

**Comments on
“A Perspective Asian Financial
Sector under the Global Financial
Crisis: Assisting SMEs through
Financial Sector Intervention in
Asia”
by Hank Lim**

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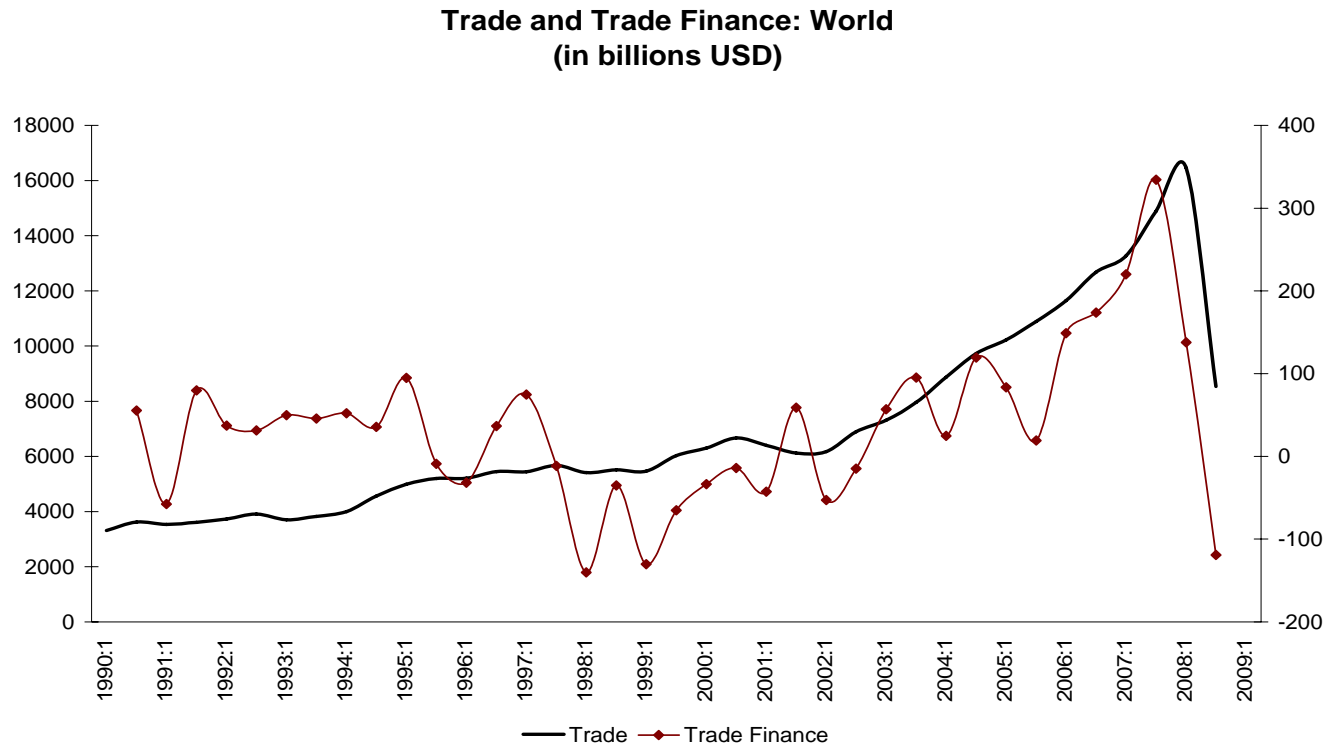
I. Summary and motivation of the paper

- This paper examine why and how to provide the financial supports for SMEs in global financial crisis.
- For policy implications on SME finance, this paper recommends a holistic approach for financial sector reform which is quite relevant for SME finance

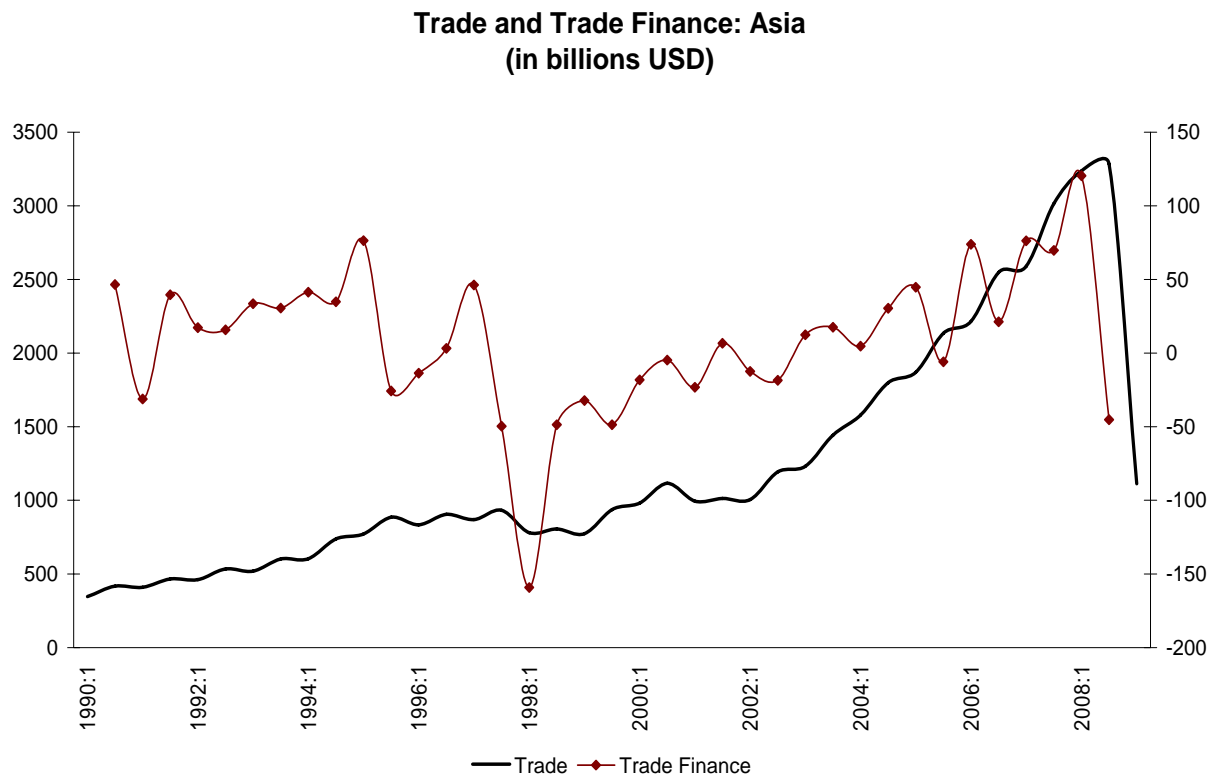
I. Summary and motivation of the paper

- Why SMEs are vulnerable to financial crisis?
 - Low access to financial market; liquidity squeezing in time of financial turmoil
 - Higher risk premium: asymmetric information or market failure?
 - Pro-cyclicality: depends more on business cycle and collateral values are also pro-cyclical.
 - Depending more on short-term borrowing
- Why SMEs in Asia hurt so badly this time

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Issues in SME finance

- Lending technology; how technology addresses opacity problem.
- Large vs small institutions
- Foreign vs domestic institutions
- Information environment
- Legal environment

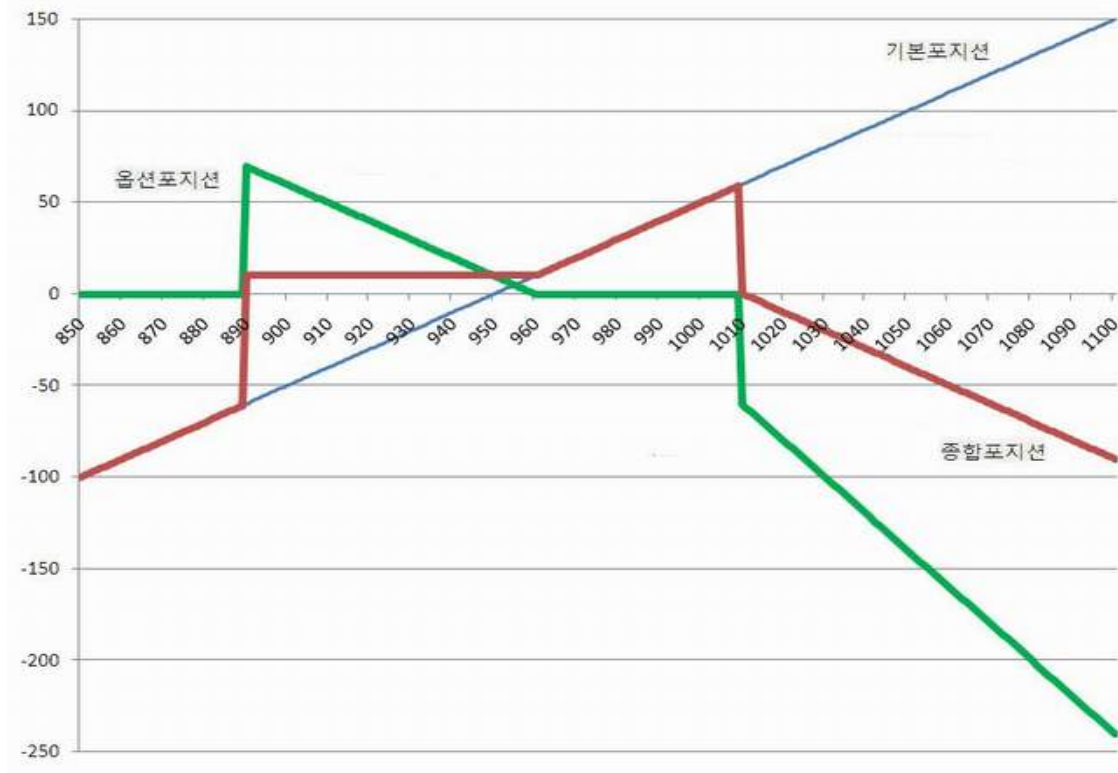
2. Korean case for SME finance

- Many SMEs are closely related to export sectors in Korea
- Currency fluctuation is one of most important factors for SMEs' financial conditions in Korea
- Knock-in Knock-out options for SMEs in Korea ironically deteriorated the financial conditions in SMEs, and sometimes led bankruptcies
 - Kiko is the financial derivative which combines put option (knock out) and call option (knock in) for currency movements with zero initial cost

2. Korean case for SME finance



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Transactions for KIKO

	Number of Company	Transaction amount	Realized loss
SMEs	471 (91%)	\$5.9 billion (74%)	\$1.1 billion
Large company	46	\$2.0 billion	\$0.35 billion
Total	517	\$7.9 billion	\$1.46 billion

2. Korean case for SME finance

Questions:

- Why SMEs have more exposure to the KIKO?
- SMEs fully understand the risk of the financial products?
- Financial supervisory should monitor the private financial contract?
- Should government bail out the SMEs losses?