

Issue 4/May 2014

.....

Small and Medium Enterprises' Access to Finance in ASEAN Countries: Innovations and Regional Cooperation



ASEAN Briefs is a regular publications about current development on ASEAN regionalism, especially in the Political-Security, Economic as well as Socio-Cultural Pillars.

.....

The Habibie Center
ASEAN Studies Program ASEAN Briefs

Project Supervisor:
Rahimah Abdulrahim
(Executive Director)
Hadi Kuntjara
(Deputy Director for Operations)

Program Coordinator/Editor:
A. Ibrahim Almuttaqi

Researcher:
Herjuno Ndaru K.,
Adhe Nuansa Wibisono

Finance and Administration:
Tia Nurhidayati

Design and Publication:
M. I. Qeis

The Habibie Center- ASEAN Studies Program
Jl. Kemang Selatan no.98, Jakarta 12560 Indonesia
(P): +62 21 7817211 (F): +62 21 7817212

SUMMARY

Access to finance for Small and Medium Enterprises (SMEs) is vital for development. State-led programmes in Southeast Asia countries have been a common practice in microfinance and built a foundation especially in agriculture sector. However, many of the government initiatives in SMEs financing have not been sustainable, since state budgets were allocated for many programmes and not just for SMEs financing. Besides that, governments have limitations on projecting business sustainability so those initiatives were not efficient and profitable in their operations. Therefore, innovations are needed for responding to these problems.

Innovations in providing more financial services in the ASEAN region should focus on these following issues: private sector development in exploring the potential market in SMEs' financing; sufficient government intervention on regulatory and supervisory framework; focus on export financing; partnerships with social organizations; and providing financial literacy to consumers.

Experiences from Indonesia and Vietnam have shown that innovations in SMEs financing could be drawn with more participation from the business sector as well as communities. Competitive environment for market as well as financial literacy for the community are both important for the success of SMEs financing. The reform on service sector development in ASEAN as well as its member states has been evolutionary carried out, and it should be continued further.

Background

Small and Medium Enterprises (SMEs) – some scholars include ‘micro enterprises’ and prefer the terminology of ‘Micro, Small and Medium Enterprises’ (MSMEs) - are a fundamental part of the economic structure in developing countries, playing a crucial role in advancing growth, innovation, and poverty reduction. In the ASEAN region, where some countries were in the transitional period from a central-planned economy into an open economy, SMEs and entrepreneurship served as the “seed bed” for the next generation of private sector development in addition to providing more jobs for people (Hew & Nee, 2004, 22). Therefore, the performance of SMEs is extremely important for the future economic development of Southeast Asian countries.

For that reason, the governments in the region have been supporting SMEs extensively through many programs, especially with subsidized credit schemes as its main component (Tambunan, 2008, 54). For example in Indonesia, with regard to SMEs access to finance, the government launched *Kredit Usaha Rakyat* (KUR) since 2007 aiming to improve access to finance to cooperatives and MSME in the country. KUR is given through state-owned enterprise bank and guaranteed by the state through their credit guarantee corporations.

Government support for SMEs finance in Southeast Asia also exist in some other countries. In Malaysia, the government there has allocated a total fund of RM 556.6 million for borrowing by SMEs in the period of 2002-2006. An additional fund of RM 2.2 billion was injected under the Stimulus Package announced in May 2003 via the Micro Credit Program Scheme (Saleh & Ndubisi, 2006, 22). In Thailand, the government launched the Master Plan on SMEs Promotion since 2002 and is now entering the third phase of the master plan. Under the master plan, the government provides fund for rural as well as urban economies; although the focus is in the rural (Punyasavatsut, 2011, 217). In Vietnam, the government assigned the Vietnam Development Bank (VDB) to provide credit guarantees for SMEs across the whole country. The VDB has signed guarantee contracts with 20 commercial banks and implemented credit guarantee operations since March 2009 (Tranh, Cuong, et.al, 2011, 183). These intensive programs show that governments in the ASEAN region put investments on SMEs development, particularly on their access of financial services.

Access to finance, particularly from formal institutions (both banks and non-banks), is indeed one of the biggest problems faced by SMEs in most developing countries. According to the World Bank (2010, 6), SMEs are strongly restricted in accessing the capital that they require to grow and expand, as data of the World Bank’s survey show that infrastructure and access to finance are the two most-cited obstacles faced by SMEs in developing



A bank officer met a vendor in traditional market to socialize microcredit scheme to SMEs
(Image: investor.co.id)

countries when they were presented with a list of fifteen possible obstacles in doing business (Kushnir, Milmurstein & Ramalho, 2010, 6). Other findings, such as Tambunan (2009),(2012), Chandra & Kinasih (2012), Peachey & Roe (2004), Rosengard&Prasetyantoko (2011), and Dunham (2009), also cited that access to finance was vital for SMEs development in the region. However, reflecting from the experiences of some countries in the ASEAN region¹, while government intervention is important it is not enough and so should be accompanied with private sector development in finance to extend and enlarge the scope of SMEs’ access to finance.

As the consumer of financial products, SMEs could potentially trigger economic growth by providing more jobs at home. The roles of SMES in developing ASEAN countries like Indonesia and Vietnam are vital since they cover : (a) more than 90% amount of all enterprises; (b) over 60% of the private sector jobs; (c) 50-80% of total employment; (d) about 50% of sales or value added; and (e) about 30% sharing of direct total exports (Narain, 2003; 19-20). Both Indonesia and Vietnam’s SMEs rely on export-oriented agricultural sectors for their economics. For instance, Vietnam is one of the biggest fish exporters and Indonesia is one of the largest palm oil, cocoa, and rubber exporters in the world.

The cases of Indonesian and Vietnam will therefore be the object of discussion on SME’s access to finance in ASEAN. The two countries represent two dynamic economies in the region, especially Vietnam which represents an emerging market among the Mekong countries whilst Indonesia represents the huge and active domestic market in the ASEAN region. Thus, with regard to the rising growth experienced by Vietnam and Indonesia recently, the two countries surely have vital needs to unlock the question of financial access to their SMEs.

1 For example in Indonesia Bimas program in 1980s has been successful in terms of capacity building to farmers but failed in terms of establishing the sustainability of finance business in rural area due to the high rate of Non-Performing Loan. In Thailand, the similar situation happened when government did intervention to establish village bank and credit unions of Lad Bualuang Patana.

Access to Finance : Why It Is Important for Southeast Asian Countries

Access to finance is a key determinant for business start-up, development and growth for Small and Medium-Sized Businesses (SMEs) and they have very different needs and face different challenges with regard to financing compared to large businesses. An SME could obtain its external funding from banks, non-bank institutions, informal lendings, family member and relatives, or such informal networks.

In many parts of Southeast Asia, as Tonnies (2001) and Dunham (2009) pointed out, people build social relations based on family and community relations, so practices of informal lending are common in societies as a typical solution for their financial problems that they may face. Not only to set up a business, informal lendings provided by moneylender for rural societies are aimed at supporting their incomes in the attempt to fulfill their daily needs. However, in Indonesia for example, the practice of moneylender (*rentenir*) has become a problem since they charge high interests. This practice also happens in China, India, Bangladesh, and others Asian countries and leaves similar problems.

Due to the uncertainty and high costs of loans from informal moneylenders in Asia societies, a bank loan becomes essential to ensure access to finance for small-scale businesses with affordable interests. Small-scale businesses are different to large enterprises whose tangible assets and capital can be capitalized for collateral as one of the credit requirements. However, due to their small-size and low-profile business, financial markets for SMEs are far from perfect, thus pushing governments around the world to address what they see as a 'funding gap'. Offering loan guarantees or providing SME funds from the central budget is an approach found internationally. Even though the ambition behind such schemes is positive, governments need to consider carefully how sustainable they are, especially where they seek to subsidise the cost of borrowing substantially. Therefore, innovations in financial sectors could be important to solve remaining problems in SMEs' access to finance.

Financial reform might be an important agenda in opening the opportunity of business to provide innovative funding for SMEs. Reform in the financial sector has been taking place in Southeast Asian countries, especially after AFTA (ASEAN Free Trade Area) was conducted in 1992. AFTA was a very initial start to throw the idea of market openness, including the financial sector. Later on, along with the membership of ASEAN countries in the WTO, ASEAN countries became more active in eliminating barriers found in financial services. Investments were also made easier after the reforms took place, especially in the post-Asian Financial Crisis era.

In Vietnam, a study conducted by ERIA and the Central Institute for Economic and Management (CIEM) of Vietnam showed that capital shortage brings a serious barrier for SME development in Vietnam. The findings said that some enterprises did not use external finance and only nearly half of the surveyed enterprises had access to finance. An explanation for this finding is that the SMEs may have sufficient internal funds or they may meet disadvantages from credit providers or there may be some drawbacks inherent from SMEs themselves. In the countryside, it has been massively supported by the Vietnam Women Union (VWU), a national social organization focused in women's liberation. However, due to some limitations of non-commercial financial institutions, Vietnamese SMEs need to get more services from banks which understand the character of SMEs as well as provide sufficient funds for SMEs expansion.

In Indonesia, according to a study conducted by RAM Consultancy Service, a government programme on SMEs development, along with Thailand, is the most complete in ASEAN. The number of banks and non-commercial financial institutions offering microfinance is numerous. Also, according to the study, Indonesia has the fastest average processing time for financial service and the lowest rate of average rejection rate for financial services in the ASEAN region. Many studies (Robinson, 2001), (Miyashita, 2000), (Maurer, 2004) also placed *Bank Rakyat Indonesia* (BRI), a go-public state-owned bank, as one of the success stories of microfinance in the world and often cite it in academic reference. Due to the surging demand for financial loans, Rosengard & Prasetyantoko (2011) assessed that Indonesia's commercial banks are liquid, solvent, and profitable, and the Indonesian economy has been doing well over the past decade. However, SMEs are facing a credit crunch. This crunch happened because the private sector is still concentrated on bankable SMEs that are considered as low-risk consumers. While these are also in a huge number, nevertheless some of SMEs which are categorized as high risk consumer are not able to loans from banks.

Because of those various problems in different countries, SMEs' access to finance is an interesting subject for research both in developed and developing countries. There are a number of reasons why this is so. Some argue that improving access to finance may reduce poverty in developing economies. Better access to finance for SMEs leads to a reduction in poverty due to the fact that in most developing countries SMEs are concentrated in rural areas where high levels of poverty persist. In addition, better access to financial sources for SMEs indicate that the role of financial institutions is helping bridge finance to real sector functions. In conclusion, improving financial access for SMEs will enhance the capacity of SMEs to reduce poverty and advance the role of the financial sector.

The Development of Access to Finance in Southeast Asia

Southeast Asia historically was a trading region. The Strait of Malacca has been known as an intersection for European vessels to bring Asian commodities to their homeland. Singapore, for instance, has been a famous harbour since 1960s, while Indonesia was famous for its spices commodities and Malaysia was famous for her plantation products. To develop, businesses need banking for loans and saving services. The Bank of Philippines Island then became the first bank in Southeast Asia to be established.

Southeast Asian societies, historically, were perceived as almost uniquely debt-ridden and credit-challenged. Partly because of this, in the early twentieth century, Southeast Asia was the scene of some of the first major credit schemes for the poor outside Europe. In relation to that, in the late twentieth century, Southeast Asia was also at the forefront of microfinance revolution, with MFIs (microfinance institutions) in Indonesia and Thailand reaching a larger proportion of their population than their counterparts in any other country except Bangladesh (Henley & Goenka, 2010, 3). In its long history, microfinance in the ASEAN region has been growing fast and is even the fastest when compared with some other regions. Credit for SMEs is not only taken care by microfinance institutions, but also bank and other financial services.

With regard to financial services, currently Singapore has become a financial hub in the region (and even globally) with Singapore and Malaysia having their local banks expanding into other ASEAN nations. Financial services has even been placed as one of the priority sectors in the ASEAN Economic Community (AEC) Blueprint with the ratio of bank lending to SMEs increasing from 2000s in Indonesia and Vietnam. While banks are giving more credit to SMEs, most of their clients are coming from small and medium enterprises. Micro enterprises still do not have sufficient opportunities to access credit.

In Indonesia, credit to farmers, micro businesses, and SMEs have been done by the Indonesian governments since 1960s through *Bank Rakyat Indonesia* (BRI) as one of the state-owned enterprises. This resulted from the Government of Indonesia launching Law Number 68 Year 1968 about *Bank Rakyat Indonesia* (BRI) regulating the function and role of BRI to help economic development by providing some programs namely *Bimbingan Masyarakat* (Bimas), *Kredit Unit Desa* (Rural Microcredit), and *Kredit Program* (Subsidized Credit).

However, in reality, *Bimas* has left some financial problems due to the high risk of lending. In 1983, non-performing loans of *Bimas* increased to 35% of their total lendings. This condition led to significant losses for BRI and the Indonesian government. Therefore, the government

had to subsidize a large number of *Bimas*. In the 1980s, following the failure of *Bimas*, the government launched a deregulation package to push banking to finance export commodities rather than locally-traded commodities. This policy enabled BRI and other state-owned enterprises to expand their business to more profitable clients. Although BRI did not finance subsidized credit, the focus of BRI is still on the small, micro, and medium enterprises' credit.

The Government also had a program called Small Enterprises Development (KIK-*Kredit Investasi Kecil*/KMKP-*Kredit Modal Kerja Permanen*) Program and the Small Enterprises Credit (KUK-*Kredit Usaha Kecil*) Program. The first program, KIK/ KMKP, was launched in 1973 and ended in 1990. This was a nationwide subsidized credit program directed at small enterprises, namely indigenous ones - including cottage enterprises - and was aimed at providing credit for investment (KIK) and working capital purposes (KMKP). In particular, this program provided interest subsidies to those enterprises. For KIK, the actual provision was managed by five state-owned commercial banks, the Indonesian Development Bank (Bapindo-*Bank Pembangunan Indonesia*), all regional development banks (BPD - *Bank Pembangunan Daerah*) and 14 private banks. Because of the high default rate of more than 27 percent, the KIK and KMKP credit programs were stopped in 1990 (Thee, 2006, 30).

To replace the KIK and KMKP programs, the government initiated a new credit program in 1990, the Small Enterprise Credit (KUK- *Kredit Usaha Kecil*) Program. Under this program, all commercial banks were required to allocate 20 percent of their loans to small enterprises and cooperatives to provide for either investment or working capital. Unlike the previous credit programs (KIK/ KMKP), the KUK was designed to assign interest at the market rate rather than at a subsidized rate. Unfortunately, the story of the KUK program was similar to that of the KIK and KMKP programs. The KUK program did not perform well because the banks either experienced difficulties in meeting the government requirement of 20 percent, or they were simply unwilling to provide 20 percent of their loans to SMEs. It was also found that banks allocated more of their loans for consumption rather than business purposes.

By Presidential Instruction Number 6/ 2007, the government introduced a credit scheme for micro and small enterprises, known as micro credit loans (KUR-*Kredit Usaha Rakyat*). These are government-guaranteed loans directed at micro, small, and medium enterprises as well as cooperatives which are productive and feasible businesses, but were somehow deemed un-bankable. The KUR scheme initially requires project or business activity as the principal collateral for the loan. However, since this collateral does not meet with the banks' own requirements, the government initiated a guarantee program for micro, SMEs, and cooperatives so they can

access loans from banks. In addition, like the KIK/ KMKP programs in the New Order regime, KUR is intended to provide working capital and investment credit of up to Rp500 million. The credit providers are commercial banks assigned by the government. Yet, the difference between the KIK/KMKP schemes and KUR is that KUR does not provide interest subsidies.

Based on a report from the Coordinating Ministry for Economic Affairs, it is claimed that during the period January-December 2010, six banks (BRI, BNI, BTN, Bank Mandiri, Bank Syariah Mandiri, and Bank Bukopin) and 13 regional development banks (BPD) disbursed approximately Rp17.23 trillion to 1.437.650 debtors. Based on this “success” story, however, some banks are still facing several constraints in distributing the loans under the KUR scheme. For example, they inform that many applicants failed to meet the criteria set by the banks in order to make sure that they are able to pay back the loans. Moreover, though KUR loans are aimed at providing business financing for enterprises, many applicants request the loan for consumption purposes.

Historically, in 1998, through the Letter of Intent with the IMF (International Monetary Fund), Indonesia agreed to open up their banking for foreign investors. Liberalization also happened when the Government of Indonesia launched Law Number 25 Year 2009 on Investment where foreign investors could own shares in a bank up to 99%. This opening impacted to the increasing supply of financial services to consumers, including credit to SMEs. However, credit for SMEs from private bank is considered a high cost for the consumers and it still lacks innovation. For example there have been no new significant products offered to the consumers except the conventional microfinance one.

Several banks, including state-owned banks, local banks, regional development banks, and foreign banks commonly provide credit for the following purposes, namely : investment credit; work credit (including credit to SMEs); and consumption credit. Under work credit, there are several categories, namely : large enterprise credit and SMEs credit. Under SMEs credit, there are two common schemes namely *Kredit Usaha Rakyat* - KUR (Work Credit for People) which is subsidized by the government and non-KUR which is non-subsidized one.

KUR does not specifically address any specific condition or sector. KUR has been developed as a template for any kind of credit taken by SMEs in Indonesia. Normally, KUR has two types based on the channel. KUR could be obtain either individually or collectively. If it is taken collectively through cooperatives, a bank could channel the credit either to the cooperatives (executing) or focal point/ persons on the cooperatives (channeling). So far, based on Bank Mandiri’s assessment, the executing model is more effective in terms of credit utilization and performance of payment rather than the channelling model.



Kredit Usaha Rakyat (People’s Enterprises Credit), one of the government programs in Indonesia to address access to finance for SMEs (Image: dompetpintar.com)

Quantitatively, the amount of KUR has been increasing from year to year. In 2008-2009, the level of KUR given by state-owned banks has been increasing and amounted to Rp 17,189.3 billion and remained higher in 2010 at Rp 17,228.6 billion. The level of KUR reached a peak in 2011 when it amounted to Rp 29,002.6 billion (Bank Indonesia, 2013).

However, in the broader sense, the increasing number of credit to SMEs has not been followed by the quality of SMEs development. For instance, the performance of Indonesian SMEs on exports has been low compared to other ASEAN countries. Only 9% of Indonesian SMEs could export their products abroad. This number is considered low compared to the Philippines’ SMEs which contribute to 33% of their exports, Thailand and Malaysia SMEs which make up 35% and 28% of their country’s exports performance. Many of SMEs don’t grow into a medium-sized or manufacturing enterprises simply because they do not have sufficient financial capital and technology (Tambunan, 2012). To date, according to Chandra & Vis-Dunbar (2013), less than 10 percent of Indonesian export to ASEAN member states using the trade preference are coming from SMEs.

This problem leads to Indonesian SMEs competitiveness, either globally or locally. Low innovation of financial services also lead to the the low level of competitiveness. In terms of environmental sustainability, lots of SMEs use old and inefficient machineries, e.g. the tofu and textile industries in Java which also leads to environmental degradation (Budiarti, 2011). Therefore, from the evidence shown above, innovations in financial services are needed to improve the quality of SMEs development in Indonesia.

Not only Indonesia, Vietnam has also pursued reforms on SMEs’ access to finance. For more than two decades, since the *Doi Moi* reform, Vietnam has pursued an open market and reformed policies in order to mobilize resources for economic development. Together with the implementation

of the Enterprise Law and administrative reform, Vietnam has continuously reduced impediments in terms of the legal framework, administrative procedures and policies to facilitate the development of enterprises in all sectors of the economy, including SMEs and households.

According to Decree No. 56/2009/ND-CP dated 30 June 2009, SMEs comprise the businesses registered in accordance with the Enterprise Law, cooperatives and individual business households - of either micro, small, or medium size. Up to May 2010, Vietnam has 496,101 enterprises and about 3.7 million individual business households registered in provincial and district registration agencies. SMEs account for 97% of total registered enterprises in Vietnam, of which just over 55% are micro-sized enterprises with the number of permanent laborers being fewer than 10 (Tranh, Cuong, et.all. 2011, 153).

Rand et al., (2008, 12) showed that 23.2% of the SMEs had loan requests rejected by banks and financial institutions, or had submitted documents found faulty. The corresponding figures from other studies in 2005 and 2009 were 26.5% and 20.3% respectively (CIEM, 2011, 45). This group of SMEs is therefore identified as a group of credit constrained enterprises, i.e. those having problems getting a formal loan, and/or those in need of a loan despite approved formal loans, and/or firms that did not apply for a loan due to high interest rates, application problems or lack of collateral.

The Vietnamese financial system has been developing rapidly since the policy of financial liberalization took place in 1988. To some extent, the level of financial development for SMEs remains low. Vietnam remains an under-banked country. However currently, under the centralized and market-oriented economy, Vietnam is developing entrepreneurship and its financing policy rapidly.

The number of SMEs in Vietnam has been growing rapidly, particularly since the Enterprise Law came into effect in January 2009. The large majority of SMEs in Vietnam are very small indeed, and largely depend on purely internal and/or informal sources of financing. By definition, SMEs are typically not able to tap the capital markets for financing, as they are too small to be issued bonds or other fixed income instruments, and are also insufficiently large enough to enact public offerings of their shares (UNIDO, 2011, 15).

In terms of other equity-related sources of financing, one of the most common forms is venture capital and private equity, whereby an outside investor acquires a substantial equity stake in the company. This kind of financing option has started to become available in Vietnam, led by such private equity investment institutions, such as Mekong Capital. Most of these investors in Vietnam are now foreign entities.

The problem in Vietnam that is chiefly serving to constrain SMEs' access to external financing is not a lack of funds (or banks, financial institutions and development agencies). The VBD said that there was ample funds available, not only for short-term loans, but also for the provision of medium- and long-term loans (UNIDO, 2011, 17). Rather, there is more need to improve the range and quality of financial products and services available to the SME sector, through various regulatory and non-regulatory initiatives. Therefore, innovations in access to finance are needed to address this problem in Vietnam, as well as other ASEAN countries.

Innovations in SMEs' Access to Finance in Southeast Asia

From the above explanation on the development of access to finance in the ASEAN region, it could be concluded that there is a need to improve and diversify financial services to SMEs in ASEAN. The problem that ASEAN countries have is lack of innovation in developing ASEAN SMEs' access to finance.

A previous study from Buchenau (2003) categorized two types of innovations in financial services, namely (i) completely new products which match the characteristics of intended users, and (ii) improvements or refinements in the procedures used to deliver the services, or to design contracts and to achieve their enforcement.

Agosin (1999) distinguishes three levels of financial innovation, namely : (i) *system innovation* where new institutions tailored to deal with unmet needs are created or allowed to emerge, (ii) *process innovation*, the creation of new technologies for providing financial services, and (iii) *product innovation*, the supply of new financial products.

Although government intervention is still fairly needed, innovations flourish where the market environment is competitive. Competitive financial markets induce innovations because banks or other financial institutions have to develop new products or new transaction-reducing procedures or innovate on existing products in order to protect or increase their market shares. Buchenau (2003) explains that financial institutions are most likely to develop and provide innovations if they have to compete. In addition, competitive markets institutions have to continuously improve the quality and pricing of their services to protect or increase their market shares. Otherwise, they could not cope with the competition.

From the experiences of Indonesia and Vietnam, there are two interesting cases that could be an object for exploration. Although in Indonesia and Vietnam, innovations were quite minimum, there were some best practices of innovations in access to finance to SMEs.

In Vietnam, the Vietnam Women's Union (VWU) has been a pioneer since 1930 in outreaching poor women in rural areas to get access to external funding. VWU has since become a partner of the Vietnam Agricultural and Rural Development Bank. The scope for targeting development interventions to women was viewed as particularly promising in Vietnam, not only because of the strong legal framework for women's rights and freedoms, but also because of the very existence of a national women's organization; the Women's Union had a well-established record of social outreach and institutional legitimacy in the communes as well as committed staff who could absorb basic savings and loan activities as part of their routine duties.

This involvement is related with *system innovation* that has been mentioned above by Buchenau where new institutions tailored to deal with unmet needs are created to ease the loan process. In this case, social organizations led by the government are established to assist people's financial literacy. At the same time, the political environment at that moment also facilitated the organization to do so.

In Indonesia, the BRI's *Unit Desa* (Village Unit) has been a pioneer in rural microfinance. BRI is a state-owned bank with 23 divisions and the Business *Unit Desa* (BUD) Division was one of those divisions. Only this division and its managing director were directly responsible for the *Unit Desa* system. Lending and deposit taking are the unit's main activities although other services like payments for telephone and electric bills and payments for property taxes are provided for a fee. *Unit desas* are mostly located at sub-district capitals and are decentralized. Some *unit desas* operate village service posts whose days of operation depend on client demand. During 1993-1996, total supervision costs at all levels for the *unit desa* system averaged 1.2% of loans outstanding. Fiebig (1999) notes the effective strategy of BRI *Unit Desas* stating BRI mobilizes savings from different levels of the rural economy with a mix of liquid and non-liquid savings products and varying levels of return, based on the deposit amount. This mix of liquidity and return respects the depositors' demand. It also permits BRI to provide manageable and profitable savings services from the institution's perspective.

The innovation of new technology installed in villages and new products could be categorized as *process innovation* and *product innovation* as categorized by Buchenau. In this case, private sector could be a trigger for innovation by providing new technology for villagers and new products could afford by the villagers.

However, innovations as shown by VWU and BRI are not sufficient with the high number of entrepreneurship growing in those countries recently. Indeed, BRI *Unit Desa* has been changed to BRI Unit since 2000s to be more commercial by taking credits from urban consumers as well.

Another innovation that could be pursued by financial producers and/or governments is in providing insurance for micro and small agricultural enterprises. As risk of climate change is increasing and it affects the harvests of farmers, banks consider agricultural enterprises as high-risk industry. Financing agricultural enterprises could be risky for a bank to provide credits to farmers. It is therefore a good innovation if financial producers or governments can provide agricultural insurance to farmers, so that their enterprises would be more attractive for a bank to fund such kind of agricultural enterprises.

Regional Cooperation

How can ASEAN as a regional organization assist access to finance for SMEs in the region? In the ASEAN Vision 2020 and the Hanoi Plan of Action, ASEAN has clearly stated its future goal of becoming an integrated economic community with free movement of goods, services and investment. Nevertheless, despite SMEs being economic players, a specific clause on SMEs development cannot be found. As mentioned previously, an important aspect of ASEAN economic collaboration is the role of ASEAN's SMEs. In regional cooperation, ASEAN countries are seeking to promote the development of SMEs in order to increase their ability to compete in both regional and world markets. One of the important milestones of ASEAN cooperation on SMEs development is the ASEAN Strategic Action Plan for SME Development from 2010 until 2015. At the 14th ASEAN Summit, the AEC (ASEAN Economic Community) Council was tasked with developing an ASEAN Action Plan to enhance SMEs' competitiveness and resilience. An important policy focus in the Action Plan is the need to foster private-sector engagement and partnership on SME issues. This is to serve as a driving force in the implementation of SME development policies and programmes, including those concerned with the accelerated integration of the 12 priority sectors at the national, subregional and/or regional levels.

The Strategic Action Plan for ASEAN SME Development 2010-2015 outlines the framework for SME development in the ASEAN Region. The Plan covers mandates stipulated in the ASEAN Economic Community (AEC) Blueprint, and the current and future work of the ASEAN SME Working Group (ASEAN SMEWG), which is composed of the SME agencies of all ASEAN Member Countries. In partnership with donor agencies and the private sector, the ASEAN SMEWG seeks to ensure the advancement of SMEs in the region.

The ASEAN SMEWG has established joint consultations with the SME agencies of the ASEAN Plus Three (China, Japan and the South Korea) which enables valuable exchanges of best practices and fruitful cooperation on several SME Projects and Workshops.

Recommendation

Access to finance for SMEs is vital for development. State-led programmes in Southeast Asia countries have been a common practice in microfinance and built a foundation especially in agriculture sector. However, many of the government initiatives in SMEs financing have not been sustainable, since state budgets were allocated for many programmes and not just for SMEs financing. Besides that, governments have limitations on projecting business sustainability so those initiatives were not efficient and profitable in their operations. Therefore, innovations are needed for responding to these problems.

Notwithstanding government programme limitations, there is more need to improve the range and quality of financial products and services available to the SME sector, through various regulatory and non-regulatory initiatives. Innovations in providing more financial services in the ASEAN region should focus on these following issues: private sector development in exploring the potential market in SMEs' financing; sufficient government intervention on regulatory and supervisory framework; focus on export financing; partnerships with social organizations; and providing financial literacy to consumers.

Experiences from Indonesia and Vietnam have shown that innovations in SMEs financing could be drawn with more participation from the business sector as well as communities. Competitive environment for market as well as financial literacy for the community are both important for the success of SMEs financing. The reform on service sector development in ASEAN as well as its member states has been evolutionary carried out, and it should be continued further.

Several international summits, especially the G20 Summit, which gathers 20 advanced and emerging economies of the world today, have discussed intensely the possibility for new innovations for access to finance for SMEs. It means that access to finance for SMEs has also becomes a concern among world leaders. However, ASEAN, as a regional organization which uses the motto of a 'sharing and caring community' in its Charter, still puts little attention to SMEs' access to finance. The plan for a Regional SME Fund is only a proposal and nothing else has happened regarding its realization. Indeed, stonger regional cooperation is needed on this matter.

Besides macro intervention on regional cooperation, at the smaller level innovations should be taken in financial sectors with these following focuses :

- a. **Private sector development in exploring the potential market for SMEs' financing** : The flexibility of private sector operation, for instance in providing services to the rural or isolated areas, should be guaranteed by improving the business



The 33rd ASEAN SMEWG Meeting
(Image: entrepreneurship.org.ph)

There are five major deliverables targeted for SMEs under the AEC Blueprint, namely the establishments of: (a) a common curriculum for entrepreneurship in ASEAN (2008-2009); (b) comprehensive SME service centre with regional and sub-regional linkages in AMSs (2010-2011); (c) SME financial facility in each AMS (2010-2011); (d) a regional program of internship scheme for staff exchanges and visits for skills training (2012-2013); and (e) a regional SME development fund for use as a funding source for SMEs that are undertaking business in ASEAN (2014-2015).

Although SMEs cooperation in ASEAN varies in terms of the number of cooperation, access to finance is not the main agenda discussed by ASEAN member states. Thailand had previously proposed The ASEAN SME Regional Development Fund which covered proposals for SME's access to finance improvements in the region. The proposal included inputs to ASEAN member states to seek external funding for financing SMEs.

However, financing SMEs is not 'business as usual' as discovered in the previous sub-chapter. SMEs are not only economic actors in terms of social and economic relations, but are also social actors who are important in lifting up the livelihood of the people, especially with people living in poverty. Experiences in Vietnam show that businesses should work with social organizations to make access to credit workable. Therefore, discussions on SMEs' access to finance should not only go to ASEAN Economic Pillar, but also go to ASEAN Social Cultural (ASCC) Pillar.

As explained earlier, in Indonesia, Vietnam, and some other ASEAN member countries, microfinance has been growing throughout the times. Although many Southeast Asian citizens live on micro enterprises, ASEAN Socio-Cultural Community does not give enough space for discussion on multifinance institutions under the Social Welfare and Protection role of ASCC in Poverty Alleviation.

climate. Proper infrastructures are needed by businesses for them to operate cheaper and more effective. To make financial providers move rapidly, some enabling environment should be guaranteed by governments.

- b. Sufficient government intervention on regulatory and supervisory framework :** To supervise the risk of financial services, governments must provide regulatory and supervisory framework so that markets could use them as guidance. Base standards on financial services should be the reference and have to be obeyed by states to ensure good standards on banking. Indonesia now has a Financial Service Authority (*Otoritas Jasa Keuangan – OJK*) which monitors financial services industry.
- c. Focus on export financing :** As the cases above show that export performance of SMEs in Southeast Asia is weak, markets should give priority on innovative export financing. Some innovations, such as agricultural insurance, warehouse receipt and supplychain finance, may be options.
- d. Partnership with social organizations :** As the cases above show that social organizations have a function in outreaching to the community, partnerships with social organizations may be useful for businesses to accomplish their operations. Governments may establish the framework of cooperation between cooperatives / community with private sectors.
- e. Providing financial literacy to consumers :** Business should build easy modules or knowledge management means for consumers in order to improve their literacy in finance and their business management. In this case, their consumers are SMEs, which should focus on micro enterprises' literacy. Financial literacy modules are important to ensure that consumers know their rights, obligations, as well as loan projections used for their businesses. For the start-up capital, financial literacy is essential for SMEs to improve their knowledge in managing their loan/debt from banks.

References

- ACCA. 2012. *Access to Finance for SMEs : A Global Agenda*. The Association of Chartered Certified Accountants, <http://www.accaglobal.com/content/dam/acca/global/PDF-technical/small-business/pol-afb-atfs.pdf>
- Agosin, M. 1999. *Private Finance for Development: Analytical Underpinnings and Policy Issues*. *Office of Development Studies, Bureau for Development Policy of United Nations Development Programme*. <http://www.microfinancegateway.org/gm/document-1.9.26052/301.pdf>
- Bank Indonesia, 2013. *Statistik Perbankan Indonesia*. Bank of Indonesia. <http://www.bi.go.id/web/id/Statistik/Statistik+Perbankan/Statistik+Perbankan+Indonesia/>
- Buchenau, J. 1999. *Innovative Products and Adaptations for Rural Finance*. BASIS Assets and Market Access Collaborative Research Support Program http://www.basis.wisc.edu/rfc/documents/theme_products.pdf
- Chandra & Kinasih. 2013. *Services Trade Liberalization and Food Security: Exploring the links in the Association of Southeast Asian Nations (ASEAN)*, International Institute for Sustainable Development. http://www.iisd.org/tkn/pdf/services_trade_liberalization_asean.pdf
- CIEM. 2011. *Characteristics of the Vietnamese Business Environment: Evidence from a SME Survey in 2009*. Center for International Economic and Management. www.ciem.org.vn/home/en/home/index.jsp
- Dunham, A. 2009. *Surviving against the Odds : Village Industry in Indonesia*. NC : Duke University Press.
- Hao, Q. 2005. *Access to Finance and Poverty Reduction : An Application to Rural Vietnam*. University Of Birmingham. <http://Etheses.Bham.Ac.Uk/111/1/Quach05phd.Pdf>
- Henley & Goenka. 2010. 'Introduction : From moneylenders to microfinance in Southeast Asia', in Aditya Goenka and David Henley (eds) *Southeast Asia's Credit Revolution; From Moneylenders to Microfinance*. London: Routledge.
- Hew & Nee. 2004. *Entrepreneurship and SMEs in Southeast Asia*. Singapore: Institute of Southeast Asian Studies.

- Kushnir, Milmurstein & Ramalho. 2010. *Micro, Small, and Medium Enterprises Around the World: How Many Are There, and What Affects the Count?* World Bank. <http://www.ifc.org/wps/wcm/connect/9ae1dd80495860d6a482b519583b6d16/MSME-CI-AnalysisNote.pdf?MOD=AJPERES>
- Mai, N. 2009. Finance Sector in ASEAN: "Implications of the Liberalisation of Financial Services for Labour in the Region. ASETUC. <http://www2.asetuc.org/media/Finance%20Sector%20in%20ASEAN.pdf>
- Maurer, K. 2004. *Bank Rakyat Indonesia: Twenty Years of Large-Scale Microfinance*. World Bank. http://www.microfinancegateway.org/gm/document-1.9.25618/39319_file_55.pdf
- Miyashita, Y. 2000. *Microfinance and Poverty Alleviation : Lessons from Indonesia's Village Banking System*. Pacific Rim Law & Policy Journal Association. <http://digital.law.washington.edu/dspace-law/bitstream/handle/1773.1/781/10PacRimLPolyJ147.pdf>
- Punyasavatsut, C. 2011. 'SME Access to Finance in Thailand' in Havie, Oum, & Narjoko (eds.) *Small and Medium Enterprises Access to Finance in Selected Asian Economies*. Economic Research Institute for ASEAN and East Asia. [http://www.eria.org/publications/research_project_reports/images/pdf/y2010/no14/CH_07_Thailand\(p.193-230\).pdf](http://www.eria.org/publications/research_project_reports/images/pdf/y2010/no14/CH_07_Thailand(p.193-230).pdf)
- Rajan & Sen. 2002. *Liberalisation of International Trade in Financial Services in Southeast Asia: Indonesia, Malaysia, Philippines and Thailand (2002)* Center for International Economic Studies of Adelaide University. <http://www.adelaide.edu.au/cies/papers/0217.pdf>
- RAM Consultancy Services Sdn Bhd. 2005. *SME Access To Financing: Addressing The Supply Side of SME Financing*. RAM REPSF Project No. 04/003. <http://www.asean.org/archive/aadcp/repsf/docs/04-003-FinalMainReport.pdf>
- Rand, J. et all. 2008). *Characteristics of the Vietnamese business environment – Evidence from a SME survey in 2007*. Hanoi : Financial Publishing House.
- Rosengard & Prasetyantoko. 2011. 'If the Banks are Doing So Well, Why Can't I Get a Loan? Regulatory Constraints to Financial Inclusion in Indonesia' in *Asian Economic Policy Review* Vol. 6 Number 2 Desember 2011. Tokyo : Japan Center for Economic Research.
- Robinson, M. 2001. *The Microfinance Revolution: Sustainable finance for the Poor*. The World Bank
- Saleh & Ndubisi. 2006. *International Review of Business Research Papers* Vol. 2 No. 1 August 2006. An Evaluation of SME Development in Malaysia. <http://www.geasiapacifico.org/documents/IBRP1.pdf>
- Tambunan, T. 2008. *Asia-Pacific Development Journal* Vol. 15 No. 2 December 2008. Trade Liberalization Effects on the Development of Small and Medium-sized Enterprises in Indonesia : A Case Study. UNESCAP.
- Tambunan, T. 2009. *SME in Asian Developing Countries*. London : Palgrave Macmillan Publisher.
- Tambunan, T. 2012. *Usaha Mikro, Kecil dan Menengah di Indonesia : Isu-isu Penting*. Jakarta : LP3ES.
- Tonnies, F. 2001. *Community and Civil Society*. Cambridge : Cambridge University Press.
- Tranh, Cuong, et.all. 2011. 'Small and Medium Enterprises Access to Finance in Vietnam' in Havie, Oum, & Narjoko (eds.) *Small and Medium Enterprises Access to Finance in Selected Asian Economies*. Economic Research Institute for ASEAN and East Asia. http://www.eria.org/publications/research_project_reports/images/pdf/y2010/no14/All_Files.pdf
- UNIDO. 2011. *Independent Country Evaluation : UNIDO Activities in the Socialist Republic of Vietnam*. United National Industrial Development Organization UNIDO Evaluation Group. http://www.unido.org/fileadmin/user_media/About_UNIDO/Evaluation/Country_Reports/VietNam_Ebook.pdf



Talking ASEAN on "U.S. Rebalancing to Asia and Chinese New Leadership: Challenges for ASEAN Centrality and its Implications on Neighbouring Countries"
The Habibie Center Building, 17 September 2013



Talking ASEAN on "ASEAN Connectivity: Opportunities for Business and Shaping ASEAN Identity"
The Habibie Center Building, 29 October 2013



About ASEAN Studies Program

The ASEAN Studies Program was established on February 24, 2010, to become a center of excellence on ASEAN related issues, which can assist in the development of the ASEAN Community by 2015. The Habibie Center through its ASEAN Studies Program, alongside other institutions working towards the same goal, hopes to contribute to the realization of a more people-oriented ASEAN that puts a high value on democracy and human rights.

The objective of the ASEAN Studies Program is not merely only to conduct research and discussion within academic and government circles, but also to strengthen public awareness by forming a strong network of civil society in the region that will be able to help spread the ASEAN message. With the establishment of ASEAN Studies Program, The Habibie Center aims to play its part within our capabilities to the ASEAN regional development.

About Talking ASEAN

Talking ASEAN is a monthly public dialogue held at The Habibie Center in Jakarta. Covering a wide array of issues related to ASEAN, Talking ASEAN addresses topics of: Economic Integration, Socio-cultural, & Democracy, human rights and regional peace, among others. Featuring local and visiting experts, Talking ASEAN is one of a series of twelve dialogues regularly held each month and open to a target audience consisting of ASEAN officials, foreign ambassadors & diplomats, academics, university students, businesses, and the media.

OUR PUBLICATIONS

Issue 1/September 2013
REGIONAL COMPREHENSIVE ECONOMIC PARTNERSHIP
Key Issues and Policy Options

SUMMARY

This issue of ASEAN Briefs examines the issue of the ASEAN Economic Community 2015, the free movement of labor and migrant workers' rights. In particular, it addresses the concerns that the upcoming ASEAN Economic Community, which is premised on the free movement of labor, will bring about a boom in the number of migrant workers moving in the region. However with the vast majority of ASEAN's migrant workers operating in the informal sector (and very little to indicate that this will change once the ASEAN Economic Community is in place), there are serious worries that incidents of migrant workers' abuse will worsen.

As such this issue of ASEAN Briefs seeks to explore how ASEAN intends to cope with these serious worries, what progress it has made towards addressing those worries, and how has its member-states sought to implement the efforts of ASEAN in managing labor migration. This was done by examining the various policy issues at the regional, national and practical levels which resulted in this issue of ASEAN Briefs' three main recommendations.

Issue 2/January 2014
ASEAN Disaster Relief
Regional Institutions, National Policies and Member-States' Capacities on HADR

SUMMARY

The need for effective humanitarian capabilities in the region was underscored by Typhoon Haiyan's destruction caused by Typhoon Haiyan attention as early as 1976 to the important the damaging effects of natural disasters at the time to respond to natural disasters response to Typhoon Haiyan suggests.

This issue of ASEAN Briefs examines effectively to large-scale natural disasters the regional, national and practical instruments dealing with natural disasters national policies in support of its member-states practical means capacity.

The key recommendations are that: (1) relief management should hold an elevated recognize and empower the region's responsible for disaster management; ASEAN member-states greater practical efforts; (3) National policies of ASEAN importance of utilizing the military when it comes to disaster relief efforts; plans of ASEAN member-states should assets to give them the capacity to cope

Issue 3/April 2014
Migrant Workers Rights
The AEC 2015 and Free Movement of Labor, Case Studies of Indonesia and the Philippines

SUMMARY

This issue of ASEAN Briefs examines the issue of the ASEAN Economic Community 2015, the free movement of labor and migrant workers' rights. In particular, it addresses the concerns that the upcoming ASEAN Economic Community, which is premised on the free movement of labor, will bring about a boom in the number of migrant workers moving in the region. However with the vast majority of ASEAN's migrant workers operating in the informal sector (and very little to indicate that this will change once the ASEAN Economic Community is in place), there are serious worries that incidents of migrant workers' abuse will worsen.

As such this issue of ASEAN Briefs seeks to explore how ASEAN intends to cope with these serious worries, what progress it has made towards addressing those worries, and how has its member-states sought to implement the efforts of ASEAN in managing labor migration. This was done by examining the various policy issues at the regional, national and practical levels which resulted in this issue of ASEAN Briefs' three main recommendations.

asean studies program

asean studies program

asean studies program

ASEAN Studies Program ASEAN Briefs