Public Policy Effort to Promote the Financing of Entrepreneurial Firm in Thailand

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Abstract This study concentrates towards the effects of government policies in promoting SMEs' financial prospect. A few years after the Tom Yum Kung Crisis in 1998, Thai government has realized that SMEs would be one of the key priorities for country economic stimulation. However, many Thai SMEs are faced with financial problems. In order to achieve the uptrend economic growth, Thai government has set up policies to promote the financing of Thai SMEs. In year 2002, the government plan in promoting SMEs (2002-2006) has been formed up. The plan was arranged based on the synergy between the latest and the original governments' entrepreneurial and SMEs promotion policies. Evaluation of progressiveness of the government financing policies is therefore necessary for government further policy implementation. The objective of this study is to determine how government intervention are taken from either demand or supply side as well as to evaluate the progressiveness of policies by assessing the following five essential factors i.e. non-performing loan (NPL), number of SMEs that take loans and the loan amount, amount of guarantee for loan to SMEs, number of investments in SMEs by joint venture funds, and numbers of SMEs that are listed in SET. It is found out that the governments' policy efforts are from both demand and supply side but more for the later one. Thai government financial policy measures through promotion by related state organizations since 1999 have been met most of the set targets. However, funds granted were mostly from the state specific financial institutes while those from other fund sources like joint funds or MAI were still very low percentage.

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1. Introduction

An importance of SMEs roles in country development is widely accepted nowadays. Acs and Davis (1987) distinguishes four consequences of the increases importance of SMEs as 1) a vehicle for entrepreneurship, 2) route for innovation, 3) Industry dynamics, and 4) job generation. Other research suggested that SMEs are the major providers of new jobs and contribute positively to economic growth, although GDP growth is influence by many more factors (Audretsch et al, 2002). In developing country like Thailand the numbers of SMEs were accounted for 99.7% and 99.5% of total enterprises in 2002 and 2003 respectively. These SMEs' products and services took parts of GDP contribution as 38.8% in 2002 and 38.1% in 2003. Thus, we may judge that SMEs are not only trading, production, and service large bases but also huge jobs and labors market. In 2003, Thai SMEs took the part of 60.7% of total jobs employment in Thailand. (www.sme.go.th)

Though SMEs may have their important role in country development, it is found that most of them facing troubles in running business as evidenced in 1998 when affected by the crisis. Since they lacked strength in many aspects, especially in financial one, most of them at that time had gone bankruptcy. Even nowadays large percentage of SMEs encounter financing problem due to limited in sources of funds, difficulty of fund accessing, poor accounting system, and unqualified collaterals.

Domestic funds are SMEs' first priority sources but are very limited. This is owing to the low domestic savings and the risk levels that exist in most Thai SMEs. Effects from the crisis caused difficulties in loan granted by Thai financial institutes who had to control and lower the NPLs level. They chose to grant loan safely by considering only those projects that had enough collateral plus credit rather than the possibility of future returns (Office of SMEs Promotion, 2001). This resulted in many SMEs lost good and new opportunities in developing and improving their existing businesses. In addition, these SMEs were inevitably forced to raise fund or improve liquidity through informal sources of capital or black market, say in other word, which normally required abnormal higher rate return thus affected both the competitive edges of SMEs and the country as a whole.

Thai government had looked into those SMEs' barrier and decided to support the financing facilities to SMEs by issuing financial policies and measures to facilitate loan granting process as well as to provide financial consultancy since 1999 for the overall strength creation of SMEs in Thailand. Though the following up and evaluation were continuously taken care by assigned public organizations the consequences of applying those government policies and measures had not been clearly illustrated.

This objective of study is to evaluate the progressiveness of the government financing policies by assessing the following five essential factors i.e. non-performing loan (NPL), number of SMEs that take loans and the loan amount, amount of guarantee for loan to SMEs, number of SMEs jointed Funds, and numbers of SMEs that are listed in SET. Another objective of this study is to evaluate government financing policies effort by determining how government intervention be taken in both demand and supply side. However, this study does not mean to justify those government interventions.

2. Literature Review

We review here the financing issues and difficulties confronting SMEs and entrepreneurial firms regarding their fund raising process. How government intervention to facilitate SMEs financing could be measured are also included in this part.

One of the most important issues facing entrepreneurial firms is their ability to access capital. Because such firms are typically not yet profitable and lack tangible assets, debt financing is usually not an option. Consequently, entrepreneurs tend to rely on three primary sources of outside equity financing: venture capital funds, angel investors, and corporate investors (Denis, 2004).

Stiglitz and Weiss (1981) point out that the propensity for an enterprise to be subject to credit rationing is not neutral with respect to firm size. Rather, as a result of adverse selection in a market with asymmetric information the likelihood of credit rationing tends to systematically increase as firm size decreases.

Petersen and Rajan (1992) observe that small and young firms are most likely to face a kind of credit rationing. Most potential lenders have little information on the managerial capabilities or investment opportunities of such firms and are unlikely to be able to screen out poor credit risks or to have control over a borrower's investments.

Samitas and Kenourgios (2005) mentioned that access to finance is the most important constraint in the view of the entrepreneurs. The smaller the firm, the more important the difficulty of financing new entrepreneurial plans becomes. Generally speaking, for most small businesses and some limited extended medium sized enterprises, owned capital comes from private and informal sources; whereas, debt financing is provided by the banking sector. The percentage of enterprises having a credit provided by a bank is called in this paper the "rate of bankarisation". The *"rate of bankarisation"* suggests that highly innovative and expanding firms seem to have better access to credit than the average European SMEs. This concludes that banks have more interest in providing finance to bigger and more dynamic enterprises.

Nevertheless, how do governments do to ease the above difficulties facing SMEs and entrepreneurial firms is still an important question. One of the key issues for governments is defining their role in addressing whatever SME financing gaps exist (Stevenson and Lundstrom, 2001). It could simply say that governments tend to be involved in SME financing because they are trying to fill 'gaps'. Their task is one of determining what gaps exist and and how best to fill them. There seem to be four major reasons for government intervention in the SME financing arena, all of which are based on a market failure.

3. Conceptual Framework

This study tries to determine whether the governments' policy efforts are from demand or supply side. Based on Stevenson and Lundstrom (2001), governments financing policy focusing on the availability of financing issue is referred as "the supply side" policy. On the other hand, governments financing policy focusing on the access to financing issue is known as "demand side" policies. In the former case, the major approaches are to encourage banks to do more small business lending (e.g., provide loan guarantees), provide tax incentives for equity investments, and provide government financial assistance programs (e.g., micro-loans, subsidized interest rate loans, R&D funds). In the latter case, the major approaches are to reduce the asymmetry of information flow between SMEs and investors (angel networks and databases, information sessions), improve accountability of banks for small business lending (e.g., statistical reporting, setting minimum levels for SME loans as a percentage of total loan portfolio), and provide counseling services to SMEs to improve their ability to secure debt and equity financing.

We then conduct the evaluation of progressiveness of the government financing policies by assessing five essential factors including:

- non-performing loan (NPL),
- number of SMEs that take loans and the loan amount,
- amount of guarantee for loan to SMEs,
- Number of SMEs received financial support by jointed venture funds, and
- number of SMEs that are successfully listed in SET and MAI

However, the study doesn't mean to justify the success/failure of the policies since the evaluation approaches in this area have been subject to considerable criticism. Discussions made in this report are based on secondary sources of information only.

4. Result of the Study

The study reveals that since 1999 when the Thai government has issued financial regulations for promoting SMEs, those qualified SMEs are granted loans (with loan insurance) through specific financial institutes. SMEs venture capital fund and Thailand Recovery Fund were set up to support capital raising process of SMEs. Moreover, a center for providing financial consultancy was also organized for SMEs. The above three steps have been fully servicing, however, there were no clearly defined objectives and progressiveness assessable goals. The performance was only assessed and reported as the amount of loan and loan insurance granted to SMEs. In addition to that there have been considerable groups of small enterprises operated without legally registered. This is also another difficulty for the government to reach their information.

The Master SMEs Promotion Plan (2002-2006) was the government plan issued under the SMEs Promotion Act (2000) which gave the definition of SMEs based on number of employees and amount of fixed assets or paid up capital (Industrial Ministry Regulation, 11 September 2002). While that defined by EU including the amount of sales and degree of independence in SMEsí Management. To be independent means less than 25% of total shares are hold by minor shareholders. However, based on the mentioned master plan, the Thai government was able to classify the SMEs group more clearly and lead to more efficiently in assessing, and following up. Under the government promotion plan, SMEs are classified into 4 groups i.e., local SMEs, Exporters, New Innovative Entrepreneurs, Community Enterprises. The office of SMEs Promotion is assigned to coordinate among related organizations so that they keep the same track and direction.

4.1) Demand-Supply Side Policy Aspect of Promotion

Thai government pays high attention on financial problems of SMEs, the strategies which were among the top priorities of those strategies for SMEs' improvement. In order to accomplish this, the following financial measures both on supply and demand sides are provided as shown in the table below:

Loan Provided (Supply Side Policy)	Accessing to Sources of Fund (Demand Side Policy)
■ Loans through state specific financial institutes	■ Financial consultancy to SMEs
■ Loan guarantee by Small Business Credit Guarantee Corporation	■ Fund for rehabilitation of non-performing SMEs
■ Loan calling through SMEs' fund establishment	■ Loan-risk reducing through mentor system
■ Fiscal measure: Tax reduction or exemption to private joint venture fund	■ Provision of SMEs' information system for supporting the operation of joint venture fund
■ Encouraging SMEs to be listed in MAI	
■ Development in financial tools	

It should be noted that the promotion on supply side had been continuously carried on to meet the goals while those of demand side were not so evident, especially, the rehabilitation of those NPL-SMEs. This means that Thai government pays more attention on supply side, e.g. loan provided, than demand side. This is opposite to EU, OECD, and APEC where more concentration are over the demand side, i.e., accessing to sources of funds and information.

4.2) Assessment of Financial Promotion Plan Progress

This independent study concentrates the assessment in financial aspects that affects SMEs. These essential financial indexed are

1. Non-performing loan (NPL),
2. Number of SMEs that take loans and the loan amount,
3. Amount of guarantee for loan to SMEs,
4. Number of SMEs received financial support by jointed venture funds, and
5. Number of SMEs that are successfully listed in SET and MAI

Details are as follows:

4.2.1 Non-performing loan

The figures of NPL decreased significantly from 45.02% in 1998 to 38.93%, 17.90%, 1[illegible].46%, 15.67%, 10.76%, and 9.93% during 1999-2005 respectively (www.bot.or.th). Moreover 99.60% of these NPLs belonged to SMEs. Though NPL had had a decreasing tendency it is reported in 2004 that the ration of loans granted to NPL-SMEs was very low i.e., 0.025% of the total loan granted and there was also no evidence in the rehabililitation of NPL-SMEs. Thus, it may be quoted that NPL-SMEs level in Thailand had been improved since 199[illegible] mainly due to recovery of macro-economy itself rather than the effects from government financial promotion measures.

4.2.2 Number of SMEs granted loans and the amount of loans

The government loan promotion through state financial institutes since 1999 has been reached [illegible] as compare to the target. This could be claimed as government achievement. However, in 2000 and 2001 the percentage of loans granted to SMEs as compare to the targets were only 71.4% and 61.6% respectively. Nevertheless, there was another fund amount of 400,000 MB loan set to facilitate thai SMEs liquidity by the National Economic and Social Development Plan (2003-2006) and at the end of 2005 the total amount of 157,178 MB loan was already granted to SMEs.

4.2.3 Amount of Loan guarantees

According to the information of loan guarantees from the Small Business Credit Guarantee Corporation, the corporate provided loan guarantees to SMEs in 2000 at the amount of 826 MB which was equal to 20.70% of the target of 4,000 MB. However, in 2001 the loan guarantees amounted to 2,506MB (Target was 1,600MB) and increase to 4,116.57MB (Target was 2,500MB) in 2002. Therefore, the Small Business Credit Guarantee Corporation could arrange to provide SMEs loan guarantee amounted to 7,448.57MB out of the targeted 8,100MB or equal to 91.96% between 2001-2002. In year 2003 and 2004, there were other 4,358.07MB and 4,647MB of loan guarantee provided to SMEs respectively without any evident target amount. Although it could not conclude that there was the achievement of loan guarantee providing to SMEs, there had been evidence of continuously climbing up tendency of such guarantee amounts provided by the Small Business Credit Guarantee Corporation.

4.2.4 Number of SMEs Invested by Joint Venture Fund

During 2000-2004, government established joint venture funds have been invested in forty of SMEs firms amounted to 430.68MB. This figure looks considerably low as compare to the target of 1,000MB through end of 2006. This is due mainly to the screening process of and quite a high standard investment criteria set by joint venture funds.

4.2.5 Number of SMEs listed in SET or MAI

Apart from equity investment of joint venture funds, the governments also encourage those high-capability SMEs to be a listed company in SET or MAI. In 2004, only 22 SMEs were able to be listed in Thai stock markets, and they were all financially backed by the IFCT. It can thus be explained that SMEs in Thailand has face difficulty in accessing to source of risk funds.

5. Conclusion

Thai government financial policy measures through promotion by related state organizations since 1999 have been met most of the set targets, i.e. filled the gap of SMEs' fund accessibility or provide liquidity. Nevertheless, funds granted were mostly from the state specific financial institutes while those from other fund sources like joint funds or MAI were still very low percentage. This might be due to the under standardization of most Thai SMEs have caused barriers. To improve the standard level of these SMEs, Thai government needs to review both the regulations and process related to investment of joint venture funds together with necessary promotion for capability improvement in order to be approved by SET or MAI as listed companies.

It is suggested that further evaluation in other aspects of SMEs promotion policy should be made. At least the following levels of measurement, i.e, at the level of the sector, at the level of the firm, at the customer service level are also necessary information for government decision making on moving to new policy area.

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