SMEs in times of crisis: the need for speed

Small - and medium-sized enterprises (SMEs) matter; and without a healthy SME sector, economic recovery is unthinkable, and Europe’s future prosperity and competitiveness are at stake. That’s the view of Arndt G. Kirchhoff, CEO of Kirchhoff Automotive and chairman of the SME committee of business lobby group BusinessEurope.

When it comes to securing financial support, entrepreneur Jack Ma, chairman and CEO of China’s Alibaba Group, has this advice for small and medium-sized enterprises: don’t rely on the government and the banks; rely instead on your family and friends.

Speaking in Singapore, Ma told a regional SME conference that every country needs a financial incentive package to support the growth of SMEs because all big companies start as small businesses, adding that the SMEs of today will be tomorrow’s major companies like eBay, Google and UPS.

Ma, himself, knows the pains of growing a business. In 1999, he founded the Alibaba Group, which has grown to five e-commerce companies operating business-to-business, retail, third-party online payment portals and cloud computing development services. The group employs 17,000 people in China, Japan, Korea, the UK and the US.

Ma says that while he has always had difficulties getting financing from banks, he has still managed to expand his businesses. He was also critical of banks that refuse to lend to SMEs on claims that they lack information about the companies.

“Tell me - do any big bank CEOs or presidents go to the SME summit?” Ma asked. “No, they go to the CEO summit,” Ma said to laughter and applause.

“How could you get information if you do not go there to listen to them, talk to them, share experiences with them, to see that what they need is only US$50,000 instead of US$20 million?”

A banker at the conference had a different view. According to Jeanette Wong, head of institutional banking at Singapore’s DBS Bank, SMEs get the financial support they need from governments and banks. However, she acknowledges that in the wake of the financial crisis, some banks had started recalling their loans due to their own financial difficulties, which then led to other banks reining in their lines of credit and causing a liquidity squeeze for SMEs.

“The psychology of banks is no one wants to be the last bank standing with exposure to a company whom you know is using its cash to repay other banks and its business may not be doing well.”

Nevertheless, early this year many Asian governments worked quickly to stem the lack of liquidity to SMEs by introducing government-
backed lending programmes, says Wong. Under these schemes, governments work closely with banks to provide loans in which the state guarantees 80-90 per cent of loan repayments.

"That has helped the local Asian economies tremendously by providing liquidity where it matters," says Wong.

"And many SMEs, although impacted by the decline in global demand, were able to attain funding and liquidity amidst the sharp drop in demand."

Wong notes that these government-backed lending programmes are still available but she has noticed that the take-up rate has declined amid the tentative global economic recovery.

For its part, the Asian Development Bank (ADB) has supported about US$1 billion of trade flows so far this year and has boosted its Trade Finance Facilitation Programme to US$1 billion, in which the ADB assumes the risks of the issuing banks on behalf of the confirming banks, says Robert van Zwieten, director of the ADB's capital markets and financial sectors division.

SMEs in Asia, van Zwieten says, were buffeted by the global financial crisis, which saw the supply of trade finance “dry up very sharply” for several reasons. Firstly, the major banks were still reeling in the aftermath of the financial crisis, and consequently reduced their capital allocation for SME trade financing. Secondly, the Basel II framework wrongly placed trade financing on an equal footing with lending, ignoring the fact that most trade financing is short term, self-liquidating financing that’s backed by the underlying trade flows.

He adds that small and medium enterprises are a “cornerstone” of the ADB's mission to reduce poverty in the region. To be sure, SMEs make up about 90 per cent of all businesses in Asia-Pacific economies, and employ as much as 60 per cent of the total workforce. They also contribute about half of the GDP of their respective economies, but account for just 30 per cent of total exports. This suggests that SMEs in the region have strong growth potential if given the necessary support.

Although the region's economic decline is slowing, demand for trade finance has "corrected downwards," says van Zwieten. However, the supply of trade finance has improved somewhat, thanks to assistance from governments. Short-term loans have become available in some Asian markets, though it remains hard to get trade financing for longer-term loans of two years, he adds.

In the private sector, SMEs are banding together to help each other, says Andy Lim, President of the Enterprise 50 Club, an SME association. Lim, who's also the chairman of private equity firm Tembusu Partners, says SMEs are regrouping and working together so that banks can better assess loan risks and maximise the available loan opportunities. For instance, the association, which has 130 member companies, is working with banks to get better access to local and overseas banking facilities.

Lim adds that the member companies are also pooling their resources to fund firms that need capital infusions. Furthermore, the association organises visits to member companies to understand their operations, which could result in investments in member companies which are listed in future.

For SMEs to stay on top of their trade finance needs, DBS Bank's Wong says businesses should focus on their liquidity, cash availability, and their relationships with their banks. As companies grow, they should share their expansion plans with their banking partners, keep a cautious eye on their debt leverage, and develop an equity cushion to help them ride out future downturns, she says.

The APEC SME Summit 2009 was held in Singapore in mid-November.

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