

Book Review

Small and Medium Enterprises (SMEs) Access to Finance in Selected East Asian Economies, by Charlies Harvie, Sothea Oum and Dionisius A. Narjoko, (eds), ERIA Research Project Report 2010-14, Jakarta: ERIA, 2011, 384 pp.

Access to finance is one of the most critical problems facing small and medium enterprises (SMEs) across the globe. This problem is much more critical in less developed financial markets, particularly in the East Asian region. With the present nature of new competition, access to capital for business start-up and expansion is much more crucial for SMEs to fully participate and strongly compete in the more integrated local, regional or global markets. The presence of this book in such a turbulent economic environment is commendable as it updates the most recent status of financial constraint and access confronting SMEs. The book is organised in 11 chapters. It begins with a general overview of access to finance and its implications for SMEs in the East Asian region.

In Chapter 2, a financial gap framework is proposed to test a number of stated hypotheses. Using the proposed framework and data collected from a survey in eight East Asian countries, empirical results are presented in Chapter 3. Some key findings can be summarised as follows. First, the dependency of SMEs on internal sources of finance is still high. Second, financial market development positively determines the condition of external finance offered to SMEs. Third, a firm's internal resources and capabilities are critical determinants of financial conditions extended to SMEs. Finally, an SME's innovation capability and export participation are significantly influenced by access to finance.

Chapters 4 through 11 reveal the diverse scenarios of SMEs' access to finance across the East Asian countries, namely Cambodia, Laos, Vietnam, Thailand, Malaysia, Indonesia, the Philippines and China. Despite different levels of economic development, one common theme shared among the economies is the limited access of their SMEs to external sources of finance. Empirical evidence shows that available funds are biased toward SMEs with: superior performance (Chapters 4, 7, 11); larger size (Chapters 5, 8, 11); experienced, wealthier and older owners (Chapter 11); and international production networks (Chapter 11). From the supply side, common obstacles facing financial institutions in giving loans to SMEs are issues related to transaction costs per loan application (Chapter 7), application process (Chapter 8), and competency to assess an SME's risk (Chapters 5, 7). Most of the constraints for financial access are due to the weaknesses of SMEs themselves, particularly problems related to collateral (Chapters 4, 5, 6, 7, 10,

11), information flow (Chapter 5), and firm's or owner's performance track records (Chapters 6, 7, 9, 10). In contrast, financial institutions are clearly in favour of firms with good performance and some other internal advantages (Chapter 11). Acknowledging the severe impact of such financial constraints on SMEs, governments of the region are recommended to play a dominant role by providing more liberalised financial markets (Chapters 4, 5, 11), credit guarantee schemes (Chapters 4, 5, 6, 7), various incentives and support to small entrepreneurial firms (Chapters 4, 8, 9), capacity-building assistance for SMEs (Chapters 4, 7, 9, 10, 11), alternative financial instruments for SMEs (Chapters 5, 9, 10, 11), and good information systems (Chapter 10).

Indeed, access to finance is an ever green issue. Different resources, capabilities and motives of financial institutions and SMEs will ensure this issue is prolonged at least into the near future. While this book provides a good perspective on the real problems facing SMEs in accessing finance, it overlooks some other perspectives which are also useful, especially for SMEs. First, despite the important role of government in providing environments conducive to the financial sector and, to a certain extent, offering financial resources to SMEs, the government itself has its limitation in not being able to fully devote its scarce resources to the development of the small sector. This is where a complementary role by SMEs, the private sector and social entrepreneurial bodies is important in dealing with the financial needs of SMEs. Second, the book's over-emphasis on various financial constraints facing SMEs gives it little room for answering the question of how different possibilities of access to finance improves firm performance. This issue should be given equal attention because the ultimate goal of any firm is its own survival and performance. Finally, most business establishments in developing East Asian countries are micro enterprises. Hence, following the success of *Grameen Bank* in Bangladesh and *Amanah Ikhtiar Malaysia* (AIM) in Malaysia (Mahmood and Mohamad, 2011) in assisting small enterprises, microcredit provision should be recommended as one of the non-traditional measures to ease financial access, especially for micro enterprises.

References

- Mahmood, R. and Mohamad, M.R. (2011) *Small Enterprises and the Dilemma of Malay Entrepreneurs*, Kuala Lumpur: The University Malaya Press (in the Malay language).

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