

Peter Pang: The role of SMEs in Asian development

Statement by Mr Peter Pang, Deputy Chief Executive of the Hong Kong Monetary Authority and Head of Delegation, Hong Kong, China, at the 41st Asian Development Bank Annual Meeting, Madrid, 5-6 May 2008.

* * *

Let me first thank the Government of Spain and the people of Madrid for their warm hospitality. I welcome the successful conclusion of the ADF X negotiations ahead of this meeting, providing timely and critical resources to the ADB to further its work in poverty reduction in Asia.

The remarkable development of the region over the past decade has significantly improved the lives of its people. Yet, eradicating poverty remains a huge challenge, and the rapid economic growth has brought about a new set of development issues. We therefore welcome the extensive review of the Bank's Long-Term Strategic Framework over the past two years to identify the new challenges faced by the region and the launch of Strategy 2020 to guide the Bank's work in the next decade.

I am glad to see that Strategy 2020 correctly puts a greater focus on the sustainability aspects of growth as Asia enters the next stage of development. Among other priorities, I am also happy to note more emphasis being given to private sector development and private sector operations. Enabling the private sector with firms investing, creating jobs and improving productivity is crucial to sustaining the long-term economic growth and expanding opportunities for the poor. In this regard, supporting the development of a vibrant small and medium enterprises (SMEs) sector will be of particular importance.

SMEs play a vital role in the economic growth of developing countries, typically accounting for over 90% of business establishments and about half or more of output and export shares. Their entrepreneurship, flexibility and responsiveness to change are essential driving force of economic development. The employment opportunities they create improve the livelihood of thousands of millions of poor people. In many developing countries, and in fact in developed economies as well, SMEs account for as much as 70% of the labor force.

Despite the important role of SMEs in the economy, their growth is often constrained by the lack of capital, among other impediments such as regulatory red tape. Their small size, lack of credit ratings and the generally underdeveloped capital markets in the region deny SMEs access to bond and equity financing. Banks are also reluctant to lend to SMEs or charge them a high interest rate, since SMEs usually do not have strong credit history and cannot provide substantial collateral.

Making available SME financing at reasonable cost is therefore crucial to the growth of this important sector. Providing policy loans directly to SMEs helps, but the assistance is limited relative to the enormous financing needs and there are always concerns about economic distortions and the efficient use of public resources. To achieve greater and more sustainable SME financing, it is necessary to develop market-based approaches which are commercially viable to mobilise private sector investment into the SME sector. I encourage the ADB to further work on this front, including exploring possible mechanisms such as credit enhancement and securitisation. Scaling up private sector lending would require a change in the skill mix of the ADB, in particular in strengthening its market expertise and risk management. Partnering with domestic agencies and private sector financial institutions, other international financial institutions and developed members in the region that have relevant experience would be useful in utilising their expertise, building the capacity of the Bank, and sharing credit risk.

There are, of course, other important areas concerning the development of the region where the ADB could play a meaningful role as identified in the new Long-Term Strategic

Framework. As a member of the Bank and the region, we stand ready to provide support and look forward to strengthening our cooperation with the ADB in furthering the development agenda of the region. And lastly, to successfully implement Strategy 2020, further enhancing the organisational effectiveness of the ADB will be of critical importance. We welcome the Bank's commitment to develop a more robust results framework and to continue its institutional reforms, and we look forward to ongoing efforts by the Bank in this regard.

Thank you.