

SMEs in Asia: what's new?

Christine Wallich and Arlene Tadle

The development of small and medium-sized enterprises (SMEs) has always been the focus of national governments and international and regional development agencies. Unfortunately, traditional efforts to provide credit finance for their development are now seen to have been rather ineffective. What is needed is a more market-based approach, backed up with an appropriate policy environment, stronger financing institutions, the availability of business advisory services and equity and other market-based financing. The article discusses these issues as they apply in the Asian region.

Overview

Small and medium-sized enterprises (SMEs)¹ are important providers of employment in most less developed countries and can contribute to poverty alleviation. However, many now agree that traditional approaches to SME development, focussed as they have been on providing credit, have not worked, and that a new, more market-based approach is needed.

In this article we present a new paradigm for promoting SME development. We conclude with a discussion of the significance of information and communications technology (IT) and the internet in SME development, and the role of international financial institutions (IFIs) in exploring IT potential.

Employment, growth, and poverty reduction

SMEs have traditionally been perceived as major generators of employment, especially outside urban centres. These

small firms create jobs that use labour, the main asset of the poor. Promoting SMEs can help improve the distribution of income and can contribute to poverty reduction. In addition, in most low-income developing countries, SMEs are the emerging private sector, and form the base for private sector-led growth.² Growth depends on productive investments and on the use of skills by poor people. And in both rural and urban areas, private sector employment in the formal and informal sectors is a major source of economic support for workers and their families.

Outward-oriented strategy

Of course, overall economic strategies also make a difference: inward-looking, protectionist policies lead to poor resource use and do not encourage the adoption of new technologies. In contrast, countries that have adopted outward looking, market-oriented policies have grown faster and have made relatively greater strides in reducing poverty. What does this mean for SMEs? The

Christine Wallich

*Director and Head
Private Sector Group*

Arlene Tadle

*Senior Economic Analyst
Infrastructure Energy and Financial
Sectors Department (West),
Asian Development Bank
Manila, Philippines
Tel: (+63-2) 632 6315
Fax: (+63-2) 632 5502
Tel/Fax: (+63-2) 722 0171 (Home)
Cel Worldwide: (+63-2) 917 888 6320
E-mail: cwallich@adb.org*