

# Strengthening the private sector and SME capabilities

Workshop on  
Supporting Cambodia in meeting the challenge of resource mobilization for achieving the 2030 Agenda for  
Sustainable Development

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# Inadequate access to financing

- Financing is a necessary component of SME start-up and survival
- SMEs around the world share some fundamental difficulties in accessing finance (Boocock, 2001)
- SMEs in the Asia-Pacific region consistently cite lack of access to finance as a serious obstacle to their development (ESCAP, 2009, 2012, 2015)
- Studying the causes of this lack of financing can help craft better policies for SMEs
  - In turn can positively impact economic development

## Firm heterogeneity: Definition of SMEs

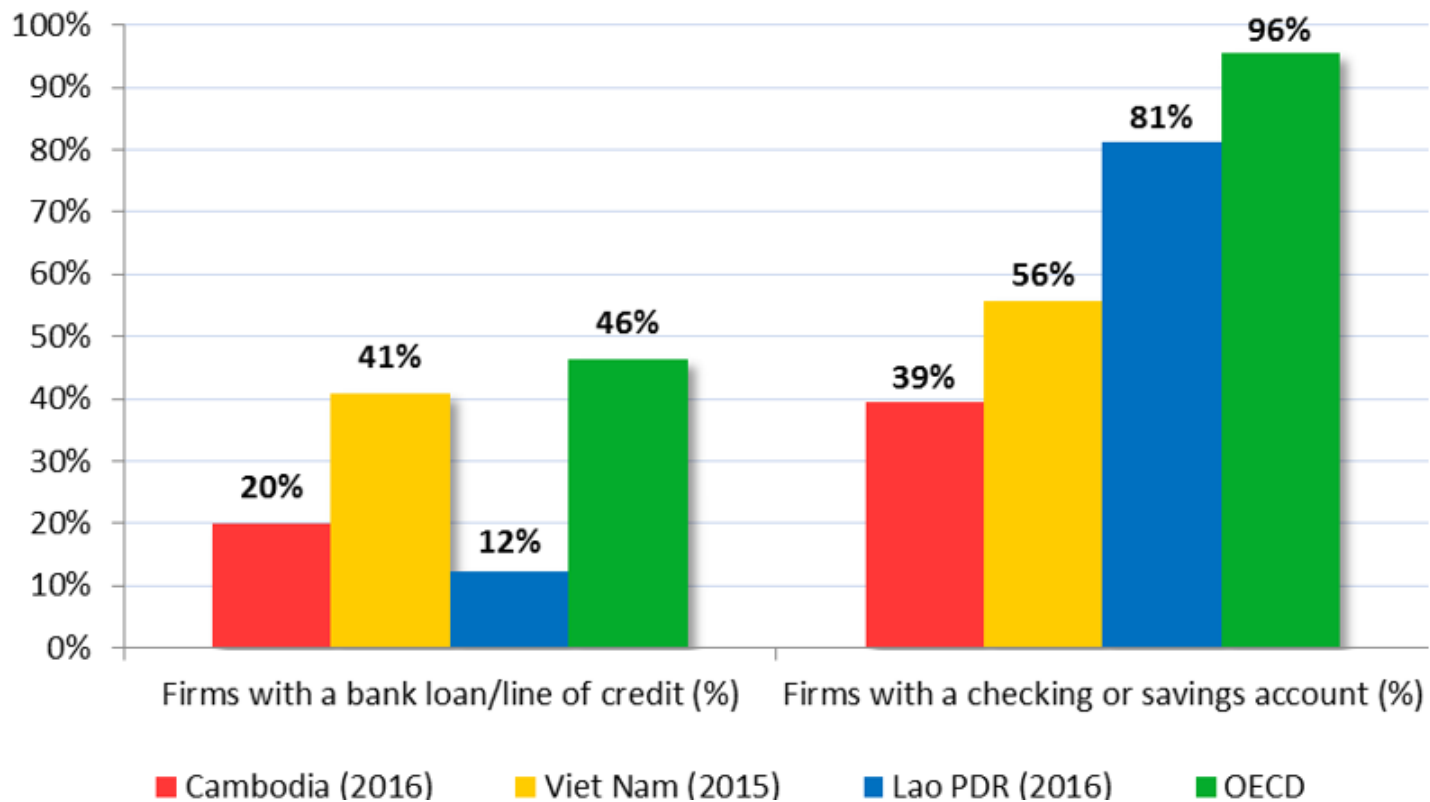
- Definitions vary widely from country to country, and even within countries based upon industry sector (World Bank, ADB, etc.)
- The three main parameters: i) Number of employees; ii) Sales and iii) Assets

# SME Definitions in Cambodia, Lao PDR and Viet Nam

Panel A: Cambodia						
	Micro		Small		Medium	
#	1-10		11-50		51-100	
Total Assets (USD)	(< 50,000]		(50,000, 250,000]		(250,000, 500,000]	
Panel B: Lao PDR						
	Small			Medium		
#	1-19			20-100		
Total Assets (LAK)	(< 250 million)			[250 million, <u>1,200 million</u> ]		
Turnover (LAK)	(< 400 million)			[400 million, <u>1,000 million</u> ]		
Panel C: Viet Nam						
	Sectors I, II			Sector III		
	Micro	Small	Medium	Micro	Small	Medium
#	1-10	11-200	201-300	1-10	11-50	51-100
Total Assets (VND)	N/A	(< 20 billion]	(20 billion, 100 billion]	N/A	(< 10 billion]	(10 billion, 50 billion]
Panel D: World Bank Definitions						
	Micro	Small		Medium	Large	
#	1-4	5-19		20-99	100-	

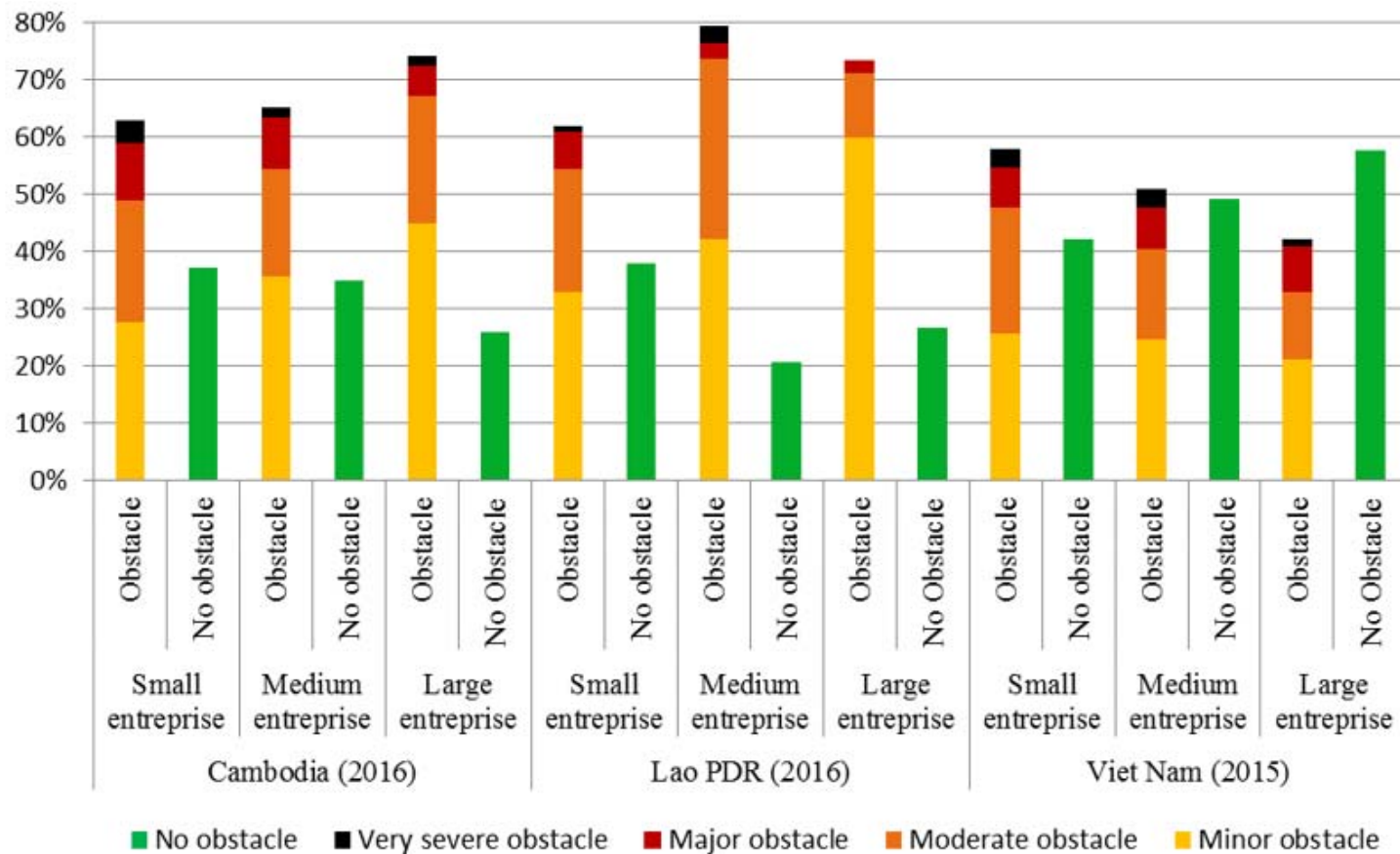
Source: Massoni, Ma and Abe (2018)

# Comparison of Access to Finance between CLV Countries and OECD



Source: Massoni, Ma and Abe (2018)

# Financing Obstacles by SME Size in Cambodia, Lao PDR and Viet Nam



Source: Massoni, Ma and Abe (2018)

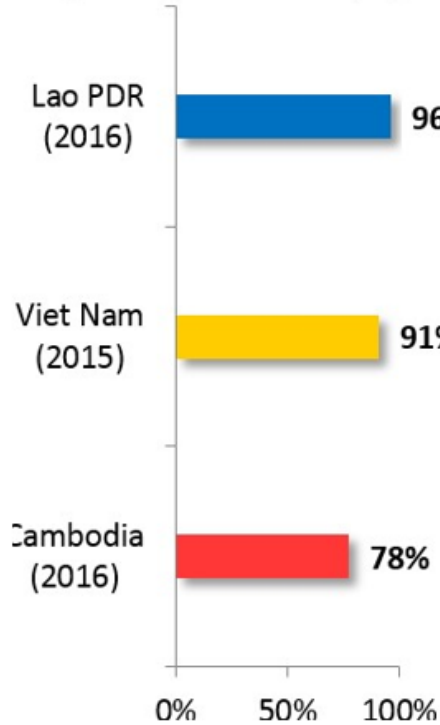
# The Main Reason of not Applying for Any Line of Credit or Loan

Main obstacle to access loan or line of credit	Cambodia	Lao PDR	Viet Nam
Application procedures were complex	17%	14%	6%
Collateral requirements were too high	5%	5%	5%
Did not think it would be approved	< 1%	5%	1%
Don't know (spontaneous)	2%	1%	1%
Interest rates were not <u>favourable</u>	12%	8%	5%
Size of loan and maturity were insufficient	2%	1%	1%
Other	2%	14%	3%
No need for a loan - establishment had sufficient capital	59%	51%	72%
Number of respondents	229	273	420

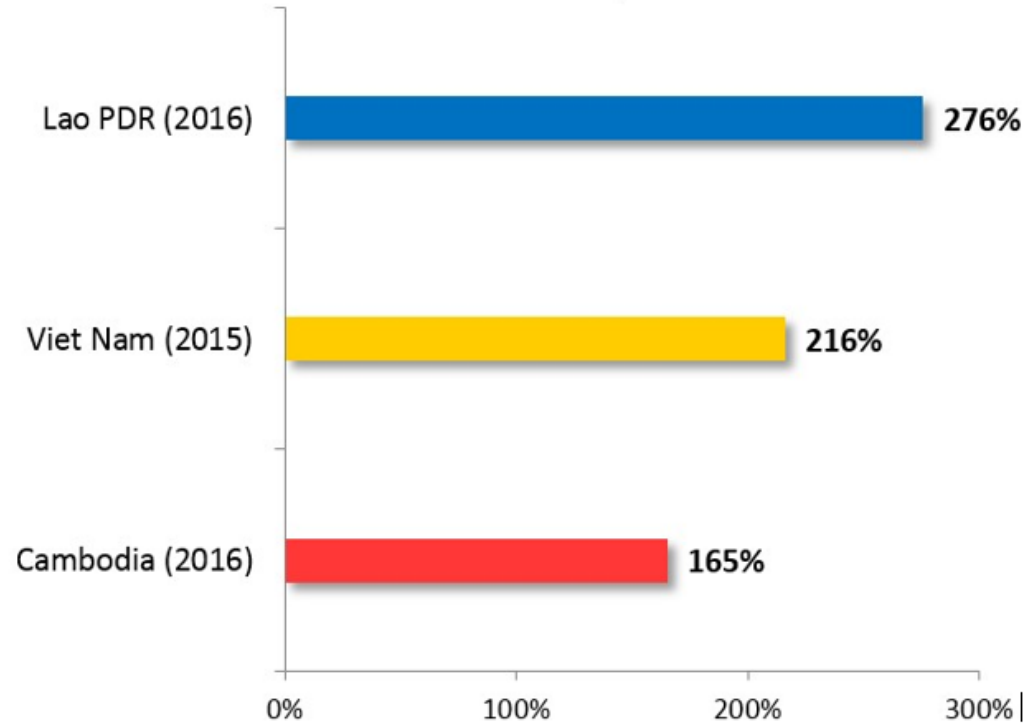
Source: Massoni, Ma and Abe (2018)

# Collateral and SMEs' Access to Finance in the CLV Countries

**Proportion of loans requiring collateral (%)**



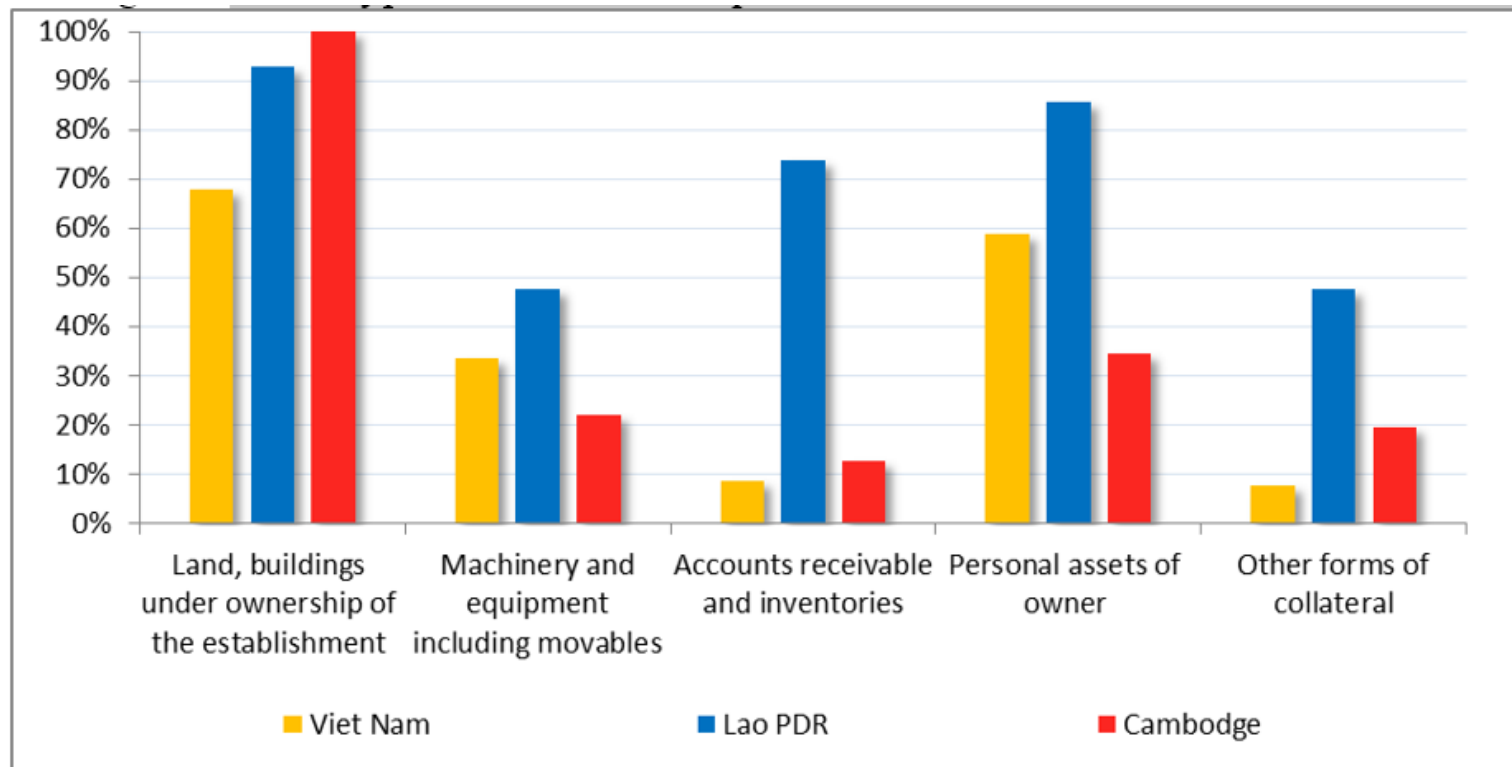
**Value of collateral needed for a loan (% of the loan amount)**



Source: Massoni Ma and Abe (2018)

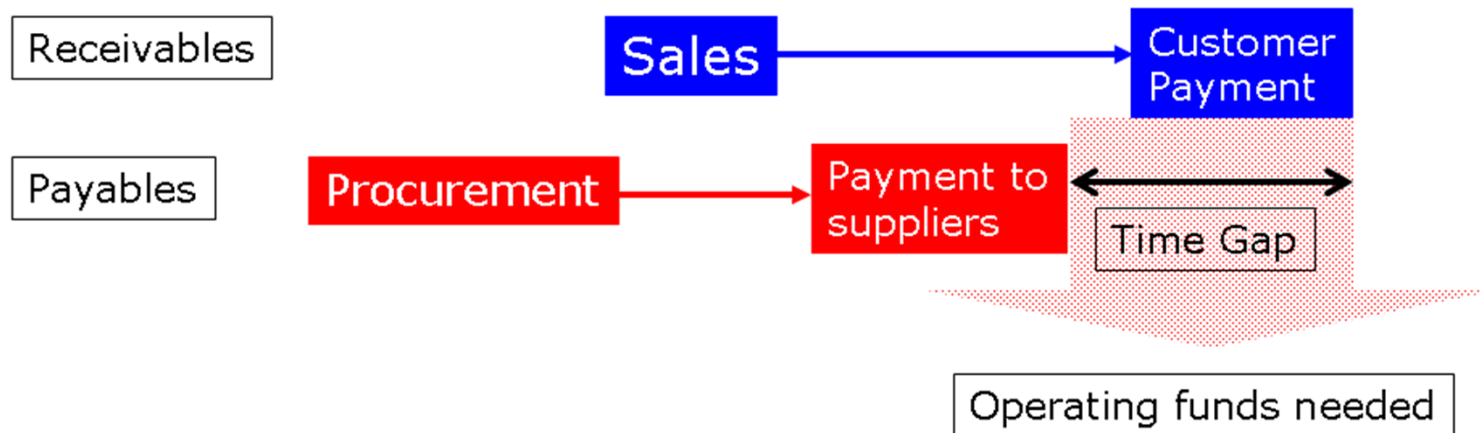


# The Type of Collateral Required for SME Finance in the CLV Countries

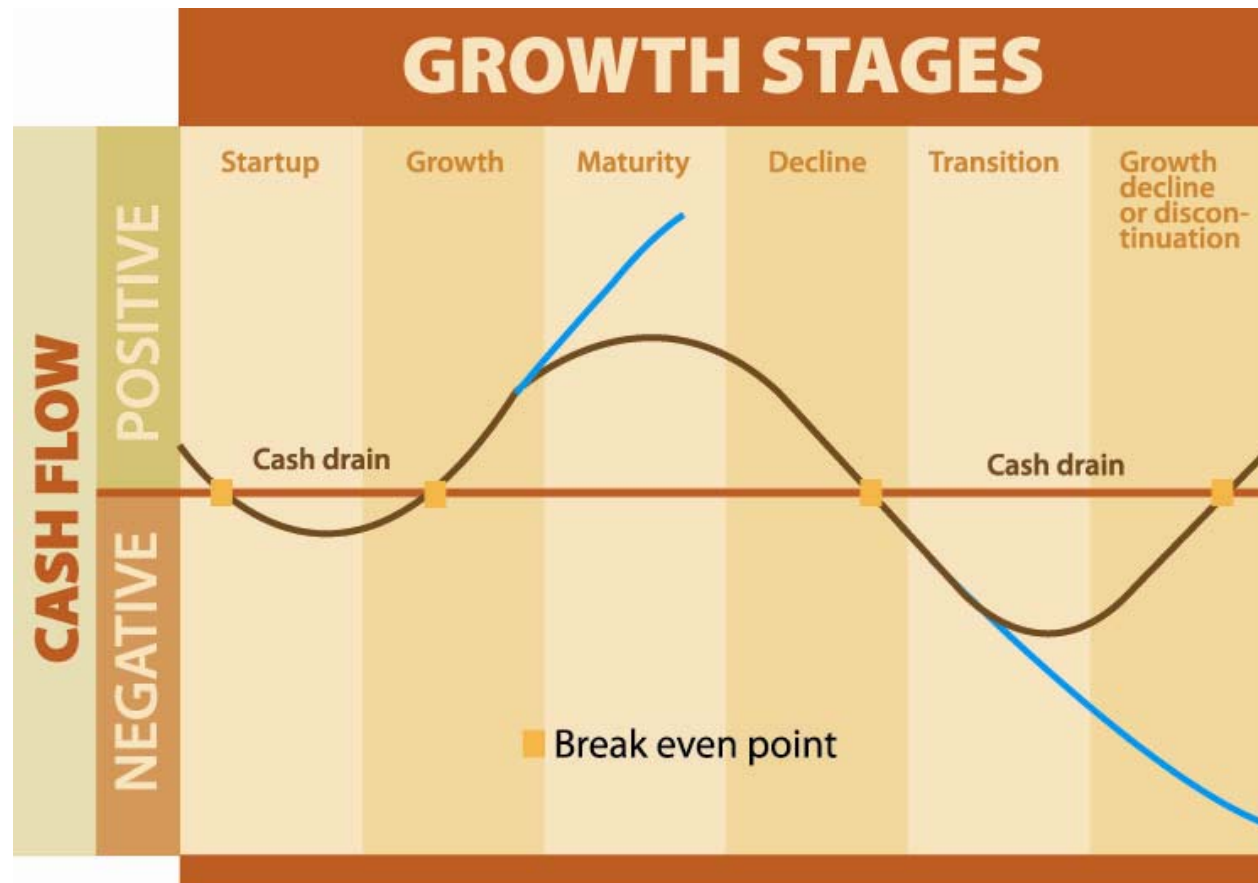


Source: Massoni Ma and Abe (2018)

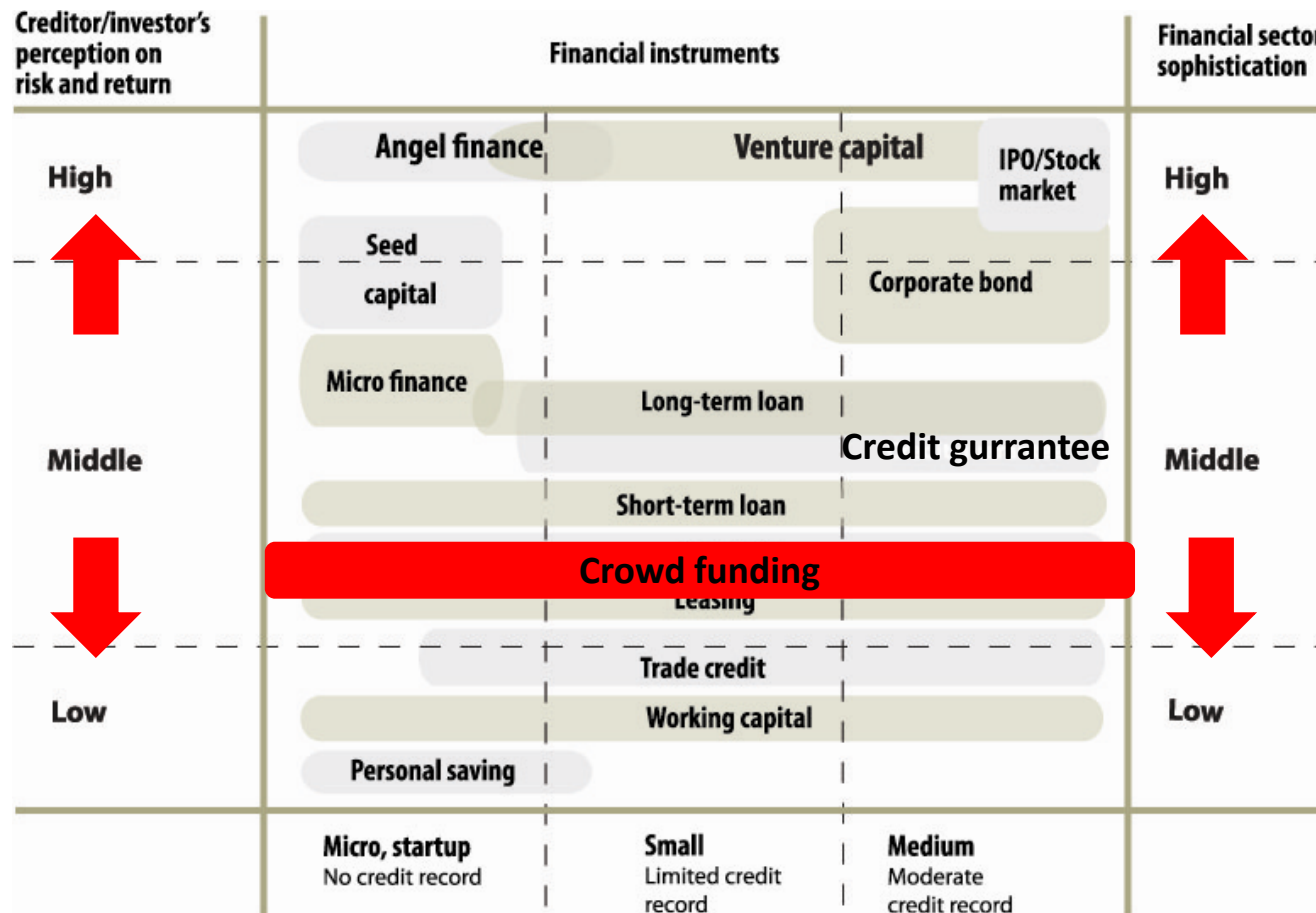
# Main issue #1: Time gap between income and payment



# Main issue #2: Business growth stages and cash flows



# Main Issue #3: Methods of finance for SMEs

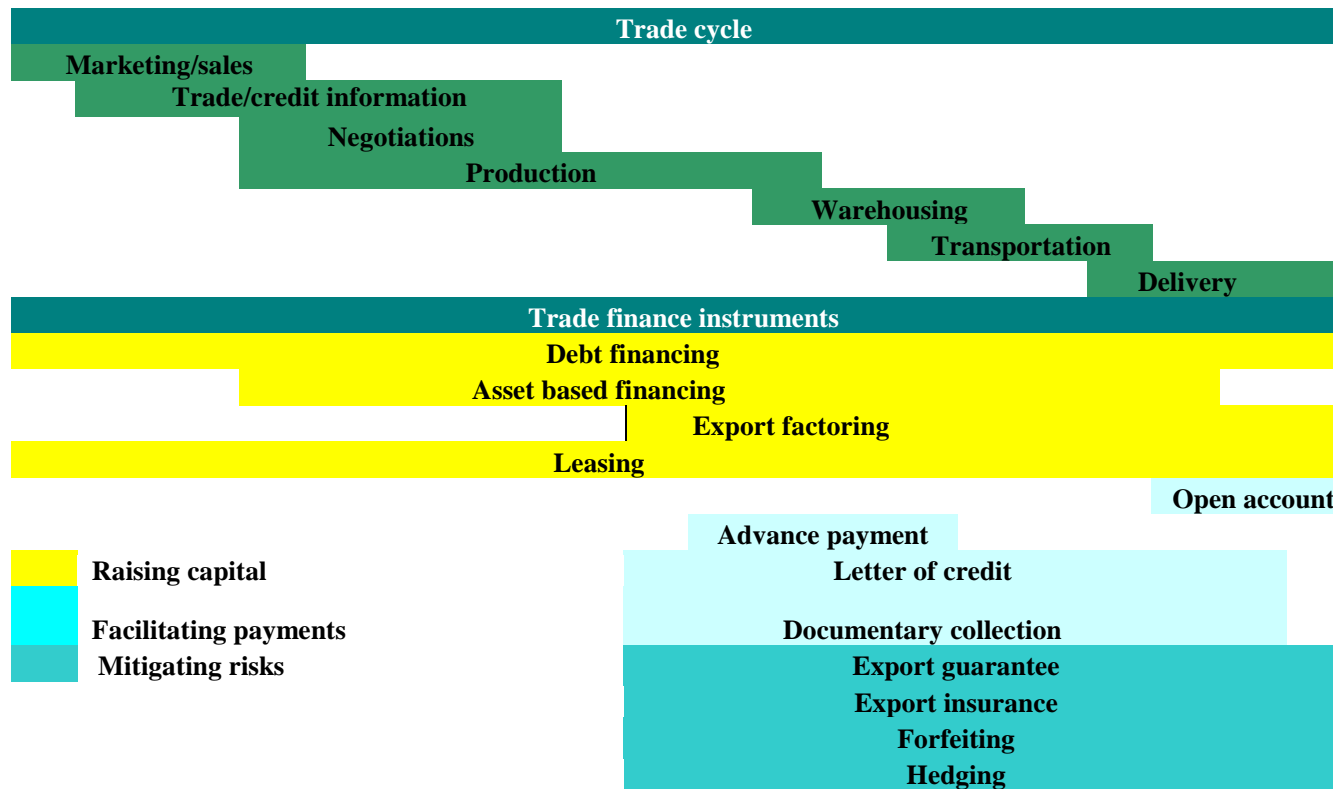


**FinTech**  
**Ex, mobile banking**  
**blockchain**  
**Bitcoin**

# FinTech

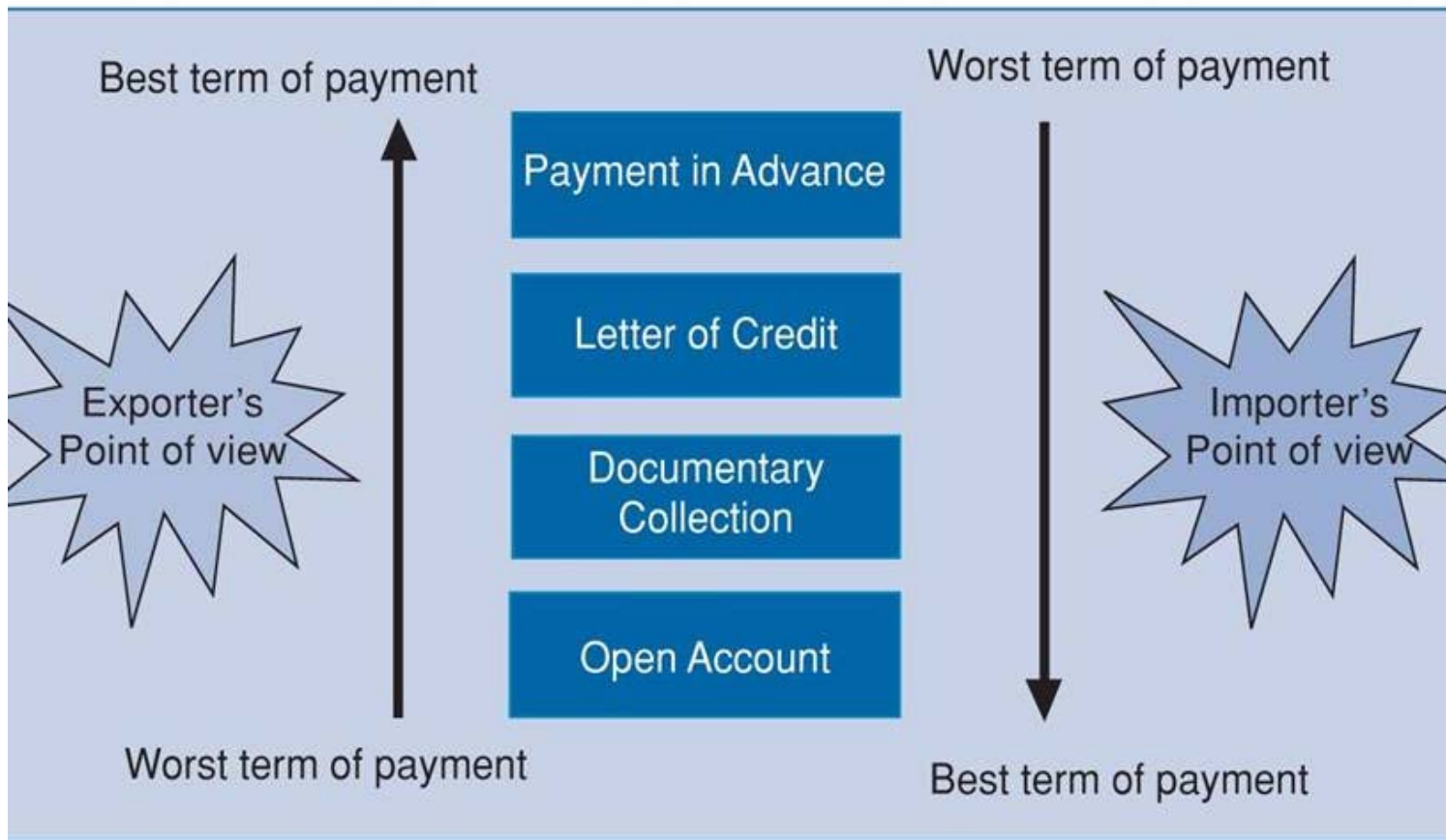
- Facilitate transactions lowering cost
- May reduce or increase risk
- Need more sophistication or less sophistication
  - Different impacts to lender and borrower sides
- Geographical coverage
  - Women entrepreneurs
- Regulatory and institutional supervisions may need

# Main issue #4: Trade cycle and trade finance instruments



Source: Authors' compilation, based on ESCAP, 2005b.

## Main issue #5: Terms of trade payment



Source: ESCAP, 2005b.

# Question

- Given the dizzying array of financial instruments and firm heterogeneity, how should policymakers address the financing needs of SMEs in the Asia-Pacific region?



# What we learned

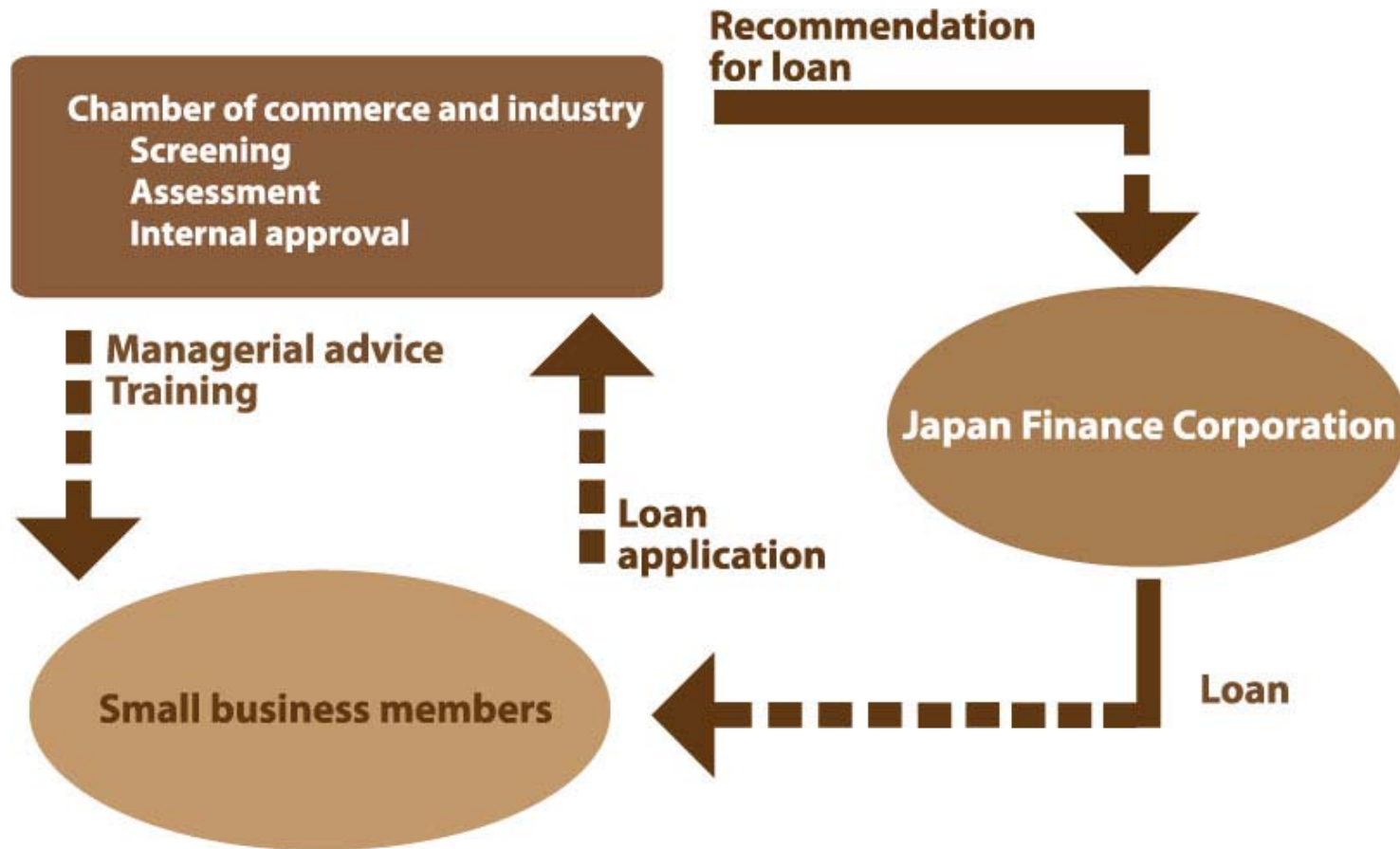
- Informal financing remains the most important source of capital for SMEs
  - Particularly at start-up, though their amounts are relatively small
- Commercial banks are the most important source of external financing for SMEs
  - High interest rate
  - Unmatched conditions
    - Amount
    - Duration
  - Yet SME development funds through commercial banks are not typically successful
  - Lag between application and receipt of loans
  - Information asymmetry hurts bank-SME relationship

# Financial gap in SME financing



Source: Abe et al (2012)

# SME financing through public-private partnership in Japan



# Policy prescriptions

- Government officials need to understand the importance of cash flow, and training programs can address this
  - Policymakers should make improving cash flow a general guideline when considering policies for SMEs
- Policymakers are most effective as facilitators
  - Direct government involvement in financing SMEs often leads to moral hazard/soft loans and distortions in local financial markets.
  - On occasion, direct involvement is unavoidable
- The rights of creditors need to be sustained
  - SMEs need to be educated about what banks expect from them

# Policy prescriptions (continued)

- SMEs can benefit from training programmes in business, especially accounting and finance.
- Business development services (BDS) should be offered with capital flows
  - Role of CCIs
- Offers “good practices” in financing SMEs from around the region that policymakers might access to tailor to their own circumstances
  - Bank-borrower relationship
  - Different financing mechanisms at different stages of the firm’s life-cycle
  - Develop and balance both debt and equity markets
  - FinTech applications