Doctoral Dissertation:

The Impact of Traditional Bank Credit, Alternative Forms of Lending, And Policy Reforms on Financing Mid-Caps and SMEs In Emerging Markets: A Multiple Case Study

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Abstract

The author of this dissertation investigates the impact of financial liberalization on economic growth in a few specific emerging markets after the adoption of structural and bank reforms. The goal is to show whether or not financial development is conducive to economic growth in business environments that are favoring financial innovation and liberalization. Given the broad scope of the topic of this research, the author in this work is focusing on the impact of bank intermediation (traditional credit), alternative credit technologies, and policy reforms (financial system advancement and liberalization) on Small and Medium Enterprises (SMEs) as drivers of economic development and prosperity in emerging economies. Although the subject of SMEs has been widely discussed in economics literature, it seems that a research on SME credit from multiple perspectives remain fragmented and somehow incomplete. Through the analysis of various indicators (financial, political, and macroeconomic) and through multi-case studies of economies located in different geographical regions, this research aims to prove the importance of financial development and liberalization in economic growth in the emerging economies. The study, in particular, aims to explain how the development of the financial sector has unfolded in the following three economies: Turkey, Malaysia and Brazil respectively (categorized as *"emerging economies"* by the latest IMF classification). The author presents in this work, through analyses based on a statistical model, the impact of business loans and credit to SMEs on economic growth of twelve emerging markets from the period 2009-2018 based on GDP-per-capita data. Kivint (Kivint, 2009) defined emerging markets, as economies that have moved from "dictatorship" to a "free market economy" improving living standards with higher incomes, growing middle class, and enabling more involvement of multilateral institutions. This study aims also to provide an original insight on the topic of financial development and economic growth from a selected panel of highly qualified subject matter experts. In order to achieve the goals of this work's research objectives, a qualitative research has been undertaken based on multiple case studies and on in-depth interviews with subject matter experts supported by semi-structured questionnaires. Seventeen experts were interviewed using in-depth interviews through structured and semi-structured questions. The participants to the study are global experts and professionals with a long-standing experience (25 years) in banking, financial development, and financial inclusion and high academic credentials. A core theoretical reference and framework of this research study is Schumpeter's "Theory of Economic Development" (Schumpeter, 1911). The research findings of this work may provide rich and granular data and analyses which might result useful to central banks, policy makers, banks and authorities in order to fine-tune tailored solutions for achieving higher economic growth through SME credit expansion. The study aims also to provide some early-stage insights to both, academic and business, examining the changing roles and priorities of traditional and alternative credit for SMEs in the post COVID-19 pandemic era. Recommendations for further research include the impact of bank and alternative credit to SMEs in the post COVID-19 scenario.

A broader study might be undertaken based on a larger sample size in order to assess similar research questions on other emerging markets using case studies for specific regions and specific banks.

In summary, this research aims to provide to the academic community and policy makers tangible evidences of the benefits that financial development and financial liberalization can bring to emerging markets and an overview of the available policy tools that many emerging economies may use to help foster economic growth and competitiveness through properly-managed financial innovation and liberalization.

Key Words: Economic and Financial Liberalization, Alternative Credit, Bank Reforms, Financial Development, SME Finance, Emerging Markets.

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Chapter 1: Introduction

The importance of finance to Small and Medium enterprises (SMEs) has been unanimously recognized by policy makers and researchers across the globe (Beck T. , Demirgüç-Kunt, Soledad, & Pería, 2010). SMEs (with employees less than 250) represent more than 95% of registered firms worldwide. They contribute to more than 35 % of jobs globally and account for more than 35% of GDP (IFC, 2010). According to World Trade Organization (World Trade Organisation, 2016), SMEs account for 90% of the business population, 60% of employment, and 55% of GDP in developed economies (Bayraktar & Algan, 2019). The social and economic roles of SMEs led to the consideration of SMEs as a field of strategic interest (Avasilicai, 2009).

SMEs and Mid-caps have exceedingly important roles in today's business world for fostering innovation, diversification and for supporting economic and social inclusion. Yet, despite those aforementioned benefits, SMEs and Mid-caps remain significantly underserved by the financial institutions. Access to finance remain the foremost reason deterring SMEs from expansion and doing business. The global credit gap for Mid-Caps and SMEs stand at USD 5.2 Trillion USD (Figure 1.1) (World Bank , 2020). Following the global financial crisis (GFC) of 2007-2008, the world has been more committed to build sustainable economies around the globe. At the center of this commitment came the increase of access to finance for SMEs. As an overarching policy mandate, the World Economic Forum (WEF) & the Organization for Economic Co-operation and Development (OECD) have increased their emphasis, policy notes and recommendations to states and markets on SME finance (OECD , 2015). However, with business cycles and recessions, lending to SMEs are usually prohibited by the bank's risk departments. There are significant differences across markets in which financing is channeled to Emerging Market Economies (EMEs).

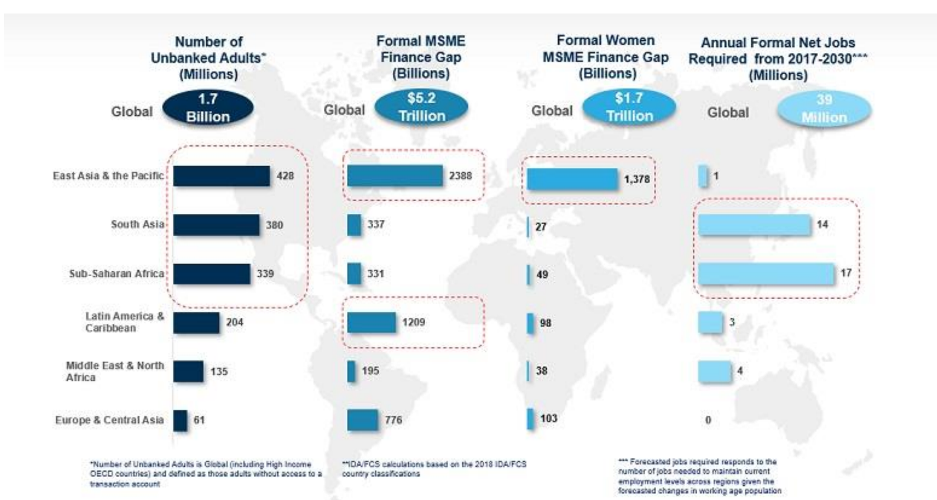

Figure 1. 1 Global Credit Gap for MSMEs. Source: (World Bank , 2020)

The most common direct source of credit to SMEs is traditional bank credit. Alternative sources of credit are market-based finance. In addition to the rapid development in financial technology, particularly in Africa and Asia, and to the rise of Fintech companies (post 2009), the financial services industry has witnessed the emergence of many new and innovative approaches to SME financing. To cite a few examples, P2P (peer-to-peer) financing, securitization of SME loans, early stage finance (seed, angel, venture, etc.), Impact Investment Funds, Value Chain Finance, and Digital Finance are starting to rapidly expand and offer more attractive offerings to the needs of the SMEs.

In this context, this study aims to evaluate the impact of the decisions undertaken by Central Banks of different Emerging Markets to support finance to SMEs. Broadly speaking and in order to support SME finance, high level policy guidelines been adopted for banks covering three main areas, which are; (a) legislation, regulation and supervision; (b) financial market infrastructure; and (c) public intervention and support mechanisms.

Background

Traditional finance to Small and Medium Enterprises in Emerging Markets has gained attention from academics and policy makers across the globe in the past two decades. Emerging Economies refer to all markets that have implemented structural economic reforms such as interest rates liberalization, private sector reform, and tax reform since the fall of communism in 1990s. Collectively, these measures and policy recommendations are coined as the *"Washington Consensus"* which were introduced by the IMF, World bank, the EU and the US Department of Treasury in crisis wrecked economies during the 1980s[1] (Hurt, 2015). Numerically speaking, SMEs shape the overwhelming majority of a nation's enterprises, generate 40-50% of a country's GDP and employ 70% of the total work force. Access to credit remains the top constraint for SMEs as financial institutions are the center of any transition to a sustainable economy (Andries, Marcu, Oprea, & Tofan, 2018).

For emerging economies, unlocking finance to SMEs means also contributing to economic development and reduction of poverty respectively of these economies. Since the crisis of 2008-2009, much attention has been given by the World Bank, International Monetary Fund and other major financial institutions, to the relationship between financial development and the health of the economy (Andries, Marcu, Oprea, & Tofan, 2018). Despite their valuable contributions to the global economy and emerging markets' economies, SMEs face a number of challenges (Abumohor, 2020). The estimated credit gap of *formal* MSMEs (Micro and Small Medium Enterprises) in Emerging Markets stands at 5.2 Trillion USD which is equivalent to 19% of the GDP in those countries (IFC, 2017). On the other hand, the credit gap of *informal* MSMEs (those enterprises that are not registered, pay no taxes and have no audited financials) in these markets is estimated at 2.9 trillion USD, which is equivalent of 10% of these countries GDP. On total, 70% of enterprises in emerging markets lack access to credit (Abumohor, 2020).

There is a myriad of reasons that prohibit SMEs from accessing finance from traditional banks. According to (Rupeika-Apoga, 2014), these reasons are: (i) lack of collateral; (ii) difficulty in proving a small firm's credit-worthiness, (iii) small cash-flows; (iv) under-developed bank-borrower relationships; (v) high risk premiums; and (vi) high transaction costs. In middle-and-low income countries, the credit gap is a barrier towards SMEs formalization (OECD, 2018).

As in previous structural transformations, the financial sector plays an important role in this process. (Andries, Marcu, Oprea, & Tofan, 2018) note that the potential of a country's financial system needs to be realized to serve as an engine for economic growth. As such, the attention to SMEs finance

[1] British Economist, John Williamson coined ten broad sets of relatively specific recommendations. They are ; (1) Fiscal Policy Discipline; (2) Redirection of public spending from subsidies, (3) Tax Reform; (4) Free and market determined Interest Rates; (5) Competitive Interest Rates; (6) Trade Liberalization; (7) Liberalization of inward FDI; (8) Privatization of State owned enterprises; (9) Market Deregulation ; (10) Legal Security of Property Rights (Williamson, 2002).

has intensified since the global financial crisis, and SMEs have become an important segment for commercial banks around the world. Serving this segment has important implications on the economic and political stability of any economy.

In spite of the efforts made by governments after the financial crisis in loosening credit conditions for SMEs, the financial resources available for SMEs have dried up. The recovery in SME lending across many emerging markets have been uneven (OECD, 2018). Additionally, the financial crisis has revealed the vulnerability of SMEs to changes in credit cycles. During times of GDP contraction, the credit to SMEs follow the same pattern or is subject to a sharper contraction (OECD, 2018).

In recent years, a number of new instruments became available for SME finance which are collectively known as “alternative credit” or “alternative lending technologies”. Alternative credit refers to non-banking lenders which use technology to serve distinct and underserved niches such as SMEs, which are generally ignored by traditional bank credit. These instruments consist of multiple sources of finance for SMEs, such as asset-based finance, alternative forms of debt, hybrid tools and equity instruments respectively (OECD, 2018). The advent of FinTechs (technology and innovative financial models) has gained traction recently with investments reaching exponential rates. FinTechs and Alternative Credit technologies hold a promise to revolutionize SMEs finance in emerging markets that face a number of challenges such as, lack of credit history and information asymmetry (OECD, 2018). However, (Porteous, 2017) in his research states that alternative lending platforms are failing to gain scale. This is another area of investigation the research aims to further explore in emerging markets.

This dissertation is broadly aimed at investigating the impact of financial liberalization and innovation and, in particular, the impact of traditional credit and alternative credit expansion on the growth of SMEs in Emerging Markets. Namely, this research aims to: (1) prove that economic growth is directly linked to the availability of credit to SMEs; (2) to find out whether financial system innovation is efficient or sufficient enough in emerging markets to enable an efficient resource allocation to the real economy; 3) to determine whether the reforms in the banking sector in the stated markets improve economic growth through a better transmission of fiscal and monetary policy stimuli to the real economy, and through value-added financial innovation. In other words, financial liberalization and institutional progress in EMEs and SME growth respectively will be reviewed thoroughly.

Statement of the Problem

Emerging Markets have embarked through a long process of structural reforms and liberalized their financial systems since the 1980s (Galindo, Schiantarelli, & Weiss, 2002). The crucial question to be addressed in this study is whether the financial development has led to greater economic growth by allocating credit to SMEs. Recent literature review has deducted that a nexus between financial liberalization and economic growth (GDP per Capita) remains a challenge (Sahay, et al., 2015).

The importance of SMEs in emerging markets in creating jobs and contributing to innovation, competition and diversification has been widely recognized by prominent researchers (Beck T. &.-K., 2006) (Ayyagari, Demirgüç-Kunt, & Maksimovic, 2006) (Nizaeva & Coskun, 2018). Access to finance remains the foremost challenge for the growth and survival of SMEs today (OECD, 2009). Considerable literature on traditional credit to SMEs have been conducted by (Stiglitz & Weis, 1981) (Demirguc-Kunt & Levine, 1999). Yet, the problems facing SMEs credit in developing economies need a better understanding (Nizaeva & Coskun, 2018). Moreover, most of studies in this field have focused on bank lending practices (on a micro-level) and procedures in specific countries (Ekpu V. , 2015). Extant literature has focused on internal and external financing problems facing SMEs in a few emerging markets. As noted by (Dong & Men, 2014), SMEs are more likely to face difficulties raising capital than large firms due to volatile economic and political conditions. Research by (Beck T. &.-K., 2006) (Berger, Kleper, & Udell, 2001) indicate that SMEs rely heavily on internal credit and informal credit markets for finance. Considering the credit gap for SMEs in Emerging markets, improving access to finance has important policy implications and needs greater institutional development considering other factors (Dong & Men, 2014). This research aims to give a broader perspective (meso & macro level) to policy makers in emerging markets on the issue of SME finance in Emerging Markets.

The past decade witnessed a surge in investments in the FinTechs space. Recently, SMEs are turning to alternative credit instruments at a faster pace than in the past as bank credit has increased less than expected (OECD, 2019). The surge of digital technology has made a strong proposition for SMEs. Nevertheless, the topic of "alternative credit" is relatively new and there is not sufficient understanding about FinTechs and alternative lending by multiple stakeholders (Kindert, 2018). Furthermore, alternative finance platforms face a number of challenges that prevent them from achieving scale and market share such as the lack of industry regulation and trust which impede their expansion. While banks are at a comparable disadvantage in comparison to FinTechs with respect to their IT infrastructure and innovative credit tools, there are ways where banking and alternative credit can converge and address the SME gap effectively. There are multiple questions on that topic that need to be addressed.

Policy responses in times of crisis for SMEs have been discussed at the highest level in a number of emerging markets after the global financial crisis of 2008-2009. At that time, SMEs suffered a double shock: (i) a drastic drop in demand for their goods and services accompanied by; (ii) credit tightening (OECD, 2009). With respect to the latter, demand for working capital and short-term loans has been scaled back. Additionally, it was observed that in some countries, the pricing of loans and cost of funds for SMEs have dramatically increased by banks in spite of expansionary monetary policies. There were a number of policy recommendations put for governments to improve financing to SMEs. SMEs were caught between demand for more working capital loans and their insolvencies. At the same time, markets were not responsive to the financing needs of SMEs. This had led to a downward spiral and has destroyed the backbone of many economies (OECD, 2009). Since then, the OECD has called for a periodic review of actions taken by governments, SME bodies, and financing institutions to bolster SME finance.

In 2020, the global economy and SMEs in particular have been hardly hit by the COVID-19 pandemic. According to (Moody's Investors Services , 2020), the global economy has witnessed an “unprecedented shock”, whereby demand, supply and financial market channels were disrupted at the same time. SMEs are at a decisive moment with respect to their survival. As it occurred in the past, major crises bring new opportunities. Governments around the world has responded swiftly by a number of policy tools. This study aims to reveal these measures.

The conceptual framework on the topic of credit to SMEs in Emerging Markets has been useful in advancing research in this area. However, the author believes that the existing literature oversimplify the problem and do not account for key challenges facing SME credit for policy makers and central banks today. As such, this study may have a significant impact on policy making in emerging markets. In this study, we identify the overall factors that allow for further expansion of SME credit from a multi-perspective.

Purpose of the Study

The objective of this qualitative multiple case study is to explain and document the key insights provided by subject matter experts through a set of interviews on the contribution of traditional lending to SMEs, policy reforms, as well as Alternative credit on Emerging Markets’ economic growth. In addition, through the analyses of multiple case studies, this study aims to prove the existence of a statistical relationship between lending to SMEs in a number of Emerging Markets and growth in GDP per Capita. A multiple case study research is regarded by research methodology experts as an appropriate methodology for achieving the goals of exploratory research studies (Yin, 2014). In this work, primary research data are sourced from interviews with subject matter experts who have gained broad experience in SMEs, International Financial Institutions, and Banking respectively. The author of this dissertation has provided additional insights on the topics of the research from qualitative analyses based on the data of 12 emerging markets, which went through economic restructuring programs led by the World Bank and the IMF respectively. Primary Data was collected through in-depth interviews with experts in order to develop valuable insights and compelling research findings for research questions of this dissertation (Patton M. Q., 2015). With regards to the dataset used in the study, secondary data was sourced from SME Scoreboard (OECD, 2019). Respondents' insights were elicited during a series of semi-structured interviews with the subject matter experts in which the eight questions were presented to them. Additional questions were posed to the respondents to understand the current COVID-19 pandemic scenario and its implications on the banking industry and SME lending consecutively.

Theoretical Framework

In 1911, Austrian-Born and American Economist, Joseph Schumpeter, introduced the role of banks in the economic advancement of nations. In his book "Theory of Economic Development", (Schumpeter, 1911), contends that entrepreneurs using bank credit in expanding their businesses contribute effectively to economic growth and capital formation in their respective markets. In Schumpeter's point of view, "the banker is not the trader, but the producer of purchasing power.*"* Bank Credit is essentially the creation of purchasing power and capital creation for the purpose of transferring it to the entrepreneur, and not simply the transfer of existing purchasing power" (Hagemann, 2010).

A few years later, in 1920, another distinguished economist (Hahn L. , 1920), supported the causation of bank credit for the creation of production. In his "Economic Theory of Bank Credit", (Hahn L. , 1920) notes that "capital formation is not the result of saving but of the granting of credit" (p.120). In his analysis, (Hahn L. , 1920) further notes that "Every expansion of credit results in an expansion of goods because of a change in its distribution. Credit takes the goods out of nothing where they would have remained without credit expansion."(p.126). (Hagemann, 2010).

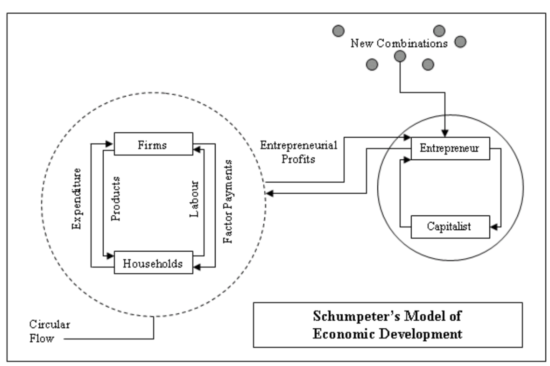

Figure 1. 2 Schumpeter Theory of Economic Growth. Source: (Schumpeter, 1911)

Economic development occurs when the following combinations are carried out by enterprises as noted by (Schumpeter, 1911):

- (i) The *introduction of a new good* – that is one with which consumers are not yet familiar – or a new quality of a good.
- (ii) The *introduction of a new method of production* – that is one not yet tested.
- (iii) The *opening of a new market* – that is a market into which the country in question has not previously entered.
- (iv) The *conquest of a new source of supply of raw materials* or *half-manufactured* goods.
- (v) The *carrying out of the new organization* of any industry, like the breaking up of a monopoly position.

The theoretical foundation laid by (Schumpeter, 1911) found support by a quantitative study carried out by (King & Levine, 1993). Across eighty countries investigated, various measures of financial development were strongly associated with both current and future rates of economic growth. Specifically, measures such as:

> the size of the formal financial intermediary sector relative to GDP, the importance of banks relative to the central bank, the percentage of credit allocate to private firms, and the ratio of credit issued to private firms to GDP, which are strongly and robustly correlated with growth. (p. 734)

According to (Mohieldin, Rostom, & Hussein, 2019), the concept of "financial development" dates back to the works of (Gurley & Shaw, 1956). Their studies on national wealth accumulation notes the following:

> As countries rise along their scale of wealth and income, their financial structures usually become increasingly rich in financial assets, institutions and markets. During economic development, as their incomes per capita increases, countries usually experience more rapid growth in financial assets than in national wealth or national product. (p.257)

In tandem, (McKinnon, 1973) (Shaw E. , 1973) introduced a theoretical framework that helped explain financial liberalization as a strategy to induce economic growth in a number of financially repressed economies. They claimed that liberalization from restrictions such as: interest rate ceilings, high reserve requirements, and selective credit programs facilitates economic development and lead to greater efficiency of capital allocation (Mohieldin, Rostom, & Hussein, 2019). However, this approach and causation was not fully substantiated to date and found contradicting evidence in a number of markets around the world (Eschenbach, 2004). Thus, a further investigation in that regard is needed.

Viewed from this perspective, this work will build on the theoretical frameworks and findings of notable scholars by examining the impact of credit to SMEs in advancing the economies of the emerging markets and by inquiring ad hoc research questions that may help expand knowledge on this topic.

Research Questions

The following research questions have been developed to address the research problem and purpose of the study, categorically:

- **RQ1:** Is overall financial development in Emerging Markets conducive to Economic growth?
- **RQ2:** Building on the “Theory of Economic Development” & “Economic Theory of Bank Credit”, which of the following three factors have a stronger impact on economic growth in the Emerging Markets in recent times: (1) traditional financial development (i.e. bank credit); (2) alternative forms of finance/lending; (3) a combination of the two forms of lending/finance?
- **RQ3:** What are the short-term and medium-term advantages and disadvantages of the traditional lending versus the innovative and alternative forms of finance for SMEs growth for Emerging Markets?
- **RQ4:** What are the short-term and long-term advantages of the former with respect to their Country's economic development, and the overall financial stability?
- **RQ5:** Is the post-IFI era (financial liberalization) and its international influence contributing to creating the conditions for a more resilient, financially sustainable, and growth-oriented environment for the Emerging Markets' SMEs and their Economies?
- **RQ6:** What determines the composition of Bank’s Loan Portfolio in the emerging economies?
- **RQ7:** Does increased access to traditional bank lending/finance and alternative forms of finance to SMEs necessarily contribute to an improvement in general economic conditions and economic development in developing countries or it requires also savvy fiscal, monetary, and structural reforms and efficient and modern financial markets for optimal allocation of financial resources?
- **RQ8:** In light of the COVID-19, which will be the greatest areas of change for SME credit?

In order to answer such questions, the author needs to study conventionally, central planned economies that have underwent transition and have also experienced a surge in economic growth and financial services expansion in the past decades. Moreover, the author needs fairly updated data sets and insights from subject matter experts to answer questions related to financial development and economic activity.

Significance of the Study

This study is important because SMEs shape the majority of businesses in our world today. According to World Trade Organization (World Trade Organisation, 2016) , SMEs account for 90% of the business population, 60% of employment, and 55% of GDP in developed economies (Bayraktar & Algan, 2019). Access to finance remains the foremost reason deterring SMEs from expansion and doing business. The global credit gap for Mid-Caps and SMEs stands at USD 5.2 Trillion USD (World Bank , 2020). The social and economic roles of SMEs led to the consideration of SMEs as a field of strategic interest (Avasilicai, 2009).

This study is important because of the perceived failure of financial liberalization programs introduced by IFIs in Emerging Markets. There has been conflicting evidence on the theoretical framework of (McKinnon, 1973) and (Shaw E. , 1973) that correlates the liberalization of financial systems to greater economic growth. IFIs have a great role to play in formulating high policy guidelines for governments in advisory and lending services to banks working in emerging markets. Funding to SMEs are largely influenced by IFIs. Providing policy makers with insights from subject matter experts would allow them to tailor better strategies that serve the needs of SMEs at the national level.

This study is important to Central Banks today as the global economy have been hardly hit by the COVID-19 pandemic. The pandemic has left numerous SMEs around the world struggling for access to credit. As we speak, SMEs are caught between demand for more working capital loans and the risk of their insolvencies. At the same time, markets are not always responsive to the financing needs of SMEs. Similar to the crisis of 2008-2009, the traction in credit to SME had led to a downward spiral and has destroyed the backbone of many economies (OECD, 2009). Since then, the OECD has called for a periodic review of actions taken by governments, SMEs and financing institutions to strengthen SME finance.

Equally important, this study is of value to Banks. As highlighted, SMEs face a dearth of challenges in accessing credit from Banks. According to (Rupeika-Apoga, 2014), these reasons are: (i) lack of collateral; (ii) difficulty in proving a small firm's credit-worthiness, (iii) small cash-flows; (iv) under-developed bank borrower relationships; (v) high risk premiums; and (vi) high transaction costs. In middle-and-low income countries, the credit gap is a barrier towards SMEs formalization (OECD, 2018). Highlighting issues of potential weaknesses in decisions regarding Banks' portfolios would enable the CEOs to create a balanced portfolio that serves a broad and important segment of the economy rather than only focusing on large corporates. Nevertheless, the study aims to propose actionable and measurable recommendations in light of the changing landscape of digital technology. The pandemic has accelerated the disruption of the banking industry proposition and business models. Central Banks, governments might need to reconsider a regulatory framework for alternative lenders.

This study has potential value also for Governments. Serving this segment has important implications on the economic and political stability of any economy. Financial inclusion has emerged as a new paradigm of economic growth that has the potential of eradicating poverty in economies and empowering the disenfranchised institutions (Iqbal & Sami, 2015). As such, this study could relay appropriate policy prescriptions beyond the extension of credit for SMEs.

Finally, the study responds to the gaps in academic literature and the need to explore further the relationship between SME credit and economic growth as reflected by GDP per capita. In making a small contribution to the existing literature, the author aims to contribute to (Schumpeter, 1911) to the "Theory of Economic Development" and (Hahn L. , 1920) to the "Economic Theory of Bank Credit" and to provide avenues for further research.

Definition of Key Terms

MSMEs: This term refers to Micro, Small and Medium Enterprises. These enterprises are non-subsidiary, independent firms which employ less than a certain number of employees. This number varies across countries. The most frequent upper limit designating an SME is 250 employees. In the US, the threshold of employees are 500 employees. Financial Assets also define SMEs. According to the European Union, the turnover of medium-sized enterprises (50-249 employees) should not exceed EUR 50 million; that of small enterprises (10-49 employees) should not exceed EUR 10 million while that of micro firms (less than 10 employees) should not exceed EUR 2 million. Alternatively, balance sheets for medium, small and micro enterprises should not exceed EUR 43 million, EUR 10 million and EUR 2 million, respectively (OECD, 2005)

GDP: This term refers to Gross Domestic Product which measures the monetary value of final goods and services that are bought by the final user or produced in a country in a given period of time (say a quarter or a year). It counts all of the output generated within the borders of a country (IMF, 2020).

GDP per Capita: This term refers to the Gross Domestic Product per Capita. This indicator is obtained by dividing GDP at current market prices by the population. A variation of the indicator could be the growth in real GDP per capita, which is derived as the percentage change in real GDP divided by the population. GDP/ Capita reflects the change in the well-being of an economy's population (UN, 2007).

Financial Inclusion: This term refers to a state in which all people have access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients. Financial services are delivered by a wide range of providers, most of them private, and reach everyone who can use them, including disabled, poor, rural, and other disenfranchised populations (Center for Financial Inclusion Accion, 2018).

Financial Literacy: The ability to understand how to use financial products and services and how to manage personal, household, or micro-enterprise finances over time. Improvements in literacy levels can be achieved through financial education (Center for Financial Inclusion Accion, 2018).

Financial Education: This term refers to *the provision of education on the use of financial services.* Financial education may be provided by schools, banks or non-bank financial institutions, and other channels ranging from classrooms to mass media and direct contact with financial institution staff (Center for Financial Inclusion Accion, 2018).

Digital Financial Services: This term refers to basic financial services offered through mobile phones, point-of-sale devices, and networks of small-scale agents. Those services offered digitally can dramatically lower costs for customers and service providers, but raise concerns of data protection and privacy (Center for Financial Inclusion Accion, 2018).

MFIs: This term refers to Micro Finance Institutions that provide financial services to low-income populations. Microfinance institutions includes banks, non-bank financial institutions, credit unions, or NGOs. The term MFIs often refers to institutions primarily focused on serving low-income populations and who self-identify with the microfinance movement, often with a focus on microenterprise credit. The term can also be used to refer to any financial institution serving lower segments of the economic pyramid (Center for Financial Inclusion Accion, 2018).

Debt Finance: This term refers to the process of raising money to finance working capital through secured or unsecured loans. Security involves a form of collateral as an assurance the loan will be repaid. Most banks today ask for a collateral prior to granting a loan to a borrower.

In addition to a secured or unsecured loan, most debt today is subject to a repayment period. Terms of loans range from being: (1) short term loans (typically paid back within six to 18 months); (2) medium term loans (typically paid back within three years); and (3) long term loans are typically repaid within 5 years (Enterprenuer Middle East , 2020).

Alternative Finance or Alternative Credit: This term refers to an umbrella term that covers any type of finance that does not come from a mainstream provider. The most popular forms of alternative finance are: P2P (Peer to Peer Lending), Invoice Financing and Crowd Funding (GAPCAP, 2020).

Emerging Markets: This term refers to economies whose incomes are stated as "low-income" or "lower-middle income" as per the World Bank Definition. For the current 2019 fiscal year, low-income economies are defined as those with a GNI per capita of USD 995 or less in 2017; lower middle-income economies are those with a GNI per capita between USD 996 and USD 3,895 (World Congress on Public Health, 2020). Also, Emerging Markets are those which have high growth prospects, and are extremely volatile. Finally, these markets have no history of foreign investment and are transitioning to market economies (Mody, 2004).

IFIs: This term refers to International Financial Institutions that were founded by groups of countries to promote public and private investment to foster economic and social development in developing and transitioning countries. The first IFIs were established as Multi-Lateral Development institutions after World War II whose mandate was to rebuild war-torn countries. IFIs are owned and managed by local governments of member countries (CINFO, 2020). IFIs typically refers to the International Monetary Fund (IMF) and the five multilateral development banks (MDBs): the World Bank Group, the African Development Bank, the Asian Development Bank, the Inter-American Development Bank, and the European Bank for Reconstruction and Development (Bhargava, 2006).

Financial Liberalization: This term refers to the removal of government intervention from financial markets. Measures of liberalization include eliminating the bank interest rate ceilings; compulsory reserve requirements; barriers to entry, particularly foreign financial intermediaries; and credit allocation decisions. These policies reduce the government's interference in financial markets, leading to the privatizing of state-owned banks; improving prudential regulation; and promoting local stock markets. It was noted that in the past three decades, both industrial and emerging market countries have moved toward this form of liberalization of their financial systems (Masci, 2008).

Formal SMEs: Are registered and tax paying enterprises.

Informal SMEs: A segment of the SME economic activity that is not controlled, supervised, or taxed by the government. The informal economy is where the majority of excluded populations reside and work (Center for Financial Inclusion Accion, 2018).

FinTechs: This term refers to the application of technology to products and services in the financial industry (BuiltIn, 2020). It refers to startups, tech companies, or even legacy providers (PWC, 2016). Fintech is one of the fastest-growing tech sectors, with companies innovating in payments and loans; credit scoring and stock trading (BuiltIn, 2020).

Chapter 2: Recent Literature Review

Documentation

The process of gathering research materials to support this study began at the preparation of the final assignment of the “Research Methods” course at ISM. It became evident to the author that the topic of financial development and SME credit is of great academic and professional interest. The correlation and causation between financial development and economic growth remains a challenge according to (Sahay, et al., 2015). The author used a number of libraries to conduct the literature review for this work. Sources included ISM Library, EBSCO Host, Google Scholar, DeepDyve, Research Gate, Science Direct, SSRN and Springer respectively. Other sources included Moody’s Investors Services and the OECD library.

Key words included: Emerging Markets; Banking; SME Credit; Financial Development; Financial Liberalization; Economic Growth; Alternative Credit; Monetary and Fiscal Policies in addition to Financial Inclusion. This literature review covers the “Theory of Economic Development” and “Economic Theory of Bank Credit” on which this multiple case study is based. The search results produced a plethora of data sources such as journals, articles and reports related to the subject matter.

In order to define and narrow the existing literature and works on the subject matter, the literature review has been filtered to focus on the following:

- **Finance and Growth Theory: A review of theoretical and empirical literature.**
- **The effect of financial liberalization on the growth of SMEs.**
- **SMEs Finance in Emerging Markets**
- **Demand and Supply Factors determining SMEs Finance.**
- **SME Funding Gap: Theoretical Framework and Empirical Evidence**
- **Country and Region: Turkey, Malaysia and Brazil**

Finance and Growth Theory: A review of theoretical and empirical literature

A growing body of literature has evolved on the relationship between economic growth and financial development to date. More than a century ago, (Schumpeter, 1911) highlighted the role of credit in markets (chiefly by banks) and the financial services in inducing market growth and a substantial body of empirical and theoretical work has evolved then. Taking into account the number of financial development definitions, the discussion in this section should be started by what is meant by *financial system and financial development* in an empirical sense. (O'Sullivan & Sheffrin, 2003) describe the financial system as one that allows an exchange of funds between financial market participants such as investors, lenders and borrowers. An addition to this definition is offered by (Matysek & Jedrych, 2007) defining it as a structure of ‘‘interconnected financial institutions, financial markets and elements of financial system infrastructure; through this structure, entities belonging to real environment (first of all households, enterprises and government) can source funding, invest savings and satisfy the rest of their needs relating to financial aspect of their functioning’’ (Matysek-Jedrych 2007, p. 14). As observed by (King & Levine, 1993), financial development is measured by four indicators: the (1) “financial depth” or the overall volume of financial intermediaries in a given economy (equivalent to the ratio of liquid liabilities to GDP); (2) the types of financial intermediaries in an economy and the; (3) allocation of credit to the private sector. The latter is measured by two ways; (1) credit issued to (non-financial) private institutions divided by total credit, & (2) credit issued to (non-financial) private institutions divided by GDP (King & Levine, 1993, p.718).

(Eschenbach, 2004) conducted a survey of theoretical and empirical literature on the impact of financial system development and economic growth. The study traces the evolution of the theories from the early pioneers in the field and have grouped them into two schools of thought advocating financial liberalization. The first school introduced by (McKinnon, 1973) and (Shaw E. , 1973) called for the abolishment of the intrusive role played by the governments in setting reserve requirements, interest rate ceilings and channeling of savings to the public sector at very low or zero costs. Financial repression was the center on which they founded their theories on. In their view, “Credit allocation is determined by criteria like transaction costs, perceived risks of default, quality of collateral, political influence, reputation, loan size, and covert benefits to loan officers instead of expected investment productivity” (Eschenbach, 2004, p.7). This school of thought was influenced by the poor record of developing countries in the 1960s that were charecterized by intrusive government policies. According to (Mohieldin, Rostom, & Hussein, 2019), this infuential school of thought increased the influence over international financial institutions such as the International Monetary Fund (IMF) and the World Bank. As a result, the implementation of financial liberalisation has gained popularity in the past 25 years for emerging markets (p. 71).

Two decades later, notable economists (King & Levine, 1993) poineered a cross- coutnry study to explain the impact of financial liberalisation on economic growth in a numer of economies based on three indicators namely; (1) real per capita GDP growth; (2) real per capita capital stock growth, and (3) total productivity growth. Their study was restricted to 80 countries from the years 1960-1989. In their paper, the authors concluded that “the ratio of credit issued to private firms-to-GDP-are strongly and robustly correlated with growth, the rate of physical capital accumulation” (King & Levine, 1993, p. 734).

A further cross country regression was carried out by (Levine & Zervos, 1998). The study finds that the initial level of banking development and stock market activity has statistically significant relationships with average output growth, capital stock growth, and productivity growth, based on data for 47 countries over the period 1976–1993 (Estrada, Park, & Ramayandi, 2010).

According to a different strand of literature, (Herwatz & Walle, 2014) believe that the causation financial development is more pronounced and felt in higher income economies than in lower- or middle-income economies. In their panel data of 73 economies, from the period 1975–2011, the researchers propose that there is no meaningful relationship between financial development and growth (Mohieldin, Rostom, & Hussein, 2019, p.72). A similar study was conducted by (Prochniak & Wasiak, 2017) on 28 European Union and 34 OECD economies from 1993-2013 (post the global economic crisis). Based on their econometric model, the researchers concluded that excessive financial development was to the detriment of the economies; i.e. was in line with the *"*law of diminishing returns*"* (p. 334). According to their findings and analysis, when a specified value of stock market capitalization is reached, further development of capital market is not a factor stimulating GDP growth. Also, it was noted that excessive lending or too high volume of nonperforming loans, has a negative impact on GDP growth (Prochniak & Wasiak, 2017, p.334).

There have been significant variations in the structure of financial systems in a number of countries. (Schumpeter, 1911), (Gerschenkron, 1962), (Cameron, 1972) have emphasized the role of banks in the economic development of the economies (Mayer, 1990). (Gerschenkron, 1962) argued that "a country's degree of economic development at the beginning of industrialization determines the role of its banking sector*"* (Eschenbach, 2004, p.2). In his unit of analysis, the aforementioned examined two leading economies at that time: England and Germany respectively to substantiate his hypothesis. In England, investment was small scale and most activities were based on entrepreneurship, and thus didn't need an active financial sector. Germany, by contrast, entered industrialization when technology was more advanced, and the investment and capital needed were substantial, which justified a robust financial sector. Russia, was also given as an example of a country that was at that time, backward in the industrialization cycle. New ventures and capital-intensive industries needed working capital and long-term fixed investment respectively, and thus required a strong banking sector (Eschenbach, 2004, p.2). This pioneering work was ground breaking and it shifted the direction of thinking that was prevalent at that time. (Patrick, 1966) focused more than his current equal on the direction of causality between financial development and economic growth. In the first pattern, the "demand following", the demand for financial services by investors and savers leads to the creation of modern financial institutions, financial assets, liabilities and related services. At a given point in time, as the economy starts to picks up, the need for external funds grows. And as the growth between sectors varies, savings are channeled to the most leading of the economic sectors. As a result, the expansion of the financial system is thus seen as a consequence of growth (Mohieldin, Rostom, & Hussein, 2019). In the second pattern, "supply leading", the creation and supply of financial services spurs growth. Resources are transferred from sectors that do not drive growth to sectors that do so. Developed financial markets also promote economic growth by mobilizing savings and facilitating investment (Mohieldin, Rostom, & Hussein, 2019, p.72). According to (Patrick, 1966), the latter pattern, "supply leading" prevails during the early stages of economic development, while its shifts during the later stages of economic growth to the "demand following" pattern. In other words, in developing economies, causality runs from finance to growth, while in more advanced economies, causality runs from growth to finance (Eschenbach, 2004).

Another researcher, (Cameron, 1967), contributed to the current academic debate on the relationship that financial system development and economic growth. In his works, (Cameron, 1967) argues that financial systems can be both "growth inducing" and "growth induced" categorically (Eschenbach, 2004, p.3). In addition to that, (Cameron, 1967) emphasized the quality and the efficiency of services presented. In the economies he examined[2], the primary role of banks as financial intermediaries was duly outlined. First, funds are channeled from the risk averse small savers to less risk averse investors. Second, declining interest rates for borrowers of these funds encourages entrepreneurial activity. He adds an important point with regards to mitigating risk, whereby, with increased banking activities and financial expansion, variations of interest rates and risks should be dispersed across borrowers, sectors, economies and geographical regions. Third and equally important, he highlights the role of banks in promoting technological progress (Eschenbach, 2004). The majority of technological innovations were introduced by firms that had access to bank credit. He supports his hypothesis by detailed case studies of each of the economies mentioned. In the first group, economies like Belgium, Scotland, Russia and Japan, the banking system actively promoted industrialization. Using (Patrick, 1966) terminology, the banking system was "supply- leading". While the second group of countries, France, Germany (prior to 1870), growth was inhibited due to the adoption of the wrong policies. In this group, finance exhibited a "demand-following" pattern. In his second book, (Cameron, 1972) further presented countries, those who didn't achieve a rapid pace of industrialization (Serbia and Spain), those whom had a delayed or incomplete industrialization (Austria, Italy) and those whom were able to achieve a rapid pace of economic industrialization. In the case of Austria, it was found out that the financial system played a "counter-productive role" due to the "unwillingness of banks to take the appropriate risks". Also, the protectionist trade policies of the state induced less risk-taking behavior from banks as well as entrepreneurs. In Serbia, as the author quotes, the deterred industrialization was attributed to both an overall lack of entrepreneurial and managerial skills rather than an underdeveloped financial system. In Italy, economic growth was hindered because of the government excessive borrowing from the financial system which in turn impeded the accumulation of private capital (Eschenbach, 2004). In Spain, the majority of finance went to the railway construction, which has hampered industrialization. Finally, Japan and the US provide evidence of the growth induced financial model (Eschenbach, 2004).

[2] England, Scotland, Russia, France, Germany, Belgium, Japan in the 19^{th} century.

(Goldsmith, 1969) advocated the role of the financial intermediation in advancing the performance of a given economy. He was the first to assign a metric to quantify financial development, by the value of all financial assets over GNP[3]. For a sample of 35 countries, developed, developing and socialist economies, Goldsmith was able to validate his hypothesis that a higher degree of financial development leads to a higher GNP/Capita. The result, however, were distorted by some outliers illustrating higher FIR in Japan, the UK, the US and lower FIR in the Soviet Union. The relationship was also rough within each of the advanced economies (Germany, Japan, US and the UK) over a period of 100 years (Eschenbach, 2004).

The endogenous growth models of the 1990s made a significant extension to the relationship between financial development and economic growth. (Greenwood & Jovanovic, 1990) (Bencivenga & Smith, 1991) (Levine R. , 1991) demonstrate that growth and deeply developed financial structures are inextricably linked. By protecting investors against idiosyncratic risks, the stock market avails more information to investors (by virtue of transparency and disclosure requirements of being listed), thus induces further market and economic growth (Eschenbach, 2004). Additionally, (Levine R. , 1991) has expanded on the endogenous model whereby stock markets reduce both liquidity and productivity risks. In terms of the first, stock markets entice risk averse investors from avoiding to invest in a specific firm due to firm specific productivity shocks. By diversifying their investments, stock markets reduce the idiosyncratic risks by enabling investors hold diversified portfolios. A second benefit of the stock markets, as (Levine R. , 1991) highlights, is the reduction of liquidity risk. As such, the financial system fosters capital accumulation and productivity. A number of empirical studies supported the positive correlation between financial system development and economic growth (King & Levine, 1993), (Demetriades & Hussein, 1996), (Khan & Senhadji, 2003) suggesting bi-directionality and reverse causality between the two variables.

[3] Financial Assets / GNP is called Financial Interrelations Ratio.

The Effect of Financial Liberalization on Emerging Markets Growth

The hypothesis of (McKinnon, Shaw E. , 1973) indicate that financial liberation is a necessary and not sufficient condition for growth in developing economies. In developing economies, the absence of strong credit markets is a major barrier to achieve sustained economic growth. While in advanced economies, strong credit markets and access to finance enable entrepreneurs to start their businesses. Financial Liberalization (historically termed as Structural Adjustment Programs- herein referred to as "SAP") has become a prominent feature in economies for emerging economies following their political transition in the 1980s. Generally speaking, SAPs involve restructuring flawed government systems and replacing them with new, efficient ones. More specifically, these are programs that were introduced jointly by the World Bank (WB) and IMF[4] to countries suffering structural imbalances and economic malaise resulting from over-indebtedness and capital flight respectively. The SAP is a standard policy package for recipients of funding from the WB and IMF that involves cutting back the role of the government and replacing it with that of the private sector (Lizarzaburu, Moysidis, & Salquero, 2012). The ideology behind these policies are known as "neo-liberalism" or the "Washington Consensus" (Lizarzaburu, Moysidis, & Salquero, 2012, p.87). As put by (Ikeora, Igbodika, & Jessie, 2016), financial liberalization is briefly summarized by the abolishment of ceilings on interest rates, as well as the removal of all restrictions, controls, and related distortions imposed by the regulator and government on prices of financial assets. It is noteworthy to mention that, economic literature has often confused the terms "financial liberalization" and "financial openness" respectively. When an economy implements capital account reforms, it also introduces policy measures to attract foreign direct investment and reduces the discrimination against foreign institutions operating in that economy (Le, 2000). In essence, an economy seeking to liberalize its capital account, should seek to integrate its financial system with international financial markets. (McKinnon, 1973) highlights that the decontrol of the capital account should come at the end of the reform sequence, following domestic financial liberalization, bank reform, and trade liberalization subsequently (Glick & Hutchison, 2002, p.3). In an ideal setting, economies pursuing financial integration will eventually have a market structure and financial products and services similar to that of advanced economies. Countries can be grouped to be More Financially Integrated (MFIs) or Less Financially Integrated (LFIs) respectively[5] (Prasad, Rogoff, Wei, & Kose, 2003).

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[4] As part of the Bretton Woods Program.

[5] MFIs include :Argentina (ARG), Brazil (BRA), Chile (CHL), China (CHN), Colombia (COL), Egypt (EGY), Hong Kong (HKG), India (IND), Indonesia (IDN), Israel (ISR), Korea (KOR), Malaysia (MYS), Mexico (MEX), Morocco (MAR), Pakistan (PAK), Peru (PER), Philippines (PHL), Singapore (SGP), South Africa (ZAF), Thailand (THA), Turkey (TUR), and Venezuela (VEN).

LFIs include: Algeria (DZA), Bangladesh (BGD), Benin (GEN), Bolivia (BOL), Botswana (BWA), Burkina Faso (BFA), Burundi (BDI), Cameron (CMR), Costa Rica (CRI), Cote d'Ivoire (CIV), Dominican Republic (DOM), Ecuador (ECU), El Salvador (SLV), Gabon (GAB), Ghana (GHA), Guatemala (GTM), Haiti (HTI), In achieving financial liberalization and integration, it is key to highlight the role played by IFIs, notably the World Bank and International Monetary Fund in advancing social and economic development activities in addition to promoting international economic co-operation and stability.

1. **World Bank Operations:**
    - The World Bank aims to encourage countries to improve their living standards, economic and social, focusing on development. The channels used to encourage this development are technical assistance and funding for projects and policies or guidelines that will realize the economic potential of countries (Lizarzaburu, Moysidis, & Salquero, 2012, p. 87).
    - Every project supported by the World Bank is designed in close collaboration with national governments and local agencies, and often in cooperation with other multilateral assistance organizations. Indeed, about half of all Bank-assisted projects also receive co financing from official sources, that is, governments, multilateral financial institutions, and export-credit agencies that directly finance the procurement of goods and services, and from private sources, such as commercial banks (Lizarzaburu, Moysidis, & Salquero, 2012, p. 87).
    - The range of the World Bank's activities is far broader than its lending operations. Since the Bank's lending decisions depend heavily on the economic condition of each borrowing country, the Bank carefully examines its economy and the needs of the sectors for which lending is contemplated. These analyses help in formulating an appropriate long-term development assistance strategy for the economy (Lizarzaburu, Moysidis, & Salquero, 2012, p. 87).

2. **IMF Operations**
    - The IMF monitors economic and financial developments and policies to its member countries and the global level, and offers policy advice to its members.
    - Most of the IMF's work lies in averting financial crises or in preventing economies problems from becoming worse. The IMF lends money to subsidize policy reforms during the period of transition (Lizarzaburu, Moysidis, & Salquero, 2012, p.88).

Honduras (HND), Jamaica (JAM), Kenya (KEN), Mauritius (MUS), Nicaragua (NIC), Niger (NER), Nigeria (NGA), Panama (PAN), Papua New Guinea (PNG), Paraguay (PRY), Senegal (SEN), Sri Lanka (LKA), Syrian Arab Republic (SYR), Togo (TGO), Tunisia (TUN), and Uruguay (URY).

- IMF does not just provide temporary financing but also supports economic adjustment and reforms aimed at correcting the underlying problems (Bhargava, 2006, p.395).
- In addition to assisting its members in this way, the IMF also provides technical assistance to governments and central banks, and training in its areas of expertise (Bhargava, 2006, p.395).

International Financial Integration Framework and Benefits

Taking stock of the global financial infrastructure and the roles played by IFIs, a number of theoretical models have identified possible channels where by financial integration can induce economic growth in emerging economies (Prasad, Rogoff, Wei, & Kose, 2003, p.23). Figure (2.1.) provides a schematic representation of the direct and indirect channels. The channels are interrelated and converge, the author will review the importance of each channel in the proceeding section.

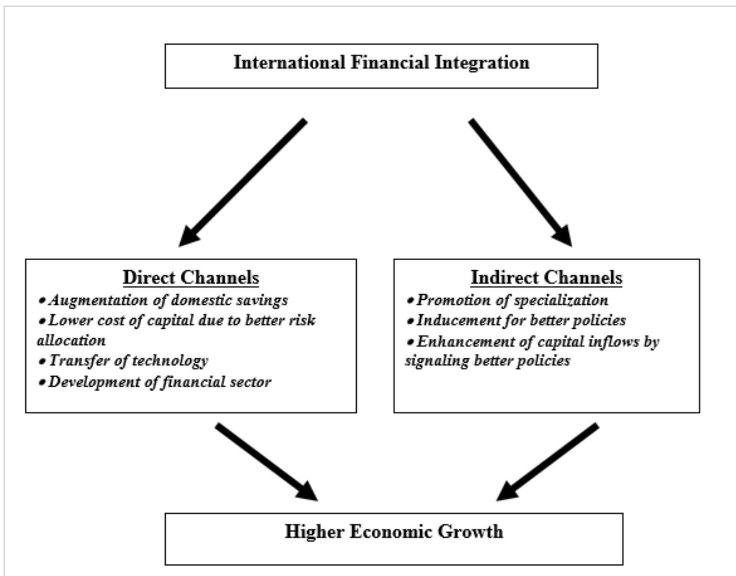

Figure 2. 1 Channels through which Financial Integration can raise economic growth. Source: (Prasad, Rogoff, Wei, & Kose, 2003)

Direct Channels:

- **Augmentation of Domestic Savings:**

One of the key features of financial integration in the past three decades is the increase in net private capital flows from the advances economies of the "North" to less developed economies of the "South" (Prasad, Rogoff, Wei, & Kose, 2003). According to (Calvo, Leiderman, & Reinhart, 1993) , the surge in capital flows is attributed to "push" and "pull" factors. These are related to: (i) policies and other developments in the MFIs; and to (ii) changes in global financial markets. The first category includes factors such as stock market reform and privatization of state-owned enterprises that have stimulated foreign inflows. The second category includes the growing importance of cross-listings and the emergence of institutional investors as key players driving international capital flows to emerging markets (Prasad, Rogoff, Wei, & Kose, 2003, p.20). As a result of the increase in capital flows, emerging economies (capital poor countries) offer higher returns on capital invested than in advanced economies (capital rich countries).

- **Reduction in the Cost of Capital**

In reference to asset pricing models, stock market liberalization diversifies risks. Increased risk sharing opportunities between domestic and foreign investors helps diversify risks. The result of that is the expansion of the economy as more firms are encouraged to increase their investments. Third and equally important, as capital flows into an economy, the domestic stock market is more liquid, and reduces the equity risk premium, which leads to the reduction in the cost of capital (Prasad, Rogoff, Wei, & Kose, 2003, p.25)

- **Technology Transfer**

Financially integrated economies attract a sizeable share of FDIs into their economies which has the "potential of generating technology spill overs to serve as a conduit for passing on better management practices" (Prasad, Rogoff, Wei, & Kose, 2003, p.25).

- **Development of the overall Financial Sector**

The preceding has highlighted the role of capital flows in increasing the liquidity and expanding the economy. Increased foreign bank participation can produce a number of benefits to the financial sector. According to (Levine R. , 1997), foreign bank facilitates access to international financial markets. Second, it can help improve the regulatory and supervisory framework of the domestic banking industry. Third, foreign banks often introduce a variety of new financial instruments and techniques and also foster technological innovations in domestic markets. With their participation, foreign banks increase competition which, in turn, improves the quality and variety of services offerings in a given market (Prasad, Rogoff, Wei, & Kose, 2003, p.25).

<u>Indirect Channels</u>

- **Promotion of Specialization**

The benefits of production specialization are widely recognized. However, it is imperative that proper risk management is instilled in an economy to lessen the exposure to volatiles in production and consumption respectively that might result in higher variances in GDP. As (Prasad, Rogoff, Wei, & Kose, 2003) note, global financial integration might encourage countries to engage in risk sharing activities and thus reduce its exposure to consumption volatility (p.25). This point has been emphasized (Kalemli-Ozcan, Sørensen, & Yosha, 2003) in their study of advanced economies that risk sharing and industrial specialization is positively correlated.

- **Commitment to better economic policies**

Economies pursuing international financial integration increase productivity by making their governments "credibly commit to a future course of policies" (Prasad, Rogoff, Wei, & Kose, 2003, p.26). To that end, financial integration changes the dynamics of investment in an economy through a reallocation of capital into more productive uses as a result of savvy macro-economic policies.

(Gourinchas & Jeanne, 2006) highlight that the superior efficiency of the banking system is an essential element in attracting foreign capital to a market. The numerous benefits of banks bring in allocating domestic saving, raising competition, could accelerate domestic financial development and hence result in efficiency gains for the whole economy (Levine R. , 1997).

- **Signaling**

A country's willingness to participate in financial liberalization and openness is signaling to the global economy its intention to undertake friendly policies towards investment. In their study, (Bartolini & Drazen, 1997) suggest that the removal of capital controls have led to an increase in capital inflows in a number of countries. A number of economies, including Colombia, Egypt, Italy, New Zealand, Mexico, Spain, Uruguay, and the United Kingdom witnessed significant capital inflows after removing restrictions on capital outflows as per an IMF study conducted by (Mathieson & Rojas-Suárez, 1992). They further assert that the aforementioned is likely to have an enduring impact if supported by the appropriate monetary, fiscal and structural policies (p.30).

In spite of the myriad benefits of financial integration, the results of empirical studies on the effect of financial liberalization on growth are mixed. (Galindo, Schiantarelli, & Weiss, 2002) note that most of cross-country studies have illustrated a positive relationship between financial liberalization and economic growth. While most of the measures of financial liberalization lead to financial deepening, this has not directly translated to more savings. Additionally, while financial development has not affected the quantity of given investments, it has definitely impacted the measures of total factor productivity (TFP) (measured as the ratio of GDP to land and capital). In other words, if financial liberalization impact on economic growth is to be measured, it is assessed on how the assets are allocated across firms, and sectors respectively. Similarly, (Prasad, Rogoff, Wei, & Kose, 2003) highlight, the wave of financial liberalization of the 1980s has marked a surge in capital flows and economic growth among and between advanced and developing economies, a number of economies have experienced a collapse in growth rates and a financial crisis. In a theoretical model, (Gourinchas & Jeanne, 2006) illustrate that the gains of switching from financial autarky (where each country accumulates capital domestically) to perfect capital mobility (in which the country can import or export capital at the (given) world interest rate) is roughly equivalent to a 1% permanent increase in domestic consumption for the typical non-OECD country.

Another case in point, is the extent to which various economies have different levels of financial liberalization. (Rajan & Zingales, 2001) point out that for one, demand for financial services (as proxied by level of industrialization or economic development) varies across economies. Second, economies differ in their level of social capital or "savoir-faire" to create a viable financial sector (p.1). An alternative explanation to the degree of development of the financial system is the mixture of the country's political, legal and cultural system as highlighted by (Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1997).

Consequently, financial liberalization in emerging economies continues to be a topic of debate in academic and policy circles. From a policy perspective, there were concerns that "financially repressed" economies failed to deliver sufficient finance to important sectors at a relatively low cost. Theoretically speaking, the idea that free markets are efficient, encouraged markets to liberalization. This occurred with light or no regulation (Griffith-Jones, 2014, p.10). (Stein, 2010) maintains that between the years 1980-1991 there were 15[6] major financial crisis that cost the governments of these economies 5% -40% of their GDP to rescue their banking systems (p.257). Latin American countries were the first to transition their economies in the 1970s. Their experience was marked by a series of crises such as the debt crisis. The Asian crisis of the 1990s which involved some of the economic miracles. The belief that these problems are relevant to economies in transition was challenged aftermath the global financial crisis of 2008-9 hit the most developed and financially integrated economies such as the US, UK, and the EU. In his book *Predictable and Avoidable: Repairing Economic Dislocation and Preparing the Recurrence of the Crisis*, (Pezzuto, 2013) attributes the following factors to the economic meltdown:

- Low Interest Rates
- Underpricing of risk
- Excess of liquidity in markets seeing low yields
- Dramatic Failure of corporate governance and risk management
- Lack of real reforms to reduce long-term structural imbalances in combination in addition to fiscal stimuli
- Buildup of underlying macro-economic distortions for a few years prior to the crisis.
- A flawed set of prudential rules (p.16: 17).

[6] The list of 15 countries that experienced financial crises includes: Uruguay and Chile, 1981; Columbia, 1982; Philippines, 1983; Norway, 1987; Senegal and Cote D'Ivoire, 1988; Sri Lanka and the Czech Republic, 1989; Finland, Hungary, Malaysia, and Sweden, 1991; Japan and the Slovak Republic, 1992. (Stein, 2010, p.258)

SMEs Finance in Emerging Markets

Increased access to finance didn't seem to change much especially for the SME segment. (Woldie & Kolawoleadeniji, 2008) examine the state of Nigeria's economy and SMEs pre and post the financial liberalization period. Like most developing markets, SMEs account for 75% of formal manufacturing and 70% of industrial jobs in Nigeria. Nevertheless, according to a survey, the largest obstacle facing Nigerian SMEs is the lack of financial resources (Woldie & Kolawoleadeniji, 2008). Like many emerging markets, financial liberalization has been chosen as one of the strategies that would propel the economy of Nigeria. In their paper, (Ikeora, Igbodika, & Jessie, 2016), investigated the causality between finance and growth from the period (1987-2013). Following the introduction of financial liberalization measures, the number of banks tripled in number from 41 banks in 1987 to 120 in 1992. Shortly after, the banking industry was immediately hit by systemic risks that halved the original number of banks working in the country to 26. The paper also highlights that the Nigerian Monetary Authority has bailed out many of the ailing banks that suffered NPLs and has recapitalized other. In tandem, (Ogiriki & Andabi, 2016) have asserted that the results in the Nigerian economy were suboptimal. Financial liberalization has failed to attract FDIs nor achieve successful financial intermediation, especially credit allocation to diverse sectors in the economy and an achievement of a decent level of monetization (Ogiriki & Andabi, 2016).

However, (Woldie & Kolawoleadeniji, 2008) indicates that prior to the reform (1980-1986), credit access to SMEs was seen as growing. It accounted only for 5.3% of total credit to private sector over a 24-year period. Policies of the government promoted ease of credit to SMEs and has assigned lower interest rates to induce finance to the SME sector. For instance, reserve requirements to banks were less than 10% and credit allocated to certain sectors came at subsidized rates. Sectors favored by the CBE were agriculture, manufacturing, affordable housing, opting out trade and other low employment sectors. The Central Bank of Nigeria (CBN) allowed concessionary rates to the aforementioned sectors, which were below the market determined rates. Pre the liberalization period, total credit to the SME grew from 1.87% in 1980 to 9% in 1986. After the introduction of the program, credit to SME recorded 20.6% for three consecutive years (1987-1990), later on peaked to 45% of total credit of banks in 1992, before levelling off, gradually to 21% (1994), 13.2% (1999), 9% (2000) and dropped drastically to the pre-liberalization ratios of 5.3% in 2004. Despite the regulatory incentives created by the CBN, (Woldie & Kolawoleadeniji, 2008) attribute the reason for the fluctuations in SME credit to the reluctance of banks to lend SMEs with no collateral. Shortly after, the CBN has mandated banks to set aside 10% of their Profit after Tax, as part of a scheme named SMEEIS (Small and Medium Enterprise Equity Investment Scheme) for equity and promotion of SMEs. The observations of the new equity scheme have not been fully consummated and recorded during the write up of this work.

(Park & Park, 2014) examine the case of Korea during the period of financial liberalization and its effect on banks and non-banking financial institutions (NBFIs), and also the impact on firms and industry level data during and after the 1997 Asian crisis. Their paper revealed a number of interesting findings. First, it found out that in a liberalized economy, competition amongst banks and non-banking financial institutions will allocate their funding to the most credit worthy borrowers than before. Additionally, (Park & Park, 2014) conclude that banks and NBFIs allocate their funding to companies and borrowers with larger TFP and ROA. Furthermore, it was noted by the researchers that financial liberalization has broadened the scope and capacity of intermediation for these institutions. Despite these advances, the study however has indicated that the overall effects of liberalization on firm and industry level (measured by historical TFP or ROA) has been relatively small or insignificant, but it doesn't necessarily mean that liberalization fell short of it what it meant to deliver. When the sample of firms was segmented to large firms and SMEs categorically, SMEs was found to benefit more from financial liberalization than larger firms, as funding constraints have been significantly eliminated. On the other hand, large corporates had to improve the soundness of their financial ratios (decreasing their Debt to Equity Ratios from a pre-crisis level of 500% to 200%). This meant that they had to rely more on equity and internal financing paving the way for SMEs to resort to bank and NBFIs finance (Park & Park, 2014, p.23). Despite the sheer size of SMEs in the economy in terms of number, their value-added contribution to the economy in terms of percentage rates is far surpassed by large corporates. Hence, when tallied with large corporates, efficiency gains for the whole sample of firms becomes insignificant or low. The authors point out that changes in TFP on both the firm and industry level could be affected by other factors which could offset the positive effects of financial liberalization.

Moving to Latin American economies, (Clarke, Cull, Peria, & Sdnchez, 2002) examine the extent to which foreign banks has impacted lending to small enterprises in Chile, Peru, Argentina and Columbia during the 1990s. By utilizing a comprehensive data set of banks in the unit sample, the researchers noted that medium and large domestic banks in the four countries studied devote less of their lending (as share of total lending) to SMEs than small domestic banks. Also, in most countries, the share of lending devoted to SMEs by domestic banks was dropping in the late 1990s (p.20). Nevertheless, it was noted that state owned banks didn't surpass private banks in the extent to which they lend to SMEs. In regards to foreign banks, it was evident in the four countries examined, that lending to SMEs (as share of total credit) was less than that of private domestic banks (at least by end of period). However, the difference appears to be primarily due to the behavior of small foreign banks. In all four countries, small foreign banks lent considerably less to small businesses than small domestic banks (p.21). Interestingly, large foreign banks appeared to lend more to SMEs (as share of total credit) than large domestic banks in two of the four case study countries, Chile and Colombia respectively (Clarke, Cull, Peria, & Sdnchez, 2002, p.21).

In a related literature, esteemed World Bank researchers (Beck, Demirgüç-Kunt, & Maksimovic, 2004) investigate how institutional developments impact the financing of small and large enterprises using a sample of 3,000 firms across 48 countries of which 80% of them SMEs. Their research includes a spectrum of financing sources including supplier, leasing, development in addition to informal finance, debt and equity finance. The results show variations in finance patterns, where SMEs have less access to external finance than larger firms due to underdeveloped legal and financial systems. Using macro-economic variables, such as GDP/Capita, the growth rate and rate of inflation to determine whether a firm's size determines its use of external finance. Overall, smaller firms use less of bank and development finance than larger firms. Instead, SMEs resort more to informal means of finance such as personal and commercial relationships, which doesn't make up for the general shortage in external finance, since the former is typically low and limited. Additionally, SMEs use less of suppliers' finance or leasing than larger firms. The financing from these sources doesn't make up for the credit gap in developing economies, since the reliance on these sources of finance is positively related to a country's degree of financial and institutional development. According to (Beck, Demirgüç-Kunt, & Maksimovic, 2004, p.4), the relationship between external finance (bank finance) and firm size is monotonic. Finance increases as we go from small to medium to large firms. While the demand for informal finance decreases as firms go from small to large.

Nevertheless, their research finding point out that firms in countries with more developed financial and institutional systems (embodied in private credit and property rights) rely heavier on external finance. The research notes that financial intermediary development, private credit is associated with bank finance, while stronger property rights protection is typically associated with more bank and equity finance respectively. Speaking in terms of country level variables, (Beck, Demirgüç-Kunt, & Maksimovic, 2004) emphasize that larger firms in more advanced economies rely on external finance particularly equity finance. Interestingly, larger firms use a higher proportion of their investment using development finance than smaller firms. Other sources of finance, specifically (asset-based finance) such as leasing and supplier finance are not used by smaller firms in countries with under-developed financial and institutional systems. The researchers conclude that institutional reforms of an economy's legal and financial systems are the most effective way in improving credit to SMEs (Beck, Demirgüç-Kunt, & Maksimovic, 2004, p.23).

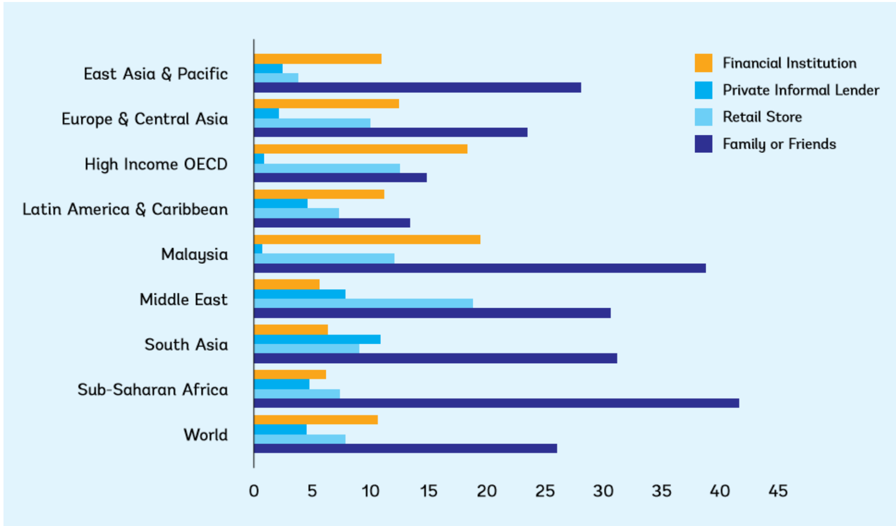

Figure 2. 2 Sources of New Loans (% of Adults) Source: (World Bank Group , 2017)

Determinants of SME finance: Supply and Demand issues

The previous sections have highlighted the importance of SMEs and the extent to which they are more financially constrained than large corporates especially in emerging markets. Many studies have also reported that SMEs financing obstacles have almost twice the effect on their growth as larger firms' capital constraints (Ramlee & Berma, 2013). Additionally, and as highlighted earlier by (Beck, Demirgüç-Kunt, & Maksimovic, 2004), export, leasing and other long-term finance are also scarcer for SMEs. The issue of the funding gap or "financial lacuna" arises due to the mismatch between demand and supply for SME finance. On the SMEs side, there is abundance of credit available, however, SMEs hold that supply of bank credit is unavailable to them. From the supply side, banks maintain that the lack of qualified demand for SME credit is the underlying reason to why finance to SMEs is low (Ramlee & Berma, 2013, p.115). At the current juncture, the issue of funding gap or financial lacuna is perennial for most of the emerging markets. While, the demand-side issues focus on issues affecting the borrower seeking credit, the supply side focuses on the institutions providing finance to SMEs.

SME Funding Gap: Theoretical Framework

According to (Ekpu V. U., 2015), a number of demand-side factors affect the supply of bank loans to SMEs, including: firm and owner characteristics, borrower-lender relationship characteristics as well as demand-side market failures (p.37). On the other hand, supply side behavior towards small business lending is mostly driven by (1) the risk and cost factors associated with lending activity, (2) financial institution and market structure, (3) lending technology and (4) the lending infrastructure. (p.48).

The author presents a schematic diagram (Figure 2.3) to the SME funding from a demand and supply side perspective. The elements of demand and supply side issues are adopted from (Ekpu V. U., 2016) thesis.

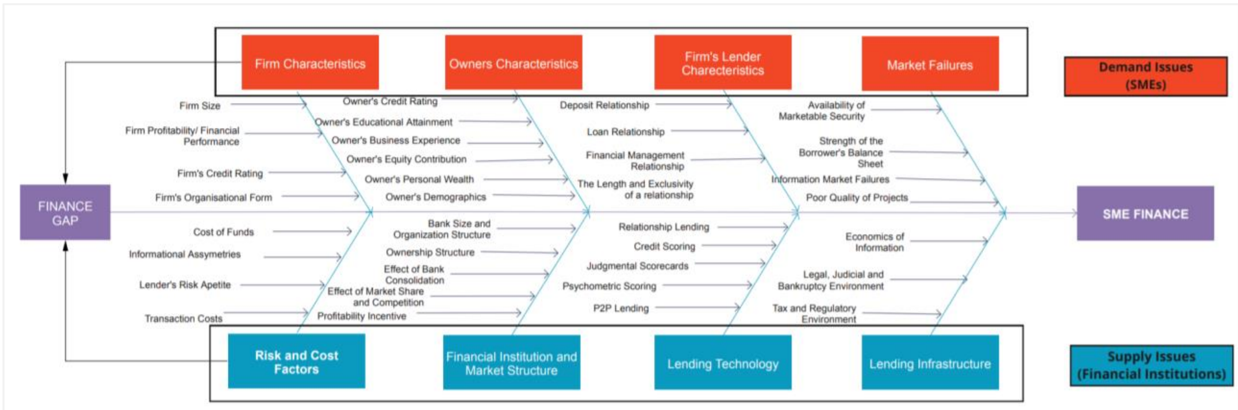

Figure 2. 3 Demand and Supply side considerations. Author's Composition

Demand Side

Most of the literature on SME finance gap cited borrower's background, credit availability and accessibility respectively as key elements shaping the SME gap. The author will further the discussion by identifying other elements such as information asymmetry.

To start, it is important to provide a definition to the access problems. Authors such as (Claessens, 2006) gave the following dimensions to the financial access problems: availability, (are financial services available, and if so in what quantity); cost (at what total price are financial services available); and range, type, and quality of financial services offered (Ramlee & Berma, 2013). According to (Claessens, 2006), "access refers to the availability of a supply of reasonable quality financial services at reasonable costs" whereas "use refers to the actual consumption of financial services" (p.210). Access refers to supply, while use refers to demand. The following (Figure 2.4) illustrates the continuum of use and access of financial services. Group A has access and use of financial services. Group B has access but doesn't want to use financial services (voluntary exclusion). Group C has no access and thus no use of financial services (involuntary exclusion) (p. 210). Voluntary exclusion (B) does not necessarily reflect unavailability of services nor does it necessarily mean rationing. Borrowers might decide not to use the financial services because they have no need, have no savings, rely on nonfinancial means, or decide that the prices are too high. This interpretation reveals an important finding which is the "availability of financial services is a necessary, but not sufficient, condition for use" (p. 211). Finally, the last group (Group C) represents the involuntary excluded group of borrowers where supply and demand for financial services do not intersect. Reasons could be that "barriers to access the formal financial system are too high or costs are unreasonably high or because borrowers do not have a credit record" (Claessens, 2006, p.211).

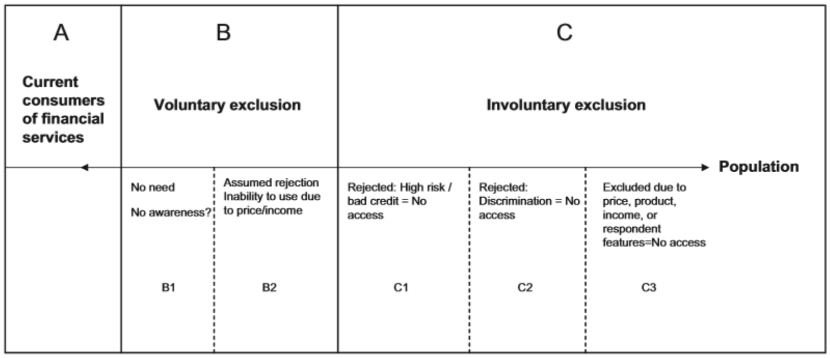

Figure 2. 4 Use and Access of Financial Services. Source: (Claessens, 2006)

(Morduch, 1999) identified dimensions related the access of finance to the following; "reliability, (whether finance is available when needed); convenience, (is access easy); continuity, (can finance be accessed repeatedly); and flexibility, (are products tailored to individual needs)" (Ramlee & Berma, 2013, p.116). (Berger & Udell, 2005) attribute the root cause of financing gap of SMEs to the information asymmetry between lending institutions and SMEs. Information asymmetry occurs when one party holds more information than the other. As (Huang, When, & Liu, 2014) hold, the lack of relevant information would have adverse impacts on decision-making of the latter party, further lead to inefficiency of resource allocation. Asymmetric information can be divided into ex ante informational asymmetries and information asymmetry. Ex ante asymmetric information can lead to adverse selection from the banks side where they tend to consciously cut down loans lending to SMEs. As a result, many SMEs will be forced to close down for lack of funds while information asymmetry leads to moral hazard (p.28). To suppliers of credit, SME market segment is "high risk" because small loans are risky. Banks are reluctant to extend credit to SMEs, whom they perceive as their riskiest clients, potentially providing insufficient profit margins and higher transaction costs compared to large firms (Ramlee & Berma, 2013, p.116).

Supply Side

Globally, there are a host of institutional barriers that come in the way of flow of funds to the SME segment. These constraints include: (1) cost-effectiveness of loans to SMEs; (2) opaqueness of SME borrowers; (3) transaction costs; (4) information, including lending technologies to assess credit applications from the bank's side (Ramlee & Berma, 2013, p.117).

In terms of the cost effectiveness of SME loans, this concerns the economies of scale in lending. Due to the low value of SME loans, the unit cost of inspecting the credit application at the lending institution is relatively high. As such, larger loan amounts have precedence and preference over small loans. Another interesting point relates to the nature of SME financial institutions. The enterprises tend to have high operating costs that makes them achieve lower profitability and margins than banks working exclusively with large corporates.

Second, as (Ramlee & Berma, 2013) state; "information economics" highlights the information imperfection involved in SME lending" (p.117). Incomplete information regarding the credit worthiness of SMEs and the pricing of loans makes the evaluation of loans difficult for banks. The lender cannot fully determine how risky the SMEs is, and cannot monitor the borrower once the loan is disbursed. Banks refrain from lending to the SME segment due information assymetry cited earlier. Related to this, is the opactity of SME borrowers. Usually, SME borrowers are new to the formal sector and have inaccurate accounting records and a low or non existent credit history. The opacity of the SME borrowers results in higher transaction cost when lending to this segment. For a bank , the cost for assesing a loan application for large corporate, SMEs and micro finance clients is identitical. To reduce the fixed cost element in assesing and processing loan applications, (Diamond & Dybvig, 1983) suggest using a tiered pricing scheme for loans. This implies using higher interest rates for SME loans. The "credit rationoning" problems resulting from adverse selection and moral hazard have been further emphasized in the literature works of (Stiglitz & Weis, 1981). With the application of higher interest rates on SMEs, banks would be encouraged to lend to riskier SMEs whom will be attracted to invest in higher risk projects. This higher risk projects in turn provide higher profit incentives among borrowers, hence necessitating higher monitoring efforts from banks due to the potential of moral hazard problems arising (Ramlee & Berma, 2013, p.117). The risks of the SME segment is not without evidence. The SME borrowers have limited and short track records resulting from their short business history. The lack of business plans accentuates the credit risks perceived from the banks' side as road maps for business growth are difficult to identify. This implies an "unconvincing financial forecast and evenutally difficult repayment performance" (Wattanapruttipaisan, 2003).

Third, (Berger & Udell, 2005) document that banks donot use appropriate lending technologies when lending to SME clients. A common finding across all economies, SME lending officers have limited experience in credit, the problem is further exaceberated by the fact that SME have little track record and a short business history as noted in the previous paragraph. This point is directly related to the use lending technologies in credit decisioning and disbursement. In their analysis, (Berger & Black, 2011) reveal the comparative advantages of large and small banks in lending to different sizes of enterprises. On the one hand, large banks have a comparitive advantage in lending technologies based on ''hard" quantitative information – such as informative and reliable financial statements– to lend to transparent and well established corporates. The extension of credit relies on strong financial standing as reflected in the enterprise financial ratios (D/E ratio, current ratio, etc..) (OECD, 2015, p.32). On the other hand, small banks have the advantage in using "relationship lending" based on ''soft" qualitative information- such as the personal history of the borrower rather than the enterprise- to lend to the smallest, least transparent firms (Berger & Black, 2011, p. 734-735). A serious problem is that banks lending to SMEs rely on “hard information- financial statement lending” more than they do on “soft information” which charecterizes SME borrowers. A final attribute that is an important and decisive factor for large banks to lend is their proximity to small business owners. Usually headquarters of large banks are distant from SMEs which gives locally owned banks comparative advantage due to their proximity and capiliarity. Recent research have indicated that relationship lending diminishes with informational distance or the cost of generating borrower specific information (Hauswald & Marquez, 2000).

(Ramlee & Berma, 2013) point to a very illuminating finding for banks. For SME borrowers, what matters is not just the number of banks providing funds (supply side) but equally important is to address the issue of SME opaqueness, and providing funds that are better tailored for opaque SMEs (p.118).

SME Funding Gap: Empirical Evidence

In their empirical study conducted in selected Western Balkan economies- namely: Albania; Bosnia and Herzegovina; Serbia; Montenegro, and Kosovo- (Nizaeva & Coskun, 2018) point out that main determinants of financing obstacles depend on a set of observable industry and firm characteristics. They can be listed as: (1) firm size; (2) ownership type; and (3) age; (4) accounting information transparency; (5) the depth of credit information indexes; (6) the banking sector concentration; (7) property registration costs; and (8) per capita GDP (p.1). Using the Business Environment and Enterprise Performance Survey (BEEPS) data for the years 1999, 2002, 2004-2005, 2009 and 2012-2014, (Nizaeva & Coskun, 2018) emphasized that firm size is the single most important determinant of financing constraint levels. When compared to larger firms, SMEs are at a great disadvantage. In essence, SMEs are more likely to be refused to obtain credit from financial institutions and have difficulties accessing external funds. Additionally, their findings emphasize that older firms are more financially constrained. The researchers attribute this to the fact that in region of study, most of the large firms were previously state owned and the high credit standards of foreign banks might have financially constrained them. Another important finding of their study is the degree of banking concentration and how it financially constrains SMEs. (Nizaeva & Coskun, 2018) argue that banks with larger market shares dictate whom to lend and would usually prefer larger, financially transparent and foreign owned firms. The researchers concluded that the institutional and financial development of an economy is an important determinant to the level of financial constraints to SMEs which resonates with the recommendations of (Beck, Demirgüç-Kunt, & Maksimovic, 2004). At the government level, there is room for drafting policies aimed at enhancing the access of SMEs to external financing. (Nizaeva & Coskun, 2018) recommend the following:

> Enforcing accounting standards and establishing both government and private credit bureaus may help with some common problems related to information sharing, and national loan guarantee schemes and governmental subsidies may reduce the financial constraint levels of SMEs. (p.94).

An interesting study by (Yildrim, Akci, & Eksi, 2012) examines various attributes of firms that affect the access to credit. The sample used 970 SMEs operating across a number of provinces in Turkey. Their analysis points out that firm size, export rate, sales volume and legal form are significant in shaping SMEs perceived satisfaction with financial products and service offerings by banks. Overall, the findings reveal that smaller firms, sole proprietorships tend to exhibit lower levels of perceived satisfaction with a bank's products and services (p. 51). By contrast, larger SMEs with larger sales volume, higher involvement in international trade and relatively stable revenues are more satisfied with their banking relationships. Their study has implications for policy makers and bank managers. In terms of the former, regulators should work on developing a legal and regulatory framework to create a conducive environment especially for the smallest businesses. For instance, initiatives such as "government subsidized lines of credit, innovation funds, public guarantee funds, venture capital and micro-finance" are all essential pillars in expanding access to SMEs. Further instruments to support SMEs in market expansion include credit insurance guarantees and networking opportunities. In regards to the later, the study highlighted the importance of improving banking services and introducing innovative solutions for the SME segment to maintain the level of customer satisfaction and retention levels. To that end, (Nizaeva & Coskun, 2018) emphasize that banks need to "continuously review their strategies and business to ensure that they are responding to the SMEs expectations" (p.51).

The conventional wisdom on SME finance argues that supply-side factors are the main reason behind the inadequate finance to SMEs. (Tore, Peria, & Schmuker, 2010) prove that banks perceive SMEs as a core and strategic segment to their business due to the following. First, the increased competition over larger corporate clients and narrower margins provide a good incentive for banks to pursue the "missing middle" segment for SMEs. The second reason behind the growing interest of bank in SMEs is consistent with (Berger & Udell, 2005) argument that relationship lending[7] is not the only way to extend finance to SMEs. Banks are increasingly applying lending technologies such as credit scoring and standardized risk rating tools as well as asset-based lending products, factoring, fixed asset lending and leasing (Tore, Peria, & Schmuker, 2010, p.2281). As such, Banks can expand credit to SMEs through relying on hard information sourced from credit bureaus. In turn, Banks can process and approve loans to SMEs at a scale that makes it cost-efficient. Nevertheless, pledging fixed assets that donot depreciate in

[7] Lending decisions are primarily based on soft information gathered over the course of a relationship. (Berger & Udell, 2005).

value over time (machinery, equipment and real estate) provides a greater assurance for repayment. Factoring and renting of tangible securities “overcome the costly contract enforcement processes and inefficient bankruptcy procedures (p.2281). Third, lending is only one offering provided by banks to SMEs. In reality, banks are increasingly placing “cross selling” at the heart of their SMEs business strategies. As (Tore, Peria, & Schmuker, 2010) point out, fee-based , non-lending products and services such as payments, savings and advisory services can be lucrative for banks to maximise their return on capital. The deeper a bank engages with his clients, the higher the amount of lending extended to other clients (e.g. SMEs employees and families). The researchers conclude that; “to an extent that these products and services gain scale, the reliance on the institutioanl environment related to credit contract wrtie-up and enforcement becomes less relevant” (Tore, Peria, & Schmuker, 2010, p.2281)

Country and Region: Turkey, Malaysia and Brazil

The role of SMEs in advancing the emerging markets have been widely researched. Finance matters for economic development and economic growth. In their seminal work: *The Second Industrial Divide: Possibilities for Prosperity,* (Piore & Sabel, 1984) assign great importance to the role of SMEs in the development of a national economy than larger corporates. In regards to their thesis of “flexible specialization”, (Piore & Sabel, 1984) saw that decentralized networks of smaller enterprises as a future alternative to large corporates. Globally, the financial liberalization and openness global trade and investment flows has created vast demand opportunities for SMEs but has also engendered fiercer competition from global and regional suppliers of goods and services. As such, the promotion of SMEs is expected to yield social and economic returns domestically but also to empower the private sector in its ongoing integration into the global economy. This process has been historically hampered by the availability and accessibility of financial resources to meet a variety of operational and investment needs within the SME sector (Wattanapruttipaisan, 2003).

This section in the literature review aims to portray the experiments of financial liberalization for three emerging markets: Turkey, Malaysia and Brazil. The author examines the concepts of access and use of financial services; provides data on the extent of use for the sample of the selected emerging markets; assesses the considers the macroeconomic, legal, and regulatory obstacles to access; and reviews the risks and costs associated with attempts to broader the provision of access to finance for the SME segment in light of the COVID-19. One of the key motivations for the author to explore in depth the context for the three economies was to answer the following questions; (1) what are the banking sector environment characteristics that affect SMEs ability to access finance?; (2) what are the institutional and regulatory environment determinants that make SMEs more or less constrained?

Case Study 1: Turkey

Macroeconomic Framework of Turkey

Figure 2. 5 Map of Turkey. Source: (Central Intelligence Agency, 2019)

Turkey has been one of the remarkable success stories hailed by the IFIs in past two decades. The year 2000 marks profound shifts in the country's political and economic spheres with the ascent of the Justice and Development Party (AKP- Islamic Party)[8] to power. Under their rule, Turkey has become one of world's largest 20 economies. With a GDP of USD 700BN, Turkey is the 18th largest economy in the world (World Bank, 2019). Furthermore, the neo-liberal policies adopted by the government led to increased employment and incomes making it an Upper Middle-Income economy. By the latest census, Turkey's population is about 83 million, its GDP per capita has doubled in course of its reforms from 4,200 USD to 10,000 USD in the last 20 years. The largest sectors contributing to Turkey's GDP are the services sector (61.7% of GDP), followed by the manufacturing (29.3%) and finally the agricultural sector (9.2% of GDP) (MacroEconomyMeter, 2019) (Moodys Investor Services , 2019).

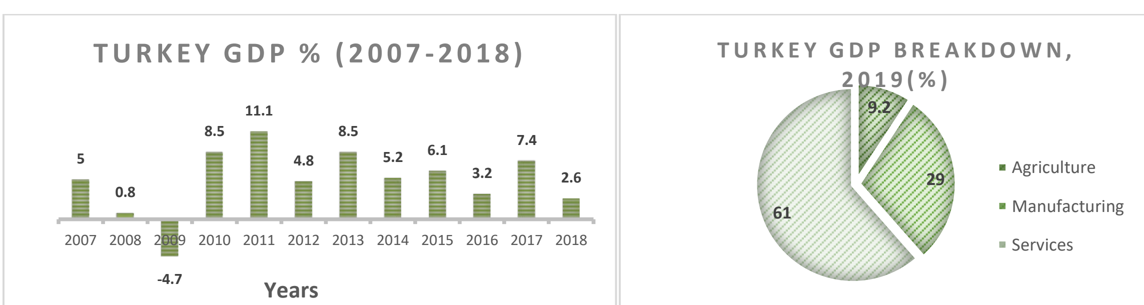

Figure 2. 6 Source: Moody's Investor Services Sept. 2019

[8] Adalet ve Kalkinma Party (AK Parti) rose to power in the 2002 general elections.

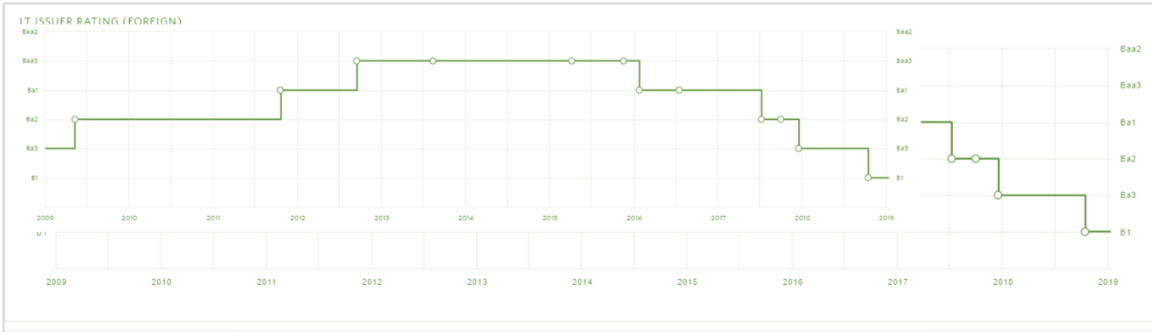

Figure 2. 7 Turkey's Credit Rating (2009:2018). Source: Moody's Investor Services Sept. 2019

During this decade of sustained growth, Turkey has urbanized quickly and embarked on a rigorous structural adjustment program. According to (World Bank, 2000) report, Turkey's program succeeded because it addressed the fiscal imbalances and anemic economic performance. The program faced three main challenges to overcome. First, it curbed Turkey's high levels of inflation, and interest rates that crippled growth of the economy. Second, the program raised the productivity of the economy by removing "costly distortions". This led to an improvement in the governance of private institutions which in turn, enhanced market competitiveness and raised private investment levels. Third and equally important, the reforms addressed social inequalities and living standards respectively. It is evidenced that Turkey's aspiration to join the European Union as a candidate provided additional impetus to implement the economic reform agenda outlined above accompanied by far-reaching social and political reforms. As illustrated in (figure 2.8), over the course of thirty years, Turkey has succeeded to anchor its inflation and has reduced the poverty headcount as percentage of its population significantly. Effectively speaking, inflation subsided from 58.2% in 1990 to 49.3% in 2000 and later to 16.2% in 2018 respectively.

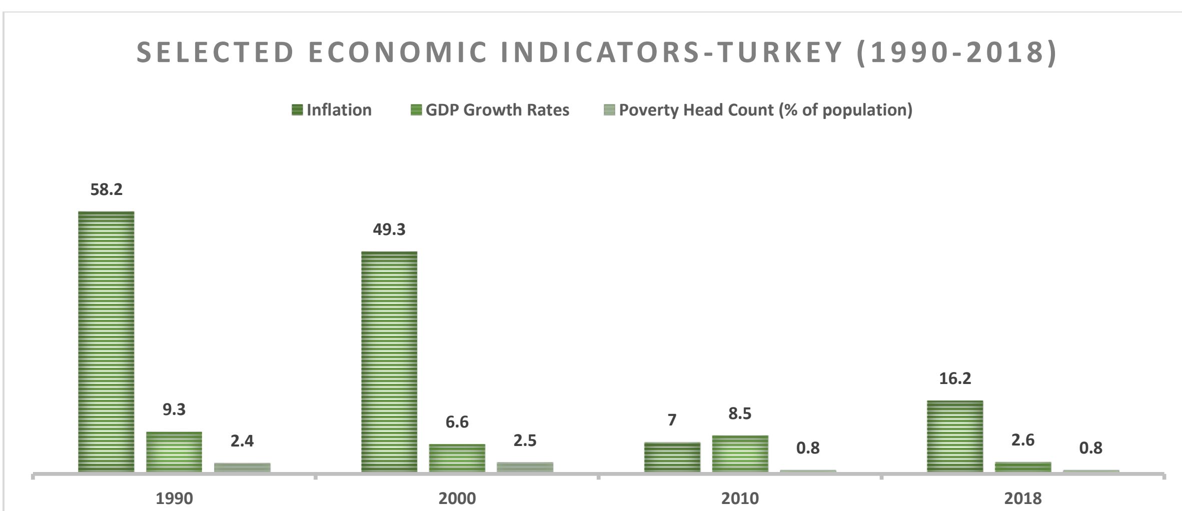

Figure 2. 8 Turkey's Inflation, GDP, Poverty (1990-2018). Source: (World Bank, 2019)

Post 2001 crisis adjustments and the IMF Program

In terms of the international institutions' engagement with Turkey, it is worth mentioning that the IMF has been actively involved with restructuring the economy before and after the crisis. In 1999, Turkey initiated a disinflation program (backed and supervised by the IMF) with the aim to anchor inflation to a single digit by 2002 (Yeldan A. E., 2003, p.3). The program relied on stabilizing inflation which has been a major concern for the government for over three decades. The program relied exclusively on pegging the exchange rate for the disinflation. Unfortunately, after less than a year, Turkey witnessed a major capital flight[9] causing a severe liquidity shortage which led interest rates to soar (Yeldan A. E., 2003, p.3).

The deteriorating economic conditions in the year 2000 led to a fall in domestic demand. According to a research report conducted by (Ozar, 2003), over 2001, annual GDP growth rate fell by 7.5%, and the productivity of manufacturing and trade sectors shrank by 8.1% and 9.45% respectively. In his empirical study on SMEs during that period, SMEs revealed that instability in the overall economic landscape impeded them to make informed decisions regarding their investment and expansion plans. The most obvious of uncertainties was the pricing of loans. Even though inflation has exhibited a downward trend, real interest rates were still high. It was reported that during that times, real interest rates ranged between 15-20% (Ozar, 2003). Moreover, the Turkish Lira severely contracted by 51% against major foreign currencies (Yeldan & Ünüvar, 2015, p.2). As a result, the government was forced to implement a series of "orthodox reforms" to satisfy IMF conditions. The government requested access to a "Supplemental Reserve Facility" from the IMF and was granted a total of USD 7.5BN. The new facility led to a revision of the economic targets previously laid out. Furthermore, a new Finance Minister[10] was instated who also was the Central Bank Governor. A new program entitled "Turkey's Transition Program: Strengthening the Turkish Economy" was devised to restart the economy (Yeldan A. E., 2003, p.3). The overall economic strategy positioned the country to be "export-based" and hence encouraged its attainment of low-cost labor and standard technologies. It was highlighted that monetary policy took over (almost exclusively) the fiscal policy. Interest rates were the major policy instruments for anchoring inflation and keeping low interest rates (Yeldan & Ünüvar, 2015, p.1). Between the years 1999-2003, the IMF provided a total financial assistance of USD 20.4 BN (p.2).

The reforms included reducing subsidies to agriculture and privatizing SOEs (State Owned Enterprises) respectively (Yeldan & Ünüvar, 2015, p.2). The IMF program rested on two fundamental pillars; (1) achieving a public sector budget surplus of 6.5% of GDP, (2) price stability through inflation

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[9] Estimated by USD 6BN.

[10] The new finance minister & Central Bank Governor appointed in 2002, Minister Kemal Dervis was the former Vice President of the World Bank wrote a letter of intent to the IMF, announcing the reinvigoration of a 'new stabilization effort". (Yeldan A. E., 2003). He was given the responsibility to diffuse the crisis.

targeting. [11] (p.2). The "logic" of these reforms was aimed at boosting the "credibility" of the Turkish economy and reducing the perception of risk to attract international investors. This would entail decreasing the risk premium and thus interest rates which would lead to higher private consumption and fixed investment.

The IMF Program: Targets and Performance

Categorically, the IMF has set the following targets for the Turkish government to meet as part of its structural adjustment program. As per the IMF, the following were the measures the CBTK (Central Bank of Turkey) had to fulfill.

Table 2. 1
Macro-Economic 5 Year Targets of the post 2001 IMF program

Targets	2002	2003	2004	2005	2006
GNP Real Growth Rate	3.0	5.0	5.0	5.0	5.0
Public Sector Non-Interest- Debt/ GNP (%)	6.5	6.5	6.5	6.5	6.3
Inflation Rate	35.0	20.0	12.0	8.0	5.0
Nominal Interest rate of Domestic Debt (%)	69.6	46.0	32.4	27.4	23.9
Real Rate of Interest on Domestic Debt (%)	25.6	21.7	18.2	18.0	18.0

Table 2. 1 Turkey's Macro Economic Targets of the IMF program. Source: (Yeldan & Ünüvar, 2015)

As exhibited above in (Table 2.1), the main feature of the program was to achieve annual growth rates of 5% y-o-y, while maintaining the public sector debt as 6.5% of the GNP. Furthermore, it meant to slash down the inflation rates to 5% (from 2002 (35%) to (5%) in 2006) and maintaining high rates of return on domestic debt to attract foreign capital (Yeldan & Ünüvar, 2015).

The results of the program were impressive. The annual rate of growth of real GNP averaged 7.8% over 2002–2006. Growth, while rapid, had very unique characteristics. Firstly, it was mainly driven by a massive inflow of foreign finance capital, which in turn was lured by significantly high rates of return offered domestically. High rates of interest prevailing in the Turkish debt markets attracted short-term finance capital.

It was noted that "hot" finance led to an appreciation of the local currency and the loss of the "competitiveness" for traditional Turkish exports. On the other side, "Modern Manufacturing" sectors that required high investment in labor and technology were the largest "winners". High-intensive industries such as automotive, auto spare parts and consumer durables have a high import content and thus had huge cost savings and were cheaper for the manufacturers. Those industries exhibited a surge in exports during that time. However, being import dependent, these sectors had low domestic value added and also had low elasticities of labor employment. In what follows, traditional sectors, such as small-scale ceramics

[11] According to the authors, (Yeldan & Ünüvar, 2015); the target was set at 5% on consumer price inflation for 2006, and 4% for 2007 and 2008 respectively.

and glass, textiles suffered from the loss in competitive and stagnation of the aforementioned sectors. A distinctive feature of the economic liberalization program during that time surge in unemployment. According to the Turkdata; "persons not looking for a job, but ready for employment if offered a job' has increased from 1.06 million in 2001, to 1.9 million by 2006, bringing the total (open + disguised) unemployment ratio to 15.5 per cent." (Yeldan & Ünüvar, 2015, p.3).

Central bank Policies: Observations on the Central Bank of Turkey

Central Bank independence and policy reforms are important institutional dimensions associated with economic globalization and liberalization. It is imperative to note that the Central Bank of Turkey's Independence (CBI) in 2001 gave a huge impetus to much of the rhetoric unfolding. This section will present a qualitative analysis of central banking reform in Turkey. In his empirical study on the Central Bank reform in Turkey, (Bakir, 2009) adopts John Kingdon's concept of "policy entrepreneurship" and stresses the interaction between: the (1) "structure" (the institutional context- hereby referred to the CBTR); (2) "agency" (individuals rather than organization) as well as ideas and discourse in policymaking processes that lead to institutional and policy changes (p.573).

At the outset, the enactment of a new draft law for the Central Bank between the years 1996-2000 was a key milestone in the policy and institutional reform for the CBTR. The new draft law included four radical provisions toward independence: (1) price stability; (2) short term interest rates are to be determined by CB (and not by government); (3) non-lending to the government; (4) the government cannot give orders or instructions to the CB (under any conditions). (Bakir, 2009, p.585-586). The two main stakeholders in CBT struggle for independence were the IMF and the European Central Bank (ECB) categorically. Before the economic crisis of 2001, "ideational entrepreneurs" (refers to multilaterals (e.g., IMF) and supranational (e.g., EU) organizations, individuals (e.g., central bankers) were not active and couldn't influence decision makers at the time to adopt the reform agenda or enact the new law (p.576). It is widely assumed that ideational entrepreneurs influence central bank independence. In his study, (Marcussen, 2005) argues that:

> With regard to the diffusion of the legal independence standard in the 1990s, it becomes important to systematically study the role of political pressure from international financial institutions...,individual central bankers . . . as well as forums for transnational communication, learning and deliberation...These [ideational] entrepreneurs and the ways in which they applied deliberative as well as indirect coercive learning techniques have actively helped the independence standard on its way in its worldwide journey. (p. 919–920)

In Turkey case, the "program ownership was lacking at ministerial level" (Central bank governor interview, March 20, 2006, Istanbul) (Bakir, 2009, p.585). Thus implementing the reforms required that policy enterprenuership to operate at a critical juncture. According to (Bakir, 2009), the presence of "external anchors" or coercion through conditionally is "necessary, but not wholly sufficient, condition for institutional change and spread of neoliberal economic ideas". (p.586).

According to (Kingdon, 1995); "agendas are not first set and then alternatives generated: instead alternatives must be advocated for a long period before a short-run opportunity [i.e., policy window] presents itself on an agenda" (Kingdon 1995, p.215). A "policy window" refers to "an opportunity for advocates of proposals to push their pet solutions, or to push attention to their special problems" (Kingdon 1995, p.165). For Turkey, a policy window to endorse the "Washington Consensus" was opened following the crisis of 2001, whereby the GDP dipped aggressively by 7.5%, the Turkish Lira lost 116% of its value against the USD. Inflation stood at 68.5% in 2001 and unemployment surged from 6.5% to 8.4% in 2001. The financial cost of the crisis was estimated at USD 47 BN and constituted at that time almost 30% of the country's GDP. Furthermore, and what has exacerbated the crisis was the insolvency of 7 banks. Others note that the toll of the crisis led to the insolvency of 18 banks (Jenkins & Hossain, 2017). Furthermore, the author notes that before the crisis, banks relied heavily on financing government debt instruments; mainly T-bonds and bills. Interest rates on treasuries were 30% above inflation rate in the 1990s. Banks were encouraged to borrow from abroad and invest in government securities. In the year 2000, (Jenkins & Hossain, 2017) remark that half of the interest earnings came from government securities, and that more than half of the bank's liabilities were in foreign currency. The banks were exposed to a high foreign exchange risk. The Turkish lira devaluated, interbank credit rate hiked to 873%, resulting to a freeze in interbank credit. Consecutively, the banks made huge losses due to their unhedged foreign currency positions. The results were reflected on the total balance sheets of banks, that shrunk by 12% in size, the capital markets were severely hit. Estimated losses of the stock exchange were 14% (Jenkins & Hossain, 2017, p.81)

The enormity of the crisis and the fragility of the banking called for sweeping political changes, and policy changes respectively (Bakir, 2009). In 2002, the government of Turkey established an independent regulatory body for the banking sector BRSA (Banking Regulation and Supervision Agency). The main mandate of the regulator was to safeguard the interest of the depositors and to provide effective operation of the loan system. Notwithstanding, various amendments to the banking law were made during that year that set the stage for the total revamp of the banking sector, credit and the economy as a whole. As noticed, these amendments were in line with the EU and international best practices (Jenkins & Hossain, 2017, p.81).

Observations on the post 2001 era for the Turkish economy were remarkable. In terms of GNP, the average growth rates for Turkey recorded an average of 7.8% for the years 2002:2006. The economic growth was accompanied by a *massive inflow of capital.* High interest rates in the asset market led to an abundance of short-term foreign capital and an overvaluation of the Turkish lira. The depreciation of foreign exchange led to an import boom in investment and consumption patterns. The second feature of the growth rate was the jobless growth. Unemployment surged during the high growth rate period (11.8% post crisis adjustment period), and has maintained a level above 6% following the Global Financial Crisis (Yeldan & Ünüvar, 2015).

(Table 2.2) illustrates the performance of Turkey's economy over four periods[12]. As illustrated, pre economic crisis period 2001-2002, GDP per Capita surged by almost 2 folds (from 3,548 USD to 10,444 USD). GDP has almost doubled, pre growth rates at 2001-2002 were 2.41% per year, and post crisis adjustment for the following period (2003-2008) averaged 5.88% on annual basis. The economy was heavily impacted by the global financial crisis of 2008:2009 and growth rates has slipped to -4.82%. However, during the following periods of recovery, the Turkish economy exhibited a swing back to growth (albeit fluctuating from a high of 9.51 % in 2010 and shrinking to 2.12% in 2012 and 4% in 2013. In terms of consumption expenditure as % of GDP, the Turkish economy maintained the same rates during the four periods, averaging 70% all across four periods. As for Investment expenditures as a percentage of GDP, rates have increased from 14% during the economic crisis and have witnessed fluctuating patterns of expansion and contractions till reaching 20% of GDP in 2013. Private Savings were a distinctive variable in light of the instability of the economy, as it declined steadily from 25% during the crisis of 2001 to reach a mark of 9.7% in 2013. The consequent development also was the marked the rise of the foreign debt (as % of GDP) to 47% in 2013 in addition to the expansion of the current account balance as % of GDP.

Table 2.2
Turkey's Macro Aggregates (Economic Crisis: Patterns of Recovery)

	Economic Crisis	Post Crisis Adjustment and Growth	Global Crisis	Patterns of Recovery Under the Great recession			
	2001-2002	2003-2008	2009	2010	2011	2012	2013
Macro Aggregates							
GDP per Capita (USD)	3,548	10,444	8,561	10,003	10,428	10,459	10,807
GDP Real Rate of Growth (%)	2.41	5.88	-4.82	9.15	8.77	2.12	4.00
As % of GDP							
Consumption Exp.	70.12	69.84	71.46	71.69	71.18	70.19	70.87
Investment Exp.	14.63	21.78	14.93	19.52	23.55	20.13	20.62
Private Savings	25.1	16.90	18.00	12.30	10.7	11.6	9.7
Budget Balance	-10.5	-3.25	-5.5	-3.6	-1.4	-2.1	-1.2
Non-Interest (Primary) Budget Balance	4.23	4.60	0.05	0.75	1.88	1.34	2.02
Public Domestic Stock	38.49	35.50	34.64	32.11	28.42	27.28	25.81
Internationalization							
Exports of Goods (BN USD)	31.60	84.79	109.64	120.91	143.39	163.22	163.37

12 The three economic periods here are the Economic Crisis (2001-2002); (Post Crisis 2003-2008), the Global Financial Crisis (2009) as well as the 4 years of recovery (2010-2013). (Yeldan & Ünüvar, 2015)

Imports of Goods (BN USD)	49.15	132.54	134.49	177.31	232.53	228.55	243.39
Current Account Balance (BN USD)	-2.26	-26.16	-13.40	-45.42	-75.08	-48.49	-65.07
Current Account Balance (% of GDP)	-1.43	-4.75	-2.27	-6.30	-9.70	-6.17	-7.40
Total External Debt (BN USD)	120.57	202.67	268.93	291.91	303.91	339.04	389.5
Total External Debt (% of GDP)	52.88	39.91	43.76	39.85	39.34	43.07	47.29
Macro Prices							
Consumer Prices	33.13	11.81	6.50	6.40	10.40	6.16	7.32
Real Interest Rate	5.35	11.80	0.01	0.01	-0.02	-0.44	-0.74
Index of Real Exchange Rate (TL/ $) (2003=100)	…	88.70	87.70	79.37	89.29	86.21	87.72

Table 2. 2 Turkey's Macro Aggregates. Source: (Yeldan & Ünüvar, 2015)

In tandem with the growth and its symptoms, the period was marked with "disinflation" and was hailed as a major success for the AKP era as per (Yeldan & Ünüvar, 2015). As illustrated in (Figure 2.9), annual inflation rates subsided from 33.13 % in 2001-2002 to a third of 11.81% in 2003-2008 to an average of 6 % in the recovery period respectively as the Central Bank of Turkey has placed a target point for inflation rates to reach 5% in 2006. Despite of the preceding initiatives, credit interest rates as well as Central Bank interest rates remained high at 26% in 2008 (sharply falling from highs of 55% & 50% in 2003 to 26% and 25% respectively a year later). Both rates fell consecutively the following three years to a low of 16% and later increased incrementally to stabilize above 20%. The logic behind the monetary policy implemented was that CBTR wanted to insulate the Turkish economy from overheating and contagion that occurred globally.

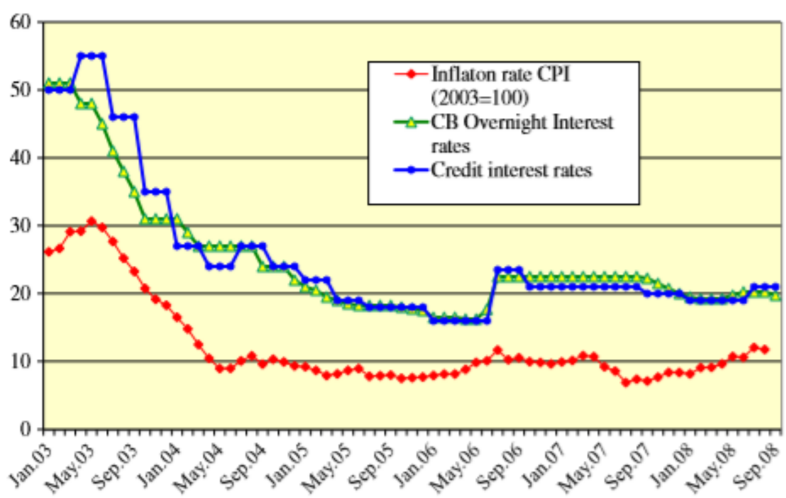


Figure 2. 9 Turkey's Consumer Inflation and Interest Rates. Source: (Yeldan & Ünüvar, 2015)

The previous section relayed a summary for the important macro-economic developments in the Turkish economy. The author will now present an overview for SMEs in Turkey.

SMEs in Turkey

Although variations in definitions exist on what constitutes SMEs such as the World Bank, European Union and the United Nations, businesses in Turkey with fewer than 250 employees and whose turnover do not exceed an equivalent of USD 4.2MN are classified as SMEs. The following table (Table 2.3) summarizes the classification of SMEs in the Turkish context:

Table 2.3
Definition of SMEs in Turkey-Scale, # of Employees Size, Annual Turnover, Balance Sheet

Scale	**Number of Employees**	**Annual Turnover (TL)**	**Balance Sheet (TL)**
Micro	< 10	≤ 1 million (Equivalent to € 313 k)	≤ 1 million
Small	< 50	≤ 8 million (Equivalent to € 2.5 MN)	≤ 8 million
Medium	< 250	≤ 40 million (Equivalent to € 12.5 MN)	≤ 40 million

Table 2. 3 Source: (Şenera, Savrul, & Aydin, 2014). KOSGEB 2013. (OECD, 2019)

According to the official statistics, there is a total of 3.2 million businesses in Turkey, of which is a total of 3 million enterprises operating in the Turkish economy (Jenkins & Hossain, 2017, p.82). SMEs constitute 99.8% of overall enterprises there which is almost the same rate as the European Union member countries (99.8%). Furthermore, and in terms of their impact, SMEs employ 77% of the total labor, and account for 55.7 % of value-added services. In the EU, the ratio for employment is 67.5% and value-added services is 58.4% respectively (Şenera, Savrul, & Aydin, 2014).

Similar to most of the world's emerging economies, Turkish SMEs play a significant role in the country's social and economic dimension. According to (European Commission , 2019), SMEs constitute 99.9% of the total number of enterprises in the economy and more than 72.5% of labor employment. Nevertheless, SMEs constitute 53% of wages and salaries. The Turkish Statistical Institute (2013) states that the proportion of SMEs that have employees between (1-249) totaled 62.6% of total exports with the following break down; micro enterprises (1-9 employees) portion was 20.6%, small enterprises (10-49 employees) were 24.3%, medium enterprises (50-249 employees) were 17.7%. Large enterprises (with employees exceeding 250) proportion was 37.2% in exports (Sener, Savrul, & Aydin, 2014, p.214). In terms of value-added services, Turkey exhibits a larger contribution of Medium Sized and large enterprises than the EU28. (Figure 2.4)

Table 2.4
Structure and Role of SMEs in Turkey vis a vis the EU 28

Class Size	Number of Enterprises			Number of Persons Employed			Value Added		
	Turkey		EU28	Turkey		EU28	Turkey		EU28
	Number	**Share**	**Share**	**Number**	**Share**	**Share**	**MN €**	**Share**	**Share**
Micro	2,380,885	96.4%	92.8%	5,112,590	39.2%	29%	30 075	15.3%	20.2%
Small	57, 214	2.3%	6%	1,754,015	13.45%	20.2%	24 717	12.5%	17.7%
Medium Sized	25,948	1.05%	1%	2,582,542	19.8%	17.1%	44 596	22.6%	18.4%
SMEs	**2,464,047**	**99.8%**	**99.8%**	**9,449,147**	**72.5%**	**66.3%**	**99 388**	**50.4%**	**56.3%**
Large	4,694	0.19%	0.2%	3,583,058	27.49%	33.7%	97 539	49.5%	43.7%
Total	**2,468,741**	**100%**	**100%**	**13,032,205**	**100%**	**100%**	**196 927**	**100%**	**100%**

Table 2. 4 Structure of Turkey SMEs vs. EU 28. Source: (European Commission , 2019)

As shown in (Figure 2.10), the most important sectors for SMEs in Turkey are; wholesale and retail trade (amounting to 44% of SMEs); followed by transportation and storage sector and thirdly; manufacturing (14% of all SMEs).

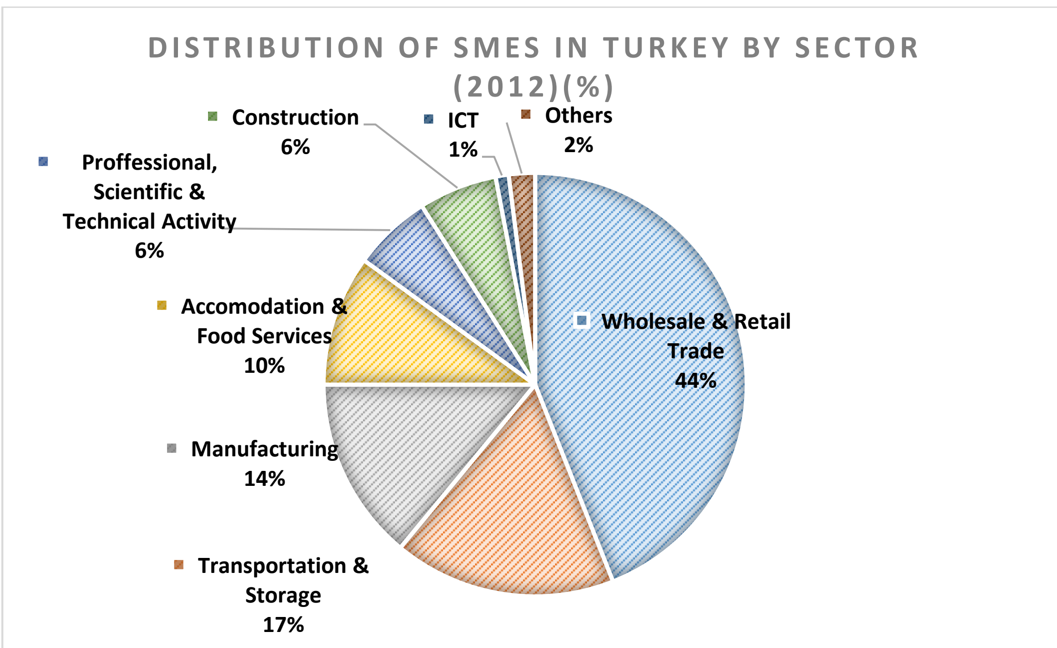


Figure 2. 10 Distribution of SMEs in Turkey. Source: (OECD, 2019)

SME Policy Index- Turkey

Turkey has shown considerable improvements with respect to the SME ecosystem. According to the (OECD, 2019), Turkey has been named as the best performer in the SME policy index in 2019. Thanks to its efforts in institutionalization, developing a well-structured SME policy, technical regulation and support to its SMEs over the years. As per the latest OECD report and survey, the post crisis period has witnessed a surge in value added and employment by 6% and 9% for each respectively. Of the key observations of the 2019 report was that Turkey has ample room for improvement in a number of areas which include; (1) entrepreneurship; (2) bankruptcy and second chance for SMEs; (3) public procurement; (4) enterprise skills; (5) operational environment and (6) access to finance respectively as illustrated in (Figure 2.11). The next section will present an overview to the Access to Finance.

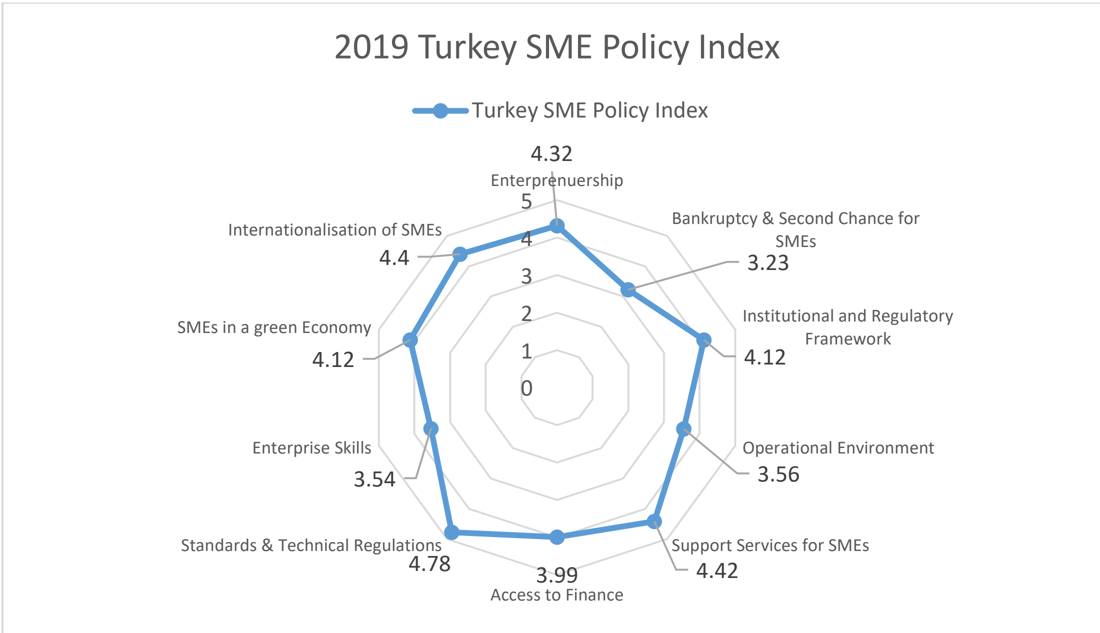


Figure 2. 11 SME policy Index Scores. Source: (OECD, 2019)

Banks in Turkey & Financial Resilience.

There is a total of 53 banks operating in Turkey as of 2019 of which 34 are deposit banks, 13 are development and investment banks, and the rest are participation banks.

Table 2.5
Banks in Turkey Breakdown in number 2017:2019

	2017	**2018**	**2019**
Deposit Banks	34	34	43
State Owned	3	3	3
Private Banks	9	9	9
Foreign	20	21	21
SDIF	1	1	1
Development & Investment Banks	**13**	**13**	**13**
Participation Banks	**5**	**5**	**6**
Total	**52**	**52**	**53**

Table 2. 5 Breakdown of Banks in Turkey. Source: (The Banks Association in Turkey, 2019)

In terms of the capital structure of the banks operating in Turkey, the controlling stake is held by domestic shareholding (51.8% stake), the rest is divided equally between foreign participation (25%) and public ownership (22.9%) (The Banks Association in Turkey, 2019). (Figure 2.12).

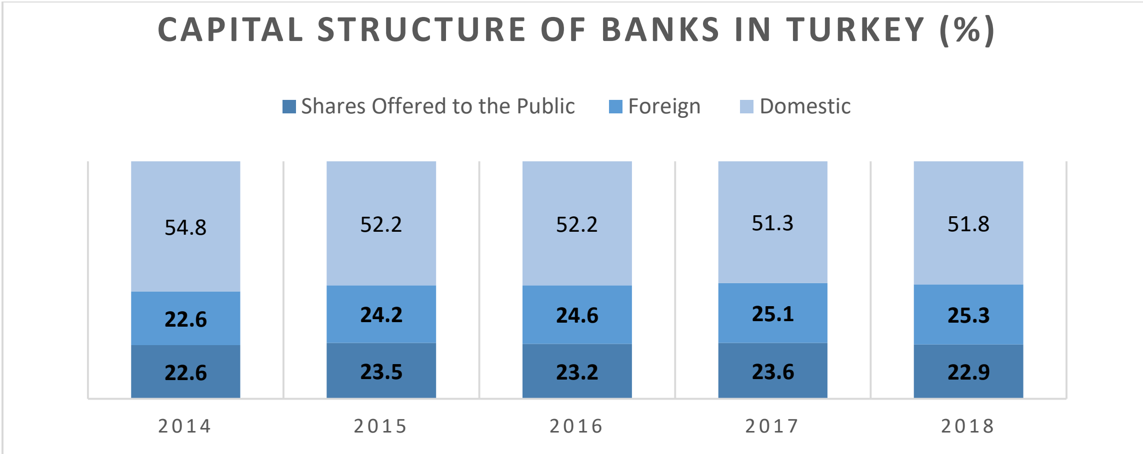


Figure 2. 12 Source: (The Banks Association in Turkey, 2019)

Credit Lending for Turkish SME sector

Similar to what the banks have suffered prior to the 2001 crisis, SMEs were also affected as a result of high inflation, loss of competitiveness, and economic crisis. Total credit to SMEs stood at 5% of total banks' portfolios in the 1990s. Aftermath the crisis, several programs were introduced to offset the adverse macro-economic conditions and boost lending to SMEs respectively (Jenkins & Hossain, 2017, p.82). In addition to that, as a result of Turkey's accession negotiations to join the EU in 2005, the EU and several international organizations provided support to the growth of the SME sector in Turkey.

One of the most important developments in the Banking landscape in the Turkish economy was the rise in interest from banks to lend the SME segment. Several banks in Turkey began establishing SME departments within the units of the bank after inflation rates fell from 21% in 2000 to 7% in 2005. (Jenkins & Hossain, 2017) note that lending to SME was moved with GDP growth, it declined during the crisis period and recovered after the crisis (post 2000). The World Bank survey indicates that financing of Banks to SME increased drastically during that period. For example, commercial banks increased their financing of fixed assets from 4% in 2002 to almost 32% in 2008. Additionally, the percentage of working capital financed by commercial banks increased from 2% in 2002 to 15% in 2010 (Jenkins & Hossain, 2017). The authors also note that the collateral requirements for Turkish SMEs have been relaxed. As (Jenkins & Hossain, 2017) highlight, the proportion of total SME loans that required collateral was only 67.7% in Turkey. This rate is much lower than both the regional and world averages of 89% and 88%, respectively. Another striking finding is that the average value of collateral required for SMEs loans (measured as the percentage of the loan amount) also declined from 105% in 2005 to 77% in 2008 (p.83). (Figure 2.12).

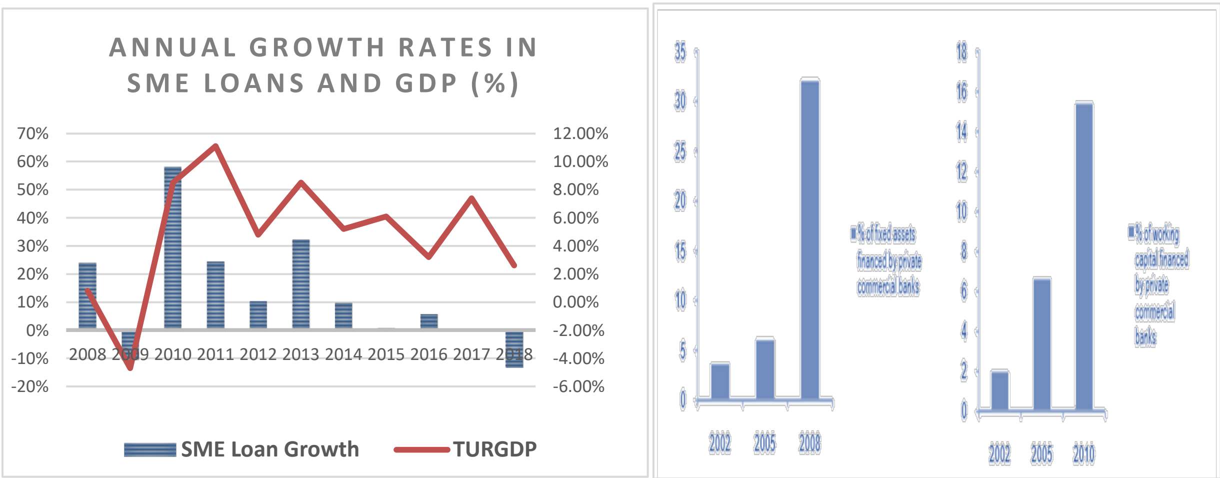


Figure 2. 13 Source- Authors Calculations from OECD Data Set. Source: World Bank. (Jenkins & Hossain, 2017)

According to (OECD, 2019), several initiatives have been taken by the decision makers that boosted finance and favorable business environment for the Turkish SMEs. It was well acknowledged that the environment for SMEs working in Tukey was particularly difficult. Fall in GDP, the surge in real interest rates and the depreciation of the Turkish Lira had pronounced effects on SMEs in the past two decades. Additionally, SMEs were also faced with the shock of opening up their economy to the European Union in 1996 (OECD, 2019). The authorities have been committed for several years to stabilize the business and operating environment in Turkey. This has taken place in the area of specific agreements with the International Monetary Fund (IMF) that have been inked since the 2000 crisis. The measures on a macro level have been aimed to narrow the gap between the per capita GDP of Turkey with highly developed EU economies. That translated into the entry of a huge number of youths to the labor market and the diversification of economy from agriculture to manufacturing and services sectors respectively. Most importantly, the majority of jobs created were generated from SMEs. The uptake and restructuring of the economy necessitated the creation of policies to protect SMEs from external and internal shocks. As cited in the above paragraphs, the policies that Turkey have developed in this regard were coordinated and formulated with the aid of "ideational entrepreneurs" such as the European Union, the World Bank and the IMF respectively. The government supported the launch and formation of SME supervisory and regulatory bodies such as the Industrial Training and Development Center (SEGEM); KUSGET (Small Industry Development Organization); which were united under the Small and Medium Industry Development Organization (KOSGEB). The later body is responsible execute all major policies pertaining to SMEs.

Access to Finance in Turkey

One of the major problems facing SMEs was their access to finance. The economic context of Turkey (huge budget deficits and excessive government borrowing) during the crisis has barred banks from extending credit to SMEs. Under these circumstances, banks in Turkey extended credit to large corporates and purchased government bonds. Small businesses were opted out and seldom reverted to banks for financing (OECD, 2004). To overcome this, the Turkish government created targeted investment credit programs related to the SMEs. The government has made credit available to State Owned Banks in addition to private banks at a later stage and has given SMEs Tax incentives and breaks when purchasing equipment. It is noteworthy to mention that banks didn't extend credit to SMEs due the cost of the transaction and the weak financial infrastructure. Typically, this refers to weak credit information, weak creditor rights, and collateral infrastructure. As the (OECD, 2004) describes, from an institutional perspective, banks decide to lend to SME based on the risk of the loan and loan volumes. They overlook major indicators such as financial inclusion, percentage of new jobs created to the work place and default rates of loans. Another reason why banks were not actively involved in this segment was that state-owned banks were engaged in government backed schemes and didn't want to compete with them. Additionally, the lack of credit experience for SME loan officers explains why booking for SME low was relatively low (OECD, 2004). Also, banks believed that the transaction cost of SMEs do not merit the profits derived from these loans. To gather data from a pool of this loan segment would require extensive upfront investment in technology and bank's infrastructure.

As noted by the (OECD, 2019) report, on the Supply Side, lending to SMEs have expanded due to interest rate subsidies and credit guarantees respectively. Credit to SMEs have expanded in Turkey from TR 1.12 BN in 2011 to TR 1.39 BN in 2014. The increase in loans was mainly due to the Credit Guarantees extended from the Turkish Credit Guarantee Funds. Additionally, and given the reasons outlined before, Banks are reluctant to extend credit to moveable assets (crops, machinery, receivables, and inventory) and prefer to have fixed assets such as land, buildings as a security for loans extended.

On the demand side, SMEs received a greater share of credit since the last assessment of the OECD conducted in 2012. It is noted that 50% of Turkish banks branches are situated outside of Turkish three major cities, and 70% of the population reside outside these cities, many rural and less developed areas in Turkey remain underserved. Notwithstanding, due to the short-term base of the deposits, most of SMEs loan tenors are medium to short term. Access to long term finance for SMEs remain a challenge.

A further reading of the latest scores presented in terms of the Access to Finance for SMEs pillar of the (OECD, 2019) - (15 years after the initiatives mentioned above were realized) - the following represent the latest status on the "Access to Finance" Dimension:

1. Legal & regulatory framework are in place for the economies of Turkey facilitating the access of SMEs to Finance.
2. Bank lending remains the primary source of finance to SMEs. Commercial Banks have increased their focus on SME lending lately.

3. Systemic issues exist for all SMEs in these respective economies due to the perceived risk for SME borrowers and their inability to fulfill their obligations. However, recently, strong support for the governments was evident in providing subsidized lending initiatives and commercially aligned solutions such as credit guarantee schemes.
4. Non-Banking Finance instruments have recently seen a surge in Western Balkans and Turkey, where by leasing, factoring and Micro Finance have particularly gained momentum and appetite from stakeholders and the market respectively.
5. Venture Capital and alternative finance are still incipient in the region, with the exception of Turkey where the government has strongly supported this type of funding.
6. Finally, and equally important, financial literacy remain low across the region. The government efforts remain scattered and uncoordinated. (p.64).

To move forward, the OECD recommends a strategic focus from various stakeholders on to close the shortcomings in this area (OECD, 2019).

As illustrated in (Figure 2.14), and in comparison, with 2016 scores, an overall improvement in the “access to finance dimension” has been witnessed for the Western Balkans and Turkey (WBT) respectively. Overall, Turkey was the best performer in the region across all dimensions. There is still room for improvement for all countries to close the gaps in respective dimensions.

Figure 7.1. Overall scores for Dimension 6 (2016 and 2019)

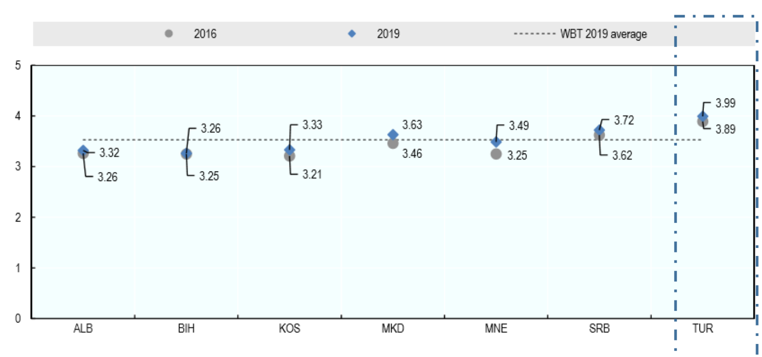


Figure 2. 14 Scores of WBT (Western Balkans Turkey) in Access to Finance Pillar- Dimension 6 in SME Policy Index. Source: (OECD, 2019)

The aforementioned was triggered by major changes in credit policies for banks’ lending to SMEs. As cited earlier, Turkish Banks removed the stringent collateral requirements from SMEs. Additionally, as highlighted in the (Work Bank Enterprise Survey, 2019), Turkey made considerable progress in the areas of: (1) getting credit (ranked 37/190 countries) and (2) registering property respectively (ranked 27/190 countries). In terms of “ease of getting credit”, Turkey overall score was 75%. As for the “registering property”, Turkey’s overall score was 80%. In brief, Turkey journey in a decade has been impressive. As we speak, Turkey ranks 43rd among 190 economies in the ease of doing business, according to the latest (Work Bank Enterprise Survey, 2019). In 2018, Turkey moved from 73 in 2009 to 43 in 2018. (Trading Economics, 2019).

Non-Bank Financial Institutions (NBFIs)

Due to insufficient financial infrastructure and rigid requirements by banks to most of SMEs, alternative financial instruments beyond conventional banking such as leasing and factoring are viable options for SME finance and are gaining momentum. In Turkey, the legal frameworks for leasing are well developed and come second after bank loans. SMEs account for 40% of leasing clients and most of leasing firms operating in the market are owned by banks. Factoring services exist for SMEs, but with higher pricing than traditional financing. It is well noted that forms of finance vary by the SMEs stage of growth. The proceeding figure illustrates the combination of the stage of the life cycle of enterprise with the credit and capital provider. As shown in (Figure 2.14), funding for startups usually comes from family, friends and angel investors and Micro Finance Institutions. With business expansion and growth, funding needs are met by banks among other sources of investment such as institutional investors. As finance gets more sophisticated with later stages of growth due to the ability of growing and mature SMEs to provide solid financial track records and collateral to banks. For earlier stages of growth for SMEs, and as recommended by (United Nations Economic and Social Comission for Asia and the Pacific, 2017), policies related to financial infrastructure as credit registries, credit guarantees, bureaus and collaterals need to be developed by emerging markets.

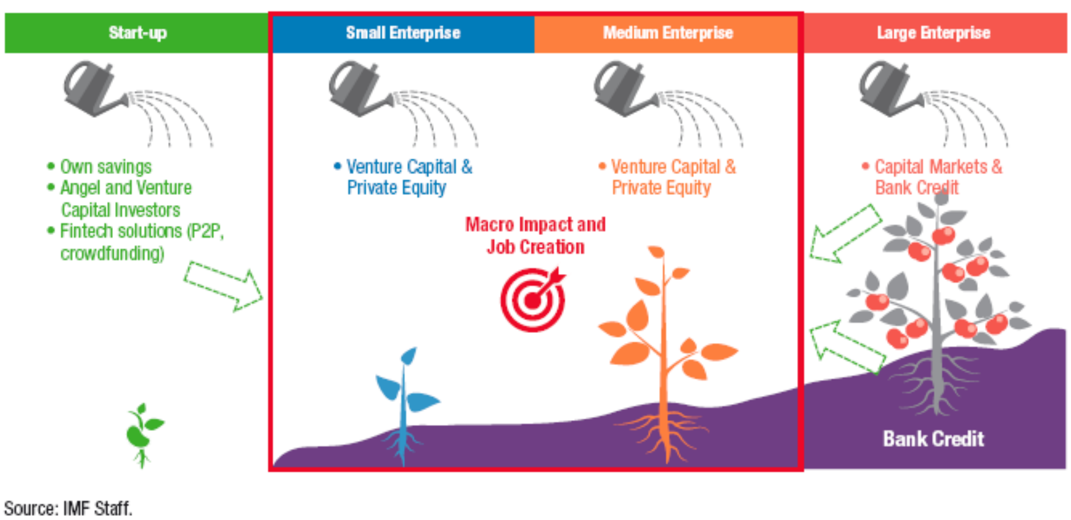
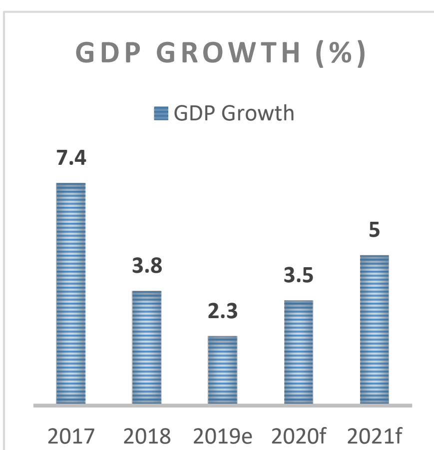


Figure 2. 15 Sources of SME Financing. Source: (United Nations Economic and Social Comission for Asia and the Pacific, 2017)

Turkey's New Economic Program (NEP) (2019:2021)

The years 2013: 2019 have brought a heavy toll onto the Turkish Economy. Domestically, the Gezi events of May 2013 in addition to the Judicial coup in December of the same year alongside the Military coup of 2016 has had its severe repercussions on the stability and hence, the effectiveness of the AKP government. The recent tensions between the Turkish government and the US; in addition to the impacts of the tightening of the US monetary policy (interest rate hikes by the US Federal Reserve) has led to a sharp deterioration of the Turkish Lira. As per (CoFace, 2019), the Turkish economy is heavily dependent on imports for its production of goods and services. Deterioration in pricing behavior by surges in foreign exchange reserves has led to higher prices, higher funding costs leading to an overall contraction in the firm's capacity to access domestic and external financing (Turkey's Ministry of Treasury & Finance, 2019). Notwithstanding, the high costs will be passed to the consumer and most companies will be seeking to structure its debts. Accordingly, new private investments will be scaled back in the short term and the economy is expected to remain in stagflation till the end of 2020. The government has implemented some measures in order to stimulate the economy. For instance, it extended pay back periods for private sector, especially the SMEs for the year 2019. It has also designed a targeted assistance program for SME up to TRY 300,000 (equivalent of USD 50k) in addition to import substitution of intermediate goods exporters use in their production operations (CoFace, 2019).

Taking stock of the recent economic dynamics, and after a landslide victory for the AKP party, a new economic program has been announced for the four years (2019:2021). The pillars of the program as drafted by the (Turkey's Ministry of Treasury & Finance, 2019) are a: (1) resilient and strong economy; (2) fiscal discipline; (3)low budget deficit; (4) low household debt; (5) dynamic and entrepreneurial private sector with an emphasis on manufacturing and higher "Value Added activities". The targeted indicators for the economy as envisaged are put forth in the following charts (Figure 2.16-2.19):



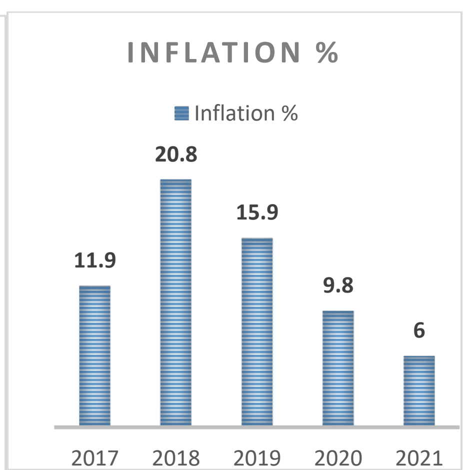
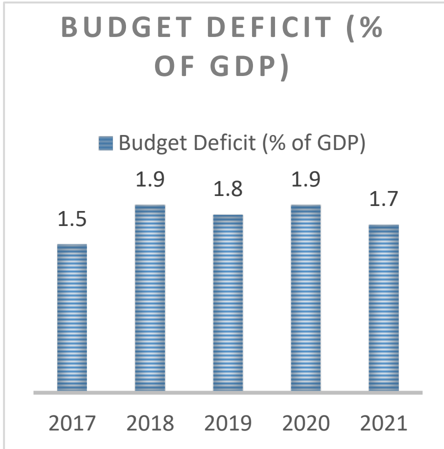


Figure 2. 16 GDP Growth Target: 2019e-2021F Source: (Turkey's Ministry of Treasury & Finance, 2019)

Figure 2. 17 Inflation % Target: 2019e-2021F Source: (Turkey's Ministry of Treasury & Finance, 2019)



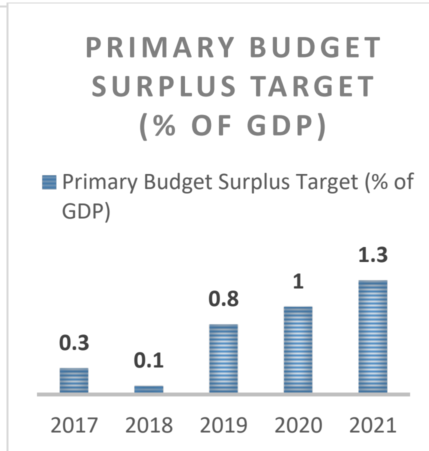


Figure 2. 18 Budget Deficit % Target 2019e-2021F   Source: (Turkey's Ministry of Treasury & Finance, 2019)

Figure 2. 19 Primary Budget Surplus 2019e-2021F Source: (Turkey's Ministry of Treasury & Finance, 2019)

The previous sections have provided a detailed background and analysis on the macro, banking and SME context in Turkey. Looking ahead, (Nazli, 2019) notes the following:

> Turkey's problems… are very real and investors will want to see no let-up in ministers grappling with them in earnest. The fear is that despite the country's dynamic legions of SME business people, blessed with a market buoyed by a relatively young population, there will be no V-shaped recovery this time around, with something like an L-shape looking all too possible and unemployment going through the roof…

Case Study 2: Malaysia

Macroeconomic landscape of Malaysia

Figure 2. 20 Map of Malaysia. Source: (Central Intelligence Agency, 2019)

Malaysia has emerged as a leading emerging economy in the past two decades. It has been hailed on its credible record on its macroeconomic structuring that rendered it an upper-middle income economy in the Asia Pacific Region. It is a very open economy which is second to Singapore in East Asia in this respect. Prior to 1957, Malaysia was a low-income, agrarian economy, whose main commodities were rubber and tin. Furthermore, Malaysia leveraged on its favorable geographic location on entrepot trading across (Pennang – George Town) and Malacca. Since its independence from the U.K in 1957, Malaysia continued to enjoy its economic prosperity and has succeeded to transform itself to a multi sector economy. Its rate of poverty declined from half of the population in 1970 to only 4% of the total population in 2010 (Yusof & Bhattasali, 2008). Effectively speaking, Malaysia was able to eradicate verily its hard-core poverty rate to 0.7% in 2009 as indicated by (Tan, 2014) .

Remarkably, Malaysia economy was able to totally divert its economy in four decades from being overly reliant on agriculture and primary commodities to one that is predominantly driven by manufacturing and services respectively. As indicated in (Figure 2.21) the agriculture sector contributed to more than one third of the Malaysian Economy (31.8%) of the GDP in 1970. Services and Manufacturing sectors contributed by (29% and only 8%) in the same decade. Moving ahead, the Malaysian Services sector almost doubled in contribution and reached 53.7% of total GDP in 2016. Interestingly, Manufacturing increased steadily from 8.8% in 1970s to 23% in 2016. Agriculture and Mining contributions shrank significantly to only 8.5% & 8.9% respectively at the end of the recorded period. Correspondingly, the majority of the employment in Malaysia is provided by the manufacturing and services sectors (Tan, 2014, p.2).

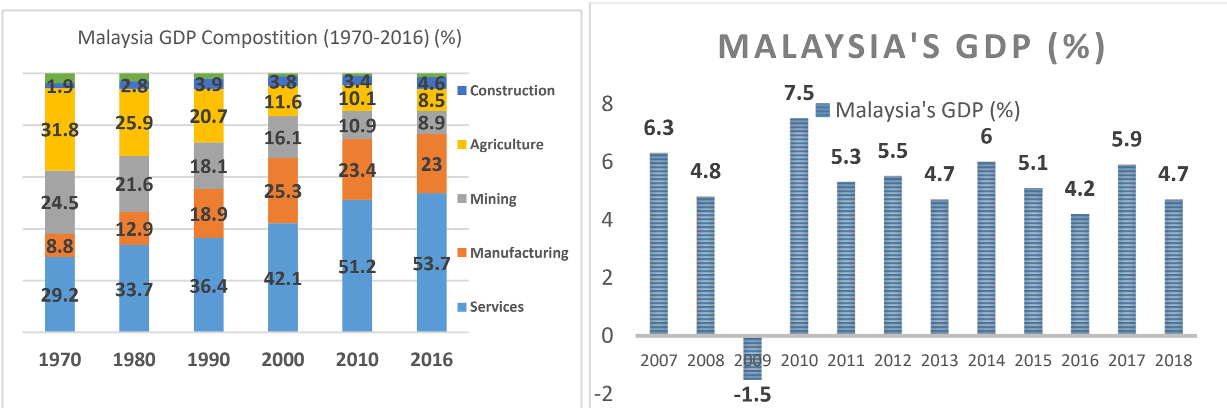


Figure 2. 21 Malaysia GDP composition and Growth Rates. Source: (Khazanah Research Institute , 2017)

As per the latest census, Malaysia ranks 34th on the world's largest economies with a heterogeneous population of 33 Million[13], its nominal GDP recorded USD 386 BN at 2019, GDP per capita of USD 11,633 respectively (Moody's Investor Services, 2019). Interestingly, Malaysia GDP per capita is on par with leading economies such as Turkey, Kazakhstan, Russia, China and Brazil respectively (Figure 2.22).

According to Prof. (LIN Yah, 2012) S-Curve theory[14] and in light of the preceeding, Malaysia would be classified as a "Horse economy" characterized by high savings rates, high investment rates, high growth rates, a fairly decent compound of EGOIN and greater market and global economic orientations (Tan, 2014). The EGOIN is a composite or compound of E entrepreneurship, G government, O human capital, I physical capital investment and N natural resources, respectively (Yah, 2012, p.2).

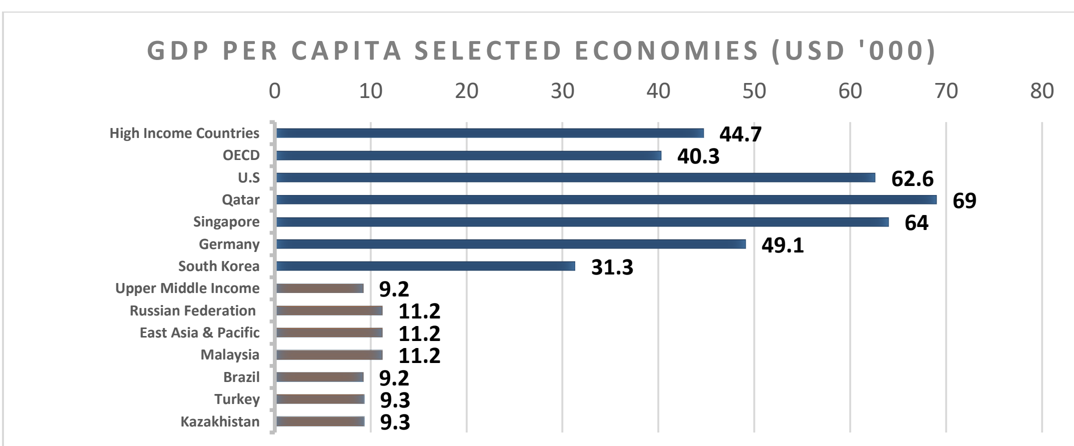


Figure 2. 22 GDP Per Capita of selected economies. Source: (World Bank, 2019)

[13] Adult Population is 22 Million. Malaysian population is a multi-ethnic society, the majority are Bumiputera, (of which Malays make up 86% of the population), Indians make 26 % and Chinese 8%.

[14] S-curve Theory classifies global economies into three categories; the Turtle, Horse and Elephants economy corresponding to low-income and low-growth economy, middle-income and high-growth economy, and high-income and low-growth economy (Yah, 2012).

The performance of the Malaysian Economy has been nothing but stellar under successive governments and leaders. The formidable results of Malaysia have been a fruit to the vigilant efforts of the authorities and policy makers over 20 years.

Malaysia Central Banks Policies; Financial Inclusion

Unlike the majority of Emerging Markets banking systems that have experienced troughs and setbacks following their transition, liberalizing and de-regulation of its banking sector, the Malaysian banking sector had no systemic crisis. Instead, it achieved the highest financial inclusion and financial stability ratios globally as stated by the (World Bank Group , 2017). Among upper-middle income countries, Malaysia was able to achieve a record of 92% financial inclusion rate for the adult population. According to Bank Negara of Malaysia (Central Bank of Malaysia), the rate of adults who hold an account at a single bank are 59% of the population, while the remaining 33% have accounts at multiple banks. This is considered to be one of the highest rates in the World (World Bank Group , 2017). In its Upper Middle-Income cluster, Malaysia fared very well over a 5-year period compared to its peers. The data in (Table 2.6) presents the percentage of adults who hold an account with a financial institution from the years 2011, and 2014. As shown, Malaysia has one of the highest percentages of adults holding an account at a financial institution moving from 66% in 2011 to 81% in 2014 (World Bank Group , 2017, p.13).

Table 2.6
Adults with an Account in Selected Middle-Income Countries- Malaysia vis a vis peers (2011-2014)

Country	GNI Per Capita	2011 (%)	2014 (%)	Delta (2014-2011) in P.P
Brazil	11,690	56	68	12
Costa Rica	9,550	50	65	15
Croatia	13,420	88	86	-2
Hungary	13,620	73	72	-1
Malaysia	10,430	66	81	15
Mexico	9,940	27	39	12
Kazakhstan	11,550	42	54	12
Panama	10,700	25	43	18
Poland	13,240	70	78	8
Russia	13,850	48	67	19
Turkey	10,970	58	57	-1
World	10,683	51	61	10

Table 2. 6 Adults with an Account in Mid Income Counties. Source: (World Bank Group , 2017)

The blueprint for the Malaysian success story has inspired International Financial Institutions to transfer its experiment to other emerging markets. In fact, the political leadership of the country played an important role in upgrading the status of Malaysia economy. In his comparative study of the structural reformations of the economy, (Khan M. H., 2002) emphasized the interventionist role of the Malaysian government in the economy throughout the decades that have been fairly consistent. The developments unfolding in the country are the result of three long-term economic transformation strategies since 1970s; the New Economic Policy (NEP), 1970:1990, the National Development Policy (NDP), 1990-2000, and the National Vision Policy (NVP); 2001:201. Interestingly, the development policies worked well and realized financial inclusion across all socioeconomic classes and ethnic groups of the Malaysian population. According to (Abidin, 2002), "the most admired feature of the Malaysian economic transformation was the socio-economic restructuring, namely reduction of poverty and income inequality" concomitantly (p.3).

To date, growth with equity remain the "guiding" principles of Malaysia development strategy. In the following section, the author will discuss Malaysia's economic transformation (in five specific episodes) into a *"high-value added"* and *"high-income*" economy respectively across four decades.

Malaysia's Economic Phases at a glance:

As summarized by (Aziz, 1996), Malaysia's economic trajectory can be summarized into three main phases; (1) Colonial Administration until the year 1957; (2) post-independence period till the year 1970; and (3) the third phase was the Consolidation phase which ran from the year 1970 onwards upon the introduction of the New Economic Program. The following table (Table 2.7) presents the highlights of each of decade following the year 1970. The development plan experience for Malaysia is divided into three phases, because each phase required a different orientation and ownership. During the pre-colonial era, the plans were formulated by the British administrators. After the independence from the British rule, the development plans were jointly formulated by local and foreign advisors (Aziz, 1996). (Figure 2.23)

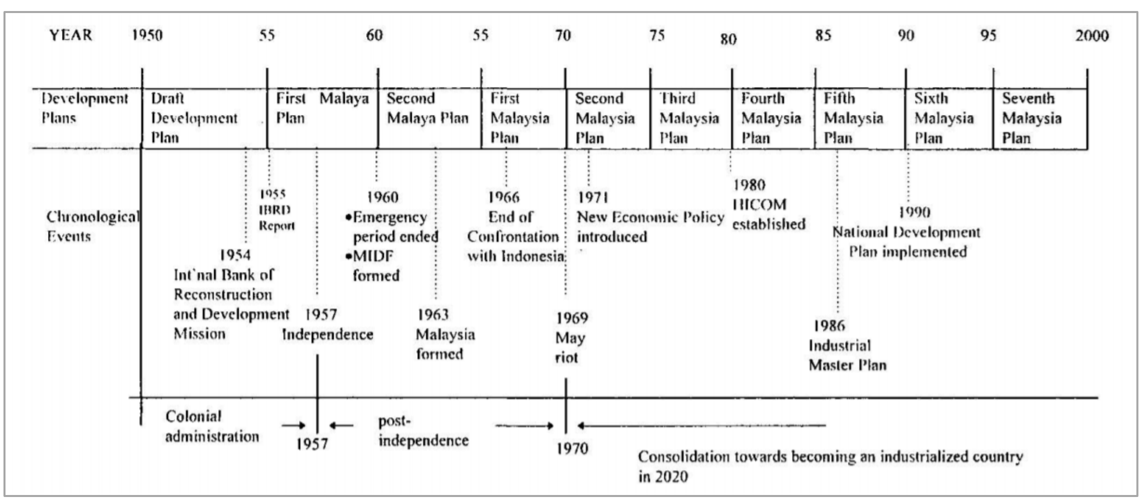


Figure 2. 23 Malaysia Development Plans and Phases. Source (Aziz, 1996)

With more details, (Table 2.7) herewith documents Malaysia economic episodes and policy variations over four eras – the 1970s, 1980-85, 1986-1995 & 2000s.

Table 2.7
Malaysia's episodes and policy variations- 1970:2000s

Era	Policies
1970s	Following the riots of 1969, Malaysia had to embark on a period of high economic growth. Malaysia transformed itself from a traditional economy into a highly industrialized country and became one of ASEAN fastest growing economies in the 1970s. The growth was fueled by strong commodity prices and the introduction of a new restructuring program dubbed as the NEP (New Economic Policy) program which incorporated (for the country's first time ever) a long term planning (20 years horizon) (Aziz, 1996). The NEP had a two pronged objective; one that focused on poverty eradication and another which focused on equal distribution of wealth irrespective of class or race. Malaysia has moved away from "prudent" macro-economic policies to bolder policies in pursuit of the NEP. Later in the decade, there was the controversial "Look East" policy and heavy industrialization policies (Hill, 2010).
1980-85	Commodity Prices started to fall causing large trade and budgetary deficits. Slower growth reduced the scope for the NEP redistributive policies. A banquet of dynamic reforms was introduced under the leadership of Dr. Mahathir Muhammad[15] (Hill, 2010).
1986-96	Economic growth rebounded and the government re-emphasized the role of privatization programs. As a result, the legacy problem of "Malaysia's labor surplus" was offset and Malaysia became a 'labor scarce" economy, unemployment rates fell sharply and migrant labor began to flow rapidly (Hill, 2010).
1997-99	Malaysia was one of East Asian countries greatly hit by the economic crisis. However, the economy rebounded and was hailed on its macroeconomic credentials. It was widely recognized that Malaysia was the only crisis-affected economy that has not received an IMF restructuring package (Hill, 2010).
2000s	The economy resumed growth, with a major economic crisis that was external. This period was characterized with much lower investment rates and a somewhat unsettled political environment (Hill, 2010).

Table 2. 7 Malaysia's Economic Episodes. Source: (Hill, 2010), (MarketLine, 2019), (Aziz, 1996)

Access to finance in Malaysia

Early on, the Central Bank of Malaysia (Bank Negara Malaysia) understood the crucial role of financing to SMEs. Unlike many emerging markets, the perception of SMEs having financing difficulties from banks in Malaysia were proven to be largely unfounded. In their research, (Haniff, Akma, & Lee, 2017) state that 97% of Malaysian SMEs were able to finance their businesses based on a survey conducted by the SME Corporation of Malaysia. The authors claim that the top 5 concerns of firms operating cited problems related to the business environment rather than financing difficulties. Other concerns related to the high cost of doing business, local currency depreciation, low demand conditions and finally sluggish business sentiment as depicted in the underlying graph (Figure 2.24). The survey

[15] Dr. Mahathir Muhammad was democratically elected as the PM for Malaysia. He served over 22 years (1981-2003) as the nation's PM. He is acclaimed to be the "Father of Modernization" for Malaysia. (Reza & Yasmin, 2019).

examined four common perceptions of SMEs borrowers related to demand and supply side considerations with respect to SME credit. The results were aggregated from FIs, the Central Bank research department, associations and chambers representing SMEs.

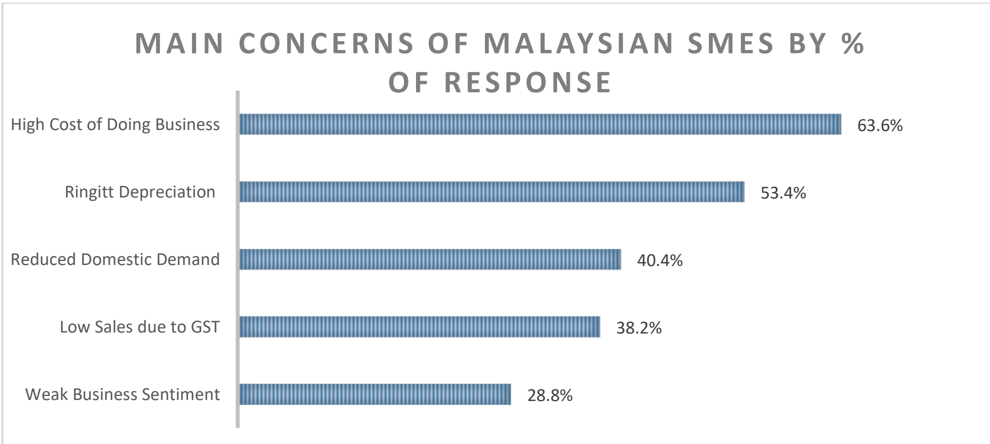


Figure 2. 24 Main concerns of Malaysian SMEs. Source: (Haniff, Akma, & Lee, 2017)

In terms of the first perception; (1) Financing is a key constraint for Malaysian SMEs, results from the bi-annual survey of the SME corporation in 2016 reveal that 97% of all SMEs applying for a loan were able to secure a facility, of which; 27% of firms were first time borrowers, and 22% of all applicants had no collateral. Interestingly enough, only 10% of respondents cited difficulties related to finance. The most prominent challenges were; (1) delays in loan approval; (2) requests for additional collateral; (3) higher pricing of loans respectively (Haniff, Akma, & Lee, 2017, p.2).

As for the supply side, SMEs in Malaysia remain the fastest growing business segment for Banks and FIs to finance respectively. In 2017, the share of Finance by FIs to SMEs over total business financing (to Large Corporates) has raised from 38% in 2010 to 49% in 2017. By contrast, the share of finance by FIs to Large Corporates decreased from 62% in 2010 to 51% in 2017. The performance of SME loans has also been remarkable. The percentage of Impaired SME loans of all SME loans has been halved over a 7-year period. The rate decreased from 7.50% of all SME loans in 2010 to record 3.2% in 2017 (OECD, 2019). (Figure 2.25)

The second perception related to SME financing discusses the loan application process. It is widely believed that loan application process is cumbersome and lengthy. This is a truth especially when banks evaluate the loan application of SME firms by applying large corporate credit standards. The stringent requirements of loan applications- typically known as the 5Cs of credit are applied [16] making the loan process difficult for SME firms. Usual documents accepted by the Credit Department from SMEs include audited financial statements, tax receipts and cash flow projections (Haniff, Akma, & Lee, 2017).

[16] The 5Cs of Credit are: Character, Capacity, Capital, Conditions and Collateral.

In 2010, new program named "Partner" was launched to streamline the process of SME banking across all banks in Malaysia. The loan application has been standardized across all banks, and the turn-around time (TAT) for loans has been effectively reduced to 7 days and 16 days (from a former TAT of almost 70 days).

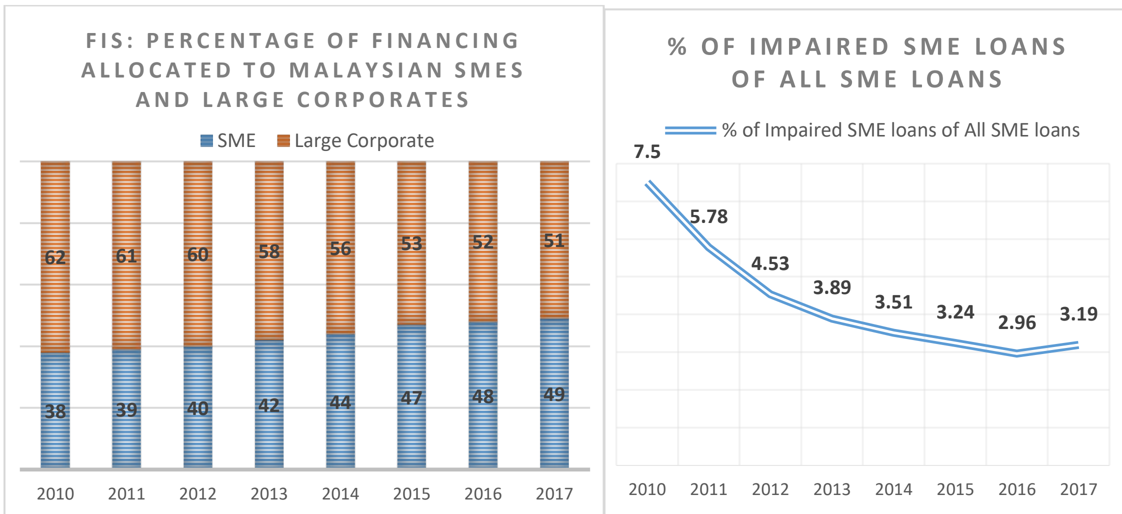


Figure 2. 25 Financing allocated to Malaysian Firms. Source: (OECD, 2019), (Haniff, Akma, & Lee, 2017)

Additional factors leading to the adoption of SME Banking include mass training of loan officers (estimated at more than 20,000 loan officers) in order to provide technical assistance to SME owners on matters such as credit matters, financial management and planning. The training process paid off as observed by (Haniff, Akma, & Lee, 2017, p.4). This is related to the third perception surrounding offering loans to newly established SMEs. Acceptance rates for SME loans for startups less than 3 years was observed to be marginally higher than the overall rejection rate for SMEs standing at 20% of total applications turned in. It is also observed from the graph (Figure 2.26), that SME firms with more years of experience, mature and stable operations and management experience and have more acceptance rates of loan applications than nascent ones.

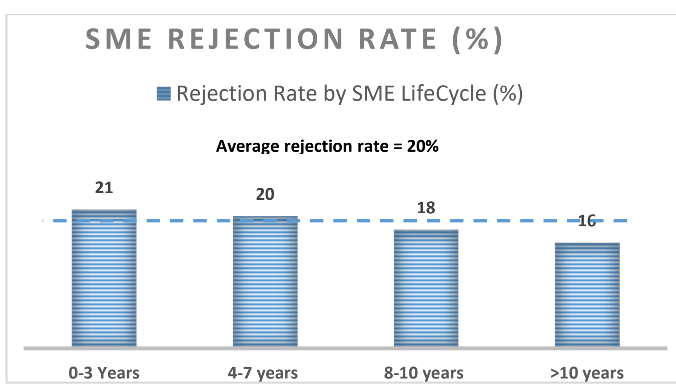


Figure 2. 26 Malaysia SMEs Rejection Rate (%).Source: (Haniff, Akma, & Lee, 2017)

The fourth perception relates to withdrawing lines or facilities during a down turn of an economy. According to (Haniff, Akma, & Lee, 2017), the survey results suggest that Financial Institutions have been accommodating and pre-emptive in giving SME *"restructuring and rescheduling" (R&R) packages* especially during times of economic down turns. The same report cites some important statistics indicating the recipients of the R&R packages (Haniff, Akma, & Lee, 2017, p.5).

- 73% of total R&R packages were for performing SME clients.
- 97% were assisted directly by FIs, while 3% of SME clients were assisted by the Small Debt Relief Scheme.
- 55% of the total R&R packages occurred during the 2008 Global Financial Crisis.

SMEs in Malaysia

SMEs represent the majority of firms in the Malaysian economy. As per the (OECD, 2019), SMEs outnumber large firms by number and employment. As cited earlier by (Malaysia Department of Statistics, 2019) & (OECD, 2019), SMEs account for 98.5% of total business establishments, with large corporates account only for 1.5%. In terms of their significance in regards to the economic context, SMEs recorded a 6.2% growth rate in 2018 versus 4 % for the entire economy. The SME contribution in dollar terms reached 38.3% in 2018 versus 37% in 2017. The annual growth and percentage contribution of SMEs in the Malaysian economy has been steadily increasing on higher rates than both; the Malaysian Economy and the Non-SME's GDP as well (Figure 2.27). As illustrated, SMEs GDP growth recorded 6.2% in 2018, while Malaysia GDP and Non-SMEs recorded a growth of 4.7% & 3.8% categorically in the same year. In nominal terms, SMEs were valued at MYR [17]522 BN IN 2018 (equivalent to USD 125BN) as compared to MYR 491 BN in 2017.

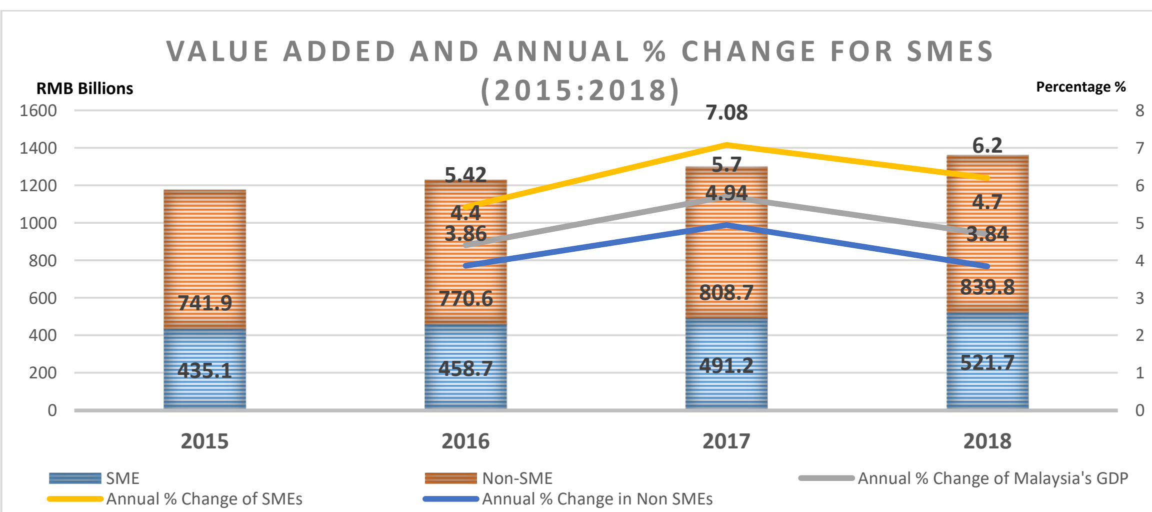


Figure 2. 27 Value Added and Annual Change in SMEs. Source: (Malaysia Department of Statistics, 2019)

[17] MYR (Malaysian Ringgit = 0.24 USD) at 2019.

In terms of economic activity, the Malaysian SMEs were actively involved among different economic sectors with everything from manufacturing, to mining and quarrying, agriculture and notably services. According to (Figure 2.28), the Services sector witnessed the highest and most consistent growth over the three-year period (2016:2018). In 2018, Services grew to 8.1% in 2018 from 7.2% in 2017. Mining, Manufacturing and construction slightly slipped to 6.9%, 5.5% and 4% in 2018 respectively.

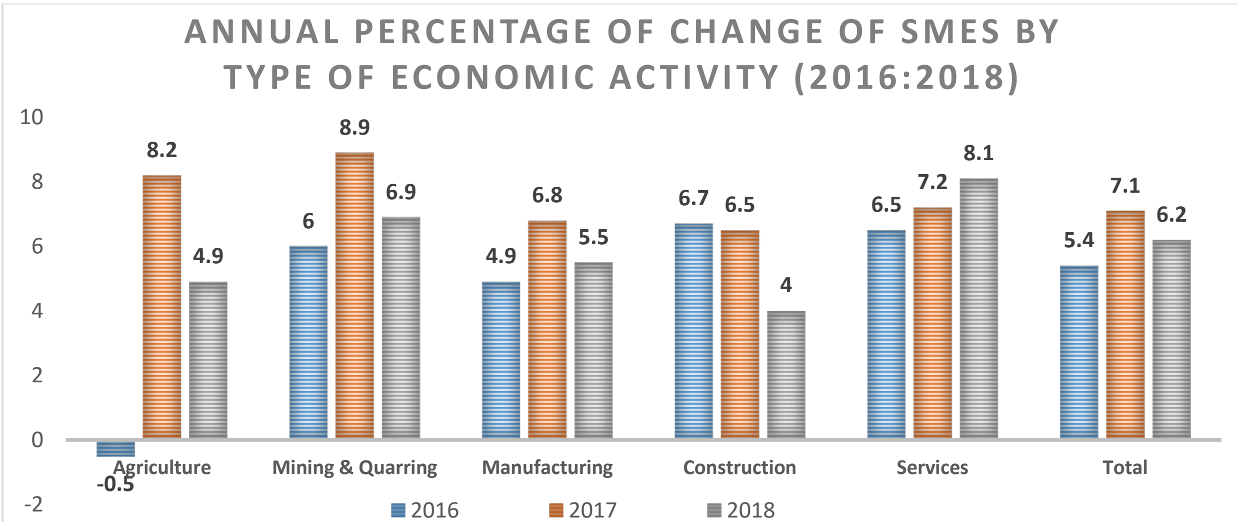


Figure 2. 28 Annual Percentage of Change of SMEs by Economic Activity. Source: (Malaysia Department of Statistics, 2019)

Measures taken by the Government of Malaysia to support Finance to SMEs

The preceding sections highlighted the Malaysia Economic development programs post the independence of Malaysia in 1957 to date. The efforts have clearly led the country to become an efficient high-income country with the aid of International Financial Institutions. The author will now assess the measures taken by the Government of Malaysia to strengthen Finance to SME post the Asian Financial Crisis of 1997-98. The Government of Malaysia recognized early on the need to foster the overall climate for the SME sector to grow. As such, the following initiatives were taken by the authorities to expand financial inclusion (World Bank Group , 2017):

1. **Market Consolidation**, bringing the number of banks into fewer banks with a larger capital base.
2. **Amending the BNM mandate** to effectively regulate the market and ensure financial inclusion is on top of its priorities.
3. Reforming three of its foremost banks; **(Rakyat Bank, BSN, Agro Bank**).
4. In pursuit of the **BNM vision for the country to build a cash-less society**, Malaysia is leveraging on the wide mobile and internet usage of its population.

5. Since its inception, **the National SME Development Council (NSDC) was established** in 2004 to set strategic direction for SMEs and promote the growth of SMEs across all segments (OECD, 2019). Measures include adopting a single definition of SMEs, building a solid database, and most importantly, developing SME financial infrastructures, and the formulation of the SME Masterplan. The later will be discussed broadly in the forthcoming section.
6. Other measures include **strengthening the prudential role of the BNM** in line with international regulatory and supervisory standards of Central Banks.
7. **Boosting financial literacy, leveraging technology and introducing new financial products** to cater to this buoyant segment.
8. Most recently, policy focus of authorities has been channeled to further expand the non-bank possibilities for SMEs. **More financing alternatives to SMEs** include equity crowd funding, Peer to Peer lending (P2P) and Investment Account Platforms (IAP)[18] (p.23)

It was evidenced that the aforementioned measures built Malaysia banking system into a resilient and an increasingly "market-oriented" sector as per the (World Bank Group , 2017). The author will discuss the major reforms executed under the financial sector development; the Financial Sector Master Plan (2001-2010) and the Financial Sector Blue Print (2011-2020). The Government of Malaysia took the reforms seriously and have closely monitored the execution of carefully sequenced plans, well-articulated goals and objectives by all stakeholders and in specific, the BNM.

Banking Sector Consolidation

In two decades, the banking sector of Malaysia underwent a series of transformations. In 1997, there were a total of 77 banks and 55 different insurance companies. In addition, the sector was overly reliant on corporates and the bond market was largely under-developed. Furthermore, the profitability and capital structure of the banking sector was low compared to its peers in other ASEAN countries. The following (Table 2.8) presents the main characteristics of the Banking sector pre the Asian crisis and after the implementation of the Financial Sector Master Plan (FSMP) in 2010.

Table 2.8
Evolution of Malaysian Banking Sector (Pre-Asian Financial Crisis 1997) vs. After Implementation of FSMP (2010)

Pre-Asian Financial Crisis (1997)	After Implementation of FSMP (2010)
Fragmented Market with 77 domestic banks, and 55 domestic insurance companies.	Consolidation and rationalization of Banking industry with only 34 banks and 37 domestic companies.
Less developed bond market and over reliance by corporations on banking system financing.	Diversified financial sector with liquid securities. Strategic Alliances with Foreign Institutions.

[18] Relies on matching investment funds to new venture backed on Islamic Finance.

Rigid and perspective rules-based regulation and supervision.	Robust Surveillance, regulatory and supervisory framework. Corporate Governance and ERP practices in place.
Limited prominence of Islamic Finance.	Malaysia as the world's hub of Islamic Finance.
Limited Financial Access and limited consumer protection mechanisms.	Efficient delivery changes and broad range of financial products. Comprehensive consumer protection framework.

Table 2. 8 Evolution of Malaysia's Banking Sector. Source: (World Bank Group , 2017)

Recognizing the current state of Malaysia's banking sector and its need for sweeping changes, the authorities worked on three strategic thrusts; (1) strengthening enabling infrastructure; (2) building capacity & capability; (3) enhancing access to finance. (SME Corp Malaysia, 2012).

As a result of these efforts, indicators for the banking improved significantly. In ten years (2001-2010), profitability of the banking sector in addition to capitalization ratios have increased. For instance, it was noted that the ROA of the industry has increased from 1.1% to 1.6%. ROE also increased from 13.3% to 16.7% in 2010. Similarly, NPLs slid from 9.2% to 2.6% respectively. It has been also that two of the leading banks in Malaysia; MayBank (Malaysian Banking Berhard)[19] and CIMB are now one of the largest and most profitable banks in the ASEAN region. As per (Moody's Investor Service, 2019), the total asset size of MayBank stood at USD 199 BN[20] at the end of March 2019. CIMB total asset size stood at USD 135 BN[21] at June 2019.

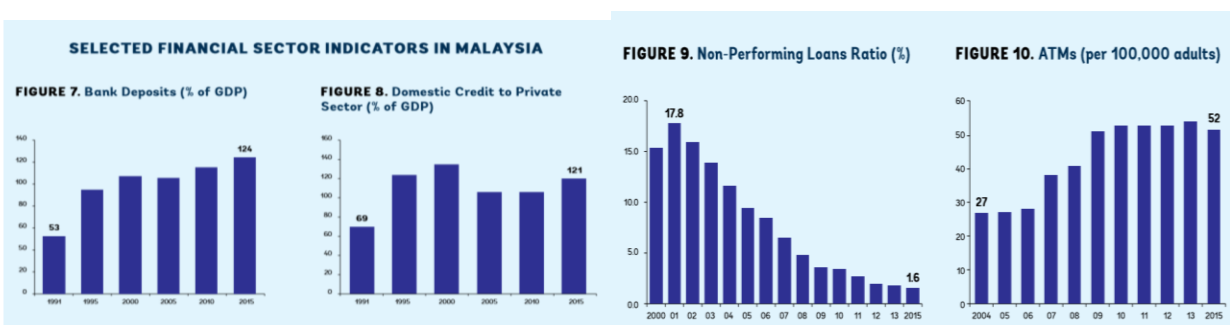


Figure 2. 29 Selected Financial Sector Indicators in Malaysia. Source: (World Bank Group , 2017)

[19] May Bank: Malayan Banking Berhad (Maybank) is the largest financial services group in Malaysia in terms of assets. The bank held a market share of 18% in system loans and deposits as of the end of March 2019. As at December 2018, the bank had 2,500 branches in 18 countries around the world.

[20] Figures are based on consolidated financials as at Q1 2019 as reported by (Moody's Investor Service, 2019).

[21] CIMB is the country's fifth largest bank by asset size. As at June 2019, the bank distributed products to 8 million customers throughout Malaysia. (Moody's Investor Services, 2019)

Case Study 3: Brazil

Macroeconomic Landscape of Brazil

Figure 2. 30 Map of Brazil. Source: (Central Intelligence Agency, 2020)

The only Portuguese speaking country in Latin America, Brazil became an empire in the 19th century. In terms of geopolitical influence on the international scene, it was minimal back then. Today, its strategic weight is changing rapidly. Today, Brazil is the world's 9th largest economy in and 8th largest by PPP (Purchasing Power Parity). Its GDP stands at USD 1.8 TRN with a GDP per capita of 8,967 USD (an upper-middle income country) by the latest census of (IMF, 2020) making it rank at 73rd globally. Brazil is considered an advanced emerging economy of the largest share of wealth created in Latin America. It is one of the BRICS countries (Brazil, China, India, Russia, and South Africa) and is hailed as a country of rising economic and political influence on the global scene (Plecher, 2020). In terms of size, Brazil is the largest country in South and Latin America covering more than 8.5 million square meters. Additionally, Brazil is a well populated country of over 200 million inhabitants. Its topography is dominated by a large eastern coastal line, the Amazon River and the World's largest rain forest (The Heritage Foundation, 2020). Brazil is a huge, diversified and complex country. In terms of its resources, Brazil enjoys an abundance of natural commodities such iron ores, manganese, gold, diamonds, oil and other industrial metals. Additionally, Brazil leads the world in agriculture production of soy beans, coffee and beef (Plecher, 2020). Despite the country's great achievements, it has been commonly accepted by researchers that the country has fallen short of its potential. Endowed with a young entrepreneurial population, and massive natural resources, Brazil anchors its place on a high-middle income country with a highly skewed income distribution (Amann, Azzoni, & Baer, 2018).

A Turbulent Past

For a long time, Brazil has been vulnerable to the "natural resource curse" or the "Dutch Disease" as some economists have labelled it. The largest economy in Latin America witnessed successive booms and busts, namely due to the reliance of its economy on commodity exports. In the 16th century, Brazil became the world's largest producer of sugar cane. However, a century later, this has not been sustainable as it was outplaced by the Caribbean as a sugar producer (Loman, 2014). In the 18th century, due to a major discovery in Minas Gerias, Brazil became the world's largest producer of Gold, but again, the boom of Brazil has proven to be temporary. As (Loman, 2014) highlights, the mother of all booms for Brazil was that of coffee that started in the 19th century. It was the rapid demand on global coffee that made Brazil's economy boom for three decades to date. Brazil accounts for more than 75% of all coffee produced globally. Due to a contraction in global demand, prices of coffee fell and Brazil's economy fell into a strong depression. The economy soon bounced back between1930-1931. Following WWII, Brazil implemented the import substitution program. In the 1970s, the country enjoyed high rates of growth and made substantial investments in industry and infrastructure to support the economy respectively. According to (Loman, 2014), "people started to talk about the "Brazilian Miracle" (p.1). The strong growth of the Brazilian Economy came at the expense of the equality between its citizens. Legacy factors such as concentrated land ownership and slavery left a large portion of the population socially disenfranchised and financial excluded. (Loman, 2014).

The 1970s oil shock also took its toll on its Brazilian Economy. At that time, Brazil imported 80% of its oil consumption. In one year, its import bill doubled from USD 6.2 BN in 1973 to 12.4 BN in 1974. In order to finance its trade and budget deficit, Brazil by borrowed large amounts of petrodollars. As the economy picked up and global interest rates rose significantly, IFIs were adamant to lend Latin Americas countries. Huge problems ensued from the indebtedness of Brazil. As (Loman, 2014) elaborates, debt service equaled 83% of Brazil's exports earnings in the year 1982. The unsustainable levels of debt caused political instability, and the military dictatorship was overthrown in 1985 (ending 20 years of rule) and was replaced by democracy. Thanks to that, social inclusion became a new priority for the government (p.1).

The new elected government wasn't able to restore the debt and accompanying high interest rates. Devaluation of the currency, interest rates, and wages ran totally out of control. Several attempts were introduced by the government to anchor inflation in the 80s and 90s but repeatedly failed. Hyperinflation crippled the country's economic progress and was detrimental to Brazil's economically vulnerable context.

Recently, Brazil has been able to transform its economy to a well-diversified, highly competitive one founded on value added manufacturing, tourism and services industries. (Tutor2U, 2020). Correspondingly, the transformation in its socioeconomic scene can be exemplified in a few numbers. In the early 1900s, Brazil's population was 17.4 million and has now reached 200 million. (Baer, 2008). In 1940, Brazil urban population was 30% of its population. Over decades, this proportion has increased from 56% in 1970 to over 90% in 2006.

New Leadership and Brazil Rise to a Major Economy

After a century of anemic growth, its GDP per capita grew on annual basis by 2.5% from (2003-2014) almost three times as much as the previous government (1995-2002) (Weisbrot, Johnston, & Lefebvre, 2014). It is also noteworthy to acknowledge the efforts of the government and its leadership under Lula De Silva and Dilma Rousseff to reduce poverty and inequality rates and expand in social solidarity and government spending programs. During that decade, Brazil became one of the World's fastest growing major economies. Following the rise of Workers Party to power in 2003; poverty has been reduced from 35.8% to 15.9% in 2012. Also, abject poverty has been nearly eliminated from 15.2% to 5.3% over the same time. Notably, and as per (Weisbrot, Johnston, & Lefebvre, 2014), 31.5 million citizens have been lifted from poverty, out of which 16 million were living in abject poverty. Moreover, the agriculture proportion of the GDP has gone from 28% in 1947 to 8% in 2005 to less than 5% in 2018. Industry contribution to GDP has gone from 20% in 1947 to 40% in 2005 (Baer, 2008).   As illustrated in (Figure 2.31), Brazil's economy is dominated by the services sector (76% of its total GDP), followed by the industrial sector (18.5%) and finally the agricultural sector (5.5%) (Instituto Brasieleiro de Geografia e Estatistica, 2020).

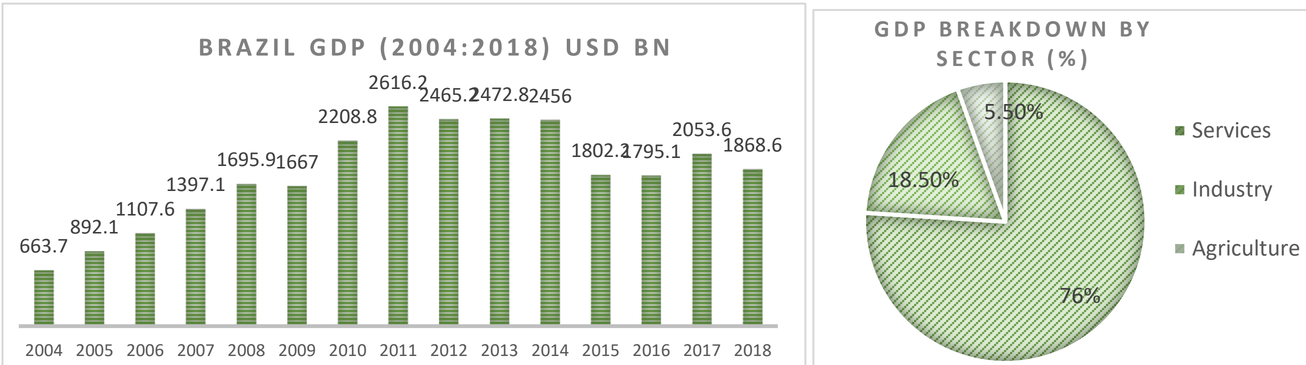


Figure 2. 31 Source: (Moodys Investor Services , 2020) (Instituto Brasieleiro de Geografia e Estatistica, 2020)

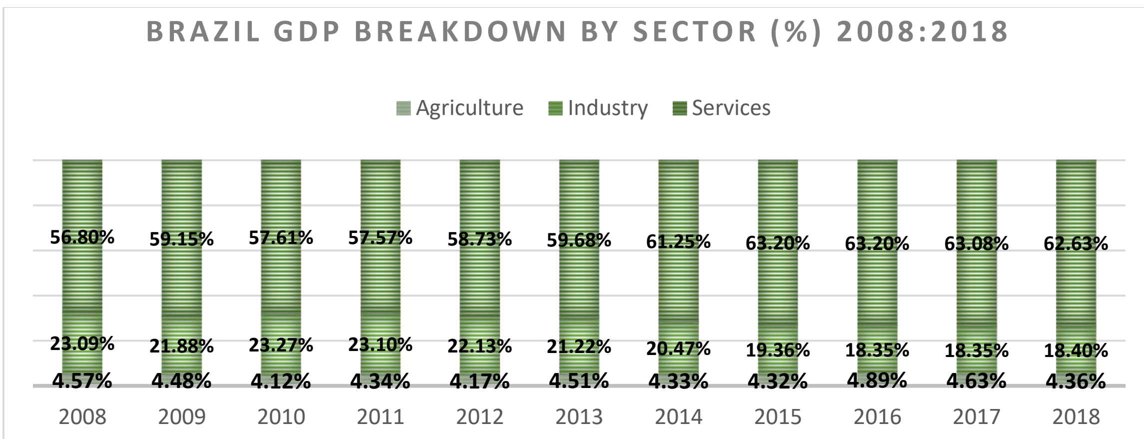


Figure 2. 32 Brazil GDP Breakdown 2008:2018. Source: (Plecher, 2020)

Brazil's Economic Phases at a Glance

More than 20 years have passed ever since Brazil embarked on the "Real Plan", or its macroeconomic stabilization program. For Brazil, it is important to trace the major transformation that led to the development and adoption of new economic policies and ideas. Its institutional reforms and its transition to a middle-income economy offers many insights to emerging markets policy makers and scholars respectively. According to (Afonso, Araujo, & Fajardo, 2016), since its independence in 1822, Brazil has gone through different phases of self-rule; an empire and later on a Republic. Central to its transformation has been the political organization of its states, whereby federal states played a very important role. As (Afonso, Araujo, & Fajardo, 2016) remark, the federal governments developed the cities own infrastructure, railways, and banks. Over the course of time, the distribution of power between institutions shifted from autocracy and democracy, from a fully centralized government model to a decentralized one at the municipal and fiscal levels. It is noteworthy to mention that a military government was instated in Brazil and restructured the nation's institutions (banking, taxation, and administration) and their way of governance which is still operating in the same manner to date. The 1960s, the military government took the opportunity to undertake major structural changes to public finances and have in tandem, created new institutions that are solid and close in theory to other countries (and didn't need the intervention of multi-lateral institutions). It is also known that the 1960s was a period were fiscal policies underwent drastic change. During that period, specifically in 1964, Brazil's economy recorded the highest inflation rate, (25 % per quarter, estimated at 144% per year).

As a result, in 1964, the Government of Brazil launched an all-inclusive reform program (Plano de Acão Estratégica do Governo–PAEG) (*Government Economic Action Plan*) aimed at anchoring inflation and stabilizing the economy. The implementation of the plan has been successful since any reform (in terms of modernizing capital markets, encouraging savings, had to come secondary to fighting hyperinflation as noted by (Simonsen, 1970). In Brazil, inflation was mainly driven by; (1) rising government expenditure (by taxes levied on households, and corporations); (2) the divergence between consumption (policies relates to the minimum wage) and (3) investing (policies related to the credit expansion for companies) (Resende, 1989). As such, the recipe for controlling inflation was through limiting the raise in real wages associated with rises in productivity in addition; to controlling credit policy to prevent cost post inflation effects (Afonso, Araujo, & Fajardo, 2016). Also relevant to the situation of Brazil's economy at that time was what was termed as "institutional strangulation", i.e. the presence of unfavorable institutional framework which was unconducive to economic growth. Factors such as job policies that discourage employment, low return of long-term financial assets, an overall weakness of the financial system, and a high propensity to public deficit. In this regard, the PAEG was instrumental to treat the ailing symptoms of the Brazilian economy. The reform program focused on three priorities; (1) finance; (2) taxation & the (3) external sector (Afonso, Araujo, & Fajardo, 2016). The objective of the said program was to focus on long term financing without the effects of inflation of the public sector and to take back private sector investment to the core of economic development. As the authors (Afonso, Araujo, & Fajardo, 2016) describe, the Government of Brazil created an index linking program, under which public debt was issued in National Treasury Adjustable Bonds (Obrigacões Reajustáveisdo Tesouro Nacional–ORNT) and private debt came under the capital market. The preceding had a positive effect in the financial development of Brazil and later the development of the economy. First, it protected savers from inflation. Second, compulsory saving mechanisms were created together with the Central Bank of Brazil (BCB) and later the National Monetary Council (Conselho Monetário Nacional – CMN) (Afonso, Araujo, & Fajardo, 2016).

The Magnitude of the Problem

While these measures were successful in the long term, it introduced another set of problems. On the one hand, Brazilians lived with hyperinflation. On the other, banks competed for deposits and began to expand all across Brazil. The majority of banks operations and balance sheets were directed to finance public debt purchases (Amann, Azzoni, & Baer, 2018). It was highlighted that by the early 1990s, the "inflationary revenue" of banks accounted for 4% of GDP (almost 40% of revenues from financial intermediation). Later on, it fell to 2% of GDP in 1994 and 0 % in 1995. Losses of banks from the years 1990-1993 were estimated at R13 billion (Maia, 1999). A plan was put in place to overhaul the economy and stop further losses.

Table 2.9
Inflationary Revenue of Banks (1990:1995)

Year	As % of GDP	As % of Bank Value Added
1990	4%	35.7%
1991	3.9%	41.3%
1992	4%	41.9%
1993	4.2%	35.3%
1994	2.0%	20.4%
1995	0%	0.6%

Table 2. 9 Inflationary Revenues of Banks. Source: National Accounts of Brazil 1990:1995. (Maia, 1999)

A New Start: The Real

The restructuring of the financial system started with the implementation of the Real in 1994. The plan was introduced by “Henrique Corduso”, who later became president of Brazil, had a vision of opening up the economy and ending the currency peg (Loman, 2014). The changes in the institutional framework in the financial market focused on strengthening the role of the regulatory agencies and coordinating between them (Filho, Macahyba, & Zeidan, 2014). The introduction of the Real plan also altered the composition of the National Monetary Council (CMN). Until the year 1994, there were twenty members of the said council, of which seven were from the private sector. After that, there were only three members; the President of the Central Bank, the Minister of Finance, the Minister of Planning respectively (Filho, Macahyba, & Zeidan, 2014). The CMN enacted 154 resolutions that changed the landscape of the financial market. The creation of the COMOC (Money and Credit Council) in addition to the COREMEC (Committee of the Surveillance and Regulation of Financial Markets, Capital Markets, Insurance, Pension Plans and Capitalization) had a dual mandate of aligning the objectives of CMN members in addition to the supervising and regulating major financial market participants; financial institutions; pension funds, issuers of securities, and portfolio managers (Filho, Macahyba, & Zeidan, 2014).

The Role of IFIs

It is important to emphasize the role of IFIs in restructuring the Brazilian financial system. As evidenced by (Filho, Macahyba, & Zeidan, 2014), it was clear to the Brazilian decision makers to apply international standards of public finance and good management. The IMF, World Bank, Bank of International Settlements were instrumental in providing technical assistance and advisory services to governmental officials who would later become champions in advocating the reforms. With this organizational restructuring and changes in financial architecture, Brazil financial market entered two phases of transformation: i) the restructuring of the banking system; (ii) the process of change in the public debt. The results were positive on the following fronts.

Inflation rates dropped from 2,477 % in 1993 to 9.5% in 1999. With the introduction of the Real, this didn’t mean that currency and economic volatility ended. The current account of Brazil suffered a deficit and needed constant FDIs to finance its economy. Moreover, it hiked interest rates to curb inflation and to attract capital. On the medium term, there was a deterioration in the fiscal balances, the problem has further exacerbated when the financial crisis hit Asia and Russia, where by foreign currency availability was greatly reduced.

With the currency stabilization, hyperinflation ended and banks were forced to retrench and redirect their financing activities. As (Maia, 1999) presents in his paper, the new financial plan was phased into three overlapping phases. The first phase started off with the introduction of the Real and the reduction of a number of banks. The second phase marked the implementation *of the Programa de Estímulo à Reestruturacão e ao Fortalecimento do Sistema Financeiro Nacional (Programme of Incentives for the Restructuring and Strengthening of the National Financial System)* PROES in November 1995 and the *Programa de Incentivo ã Reducão do Setor Público Estadual na Atividade Bancária* PROER (similar, but for the state-owned financial system) in 1996. The third and contemporary phase involves the entry of the foreign banks in the market.

The first phase was characterized by strengthening Brazil’s Central Bank (Banco Central do Brasil (BCB). During that, the BCB assumed greater supervisory responsibilities and discretionary authorities’ powers on the overall financial market. The second phase known involved PROES and PROER, together were to protect the interests of depositors and to manage the shareholding structure of troubled banks. The third phase opened the banking industry for foreign institutions and was far reaching in terms of achieving its desired goals of restructuring the banks (Maia, 1999). In 1999, Brazil was forced to make policy changes. As (Loman, 2014) contends, Brazil floated the Real and sought an IMF package. In tandem, the country has launched the Fiscal Responsibility Law in 2000. The following section will describe in detail the restructuring of the Brazilian financial system.

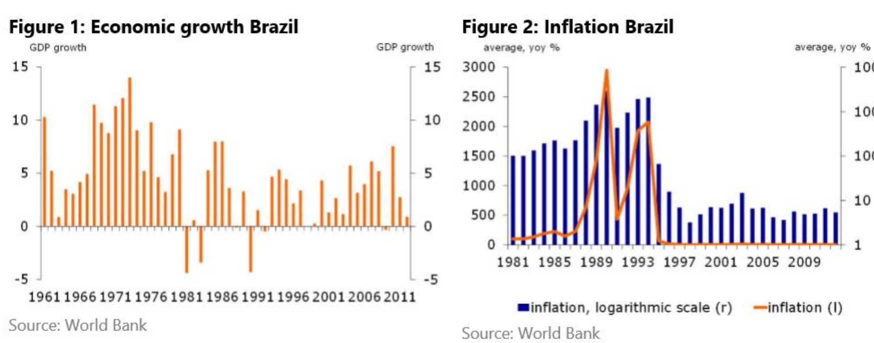


Figure 2. 33 Brazil Economic Growth (1961:2011); and Inflation (1981:2009). Source: (Loman, 2014)

Financial Development Plan after the Real

Until the mid-2000s, credit in Brazil was characterized by two main features, scarcity and volatility (Filho, Macahyba, & Zeidan, 2014). Bank loans and private credit indicate these two features.

Between the years 1996 to 2004, total loans to GDP went from 24.3% to a maximum of 33.3%. In comparison to other industrialized nations, this ratio was considered low (Filho, Macahyba, & Zeidan, 2014). In tandem, the bond market was particularly small. Corporate Bonds percentage to GDP ranged between 1.8% and 3% of GDP.

An important characteristic of the credit market was the cost. Due to the hyperinflation, the interest rates of charged by the Central Bank of Brazil (Selic) were 12 percentage points ahead of inflation (accumulated over a period of 2 months). It was also noted that Brazilian spreads were amongst the highest in the world (Filho, Macahyba, & Zeidan, 2014).

Another dominant characteristic of the economy at that time was the role played by the largest three[22] state-owned banks. Effectively speaking, the total assets of the 10 major banks in the country at the period (1995-2014) grew from 71% to 89%. Taken alone, the shares of the state-owned banks grew from 34% from 2008 to 47% at 2012 end (Filho, Macahyba, & Zeidan, 2014).

The final characteristic of the market back then was the credit earmarked to long term investments. As (Filho, Macahyba, & Zeidan, 2014) highlights, most of the investments were directed to housing, infrastructure and industry. The tenor of these loans and costs were mostly long term and were set irrespective to the market conditions at that time which were mostly short term.

Looking at the financial market in Brazil, it’s important to point out that it’s remarkably different than what it was in the early 2000s. As illustrated in the following graph (Figure 2.34), in 2004, domestic credit presented only 29% of GDP, and it was low compared to countries like Chile, South Africa and Malaysia and developed markets like the US, UK. Later on, and in fourteen years’ time, Brazil doubled its domestic credit to GDP surpassing 60%. Given the massive size of the Brazilian economy and its potential, the author acknowledges that the percentage is low compared to countries like Malaysia, China, Chile, and Turkey. Effectively speaking, the problem of scarcity and volatility was no longer the case of Brazil. The next graph, (Figure 2.35) illustrates the contribution of household loans, corporate and housing to GDP.

[22] The three largest Brazilian Banks were: Banco Brasil (BB), a commercial bank with a main focus on the agriculture sector, Caixa Economica Federal (CEF); a commercial bank financing housing, and thirdly comes, Banco Nacional do Desenolvimento Economico e Social (BNDES) with a focus namely on infrastructure and the industry sectors.

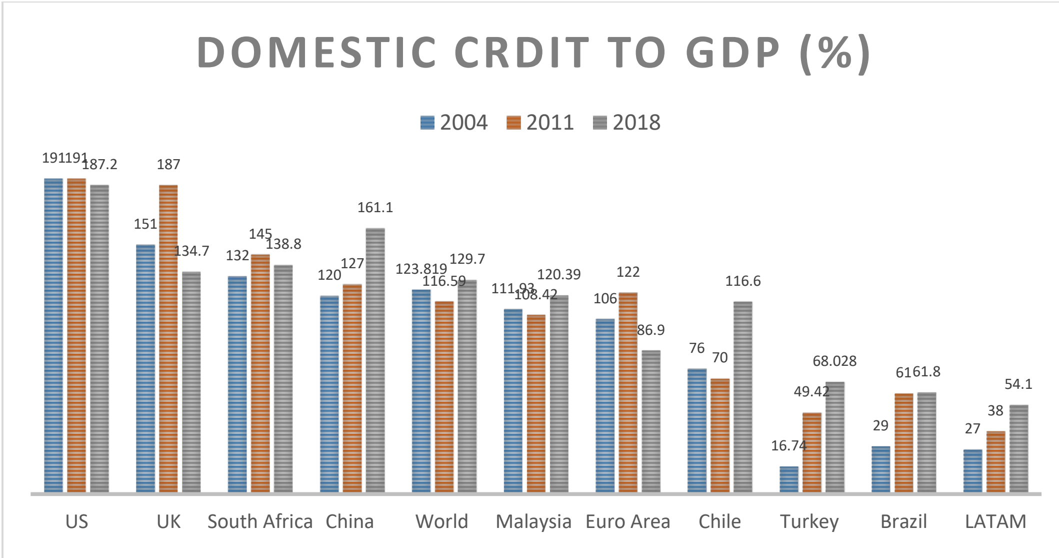


Figure 2. 34 Domestic Credit to GDP (%). Source: (World Bank , 2020)

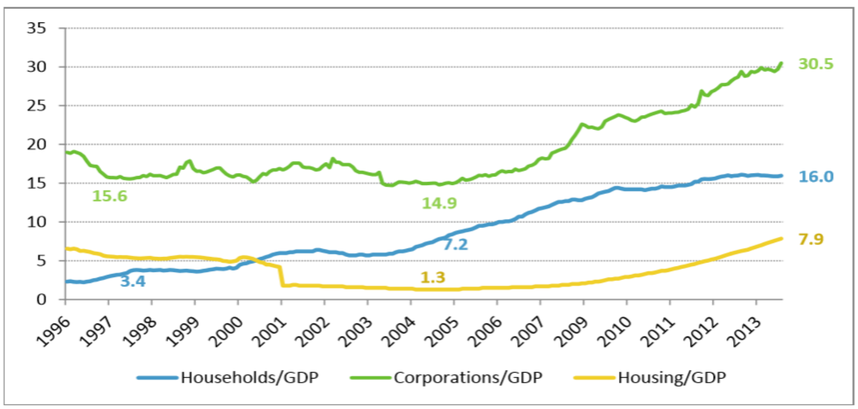


Figure 2. 35 Outstanding Bank Loans for Corporations, Households and Housing (in %) of GDP. Source: Central Bank of Brazil. (Filho, Macahyba, & Zeidan, 2014)

Until 2004, the demand for Households and Housing loans were subdued due to challenging macroeconomic conditions and in particular, the high interest rates. This explains why the bank loans to GDP were low. Since that time as (Filho, Macahyba, & Zeidan, 2014) discuss, an enhancement of macro-economic conditions, namely, GDP/ Capita, the diffusion of new financial products and the confidence of the population to take more leverage on their incomes were behind the rising level of credit in the market. From the supply side, the interest rates of banks steadily decreased and allowed for more expansion in credit. Innovations like payroll also helped banks decrease their risk aversion. Moreover, and it is important to acknowledge that the expansion of credit in Brazil would have not been possible have it not been for the recovery of the financial system from the crisis of the 1980s and 1990s and its resilience to accommodate growth.

In terms of corporate loans, unlike the patterns exhibited by household and housing loans respectively, growth was not triggered by the fall of interest rates. During the period 1996-2005, corporate loans to GDP maintained the same percentage standing at 15% of GDP (Figure 2.35). From the year 2006 onwards, it peaked to 30% of GDP. The sharp increase of credit was partially due to the increase of the average maturity of loans from 6 months to more than one year of tenor (Filho, Macahyba, & Zeidan, 2014).

From the observations on the Capital structure of the Brazilian Banks, we could conclude that the banking system was highly liquid and prevented asset deterioration in parallel to the credit expansion. As shown in the following graph, Brazil has one of the world's highest Basel Ratios.[23] (Figure 2.36)

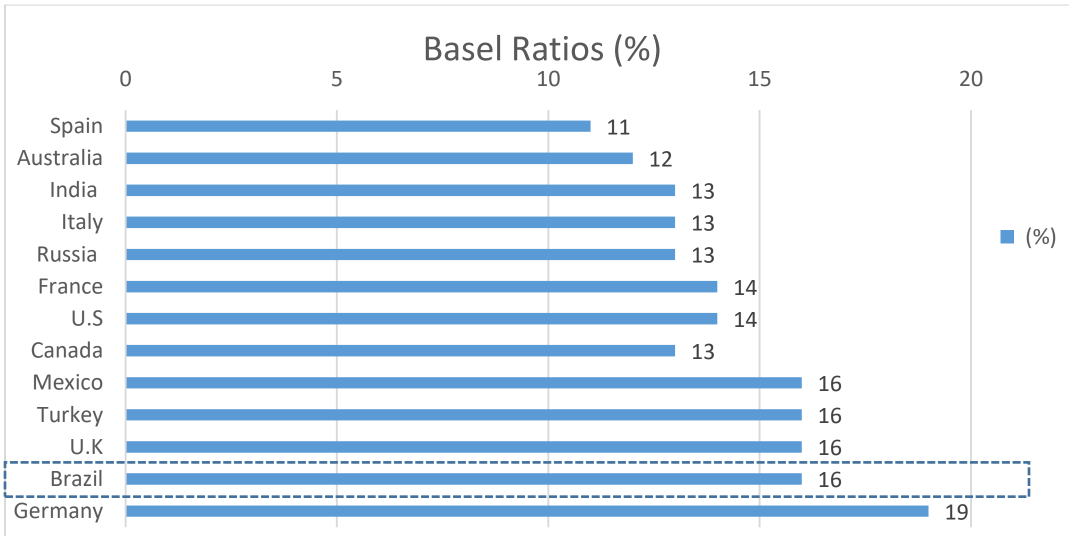


Figure 2. 36 Selected Basel Ratios (%). Source (Filho, Macahyba, & Zeidan, 2014)

Notwithstanding and to further illustrate the conservative nature of the Banking system, Brazilian financial institutions have the highest ratio of liquid assets to short term liabilities in the world. As illustrated in the next graph (Figure 2.37), on average, a portfolio of liquid assets is 1.64 times greater than its short-term liabilities.

[23] Basel Ratio is the ratio between the level of regulatory capital and the asset portfolios. The higher the ratio, the lower the degree of leverage of the bank.

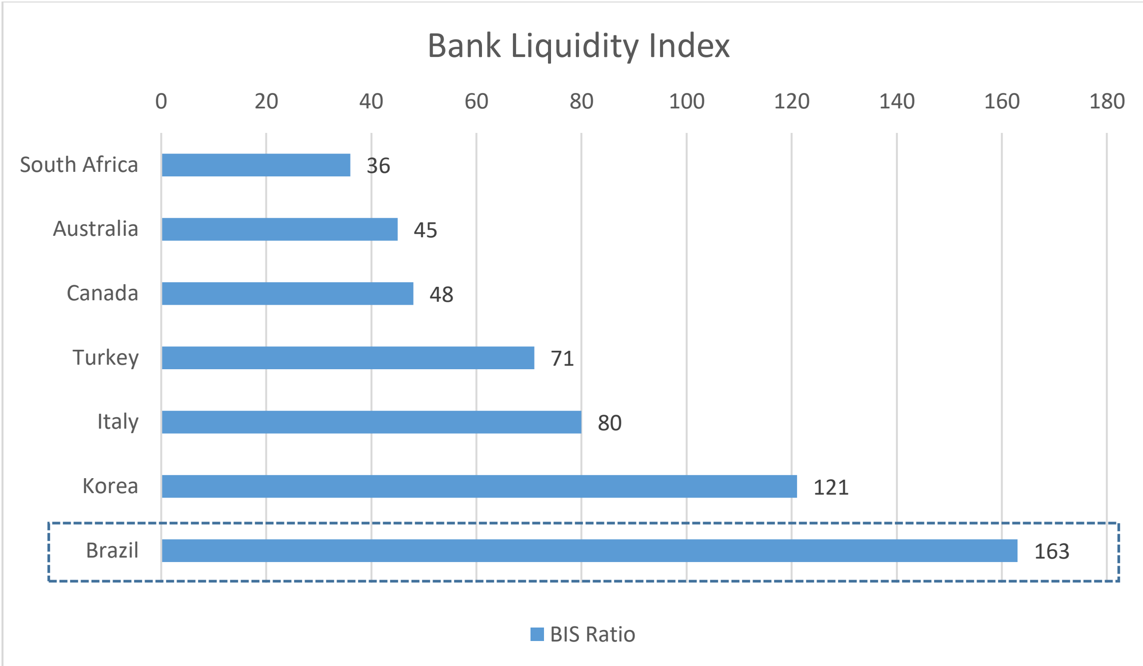


Figure 2. 37 Bank Liquidity Index. Source: (Filho, Macahyba, & Zeidan, 2014)

Having presented an overview of the Brazilian Banking system, the author will move to the role of the Central Bank of Brazil and the Global Financial Crisis.

The Crisis of 2008 and the Role of the Central Bank.

The financial crisis of 2008 had its toll on the Brazilian economy. Growth in Credit lines neared zero (0%) to important sectors in the economy such as sugar, ethanol and beef respectively. The problems were mainly triggered in the long term standing of loans and the relative positions of banks to derivatives. As (Filho, Macahyba, & Zeidan, 2014) highlight, due to the devaluation of the currency, banks couldn't accurately estimate the losses on balance sheets. Credit almost dried up in the interbank market and thus, the Central Bank had to intervene to rescue smaller banks.

The corporate sector was comparatively more resilient to the negative impact of the financial crisis. The experience that the corporate sector gained during the previous two decades preceding the financial crisis shielded most of the companies from the lack of liquidity. Corporates increased the cash liquidity ahead of the collapse of Lehman to ensure to mitigate foreseen risks in the event of deepening of the crisis (Filho, Macahyba, & Zeidan, 2014).

It is important to acknowledge the pivotal role of private and state-owned banks to manage crisis in Brazil. As shown in the following figure, (Figure 2.38), from a supply point of view, credit from the year 2004 to 2008 was led by local private banks. As the authors (Filho, Macahyba, & Zeidan, 2014) state, the balance sheets of these banks were sufficiently liquid and well capitalized. Furthermore, state owned banks were lagging behind in introducing new financial products. It was until the global crisis that credit by state-owned banks began to expand in credit and superseded local private banks.

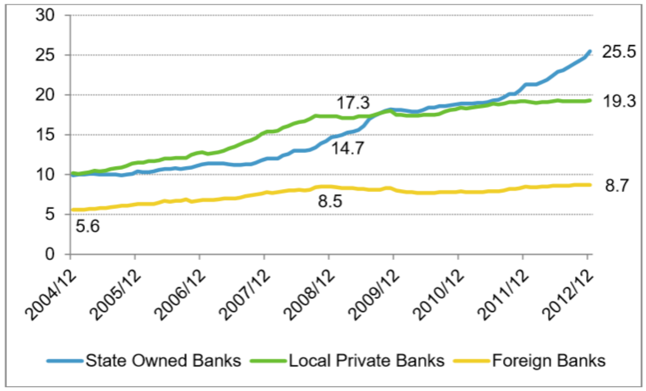


Figure 2. 38 Outstanding Bank Loans by Ownership of Commercial Banks (% of GDP). Source: (Filho, Macahyba, & Zeidan, 2014)

Following the collapse of Lehman Brothers, private banks retrenched their exposure. The rate of growth of non-earmarked facilities fell from 46.5 % in 2008 to 1 % in 2009. The role of the BNDES was remarkable after the crisis. As shown in the following graph (Figure 2.39), the market share of BNDES has risen steadily in 5 years (2008:2012) to 20% of the market. The growth of market share was not steady over time. For instance, during the years of rapid growth (2005-2008); the share of BNDES of total loans dipped significantly from 21.9% to 15.2%. The fall was not due to competitive pressures from other banks, but rather due to the increasing demand on housing credit from other banks. Demand on productive investments earmarked for financing industrial and machinery equipment, infrastructure, and construction of new plants. Effectively speaking, the BNDES didn't partake in the boom of household and housing credit in those years. An important factor that led to reversal of the trend, was the role played by the BNDES in support of the government counter cyclical policies. BNDES increased the supply of funds in the market to offset the crunch from domestic private banks and international market (Filho, Macahyba, & Zeidan, 2014). The market share of BNDES increased again to reach 20.6 % in 2012, and the total of the bank's BNDES loans to GDP reached 10% in the same year.

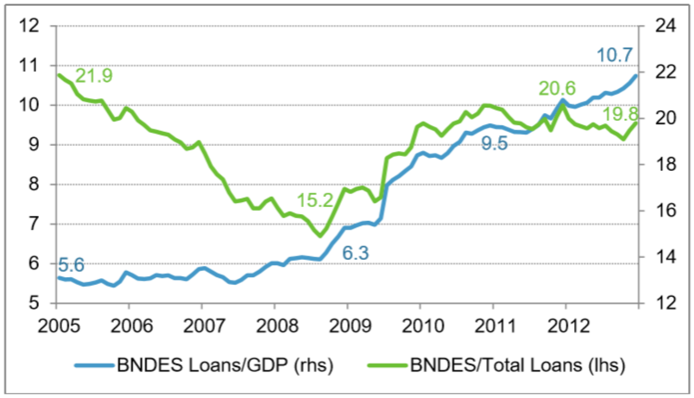


Figure 2. 39 BNDES Loans/ GDP & BNDES/ Total Loans. Source: (Filho, Macahyba, & Zeidan, 2014)

The next section will present the Brazilian SMEs and their role in the economy. In specific, the author will discuss the policies on the national, municipal and state level in addition to the role of institutions to foster the growth of SME in the Brazilian context.

SMEs in Brazil

Similar to many emerging economies in the world, Brazilian SMEs are the essential part of the economy, amounting for more than 98% of total companies (11.5 million of formal enterprises), and employing 56 million people (Viega & McCahery, 2019, p.634). Furthermore, SMEs participation in the Brazilian economy has been growing steadily from 21% in 1985, to 23% in 2001 reaching 27% of GDP in 2014 (Smits, Sagoenie, & Cuppen, 2018, p.1). SMEs benefit from the tax system, where by a number of taxes are unified and thus, the tax burden is lowered for the small enterprises. Unlike SMEs, Middle enterprises in Brazil are not eligible for such tax considerations and are treated as large corporates (Smits, Sagoenie, & Cuppen, 2018).

The annual growth rate of SMEs has also increased from 0.14% to 0.4%. In terms of their contribution to sectors, more than half (53%) of retail, 36.5% of services and 22.5 % of industrial production is carried out by SMEs in Brazil. In spite of their important contribution to the domestic economy, only 1% of Brazil's exports in 2016 were done by SMEs (Smits, Sagoenie, & Cuppen, 2018, p.1).

SMEs classification in Brazil has been not clear cut. Like many countries, criteria according to size, revenues, investment might greatly vary to what constitutes a Small or Medium enterprise. In Brazil, there are a number of criteria used to define SMEs. The Institute for the Support of Micro and Small Firms (SEBRAE), for instance, uses the number of employees in a firm as a metric for SMEs classification. For example, in terms of size of enterprise, micro enterprises are firms employing 0-9 employees. Small enterprises employ up to 49 employees. Medium enterprises employ 50-249. While, large corporates employ more than 250 employees (Instituto Brasileiro de Geografia e Estatica, 2017). Another classification used by the Brazilian Development Bank (BNDES) defines the SMEs by virtue of the firms' sales volumes. According to (Veiga & McCahery, The Financing of Small and Medium-Sized Enterprises: An Analysis of the Financing Gap in Brazil, 2019), micro proprietorship[24] are firms with revenues not exceeding USD 17,200 (BRL 81,000). Furthermore, micro enterprises are those with a turnover level not exceeding USD 77,000 (BRL 360,000). A Small enterprise has a threshold of USD 1MN (BRL 4,800,000). The majority of enterprises in Brazil are considered small and micro enterprises (Veiga & McCahery, The Financing of Small and Medium-Sized Enterprises: An Analysis of the Financing Gap in Brazil, 2019).

Table 2.10
Number of Active Firms in Brazil

Year	Active Companies (000)	SMEs (000)	%
2017	17,924	16,059	89.5%

Table 2. 10 Number of Active Firms in Brazil. Source: (Veiga & McCahery, 2019)

As per the latest census, the largest three sectors of SMEs in Brazil are commerce, repair shops, transportation related industries, construction and small lodging and food respectively. For a granular detail, the following graph exhibits the distribution of SMEs by number of companies and their economic activity (Figure 2.40).

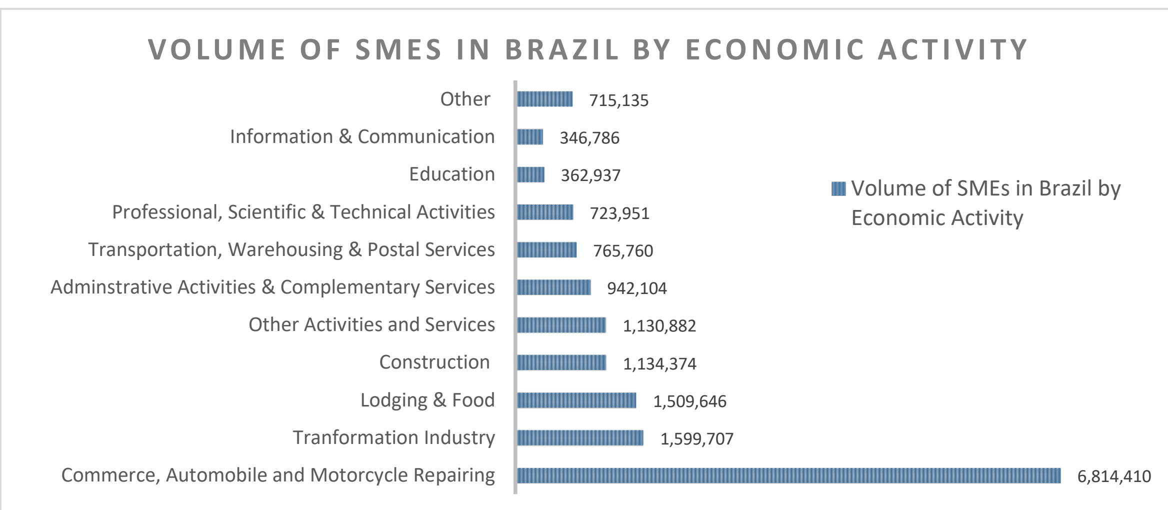


Figure 2. 40 Volume of SMEs by economic activity. Source: National Confederation of Commerce. (Veiga & McCahery, 2019)

[24] The main difference between the micro enterprise and a micro proprietorship is the number of employees it employs. If one is self-employed and has no employees then it is classified as a micro proprietorship. By contrast, if the firm has a small number of employees, then it is considered as a micro enterprise.

SMEs role in the National Economy

SMEs play an important role in providing formal jobs to the economy. According to the Brazilian Ministry of Labor and Employment, during the first quarter of 2018, SMEs added 351,629 new jobs compared to large corporates whom added only 27,254 new workers to the economy (OECD, 2019). The Brazilian economy is heavily dependent on the services sector. The contribution of the service sector to the GDP is 73.2%, followed by the industrial sector 21.5 %and finally the agriculture sector which constitutes only 5.3% of the economy's total GDP (OECD, 2019).

There were some institutional and administrative factors that have led to the increase of SMEs activity in Brazil between the years (2004-2011). For instance, the unification and simplification of tax burden reduction has led to 11.5 million enterprises to adopt the special tax program. This had a high impact on jobs created and payroll respectively. It was observed that firms participating in the (Simples Nacional Program) have increased jobs by 25% and payroll by 21% respectively (Viega & McCahery, 2019, p.639).

The survival rate of Brazilian companies has been a focus for scholarly research. It was noted that Brazilian companies less than 10 years of age have had a low survival rate. With comparison to enterprises with a high number of employees (1-9) or more than 9 employees, only 31.3 % of the micro proprietorships survive after 5 years of operation. A total of 57% & 67 % of all enterprises employing (1-9) and more than 9 employees categorically have survived after 5 years of operation (Viega & McCahery, 2019, p.641). (Figure 2.41).

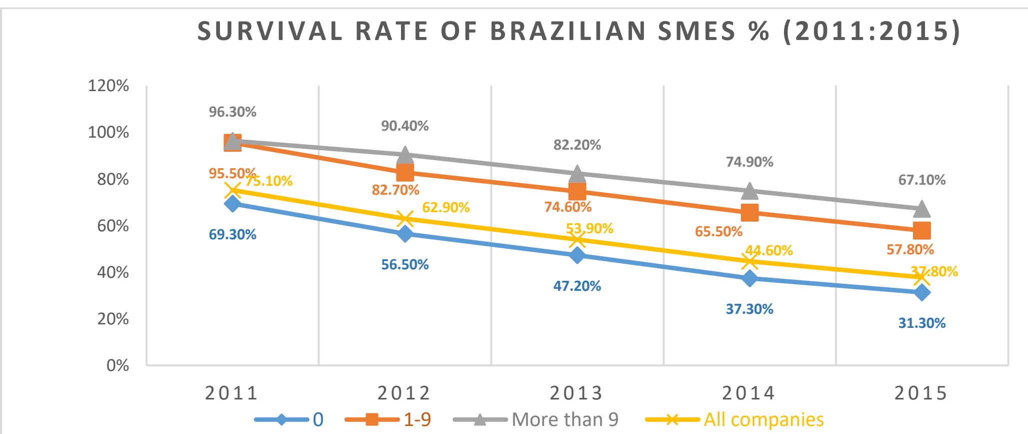


Figure 2. 41 Source (Instituto Brasileiro de Geografia e Estatica, 2017)

Financing to SMEs

Due to its significance and sheer size, finance to the SME segment in Brazil has been the priority of the policy and decision makers. Since 2008, the majority of loans have been directed to large corporates in comparison to SMEs. To compensate for the financing deficit, the government has taken numerous measures to boost the supply of loans to the SME sector away from the conventional banking institutions. A micro credit program was introduced to provide finance to SMEs. A directive of using 2%

of the demand deposits of the National Financial System were used to finance micro entrepreneurs and small enterprises. It is noteworthy to highlight the impact of the recession in Brazil on the macro economy at large during the years of 2014:2015. As illustrated in (Figure 2.42), the economy contracted by around 3.5% in 2015, there was a sharp decrease in investment and family consumption respectively. Unemployment rates went up from 4% to 8% in twelve months. Consumer prices rose to 10% (Economic Commision for Latin America and the Carribean (ECLAC), 2015).

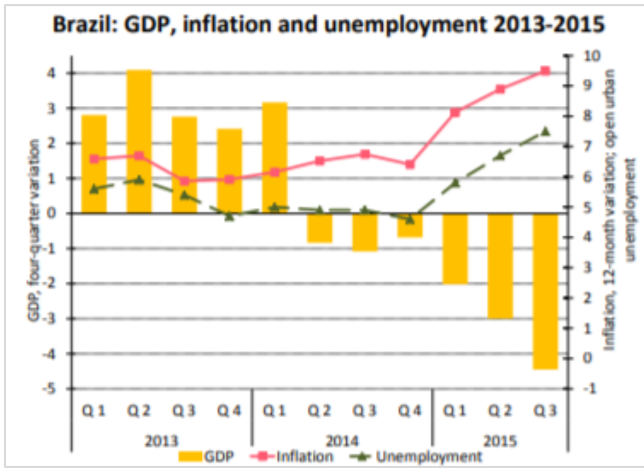


Figure 2. 42 Source: (Economic Commision for Latin America and the Carribean (ECLAC), 2015)

In 2016, the government of Brazil took active measures to move the economy from the prolonged recession. First, it placed all civil servants pay rises on hold. Additionally, it restored the transactions tax to finance social security expenses. Falling incomes of the population (diminishing GDP / Capita growth rates) has led to the reduction of public expenditures and to normalize variations of income across different states especially Rio Du Grande Sol, and the Federal District, payments to service providers have been held back.

Table 2.11
Brazil Main Economic Indicators (2013-2015)

	2013	2014	2015
Annual Growth Rate			
GDP	2.7	0.1	-3.5
Per Capita GDP	1.8	-0.8	-4.3
Consumer Prices	5.9	6.4	9.9
Average Wage	2.1	1.7	-3.2
M1 (Money)	10.7	4.7	-1.0
Real Effective Exchange Rate	6.8	3.6	19.7
Terms of Trade	-2.3	-3.4	-9.7
Annual Average %			
Open Urban Unemployment rate	5.4	4.8	6.9
Central Government Overall Balance/ GDP	-2.6	-5.3	-8.3
Nominal Deposit Rate	6.4	6.1	8.0

Nominal Lending Rate	39.1	44.6	48.8
Millions of USD			
Exports of Goods & Services	279,658	264,063	223,468
Import of goods & services	325,571	318,699	248,795
Current Account Balance	-74,769	-104,076	-68,664
Overall Balance	-5,926	10,833	-4,553

Table 2. 11 Source: (Economic Commision for Latin America and the Carribean (ECLAC), 2015)

Furthermore, and in addition to the interest rate hikes, there was a squeeze in credit given to enterprises. According to the (OECD, 2019), a number of monetary policies impacted the demand on credit to SMEs. At that time, the most prominent feature of the banking system was the high interest rates and spreads charged by banks which negatively impacted the expansion of credit and economic growth respectively (Fiche, 2015). In specific, the average interest rates for all credit transactions in Brazil in 2014 was 23.7 % (Filho, Macahyba, & Zeidan, 2014). The reference interest rate of the Central Bank of Brazil (SELIC- Special Clearance and Escrow System) has been steadily declining from a high of 14.5% per year in December 2015 to 13.65% a year to 6.9% in 2017 and to 6.4% in 2018 later as presented in the following graph (Figure 2.44). The period of hikes preceding the decreases (from 7.25 % in March 2013 to 14.25 % in 2014) led to an overall increase of loans pricing to large corporates (14.8%) and 30.6% to SMEs respectively. In tandem, the effect of the economic recession of the year 2015 on the supply of credit has fallen after a period of credit boom. Instead of expanding their businesses, companies have started deleveraging and were more focused on rationing their expenses. The recession slowed down the overall economy and have directly impacted the ability of companies to repay their obligations to banks. Another explanation is the rising cost of post fixed loans during the recession period as noted by the (OECD, 2019). The rate of NPLs among SMEs have registered a higher rate than all business loans. The rates of NPLs have followed a variance of 1.67% on average until the year 2015. Later on, the difference between the performance of SMEs and other business average a 3% variance on an annual basis. (Figure 2.43).

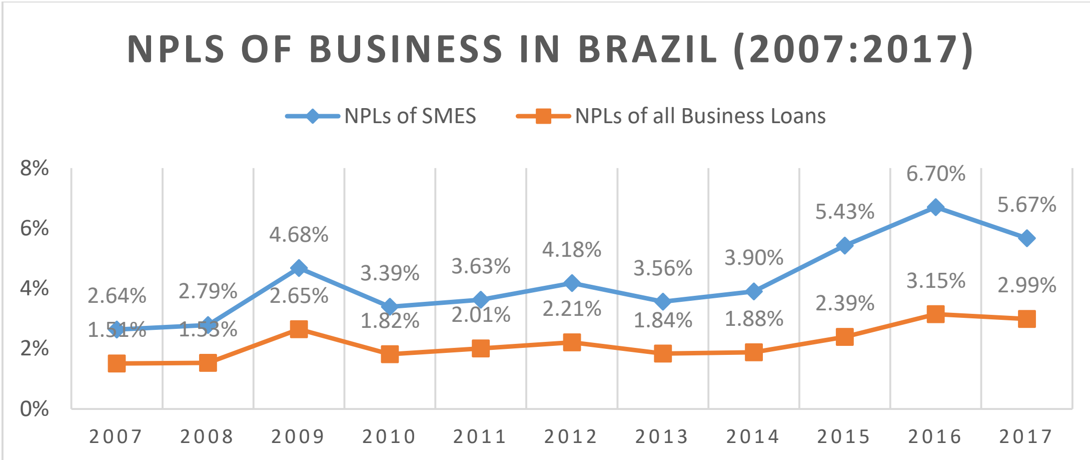


Figure 2. 43 NPLS of Businesses in Brazil. Source: (OECD, 2019)

The preceding has taken its toll on the demand for credit by SMEs. The demand for SME loans has shrunk drastically due to the hikes of interest rates. For instance, from the year 2015 to 2016, the share of new lending to SMEs have dropped by 2.2% (from 23.81% in 2013 to 21.61% in 2015) (OECD, 2019). Credit was diverted to large corporates due to their less risky nature, sound credit standing, collateral presence and lower NPL ratio. This trend can also be observed in (Figure 2.44) via the share of outstanding lending for SMEs, which decreased from 50.35% in 2008 to 37.8% in 2015 (OECD, 2019, p.3).

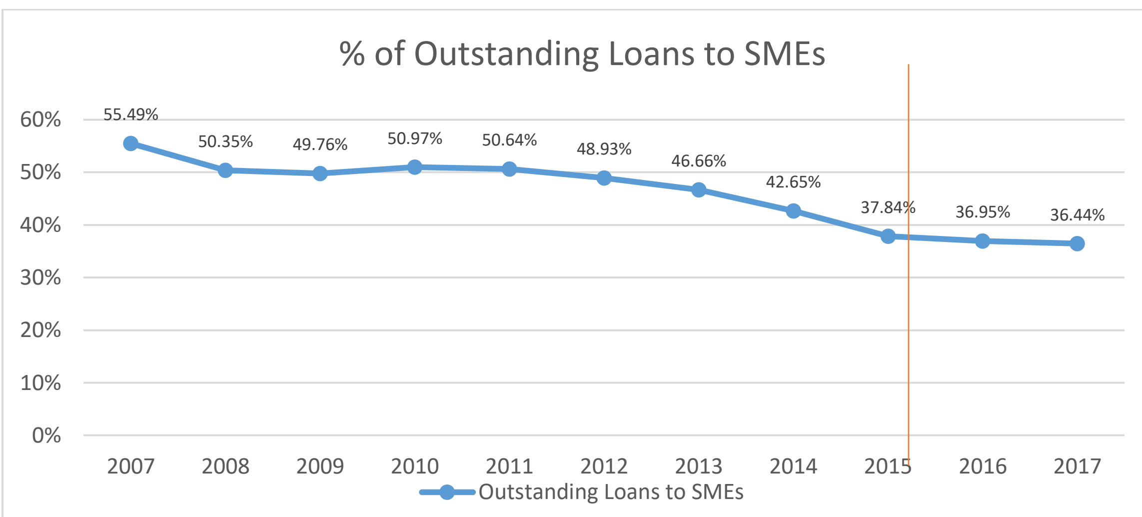


Figure 2. 44 Outstanding Loans to SMEs. Source: (OECD, 2019)

However, the Central Bank of Brazil reversed the hikes by decreasing interest rates in December 2016, thus decreasing pricing of SME loans. (OECD, 2019).

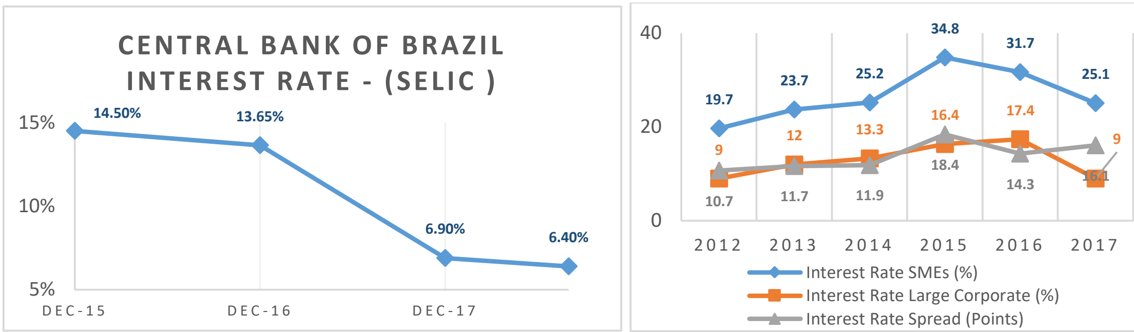


Figure 2. 45 SELIC Interest Rates. Source: (OECD, 2019)

On the macro side, high interest rates and exorbitant profit margins drove to SMEs to consider alternative financing away from traditional bank credit. Empirical literature advocating the use of alternative credit for SMEs has risen considerably in the past few years. According to (Veiga & McCahery, 2019), small businesses have had been discouraged also to resort to conventional banking due to concentration in Bank ownership in developing markets. This has been substantiated by a survey to measure how many SMEs attempted to apply for credit from a bank in the past 6 months. (Figure 2.46) demonstrates that the % of SMEs applying for a bank loan in Brazil have been declining steadily from 2015: 2017 respectively from a total of 24 % of SME borrowers saying “yes” to 16% in 2017. At the same time, borrowers not applying for a SME loan have been exponentially increasing from 76% to 84% in 2017. Several reasons explain the reluctance of Brazilian SMEs to apply for a loan. First, more than half of the respondents have indicated their refusal to pay high interest rates for their loans. Second, a significant proportion of SME borrowers cited that they no longer want the loan. Third and most importantly, a number of respondents indicated that they didn’t apply for a loan due to the high probability of loan rejection. In summary, the results confirm the hypothesis of borrower discouragement of obtaining credit in markets with high banking concentration, like Brazil.

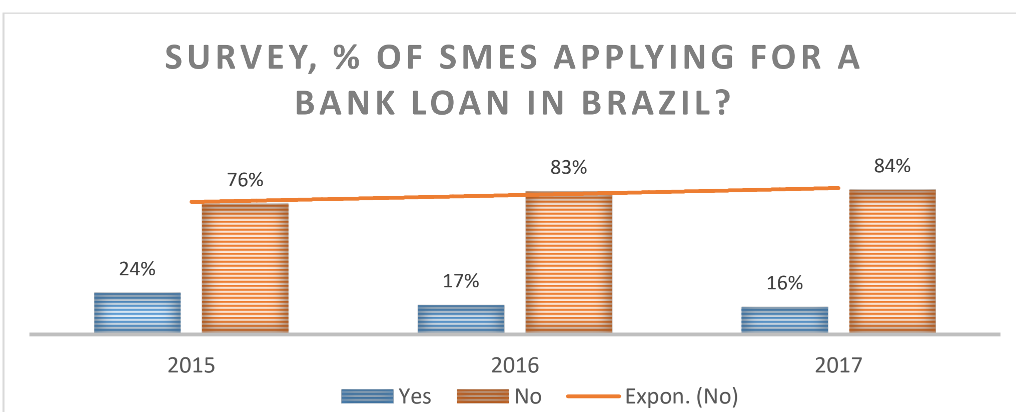


Figure 2. 46 SMEs (%) applying for a loan in Brazil. Source: (Veiga & McCahery, 2019)

Government Policies supporting SMEs

On the national level, Brazil's Special Secretariat for Micro and Small enterprises (part of the Ministry of Industry & Trade) is responsible for regulating the SME sector. This secretariat is divided into three bodies; (1) Chamber of Commerce; (2) Micro Entrepreneurs and Craftspeople; and (3) Support of Micro and Small Enterprises (Netherlands Enterprise Agency, 2018). The interventions of the said bodies aim to boost growth and job creation in light of the recession, out of necessity entrepreneurship and companies suffering from tax complexities.

The list of initiatives to encourage financial inclusion by the Government of Brazil are herewith presented by (Netherlands Enterprise Agency, 2018):

- **BNDES Giro:** is a temporary financing scheme, whereby entrepreneurs apply for an emergency loan to finance working capital through their retail accounts. The innovation was the speedy turnaround time by which loans are approved. Within 24 hours, SME customers can apply for a loan and get an immediate answer. Ceiling of 20% of the enterprises revenues (equivalent to BRL 70 MN or USD 14 MN) a year.
- A second initiative is: **Micro Individual Entrepreneur (MIE):** where by its target segment are the informal retailers and service providers to become included in the formal sector. The condition is to pay a fixed rate per month of BRL 50 – USD 10 to cover taxes and social security fees.
- **(Instituição Amiga do Empreendedor) (IAE);** this is an inter-institutional group consisting of representatives from the Ministry of Trade and Industry, the Secretariat of Higher Education, the Secretariat of Small and Medium Enterprises, the Federal Accounting Council, to enrich skills of entrepreneurs and provide the necessary advice to this segment.
- **Innovation policy:**
    - In the years 2004 and 2006, Brazil introduced the innovation law (Lei de Inovação) and the Law of Good (Lei do Bem), instruments to stimulate innovation and pertinent fiscal policies to support innovation as well. The Ministries of Government at that time succeeded in propelling innovation for SMEs through directing:
    - Incentives to R&D expenditures
    - Stimulating Angel Investing and Venture Capital
    - Fiscal Incentives such as extra tax exemptions and reductions
    - The introduction of "Simples Nacional "for SMEs implying less complicated tax treatment and payments for SMEs.

Nevertheless, Brazil introduced "Lei do Novo Marco" (New Provision Law) in 2016, which allowed:

- Motivating R&D
- Promoting International Cooperation
- Allowing Researchers to obtain a VISA to stay in Brazil
- Diffusing innovation through Open Innovation across local Brazilian Universities, foreign companies and local Brazilian Firms. (p.3).

Effectively, Brazil has asked companies to declare their innovation policies and yearly reports to the Ministry of Science, Technology, Innovation and Communications (MTIC). Once approved, the companies will be eligible to benefit from tax exemptions. Additionally, as more SMEs are registered with the MTIC, the more likely financial institutions will avail credit to them (Netherlands Enterprise Agency, 2018).

Support for SMEs on the Federal Level

There are 26 states in Brazil. Both states and cities in Brazil play an important role in fostering innovation. Each state has its own comparative advantage by virtue of its geographical location and its prevailing ecosystem. (America's Society Council of the Americas, 2014) reveals that Sao Paulo, is home to 40% of the fastest growing SMEs in the country. Additionally, the rest of the federal states such as (Espirito Santo, Minas Gerais & Rio de Janeiro) have identified their own competitive advantages and have worked with universities to promote their products and advance innovation and education to entrepreneurs. It was noted that a partnership between the Inter-American Development Bank, the State Industry Federation and SEBRAE (the Institute for Small and Medium Enterprises) has been formed to act as a linkage between SMEs, knowledge institutions and development agencies (Netherlands Enterprise Agency, 2018). Moreover, the Inter-American Development (IDB) has partnered with Banc Itau and Endeavour Brazil[25] to develop high quality products to Brazil's neediest population *(Bottom of the Economic Pyramid- BOP)* (Global Hand, 2020). Effectively, the IDB will tailor training programs for SMEs to educate them about business opportunities, setting their financial forecasts, conducting feasibility studies and market research, and managing cash flow and finances (Global Hand, 2020).

Debt Financing for SMEs in Brazil

It is well noted that most SMEs in Brazil rely mainly bank loans as a source for their external financing. The crisis has weakened the credit conditions evidenced in the high interest rates and reduced portfolios following the global financial crisis. The subsequent shocks have impacted the supply of both short- and long-term credit for SMEs (Veiga & McCahery, 2019, p.640). Overall, the Brazilian financial

[25] A NGO formed in 1997 to promote entrepreneurial activity by providing mentorship to innovators in Emerging Markets. (Endeavour, 2020)

system is resilient and diversified. There are over 173 banking institutions with total branches of 50,000 all across the country. Sao Paulo stands out as the country's foremost and most densely populated city in terms of both banks and branches capillarity (Figure 2.47 & Figure 2.48).

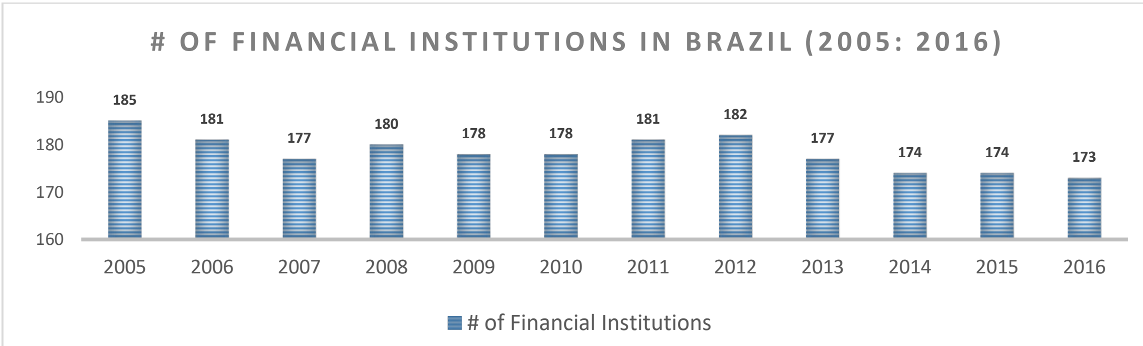


Figure 2. 47 The evolution of Financial Institutions in Brazil. Source: (Veiga & McCahery, 2019)

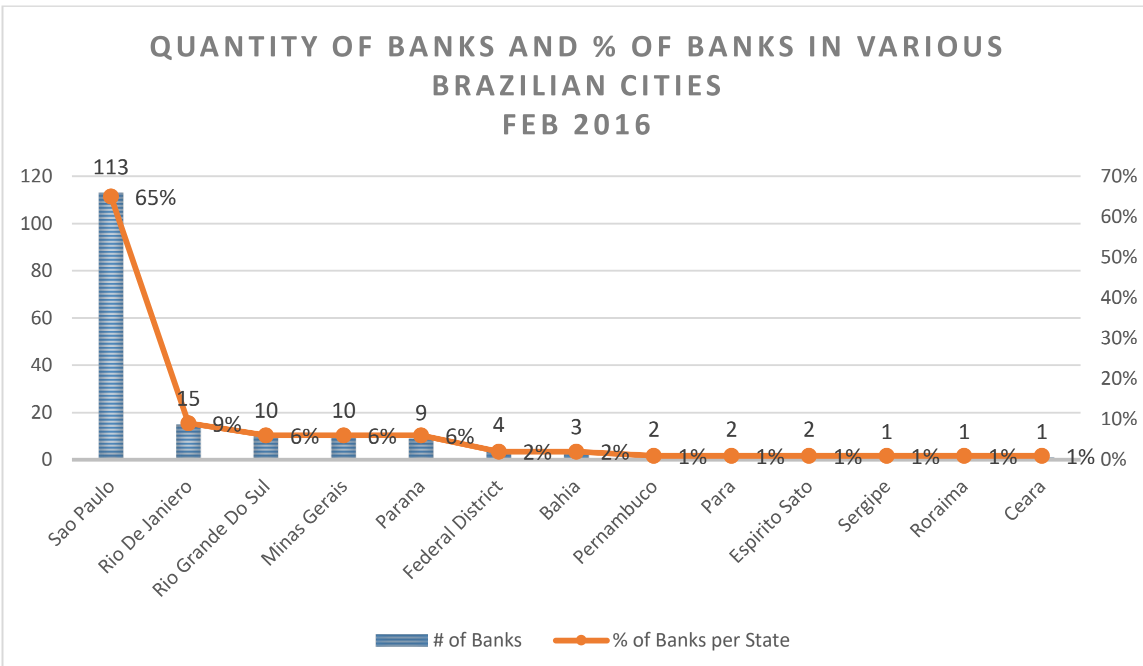


Figure 2. 48 Quantity of Banks in Various Brazilian Cities. Source: (Veiga & McCahery, 2019)

As cited in earlier paragraphs, the Brazil's banking system is resilient and with adequate capital base, however, the country is in need of expanding its banking reach and inclusion. Most banks are in the Southern and Southeastern parts of Brazil, mainly in Sao Paulo and Rio De Janiero. As noted by (Veiga & McCahery, 2019), and illustrated in the above graphs, there is a difference between cities in terms of the total banking assets. A country in the size, population and economy significance of Brazil, has a relatively low number of branches and banks respectively. Moreover, it was noted that the majority of banking in Brazil is highly concentrated. The three largest banks in Brazil; Banco Do Brasil, Itaú, Caixa Econômica Federal and Bradeschold more than 72 % of total banking assets and 78% of liabilities and

79% of all credit transactions in Brazil today compared with only 52% , 59% and 54.6% in 2007 (Veiga & McCahery, 2019, p.645). The market concentration has implications on the interest rates across the markets. As (Veiga & McCahery, 2019) remark, larger banks in Brazil and in emerging markets tend to focus more on transactions rather than on building long term relationships with SME borrowers. Large banks usually prefer to have a small number of big-ticket deals than a large number of small tickets. As such, a credit gap arises due to the unmet demands needs of SMEs. Furthermore, with capital requirements and a wave of banking consolidation, merged banks tend to devote less time and investment on SME borrowers. Also, while loan officers rotate across banks, legacy relationships built with SME borrowers will be diluted. Moreover, loan officers will move away from branches where relations with past clients were built. It has been noted that banks undergoing growth will devote a smaller percentage of their loan portfolios to SME clients.

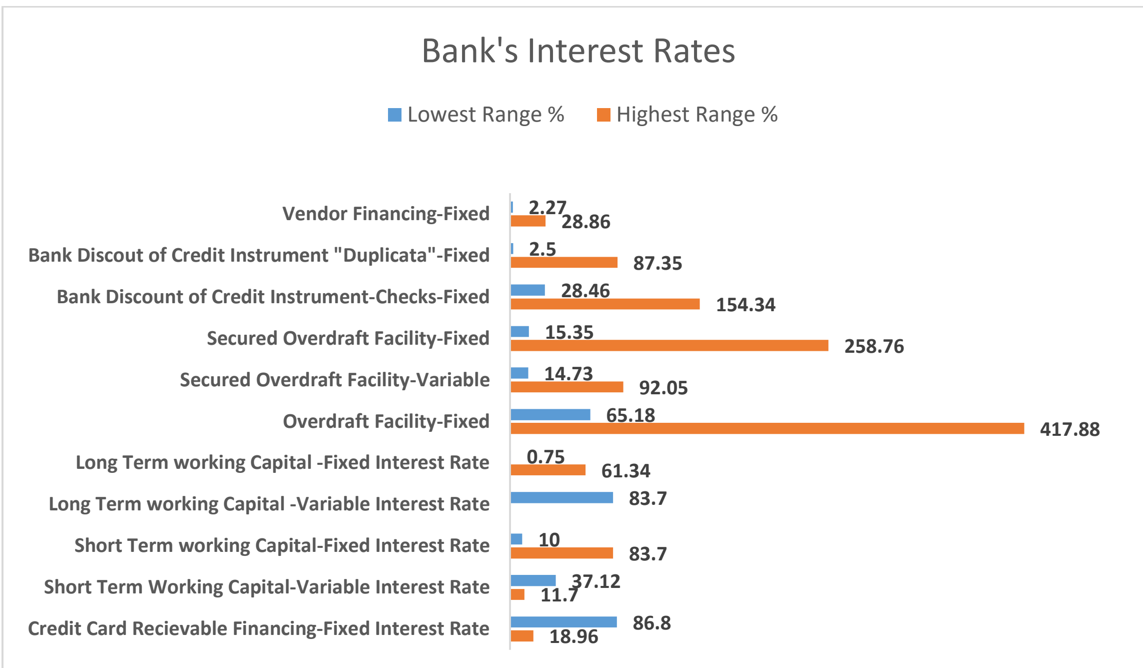


Figure 2. 49 Yearly Interest Rate (Lowest Range %- Highest Range %). Data captured on August 17-23 2017. Source: (Veiga & McCahery, 2019)

In the literature reviewed, as (Veiga & McCahery, 2019) state: "the most prominent feature of the banking sector is the high levels of banking spreads and interest rates charged by financial institutions. In terms of the business environment, high spreads have negatively impacted the expansion of credit and economic growth". (p.645). In a given period (August 2017), there was a wide variance in rates of short-term working capital finance- fixed interest rate. The rates varied from a low of (10%) on annual basis and 83.7% respectively.

Another case in point is the large variance in pricing across the Brazilian Banking Market. The following (Table 2.12) presents the differences in the average annual interest rates on a variety of loans by the four largest Brazilian banks: Banco do Brazil, Itaú, Caixa Economical Federal and Bradesco (Veiga & McCahery, 2019, p.648).

Table 2.12
Type of Financing, Financial Institution and Interest Rate (%)

Type of Financing	Financial Institution	Yearly Interest Rate (%)
Secured Overdraft –Variable Interest	Bradesco Itau Caixa Economica Federal Banco do Brasil	24.5 24.79 26.92 26.99
Secured Overdraft-Fixed Interest	Banco do Brasil Itau Bradesco	41.89 54.03 71.59
Bank discount of credit instrument-Checks-Fixed Interest	Bradesco Banco Do Brasil Itau Caixa Economica Federal	39.52 41.78 42.12 48.16
Bank Discount of Credit Instrument (duplicate)-fixed interest	Bradesco Banco do Brasil Itau Caixa Economica Federal	28.39 28.77 28.88 51.19
Vendor Financing –Fixed Interest Rate	Itau Banco do Brasil Bradesco	14.81 16.65 19.95

Table 2. 12 Types of Financing and Financial Institutions in Brazil. Source: (Veiga & McCahery, 2019)

As noted earlier, this research was concluded before the outbreak of the pandemic. Effectively, the COVID-19 spread in Wuhan province in China compounded with the Oil Crisis of the OPEC+ negotiations has faltered between the world's largest oil producing economies; namely the Kingdom of Saudi Arabia and Russia. The outcome of the failed negotiations reverberated heavily across the markets and have had a toll on job stability, growth projections and companies' solvency.

As such, the author believes that it is her responsibility to factor in the recent disruptions in credit outlook and the broad macroeconomic picture on the back drop of the COVID-19. In a short speech, IMF head, expressed her growing concerns on the depth and duration of the crisis. The IMF president (Georgieva, 2020) declared that COVID is "the worst economic fallout since the Great Depression" (IMF, 2020). Just three months ago before the pandemic (Jan 2020), the fund expected the 169 countries to prosper for 2020-2021. Today, the outlook for over 170 countries have been revised downwards and projected to have a negative per capita income this year. Emerging markets are the most likely to be hit, since health systems efficacy, social distancing in most of the congested cities, and financial resources of the governments are likely to be greatly challenged. (IMF, 2020). Recovery might happen in 2021 hinging on the vaccine development and availability to all markets at the same time. However, the IMF president stressed on the large uncertainties prevailing on the global outlook. Ever since the eruption of the virus, a total of USD 100 BN funds has left the domestic banking systems in Emerging Markets to financial havens. In the remaining section of the research work, we will present the: 1) Global Picture on the back ground of Corona Virus; (2) The impact on the Emerging Markets and policy responses; and (3) SMEs.

SME Policy Responses and COVID-19

The Global Picture

At the time of writing this dissertation, the outbreak of COVID-19 pandemic has bought new realities to the world we live in. To quantify the magnitude of the contraction, the (IMF, 2020) has shifted the global outlook from an expected growth of 3% for the year 2020 to a sharp contraction of -3% in just three months which is far worse than the aggregate output loss of the global financial crisis of 2008/09. For instance, Equity markets fell off for more than 20 % from its peak. Additionally, in March 2020, OPEC+ [26]countries failed to reach an agreement on oil output levels in the wake of the decline in global demand which exacerbated the recent economic crisis. Consecutively, spot prices fell and the entire future prices plummeted. (Figure 2.50).

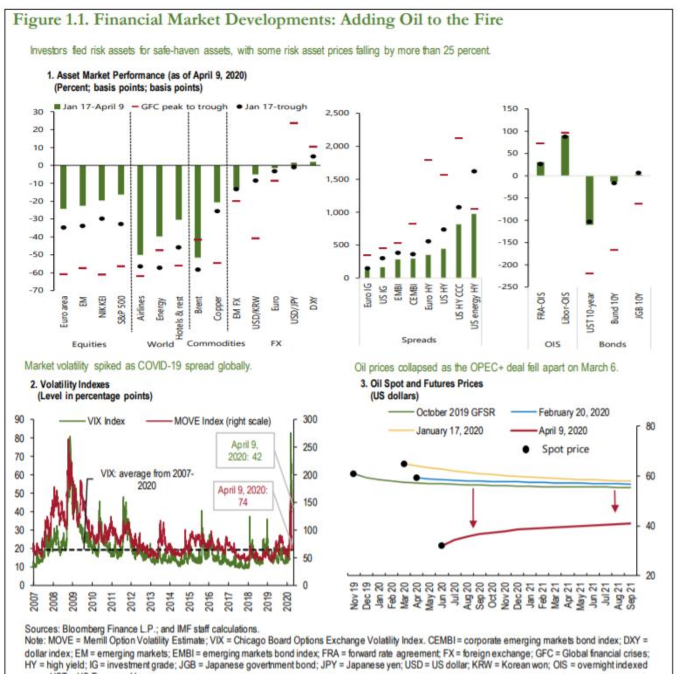


Figure 2. 50 Financial Market Developments post COVID-19. Source: (IMF, Global Financial Stability Report , 2020)

In advanced economies, volatile market conditions have triggered a massive flight of capital to safety and liquidity vehicles. As shown, bonds' yields and premiums for US treasuries and the German Bunds have collapsed reflecting lower expectations on their government's monetary policies. In addition

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[26] OPEC Organization of Oil Production & Exporting Countries was formed in 1960 in Baghdad. They are 13 countries, out of which five are in the Middle East, seven in Africa and One in South America. In addition to the above mentioned, OPEC+ countries include another 10 countries led by Russia, formed in 2016.

to that, actual and expected policy rates across advanced economies have fell below 0%. Furthermore, inflation outlook for the US and Euro Area has deteriorated. (Figure 2.51).

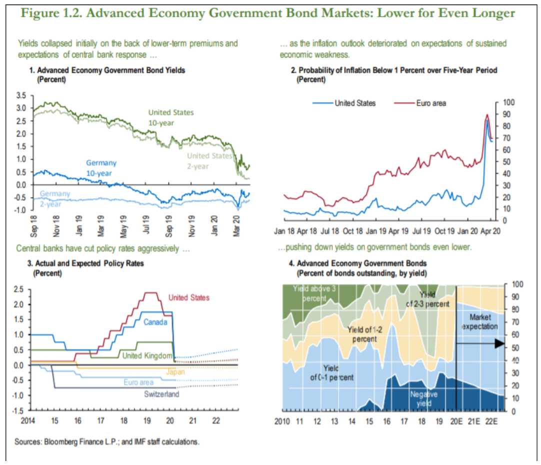


Figure 2. 51 Advanced Economy Government Bonds Markets post COVID-19. Source: (IMF, Global Financial Stability Report , 2020)

Economic activity, financial markets in addition to private sector confidence are all collapsing. (Moody's Investors Services , 2020) report states that the global economy has witnessed an "unprecedented shock", through demand, supply and financial market channels (Figure 2.52). The report notes that the economy will largely be affected by the underlying fall in consumer demand, disruptions in supply from restricted goods movement and thirdly, the pronounced volatility in financial markets. Effectively speaking, sectors that will be the hardest hit include; airlines and cruises, hotels, financial institutions and commodity exporters respectively. (Moody's Investors Services , 2020) (Figure 2.52).

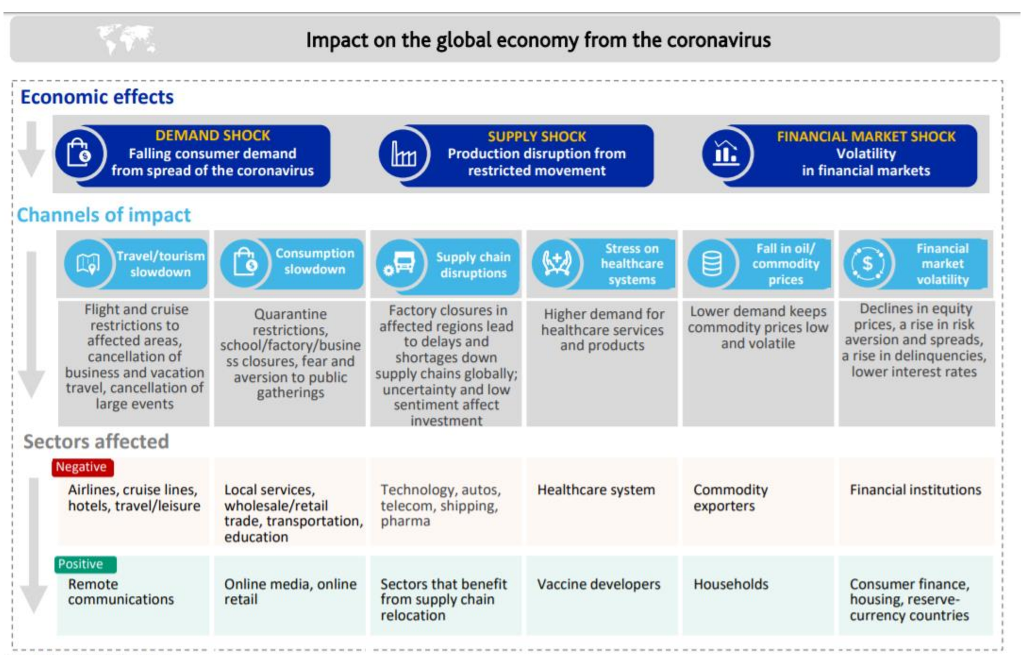


Figure 2. 52 Coronavirus Impact on Global Economy. Source: (Moody's Investors Services , 2020)

In-depth picture impact on Emerging Markets

For Emerging and developing economies, this is the first time for such an unprecedented combination of shocks (the Corona virus, the oil price decline, increased global risk aversion, a high likely scenario of global recession) to happen concurrently. The pandemic led to a massive sell off causing major EM equities market to fall dramatically. In terms of the currency, major commodity exporting countries' currencies (Brazil, Indonesia, Chile, Mexico, and Colombia) have lost almost 20% of their currency value against the dollar. Also, many other EM currencies have also depreciated by 5% to 15% of their value against the dollar (IMF, Global Financial Stability Report , 2020). As for the spreads of dollar denominated debt, spreads have widened to more than 700bps (the highest level since the global financial crisis of 2008). Weaker and more distressed economies have witnessed a steeper rise in March 2020, recording 1000 bps. The report also highlights that while oil importing countries might have fared better, battered economic conditions, unavailability of funding, and lower remittances have offset the positive impacts of lower oil prices respectively (IMF, Global Financial Stability Report , 2020).

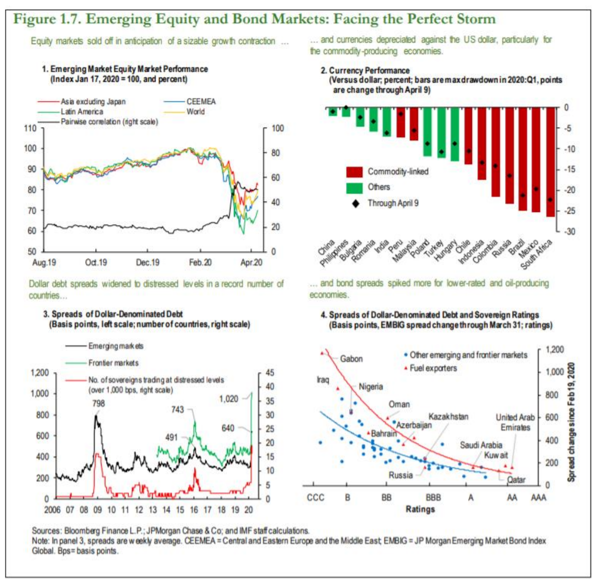


Figure 2. 53 Emerging Equity and Bond Markets. Source (IMF, 2020)

In tandem, the author believes the biggest hit to emerging markets during the time that the research work was written is the massive reversal of portfolio inflows to EMs in January 2020 since the Global Financial crisis of 2008. In aggregate terms, the (IMF, Global Financial Stability Report , 2020) estimates the flows to reach USD 100 BN. As shown in Panel 2. Figure 2.54, the strongest outflows came from Asia and China followed by Latin America and third by the EMEA region categorically.

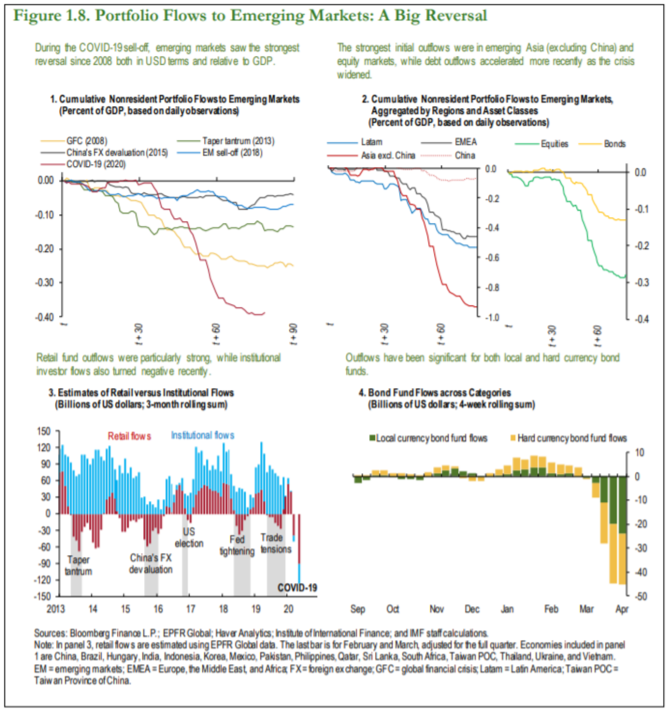


Figure 2. 54 Massive Reversal of Portfolio Flows to Emerging Markets in 2008 vs. 2020. Source: (IMF, 2020)

The symptoms of markets crunch such as reversal of portfolio flows in addition to the overall plunge in economic activity with the huge drop in oil prices make the situation for emerging markets particularly stressed. In comparision to the crisis of 2008, emerging markets have entered the COVID-19 with credit & fiscal conditions weaker than in 2008. The (IMF, Global Financial Stability Report , 2020) outlines a few reasons for that. First, many new emerging and frontier markets that have issued debt have lower credit ratings that in 2008. (Panel 2 , Figure 2.55). Nevertheless , emerging market debt issuers now are more leveraged than in 2008. (Panel 1, Figure 2.55).

Second, emerging markets now have no margin to maneuvour on their policy rates. The policy rates for 2020 are less than what they had in 2008. In the case of Brazil (which always had traditionally high policy rates), fiscal policy rates are now more constrained as well with debt at significantly higher levels. The same case applies to countries like China and South Africa respectively.

Third, much of the emerging and frontier markets are now more dependant on foreign capital inflows than in 2008.

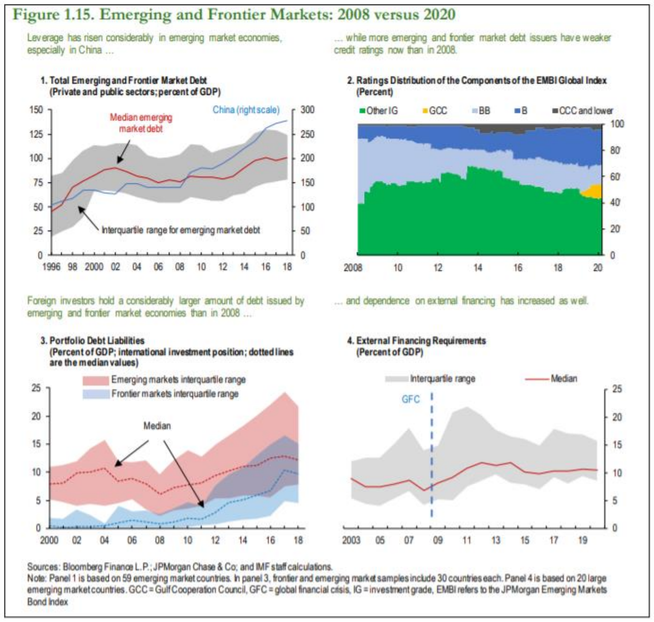


Figure 2. 55 Comparison of 2008 & 2020. Source: (IMF, Global Financial Stability Report , 2020)

The main vulnerabilities of emerging markets are summarized in (Figure 2.56). The convergence of sharp decline in economic output and the rise of borrowing costs would deeply hurt emerging markets with limited fiscal space, external financing vulnerabilities and high financing needs. This includes economies such as Brazil, Turkey, Egypt, India, anf Hungary. Economic output decline had its toll on countries such as Thailand, Mexico, Brazil and South Africa. Nevertheless, exposure to oil prices decline had its impact on most oil exporting economies such as Nigeria, Saudi Arabia, Russia and Colombia respectively. As a direct result of such challenges, many countries in emerging market economies were down graded or put on a negative economic outlook by credit rating agencies. (IMF, Global Financial Stability Report , 2020)

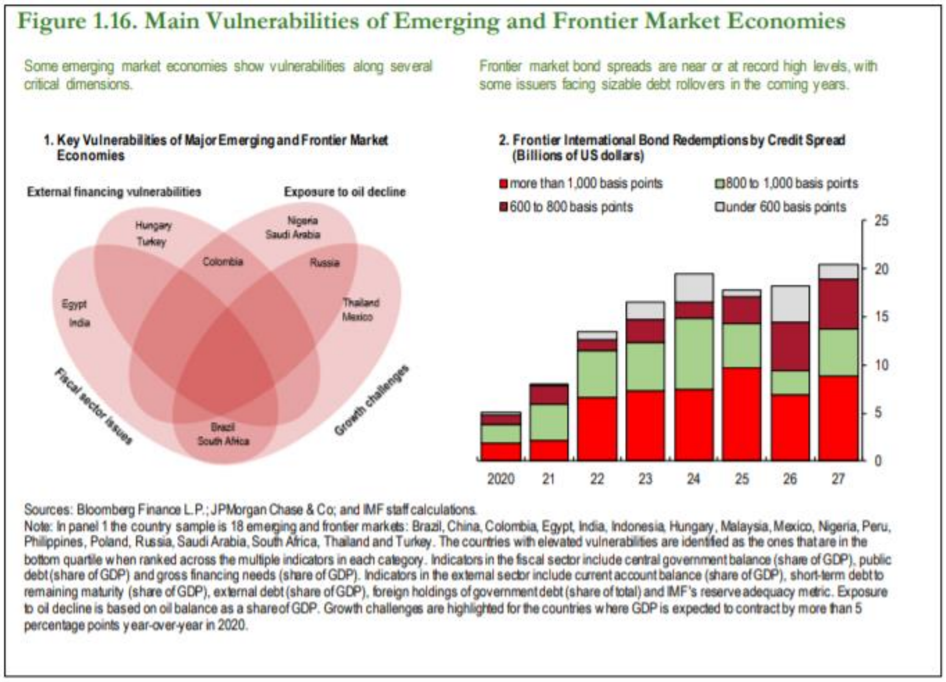


Figure 2. 56 Main Vulnerabilities of Emerging and Frontier Markets. Source: (IMF, 2020)

Generally speaking, in light of an underlying crisis, prime areas of concern are; (1) international trade, (2) cross border investment, and (3) migration. For advanced economies and from recent historical set back, countries tend to lose efficiency and purchasing power while “turning inward” into their economies, they can survive on the long haul despite the costs. Emerging markets on the contrary, being cut off from foreign currency receipts, such as tourism and remittances is a matter of life or death as expressed by (Obstlfeld & Polsen, 2020). While wealthy nations can block exports of critical items such as medical supplies, food, they can hurt everyone by inviting emerging markets to retaliate. India, is one of the countries cited in the research by (Obstlfeld & Polsen, 2020) might suffer the consequences of its ‘homeland first” approach harder than advanced nations.

Lately, disruptions are already starting to show evidence. As illustrated on a two months period (Figure 2.57), the purchasing manufacturing indices are exhibiting a sharp decline in output in many markets. Not only domestic demand is being subdued, but also, drops in external demand is likely happening.

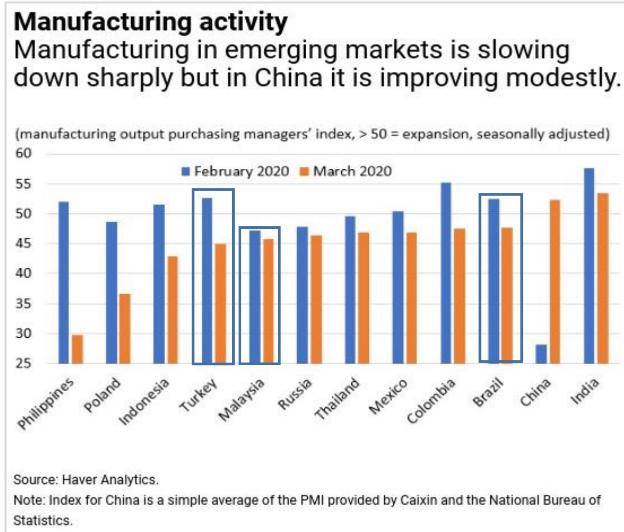


Figure 2. 57 Manufacturing Activity Post March 2020 in Emerging Markets. Source: (IMF , 2020)

SMEs in Emerging Markets

With the magnitude of their size, SMEs in Emerging Markets are believed to suffer more than large corporations due to their vulnerability and their lack of financial reserves to pay for employees' salaries and office rent (Accountancy Europe , 2020). The economic and financial implications that SMEs are dealing with will have far reaching effects through the entire economy. As a result, governments need to step in to ensure the continuity of businesses and operations. Before detailing recommendations for governments to align efforts in response to the COVID outbreak, the author will briefly explain the lifecycle of disruption for SME as summarized in (Figure 2.58).

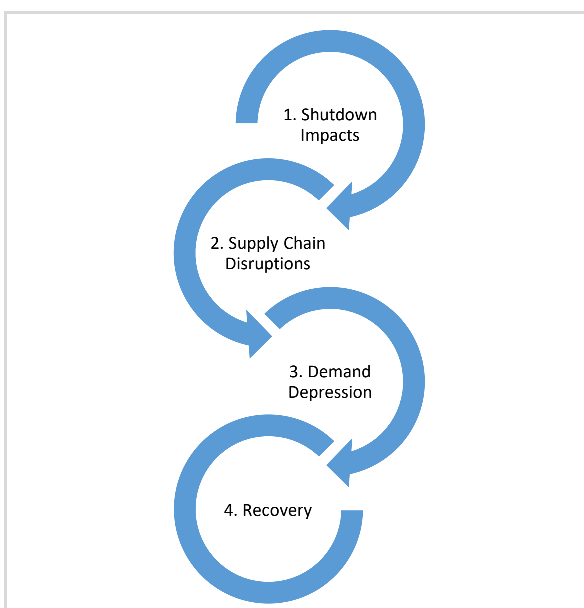


Figure 2. 58 Lifecycle Disruption for SMEs. Source: (International Trade Center , 2020)

Phase I: Shutdown Impacts

The pandemic has forced partial or complete shut downs in most parts of the world. Major industries have been hardly hit such as tourism, wholesale, retail and hospitality. Governments are focusing on keeping SMEs afloat.

Phase II: Supply Chain

As China is the world's largest manufacturing hub, disruptions in its output have bought a halt to the companies around the world. The extent of the disruption was double pronged. First, it bought China's exports and imports to a standstill. Second, inputs available for global supply chain have been greatly scaled back. As highlighted by (Khan & Khan, 2020) , emerging economies will suffer more as there will be shortages in raw materials and spare parts.

Phase III: Demand Depression

In an unprecedented dim reading, the IMF World Economic Outlook has announced that the global GDP would contract by a whole of 3% for the year 2020. A longer lasting lock-down or a second wave of virus outbreak would further bring the world's output downward by an additional 2% and 5% respectively (Financial Times , 2020). Demand would be reduced as a result of massive decline in incomes, layoff of workers, as well as other factors such as foreign buyers calling off their purchases, fall in the stock markets which erodes people's savings respectively. While demand on essential items such as food, medical supplies, and other products are inelastic and is likely to remain unchanged, demand for non-essential products and services is likely to witness a drop. As (Khan & Khan, 2020) outline, employment and production will be severely impacted. While large corporations with capital buffers and access to credit, might choose to increase their stocks rather than layoff people, impacts on SMEs are likely to be more pronounced. Even in countries unaffected by the pandemic, SMEs which export, might have a large setback in their proceeds and overall demand. Even when the pandemic is over, households are likely to save more to compensate the periods of low income in the medium and long term. On the macro level, credit facilities will be contracted, confidence will be low, and a large number of SMEs might file for bankruptcy (International Trade Center , 2020).

Phase IV: Recovery

After the health emergency is over, business is expected to have a sharp rebound. According to (International Trade Center , 2020), overall demand will come back, higher sales will be recorded, and manufacturing and agriculture sectors will have a swift comeback. Inventories will be restocked and consumers will make postponed purchases.

Policy Priorities: What has been done to combat COVID-19?

The pandemic has required urgent measures to address health issues, place the right economic and fiscal measures to the economies affected. Governments and country authorities have reacted to the Corona pandemic on different timelines and intensities. For instance, targeted fiscal measures were taken such as wage subsidies, cash payments to citizens and tax deferrals. In addition to that, other countries have applied measures to support individuals and companies through debt moratoria, restructuring of loan repayments and credit guarantees (IMF, 2020). Central Banks around the world have taken a combination of fiscal and monetary measures to safeguard the global banking system stability. The author will discuss each in detail.

Table 1.1. Monetary and Financial Policy Responses to COVID-19
(In 29 jurisdictions with systemically important financial sectors)

<table>
<tr><th></th><th colspan="22">Advanced Economies</th><th colspan="7">Emerging market economies</th></tr>
<tr><th></th><th colspan="10">Euro area</th><th colspan="5">Other Europe</th><th colspan="2">N. America</th><th colspan="5">Asia-Pacific</th><th colspan="7"></th></tr>
<tr><th></th><th>AUT</th><th>BEL</th><th>FRA</th><th>FIN</th><th>DEU</th><th>IRL</th><th>ITA</th><th>LUX</th><th>NLD</th><th>ESP</th><th>DNK</th><th>NOR</th><th>SWE</th><th>CHE</th><th>GBR</th><th>CAN</th><th>USA</th><th>AUS</th><th>HKG</th><th>JPN</th><th>KOR</th><th>SGP</th><th>CHN</th><th>BRA</th><th>IND</th><th>MEX</th><th>POL</th><th>RUS</th><th>TUR</th></tr>
<tr><td>Monetary policies</td><td colspan="29"></td></tr>
<tr><td>1. Policy rate cuts (basis points)</td><td colspan="10">-</td><td>-</td><td>125</td><td>-</td><td>-</td><td>65</td><td>150</td><td>150</td><td>50</td><td>114</td><td>-</td><td>50</td><td>-</td><td>30</td><td>50</td><td>75</td><td>50</td><td>50</td><td>-</td><td>100</td></tr>
<tr><td>2. Central bank liquidity support</td><td colspan="10">Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td></tr>
<tr><td>3. Central bank swap lines</td><td colspan="10">Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>-</td><td>Y</td><td>Y</td><td>Y</td><td>-</td><td>Y</td><td>-</td><td>Y</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>4. Central bank asset purchase schemes</td><td colspan="10">Y</td><td>-</td><td>-</td><td>Y</td><td>-</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>-</td><td>Y</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>Y</td><td>-</td><td>-</td></tr>
<tr><td>External policies</td><td colspan="29"></td></tr>
<tr><td>1. Foreign currency intervention</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>Y</td><td>Y</td><td>Y</td><td>-</td><td>Y</td><td>Y</td></tr>
<tr><td>2. Capital flow measures</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Financial policies for banks</td><td colspan="29"></td></tr>
<tr><td>1. Easing of the countercyclical capital buffer</td><td>-</td><td>Y</td><td>Y</td><td>-</td><td>Y</td><td>Y</td><td>-</td><td>-</td><td>-</td><td>-</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>-</td><td>-</td><td>-</td><td>Y</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>2. Easing of systemic risk or domestic capital buffer</td><td>-</td><td>-</td><td>-</td><td>Y</td><td>-</td><td>-</td><td>-</td><td>-</td><td>Y</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>Y</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>Y</td><td>Y</td><td>-</td></tr>
<tr><td>3. Use of capital buffers</td><td colspan="10">Y</td><td>-</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>-</td><td>Y</td><td>Y</td><td>-</td><td>Y</td><td>-</td><td>-</td><td>-</td><td>Y</td><td>Y</td><td>-</td><td>Y</td><td>Y</td><td>Y</td></tr>
<tr><td>4. Use of liquidity buffers</td><td colspan="10">Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>-</td><td>-</td><td>Y</td><td>-</td><td>-</td><td>Y</td><td>-</td><td>-</td><td>-</td><td>Y</td><td>Y</td><td>Y</td></tr>
<tr><td>5. Adjustments to provisioning requirements</td><td colspan="10">Y</td><td>Y</td><td>Y</td><td>Y</td><td>-</td><td>Y</td><td>-</td><td>Y</td><td>Y</td><td>-</td><td>-</td><td>-</td><td>-</td><td>Y</td><td>Y</td><td>-</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td></tr>
<tr><td>Financial policies for borrowers</td><td colspan="29"></td></tr>
<tr><td>1. State loans or credit guarantees</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>-</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>-</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>-</td><td>-</td><td>-</td><td>-</td><td>Y</td><td>-</td></tr>
<tr><td>2. Restructuring of loan terms or moratorium on payments</td><td>-</td><td>Y</td><td>Y</td><td>Y</td><td>-</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>-</td><td>Y</td><td>Y</td><td>-</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td><td>-</td><td>-</td><td>-</td><td>Y</td><td>Y</td><td>Y</td></tr>
</table>

Source: IMF staff.
Note: The table shows policy measures for 29 economies with systemically important financial sectors. The table does not include details on all of the central bank measures that have been introduced, but rather groups them under "central bank liquidity support" or "central bank asset purchase." "Foreign currency intervention" includes central bank interventions in the foreign exchange spot and derivatives markets, as well as other measures, such as changes in foreign exchange reserve requirements. "Easing of the countercyclical capital buffer" includes an easing from announced or effective levels, or an easing of the sectoral countercyclical capital buffer. "Restructuring of loan terms or moratorium on payments" includes both official actions and measures taken by banks. Data labels in the table use International Organization for Standardization (ISO) country codes. For more details, see www.IMF.org/COVID19policytracker.

Figure 2. 59 Monetary and Financial Policy Responses. Source: (IMF, 2020)

First, across a number of jurisdictions, Central Banks in both advanced markets and emerging economies have eased their monetary policy have cut their rates by 50bps to more than 100 bps (Figure 2.59). Second, Central Banks have provided additional liquidity by lowering bank's reserve requirements. Third and equally important to the aforementioned, central banks have agreed to enhance the provision of the US liquidity through swap line arrangements (IMF, 2020).

The proceeding data has been consolidated by the (OECD, 2020). In addition, a policy tracker by (IMF , 2020) has documented the policy responses by different governments around the world. The next section will outline the economic impacts of COVID in addition to the policy responses in each of Malaysia, Brazil and Turkey respectively.

Economic Impacts of COVID-19 on Malaysia

By virtue of its deep integration into the global production networks, Malaysia is one of most exposed economies in the World aftermath the pandemic. China is Malaysia's number 1 trading partner and a main source of its foreign direct investment (Cheng, 2020). Over the past decade and in line the country's standing on being a manufacturing power house for intermediate components, one quarter of Malaysian-Chinese trade (estimated at USD 20 BN) become disrupted due to the COVID-19 outbreak.

In tandem, Malaysia was one of the countries that received two major shocks at the same time. The COVID pandemic in addition to the slump in the oil prices brought a toll on the Malaysian economy. The Malaysian economy has increased its reliance on fiscal revenues from oil and gas in the recent years after abolishing the tax receipts from good and services respectively. Malaysia's fiscal and credit profile will enter into a phase of increased uncertainty following the oil markets volatility.

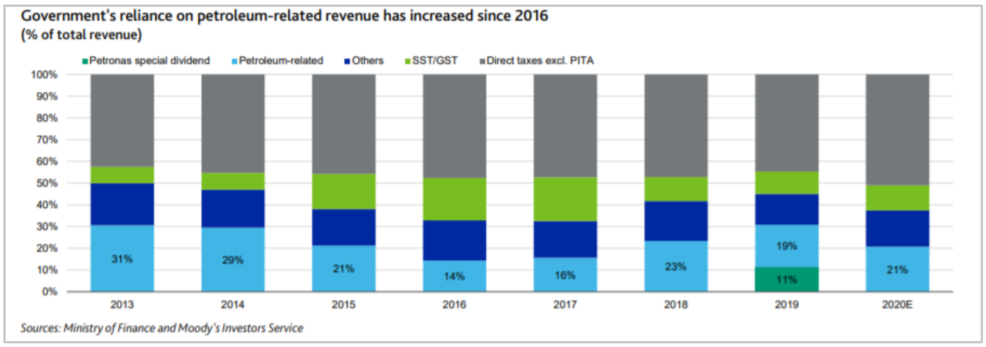


Figure 2. 60 Malaysia Government revenues (2013-2020e). Source: (Moody's Investors Service, 2020)

Moving to the movement of labor, goods and services, all international travel to Malaysia has been suspended from 18-31st of March. Before that, travel from certain countries was restricted (Italy, China, Iran, Denmark, and Korea). It was noted that the travel ban was extended to mid-April 2020. Mass gatherings and events were put on hold till further notice.

Speaking in terms of the effects on business, the COVID pandemic will disproportionately damage the SMEs and low-income groups. As (Cheng, 2020) observes at the time of the outbreak, the lockdown, CORONA will impact the vast economy, leaving most businesses disrupted, individuals bankrupt, and the financial system crippled with non-performing loans. A recent analysis of (Moody's Investors Service, 2020) observed that the key sectors impacted by the weak global demand are the export oriented industries such as electronics (accounting for 30% of the country's GDP) together with the services industry as the restrictions in labor mobility prevail. The slower growth in global demand will be further exacerbated by lower oil prices.

Key Policy Reponses as per 1 April 2020:

In light of the emerging risks and devastating impacts on Malaysia's economy, a two-stage fiscal response stimulus packages were presented by the Government of Malaysia to alleviate the economic impact of the COVID-19 outbreak.

1. Stage 1 measures included liquidity support for individuals and businesses. The first package amounted to 0.4% of GDP (RM 6 BN) was introduced on the 20th of February with direct assistance to the health sector, a deferment of income taxes and a reduction in

social contribution of Employee Provident Funds (temporary lowered the statutory reduction from 11% to 7% of monthly salaries) among others.

2. Stage 2 measures focused on bringing back the economy after rebound. A second package amounted to 1.7% of GDP (RM 25 BN) was introduced on the 16th of March including additional health spending; cash transfers to low income households; wage subsidies to help employers retain workers; and infrastructure spending in East Malaysia.
3. Furthermore, workers were forced to take an unpaid leave for 6 months (March-August).
4. The government also applied a discount on electricity bills on certain sectors. For example, the tourism sector received a 15% discount of the electricity bills, while other sectors such as manufacturing, commercial and industrial sector were eligible for 2% off their bills.
5. The government of Malaysia also set up a RM 50 BN as a guarantee fund for working capital loan guarantees for COVID-19 affected sectors (IMF , 2020)

In terms of macro prudential regulations, on March the 3rd, Bank Negara of Malaysia cut its policy rate by 25bps to reach 2.5%. Furthermore, reserve requirements were reduced from 3% to 2% to avail liquidity to the financial sector. Reasons cited by the BNM were increased market disruptions, financial market volatility and tighter financial conditions as a result of the pandemic (IMF , 2020).

Equally important, on March 25, 2020, BNM eased the supervisory and regulatory compliance measures in banks to enable them defer and structure loan payments to individuals and business owners respectively (Cheng, 2020).

For purposes of brevity, the measures taken by the government of Malaysia will sharply reduce the economic growth of the country. The stimulus package will leave the country with a large fiscal deficit and this will have a toll on the fiscal consolidation. Despite the sizeable stimulus, the economic growth is expected to contract between 0-1% in 2020 before slowly rebounding again in 2021 to 5%. (Moody's Investors Service, 2020).

Economic Impact of COVID-19 on Turkey

It was noted by the (IMF , 2020), that outward capital flows from Turkey has been record high. Turkey’s CDS has doubled to 770 bps, the lira depreciated by 10% against the USD in addition to a sharp reduction of USD 10BN in the country’s foreign reserves. The president (Receb Tayeb Erdogan) has opposed a total lock down on the country on the basis that will halt the entire economic engine of the country. Further, he said that “continuing production and exports are the top priority and that Turkey must keep the wheels of the economy running” (Gokay, 2020). On March 18th, the president announced the “Economic Stability Shield Program”, a package of USD 15 BN in order to balance out the adverse effects of COVID-19 (OECD , 2020). Out of the 21 measures taken, focus the author will discuss the most relevant broad fiscal and company measures respectively.

Key Policy Responses:

Fiscal Measures: Macro Specific:

As noted, the Economic Stability Shield program of TRL 100BN announced was split into TL 75BN (USD 11.6BN or 1.5% of GDP) into fiscal measures and TL 25BN (USD 3.4 BN 0.5% of GDP) allocated to the credit guarantee fund. Effectively speaking, the government of Turkey doubled its Credit Guarantee Fund limits for SMEs from USD 3.8 BN to USD 7.7BN. Additionally, key support measures included; (I) rising minimum pension and cash assistance to families in need; (II) increasing employment protection by loosening of short-term work protection measures; and (III) deferment of taxes for impacted industries, notably tourism. Moreover, (IV) extension of personal and corporate income taxes has been affected on April 2020.

Monetary Policy Measures:

On March 16th, Turkey's Central Bank (CBTR) introduced: "Measures against the Likely Economic and Financial Impacts of the Coronavirus", a policy package that included a number of measures to mitigate the effect of the shock. As such, it included a cut in the main policy rate from 10.75% to 9.75%, an announcement that will provide much liquidity for banks through intraday and overnight standing facilities. Two weeks down the road, on March 31st, the CBTR announced "Additional Measures against Economic and Financial Impacts of Coronavirus". The first package included an increase in limits of facilities supporting unexpected credit interruptions in cash flow, with a 70% allocation to SMEs in export credits. Second, the second package allowed for an outright purchase of sovereign bonds. Debt enforcement and bankruptcy procedures have been suspended (IMF , 2020) (OECD , 2020).

Economic Impact of COVID-19 on Brazil

According to (Dwyer, 2020), the Central Bank of Brazil has revised the forecast of the current fiscal year. GDP for 2019 has been revised to 1.1% lower than the preceding year's GDP of 1.3%. Furthermore, it is expected that with the spread of COVID-19, more stimulus is expected to be disbursed (Dwyer, 2020). As for the direct impact from China, it is estimated that Brazil will get a massive hit to its foreign currency earnings and trade balance since 27% of its exports go to China. A second major impact on Brazilian businesses will come from the severe shortage of raw materials and supplies, as components coming from China to Brazilian industries have stopped arriving at ports (Dwyer, 2020).

Key Policy Responses:

Fiscal Measures: Macro Specific:

Furthermore, fiscal measures have been tailored to SMEs. An emergency line has been extended to employees of SMEs earning up to 2 times the minimum wage. According to the data gathered by the (OECD , 2020), the tenor of the aforementioned loan is 36 months with an interest rate below the current inflation rate (at the time of the research, y-o-y inflation rate for 2020 was recorded at 3.47%) (Statista , 2020). 85% of the loans given to SME employees are borne by the federal government of Brazil. Tax liabilities and other charges on SMEs are being postponed.

Monetary Policy Measures:

Moving to macro prudential measures, the BNDES has reduced the SELIC rate by 50bps on 18/3 to 3.75%. On the 23/3, the Central Bank of Brazil announced liquidity injection up to 17% of GDP.

The role of the IFIs during the pandemic

As cited earlier, the mandate of IFIs or multilateral development banks is to alleviate the poverty of citizens and improve living standards of people. Second, the goal of IFIs is to support sustainable economic, social and institutional development in emerging markets. The third mandate is to promote regional integration and cooperation of across countries of the global economy respectively.

Over the past few months, there was a significant drop in the economic growth of the countries as reveled by the (IMF , 2020) in its latest Spring 2020 Meetings. In terms of Brazil, GDP in 2020 is forecasted to reach -5.3%. Malaysia -1.7%, Turkey's GDP is expected to reach -5% respectively. G-20 countries have collectively agreed to freeze bi-lateral government loan repayments for poor countries. Furthermore, the G20 countries have called on private creditors to "participate in the initiative on comparable terms" and have asked the multilateral banks to join the initiative and to further explore the options for a temporary suspension of the debt service payments over the suspension period (England, Wheatley, & Politi, 2020). Effectively speaking, the debt moratorium has taken place on May 1st, 2020.

However, there are opposing views to the debt suspension of poorer countries as they have to struggle with public health issues as a result of the pandemic, rising debt, and weakening currencies. Emerging and developing markets face multiple shocks such as the pandemic, a sudden worsening of their public finances, weaker demand on their products, and for commodity exporters (Malaysia and Brazil); lower commodity prices. The COVID -19 outbreak will cause massive budget deficits and debts are expected to soar dramatically in the coming two years. In light of these challenges, the G20 countries have asked the IMF to increase the allocation of SDRs "Special Drawing Rights" that would offer direct assistance to countries that will witness a sudden depletion of these foreign currency reserves at the Central Banks.

From what has been announced by the IMF and the global community, the author believes that while the actions are commendable in the short term, more support would be required over the medium and long term. The IMF announced that an emergency life line amounting to USD 8TRN have been taken to stabilize the economy. The economy is in lock down. These measures are very expensive, if the epidemic will take longer, definitely, more measures will be needed. On individual countries basis, each has to reprioritize their public spending towards the health care, energy, communications and infrastructure respectively.

Chapter Conclusion

This chapter has examined a great deal of theoretical and empirical studies on financial development, liberalization and SME finance. (Schumpeter, Theory of Economic Development, 1911) became the most commonly used theoretical framework to analyze the role of SMEs in an economy. The crucial question to be addressed in this study is whether the financial development has led to greater economic growth by allocating credit to SMEs. Recent literature review has deducted that a nexus between financial liberalization and economic growth (GDP per Capita) remains a challenge (Sahay, et al., 2015).

It has been established that SMEs in emerging markets is difficult due to supply and demand factors. In the three economies examined, the transition from “financially repressed” to “financial liberal” and open economies have had wide reaching benefits to the overall economy. The author investigates the challenges of SME financing in Turkey, Malaysia and Brazil. By providing an estimate of the sizable credit gap faced by SMEs, this research complements the existing literature that seeks to identify the impact of measures designed to induce banks to extend more credit to SMEs which should not only be taken by availing more credit from Financial Institutions or Banks respectively. There are variances in each country’s financial sector reform and SME finance respectively. Emerging markets have a long way in implementing reforms to release financial constraints for the SME segment.

Today, the credit gap for SMEs stands at USD 5.2 Trillion USD (World Bank , 2020) . Nevertheless, with the advent of the COVD-19 and prevailing disruption in the global economy, SMEs in Emerging Markets are believed to suffer more than large corporations due to their vulnerability and their lack of financial reserves to pay for employees’ salaries and office rent (Accountancy Europe , 2020). The economic and financial implications that SMEs are dealing with will have far reaching effects through the entire economy and calls for a deep investigation on the optimal solution for policy makers and banks respectively.

Chapter 3: Research Method

Introduction

The purpose of this qualitative multiple case study is to document and explore the views of subject matter experts on role of traditional bank lending to Small and Medium Enterprises in Emerging Market economies and whether financial development and financial innovation (i.e. alternative credit, etc.) is conducive to economic growth. The purpose of this chapter, in particular, is to introduce the methodology adopted for the multiple case study in order to assess the variables impacting economic growth and SMEs in Emerging Markets. This allows for a deeper understanding of how credit may support SMEs growth in the Emerging Markets. This study also aims to provide valuable new insights for theory building from the data collected and research findings in order to better understand what drives economic growth in emerging markets. The applicability of the multiple case study approach is discussed in length in this chapter. The research plan including the methodology, study participants, procedures, sampling, analysis method, ethical considerations and limitations are the main sections of this chapter. The chapter will conclude with a summary.

Research Questions

The researcher believes that understanding the phenomena would be beneficial to multiple stakeholders and policy makers in the banking industry. In pursuit of understanding this phenomenon, the researcher addresses the following research questions:

- **RQ1:** Is overall financial development in Emerging Markets conducive to Economic growth?
- **RQ2:** Building on the "Theory of Economic Development" & "Economic Theory of Bank Credit", which of the following three factors have a stronger impact on economic growth in the Emerging Markets: (1) traditional financial development (i.e. bank credit); (2) alternative forms of finance/lending; (3) a combination of the two forms of lending/finance?
- **RQ3:** What are the short-term and medium-term advantages and disadvantages of the traditional lending versus the innovative and alternative forms of finance for SMEs growth for Emerging Markets?
- **RQ4:** What are the short-term and long-term advantages of the former with respect to their Country's economic development, and the overall financial stability?
- **RQ5:** Is the post-IFI era (financial liberalization) and its international influence contributing to creating the conditions for a more resilient, financially sustainable, and growth-oriented environment for the Emerging Markets' SMEs and their Economies?
- **RQ6:** What determines the composition of Bank's Loan Portfolio in the emerging economies?
- **RQ7:** Does increased access to traditional bank lending/finance and alternative forms of finance to SMEs necessarily contribute to an improvement in general economic conditions and economic

development in developing countries or it requires also savvy fiscal, monetary, and structural reforms and efficient and modern financial markets for optimal allocation of financial resources?

- **RQ8:** In light of the COVID-19, which will be the greatest areas of change for SME credit?

Rationale and Advantages of the Chosen Methodology

Within the myriad methods of research in the world today, the multiple case study methodology remains the most important method of research by far (Pauwels & Matthyssens, 2004). In his book (Hartley, 2004) describes the case study as; 'a detailed investigation, often with data collected over a period of time, of one or more organizations, or groups within organizations, with a view to provide an analysis of the context and processes involved in the phenomenon under study'.

The research analysis uses a qualitative multiple case study approach to document experiences from a number of emerging markets and experts based on (Yin, 2014) six steps process (Figure 3.1). A multiple case study is appropriate for a contemporary phenomenon in its real-life context, especially when the boundaries between phenomenon and context are not evident (Yin, 2014). Additionally, as put by (Shakir, 2002), (Benbasat, Goldstein, & Mead, 1987), applying a case study approach is deemed appropriate when the *"*research addresses a contemporary phenomenon, of which the researcher has no control over; the research is highly exploratory and lastly, when the research addresses the "how" and the "why" questions" respectively.

There are many advantages of using a multiple case study research. Recent literature reveal that using a multiple case study accentuates the "methodological rigor" of the study and enables the "successful generation of a theory" from a number of sources such as: (i) existing literature; (ii) analysis of data; and (iii) personal experiences (Shakir, 2002) (Eisenhardt K. M., 1989) (Miles & Huberman, 1994) (Yin, 2014). In addition to that, theory contributions of case studies can be evaluated through a continuum ranging from: (i) theory building; (ii) theory development; and (iii) theory testing (Ridder, 2017).

This dissertation includes qualitative and quantitative research methods. A qualitative research is appropriate when the goal of the research is to gather feedback and insights from a relatively small number of participants in a given situation (Stake, 2010). Qualitative research methods answer the "How, When, Where and Why" questions respectively (FoolProof, 2015). Quantitative research is appropriate when the research seeks to understand the relationship between the variables of the study (Creswell, 2014). This research focuses on the data rather as opposed to insights and views of a number of participants (FoolProof, 2015). Quantitative research answers the "who" and the "what" questions respectively. The key difference between the two methods is the level of flexibility. As (Mack, Woodsong, MacQueen, Guest, & Namey, 2005) points out, quantitative methods are highly inflexible. Surveys or questionnaires ask respondents the same questions. The advantages of this approach lie in its ability to compare the responses across all participants and study sites. On the contrary, qualitative research methods are more flexible than the former. Qualitative researches allow for more spontaneity and a higher degree of interaction between the respondent and researcher. For one, the respondent can respond with a higher degree of detail than in a quantitative method. Second, the researcher has the opportunity to respond immediately to what the respondent has answered by tailoring subsequent questions to the information the respondents have provided (Mack, Woodsong, MacQueen, Guest, & Namey, 2005). The researcher chose a combination of qualitative and quantitative approaches to validate the research inquiry. Using both methods enabled the author to gain a deeper level of insight to the phenomena investigated in addition to statistical evidence from the quantitative data to support the conclusions of the research.

Multiple-case designs are appropriate when the same phenomenon is thought to exist in a variety of contexts. Data was collected from multiple sources including in-depth interviews with subject matter experts who have significant experience with SMEs in emerging markets. The author analyzed secondary data from a number of emerging markets. The objective of the research was to replicate findings in a number of markets and contexts. Under these circumstances, each individual case study still must be rigorously conducted, but the collection of several case studies on the same topic is intended to be the basis for replicating or confirming the results" (Yin, 2014). In contrast to experiments and surveys, case studies rely on analytical rather than statistical generalizations. Statistical generalizations are achieved from a sample to a larger universe, while analytical generalizations occur because of "generalizations of a particular set of results to a broader theory" (Yin, 2014) (Shakir, 2002). To realize this, the author had multiple interviews with subject matter experts in order to achieve the generalization intended for theory testing.

Broadly speaking, there are essentially two research philosophies: (i) positivist; and (ii) phenomenological. According to (Hale & Napier, 2013), positivist approaches are generally associated with scientific inquiry. They are characterized to seek facts and causes in a systemic way. This approach is founded on a belief that people respond to stimulus or forces external to them and that these can be discovered and described using a systematic and deductive approach. This explanation will attempt to draw a causal relationship between different variables and relate them to a particular theory. Most of positivist methodologies in researches are quantitative. On the other hand, the phenomenological approach views research from the perspective that human behavior cannot be easily measured. According to this philosophy, human motivation is shaped by factors that are not always identifiable so that it may become hard to generalize. This philosophy assumes that people will influence events and act in unpredictable ways that will upset any constructed rules or norms. This approach describes the interpretations and experiences of participants in the research study. As such, phenomenological approaches are mostly qualitative (Hale & Napier, 2013).

Case studies have different philosophical orientations. According to (Yin, 2014), case studies are "post-positivist" in nature; while (Stake, 2005) indicates that case studies have a "constructivist" orientation. (Boblin, Ireland, Kirkpatrick, & Robertson, 2013) describe the positivist approach as one when the "nature of reality" is completely objective and neutral where the researcher is detached and independent of what is being researched. On the other hand, (Boblin, Ireland, Kirkpatrick, & Robertson, 2013) describe the constructivist approach as one that stems from the subjectivity of reality. In this case, the phenomena researched is influenced by various elements such as spatial, economic, political, and historical. This multiple case study was conducted with a "constructivist" approach. The researcher had an insider view and the research methods were both inductive and flexible.

This study used interviews to collect the field data. According to (Hale & Napier, 2013), interviews can be: (1) highly structured, fixed to a specific time frame, and (2) unstructured and open-ended. The author used a variety of interview strategies during the data collection. In each of the interviews with the experts, the researcher combined a mixture of structured, semi structured and open-ended questions to the participants. According to (Seidman, 2006), the duration of the interviews might vary according to the topic in discussion, but generally advocates 90 minutes per interview. In the study, each interview with subject matter experts lasted 90 minutes to 120 minutes. (Seidman, 2006) tips for an effective interview include: (i) listening more, talk less; (ii) following up with what the participants say; (iii) ask questions when you do not understand; (iv) ask real questions; (v) avoid asking lead questions, use open ended questions (vi) follow-up, do not interrupt; (vii) avoid reinforcing your participants responses (Hale & Napier, 2013).

Table 3.1
Categorization of Types of Interview Strategies

Type of Interview	Required Skills
Structured Interview	Neutralization, No prompting, No Improvising, training to ensure consistency.
Semi Structured Interview	Some probing, rapport with the interviewee, understanding the aim of the research project.
Open Ended Interview	Flexibility, rapport with the interviewee, active listening

Table 3. 1 Type of Interviews. Source: (Hale & Napier, 2013) Adopted from (Noaks & Wincup, 2004)

Case studies have been criticized for its insufficiency to derive generalizations. In addition to that, case studies are charged with causal determinism, non-replicability, subjective conclusions, biased selection of the cases and the lack of empirical clout (the use of too many variables on very few cases) respectively (Idowu, 2016). This was a cause of concern to the researcher, as the author of this work intends to make a valuable contribution in the field of institutional theory. Furthermore, some scholars such as (Campbell, 1975) (Eysenck, 1976) claim that the case study approach is the most useful method in generating of a hypothesis, while research methods for hypothesis testing and building of a theory. In addition, the scholars believe that the case study method contain a bias towards verification, i.e. the research tends to verify his/her own preconceived ideas (Idowu, 2016).

Many researchers and scholars have rejected the claims indicated above. For instance, (Yin, 2014) well refuted the generalization of a case study research by explaining the difference between the analytical generalization and the statistical generalization. In terms of the former, “in analytic generalization, previously developed theory is used as a template against which to compare the empirical results of the case study” (Yin, 2014) (Idowu, 2016). Interesting enough, (Yin, 2014) proposed that generalizations results derived from “multiple” or “single” case study designs are usually made to theory and not essentially to populations. Notwithstanding, (Creswell, 2014) (Yin, 2014) (Stake, 2005) “forcibly argue that the size of the cases used (whether one, two or a hundred) do not transform a multiple cases into a macroscopic study” (Idowu, 2016). Finally, and equally important, (Feagin, Orum, & Sjoberg, 1991) emphasized “irrespective of the type, purpose, unit of analysis, or design, rigor is a central concern in case study research”. This being said, the case study strategy was the optimal choice for the author as it brings a deeper understanding to a complex issue and adds strength to previous research (Idowu, 2016).

In closing this section, a word is in order. The strengths and advantages of the case study does not disqualify the mentioned criticisms of the case study strategy. Hence, the use and application of a multiple case study theory was particularly useful to the researcher to extend an existing theoretical model (Stake, 2005).

The Researcher

The researcher worked in the banking industry for 20 years and holds a bachelor’s degree in Business Administration and an MBA in Management. The author is a part time lecturer and trainer at the Egyptian Banking Institute and is a Future Leaders Alumni of the Central Bank of Egypt. Participants of this study had no direct relationship with the researcher that represents a conflict of interest or may have a bias on the study. The researcher has been trained in conducting researches and interviews as part of her job at the Strategic Department at her bank.

Research Sample and Population

The sampling technique adopted for this study is purposeful sampling (also known as judgmental sampling). Purposeful sampling is a procedure whereby “participants’ selection requires their deep understanding of the research questions and whether they can enhance the knowledge the understanding of the phenomena under study” (Sargeant, 2012). According to (Patton M. Q., 1990), “the purpose of purposeful sampling is to select information-rich cases whose study will illuminate the questions under study” (p.169). Furthermore, theoretical sampling means that cases are used because they are “particularly suitable for illuminating and extending relationships and logic among constructs” (Eisenhardt & Graebner, 2007). Such samples are not statistically representative of the entire population under study

(Ekpu V. U., 2016, p.22). The sample was drawn from a population of international subject matter experts who had extensive experience working in the banking industry, IFIs, SMEs, Emerging Markets, alternative credit, and most importantly, having objective opinions regarding the subject matter. In assessing their profiles in depth, the author believed that the participants fulfilled the minimum requirements to participate which included being knowledgeable, demonstrating a strong record of accomplishment in the domains they are working in. Experts had a minimum of 25 years' experience. Career examples included but are not limited to finance, research, academia, advocacy and policy making. All participants were fluent in English, although English need not to be their native language.

Participants were recruited through the researcher's professional networks, SME Finance Forum, the World Bank, the IFC, Federation of Egyptian Banks- Financial Inclusion Committee, peer banks working in the region, India's Micro Finance Network, European Bank for Reconstruction and Development, Organization of Economic Cooperation and Development. Small & Medium enterprises are defined by the (OECD, 2020) as independent firms that employ a certain number of people (fewer than 500 people). Emerging Markets or developing economies are those nations with significant economic growth, (as well as a large contribution to global GDP), a rising middle class, in addition to a potential for rapid growth and investment (Christy, 2020). In this research, the selected sample was from different regions; the EMEA (Turkey), APAC (Malaysia) in addition to LATAM (Brazil).

The criteria for the sampling was as follows:

- All participants had minimum working experience of 25 years and are currently engaged in the banking industry in Emerging Markets (directly and indirectly).
- All participants either were the owners of the companies sampled or were at the C-level of the company reporting directly to the CEO of their institutions.
- Participants included specific and general subject matter experts representing the company and the industry view.
- All participants came from different geographies. Also, there was a broad range of experiences and insights.

The researcher emailed the participants in her network using the "Introductory Letter" in found in Appendix A. An "Informed Consent Letter" was required to all participants in this study (Appendix C).

The researcher anticipated 15-20 participants for the study. The final research sample included 17 individuals and 12 emerging markets as determined by saturation.

A series of Skype and phone interviews were scheduled during the months of April-May 2020. At the end of the study, participants received copies of the findings.

Research Methodology Overview

Prior to embarking on research study, the author of this dissertation has been personally and professionally engaged with the topic of Banks's downscaling to SMEs. Since 2015, the author of this work has followed the industry trends, participated at international conferences related to SME finance to Women, credit gaps to SMEs in Emerging Markets, and has established a Greenfield Micro Finance venture at her bank in Egypt. This has contributed positively in building the right professional network based on mutual trust and respect. Also, the involvement of the researcher with the topic of SMEs enabled her to easily access the subject matter experts and request their participation in the study.

The following steps summarize the process of the data collection for this thesis. According to (Yin, 2014) , the case study research is comprised of six steps: (i) planning; (ii) designing; (iii) preparation; (iv) data collection; (v) data analysis; and (vi) sharing of research findings.

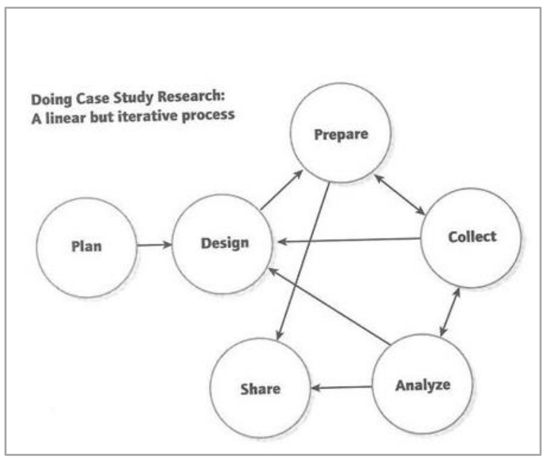


Figure 3. 1 Case Study 6 Steps approach. Source: (Yin, 2014)

I. Planning & Preparation Phase

A detailed literature review was conducted in 2017-2019 in the broad areas of economic development, SMEs and Emerging Markets transformation. After an extensive period of research, the author prepared the research questions with the support of her dissertation supervisor. According to (Idowu, 2016) research design requires a choice of research strategy, utilizing qualitative or quantitative data, action research or case study, etc. The advantages of a particular research strategy hinges on the nature of the research questions being asked.

II. Data Collection

The primary method for data collection in this study involved interviews with subject matter experts. The initial set of interview questions are presented in (Appendix C). Due to the rich content of the material and questions, the researcher refined the interview process by following an (IPRF) (Interview Protocol Refinement Framework) to enhance the reliability of the quality of data received from the interviews (Castillo-Montoya, 2016). The IPRF is a four-phased process to fine tune interview protocols. The phases include the following: (i) ensuring that the interview questions are aligned with the research questions; (ii) organizing an interview protocol to create an inquiry-based conversation; (iii) having the protocol reviewed by others; and (iv) piloting it' (p.811-12).

Each interview took place in a single interview session. Interview questions were designed to correspond with the literature review provided in the study. The semi- structured interview guide was used because it allowed flexibility to capture the unique perceptions and experiences of the participants (Stake, 2010). No interviews were conducted or recorded without the verbal and written consent of the participants. The author has also used a Microsoft ® Excel sheet to tabulate the schedules of the respondents and to track their schedules. The excel sheets were stored on a personal computer and on Google® & Outlook® calendars respectively. The storage of Excel sheets and other references were stored on other devices to ensure information security. Data access was controlled throughout the process.

In regards to the participants' insights during the interviews, the researcher maintained hand written notes from each interview. Interviews were conducted face to face through virtual technology tools such Microsoft® Teams; Zoom®; & Skype® respectively. Data was collected through open ended questions which have been digitally recorded and captured in the interviewer's notes. Later, a rooster of each interview and the answers to each research question were tabulated on Microsoft ®Excel. The electronic journal was built to maintain traceability of each respondents' answers and to facilitate the subsequent analysis phase. Rather than simply checking for clear cut answers from each respondent, each participant was encouraged to further reflect on the questions in order to have a richer contribution to the topic.

The researcher transcribed the interviews. The process took place 24 hours after each interview. The researcher reviewed the transcriptions and checked for any errors or misunderstanding. If clarifications were needed, the researcher personally reached out to each interviewee to provide more explanations and answers.

In terms of secondary data, the author has derived data from OECD reports, Moody's Investors Services, IMF and World Bank data sets. The objective of this research is to examine the relationship between traditional finance to SMEs and Economic Growth in Emerging Markets.

In pursuit of this inquiry, the author used three variables in constructing the statistical model: (1) GDP per capita; (2) SME loan amounts and; (3) Total Loans' amounts netted of SME. The author obtained data from twelve emerging countries that underwent economic liberalization. These economies in the sample were; South Africa, Malaysia, Turkey, Morocco, Singapore, Philippines, Thailand, Mexico, Brazil, Chile, Poland and Russia. The selection of these countries reflects availability of data during the entire period under study.

Data for (GDP per capita) was sourced from (Moody's, 2020). The other two variables; (SME loans and Total Loans net of SMEs loans), were extracted from (OECD, 2020). The following table presents the core indicators and the definitions.

Table 3.2
Core Indicators in Financing SMEs & Entrepreneurs

<table>
<tr><th>Core Indicators</th><th>Unit</th><th>Definition</th><th>Source</th><th>What they Show</th></tr>
<tr><td>Business Loans, SME Total</td><td>Volumes in National Currency</td><td>Business Loan amount for all SMEs</td><td>Financial Statements for all Malaysian/Turkish/ Brazilian Banks</td><td rowspan="3">SME demand for and access to bank credit. Also, they measure the stock of assets in the banking market accumulated over time in addition to new credit facilities.</td></tr>
<tr><td>Business Loans, Total</td><td>Volumes in National Currency</td><td>Total Business Loan amount for all firms</td><td>Financial Statements for all Malaysian/Turkish/ Brazilian Banks</td></tr>
<tr><td>Total Loans net of SME loans</td><td>Volumes in National Currency</td><td>= (Total Business Loans – SMEs Loans)</td><td>Financial Statements for all Malaysian/Turkish/ Brazilian Banks</td></tr>
</table>

Table 3. 2 Core Indicators in Financing SMEs and Entrepreneurs. Source: (OECD, 2019)

Over the course of study, the researcher developed a comprehensive database to ensure the transparency and quality of the research (Yin, 2014). Moreover, the author imported all datasets from the sources listed above to tabulate the variables, and 12 emerging market economies on Microsoft® Excel to capture with careful handling to avoid any data duplication (Yin, 2014).

III. Data Analysis

Data analysis is considered to be the most crucial and difficult part of the research study. According to (Basit, 2003), this phase is difficult because it is not a mechanical or technical exercise. In qualitative researches, the data collector assumes the role of the data analyst. Researchers draw on the data they have collected, informants, and first-hand experience with their settings in order to interpret their findings (Taylor, Bogdan, & DeVault, 1998). The objective of this stage is to determine the categories, relationships and assumptions that inform the respondents views of the world in general and of the topic in particular (McCracken, 1988) (Basit, 2003).

Coding of Interviews – Qualitative Data Analysis

Coding of the interviews started when the researcher transcribed the full interviews, reviewed the literature, and the theoretical framework of the study. Coding is the second step in the data analysis which involves the process of sorting and organizing of qualitative data concurrently in an effort to look for all possible interpretations (Moghaddam, 2006). According to (Basit, 2003), this method is applied in the development of “grounded theory” as advocated by (Glaser & Strauss, 1967).

The author opted to code the interviews manually and used open coding method. At the outset of this stage, the author thought of the research questions and the meta narrative or “big picture” to develop a story line (Stuckey, 2015). Coding started with a full transcription of the interviews. The author looked for “key words or phrases which connect the participant's description to the experience under study” (Moghaddam, 2006). According to (Biaggi & Wa-Mbaleka, 2018), there are three units of analysis: (i) concepts; (ii) categories; and (iii) propositions. Concepts are the conceptual labels used in the initial open coding. Categories come at the higher level and more abstract terms that come in the selective coding phase in preparation to the emergence of a new theory. After that, theoretical coding emerges when propositions describe the conceptual relationships between categories and their concepts in addition to the relationships between categories (Biaggi & Wa-Mbaleka, 2018).

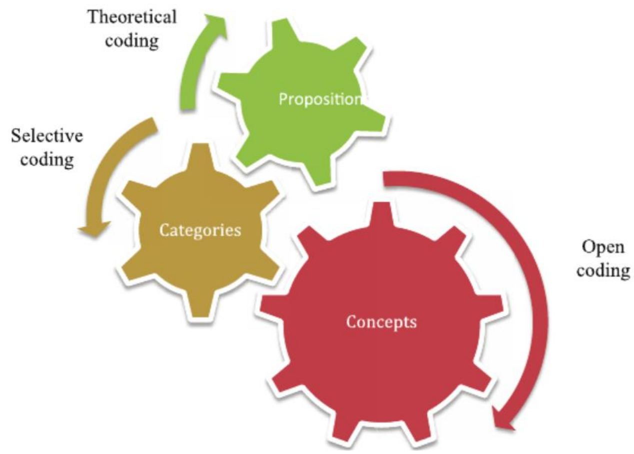


Figure 3. 2 Units of analysis and coding methods. Source: (Biaggi & Wa-Mbaleka, 2018)

Besides coding, it was vital to incorporate memos in the data analysis. According to (Moghaddam, 2006), memos are notes the researcher writes during the research process or immediately after data is collected in order to elaborate on ideas about the data and the coded categories. Memos serve as a method of recording the impressions of the researcher and describing the situation (Creswell, 2014). Moreover, memos were so important to the researcher as they served as a data bank for the author to be reviewed in order to draw the emerging theory. Memos facilitated the retrieval of data at a later date (Goulding, 1998).

Statistical Model – Quantitative Data Analysis

Linear Regression models are the most commonly used type of predictive analysis. The overall idea of a regression is to examine whether a set of predictive variables do a good job in predicting the outcome of a variable (dependent); and second, which variables in particular are significant predictors of the outcome variable. The regression analysis is used to determine the relationship between a dependent and an independent variable (Statistics Solutions, 2020). Prior to building our model, the author has standardized the data, by subtracting each variable from its mean (as the most precise measure of central tendency) and dividing it by its sigma, in order to visualize the data on a graph.

The Baseline Model

The author used the Ordinary Least Squares (OLS) regression analysis in order to measure how changes in SMEs loans' amounts affect changes in the GDP per capita in Emerging Markets. Effectively, the log difference of the SME loans amount was regressed against the log difference of the GDP per capita. In a research project, two hypotheses are tested; the research hypothesis and the null hypothesis (no relationship exists at all) respectively (Lutabingwa & Auriacombe, 2007). The author has presented the following statistical model to test the hypothesis of the study.

$Y_t = a + \beta Xt$

$Y_{t:}$ LN ($GDPt/GDP_{t-1)}$ *the dependent variable*

a: Intercept

β: Beta coefficient

$X_{t:}$ LN ($SMEt/SME_{t-1)}$ *the independent variable*

Residuals Diagnostics

Prior to any model analysis, we will present first the residuals diagnostics.

- ***Normality***

The author used the Jarque Bera (JB) test in order to test the normality of the residuals.

- ***Serial Correlation***

The author used the Breusch Godfrey (BG) test in order to test for serial correlation in the residuals.

- ***Heteroscedasticity***

The author used the White test in order to test for heteroscedasticity or unequal variance.

Criteria for Judging the Quality of the Research Design.

Qualitative Interviews are the most commonly used research instruments in social sciences. Interviews have been praised as an excellent tool for data gathering (Myers & Newman, 2007). According to (Hughes & Tight, 2006), conducting interviews is worthwhile for researchers because it reveals information that is otherwise "not accessible using techniques such as questionnaires and observations". They add that interviewing is not merely a data collection tool; it is rather a natural way of interaction that can take place in various situations (Alshenqeeti, 2014).

In spite of the above-mentioned advantages, the author was aware of the limitations of interviews as a research instrument. (Webb, Campbell, Schwartz, & Sechrest, 1966) claim that interviews ''intrude into the social setting they would describe, they create as well as measure attitudes, they elicit atypical roles and responses, they are limited to those who are accessible and will cooperate". In their article (Myers & Newman, 2007) summarize the pitfalls and problems of interviews as follows:

Table 3.3
Interviews Problems and Validity Measures taken

Problems & Pitfalls of Interviews	Explanations and Validity Measures
• **Artificiality of the interview**	The qualitative interview involves interrogating someone who is a complete stranger; it involves asking subjects to give or to create opinions under time pressure. **Validity Measures:** The author gave an introduction about herself and the subject of the research study. The interviews started only when the contact with the participants was established.
• **Lack of Trust**	As the interviewer is a complete stranger, there is likely to be a concern on the part of the interviewee with regard to how much the interviewer can be trusted. This means that the interviewee may choose not to divulge information that he or she considers to be ‘‘sensitive”. **Validity Measure:** The author made sure that informants are very clear on the nature of the research e.g. why the researcher is there, what she is studying, how she will collect data and what she will do with it.
• **Lack of time**	The lack of time for the interview may mean that the data gathering is incomplete. However, it can also lead to the opposite problem – of subjects creating opinions under time pressure (when these opinions were never really held strongly to start with). **Validity Measure:** The interviewer made sure that interviews were held in a convenient manner and that there was no time pressure for the participants in the study. The use of virtual tools for meetings was proper in ensuring that interviewees feel relaxed, especially when the timings of the interviews coincided with the COVID-19 lockdown and that most of the participants were working from home.
• **Level of Entry**	The level at which the researcher enters the organization is crucial (Buchanan, Boddy, & McCalman, 1988). For example, if a researcher enters at a lower level, it may prove difficult if not impossible to interview senior managers at a later date. In some organizations, talking to union members can bar access to management and vice versa. Additionally, gatekeepers may inhibit the researcher's ability to access a broader range of subjects. **Validity of Measure:** The researcher has a large network of connections due to her prolonged duration and seniority at her bank. This made her easily connect and ask the participants

	with different seniority levels who also enjoy a broad horizon to participate at her study.
• **Elite bias**	A researcher may interview only certain people of high status (key informants) and therefore fail to gain an understanding of the broader situation. **Validity Measure:** Good planning of selection of informants, by looking purposefully for contrasting cases (carefully considering contrasting views) (Brink, 1993).
• **Constructing Knowledge**	Interviewers may not realize that, as well as gathering data, they are also actively constructing knowledge. **Validity Measure:** The interviewer made sure to inform the study participants on the objective of the research study and its nature, which was academic. All interviewees received the questions in advance.

Table 3. 3 Interview Problems &Validity Measures taken. Source: Author's Composition based on (Myers & Newman, 2007)

Validity and Reliability

In a qualitative study, the instrument of data collection is the researcher himself (Brink, 1993). Validity and reliability present the key aspects of all research. Many researchers use terms such as; credibility, trustworthiness, truth, value, applicability, consistency interchangeably with validity and reliability when referring to criteria for evaluating the scientific merit of qualitative research (Brink, 1993). One of the key factors affecting the validity of a research is error. The degree of error is inversely related to the accuracy of the research. There major sources of errors can be categorized to: (i) the researcher; (ii) the subjects participating in the project; (iii) the situation or social context; and (iv) the methods of data collection and analysis (Brink, 1993).

In order to mitigate the aforementioned errors, the quality of the research is assessed using four logical tests (Yin, 2017). The four tests are summarized as follows:

- **Construct Validity:** this relates to identifying the correct operational measures for the concepts being studied.
- **Internal Validity:** seeking to establish a causal relationship whereby certain conditions are believed to lead to other conditions.
- **External Validity:** showing whether a case study findings can be generalized.
- **Reliability:** the last and foremost test is the ability of a case study to demonstrate that the operations of a study (data collection, procedures, etc…..) can be repeated yielding the same results.

Prior to discussing each test in length, it is important to highlight that the researcher was immersed in the field of study. Before engaging in the data collection phase, the researcher was an actively engaged in the field of Small and Medium Enterprises in her Bank before constructing a research proposal. The bank is based in Cairo, Egypt and the country has been engaged in implementing a full-fledged financial inclusion plan. Thus, many contacts were made during that time with key experts in Egypt in addition to high level contacts in global organizations. During these years, the researcher became familiar with the field, the governing eco system of SMEs and its research context.

Construct Validity

In quantitative research, the test of "construct validity" refers to the hypothesis, concept or question the researcher aims to collect and analyze data and choose his sample consistent with the construct (Golafshani, 2003). According to (Yin, 2014), three tests are done to ensure construct validity: (i) the use of several sources of evidence; (ii) the use of the chain of evidence approach in the data collection phase, and (iii) have the key informants review the case study report. The author has sufficiently reviewed different sources of data, such as interview data, archival sources, and participatory or direct observation on the subject matter prior to conducting the interviews (Gibbert & Ruigrok, 2010). By comparing the results obtained in the researcher's findings with other evidence from previous studies and articles on Lending to SMEs, the author believes that she performed a good analysis on the subject matter. The second strategy used by the researcher was to establish a chain of evidence, which allows the reader to follow how the research went from the initial research questions to the final conclusions (Gibbert & Ruigrok, 2010). Finally, the author confirmed the findings with the subject matter experts (Yin, 2014).

Internal Validity

Internal validity of a research measures the extent to which a study a credible cause-and-effect relationship between two or more variables. It also reflects that a given study eliminates other possible explanations of the findings (Cuncic, 2020). According to (Yin, 2014), one way to ensure validity is to assess whether the "research framework' for a given case study was explicitly derived from the literature. A second strategy to apply "theory or perspective triangulation" whereby the researcher compared participants' own accounts with "alternative theoretical schemes" (Denzin, 1978) in order to use multiple, rather than single perspectives to examine the effects of SME lending in different emerging markets contexts. The third strategy used was "data triangulation". The researcher collected data from different sources to develop a full understanding of the topic and to confirm facts and findings (Patton M. Q., 1990

) (Yin, 2014). A fourth strategy used was “pattern matching” whereby the researcher compared and discussed relationships between her own findings and previous research (Gibbert & Ruigrok, 2010).

The author believed that employing the aforementioned strategies ensured that data presented in this study was valid and free of any bias.

External Validity

According to (Cuncic, 2020), “external validity” or “transferability” is the extent to which causal relationships can be generalized to different measures, persons, settings, and times. In conducting qualitative research, there is a broad agreement that data needs to be sufficiently detailed to ensure transferability (Polit & Beck, 2010).

In ensuring the validity of the study, the author developed a working hypothesis that was shared and discussed with practitioners in the field. In addition, the author designed a sample with “maximum variation” to capture the diverse views of the experts regarding the phenomena of interest (Patton M. Q., 2002). Furthermore, the author provided a “rich and thick description” of the study context and the phenomena context of the SME lending. Last, but not least, the researcher provided a clear rationale for the case study selection, and ample details on the case study context (e.g. socio-political- economic context of the emerging markets, macro-economic indicators, SMEs landscape, etc…) in order to allow the reader to appreciate the researcher’s sampling choices (Cook & Campbell, 1979).

Reliability

Reliability assesses the consistency of results of the study over time (Hayashi, Abib, & Hoppen, 2019). When concepts, relationships, and patterns can be confirmed in multiple contexts, varied times, and with different types of people and yielded systematic, confirmatory evidence, the level of confidence in validity and applicability of the findings will be strengthened (Polit & Beck, 2010).

(Silverman, 2005) suggests that reliability can be ensured by using “low inference descriptors” (verbatim accounts of information provided by informants to the researcher) (Brink, 1993). With respect to the data of the interviews, (Silverman, 2005) suggests the use of mechanical recording of the interviews, carefully transcribing the recordings, as much as possible use of fixed-choice answers as well as presenting long extracts of data in the research report. In this context, the aforementioned have been applied.

According to (Yin, 2014), two strategies are recommended to ensure reliability: (i) producing a case study protocol and (ii) development of case study database. In terms of the former, the author prepared a report which specifies how the multiple case study was conducted. Second, the multiple case study data base was created where by all country profiles featured in this research work, interview transcripts, preliminary conclusions, and the narratives collected during the study, are organized in such a way as to facilitate retrieval (Gibbert & Ruigrok, 2010).

The following table summarizes the tests taken by the researcher to ensure the quality of the case study.

Table 3.4

Tests To Ensure The Quality Of Case Study

Tests	Definition	Case Study Specific	Relevant Phase of Research
Construct Validity	Correct Operational Measure for concepts	• Use multiple sources of evidence • Establish Chain of events • Have key informants review draft case study report	• Data Collection • Data Collection • Research Composition
Internal Validity	Establishing a non-spurious causal relationship (only for explanatory)	• Data Pattern Matching • Do Explanation Building • Address rival explanation • Use logic models	• Data Collection • Data Collection • Data Collection • Data Collection
External Validity	Establishing a domain for generalization	• Use theory in single case study • Use replication model in multiple case studies	• Research Design • Research Design
Reliability	Repeatability of operations of the case study	• Use Case study Protocol • Develop a case study database	• Data Collection • Data Collection

Table 3. 4 Measures of Case Study Reliability & Validity. Author's composition adopted from (Yin, 2014)

Assumptions

A number of assumptions were made during this study. The first assumption was that SME lending would continue to grow across high-income countries as well as middle- and low-income countries without any disruption on the global level. A second assumption relates to the size and the adequacy of the sample. In a dynamic and highly complex financial world, there is a risk of failure to capture an adequate spectrum of cases. A third assumption is made regarding the openness and transparency of the subject matter experts interviewed. Data obtained from the interviewees have a high probability to be influenced by their current vocation and their views accumulated throughout their careers. Another assumption was that the researcher effectively captured quantitative data from the sample of economies selected. A final assumption was that the researcher accurately transcribed each interview response to each participant's intended meaning of research topic and questions.

Limitations

A significant limitation of the present study is the number of case studies the researcher could analyze thoroughly. Related to this was the nature of the countries selected and that the researcher faced some constraints (time, place) to conduct an on the ground thorough analysis and interviews with the authorities in each of the three economies. The country of the researcher is Egypt. No data has been published in any way that enabled the researcher to include the said economy in the case study. A second limitation that the researcher faced during the write up of the dissertation was the lock down which limited the mobility of the author to conduct face-to-face interviews. The researcher mitigated this by using Skype® and Zoom® and Microsoft Teams® to conduct the necessary interviews. A third limitation is the potential bias on part of the researcher and the interview participants. Subject Matter Experts were asked to advance their opinions in a subject they have been involved for most part of their careers, thus some bias was inevitable (Patton M. Q., 1990).

An important limitation to highlight in this dissertation was the new norm the world is currently facing after the COVID-19 crisis. While the impact on the world has been widely discussed across all countries, further investigation is required to add new findings to the study.

A final limitation is the skill set of the researcher. As (Yin, 2014) maintains, some of the skills required to perform a case study research are (1) the ability to ask good questions and analyze respondents; (2) to listen and build rapport with the respondents; (3) to be responsive to new information and to absorb it properly rather than rejecting it.

Ethical Assurances

There are many ethical considerations when preparing a research. The overarching principle for conducting a research is to protect all participants from any harm the research might cause. With respect to the data collected, the author used all quantitative data from publically available sources. As for the qualitative part of this research, ethical considerations become more salient due to have a special weight due to its in-depth nature of the study process. Before embarking on the data collection and interview process, approval was sought and granted from the Institutional Review Board (IRB) of the International School of Management. The IRB is a committee whose job is to review and approve research involving human participants. The interview packet was reviewed by the dissertation chair to ensure compliance with scholarly and academic protocol. The following framework details the measures taken by the researcher to ensure fair treatment of all participants and data presented in the investigation. This has been adopted from (Patton M. Q., 2015) “Ethical Issues Checklist”.

Explaining Purpose: At the outset, the researcher had an initial conversation (verbally) describing the goal of the research and the responsibilities of each the researcher and participant. An email summarizing the purpose of the study including an Interview Pack was emailed to all participants. The pack contained (1) Invitation Letter (Appendix A). The purpose of the study was clearly stated to the participants and the initial questions for the study were duly shared. The goal of contributing to the existing academic literature was clearly noted. Interviews did not commence until a signed copy of the Informed Consent form (Appendix B) was received and signed by the respective participants.

Reciprocity: While no financial incentive was offered to any participant, the author motivated participation in her study by explaining that the results would contribute to theoretical extension to new fields of study. Furthermore, the researcher offered copies of the interview manuscripts, in addition to the opportunity to review the final study. Though purposeful sampling methodology was applied in selecting the participants, no screening was applied for gender, nationality, religion or political affiliations.

Risk Assessment: No risk of physical harm is posed by the study. Minimal risks might include some personal information. Participants were encouraged to drop or skip any question that might jeopardize their standing. The informed consent form has expressed the right of any participant to discontinue participation at any point of time.

Confidentiality: Participants were ensured that information gathered to be confidential and anonymous. To ensure proper governance all across the interviews, all participants were offered the option of confidentiality in the Informed Consent Form. Furthermore, confidentiality of data was clearly explained to all participants, whereby all recorded data used, interview manuscripts and notes, were stored electronically and archived for a period of at least 7 years.

Summary

This is a qualitative research work with some quantitative research analysis based on regression model and the use of secondary data sources which the aim to contribute to the understanding and impact of the Credit/lending on SME and countries' economic growth. The importance of SMEs in global economy is acknowledged and well researched. The author attempts to fill the gap in scholarly literature by examining lending to SMEs and its impact on economic growth of emerging markets.

The author believes that this study will have positive implications for various stakeholders regarding:

- Adjusting the Bank's Business Models
- Redefining the Banking Industry landscape
- Drafting the right policies for SMEs in Emerging Markets
- Help create a regulatory framework for Alternative lenders in Emerging Markets.

The goal of this chapter is to outline the research methodology used to answer the research questions. A discussion of the procedure, study participants, and specifics on how the study was conducted was explained. The author used the case study method was the preferred method of choice due to the following reasons; an empirical inquiry must examine a contemporary phenomenon in its real-life context, especially when the boundaries between phenomenon and context are not clearly evident. (Yin, 2014). Primary data was collected from in-depth interviews with 17 subject matter experts working in the fields of Banking, IFIs and SMEs. A statistical model was presented to examine the relationships between economic development and finance to SMEs in Emerging Markets. Data was collected from OECD, IMF and Moody's Investor Services data sets. The unit of analysis is the Emerging Market Economies, which have SMEs and well-established financial systems. Purposeful sampling methodology for the participants was deemed appropriate in this study, since the cases were "particularly suitable for illuminating and extending relationships and logic among constructs" (Eisenhardt & Graebner, 2007). In assessing their profiles in depth, the author believed that the participants fulfilled the minimum requirements to participate which included being knowledgeable, demonstrating a strong track record in the domains of Banking, IFIs, SMEs, Emerging Markets, and most importantly, having objective opinions regarding the subject matter.

Data for this case study involved in depth, semi structured interview questions that were administered verbally to the participants whom were identified though purposeful sampling. The initial set of interview questions are presented in (Appendix C). Due to the rich content of the material and questions, the researcher refined the interview process by following an (IPRF) (Interview Protocol Refinement Framework) to enhance the reliability of the quality of data received from the interviews (Castillo-Montoya, 2016). IRB approval was sought and granted prior to commencing the study, and all participants gave their informed consent.

The author believes that the research questions were highly relevant and the validity of the data collection and the case study was proven.

The subsequent chapters of the thesis are organization, presentation, interpretation and empirical analysis of the secondary data gathered from the many sources as well as primary data from opinion leaders from the field and finally, the conclusion and policy recommendations.

Chapter 4: Findings of the Study

Introduction

The objective of this qualitative multiple case study is to explain and document key insights of subject matter experts with a sample of interviews on how traditional lending to SMEs, policy reforms as well as Alternative credit in Emerging Markets impacted economic growth. In addition to that, the multiple case study aims to deduct correlations between the GDP per Capita and finance to SMEs in a number of Emerging Markets. The analysis on SMEs, Economic growth is based on (Schumpeter, 1911) "Theory of Economic Development" which assigns paramount importance to the role of entrepreneurs and their contribution to economic development. (J, 2020). This chapter provides a compelling argument supporting the thesis that correlates financial development, credit to SMEs in Emerging Markets and economic growth respectively. The findings presented in this chapter will prove that in the coming years, the factor of having a conducive environment for finance to an economically disenfranchised segment of SMEs, in addition to the impacts of COVID-19 on SME lending and future trends, will be critical for economic growth and SME prosperity.

The research methodology applied here is based on an exploratory qualitative study, which aimed to investigate the following research questions and provide answers to them:

- **RQ1:** Is overall financial development in Emerging Markets conducive to Economic growth?
- **RQ2:** Building on the "Theory of Economic Development" & "Economic Theory of Bank Credit", which of the following three factors have a stronger impact on economic growth in the Emerging Markets: (1) traditional financial development (i.e. bank credit); (2) alternative forms of finance/lending; (3) a combination of the two forms of lending/finance?
- **RQ3:** What are the short-term and medium-term advantages and disadvantages of the traditional lending versus the innovative and alternative forms of finance for SMEs growth for Emerging Markets?
- **RQ4:** What are the short-term and long-term advantages of the former with respect to their Country's economic development, and the overall financial stability?
- **RQ5:** Is the post-IFI era (financial liberalization) and its international influence contributing to creating the conditions for a more resilient, financially sustainable, and growth-oriented environment for the Emerging Markets' SMEs and their Economies?
- **RQ6:** What determines the composition of Bank's Loan Portfolio in the emerging economies?
- **RQ7:** Does increased access to traditional bank lending/finance and alternative forms of finance to SMEs necessarily contribute to an improvement in general economic conditions and economic development in developing countries or it requires also perceptive fiscal, monetary, and structural reforms and efficient and modern financial markets for optimal allocation of financial resources?

- **RQ8:** In light of the COVID-19, which will be the greatest areas of change for SME credit?

The purpose of this multiple case study is to provide a detailed and in-depth analysis of a particular event, situation or unit (Schoch, 2020). A case study has a defined time and space frame and is a 'phenomenon of some sort in a bounded context' (Miles & Huberman, 1994). This method was opted by the researcher as a means to gain in depth understanding of the framework of credit availability to SMEs in Emerging Markets that would be challenging to capture using a quantitative study alone. Furthermore, the multiple case study was used in documenting observations in various emerging markets to understand similarities and differences across the unit of study. The author used replication of the same questions with the objective of promoting the validity of the results derived. The higher the replication found across the several cases, the higher the level of confidence yielded in overall results.

Furthermore, the study combined secondary data sourced from academic journals, reports and statistics with primary data sourced from in depth interviews with subject matter experts in the field.

Qualitative Research Design

Given the explorative nature of the study, a semi-structured interview composed of 8 questions was prepared ahead of the interviews. Out of the 8 questions, 4 were close-ended questions using Likert scales (1 to 5) and the rest were open-ended questions to encourage the participants to delve deeper and provide more rich insights on the topic.

Participants Characteristics

Interview participants were chosen according to a preset criterion relevant to the research questions, and the selection thereof was carried out through "purposeful sampling methodology". The selected sample consisted of 17 international experts. Subject matter experts and thought leaders had expert knowledge in (1) Banking & Traditional Lending; (2) Small & Medium Enterprises; (3) Emerging Markets, in addition to having (4) broad exposure to international financial markets. Furthermore, they were familiar with (4) Alternative Lending technologies; (5) Macro Economics; & (6) International Financial Institutions engagements in the developing and emerging economies. The participants are senior experts who possess more than 25 years of experience in economic development, SME finance and banking. In addition to that, they come from large institutions with a global footprint. Equally important, the participants in the study hold high academic and industry credentials (most of them hold Masters & PhD Degrees).

Furthermore, as the study is intended to be exploratory in nature, the sample was encouraged to refer further qualified interviewees whom can potentially contribute to the study. This technique is known as "snowball sampling" and the author of this work applied it in recruiting additional participants to the qualitative research (Mack, Woodsong, MacQueen, Guest, & Namey, 2005).

Interview Administration & Governance

Dissertation committee members with astute theoretical, practical and experience in the subject matter and research methodology provided their insights on the research questions and questionnaire during the interview development process. Formal invitations were sent to the sample with an interview packet containing (Appendix A: Introductory Letter; Appendix B: Consent Form; Appendix C: Interview Questions). Participant's consent for joining the interviews was obtained by the author prior to conducting the interviews. Furthermore, all interviews were recorded digitally on IPhone® and on Skype ®& WebEx®, Zoom® and Microsoft Teams® respectively. Data files containing all answers to the research questions were created and stored on the researcher's personal laptop.

Participants in the one-on-one interviews provided their insights during the months of April and May for the year of 2020. The timing of the interviews was intended to be towards the end of the dissertation to have the most recent insights on the topic and in wake of the COVID-19 crisis. The analysis of the findings took place towards Mid May of 2020. As explained in the previous chapter, data was gathered from quantitative and qualitative sources equally. Data has been triangulated between individual cases with observations developed in literature and fieldwork and was shared with the experts in order to obtain more insights and reflections during the interviews.

Cross case synthesis was used by the researcher in order to enhance the author's capacities to 'understand how relationships may exist across discrete cases, accumulate knowledge from the original case, refine and develop concepts and build or test an existing theory respectively' (Khan & VanWynsberghe, 2020) (Ragin, 1997) (Eckstein, 2002).

This chapter is divided into two sections. The first section exhibits the findings of the secondary data gathered from the unit of analysis. We will present the results of the baseline model that correlates the GDP per Capita (as a proxy to economic growth) and Lending to SMEs across twelve economies emerging markets from 2009-2018. The second part of the chapter provides key findings of the Subject Matter Experts interviewed including examples of actions applied by banks, and governments across various markets and their views on the evolving trends in alternative financing.

Quantitative Results

Data Sources and Country Coverage

The author used Quantitative Analysis to present evidence for a hypothesis presented early in the research questions, namely, RQ1 & RQ2. As briefed in Chapter three of this study, the author used three variables in her statistical model; GDP per capita, SME loans' amounts and Total Loans' amounts netted of SME. The dissertation aims to explore the relationship between credit to SMEs and the levels of GDP per Capita. Besides investigating in-depth the three case studies, using a yearly frequency from the year 2009 till 2018, the author chose to expand the scope of the unit of analysis to encompass twelve countries;

South Africa, Malaysia, Turkey, Morocco, Singapore, Philippines, Thailand, Mexico, Brazil, Chile, Poland and Russia. Data has been extrapolated from the (OECD, 2019) Scoreboard. (Table 4.1) exhibits the 12 economies that were presented in our model, the regions, income group and degree of economic liberalization according to their respective scores in domestic finance, external finance, trade, product market, and governance dimensions categorically. The score ranges 0:1, a higher score indicates greater liberalization. The data was sourced from the (World Economic Outlook , 2019).

Table 4.1

Sample of Economies Included in the Analysis

Country	Region	Income Group	Domestic Finance	External Finance	Trade	Product Market	Labor Market	Governance
Malaysia	Asia-Pacific	EM	0.89	0.63	0.91	0.69	0.54	0.56
Philippines	Asia-Pacific	EM	0.78	1.00	0.90	0.77	0.60	0.45
Singapore	Asia-Pacific	Former EM	0.89	1.00	1.00	0.77	0.99	0.76
Thailand	Asia-Pacific	EM	0.78	0.75	0.86	0.54	0.91	0.45
Turkey	Europe	EM	0.67	0.75	0.96	0.77	0.67	0.49
Poland	Europe	EM	0.78	0.75	0.92	0.85	0.56	0.64
Russia	Europe	EM	0.83	0.88	0.89	0.62	0.44	0.38
Morocco	MENAP	EM	0.89	0.38	0.93	0.54	0.50	0.44
South Africa	SSA	EM	0.89	0.75	0.90	0.62	0.63	0.54
Brazil	LAC	EM	0.78	0.75	0.77	0.92	0.88	0.50
Chile	LAC	EM	0.89	1.00	0.90	1.00	0.68	0.70
Mexico	LAC	EM	0.94	0.63	0.89	0.62	0.48	0.47

Table 4. 1 Sample of Emerging Markets included in the research. Source: (World Economic Outlook , 2019). IMF.

Note: EM=Emerging Market, MENAP=Middle East and North Africa, Afghanistan, & Pakistan. SSA=South Saharan Africa, LAC= Latin America & Caribbean. Scale between 0 and 1; higher score indicates greater liberalization.

Prior to building our model, the author has standardized the data, by subtracting each variable from its mean and dividing it by its sigma, in order to visualize the data on a graph. Data standardization was important to make sure that data is consistent and to unify our unit of analysis (Ferguson, 2018).

As indicated in the first graph (Figure 4.1), the author has plotted the 12 economies GDP per Capita Growth (MEAN) and their GDP Per Capita (SIGMA) respectively from the years 2009-2018. The top 5 growing economies in terms of GDP per capita were; Thailand (5.31%); Singapore (4.78%), Philippines (4.66%); Chile (4.01%) & Malaysia (2.38%) categorically. However, this alone was not sufficient to gauge the performance of the selected sample of emerging markets. Thus, we needed a further measure to examine the extent by which their exhibited growth was steady over the period of analysis. So, we plotted the (SIGMA) of these economies to measure their volatility. Economies like Malaysia and Chile have exhibited a high level of volatility for their growth rates during the period under study. Other countries represented such as Russia, Brazil and South Africa were found to be highly volatile. As highlighted in Chapter 2, the selected economies in our sample are highly dependent on commodities, which makes them prone to shocks in prices and international demand, which may have subdued their steady growth in given years. On the other hand, economies with a robust growth pattern (high GDP per capita and low SIGMA) were Singapore, Philippines and Thailand. This shows that those emerging markets were less prone to shocks in their growth, which implies a higher diversification of their economies.

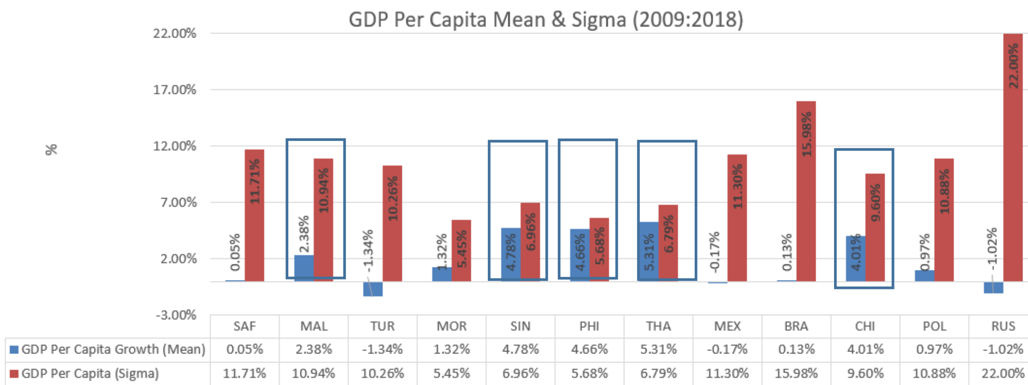


Figure 4. 1 GDP Per Capita (MEAN &Sigma) -12 selected economies. Source: (Author's Calculations)

We will now move to the exhibit the two variables, GDP per capita and Loans to SMEs in each of the 12 countries. As exhibited in Figure 4.2, the two variables co-move together across our sample of economies, which highlights a certain measure of association.

Figure 4. 2 Summary of 12 countries GDP per capita and loans to SMES. (Author's Composition)

The Model

The author used OLS regression analysis in order to measure how changes in SMEs loans' amounts affect changes in the GDP per capita. The approach used in our model is the exploratory data analysis approach, where by the author attempted to examine the relationship between two variables. Furthermore, a bivariate analysis was deployed to determine the relationship between SME loans and GDP per Capita. The author regressed the log difference of the SME loans amount against the log difference of the GDP per capita as presented in the following equation.

$Y_t = a + \beta Xt$

Y_t : LN (GDP_t/GDP_{t-1}) *the dependent variable*

a: Intercept

β: Beta coefficient (slope)

$$\beta = \frac{COV\ (r\ GDP\ Per\ Capita, r\ SME\ Loans)}{VAR\ (\ r\ SME\ Loans)}$$

$X_{t:}$ LN (SME_t/SME_{t-1}) *the independent variable* (First Regression Model)

In the second equation, the author regressed the log difference of the Total Loans net of SMEs amount against the log difference of the GDP per capita as follows:

$X_{t:}$ LN (Total Loans net of $SMEs_t$/ Total Loans net of SME_{t-1}) *the independent variable* (Second Regression Model)

$$\beta = \frac{COV\ (r\ GDP\ Per\ Capita, r\ Total\ Loans\ Net\ of\ SME\ Loans)}{VAR\ (\ rTotal\ Loans\ Net\ of\ SME\ Loans\ )}$$

$R^2 = \frac{SSR}{SST}$: Coefficient of Variation

SSR: Sum of Squared Regression, also known as the variation explained by the model

SST: is the total variation in the data also known as the sum of squared total.

SSR = $\sum_i (\hat{y}_i - \bar{y})^2$

SST= $\sum_i (y_i - \bar{y})^2$

y_i: is the y value of observation i

$\hat{y}$: is the predicted value for y for observation

$\bar{y}$: is the mean of y value

Residuals Diagnostics

Prior to any model analysis, the author will present first the residuals diagnostics. Residual diagnostics are used to evaluate the model assumptions and to find out whether or not there are observations with a large undue influence on the data (Boston Univeristy, 2020). The assumptions for the linear regression included the following about residuals/ errors;

1. **Normality;** whereby the error has a normal distribution.

The author used the Jarque Bera (JB) test in order to test the normality of the residuals. Based on the p-value of the JB test stat ($p < 5$ %), we ended up not rejecting the null hypothesis that the residuals are normally distributed.

2. **Serial Correlation; whereby the relationship between the errors is linear.**

The author used the Breusch Godfrey (BG) test in order to test for serial correlation in the residuals. Based on the p-value of the F stat ($p < 5$ %), we ended up not rejecting the null hypothesis that there is no serial correlation in the residuals.

3. **Homoscedasticity;** whereby the errors have the same but unknown variance.

The author used the White test in order to test for heteroscedasticity or unequal variance. Based on the p-value of the F stat ($p > 5$ %), we ended up not rejecting the null hypothesis of homoscedasticity.

Model Results

Table 4.2 exhibits the regression results for the model presented in the previous section. Among twelve economies, eight had statistically significant results. As an example, Thailand has a beta sensitivity of +0.50, meaning that a +1% increase in SME loans would lead to a +0.50% in GDP per capita. How each economy reacts to SME loans is apparently different, as Beta estimates ranges from the lowest +0.38 to the highest +1.29 for Malaysia, meaning that the Malaysian economy is highly responsive to SME loans. For the countries in focus, Brazil had a beta sensitivity of +0.73%, meaning that a +1% in loans to SMEs would lead to +0.73% increase in GDP per capita. Notwithstanding, Turkey demonstrated a +0.53% beta sensitivity, which means that a +1% increase in SME loans will lead to a 0.53% increase in GDP per capita.

Table 4.2
Emerging Markets, Co-efficient of Variation (SME loans & GDP Per Capita), Beta, P-Value T-Test, F-Test Results

Emerging Markets	*R2*	*Beta*	*P-Value T-test*	*P-Value F-test*
Malaysia	62.3%	**1.29**	0.7%	0.7%
Turkey	88.8%	0.53	0.0%	0.0%
Morocco	67.9%	0.38	0.3%	0.3%
Thailand	56.2%	0.50	1.3%	1.3%
Brazil	87.2%	0.73	0.0%	0.0%
Chile	84.8%	**1.11**	0.0%	0.0%
Poland	82.7%	**0.73**	0.0%	0.0%
Russia	88.2%	0.87	0.0%	*0.0%*

Table 4. 2 First Regression Model Results: 8 emerging markets, GDP per Capita & SME. Author's Calculations

In order to test whether or not total loans (net of SMEs) affect GDP per capita in the same way, the author applied the same model applied in the previous section, but has replaced the SME loans with Total Net Loans (net of SMEs) as the independent variable. The results of the second regression model, (Table 4.3) lead to a very interesting finding. For some countries like Malaysia, Chile and Poland, the Beta sensitivity of the SMEs loans-to-GDP was higher than for the rest of the loans, for example, the Beta for Chile's SME loans-to-GDP was equivalent to +1.11, while its Beta for the total loans (net of SMEs) was lower, equivalent to +0.61, meaning that increasing the SME loans portfolio in these countries would lead to substantial economic growth.

Table 4.3

Emerging Markets, Co-efficient of Variation (Total Loans net of SME loans) & GDP Per capita, Beta, P-Value T-Test, F-Test Results

Emerging Markets	***R2***	***Beta***	***P-Value t-test***	***P-Value F-test***
Malaysia	49.8%	**0.98**	2.3%	2.3%
Turkey	84.1%	0.66	0.0%	0.0%
Morocco	64.1%	0.65	0.5%	0.5%
Thailand	72.7%	0.73	0.2%	0.2%
Brazil	74.7%	0.90	0.1%	0.1%
Chile	58.4%	**0.61**	1.0%	1.0%
Poland	56.7%	**0.55**	1.2%	1.2%
Russia	76.9%	0.91	0.1%	0.1%

Table 4. 3 Second Regression Table Results: 8 emerging markets, GDP per Capita & Total Loans. Author's Calculations

Conclusion

From what has been tested by the model, the following can be deduced categorically;

- (1) SME Loans did positively affect GDP per capita in 8 countries out of the 12.
- (2) Each economy's response to growth in SMEs is different from the other; every country has its own dynamics and has be taken in its own political and economic context.
- (3) SME loans had significant impact on GDP per capita in Malaysia, Chile and Poland. Their impact was higher than the rest of the loans impact on GDP, which leads to an interesting finding, growing the SME loans portfolio was more significant than growing the rest of the loans in these specific countries.

After presenting the model and highlighting the findings, the next section will present the qualitative research findings.

Qualitative Results

This section presents key findings obtained from 17 interviews conducted with subject matter experts. The key findings of the research are presented as objectively as possible without judgement or speculation.

Results of the Main Study

Finding 1: The overwhelming majority of experts believed that financial development is conducive to economic growth.

The importance of financial development in driving economic growth was one of the most important conclusions drawn from this multiple case study. As indicated in (Figure 4.3), all of respondents (100 % of the sample; 58% answered "Strongly Agree", and 42% answered "Agree" to RQ1) perceive that financial development is a very important condition that leads to economic growth in Emerging Markets. Respondents have shared their experiences of economic liberalization and restructuring of the banking industry in a number of economies, such as Brazil, India, Turkey, Romania, Egypt and Malaysia, Indonesia and Singapore respectively and have discussed how finance to SME contributed to higher incomes and job creation. Although the totality of the sample has confirmed the association of financial development and growth (irrespective of their profession and years of experience), a number of respondents have pointed out that financial development alone does not always warrant economic growth (Al-Sayed, 2020). This is clearly indicated by the quotes mentioned below.

Ex-SVP to the World Bank and UN Special Envoy on SDGs, Dr. Mahmoud Mohie El Din cited a number of factors that are necessary to consider when discussing financial development: *"Economic growth responds differently to financial development in the short, medium and long term. Financial development has to be well thought through and well structured. Competitive Structures, Policy framework are very important in markets. If you are limiting reforms to free interest rates, you might be confusing the outcomes to the reasons. Also, important to consider is the structure of markets," Bank Led" or "Market Led".... It has to be taken in the political economic context".* (Al-Sayed, 2020)

Entrepreneur and SME & Innovative Finance Expert; Federico Bilder responded to this question with the following answer: *"Yes and No. Overall, the answer is yes. However, taken alone, Financial Development is not a guarantee for economic growth. Too much Financial Development could be "bad. The "Ease of Doing Business" Report highlights pillars necessary for having a conducive environment. - Access to technology as well plays an important role". In Brazil, for e.g. Over indebtedness by the public sector was not conducive. Instead of being an instrument of growth, it could be an instrument of indebting people. It's a combination of policies, education, FDI to a country."* (Al-Sayed, 2020)

According to, Adrian Chindris GM of BMI Bank in Madagascar: "*Yes, provided that the institutions and instruments emerging are not serving exclusively certain industries with certain products (so you can exclude North Korea and eventually, Venezuela).*

The financial system is opportunistic within the limits of the regulations (and sometime more if the regulator fails to adapt to the transformation of the environment) and succeed to create clusters of economic development that, if resilient, will generate other clusters horizontally and vertically. Practically, the financial industry succeeds to:

1. *Monetize local assets and risk in order for the entrepreneurs and companies to create and develop (new) economic activities and eventually create more value that will be able to amplify the processes.*
2. *Assure the flow of funds and, through the presence of the branches and/or digital channels, making the "geography" irrelevant as barrier to development.*
3. *Favors the continuous change of the scale of the activities and allowing them to evolve into new segments (or contributing to their failure).*
4. *Plays one of the essential roles in the "natural" selection of economic activities"* (Al-Sayed, 2020).

Dr. Ivo Pezzuto, Financial Expert, Chief Economist and Strategist answer to this question was: *"Economics and finance literature provides many contrasting studies on the role of the financial sector in economic growth. Yet a growing body of empirical analyses, seem to support the existence of a strong positive link between the functioning of the financial system and long-run economic growth. The economic theory and empirical evidence, however, make it difficult to support the thesis that financial development alone may drive growth to economic activity. Based on numerous empirical studies seem to support the compelling argument that financial development and economic growth follow a co-evolution trajectory which applies also to Emerging Markets. Other important drivers of growth include: technology innovation, regulation and supervisory practices, monetary and fiscal policies, social capital development, quality of governance, quality of education and institutions, and so on"* (Al-Sayed, 2020).

Dr. Mohamed Antably, Executive Committee Member, and SME Banking Director, Attijariwafa Bank, shared instances of economies that have made a transition through financial development: *"For sure financial development and with specific focus on SMEs finance leads to economic growth. We have seen this across many markets in the 1970s-like the emergence of Asian Tigers countries-Singapore, Korea, Taiwan and Hong Kong. These countries have undergone rapid industrialization and growth rates exceeding 7% per year. Certainly, it leads to economic growth. Two main factors are the regulator and the top management of the Banks that drive the lending priorities and credit in the market"* (Al-Sayed, 2020).

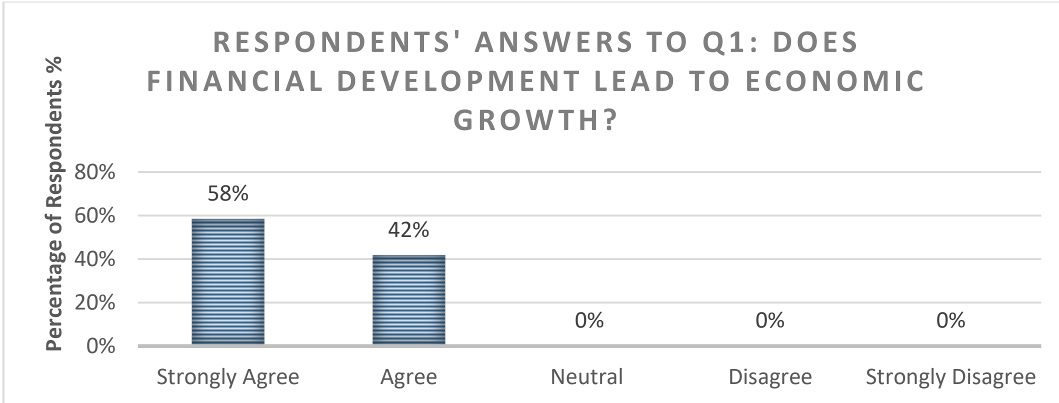


Figure 4. 3 Source: (Al-Sayed, 2020). Q1 of the Interview Traditional Finance to SME Growth in Emerging Markets

Finding 2: Traditional Finance and a combination of Traditional and Alternative Finance will have the highest impact on Economic Growth in Emerging Markets.

As indicated in (Figure 4.5), the answers of respondents (83% of the sample) reveal that in the medium term, a combination of both (traditional credit and alternative credit) was highly perceived to have the highest impact on economic growth in Emerging Markets. Taken on its own, 75% of respondents perceive that currently, traditional credit through banks to have the highest impact on economic growth in Emerging Markets. Nevertheless, respondents believe that technology and Global Financial Crisis have led to the emergence of alternative credit technologies. During the interview, 80% of the respondents have acknowledged that Banks have responded to this trend in three ways. First, banks established partnerships with telecoms and Big techs (e.g. M-PESA® in Kenya or Ali Baba® –ANT Finance® in China), or through launching Neo Banks for SMEs (e.g. No 26 in Germany and Enpara in Turkey), and through building their technology in house (e.g. Rabo Bank® and Wells Fargo®). (Al-Sayed, 2020). Also 83% of the sample believe that the transition to alternative lending will be gradual and that it will shift from a pure banking model to a hybrid model based on bank-fintech collaboration especially after the COVID-19 crisis. Respondents have confirmed that the brick-and-mortar model will still exist, but banks will scale back investments in physical branches and will focus more on digitization. (Al-Sayed, 2020)

Matthew Gamser, CEO of SME Forum-IFC stated that: *“Alternative finance will never have scale. I disagree that banks alone are responsible for growth I believe that partnership with Banks is inevitable. We have seen a lot of development coming from the Asian market; for example, Singapore is leading the world as the hub of fintech, DBS Singapore has pushed the digitization efforts in the SME lending ecosystem. As, Bud Caddell puts it; “There is no ‘digital strategy’ anymore, just strategy in a digital world”. With respect to traditional banks, usually, there are armies of people and modest return. In Emerging Markets, Africa is leading, it is completely leapfrogging conventional infrastructure, going to Mobile Phone in Finance. There is a commendable "Digital Transformation" journey happening in* *many places such as Fawry® in Egypt. This company was established in the late 2000s as an Electronic payment gateway across Egypt, and now it has the data for hundreds of thousands of small merchants and kiosks, which might lead them very soon to consider offering credit to this unbanked segment." In advanced economies, Wells Fargo® in the US was one of the first that have built mobile platforms, and is investing in emerging technology companies. For that to happen, we need to put the right people and cultures together"* (Al-Sayed, 2020).

Regarding that specific question, Jatinder Handoo, VP Micro Finance Network highlighted that *"Even if I talk about India, debt demand for MSMEs is USD 1.13 TRN & 84% of credit comes from informal sources, and only 16% come from Banks. Banking Institutions provide finance. Interestingly, there are specialized banks such as industrial banks and agricultural banks set up by the state to target specific in the country. The largest contributions come from state owned banks. When we talk about SME finance, it's not only one piece it's an entire ecosystem, it includes efficient payment systems, Identity, KYC, and a unified tax treaty among Indian governorates"* (Al-Sayed, 2020).

Mike Hill, SME Consultant & Senior Bank consultant made the following comment to the question: "*At least for the moment, Banks will prevail because they have the necessary infrastructure. Going forward and I am quoting* (E&Y, 2019)*: "In serving SMEs, banks face robust competition from big tech companies and FinTechs. 25% of SMEs worldwide have used services in the past six months provided by FinTechs in all of these four categories: banking and payments, financial management, financing and insurance. FinTechs and big tech companies have raised the bar for all providers. They have delivered innovative solutions and richer user experiences to SMEs for basic financial services, such as customer payments, foreign exchange hedging and cash flow management. Helped by open-banking trends that encourage financial providers to use open application programming interfaces, FinTechs have made customer onboarding and credit decisioning for SMEs fast and frictionless"* (Al-Sayed, 2020).

Dr. Gabriella Kindert, Senior Advisor and Investment Professional specialized in Alternative Credit states that; "*Traditional Banking is dependent on Technology that is old, using an expensive and inefficient value chain. Since 2010, the surge of big data has started to change the way businesses are operating. The Global Financial Crisis has severely shaken the supply of credit and has led to the emergence of new suppliers of credit and finance. In the past decade, economists were concerned about the decline in credit for SMEs and were trying to understand the reasons behind that. Alternative credit is becoming vital nowadays concerning the focus of increased sustainability and shared value creation. In addition, this is precisely the segment that benefits from alternative finance. Equity, Debt crowdfunding networks, with the involvement of retail investors. Alternative Lending is playing an important role in the economy and is rapidly evolving"* (Al-Sayed, 2020).

Dr. Nashwa Saleh, MD of BAST Ratings made the following contribution to the question; *"With the rise of mobile and internet usage in addition to digital technologies globally, the most suitable* *archetypes for Banks seeking to be digitized would be: (1), partnering with FinTechs for process innovation or process streamlining; (2) building or joining an "incumbent ecosystem" for access to a large customer base (such as Mobile Network Operators) ; and (3) acquisition of an incumbent Fintech to achieve cost and value creation through intermediation"* (Al-Sayed, 2020).

Miriam Koreen, OECD Center for Entrepreneurship, SMEs, and Regions made the following contribution to that specific question: *"SMEs are increasingly turning to alternative financing instruments in the past couple of years. Figures of 2017-2018 (Figure 4.4) demonstrate the growth rate of online alternative finance in comparison to leasing and hire purchases, factoring and Venture Capital Investments"* (Al-Sayed, 2020).

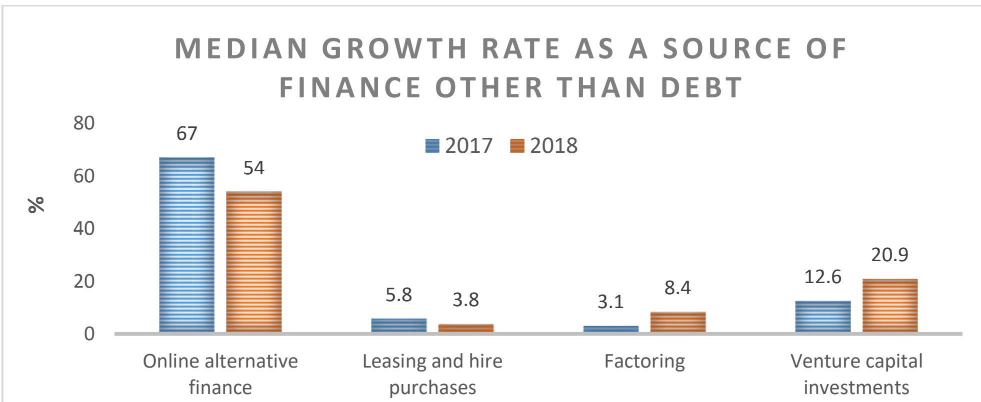


Figure 4. 4 Median Growth Rate as a Source of Finance Other Than Debt. Source: (OECD , 2020)

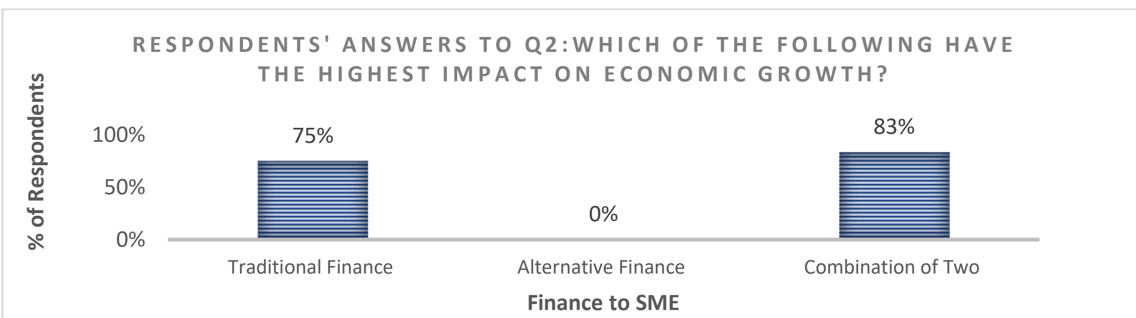
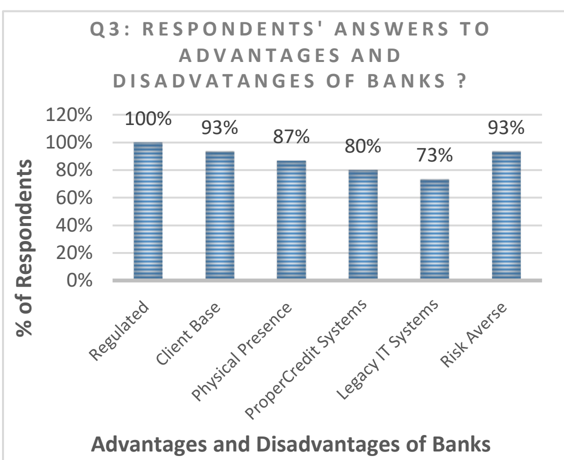


Figure 4. 5 Source: (Al-Sayed, 2020). Q2 of the Interview Traditional Finance to SME Growth in Emerging Markets

Finding 3: The overwhelming majority of respondents highlighted the importance of Bank regulation, proper credit systems and client base as key advantages of Traditional Banking Finance. Lack of experience, and no regulation came as the most prominent disadvantages for Alternative Credit.

As indicated in Figures (4.6 and 4.7), most of the respondents believed that banks have numerous advantages such as; a strong client base (93%) and are regulated (100%). Furthermore, they have proper credit management systems (80%) and have a high physical presence in a market. However, respondents believed that Banks are too risk averse (93%) and they would choose not to invest in informationally opaque segments such as the MSMEs. Furthermore, Banks usually rely on outdated core banking systems (73%), which makes Alternative Credit technologies stand out in that regard. On the other hand, respondents highlighted numerous advantages for alternative credit such as the novelty of their credit scoring models and new technologies (100% of respondents). In addition to that, respondents commended FinTechs reliance on modular technologies that can source the data from different platforms. Respondents have mentioned scale, improvement of the competitive landscape, in addition to helping create more jobs in a market by lending to "credit invisible clients". The overwhelming majority of the respondents highlighted that the absence of regulation as the key disadvantage for the Alternative Lending technologies (100% of respondents) besides "the lack of managerial experience" for the latter (100%) (Al-Sayed, 2020).



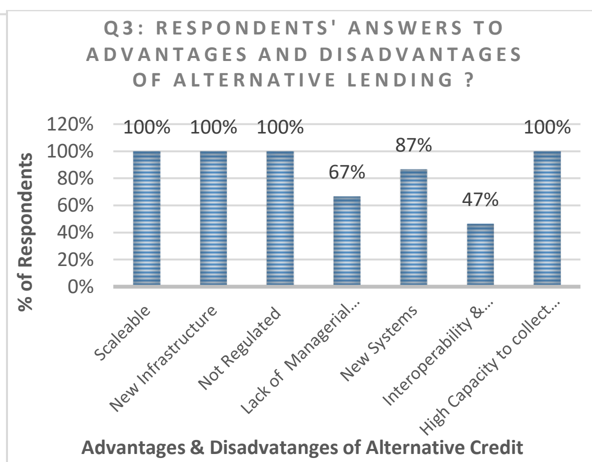


Figure 4. 6 Source (Al-Sayed, 2020). Q3 of the Interview Traditional Finance to SME Growth in Emerging Markets.

Figure 4. 7 Source (Al-Sayed, 2020). Q3 of the Interview Alternative Finance to SME Growth in Emerging Markets.

The relative merits of each type of finance captured during the interviews with experts are presented in the following tables (Tables: 4.4-4.11) (Authors Composition).

Respondent #1

Table 4.4: *Respondent #1 Answer to RQ3*	
Traditional Banks	**Alternative Credit**
Pros	**Pros**
• A strong client bases • Banks are regulated • Proper Risk Management • Branches (which are both an advantage and a disadvantage)	• Different approach to sourcing clients • No complex systems • Interoperability with Digital Banking &Mobile Banking • Scalable • No legacy Infrastructure
Cons:	**Cons:**
• Too risk Averse • Low Investment in technological Infrastructure	• Not regulated • No direct access to client accounts

Table 4. 4 Source: (Al-Sayed, 2020). Q3 of the Interview Traditional Finance to SME Growth in Emerging Markets

Respondent #2:

Table 4.5: *Respondent #2 Answer to RQ3*	
Traditional Banks	**Alternative Credit**
Pros	**Pros:**
• Banks have been there for centuries • Banks are regulated • Same business for decades.	• Could shift to perform transactional banking activities • Huge data sets • Modularity & use of APIs (Application Protocol Interfaces).
Cons:	**Cons:**
• Banks are usually reluctant to downscale to riskier segments such as MSMEs	• Track record remain unproven • Sustainability and Longevity of the program remains untested.

Table 4. 5 Source: (Al-Sayed, 2020). Q3 of the Interview Traditional Finance to SME Growth in Emerging Markets

Respondent #3:

Table 4.6: *Respondent #3 Answer to RQ3*

Traditional Banks	Alternative Credit
Pros	**Pros:**
• Compliant to regulations • Have a data advantage • Existing relationships with clients • Banking industry is characterized by "Intense state intervention" via establishing trust in two ways; (1) financial intermediation; (2) granting licensing for operations; (3) providing deposit insurance. (Kindert, 2018).	• Don't have legacy infrastructure • Appeal to younger generations • P2P Lending is not subject to the same scrutiny that banks receive from financial markets and regulators. (Kindert, 2018) • Alternative data from unconventional sources might help consumers who are stuck outside a system; termed as "credit invisible" (no credit history) build a credit score. (CFPB , 2017) (Kindert, 2018) • Established financial institutions confirm the existence of alternative lending platforms improves the competitive environment. (Dapp, 2014) (Kindert, 2018) • It was noted that small business loans granted by the most prominent P2P platform in the UK (Funding Circle®) has created 40,000 jobs in the UK (CeBR, 2016) (Kindert, 2018)
Cons:	**Cons:**
• Legacy Infrastructures	• FinTechs need to establish trust and acceptance in the markets by different means than banks. (Kindert, 2018). • FinTechs are usually small businesses and the regulatory costs in addition to the licensing costs are usually very high. • Cost of regulation of FinTechs across borders is very high • High risk of fraud, loss of entire investment & challenges in protecting intellectual property. (Kindert, 2018) (Zilgalvis, 2014) • Lack of people with "grey hair" (experience) running those platforms. (Kindert, 2018) • "The FICO Score, which is the industry standard applied for measuring the borrowers credit worthiness is said to be outdated by most FinTechs." (Crosman, 2016). Also, consumer data from platforms such as e-bay®, Amazon®, UPS ® in addition to Social Network platforms are being used as data points in lieu of the FICO credit score. • Credit scoring models for most of the FinTechs have not been tested before. (Kindert, 2018)

Table 4. 6 Source: (Al-Sayed, 2020). Q3 of the Interview Traditional Finance to SME Growth in Emerging Markets

Respondent #4:

Table 4.7: *Respondent #3 Answer to RQ3*	
Traditional Banks	**Alternative Credit**
Pros	**Pros:**
• Tradition, image, confidence	• Often address markets segments that are not happy with the traditional banking or not touched by the traditional markets
• Physical presence/Brand easy to promote and sustain	• Building from the first moment a low-cost operational framework
• Human contact/large client base justified by the historical contacts	• IFI interested in their development and in consequence, a healthy subsidized development from the first moment
• Spaces/products adapted to segment	• Often based on technologies that are proprietary or not known within the respective markets
• Inertia of the actual clients	• New systems, perfectly adapted and modular
• Consistent processes and procedures as they are forced to adapt to standards that are imposed at global level	• Development based on the fast growth of smart phone utilization (USSD or internet)
• Low cost of resources (is changing)	• High capacity to collect and use data in order to adapt and decide.
• More resistant (for the moment) to systemic shocks, due to the measures taken after 2008.	• Models based on details about the client profile
	• Open to try fast new methods to deliver financial products
Cons:	**Cons:**
• Tend to eliminate large categories of potential clients from their target while calling themselves "universal banks". For many of these banks it is not even an intention – whole segments are falling "under the radar".	• High investment to build up proper models/institutions
• Relatively old systems that necessitate high maintenance and adaptability costs; usually are considered "too expensive to change" et completely changed to external	• Many markets with no adapted legislation and with conservative central banks.
• Stuck into "walk-in client" strategy, they eventually develop classic "internet banking", mainly develop for the accountants of the companies.	• A lot of markets with no data available
• Large chances that the top management and boards does not really understand the implications of change using modern technologies, IA, etc.	• Banks are fighting back in order to make the supervisor imposing limitations
• Staff completely adapted to the present business model and not easy to transform.	• Clients less inclined to save with the non-traditional institutions
• The majority of the traditional banks consider the companies/banks/institutions that uses a different business model, based on technology, as competitors and lock all the doors to collaboration.	• Large banks get educated and adapt their models • The institutions/models become systemic and the supervision become more intense • The clients are looking for more complex and variate products (that the institution does not have)
• Often, they do not have the capacity (or the intention) to maximize the benefits of their huge databases.	

• The income from corporate operations, mainly based on traditional banking is assuring enough to keep boards and CEOs relaxed.	
• Absence of a clear image on the potential impact that modern technology can have – and in consequence the too late reaction.	

Table 4. 7 Source :(Al-Sayed, 2020). Q3 of the Interview Traditional Finance to SME Growth in Emerging Markets

Respondent #5

Table 4.8: *Respondent #5 Answer to RQ3*	
Traditional Banks	**Alternative Credit**
Pros	**Pros:**

• Client Base
• Regulated
• Neat balance sheets
• Proper risk management
• Infrastructure
• Branch Capillarity
• Sometimes, it's better to innovate on something new, rather than being innovative from within
• Banks are all the time screening the markets for fintech companies; either they:
  • 1- Develop idea with their own staff
  • 2- Establish Alliance with the company
  • 3-Or Acquire the company
	• No Legacy core systems
	• Different approach to calculate credit score of clients
	• Automated Operations
	• Decision
	• Digital Banking
	• Mobile Banking
	• No complex systems

Cons:	**Cons:**
• Too risk averse, less innovative than FinTechs	• No Direct Contact with client • Not regulated

Table 4. 8 Source :(Al-Sayed, 2020). Q3 of the Interview Traditional Finance to SME Growth in Emerging Markets

Respondent #6:

Table 4.9: *Respondent #6 Answer to RQ3*	
Traditional Banks	**Alternative Credit**
Pros	**Pros:**
• Banks are well established • Branches • Presence • Monopoly of data, information increasing	• Agile • Reach by mobile platforms • Advanced Data Analytics • Use of Soft Information
Cons:	**Cons:**
• Do not fully believe that they will foster innovation by the creation of regulatory sandboxes for alternative lenders	• Not regulated • No prevalent scale

Table 4. 9 Source :(Al-Sayed, 2020). Q3 of the Interview Traditional Finance to SME Growth in Emerging Markets

Respondent # 7

Table 4.10: *Respondent #7 Answer to RQ3*	
Traditional Banks	**Alternative Credit**
Pros	**Pros:**
• Traditional lending or in other words finance provided by Regulated Banking and Non-Banking Financial Institutions have a pivotal role play and importance, not just in short and medium term, but in long run provided they innovate adequately and respond to market developments in a nibble fashion • Banks in particular have access to low cost public deposits; they are prudentially regulated and enjoy a high degree of public trust. Not just that, Banks in emerging markets like India are an important instrumental state policy for catalyzing growth in MSME sector. • Total credit requirement for MSME sector in India is round INR 37 trillion, however total available credit from all formal sources is INR14.5 trillion (circa 40%), which means a gap of INR 22 trillion. • However out of INR 14.5 trillion, 90% comes from Banks and remaining 10% from NBFCs (Non-Banking Financial Companies including MFIs (Micro Financial Companies)	• When compared to alternative forms of finance like P2P lending, internet finance or even working capital finance provided by Super-platforms like Alibaba, Amazon, Flipkart to the platform listed vendors based on the trail of electronic data available with them, makes them quick lenders, which relay on plethora of alternate data, which banks may not use. • Another comparative advantage of the alternate finance institutions is speed with which new young users of mobile internet are growing in emerging markets. The rate at which adoption and behavior is transforming is phenomenal, which means that not just a SME unit but its buyers and suppliers will be using digital channels in future, and therefore generating a plethora of feed for big data analysts and super algorithms, who can then underwrite risk per borrower in accordance with her data trail and this may ultimately lead to differential pricing of credit for different Customers of SME segment. Banks will falter on implementing such systems, if they do not transform.
Cons:	**Cons:**
• The only disadvantage associated with banks is lack of agility and quick decision-making. • Things which pull traditional lending institutions down are their philosophy of risk-aversion and therefore over reliance on formalities like hard and fast documentation processes, unrealistic project appraisals and a procedural rigidity.	• Not regulated • No scale to date

Table 4. 10 Source (Al-Sayed, 2020). Q3 of the Interview Traditional Finance to SME Growth in Emerging Markets.

Respondent # 8

Table 4.11: *Respondent #8 Answer to RQ3*

Traditional Banks	**Alternative Credit**
Pros	**Pros:**
• The short-term advantage of traditional lending to SMEs in the Emerging Markets will probably continue to lie in the competitive advantage of the proximity factor and unique relationship and customer knowledge that banks have with their business clients. • In the long-term as the traditional banks will eventually innovate their business models, complete their technological transition adopting a digital ecosystem, and make their cost structure more efficient and sustainable, they may retain some competitive advantages versus the fintech firms, especially if they will engage in corporate ventures, acquisitions, and partnerships.	• Nevertheless, alternative finance firms become more specialized and competitive in serving particular products or segments of the market in which traditional banks business models may not be equally competitive or specialized. Examples may include: asset-based finance, alternative debt, hybrid instruments, and equity instruments, securitized debt, crowdfunding, mezzanine finance, subordinated loans/bonds, private equity, etc.
Cons:	**Cons:**
• The main disadvantage in the short-term are related to the higher operational costs, slower operational efficiency, and higher risk-averse orientation banks have towards SMEs, in general, and for some borrowers' industries in particular in adverse economic cycles.	• The growth potential of alternative finance is likely to be different among small, medium-sized enterprises, and micro firms.

Table 4. 11 Source: (Al-Sayed, 2020). Q3 of the Interview Traditional Finance to SME Growth in Emerging Markets

<u>Finding 4: The short term and medium-term advantages of Banks with respect to a country's main economic development and stability.</u>

As shown in (Figure 4.8), "Educating the Market" in addition to "Investing in Technology" were highlighted by the overwhelming majority of respondent (87% for each) as the foremost advantages banks bring to the economies. Investing in technology was noted as a key priority as banks expand into new segments, and increase their customer base and cross-selling activities without investing in "brick and mortar" branches. Notwithstanding, "financial inclusion of lower segments of the economy" in addition to "strengthening the credit risk management" were identified by (80% of the respondents). Interestingly, the two former mentioned factors are inter-related. Respondents indicated that competition for liabilities and assets are driving margins of banks downward, thus, banks are improving their credit management systems and underwriting norms to lower segments of the economy. It is worth noting that 73% of the respondents noted the "introduction of sophisticated products" by banks to the market are among the advantages of the banks in the medium term. (Al-Sayed, 2020)

In terms of the long-term advantages of Banks, as indicated in (Figure 4.9), the answers of the respondents revealed that the strongest impact of banks in the long term lies in "formalizing the economic activities of the informal sector". The second highest advantages for banks were expressed by the following as their role in the: "Contribution to the enhancement of rule and regulations" (87%); "Deployment of funds into new segments in the economy (87%)" in addition to the facilitation of flows from "Remittances and Payments" (87%) to the economy. It is worth noting that, 80% of respondents remarked that banks allow "cross border expansion" into new markets in the long term (Al-Sayed, 2020).

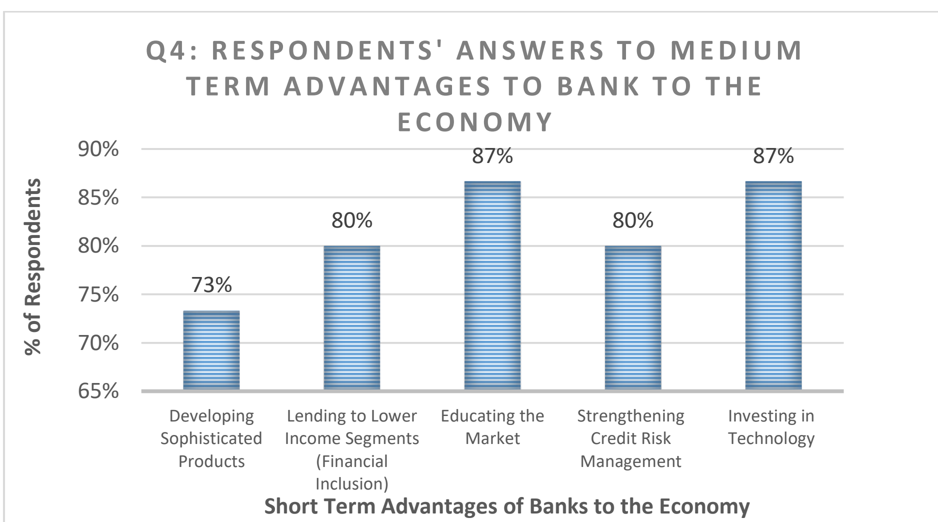


Figure 4. 8 Source: (Al-Sayed, 2020). Q4 of the Interview Traditional Finance to SME Growth in Emerging Markets

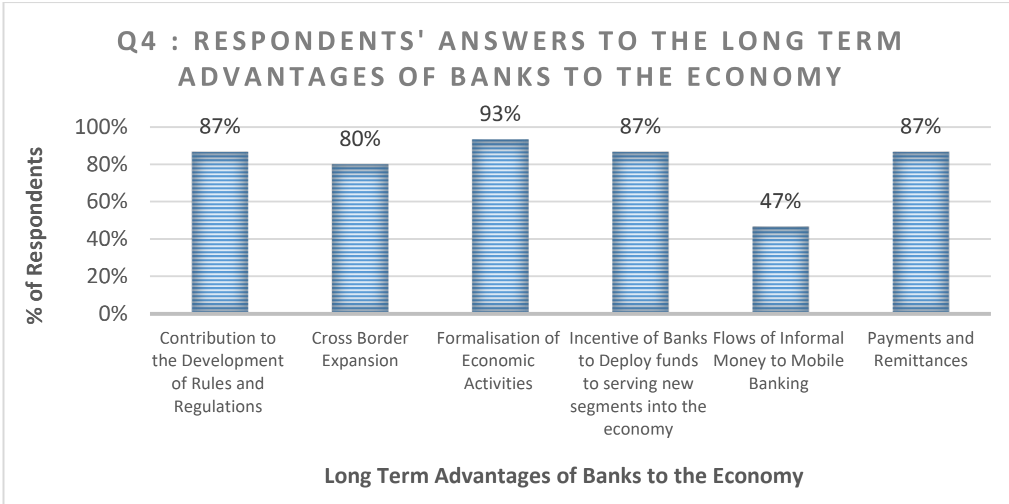


Figure 4. 9 Source: (Al-Sayed, 2020). Q4 of the Interview Traditional Finance to SME Growth in Emerging Markets

Finding 5: The overwhelming majority of respondents acknowledged the Role of IFIs in Emerging Markets structural reforms and their partnerships with banks in addressing SMEs.

One of the overriding findings of this study is the importance of the IFI (International Financial Institutions) in creating a conducive environment for SMEs in Emerging Markets. As indicated in (Figure 4.10), 85% of the respondents (64% answered strongly agree and 21% answered agree) revealed that IFIs are pivotal in creating an enabling environment for SMEs in the medium term (3-5 years). In emerging markets, funding to SMEs are particularly influenced by IFIs provision of non-financial assistance (technical assistance), research, policy advice to governments and banks working in the economy (Woldie & Thomas, 2018). A small percentage of the population (7%) have disagreed with the hypothesis of potential improvements in the economy by IFIs in Emerging Markets stating that IFIs do not understand the complexities of Emerging Markets. Only (7%) of the population expressed a neutral opinion on the matter (Al-Sayed, 2020).

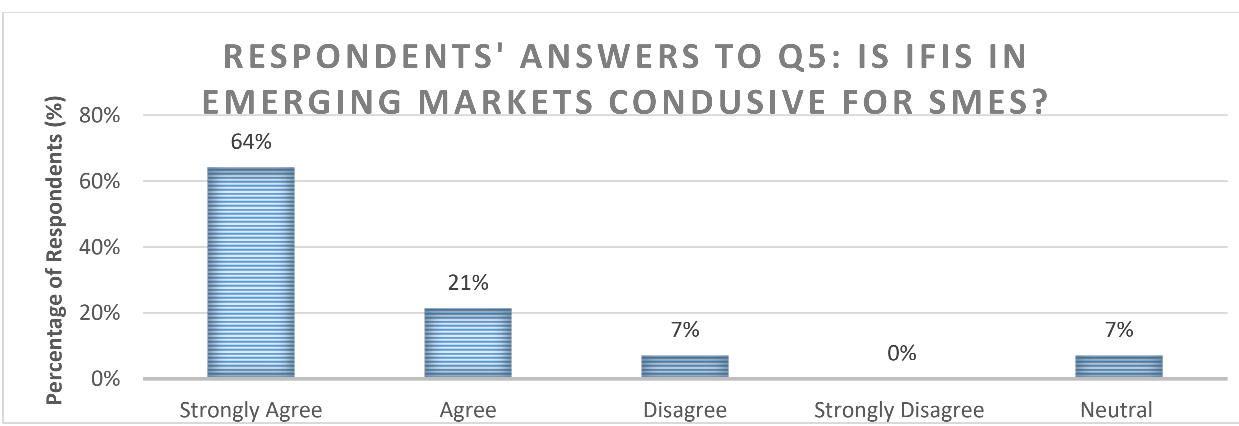


Figure 4. 10 Source (Al-Sayed, 2020). Q5 of the interview Traditional Finance to SME Growth in Emerging Markets.

Kevin Gani, IFC, Senior Financial Institutions Expert, APAC region, made the following statement to this question: *"As much as the IFIs such the World Bank, European Investment Bank can do, we are there not for eternity. At some point of time, we hand the projects to governments when successful or partially successful according to growth. I think our job in every country first is "capacity building". We can teach governments is one thing, and entering a new market is another thing. And working with them hand in hand in different level from the policy maker or the regulator all the way to the private sector… at some point of time, we exit our project one when we reach our targeted developmental impact. It differs from one country to another and one institution to another. Therefore, I think it is up to the government how they want to use us as a development tool. We are not there to dictate, we are there to help"* (Al-Sayed, 2020).

Dr. Andreas Reupp, Head of Access to Financial Services for SMEs in GIZ Egypt, has made the following comment: *"In our community, there is so much talk on developmental organizations, for institutional change to happen at a given economy, it takes a lot of time, and we need to change the mindset of people and the institutions. The cost is great on the long haul, but it is not a quick fix. Overall, there is an impact; the change is possible, but not granted"* (Al-Sayed, 2020).

Dr. Gabriella Kindert advanced a contrasting opinion observing the difficulty of IFIs in effecting change in Emerging Markets*: "No I don't think that IFIs have a role in providing a conducive environment for SMEs. People in Washington don't understand emerging Markets"* (Al-Sayed, 2020).

Regarding this specific question, Dr. Nashwa Saleh, MD of BAST Ratings has reported the following: *"the mandate of IFIs is on certain focus areas, - such as the SMEs and alleviating poverty. However, the effectiveness of their programs depends on their implementation. "You can bring the horse to the water, but you cannot make it drink it" It cannot be a prescribed recipe, but rather a blend of both- homegrown and predetermined programs. IMF and the WB programs present credibility to international investors; I would like to cite the example EBRD and their support to provide a conducive environment to the private sector. Their programs contain a good Technical Assistance component"* (Al-Sayed, 2020).

Dr. Antably made the following comment to the question *"We have to differentiate between two sets of intervention. Most of the bilateral agencies such as the KfW, USAID, CIDA, JICA, at the end of the day are government agencies. The time taken to spend is too lengthy on the project (from the time they study the market, until the project is actually implemented). However, they have a benefit in bringing world-best practices. Programs such as the Women in Business, Supply Chain Finance were introduced to enrich the SME products in Egypt. As such, multilateral agencies provided a guidance for us in adopting to new trends. They support banks and governments in localizing the programs to fit our culture and country's context. For example, Micro Finance was the first introduced in Egypt by the USAID in during 1990s. In doing so, they introduced innovative software and IT solutions to track loan portfolios, and provided technical trainings, new concepts in Credit Management to all staff. They advanced the*

SME landscape and competitive dynamics. IFC and the World Bank, on the other hand, provided massive support to the banking system and shook up the industry dynamics by downscaling to this underserved market. Personally, the journey of SME with the IFC and IFMA was so instrumental in creating a proper ecosystem and educating the banks" (Al-Sayed, 2020).

Dr. Ivo Pezzuto about this question commented: *"Yes and no. The dramatic aftermath of the Global Financial Crisis of 2008 caused by the massive expansion of shadow banking (complex and more opaque structured financial engineering instruments traded in a less regulated and supervised shadow banking environment) and adverse macroeconomic conditions (global imbalances, cheap interest rates, irrational exuberance, excessive risk taking, flawed credit ratings, off-balance sheet financial vehicles, etc.) have proved that unchecked financial liberalization and deregulation can cause a real lasting economic damage to a number of countries. Of course, many Emerging Market economies recovered well and faster than many other advanced economies after the GFC thanks also to monetary easing, aggressive fiscal policies, credit easing, and shadow banking, and despite massive cases of deleveraging from shadow banking like in China. Yet, it is a real constant trade-off between sustaining economic expansion and liberalization versus financial stability and excessive risk taking (i.e. margin lending to buy equities in China in order to sustain firms' equity valuations during periods of slowing economic growth and adverse economic cycles). In principles deregulation and liberalizations may help innovate financial markets and improved capital allocation but the way it is actually implemented and supervised in each country eventually determines the success or failure of the actual liberalization process"* (Al-Sayed, 2020).

Finding 6: The overwhelming majority of respondents emphasized the role of: (1) GDP composition; (2) Risk Appetite, (3) Regulator in determining a Bank's portfolio.

As indicated in (Figure 4.11), the foremost determinants of a bank's portfolio are; the "GDP composition of an economy" (71%); followed by the "Risk policy and Risk Appetite of a Bank" (64%) as well as the prudential regulations by the "regulator" of the banking sector (64%). Half of the respondents (50%) assigned the "Strategy of the Bank" in addition to the "Bank Ownership Structure" (47%) as criteria to consider. A small number of respondents highlighted "Top Management" (29%); "Structure, Conduct, Performance" (29%) and the "Bank Type" (29%) as important determinants of a Bank's loan portfolio in Emerging Markets (Al-Sayed, 2020).

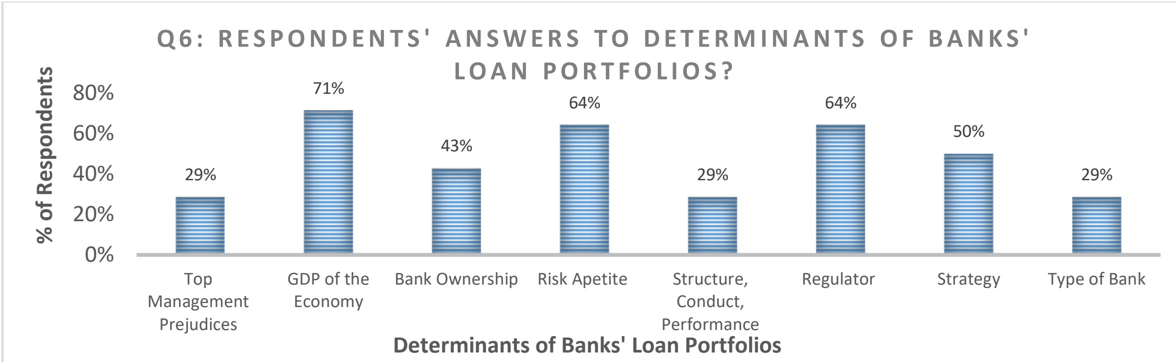


Figure 4. 11 Source: (Al-Sayed, 2020). Q6 of the Interview Traditional Finance to SME Growth in Emerging Markets

In answering this question, Dr. Antably made the following comment: *"The Strategy for the Bank plays a dominant role in determining which clients to focus on and the derived profitability from each line of business for the bank. Other determinants are key such as the Central Bank have an influence on the sectors and segments and their degree of concentration on the bank's balance sheet. The scale of operations is an important matter to consider. If a bank has a good footprint, it can easily downscale and extend its presence in unbanked areas where by a lot of micro and very small enterprises are present. We cannot discount the top management buy in of whether SME occupy a good portion of a bank loan book, because if they do not believe in that segment, they will never address it. The magic wand in all of this is the technological infrastructure. If a bank invests in proper IT systems, end to end solutions, it will not be able to service the SME with scale and with proper risk levers"* (Al-Sayed, 2020).

Mike Hill has provided an insightful contribution to this question: "*Bank Risk Policy is determined by 2-3 people at the very top who have prejudices"* (Al-Sayed, 2020).

According to Federico Bilder: *"The portfolio of the banks reflects the:*

1- Economy of a country
2- Risk and Cost; Risk in the sense that certain sectors are perceived to be less risky than others are, and the other one is cost, there are costs attached to it.
3- Regulator, which obliges the banks to allocate x % of portfolios for certain segments
4- Infrastructure (Credit Bureaus)
5- Collateral Registries.
6- Technology Infrastructure - Open Banking" (Al-Sayed, 2020).

Prof. Allen Berger, Economist has provided the following comment to this question: *"Every bank has its own competitive advantage. Big banks cannot do relationship lending. SMEs do not have anything to show, not a good credit history, no audited financials. Smaller Banks are better equipped to do SME finance better. Additionally, a number of issues determine loans portfolios; the financial institutions infrastructure, the ownership of a particular bank; foreign or national banks; state owned vs. privately owned bank; the balance sheet of a bank; and the market competition"* (Al-Sayed, 2020).

<u>Finding 7: The respondents have unanimously stated that a mixture of perceptive fiscal, monetary and structural reforms is key in creating a competitive and well-developed economy.</u>

As indicated in (Figure 4.12), only 40% of the respondents believed that increased access to finance would improve the economy. However, 100% of the respondents answered that it requires the presence of a holistic eco-system and the placement of the right regulations and reforms. (Al-Sayed, 2020). The following quotes represent the view of the respondents to this question.

Sameh Mahariq, DGM for AlWatany Bank, Amman, Jordan stated: *"Absolutely, Finance is very important to economic growth. There has to be a strong coordination mechanism across a nation. Regulations are important, and a focal point to consider is the political leadership in an economy. – Erdogan was instrumental in advancing Turkey to a modern and investment attractive country. Mahathir Mohamed, the P.M. of Malaysia stewarded his country's vision and trajectory in 20 years under this transformation program. We have seen this also happening in the Middle East. The UAE offers a great example of a very well-functioning and competitive nation"* (Al-Sayed, 2020).

Prof. Allen Berger added the following concept*: "A combination of different things. The regulator, the infrastructure, Public and Private Policy go hand in hand with the enabling Eco System and Infrastructure. Eventually FinTechs will replace Large Banks"* (Al-Sayed, 2020).

Adrian Chindris added the following concept to this question: *"What Maximizes the impact is a combination of a coherent and easy access to the financial system, a dedicated regulatory environment, and data driven environment. Alone, the ambition of the government does not matter. It should create a database that is strict and coherent. The main focus needs to be on creating the base for development, strict and coherent database about the population of the country, biometric IDs, second , a very well developed infrastructure and a very good control of IDs"* (Al-Sayed, 2020).

Kevin Gani noted the following: *"This is a chicken-egg question. You cannot get the access to finance without having the policy. The answer would depend on the agenda. Access to credit alone will not suffice. There has to be collaboration between regulators, business players. This is a holistic approach"* (Al-Sayed, 2020).

Dr. Andreas Reuss added the following concept: *"Impartial Rule of Law in addition to a reliable, transparent, and efficient Government are probably more important than access to finance"* (Al-Sayed, 2020).

Dr. Ivo Pezzuto answered the following: *"Several empirical studies suggest that the quality of a country's measures for economic development depend significantly on multiple factors such as, the quality of the governance of its business ecosystem, clusters, and industrial and FDI policies; on the effectiveness of its fiscal, monetary, and systematic structural reforms; on the effectiveness of the private-public sectors' collaboration and investments, and also on the ability to achieve high levels of productivity, constant upgrading of technologies and innovation through experimentation, bold* *investments in R&D and infrastructures, constant upskilling of the human capital, savvy regulation and governance of public finance, patient long-term investors, and modern end efficient financial markets that may facilitate financial inclusion and an efficient and timely capital allocation to the real economy through lending, capital markets, and innovative Fintech firms. All these factors of competitiveness eventually lead to productivity-enhanced growth, higher fiscal and monetary multipliers, and ultimately, to higher GDP-per-capita and better standards of living. Traditional lending and Innovative FinTechs can play a critical role as drivers of economic expansion in Emerging Countries but their contribution on SMEs growth and the overall economic prosperity depends also significantly on the successful governance of all the other factors of competitiveness in the local countries" (Al-Sayed, 2020).*

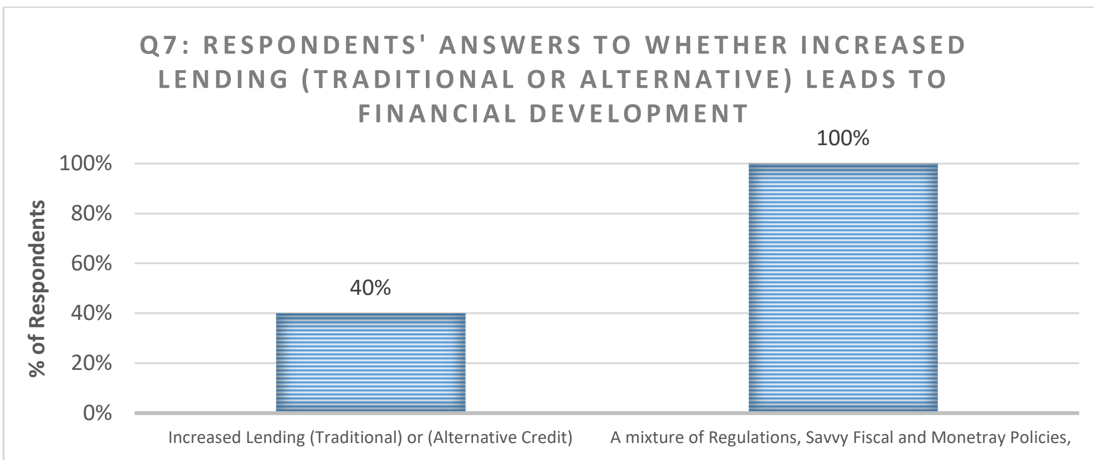


Figure 4. 12 Source: (Al-Sayed, 2020). Q7 of the Interview Traditional Finance to SME Growth in Emerging Markets

Finding 8: The overwhelming majority of respondents believe that COVID-19 will have a big impact on the global and financial stability.

As indicated in (Figure 4.13), the respondents have unanimously agreed that COVID-19 will severely affect the economy and the global financial stability on many fronts. (75% of the respondents answered "Strongly Agree"; 25% of the respondents answered "Agree) (Al-Sayed, 2020).

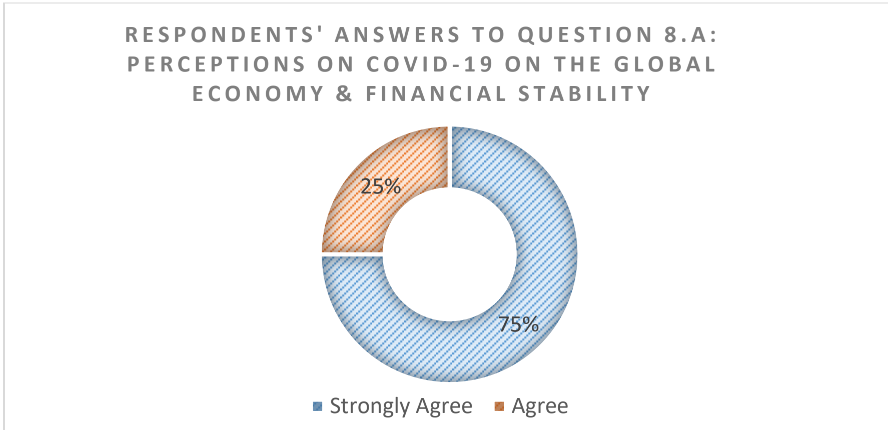


Figure 4. 13 Source: (Al-Sayed, 2020). Q8 of Traditional Finance to SMEs

In answering this specific question, Dr. Mohie El Din stated the following*: "There are many obstacles to recovery from where we are now due to the following: (1) Trade Protectionism; (2) investment restrictions on investment and capital flows; (3) populism & labor movement. Broadly speaking, the global output decreased by -3% compared to a +2.9% growth in 2019. We are seeing 300 million jobs loss in May 2020. The decline in global trade is between 13%-32%. Private portfolio decline is around 80%"* (Al-Sayed, 2020).

Adrian Chindris highlighted the following: *"The COVID-19 will definitely force us to rethink the general economic development on several horizons. We need to be capable to make short-term plans and to re-evaluate our risks, and to know our clients extremely well. We see a huge disruption of value chains, which will affect how the economies will onshore many business activities. For SMEs, shorter value chains are recommended. Adjustment strategies will need to occur 2 times a year."* (Al-Sayed, 2020).

According to Kevin Gani*: "Definitely agree, we will live with the outbreak first, second and third wave. What we have seen so far is a different way of doing business. We have to monitor the business needs, and be adaptive to level of consumers. We have seen a new segment of SMEs, so banks need to be innovative. The role of Non-Banking Financial Institutions will increase"* (Al-Sayed, 2020).

<u>Finding 9: The majority of respondents have stated that "Credit Guarantees" in addition to "Measures tackling debt rescheduling" and "Digitization" were the highest policy responses across emerging markets.</u>

As indicated in (Figure 4.14), for approximately 87% of respondents, the "measures to delay payments for businesses", in addition to "regulations supporting Fintech programs" were noted as the highest policy developments across many economies post the COVID-19 crises. Other developments such as "Credit Guarantees" in addition to "Digitization of Banks" to respond to the evolving changes in risk environment were reported to be among the most frequent policy responses in a number of economies in the world (80% of respondents expressed this opinion). It was noted by a number of respondents that "Open Banking" is moving in a number of rapidly growing markets (73% of respondents). In addition to that, (53% of respondents) indicated that a number of measures have been implemented in order stimulate private equity, including the establishment of funds of funds, direct investment and co-investment, the setting up of networks and associations, new regulatory frameworks and tax incentives, across a wide spectrum of countries. (Al-Sayed, 2020)

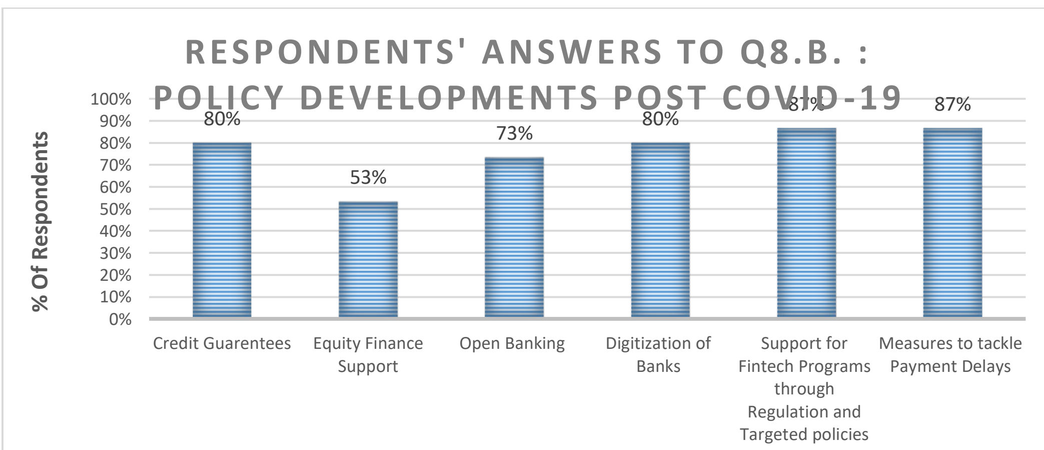


Figure 4. 14 Source: (Al-Sayed, 2020) Q9 of the Interview Traditional Finance to SME Growth in Emerging Markets

In responding to that question, Matthew Gamser provided the following comment: *"This crisis is not about liquidity, it's about solvency of SMEs. Fiscal policy has an important role to play to cushion the impact of COVID-19 crisis. The crisis is a catalyst for Digital Transformation. Many banks do not have the process to get this back quickly. In many countries, FinTechs are very small in size and scale, with the exception of China. Hopefully in some of the Emerging Markets, where the crisis happened, they'll get their act together really fast, faster than big banks than Europe and the US"* (Al-Sayed, 2020).

Federico Bilder provided the following insight*: "Corona virus will accelerate the trend. Regulators will facilitate the transition. There will be a convergence of both Alternative Finance and*

Banking. Banks now are promoting "Open Banking" and "Open Innovation" with FinTechs" (Al-Sayed, 2020).

Regarding this specific question, Dr. Andreas Reuss has explained the following: "*Digitization is the future of SME finance, highly automated and standardized processes. In the past 10 years, Central Banks focused on building the resilience of financial system through more capital requirements. What surprises me is that we have been talking about alternative finance for years, and not so much have been happening. COVID might have accelerated the advancements of alternative lending technologies"* (Al-Sayed, 2020)

Summary of Key Findings:

The findings of this multiple case study yielded insights, which are supported by the initial literature review and have tackled each of the research questions. The study revealed some changing dynamics and emerging themes such as COVID-19 and the acceleration of alternative lending technologies that the author has integrated at the heart of the in-depth questions. For the quantitative research part, empirical analysis is based on a sample of 12 emerging markets from 2009-2018. In terms of the qualitative research part of the study, both traditional and alternative finance are considered. Financial development (through bank restructuring and availing funds to SMEs) in emerging markets is found to play a "crucial" role in propelling economic growth and the GDP/ Capita in these markets (King & Levine, 1993). In addition, alternative credit was found to be also influential, although still in its nascence phase. All of these findings are now used to answer the research questions presented earlier in this chapter.

RQ1. Financial Development and Economic Growth

Findings show that lending to SMEs has a positive correlation to the GDP per capita growth in emerging markets. This is important given the literature review that have questioned the impact of financial development and economic growth in emerging markets. The majority of research focused on SMEs in advanced economies. This is attributed to the availability of secondary data of SMEs in advanced economies in the public domain and the lack of sufficient data on SMEs in Emerging Markets (Eunni, Brush, & Kasuganti, 2007). A related finding is that financial development is a necessary but not sufficient condition to drive economic growth for emerging markets. It was noted in our unit of analysis across 12 emerging economies and as (Patrick, 1966) contends, that the availability of different finance forms induces economic growth. This finding is in line with (Goldsmith, 1969) (McKinnon, 1973) (Shaw E. , 1973) who advocated the role of financial intermediation in spurring economic growth.

Most of the respondents commented on the implementation of "SAP" or structural adjustment programs in each of economies. Respondents highlighted that these programs were pivotal in transforming the economies from being centrally planned and repressed to having more functioning and efficient financial systems. Participants felt that liberalization of financial systems has equipped emerging markets to realize diversified growth. Additionally, policies related to financial infrastructure as credit registries, credit guarantees, bureaus and collaterals need to be developed in order to guarantee the sustainability of financial development (United Nations Economic and Social Comission for Asia and the Pacific, 2017)

RQ2. Traditional Finance and Alternative Lending to SMEs

According to the data analysis, it was demonstrated that SMEs still rely on bank credit for financing their activities. The findings of our study revealed that increased lending to SMEs through banks was positively correlated with GDP/Capita of the countries in the unit of analysis during the years 2009-2018. Alternative credit appears to gaining traction aftermath the global financial crisis, the surge in mobile technologies. Our analysis has not included secondary data from emerging markets to investigate the impact of Alternative credit on economic growth of emerging markets. However, COVID19 can be a transformative event for SMEs lending in most of the emerging markets. The majority of respondents (83%) have observed that the transition from traditional banking to alternative lending will witness a combination of both (FinTechs & Traditional Banking) and it will occur in the coming few years. (Al-Sayed, 2020).

Subject matter experts have noted that banks are responding to this trend by: (1) establishing partnerships with telecoms and BigTechs; (2) launching Neo Banks for SMEs; and (3) through building their technology in house (Al-Sayed, 2020). Unfortunately, all participants felt that alternative credit is a new phenomenon and it is difficult to make concrete observations on its impact on economic growth. The number of instances indicated during the in-depth interviews are small (only in a number of countries) and cannot be generalized across emerging markets (Al-Sayed, 2020).

RQ3. Advantages and Disadvantages of Banks and Alternative Credit

All of subject matter experts commented on the advantages of banks over alternative credit. Compared with the later, banks are regulated, rest on a strong client base and have physical presence in the geographies where they operate. Banks also rely on proper credit management systems and use widely and accepted credit-scoring models. On the other side, the majority of respondents have highlighted that banks are less agile and innovative than alternative credit firms when it comes to technological adoption. In contrast, alternative credit is scalable and use new technologies in credit scoring. Respondents emphasized the lack of regulation and managerial experience remain the industry's largest disadvantage (Al-Sayed, 2020).

RQ4. The Role of IFIs in creating a conducive environment for SMEs in emerging markets.

The majority of participants acknowledged the pivotal role of the International Financial Institutions in creating an enabling environment for SMEs. Participants shared instances of the outcomes of the IMF during the economic liberalization of India during the 1990s and how this was key in growing the number of SMEs beneficiaries since then. The impact was also quantified by the percentage of SME contribution to the GDP. Another participant highlighted the role of IFIs in a number of emerging markets in APAC region and the degree to which they have made a shift to become rapidly growing economies and moved to become higher middle-income countries. A third participant commended the scope of IFIs in emerging markets but cautioned that the success of these programs hinges on the implementation. A fourth participant highlighted that these programs are as "good as the economies are" (Al-Sayed, 2020).

RQ5. Determinants of Loan portfolio of Banks in Emerging Markets.

The majority of respondents assigned the GDP composition of an economy, Risk Appetite of a Bank, the role of the Regulator as the major determinants of Banks loan portfolios. Half of the respondents recognized the "Strategy of the Bank" in addition to the "Bank Ownership Structure" as additional criteria to consider in shaping a bank's loan book.

RQ6. A mixture of perceptive fiscal, monetary and structural reforms is key in creating a competitive and well-developed economy.

While 40% of respondents highlighted the importance of finance in creating a well-developed economy, all of the subject matter experts have observed that a mixture of monetary and fiscal policies in addition to the right regulations are imperative in all economies (Al-Sayed, 2020).

Summary

The purpose of this qualitative, multiple case study is to document and describe key insights of Subject Matter Experts on the role of traditional bank lending to Small and Medium Enterprises in Emerging Market economies and whether financial development and financial innovation (i.e. alternative credit, etc.) was conducive to economic growth. A multiple case study research was used to satisfy the goal of this exploratory case study research (Yin, 2014). The unit of analysis are the Subject Matter Experts who have a broad experience in SMEs, International Financial Institutions and Banking respectively. In tandem, the author's sample for the quantitative analysis were 12 emerging markets, which have, underwent economic restructuring under the World Bank and the IMF respectively. Primary Data for the former was collected through in-depth interviews with the goal of developing insight of experts on this topic to answer our prepared research questions (Patton M. Q., 2015). Respondents' insights were elicited during the semi-structured interviews using the presented eight questions. Additional questions were posed to the respondents to understand the landscape in light of the COVID-19 outbreak and its implications on the banking industry and SME lending consecutively. Views expressed were compared with the data and literature on this subject. The outcome of the analysis presented eight themes which provided answers to the questions posted at the outset.

The study found out the financial development is directly related to economic growth in emerging markets. However, the findings highlighted that financial development alone does not always warrant economic growth. It was also found out that economic liberalization of emerging markets plays a significant role in creating an enabling environment for SMEs. The dominance of traditional bank lending to SMEs is noted. Banks are found to be a credible source of finance for the majority of respondents and have numerous advantages such as being regulated and following widely accepted industry norms and credit methodologies. A related finding is that it is too early to draw conclusions on the scale and sustainability of alternative credit technologies for the time being and that further studies in that regard will be required. GDP of an economy, Risk Appetite of a Bank, the role of the Regulator is found to influence the Loan book composition of banks. Finally, economic development of emerging markets requires a holistic combination of monetary, fiscal and regulatory policies in creating a resilient environment for SMEs.

In closing this chapter, a word is in order. Presenting the analysis of findings in this study warrants some degree of caution. For one, the sample size for the qualitative research presents data from 17 subject matter experts. Second, the purpose of this qualitative case study is to explore how Subject Matter Experts feel about the role of traditional bank lending to Small and Medium Enterprises in Emerging Market economies and whether financial development and financial innovation (i.e. alternative credit, etc.) was conducive to economic growth. Some views of experts were based on their broad exposure to many countries' experiences with the intervention of International Financial Institutions in restructuring the emerging market economies. The experiences of the aforementioned have yielded different results. Though the author made sure to represent the view of the SMEs across various markets without any bias or prejudice, it cannot be excluded that all the views were sufficiently represented. For this reason, it is imperative to highlight that recommendations drawn are specific to the experience of the sample group under study.

Chapter 5: Implications, Recommendations, and Conclusions

Introduction

Chapter 5 is the most critical chapter of this research study for a number of reasons. For one, it demonstrates the significance of the research findings for a number of emerging markets and presents the relationship between SME credit and GDP/Capita growth. Second, the study presents the scholarly contributions of the author to the topic. Third, the existing literature on SMEs in Emerging Markets is vast, yet, sparse and uncorrelated. The objective of this dissertation is to develop insights on how traditional lending to SMEs, policy reforms as well as Alternative credit in Emerging Markets impact economic growth. The study contributes towards both the academic and business avenues by examining the changing roles and priorities of traditional and alternative credit for SMEs post the COVID-19 outbreak. The author attempts to fill the gaps in literature in the related field and presents recommendations for future research avenues. A multiple case study approach was used as a research methodology to document the findings of this work (Yin, 2014). Multiple case study makes theory building possible through the process of considering several facets of an issue (Fernandes, 2017). Chapter 4 presented the analysis of qualitative data collected during the one-on-one interviews. Based on data analyzed and presented in Chapter 4, the findings add to “Theory of Economic Development” & “Economic Theory of Bank Credit “by demonstrating that there are additional factors necessary for economic development that are need to be considered by Banks and policy makers respectively. In addition, the preceding chapter have presented the results of the secondary data collected from 12 emerging markets from the period 2009-2018. Conclusions drawn from the eight key findings and their interpretations are exhibited in Table 5.1.

Table 5.1

Research Question-Findings-Analysis-Conclusions

Research Questions	Findings	Analytic Category	Key Conclusion
RQ1: Is overall financial development in Emerging Markets conducive to Economic growth?	1.1. The overwhelming majority of experts believed that financial development is conducive to economic growth. 1.2. The overwhelming majority of experts mentioned importance Policies related to "Ease of Doing Business" in playing a key role for scaling up economic growth. 1.3. Lending to Business (net of SME credit) is positively correlated to Economic Growth of Emerging Markets 1.4. Lending to SMEs exhibited a higher positive correlation to Economic Growth than total lending to business in Emerging Markets.	1.1. The importance of Financial Development. 1.2. The importance of pillars of "Ease of Doing Business" in an Emerging Economy. 1.3. The importance of lending to SMEs in driving up Economic Growth in Emerging Markets.	1.1. Inclusive Financial Development with particular focus on the SME segment is conducive to Economic Development. 1.2. Policy Makers need to implement holistic reforms for having the maximum impact on economic growth.
RQ2: Which of the following three factors have a stronger impact on economic growth in the Emerging Markets: (1) traditional financial development (i.e. bank credit); (2) alternative forms of finance/lending; (3) a combination of the	2.1. In the short term, traditional credit through banks has the highest impact on economic growth in Emerging Markets. 2.2. The transition to alternative lending will be gradual and that it will shift from a pure banking model	2.1 Recognize the importance of Bank credit in driving economic growth 2.2 Recognize the role of crisis (COVID-19 and Global Financial Crisis) & technology for alternative lending platforms in the filling the credit gap for SMEs.	2.1 In response to the COVID-19 pandemic, Banks are more likely to take decisive action to revisit their operating model and risk appetite with respect to SME lending. 2.2 The COVID-19 may have a lasting impact on the business model of Banks,

two forms of lending/finance?	to a hybrid model based on bank-fintech collaboration especially after the COVID-19 crisis.	2.3 Recognize the importance of changing the Business Operating Model of Banks in addressing the SME segment.	leading to acquisition of major financial institutions of FinTechs or collaboration with third parties (Mobile Network Operators, payment gateways, credit card systems).
RQ3: What are the short-term and medium-term advantages and disadvantages of the traditional lending versus the innovative and alternative forms of finance for SMEs growth for Emerging Markets?	3.1. The overwhelming majority of respondents highlighted the importance of: (1) bank regulation; (2) proper credit systems; (3) client bases; and (4) Branch Network as key advantages of Traditional Banks. 3.2. The vast majority of experts mentioned that: (1) banks' risk aversion; (2) dependence on legacy systems remain the largest disadvantages of banks. 3.3. The overwhelming majority of respondents mentioned: (1) the scalability of alternative technologies; (2) use of new infrastructure; and (3) the ability to collect "soft-information" on borrowers as alternative lending	3.1. The importance of regulation for the Banking industry. 3.2. The importance of client database for Banks. 3.3. The importance of proper credit management tools, in addition of appropriate loan and processes tracking. 3.4. The importance of addressing IT infrastructure gaps of Banks to accommodate the growing SME segment. 3.5. The novelty of credit scoring models for alternative finance platforms. (Advanced Analytics and credit decisions engines). 3.6. The importance of alternative credit platforms to interface with third party applications and service providers (scoring, mobile, credit card systems). 3.7. The importance of managerial experience in building trust for alternative lending platforms. 3.8. The importance of having a regulatory body and framework for alternative lending platforms.	3.1. FinTechs may play a significant role for SMEs in the future, but face significant challenges. Regulatory constraints need to be addressed for alternative lenders in order to gain trust and confidence. 3.2. The COVID-19 has changed the way banks are interacting with their clients and borrowers. Governments and the private sector are accelerating the adoption of contactless, "low-touch" economy (frictionless branches), putting both; the digitization of banks and FinTechs on the winning side. 3.3. As mentioned earlier, alternative lenders have a decisive role in the medium term due to their advanced credit decision engines. The agility of alternative lending technologies might attract SME borrowers that are "risky" to banks. 3.4. The COVID-19 will lead to a wave of industry

	platforms largest advantages. 3.4. The overwhelming majority of experts listed the: (1) lack of experience; (2) absence of regulation as the foremost disadvantages for Alternative Credit.		consolidation for Banks and FinTechs to explore M&As.
RQ4: What are the short-term and long-term advantages of the former with respect to their Country's economic development, and the overall financial stability?	4.1. The overwhelming majority of experts mentioned that; (1) "Market Education" and (2) "Investment in Technology" were the foremost advantages of banks in the country's economic development. Also; (3) "financial inclusion of lower segments of the economy" in addition to (4) "strengthening the credit risk management"; (5) "introduction of sophisticated products" as the medium-term advantages for banks in the economy. 4.2. The overwhelming majority noted that (1) "formalizing the economic activities of the informal sector";(2) "Contribution to the enhancement of rule and regulations" ;	**<u>I. Short Term:</u>** 4.1. Market Education 4.2. Technology of Core Banking Systems 4.3. Financial Inclusion 4.4. Risk Management Systems 4.5. Product development **<u>II. Long Term:</u>** 4.1. Formalization of "grey economy" 4.2. Enhancement of Banking Supervisory Role 4.3. New segments finance 4.4. Foreign Direct Investment 4.5. Bank Expansion	**<u>I. Short Term:</u>** 4.1. Regulators need to develop policies and programs for banks to strengthen their role in addressing lower segments of the economy. (Financial Inclusion and Financial Literacy programs) 4.2. Regulators need to continue their regulatory role in improving data and risk management for banks. 4.3. Banks need to continue developing innovative products for SMEs. **<u>II. Long Term:</u>** 4.1. Transition to the formal economy requires policy and regulatory intervention with the support of the banking sector as a key enabler. 4.2. Enhance the supervisory and regulatory role of

	(3)"Deployment of funds into new segments in the economy"; (4) to the facilitation of flows from "Remittances and Payments" to the economy; (5)"cross border expansion" of banks into new markets as the long term advantages.		banks for SMEs in the long term. 4.3. As more SMEs are included in the formal economy in Emerging Markets, policy makers need to enhance their role in catering to new segments in their existing markets and to support SMEs in venturing to new global markets.
RQ5: Is the post-IFI era (financial liberalization) and its international influence contributing to creating the conditions for a more resilient, financially sustainable, and growth-oriented environment for the Emerging Markets' SMEs and their Economies?	5.1. The majority of experts acknowledged the role of (International Financial Institutions) in creating a conducive environment for SMEs in Emerging Markets 5.2. In emerging markets, funding to SMEs are particularly influenced by IFIs provision of non-financial assistance (technical assistance), research, policy advice to governments and banks working in the economy	5.1. The role of IFIs in strengthening the ecosystem for SMEs 5.2. The significance of the TA component for SMEs in Emerging Markets	5.1. Policy Makers and Bank need to emphasize the scope of the IFI intervention on capacity building for Banks working with SMEs and borrowers.
RQ6: What determines the composition of Bank's Loan Portfolio in the emerging economies?	6.1. The majority of experts mentioned that (1) "GDP composition of an economy"; followed by the (2) "Risk policy and Risk Appetite of a Bank" as well as the (3)	6.1. GDP of an economy 6.2. Risk Appetite of a Bank 6.3. Regulators Role 6.4. Bank's Strategy 6.5. Ownership Structure and Shareholding Structure	6.1. Banks need to emphasize a balanced composition of their loan portfolios to achieve an adequate risk-return threshold and diversify the segmentation.

	prudential regulations by the "regulator" of the banking sector. Also, experts assigned the (4) "Strategy of the Bank" in addition to the (5) "Bank Ownership Structure" as criteria to consider in shaping banks' loan portfolios.		
RQ7: Does increased access to traditional bank lending/finance and alternative forms of finance to SMEs necessarily contribute to an improvement in general economic conditions and economic development in developing countries or it requires also savvy fiscal, monetary, and structural reforms and efficient and modern financial markets for optimal allocation of financial resources?	7.1. The majority of experts mentioned that both: (1) increased access to finance; and (2) policy reforms will yield the optimal allocation of resources.	7.1. Greater Access to Finance 7.2. The importance of Monetary, Fiscal policies, structural reforms to economic development.	7.1. Governments and policy makers need to stimulate economic activity and greater access to finance in order to improve the economic development in Emerging Markets
RQ8: In light of the COVID-19, which will be the largest policy changes for SMEs in Emerging Markets?	8.1. The majority of experts mentioned that : (1) "measures to delay payments for businesses"; in addition to; (2) regulations supporting Fintech programs"; and (3) "Credit Guarantees" as key policy measures taken post COVID-19. 8.2. The majority of experts emphasized that (1) "Digitization of Banks"; (2) "Open Banking" as the new	8.1. The importance of Central Banks to have a policy kit to ensure the sustainability and survival of SMEs in Emerging Markets post the crisis. 8.2. The change in business dynamics and ecosystem for Banks and the importance of Digitization for Banks.	8.1 Enhance the strategic approach of Central Banks in tackling SME challenges post the crisis. 8.2. The need for Banks to collaborate and to create a more open ecosystem.

	frontiers for Banks to invest in post the COVID-crisis.		

Table 5. 1 Research Questions Key Findings, and Questions. Source: Author's composition.

As presented earlier in the preceding chapters, the author collected primary data through semi-structured interviews with subject matter experts in the field in addition to follow up discussions (Appendix D). In addition to that, the author presented findings using secondary data from 12 Emerging Markets that have underwent economic reform sourced from academic journals, reports and statistics respectively. Experts were chosen according to a preset criterion relevant to the research questions, and the selection thereof was carried out through "purposeful sampling methodology". Participants' selected required them to have a deep understanding of the research questions so that they can enhance the knowledge the understanding of the phenomena under study (Sargeant, 2012). Notwithstanding, "snowballing sampling" was used in order to in recruit and enlarge the sample size with additional participants to the qualitative research (Mack, Woodsong, MacQueen, Guest, & Namey, 2005). Although the purposeful sampling approach tends to have some bias when compared to random sampling, random sampling key disadvantage lies in its inability to yield a representative sample (Antonisamy, Christophe, & Samuel, 2010).

IRB approval was obtained prior to conducting the primary data collection. Data was collected from one-on-one interviews the author has conducted with the experts. The interviews were recorded digitally on IPhone® and on Skype ®& WebEx®, Zoom® and Microsoft Teams® respectively. Data files containing all answers to the research questions were created and stored on the researcher's personal laptop. Additionally, the researcher has manually transcribed the recorded interviews as part of "familiarization with the data" (Braun & Clarke, 2006).

The limitations for this study were outlined in Chapter 3 and were mitigated with the highest degree possible. The greatest limitation of this study was the number of countries presented in the case study conducted. The author has focused on three major economies only in her literature review. The emerging markets examined in length were Brazil, Malaysia and Turkey categorically. The author tried to include Egypt as an emerging market in her sample, but there was a lack of secondary data on the SME loans from the period 2009-2018. Additionally, the author included nine additional emerging market economies to the previous three economies from different regions in the statistical model and ensured the reliability and validity of the research findings.

A recent limitation for the study is the fact that the author is personally immersed in the phenomena under study, and might inevitably bring some biases to the study (Patton M. Q., 2015). However, the author mitigated this when presenting different and opposing views to the experts during the one-on-one interviews and the author's adoption of a "neutral stance" (Rowley, 2012). Additionally, the author’s bias was somewhat mitigated by “triangulation” between various data sources. Here, individual viewpoints and of the experts were verified against others and, ultimately, a rich picture of the topic under scrutiny may be constructed based on the contributions of a range of people (Shenton, 2004).

Another limitation is the skill set of the researcher. As (Yin, 2014) maintains, some of the skills required to perform a case study research are: (1) the ability to ask good questions and analyze respondents; (2) to listen and build rapport with the respondents; (3) to be responsive to new information and to absorb it properly rather than rejecting it. The researcher mitigated this by asking questions and listening carefully to the experts’ opinions and views on the matter.

A further limitation was the novelty of COVID-19 pandemic and its effect on the banking industry and SMEs in Emerging Markets in particular. This suggests new avenues for future research as more data becomes available.

Ethical standards for this study adhered to (Patton M. Q., 2015) “Ethical Issues Checklist” for qualitative research. The objective of the research was clearly explained to the subject matter experts ahead of the interview. Furthermore, an introductory letter was sent to all participants in advance of the study (Appendix A). Members of the sample were all selected using a purposeful sampling methodology, but there was no screening applied related to gender, race, religion or geography. All participants in the interviews completed an Interview Consent Form (Appendix B). The purpose of the study, the method of the study, the benefits, risks and ethical considerations were clearly outlined.

Before embarking on the data collection and interview process, approval was sought and granted from the IRB and the International School of Management. All experts who participated in the study were offered confidentiality. Finally, data security was ensured to all participants prior to embarking on the research.

The remainder of this chapter will layout the recommendations and conclusions of the study. Implications are presented as they relate to the original research questions, and in the context of the existent literature review as well as the views expressed by the subject matter experts. Recommendations for a variety of stakeholders such as Banks, Regulators and other relevant policy makers are set out. In addition, recommendations for future research and development of (Schumpeter, 1911) Theory of Economic Development is also present. In writing this, the researcher has identified several areas of potentially rewarding future research. Equally important, the researcher has focused on presenting actionable recommendations in this study (Bloomberg & Volpe, 2016).

Conclusions and Recommendations

Based on the key findings and interpretations, the following conclusions and recommendations are presented here in this section. The author of this researcher decided to follow the conclusions with the recommendations to make it easy for the readers of this dissertation to make the connection between the problem and the solutions respectively. It is evident that access to finance for SMEs in Emerging Markets in systemic in nature, it makes it difficult to solve for one single entity responsible for it. Systemic problems require systemic solutions. Many stakeholders are all part of the system. However, there is a renewed hope for a better future for SMEs if financiers, governments and other private sector players endorse these issues and recommendations.

1) *Inclusive Financial Development with particular focus on the SME segment is conducive to Economic Development*.

For a long time, financial inclusion has received little attention from the financial and regulatory authorities' in spite of its central role in promoting economic development. There is clearly a need for effecting "Financial Inclusion" programs at the highest level. Financial Inclusion is the provision of affordable financial products and services[27] to individuals and enterprises in a responsible and sustainable way (World Bank, 2020). Affordable financial services for Small and Medium Enterprises are needed now more than ever to close the credit gap in Emerging Markets. The global formal MSME credit gap stands at USD TRN 5.2. In addition, 600 million jobs are needed in 2030 to absorb the global work force (World Bank, 2020). While the majority of SMEs in Emerging Markets are informal and disenfranchised, the need to effect and implement financial inclusion programs are an urgent priority for Emerging Markets.

In addressing this, the following is recommended:

- Strengthen Financial Inclusion Programs at the national level. More funds are needed for Emerging Markets to Financial and Non-Financial Institutions to accelerate the initiatives at the country level. Two components of this program are envisaged. First, a National Financial Inclusion Strategy is needed with proper mechanisms for adoption and evaluation. Furthermore, the enhancement of financial infrastructure in emerging markets is urgently needed. Initiatives such as developing credit scoring systems and payment gateways for SMEs need to be mainstreamed across all emerging markets.
- Develop Financial Literacy Programs: Work with the ministries of education to design, test and implement different financial education programs for SMEs in Emerging Markets. The programs need to be designed with the guidance of banks in the market to enable a higher reach of SMEs in various sectors of the economy. In light of the current pandemic, tutorial and courses can be delivered online.

2) *Policy Makers need to implement holistic reforms for having the maximum impact on economic growth.*

SMEs are expected to boost efficiency and production for the long term because they are the engine of job creation and economic growth in emerging markets. Furthermore, they are the "seedbed of

[27] Services include but are not limited to transactions, savings, credit and insurance (World Bank, 2020)

innovation and entrepreneurship" (Mishra & Shaopeng, 2011). SMEs are likely to play a crucial role in economic development in countries with better financial development and stronger institutions like the control of corruption, rule of law and property rights. As such, an enabling environment plays a crucial role for SMEs growth. Regulating markets and streamlining the 12 steps of Doing Business[28] outlined by the (World Bank , 2020) would make a difference for SMEs in Emerging Markets and the general competitiveness of these markets. In terms of access to finance, Small and medium enterprises are excluded from formal borrowing from banks despite having an account with banks (GPFI, 2020). (Mishra & Shaopeng, 2011) attribute the lack of credit for SMEs to a number of factors such as:

(1) Poor legal and regulatory framework that makes contract reinforcement for creditors difficult.

(2) Institutional weaknesses such as the absence of proper credit appraisal and risk monitoring tools for banks that increase the financial costs of dealing with SMEs.

(3) The absence of reliable credit information on SMEs, and the lack of the credibility of SME in the market. This makes banks refrain from financing to the SME segment due to their inability to assess the risks properly and thus adding more to the existing credit gap.

<u>In addressing these, the following is recommended:</u>

- <u>Establish a SME Fund at the Country level</u>, which will be operated by the largest banks in their markets. These banks would work as apex for SMEs to address the credit gaps.
- <u>Strengthen the legal and regulatory framework for SMEs loan defaults and contract reinforcement.</u> These acts will empower creditors to foreclose on properties without the intervention of courts and tribunals.
- <u>Central Banks to issue directives requiring banks to standardize their credit norms and appraisals systems and lending guidelines</u>. Proper credit information systems will reduce the asymmetric information between lenders and borrowers (World Bank , 2020).
- Updated credit scoring tools would give banks more confidence in lending to this sector by better understanding, appraising, and mitigating these risks.
- <u>Authorities need to upgrade business development services for SME</u> and to create clusters for SMEs to ensure their sustainability.

[28] The 12 areas of business activity are (the incorporation of new businesses, getting a building permit, obtaining an electricity connection, transferring property, access to credit, protecting minority investors, paying taxes, engaging in international trade, enforcing contracts, and resolving insolvency). (World Bank , 2020)

3) *COVID-19 has changed the way banks interact with their clients and borrowers. Governments and private sector are accelerating the adoption of contactless, "low-touch" economy (frictionless branches), putting both; the digitization of banks and FinTechs on the winning side.*

The SME credit gap has been an enduring structural feature across emerging and developed economies, even in countries that have implemented financial inclusion initiatives in a broad sense. SMEs cannot seek credit due to a number of reasons such as the high pricing costs, collateral requirements, documentation, and lengthy decision timeframes (Owens & Wilhem, 2017). In spite of that, it is clear that banks are likely to remain the primary provider of banking services for SMEs due to the regulation of the banking industry, trust, proper credit management systems and the capillarity of branch networks. Unfortunately, banks have failed to utilize the information stored in their databases (Mauricio, 2016) . FinTechs differ in their agility, better use of customer data through their use of advanced analytics and credit engines. In addition, FinTechs offer significant cost advantages as they are integrated to broader digital ecosystems (McKinsey&, 2020). In fast growing economies, alternative lenders are enfranchising a new generation of entrepreneurs, giving SMEs a chance to prosper, creating more incomes and employment for the economies (Kehide & Ekin, 2020) . Recently, SMEs around the world have been extremely hit by the COVID-19 pandemic. The pandemic has accelerated the disruption of the banking industry proposition and business models. New Fintech partnerships can unlock the finance and drive opportunities for SMEs once the pandemic has passed. (Kehide & Ekin, 2020).

In addressing this, Banks can leverage multiple "organizational solutions" to push for innovation such as:

- Develop Central Digital Capabilities. Internally, Banks can increase their investment internally in their infrastructures and create "Big Data" divisions internally. The functions of these new units will help banks monitor and evaluate real time data as it evolves. Big data comprises of huge systems as they process millions and billions of customer data and needs respectively. This will require banks to streamline and re-engineer a number of processes and departments responsible for monitoring borrowers' limits effectively before it hits the banks' profitability.
- Act as a Business Incubator or accelerator. Banks can proactive role in supporting SMEs development in certain sectors. This is a win-win situation for both sides, the banks and SMEs. Bank would benefit by gaining early insight in the targeted industries and would gain equity stake. For SMEs, a myriad of benefits is present. For instance, the incorporation of the business, technical assistance through training and investment in technology for SMEs, access to capital, the ease of obtaining permits and market entry are a few examples of Bank-SME transformation.
- Bank-Fintech Partnership: The current COVID-19 situation might lead to faster industry consolidation and a wave of M&As as both FinTechs and Banks explore growth and strengthen their market positions respectively. Partnerships can foster the creation of data and the exchange

of it, which is necessary for regulators, tech-giants, credit bureaus and registries, banks and non-bank financial institutions. All have a shared responsibility now more than ever to democratize access to credit.

- Non-Bank Partnership: Recently, many telecom companies around the world have been offering transactional banking activities such as wallets and money transfers. To date, telecoms have not offered the full range of lending activities. In emerging markets, mobile and telecom penetration is higher than banking penetration (Arthur D. Little, 2015). Retail banking and telecommunications have been converging for years and it is time that regulators allow for SME banking through telecom giants to take place. In markets with low banking penetration, collaboration between telecoms and banks would be a viable solution to the unbanked. Two typical structures might emerge from this convergence. The first is through establishing a full-fledged joint venture between both entities, and the second structure entails a simple operational agreement. There are many advantages of this partnerships as (Arthur D. Little, 2015) notes:
    - Telecoms have stronger client concentration and bases notes that on average, a client is usually sub scribed to one network provider, and has a relationship with three financial institutions. Telecom providers have larger client bases than most banks.
    - Telecom operators have a broader appeal to their clients. Mobile providers have higher marketing skills resulting in more penetration and cross sell activities.
    - Unlike the banking industry, telecoms have not suffered "reputational risk" and the adverse effects of the global financial crisis. There is a rising opportunity for younger segments of the population and small enterprises to enjoy diverse array for banking services.

In order to realize the former, banks need to restructure their technology infrastructure and allow for integration with open APIs allowing third party integration (Arthur D. Little, 2015). At the same time, a challenge for telecoms would be acquiring a banking license. As a result, telecom operators might acquire small banks to access new segments.

4) *Policy Makers and Central Banks need to emphasize the scope of the IFI intervention on capacity building for Banks working with SMEs and borrowers*

A key area for IFIs (The World Bank, IMF, ADB, etc.) includes alleviating poverty and allowing greater access to capital for SMEs. The findings of the research demonstrated that IFIs have a great role to play in formulating high policy guidelines for governments in advisory and lending services to banks working in emerging markets. Funding to SMEs is largely influenced by IFIs, which are public development and governmental institutions owned and operated by the member countries (Woldie &

Thomas, 2018). Furthermore, IFIs provide financial services complemented by non-financial services packages. These services include research, policy support, technical assistance and funding support to governments in emerging economies (Woldie & Thomas, 2018). The diversity of their offerings combined with greater flexibility offered to SMEs allows IFIs to design tailor-made solutions adapted to the needs of firms and countries respectively (OECD, 2013). The recent pandemic of COIVD-19 had a significant negative impact on the economies of emerging markets. Governments across the globe have responded in a number of ways varying in scale and speed. For SMEs in specific, more attention is needed to ensure the long-term survival and resilience of this segment. Fortunately, or co-incidentally, the world is at a major information and communications revolution that offers new modes of intervention and initiatives at the same time (Koh, Phoon, & Ha, 2018).

In addressing these, the following is recommended:

- Liquidity Support: Central Banks can provide liquidity to banks and non-banking financial institutions to foster lending to distressed businesses.
- Around the globe, FinTechs are urging governments to grant them access to relief packages similar to financial institutions. While the governments allocated funds to small lenders, none of that financing went to FinTechs (BCG, 2020) . Since they are not regulated by Central Banks, governments might need to reconsider a regulatory framework for alternative lenders.
- Anti-crisis measures to stimulate business activity: Measures include state loans and guarantees. The intended effect for the economy is to ensure that all businesses have adequate access to capital. Second, restructuring of loan terms and debt moratorium are critical in this stage. This would support borrowers by altering the terms of payments of their loans. Third, would be the development of emergency credit products and guarantees channeled to Banks. These measures are largely financial as they are designed to provide relief for borrowers.

  A fourth measure would be the design of awareness campaigns. Governments should inform SME borrowers about the risks and mitigation measures.
- Policy support and advocacy for SME finance: interventions of IFIs could be done in a number of streams as (World Bank, 2020) note:
  1- Further improving credit infrastructure (credit ratings for SMEs), collateral registries which leads to greater access to finance for SMEs.
  2- Supporting governments to pursue Digital Financial Inclusion and innovative finance for SMEs. Experiences of India and China in that regard offer viable solutions for governments and regulators in emerging markets. There are three reasons why digital financial inclusion is gaining more census. (Sun, 2018)

highlights that mobile technology makes inclusion more accessible. Second, the costs of financial inclusion are greatly reduced by cloud computing. Third, big data helps assess risks. The weaknesses of the traditional approaches in that regard made digital financial access gain national and international endorsement (Sun, 2018).

3- Policy work and further analytical work on SMEs should be performed in emerging markets post the COVID-19 crisis.

5) *Banks need to emphasize a balanced composition of their loan portfolios to achieve an adequate risk-return threshold and diversify the segmentation*

While banks' portfolios vary across emerging markets, they are predominantly influenced by the GDP composition of an economy, the risk appetite and policy of a bank respectively. This makes the balance between risk and return a challenge to the management and shareholders of banks. In order to have an impact in emerging markets and address the SME credit gaps, it is recommended that Central Banks oversee Banks' Strategies development, where by loan composition, tapping new market segments and organization structures are well defined. The Boards of Banks need to be involved in the oversight and governance of the Bank's strategies to ensure their alignment with the country's national financial inclusion strategy.

Scholars and academics have extensively researched the topic of SME lending. The research has demonstrated a causal relationship between SME loans and GDP/ Capita growth in Emerging Markets. New platforms for alternative credit have emerged in the past decade but have not gained enough scale or trust of many regulators. At present, SMEs in emerging markets are facing huge challenges in access to credit and a slowdown of global economic activity. Furthermore, banks are being hugely disrupted by technology and the landscape for SMEs is likely to evolve. Hybrid models of lending whereby a convergence of banks, telecoms and FinTechs might emerge in the near future. Governments and policy makers need to work on a coordinated and comprehensive framework to provide SMEs with the right support in order to close the credit gap. Performing further research on the topic of bank and alternative credit to SMEs post the COVID-19 is highly recommended. Future researchers should first identify the main problems of financing to SMEs post COVID-19. The same study should be performed using larger sample sizes from emerging markets using case studies for specific regions and specific banks.

Concluding Words

The author believes that the findings, interpretations and analysis answer the research questions posed at the outset of this study. To fully understand credit to SMEs, a multiple case study analysis carried out on a number of Emerging Markets; Brazil, Malaysia and Turkey. Additionally, secondary data from a panel of 12 markets were analyzed to assess the significance of lending to SMEs and economic growth categorically. The author also combined insights gathered from subject matter experts whom have provided sufficient details to answer the research questions and to further contribute to (Schumpeter, 1911) Theory of Economic Growth. This study has identified a number of critical factors necessary to drive up credit to SMEs and have presented actionable recommendations for policy makers, IFIs and governments in fast growing economies.

Final reflections of the Researcher

Writing this research work was a fruit of hard work, preparation, and much reflection. One of my dreams and goals in life was to finish my PhD. Prior to embarking on the journey, the most challenging moment for myself was choosing a topic I feel associated to personally and professionally. After the COVID-19 crisis, many banks across the world were rethinking what they had to do in order to overcome the crisis. Personally, the crisis made me pause and reflect internally on my role as a banker and strategist and to ask myself a few questions. What can I do to change and improve the banking industry in my country and other emerging markets? As a young professional, am I doing all what I can be done to advance knowledge in the SMEs field? In light of all technological advances, are SME and micro enterprises credit needs being met? Are more jobs being created? Are conditions for SMEs are improving for what they had a decade ago? Are policy makers making the right efforts for addressing the unmet needs of SMEs?

I believe that this research has introduced a holistic framework for banks and regulators to tackle the SME problem. In writing this last page, I would like to express my foremost gratitude to God, my family and to all the experts and colleagues in the banking industry who have given me the hope, support and time to conclude the study. I am forever indebted to my dissertation advisor, Prof. Ivo Pezzuto for his time, guidance and incredibly generous support in helping me close the study.

“The economics of gigantism and automation is a leftover of nineteenth-century conditions and nineteenth-century thinking and is totally incapable of solving any of the real problems of today. An entirely new system of thought is needed, a system based on attention to people, and not primarily attention to goods” (Schumacher, 1973).

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Appendices

INTERVIEW PACKET

APPENDIX A: Introductory Letter

Re: Introduction and request for your participation to the study on SMEs and Emerging Market Economies

Attn: NNN

Dear Sir/Madam,

My name is Merit Al-Sayed and I am a PhD student at the International School of Management (Paris, France). I am conducting a dissertation study consisting also in-depth interviews with subject matter experts and thought leaders to explore the Impact of Lending on Small and Medium Enterprises' expansion and on the overall economic growth in Emerging Markets.

The interview should take approximately 30 minutes to one hour to complete and you may elect for your responses to be ***completely confidential or attributed to you***. You would be asked seven semi-structured questions during the interview. Follow up questions may be asked to seek clarification or additional information. This study is in partial fulfillment of the requirements for the Degree of Doctor of Philosophy. The purpose of this qualitative case study is to explore how Subject Matter Experts feel about the role of traditional bank lending to Small and Medium Enterprises in Emerging Market economies and whether financial development and financial innovation (i.e. alternative credit, etc.) was conducive to economic growth.

Once the International School of Management approves this study, you would be provided an electronic copy of my dissertation manuscript.

After the completion of the interview, a printed copy of the interview will be sent via email to the interviewed expert for his/her review and validation.

If you are available for an interview, please reply via e-mail (merit.alsayed@gmail.com) or reach me by cell at (+2-01285666657).

Best regards,

Merit Al-Sayed
International School of Management

Ivo Pezzuto Ph.D., Dissertation Advisor
Ivo.pezzuto@faculty.ism.edu

APPENDIX B: Informed Consent Form

Introduction: My name is Merit Al-Sayed. I am a doctoral student at ISM. I am completing this research as part of my doctoral degree. I am conducting a research study on the perceptions of SMEs regarding the role of lending to Small and Medium Enterprises in Emerging Markets and its impact on economic growth. I invite you to participate in this research study for a dissertation at ISM in Paris, France. The study sample is expected to be seven to ten individuals from different international organizations and who have a qualified opinion and exposure on the subject matter.

Eligibility:
You are eligible to participate in this research if you:

- Are a subject matter expert in the field of finance, SMEs, Banking and International Financial Institutions.
- Are the author of widely-cited research in this field.

Activities:
If you participate in this research, you will be asked to:

- Provide in-depth verbal responses to interview questions asked by the researcher
- The researcher will schedule the interview based on your convenience and will conduct the interview session with you by Skype/ Zoom or phone meeting.
- The Interview session will be recorded and will last approximately 30 minutes to an hour.

Benefits: A benefit to you, upon completion and approval of this study by The International School of Management, includes access to the final dissertation manuscript. The potential benefits to others are: A theoretical framework that ***may provide insight as to Small and Medium Enterprises, financial development and economic growth***. The study will raise awareness by adding to the current body of literature for future studies, ***provide meaningful information to policy makers and decision makers on barriers to availing credit, for the banking sector to better manage their loan portfolio***s and, and further to ***create insight to financial authorities*** in determining their economies' financial strategies.

Risks: There are minimal risks in this study. Some possible risks include some information maybe personal in nature. The interview process includes semi-structured questions that are intended to encourage your in-depth responses, perceptions, and comments. You will not be asked to **divulge** proprietary or confidential information. To decrease the impact of these risks, you can: skip any question, and/or, stop participation at any time.

Confidentiality:
Unless you elect to have your comments attributed to you in the final study, the information you provide was kept confidential to the extent allowable by law. Some steps I will take to keep your identity confidential are: I will use a number to identify you. The people who will have access to your information are myself, and/or, my dissertation chair, and/or, my dissertation committee. The Institutional Review Board may also review my research and view your information. I will secure your information with these steps: locking it in a filing cabinet, and/or, locking the computer file with a password. I will keep your data for 7 years. Then, I will delete electronic data and destroy paper data.

Please sign here if you would like your remarks to be attributed to you in the final study:

____

Contact Information: If you have questions for me, you can contact me at: merit.alsayed@gmail.com; merit.alsayed@student.ism.edu. I am conducting this research and can be reached by cell phone at (+2 012 85666657). My dissertation chair's name is Prof. Ivo Pezzuto. He works at ISM and is my PhD supervisor. You can contact him at: ivo.Pezzuto@faculty.ism.edu.

Voluntary Participation: Your participation is voluntary. If you decide not to participate, or if you stop participation after you start, there was no penalty to you. You will not lose any benefit to which you are otherwise entitled.

Audiotaping: I would like to use a voice recorder to record your responses. You can still participate if you do not wish to be recorded.

Please sign here if I can record you:

____

Signature: A signature indicates your understanding of this consent form.

Participant Signature	Printed Name	Date

Thank you for your willingness to participate in this very important study. Please sign, scan, and return signed document to merit.alsayed@gmail.com

APPENDIX C: INTERVIEW GUIDE QUESTIONS

Part A (Participant Information)

A1. Interviewee ID No. ______
A2. Industry
A3. Company Location
A4. Title / function
A5. Experience (in years)
A6. Specific SMEs and Finance Expertise

Part B: Interview questions addressing traditional bank lending to Small and Medium Enterprises with a focus on Emerging Market Economies and Economic Growth.

- **RQ1:** Is overall financial development in Emerging Markets conducive to Economic growth? How would you evaluate the outcomes of a few countries post their economic transition?
- **RQ2:** Building on the "Theory of Economic Development" and "Economic Theory of Bank Credit" which of the following three factors have a stronger impact on economic growth in the Emerging Markets: (1) traditional financial development (i.e. bank credit); (2) alternative forms of finance/lending; (3) a combination of the two forms of lending/finance?
- **RQ3:** What are the short-term and medium-term advantages and disadvantages of the traditional lending versus the innovative and alternative forms of finance for SMEs growth for Emerging Markets?
- **RQ4:** What are the short-term and long-term advantages of the former with respect to their Country's economic development, and the overall financial stability?
- **RQ5:** Is the post-IFI era (financial liberalization) and its international influence contributing to creating the conditions for a more resilient, financially sustainable, and growth-oriented environment for the Emerging Markets' SMEs and their Economies?
- **RQ6:** What determines the composition of Bank's Loan Portfolio in the emerging economies?
- **RQ7:** Does increased access to traditional bank lending/finance and alternative forms of finance to SMEs necessarily contribute to an improvement in general economic conditions and economic development in developing countries or it requires also savvy fiscal, monetary, and structural reforms and efficient and modern financial markets for optimal allocation of financial resources?
- **RQ8:** In light of the COVID-19, which will be the greatest areas of change for SME credit?

APPENDIX D: Subject Matter Experts

Last Name	First Name	Occupation	Years of Experience
Gamser	Matthew	CEO- SME World- IFC	40
Bilder	Federico	MD- A2F Solutions -LATAM & EASTERN EUROPE-Berlin	25
Handoo	Jatin	VP - Micro Finance Network-India	20
Kamar	Bassem	Lead Economist, EBRD -EMEA	25
Antably	Mohamed	VP- SME and Consumer Banking- Attijari Al Wafa Bank-Egypt	35
Saleh	Nashwa	CEO BAST Ratings -Egypt	35
Mohie El Din	Mahmoud	Former VP of World Bank & UN Special Envoy of SDGs- Washington, US	40
Hill	Mike	Senior SME Banking Advisor Frankfurt School of Management- Frankfurt	45
Mahariq	Sameh	GM of a Micro Finance Co.-Jordan	20
Berger	Allen	Federal Reserve Bank- Board Member - Chicago	45
Kindert	Gabriella	Alternative Credit -Netherlands	25
Chindris	Adrian	GM of a Micro Finance BNI Madagascar	30
Saleem	Qamar	Regional Manager Asia & Pacific and Global SME Banking-IFC	30
Gani	Kevin	Senior Operations Officer- IFC APAC	15
Reupp	Andreas	GIZ MSME Egypt	25
Koreen	Miriam	OECD Center for Entrepreneurship, SMEs, and Regions	30
Pezutto	Ivo	Expert of Global Economics and Competitiveness and Chief Economist at Alektor Capital Ltd.	30