

# Needs for Diversified Financing Models for SMEs and the Policy Implications in Asia

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Workshop on Innovative Financing for SMMEs  
Session 1: Moving Into the Mainstream  
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Shigehiro Shinozaki

Financial Sector Specialist (SME Finance)

Regional and Sustainable Development Department

Asian Development Bank

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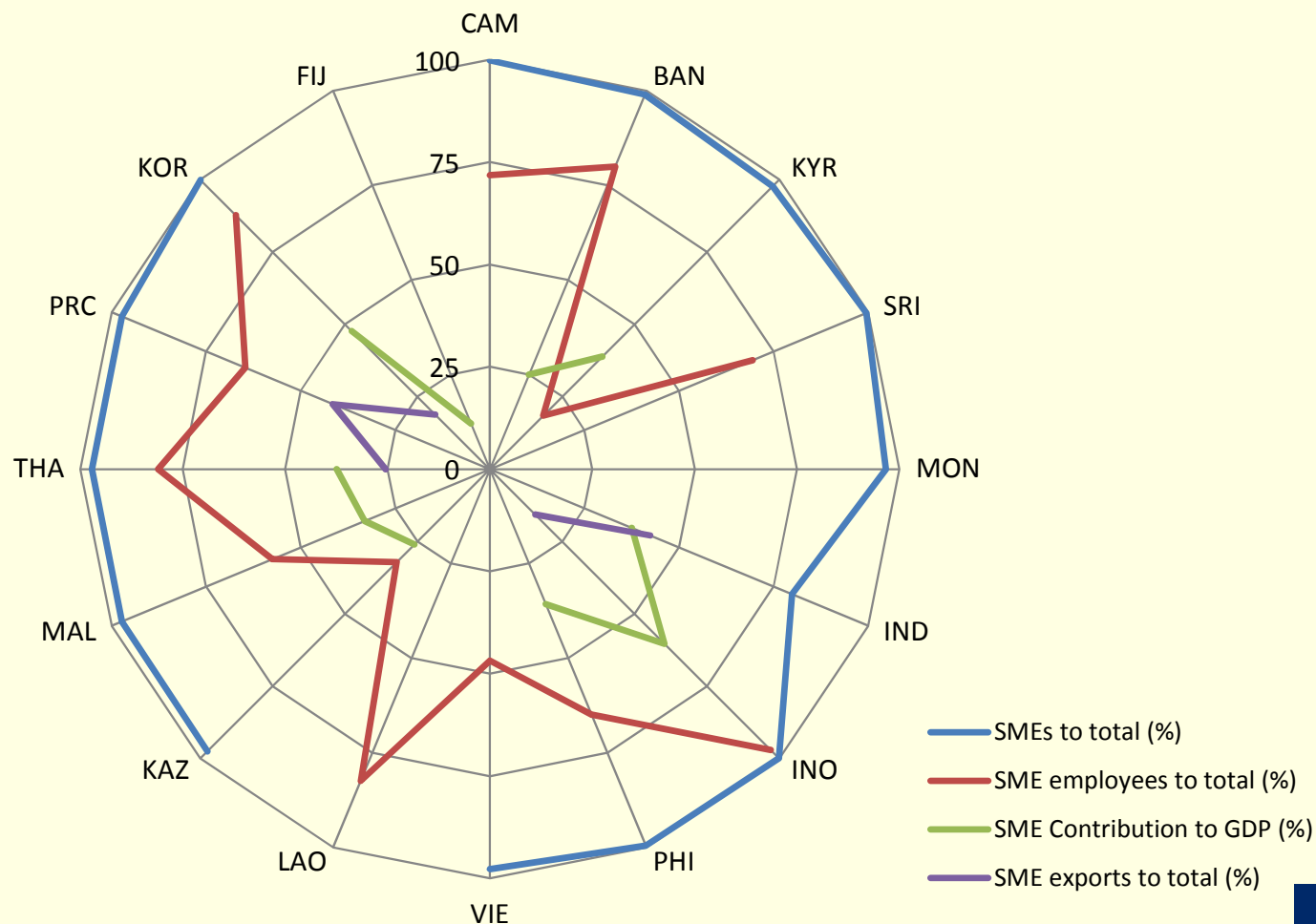


# Agenda

- I. SMEs in ADB Economies
- II. Access to Finance
- III. SME Finance Policies
- IV. Barriers to Financial Access
- V. Funding Needs
- VI. Policy Implications

# SMEs in ADB Economies

- SMEs are the backbone of Asia's economies. Further development can support inclusive growth.



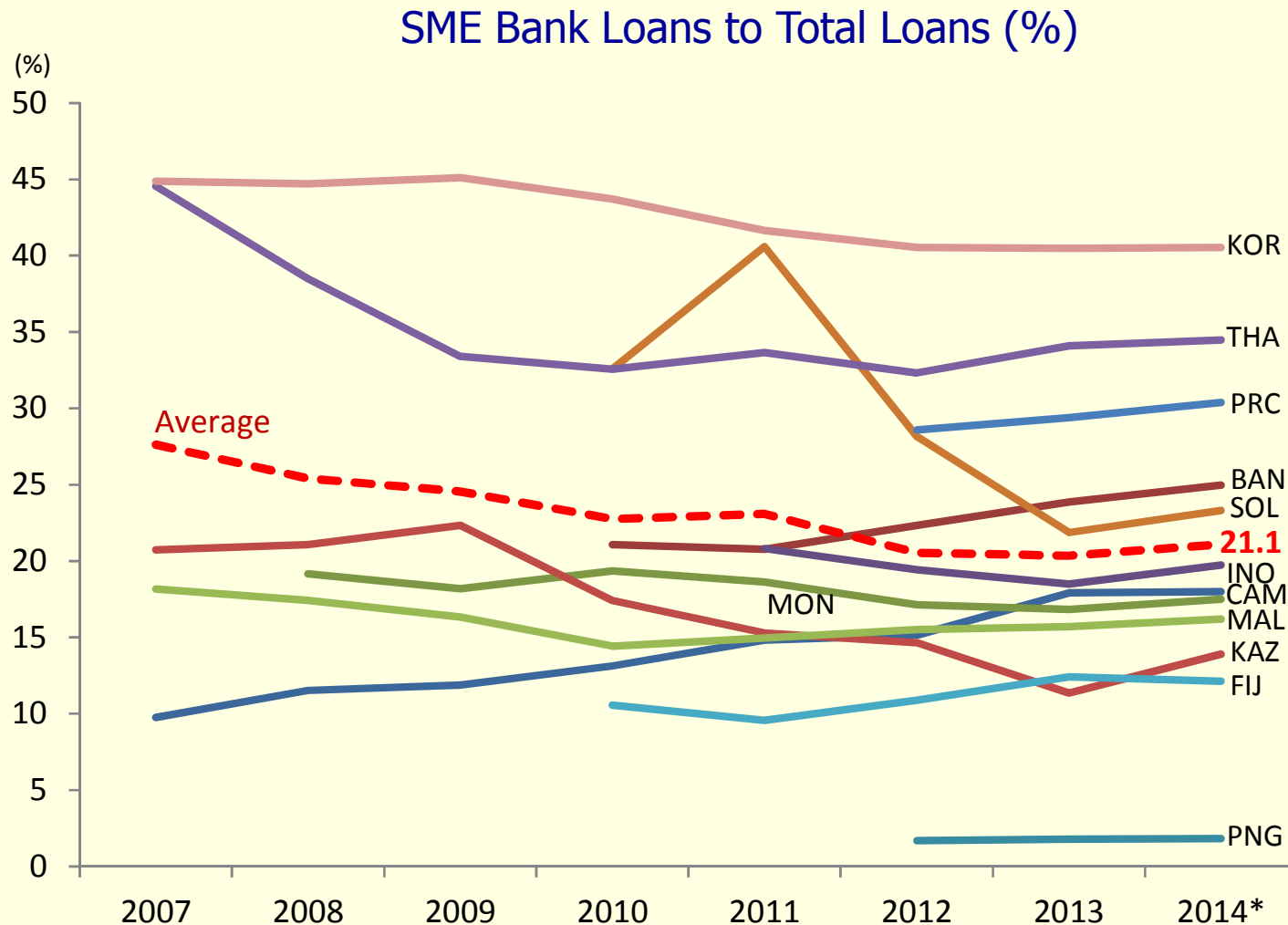
Notes: Data in 2014 for BAN, CAM, KAZ [SMEs to total & employees], and FIJ [GDP contribution, estimate]; data in 2013 for KYR, MON, IND, SRI, INO, THA, PRC [SMEs to total], MAL [employees & GDP contribution], and KAZ [GDP contribution]; data in 2012 for VIE, KOR, PFI [SMEs to total & employees], and PRC [exports]; data in 2011 for PRC [employees]; data in 2010 for MAL [SMEs to total]; data in 2006 for PHI [GDP contribution].

Source: Author's compilation from the ADB Asia SME Finance Monitor 2014 database (provisional).



# Access to Finance

- Limited access to bank credit decelerates growth pace of SMEs.



\* BAN, INO, MON, & THA (Dec); FIJ (Q2-Oct); PNG (Q2-3); MAL (Oct); CAM, SOL, PRC, & KAZ (Sep); KOR (Jun).  
 Source: Author's compilation from the ADB Asia SME Finance Monitor 2014 database (provisional).

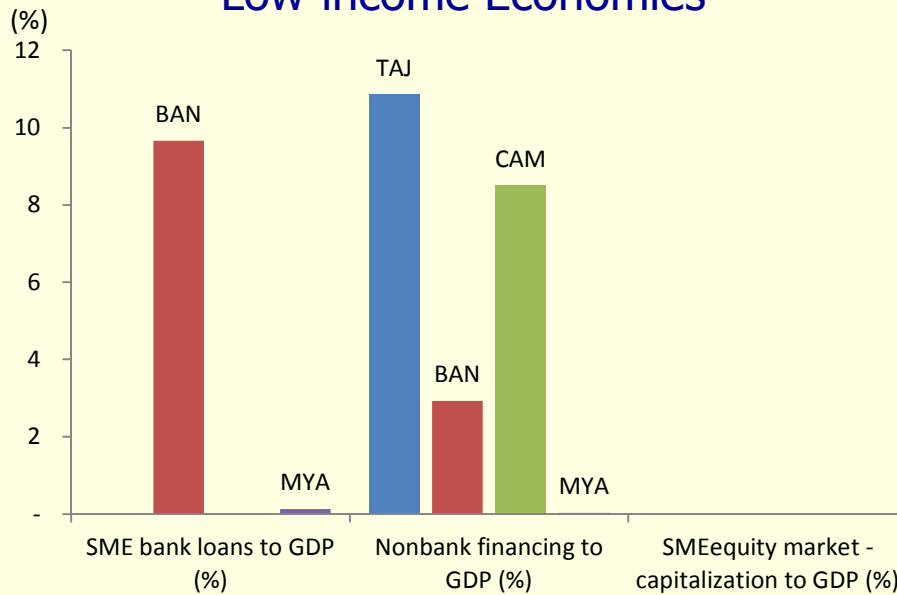
# Access to Finance

- Basel III may negatively affect bank lending attitude to SMEs.
  - ✓ Basel III requires banks to have tighter risk management as well as greater capital and liquidity.
  - ✓ Resulting asset preference and deleveraging of banks could limit the availability of funding for SMEs.
    - Capital requirements: Banks may encourage finance to large firms with good ratings (investment grade) rather than unrated SMEs to reduce total high-risk assets.
    - Liquidity framework: Banks may be willing to hold “easy-to-sell assets” or higher liquid assets, resulting in constraining the provision of long-term credit.
    - Leverage ratio framework: Controlled leverage of banks including off-balance transaction may limit financing options for SMEs, e.g., trade finance availability.

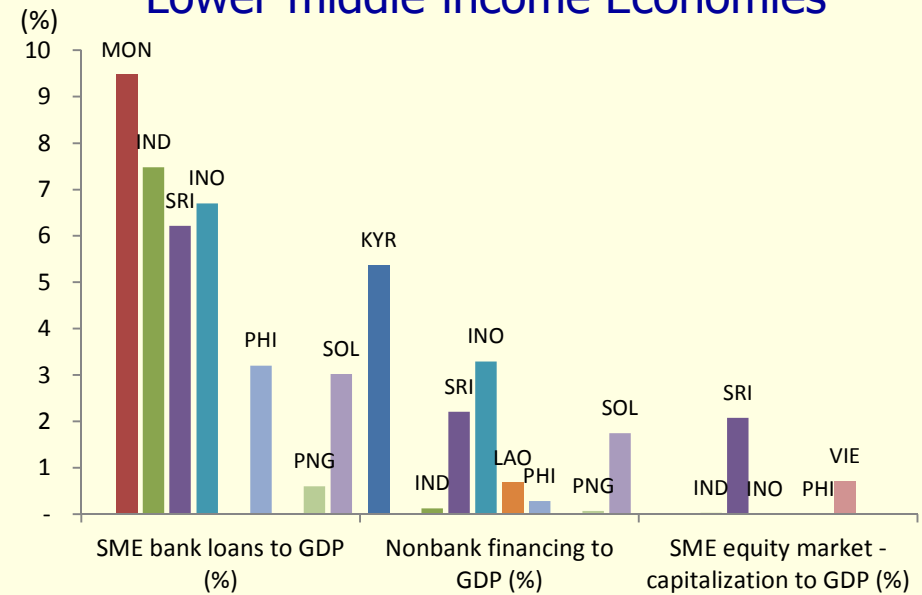
# Access to Finance

- Diversified SME financing tools can push up economic development.

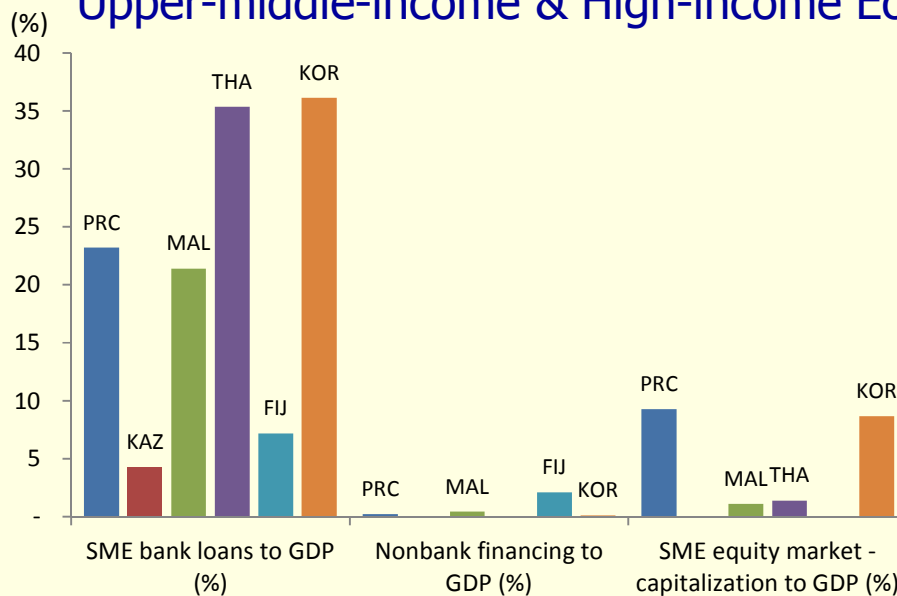
## Low-income Economies



## Lower-middle-income Economies



## Upper-middle-income & High-income Economies



Notes: Data in 2013. Nonbank financing includes financing by microfinance institutions, finance companies, credit unions, leasing, factoring, and venture capital investments. SME equity markets include SME exchanges in BSE & NSE (IND), Diri Savi/CSE (SRI), 10 SMEs listed in IDX (INO), SME Board/PSE (PHI), UPCoM (VIE), SME Board & ChiNext/SZSE (PRC), ACE (MAL), mai (THA), and KOSDAQ/KRX (KOR). Country classification refers to the World Bank classification for FY2015.

Source: Author's calculation based on data extracted from the ADB Asia SME Finance Monitor 2014 database (provisional).



# SME Finance Policies

- Access to finance is a critical part of SME policies. SME finance policies focus on bankability; more work needed on nonbank financing.

## National SME Finance Policies in Selected Asian Countries

		Banking Sector						Public Sector	Nonbank Sector				Capital Markets			
		Refinancing facility to banks	Public Credit Guarantee Scheme	Mandatory Lending to MSMEs	Interest Rate Subsidy	Public Credit Bureau	Secured Transaction Law	Direct Lending/ Soft Loans	Refinancing facility to leasing firms	Refinancing facility to factoring firms	MFI development program	NBFI industry development (except MFIs)	Equity market development for SMEs	Bond market development for SMEs	Venture capital development for SMEs	Tax incentive for SME issuers and/or investors
Low-income economies	TAJ		√		√			√								
	BAN	√			√			√	√		√	√				
	CAM						√				√	√ (pawn business)				
	MYA							√								
Lower-middle-income economies	KYR	√	√		√						√					
	MON	√	√				√ (draft)	√								
	IND	√	√		√	√*		√				√ (TReDS)**	√		√	
	SRI	√	√	√	√			√								
	INO		√	√	√	√					√	√				
	LAO						√				√					
	PHI		√	√	√	√	√	√			√		√			
	VIE		√		√	√		√								
	PNG		√		√			√	√			√				
SOL	√	√					√			√	√ (credit unions)					
Upper-middle-income economies	PRC	√	√		√	√	√				√		√	√	√	√
	KAZ	√	√		√				√		√					
	MAL	√	√		√	√*	√	√				√		√		
	THA		√			√*	√ (draft)	√				√	√	√		
	FIJ	√	√	√***	√			√			√					√
High-income economies	KOR	√	√	√				√				√	√			

\* Funded by private and public sectors. \*\* TReDS in India: Trade Receivables Discounting System for facilitating trade receivable finance for MSMEs, proposed by the central bank. \*\*\* Mandatory creation of microfinance units in banks.

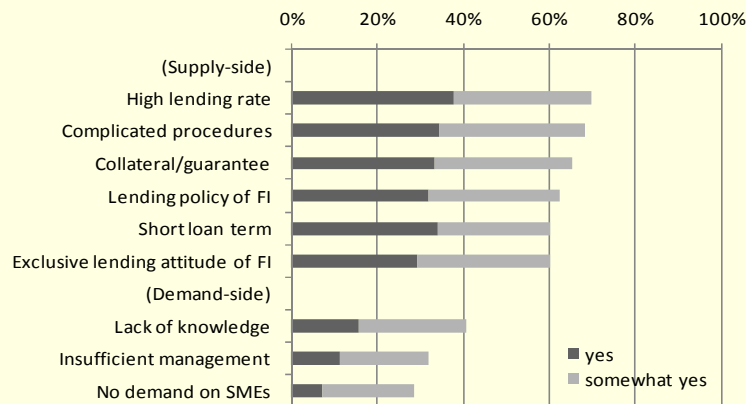
Source: Author's compilation from the ADB Asia SME Finance Monitor 2014 database (provisional).

# Barriers to Financial Access

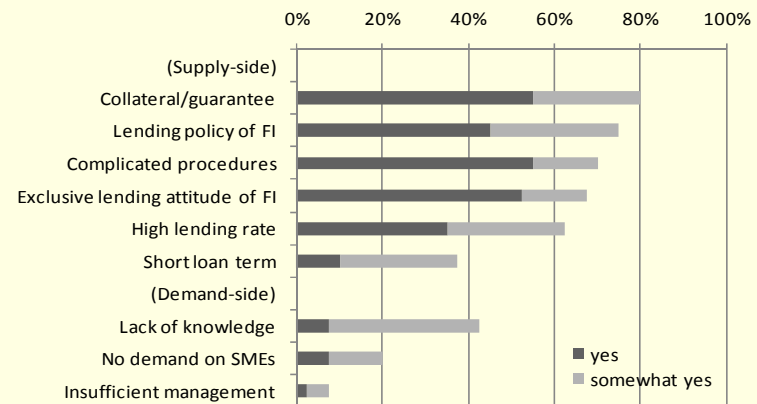
- Collateral and guarantee requirements make a hurdle for SMEs to raise necessary funds for growth from financial institutions.

## Barriers to Accessing Financial Institutions

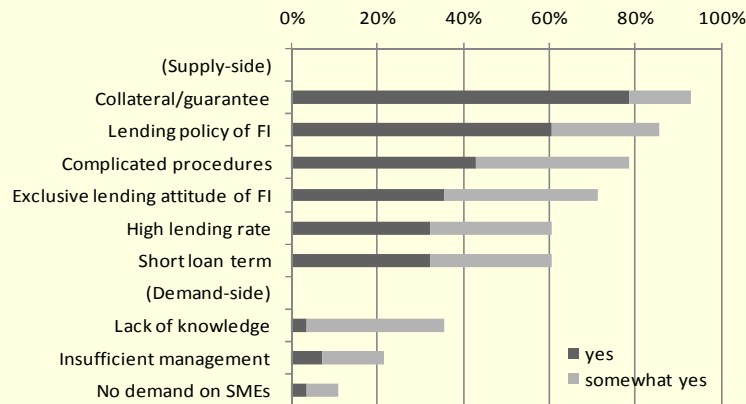
**A. China, People's Rep. of**



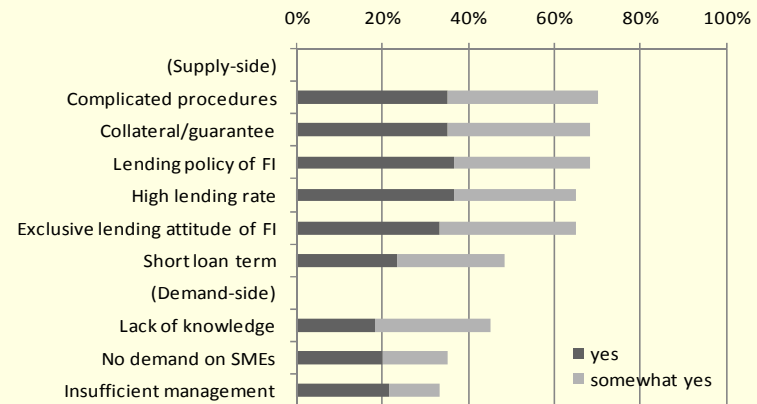
**B. India**



**C. Korea, Rep. of**



**D. Malaysia**



Valid samples: the People's Republic of China: 303; India: 40; the Republic of Korea: 28; and Malaysia: 60. [demand-side surveys]  
 Source: S.Shinozaki (2014), ADB Working Paper Series on Regional Economic Integration, No.121. p.24.

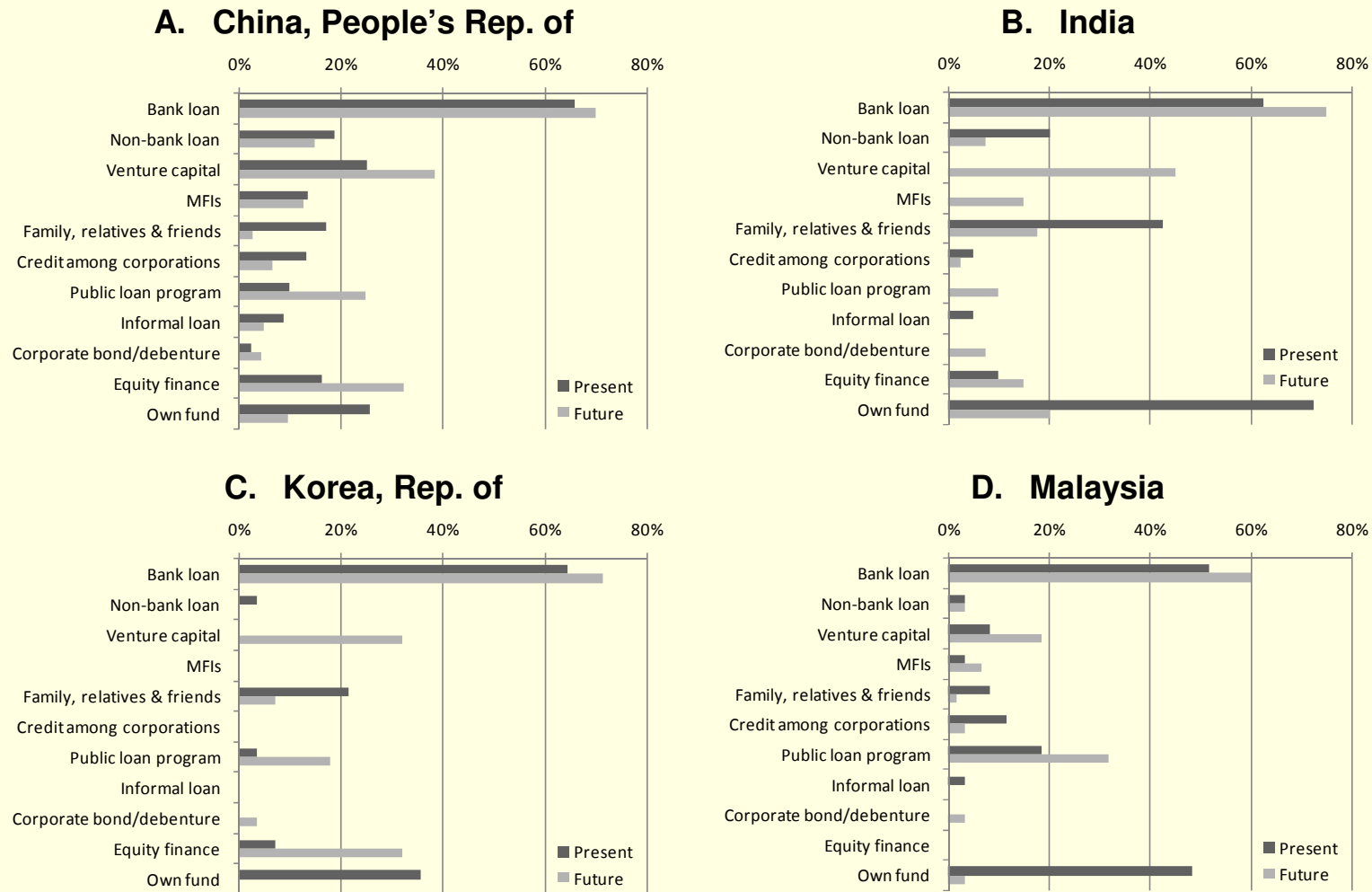




# Funding Needs

- SMEs seek to access formal finance & diversified long-term funding instruments for stable growth of business, diminishing informal finance dependency.

## Funding Instruments: Present and Future



Note: Present = funding instruments accessed. Future = funding instruments desired in the future.

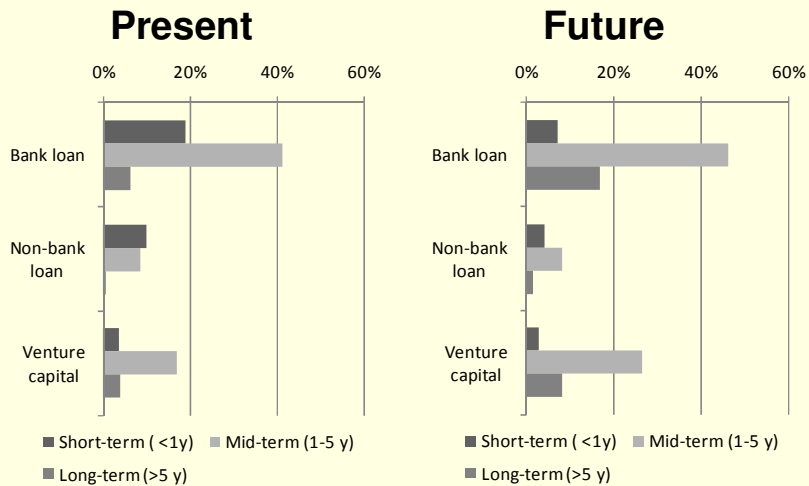
Valid samples: the People's Republic of China: 303; India: 40; the Republic of Korea: 28; and Malaysia: 60. [demand-side surveys]

Source: S.Shinozaki (2014), ADB Working Paper Series on Regional Economic Integration, No.121. p.21.

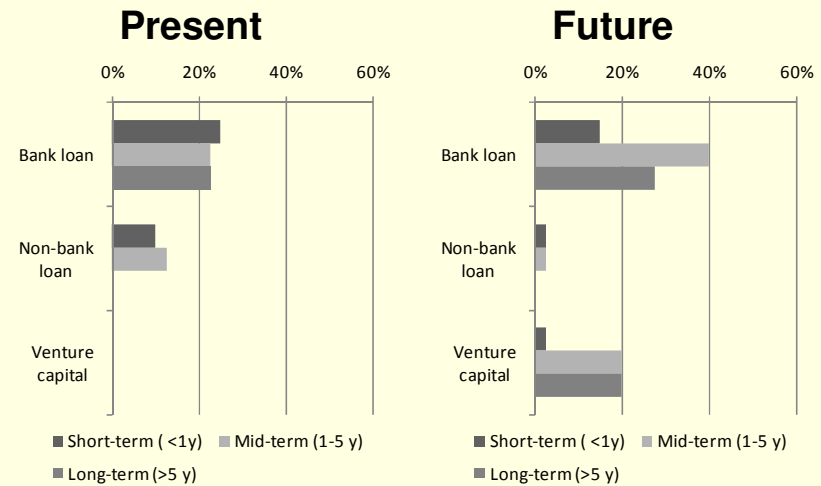
# Funding Needs

## Loan Term: Present and Future

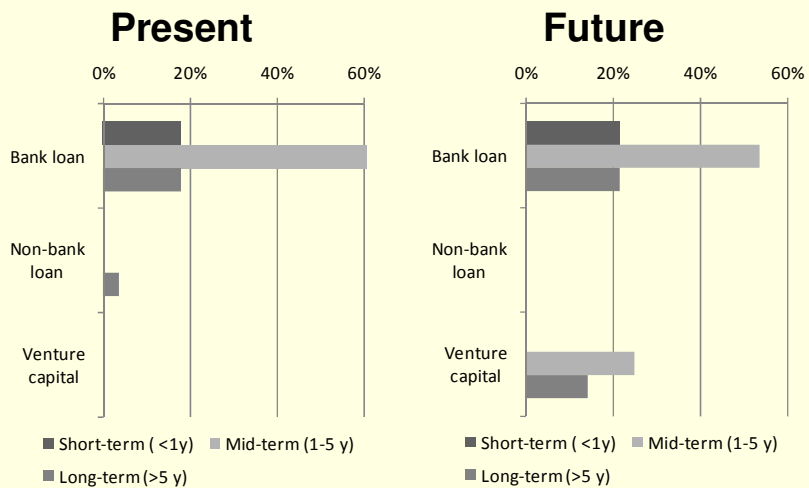
### A. China, People's Rep. of



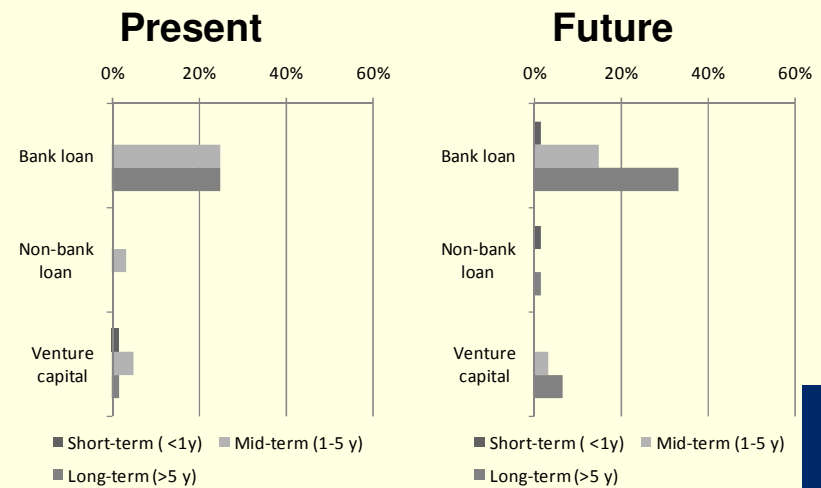
### B. India



### C. Korea, Rep. of



### D. Malaysia



Note: "Present" refers to provided loans; "Future" refers to desired loans.

Valid samples: the People's Republic of China: 303; India: 40; the Republic of Korea: 28; and Malaysia: 60. [demand-side surveys]

Source: S.Shinozaki (2014), ADB Working Paper Series on Regional Economic Integration, No.121. p.22.



# Policy Implications

- **What:**

Provide timely financing opportunities for SMEs while responding to their needs with flexibility and innovation.

- ✓ Poor access to finance limits the ability of SMEs to survive and grow.
- ✓ Limitations of bank lending under global financial uncertainty, e.g., possible negative impact of Basel III.
- ✓ No one-size-fits-all financing solution. Diversification of SME finance models is needed.
- ✓ Long-term funding needs increase as SMEs grow further. Potential for developing SME capital markets in Asia.

# Policy Implications

- **Why:**

New environment requires new financing solutions for SMEs.

- ✓ Economic integration and increasing FDI inflows to Asia stimulate the structural change of SME business models.
- ✓ A globalized economy will bring more SME internationalization and new financing demands from SMEs.
- ✓ Increased importance of supply chain finance and trade finance to involve SMEs in global value chains.

Limitations to relying on own- or quasi-capital for SMEs to sustain their business.

- ✓ Diversified financing models besides traditional bank credit should be developed for healthy debt-equity structure of SMEs.
- ✓ Long-term financing for growth-oriented SMEs is key.

# Policy Implications

- **How:**

Flexible and holistic policy approaches for SME financing beyond measures already established.

- i. Support for SME bankability

- ✓ Promote SME credit data infrastructure.
- ✓ Promote secured lending for SMEs (movable assets as collateral).

- ii. Support for nonbank & market-based financing to SMEs

- ✓ Facilitate new financing models rather than strictly regulate them, e.g., crowdfunding.
- ✓ Support the creation of long-term financing venue for seed firms, start-ups, and entrepreneurs with growth and innovative mind.
- ✓ Promote nonbank financing instruments, e.g., lease & factoring.
- ✓ Develop the base of professionals supporting SMEs, e.g., CPAs.
- ✓ Develop the venture capital industry serving SMEs.
- ✓ Tax incentive schemes for priority SME sectors.

# References



Asian Development Bank (ADB) and Organisation for Economic Co-operation and Development (OECD). 2014. *ADB-OECD Study on Enhancing Financial Accessibility for SMEs: Lessons from Recent Crises*. Manila: ADB. [<http://www.adb.org/publications/adb-oecd-study-enhancing-financial-accessibility-smes-lessons-recent-crises>]



ADB. 2014. *Asia SME Finance Monitor 2013*. Manila: ADB [<http://www.adb.org/publications/asia-small-and-medium-sized-enterprise-sme-finance-monitor-2013>]

\*Asia SME Finance Monitor 2014 (to be published in the first half of 2015)

Thank you for your attention.

For further questions:

Shigehiro Shinozaki

Financial Sector Specialist (SME Finance)

Regional and Sustainable Development Department

Asian Development Bank

Email: [sshinozaki@adb.org](mailto:sshinozaki@adb.org)

