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A Perspective of ASEAN Financial Sector under the Global Financial Crisis: Assisting SMEs Through Financial Sector Intervention in Asia

Hank Lim

Research Director

Singapore Institute for International Affairs

Abstract

The global financial crisis has hit SMEs hard. Besides facing declining demand, the sector’s access to bank loans and working capital has also been limited due to financial institutions’ increased risk aversion and decreased liquidity. In response, Asian governments have provided various forms of assistance, many of which encourage the supply of funds by intervening in the financial sector. Examples of such measures include loan guarantees, interest subsidies on loans, and setting targets for SME lending. However, such measures contribute little and may even be counter-productive to the long-term goal of a stronger financial sector that would be more able to meet SME funding needs and yet maintain stability. This paper sets out to identify supervisory and regulatory strategies that governments in the region can adopt to achieve this goal. To this end, we draw upon past studies and lessons learned after the 1997 Asian Financial crisis to examine the role of government intervention in the financial sector and its impact on SMEs. The main recommendation put forth is that governments should conceptualize a broader, longer-term blueprint for financial sector reform, and align current response measures to the plan. Balance between the need for SME lending and stability can be achieved through a holistic approach that can strengthen supervision and capabilities. Such measures can be implemented such as transaction technologies of financial institutions and complemented by SME financial capability enhancement such as training in proposal writing and accounting. This paper will draw lessons from the Singapore experience.