may happen that the banks in the MAEs have processed fewer loan requests from SMEs than those in the LAEs, yet the former are still very confident of their experience.

Of the surveyed banks, about 38 percent regard the SMEs as more important than large enterprises, 47 percent consider SMEs and large enterprises of equal importance, whilst only 15 percent feel that large enterprises are more important (Figure 2). Ignoring the credibility of responses, there has been some evidence that the banks are not biased against the SMEs in making loan. In fact, SME loans account for at least 30 percent of loans in about 44 percent of the banks, whilst they account for less than 20 percent in about 47 percent of the banks. Notably, the share of SME loans was less than 10 percent in about 14 percent of the banks, and only one-sixth of these banks operated in LAEs. To some extent, this further supports the claim that banks in the MAEs seem to have more experience in dealing with SMEs’ requests for loan.

Figure 2: Relative importance of SMEs to the banks

Unit: Number of observations



Source: Authors’ calculations.

In another aspect, most of the banks (76 percent) have witnessed an increase in share of loans to SME over the period 2000-05. Notably, only 11 percent of the surveyed banks experienced a decrease in that share, and all those banks are in the MAEs. The correlation between the proportion of SME loans and the share of long-term loans in SME loans, despite the irrelevance of its magnitude, is positive. Perhaps, as SMEs are successfully granted more

loans, they gradually establish confidence of the banks. This enables them to obtain credit on a longer-term basis.

In terms of composition of those loans, long-term credit⁶ account for at least 50% in about 42% of the banks, whilst being less than 10% in about 15% of the banks. There also seems to exist a difference between the loan structure between banks in MAEs and those in LAEs. The share of long term loans in those to SMEs is more than one half for roughly 52 percent of banks in the MAEs, and for 30 percent of their counterparts in the LAEs. That is, on making loans to SMEs, the surveyed banks in LAEs mostly provide those loans on a short or medium-term basis. It might then be justified that the banks in LAEs are less experienced in dealing with SMEs' loan requests. As the risk from making shorter-term loans is usually smaller, those banks attempt to avoid having to manage the risk from long term loans which is perhaps beyond their capacity.

In fact, most of the surveyed banks agree on the risks of lending to SMEs, relative to large enterprises. As reflected from the survey, SMEs' rate of default in banks' loans is higher than that of large enterprises in roughly 65 percent of the banks. Meanwhile, about 63 percent of surveyed banks face higher non-performing loans (NPL) when making loans to SMEs. The risk of lending to SMEs is even exacerbated by difficulties, in social and political aspects, to enforce payment or recover assets when those firms default on loans. This view is shared by around 60 percent of the banks.

However, some differences exist between the incidence of default and NPLs in MAEs and LAEs. The proportion of banks facing higher default rate in MAEs, of roughly 88 percent, is more than twice as large as that in LAEs, of 41 percent. While this result is important, it is perhaps inconsistent with the management capacity of the banks in MAEs as previously claimed. Alternatively, the way of assessment may have its impact, as the standard may be higher for banks operating in MAEs. Similarly, about 81 percent of banks in MAEs face higher NPLs of SMEs, whilst corresponding percentage among banks in LAEs is only around 44 percent. Besides, in case of SMEs' default, the banks in LAEs face more social and political challenges to claim back their money (79 percent vs. only 43 percent of banks in the MAEs).

Apart from those *actual* risks, the banks do point out some key obstacles to approving SME loan requests. Among them, SMEs' lack of collateral is the most important, as agreed by approximately 88 percent of banks. Obviously, without necessary assets to back up loan request, SMEs can hardly get access to formal credit from banks. Another obstacle, of equivalent importance, is the cost of gathering information about SMEs. When it is impossible, or very expensive relative to the size of loan, to find out whether the SMEs are making profits, or whether they will be using the funds for reasonable purpose, etc., banks are

⁶ Granted for the period of at least two years.

reluctant to grant loans to SMEs. Most of the banks in both MAEs and LAEs, of 92 percent and 95 percent, respectively, consider SME's experiences as an important factor in evaluating the loan requests. 87 percent and 82 percent of them make no consideration of loan requests from SMEs with less than 5 years of survival.

Other important barriers to SMEs' access to bank loans, as indicated by the banks, may include, but not limited to, inadequate accounting standard (agreed by 84 percent of banks), high administrative cost (78 percent), and less reliable projects (80 percent). Regarding all these obstacles, the views do not differ significantly between the banks in MAEs and LAEs. The only notable one is *accounting standard* seen as a more serious problem, by about 95 percent of banks in LAEs.

Despite the usefulness of bank loans, access to such facility proves too difficult for SMEs for reasons as mentioned above. However, apart from loans, the banks also provide other commercial facilities to SMEs. Specifically, among such provisions, factoring/forfeiting⁷ is the most popular, as it is agreed by 62 percent of the banks. Other commercial facilities of popularity are leasing (45 percent), credit rating (38 percent) and corporate guarantee scheme (32 percent). Notably, provision of credit rating is really popular in the LAEs (70 percent of surveyed banks), whilst being rather limited by only 15 percent of banks in the MAEs (Table 3). It is worth to note that corporate guarantee and factoring as regarded as the most important facilities by 72 percent and 74 percent of banks, respectively.

Table 3: Most popular provisions of commercial facilities by banks to SMEs

Unit: percent

	<i>MAEs</i>	<i>LAEs</i>	<i>Overall</i>
Factoring/forfeiting	67	55	62
Leasing	41	50	45
Credit rating	15	70	38
Corporate guarantee	37	25	32

Source: Authors' calculations.

Apart from active provision of commercial facilities by the banks, the role of government policies/supports is also seen as critical. Most banks recognize the importance of government facilitation (96 percent) and financial regulatory environment (88 percent). Specifically, the most important type of support is state guarantee scheme for the SMEs, indicated by 60 percent of banks. Other types of government supports and policies that may be worthwhile are credit rating (34 percent), technical support (30 percent), and establishing special funds to lend to SMEs (28 percent). Nevertheless, it is essential that the government/state should acknowledge the role of, and do not bias against, the SMEs. While this can be easily agreed on, it fails to be reflected in actual policies of government for various reasons. In fact, one

⁷ Process of providing liquidity to SMEs by purchasing their commercial account receivables in the future (invoice) at a discount with/without recourse to previous holders of receivables.

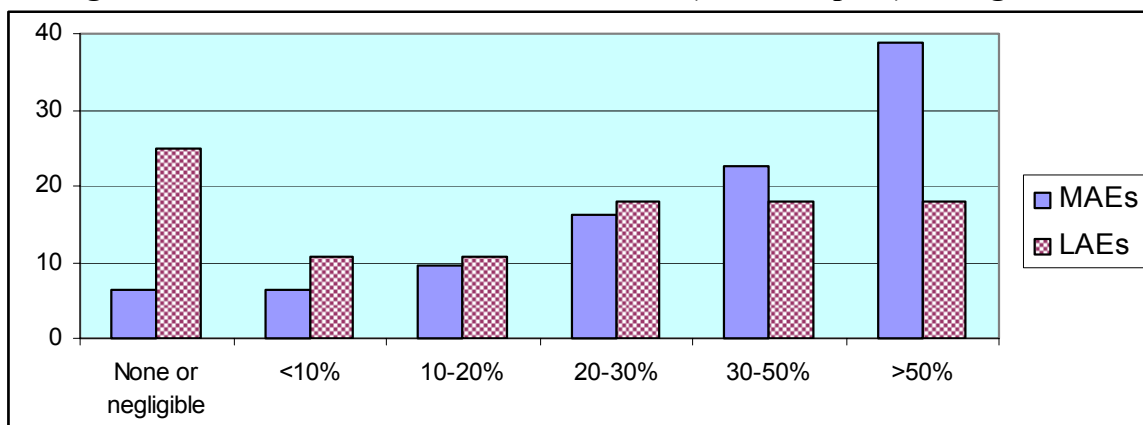
half of the banks still think that the government policies are more favorable to large enterprises in terms of access to commercial finance.

Most banks accept that the most feasible/efficient sources of finance to SMEs are commercial banks (96 percent), VC (74 percent) and government assistance fund (72 percent). In their view, SMEs should have recourse to these sources of finance.

Surveyed outcomes from SME's perspective

This section provides some observations, from the SMEs' perspective, about accessing formal finance in the Asia - Pacific region. About half of the (surveyed) SMEs rely on bank loans for at least 30 percent of their total capital. In this aspect, there appears to exist a difference between MAEs and LAEs as about 61 percent of SMEs in the former have at least 30 percent of loan in total capital, whilst corresponding proportion in the latter is only about 36 percent. That is, the SMEs in MAEs have higher proportion of bank loans than those in LAEs (Figure 3). Perhaps this result supports the claim that the banks in MAEs are more experienced in dealing with SMEs' loan requests, as discussed in the previous section.

Figure 3: Distributions of share of bank loans (in total capital) among the SMEs



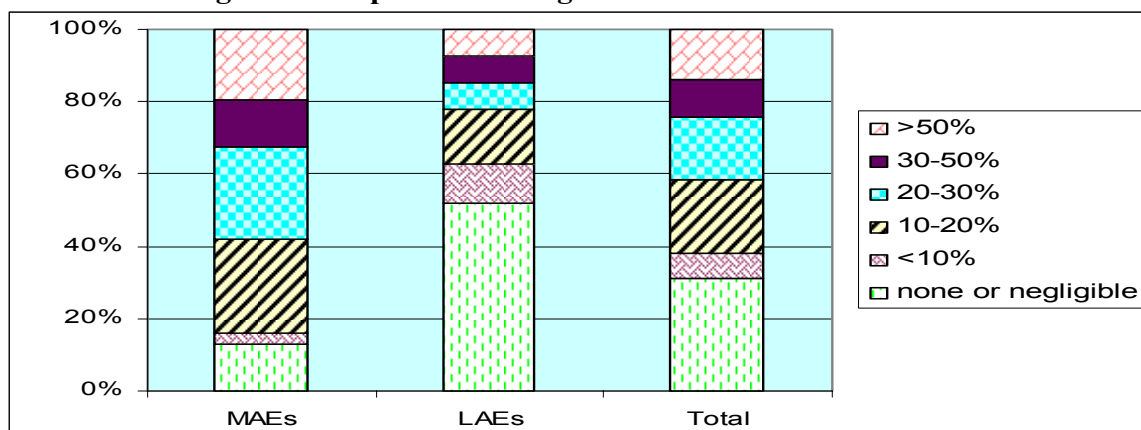
Source: Authors' calculations.

The percentage of bank loans in total capital is increasing in almost one half of the surveyed SMEs. Meanwhile, more than one-third of the SMEs maintain stable share of loan in total capital over the period from 2001-05. This can be explained by the significance of bank loans as viewed by the SMEs. In fact, most of the SMEs (about 71 percent) regard commercial loans as the most useful source of finance, and much more important than government assistance fund (only 24 percent) and supports from friends and business associates (24 percent).

The majority of SMEs, about 83 percent, agree that long-term credit is more important than short-term credit. Despite this preference, there appears to be reluctance to providing credit on a longer-term basis, as indicated above by the banks. The need for long-term credit seems more pressing in MAEs (agreed by 93 percent of SMEs) than in LAEs (71 percent). However,

the proportion of long-term credit in SMEs' bank loans is still limited: 75 percent of SMEs have less than 30 percent of long-term loans in total bank loans. Access to long-term finance from bank is even more limited in LAEs, where the corresponding proportion is around 85 percent (Figure 4).

Figure 4: Proportion of long term loans in SMEs' bank loans



Source: Authors' calculations.

In fact, the survey does extract some information from SMEs about request for bank loans. There are some conveniences for the SMEs when applying for bank loans. In fact, about 84 percent of SMEs claim that the banks are quite responsive to their financing requirements. The procedures to obtain bank credits are quite easily understandable, as justified by 88 percent of the surveyed SMEs. Furthermore, obtaining bank credits can be easy for SMEs if they have good projects. This is agreed by around 76 percent of the SMEs.

Such convenience by no means implies the *actual* ease of obtaining bank loans by SMEs. Similar to the banks, the SMEs quite agree on some key obstacles to access to bank credit. The first of those is lack of collateral – the most important prerequisite for getting bank loans. 77 percent of surveyed SMEs find this as the key barrier to their access to bank loans. This may give rise to the demand for guarantee, by the governments and/or the banks, and venture capital investors. Similar to the views from banks' perspective, most SMEs agree that limited provision of bank loans also results from their failure to provide reliable project information (61 percent), lack of business experience (53 percent), and from the size of their loan requests being too small (51 percent). Apart from those bank-related obstacles, unfair competition from large enterprises for bank credits is acknowledged as a challenge by most of the SMEs (92 percent), despite the relative importance of SMEs in banks' opinion as illustrated in Figure 2 .

This Study also attempts to figure out the relationship between the proportion of bank loans (denoted by HIGH_BANK_LOANS⁸) in SMEs' total capital and variables such as country

⁸ Equal to 1 if bank loans account for more than 30 percent of total capital, and equal to 0 otherwise.

group (MAE⁹), forms of ownership (PROPRIETARY¹⁰), area of operation (SERVICES¹¹) and the business experience (Y_3_5¹² and Y_5_PLUS¹³). The base SME to compare with is one with less than 30 percent of bank loans in total capital, less than 3 years of business experience, operating in manufacturing or industries other than services in a LAE. For convenience of interpretation, the Study employs a probit model for the regression, with no constant¹⁴. The estimated results are tabulated in Table 4.

Table 4: The proportion of bank loans in relations with country group, ownership form, area of operation and length of business operations

Dependent Variable: HIGH_BANK_LOANS				
Method: ML - Binary Probit (Quadratic hill climbing)				
Sample: 1 60				
Included observations: 59				
Variable	Coefficient	Std. Error	z-Statistic	Prob.
MAE	1.096948	0.384253	2.854755	0.0043
PROPRIETARY	0.773776	0.377879	2.047683	0.0406
SERVICES	-0.628296	0.365224	-1.720305	0.0854
Y_3_5	-1.522381	0.641879	-2.371758	0.0177
Y_5_PLUS	-0.791960	0.399269	-1.983525	0.0473
Mean dependent var	0.491525	S.D. dependent var		0.504219
S.E. of regression	0.454891	Akaike info criterion		1.302075
Sum squared resid	11.17399	Schwarz criterion		1.478138
Log likelihood	-33.41122	Hannan-Quinn criter.		1.370803
Avg. log likelihood	-0.566292			

Source: Authors' calculations.

Some notes can be drawn out from the regression model, particularly the signs and significance of the estimated coefficients. Other things being equal, the SME in a MAE has significantly higher proportion of bank loans in total capital. Besides, the SME with proprietary ownership are likely to borrow more from banks. The level of business experience, on the other hand, has significant negative impact on the proportion of bank loans, which is to some extent surprising given the banks' view in previous section. Finally, though the SMEs in services appear to have lower proportion of bank loans in total capital than the counterparts in manufacturing or other industries, such difference is insignificant.

⁹ Equal to 1 if the SME operates in an MAE, and equal to 0 otherwise.

¹⁰ Equal to 1 if the SME is private with proprietary ownership, and equal to 0 otherwise.

¹¹ Equal to 1 if the SME operate in service industry, and equal to 0 otherwise.

¹² Equal to 1 if the SME has operated for the period of between 3 and 5 years, and equal to 0 otherwise.

¹³ Equal to 1 if the SME has operated for more than 5 years, and equal to 0 otherwise.

¹⁴ To avoid multi-collinearity.

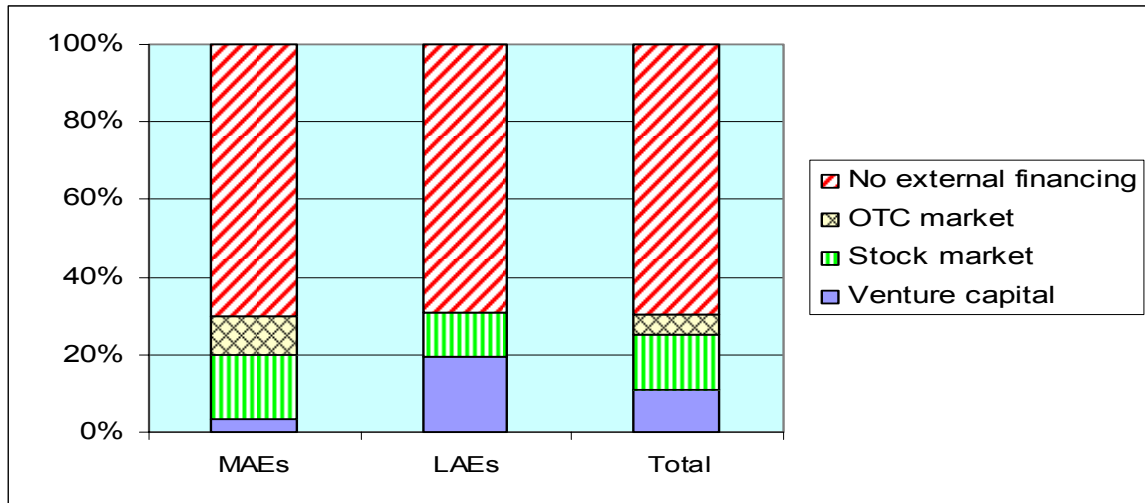
To check for consistency with the banks' view, the survey questionnaire is also designed to capture SMEs' evaluation of the role of government policies. The governments are observed to put SME development as a priority by around 94 percent of the surveyed SMEs. Besides, almost all SMEs (92 percent) feel that the vision and/or strategy to develop SMEs of their government are clear. In addition, respective proportions of 81 percent and 73 percent of SMEs feel that procedures for starting up a new business and government facilitating access to bank credits are transparent and simple. However, only 72 percent of SMEs in the LAEs find no significant issue with the business starting procedures, reflecting a weakness of these countries relative to the MAEs.

The most popular policies to support SME access to finances are borrowing guarantee, observed by around 53 percent of surveyed SMEs, and establishment of special financial institutions - 46 percent of those SMEs. Of limited popularity are equity capital promotion and saving grant, as they are only agreed by 7 percent and 3.5 percent of the SMEs, respectively. Besides, credit access is also promoted by chambers of industry and commerce (to 84 percent of SMEs), by business associations (83 percent), and by mutual guarantee associations (91 percent).

The SMEs also list the most important policies by government in facilitating their access to formal finance. 67 percent of them believe in the essence of governments' guarantee for borrowings. The establishment of special financial institutions would also be of major importance, as indicated by 47 percent of the SMEs. Venture capital (VC), as a potential source of formal finance for SMEs, is considered less significant. Only 37 percent of SMEs feel the need for policies to encourage investment from VC investors, whereas around 26 percent emphasize the necessity of government buying into SMEs as VC investor. Of much less importance are equity capital assistance (claimed by only 24 percent of SMEs), interest subsidies (24 percent), and saving grant (21 percent). Although these important policies have been actually implemented by the governments, whether they suffice for the need of SMEs remains questionable. Even if this issue is ignored, it is noteworthy that, unlike the banks, about 85 percent of the SMEs think that government policies are still in favor of large firms.

The majority of surveyed SMEs (about 70 percent) have no equity finance from external sources. Only 5 percent of SMEs obtain equity finance from OTC markets, and all of them operate in MAEs, specifically Taiwan and Japan. In LAEs, however, external equity finance comes mainly, and perhaps surprisingly, from VCs. Meanwhile, finance from VCs and stock markets is only present in 11 percent and 14 percent of the surveyed SMEs (Figure 5). On the one hand, such observation may imply SMEs' limited awareness of the role of VCs and stock markets. As reflected in the survey outcomes, only around 7 percent and 10 percent of SMEs realize the usefulness of finance from VCs and stock markets, respectively. On the other hand, it may also be the case that VCs and stock market are underdeveloped.

Figure 5: Some sources of equity finance as indicated by the surveyed SMEs



Source: Authors' calculations.

Some conclusions and policy recommendations

This study aims at investigating the views of banks and SMEs, in the Asia – Pacific region, about access to formal finance of the latter. To facilitate deeper understandings, Section 0 provides a brief review of the literature on the role of SMEs in the economy, as well as why such sector may fail to develop at an adequate level. Using data from a survey questionnaire, Section 0 then makes some compilations to find out the answers to those questions how significant access to formal finance, particularly bank credits, is for SMEs, and what factors hinder such access. It also makes some comparisons, to figure out the differences between MAEs and LAEs in such matters. To check for consistency, in addition, Section 0 also compares the views of banks and SMEs to the maximum extent possible.

It ought to note some limitations of this study. Firstly, it makes no definitive guarantee for the credibility of information provided by the surveyed banks and SMEs, which may affect the survey outcome. For example, the share of loans in SMEs' total capital may be over- or under-estimated. Besides, as all the information provided by the banks and SMEs is qualitative in manner, more in-depth analyses of the survey outcomes are hardly possible. The lack of a case study, with sufficient details, leaves the arguments in this study less sound. Most importantly, the representativeness of *collected* sample also fails to be undoubtful. As mentioned in the survey description, for instance, the responses are only provided by SMEs from seven MAEs and six LAEs, and the numbers of responses from those economies are highly dispersed. In another instance, most of the surveyed SMEs have no equity financing from external sources, which restricts more detailed study of the role of, and obstacle to SMEs' equity financing.

Despite such shortcomings, the main findings of Section 0 are remarkable. Most of the banks have experience in dealing with, and are not biased against, SMEs' loan requests. The shares

of loans to SMEs, in total bank loans and in SMEs' total capital, have been increasing over the recent period from 2001-05. Long-term loans seem more likely in the MAEs than in LAEs, as reflected by views of both banks and SMEs. The key obstacles to SMEs' access to bank loans include their lack of collateral and experience, costly information gathering, high administrative costs, and less reliable projects.

Apart from SMEs' efforts, it is essential that both the banks and governments in the Asia – Pacific make important provisions to facilitate SMEs' access to formal finance. Beside loans, factoring, forfeiting, leasing, credit rating and corporate guarantee scheme are seen as the most important by the banks. In fact, these are also the most popular provisions by the banks. Meanwhile, the role of government is critical, particularly in providing state guarantee, credit rating, and special funds to lend to SMEs. In fact, SME development has been prioritized by the government, with clear visions and/or strategy. Yet both the banks and SMEs feel that government policies are probably more favorable to large enterprises, than to the latter themselves. On the other hands, assistance from business associations is also emphasized by the SMEs in facilitating their access to formal finance.

From those findings, some recommendations can be drawn out as follows:

For government and business associations

To begin with, “traditional” (fiscal) incentives such as interest rates subsidies seem to lose significance, which may require a different approach to SME development. This claim seems to be consistent with suggestions of numerous literatures.

Besides, the governments should impose non-discriminatory policies, particularly in access to formal finance, to both SMEs and large enterprises. Whilst special attention may be paid to developing large enterprises, the vital importance of SMEs should be properly acknowledged.

The governments also need to take measures to further simplify the procedures, improve the financial regulatory environment in general and accounting standards in specific, particularly for SMEs in the LAEs.

Furthermore, dissemination of information about the role of other sources of formal finance, apart from bank loans, should be promoted. Certain training is also required to better prepare for SMEs in accessing to VCs, stock/OTC markets.

In another aspect, the government should continue current supports, such as guarantee scheme, special funds to lend to SMEs. Yet proper management scheme is required to avoid moral hazard, adverse selection, and other abuses of those supports. Where appropriate, such supports should focus on the early stages of business, particularly in LAEs, to force the SMEs to make their own efforts.

On facilitating SMEs' access to formal finance, their problems require the government to seek other types of supports. Among them is to establish rating agencies, whose services may help the banks to know more about the SMEs. This is seen as an important measure by the participants to the conference on "Promoting the development of credit rating industry in the Asia - Pacific region", organized in Hanoi in early June, 2006.

In addition, the governments in the LAEs should seek technical supports from donors in facilitating SME development (Rodriguez, 2004). The quality of such supports deserves some attention and consideration, to achieve the desired target. A number of areas in these countries are, in fact, demanding those supports. In particular, accounting standard and preparing business plan should be in the focus, since they present the fundamental weaknesses of the LAEs.

Finally, the role of business associations should be emphasized in helping to establish a network linkage between the SMEs, and between the SMEs and the banks. These associations are also important in that they raise an official voice for the SMEs, regarding the needs for development policy, to the government. In that sense, SMEs' access to formal finance can be promoted.

For commercial banks

Firstly, the banks should properly acknowledge the significance of SMEs as a clientele. Despite a number of problems in lending to these enterprises, they present a huge market potential with significant room to expand. A number of APEC member countries are also implementing policies to encourage the development of such sector. To that extent, the long-term benefits from SMEs deserve adequate attention from the banks.

With such acknowledgement, banks should continue to provide credit ratings for the SMEs. In line with this, the banks should also strengthen the capacity in SME credit evaluation. Perhaps they may do so with the assistance from governments. On the one hand, this helps to make formal finance more accessible to the SMEs. Such provision is also of great benefits to banks, since apart from establishing linkages with the SMEs, the banks have the opportunity to develop its supply of credit rating services.

Lastly, participating in corporate guarantee schemes to facilitate SME access to bank credits, in cooperation with chambers of commerce and industries and entrepreneurs, should still be emphasized, though this has already been in the banks' awareness.

For SMEs

In accessing formal finance, it is essential that the SMEs learn to properly prepare their business plans. This will help to minimize the time costs and economic costs of checking and

amending to meet the banks' requirements. Besides, such efforts do contribute to building up professionalism of the SMEs.

Recognizing the demand of banks and other creditors, SMEs should actively promote the disclosure of their information. A significant step in this is to improve the accounting standard. Such process not only helps the SMEs to gain investor confidence, but also facilitate the credit rating of those enterprises.

Although training and technical support are necessary, SMEs should learn to access to various sources of equity finance. The availability of OTC market and venture capital, if any, should be fully exploited.

The final recommendation is for the SMEs to enhance their linkages, with other counterparts or with banks, under business associations. Together, the SMEs can make the guarantee scheme more effective for themselves. Moreover, as a group under business associations, the SMEs can have sufficient voice to make proposals to the governments, so as to improve their access to formal finance./.

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Annex I: Questionnaire to Banks

Name of your bank:

Address:

Telephone:

Fax:

Email:

Contact person:

Note: *Small and medium enterprises (SMEs) in this survey are those officially defined as SME in your economy*

1 Which of the followings best describes your bank

- State owned Privately owned Share holding bank with predominantly domestic shareholders
- Foreign invested bank Share holding bank with predominantly foreign shareholders

2 Level of experience in dealing with SME loan requests.

- Very experienced Experienced Not much Not at all

3 Which do you regard as more important segment of your customer base?

- SMEs Large enterprises They are equal

4 Share of loans your bank has made to SMEs in the total credit

- < 10% 10% - 20% 20% - 30% 30% - 50% > 50%

5 In recent period (say 2000-2005), this share is

- Firmly increasing Increasing Almost unchanged Decreasing Significantly decreasing

6 Of total loans to SMEs, long-term lending (defined as over 2 years) account for:

- < 10% 10% - 20% 20% - 30% 30% - 50% > 50%

7 Default rates on loans made to SMEs are higher than those made to large enterprises?

- Very high High They are equal No, they are lower No answer

8 Ratios of non-performing debts on SMEs lending are higher than the ratio on large enterprises lending

- Very high High They are equal No, they are lower No answer

9 SMEs lack of assets to meet collateral requirements

Strongly agree Agree Somewhat agree Don't agree No answer

10 More costly to gather reliable information on SMEs?

Strongly agree Agree Somewhat agree Don't agree No answer

11 Accounting skills and standards applied in SMEs do not meet your bank's requirements.

Strongly agree Agree Somewhat agree Don't agree No answer

12 In general, average administrative costs on loans made to SMEs are high

Strongly agree Agree Somewhat agree Don't agree No answer

13 Projects proposed by SMEs are less reliable due to their low capacity of analyzing projects

Strongly agree Agree Somewhat agree Don't agree No answer

14 Number of years of survival of an SME is an important factor in deciding whether or not to make loans to that enterprise

Strongly agree Agree Somewhat agree Don't agree No answer

15 You will not consider a loan request by an SME whose years of survival:

< 1 year less than 3 years less than 5 years

none of these level. Please specify how many years of business is required

no answer

16 Please specify current government policies that are facilitating SMEs in accessing commercial bank credit in your economy (select more than one, if necessary)

- State guarantee scheme Interest subsidies Technical support for SMEs in accessing to bank credit
- State financial supports to banks for providing medium and long term credits A special fund for commercial banks to lend for SMEs
- Buying into SMEs as a venture joiner Investing in Venture capital Institutions*
- Credit rating/credit score (Credit Bureaus and Credit Reporting Agencies provide credit information to creditors, such as banks and businesses, to help them decide whether to issue a loan or extend credit)
- Others, please specify No policies

**Venture capital investment: This is a type of equity investment usually best suited for rapidly growing enterprises that require a lot of capital or start-up enterprises with a strong business plan but risky.*

17 What is your opinion about the usefulness of government facilitation in supporting SMEs access to commercial banking sources

- Very useful of some use Not useful

18 Does financial regulatory environment helps facilitate commercial financing availability to SMEs

- Strongly agree Agree Somewhat agree Don't agree No answer

19 In your opinion, the most important policy/policies for SMEs is/are

- State guarantee scheme Interest subsidies Technical support for SMEs in accessing to bank credit
- State financial supports to banks for providing medium and long term credits A special fund for commercial banks to lend for SMEs
- Buying into SMEs as a venture capital investor Credit rating/credit score
- Investing in Venture capital Institutions* Others, please specify

20 Does your bank also provides any or all the following commercial facilities to SMEs (select more than one if necessary)

- Corporate guarantee schemes (a guarantee scheme corporately managed by participating banks, chamber of commerce and entrepreneurs themselves
- Factoring/forfaiting (the process of providing liquidity for SMEs by purchasing their commercial accounts receivable in the future (invoices) at a discount with/without recourse to previous holders of receivables*.)
- Leasing Running a special fund for lending to SMEs
- Setting up a credit rating/scoring board None of those above
- Others, please specify:

Forfaiting is a one kind of factoring but purchaser of commercial accounts has no recourse to previous holders of receivables in case of default

21 **In your opinion, which type of commercial facility other than normal loans is the most useful to SMEs** (select more than one in priority order which, 1 is the most important and 5 is the least, if necessary)

		Priority
<input type="checkbox"/>	Corporate guarantee schemes (a guarantee scheme corporately managed by participating banks, chamber of commerce and entrepreneurs themselves)	▲ <input type="text"/> ▼
<input type="checkbox"/>	Factoring/forfaiting (the process of providing liquidity for SMEs by purchasing their commercial accounts receivable in the future (invoices) at a discount with/without recourse to previous holders of receivables.	▲ <input type="text"/> ▼
<input type="checkbox"/>	Leasing	▲ <input type="text"/> ▼
<input type="checkbox"/>	Investing in Venture capital Institutions	▲ <input type="text"/> ▼
<input type="checkbox"/>	None of those, please other facilities:	

22 **It is socially and politically more difficult to enforce repayment of loans or to recover assets in cases of default by SMEs**

Strongly agree
 Agree
 Somewhat agree
 Don't agree
 No answer

23 **In general, do government policies and incentives to facilitate access to commercial finance favour large enterprises more than SMEs?**

Strongly agree
 Agree
 Somewhat agree
 Don't agree
 No answer

24 **Please identify one or more alternatives (in order of priority which 1 is the most important and 5 is the least important) that you think is/are the most feasible and efficient financial source(s) that SMEs should have recourse to**

	Priority		Priority
<input type="checkbox"/> Stock market	▲ <input type="text"/> ▼	<input type="checkbox"/> Over-the-Counter (OTC) market*	▲ <input type="text"/> ▼
<input type="checkbox"/> Venture capital funds	▲ <input type="text"/> ▼	<input type="checkbox"/> Government assistance funds	▲ <input type="text"/> ▼
<input type="checkbox"/> Commercial banks	▲ <input type="text"/> ▼	<input type="checkbox"/> None of those, please other sources:	

**Over-the-counter market: A market for securities made up of securities dealers who may or may not be members of a securities exchange. The over-the-counter market is conducted over the telephone and deals mainly with stocks of companies without sufficient shares, stockholders or earnings to warrant listing on an exchange. Over-the-counter dealers may act either as principals or as brokers for customers. The over-the-counter market is the principal market for bonds of all types.*

Annex II: Questionnaire to SMEs

Name of your Enterprises:

Address:

Telephone:

Fax:

E-mail:

Contact Person:

1 Which best describes the ownership of your enterprise

Private with proprietary ownership state-owned Joint-venture Others

Share holding with predominantly domestic shareholders Share holding with predominantly foreign shareholders

2 Which best describes your core business sector

Services Wholesaling retailing Manufacturing and others

3 How long have you been in business.

< 1 year 1 - 2 years 2 - 3 years 3 - 5 years > 5 years

4 Number of full-time workers in your company as of December 31, 2005 is

< 10 10 - 30 31 - 50 50 - 99 100 - 299 >300

5 Total assets of your enterprise is (thousand USD)

< 200 200 - 500 500 - 1000 1000 - 3000 > 3000

6 In your country the government has clear vision, strategy and policies to promote SMEs

Strongly agree Agree Somewhat agree Don't agree No answer

7 Promoting SMEs is a priority of the Government

Strongly agree Agree Somewhat agree Don't agree No answer

8 The procedure for starting up a new business is transparent and simple

Strongly agree Agree Somewhat agree Don't agree No answer

9 The responsiveness of the government to the needs of business is high

Strongly agree Agree Somewhat agree Don't agree No answer

10 **In general, government's policies are in favour of large enterprises**

Strongly agree Agree Somewhat agree Don't agree No answer

11 **Are the procedures for obtaining bank credit easily understandable**

Strongly agree Agree Somewhat agree Don't agree No answer

12 **Banks are responsive to SMEs' financing requirements**

Strongly agree Agree Somewhat agree Don't agree No answer

13 **The effective interest rate* that bank charges on SMEs are higher than effective rate charges on large enterprises.**

Strongly agree Agree Somewhat agree Don't agree No answer

**Effective interest rate includes interest rate and informal fees, time and other costs for one unit of credit*

14 **The proportion of bank loans to your total capital is**

none or negligible < 10% 10% - 20% 20% - 30% 30% - 50% > 50%

15 **In recent period (say 2001-2005), this share is**

Firmly increasing Increasing Almost unchanged Decreasing Sharply decreasing

16 **Of total credit provided by banks to your enterprise, the proportion of long-term credits (defined as credit longer than 2 years) is**

none or negligible < 10% 10% - 20% 20% - 30% 30% - 50% > 50%

17 **Access to long-term credits (over 2 years) is more important for SMEs than short-term credit**

Strongly agree Agree Somewhat agree Don't agree No answer

18 **Collateral is a prerequisite for getting loans**

Strongly agree Agree Somewhat agree Don't agree No answer

19 **It is not difficult for a good project to get financing from commercial banks**

Strongly agree Agree Somewhat agree Don't agree No answer

20 SMEs face unfair competition from large enterprises in competing for bank credits

- Strongly agree Agree Somewhat agree Don't agree No answer

21 The main obstacles that SMEs in this economy face in accessing to banks' credit is (select more than one if necessary in order of priority which 1 is the most important and 8 is the least important)

<input type="checkbox"/> SMEs lack of required collateral	Order ◀▶ <input type="text"/>	<input type="checkbox"/> SMEs cannot provide reliable information on their financial state and prove profitability of projects	Order ▲▼ <input type="text"/>
<input type="checkbox"/> SMEs have not been in good relation with banks	Order ◀▶ <input type="text"/>	<input type="checkbox"/> SMEs are usually too young to have enough information to gain banks'	Order ▲▼ <input type="text"/>
<input type="checkbox"/> Accounting system applied in SMEs is under standard	Order ◀▶ <input type="text"/>	<input type="checkbox"/> Procedures to apply for banks' credits are too complex and time consuming	Order ▲▼ <input type="text"/>
<input type="checkbox"/> SMEs loans requests are too small be worth considering	Order ◀▶ <input type="text"/>	<input type="checkbox"/> Effective interest rates charged on SMEs' borrowings are too	Order ▲▼ <input type="text"/>

Effective interest rate includes interest rate and informal fees, time and other costs for one unit of credit

22 Which of the followings have you used for equity financing

- Venture capital** Stock market Over-the-Counter (OTC) market*
- No external equity financing source

**Over-the-counter market: A market for securities made up of securities dealers who may or may not be members of a securities exchange. The over-the-counter market is conducted over the telephone and deals mainly with stocks of companies without sufficient shares, stockholders or earnings to warrant listing on an exchange. Over-the-counter dealers may act either as principals or as brokers for customers. The over-the-counter market is the principal market for bonds of all types*

***Venture capital investment: This is a type of equity investment usually best suited for rapidly growing companies that require a lot of capital or start-up companies with a strong business plan.*

23 What is the most helpful source of finance for SMEs (select more than one if necessary)

- Commercial banks Stock market Over-the-Counter (OTC) market
- Venture capital investors Government assistance funds None of these
- Credit unions and other similar non- bank financial institutions Support from friends or business associates

24 Government policies to support SMEs access to finance are clear and transparent and readily understandable

- Strongly agree Agree Somewhat agree Don't agree No answer

25 Please specify SME finance support policies that are available in your economy

- | | |
|--|---|
| <input type="checkbox"/> Guarantee Scheme for SMEs borrowings | <input type="checkbox"/> Technical support for SMEs in accessing to bank credit |
| <input type="checkbox"/> Equity capital assistance for establishment, acquisition, stabilizing investment. | <input type="checkbox"/> Saving grant (when your savings reach a critical line, you will be granted a subsidy) |
| <input type="checkbox"/> Government buying into SMEs as a venture capital investor | <input type="checkbox"/> Policies which encourage venture capital investors to invest in SMEs |
| <input type="checkbox"/> Setting up a special financial institution to promote SMEs | <input type="checkbox"/> Other policies which encourage commercial banks to lend SMEs |
| <input type="checkbox"/> Subsidies for interest payment | <input type="checkbox"/> None of these |
| <input type="checkbox"/> Banks' general commercial lending policies are favourable to SMEs | |

26 What is/are the most important policies supporting SMEs access to commercial finance (select more than one if necessary in order of priority which 1 is the most important and 10 is the least important)

- | | order | | order |
|--|--------------------------|---|--------------------------|
| <input type="checkbox"/> Guarantee Scheme for SMEs borrowings | ▲ <input type="text"/> ▼ | <input type="checkbox"/> Technical support for SMEs in accessing to bank credit | ▲ <input type="text"/> ▼ |
| <input type="checkbox"/> Equity capital assistance for establishment, acquisition, stabilizing investment. | ▲ <input type="text"/> ▼ | <input type="checkbox"/> Saving grant (when your savings reach a critical line, you will be granted a subsidy) | ▲ <input type="text"/> ▼ |
| <input type="checkbox"/> Government buying into SMEs as a venture capital investor | ▲ <input type="text"/> ▼ | <input type="checkbox"/> Policies encourage venture capital investors to invest in SMEs | ▲ <input type="text"/> ▼ |
| <input type="checkbox"/> Setting up a special financial institution to promote SMEs | ▲ <input type="text"/> ▼ | <input type="checkbox"/> Other policies encourage commercial banks to lend SMEs | ▲ <input type="text"/> ▼ |
| <input type="checkbox"/> Subsidies for interest payment | ▲ <input type="text"/> ▼ | <input type="checkbox"/> None of these | ▲ <input type="text"/> ▼ |

27 Chambers of industry and commerce are helpful in promoting SMEs accessing to formal finance

- Strongly agree Agree Somewhat agree Don't agree No answer

28 Business association are helpful in promoting SMEs accessing to formal finance

- Strongly agree Agree Somewhat agree Don't agree No answer

29 Mutual guarantee associations/societies/funds are helpful for SMEs*

- Strongly agree Agree Somewhat agree Don't agree No answer

**Mutual guarantee associations/societies/funds (MGAs) are private societies formed by potential borrowers with limited bank loans. MGAs evaluate their members, recommend them to the lenders, provide guarantees and pursue defaulting borrowers for loss recovery*