



# ASIA SME FINANCE MONITOR 2014



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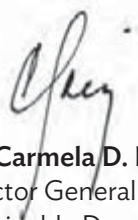
# Foreword

Sustainable economic growth, poverty reduction, and social equality—with their balanced promotion—are key factors to achieving inclusive growth at the national level across Asia and the Pacific. Broadening access to economic and business opportunities for the traditionally underserved socioeconomic sections of the region, including low-income households and small and medium-sized enterprises (SMEs), can improve social welfare and boost national productivity. The business environment around SMEs has rapidly changed at the national, regional, and global levels. Economic integration, such as the Association of Southeast Asian Nations (ASEAN) Economic Community and the Eurasian Economic Union, will encourage the liberalization of trade and investment across borders. This integration will also promote the structural change of SME business models, from the traditionally domestic to the globally competitive, but this requires new financing solutions for SMEs to survive and grow.

Finance is a critical element of national SME sector development. In particular, it is crucial to develop innovative financing models that go beyond traditional bank lending, to provide timely financing opportunities for SMEs according to their needs and stages of business growth. As national economies advance, the number of growth-oriented SMEs steadily increases, with a growing requirement for access to long-term growth capital. SME sector development is a cross-cutting area in wider global agendas such as climate change, gender empowerment, and poverty reduction. SME financing needs to cope with such cross-sectoral issues as green finance, agriculture finance, and financing of women-led SMEs. Policymakers and regulators are required to respond to new financing modalities that include crowdfunding, asset-based finance, cluster financing, and capital market financing. They are also required to develop an extensive knowledge base on SME access to finance, while sharing best practices to promote evidence-based policymaking.

With these objectives in mind, the Asian Development Bank (ADB) launched the pilot Asia SME Finance Monitor (ASM) in April 2014. This inaugural ASM covered 14 ADB developing member countries (DMCs) and comprehensively reviewed five areas: SME landscape, banking sector, nonbank sector, capital markets, and policy and regulation. The target beneficiaries of the ASM are government authorities responsible for SME development and access to finance to support evidence-based SME policies in DMCs.

With the success of the inaugural volume of the ASM, this edition extended the coverage countries to 20 DMCs across five ADB regions. We hope this publication helps improve SME access to finance by enhancing evidence-based policymaking on SME finance, and encourages policy discussions on scaling up SME finance in DMCs.



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# Acknowledgments

The Asia SME Finance Monitor 2014 was prepared by Shigehiro Shinozaki, financial sector specialist of the Sustainable Development and Climate Change Department (SDCC) of the Asian Development Bank (ADB), together with the Asia SME Finance Monitor Team. The team comprised Tanner Chaiken, Shreyans Jain, Konstantin Dorofev, Connie T. Delos Santos, and Junray Bautista. This project was supervised by Noritaka Akamatsu, acting Technical Advisor (Finance) and senior advisor of SDCC. Administrative support was provided by Raquel Borres and Valene L. Clemente.

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Viet Nam	Agency of Enterprise Development under the Ministry of Planning and Investment



# Abbreviations

3G	third generation of mobile telecommunications technology
4G	fourth generation of mobile telecommunications technology
ACCU	Asian Confederation of Credit Unions
ACE	Access, Certainty, Efficiency
ADB	Asian Development Bank
ADFIAP	Association of Development Financing Institutions in Asia and the Pacific
AFC	asset finance company
AFI	Alliance for Financial Inclusion
AIF	Alternative Investment Funds Regulations
ANZ	Australia and New Zealand Banking Group
ASEAN	Association of Southeast Asian Nations
ASENSO	Access of Small Enterprises to Sound Lending Opportunity
ASX	Australian Securities Exchange
ATS	Alternative Trading Systems
AUB	Asia Universal Bank
BCSIR	Bangladesh Council of Scientific and Industrial Research
BDRAL	Bangladesh Rating Agency Limited
BDS	business development services
BEFTN	Bank Electronic Funds Transfer Network
BITAC	Bangladesh Industrial Technical Assistance Centre
BMBE	Barangay Microbusiness Enterprises
BMSMED	Bureau of Micro, Small and Medium Enterprise Development
BNM	Bank Negara Malaysia
BOI	Board of Investment
BOK	Bank of Korea
BPC	Business Promotion Council
BPNG	Bank of Papua New Guinea
BSCIC	Bangladesh Small and Cottage Industries Corporation
BSE	Bombay Stock Exchange
BSP	Bangko Sentral ng Pilipinas (Philippines)
BSP	Bank South Pacific (Fiji, Papua New Guinea, and Solomon Islands)
BUILD	Business Initiative Leading Development
BVCL	Bangladesh Venture Capital Limited
C2B	consumer to business
CAGR	compound annual growth rate
CB	commercial bank
CBC	Credit Bureau Cambodia
CBSI	Central Bank of Solomon Islands
CBSL	Central Bank of Sri Lanka
CDA	Cooperative Development Authority

## Abbreviations

CDB	Credit and Data Bureau
CGAP	Consultative Group to Assist the Poor
CGC	Credit Guarantee Corporation
CGFM	Credit Guarantee Fund of Mongolia
CGTMSE	Credit Guarantee Fund Trust for Micro and Small Enterprises
CIC	Core Investment Companies (India)
CIC	Credit Information Corporation (Philippines)
CIC	Credit Information Center (Viet Nam)
CMDA	Capital Markets Development Authority
CMDB	Capital Market Development Blueprint
CMDC	Capital Market Development Committee
CSE	Chittagong Stock Exchange
CSF	Credit Surety Fund
CSRC	China Securities Regulatory Commission
CSX	Cambodia Securities Exchange
DBP	Development Bank of the Philippines
DBSI	Development Bank of Solomon Islands
DCA	Development Credit Authority
DFAT	Department of Foreign Affairs and Trade
DFI	Development Finance Institution
DIC	District Industry Center
DMC	developing member country
DRC	Democratic Republic of the Congo
DSE	Dhaka Stock Exchange
DTI	Department of Trade and Industry
EBRD	European Bank for Reconstruction and Development
ECF	equity crowd funding
EFTPOS	electronic funds transfer at point of sale
EM	Entrepreneur Memorandum
FCEF	Fiji Commerce and Employers Federation
FDB	Fiji Development Bank
FHUT	Fijian Holdings Unit Trust
FI	financial institution
FinCorp	Finance Corporation
FIS	Financial Incentive Scheme
FRCA	Fiji Revenue and Customs Authority
FSC	Financial Services Commission
FSS	Financial Supervisory Service
GDP	gross domestic product
GFC	global financial crisis
GOCC	government-owned-and-controlled corporation
GPRS	General Packet Radio Service
GPS	global positioning system
GSM	Global System for Mobile Communications
GSMA	Groupe Speciale Mobile Association
GST	goods and service tax
GTFS	Green Technology Financing Scheme
HFC	Home Finance Company
IBBM	Institute of Banking and Business Management
ICDR	Issue of Capital and Disclosure Requirements

ICSI	Investment Corporation of the Solomon Islands
ICT	information and communication technology
ICTE	information and communication technology enabled
IDA	International Development Association
IDF	infrastructure debt funds
IDLC	Industrial Development and Leasing Corporation
IFAD	International Fund for Agriculture Development
IFC	infrastructure finance company (India)
IFC	International Finance Corporation
INA	Institute of National Affairs
INSPIRED	Integrated Support to Poverty and Inequality Reduction through Enterprise Development
IOF	India Opportunities Fund
IOVF	India Opportunities Venture Fund
IPA	Investment Promotion Authority
IPO	initial public offering
ITP	Institutional Trading Platform
JETRO	Japan External Trade Organization
JICA	Japan International Cooperation Agency
KASE	Kazakhstan Stock Exchange
KFR	Kina Facility Rate
KODIT	Korea Credit Guarantee Fund
KOFIA	Korea Financial Investment Association
KONEX	Korea New Exchange
KOREG	Korean Federation of Credit Guarantee Foundations
KOSDAQ	Korean Securities Dealers Automated Quotations
KOTEC	Korea Technology Finance Corporation
KOTRA	Korea Trade Promotion Corporation Agency
KRX	Korea Exchange
KSB	Kontiki Stockbroking
KSHi	Kina Securities Home Index
KSi	Kina Securities Index
KUR	Kredit Usaha Rakyat (People's Business Credit)
LC	loan company
LE	large enterprises
LFI	licensed financial institution
LNG	liquid natural gas
LSX	Lao Securities Exchange
M4SME-RP	Marketplace for SME Receivables Purchases
mai	Market for Alternative Investment
MCI	monthly calculated index
MCILI	Ministry of Commerce, Industries, Labors and Immigration
MDV	Malaysia Debt Venture
MEP	Microfinance Expansion Project
MFI	microfinance institution
MFPN	Microfinance Pasifika Network
MGC	mortgage guarantee company
MiBank	Nationwide Microbank
MiDaS	Microfinance Data Sharing System
MLI	member lending institution
MM	mobile money

## Abbreviations

MNC	multinational corporation
MNCCI	Mongolian National Chamber of Commerce and Industry
MNO	mobile network operator
MRA	Micro Credit Regulatory Authority
MRD	Ministry of Regional Development
MSEC	Myanmar Securities Exchange Centre
MSME	micro, small, and medium-sized enterprise
MSMED	Micro, Small and Medium Enterprise Development
NBC	National Bank of Cambodia
NBFC	nonbank financial company
NBFI	nonbank financial institution
NBKR	National Bank of Kyrgyz Republic
NCC	National Credit Council
NCED	National Council for Economic Development
NCSMED	National Center for Small and Micro Enterprise Development
NDB	National Development Bank
NEDA	National Enterprise Development Authority
NEEQ	National Equities Exchange and Quotations
NFSIT	National Venture Fund for Software and Information Technology Industry
NGO	nongovernment organization
NPL	nonperforming loan
NSDC	National SME Development Council
NSE	National Stock Exchange
NSFI	National Strategy for Financial Inclusion
OECD	Organisation for Economic Co-operation and Development
OJK	Otoritas Jasa Keuangan (Financial Services Authority)
OSMEP	Office of Small and Medium Enterprises Promotion
OTC	over-the-counter
P2B	person to business
P2M	person to merchant
P2P	person to person
PAYG	pay as you go
PBC	People's Bank of China
PCCI	Philippine Chamber of Commerce and Industry
PCFC	People's Credit and Finance Corporation
PDEx	Philippine Dealing and Exchange Corporation
PDTF	People's Development Trust Fund
PFIP	Pacific Financial Inclusion Program
PKSF	Palli Karma Sahayak Foundation
PML	PNG Microfinance Ltd
PNG	Papua New Guinea
POBL	Pan Oceanic Bank Limited
POMSox	Port Moresby Stock Exchange
POS	point of sale (wireless debit/credit card payment terminals)
PRC	People's Republic of China
ProMis	Promotion of Microfinance Sector
PSE	Philippine Stock Exchange
QIB	qualified institutional buyers
RBF	Reserve Bank of Fiji
RBI	Reserve Bank of India

RDP	Rural Development Program
RNBC	residuary nonbank company
SACF	Savings and Credit Cooperative Federation
SB	special bank
SBC	Small Business Corporation
SBDC	Small Business Development Corporation
SCC	savings and credit cooperative
SE	small enterprise
SEBI	Securities Exchange Board of India
SEC	Securities and Exchange Commission
SECC	Securities and Exchange Commission of Cambodia
SEED	Sustainable Entrepreneurship Enhancement and Development
SFC	Securities and Futures Commission
SFURTI	Scheme of Fund for Regeneration of Traditional Industries
SGF	SME Growth Fund
SICCI	Solomon Islands Chamber of Commerce
SIDBI	Small Industries Development Bank of India
SIEA	Solomon Islands Electricity Authority
SIM Card	subscriber identity module card
SINPF	Solomon Islands National Provident Fund
SISBEC	Solomon Islands Small Business Enterprises Centre
SMBC	Small and Medium Business Corporation
SME	small and medium-sized enterprise
SMEC	Small and Medium Enterprises Council
SMECGS	Small and Medium-sized Enterprise Credit Guarantee Scheme
SMEDeF	Small and Medium Enterprise Development Facility
SMEF	Small and Medium-sized Enterprise Foundation
SMEPDC	Small and Medium-sized Enterprise Promotion and Development Committee
SMEPDO	Small and Medium-sized Enterprise Promotion and Development Office
SMESPD	Small and Medium-sized Enterprise and Special Programs Department
SMEX	Small and Medium Enterprises Stock Exchange
SMIDB	Small and Medium Industrial Development Bank
SMS	short messaging service
SOE	state-owned enterprise
SPBD	South Pacific Business Development
SPSE	South Pacific Stock Exchange
SULONG	SME Unified Lending Opportunities for National Growth
SVCL	SIDBI Venture Capital Limited
TDB	Trade and Development Bank
TReDS	Trade Receivables Discounting System
TRESDAQ	Trade and Service Related Securities Dealer Automated Quotations
UMFCCI	Union of Myanmar Federation of Chambers and Commerce Industry
USACC	Union of Savings and Credit Cooperative Federation
USAID	United States Agency for International Development
VCC	venture capital company
VCF	venture capital fund
VCMC	venture capital management corporation
VIPB	Venture Investment Partners Bangladesh
Wi-Fi	wireless fidelity



# Rationale and Methodology

Poor access to finance is one of the critical factors impeding the development of the small and medium-sized enterprise (SME) sector, which requires timely, high quality information on finance. While SME data availability has gradually improved in many developing Asian countries, there is no comprehensive regional SME data platform that is publicly available with periodic updates. An Asian Development Bank (ADB) survey in 2012 indicated that national policymakers in Asia have strong interest in accessing multicountry comparative SME data, especially about finance, to promote evidence-based policy design for SME sector development. Given their demands, in September 2012, ADB launched a project (Phase 1) aimed at designing a feasible framework for a comprehensive SME financial and nonfinancial information-sharing platform for Asia and the Pacific. This framework was called the Asia SME Finance Monitor (ASM).

The ASM reviews various aspects of SME finance within different countries. These aspects include the banking sector, nonbank sector, and capital markets. The main objectives of the ASM are to: (i) provide in-depth analyses relevant to SME sector development and SME finance; (ii) exchange country best practices and experiences on SME finance; and (iii) present timely comparative data on SMEs and SME finance in Asia and the Pacific. The target beneficiaries are the government authorities responsible for enhancing SME access to finance in ADB's developing member countries (DMCs).

The inaugural ASM 2013 was published in April 2014, with 14 participating countries from five ADB regions: (i) Kazakhstan in Central Asia; (ii) the People's Republic of China and the Republic of Korea in East Asia; (iii) Bangladesh, India, and Sri Lanka in South Asia; (iv) Cambodia, Indonesia, Malaysia, the Philippines, Thailand, and Viet Nam in Southeast Asia; and (v) Papua New Guinea and Solomon Islands in the Pacific.

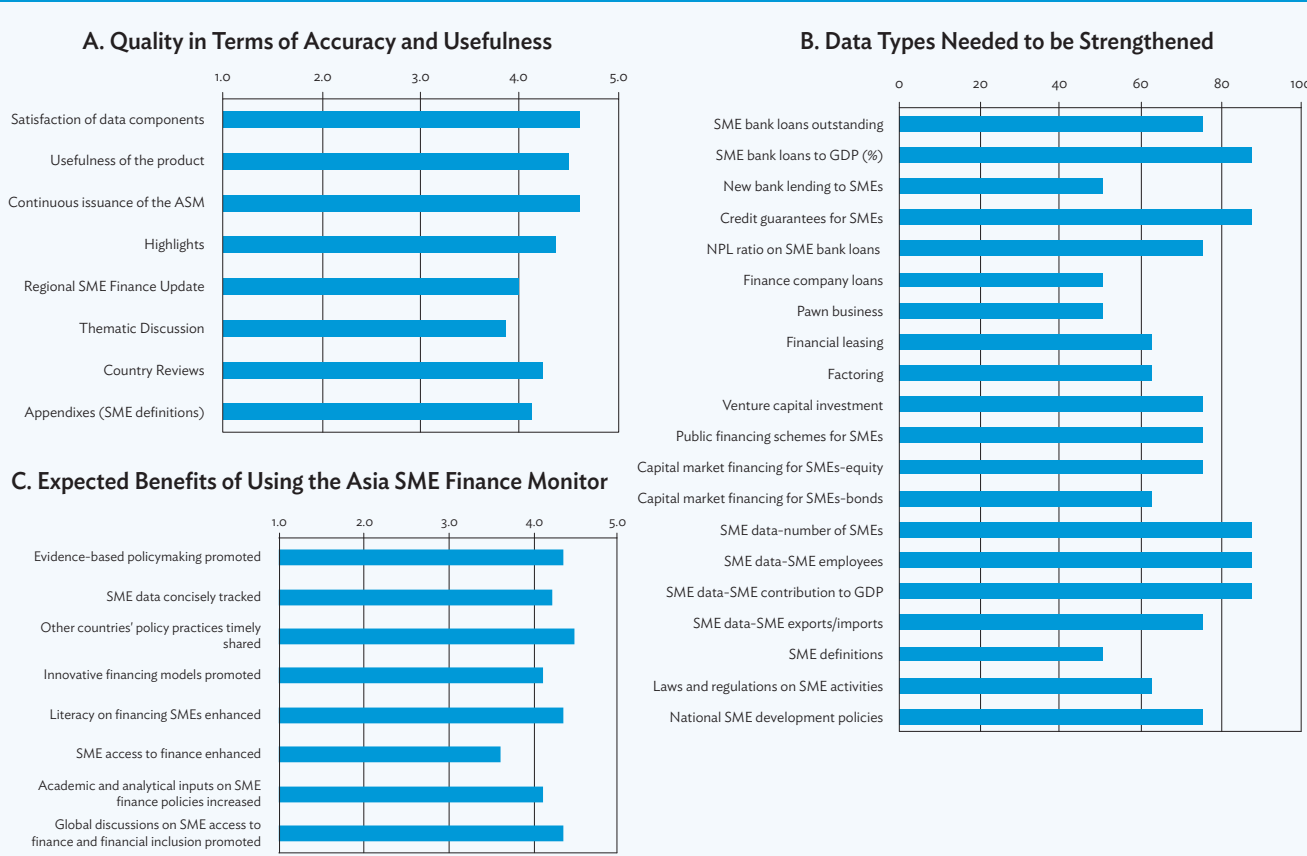
The launch seminar of the ASM 2013 was held at the ADB Resident Mission in the People's Republic of China, located in Beijing, on 4 April 2014. This launch was attended by around 50 participants, including local media and invited government authorities and academics from the People's Republic of China, Malaysia, and Indonesia. The ASM was well received by all attendees, with expectations that the publication would be issued on an annual basis. The ASM 2013 was picked up by a large number of media outlets and multilateral organizations throughout Asian countries. It has since stimulated policy discussions on SME development and access to finance at the national, regional, and global level.

Responding to demand from DMCs, ADB launched Phase 2 of the project, aiming to issue the ASM 2014 with updated data and coverage extended to 20 DMCs. The additional DMCs to participate in the ASM 2014 included six countries from four ADB regions: (i) the Kyrgyz Republic and Tajikistan in Central Asia; (ii) Mongolia in East Asia; (iii) the Lao PDR and Myanmar in Southeast Asia; and (iv) Fiji in the Pacific.

## Evaluation

After the launch of the ASM 2013, ADB conducted a survey of participating institutions in DMCs to assess: (i) the satisfaction level of data components provided by the ASM 2013; (ii) the quality of ASM components—highlights, regional SME finance update, thematic discussion, country reviews, and appendixes—in terms of accuracy and usefulness; (iii) types of data needed to be strengthened; and (iv) expected benefits of using the ASM. The survey respondents were highly satisfied with the data components and quality of the ASM, with ratings of 4.6 out of 5 for components and 4.1 for quality (as an average of the five components) (Figure 1.1-A).

Figure 1.1: Findings from the Evaluation Survey on the Asia SME Finance Monitor 2013



5 = yes, 4 = somewhat yes, 3 = neutral, 2 = somewhat no, 1 = no. For five components on quality questionnaires in item A, 5 = high, 4 = somewhat high, 3 = neutral, 2 = somewhat low, 1 = low.

Notes: Average score of eight institutions in seven countries in items A and C. For item B, data as percentage of total respondents. Survey respondents are listed below. The survey was conducted during April–June 2014.

- (1) Bangladesh: SME Foundation;
- (2) Cambodia: Cambodia Securities Exchange;
- (3) Indonesia: Bank Indonesia;
- (4) Indonesia: Ministry of Cooperatives and SMEs;
- (5) Malaysia: SME Corporation;
- (6) Philippines: Bangko Sentral ng Pilipinas;
- (7) Thailand: Securities and Exchange Commission;
- (8) Viet Nam: Ministry of Finance.

Respondents also rated the usefulness of the ASM to design SME development and finance policies, with a rating of 4.5 out of 5. Demand for ADB to issue the ASM as an annual periodical was demonstrated with a rating of 4.6. Meanwhile, respondents tended to seek access to more elaborate data on credit guarantees, public financing schemes, nonbank, and capital markets besides banking data (Figure 1.1-B). They expected that future issues of the ASM would (i) promote evidence-based policymaking, with a rating of 4.4; (ii) enhance literacy on financing SMEs,

with a rating of 4.4; and (iii) ensure the timely sharing of other countries' policy practices, with a rating of 4.5 (Figure 1.1-C).

### Data Compilation

Given that the availability of SME finance data is limited in Asia and the Pacific, the launch of a multicountry SME data platform in the region is a tough challenge.



The platform needed to be built from scratch. In Phase 1, ADB designed the ASM concept through intensive consultations with DMCs. ADB mapped out national SME data availability in DMCs, defined core data components to be included in the ASM, and developed methodologies for data collection and analysis. It also built strategic partnerships with DMC institutions (central bank, government authorities, and financial institutions), and published a pilot product to assess the potential for creating a sustainable SME data platform in the Asia-Pacific region. This product aimed to support DMCs in evidence-based policymaking on SME development, especially access to finance.

ADB organized the ASM team, comprising an ADB officer, three consultants from regional countries, and a Philippine-based national consultant. The ADB officer, as a team leader, led the concept design, methodology development, and partnership building with DMCs. The ADB officer also managed the production process, and authored several papers. ADB hired: (i) one Australian-based consultant, for drafting a thematic study (mobile technology for financing SMEs in Asia) and for data collection and country paper write-ups in the Pacific region; (ii) one consultant from India in South Asia and one consultant from Kazakhstan in Central Asia, for data collection and country paper write-ups in priority regions where SME data availability is restricted or language barriers exist; and (iii) a national consultant from the Philippines, for administrative support, data collection, and country paper write-ups in designated countries, based on instructions from the ADB officer. To ensure consistency and comparability throughout the publication, the ADB officer prepared templates for the country papers (text body) and excel-datasets of figures and tables to be incorporated into the ASM. The ADB officer also provided guidance to all consultants on how to collect data and draft designated country papers.

The ASM team had a weekly teleconference, chaired by the ADB officer, to monitor progress of the work and discuss thematic and administrative issues. Fact-finding missions were conducted by the ASM team, who visited Bangladesh, Fiji, the Kyrgyz Republic, the Lao PDR, Myanmar, Papua New Guinea, Sri Lanka, and Tajikistan. These missions were organized to build partnerships with government authorities and financial institutions,

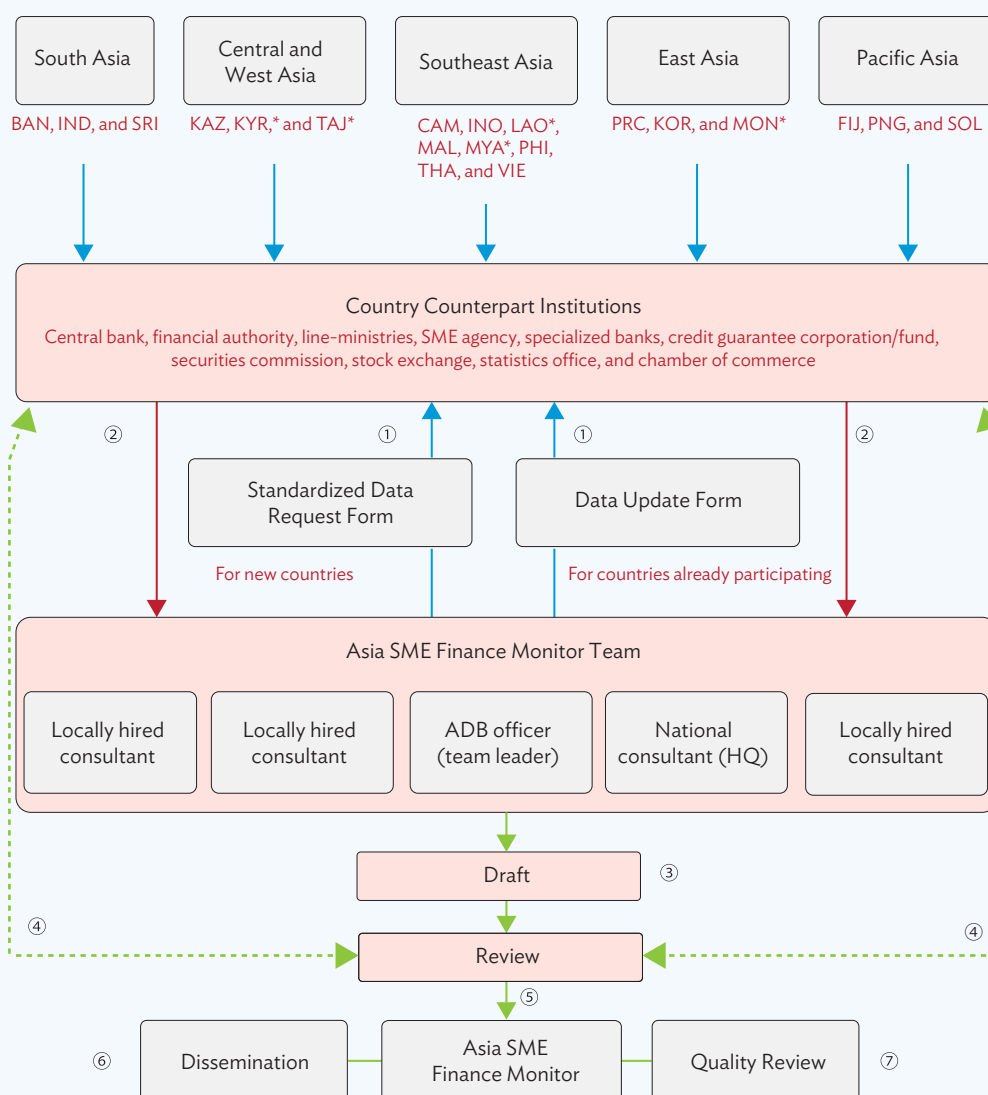
and to collect data on SME access to finance. For the remaining countries involved in the ASM, partnership building and data collection was conducted via emails and phone calls.

For data compilation, the ASM team uses two different forms that include guidance on how to fill up the data: a standardized data request form and a data update form (Figure 1.2). The standardized data request form (separate forms for SME landscape, banking sector, nonbank sector, capital markets, and policy and regulation) is delivered to the respective counterpart institutions in newly participating countries. Data update forms, based on the data compiled in the ASM 2013, are delivered to countries that are already participating.

Country counterpart institutions include the central bank, financial authority, line-ministries responsible for SME development, SME agency, specialized banks, credit guarantee corporation/fund, securities commission, stock exchange, statistics office, and chamber of commerce. Each of these institutions completes the data forms and returns them to the ASM team. Based on the data collected from the counterpart institutions, the ASM team prepares draft country papers, which follow the guidelines on data collection and compilation prepared by the ADB officer. Draft country papers are then sent out for review to the counterpart institutions or a focal entity in the participating country. After revisions upon necessity, country papers are finalized with consensus from counterpart institutions. Based on the country papers, the ADB officer analyzes regional conditions for SMEs and SME access to finance. All country papers, together with the analytical paper and a thematic study, are consolidated into the ASM.

The ASM is disseminated through the launch seminar at a selected DMC and/or ADB headquarters in the Philippines. Participating countries are invited to discuss initial findings from the ASM, outline challenges, and guide policy directions on SME access to finance in Asia and the Pacific. After the launch of the ASM, ADB monitors and evaluates the quality, usefulness, and impact of the product. This is done by surveying and/or interviewing counterpart institutions from participating countries, with a view to product improvement.

Figure 1.2: Data Compilation Flow



BAN = Bangladesh, CAM = Cambodia, PRC = People’s Republic of China, FIJ = Fiji, IND = India, INO = Indonesia, KAZ = Kazakhstan, KOR = Republic of Korea, KYR = Kyrgyz Republic, LAO = Lao PDR, MAL = Malaysia, MON = Mongolia, MYA = Myanmar, PNG = Papua New Guinea, PHI = Philippines, SOL = Solomon Islands, SRI = Sri Lanka, TAJ = Tajikistan, THA = Thailand, and VIE = Viet Nam.

- ① The data request forms are delivered to respective counterpart institutions in participating developing member countries (DMCs) of ADB: standardized data request forms for newly participating countries and data update forms for countries already participating.
- ② Country counterpart institutions complete the data forms and return them to the Asia SME Finance Monitor (ASM) team.
- ③ Based on collected data from counterpart institutions, the ASM team prepares draft country papers.
- ④ Draft country papers are sent out for review to the counterpart institutions or a focal entity in the participating country. After revisions upon necessity, country papers are finalized with consensus from counterpart institutions.
- ⑤ All country papers, together with the analytical paper and a thematic study, are consolidated into the single product.
- ⑥ ASM is disseminated through the launch seminar at a selected DMC and/or ADB headquarters. Discussions are held about the initial findings of the ASM, future challenges, and policy directions on SME access to finance in Asia and the Pacific.
- ⑦ After the launch of the ASM, ADB monitors and evaluates the quality, usefulness, and impact of the product by surveying and/or interviewing counterpart institutions in participating countries.

## Moving Forward

Strategy 2020, the long-term strategic framework of ADB, focuses on financial sector development as a core specialization, where inclusive economic growth is a key strategic pillar. In line with this strategy, ADB's Financial Sector Operational Plan (FSOP), approved in May 2011, has attached importance to supporting the efforts of DMCs to enhance financial access for the traditionally underserved, including low-income households and SMEs. The Midterm Review of Strategy 2020 emphasized the need to strengthen ADB's surveillance function for evidence-based policy advice to DMCs. In line with this, a midterm review of the FSOP has also been conducted.

Based on the broader ADB strategy, the mission of the ASM is to support policy design by DMCs to enhance financial access for SMEs. This can be supported by the provision of comprehensive multicountry data on SMEs and SME finance, with periodic updates and in-depth analyses. Enhanced, evidence-based SME policymaking will contribute to not only improving SME access to finance in DMCs but also to accelerating inclusive economic growth in Asia and the Pacific.

The overall ASM project comprises the phases of framework design (Phase 1), implementation (Phase 2), and operation and development (Phase 3). Phase 1 mainly explored core data components of the ASM, and developed a sustainable business model through the launch of a pilot ASM with fact evaluation and feedback by participating DMCs. Phase 2 developed partnerships with DMCs and strengthened the linkage of ASM data to ADB operations. The need to promote innovative ideas for ADB's SME projects required the ASM to expand its coverage from 14 to 20 countries, with consideration given to balanced coverage of five ADB regions and the requirements of DMCs. Phase 3 of the project will strengthen the global reach and comparability of the ASM, creating benchmarks for global SME discussions. Improved data sharing among a wider range of countries will provide a common global platform for SME finance discussions, promote evidence-based policymaking for SME access to finance, and eventually contribute to inclusive economic growth with resilience at the national and international levels. To this end, under Phase 3, a global web portal of ASM data will be designed and developed.



# Highlights

## Recent global economic slowdown requires a new growth model for Asia, where SMEs play a key role in boosting national productivity

Asia has been continuously growing, and this growth has alleviated poverty and increased the number of middle-income countries in the region. However, the recent regional and global economic slowdown requires a new growth model for Asia, with strengthened dynamics for small and medium-sized enterprises (SMEs) to boost national productivity.

According to the latest data, SMEs accounted for an average of 96% of all enterprises and 62% of the national labor forces across the 20 Asia SME Finance Monitor (ASM) countries. These countries cover Central Asia, East Asia, South Asia, Southeast Asia, and the Pacific. Meanwhile, the latest data reveals that SMEs contributed an average of only 42% of the gross domestic product (GDP) or manufacturing value added in ASM countries.

SMEs have continued to influence trade. The latest data shows that SMEs in the People's Republic of China and India accounted for more than 40% of total export values, followed by 26% in Thailand, 19% in the Republic of Korea, and 16% in Indonesia.

## Strengthening SME competitiveness is a critical policy agenda, given the anticipated low SME survival rate and liberalized trade and investment

While SMEs represented 96% of the officially registered enterprises across the ASM region, countries like Kazakhstan and Mongolia showed that “active” SMEs were only around 50% of the registered enterprises. This suggests that the survival rate of SMEs is not high, and it is critical to strengthen SME competitiveness to expand their contribution to their national economies.

Moreover, given the liberalized trade and investment brought by economic integration, such as the Association of Southeast Asian Nations (ASEAN) Economic Community and the Eurasian Economic Union, the involvement of SMEs in international trade will be further promoted. This requires comprehensive government support for strengthening SME competitiveness, and for encouraging SME participation in global value chains.

## Financial infrastructure needs to be developed to expand financial outreach to a larger number of SMEs

Limited access to bank credit is a structural problem in the ASM region. Bank loans to SMEs made up averages of 11.6% of GDP and 18.7% of total bank lending in the region, with a decreasing trend of the latter since the 2008/09 global financial crisis.

Comparing SME access to bank credit relative to the income level of the countries in which they operate, bank credit reaches out to a larger number of SMEs (with a relatively low ratio of nonperforming loans) as the country's economy becomes more advanced. This suggests that further policy support for SME finance is needed in low-income and lower middle-income countries. In particular, a set of financial infrastructure—such as credit bureaus, collateral registries, and credit guarantees—needs to be developed in low-income countries.

## Basel III may negatively affect bank lending attitudes to SMEs

There are some concerns about the impact of Basel III (an international regulatory framework for banks) on SME lending. There may be a negative effect on banks' lending attitudes toward SMEs in countries that have decided to introduce Basel III. These countries include

the People's Republic of China, India, Indonesia, and the Republic of Korea.

Basel III has adopted new rules—liquidity frameworks and leverage ratio frameworks—to strengthen the risk management of banks, as well as introducing strengthened capital requirements. These new measures may constrain banks from providing long-term credit for enterprises, and may limit financing options for SMEs, including trade finance availability.

### The nonbank finance industry is small in scale and influenced by bank performance; comprehensive national policy frameworks are lacking

Various types of nonbank financial institutions (NBFIs) are servicing SMEs in the ASM region, although they are small in scale and not specifically targeting SMEs in their business models. NBFIs financing accounted for an average of 3.1% of GDP, and represented one tenth of bank loan assets in the ASM region.

The performance of the NBFIs industry is volatile and is influenced by the external economic environment and bank performance. In the Kyrgyz Republic, demand for microfinance institution loans sharply increased when the banking sector was hit by the 2008/09 global financial crisis and the country's 2010 sociopolitical crisis. Conversely, the microfinance industry has scaled down since 2011, as the banking sector has gradually recovered. A similar situation has unfolded in Mongolia.

A lack of comprehensive regulatory and policy frameworks for NBFIs is a critical barrier to developing the nonbank finance industry in Asia and the Pacific. In Mongolia, leasing is not regarded as a nonbank financial activity, and is separately regulated from the Nonbank Financial Activities Law.

### Although still in the trial stages, positive performances on SME equity markets and government reform efforts have been seen in Asia

While SME capital markets are still in the trial stages of development, there have been several positive signs for SME equity markets in Asia, with government reform efforts being identified. The Korea New Exchange (KONEX) in the Republic of Korea and the SME

Platform of the Bombay Stock Exchange (BSE) in India have both been sharply growing. The number of listed companies more than tripled in KONEX from its launch in 2013, and nearly doubled in the BSE SME Platform during 2013 and 2014. The ACE market in Malaysia and the Market for Alternative Investment (mai) in Thailand have both improved the cycle of listed companies moving to their main boards.

New equity trading platforms have been created or designed in several Asian countries. The National Equities Exchange and Quotations (NEEQ) has been launched in the People's Republic of China; the regulatory framework for equity crowdfunding (ECF) is under design in Malaysia; and the Institutional Trading Platform (ITP) has launched in India.

Meanwhile, SME bond markets are beginning to perform in countries such as the People's Republic of China (SME joint bonds and SME collective notes) and the Republic of Korea (qualified institutional buyers system). In the Republic of Korea, the qualified institutional buyers system was restructured to encourage SMEs to issue corporate bonds, widening the range of approved investors and products available.

### A balanced approach is required to design extensive policy measures for improving SME access to finance, and for safeguarding their financial stability

Government authorities responsible for SME access to finance need to support SMEs in accessing timely financing opportunities, through flexible and innovative measures, according to their needs. To supplement the limitations of bank lending for SMEs, the diversification of financing models is vital.

Economic expansion in Asia has created a base of growth-oriented SMEs with a need for access to long-term growth capital. The development of capital markets for SMEs has become a new challenge in SME finance.

Nonbank finance is a viable substitute for bank lending. NBFIs need to be competitive in order to enhance overall SME access to credit. Equity finance as risk capital helps SMEs leverage debt finance. A balanced approach is needed to design extensive policy measures for SME access to finance in Asia and the Pacific.

# Regional SME Finance Update

## SME Landscape

The Asia SME Finance Monitor (ASM) 2014 assessed 20 countries from five geographic regions; Central Asia, East Asia, South Asia, Southeast Asia, and the Pacific. The participants included 4 low-income countries (Bangladesh, Cambodia, Myanmar, and Tajikistan), 10 lower middle-income countries (India, Indonesia, the Kyrgyz Republic, the Lao PDR, Mongolia, Papua New Guinea, the Philippines, Solomon Islands, Sri Lanka, and Viet Nam), 5 upper middle-income countries (the People's Republic of China, Fiji, Kazakhstan, Malaysia,

and Thailand), and 1 high-income country (the Republic of Korea).

The ASM relies upon national definitions of a small and medium-sized enterprise (SME). In the ASM countries, SMEs are mainly classified into four criteria by law; number of employees, net or total assets, annual turnover, and capital invested (Table 2.1). However, six countries from, South Asia, Southeast Asia, and the Pacific (Bangladesh, Cambodia, Fiji, Solomon Islands, Sri Lanka, and Papua New Guinea) define SMEs in the national policy framework or their central bank's

**Table 2.1: SME Definitions in Asia SME Finance Monitor Countries**

Region	Country	SME Definition					
		Employee	Asset	Turnover	Capital	By Sector	Legal Basis
Central Asia	Kazakhstan	✓	✓				✓
	Kyrgyz Republic	✓		✓		✓	✓
	Tajikistan			✓			✓
East Asia	China, People's Rep. of	✓		✓		✓	✓
	Korea, Rep. of	✓		✓	✓	✓	✓
	Mongolia	✓		✓		✓	✓
South Asia	Bangladesh	✓	✓			✓	
	India				✓	✓	✓
	Sri Lanka		✓	✓			
Southeast Asia	Cambodia	✓	✓				
	Indonesia		✓	✓			✓
	Lao PDR	✓	✓	✓			✓
	Malaysia	✓		✓		✓	✓
	Myanmar	✓			✓	✓	✓
	Philippines	✓	✓				✓
	Thailand	✓	✓			✓	✓
	Viet Nam	✓			✓	✓	✓
Pacific	Fiji	✓	✓	✓			
	Papua New Guinea	✓					
	Solomon Islands	✓		✓			

SME = small and medium-sized enterprise.

Source: Compilation from SME definitions in the Asia SME Finance Monitor countries.



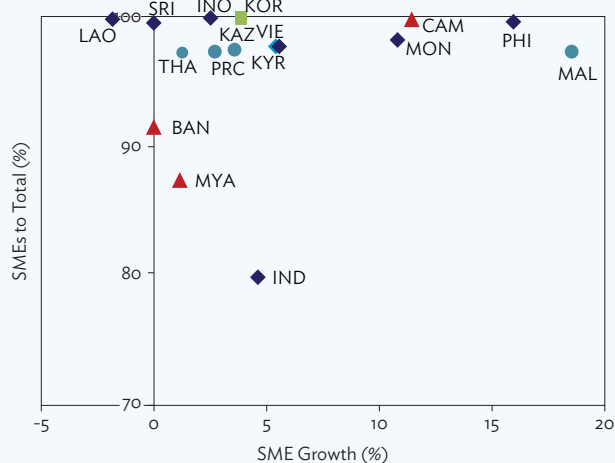
guidelines. Half of the ASM countries define SMEs by industry sector (e.g., service, trade, and manufacturing). In April 2015, Myanmar launched SME definitions by sector, according to capital and employee criteria, under the country’s SME Development Law. In 13 ASM countries, due to policy priorities for inclusive growth, micro enterprises are defined separately from SMEs (five countries from Southeast Asia and two countries from each of Central Asia, East Asia, South Asia, and the Pacific).

SMEs, together with micro enterprises, accounted for an average of 96% of total enterprises across the ASM region, with an average of 5% growth (Figure 2.1). However, active enterprises represented only half of the registered enterprises in Kazakhstan and Mongolia. SME data are not updated every year in countries that rely on a national census, which is conducted over a longer interval. Such countries include Cambodia, the Lao PDR, and Malaysia. This can result in large increases or decreases from the previous census results. In

Bangladesh and Myanmar, only data on manufacturing are available; with Myanmar only providing data on small and medium industries located inside its industrial zones. On the whole, the SME sector is growing, especially in lower middle-income countries, although it is implied that active SMEs may still represent only a small proportion of total enterprises registered.

The level of job creation in the SME sector differs widely by country, with no specific correlation between employment and a country’s income level. On average, SMEs employed 62% of the total labor force in the ASM region, with 11% average growth (Figure 2.2). An exception was the Kyrgyz Republic, which reported that SMEs contributed only a 4% share of the country’s total employment. This was attributed to the aftermath of the 2008/09 global financial crisis, as well as the country’s practice of not counting farm workers and individual entrepreneurs in SME statistics. Meanwhile, the large increase in SME employees in the Lao PDR arose from the comparison between 2006 and 2013.

Figure 2.1: Number of SMEs

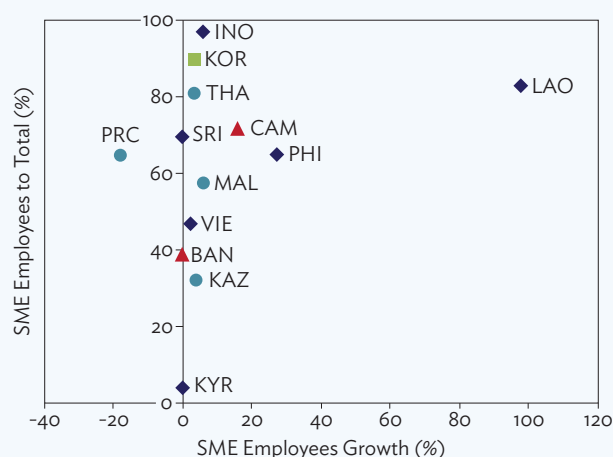


BAN = Bangladesh, PRC = People’s Republic of China, CAM = Cambodia, IND = India, INO = Indonesia, KAZ = Kazakhstan, KYR = Kyrgyz Republic, KOR = Republic of Korea, LAO = Lao PDR, MAL = Malaysia, MYA = Myanmar, MON = Mongolia, PHI = Philippines, SME = small and medium-sized enterprise, SRI = Sri Lanka, THA = Thailand, VIE = Viet Nam.

Notes: ■ refers to high-income country, ● refers to upper middle-income country, ◆ refers to lower middle-income country, and ▲ refers to low-income country. Country classification refers to the World Bank classification for FY2015. Data points in time: 2010 in MAL; 2012 in BAN, KOR, PHI, and VIE; 2013 in PRC, KYR, MON, IND, INO, LAO, SRI, and THA; 2014 in CAM, KAZ, and MYA.

Source: Compilation from country review papers in the Asia SME Finance Monitor 2014.

Figure 2.2: Employment by SMEs



BAN = Bangladesh, PRC = People’s Republic of China, CAM = Cambodia, INO = Indonesia, KAZ = Kazakhstan, KYR = Kyrgyz Republic, KOR = Republic of Korea, LAO = Lao PDR, MAL = Malaysia, PHI = Philippines, SME = small and medium-sized enterprise, SRI = Sri Lanka, THA = Thailand, VIE = Viet Nam.

Notes: ■ refers to high-income country, ● refers to upper middle-income country, ◆ refers to lower middle-income country, and ▲ refers to low-income country. Country classification refers to the World Bank classification for FY2015. Data points in time: 2011 in PRC; 2012 in BAN, KOR, PHI, and VIE; 2013 in KYR, MAL, INO, LAO, SRI, and THA; 2014 in CAM and KAZ.

Source: Compilation from country review papers in the Asia SME Finance Monitor 2014.



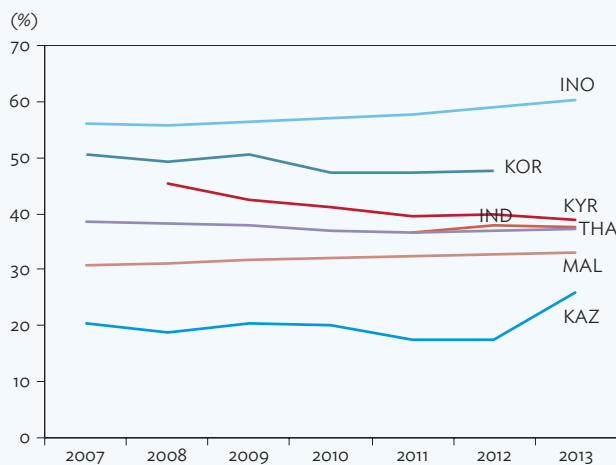
The decelerated growth of the economy in the People's Republic of China during 2011 was a main reason for the low growth of SME employment in that country.

SMEs, including micro enterprises, contributed an average of 42% of nominal gross domestic product (GDP) across the ASM region (Figure 2.3). Kazakhstan recorded a sharp increase in SME contribution to GDP, following government programs to address SME competitiveness. In Indonesia, SMEs have underpinned the national economy, constantly increasing their contribution to GDP. In other countries, SME contribution to GDP remained steady or increases were negligible.

Although there are little data on SME exports available in Asia and the Pacific, SMEs have continued to influence international trade in the region (Figure 2.4). SMEs in the People's Republic of China and India accounted for more than 40% of total export values, with 7% and 10% annual growth in 2012 and 2013 respectively. These

countries were followed by Thailand (26% of total export values in 2013), the Republic of Korea (19% in 2012), and Indonesia (16% in 2013). In Thailand, the growth of SME exports has been slowing since 2011, when the national economy was devastated by flooding (-15% in 2013). A slow recovery in demand from trade partners such as the People's Republic of China, Japan, and Europe was considered a critical reason for such sluggish trade recovery in the country. Lower middle-income countries like India and Indonesia showed high SME export growth (more than 9% in 2013). Given the liberalized trade and investment brought by economic integration such as the Association of Southeast Asian Nations (ASEAN) Economic Community and the Eurasian Economic Union, the involvement of SMEs in international trade will be promoted further. This requires comprehensive government support for strengthening SME competitiveness and encouraging SME participation in global value chains. Kazakhstan has recently become a member of the Eurasian Economic Union, and the Kyrgyz Republic is due to join in 2015.

**Figure 2.3: SME Contribution to Gross Domestic Product**

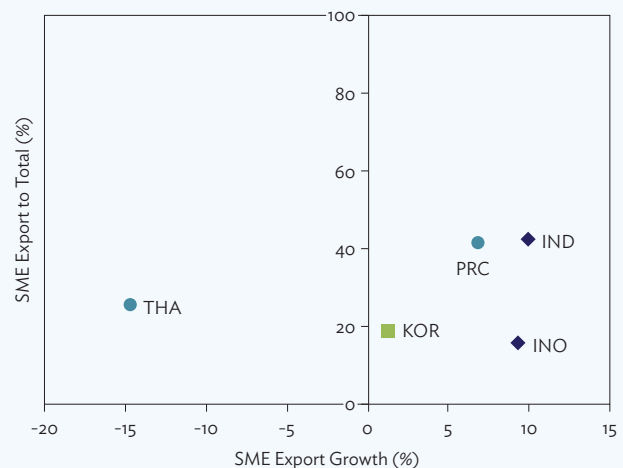


GDP = gross domestic product, IND = India, INO = Indonesia, KOR = Republic of Korea, KAZ = Kazakhstan, KYR = Kyrgyz Republic, MAL = Malaysia, SME = small and medium-sized enterprise, THA = Thailand.

Notes: Data combined SMEs, individual entrepreneurs, and farmers in KYR. Gross value added in manufacturing in KOR.

Source: Compilation from country review papers in the Asia SME Finance Monitor 2014.

**Figure 2.4: SME Exports**



PRC = People's Republic of China, IND = India, INO = Indonesia, KOR = Republic of Korea, SME = small and medium-sized enterprise, THA = Thailand.

Notes: ■ refers to high-income country, ● refers to upper middle-income country, ◆ refers to lower middle-income country, and ▲ refers to low-income country. Country classification refers to the World Bank classification for FY2015. Data points in time: 2012 in PRC and KOR; 2013 in IND, INO, and THA.

Source: Compilation from country review papers in the Asia SME Finance Monitor 2014.

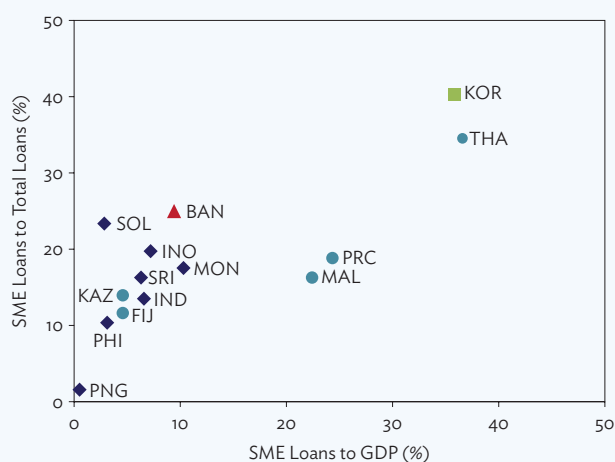
## Banking Sector

Limited access to bank credit is a major barrier to the survival and growth of SMEs, especially given the established bank-centered financial system in Asia and the Pacific. SME bank loans made up averages of 11.6% of GDP and 18.7% of total bank lending in the latest annual data for the ASM countries. This indicates ongoing poor access to bank credit for SMEs.

ASM countries can be divided into two different groups, according to the extent of SME access to bank credit. Group A countries are generally high-income and upper middle-income countries whose SMEs have relatively high access to bank credit. These countries include the People's Republic of China, the Republic of Korea, Malaysia, and Thailand. Group B countries are generally lower middle-income countries, and countries from

Central Asia and the Pacific, whose SMEs have critically low access to bank credit (Figure 2.5). The share of SME loans to GDP stood at an average of 18.5% in upper middle-income countries and an average of 5.3% in lower middle-income countries, according to the latest annual data in the ASM region. Upper middle-income countries in Group A (the People's Republic of China, Malaysia, and Thailand) show an upward trend in delivering loans to SMEs, while Group B countries indicate chronically low delivery of SME loans in terms of share to GDP (Figure 2.6). The share of SME loans to total bank loans stood at an average of 19% in upper middle-income countries, while this average was only 14.6% in lower middle-income countries. On the whole, the composition of SME loans to total bank loans has gradually improved across the ASM region, although the situation differs by country (Figure 2.7). For the People's Republic of China, data on outstanding SME loans were used until 2012; data on outstanding micro and small enterprise (MSE) loans were used after 2013 in Figures 2.6 and 2.7. For the Philippines, SME loans data were based on total funds set aside for micro, small, and medium-sized enterprises (MSMEs) in the mandatory lending scheme (10% of bank loan portfolios).

Figure 2.5: SME Loans, 2014



BAN = Bangladesh, PRC = People's Republic of China, FIJ = Fiji, GDP = gross domestic product, IND = India, INO = Indonesia, KAZ = Kazakhstan, KOR = Republic of Korea, MAL = Malaysia, MON = Mongolia, PNG = Papua New Guinea, PHI = Philippines, SME = small and medium-sized enterprise, SOL = Solomon Islands, SRI = Sri Lanka, and THA = Thailand.

Notes: ■ refers to high-income country, ● refers to upper middle-income country, ◆ refers to lower middle-income country, and ▲ refers to low-income country. Country classification refers to the World Bank classification for FY2015. Data points in time: March/2014 (IND), June/2014 (FIJ [Q2]), September/2014 (KAZ, PNG, PHI, and SOL), and December/2014 (BAN, PRC, INO, MAL, MON, and THA). Data in 2013 (SRI). For KOR, share to GDP in end-2013 and share to total loans in June 2014. For PRC, data based on micro and small enterprise (MSE) loans outstanding. For PHI, data based on total funds set aside for MSMEs (mandatory lending; 10%).

Source: Compilation from country review papers in the Asia SME Finance Monitor 2014.

The availability of data on SME nonperforming loans (NPLs) is limited in some ASM countries. The ratio of SME NPLs to total SME loans ranged between 2% and 18%, while the ratio of SME NPLs to total bank loans was between 1% and 3% in ASM countries. The SME NPL ratios in low-income countries (such as Bangladesh) and lower middle-income countries (such as Indonesia and Papua New Guinea) are generally higher than in high-income countries (such as the Republic of Korea) and upper middle-income countries (such as Thailand) (Figures 2.8 and 2.9). NPLs are based on the national loan asset classification. For Bangladesh, the SME NPL ratio refers to the share of borrowers with SME NPLs compared to total SME borrowers. For the Republic of Korea, it refers to the share of SME classified loans compared to total SME loans.

Poor access to bank credit is a structural problem in the ASM region. Comparing the access of SMEs to bank credit according to the income levels of the countries in which they operate, it is evident that, as economies become more advanced, bank credit reaches out to a larger number of SMEs, and there is a relatively low NPL ratio. This suggests that further policy support is needed to promote bankability for SMEs in low-income and

lower middle-income countries, with timely responses to the demands of SMEs in rapidly changing business environments and global economies. In particular, a set of financial infrastructure—credit bureaus, collateral registries, sustainable credit guarantee schemes—needs to be developed in low-income countries.

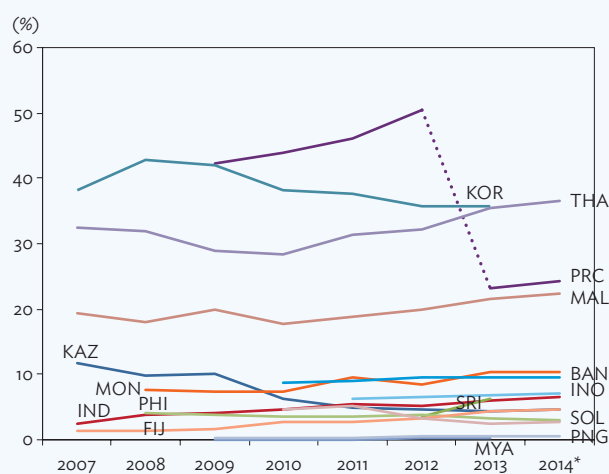
Public credit bureaus, either partially or fully owned by the government, have been established in 8 out of 20 ASM countries. These include 5 lower middle-income countries (India, Indonesia, Mongolia, the Philippines, and Viet Nam) and 3 upper middle-income countries (the People’s Republic of China, Malaysia, and Thailand). There is a privately owned credit bureau in 1 low-income country (Cambodia).

Secured transaction laws, which create a collateral registry and enable movable asset financing, have been enacted in 8 ASM countries: 1 low-income country

(Cambodia); 5 lower middle-income countries (the Lao PDR, Mongolia, the Philippines, Papua New Guinea, and Solomon Islands); and 2 upper middle-income countries (the People’s Republic of China and Malaysia). In addition, two countries (Mongolia and Thailand) have drafted or debated secured transaction laws. Under secured transaction laws, pledgeable assets can typically include machinery/equipment, inventory of final goods, receivables, and intellectual property rights, which can be utilized as collateral for loans. However, even if such laws are passed, a sound registration system of movable assets and an efficient collateral enforcement mechanism are prerequisites for allowing movable asset financing to function in the banks of ASM countries.

The public credit guarantee scheme (partial guarantees), a tool to reduce the supply-demand gap in SME finance, has been established in 16 of the 20 ASM

Figure 2.6: SME Loans to Gross Domestic Product



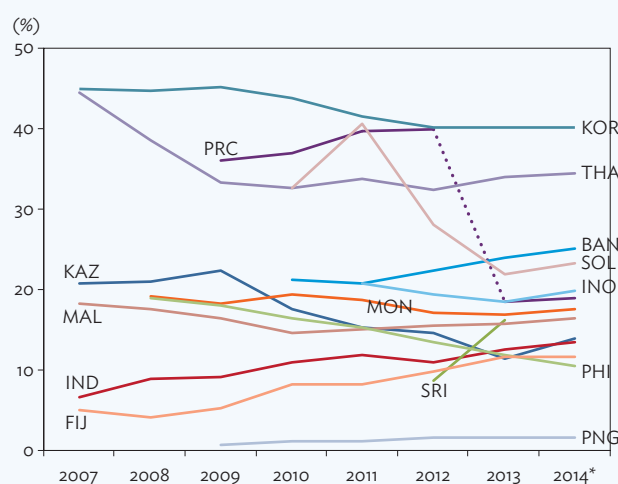
BAN = Bangladesh, PRC = People’s Republic of China, FIJ = Fiji, GDP = gross domestic product, IND = India, INO = Indonesia, KAZ = Kazakhstan, KOR = Republic of Korea, MAL = Malaysia, MON = Mongolia, MYA = Myanmar, PNG = Papua New Guinea, PHI = Philippines, SME = small and medium-sized enterprise, SOL = Solomon Islands, SRI = Sri Lanka, THA = Thailand.

\* March/2014 (IND), June/2014 (FIJ [Q2]), September/2014 (KAZ, PNG, PHI, and SOL), December/2014 (BAN, PRC, INO, MAL, MON, and THA).

Notes: For PRC, data based on SME loans outstanding until 2012; while after 2013, based on micro and small enterprise (MSE) loans outstanding. For PHI, data based on total funds set aside for MSMEs (mandatory lending; 10%).

Source: Compilation from country review papers in the Asia SME Finance Monitor 2014.

Figure 2.7: SME Loans to Total Loans



BAN = Bangladesh, PRC = People’s Republic of China, FIJ = Fiji, IND = India, INO = Indonesia, KAZ = Kazakhstan, KOR = Republic of Korea, MAL = Malaysia, MON = Mongolia, PNG = Papua New Guinea, PHI = Philippines, SME = small and medium-sized enterprise, SOL = Solomon Islands, SRI = Sri Lanka, THA = Thailand.

\* March/2014 (IND), June/2014 (FIJ [Q2] and KOR), September/2014 (KAZ, PNG, PHI, and SOL), December/2014 (BAN, PRC, INO, MAL, MON, and THA).

Notes: For PRC, data based on SME loans outstanding until 2012; while after 2013, based on micro and small enterprise (MSE) loans outstanding. For PHI, data based on total funds set aside for MSMEs (mandatory lending; 10%).

Source: Compilation from country review papers in the Asia SME Finance Monitor 2014.

Figure 2.8: SME Nonperforming Loans, 2014



BBAN = Bangladesh, INO = Indonesia, KOR = Republic of Korea, NPL = nonperforming loan, SME = small and medium-sized enterprise, THA = Thailand.

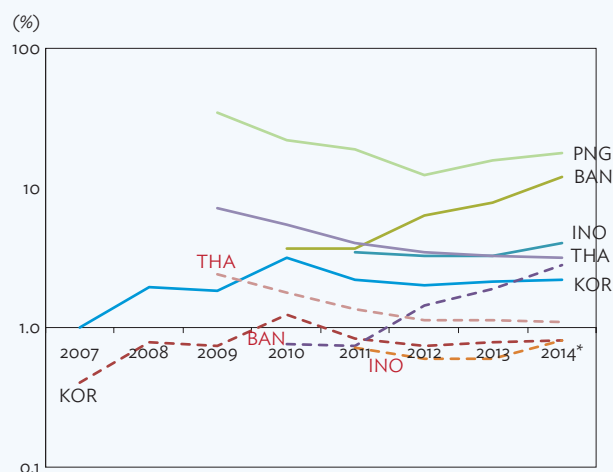
Notes: ■ refers to high-income country, ● refers to upper middle-income country, ◆ refers to lower middle-income country, and ▲ refers to low-income country. Country classification refers to the World Bank classification for FY2015. Data points in time: June/2014 (KOR) and December 2014 (BAN, INO, and THA). NPLs based on the national loan asset classification. For BAN, the ratio of borrowers with SME NPLs to total SME borrowers. For KOR, the ratio of SME classified loans to total SME loans.

Source: Compilation from country review papers in the Asia SME Finance Monitor 2014.

countries. There are two approaches for developing credit guarantee schemes in the ASM region. First, a regional credit guarantee scheme can be developed by licensing local credit guarantee institutions by law. This has been the approach in Indonesia. The second approach is by creating a centralized credit guarantee scheme with sophisticated products like portfolio credit guarantees. This has been the case in Malaysia, the Philippines, and Thailand. In Kazakhstan and Mongolia, the apex institution or wholesale fund provides credit guarantees for SMEs. Three low-income countries (Bangladesh, Cambodia, and Myanmar) and one lower middle-income country (the Lao PDR) in the ASM region have no public credit guarantee schemes available for SMEs.

Mandatory schemes for lending to SMEs have been set up in 5 ASM countries. These include 3 lower middle-income countries (Indonesia, the Philippines, and Sri Lanka); 1 upper middle-income country (Fiji);

Figure 2.9: SME Nonperforming Loans



— SME NPLs to SME loans, - - - SME NPLs to total loans.

BAN = Bangladesh, INO = Indonesia, KOR = Republic of Korea, NPL = nonperforming loan, PNG = Papua New Guinea, SME = small and medium-sized enterprise, THA = Thailand.

\* June/2014 (KOR), September/2014 (PNG [Q3]), December/2014 (BAN, INO, and THA).

Notes: NPLs based on the national loan asset classification. For BAN, the ratio of borrowers with SME NPLs to total SME borrowers. For KOR, the ratio of SME classified loans to total SME loans.

Source: Compilation from country review papers in the Asia SME Finance Monitor 2014.

and 1 high-income country (the Republic of Korea). In Indonesia, the central bank issued a regulation on mandatory lending to MSMEs in 2012, requiring banks to allocate 20% of their loan portfolios to MSMEs by 2018. In the Philippines, the Magna Carta for MSMEs (a core SME law) mandates banks to allocate 10% of their loan portfolios to MSMEs (8% for micro and small enterprises, and 2% for medium-sized enterprises). A different approach has been taken in Sri Lanka, where the central bank has set a maximum credit exposure level of banks to SMEs. In Fiji, the central bank requires the mandatory creation of microfinance units in banks to effectively deliver credit to the country's underserved segments. In the Republic of Korea, the central bank has set a mandatory minimum SME loan ratio system, where banks are required to deliver a designated ratio of loans from the local currency denominated fund to SMEs (e.g., more than 45% in commercial banks, 60% in provincial banks, and 35% in foreign bank branches). Although they have not been mandated, the central bank sets annual credit volume targets for lending to SMEs in Bangladesh and

India. In Bangladesh, the target loan amount to SMEs by banks and nonbank financial institutions is decided every year, and monitored by the central bank. In India, the government has encouraged banks to achieve a 20% annual growth in MSE credit.

Various government interventions to enhance SME access to bank credit have been promoted in the ASM region. Refinancing schemes for banks, as an initiative of the central bank or in cooperation with bilateral/multilateral donors, have been established in 11 ASM countries. These include 1 low-income country (Bangladesh); 5 lower middle-income countries (India, the Kyrgyz Republic, Mongolia, Solomon Islands, and Sri Lanka); 4 upper middle-income countries (the People's Republic of China, Fiji, Kazakhstan, and Malaysia); and 1 high-income country (the Republic of Korea). Interest rate subsidies to banks have been provided in 13 countries. These include 2 low-income countries (Bangladesh and Tajikistan); 7 lower middle-income countries (India, Indonesia, the Kyrgyz Republic, Papua New Guinea, the Philippines, Sri Lanka, and Viet Nam); and 4 upper middle-income countries (the People's Republic of China, Fiji, Kazakhstan, and Malaysia). However, these government interventions are not proven in terms of sustainability and credit market suppression.

There are some concerns about the impact of Basel III on SME lending. There may be a negative effect on banks' lending attitudes toward SMEs in countries that decided to introduce Basel III, including the People's Republic of China, India, Indonesia, and the Republic of Korea. Basel III has adopted new rules to strengthen the risk management of banks—liquidity frameworks and leverage ratio frameworks—besides strengthened capital requirements. These new measures may constrain banks from providing long-term credit for enterprises, and may limit financing options for SMEs, including trade finance availability.

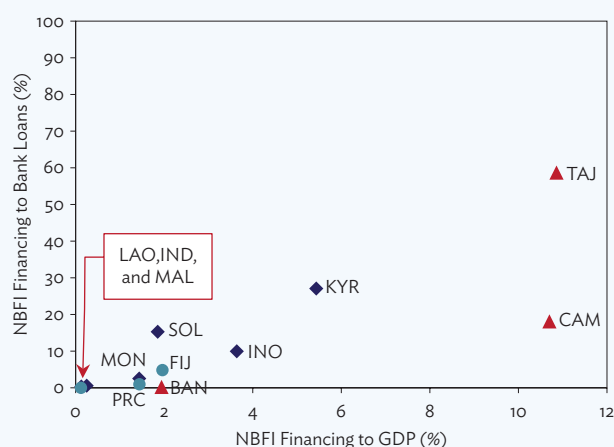
## Nonbank Sector

Various types of nonbank financial institutions (NBFIs) are servicing SMEs in the ASM region, although they are small in scale and not specifically targeting SMEs in their business models. These NBFIs include microfinance institutions (MFIs), finance companies, factoring firms,

leasing firms, pawnshops, credit cooperatives, credit unions, and venture capital firms.

NBFI financing accounted for an average of 3.1% of GDP, and represented one tenth of bank loan assets in the ASM region (11.5% of bank loans) (Figure 2.10). In low-income and lower middle-income countries, MFIs play a critical role in financing MSMEs, which are mostly self-employed or family-run businesses. Two low-income countries indicated a sharp increase in MFI loans, with Tajikistan reporting these loans at 10.9% of GDP in December 2013 and Cambodia standing at 10.7% of GDP in September 2014 (Figure 2.11). In Tajikistan, because commercial banks maintain strict collateral requirements for loans, demand for MFI loans has been increasing, especially in the agriculture sector and from rural MSMEs. In Cambodia, commercial banks mainly target large enterprises, so MFIs are the main source of funding for households and MSMEs.

**Figure 2.10: Nonbank Financial Institution Financing, 2014**



BAN = Bangladesh, CAM = Cambodia, PRC = People's Republic of China, FIJ = Fiji, GDP = gross domestic product, IND = India, INO = Indonesia, KYR = Kyrgyz Republic, LAO = Lao PDR, MAL = Malaysia, MON = Mongolia, NBFI = nonbank financial institution, SOL = Solomon Islands, TAJ = Tajikistan.

Notes: ■ refers to high-income country, ● refers to upper middle-income country, ◆ refers to lower middle-income country, and ▲ refers to low-income country. Country classification refers to the World Bank classification for FY2015. Data points in time: April/2014 (LAO), June/2014 (BAN and FIJ [Q2]), September/2014 (CAM and SOL), November 2014 (KYR), December/2014 (INO and MON). Data in 2013 (PRC, IND, MAL, and TAJ). Microfinance institution (MFI) loans disbursed (KYR, IND, and TAJ), MFI loans outstanding (BAN [NGO-MFIs], CAM, PRC, and LAO), NBFI financing (FIJ, INO, MAL, MON, and SOL).

Source: Compilation from country review papers in the Asia SME Finance Monitor 2014.



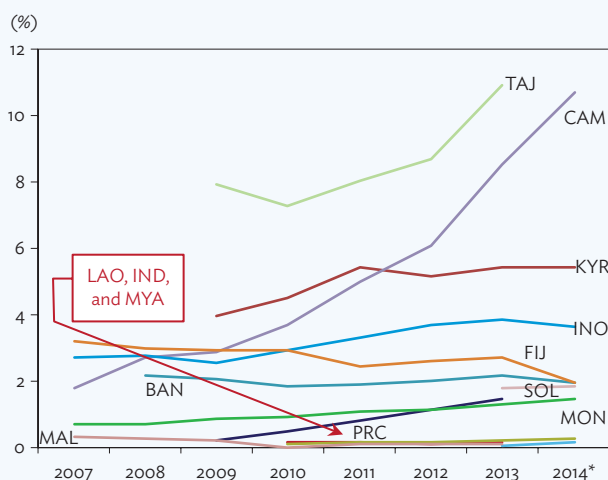
Two lower middle-income countries (the Kyrgyz Republic and Indonesia) have also shown moderate activity in nonbank financing. In the Kyrgyz Republic, microfinance is a major component of NBFIs, which mainly service sole traders and micro enterprises in rural areas, and MFI loans stood at 5.4% of GDP in November 2014. In Indonesia, MFIs have long been supporting the traditionally underserved, including low-income households and MSMEs in rural areas. In 2013, the MFI Law was enacted after more than a decade of discussion. Effective from January 2015, the Financial Services Authority (OJK) has started to regulate and supervise MFIs in Indonesia. Besides MFIs, finance companies that deal with leasing and factoring play an important role in filling the supply-demand gap in MSME financing in Indonesia, whose financing stood at 3.6% of GDP at the end of 2014.

Compared to the banking sector, the NBFi industry in most ASM countries is quite small in scale. NBFi

financing provision represented less than 10% of total loan provision in the banking sector of most countries. The exceptions were Tajikistan (58.5% in 2013), the Kyrgyz Republic (27% in November 2014), Cambodia (18% in September 2014), and Solomon Islands (15.2% in September 2014) (Figure 2.12). Tajikistan sharply increased its share of NBFi financing to total bank loans, up from 29.8% in 2009. Meanwhile, this share in the Kyrgyz Republic has eased back from a peak of 46.4% in 2011. The country's banking sector was negatively hit by the 2008/09 global financial crisis and the 2010 sociopolitical crisis, and these events sharply increased demand for MFI loans. As the banking sector in the Kyrgyz Republic gradually improves, the MFI industry has scaled back since 2011.

Nonperforming financing stood at an average of 2.7% of total financing in the NBFi industry across the ASM countries, although its extent differs by country (Figure 2.13). In Mongolia, the nonbank finance sector

Figure 2.11: Nonbank Financial Institution Financing to Gross Domestic Product



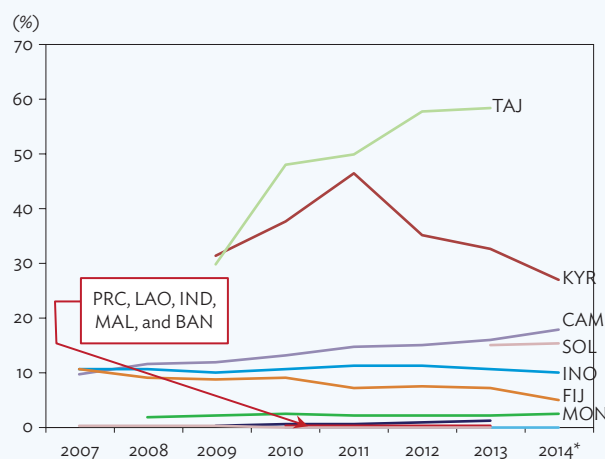
BAN = Bangladesh, CAM = Cambodia, PRC = People's Republic of China, FIJ = Fiji, GDP = gross domestic product, IND = India, INO = Indonesia, KYR = Kyrgyz Republic, LAO = Lao PDR, MAL = Malaysia, MON = Mongolia, MYA = Myanmar, NBFi = nonbank financial institution, SOL = Solomon Islands, TAJ = Tajikistan.

\* March/2014 (MYA), April/2014 (LAO), June/2014 (BAN and FIJ [Q2]), September/2014 (CAM and SOL), November 2014 (KYR), December/2014 (INO and MON).

Notes: Microfinance institution (MFI) loans disbursed (KYR, IND, and TAJ), MFI loans outstanding (BAN [NGO-MFIs], CAM, PRC, LAO, and MYA), NBFi financing (FIJ, INO, MAL, MON, and SOL).

Source: Compilation from country review papers in the Asia SME Finance Monitor 2014.

Figure 2.12: Nonbank Financial Institution Financing to Bank Loans



BAN = Bangladesh, CAM = Cambodia, PRC = People's Republic of China, FIJ = Fiji, IND = India, INO = Indonesia, KYR = Kyrgyz Republic, LAO = Lao PDR, MAL = Malaysia, MON = Mongolia, NBFi = nonbank financial institution, SOL = Solomon Islands, TAJ = Tajikistan.

\* June/2014 (BAN and FIJ [Q2]), September/2014 (CAM and SOL), November 2014 (KYR), December/2014 (INO and MON).

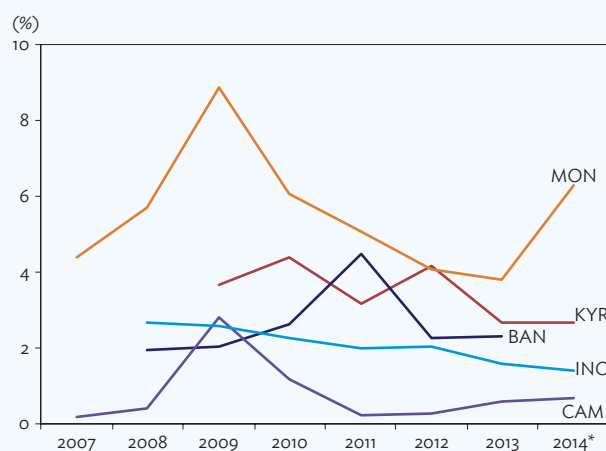
Notes: Microfinance institution (MFI) loans disbursed (KYR, IND, and TAJ), MFI loans outstanding (BAN [NGO-MFIs], CAM, PRC, LAO, and MYA), NBFi financing (FIJ, INO, MAL, MON, and SOL).

Source: Compilation from country review papers in the Asia SME Finance Monitor 2014.

is a growing industry and provides vital financing options for MSMEs. However, the NBFi industry was damaged by the 2008/09 global financial crisis with a peak of nonperforming financing ratio of 8.9% in 2009. Since then, the ratio has been improving, but it spiked upward again in 2014. Mongolia's NBFIs are able to operate within 10 activities under the Law on Nonbank Financial Activities. These include lending, factoring, trust, and advisory services. However, the leasing industry is separately regulated by the Law on Financial Leasing, which means that leasing is not regarded as a nonbank financial activity in Mongolia.

Although the Figures in this section do not cover all types of NBFIs active in the ASM region, there are three general statements that can be made about the NBFi industry across the ASM countries: (i) NBFIs are typically small in scale and do not specifically target MSMEs; (ii) the performance of the NBFi industry is volatile and heavily influenced by the external economic environment and bank performance; and (iii) there is a lack of comprehensive regulatory and policy frameworks for NBFIs at the national level.

**Figure 2.13: Nonbank Financial Institution Nonperforming Financing**



BAN = Bangladesh, CAM = Cambodia, INO = Indonesia, KYR = Kyrgyz Republic, MON = Mongolia, NBFi = nonbank financial institution.

\*end of year data except for KYR (November 2014).

Notes: Ratio of nonperforming financing to total financing by NBFIs including MFIs, based on the national loan asset classification.

Unrecovery ratio of loans (BAN). Based on doubtful plus bad debts (INO).

Source: Compilation from country review papers in the Asia SME Finance Monitor 2014.

## Capital Markets

Asia has been continuously growing, and this growth has alleviated poverty and increased the number of middle-income countries in the region. However, the recent regional and global economic slowdown requires a new growth model for Asia, with strengthened dynamics for SMEs to boost national productivity. Economic expansion in Asia has created a base of growth-oriented SMEs with a need for access to long-term growth capital, in which the development of capital markets for SMEs has become a new challenge in SME finance.

Seven countries in the ASM region have developed specialized capital markets that SMEs can tap for growth capital financing. These include 1 high-income country (the Republic of Korea); 3 upper middle-income countries (the People's Republic of China, Malaysia, and Thailand); and 3 lower middle-income countries (India, the Philippines, and Viet Nam) (Table 2.2).

As the Korean Securities Dealers Automated Quotations (KOSDAQ) has become a substantial equity financing platform for larger firms in the Republic of Korea, the Korea New Exchange (KONEX) has been established as an equity financing source for start-ups and SMEs. Launched in 2013 by the Korea Exchange, the KONEX has extended its listed companies from 21 at the opening of the market to 71 as of December 2014. In addition, there is an over-the-counter (OTC) market called FreeBoard that SMEs can tap. FreeBoard was launched by the Korea Financial Investment Association (KOFIA). In 2014, the KOFIA launched a new OTC market called the Korea Over-The-Counter (K-OTC) as an unlisted stock trading venue. For SME bond trading, the qualified institutional buyers (QIB) system has been operated by KOFIA since 2012. The system was restructured in December 2013 to provide new opportunities for SMEs to issue corporate bonds. This opened the way for new conditions. The Small and Medium Business Corporation (SMBC) and venture capital firms were approved as investors in the QIB system, while asset-backed securities can be traded through the QIB system.

In the People's Republic of China, multilayered capital markets for SMEs and start-ups have been developed. Under the Shenzhen Stock Exchange, two boards are

Table 2.2: SME Equity Markets in Selected Asian Countries

Name of Markets	Market Type			No. of Listed/Registered Companies	Market Capitalization		Year of data	Exchange rate (end 2014)	
	Exchange	OTC	Established		LCY (million)	US\$ (million)			
SME Board	SZSE		2004	732	CNY	5,105,800	834,417	2014	6.12
ChiNext	SZSE		2009	406	CNY	2,185,100	357,101	2014	6.12
KOSDAQ	KRX		1987	1,061	W	143,088,000	130,163	2014	1,099.30
KONEX	KRX		2013	71	W	1,425,000	1,296	2014	1,099.30
FreeBoard		KOFIA	2000	117	W	12,711,000	11,563	2014	1,099.30
SME Platform	BSE		2012	82	Rs	90,699	1,432	2014	63.33
EMERGE	NSE		2012	6	Rs	4,292	68	2014	63.33
ACE	Bursa Malaysia		2009	107	RM	9,665	2,765	2014	3.50
SME Board	PSE		2001	4	P	34,470	773	2014	44.62
mai	SET		1998	109	B	392,495	11,907	2014	32.96
UPCoM	HNX		2009	169	D	37,169,559	1,749	2014	21,246.00

BSE = Bombay Stock Exchange, HNX = Hanoi Stock Exchange, KOFIA = Korea Financial Investment Association, KONEX = Korea New Exchange, KOSDAQ = Korean Securities Dealers Automated Quotations, KRX = Korea Exchange, LCY = local currency, mai = Market for Alternative Investment, NSE = National Stock Exchange, OTC = over the counter, PSE = Philippine Stock Exchange, SET = Stock Exchange of Thailand, SME = small and medium-sized enterprise, SZSE = Shenzhen Stock Exchange.

Source: Compilation from country review papers in the Asia SME Finance Monitor 2014.

operating for SME equity finance; the SME Board and the ChiNext (a venture board for high-growth startups). No new stocks were issued in either market during 2013, due to a restructuring of the country's stock market. However, both markets have been performing well since the markets were reopened in 2014, with a rise in the number of listed companies, stock price indexes, and market capitalizations. As a new equity venue for SMEs, the National Equities Exchange and Quotations (NEEQ) was launched in 2013 as an OTC market regulated by the China Securities Regulatory Commission. Meanwhile, SME bond markets (SME joint bonds and SME collective notes) have undergone low performance, except the private placement bonds. SME joint bonds are traded in the interbank and exchange markets, while SME collective notes are traded in the interbank market alone.

In Malaysia, the ACE market under Bursa Malaysia remains as an attractive equity financing venue for SMEs. As of December 2013, two ACE-listed companies had moved to the main board. To develop new forms of equity financing, the Securities Commission Malaysia is designing the regulatory framework for equity crowdfunding (ECF).

In Thailand, the Market for Alternative Investment (mai) has been rapidly growing. As of 2 December 2014, 18 companies have successfully moved from the mai to the main board since its establishment. The Securities and Exchange Commission and the Thai Credit Guarantee Corporation are jointly exploring the potential of guaranteed SME bond products in Thailand.

In India, two dedicated SME exchanges have been operating since 2012; the SME Platform under the Bombay Stock Exchange, and Emerge under the National Stock Exchange. The number of listed companies on the Bombay Stock Exchange's SME platform nearly doubled from 43 in 2013 to 82 in 2014. The Securities Exchange Board of India (SEBI) has allowed SMEs to raise funds in private placement or rights issue through the newly created Institutional Trading Platform (ITP), which became part of the SME exchange in October 2013.

In the Philippines, the SME Board operates under the Philippine Stock Exchange, but only four companies were listed on the SME Board as of the end of 2014. To develop the SME equity market in the country, a proposal to create a dedicated SME Exchange (SMEX)



was submitted to Congress in September 2014. The SMEX is designed for growing SMEs that do not yet meet the listing requirements for the Philippine Stock Exchange.

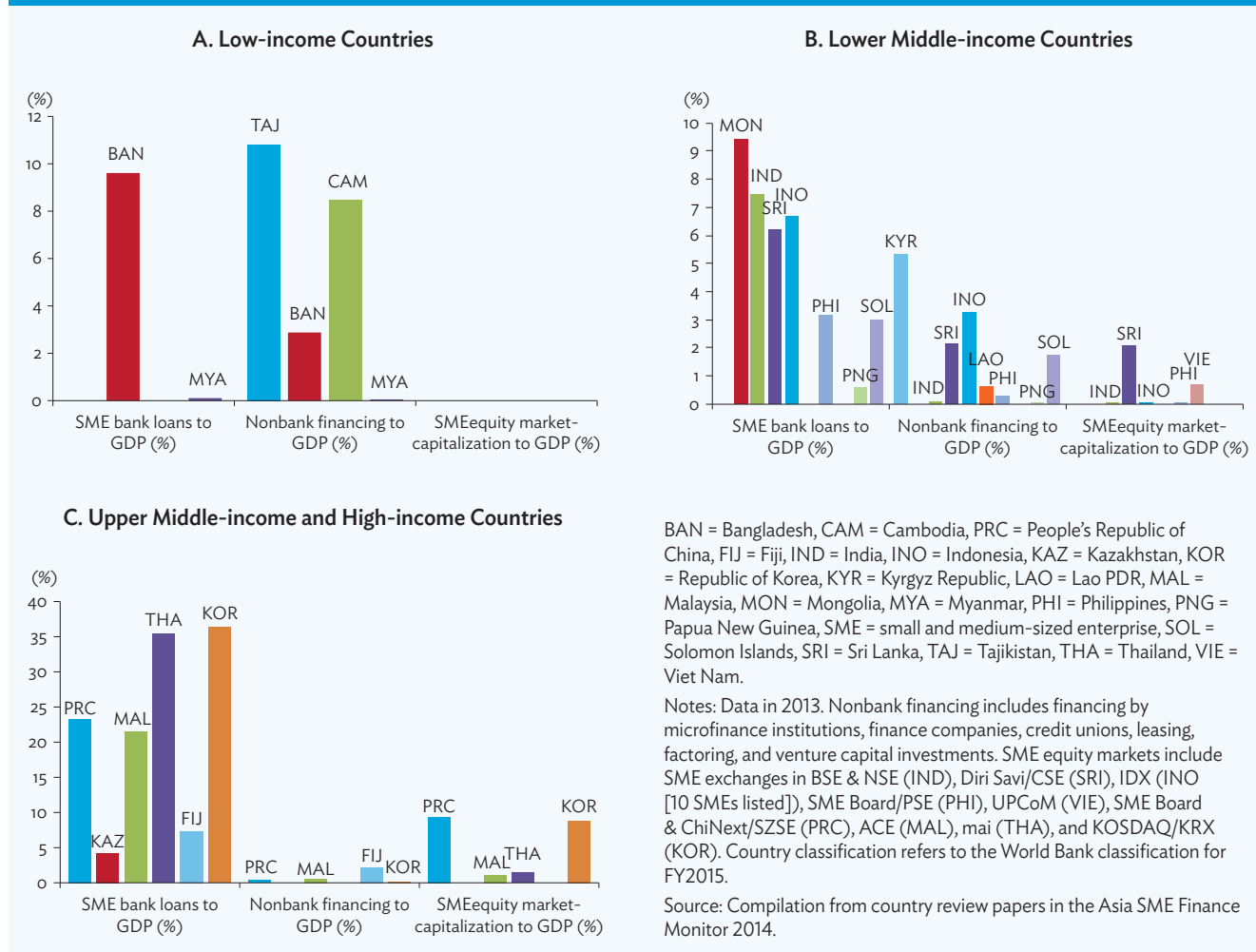
In Viet Nam, the UPCoM market, a trading venue for unlisted public companies, has been operating under the Hanoi Stock Exchange since 2009. Although this is not a dedicated SME market, it enables SMEs to raise growth capital, with no listing fees. The UpCoM had 169 registered companies as of December 2014.

Although still in the early stages of development, there are some positive performance indicators for SME equity markets across the ASM region. The reform efforts of the seven ASM countries to develop specialized SME capital markets should be acknowledged.

## Policy and Regulation

Figure 2.14 shows the depth of financing options available to SMEs, and looks at these options according to the income level of each country. In the early stage of economic development, where countries are classified as low-income (Figure 2.14.A), microfinance and funding from finance companies are more prevalent than bank credit for MSMEs. In this stage, most SMEs rely on their own capital and informal lending bodies for their business operations. As national income level increases, where countries are classified as lower middle-income (Figure 2.14.B), various types of financing options for SMEs, including equity finance, become more available. Bank lending availability is further enhanced in the latter stages of economic development, where countries are classified as upper middle-income or

Figure 2.14: SME Access to Finance in the Asia SME Finance Monitor Countries



high-income (Figure 2.14.C). Interestingly, across all stages of economic development, leasing and factoring industries have yet to be well developed in Asia. Because leasing and factoring are typically part of the operations of banks or their subsidiaries, there appears to be little or no competitive environment for these industries. Although the reasons behind this need to be carefully assessed, it is certain that a broader range of financing options for SMEs can help to increase economic development at the national level.

Table 2.3 shows the national SME finance policies in ASM countries, segmented by their economic maturity (level of income). In low-income countries, SME finance policies are in a narrow range and focus on microfinance development and government-based concessional lending schemes. As a country's economy advances to lower-middle income, various policies related to SME bankability are developed. These policies include public credit guarantee schemes and secured lending legal reforms. In the latter stages of economic development, where national income is classified as upper middle or high, policies for SME capital market development and venture capital development serving SMEs are more evident. However, policies across Asia still focus mainly on enhancing bankability. Policies for nonbank financing avenues, such as leasing and factoring, and capital market financing for SMEs have yet to be widely developed in the region, especially in the lower middle income countries. Taking into account the impact of Basel III, more work is required by policymakers on nonbank financing options. This will encourage the balanced development of the financial system at the national level, to more effectively finance the traditionally underserved, including SMEs.

The findings of the ASM 2014 delivered some policy implications for government authorities responsible for SME access to finance. These authorities, with a flexible and innovative mindset, need to find ways to provide timely financing opportunities for SMEs according to their needs. Recent financial crises have highlighted the need for SMEs to be able to access finance beyond conventional bank credit. Following unexpected events like a global financial crisis, the banking sector responds by taking action to mitigate risk. This, in turn, causes a credit crunch and seriously affects SME access to finance. The Basel Capital Accords (Basel II and III) may also have a tendency to accelerate this trend,

further restricting finance for SMEs. To supplement the limitations of bank lending for SMEs, the diversification of financing avenues, to provide more flexibility and innovation, is crucial. Given that the number of growth-oriented SMEs continues to rise, the issue of how to provide long-term growth capital has become a new challenge in SME financing. Capital market financing—such as equity finance, corporate bonds, and mezzanine finance—is one such diversified model that can be developed in Asia.

There are further reasons to diversify SME financing models beyond traditional bank lending. Firstly, the new business environment across Asia needs to be addressed. Liberalized trade and investment brought by economic integration and expansion, through agreements such as the ASEAN Economic Community (AEC) and Eurasian Economic Union, will promote the structural change of SME business models from being domestically focused to becoming globally competitive. This will require new financing solutions for these globalized SMEs, with increased demand on supply chain finance, trade finance, and long-term financing for SMEs to survive and grow. A second issue to be addressed is the balance sheet matter of SMEs. SMEs' dependence on their own capital or quasi-capital raising from repeated short-term bank credits will limit SME business sustainability and growth opportunities. Diversified financing options, including long-term financing instruments, need to be developed for SMEs.

To support the development of diversified financing models available to SMEs, policymakers need to use more flexible and holistic approaches to SME financing. There are two key aspects to the development of SME finance policies. First is support for SME bankability. Given the dominance of bank-centered financial systems in Asia, the issue of how to enhance bankability for SMEs is a core policy subject in the context of financial inclusion. The policy framework to improve SMEs' bankability should address the establishment of SME credit data infrastructure, given the information asymmetry between lenders and borrowers. Improved SME bankability can also be achieved by promoting movable asset financing through secured transaction reforms, to create collateral registries that reduce the excessive reliance on real estate security as collateral. The second key aspect of SME finance policy is support for nonbank and market-based financing to SMEs. Policymakers should encourage financial institutions

Table 2.3: National SME Finance Policies in Countries Participating in the Asia SME Finance Monitor

	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	NBF 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 countries															
TAJ	✓	✓		✓			✓								
BAN	✓			✓			✓		✓	✓					
CAM						✓			✓	✓ (pawn business)					
MYA							✓								
KYR	✓	✓		✓					✓						
MON	✓	✓		✓	✓	✓	✓								
IND	✓	✓		✓	✓*	✓	✓			✓ (TReDS)**	✓		✓		
SRI	✓	✓	✓	✓		✓	✓								
INO	✓	✓	✓	✓	✓	✓	✓			✓					
LAO									✓						
PHI			✓	✓	✓	✓	✓				✓				
VIE			✓	✓	✓	✓	✓								
PNG		✓		✓		✓	✓		✓						
SOL	✓	✓		✓		✓	✓		✓	✓ (credit unions)					
PRC	✓	✓		✓	✓	✓	✓				✓	✓	✓	✓	✓
KAZ	✓	✓		✓			✓								
MAL	✓	✓		✓	✓*	✓	✓				✓		✓		
THA	✓	✓		✓	✓*	✓ (draft)	✓				✓	✓	✓		
FIJ	✓	✓	✓***	✓			✓		✓						✓
KOR	✓	✓	✓	✓			✓				✓	✓	✓		
High-income countries															

BAN = Bangladesh, CAM = Cambodia, PRC = People's Republic of China, FIJ = Fiji, IND = India, INO = Indonesia, KAZ = Kazakhstan, KOR = Republic of Korea, KYR = Kyrgyz Republic, LAO = Lao PDR, MAL = Malaysia, MFI = microfinance institution, MON = Mongolia, MYA = Myanmar, NBF = nonbank finance institution, PHI = Philippines, PNG = Papua New Guinea, SME = small and medium-sized enterprise, SOL = Solomon Islands, SRI = Sri Lanka, TAJ = Tajikistan, THA = Thailand, VIE = Viet Nam.

\* 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: Compilation from country review papers in the Asia SME Finance Monitor 2014.

to develop nonbank financing instruments, such as leasing and factoring. Policies also need to support the creation of long-term financing avenues for growth-oriented SMEs, including seed firms and start-ups, with innovative ideas for the development of SME capital markets. There are a number of initiatives that are key to developing SME equity markets. These include the development of the base of professionals supporting the internal control system of SMEs, such as certified public accountants (CPAs); the development of the venture capital industry as initial risk capital providers for SMEs; and tax incentive schemes for priority SME sectors (e.g., corporate tax privileges for agribusinesses,

IT, healthcare, and education sectors). Policymakers should also move beyond simply regulating the financial system, and begin facilitating new financing models with impact and feasibility assessments. Crowdfunding is one such instrument.

To sum up, a holistic and balanced approach is required to design the extensive regulatory and policy measures needed to improve financial accessibility for SMEs and to safeguard their financial stability. Table 2.4 summarizes the SME policies and financial regulations for the promotion of the SME sector and the access of SMEs to finance in ASM countries.

Table 2.4: SME Policies and Financial Regulations

Region	Country		Regulators and Policymakers	Regulations	Policies
Central Asia	Kazakhstan	SME Promotion	DAMU (National Fund)	Private Entrepreneurship Law, N 124-III (2006)	(1) Stabilisation Program 1st Tranche (2007)
			Ministry of Investment and Development	Law on Entrepreneurship (amendment; 2014)	(2) Stabilisation Program 2nd Tranche (2008)
			Ministry of National Economy	...	(3) Stabilisation Program 3rd Tranche (2008)
		Banking Sector	Fiscal Policy Office, Ministry of Finance [state-owned banks]	...	(4) Damu-Regions Programs I-III (2010-2012)
			National Bank of Kazakhstan	Law on Banks and Banking Activities (1995)	(5) Damu-Komek Program (2011)
	Nonbank Sector	...	Law on Microfinance Organizations No.56-V (2012)	(6) Business Road Map 2020 (2012)	
	Capital Markets	...	Securities Market Law (2003)	(7) Program of supporting SME manufacturers (2014)	
	Kyrgyz Republic	SME Promotion	Ministry of Economy	Government Resolution No.78 (1998), amended as Government Resolution No.590 (2002)	(1) National Sustainable Development Strategy 2013-2017 (2013)
			Ministry of Finance	...	(2) Subsidies for the Agricultural Sector Loans (2012)
		Banking Sector	National Bank of the Kyrgyz Republic	Law on Banks and Banking in the Kyrgyz Republic (1997)	(3) Municipal Guarantee Funds (2011)
		Nonbank Sector	...	Law on Credit Unions (1999)	(4) Main Directions of the Banking Sector Development until 2017 (2013)
		Capital Markets	State Service of Regulation and Supervision for Financial Market	Law on State Service for Regulation and Supervision of the Financial Market (2009)	(5) Microfinance Development Strategy 2011-2015 (2011)
Tajikistan	SME Promotion	State Committee on Investment and State Property Management of Tajikistan	Law No.1107 on the Government Protection and Support of Entrepreneurship (2014)	(1) Program for supporting entrepreneurship up to 2020 (2012)	
		...	...	(2) Entrepreneurship Support Fund of Tajikistan (2013)	
	Banking Sector	National Bank of Tajikistan	Law on Banking Activities (2009)	...	
	Nonbank Sector	...	Law on Microfinance Organizations (2012)	...	
Capital Markets	...	...	...		
East Asia	China, People's Republic of	SME Promotion	State Council	Law on Promotion of SMEs (2003)	(1) Growth Plan for SMEs in the 12th Five-Year Program (2011-2015)
			National Development and Reform Commission	...	(2) Opinions on Further Supporting Healthy Development of MSEs (2012)
			Ministry of Industry and Information Technology	Regulations on SMEs Classification Criteria (2011)	(3) Implementation Plan on Supporting the Development of MSEs (2013)
		Banking Sector	China Banking Regulatory Commission	Banking Supervision Law (2003)	(4) Scheme on Division of Work for Key Authorities to Further Support Healthy Development of MSEs (2012)
		Nonbank Sector	...	...	...
Capital Markets	China Securities and Regulatory Commission	Law on Securities (2005)	Securities Investment Fund Law (2012)	...	
...	National Association of Financial Market Institutional Investors (NAFMII)	...	...	...	

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Table 2.4 *continued*

Region	Country		Regulators and Policymakers	Regulations	Policies							
Korea, Republic of	SME Promotion	Small and Medium Business Administration (SMBA)		Promotion of Small and Medium Enterprises and Encouragement of Purchase of Their Products Act (2007)	(1) Annual SMBA Business Plan (2013) (2) National Strategy for Green Growth (2009-2050) (3) Third Science and Technology Basic Plan (2013-2017)							
				Framework Act on Small and Medium Enterprises (2007)								
				Support for Small and Medium Enterprises Establishment Act (2007)								
				Small and Medium Enterprises Promotion Act (2007)								
				Small and Medium Enterprise Cooperatives Act (2007)								
				Act on Facilitation of Purchase of Small and Medium Enterprises-Manufactured Products and Support for Development of Their Markets (2009)								
				Act on the Fostering of Sole-proprietor Creative Business (2011)								
				Banking Sector		Financial Services Commission (FSC)	Banking Act					
				Nonbank Sector		Financial Supervisory Service (FSS)	Specialized Credit Financial Business Act Credit Unions Act Credit Guarantee Fund Act					
				Capital Markets			Financial Investment Services and Capital Markets Act					
Mongolia	SME Promotion	Ministry of Industry Ministry of Labor Ministry of Food and Agriculture		Law on Small and Medium Enterprises (2007)	(1) SME Development Program 2014-2016 (2) SME Development Fund (3) Soum Development Fund (4) Labor Enhancement Fund (5) SME Business Incubation Centers (6) Organic Mongolia (initiative of the Mongolian National Chamber of Commerce and Industry)							
				Banking Sector		Bank of Mongolia	Law on Banking (2010) Law on Credit Information (2011)					
				Nonbank Sector		Financial Regulatory Commission	Law on Non-Bank Financial Activities (2002) Law on Financial Leasing (2006) Law on Savings and Credit Cooperatives (2011) Law on Credit Guarantee Fund (2011)					
				Capital Markets			Law on Investment Fund (2013)					
				South Asia		Bangladesh	SME Promotion	National SME Task Force Ministry of Industries	...	(1) Industrial Policy (2005 and 2010) (2) Policies and Strategies for Development of SMEs (2005) (3) Small and Medium Enterprises Credit Policies and Programs (2010)		
									Banking Sector		Bangladesh Bank	Bank Companies Act No.14/1991
									Nonbank Sector		Micro Credit Regulatory Authority [MFIs]	Micro Credit Regulatory Authority Act No.32/2006
									Capital Markets		Securities and Exchange Commission, Ministry of Finance	Securities and Exchange Ordinance No.XVII/1969

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Table 2.4 *continued*

Region	Country		Regulators and Policymakers	Regulations	Policies
	India	SME Promotion	Prime Minister's Task Force on MSMEs	Micro Small and Medium Enterprise Development (MSMED) Act 2006	(1) Policy for Reservation of Products for Exclusive Manufacture in Small Scale Industries (1967) (2) National Manufacturing Competitiveness Programme (2005) (3) Policies initiated by the Prime Minister's Task Force on MSMEs (2007-2008) (4) Rajiv Gandhi Udyami Mitra Yojna (RGUMY; 2008) (5) Public Procurement Policy for Goods and Services Produced and Rendered by MSEs (2012)
			Ministry of Micro, Small and Medium Enterprises		
		Banking Sector	Reserve Bank of India	Banking Regulation Act 1949	
		Nonbank Sector		Reserve Bank of India Act 1934	
		Capital Markets	Securities Exchange Board of India	Securities Laws (amendment) 2013	
	Sri Lanka	SME Promotion	Ministry of Traditional Industries and Small Enterprise Development	...	(1) Mahinda Chintana—Vision for the Future (2010) (2) Mahinda Chintana—Unstoppable Sri Lanka 2020 (3) National Budget Proposals 2014 (tax relief for SMEs)
			Ministry of Industries and Commerce		
			Ministry of Finance and Planning		
		Banking Sector	Central Bank of Sri Lanka	Banking Act Regulation No.9/2011	
		Nonbank Sector			
		Capital Markets	Securities and Exchange Commission	Securities and Exchange Commission Act No.36/1987	
Southeast Asia	Cambodia	SME Promotion	Ministry of Industry and Handicraft	...	(1) SME Development Framework (2005) (2) SME Development Strategic Framework 2010-2015 (3) Financial Sector Development Strategy 2006-2015 (4) Industrial Development Policy 2014-2024 (5) National Strategic Development Plan 2014-2018
			Banking Sector	National Bank of Cambodia [banks and MFIs]	
		Nonbank Sector	Ministry of Economy and Finance [pawnshop, insurance, and real estate]		
		Capital Markets	Securities and Exchange Commission of Cambodia	Law on Securities	
	Indonesia	SME Promotion	National Team for the Acceleration of Poverty Reduction, Office of the Vice President (TNP2K) [financial inclusion]	Law No.20/2008 on Micro, Small and Medium-sized Enterprises	(1) MSME Development Action Plan 2005-2009 (2005) (2) Instruction of the President of the Republic of Indonesia No.6/2007 and No.5/2008 (New Economic Policy Package I & II) (3) Joint Decree on MFI Promotion Strategy (2009) (4) Capital Market and Non Bank Financial Industry Master Plan 2010-2014 (2010) (5) National Strategy for Financial Inclusion (2012)
			Bank Indonesia [financial inclusion]		
		Banking Sector	Financial Services Authority (OJK)	Law No.7/1992 and Law No.10/1998 (amendment) on Banking	
		Nonbank Sector	Coordinating Ministry of Economic Affairs [KUR]		
		Nonbank Sector	Financial Services Authority (OJK)	Presidential Regulation No.9/2009 on Financing Institutions Presidential Decree No.2/2008 on Guarantee Institutions	

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Table 2.4 *continued*

Region	Country	Regulators and Policymakers	Regulations	Policies
Lao PDR	Capital Markets		Regulation No.222/2008 and No.99/2011 on Guarantee Institutions and Reguarantee Institutions	(1) SME Development Strategy 2006–2010 (2) SME Development Plan 2011–2015 (3) SME Promotion Activities by Law (2011) [Article 13, Law No.011/NA/2011]
			Law No.1/2013 on Microfinance Institutions	
		Ministry of Cooperatives and SMEs	Law No.17/2012 on Cooperatives	
		Financial Services Authority (OJK)	Law No.8/1995 on Capital Market	
	SME Promotion	SME Promotion and Development and National Productivity Committee (SMEPDC)	Decree No.42/PM/2004 on the Promotion and Development of Small and Medium sized Enterprises	
		Ministry of Industry and Commerce (Department of SME Promotion)	Law No.011/NA/2011 on Small and Medium sized Enterprises Promotion	
		Department of Industry and Commerce of provinces, municipalities, and Industry and Commerce Office of districts		
	Banking Sector	Bank of the Lao PDR	Law No.05/NA/1995 on the Bank of the Lao PDR	
	Nonbank Sector		Law No.03/NA/2006 on Commercial Banks	
			Law No.06/NA/2005 on Secured Transactions	
		Decree No.460/G/2012 on Microfinance Institutions		
		Regulation No.03/BOL/2008 for Savings and Credit Unions		
Capital Markets	Securities and Exchange Commission	Law No.21/NA/2012 on Securities		
Malaysia	SME Promotion	National SME Development Council (NSDC)	National SME Development Council Directive 2004	
		SME Corporation Malaysia (SME Corp.)	Small and Medium Enterprises Corporation Malaysia Act 1994	
	Banking Sector	Bank Negara Malaysia	Financial Services Act 2013	
	Nonbank Sector			
Capital Markets	Securities Commission Malaysia	Capital Markets and Services Act 2007		
Myanmar	SME Promotion	Ministry of Industry (SME Development Department)	Private Industrial Enterprise Law No.22/1990	
			Law Amending the Promotion of Cottage Industries Law No.14/2011	
			SME Development Law No.23/2015	
	Banking Sector	Central Bank of Myanmar	Financial Institutions of Myanmar Law No.16/1990	
			Myanmar Agricultural and Rural Development Bank Law No.17/1991	
		Savings Banks Law No.5/1992		
		Central Bank of Myanmar Law No.16/2013 (amendment)		

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Table 2.4 *continued*

Region	Country	Regulators and Policymakers	Regulations	Policies
			Banks and Financial Institutions Law (draft)	
		Nonbank Sector Ministry of Finance (Financial Regulatory Department)	Cooperative Society Law No.9/1992	
			Microfinance Law No.13/2011	
		Capital Markets ...	Securities Exchange Law No.20/2013	
Philippines	SME Promotion	Department of Trade and Industry	Magna Carta for Micro, Small and Medium Enterprises (R.A. No. 6977 of 1991, as amended by R.A. 8289 of 1997, and further amended by R.A. 9501 of 2008)	(1) Small and Medium Enterprise Development Plan (2004–2010) (2) Micro, Small and Medium Enterprise Development Plan (2011–2016) (3) Philippine Development Plan (2011–2016)
		Micro, Small and Medium Enterprise Development Council (MSMED Council)		
		Bureau of Micro, Small and Medium Enterprise Development (BMSMED)	Barangay Micro Business Enterprises (BMBE) Act, R.A. No. 9178 (2002)	
	Banking Sector Nonbank Sector	Bangko Sentral ng Pilipinas	General Banking Law 2000, Rural Banks Act, Thrift Banks Act, Pawn Shops Regulation Act, etc.	
		Cooperative Development Authority	Cooperatives Code	
	Capital Markets	Securities and Exchange Commission	Securities Regulation Code (RA8799)	
Thailand	SME Promotion	Office of Small and Medium Enterprises Promotion (OSMEP)	SME Promotion Act, B.E.2543 (2000)	(1) The First SMEs Promotion Plan (2002–2006) (2) The Second SMEs Promotion Plan (2007–2011) (3) The Third SMEs Promotion Plan (2012–2016)
		Ministry of Industry	Ministerial Regulation B.E.2545 (2002)	(4) SME Promotion Strategic Plan and Action Plan by Sector (2013)
		National Board of SMEs Promotion	...	(5) Thailand Country Strategy (2012) (6) Five-Year Strategic Plan [central bank] (2012)
	Banking Sector	Fiscal Policy Office, Ministry of Finance [state-owned banks]	...	
		Bank of Thailand	Financial Institution Business Act B.E.2551 (2008) SME Development Bank of Thailand Act B.E.2545 (2002) Small Industry Credit Guarantee Corporation Act B.E.2534 (1991)	
	Nonbank Sector		Credit Information Business Act B.E.2545 (2002) [amendments in 2006 and 2008] Business Security Act (draft)	
	Capital Markets	Securities and Exchange Commission	Securities and Exchange Act B.E.2535 (1992)	
Viet Nam	SME Promotion	SME Development Promotion Council	Decree No.90/2001/ND-CP on Support for Development of SMEs (2001)	(1) 5 Year SME Development Plan 2006–2010 (2005) (2) 5 Year SME Development Plan 2011–2015 (2012)
		Ministry of Planning and Investment (MPI)		

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Table 2.4 *continued*

Region	Country		Regulators and Policymakers	Regulations	Policies			
The Pacific	Fiji	SME Promotion	Agency for Enterprise Development, MPI	Decree No.56/2009/ND-CP (2009)	(1) Banking Supervision Policy Statement No.14 on commercial banks' microfinance divisions and units (2009) (2) Financial Inclusion Strategy (2010-2014) (2009) (3) Roadmap for Democracy and Sustainable Economic Development (2009-2014) (2009)			
			Ministry of Science and Technology	...				
			Ministry of Industry and Trade	...				
		Banking Sector	Ministry of Finance [Credit Guarantee Fund]	...				
			State Bank of Vietnam	Law No.02/1997/QH10 on Credit Institutions				
		Nonbank Sector				Decree No.28/2005/ND-CP and Decree No.165/2007/ND-CP (amendment) on MFIs		
						Law No.18/2003/QD on Cooperatives		
						Decree No.48/2001/ND-CP on People's Credit Fund		
		Capital Markets	State Securities Commission of Vietnam	Law No.70/2006/QH11 on Securities				
		SME Promotion	Ministry of Industry and Trade	National Centre for Small and Micro Enterprises Development		Small and Micro Enterprises Development Act 2002	(1) 12 Point SME Stimulus Package (2012) (2) Industrial Development Policies (various) (3) SME Master Plan and Policy 2014-2030 (2015 anticipated) (4) Small to Medium Enterprise Policy (1998, to be repealed in 2015)	
				Fiji Development Bank				
				Fiji Revenue and Customs Authority				
				Reserve Bank of Fiji				Banking Act 1995
				Capital Markets Decree 2009				
		Banking Sector	National Executive Council (NEC)	Small Business Development Corporation (SBDC)		Small Business Development Corporation Act (1990)		
Investment Promotion Authority (IPA)								
Ministry of Trade, Commerce and Industry	National Development Bank Act (2007)							
Bank of Papua New Guinea	Banks and Financial Institutions Act (2000)							
Savings and Loan Societies Act (1995)								
Nonbank Sector	Securities Commission of PNG, IPA	Personal Property Security Act (2011)	Securities Act (1997)					
SME Promotion	Ministry of Commerce, Industries, Labor and Immigration		...	(1) National Financial Inclusion Goals (2010) (2) National Development Strategy 2011-2020				
Banking Sector	Central Bank of Solomon Islands		Financial Institutions Act (1998)					
				Secured Transaction Act (2008)				
				Credit Union Act (1986)				
Nonbank Sector			Business Names Bill (2014)					
Capital Markets	...	...						

Source: Compilation from country review papers in the Asia SME Finance Monitor 2014.

# Thematic Discussion: Mobile Technology for Financing SMEs in Asia and the Pacific: Challenges and Opportunities

## Introduction

The use of mobile technology for the purpose of facilitating the exchange or movement of money has become a core instrument over the past 10 years. Mobile technology has helped bring financial services to people around the world, in both developed and developing countries. With its ability to overcome the constraints of financial access—such as time, distance, and costs—mobile technology has spawned everything from internet banking on PCs, smartphones, and tablets, to ‘mobile money’ for payments and transfers using the most basic mobile phones.

The Asia and Pacific region is the world’s most prolific user of mobile technology. It dominates the global mobile industry in terms of both unique subscribers (subscribed individuals) and connections (registered SIM cards, of which an individual may have more than one). In 2013, the Asia-Pacific region had 1.7 billion unique subscribers and is projected to have 2.4 billion by 2020. Of total subscribers in the region, 99% of them live in the 21 largest countries (Table 3.1).

While mobile technology has been making access to financial services easier, faster, and cheaper for everyone from high-income individuals to even bottom-of-the-pyramid households, the small and medium-sized enterprise (SME) segment around the world seems to have made minimal use of this new technology for their financial needs. The so-called SME “missing middle” in terms of financial access appears to have mobile financial services missing as well.

This thematic study will examine how mobile technology is being used for financial access in Asia and the Pacific. It will cover how SMEs compare to micro enterprises in their use of mobile financial services; the demand for mobile financial services; how banks and other financial

Table 3.1: Asia-Pacific Region Mobile Outreach, 2013

Economy	Unique Subscribers (million)	Connections (million)
China, People's Rep. of	628.8	1,233.8
India	405.5	886.3
Japan	115.0	153.5
Indonesia	103.7	314.9
Bangladesh	62.9	114.3
Pakistan	56.1	134.8
Viet Nam	51.2	123.7
Philippines	49.0	109.3
Korea, Rep. of	44.3	56.0
Thailand	36.6	92.7
Taipei, China	21.8	31.4
Australia	21.7	30.9
Malaysia	16.2	42.3
Sri Lanka	10.2	24.6
Nepal	10.2	21.6
Cambodia	7.8	21.1
Hong Kong, China	6.5	13.7
Myanmar	6.2	7.6
Singapore	5.0	8.4
New Zealand	3.8	5.4
Lao PDR	3.1	6.4

Source: Groupe Speciale Mobile Association. The Mobile Economy Asia Pacific 2014.

institutions are integrating mobile technology into their product and service offerings; the use of mobile platforms for crowdfunded equity and debt investors; and where challenges and new opportunities exist for increasing the use of mobile financial services to improve SMEs’ access to finance.

## Defining Mobile Technology for Financing

Mobile technology refers to portable electronic devices that people can take with them wherever they go and use to perform a range of functions. Examples of mobile technological devices include:

- (i) laptops and netbook computers,
- (ii) tablets,
- (iii) mobile phones and smartphones,
- (iv) global positioning system (GPS) devices, and
- (v) wireless debit/credit card payment terminals (POS),

Besides being small and portable, mobile devices need to use a form of wireless communications technology to transmit data between users or between the user and the host organization providing the mobile service. Common types of wireless technology are:

- (i) wireless fidelity (Wi-Fi), a type of wireless local area network technology (limited range);
- (ii) Bluetooth, which connects mobile devices wirelessly; and
- (iii) ‘third generation’ (3G), ‘fourth generation’ (4G), global system for mobile communications (GSM) and general packet radio service (GPRS) data services, which are all data networking services for mobile phones.

With the portable device and the wireless technology, it is possible for the mobile device to connect to a network from a home, office, or any outdoor location.

Like other commercial sectors, financial services have been transformed by the adoption of mobile technology. Today, the most common mobile financial services, or ‘mobile money’ services as they are often called, can be divided into three categories (Table 3.2).

*Mobile banking* is a broad category of financial services that typically allow a financial institution’s customers to make inquiries and financial transactions. Inquiries can include accessing and editing information about accounts, such as balances, debits and credits, and personal information. Financial transactions can include paying bills, payroll, transfers between accounts, and domestic and international wire transfers. The sophistication of the online banking service of a bank

**Table 3.2: Mobile Money Categories**

Category	Description
Mobile banking	Online account inquires and transactions
Mobile money transfers	Movement of virtual currencies between users
Mobile payments	Commerce-related mobile money transfers

Source: EBRD Mobile Money Conference presentation, March 2013, Bearing Point.

or nonbank financial institution (NBFi) may vary based on the level of service the institution is comfortable providing to its clients and the extent of the institution’s investment in technology. Mobile banking services may be accessed using laptops, smartphones, and tablets.

*Mobile money transfers* generally refer to moving monetary value—currency or virtual currency such as mobile phone data or call credit—from one mobile device to another or from the device to an entity. These include person-to-person (P2P) transfers and sending remittances.

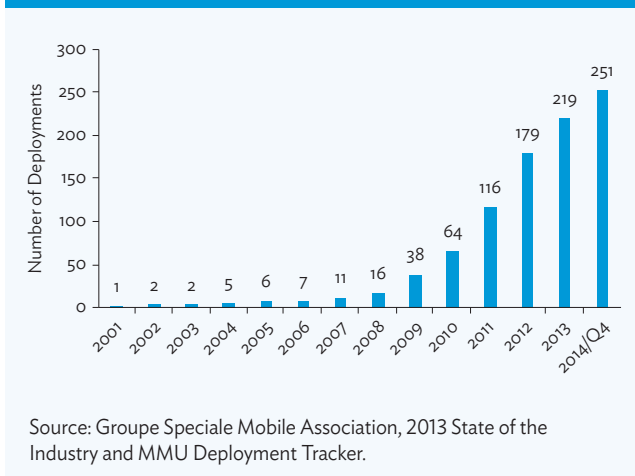
*Mobile payments* generally refer to mobile money transfers that are used to pay for a product or service, such as utility bills and school fees.

According to the Groupe Speciale Mobile Association’s (GSMA) Mobile Money for the Unbanked (MMU) 2013 Global Mobile Money Survey, there were 219 live mobile money services across the developing world by the end of 2013. This compared to only 11 in 2007. By October 2014, the total had risen to 251, with the East Asia, the Pacific and South Asia regions comprising about 30% of the total (Figure 3.1).

While online banking and mobile money services have made banking functions easier for individuals and businesses, these services are seen as only the first stage of mobile financial services. For the next stage, the conversation shifts to the idea of raising and accessing capital entirely using mobile technology, and this has already begun for individuals and businesses alike.

For the purposes of this discussion, we will use the term ‘mobile capital’ to describe the phenomenon of enterprises using mobile technology for accessing debt (loans/credits) or equity investments to grow their businesses.

**Figure 3.1: Number of Mobile Money Deployments in Global Development Areas**



## Development Initiatives for Mobile Technology and Financing

It is an understatement to say that there is significant interest in the use of mobile technology for improving access to finance in developing countries. Major bilateral and multilateral development agencies—such as the United States Agency for International Development (USAID), the United Nations, the World Bank, and the European Union—are facilitating mobile financial services. Meanwhile, private organisations—such as the Bill and Melinda Gates Foundation, the MasterCard Foundation, the GSMA, the Citi Foundation, and the Better than Cash Alliance—are providing grants and other resources toward achieving financial inclusion through mobile financing.

Based on observation, the overwhelming dedication to increasing the use of mobile money and financing in developing countries is focused on mobile transfers and mobile payments, rather than on mobile banking or mobile capital. This is relatively easy to understand. There are countries in the developing world that have a very high adoption rate of mobile money usage by individuals and organizations using the technology to make P2P and Person-to-Merchant (P2M)<sup>1</sup> transfers. Given the high level of unbanked populations—those living in remote locations with limited or no physical

access to bank or microfinance institution (MFI) branches, or access to the Internet—in those same countries, the international development community is implementing programs to expand the use of mobile money through basic mobile phones, to increase the level of financial inclusion worldwide.

For SMEs, international development initiatives focus on access to credit. Initiatives—such as those supported by the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), and the International Finance Corporation (IFC), which manages a *SME Finance Forum*<sup>2</sup>—are generally addressing the two main challenges for access to finance. These challenges are the imbalance of information between the lender and the potential borrower, and bank credit products that are based on collateral (usually real estate). The concept of supply-chain finance, addressed in the *Asia SME Finance Monitor 2013*, explained how products such as factoring and purchase-order financing are structured around corporate buyer risks (basing the credit decision on the corporate entity's strengths), benefitting SMEs that are direct suppliers to those buyers. The documented causes of the SME financing gap do not appear to be in need of a mobile technology solution, at this point.

## Micro enterprises and SMEs

For development agencies, the differences between micro enterprises and SMEs seem to define the nature and focus of the interventions allotted to meeting the challenges of their access to finance.

It is often the case that micro enterprises in developing countries are owned and operated by a single, low-income individual, where the finances of the individual (his or her household) are integrated with the finances of the business. In addition, the financial goal of the individual may only be poverty alleviation for the household. In microcredit, loan officers normally assess the applicant's personal and business finances and assets as part of the underwriting process.

The constraint of physical access to finance faced by unbanked populations can be overcome by the use of mobile money through mobile phones. The ability to

<sup>1</sup> Also referred to as Person to Business (P2B) in GSMA Mobile Money Definitions, July 2010.

<sup>2</sup> <http://smefinanceforum.org/>

quickly send and receive money over long distances, at a low cost and from the comfort of home (which is perhaps where the micro enterprise operates), has brought millions of formerly unbanked people into the formal financial system. Evidence of this has been seen in Kenya with the M-Pesa, and in Bangladesh with the successful bKash service (Table 3.3).

**Table 3.3: BKash Snapshot—December 2013**

Staff:	500+
Agents:	80,000
Monthly number of transactions	
Cash In	13 million
Cash Out	12 million
Wallet to Wallet	5 million
Other transactions	
Average Transaction Size	\$27
Monthly Transaction Volume	\$680 million

Source: CGAP.

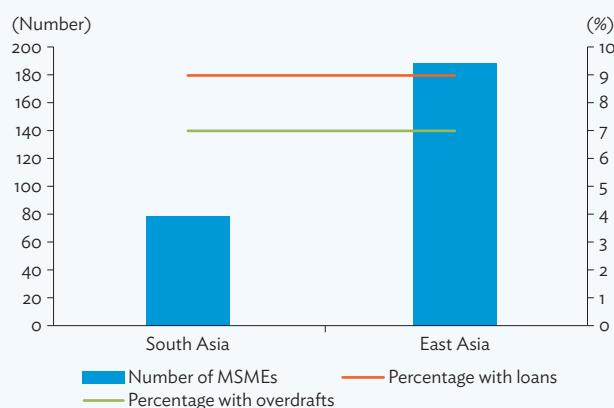
Beyond payments and transfers, micro enterprises can use mobile technology to connect with MFIs for accessing microloans. Here, the specialized microfinance approach of group-based (solidarity) lending—as developed in Bangladesh by Grameen Bank more than 30 years ago—overcomes the common constraints of lack of collateral and lack of financial records by assuming joint-liability and issuing very small loan amounts. Because the loans are small, an MFI avoids investing large sums into any one enterprise or group of enterprises, which could seriously harm the MFI’s balance sheet in the case of default.

In contrast to micro enterprises, SMEs generally have more complex activities such as manufacturing, processing, distribution, and technology requirements. They generally have more employees, more assets, higher revenues, and require larger amounts of financing. In addition, their main financing goal is generally growth, and often rapid growth. Because of the larger risk of lending to SMEs, some of which can have a lack of financial documentation (or two sets of books, the official and the unofficial) lenders can be reluctant to lend.

SMEs, like micro enterprises, face a ‘financing gap’, but for different reasons. Here, the physical access challenge is less critical as SME owners are more likely

to have transportation, internet access through a PC or laptop, clerical and financial support staff, and be in closer proximity to bank branches in urban areas. According to the International Finance Corporation (IFC) Enterprise Finance Gap Database,<sup>3</sup> in 2014, the total credit gap for micro, small, and medium-sized enterprises (MSMEs) was \$706 billion in East Asia and \$206 billion in South Asia. Across the two regions, the percentages of MSMEs that have a loan or an overdraft, compared to all MSMEs in need of finance, are only 9% and 7% respectively (Figure 3.2).

**Figure 3.2: Credit Access of SMEs in Need of Finance in Asia, 2014**



Source: International Finance Corporation Enterprise Finance Gap Database: <http://financegap.smefinanceforum.org/>

These current gaps are significant, and will not be overcome with a group-lending or small-loan approach by lenders. Overall, Asian banks consider lending to SME customers as being at a higher cost and a higher risk than lending to large, often state-owned enterprises.

When development agencies take action to address the problem of the SME financing gap, technical assistance to banks and NBFIs is often combined with preferentially termed lines of credit for on-lending and loan guarantee schemes, such as the USAID Development Credit Authority (DCA).<sup>4</sup> The nature of

<sup>3</sup> The IFC Enterprise Finance Gap Database, using primarily data from World Bank Enterprise Surveys, estimates the number of micro, small, and medium enterprises (MSMEs) in the world, and the degree of access to credit and use of deposit accounts for formal and informal MSMEs. The database covers 177 countries.

<sup>4</sup> <http://www.usaid.gov/what-we-do/economic-growth-and-trade/development-credit-authority-putting-local-wealth-work>



the technical assistance is, for the most part, focused on loan underwriting, risk management, and development of new loan products, such as those for supply chain financing and alternative collateral products. Generally speaking, mobile technology is not often employed as a part of these technical assistance packages.

## How Does Mobile Technology Improve Financing?

Mobile technology can theoretically improve financing for everyone; from individuals to micro enterprises to SMEs to larger businesses in search of equity financing. Mobile technology can bring greater speed, greater convenience, lower costs, and the transmission of data wirelessly to the process of delivering financial services, such as payments, transfers, information access, and financial products such as debt and equity.

Regardless of the service type, there are common steps in the process of financing. For example, with either a simple P2P transfer on a mobile phone or an SME loan for \$50,000, the first step in the process is ‘origination’ i.e., the obtainment of customer information. The next step on a money transfer or loan is the underwriting or credit assessment, where financial and nonfinancial information about the client, and perhaps collateral, is examined. In the money transfer scenario, the client’s account is checked for the availability of funds. Following this, a credit decision is made, often with a vote from a credit committee (an approval is given in

the mobile transfer case). If an approval is granted for the loan or transfer, the funds will then be disbursed to the client or the transfer recipient.

Potentially, at each stage, mobile technology can improve the process of financing as illustrated below (Table 3.4).

In all of the functions in Table 3.4, mobile technology takes the place of the physical exchange of documentation, the exchange of cash, and face-to-face meetings between lender and borrower or sender and receiver.

There is an additional way in which mobile technology, or at least the internet, can be used to improve the accessibility to finance for businesses seeking to grow. Crowdfunding websites can advertise the financial needs of a business to a global audience of potential lenders and investors. These sites can allow the business to negotiate and directly close a deal with its lenders or investors, without ever meeting face-to-face. For SMEs that are too small for listing on a national stock exchange or issuing a bond, crowdfunding can be extremely helpful (more detail is provided later in this discussion).

## Mobile Capital Activities in Asia and the Pacific

We use the term ‘mobile capital’ to describe the phenomenon of enterprises, especially start-up

**Table 3.4: Loan Process—Traditional vs. Mobile Approach**

Loan Process Stage	Traditional Approach	Mobile Technology Approach
Origination	Borrower goes to bank branch to submit loan application and supporting documents.	Client data can be obtained via phone, tablet or laptop, while financial information and loan applications can also be sent through the devices.
Underwriting	Loan officer manually, or with a desktop computer, reviews the loan application and calculates financial ratios.	Loan officer in the field could have an app (smartphone application) that is routed back to the bank’s core banking systems, which can do an automatic underwriting procedure and provide a result to the loan officer in the field. Or, with even more automation, the potential borrower can initiate and complete the entire process without even meeting or speaking to a loan officer.
Credit decision	A credit committee is held weekly with senior managers to approve loan applications. Loan officer may personally present the application.	Committee members can receive automated analysis and approve loan via laptop or mobile device.
Disbursement	Bank deposits the loan amount to the borrower’s account at the bank.	The disbursed or transferred funds can be routed to a digital wallet, or other mobile financial account, outside the bank.



businesses, using mobile technology to access debt (loans/credits) or equity investments for growing their businesses. The remainder of this study will be examining the state of mobile capital only.

It may be tempting from a technological perspective to include all forms of mobile money activity in this examination, but this will not be the case. It can be taken as granted that it is common for banks and NBFIs across Asia and the Pacific to offer businesses a variety of inquiry and transactional services online through ‘Internet banking’. Examples of such services include those offered by Affin Bank in Malaysia,<sup>5</sup> Acleda Bank in Cambodia,<sup>6</sup> and Bank South Pacific (BSP) in Solomon Islands.<sup>7</sup> Likewise, mobile money transfers and payments, such as those offered by Wing in Cambodia,<sup>8</sup> will not be reviewed.

### Debt Financing

The ability of mobile technology to eliminate the need for repeated physical travel to a bank branch to apply for a loan and deliver reams of official documentation—plus the inevitable site visit of the loan officer to inspect the SME’s premises—would be seen as the “holy grail” for most SMEs in Asia and the Pacific. This concept of ‘mobility’ includes the scenario in which the mobile device is sitting on a desk at the time of its use, thus making it more like a desktop personal computer. Without mobile technology, many SMEs may spend 1 month or more in applying for a loan. For example, a 2014 survey in India, conducted by psychometric testing firm, EFL Global, found that a decision on an MSME loan application requires an average of 15–20 hours of dedicated staff time (including 4 hours of travel) and takes 20–40 days to complete.<sup>9</sup>

So, are there examples of lenders in Asia actively using the internet, or other mobile technology, for any part of the loan origination, underwriting, approval, or disbursement processes?

There are numerous examples of online SME lending services in the United States, ranging from partial to

complete processing online, using either voice calls or SMS messaging between the loan applicant and the lender. These online lenders can be divided into two categories; those that lend using their own funds, and those that act as intermediaries connecting potential borrowers with potential lenders.

An example of the first category is *Foundation*,<sup>10</sup> which offers SMEs up to \$500,000 for long-term investments and up to \$150,000 for everyday operating costs, with loan terms ranging from 2 to 4 years. An example of the second category is *Biz2credit.com*,<sup>11</sup> which takes the SME’s information online (through a tablet, phone, or laptop) and links the SME to banks and other lenders to find the best terms for start-up financing, expansion loans, or credit lines. Founded in 2007, Biz2credit.com has reportedly arranged \$1.2 billion in small business funding in the United States.<sup>12</sup>

In Asia, an example of online SME lending is provided by Alibaba in the People’s Republic of China (PRC).

In 2010, Alibaba, the PRC’s largest e-commerce company, moved into direct online lending.<sup>13</sup> As of August 2013, Alibaba had extended a total of \$16 billion (CNY100 billion) in loans to SME customers. Using the website, Alibaba members can apply for loans of up to CNY1 million (\$163,132)<sup>14</sup> with a 1-year term, with an average annual interest rate of 6.7%. Members of Taobao, an online shopping website owned by Alibaba, in the Zhejiang province in eastern PRC are eligible to apply for loans of up to CNY500,000 (\$81,566) with a 6-month term. The average loan size is CNY40,000 (\$6,529), and nonperforming loan rates are low (0.87% in the second quarter of 2013). Alibaba’s Founder, Jack Ma, has been quoted as saying that an outsider was needed to “stir things up”, after restrictions on bank credit spurred property developers and entrepreneurs to seek funds from curbside lenders.

Alibaba has an advantage in conducting online lending because it holds high volumes of data on its customers

<sup>5</sup> [www.affinbank.com.my/affinonline/Perbankan-Internet-Korporat.aspx](http://www.affinbank.com.my/affinonline/Perbankan-Internet-Korporat.aspx)

<sup>6</sup> [www.acladabank.com.kh/kh/eng/ps\\_ebinternetbank.php](http://www.acladabank.com.kh/kh/eng/ps_ebinternetbank.php)

<sup>7</sup> [www.bsp.com.sb/Business/Business-Services/Online-Business-Banking/](http://www.bsp.com.sb/Business/Business-Services/Online-Business-Banking/)

<sup>8</sup> <http://www.wingmoney.com/products-services>

<sup>9</sup> <http://qz.com/229894/to-make-small-loans-indias-banks-take-too-long-require-too-much-paperwork/>

<sup>10</sup> <http://foundation.com/>

<sup>11</sup> <http://www.biz2credit.com/>

<sup>12</sup> <http://www.biz2credit.com/about>

<sup>13</sup> <http://www.bloomberg.com/news/2013-07-14/billionaire-ma-s-alibaba-gets-nod-to-stir-up-loans-china-credit.html>

<sup>14</sup> International Monetary Fund, 06 February 2015 rate, CNY 6.126/US\$. [http://www.imf.org/external/np/fin/data/rms\\_mth.aspx?SelectDate=2015-02-28&reportType=REP](http://www.imf.org/external/np/fin/data/rms_mth.aspx?SelectDate=2015-02-28&reportType=REP)

and the e-commerce and other online purchases they make. This gives Alibaba vital financial and transactional information on which to base credit risk assessments of loan applicants.

### Equity/Venture Capital Financing

An example of online venture capital (equity) financing is the *Intellectap Impact Investment Network (I<sup>3</sup>N)*, which states that it is India's first angel network of high-net-worth individuals and institutional investors seeking

#### Box A: Case Study on Financing Challenges of High-Growth SMEs: Information and Communication Technology (ICT) and ICT-Enabled Firms in Viet Nam<sup>15</sup>

For Vietnamese firms operating in the information and communication technology (ICT) industry and in ICT-enabled (ICTE) activities, the challenge of accessing growth capital is particularly difficult. This is because—unlike more traditional SMEs involved in trade, food processing, or low-tech manufacturing (such as furniture)—these firms possess few tangible assets that can be leveraged as collateral for loans. They also often operate under business models that are poorly understood by banks. In addition, ICT/ICTE start-ups can find themselves excluded by bank lending criteria that call for a minimum of 3 to 4 years of operation.

Though the bulk of the turnover in the ICT/ICTE sector in Viet Nam comes from telecom companies and international IT equipment manufacturers, there is a vast number of micro and small enterprises that conduct activities ranging from simple sales and maintenance to more sophisticated processes in software development and IT services. These firms have urgent financing needs, according to the different stages of their rapid growth, as summarized in Table 3.5.

**Table 3.5: Information and Communication Technology (ICT) and ICT-Enabled Financing Needs in Viet Nam**

Stages	Financing needed	Firm Growth
Early stage	\$30,000 to \$100,000	The initial phase goes from the seed stage to the moment when commercialization begins. The financing needs at this stage are very limited for software developers, IT consultants, and web-designers, because they generally do not require a large investment in physical assets. The amounts sought may increase for business models that require more expensive instruments, such as the 3D animation industry, and embedded software developers.
Development	\$100,000 to \$500,000	Enterprises at this stage have successfully developed their product/services—they need to improve their capacity to tap into new markets. This typically requires hiring new personnel—both technical and commercial staff—improving marketing activities, and building up adequate working capital.
First expansion	\$500,000 to \$2.0 million	The first expansion phase usually entails a diversification in the company's activities. This often involves the introduction of new products or services that build upon the technical expertise acquired and on the connections established with certain clients. In other cases it is limited to an upgraded version of the original product, which incorporates and systematizes the improvements gradually introduced during the first commercialization phase.
Second expansion	More than \$2.0 million	This stage is usually characterized by a significant change in the nature of the business, or in the scope of activities. Sometimes it entails expansion to overseas markets, with the establishment of subsidiaries abroad. In the case of Viet Nam, this is the stage when a big multinational corporation (MNC) acquires the company and injects fresh capital to exploit opportunities on the global market.

<sup>15</sup> Financing Technology Entrepreneurs & SMEs in Developing Countries: Challenges and Opportunities, Vietnam Country Study, infoDev publication prepared by Roberto Zavatta, Economisti Associati SRL in collaboration with Zernike Group and BVMeta Group SRL, June 2008.

investments in fledgling enterprises. The use of mobile technology by the I<sup>3</sup>N—mainly through its website—is designed to bridge gaps of geography, mindset, and knowledge between angel investors and impact entrepreneurs.<sup>16</sup>

The I<sup>3</sup>N arranges investments of about \$1 million for enterprises operating in the focus areas of agribusiness, health, clean energy, education, financial services, and water and sanitation. The network conducts extensive consultations with the investment target during the preparation process, to ‘showcase’ these targets to investor members. The network also facilitates the entire transaction process. Though much of the I<sup>3</sup>N’s work is done face-to-face, it uses mobile technology to reach out to SMEs across the wide expanse of India, and to introduce these SMEs to potential angel investors worldwide.

Another online facilitator of equity investments for start-ups in India is *LetsVenture*. It enables start-ups that are looking to raise seed capital to create investment-ready profiles online and to connect to accredited investors. The amount of financing ranges between \$1 million and \$10 million, and is focused on the internet sector. Once investors make a verbal commitment to the start-up, LetsVenture will lead them through the process of funding closure.<sup>17</sup>

Given the large amounts of investment capital needed from most venture capitalists or other investors, and the large amount of information needed to make investment decisions, an approach that solely uses mobile technology appears unlikely at this stage.

To illustrate this point, Saron Asset Management, an investor of growth capital in companies, particularly of small to mid-market enterprises, in emerging markets around the world,<sup>18</sup> stated that they do not use mobile technology to source, track, or monitor their investments or pipeline opportunities. The reason for this is that they have decided there is no added value in a mobile approach at this time.<sup>19</sup>

<sup>16</sup> <http://www.i3n.co.in/how-we-operate.html>

<sup>17</sup> <https://letsventure.com/>

<sup>18</sup> <http://www.saronfund.com/>

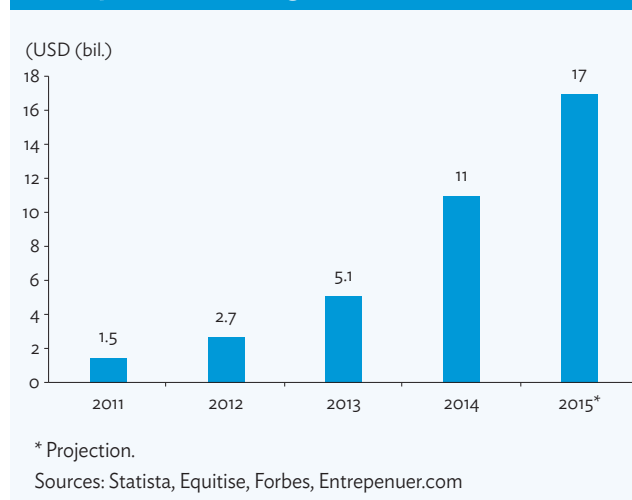
<sup>19</sup> E-mail communication with Serge Levert-Chiasson, Senior Partner, Saron Asset Management, 2 October 2014.

## Crowdfunding

Crowdfunding is an avenue by which commercial enterprises, nonprofit organizations, and individuals conducting particular projects can source funding from the general public, commonly through a website.

Crowdfunding began in the United States in 2003, as an online platform for artists to raise funds. Today, crowdfunding platforms exist across the world, though most of the funding is raised in the United States and Europe. The worldwide value of crowdfunding increased sevenfold, from \$1.5 to \$11 billion, between 2011 and 2014, and has a projection of \$17 billion for 2015 (Figure 3.3).<sup>20</sup>

**Figure 3.3: Estimated Value of Funds Raised by Crowdfunding Platforms Worldwide**



Crowdfunding platforms are spreading quickly, especially in Asia.

Crowdfunding is a versatile mechanism. SMEs can use it to seek loans or equity investments. Individuals can use it for social or artistic projects, with no investment return required by the funders. This is known as the ‘reward’ model of crowdfunding, where only a small gift or publicity is received by investors. However, this discussion will mainly look at crowdfunding that is being

<sup>20</sup> [www.forbes.com/sites/hsbc/2014/08/05/crowdfundings-untapped-potential-in-emerging-markets/](http://www.forbes.com/sites/hsbc/2014/08/05/crowdfundings-untapped-potential-in-emerging-markets/)

used to generate loans or to raise equity investments by businesses seeking growth.

In Asia and the Pacific, crowdfunding is increasingly garnering interest from technology companies, financial investors, and government regulators. As a bellwether of this, in August 2014, a conference was held in Singapore called the *Crowdfunding Asia 2014 Summit*.<sup>21</sup> This conference brought together academia, banks, securities firms, industries, government, entrepreneurs, commercial enterprises, and social enterprises, to share and exchange crowdfunding knowledge. There were approximately 200 attendees, primarily from Southeast Asia, but the conference also attracted crowdfunding industry participants from the PRC; Taipei, China; Japan; and the Republic of Korea.

Jason Best, a cofounder and principal of Crowdfund Capital Advisors, posted a number of the conference's take-out messages on his company's website. These messages were: that several countries in Southeast Asia are moving quickly to finalize their regulation on equity (and in some cases equity and debt) crowdfunding; that there was a significant focus of the conference on women in crowdfunding; and that crowdfunding was a possibility in Cambodia in the near future, with smartphones and tablets on sale in the country for \$100, providing increasing numbers of Cambodians with social media connectivity.<sup>22</sup>

In a blog entitled 'Crowdfunding in Asia: Who's With Me?', John Marshall, a bilingual English and Japanese business development expert, says that he believes crowdfunding's greatest potential lies in its ability to connect start-ups and small businesses with potential investors and business partners across borders. In John Marshall's view, when Asian entrepreneurs decide to seek financing, they mostly still rely on family and friends for seed money, or they raise it via the established platforms in the United States. Furthermore, John feels that many Asian countries are simply too small to support the large number of diverse start-ups needed to justify the existence of funding portals.<sup>23</sup>

There are other obstacles to overcome for crowdfunding in emerging markets. One major obstacle is trust. In the PRC, for example, entrepreneurs who turn to crowdfunding to launch their businesses or products are often met with suspicion of online scamming. The nation's weak intellectual property laws are also inhibiting the growth of crowdfunding. SeedAsia<sup>24</sup> cofounder, Tom Russell, noted that the transparency that has become the hallmark of successful Western crowdfunding often presents challenges for many Chinese entrepreneurs, primarily due to the fear that their work or ideas may be infringed upon by competitors.<sup>25</sup>

While crowdfunding is still a new phenomenon in Asia and the Pacific, there are already active crowdfunding portals in the region. Although some portals may only move small volumes, or be focused on social projects, they are important for this discussion because they could be the foundation on which future equity and debt crowdfunding platforms are built.

### Crowdfunding Examples in Asia and the Pacific

MoolahSense<sup>26</sup> is a Singapore-based, debt crowdfunding platform, where people invest directly in local businesses (P2B) for a fixed return of interest. The portal's stated vision is to cultivate entrepreneurship by empowering businesses and investors with a trusted and vibrant crowdfunding platform, and to address the structural impediments toward entrepreneurship with a focus on SMEs. The portal only finances SMEs based in Singapore.

MoolahSense enables business loans from between SGD\$100,000 to SGD\$300,000 (\$74,349 to \$223,048),<sup>27</sup> and uses information from official sources and information providers to review all applications before businesses (corporates and limited liability partnerships) are allowed to list on the platform. Each business is identity checked and only businesses with at least 1 year of audited financial statements or 2 years of trading history are allowed to be listed on the platform. The loans made through the portal are repaid by the

<sup>21</sup> <http://cfasia.org/>

<sup>22</sup> <http://crowdfundcapitaladvisors.com/blog/global-framework/196-asia-turns-up-the-volume-on-crowdfunding.html>

<sup>23</sup> <http://blog.btrax.com/en/2014/08/18/crowdfunding-in-asia/>

<sup>24</sup> <https://angel.co/seedasia>

<sup>25</sup> [www.forbes.com/sites/hsbc/2014/08/05/crowdfundings-untapped-potential-in-emerging-markets/](http://www.forbes.com/sites/hsbc/2014/08/05/crowdfundings-untapped-potential-in-emerging-markets/)

<sup>26</sup> <http://www.moolahsense.com/businesses/>

<sup>27</sup> International Monetary Fund, 06 February 2015 rate, S\$1.345/US\$. [http://www.imf.org/external/np/fin/data/rms\\_mth.aspx?SelectDate=2015-02-28&reportType=REP](http://www.imf.org/external/np/fin/data/rms_mth.aspx?SelectDate=2015-02-28&reportType=REP)

borrowing businesses in monthly payments of principal and interest. No collateral is pledged for the loans received.

MoolahSense states its benefits to SMEs as “potentially lower borrowing costs, being fast and convenient, building a resilient long-term funding strategy by cultivating a relationship with alternative pools of investors and being empowered to negotiate your own rates”.

ppdai.com<sup>28</sup> is a crowdfunding portal based in the PRC. It enables loans to small businesses that can range from \$500 to \$80,000, with interest rates between 12% to 24% and terms of 3 to 12 months. The platform allows businesses to upload basic information about themselves, and then to apply for different loan amounts with a range of maturities to choose from. Loans are repaid monthly with equal instalments of principal and interest. Interestingly, for investors, there is an age restriction of a maximum of 55 years.

SeedAsia<sup>29</sup> was established in 2013 and describes itself as a “Pan Asia” equity crowdfunding platform to service the region. Though based in Shanghai, the platform enables financing for tech start-ups throughout Asia. Investors participating in SeedAsia may invest as little as \$2,000 and as much as \$250,000 in the platform’s listed companies. An investment committee is used by SeedAsia to vet the businesses seeking to crowdfund their growth.

Although founded and based in Sweden, the crowdfunding portal fundedby.me.com<sup>30</sup> has an office in Singapore, and can enable equity and debt investments to SMEs based there. Average investments of FundedByMe range between €50,000 and €150,000. FundedByMe chose Singapore as its first Asian hub because of its status as a financial center, the stability of the government, and the city state’s high penetration of social media and technology. FundedByMe is seeking to attract Asian investors, including European expatriates based in Singapore, to European companies on its platform. It also seeks to bring early-stage Asian companies to an international audience. The PRC; Hong Kong, China; India; and Australia are likely the

next locations for expansion, if the Singapore venture goes well.<sup>31</sup>

Zhao Cai Bao was established in April 2014 by Alibaba Group, the PRC’s e-commerce behemoth that was listed on the New York Stock Exchange in September 2014. Zhao Cai Bao seeks to enable small businesses and individuals to borrow directly from investors, and had planned to attract 1 million investors for P2P loans by the end of 2014.<sup>32</sup>

In Indonesia, a crowdfunding platform called Wujudkan.com,<sup>33</sup> enables the raising of funds for projects centered on the creative arts. It is based on the ‘reward’ model of crowdfunding, meaning the project owners do not have to repay the funds or pay interest to the investors. For example, one project currently listed on the website is seeking Rp230 million (\$18,235<sup>34</sup>) to produce an animated feature film. The host of the project, Dawn Animation, an animation studio in Jakarta, states that the total cost of the project is Rp500 million (\$39,641).<sup>35</sup>

Given that most Pacific region countries are relatively small, it was not unsurprising to find that crowdfunding portals servicing Fiji, Papua New Guinea, Solomon Islands, Timor-Leste, and Vanuatu are based in either the United States or Europe. These portals are mainly focused on artistic, social, or cultural projects, and they use the ‘reward’ model of crowdfunding, rather than offering debt and equity investments to SMEs. However, some start-up SMEs are using the model as well.

For example, an aspiring entrepreneur wanted to start up a restaurant in the city of Suva in Fiji, and posted the project on kickstarter.com (a portal based in the United States). The restaurant was seeking £50,000<sup>36</sup> (\$76,650<sup>37</sup>). Another entrepreneur, from Australia, attempted to raise funds on kickstarter.com to start up a

<sup>28</sup> [http://www.ppdai.com/borrow/listtype\\_pt](http://www.ppdai.com/borrow/listtype_pt)

<sup>29</sup> <https://angel.co/seedasia>

<sup>30</sup> <https://www.fundedby.me/en/what-is-fundedby.me/>

<sup>31</sup> [http://insightlegalasia.com/blog/crowdfunding-equity-based-asia-](http://insightlegalasia.com/blog/crowdfunding-equity-based-asia-pacific-legal-and-regulatory-ambiguities-without-analogous-us)

<sup>32</sup> [http://www.pymnts.com/news/2014/alibaba-aims-for-160-billion-in-p2p-loans-in-china/#.VDTBi\\_mSyqF](http://www.pymnts.com/news/2014/alibaba-aims-for-160-billion-in-p2p-loans-in-china/#.VDTBi_mSyqF)

<sup>33</sup> <http://wujudkan.com/cms/faq>

<sup>34</sup> International Monetary Fund, 06 February 2015 rate, Rp12,613/US\$. [http://www.imf.org/external/np/fin/data/rms\\_mth.aspx?SelectDate=2015-02-28&reportType=REP](http://www.imf.org/external/np/fin/data/rms_mth.aspx?SelectDate=2015-02-28&reportType=REP)

<sup>35</sup> <http://wujudkan.com/projects/detail/299/BETTERWORLD>

<sup>36</sup> [www.kickstarter.com/projects/1063014688/restaurant-in-suva-fiji?ref=city](http://www.kickstarter.com/projects/1063014688/restaurant-in-suva-fiji?ref=city)

<sup>37</sup> International Monetary Fund, 06 February 2015 rate, GBP 1.00 = 1.533 US\$. [http://www.imf.org/external/np/fin/data/rms\\_mth.aspx?SelectDate=2015-02-28&reportType=REP](http://www.imf.org/external/np/fin/data/rms_mth.aspx?SelectDate=2015-02-28&reportType=REP)



beer brewery in Timor-Leste, and sought AUD\$30,000 (\$23,280).<sup>38,39</sup>

In Sri Lanka, a platform called Crowdfund Sri Lanka<sup>40</sup> (registered in the United States) is funding entrepreneurs via the ‘reward’ model, but states that it also may fund business projects itself. The majority of projects funded are at the micro enterprise level.

While Singapore; Hong Kong, China; and the PRC are the most developed crowdfunding markets in Asia, other countries in the region are preparing the foundations and regulations to introduce crowdfunding to their markets.

In the Republic of Korea, the Financial Services Commission (FSC) reported in September 2013 that the country planned to launch a crowdfunding system in 2014, to help venture companies attract seed money from a wide pool of small investors with fewer restrictions. Under the planned system, the minimum equity capital requirements for online funding brokers would be W500 million (\$459,136),<sup>41</sup> equivalent to other general securities brokerage.<sup>42</sup>

In Malaysia, in August 2014, the Securities Commission of Malaysia launched a public consultation on proposed regulations for ‘crowdinvesting’. These proposed regulations address: the creation of a secondary market for securities bought via crowdfunding portals; the types of applicants that can raise finance through crowdfunding portals; and the maximum amount that a company can raise through the portals.<sup>43</sup>

## Analysis of Crowdfunding in Asia and the Pacific

While crowdfunding has very real potential as a significant mechanism for SMEs (especially start-ups)

to access debt and/or equity investments for growth, there are significant constraints to the evolution of crowdfunding as a strong competitor to commercial loans from banks and NBFIs, or to significantly address Asia’s reported \$200-billion SME financing gap, estimated in 2011.

These constraints include:

- (i) lack of legal and regulatory foundations for crowdfunding (start-ups are unable to offer securities, shares, or any other form of direct equity interest to the general public in Singapore, for example);
- (ii) cultural issues (such as trust and giving up business equity);
- (iii) security of investments and scams;
- (iv) small market sizes in Asia and the Pacific, which limit national development (in Oceania, no countries other than Australia, New Zealand, and Papua New Guinea have more than 1 million people, while many Asian countries have populations of less than 10 million);
- (v) low income/asset levels of the domestic populations, which work against making investments in unknown entities or persons; and
- (vi) lack of desktop or laptop computers and internet connections in low-income households to access crowdfunding websites.

Another constraining factor is the extremely competitive environment of popular crowdfunding websites. At any given time, there may be hundreds, even thousands, of SMEs seeking loans or equity through P2P lending in a single country. This likely leads to many SMEs not obtaining the funding they require. It would be advisable for start-ups and more seasoned SMEs to use a multi-pronged approach to accessing financing; using a combination of traditional and non-traditional sources.

Given the constraints discussed, it may be some time before crowdfunding becomes a major source of financing for SMEs in the Asia-Pacific region, though it does enable the financing of start-ups and some SMEs that may otherwise be shut out by traditional lenders such as banks.

<sup>38</sup> <https://www.kickstarter.com/projects/1495284815/east-timor-brewery>

<sup>39</sup> International Monetary Fund, 06 February 2015 rate, AUD 1.00 = 0.776 US\$

<sup>40</sup> <http://www.crowdfundsrilanka.com/>

<sup>41</sup> International Monetary Fund, 06 February 2015 rate, W 1,089/ US\$. [http://www.imf.org/external/np/fin/data/rms\\_mth.aspx?SelectDate=2015-02-28&reportType=REP](http://www.imf.org/external/np/fin/data/rms_mth.aspx?SelectDate=2015-02-28&reportType=REP)

<sup>42</sup> [http://news.xinhuanet.com/english/business/2013-09/26/c\\_132752674.htm](http://news.xinhuanet.com/english/business/2013-09/26/c_132752674.htm)

<sup>43</sup> <http://www.crowdvalley.com/news/malaysia-updated-securities-crowdfunding-regulations>

The use of regional portals, such as SeedAsia and those based in the United States and Europe, which focus on SMEs in emerging markets, may expedite the impact of crowdfunding for SMEs in the region.

## Mobile Financing for Rural and Women-owned SMEs

Access to finance for women-owned SMEs is not a topic that is lacking for attention. The particular constraints that affect the ability of women entrepreneurs to obtain growth capital have been well documented internationally. It is generally acknowledged that women-owned SMEs constitute an enormous potential for economic growth in emerging markets, particularly in Asia and the Pacific. However, women-owned SMEs consistently lag behind their male counterparts in the development of their businesses, and this is often due to financial constraints.

A 2011 report by the IFC, titled *Strengthening Access to Finance for Women-Owned SMEs in Developing Countries*,<sup>44</sup> assessed enterprises that had at least one woman owner, and had applied for or were in need of finance. The report found that, in East Asia, between 53% and 65% of very small enterprises, between 27% and 33% of small enterprises, and between 21% and 25% of medium-sized enterprises were ‘unserved’ for financing (did not have a loan). Notably, the unserved percentage for very small, women-owned enterprises in East Asia was the highest of all regions surveyed by the report.

So, can mobile technology overcome some of the factors that are constraining access to financing by women-owned SMEs?

The IFC report found that not only was it more difficult for women-owned SMEs to obtain a loan—due to cultural, infrastructural, and legal and regulatory issues (such as property rights and identity documentation)—but that, even when they do, they are often subjected to less favourable terms, such as higher interest rates, higher collateralization ratios, and shorter loan periods.

Mobile technology can help to overcome some issues faced by women-owned SMEs. The ability to apply

for a loan online, by emailing or uploading official and nonofficial documentation to a bank’s website using a laptop or tablet, would solve the cultural restrictions some women can face in travelling to financial institutions.

Similarly, using video-calling applications, such as Skype, through a laptop or tablet could allow a loan officer to conduct an interview of a woman business owner, and to make observations about the business’ assets and activities. This can take place without the business owner travelling to the bank, or the loan officers conducting a visit to the business premises, which may also be the SME owner’s primary residence.

Because women-owned SMEs are generally perceived by banks to involve more risk, higher costs, and lower returns, many creditors are hesitant to finance them. Where this is the case, the mobile technology of crowdfunding represents an alternative source of potential financing for women-owned SMEs.

Another constraint is a relatively low level of business management skills and education among women business owners. These deficiencies can be addressed by online training programs and courses for capacity building, especially for financial literacy training. In August 2014 in Fiji, 160 rural-based women were trained through the ‘Money Minded Pacific Financial Literacy’ program, conducted by the Australia and New Zealand Banking Group (ANZ) in partnership with the Fiji Ministry of Women, Children and Poverty Alleviation’s Department of Women. The aim of program was to educate women on components of financial management, savings, budgeting, and micro financing.<sup>45</sup> Although this particular program was delivered in a conventional classroom, there is potential for such a program to be delivered online using mobile devices.

## Mobile Technology for Underwriting SME Lending

In this discussion of mobile technology and how it can be used to improve access to growth capital by SMEs in Asia and the Pacific, the two core physical

<sup>44</sup> [www.gpfi.org/sites/default/files/documents/Strengthening.pdf](http://www.gpfi.org/sites/default/files/documents/Strengthening.pdf)

<sup>45</sup> <http://www.fiji.gov.fj/Media-Center/Press-Releases/RURAL-WOMEN-ACQUIRE-FINANCIAL-LITERACY-SKILLS.aspx>



requirements of financing—submission of applications and disbursement/repayment of funds—have been the focus. This is because the time that SMEs need to spend on loan applications is almost universally recognized as the top constraint to financing, with lack of collateral being another. SMEs in rural areas may have the additional challenge of physical proximity to a branch, while women-owned SMEs may stay away from branches due to cultural reasons. Even when they have equity and their country has an active stock exchange or bond-rating agency, most SMEs are far too small to release an initial public offering (IPO) on a stock exchange.

The process of assessing the credit risk of SMEs is also one of the challenges of lending to enterprises in developing markets. Lenders must address the problem of ‘asymmetric information’ i.e., the fact that the SME has far more knowledge about itself than the bank does, and therefore knows the true level of lending risk it represents. Can mobile technology step in and improve the risk assessment of SMEs?

There are two different lending technologies that banks can use to assess risk; transaction-based technology and relationship-based technology.

According to a study on SME financing from 2007,<sup>46</sup> the current paradigm in SME lending research is that large banks tend to service relatively large, information-transparent firms, using ‘hard’, quantitative information (derived from the borrowers’ balance sheets and/or the collateral guarantees they offer). Conversely, the study contends that small banks have advantages in lending to smaller, less transparent firms, using “soft” or qualitative information that is difficult to codify (obtained via personal interaction and acquaintance).

In either case, decisions on loan approvals take time, often too much time for an SME’s liking. Many studies have revealed that SME owners typically say that, in evaluating credit offerings, speed of credit access is more important than the interest rate. If mobile technology could be utilized to expedite the decision-making process on loans, it could not only reduce the

time needed to underwrite SME loans and better assess risk, but also reduce the associated costs.

One tool that is being used more widely is the ‘psychometric testing’ of business loan applicants. As an example, tests by Entrepreneurial Finance Labs assess a loan applicant’s honesty, intelligence, aptitude, and beliefs. Such tests help to overcome concerns about the risk posed by borrowers who do not have a credit history, collateral, or set of accounts.<sup>47</sup> Entrepreneurial Finance Labs claims that it has helped to enable financing for single-person micro enterprises borrowing \$800 to medium-sized enterprises receiving financing of over \$500,000, and that their credit application can be completed on a personal computer or mobile device, with or without an internet connection.<sup>48</sup>

Other forms of testing by companies such as VisualDNA<sup>49</sup> are relatively quick, taking 10 or 15 minutes. The bulk of the questions require applicants to choose from a selection of pictures, which can help to reflect their attitudes toward different types of risk.

The results of psychometric testing are considered “soft” information. The mobile technology for this type of testing can be provided via software on a tablet or laptop, with touch-screen capabilities that a loan officer can use to administer the exam in the field.

However, there are limits to how much soft information can be gathered from a psychometric test. Lenders should combine this information with indicators of financial behaviour, such as whether suppliers are paid on time, the satisfaction level of employees and landlords, and records of mobile phone payments.

## Challenges and Opportunities for Mobile Financing for SMEs

Examining the current state of financing for SMEs through the use of mobile technology in Asia and the Pacific reveals that there are specific challenges that need to be overcome before mobile financing can become a reliable alternative to traditional bank

<sup>46</sup> SME financing and the choice of lending technology in Italy: complementarity or substitutability? Francesca Bartoli, Giovanni Ferri, Pierluigi Murro and Zeno Rotondi.

<sup>47</sup> <http://blogs.ft.com/beyond-brics/2014/06/25/psychometrics-help-ease-the-huge-em-funding-gap/>

<sup>48</sup> <http://www.eflglobal.com/>

<sup>49</sup> <https://www.visualdna.com/financial-solutions/>

lending for SMEs. These challenges, however, create opportunities.

One significant challenge revolves around the difficulty in completing an entire SME loan process using only mobile technology over the internet. Most banks in Asia and the Pacific offer e-banking or internet banking services, though they are generally limited to sharing information and making account transactions. The question becomes: Can an SME loan be entirely processed and approved online?

The answer is: Yes. Across the globe, several online lenders are actively financing SMEs while never meeting them, never collecting paper documents, and never conducting site visits. One example is OnDeck.<sup>50</sup> Based in New York, OnDeck offers SME loans via an online application process, approves the loan analysing the applicant's credit score and online financial account and transactional data, then funds the loan directly to the SME's bank account. This system allows for a credit decision to be made "in minutes" and the funds received within 1 day. However, this speed of approval means a sacrifice of a higher price on the loan. A loan of \$100,000 over 24 months attracts an interest rate of between 20% and 40%. Additionally, start-ups are not funded by OnDeck.

The key here is that SMEs in the United States conduct many of their business operations online. This includes procurement, payment of invoices, accounting, and banking. It means that SME owners will have a credit score to assess. In developing countries across Asia and the Pacific, the level of online business transactions is extremely low, and countries often do not have a rating from a credit agency.

The opportunity for SME lenders in Asia and the Pacific is to develop the use of online systems for SME business services and transactions. Lenders must then design mobile technology to complement those systems for remote lending processes. A more basic approach would be to introduce a personal credit scoring agency. This would enable evaluation of the credit risk posed by individual SMEs, giving lenders a better opportunity for risk assessments.

The use of alternative risk assessment mechanisms, such as psychometric testing using mobile devices, as well as the widening of peer-to-peer lending platforms and equity investments, are opportunities for those interested in mobile financing of SMEs.

Another opportunity exists to overcome the challenge of high search costs for SME loans, by introducing online marketplaces for loans. These platforms (websites) allow SMEs to compare loan choices from a variety of lenders, and the website collects only a small fee for the 'matching' service. Such platforms allow the SME to save time, and therefore costs, in approaching multiple banks or other lenders.

An example of a marketplace platform is Biz2credit.com,<sup>51</sup> where an SME may use a tablet, phone, or laptop to search and review loan offers online. Typically, a marketplace like Biz2credit.com earns revenue by charging a small fee, if the borrower gets funded and accepts the terms of a loan from its platform.

## Conclusion

The introduction of mobile money has brought millions of unbanked individuals into formal financial systems. Meanwhile, online banking had added convenience for many small businesses seeking to access account information and make simple transactions. This means the potential for mobile technology to increase access to growth financing for SMEs in Asia and the Pacific is significant. However, many issues, such as regulatory arbitrage risks and unclear money-back guarantees, have yet to be solved.

Growth-oriented SMEs require larger amounts of capital, borrowed over longer periods of time, compared to loans sought by individuals and micro enterprises. Traditional loans via mobile avenues will require significant changes in the legal, regulatory, and financial systems of countries in the Asia-Pacific region. Equity investment, which is more likely to come from institutional investors than from public crowdfunding, is more promising for SMEs in regard to long-term funding.

Mobile technology can help meet the funding needs of SMEs, with flexibility and innovation, by overcoming

<sup>50</sup> <https://www.ondeck.com/>

<sup>51</sup> <http://www.biz2credit.com/business-loans>

the traditional lending constraints—such as lack of real estate collateral and formal documentation—that still persist in emerging markets.

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# Country Reviews

## Central Asia

Kazakhstan

Kyrgyz Republic

Tajikistan



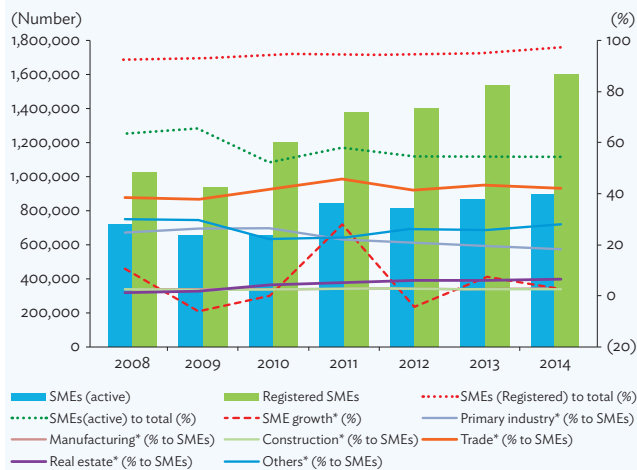
# Kazakhstan

## SME Landscape

Registered small and medium-sized enterprises (SMEs) numbered 1,541,885 in 2013, a 10.2% increase from the previous year. This number further expanded to 1,594,317 in 2014, a 3.4% increase from 2013, comprising 97.5% of the total number of registered businesses (Figure 4.1 and Table 4.1). Among them, active SMEs totalled 871,497 in 2013 with a 7.6% increase from 2012, backed by the gradual improvement of the Kazakhstan economy from the aftermath of the 2008/09 global financial crisis. The number of active SMEs further increased by 2.7% to 895,409 in 2014, accounting for 54.7% of the total number of SMEs.

By business sector, the wholesale and retail trade accounted for 42% of total active SMEs in 2014, followed by other economic sectors including services and transportation at 27.9% and the agriculture sector at 18.2%.

Figure 4.1: Number of SMEs



Primary industry = agriculture, forestry, and fisheries; SME = small and medium-sized enterprise.

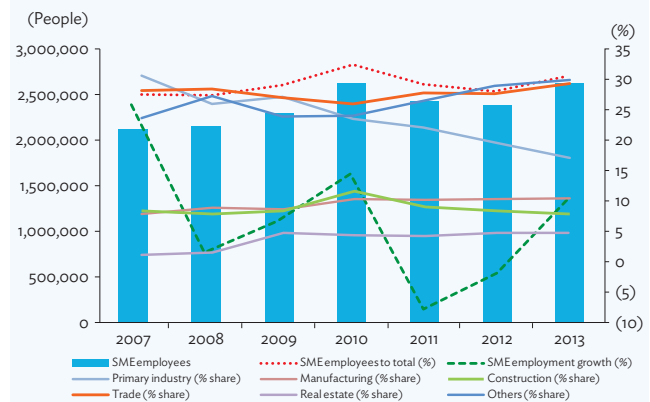
\* based on active SMEs.

Source: Agency for Statistics of the Republic of Kazakhstan.

In line with the increased number of SMEs, employees in the SME sector also increased by 10.6% to 2.6 million people in 2013, whose number reached 2.7 million people in 2014, a 3.9% increase from the previous year, making up 32.1% of the total Kazakh workforce. While a continuous decline of the employment in agriculture was identified, standing at 17.1% of total SME employees in 2013 from 19.6% in 2012, employment growth in the wholesale and retail trade sector compensated for the decrease, representing 29.5% of total SME employees in 2013, up from 27.7% in 2012, which resulted in the upward trend of employment by SMEs on the whole (Figure 4.2).

In 2013, SMEs contributed to 26% of gross domestic product (GDP) in Kazakhstan, amounting to T9,020 billion, a sharp increase of 71.8% on the previous year's contribution (Figure 4.3). Since the government launched a new program, called Increasing Competitiveness and Performance of SMEs, in 2011,

Figure 4.2: Employment by SMEs

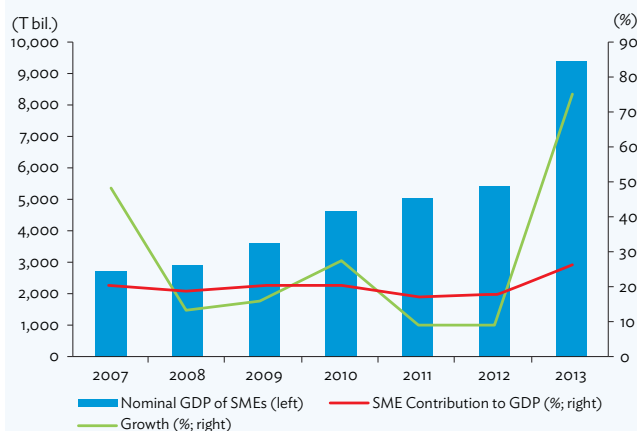


Primary industry = agriculture, forestry, and fisheries; SME = small and medium-sized enterprise.

Source: National Fund Damu.



Figure 4.3: SME Contribution to GDP



GDP = gross domestic product, SME = small and medium-sized enterprise.

Source: Agency for Statistics of the Republic of Kazakhstan.

the output of SMEs has been steadily increasing. The target is for 40% SME contribution to GDP by 2030, and 50% by 2050. The government's efforts began to yield tangible results in 2013.

In September 2014, the legal definition of SMEs stipulated under the Private Entrepreneurship Law 2006 was amended. The main revised points are: (i) the creation of a micro enterprise category, where a firm having fewer than 15 employees or annual average income of less than 30,000 times the monthly calculated index (MCI) annually set by the government is regarded as a micro enterprise; (ii) expanded size of the small firm segment in relation to employment and the MCI; and (iii) diminished range of the medium firm in relation to employment and the MCI. For 2014, the MCI equates to net assets of less than T5.2 billion to classify SMEs. The National Bank of Kazakhstan, commercial banks, and other financial institutions follow this definition for financing SMEs.

## Banking Sector

Under the two-tier banking system in Kazakhstan, the National Bank of Kazakhstan (central bank) is placed on the first tier, while all other banks, with the exception of the Development Bank of Kazakhstan, are in the second tier. The National Bank of Kazakhstan reported as of 1 September 2014 that there were 38 second-tier

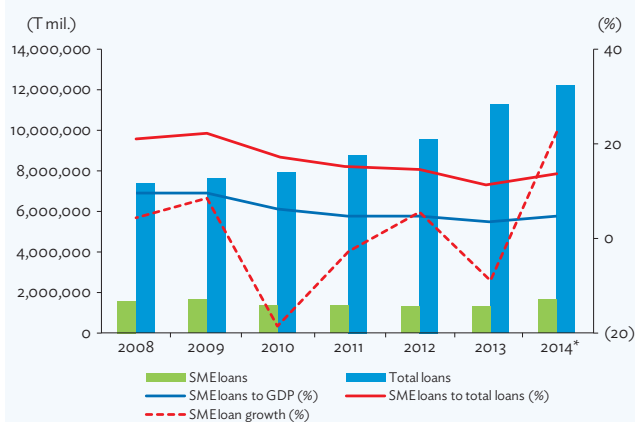
banks (17 of which have foreign investment) operating in Kazakhstan, with a combined total of 395 branches across the country. According to the National Bank of Kazakhstan, the share of the five largest banks (Kazkom bank, Halyk Bank, BTA bank, Sberbank, and Tsesnabank) in the total bank loan portfolio has reached 60.8%.

The banking sector is a main source of external funding for SMEs in Kazakhstan. SME loans disbursed by second-tier banks amounted to T1,283 billion in 2013, a 9.1% drop from the previous year. As of September 2014, the volume of SME loans disbursed moderately recovered, with tangible funding for SMEs amounting to T1,699 billion, a 32.4% increase from 2013. This accounted for 13.9% of the total second-tier bank lending, a figure that has yet to exceed the level before the 2008/09 global financial crisis (GFC) (Figure 4.4 and Table 4.2). The share of SME loans to GDP has continuously remained low however, 4.6% as of September 2014.

High interest rates and strict collateral requirements are major obstacles for SMEs to access bank credit. What's more, there are critical external factors that may constrain SME access to finance. Firstly, Kazakhstan has decided to introduce Basel III for banking supervision, which requires tighter risk management for banks, and may constrain their lending to SMEs.

Secondly, highly deepened dollarization in the Kazakhstani economy will pose additional threats to

Figure 4.4: SME Loans Disbursed



GDP = gross domestic product, SME = small and medium-sized enterprise.

\* data as of September 2014.

Source: National Fund Damu and National Bank of Kazakhstan.

the banking system as well as to its SME borrowers. The tenge devalued by 20% in February 2014, significantly increased the debt burden of SMEs holding their liabilities to banks in foreign currency, while keeping their revenues mainly in local currency. The government of Kazakhstan, together with the central bank, is currently working on a strategy that aims to reduce the dependence on dollarization in the economy.

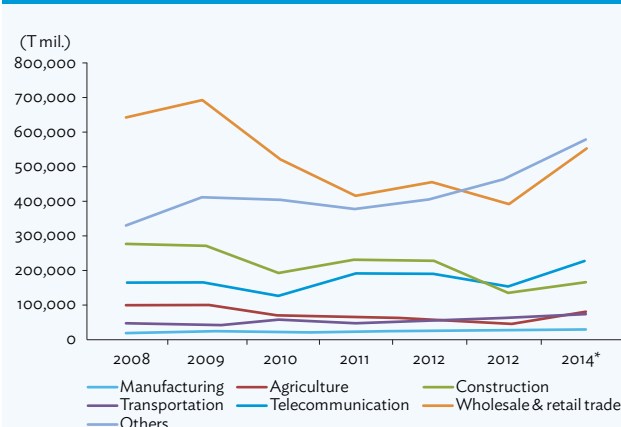
The GFC seriously damaged the banking system in Kazakhstan due to the liquidity crunch caused by overdependence on foreign capital. This resulted in long-standing financial vulnerability and created the unstable conditions of access to finance for SMEs in the country. However, lending conditions for SMEs have gradually improved in recent times, showing a sharp increase of SME loans disbursed from the end of 2013 to September 2014.

The wholesale and retail trade is the largest single sector of SME loans as of September 2014, representing 32.6% of total SME loans (T555 billion), which was only outsized by a combination of other economic sectors (including services) that accounted for 34.2% (T582 billion). Lending to the manufacturing sector, widely supported by the government programs and subsidiaries, expanded to T221 billion (a 45.7% increase from the 2013 figures). Lending to the construction sector, on the other hand, continued to decline and stood at T166 billion, which is only 54.5% of the level seen during the construction boom of 2007 (Figure 4.5).

By region, 12.7% of SME loans (T216 billion) were distributed in the capital city, Astana, as of September 2014, while the remaining 87.3% (T1,483 billion) were distributed in other local cities. At the city level, distribution of SME loans has been concentrated in the cities of Astana and Almaty.

The Damu Entrepreneurship Development Fund, a wholly owned subsidiary of national management holding company “Baiterek”, has provided partial credit guarantees for SMEs, as part of its SME support programs since 2010. The Damu credit guarantee scheme provides up to 70% guarantees for long-term bank loans to SMEs, especially in priority sectors such as manufacturing, medical services, education, and tourism.

Figure 4.5: SME Loans by Sector



SME = small and medium-sized enterprise.

\* data as of September 2014.

Source: National Fund Damu and National Bank of Kazakhstan.

## Nonbank Sector

Nonbank financial institutions (NBFIs) have yet to be developed well in Kazakhstan, although many players are operating in the country with no comprehensive regulatory frameworks, e.g., microfinance institutions (MFIs), pawnshops, and factoring and leasing companies.

The microfinance industry represents one of the most active NBFIs in Kazakhstan. The number of microcredit organizations registered with the National Bank of Kazakhstan grew sharply, from 177 in 2005 to a peak of 1,780 in 2011. One of the factors behind this increase was the deterioration of lending conditions for traditional banks during the liquidity crunch following the GFC.

By the beginning of 2014, however, the number of registered microcredit organizations had slightly declined to 1,706 institutions, 45.7% of which are currently operating and only 26.8% are active. This situation could worsen, with the number of institutions further declining, in 2016, when microcredit organizations will be legally forced to be re-registered as MFIs under new central bank regulations.

Another factor that might contribute to the decline would be increasing competition from the banking

sector, which has recently shown a greater interest in developing microfinance products to attract a larger number of SMEs. In order to sustain competitive positions, many microcredit organizations have been opening sub-offices in rural and remote areas, with the biggest presence in the Southern parts of the country, e.g., South-Kazakh oblast and Almaty oblast.

Apart from the microfinance industry, other nonbank financing modalities that can be utilized for SMEs are only in the early stages of development. The market share of factoring and leasing companies is still insignificant, and such companies usually struggle due to a lack of investment capital available for their growth. Some banks and their subsidiaries, however, have tried developing factoring and leasing products as part of their banking business.

As a new initiative, Astana Finance Bank has plans to launch of a crowdfunding platform, but greater awareness and an increase in overall financial literacy will be needed in order for this endeavor to be successful.

## Capital Markets

Since 1993, there has been only one stock exchange operating in Kazakhstan; the Kazakhstan Stock Exchange (KASE). It is a venue for trading in currencies, equities, and derivatives, and had 54 securities firms as members of the stock exchange in 2014, a decreasing trend. The total market capitalization was T5,194 billion or 14.7% of GDP in 2014, a 19.4% increase from the previous year. The KASE index also rose by 31.1% from 2013 to 2014.

There is currently no SME board under the KASE and no dedicated over-the-counter (OTC) market that SMEs can tap in the country. However, the KASE is considering the development of a second board or “junior” market for SME stocks in Kazakhstan, and currently is discussions with various stakeholders, including the DAMU, to identify potential SMEs for listing as well as the criteria for listing.

## Policy and Regulation

The Damu Entrepreneurship Development Fund, originally established in 1997 as the Small

Entrepreneurship Development Fund, is responsible for allocating and managing government funds to facilitate SME financing through several programs. The following summarizes the major progress on policy programs under the Damu:

### Stabilization Program 1st Tranche, 2007

The Damu operated the first tranche of T48.8 billion with partner banks. As of November 2014, there was a total of T92,862 million disbursed through this program, including T34,55 million disbursed for concessional lending to SMEs in 2014. A total of 2,846 SMEs accessed the funds, and 3,116 jobs were created through this program. Of the amounts disbursed, 75.5% were used to finance SMEs for working capital, 20.8% for investment capital, and 2.5% for refinancing to partner banks. The trade sector represented 61.3% of total amounts disbursed with an average loan size of T33 million, average loan term of 22 months, and annual effective rate of 17.81%. The manufacturing sector accounted for 11.2% of total disbursements, with an average loan size of T37 million, average loan term of 25 months, and annual effective rate of 18.09%. The program closed in December 2014.

### Stabilization Program 2nd Tranche, 2008

An extra fund of T54.7 billion was allocated for further support SMEs in financing. There were 3,744 SMEs financed through this tranche as of November 2014, amounting to T199,362 million in total, including T3,736 million disbursed in 2014 alone. The disbursed funds focused on helping SMEs with working capital finance (51.9% of total amounts disbursed), investment capital finance (20.5%), and refinancing to partner banks (18.6%). The average loan size was T53 million, with an average loan term of 38 months and at an average annual effective rate of 13.98%. There were 5,167 jobs created through this program.

### Stabilization Program 3rd Tranche, 2009

An additional fund of T120 billion was allocated for further strengthening of SME finance. The program disbursed T268,299 million in total as of November 2014, including T8,049 million disbursed in 2014 alone. The funds were disbursed to a total of 3,960 SMEs, with an average loan size of T67 million, average loan term of 32 months, and average effective rate of 12.1% per

annum. Through this program, 5,003 jobs were created. The disbursed funds were mainly used for working capital finance (57% of total amounts disbursed), refinancing (23.4%), and investment capital finance (15%).

#### **Program of conditional placement of funds to the partner commercial banks for subsequent lending to microfinance organizations, 2009**

This program aims to promote the development of microfinance products accessible for SMEs. As of November 2014, there were eight microfinance organizations financed through this program, with a total of T1,742 million. The average loan size was T217 million, with the average term of 55 months, and the average effective interest rate charged at 13.96% per annum.

#### **Program of conditional placement of funds in the partner banks and other financial institutions for the subsequent crediting of individual entrepreneurs in the city of Zhanaozen, 2011**

This program targets individual entrepreneurs in Zhanaozen city, involved in any sector except for the oil and gas industry, weapons manufacturing, and manufacturing of excisable products (e.g., alcohol, pharmaceuticals, and perfume). As of November 2014, there were 54 individual entrepreneurs financed through this program, amounting to T1,700 million. The average loan size was T31 million, with an average loan term of 47 months, and an average annual effective interest rate of 10.59%. The transport and telecom sector accounted for 37.2% of total loans, followed by trade (31.1%) and services (21.7%).

#### **Program of conditional placement of funds to the partner commercial banks for subsequent lending to women entrepreneurs, 2010**

This program aims to promote economic activity of women entrepreneurs, through concessional lending for projects realized by budding and established women entrepreneurs. The funds are provided to women entrepreneurs engaged in business activities in the form of individual entrepreneurs or legal entities headed by women, with the share of women's participation in equity not less than 50% and with the number of women employees at least 30% of the total number of workers.

#### **Damu-Ondiris Program, 2009**

In this program, T18 billion from the Joint-stock Company (JSC) "Stress Assets Fund" was allocated to partner commercial banks. The operation is made for the subsequent financing/refinancing of SME projects in the manufacturing sector. Partner banks are also participating with their own funds, with 70% of funds provided by the JSC "Stress Assets Fund" and 30% by the partner banks and other participants. As of November 2014, there were 311 SMEs funded with a total of T85,904 million. The average loan size was T276 million, with the average term of 22 months, and average effective interest rate charged at 8.5% per annum. Of the funds, 60% were used for SME working capital finance, 29.8% for refinancing, and 8.8% for SME investment capital finance.

#### **Business Road Map 2020 Entrepreneurship Development Program, 2010**

This program aims to ensure stable and balanced development of regional entrepreneurship in the non-raw-material sectors. As of December 2014, a total of 5,438 projects were approved for subsidies, amounting to T1,093 billion. The subsidies disbursed stood at T85.9 billion, of which T27.7 billion was disbursed in 2014. The most active regions implementing projects under this program were the Pavlodar region (494 projects), the East-Kazakhstan region (461), the city of Astana city (423), and the Aktobe region (416). By business sector, manufacturing accounted for 39% of all projects, followed by transport (30%) and health and social services (6%). A total of 795 projects were approved for credit guarantees, of which 696 projects were signed as of December 2014. The total loans applied for this program stood at T38 billion, with the guaranteed amount of T16.8 billion. The manufacturing sector is the most active, with 48% of total projects, followed by transport (17%) and agriculture (7%).

#### **Damu-Regions Program, 2008**

This program was launched with local governments (akimats) and provided funds through Damu to the local branch networks of second-tier banks for onlending to SMEs. T38.8 billion was allocated for financing local SMEs. As of November 2014, SMEs were financed through this program, amounting to T70,729 million. The average loan size was T44 million, with an



average loan term of 38 months, and an average annual effective interest rate of 13.55%. Through this program, 3,034 jobs were created.

### Damu-Regions II Program, 2010

Under the second phase program, 163 local SMEs were financed as of November 2014, with total disbursements of T12,604 million, including T21 million disbursed in 2014. The average loan size was T77 million, with an average loan term of 52 months, and an average annual effective interest rate of 10.65%. This program helped to create 1,655 jobs.

### Damu-Regions III Program, 2012

The third phase program enabled 423 local SMEs, as of November 2014, to get loans through partner banks, amounting to T26,830 million disbursed, including T17,865 million disbursed in 2014. The average loan size was T63 million, with an average loan term of 46 months, and an average annual effective interest rate of 14.69%.

### Program of regional financing of SMEs, 2010

This program targets designated regions (Almaty, Akmola, and South-Kazakhstan) for financing SME projects. As of November 2014, a total of 181 projects (41 SMEs) were financed through this program, with funds of T3,272 million disbursed. Five priority sectors were targeted under this program: manufacturing (44.7% of total amounts disbursed), agriculture (23.4%), services (19.1%), transport and telecom (12.5%), and construction (0.3%). The average loan size was T79 million, with an average loan term of 45 months, and an average annual effective interest rate of 9.63%. It is estimated that 453 jobs were created through this program.

### Financing program of leasing transactions for SMEs operating in the manufacturing sector, through partner banks and leasing companies, 2009

This program is implemented through partner second-tier banks and leasing companies providing favorable leasing conditions for SMEs engaged in manufacturing. The main conditions for participation in this program are: (i) only new leasing transactions are eligible for

financing; (ii) maximum lease term of 84 months; (iii) maximum interest rate of 8% per annum; (iv) financing limit of 60,000 times of MCI for one SME borrower; (v) local currency transactions only; and (vi) favorable period for the repayment of principal up to 24 months.

### Program of financing SMEs' leasing transactions, 2011

This program is designed to stimulate the economic activity of SMEs, using financial leasing as an instrument for the further implementation of SME leasing transactions on favorable terms. This is implemented through leasing companies and partner commercial banks, and is provided with the following conditions: (i) only new leasing transactions are eligible for financing; (ii) maximum lease term of 84 months; (iii) maximum interest rate of 14% per annum; (iv) financing limit of T150 million for one SME borrower; (v) local currency transactions only; and (vi) favorable period for the repayment of principal up to 12 months.

### Program for financing of SME projects in small towns of Kazakhstan, 2011

This program was designed to promote the development of SMEs in small towns in the country. The program benefitted 61 towns. Funds were placed in three partner banks (Bank Center Credit, Delta Bank, and Eurasian Bank) to finance SME projects under the following conditions: (i) maximum loan amount per borrower of T150 million; (ii) maximum loan term of 84 months; (iii) local currency loans only; and (iv) annual interest rate limit of 14%.

### Program for funding of individual entrepreneurs engaged in the services sector in Almaty and Astana, 2011

This program is designed to provide favorable terms of financial support for individual entrepreneurs in the cities of Astana and Almaty. Funds are disbursed through partner commercial banks under the following conditions: (i) maximum loan term of 84 months; (ii) annual effective interest rate cap of 14%; (iii) local currency loans only; (iv) favorable period for the repayment of principal up to 12 months; and (v) maximum loan amount per borrower of T150 million.

### Damu-Komek Program, 2011

This program aims to create an enabling environment to support the entrepreneurial activities of people with disabilities. The program promotes the following measures to be taken within its framework: (i) attracting people with disabilities to participate in entrepreneurial trainings organized by the Damu; (ii) publishing specially developed study materials (particularly with translation into sign language) regarding the creation and development of business; (iii) enhancing market positions for entrepreneurs with disabilities through the coordination of sponsorships and various aids aimed at providing such entrepreneurs with the necessary equipment and machinery to conduct business activities; (iv) conducting wide informational campaigns aimed at promoting sponsorship opportunities for entrepreneurs with disabilities; (v) developing new and sophisticated measures for both financial and nonfinancial support for entrepreneurs with disabilities; and (vi) creating a single legislative database that would include all relevant laws and regulations regarding incentives for entrepreneurs with disabilities.

### Program of support for SMEs operating in the manufacturing sector, 2014

Due to growing imbalances in the development of various sectors in the country—particularly the declining share of the manufacturing sector to GDP and its stagnant contribution to real growth of the production value added—the government decided to allocate funds to support the country's manufacturing sector. Under the Resolution No.354 of the Government of Kazakhstan, enacted on 14 April 2014, T100 billion was allocated to a wide range of SME manufacturers, e.g., food processing, textile, chemicals, and pharmaceuticals products, through 13 partner banks (12 domestic banks and 1 Russian Federation bank). The funds are allocated for a maximum of 120 months, with a nominal interest rate of no more than 6%. The maximum amount per borrower is no greater than T1.850 billion. As of November 2014, 442 projects were financed through this program, amounting to T100,620 million. Food processing accounted for 29% of all projects, followed by mineral products manufacturing (24%) and beverages manufacturing (9%). The most active borrowers are located in Astana (19%), followed by the Almaty region (13%), Almaty city (11%), and South-Kazakhstan region (11%).

Table 4.1: SME Landscape

Item	2007	2008	2009	2010	2011	2012	2013	2014*
<b>Number of SMEs</b>								
Registered SMEs	938,155	1,026,255	934,691	1,196,725	1,383,727	1,399,787	1,541,885	1,594,317
SMEs (active)	643,376	707,821	663,374	661,598	846,111	809,750	871,497	895,409
SMEs (registered) to total (%)	92.6	93.0	92.7	94.5	95.0	94.9	95.1	97.5
SMEs (active) to total (%)	63.5	64.2	65.8	52.2	58.1	54.9	53.9	54.7
SME growth (registered) (%)	11.7	9.4	(8.9)	28.0	15.6	1.2	10.2	3.4
SME growth (active) (%)	12.9	10.0	(6.3)	(0.3)	27.9	(4.3)	7.6	2.7
Primary industry* (% to SMEs)	27.1	24.6	26.4	26.5	22.2	21.0	19.4	18.2
Manufacturing* (% to SMEs)	2.6	2.6	2.4	2.8	2.6	2.9	2.7	2.9
Construction* (% to SMEs)	2.6	2.3	2.6	2.9	2.5	2.6	2.5	2.7
Trade* (% to SMEs)	37.3	39.0	37.9	41.5	45.6	41.3	43.6	42.0
Real estate* (% to SMEs)	7.3	1.1	1.2	4.5	4.8	5.9	6.0	6.3
Others* (% to SMEs)	23.1	30.4	29.4	21.8	22.4	26.3	25.8	27.9
<b>Employment by SMEs</b>								
SME employees	2,121,198	2,152,960	2,296,600	2,630,580	2,427,135	2,383,338	2,635,563	2,738,342
SME employees to total (%)	27.6	27.4	29.1	32.4	29.2	28.0	30.8	32.1
SME employment growth (%)	25.9	1.5	6.7	14.5	(7.7)	(1.8)	10.6	3.9
Primary industry (% to SME employees)	30.7	26.0	27.2	23.5	22.1	19.6	17.1	...
Manufacturing (% to SME employees)	7.8	8.9	8.7	10.4	10.3	10.4	10.4	...
Construction (% to SME employees)	8.4	7.8	8.5	11.7	9.1	8.4	7.9	...
Trade (% to SME employees)	28.2	28.4	27.0	26.0	27.8	27.7	29.5	...
Real estate (% to SME employees)	1.2	1.5	4.7	4.4	4.2	4.9	5.0	...
Others (% to SME employees)	23.6	27.3	23.9	24.0	26.6	29.0	22.7	...
<b>SME Contribution to GDP</b>								
Nominal GDP of SMEs (T bil.)	2,621	2,986	3,470	4,407	4,825	5,250	9,020	...
SME Contribution to GDP (%)	20.4	18.6	20.4	20.2	17.5	17.3	26	...
Growth (%)	46.7	13.9	16.2	27.0	9.5	8.8	71.8	...

GDP = gross domestic product; primary industry = agriculture, forestry, and fisheries; SME = small and medium-sized enterprise.

\* based on active SMEs.

Sources: Agency for Statistics of the Republic of Kazakhstan and National Fund Damu.



Table 4.2: Banking Sector—SME Loans

Item	2007	2008	2009	2010	2011	2012	2013	2014*
<b>Loans</b>								
SME loans to GDP (%)	11.7	9.8	10.0	6.3	4.9	4.7	4.2	4.6
SME loans to total loans (%)	20.7	21.1	22.3	17.4	15.3	14.6	11.4	13.9
SME loan growth (%)	74.8	4.3	8.7	(18.9)	(3.1)	5.3	(9.1)	32.4
SME loans (T mil.)	1,505,488	1,570,734	1,707,188	1,384,956	1,341,385	1,412,005	1,283,441	1,699,731
LE loans (T mil.)	5,752,512	5,889,266	5,936,812	6,567,044	7,439,615	8,231,995	9,983,085	10,506,967
Total loans (T mil.)	7,258,000	7,460,000	7,644,000	7,952,000	8,781,000	9,644,000	11,291,548	12,228,285
SE loans—quarterly data total (T mil.)	1,869,852	1,273,422	753,098	689,848	794,481	1,049,806	889,708	808,722
SE loan growth—quarterly data total (%)	...	(32)	(41)	(8)	15	32	(15)	...
<b>SME Loans by Sector (upper:T mil.; lower: % to total)</b>								
Agriculture	109,270	98,085	94,851	67,797	61,377	53,651	42,812	76,435
	7.3	6.2	5.6	4.9	4.6	3.8	3.3	4.5
Manufacturing	112,068	165,319	166,123	124,529	192,318	186,531	152,384	221,967
	7.4	10.5	9.7	9.0	14.3	13.2	11.9	13.1
Construction	305,667	276,395	271,306	194,308	233,287	229,448	133,290	166,445
	20.3	17.6	15.9	14.0	17.4	16.2	10.4	9.8
Transportation	36,085	39,979	42,596	52,470	40,396	49,513	57,125	74,019
	2.4	2.5	2.5	3.8	3.0	3.5	4.5	4.4
Telecommunication	14,020	15,250	19,416	12,221	19,154	21,038	21,247	22,779
	0.9	1.0	1.1	0.9	1.4	1.5	1.7	1.3
Wholesale and retail trade	619,714	644,641	697,973	526,735	414,177	460,457	392,933	555,385
	41.2	41.0	40.9	38.0	30.9	32.6	30.6	32.7
Others	308,664	331,064	415,923	406,896	380,676	411,367	471,666	582,701
	20.5	21.1	24.4	29.4	28.4	29.1	36.8	34.3
<b>SME Loans by Region (upper:T mil.; lower: % to total)</b>								
Capital city (Astana)	108,955	90,446	96,581	148,229	102,639	170,473	111,084	216,656
	7.2	5.8	5.7	10.7	7.7	12.1	8.7	12.7
Local cities	1,396,532	1,480,288	1,611,608	1,236,727	1,238,746	1,241,532	1,172,357	1,483,075
	92.8	94.2	94.4	89.3	92.3	87.9	91.3	87.3

GDP = gross domestic product, LE = large enterprise, SE = small enterprise, SME = small and medium-sized enterprise.

\* data as of September 2014.

Source: National Fund Damu and National Bank of Kazakhstan.

Table 4.3: SME Policy and Regulation

Regulations		
Name	Outline	
Law on Entrepreneurship of the Republic of Kazakhstan (amendment as of 29 September 2014)	General entrepreneurship development policy	
Law on Microfinance Organizations No.56-V (2012)	Regulation of microfinance organizations	
Regulators and Policymakers		
Name	Responsibility	
National Bank of Kazakhstan (NBK)	Regulate and supervise commercial banks and nonbanks	
Fiscal Policy Office, Ministry of Finance	Regulate and supervise state-owned banks	
Ministry of Investment and Development of the Republic of Kazakhstan	Regulate and supervise industry-related activities	
Ministry of National Economy of the Republic of Kazakhstan	Policy on development and support of private entrepreneurship	
Damu (National Fund)	SME promotion policy	
Policies		
Name	Responsible Entity	Outline
Stabilization Program 1st Tranche (2007) [closed in December 2014]	Damu	Placement of funds to partner commercial banks in order to support lending to SMEs with more favorable conditions.
Stabilization Program 2nd Tranche (2008)		
Stabilization Program 3rd Tranche (2009)		
Program of conditional placement of funds to the partner commercial banks for subsequent lending to microfinance organizations (2009)	Damu	Promote development of the microfinance sector to enhance access to finance for SMEs. The funds placed to partner commercial banks for the subsequent lending to the microfinance organizations.
The Program of conditional placement of funds in the partner banks and other financial institutions for the subsequent crediting of individual entrepreneurs in the city of Zhanaozen (2009)	Damu	Program targets individual entrepreneurs in Zhanaozen city involved in any sectors except for the oil and gas industry, weapon producers, and excisable products manufacturers. The funds provided to eligible entrepreneurs through partner banks.
Program of conditional placement of funds to the partner commercial banks for subsequent lending to female entrepreneurs (2010)	Damu	Program aiming to stimulate economic activity of female entrepreneurs through concessional lending. The funds provided to female entrepreneurs engaged in business activities in the form of individual entrepreneur or a legal entity headed by women, with the share of women's participation in equity not less than 50% and with the number of female employees at least 30% of the total number of workers.
Damu-Ondiris Program (2009)	Damu	T18 billion from the JSC "Stress Assets Fund" placed to partner commercial banks to finance and refinance SME projects in the manufacturing sector.
Business Road Map 2020 (2010)	Damu	BRM 2020 is being implemented in three directions: (i) support of new business initiatives; (ii) decrease of currency risks for entrepreneurs; and (iii) strengthening of the entrepreneurial potential.
Damu-Regions Program (2010)	Damu	Program designed for financing SMEs in high priority sectors for Kazakhstan through an effective use of the Fund's own resources and local executive bodies allocated from the local budget and funds of the partner banks.
Damu-Regions II Program (2010)		
Damu-Regions III Program (2012)		
The Program of regional financing of SMEs (2010)	Damu	Program designed for the development of SMEs in the designated regions (Almaty, Akmol, and South-Kazakhstan) by funding their projects in priority sectors. The funds provided to eligible entrepreneurs through partner banks.
Financing Program of leasing transactions of SMEs operating in the manufacturing sector through partner banks and leasing companies (2010)	Damu	Program implemented through partner second-tier banks and leasing companies providing favorable leasing conditions for SMEs in manufacturing.
The Program of financing SMEs' leasing transactions (2011)	Damu	Program designed to stimulate economic activity of SMEs through financial leasing with favorable terms. The funds implemented through leasing companies and partner commercial banks.
The Program for financing of SME projects in small towns of Kazakhstan (2011)	Damu	Program designed to promote the development of SMEs in small towns. The funds provided to eligible entrepreneurs through partner banks.
The Program for funding of individual entrepreneurs engaged in services sector in Almaty and Astana cities (2011)	Damu	Program designed to provide favorable terms of financial support for individual entrepreneurs in Astana and Almaty in the services sector. The funds provided to eligible entrepreneurs through partner banks.
Damu-Komek Program (2011)	Damu	Program aiming to support entrepreneurs with disabilities through various assistances, e.g., financial support and advisory service. Damu will not provide funding but act as a conduit between entrepreneurs with disabilities and potential sponsors and lenders.
The Program of support of SMEs operating in the manufacturing sector (2014)	Damu	Allocation of T100 billion in partner commercial banks to support lending to SMEs in the manufacturing sector on favorable conditions.

BRM = Business Road Map 2020, SME = small and medium-sized enterprise.

( ) refers to the year when the program/initiative was launched.

Source: National Fund Damu ([www.damu.kz](http://www.damu.kz)) and National Law Database ([www.adilet.zan.kz](http://www.adilet.zan.kz)).

# Kyrgyz Republic

## SME Landscape

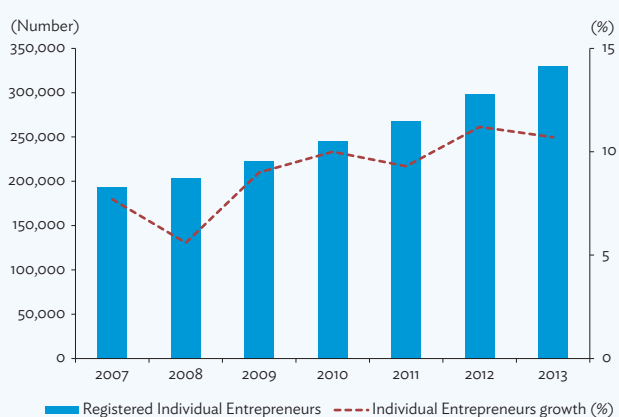
Small and medium-sized enterprises (SMEs) in the Kyrgyz Republic are a critical engine for the development of the national economy, job creation, and poverty alleviation. At present, the government provides the official definition of SMEs, but, in practical terms, different stakeholders including commercial banks and nonbank financial institutions (NBFIs) are employing various SME definitions to pursue their objectives.

Pursuant to the Resolution No.590 of the Government of the Kyrgyz Republic, enacted on 29 August 2002, SMEs are defined on the basis of: (i) the number of paid employees; and (ii) annual turnover, with different categories by business sector.

There are two types of statistics available for SMEs. One is for individual entrepreneurs, which include self-employed SMEs and/or start-up firms.<sup>52</sup> Another is for SMEs as corporate entities stipulated under the Resolution No.590. According to the National Statistical Committee, registered individual entrepreneurs totalled 329,737 people in 2013, with a 10.7% increase compared to the previous year (Figure 4.6). Meanwhile, the registered SMEs reached 12,547 in 2013 comprising 97.7% of total registered enterprises, with a 5.2% increase from the previous year (Figure 4.7).

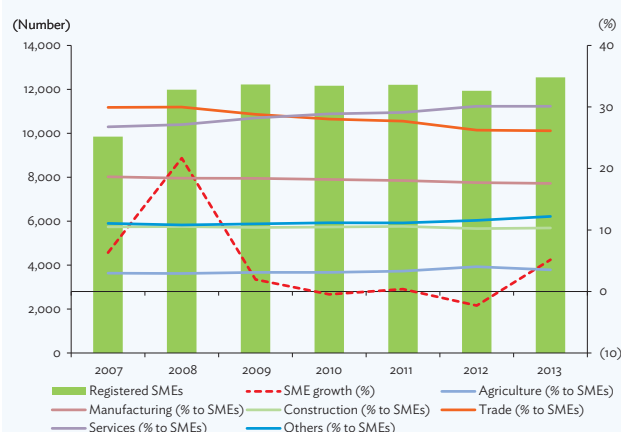
In 2008, the number of registered SMEs drastically increased by 21.7%, partly due to a significant reduction in the number of large enterprises, which had a tendency to split into smaller companies in order to benefit from

**Figure 4.6: Number of Individual Entrepreneurs**



Source: National Statistical Committee of the Kyrgyz Republic.

**Figure 4.7: Number of SMEs**



SME = small and medium-sized enterprise.

Source: National Statistical Committee of the Kyrgyz Republic.

<sup>52</sup> There is a concern, for instance, that individual entrepreneurs involved in farming may be double-counted in both statistics on individual entrepreneurs and the type I category (including agriculture) of SMEs, which generates a quality issue.

simplified taxation. However, the 2008/09 global financial crisis (GFC) largely decelerated this trend, and growth in the SME sector was stagnant until 2012. Meanwhile, individual entrepreneurs have been steadily increasing in number since 2009, which may suggest that employees laid off by large enterprises became self-employed in the aftermath of the GFC.

By business sector, services is the largest sector among SMEs in the Kyrgyz Republic. It accounted for 30.1% of registered SMEs in 2013, followed by the wholesale and retail trade sector (26.1%) and manufacturing (17.6%). Meanwhile, the trade and agriculture sectors contributed more than 60% of the individual entrepreneurs registered (Figure 4.8 and Figure 4.9).

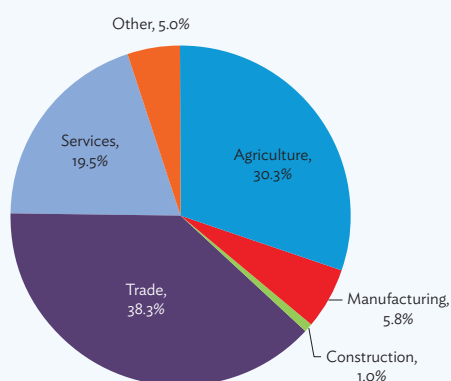
The wholesale and retail trade had been the largest sector among SMEs until the GFC occurred, but it has been replaced by the service sector since 2010. There is a concern about the further impact of the Eurasian Economic Union on SMEs in the trade sector. The Kyrgyz Republic is due, effective in 2015, to join the Eurasian Economic Union (EEU) which currently comprises Armenia, Belarus, Kazakhstan, and the Russian Federation. At present, typical SMEs in the trade sector enjoy cheap goods from the People's Republic of China, and export to other countries, generating profits in the sector. However, after admission to the EEU, such business model of SMEs in the trade sector will not work due to customs restrictions, and may result in putting many SMEs in the sector out of business.

The SME sector employed 87,650 people accounting for 3.9% of the total workforce in the Kyrgyz Republic in 2013. This represented only a 0.1% increase from the previous year. Employment in the SME sector, however, has been gradually improving since 2012, having deteriorated after the GFC with a 3%–4% annual decrease. Manufacturing is the largest sector for the SME workforce in the country, with 35% of total SME employees in 2013, followed by services (23.2%), wholesale and retail trade (14.6%), and construction (13.7%) (Figure 4.10).

One important note is that these employment figures do not include the numbers for farming workers and individual entrepreneurs who are either self-employed or employees hired by other people. This would see a substantial increase to the official employment statistics on SMEs. As a rough estimation, 31,087 people, or 9.43% of the total registered individual entrepreneurs, would be counted as SME employees in 2013.

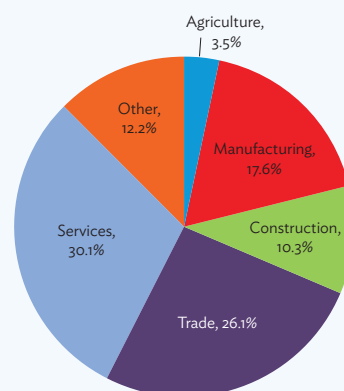
Registered SMEs contributed to 12% of gross domestic product (GDP) in 2013 (Figure 4.11). Since the GFC, SME contribution to GDP has been consistently decreasing, down from 13.4% in 2009. The Kyrgyz Republic accession to the EEU in 2015 will noticeably affect the SME structure and contribution to GDP, given the more competitive environment in the country. It may accelerate the restructuring of the SME industries and/or stimulate new business models of SMEs, with a possibility of boosting SME productivity.

**Figure 4.8: Individual Entrepreneurs by Sector, 2013**



Source: National Statistical Committee of the Kyrgyz Republic.

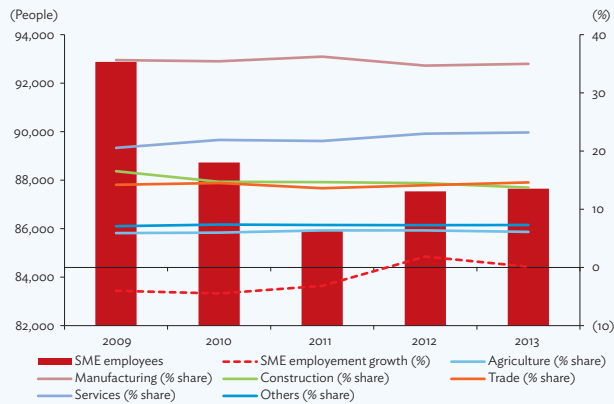
**Figure 4.9: SMEs by Sector, 2013**



SME = small and medium-sized enterprise.

Source: National Statistical Committee of the Kyrgyz Republic.

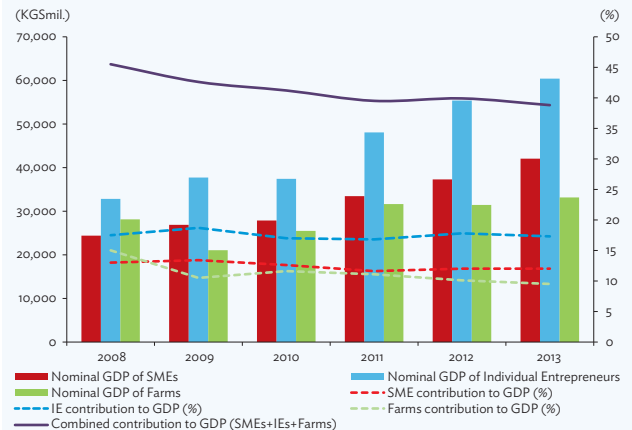
Figure 4.10: Employment by SMEs



SME = small and medium-sized enterprise.

Source: National Statistical Committee of the Kyrgyz Republic.

Figure 4.11: SME Contribution to GDP



GDP = gross domestic product, IE = individual entrepreneur, SME = small and medium-sized enterprise.

Source: National Statistical Committee of the Kyrgyz Republic.

## Banking Sector

The National Bank of Kyrgyz Republic (NBKR), the country's central bank, regulates and supervises, through licensing, the banking and nonbank sectors in the Kyrgyz Republic. There are 24 commercial banks (including a branch of the National Bank of Pakistan) with a combined total of 292 branches operating across the country. The share of foreign credit intermediation remains at a high level, as there are 16 banks with foreign capital, including 10 banks with the share of foreign capital exceeding 50%, as of December 2014. The large presence of foreign capital in the banking sector of the Kyrgyz Republic exposes it to undue foreign exchange risks, which subsequently explains relatively high levels of cost of capital for SME borrowers.

According to the NBKR, total bank assets reached KGS129 billion in November 2014, which was a 16.3% increase on the same indicator last year. In addition, the deposit base grew by 12.5% and the loan portfolio increased by 34.4% during 2013. However, despite the positive dynamics, the banking sector remains small and fragile, with the assets to GDP ratio standing at 34.5% in November 2014. Such low level of banking intermediation is explained by the significant presence of an informal and cash-based economy.

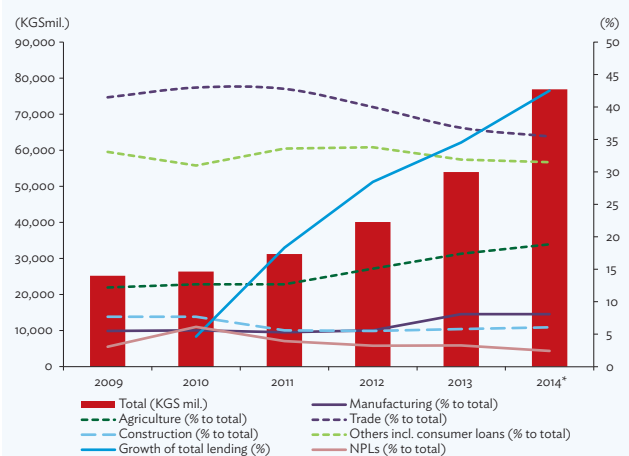
The Kyrgyz banking sector was negatively affected by the GFC, due to its overdependence on foreign capital, particularly from the Russian Federation

and Kazakhstan, causing some banks to reduce or even stop lending by the end of 2008. The domestic sociopolitical crisis of 2010 further hit the weakened Kyrgyz economy, having an adverse effect on the banking sector and causing large deposit outflows. One third of the country's commercial banks were placed under temporary administration. Among them was the AsiaUniversalBank (AUB), which accounted for almost 50% of the total deposit base. Even though the general bank run was avoided, quality of the loan portfolio significantly deteriorated and lending to the private sector was drastically reduced, reaching KGS26,382 million in 2010 (less than a half of the figure for 2013).

Lending to the private sector has been in gradual recovery since 2010, growing 34.5% in 2013 and a further 42.5% as of November 2014 (Figure 4.12). With such sharp growth, the quality of loans remains at a relatively good level and is further improving. For instance, the share of nonperforming loans (NPLs) within the total credit portfolio fell from 6.1% in 2010 to 2.4% in November 2014.

The largest share of bank lending was attributed to the trade sector at 35.5% (KGS27,281 million) of the total loans disbursed as of November 2014. Lending to the agriculture sector, supported by government subsidies, represented 18.9% (KGS14,510 million) of the total lending portfolio—more than double the increase in 2012 (Figure 4.13). Lending to the manufacturing sector has also increased, but its share of total loans disbursed

Figure 4.12: Bank Loans Disbursed

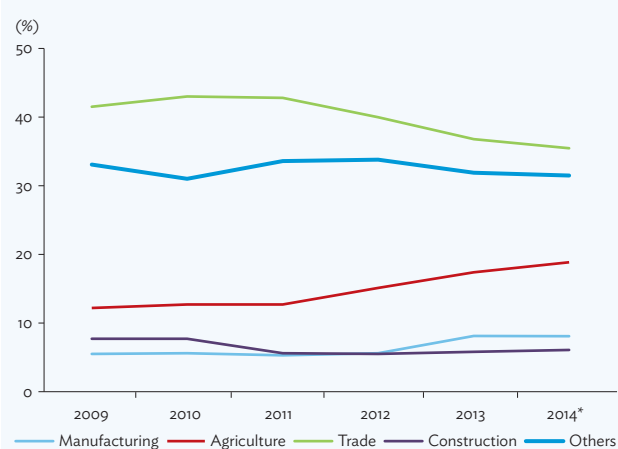


NPL = nonperforming loan.

\* data as of November 2014.

Source: National Bank of the Kyrgyz Republic.

Figure 4.13: Bank Loans by Sector



\* data as of November 2014.

Source: National Bank of the Kyrgyz Republic.

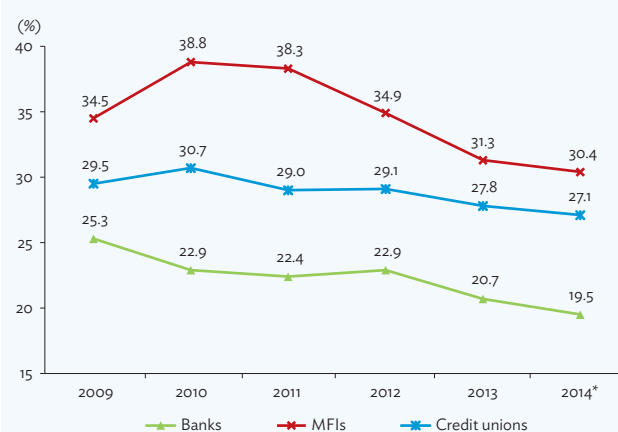
was relatively modest at 8.1%. There are no SME lending data publicly available in the country.

The large portion of bank loans were short-to-medium term loans of less than 3 years. These loans accounted for 60.9% of total loans disbursed as of November 2014 (short-term loans of less than one year at 15.7% and mid-term loans between 1 and 3 years at 45.2%). However, the share of the longer term loans of more than 3 years has been gradually increasing, and stood at 36.6% as of November 2014 (compared to 33.1% in 2013).

In terms of regional distribution of the total credit portfolio, as of the fourth quarter of 2014, the capital city Bishkek represents 59.1% of total bank loans disbursed, followed by the Osh region (12%) and Jalal-Abad region (9%). Such regional distribution of bank loans points to the lower credit penetration of the banking system in rural and remote areas of the country. This is mainly explained by high costs for bank operations in remote areas.

The average interest rate on local currency bank loans has been declining, from 22.9% in 2012 to 20.7% in 2013 and to 19.5% as of November 2014 (Figure 4.14). A similar downward trend was observed for the average interest rate of foreign currency denominated loans, decreasing from 17.3% in 2012 to 16.4% in 2013 and to 16.1% as of November 2014.

Figure 4.14: Lending Rates, Local Currency Loans



MFI = microfinance institution.

\* data as of November 2014.

Source: National Bank of the Kyrgyz Republic.

The infrastructure for bank lending has been improving, particularly due to the establishment of a credit bureau. The private sector credit bureau *Ishenim* was created in 2003 as a joint cooperation of legal entities. As of November 2014, it had a total of 114 members, including 23 commercial banks, 66 microfinance organizations, and 25 credit unions. Both positive and negative information is collected and shared by the bureau with its members. Despite the growing popularity of the credit bureau, some challenges still remain and



further improvement is required in the legislative base. For instance, it is not mandatory by the law for financial institutions to share client information with the credit bureau, which makes the collection of credit information not as efficient.

## Nonbank Sector

The microfinance sector is leading the way for nonbank lending to SMEs and individual entrepreneurs in the Kyrgyz Republic, providing a good complement to the traditional banking sector, particularly for individual entrepreneurs and micro enterprises in rural areas. The NBKR, a regulatory body for both banks and NBFIs, reported that NBFIs subject to regulation and licensing comprised 221 microfinance institutions (MFIs). This included 5 microfinance companies, 160 microcredit companies, and 56 microcredit agencies.<sup>53</sup> There were also 136 credit unions, 1 specialized financial credit institution, and 320 currency exchange bureaus as of November 2014. The country also had 669 registered pawnshops, which are not licensed and regulated by the NBKR, as of November 2014.

Despite the growth of the microfinance sector (assets, lending portfolio, and resource base), the number of MFIs has been in gradual decline, from a peak of 651 institutions in 2011. This is due to various factors. There is increasing concentration of assets within the sector. As of November 2014, 67% of total microfinance assets were attributed to the three largest MFIs. Some MFIs that become too large tend to transform into banks. It is expected that, with stricter requirements of the NBKR enforced as of the beginning of 2015, the number of MFIs will be reduced even further. The regulator estimates that up to 70% of existing MFIs will be closed down or merged.

Despite the fact that some MFIs are allowed to take deposits while others have an access to the interbank market, the microfinance sector is largely dependent on foreign capital for funding. This makes it vulnerable to the variety of external shocks. MFIs' foreign funding also partially contributes to high interest rates charged by

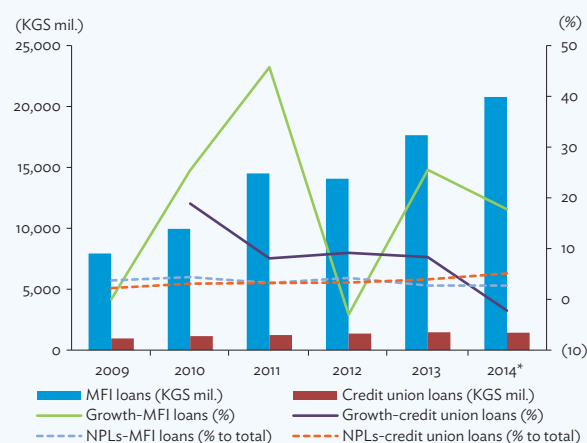
MFIs. Although the weighted average lending rates for MFIs and credit unions decreased by 90 and 70 basis points respectively in 2014, they still remain fairly high at 30.4% for MFIs and 27.1% for credit unions (Figure 4.14). A cap of 35% is set by the NBKR to limit interest rates charged by NBFIs.

Against the GFC and the domestic crisis of 2010, the microfinance sector has shown good recovery, growing its credit portfolio by 45.7% in 2011 and by 17.7% between 2013 and November 2014. The sector reached total loan disbursements of KGS20,780 million for MFIs as of November 2014 (Figure 4.15). Meanwhile, the NPL ratio has declined and stood at 2.7% in November 2014, a downward trend since 2011. This suggests the improvement of MFIs' asset quality.

Credit union lending grew steadily from 2010 to 2013, but contracted by 2.2% as of November 2014 (Figure 4.15). The quality of the credit portfolio has also worsened. As of November 2014, NPLs accounted for 5.1% of the total loans disbursed by credit unions, compared to 3.2% in 2011.

Nonbank finance is an important financing alternative for SMEs and individual entrepreneurs who do not have an access to bank finance (due to low income or inadequate collateral) or those who are located in rural areas where there is no banking infrastructure present.

**Figure 4.15: Nonbank Finance Institution Loans Disbursed**



MFI = microfinance institution, NPL = nonperforming loan.

\* data as of November 2014.

Source: National Bank of the Kyrgyz Republic.

<sup>53</sup> Microfinance companies act as joint-stock companies and are eligible to attract deposits. Microcredit companies and microcredit agencies are less regulated and cannot attract deposits. The main difference between them is that microcredit agencies are not-for-profit organizations as opposed to microcredit companies.



According to the statistics of the NBKR, more than 80% of those who borrow from MFIs are located in rural areas.

Regionally, the largest share of the total lending portfolio of NBFIs is attributed to the capital city Bishkek (66% as of November 2014), followed by the Chui region (32.9%), Osh region (16.6%), and Jalal-Abad region (16.5%). The high level of economic activity in these areas is accountable for this trend.

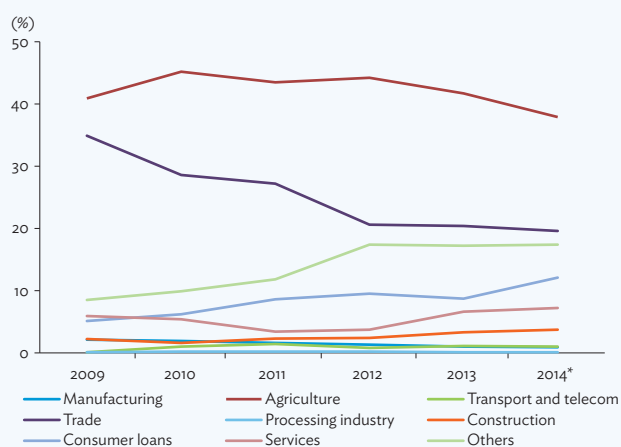
Given the geographic structure of the lending portfolio of MFIs, with the largest share in rural areas, the agriculture sector dominated the demand for loans, to the value of KGS7,885 million or 37.9% as of November 2014. This was followed by the trade sector with a total loan value of KGS4,077 million or 19.6% (Figure 4.16). Consumer loans represented KGS2,522 million or 12.1% of the MFI loans portfolio, but due to unexplained reasons for consumer loans (e.g., a loan is made in order to purchase a cow; however it is unclear whether the borrower is buying it for his own use or in order to conduct an entrepreneurial activity), there is a possibility that some portion of this share is for entrepreneurial activity. The service sector was represented by KGS1,497 million or 7.2% of the total loans disbursed by MFIs as of November 2014.

Lending by credit unions was similarly dominated by agriculture sector loans, standing at KGS609 million or 42.8% as of November 2014. This was followed by the trade sector at KGS535 million or 37.6% of the total loans disbursed by credit unions (Figure 4.17). Service sector loans represented KGS59 million or 4.2% of the total loans portfolio of credit unions as of November 2014.

Short-term and mid-term loans dominate the term structure of credit portfolios of both MFIs and credit unions. As of November 2014, 57.8% of total loans disbursed by MFIs were made for a loan term between 1 and 5 years; 40.9% were made with maturity of less than 1 year; and only 1.3% represented long-term loans of more than 5 years. Term structure of credit union loans was similar to that of MFIs, as of November 2014, with 56% representing loans with the term between 1 and 5 years; 42.6% accounted for loans made for less than a year; while only 1.5% of loans were made for longer than 5 years.

Leasing has yet to be properly developed, even though the legislative environment is favorable. The main obstacle for developing the leasing industry in the country, according to the NBKR, is a lack of overall awareness of leasing among the wider population. All

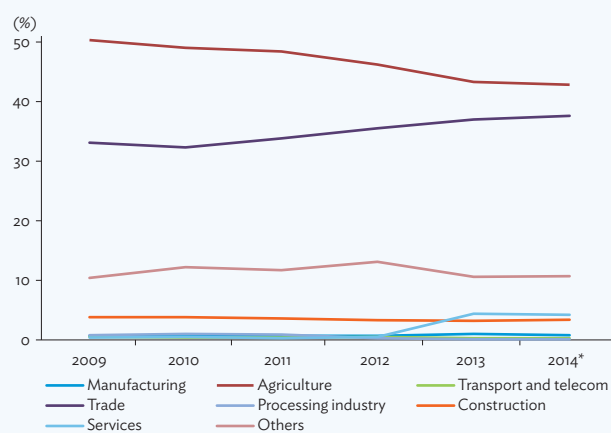
**Figure 4.16: Microfinance Institution Loans by Sector**



\* data as of November 2014.

Source: National Bank of the Kyrgyz Republic.

**Figure 4.17: Credit Union Loans by Sector**



\* data as of November 2014.

Source: National Bank of the Kyrgyz Republic.

registered banks are legally eligible to provide leasing products to population. As of November 2014, there was one microcredit agency, three microcredit companies, and one specialized leasing company actively providing leasing services in the country. The NBKR indicated that the majority of leasing transactions were originated in the agriculture sector, with a maturity of less than 5 years.

Pawnshops and other forms of informal lending are common ways to meet the financing needs of SMEs and individual entrepreneurs. There is no publicly available data on lending activities by pawnshops in the country.

## Capital Markets

The Kyrgyz Stock Exchange, established in 1994, is the only stock exchange in the Kyrgyz Republic. As of the end of 2014, there were 34 listed companies on the exchange, with total market capitalization of KGS9,063 million or 2.6% of GDP. Large and medium enterprises as well as financial services providers make up the equity market, while small firms usually do not meet the exchange's criteria for full listing.

There is no SME board under the Kyrgyz Stock Exchange and no dedicated equity financing venue for SMEs in the country. Management of the Kyrgyz Stock Exchange is not considering the establishment of a specialized SME exchange board, mainly due to the lack of demand for such a board from SMEs. The lack of demand is explained by the low overall financial literacy of SME owners and not understanding or trusting other types of financing, apart from bank or microfinance loans. However, the Kyrgyz Stock Exchange is currently working on relaxing the listing requirements of the existing board, which might potentially encourage listing of smaller companies.

## Policy and Regulation

The Government of the Kyrgyz Republic widely supports development of the private sector, including SMEs, through a number of programs. The Kyrgyz Republic Government Resolution No.533, as of 6 November 2007, assigned the Ministry of Economic Development and Trade of the Kyrgyz Republic (later renamed the Ministry of Economy of the Kyrgyz Republic) as a

responsible government body for policies concerning support and development of the country's private sector. The Ministry plays a role in the development, implementation, and execution of the main private sector development and regulation strategies, including SME policies.

### National Sustainable Development Strategy for the Kyrgyz Republic, 2013–2017 (launched in 2013)

A midterm comprehensive strategy for sustainable development of the Kyrgyz Republic pays due attention to the development of SMEs and particularly emphasizes the need for enhancement of SME competitiveness at the country and regional levels. The program identifies the following tasks that need to be achieved: (i) enhancement of the legislation governing private property rights; (ii) reduction of the state interference in the business regulation process; and (iii) providing financial support to SMEs. The financial support includes the following aspects: (i) simplification of taxation procedures and an increase in the availability of loans for private sector support; (ii) an increase in affordable microfinance resources; (iii) extending midterm exemptions and other preferential treatments to new SMEs in the industrial sector; and (iv) supporting and encouraging the production of environmentally safe goods and services.

### Subsidies for agricultural sector loans (launched in 2012)

The Ministry of Finance has been subsidizing interest rates for agricultural loans in the areas of plant cultivation, livestock farming, and agricultural processing. As of December 2014, the interest rate charged for plant cultivation and livestock farming loans was 10.34%. For agricultural processing loans, the rate was 12.75%. As of December 2014, there were 15,522 loans granted, for a total amount of KGS5,297 million. The livestock farming segment received KGS4,414 million (13,630 loans); the agricultural processing segment was granted KGS778 million (205 loans); and the plant cultivation segment attracted KGS404 million (1,687 loans).

### Municipal guarantee funds (launched in 2011)

According to the Association of Guarantee Funds of the Kyrgyz Republic, there were six municipal guarantee funds functioning in the country as of December

2014. The capital of the funds fully belongs to the municipalities, and they function as not-for-profit funds. The maximum amount of guarantees is no more than 5% of the total fund capital, and no more than 30% of the loan amount. Although the funds were opened recently, the positive effects can already be observed. The total cumulative capital of all funds amounted to KGS32,6 million in 2014, a 66% increase from the previous year. As of December 2013, a total of 285 guarantees were granted, a growth rate of 85%.

### Main directions of banking sector development until 2017 (launched in 2013)

This program was adopted by the management board of the NBKR in 2013 as a mid-term (3-year) strategy for the development of the banking sector, addressing the main challenges to be addressed by the banking sector between 2014 and 2017. The program identifies the following goals to be achieved within the 3-year period: (i) enhancement of the banking sector stability; (ii) strengthening of the government role in developing the banking sector; (iii) creation of the required environment to increase the quality and range of banking products; (iv) improvements to payment systems and promotion of noncash transactions; (v) improvements in the competitive environment and stimulating transparency; (vi) strengthening of depositors' and other banks' (creditors) rights and their protection; (vii) anticorruption measures; and (viii) increasing trust in the banking system. In order to achieve these goals, the NBKR has proposed a complex set of measures to be taken, including measures to: (i) increase overall financial literacy in the population; (ii) further develop credit registries; (iii) promote noncash transactions; (iv) enable further reduction of interest rates, which will help SMEs and individual entrepreneurs access cheaper funds; (v) increase financial intermediation and bring internal savings to the banking system; and (vi) further develop the credit market through development of leasing, mortgage financing, and the promotion of a registry of movable assets.

### Microfinance development strategy, 2011–2015 (launched in 2011)

In the framework of this mid-term strategy, the government, together with the NBKR and key stakeholders, has identified a set of measures to

be taken in order to tackle obstacles that limit development of the microfinance sector in the country. The program identifies several strategic directions to be considered within the framework of the program: (i) aligning government policies and decisions in line with the overall objectives of financial sector development, including enhancement of the financial literacy of the population, promoting consumer protection rights, strengthening and improving the legislative base covering regulatory aspects, and incentives to promote investments in the microfinance sector; (ii) development and implementation of financial support programs; (iii) strengthening the role of the NBKR as a regulator and supervisor of the microfinance sector; (iv) capacity building for microfinance sector players; (v) providing an enabling environment for the development of microfinance products; (vi) strengthening credit information through further development of the credit bureau; (vii) infrastructure development (IT, audit, etc.); (viii) supporting innovations in the microfinance sector; and (ix) strengthening the social responsibility of the microfinance sector. Implementation of this program is expected to further develop the microfinance sector of the Kyrgyz Republic, which is subsequently expected to enhance access to finance for the overall population, including SMEs and individual entrepreneurs in rural areas.

### Women entrepreneurship development program (launched in 2014)

The main objective of this project is to improve living standards among women in rural areas and small towns of the Kyrgyz Republic, through developing the potential and capacity of entrepreneurship by women. The project is funded by an Asian Development Bank (ADB) grant (through the Japan Fund for Poverty Reduction), administered by ADB, and executed by the Ministry of Economy of the Kyrgyz Republic. At the first stage of the project, 300 selected women entrepreneurs from all over the country will be trained, with a view to increasing the sustainability of their businesses as well as to enhancing their capacity to access finance. The training will cover such aspects as financial literacy, business development, leadership, and communications skills. The program will also train 100 credit experts from partner financial institutions and 100 representatives of local authorities and policymakers.

Table 4.4: SME Landscape

Item	2007	2008	2009	2010	2011	2012	2013
<b>Number of SMEs</b>							
Registered SMEs (number)	9,852	11,988	12,221	12,163	12,211	11,932	12,547
Registered Individual Entrepreneurs [IEs] (number)	193,425	204,246	222,700	244,950	267,776	297,895	329,737
SMEs to total registered enterprises (%)	...	...	...	...	...	...	97.7
SME growth (%)	6.3	21.7	1.9	(0.5)	0.4	(2.3)	5.2
IE growth (%)	7.7	5.6	9.0	10.0	9.3	11.2	10.7
Agriculture (SMEs, number)	293	351	378	377	403	481	440
Manufacturing (SMEs, number)	1,837	2,209	2,248	2,214	2,203	2,112	2,206
Construction (SMEs, number)	1,034	1,265	1,270	1,276	1,293	1,220	1,296
Trade (SMEs, number)	2,948	3,595	3,520	3,408	3,382	3,131	3,279
Services (SMEs, number)	2,636	3,253	3,448	3,513	3,554	3,593	3,778
Others (SMEs, number)	1,091	1,296	1,343	1,360	1,360	1,379	1,532
Agriculture (% to SMEs)	3.0	2.9	3.1	3.1	3.3	4.0	3.5
Manufacturing (% to SMEs)	18.6	18.4	18.4	18.2	18.0	17.7	17.6
Construction (% to SMEs)	10.5	10.6	10.4	10.5	10.6	10.2	10.3
Trade (% to SMEs)	29.9	30.0	28.8	28.0	27.7	26.2	26.1
Services (% to SMEs)	26.8	27.1	28.2	28.9	29.1	30.1	30.1
Others (% to SMEs)	11.1	10.8	11.0	11.2	11.1	11.6	12.2
<b>Employment by SMEs</b>							
SME employees (people)	...	...	92,878	88,731	85,930	87,540	87,650
SME employees to total (%)	...	...	...	...	...	...	3.9
SME employees growth (%)	...	...	(4.0)	(4.5)	(3.2)	1.9	0.1
Agriculture (people)	...	...	5,489	5,318	5,480	5,564	5,358
Manufacturing (people)	...	...	33,098	31,426	31,128	30,351	30,658
Construction (people)	...	...	15,353	13,052	12,596	12,692	12,028
Trade (people)	...	...	13,188	12,868	11,696	12,365	12,807
Services (people)	...	...	19,076	19,439	18,683	20,134	20,324
Others (people)	...	...	6,589	6,531	6,267	6,357	6,399
Agriculture (% to SME employees)	...	...	5.9	6.0	6.4	6.4	6.1
Manufacturing (% to SME employees)	...	...	35.6	35.4	36.2	34.7	35.0
Construction (% to SME employees)	...	...	16.5	14.7	14.7	14.5	13.7
Trade (% to SME employees)	...	...	14.2	14.5	13.6	14.1	14.6
Services (% to SME employees)	...	...	20.5	21.9	21.7	23.0	23.2
Others (% to SME employees)	...	...	7.1	7.4	7.3	7.3	7.3
<b>SME Contribution to GDP</b>							
Nominal GDP of SMEs (KGS mil.)	...	24,401	26,879	27,864	33,441	37,286	42,058
Nominal GDP of IEs (KGS mil.)	...	32,806	37,711	37,421	48,063	55,367	60,407
Nominal GDP of Farms (KGS mil.)	...	28,111	21,045	25,479	31,627	31,419	33,150
SME contribution to GDP (%)	...	13.0	13.4	12.6	11.6	12.0	12.0
IE contribution to GDP (%)	...	17.5	18.7	17.0	16.8	17.8	17.3
Farms contribution to GDP (%)	...	15.0	10.5	11.6	11.1	10.1	9.5
Combined contribution to GDP (SMEs+IEs+Farms) (%)	...	45.5	42.6	41.2	39.5	39.9	38.8

GDP = gross domestic product, IE = individual entrepreneur, SME = small and medium-sized enterprise.

Source: National Bank of the Kyrgyz Republic.

Table 4.5: Banking Sector

Item	2009	2010	2011	2012	2013	2014*
Loans Disbursed (KGS mil.)	25,214	26,382	31,217	40,105	53,961	76,916
Growth of total loans (%)	...	4.6	18.3	28.5	34.5	42.5
Total loans (less than 1 year)	7,018	6,733	7,133	9,164	9,153	12,105
Total loans (1–3 years)	12,065	11,292	13,088	18,113	25,176	34,805
Total loans (more than 3 years)	5,359	6,743	9,765	11,531	17,863	28,147
Total loans (less than 1 year) (% to total)	27.8	25.5	22.8	22.8	17.0	15.7
Total loans (1–3 years) (% to total)	47.8	42.8	41.9	45.2	46.7	45.2
Total loans (more than 3 years) (% to total)	21.3	25.6	31.3	28.8	33.1	36.6
NPLs (% to total)	3.1	6.1	3.9	3.2	3.3	2.4
Average interest rate (LCY)	25.3	22.9	22.4	22.9	20.7	19.5
Average interest rate (FX)	20.6	19.3	17.8	17.3	16.4	16.1
<b>Loans by Sector (% to total)</b>						
Manufacturing	5.5	5.6	5.3	5.6	8.1	8.1
Agriculture	12.2	12.7	12.7	15.1	17.4	18.9
Trade	41.5	43.0	42.8	40.0	36.8	35.5
Construction	7.7	7.7	5.6	5.5	5.8	6.1
Others incl. consumer loans	33.1	31.0	33.6	33.8	31.9	31.5

\* data as of November 2014.

Source: National Bank of the Kyrgyz Republic.

Table 4.6: Microfinance Institution Loans

Item	2009	2010	2011	2012	2013	2014*
Loans Disbursed (KGS mil.)	7,932	9,948	14,499	14,061	17,650	20,780
Growth of total loans (%)	...	25.4	45.7	(3.0)	25.5	17.7
NPLs (% to total)	3.7	4.4	3.2	4.2	2.7	2.7
Number of MFIs	359	397	454	320	277	221
<b>Loans by Sector (% to total)</b>						
Manufacturing	2.1	1.9	1.6	1.3	1.0	0.9
Agriculture	40.9	45.2	43.5	44.2	41.7	37.9
Transport and telecom	0.1	1.0	1.4	0.8	1.1	1.0
Trade	34.9	28.6	27.2	20.6	20.4	19.6
Processing industry	0.1	0.2	0.2	0.2	0.1	0.1
Construction	2.2	1.6	2.3	2.4	3.3	3.7
Consumption	5.1	6.2	8.6	9.5	8.7	12.1
Services	5.9	5.4	3.4	3.7	6.6	7.2
Others	8.5	9.9	11.8	17.4	17.2	17.4

\* data as of November 2014.

Source: National Bank of the Kyrgyz Republic.

Table 4.7: Credit Union Loans

Item	2009	2010	2011	2012	2013	2014*
Loans Disbursed (KGS mil.)	959	1,140	1,232	1,345	1,457	1,424
Growth of total loans (%)	...	18.9	8.1	9.2	8.3	(2.2)
NPLs (% to total)	2.2	3.1	3.2	3.3	3.9	5.1
Number of credit unions	238	217	197	183	153	136
<b>Loans by Sector (% to total)</b>						
Manufacturing	0.7	0.8	0.7	0.7	1.0	0.8
Agriculture	50.3	49.0	48.4	46.2	43.3	42.8
Transport and telecom	0.5	0.4	0.4	0.5	0.3	0.3
Trade	33.1	32.3	33.8	35.5	37.0	37.6
Processing industry	0.8	1.0	0.9	0.3	0.1	0.1
Construction	3.8	3.8	3.6	3.3	3.2	3.4
Services	0.4	0.5	0.3	0.5	4.4	4.2
Others	10.4	12.2	11.7	13.1	10.6	10.7

\* data as of November 2014.

Source: National Bank of the Kyrgyz Republic.

Table 4.8: Market Performance—Kyrgyz Stock Exchange

Item	2008	2009	2010	2011	2012	2013	2014/Q3
<b>Equity</b>							
Kyrgyz Stock Index	96.3	90.9	107.3	220.1	224.4	259.8	260.1
Market capitalization (KGS mil.)	3,697	3,168	3,740	7,671	7,820	9,052	9,063
Trading value (KGS mil.)	4,080	2,921	419	1,300	1,067	1,215	655
Trading volume (mil. shares)	390	429	901	450	394	90	309
Listed companies	9	8	9	11	16	16	16
New listed companies	5	3	2	2	5	...	...
Delisted	6	4	1	...	...	...	...
<b>Corporate Bonds</b>							
Total bond issuance (KGS mil.)	...	29.1	30.0	42.3	63.6	247.1	172.4

Q3 = third quarter.

Source: Kyrgyz Stock Exchange.

Table 4.9: SME Policy and Regulation

Regulations		
Name		Outline
Government Resolution No.78 (1998), amended as Government Resolution No.590 (2002)	Classification of SMEs	
Law on Banks and Banking in the Kyrgyz Republic (1997)	Legislation, governing banking activities	
Law on Micro-Finance Organizations in the Kyrgyz Republic (2002)	Legislation, governing activities of microfinance organizations	
Law on Credit Unions (1999)	Legislation, governing activities of credit unions	
Regulators and Policymakers		
Name		Responsibility
National Bank of the Kyrgyz Republic (NBKR)	Regulate and supervise commercial banks and nonbanks	
Ministry of Economy of the Kyrgyz Republic (MOE)	Policy on development and support of private sector	
Ministry of Finance of the Kyrgyz Republic (MOF)	Providing subsidies for SME loans	
Policies		
Name	Responsible Entity	Outline
National Sustainable Development Strategy for the Kyrgyz Republic 2013-2017 (2013)	MOE	A mid-term strategic framework for sustainable development of the Kyrgyz Republic, addressing the SME development of competitiveness at the country and regional levels.
Subsidies for the Agricultural Sector Loans (2012)	MOF	Enabling subsidized lending in the agriculture sector.
Municipal Guarantee Funds (2011)	Municipalities	Provision of credit guarantees for SMEs by municipalities.
Main Directions of the Banking Sector Development until 2017 (2013)	NBKR	Program adopted by the Management Board of the NBKR in 2013 as a mid-term (3 years) strategy for developing the banking sector, addressing the main challenges and aims to be reached by the banking sector between 2014 and 2017.
Microfinance Development Strategy 2011–2015 (2011)	NBKR	In this mid-term strategy, the government together with the NBKR and key stakeholders identifies a set of measures to be taken to tackle obstacles that limit development of the microfinance sector in the country, and explores strategic directions.
Women Entrepreneurship Development Program (2014)	MOE	The project aims to improve living standards among women in rural areas and small towns of the Kyrgyz Republic through developing a potential and capacity of female entrepreneurship. The project funded by ADB grant (Japan Fund for Poverty Reduction), which administered by ADB and executed by the MOE.

ADB = Asian Development Bank, SME = small and medium-sized enterprise.

( ) refers to the year when the program/initiative was launched.

Sources: National Bank of Kyrgyz Republic; Ministry of Economy of Kyrgyz Republic; Ministry of Finance of Kyrgyz Republic; Association of Guarantee Funds of Kyrgyz Republic.



# Tajikistan

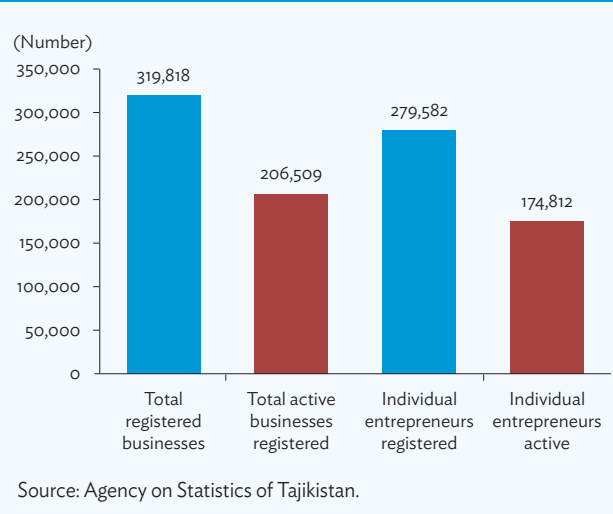
## SME Landscape

Small and medium-sized enterprises (SMEs) are playing a crucial role in providing a solid basis for the sustainable national economy, job creation, and improving living standards for the citizens of Tajikistan. Law No.1107 on Government Protection and Support of Entrepreneurship—enacted in July 2014 to promote the government program on supporting entrepreneurship until 2020—defines SMEs in Tajikistan. This is the primary legal definition of SMEs in the country. According to this law, small enterprises are individual entrepreneurs or legal entities with an annual turnover not exceeding TJS500,000. The law restricts the following activities of small enterprises: (i) excisable manufacturing, e.g., production of pharmaceuticals, spirits, and perfume; (ii) supply of primary aluminum; (iii) banking and insurance; (iv) management of investment funds; and (v) stock market activities. Medium-sized enterprises are defined as legal entities with an annual turnover between TJS500,000 and TJS15 million.

According to the Agency on Statistics of Tajikistan, there were a total of 319,918 registered businesses in Tajikistan as of January 2014, of which 206,509 firms or 64.6% of businesses were active (Figure 4.18). Individual entrepreneurs numbered 279,582, of which 174,812 (84.7%) were regarded as active. Although SME statistics have yet to be compiled in the country, these figures underpin the importance of the SME sector to the economy.

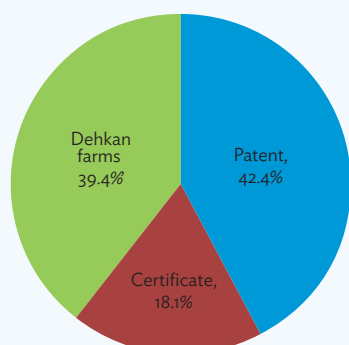
Based on the estimates of the National Association of SMEs in Tajikistan, the SME sector provides more than

**Figure 4.18: Number of Businesses Registered and Individual Entrepreneurs, 2014**



half of the total employment in the country. Nearly half of the active individual entrepreneurs (42.4%) operate under the patent, where a simplified form of registration is available to those entrepreneurs whose annual turnover does not exceed TJS200,000. The patent registration provides for simplified tax filing. However, it does not allow being involved in export and import of goods and restricts the hiring of employees. Of the active individual entrepreneurs 42.4% work under patent, 18.1% work under certificate, and the rest (39.4%) are registered as dehkan farms (privately owned commercial farms), which were reorganized from the state-owned and collective farms that existed during the Soviet era (Figure 4.19).

**Figure 4.19: Composition of Individual Entrepreneurs, 2014**



Source: Agency on Statistics of Tajikistan.

## Banking Sector

There are 17 commercial banks with a total of 339 branches operating across Tajikistan, as of December 2014. These banks cover more than 80% of the total assets of financial institutions active in the country. The remaining 20% is held by nonbank financial institutions (NBFIs) including microfinance institutions (MFIs). The National Bank of Tajikistan, the country's central bank, regulates and supervises licensed commercial banks and NBFIs in Tajikistan.

The country's banking system remains weak and the credit penetration to the public is shallow. According to the National Bank of Tajikistan, total loans disbursed by banks reached TJS8,705 million, as of September 2014, which made up 20.5% of GDP (Figure 4.20 and Table 4.10). Although the total credit portfolio of banks increased by 22.8% from 2013 to September 2014, such a trend is not viewed as positive due to the deteriorating credit portfolio and high level of nonperforming loans (NPLs), particularly among individual borrowers. For instance, NPLs rose from 18.2% in 2012 to 24.9% in the second quarter of 2014.

There is no clear classification of SME loans across the banking sector in Tajikistan. For corporate lending, banks typically distinguish between state-owned enterprises, private enterprises, and individual entrepreneurs. Commercial banks' lending to private enterprises reached TJS3,409 million as of November 2014, a 18.3% increase from 2013, accounting for 39.2% of the total loans disbursed (Figure 4.21). Bank loans to individual entrepreneurs amounted to TJS2,388 million as of November 2014, a 27.3% increase from 2013, representing 27.4% of the total loans disbursed. Bank loans to households represented TJS1,820 million as of November 2014, an 11% increase from 2013, or 20.9% of the total loans disbursed (this is expected to include some loans to SME owners). Bank loans to state-owned enterprises amounted to TJS919 million

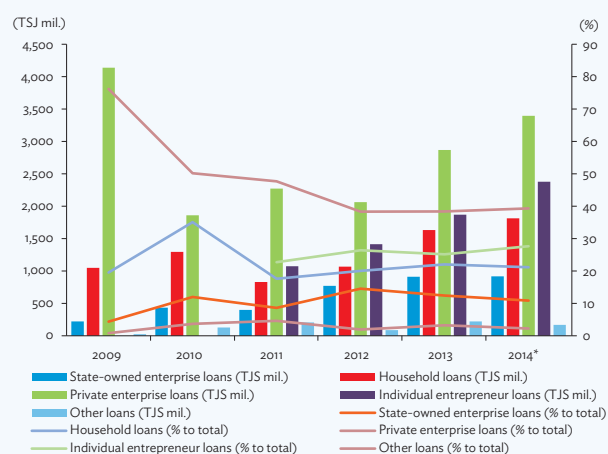
**Figure 4.20: Bank Loans Disbursed**



\* data as of November 2014.

Source: National Bank of Tajikistan.

**Figure 4.21: Bank Loans by Type**



\* data as of November 2014.

Source: National Bank of Tajikistan.

or 10.6% of the total loans disbursed as of November 2014. The remaining 1.9% was unclassified. Given the high penetration of the informal economy, SME access to bank credit or formal financial institutions would be critically limited.

By business sector, the wholesale and retail trade sector represented the largest share of the total bank loans portfolio, accounting for TJS1,708 million or 19.6% as of November 2014 (Figure 4.22). The manufacturing sector, mainly represented by large companies such as aluminum plant and hydroelectric power installations, attracted TJS1,487 million or 17.1% of the total loans disbursed as of November 2014. The share of the agriculture sector in total bank loans disbursed reached 11.8% or TJS1,029 million as of November 2014. High incentive for the banks to lend to the trade sector, which is typically dominated by SMEs and individual entrepreneurs, is attributed to the sector's strong short-term funding needs and their ability to make quick repayments, backed by a high velocity of turnover. The agriculture and manufacturing sectors are suffering from a lack of capital to operate their business and invest in fixed assets.

The International Finance Corporation (IFC) Survey of the Business Environment in Tajikistan as seen by SMEs (December 2009) has identified the following barriers that limit SME access to finance in the country: (i) strict

collateral policies; with many potential borrowers struggling to provide sufficient collateral to back up their loans and therefore having their applications rejected; (ii) lack of properly developed credit bureaus; a private credit bureau was established in 2012 but was underdeveloped; (iii) a lack of financial literacy; many entrepreneurs do not even turn to the banks in order to get loans and prefer to use informal sources of finance.

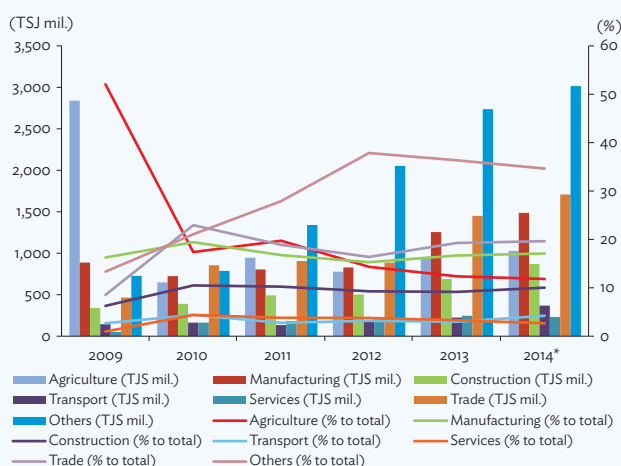
The country's low level of financial literacy negatively affects the deposit base of banks. According to the National Bank of Tajikistan, the total value of deposits in the banking sector was TJS5,759 million or 13.6% of GDP as of November 2014. Although the amount has almost doubled since 2010, the deposits-to-GDP ratio remained at the same level of 13%–14%. In order to attract more deposits, banks offer their clients relatively high interest rates (around 16% on average as of November 2014), which partly explains the higher rates charged for loans.

## Nonbank Sector

The microfinance sector in Tajikistan is, to some extent, filling gaps left by the banking system, particularly in the rural areas where banking penetration is much lower. According to the National Bank of Tajikistan, there were 120 MFIs registered in the country as of the end of 2014. MFIs comprise 42 microcredit deposit organizations, 42 microcredit organizations, and 36 microcredit funds. The MFI sector has experienced a tremendous growth in credit portfolio over the past few years. Total loans disbursed by MFIs in 2013 increased by 40.4% compared to the previous year (Figure 4.23). Despite such accelerated growth, the NPL ratio remains low compared to the banking sector, at 3.2% in 2014 for deposit-taking microcredit organizations. However, some challenges still remain in the sector. Many MFIs are facing liquidity and funding shortages as not all of them are allowed to perform deposit-taking activities. The high level of dollarization is also posing a threat to MFIs and their clients, as a large number of loans are denominated or indexed in foreign currency (usually US dollars), exposing them to the increasing foreign exchange risks.

Given that MFIs offer less strict collateral policies than banks and have better coverage of rural areas, the agriculture sector comprises the largest share of

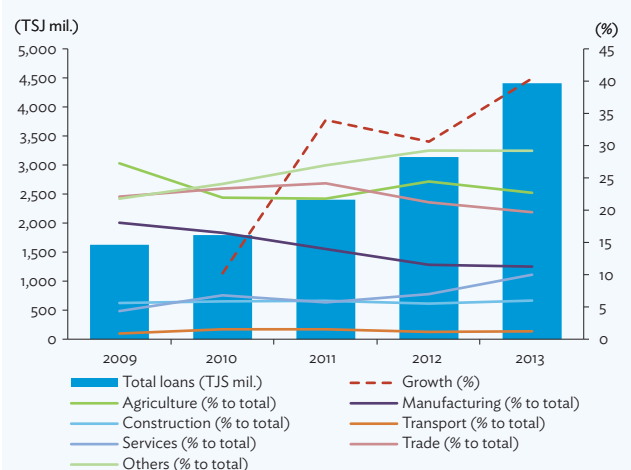
Figure 4.22: Bank Loans by Sector



\* data as of November 2014.

Source: National Bank of Tajikistan.

**Figure 4.23: Microfinance Institution Loans Disbursed**



Source: National Bank of Tajikistan.

total loans disbursed by MFIs. In 2013, it amounted to TJS1,001 million or 22.7% of the total loans disbursed. The wholesale and retail trade raised TJS867 million or 19.7% via MFIs. The manufacturing sector (e.g., light industry and food processing) and the service sector (e.g., hospitality, tourism, and educational services) represented 11.2% and 10.0%, respectively, of the total MFI loans disbursed in 2013.

According to the Association of Banks of Tajikistan, there are currently seven leasing companies in the country but only four of them are active. Some MFIs are currently developing leasing products. The First Microfinance Bank is taking its first steps in this area. It is expected that such products would positively affect access to mid-term finance for SMEs, especially those in the agriculture and manufacturing sectors. Leasing deals in Tajikistan are usually of a short-term nature and range from 2 months to a maximum of 5 years in the local currency, and from 1 year to 5 years in foreign currency. Annual interest rates charged by leasing companies range from 22% to 30% in local currency, and from 18% to 28% in foreign currency. Trade finance products have been offered by the Tojiksodirotbank. Among them, import financing and guarantees are provided, with advice on and authentication of guarantees issued by foreign banks.

There are currently no factoring instruments provided by banks or independent factoring firms in Tajikistan.

## Capital Markets

There is no established stock exchange and no plan or policy discussions being held to create one in Tajikistan.

## Policy and Regulation

Understanding the significant importance of the SME sector development and its social and economic aspects, the Government of Tajikistan has been undertaking several measures in order to support such development. The following section touches on the most recent measures undertaken by government authorities in Tajikistan.

### Program for government support of entrepreneurship in Tajikistan, up to 2020

This program was approved by the government in April 2012, as a long-term strategy for the creation and support of an enabling environment for entrepreneurs, which will promote socioeconomic development through job creation and shared prosperity among the citizens of Tajikistan. The program identifies a set of measures that are to be undertaken and supported by the government: (i) reforming the legislation governing entrepreneurial activity; (ii) modernization of production and technological processes; (iii) attracting foreign and local investments; (iv) strengthening the institute of the public-private partnerships; (v) enhancing access to finance for SMEs; and (vi) providing SMEs with government subsidies and guarantees.

### Creation of the Entrepreneurship Support Fund of Tajikistan

The Entrepreneurship Support Fund of Tajikistan was established in 2013, within the framework of the government support of entrepreneurship up to 2020, as a measure to increase availability of long-term finance for entrepreneurs, including SMEs. The fund, under management of the State Committee on Investment and State Property Management of Tajikistan, provides low-interest loans for eligible projects in any industry. However, the fund mainly aims to target start-ups as well as projects in areas where entrepreneurship is least developed. The management of the fund expects that these measures will be of particular advantage to the manufacturing sector.

The mechanism of credit processing under the fund is the same as in the commercial banks, with the exception that funding is provided in the local currency, with an annual fixed interest rate charged at 12%, and average maturity of 2 years (there is a maximum term of 3 years). Collateral is required to secure the

lending, and only real estate security is acceptable. As of the end of 2014, loans were granted to more than 84 projects, with around 20 more projects in the pipeline. The state budget has already allocated TJS63 million, and TJS130 million more is to be allocated in 2015.

**Table 4.10: Banking Sector**

Item	2009	2010	2011	2012	2013	2014*
<b>Loans Disbursed</b>						
Total loans (TJS mil.)	5,453	3,728	4,800	5,421	7,531	8,705
Growth (%)	...	(31.6)	28.7	13.0	38.9	15.6
Total loans to GDP (%)	26.4	15.1	16.0	15.0	18.6	20.5
<b>Loans by Type</b>						
State-owned enterprise loans (TJS mil.)	221	435	400	773	915	919
Growth (%)	...	97.1	(8.0)	93.0	18.4	0.5
Household loans (TJS mil.)	1,052	1,300	833	1,072	1,639	1,820
Growth (%)	...	23.6	(36.0)	28.8	52.9	11.0
Private enterprise loans (TJS mil.)	4,156	1,867	2,283	2,071	2,881	3,409
Growth (%)	...	(55.1)	22.3	(9.3)	39.1	18.3
Individual entrepreneur loans (TJS mil.)	...	...	1,079	1,420	1,876	2,388
Growth (%)	...	...	...	31.7	32.0	27.3
Other loans (TJS mil.)	24	126	205	86	221	169
Growth (%)	...	417.3	63.4	(58.4)	158.0	(23.6)
State-owned enterprise loans (% to total)	4.0	11.7	8.3	14.3	12.1	10.6
Household loans (% to total)	19.3	34.9	17.3	19.8	21.8	20.9
Private enterprise loans (% to total)	76.2	50.1	47.6	38.2	38.3	39.2
Individual entrepreneur loans (% to total)	...	...	22.5	26.2	24.9	27.4
Other loans (% to total)	0.4	3.4	4.3	1.6	2.9	1.9
<b>Loans by Sector</b>						
Agriculture (TJS mil.)	2,840	648	946	777	932	1,029
Manufacturing (TJS mil.)	886	724	804	829	1,254	1,487
Construction (TJS mil.)	341	390	491	502	688	870
Transport (TJS mil.)	144	163	132	172	223	366
Services (TJS mil.)	51	162	181	203	246	230
Trade (TJS mil.)	465	856	907	886	1,449	1,708
Others (TJS mil.)	726	785	1,339	2,052	2,738	3,015
Agriculture (% to total)	52.1	17.4	19.7	14.3	12.4	11.8
Manufacturing (% to total)	16.2	19.4	16.7	15.3	16.7	17.1
Construction (% to total)	6.3	10.5	10.2	9.3	9.1	10.0
Transport (% to total)	2.6	4.4	2.8	3.2	3.0	4.2
Services (% to total)	0.9	4.4	3.8	3.7	3.3	2.6
Trade (% to total)	8.5	22.9	18.9	16.3	19.2	19.6
Others (% to total)	13.3	21.1	27.9	37.8	36.4	34.6

\* data as of November 2014.

Source: National Bank of Tajikistan.

Table 4.11: Microfinance Institution Loans

Item	2009	2010	2011	2012	2013
<b>Loans Disbursed</b>					
Total loans (TJS mil.)	1,627	1,793	2,403	3,138	4,408
Growth (%)	...	10.2	34.0	30.6	40.4
<b>Loans by Sector</b>					
Agriculture (TJS mil.)	443	393	523	767	1,001
Manufacturing (TJS mil.)	294	295	336	362	496
Construction (TJS mil.)	91	105	143	173	264
Transport (TJS mil.)	14	27	37	35	53
Services (TJS mil.)	71	122	137	219	440
Trade (TJS mil.)	359	419	580	665	867
Others (TJS mil.)	354	432	647	918	1,287
Agriculture (% to total)	27.3	21.9	21.8	24.4	22.7
Manufacturing (% to total)	18.1	16.5	14.0	11.5	11.2
Construction (% to total)	5.6	5.9	5.9	5.5	6.0
Transport (% to total)	0.9	1.5	1.5	1.1	1.2
Services (% to total)	4.3	6.8	5.7	7.0	10.0
Trade (% to total)	22.1	23.4	24.2	21.2	19.7
Others (% to total)	21.8	24.1	26.9	29.2	29.2

Source: National Bank of Tajikistan.

Table 4.12: SME Policy and Regulation

Regulations		
Name	Outline	
Law No.1107 on the Government Protection and Support of Entrepreneurship (2014)	SME definition; regulation of civil affairs concerned with the government protection, and support and development of entrepreneurship	
Law on Microfinance Organizations (2012)	Regulation of microfinance activities	
Law on Banking Activities (2009)	Regulation of banking activities	
Regulators and Policymakers		
Name	Responsibility	
National Bank of Tajikistan	Regulate and supervise commercial banks and nonbanks	
State Committee on Investment and State Property Management of Tajikistan	Develop policies related to the private sector development	
Entrepreneurship Support Fund of Tajikistan	Financial support for SMEs	
Policies		
Name	Responsible Entity	Outline
Program for government support of entrepreneurship in Tajikistan up to 2020 (2012)	State Committee on Investment and State Property Management of Tajikistan	The program, as a long-term strategy, identifies the set of measures that are to be undertaken and supported by the government: (i) reforming the legislation governing entrepreneurial activity; (ii) modernization of production and technological processes; (iii) attracting foreign and local investments; (iv) strengthening the institute of the public-private partnerships; (v) enhancing access to finance for SMEs; and (vi) providing SMEs with government subsidies and guarantees.
Creation of the Entrepreneurship Support Fund of Tajikistan (2013)	Entrepreneurship Support Fund of Tajikistan	1) Provide loans to SMEs at a subsidized interest rate fixed at 12% 2) Target start-up projects and those from the areas where the entrepreneurship developed the least

SME = small and medium-sized enterprise.

( ) refers to the year when the program/initiative was launched.

Sources: National Bank of Tajikistan; State Committee on Investment and State Property Management of Tajikistan.

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# Country Reviews

## East Asia

People's Republic of China

Republic of Korea

Mongolia

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# People's Republic of China

## SME Landscape

The economy of the People's Republic of China (PRC) continues to decelerate as its property market remains on the downturn. The PRC's National Bureau of Statistics showed a lower economic expansion of 7.4% in 2014, compared with 7.7% in 2013.

Against this backdrop, small and medium-sized enterprises (SMEs) have an important role to play in ensuring continual output and employment growth in the PRC. The National Bureau of Statistics reported in 2013 that SMEs generated 60% of the country's gross domestic product (GDP) and 50% of fiscal and tax revenue.

The size and scale of SMEs in PRC are relatively larger than those in other countries. The National Bureau of

Statistics compiled SME data based on firms employing fewer than 1,000 persons or having annual turnover not exceeding CNY400 million. According to this criterion, SMEs numbered 343,135 in 2013, a 2.6% increase from the previous year (Figure 4.24). This number represented 97.3% of total industrial enterprises.

SMEs are also the country's biggest job-creating sector. According to the 2011 data, SMEs employed 59,357,300 people or 64.7% of total workforces in industrial enterprises (Figure 4.25).

The SME sector is closely integrated with international trade, accounting for 41.5% of total export value of industrial enterprises at CNY4,423 billion in 2012 (Figure 4.26).

Figure 4.24: Number of SMEs

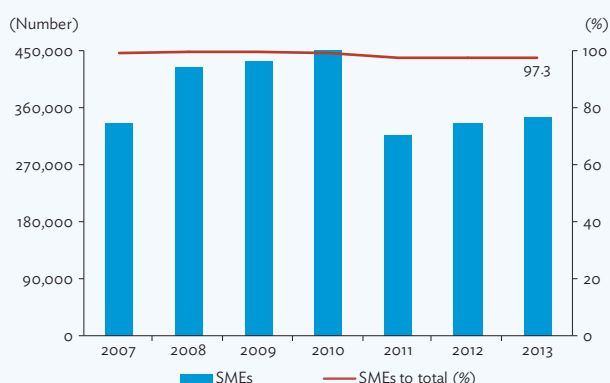
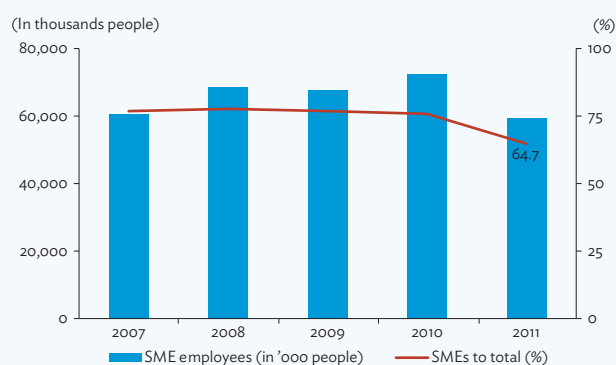


Figure 4.25: Employment by SMEs



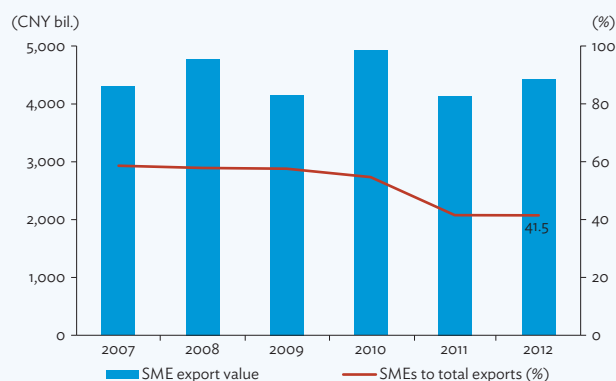
SME = small and medium-sized enterprise.

Notes: The data covers industrial enterprises above a certain operational scale. During 2007–2010, “above operational scale” refers to all industrial enterprises that generate a minimum annual income of CNY5 million from their core business. During 2011–2012, “above operational scale” refers to all industrial enterprises that generate a minimum annual income of CNY20 million from their core business. The industry sector includes mining; manufacturing; and electricity, gas, and water production and supply industries.

Data from 2007–2010 is based on the 2003 SME classification criteria, while data from 2011–2013 is based on the 2011 SME classification criteria.

Source: National Bureau of Statistics.

Figure 4.26: SME Exports



SME = small and medium-sized enterprise.

Notes: The data covers industrial enterprises above a certain operational scale. During 2007–2010, “above a certain operational scale” refers to all industrial enterprises that generated a minimum annual income of CNY5 million from their core business. During 2011–2012, “above a certain operational scale” refers to all industrial enterprises that generated a minimum annual income of CNY20 million from their core business. The industry sector includes mining; manufacturing; and electricity, gas, and water production and supply industries.

Data from 2007–2010 is based on the 2003 SME classification criteria, while data from 2011–2012 is based on the 2011 SME classification criteria.

Source: National Bureau of Statistics.

## Banking Sector

The PRC’s banking system comprises (i) commercial banks, (ii) credit cooperatives, and (iii) other financial institutions that include finance companies, leasing companies, postal savings banks, and financial asset management companies. These, together with specific financial institutions, are categorized as banking institutions.

Commercial bank loans to micro and small enterprises (MSEs) are on the rise. Outstanding loans for MSEs as of the end of 2014 amounted to CNY15,460 billion, a 17% increase from 2013 (Figure 4.27). However, MSE loans constitute still small part of commercial bank lending, accounting for 30.4% of total enterprise loans, and 18.9% of total bank loans in 2014. MSE loans to GDP stood at 24.3% in the same period.

The statistical methodology on SME lending has been changed since 2012 in the PRC. SME loans data were available until 2012, but the MSE loans data

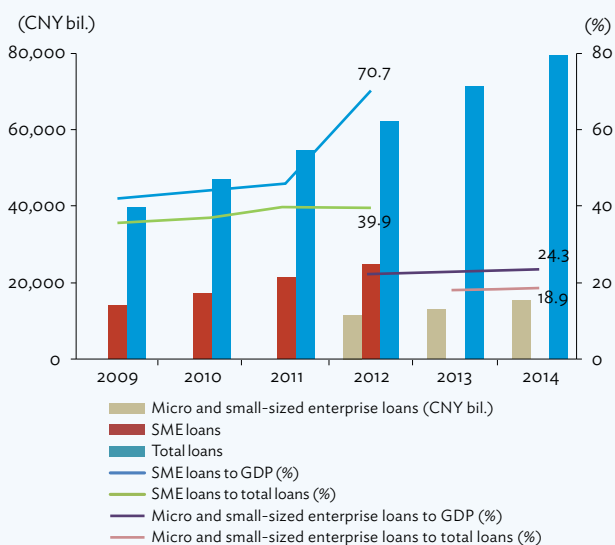
have been compiled with new classification criteria since 2012.

Given that bank credit is the predominant funding channel for enterprises in the country, poor access to bank loans is a critical constraint for the growth of SMEs in the PRC. Banks tend to put SMEs in an unfavorable position because of the high risk associated with SMEs. Basel III, a global standard of banking supervision, has accelerated this trend in banks in the PRC.

The real-term lending rate received by SMEs is more than 15% per annum—a higher rate compared to 3% to 4% for large state-owned enterprises. Addressing this issue, the Government of the PRC in its 12th Five-year Plan stressed the importance of a credit guarantee system to help increase loans for SMEs.

The State Council, a core institution for formulating the country’s financial policies, released a guideline intended to improve SME access to banking institutions, addressing streamlining SME lending process to minimize transaction costs and promoting service efficiency and financial innovations.

Figure 4.27: SME Loans Outstanding

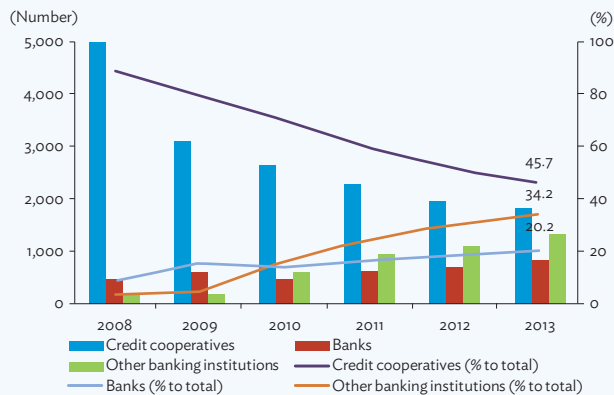


GDP = gross domestic product, SME = small and medium-sized enterprise.

Note: Based on revised national SME definition in 2011.

Source: People’s Bank of China. Computation based on publicly available data.

Figure 4.28: Number of Banking Institutions



Source: China Banking Regulatory Commission Annual Report. Various Issues.

Among banking institutions, credit cooperatives accounted for the large share at 45.7% to total number in 2013, while commercial banks stood at 20.2% (Figure 4.28). However, the number of banks has been increasing since 2011 while that of credit cooperatives has been decreasing.

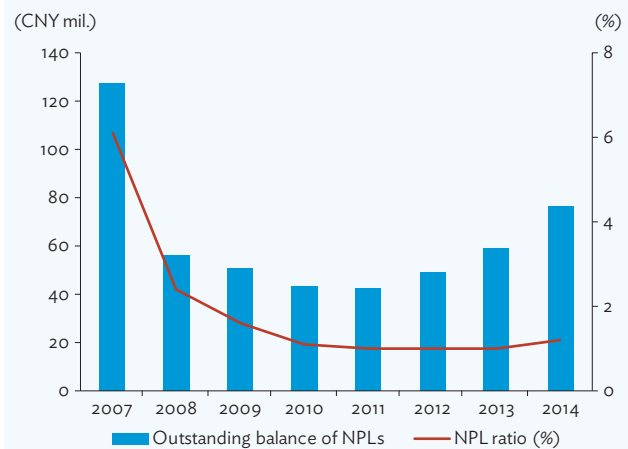
Although the banking sector has been expanding, a special attention should be given to the quality development of the banking sector, especially the lending market in the PRC. Commercial banks' net nonperforming loans (NPLs) have been increasing since 2012. As of September 2014, net NPL stood at CNY76.7 million or 1.2% of total outstanding loans by commercial bank, an increase from 1.0% in 2013 (Figure 4.29).

Given the strengthened capital requirements under Basel III, as well as new rules of liquidity frameworks and leverage ratio frameworks, negative impact on SME lending has become a critical concern in the PRC. In particular, SMEs actively participate in international trade in the PRC. Limited availability of trade finance may be caused by tighter risk based lending by banks.

## Nonbank Sector

Nonbank Financial Institutions (NBFIs), mainly comprising microcredit companies, pawn enterprises, financial leasing companies, and venture capital

Figure 4.29: Nonperforming Loans—Commercial Banks



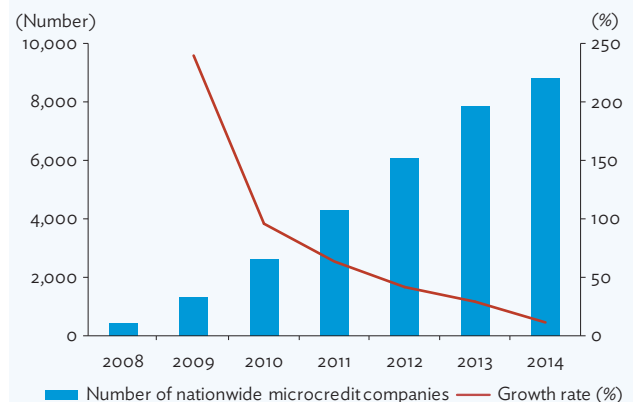
NPL = nonperforming loan.

Source: China Banking Regulatory Commission Annual Report. Various Issues.

companies, have become more important vehicles among SMEs as alternative funding sources.

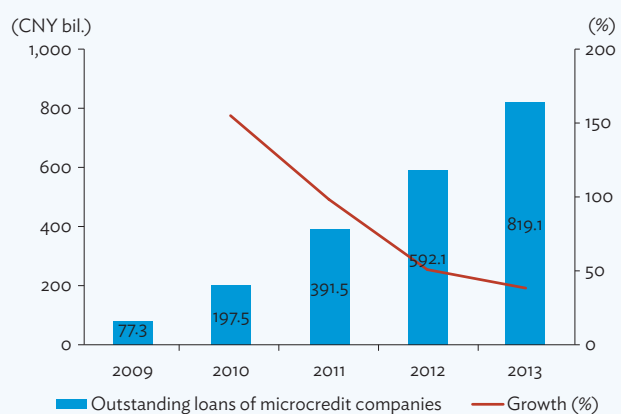
The microcredit industry has been buoyant in terms of the number of institutions and the amount of loans delivered. In 2014, microcredit companies numbered 8,791, a 12.1% increase from 2013 (Figure 4.30). Outstanding loans of microcredit companies recorded

Figure 4.30: Microcredit Companies—Number of Companies



Source: Annual Report of Financial Services for SMEs in China. 2014.

**Figure 4.31: Microcredit Companies— Outstanding Loans**

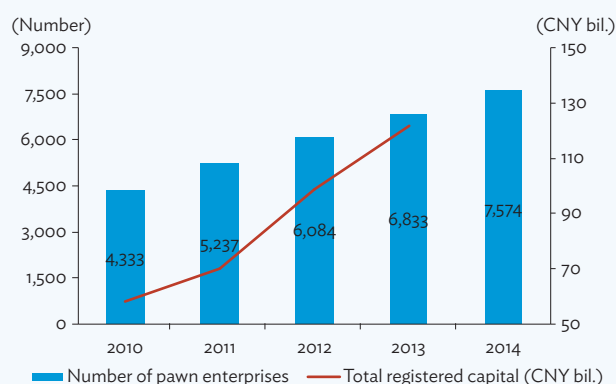


Source: Annual Report of Financial Services for SMEs in China. 2014.

CNY819 billion in 2013, a 38.3% increase from 2012 (Figure 4.31). It was estimated that nearly two-thirds of this amount, or CNY570 billion, flowed to MSEs. However, the growth pace of loans outstanding by microcredit companies has been slowing down with a decelerated pace of the establishments, bringing a concern on shrinking outreach to micro, small, and medium-sized enterprises (MSMEs).

Pawn enterprises also play a critical role of delivering working capital finance to MSMEs. In 2014, the number of pawn enterprises increased by 10.8% from

**Figure 4.32: Pawn Enterprises— Number of Companies**



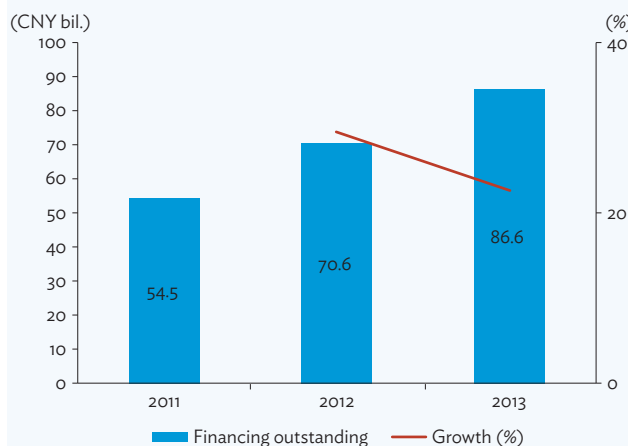
Source: Annual Report of Financial Services for SMEs in China. 2014.

the previous year to 7,574 (Figure 4.32). Financing outstanding amounted to CNY86.6 billion in 2013, of which approximately 80% or CNY70 billion were considered going to MSMEs (Figure 4.33).

Financial leasing carried on its rapid growth through 2013, with the number of companies increasing by 83.2% to 1,026 firms (Figure 4.34). In 2012, financial leasing contract balances expanded by 35.5% year-on-year to CNY2.1 billion. While it is expanding, financial leasing servicing SMEs has been limited, estimating around CNY200 billion of the total financing going to SMEs.

The venture capital industry has underperformed in 2013. The number of new funds raised by venture

**Figure 4.33: Pawn Enterprises— Financing Outstanding**



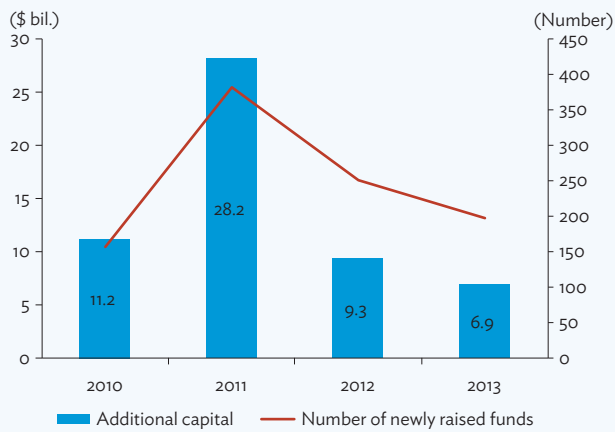
Source: Annual Report of Financial Services for SMEs in China. 2014.

**Figure 4.34: Financial Leasing Companies**



Source: Annual Report of Financial Services for SMEs in China. 2014.

Figure 4.35: Venture Capital—Fund Raising



Source: Annual Report of Financial Services for SMEs in China, 2014.

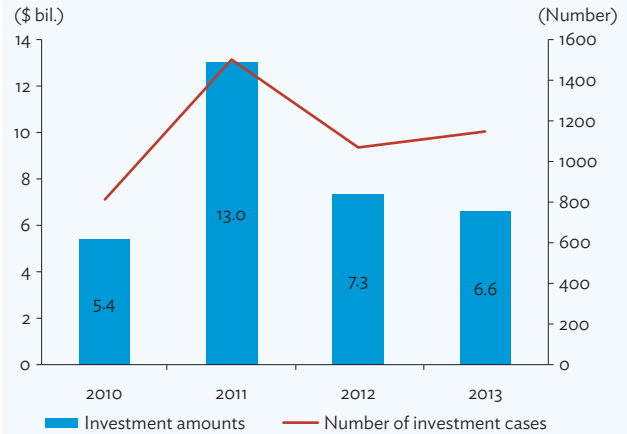
capital companies went down to 199 in 2013 from 252 in 2012. Their additional capital also decreased by 25.7% to \$6.9 billion in the same period (Figure 4.35). Total amounts of venture capital investment decreased by 9.8% in 2013 from the previous year to \$6.6 billion. However, the number of investment cases expanded from 1,071 in 2012 to 1,148 in 2013, a 7.2% increase (Figure 4.36).

Credit guarantee business has fallen into difficulties in recent years, influenced by the weakening domestic economy and rising exposure to credit risks. However, the growth in the credit guarantee industry was restored in 2013. By the end of 2013, the number of credit guarantee institutions grew to 8,185. The guaranteed loans outstanding to MSMEs amounted to CNY1.28 trillion in 2013, a 13.9% increase from 2012, which accounted for 75.8% of the total guaranteed loans.

## Capital Markets

The long-term financing demand has been growing among growth-oriented SMEs, which requires the development of capital markets specially designed for SMEs. In the PRC, the Shenzhen Stock Exchange (SZSE) has developed SME equity markets, noted as the SME Board and the ChiNext (venture board). The SME Board was established in May 2004 to serve high-growth SMEs, while the ChiNext was established

Figure 4.36: Venture Capital Investment

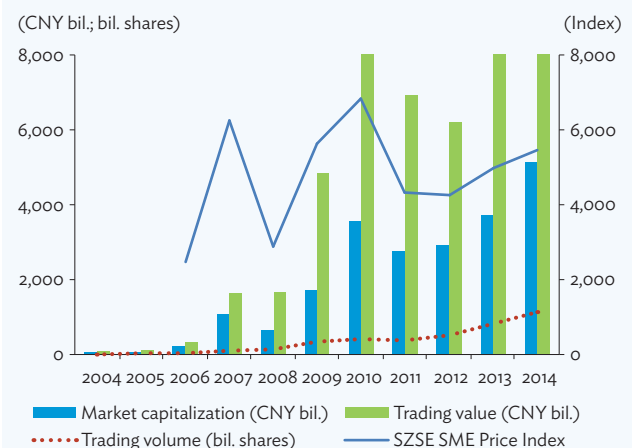


Source: Annual Report of Financial Services for SMEs in China, 2014.

in September 2009 for innovative venture firms, start-ups, and entrepreneurs.

In 2014, the SZSE SME price index went up by 9.7% from the previous year to 5,461.19 points (Figure 4.37). Market capitalization of the SME Board continued its rise over the past 3 years, reaching CNY5,106 billion at the end of 2014. Annual trading value amounted to CNY15,217 billion with the trading volume of 1.13 trillion

Figure 4.37: Market Performance—SME Board, Shenzhen Stock Exchange



SME = small and medium-sized enterprise, SZSE = Shenzhen Stock Exchange.

Source: Shenzhen Stock Exchange Fact Book, Various Issues.



shares in 2014, reflecting an active SME market in that year.

ChiNext also performed well in 2014. The price index reached at 1,471.76 points, and market capitalization amounted to CNY2,185 billion in 2014, with growth rates of 12.8% and 44.8% from the previous year, respectively. Annual trading value was CNY7,804 billion with the trading volume of 403.5 billion shares in 2014 (Figure 4.38).

Due to the PRC's stock market structuralization, no new stocks were issued in 2013 (Figure 4.39). Initial public offering (IPO) reopened toward the end of 2014, adding 31 new listings on the SME Board and 51 new listings on ChiNext. These raised total listed companies to 732 and 406 on the SME Board and ChiNext, respectively, as of the end of 2014.

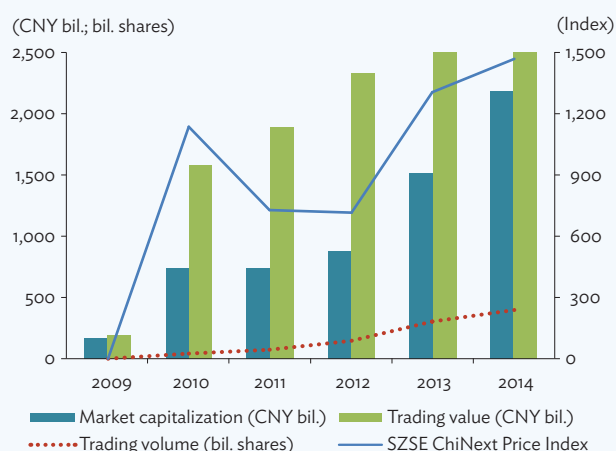
The PRC authorities aim to lift the capital market capacity by continually developing a multi-tiered system and addressing the involvement of SMEs in capital markets through providing various opportunities for raising their growth capital. To this end, the National Equities Exchange and Quotations (NEEQ) has started its full operations since 2014. The NEEQ is an over-the-counter (OTC) market that is regulated by the China Securities Regulatory Commission (CSRC). The NEEQ was originally launched in Beijing in 2006 and

then spread across the country. A variety of MSMEs nationwide, including non-high-technology firms, can apply to the NEEQ for trading. The NEEQ is expected to broaden SMEs' funding channels and ease their financial problems for business. Qualified foreign institutional investors can invest in stocks in the NEEQ. Listing requirements on the NEEQ are less stringent. Positive net profits with net operating cash flows are not generally required for the listing. The number of listed companies has been sharply increasing, from 356 in 2013 to 1,572 in 2014. The market capitalization expanded from CNY55 billion in 2013 to CNY460 billion in 2014, with annual trading value of CNY13 billion in 2014. Although the market is small in scale, the NEEQ can be a promising funding alternative for viable and innovative SMEs in the country.

While still in the trial stages of the development, the PRC's bond market is another funding channel for SMEs. There are three opportunities for SMEs to issue bonds: SME joint bonds, SME collective notes, and private placement bonds.

In 2013, the bond market had undergone constant fluctuation. The performance of SME joint bonds was undermined. During the end of 2012 and the end of 2013, the issuance of joint bonds fell from 4 to 1, the number of SME issuers fell from 21 to 6, and the amounts issued declined from CNY981 million to

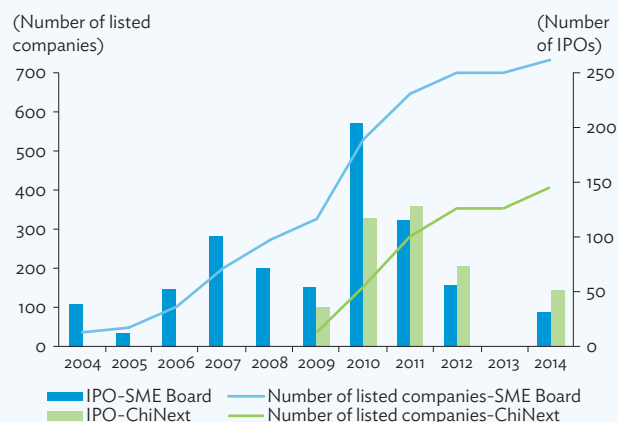
**Figure 4.38: Market Performance—ChiNext, Shenzhen Stock Exchange**



SZSE = Shenzhen Stock Exchange.

Source: Shenzhen Stock Exchange Fact Book. Various Issues.

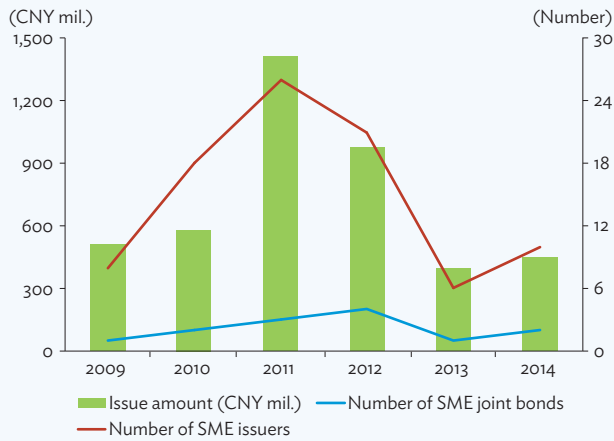
**Figure 4.39: Listed Companies—Shenzhen Stock Exchange**



IPO = initial public offering, SME = small and medium-sized enterprise, SZSE = Shenzhen Stock Exchange.

Sources: SZSE Fact Book, PwC Greater China IPO Watch 2012.

Figure 4.40: SME Joint Bonds Issuance



SME = small and medium-sized enterprise.

Source: Annual Report of Financial Services for SMEs in China. Various Issues.

CNY400 million. However, the trend was reversed in 2014. The issuance of SME joint bonds, the number of SME issuers, and the amounts issued slightly increased to 2, 10, and CNY448 million, respectively (Figure 4.40). The average bill coupon rate in 2014 was around 9%.

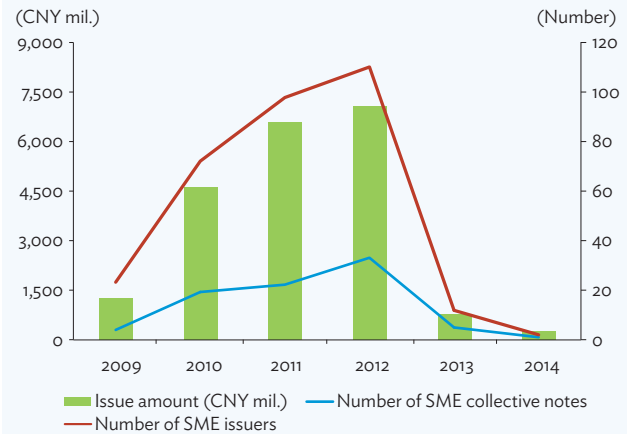
SME collective notes have been subdued since 2012. Note issuance fell sharply from CNY7,087 million in 2012 to CNY280 million in 2014. In the same period, the number of collective note issuance shrank from 33 to 1, and the number of SME issuers decreased from 110 to 2 (Figure 4.41). The average bill coupon rate in 2014 was 7.8%.

On the other hand, the private placement of SME bonds continued to advance since its approval in 2012. SMEs raised CNY25.97 billion through private placement in 2013, an increase from CNY11.86 billion in 2012. This accounts for about 80% of the total amount of bond issuance in 2013.

## Policy and Regulation

The Government of the PRC has attached importance of SME sector development toward the country's sustainable and inclusive growth. There are plenty of SME support measures launched in the country.

Figure 4.41: SME Collective Notes Issuance



SME = small and medium-sized enterprise.

Source: Annual Report of Financial Services for SMEs in China. Various Issues.

The Growth Plan for SMEs in the 12th Five Year Program, covering years 2011–2015, is a core midterm action plan of the government for supporting the SME sector in the PRC. The Plan aims to (i) enhance vitality of entrepreneurial innovation and its capacity to absorb employment, (ii) optimize the industrial structure, (iii) improve the level of development of specialized, sophisticated, distinctive new industries and industry clusters, (iv) improve the management level of SMEs, and (v) improve the service system for SMEs.

An undeveloped credit support system and poor credit environment have increased transaction costs and risk for SME loans in the PRC, contributing greatly to difficulties in SME lending.<sup>54</sup> In August 2014, the State Council released a 10-point statement on reducing financing costs for the corporate sector, including SMEs. Among the measures that ease financing costs for SMEs are: (i) maintaining reasonable growth in money and credit supply; (ii) eliminating unnecessary procedures in corporate fund raising; (iii) increasing loan approval efficiency, which allows SME loans to be renewed with less red tape by prior approval, thereby avoiding the need for high-cost bridge loans during the annual audit; (iv) developing small and medium-sized financial institutions specializing in serving small

<sup>54</sup> Asian Development Bank. 2014. Access to Finance Microfinance Innovations in the People's Republic of China.

businesses and the rural sector; and (v) promoting direct financing through the market, which will simplify the requirements for commercial banks to issue SME financing bonds.<sup>55</sup>

Also in August 2014, the State Council released guidelines on Accelerating the Development of Modern Insurance Industry. The guidelines propose to encourage the development of credit guarantees and credit insurance for SME loans, to build a more accessible SME financing environment.<sup>56</sup>

In December 2013, the State Council published the Decision on Issues Regarding the NEEQ for SMEs. The

statement set out guidelines in terms of functional positioning of the so-called New Third Board, establishment of the rotation system of the different boards, simplification of the administrative licensing system, management of investor appropriateness, and regulatory collaboration.<sup>57</sup> The expansion of the NEEQ to a national system and to include micro enterprises represents progress in the PRC's commitment to develop a multi-layered capital market. The NEEQ has no requirement on business profitability for the listing; it can serve as a direct financing channel for enterprises that fail to reach the listing standards of the main board, like SMEs.<sup>58</sup>

<sup>55</sup> Mizuho, 14 August 2014. State Council urges easing of credit policy. <http://research.mizuho-sc.com/mizuhoapp/newDownloadAuth.do?T=EQ&TM=mail&R=QcFxlwjjdakm2z0YdUbNA%3D%3D&RND=1431261004244>

<sup>56</sup> OCBC Wing Hang Monthly Economic Newsletter. 2014. China's SMEs Development. September.

<sup>57</sup> China Financial Stability Report 2014.

<sup>58</sup> Asian Development Bank. 2014. Emerging Issues in Finance Sector Inclusion, Deepening, and Development in the People's Republic of China.

Table 4.13: SME Landscape

Item	2007	2008	2009	2010	2011	2012	2013
<b>Number of SMEs</b>							
SMEs (number)	333,858	422,925	431,110	449,130	316,498	334,321	343,135
SMEs to total (%)	99.1	99.3	99.3	99.2	97.2	97.3	97.3
<b>Employment by SMEs</b>							
SME employees (in thousands people)	60,521	68,671	67,877	72,369	59,357	...	...
SMEs to total (%)	76.8	77.7	76.9	75.8	64.7	...	...
<b>SME Exports</b>							
SME exports (CNY bil.)	4,303	4,773	4,152	4,919	4,142	4,423	...
SMEs to total exports (%)	58.6	57.9	57.6	54.7	41.6	41.5	...

SME = small and medium-sized enterprise.

Notes: The data covers industrial enterprises above a certain operational scale. For 2007–2010, “above operational scale” refers to all industrial enterprises that generated a minimum annual income of CNY5 million from their core business. For 2011–2012, it refers to all industrial enterprises that generated a minimum annual income of CNY20 million from their core business. The industry sector includes mining; manufacturing; and electricity, gas, and water production and supply industries.

Data for 2007–2010 is based on the 2003 definition where SMEs must meet the following criteria: number of employees fewer than 2,000, sales of CNY300 million or less, or total assets of CNY400 million or less. Medium-sized enterprises must have more than 300 employees and sales of more than CNY30 million and total assets of CNY40 million or more; the rest are small businesses.

Data for 2011–2012 is based on the 2011 SME classification criteria. Industrial micro, small, or medium-sized enterprises are defined as enterprises which employ fewer than 1,000 persons or whose annual turnover does not exceed CNY400 million. A medium-sized enterprise is defined as an enterprise which employs more than 300 persons and whose annual turnover exceeds CNY20 million. A small enterprise is defined as an enterprise which employs more than 20 persons and whose annual turnover exceeds CNY3 million. A micro enterprise is defined as an enterprise which employs fewer than 20 persons or whose annual turnover does not exceed CNY3 million. Data on micro enterprises in 2011–2012 is not available.

Source: National Bureau of Statistics.

Table 4.14: Banking Sector—SME Loans

Item	2009	2010	2011	2012	2013	2014
<b>Loans Outstanding</b>						
SME loans (CNY bil.)	14,391	17,678	21,769	25,150	...	...
MSE loans (CNY bil.)	...	...	...	11,580	13,210	15,460
Micro enterprise loans (CNY bil.)	...	...	...	1,051	...	...
Total loans (CNY bil.)	39,969	47,920	54,795	62,991	71,896	81,680
SME loans to GDP (%)	42.2	44	46.2	50.5	...	...
MSE loans to GDP (%)	...	...	...	22.3	23.2	24.3
SME loans to total enterprise loans (%)	54.9	56.8	60.7	62.2	...	...
MSE loans to total enterprise loans (%)	...	...	...	28.6	29.4	30.4
SME loans to total loans (%)	36	36.9	39.7	39.9	...	...
MSE loans to total loans (%)	...	...	...	...	18.4	18.9
Micro enterprise loans to total loans (%)	...	...	...	1.7	...	...
<b>Number of Banking Institutions</b>						
Credit cooperatives	3,083	2,646	2,265	1,927	1,803	...
Banks	587	515	606	690	797	...
Other banking institutions**	187	608	929	1,130	1,349	...
Total	3,857	3,769	3,800	3,747	3,949	...
<b>Nonperforming Loans (NPLs)—Commercial Banks</b>						
Net NPLs (CNY mil.)	50.7	43.4	42.8	49.3	59.2	76.7***
NPL ratio (%)	1.6	1.1	1.0	1.0	1.0	1.2***

GDP = gross domestic product, MSE = micro and small-sized enterprise, NPL = nonperforming loan, SME = small and medium-sized enterprise.

Note: Total loans include all bank loans including consumer lending.

\* Based on revised national SME definition in 2011.

\*\* Other banking institutions are lending companies, finance cooperatives of enterprise groups, trust companies, financial leasing companies, auto finance companies, money brokerage firms, consumer financial companies, new rural financial institutions and postal savings bank, and financial asset management companies.

\*\*\* data as of September 2014.

Source: People's Bank of China, China Banking Regulatory Commission Annual Report 2009 and 2010, and computation based on publicly available data.

Table 4.15: Nonbank Sector

Item	2008	2009	2010	2011	2012	2013	2014
<b>Microcredit Companies</b>							
Number of nationwide microcredit companies	393	1,334	2,614	4,282	6,080	7,839	8,791
Growth (%)	...	239.4	96.0	63.8	42.0	29.0	12.1
Loans outstanding (CNY bil.)	...	77	198	392	592	819	...
Growth (%)	...	...	155.5	98.2	51.2	38.3	...
<b>Pawn Enterprises</b>							
Number of pawn enterprises	...	...	4,333	5,237	6,084	6,833	7,574
Total registered capital (CNY bil.)	...	...	58	70	99	122	...
Financing outstanding (CNY bil.)	...	...	...	55	71	87	...
Growth (%)	...	...	...	29.5	22.7	...	...
<b>Financial Leasing Companies</b>							
Growth in number of financing leasing companies (%)	...	...	27.0	46.5	89.2	83.2	...
Growth of leasing contract balances (%)	...	...	32.9	66.7	35.5	...	...
<b>Venture Capital Companies</b>							
Additional capital (\$ bil.)	...	...	11.2	28.2	9.3	6.9	...
Number of newly raised funds	...	...	158	382	252	199	...
Investment amounts (\$ bil.)	...	...	5.4	13.0	7.3	6.6	...
Number of cases	...	...	817	1,505	1,071	1,148	...

Source: Annual Report of Financial Services for SMEs in China (2014).

Table 4.16: Capital Market—Equity (SME Board and ChiNext in Shenzhen Stock Exchange)

Item	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Market Performance—SME Board</b>											
SZSE SME Price Index	...	...	2,467.70	6,247.56	2,863.99	5,631.76	6,828.98	4,295.86	4,236.60	4,979.86	5,461.19
Market capitalization (CNY bil.)	41.3	48.2	201.5	1,064.7	627.0	1,687.3	3,536.5	2,742.9	2,880.40	3,716.4	5,105.8
Trading value (CNY bil.)	82.3	120.4	307.2	1,617.4	1,663.7	4,827.4	8,583.2	6,902.6	6,189.10	10,022.4	15,216.7
Trading volume (bil. shares)	...	13.0	29.7	81.6	118.9	328.4	405.5	373.0	507.60	824.6	1,131.4
<b>Market Performance—ChiNext</b>											
SZSE ChiNext Price Index	...	...	...	...	...	...	1,137.66	729.50	713.86	1,304.44	1,471.76
Market capitalization (CNY bil.)	...	...	...	...	...	161.0	736.5	743.4	873.10	1,509.2	2,185.1
Trading value (CNY bil.)	...	...	...	...	...	182.8	1,571.8	1,887.9	2,330.50	5,118.2	7,804.1
Trading volume (bil. shares)	...	...	...	...	...	3.9	40.1	76.2	147.80	303.6	403.5
<b>Listed Companies—SME Board and ChiNext</b>											
Number of listed companies—SME Board	38	50	102	202	273	327	531	646	701	701	732
IPO—SME Board	38	12	52	100	71	54	204	115	55	0	31
Number of listed companies—ChiNext	...	...	...	...	...	36	153	281	355	355	406
IPO—ChiNext	...	...	...	...	...	36	117	128	74	0	51

Note: IPO = initial public offering, SME = small and medium-sized enterprise, SZSE = Shenzhen Stock Exchange.

Sources: Shenzhen Stock Exchange Fact Book, PwC Greater China IPO Watch 2012.

Table 4.17: Capital Market—Bonds (SME Joint Bonds and SME Collective Notes)

Item	2009	2010	2011	2012	2013	2014
<b>SME Joint Bonds</b>						
Number of SME Joint Bonds	1	2	3	4	1	2
Number of SME issuers	8	18	26	21	6	10
Issue amount (CNY mil.)	515	583	1,418	981	400	448
Average bill coupon rate (%)	6.53	4.91	6.54	7.30	7.60	8.99
<b>SME Collective Notes</b>						
Number of SME Collective Notes	4	19	22	33	5	1
Number of SME issuers	23	72	98	110	12	2
Regions	2	11	11	17	5	1
Issue amount (CNY mil.)	1,265	4,657	6,623	7,087	777	280
Average bill coupon rate (%)	5.33	4.46	6.47	6.64	6.36	7.80

SME = small and medium-sized enterprise.

Source: Annual Report of Financial Services for SMEs in China. Various issues.

Table 4.12: SME Policy and Regulation

Regulations		
Name	Outline	
Law on Promotion of SMEs (2003)	SME promotion policy (National People's Congress)	
Regulations on SMEs Classification Criteria (2011)	SME definition (Ministry of Industry and Information Technology, National Bureau of Statistics, China Banking Regulatory Commission, and the People's Bank of China)	
Regulators and Policymakers		
Name	Responsibility	
State Council (SC)	State laws, financial and fiscal policies	
Ministry of Industry and Information Technology (MIIT)	National industry strategies including SME promotion	
China Securities and Regulatory Commission (CSRC)	Regulation and supervision of the exchange market and private equity market	
People's Bank of China (PBC)	Monetary policies; regulation of the interbank market	
China Banking Regulatory Commission (CBRC), PBC	Regulation and supervision of banks and other than deposit-taking financial institutions	
National Development and Reform Commission (NDRC)	Core strategic policies for economic and social development; regulation of issuance of enterprise and corporate bonds	
National Association of Financial Market Institutional Investors (NAFMII)	Self-regulatory organization in the interbank market under the supervision of the PBC; regulates issuance of MTNs, including SMECN	
Policies		
Name	Responsible Entity	Outline
Growth Plan for SMEs in the 12th Five-Year Program (2011–2015)	MIIT	<ol style="list-style-type: none"> <li>1) Enhance vitality of entrepreneurial innovation and its capacity to absorb employment</li> <li>2) Optimize the industrial structure</li> <li>3) Improve the level of development of specialized, sophisticated, distinctive new industries and industry clusters</li> <li>4) Improve the management level of SMEs</li> <li>5) Improve the service system for SMEs</li> </ol>
Opinions on Further Supporting Healthy Development of Micro and Small-Sized Enterprises (2012)	SC	<ol style="list-style-type: none"> <li>1) Implement preferential tax policies</li> <li>2) Optimize financial policies</li> <li>3) Establish national development funds</li> <li>4) Support development through government purchases</li> <li>5) Lower enterprise-related charges and cancel noncompliance charges</li> </ol>

continued on next page



Table 4.12 *continued*

		Regulations	
Name			Outline
Division of Work for Key Authorities to Further Support the Healthy Development of Micro and Small-Sized Enterprises (2012)	SC		<ol style="list-style-type: none"> <li>1) Strengthen financial and tax support to MSEs</li> <li>2) Make efforts to relieve MSEs from difficulties in financing</li> <li>3) Promote the innovation development and structural adjustment of MSEs</li> <li>4) Intensify support to the market exploration of MSEs</li> <li>5) Assist MSEs to improve their operation and management</li> <li>6) Facilitate the cluster development of MSEs</li> <li>7) Intensify public service provided to MSEs</li> </ol>
Action on Supporting the Development of SMEs (2013)	MIIT		<ol style="list-style-type: none"> <li>1) Promote supporting measures to assist the development of small and micro enterprises (MSEs) that are innovative, entrepreneurial, and labor intensive</li> <li>2) Complete the recognition procedure for the third batch of 100 national public service demonstration platforms for SMEs</li> <li>3) Support more than 500 guarantee institutions to provide guarantee services to MSEs</li> <li>4) Train 500,000 management personnel and 1,000 leading talents to help MSEs improve their management</li> <li>5) Establish a management and consultation database for MSEs</li> </ol>
Notice on the Temporarily Exempt from VAT and Business Tax for Some Micro and Small-Sized Enterprises (2013)	MOF & SAT		<ol style="list-style-type: none"> <li>1) For small business and non-enterprise units whose monthly sales figures is no more than 20,000RMB, temporarily exempt from VAT and business tax since August 1, 2013</li> </ol>
Provision Governing the Special Funds of SMEs Development (2014)	MOF, MIIT, MOST & MOF		<ol style="list-style-type: none"> <li>1) Establish venture and invest guide funds for technology-based SMEs</li> <li>2) Support the SMEs credit guarantee and re-guarantee institutions</li> <li>3) Support the construction and operation of SMEs public service platform</li> <li>4) Support SMEs to cooperate with companies and research institutes of EU in related areas of energy-saving and emission-reduction</li> </ol>
Opinions on Supporting the Healthy Development of Micro and Small-Sized Enterprises (2014)	SC		<ol style="list-style-type: none"> <li>1) Support the local government to include micro and small-sized enterprises into the range of SMEs support funds</li> <li>2) For micro and small-sized enterprises who import advanced equipment for personal that can't be produced in China, exempt from tariff</li> <li>3) Increase support for the construction of small business incubation bases through SMEs special funds</li> <li>4) Offer social insurance subsidies to small and micro enterprises who hire employees with difficulties in employment</li> <li>5) Encourage the local government to establish venture and invest guide funds to support micro and small-sized enterprises</li> <li>6) Further support micro and small-sized enterprises through financing and guarantee policy</li> <li>7) Encourage large banks to establish financial services institution specializing for micro and small-sized enterprises</li> <li>8) For college graduates who work in micro and small-sized enterprises, their archives can be storage by the local public employment service agencies for free</li> <li>9) Establish information interoperability mechanisms for micro and small-sized enterprises</li> <li>10) Promote the construction of SMEs public service platform and increase the intensity of government procurement of services</li> </ol>
Notice on Further Supporting Micro and Small-Sized Enterprises through VAT and Business Tax Policy(2014)	MOF & SAT		<ol style="list-style-type: none"> <li>1) For enterprise whose monthly sales figures is more than 20,000RMB and no more than 30,000RMB, temporarily exempt from VAT and business tax from October 1, 2014 to December 31, 2015</li> </ol>
Growth Plan for SMEs in the 12th Five-Year Program (2011–2015)	MIIT		<ol style="list-style-type: none"> <li>1) Enhance vitality of entrepreneurial innovation and its capacity to absorb employment</li> <li>2) Optimize the industrial structure</li> <li>3) Improve the level of development of specialized, sophisticated, distinctive new industries and industry clusters</li> <li>4) Improve the management level of SMEs</li> <li>5) Improve the service system for SMEs</li> </ol>

MTN= medium-term note, MSEs = micro and small enterprises, SME = small and medium-sized enterprise, SMECN = small and medium enterprise collective note.

Sources: Ministry of Industry and Information Technology and China Briefing.

# Republic of Korea

## SME Landscape

Micro, small, and medium-sized enterprises (MSMEs) numbered 3.35 million in 2012, a 3.7% increase from the previous year, which represented 99.9% of the total enterprises in the Republic of Korea (Figure 4.42 and Table 4.19). The service sector dominated MSMEs in the country, accounting for 61.4% of the total MSMEs in 2012, which was followed by wholesale and retail trade (27.9%) and manufacturing (10.7%).

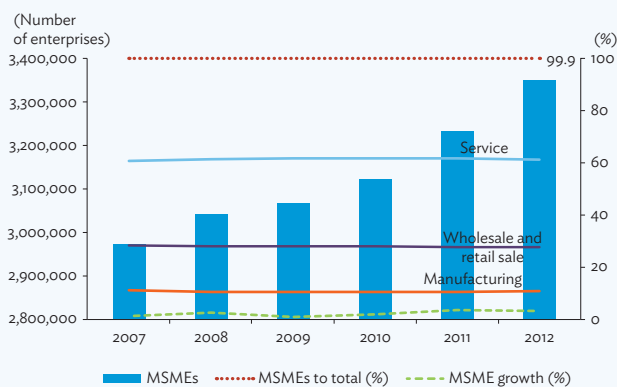
As of 2012, 13 million people were employed in the MSME sector, a 3.4% increase from the previous year, accounting for 89.9% of the total employment (Figure 4.43). The service sector has the largest number of employees, with 57.1% of the total employment in the MSME sector, followed by manufacturing (22.7%) and wholesale and retail trade (20.2%).

MSME contribution to the country's manufacturing value-add was 47.6% in 2012, amounting to

W239.3 trillion, which indicated a very slight increase from the previous year (47.3%) (Figure 4.44). Exports by MSMEs amounted to \$102.9 trillion in 2012, a 1.3% increase from the previous year, and stood at 18.8% of the total export values in the country (Figure 4.45).

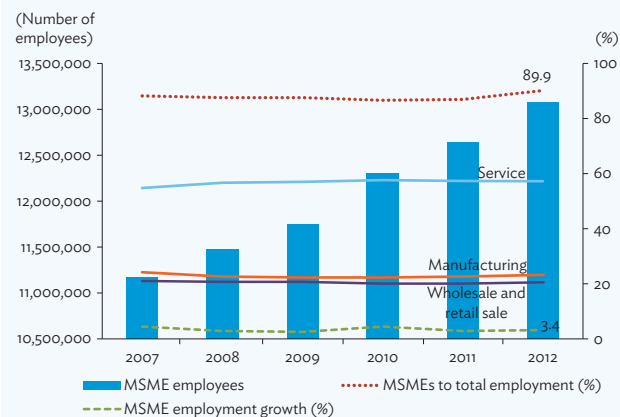
The Framework Act on Small and Medium Enterprises provides the definition of MSMEs. Micro and small enterprises are defined based on the number of employees, while medium-sized enterprises are defined based on either the number of employees or the amount of capital and/or annual sales. For the manufacturing sector, micro enterprises are those with fewer than 10 employees and small enterprise are those with fewer than 50 employees, while medium-sized enterprises are those with fewer than 300 employees or capital worth less than W8 billion. For the primary industry (agriculture, forestry, and fisheries sectors), micro enterprises are those with fewer than 5 employees and small enterprises are those with fewer than 10 employees, while medium-sized enterprises are

Figure 4.42: Number of MSMEs



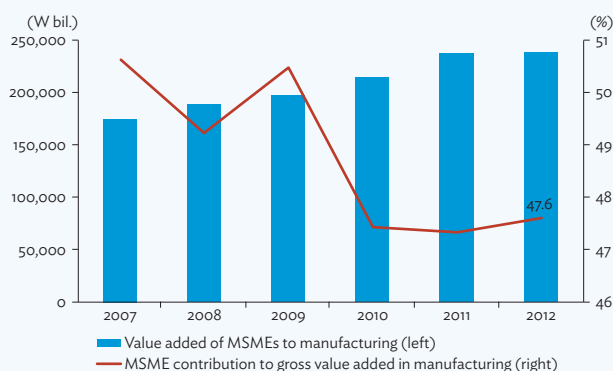
MSME = micro, small, and medium-sized enterprise.  
Source: Small and Medium Business Administration.

Figure 4.43: Employment by MSMEs



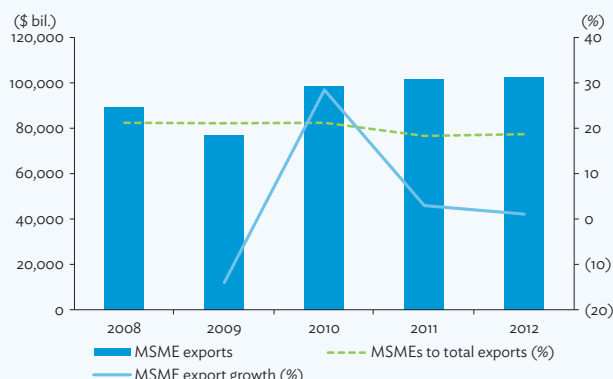
MSME = micro, small, and medium-sized enterprise.  
Source: Small and Medium Business Administration.

**Figure 4.44: MSME Contribution to Gross Value Added in Manufacturing**



MSME = micro, small, and medium-sized enterprise.  
Source: Small and Medium Business Administration.

**Figure 4.45: MSME Exports**



MSME = micro, small, and medium-sized enterprise.  
Source: Small and Medium Business Administration.

those with fewer than 200 employees or annual sales valued at less than W20 billion.

## Banking Sector

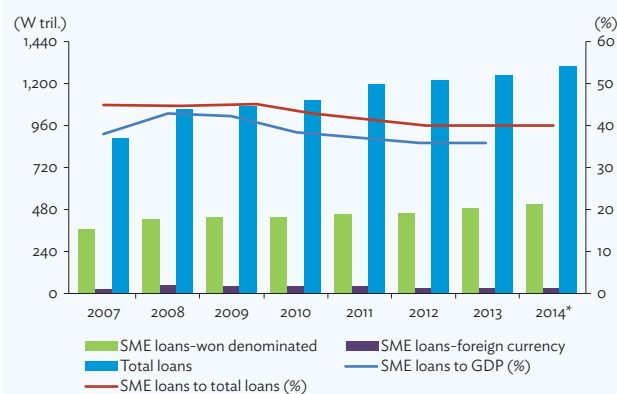
Small and medium-sized enterprise (SME) loans outstanding amounted to W512 trillion in 2013, a 4.3% increase from the previous year, and reached W531 trillion as of the end of June 2014, a 3.7% increase from the end of 2013 (Figure 4.46 and Table 4.20). This represented 35.8% of GDP and 40.1% of the total bank loans outstanding in 2013. SME loans comprise local and foreign currency denominated loans. Won-denominated loans amounted to W487 in 2013, representing 95.1% of the total SME loans, and W506 trillion as of the end of June 2014, accounting for 95.3%, an increasing trend against foreign-currency-denominated loans since 2011.

Local currency loans to SMEs are provided by commercial banks and one specialist bank. The specialist bank, the Industrial Bank of Korea, is the only SME-focused bank in the country.<sup>59</sup> Among local currency SME loans, commercial bank loans amounted to W301 trillion or 61.8% of the total won-denominated

SME loans in 2013, which rose to W311 trillion but dropped to 61.5% as of the end of June 2014. Meanwhile, specialist bank loans were W186 trillion or 38.2% of the total won-denominated SME loans in 2013, which rose to W195 trillion or 38.5% as of the end of June 2014. The share of commercial bank loans to local currency SME loans has been gradually decreasing, while that of specialist bank loans has been slowly increasing (Figure 4.47).

By business sector, among local currency SME loans, the manufacturing sector stood at 38.0% of the total

**Figure 4.46: SME Loans Outstanding**



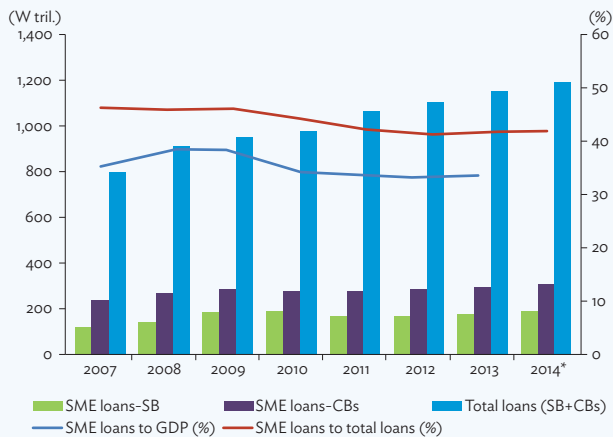
GDP = gross domestic product, SME = small and medium-sized enterprise. \* data as of June 2014.

Note: SME loan in bank account only.  
Source: Financial Supervisory Service.

<sup>59</sup> The government is a shareholder of special banks such as the Industrial Bank of Korea, which acts as an SME bank. Other special banks include the National Agricultural Cooperative Federation, National Federation of Fisheries Cooperatives, and the Nong Hyup Bank.

won-denominated SME loans in 2013 and 38.3% as of the end of June 2014. This was followed by the service sector (20.1% in 2013 and 19.9% as of June 2014), real estate (17.5% in 2013 and 17.8% as of June 2014), and trade (15.8% in 2013 and 15.4% as of June 2014) (Figure 4.48).

**Figure 4.47: SME Loans—Local Currency Denominated**

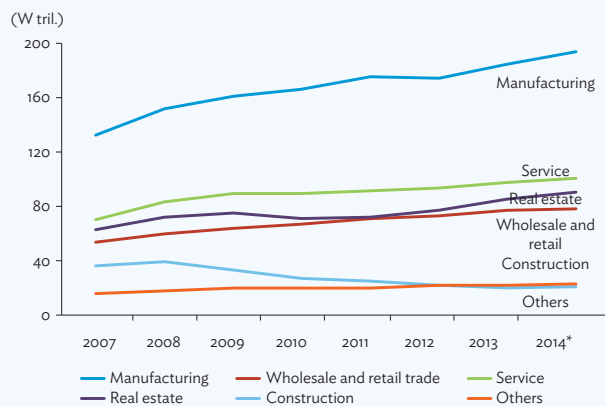


CB = commercial bank, GDP = gross domestic product, SB = special bank, SME = small and medium-sized enterprise. \* data as of June 2014.

Note: SME loan in bank account only.

Source: Financial Statistics Information System.

**Figure 4.48: SME Loans by Sector**



SME = small and medium-sized enterprise.

\* data as of June 2014.

Notes: SME loan in bank and asset trust accounts. Data on won-denominated SME loans.

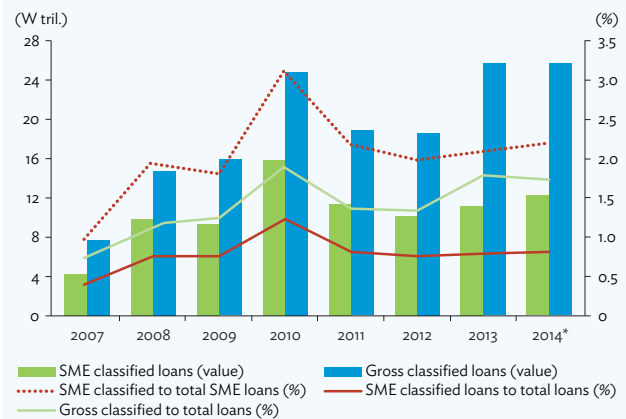
Source: Financial Supervisory Service.

SME classified loans—which represent loans in substandard, doubt, and loss categories—amounted to W11.2 trillion in 2013 and W12.1 trillion as of June 2014, standing at 2.1% and 2.2% of the total SME loans, respectively (Figure 4.49).

Among local currency SME loans, noncollateral SME loans amounted to W178 trillion or 36.5% of the total won-denominated SME loans in 2013, which reached W182 trillion or 36.0% as of June 2014. Meanwhile, secured SME loans amounted to W245 trillion or 50.3% of the total local currency SME loans in 2013, which rose to W258 trillion or 50.9% as of June 2014. Guaranteed SME loans were W64 trillion or 13.2% of the total local currency SME loans in 2013, which amounted to W67 trillion or 13.2% as of June 2014 (Figure 4.50).

There are three public credit guarantee institutions in the Republic of Korea: (i) the Korea Credit Guarantee Fund (KODIT), (ii) the Korea Technology Credit Guarantee Fund (KOTEC), and (iii) the Korean Federation of Credit Guarantee Foundations (KOREG). KODIT provides guarantees mostly for start-ups not oriented to information technology and for export-oriented SMEs. The main objective of the fund is to lead balanced development of the economy, by extending credit guarantees for the liabilities of promising SMEs that lack tangible collateral. KOTEC is a nonprofit

**Figure 4.49: SME Classified Loans**



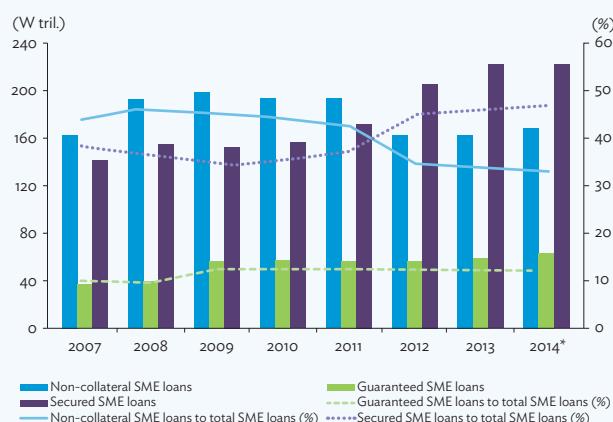
SME = small and medium-sized enterprise.

\* data as of June 2014.

Notes: SME loan in bank account only. Data on local and foreign currency denominated loans.

Source: Financial Supervisory Service.

**Figure 4.50: Noncollateral, Guaranteed, and Secured SME Loans**



SME = small and medium-sized enterprise. \* data as of June 2014.

Note: Data on won-denominated SME loans.

Source: Financial Supervisory Service.

guarantee institution providing full-scale support to SMEs and venture businesses with competitive technology and innovation, and other knowledge-based businesses at all growth stages. KOREG supports 16 credit guarantee foundations (CGFs) located across the country, by offering reguarantees to them.

In 2013, total loans guaranteed by KODIT amounted to W44,686 billion, a 5.23% increase on the previous year. The outstanding guarantee at the end of 2013 reached W47,436 billion. It was able to serve 223,075 clients, including SMEs, in 2013.<sup>60</sup>

### Nonbank Sector

In 2013, there were 101 venture capital companies (VCCs) and 431 venture capital funds (VCFs) registered with the Small and Medium Business Administration (SMBA), whose number increased to 102 and 454, respectively, as of October 2014. The venture capital industry in the Republic of Korea is in a fierce competitive environment with frequent scrap-and-build.

For VCCs, three companies were newly registered but seven were deregistered in 2013, with five newly

registered but four deregistered as of October 2014. Investment outstanding amounted to W1,398 billion in 2013, and W1,413 billion as of October 2014, a 1.1% increase (Figure 4.51 and Table 4.21).

For VCFs, 49 funds were newly registered but 30 were dissolved in 2013, with 57 newly registered but 34 dissolved as of October 2014. Outstanding amounts of committed funds reached W10,634 billion in 2013 and W11,678 billion as of October 2014, a 9.8% increase (Figure 4.52).

There were 755 companies that enjoyed investments from VCCs and VCFs, for a total of W1,385 billion in 2013, a 12.3% increase from the previous year. As of

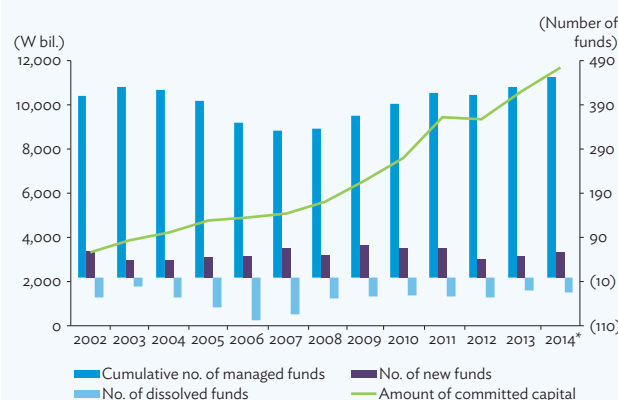
**Figure 4.51: Venture Capital Companies**



\* data as of October 2014.

Source: Korea Venture Capital Association.

**Figure 4.52: Venture Capital Funds**



\* data as of October 2014.

Source: Korea Venture Capital Association.

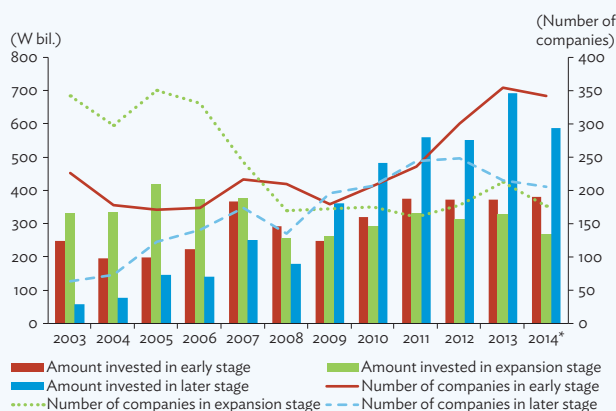
<sup>60</sup> Republic of Korea. Korea Credit Guarantee Fund (KODIT). 2013. *Annual Report 2013*. Seoul.

October 2014, 703 companies received W1,230 billion in total, an 11.2% decrease from 2013.

Investee companies in later stages of development (firms operating for more than 7 years) received venture capital funding of W689 billion in 2013 (a 25.3% increase from the previous year) and W585 billion as of October 2014 (a 15.1% decrease from 2013), which represented 49.7% of the total actual investments in 2013 and 47.6% as of October 2014. Investee companies in the expansion stages (firms operating for 3–7 years) received W326 billion in 2013 (a 3.9% increase from the previous year) and W265 billion as of October 2014 (an 18.7% decrease from 2013), which represented 23.5% of the actual investments in 2013 and 21.5% as of October 2014. Investee companies in early stages of development (firms operating for less than 3 years) received W370 billion in 2013 (no change from the previous year) and W380 billion as of October 2014 (a 2.7% increase from 2013), which represented 26.7% of the actual investments in 2013 and 30.9% as of October 2014. Venture capital investments in early-stage firms tend to increase against those in expansion and later-stage firms (Figure 4.53).

By business sector, the information technology industry received venture capital funding of W362.6 billion in 2013 (a 3.3% increase from the previous year) and represented 36.8% of the actual investments in 2013.

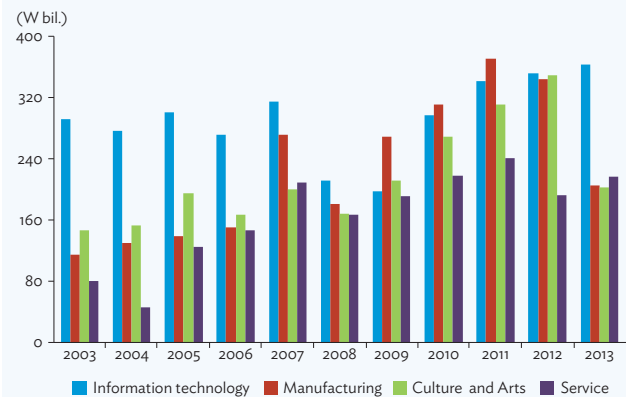
**Figure 4.53: Venture Capital Investment by Firm Stage**



\* data as of October 2014.

Source: Korea Venture Capital Association.

**Figure 4.54: Venture Capital Investment by Sector**



Note: Service includes biotechnology, distribution, recycling, and others.

Source: Korea Venture Capital Association.

(Figure 4.54). The manufacturing industry received W204.4 billion in 2013 (a 40.4% decrease from the previous year) and represented 20.8% of the actual investments in 2013. The culture and art sector received W201.5 billion in 2013 (a 42.1% decrease from the previous year) and represented 20.5% of the actual investments in 2013. The service sector received W215.7 billion in 2013 (a 12.5% increase from the previous year) which represented 21.9% of the actual investments in 2013.

The Korean Venture Capital Association, established in 1989, comprised 97 members, of which 92 are VCCs and 5 are foreign VCCs, limited liability companies, or investment companies.

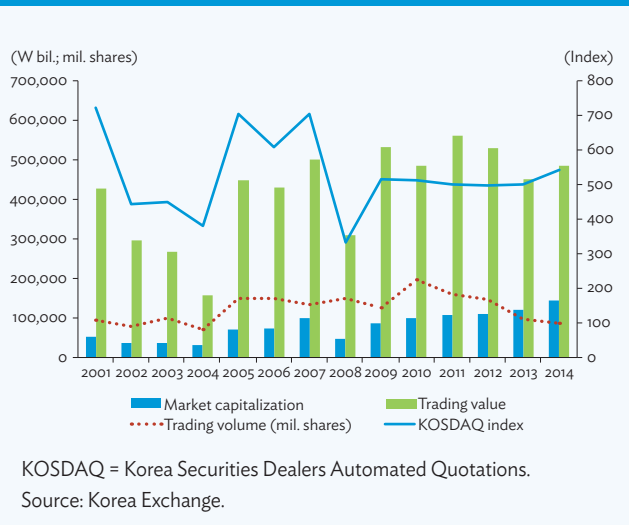
## Capital Markets

The Korea Securities Dealers Automated Quotations (KOSDAQ) market was originally established as a financing channel for small and medium venture companies with growth potential, but has been shifted into the market for upper-middle and larger enterprises.

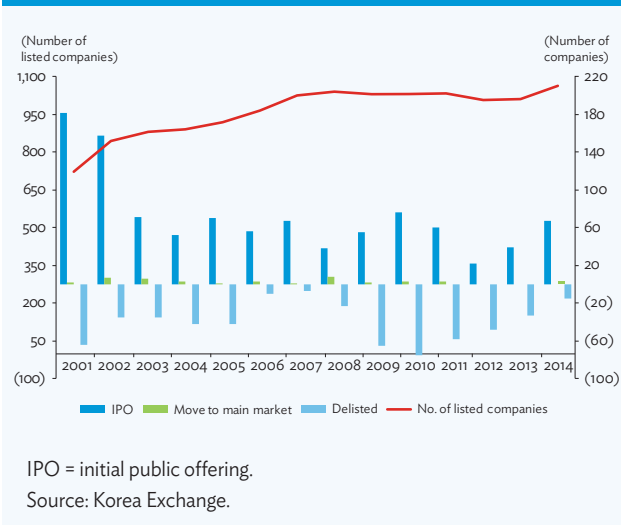
Market capitalization of KOSDAQ reached W119.2 trillion in 2013 and W143 trillion as of 2014, a 9.3% increase from 2012 and a 20.0% increase from 2013 to 2014, respectively (Figure 4.55 and Table 4.22). Trading value of stocks has dropped since 2012 (a



**Figure 4.55: Market Performance—Korea Securities Dealers Automated Quotations**



**Figure 4.56: Listed Companies—Korea Securities Dealers Automated Quotations**

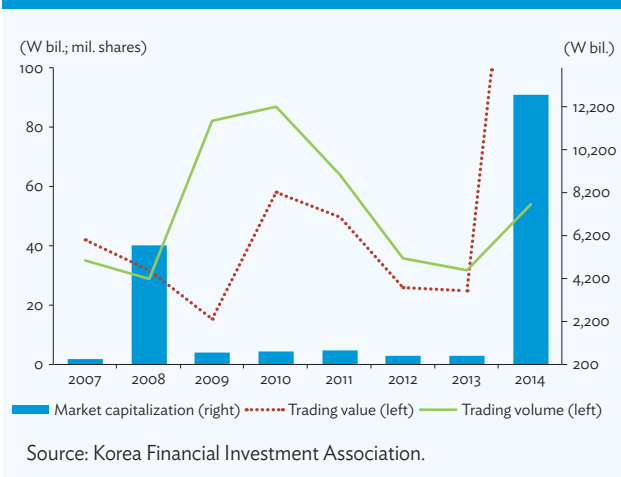


14.7% decrease in 2013 from the previous year and 7.2% increase from 2013 to 2014). The number of listed companies was 1,009 in 2013 and 1,061 in 2014. There were 39 initial public offerings (IPOs) while 33 were delisted in 2013. As of 2014, 67 IPOs were conducted and 3 were moved from the main board while 15 were delisted (Figure 4.56).

As the KOSDAQ has substantially become an equity-financing venue for upper-medium and larger enterprises, the Korean Exchange (KRX) launched a new market for start-ups and SMEs, called the Korea New Exchange (KONEX), in July 2013. Starting with 21 listed companies, 71 companies were listed on the KONEX as of 2014. Only institutional investors, or an individual investor with a deposit of more than W300 million, are allowed to participate in the KONEX market. The minimum trading volume is set at 100 shares. Market capitalization of KONEX recorded W1.4 trillion in 2014, a sharp increase of 54.4% from the 2013 figure (W923 billion). Trading value in 2014 almost doubled from 2013, indicating W96 billion with 12 million shares traded.

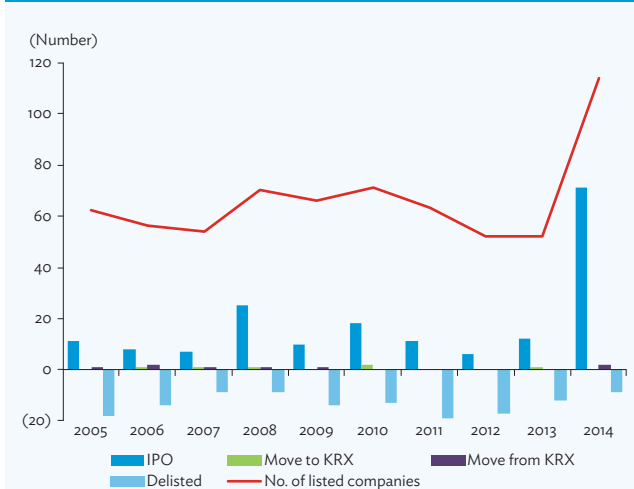
Besides the exchange markets, the country has an over-the-counter (OTC) equity market called the FreeBoard, which was launched by the Korea Financial Investment Association (KOFIA). This provides a funding opportunity for companies that are unable to meet the listing requirement of exchange markets.

**Figure 4.57: Market Performance—FreeBoard**



Market capitalization of FreeBoard amounted to W620 billion in 2013, a 5.1% increase from the previous year, which reached W12.7 trillion in 2014, a sharp increase of almost 21 times the 2013 figure (Figure 4.57). Trading value of stocks had dropped by 3.5% from 2012 to 2013, but there was a 776% increase from 2013 to 2014. The number of companies registered was 52 in 2013 and reached 117 in 2014. There were 12 companies newly registered, while one company moved to the KOSDAQ and 12 were dissolved in 2013. As of 2014, 74 companies were newly registered, 2 moved to the KOSDAQ, while 9 were dissolved (Figure 4.58).

Figure 4.58: Listed Companies—FreeBoard



IPO = initial public offering, KRX = Korea Exchange.

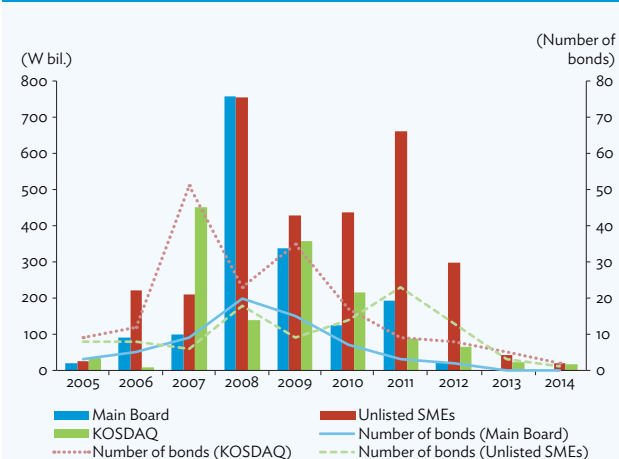
Source: Korea Financial Investment Association.

In 2014, the KOFIA established a new OTC venue called the Korea Over-The-Counter market (K-OTC), an upgraded version of the FreeBoard market. It is a trading venue of unlisted stocks of companies. Trading on the K-OTC market began on 25 August 2014. The K-OTC market allows investors to trade unlisted stocks at fixed commission fees of about 0.1% for each trade. All trades on the market are made through securities companies.<sup>61</sup>

As a trading system for SME bonds, the qualified institutional buyers (QIB) system operated by the KOFIA was launched in May 2013. However, this system was restructured in December 2013 to provide new opportunities for SMEs to issue corporate bonds and expand their business activities by doing so. The restructuring includes the following modality change: (i) the Small and Medium Business Corporation (SMBC) and venture capital investment firms are able to participate in the QIB system, which had previously been restricted to professional investors; (ii) issuing companies encompass not only unlisted companies with total assets of less than W500 billion but also stock-listed companies with the same range of assets; and (iii) asset-backed securities are added to the list of securities that can be issued.

<sup>61</sup> Korea Times. [http://www.koreatimes.co.kr/www/news/biz/2014/09/488\\_165256.html](http://www.koreatimes.co.kr/www/news/biz/2014/09/488_165256.html) 9-25-2014

Figure 4.59: SME Bonds Issuance



KOSDAQ = Korea Securities Dealers Automated Quotations, SME = small and medium-sized enterprise.

Source: Financial Supervisory Service.

Total bond issuance by SMEs has been declining since 2007, from 66 issues to 3 issues in 2014. SME bond issuance amounted to W69.2 billion in 2013, an 82.3% decrease from the previous year. (Figure 4.59 and Table 4.23). As of 2014, SME bond issuance amounted to W38 billion, a 44.9% decrease from 2013.

## Policy and Regulation

The Framework Act on Small and Medium Enterprises provides the measures to be taken to develop the SME sector, advancing the industrial structure of SMEs, and facilitating the balanced development of the national economy.

The Small and Medium Business Administration (SMBA), founded in 1996, supports the country's SME-led innovation of the national economy. Its primary mission is to foster challenging and innovative SMEs to maximize the growth potential of the Republic of Korea (Table 4.24). It also supervises a system that insures SME sales bonds. The Small Business Corporation (SBC), a subsidiary of the SMBA, provides finance at concessional lending rates—directly or through banks to start-ups—investment facilities, and technology transfer support to SMEs.

The Financial Services Commission (FSC) is responsible for setting financial and supervisory policy across all financial institutions and markets in the Republic of Korea. The Securities and Futures Commission (SFC), established under the FSC to regulate and monitor companies in the securities and futures industry, deals with matters related to unfair trading on the capital markets. The FSC formulates regulations relevant to the financial institutions and supervises duties of the Financial Supervisory Services (FSS). The FSS monitors and supervises various kinds of financial companies and institutions, and reports any finding or results to the FSC. It likewise conducts the supervision, inspection, and investigation of financial institution under the guidance and supervision of the FSC or SFC.

The Bank of Korea (BOK), the country's central bank, creates financing sources designated for indirect SME loans. The Industrial Bank of Korea, a government-owned specialist bank, provides diverse loan products and services to SMEs, supporting the mutual growth of large enterprises and SMEs. It ensures a systematic

support under two key programs; the aggregate credit ceiling, and the mandatory minimum SME loan ratio system. The aggregate credit ceiling is a system wherein the BOK sets a limited amount of short-term funds at a lower interest rate than the market for financial institutions with a positive SME loan record. In 2013, the BOK reorganized this system. To support enterprises possessing exceptional technology and in operation for 7 years or less, the aggregate credit ceiling loan was increased (from W9 trillion to W12 trillion) by the establishment of the Technology-based Start-up Support Ceiling (W3 trillion). The mandatory minimum SME loan ratio is a system wherein the central bank encourages lending banks to provide more than an established ratio of loans from the won-currency finance fund to SMEs. For commercial banks the ratio is more than 45%, provincial banks over 60%, and domestic branches of foreign banks over 35%. Those banks that do not achieve these ratios are disadvantaged when the BOK allocates aggregate credit ceilings, by having 50% of the amount not achieved cut from their respective aggregate credit ceilings.

Table 4.19: MSME Landscape

Item	2007	2008	2009	2010	2011	2012
<b>Number of MSMEs</b>						
MSMEs (number)	2,974,185	3,044,169	3,066,484	3,122,332	3,231,634	3,351,404
MSMEs to total (%)	99.9	99.9	99.9	99.9	99.9	99.9
MSME growth (%)	1.3	2.4	0.7	1.8	3.5	3.7
Trade (% to MSMEs)	28.4	28.0	27.9	27.9	27.8	27.9
Service (% to MSMEs)	60.5	61.5	61.7	61.7	61.7	61.4
Manufacturing (% to MSMEs)	11.1	10.4	10.4	10.4	10.5	10.7
<b>Employment by MSMEs</b>						
MSME employees (people)	11,149,134	11,467,713	11,751,022	12,262,535	12,626,746	13,059,372
MSMEs to total (%)	88.4	87.7	87.7	86.8	86.9	89.9
MSME growth (%)	4.4	2.9	2.5	4.4	3.0	3.4
Wholesale and retail sales (% to MSMEs)	21.1	20.8	20.8	20.1	20.2	20.2
Service (% to MSMEs)	54.8	56.6	57.0	57.6	57.3	57.1
Manufacturing (% to MSMEs)	24.1	22.6	22.2	22.3	22.5	22.7
<b>MSME Contribution to Gross Value Added—Manufacturing</b>						
Value added of MSMEs to Manufacturing (W bil.)	174,677	189,516	198,196	215,736	237,382	239,261
Gross value added in manufacturing (W bil.)	344,964	384,873	392,660	454,776	501,551	502,159
MSME contribution to gross value added in manufacturing (%)	50.6	49.2	50.5	47.4	47.3	47.6
<b>MSME Exports and Imports</b>						
MSME exports (\$ bil.)	...	89,267	76,783	98,624	101,560	102,870
MSME imports (LCY)	...	...	...	...	...	...
MSMEs to total exports (%)	...	21.2	21.1	21.2	18.3	18.8
MSMEs to total imports (%)	...	...	...	...	...	...
MSME export growth (%)	...	...	(14.0)	28.4	3.0	1.3
MSME import growth (%)	...	...	...	...	...	...

LCY = local currency, MSME = micro, small and medium-sized enterprise.

Source: Small and Medium Business Administration.

Table 4.20: Banking Sector—SME Loans

Item	2007	2008	2009	2010	2011	2012	2013	2014 *
<b>Loans Outstanding</b>								
SME loans to GDP (%)	38.3	42.7	42.1	38.3	37.5	35.7	35.8	...
SME loans to total loans (%)	44.9	44.7	45.1	43.7	41.6	40.2	40.1	40.2
SME loans—won denominated (W tril.)	370	422	443	441	455	460	487	506
% of the total SME loans	92.6	89.6	91.5	90.9	91.0	93.7	95.1	95.3
SME loans—foreign currency (W tril.)	30	49	41	44	45	32	25	24
% of the total SME loans	7.4	10.4	8.5	9.1	9.0	6.5	4.9	4.5
Total SME Loans [won+foreign] (W tril.)	400	471	484	485	500	491	512	531
<b>Loans Outstanding—local currency denominated</b>								
SME loans to GDP (%)	35.5	38.2	38.5	34.8	34.1	33.4	34.1	...
SME loans to total loans (%)	46.2	46.1	46.3	44.5	42.6	41.6	41.9	42.1
SME loans—SB (W tril.)	126	147	160	163	171	175	186	195
% of the total SME loans	34.0	34.8	36.2	37.1	37.5	38.1	38.2	38.5
SME loans—CBs (W tril.)	244	275	283	277	284	284	301	311
% of the total SME loans	66.0	65.2	63.8	62.9	62.5	61.9	61.8	61.5
Total loans [SB+CBs] (W tril.)	800	916	957	990	1,067	1,105	1,161	1,204
<b>SME Loans by Sector (W tril.)**</b>								
Manufacturing	132	151	161	166	175	174	185	194
% of the total local currency SME loans	35.8	35.9	36.3	37.7	38.5	37.8	38.0	38.3
Wholesale and retail trade	53	59	64	67	71	73	77	78
% of the total local currency SME loans	14.4	14.1	14.5	15.2	15.7	15.8	15.8	15.4
Service	70	83	90	89	91	93	98	101
% of the total local currency SME loans	19.0	19.7	20.2	20.2	20.1	20.3	20.1	19.9
Real estate	63	72	75	71	72	77	85	90
% of the total local currency SME loans	16.9	17.0	17.0	16.1	15.8	16.8	17.5	17.8
Construction	36	39	33	27	25	22	20	21
% of the total local currency SME loans	9.8	9.3	7.5	6.1	5.5	4.7	4.1	4.1
Others	15	17	20	20	20	21	22	23
% of the total local currency SME loans	4.1	4.1	4.5	4.6	4.4	4.5	4.5	4.5
<b>SME Classified Loans</b>								
SME classified loans (W tril.)	4.2	9.9	9.3	15.9	11.3	10.1	11.2	12.1
Gross classified loans (W tril.)	7.7	14.7	16.0	24.8	18.8	18.5	25.8	25.7
SME classified loans to total SME loans (%)	1.0	1.9	1.8	3.1	2.2	2.0	2.1	2.2
SME classified loans to total loans (%)	0.4	0.8	0.7	1.2	0.8	0.7	0.8	0.8
Gross classified loans to total loans (%)	0.7	1.1	1.2	1.9	1.4	1.3	1.8	1.7
<b>Noncollateral, Guaranteed, and Secured SME Loans**</b>								
Noncollateral SME loans (W tril.)	177	212	218	212	211	176	178	182
Guaranteed SME loans (W tril.)	39	43	59	60	59	60	64	67
Secured SME loans (W tril.)	154	167	166	170	185	224	245	258
Noncollateral SME loans to total SME loans (%)	47.8	50.1	49.2	48.0	46.3	38.2	36.5	36.0
Guaranteed SME loans to total SME loans (%)	10.6	10.2	13.4	13.5	13.0	13.0	13.2	13.2
Secured SME loans to total SME loans (%)	41.5	39.7	37.4	38.5	40.6	48.8	50.3	50.9

CB = commercial bank, GDP = gross domestic product, SB = specialist bank, SME = small and medium-sized enterprise.

Loan in bank account only unless specified.

\* data as of June 2014.

\*\* data based on local currency SME loans.

Others in the SME loan by sector include transportation and telecommunication.

Source: Financial Statistics Information System, Financial Supervisory Service.

Table 4.21: Nonbank Sector—Venture Capital

Item	2007	2008	2009	2010	2011	2012	2013	2014*
<b>Venture Capital Company</b>								
Total registered company (number)	101	97	100	103	105	105	101	102
Investment outstanding (W bil.)	1,555.8	1,475.8	1,360.8	1,383.8	1,398.5	1,445.5	1,398.0	1,413.0
Growth (%)	0.1	(5.1)	(7.8)	1.7	1.1	3.4	(3.3)	1.1
Newly registered company (number)	7	5	12	13	9	6	3	5
Deregistered company (number)	10	9	9	10	7	6	7	4
Outstanding registered company (number)	101	97	100	103	105	105	101	102
Outstanding amount (W bil.)	1,556	1,476	1,361	1,384	1,399	1,446	1,398	1,413
<b>Venture Capital Funds</b>								
Cumulative managed funds (number)	333	336	366	393	417	412	431	454
Outstanding amount of committed funds (W bil.)	5,076	5,645	6,575	7,614	9,460	9,374	10,634	11,678
Growth (%)	3.8	11.2	16.5	15.8	24.2	(0.9)	13.4	9.8
New funds (number)	67	51	74	67	67	41	49	57
New funds (W bil.)	1,128	975	1,421	1,590	2,286	773	1,765	1,760
Dissolved funds (number)	84	48	44	40	43	46	30	34
Dissolved funds (W bil.)	929	406	492	550	440	859	505	717
<b>Actual Investments</b>								
Investee companies (number)	615	496	524	560	613	688	755	703
Amount of actual investment (W bil.)	992	725	867	1,091	1,261	1,233	1,385	1,230
Growth (%)	35.2	(26.9)	19.6	25.8	15.6	(2.2)	12.3	(11.2)
<b>Investments by Stage</b>								
Investee companies in early stage (number)	217	210	179	207	235	300	354	342
Investment in early stage (W bil.)	365	291	248	319	372	370	370	380
Growth (%)	64.1	(20.3)	(14.9)	28.9	16.6	(0.6)	0.0	2.7
Share to total (%)	36.8	40.1	28.6	29.3	29.5	30.0	26.7	30.9
Investee companies in expansion stage (number)	243	170	172	175	160	178	212	176
Investment in expansion stage (W bil.)	377	255	260	290	330	314	326	265
Growth (%)	1.4	(32.4)	1.9	11.6	13.5	(4.8)	3.9	(18.7)
Share to total (%)	38.1	35.2	30.0	26.6	26.1	25.4	23.5	21.5
Investee companies in later stage	174	135	195	207	244	248	215	206
Investment in later stage (W bil.)	249	179	359	481	559	550	689	585
Growth (%)	79.6	(28.4)	101.2	33.9	16.1	(1.6)	25.3	(15.1)
Share to total (%)	25.1	24.6	41.4	44.1	44.3	44.6	49.7	47.6
<b>Investments by Sector</b>								
Information technology (W bil.)	313.7	210.5	197.0	295.6	340.9	351.1	362.6	...
Growth (%)	15.6	(32.9)	(6.4)	50.1	15.3	3.0	3.3	...
Share to total (%)	31.6	29.0	22.7	27.1	27.0	28.5	36.8	...
Manufacturing (W bil.)	270.1	180.8	268.7	310.2	369.6	342.7	204.4	...
Growth (%)	79.7	(33.1)	48.6	15.4	19.1	(7.3)	(40.4)	...
Share to total (%)	27.2	24.9	31.0	28.4	29.3	27.8	20.8	...
Culture and art (W bil.)	199.7	167.7	210.6	267.7	309.7	347.8	201.5	...
Growth (%)	20.5	(16.0)	25.6	27.1	15.7	12.3	(42.1)	...
Share to total (%)	20.1	23.1	24.3	24.5	24.6	28.2	20.5	...
Service (W bil.)	208.2	165.7	190.8	217.5	240.6	191.7	215.7	...
Growth (%)	42.6	(20.4)	15.1	14.0	10.6	(20.3)	12.5	...
Share to total (%)	21.0	22.9	22.0	19.9	19.1	15.5	21.9	...

\* data as of October 2014.

Source: Korea Venture Capital Association.



Table 4.22: Capital Market—Equity

Item	2007	2008	2009	2010	2011	2012	2013	2014
<b>Market Performance—KOSDAQ</b>								
KOSDAQ index	704	332	514	511	500	496	500	543
Market capitalization (W bil.)	99,876	46,186	86,103	97,972	105,994	109,122	119,293	143,088
Growth (%)	38.5	(53.8)	86.4	13.8	8.2	3.0	9.3	20.0
Trading value (W bil.)	499,516	308,979	530,961	483,091	558,007	528,028	450,369	482,731
Growth (%)	16.8	(38.1)	71.8	(9.0)	15.5	(5.4)	(14.7)	7.2
Trading volume (mil. shares)	134,051	151,001	125,464	196,771	161,403	146,478	97,591	86,862
No. of listed companies	1,023	1,038	1,028	1,029	1,031	1,005	1,009	1,061
Initial public offerings (IPOs)	67	38	55	76	60	22	39	67
Move to main market	1	8	2	3	3	0	0	–
Move from main market	...	...	...	...	...	...	...	3
Delisted	7	23	65	75	58	48	33	15
<b>Market Performance—KONEX</b>								
Market capitalization (W bil.)	...	...	...	...	...	...	923	1,425
Growth (%)	...	...	...	...	...	...	...	54.4
Trading value (W bil.)	...	...	...	...	...	...	49	96
Growth (%)	...	...	...	...	...	...	...	95.9
Trading volume (thous. shares)	...	...	...	...	...	...	7,528	12,070
No. of listed companies	...	...	...	...	...	...	45	71
Initial public offerings (IPOs)	...	...	...	...	...	...	...	...
Move to KOSDAQ/main board	...	...	...	...	...	...	...	...
Move from KOSDAQ/main board	...	...	...	...	...	...	...	...
Delisted	...	...	...	...	...	...	...	...
<b>Market Performance—Free Board</b>								
Market capitalization (W bil.)	460	5,740	740	810	860	590	620	12,711
Growth (%)	...	1,147.8	(87.1)	9.5	6.2	(31.4)	5.1	1,950.2
Trading value (W bil.)	42	32	16	58	50	26	25	219
Growth (%)	...	(24.3)	(51.3)	274.8	(14.3)	(48.0)	(3.5)	776.0
Trading volume (mil. shares)	35	29	82	87	64	36	32	54
No. of companies registered	54	70	66	71	63	52	52	117
New companies registered	7	25	10	18	11	6	12	74
Move to KOSDAQ	1	1	0	2	0	0	1	0
Move from KOSDAQ	1	1	1	0	0	0	0	2
Deregistered	9	9	14	13	19	17	12	9

KOSDAQ = Korea Securities Dealers Automated Quotations.

Source: Korea Exchange and Korea Financial Investment Association.

Table 4.23: Capital Market—Bonds

Item	2007	2008	2009	2010	2011	2012	2013	2014
SME bond offerings in main market (number)	9	20	15	7	3	2	...	...
Main market SME bond offerings (W bil.)	101	759	340	128	193	23	...	...
SME bond offerings in KOSDAQ (number)	51	23	35	17	9	8	5	2
KOSDAQ market SME bond offerings (W bil.)	453	140	359	216	89	67	24	18
Bond offerings of unlisted SMEs (number)	6	18	9	14	23	13	3	1
Bond offerings of unlisted SMEs (W bil.)	210	756	430	438	662	300	45	20
SME total bond offerings (number)	66	61	59	38	35	23	8	3
SME total bond offerings (W. bil)	764	1,655	1,129	782	944	390	69	38

KOSDAQ = Korea Securities Dealers Automated Quotations, SME = small and medium-sized enterprise.

Source: Financial Supervisory Service.

Table 4.24: SME Policy and Regulation

Regulations		
Name	Outline	
Small and Medium Enterprise Cooperatives Act (1961)	Provide equal economic opportunities to SMEs and encourage their independent economic activities to improve the economic status (SMBA)	
Framework Act on Small and Medium Enterprises (1966)	SME definition (SMBA)	
Act on Facilitation of Purchase of Small and Medium Enterprises-Manufactured Products and Support for Development of Their Markets (1981)	Facilitate the purchase of SME-manufactured products (SMBA)	
Support for Small and Medium Enterprises Establishment Act (1986)	Contribute to the establishment of a solid industry structure through sound development of SMEs by facilitating the setting-up of small and medium-sized businesses and developing a firm basis for their growth (SMBA)	
Small and Medium Enterprises Promotion Act (1994)	Strengthen the competitiveness of SMEs through their structural advancement, and expand the business sphere for SMEs (SMBA)	
Act on Special Measures for the Promotion of Venture Businesses (1997)	Promote the conversion of existing enterprises into venture business and establish venture businesses (Small and Medium Business Administration [SMBA])	
Act on Special Measures for Support to Small Enterprises and Small Commercial and Industrial Businessmen (1997)	Promote the free business activities, restructuring, and management stabilization of SMEs (SMBA)	
Act on Support for Female-Owned Businesses (1999)	Support the activities of female-owned businesses and women's establishment of businesses (SMBA)	
Act on the Promotion of Technology Innovation of Small and Medium Enterprises (2001)	Strengthen the technological edges of SMEs by expanding infrastructure to promote technological innovation (SMBA)	
Special Act on Support for Human Resources of Small and Medium Enterprises (2003)	Support the smooth supply and demand of SME human resources and the upgraded structure of human resources (SMBA)	
Act on Special Cases Concerning the Regulation of the Special Economic Zones for Specialized Regional Development (2004)	Support the specialized regional development systematically and contrive to stimulate regional economies and the growth of the national economy (SMBA)	
Promotion of Disabled Persons' Enterprise Activities Act (2005)	Facilitate business start-ups and entrepreneurial activities of disabled persons (SMBA)	
Act on the Promotion of Collaborative Cooperation between Large Enterprises and Small-Medium Enterprises (2005)	Sharpen the competitiveness of conglomerates and SMEs by consolidating win-win cooperation (SMBA)	
Special Act on the Development of Traditional Marketplaces and Shopping Districts (2006)	Facilitate the modernization of facilities and management of traditional marketplaces and shopping districts and repair, improve, and upgrade them in order to boost business activities in local commercial zones, promote the balanced growth of the distribution industry (SMBA)	
Special Act on the Promotion of Business Conversion in Small and Medium Enterprises (2006)	Promote the business conversion of SMEs that suffer difficulties due to changes in the economic environment (SMBA)	
Promotion of Small and Medium Enterprises and Encouragement of Purchase of Their Products Act (2007)	Strengthen the competitiveness of SMEs, encourage the purchase of their products, extend the markets for them, and expand the business share for SMEs (SMBA)	
Act on the Fostering of Sole-proprietor Creative Business (2011)	Foster sole-proprietor creative business (SMBA)	
Regulators and Policymakers		
Name	Responsibility	
Small and Medium Business Administration (SMBA)	Develop and deliver SME-related policies	
Financial Services Commission (FSC)	Deliberate and determine financial policies	
Financial Supervisory Service (FSS)	Regulate and supervise bank and nonbank financial institutions and enforce and conduct oversight activities as directed by Bank of Korea and/or Financial services Commission	
Bank of Korea (BOK)	Formulate and implement monetary policy	
Policies		
Name	Responsible Entity	Outline
Annual SMBA Business Plan (2013)	SMBA	<ol style="list-style-type: none"> <li>1) Foster venture and start-up ecosystem for realizing a creative economy</li> <li>2) Construct small and medium-sized enterprise growth ladder</li> <li>3) Reinforce the core competitiveness of small and medium-sized enterprises</li> <li>4) Restore vigor of small commercial and industrial businessmen and traditional marketplace</li> </ol>
National Strategy for Green Growth (2009–2050)	Ministry of Environment	Fiscal support for green research and development (R&D) by SMEs
Third Science and Technology Basic Plan (2013–2017)	National Science and Technology Council	Greater support for SMEs and venture companies in new industries, and the simulation of intellectual property generation and commercialization

SMBA = Small and Medium Business Administration, SME = small and medium-sized enterprise.

Source: Small and Medium Business Administration.

# Mongolia

## SME Landscape

Mongolia's economy is oriented around natural resources and is greatly influenced by commodity price fluctuations and external factors. Economic growth in Mongolia has been slowing since 2012, with persistent high inflation and sluggish inflow of foreign direct investment. As a priority, it is critical to establish a base of growth-oriented firms toward a resilient national economy—rather than depending on mining and mineral-based economic growth—where small and medium-sized enterprises (SMEs) play a key role in driving sustainable economic growth in the country.

In the national statistical system, business registration data by employment size are available, but SME data are not available in Mongolia. According to the registered enterprise data,<sup>62</sup> firms having fewer than 50 employees numbered 97,762 in 2013, a 10.3% increase from 2012, accounting for 98.2% of total enterprises registered (Figure 4.60 and Table 4.25). Of these registered enterprises, 90.6% are micro firms with fewer than 10 employees. However, active enterprises stood at only 55.1% of total registered enterprises, and active firms having fewer than 50 employees made up only 53.3% of total registered enterprises in 2013. Active micro firms having fewer than 10 employees also represented a smaller share of total registered enterprises in 2013, at 51.3%.

<sup>62</sup> For the business registration database, the General Authority for State Registration is responsible for collecting data from the General Department of Taxation (quarterly tax payers' data) and the Ministry of Finance (annual firms and financial data). The National Statistical Office (NSO) has a right to connect to this database. Besides annual and quarterly reports from official statistics, the database is supplemented by the national census (held every 5 years) and administrative statistical reports (from the Bank of Mongolia, the Financial Regulatory Commission, and the Foreign Investment Regulations and Registration Department). The database is annually updated. Although the NSO has collected SME credit data from the Bank of Mongolia, such data have yet to be included in the national statistical yearbook.

By business sector, retail and wholesale trade (including motor vehicle repair and sales of household goods) held the largest share of enterprises registered, accounting for 43.9% of the total registered in 2013. This was followed by services (including hotel and restaurants, financial services, education, health and social work, and other community and personal services) at 19.0%, then real estate (including renting) at 10.3% (Figure 4.61). However, in the trade sector, only 47.9% of total trade businesses registered were active businesses in 2013.

By region, 71.9% of registered enterprises operated in the capital city Ulaanbaatar in 2013. However, only 48.5% of total registered enterprises in Ulaanbaatar were active in 2013 (Figure 4.62).

The Law on Small and Medium Enterprises was enacted under the responsibility of the Ministry of Industry and

**Figure 4.60: Enterprises by Employment Size**

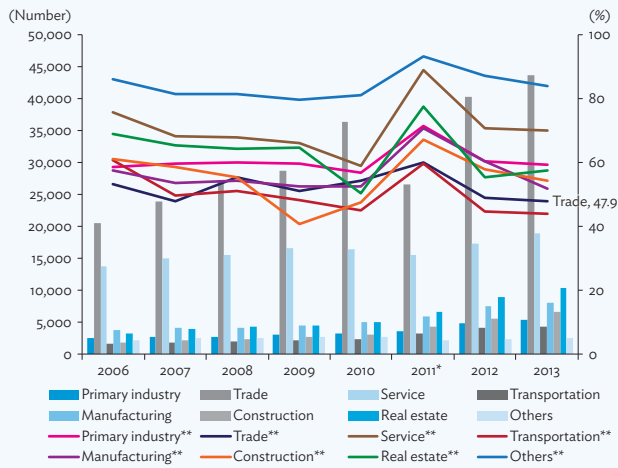


\* based on Establishment Census for 2011.

\*\* share of active establishments to total registered (%).

Sources: Mongolian Statistical Yearbook 2009 and 2013.

Figure 4.61: Enterprises by Sector



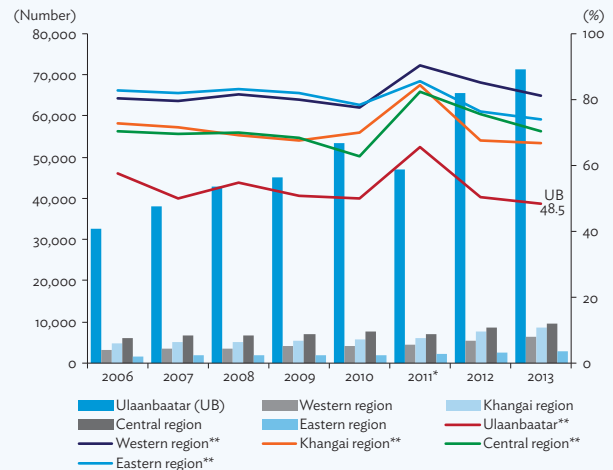
\* based on Establishment Census for 2011.

\*\* share of active establishments to total registered (%).

Note: Primary industry includes agriculture.

Sources: Mongolian Statistical Yearbook 2009 and 2013.

Figure 4.62: Enterprises by Region



\* based on Establishment Census for 2011.

\*\* share of active establishments to total registered (%).

Sources: Mongolian Statistical Yearbook 2009 and 2013.

Agriculture in 2007. It was taken over by the Ministry of Industry in December 2014. This law defines SMEs.<sup>63</sup> In general, firms having fewer than 200 employees and annual turnover not exceeding MNT1.5 billion are classified as SMEs by law. In reality, the SME definition varies by business sector. For manufacturing, firms having fewer than 20 employees and annual turnover not exceeding MNT250 million are classified as SMEs. For services, firms having less than 50 employees and annual turnover not exceeding MNT1.0 billion are classified as SMEs. For wholesale trade, firms having fewer than 150 employees and annual turnover not exceeding MNT1.5 billion are classified as SMEs. For retail trade, firms having fewer than 200 employees and annual turnover not exceeding MNT1.5 billion are classified as SMEs. Due to complicated statistical procedures for SME data compilation, based on these legal SME definitions, SME data has yet to be made publicly available within the national statistics.

<sup>63</sup> There are some debates on the SME definition under the SME Law 2007. For instance, some point out that the SME definition in manufacturing is unbalanced; the criterion of employee number (fewer than 20) is too small, while the annual turnover of not exceeding MNT250 million is large enough for SMEs. There is a voice that the SME classification by law needs to be amended.

## Banking Sector

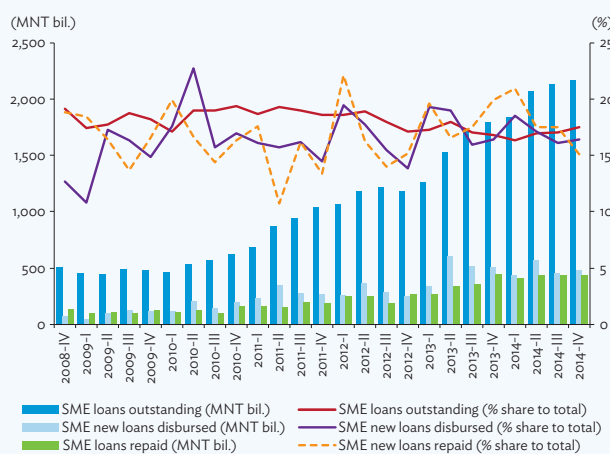
The banking sector in Mongolia comprises 13 commercial banks with a total of 1,409 branches and units across the country. The sector has 2.5 million depositors and around 693,900 borrowers as of the end of 2013.<sup>64</sup> Total loan assets of banks have been increasing, accounting for 56.7% of gross domestic product (GDP) at the end of 2014, despite decelerated economic growth in Mongolia.

SME loans outstanding in banks have been increasing, standing at MNT2,176 billion in the fourth quarter of 2014, a 20.6% increase from the same period of 2013 and more than 4 times the fourth quarter of 2008 when these loans stood at MNT505 billion. (Figure 4.63 and Table 4.26).<sup>65</sup> However, the share of SME loans to total bank lending has remained low at 17%–19% since the fourth quarter of 2008. It stood at 17.5% in the fourth quarter of 2014. New loans disbursed to SMEs amounted to MNT486 billion, accounting for 16.4% of total bank loans disbursed as of the end of 2014. Meanwhile, the repayment ratio of SME loans to total loans repaid was 15.1% in the same period of 2014,

<sup>64</sup> Bank of Mongolia. 2013. Annual Report 2013.

<sup>65</sup> SME definition in the banking sector is based on the Law on Small and Medium Enterprises enacted in 2007.

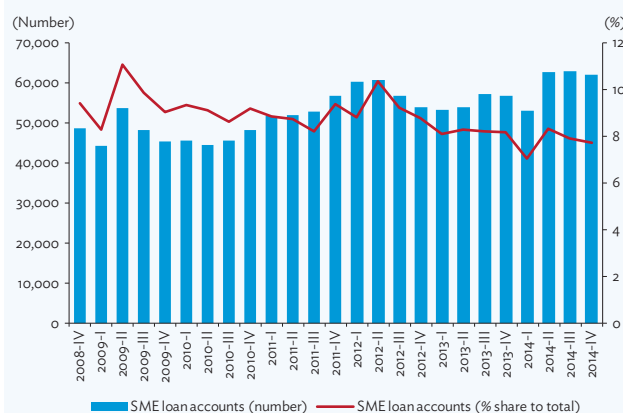
Figure 4.63: SME Loans



SME = small and medium-sized enterprise.

Source: Bank of Mongolia.

Figure 4.64: SME Loan Accounts



SME = small and medium-sized enterprise.

Source: Bank of Mongolia.

with relatively high volatility quarter on quarter. SME loan accounts opened in banks numbered 61,838 as of the end of 2014, representing 7.7% of total bank loan accounts and showing a decreasing trend (Figure 4.64).

Bank lending to SMEs has remained small as a percentage share, although SME loans by banks have increased in outstanding amounts. Meanwhile, new lending to SMEs is limited, with a decreasing share of SME loan accounts to total loan accounts opened with banks. This suggests that: (i) banks tend to be cautious in lending to SMEs, and (ii) new SME borrowers face limitations of access to bank credit.

Overall bank lending growth is attributed to project lending in the mining sector, and bank lending performance tends to be vulnerable against external factors such as exchange rate. Mongolia's SMEs are too small in size and have the same problems of access to finance, management capacity, and business development as in other countries. Their lack of business records and credit history typically makes it difficult to access to bank credit.<sup>66</sup>

The Bank of Mongolia, the country's central bank, periodically conducts an SME survey to identify the potential growth segments of SMEs in lending and to

explore their barriers to financial access. According to the 2013 survey, active SME borrowers belonged to retail trade and service sectors, and their funding objective was mainly for working capital.

As of the end of 2014, there was no specific SME finance policy in the central bank, and no plan to formulate one. Meanwhile, there are several government initiatives to enhance bankability for SMEs; the Credit Guarantee Fund is one such example of government efforts.

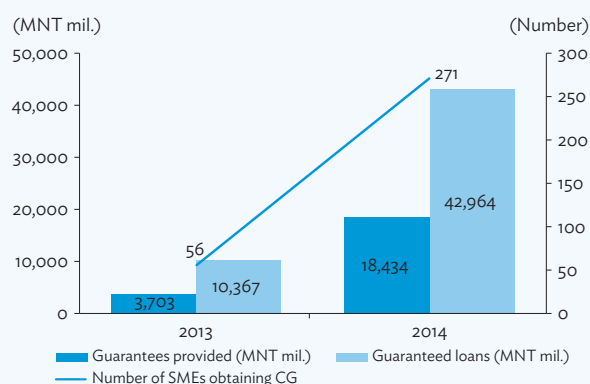
The Credit Guarantee Fund of Mongolia (CGFM), established under the Credit Guarantee Fund Law in 2012, is the only public nonprofit institution that provides credit guarantees and reguarantees for SMEs. The CGFM guarantees up to 60% of the applied loan, with the maximum guarantee amount of MNT250 million per credit.<sup>67</sup> SME bonds purchased by banks are also guaranteed. The CGFM has representative offices covering 21 provinces, capital cities, and three of the most remote districts for guarantee services. Guaranteed loans are provided by banks and nonbank financial institutions.

As of the end of 2014, the CGFM provided credit guarantees of MNT18,434 million for MNT42,964 million in guaranteed loan amounts (Figure 4.65 and

<sup>66</sup> Interview with the Mongolian National Chamber of Commerce and Industry dated on 26 June 2014.

<sup>67</sup> The maximum guarantee amount increased up to MNT500 million from 2015.

**Figure 4.65: Credit Guarantees—  
Credit Guarantee Fund of Mongolia**



CG = credit guarantee, SME = small and medium-sized enterprise.  
Source: 2014 Annual Report, Credit Guarantee Fund of Mongolia.

Table 4.27). The amount of credit guarantees in 2014 was 5 times those in 2013 (MNT3,703 million), and the guaranteed loan amounts also increased fourfold (MNT10,367 million) in the same period.

The CGFM supports SMEs (as defined by the SME Law 2007) as end-beneficiaries of credit guarantees. In 2014, 271 SMEs received credit guarantees from the CGFM, almost 5 times the number from 2013 (56 SMEs), of which 217 (80.1%) were operating in the capital city Ulaanbaatar.

Among business sectors, SMEs in manufacturing actively participated in credit guarantee programs. In 2014, 58.6% of credit guarantees were extended to the manufacturing sector, followed by trade (17.3%), agriculture (15.2%), and services (8.8%). The CGFM has no priority sectors for the guarantee business. By financial institution, 28.1% of credit guarantees in 2014 were delivered via Golomt Bank, followed by Xac Bank (18.4%), State Bank (15.7%), and Khan Bank (15.5%).

There is no special program in the event of a financial crisis or a natural disaster. The CGFM is not allowed to provide any concessional schemes beyond the Credit Guarantee Fund Law. On average, the CGFM guarantees 40% of the applied loan and banks hold the credit risks of the remaining 60%, supplemented by collateral.

The CGFM has no default cases as of June 2014, although three in every four loans have some risks.

During the 2008/09 global financial crisis, around 10% of SMEs ceased operations, and accordingly their demand on credit guarantees decreased during that time. The CGFM stressed that the present risk management system for credit guarantees would prevent any potential risks, even in the event of economic shocks, combined with reguarantees. The CGFM has appraisers that conduct second screenings of SME loans already assessed by banks.

The CGFM has recognized the importance of developing innovative guarantee products and services, especially ones related to banking. To this end, learning best practices from other countries is of importance. As a new initiative, the CGFM plans to establish consulting centers with training programs for clients.

Demand on SMEs for credit guarantees is expected to increase further, while risk management techniques should become more sophisticated. The critical issue is how to secure the sustainability of guarantee business in Mongolia. There are two major concerns; (i) source of funds, and (ii) profits. The CGFM is mainly funded by the Government of Mongolia. The Ministry of Finance injected MNT10 billion into CGFM's capital in 2014, and no injection of funds has been done since. The CGFM takes commission (MNT10,000 per application) and fees (1%–3% of the applied loan) for guarantees. The fee revenue is, according to CGFM calculations, expected to cover guarantee activities until 2017, but it is not profitable or sustainable. It may be necessary to reorganize the structure of shareholders, so as to collect funds more broadly from private sector investors. To this end, an amendment of the Credit Guarantee Fund Law will be needed.

The CGFM is an independent entity and, for its self-regulation, has established a governing board mainly comprising the Ministry of Finance, the Ministry of Economic Development, the Ministry of Industry, and the Chamber of Commerce and Industry. The Financial Regulatory Commission does not directly regulate and supervise the CGFM's guarantee activities, but intervenes in issues related to state financing and budget implementation, according to the Credit Guarantee Fund Law (Article 16). The Financial Regulatory Commission can also impose a fine for any violations of the Credit Guarantee Fund Law (Article 18).



There are many challenges for the credit guarantee system in Mongolia. These include: (i) flexible funding for the guarantee business from wide-ranging investors, (ii) a standardized asset evaluation scheme, and (iii) a direct guarantee scheme for SMEs, not through financial institutions.

The government has initiated several projects to support SMEs, and credit guarantees are part of such SME support initiatives. Besides the CGFM scheme, there are donor-led credit guarantee funds especially for micro and consumer loans, as well as for SMEs in the agriculture sector.

Another government effort to enhance bankability for SMEs is the draft Movable Asset Collateral Law, which will enable SMEs to use movable assets as collateral for loans. As of the end of 2014, it has yet to be enacted.

There are two credit bureaus in Mongolia. The Credit Information Bureau, a private bureau, provides credit histories, including those of SME clients, to financial institutions (both banks and nonbank financial institutions), to examine credit applications. All banks and a half of nonbank financial institutions utilize this service for lending. Another bureau is the Office of Credit Information Center, which operates under the Bank of Mongolia.

The Banking and Finance Academy, supported by the European Bank for Reconstruction and Development (EBRD), provides training programs on SME lending, mainly for bank loan officers. The programs include credit guarantees and trade finance. The Academy has a weak research function, which needs to be strengthened. It stresses the importance of financial education in bank lending as a priority.

Among 13 commercial banks, Khan Bank is an active lender to SMEs and participates in several public SME lending schemes, such as the Ministry of Industry's SME Development Fund and the two-step loans of the Japan International Cooperation Agency (JICA). Because SME lending is a risky business in terms of cost, size, and information availability, Khan Bank has its own incubation centers. These are located in main regional areas to search, identify, and foster promising business segments of SMEs that would eventually be bankable.

As lending to individual SMEs is still risky in Mongolia, it is critical to develop a cluster approach for SME lending. To this end, efforts to educate SMEs on financial literacy and on the benefits of clustering and making cooperatives or production networks are a key. New financing models for SMEs, such as crowdfunding platforms, would be worth exploring in the country, but the steps to communicate to SMEs the benefits of clustering are of higher priority.

Khan Bank has no special indicators for SME loans, but the recently established SME branch office will track SME credit data and will contribute to creating SME indicators in the future. Although no statistical data is available, it is estimated that roughly 20% of total lending is regarded as SME loans by Khan Bank (business loans account for 50% of total lending, and 40% of these loans are made to SMEs).

The banking sector sees the main obstacles to SME access to bank loans as being a lack of collateral and poor business quality. SMEs need more business experience and capacity development. In addition, no nationwide SME lending policy has been established in Mongolia. The issues of how to reduce high lending rates and loosen strict collateral requirements for SMEs, and how to enhance SMEs' capacity for financial reporting, are critical to developing policies to scale up SME lending in the country.

As of the end of 2014, 10 commercial banks<sup>68</sup> have participated in the Ministry of Industry's SME Development Fund scheme. The scheme follows a particular process, whereby the SME first needs to apply for the SME Development Fund through its local business center. Once receiving a certificate of loan provision from the Fund, the SME is required to submit the certificate to one of the participating banks to receive a concessional loan. While the average annual lending rate from Khan Bank is 17%, with no difference in rates charged to SMEs and large enterprises, loans through the SME Development Fund adopt a 7% lending rate (a 3% fixed rate subsidized by the Ministry of Industry, plus a 4% bank margin).

<sup>68</sup> Capital Bank, Capiron Bank, Chinggis Khan Bank, Golomt Bank, Khan Bank, NIBank, State Bank, Trade and Development Bank, Ulaanbaatar Bank, and Xac Bank.



Khan Bank indicated that SMEs in tourism and the wholesale and retail trade (small shops selling imported goods from the People's Republic of China) are active borrowers, while technology-oriented firms and manufacturers constitute only a small group of SME borrowers (around 1%). Lending decisions are made on a case-by-case basis in Khan Bank. For instance, IT software can be regarded as pledged collateral for loans to IT firms. For Mongolian medical practitioners, the doctor's license, business experience, and management capacity can be factors for lending decisions. Mortgage-based lending is common, but the borrower's capacity to generate cash flow is also a priority for loan decision. SMEs with no collateral but having a good business plan may have a better chance of being approved for bank loans. The CGFM helps start-ups supplement their lack of collateral for loans. Movable assets can also be collateral for loans, and this will be further promoted by the proposed Movable Asset Collateral Law, which has been discussed by the government.

The government has implemented many programs and initiatives to promote SME access to finance, but commercial banks still hold asset risks for SME lending, which requires more elaborated risk sharing mechanisms with the government. Tax incentive schemes for SMEs are also worth consideration in SME development policies.

Xac Bank—another leading commercial bank in micro, small and medium-sized enterprise (MSME) finance—sees improved SME business capacity and economic growth as the main reasons for recent SME lending growth. Xac Bank started its business as a microfinance institution, and has developed corporate business loans.

For lending operations, Xac Bank defines micro and small enterprises by loan size, which is a different classification from the SME Law 2007. Firms having loans below MNT50 million are classified as micro enterprises, while firms with loans between MNT50 million and MNT1 billion are categorized as small enterprises.

Besides the CGFM and the SME Development Fund, Xac Bank has participated in the price stabilization program initiated by the Bank of Mongolia, and the two-step loan program supported by JICA. These government programs and initiatives help promote SME lending. For the Ministry of Industry's SME Development Fund

scheme, the participating bank receives a certificate of the loan provision from the SME applicant, but if the SME does not qualify under the bank's lending policy and/or criteria, the bank may reject the application because all the credit risk is owned by the bank.

For Xac Bank, the annual growth rate of SME lending is 65% with a nonperforming loan (NPL) ratio of 2%–3%, which implies a sharp increase of SME credit market with moderate NPLs (the NPL ratio in the total Mongolian banking sector was 5.3% in 2013).

The most active MSME borrowers from Xac Bank are wholesale and retail trade (22% of total lending), manufacturing (15%), and construction (13% but also a fast-growing sector). Potential growth sectors for SME lending are: (i) the agribusiness sector, e.g., crop farming using innovative technology in water supply; and (ii) the energy sector, supported by energy efficiency projects and environmental guidelines for lending (green finance). There is strong funding demand from the agribusiness sector. The clean energy technology sector may become a potential base of growth-oriented firms in Mongolia. Xac Bank is the only eco-bank certified in the country.

The lending criteria of Xac Bank focus on: (i) business experience (minimum 6 months), (ii) collateral, and (iii) the use of technology. Xac Bank accepts all kinds of collateral, including movable assets such as machinery and inventory. Start-ups with good business plans are eligible for loans from Xac Bank.

In terms of loan purpose, 30% of SME borrowers use credit for investment capital, 25%–35% for capacity building, and 30% for working capital. Of these borrowers, 80% have loan terms of 1–5 years. The annual SME lending rate is 20%–24%, depending on the extent of credit risks. Xac Bank uses a credit-rating agency for credit score lending.

In 2014, Xac Bank, in consultation with the International Finance Corporation (IFC), started a project to finance women entrepreneurs. Xac Bank estimated that 900 out of 2,063 SME clients are led by women.

It is a priority issue to establish the Movable Asset Collateral Law and a collateral registry to facilitate SME access to formal financial services. The credit information system should also be developed further as

a core financial infrastructure for SME lending. Credit bureaus will help promote SME lending, but their functions need to be strengthened to accommodate the various financial institutions' needs, by providing comprehensive credit information, including both positive and negative data, especially for screening new loans.

## Nonbank Sector

The nonbank finance sector is small in scale in Mongolia. As of the end of 2013, total assets of licensed nonbank financial institutions (NBFIs) accounted for 1.8% of total banking sector assets, and licensed savings and credit cooperatives stood at the smaller share of 0.4%. However, the nonbank finance sector is a growing industry in the country, and provides financing options for MSMEs.

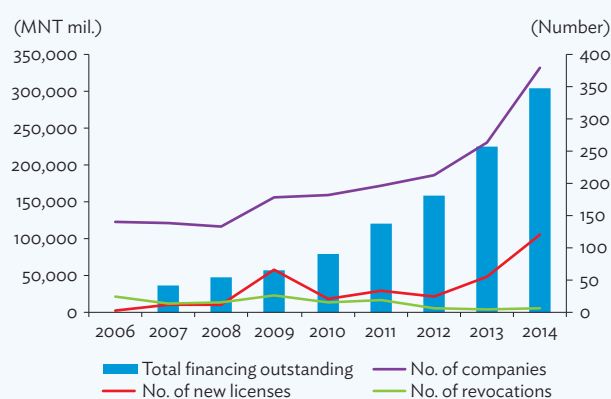
### Nonbank financial institutions

As of the end of 2014, 378 NBFIs licensed by the Financial Regulatory Commission were active. Of these firms, 338 are based in Ulaanbaatar, with the remaining 40 firms located in rural areas. There were 120 new licenses provided to NBFIs in 2014, while 5 licenses were revoked. Total financing outstanding by NBFIs amounted to MNT303 billion in 2014, a 35.5% increase from 2013 (Figure 4.66 and Table 4.28).

NBFIs can operate within 10 activities stipulated by law.<sup>69</sup> These activities include lending, factoring, trust, and advisory services. As of the end of 2014, 85% of licensed NBFIs conducted lending, while 4% dealt in factoring. Leasing is not legally counted as a nonbank finance business, meaning that the Financial Regulatory Commission does not regulate the leasing industry. The Law on Financial Leasing was enacted in 2006, separate from the Law on Non-Bank Financial Activities enacted in 2002. As leasing can be regarded as part of nonbank finance activities, a move to draft a new law

<sup>69</sup> Nonbank financial activities include (1) lending, (2) factoring, (3) financial lease, (4) issuing a guarantee, (5) issuing payment instruments, (6) electronic payment, remittance service, (7) foreign currency exchange, (8) trust service, (9) investment into short-term financial instruments, and (10) provision of investment and financial consultancy and/or information services (Article 7, Law on Non-Bank Financial Activities 2002).

**Figure 4.66: Nonbank Financial Institutions Loans**



Source: Financial Regulatory Commission.

on nonbanking activities, which is supposed to include leasing, has been discussed by the government.

The nonbank finance industry is performing well and is growing in Mongolia. Between 2007 and 2014, the total number of NBFIs almost tripled and their financing outstanding increased more than eightfold. The main reasons for the growth in nonbank finance business are: (i) the profitability of the industry, (ii) low minimum capital requirement by law, and (iii) improved quality of borrowers' activities, according to the Financial Regulatory Commission.

The recent economic downturn in Mongolia has subdued the real estate market. This has attracted many borrowers to NBFIs rather than banks, which focus on mortgage-based lending. There is also the fact that borrowers purely seek external funding for business, contributing to the increased demand for NBFIs.

The Mongolian civil code allows informal borrowing for micro business, but this form of borrowing can impede sustainable business. This leads informal borrowers to formal financial services, including NBFIs. Active borrowers in NBFIs are self-employed micro enterprises, which may include start-ups and seed firms (although there are no statistical data to confirm this).

### Savings and credit cooperatives

The savings and credit cooperatives (SCC) industry has also been growing and expanding across the country,

although it remains quite small in scale. As of the end of 2014, 159 SCCs, licensed by the Financial Regulatory Commission, operate in the country. Of these, 77 SCCs are Ulaanbaatar-based cooperatives and the remaining 82 are located in rural areas. In 2014, 25 new SCC licenses were provided, while 7 licenses were revoked. Total financing outstanding with SCCs amounted to MNT61 billion in 2014, a 24.5% increase from 2013 (Figure 4.67).

The ratio of nonperforming financing to total financing was 6.3% for NBFIs and 2.5% for SCCs in 2014 (Figure 4.68). Both industries were damaged by the 2008/09 global financial crisis, with peak nonperforming financing ratios of 8.9% for NBFIs in 2009 and 10.1% for SCCs in 2010. Since then, the nonperforming financing ratio has been improving in both industries, but the ratio in NBFIs turned upward again in 2014.

### Leasing industry

The leasing industry is growing fast in Mongolia. Xac Leasing, one of the leading leasing companies, was founded in 2007 under the Law on Financial Leasing enacted in 2006. There are only two players registered by law in the leasing business in Mongolia: Xac Leasing and TDB Leasing. More diversified players are needed for the leasing industry to be sound and competitive.

TDB Leasing has larger market share than Xac Leasing. Its focus is on large enterprises as its main clients. Xac Leasing targets MSMEs, which account for 95% of its clients, as a niche business area. Xac Leasing claimed

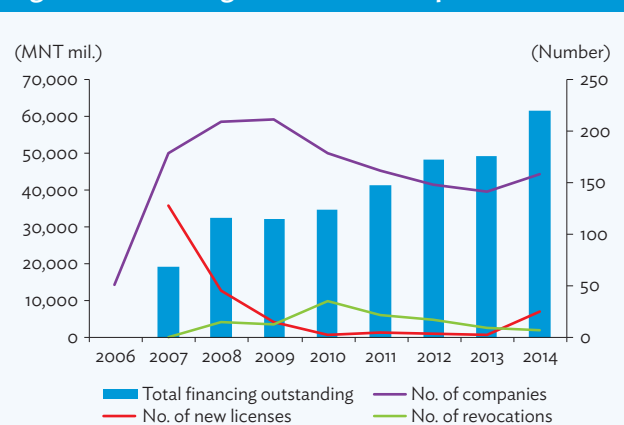
that their business is promising and profitable due to strong demand. MSMEs are reluctant about bank credit due to collateral requirements and slow decision-making for credit provision, according to Xac Leasing. Leasing companies are generally much faster than banks to respond to MSMEs' needs for operations, due to the equipment focus.

In the case of Xac Leasing, annual net business growth was 55% during 2009–2013, and the return on equity (ROE) stood at 21.8%, recording a gross profit of MNT22 billion in 2013 (a 13.6% increase from the previous year). Xac Leasing's lease disbursements amounted to MNT16 billion in 2013, a 1.6% decrease from 2012 (Figure 4.69).

The leasing industry in Mongolia is still in its early stages of development and holds many challenges, although it makes a good success story. There are two main challenges in the industry: (i) regulatory insufficiency, and (ii) limited funding sources. The Financial Leasing Law has some grey areas to be improved for leasing operations, e.g., ownership termination of equipment. Xac Leasing relies on funding mainly from international donors such as the EBRD and the IFC, and has little alternatives for funding sources compared to banks.

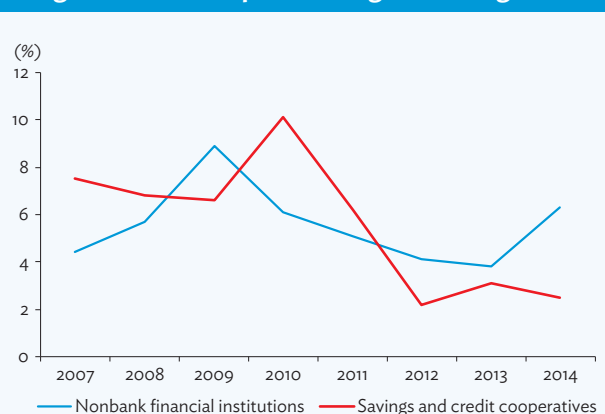
Leasing firms are not categorized into NBFIs by law, and accordingly not regulated by the Financial Regulatory Commission, a nonbank regulator. Conducting leasing business requires registration under the Financial Leasing Law, a special government law with no responsible regulator, while NBFIs licensed under the Law on Non-

Figure 4.67: Savings and Credit Cooperatives Loans



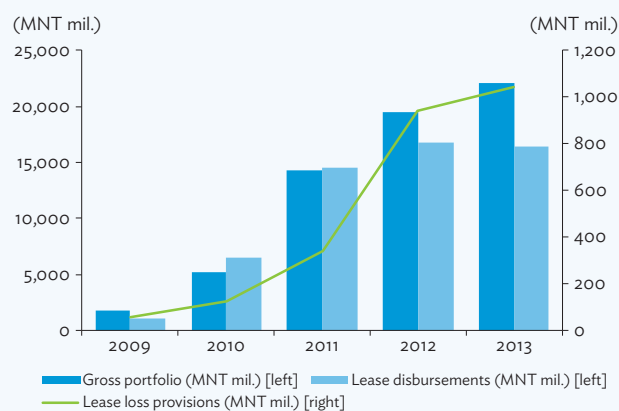
Source: Financial Regulatory Commission.

Figure 4.68: Nonperforming Financing Ratio



Source: Financial Regulatory Commission.

Figure 4.69: Leasing—Xac Leasing



Source: Annual Report 2013, Xac Leasing.

Bank Financial Activities 2002 are not legally allowed to provide leasing services. Xac Leasing does not see any benefits from creating a regulator for leasing business, and advocates freedom from top-down regulations. It says its business is already transparent through the submission of financial statements consistent with international standards (IFRS) to the Bank of Mongolia and by having internationally recognized shareholders such as the EBRD and the IFC. However, the leasing industry is a part of the domestic financial system and will need to be properly supervised for the healthy development of the industry.

Key sectors for leasing are: (i) transportation (e.g., passenger cars and public buses), (ii) construction (e.g., cement mixers), and (iii) mining (e.g., excavators). These sectors are big drivers of the Mongolian economy. Agriculture (e.g., equipment for crop farming) and healthcare (e.g., MRI and medical diagnostic devices) are potential areas to scale up the leasing industry, but leasing firms need more business experience in these sectors. For instance, crop farmers seek longer lease contracts (5 years or more) than construction and mining sectors (typically 2 years). This is due to longer periods needed for harvesting crops, but it is not easy due to the risky nature of business seasonality and potential payment traps. Leasing products and services in agriculture should be tailored to clients' needs and business conditions. Demand from the agribusiness sector for leasing remains, and agribusiness managers have started to understand leasing as a funding alternative. Xac Leasing educates vendors through its

training programs, and trained vendors educate clients. Financial education is key for the leasing business development, but it can take time to see the results of this education.

Xac Leasing has no branch offices. It has a good relationship with its vendors (initially 100 vendors but currently working with 16 key vendors located in Ulaanbaatar). In general, clients need to travel to Ulaanbaatar to arrange leasing, due to the high cost of equipment delivery. In the case of large deals of over \$300,000, a staff member may be dispatched to the location of the client to arrange the lease contract and the equipment will be delivered by the vendor. The leasing period is a minimum of 6 months and generally up to 5 years, depending on the type of contracts and client's business quality and cash flow conditions.

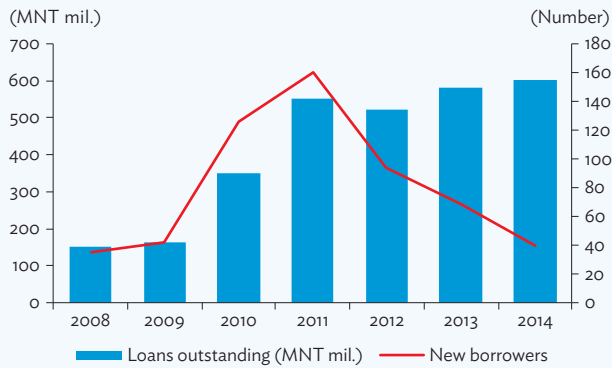
### Organic Mongolia—soft loan program

In 2008, the Mongolian National Chamber of Commerce and Industry (MNCCI) launched a project called "Organic Mongolia" to finance the development of organic products by SMEs, with a main goal of poverty reduction. Organic Mongolia raised initial capital totalling MNT500 million from five partner institutions (MNT100 million each from Petrovis LLC, Xac Bank, MNCCI, Max Group, and Energy Resource LLC). The average loan size ranges between MNT500,000 and MNT10 million per borrower.

The loan term is 1–2 years, and the interest rate is 12% per annum. As of the end of 2014, a total of 566 borrowers had benefitted from this soft loan program since 2008. Loans outstanding of Organic Mongolia amounted to MNT600 million in 2014, 4 times the amount in 2008 (Figure 4.70).

The main borrowers include greenhouse vegetable growers, honey producers, and felt handicraft companies. Most of the borrowers operate their business in Darkhan and Selenge areas because these locations have easy access to the capital city Ulaanbaatar, with relatively good road infrastructure. Also, there is the requirement that the borrower be located within 70km from bank branch offices, for the purposes of monitoring. Loan approval is conducted once a year (in April) by a selection committee comprising two representatives from two commercial banks and the MNCCI, examining the submitted business plans.

**Figure 4.70: Organic Mongolia Soft Loans—Mongolian National Chamber of Commerce and Industry**



Source: Mongolian National Chamber of Commerce and Industry.

In early 2015, the MNCCI conducted research on finding the best business models, products, and services in 21 provinces of the country, in close collaboration with the 21 regional chambers.

The MNCCI raised three key business sectors in which an SME base can potentially be created: (i) food processing, (ii) wool and cashmere, and (iii) garments. SME clustering is crucial for SME development in Mongolia. These three sectors are considered priority areas in the SME cluster policies led by the Ministry of Industry.

Organic Mongolia contributed to creating jobs in start-ups and generating incomes in poor households. There were some spin-off funds established by bidden companies to finance SME projects, including raw material processing business, agribusiness, and livestock farming.

### Box: Moncord—Case Study of a Nonbank Financial Institution

Moncord, established in 1996, is the first credit union in Mongolia, and provides financing services for 2,000 members. When established, it initially obtained a 3-year license from the Bank of Mongolia, and its credit union business has been licensed by the Financial Regulatory Commission as a nonbank financial institution since 2006. Moncord has 17 employees, including car drivers and assistants.

For lending, members need to hold the mandatory deposit for loans: 80% of deposit amounts are eligible for credit. The mandatory deposit is not prerequisite for membership, but members must contribute to the capital of Moncord to keep their membership.

Among members, active borrowers belong to the retail trade and service sectors, e.g., restaurants, cafés, private schools, barber shops, medical clinics, TV payment services, IT services, printing firms, etc. These are mostly self-employed micro enterprises. Some longer-term members have become large firms. They initially received loans from the credit union and now raise funds from banks. Since 1996, 60 to 70 firms graduated from micro businesses to large enterprises, yet they continue to have a good relationship with the credit union. In cases of a temporary shortage of working capital, they will come to the credit union for very short-term financing (e.g., 2 days).

The credit union industry is not showing significant growth in Mongolia. The number of credit unions has decreased; from 900 in 2004, to 200 in 2009, to 140 in 2014 (as of 25 June 2014). The industry is also not highly profitable. There were four phases that contributed to the ongoing poor performance of the credit union industry. Firstly, during 2005–2006, the reputation of credit unions was harmed due to money laundering cases and high interest rates. Secondly, after the 2008/09 global financial crisis, members had no cash for deposits, resulting in their failure to access credit. Thirdly, prior to 2011, there were two credit union associations, but poor coordination between the two resulted in complicated lending processes. Finally, since 2006, the Financial Regulatory Commission has tightened the regulations on nonbank financial institutions, requiring the licensing of credit union businesses, which lead to a decreasing number of credit unions.

Of the 2,000 members of Moncord, 300 members belong to start-ups, entrepreneurs, or seed firms. They come to the credit union due mainly to having no access to bank loans (caused by a lack of collateral and no official financial statements). They may also be put off by the slow loan processing by banks. Moncord provides loans for members in the range of 80% of deposit amounts, but, if they have no deposits, they have the chance to take loans with collateral (real estate security and/or movable assets).

*continued on next page*



**Box** continued

Moncord established a member development center to support business planning and capacity building for members. The center also contributes to developing new financing products targeting SMEs, poor households, and young generations; e.g., a collateral-free loan. Credit unions do not seek to compete with banks, but try to add value in their business. Moncord focuses on improving members' business capacity.

Moncord has a strategy for increasing membership, targeting four groups by age: (i) up to 18 years old (youth), (ii) 18–25 years old (young people), (iii) 25–45 years old (middle age people), and (iv) over 45 years old (senior people). New products and services have been developed according to the needs of each age group. Moncord is also looking for new members from public sector employees and retail traders.

The typical lending size is MNT16 million per transaction (calculated by loans outstanding divided by the number of loans), and can be extended up to MNT120 million. The main borrowers are repeat borrowers. The number of members has been stable at around 2,000 since 2008. Moncord's total assets increased from MNT7.5 billion in 2010 to MNT8 billion in 2014 (as of 25 June 2014). The lending rate is an average of 30%–36% per annum. The lending period ranges between 3 days and 2 years, depending on members' funding needs (mostly up to 1 year). The nonperforming loan ratio was 3.8% at the end of 2013. The main purpose of loans is for working capital and international trade (e.g., cement imported from the People's Republic of China). Of loans outstanding, 55% are business loans.

Moncord believes there are some regulatory barriers for its operations. One such example is that not all credit unions have applied for the PEARLS—an international standard of financial performance monitoring system designed for credit unions and savings institutions—due to its tight timeline for implementing new rules, for instance.

The Law on Savings and Credit Cooperative, enacted in 2011, enables the credit union to raise equity for establishing a company, which removed the article for the creation of mutual cooperatives managed by the Financial Regulatory Commission.

In Mongolia, the ratio of credit union members to total workforces is quite small at around 1%. The government plans to promote the establishment of credit unions, targeting 152 credit unions in Ulaanbaatar and more than 300 credit unions outside of Ulaanbaatar.

Credit Unions can technically access the Credit Information Bureau under Bank of Mongolia, but it is quite difficult to do so due to the high cost of software needed to access the data.

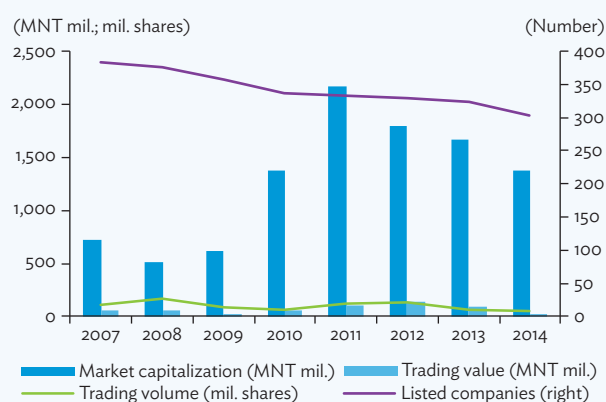
Source: Interview with chairperson of Moncord on 25 June 2014.

## Capital Markets

The securities market in Mongolia is small in scale, volatile, and vulnerable to external shocks. As the growth rate of Mongolia's economy has decelerated, the growth of the securities market has been also sluggish. On the Mongolian Stock Exchange, the market capitalization amounted to MNT1,374 million in 2014, a 17.8% decrease from 2012, and annual trading value sharply dropped to MNT24.2 million in 2014, a 75.2% decrease from 2013 (Figure 4.71 and Table 4.29). Listed companies numbered 303 in 2014, with 20 companies delisted from the previous year.

There is no dedicated stock exchange market for SMEs in Mongolia, with no plans for, or discussions on, creating a dedicated equity and/or bond market for SMEs.

**Figure 4.71: Market Performance—Mongolian Stock Exchange**



Source: Mongolian Stock Exchange.

## Policy and Regulation

The Ministry of Industry was established in December 2014, as part of the administrative reshuffle of the government. The Ministry plays a role as a focal agency for the national SME development plan and plays a coordinating role for SME policies across ministries. To explore new financing models to fit the demands of SMEs, the Ministry of Industry has launched a working group that includes representatives from the Ministry of Finance, the Financial Regulatory Commission, and the Mongolian Stock Exchange.

The SME Development Program 2014–2016 addresses six goals to be achieved by 2016: (i) legal environment enhancement, (ii) cluster development, (iii) research for innovation development, (iv) capacity building, (v) access to finance, and (vi) market development support (Table 4.30).

Considering most SMEs are too small in size and are independent self-employed or family-run businesses, SME clustering is one of the priority areas for SME development in Mongolia. This will make it possible to efficiently deliver growth capital to SMEs as well as promote their export business. There are some collaborative activities with the Korea Trade Promotion Corporation Agency (KOTRA), the Japan External Trade Organization (JETRO), and Kazakhstan for SME export promotion. It is crucial to create a base of growth-oriented SMEs to build a resilient national economy that does not heavily rely on mining, oil, and natural resources alone. An Asian Development Bank (ADB) research project also focuses on cluster development for makers of leather products in Mongolia.

The Ministry of Industry is preparing the Ministerial Order to Select Branded Products (tentative), aiming to create competitive Mongolian brands from 21 provinces. To this end, the government is currently researching which provinces have strengths for which products.

The Ministry of Industry recently took over the function of implementing SME development policies, including the SME Development Fund, from the Ministry of Labor. Staff members working in the provincial office comprise staff from the Ministry of Labor and the Ministry of Industry due to this transitional stage.

The Ministry of Industry is an implementing agency of the SME Development Fund (providing soft loans via partner commercial banks) and the Soum Development Fund (direct lending from the government). The state budget of MNT500 million in 2013 and MNT1 billion in 2014 was equally allocated to each province of Mongolia for the SME Development Fund.<sup>70</sup>

### Khuvsgul province

In Khuvsgul province, in the northwestern part of Mongolia near the Russian Federation border, the SME Development Fund generated a total of 247 applications worth MNT13 billion in the region. Considering the total size of applications, however, the SME Development Fund alone has not fulfilled the funding needs of SMEs in this area.

The SME Development Fund in the Khuvsgul area is showing good performance, with zero NPLs, which is attributed to the strict screening process of applications by the selection committee. As a selection rule, 10% of loan portfolios shall be allocated to start-ups that are not yet bankable.

In the Khuvsgul region, the state budget of MNT1.6 billion has been allocated for the Soum Development Fund. The provincial office also has a small financial support scheme for family and/or laborers, providing maximum MNT1.5 million per person (Labor Enhancement Fund). The main users are shoemakers and handicraftsmen.

The priority areas for SME development include the creation of the SME Development Zone (under screening), SME export enhancement (e.g., yak cashmere), local provincial product branding, and market access.

The mining industry is not permitted in the Khuvsgul province. The provincial government is discussing which business sectors need more finance for growth. Livestock farming and agribusiness are promising sectors to be developed in this area.

<sup>70</sup> For the SME Development Fund, the same amount of budget was allocated across provinces until 2014 but different proportion was done in 2015.



## Darkhan-Uul province

The Darkhan-Uul province, in the northern part of Mongolia near Ulaanbaatar, aims to create an industry base not relying on the livestock farming but addressing new SME business opportunities. The provincial office prioritizes four directions for SME sector development: (i) financial support for laborers (Labor Enhancement Fund), (ii) financial support for SMEs (SME Development Fund and Soum Development Fund), (iii) delivery of business safety guidelines, and (iv) helping the unemployed to find jobs.

In the SME Development Fund, the loan size of less than MNT100 million will be delivered from the provincial office, while those exceeding MNT100 million will be provided by the central government. The average annual lending rate was 7% in 2014, but increases to 9% in 2015 (still lower than the average commercial bank rate of around 20% per annum).

Meanwhile, the Soum Development Fund provides a maximum MNT5 million for individuals and MNT10 million for enterprises, with a 3% annual lending rate. In the Darkhan area, MNT2.2 billion in loans were disbursed in 2014, of which MNT1.1 billion in loans were guaranteed by the Credit Guarantee Fund and the remaining MNT1.1 billion in loans were based on collateral.

The SME Development Fund in the Darkhan area is showing good performance, with a low NPL ratio (99% of loans are performing well, according to the provincial office). In 2013, the provincial office received 129 applications to the SME Development Fund, of which 49 loans were approved by the selection committee and 18 were disbursed. In 2014, 37 loans were approved from 61 applications, and 28 were disbursed. The low disbursement ratio is attributed to state budget limitations. SME demand for the Fund is strong due to strict bank loan requirements, especially for collateral. The Fund is not filling the supply-demand gap in financing SMEs.

The state budget of MNT500 million was allocated to the Darkhan-Uul Province for the Soum Development Fund in each year from 2011 to 2013. In 2011, 58 borrowers benefitted from the loans. In 2012 and 2013, a total of 210 loans (from 429 applications) were disbursed. In 2014, the state budget reduced the

allocation to MNT240 million, with 54 loans disbursed (from 132 applications).

There are roughly four SME business sectors to be developed in the Darkhan area: (i) manufacturing of construction raw materials (e.g., cement), (ii) sheep skin processing for shoes, coats, and hats, (iii) iron ore processing, and (iv) vegetable oil manufacturing.

The Darkhan area has a population of 110,000 people, 84,000 of whom live in the central city of Darkhan, with relatively young working population range of 30–40 years old. This suggests potential for developing a base of growth-oriented SMEs in this area. However, the capacity of government officials for SME sector development is limited in the region, with the small number of human resources. Also, the SME incubation center has limited expertise that focuses on only start-ups. Further capacity building is needed for SME officials and the incubation center to efficiently and appropriately support the SME sector in the region.

### SME incubation centers

There are five state-owned SME incubation centers in Mongolia (Gobi-Altai, Zavkhan, Darkhan-Uul, UB-Songino Khaikhan, and UB-Bayanzurkh). These were established in 2008. Adding 14 private sector centers, 19 SME incubation centers are active in the country, and all belong to the Mongolian National Association of Incubation Centers.

The Darkhan-Uul province incubation center provides three main services for start-ups; incubation, training, and consulting. The incubation service comprises three activities: (i) providing working space for business for 2–3 years (the incubation center building of 500 m<sup>2</sup> houses 17–18 start-ups), (ii) business matching service through organizing exhibitions, and (iii) financial support to establish the business (MNT1.2 million for the start-up to purchase equipment/machinery). Since its establishment, 44 start-ups, including 32 university graduates (77% of graduates were women), have used the incubation service to start their business. The training programs hold 7–8 different courses, where the major two types are programs to start the business and to improve the business. The consultation service comprises a library (where business guidebooks and/or laws and regulations to start business are available) and business consultation.

There are no priority sectors for activities in the SME incubation center, but food processing (vegetables), construction materials, shoemaking (leather processing), and garments are promising business areas for start-ups.

The Darkhan area has a unique competitive advantage for business compared to other regions, i.e., it is geographically close to Ulaanbaatar, with good connectivity to major local cities, and has a relatively larger population of young workers. Technology-oriented or IT-based companies have yet to appear in the region, but young entrepreneurs are seeking new business models, which is generating strong demands for activities in the SME incubation center.

The SME incubation centers, even though they are state-owned, need to follow a tender process in fundraising, and are not systematically funded by the government. The centers are forced to participate in bidding for raising funds every year. If funding was lost, all activities, even staff salaries, would need to be covered by profits from operations (e.g., publication sales and training fees).

The state budget constraint and the insufficient staff capacity have limited the functions of SME incubation centers. Their main roles are to support business start-ups and to provide working incentives for the unemployed. Their financial status is typically in the red. Changes to their management system are needed, with a more business-oriented focus. The business incubation centers should focus on one specific area to create a strategic specialization.

#### Nonbank finance sector regulation

The Financial Regulatory Commission is a regulator for NBFIs and capital markets, and is responsible for the national financial inclusion policies. Since the new government administration started in December 2014, the Commission has focused, from a regulatory point of view, on developing new financing schemes for MSMEs. The Commission is preparing a new regulatory framework on nonbank financial activities, called the Financial Transaction Law, with support from the World Bank.

Table 4.25: SME Landscape

Item	2006	2007	2008	2009	2010	2011*	2012	2013
<b>Enterprises by Employment Size</b>								
1-9 employees	42,204	48,655	52,903	56,781	66,062	57,957	81,382	90,270
	24,848	25,703	29,879	30,272	34,844	38,797	43,501	46,347
10-19 employees	3,083	3,300	3,705	3,839	3,816	4,471	4,215	4,300
	2,701	2,830	3,123	3,156	2,741	4,363	3,732	3,789
20-49 employees	2,369	2,617	2,589	2,603	2,568	3,294	3,015	3,192
	2,139	2,351	2,286	2,253	2,186	3,256	2,824	2,990
≥50 employees	1,223	1,329	1,338	1,351	1,349	1,687	1,926	1,841
	1,129	1,221	1,210	1,196	1,180	1,670	1,881	1,803
Total	48,879	55,901	60,535	64,574	73,795	67,409	90,538	99,603
	30,817	32,105	36,498	36,877	40,951	48,086	51,938	54,929
Enterprises with fewer than 50 employees to total registered (% share)	97.5	97.6	97.8	97.9	98.2	97.5	97.9	98.2
Active enterprises to total registered (% share)	63.0	57.4	60.3	57.1	55.5	71.3	57.4	55.1
Active enterprises with fewer than 50 employees to total active (% share)	96.3	96.2	96.7	96.8	97.1	96.5	96.4	96.7
Active enterprises with fewer than 50 employees to total registered (% share)	60.7	55.2	58.3	55.3	53.9	68.9	55.3	53.3
<b>Enterprises by Sector (% share)</b>								
Primary industry	4.9	4.7	4.4	4.6	4.3	5.2	5.3	5.4
	4.5	4.9	4.3	4.8	4.4	5.2	5.6	5.8
Trade	42.0	42.8	44.8	44.4	49.2	39.3	44.5	43.9
	35.4	35.6	41.2	39.8	48.2	33.1	38.5	38.1
Service	27.9	26.7	25.5	25.7	22.1	22.8	19.0	19.0
	33.4	31.8	28.8	29.8	23.5	28.5	23.7	24.1
Transportation	3.2	3.2	3.3	3.3	3.2	4.7	4.5	4.4
	3.0	2.8	2.8	2.8	2.6	3.9	3.5	3.5
Manufacturing	7.5	7.2	6.8	7.0	6.7	8.7	8.2	8.1
	6.8	6.7	6.1	6.4	6.3	8.6	8.8	7.6
Construction	3.6	3.8	3.9	4.0	4.1	6.3	6.0	6.6
	3.4	3.8	3.6	2.9	3.5	5.9	6.1	6.4
Real estate	6.6	7.1	7.0	6.9	6.8	9.8	9.9	10.3
	7.3	8.1	7.5	7.9	6.2	10.6	9.7	10.7
Others	4.4	4.4	4.2	4.0	3.6	3.2	2.6	2.5
	6.0	6.2	5.7	5.6	5.3	4.2	4.0	3.7
<b>Enterprises by Region (% share)</b>								
Ulaanbaatar	67.3	68.6	71.0	70.2	72.7	70.0	72.4	71.9
	61.3	59.8	64.6	62.4	65.6	64.2	63.8	63.3
Western region	6.7	6.4	6.0	6.4	5.9	6.8	6.3	6.5
	8.5	8.8	8.2	9.0	8.3	8.6	9.4	9.6
Khangai region	9.7	9.2	8.6	8.8	8.1	9.1	8.5	8.8
	11.2	11.4	9.9	10.4	10.2	10.8	10.0	10.6
Central region	12.7	12.4	11.1	11.3	10.4	10.7	9.8	9.8
	14.2	15.0	12.9	13.5	11.8	12.4	12.9	12.5
Eastern region	3.6	3.5	3.2	3.2	2.9	3.4	2.9	3.0
	4.7	5.0	4.4	4.6	4.1	4.1	3.9	4.0

\* based on Establishment Census for 2011.

Notes: upper row: total establishments; lower row: active establishments. Primary industry includes agriculture, forestry, hunting, and fishery. Trade includes wholesale and retail trade, repair of motor vehicles, and households' goods. Service includes hotel and restaurants, financial services, education, health and social work, and other community, social and personal services. Others include mining and quarrying; electricity, gas, and water supply; and public administration and defense, compulsory social security.

Sources: Mongolian Statistical Yearbook 2009 and 2013.

Table 4.26: Banking Sector—SME Loans

Item	2008				2009				2010				2011			
	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV			
SME loans outstanding (MNT bil.)	505	465	453	493	483	469	540	580	625	690	873	951	1,043			
% share to total	19.1	17.4	17.7	18.7	18.2	17.1	19.0	19.0	19.4	18.7	19.3	19.0	18.6			
SME new loans disbursed (MNT bil.)	77	49	103	131	121	120	213	147	205	233	349	284	276			
% share to total	12.7	10.8	17.3	16.4	14.9	17.6	22.8	15.7	17.0	16.1	15.7	16.2	14.5			
SME loans repaid (MNT bil.)	141	102	110	100	134	111	129	104	162	168	158	207	193			
% share to total	18.9	18.5	16.4	13.7	16.6	19.9	16.6	14.4	16.4	17.6	10.7	16.2	13.4			
SME loan accounts (number)	48,509	44,280	53,702	48,083	45,323	45,507	44,378	45,567	48,034	51,671	51,890	52,738	56,639			
% share to total	9.4	8.3	11.0	9.9	9.0	9.3	9.1	8.6	9.2	8.8	8.7	8.2	9.3			
Item	2012				2013				2014							
	I	II	III	IV	I	II	III	IV	I	II	III	IV				
SME loans outstanding (MNT bil.)	1,070	1,185	1,229	1,189	1,268	1,538	1,725	1,805	1,851	2,077	2,139	2,176				
% share to total	18.6	18.9	18.0	17.1	17.3	18.0	17.1	16.8	16.3	17.0	17.0	17.5				
SME new loans disbursed (MNT bil.)	265	365	288	261	344	611	521	515	437	574	462	486				
% share to total	19.4	17.7	15.5	13.8	19.3	19.0	16.0	16.4	18.5	17.2	16.1	16.4				
SME loans repaid (MNT bil.)	249	254	193	273	278	344	362	457	414	436	439	436				
% share to total	22.1	16.2	14.0	15.2	19.6	16.6	17.5	19.9	20.9	17.5	17.5	15.1				
SME loan accounts (number)	60,102	60,634	56,639	53,816	53,157	53,745	57,169	56,607	52,955	62,554	62,871	61,838				
% share to total	8.8	10.3	9.2	8.8	8.1	8.3	8.2	8.2	7.0	8.3	7.9	7.7				

SME = small and medium-sized enterprise.

Note: I=1st quarter, II=2nd quarter, III=3rd quarter, IV=4th quarter.

Source: Bank of Mongolia.

Table 4.27: Credit Guarantees—Credit Guarantee Fund of Mongolia

Item	2013	2014
Number of SMEs obtaining credit guarantees	56	271
By region (% share)		
- Ulaanbaatar	75.0	80.1
- Provinces	25.0	19.9
Credit guarantees provided (MNT mil.)	3,703	18,434
By sector (% share)		
- Manufacturing	69.6	58.6
- Agriculture	22.5	15.2
- Trade	4.1	17.3
- Service	3.8	8.8
By financial institution (% share)		
- Golomt Bank	58.1	28.1
- Capital Bank	18.1	8.6
- State Bank	10.6	15.7
- Xac Bank	7.0	18.4
- Khan Bank	6.2	15.5
- Trade and Development Bank	...	11.5
- Capitrion Bank	...	1.7
- NIBank	...	0.4
Guaranteed loan amounts (MNT mil.)	10,367	42,964

SME = small and medium-sized enterprise.

Note: Provinces includes Uvurkhangaï, Khovd, Selenge, Darkhan-Uul, Bayankhögör, Dornod, Khuvsgul, Khentii, Uvs, Umnugobi, Tuv, Bulgan, Dundgobi, Gobi-Altai, Dornogobi, Orkhon, Arkhangai, Zavkhan, Gobi-sumber, and Sukhbaatar.

Source: 2014 Annual Report, Credit Guarantee Fund of Mongolia.

Table 4.28: Nonbank Sector

Item	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Nonbank financial institutions (NBFIs)</b>									
No. of companies	139	137	132	177	182	195	212	263	378
- Capital city (Ulaanbaatar)	...	112	109	150	156	172	188	232	338
- Local cities	...	25	23	27	26	23	24	31	40
No. of new licenses	2	10	10	66	20	32	23	54	120
No. of revocations	24	12	15	26	15	19	6	3	5
Total financing outstanding (MNT mil.)	...	35,395	46,446	55,505	78,086	119,004	157,769	223,712	303,133
Growth (%)	...	...	31.2	19.5	40.7	52.4	32.6	41.8	35.5
NPF Ratio* (%)	...	4.4	5.7	8.9	6.1	5.1	4.1	3.8	6.3
<b>Savings and Credit Cooperatives (SCCs)</b>									
No. of companies	51	179	209	212	179	162	148	141	159
- Capital city (Ulaanbaatar)	46	99	101	95	74	71	64	57	77
- Local cities	5	80	108	117	105	91	84	84	82
No. of new licenses	...	128	45	15	2	4	3	2	25
No. of revocations	...	0	15	12	35	21	17	9	7
Total financing outstanding (MNT mil.)	...	19,291	32,378	32,215	34,861	41,491	48,324	49,374	61,491
Growth (%)	...	...	67.8	(0.5)	8.2	19.0	16.5	2.2	24.5
NPF Ratio* (%)	...	7.5	6.8	6.6	10.1	6.2	2.2	3.1	2.5
<b>Leasing—Xac Leasing</b>									
Gross portfolio (MNT mil.)	...	...	...	1,825	5,183	14,322	19,479	22,134	...
Lease disbursements (MNT mil.)	...	...	...	1,100	6,500	14,527	16,765	16,494	...
Lease loss provisions (MNT mil.)	...	...	...	54	125	340	939	1,042	...
<b>Organic Mongolia Soft Loan Program—MNCCI</b>									
Loans outstanding (MNT mil.)	...	...	150	161	350	550	520	580	600
New borrowers	...	...	35	42	126	160	94	69	40

MNCCI= Mongolian National Chamber of Commerce and Industry, NPF = nonperforming financing.

\* as % of nonperforming financing to total financing.

Sources: Financial Regulatory Commission, Mongolian National Chamber of Commerce and Industry, Xac Leasing.

Table 4.29: Equity Market—Mongolian Stock Exchange

Item	2007	2008	2009	2010	2011	2012	2013	2014
Market capitalization (MNT mil.)	718	516	621	1,374	2,169	1,800	1,671	1,374
Trading value (MNT mil.)	62.1	60.3	23.2	62.9	109.1	144.7	97.6	24.2
Trading volume (mil. shares)	116.1	170.1	89.9	64.5	122.8	133.8	65.8	51.7
Listed companies	383	376	358	336	332	329	323	303

Sources: Mongolian Stock Exchange and Financial Regulatory Commission.

Table 4.30: SME Policy and Regulation

Regulations		
Name	Outline	
Law on Small and Medium Enterprises (2007)	SME definition, registration, and the role of governments to support the SME sector	
Law on Banking (2010)	Regulation on banks	
Law on Credit Information (2011)	Regulation on credit information	
Law on Financial Leasing (2006)	Regulation on leasing business	
Law on Savings and Credit Cooperatives (2011)	Regulation on savings and credit cooperatives	
Law on Non-Bank Financial Activities (2002)	Regulation on nonbank financial institutions (NBFIs)	
Regulation on Licencing of Non-Bank Financial Institutions (2008)	Regulation on NBFIs	
Temporary Regulation on Provision of Venture Capital by Non-Bank Financial Institutions (2008)	Regulation on venture capital investments by NBFIs	
Regulation on Savings and Credit Cooperatives (2012)	Regulation on savings and credit cooperatives	
Law on Credit Guarantee Fund (2012)	Establishment of the Credit Guarantee Fund of Mongolia	
Law on Investment Fund (2013)	Establishment of an investment fund	
Regulators and Policymakers		
Name	Responsibility	
Bank of Mongolia (BOM; central bank)	Regulate and supervise banks; compile SME credit data	
Ministry of Industry (MOI)	Focal entity of the national SME development strategies; implement SME development policies; operate the SME Development Fund and the Soum Development Fund	
Ministry of Labor (MOL)	Promote healthy labor market and social development. The MOL had managed the SME Development Fund before the launch of new government administration in December 2014, whose function has been taken over by the MOI.	
Ministry of Food and Agriculture (MOFA)	Responsible for food and agricultural policies. Provide soft loans and guarantees for agri business sectors.	
Financial Regulatory Commission (FRC)	Regulate and supervise NBFIs and capital markets; SME access to finance strategies and policies	
Credit Guarantee Fund of Mongolia (CGFM)	Deliver and monitor credit guarantees to SMEs	
Policies		
Name	Responsible Entity	Outline
SME Development Program 2014–2016	MOI	<ol style="list-style-type: none"> <li>1) legal environment enhancement</li> <li>2) cluster development</li> <li>3) research for innovation development</li> <li>4) capacity building</li> <li>5) access to finance</li> <li>6) market development support</li> </ol>
SME Development Fund	MOI	Delivery of soft loans to SMEs via partner commercial banks.
Soum Development Fund	MOI	Public small concessional loan scheme.
Labor Enhancement Fund	MOL/MOI	Regional initiative on financial support for labors.
SME Business Incubation Centers	MOI	<p>Five state-owned centers in Gobi-Altai, Zavkhan, Darkhan-Uul, UB-Songino Khaikhan, and UB-Bayanzurkh, each established in 2008. Three key activities for start-ups:</p> <ol style="list-style-type: none"> <li>1) incubation</li> <li>2) training</li> <li>3) consulting</li> </ol>
Organic Mongolia	MNCCI	Soft loan program to SMEs' organic products, with a main goal of poverty reduction, started from 2008.

MOL=Ministry of Labor; MNCCI=Mongolian National Chamber of Commerce and Industry, MOI=Ministry of Industry, SME = small and medium-sized enterprise.

Sources: Bank of Mongolia, Ministry of Industry, Financial Regulatory Commission, Credit Guarantee Fund of Mongolia, and Mongolian National Chamber of Commerce and Industry.





# Country Reviews

## South Asia

Bangladesh

India

Sri Lanka



# Bangladesh

## SME Landscape

The Bangladesh economy grew at 6% during 2014, despite a very challenging internal and global economic environment. It was ranked fourth amongst the top five fastest-growing emerging economies in 2014.<sup>71</sup> The manufacturing sector, which primarily comprises micro, small and medium-sized enterprises (MSMEs), clocked a growth rate of 9% and was the main contributor to the growth of the Bangladesh economy. It was estimated that small and medium-sized enterprises (SMEs) accounted for 90% of the private enterprises at 7.2 million firms in 2013 and 99% at 7.9 million firms if micro enterprises are included. The SME sector employs 70%–80% of the nonagricultural workforce. In 2014, SMEs contributed 25% of the Bangladesh's GDP and 40% of the manufacturing output.

Although comprehensive SME statistics are not available at the national level, the Bangladesh Bureau of Statistics (BBS) conducted an Economic Census in 2013 and provided an updated enterprise landscape (Table 4.31). As per the provisional figures of the 2013 Census, it was estimated that a total of 8 million enterprises were active in Bangladesh in 2013. Among them, 4.5 million enterprises were permanent establishments (economic units outside households having a fixed location and permanent structure); 500,000 were temporary establishments (economic units outside households, located in a fixed place beside a road or in a market place, having a temporary shed or fence for a year or more); and 3 million were households (economic units engaged in nonagricultural activities such as cottage industry, shop or workshop operated in households and outside the household such as hawking, operating own rickshaw, push cart/van/easy bike, and street vendor).

The BBS also conducted a Survey of Manufacturing Industries in 2012 (Table 4.32). The survey estimated that 42,792 manufacturing units were active in 2012. The survey also classified the manufacturing units into micro, small, and medium-sized enterprises based on the criteria on the total number of employees under the national MSME definition. As per the survey, there were 17,384 micro enterprises, 15,666 small enterprises, and 6,103 medium-sized enterprises engaged in the manufacturing sector.

The Bangladesh Industrial Policy 2010 provides the unified national definition of SMEs, which is based on the value of fixed assets (excluding land and building) and/or the number of employees. Bangladesh Bank, the country's central bank, utilizes this definition for its SME lending policies (Circular No 1 of 2011). Firms with fixed assets not exceeding Tk300 million and 250 employees are considered MSMEs in the manufacturing sector, while firms with fixed assets not exceeding Tk150 million and 100 employees are considered MSMEs in the service and trade sectors. Separately, manufacturing, service, and trade firms with fixed assets of less than Tk0.5 million and 10 or less employees (including family members) are regarded as cottage enterprises.

As per a survey conducted by the Bangladesh Integrated Support to Poverty and Inequality Reduction through Enterprise Development (INSPIRED),<sup>72</sup> a program funded by the government of Bangladesh and the European Union, the main constraints faced by SMEs engaged in the manufacturing sector are: (i) inadequate supplies of utilities (mainly electricity) and infrastructure (poor transportation), (ii) inadequate access to finance, (iii) tighter competition (from imports), and

<sup>71</sup> Euromonitor International from national statistics/Eurostat/OECD/UN/IMF.

<sup>72</sup> INSPIRED is the acronym for Integrated Support to Poverty and Inequality Reduction through Enterprise Development, the name of a program funded by the Government of Bangladesh and the European Union. Its objective is to develop the SME sector in Bangladesh.

(iv) increasing costs of labor and lack of skilled labor in production.

## Banking Sector

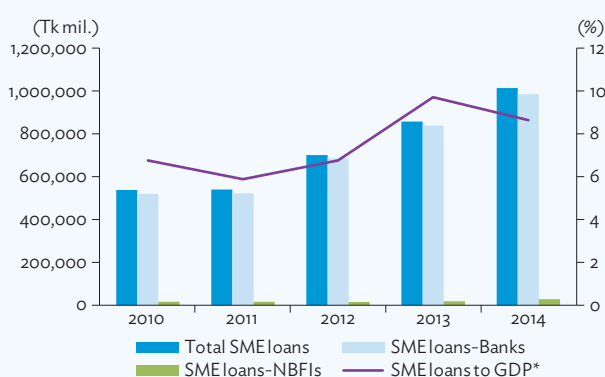
The banking sector in Bangladesh consists of scheduled banks and nonscheduled banks.<sup>73</sup> As of December 2014, there were 56 scheduled banks operating in the country, comprising (i) 5 state-owned commercial banks, (ii) 3 specialized development banks, (iii) 31 conventional private commercial banks, (iv) 8 Islami Shariah-based private commercial banks, and (v) 9 foreign commercial banks. Meanwhile, there are 4 non-scheduled banks operating in the country.

Total SME loans disbursed by banks and nonbank financial institutions (NBFIs) expanded by 18.3% from Tk853,233 million in 2013 to Tk1,009,102 million in 2014 (Figure 4.72 and Table 4.33). Total number of SME borrowers from banks and NBFIs declined by 1.3 times from 746,610 SMEs in 2013 to 541,656 SMEs in 2014 (Figure 4.73). Credit to small firms was marginally higher than that to medium-sized firms. Small firms received 52.1% of total SME loans disbursed in 2014 (Tk525,846 million) while medium-sized firms received

47.9% (Tk483,256 million) (Figure 4.74). In terms of the regional distribution of SME loans, bulk of the loans by banks and NBFIs went to the urban area in 2014 (74.8% of total SME loans). The most active SME sector in lending by banks and NBFIs was the wholesale and retail trade sector (62.2% of total SME loans), followed by the manufacturing sector (30.0%) and the service sector (7.8%).

The banking sector in Bangladesh continues to be the largest provider of credit to the SME sector. Bank lending

Figure 4.72: SME Loans Disbursed

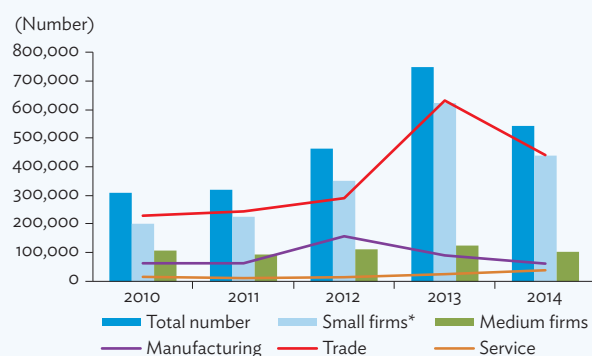


CB = commercial bank, NBFIs = nonbank financial institution, SME = small and medium-sized enterprise.

\* figures for 2013 are SME loans outstanding to GDP

Source: Bangladesh Bank.

Figure 4.73: SME Borrowers

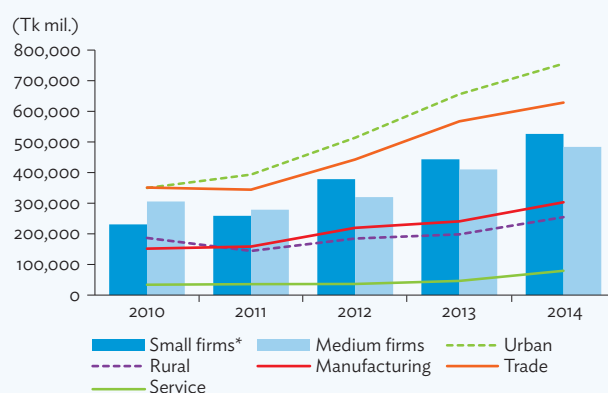


SME = small and medium-sized enterprise.

\* including cottage enterprises.

Source: Bangladesh Bank.

Figure 4.74: SME Loans by Size, Region, and Sector



SME = small and medium-sized enterprise.

Note: SME loans disbursed by commercial banks and nonbank financial institutions.

\* including cottage enterprises.

Source: Bangladesh Bank.

<sup>73</sup> As per the Bangladesh Bank, scheduled banks are banks which are licensed to operate under the Bank Company Act 1991 (Amended in 2003). Nonscheduled banks are established for a special and definitive objective and operate under the acts that are enacted for meeting up those objectives, and cannot perform all functions of scheduled banks.

to the SME sector amounted to Tk980,330 million, 97.1% of the total SME loans in 2014. The remaining 2.9% was made by NBFIs. In 2014, banks expanded their SME credit portfolio by 17.5%.

Bangladesh Bank introduced a lending target to SMEs in 2010 for banks and NBFIs. Since the inception of the program, each year, banks and NBFIs have exceeded the targeted SME lending (Figure 4.75 and Table 4.34). During 2013, banks and NBFIs recorded 115% of the target SME loans of Tk741,869. As of December 2014, banks and NBFIs had already financed Tk1,009,102 million, reaching 114% of the 2014 target of Tk887,530 million.

Due to the unstable political environment in late 2013 and early 2014 nonperforming loans (NPLs) in SME lending grew by 1.5% from 6.4% in 2012 to 7.9% in 2013 (Figure 4.76). By the end of 2014, SME NPLs had climbed to an alarming 11.8%. To cope with the condition of high SME NPLs, Bangladesh Bank issued a circular on 18 December 2013 (BRPD Circular No.14) for rescheduling SME loans. However, the provision of the circular expired on 1 July 2014.

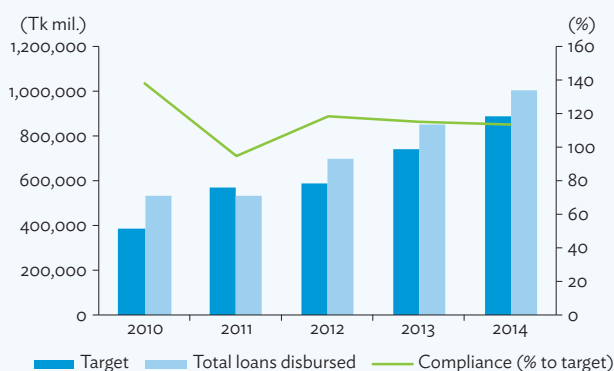
Bangladesh Bank, from its own fund and with the support of its development partners, including the Asian Development Bank (ADB), Japan International Cooperation Agency (JICA), and the International Development Association (IDA) has been providing refinance facilities to banks and NBFIs against their

SME credit. As of December 2014, three out of five refinance facilities were closed, while two schemes—the Bangladesh Bank Fund and the JICA Fund—remained active. As of December 2014, Tk38,512 million had been refinanced against banks and NBFIs lending to 44,150 SMEs (Table 4.35).

To supplement the closure of three refinance schemes, Bangladesh Bank's SME and Special Programs Department (SMESPD) has instituted two separate schemes to refinance SME loans given by banks and NBFIs: (i) the New Entrepreneur Refinance Fund for Cottage, Micro and Small Sector Industry, and (ii) the Islamic Shariah based Refinance Scheme for Islamic Banks. Under the first scheme, banks and NBFIs provide loans at concessional interest rates of 10% (bank rate +5%) to prospective entrepreneurs selected and trained by recognized public and private training providers. Bangladesh Bank will refinance these loans from its fund of Tk1 billion specifically set up for this scheme. The second scheme has been created with the objective of enhancing the role of Islamic Banks in SME financing, by refinancing the loans given by Islamic Banks to agro-based industries and small entrepreneurs (including women-led enterprises).

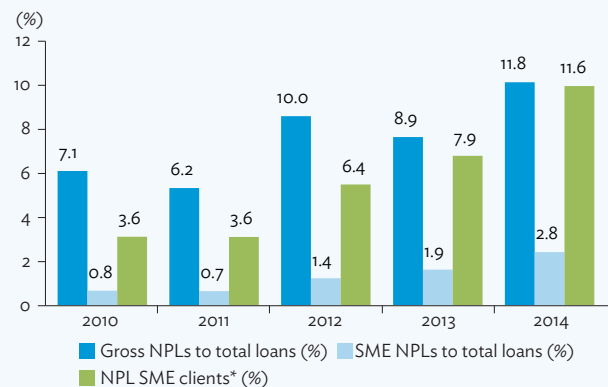
BRAC Bank, a specialized development bank licensed by Bangladesh Bank and rated as the fourth largest specialized SME bank in the world, is a top credit provider

**Figure 4.75: SME Loans by Banks and Nonbank Financial Institutions against Lending Targets**



SME = small and medium-sized enterprise.  
Source: Bangladesh Bank.

**Figure 4.76: SME Nonperforming Loans**



NPL = nonperforming loan, SME = small and medium-sized enterprise.  
Note: NPL ratio is calculated based on loans outstanding in commercial banks and nonbank financial institutions.

\* ratio of NPL SME clients to total SME borrowers in commercial banks and nonbank financial institutions.  
Source: Bangladesh Bank.



to SMEs among private commercial banks in Bangladesh. It has a 6% market share of SME lending in the country. In 2013, BRAC Bank disbursed Tk33,676 million to 20,571 SME borrowers. The success of BRAC Bank in SME lending is attributed to its ‘go to customer approach’ wherein BRAC Bank has set up a network of 572 customer touch points. To further increase its access to customers, BRAC Bank is also initiating agent banking, wherein it will appoint agents across the country to reach out to SMEs and distribute loans. BRAC Bank divides its SME customers into two segments; secured and unsecured. Until 2012, in the unsecured segment, BRAC Bank provided collateral-free loans ranging between Tk200,000 and Tk1.5 million to small enterprises, based on the character assessment of the entrepreneur. To target micro enterprises BRAC Bank reduced the minimum loan value to Tk100,000 in 2014. The interest rate for the unsecured segment averaged 23.8%, while the NPL ratio ranged between 7% and 8%. Under the secured segment loans ranging between Tk1.5 million and Tk50 million are provided against 100% collateral, with loan-to-value ratio of 75%. Interest rates in the secured segment range between 16% and 18%.

The main challenges faced by banks for financing SMEs are poor quality of collateral, inadequate documentation, and ill-defined business plans. With relatively high interest rates for SME lending, stringent collateral and guarantee requirements might be a critical barrier to SME access to finance. Banks tend to hesitate to provide credit for new borrowers and, in most cases, business experience of 2 or more years is needed for SMEs to access bank credit.

## Nonbank Sector

The NBFIs business line continues to be narrow in comparison with banks in Bangladesh. The share of SME commercial lending (including bank lending) grew by 7 basis points in 2014 when compared to 2013 and stood 2.9% of total SME loans. When compared with banks the outreach of NBFIs is limited, however they offer certain products, including factoring and lending, to a greater extent than banks.

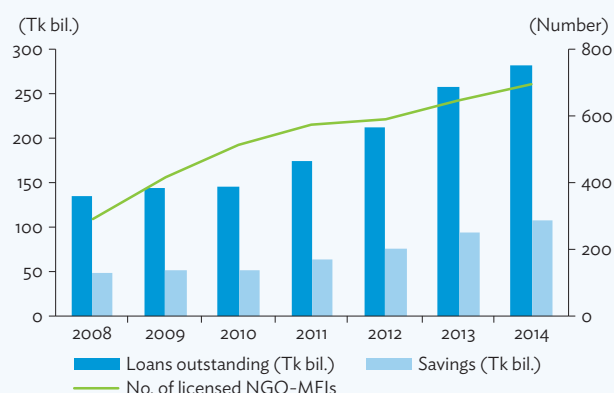
The Industrial Development and Leasing Corporation (IDLC) is the largest NBFIs in the country and the recipient of Bangladesh Bank’s “SME NBFIs of the Year 2013” and “Best Women Friendly NBFIs of the

year 2013” awards. SME loans constituted the largest portion (38.2%) of the total loan portfolio of IDLC, followed by consumer loans (34.5%), and corporate loans (27.4%) in 2013. IDLC’s total SME loans stood at Tk14,334 million in 2013, a 40.8% increase over the 2012 figure of Tk10,178 million. The NPL ratio for SME loans was 1.6%, nearly half the 3.3% for corporate loans, in 2013. IDLC offers reverse factoring to its corporate clients, wherein it makes payment to suppliers (usually SMEs) on behalf of the corporate client as soon as the products and services are delivered.

Expanding geographical coverage to serve more clients is the main challenge for NBFIs in serving SMEs. Almost all NBFIs in Bangladesh are urban-centric with limited branches in rural areas. SMEs in urban areas are well served but financing gap is greater in semiurban and rural areas.

Microfinance continues to play an important role in providing finance to micro and small enterprises. The Micro Credit Regulatory Authority (MRA) regulates the operations of all microfinance institutions (MFIs), especially nongovernment-organization-funded MFIs (NGO-MFIs), except that of Grameen Bank. Grameen Bank, although it provides microfinance, is licensed as a bank and is supervised by the Bangladesh Bank. The total number of MRA-licensed NGO-MFIs was 697 as of June 2014, an upward trend (Figure 4.77 and Table 4.36).

**Figure 4.77: Savings and Loans—  
Nongovernment Microfinance Institutions**



NGO-MFI = nongovernment microfinance institution.

Notes: All data as of the end of June in each year.

Source: Micro Credit Regulatory Authority.

Loans below Tk50,000 are considered as micro loans, while loans between Tk50,000 and Tk1 million are considered micro enterprise loans. MFIs in Bangladesh are not allowed to take any collateral from borrowers, but sanction loans based on group guarantees. Micro enterprise loans are usually given to repeater borrowers with credit history (who have earlier repaid a micro loan). The MRA has capped the maximum interest rate at 27% for all micro loans. Most micro loans offer 1-year loan terms with 46 installments. For NGO-MFIs registered with MRA, the cumulative recovery rate for micro loans stood at 97.7% as of June 2013. As of June 2014, the total value of micro credit outstanding for NGO-MFIs licensed by MRA was Tk282,207 million, of which 29% (Tk81,868 million) were micro enterprise loans, and total micro finance borrowers stood at 19.4 million (Figure 4.78). Among MRA-licensed NGO-MFIs, BRAC (a parent organization of BRAC Bank) and the Association for Social Advancement (ASA) are the two leading MFIs and together accounted for more than 45% of micro loans outstanding as on June 2014 (BRAC at 28.8% and ASA at 16.5%).

Grameen Bank plays a dominant role in the microfinance sector. As of June 2014, total borrowers numbered 8.6 million. Total loans disbursed stood at Tk117.2 billion while the total of loans outstanding was Tk87.7 billion, a 23.7% of the total microfinance loans combined with NGO-MFIs (Figure 4.79 and Table 4.37).

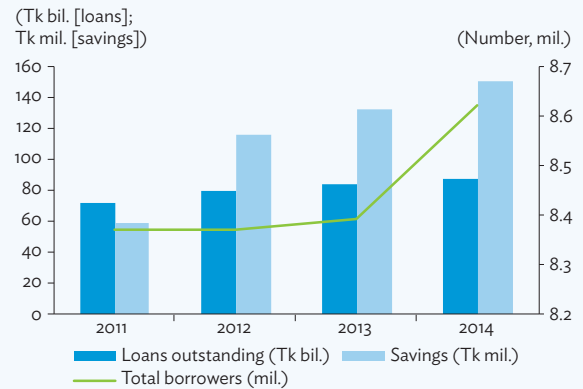
The Palli Karma Sahayak Foundation (PKSF) is also an important organization in the microfinance industry.

**Figure 4.78: Clients—Nongovernment Microfinance Institutions**



Notes: All data as of the end of June in each year.  
Source: Micro Credit Regulatory Authority.

**Figure 4.79: Savings and Loans—Grameen Bank**



Notes: All data as of the end of June in each year.  
Source: Micro Credit Regulatory Authority.

Established in 1990 by the Government of Bangladesh, as a not-for-profit company, PKSF acts as a second tier organization, i.e., it does not provide services directly but through partner NGO-MFIs. Of the NGO-MFI loans outstanding, 12.3% of these were funded by PKSF. The PKSF has also started a micro enterprise loan program and as of June 2014, total loans outstanding funded by PKSF through NGO-MFIs to micro enterprises stood at Tk27.7 billion.

## Capital Markets

The Dhaka Stock Exchange (DSE) is the largest stock exchange in Bangladesh. During 2014, 20 companies were listed on the DSE, taking the total number of companies listed to 274 as of the end of 2014. The market capitalization of the DSE increased by more than 29%, from Tk2.5 trillion in September 2013 to Tk3.2 trillion in December 2014. The Chittagong Stock Exchange (CSE) is another stock exchange, and the number of companies listed on the CSE increased by 29%, from 257 companies in September 2013 to 286 companies as at the end of December 2014. The market capitalization of the CSE increased by more than 28% from Tk2.03 trillion in December 2013 to Tk2.61 trillion in December 2014.

The minimum paid up capital required for listing on both the DSE and the CSE is Tk1 billion, which restricts SMEs from accessing these markets. The DSE also

operates an over-the-counter (OTC) market. Currently only companies delisted from the main board can trade on the OTC market, but the DSE is evaluating the possibility of allowing SMEs to trade on the OTC as the minimum capital requirement for OTC trading is only Tk50 million. The OTC market is regulated by the Bangladesh Securities and Exchange Commission Rules 2001. As of 31 December 2014, 66 companies were trading on the OTC with a total market capitalization of Tk5,124.50 million.

Four venture capital firms operate in Bangladesh: (i) Venture Investment Partners Bangladesh (VIPB), Bangladesh's first private social venture capital established to promote growth of SMEs; (ii) BD Ventures, an SME-focused venture capital fund; (iii) SEAF Bangladesh Ventures, one of the IFC's SME venture funds in partnership with VIPB for its investments in Bangladesh; and (iv) Bangladesh Venture Capital Limited (BVCL).

BD Ventures has an authorized capital of Tk500 million and paid up capital of Tk200 million. Around 80% of its shareholders are corporates, consisting of three local banks, two NBFIs, and three insurance companies. The remaining 20% of shares are held by eight individual investors. BD Ventures invests in ordinary, preferred, or quasi equity share capital<sup>74</sup> of companies, and focuses on companies operating in the information technology, agro-business, food processing, health services, renewable energy, tourism, and light engineering industries. So far, BD Ventures has made two investments. The first investment, amounting to Tk20 million, is in a food processing company. The other investment, amounting to Tk2.8 million, is in a renewable energy company.

Venture capital firms in Bangladesh are facing challenges in raising funds due to lack of regulations for the venture capital industry, and are lobbying with the government for the introduction of rules and regulations for the venture capital industry. Challenges faced by venture capital firms in investing in SMEs are reluctance of entrepreneurs to tap equity markets, inability to conduct proper due diligence, nonavailability of quantitative and qualitative information from SMEs, and different

perception of company valuations between the SMEs and venture capital firms.

## Policy and Regulation

Several organizations are involved in SME development in Bangladesh. These are the National Taskforce on SME Development, SME Cell, the Ministry of Industries, the SME Foundation, the Bangladesh Small and Cottage Industries Corporation, the Bangladesh Industrial Technical Assistance Centre (BITAC), the Bangladesh Council of Scientific and Industrial Research (BCSIR), and the Business Promotion Council (BPC).

The SME Foundation (SMEF)—an independent center of excellence created and capitalized by the Government of Bangladesh through the Ministry of Industries—has been providing support to MSMEs through policy advocacy, financial assistance, skill development, training, facilitating the adoption of new technology, and business support services. SMEF has identified 177 clusters conducive for manufacturing of various products across the country. Under its finance and credit support program, the SMEF provides collateral-free SME loans at interest rates below 10% to targeted and predefined micro and small enterprise segments in the manufacturing sector and services sector. The total amount of credit disbursed through the finance and credit program increased by 37.4%, from Tk195.0 million in November 2013 to Tk268 million in November 2014, while the total amount sanctioned under the program increased by 71%, from Tk232.5 million in November 2013 to Tk397.5 million in November 2014 (Table 4.38). To encourage lending to SMEs, the SMEF in association with the Bangladesh Bank also organized the SME Banking Fair 2014 in November 2014.

To make the efforts of banks and NBFIs on SME lending recognized by the public, and to further encourage lending to SMEs, the Bangladesh Bank in association with the SMEF introduced the “SME Banking Award” in 2014. Under the banking category the following awards were given in 2014: (i) Small Enterprise Friendly Bank of the Year, (ii) Women Entrepreneur Friendly Bank of the Year, (iii) Rural Entrepreneurs Friendly Bank of the Year, (iv) Manufacturing Sector Friendly Bank of the Year, and (v) Structured SME Bank of the Year. With the objective of empowering women through greater

<sup>74</sup> Quasi equity is a category of debt that has some characteristics of equity such as flexible repayment options or being unsecured.

participation in SMEs, the Bangladesh Bank has taken a number of policy initiatives: (i) 15% of the Bangladesh Bank refinance fund is allocated to lending to women entrepreneurs at a concessional interest rate of 10%; (ii) all banks and NBFIs have been directed to set up a dedicated help desk for women entrepreneurs; (iii) banks and NBFIs have been allowed to sanction up to Tk2.5 million to women entrepreneurs without collateral, under the Bangladesh Bank refinance scheme, with certain conditions.

With a view to make SME credit goal-oriented, banks and NBFIs have been advised by the Bangladesh Bank to adopt the cluster development approach. Under this approach, the Bangladesh Bank has identified 50 SME clusters, based on locations conducive for the development of particular industries. Banks and NBFIs are advised to develop customized financing solutions to suit each cluster.

Bangladesh Bank has given recognition to a specialized credit rating agency for SMEs, Bangladesh Rating Agency Limited (BDRAL), and has also laid down the guidelines for the credit rating of SMEs, known as the Credit Rating Methodology for Small and Medium Enterprises.

The Bangladesh Small and Cottage Industries Corporation (BSCIC) is an autonomous corporation under the Ministry of Industries, established by the Act of Parliament 1957, with the objective of developing small and cottage industries in the manufacturing sector. Along with providing support services such as facilitating registration, developing infrastructure (including industrial parks), and providing training and advisory services, the BSCIC provides credit to small-scale industries, both directly from its own fund and indirectly by recommending borrowers to banks and NBFIs.

The Business Initiative Leading Development (BUILD) is a public-private dialog platform set up jointly by the Dhaka Chamber of Commerce and Industry, the Metropolitan Chamber of Commerce and Industry, and the SME Foundation. Recommendations of the BUILD are backed by research studies and analyses to develop business-friendly policies. BUILD has a separate committee for SMEs, which is co-chaired by the Secretary of the Ministry of Industries and the Managing Director of the SME Foundation. Some of the recommendations of the BUILD with regards to SMEs are: (i) update of the SME Policy Strategy 2005; (ii) better coordination among SME support programs, and (iii) formulation of an effective policy for the development of SME Exchanges.

Table 4.31: Number of Businesses—Economic Units Census

Item	Economic Units Census 1986	Economic Units Census 2001–2003	Economic Units Census 2013 (Provisional)
<b>Economic Units by Type</b>			
Permanent Establishments	1,561,949	2,991,238	4,534,616
Temporary Establishments	62,041	335,851	501,690
Economic Households	545,429	381,055	3,039,398
<b>Economic Units by Region</b>			
Rural	...	2,321,726	5,817,724
Urban	...	1,386,418	2,257,980
<b>Permanent Establishments by Region</b>			
Rural	...	1,872,804	2,965,968
Urban	...	1,118,434	1,568,648
<b>Temporary Establishments by Region</b>			
Rural	...	130,177	305,522
Urban	...	205,674	196,168
<b>Economic Households by Region</b>			
Rural	...	318,745	2,546,234
Urban	...	62,310	493,164
<b>Economic Units by Division</b>			
Barisal	144,299	205,263	385,233
Chittagong	455,141	670,544	1,384,757
Dhaka	665,799	1,194,638	2,599,372
Khulna	299,903	545,918	1,034,581
Rajshahi	287,699	499,873	1,217,633
Rangpur	208,135	405,583	1,088,255
Sylhet	108,443	186,325	365,873
<b>Total Economic Units</b>	<b>2,169,419</b>	<b>3,708,144</b>	<b>8,075,704</b>

Source: Bangladesh Bureau of Statistics—Economic Units Census - 2013.

Table 4.32: Number of Manufacturing Enterprises, 2012

Item	Size Class of Industries				
	Total	Micro (TPE 10–24)	Small (TPE 25–99)	Medium (TPE 100–250)	Large (250+)
<b>Number of Establishments</b>	42,792	17,384	15,666	6,103	3,639
<b>Number of Persons Engaged</b>					
Total persons engaged	5,105,936	271,644	738,801	1,041,220	2,964,272
Male	3,062,009	229,407	615,426	673,821	1,543,355
Female	1,953,928	42,237	123,374	367,399	1,420,918
<b>Compensation of Employees (Tk mil.)</b>					
Total	569,067	27,705	82,375	109,934	349,053
Salary and wages	517,522	22,624	72,643	99,401	322,854
Cash and non cash benefit	49,028	5,003	9,527	10,091	24,406
Social security	2,517	77	205	442	1,792
<b>Fixed Assets (Tk mil.)</b>					
Initial fixed assets	1,163,750	49,493	289,932	286,211	538,114
Addition/alteration	125,680	472	14,434	25,165	85,609
Transfer	3,203	59	67	235	2,841
Depreciation	104,694	3,377	21,059	24,787	55,471
Fixed assets	1,188,108	46,528	283,326	286,901	571,342
<b>Costs (Tk mil.)</b>					
Non industrial costs	104,428	4,679	24,215	21,788	53,475
Industrial costs	3,762,722	179,396	1,028,606	1,028,606	1,744,118
Intermediate consumption	3,831,959	183,726	1,044,696	1,044,696	1,770,244
<b>Gross Output (Tk mil.)</b>	5,394,905	275,818	1,203,267	1,408,342	2,507,478
<b>Gross Value Added (Tk mil.)</b>	1,562,947	92,092	369,974	363,646	737,235
<b>Indirect Tax (Tk mil.)</b>	75,872	2,413	14,343	14,767	44,349

TPE = total persons employed.

Source: Bangladesh Bureau of Statistics—Survey of Manufacturing Enterprises - 2012.



Table 4.33: Banking and Nonbank Sectors—SME Loans

Item	2010	2011	2012	2013	2014
<b>SME Borrowers</b>					
Total number	308,950	319,340	462,513	746,610	541,656
Small firms <sup>1</sup>	201,403	225,170	350,689	621,442	438,216
Medium firms	107,547	94,170	111,824	125,168	103,440
Manufacturing	63,458	63,482	157,756	90,743	62,019
Trade	229,459	243,894	290,035	630,109	440,456
Service	16,033	11,964	14,722	25,758	39,181
<b>SME Loans Disbursed</b>					
SME commercial loans—banks and NBFIs (Tk mil.) [a + b]	535,475	537,195	697,539	853,233	1,009,102
a. SME loans—banks (Tk mil.)	518,491	520,737	682,629	834,372	980,330
Share to total SME loans (%)	96.8	96.9	97.9	97.8	97.1
Growth (%)	...	0.4	31.1	22.2	17.5
b. SME loans—NBFIs (Tk mil.)	16,984	16,458	14,910	18,861	28,772
Share to total SME loans <sup>2</sup> (%)	3.2	3.1	2.1	2.2	2.9
Growth (%)	...	(3.1)	(9.4)	26.5	52.5
SME loans to GDP <sup>2</sup>	6.7	5.9	6.7	9.7	8.6
<b>SME Loans by Size (Tk mil.)<sup>3</sup></b>					
Small firms <sup>1</sup>	230,349	258,561	378,285	443,123	525,846
Share to total SME loans (%)	43.0	48.1	54.2	51.9	52.1
Medium firms	305,126	278,634	319,254	410,110	483,256
Share to total SME loans (%)	57.0	51.9	45.8	48.1	47.9
<b>SME Loans by Region (Tk mil.)<sup>3</sup></b>					
Urban	349,515	393,293	512,986	655,058	754,973
Share to total SME loans (%)	65.3	73.2	73.5	76.8	74.8
Rural	185,960	143,902	184,553	198,175	254,129
Share to total SME loans (%)	34.7	26.8	26.5	23.2	25.2
<b>SME Loans by Sector (Tk mil.)<sup>3</sup></b>					
Manufacturing	151,477	158,060	218,973	240,167	302,462
Share to total SME loans (%)	28.3	29.4	31.4	28.1	30.0
Trade	350,405	343,826	442,252	567,037	627,672
Share to total SME loans (%)	65.4	64.0	63.4	66.5	62.2
Service	33,593	35,309	36,314	46,029	78,968
Share to total SME loans (%)	6.3	6.6	5.2	5.4	7.8
<b>Nonperforming Loans (NPLs)</b>					
NPL SME clients to total SME borrowers (%)	3.6	3.6	6.4	7.9	11.8
SME NPLs to total loans (%)	0.8	0.7	1.4	1.9	2.8
Gross NPLs to total loans (%)	7.1	6.2	10.0	8.9	11.6

NBFI = nonbank financial institution, NPL = nonperforming loan, SME = small and medium-sized enterprise.

Note: All data as of the end of December in each year.

<sup>1</sup> including cottage enterprises. <sup>2</sup> % of total lending by banks and NBFIs. <sup>3</sup> SME commercial loans (banks + NBFIs).

Source: Bangladesh Bank.



Table 4.34: SME Loans by Banks and Nonbank Financial Institutions against Lending Targets

Year	Target	Sector			Total Loan Disbursed (Tk million)	% of Target	Number of Enterprises
		Trading	Manufacturing	Service			
2010	388,581	350,405	151,478	33,556	535,439	138	308,950
2011	569,401	343,826	158,060	35,309	537,195	94	319,340
2012	590,128	442,252	218,973	36,309	697,534	118	462,513
2013	741,869	567,037	240,166	46,029	853,232	115	744,228
2014 (December)	887,530	627,672	302,462	78,968	1,009,102	114	541,656

Source: Bangladesh Bank.

Table 4.35: SME Refinance Schemes

Name of the Fund	Budget/Fund (All funds are Revolving)	Refinance up to December 2014		Remarks	
		Amount of Refinance (Tk million)	No of Enterprises		
BB Fund	Tk6,000 million	General	12,218	12,692	
		Women entrepreneur	9,573	11,008	
	Sub total		21,791	23,700	
EGBMP Fund (IDA Fund)	Tk1,160 million		3,126	3,160	Closed
ADB -1 Fund	Tk2,020 million	General	3,185	3,134	
		Women entrepreneur	165	130	
	Sub total		3,349	3,264	
ADB -2 Fund	Tk7,000 million	General	7,176	13,192	
		Women entrepreneur	293	453	
	Sub total		7,469	13,645	
JICA Fund	Tk4,150 million		2,777	381	Ongoing
<b>Grand Total</b>			<b>38,512</b>	<b>44,150</b>	

ADB = Asian Development Bank, BB = Bangladesh Bank, EGBMP = Enterprise Growth and Bank Management Project, IDA = International Development Association, JICA = Japan International Cooperation Agency, SME = small and medium-sized enterprise.

Source: Bangladesh Bank.

Table 4.36: Nongovernment Microfinance Institution Performance

Item	2008	2009	2010	2011	2012	2013	2014
No. of licensed NGO-MFIs	293	419	516	576	590	649	697
No. of branches	15,077	16,851	17,252	18,066	17,977	14,674	14,730
No. of employees	98,896	107,175	109,597	111,828	108,654	110,734	109,628
No. of clients (mil.)	23.5	24.9	25.3	26.1	24.6	24.6	25.1
Total borrowers (mil.)	17.8	18.9	19.2	20.7	19.3	19.3	19.4
Loans disbursed (Tk bil.)	217.1	261.2	306.7	303.2	456.0	432.3	462.0
Loans outstanding (Tk bil.)	134.7	143.1	145.0	173.8	211.3	257.0	282.2
Savings (Tk bil.)	47.4	50.6	51.4	63.3	75.3	94.0	107.0
Loan recovery (Tk bil.)	...	...	280.8	271.8	314.1	375.1	...
Recovery rate (%)	98.1	97.9	97.4	95.5	97.7	97.7	...

NGO-MFI = nongovernment microfinance institution.

Note: All data as of end June in each year.

Source: Micro Credit Regulatory Authority.

Table 4.37: Grameen Bank Performance

Item	2011	2012	2013	2014
No. of employees	22,000	22,000	22,000	22,000
No. of clients (mil.)	8.4	8.4	8.4	8.6
Total borrowers (mil.)	8.4	8.4	8.4	8.6
Loans disbursed (Tk bil.)	103.0	126.4	120.8	117.2
Loans outstanding (Tk bil.)	72.3	79.8	83.9	87.7
Savings (Tk mil.)	58.8	116.4	132.2	151.0

Notes: All data as of end June in each year.

Source: Micro Credit Regulatory Authority.

Table 4.38: SME Loans by SME Foundation

Partner Financial Institution	Name of Cluster/Cientele	Loans by SME Foundation (November 2013)		Loans by SME Foundation (November 2014)				Beneficiary Enterprises (Number)		
		Amount Sanctioned (Tk million)	Amount Disbursed (Tk million)	Amount Sanctioned (Tk million)	Amount Disbursed (Tk million)	Amount Repaid (Tk million)	Amount Outstanding (Tk million)	Male	Female	Total
MIDAS Financing	Bora light engineering cluster	80	65	80	65	45	20	150	2	152
	Dholai Khal light engineering cluster	...	...	30	10	0	10	11	0	11
Shakti Foundation	Women entrepreneur	5	2.5	5	2.5	2.5	0	...	...	...
Mutual Bank Ltd	MTB Gunubati	57.5	57.5	67.5	62.5	27.5	35	2	112	114
	MTB Youthline	10	...	20	20	20	0	53	2	55
NCC Bank	Kaluhati & Saidpur cluster	20	20	25	25	0	25	76	1	77
Eastern Bank	Dhaka leather product producers cluster	10	10	10	10	0	10	22	0	22
	Leather products clusters	...	...	50	0	0	0	0	0	0
Trust Bank	Jessore & CHT Nakashi Kantha cluster	30	20	30	23	0	23	30	185	215
Bank Asia Ltd	Dhaka electrical producers cluster	20	20	50	20	0	20	16	0	16
IDLC Finance Ltd	Islambag plastic cluster	...	...	30	30	0	30	17	0	17
<b>Total</b>		<b>232.5</b>	<b>195.0</b>	<b>397.5</b>	<b>268.0</b>	<b>95.0</b>	<b>173.0</b>	<b>377</b>	<b>302</b>	<b>679</b>

Source: SME Foundation.

Table 4.39: SME Policy and Regulation

Regulations		
Name	Outline	
Prudential Regulations for Small Enterprise Financing—Bangladesh Bank (First Edition—2004)	Guidelines and regulations for SME finance by banks and financial institutions	
Regulators and Policymakers		
Name	Responsibility	
Ministry of Industries	Industrial policies, including SME sector development	
National SME Task Force	SME promotion policy	
Bangladesh Bank	Regulate and supervise commercial banks and nonbank financial institutions	
Micro Credit Regulatory Authority	Regulate and supervise microfinance institutions	
Policies		
Name	Responsible Entity	Outline
Industrial Policy 2005 (2005)	Ministry of Industries	<ol style="list-style-type: none"> <li>1) Recognize SMEs as an important engine for economic growth and treatment of the SME sector as priority</li> <li>2) Identify the type of industries most suitable for SMEs</li> <li>3) Lay down the objective of establishing on a greater scale</li> <li>4) Draw up a separate SME policy to provide necessary guidelines and strategic assistance in respect of establishing SMEs throughout the country</li> </ol>
Policies and Strategies for Development of SMEs 2005 (2005)	SME Cell—Ministry of Industries	<ol style="list-style-type: none"> <li>1) Proposal to form an SME advisory panel to work with the SME Cell of the Ministry of Industries</li> <li>2) Over the medium term and beyond, proposal to form an SME foundation as a pivotal organization for the development of SMEs</li> <li>3) Proposed 11 broad objectives including promotion of private sector development and foreign direct investment, establishment of appropriate infrastructure, and regulatory framework for SME development</li> </ol>
Industrial Policy 2010 (2011)	Ministry of Industries	<ol style="list-style-type: none"> <li>1) Adopt the Policy Strategies for the Development of SMEs by 2010</li> <li>2) Accentuate and sustain SME activities through motivation, loan allocation, and training of entrepreneurs</li> <li>3) Refinance the SME sector through three funds created by Bangladesh Bank</li> <li>4) Women entrepreneurs to be given priority in the SME sector; 15% of total sanction to be held in reserve in favor of 10% interest rate only</li> <li>5) Special preferences to be provided to the development of industries dealing with information and communication technology</li> </ol>
Small and Medium Enterprises Credit Policies and Programs (2010)	Bangladesh Bank	<ol style="list-style-type: none"> <li>1) Propose the target for SME credit</li> <li>2) Lay down the refinancing schemes of Bangladesh Bank for SME financing</li> <li>3) Special arrangement for women entrepreneurs</li> <li>4) Propose the adoption of cluster development policy by banks and nonbank financial institutions</li> </ol>

( ) = year when the program/initiative was launched, SME = small and medium-sized enterprise.

Source: SME and Special Programmes Department, Bangladesh Bank; SME Foundation; and Micro Credit Regulatory Authority of Bangladesh.

# India

## SME Landscape

With 48.8 million businesses, India has the second highest number of micro, small, and medium-sized enterprises (MSMEs) in the world, after the People's Republic of China, and is set to become the largest SME nation globally.<sup>75</sup> As of the end of March 2014, MSMEs employed 111.3 million people, a 4.9% increase compared to the end of March 2013.<sup>76</sup> They contributed to 37.5% of the manufacturing value-added, as of the end of March 2013 (Table 4.40).

MSMEs are defined on the basis of their investment in plant and machinery under the Micro Small and Medium Enterprise Development (MSMED) Act 2006, with different criteria by business sector. Firms investing not more than Rs100 million in plant and machinery are classified as MSMEs in the manufacturing sector, while in the service sector, those investing not more than Rs50 million are classified as MSMEs.

The Ministry of MSMEs introduced a bill in the Parliament on 20 November 2014 to reclassify MSMEs engaged in the manufacturing sector by increasing their investment limits in plant and machinery. As per the bill, enterprises where investment in plant and machinery does not exceed Rs5 million will be classified as micro enterprises; where investment is above Rs5 million but below Rs100 million, enterprises will be classified as small enterprises; and where investment exceeds Rs100 million but does not exceed Rs300 million, enterprises will be classified as medium-sized enterprises.

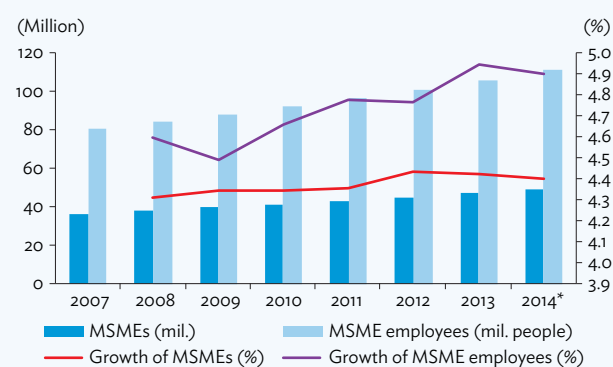
The MSMED Act 2006 provides for the registration of MSME by filing the Entrepreneur Memorandum (EM)

with the District Industry Centers (DICs) set up by the Ministry of MSMEs. Filing of the EM has been categorized in two phases: (i) EM-1 filed by entrepreneurs intending to establish an enterprise, and (ii) EM-2 filed after the enterprise is established and has started production. The number of EM-2 filed with the DICs increased from 193,000 as of the end of March 2008 to 323,000 as of the end of March 2013.

The Fourth All India Census of Micro Small and Medium Enterprises 2006–07 was the latest census of MSMEs in India. The census was conducted with reference year 2006–07, wherein data were collected until 2009, and the results were published in 2011–12. The Fourth Census estimated the number of enterprises in both the registered and the unregistered sector. As per the census, the total number of registered and unregistered working enterprises was 36.2 million, employing 80.5 million people (Table 4.41).

The annual report of the Ministry of MSMEs estimated that the number of MSMEs in India has grown at an average rate of 4.4% every year after the fourth census,

**Figure 4.80: Number of MSMEs and Employment**



MSME = micro, small, and medium-sized enterprise.

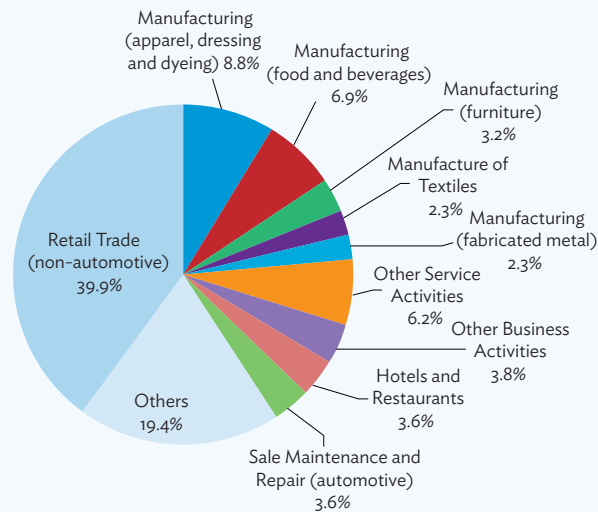
\* data as of March 2014.

Source: Annual Report of MSMEs for the Financial Year 2013–14.

<sup>75</sup> Indian SMB Sector 2013—report by market research firm Zinnov.

<sup>76</sup> In India, the financial year starts on 1 April and ends on 31 March next year. Thus, in this paper, for example, “2014 data” means data as of 31 March 2014.

Figure 4.81: MSMEs by Sector



MSME = micro, small, and medium-sized enterprise.

Source: Annual Report of MSMEs for the Financial Year 2013-14.

and the total number of enterprises as at the end of March 2014 was estimated at 48.8 million (Figure 4.80).

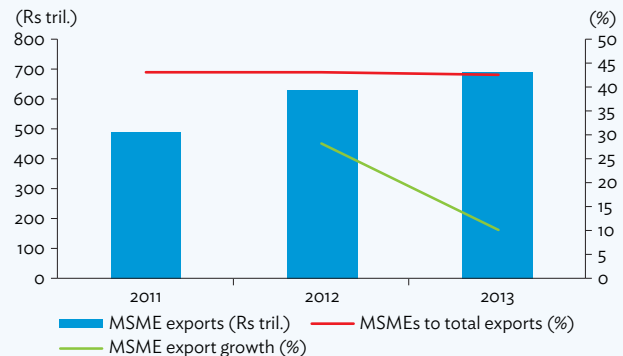
MSMEs manufacture over 6,000 products, ranging from traditional to high-tech items, as well as offering a wide range of services. Leading industries, in terms of number of enterprises (as per the National Industrial Classification), are retail trade (except for motor vehicles and motor cycles, and repair of household goods) with a 39.9% share (14.4 million), followed by others (unclassified) at 19.4% (Figure 4.81).

MSMEs contributed to international trade, amounting to Rs693 trillion in March 2013, a 9.9% increase from March 2012, representing 42.4% of total export values (Figure 4.82).

The Planning Commission of India<sup>77</sup> estimated that the total credit demand of MSMEs in India to be Rs28.04 trillion as of the end of March 2014 out of which 70% would be for working capital and 30%

<sup>77</sup> Report of the Sub Group on Flow of Private Sector Investments for MSME Sector by the Planning Commission of India. The Indian economy is based on the concept of planning through its 5-year plans, which are developed, executed, and monitored by the Planning Commission. The prime minister is the ex-officio chair of the Planning Commission. The 11th Five-Year Plan was completed in March 2012 and the 12th plan is currently underway.

Figure 4.82: MSME Exports



MSME = micro, small, and medium-sized enterprise.

Source: Answer to Parliament questions by the Minister of Micro Small and Medium Enterprises dated: 23 November 2014.

would be for fixed capital (Table 4.42). The total credit supply as of the end of March 2014 is estimated to be Rs12.38 trillion, indicating the supply and demand gap of 56% in the MSME credit market. The gap is expected to narrow to 43% by March 2017, provided that MSME credit by banks continues to grow at 20% per annum.

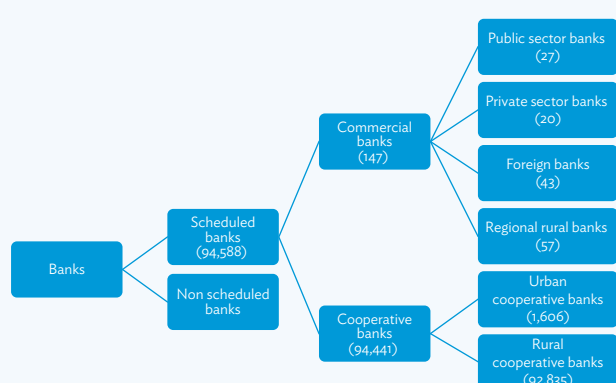
## Banking Sector

The Indian banking system consists of scheduled and nonscheduled banks. There are two types of scheduled banks; commercial banks and cooperative banks. Commercial banks are further classified into: (i) public sector banks, (ii) foreign banks, (iii) regional rural banks, (iv) local area banks, and (v) private sector banks (Figure 4.83).

Commercial bank loans (except those of regional rural banks and local area banks) outstanding to micro and small enterprises (MSEs) amounted to Rs8,461 billion (provisional) as of the end of March 2014, a 23.1% increase from Rs6,872 billion as of the end of March 2013. Commercial bank loans outstanding to medium-sized enterprises amounted to Rs1,886 billion (provisional) as of the end of March 2014, a 3.8% increase from Rs1,818 billion as of the end of March 2013 (Figure 4.84 and Table 4.43).

Among the commercial bank loans outstanding to MSEs as of the end of March 2013, public

Figure 4.83: Banking System in India



Note: ( ) = number of banks. Data as of 31 March 2014.

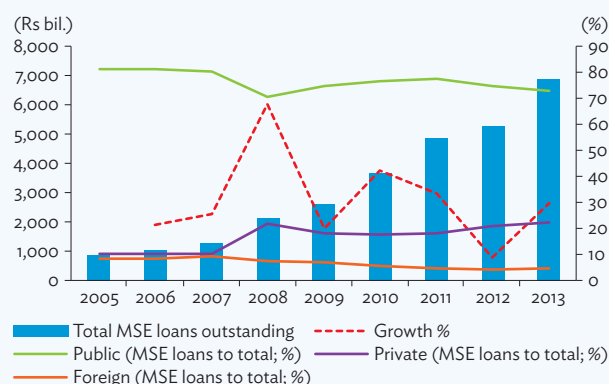
Source: Recomposed based on data from Reserve Bank of India.

sector banks provided 73.1% of the total loans (Rs5,023 billion), followed by private sector banks at 22.3% (Rs1,526 billion) and foreign banks at 4.7% (Rs323 billion) (Figure 4.85).

The Small Industries Development Bank of India (SIDBI) was set up in 1990 under an Act of Parliament for the promotion, financing and development of the MSME sector in India. The cumulative loan disbursement by SIDBI to the MSME sector since its inception stood at Rs3,370 billion, as of March 2014, spread across 34 million beneficiaries. Total MSME loans outstanding by SIDBI stood at Rs612.7 billion as of the end of March 2014, a 9.3% increase on the March 2013 figure of Rs560.6 billion (Table 4.44). SIDBI provides loans to MSMEs both directly through term loans and receivable financing and indirectly through refinancing MSME loans of banks and microfinance institutions (MFIs). Indirect financing as of the end of March 2014 stood at Rs492.6 billion, approximately 80% of the total loan portfolio of SIDBI.

To encourage bank lending to MSMEs, the government of India and SIDBI set up the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) in August 2000. The CGTMSE, through member lending institutions (MLIs), provides partial credit guarantees to MLIs on MSE loans up to 75% of credit applied so that MSEs can access collateral free/third-party guarantee free loans, maximum Rs10 million per borrowing unit. Cumulatively, as of the end of March 2014, a total of 1,419,807 accounts amounting to Rs700 billion had been accorded guarantee approvals.

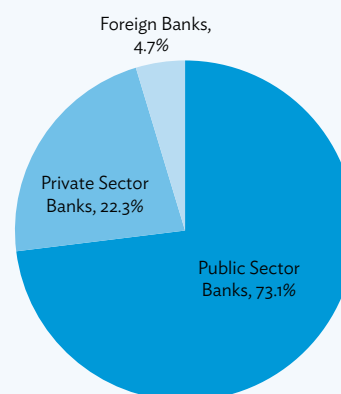
Figure 4.84: MSE Loans Outstanding



Foreign = foreign banks, MSE = micro and small enterprise, Private = private sector banks, Public = public sector banks.

Source: Annual Report of MSME for financial year 2013-14.

Figure 4.85: MSE Loans by Type



MSE = micro and small enterprise.

Source: Annual Report of MSME for financial year 2013-14.

Bank lending to MSEs engaged in the manufacture or production of goods specified in the first schedule to the Industrial Development Regulation Act 1951<sup>78</sup> and notified by the government from time to time is reckoned for priority sector advances.<sup>79</sup> Bank loans up to Rs50 million per borrower/unit to MSEs engaged in providing or rendering of services, and defined in

<sup>78</sup> The Industrial Development Regulation Act 1951 was passed to implement Industrial Policy Resolution. The act lays down the rules for registration and licensing for industries.

<sup>79</sup> This is a task force set up under the leadership of the principal secretary to the prime minister to examine the status of and give recommendations for the development of MSMEs.

terms of investment in equipment under the MSMED Act 2006, are eligible to be reckoned for priority sector advances. Lending to medium-sized enterprises is not eligible to be included for the purpose of computation of priority sector lending.

In the recommendation of the Prime Minister's Task Force on MSMEs,<sup>6</sup> banks have been advised to achieve 20% year-on-year growth in credit to MSEs, 10% annual growth in the number of micro enterprise bank accounts, and 60% growth in total lending to the MSE sector.

Public sector banks have been advised by the Reserve Bank of India (RBI) to have at least one specialized SME branch in each district. As of the end of March 2013, there were 2,032 specialized MSME branches in India.

## Nonbank Sector

Nonbank financial institutions (NBFIs) in India consist of a diverse set of institutions, each set regulated by a different type of regulators (Figure 4.86).

Nonbank financial companies (NBFCs), a narrow range of NBFIs, mainly provide loans to businesses and MSMEs. As per the RBI, a company is considered an NBFC if it carries on as its business or part of its business any of the activities listed in the Section 45 I (c) of the RBI Act 1934,<sup>7</sup> i.e., a business dealing in loans/advances,

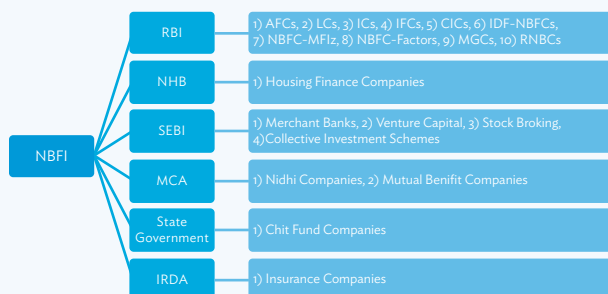
acquisition of shares/securities, leasing, hire purchase finance, insurance business, chit fund activities, and/or lending in any manner provided the principal business of the company not constituting any of the nonfinancial activities representing: (i) agricultural operations; (ii) industrial activity; (iii) trading in goods (other than securities); (iv) services; and (v) purchase, construction, or sale of immovable property. Further, in terms of the Section 45 I (f) of the RBI Act, a company would also be considered an NBFC if its principal business is that of receiving deposits under any scheme or arrangement. Thus, a company whose principal business is agricultural operations, industrial activity, trading goods/services, or real estate transactions is not regarded as a financial institution.

As depicted in Figure 4.86, the RBI classifies NBFCs into ten categories namely: (i) asset finance companies (AFCs), (ii) loan companies (LCs), (iii) investment companies (ICs), (iv) infrastructure finance companies (IFCs), (v) core investment companies (CICs), (vi) infrastructure debt funds (IDF-NBFCs), (vii) microfinance institutions (NBFC-MFIs), (viii) factoring companies, (ix) mortgage guarantee companies (MGCs), and (x) residuary nonbank companies (RNBCs).

The share of NBFCs' assets (with assets above Rs1 billion) to GDP steadily increased from 8.4% as of the end of March 2006 to 12.5% as of the end of March 2013.<sup>80</sup> If NBFCs with assets below Rs1 billion are included, their GDP share would be even higher. Credit provided by the NBFC sector has grown more rapidly than that of the banking sector. NBFC credit witnessed a compound annual growth rate (CAGR) of 24.3% during the period March 2007 to March 2013, as against 21.4% by the banking sector in the same period.

NBFCs have emerged as a strong financial intermediary in making financial services accessible to SMEs. The NBFC loans outstanding to MSMEs stood at Rs625 billion as of the end of March 2013,<sup>81</sup> a 34.6% increase over March 2012 figure of Rs464 billion.

**Figure 4.86: Nonbank Financial Institutions in India**



IRDA = Insurance Regulatory and Development Authority, MCA = Ministry of Corporate Affairs, NBFIs = nonbank finance institution, NHB = National Housing Board, RBI = Reserve Bank of India, SEBI = Securities Exchange Board of India.

Source: RBI paper—Non Banking Finance Companies: Game Changers.

<sup>80</sup> Detailed guidelines on lending to the MSME sector are available in the RBI Master Circular No. RPCD.MSME and NFS. BC.No.5/06.02.31/2013-14 dated on 1 July 2013.

<sup>81</sup> The RBI was formed by an act of Parliament, the Reserve Bank of India (RBI) Act 1934. The act lays down the functions of the RBI and procedures through which it will regulate the banking and financial system of India.



NBFCs have introduced a wide range of products to suit the needs of SMEs. Apart from providing loans against property and gold, innovative products introduced for the SME sector include used or secondhand vehicles financing, reconditioned vehicle financing, three-wheeler financing, construction equipment financing, and secured/unsecured working capital financing. Lending against gold is the most popular product offered by NBFCs in India. Gold loans extended by NBFCs witnessed a CAGR of 86.7% during the period March 2009 to March 2013. In absolute terms, NBFC gold loans increased from Rs39 billion as of end of March 2009 to Rs475 billion as of the end of March 2013.

The microfinance sector is an important source of finance for micro enterprises. The credit provided by MFIs has been growing steadily, from Rs105 billion in 2010 to Rs151 billion in March 2011.<sup>82</sup> In 2012, the microfinance sector in India faced its worst ever crisis, when the state government of Andhra Pradesh passed an ordinance<sup>83</sup> to prevent MFIs from collecting payments from borrowers. Credit provided by MFIs in 2012 declined to Rs117 billion, but the growth of credit by MFIs resumed in 2013 and stood at Rs144 billion after the RBI created a separate category of NBFCs called NBFC-MFIs. As of the end of March 2013, 33 NBFC-MFIs were registered with the RBI.

The Factoring Act was enacted in 2011 to regulate the factoring industry in India. The act allows both banks and NBFCs to undertake factoring business. Accordingly the RBI created a separate NBFC Factor category. In December 2014, the RBI proposed the creation of the Trade Receivables Discounting System (TReDS), which would be a scheme for setting up and operating the institutional mechanism for facilitating the financing of trade receivables of MSMEs. The TReDS will be a platform which brings MSME sellers, corporates, and other buyers and financiers (both banks and NBFC Factors) together for facilitating uploading, accepting, discounting, trading, and settling the invoices/bills of MSMEs.

<sup>82</sup> Report of the Executive Director RBI: Non-Banking Finance Companies: Game Changers.

<sup>83</sup> Andhra Pradesh is one of the 29 states in India, situated on the country's south eastern coast. The government of Andhra Pradesh passed an ordinance called the Andhra Pradesh Micro Finance Institutions (regulation of money lending) Ordinance 2010 in October 2010 to regulate micro finance institutions (MFIs) after it was reported that strong arm tactics of MFIs had led to deaths of several borrowers.

## Capital Markets

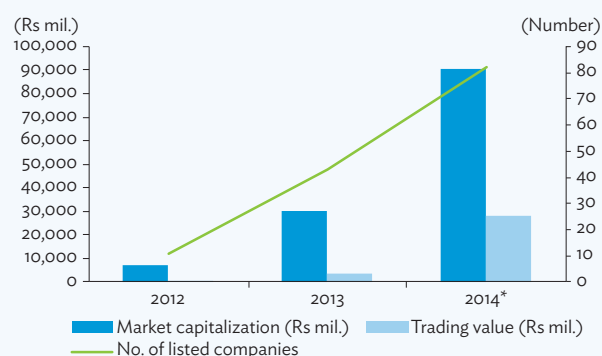
The Bombay Stock Exchange's (BSE) SME platform, set up in September 2011, reached Rs90,699 million in market capitalization as of 31 December 2014, a 201% increase from Rs30,124 million in December 2013 (Figure 4.87 and Table 4.45). The number of companies listed on the BSE SME platform nearly doubled from 43 companies in December 2013 to 82 companies in December 2014. The number of listed companies on the platform is expected to rise, with 16 more companies at various stages of listing as of December 2014. The success of the BSE SME Platform can be gauged from the fact that the 82 listed companies collectively raised only Rs6,650 million at the time listing but have seen their market capitalization crossing Rs90,699 million, an increase of 13.6 times.

The National Stock Exchange's (NSE) SME platform, called Emerge, was also launched in September 2012. As of 31 December 2014, the market capitalization of the six companies listed on the NSE Emerge was Rs4,292 million (Figure 4.88 and Table 4.45).

The Securities Exchange Board of India (SEBI) is the regulator and supervisor of capital markets in India. The SEBI had specified the framework for setting up SME exchanges in 2008, and had also laid down the guidelines for listing on the SME exchange.

Since October 2013, SEBI has allowed SMEs to raise funds through private placement or rights issue on

**Figure 4.87: Market Performance—SME Exchange, Bombay Stock Exchange**

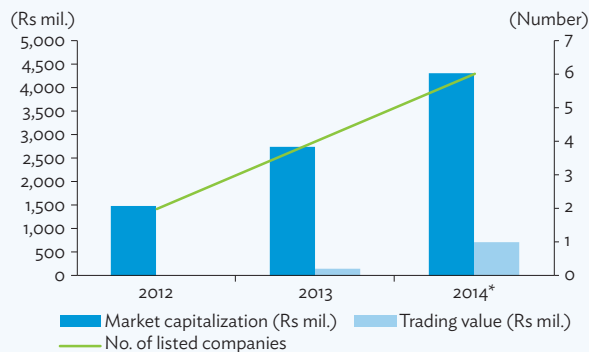


SME = small and medium sized enterprise.

\* data as of 31 December 2014.

Source: Bombay Stock Exchange.

**Figure 4.88: Market Performance—Emerge, National Stock Exchange**

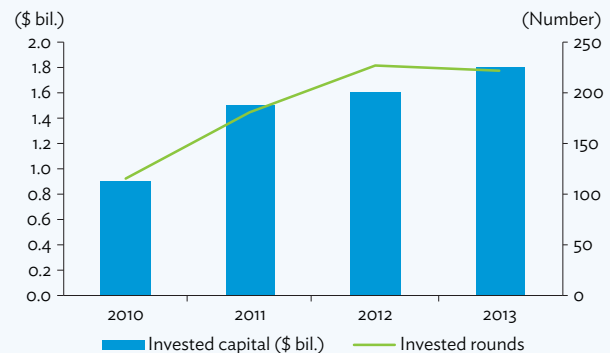


\* data as of 31 December 2014.  
Source: National Stock Exchange.

the new Institutional Trading Platform (ITP) of a recognized stock exchange. On 8 October 2013, SEBI notified a new set of regulations called the SEBI Regulations 2013 on the Listing of Specified Securities on Institutional Trading Platform (ITP Regulations) as a new Chapter to the SEBI Regulations 2009 on the Issue of Capital and Disclosure Requirements (ICDR Regulations).

Under the ITP, SMEs and start-ups are permitted to list their securities without an initial public offering (IPO), but the investment participation will be limited to institutional investors only. This platform is a part of the SME exchange, not an over-the-counter (OTC) market. The objective of launching the ITP is to provide: (i) opportunities on access to capital markets for start-ups and SMEs which cannot absorb the high cost associated with an IPO; and (ii) easier entry and exit requirements for informed investors, such as venture capital and private equity funds. The listing criteria for ITP is similar to that of the SME exchange with an additional requirement of a minimum investment of Rs5 million in the listed company by a registered venture capital fund, alternative investment fund, merchant bank, qualified institutional buyer, specialized international multilateral agency, or a domestic agency such as SIDBI (Table 4.46). As at the end of December 2014, no company was listed on the ITP, separately operated by the BSE SME platform and the NSE Emerge, but information memoranda of two companies had been filed.

**Figure 4.89: Venture Capital Investments**



Source: Ernst and Young Report—Turning the Corner Venture Capital Insights 2014.

Venture capital firms invested \$1.8 billion in 2013 in India, an increase of 13% over 2012 investment of \$1.6 billion as per Ernst & Young's report (Figure 4.89).<sup>84</sup> The proportion of deals in the revenue-generating stage, however, declined to 63% of the total investment from 82% in 2012. The report also noted that angel and incubator participation in India grew by 16% in 2013 (the second highest growth rate after Canada, with 19%), up from 3% in 2011.

All domestic venture capital funds are now regulated by the SEBI Alternative Investment Funds Regulations (AIF) 2012 (replacing the earlier SEBI Venture Capital Regulations 1996), while all foreign venture capital funds are regulated by the SEBI Foreign Venture Capital Regulations 2000. The AIF regulations provide for a special treatment for funds investing in SMEs.

Under the AIF regulations three broad categories of funds have been specified: Category I, II and III. Category I funds are those that have positive spillover effects on the economy, and in which tax and other incentives have been provided by SEBI and the Government of India for funds set up under this category. Category I funds are further classified into: (i) venture capital funds, (ii) social venture fund, (iii) SME fund, and (iv) angel fund. SME funds as per AIF regulations are funds which invest 75% of their investible funds in the unlisted securities of SMEs. As of 11 June 2014, there

<sup>84</sup> Ernst and Young, 2013. *Turning the Corner – Global Venture Capital Insights and Trends 2014*.

were five SME funds registered with SEBI with a corpus in the range of Rs16.25 billion to Rs21.25 billion.<sup>85</sup> Private equity and debt funds are classified under Category II, and hedge funds and funds investing for short term are classified under Category III. No incentives are provided to Category II and III funds.

Crowdfunding is also gaining traction in India. While estimates of total crowdfunding are not available, several crowdfunding platforms are functional. With the aim of developing the crowdfunding industry, SEBI made the “Consultation Paper on Crowd Funding in India” available for public comment on 17 June 2014.

The Small Industries Development Bank of India (SIDBI) provides risk capital to MSMEs by directly using various mezzanine finance structures and by investing in the Fund of Funds, as well as through its subsidiary SIDBI Venture Capital Limited (SVCL). SIDBI started its risk capital operations in 2008–09, under the MSME Risk Capital Fund (MSME-RCF), with a committed corpus of Rs20 billion. As of the end of March 2014, an amount of Rs15 billion had been drawn out of the fund. SIDBI also launched the Rs50-billion India Opportunities Venture Fund (IOVF), after the announcement of the union budget for FY 2012–13. SVCL, a subsidiary of SIDBI set up in 1999, is an investment management company, presently managing four venture capital funds: (i) the National Venture Fund for Software and Information Technology Industry (NFSIT), (ii) the SME Growth Fund (SGF), (iii) the India Opportunities Fund (IOF), and (iv) the Samridhi Fund. As of the end of March 2014, a total of Rs5.4 billion had been disbursed under the NFSIT and the SGF. The IOF had a corpus of Rs6 billion and, as of the end of March 2014, the IOF had made commitments of Rs1.82 billion in 15 companies. The Samridhi Fund has a corpus of Rs4.5 billion and, as of the end of November 2014, it had made commitment of Rs758 million in six companies.

## Policy and Regulation

The MSMED Act 2006 facilitates the promotion, development, and enhancement of the competitiveness of MSMEs and also sets the definition of MSMEs. The Ministry of MSMEs has introduced a bill called the draft Micro Small and Medium Enterprises Development Bill 2014 (amendment). The bill proposes to modify the definition of MSMEs set in the MSMED Act 2006.

Provincial governments in India are responsible for the development and promotion of local MSMEs in India. The central government, through the Ministry of MSMEs, supplements the efforts of the provincial governments. The Ministry of MSMEs is drafting a comprehensive new SME policy and, on 28 November 2014, made a consultation paper available for public comment. The SME policy is expected to be finalized by mid-2015.

The Government of India has introduced several policies for the promotion of MSMEs, including the Policy for Reservation of Products for Exclusive Manufacture in Small Scale Industries 1967, the National Manufacturing Competitiveness Programme, the policies initiated by the Prime Minister’s Task Force on MSMEs, the Rajiv Gandhi Udyami Mitra Yojna, the Public Procurement Policy for Goods and Services Produced and Rendered by Micro and Small Enterprises, and the Scheme of Fund for Regeneration of Traditional Industries (SFURTI) (Table 4.47).

In order to increase SME access to finance, the RBI has, from time to time, issued several guidelines for bank lending to MSMEs. In order to have all instructions, guidelines, and directives in one place, the Master Circular for Lending to MSMEs has been issued by the RBI on 1 July 2014.

<sup>85</sup> Securities Exchange Board of India – Consultation Paper on Crowd Funding.

Table 4.40: MSME Landscape (1)

Item	2007	2008	2009	2010	2011	2012	2013	2014*
<b>Number of MSMEs</b>								
MSMEs—registered and unregistered (mil.) <sup>1</sup>	36.2	37.7	39.4	41.1	42.9	44.8	46.8	48.8
Total number of enterprises (mil.) <sup>2</sup>	...	...	...	...	...	...	58.5	...
MSMEs to total enterprises (%)	...	...	...	...	...	...	79.9	...
Growth (%)	...	4.3	4.3	4.3	4.4	4.4	4.4	4.4
<b>Employment by MSMEs</b>								
MSME employees—registered and unregistered (mil. people)	80.5	84.2	88.0	92.1	96.5	101.1	106.1	111.3
Growth (%)	...	4.6	4.6	4.7	4.7	4.9	4.9	4.9
<b>MSME Contribution to GDP</b>								
Gross Output of MSMEs (Rs bil.) <sup>1</sup>	13,514	14,352	15,242	16,194	17,216	18,343	...	...
Growth (%)	...	6.2	6.2	6.2	6.3	6.5	...	...
MSME contribution to GDP (%) <sup>4</sup>	...	...	...	...	36.6	38.0	37.5	...
GDP (at market prices) (Rs bil.) <sup>3</sup>	100,206	89,749	77,953	64,778	56,301	49,871	42,947	...
<b>MSME Exports</b>								
Total exports (Rs tril.) <sup>5</sup>	656	841	846	1,143	1,466	1,634	1,905	...
MSME exports (Rs tril.) <sup>5</sup>	...	...	...	...	492	630	693	...
MSMEs to total exports (%) <sup>4</sup>	...	...	...	...	43.0	43.0	42.4	...
MSME export growth (%)	...	...	...	...	...	28.3	9.9	...

MSME = micro, small, and medium-sized enterprise.

Note: Projected statistics of total number of MSMEs and total employment beyond 2006–2007 (after the Fourth All India Census of MSMEs).

\* data as of March 2014.

Sources: <sup>1</sup> Annual Report of MSMEs for the Financial Year 2013–14, <sup>2</sup> Provisional figures from the sixth economic census, <sup>3</sup> Ministry of Statistics & Program Implementation website, <sup>4</sup> Answers to questions in Parliament by Minister of MSME, <sup>5</sup> Ministry of Commerce website.

Table 4.41: MSME Landscape (2)

Item	Registered Sector	Unregistered Sector	Total
<b>Number of MSMEs (million)</b>			
Total working enterprises	1.56	34.61	36.17
Women enterprises	0.21	2.44	2.66
Enterprises running perennially	1.51	18.91	20.42
<b>By sector</b>			
Manufacturing	1.05	10.45	11.50
Service	0.51	24.16	24.67
<b>By location</b>			
Rural enterprises	0.70	19.31	20.01
Urban enterprises	0.85	15.30	16.15
<b>By organizational type</b>			
Proprietary	1.40	32.74	34.15
Partnership	0.06	0.36	0.42
Private company	0.04	0.01	0.05
Co-operatives	0.01	0.11	0.12
Others	0.04	0.76	0.81
No recorded	0.00	0.61	0.61
<b>By main source of power</b>			
No power needed	0.38	19.43	19.81
Coal	0.02	0.62	0.65
Oil	0.05	1.38	1.43
LPG/CNG	0.01	0.39	0.40
Electricity	1.04	10.65	11.70
Non-conventional Energy	0.00	0.09	0.09
Traditional energy/firewood	0.02	0.71	0.73
Others	0.03	1.01	1.04
Not recorded	0.00	0.29	0.29
<b>Employment of MSMEs (million)</b>			
MSME employees	9.30	71.21	80.52
<b>By sector</b>			
Manufacturing	8.08	23.92	32.00
Service	1.22	47.29	48.51
<b>By gender</b>			
Male employees	7.40	61.06	68.46
Female employees	1.90	10.15	12.05

MSME = micro, small, and medium-sized enterprise.

Note: Summary Results of the Fourth All India Census of Micro, Small, and Medium-Sized Enterprises for the Registered and Unregistered MSME Sector—2006–07.

Source: Annual Report of MSMEs for the Financial Year 2012–13.

Table 4.42: Demand and Supply Estimates of MSME Credit

Period	Total Credit demand by MSMEs			Projected supply of credit flow to MSME sector			Credit Gap	
	Working Capital (Rs bil.)	Term Loan (Rs bil.)	Total Demand (Rs bil.)	Working Capital (Rs bil.)	Term Loan (Rs bil.)	Total Demand (Rs bil.)	Absolute terms (Rs bil.)	Credit gap as % of total demand
2010–11	14,648	6,278	20,925	5,045	2,327	7,372	13,553	65
2011–12	16,159	6,925	23,084	6,003	2,742	8,745	14,339	62
2012–13	17,791	7,625	25,416	7,161	3,228	10,389	15,026	59
2013–14	19,625	8,411	28,036	8,568	3,808	12,375	15,661	56
2014–15	21,629	9,270	30,899	10,280	4,499	14,779	16,119	52
2015–16	23,841	10,218	34,058	12,371	5,326	17,697	16,362	48
2016–17	26,304	11,273	37,578	14,933	6,314	21,246	16,331	43

MSME = micro, small, and medium-sized enterprise.

Source: Report of the Sub-Group on flow of Private Sector Investment for MSME Sector—Planning Commission of India.

Table 4.43: Banking Sector—MSE Loans

Item	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014 (Provisional)
<b>Total Loans Outstanding</b>										
MSE Loans (Rs. bil.)	835*	1,012*	1,273*	2,136**	2,561	3,623	4,785	5,277	6,872	8,461
Growth (%)	...	21.2	25.8	67.8	19.9	41.4	32.1	10.3	30.2	23.1
Medium firm loans (Rs. bil.)	...	...	...	...	...	...	1,290	1,536	1,818	1,886
Growth (%)	...	...	...	...	...	...	...	19.1	18.4	3.8
<b>MSE Loans by Type</b>										
<b>Public Sector Banks</b>										
Loans Outstanding (Rs bil.)	678	824	1,026	1,511	1,914	2,784	3,766	3,963	5,023	...
Growth (%)	...	21.6	24.4	47.4	26.6	45.4	35.3	5.2	26.2	...
MSE loans to total (%)	81.4	81.4	80.5	70.8	74.7	76.5	77.5	75.0	73.1	...
<b>Private Sector Banks</b>										
Loans Outstanding (Rs bil.)	86	104	131	469	467	645	879	1,105	1,526	...
Growth (%)	...	21.3	26.1	257.1	(0.5)	38.3	36.1	25.8	38.0	...
MSE loans to total (%)	10.3	10.3	10.3	22.0	18.2	17.7	18.1	20.9	22.3	...
<b>Foreign Banks</b>										
Loans Outstanding (Rs bil.)	69	84	116	155	181	211	215	218	323	...
Growth (%)	...	22.1	38.0	33.1	16.6	16.6	2.2	1.0	47.0	...
MSE loans to total (%)	8.3	8.3	9.1	7.3	7.1	5.8	4.4	4.1	4.7	...

MSE = micro and small enterprise.

\* Data for 2005–2007 has been extracted from the Annual Report of MSMEs for the Fiscal Year 2012–13. \*\* The high growth witnessed during 2008 is attributed to reclassification of MSEs as per the MSMED Act 2006.

Source: Reserve Bank of India.

**Table 4.44: MSME Loans by the Small Industries Development Bank of India**

Schemes	Financial Year 2012-13		Financial Year 2013-14	
	Disbursement (during Financial Year)	Outstanding (as on 31 March)	Disbursement (during Financial Year)	Outstanding (as on 31 March)
<b>Indirect Credit (Rs. Bil.)</b>				
Refinance	228.7	371.9	342.6	403.8
Micro Finance	3.2	11.3	6.5	11.7
Others	42.4	54.7	46.7	77.1
<b>Total Indirect Credit</b>	<b>274.4</b>	<b>437.9</b>	<b>395.8</b>	<b>492.6</b>
<b>Direct Credit (Rs. Bil.)</b>				
Term Loan under Direct Credit	15.6	80.2	32.2	91.4
MSME Receivable Finance	115.3	42.4	94.0	28.7
<b>Total Direct Credit</b>	<b>130.9</b>	<b>122.7</b>	<b>126.1</b>	<b>120.1</b>
<b>Total Direct and Indirect Finance (Rs bil.)</b>	<b>405.2</b>	<b>560.6</b>	<b>521.9</b>	<b>612.7</b>

MSME = micro, small, and medium-sized enterprise.

Source: Small Industries Development Bank of India.

**Table 4.45: Capital Markets—SME Platforms in Bombay Stock Exchange and National Stock Exchange**

Item	2012	2013	2014*
<b>BSE SME Exchange</b>			
BSE SME Index	137	453	1,084
Market capitalization (Rs mil.)	7,197	30,124	90,699
Trading value (Rs mil.)	327	3,539	28,159
No. of listed companies	11	43	82
No. of new listed companies	11	32	39
No. of delisted companies	0	0	0
<b>NSE Emerge</b>			
Market capitalization (Rs mil.)	1,490	2,746	4,292
Trading value (Rs mil.)	...	158	705
No. of listed companies	2	4	6
No. of new listed companies	2	2	2
No. of delisted companies	0	0	0

BSE = Bombay Stock Exchange, NSE = National Stock Exchange, SME = small and medium-sized enterprise.

\* data as of 31 December 2014.

Sources: Bombay Stock Exchange and National Stock Exchange.



Table 4.46: Listing Criteria—Main Board, SME Exchange, and Institutional Trading Platform

Parameters	Main Board	SME Exchange	ITP
Post-issue paid up capital (face value)	Not less than Rs100 million	Any amount less than Rs250 million	Any amount less than Rs250 million
Minimum number of allottees	1,000	50	...
Minimum dilution of equity	25% of each class of equity	25% of each class of equity	Not required
Minimum lot size	1 security	Rs100,000	Rs. 1 million
IPO application size	Rs10,000–Rs15,000	Minimum Rs100,000	Not required
Observation on Draft Red Herring Prospectus (DRHP)	By SEBI	By Exchange	Not required
IPO grading	Mandatory	Not Mandatory	Not required
Track record	Three years of track record of profitability	Relaxed norms of track record	Relaxed norms of track record
IPO underwriting	Mandatory (however, not required where 50% of the issue offered for subscription to Qualified Institutional Buyer [QIB])	Mandatory (100% underwritten, out of which 15% compulsorily by Merchant Banker)	Not required
Time frame for listing	6–8 months	2–3 months	
Reporting requirements	Quarterly	Bi-annually	Bi-annually

IPO = initial public offering, ITP = Institutional Trading Platform, SEBI = Securities Exchange Board of India, SME = small and medium-sized enterprise.  
Source: Recomposed based on information from Securities Exchange Board of India.

Table 4.47: SME Policy and Regulation

Regulations		
Name		Outline
Micro Small and Medium Enterprise Development (MSMED) Act 2006	1) Regulatory framework for MSMEs 2) Concessional public schemes for MSME development 3) Proposal of a procurement preferential policy 4) Proposal for closure of business policy to regulate liquidation of weak and sick units 5) Compensation for delayed payments in procurement from MSMEs	
The Limited Liability Partnership Act 2008	Facilitating the establishment of limited partnership firms	
The Factoring Regulation Act 2011	Facilitating alternative financing models for MSMEs	
SEBI Alternate Investment Funds (AIF) Regulations 2012	Regulations for setting up venture capital funds, angel funds, SME funds, and Social Venture Funds	
Regulators and Policymakers		
Name		Responsibility
Ministry of Micro, Small and Medium-Sized Enterprises		Policies and regulations for the development of MSMEs
Prime Minister's Task Force on MSMEs		Responding to various issues raised by industry associations and drawing agenda for MSME development
Reserve Bank of India		Regulating and supervising banks and nonbanks
Policies		
Name	Responsible Entity	Outline
Policy for Reservation of Products for Exclusive Manufacture in Small Scale Industries 1967 (1967)	Ministry of MSMEs; Government of India	Aimed at providing competitive edge and protecting MSEs from competition from multinationals, this policy provides for reservation and dereservation of certain products to be manufactured exclusively by MSEs based on economic and other factors.
National Manufacturing Competitiveness Programme (2005)	Ministry of MSMEs	A 10-component program aimed at building the capacity of MSME manufacturers to enable them to compete with multinationals both in domestic and international markets. Components include marketing support, building awareness, and training.
Policies initiated by the Prime Minister's Task Force on MSMEs (2007–08)	Prime Minister's Office; Ministry of MSMEs	Providing recommendations on problems faced by MSMEs on six major thematic areas: (i) credit, (ii) marketing, (iii) labor rehabilitation and exit policy, (iv) infrastructure, (v) technology and skilled development, and (vi) taxation.
Rajiv Gandhi Udyami Mitra Yojna (2008)	Ministry of MSMEs	Support to potential first-generation entrepreneurs and existing entrepreneurs on legal and procedural hurdles to completing various formalities required for setting up and running an enterprise.
Public Procurement Policy for Goods and Services Produced and Rendered by Micro and Small Enterprises (2012)	Government of India	Mandating central governmental entities (ministries and departments) to procure a minimum of 20% of their total purchases of goods and services from MSMEs.
Scheme of Fund for Regeneration of Traditional Industries (SFURTI) (2005–06)	Ministry of MSMEs	Improving the productivity of traditional industries by organizing them in clusters.
RBI- Master Circular—Lending to Micro, Small and Medium Enterprises (2014)	Reserve Bank of India	Compilation of all instructions given by RBI to banks and financial institutions with regards to lending to MSMEs.
Guidelines for setting up of and operating TReDS (2014)	Reserve Bank of India	RBI guidelines for setting up and operating the Trade Receivables Discounting System (TReDS).

( ) = year when the program/initiative was launched.

MSME = micro, small, and medium-sized enterprise, SEBI = Securities Exchange Board of India, SME = small and medium-sized enterprise, TReDS = Trade Receivables Discounting System.

Sources: Annual Report of MSMEs for the Financial Year 2012–13 and the Ministry of MSMEs website.

# Sri Lanka

## SME Landscape

The small and medium-sized enterprise (SME) sector is recognized as an important strategic sector in Sri Lanka for generating high economic growth, and for reducing unemployment, inequity, and poverty. It contributes 30% to GDP, 30% of manufacturing value added, 35% of national labor force, and 20% of total export values.<sup>86</sup> The Government of Sri Lanka has provided many preferential measures for SMEs, such as tax incentives, concessional lending, and business infrastructure conducive to improving the productivity, competitiveness, and innovation of SMEs.

The government is preparing a unified national definition of SMEs, in consultation with line ministries responsible for SME development, the Department of Census and Statistics, and the Central Bank of Sri Lanka (CBSL). Currently, different organizations use different parameters to define SMEs. There are two referential SME definitions available in the country; one is provided by the SME Task Force 2002,<sup>87</sup> while the other is guided by the Mahinda Chintana.<sup>88</sup>

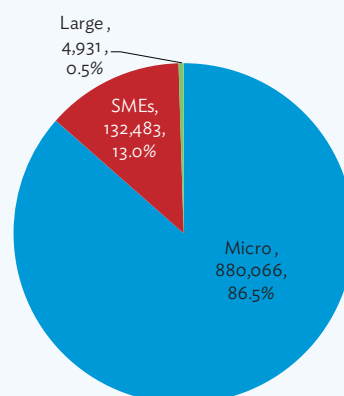
The SME Task Force 2002 defines SMEs in terms of net asset value excluding land and building, where the SME must be: (i) any business activity or enterprise engaged in industry, agribusiness, and/or services, whether single proprietorship, partnership, or corporate venture; and (ii) firms with net assets of less than SLRs50 million. The net asset value is to be adjusted for inflation once every 5 years, based on the implicit GDP deflator. Meanwhile, the Mahinda Chintana defines SMEs as firms with annual turnover of more than SLRs100 million and less

than SLRs2,000 million or with fixed assets worth more than SLRs10 million and less than SLRs400 million.

The Department of Census and Statistics conducted an Economic Census in 2013 to estimate the total number of enterprises in Sri Lanka, and has also classified them into micro, small, and medium-sized enterprises based on the number of people employed. For the manufacturing sector, firms employing fewer than 10 people are considered to be micro enterprises, and those employing between 10 and 100 people are considered SMEs. For the service sector, micro enterprises were firms employing fewer than 3 people while SMEs are those employing between 3 and 29 people. As per the listing stage data available from the economic census, a total 1,012,549 enterprises were active in 2013, of which 86.5% (880,066) were micro enterprises and 13% (132,483) were SMEs (Figure 4.90 and Table 4.48).

Micro enterprises comprised 38.6% (1,160,138) of employment by all enterprises, while SMEs contributed

Figure 4.90: Number of MSMEs



MSME = micro, small, and medium-sized enterprise, SME = small and medium-sized enterprise.

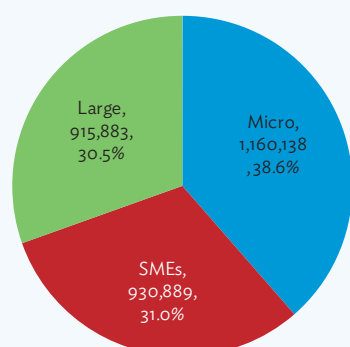
Source: Listing stage data—Sri Lanka Economic Census—2013.

<sup>86</sup> Performance Report 2013 of the Department of Development Finance, Ministry of Finance and Planning.

<sup>87</sup> Performance Report 2013 of the Department of Development Finance, Ministry of Finance and Planning.

<sup>88</sup> Mahinda Chintana – Vision for the Future is the development policy framework of the Government of Sri Lanka.

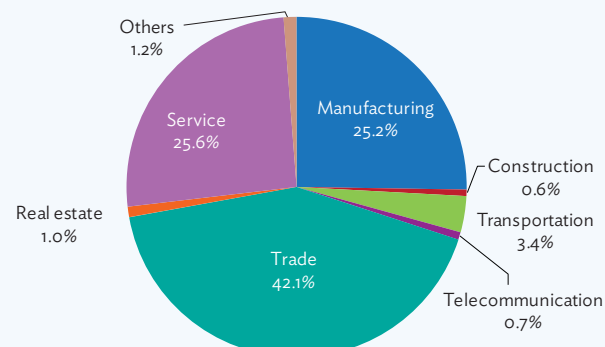
Figure 4.91: Employment by MSMEs



MSME = micro, small, and medium-sized enterprise, SME = small and medium-sized enterprise.

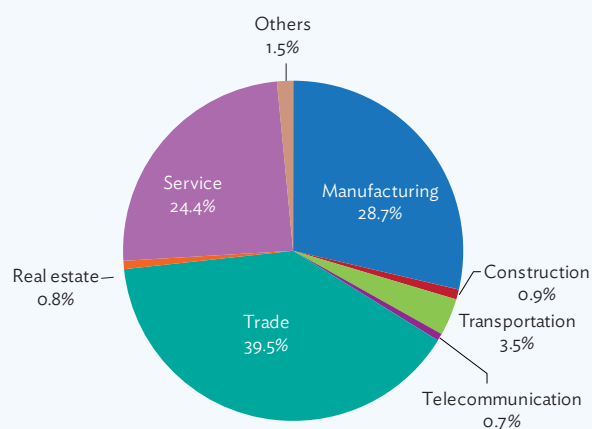
Source: Listing stage data—Sri Lanka Economic Census—2013.

Figure 4.92: Number of Micro Enterprises by Sector



Source: Listing stage data—Sri Lanka Economic Census—2013.

Figure 4.93: Employment of Micro Enterprises by Sector



Source: Listing stage data—Sri Lanka Economic Census—2013.

31% (930,889) in 2013 (Figure 4.91). Industry classification of the number of enterprises and people employed was only available for micro enterprises. In terms of the total number of enterprises, 42.1% of micro enterprises were from the wholesale and retail trade sector, followed by service (25.6%) and manufacturing (25.2%) (Figure 4.92). In terms of employment, 39.5% of people employed by micro enterprises belonged to the wholesale and retail trade sector, followed by manufacturing (28.7%) and service (24.4%) (Figure 4.93).

Various chambers of commerce and industry associations identified the main challenges faced by Sri Lankan SMEs as: (i) lack of widespread business development services, (ii) constraints in access to finance, (iii) inadequate access to technology, (iv) inadequate linkage with markets, and (v) nonavailability of skilled manpower.

## Banking Sector

The Banking sector is a dominant player in the financial system in Sri Lanka. Banking sector assets increased from 56.4% of the total financial sector assets in 2012 to 57.6% in 2013. The Sri Lankan banking system consists of 24 licensed commercial banks and 9 licensed specialized banks. The licensed commercial banks accounted for 48.7% of the total financial sector assets and 84.5% of the total banking sector assets.

Total bank lending disbursed to SMEs by top 13 commercial and development banks amounted to SLRs546,384 million with 834,795 loans in 2013, recording a sharp increase of 105.7% in SME loans disbursed and 375.7% in number of loans as compared to those in 2012 (Table 4.49). The main factors behind the growth of SME credit are: (i) increased government focus on SMEs, and (ii) increased focus of banks on the SME sector due to higher profitability in SME lending. In terms of the distribution of SME loans by sector, the manufacturing sector accounted

for 37.2% (SLRs203,080 million) of total SME loans disbursed in 2013, followed by services at 15.6% (SLRs85,456 million) and agriculture at 7% (SLRs38,458 million) (Figure 4.94).

Banks in Sri Lanka have taken steps to assist SMEs by providing not only credit but also advisory services. SME bank centers are being established by commercial banks, which aim to fill the borrowing needs of SMEs and assist in enhancing their entrepreneurial skills. The number of SME bank centers set up by three major banks (Bank of Ceylon, People's Bank, and Regional Development Bank) increased from 18 in 2012 to 24 in 2013 (Table 4.50). The number of loans disbursed by SME bank centers has increased 83%, from 1,752 loans in 2012 to 3,207 in 2013, and the loan amount disbursed increased by 58.2% from SLRs3,710 million in 2012 to SLRs5,869 million in 2013.

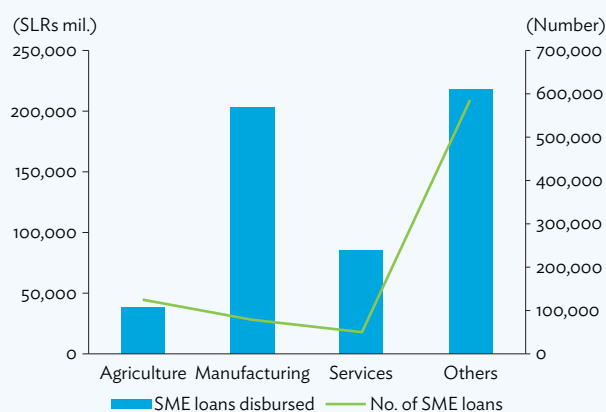
Apart from specialized microfinance institutions, banks also provide microfinance services in Sri Lanka. In 2013, eight commercial and development banks disbursed SLRs39,470 million in loans to the microfinance sector (Table 4.51). The largest provider of microfinance among banks was the Sanasa Development Bank, accounting for 44.7% (SLRs17,651 million) of the total microfinance loans by the banking sector, followed by the People's Bank (26.6%) and Bank of Ceylon (14.0%).

The CBSL has provided concessional lending to SMEs through seven refinance schemes implemented by

participating banks. Among them, two are island-wide schemes and five are regional focus schemes. For the island-wide schemes, the Saubhagya Loan Scheme is the most popular, which disbursed SLRs3,492 million for 9,063 recipients in manufacturing and service related activities during 2013. A total of SLRs2,005 million was distributed to 16,221 beneficiaries through the five regional special loan schemes in 2013. The CBSL is currently planning to promote the Saubhagya Loan Scheme as the flagship SME loan scheme to provide credit facilities to the new and emerging sectors of the economy including the service sector.

The Small and Medium Enterprise Development Facility (SMEDeF), a World Bank funded project, has been launched in Sri Lanka for the purpose of improving access to finance (including long-term finance) for SMEs affected by the 2008/09 global financial crisis, especially in the tourism and apparel industry. The program has three components: (i) credit, (ii) risk sharing facility, and (iii) capacity enhancement for SME banking. By the end of 2013, participating financial institutions utilized SLRs2,952 million, 97% of the total allocated line of credit for 387 SMEs. An allocation of \$3.8 million has been made to train SME entrepreneurs and loan officers in participating financial institutions. Accordingly 3,029 entrepreneurs were trained during 2013 increasing the accumulated number of trained entrepreneurs to 7,536.

**Figure 4.94: SME Loans by Sector—Commercial and Development Banks**



SME = small and medium-sized enterprise.

Source: Ministry of Finance and Planning Annual Report 2013.

## Nonbank Sector

Nonbank financial institutions (NBFIs) accounted for 7% of the total financial sector assets in Sri Lanka in 2013. NBFIs consist mainly of two types: (i) licensed finance companies regulated under the Finance Business Act No 42/2011 and (ii) specialized leasing companies regulated under the Finance Leasing Act No 56/2000. All NBFIs are regulated by the CBSL.

There were 58 NBFIs in Sri Lanka in 2013, among which there were 10 dominant players with assets of more than SLRs20 billion, 7 with assets between SLRs8 billion and SLRs20 billion, 40 with assets of less than SLRs8 billion, and one under litigation.

The main challenge in financing SMEs by NBFIs is the high cost of funds. With the objective of promoting

an efficient financial system with reasonable costs, the CBSL has articulated the Master Plan for the Consolidation of the Financial Sector in January 2014. The Master Plan aims to consolidate the existing 58 NBFIs into 20 (of which 3 will be specialized in microfinance) through mergers and acquisitions. The consolidation is expected to enable NBFIs to better cater to SMEs and microfinance services. As of 1 December 2014, the consolidation of seven NBFIs was completed and others were in progress.

Softlogic Finance, Sri Lanka's 12th largest NBF, placed financing SMEs in its core business. The total SME loans receivables recorded SLRs463.2 million as of the end of March 2014, an 83.9% increase compared to the same period of the previous year figure of SLRs251.84 million. Products offered by Softlogic to SMEs include working capital loans, trade finance for clearing import bills, bridge finance for a new asset until the existing asset is sold, project financing, and dealer finance for repaying invoices of dealers on purchasing stock. The minimum facility value for SME loans is SLRs500,000 and loans are offered to entrepreneurs who have been in business for a minimum of 3 years and have recorded a minimum average turnover of SLRs1 million per month over the preceding years. The average SME loan size is between SLRs1 million and SLRs2 million and the average loan term is 9–10 months, with a maximum of 18 months and minimum of 6 months. The average interest rates for SME products range between 18% and 30% per annum. The default rates are between 6% and 9% of total SME loans annually.

Besides banks, specialized institutions undertake microfinance services in Sri Lanka. Total lending by specialized microfinance institutions amounted to SLRs193,838 million in 2013, a 46.9% increase from the 2012 figure of SLRs132 billion (Table 4.52). The Sri Lanka Samrudhi Authority was established in 1996 to provide financial and other assistance for agriculture, small industries, and allied activities. The Samrudhi Authority held the highest outstanding loan portfolio of SLRs98,066 million in 2013, followed by the Regional Development Bank and the Department of Co-operative Development with a portfolio of SLRs54,710 million and SLRs34,969 million, respectively. The Samrudhi Authority has a network of 1,073 branches and offers loans for self-employment, cultivation, fisheries, distress situations, and purchase of consumables at an interest rate of 12% per annum.

## Capital Markets

The Colombo Stock Exchange, a main stock exchange in Sri Lanka, recorded positive growth in 2014. The S&P SL 20 index crossed the 4,000 mark for the first time since its launch, and closed at 4089.14 as of the end of December 2014. The All Share Index surpassed the 7,500 mark and closed at 7,298.95 as of the end of December 2014.

The exchange has two boards: the main board and the Diri Savi Board. As of 31 December 2014, 218 companies were listed on the main board, with a market capitalization of SLRs2,723.83 billion, while 57 companies were listed on the Diri Savi Board with a market capitalization of SLRs185.57 billion. The Diri Savi Board was set up as a board for start-ups and medium-sized firms. However, the companies now listed on the Diri Savi Board are larger than SMEs. The listing requirements of the Diri Savi Board are less stringent than the main board. The main board companies are expected to maintain a minimum of 20% public holding in the hands of at least 750 public shareholders, while the Diri Savi companies are required to maintain a minimum of 10% shareholding in the hands of at least 200 shareholders.

The Colombo Stock Exchange and the Securities Exchange Commission of Sri Lanka (capital market regulator) announced in November 2014 the launch of a separate board, called the Board of Investment's (BOI) Board, under the Colombo Stock Exchange. This board aims to encourage foreign investments in the country, where companies approved by the Board of Investment of Sri Lanka (an organization for promoting foreign investments in Sri Lanka) can be listed on the board without waiting for a minimum period of 3 years after incorporation to get listed.

According to the World Bank Enterprise Surveys, equity funding is only limited to 1.2% of Sri Lankan firms compared to the global average of 4.1%. While a higher percentage (13.8%) of large enterprises are listed in the exchange, only 2% of medium-sized enterprises are listed, a small share as compared to the global average of 5.4%.

The Securities Exchange Commission Capital Market Report 2014 indicated that the Securities Exchange Commission and the Colombo Stock Exchange, with



many industry and business chambers, are working together on the possibility of creating a separate board for SMEs, other than the main board, Diri Savi Board, and the BOI Board.

Venture capital funding is relatively small in scale in Sri Lanka. Lanka Ventures, established in 1992, is the oldest venture capital firm and most of its investments focus on the energy and healthcare sectors. Blue Ocean Ventures, a venture capital fund approved by the Board of Investment, has co-invested with the Lankan Angel Network and the Indian Angel Network in 11 companies in diverse sectors including tourism, fashion, information and communication technology (ICT), financial services, entertainment, and hospitality. In December 2014, National Development Bank Capital Holdings (a Sri Lankan investment bank), in a joint venture with Zephyr Management Partners, (a New York-based private equity specialist) has launched Sri Lanka's largest SME-focused private equity fund, amounting to \$50 million (SLRs6.5 billion).

## Policy and Regulation

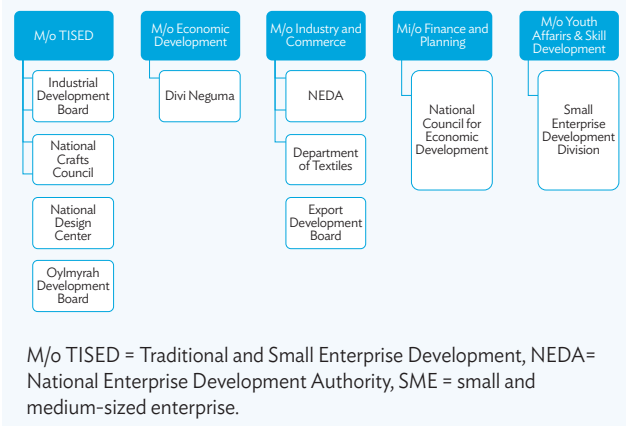
The Mahinda Chintana is the Government of Sri Lanka's national development policy framework. The Mahinda Chintana seeks to upgrade 5,000 small-scale entrepreneurs to medium-scale level and to upgrade 200 medium-scale entrepreneurs to large-scale every year.

Several government organizations, functioning under various ministries, work for the development of SMEs in Sri Lanka (Figure 4.95).

The Ministry of Traditional Industries and Small Enterprise Development was established to create a significant number of globally competitive, dynamic, innovative, technologically driven, and sustainable MSMEs, traditional industries, and handicrafts enterprises. These can contribute significantly to national economic development. The Ministry's development strategy is implemented through its subdivisions: (i) the Industrial Development Board, (ii) the National Crafts Councils, (iii) the National Design Centre, (iv) the Palmyrah<sup>89</sup> Development Board, and (v) North Sea Limited.

<sup>89</sup> Palmyrah is an Asian fan palm which yields a wide range of useful products, including timber, fiber, and fruit.

**Figure 4.95: Key Government Organizations for SME Sector Development**



The Ministry of Economic Development has instituted the Divi Neguma Program, a prioritized economic development plan, in line with the Mahinda Chintana. The objective of the program is to strengthen the home-based economy, through cottage industries at household level, to ensure sustainable income and employment to rural families. Phase 2 of the Divi Neguma program is being implemented by six line ministries: (i) the Ministry of Traditional and Small Enterprise Development, (ii) the Ministry of Industry and Commerce, (iii) the Ministry of Research and Technology, (iv) the Ministry of Youth Affairs and Skills Development, (v) the Ministry of State Resources and Enterprise Development, and (vi) the Ministry of Coconut Development and Janatha Estate Development. Under Phase 2, various implementing ministries have identified 21 highly promising industrial clusters, and are assisting entrepreneurs in these clusters through technology transfers, provision of raw materials, marketing support, and credit arrangement through banking clinics. By December 2014, 16 banking clinics were organized in various districts, with participation of 3,188 prospective borrowers. There were 168 loans approved from the 965 recommended, and a total of 1,532 loan applications.

The National Enterprise Development Authority (NEDA) was established under the National Entrepreneur Development Act 2006, and functions under the supervision of the Ministry of Industry and Commerce. The NEDA aims to promote and facilitate the development of SMEs, and has placed an enterprise



development officer in all 330 divisional secretariats<sup>90</sup> of Sri Lanka to assist and guide SMEs. The NEDA also facilitates credit to the SME sector, both directly from its own fund and indirectly by establishing linkages between banks and SMEs. Under its direct financing program, the NEDA has instituted the ‘Upadhahari Udyami Udane’ scheme, aiming to help students to develop business plans. For this scheme, initial funding of SLRs100,000 was provided by the NEDA and the balance of money required as per the business plan was provided by banks and financial institutions. The NEDA has attached importance to the business cluster development in the country. To this end, the NEDA conducts a needs analysis of machinery and equipment required by entrepreneurs in a particular cluster, and funds 50% of the requirement (the remaining 50% is to be arranged from banks).

The National Council for Economic Development (NCED) functions under the Ministry of Finance and

Planning. The NCED addresses issues related to SMEs through a committee chaired by the Secretary to the Treasury. The Ministry of Finance and Planning has instituted a program called “Developing Sri Lanka’s SME sector”, in partnership with the GIZ (German development agency). The program envisages the development of a cohesive policy framework for SMEs, enhanced competitiveness of SMEs through technology transfers, and increased SME access to finance. A previous component of the program “Promotion of Microfinance Sector (ProMis)” was ended in November 2012. Through its partner institutions, ProMiS reached about 2.5 million clients, which is more than 12% of the population of the country.

The CBSL is responsible for framing laws and regulations for SME finance by banks and NBFIs, and has issued various directives for SME lending, including the Banking Act Regulation No.9/2011.

<sup>90</sup> The districts of Sri Lanka are divided into administrative units known as Divisional Secretariats.

Table 4.48: MSME Landscape

Item	2013	Share to total (%)
<b>Number of MSMEs</b>		(% to all businesses)
Total MSMEs	1,012,549	99.5
Micro enterprises	880,066	86.5
SMEs	132,483	13.0
<b>Number of micro enterprises by sector</b>		(% among micro)
Primary industry (agriculture, forestry, and fishery)	...	...
Manufacturing	222,174	25.2
Construction	5,395	0.6
Transportation	30,258	3.4
Telecommunication	6,339	0.7
Wholesale and retail trade	370,810	42.1
Real estate	8,738	1.0
Service	225,526	25.6
Others	10,826	1.2
<b>Number of micro enterprises by region</b>		(% among micro)
Capital city	27,417	3.1
Other cities (Local areas)	852,649	96.9
<b>Employment by MSMEs</b>		(% to all employees)
Total MSMEs	2,091,027	69.5
Micro enterprises	1,160,138	38.6
SMEs	930,889	31.0
<b>Number of micro enterprise employees by sector</b>		(% among micro)
Primary industry (agriculture, forestry, and fishery)	...	...
Manufacturing	332,505	28.7
Construction	10,953	0.9
Transportation	40,992	3.5
Telecommunication	7,928	0.7
Wholesale and retail trade	457,697	39.5
Real estate	9,097	0.8
Service	283,167	24.4
Others	17,799	1.5
<b>Number of micro enterprise employees by region</b>		(% among micro)
Capital city*	37,806	3.3
Other cities (Local areas)	1,122,332	96.7

MSME = micro, small, and medium-sized enterprise.

\*Colombo municipal area is taken as the capital city.

Source: Listing stage data—Economic Census 2013.

Table 4.49: Funds Disbursed by Commercial and Development Banks to SMEs, 2013

Name of Bank	Agriculture		Manufacturing		Services		Others		Total	
	No. of Loans	Amount (SLRs mil.)	No. of Loans	Amount (SLRs mil.)	No. of Loans	Amount (SLRs mil.)	No. of Loans	Amount (SLRs mil.)	No. of Loans	Amount (SLRs mil.)
Bank of Ceylon	26	222	152	762	93	627	157	601	428	2,211
People's Bank	87,655	6,066	2,242	4,668	2,094	1,224	544,183	141,408	636,174	153,366
Regional Development Bank	21,313	3,146	15,282	2,642	22,643	4,095	7,651	2,283	66,889	12,166
Lankaputhra Development Bank	16	31	48	186	14	83	12	23	90	323
Sansa Development Bank	330	68	209	214	184	34	136	28	859	343
National Development Bank	812	2,196	3,808	9,290	582	1,000	2,182	3,014	7,384	15,500
DFCC Bank	125	620	351	2,275	995	3,981	110	592	1,581	7,467
Commercial Bank of Ceylon	2,847	10,208	20,791	124,265	5,985	20,238	8,640	26,812	38,263	181,523
Sampath Bank	5,969	9,502	28,304	31,525	5,444	15,969	8,386	22,257	48,103	79,253
Seylan Bank	472	1,063	1,227	3,010	1,259	2,183	5,494	8,568	8,452	14,824
Hatton National Bank	3,769	4,208	2,332	8,138	6,672	21,803	1,298	2,248	14,071	36,396
Nations Trust Bank	128	425	477	1,109	1,389	3,543	7,154	9,168	9,148	14,245
Union Bank of Colombo	90	705	2,450	14,996	481	10,678	332	2,387	3,353	28,766
<b>Total</b>	<b>123,552</b>	<b>38,458</b>	<b>77,673</b>	<b>203,080</b>	<b>47,835</b>	<b>85,456</b>	<b>585,735</b>	<b>219,389</b>	<b>834,795</b>	<b>546,384</b>
% of Total Loans Value	...	7.0	...	37.2	...	15.6	...	40.2	...	100.0
Change from 2012 (%)	310.3	23.5	67.8	92.0	116.6	58.1	660.7	193.8	375.7	105.7

SME = small and medium-sized enterprise.

Source: Ministry of Finance and Planning, Annual Report 2013.

Table 4.50: Progress of SME Bank Centers, 2012–13

Name of Bank	Number of SME Centers Established		Loan Disbursed			
	2012	2013	No. of Loans		Amount (SLRs million)	
			2012	2013	2012	2013
Bank of Ceylon	10	4	197	233	1,049	873
People's Bank	6	11	1,524	2,431	2,617	4583
Regional Development Bank	2	9	31	543	45	413
<b>Total</b>	<b>18</b>	<b>24</b>	<b>1,752</b>	<b>3,207</b>	<b>3,710</b>	<b>5,869</b>

SME = small and medium-sized enterprise.

Source: Progress Report 2013, Department of Development Finance, Ministry of Finance and Planning.

Table 4.51: Microfinance Loans Disbursed by Bank, 2013

Name of Bank	Amount (SLRs million)	% of total
Sanasa Development Bank	17,651	44.7
People's Bank	10,499	26.6
Bank of Ceylon	5,541	14.0
Commercial Bank of Ceylon	2,519	6.4
Hatton National Bank	2,444	6.2
Seylan Bank	487	1.2
Sampath Bank	201	0.5
National Development Bank	128	0.3
<b>Total</b>	<b>39,470</b>	<b>100.0</b>

Source: Progress Report 2013, Department of Development Finance, Ministry of Finance and Planning.

Table 4.52: Progress of Microfinance Institutions, 2013

Name of Microfinance Institution	No. of Branches	No. of Depositors	No. of Loans	Total Deposits (SLRs million)	Total Investments (SLRs million)	Total Loan Portfolio (SLRs million)
Samurdhi Authority	1,073	8,528,862	5,362,009	45,848	50,840	98,066
Department of Cooperative Development	2,080	7,927,655	1,514,412	152,610	66,772	34,969
Department of Agrarian Development	532	226,521	366,947	268	2,213	4,030
Regional Development Bank	265	4,854,047	1,278,107	62,647	14,754	54,710
Lankaputhra Development Bank	8	33,764	4,439	228	5,412	743
Sri Lanka Savings Bank	4	175	5,535	130	1,743	1320
<b>Total</b>	<b>3,962</b>	<b>21,571,024</b>	<b>8,531,449</b>	<b>261,731</b>	<b>141,734</b>	<b>193,838</b>

Source: Progress Report 2013, Department of Development Finance, Ministry of Finance and Planning.

Table 4.53: SME Policy and Regulation

Regulations		
Name	Outline	
Banking Act Regulation No.9/2011 (amendment of Directions on Maintenance of Capital Adequacy Ratio)	The maximum credit exposure of bank lending to an SME shall not exceed SLRs200 million. The borrowing SME shall not have a turnover of more than SLRs600 million.	
Regulators and Policymakers		
Name	Responsibility	
Ministry of Traditional Industries and Small Enterprise Development	SME development plan and policies	
Ministry of Industries and Commerce	SME development policies and funds	
Ministry of Finance and Planning	SME finance policies and budget proposals	
Ministry of Economic Development	SME development programs	
Ministry of Youth Affairs and Skill Development	Skill development and other training	
Central Bank of Sri Lanka (CBSL)	Regulate and supervise banks and nonbanks	
Policies		
Name	Responsible Entity	Outline
MahindaChintana—Vision for the Future (2010)	Government of Sri Lanka	1) Recognize SMEs as crucial for economic development 2) Financial assistance to SMEs 3) Development of forward and backward linkages for SMEs 4) Entrepreneurship development programs
Mahinda Chintana—Unstoppable Sri Lanka 2020—Public Investment Strategy 2014-16 (2013)	Government of Sri Lanka	Mahinda Chintanas' Public Investment Strategy envisages to upgrade 5,000 small-scale entrepreneurs to medium scale level and to upgrade 200 medium scale entrepreneurs to large scale every year.
National Budget Proposals 2014 (2014)	Government of Sri Lanka	Concessionary tax rates of 10% applicable to SMEs whose taxable income does not exceed SLRs 5 million was abolished.

( ) = year when the program/initiative was launched.

Sources: Central Bank of Sri Lanka, Ministry of Finance and Planning, Ministry of Traditional Industries and Small Enterprise Development.



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# Country Reviews

## Southeast Asia

Cambodia

Indonesia

Lao PDR

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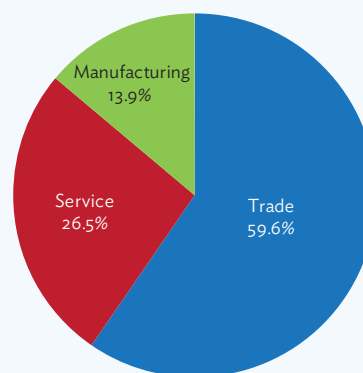
# Cambodia

## SME Landscape

The Economic Census of Cambodia 2011, the first census in the country's history, was launched in 2012. The second Economic Census for 2014 was recently released. According to the Census 2014, Cambodia's micro, small, and medium-sized enterprises (MSMEs) accounted for 99.8% of all enterprises in the country, totalling 512,870 in 2014 (Figure 4.96 and Table 4.54). The retail and wholesale trade sector dominates the MSME sector (59.6% of MSMEs in 2014), followed by services (26.5%) and manufacturing (13.9%) (Figure 4.97). The MSME sector employed 1.3 million people, 71.8% of the total national labor force in 2014, around half of whom (46.7%) worked in the trade sector (Figure 4.98 and Figure 4.99).

There is no legal definition of MSMEs in Cambodia, but the government has initiated a process to define them

Figure 4.97: MSMEs by Sector, 2014



MSME = micro, small, and medium-sized enterprise.  
Source: Economic Census of Cambodia 2014.

Figure 4.96: Number of MSMEs

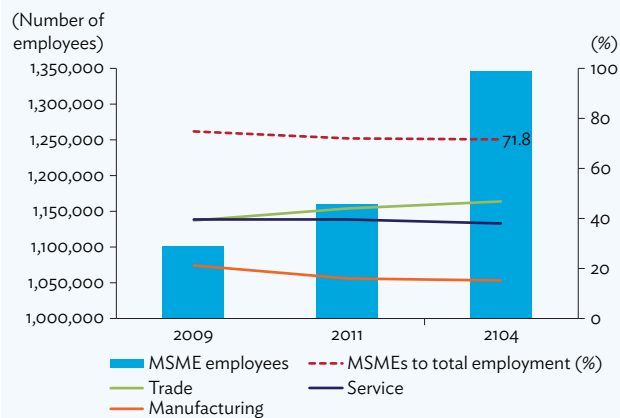


MSME = micro, small, and medium-sized enterprise.

Note: Data for 2009, 2011, and 2014 exclude street business (stalls, booths, etc. that run at a fixed location on the sidewalk or roadside).

Sources: Economic Census of Cambodia 2014, 2011 and Nationwide Establishment Listing of Cambodia 2009.

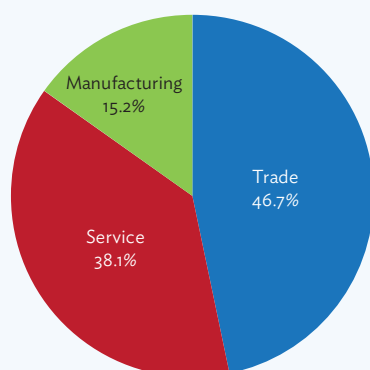
Figure 4.98: Employment by MSMEs



MSME = micro, small, and medium-sized enterprise.

Sources: Nationwide Establishment Listing of Cambodia 2009, and Economic Census of Cambodia 2011 and 2014.

**Figure 4.99: Employment of MSMEs by Sector, 2014**



MSME = micro, small, and medium-sized enterprise.

Source: Economic Census of Cambodia 2014.

with a standardized set of criteria commonly utilized across the country. As an available source, the Small and Medium Enterprise Development Framework 2005 proposed a workable SME definition in terms of employment and assets excluding land.

## Banking Sector

The National Bank of Cambodia (NBC) is a solo regulator in Cambodia's financial system, including banking and nonbank sectors. As of December 2013, there were 35 commercial banks, 9 specialized banks, 38 licensed microfinance institutions (MFIs)—7 of which are deposit-taking<sup>91</sup>—33 registered rural credit operators, and 2 financial leasing companies active in the country.

In Cambodia, the banking sector has been placed in the dominant position of the national financial system. Banks licensed under the Law on Banking and Financial Institution of 1999 comprise commercial banks and specialized banks (carrying out one of three banking operations; credit, deposits, and payment). Banks mainly target large-scale corporate clients but do not specifically target retail lending to SMEs, although some are doing so. Thus, MFIs play an important role

of providing small credit to households and MSMEs in Cambodia. The government has also recognized that microfinance sector development is a key policy area to improve MSME access to finance, as well as to reduce poverty. Although MFIs are not legally classified as banks, this section focuses on the microfinance industry from a viewpoint of substantial impact on MSME lending.

MFIs are roughly split into two groups: licensed and registered. Licensing with NBC is compulsory for MFIs with outstanding loan portfolios of more than KR1 billion or 1,000 borrowers (those with savings from the public of more than KR100 million or 1,000 depositors for deposit-taking MFIs), while registration with NBC is required for MFIs with outstanding loan portfolios of more than KR100 million (those with savings from the public of more than KR1 million or 100 depositors for deposit-taking MFIs), according to the Prakas (proclamation) on Registration and Licensing of Microfinance Institutions of 2002.

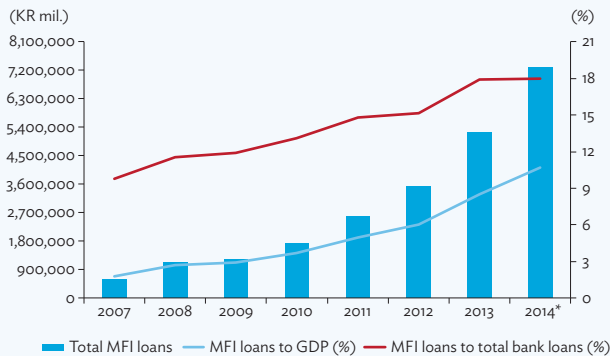
Licensed MFIs are allowed to conduct banking operations defined under the Law on Banking and Financial Institution of 1999. Since 2007, MFIs are required to take a separate license if seeking to take deposits from the public, according to the Prakas on Licensing of Microfinance Deposit-Taking Institutions of 2007.

The provision of MFI loans has been sharply increasing in Cambodia. In 2013, MFI loans outstanding amounted to KR5,261 billion, up 48.7% from 2012, and reached KR7,299 billion as of September 2014, a 38.7% increase from 2013 (Figure 4.100 and Table 4.55). MFI loans accounted for 8.5% of GDP in 2013, and 10.7% in September 2014. MFI loans were equivalent to 16% of total bank loans, combining commercial banks and specialized banks, in 2013, which increased to 18% in September 2014.

MFI loans are typically short-term credit, with a maturity ranging between 6 and 12 months. The average lending rate on domestic currency bank loans was 15.7% as of December 2013, which increased to 16.1% as of June 2014. Meanwhile, MFI loans had an average interest rate range of 2%–3% per month, equivalent to 27%–39% per annum as of June 2014.

<sup>91</sup> There are seven deposit-taking MFIs in Cambodia: PRASAC, AMRET, SATHAPANA, Hattakaksekar, Angkor Microherhvatho Kampuchea, KREDIT, and Vision Fund Cambodia.

Figure 4.100: Microfinance Institution Loans



GDP = gross domestic product, MFI = microfinance institution.

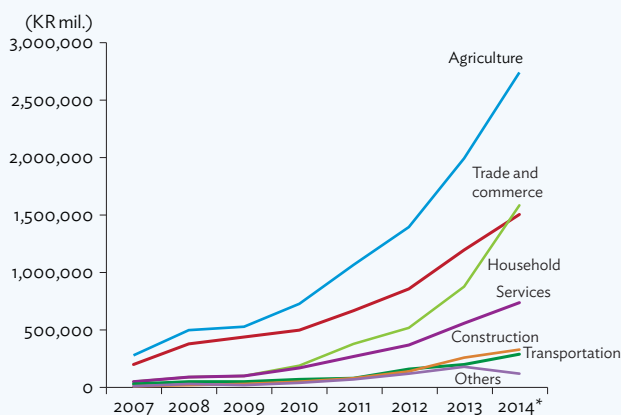
\* data as of September 2014.

Source: National Bank of Cambodia.

Of the total MFI loans, 38% went to the agriculture sector, followed by trade and commerce (22.8%), household (16.6%), and services (10.6%) in 2013. As of September 2014, the basic loan distribution by sector was the same as in 2013, but loans to household were second among all sectors (21.7%) (Figure 4.101).

The nonperforming loans (NPLs) in MFIs peaked in 2009, due to the aftermath of the 2008/09 global financial crisis, at 2.8%, but since 2010 the MFI NPL ratio

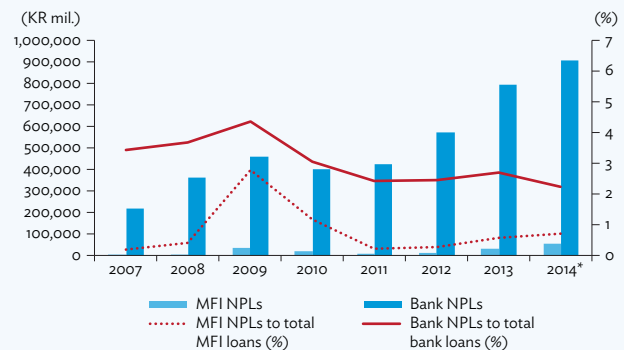
Figure 4.101: Microfinance Institution Loans by Sector



\* data as of September 2014.

Source: National Bank of Cambodia.

Figure 4.102: Microfinance Institution Nonperforming Loans



MFI = microfinance institution, NPL = nonperforming loan.

\* data as of September 2014.

Source: National Bank of Cambodia.

has fallen to around 1% or less (0.6% in 2013 and 0.7% as of September 2014). Given the increased volume of MFI loans, the microfinance sector has developed soundly (Figure 4.102).

With the NBC's support, the Credit Bureau Cambodia (CBC) was established in 2011 and officially launched on 19 March 2012, under the joint ownership of the Association of Banks in Cambodia, the Cambodia Microfinance Association, and a private service provider. The CBC provides corporate information, analytical tools, and credit reporting services to organizations and consumers in Cambodia. The Prakas on Credit Reporting was promulgated to enable an adequate framework for the establishment of a credit reporting system in Cambodia, with the aim of strengthening reliable, competitive, and responsible lending and centralizing loan information from respective banks and MFIs.

## Nonbank Sector

There are alternative financing instruments that MSMEs can tap to fulfill their financing needs: leasing and pawnshops. As of December 2014, six financial lease companies licensed with the NBC were operating in the country (GL Finance, RMA Financial Services, Mega Leasing, Suosdey Finance, KK Fund Leasing, and TOYOTA Tsusho Finance).

Pawn business also plays an important role in meeting urgent need for small working capital by MSMEs. Pawnshops in Cambodia charge from around 3% to as high as 15% per month, as compared to MFIs charging around 2%–3% per month. In Cambodia, there is no factoring company operating. Informal money lending is thriving, especially in rural areas.

## Capital Markets

The Cambodia Securities Exchange (CSX) started its first stock trading on 18 April 2012. It is a joint venture between the Cambodian Ministry of Economy and Finance (55% of the registered capital owned) and the Korea Exchange (45% of capital). The CSX is regulated by the Securities and Exchange Commission of Cambodia (SECC).

As of September 2014, two companies were listed on the CSX: (i) the Phnom Penh Water Supply Authority, a state-owned company; and (ii) Grand Twins International PLC, a private sector garment producer (Table 4.56). Market capitalization of two stocks amounted to KR720 billion as of September 2014.

Under the Law on Issuance and Trading of Non-Government Securities of 2007, a company considering an initial public offering (IPO) at the CSX is required to have the shareholders' equity of at least KR5 billion at filling time and a net profit of at least KR500 million for the last fiscal year (aggregate of at least KR1 billion for the last 3 fiscal years).

Companies listing on the CSX will receive temporary tax reductions for the first 3 years. The new “Anukret on Tax Incentives in Securities Sector”, issued on 8 January 2015, increased the tax incentives in order to promote securities sector development. It notes that companies issuing equity and/or debt securities, approved by the SECC and listed on the permitted Securities Market, shall enjoy tax incentives by reducing the total amount of tax on profit by 50% (previously 10%). This Anukret is effective for 3 years from the issuance date.

There is also a plan to create a small enterprise board on the CSX. This process is still at the inception stage.

## Policy and Regulation

The Ministry of Industry, Mines, and Energy was split into two different ministries in December 2013: (i) the Ministry of Mines and Energy and (ii) the Ministry of Industry and Handicraft. The Ministry of Industry and Handicraft is the sole regulator of the MSME sector, and is responsible for the business registration of MSMEs. The Ministry includes the General Department of SMEs and Handicraft which comprises three departments: the Department of SMEs, the Department of Handicraft Affairs, and the Department of SME Planning and Development Promotion.

The Ministry of Industry and Handicraft plans to introduce an online business registration platform for SMEs. SMEs with start-up capital of \$3,000 or more would be able to utilize the online registration system, which takes around 2 to 3 days to complete.<sup>92</sup> The Ministry is preparing a comprehensive SME policy framework, with the purpose of boosting SME competitiveness. The policy will outline the state strategy in solving technical training issues within the SME bracket, and will upgrade safety and quality standards for the SME sector.<sup>93</sup>

The SME Development Strategic Framework for 2010–2015 aims to promote diverse industries (of which SMEs can become an integral part to meet poverty reduction) and SME development strategies, addressing five key areas: (i) enabling business environment, (ii) skill development and technology adoption, (iii) incentive mechanisms, (iv) business development services, and (v) industry clustering.

The Industrial Development Policy 2014–2024, initiated by the Government of Cambodia with its first draft on 11 March 2014, includes local SME promotion strategies. This policy framework addresses: (i) strengthening a coordination mechanism to promote investment in the manufacturing sector, by upgrading the capacity of institutions that manage domestic investment and SME development; and (ii) establishing new financing arrangements to support industrialization, including

<sup>92</sup> A. Lee. 2014. Online registration option to be rolled out to SMEs. Phnom Penh Post. 7 July. <http://www.phnompenhpost.com/business/online-registration-option-be-rolled-out-smes>

<sup>93</sup> H. Kimsay. 2014. SME policy to roll out in 2015. Phnom Penh Post. 17 December. <http://www.phnompenhpost.com/business/sme-policy-roll-out-2015>

public and private sector partnerships, industrial and SME development funds, government bonds to finance infrastructure projects, and credit guarantee mechanisms.

Following the demonstrated needs under the Financial Sector Development Strategy 2006–2015, the NBC launched the Financial Sector Development Strategy 2011–2020 on 25 November 2011, as a blueprint for midterm financial sector development in the country. Extended access to finance and enhanced supervision of MFIs are part of priority strategies.

In July 2004, the government announced the Rectangular Strategy for Growth, Employment, Equity and Efficiency (Rectangular Strategy). It involved a component of SME promotion policy, with 13 subdivided strategies, which the SME Development Framework (2005) take as their starting point for implementation of SME development policies. In September 2008, the government announced to extend the Rectangular Strategy Phase I to Phase II. As an outcome of Phase I, the government reduced the minimum requirements for the registration of SMEs, and simplified the accounting and financial reporting systems for them, resulting in increased SME loans by financial institutions. Phase II contributed to promoting the implementation of the SME Development Framework, through strengthened governance. The framework aimed to promote the business environment through: (i) developing industrial standards, (ii) adopting accounting and financial report standards to increase SME access to finance, (iii) supporting priority activities with tax incentives on inputs, and (iv) building institutional capacity. The Rectangular Strategy Phase III, launched in September

2013, continues the objectives of diversification of the industrial base, development of SMEs and handicraft, expansion of industrial development in rural areas, and development and management of extractive industry. The National Strategic Development Plan (NSDP), 2014–2018, launched on 17 July 2014, is a development framework and a road map for the implementation of the Rectangular Strategy Phase III.

The Law on Issuance and Trading of Non-Government Securities of 2007 regulates the securities exchange, clearing and settlement system, securities depositories, and other operators in the securities market who trade or provide financial services. These include public limited companies and registered legal entities that issue securities. The law covers nongovernment securities transactions in Cambodia. The SECC, a capital market regulator, is established under this law.

The Ministry of Economy and Finance is responsible for supervising the insurance business as well as the pawn business. Pawnshop owners are required to obtain a license from the Department of Industry, under the Ministry of Economy and Finance, in compliance with “Prakas No. 028 on Licensing to Pawn Business, Buying-Selling of Pawned Pledges and Liens by Cession”, dated 10 January 2010. The ministry supervises activities such as pawnbroking, the purchase or sale of pawned goods, and use of pawned goods as collateral. The Ministry also issued the Prakas on Introduction of Financial Reporting Template for Small and Medium-Sized Enterprises of 2006. This includes a template to be used by SMEs to facilitate their application for financing with banking and nonbank institutions.

Table 4.54: MSME Landscape

Item	2007	2008	2009	2010	2011	2012	2013	2014
<b>Number of MSMEs</b>								
MSMEs (number)	...	...	376,069	...	462,582	...	...	512,870
MSMEs to total (%)	...	...	99.8	...	99.8	...	...	99.8
MSME growth (%)	...	...	...	...	23.0	...	...	10.9
Trade (% to MSMEs)	...	...	52.7	...	58.0	...	...	59.6
Service (% to MSMEs)	...	...	24.9	...	26.7	...	...	26.5
Manufacturing (% to MSMEs)	...	...	22.4	...	15.3	...	...	13.9
<b>Employment by MSMEs</b>								
MSME employees (people)	...	...	1,099,647	...	1,158,871	...	...	1,345,100
MSMEs to total (%)	...	...	74.8	...	72.0	...	...	71.8
MSME growth (%)	...	...	...	...	5.4	...	...	16.1
Trade (% to MSME employees)	...	...	39.1	...	44.2	...	...	46.7
Service (% to MSME employees)	...	...	39.6	...	39.8	...	...	38.1
Manufacturing (% to MSME employees)	...	...	21.3	...	16.0	...	...	15.2

MSME = micro, small, and medium-sized enterprise.

Note: Data exclude street business.

Sources: Nationwide Establishment Listing of Cambodia 2009, and Economic Census of Cambodia 2011 and 2014.

Table 4.55: Microfinance Institution Loans

Item	2007	2008	2009	2010	2011	2012	2013	2014*
<b>Loans Outstanding</b>								
MFI loans to GDP (%)	1.8	2.7	2.9	3.7	5.0	6.0	8.5	10.7
MFI loans to total bank loans (%)	9.7	11.5	11.9	13.1	14.8	15.2	16.0	18.0
MFI loans -Total (KR mil.)	617,271	1,130,585	1,244,970	1,724,841	2,591,263	3,538,889	5,261,752	7,299,407
Total bank loans [PFIs + CBs] (KR mil.)	6,334,703	9,803,682	10,466,705	13,135,307	17,474,377	23,354,231	32,858,521	40,525,770
<b>MFI Loans by Sector (KR mil.)</b>								
Agriculture	279,121	495,279	525,314	730,543	1,066,669	1,395,536	1,998,061	2,741,840
% to Total	45.2	43.8	42.2	42.4	41.2	39.4	38.0	37.6
Trade and commerce	200,505	376,812	441,030	497,057	666,772	857,238	1,198,816	1,505,622
% to Total	32.5	33.3	35.4	28.8	25.7	24.2	22.8	20.6
Household	51,592	87,280	93,644	185,834	372,670	518,482	873,883	1,587,102
% to Total	8.4	7.7	7.5	10.8	14.4	14.7	16.6	21.7
Services	42,054	83,944	96,990	162,903	268,684	364,414	559,884	737,389
% to Total	6.8	7.4	7.8	9.4	10.4	10.3	10.6	10.1
Transportation	23,247	45,016	44,501	63,122	76,469	158,008	197,300	286,434
% to Total	3.8	4.0	3.6	3.7	3.0	4.5	3.7	3.9
Construction	11,372	20,395	29,174	44,460	73,463	132,376	257,559	322,016
% to Total	1.8	1.8	2.3	2.6	2.8	3.7	4.9	4.4
Others	10,016	21,858	14,317	40,922	66,537	112,835	176,248	119,004
% to Total	1.6	1.9	1.1	2.4	2.6	3.2	3.3	1.6
<b>Nonperforming Loans (NPLs)—MFIs</b>								
MFI NPLs (KR mil.)	1,171.0	4,719.0	34,847	20,361	5,753	10,284	30,880	52,119
Gross bank NPLs (KR mil.)	218,011	360,291	457,449	400,570	424,682	571,504	791,761	904,495
MFI NPLs to total MFI loans (%)	0.2	0.4	2.8	1.2	0.2	0.3	0.6	0.7
Gross bank NPLs to total bank loans (%)	3.4	3.7	4.4	3.0	2.4	2.4	2.7	2.6

CB = commercial bank, GDP = gross domestic product, MFI = microfinance institution, NPL = nonperforming loan, PFI = public financial institution.  
\* data as of September 2014.

Source: National Bank of Cambodia.

Table 4.56: Capital Market

Item	2012*	2013	2014**
<b>Market Performance—Main Board</b>			
Index	667	576	472.74
Market capitalization (KR mil.)	539,234	466,176	720,179
Trading value (KR mil.)	53,590	13,720	10,368
Trading volume (mil. shares)	6.9	2.23	1.51
<b>Listed Companies</b>			
No. of listed companies	1	1	2

\* The first trading date was 18 April 2012. Thus, data from 18 April 2012 to 31 December 2012.

\*\* data as of September 2014.

Source: Cambodia Securities Exchange.



Table 4.57: SME Policy and Regulation

Regulations		
Name	Outline	
The Law on Banking and Financial Institutions	SME definition, Regulations of Banks and Financial Institutions	
Prakas on Licensing of Microfinance Institutions	MFI registration and licensing	
Prakas on Licensing of Microfinance Deposit-taking Institutions	MFI Deposit-taking institution registration and licensing	
Prakas on Financial leasing Companies	Guidance for financial leasing companies	
Prakas on Credit Reporting	Framework for establishment of a credit reporting system	
Prakas on Introduction of Financial Reporting Template for SMEs	Issues templates for SME application for financing with banking institutions	
Prakas on Licensing to Pawn Business, Buying-Selling of Pawn Pledges and Liens by Cession	Licensing of Pawn Businesses	
Anukret of Tax Incentives for Securities Sector	Granting of tax incentives to equity and debt issuing companies	
The Securities Law	Organization of the Securities and Exchange Commission (SECC)	
The Law on the Issuance and Trading of Non-Government Securities (2007)	Regulate securities exchange	
Regulators and Policymakers		
Name	Responsibility	
Royal Government of Cambodia (RGC)	Introduced banking regulation and bank restructuring programs	
National Bank of Cambodia (NBC)	Regulate and supervise banks and microfinance institutions	
Ministry of Economy and Finance (MOEF)	Regulate and supervise pawnshops, insurance, and real estate	
Ministry of Industry and Handicraft (MIH)	Regulate the SME sector	
Securities and Exchange Commission of Cambodia (SECC)	Regulate and supervise the capital market	
Credit Bureau Cambodia (CBC)	Provides credit reporting services	
Cambodia Microfinance Association (CMA)	Insure sustainability of the microfinance sector	
Policies		
Name	Responsible Entity	Outline
SME Development Framework (2005)	MIME	<ol style="list-style-type: none"> <li>1) Set up an incentive policy and support for SMEs.</li> <li>2) Prepare a strategy to increase competitiveness capacity for SMEs.</li> <li>3) Prepare an action plan, promote and support SMEs, as well as follow up and review the implementation.</li> <li>4) Promote the preparation of regulations on the management of SMEs.</li> <li>5) Implement other roles related to the promotion and support of SMEs.</li> </ol>
SME Development Strategic Framework (2010–2015)	MIME	<ol style="list-style-type: none"> <li>1) Establish the right condition for business and policy environment (e.g., encourage entry and diversification of businesses through easing the cost of starting and doing business).</li> <li>2) Promote and create opportunities for skill development and technology adoption in SME sector through establishing and implementing a policy and strategic framework on technology adoption.</li> <li>3) Develop effective mechanism and legal instruments to support and provide incentives to potential SME sectors</li> <li>4) Promote business development services focusing on SMEs.</li> <li>5) Promote industrial and SME clusters.</li> </ol>
Financial Sector Development Strategy (2006–2015)	NBC	<ol style="list-style-type: none"> <li>1) Facilitate the development of finance.</li> <li>2) Integrate informal and formal sectors.</li> <li>3) Increase benefits to the poor.</li> <li>4) Increase resource mobilization.</li> <li>5) Facilitate savings and investment.</li> <li>6) Improve resource allocation.</li> </ol>
Industrial Development Policy 2014–2024	RGC	<ol style="list-style-type: none"> <li>1) Review framework mechanism for SME development</li> <li>2) Regular information on available support to SMEs</li> <li>3) Establishing R&amp;D fund to meet demands for R&amp;D development</li> <li>4) Provides skill training</li> <li>5) Enhancing SME corporate governance</li> <li>6) Provide other support to SMEs to facilitate their access to finance and new technologies</li> <li>7) Improve capacity of national productivity center to promote productivity and quality SMEs</li> </ol>
National Strategic Development Plan 2014–2018	MOIH	<ol style="list-style-type: none"> <li>1) Improving investment environment for large industries and SMEs.</li> <li>2) Strengthening good governance for SMEs through transparent law enforcement</li> <li>3) Promoting competitiveness in the SMEs</li> <li>4) Setting up a financial service system for SMEs</li> <li>5) Enhancing productivity aligned with national, regional, and international standards</li> <li>6) Creating enterprise clusters for SMEs</li> <li>7) Formulating industrial development policy</li> <li>8) Updating the SMEs Development Framework</li> <li>9) Aligning private sector development and investment policies with SME and industrial development policy</li> <li>10) Adoption of Law on Special Economic Zones</li> <li>11) Promoting industrial corridor development along the main national roads</li> <li>12) Strengthening the development process in extractive industry, fiscal revenue management, regulatory framework, capacity building, and institutional coordination</li> <li>13) Human resource development especially skill training for the industrial sector</li> </ol>

SME = small and medium-sized enterprise.

Sources: SME Development Framework 2005, SME Development Strategic Framework 2010–2015, Financial Sector Development Strategy (2006–2015), Financial Sector Development Strategy (2011–2012), Rectangular Strategy Phase III (2013).

# Indonesia

## SME Landscape

After the V-shaped recovery from the 2008/09 global financial crisis (GFC), the growth of the Indonesian economy has been slowing since 2011. Meanwhile, the presence of micro, small, and medium-sized enterprises (MSMEs) in the national economy has been increasing year by year.

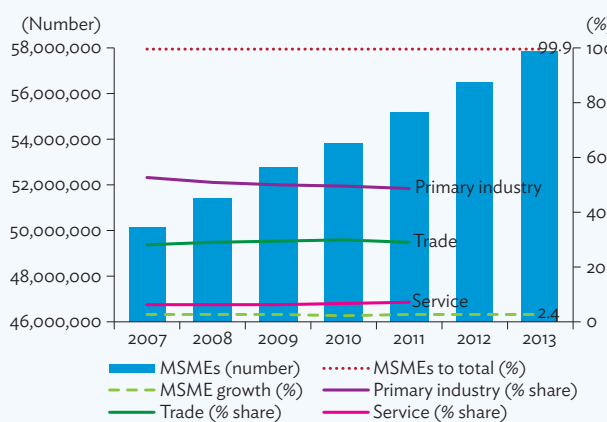
The MSME sector has been growing at more than 2% year on year, not seriously damaged by the change in the external environment caused by the GFC. As of the end of 2013, 57.9 million MSMEs operated in Indonesia, accounting for 99.9% of total enterprises, with a 2.4% annual growth in number (Figure 4.103 and Table 4.58). Since 2011, the Government of Indonesia has not compiled data by sector. According to the 2011 data, primary industry (agriculture, forestry, and fisheries) accounted for 48.8% of MSMEs, followed by trade (28.8%) as a combined figure of the wholesale

and retail trade and the hotel and restaurant sector. The sector composition of SMEs in Indonesia has not changed for a long time.

The MSME sector comprised 114.1 million employees or 97% of the total workforce in the country, with 6% annual growth, in 2013 (Figure 4.104). Of MSME employees, 42.4% worked in primary industry while 21.7% worked in the trade sector, 11.7% worked in manufacturing, and 10.5% worked in the service sector in 2011. This sector composition of SMEs has also not changed for a long time.

Although economic growth has been sluggish since 2011, the MSME sector has underpinned the national economy, with a constantly increasing contribution to gross domestic product (GDP) in the country. In 2013, MSMEs contributed Rp5,715 trillion in GDP, accounting for 60.3% of GDP, with 17.4% annual growth (Figure 4.105)

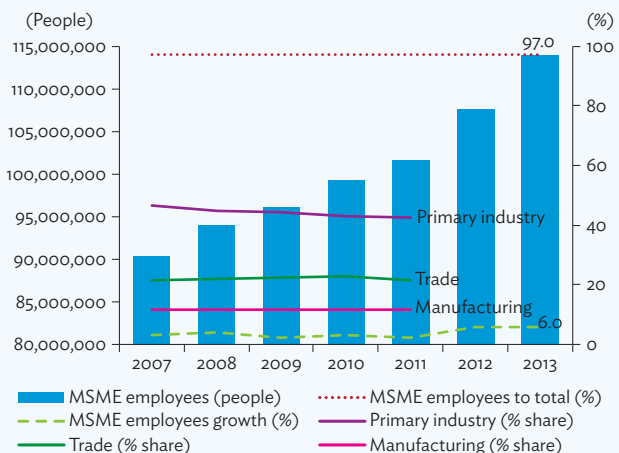
Figure 4.103: Number of MSMEs



MSME = micro, small, and medium-sized enterprise; Primary industry = agriculture, forestry, and fisheries.

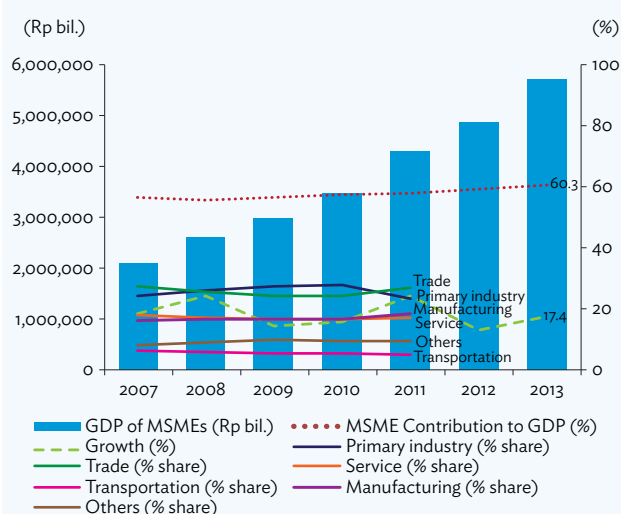
Source: Ministry of Cooperatives and SMEs.

Figure 4.104: Employment by MSMEs



MSME = micro, small, and medium-sized enterprise; Primary industry = agriculture, forestry, and fisheries.

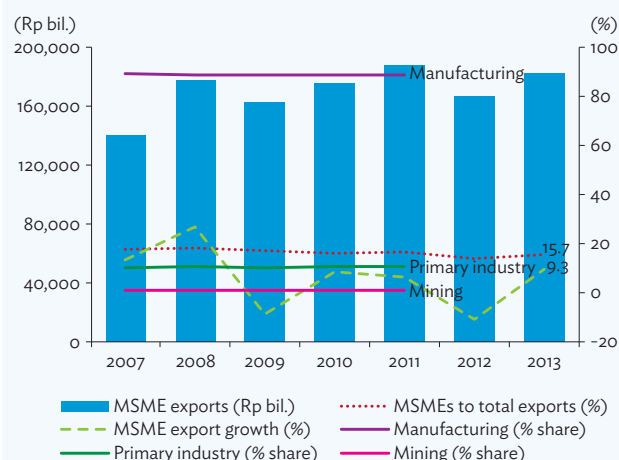
Source: Ministry of Cooperatives and SMEs.

**Figure 4.105: MSME Contribution to Gross Domestic Product**


GDP = gross domestic product; MSME = micro, small, and medium-sized enterprise; primary industry = agriculture, forestry, and fisheries.  
 Source: Ministry of Cooperatives and SMEs.

Most of the MSMEs are traditionally domestic businesses, while some segments of MSMEs, e.g., handicrafts and wooden furniture industries, have built up clusters and developed their business models toward global marketplaces. Indonesian MSMEs accounted for 15.7% of total export values or Rp182 trillion, with 9.3% annual growth in 2013 (Figure 4.106). However, the MSME export industry remains volatile, influenced by demands from foreign countries. MSME exporters experienced sharply negative growth of -8.9% and -11.1% in 2009 and 2012, respectively, caused by the GFC and the slow recovery of demand from trade partners such as the People's Republic of China, Japan, and Europe.

Since 2008, all government authorities and the central bank have adopted a single national MSME definition, stipulated under Law No.20/2008 (MSME Law) for SME development policies and financing. A productive entity, owned by an individual or individual business unit, with maximum net assets excluding land and buildings of Rp10 billion or maximum annual net sales of Rp50 billion, is regarded as an MSME by law. This does not include foreign-owned and/or invested firms.

**Figure 4.106: MSME Exports**


MSME = micro, small and medium-sized enterprise; primary industry = agriculture, forestry, and fisheries.

Source: Ministry of Cooperatives and SMEs.

## Banking Sector

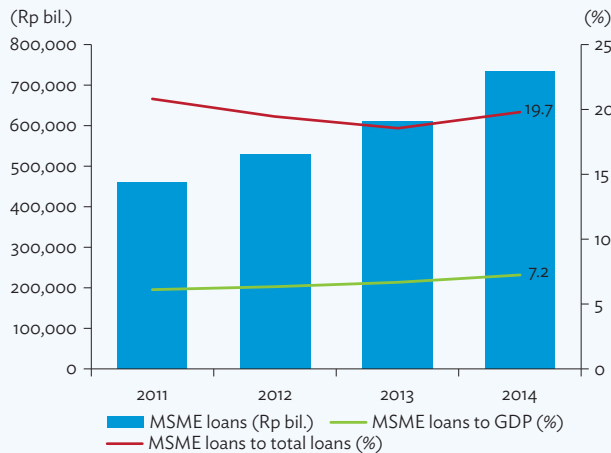
The slow pace of economic growth has affected the banking industry in Indonesia. Total assets of commercial banks have seen sluggish growth since 2012, resulting in slower growth of bank loan provision. However, the share of MSME loans to total commercial bank loans turned upward in 2014.

MSME loans outstanding totalled Rp731.8 trillion, a 20.2% annual increase in 2014, standing at 19.7% of total commercial bank loans and 7.2% to GDP in 2014 (Figure 4.107 and Table 4.59).

Trade (wholesale and retail trade and the hotel and restaurant sector) is the most active MSME sector in bank lending, accounting for 53.6% of total MSME loans in 2014, followed by the service sector (15.6%) and manufacturing (9.9%) (Figure 4.108). In terms of loan type, working capital financing stood at 72.5% of total MSME loans outstanding in 2014, while the remaining 27.5% was for investment capital.

The nonperforming loan (NPL) ratio in MSME lending remained low at 0.8% of total commercial bank loans in 2014, although it slightly increased from 0.6% in 2013. However, among MSME loans, the NPL ratio was moderately high, with an upward trend, at 4% of total

Figure 4.107: MSME Loans Outstanding



GDP = gross domestic product, MSME = micro, small, and medium-sized enterprise.

Notes: Data based on commercial bank loans. Since January 2011, MSME credits are calculated based on fair value.

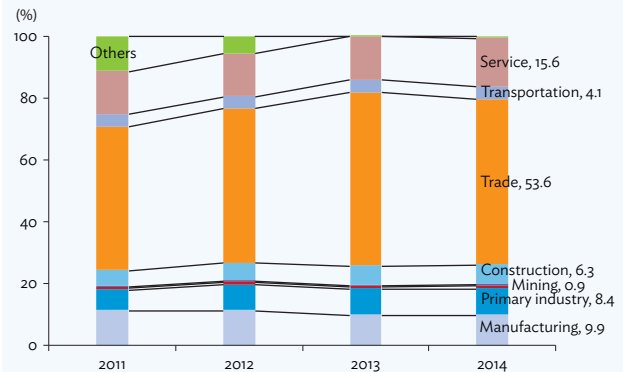
Source: Bank Indonesia.

MSME loans in 2014, up from 3.2% in 2013. This was also higher than the gross NPL ratio to total commercial bank loans of 2.1% (Figure 4.109).

Indonesia has adopted Basel III for banking supervision. Basel III introduces new rules to strengthen banks' risk management. These include a liquidity framework and a leverage ratio framework, as well as strengthened capital requirements. These new rules have the potential to constrain banks from providing long-term credit for enterprises with long-term funding needs, and may limit financing options for MSMEs, such as the availability of trade finance.

To allow MSMEs to access bank loans, Bank Indonesia, the country's central bank, issued a regulation on the mandatory lending to MSMEs in 2012 (Bank Indonesia Regulation No.14/22/PBI/2012). It requires banks to allocate 20% of their portfolios to MSME lending by 2018. There are milestones for achieving this target ratio; 5% by 2015, 10% by 2016, 15% by 2017, and 20% by 2018. There are two ways for banks to meet these requirements. They can directly lend to MSMEs or indirectly channel loans through linkages and/or on-lending programs. If banks do not achieve the milestones, they are required to allocate their budgets to organize SME training programs. Meanwhile, the regulator is supposed to reward commercial banks if

Figure 4.108: MSME Loans by Sector

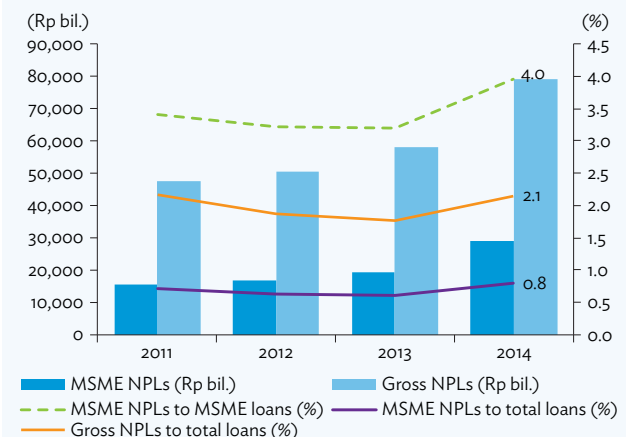


MSME = micro, small, and medium-sized enterprise.

Notes: Data based on commercial bank loans. Since January 2011, MSME credits are calculated based on fair value.

Source: Bank Indonesia.

Figure 4.109: MSME Nonperforming Loans



MSME = micro, small, and medium-sized enterprise, NPL = nonperforming loan.

Notes: Data based on commercial bank loans. Since January 2011, MSME credits are calculated based on fair value.

Source: Bank Indonesia.

they meet certain criteria, and to publish the ranking of each bank's ratio of MSME loans to total loans. At the end of December 2013, Bank Indonesia's banking supervisory function was transferred to the Financial Services Authority (OJK).

Credit guarantees are a critical tool for reducing the supply-demand gap in SME finance in Indonesia. Askrindo and Jamkrindo are both leading institutions

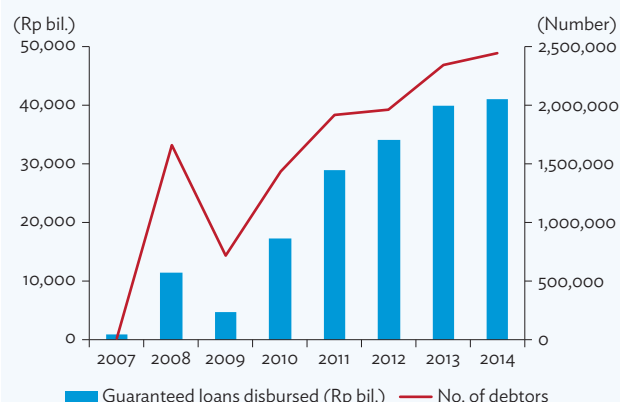
that provide credit guarantees for MSMEs, addressing the government's objective on accelerating the empowerment of MSMEs for sustainable economic growth. The regulatory function on credit guarantee institutions was integrated into the OJK at the end of 2012, with the scrapping of Bapepam-LK (Capital Market and Financial Institution Supervisory Agency), which was originally responsible for supervising capital markets and nonbank financial institutions (NBFIs). Accordingly, a new regulatory framework on guarantee institutions was prepared by the OJK in April 2014. Stipulated in OJK Regulation No.6/2014, the Association of Indonesia Guarantee Corporation (Asippindo) was established.

The credit guarantee industry in Indonesia has two layers: (i) central guarantee institutions (Askrindo, Jamkrindo, and PKPI), and (ii) regional guarantee institutions (e.g., Jamkrida Jatim, Jamkrida Jabar, Jamkrida Bali Mandara, Jamkrida Sunsel, Jamkrida Sunbar, Jamkrida Riau, Jamkrida NTB Bersaing, and Jamkrida Kalimantan Selatan). Credit guarantee institutions provide various types of products for MSMEs and cooperatives through banks and NBFIs, including Islamic guarantees.

People's Business Credit (KUR) is a public credit guarantee scheme designed for MSMEs, which guarantees 70%–80% of the credit applied, while the remaining 20%–30% credit risk is taken by participating banks. KUR is delivered by 7 commercial banks<sup>94</sup> and 26 regional development banks (BPDs), with concessional lending rates. It mainly offers two products, targeting new clients in banks: KUR Micro and KUR Ritel. KUR Micro provides a loan of maximum Rp20 million, with an interest rate of up to 22% per annum and no collateral required. KUR Ritel provides loans ranging between Rp20 million and Rp500 million, with a maximum interest rate of 13% per annum and collateral required as needed. Through KUR, loan terms of 3–6 years are available for working capital financing, while loan terms of 5–10 years are available for investment capital financing (there is a maximum loan term of 13 years for investing in plantation perennials). As of December 2014, Rp178.8 trillion in KUR loans have been disbursed since its launch in 2007. These loans have accommodated 12.5 million MSMEs (Figure 4.110).

<sup>94</sup> Bank Rakyat Indonesia (BRI), Bank Negara Indonesia (BNI), Bank Tabungan Negara (BTN), Bank Mandiri, Bank Bukopin, Bank Syariah Mandiri (BSM), and Bank Negara Indonesia Syariah (BNI Syariah).

Figure 4.110: Credit Guarantees—KUR



KUR = Kredit Usaha Rakyat (People's Business Credit).

Source: Bank Indonesia.

## Nonbank Sector

Although still small in scale, various types of NBFIs serving MSMEs are active in Indonesia, e.g., microfinance institutions (MFIs), finance companies, venture capital companies, credit guarantee institutions, and a pawnshop (the state-owned pawnshop, Pegadaian). Of total NBFIs, 10.3% operate sharia (Islamic) financial services, as of the end of 2013.

MFIs have long been supporting the traditionally underserved, disadvantaged, and low-income segments of Indonesian society, including MSMEs, especially in rural areas through microscaled financing. In 2013, the MFI Law was enacted after more than a decade of discussion. This law requires all MFIs<sup>95</sup> to gain a business license. As many MFIs established before the launch of the MFI Law are still operating without a license, the OJK, as the regulator for MFIs effective from January 2015, is requiring these MFIs to gain a business license by 8 January 2016.

The legal form of MFIs is split into two types by law: (i) savings and credit cooperative, and (ii) limited

<sup>95</sup> Microfinance institution (MFI) is a financial institution that is especially established to provide services in business development and society empowerment by giving loans or financing for micro-scaled business of MFI members and society, providing deposit management, or giving consultancy services in business development that is conducted not merely for profit. (OJK website: <http://www.ojk.go.id/en/microfinance-institutions>)

liability company (maximum 60% of its share can be owned by local government or village/rural enterprises, while up to 20% can be owned by Indonesian citizens and/or cooperatives). Foreign-owned MFIs are not allowed by law in Indonesia.

There are three segments of MFI business areas (village, subdistrict, and city) by law, and different paid-in capital for limited liability companies or deposits/grants for cooperatives are required by segment. These are Rp50 million for village MFIs, Rp100 million for subdistrict MFIs, and Rp500 million for city MFIs. Business activities and areas of MFIs are rigidly restricted by license. Dealing with foreign currency, insurance business, financing to other MFIs, and business outside of designated areas are all prohibited by law.

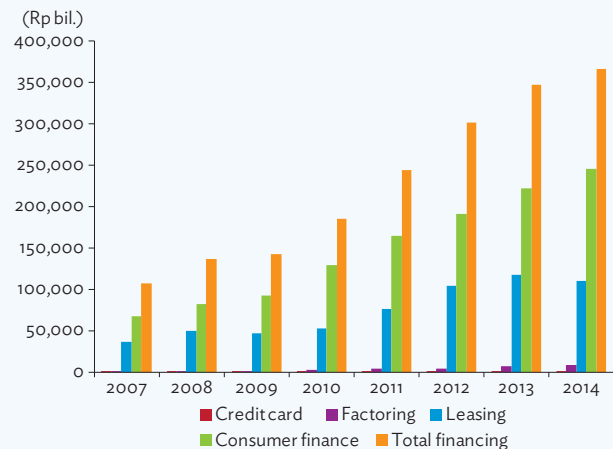
Finance companies play a critical role for filling the supply-demand gap in MSME finance in the country. They provide leasing, factoring, credit card financing, and consumer financing, as business lines. As of the end of 2014, 201 finance companies licensed by the OJK operate in Indonesia (Figure 4.111 and Table 4.60).

The total financing receivables of finance companies amounted to Rp366.2 trillion in 2014, a 5.2% increase from 2013 (Figure 4.112). The finance company industry grew following the GFC, but its growth rate has been shrinking since 2012. Consumer finance is a major

line of business for finance companies, accounting for 67.1% of total financing receivables in 2014, followed by leasing (30.3%).

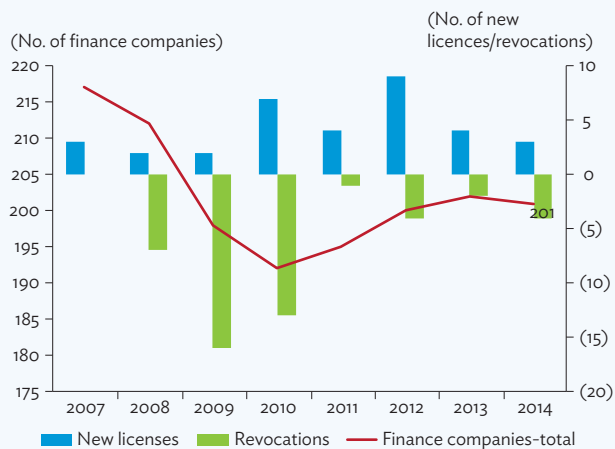
Financial leasing is active in the electricity, gas, and water supply industries, with a 21.9% share of total lease financing in 2014, followed by mining (15.5%) (Figure 4.113).

Figure 4.112: Financing Receivables



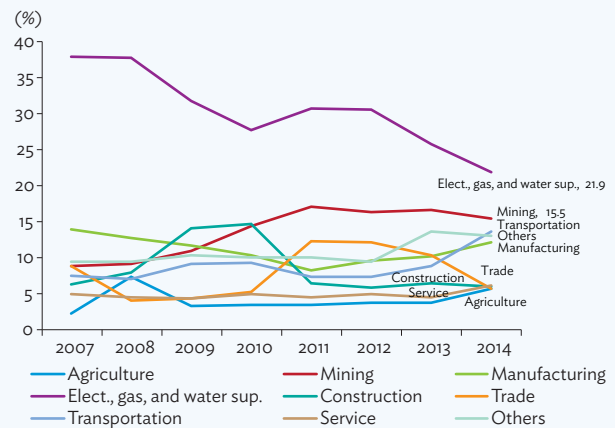
Sources: Annual Report Finance Companies 2011. Bapepam-LK; Statistic 2012 and Directory 2013 Financing Institution, and updates. OJK.

Figure 4.111: Number of Finance Companies



Sources: Annual Report Finance Companies 2011. Bapepam-LK; Statistic 2012 and Directory 2013 Financing Institution, and updates. OJK.

Figure 4.113: Leasing by Sector



Note: percentage share.

Sources: Annual Report Finance Companies 2011. Bapepam-LK; Statistic 2012 and Directory 2013 Financing Institution, and updates. OJK.

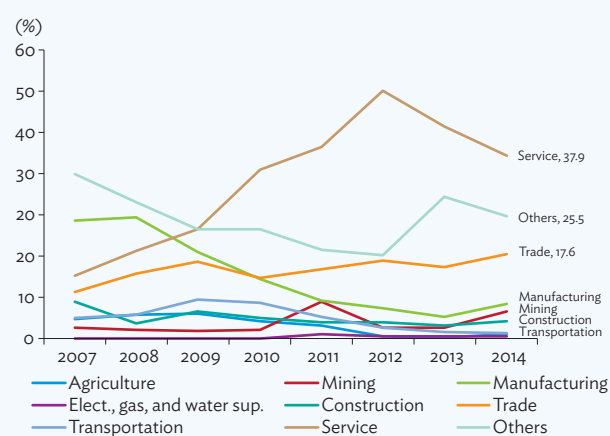


Factoring, a type of short-term accounts receivable finance, is mainly utilized in the service sector, accounting for 37.9% of total factored receivables in 2014, followed by trade (17.6%) (Figure 4.114). However, factoring business is not active in the country, standing at a 2.6% share of the total financing receivables of finance companies.

The ratio of nonperforming financing to total financing receivables, which is calculated based on bad debts only, was 0.5% in 2014, slightly increasing from 0.4% in 2013 (Figure 4.115). If this included “doubtful debts”, the nonperforming financing ratio for the same period was 1.4%, a decrease from 1.6% in 2013.

Venture capital companies are another source of funding for SMEs and start-ups. Their business activities include equity participation, participation through purchasing convertible bonds, and profit-share financing. The venture capital industry has been growing in Indonesia, although it is quite small in scale. The total financing and capital investment amounted to Rp5.8 trillion in 2013, a 33.1% increase from 2012. Profit-share financing and investment accounted for 66.5% of the total financing and capital investment by venture capital companies in 2013.

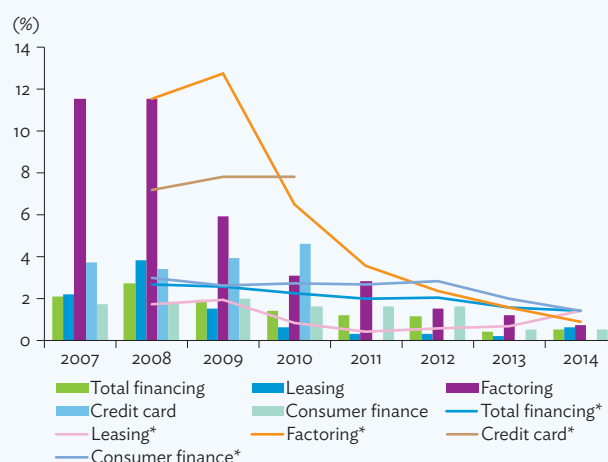
Figure 4.114: Factoring by Sector



Note: percentage share.

Sources: Annual Report Finance Companies 2011. Bapepam-LK; Statistic 2012 and Directory 2013 Financing Institution, and updates. OJK.

Figure 4.115: Nonperforming Financing Ratio



Notes: bar chart: based on bad debts; \*line: based on doubtful + bad debts.

Sources: Annual Report Finance Companies 2011. Bapepam-LK; Statistic 2012 and Directory 2013 Financing Institution, and updates. OJK.

## Capital Markets

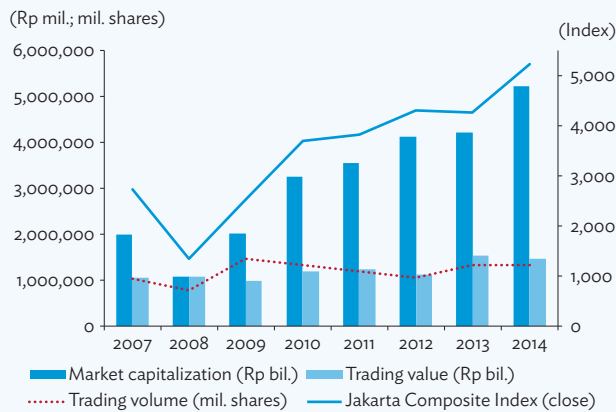
The capital market in Indonesia has been steadily growing, with a smooth political transition of government in October 2014. The Jakarta Composite Index (close) reached 5,227 as of the end of 2014, with 506 listed companies and market capitalization of Rp5,228 trillion in equity markets (Figure 4.116, Figure 4.117, and Table 4.61). The corporate bond market has also continuously grown, with 102 listed issuers as of the end of 2014 (Figure 4.118).

Although there is no dedicated stock exchange for SMEs established in Indonesia, SMEs enjoy preferential treatment when tapping the stock exchange market. The OJK, as the regulator of capital markets effective from December 2012, provides concessional listing rules for potential SME issuers; e.g., SMEs have no obligation to publish a summary prospectus, and are required to disclose 2-year financial statements in the prospectus (3-year financial statements are required for non-SMEs).

In the context of capital markets, a legal entity established in Indonesia with assets of not more than Rp100 billion and not affiliated or controlled by a

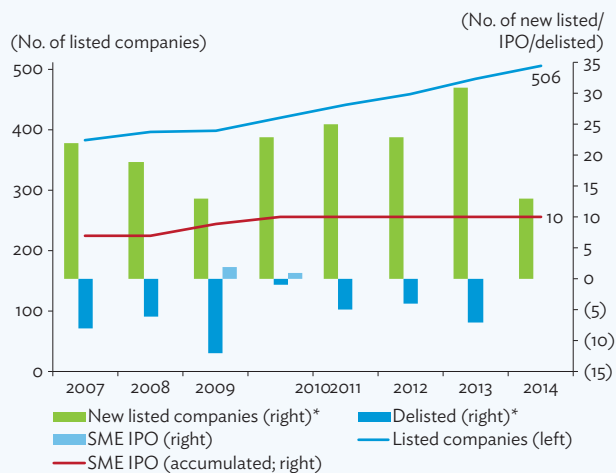


**Figure 4.116: Market Performance—Indonesia Stock Exchange**



Sources: IDX Statistics 2014, and update by OJK.

**Figure 4.117: Listed Companies—Indonesia Stock Exchange**



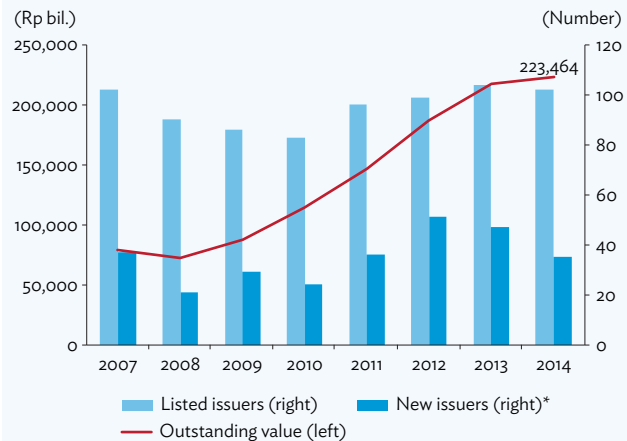
\* data as of 27 October 2014.

IPO = initial public offering, SME = small and medim-sized enterprise  
Sources: IDX Statistics 2014, and update by OJK.

non-SME is regarded as an SME, which is a different definition from the one stipulated in the MSME Law (Bapepam-LK Rule No.IX.C.7 on Guideline of Format and Content of Registration Statement for SME Public Offering).

Only 10 SMEs have conducted initial public offerings (IPOs) on the Indonesia Stock Exchange, and this number has not changed since 2010.

**Figure 4.118: Local Currency Corporate Bonds on Indonesia Stock Exchange**



\* data as of 27 October 2014.

Sources: IDX Statistics 2014, and update by OJK.

## Policy and Regulation

Financial inclusion continued to be a policy priority for the new Government of Indonesia, which took office in October 2014. Forthcoming regional economic integration, i.e., the ASEAN Economic Community in 2015, and strengthened risk-based supervision of the banking sector, through Basel III, require new financing solutions for businesses, especially for MSMEs, with a holistic regulatory and supervisory approach.

The OJK is leading the integrated supervision of the financial sector in the country. After the OJK Law was enacted in November 2011, the OJK started supervising capital markets and NBFIs in December 2012, absorbed the banking supervisory function of Bank Indonesia in December 2013, and added the supervisory function over MFIs in January 2015. This made the OJK an integrated financial regulator.

In 2013, the OJK conducted the Financial Literacy Survey,<sup>96</sup> and extracted three key factors that should be considered to develop the financial sector in the

<sup>96</sup> According to the Financial Literacy National Survey in 2013, the level of literacy for financial products and services indicated 22% of the surveyed samples in the banking sector, 15% in the pawnshop, and 4% in the capital markets. The utilization of financial products and services was 57% of the surveyed samples in the banking sector, 5% in the pawnshop, and 0.1% in the capital markets.

country: (i) growing financing needs for business, given that a revitalized manufacturing industry, with improved business climate, encourages national productivity; (ii) growing the middle-class population, with its continuous demographic bonus, and (iii) addressing low levels of financial literacy, where improved financial literacy will boost demand for financial products and services. This suggests that diversified financing models, besides traditional bank lending, are needed to meet new demands from businesses, especially MSMEs, and to help the country escape the middle-income trap, by addressing start-up and early-stage firm financing. To this end, the government is required to line up policy options to develop and facilitate diversified financing models serving the MSME demands, combined with encouraging financial literacy for all.

The government of Indonesia announced the National Strategy for Financial Inclusion (NSFI) in 2012, aiming to promote poverty reduction, economic growth, and financial stability. This can be achieved by enhancing access to finance for all, especially addressing the “unbanked” including poor people and MSMEs. The NSFI has been developed with six pillars of policy direction: (i) financial education, (ii) public financial facility, (iii) mapping of financial information, (iv) supporting related regulations and policies, (v) intermediation/distribution policy, and (vi) customer protection.

In order to promote broader financial inclusion, the development has been considered as the commitment of all stakeholders, including Bank Indonesia, which declared a commitment of Maya Declaration in 2011 (the Alliance for Financial Inclusion [AFI] network commitment to financial inclusion) to significantly expand access to finance for the unbanked population in Indonesia, through the development and implementation of breakthrough initiatives, under the framework of NSFI.

Bank Indonesia has begun to propose and implement financial inclusion programs to provide wider access to financial services for the unbanked, including MSMEs. This includes the development of the Digital Financial Services, a campaign of the Indonesia Saving Movement, and financial education for the society. In 2014, Bank Indonesia issued the regulation on the Digital Financial Services as financial and payment services that are delivered and managed using mobile or web technologies and a network of agents.

In 2014, Bank Indonesia initiated a program to promote financial transaction recording for micro and small enterprises, in cooperation with related ministries and the Indonesia Accountants Association. The program started by setting up guidance on financial transaction recording and training modules for micro and small enterprises. The implementation of these will continue into 2015.

The OJK is making efforts to promote financial inclusion with three strategic pillars. The first is to expand financial services to all economic societies, promoting the branchless banking framework, intensifying micro-insurance programs, and broadening the investment opportunity to capital markets. The second pillar is to increase the role of the financial sector in catalyzing regional economic activities, by revitalizing regional commercial banks and improving regulatory frameworks for rural banks and MFIs. The third pillar is to improve financial education and inclusion, continuously providing financial education programs, by targeting students, professionals, and low-income families.

The OJK has also attached importance to strengthening the role of NBFIs in supporting inclusive national growth, promoting the number of regional credit guarantee institutions, strengthening the capacity of the reinsurance industry, and optimizing the role of the venture capital industry as an initial risk capital provider for SMEs and start-ups. Promoting green finance and Islamic finance is also a continuous focus for the OJK.

Table 4.58: MSME Landscape

Item	2007	2008	2009	2010	2011	2012	2013
<b>Number of MSMEs</b>							
MSMEs (number)	50,145,800	51,409,612	52,764,603	53,823,732	55,206,444	56,534,592	57,895,721
MSMEs to total (%)	99.9	99.9	99.9	99.9	99.9	99.9	99.9
MSME growth (%)	2.3	2.5	2.6	2.0	2.6	2.4	2.4
By sector (% to MSMEs)							
Primary industry*	52.6	51.0	50.0	49.6	48.8	...	...
Trade**	27.9	28.8	29.4	29.6	28.8	...	...
Service	6.0	6.2	6.3	6.4	6.9	...	...
Transportation	5.5	6.2	6.5	6.5	6.9	...	...
Manufacturing	6.3	6.3	6.2	6.4	6.4	...	...
Others	1.5	1.5	1.6	1.6	2.1	...	...
<b>Employment by MSMEs</b>							
MSME employees (people)	90,491,930	94,024,278	96,211,332	99,401,775	101,722,458	107,657,509	114,144,082
MSME employees to total (%)	97.3	97.2	97.3	97.2	97.2	97.2	97.0
MSME employees growth (%)	2.9	3.9	2.3	3.3	2.3	5.8	6.0
By sector (% to MSME employees)							
Primary industry*	46.7	44.9	44.2	43.0	42.4	...	...
Trade**	21.4	21.9	22.6	22.9	21.7	...	...
Service	8.3	9.4	9.7	10.5	10.5	...	...
Transportation	6.1	6.3	6.1	6.2	6.9	...	...
Manufacturing	11.6	11.5	11.5	11.5	11.7	...	...
Others	5.9	6.0	5.9	5.9	6.8	...	...
<b>MSME Contribution to GDP</b>							
Nominal GDP of MSMEs (Rp bil.)	2,107,868	2,613,226	2,993,152	3,466,393	4,303,572	4,869,568	5,714,574
MSME contribution to GDP (%)	56.3	55.7	56.5	57.1	57.9	59.1	60.3
Growth (%)	18.2	24.0	14.5	15.8	24.2	13.2	17.4
By sector (% to MSME GDP)							
Primary industry*	24.4	26.1	27.4	27.8	23.5	...	...
Trade**	27.1	25.5	24.2	24.4	26.7	...	...
Service	17.9	17.0	16.5	16.4	16.8	...	...
Transportation	6.4	5.9	5.5	5.5	5.1	...	...
Manufacturing	16.2	16.7	16.4	16.4	18.3	...	...
Others	8.0	8.8	9.9	9.6	9.6	...	...
<b>MSME Exports</b>							
MSME exports (Rp bil.)	140,364	178,008	162,255	175,895	187,442	166,627	182,113
MSMEs to total exports (%)	17.7	18.1	17.0	15.8	16.4	14.1	15.7
MSME export growth (%)	13.4	26.8	(8.9)	8.4	6.6	(11.1)	9.3
By sector (% to MSME exports)							
Manufacturing	88.9	88.7	88.8	88.3	88.7	...	...
Primary industry	10.3	10.4	10.3	10.8	10.4	...	...
Mining	0.7	0.9	0.9	1.0	0.9	...	...

GDP = gross domestic product; MSME = micro, small, and medium-sized enterprise.

Note: In 2012 and 2013, the Ministry of Cooperatives and SMEs did not conduct the survey by sector. Only aggregate data are available.

\* Primary industry includes agriculture, forestry, and fisheries.

\*\* Trade includes wholesale and retail trade and the hotel and restaurant sectors.

Source: Ministry of Cooperatives and SMEs.

Table 4.59: Banking Sector—MSME Loans

Item	2011	2012	2013	2014
<b>Loans Outstanding—CBs</b>				
MSME loans to GDP (%)	6.2	6.4	6.7	7.2
MSME loans to total loans (%)	20.8	19.4	18.5	19.7
MSME loans (Rp bil.)	458,164	526,397	608,823	731,819
Growth (%)	...	14.9	15.7	20.2
Total loans (Rp bil.)	2,200,094	2,707,862	3,292,874	3,706,501
Growth (%)	...	23.1	21.6	12.6
<b>Type of MSME Loans - CBs (% share)</b>				
Working capital	77.7	76.6	72.9	72.5
Investment capital	22.3	23.4	27.1	27.5
<b>MSME Loans by Sector (% share)</b>				
Primary industry	6.5	8.3	8.5	8.4
Mining	0.9	1.0	0.8	0.9
Manufacturing	11.4	11.3	9.9	9.9
Electricity, gas, and water supply	0.3	0.3	0.3	0.6
Construction	5.3	5.8	6.4	6.3
Trade	46.4	49.9	56.0	53.6
Transportation	4.0	3.9	4.0	4.1
Service	13.9	13.9	14.0	15.6
Others	11.4	5.6	0.1	0.6
<b>Nonperforming Loans (NPLs)</b>				
MSME NPLs (Rp bil.)	15,674	17,011	19,515	29,040
Gross NPLs (Rp bil.)	47,695	50,595	58,279	79,481
MSME NPLs to MSME loans (%)	3.4	3.2	3.2	4.0
MSME NPLs to total loans (%)	0.7	0.6	0.6	0.8
Gross NPLs to total loans (%)	2.2	1.9	1.8	2.1
<b>Credit Guarantees—KUR</b>				
Guaranteed loans disbursed (Rp bil.)	29,003	34,230	40,047	41,149
Accumulated guaranteed loans disbursed (Rp bil.)	63,421	97,651	137,698	178,847
Number of debtors	1,909,912	1,962,121	2,347,429	2,443,907
Accumulated number of debtors	5,722,470	7,684,591	10,032,020	12,475,927

CB = commercial bank; MSME = micro, small, and medium-sized enterprise; KUR = People's Business Credit; NPL = nonperforming loan.

Notes: Since January 2011, MSME credits are calculated based on fair value. MSME loans outstanding in 2014 have included MSME loans from sharia banks since September 2014.

Source: Bank Indonesia.

Table 4.60: Nonbank Sector

Item	2007	2008	2009	2010	2011	2012	2013	2014
No. of finance companies	217	212	198	192	195	200	202	201
No. of new licenses	3	2	2	7	4	9	4	3
No. of revocations	...	7	16	13	1	4	2	4
<b>Financing Receivables</b>								
Total financing (Rp bil.)	107,686	137,237	142,539	186,354	245,300	302,079	348,026	366,205
Leasing (Rp bil.)	36,482	50,680	46,528	53,167	76,592	105,088	117,363	110,951
Factoring (Rp bil.)	2,200	2,221	2,027	2,295	3,915	5,148	7,691	9,419
Credit card (Rp bil.)	1,442	1,145	930	876	2	2	4	29
Consumer finance (Rp bil.)	67,562	83,191	93,054	130,016	164,791	191,841	222,968	245,805
Leasing (% share)	33.9	36.9	32.6	28.5	31.2	34.8	33.7	30.3
Factoring (% share)	2.0	1.6	1.4	1.2	1.6	1.7	2.2	2.6
Credit card (% share)	1.3	0.8	0.7	0.5	0.0	0.0	0.0	0.0
Consumer finance (% share)	62.7	60.6	65.3	69.8	67.2	63.5	64.1	67.1
<b>Leasing by Sector (% share)</b>								
Agriculture	2.3	7.4	3.3	3.4	3.4	3.7	3.8	5.7
Mining	8.9	9.2	11.0	14.4	17.1	16.4	16.6	15.5
Manufacturing	13.9	12.8	11.7	10.4	8.2	9.6	10.2	12.2
Electricity, gas, and water supply	37.8	37.7	31.7	27.7	30.7	30.5	25.7	21.9
Construction	6.3	8.0	14.1	14.7	6.4	5.8	6.4	6.1
Trade	8.9	4.0	4.4	5.2	12.3	12.1	10.3	5.7
Transportation	7.5	7.0	9.1	9.3	7.3	7.4	8.9	13.6
Service	4.9	4.5	4.3	4.9	4.5	5.0	4.5	6.2
Others	9.5	9.4	10.4	10.0	10.1	9.5	13.6	13.0
<b>Factoring by Sector (% share)</b>								
Agriculture	4.0	4.9	5.2	3.7	2.8	0.4	0.3	1.0
Mining	2.4	1.9	1.7	1.9	7.6	2.2	2.4	5.6
Manufacturing	24.6	25.1	17.9	12.3	7.8	6.4	4.5	7.3
Electricity, gas, and water supply	0.0	0.0	0.0	0.0	1.0	0.4	0.4	0.4
Construction	7.7	3.1	5.7	4.4	3.5	3.4	2.8	3.6
Trade	9.7	13.5	15.9	12.6	14.5	16.2	14.8	17.6
Transportation	4.3	5.0	8.2	7.4	4.6	2.3	1.3	1.1
Service	13.1	18.2	22.7	35.1	39.7	51.3	44.0	37.9
Others	34.2	28.3	22.7	22.6	18.5	17.4	29.4	25.5
<b>Nonperforming Financing Ratio*</b>								
Total financing (%)	2.1	2.7	1.9	1.4	1.2	1.1	0.4	0.5
	...	2.7	2.6	2.3	2.0	2.0	1.6	1.4
Leasing (%)	2.2	3.8	1.5	0.6	0.3	0.3	0.2	0.6
	...	1.8	1.9	0.9	0.5	0.6	0.7	1.4
Factoring (%)	11.5	11.5	5.9	3.1	2.8	1.5	1.2	0.7
	...	11.5	12.7	6.5	3.6	2.4	1.6	0.9
Credit card (%)	3.7	3.4	3.9	4.6	0.0	0.0	0.0	0.0
	...	7.2	7.8	7.8	0.0	0.0	0.0	0.0
Consumer finance (%)	1.7	1.8	2.0	1.6	1.6	1.6	0.5	0.5
	...	3.0	2.6	2.7	2.7	2.8	2.0	1.4

\*upper row: based on bad debts; lower row: based on doubtful + bad debts.

Sources: Annual Report Finance Companies 2011. Bapepam-LK; Statistic 2012 and Directory 2013 Financing Institution, and updates. OJK.

Table 4.61: Capital Markets—Indonesia Stock Exchange

Item	2007	2008	2009	2010	2011	2012	2013	2014
<b>Equity</b>								
Jakarta Composite Index (close)	2,746	1,355	2,534	3,704	3,822	4,317	4,274	5,227
Market capitalization (Rp bil.)	1,988,326	1,076,491	2,019,375	3,247,097	3,537,294	4,126,995	4,219,020	5,228,043
Trading value (Rp bil.)	1,050,154	1,064,528	975,135	1,176,237	1,223,441	1,116,113	1,522,122	1,453,392
Trading volume (mil. shares)	1,039,542	787,846	1,467,659	1,330,865	1,203,550	1,053,762	1,342,657	1,327,016
Listed companies	383	396	398	420	440	459	483	506
New listed companies*	22	19	13	23	25	23	31	13
Delisted*	8	6	12	1	5	4	7	0
SME IPO	0	0	2	1	0	0	0	0
SME IPO (accumulated)	7	7	9	10	10	10	10	10
<b>Corporate Bonds</b>								
Outstanding value (Rp bil.)	79,065	73,010	88,452	114,817	146,969	187,461	218,220	223,464
Listed issuers	102	90	86	83	96	99	104	102
New issuers*	37	21	29	24	36	51	47	35

IPO = initial public offering, SME = small and medium-sized enterprise.

\* data as of 27 October 2014.

Sources: IDX Statistics 2014, and update by OJK.

Table 4.62: SME Policy and Regulation

Regulations		
Name		Outline
Law No.20/2008 on Micro, Small and Medium-sized Enterprises		MSME definition and the government obligation to promote the MSME sector
Law No.7/1992 and Law No.10/1998 (amendment) on Banking		Regulation on banks
Bank Indonesia Regulation No.14/22/PBI/2012 on Financing and Technical Assistance by Commercial Banks in Developing MSMEs		Mandatory bank lending to SMEs: 20% of banks' portfolios by 2018
Presidential Decree No.2/2008 on Guarantee Institutions		Regulation on credit guarantee and reguarantee institutions
Ministry of Finance Regulation No.222/2008 and No.99/2011 on Guarantee Institutions and Reguarantee Institutions		Regulation on credit guarantee and reguarantee institutions
OJK Regulation No.5/2014 on the Business Licensing in Guarantee Corporation		Regulation on guarantee institutions
OJK Regulation No.6/2014 on the Implementation of Guarantee Corporation		Regulation on guarantee institutions
OJK Regulation No.7/2014 on the Inspection of Guarantee Corporation		Regulation on guarantee institutions
Law No.1/2013 on Microfinance Institutions		Regulation on microfinance institutions (MFIs)
Government Regulation No.89/2014 on Loan Interest Rate or Yield of Financing and MFI's Business Coverage		Regulation on MFIs
OJK Regulation No.12/POJK.05/2014 on Business Licensing and Institutional Matters of MFIs		Regulation on MFIs
OJK Regulation No.13/POJK.05/2014 on Business Management of MFIs		Regulation on MFIs
OJK Regulation No.14/POJK.05/2014 on Fostering and Supervision of MFIs		Regulation on MFIs
Presidential Regulation No.9/2009 on Financing Institutions		Regulation on nonbank financial institutions (NBFIs)
Law No.17/2012 on Cooperatives		Regulation on cooperatives
Law No.8/1995 on Capital Market		Regulation on capital markets
Regulators and Policymakers		
Name		Responsibility
Bank Indonesia (BI)		SME access to finance and financial inclusion policies
Coordinating Ministry of Economic Affairs		Responsible for managing the KUR program
Ministry of Cooperatives and SMEs (MCSME)		Regulate and supervise credit cooperatives
Financial Services Authority (OJK; Otoritas Jasa Keuangan)		Regulate and supervise banks, NBFIs and capital markets. *Established in 2012 based on Bapepam-LK (Capital Market and Financial Institution Supervisory Agency, Ministry of Finance) and bank regulatory and supervisory function of BI.
National Team for the Acceleration of Poverty Reduction, Office of the Vice-President (TNP2K)		Financial inclusion policies and strategies
Policies		
Name	Responsible Entity	Outline
MSME Development Action Plan 2005–2009 (2005)	MCSME	Increase MSME productivity, employment, export, contribution to GDP, entrepreneurship, etc.
Instruction of the President of the Republic of Indonesia No.6/2007 and No.5/2008 (New Economic Policy Package I & II)	Government	A comprehensive economic policy package prepared by all economic ministries/agencies [Strengthening the MSME sector] (extract) 1) Access to finance (strengthening revolving fund, credit guarantee institutions, MFIs, effective implementation of KUR, development of financing schemes for MSMEs, shariah product development, etc.) 2) Access to market 3) Capacity development of human resources 4) Deregulation
Joint Decree on MFI Promotion Strategy (2009)	BI MCSME MOF MOHA	1) Database on informal MFIs 2) Formalization of informal MFIs 3) Human resource development 4) Strengthening supervision 5) Support for formalized MFIs
The Capital Market and Non Bank Financial Industry Master Plan 2010–2014 (2010)	MOF	1) Easily accessible, efficient, and competitive source of funds (a) reducing constraints on business communities to access capital market for source of funds (b) increasing public accessibility to finance and guarantee institutions (c) improving the role of professionals, supporting institutions, and underwriters in public offering 2) Conducive and attractive investment climate as well as reliable risk management 3) A stable, resilient, and liquid industry 4) Fair and transparent regulatory framework which guarantees legal certainty
National Strategy for Financial Inclusion (2012)	Government	Increase public access to financial services among all layers of the population Target groups: 1) Low-income poor 2) Working poor/MSMEs 3) Near poor

KUR = People's Business Credit; MCSME = Ministry of Cooperatives and SMEs; MFI = microfinance institution; MOF = Ministry of Finance (Capital Market and Financial Institution Supervisory Agency [Bapepam-LK]); MOHA = Ministry of Home Affairs; MSME = micro, small, and medium-sized enterprise; NBFIs = nonbank financial institution.

Sources: Bank Indonesia; Ministry of Cooperatives and SMEs; OJK.

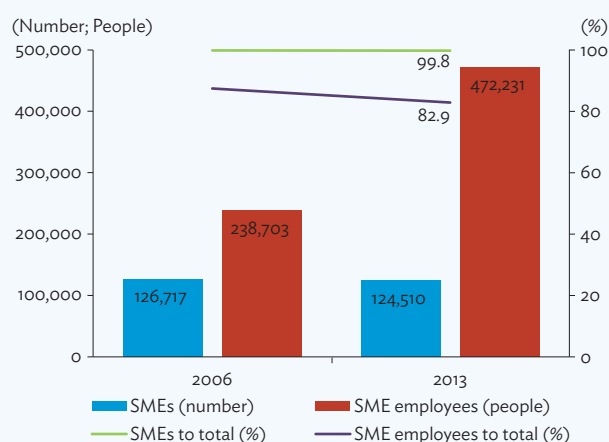


# Lao People's Democratic Republic

## SME Landscape

Small and medium-sized enterprises (SMEs) have been underpinning the steady growth of the Lao People's Democratic Republic's (Lao PDR) economy. SME statistics are available only in 2006 and 2013 because the data are based on the national economic census. As compared between 2006 and 2013, the number of SMEs decreased by 1.7% to a total of 124,510 in 2013, while employment by SMEs almost doubled from 238,703 workers in 2006 to 472,231 workers in 2013 (Figure 4.119 and Table 4.63). The composition of SMEs did not change between 2006 and 2013, accounting for 99.8% of total enterprises in both periods. Meanwhile, SME employees represented 82.9% of total employees in 2013, a slightly decrease from 87.4% in 2006.

**Figure 4.119: Number of SMEs and Employment by SMEs**



SME = small and medium-sized enterprise.

Notes: SMEs refer to enterprises having fewer than 100 employees. Employment data are based on permanent Lao labors, except for temporary employees and foreign labors.

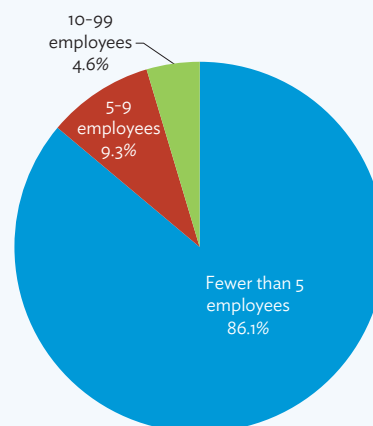
Source: Ministry of Industry and Commerce.

By size, firms with fewer than five employees dominated the SME sector, accounting for 86.1% of total number of SMEs in 2013, followed by those with 5–9 employees (9.3%) and those with 10–99 employees (4.6%) in the same period (Figure 4.120).

By business sector, the wholesale and retail trade (including repair business) accounted for the majority of SMEs, at 64.5% in 2006 and at 62.9% in 2013. SMEs in manufacturing diminished from 19.1% in 2006 to 12.4% in 2013. Meanwhile, SMEs in the service sector increased from 7.8% in 2006 to 18.3% in 2013 (Figure 4.121).

Similar proportions were seen in employment by SMEs. The wholesale and retail trade sector contributed 50.4% of employment by SMEs in 2013, a slight decrease from 51.1% in 2006. Employment by SMEs in manufacturing

**Figure 4.120: SMEs by Size, 2013**



SME = small and medium-sized enterprise.

Note: SMEs refer to enterprises having fewer than 100 employees.

Source: Ministry of Industry and Commerce.

Figure 4.121: SMEs by Sector

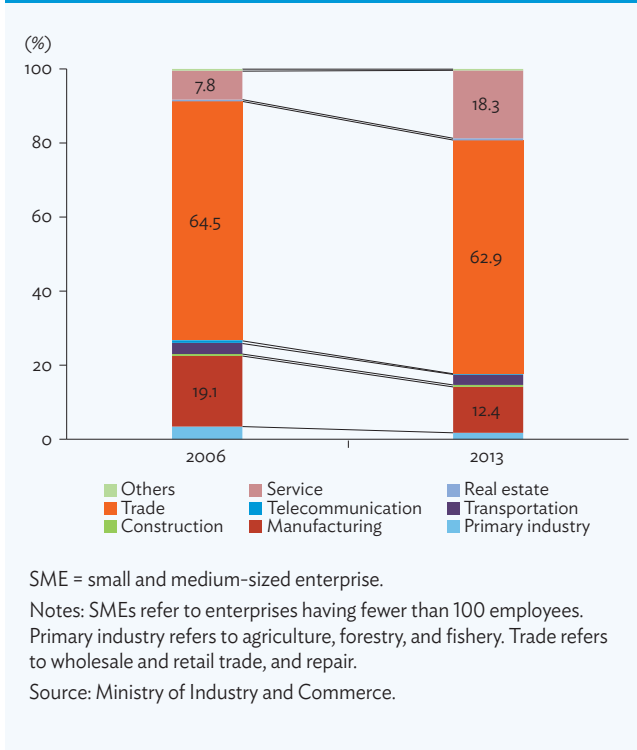
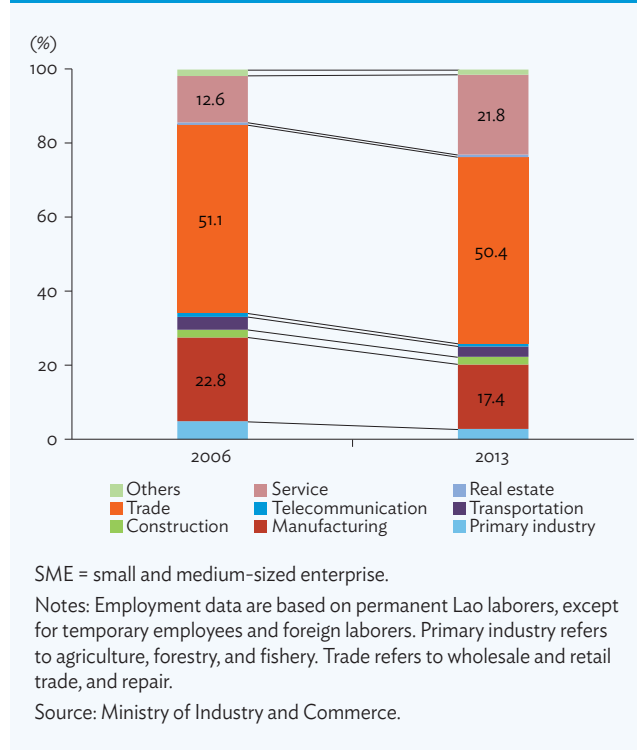


Figure 4.122: SME Employment by Sector



decreased from 22.8% in 2006 to 17.4% in 2013, while employment by the service sector increased from 12.6% in 2006 to 21.8% in 2013 (Figure 4.122).

The definition of SMEs is stipulated in the Decree No.42/PM/2004 on the Promotion and Development of SMEs. Firms having fewer than 20 employees (annual average) or total assets not exceeding K250 million or annual turnover not exceeding K400 million are categorized as small enterprises. Firms having fewer than 100 employees (but more than 20) or total assets not exceeding K1,200 million (but more than K250 million) or annual turnover not exceeding K1,000 million (but more than K400 million) are classified as medium-sized enterprises.

The new SME definition was set up under the Law No.011/NA/2011 on SME Promotion as independent enterprises that are legally registered and operated, and classified into size categories according to business sector, employment size, total assets, and annual turnover basis, but with no numeric criteria. Accordingly, the government authorities, for practical purposes, use the SME definition stipulated on the decree No.42/PM/2004.

## Banking Sector

The banking sector in Lao PDR comprises: (i) the Bank of the Lao PDR as the country's central bank; (ii) 3 state-owned commercial banks (Agricultural Promotion Bank, Banque pour le Commerce Exterieur Lao Public, and Lao Development Bank); (iii) 3 joint venture commercial banks (Banque Franco-Lao, Lao-China Bank, and Lao-Viet Bank); (iv) 7 private banks (Booyong Lao Bank, Indochina Bank, Joint Development Bank, Lao Construction Bank, Maruhan Japan Bank Lao, Phongsavanh Bank, and ST Bank), (v) 5 subsidiary banks (ACLEDA Bank Lao, ANZ Lao Bank, International Commercial Bank, Kasikornthai Bank, and RHB Bank Lao); and (vi) 20 foreign bank branches. In addition, the Nayoby Bank, a special state-owned bank, operates on a nonprofit basis for the purpose of supporting poverty reduction in line with government policies.

The Bank of the Lao PDR regulates and supervises both banks and nonbank financial institutions, and also operates an online Credit Information Bureau, which began operating in November 2010. Movable assets (such as goods in a warehouse), receivables, and intellectual property registered under the Law on

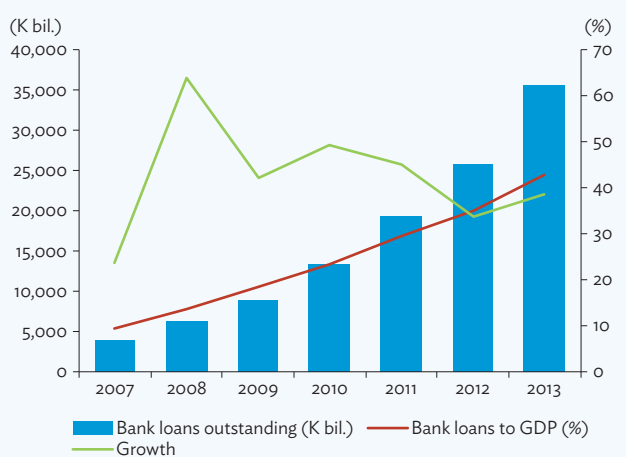
Secured Transactions (enacted in 1994 and revised in 2005)<sup>97</sup> can be utilized as collateral for loans.

In the Lao PDR, poor access to finance is a critical factor inhibiting SME development at the national level. Improving access to finance is always set as a target of the national SME development strategy and plan. To this end, the Lao Development Bank (a state-owned bank established in 2003) transformed into a bank focusing on lending to SMEs in 2008.

SME credit data are not publicly available in Lao PDR. The banking sector has shown robust growth, even after the 2008/09 global financial crisis, as reflected by the strong economic growth in the country. Loans outstanding by commercial banks amounted to K35,424 billion in 2013, an increase of more than 9 times the amount in 2007 (K3,797 billion), standing at 42.8% to gross domestic product in 2013 (Figure 4.123).

By business sector, commerce (wholesale and retail trade) accounted for 20.7% of total commercial bank loans outstanding in 2013, followed by construction at 20.5%, industry and handicraft (manufacturing) at 18.2%, and services at 11.7% (Figure 4.124). The annual

Figure 4.123: Bank Loans Outstanding

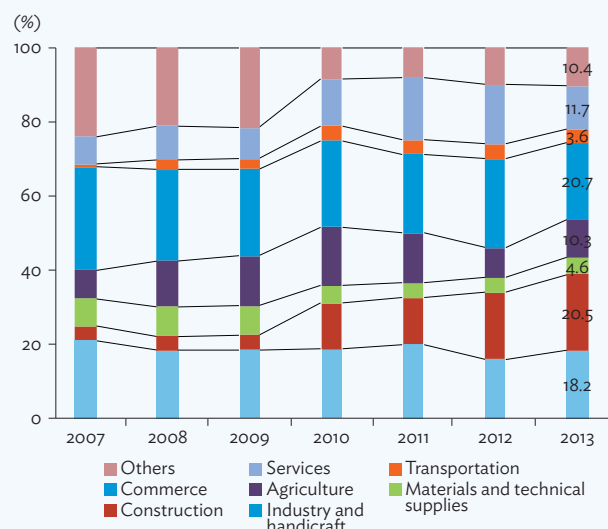


GDP = gross domestic product.

Sources: Annual Economic Report 2010 (data on 2007 and 2008) and Annual Economic Report 2013 (data on 2009–2013), Bank of the Lao PDR.

<sup>97</sup> Although the Law was enacted in 1994 and revised in 2005, the Decree on implementing the Secured Transaction Law was just approved in June 2011. Movable asset finance is expected to provide alternative financing option for SMEs but it is not popularly utilized for SME lending in reality.

Figure 4.124: Bank Loans by Sector



Note: Data as percentage share to total bank loans outstanding.

Sources: Annual Economic Report 2010 (data on 2007 and 2008) and Annual Economic Report 2013 (data on 2009–2013), Bank of the Lao PDR.

nominal lending rate was 8.44% for local currency loans, 8.38% for USD denominated loans, and 9.3% for Thai Baht denominated loans in 2013.

### Nonbank Sector

The nonbank finance sector is small in scale as compared to the banking sector in the Lao PDR, but it has been gradually growing. Nonbank financial institutions (NBFIs) mainly comprise microfinance institutions (MFIs), leasing companies, and pawnshops or money transfer shops.

Given that 80% of Lao people live in rural areas, microfinance is a critical financing tool to reach out low-income households and micro enterprises, especially in rural areas. The Government of the Lao PDR and the central bank support the microfinance sector for reducing poverty and improving the country's living standards. Although still in the infant stages of development, a total of 67 MFIs licensed by or registered in the central bank operate in the country, as of the end of 2014 (Figure 4.125 and Table 4.65). MFIs comprised licensed deposit-taking MFIs, registered non-deposit-taking MFIs, and licensed savings and credit unions.

**Figure 4.125: Number of Nonbank Financial Institutions**

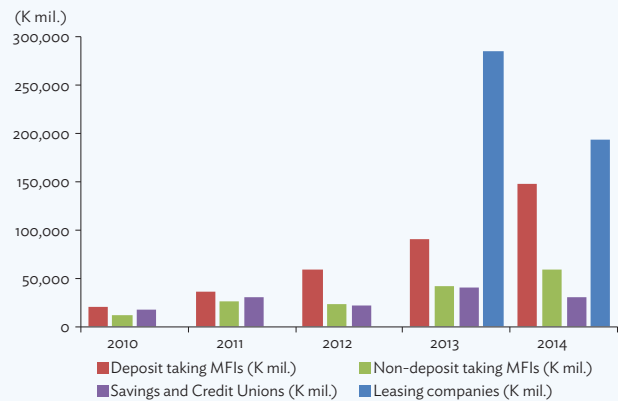


MFI = microfinance institution.

Note: Money transfer shops include pawnshops.

Source: Bank of the Lao PDR.

**Figure 4.126: Financing by Nonbank Financial Institutions**



MFI = microfinance institution.

Notes: Total financing for leasing companies. Total loans outstanding for MFIs.

Source: Bank of the Lao PDR.

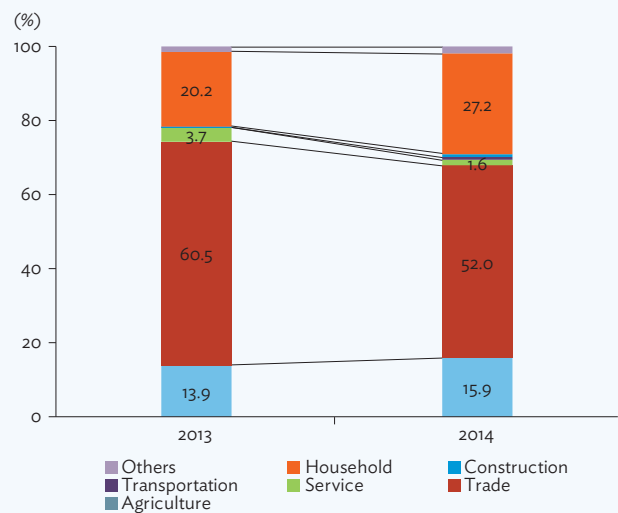
The total loans outstanding by MFIs amounted to K237.5 billion in 2014, a 36.8% increase from 2013, of which 62.3% were provided by licensed deposit-taking MFIs, 24.9% by registered non-deposit-taking MFIs, and 12.8% by licensed savings and credit unions (Figure 4.126). The ratio of nonperforming loans (NPLs) to total MFI loans was 5.7% in 2014, a decrease from 9.1% in 2013.

The total number of loan accounts held by MFIs (or the number of borrowers) showed an upward trend. There were 40,826 accounts in 2014, a 30.6% increase from 2013. Of these loan accounts, 60.5% were held by licensed deposit-taking MFIs, 27.7% by registered non-deposit-taking MFIs, and 11.9% by licensed savings and credit unions.

By business sector, borrowers in the wholesale and retail trade accounted for 52% of the total number of MFI loan accounts in 2014, followed by households (27.2%) and agriculture (15.9%) (Figure 4.127). People or enterprises in the service sector were a small group of MFI borrowers, accounting for only 1.6% of the total number of MFI loan accounts in 2014.

Leasing companies licensed by the central bank numbered 13 in 2014, two of which were licensed in

**Figure 4.127: Microfinance Institution Borrowers by Sector**



Note: Microfinance institution (MFI) borrowers refer to the number of loan accounts. Data as percentage share to total loan accounts.

Source: Bank of the Lao PDR.

2014. These companies generated total financing of K193.5 billion, a 32.2% decrease from 2013. In addition, 36 pawnshops or money transfer shops were licensed by the central bank in 2014, to provide remittance services.

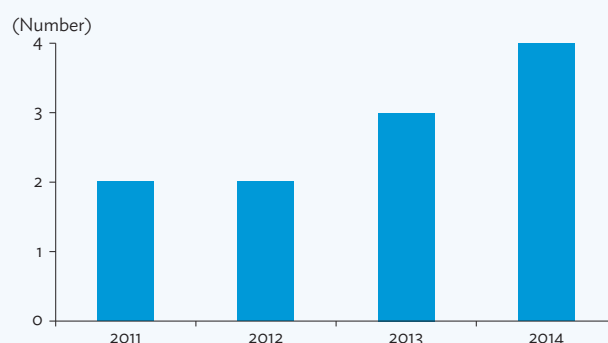
## Capital Markets

There is no dedicated stock exchange for SMEs in the Lao PDR. The securities market or the Lao Securities Exchange (LSX) was launched in October 2010 as a joint venture between the Bank of the Lao PDR (with a 51% share) and Korea Exchange (with a 49% share). The market opened with two listed companies and started trading in January 2011.

The LSX Composite Index (close) reached 1,414 as of the end of 2014, a 12.8% increase from the previous year, with four listed companies and market capitalization of K10,969 billion (Figure 4.128, Figure 4.129, and Table 4.66). Only stock trading is available on the exchange, and there is no corporate bond market. Annual trading value amounted to K156 billion with 26,846,066 shares in 2014.

The four companies listed on the LSX are EDL-Generation Public Company (electricity), Banque pour le Commerce Exterieur Lao Public (banking), Petroleum Trading Lao Public (oil), and the Lao International Trade Exhibition and Convention Center (service). These are all large enterprises, and two active stocks traded out of four were electricity and oil in 2014, with no space for SMEs to tap the equity market. Foreign investors accounted for 68.9% of total trading in 2014, with the remaining 31.1% done by local investors. The LSX and

Figure 4.129: Listed Companies—Lao Securities Exchange



Source: LSX Market Statistic Annual Report 2014. Lao Securities Exchange.

securities companies are regulated by the Lao Securities Commission.

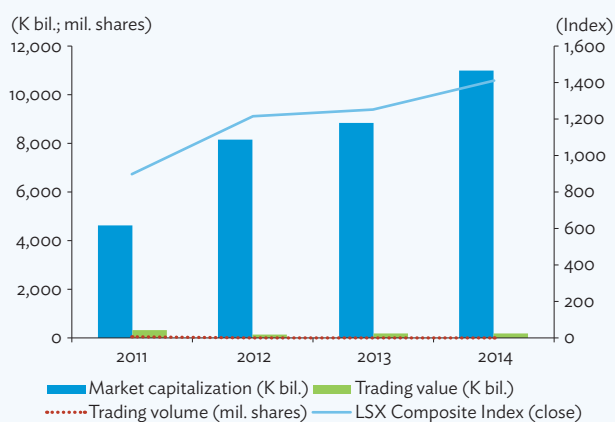
## Policy and Regulation

SME sector development is a key policy area to lay the foundations for an industrialized and modernized economy that leads to the sustainable economic growth for the Lao PDR. Laws on SME promotion are benchmark legal frameworks to this end. The Law No.42/PM/2004 on the Promotion and Development of SMEs, enacted in 2004, outlined six policy priorities for SME development in the country: (i) creating an enabling regulatory and administrative environment, (ii) enhancing competitiveness, (iii) expanding domestic and international markets, (iv) improving access to finance, (v) encouraging and creating favorable conditions for establishment of business member organizations, and (vi) enhancing entrepreneurial attitudes and characteristics within the society. Based on these six pillars, the government formulated a midterm implementation plan called the SME Development Strategy, 2006–2010.

As a major step in the pillar of access to finance, the state-owned Lao Development Bank converted its function to an SME bank in 2008.

The Law No.42/PM/2004 structured SME policymaking organizations at the national level as follows: (i) the National SME Promotion and Development Committee (SMEPDC) as an advisory group for the government's

Figure 4.128: Market Performance—Lao Securities Exchange



LSX = Lao Securities Exchange.

Source: LSX Market Statistic Annual Report 2014. Lao Securities Exchange.

SME promotion policies and programs, (ii) the National SME Promotion and Development Office (SMEPDO) as a secretariat of the SMEPDC, and (iii) the Standing Committee of the SMEPDC as a supervisor of SMEPDC's operations.

Since the government's administrative reforms in the middle of 2006, the structure of national SME policymaking has been changed. The Law No.011/NA/2011 on SME Promotion was enacted in December 2011, and provides the structure of SME promotion organizations: (i) the Ministry of Industry and Commerce (Department of SME Promotion) as a core body for national SME policies and strategies, (ii) provincial governments (Department of Industry and Commerce), municipalities, and districts (Industry and Commerce Office) as responsible entities for SME policy implementation at the local level, and (iii) business sectors (the National and Provincial Chamber of Industry and Commerce, associations, and business clusters); which promotes the public-private partnership for policymaking in the country. The SMEPDC was reorganized as the SME Promotion and Development Committee and National Productivity Council (SMEPDC), merging the National Productivity Council with the former SMEPDC.

The Law No.011/NA/2011 stipulated 13 SME promotion activities with a new SME definition (but no numeric criteria): (i) creating an enabling environment; (ii) access to finance; (iii) policy on customs and taxation; (iv) creating and developing entrepreneurs; (v) business development consultation; (vi) cooperation among SMEs, large firms, and foreign investment firms; (vii) increasing productivity; (viii) market access and expansion; (ix) business clustering; (x) allocating business locations; (xi) promoting advanced

technology utilization; (xii) using and protecting intellectual property; and (xiii) providing and accessing information. The Law No.011/NA/2011 also stipulated the establishment of the SME Promotion Fund to finance SME promotional activities in an effective and sustainable manner.

The second midterm implementation plan called the SME Development Plan 2011–2015 was launched to facilitate the readiness of SMEs for the Association of Southeast Asian Nations (ASEAN) Economic Community (AEC), to be launched in 2015 and to enhance SME contribution to the development of national economies. The SME development plan defines seven core policies for SME promotion: (i) improving the regulatory environment and public administration of economic activities, (ii) improving access to finance, (iii) formation of new entrepreneurs, (iv) increasing the provision of supports and business development services (BDS), (v) enhancing the business linkages between large firms and SMEs, (vi) promoting the increase of productivity for upgrading the quality and standard of products and services of SMEs, and (vii) enhancing access to markets and enlarging markets for SMEs.

The Bank of the Lao PDR promotes and supports the development of the rural and microfinance sectors in the country. In 2008, the Bank of the Lao PDR enacted three regulations on MFIs: (i) licensing of deposit-taking MFIs, (ii) registration of non-deposit-taking MFIs, and (iii) licensing of savings and credit unions. In 2012, the Government of the Lao PDR enacted the Decree No.460/G/2012 on Microfinance Institutions, to structure a comprehensive regulatory framework for deposit-taking and non-deposit-taking MFIs and microfinance projects.



Table 4.63: SME Landscape

Item	2006	2013
SMEs (number)*	126,717	124,510
Total enterprises (number)	126,913	124,808
SMEs to total (%)	99.8	99.8
SMEs by sector (% to total)		
Primary industry**	3.4	1.7
Manufacturing	19.1	12.4
Construction	0.5	0.5
Transportation	3.0	2.8
Telecommunication	0.7	0.3
Trade***	64.5	62.9
Real estate	0.5	0.6
Service	7.8	18.3
Others	0.5	0.4
SME employees (people)****	238,703	472,231
Total employees (people)****	273,126	569,912
SME employees to total (%)	87.4	82.9
SME employees by sector (% to total)		
Primary industry**	4.8	2.7
Manufacturing	22.8	17.4
Construction	1.9	2.0
Transportation	3.5	2.7
Telecommunication	1.0	0.8
Trade***	51.1	50.4
Real estate	0.6	0.6
Service	12.6	21.8
Others	1.7	1.4

SME = small and medium-sized enterprise.

\*based on enterprises having fewer than 100 employees. \*\*agriculture, forestry, and fishery.

\*\*\*wholesale and retail trade, and repair. \*\*\*\*based on permanent Lao labors, except for temporary employees and foreign labors.

Source: Ministry of Industry and Commerce.



Table 4.64: Banking Sector

Item	2007	2008	2009	2010	2011	2012	2013
<b>Loans Outstanding—Commercial Banks</b>							
Loans outstanding (K bil.)	3,797	6,214	8,831	13,170	19,106	25,566	35,424
Loans to GDP (%)	9.5	13.6	18.6	23.3	29.5	35.2	42.8
Growth (%)	23.7	63.7	42.1	49.1	45.1	33.8	38.6
<b>Loans by sector</b>							
Industry and handicraft (K bil.)	796	1,136	1,634	2,463	3,802	4,091	6,450
Construction (K bil.)	148	235	353	1,620	2,408	4,602	7,280
Materials and technical supplies (K bil.)	283	499	680	632	764	1,023	1,623
Agriculture (K bil.)	291	765	1,192	2,068	2,560	2,045	3,648
Commerce (K bil.)	1,050	1,533	2,075	3,082	4,069	6,136	7,325
Transportation (K bil.)	32	163	247	514	726	1,023	1,277
Services (K bil.)	278	568	733	1,659	3,229	4,091	4,147
Others (K bil.)	917	1,314	1,916	1,133	1,548	2,557	3,675
Industry and handicraft (% share)	21.0	18.3	18.5	18.7	19.9	16.0	18.2
Construction (% share)	3.9	3.8	4.0	12.3	12.6	18.0	20.5
Materials and technical supplies (% share)	7.5	8.0	7.7	4.8	4.0	4.0	4.6
Agriculture (% share)	7.7	12.3	13.5	15.7	13.4	8.0	10.3
Commerce (% share)	27.7	24.7	23.5	23.4	21.3	24.0	20.7
Transportation (% share)	0.9	2.6	2.8	3.9	3.8	4.0	3.6
Services (% share)	7.3	9.1	8.3	12.6	16.9	16.0	11.7
Others (% share)	24.2	21.1	21.7	8.6	8.1	10.0	10.4

GDP = gross domestic product.

Sources: Annual Economic Report 2010 (data on 2007 and 2008) and Annual Economic Report 2013 (data on 2009–2013), Bank of the Lao PDR.

Table 4.65: Nonbank Sector

Item	2009	2010	2011	2012	2013	2014
<b>Microfinance Institutions (MFIs)</b>						
No. of MFIs	...	30	42	54	60	67
Total loans Outstanding (K mil.)	...	49,209	93,042	103,110	173,620	237,477
Growth (%)	...	...	89.1	10.8	68.4	36.8
Deposit taking MFIs	...	20,218	36,555	58,406	91,031	148,029
Non-deposit taking MFIs	...	11,704	25,462	23,587	42,135	59,089
Savings and Credit Unions	...	17,287	31,025	21,117	40,454	30,359
Total loan accounts (No. of borrowers)	...	18,958	19,070	21,018	31,251	40,826
Growth (%)	...	...	0.6	10.2	48.7	30.6
Deposit-taking MFIs	...	6,971	8,974	11,994	15,529	24,686
Non-deposit taking MFIs	...	9,592	7,019	5,201	8,538	11,298
Savings and Credit Unions	...	2,395	3,077	3,823	7,184	4,842
<b>By sector (% share)</b>						
Agriculture	...	...	...	...	13.9	15.9
Trade	...	...	...	...	60.5	52.0
Service	...	...	...	...	3.7	1.6
Transportation	...	...	...	...	0.1	0.7
Construction	...	...	...	...	0.3	0.9
Household	...	...	...	...	20.2	27.2
Others	...	...	...	...	1.3	1.8
<b>Leasing companies</b>						
No. of companies	1	3	5	6	11	13
No. of new licenses	1	2	2	1	5	2
Total financing (K mil.)	...	...	...	...	285,445	193,511
Growth (%)	...	...	...	...	...	(32.2)
<b>Pawn shops and money transfer shops</b>						
No. of companies	...	...	...	30	35	36
No. of new licenses	...	...	...	3	5	1

Source: Bank of the Lao PDR.

Table 4.66: Equity Market—Lao Securities Exchange

Item	2011	2012	2013	2014
LSX Composite Index (close)	899	1,215	1,253	1,414
Market capitalization (K bil.)	4,638	8,137	8,827	10,969
Trading value (K bil.)	301	124	189	156
Trading volume ('000 shares)	40,016	23,026	26,241	26,846
Listed companies	2	2	3	4

LSX = Lao Securities Exchange.

Source: LSX Market Statistic Annual Report 2014. Lao Securities Exchange.

Table 4.67: SME Policy and Regulation

Regulations		
Name	Outline	
Decree No.42/PM/2004 on the Promotion and Development of Small and Medium sized Enterprises	SME definition (with numeric criteria), directions on SME promotion with action plans, establishment of the SME Promotion and Development Fund, and organizational arrangements stipulated.	
Law No.011/NA/2011 on Small and Medium sized Enterprises Promotion	New SME definition (but no numeric criteria) and SME promotion activities stipulated.	
Law No.05/NA/1995 on the Bank of the Lao PDR	Central bank's responsibility for regulating and supervising both banks and nonbank financial institutions stipulated.	
Law No.03/NA/2006 on Commercial Banks	Regulation on commercial banks	
Law No.06/NA/2005 on Secured Transactions	Security over movable and immovable properties, guarantees (personal or by legal entity), and registration of a security.	
Decree No.460/G/2012 on Microfinance Institutions	Government regulation on deposit and non-deposit taking microfinance institutions (MFIs) and microfinance projects.	
Regulation No.02/BOL/2008 for Non-Deposit Taking Microfinance Institutions	Central bank regulation on non-deposit taking MFIs.	
Regulation No.03/BOL/2008 for Savings and Credit Unions	Central bank regulation on savings and credit unions.	
Regulation No.04/BOL/2008 for Deposit Taking Microfinance Institutions	Central bank regulation on deposit taking MFIs.	
Law No.21/NA/2012 on Securities	Regulation on securities issuance.	
Regulators and Policymakers		
Name	Responsibility	
Bank of the Lao PDR (BOL)	Regulate and supervise banks and nonbank financial institutions (including finance companies, leasing companies, and MFIs).	
Ministry of Industry and Commerce (Department of SME Promotion)	Responsible for SME development policies, strategies, and promotion, at the national level.	
Department of Industry and Commerce of provinces, municipalities, and Industry and Commerce Office of districts	Responsible for SME policy implementation at the local level.	
SME Promotion and Development and National Productivity Committee (SMEPDC)	Serve as direct counsellors for the government on the different policies and measures on SME promotion and development, and supervise the implementation of the SME Development Plan 2011–2015.	
Securities and Exchange Commission	Regulate and supervise the securities market.	
Policies		
Name	Responsible Entity	Outline
SME Development Strategy 2006–2010	Government	<ol style="list-style-type: none"> <li>1) Creating an enabling regulatory and administrative environment</li> <li>2) Enhancing competitiveness</li> <li>3) Expanding domestic and international markets</li> <li>4) Improving access to finance</li> <li>5) Encouraging and creating favorable conditions for establishing business member organizations</li> <li>6) Enhancing entrepreneurial attitude and characteristics within the society</li> </ol>
SME Development Plan 2011–2015	Government	<ol style="list-style-type: none"> <li>1) Improving the regulatory environment and public administration of economic activities</li> <li>2) Improving access to finance</li> <li>3) Formation of new entrepreneurs</li> <li>4) Increasing the provision of supports and business development services (BDS)</li> <li>5) Enhancing the business linkages between large firms and SMEs</li> <li>6) Promoting the increase of productivity for upgrading the quality and standard of products and services of SMEs</li> <li>7) Enhancing access to markets and enlarging markets for SMEs</li> </ol>
SME Promotion Activities by Law (2011) (Article 13, Law No.011/NA/2011 on SME Promotion)	Government	<ol style="list-style-type: none"> <li>1) Creating an enabling environment</li> <li>2) Access to finance</li> <li>3) Policy on customs and taxation</li> <li>4) Creating and developing entrepreneurs</li> <li>5) Business development consultation</li> <li>6) Cooperation among SMEs, large firms, and foreign investment firms</li> <li>7) Increasing productivity</li> <li>8) Market access and expansion</li> <li>9) Business clustering</li> <li>10) Allocating business location</li> <li>11) Promoting advanced technology utilization</li> <li>12) Using and protecting intellectual property</li> <li>13) Providing and accessing information</li> </ol>

Sources: Bank of the Lao PDR, Ministry of Industry and Commerce (Department of SME Promotion), and SME Development Plan 2011–2015.

# Malaysia

## SME Landscape

The latest national statistics on micro, small, and medium-sized enterprises (MSMEs) in Malaysia were provided by the Economic Census 2011, released in September 2012. This census recorded a total of 645,136 MSMEs operating in Malaysia, representing 97.3% of all businesses in 2010. The census results showed that 93.1% of the enterprises were in the services sector, with 5.9% in the manufacturing sector and 3% in the construction sector. The agriculture sector and the mining and quarrying sector had small shares of total enterprises, 1% and 0.1%, respectively (Figure 4.130 and Table 4.68).

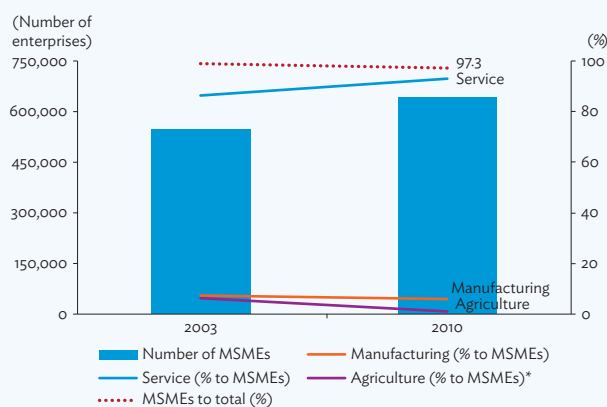
In 2013, MSMEs employed 5.1 million workers, a 6.3% increase from the previous year, which represented

57.5% of the total employees in the country. The majority of the workforce came from the service sector, which represented 66% of MSME employees, followed by the manufacturing sector (18.9%), construction sector (7.5%), agriculture sector (7.5%), and mining sector (0.12%) (Figure 4.131).

MSMEs in Malaysia contributed to 33.1% of GDP at RM260 billion in 2013, a 6.3% increase from the previous year (Figure 4.132).<sup>98</sup> In terms of the sector contribution to GDP, 62.1% of total MSME GDP in 2013 came from the service sector, 23.7% from the manufacturing sector, and 9.7% from the agriculture sector (Figure 4.133).

Due to many developments in the national economy, a review of the MSME definition was undertaken. A new definition of MSMEs has been effective since

Figure 4.130: Number of MSMEs

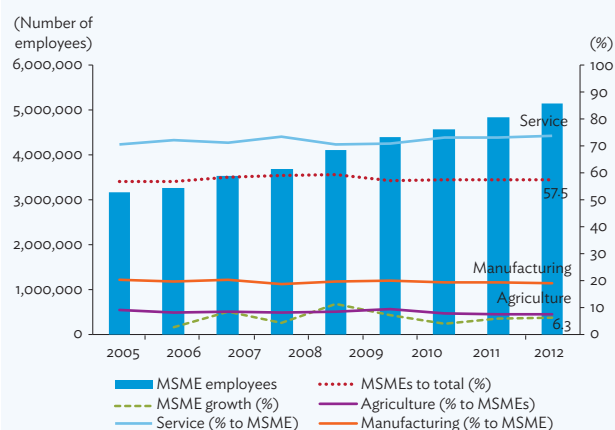


MSME = micro, small, and medium-sized enterprise.

Note: Service sector includes transportation and storage, wholesale and retail trade, telecommunication, construction, real estate, and mining and quarrying.

Sources: Census of Establishments and Enterprises 2005 and Economic Census 2011: Profile of SMEs, Department of Statistics Malaysia.

Figure 4.131: Employment by MSMEs



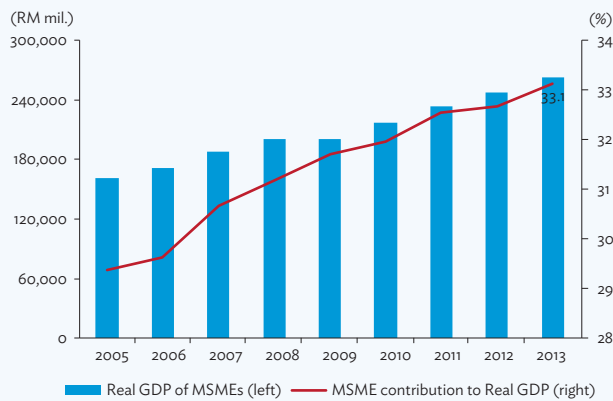
MSME = micro, small, and medium-sized enterprise.

Note: Service sector includes construction and mining and quarrying.

Sources: Census of Establishments and Enterprises 2005 and Economic Census 2011: Profile of SMEs, Department of Statistics Malaysia.

<sup>98</sup> MSME GDP figures are based on real GDP at constant 2005 price.

**Figure 4.132: MSME Contribution to Gross Domestic Product**

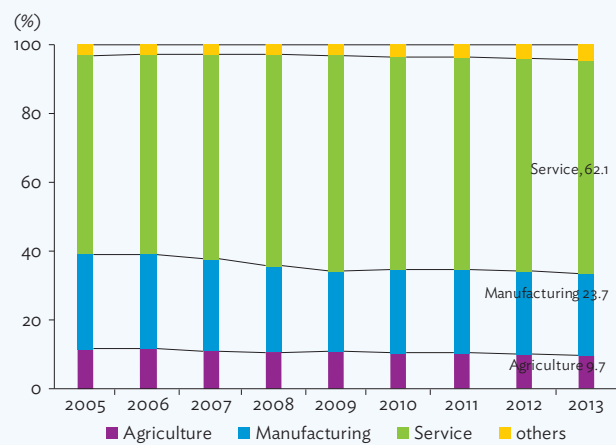


GDP = gross domestic product; MSME = micro, small and medium-sized enterprise.

Note: Data refer to real GDP at constant 2005 prices.

Source: SME National Accounts, Department of Statistics Malaysia.

**Figure 4.133: Gross Domestic Product Composition of MSMEs**



GDP = gross domestic product, MSME = micro, small, and medium-sized enterprise.

Note: Data refer to real GDP at constant 2005 prices.

Source: SME National Accounts, Department of Statistics Malaysia.

1 January 2014. This definition is based on two criteria: annual sales turnover and number of full-time employees. For the manufacturing sector, firms with annual sales turnover not exceeding RM50 million or full-time employees not exceeding 200 are classified as MSMEs. For services and other sectors, firms with annual sales turnover not exceeding RM20 million or full-time employees not exceeding 75 are considered MSMEs.

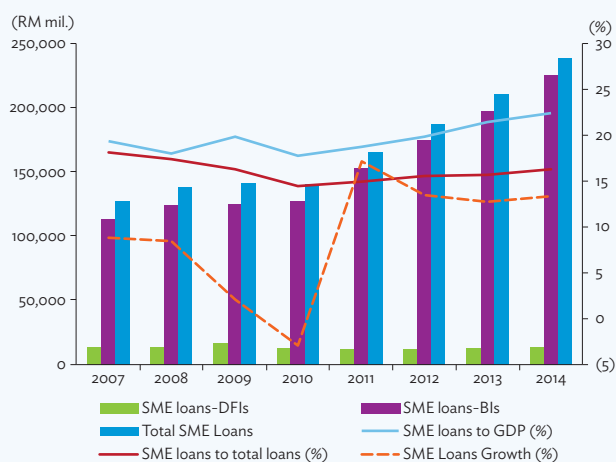
## Banking Sector

In 2013, small and medium-sized enterprise (SME) loans outstanding totalled RM211 billion in 2013, a 12.7% increase from the previous year. This represented 15.7% of total loans and 21.4% of GDP in Malaysia. Of the total SME loans, a large portion was provided by banking institutions with RM198 billion, and RM13 billion loans from development finance institutions.<sup>99</sup> As of 2014, SME loans outstanding amounted to RM240 billion, a 13.3% increase from 2013, representing 16.3% of total

loans. Of this amount, banking institutions financed RM226 billion to SMEs while development finance institutions contributed to RM14 billion (Figure 4.134 and Table 4.69).

New loans approved to SMEs amounted to RM78.5 billion in 2013, delivered to 140,815 SME beneficiaries. Of this total amount, RM71.4 billion was

**Figure 4.134: SME Loans Outstanding**

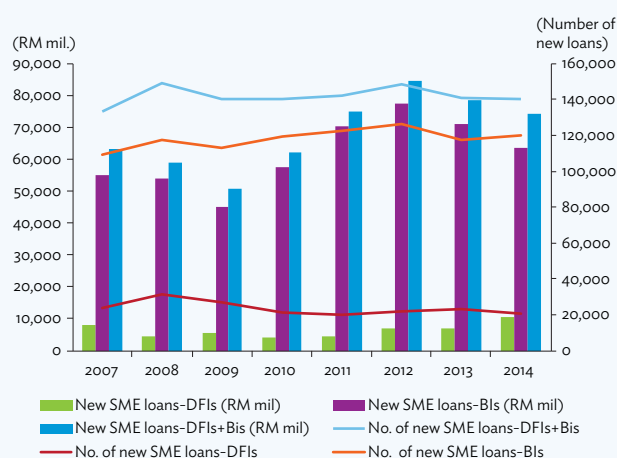


BI = banking institution, DFI = development finance institution, GDP = gross domestic product, SME = small and medium-sized enterprise.

Source: Bank Negara Malaysia.

<sup>99</sup> In the Malaysian context, "banking sector" refers to banking institutions only, while "financial institutions" refer to both banking institutions and development finance institutions (DFIs). DFIs that provide financing to SMEs include SME Bank, EXIM Bank, MIDF, Bank Pertanian Malaysia, Bank Pembangunan Malaysia, Bank Kerjasama Rakyat Malaysia, Bank Simpanan Nasional, and Credit Guarantee Corporation Malaysia.

Figure 4.135: New Loans to SMEs



BI = banking institution, DFI = development finance institution, SME = small and medium-sized enterprise.

Source: Bank Negara Malaysia.

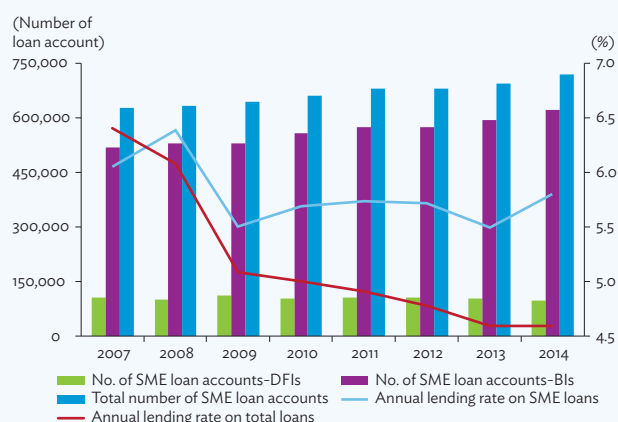
approved by banking institutions, benefiting 117,536 SMEs, while development finance institutions provided RM7.2 billion in loans to 23,279 SMEs (Figure 4.135). During 2014, RM74.3 billion in new loans to 140,379 SMEs was recorded, of which 86% were provided by banking institutions and 14% from development finance institutions.

The annual average lending rate on SME loans by banking institutions stood at 5.5% in 2013, a decrease from 5.7% in 2012 (while the average lending rate on total loans was 4.6% in 2013, a decrease from 4.8% in 2012). The total number of SME loan accounts reached 718,772 in 2014, an increase of 3.7% from 2013. During 2014, the average lending rate on SME loans increased to 5.8% while the rate on total loans remained constant at 4.6% (Figure 4.136).

There are special funds and schemes provided by the Government of Malaysia and Bank Negara Malaysia (BNM). Eligible SMEs continue to access financing at below the market rate, under the five BNM special funds.<sup>100</sup> These funds initially have a total allocation of RM11.4 billion, with lending rates ranging from 3.75% to 6%. Due to the revolving nature of the funds, a

<sup>100</sup> Fund for Food, New Entrepreneurs Fund 2, Fund for Small and Medium Industries 2, Micro Enterprise Fund, and Bumiputera Entrepreneurs Project Fund – Islamic.

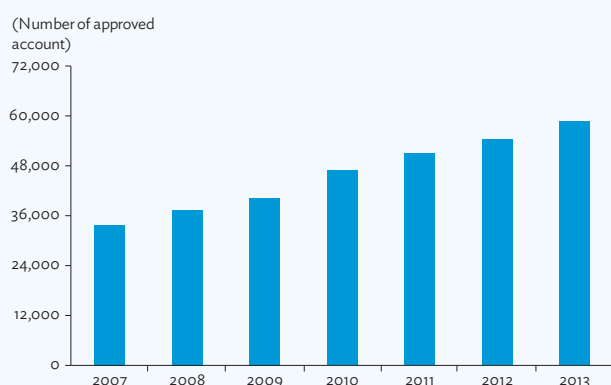
Figure 4.136: SME Loan Accounts and Lending Rate



BI = banking institution, DFI = development finance institution, SME = small and medium-sized enterprise.

Source: Bank Negara Malaysia.

Figure 4.137: Bank Negara Malaysia SME Funds



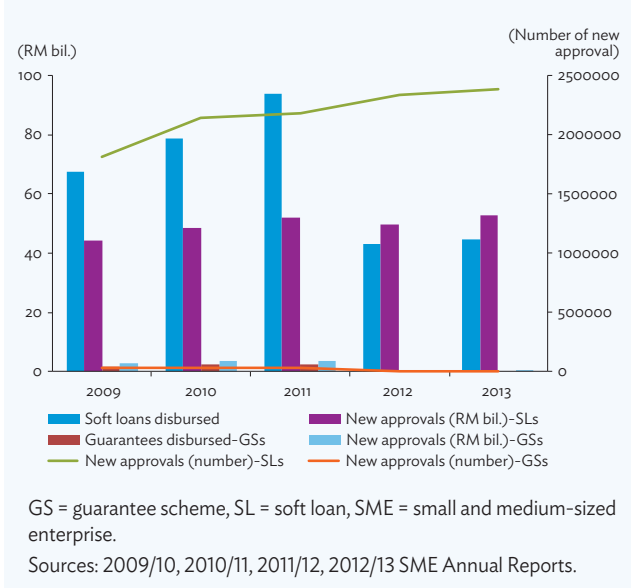
SME = small and medium-sized enterprise.

Source: Bank Negara Malaysia.

total of RM24.3 billion was approved to 58,789 SME beneficiaries, as at the end of 2013 (Figure 4.137). A total of 4,410 SMEs had benefitted from approved financing amounting to RM1.7 billion in 2013 and another 3,477 SME accounts were approved, amounting to RM1.5 billion, in 2014.

As mandated by the government, the Credit Guarantee Corporation (CGC)—established by BNM and financial institutions—actively manages and implements the government-funded schemes targeting specific

Figure 4.138: Soft Loans and Credit Guarantees



sectors, such as the Green Technology Financing Scheme (GTFS) and the Intellectual Property Financing Scheme introduced in 2010 and 2013, respectively. As one of the two executing agencies mandated to manage RM3.5 billion of the GTFS funds, the CGC has administered a total of 131 applications worth RM1.7 billion. Further efforts will be made to enhance public awareness of the GTFS and to utilize its funds, as it still has a balance of RM1.8 billion as of August 2014.

The Intellectual Property Financing Scheme, an initiative of the government was implemented in 2013. The initiative of RM200 million will be offered solely by Malaysia Debt Venture (MDV). Under this scheme, companies with intellectual property rights can use these rights as an additional source of collateral to obtain funding.

Various government funds and schemes were made available through various channels. As of the end of 2013, a total of 35 soft loans funds were still active which accounted for RM44.6 billion of funds disbursed. New soft loans approved totaled 2,382,177 in the total amount of RM52.7 billion. Guaranteed schemes, on the other hand, remained more or less the same. In 2013, there were two funds with 5,842 new guarantee schemes approved at a total amount of RM300 million (Figure 4.138).

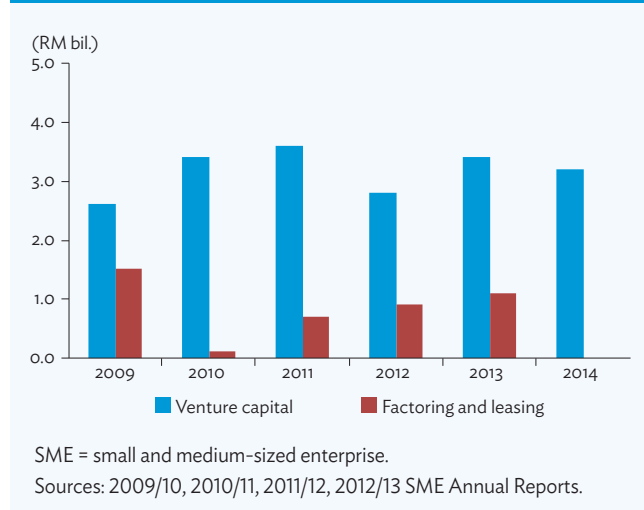
## Nonbank Sector

Besides banking and development finance institutions, nonbank financial institutions (NBFIs) such as venture capital, factoring, and leasing companies are also active in SME finance in Malaysia. Outstanding venture capital investments in 2014 amounted to RM3.2 billion, while factoring and leasing companies provided RM1.1 billion in financing for SMEs in 2013 (Figure 4.139).

The Securities Commission Malaysia registers venture capital firms as either venture capital management corporations (VCMCs) or venture capital corporations and funds (VCCs). VCMCs are separate corporations that manage on behalf of a venture capital funds. They provide management and consultancy services to VCCs. VCCs are corporations that have in-house teams to manage their own venture capital funds set up within the entity. As of 2014, there were 56 VCMCs registered with the SC, of which 1 was newly registered. Meanwhile, the total number of registered VCCs was 56 in 2014, 1 being registered during the year with an initial fund size of RM8 million. Total investment reached RM3.2 billion in 2014 (Figure 4.140 and Table 4.70). Due to closure of funds, five VCCs were dissolved with a total of RM385 million. The total amount of VCC-managed funds amounted to RM6.2 billion (Figure 4.141).

Investments in companies at the seed and start-up stages were mainly undertaken by government venture funds and also select VCMCs/VCCs. There were

Figure 4.139: SME Financing Outstanding



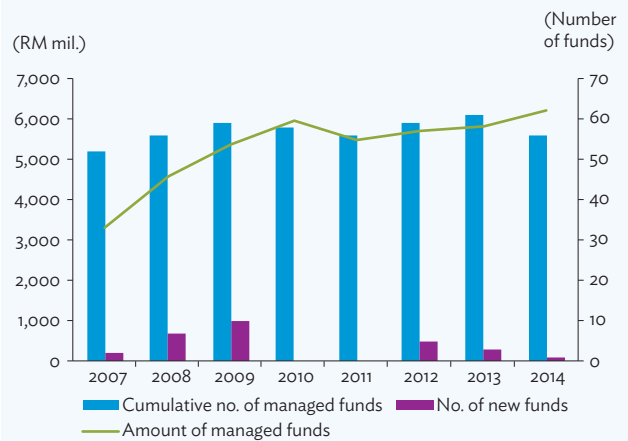


**Figure 4.140: Venture Capital Management Corporations**



Source: Securities Commission Malaysia.

**Figure 4.141: Venture Capital Corporations and Funds**



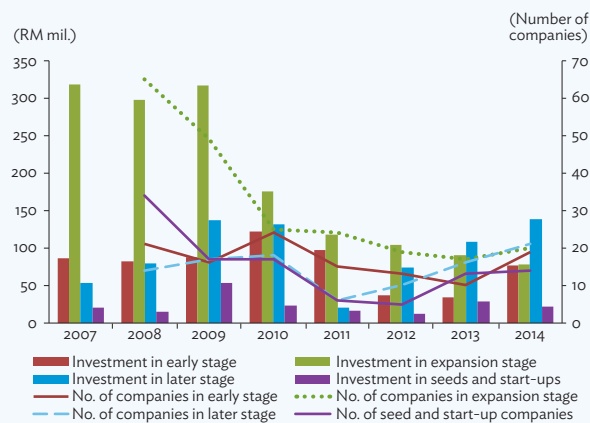
Source: Securities Commission Malaysia.

14 seed and start-up companies in 2014, an increase from 13 in 2013, receiving RM22 million in investments. There were 19 companies at the early stage receiving funds amounting to RM77 million, with 20 companies at the expansion stage receiving RM79 million and 21 companies at the later development stage receiving RM139 million (Figure 4.142).

In terms of sector classification, investments in the information and communications technology (ICT) sector amounted to RM96 million in 2014, a 65.5%

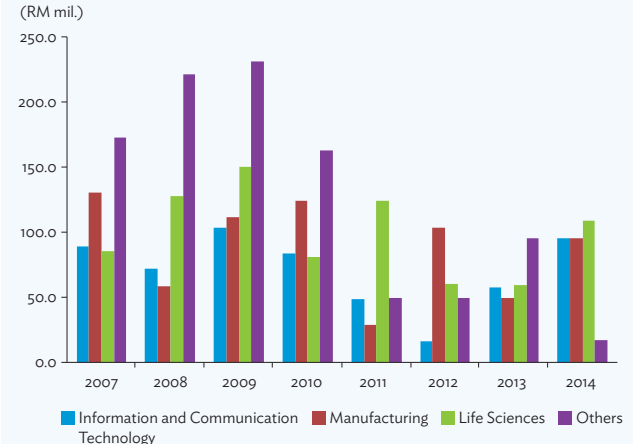
increase from the previous year, representing 30.2% of total investments. Meanwhile, the manufacturing sector received RM96 million in 2014, a 92% increase from the previous year, representing 30.3% of total investments. The life science sector received RM109 million in 2014, an 81.7% increase from the previous year, representing 34.2% of total investments. The remaining 5.3% of total investments were made in sectors such as electricity and power generation, education, transportation and storage, and construction (Figure 4.143).

**Figure 4.142: Venture Capital Investment by Stage**



Source: Securities Commission Malaysia.

**Figure 4.143: Venture Capital Investment by Sector**



Source: Securities Commission Malaysia.

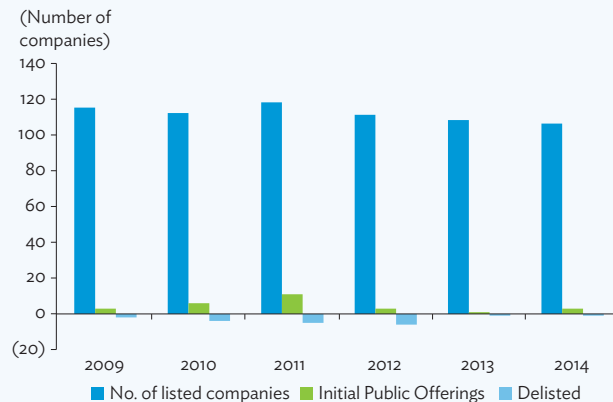
According to the SME Annual Report 2013/2014, the Skim Pembiayaan Mikro has been supporting the financing needs of micro enterprises since 2006. Under this scheme, micro enterprises can obtain financing without any collateral requirement. Since its inception, more than 151,000 applications by micro enterprises were approved via 10 participating financial institutions, with total financing approved amounting to RM2.4 billion. The amount approved has further increased to RM2.6 billion, benefiting more than 160,000 micro entrepreneurs, as of the end of June 2014. Total financing outstanding stood at RM857 million in 2013 and increased marginally to RM857.2 million as of the end of June 2014.

## Capital Markets

SMEs in Malaysia can raise capital through the ACE (Access, Certainty, Efficiency) market, an alternative, sponsor-driven equity market. Total market capitalization in the ACE market was RM9.9 billion in 2013, a 42.3% increase from the previous year. In 2013, trading volume of 69.8 billion shares, with a total trading value of RM13.4 billion, was recorded. As of 2014, the market capitalization of the ACE market decreased to RM9.7 billion. A trading volume of 115.6 billion shares, amounting to RM27.1 billion, was recorded in the same period (Figure 4.144 and Table 4.71).

Unlike the previous regime (Malaysian Exchange of Securities Dealing and Automated Quotation), the ACE market allows the listing of eligible companies from all sectors, instead of only high-growth or technology-

Figure 4.145: Listed Companies—ACE Market



ACE = Access, Certainty, Efficiency.  
Source: Bursa Malaysia.

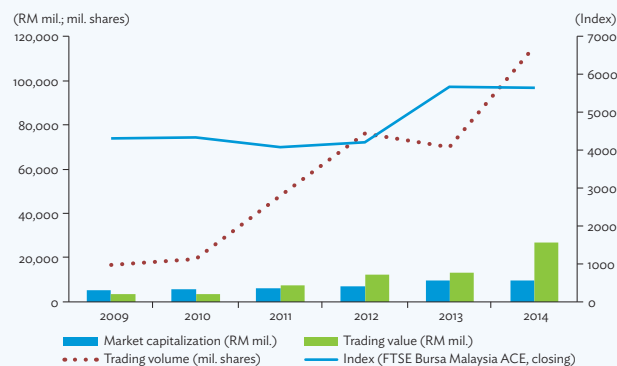
based companies. There is no minimum requirement for operating history, size, and track record of a company, nor its issue price, though a listing applicant is required to appoint a sponsor who will evaluate the suitability of the company for listing. The ACE market remains attractive and competitive as a listing and investment platform for SMEs.

As of the end of 2014, the number of listed companies on the ACE market declined to 107 from 109 in 2013, with three initial public offering (IPO) and one company being delisted (Figure 4.145).

Additionally, to foster innovative business ideas and facilitate capital raising for start-ups and small enterprises, the Securities Commission Malaysia is developing a regulatory framework for equity crowdfunding (ECF). ECF is a new form of fundraising that allows start-ups and small enterprises to obtain capital through small equity investments from a relatively large number of investors, using web portals to publicize and facilitate such offers.<sup>101</sup>

In this regard, the Securities Commission Malaysia aims to provide regulatory balance to promote a vibrant and functioning market space with the appropriate safeguards for capital formation.

Figure 4.144: Market Performance—ACE Market



ACE = Access, Certainty, Efficiency.  
Source: Bursa Malaysia.

<sup>101</sup> The Malay Mail Online. 3 September 2014. <http://www.themalaymailonline.com/tech-gadgets/article/equity-crowdfunding-the-good-and-not-so-good#sthash.hnXiUJFa.dpuf>

## Policy and Regulation

The National SME Development Council (NSDC) is the focal entity in bringing together Malaysia's line ministries responsible for implementing SME development programs. The NSDC helps to decide on policy directions for SME development in the country. One of the key initiatives is the SME Master Plan 2012–2020, released on 12 July 2012, aligning the goals of SME development (Table 4.72).

In July 2013, the NSDC endorsed a new definition for SMEs. Effective January 2014, the threshold of qualifying criteria to be defined as an SME was revised upward for enterprises in all sectors of the economy. It also endorsed the “Breakout Strategy for Micro enterprise” with five core programs, namely StartMEup, GrowME, MarketME, FasTrackME, and MEMoneymatter. As a result of the different achievements made since the establishment of the NSDC, the SME sector in Malaysia has expanded at a faster pace than the overall economy, with 6.3% growth per annum on average during the period 2006 and 2013, as compared to the 4.7% per annum growth of the national economy.

The SME Master Plan 2012–2020, which is currently on its implementation stage, has 4 main goals with 6 focus areas, and highlighted 32 initiatives including 6 high impact programs that are expected to contribute significantly toward the achievement of the goals set down in the master plan. Access to finance is one of the six focus areas and the SME Investment Program (early stage financing program) is a part of the high impact programs.

The policy reforms affecting SMEs include the introduction of the Goods and Service Tax (GST) to replace the current sales and service tax; updates on the implementation of the minimum wage policy to help cushion the impact of labor reforms on SMEs; and incentives for the merger and acquisition of micro and small enterprise product suppliers.

The SME Corporation Malaysia (SME Corp) is a specialized agency established to spur the development of SMEs, by providing infrastructure facilities, financial assistance, advisory services, market access, and other support programs. The objective of SME Corp is to develop capable and resilient Malaysian SMEs to be competitive in the global market. SME Corp

commenced operations on 2 October 2009, and plays a pivotal role of reference for information and advisory services for all SMEs in Malaysia.

The new regulatory and supervisory framework for financial institutions of Malaysia was introduced by the Financial Services Act 2013, which came into force on 30 June 2013. This act consolidated the Banking and Financial Institutions Act 1989, the Insurance Act 1996, the Payment Systems Act 2003, and the Exchange Control Act 1953, all of which were repealed. The Financial Services Act aims to provide the regulator with a greater power to counter future risks to financial stability in the financial system, increase consumer protection, promote competition among broader financial service sectors, and is a step toward global best practice in financial regulations. The act also allows the BNM to take necessary regulatory and supervisory oversight powers to support SMEs. This includes an increased focus on preemptive measures to address issues of concern within financial institutions that may affect the interests of depositors and policyholders, and the effective and efficient functioning of financial intermediation.

The Financial Sector Blueprint 2011–2020, developed by the BNM, supports three key areas of the national development: (i) knowledge and innovation-intensive economic activity, (ii) infrastructure for an economy driven by competition and led by the private sector, and (iii) propelling local players toward greater global and regional economic integration. Recommendations for the financial sector incorporated in the blueprint include strengthening the resilience of financial institutions, establishing domestic financial infrastructure, and enhancing the financial stability framework of BNMs.

The Securities Commission Malaysia is a statutory body entrusted with the responsibility of regulating and promoting the development of the Malaysian capital markets. It has direct responsibility in supervising and monitoring the activities of market institutions and regulating all persons licensed and registered under the Capital Markets and Services Act 2007. The Capital Market Master Plan 2, launched in 2011, drew up the growth strategies to expand the role of capital market. This included the strategy on promoting growth of small and mid-cap companies. The launch of the ECF platform, is part of this master plan's strategies.

Table 4.68: MSME Landscape

Item	2003	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Number of MSMEs</b>										
MSMEs (number)	548,267	...	...	...	...	...	645,136	...	...	...
MSMEs to total (%)	99.2	...	...	...	...	...	97.3	...	...	...
MSME growth (%)	...	...	...	...	...	...	17.7	...	...	...
Agriculture (% to MSMEs)	6.2	...	...	...	...	...	1.0	...	...	...
Mining (% to MSMEs)	...	...	...	...	...	...	0.05	...	...	...
Manufacturing (% to MSMEs)	7.2	...	...	...	...	...	5.9	...	...	...
Construction (% to MSMEs)	...	...	...	...	...	...	3.0	...	...	...
Service (% to MSMEs)	86.6	...	...	...	...	...	93.1	...	...	...
<b>Employment by MSMEs</b>										
MSME employees (people)	3,222,513	3,172,117	3,257,309	3,529,121	3,684,210	4,100,952	4,389,823	4,561,854	4,829,328	5,135,605
MSMEs to total (%)	...	56.8	56.9	58.2	58.9	59.4	57.1	57.3	57.2	57.5
MSME growth (%)	...	...	2.7	8.3	4.4	11.3	7.0	3.9	5.9	6.3
Agriculture (% to MSMEs)	4.4	9.2	8.3	8.5	8.0	8.6	9.3	7.7	7.4	7.5
Mining and quarrying (% to MSMEs)	...	0.14	0.13	0.12	0.11	0.12	0.13	0.13	0.13	0.12
Manufacturing (% to MSMEs)	23.6	20.4	19.6	20.4	18.7	19.8	19.9	19.5	19.5	18.9
Construction (% to MSMEs)	...	5.0	5.3	5.4	5.7	6.0	6.3	6.8	7.1	7.5
Service (% to MSMEs)	72.0	65.3	66.8	65.5	67.5	65.5	64.4	66.0	65.9	66.0
<b>MSME Contribution to GDP (at constant 2005 prices)</b>										
Real GDP of MSMEs (RM mil.)	...	159,718	169,978	187,040	199,285	199,690	216,267	231,669	245,596	260,964
MSME contribution to GDP (%)	...	29.4	29.6	30.7	31.2	31.7	32.0	32.5	32.7	33.1
<b>GDP Composition of MSMEs* (% to MSME GDP)</b>										
Agriculture	...	11.6	11.8	11.1	10.6	10.7	10.5	10.4	10.0	9.7
Mining and quarrying	...	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Manufacturing	...	27.5	27.3	26.6	25.2	23.4	24.0	24.1	24.1	23.7
Construction	...	2.5	2.3	2.4	2.3	2.5	2.6	2.6	2.8	3.0
Service	...	57.9	58.1	59.4	61.2	62.7	61.9	61.8	61.8	62.1
Plus: import duties	...	0.3	0.3	0.3	0.5	0.6	0.8	0.9	1.2	1.3

GDP = gross domestic product, MSME = micro, small, and medium-sized enterprise.

Notes: Service sector includes transportation and storage, wholesale and retail trade, telecommunication, and real estate. GDP refers to real GDP at constant 2005 prices.

Sources: Census of Establishments and Enterprises 2005 and Economic Census 2011: Profile of SMEs, Department of Statistics Malaysia, SME Corp Malaysia.

Table 4.69: Banking Sector—SME Loans

Item	2007	2008	2009	2010	2011	2012	2013	2014
<b>Loans Outstanding</b>								
SME loans to GDP (%)	19.3	18.0	19.9	17.7	18.7	19.9	21.4	22.4
SME loans to total loans (%)	18.2	17.4	16.3	14.4	15.0	15.5	15.7	16.3
SME loans—Total (RM mil.)	127,984	138,859	141,608	141,159	165,316	187,625	211,406	239,530
Growth (%)	8.8	8.5	2.0	(0.3)	17.1	13.5	12.7	13.3
SME loans—DFIs (RM mil.)	13,847	14,105	16,285	12,805	12,147	12,018	13,303	13,629
SME loans—BIs (RM mil.)	114,137	124,753	125,323	128,354	153,168	175,607	198,103	225,901
<b>New Loans to SMEs</b>								
Number of new SME loans—DFIs	23,477	31,228	27,121	21,278	19,747	21,719	23,279	20,373
Value of new SME loans—DFIs (RM mil.)	8,130	4,813	5,611	4,354	4,811	7,201	7,158	10,531
Number of new SME loans—BIs	109,497	117,575	112,997	119,208	122,631	126,513	117,536	120,006
Value of new SME loans—BIs (RM mil.)	55,111	54,132	45,284	57,827	70,431	77,467	71,367	63,813
Number of new SME loans—DFIs+BIs	132,974	148,803	140,118	140,486	142,378	148,232	140,815	140,379
Value of new SME loans—DFIs+BIs (RM mil.)	63,240	58,946	50,896	62,181	75,241	84,667	78,525	74,344
<b>Lending Rate (annual average)</b>								
Interest rate on SME loans (%)	6.1	6.4	5.5	5.7	5.7	5.7	5.5	5.8
Interest rate on total loans (%)	6.4	6.1	5.1	5.0	4.9	4.8	4.6	4.6
<b>BNM Special Funds for SMEs</b>								
Number of approved accounts	33,717	37,498	40,331	46,943	50,988	54,379	58,798	...
<b>Soft Loans</b>								
Number of funds	64	...	47	45	45	35	35	...
Amount disbursed (RM bil.)	77.29	...	67.41	78.48	93.65	42.77	44.60	...
Amount of SLs (new approvals) (RM bil.)	81.22	...	44.01	48.17	51.90	49.33	52.70	...
Number of SLs (new approvals)	1,254,317	...	1,815,426	2,138,960	2,176,177	2,333,167	2,382,177	...
<b>Guarantee Schemes</b>								
Number of funds	...	...	7	7	7	2	2	...
Amount disbursed (RM bil.)	...	...	1.38	2.05	2.13	...	...	...
Amount of GSs (new approvals) (RM bil.)	...	...	2.77	3.52	3.52	0.29	0.30	...
Number of GSs (new approvals)	...	...	31,890	35,155	35,154	5,842	5,842	...

BI = banking institution, BNM = Bank Negara Malaysia, DFI = development finance institution, GDP = gross domestic product, GS = guarantee scheme, SL = soft loan, SME = small and medium-sized enterprise.

Sources: Bank Negara Malaysia and SME Annual Reports 2009/10, 2010/11, 2011/12, 2012/13, 2013/14.

Table 4.70: Nonbank Sector—Venture Capital

Item	2007	2008	2009	2010	2011	2012	2013	2014
<b>Venture Capital Management Corporation (VCMC)</b>								
No. of newly registered corporations	5	7	8	2	0	2	6	1
No. of deregistered corporations	0	0	0	0	0	(2)	0	3
No. of registered corporations	46	52	55	55	52	53	58	56
No. of companies (cumulative)	433	450	445	389	409	466	356	376
Amount of investment (RM mil.)	1,784	1,929	2,586	3,389	3,586	2,757	3,433	3,246
<b>Venture Capital Corporation/Fund (VCC)</b>								
No. of new funds	2	7	10	0	0	5	3	1
Amount of new funds (RM mil.)	97	132	60	0	0	401	743	8
No. of dissolved funds	...	...	...	...	...	...	...	5
Amount of dissolved funds (RM mil.)	105	45	43	89	146	235	287	385
Cumulative no. of managed funds	52	56	59	58	56	59	61	56
Amount of managed funds (RM mil.)	3,308	4,570	5,347	5,959	5,460	5,698	5,796	6,211
<b>Investment by Stage</b>								
No. of seeds and start-ups	...	34	17	17	6	5	13	14
Investment in seeds and start-ups (RM. mil.)	21	16	54	23	17	13	29	22
No. of companies in early stage	...	21	16	24	15	13	10	19
Investment in early stage (RM mil.)	86	83	88	122	98	38	35	77
No. of companies in expansion stage	...	65	49	25	24	19	17	20
Investment in expansion stage (RM mil.)	319	299	317	176	118	104	91	79
No. of companies in later stage	...	14	17	18	6	10	16	21
Investment in later stage (RM mil.)	54	79	137	132	21	75	109	139
<b>Investment by Sector</b>								
Information and communication technology (RM mil.)	89	72	104	84	49	16	58	96
Manufacturing (RM mil.)	131	59	112	124	29	103	50	96
Life sciences (RM mil.)	86	128	151	82	125	61	60	109
Others (RM mil.)	173	222	231	164	50	50	96	17
<b>Factoring and Leasing</b>								
Amount of financing outstanding (RM mil.)	2,000	1,800	1,500	100	700	900	1,100	...

Note: Amounts of new and dissolved funds only covers newly registered and deregistered VCCs. Figures exclude new commitments raised for existing funds and amounts for funds of proprietary nature (e.g. funds wholly sponsored by the management company's parent).

Sources: Securities Commission Malaysia; SME Corp Malaysia; SME Annual Report 2007, 2008, 2009/10, 2010/11, 2011/12, 2012/13, 2013/14.

Table 4.71: Capital Market—ACE Market

Item	2009	2010	2011	2012	2013	2014
<b>Market Performance—ACE</b>						
Market capitalization (RM mil.)	5,293	5,761	6,415	6,935	9,865	9,665
Index (FTSE Bursa Malaysia ACE, closing)	4,300	4,348	4,069	4,214	5,676	5,653
Trading value (RM mil.)	3,426	3,779	7,520	3,779	13,435	27,120
Trading volume (mil. shares)	16,696	19,248	47,737	19,248	69,781	115,564
<b>Listed Companies</b>						
No. of listed companies	116	113	119	113	109	107
Initial public offering	3	6	11	6	1	3
Delisted	2	4	5	4	1	1

ACE = Access, Certainty, Efficiency; FTSE = Financial Times and the London Stock Exchange.

Note: The ACE market was introduced in August 2009. Figures in 2009 include data on the Malaysian Exchange of Securities Dealing and Automated Quotation (MESDAQ).

Source: Bursa Malaysia.

Table 4.72: SME Policy and Regulation

Regulations		
Name		Outline
Small and Medium Enterprises Corporation Malaysia Act 1995		Institutional set-up of SME Corporation
National SME Development Council (NSDC) Directive 2005		SME definition*
SME Master Plan 2012–2020		Framework to align SME development
Financial Services Act 2013		Framework for financial institutions
Capital Markets and Services Act 2007		Regulates Capital Market
Regulators and Policymakers		
Name		Responsibility
National SME Development Council (NSDC)		Provide the framework for a cohesive national policy and programs designed to provide necessary support for SMEs to progress up the value chain.
Bank Negara Malaysia (BNM)		Regulate and supervise banking institutions and development financial institutions.
Securities Commission Malaysia (SC)		Regulate and supervise nonbank financial institutions and capital markets (including ACE Market and MyULM).
SME Corporation Malaysia (SME Corp.)		Formulate policies for SME development and coordinate implementation of development programs across relevant ministries and agencies in all economic sectors.
Policies		
Name	Responsible Entity	Outline
SME Annual Reports (2005, 2006, 2007, 2008, 2009/10, 2010/11, 2011/12, 2012/13, 2013/14)	BNM SME Corp.	<ol style="list-style-type: none"> <li>1) Build the capacity and capability of SMEs, specifically in the areas of entrepreneur development, human capital development, advisory services, awareness and outreach, technology enhancement, and product development.</li> <li>2) Strengthen an enabling infrastructure for SME development, which involves the development and enhancement of physical infrastructure and information management, creation of conducive regulations, and operating requirements for SMEs.</li> <li>3) Enhance SME access to financing, which involves the development and strengthening of institutional arrangements to support SME financing needs.</li> <li>4) Innovation and technology adoption, human capital development, access to financing, market access, legal and regulatory environment, and infrastructure.</li> <li>5) Introduction of the Goods and Services Tax</li> <li>6) Implementation of the Minimum Wage Policy</li> <li>7) Incentive for Merger and Acquisition of Small and Medium Service Providers</li> </ol>
SME Master Plan 2012–2020	SME Corp.	<ol style="list-style-type: none"> <li>1) Increase business formation.</li> <li>2) Expand the number of high growth and innovative firms.</li> <li>3) Raise labor productivity of SMEs.</li> <li>4) Intensify formalization to promote growth and fair competition.</li> </ol>
Financial Sector Blueprint 2011–2020	BNM	<ol style="list-style-type: none"> <li>1) Effectively intermediate for a high value-added and high-income economy.</li> <li>2) Develop deep and dynamic financial markets.</li> <li>3) Promote financial inclusion for greater shared prosperity.</li> <li>4) Strengthen regional and international financial integration.</li> <li>5) Internationalize Islamic finance.</li> <li>6) Safeguard the stability of the financial system.</li> <li>7) Promote electronic payments for greater economic efficiency.</li> <li>8) Empower consumers.</li> <li>9) Promote talent development to support a more dynamic financial sector.</li> </ol>
Capital Market Masterplan 2 (2011)	SC	<ol style="list-style-type: none"> <li>1) Increase the capacity and efficiency of the capital market</li> <li>2) Address the efficiency of savings intermediation</li> <li>3) Deepen secondary market liquidity</li> <li>4) Facilitate scale-driven strategies</li> <li>5) Identify new growth opportunities</li> <li>6) Build capacity and strengthen information infrastructure</li> <li>7) Provide greater access to funding by facilitating the establishment of trading venues for unlisted companies i.e. Malaysia Unlisted Market (MyULM).</li> </ol>
Micro Enterprise Breakout Strategy	SME Corp.	<ol style="list-style-type: none"> <li>1) Utilization of the Start-up Kit</li> <li>2) Development of Productivity Toolkits</li> <li>3) Access to Online Markets</li> <li>4) Awareness of Finance Availability and Accessibility</li> <li>5) Issuance of Productivity Vouchers</li> </ol>

SME = small and medium-sized enterprise.

\* NSDC endorsed a new SME definition in July 2013. A guideline on the new SME definition was prepared and circulated by SME Corporation Malaysia in October 2013.

Sources: 2005, 2006, 2007, 2008, 2009/10, 2010/11, 2011/12, 2012/13, 2013/14 SME Annual Reports, SME Master Plan 2012–2020, and Financial Sector Blueprint 2011–2020.



# Myanmar

## SME Landscape

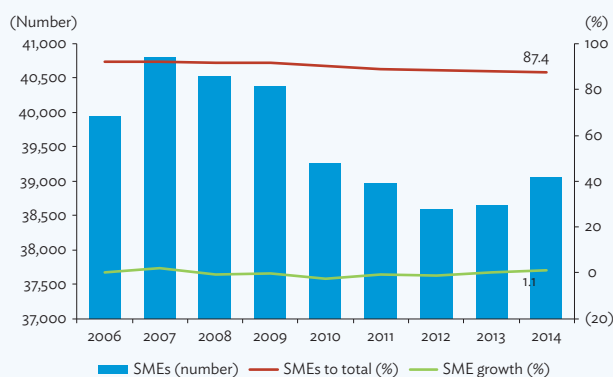
The Myanmar economy has been steadily growing, with expansion in construction, manufacturing, and service sectors. This is supported by increasing capital inflows from foreign direct investment. Small and medium-sized enterprises (SMEs) play a pivotal role in realizing further strong economic growth in the country.

There are no comprehensive SME statistics but statistics on small and medium industries (SMIs), largely involved in manufacturing, registered under the Private Industrial Enterprise Law, are available in Myanmar. As of the end of March 2015—the end of Fiscal Year (FY) 2014—SMIs numbered 39,062, accounting for 87.4% of total registered industries in Myanmar (Figure 4.146 and Table 4.73).<sup>102</sup> The number of SMIs increased 1.1% from FY2013 to FY2014.

Manufacturing is a major business sector that SMEs belong to in Myanmar. Among cottage industries, manufacturing (cottage handicraft) accounted for 78% of these industries, followed by the service sector (20.8%), as of March 2015 (Figure 4.147). For SMIs not involved in cottage industries, the food and beverage industry accounted for 62.7% of total SMIs, followed by construction material producers (7.6%), mineral and petroleum producers (5.1%), and garments (4.5%) in the same period (Figure 4.148).

The majority of SMIs (except cottage industries) are operating outside of the central cities of Yangon and Naypyitaw. As of March 2015, 89% of SMIs operate

Figure 4.146: Number of SMEs

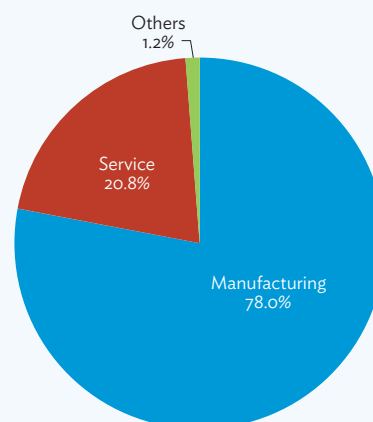


SME = small and medium-sized enterprise.

Notes: SMEs refer to small and medium industries (manufacturing). Data include cottage industries. Year of data refers to fiscal year which starts in April and ends in March the following year. Accordingly, data in 2014 means data as of March 2015.

Source: Central Department of Small and Medium Enterprises Development, Ministry of Industry.

Figure 4.147: Cottage Industries by Sector, Fiscal Year 2014

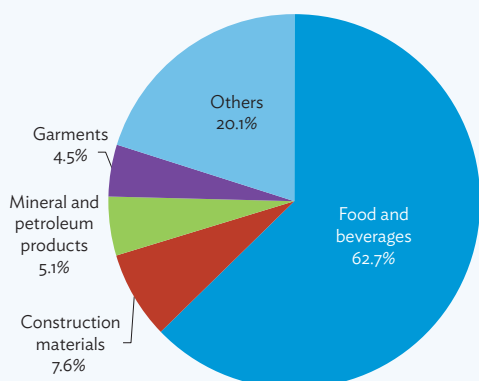


Note: Fiscal year starts in April and ends in March the following year. Accordingly, the data is as of March 2015.

Source: Central Department of Small and Medium Enterprises Development, Ministry of Industry.

<sup>102</sup> Data on small and medium industries include manufacturers registered under the Private Industrial Enterprise Law No.22/1990 and cottage industries under the Law Amending the Promotion of Cottage Industries Law No.14/2011. Number of small and medium industries was calculated based on firms located inside of industrial zones. Year of data refers to fiscal year which starts in April and ends in March the following year.

Figure 4.148: SMEs by Sectors, Fiscal Year 2014

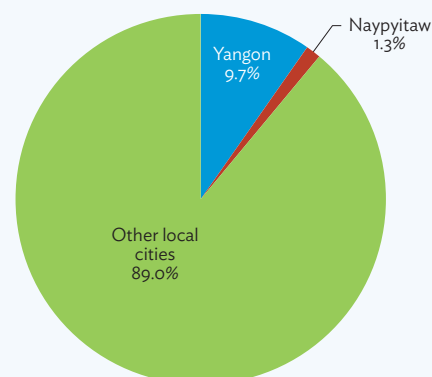


SME = small and medium-sized enterprise.

Notes: SMEs refer to small and medium industries (manufacturing). Data exclude cottage industries. Fiscal year starts in April and ends in March the following year. Accordingly, the data is as of March 2015.

Source: Central Department of Small and Medium Enterprises Development, Ministry of Industry.

Figure 4.149: SMEs by Region, Fiscal Year 2014



SME = small and medium-sized enterprise.

Notes: SMEs refer to small and medium industries (manufacturing). Data exclude cottage industries. Fiscal year starts in April and ends in March the following year. Accordingly, the data is as of March 2015.

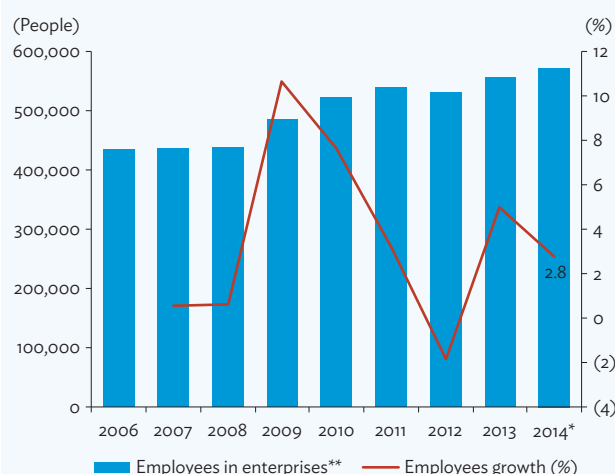
Source: Central Department of Small and Medium Enterprises Development, Ministry of Industry.

in local cities, while only 9.7% and 1.3% are active in Yangon and Naypyitaw, respectively (Figure 4.149).

There are no data on employment by SMEs, but aggregate employment data in the manufacturing sector are available.<sup>103</sup> Total employees in enterprises (small, medium, and large industries) numbered 571,194, a 2.8% increase during the 6 months from April to September 2014 (Figure 4.150). By sector, the garments industry comprised 46.2% of total employees, and the food and beverage industry employed 32.8% of total employees, as of September 2014 (Figure 4.151). By region, 62.7% of workers in manufacturing were employed in Yangon, while 36.7% worked in local cities, in the same period (Figure 4.152). Given that a large number of SME manufacturers belong to the food and beverage industry, and operate outside of central cities, the job absorption by them is limited in the country.

SMEs in Myanmar were long defined based on four criteria, focusing on manufacturing: (i) power used (horsepower), (ii) number of employees, (iii) amount of capital investment, and (iv) annual production value. These criteria were developed under the Private Industrial Enterprise Law, enacted in 1990, and cottage industries were additionally defined as the small scale

Figure 4.150: Employment by Enterprises



\*September 2014. \*\* Enterprises refer to small, medium, and large industries (manufacturing).

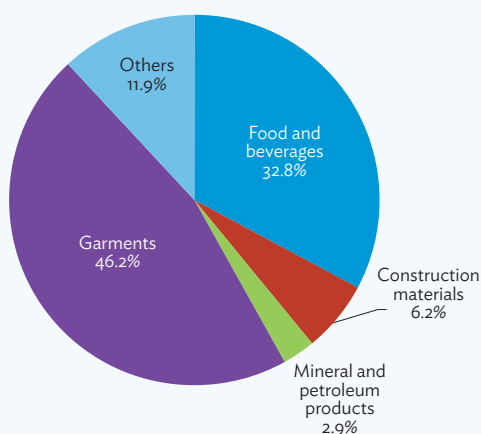
Note: Year of data refers to fiscal year which starts in April and ends in March the following year.

Source: Central Department of Small and Medium Enterprises Development, Ministry of Industry.

industries under the amended Law on the Promotion of Cottage Industries in 2011. On 9 April 2015, the SME Development Law was enacted, which includes a revised SME definition.

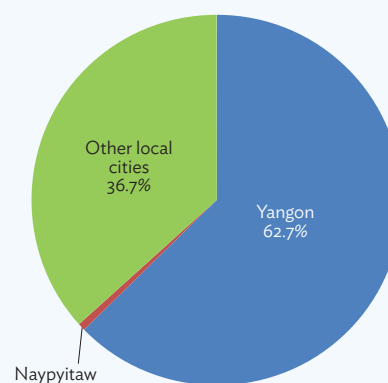
<sup>103</sup> Number of employees was calculated based on firms located inside of industrial zones.

Figure 4.151: Employees by Sector, September 2014



Source: Central Department of Small and Medium Enterprises Development, Ministry of Industry.

Figure 4.152: Employees by Region, September 2014



Source: Central Department of Small and Medium Enterprises Development, Ministry of Industry.

Until the launch of the SME Development Law, SMIs were defined as follows: Firms using 5 horsepower (but less than 25 horsepower) and/or having more than 10 employees (up to 49 employees), capital investment not exceeding Ks1 million, and/or annual production value not exceeding Ks2.5 million, are categorized as small industries by law. Firms using 25–50 horsepower and/or having 50–100 employees, capital investment between Ks1 million and Ks5 million, and/or annual production value between Ks2.5 million and Ks5 million, are categorized as medium industries by law. Cottage industries are firms using 0.25–5 horsepower and/or having fewer than 10 employees.

Under the new definition stipulated in the SME Development Law, SMEs are classified based on three criteria by sector: (i) number of employees, (ii) capital, and (iii) turnover. In the manufacturing sector, firms having up to 50 employees and/or capital up to Ks500 million are categorized as small enterprises, while firms having 51–300 employees and/or capital between Ks500 million and Ks1,000 million are categorized as medium enterprises. There is a different SME classification for labor-intensive manufacturers having up to 600 employees, under the new SME Development Law. SMEs in the wholesale and retail trade and the service sector are also defined under the new law.

## Banking Sector

The banking sector in Myanmar comprises 4 state-owned banks, 23 private banks, and 40 representative offices of foreign banks, as of the end of 2014. State-owned banks consist of the Myanmar Foreign Trade Bank, the Myanmar Investment and Commercial Bank, the Myanmar Economic Bank, and the Myanmar Agriculture and Development Bank. The latter three banks finance SMEs through rigid project appraisal.

Since the new government, promoting democracy in Myanmar, was formed in 2011, the banking system has been extensively reformed. The Central Bank of Myanmar Law was amended in 2013 to strengthen the central bank's functions on monetary and financial stability, with more independence. The Banks and Financial Institutions Law was also amended in 2014 to more transparently regulate and supervise banks and nonbank financial institutions (NBFIs) through licensing and registration, respectively, where the Central Bank of Myanmar is a regulator.

The number of private banks has gradually increased since 2013. Three new banks (the Naypyitaw Sabin Bank, the Myanmar Microfinance Bank, and the Construction and Housing Development Bank) were established in 2013, and one new bank (the Shwe Rural and Urban Development Bank) began operations in 2014.

Among private banks, the Small and Medium Industrial Development Bank (SMIDB) plays a leading role in financing SMEs in Myanmar. SMIDB was established in 1996, with the support of the Ministry of Industry, as a specialized bank for SMEs, but its shares are all owned by private individuals. SMIDB accepts deposits (current, 3–12 month fixed, and savings deposits), provides loans (commercial and SME loans), and offers remittance services, through 11 branch networks across the country.

The interest rate on savings deposits is 8.5% per annum. Rates on fixed deposits are 9% for a 3-month term, 9.25% for a 6-month term, 9.5% for a 9-month term, and 10% for a 12-month term. The interest rate on SME loans (for 3 years) is 8.5% per annum, which is subsidized by the government, and lower than the commercial loan rate of 12% per annum.

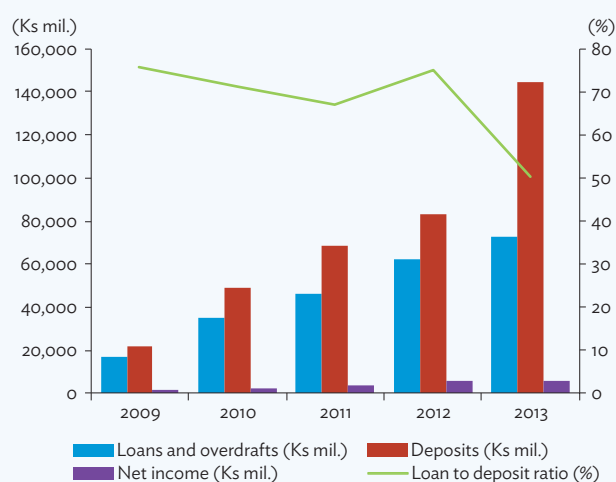
SMIDB has the privilege of obtaining a credit line from the state-owned Myanma Economic Bank; Ks5 billion in 2012 delivering loans to 24 SMEs, Ks5 billion in 2013 extending loans to 38 SMEs, and Ks20 billion in May 2014. SMIDB generates a profit margin of 0.25% from these concessional loans.

As of the end of March 2013, the total of loans outstanding and overdrafts with SMIDB amounted to Ks72,263 million, a 16.9% increase from the same period of the previous year, with a loan-to-deposit ratio of 50.1%, and generating Ks5,674 million net income (Figure 4.153 and Table 4.74). While SMIDB loans have been increasing due to strong demand from SMEs, the loan-to-deposit ratio has shown a downward trend (dropping more than 25% from 75.8% in 2008), so there is still significant capacity for financing SMEs.

By sector, manufacturing received 37.3% of total SMIDB loans and overdrafts, as of the end of March 2013, followed by the wholesale and retail trade (30.1%) and services (7.9%) (Figure 4.154).

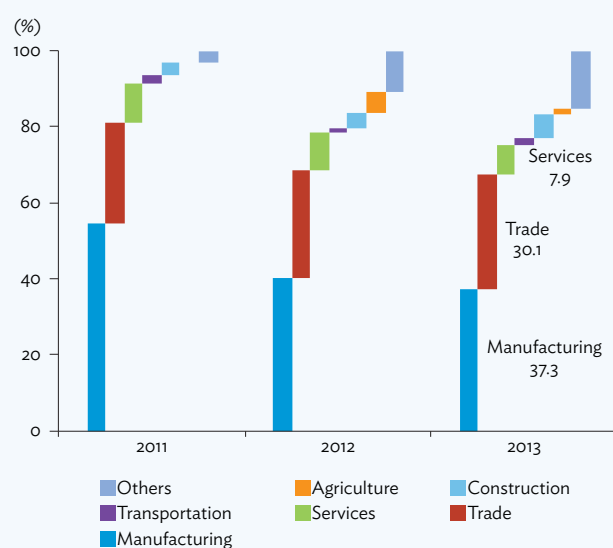
In addition, SMIDB deals with international banking. It accepts USD, EUR, and SGD accounts, opens foreign currency exchange counters (started in 2011), conducts overseas remittance services with a money transfer provider (Xpress Money) that has over 170,000 agents across 150 countries (started in 2013), and issues letters of credit to corresponding banks for trade finance (e.g., the People’s Republic of China, India, Malaysia, Singapore, and Thailand).

**Figure 4.153: SME Loans Outstanding—Small and Medium Industrial Development Bank**



SME = small and medium-sized enterprise.  
 Notes: Year of data refers to the end of March data. Net income represents amounts before tax.  
 Source: Small and Medium Industrial Development Bank.

**Figure 4.154: SME Loans by Sector—Small and Medium Industrial Development Bank**



SME = small and medium-sized enterprise.  
 Note: Year of data refers to the end of March data.  
 Source: Small and Medium Industrial Development Bank.

## Nonbank Sector

Although small in scale, several layers of nonbank financing industries have been established in Myanmar, and they are expected to provide alternative funding sources for SMEs, especially in rural areas.

NBFIs are entities carrying out one or more of activities, including finance company business, leasing, factoring, credit card business, and money services, registered under the Banks and Financial Institutions Law 2014. As of the end of 2014, 10 finance companies are active in the country, 6 of which were registered in 2014.

Microfinance institutions (MFIs) are separately licensed under the Microfinance Law enacted in 2011. MFIs are regulated by the Financial Regulatory Department of the Ministry of Finance. As of the end of March 2014, licensed MFIs numbered 189 and the total loans outstanding amounted to Ks80,720 million, a 173.1% increase from March 2013 (Figure 4.155 and Table 4.75).

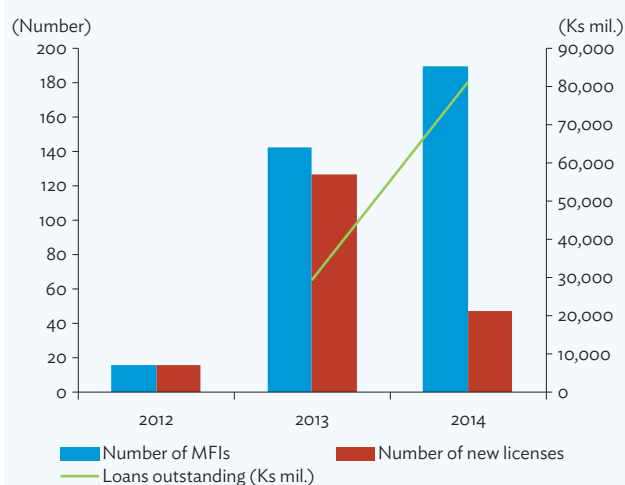
Credit cooperatives also play a critical role in reaching out to unbanked people and rural SMEs, regulated by the Ministry of Cooperative under the Cooperative Society Law in 1992. In Myanmar, cooperative societies form a four-tier system, where the Central Cooperative Society is the apex institution managing all cooperative

syndicates. For credit cooperatives, under the Central Cooperative Society (top tier), there was the Union of Savings and Credit Cooperative Federation (USACC) in the second top tier [national coverage]; 41 savings and credit cooperative federations (SACFs) in the third top tier [townships]; and 1,252 savings and credit cooperative societies [departments], 353 bazaar cooperative societies [wards], and 893 microcredit cooperative societies [wards and villages] in the bottom tier, as of the end of March 2014. They have more than 460,000 members in total.

The savings and credit cooperative societies provide short-term, non-collateral small loans for individuals, with the condition of a 5–10 month repayment period and 1.5% monthly lending rate, against a 1% monthly savings rate, where the loan size is decided based on the level of savings and personal guarantees. The bazaar cooperative societies provide loans over 1–3 years for small shop owners in bazaars, taking real estate security as collateral for loans. The microcredit cooperative societies provide non-collateral small loans (around \$50–\$500) for ward residents and villagers, with a maximum lending rate of 2% per month.

Among NBFIs, Oriental Leasing, a subsidiary of the Myanmar Oriental Bank and a private leasing company established in 1995, provides hire-purchase type lease services for customers, through its Yangon head office and 15 branch offices across the country. As of the end of March 2013, leased amounts reached Ks16,719 million, a 260.5% increase from March 2012. However, the growth of leased amounts is volatile by year (Figure 4.156 and Table 4.76). By business sector, transportation is a dominant sector for leasing, accounting for 80.6% of total leased amounts in March 2013, followed by agriculture (6.6%), trade (3.9%), services (2.9%), and manufacturing (1.9%) (Figure 4.157).

**Figure 4.155: Microfinance Institution Loans**



MFI = microfinance institution.

Note: Year of data refers to the end of March data.

Source: Financial Regulatory Department, Ministry of Finance.

## Capital Markets

There is no established stock exchange market in Myanmar, but the Yangon Stock Exchange was expected to open in 2015. The Myanmar Securities Exchange Centre (MSEC), a joint venture evenly owned by the Myanmar Economic Bank and Japan's Daiwa Securities Group, was established in 1996 to promote capital market development in the country.

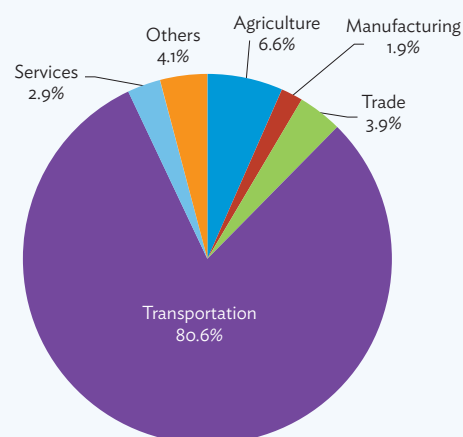
Figure 4.156: Leasing—Oriental Leasing



Note: Year of data refers to the end of March data.

Source: Oriental Leasing Company Limited.

Figure 4.157: Leasing by Sector, 2013—Oriental Leasing



Note: Year of data refers to the end of March data.

Source: Oriental Leasing Company Limited.

The MSEC assists companies intending to list on the planned Yangon Stock Exchange, and acts as a broker/dealer/underwriter in stock trading and as a sales agent for Government Treasury Bonds. As of the end of 2014, two shares have been traded on the over-the-counter (OTC) market set by the firm: the Forest Products Joint Venture and the Myanmar Citizens Bank.

The Securities Exchange Law was enacted in 2013, for regulating securities firms and stock exchange. The planned Yangon Stock Exchange will open online at the end of 2015, expecting initially 5 to 10 public companies listed.

## Policy and Regulation

Since a new government took office in 2011, several political, social, and economic reforms have been initiated under democracy, and SME development is one of the key policy areas for the Government of Myanmar. There are several government authorities working for SME development from different angles: the Ministry of Industry, the Ministry of Cooperative, the Ministry of Commerce, the Ministry of Finance, the Ministry of National Planning and Economic Development, the Ministry of Agriculture and Irrigation, and the Ministry of Science and Technology. To coordinate overall SME policies among line ministries at the national level,

the SME Development Committees, comprising the Central Committee and the Working Committee, were organized in January 2013.

The Central Committee, chaired by a president and with 40 members (government officials and business representatives), plays a coordinating role among ministries. Meanwhile, the Working Committee, chaired by 2 vice presidents and with 15 members, formulates national SME development policies and legal frameworks through the discussions of nine thematic groups: (i) business initiative, (ii) access to finance, (iii) market penetration, (iv) access to information and research, (v) human resource development, (vi) SME related laws and regulations, (vii) cluster development, (viii) monitoring and evaluation, and (ix) standardization and implementation. The Minister of Industry takes the position of Secretariat of the Working Committee. A new SME Development Law, including a revised SME definition, was drafted under the Working Committee. The Ministry of Industry also set up a subcommittee to effectively implement SME policies through cooperation and coordination with other line ministries.

The Ministry of Industry is a focal entity for SME policies in the country, and established the Central Department of SME Development in 2012, aiming to support Myanmar's SMEs amid the Association of Southeast



Asian Nations (ASEAN) Economic Community (AEC) to be launched in 2015. The central department has 15 branches in 14 states/regions and Naypyitaw and 35 subbranches in related districts across the country, mainly dealing with information collection on SMEs and coordination among ministries.

The SME Development Law, which stipulates the establishment of the SME Development Agency and the SME Development Fund, was enacted on 9 April 2015 and now defines SMEs. Under this law, SME statistics are in the process of being compiled.

The Ministry of Industry is drafting a comprehensive SME policy, which will be endorsed after the establishment of the SME Development Agency (Table 4.77). According to the draft SME policy, as of 23 April 2015, the policy support addresses seven areas: (i) human resources, (ii) technology development and innovation, (iii) financial resources, (iv) infrastructure development, (v) market access, (vi) appropriate taxation and procedures, and (vii) conducive business environment.

The draft SME policy stipulates the role of the SME Development Agency: (i) registration of SMEs; (ii) financial assistance; (iii) market analysis; (iv) human resource development; (v) monitoring of SME development activities (annual progress report); (vi) SME analysis to reduce disadvantages of SMEs;

(vii) facilitation of nonfinancial services (business development services); (viii) SME data collection; (ix) connection with international financial institutions and development agencies, business associations, and nongovernment organizations; and (x) collaboration with financial institutions. Prioritized industries are also listed in the draft SME policy from both the short-term and long-term perspective.

Given the launch of AEC in 2015, SME cluster development is a critical issue to efficiently upgrade SME business and enhance access to finance and markets. This will facilitate SME participation in domestic and global production networks. There are 19 industrial zones established, 6 new industrial zones planned, and 3 special economic zones operating in Myanmar. SME suppliers (e.g., parts and components industries) are actively participating in the industrial zones, accounting for 80.1% of total enterprises operating in 18 industrial zones.<sup>104</sup>

The Union of Myanmar Federation of Chambers and Commerce Industry (UMFCCI), founded in 1919 as an apex entity of the chambers and associations, has long supported private sector development in Myanmar. One of the UMFCCI objectives is to support SME competitiveness in the country. The UMFCCI has a network of 71 affiliated associations across the country (8 regional chambers, 8 state chambers, 9 border trade chambers, and 46 trade associations).

<sup>104</sup> <http://www.smedevelopmentcentre.gov.mm/?q=en/industrial-zone&page=1>



Table 4.73: SME Landscape

Item	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Number of SMEs<sup>a</sup></b>									
SMLs (number)	39,949	40,811	40,529	40,396	39,272	38,978	38,590	38,654	39,062
SMLs to total (%)	92.0	92.0	91.8	91.6	90.3	89.1	88.4	87.9	87.4
SML growth (%)	...	2.2	(0.7)	(0.3)	(2.8)	(0.7)	(1.0)	0.2	1.1
<b>Cottage industries by sector (% share)</b>									
Manufacturing	...	83.5	70.8	75.6	66.9	78.0	77.3	79.1	78.0
Service	...	13.4	24.5	22.8	28.2	20.3	19.3	16.0	20.8
Others	...	3.1	4.7	1.5	4.9	1.7	3.3	4.9	1.2
<b>SMEs by sectors<sup>b</sup> (% share)</b>									
Food and beverages	...	...	...	...	...	65.5	64.7	63.9	62.7
Construction materials	...	...	...	...	...	7.2	7.8	7.8	7.6
Mineral and petroleum products	...	...	...	...	...	4.1	4.3	4.7	5.1
Garments	...	...	...	...	...	3.6	3.8	4.1	4.5
Others	...	...	...	...	...	19.6	19.4	19.6	20.1
<b>SMEs by region<sup>b</sup> (% share)</b>									
Yangon	11.5	11.6	11.4	11.3	11.0	10.5	10.1	9.8	9.7
Naypyitaw	...	...	...	...	...	...	1.4	1.3	1.3
Other local cities	88.5	88.4	88.6	88.7	89.0	89.5	88.5	88.9	89.0
<b>Employment<sup>*</sup></b>									
Employees in enterprises <sup>c</sup>	433,405	435,715	438,523	485,192	522,227	539,114	529,269	555,664	571,194
Employees growth (%)	...	0.5	0.6	10.6	7.6	3.2	(1.8)	5.0	2.8
<b>Employees by sector (% share)</b>									
Food and beverages	...	...	...	...	...	40.7	34.1	33.4	32.8
Construction materials	...	...	...	...	...	4.9	6.2	6.3	6.2
Mineral and petroleum products	...	...	...	...	...	2.6	2.8	2.8	2.9
Garments	...	...	...	...	...	39.8	44.4	45.4	46.2
Others	...	...	...	...	...	11.9	12.5	12.1	11.9
<b>Employment by region (% share)</b>									
Yangon	...	...	...	...	...	62.5	61.9	62.4	62.7
Naypyitaw	...	...	...	...	...	...	0.6	0.6	0.6
Other local cities	...	...	...	...	...	...	37.4	36.9	36.7

SME = small and medium-sized enterprise.

<sup>a</sup> SMEs refer to small and medium industries (manufacturing) and cottage industries. <sup>b</sup> SMEs refer to small and medium industries (manufacturing).

<sup>c</sup> Enterprises refer to small, medium, and large industries (manufacturing).

Notes: Number of small and medium industries and employees was calculated based on firms located inside of industrial zones. Year of data refers to fiscal year which starts in April and ends in March the following year. \*employment data as of September 2014.

Source: Central Department of Small and Medium Enterprises Development, Ministry of Industry.

**Table 4.74: Banking Sector—Small and Medium Industrial Development Bank**

Item	2009	2010	2011	2012	2013
<b>Loans and overdrafts (Ks mil.)</b>	16,421	34,963	45,846	61,835	72,263
Deposits (Ks mil.)	21,650	49,025	68,476	82,605	144,127
Loan to deposit ratio (%)	75.8	71.3	67.0	74.9	50.1
Net Income (Ks mil.)	1,424	2,327	3,518	5,255	5,674
<b>Loans by sector</b>					
Manufacturing (Ks mil.)	...	...	25,040	24,798	26,973
Trade (Ks mil.)	...	...	12,070	17,478	21,724
Services (Ks mil.)	...	...	4,815	6,167	5,707
Transportation (Ks mil.)	...	...	922	876	1,268
Construction (Ks mil.)	...	...	1,590	2,353	4,414
Agriculture (Ks mil.)	...	...	...	3,510	1,032
Others (Ks mil.)	...	...	1,407	6,653	11,145
Manufacturing (% share)	...	...	54.6	40.1	37.3
Trade (% share)	...	...	26.3	28.3	30.1
Services (% share)	...	...	10.5	10.0	7.9
Transportation (% share)	...	...	2.0	1.4	1.8
Construction (% share)	...	...	3.5	3.8	6.1
Agriculture (% share)	...	...	...	5.7	1.4
Others (% share)	...	...	3.1	10.8	15.4

Notes: Year of data refers to the end of March data. Net income represents amounts before tax.

Source: Small and Medium Industrial Development Bank.

**Table 4.75: Nonbank Sector—Microfinance Institutions**

Item	2012	2013	2014
Number of MFIs	16	142	189
Number of new licenses	16	126	47
Loans outstanding (Ks mil.)	...	29,562	80,720
Growth (%)	...	...	173.1

Note: Year of data refers to the end of March data.

Source: Financial Regulatory Department, Ministry of Finance.

**Table 4.76: Leasing—Oriental Leasing**

Item	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Leased amount (Ks mil.)	2,754	651	2,056	3,135	2,969	4,216	3,840	5,054	4,723	4,638	16,719
Growth (%)	50.7	(76.4)	216.1	52.5	(5.3)	42.0	(8.9)	31.6	(6.5)	(1.8)	260.5

Note: Year of data refers to the end of March data.

Source: Oriental Leasing Company Limited.

Table 4.77: SME Policy and Regulation

Regulations		
Name	Outline	
Private Industrial Enterprise Law No.22/1990	Business registration and regulations. SME definition included.	
Financial Institutions of Myanmar Law No.16/1990	Regulation on financial institutions (commercial banks, investment/development banks, finance companies, and credit societies)	
Myanmar Agricultural and Rural Development Bank Law No.17/1990	Regulation on Agricultural Bank and Rural Development Bank	
Savings Banks Law No. 5/1992	Regulation on savings banks	
Cooperative Society Law No.9/1992	Regulation on credit societies	
Law Amending the Promotion of Cottage Industries Law No.14/2011	Cottage industries defined as small scale industries	
Microfinance Law No.13/2011	Regulation on microfinance operations	
Foreign Investment Law No.21/2012 (amendment)	Regulation and promotion of foreign investment and exports	
Central Bank of Myanmar Law No.16/2013 (amendment)	Stipulate the central bank as a regulator for financial institutions	
Securities Exchange Law No.20/2013	Regulation on securities companies and stock exchange	
SME Development Law No.23/2015	The establishment of the SME Development Agency. The establishment of the SME Development Fund. New SME definition included.	
Banks and Financial Institutions Law (draft)	Regulation on financial institutions (commercial banks, development finance banks, nonbank financial institutions, and scheduled institutions)	
Regulators and Policymakers		
Name	Responsibility	
Central Bank of Myanmar	Regulate and supervise financial institutions (banks and nonbank financial institutions)	
Ministry of Industry (SME Development Department)	Responsible for SME sector development	
Ministry of Finance (Financial Regulatory Department)	Regulate and supervise nonbank financial institutions	
Policies		
Name	Responsible Entity	Outline
Policy of Small and Medium Enterprise Development (draft)	Ministry of Industry	<ol style="list-style-type: none"> <li>1) Policy support areas: <ol style="list-style-type: none"> <li>(a) Human resources</li> <li>(b) Technology development and innovation</li> <li>(c) Financial resources</li> <li>(d) Infrastructure development</li> <li>(e) Market access</li> <li>(f) Appropriate taxation and procedures</li> <li>(g) Conducive business environment</li> </ol> </li> <li>2) Role of the SME Development Agency: <ol style="list-style-type: none"> <li>(a) Registration of SMEs</li> <li>(b) Financial assistance</li> <li>(c) Market analysis</li> <li>(d) Human resource development</li> <li>(e) Monitoring of SME development activities (annual progress report)</li> <li>(f) SME analysis (to reduce disadvantages of SMEs)</li> <li>(g) Facilitation of non-financial services (business development services)</li> <li>(h) SME data collection</li> <li>(i) Connection with international financial institutions and development agencies, business associations, and non-government organizations</li> <li>(j) Collaboration with financial institutions</li> </ol> </li> <li>3) Prioritized industries listed in the short-term and long-term perspective</li> </ol>

SME = small and medium-sized enterprise.

Sources: Ministry of Industry, Ministry of Finance, and Central Bank of Myanmar.

# Philippines

## SME Landscape

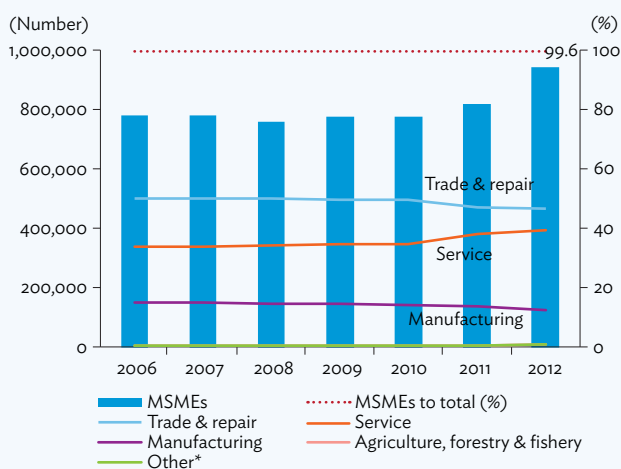
Micro, small, and medium-sized enterprises (MSMEs) in the Philippines play a pivotal role in driving the economy, as product suppliers and service providers. The Magna Carta for MSMEs (Republic Act 9501) defines the MSME as any business activity or enterprise engaged in industry, agribusiness, and/or services that have total assets (excluding land) of up to P100 million. In addition, the National Statistics Office provides a definition of MSMEs as firms having fewer than 200 employees.

In 2012, the number of registered MSMEs reached 940,886, a 15.2% increase from the previous year, representing 99.6% of total enterprises. By business

sector, MSMEs in the trade and repair sector (wholesale and retail trade and repair of motor vehicles and motorcycles) accounted for 46.4% of total MSMEs in 2012, followed by services with 39.4% and manufacturing with 12.5% (Figure 4.158 and Table 4.78). The share of primary industry represented by agriculture is small at 0.9%, but slightly increased from the 2011 figure (0.6%).

MSMEs employed 4,930,851 people or 64.9% of total employment in the Philippines in 2012, a 27.3% increase from the previous year. MSMEs in the service sector contributed 2,097,062 employees in 2012, which accounted for 42.5% of total MSME employment, followed by the trade and repair sector (35.7%) and manufacturing (16.6%) (Figure 4.159).

Figure 4.158: Number of MSMEs

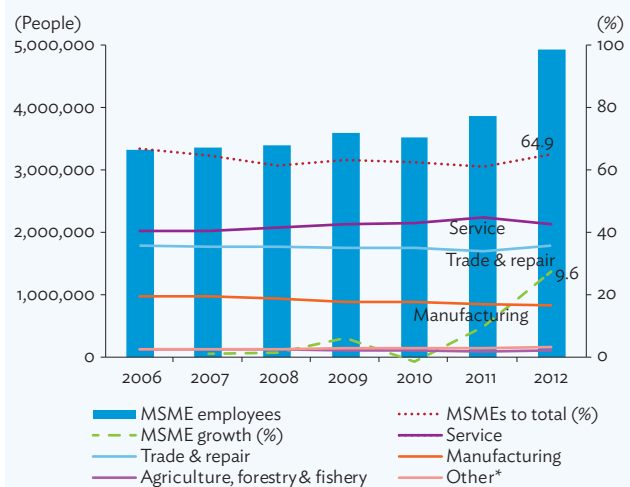


MSME = micro, small, and medium-sized enterprise.

\*Includes construction, electricity, gas and water supply, and mining.

Source: National Statistics Office; and Bureau of Micro, Small and Medium Enterprise Development.

Figure 4.159: Employment by MSMEs



MSME = micro, small, and medium-sized enterprise.

\*Includes construction, electricity, gas and water supply, and mining.

Source: National Statistics Office; and Bureau of Micro, Small and Medium Enterprise Development.

The data on MSME contribution to the country's total gross value-added have not been updated since 2006. The MSME sector contributed P751,943 million or 35.7% of the total gross value-added in 2006. Of MSMEs, small enterprises accounted for the largest share with 20.5% of the total, followed by medium-sized enterprises with a share of 10.3% and micro enterprises with 4.9%.

## Banking Sector

The Philippine banking sector comprised commercial banks (both universal and ordinary), thrift banks (savings and mortgage banks, private development banks, and stock savings and loan associations), rural banks, cooperative banks, and one Islamic bank. As of June 2014, universal banks represented 51.5% of all banking institutions in the Philippines, followed by rural banks (23.8%), and thrift banks (18.5%) (Figure 4.160).

Microfinance remains an integral component of increasing access to finance among poor and low-income households. As such, the Bangko Sentral ng Pilipinas (BSP) continues to implement its financial inclusion agenda. In 2013, there were 182 banks with

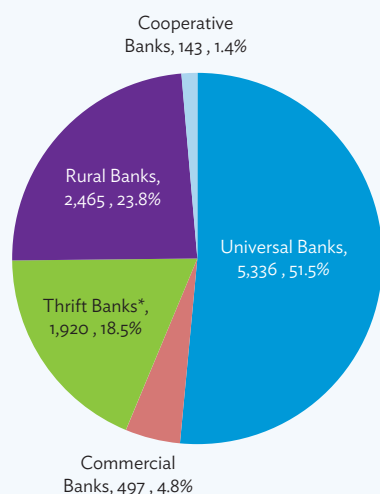
microfinance operations, serving 1,049,988 clients with loans outstanding amounting to P8.7 billion. As of September 2014, the number of banks decreased to 179, serving 1,170,889 clients with loans outstanding amounting to P9.4 billion, or an increase of 8% in loans outstanding (Figure 4.161 and Table 4.79).

Retail microfinance loans are classified by purpose, which comprise four major products. Of the P9.4 billion in outstanding loans as of September 2014, P7.8 billion came from the Micro enterprise Loans (a 5.1% increase from 2013), P215 million from the Microfinance Plus (a 93.9% increase), P290 million from the Micro-Agri Loans (a 1.8% decrease), P377 million from the Microhousing Loans (a 43.4% increase), and P778 million from other purposes. (Figure 4.162 and Table 4.80).

The Magna Carta for MSMEs mandates banks to allocate 10% of their loan portfolio to MSMEs (8% to micro and small enterprises and 2% to medium-sized enterprises). The BSP is responsible for monitoring banks' compliance with this mandatory lending.

According to BSP figures, the net loan portfolio of the Philippine banking sector reached P3,310 billion in

Figure 4.160: Licensed Banks as of June 2014

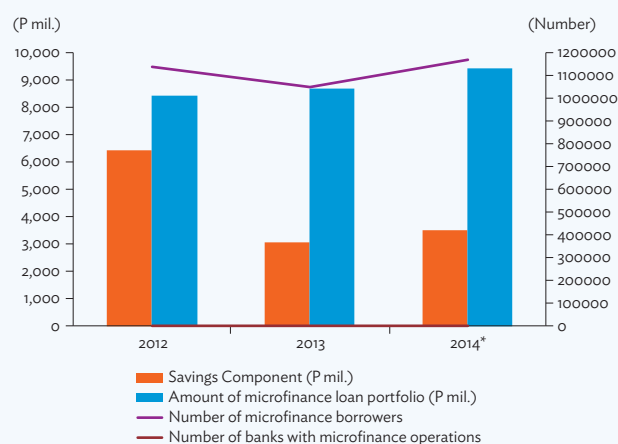


Note: Banks licensed by Bangko Sentral ng Pilipinas. Data refer to type of bank, number of head offices and branches, % to total number of Bangko Sentral ng Pilipinas regulated and/or supervised banks.

\*Including microfinance-oriented banks.

Source: Bangko Sentral ng Pilipinas.

Figure 4.161: Microfinance Exposures of Microfinance-oriented and Engaged Banks



Note: Includes microfinance oriented thrift banks, microfinance oriented rural banks, and microfinance engaged cooperative banks.

\* data as of September 2014.

Source: BangkoSentral ng Pilipinas.

**Figure 4.162: Microfinance Exposures of Microfinance-oriented and Engaged Banks— Loan Exposure by Purpose**



Note: Includes microfinance oriented thrift banks, microfinance oriented rural banks, and microfinance engaged cooperative banks.

\*data as of September 2014.

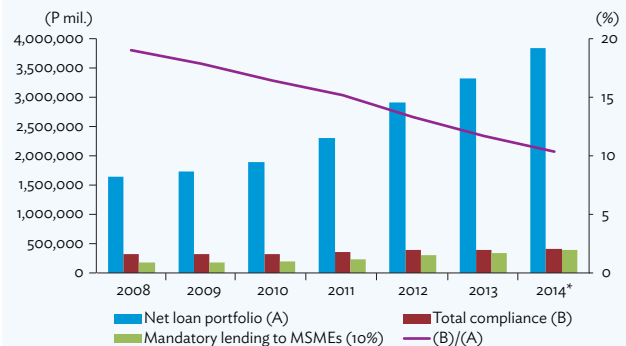
Source: Bangko Sentral ng Pilipinas.

2013, a 13.6% increase from 2012, and P3,838 billion as of the end of September 2014, a 16% increase from 2013 figure. Total funds set aside by banks for MSMEs amounted to P387 billion in 2013, and P396 billion as of the end of September 2014, whose compliance ratio to the statutory minimum lending requirement stood at 11.7% in 2013 and 10.3% in September 2014, both exceeding the target ratio of 10% (Figure 4.163 and Table 4.81).

When looking at the details, however, the compliance ratio in the micro and small enterprise credit stood at 5.6% in 2013 and 4.6% as of the end of September 2014, both falling short of the mandated 8% (Figure 4.164). Only thrift banks and rural and cooperative banks reached the target, showing 9.8% and 26%, respectively, in 2013, but only the rural and cooperative banks (22.5%) reached the mandated 8%, as of the end of September 2014. Meanwhile, the compliance ratio in the medium-sized enterprise credit reached 6.1% in 2013, and 5.7% as of the end of September 2014, both being beyond the target 2% (Figure 4.165). This suggests that hesitation by the banks to finance micro and small enterprises has been increasingly widening, especially in universal and commercial banks.

As of the end of September 2014, the total number of borrowers reached 1,033,121, of which 1,029,501

**Figure 4.163: Net Loan Portfolio of Banks and Compliance with Mandatory Lending**

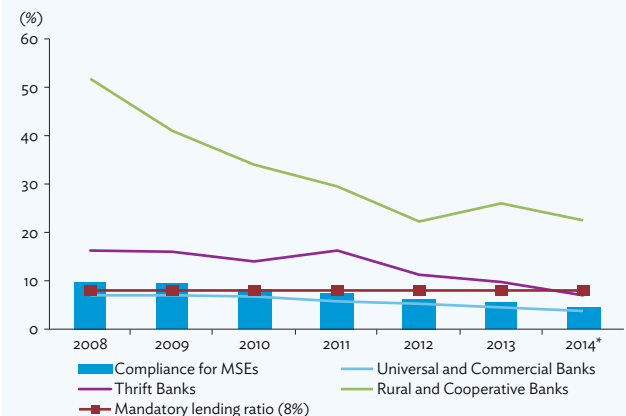


Note: compliance with RA 9501.

\*data as of September 2014.

Source: Bangko Sentral ng Pilipinas.

**Figure 4.164: Compliance for MSE Lending**



MSE = micro and small enterprise.

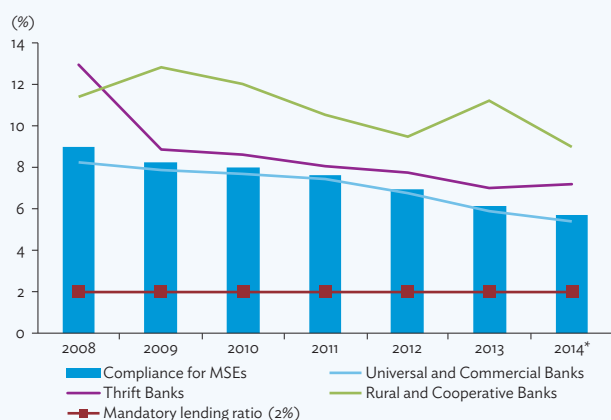
\*data as of September 2014.

Source: Bangko Sentral ng Pilipinas.

were borrowers other than Barangay Microbusiness Enterprises (BMBEs), while 3,550 were BMBE borrowers. In 2013, borrowers other than BMBEs reached 1,669,843 compared to BMBE borrowers of only 52,390. These loans mostly came from rural and cooperative banks, followed by universal and commercial banks, and lastly from thrift banks (Figure 4.166, Figure 4.167, and Table 4.82).

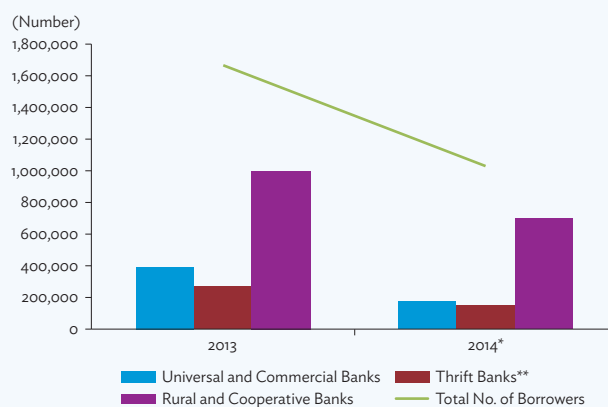
BSP Circular No. 625 imposes administrative sanctions in the amount of P500,000 (annual fine) for zero

**Figure 4.165: Compliance for Medium-Sized Enterprise Lending**



ME = medium-sized enterprise.  
 \*data as of September 2014.  
 Source: Bangko Sentral ng Pilipinas.

**Figure 4.166: Number of Borrowers other than Barangay Microbusiness Enterprise Borrowers**

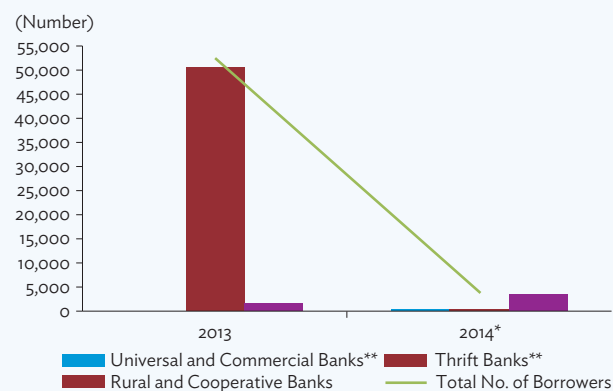


\* data as of September 2014. \*\*Reporting Banks only.  
 Source: Report on Compliance with Mandatory Credit Allocation Required under R.A. 6977.

compliance with the mandatory allocation of credit resources. The penalty for undercompliance for micro and small enterprise credit is the percentage of undercompliance multiplied by P400,000. Meanwhile, for medium-sized enterprise credit, the penalty is the percentage of undercompliance multiplied by P100,000. Of the penalties collected, 90% will be remitted to MSME Development Council Fund, while the remaining 10% will be retained by the BSP to cover its administrative expenses.

Besides the mandatory credit allocation, the BSP provides several incentive programs to encourage lending to MSMEs. Banks borrowing under the Wholesale Lending Program of the Small Business Corporation (SBC) are eligible for a reduction in reserve requirements. Other BSP regulatory incentives include a reduction in the risk-weight for MSME loans, from 100% to 75%, excluding small and medium-sized enterprise (SME) receivables purchased by banks and other financial institutions from the single borrower's limit. BSP Circular No. 855, dated 29 October 2014, or the Credit Risk Management Framework, explicitly allows banks to forego requiring income tax returns from microcredit borrowers, clients with loans below P38 billion in 2013 and P29 billion from January to June 2014 (Figure 4.168 and Table 4.83). This funding was released to government financial institutions (such as the Land Bank of the Philippines, the

**Figure 4.167: Number of Barangay Microbusiness Enterprise Borrowers**

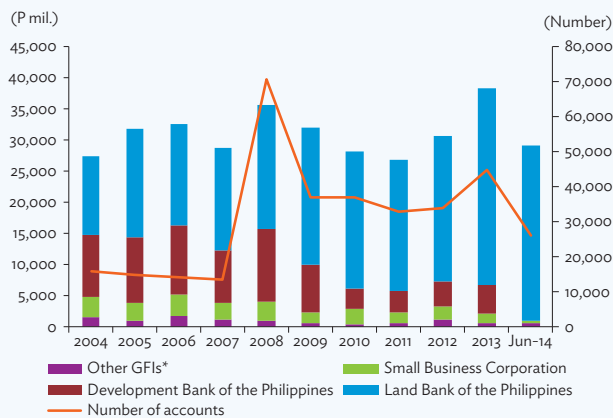


\* data as of September 2014. \*\*Reporting banks only.  
 Source: Report on Compliance with Mandatory Credit Allocation Required under R.A. 6977.

The Access of Small Enterprises to Sound Lending Opportunity (ASENSO), which was formerly called as the SME Unified Lending Opportunities for National Growth (SULONG) Program, released P38 billion in 2013 and P29 billion from January to June 2014 (Figure 4.168 and Table 4.83). This funding was released to government financial institutions (such as the Land Bank of the Philippines, the



**Figure 4.168: Government Financial Institution Loans to MSMEs—ASENSO Program**



ASENSO = Access of Small Enterprises to Sound Lending Opportunity, GFI = government financial institution, MSME = micro, small, and medium-sized enterprise.

\*Other participating GFIs are the National Livelihood Development Corporation, Philippine Export-Import Credit Agency, Quedan and Rural Credit Guarantee Corporation, and Social Security System.

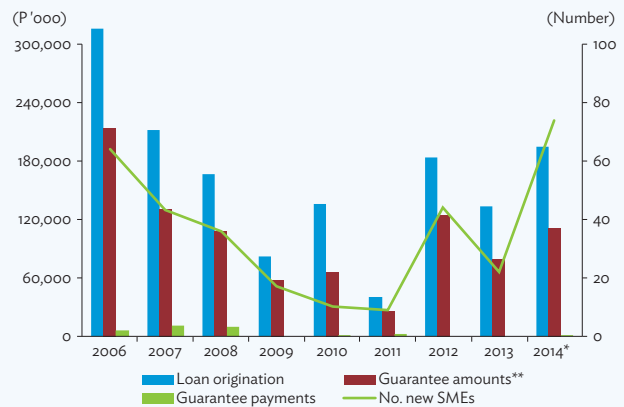
Source: Small Business Corporation.

Development Bank of the Philippines, and the SBC) for MSME loans. The accumulated amount of funds released to government financial institutions for MSME loans reached P340 billion during 2004 and June 2014.

There are two major credit guarantee programs for MSMEs in the Philippines. One is provided by the SBC and another is the BSP Credit Surety Fund Program. The SBC, basically covering 70% of MSME loans applied, provided P80 million in guarantees during 2013, and P112 million from January to June 2014. The total amounts guaranteed by the SBC reached P1.6 billion during 2002 and June 2014. (Figure 4.169 and Table 4.84).

The BSP Credit Surety Fund Program, from the time of its inception in 2008 to 31 October 2014, had approved cumulative loans for 10,515 beneficiaries. These loans reached P1.3 billion, a growth rate of 23% from the end of 2013 (cumulative approved loans of P1.1 billion). Of the total loan approvals, P1.1 billion was released to 10,492 beneficiaries. The outstanding balance was P392 million, of which P 310.6 million was covered by credit surety funds (CSFs). As of 18 December 2014,

**Figure 4.169: Credit Guarantees—Small Business Corporation**



The Small Business Corporation is the largest provider of wholesale credit guarantees for MSME lending.

\* data as of June 2014.

\*\* Average guarantee cover is 70%.

Source: Small Business Corporation.

37 CSFs have been established in 27 provinces and 10 cities nationwide.

To extend its cooperation with the BSP, the Development Bank of the Philippines (DBP) also offers a CSF credit facility, through which qualified cooperatives and nongovernment organizations (NGOs) may apply for loans, either for relending to their members who need funding for their business (wholesale) or directly for a cooperative's or NGO's own entrepreneurial business activities (retail). Based on the DBP Annual Report of 2013, the DBP has supported a total of 29 CSFs, with 428 participating cooperatives and NGOs. Of the P48.3 million approved since the launch in 2008, P38.1 million or 79% of the funds had been released.

The DBP has launched the Sustainable Entrepreneurship Enhancement and Development (SEED) program, Retail Lending for Micro and Small Enterprises, and the Credit Surety Fund Facility, to maximize the banks' lending reach to MSMEs. In 2012, loans released under the Retail Lending Program for MSEs increased by 12% from P500.4 million in 2011 to P560.02 million in 2012. Loans provided to individual MSMEs through retail amounted to P1.89 billion in 2012. The loans assisted 139 entrepreneurs and generated 4,410 additional jobs.

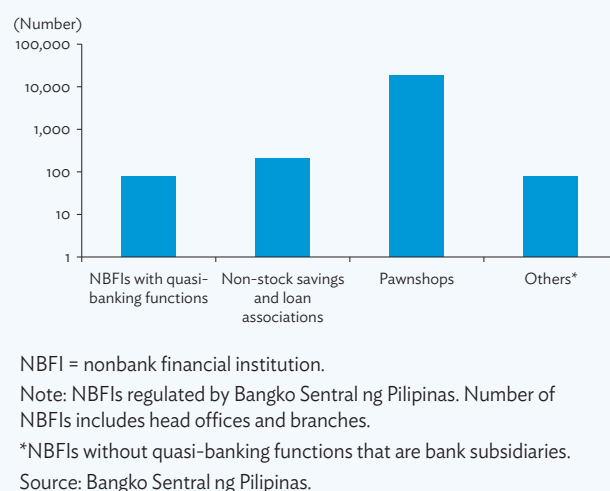
The Credit Information Corporation (CIC) was established under the Credit Information Systems Act of 2008 (Republic Act 9510). It receives and consolidates basic credit data as a central repository of credit information, and provides standardized information on credit history and financial conditions of borrowers for member financial institutions. The CIC credit data are collected from various sources, such as banks, financial institutions, insurance companies, credit cooperatives, utility companies, and other businesses that extend loans. The CIC data help lenders evaluate credit risks. The CIC operates under the SEC and is supervised by the Governance Commission for Government Owned and Controlled Corporations (GOCCs).

## Nonbank Sector

As of June 2014, the BSP regulated and supervised 17,862 nonbank financial institutions (NBFIs). These NBFIs are either affiliates or subsidiaries of banks and other NBFIs. NBFIs are classified into two groups: (i) NBFIs with quasi-banking functions, and (ii) NBFIs without quasi-banking functions. NBFIs that perform quasi-banking functions are supervised and regulated by the BSP, while those without quasi-banking functions are under the regulation and supervision of the Securities and Exchange Commission (SEC). Some NBFIs without quasi-banking functions (e.g. pawnshops, non-stock savings and loan associations, electronic money issuers, etc.) are also under BSP supervision. Non-quasi-banking NBFIs include investment houses, financing companies, securities dealers/brokers, lending investors, government NBFIs, venture capital corporations, non-stock savings and loan associations, pawnshops, and credit card companies (Figure 4.170).

The People's Credit and Finance Corporation (PCFC) was registered with the SEC on 14 September 1995, to operate as a finance company. The PCFC wholesales short, medium, and long-term investment loans to accredited microfinance institutions (MFIs), including banks, cooperatives, and NGOs that implement credit assistance programs. The People's Development Trust Fund (PDTF) is being administered by the PCFC. It is a fund created under the Social Reform and Poverty Alleviation Act (Republic Act 8425) for the development of a nationwide network of viable and sustainable MFIs and micro enterprise business development service

**Figure 4.170: Regulated Nonbank Financial Institutions, as of June 2014**



groups, which are able to deliver effective and efficient microfinance services to the poor.

The Microfinance Data Sharing System (MiDaS) was established in 2012 by seven of the largest MFIs in the country.<sup>105</sup> This private credit bureau is dedicated to microfinance borrowers. This system allows MFIs to submit reports, send inquiries, and retrieve results on borrower information. One feature of this system that differentiates it from other traditional credit information systems is that it allows users to search for information on barangays (the smallest administrative divisions in the Philippines) and not only on clients. This system also shares data on financially troubled clients to offer possible solutions for them.

Pawnshops are a viable source of funding and are accessible for the poor and the self-employed. Pawning operations require a different kind of “credit investigation” compared to that conducted by banks. Pawnshops extend loans only if they are secured by personal property that could be physically delivered to the control and possession of the pawnshop. The pawner is the true owner of the item and the pawner can provide a valid identification document. Pawnshop operations are governed by BSP rules (Manual of

<sup>105</sup> The seven MFIs include: Taytay sa Kausagan Inc. (TSKI), OK Bank, CARD Bank, CARD NGO, Negros Women, Ahon sa Hirap and ASA Philippines.

Figure 4.171: Number of Pawnshops



Note: Number of pawnshops includes head offices and branches.

\*Based on Consolidated Statement of Condition.

Source: Bangko Sentral ng Pilipinas.

Regulations for Non-Bank Financial Institutions). As of 2014, there were 17,422 registered pawnshops in the Philippines, a 1.3% decrease from 2013. (Figure 4.171 and Table 4.85).

The SEC, as a regulator of NBFIs, reported that there were 613 financing companies active as of December 2014, an increase of around 3% from 2013. Active lending companies totalled 1,505 as of December 2014, a decrease of 0.4% from the previous year.

## Capital Markets

The SEC is mandated to strengthen the corporate and capital market infrastructure of the Philippines. It is also mandated to encourage competitiveness in the market, by promulgating rules for the registration and licensing of innovative and other trading markets or exchanges, covering but not limited to the issuance of innovative securities and securities of SMEs and venture businesses.

Although it is still a challenge for SMEs to tap the exchange market, the SEC has noted that alternative trading systems (ATSs) have become integral to the modern securities markets, providing investors with enhanced flexibility and reduced trading costs as well as competition to the established securities exchanges. According to the SEC, an ATS refers to any organization, association, person, or group of persons, or system, that maintains, or provides an electronic marketplace or

facility for bringing together purchasers and sellers of securities.

In December 2004, the SEC approved the use of an alternative trading system by the DBP for the trading of receivables of small firms, dubbed the Marketplace for SME Receivables Purchases (M4SME-RP). It is an electronic trading venue specifically designed for SMEs' receivables from highly rated companies. The main objective of the venue is to help SMEs secure loans, and allow them the opportunity to sell their receivables outright at a much lower financing cost. In 2014, the SEC granted the Regina Capital Development Corporation a permanent license to operate the Trade and Service Related Securities Dealer Automated Quotations (TRESDAQ), an electronic receivables marketplace.

The SEC is responsible for monitoring the status of implementing the Capital Market Development Blueprint 2013–2017 (CMDDB). The CMDDB emphasizes the vitalization of the expansion, efficiency, and competitiveness of the Philippine capital market. In line with this, the Philippine Stock Exchange (PSE) and the Philippine Chamber of Commerce and Industry (PCCI) have signed a Memorandum of Agreement to develop and initiate programs to support the development of the country's capital market. They also organized the Capital Market Development Committee (CMDDC) to promote efficient practices that will enable businesses, particularly SMEs, to consider raising funds through the capital markets for growth and expansion. Among the CMDDC's objectives are to encourage and expand listing of SMEs in the PSE, raise awareness for new products and services, and undertake advocacy initiatives on issues concerning SME capital market development. The PSE has also partnered with the DBP to provide a framework for cooperation and coordination in the area of capital market development, particularly in raising capital market awareness among SMEs.

In June 2013, the SEC approved the PSE's rules creating the two-board system: the Small, Medium and Emerging Board (SME Board) and the Main Board. The new board structure shall replace the previous three listing boards comprising the First Board, the Second Board, and the Small and Medium Enterprise Board (SME Board). Companies applying for listing on the SME Board must have a minimum authorized capital stock of at least P100 million, of which at least 25%

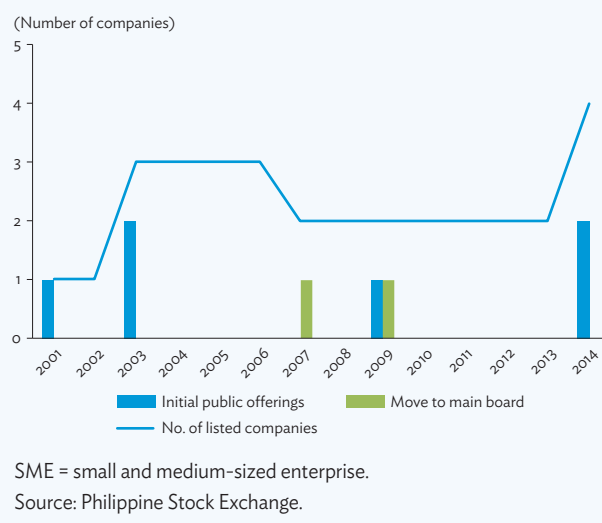
must be subscribed and fully paid, as well as have a minimum of 200 stockholders upon listing. They should also have cumulative earnings before interest, taxes, depreciation, and amortization of at least P15 million, excluding nonrecurring and extraordinary income or loss for the last 3 fiscal years, immediately preceding the application for listing.

Since 2001, six companies have been listed in total, but two of these moved to the Main Board in each of 2007 and 2009. As of December 2014, the PSE had only two initial public offerings (IPOs) under the SME Board: DoubleDragon Properties, listed on 7 April 2014 (which raised P1.16 billion) and Xurpas, listed on 2 December 2014 (which raised P1.37 billion). No new companies have been listed since 2009 (Figure 4.172, Figure 4.173, and Table 4.86).

While the PSE provides an equity stock trading venue, the Philippine Dealing and Exchange Corporation (PDEX) operates an electronic trading platform for fixed-income securities including government and corporate bonds.

On 2 September 2014, House Bill 4942, a proposal on creating the dedicated Small and Medium Enterprises Stock Exchange (SMEX) was submitted to Congress. SMEX is intended to provide equity financing opportunities for growing businesses that fail to meet the listing requirements for the PSE. The SMEX will cater to small enterprises with capital between P2 million and P19.99 million, and medium-sized enterprises

Figure 4.173 Listed Companies—SME Board



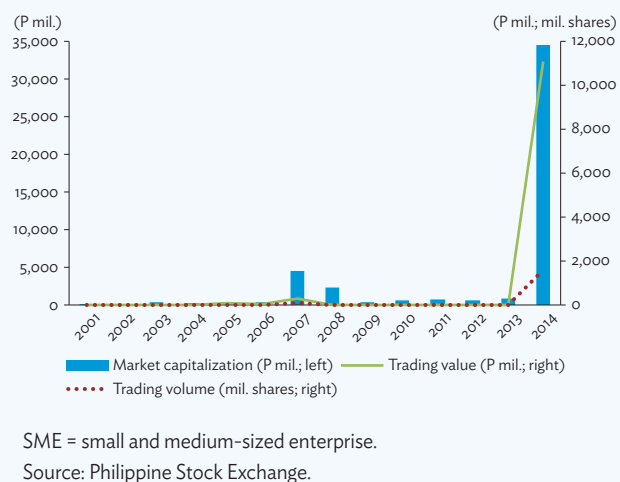
with capital between P20 million and P99 million in equity finance. This is a lower hurdle for SMEs to tap the capital market, as compared to the PSE SME Board listing requirement (a minimum authorized capital of P100 million).

### Policy and Regulation

The Magna Carta for MSMEs (Republic Act 6977) was originally enacted by the Philippine Congress in 1991. It was amended twice, in 1997 (Republic Act 8289) and in 2008 (Republic Act 9501). The law is geared toward the development of the Filipino entrepreneurial mind, by providing a business environment conducive to MSMEs. It defines the national policies to promote the growth of MSMEs in the Philippines. There are three major components contained in the Magna Carta: (i) creation of the Micro, Small and Medium Enterprise Development (MSMED) Council; (ii) creation of the Small Business Corporation; and (iii) the mandatory credit allocation by lending institutions of 8% to micro and small enterprises, and 2% to medium-sized enterprises.

The Barangay Micro Business Enterprise Act of 2002 (Republic Act 9178) provides several incentives and benefits to barangay micro business enterprises (BMBEs), which include: (i) exemption from taxes and fees; (ii) exemption from the coverage of the minimum wage law; (iii) a special credit window that serves the

Figure 4.172: Market Performance—SME Board





financing needs of BMBEs; (iv) technology transfer, production and management training; (v) marketing assistance; and (vi) trade and investment promotion.

The Department of Trade and Industry (DTI) is a main government agency for the development of Philippine MSMEs. The Bureau of Micro, Small and Medium Enterprise Development (BMSMED), a part of the DTI, is responsible for implementing government programs and policies related to promoting the MSME sector in the country, and serving the secretariat of the MSMED Council. The MSMED Council is a coordinating body for government policy planning and strategies to develop the MSME sector, and for monitoring such government efforts and implementing programs at the national level.

The MSME Development Plan 2011–2016 targets a 40% contribution of the MSME sector to total gross value-added in the country and the generation of 2 million employees in the MSME sector by 2016.

The Go Negosyo Act (Republic Act 10644) was enacted on 15 July 2014, seeking to promote job creation and inclusive growth through the development of MSMEs in the country. The most salient feature of this law is the establishment of “Negosyo Centers” in all provinces, cities, and municipalities, to provide assistance to MSMEs. The Philippine Business Registry Databank shall also be established under the DTI, to serve as a repository of information of all business enterprises in the Philippines. A start-up fund will also be established to provide financing for MSMEs in priority sectors of the economy as specified in the MSME Development Plan.

The BSP is the sole regulator of the banking sector in the Philippines, and also regulates NBFIs with quasi-banking functions, pawnshops, non-stock savings and loan associations, and NBFIs without quasi-banking functions but which are banks’ subsidiaries. Meanwhile, the SEC regulates and supervises NBFIs without quasi-banking functions generally as well as capital markets.

The microfinance regulatory framework was formulated by the National Credit Council (NCC) in 2002. It clarifies the types of MFIs in the Philippines and the manner of regulation. For banks with microfinance operations, the BSP is the regulator in accordance with existing laws (e.g., General Banking Law). For credit cooperatives, the Cooperative Development Authority (CDA) is the regulator in accordance with the Cooperative Code.

Under the regulatory framework, microfinance NGOs must register with the SEC, while the Microfinance Council of the Philippines may act as the information repository of NGO-MFIs.

On 9 October 2013, the Senate Bill No.1832 was filed, creating the Microfinance Code of the Philippines, aiming to: (i) define the rights and responsibilities of MFIs, (ii) institute performance management standards, and (iii) provide an accreditation process for MFIs. It also seeks to provide an enabling policy environment for MFIs through appropriate incentives and support.

The SBC, a government financial institution, is one of the largest providers of SME financing, with a lending portfolio of over P3 billion. The SBC provides retail lending, wholesale lending programs, and a 70% partial credit guarantee scheme, which facilitates MSMEs to access short-term and medium-term credit.

The Philippine Chamber of Commerce and Industry (PCCI) is positioned in lobbying the formulation and implementation of government policies and programs on MSME development at the central and local levels, addressing access to technology, access to finance, market access, and human resource development. The PCCI, together with the PSE, also launched the Capital Market Development Committee to promote SME access to capital markets.

In June 2013, the Department of Finance partnered with the government sector (including the the BSP, the SEC, the LBP, the CDA, and the CIC), the private sector (including umbrella bank groups such as the Philippine Center for Entrepreneurship, PinoyME Foundation, Microfinance Council of the Philippines, and the Philippine Finance Association), the International Finance Corporation, and the private arm of the World Bank, to develop a framework document for establishing a movable collateral registry system. With its establishment, financial institutions are expected to accept movable assets, such as machinery, as collateral for MSME loans.

The NCC is one of the government agencies under the Department of Finance. It is the primary credit policymaking body of the government, of which the BSP is a member. The NCC launched the National Strategy for Microfinance, which aims to provide a majority of poor households and micro enterprises with greater access to micro financial services.

Table 4.78: MSME Landscape

Item	2006	2007	2008	2009	2010	2011	2012
<b>Number of MSMEs</b>							
MSMEs (number)	780,469	781,201	758,436	777,357	774,664	816,759	940,886
MSMEs to total (%)	99.7	99.7	99.6	99.6	99.6	99.6	99.6
MSME growth (%)	...	0.1	(2.9)	2.5	(0.4)	5.4	15.2
Trade and repair (% to MSMEs)	50.1	50.1	49.9	49.6	49.7	47.0	46.4
Service (% to MSMEs)	33.7	33.8	34.2	34.8	34.8	38.1	39.4
Manufacturing (% to MSMEs)	14.9	14.9	14.7	14.4	14.4	13.7	12.5
Agriculture, forestry, and fishery (% to MSMEs)	0.7	0.7	0.7	0.7	0.6	0.6	0.9
Other* (% to MSMEs)	0.5	0.5	0.5	0.5	0.5	0.6	0.8
<b>Employment by MSMEs</b>							
MSME employees (people)	3,327,855	3,355,742	3,395,505	3,595,641	3,532,935	3,872,406	4,930,851
MSMEs to total (%)	66.8	64.7	61.2	63.2	62.3	61.0	64.9
MSME growth (%)	...	0.8	1.2	5.9	(1.7)	9.6	27.3
Service (% to MSMEs)	40.3	40.3	41.4	42.7	42.7	44.7	42.5
Trade and repair (% to MSMEs)	35.5	35.3	35.1	34.8	35.0	33.9	35.7
Manufacturing (% to MSMEs)	19.4	19.5	18.7	17.7	17.5	16.7	16.6
Agriculture, forestry, and fishery (% to MSMEs)	2.3	2.3	2.2	2.0	2.0	1.8	2.2
Other* (% to MSMEs)	2.5	2.5	2.5	2.8	2.8	2.9	3.0
<b>MSME Contribution to GVA**</b>							
GVA of MSMEs (P mil.)	751,943	...	...	...	...	...	...
MSME contribution to GVA (%)	35.7	...	...	...	...	...	...
<b>GVA Composition of MSMEs</b>							
Trade and repair (% to MSME GVA)***	18.4	...	...	...	...	...	...
Service (% to MSME GVA)***	41.9	...	...	...	...	...	...
Manufacturing (% to MSME GVA)***	19.3	...	...	...	...	...	...
Agriculture, forestry, and fishery (% to MSME GVA)***	1.0	...	...	...	...	...	...
Other* (% to MSME GVA)***	19.3	...	...	...	...	...	...

( ) = negative; GVA = gross value added; MSME = micro, small, and medium-sized enterprise.

\*Includes construction, electricity, gas and water supply, and mining.

\*\*GVA refers to the total payment to factors of production, i.e., wages, interest, profits, and rents. It also includes capital consumption allowance and indirect taxes.

\*\*\*Computation based on available data in the MSME Development Plan 2011–2016.

Sources: National Statistics Office; Bureau of Micro, Small and Medium Enterprise Development; and Micro, Small and Medium Enterprise Development Plan 2011–2016.

**Table 4.79: Microfinance Exposures of Microfinance-Oriented and Engaged Banks**

	2012	2013	2014*
Number of Banks with Microfinance Operations	187	182	179
Number of Microfinance Borrowers	1,137,813	1,049,988	1,170,889
Amount of Microfinance loan portfolio (P mil.)	8,413.54	8,701.24	9,410.41
Savings Component (P mil.)	6,432.46	3,065.26	3,503.42

\* data as of September 2014.

Source: Bangko Sentral ng Pilipinas.

**Table 4.80: Microfinance Exposures of Microfinance-Oriented and Engaged Banks Loan Exposure by Purpose**

Microfinance Product	2012	2013	2014*
Micro enterprise Loans (P mil.)	6,925.52	7,377.25	7,750.25
Microfinance Plus (P mil.)	83.30	111.23	215.64
Micro-Agri Loans (P mil.)	496.16	295.23	290.01
Microhousing Loans (P mil.)	241.78	262.75	376.69
Others (P mil.)	666.78	654.78	777.82
<b>TOTAL (P mil.)</b>	<b>8,413.54</b>	<b>8,701.24</b>	<b>9,410.41</b>

\* data as of September 2014.

Source: Bangko Sentral ng Pilipinas.

**Table 4.81: Compliance with SME Loans Required**

Item	2008	2009	2010	2011	2012	2013	2014*
Net loan portfolio (P mil.)	1,637,533	1,728,628	1,881,139	2,303,436	2,912,347	3,309,653	3,837,922
Min. amount required to be set aside** (P mil.)	163,753	172,863	188,114	230,344	291,235	330,965	383,792
Total funds set aside for MSMEs (P mil.)	310,882	309,357	308,554	348,915	387,681	387,030	396,219
Compliance for MSEs (%)	10.0	9.7	8.5	7.6	6.4	5.6	4.6
Universal and Commercial Banks	7.1	7.1	6.8	5.8	5.3	4.6	3.7
Thrift Banks	16.4	16.1	14.0	16.2	11.3	9.8	7.1
Rural and Cooperative Banks	51.8	41.1	34.1	29.6	22.3	26.0	22.5
Compliance for MEs (%)	9.0	8.2	7.9	7.6	6.9	6.1	5.7
Universal and Commercial Banks	8.3	7.9	7.7	7.4	6.7	5.9	5.4
Thrift Banks	12.9	8.9	8.6	8.0	7.8	7.0	7.2
Rural and Cooperative Banks	11.4	12.8	12.0	10.5	9.5	11.2	9.0

ME = medium-sized enterprise, MSE = micro and small enterprise, SME = small and medium-sized enterprise.

Notes: Compliance required under the Republic Act No.6977 (amended by RA Nos. 8289 and 9501).

\* data as of September 2014.

\*\* 8% of net loan portfolio to micro and small enterprises and 2% to medium-sized enterprises.

Source: Bangko Sentral ng Pilipinas.



**Table 4.82: Number of Barangay Microbusiness Enterprise Borrowers and non Barangay Microbusiness Enterprise Borrowers**

	2013	2014*
<b>Number of Borrowers other than BMBEs</b>		
Universal and Commercial Banks	395,345	176,373
Thrift Banks**	272,894	153,727
Rural and Cooperative Banks	1,001,604	699,471
<b>Total Number of Borrowers</b>	<b>1,669,843</b>	<b>1,029,571</b>
<b>Number of BMBE Borrowers</b>		
Universal and Commercial Banks	...	1
Thrift Banks**	50,728	109
Rural and Cooperative Banks	1,662	3,440
<b>Total Number of Borrowers</b>	<b>52,390</b>	<b>3,550</b>
<b>Total Number of Borrowers</b>	<b>1,722,233</b>	<b>1,033,121</b>

BMBE = barangay microbusiness enterprise.

\* data as of September 2014.

\*\* Reporting Banks only.

Source: Bangko Sentral ng Pilipinas.

**Table 4.83: MSME Loans Released by Government Financial Institutions under the ASENSO Program**

Item	2004	2005	2006	2007	2008	2009
<b>Total loans released (P mil.)</b>	<b>27,216</b>	<b>31,727</b>	<b>32,407</b>	<b>28,576</b>	<b>35,596</b>	<b>31,809</b>
Land Bank of the Philippines	12,560	17,431	16,214	16,353	20,001	21,883
Development Bank of the Philippines	9,872	10,488	11,051	8,515	11,630	7,592
Small Business Corporation	3,268	2,939	3,443	2,690	3,005	1,825
Other GFIs**	1,517	868	1,698	1,019	959	509
<b>Number of accounts</b>	<b>15,886</b>	<b>14,939</b>	<b>14,284</b>	<b>13,585</b>	<b>70,666</b>	<b>36,994</b>
Item	2010	2011	2012	2013	2014*	
<b>Total loans released (P mil.)</b>	<b>28,080</b>	<b>26,795</b>	<b>30,583</b>	<b>38,220</b>	<b>29,093</b>	
Land Bank of the Philippines	21,937	21,126	23,263	31,640	28,202	
Development Bank of the Philippines	3,282	3,434	4,192	4,484	-	
Small Business Corporation	2,459	1,784	2,015	1,603	354	
Other GFIs**	402	451	1,112	493	517	
<b>Number of accounts</b>	<b>36,892</b>	<b>32,808</b>	<b>34,054</b>	<b>44,677</b>	<b>26,149</b>	

ASENSO = Access of Small Enterprises to Sound Lending Opportunity, GFI = government financial institution, MSME = micro, small, and medium-sized enterprise.

\* For the period January to June 2014.

\*\* Other participating GFIs are National Livelihood Development Corporation, Philippine Export-Import Credit Agency, Quedan and Rural Credit Guarantee Corporation, and Social Security System.

Source: Small Business Corporation.

Table 4.84: Small Business Corporation's Credit Guarantee Program

Item	2004	2005	2006	2007	2008	2009
Loan origination (in P)	287,970,000	228,740,870	316,061,318	212,555,000	166,500,000	82,500,000
Guaranteed amount* (in P)	221,964,500	168,696,109	214,955,744	131,346,500	107,810,172	58,300,000
No. of new SMEs	70	59	64	43	36	17
Guarantee payments (in P)	2,420,793	664,869	6,216,703	11,607,602	10,448,183	...
Item	2010	2011	2012	2013	2014**	Total***
Loan origination (in P)	136,600,000	40,200,000	182,550,000	134,018,000	194,980,207	2,374,523,395
Guaranteed amount* (in P)	66,890,000	26,390,000	125,635,000	80,312,600	112,286,145	1,604,081,970
No. of new SMEs	10	9	44	22	74	549
Guarantee payments (in P)	1,122,163	2,106,533	...	...	973,924	35,560,771

SME = small and medium-sized enterprise.

Note: Small Business Corporation is the largest provider of wholesale credit guarantee for MSME lending.

\* Guaranteed amount is computed as approved credit line or loan amount x guarantee cover (%). Based on historical data, average guarantee cover is 70%, but there were special cases where the guarantee cover is below 70%, such as in 2010.

\*\* January to June 2014.

\*\*\* Total amount from 2002 to June 2014.

Source: Small Business Corporation.

Table 4.85: Number of Pawnshops

Item	2008	2009	2010	2011	2012	2013	2014
Number of pawnshops	14,333	14,800	15,596	16,729	17,335	17,652	17,422
Total Resources (P mil.)*	21,368	25,486	26,423	28,881	33,451	...	...

Note: Number of pawnshops includes head offices and branches.

\* Based on Consolidated Statement of Condition.

Source: BangkoSentral ng Pilipinas.

Table 4.86: Capital Market—SME Board

Item	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Market Performance—SME Board</b>									
Market capitalization (P mil.)	322	4,509	2,226	335	549	713	586	871	34,470
Trading value (P mil.)	51	282	14	20	1	5	12	11	11,072
Trading volume (mil. shares)	9	77	7	16	0	2	2	1	1,614
<b>Listed Companies—SME Board</b>									
No. of listed companies	3	2	2	2	2	2	2	2	4
Initial public offerings	0	0	0	1	0	0	0	0	2
Move to main board	0	1	0	1	0	0	0	0	0
Delisted	0	0	0	0	0	0	0	0	0

Source: Philippine Stock Exchange.

Table 4.87: SME Policy and Regulation

Regulations		
Name		Outline
Magna Carta for Micro, Small and Medium Enterprises (R.A. No. 6977 of 1991, as amended by R.A. 8289 of 1997, and by R.A. 9501 of 2008 further amended by R.A. 10644 of 2014)		Provides the following: <ol style="list-style-type: none"> <li>1) Definition of MSMEs</li> <li>2) Establishment of the institutional framework for the system of MSME promotion</li> <li>3) MSME promotion policies</li> <li>4) Establishment of government financing institution catering to MSMEs</li> </ol>
Barangay Micro Business Enterprises (BMBE) Act of 2002 (R.A. No. 9178 as amended by RA 10644)		Provides the following incentives to BMBEs: <ol style="list-style-type: none"> <li>1) Exemption from income tax for income arising from operation of BMBEs</li> <li>2) Exemption from the coverage of the Minimum Wage Law</li> <li>3) Priority access for financing requirements through a special credit window</li> <li>4) Assistance programs for technology transfer, production and management training, and marketing assistance programs.</li> </ol>
Go Negosyo Act (R.A. No. 10644)		Provides for the following: <ol style="list-style-type: none"> <li>1) Establishment of MSME assistance centers in all provinces, cities and municipalities</li> <li>2) Expansion of MSME Development council and Advisory Unit</li> </ol>
Regulators and Policymakers		
Name		Responsibility
Department of Trade and Industry (DTI)		Primary government agency responsible for promoting an enabling environment to MSMEs and their development
Micro, Small and Medium Enterprise Development Council (MSMED Council)		Chaired by the DTI secretary Formulate MSME promotion policies and provide guidance on implementing MSME programs
Bureau of Micro, Small and Medium Enterprise Development (BMSMED)		Act as the secretariat of MSMEDC; Advocate SME policies, programs, and projects
Bangko Sentral ng Pilipinas (BSP)		Regulate and supervise banks and NBFIs
Securities and Exchange Commission (SEC)		Regulate and supervise the capital markets and participants
Cooperative Development Authority (CDA)		Regulate all cooperatives in the Philippines
Policies		
Name	Responsible Entity	Outline
Small and Medium Enterprise Development Plan (2004–2010)	MSMED Council	Increase the contribution of SMEs as an important engine of growth <ol style="list-style-type: none"> <li>1) Increased productivity</li> <li>2) Increased production output and sales</li> <li>3) Contribution to growth of exports</li> <li>4) New creative enterprises</li> </ol>
Micro, Small and Medium Enterprise Development Plan (2011–2016)	MSMED Council	Increase the contribution of SMEs as an important engine of growth through: <ol style="list-style-type: none"> <li>1) Enabling business environment</li> <li>2) Access to finance</li> <li>3) Access to markets</li> <li>4) Increasing productivity and efficiency</li> </ol>
Philippine Development Plan (2011–2016)	National Economic Development Authority and other government agencies including the DTI	<ol style="list-style-type: none"> <li>1) Anticorruption/transparency, accountable, and participatory governance</li> <li>2) Poverty reduction and empowerment of the poor and vulnerable</li> <li>3) Rapid, inclusive, and sustained economic growth</li> <li>4) Just and lasting peace and the rule of law</li> <li>5) Integrity of the environment and climate change mitigation and adaptation</li> </ol>

MSME = micro, small, and medium-sized enterprise; NBFIs = nonbank financial institution; SME = small and medium-sized enterprise.

Sources: Bureau of Micro, Small and Medium Enterprise Development; Micro, Small and Medium Enterprise Development Plan 2011–2016, National Economic and Development Authority.

# Thailand

## SME Landscape

Small and medium-sized enterprises (SMEs) play a critical role in driving the Thai economy, accounting for 97.2% of total enterprises and numbering 2.76 million, a 1.2% annual increase, in 2013 (Figure 4.174 and Table 4.88). The SME sector in Thailand was seriously damaged by the 2008/09 global financial crisis (GFC) and the devastating flooding of 2011, with a sharp drop in the number of SMEs (a 9.2% annual decrease) in 2011. Since 2012, however, the number of SMEs has been gradually increasing. Among business sectors, 43.5% of SMEs operated in the trade sector (wholesale and retail trade, and automotive repair) in 2013, followed by the service sector (including hotels and restaurants) with 39.1%.

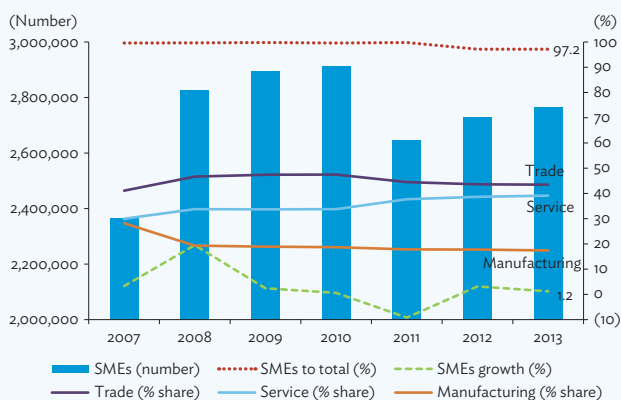
SMEs comprised 11.4 million employees or 81% of the total workforce in the country in 2013 (Figure 4.175). During the GFC and the flooding of 2011, the SME sector had supported the job market in Thailand, although the

pace of employment growth by SMEs had been slowing down. In 2013, SME employment had a 3.3% increase on the previous year. The service sector was a dominant group in employment by SMEs, accounting for 44.7% of total SME employees, followed by the trade sector (31.7%).

Despite the fact that SMEs constitute the majority of enterprises and employment in the country, their contribution to gross domestic product (GDP) is limited, at 37.4% of GDP in 2013 (Figure 4.176). Among business sectors, the GDP contribution of SMEs in the service sector has been gradually increasing, standing at 34.8% of SME GDP in 2013, followed by manufacturing (29.6%) and trade (27.7%) (Figure 4.177).

Of total export values, 25.5% (B1,762 billion) was generated by SMEs, while 30.9% of total import values (B2,369 billion) came from SMEs in 2013. This shows that SMEs are important players in international trade (Figure 4.178). However, since 2011, when the

Figure 4.174: Number of SMEs



SME = small and medium-sized enterprise.

Source: Office of Small and Medium Enterprises Promotion.

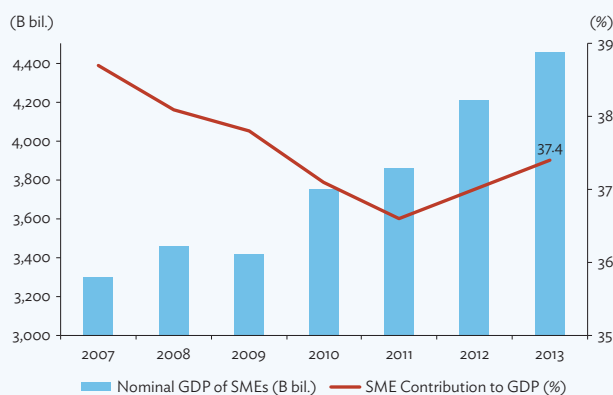
Figure 4.175: Employment by SMEs



SME = small and medium-sized enterprise.

Source: Office of Small and Medium Enterprises Promotion.

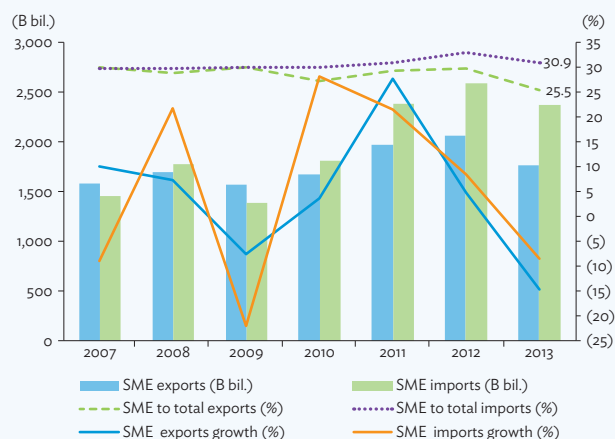
**Figure 4.176: SME Contribution to Gross Domestic Product**



GDP = gross domestic product, SME = small and medium-sized enterprise.

Source: Office of Small and Medium Enterprises Promotion.

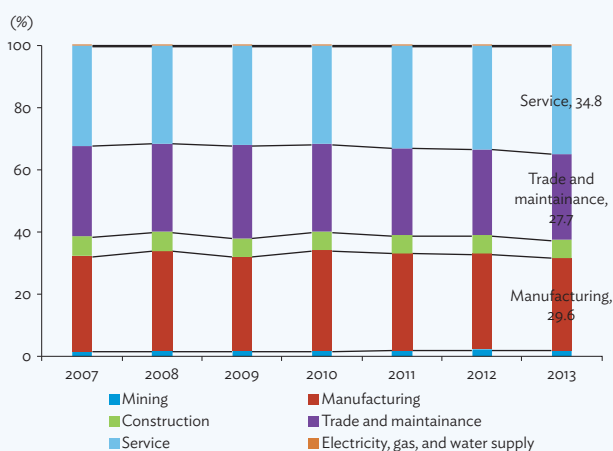
**Figure 4.178: SME Exports and Imports**



SME = small and medium-sized enterprise.

Source: Office of Small and Medium Enterprises Promotion.

**Figure 4.177: SME Contribution to Gross Domestic Product by Sector**



SME = small and medium-sized enterprise.

Source: Office of Small and Medium Enterprises Promotion.

national economy was devastated by flooding, the growth of SME export and import industries has been slowing down, recorded sharp decreases of -14.7% and -8.5%, respectively, in 2013. A slow recovery of demand from trade partners, such as the People's Republic of China, Japan, and Europe, was considered a critical reason behind the sluggish trade recovery in Thailand.

SMEs are classified under the Ministry of Industry's regulation enacted in 2002. SMEs in the manufacturing and service sectors are firms having not more than 200 employees or fixed assets (excluding land) of less than B200 million. SMEs engaged in wholesale trade are firms having not more than 50 employees or fixed assets of less than B100 million. SMEs engaged in retail trade are firms having not more than 30 employees or fixed assets of less than B60 million.

## Banking Sector

The banking sector is a main player in the Thai financial system, and a major source for SMEs to raise funds. As of the end of 2013, 30 commercial banks and 6 specialized financial institutions are active in Thailand, and provide loans to SMEs. Commercial banks accounted for 40.8% of total financial institutions<sup>106</sup> assets in 2013, while specialized financial institutions,<sup>107</sup> including

<sup>106</sup> Total financial institutions include (i) Bank of Thailand; (ii) depository corporations: (a) commercial banks, (b) specialized financial institutions, (c) savings cooperatives and credit unions, and (d) money market mutual funds; (iii) nondepository corporations: (a) mutual funds, (b) insurance companies, (c) financial institutions development fund, (d) credit card and personal loan companies, (e) holding companies, (f) provident companies, (g) government pension fund, (h) securities companies, (i) leasing companies, (j) agricultural companies, and (k) pawnshops.

<sup>107</sup> Specialized financial institutions comprise six institutions: (i) Small and Medium Enterprise Development Bank, (ii) Government Savings Bank,

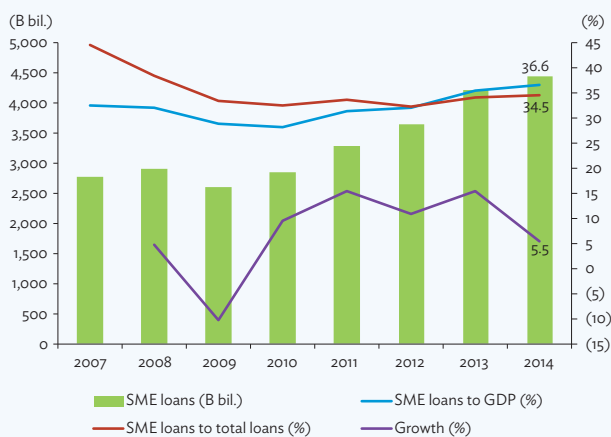
the Small and Medium Enterprise Development Bank, stood at 12.3% in the same year. Commercial banks and specialized financial institutions, as a combined total, have around 8,200 branches and 55,400 ATMs nationwide.

For SME lending, the Bank of Thailand, the country's central bank, guides financial institutions to use the SME definition stipulated in the Ministry of Industry's regulation 2002, but they often use their own definitions for lending operations.

SME loans outstanding—combining commercial banks and specialized financial institutions—amounted to B5,505 billion in 2014, of which commercial bank loans were B4,439 billion and loans by specialized financial institutions were B1,066 billion (Figure 4.179 and Table 4.89). SME loans by commercial banks accounted for 34.5% of total commercial bank loans in 2014. This ratio is increasing but is still small in scale. The share of SME commercial bank loans to GDP stood at 36.6% in 2014.

The most active SME sectors seeking commercial bank loans were trade (29.6% of total SME loans),

Figure 4.179: SME Loans Outstanding



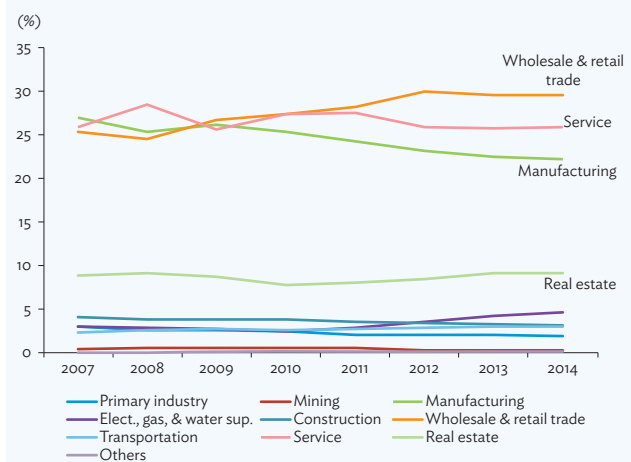
GDP = gross domestic product, SME = small and medium-sized enterprise.

Note: Data based on commercial bank loans.

Source: Bank of Thailand.

(iii) Islamic Bank of Thailand, (iv) Bank for Agriculture and Agricultural Cooperatives, (v) Export-Import Bank of Thailand, and (vi) Government Housing Bank.

Figure 4.180: SME Loans by Sector



SME = small and medium-sized enterprise.

Note: Data based on commercial bank loans.

Source: Bank of Thailand.

service (25.9%), and manufacturing (22.3%) in 2014 (Figure 4.180). Since 2010, the share of manufacturing in SME loans has been gradually decreasing. Meanwhile, the service sector is expanding its share of SME loans. Funding demand from SMEs comes mainly from the need for working capital. Short-term loans up to 3 years are typically provided to SMEs, with annual lending rates of 3%–5% risk premium plus the minimum retail rate.

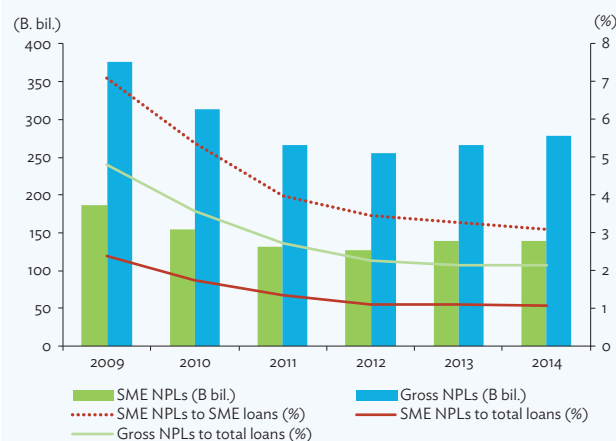
The share of SME nonperforming loans (NPLs) to total SME loans by commercial banks has shown a downward trend since 2010, but still remained high at 3.1%, compared with the gross NPL ratio to total commercial bank loans (2.2%), in 2014 (Figure 4.181).

Commercial bank lending to SMEs has been steadily increasing since 2010. Several government support measures for SME access to finance, especially special credit guarantee schemes, helped SMEs overcome the difficult times of the 2011 flooding and the political uncertainty in late 2013.

The Thai Credit Guarantee Corporation,<sup>108</sup> a state-funded guarantee institution, has promoted the

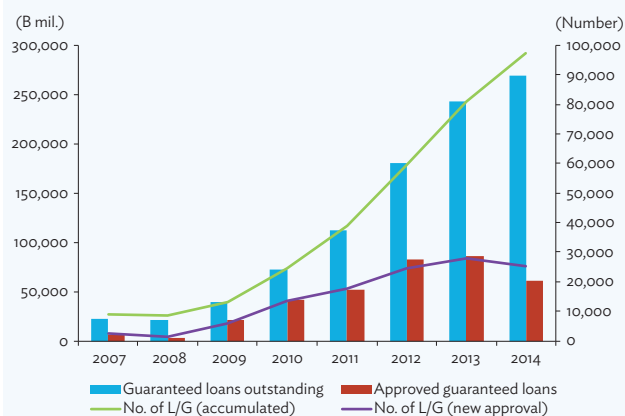
<sup>108</sup> Thai Credit Guarantee Corporation's guarantee operations are based on the Small Industry Credit Guarantee Corporation Act B.E.2534 (1991), which does not allow the corporation to directly provide guarantee for SMEs. Bank's credit approval is a precondition for granting guarantee.

Figure 4.181: SME Nonperforming Loans



NPL = nonperforming loan, SME = small and medium-sized enterprise.  
 Note: Data based on commercial bank loans.  
 Source: Bank of Thailand.

Figure 4.182: Credit Guarantees—Thai Credit Guarantee Corporation



L/G = letter of guarantee.

Source: Thai Credit Guarantee Corporation.

portfolio guarantee scheme as an executing agency, which started in 2009 as part of Thai economic stimulus measures against the GFC. The scheme is a government program aimed at supporting SME access to bank loans, with a limited period of not more than 7 years. The phase 5 program of portfolio guarantee was launched in 2013, with the largest guarantee limit of B240 billion in total (Table 4.90). Under this program, the Thai Credit Guarantee Corporation guarantees 100% of the payment stated in each letter of guarantee issued to participating banks, when prosecuted. However, it is done under the condition that the nonperforming guarantee does not exceed 16% of the average guarantee outstanding in each portfolio that pools all guaranteed SME loans from the participating bank every year.

Besides the phase 5 program, there are specialized portfolio guarantee schemes for: (i) start-up SMEs operating for not more than 3 years (launched in 2013 with a scheme limit of B10 billion), and (ii) users of the One Tambon (village) One Product (OTOP) and Community Businesses Scheme (launched in the second half of 2014 with a scheme limit of B10 billion). Moreover, the Thai Credit Guarantee Corporation launched a package guarantee scheme for micro entrepreneurs (micro community business owners, peddlers, and other professions) with a scheme limit of B5 billion in 2014, in which 100% of payment is

guaranteed under the condition of the total claim amount not exceeding guarantee fees received plus subsidies from the government.

Guaranteed loans outstanding<sup>109</sup> have been sharply increasing, especially since the launch of the portfolio guarantee scheme in 2009, and amounted to B269,535 million with 97,421 letters of guarantee in 2014 (Figure 4.182). The share of guaranteed loans to total SME loans by commercial banks reached 6.1% in 2014, which was almost 8 times higher than the ratio in 2008 (0.8%). Newly approved guarantees amounted to B61,051 million with 25,250 letters of guarantee in 2014.

To mitigate SMEs' burden of collateral requirement by banks, the Government of Thailand has drafted the Business Security Act, to expand the range of eligible collateral for loans, including movable assets, and to expedite foreclosure processes.

There is a private credit bureau operating in Thailand. Two credit bureaus were initially established in 1999, but these merged into a single bureau, the National Credit Bureau, in 2005. The credit bureau provides both

<sup>109</sup> Guaranteed loans outstanding are the aggregate amount of the government support program and the Thai Credit Guarantee Corporation's own support program. The government support program accounted for around three fourth of Thai Credit Guarantee Corporation's total guarantee amounts.



positive and negative information on individuals and enterprises, exclusively to members, including banks and nonbank financial institutions (NBFIs). Such credit information is calculated based on 25 million customer data and 70.7 million accounts data from 78 members, as of 2013.

## Nonbank Sector

There are several types of NBFIs active in Thailand. According to the Bank of Thailand, there are 1,884 savings cooperatives and credit unions, 556 pawnshops, and 47 leasing companies operating in the country, as of the end of 2013. However, the assets of NBFIs to total financial institutions are quite small (4.9% for savings cooperatives and credit unions, 0.2% for pawnshops, and 0.6% for leasing companies).

The Factors Chain International Annual Review 2014 indicated that 15 factoring companies dealt in domestic and international factoring in Thailand, with total annual business turnover of €3,348 million, with domestic factoring accounting for 98.9% in 2013.

While these institutions do not specifically focus on SMEs, the development of NBFIs is key to diversifying SME funding options and to filling the supply-demand gap in SME finance in the country.

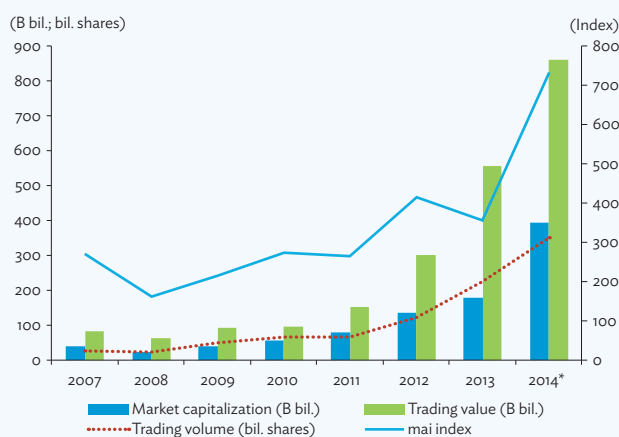
## Capital Markets

The Market for Alternative Investment (mai) has been rapidly growing in recent years. The mai was established under the Stock Exchange of Thailand in 1998, aiming to provide opportunities for entrepreneurs and SMEs to tap long-term growth capital. As of 2 December 2014, the mai held 109 listed companies, with total market capitalization of B392 billion and total turnover value of B859 billion (Figure 4.183 and Table 4.91). So far, 18 companies have successfully moved from the mai to the main board of the stock exchange. During 2014 alone, 18 companies were newly listed on the mai and 4 companies moved to the main board (Figure 4.184). This indicates that the mai has become a preparatory venue for SMEs to tap the regular market of the stock exchange, and to lead them to business growth cycle.

The service (excluding financial services) sector and the manufacturing sector are the most active issuers in the mai, accounting for 28.4% and 26.6%, respectively, of total listed companies, as of 2 December 2014 (Figure 4.185). Domestic individuals and institutions are the main investors in mai stocks, accounting for 98% of trading in 2014. Foreign investor participation in the mai accounted for 2% of trading in 2014.

The mai offers concessional listing requirements for issuers as compared to the main board; e.g., 2 years

Figure 4.183: Market Performance—mai

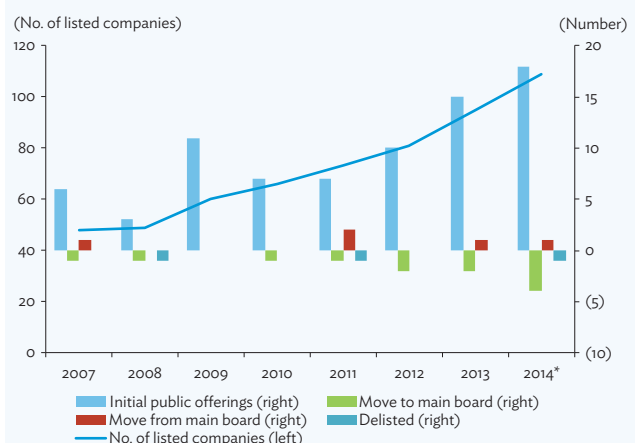


mai = market for alternative investment.

\* data as of 2 December 2014.

Source: Stock Exchange of Thailand.

Figure 4.184: Listed Companies—mai

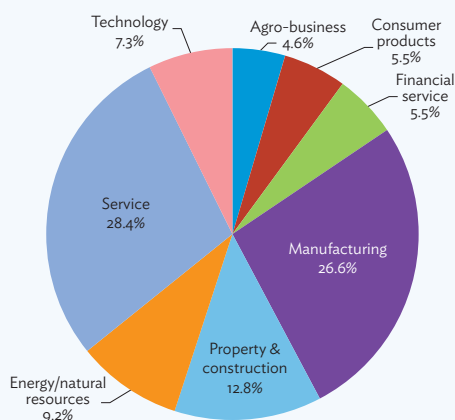


mai = market for alternative investment.

\* data as of 2 December 2014.

Source: Stock Exchange of Thailand.

Figure 4.185: Issuers by Sector—mai



mai = market for alternative investment.

Data as of 2 December 2014, based on 109 listed companies in the mai.

Source: Stock Exchange of Thailand.

business operations needed (3 years for the main board), minimum paid-up capital of B20 million after public offering (B300 million for the main board), and no fewer than 300 minority shareholders required (1,000 for the main board).

Only common stocks and warrants are traded on the mai. The Securities and Exchange Commission has continuously considered new capital market instruments that SMEs are able to tap, one of which is a bond instrument. The Commission and the Thai Credit Guarantee Corporation are together exploring the potential of guaranteed SME bond products in Thailand. However, as the Thai Credit Guarantee Corporation is not legally allowed to provide guarantees for NBFIs, the Small Industry Credit Guarantee Corporation Act B.E. 2534 (1991) needs to be amended so that the Corporation can enter the guaranteed bond business.

The venture capital industry in Thailand has a relatively long history, but is still small in scale. The Thai Venture Capital Association, established in 1994, has long supported the industry, and several venture capital funds supported by the government have been launched. The SME Venture Capital Fund, launched in 2006, was one such venture capital fund, acting as a funding source for SME entrepreneurs with high business potential, and providing hands-on support for these SMEs in various areas such as marketing, management, and accounting.

## Policy and Regulation

The National Board of SME Promotion is the responsible government body for national SME promotion policies and plans, and is chaired by the country's Prime Minister. The Office of Small and Medium Enterprises Promotion (OSMEP) is a government agency for planning and coordinating national SME policies across government organizations in Thailand (Table 4.92).

OSMEP commenced operations in 2001, under the supervision of the National Board of SME Promotion, and is responsible for formulating the midterm SMEs Promotion Master Plan. To date, three master plans have been formulated by the office. The third SMEs Promotion Master Plan, covering 2012–2016, developed four strategies that addressed conducive business environment, competitiveness, balanced growth across the country, and the business capability of Thai SMEs for international economic integration. Promoting SME access to finance is one of the strategic actions under the pillar of developing a conducive business environment for Thai SMEs.

To support a smooth transition of SME business to the new economic environment brought by the Association of Southeast Asian Nations (ASEAN) Economic Community to be launched in late 2015, the national SME policy has attached importance to strengthening the country's knowledge base and international networks, so that Thai SMEs can operate easily in the integrated regional economy. To this end, OSMEP conducted several studies (e.g., consumer behavior in ASEAN countries, promotion guidelines for Thai SME high growth sectors, financial structure analysis of SMEs, and construction business analysis in 22 Thai provinces), which contributed to policy directions on the promotion of SMEs in the country.<sup>110</sup>

In 2013, OSMEP formulated the SME Promotion Strategic Plan and Action Plan by Sector, addressing three target industrial sectors: (i) spa and health services, (ii) wholesale and retail trade, and (iii) information/digital content. There were five basic strategic criteria: (i) strengthening capacity, (ii) creating long-term stability for business, (iii) highlighting speed

<sup>110</sup> Executive summaries of OSMEP studies are available at <http://www.sme.go.th/eng/index.php/data-alert/alert/report-smes-year/report-year> (SME White Paper 2014).

and flexibility of operation, (iv) creating business networks and having alliances both inside and outside the country, and (v) creating popularity, fame and story.

The regulatory structure in the Thai financial sector is two-pronged. The Bank of Thailand regulates and supervises commercial banks and licensed NBFIs, while the Fiscal Policy Office under the Ministry of Finance regulates specialized financial institutions (state-owned banks) including the Small and Medium Enterprise Development Bank. However, the Bank of Thailand inspects specialized financial institutions as appointed by the Ministry of Finance.

The Thailand country strategy, initiated by the Office of National Economic and Social Development Board in 2012, mapped out an inclusive growth strategy as part of four strategic pillars. These addressed the target of increasing SME contribution to GDP by up to 40% or

more. The Bank of Thailand's Five-Year Strategic Plan 2012–2016 also addressed the need to extend more loans and financial services to SMEs, under the strategic pillar of creating a high value-added economy.

The Securities and Exchange Commission has continuously struggled to develop SME capital markets in Thailand, implementing three programs: (i) educating and incentivizing SMEs to issue corporate bonds through free seminars, concessional rating fees, bond application fee exemption, and registration fee exemption in the Thai Bond Market Association; (ii) a program named IPO, Pride of the Province, to assist local firms to tap capital markets through free training courses, consultations, and listing fee exemptions; and (iii) a program to allow accredited investors, including institutional investors and high net worth individuals, to invest in riskier products, e.g., unrated bonds.

Table 4.88: SME Landscape

Item	2007	2008	2009	2010	2011	2012	2013
<b>Number of SMEs</b>							
SMEs (number)	2,366,227	2,827,633	2,896,106	2,913,167	2,646,549	2,730,591	2,763,997
SMEs to total (%)	99.6	99.7	99.8	99.6	99.8	97.2	97.2
SMEs growth (%)	3.3	19.5	2.4	0.6	(9.2)	3.2	1.2
Trade (% to SMEs)	41.1	46.7	47.4	47.5	44.5	43.6	43.5
Service (% to SMEs)	30.0	33.8	33.7	33.8	37.7	38.7	39.1
Manufacturing (% to SMEs)	28.2	19.3	18.9	18.7	17.8	17.7	17.4
<b>Employment by SMEs</b>							
SME employees (number)	8,900,567	...	9,701,354	10,507,507	10,995,977	11,047,854	11,414,702
SME employees to total (%)	76.0	...	78.2	77.9	83.9	81.0	81.0
SME employees growth (%)	3.1	...	...	8.3	4.6	0.5	3.3
Trade (% to SME employees)	27.3	...	30.0	30.9	34.8	32.0	31.7
Service (% to SME employees)	33.8	...	35.8	35.8	35.6	44.1	44.7
Manufacturing (% to SME employees)	38.9	...	34.2	33.3	29.6	23.9	23.7
<b>SMEs Contribution to GDP</b>							
Nominal GDP of SMEs (B bil.)	3,298.5	3,457.7	3,417.9	3,747.7	3,859.6	4,211.3	4,454.9
SME contribution to GDP (%)	38.7	38.1	37.8	37.1	36.6	37.0	37.4
<b>GDP Composition of SMEs (% to SME GDP)</b>							
Mining	1.5	1.7	1.6	1.7	1.8	1.9	1.9
Manufacturing	30.7	32.0	30.4	32.3	31.2	30.9	29.6
Construction	6.3	6.2	5.9	5.9	5.8	6.0	5.8
Trade and maintenance	29.1	28.5	29.9	28.3	28.0	27.7	27.7
Service	32.2	31.4	32.0	31.6	33.0	33.3	34.8
Electricity, gas and water supply	0.2	0.2	0.2	0.2	0.2	0.3	0.3
<b>SME Exports and Imports</b>							
SME exports (B bil.)	1,576	1,691	1,564	1,669	1,971	2,065	1,762
SME imports (B bil.)	1,453	1,772	1,384	1,810	2,383	2,588	2,369
SME to total exports (%)	30.1	28.9	30.1	27.3	29.4	29.9	25.5
SME to total imports (%)	29.8	29.8	30.1	30.0	31.0	33.1	30.9
SME exports growth (%)	10.1	7.3	(7.5)	3.6	27.7	4.8	(14.7)
SME imports growth (%)	(8.8)	21.9	(21.9)	28.3	21.6	8.6	(8.5)

GDP = gross domestic product, SME = small and medium-sized enterprise.

Source: Office of Small and Medium Enterprises Promotion SME White Paper 2008, 2009, 2010, 2011, 2012, 2013, and 2014.

Table 4.89: Banking Sector—SME Loans

Item	2007	2008	2009	2010	2011	2012	2013	2014
<b>Loans Outstanding</b>								
SME loans to GDP* (%)	32.5	32.0	28.9	28.2	31.2	32.1	35.4	36.6
SME loans to total loans* (%)	44.5	38.5	33.4	32.6	33.7	32.3	34.1	34.5
SME Loans -Total (B bil.)	...	...	...	3,644	4,330	4,693	5,227	5,505
SME loans—PFIs** (B bil.)	...	...	...	790	1,038	1,047	1,019	1,066
SME loans—CBs (B bil.)	2,775	2,907	2,609	2,854	3,292	3,646	4,208	4,439
Total loans—Total (B bil.)	7,994	9,527	10,178	11,617	13,224	14,954	16,369	17,030
Total loans—PFIs** (B bil.)	1,765	1,978	2,370	2,854	3,442	3,677	4,026	4,157
Total loans—CBs (B bil.)	6,229	7,549	7,807	8,763	9,782	11,278	12,342	12,873
<b>SME Loans by Sector*</b>								
Primary industry (B bil.)	83	77	69	70	69	76	84	83
Mining (B bil.)	10	15	16	15	18	13	14	15
Manufacturing (B bil.)	749	739	681	723	801	843	947	989
Electricity, gas, and water supply (B bil.)	82	82	72	71	93	129	178	205
Construction (B bil.)	113	113	100	108	116	127	137	140
Wholesale and retail trade (B bil.)	705	714	697	783	930	1,093	1,245	1,314
Transportation (B bil.)	66	75	72	72	88	107	126	132
Service (B bil.)	720	827	670	781	907	942	1,085	1,148
Real estate (B bil.)	245	264	227	224	264	311	387	407
Others (B bil.)	0.2	0.0	3.6	5.0	6.6	5.8	5.6	5.1
Primary industry (% share)	3.0	2.7	2.7	2.5	2.1	2.1	2.0	1.9
Mining (% share)	0.4	0.5	0.6	0.5	0.5	0.3	0.3	0.3
Manufacturing (% share)	27.0	25.4	26.1	25.3	24.3	23.1	22.5	22.3
Electricity, gas, and water supply (% share)	2.9	2.8	2.8	2.5	2.8	3.5	4.2	4.6
Construction (% share)	4.1	3.9	3.8	3.8	3.5	3.5	3.3	3.2
Wholesale and retail trade (% share)	25.4	24.6	26.7	27.5	28.3	30.0	29.6	29.6
Transportation (% share)	2.4	2.6	2.8	2.5	2.7	2.9	3.0	3.0
Service (% share)	26.0	28.4	25.7	27.4	27.6	25.8	25.8	25.9
Real estate (% share)	8.8	9.1	8.7	7.8	8.0	8.5	9.2	9.2
Others (% share)	0.0	0.0	0.1	0.2	0.2	0.2	0.1	0.1
<b>Nonperforming Loans (NPLs)*</b>								
SME NPLs (B bil.)	...	...	186	154	131	126	138	138
Gross NPLs (B bil.)	...	...	376	313	266	254	266	277
SME NPLs to SME loans (%)	...	...	7.1	5.4	4.0	3.5	3.3	3.1
SME NPLs to total loans (%)	...	...	2.4	1.8	1.3	1.1	1.1	1.1
Gross NPLs to total loans (%)	...	...	4.8	3.6	2.7	2.3	2.2	2.2
<b>Credit Guarantees—TCG***</b>								
Guaranteed loans outstanding (B bil.)	22	22	40	73	113	180	244	270
Approved guaranteed loans (B bil.)	6	3	22	43	52	83	87	61
No. of L/G (accumulated)	8,999	8,631	13,084	24,593	39,045	59,469	81,002	97,421
No. of L/G (new approval)	2,298	1,366	5,763	13,346	17,641	24,357	28,029	25,250
Guaranteed loans to SME loans* (%)	...	0.8	1.5	2.6	3.4	5.0	5.8	6.1

CB = commercial bank, GDP = gross domestic product, L/G = letter of guarantee, PFI = public financial institution, NPL = nonperforming loan, SME = small and medium-sized enterprise, TCG = Thai Credit Guarantee Corporation.

\* based on commercial bank loans.

\*\* six PFIs combined: Small and Medium Enterprise Development Bank, Government Savings Bank, Islamic Bank of Thailand, Bank for Agriculture and Agricultural Cooperatives, Export-Import Bank of Thailand, and Government Housing Bank. Total loans exclude personal, financial, and public administration and large debtors who borrow over B100 million.

\*\*\* Guaranteed loans outstanding are the aggregate amount of the government support program and TCG's own support program. The government support program accounted for around three fourth of TCG's total guarantee amounts.

Source: Bank of Thailand and Thai Credit Guarantee Corporation.

Table 4.90: Credit Guarantee Schemes —Thai Credit Guarantee Corporation

Item	Year 2013 onward–Present		Second half of year 2014–Present	
	PGS5	PGS Start-up	OTOP and Community Businesses	Micro Entrepreneurs
Limit of Scheme	B240,000 million	B10,000 million	B10,000 million	B5,000 million
Target Group	General SMEs/SMEs who invest in other countries	New SMEs having year in business not more than 3 years	OTOP and community businesses owner (OTOP: one tambon one product)	Micro community businesses owners/peddlers/ other professions
Guarantee Limit	Not more than B40 million	Not more than B2 million	Not more than B3 million	B10,000–B200,000
Guarantee Fee/year	1.75%	2.5% (1st year fee is subsidized by the government)	1.5% (1st year fee is subsidized by the government)	1%–3% according to customer risk assessed by the bank (1st year fee is subsidized by the government)
Terms and Conditions	Fixed assets not more than B200 million	Having experience not more than 3 years and fixed assets not more than B200 million	Having registration with related government agencies and fixed assets not more than B200 million	Having explicit business location and fixed assets not more than B200 million
Tenor	Not more than 7 years	Not more than 7 years	Not more than 7 years	At least 3 years but not more than 10 years
Type of Guarantee	Portfolio Guarantee Scheme	Portfolio Guarantee Scheme	Portfolio Guarantee Scheme	Package Guarantee Scheme
Max Coverage per Portfolio	Not more than 18% of total portfolio	Not more than 30% of total portfolio	Not more than 25% of total portfolio	Between 23% and 50% (subsidy from the government 20% plus guarantee fee)
Obligation per L/G	<ul style="list-style-type: none"> <li>• Pay 100% in case of NPG &lt;16%</li> <li>• Pay 50% in case 16% &lt; NPG &lt; 20%</li> </ul>	<ul style="list-style-type: none"> <li>• Pay 80% in case of NPG &lt;37.5%</li> </ul>	<ul style="list-style-type: none"> <li>• Pay 100% in case of NPG &lt;25%</li> </ul>	<ul style="list-style-type: none"> <li>• Pay 100% in case of total claim amount of not more than guarantee fee received plus subsidy from the government</li> </ul>

L/G = letter of guarantee, PGS = portfolio guarantee scheme, NPG = nonperforming guarantee.

Source: Thai Credit Guarantee Corporation.

Table 4.91: Capital Markets—Stock Exchange of Thailand

Item	2007	2008	2009	2010	2011	2012	2013	2014*
<b>Market Performance—SET</b>								
SET Index (close)	858.1	450.0	734.5	1,032.8	1,025.3	1,391.9	1,298.7	1,594.0
Market capitalization (B bil.)	6,636	3,568	5,873	8,335	8,408	11,831	11,497	14,677
Growth (%)	30.7	(46.2)	64.6	41.9	0.9	40.7	(2.8)	27.7
Trading value (B bil.)**	4,189	3,920	4,338	6,938	7,040	7,616	11,777	9,272
Growth (%)	5.9	(6.4)	10.7	59.9	1.5	8.2	54.6	(21.3)
Trading volume (bil. shares)**	605	839	890	1,093	973	1,296	2,768	2,496
Number of listed companies	470	472	472	472	470	476	489	501
Initial public offerings	7	9	7	4	5	8	13	16
Delisted companies	8	8	7	5	6	4	1	7
<b>Market Performance—mai</b>								
mai Index (close)	272.4	162.9	215.3	272.8	264.2	415.7	356.8	734.0
Market capitalization (B bil.)	38	22	39	55	77	133	177	392
Growth (%)	75.5	(42.1)	76.6	40.9	40.2	72.1	33.3	121.3
Trading value (B bil.)**	83	61	90	96	151	299	553	859
Growth (%)	202.9	(26.1)	47.5	6.1	57.2	97.9	85.1	55.2
Trading volume (bil. shares)**	25	23	50	67	66	123	224	351
Number of listed companies	48	49	60	66	73	81	95	109
Initial public offerings	6	3	11	7	7	10	15	18
Move to main board (SET)	1	1	0	1	1	2	2	4
Move from main board	1	0	0	0	2	0	1	1
Delisted companies	0	1	0	0	1	0	0	1

SET = Stock Exchange of Thailand, mai = market for alternative investment.

\* data as of 2 December 2014.

\*\* excluding debentures and convertible debentures.

Source: Stock Exchange of Thailand.



Table 4.92: SME Policy and Regulation

Regulations		
Name	Outline	
SMEs Promotion Act, B.E.2543 (2000)	SME promotion policies. Establishment of the Office of Small and Medium Enterprises Promotion (OSMEP).	
Ministerial Regulation B.E.2545 (2002)	SME definition (Ministry of Industry).	
Financial Institutions Business Act B.E. 2551 (2008)	Regulation on commercial banking business, finance business, and credit foncier business.	
Small and Medium Enterprise Development Bank of Thailand Act B.E.2545 (2002)	Establishment of the Small and Medium Enterprise Development Bank of Thailand.	
Small Industry Credit Guarantee Corporation Act B.E.2534 (1991)	Regulation on credit guarantee operations for banks, especially addressing SME loans.	
Credit Information Business Act B.E.2545 (2002) [amendments: B.E.2549 (2006) and B.E.2551 (2008)]	Regulation on credit information business.	
Business Security Act (draft)	Expand the range of eligible collateral for loans, e.g., movable assets.	
Securities and Exchange Act B.E.2535 (1992) as amended	Regulation on capital markets.	
Regulators and Policymakers		
Name	Responsibility	
Bank of Thailand (BOT)	Regulate and supervise commercial banks and nonbanks.	
Fiscal Policy Office, Ministry of Finance	Regulate and supervise specialized financial institutions (state-owned banks).	
National Board of SMEs Promotion	Stipulate SME promotion policies and plans, and supervise the OSMEP's operations.	
Office of Small and Medium Enterprises Promotion (OSMEP)	Plan and coordinate SMEs promotion policies.	
Securities and Exchange Commission (SEC)	Regulate and supervise capital markets (inc. mai).	
Policies		
Name	Responsible Entity	Outline
The First SMEs Promotion Plan (2002–2006)	OSMEP	<ol style="list-style-type: none"> <li>1) Reinvigorate SMEs as key economic and social mechanism</li> <li>2) Build and improve infrastructure and reducing obstacles in business operations</li> <li>3) Reinforce SMEs to attain sustainable growth</li> <li>4) Capacity building for SMEs in the export sector</li> <li>5) Create and develop new entrepreneurs</li> <li>6) Promote the role of community enterprises</li> </ol>
The Second SMEs Promotion Plan (2007–2011)	OSMEP	<ol style="list-style-type: none"> <li>1) Create new entrepreneurs and promote capacity building among existing entrepreneurs</li> <li>2) Upgrade productivity and innovative capability in manufacturing sector</li> <li>3) Enhance efficiency and reduce modern trade effects in trade sector</li> <li>4) Promote value creation and value added in service sector</li> <li>5) Promote SMEs in regional and local areas</li> <li>6) Develop enabling factors favorable to business operation</li> </ol>
The Third SMEs Promotion Plan (2012–2016)	OSMEP	<ol style="list-style-type: none"> <li>1) Develop enabling factors and a conducive business environment for Thai SMEs</li> <li>2) Build and strengthen Thai SMEs competitiveness</li> <li>3) Promote balanced growth for regional Thai SMEs</li> <li>4) Build and strengthen business capability of Thai SMEs for international economic integration</li> </ol>
SME Promotion Strategic Plan and Action Plan by Sector (2013)	OSMEP	<p>Target sectors: (i) spa and health service, (ii) wholesale and retail trade, and (iii) information/digital content.</p> <ol style="list-style-type: none"> <li>1) Strengthen capacity</li> <li>2) Create long-term stability to business</li> <li>3) Highlight fastness and flexibility of operation</li> <li>4) Create business network and alliance in and outside the country</li> <li>5) Create popularity, fame, and story</li> </ol>
Thailand Country Strategy (2012)	NESDB	<ol style="list-style-type: none"> <li>1) Growth and competitiveness</li> <li>2) Inclusive growth*</li> <li>3) Green growth</li> <li>4) Internal process</li> </ol>
Five-Year Strategic Plan (2012)	BOT	<ol style="list-style-type: none"> <li>1) Connectivity</li> <li>2) High value-added economy</li> <li>3) Financial inclusion</li> <li>4) Economic and financial stability</li> </ol>

NESDB = Office of National Economic and Social Development Board, SME = small and medium-sized enterprise.

\*Inclusive growth strategy includes the target of increasing SME contribution to gross domestic product up to 40% or more.

Sources: Office of Small and Medium Enterprises Promotion, Bank of Thailand, and Securities and Exchange Commission.

# Viet Nam

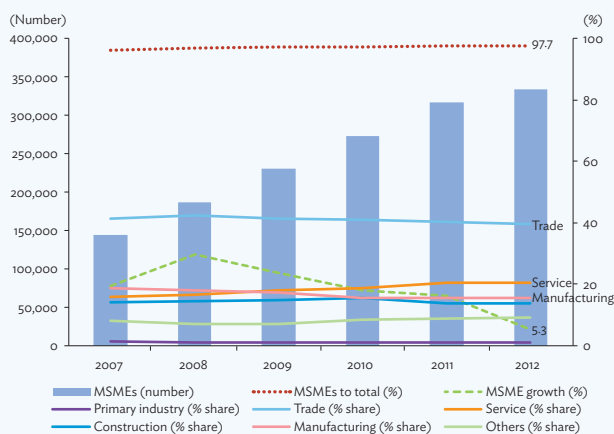
## SME Landscape

The national statistics on micro, small, and medium-sized enterprises (MSMEs) in Viet Nam have not been updated since January 2013 (data as of the end of December 2012). There were 333,835 active MSMEs in the country in 2012, accounting for 97.7% of the total enterprises that paid corporate tax (Figure 4.186 and Table 4.93). The growth rate in the number of MSMEs has slowed since 2010, and stood at 5.3% in 2012. The MSME sector in Viet Nam, in 2012, consisted of state-owned enterprises (0.5% of total active MSMEs), private enterprises (97.2%), and foreign-invested enterprises (2.3%). Wholesale and retail trade was a dominant business sector among MSMEs in the country, accounting for 39.8% of total active MSMEs in 2012, followed by the service sector (including technology, accommodation, and food services) at 20.5%, and manufacturing at 15.7%.

The MSME sector employed 5.1 million workers in 2012, a 2.4% increase from 2011, and accounted for 46.8% of the total workforce in the country (Figure 4.187). The majority of employees in the MSME sector belonged to labor-intensive industries, such as manufacturing (31.8% of total MSME employees) and construction (23.6%). Workers engaged in wholesale and retail trade accounted for 21.8% of MSME employees in 2012, followed by the service sector (13%).

For financial indicators, total capital in the small and medium-sized enterprise (SME) sector was D5,931 trillion in 2012, and the fixed assets and long-term investment by SMEs amounted to D2,107 trillion, a 14.5% increase from 2011 (Figure 4.188). The total net income of SMEs was D5,033 trillion in 2012, growth of 7.7% from 2011, but the growth of profits in the overall SME sector has been slowing since 2009.

Figure 4.186: Number of MSMEs

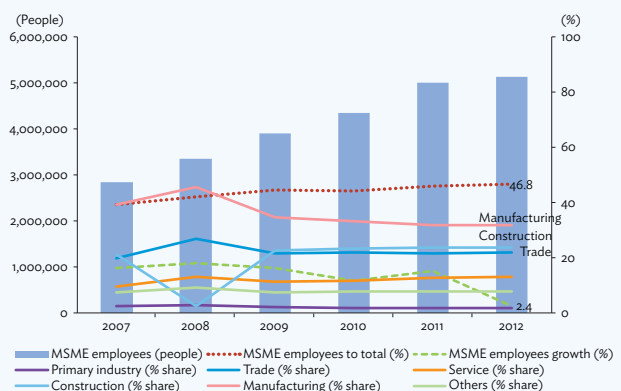


MSME = micro, small, and medium-sized enterprise.

Note: Data include micro enterprises. Primary industry includes agriculture, forestry, and fisheries.

Source: Agency for Enterprise Development, Ministry of Planning and Investment.

Figure 4.187: Employment by MSMEs

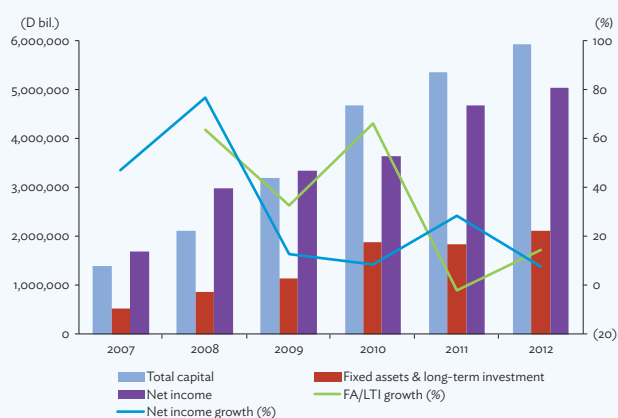


MSME = micro, small, and medium-sized enterprise.

Note: Data include micro enterprises. Primary industry includes agriculture, forestry, and fisheries.

Source: Agency for Enterprise Development, Ministry of Planning and Investment.

Figure 4.188: Financial Indicators of SMEs



FA/LTI = fixed assets and long-term investment, SME = small and medium-sized enterprise.

Source: Agency for Enterprise Development, Ministry of Planning and Investment.

Decree No.56/2009/ND-CP on Support for Development of SMEs provides a core legal basis for SME sector development policy, including the definition of MSMEs. Under this decree, firms with fewer than 10 employees are categorized as micro enterprises. In the primary industries (agriculture, forestry, and fisheries), manufacturing, and construction sectors, firms with 11–300 employees and total capital of D100 billion or less are regarded as SMEs. In the trade and service sectors, firms with 11–100 employees and total capital of D50 billion or less are regarded as SMEs. The Agency for Enterprise Development, under the Ministry of Planning and Investment, is preparing a new law on support for SME development, including new guidelines for MSME definitions in the country. This law is scheduled to be submitted to the Vietnam National Assembly by 2016 (the second meeting).

## Banking Sector

As of the end of 2013, the banking sector in Viet Nam is composed of 5 state-owned commercial banks, 2 policy banks (Vietnam Bank for Social Policies and Vietnam Development Bank), 33 joint-stock commercial banks, 4 joint-venture banks, 53 branches of foreign banks, and 5 wholly foreign-owned banks. In July 2013, as approved by the State Bank of Vietnam (the country's central bank), the Central People's Credit Fund (a credit

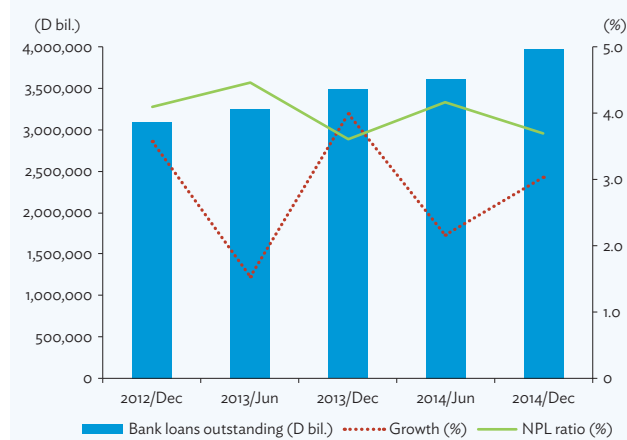
cooperative) was transformed into the Cooperative Bank of Vietnam.

According to the State Bank of Vietnam, as of the end of 2014, bank loans outstanding amounted to D3,971 trillion, a 14.2% increase from 2013. Meanwhile, the nonperforming loan (NPL) ratio slightly increased year on year, from 3.6% in 2013 to 3.7% in 2014 (Figure 4.189 and Table 4.94). Manufacturing is a dominant sector in bank lending, accounting for 25.6% of total loans outstanding in December 2014. This was followed by the wholesale and retail trade sector with 18.6% (Figure 4.190).

There is no SME credit data publicly available in Viet Nam. However, according to the SME White Paper 2014, published by the Agency for Enterprise Development under the Ministry of Planning and Investment, SME loans outstanding reached D862,392 billion and accounted for 27.9% of total loans at the end of 2012. Presuming the same percentage share from 2012 onward, SME access to bank credit could be considered limited.

Following the Credit Institutions Restructuring Plan during 2011–2015, the State Bank of Vietnam has guided credit institutions in strengthening their operational capacity and governance, while facilitating credit for priority sectors, including SMEs. For local currency short-term lending, the interest rate ceiling of 10% per

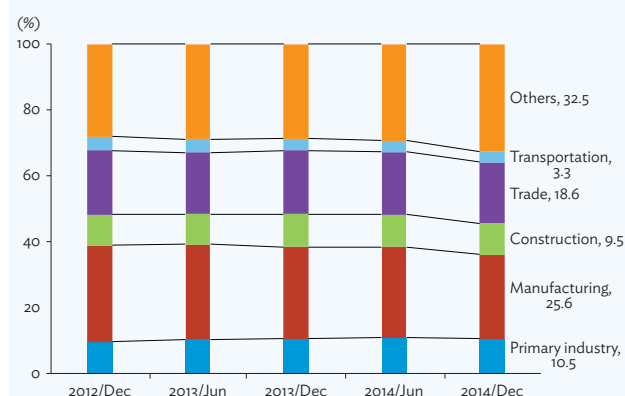
Figure 4.189: Bank Loans Outstanding



NPL = nonperforming loan.

Source: State Bank of Vietnam.

Figure 4.190: Bank Loans by Sector



Notes: Primary industry includes agriculture, forestry, and fisheries.  
Transportation includes telecommunications.

Source: State Bank of Vietnam.

annum was set for five priority sectors: agricultural and rural enterprises, exports, SMEs, supporting industries, and technology-oriented enterprises (SME White Paper 2014).

Credit guarantees are a critical tool to enhance SME access to finance in the country. There are two channels of credit guarantees available for enterprises: (i) the Vietnam Development Bank's credit guarantee fund, and (ii) local credit guarantee funds supervised by the Ministry of Finance.

The Vietnam Development Bank's credit guarantee fund provides a maximum of 85% partial guarantee on the total investment capital of a project, whose total guarantee for enterprises does not exceed 5 times the actual charter capital of the bank. The Vietnam Development Bank collects guarantee fees, 75% of which are taken into guarantee risk provision, and the remaining 25% are considered bank income. More than 1,500 guarantee deeds for enterprises, mostly SMEs, were approved and issued by the Vietnam Development Bank, amounting to D11 trillion, based on which commercial banks granted guaranteed loans to enterprises totaling D9 trillion, as of the end of 2014.

Local credit guarantee funds, operated by provincial authorities and supervised by the Ministry of Finance, numbered 21 across the country, as of the end of 2014. Some provincial authorities (e.g., Hai Phong, Tien Giang, Son La, Vung Tau, Dong Nai, Da Nang, and Tay Ninh)

have deployed the SME Credit Guarantee Fund (SME White Paper 2014).

In April 2013, the Government of Viet Nam decided to establish the SME Development Fund to support SMEs that have feasible business plans and/or projects in the government's priority sectors (Prime Minister Decision No.601/QD-TTg). The fund, with an independent legal status, is operated by the Ministry of Planning and Investment, with the management board including representatives from the Ministry of Finance, the State Bank of Vietnam, the Agency for Enterprise Development, and the Viet Nam SME Association. The initial chartered capital of D2 trillion was funded by the state budget.

For an SME to take a loan from the fund, it is required to provide a feasible business plan or project relating to the list of priority sectors that is periodically issued by the Ministry of Planning and Investment, and to commit at least a 20% capital contribution to the business plan or project. SMEs financed by the fund cannot take any concessional loans from other public financing schemes. The maximum loan amount is 70% of the total investment capital required by the business plan or project, but not exceeding D30 billion, with a maximum loan period of 7 years. The lending rate shall not exceed 90% of the commercial lending rate (the average lending rate of the five state-owned commercial banks). To date, the fund has been completing related legal documents needed to provide loans to SMEs.

The Credit Information Center (CIC) has extended its credit database, adding data from the Vietnam Bank for Social Policies and the Vietnam Development Bank. This totalled more than 39 million borrower profiles, as of the end of 2013, including both positive and negative data. The collected data are to be placed in archives for 5 years.

## Nonbank Sector

The nonbank financial institution (NBF) industry is small in scale compared to the banking sector in Viet Nam. However, nonbank financing instruments are critically important for SMEs to raise necessary funds for working capital and investment capital. As of the end of 2013, there were 17 finance companies, 12 financial leasing companies, 1,144 "people's credit funds", and

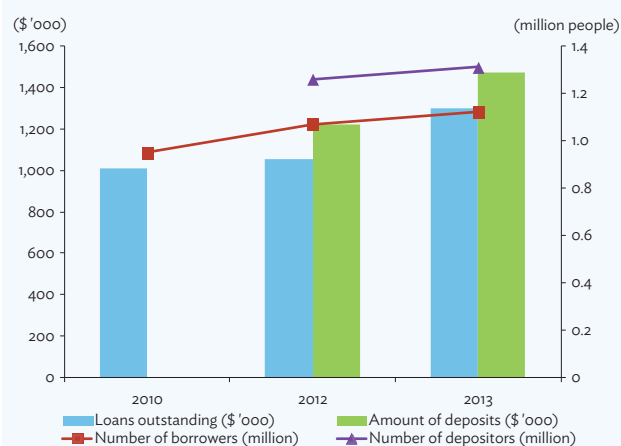
2 licensed microfinance institutions (MFIs), operating in the country. Finance companies include affiliated firms of large enterprises, while financial leasing companies are typically subsidiary firms of banks.

The State Bank of Vietnam is the single regulator for both banks and NBFIs, and supervises them under the Credit Institutions Law enacted in 2010.

A “people’s credit fund” is a credit institution established on a voluntary basis in the form of cooperatives. Introduced in 1993, when there were 179 funds, the number has grown by more than 6 times, as of the end of 2013, with funds now spread across the country. The Central People’s Credit Fund, established in 1995 as an apex fund for all people’s credit funds, shifted its legal status to a cooperative bank in July 2013. Lending by a people’s credit fund is restricted to members in a commune that comprises up to four villages, and a maximum of 10% of its loan portfolio can be allocated to poor nonmembers. Approximately 30% of borrowers are women. According to an Asian Development Bank (ADB) report in 2014, loans outstanding by people’s credit funds amounted to \$1.29 million in 2013, covered by deposits of \$1.47 million and financing 1.12 million borrowers (Figure 4.191 and Table 4.95).

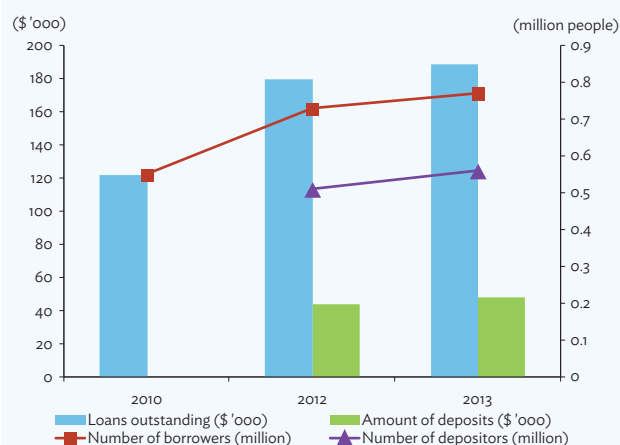
MFIs provide financial services for low-income individuals, households, and micro enterprises. While two state-owned banks (the Vietnam Bank for Agriculture and Rural Development and the Vietnam

Figure 4.191: People’s Credit Funds



Source: ADB. 2014. Sector Assessment (Summary): Microfinance. Document for the Microfinance Development Program Subprogram 2.

Figure 4.192: Microfinance Institutions



Note: Microfinance institutions include formal and semiformal institutions.

Source: ADB. 2014. Sector Assessment (Summary): Microfinance. Document for the Microfinance Development Program Subprogram 2.

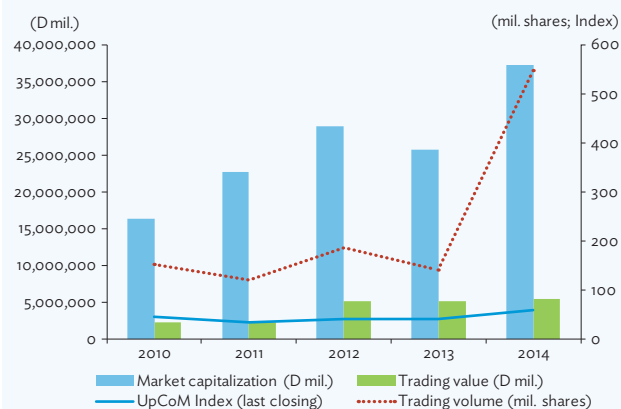
Bank for Social Policies) dominate the microfinance market in Viet Nam, around 50 semiformal MFIs and 2 licensed MFIs, together with people’s credit funds, supplement microfinance needs across the country. The ADB report in 2014 indicated that MFI loans outstanding (formal and semiformal) amounted to \$190,000 in 2013, with deposits of \$50,000, financing 770,000 borrowers (Figure 4.192). The Credit Institutions Law 2010 requires MFIs to obtain a business license, but many MFIs remain semiformal entities without licenses, due to the relatively strict requirements of formal bank operations.

## Capital Markets

Since 1992, Viet Nam’s capital market has evolved through the privatization of state-owned enterprises. Two state-owned stock exchanges (the Ho Chi Minh Stock Exchange and the Hanoi Stock Exchange) were created in 2000 and 2005, respectively. The State Securities Commission of Vietnam regulates and supervises stock exchange markets under the Securities Law, enacted in 2006. The Vietnam Securities Depository deals with clearing and settlements of all traded stocks in exchange markets as a central depository.

Informal trading of unlisted companies has been popular in Viet Nam. The Securities Law does not

Figure 4.193: Market Performance—UPCoM



Source: Hanoi Stock Exchange.

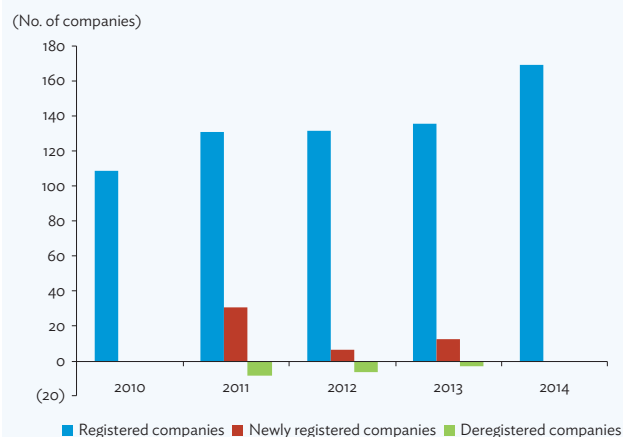
prohibit unlisted stock trading. The over-the-counter (OTC) market is active, especially for the stocks of certain unlisted large companies.

The UPCoM, which started operations in 2009, under the Hanoi Stock Exchange, is a trading venue of unlisted public companies. There are many companies not listed on stock exchanges after an initial public offering (IPO), which is used only for the purpose of increasing the number of shareholders by IPO. These companies are categorized as unlisted public companies. The UPCoM is not a dedicated SME market but an equity market that SMEs can tap for long-term financing. The UPCoM requires no listing fees. Firms in the energy sector (electricity) and manufacturing, and securities firms, are major registered companies, and individuals are typical investors in the UPCoM market. As of the end of 2014, the UPCoM Index rose by 42% on the previous year. The market capitalization reached D37,170 billion with annual trading value of D5,410 billion in 2014 (Figure 4.193 and Table 4.96). There were 169 companies registered on the UPCoM in 2014 (Figure 4.194). As of the end of 2013, 84 securities firms (as UPCoM members) dealt in UPCoM stocks.

## Policy and Regulation

There are several financial and nonfinancial preferential measures available to SMEs in Viet Nam, and these are

Figure 4.194: Companies Registered—UPCoM



Source: Hanoi Stock Exchange.

provided by different government authorities to support SME sector development.

The Ministry of Industry and Trade promotes the “Buy Vietnamese” campaign, with the National Brand Program to establish and disseminate branded Vietnamese goods in the country. The ministry also established the National Trade Promotion Program to expand export markets, supporting mostly SME exporters.

The Ministry of Finance has provided several tax incentive schemes and preferential measures for enterprises to expand business investments and to reduce business costs. These measures have included giving 6 month’s grace for corporate income tax and value-added tax payments in early 2013, a 50% reduction of state land rent in 2013 and 2014, preferential corporate income tax of 20% in the early application by SMEs, and online tax declaration.

To facilitate information exchange and coordination among central and local governments, the Ministry of Planning and Investment (the Agency for Enterprise Development) launched an SME supporting information system, setting up the business portal [www.business.gov.vn](http://www.business.gov.vn).

The National Foundation for Science and Technology provides zero-rate loans and soft loans for technology-oriented projects, with the condition of lending a



maximum of 70% of the total investment capital but not exceeding D10 billion. The foundation also provides credit guarantees for SME projects in energy efficiency not exceeding D3 billion, with maximum guarantee amounts of D4.5 billion.

The Ministry of Science and Technology promotes the National Technological Innovation Program, available until 2020, to support SMEs investing in innovative technologies and improving their productivity and competitiveness. This includes support for SMEs in IT application, the development of a database of new and advanced technologies for SMEs, and the creation of a base of business incubators.

The Five-Year SME Development Plan 2011–2015, a comprehensive SME development policy package prepared by economic ministries and agencies, is ongoing with numeric targets: (i) 350,000 SMEs created during 2011–2015, (ii) SME exports accounting for 25% of total exports nationwide, (iii) SME investments accounting for 35% of total investment, (iv) SME contribution to gross domestic product (GDP) and the total state revenue, respectively, reaching 30%, and (v) 2.5 million to 4 million new jobs created by SMEs during 2011–2015 (Table 4.97).

The Ministry of Planning and Investment (the Agency for Enterprise Development) is a government focal entity for preparing the SME Promotion Law, a draft of which was being screened by the government as of the end of 2014.



Table 4.93: MSME Landscape

Item	2007	2008	2009	2010	2011	2012
<b>Number of MSMEs*</b>						
MSMEs (number)	143,622	186,379	230,365	272,283	316,941	333,835
MSMEs to total (%)	96.3	97.0	97.4	97.5	97.6	97.7
MSME growth (%)	19.6	29.8	23.6	18.2	16.4	5.3
Total enterprises	149,069	192,179	236,584	279,360	324,691	341,601
<b>By type (% to MSMEs)</b>						
State-owned enterprises	1.3	1.0	0.8	0.7	0.6	0.5
Non-state-owned enterprises	96.1	96.7	97.0	97.2	97.1	97.2
Foreign invested enterprises	2.6	2.3	2.2	2.1	2.3	2.3
<b>By sector (% to MSMEs)</b>						
Primary industry**	1.6	1.1	1.0	0.9	1.0	1.1
Trade	41.5	42.3	41.4	40.9	40.3	39.8
Service	16.1	16.8	17.9	18.6	20.4	20.5
Construction	14.0	14.6	15.0	15.5	13.7	13.8
Manufacturing	18.6	18.2	17.5	15.7	15.7	15.7
Others	8.3	6.9	7.2	8.4	8.9	9.0
<b>Employment by MSMEs</b>						
MSME employees (people)	2,835,808	3,348,741	3,893,814	4,347,743	5,009,658	5,129,980
MSME employees to total (%)	39.2	42.1	44.7	44.2	46.0	46.8
MSME employees growth (%)	16.2	18.1	16.3	11.7	15.2	2.4
<b>By sector (% to MSME employees)</b>						
Primary industry**	2.6	2.8	2.0	1.8	1.8	1.8
Trade	19.9	26.7	21.7	21.9	21.7	21.8
Service	9.6	13.1	11.2	11.8	12.9	13.0
Construction	21.1	2.4	22.7	23.2	23.7	23.6
Manufacturing	39.2	45.8	34.8	33.4	32.0	31.8
Others	7.6	9.1	7.5	7.9	7.9	7.9
<b>Financial Indicators of SMEs (D bil.)</b>						
Total capital	1,401,076	2,108,421	3,191,115	4,681,677	5,369,536	5,930,800
Fixed assets and long-term investment	519,916	849,831	1,128,917	1,877,337	1,839,961	2,107,379
Growth (%)	...	63.5	32.8	66.3	(2.0)	14.5
Net income	1,679,861	2,973,456	3,351,404	3,641,191	4,673,543	5,032,576
Growth (%)	47.0	77.0	12.7	8.6	28.4	7.7

MSME = micro, small, and medium-sized enterprise, SME = small and medium-sized enterprise.

\* Active enterprises based on labor scale. \*\* Primary industry includes agriculture, forestry, and fisheries.

Sources: General Statistics Office. 2013. *Development of Vietnam Enterprises in the Period of 2006–2011*; General Statistics Office. 2013. *Results of the 2012 Establishment Census*; Agency for Enterprise Development. 2012. *White Paper on Small and Medium Sized Enterprises in Viet Nam 2011*. Updated by the Agency for Enterprise Development, Ministry of Planning and Investment.

Table 4.94: Banking Sector

Item	2012/Dec	2013/Jun	2013/Dec	2014/Jun	2014/Dec
Bank loans outstanding (D bil.)	3,090,904	3,236,786	3,477,985	3,607,354	3,970,548
Growth (%)	3.6	1.5	4.0	2.2	3.0
Primary industry (% to total)	9.6	10.4	10.6	10.9	10.5
Manufacturing (% to total)	29.3	28.7	27.8	27.6	25.6
Construction (% to total)	9.3	9.3	10.0	9.8	9.5
Trade (% to total)	19.5	18.6	19.3	19.0	18.6
Transportation (% to total)	4.3	4.1	3.6	3.4	3.3
Others (% to total)	28.0	28.8	28.7	29.3	32.5
NPL ratio (%)	4.1	4.5	3.6	4.2	3.7

NPL = nonperforming loan.

Notes: Primary industry includes agriculture, forestry, and fisheries. Transportation includes telecommunications.

Source: State Bank of Vietnam.

Table 4.95: Microfinance Loans

Item	2010	2011	2012	2013
<b>People's Credit Funds</b>				
Loans outstanding (\$ '000)	1,006	...	1,051	1,294
Number of borrowers (million)	0.95	...	1.07	1.12
Amount of deposits (\$ '000)	...	...	1,218	1,467
Number of depositors (million)	...	...	1.26	1.31
<b>Microfinance Institutions</b>				
Loans outstanding (\$ '000)	122	...	180	189
Number of borrowers (million)	0.55	...	0.73	0.77
Amount of deposits (\$ '000)	...	...	44	48
Number of depositors (million)	...	...	0.51	0.56

Note: Microfinance institutions include formal and semiformal institutions.

Source: ADB. 2014. Sector Assessment (Summary): Microfinance. Document for the Microfinance Development Program Subprogram 2.

Table 4.96: Capital Market—UPCoM

Item	2010	2011	2012	2013	2014
UPCoM Index (closing)	45.19	33.76	41.81	42.46	60.30
Market capitalization (D mil.)	16,237,680	22,663,598	28,868,424	25,745,000	37,169,559
Trading value (D mil.)	2,266,651	2,280,259	5,064,991	5,106,700	5,410,000
Trading volume (mil. shares)	152	120	185	142	547
Registered companies	109	131	132	136	169
Newly registered companies	...	31	7	13	...
Deregistered companies	...	8	6	3	...
Securities firms (UPCoM members)	91	92	88	84	...

Note: data as of the end of the year.

Source: Hanoi Stock Exchange.

Table 4.97: SME Policy and Regulation

Regulations		
Name		Outline
Law No.47/2010/QH12 on Credit Institutions		Regulation of banks and nonbanks.
Law No.18/2003/QD on Cooperatives		Regulation of cooperatives.
Law No.70/2006/QH11 on Securities		Regulation of capital markets.
Law No.21/2008 on High Technology		Include the national policy to promote technology and innovation targeting SMEs.
Decree No.56/2009/ND-CP on Support for Development of SMEs (2009) *Replacing Decree No.90/2001/ND-CP		1) SME sector development policy 2) SME definition 3) Enhance the functions of SME Development Promotion Council 4) Establishment of SME Development Fund
Decree No.48/2001/ND-CP on People's Credit Fund		Establishment and operations of the People's Credit Fund.
Decree No.28/2005/ND-CP on MFIs		Regulation of microfinance institutions (MFIs).
Decree No.165/2007/ND-CP on MFIs (amendment)		
Decree No.03/2011/ND-CP on promulgating the regulation on guaranteeing commercial bank loans to SMEs		Special treatments to promote SME access to finance through guarantee by Vietnam Development Bank (VDB).
Decree No.58/2013/QD-TTg on the setting up, organization, and operation of credit guarantee funds for SMEs in provinces and centrally run cities *replacing No.193/2001/QD-TTg		Establishment and operations of Credit Guarantee Funds under the provincial governments.
Decree No.43/2010/ND-CP on Business Registration		Establishment of one-stop business register.
Decree No.61/2011/ND-CP on incentive policies for enterprises investing in agriculture and rural areas		Policies on supporting enterprises investing in agriculture and rural areas.
Prime Minister Decision No.2195/2011/QD-TTg on Approving the Proposal for Building and Developing the Microfinance System in Vietnam up to 2020		1) Creating a comprehensive legal framework for microfinance operations 2) Enhancing policymaking and regulatory capacity of government agencies 3) Strengthening capacity of MFIs 4) Conducting advocacy activities to raise awareness of microfinance 5) Other supporting solutions (funding facilitation for microfinance operations, establishment of training institutes, microfinance database, and establishment of a Microfinance Association)
Prime Minister Decision No.254/2012/QD-TTg on Approving the Project on Restructuring the System on Credit Institutions During 2011–2015		Focus on achieving healthy financial conditions and increasing capability of credit institutions; improve the safety and efficiency of credit institutions; enhance the discipline and market principle in banking activities.
Prime Minister Decision No.601/2013/QD-TTg on Establishment of Small and Medium Enterprise Development Fund		Establishment of the SME Development Fund to support SMEs having feasible business plans/projects in priority sectors.
SBV Circular No.16/2013/TT-NHNN on the maximum interest rate of dong short-term loans imposing on credit institutions and foreign bank branches		Concessional lending rate for SMEs (9%).
SBV Document No.884/2013/NHNN-TTGSNH on Transforming the Central People's Credit Fund into the Cooperative Bank of Vietnam.		Converting the legal status of the Central People's Credit Fund into the cooperative bank.
SBV Circular No.04/2015/TT-NHNN on People's Credit Funds		Revised regulation on People's Credit Funds.
Regulators and Policymakers		
Name		Responsibility
State Bank of Vietnam (SBV)		Regulate and supervise banks and nonbanks
Ministry of Planning and Investment (MPI)		MSME development policy
Agency for Enterprise Development, MPI		Executing agency of the MSME development policy
Ministry of Finance (MOF)		Credit Guarantee Fund
Ministry of Science and Technology (MOST)		Promote innovation and technology
Ministry of Industry and Trade (MOIT)		Industry development policy
State Securities Commission on Vietnam (SSC)		Regulate and supervise capital markets
SME Development Promotion Council		Advisory body to prime minister
Policies		
Name	Responsible Entity	Outline
5 Year SME Development Plan 2006–2010 (2005)	Government	A comprehensive SME development policy package prepared by all economic ministries/agencies. Specific targets: 1) Newly established SMEs of 320,000 (22% annual growth) 2) Newly established SMEs in disadvantaged provinces with annual increase of 15% by 2010 3) SMEs having direct exports: 3%–6% 4) 2.7 million new jobs created by SMEs in 2006–2010 5) Additional 165,000 technical workers in SMEs
5 Year SME Development Plan 2011–2015 (2012)	Government	A comprehensive SME development policy package prepared by all economic ministries/agencies. Specific targets: 1) Newly established SMEs of 350,000 during 2011–2015 2) SMEs having direct exports: 25% of total export nationwide 3) Investment from SMEs: 35% of total investment 4) SME contribution to GDP: 30%; SME contribution to total revenue of state budget: 30% 5) 2.5 million–4.0 million new jobs created by SMEs in 2011–2015

GDP = gross domestic product, SME = small and medium-sized enterprise.

Sources: State Bank of Vietnam, Ministry of Planning and Investment, Ministry of Finance, and State Securities Commission of Vietnam.



# Country Reviews

## Pacific

Fiji

Papua New Guinea

Solomon Islands



# Fiji

## SME Landscape

Fiji is a Pacific island country that is made up of over 330 islands, of which 110 are inhabited. There are two main islands; Viti Levu (southern island), which has the capital and largest city, Suva, and Vanua Levu (northern island). The estimated population of the country was 880,000 at the end of 2013. Fiji is internationally regarded as a tourist island destination, as it is Fiji's largest foreign exchange earner and a major source of national employment. In 2014 it was forecasted that the total contribution<sup>111</sup> of travel and tourism to Fiji's GDP was 38.7%, with a 35% contribution to total employment.<sup>112</sup> The top exports of Fiji are fish, mineral water, garments, timber, and gold. Fiji is also regarded as the commercial trade hub for the Pacific.

Fiji faces constraints typical of other Pacific island economies, such as exposure to natural disasters, high transport costs, a small domestic economy, and geographical isolation. In the past, economic growth in Fiji has been subdued by political instability, external shocks, and a poor enabling environment for SMEs. However, with the first democratic parliamentary elections in its history held in September 2014, the political outlook is positive, and international donors are reengaging with the country after a disengagement that began in 2006.

The definition of SMEs in Fiji is established by the Reserve Bank of Fiji (RBF). However, there are institutional definitions as well, which may differ from the RBF one.

An official definition of micro and small enterprises (rather than small and medium) comes from the Small and Micro Enterprises Development Act of 2002. The act defines micro and small enterprises by their annual turnover, total assets, and number of employees, which is comparable to the approach of other Asian and Pacific countries. The definition of a medium-sized enterprise comes from the Fiji Revenue and Customs Authority (FRCA), which uses an annual turnover volume of between F\$100,000 (\$48,000) and F\$500,000 (\$243,000). The relatively small sizes of SMEs in Fiji in general may be indicated by these parameters. In Solomon Islands, by comparison, an SME has between \$38,490 and \$6.4 million in annual turnover.<sup>113</sup>

The number of SMEs in Fiji (active or otherwise) is not well defined due to the general absence of hard data on SMEs in the country. This challenge is openly acknowledged by government ministries and the country's central bank. SME programs and initiatives are decentralized and implemented by various agencies, so there is no centralized database on SMEs to refer to for consolidated information.

One estimate on SME numbers by the Fiji Commerce and Employers Federation (FCEF)—which has about 600 members in the medium and corporate business range—indicates there are 12,000 registered businesses, of which 5,000 are actively operating. The National Center for SME Development (NCSMED), the primary government agency supporting SMEs, estimated that SMEs account for 10%–12% of Fiji's GDP, but they admit that the data are uncertain.

Access to finance is considered by the FCEF to be a major constraint to SME development, as FCEF members often state that they cannot access loans

<sup>111</sup> Including wider effects from investment, the supply chain, and induced income impacts.

<sup>112</sup> World Travel & Tourism Council. *Travel & Tourism Economic Impact 2014 Fiji*.

<sup>113</sup> USD conversion from Solomon Islands dollar (SI\$) Exchange rate: 1 SBD = 0.1283 USD. Source: Central Bank of Solomon Islands, 3 February 2015.



from banks. Overall, they estimate that only 40% of SMEs can get the financing they require for expansion. The causes for this lack of access are often a lack of real estate collateral and the inadequate financial management capacity of SMEs to generate accurate financial reports. The general view of business financing is that microfinance institutions (MFIs) service the micro and small enterprise sector, finance companies compete for business from medium-sized enterprises, and banks serve the corporate segment. Consistent with this, the requirements for accessing financing from these types of institutions becomes less challenging as the size of the enterprise diminishes.

Fiji has a business and financing environment that is conducive to SME development and growth. The government is making micro and small enterprise development a high priority, with multiple SME initiatives and incentives. Commercial loan interest rates, at 5.8% on average, are relatively low compared to other developing markets in Asia and the Pacific. There is healthy competition in the banking sector, and high levels of liquidity, with a stable capital market. The country also has a large inflow of tourism revenue.

Nevertheless, a government or nongovernment mechanism to collect, consolidate, and analyze SME-related data would help to improve SME definition and understanding of the sector, as SME data is currently decentralized and not standardized.

## Banking Sector

The RBF oversees much of the financial sector, including banks, finance companies, insurance companies, foreign exchange dealers, brokers, and superannuation funds. It also records gross lending to the private sector. There is a definition of SMEs that is applied for lending and thus the RBF has the capacity to categorize aggregate bank business lending by micro enterprises, SMEs, and large enterprises.

At the end of 2014, Fiji had six licensed commercial banks operating in the country. All but one of the banks is domestically owned, that being Home Finance Company (HFC) Bank, which, in 2014, transformed from a licensed credit institution into a bank. The other five banks are foreign-oriented: Bank South Pacific [BSP] (PNG), Australia and New Zealand Banking

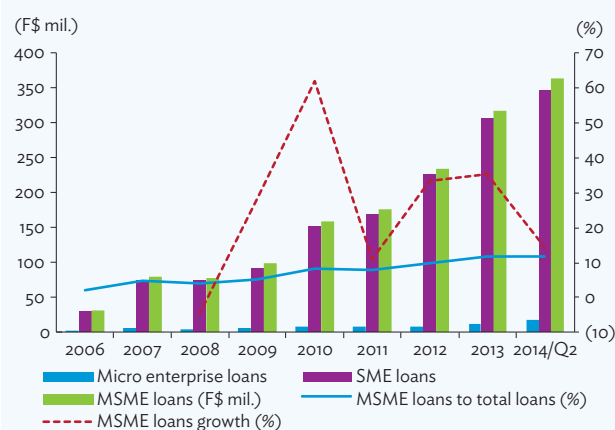
Group [ANZ] (Australia), Westpac (Australia), Bred Bank (France), and Bank of Baroda (India).

The RBF and all of the commercial banks in the country see the banking market as competitive, and there is a dynamic of all banks pursuing what are considered to be the “best clients” (larger, creditworthy enterprises). This has created a trend toward attracting small and micro enterprises. There is now direct competition between the banks and the credit institutions, such as Merchant Finance and Credit Corporation, where such competition did not exist several years ago.

According to RBF data, the proportion of micro, small, and medium-sized enterprise (MSME) loans compared to total business loans has been steadily increasing since 2009. By 2013, the percentage had increased to over 11%. By volume, MSME loans outstanding accounted for F\$30 million at the end of 2006, but had increased to F\$361 million by June 2014, almost 12 times the figure in 2006. This can be interpreted as a direct result of RBF initiatives, which placed strategic importance on MSME lending by the banks (Figure 4.195 and Table 4.98).

However, as a percentage of total business loans, large enterprises still make up almost 90% of all business loans by banks. This suggests that MSMEs are still only a minor focus by banks in Fiji. The situation is reflected in data which shows that, in the second quarter of 2014, there were 6 times as many large enterprise

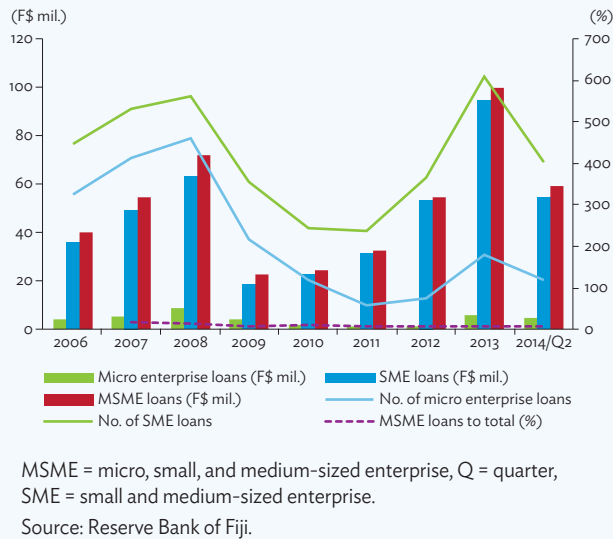
Figure 4.195: MSME Loans Outstanding



MSME = micro, small, and medium-sized enterprise, Q = quarter, SME = small and medium-sized enterprise.

Source: Reserve Bank of Fiji.

Figure 4.196: New MSME Loans



loans as MSME loans disbursed. New loans disbursed to MSMEs during 2014 (until June) amounted to F\$113 million, standing at 8% of total new business loans (Figure 4.196). This appears to be out of proportion with the general assumption that over 90% of enterprises in Fiji are MSMEs.

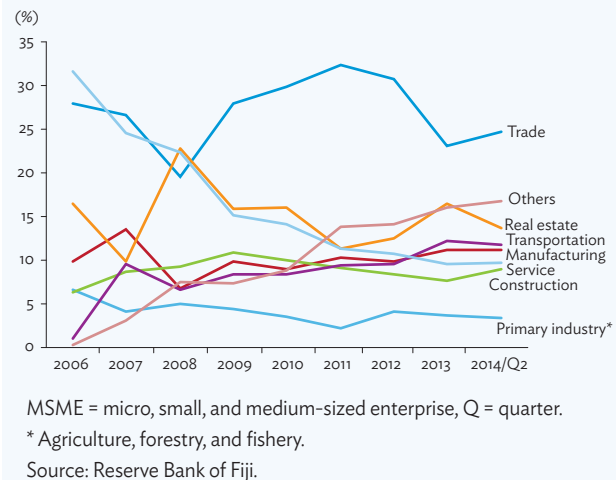
The three most active sectors for MSME lending by banks in Fiji in 2014 were wholesale and retail trade (24.7% of total MSME loans as of June 2014), others<sup>114</sup> (16.7%) and real estate (13.6%), while manufacturing and transportation constitute 11.2% and 11.8%, respectively (Figure 4.197).

The number of banks in Fiji has increased in recent years, as Bred Bank (French-oriented) obtained its banking license in 2012 and HFC Bank followed in 2014. Earlier, there was another domestic (though state-owned) bank in the country, Colonial National Bank, acquired in 2009 by BSP, which took over all of Colonial's operations and rebranded its extensive branch network to BSP. This acquisition provided BSP with the largest number of bank branches in Fiji.

In general, the financing options for SMEs from banks are limited. Aside from standard term loans and overdraft

<sup>114</sup> Including mining and quarrying, electricity, gas and water, nonbank financial institutions, and other sectors not included in the seven listed sectors.

Figure 4.197: MSME Loans by Sector



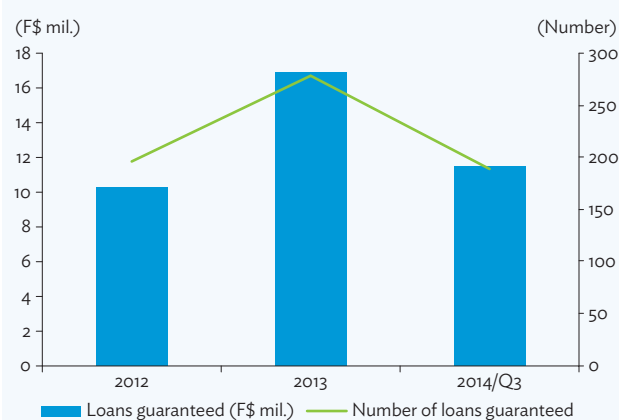
facilities, banks do not yet offer more sophisticated financing products, such as purchase order finance, supply chain financing, or factoring.

Due to a high level of liquidity and strong competition in the banking system, commercial bank interest rates are at historic lows in Fiji. According to the RBF, the bank lending rate on all loans in Fiji was 5.8% by November 2014, whereas it was as high as 8.5% in 2007. It is even the case that the largest corporate clients can receive loans for only 3.5%.

A main part of national efforts to promote SME financing is the government's SME Credit Guarantee Scheme (SMCEGS). Launched in 2012, the scheme is administered by the RBF, and was funded with F\$2.5 million in 2012 and an additional F\$1.5 million in 2013. Under the scheme, the government guarantees 50% of principal outstanding on defaulted SME loans up to a limit of F\$50,000 per business. Since its inception, the scheme has cumulatively guaranteed 663 loans (as of the end of September 2014), which have a total value of F\$38.9 million (Figure 4.198).

By business sector, 48% of the guaranteed loans are in the wholesale and retail sector, followed by 32% in the service sector. These are the two sectors in which most SMEs in Fiji are active. The quality of the guaranteed loan portfolio is relatively high, with only one loan ever needing to be covered by the guarantee. While there

**Figure 4.198: Guaranteed MSME Loans—SME Credit Guarantee Scheme**



MSME = micro, small, and medium-sized enterprise, Q = quarter, SMECGS = SME Credit Guarantee Scheme.

Source: Reserve Bank of Fiji.

is broad participation by banks in the SMECGS, there is, as is common with credit guarantee programs, some feeling by banks that the procedures and requirements of the scheme are somewhat burdensome, which could limit its expansion, and the existence of moral hazard on the part of the borrowers. In addition, given that the guarantee has never been invoked, except for one default in 3 years of operation, it may be possible that the participating banks are not taking additional risks when selecting the loans for SMECGS coverage, which is what the scheme intends to allow the banks to do.

The banking sector relies on financial statement credit analysis and full collateral cover, which is often in the form of real estate, for all SME loans. This lack of eligible real estate for collateral is a primary constraint for accessing business loans.

Fiji has an active, privately owned credit bureau, Data Bureau Limited, which was established in 2001 by a group of financial institutions and insurance companies. However, the credit bureau only gathers reports from lenders about loan defaults and payment arrears, so does not provide full credit information about all borrowers. The company also provides debt collection services to its clients. Banks voluntarily provide data on their clients to the credit bureau.

HFC Bank, as a relatively new bank and the only domestically owned bank in Fiji, states that it is making SME financing a high priority for its lending operations. HFC defines its commercial loan portfolio by the size of loan provided to the client. A micro loan is one less than F\$5,000, while an SME loan is between F\$10,000 and F\$300,000. From this classification system, however, HFC has only 1% of its commercial loan portfolio in micro and SME loans, as of the third quarter of 2014, with the remaining 99% regarded as loans to large enterprises.

Further analysis reveals that the vast majority of HFC's SME loans are for financing fixed asset purposes (90%); that two-thirds of SME loans are for terms over 5 years; that there is an almost even distribution between SME loans in the capital, Suva, and other cities; and that the average lending rate for fixed assets loans is lower than for working capital loans (8.6% compared to 11.3% as of the third quarter of 2014). Given that most of HFC's SME loans are for fixed assets, the average interest rate for all SMEs is close to the fixed asset rate (10.9%).

HFC states that the challenges of SME lending are based on the "5Cs"—capital, collateral, capacity, character, and conditions—meaning that HFC feels that there are weaknesses in all of the lending criteria normally applied to SME borrowers.

Another of the smaller, newer banks is Bred Bank, which is owned by Groupe BPCE, the second largest banking group in France. The bank has not yet reached profitability in Fiji, however expansion is planned with two additional branches to be added to their existing three in 2015. The bank uses a different definition for SME loans than HFC does. For Bred Bank, any loan under F\$500,000 is considered to be an SME loan. Of their approximately F\$100-million portfolio of business loans, about 80% is with corporate or large enterprises, while 20% is with SMEs.

Bred Bank offers long-term and short-term business loans, plus overdrafts, but no leasing products. The base interest rate for their SME loans is 9%, and can be priced as high as 15%. The bank is flexible on collateral requirements, as it will consider third-party credit guarantees and movable assets (equipment and goods) in place of real estate. The bank's SME loans average between F\$100,000 and F\$200,000, so

their SME loans can be considered on the high side of the scale.

Bred Bank is not a participant in the RBF's SMECGS, as they feel that the scheme does not add value to their lending criteria.

One of the three largest banks in Fiji is ANZ, which is also the oldest, with over 100 years of continuous activity in the country. ANZ fits squarely into the category of providing larger-sized business loans. The bank's portfolio average is between F\$150,000 to F\$200,000. ANZ defines a micro loan as one under F\$10,000. A typical enterprise borrower has an annual turnover of between F\$2 million and F\$5 million. ANZ also defines an SME as a business with less than F\$1 million in turnover. Derived from actual loan sizes, the bank has about 75% of its commercial loans with large enterprises, and 25% with SMEs.

ANZ has a relatively high quality loan portfolio in Fiji, with nonperforming loans (NPLs) at less than 2%, which they attribute to adequate management of risks. This indicates that the bank has a conservative approach to business banking, which the bank readily acknowledges. Real estate is the main collateral for securing business loans, though this is dependent on what assets a business is able to provide to the bank. Given this, it can be challenging for smaller-sized SMEs to approach ANZ for credit, as they are intimidated by the perception that the bank is only for corporates. ANZ has, however, launched efforts to reach small businesses by having a dedicated back office for SMEs, while loan officers pay visits to shops and other small enterprises, rather than waiting for them to come to a branch.

SME and other business loans can take the form of short-term and long-term loans, overdrafts, and asset-based financing. Interest rates can be obtained in the range of 8.5% to 10% per annum, although established clients can take loans for a low as 4% to 6%. Loan terms on average are for 3 to 5 years. The underwriting is based on cash-flow analysis and an assessment of collateral, plus a credit report from Data Bureau Limited. ANZ also offers trade finance, such as finance based on letters of credit based.

In terms of gender, ANZ has a strategy for greater inclusion of women, including hiring more women.

Overall, ANZ is a full service business bank that is in a market position to finance large projects and capital expansion of large enterprises. The bank acknowledges that it, along with all other banks, have excess liquidity, and would like to see large national infrastructure projects in order to boost SME outreach for financing. Such infrastructure might include an improved road network to develop rural areas and fruit and vegetable value chains.

BSP is the third largest bank by assets, though it has the largest banking network in Fiji with 18 branches and 124 ATMs. BSP has a dedicated SME unit, which supports their drive to focus more on SMEs (after previously operating more as a retail consumer bank). BSP sees SMEs as having talent in business but a lack of financing, which limits their development. The bank sees that the trend for SME loans has been one of growth over the last 3 years.

SME loans at BSP are defined as those that are under F\$500,000, while corporate loans are between F\$500,000 and F\$2 million. SMEs also are defined by a turnover of less than F\$2 million and fewer than 50 employees. Average SME loan size at BSP is around F\$250,000. BSP offers business clients term loans for fixed assets, usually for 5 years, and a revolving credit line for working capital for 12 months. Collateral is required for business loans, but can vary from full to partial coverages, and be covered by real estate (especially for new clients) or vehicles and other equipment. The bank uses a discounting rate of 60% for real estate, which means that, for collateral, a value of twice the loan amount is often needed from the client.

Interest rates on SME loans through BSP have decreased in recent years. The bank was charging between 8% and 13%, but currently is pricing its loans at between 5% and 11%. The bank finances a variety of business sectors, including manufacturing, ecotourism, and agriculture (about 9% of their loan portfolio). For underwriting SME loans, business plans are requested for new clients that have large projects, but otherwise it is not required. Cash flow as well as collateral is evaluated, however the bank admits that it is difficult to project cash flow with SMEs, as their financial records are of poor quality much of the time. Despite the lack of good financial records, BSP states that it has good quality in its overall loan portfolio, with only F\$250,000 written off in 2014.

BSP sees its advantages in the SME market coming from its approach of building strong relationships—banking or nonbanking—with the client, as opposed to just analyzing financial data. BSP notes that clients will stay with their banks for a long time if they have a strong relationship with their banker, otherwise they will switch to another bank if better terms and faster processing are offered.

In terms of gender, the bank estimated that 5%–10% of SMEs are owned by women, and that they see these clients as being trustworthy and good managers of money. BSP would like more women-owned SMEs as clients.

ANZ, Westpac, and BSP all offer forms of online, telephone, and SMS banking to their clients, and these services are helping to expand financial inclusion in the country. Fiji first adopted a Mobile Network Operator (MNO)-led model<sup>115</sup> for mobile banking, with Digicel and Vodafone beginning their services in mobile money in 2010. However, because these mobile accounts were not linked to a bank account, gaps in services existed. Currently, the banks are providing their own mobile services, and there is draft legislation with the Solicitor General for regulating mobile payments.

The technology of crowdfunding is currently not facilitating business financing in Fiji.

Access to finance represents a significant challenge for smaller SMEs, as commercial banks—despite recent drives toward greater SME financing, prompted by government strategy—are still focused on the largest and most sophisticated enterprises, which have real estate and assets to use as collateral for loans, as well as accurate financial records.

There may be opportunity for international technical assistance to banks for increasing outreach to SMEs, and new tools for risk management can allow broadening SME portfolios beyond the “low hanging fruit” of business clients.

## Nonbank Sector

Fiji’s nonbank financing sector is dominated by a handful of companies, which are categorized and licensed by the RBF as credit institutions. Other types of nonbank financial institutions (NBFIs) active in the country include credit unions, which are not yet regulated by the RBF, microfinance institutions (MFIs), which are supervised by the Ministry of Industry and Trade, and some cooperative lenders. While South Pacific Business Development (SPBD), which caters to the micro enterprise segment, is the major MFI in the country, the two main privately owned credit institutions, Credit Corporation (which also operates in PNG, Solomon Islands, and Vanuatu) and Merchant Finance, are primarily serving the SME market. Their main loan activity is for financing commercial and personal vehicle purchases. The Fiji Development Bank (FDB) is also a NBFI under the RBF licensing system.

As a government instrument, FDB is the longest operating public entity for SME financing in the country. It was first incorporated in 1967, under the Fiji Development Bank Act. FDB falls under the Ministry of Finance, and has a double bottom line—to be sustainable and to develop the national economy—primarily with a direction of financing agriculture. Some of FDB’s loans are subsidized by the government in the form of an interest rate reduction for FDB’s borrowers. For example, for FDB loans under F\$50,000 and issued in FDB’s focus sectors,<sup>116</sup> a subsidized interest rate of 6% per annum is charged. For all loans above F\$50,000, a nonsubsidized rate from between 5.7% and 13.2% can be applied. For 2014, FDB’s annual average lending rate was 7.6%.

FDB uses its own business definitions for lending purposes. Micro enterprises are those with loans below F\$10,000; SMEs are those with loans between F\$10,000 and F\$500,000; and large enterprises are those with loans above F\$500,000, including all home lending and leasing loans.

As of October 2014, FDB had an outstanding loan portfolio of F\$355 million (\$175 million), with a total

<sup>115</sup> MNO-led model for mobile money is where a mobile operator initiates and launches the service, as opposed to a bank-led model, where financial institutions are the first movers.

<sup>116</sup> FDB focus sectors are agriculture, including forestry and fishing, mining and quarrying, manufacturing, transport, communications and storage. SME and Micro Loans in wholesale, retail, hotels and restaurants and professional & business service sectors.



NPL ratio of 16.4%. FDB's loan portfolio is dominated by large enterprises. These loans, by value, constitute 83% of the portfolio, with only 15% from SME loans (F\$55 million) and 2% from loans to micro enterprises (F\$6 million). The SME NPL ratio was 12.8%, lower than that for large enterprises, while the NPL ratio for micro enterprises was 28.3%, as of October 2014 (Figure 4.199 and Table 4.99).

This could be considered uncommon for a state-owned development bank, as often the loan portfolios of such institutions are dominated by small rural loans. FDB explained that it is a project finance lender, so larger projects, such as hotel construction, create significant employment and positive ripples of economic development in the country. However, the role of a state-owned development bank as a financier of multimillion dollar projects may or may not be ideal, as figures show that commercial banks in the country have excess liquidity.

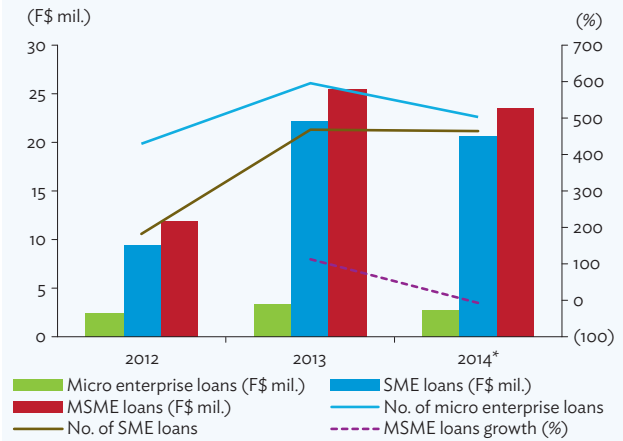
New loans disbursed to MSMEs in 2014 (until October) amounted to F\$23 million, standing at 18.5% of total loans disbursed (Figure 4.200).

By business sector, FDB's largest commitment is in agriculture, at 44.4% of the total loan portfolio (F\$24 million), followed by trade (wholesale, retail,

hotels, and restaurants) at 16.5% and transportation at 10.4%, as of October 2014 (Figure 4.201).

Geographically, the FDB loan portfolio does show that the main target of its lending is in rural areas of the country, as loans to SMEs in the capital, Suva, constitute only 36% of the total, as of October 2014.

**Figure 4.200: New MSME Loans—  
Fiji Development Bank**

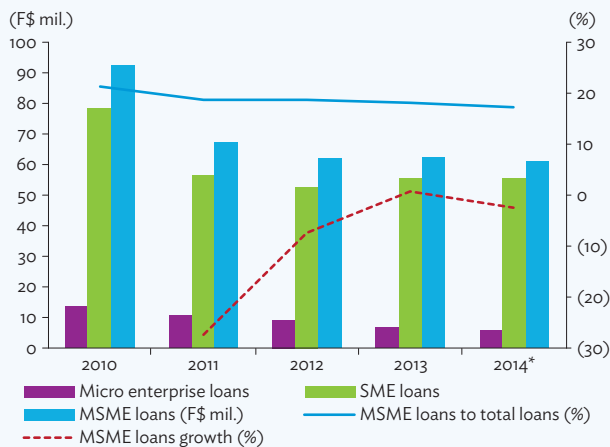


FDB = Fiji Development Bank, MSME = micro, small, and medium-sized enterprise.

\* data as of October 2014.

Source: Fiji Development Bank.

**Figure 4.199: MSME Loans Outstanding—  
Fiji Development Bank**

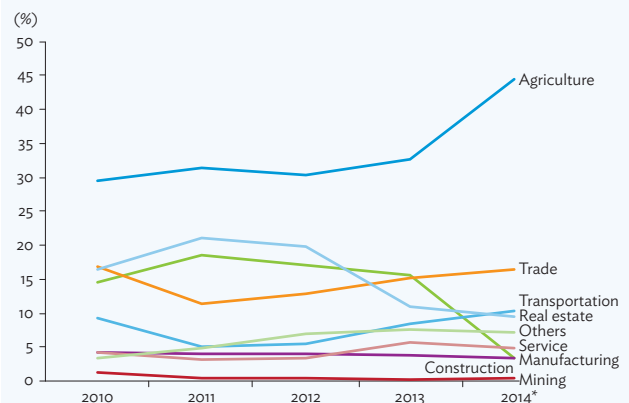


FDB = Fiji Development Bank, MSME = micro, small, and medium-sized enterprise.

\* data as of October 2014.

Source: Fiji Development Bank.

**Figure 4.201: SME Loans by Sector—  
Fiji Development Bank**



FDB = Fiji Development Bank, SME = small and medium-sized enterprise.

\* data as of October 2014.

Source: Fiji Development Bank.

For the NBFIs sector, the RBF reported figures of F\$153.6 million outstanding, as of the end of June 2014, which tallied the SME portfolios of Credit Corporation, Merchant Finance, and FDB (Figure 4.202 and Table 4.100).<sup>117</sup> The decrease in the number of credit institutions from four to three in 2014's portfolio figures is due to the Home Finance Company being granted a banking license and moving out of the category for credit institutions in November 2013. The decrease in the 2014 figure for outstanding SME loans (from F\$192.7 million in 2013 to F\$153.6 million as of June 2014) is also the result of this change in licensing.

By business sector, transportation is a major client base for loans by credit institutions, standing at 29.9% of total financing outstanding, followed by primary industry (agriculture) at 22.7% and construction at 16.5% (Figure 4.203).

Credit Corporation estimates that 90% of their loan portfolio is in transportation, while Merchant Finance reports the sector attracts 100% on their portfolio. Though by sector there is diversity in the portfolios, vehicles are financed for all sectors and also for personal vehicles. Both institutions offer deposit accounts.

Each had an outstanding total loan portfolio of about F\$100 million in 2013.

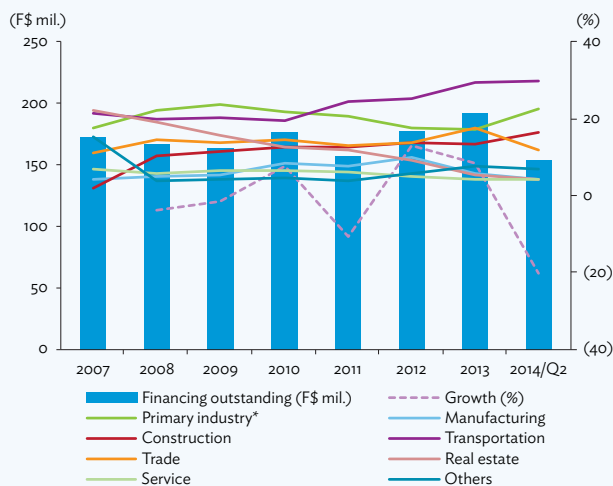
The newest major credit institution, BSP Finance (a BSP Bank subsidiary), was launched in October 2014. Speaking at the official launch, BSP Group CEO, Robin Fleming, said that BSP Finance's flexible policies will provide a finance alternative to those who do not meet the guidelines for commercial banks, and that their structure is accommodating to smaller business, including start-ups that lack the proven trading history in order to access capital funds from banks.<sup>118</sup>

This approach appears to be the case with SME financing in Fiji, as both Credit Corporation and Merchant Finance operate in the space between microfinance and the banks, which mainly serve larger enterprises.

The NBFIs sector in Fiji reports that its performance is mostly flat or growing slowly. This is evidenced by the RBF's figures, as compared to the banks that are having strong performance results.

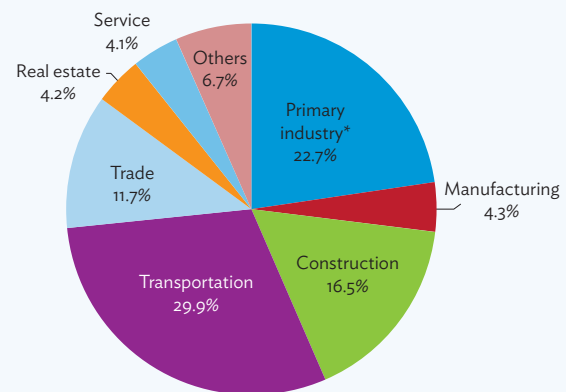
For example, Credit Corporation reports that its outstanding<sup>119</sup> loan portfolio at the end of 2013 was

**Figure 4.202: SME Loans Outstanding—Credit Institutions**



Q = quarter, SME = small and medium-sized enterprise.  
 \* Agriculture, forestry, and fishery. FDB, Credit Corporation, Merchant Finance figures.  
 Source: Reserve Bank of Fiji.

**Figure 4.203: SME Loans by Sector—Credit Institutions, 2014**



Q = quarter, SME = small and medium-sized enterprise.  
 \* Agriculture, forestry, and fishery. FDB, Credit Corporation, Merchant Finance figures.  
 Source: Reserve Bank of Fiji.

<sup>117</sup> The RBF figure for SME loans for Credit Corporation differs from Credit Corporation based on RBF definitions.

<sup>118</sup> <http://fijivillage.com/news/BSP-Finance-Limited-launched-this-morning-k29r5s/>

<sup>119</sup> Credit Corporation Fiji internally terms all of their loans to the SME sector.



F\$102.9 million, only 8% higher than at the end of 2009, and down by 10% since 2011 (Figure 4.204). Over 50% of Credit Corporation's loan portfolio is in private motor vehicles and the transportation sector. Few of its clients are categorized as large, with about 20 having loans above F\$500,000.

Credit Corporation's commercial products and services include lease and asset purchasing finance, fleet leasing management, business finance, and interest-bearing deposit accounts. There have been changes to the bank's client preferences in the past 2 years as, prior to 2012, Credit Corporation was mainly financing new vehicles, yet in 2012 this had changed to secondhand vehicles. The term characteristics of their loan portfolio is mainly for between 1 and 5 years, as only 10% of the bank's F\$102.9 million portfolio is in loans under 1 year. Credit Corporation has a deposit portfolio of about F\$63 million, which pays an interest rate of between 1% and 3%.

Interest rates on Credit Corporation's loans are substantially higher than bank loan interest rates (true for all credit institutions), and they use a flat interest rate calculation of between 6%–12% on asset financing loans. There are about 3,500 active loans in Credit Corporation's portfolio and loan sizes average around F\$15,000–F\$20,000. A 20% deposit (client contribution) is normally required for vehicle and other asset loans.

Merchant Finance also has about 3,000 clients on their books, and an average loan size of approximately F\$45,000, again, reflecting the majority of its loans being for financing vehicles. A 20% deposit is also required for asset loans, while the bank charges a flat interest rate of between 9% and 13% for terms of 3–5 years.

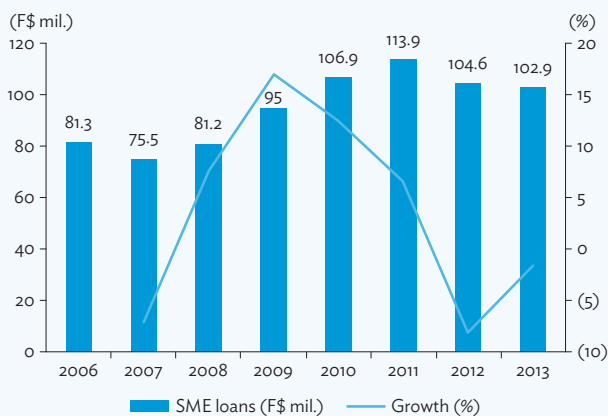
Both credit institutions see their clients as being much more high-risk than bank clients, as their NPLs are in the range of 20%–30%. One factor for this is that real estate is not usually sought for collateral, whereas the banks normally require it to secure their loans. The higher interest rates of the credit institutions are a response to the higher risk of their loans.

Analyzing the total credit market, the general perspective of the two main credit institutions is that their low growth rates are due to the commercial banks downscaling into their traditional SME customer base. This has seen refinancing of many of the credit institutions' loans with less expensive (interest rates under 6%) loans. Credit institutions are therefore losing many of their existing loans to the banks.

Crowdfunding is not active in SME financing in Fiji, and there is no regulation for it. However, the South Pacific Stock Exchange has stated that they would be interested in learning more about crowdfunding as a practical way for capital raising.

Measures to improve portfolio quality and lower the NPL ratio, so as to be able to compete with the banks more effectively, would improve the sustainability of the nonbank sector. Using its existing advantages in speed of processing and simplicity of requirements to attract a wider range of clients (beyond vehicle purchases) can also benefit the sector in the long run. The development of value chain (supply chain) financing mechanisms would also increase financing opportunities for institutions.

**Figure 4.204: SME Loans Outstanding—  
Credit Corporation**



SME = small and medium-sized enterprise.  
Source: Credit Corporation.

## Capital Markets

Fiji's stock exchange, the South Pacific Stock Exchange (SPSE), is regulated by the RBF. As of October 2014 the exchange had 18 listed companies and a market capitalization of F\$885 million (\$450 million). The SPSE trades common shares and convertible notes. The

number of listed companies has increased slightly since 2009, when there were 16 listings, however the market capitalization in that period was higher at F\$901 million (Figure 4.205 and Table 4.101).

Although the longest-listed companies first joined the exchange in 1979, most of the listings have occurred since 2000. From a commercial sector perspective, the communications and media sector has been a dominant group of issuers. The sector accounted for 43.7% of market capitalization, as of the third quarter of 2014, with one company, Amalgamated Telecom Holdings, comprising 40% alone. The next largest sector was manufacturing and wholesalers, accounting for 28.7% of the market capitalization, as of the third quarter of 2014 (Figure 4.206).

Although tourism is Fiji's largest commercial sector by GDP contribution, it is not a specific sector on the stock exchange, as companies operating in tourism are categorized by their core function, i.e., hotels, travel agents, airlines, other passenger transportation services, restaurants, and leisure industries directly supported by tourists.

None of the SPSE's listed companies can be categorized as an SME, according to the national definition established by the Small and Micro Enterprises Development Act.

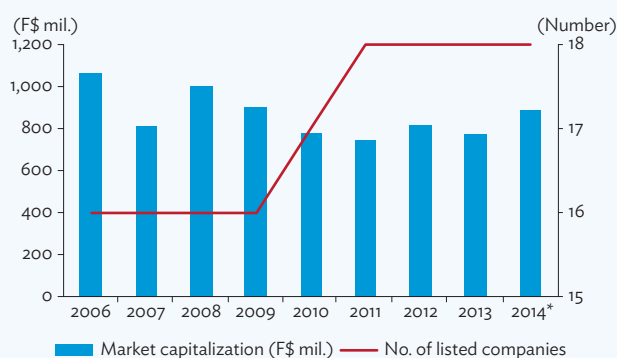
To be listed, a company must have total assets valued at a minimum of F\$500,000 (\$260,000). However,

under the national SME definition, if a business has over F\$500,000 in total assets, it is categorized as a large enterprise. Given this, the exchange's listing requirements are not conducive to SMEs being listed.

Recognizing this, the SPSE is exploring the possibility of splitting the existing board and having smaller companies listed on a secondary exchange. The main questions surrounding this approach include at what level to set the minimum listing requirement, as the current F\$500,000 is already quite low, and how to lower the estimated costs of the listing process, which average about F\$20,000 to produce a prospectus and cover other costs.

In addition to the SPSE, there is an over-the-counter (OTC) trading venue of company shares, which are transacted by three licensed stock brokers in the country. One of the largest brokers is Kontiki Stockbroking (KSB). KSB is licensed by the Capital Markets Development Authority (CMDA) as a broker dealer and is a member of the SPSE. KSB is a wholly owned subsidiary of Kontiki Capital, an investment bank. This firm, similar to other brokers, provides advisory services to companies that want to pursue a listing or are seeking equity from one of the large managed investment funds. One such fund is the Fijian Holdings Unit Trust (FHUT), which, at the end of 2013, had portfolio market value of F\$60 million. The FHUT

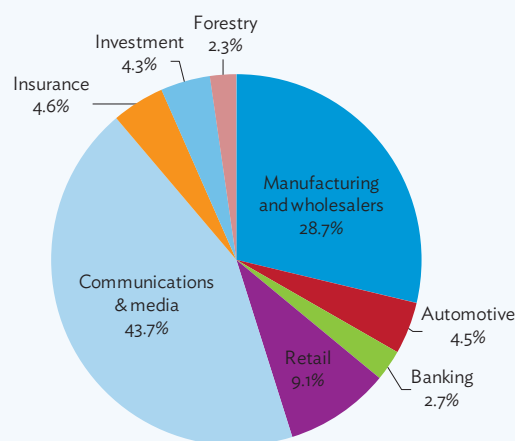
**Figure 4.205: Market Performance—  
South Pacific Stock Exchange**



\* data as of October 2014.

Source: South Pacific Stock Exchange.

**Figure 4.206: Market Capitalization by Sector—  
South Pacific Stock Exchange, 2014**



Note: Data as of October 2014.

Source: South Pacific Stock Exchange.

receives proposals for equity funding from enterprises directly, bypassing the SPSE.

The SPSE does not trade commercial bonds, as none have been issued since 2003.

The SPSE is having exploratory discussions about launching a Pacific regional exchange, which could be based in Vanuatu—an attractive location, given that the country has no income tax, withholding tax, capital gains tax, inheritance tax, or exchange controls. This exchange could possibly be managed by a global fund manager.

An approach to encourage and promote to SMEs the benefits of employing bonds and stocks for raising capital can be effective in the long term, as there are more SMEs that could use capital financing.

## Policy and Regulation

Fiji has had an SME development framework for the past 15 years, officially addressing micro and small enterprises, rather than small and medium-sized one. This led to the creation of the National Center for Small and Micro Enterprise Development (NCSMED) in 2002, and the establishment of the Ministry of Industry and Trade (MIT) as the line ministry to oversee Fiji's SME development agenda. The NCSMED's core functions are to facilitate access to financing for SMEs, provide business support and advisory services, and offer capacity building programs in management to develop an enabling environment for SMEs. The NCSMED is actively fulfilling its mission, and provides training, workshops, business cluster development, and mentoring programs to SMEs, as well as a grant program.

SME development has been a high priority for the Government of Fiji, with initiatives being implemented by many government instrumentalities, such as the RBF and other ministries. This, in part, has led to a lack of accurate, consolidated data on SMEs in the country. The government does recognize this, and is taking steps to reform systems to centralize SME data.

Two SME initiatives are the MIT's "Fijian Made" and "Buy Fijian" campaigns, which were launched in 2011 to create a Fijian brand and to promote Fijian-made products. Under the campaigns, businesses can obtain

a license from the MIT to display official emblems on their products, using one of eight industry emblems or names (including "Made", "Assembled", "Crafted", and "Sewn". To qualify for the product license, all significant components must originate from Fiji and virtually all production or manufacturing of the goods must be done in Fiji. As a subsidy to SMEs, they have been exempted from the standard F\$50 application fee.

The RBF is actively involved in SME financing policy in Fiji. The Banking Supervision Policy Statement No.14: Minimum Requirements for Commercial Banks on Internal Microfinance Divisions and Units is one example. It requires all banks operating in Fiji to establish internal microfinance units and strategies. The main objective of the policy is to enable banks in Fiji to innovatively and effectively extend sustainable banking and financial services to poor and low-income households and individuals, and to micro and small enterprises. Analysis of the microfinance sector suggests that this policy is meant to fill the financial inclusion gap due to the absence of a robust microfinance sector in Fiji, as there is only one significant MFI in the country, SPBD (a regional MFI group also operating in Samoa, Tonga, and Solomon Islands), which was established in Fiji in 2010.

Additionally, for financial inclusion issues, the National Financial Inclusion Taskforce was established in 2010, by the RBF and the Pacific Financial Inclusion Program (PFIP). The Taskforce's goal is to guide and monitor the development of greater financial inclusion in Fiji.<sup>120</sup> Its target for 2010–2014 was to extend financial services to 150,000 unbanked, low-income residents of the country. As of August 2013, the Taskforce reported that it had already reached 87% of its target, or 130,500 unbanked people.<sup>121</sup>

The Ministry for Strategic Planning, National Development and Statistics works toward improving the coordination of national development efforts, particularly in the formulation of policies and the effective implementation and monitoring of government initiatives. It oversees the 2010–2014 Roadmap for Democracy and Sustainable Economic Development, which sets the government's strategic priorities for

<sup>120</sup> <http://www.pfip.org/media-centre/in-news/2010-1/rbf-establishes-national-financial-inclusion-taskforce.html>

<sup>121</sup> <http://www.fijitimes.com/story.aspx?id=241849>

strengthening good governance and economic and sociocultural development.

The NCSMED has implemented a business financing program called the Northern Development Programme, which has been providing grants to micro and small enterprises since 2008. The program has the goals of alleviating poverty and improving the quality of life in the rural city of Vanua Levu. It is modelled with a cost-share requirement of 60% grant and 40% other funding for projects. Under this program, financial institutions have provided loans to target beneficiaries of almost equal amounts to the grants and other funding. As of August 2014, the program has cumulatively disbursed approximately F\$6.1 million in grants to 1,798 enterprises, while F\$6.8 million has been invested via other sources, including the grant recipients' own funds (Figure 4.207 and Table 4.102).

An analysis of the data reveals that there is a gender skew within this program, with 83% of the grants having gone to male-owned businesses, only 14% to women-owned enterprises, and the remaining 3% to businesses jointly owned by people of both genders. Additionally,

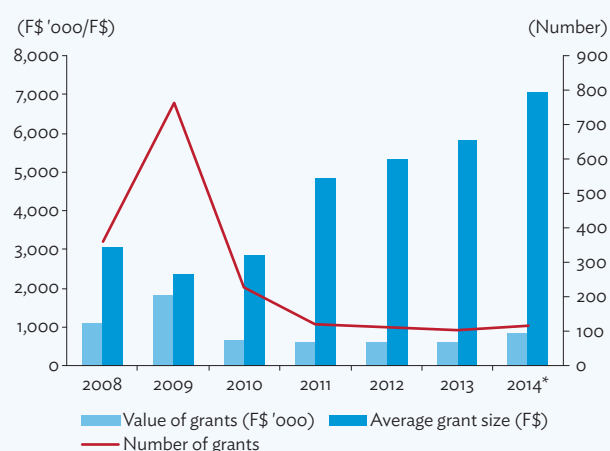
the characteristics of the program have changed significantly since the program's inception. The average grant size has more than doubled since 2010, while the number of grants has halved in that same period. These changes indicate that the size of the target enterprises has increased over time, as they are in need of larger amounts of financing, meaning that the program has potentially moved outside of its intended purpose.

Besides the Northern Development Programme, the MIT provides a credit program for exporters. This program is called the Export Credit Facility (ECF). It is based on a F\$1.5-million grant to FDB in 2008, to develop a loan product that would assist in the priority sectors of agriculture, forestry, marine products, mineral water products, information and communication technology (ICT), and audio visual. The ECF intended to assist new and existing exporters in raising short-term working capital requirements for exporting. However, as of November 2014, the facility is being redesigned, as a review concluded that the ECF was not being utilized enough by exporters, due to some of the initial terms being unattractive. As of November 2014, the ECF's interest rate was 4% per annum.

Aside from credit incentives, the government enacted several significant changes to the tax code, which are beneficial to SME development. The 2014 National Budget introduced favorable tax treatment for those businesses that list on the stock exchange, in order to encourage new listings. The corporate tax rate for such newly listed companies was reduced from 18.5% to 10%. Additionally, the annual turnover limit for the SME income tax exemption was increased from F\$300,000 to F\$500,000.

An evaluation of the efficacy of the largest SME financing initiatives, such as the public credit guarantee scheme and the Northern Development Programme, may be beneficial. Meanwhile, developing regulations and policies on crowdfunding can help to finance innovative start-ups. A review and evaluation of FDB's progress in achieving the goals of poverty alleviation and job creation may also be beneficial in targeting support.

**Figure 4.207: Northern Development Programme**



Source: National Centre for Small and Micro Enterprise Development.

Table 4.98: Banking Sector—MSME Loans

Item	2006	2007	2008	2009	2010	2011	2012	2013	2014/Q2
<b>Loans Outstanding (LCY)</b>									
MSME loans to total loans (%)	2.0	4.9	4.1	5.2	8.2	8.0	9.8	11.7	11.6
MSME loans growth (%)	...	161.0	(4.4)	28.3	61.7	11.0	33.2	35.4	14.6
MSME loans (F\$ '000)	30,443	79,454	75,924	97,414	157,515	174,770	232,858	315,307	361,328
Micro enterprise loans (F\$ '000)	1,156	6,082	2,885	6,460	7,241	7,299	7,463	11,396	16,255
SME loans (F\$ '000)	29,287	73,372	73,039	90,954	150,274	167,471	225,395	303,911	345,073
Large enterprise loans (F\$ '000)	1,517,407	1,535,365	1,786,130	1,763,923	1,774,312	1,996,619	2,142,413	2,383,170	2,758,592
Total loans (F\$ '000)	1,547,850	1,614,819	1,862,054	1,861,337	1,931,827	2,171,389	2,375,271	2,698,477	3,119,920
<b>MSME Loans by Sector</b>									
Primary industry* (F\$ '000)	1,993	3,262	3,819	4,246	5,562	3,890	9,552	11,424	12,018
Manufacturing (F\$ '000)	2,989	10,735	5,146	9,623	14,081	18,087	22,829	35,480	40,512
Construction (F\$ '000)	1,906	6,933	7,015	10,648	15,699	15,975	19,424	23,925	32,228
Transportation (F\$ '000)	300	7,598	4,998	8,200	13,262	16,516	22,180	38,583	42,473
Trade (F\$ '000)	8,499	21,136	14,846	27,304	47,202	56,576	71,778	72,925	89,184
Real estate (F\$ '000)	5,039	7,793	17,363	15,451	25,363	19,837	29,065	51,866	49,261
Service (F\$ '000)	9,647	19,509	17,051	14,766	22,333	19,736	24,970	30,338	35,171
Others (F\$ '000)	70	2,488	5,686	7,176	14,013	24,153	33,060	50,766	60,481
Primary industry* (% share)	6.5	4.1	5.0	4.4	3.5	2.2	4.1	3.6	3.3
Manufacturing (% share)	9.8	13.5	6.8	9.9	8.9	10.3	9.8	11.3	11.2
Construction (% share)	6.3	8.7	9.2	10.9	10.0	9.1	8.3	7.6	8.9
Transportation (% share)	1.0	9.6	6.6	8.4	8.4	9.5	9.5	12.2	11.8
Trade (% share)	27.9	26.6	19.6	28.0	30.0	32.4	30.8	23.1	24.7
Real estate (% share)	16.6	9.8	22.9	15.9	16.1	11.4	12.5	16.4	13.6
Service (% share)	31.7	24.6	22.5	15.2	14.2	11.3	10.7	9.6	9.7
Others (% share)	0.2	3.1	7.5	7.4	8.9	13.8	14.2	16.1	16.7
<b>Number of new loans</b>									
Micro enterprises	325	413 <sup>a</sup>	460 <sup>a</sup>	216	120	59	76	181	119
SMEs	448 <sup>a</sup>	532 <sup>a</sup>	561 <sup>a</sup>	355	244	236	366	607	402
Large enterprises	...	...	...	1,051	400	540	1,294	1,869	1,369
Total	...	...	...	1,622	764	835	1,736	2,657	1,890
<b>New loans disbursed (F\$ '000)</b>									
Micro enterprises	4,229	5,257	8,878	3,848	1,529	1,137	1,337	5,479	4,672
SMEs	35,575	48,852	62,742	18,374	22,522	31,246	53,161	93,933	54,128
Large enterprises	...	250,709	370,261	270,627	219,965	413,132	567,598	963,715	676,505
Total business loans	39,804	304,818	441,881	292,849	244,016	445,515	622,096	1,063,127	735,305
<b>Lending rate on total loans**</b>									
Annual average (%)	7.9	8.5	7.7	7.5	7.4	7.4	6.6	5.8	5.8
<b>Guaranteed MSME loans—SMECGS***</b>									
Loans guaranteed (F\$ '000)	...	...	...	...	...	...	10,332	16,951	11,587
Number of loans guaranteed	...	...	...	...	...	...	196	278	189

LCY = local currency, MSME = micro, small, and medium enterprise. SMECGS = SME Credit Guarantee Scheme. <sup>a</sup> Adjusted figures.

\* Agriculture, forestry, and fishery. \*\* 2014 data refers to November. \*\*\* 2014 data refers to the third quarter of 2014 (September).

Source: Reserve Bank of Fiji.

Table 4.99: SME Loans—Fiji Development Bank

Item	2010	2011	2012	2013	2014*
<b>Loans outstanding (in F\$)</b>					
Micro	13,637,680	10,422,591	9,194,946	6,724,294	5,581,627
SMEs	78,187,019	56,280,345	52,580,469	55,597,479	55,205,520
Large	338,627,728	287,852,713	270,842,167	282,540,840	294,361,251
Total	430,452,428	354,555,649	332,617,581	344,862,614	355,148,398
SME loan to GDP (%)	1.63	1.14	1.05	1.06	...
<b>SME loans by sector (in F\$)</b>					
Agriculture	23,106,164	17,678,991	15,985,888	18,214,085	24,495,586
Building and Construction	3,289,820	2,263,764	2,072,795	2,058,541	1,859,597
Electricity, Gas, and Water	21,469	566,711	804,703	1,000,105	874,442
Manufacturing	11,446,267	10,456,227	8,944,367	8,619,218	1,863,605
Mining and Quarrying	966,871	255,805	196,439	159,561	242,379
Nonbank Financial Institutions	36,480	...	13,805	9,712	9,511
Private Individual	2,039,526	1,909,939	1,056,400	914,875	700,794
Professional & Business Services	3,298,622	1,838,287	1,720,540	3,119,524	2,690,124
Real Estate	12,889,400	11,822,213	10,388,070	6,110,520	5,240,234
Transport, Communication & Storage	7,263,555	2,813,214	2,889,008	4,663,863	5,732,856
Wholesale, Retail, Hotels & Restaurants	13,247,601	6,424,673	6,751,255	8,388,194	9,123,348
Others	581,246	250,522	1,757,200	2,339,281	2,373,044
<b>SME loans by region (in F\$)</b>					
Capital city (Suva)	36,824,473	26,930,409	24,334,555	23,635,901	19,952,960
Other areas	41,362,547	29,349,937	28,245,914	31,961,579	35,252,560
<b>SME loans by type of use (in F\$)</b>					
For working capital	10,284,745	5,559,512	4,999,819	7,399,316	8,000,579
For capital investment	17,976,037	9,747,068	8,888,027	11,716,617	13,947,114
Unclassified	49,926,237	40,973,765	38,692,623	36,481,546	33,257,827
<b>SME loans by term (in F\$)</b>					
Less than 1 year	...	...	...	...	...
1–5 years	26,220,488	15,280,663	13,810,285	17,714,634	20,748,606
More than 5 years	51,966,531	40,999,683	38,770,184	37,882,845	34,456,914
<b>Guaranteed SME loans (in F\$)</b>					
Share to total SME loans (%)	...	4.6	5.1	2.6	1.7
<b>Noncollateral SME loans (in F\$)</b>					
Share to total SME loans (%)	...	...	0.01	0.02	...
<b>SME loan rejection rate (% of total applications)</b>					
	...	...	6.9	4.3	26.3
<b>Number of new loans</b>					
Micro	...	...	429	595	504
SMEs	...	...	184	469	464
Large enterprises	...	...	18	26	26
Total	...	...	631	1,090	994
<b>New loans disbursed (in F\$)</b>					
Micro	...	...	2,421,074	3,324,692	2,793,727
SMEs	...	...	9,434,824	22,053,002	20,583,618
Large	...	...	39,740,919	105,066,471	103,038,180
Total	...	...	51,596,817	130,444,165	126,415,526
<b>Nonperforming loans (NPLs) (in F\$)</b>					
Micro enterprises	7,030,983	5,879,247	5,667,851	2,935,673	1,581,103
SMEs	33,643,888	16,544,904	14,753,163	10,244,006	7,074,145
Large enterprises	108,544,651	74,966,819	52,584,049	51,531,464	49,597,976
Total	149,219,522	97,390,970	73,005,063	64,711,143	58,253,223
<b>NPL ratio (%)</b>					
Micro enterprises	51.6	56.4	61.6	43.7	28.3
SMEs	43.0	29.4	28.1	18.4	12.8
Large enterprises	32.1	26.0	19.4	18.2	16.8
Total	34.7	27.5	21.9	18.8	16.4
<b>Lending rate on total loans (annual average)**</b>					
	...	...	8.4	7.4	7.6

GDP = gross domestic product, SME = small and medium-sized enterprise.

\* Data as of October 2014. \*\* Data in 2014: June.

Source: Fiji Development Bank.



Table 4.100: Nonbank Sector

Item	2007	2008	2009	2010	2011	2012	2013	2014/Q2
No. of credit institutions	4	4	4	4	4	4	4	3
SME Financing outstanding (F\$ '000)	173,692	167,047	164,235	176,849	157,630	178,073	192,662	153,568
Growth (%)	...	(3.8)	(1.7)	7.7	(10.9)	13.0	8.2	(20.3)
SME Financing outstanding by sector (F\$ '000)								
Primary industry* (F\$ '000)	30,511	37,034	38,563	38,561	32,530	31,468	33,175	34,821
Manufacturing (F\$ '000)	7,034	7,958	8,775	14,607	12,098	17,574	10,946	6,582
Construction (F\$ '000)	3,537	17,400	18,637	22,083	20,102	24,423	25,852	25,345
Transportation (F\$ '000)	36,790	33,423	33,489	34,387	38,755	44,993	56,305	45,913
Trade (F\$ '000)	18,957	24,314	22,235	25,800	20,132	24,381	33,910	18,006
Real estate (F\$ '000)	38,310	31,598	25,679	22,324	18,879	16,351	10,358	6,443
Service (F\$ '000)	11,948	9,299	10,309	11,135	9,345	8,834	7,781	6,244
Others (F\$ '000)	26,605	6,022	6,549	7,953	5,788	10,050	14,335	10,215
Primary industry* (% share)	17.6	22.2	23.5	21.8	20.6	17.7	17.2	22.7
Manufacturing (% share)	4.0	4.8	5.3	8.3	7.7	9.9	5.7	4.3
Construction (% share)	2.0	10.4	11.3	12.5	12.8	13.7	13.4	16.5
Transportation (% share)	21.2	20.0	20.4	19.4	24.6	25.3	29.2	29.9
Trade (% share)	10.9	14.6	13.5	14.6	12.8	13.7	17.6	11.7
Real estate (% share)	22.1	18.9	15.6	12.6	12.0	9.2	5.4	4.2
Service (% share)	6.9	5.6	6.3	6.3	5.9	5.0	4.0	4.1
Others (% share)	15.3	3.6	4.0	4.5	3.7	5.6	7.4	6.7

Note: SME figures for Credit Corporation, Merchant Finance, and Fiji Development Bank.

Q = quarter, SME = small and medium-sized enterprise.

\* Agriculture, forestry, and fishery.

Source: Reserve Bank of Fiji.

Table 4.101: Capital Market—South Pacific Stock Exchange

Item	2006	2007	2008	2009	2010	2011	2012	2013	2014/Q3
Market capitalization (F\$ mil.)	1,059	809	1,002	901	778	743	816	768	885
Number of listed companies	16	16	16	16	17	18	18	18	18

Q = quarter

Source: South Pacific Stock Exchange.

Table 4.102: Northern Development Programme

Item	2008	2009	2010	2011	2012	2013	2014*
Number of grants	361	762	227	121	111	102	114
Value of grants (F\$ '000)	1,094	1,799	649	583	588	592	803
Average grant size (F\$)	3,030	2,360	2,860	4,819	5,300	5,800	7,048

\* data as of August 2014.

Source: National Centre for Small and Micro Enterprise Development.



Table 4.103: SME Policy and Regulation

Regulations		
Name	Outline	
Banking Act 1995	Regulation of Banks and Credit Institutions	
Fiji Development Bank Act 1967	Establishment of a Development Bank	
Small and Micro Enterprises Development Act 2002	Establishment of an SME Centre	
Regulators and Policymakers		
Name	Responsibility	
Reserve Bank of Fiji	Regulation of Banks and Credit Institutions	
Ministry of Industry and Trade	Formulate and implement policies and strategies to facilitate SME development	
Fiji Development Bank	Stimulate the promotion and development of natural resources, transportation, and other industries and enterprises	
Fiji Revenue and Customs Authority	Enforce tax compliance from SMEs and offer tax and customs incentives	
National Centre for Small and Micro Enterprises Development	Implement government policies and strategies on SME development	
Policies		
Name	Responsible Entity	Outline
Banking Supervision Policy Statement No.14: Minimum Requirements for Commercial Banks on Internal Microfinance Divisions and Units (2009)	Reserve Bank of Fiji	Provision by commercial banks of microfinance services to low income and poor people, including SMEs in the rural and urban areas
Financial Inclusion Strategy (2010–2014) (2009)	National Financial Inclusion Taskforce	Promotion of the provision of microfinance by service providers, including financial literacy and data measurement in partnership with public, private, and civil society stakeholders
Roadmap for Democracy and Sustainable Economic Development (2009–2014) (2009)	Ministry of Strategic Planning, National Development and Statistics	1) Strengthening good governance 2) Economic development 3) Sociocultural development 4) Implementation and monitoring framework

SME = small and medium-sized enterprise.

Source: Reserve Bank of Fiji.

## Data Sources

ANZ (Fiji), Bred Bank, BSP (Fiji), Credit Corporation (Fiji), Fiji Commerce & Employers Federation, Fiji Development Bank, HFC Bank, Kontiki Capital, Merchant Finance, Ministry of Industry and Trade, National Centre for Small and Micro Enterprises, Reserve Bank of Fiji, and South Pacific Stock Exchange.

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## Note

Currency: dollar (FJD, F\$)  
Exchange rate: 1 FJD = 0.486 USD  
As of 02 February 2015.  
Source: Reserve Bank of Fiji.

# Papua New Guinea

## SME Landscape

Papua New Guinea (PNG) had a population of 7.3 million people in 2013,<sup>122</sup> making it large enough to have scale in its economy and providing ample business opportunities for small and medium-sized enterprises (SMEs). It also can attract sizable foreign direct investment (FDI) based on its resources. An example of this is the ExxonMobil Liquid Natural Gas (PNG LNG) project, which has about \$19 billion invested in total and has provided many contracting opportunities for SMEs in the construction, catering, electronics, and transportation sectors.

There is still significant concern internationally about PNG's security challenges, and this affects the country's reputation and business climate.

In relation to a definition of SMEs, the SME Master Plan and Policy, which will be approved in 2015, is supposed

to further refine the existing guideline (firms having fewer than 100 employees as SMEs).

The Small Business Development Corporation (SBDC), a state agency that promotes SME sector development in PNG, reported that micro, small and medium-sized enterprises (MSMEs) numbered 11,554 in 2011. Of these, 73.5% were micro enterprises, 18.1% were small enterprises, and 8.4% were medium-sized enterprises, based on the SBDC's classifications of business size (Figure 4.208 and Table 4.104). MSMEs employed a total of 64,068 people in 2011, comprising micro enterprises with 44.1%, small enterprises with 26.9%, and medium-sized enterprises with 29% (Figure 4.209). There were 72 MSME exporters identified in 2011. In 2011, 68.6% of MSMEs were operating in local cities, while 31.4% operated in the capital city, Port Moresby. Total annual turnover of MSMEs in 2011 amounted to K876 billion and their total assets were K1.76 trillion (Figure 4.210).

Figure 4.208: Number of MSMEs, 2011

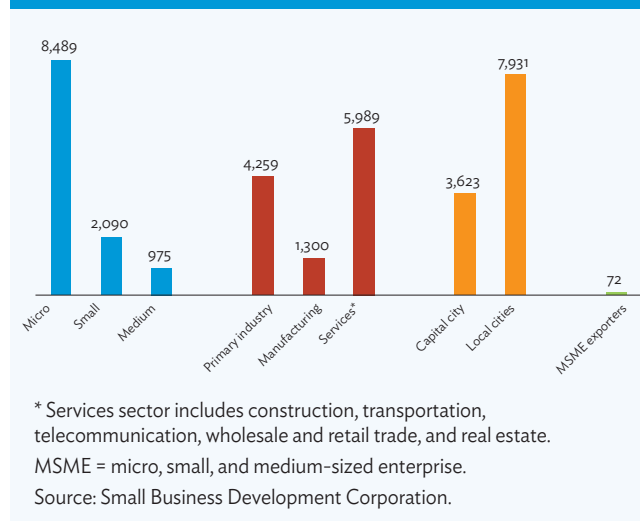
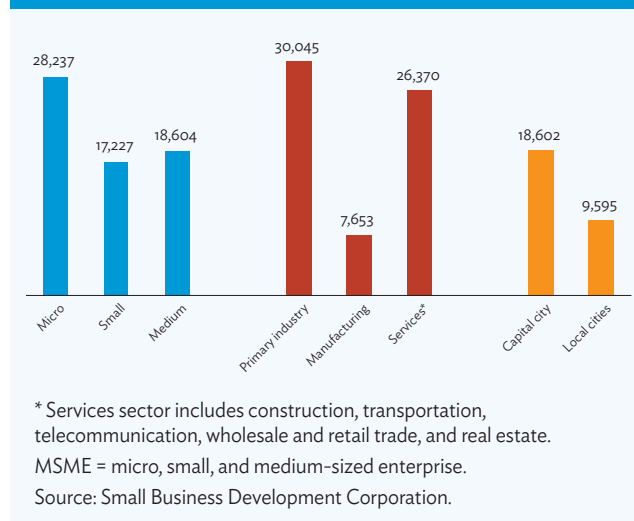
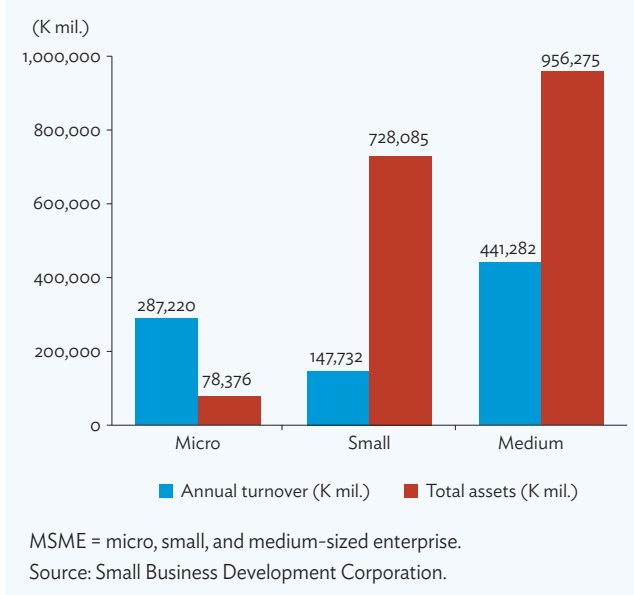


Figure 4.209: Employment by MSMEs, 2011



<sup>122</sup> <http://data.worldbank.org/country/papua-new-guinea>

**Figure 4.210: MSME Annual Turnover and Total Assets, 2011**

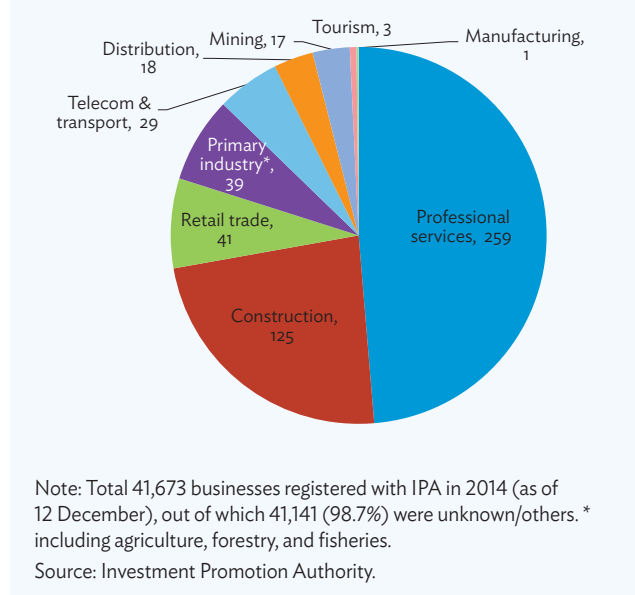


According to the Investment Promotion Authority (IPA), a state agency that registers businesses, there are four different classes of business registrations: (i) companies, (ii) business names (sole proprietors), (iii) associations, and (iv) business groups. IPA figures showed 41,673 registrations for companies (commercial entities) as of mid-December 2014, with 99% of those without a specific sector denoted, and 63% located in the “National Capital District”<sup>123</sup> (Figure 4.211). Statistics for the other three types of registrations were not available. However, the IPA stated that the total number of registrations was about 90,000, which mostly represented MSMEs.

Given that the vast majority of registered companies do not identify which commercial sector they operate in, this leaves the IPA with insufficient data for SME statistics by sector.

However, many studies attempt to quantify the SME market, so different figures abound. For example, a 2014 report<sup>124</sup> on SME access to finance estimated that there were between 28,223 and 32,692 formal

**Figure 4.211: Businesses Registered with Investment Promotion Authority, 2014**



SMEs in Papua New Guinea, providing employment for 434,634 paid staff and 33,868 unpaid staff.

PNG’s economy is a dual economy, made up of both formal and informal sector businesses, with the informal one being the larger sector. The IPA states that a large number of informal businesses are not registered under its auspices, making it difficult to systematically track, monitor, and quantify SMEs.

There is a sense by some in the business services sector, such as the PNG Institute of Banking and Business Management (IBBM) Enterprise Center, that the number of active SMEs is not actually growing, despite a larger number of IPA registrations each year. Many registered firms only exist on paper.

To measure business sentiment, the PNG Institute of National Affairs (INA) has conducted a survey every 5 years since 2002. It will conduct a follow-up survey in 2017, to assess what changes have occurred from the 2013 survey.

Frequent electricity outages, an underdeveloped road infrastructure, an island-based geography, and high costs of financing all translate into a high overall cost of doing business in PNG for SMEs. For example, the

<sup>123</sup> The administrative unit that encompasses Port Moresby.

<sup>124</sup> Report for SME Baseline Survey for the Small-Medium Enterprise Access to Finance Project, Loan ID: 49280—PG Prepared for the Government of Papua New Guinea, Tebbutt Research

cost of security for business premises is significant for smaller enterprises.

The business environment is also affected by the comparatively low incomes, with World Bank estimates placing the poverty rate at 39%.

The completion in June 2014 of the construction phase of the PNG LNG project, which created many subcontracts for local firms, has led to a general slowing of business activity and therefore commercial lending compared to the previous 5 years.

Access to business development services (BDS) and business support services, such as accountants in rural areas, is generally limited. This restricts the development of key business management skills and financial management by SMEs.

High-growth start-up SMEs, such as those in the information and communications technology (ICT) sector, also face unique challenges in access financing. Their lack of financial transaction histories, lack of collateral, and uncommon business products and services make bank loans difficult to access.

The constraints to SME financial access are multifaceted and are not due to a single government policy or market system. Rather, they are complex and rooted in land issues, geography, access to foreign exchange, limited banking options, a low level of financial literacy and management, and the generally low income level of the population.

Given these challenges, a coordinated strategic effort between governments, donor agencies, and the private sector can best lead to solutions. In addition, the development of a clear, evidence-based definition of MSMEs can lead to effective and targeted policymaking and support intervention.

## Banking Sector

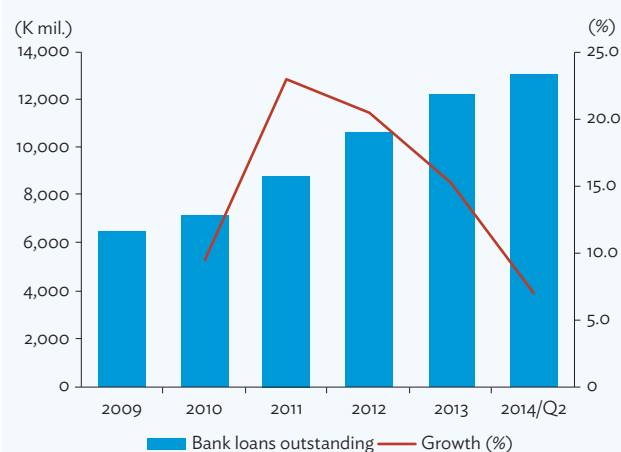
As of 26 November 2014, the banking sector included four licensed commercial banks and the state-owned National Development Bank. Three of the commercial banks are foreign-owned.

There is no standardized SME definition applied to SME loans across the banking sector. Commercial banks develop their own SME definitions for lending, which makes it difficult for the Bank of Papua New Guinea (BPNG), the country's central bank, to compile SME loan data from statutory monitoring reports and disclose them. Therefore, no authorized SME lending data is available in PNG.

Between the end of 2009 and June 2014, total domestic credit extended<sup>125</sup> (bank loans outstanding) increased from K6.5 billion to K13.1 billion, while the rate of increase has slowed from 21% year on year from 2011 to 2012, to 15% from 2012 to 2013 (Figure 4.212 and Table 4.105).

There was an increase in total bank loans outstanding in 2013, amounting to K12.3 billion, a 15.2% increase from the previous year, which further extended to K13.1 billion as of the end of the second quarter in 2014, although growth has been slowing. Meanwhile, between September 2013 and September 2014, the ratio of nonperforming loans (NPLs) increased from 1.9% to 2.5% (Figure 4.213). Average monthly lending size (new

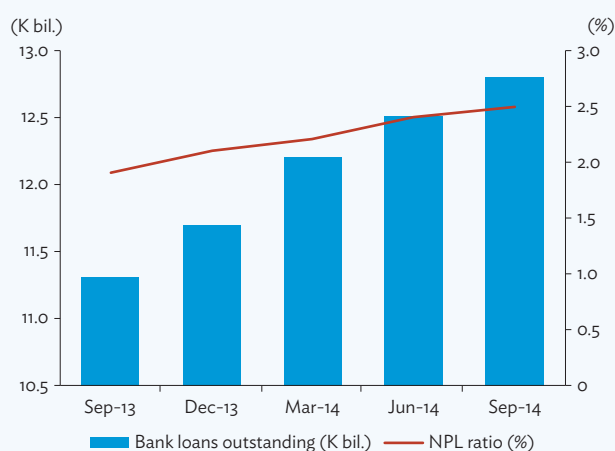
Figure 4.212: Bank Loans Outstanding



Q = quarter.

Source: Bank of Papua New Guinea Quarterly Economic Bulletin, December 2009–June 2014.

<sup>125</sup> The BPNG may use different terms for reporting the same data. Total Domestic Credit Extended is used in the BPNG Quarterly Economic Bulletins, while Total Loans Outstanding is used in the BPNG Monthly Economic Reviews.

**Figure 4.213: Bank Loans and Nonperforming Loans Ratio**

Note: The data for total bank loans outstanding and NPL ratios were not reported every month. NPL = Non Performing Loan.

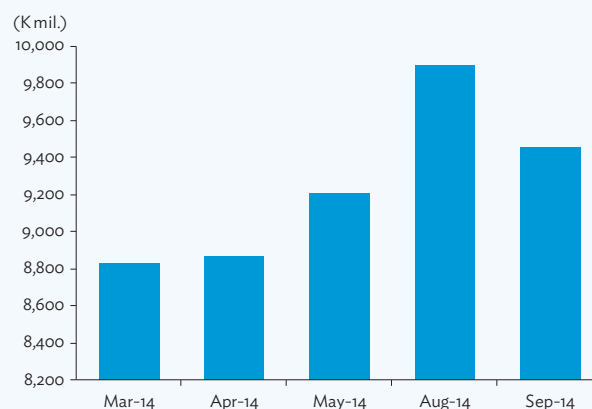
Source: Bank of Papua New Guinea Monthly Economic Reviews, Jan-Nov 2014.

loans disbursed) by banks increased for most of the months in 2014, ranging from K8.8 billion in March to K9.5 billion in September (Figure 4.214).

The one commercial bank that is domestically owned is the Bank of South Pacific (BSP). BSP had taken over the formerly-state-owned Papua New Guinea Banking Corporation (PNGBC), and is the country's largest bank by assets with 44 branches.<sup>126</sup> BSP is also the only bank listed on the Port Moresby Stock Exchange (POMSox).

The three foreign-owned banks are Australia and New Zealand Banking Group limited (ANZ) with 15 branches, Westpac with 16 branches, and Malaysia's Maybank with 2 branches. Given the size of PNG's population, it can be said that there is limited competition among commercial banks, which leads to a limited number of financial products provided for SMEs.

No new banking license applications were received by the BPNG in 2013 or 2014, and none were in process. The BPNG expressed the view that adverse publicity in the global media about political instability, along with high operating costs for building and maintaining

**Figure 4.214: Average Lending by Banks**

Note: The data for average bank lending were not reported every month.

Source: Bank of Papua New Guinea Monthly Economic Reviews, 2014.

a branch network, can somewhat explain the lack of interest from international banking groups in PNG. Despite this, the four existing commercial banks are, by their own accounts, profitable.

In general, the financial options for SMEs are limited. Aside from standard term loans there does not yet exist more diversified financing products, such as purchase order finance or factoring. While the banking sector employs thorough financial underwriting for SME loans, real estate collateral is normally required. Because of the land ownership system in PNG, 95% of land is unregistered customary land, which is unusable as collateral. As of 2014, reform on this aspect of financing is under discussion.

The Credit and Data Bureau (CDB) was established in 2008, with the goal of facilitating lending to SMEs by sharing information about credit risks to individuals and firms. The CDB is a voluntary organization which has 200 members (which provide data to the CDB as part of their membership agreements),<sup>127</sup> including banks, microfinance institutions (MFIs), savings and loans societies, and other nonbank lenders and retailers. By 2013, the CDB maintained credit histories on 150,000 individuals and 16,000 businesses. However, the CDB only gathers reports from its members about loan

<sup>126</sup> All bank branch figures from Oxford Business Group, The Report Papua New Guinea 2014.

<sup>127</sup> Financial institutions are not legally required to provide client data to the CDB.

defaults and payment arrears, so does not provide full credit information on all borrowers.

In 2014, the CDB was appointed by the Department of Treasury to host an online property registry, which was to be established through the Personal Property Security Act of 2011. The registry is planned to include records on property, such as vehicles, equipment, and smaller goods including refrigerators and TVs. It is expected to broaden the product range and collateral options for lending. However, as of February 2015, the appointment had been revoked, so the status of the online registry is not clear.

The Kina Facility Rate (KFR), PNG's central bank lending rate, stood at 6.25% in November 2014, with the intent of supporting lending and economic growth. Given this, retail interest rates can be considered high compared to other rates across the Asia-Pacific region. For example, 8% can be earned on a 1-year deposit account, while business loans can be as high at 27%–30% per annum, which are rates often charged by MFIs in PNG. Although SMEs did not cite high interest rates as the main reason they were not able to receive a bank loan, such rates are nonetheless a large expense that hurts business profitability.

Business loan terms range mainly from 1 to 3 years. NPL rates vary among banks from 1% to more than 5%. Across all of the main commercial bank portfolios, BPNG advises that overall bank NPL ratios are controlled within 1%. Looking at business loan portfolios, it can be seen that much of the loan activity is for the acquisition of commercial vehicles, such as trucks and passenger vehicles, which are marketed as movable-asset financing by the banks.

Banks reported that they have high liquidity, largely due to government deposits in kina, so a lack of loan capital is not a recognized constraint to increasing SME lending in PNG. There is, however, a significant shortage of foreign currency (FX) in the country, so loans in other currencies are rare, and the ability of SMEs to buy foreign currency from banks is restricted.

Because of the lack of a formal SME definition, bank generally have no classification of SME loans. However BSP has developed a loan product especially designed for small businesses. Called “Smart Business”, these loans are available for K5,000–K250,000 (\$2,000–

\$100,000). This product, as of October 2014, had an outstanding loan portfolio of K49 million (\$19.5 million) with 11,000 active borrowers. Smart Business uses a partial credit guarantee scheme from the International Finance Corporation (IFC), whereby 50% of the credit applied is covered in case of default. No other bank in PNG is currently participating in the guarantee scheme, though it should be noted that the IFC does hold an equity stake of almost 10% in BSP.<sup>128</sup>

Online and mobile banking is offered by all the main banks, and is being used to expand financial inclusion in the country. ATMs in Port Moresby are almost ubiquitous. BSP, for example, offers short messaging service (SMS) banking through mobile phones for account access, while ANZ offers “goMoney” and Westpac has both mobile and online banking. The BPNG noted that the country has used a “bank-led” model of mobile banking, in contrast to a mobile network operator (MNO)-led model. The first purely mobile banking license was granted to Digicel Financial Services in 2012 (Digicel is PNG's largest MNO). Given the small number of bank branches nationwide, using mobile and internet technology to reach unserved, or underserved, customers in rural areas does appear to be an active strategy in the banking sector.

Overall, from the point of view of small businesses in PNG, it is felt that the four main banks still focus their lending on larger business clients, rather than small and medium enterprises.

The National Development Bank (NDB) operates under a charter from the Ministry of Agriculture, and has about 30% of its outstanding loan portfolio in the agricultural sector. This is in contrast to the commercial banks, which have quite small amounts invested in agricultural financing. As it is not a deposit-taking entity, NDB relies on the state for most of its operating budget and loan capital. However, NDB stated that, in 2014, the full amounts of financial support from the ministry were not received, which led to some “holding back” of lending.

Over the period from 2009 to the third quarter of 2014, NDB's commercial loans outstanding increased from K39.1 million to K202.9 million (Figure 4.215 and

<sup>128</sup> BSP Annual Report 2013.



Table 4.106). This reflects a 7.5% increase over the end of 2013. Notably, almost all of NDB's loans are categorized as SME loans, as none are listed as corporate loans, while only 1% is considered to be for micro enterprises.

By business sector, NDB has invested more in the agriculture sector than the commercial banks have. In the third quarter of 2014, 27.2% of NDB's loan portfolio was in agriculture, followed by 22.8% in real estate, and 19.9% in transportation. Only about 1% of NDB loans were in either the manufacturing or telecommunication sectors, which appears consistent with the bank's mission to mainly finance smaller and rural enterprises (Figure 4.216).

Geographically, the NDB loan portfolio shows that the target of its lending is in rural areas of the country, as loans in the capital, Port Moresby, constitute only 13.7% of the total, as of September 2014.

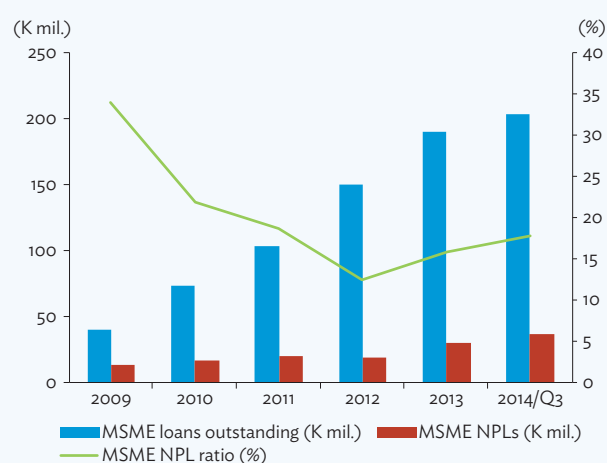
NDB offers subsidized lending to its priority sectors, such as agriculture and tourism. These sectors are able to access the NDB financing scheme at a concessional lending rate of 6.5% per annum.

MSME loan losses were quite high at NDB in the past, with an NPL ratio of 34% in 2009. NDB had been able to gradually reduce the NPL ratio to 12.4% in 2012, but by the third quarter of 2014 it has risen again to 17.8%, which is high by commercial bank standards (Figure 4.215).

New MSME loans disbursed by NDB amounted to K94.7 million in 2013, a 21.2% increase from 2012, and K65.8 million as of the third quarter of 2014 (Figure 4.217). NDB has also provided guaranteed and non-collateralized loans for MSMEs, which stood at 18% and 0.9%, respectively, of the total MSME loans in 2013. These loans are still small in volume (Figure 4.218).

For the banking sector, the development of more diverse SME financial products that deemphasize real estate collateral, such as purchase order financing and accounts receivables financing, can expand SME financial inclusion. Meanwhile, designing products based on commercial value chain (supply chain) relationships between large processors and smaller producers can help mitigate risk for lenders. Further development of mobile technology may also overcome limited branch networks and develop increased functionality beyond basic inquiries and account transactions.

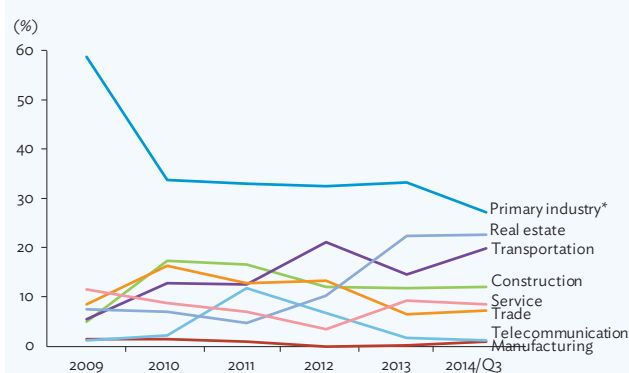
**Figure 4.215: MSME Loans Outstanding and Nonperforming Loans—National Development Bank**



MSME = micro, small, and medium-sized enterprise; NPL = Nonperforming loan, Q = quarter.

Source: National Development Bank.

**Figure 4.216: MSME Loans by Sector—National Development Bank (%)**



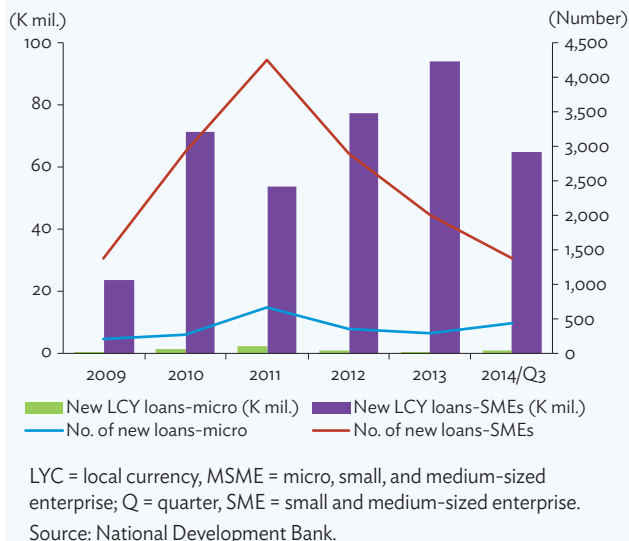
MSME = micro, small, and medium-sized enterprise; Q = quarter.

\* including agriculture, forestry, and fisheries.

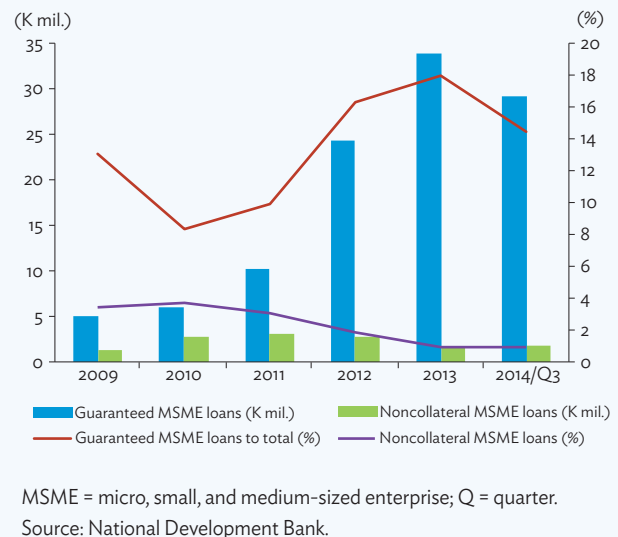
Source: National Development Bank.



**Figure 4.217: New MSME Loans—National Development Bank**



**Figure 4.218: Guaranteed and Non-collateralized MSME Loans—National Development Bank**



## Nonbank Sector

The BPNG oversees the nonbank financial sector, which comprises 14 licensed financial institutions (LFIs).<sup>129</sup> These institutions include finance companies and 4 MFIs, plus 22 savings and loan societies. Savings and loan societies are licensed and authorised under the Savings and Loan Societies Act 1995, to accept or collect deposits from the public. These societies offer small-scale savings products, and are only able to extend loans to their members, which are profession-based, such as teachers and police.

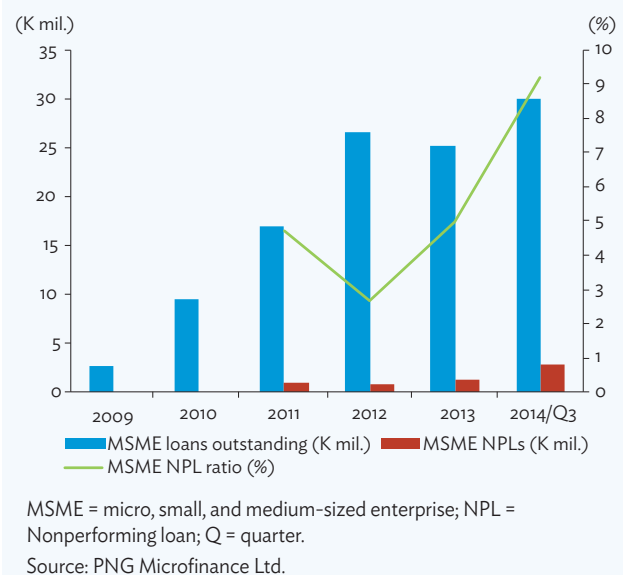
The two largest finance companies, Credit Corporation and Finance Corporation (FinCorp), are mainly focusing on SMEs, while savings and loan societies and MFIs are mainly serving the micro enterprise and consumer segments of the market.

PNG Microfinance Ltd (PML) is the largest and oldest MFI in the country, and offers an SME loan that ranges from K15,001 to K250,000, with a maximum loan term of 3 years.<sup>130</sup>

PML's loan portfolio is dominated by SME loans, amounting to K29.9 million, as of September 2014,

or 81% of the entire loan portfolio. The remainder of loans is categorized as lending to micro enterprises or individuals. While PML's SME loan portfolio increased significantly between 2009 and 2012, it has seen slower growth since 2013 (Figure 4.219 and Table 4.107).

**Figure 4.219: MSME Loans Outstanding and Nonperforming Loans—PNG Microfinance Ltd.**



<sup>129</sup> Includes MFIs and finance companies.

<sup>130</sup> <http://www.pml.com.pg/index.php/products/loan-products/sme-loan>

PML disbursed new SME loans of K18.6 million in 2014, as of the end of the third quarter, a 30.3% increase from 2013 and a recovery from a 36.2% drop in 2012 (Figure 4.220).

The interest rates on PML's business loans average 24%, which is for both working capital and fixed asset loans. The NPL ratio on PML's SME loans was 9.2%, as of September 2014, an upward trend from 2.6% in 2012 and 5% in 2013.

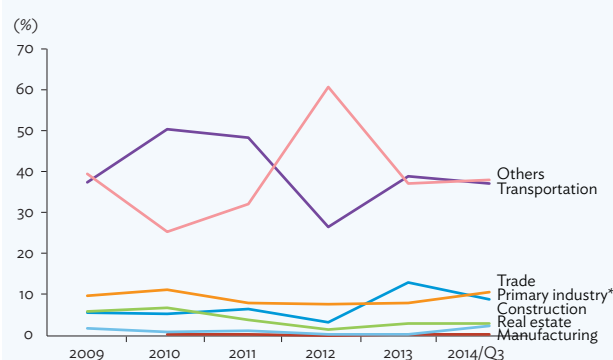
By business sector, PML's SME loans are mainly in the transportation sector and an undefined "other" sector, which comprised 37.2% and 38.1%, respectively, as of the third quarter of 2014. Of SME loans, 10.5% were in the wholesale and retail trade sector, while 8.9% supported the primary industry sector, including agriculture (Figure 4.221).

Geographically, PML is focused on areas outside Port Moresby, which reflects its mission to provide financial services to micro and small enterprises in rural areas.

Nationwide Microbank (MiBank), a nonbank financial institution (NBFi) focusing on microfinance, had its origins as a microfinance project in 2004, which was cofinanced by the Asian Development Bank, Australian Aid, and the Government of Papua New Guinea, under the name of Wau Microbank.

MiBank's outstanding SME loan portfolio has been increasing since 2012, a 27.8% increase from K28.1 million in 2012 to K35.8 million in October 2014, with about 50% of that amount for asset-based finance. About 35% of the portfolio is for small enterprises, such as shops, services, and small production (Figure 4.222 and Table 4.108). While MiBank's SME loan portfolio has seen a positive trend for the past 3 years, there has been a corresponding increase in its NPL ratio, from 4.7% in 2012 to 8.7% in the third quarter of 2014.

**Figure 4.221: MSME Loans by Sector—PNG Microfinance Ltd. (%)**

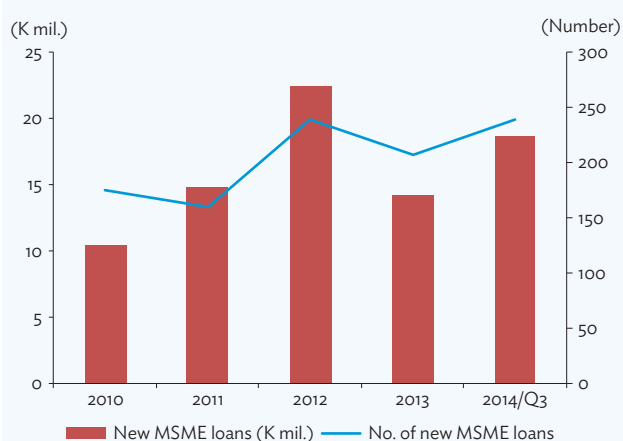


MSME = micro, small, and medium-sized enterprise; Q = quarter.

\* including agriculture, forestry, and fisheries.

Source: PNG Microfinance Ltd.

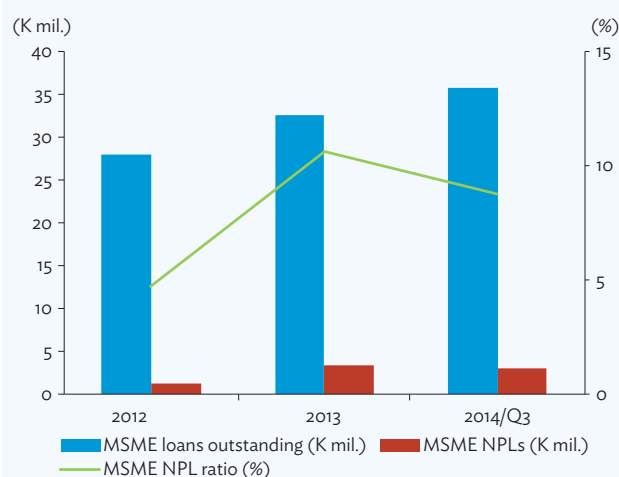
**Figure 4.220: New MSME Loans—PNG Microfinance Ltd.**



MSME = micro, small, and medium-sized enterprise; Q = quarter.

Source: PNG Microfinance Ltd.

**Figure 4.222: MSME Loans Outstanding and Nonperforming Loans—Nationwide Microbank**



MSME = micro, small, and medium-sized enterprise; NPL = Nonperforming loan; Q = quarter.

Source: Nationwide Microbank.

The number and value of new loans made each year between 2012 and 2013 ranged from K13.9 million with 445 MSME loans, to K28.5 million with 562 MSME loans, an increase of 104.1%. To October 2014, the total was K18.9 million with 408 new loans made (Figure 4.223).

Geographically, MiBank has increased the proportion of its SME loans made in regional areas outside of Port Moresby. While the value of loans made in the capital city have remained consistent at about K17 million between 2012 and October 2014, in the regional areas the value has increased from K11 million to K20 million. This is part of the bank's objective to deliver more SME financing to rural areas.

Finance companies see themselves as being an alternative to bank loans, as they have fewer documentary requirements than banks and can process loans faster, often in a few days. However, the LFI sector experienced a reduction in lending in 2014. It was "a tougher year", as stated by a finance company manager, largely attributable to the completion of the construction phase of the PNG LNG project.

Finance companies saw strong growth predominately from the transportation sector, which accounts for 50% of their financing activities, in the form of finance for trucks and other commercial vehicles. Business is

active in the highlands region around Lae, the country's second largest city, which is a culturally entrepreneurial region and is the main industrial center of PNG.

Credit Corporation, the largest finance company, with 30% market share, advised that 50% of its ledger was based in Lae and approximately 35% was based in Port Moresby. Credit Corporation's average loan size was in the range of K300,000 to K500,000, while quite few loans were made for less than K50,000. In 2013, its NPL ratio increased slightly to 3.5%, and touched the level of 4% in 2014. However, this is still within an industry standard, according to the company.

The LFI sector in PNG sees the main barriers to increased SME financing as being weak financial reporting and higher perceived risks, as SMEs by definition are smaller and less stable than large corporate customers. As an example, Credit Corporation is interested in developing and offering a specific product for SMEs, but they feel that there is a need for specific rules and guidance from the BPNG, as many SMEs cannot meet the current lending requirements. Credit Corporation has recently introduced a revolving credit line product that is hoped to increase lending to SMEs. In addition, the shortage of foreign currency impedes lending for trade finance. Credit Corporation is currently seeking an FX license, so that it can increase its lending beyond kina.

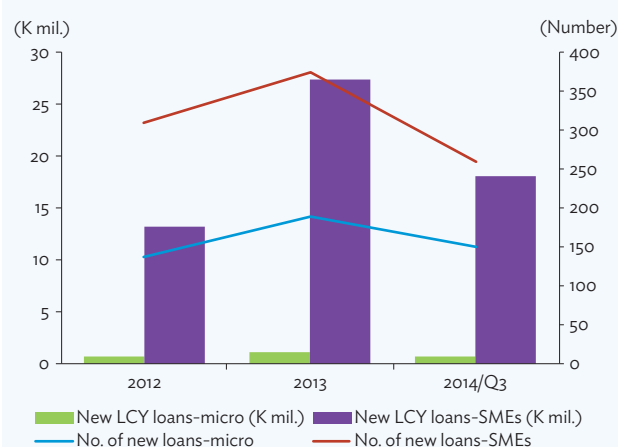
Crowdfunding is not active in SME financing in PNG, and there is no regulation for it. However, some SMEs are familiar with crowdfunding and expressed interest in practical exposure to crowdfunding organizations, in order to gain a practical understanding of this financing option.

LFIs in PNG are a potential alternative to bank financing for many commercial sectors, which are in need of loans under K1 million. Policy and regulatory guidance and support for the sector, focusing on the specific needs and characteristics of SMEs, can lead to greater financial access and flexibility.

## Capital Markets

At present, capital markets in PNG are not a viable option for fund raising by SMEs. While there is a stock exchange, there is only one corporate bond issuer, and the equities on the market are largely not liquid, with

**Figure 4.223: New SME Loans Disbursed—  
Nationwide Microbank**



LCY = local currency; Q = quarter; SME = small and medium-sized enterprise

Source: Nationwide Microbank.

low trading volumes. Essentially, over 80% of the shares are owned by two national superannuation funds and institutional investors, with the rest owned by high-net-worth individuals. The low income and savings levels of the general population of PNG make widespread stock ownership quite unlikely.

There are two licensed stockbrokers in PNG, BSP Capital and Kina Securities, which reflects the low turnover in the market. According to a manager at Kina Securities, businesses that want to sell shares may go directly to the superannuation funds, rather than opting to list on the exchange. This also contributes to the exchange's small trading volumes and its number of listed companies.

In 1998, the Port Moresby Stock Exchange (POMSox) had 8 listed companies, which rose to 19 in 2009. However, in July 2014, 1 company voluntarily delisted, leaving 18 listed companies on the exchange (Figure 4.224 and Table 4.109). As of 2014, the main sectors listed by the exchange include the banking, transportation, and mining and exploration sectors. Most of these companies list on the Australian Securities Exchange (ASX) as well, as they have significant Australian ownership.

The POMSox listing requirements provide no preferential measures for SMEs. Because quite few

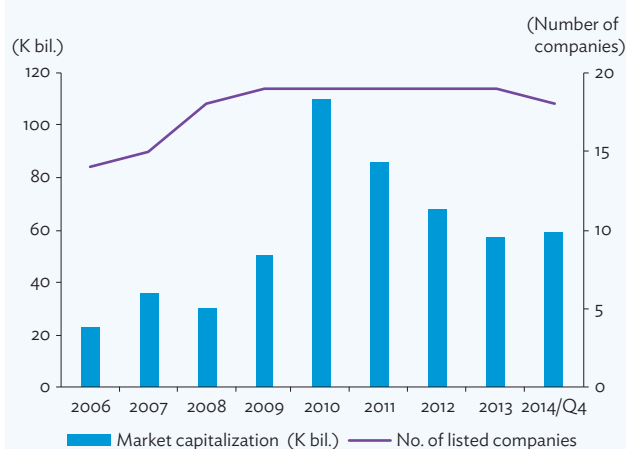
of the country's SMEs can achieve these financial performance results, new listings are not forthcoming.

A single main board operates in the POMSoX, with two indexes tracking market performance —the Kina Securities Index (KSi) and the Kina Securities Home Index (KSHi), though both are weighted heavily toward mining and palm oil stocks. Both indexes peaked in 2010, but have since fallen substantially (by 46%), due to mining stocks decreasing in value (from over K100 billion in 2010 to less than K60 billion in November 2014). Trading values and volumes, however, are both up from 2013 levels by more than 3 times, reflecting greater investment activity in the equity market (Figure 4.225).

In addition to listing stocks, the POMSox also lists corporate bonds. The only issuer is Bank South Pacific, and its BSP unsecured notes (BSPHA) are priced at about K25,000. These have had issuance amounts every year since 2009, ranging from about K75 million to K85 million through 2014.

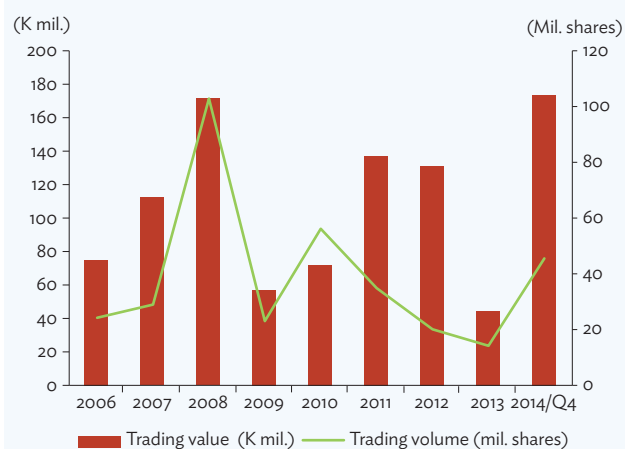
Regarding the establishment of a second board for smaller companies, the POMSoX management has considered this, but they do not have immediate plans to set one up. They stated that, if demand for a smaller board came from the SME sector, they would consider establishing one.

Figure 4.224: Market Performance—  
Port Moresby Stock Exchange (1)



Source: Port Moresby Stock Exchange.

Figure 4.225: Market Performance—  
Port Moresby Stock Exchange (2)



Source: Port Moresby Stock Exchange.

The issue on how to increase SME participation in the capital market remains a critical challenge. There is a lack of transparency on qualifying SMEs, small size of capitalization, shortage of liquidity and buying interest in the market, and a lack of government support measures (e.g., tax incentive schemes) to encourage new listings.

Policies to communicate to SMEs the benefits of employing shares and bonds for raising capital and expanding their businesses can reap future rewards and promote discussion on establishing a second POMSoX board for smaller companies.

## Policy and Regulation

The PNG government has formulated proactive policies to encourage SME access to finance, as part of the national SME development plan (Table 4.110). The Personal Property Security (PPS) Act was passed in the Parliament in 2012 to facilitate increased financial access.

The newest government SME policy is the SME Master Plan and Policy Framework, which, as of October 2014, was in final draft form and was being reviewed by the parliament, with the adoption and implementation planned for early 2015. Some SMEs in the ICT sector stated that they would like the SME Master Plan to include an innovation strategy for high-growth and start-up firms, to support younger entrepreneurs.

No specific policies or regulations, such as interest rate ceilings or taxes on loan disbursements, were identified by banks or NBFIs in PNG that constrained them in their SME financing activities. However, the desire for more standardized guidelines for SME lending activity is evident. The BPNG holds monthly meetings with the banking sector, and there is an active forum for discussion on banking policies and regulations as they pertain to SME issues.

NDB's financing scheme would be the most impactful initiative for SME financing in PNG. While providing SMEs lower-than-market interest rates on loans, there are concerns about its sustainability and the role in the credit market vis-à-vis the banks and NBFIs. NDB was allocated K80 million in the 2013 budget—though the full amount was reportedly not received—and has cut its rates to 6.5% as planned.

The SBDC has the Financial Incentive Scheme (FIS) unit. The unit is responsible for providing credit guarantee facilities to SMEs that access loans from participating financial institutions including ANZ, NDB, and MiBank. In addition, the SBDC has two training programs, i.e., “Start Your Business” and “Improve Your Business Training”, which are also offered to SMEs.

The IPA has some activities that directly support SMEs. For example, it conducted a 2-week export training program, in partnership with other Pacific nations, as well as a production quality training program, funded by the European Union. Currently the IPA conducts only a few internal training programs, so there is room for growth in its SME development support.

With the upcoming adoption of the SME Master Plan and Policy in 2015, the 12 Point SME Stimulus Package (2012) will be rolled into the new policy. Some of the interventions have come about, specifically online company registration. According to the latest draft of the National SME Master Plan, as of March 2015, there are 14 major focus areas, including access to finance, access to markets, training, information technology, legal and regulatory frameworks, and business insurance.<sup>131</sup>

The PNG Microfinance Expansion Project (MEP) continues to work toward increased participation of micro enterprises in the formal financial system. It is anticipated that some of these enterprises will move to SME status. As of October 2014, under the MEP, 30,200 people have been trained in financial literacy (49% of whom are women). Meanwhile, nine partner financial institutions, including savings and loan societies and micro banks, are receiving tailored support services on prudential standards, on-site and off-site supervision manuals, and data management toolkits. The business skills training and risk sharing facility was due to roll out in the first quarter of 2015.<sup>132</sup>

In addition to the above initiatives, a joint initiative by the PNG Institute of Banking and Business Management (IBBM) and ExxonMobil created the IBBM Enterprise Center, which has assisted SME product suppliers to the PNG LNG Project, through business capacity evaluations, financial literacy training, and financial advisory services.

<sup>131</sup> Full list of focus areas in Table 7.

<sup>132</sup> PNG Microfinance Expansion Project, ADB.

While PNG government policies are active in the SME sphere, further strategies to attract additional banks (foreign and/or domestic) to operate in the country can broaden competitive financial products and increase

efficiencies. Further elaboration of BPNG guidance on SME financing across the banking and NBFi industry would improve the stable financing of the sector.

**Table 4.104: MSME Landscape**

Item	2011	Item	2011
<b>Number of MSMEs</b>		<b>Employment by MSMEs</b>	
Micro	8,489	Micro	28,237
Small	2,090	Small	17,227
Medium	975	Medium	18,604
<b>By sector</b>		<b>By sector</b>	
Primary industry	4,259	Primary industry	30,045
Manufacturing	1,300	Manufacturing	7,653
Services*	5,989	Services*	26,370
<b>By region</b>		<b>By region</b>	
Capital city	3,623	Capital city	18,602
Local cities	7,931	Local cities	9,595
<b>Exports</b>		<b>Annual turnover (K mil.)</b>	
MSME exporters	72	Micro	287,220
		Small	147,732
		Medium	441,282
		<b>Total assets (K mil.)</b>	
		Micro	78,376
		Small	728,085
		Medium	956,275

MSME = micro, small, and medium-sized enterprise.

Note: Data provided in the Table are from the survey done in 2011 only.

\* Services sector includes construction, transportation, telecommunication, wholesale and retail trade, and real estate.

Source: Small Business Development Corporation.

**Table 4.105: Bank Loans**

Annual Data	2009	2010	2011	2012	2013	2014/Q2		
Bank loans outstanding (K mil.)	6,564	7,185	8,837	10,649	12,270	13,134		
Growth (%)	...	9.4	23.0	20.5	15.2	7.0		
Monthly Data*	Sep-13	Dec-13	Mar-14	Apr-14	May-14	Jun-14	Aug-14	Sep-14
Bank loans outstanding (K bil.)	11.3	11.7	12.2	...	...	12.5	...	12.8
Average lending by banks (K mil.)	...	...	8,826	8,864	9,201	...	9,890	9,456
NPL ratio (%)	1.9	2.1	2.2	...	...	2.4	...	2.5

NPL = Nonperforming loan.

\* The monthly data for total bank loans outstanding, NPL ratios, and average bank lending were not reported every month.

Sources: Bank of Papua New Guinea Quarterly Economic Bulletin, December 2009–June 2014; Bank of Papua New Guinea Monthly Economic Reviews, Jan–Nov 2014.



Table 4.106: MSME Loans—National Development Bank

Item	2009	2010	2011	2012	2013	2014/Q3
<b>MSME Loans outstanding [LCY] (in Kina)</b>						
Micro	874,470	2,597,848	3,067,782	2,678,644	1,661,025	1,726,234
SMEs	38,228,234	70,458,559	99,693,972	146,776,005	187,162,206	201,186,066
Total MSMEs	39,102,704	73,056,407	102,761,754	149,454,649	188,823,231	202,912,300
<b>MSME loans by sector (in Kina)</b>						
Primary industry*	23,051,732	24,660,628	33,930,840	48,767,219	62,895,809	55,159,503
Manufacturing	547,353	1,031,568	1,083,146	20,083	425,133	2,082,453
Construction	2,002,611	12,725,857	17,149,494	18,047,559	22,488,126	24,527,104
Transportation	2,123,608	9,411,769	13,063,940	31,543,008	27,693,797	40,426,104
Telecommunication	438,723	1,640,746	12,295,234	10,284,901	3,077,089	2,611,740
Trade	3,383,093	12,054,180	13,138,257	20,076,004	12,534,761	14,629,333
Real estate	3,001,000	5,077,989	4,840,337	15,536,906	42,217,148	46,263,676
Service	4,554,584	6,453,670	7,260,505	5,178,969	17,491,370	17,212,387
<b>MSME loans by region (in Kina)</b>						
Capital city (Port Moresby)	1,882,109	13,363,906	21,546,750	24,265,805	35,648,001	27,724,343
Local cities	37,220,595	59,692,501	81,215,003	125,188,845	153,175,230	175,187,957
<b>MSME loans by type of use (in Kina)</b>						
For working capital	13,685,946	32,144,819	33,911,379	47,825,488	60,423,434	50,728,075
For capital investment	25,416,758	40,911,588	68,850,375	101,629,162	128,399,797	152,184,225
<b>MSME loans by term (in Kina)</b>						
Less than 1 year	1,837,191	5,724,287	7,769,627	18,650,231	7,681,748	9,646,494
1–5 years	28,004,126	46,192,802	70,381,033	106,284,785	158,425,054	155,519,773
More than 5 years	9,261,387	21,139,318	24,611,093	24,519,634	20,803,981	35,993,257
<b>Guaranteed MSME loans (in Kina)</b>						
Share to total MSME loans (%)	13.0	8.3	9.9	16.2	18.0	14.4
<b>Noncollateral MSME loans (in Kina)</b>						
Share to total MSME loans (%)	3.4	3.7	3.0	1.8	0.9	0.9
<b>Number of new loans</b>						
Micro	190	257	650	350	291	423
SMEs	1,369	2,913	4,238	2,893	1,987	1,362
Total MSMEs	1,559	3,170	4,888	3,644	2,278	1,785
<b>New loans disbursed (in Kina)</b>						
Micro	205,081	1,623,378	2,534,268	854,321	654,982	723,654
SMEs	23,755,420	71,433,029	53,788,318	77,284,473	94,027,484	65,057,980
Total MSMEs	23,960,501	73,056,407	56,322,586	78,138,794	94,682,466	65,781,634
<b>Nonperforming loans (NPLs) (in Kina)</b>						
Micro	525,571	1,300,901	1,728,644	2,357,970	2,770,595	5,004,572
SMEs	12,753,576	14,712,830	17,458,600	16,132,615	27,078,693	31,183,885
Total MSMEs	13,279,147	16,013,731	19,187,244	18,490,585	29,849,288	36,188,457
<b>NPL ratio** (%)</b>						
Micro	1.3	1.8	1.7	1.6	1.5	2.5
SMEs	32.6	20.1	17.0	10.8	14.3	15.4
Total MSMEs	34.0	21.9	18.7	12.4	15.8	17.8

LYC = local currency; MSME = micro, small, and medium-sized enterprise; NPL = nonperforming loan; Q = quarter; SME = small and medium-sized enterprise.

\* Primary industry refers to agriculture, forestry, and fishery. \*\* NPL ratio to total MSME loans.

Source: National Development Bank.



Table 4.107: MSME Loans—PNG Microfinance Ltd.

	2009	2010	2011	2012	2013	2014/Q3
<b>MSME loans outstanding (in Kina)</b>	2,565,813	9,415,988	16,933,092	26,433,663	25,067,721	29,949,311
<b>MSME loans by sector (in Kina)</b>						
Primary industry*	143,118	497,611	1,080,479	883,043	3,227,853	2,661,376
Manufacturing	...	27,024	42,918	8,456	84,333	99,588
Construction	153,965	628,613	633,680	370,614	720,272	829,492
Transportation	959,329	4,752,790	8,196,311	6,992,986	9,732,718	11,149,725
Trade	247,449	1,046,814	1,358,321	1,996,787	1,982,722	3,146,211
Real estate	47,910	87,545	177,522	104,005	43,740	664,284
Others	1,014,043	2,375,591	5,443,861	16,077,772	9,276,082	11,398,636
<b>MSME loans by region (in Kina)</b>						
Capital city	1,309,327	866,051	759,691	11,154,638	10,133,804	9,313,743
Local cities	4,644,627	11,387,614	19,115,138	19,847,286	20,939,914	27,403,099
<b>SME loan outstanding (in K) by type of use</b>						
For working capital	769,744	2,824,796	5,079,928	7,930,099	7,520,316	8,984,793
For capital investment	1,796,069	6,591,192	11,853,165	18,503,564	17,547,405	20,964,518
<b>MSME loans by term (in Kina)</b>						
Less than 1 year	...	...	...	...	...	...
1–5 years	2,565,813	9,415,988	16,933,092	26,433,663	25,067,721	29,949,311
<b>Guaranteed MSME loans (in Kina)</b>	2,565,813	9,415,988	16,933,092	26,433,663	25,067,721	29,949,311
Share to total MSME loans (%)	100.0	100.0	100.0	100.0	100.0	100.0
<b>MSME loans rejection rate (% to total applications)</b>	2.0	2.0	2.0	2.0	2.0	2.0
<b>Number of new MSME loans</b>	...	174	159	239	207	239
<b>New MSME loans disbursed (in Kina)</b>	...	10,372,846	14,880,103	22,425,882	14,304,131	18,643,533
<b>MSME nonperforming loans (NPLs) (in Kina)</b>						
Micro	...	...	187,324	107,469	...	1,569
SMEs	...	...	613,383	592,507	1,252,168	2,752,982
Total MSMEs	...	...	800,707	699,976	1,252,168	2,754,551
<b>NPL ratio** (%)</b>						
Micro	...	...	1.1	0.4	...	0.0
SMEs	...	...	3.6	2.2	5.0	9.2
Total MSMEs	...	...	4.7	2.6	5.0	9.2
<b>Number of MSME loan accounts opened</b>	...	174	159	239	207	239
<b>Number of MSME savings accounts opened</b>	...	348	318	478	414	478
<b>Lending rate on MSME loans (annual average)</b>						
For working capital	24.0	24.0	24.0	24.0	24.0	24.0
For capital investment	24.0	24.0	24.0	24.0	24.0	24.0
<b>Lending rate on total loans (annual average; %)</b>	30.0	29.8	29.8	29.8	29.8	28.8

MSME = micro, small, and medium-sized enterprise; NPL = Nonperforming loan; Q = quarter; SME = small and medium-sized enterprise.

\* Primary industry refers to agriculture, forestry, and fishery. \*\* NPL ratio to total MSME loans.

Source: PNG Microfinance Ltd.

Table 4.108: MSME Loans—Nationwide Microbank

Item	2012	2013	2014/Q3
MSME loans outstanding [LCY] (in Kina)	28,079,194	32,538,709	35,881,788
MSME loans by region* (in Kina)			
Capital city	17,515,592	17,261,885	17,392,643
Local cities	11,301,525	16,210,764	20,038,846
Number of new loans			
Micro	137	189	149
SMEs	308	373	259
Total MSMEs	445	562	408
New loans disbursed (in Kina)			
Micro	741,879	1,138,495	754,324
SMEs	13,202,668	27,323,881	18,103,787
Total MSMEs	13,944,547	28,462,376	18,858,111
Nonperforming loans (NPLs)			
MSME NPLs (in Kina)	1,320,940	3,452,941	3,140,266
MSME NPL ratio** (%)	4.7	10.6	8.8

LCY = local currency; MSME = micro, small, and medium-sized enterprise; NPL = nonperforming loan; Q = quarter; SME = small and medium-sized enterprise.

\* Includes micro enterprise loans. \*\* NPL ratio to total MSME loans.

Source: Nationwide Microbank.

Table 4.109: Capital Market—Port Moresby Stock Exchange

Item	2006	2007	2008	2009	2010	2011	2012	2013	2014/Q4
Market capitalization (K bil.)	23.0	35.5	29.4	50.1	109.4	85.7	67.4	57.0	58.7
Trading value (K mil.)	74.4	112.2	171.0	56.8	71.0	136.2	130.1	44.2	172.6
Trading volume (mil. shares)	24.1	28.9	102.8	23.2	56.0	34.6	19.9	13.9	45.7
No. of listed companies	14	15	18	19	19	19	19	19	18
Bond issuance amount (K mil.)	...	...	...	75.5	75.5	81.6	84.6	84.6	75.5
Number of bonds issued	...	...	...	3,021	3,021	3,021	3,021	3,021	3,021

Source: Port Moresby Stock Exchange.

Table 4.110: SME Policy and Regulation

Regulations		
Name	Outline	
Small Business Development Corporation Act (1990)	Regulation for establishing the Small Business Development Corporation	
Savings and Loan Societies Act (1995)	Regulation for savings and loan societies	
Banks and Financial Institutions Act (2000)	Regulation for commercial banks and financial institutions	
National Development Bank Act (2007)	Regulation for establishing the National Development Bank	
Personal Property Security Act (2011)	Regulation for creating a security interest in movable property	
Regulators and Policymakers		
Name	Responsibility	
Bank of Papua New Guinea (BPNG)	Regulate and supervise commercial banks and nonbanks	
Ministry of Trade, Commerce and Industry (MTCI)	Regulate and supervise the National Development Bank	
National Executive Council (NEC)	SME promotion policy	
Small Business Development Corporation (SBDC)	SME promotion policy	
Investment Promotion Authority (IPA)	Industrial development and SME promotion policy	
Policies		
Name	Responsible Entity	Outline
12 Point SME Stimulus Package (2012)	NEC	Create a credit guarantee corporation, concessional lending rate in NDB, etc.
Industrial Development Policies (various)	MTCI	Investment promotion, SME promotion, technology transfer, etc.
SME Master Plan and Policy 2014–2030 (2015 anticipated)	Ministries, government agencies, private sector and NGOs	Framework for SME development and promotion: 1) access to finance, 2) access to business or commercial land, 3) access to market, 4) access to business information, 5) access to physical & business infrastructure, 6) entrepreneurship development, 7) training, 8) information technology (ICT), 9) technology, 10) legal and regulatory framework, 11) human resource, 12) business insurance, 13) institutional framework, 13) intellectual property rights
Small to Medium Enterprise Policy (1998, to be repealed in 2015)	IPA	Promote SMEs related to technology transfer, strengthen business linkage between SMEs and support institutions, etc.

Sources: Bank of Papua New Guinea; Department of Trade, Commerce and Industry; Small Business Development Corporation; Investment Promotion Authority.

## Data Sources

Asian Development Bank / PNG Microfinance Expansion Project; Bank of Papua New Guinea; Credit and Data Bureau; Credit Corporation (PNG); IBBM Enterprise Center; Investment Promotion Authority; Kina Securities; Department of Trade, Commerce and Industry; National Development Bank; Nationwide MicroBank; PNG Microfinance Ltd.; Port Moresby Stock Exchange; Small Business Development Corporation.

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## Note

Currency: kina (PGK)

Exchange rate: 1 PGK = 0.3815 USD

Source: Bank of Papua New Guinea, 4 February 2015.

# Solomon Islands

## SME Landscape

Solomon Islands—a nation comprising more than 1,000 islands in the Southwest Pacific Ocean—experienced rapid economic growth from 2003 (based on key export commodities, such as the extraction of logs), although the pace of growth has been slowing since 2011 (9.1%). The country's annual GDP growth was 3.1% in 2013.<sup>133</sup>

The country has a low population density, estimated to be 20 people per square kilometer in 2013,<sup>134</sup> and this is evenly spread around the islands. This dispersal of the population makes it difficult for small and medium-sized enterprises (SMEs) to develop, and also is a constraint to greater financial inclusion.<sup>135</sup>

The Ministry of Commerce, Industries, Labors and Immigration (MCILI) had a definition of micro, small, and medium-sized enterprises (MSMEs) prepared as a part of a draft SME policy paper in 2012, though this definition may not always be used consistently across state and non-state organizations.

There are well-established business links with Australia, as more than 750 Australian companies export to Solomon Islands.<sup>136</sup>

The Company Haus of the Solomon Islands maintains the Companies Register, the Business Names Register, and the Charitable Trusts Register. The Companies Register, which is completely online, enables businesses to register a new company via the internet, update existing company details, perform a company search, and file an annual return. The Companies Registry Office

is also a contact point for businesses, and a resource for learning more about current business laws.<sup>137</sup> From 2010 to 2014, over 1,538 new companies have registered in Solomon Islands, owing largely to the establishment of the Company Haus and the Companies Act.<sup>138</sup>

However, a high proportion of informal entities contributes to many MSMEs being unable to access financing from the banking and/or nonbank sectors.

There are several SME support organizations in Solomon Islands, including the Solomon Islands Chamber of Commerce (SICCI), the Small and Medium Enterprises Council (SMEC), and the Solomon Islands Small Business Enterprises Centre (SISBEC).

The SMEC is providing guidance and assistance to SMEs willing to access commercial loans, while the SISBEC provides small business training in rural areas. According to a SICCI report in June 2014, access to finance for business start-ups is limited, while bank lending policies are relatively rigid, resulting in dissuading women-owned SMEs from even attempting to apply for loans.<sup>139</sup> The SICCI notes that there is a lack of competition in key commercial sectors, such as utilities, infrastructure, and transport.

An evaluation of participants in small business training conducted by the SISBEC from July 2013 to May 2014 revealed that the top three constraints to starting a business were access to finance, remoteness in the provinces, and low financial literacy. Of the 124

<sup>133</sup> <http://data.worldbank.org/country/solomon-islands>

<sup>134</sup> World Bank Data.

<sup>135</sup> Advancing Financial Inclusion through Use of Market Archetypes, CGAP, Xavier Faz and Ted Moser, 2013.

<sup>136</sup> Australia Solomon Islands Business Forum, [http://ministers.dfat.gov.au/mason/speeches/Pages/2014/bm\\_sp\\_140822.aspx](http://ministers.dfat.gov.au/mason/speeches/Pages/2014/bm_sp_140822.aspx), 22 August 2014

<sup>137</sup> <http://www.companyhaus.gov.sb/>

<sup>138</sup> Australia Solomon Islands Business Forum, [http://ministers.dfat.gov.au/mason/speeches/Pages/2014/bm\\_sp\\_140822.aspx](http://ministers.dfat.gov.au/mason/speeches/Pages/2014/bm_sp_140822.aspx), 22 August 2014 and Asian Development Bank

<sup>139</sup> 2014, SI Chamber of Commerce, Enhancing SME Development for Economic Growth and Prosperity for Solomon Islands: Perspectives from the SICCI.

participants surveyed, 75 listed access to finance as their top constraint to starting a business (Figure 4.226).

The SISBEC indicates that the business mindset of company owners plays a significant role in developing their start-up businesses. The SISCEC felt that a shift from the mindset of dependency to one of self-reliance and creativity is needed for new SMEs to be formed. For start-up capital, the majority of those surveyed did not utilize formal loans. The SISBEC reported that value chains are generally not well developed in the country, which constrains SME sector development.

According to an official at the MCILI, the government's MSME development plans have suffered some setbacks, due to a lack of financial and technical resources, and also due to the political situation in the country in 2014, in the build-up to the first general election held since 2006. The MCILI is interested in international assistance to move the MSME agenda forward.

Solomon Islands has many challenges to developing its SME sector, including geographic density, a high rate of informal enterprises, absence of capital markets, weak financial literacy, and a banking sector preference that is mainly focused on large enterprises. The country has, however, gradually improved its business climate. According to the World Bank's 2015 "Doing Business" report, which ranks 189 economies by the ease of doing

business in each, Solomon Islands' "Doing Business" ranking improved from 97th in 2014 to 87th in 2015.<sup>140</sup> In addition, the report's "Distance to frontier" score<sup>141</sup> for the "starting a business" indicator, which evaluates the time and effort needed to formally register a business, improved from 68 in 2010 to 84 in June 2014 (with 100 being the highest possible score). This suggests Solomon Islands is developing a relatively less burdensome regulatory process for establishing a new SME as compared to the past.

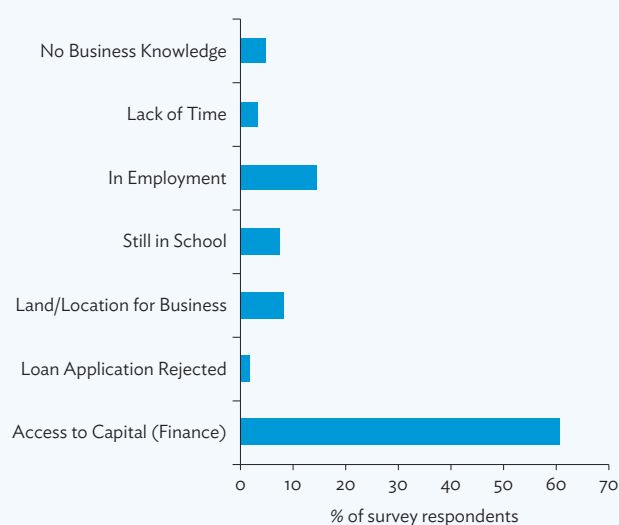
## Banking Sector

The banking sector is regulated and supervised by the Central Bank of Solomon Islands (CBSI). There is not great diversity in the banking sector in Solomon Islands, as the three commercial banks operating in the country are all foreign-owned, either by Australia or Papua New Guinea. These banks are Australia and New Zealand Banking Group (ANZ), Bank South Pacific (BSP), and Westpac Banking Corporation.<sup>142</sup> Combined, the 3 banks operated 12 branches and 38 ATMs at the end of 2013, which suggests more bank branches and ATMs, and/or technological solutions, are needed to meet the needs of the country's population of over 500,000.

In 2013, an interim (12-month) banking license was issued to an additional bank, the Pan Oceanic Bank Limited (POBL). It received its full license in April 2014, and opened its first branch in July 2014. It is expected that this new entrant will increase competition in the banking sector and introduce new products and services, especially for mobile and online banking.<sup>143</sup>

The absence of indigenous banks (until the addition of POBL) in Solomon Islands might be reflective of the low level of domestic income and investment, and of the national economic and business environment. This can

**Figure 4.226: Constraints to Starting a Business**



Source: Solomon Islands Small Business Enterprises Centre.

<sup>140</sup> The Doing Business ranking is on a scale of 1–189, with 1 being the best and 189 the worst.

<sup>141</sup> The distance to frontier score shows how far on average an economy is from the best performance achieved by any economy on each indicator. Scale is from 0 to 100, with 0 being the furthest away from best practice and 100 being the closest. Various issues, Doing Business indicator since 2010.

<sup>142</sup> As of March 2015, it has been announced that Westpac in Solomon Islands will be sold to BSP.

<sup>143</sup> <http://www.solomonstarnews.com/news/business/2861-pan-oceanic-bank-launched-last-friday>

help explain the aforementioned survey results from the SISBEC.

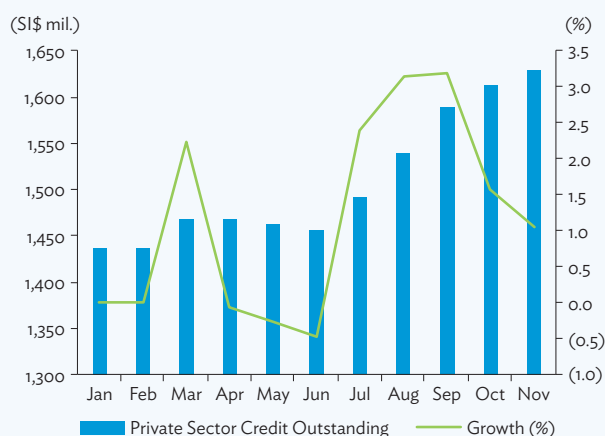
Significantly, the combined profits of the banks profit decreased by 17% to SI\$84.8 million in 2013, in contrast to an upsurge in profits registered for 2012. The reduction in profits was due mainly to a rise in operating expenses by SI\$12 million to SI\$166.3 million, and due to a lesser extent to a marginal fall in total revenue, SI\$302.9 million compared to SI\$304.8 million in 2012, which emanated from a drop in non-interest income.<sup>144</sup>

In November 2014, the CBSI reported that private sector credit increased for the fifth consecutive month, to SI\$1,629 million. To November 2014, private sector credit increased by 13.4%, with month-on-month growth varying between 0% and 3% (Figure 4.227).

The CBSI estimated, as of September 2014, that SME loans outstanding were SI\$242,087 million, an increase of 18.9% compared to the 2013 figure, though this is around the same level as estimated in 2010. SME credit accounted for 23.3% of total bank loans (Figure 4.228 and Table 4.111).

As in 2013, the estimation of the volume of SME loans in 2014 was based on subtracting the largest loans from total corporate loans, thus leaving only relatively smaller business loans to be defined as being for SMEs by the

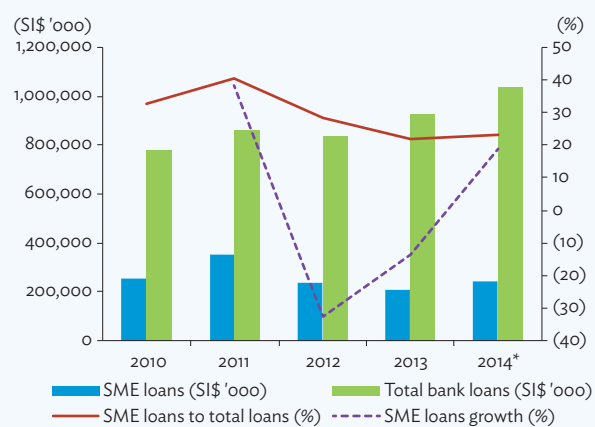
Figure 4.227: Private Sector Credit, 2014\*



\* data in the fourth quarter of 2014.

Source: Central Bank of Solomon Islands.

Figure 4.228: SME Loans Outstanding



Note: Figures based on the Central Bank of Solomon Islands' estimates. SME = small and medium-sized enterprise.

\* data as of September 2014.

Source: Central Bank of Solomon Islands.

CBSI. The introduction of a standardized definition of SME loans across the banking industry would provide greater accuracy in SME loans reporting.

Sector data reported to the CBSI showed that three industries; transportation and communications (26.0% of total lending or SI\$269,506 million), the wholesale and retail trade (23.4% or SI\$243,063 million), and construction (15.8% or SI\$163,878 million), were identified as the most active sectors in the third quarter of 2014 (Figure 4.229).

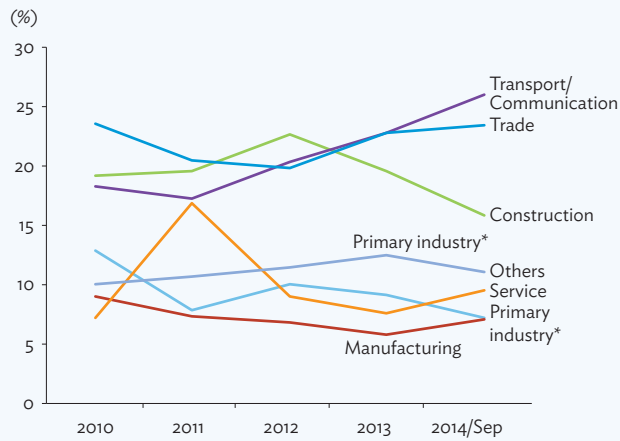
Since 2010, there has been a significant drop in bank lending to the primary industry, which includes agriculture. The 24.6% decrease between 2010 and September 2014 is contrasted by increases of 89.6% in the transportation and communication sector and 76.6% in the service sector.

The banks in Solomon Islands are offering relatively well-established financial products to businesses, including term loans for working capital and fixed asset purchases, as well as overdrafts and leasing. However, diversified products, such as value-chain financing, factoring, and/or purchase order financing, are currently not available. The shortage of enterprises able to qualify for these diverse products is the major reason for this. Reliance on real estate as collateral is also a factor constraining SME loans. There remains the

<sup>144</sup> CBSI Annual Report, 2013.



Figure 4.229: Bank Loans by Sector



Notes: % to total bank loans. Figures based on the Central Bank of Solomon Islands' estimates. \* Agriculture, forestry, fishery, and mining. Source: Central Bank of Solomon Islands.

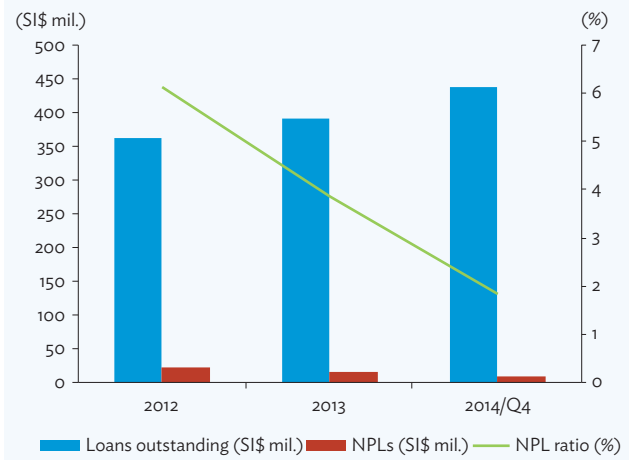
fact that the vast majority of land is under customary title (unregistered), which cannot be offered to secure loans. The Secured Transaction Act (and Register) is the legislation that can allow for the system of pledging movable assets to further develop SME loans in the country.

Annual lending rates for SME loans have decreased by several percentage points in 2014, down from the range of 14%–15% in 2013.

One of the main commercial banks, BSP, which is headquartered in Papua New Guinea, regards all of its business lending as corporate or large enterprise lending, so is not strategically targeting SMEs. BSP's corporate loan portfolio has had an upward trend over the 2012–2014 period. Its outstanding loan portfolio in that segment has increased from SI\$360 million in 2012 to SI\$436 million in the fourth quarter of 2014, a 21% gain. Over the same period, the nonperforming loan (NPL) ratio improved from 6.1% in 2012 to 1.8% in the fourth quarter of 2014. This was mainly due to improved recovery of outstanding debts and some write-offs during the period of expansion in the portfolio (Figure 4.230 and Table 4.112).

Further analysis reveals that the majority of BSP's corporate loans are for financing capital investment purposes (75% of total corporate loans), while half of those loans are for terms over 5 years, with only 13% for

Figure 4.230: Bank Loans Outstanding and Nonperforming Loans—Bank South Pacific



NPL = nonperforming loan. Source: Bank South Pacific.

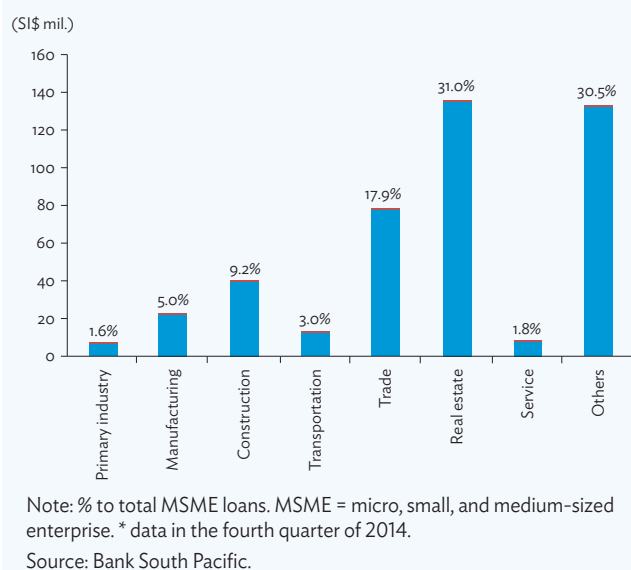
less than 1 year. This indicates that the bank is focusing on substantial business projects that contribute to infrastructure and other long-term, capacity-building investments by enterprises.

There is, however, a large disparity in the geographical distribution of BSP's business loans, as 90% of loans are serving clients in Honoria, the capital city, while only 10% of the loans are located in other areas of the country. This is consistent with the nature of the loans being for the corporate segment, as the largest enterprises are mainly in Honiara. It supports the notion that businesses outside the capital have more challenges in accessing financing than Honoria-based firms do.

The three most active sectors for BSP's commercial lending in 2014 were real estate with SI\$135 million (31.0% of total lending), "others"<sup>145</sup> at SI\$133 million (30.5%), and the retail and wholesale trade with SI\$78 million (17.9%). All other sectors made up less than 10% of the outstanding loan portfolio (Figure 4.231). The average lending rate for fixed assets loans was lower than for working capital loans (9% to 11% in the fourth quarter of 2014). Given that most of the BSP's loans were for fixed assets, the average interest rate for all loans was 10.3% in the fourth quarter of 2014.

<sup>145</sup> Business loans that are in activities that are not included in the reported sectors.

**Figure 4.231: Bank Loans by Sector—  
Bank South Pacific, 2014\***



As of 2014, Solomon Islands does not have a credit information bureau, which limits the amount of information that banks can access about the financial history of potential SME borrowers. However, a credit data bureau will be established in 2015, with the assistance of the International Finance Corporation (IFC).

There has been progress in the mobile banking sphere. BSP introduced its mobile services in October 2013, and in September 2014 the bank launched (exclusively for 2 years) a new service called “Cashpower TopUp”,<sup>146</sup> which allows BSP customers to add credit to their electricity meters through BSP’s mobile banking services. The service is in partnership with the Solomon Islands Electricity Authority (SIEA) and Our Telekom, the main telecoms provider. This new service eliminates the need for BSP customers to go to a physical location to purchase a voucher for their electricity meter, which saves travel time, waiting time, and the risks associated with carrying cash. These are the types of advantages that SME owners could value, as a lack of time is often noted as a business constraint.

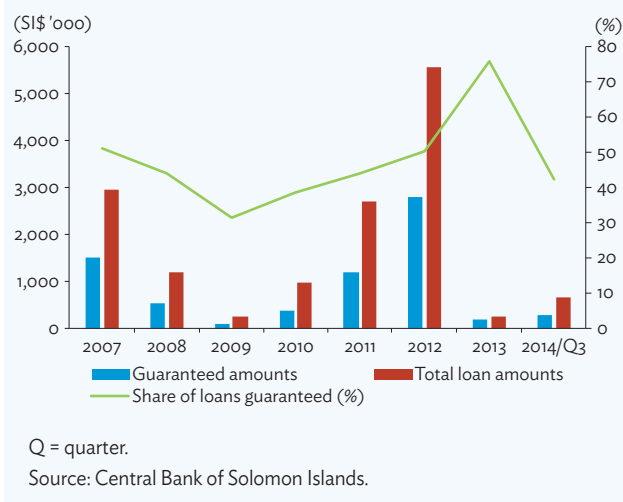
The CBSI continues to provide the Small Business Finance Scheme (SBFS), a partial credit guarantee

scheme covering 90% of the credit applied, through participating banks to spur broader financial inclusion. The performance of the scheme has been in sharp decline since the end of 2012, falling from over SI\$2.8 million in 2012 to SI\$277,000 by the third quarter of 2014 (Figure 4.232 and Table 4.113). Furthermore, to September 2014, 5 loans had been approved for credit guarantees under the scheme in 2014, against 11 approved in 2012.

In total, the number of loans approved under the scheme since it began was 64, as of the third quarter of 2014. During the year of 2014 (until the third quarter), the total gross value of loans guaranteed was SI\$655,000, of which 42.3% (SI\$277,000) was guaranteed by the SBSF. ANZ accounts for the majority of the total guarantee applications in this scheme, though the other major banks are participating, as of November 2014.

Given the relatively low numbers of loans approved and covered by the SBFS since its inception, the CBSI considers that constraints to the scheme would be attributed to: (i) unqualified business proposals that are unable to pass the loan appraisal process because of perceived risks in lending, (ii) insufficient collateral, and (iii) the fact that banks are unwilling to carry any risk from the scheme in their books. The CBSI has a concern that the scheme is not being utilized sufficiently by its intended beneficiaries. Overall, banks have excess liquidity with which more SME financing could be done, if banks can see viable deals to be made. The ratio of

**Figure 4.232: Credit Guarantees—  
Small Business Finance Scheme**



<sup>146</sup> <http://www.bsp.com.sb/Media-Centre/News--Announcement/2014/BSP-Mobile-Banking-now-has-Cashpower-TopUp.aspx>

SME loans to total business loans has remained at about 30% between 2010 and 2014, though total loans have been increasing, and private sector credit is higher over the period. The licensing of the fourth bank in 2014 should be a positive development for SME financing through increased competition.

## Nonbank Sector

According to the CBSI, the nonbank sector in Solomon Islands has many small participants, on the one hand, and one quite large participant on the other. This imbalance and the lack of a middle ground of nonbank participants causes the sector to be a long way behind the banks. To illustrate, there are 176 registered credit unions (though few are active), 276 registered savings clubs (as of 2010<sup>147</sup>), and 2 finance companies (Credit Corporation and South Pacific Business Development) active in the nonbank sector. Some diversification has, however, occurred recently, as a new credit union, Tuna Trust Credit Union, was licensed in 2014. Of note is that many of the registered institutions do not report their activity to the CBSI, so their data are not publically available.

The South Pacific Business Development (SPBD) is the only nonbank financial institution (NBF) that regards itself as a microfinance institution (MFI) in the country. The SPBD had a loan portfolio of SI\$2.2 million in 2013 and SI\$3.9 million as of September 2014, an increase of 77% in less than 1 year. This reflected the large, existing demand for microcredit in the country. In terms of challenges, SPBD reports that underdeveloped infrastructure in several areas in Guadalcanal inhibits their ability to reach more clients, due to inaccessibility.

It was announced in October 2014 that the Microfinance Pasifika Network (MFPN) will hold its next “Microfinance Week” in Honiara, in the second half of 2015.<sup>148</sup> This suggests that Solomon Islands is seen as an emerging market for microfinance services, with strong potential for growth in the sector.

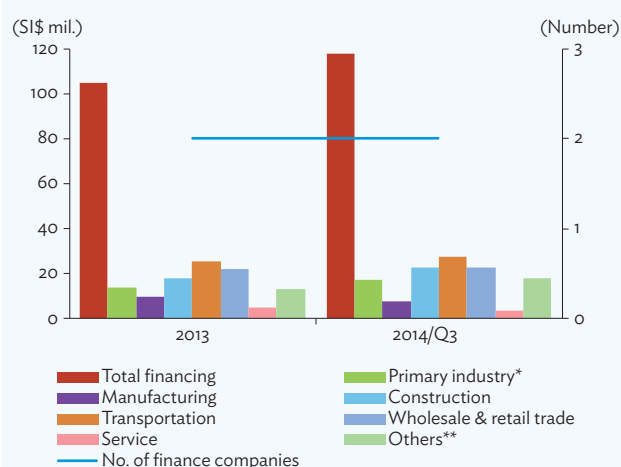
The CBSI reports that total finance company loans outstanding (combining the two finance companies)

was SI\$117.3 million at the end of the third quarter of 2014, up from SI\$104.6 million at the end of 2013 (Figure 4.233 and Table 4.114). Credit Corporation, the largest finance company, which had recorded sharp growth of its financing activities between 2009 and 2012 (from SI\$25 million to SI\$125 million) saw its loan portfolio decrease to SI\$102 million in 2013, but then increase to SI\$113 million as of September 2014. Overall, Credit Corporation made up 97% of finance company financing in the third quarter of 2014.

By business sector, finance companies had 23% of their loans in the transportation sector, followed by the construction and wholesale and retail trade sectors, each with 19% of loans. This largely mirrors the sectorial data from the banking sector, where the top three sectors were the same, suggesting that both banks and nonbanks (primarily Credit Corporation) are financing the same types of enterprises (Figure 4.234).

Credit Corporation recorded a positive financial performance in 2013, reporting an operating profit of SI\$13.2 million, up by 9.4% compared to 2012, while total revenue was SI\$18.6 million, up by 15.5% compared to 2012. The total value of new business written in 2013 was SI\$70 million, compared to SI\$52 million in 2012.<sup>149</sup>

Figure 4.233: Loans Outstanding— Finance Companies



\* Agriculture, forestry, and fishery. \*\* Loans to businesses that are operating in sectors not included in the reported sectors.

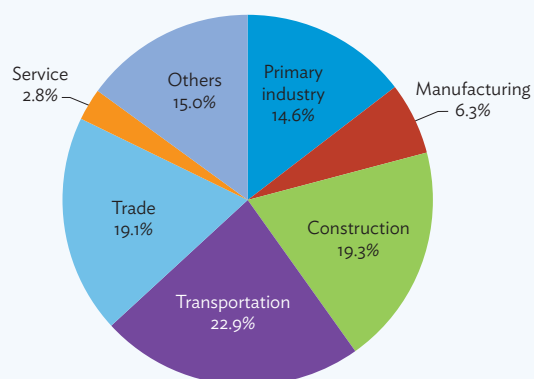
Source: Central Bank of Solomon Islands.

<sup>147</sup> *In Search of Sustainability: The Provision of Rural Financial Services in Solomon Islands*, Mike McCaffrey, Central Bank of Solomon Islands, November, 2010

<sup>148</sup> Central Bank of Solomon Islands, Press Release 17/2014

<sup>149</sup> <http://www.creditcorporation.com.pg/index.php/pacific/solomon-islands/>

**Figure 4.234: Loans by Sector—Finance Companies, 2014\***

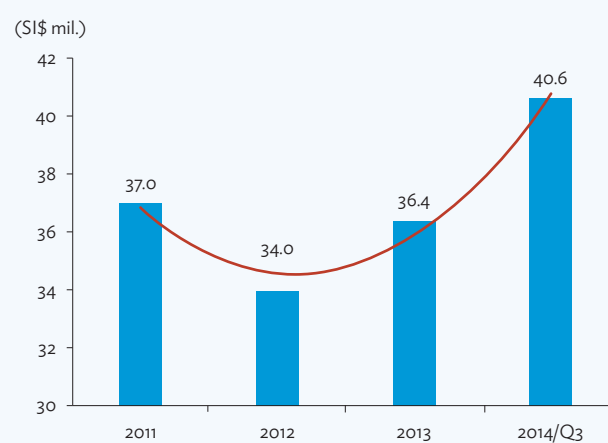


Note: "Primary industry" refers to agriculture, forestry, and fishery, while "Others" refers to loans to businesses that are operating in sectors not included in the reported sectors.

\* data as of September 2014.

Source: Central Bank of Solomon Islands.

**Figure 4.235: Loans Outstanding—Credit Unions**



Q = quarter.

Source: Central Bank of Solomon Islands.

Except for Credit Corporation, collateral registry and/or asset-based finance is not popular for financing SMEs among NBFIs in Solomon Islands.

The credit union sector stituted only about 1% of the overall financial system in 2013, based on the 10 credit unions (out of 176 that exist) that regularly submit reports to the CBSI. The consolidated balance sheet of the 10 credit unions increased to SI\$50.6 million in 2013, from SI\$49.7 million in 2012. This increase was driven by 6% growth in lending activities, which pushed up the total credit union loan portfolio from SI\$34 million in 2012 to SI\$36.4 million in 2013 and SI\$40.6 million to September 2014 (Figure 4.235).

However, the credit union sector in the past 4 years (2011–2014) has seen only a 10% increase, as the total portfolio was SI\$37 million in 2011. This may indicate that the credit unions are not effectively expanding their customer bases. Analysis by the CBSI attributes the sector's stagnation to poor governance, and sees a need for reform of how credit unions are structured, governed, and regulated.

The Solomon Islands National Provident Fund (SINPF) is the largest supervised financing entity in the country, and accounted for 37% of financial assets of the financial system in 2013. It is the country's pension fund, and total assets grew by 56% to SI\$2.4 billion (\$322 million) in

2013. This was attributed to the positive revaluation of the fund's two portfolio companies; Solomon Telekom and South Pacific Oil. All employers in Solomon Islands are required to pay to the fund a sum equivalent to 12.5% of each employee's total gross salary each calendar month. This payment contribution comprises 5% deducted from the employee's monthly gross salary and 7.5% contributed by the employer on behalf of the employee/member.<sup>150</sup>

The SINPF submitted an investment proposal to the Ministry of Finance in October 2014, for approval to incorporate a new wholly owned investment subsidiary. Principally operating as a credit institution, the entity will provide mortgage and small loans to SINPF members as well as commercial loans. With ministerial approval, the SINPF will incorporate the company and appoint a board to run the company. The board will advertise for a chief executive officer (CEO) and appoint a suitably qualified person to draw up the subsidiary's business plan, then apply to the CBSI for a credit license. It is anticipated that the new entity will secure its credit license by mid-2015.

<sup>150</sup> [sinpf.org.sb](http://sinpf.org.sb)

## Capital Markets

There is no stock exchange or capital market financing for businesses in Solomon Islands. More nontraditional equity sources, such as early stage venture capital and crowdfunding, are also not available for SMEs. The government and CBSI are considering the potential of developing a capital market through one of two approaches; a national securities market or a regional exchange market. A regional stock exchange is one of the promising ideas that can be realized in collaboration with neighboring countries, delivering economies of scale.

Despite the infancy of capital markets, the government is an active shareholder in the country's state-owned enterprises (SOEs), which include utilities, water, electricity, airports, and an investment corporation. There has been some privatization of SOEs in Solomon Islands. In 2011, there were 11 SOEs, however Home Finance and the Sasape Marina were privatized, so now there are now 9 SOEs active in the country.<sup>151</sup>

The Investment Corporation of the Solomon Islands (ICSI), one of the SOEs, was formed in 1988 and manages and administers the government's commercial investment portfolio,<sup>152</sup> while the SINPF directly owns shares in enterprises. For example, the SINPF owns 64.7% of Solomon Telekom Company (Our Telekom), while the ICSI owns 2.7% of the company's shares.<sup>153</sup> The SINPF also owns 25% of the Sasape International Shipyard, the successor to the Sasape Marina.<sup>154</sup>

The implication for SMEs and capital market development in Solomon Islands is that a system of equity ownership by multiple parties does exist—though mainly through the government—so a foundation exists for the future development of private equity systems.

## Policy and Regulation

The newest piece of legislation which can benefit SME development in Solomon Islands is the Business

Names Bill 2014,<sup>155</sup> which was passed by the Parliament in June 2014 (Table 4.115). This new law will enable business name registrations (sole traders, partnerships, and companies) to be made online. This law will benefit more SMEs, for which saving time is a key priority. The implementation of the law was anticipated to begin in the first half of 2015.

Though it was announced in 2013 that the MCILI was drafting an SME policy framework—which would include a recommendation for the establishment of a dedicated SME bank—as of end 2014, this had not progressed significantly, according to the CBSI. The National Development Strategy 2011–2020, which was adopted in 2011, has as one of its objectives the improvement of the enabling environment for growth led by the private sector. This includes support for entrepreneurs, business mentoring programs, and increasing access to finance.

The Government of Solomon Islands used its resources to develop rural financing in the past. There was a heavily subsidized state-owned development bank, the Development Bank of Solomon Islands (DBSI), established in 1977. However, it ceased lending in 1999 and was ultimately closed in 2004, after years of poor lending performance, weak management systems, and large financial losses. This provides lessons on creating a specialized bank, i.e., the need to have a loan facilitation mechanism and a well-functioning internal control system, as well as an interest rate spread that can cover costs of operations.

The National Financial Inclusion Goals continued to progress in 2014, though challenges to achievement remain. For example, the planned piloting of a financial education project via schools by 2014 was delayed,<sup>156</sup> however a Financial Inclusion Exposition with the theme, “Know Your Money, Save and Grow”, was held in June in Honiara.<sup>157</sup> Notably, the 2011 goal for 70,000 new Solomon Islanders to have access to financial services by the end of 2015 was easily surpassed—by the end of 2014 the accumulative total of new bank accounts opened since 2011 was 135,581, as reported by the CBSI. The increase was due mainly to the spread of branchless banking infrastructure and the simplification of Know Your Customer (KYC) identification requirements.

<sup>151</sup> <http://www.mof.gov.sb/AboutUs/EconomicsUnit/StateOwnedEnterprise.aspx>

<sup>152</sup> <http://www.parliament.gov.sb/files/legislation/Acts/1988/INVESTMENT%20CORPORATION%20OF%20SOLOMON%20ISLANDS%20ACT%201988.PDF>

<sup>153</sup> [https://www.ourtelekom.com.sb/our\\_telekom/about\\_our\\_telekom.php](https://www.ourtelekom.com.sb/our_telekom/about_our_telekom.php)

<sup>154</sup> <http://www.sasape.com/company-profile.html>

<sup>155</sup> <http://www.companyhaus.gov.sb/system-content/feature/>

<sup>156</sup> CBSI 2014 Annual Report, pg. 36

<sup>157</sup> <http://www.bis.org/review/r140805b.htm>



In addition, there has been an increase in the number of financial access points, from 439 at the end of 2013 to 538 by the end of 2014.<sup>158</sup> There are now access points in all provinces of the country, largely driven by the use of digital financial services, such as mobile phone banking and electronic funds transfer at point of sale (EFTPOS) machines.

Although there is no current credit union legislation in Solomon Islands, as of March 2015, there is a policy framework that is to be endorsed by the government, which will lead to a legislative bill being drafted for credit unions.

One large public initiative, the Rural Development Program (RDP)<sup>159</sup>—funded by the Government of Solomon Islands, Australia, the World Bank, the European Union, and the International Fund for Agriculture Development (IFAD)—is a 7-year program

(2008–2015) with a budget of \$35 million. One of the program's focus areas is to improve access to finance, by providing equity injections to rural businesses, which then are used to leverage recipient equity and bank loans. The RDP has also approved a second phase, which will be rolled out in the second quarter of 2015.

An evaluation of the efficacy of the largest SME financing initiatives, such as the SMEC and the SISBEC, and the MSME policy implementation matrix can help to ensure that policy decisions are taken from an evidential base. Technical assistance from international sources may add value to these efforts.

Finally, a review of the Small Business Finance Scheme may reveal reasons for decreased activity, and can lead to an improved approach to state policies on business financing.

**Table 4.111: Banking Sector—SME Loans**

Item	2010	2011	2012	2013	2014*
SME loans outstanding (SI\$ '000)	252,903	349,312	235,965	203,580	242,087
Corporate sector loans outstanding (SI\$ '000)	523,242	510,936	602,500	727,009	796,225
Total bank loans (SI\$ '000)	776,145	860,247	838,465	930,589	1,038,312
SME loans to total loans (%)	32.6	40.6	28.1	21.9	23.3
SME loans growth (%)	...	38.1	(32.4)	(13.7)	18.9
<b>Bank loans by sector</b>					
Primary industry** (SI\$ '000)	99,437	67,564	84,191	84,588	74,996
Manufacturing (SI\$ '000)	70,169	63,115	57,055	54,056	73,260
Construction (SI\$ '000)	148,841	168,619	189,722	181,934	163,878
Transportation and communication (SI\$ '000)	142,161	148,659	169,881	211,907	269,506
Trade (SI\$ '000)	182,508	175,528	165,600	211,883	243,063
Service (SI\$ '000)	55,724	145,004	75,777	70,696	98,383
Others (SI\$ '000)	77,304	91,760	96,239	115,525	115,226
Primary industry** (% share)	12.8	7.9	10.0	9.1	7.2
Manufacturing (% share)	9.0	7.3	6.8	5.8	7.1
Construction (% share)	19.2	19.6	22.6	19.6	15.8
Transportation and communication (% share)	18.3	17.3	20.3	22.8	26.0
Trade (% share)	23.5	20.4	19.8	22.8	23.4
Service (% share)	7.2	16.9	9.0	7.6	9.5
Others (% share)	10.0	10.7	11.5	12.4	11.1

SME = small and medium-sized enterprise.

Note: Figures based on the Central Bank of Solomon Islands' estimates.

\* data as of September 2014. \*\* Agriculture, forestry, fishery, and mining.

Source: Central Bank of Solomon Islands.

<sup>158</sup> CBSI Annual Report 2014

<sup>159</sup> <http://www.solomonislands.embassy.gov.au/honi/261113.html>

Table 4.112: Bank Loans—Bank South Pacific

Item	2012	2013	2014/Q4
Loans outstanding (SI\$ mil.)	360	390	436
<b>Loans by sector</b>			
Primary industry*	6	8	7
Manufacturing	14	16	22
Construction	30	35	40
Transportation	7	8	13
Telecommunication	0	0	0
Wholesale and retail trade	70	74	78
Real estate	110	120	135
Service	7	7	8
Others	116	122	133
<b>Loans by region</b>			
Capital city	330	335	395
Local cities	30	55	41
<b>Loans by type of use</b>			
For working capital	70	85	105
For capital investment	290	305	331
<b>Loans by term</b>			
Less than 1 year	30	35	55
1–5 years	140	155	165
More than 5 years	190	200	216
Loan rejection rate (% of total applications)	20	20	20
Number of new loans	110	125	150
New loans disbursed (SI\$ mil.)	225	250	250
Nonperforming loans (NPLs) (SI\$ mil.)	22	15	8
NPL ratio (% to total loans)	6.1	3.8	1.8
Number of loan accounts opened	40	50	50
Number of savings accounts opened	100	100	100
<b>Lending rate on loans (annual average)</b>			
For working capital	12.5	12.0	11.0
For capital investment	10.5	10.0	9.0
Total loan average	11.0	10.5	10.3

2014/Q4 = the fourth quarter of 2014. \* Agriculture, forestry, and fishery.

Source: Bank South Pacific.

Table 4.113: Credit Guarantees—Small Business Finance Scheme

	2007	2008	2009	2010	2011	2012	2013	2014/Q3
Number of loans guaranteed	20	12	3	2	7	11	4	5
Guaranteed amounts (SI\$ '000)	1,498	529	82	373	1,180	2,801	178	277
Total loan amounts (SI\$ '000)	2,930	1,197	260	963	2,682	5,545	235	655
Share of loans guaranteed (%)	51.1	44.2	31.5	38.7	44.0	50.5	75.7	42.3

Source: Central Bank of Solomon Islands.



Table 4.114: Nonbank Sector

	2011	2012	2013	2014/Q3
<b>A. Finance Companies</b>				
Number of finance companies	...	...	2	2
Number of new licenses	...	...	0	0
Number of revocations	...	...	0	0
Total financing outstanding (SI\$ '000)	...	...	104,601	117,340
<b>Financing outstanding by sector</b>				
Primary industry* (SI\$ '000)	...	...	13,401	17,089
Manufacturing (SI\$ '000)	...	...	9,387	7,396
Construction (SI\$ '000)	...	...	17,567	22,654
Transportation (SI\$ '000)	...	...	25,246	26,919
Trade (SI\$ '000)	...	...	21,487	22,443
Service (SI\$ '000)	...	...	4,872	3,278
Others** (SI\$ '000)	...	...	12,641	17,561
Primary industry* (% share)	...	...	12.8	14.6
Manufacturing (% share)	...	...	9.0	6.3
Construction (% share)	...	...	16.8	19.3
Transportation (% share)	...	...	24.1	22.9
Trade (% share)	...	...	20.5	19.1
Service (% share)	...	...	4.7	2.8
Others** (% share)	...	...	12.1	15.0
<b>B. Credit Unions</b>				
Number of companies	175	175	175	176
Number of new licenses	0	0	0	1
Number of revocations	0	0	0	0
Total financing outstanding (SI\$ mil.)	37.0	34.0	36.4	40.6

\* Agriculture, forestry, and fishery. \*\* Loans to businesses that are operating in sectors not included in the reported sectors.  
Source: Central Bank of Solomon Islands.

Table 4.115: SME Policy and Regulation

Regulations		
Name	Outline	
Financial Institutions Act (1998)	Regulation for banking business	
Secured Transaction Act (2008)	Establishment of collateral registry	
Companies Act (2009)	Formation and governance of private, public and community companies	
Business Names Bill (2014)	Online registration for business names	
Credit Union Act (1986)	Regulation for credit union activities	
Regulators and Policymakers		
Name	Responsibility	
Central Bank of Solomon Islands (CBSI)	Regulate and supervise commercial banks and nonbanks	
Ministry of Commerce, Industries, Labor and Immigration (MCILI)	SME promotion policy	
Policies		
Name	Responsible Entity	Outline
National Financial Inclusion Goals (2010)	MCILI	1) Financial education for all 2) Access to financial services 3) Use of financial services to achieve financial stability and create business opportunities
	CBSI	
National Development Strategy 2011–2020	MCILI MFR MAL	

MAL = Ministry of Agriculture and Livestock, MFR = Ministry of Forestry and Resources, SME = small and medium-sized enterprise.

Sources: Central bank of Solomon Islands; and the Ministry of Commerce, Industries, Labors and Immigration.

## Data Sources

Asian Development Bank, Pacific Private Sector Development Initiative (PDSI); Bank of South Pacific Solomon Islands; Central Bank of Solomon Islands; Ministry of Commerce, Industries, Labors and Immigration; Solomon Islands National Provident Fund; Solomon Islands Small Business Enterprises Centre; Credit Corporation; The Company Haus of the Solomon Islands.

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## Note

Currency: dollar (SBD)  
 Exchange rate: 1 SBD = 0.1283 USD  
 Source: Central Bank of Solomon Islands, 3 February 2015.

# APPENDIX

## SME Definitions

### Central Asia

#### Kazakhstan

Type	Item	Micro	Small	Medium
Legal entity and individual entrepreneurs	Annual average income	Annual average income of less than 30,000 times the monthly calculation index (MCI)	Annual average income of less than 300,000 times the MCI	Annual average income of more than 300,000 but less than 3,000,000 times the MCI
	Number of employees	Annual average number of employees of fewer than 15	Annual average number of employees of fewer than 100	Annual average number of employees of more than 100 but fewer than 250

Note: Small businesses cannot be individual entrepreneurs and legal entities engaged in activities related to trafficking in narcotic drugs; psychotropic substances and precursors; production and/or the wholesale distribution of excisable products; activities for the storage of grain on grain-points; lotteries; activities in the field of gambling and show business; activities of mining, processing, and sale of petroleum, petroleum products, gas electricity, and thermal energy; activities related to trafficking of radioactive materials; banking (or certain types of banking operations) and the activities of the insurance market (other than an insurance agent); auditing activities; professional activities in the securities market; and activities of credit bureaus; protection activities; activities associated with weapons. According to the Law of the Republic of Kazakhstan on September 29, 2014 No. 54-V, the Monthly Calculation Index is equivalent to T1,731 in the national budget for 2013–2015.

Source: Law on Entrepreneurship of the Republic of Kazakhstan (with amendments as of 29 September 2014).

#### Kyrgyz Republic

Item		Micro	Small	Medium
Number of employees	Type I (Agriculture, Construction, Mining, Manufacturing, Energy and Water management, Fishing)	Fewer than 15	Fewer than 50	51–200
	Type II (Trade, Services, Transport, Logistics, Telecom, Health, Education, Financial services)	Fewer than 7	Fewer than 15	16–50
Annual turnover (thousands of KGS)	Type I (Agriculture, Construction, Mining, Manufacturing, Energy and Water management, Fishing)	Less than 150	Less than 500	500–2,000
	Type II (Trade, Services, Transport, Logistics, Telecom, Health, Education, Financial services)	Less than 230	Less than 500	500–2,000

Source: Government Resolution No.78 (1998), amended as Government Resolution No.590 (2002).

#### Tajikistan

Item	Small (incl. individual entrepreneurs)*	Medium
Annual turnover	> TJS500.000	TJS500.000–TJS15mil

\* The Law considers both legal and non-legal entities as a small enterprise. However, the following activities of small enterprises are prohibited: (i) excisable manufacturing, e.g., production of pharmaceuticals, spirits, and perfume; (ii) supply of primary aluminum; (iii) banking and insurance; (iv) investment funds management; and (v) stock market activities.

Source: Law No.1107 on the Government Protection and Support of Entrepreneurship (2014).

## East Asia

## People's Republic of China

Sector	Item	Micro	Small	Medium
Agriculture	Annual turnover (T)	T ≤ CNY500,000	CNY500,000 < T ≤ CNY5 million	CNY5 million < T ≤ CNY200 million
Industrial	Annual turnover (T)	T ≤ CNY3 million	CNY3 million < T ≤ CNY20 million	CNY20 million < T ≤ CNY400 million
	Number of employees (E)	E ≤ 20	20 < E ≤ 300	300 < E < 1,000
Construction	Annual turnover (T)	T ≤ CNY3 million	CNY3 million < T ≤ CNY60 million	CNY60 million < T ≤ CNY800 million
	Total assets (A)	A ≤ CNY3million	CNY3 million < A ≤ CNY50 million	CNY50 million < A ≤ CNY800 million
Wholesale	Annual turnover (T)	T ≤ CNY10 million	CNY10 million < T ≤ CNY50 million	CNY50 million < T ≤ CNY400 million
	Number of employees (E)	E ≤ 5	5 < E ≤ 20	20 < E < 200
Retail trade	Annual turnover (T)	T ≤ CNY1 million	CNY1 million < T ≤ CNY5 million	CNY5 million < T ≤ CNY200 million
	Number of employees (E)	E ≤ 10	10 < E ≤ 50	50 < E < 300
Transportation	Annual turnover (T)	T ≤ CNY2 million	CNY2 million < T ≤ CNY30 million	CNY30 million < T ≤ CNY300 million
	Number of employees (E)	E ≤ 20	20 ≤ E ≤ 300	300 < E < 1,000
Storage	Annual turnover (T)	T ≤ CNY1 million	CNY1 million < T ≤ CNY10 million	CNY10 million < T ≤ CNY300 million
	Number of employees (E)	E ≤ 20	20 < E ≤ 100	100 < E < 200
Post	Annual turnover (T)	T ≤ CNY1 million	CNY1 million < T ≤ CNY20 million	CNY20 million < T ≤ CNY300 million
	Number of employees (E)	E ≤ 20	20 < E ≤ 300	300 < E < 1,000
Hotel	Annual turnover (T)	T ≤ CNY1 million	CNY1 million < T ≤ CNY20 million	CNY20 million < T ≤ CNY100 million
	Number of employees (E)	E ≤ 10	10 < E ≤ 100	100 < E < 300
Catering trade	Annual turnover (T)	T ≤ CNY1 million	CNY1 million < T ≤ CNY20 million	CNY20 million < T ≤ CNY100 million
	Number of employees (E)	E ≤ 10	10 < E ≤ 100	100 < E < 300
Telecommunication	Annual turnover (T)	T ≤ CNY1 million	CNY1 million < T ≤ CNY10 million	CNY10 million < T ≤ CNY1,000 million
	Number of employees (E)	E ≤ 10	10 < E ≤ 100	100 < E < 2,000
Software and information technology	Annual turnover (T)	T ≤ CNY500,000	CNY500,000 < T ≤ CNY10 million	CNY10 million < T ≤ CNY100 million
	Number of employees (E)	E ≤ 10	10 < E ≤ 100	100 < E < 300
Real estate	Annual turnover (T)	T ≤ CNY1 million	CNY1 million < T ≤ CNY10 million	CNY10 million < T ≤ CNY2,000 million
	Total assets (A)	A ≤ CNY20 million	CNY20 million < A ≤ CNY50 million	CNY50 million < A ≤ CNY100 million
Property management	Annual turnover (T)	T ≤ CNY5 million	CNY5 million < T ≤ CNY10 million	CNY10 million < T ≤ CNY50 million
	Number of employees (E)	E ≤ 100	100 < E ≤ 300	300 < E < 1,000
Lease and business service	Total assets (A)	A ≤ CNY1 million	CNY1 million < A ≤ CNY80 million	CNY80 million < A ≤ CNY1,200 million
	Number of employees (E)	E ≤ 10	10 < E ≤ 100	100 < E < 300
Others	Number of employees (E)	E ≤ 10	10 < E ≤ 100	100 < E < 300

Source: Regulations on SMEs Classification Criteria (2011) by Ministry of Industry and Information Technology.

## Republic of Korea

Sector	Item	Micro	Small	Medium
Manufacturing	Number of employees	Fewer than 10	Fewer than 50	Fewer than 300
	Capital and sales	...	...	Capital worth of W8 billion (\$8 million) or less
Mining, construction and transportation	Number of employees	Fewer than 10	Fewer than 50	Fewer than 300
	Capital and sales	...	...	Capital worth of W3 billion (\$3 million) or less
Publication, information, and communication; administrative and support service activities; human health and social work activities; professional scientific and technical activities	Number of employees	Fewer than 5	Fewer than 10	Fewer than 300
	Capital and sales	...	...	Sales worth W30 billion (\$30 million) or less
Agriculture, forestry, and fisheries; electricity, gas, steam, and waterwork business; wholesale and retail trade; accommodation and food service activities; financial and insurance activities; arts, entertainment, and recreation	Number of employees	Fewer than 5	Fewer than 10	Fewer than 200
	Capital and sales	...	...	Sales worth W20 billion (\$20 million) or less
Sewerage, waste management, and remediation activities; education; repair and other services	Number of employees	...	...	Fewer than 100
	Capital and sales	...	...	Sales of W20 billion (\$10 million) or less
Real estate, rental and leasing activities	Number of employees	...	...	Fewer than 50
	Capital and sales	...	...	Sales worth of W5 billion (\$5 million) or less

Source: 1996 Framework Act on Small and Medium Enterprises, Small and Medium Business Administration (SMBA).

## Mongolia

Sector	Item	Small and Medium
General	Number of employees	≤199
	Annual turnover	≤MNT1.5 billion
Manufacturing	Number of employees	≤19
	Annual turnover	≤MNT250 million
Services	Number of employees	≤49
	Annual turnover	≤MNT1.0 billion
Wholesale trade	Number of employees	≤149
	Annual turnover	≤MNT1.5 billion
Retail trade	Number of employees	≤199
	Annual turnover	≤MNT1.5 billion

Source: Article 5, Law on Small and Medium Enterprises (2007).

## South Asia

### Bangladesh

Sector	Item	Micro	Small	Medium
Manufacturing	Fixed assets	Tk0.5 million-Tk5.0 million	Tk5 million-Tk100 million	Tk100 million-Tk300 million
	Employees	10-24	25-99	100-250
Service and Trade	Fixed assets	Less than Tk0.5 million	Tk5 million-Tk10 million	Tk10 million-Tk150 million
	Employees	Fewer than 10	10-25	26-100
Cottage	Fixed assets	Less than Tk0.5 million		
	Employees	Fewer than or equal to 10 including family members		

Source: Bangladesh Industrial Policy 2010.

### India

Sector	Micro	Small	Medium
Manufacturing	Investment in plant and machinery does not exceed Rs2.5 million	Investment in plant and machinery is more than Rs2.5 million but does not exceed Rs50.0 million	Investment in plant and machinery is more than RS50 million but does not exceed Rs100 million
Services	Investment in equipment does not exceed Rs1 million	Investment in equipment is more than Rs1 million but does not exceed Rs20 million	Investment in equipment is more than Rs20million but does not exceed Rs50 million

Note: Manufacturing enterprises are those engaged in the manufacture or production, processing, or preservation of goods, while services enterprises are those providing or rendering services.

Source: Micro, Small and Medium Enterprises Development Act, 2006.

### Sri Lanka

Item	Small and Medium
Annual turnover	More than SLRs100 million and less than SLRs2,000million OR
Fixed assets	More than SLRs10 million and less than SLRs400 million

Source: Mahinda Chintana Vision for the Future, Government of Sri Lanka.

## Southeast Asia

### Cambodia

Item	Micro	Small	Medium
Assets	\$50,000 and below	\$50,000-\$250,000	\$250,000-\$500,000
Number of employees	1-10	11-50	51-100

Source: Small and Medium Enterprise Development Framework of 2005.



## Indonesia

Item	Micro	Small	Medium
Net assets (land and building excluded)	Less than Rp50 million	Rp50 million–Rp500 million	Rp500 million–Rp10 billion
Total annual sales value	Less than Rp300 million	Rp300 million–Rp2.5 billion	Rp2.5 billion to Rp50 billion

Note: Micro, small, and medium-sized enterprises (MSMEs) should be a productive entity owned by individual or individual business unit that exclude the subsidiary firm or branch office that directly or indirectly owned and/or controlled by or being a part of larger firm. Foreign owned and/or invested firms are not regarded as MSMEs regardless of filling the above-mentioned.

Source: Law No.20/2008 on Micro, Small, and Medium-sized Enterprises.

## Lao PDR

Item	Small	Medium
Number of employees (annual average)	Fewer than 20	Fewer than 100
Total assets	Up to K250 million	Up to K1,200 million
Annual turnover	Up to K400 million	Up to K1,000 million

Note: The SME definition above is based on the Decree No.42/PM/2004. Meanwhile, the Law No.011/NA/2011 on Small and Medium sized Enterprises Promotion stipulated the new SME definition but no numeric criteria. Accordingly, the government authorities practically use the SME definition stipulated on the Decree No.42/PM/2004.

Source: Decree No.42/PM/2004 on the Promotion and Development of Small and Medium sized Enterprises.

## Malaysia

Sector	Item	Micro	Small	Medium
Manufacturing	Annual Sales Turnover	Less than RM300,000 OR	From RM300,000 to less than RM15 million OR	From RM15 million to not exceeding RM50 million OR
	Number of Full-time Employees	Fewer than 5 employees	From 5 to fewer than 74 employees	From 75 to not exceeding 200 employees
Services and Other Sectors	Annual Sales Turnover	Less than RM300,000 OR	From RM300,000 to less than RM3 million OR	From RM3 million to not exceeding RM20 million OR
	Number of Full-time Employees	Fewer than 5 employees	From 5 to fewer than 29 employees	From 30 to not exceeding 75 employees

Note: New SME definition was endorsed at the 14th NSDC Meeting in July 2013 and has been effective since 1 January 2014.

Source: SME Corporation Malaysia.

## Myanmar

### SME Definition (until 8 April 2015)

Item	Cottage	Small	Medium
Power used (horsepower)	0.25–5 H.P	Over 5 H.P	25–50 H.P
Employees	Not more than 9	Over 10	50–100
Capital investment	...	Up to Ks1 million	Ks1–5 million
Annual production	...	Up to Ks2.5 million	Ks2.5–5 million

Note: SMEs refer to small and medium industries (manufacturing) under the Private Industrial Enterprise Law No.22/1990 and cottage industries under the Law Amending the Promotion of Cottage Industries Law No.14/2011.

Source: Central Department of Small and Medium Enterprises Development, Ministry of Industry.

*SME Definition (after 9 April 2015)*

Sector	Item	Small	Medium
Manufacturing	Capital (C)	Up to Ks500 million	Ks500 million < C ≤ Ks1,000 million
	Employees	Up to 50	51–300
Labor intensive manufacturing	Capital (C)	Up to Ks500 million	Ks500 million < C ≤ Ks1,000 million
	Employees	Up to 300	301–600
Wholesale business	Turnover (T)	Up to Ks100 million	Ks100 million < T ≤ Ks300 million
	Employees	Up to 30	31–60
Retail business	Turnover (T)	Up to Ks50 million	Ks50 million < T ≤ Ks100 million
	Employees	Up to 30	31–60
Services	Turnover (T)	Up to Ks100 million	Ks100 million < T ≤ Ks200 million
	Employees	Up to 30	51–100
Other sectors	Turnover (T)	Up to Ks50 million	Ks50 million < T ≤ Ks100 million
	Employees	Up to 30	31–60

Note: The SME Development Law enacted on 9 April 2015 stipulated the new SME definition.

Source: Central Department of Small and Medium Enterprises Development, Ministry of Industry.

**Philippines**

Item	Micro	Small	Medium
Total assets excluding land*	Not more than P3,000,000	P3,000,0001 to P15,000,000	From P15,000,0001 to P100,000,000
Number of employees**	1–9	10–99	100–199

\* Legislated definition of micro, small and medium enterprises as provided by the Small and Medium Enterprise Development Council Resolution No. 01 Series of 2003 dated January 16, 2003.

\*\* Definition used by the National Statistics Office.

Sources: Magna Carta for Micro, Small and Medium Enterprises as amended by Republic Act. 9501, Bureau of Micro, Small and Medium Enterprise Development, and National Statistics Office.

Magna Carta for Micro, Small and Medium Enterprises (R.A. 6977, as amended by R.A. 8289 and R.A. 9501).

<http://www.msmedcouncilphl.org/sites/default/files/SMEDC%20Resolution%20s2003.pdf>

[http://www.dti.gov.ph/uploads/DownloadableFiles/2010\\_RA\\_9501\\_Magna\\_Carta\\_for\\_MSMEs.pdf](http://www.dti.gov.ph/uploads/DownloadableFiles/2010_RA_9501_Magna_Carta_for_MSMEs.pdf)

**Thailand**

Sector	Item	Small	Medium
Manufacturing	Employees	Not more than 50	51–200
	Fixed assets (excluding Land)	Not more than B50 million	More than B50 million and less than B200 million
Service	Employees	Not more than 50	51–200
	Fixed assets (excluding Land)	Not more than B50 million	More than B50 million and less than B200 million
Trading: Wholesale	Employees	Not more than 25	26–50
	Fixed assets (excluding Land)	Not more than B50 million	More than B50 million and less than B100 million
Trading: Retail	Employees	Not more than 15	16–30
	Fixed assets (excluding Land)	Not more than B30 million	More than B30 million and less than B60 million

\*including agriculture sector.

Notes: Thailand adopted a national SME definition as defined in Ministry of Industry's Ministerial Regulations on 11 September 2002.

Manufacturing includes the agricultural sector.

Source: Office of Small and Medium Enterprises Promotion.

## Viet Nam

Sector	Item	Micro	Small	Medium
Agriculture, forestry and fishery	Total capital		Less than or equal to D20 million	More than D20 billion but less than or equal to D100 billion
	Number of employees	1-10	11-200	201-300
Industry and construction	Total capital		Less than or equal to D20 million	More than D20 billion but less than or equal to D100 billion
	Number of employees	1-10	11-200	201-300
Commerce and services	Total capital		Less than or equal to D10 million	More than D10 billion but less than or equal to D50 billion
	Number of employees	1-10	11-50	51-100

Source: Government Decree No. 56/2009/ND-CP.

## Pacific

### Fiji

Item	Micro	Small	Medium
Turnover	≤ F\$30,000	F\$30,000–F\$100,000	F\$100,001–F\$500,000
Total Assets	≤ F\$30,000	F\$30,000–F\$100,000	F\$100,001–F\$500,000
Number of employees	≤ 5	6–20	21–50

Source: Reserve Bank of Fiji.

### Papua New Guinea

Micro, Small, and Medium

Fewer than 100 employees

Note: Based on the guideline of the Bank of Papua New Guinea.

Source: Bank of Papua New Guinea.

### Solomon Islands

Item	Micro	Small	Medium
Net capital investment	Less than SI\$500,000	From SI\$500,000 to SI\$1,500,000	From SI\$1,500,001 to SI\$7,500,000
Annual turnover	No more than SI\$300,000	From SI\$300,000 to SI\$10,000,000	From SI\$10,000,001 to SI\$50,000,000
Number of employees	1-5	6-25	26-50

Note: Based on the draft SME policy paper by the Ministry of Commerce. MSME definition covers formal and informal enterprise is defined as not registered in accordance with the company instructions and Company Act.

Source: Ministry of Commerce.

## **Asia SME Finance Monitor 2014**

The Asia SME Finance Monitor 2014 is the knowledge sharing product on small and medium-sized enterprises (SMEs) in Asia and the Pacific, specially focusing on SME access to finance. This publication reviews various country aspects of SME finance covering the banking sector, nonbank sector, and capital markets. It is expected to support evidence-based policy making and regulations on SME finance in the region.

## **About the Asian Development Bank**

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to the majority of the world's poor. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

