

## **FINANCE FOR ALL: THE ROAD TO SUSTAINABLE GROWTH**

**Tientip Subhanij**

**Chief Researcher**

**Economic Research Department**

**Monetary Policy Group**

TODAY, the pursuit of sustainable economic growth is a widely accepted development policy. At the core of this is the role played by the financial industry. For a long time, however, attention has focused on the depth and efficiency of the financial system, rather than on developing inclusive finance -- a financial system that provides affordable services to all clients, an important ingredient for sustainable economic growth.

Without an inclusive financial system, start-ups or small firms that are often the most dynamic and innovative miss the opportunity to invest in new projects and a country misses the opportunity to diversify into new areas of comparative advantage.

Empirical evidence also suggests that improved access to finance is not only pro-growth but also pro-poor, reducing income inequality and poverty. The lack of access to finance for most individuals and firms should be taken as a priority issue because it could reinforce the vicious cycle of no jobs, no income and no opportunities.

Credit constraints prevent budding entrepreneurs from starting businesses and reduce growth, especially in small and medium-sized enterprises (SMEs) -- the main driver of job creation.

There are good reasons why the availability and cost of credit may be worse for small firms. The costs of loan appraisal, monitoring and collection are not trivial. This means that it is better for banks to provide a load of credit to a large firm than small dosages of credit to many small firms. Small firms also are usually less able to provide collateral against loans, so the costs of possible bankruptcy increase, further reducing incentives for banks to lend.

Practitioners and policymakers have recognised this important problem and have demonstrated commitment to mitigate the effects of information asymmetry and transaction costs that prevent firms from accessing credit.

But more remains to be done, especially in advancing financial inclusion on a sustainable basis, through strengthening the institutional underpinnings of financial transactions, such as by improving legal and regulatory infrastructure, credit information and financial capability training.

Despite the robust economic recovery here in Thailand, challenges remain, as many individuals and small firms still lack the chance to climb up the income ladder.

How to address these financial challenges in order to create more balanced and sustainable growth will be the subject of a paper to be presented at the Bank of Thailand's economic symposium from September 21-22 at the Grand Centara Hotel.

In this paper, my co-authors and I assess the changing financial landscape over the past decade to see whether it has helped better finance the real economy.

We then explore possibilities to build a more inclusive financial system by promoting SME financial access and reducing cost of funding in the Thai banking sector.

In moving Thailand forward, building inclusive finance is one of the critical policies.

The public sector, in this regard, has an important role to play in partnering with the private sector in future experimentation and discovery.

---

**(The views expressed are the author's own.)**

**Published in The Nation on Monday, September 6, 2010**