Potential for Capital Market Financing for SMEs and Challenges in Asia

ABAC Malaysia - SME Finance Forum
Workshop on Innovative Financing for SMMEs
Session 4: Building a Conducive Environment for Equity-Based Financing & Innovative Financing Platforms
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Agenda

I. SME Capital Markets in Asia
II. Demand on SME Capital markets
III. Critical Factors to Create an SME Market
IV. Brainstorming
V. The Ways to Move Forward
SME Capital Markets in Asia - Equity

- A trial and error for creating an equity financing venue for high-end SMEs in Asia.

**Market Capitalization (% of GDP)**

**Number of Listed Companies**

GDP = gross domestic product; SME = small and medium-sized enterprise. *Data as of 31 Oct for KOSDAQ, 28 Nov for ACE, and end-2014 for others.

Note: Emerging Asia comprises the People’s Republic of China; Hong Kong, China; the Republic of Korea; Malaysia, Singapore, and Thailand.

Source: Author’s calculation based on data from respective stock exchange websites and the ADB Asia SME Finance Monitor 2014 database (Provisional).
SME Capital Markets in Asia - Equity

- Challenges to Developing SME Capital Markets in Thailand

Market Performance - mai

Number of Listed Companies - mai

Source: Author’s compilation from the ADB Asia SME Finance Monitor 2014 database (Provisional).
SME Capital Markets in Asia - Bonds

- A new movement of creating an SME bond market.

China, People’s Rep. of

Korea, Rep. of

* Data as of 31 Oct 2014.
Source: Author’s compilation from the ADB Asia SME Finance Monitor 2014 database (Provisional).
## SME Capital Markets in Asia - Regulations

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SME = small and medium-sized enterprise.
Source: Author’s compilation from various laws and regulations, and stock exchange websites.
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<td>MyULM (online trading platform) [concept launched in May 2013]</td>
<td>Unlisted securities/OTC market (not yet established)</td>
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SME = small and medium-sized enterprise.

Source: Author’s compilation from various laws and regulations, and stock exchange websites.
Demand on SME Capital Markets

More than half of SME survey respondents in China, India, Korea, and Malaysia interested in tapping equity markets, with several reasons.

Valid samples: the People’s Republic of China: 303; India: 40; the Republic of Korea: 28; and Malaysia: 60.
Critical Factors to Create an SME Market

- More than 80% of supply-side respondents in China, India, Korea, and Malaysia recognized the importance of an SME capital markets, with visions.

China, People’s Rep. of

- Well-established regulatory & supervisory framework
- A mechanism supporting SMEs to prepare disclosure documents
- Simplify listing procedures
- A mechanism enhancing liquidity of SME stocks/bonds
- Small amount funding available for SMEs
- Information dissemination of SME capital markets
- Tax incentive schemes for issuers & investors
- Raising fund speedily for SMEs
- Low cost for establishing & operating SME markets
- Low cost for listing & maintenance for SMEs
- Simplify disclosure requirements
- Exclude foreign issuers
- Exclude foreign investors

India

- Raising fund speedily for SMEs
- Simplify listing procedures
- Information dissemination of SME capital markets
- A mechanism enhancing liquidity of SME stocks/bonds
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- Exclude foreign issuers
- Exclude foreign investors

Valid samples: the People’s Republic of China: 22; India: 37. Supply-side includes government authorities, market organizers, securities firms, rating agencies, accounting firms, venture capitals, investment companies/funds, institutional investors, business development services, banks, and other financial institutions.

Critical Factors to Create an SME Market

Valid samples: the Republic of Korea: 20; and Malaysia: 26. Supply-side includes government authorities, market organizers, securities firms, rating agencies, accounting firms, venture capitals, investment companies/funds, institutional investors, business development services, banks, and other financial institutions.

Brainstorming: “Exercise” Equity Market for SMEs

- What is the “Exercise” market?
  - Public-Private Partnership (PPP) Framework on financing SMEs
  - Private sector-led equity finance venue for unlisted SMEs that are willing to raise growth capital
  - Crowdfunding platform, supported by a public apex fund
  - Independent from the exchange market
  - Learning venue on market rules & responsibility for SMEs before tapping the exchange market (SME incubation market)
  - A mechanism supporting SMEs in equity finance through collaboration with various stakeholders
  - Channel investment capital into “smaller but growing” firms
  - Lead high-end SMEs to business growth cycle
Brainstorming: “Exercise” Equity Market for SMEs

- Promising SME pool: Selected/Prioritized Businesses (seed/start-up/early-stage firms)
  - Agri-business
  - Woman-led SME
  - Social enterprise
  - SME cluster

- Public APEX Fund (SME Incubation Fund)
  - Fund 1
  - Fund 2
  - Fund 3
  - Fund 4

- SME incubation segment
  - A. Crowdfunding segment
  - B. SME incubation segment

- Exercise Market

- Exchange market

I. Growth capital financing to SMEs via partner financial institutions & the Exercise Market
II. Capacity building programs via partner institutions
III. Connect SMEs with good business models to the Exercise Market
The Ways to Move Forward

- Developing SME capital markets can be a priority policy area as part of national growth strategies.
- A comprehensive policy to create investor base and enhance market literacy for SMEs is needed to develop a new market.
- Appropriate market type for SMEs (exchange market or organized OTC) is different by country.
- Securities firms & investors having interest in SMEs exist, while size & cost issues create a barrier to involve them in the SME market.
- PPP Framework on financing SMEs is worth exploring: combined instruments of public SME incubation fund, crowdfunding platform, and organized-OTC.
- Critical factors to create an SME market: (i) simple, (ii) low cost, (iii) fast transaction, (iv) liquidity, (v) supporting professionals, (vi) policy framework, and (vii) market literacy
The Ways to Move Forward

Growth Capital Funding and Risk Capital Providers

Seed/Start-up/Early  Expansion  Steadily growing

Founders, family & friends  Angel investors  Venture capital  Sophisticated investors

- Formal & informal lending
- Private equity, mezzanine finance, etc.
- Organized OTC
- - Trading venue for unlisted SME shares (non-exchange markets)
- Exchange markets IPO
- - Domestic market for emerging corporations (SME board)
- - International market for smaller growing firms (AIM)

Source: Author’s illustration.
The Ways to Move Forward

Core Elements to Develop an SME Market

Source: Author’s illustration.
Thank you for your attention.

For further questions:

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