U.S. Small Business Administration

Innovative MSME Financing and the Regulatory Dynamics:

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ABAC Malaysia - SME Finance Forum
Workshop on Innovative Financing for SMMEs
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The statements, findings, conclusions, and recommendations in this study are those of the author, and do not necessarily reflect his position as the Chief Economist at the United States Small Business Administration.

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- Not new objectives, or dynamics, but new players and processes.

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New/Recent:

3. ***Lightly Regulated, or Unregulated Non-Depository, Non- Financial Institutions***, which raise their capital from small Investors. Retail capital funding, e.g. P2PL, Crowdfunding.

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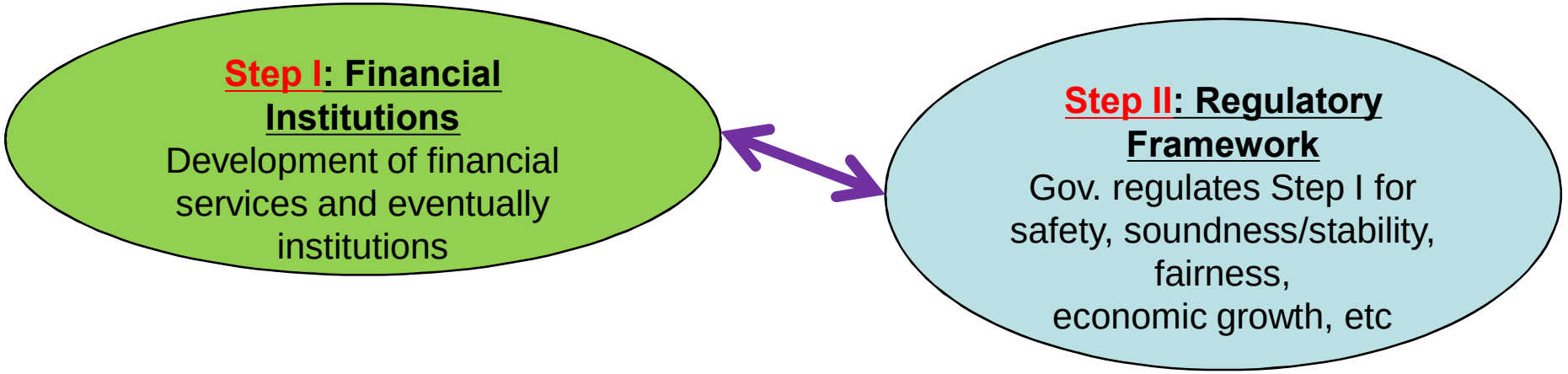
3. **Address the Mismatch** between available products (Supply) and products desired (Demand) by MSME

The Regulatory Dynamics

Step I: Financial Institutions

Create and provide financial services

The Regulatory Dynamics



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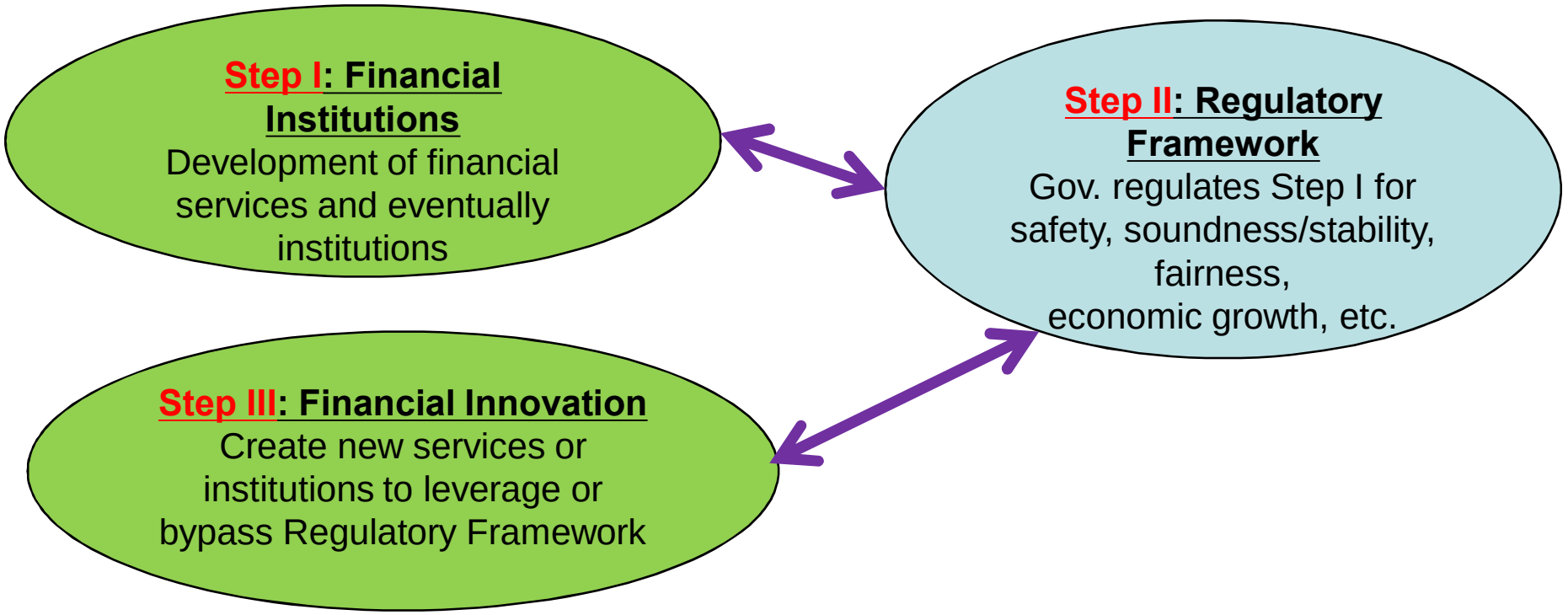

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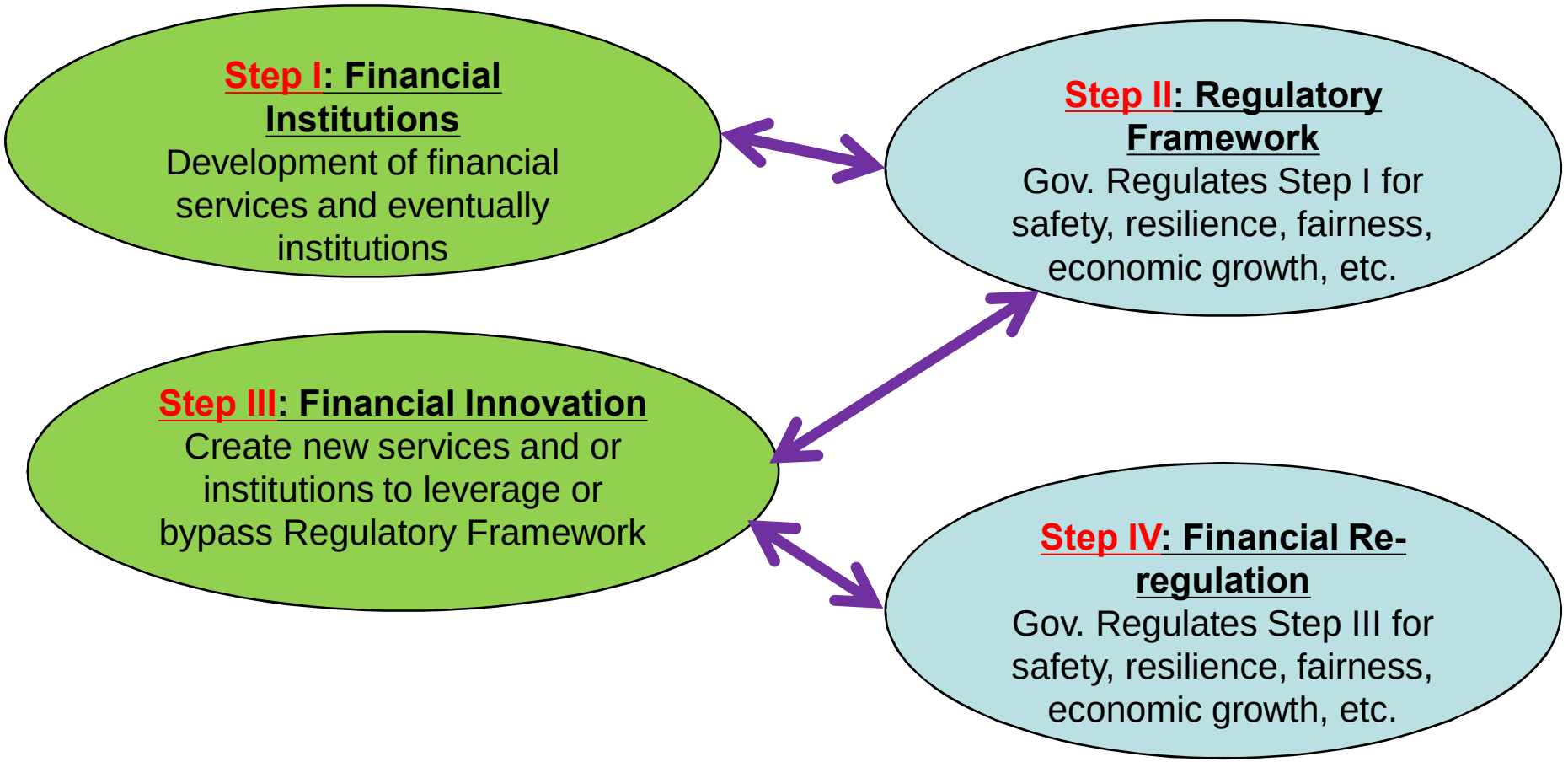

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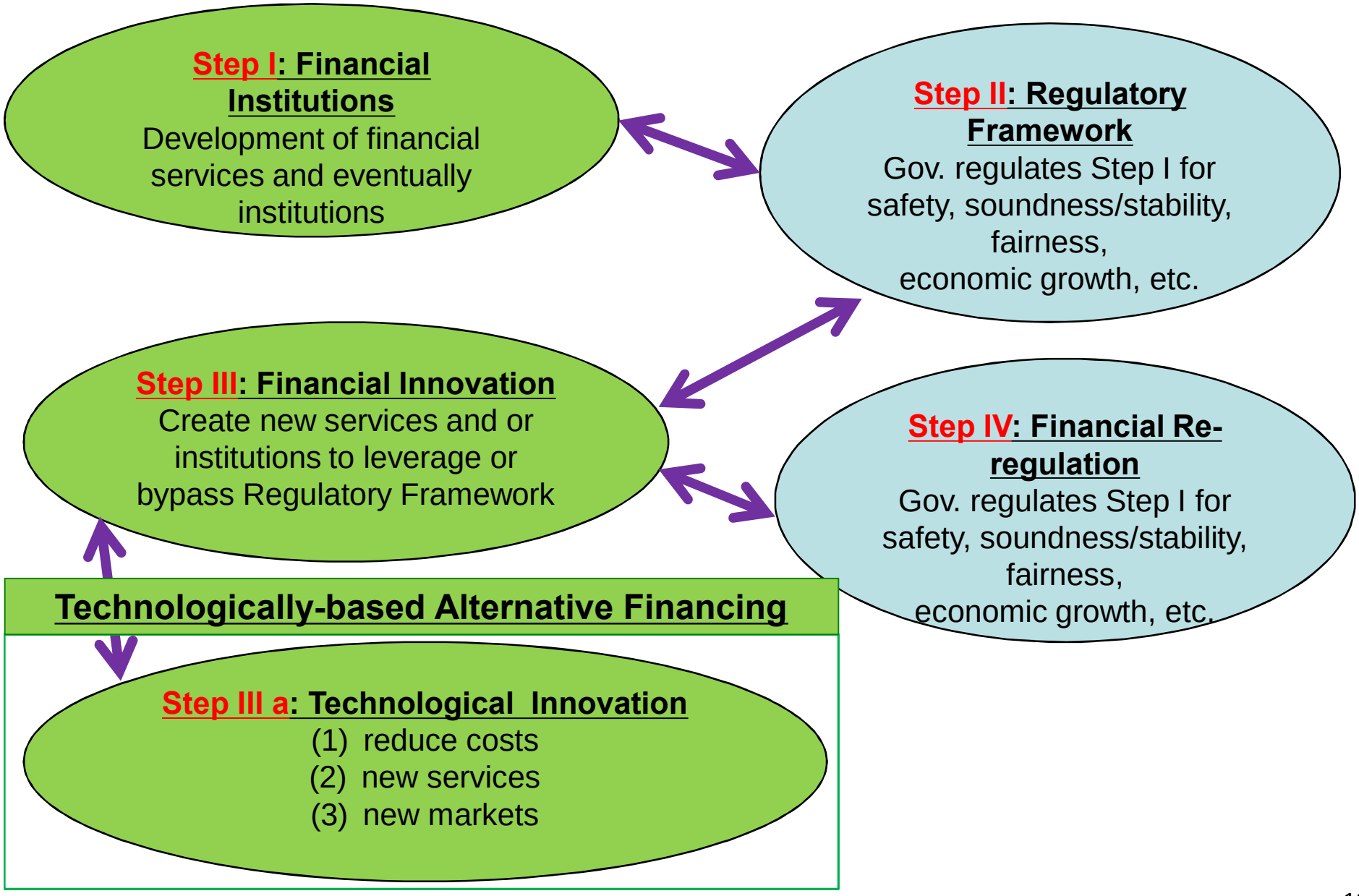

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Information Asymmetry: Lender knows less than borrower:
Direct (retail) vs. Indirect (wholesale) data gathering

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Opportunity: Governments ensures a secure, fair, transparent data infrastructure to foster consumer trust , but also easy data flow:

1. Reduce credit origination costs;
2. Potentially increase access to credit for very opaque firms (young, innovative);
3. Allow separation of financial services from IT solution? (back to Indirect whosale data gathering)

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1. P2PL is deemed to issue equity shared to retail investors. Regulated under smaller flotation, ñLighterò regulatory burden (SEC Reg D or A, Or A+)
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Opportunity: Huge opportunities to broaden the capital supply base.

Objective 3

SME Credit Gap: The Supply-Demand Mismatch

Historical-Traditional Alternative Lending by Banks and Finance Companies

Low Risk/ Return	Low Risk/ Return	Medium Risk/ Return	High Risk/ Return
Asset-Based Finance	**Alternative Debt**	**"Hybrid" Instruments**	**Equity Instruments**
• Asset-based lending • Factoring • Purchase Order Finance • Warehouse Receipts • Leasing	• Corporate Bonds • Securitised Debt • Covered Bonds • Private Placements • Crowdfunding (debt)	• Subordinated Loans/Bonds • Silent Participations • Participating Loans • Profit Participation Rights • Convertible Bonds • Bonds with Warrants • Mezzanine Finance	• Private Equity • Venture Capital • Business Angels • Specialised Platforms for Public Listing of SMEs

Source: OECD

New/Recent: Non Financial institutions use ICT to provide similar products but at a faster speed.

Balance Sheet Lenders (OnDeck)
P2PL (lending Club, Funding Circle)
Marketplace creators (Biz2Credit)