ADB

ASIA SME Finance Monitor

2013

Asian Development Bank

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Printed in Philippines.
ISBN 978-92-9254-490-4 (Print), 978-92-9254-491-1 (PDF)
Publication Stock No. RPT146404-2

Cataloging-In-Publication Data
Asian Development Bank.

Asia SME Finance Monitor 2013
Mandaluyong City, Philippines: Asian Development Bank, 2014.

1. Small and medium-sized enterprises. 2. SME finance. 3. SME sector development. 4. Asia.
I. Asian Development Bank.

Note:
In this publication, "$" refers to US dollars, unless otherwise stated.

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Printed on recycled paper

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Foreword

While the global economy is being driven by the rapid growth of Asia, several external factors such as economic slowdown in advanced economies, eurozone debt crisis, and unstable capital flows are deepening the complexity of the global economy and creating a risk of putting the brakes on the growth of Asian economies. Small and medium-sized enterprises (SMEs) are a backbone of the national economies in the countries of Asia and the Pacific. Hence, SME sector development in the region is key for resilient national economies. Given the pronounced global economic uncertainty, national policy makers and regulators are required to develop sophisticated SME sector development policy frameworks to stimulate the growth and graduation cycle of enterprises from various angles.

Finance is a key element of national SME sector development. Lessons from the recent financial crisis suggest that countries need to develop innovative financing models beyond traditional bank lending. Providing long-term financing opportunities, such as capital market financing, for growing SMEs is a newly emerging agenda in SME financing. Policy and regulatory actions may be elaborated to respond to new areas such as crowd funding, asset-based finance, seed and early stage finance, and SME cluster financing. SME finance also needs to cope with crosscutting global issues such as climate change, gender empowerment, and poverty alleviation. Social capital markets, green finance, agriculture finance, and financing women-led SMEs are focal agendas in this discussion. Accordingly, a holistic policy framework better serving various SME financing needs is a necessary component for SME sector development at the national level.

The annual Asia SME Finance Monitor supports the efforts of developing member countries (DMCs) of the Asian Development Bank (ADB) to design a comprehensive range of policy options that promote innovative instruments and services in SME finance through the provision of timely and comparative SME data with in-depth analyses. In this regard, ADB initially targets its DMC policy makers responsible for SME access to finance as the main beneficiaries of the Asia SME Finance Monitor. To reflect their real needs and to provide accurate information in the monitor, ADB built strategic partnerships with key institutions such as central banks, government authorities, and financial institutions for data collection and conducted intensive interviews with them to supplement collected data. The Asia SME Finance Monitor provides an update of regional SME finance and individual reviews of DMCs selected from the five ADB regions, together with a thematic report, the topic of which in the first volume is supply chain finance for SMEs.

This is the inaugural volume; thus, we appreciate any comments and suggestions on this product to improve the quality. We also welcome new participating DMCs in the Asia SME Finance Monitor. We believe that this product helps improve SME access to finance through enhanced evidence-based policy making on SME finance, and encourage policy discussions on scaling up SME finance in DMCs.

Noritaka Akamatsu
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Asian Development Bank

Acknowledgments

The data used in the Asia SME Finance Monitor (ASM) was collected and elaborated upon through strategic partnerships with institutions in participating developing member countries of the Asian Development Bank (listed on page vi). The included country review papers were also peer reviewed by partner institutions in developing member countries.

The inaugural volume of the ASM was prepared by Shigehiro Shinozaki, financial sector specialist of the Office of Regional Economic Integration (OREI), together with the ASM team comprising Oleg Fedosseyev, Shreyans Jain, Denise Marian Supe, and Simon Thompson, under the supervision of Noritaka Akamatsu, chair of the Financial Sector Development Community of Practice and deputy head of OREI. Administrative support was provided by Raquel Borres and Carmelia Hernandez.

List of Data Contributors in Participating Developing Member Countries of the Asian Development Bank

Country	Data Contributors
Bangladesh	Bangladesh Bank, Bangladesh Small and Cottage Industries Corporation, BASIC Bank, BRAC Bank, Business Initiative Leading Development, Dhaka Stock Exchange, Industrial Development Leasing Company of Bangladesh, ISLAMI Bank, Micro Credit Regulatory Authority, SME Foundation
Cambodia	Cambodia Securities Exchange; Ministry of Mines, Energy, and Industry; National Bank of Cambodia; National Institute of Statistics
China, People's Republic of	National Bureau of Statistics, People's Bank of China , Shenzhen Stock Exchange
India	Bombay Stock Exchange; Ministry of Micro, Small and Medium Enterprises; National Stock Exchange of India; Reserve Bank of India
Indonesia	Bank Indonesia, Indonesia Financial Services Authority, Ministry of Cooperatives and SMEs
Kazakhstan	Agency of Statistics of the Republic of Kazakhstan, DAMU Entrepreneurship Development Fund, National Bank of Kazakhstan
Korea, Republic of	Financial Supervisory Service, Korea Exchange, Korea Financial Investment Association, Korean Venture Capital Association, Small and Medium Business Administration
Malaysia	Bank Negara Malaysia, Bursa Malaysia, Department of Statistics Malaysia, Securities Commission, SME Corporation
Papua New Guinea	Bank of Papua New Guinea, Bank of South Pacific, Credit Corporation, IBBM Enterprise Centre, Nationwide Microbank, PNG Microfinance, Port Moresby Stock Exchange
Philippines	Bangko Sentral ng Pilipinas; Bureau of Micro, Small and Medium Enterprise Development; Department of Trade and Industry; Small Business Corporation; National Statistics Office; Philippine Stock Exchange; Securities and Exchange Commission
Solomon Islands	Australia and New Zealand Banking Group; Bank of South Pacific; Central Bank of Solomon Islands; Credit Corporation; Ministry of Commerce, Industries, Labour and Immigration; Solomon Islands Chamber of Commerce and Industry
Sri Lanka	Central Bank of Sri Lanka, Ceylon Chamber of Commerce, Chamber of Commerce and Industry of the Central Province (Kandy), Colombo Stock Exchange, Federation of Chamber of Commerce and Industry of Sri Lanka, Lankaputhra Development Bank, Ministry of Finance and Planning, Ministry of Traditional Industries and Small Enterprise Development, National Development Bank
Thailand	Bank of Thailand, Office of Small and Medium Enterprises Promotion, Securities and Exchange Commission, Thai Credit Guarantee Corporation, Stock Exchange of Thailand
Viet Nam	Hanoi Stock Exchange, Ministry of Finance, Department of Banking and Financial Institutions, Ministry of Industry and Trade, Ministry of Justice, Agency of Enterprise Development, Ministry of Planning and Investment, Ministry of Science and Technology, State Bank of Vietnam

Abbreviations

ADB – Asian Development Bank
ANZ – Australia and New Zealand Banking Group
ASEAN – Association of Southeast Asian Nations
ASM – Asia SME Finance Monitor
BNM – Bank Negara Malaysia
BPD – Bank Pembangunan Daerah (regional development bank, Indonesia)
BPNG – Bank of Papua New Guinea
BPR – Bank Perkreditan Rakyat (rural bank, Indonesia)
BPS Badan Pusat Statistik (national statistics office, Indonesia)
BSP – Bank of South Pacific
CBSL – Central Bank of Sri Lanka
CGTMSE – Credit Guarantee Fund Trust for Micro and Small Enterprises (India)
CSRC – China Securities Regulatory Commission
GDP – gross domestic product
IFC – International Finance Corporation
IMF – International Monetary Fund
IPO – initial public offering
KODIT – Korea Credit Guarantee Fund
KOFIA – Korea Financial Investment Association
KONEX – Korea New Exchange
KOTEC – Korea Technology Finance Corporation
KUR – Kredit Usaha Rakyat (People's Business Credit)
LDKP Lembaga Dana Kredit Perdesaan (village credit institution, Indonesia)
mai – Market for Alternative Investment (Thailand)
MFI – microfinance institution
MRA – Micro Credit Regulatory Authority (Bangladesh)
MSE – micro and small enterprise
MSME – micro, small, and medium-sized enterprise
MVCA – Malaysian Venture Capital Association
NBFC – nonbank financial company
NBFI – nonbank financial institution
NDB – National Development Bank (Papua New Guinea)
NGO – nongovernment organization
NGO-MFI – nongovernment microfinance institution
NPL – nonperforming loan
OECD – Organisation for Economic Co-operation and Development
OJK – Otoritas Jasa Keuangan (Financial Services Authority)
OTC – over the counter
PBC – People's Bank of China
PKPI Penjamin Kredit Pengusaha Indonesia (private credit guarantee institution)
PNG – Papua New Guinea
PRC – People's Republic of China
RBI – Reserve Bank of India
SBI – State Bank of India
SCF – supply chain finance
SEBI – Securities Exchange Board of India
SEC – Securities and Exchange Commission (Philippines)
SIDBI – Small Industries Development Bank of India
SME – small and medium-sized enterprise
SZSE – Shenzhen Stock Exchange
VCC – venture capital company
VCF – venture capital fund

Rationale and Methodology

Responding to the need to accelerate financial inclusion, several global initiatives have been launched to make financial access data publicly available. The International Monetary Fund (IMF) has established the Financial Access Survey, which provides annual geographic and demographic data on access to basic consumer financial services worldwide. The Consultative Group to Assist the Poor provides key financial access indicators through its annual financial access reports, which include small and medium-sized enterprise (SME) lending data. The World Bank Enterprise Surveys provide firm data on a broad range of business environment topics including access to finance and SME data. The World Bank also issues the Global Financial Inclusion Database (Global Findex), which is the first public database of demand-side indicators that measures individuals' use of financial products across countries and over time. The Organisation for Economic Co-operation and Development (OECD) presents an SME Scoreboard which includes annual country profiles on SME finance in participating OECD economies.

Meanwhile, national efforts on SME informatization, i.e., timely availability of high-quality information on SMEs, have been accelerated, especially in Association of Southeast Asian Nations (ASEAN) countries. For instance, Indonesia has developed the Integrated Information System for Small-Scale Enterprise Development (SI-PUK), Malaysia issues an SME annual report with comprehensive SME data, and Thailand also issues an annual SME white paper covering key SME indicators. National credit bureaus have been established in the Lao People's Democratic Republic, the Philippines, Singapore, Thailand, and Viet Nam. SME web portals have been developed in many ASEAN countries. However, while availability of SME data—both financial and nonfinancial—has gradually improved at the national level, there is no comprehensive multicountry database on SMEs in Asia and the Pacific which everyone can easily access. According to the Asian Development Bank (ADB) surveys conducted in 2012 and 2013, national policy makers tend to seek multicountry comparative SME data to design proper SME policies.

The Asia SME Finance Monitor (ASM) aims to present a comprehensive SME financial and nonfinancial information-sharing platform in Asia and the Pacific in the form of an annual periodical. 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 and comparative data on SMEs and SME finance in Asia and the Pacific. The target beneficiaries are policy makers responsible for enhancing SME access to finance in ADB's developing member countries (DMCs). In principle, the ASM uniformly makes use of the term "SME" throughout, even if the data include micro enterprises.

Concept Design

ADB brainstormed the possibility of creating a one-stop SME information platform in Asia and the Pacific twice in early 2012.[1] Since March 2012, ADB has consulted with the ASEAN Secretariat, the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP), and the OECD on possible collaboration to implement the ASM. The proposed concept of the ASM was prepared in September 2012 and was generally supported by ADB staff as a useful tool for SME sector development in DMCs. The discussions addressed the importance of building strategic partnerships for continuous data sharing and clarifying demands of potential users of the ASM.

The ASM has four components: (i) an overview of the SME sector and SME finance in Asia and the Pacific; (ii) country analyses on SME financing covering the

1 The Financial Sector Community of Practice Meeting held on 31 January 2012 and the SME Finance Working Group Meeting held on 23 March 2012.

banking sector, nonbank sector, capital markets, and national policies and regulations, together with SME landscapes; (iii) a thematic discussion on innovative financing models for SMEs; and (iv) multicountry SME financial and nonfinancial data with annual updates. In the inaugural volume of the ASM, a thematic study focuses on supply chain finance for SMEs.

The ASM is not a simple database; it is an interactive information sharing and learning platform for DMC policy makers responsible for SME sector development and SME access to finance, which supports their evidence-based policy making. The inaugural volume of the ASM has 14 participating countries from five ADB regions: (i) Kazakhstan (Central Asia); (ii) the People's Republic of China and the Republic of Korea (East Asia); (iii) Bangladesh, India, and Sri Lanka (South Asia); (iv) Cambodia, Indonesia, Malaysia, the Philippines, Thailand, and Viet Nam (Southeast Asia); and (v) Papua New Guinea and Solomon Islands (Pacific). These countries were selected after consideration of possible strategic partnerships with interested organizations for SME data sharing such as central banks, financial authorities, line ministries and agencies, and relevant financial and nonfinancial institutions. The number of countries covered by the ASM can be expanded upon request from DMCs. The SME definition utilized in the ASM is the national classification by law or policy guidelines adopted in participating countries (Appendix 1).

Needs Survey

At the 30th ASEAN SME Working Group Meeting held on 5 June 2012 in Kuala Lumpur, ADB conducted a structured needs survey on SME information sharing in Asia for all participants, where valid samples were collected from eight countries (Brunei Darussalam, Cambodia, Indonesia, the Lao People's Democratic Republic, Myanmar, the Philippines, Thailand, and Singapore). The survey aimed to identify constraints on creating a multicountry SME database and to assess the demands from policy makers for a regional SME information platform or the ASM. In addition to this, the same survey was conducted during fact-finding missions in Cambodia, Papua New Guinea, the Philippines, Thailand, and Viet Nam in August–September 2013. Findings from the survey indicated a tangible demand from DMC policy makers for multicountry SME data and the ASM.

The surveyed policy makers positively perceived the value of the ASM, as it promoted evidence-based SME policy making and regulation (Figure 1.1: score 4.41 out of 5.00). Differing SME definitions from country to country were considered a critical barrier to creating the multicountry database or the ASM (score 4.18 out of 5.00). The survey respondents pointed out that well-established national SME data infrastructure (score 4.47 out of 5.00) and coordination among all stakeholders (score 4.29 out of 5.00) would be key factors in the implementation of the ASM.

Core Data Components

The standardized SME data request forms were elaborated through the SME data mapping exercise in the SME sector, banking sector, nonbank sector, and capital markets (Appendix 2). These forms were used for data collection in some countries. However, because of the lack of harmonized statistical definitions of SMEs among the 14 participating countries and the different policy focus from country to country, the core data components were modified according to the respective country contexts and the existing statistics to compile the country review section of the ASM. It is critical that comparability of SME information across participating countries is ensured. The national SME policies and regulations are also compiled based on websites, publicly available documents, and interviews with national policy makers in participating countries, all of which were reviewed by the policy makers.

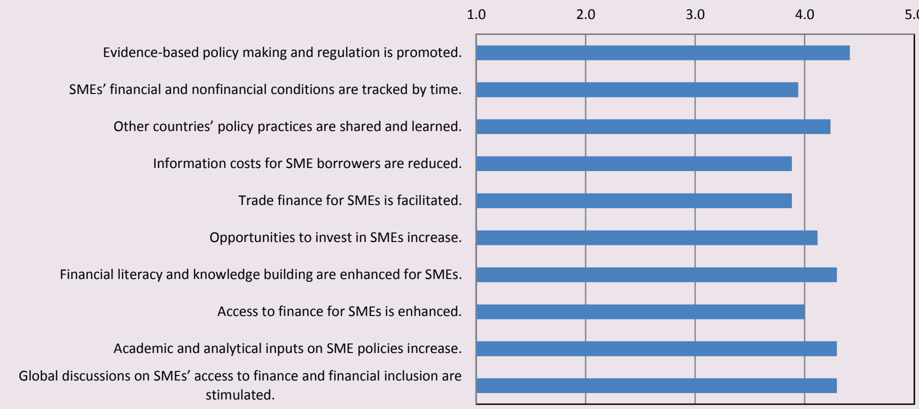
Next Steps

The ASM supports DMCs' policy design to enhance financial access for SMEs through the provision of comprehensive multicountry data on SMEs and SME finance with periodic updates and in-depth analyses. The enhanced evidence-based SME policy making will contribute to not only improving SME access to finance in DMCs but also accelerating inclusive economic growth in Asia and the Pacific.

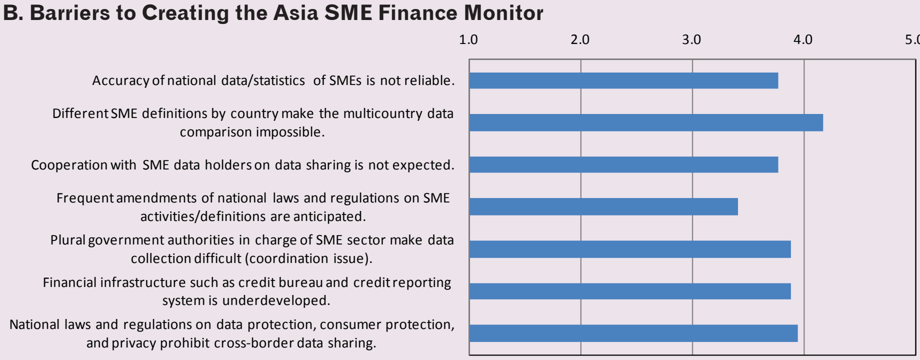
The ASM project comprises three phases: (i) framework design (phase 1), (ii) implementation (phase 2), and (iii) operation and development (phase 3). As a strategy, phase 1 mainly explores core data components of the ASM and a sustainable business model through the launch of a pilot ASM with ex-post fact evaluation by participating DMCs. This inaugural volume is the

Figure 1.1: Findings from the ADB Surveys

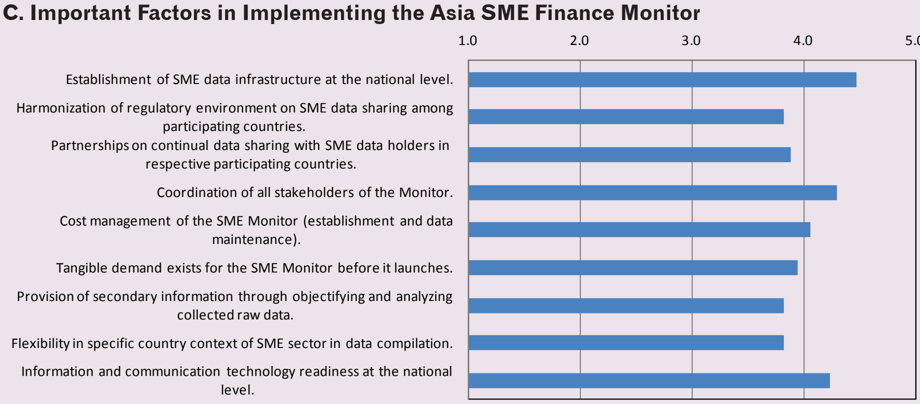
A. Value Added of the Asia SME Finance Monitor



B. Barriers to Creating the Asia SME Finance Monitor



C. Important Factors in Implementing the Asia SME Finance Monitor



5 = agree, 4 = relatively agree, 3 = neutral, 2 = relatively disagree, 1 = disagree.

Notes: Average score of 17 institutions in 10 countries. Survey respondents are listed below. The survey was conducted during August–September 2013 (*surveyed in June 2012).

(1) Brunei Darussalam: Ministry of Industry and Primary Resources*;
(2) Cambodia: Ministry of Industry, Mines and Energy; and National Bank of Cambodia;
(3) Indonesia: Ministry of Cooperatives and SMEs*;
(4) Lao People's Democratic Republic: SME Promotion and Development Office, Ministry of Industry and Commerce*;
(5) Myanmar: Ministry of Industry*;
(6) Philippines: Bureau of MSME Development, Department of Trade and Industry, Bangko Sentral ng Pilipinas, and Small Business Corporation;
(7) Thailand: Office of SME Promotion*, Bank of Thailand, and Board of Investment of Thailand;
(8) Viet Nam: State Bank of Vietnam, Ministry of Industry and Trade, and State Agency for Technology Innovation;
(9) Singapore: SPRING Singapore*; and
(10) Papua New Guinea: Bank of Papua New Guinea.

pilot ASM. If phase 1 confirms the viability of the ASM, phases 2 and 3 will be seamlessly formulated as a continuous project after completion of phase 1. Under phase 2, a web portal will be designed and an updated ASM issued, and under phase 3 the business model of the ASM in terms of sustainability will be developed.

Highlights

SMEs are the backbone of Asia's economies. Further development can support inclusive growth, employment, and the effort to overcome middle-income traps

Small and medium-sized enterprises (SMEs) are the backbone of the economies of Asia, accounting for 98% of all enterprises and 66% of the national labor force on average during 2007–2012.

SMEs contributed 38% of the gross domestic product or manufacturing value added in Asia on average in 2007–2012, suggesting their contribution to the region's economies can be expanded further.

SMEs influence trade. Thirty percent of total export value was brought by SMEs in Asia on average in 2007–2012. In the People's Republic of China (PRC), SMEs accounted for 41.5% of total export value in 2012, up 6.8% year-on-year, while in Thailand they made up 28.8% of total export value with 3.7% year-on-year growth. SMEs that are part of the global supply chain have the potential to promote international trade and mobilize domestic demand.

Poor access to finance limits the ability of SMEs to survive and grow. Further bank efficiency is needed

Adequate access to finance is crucial if SMEs are to survive and grow. Growing SME access to bank credit is helping to reduce the supply–demand gap in SME lending. In many Asian countries, public credit guarantees are contributing to enhancing SME bankability. However, SMEs still have large unmet demand for financing.

SME loans made up 25% of total bank lending in Asia and the Pacific on average in 2012, down from 27% in 2011. SME loans grew at 10% year-on-year in 2012, down from 19% in 2011. This indicates banks are raising risk consciousness to SME credit from the perspective of banking stability.

SME loans constitute a large portion of overall nonperforming loans in developing Asia, suggesting banks need better ways to assess SME creditworthiness and more risk-based approaches to finance viable SMEs.

Improving the financial infrastructure for SME lending would help. Examples include the centralized national credit bureau in the Philippines and the collateral registry for movable properties in Solomon Islands. The PRC has also set up the Movable Assets Financing Public Registry System serving SMEs.

Limitations of bank lending require diversified SME financing models

Past financial crises have highlighted the need for SMEs to be able to access finance beyond conventional bank credit and for countries to diversify their domestic financial systems, behind which there is the condition that the prudential requirement to ensure stable banking systems does not allow banks to easily expand lending to SMEs.

Economic expansion in Asia and the Pacific has created a foundation of growth-oriented SMEs with a need for long-term financing for further growth. Accordingly, the development of diversified financing models to help SMEs raise long-term growth capital has become a new challenge in SME finance.

Capital market financing—such as equity finance, corporate bonds, and mezzanine finance—is one such diversified financing model that can be developed in Asia. Although still in the early stage of development, examples include the SME Board of the Shenzhen Stock Exchange and the SME Collective Note in the PRC; the new SME equity finance venue, KONEX, of the Korea Exchange and the qualified institutional buyers system for trading SME bonds in the Republic of Korea; and dedicated SME exchanges of the Bombay Stock Exchange and the National Stock Exchange in India.

Access to finance is a critical part of SME policies

Many countries in Asia and the Pacific view SMEs as key to developing a resilient, inclusive economy and as a source of job creation, and have established comprehensive medium-term action plans to promote SME growth.

National SME development plans include encouraging market access, productivity enhancement, creating a sound competitive environment, formalizing informal SMEs, capacity development, concessional business regulations, and helping SMEs adapt technology for innovative business. Access to finance is critical to realizing these policies.

SME policies are generally administered and implemented by a special government unit, specialized SME agency, or line ministries responsible for SME promotion, generally with strong cooperation with the central bank.

SME finance policies focus on bankability; more work is needed on nonbank financing

Many measures have been developed at the national level to improve SME access to finance. These include public credit guarantee schemes in Indonesia (People's Business Credit) and Thailand (portfolio guarantee scheme), mandatory lending in the Philippines, secured transaction reforms to establish collateral registries and promote movable asset financing in the Pacific region, refinancing schemes in Bangladesh and Malaysia, and the establishment of a centralized credit bureau in Viet Nam.

However, policies focus mainly on enhancing bankability in Asia and the Pacific, while policies on nonbank financing avenues and capital market financing for SMEs have yet to be widely developed.

SME finance policies should be addressed in a holistic manner that goes beyond already established ways

There is no single solution for financing SMEs. Rather, national policy makers need to develop a comprehensive suite of policy options that support innovative and diversified financing models that serve the financing needs of SMEs at different business stages.

An increasingly globalized economy will bring more SME internationalization—particularly in supporting industries—and bring new financing demands from SMEs, such as funding in offshore currencies.

SMEs in Southeast Asia will be exposed to further liberalized trade and investment after the establishment of the Association of Southeast Asian Nations Economic Community in 2015. This new environment will require new financing solutions for SME exporters and importers, suggesting an increased demand for supply chain finance and trade finance facilitation.

Globalization will encourage Asia's policy makers to use more flexible and holistic policy approaches for SME financing beyond measures already established.

Regional SME Finance Update

SME Landscape

The Asia SME Finance Monitor (ASM) reviews the small and medium-sized enterprise (SME) sector and the state of SME finance in 14 countries from the five ADB regions: (i) Kazakhstan (Central Asia); (ii) the People's Republic of China (PRC) and the Republic of Korea (East Asia); (iii) Bangladesh, India, and Sri Lanka (South Asia); (iv) Cambodia, Indonesia, Malaysia, the Philippines, Thailand, and Viet Nam (Southeast Asia); and (v) Papua New Guinea and Solomon Islands (Pacific). Various types of SMEs, which differ by size, sector, and business characteristics, exist in these countries, where different policies have been developed to vitalize the national SME sector. This has resulted in the lack of a standardized definition of SMEs; the ASM refers to the national SME definitions.

In the participating countries in the ASM, SMEs are generally classified based on the number of employees and/or the value of assets, sales turnover, or capital (Table 2.1). Bangladesh, the PRC, India, the Republic of Korea, Malaysia, Thailand, and Viet Nam have different SME categories by sector (e.g., service, trade, and manufacturing), while others have adopted a single SME definition across the industry. The PRC, India, Indonesia, Kazakhstan, Malaysia, the Philippines, Thailand, and Viet Nam define SMEs by law, while for practicality other countries classify them for the purpose of implementing government and/or line ministry policies and strategies. Cambodia plans to set up a legal definition of SMEs.

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

Region	Country	SME Definition						Legal Basis
		Employee	Asset	Turnover		Others	By Sector	
Central Asia	Kazakhstan	✓	✓					✓
East Asia	China, People's Rep. of	✓		✓			✓	✓
	Korea, Rep. of	✓		✓	✓	capital	✓	
South Asia	Bangladesh	✓	✓				✓	
	India				✓	invested capital	✓	✓
	Sri Lanka		✓	✓				
Southeast Asia	Cambodia	✓	✓					
	Indonesia		✓	✓				✓
	Malaysia	✓		✓			✓	✓
	Philippines	✓	✓					✓
	Thailand	✓	✓				✓	✓
	Viet Nam	✓			✓	capital	✓	✓
Pacific	Papua New Guinea	✓						
	Solomon Islands	✓		✓				

SME = small and medium-sized enterprise.
Source: Compilation from SME definitions in the Asia SME Finance Monitor countries.

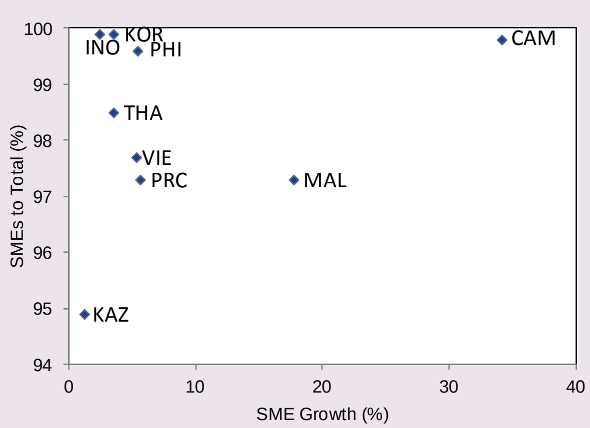
SMEs, together with micro enterprises, account for more than 90% of total enterprises in every country (Figure 2.1). The annual growth in the number of SMEs ranged between 1.2% (Kazakhstan) and 5.6% (the PRC) in 2012. The number of SMEs in Cambodia increased by 34.1% in 2011 compared with 2009, and in Malaysia by 17.7% in 2010 compared with 2003. Although each country focuses on a different segment of enterprises in its private sector development policies and inclusive economic growth strategies—i.e., micro enterprises; micro and small enterprises (MSEs); micro, small, and medium-sized enterprises (MSMEs); and SMEs—the ASM uniformly makes use of the term "SME" in principle.

The extent of employment by SMEs varies by country (Figure 2.2). The share of SME employees to total employment ranged between 28.0% (Kazakhstan) and 97.2% (Indonesia) in 2012. The workforce employed by SMEs sharply expanded in the PRC in 2012 (21.9% year-on-year growth). There was also moderate annual growth of SME employment in the Philippines (9.6% in 2011), Thailand, (7.2% in 2012), Malaysia (6.4% in 2012), Indonesia (5.8% in 2012), and India (4.9% in 2012). The number of SME employees in Cambodia increased by 11.4% in 2011 compared with 2009. By contrast, employment by SMEs in Kazakhstan is low and decreasing because of the deep-rooted aftermath of the 2008/09 global financial crisis (1.8% year-on-year decrease in 2012).

SMEs, including micro enterprises, contributed to 59.1% of nominal gross domestic product (GDP) in Indonesia in 2012, a figure which is gradually increasing (Figure 2.3). SMEs and micro enterprises in Thailand contributed to 37.0% of nominal GDP in 2012, and in Malaysia 32.7% of real GDP in the same year, suggesting that the SME contribution to the national economy is still small. To improve this, Thailand targets the increase of SME contribution to GDP to 40% or more in its country strategy 2012. In Kazakhstan, the nominal GDP of SMEs tends to increase but their contribution to GDP has been decreasing since 2010, and was 17.3% in 2012.

SMEs have influenced international trade in the PRC, accounting for 41.5% of total export values with 6.8% year-on-year growth in 2012, and in Thailand, accounting for 28.8% of total export values with 3.7% year-on-year growth in 2012 (Figure 2.4). In the Republic of Korea, the SME share of total export values was 18.7% in 2012, and in Indonesia it was 14.1% in the same year. However,

Figure 2.1: Number of SMEs

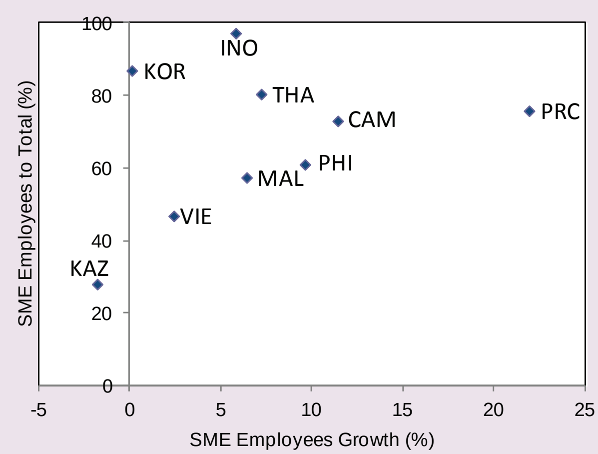


CAM = Cambodia, PRC = People's Republic of China, INO = Indonesia, KAZ = Kazakhstan, KOR = Republic of Korea, MAL = Malaysia, PHI = the Philippines, SME = small and medium-sized enterprise, THA = Thailand, VIE = Viet Nam.

Note: Data as of 2012 in the PRC, INO, KAZ, and THA; data as of 2011 in CAM, KOR, PHI, and VIE; data as of 2010 in MAL.

Source: Compilation from country review papers in the Asia SME Finance Monitor 2013.

Figure 2.2: Employment by SMEs



CAM = Cambodia, PRC = People's Republic of China, INO = Indonesia, KAZ = Kazakhstan, KOR = Republic of Korea, MAL = Malaysia, PHI = the Philippines, SME = small and medium-sized enterprise, THA = Thailand, VIE = Viet Nam.

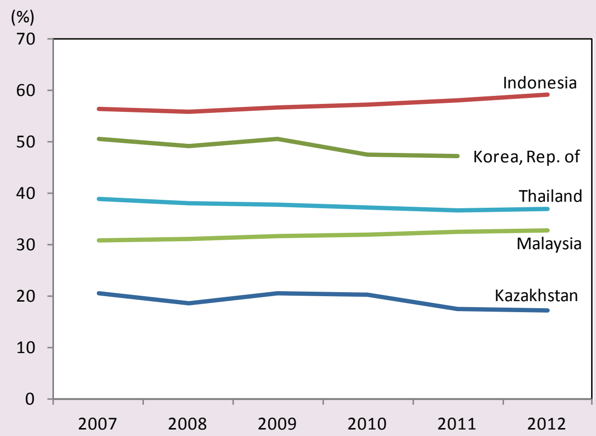
Note: Data as of 2012 in the PRC, INO, KAZ, MAL, THA, and VIE; data as of 2011 in CAM, KOR, and PHI.

Source: Compilation from country review papers in the Asia SME Finance Monitor 2013.

both the SME share of exports and growth rate in these four countries have yet to fully recover from the effects of the global financial crisis.

There is no statistical data on SMEs in Papua New Guinea and Solomon Islands.

Figure 2.3: SME Contribution to GDP



GDP = gross domestic product, SME = small and medium-sized enterprise.
Note: Republic of Korea SME contribution to gross value added in manufacturing.
Source: Compilation from country review papers in the Asia SME Finance Monitor 2013.

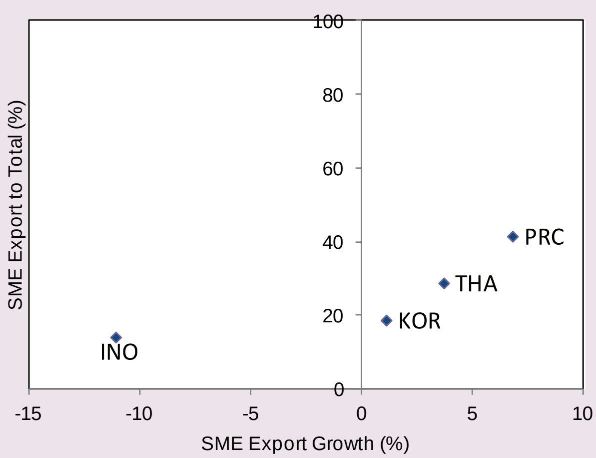
Banking Sector

Generally, SME access to banks has gradually improved among participating ASM countries because of the various government support measures such as credit guarantees and mandatory lending. While the lending to SMEs is relatively large in the Republic of Korea (38.9% of GDP in 2012), Thailand (33.7% of GDP in the second quarter of 2013), and Malaysia (20.1% of GDP in 2012), it is still small in Cambodia (7.8% in the third quarter of 2013), Bangladesh (6.7% in 2012), Indonesia, (6.4% in 2012), and Kazakhstan (4.7% in 2012) (Figure 2.5). The ratio of SME loans to GDP is not available in other ASM countries.

Nationally, there are two levels of SME access to bank lending in participating ASM countries: (i) relatively high accessibility, where the provision of SME credit stands at around 30%–40% of total loan provision, as in the PRC, the Republic of Korea, Solomon Islands, and Thailand; and (ii) low accessibility, where the provision of SME credit is less than 20% of total loan provision, as in Cambodia, Indonesia, Kazakhstan, and Malaysia (Figure 2.6 and 2.8). Other ASM countries have no similar statistics.

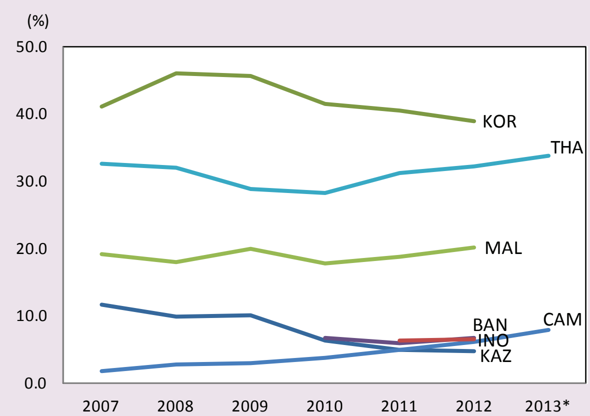
By sector, wholesale and retail trade, services, and manufacturing are generally the most active sectors for bank lending to SMEs among the ASM countries,

Figure 2.4: SME Exports



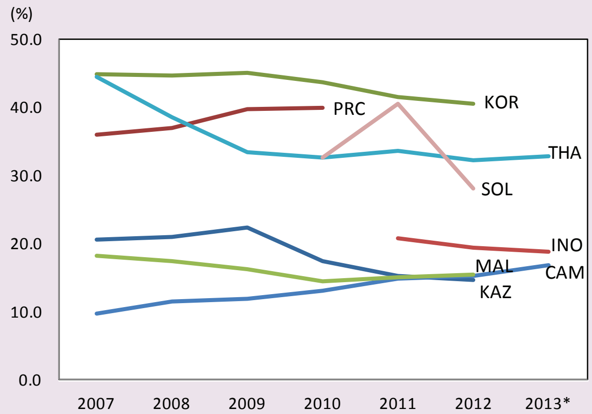
PRC = People's Republic of China, INO = Indonesia, KOR = Republic of Korea, SME = small and medium-sized enterprise, THA = Thailand.
Note: Data as of 2012.
Source: Compilation from country review papers in the Asia SME Finance Monitor 2013.

Figure 2.5: SME Loans to GDP



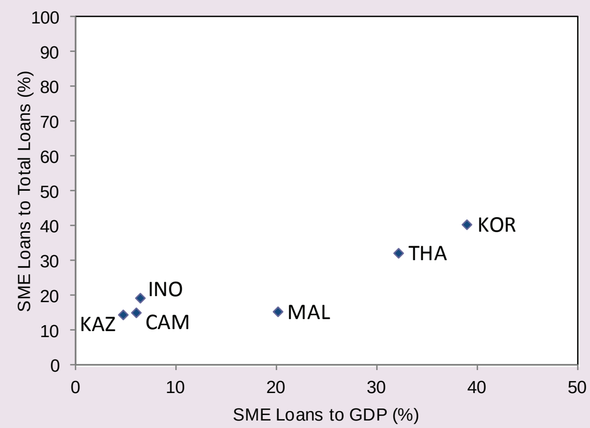
*Data for Cambodia and Thailand are as of third and second quarters respectively.
BAN = Bangladesh, CAM = Cambodia, GDP = gross domestic product, INO = Indonesia, KAZ = Kazakhstan, KOR = Republic of Korea, MAL = Malaysia, SME = small and medium-sized enterprise, THA = Thailand.
Source: Compilation from country review papers in the Asia SME Finance Monitor 2013.

Figure 2.6: SME Loans to Total Loans



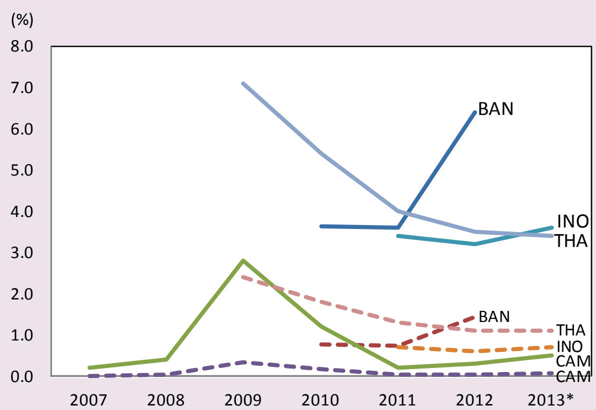
*Data for Cambodia, Indonesia and Thailand are as of third quarter, end-August, and second quarter respectively.
CAM = Cambodia, PRC = People's Republic of China, INO = Indonesia, KAZ = Kazakhstan, KOR = Republic of Korea, MAL = Malaysia, SME = small and medium-sized enterprise, SOL = Solomon Islands, THA = Thailand.
Source: Compilation from country review papers in the Asia SME Finance Monitor 2013.

Figure 2.8: SME Loans, 2012



CAM = Cambodia, GDP = gross domestic product, INO = Indonesia, KAZ = Kazakhstan, KOR = Republic of Korea, MAL = Malaysia, SME = small and medium-sized enterprise, THA = Thailand.
Source: Compilation from country review papers in the Asia SME Finance Monitor 2013.

Figure 2.7: SME Nonperforming Loans



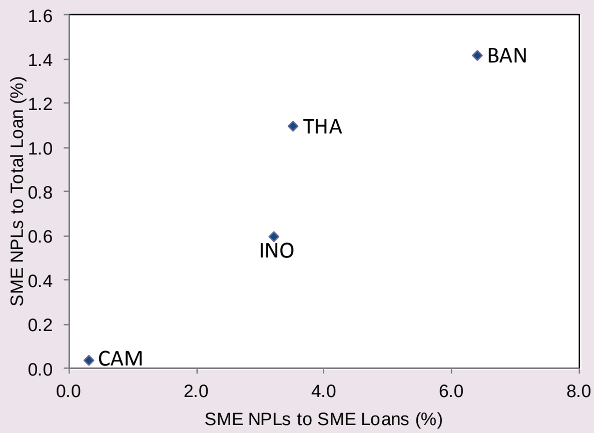
*Data for Cambodia, Indonesia and Thailand are as of third quarter, end-August, and second quarter respectively.
— SME NPLs to SME loans, - - - SME NPLs to total loans.
BAN = Bangladesh, CAM = Cambodia, INO = Indonesia, THA = Thailand.
Note: NPLs based on the national loan asset classification.
Source: Compilation from country review papers in the Asia SME Finance Monitor 2013.

where working capital funding is the main purpose of SME loans.

It should be noted, however, that the statistical definition of SME loans differs by country. The PRC, India, Indonesia, Kazakhstan, the Republic of Korea, Solomon Islands, and Thailand use SME or MSME loans outstanding or loans disbursed by commercial banks. Bangladesh uses SME commercial loans disbursed in banking and nonbanking sectors combined. Malaysia uses SME loans outstanding by banking institutions and government-backed development finance institutions combined. Cambodia uses loans outstanding provided by microfinance institutions (MFIs), which includes SME financing. The Philippines uses bank compliance with mandatory lending to MSMEs alone (10% of bank loan portfolios). Sri Lanka uses bank lending disbursed to SMEs through central bank financing schemes. Viet Nam has SME lending data but these are not publicly available. Papua New Guinea has no authorized SME lending data by banks.

Data on nonperforming loans (NPLs) to SMEs are available in a limited number of ASM countries (Figure 2.7 and 2.9). In Bangladesh, the number of small enterprises with NPLs sharply increased to 6.4% of total SME borrowers in commercial banks and nonbank financial institutions in 2012, from 3.6% in 2011. However, this increase was caused by the new loan asset classification adopted by the central bank. Indonesia

Figure 2.9: SME Nonperforming Loans, 2012



BAN = Bangladesh, CAM = Cambodia, INO = Indonesia, NPL = nonperforming loan, SME = small and medium-sized enterprise, THA = Thailand.

Source: Compilation from country review papers in the Asia SME Finance Monitor 2013.

recorded an NPL ratio of 3.6% to total MSME loans by commercial banks in August 2013, which is gradually increasing. In Thailand, the NPL ratio of SME lending by commercial banks has been decreasing, and was 3.4% in the second quarter of 2013. However, it remains high compared to the gross NPL ratio of 2.2% in the same period. In Cambodia, the NPL ratio in MFIs is low (0.5%) while in the banking sector it was 2.5% in September 2013.

To improve the bankability of SMEs, the central banks in Bangladesh and India have set annual credit volume targets for lending to SMEs. As a result, banks have been advised to achieve a 20% year-on-year growth of credit provision to MSEs in India. The central bank in the Philippines has set up mandatory lending to MSMEs, where banks allocate 8% of their net loan portfolio to MSEs and 2% to medium-sized enterprises. In Sri Lanka, the central bank has set a maximum credit exposure level of banks to SMEs to secure the healthy risk management of the banking sector. Various refinancing and concessional lending schemes by the government or central bank have also been developed in Bangladesh, Malaysia, and Sri Lanka.

Credit guarantee schemes have been relatively widely established in ASM countries. India launched the Credit Guarantee Fund Scheme for Micro and Small Enterprises in 2000 as a partial guarantee scheme; it covers 75% of the credit applied. Indonesia started a public credit guarantee scheme for MSMEs—People's Business Credit (KUR), in 2007; it guarantees 70%–80% of the credit applied. Kazakhstan has a partial credit guarantee scheme for SMEs (up to 70%) under the Damu Entrepreneurship Development Fund. The Republic of Korea provides credit guarantees for SMEs mainly through two credit guarantee institutions: the Korea Credit Guarantee Fund (KODIT) and the Korea Technology Finance Corporation (KOTEC). In Malaysia, the Credit Guarantee Corporation provides guarantees for SMEs. In Papua New Guinea, a regional bank (Bank of South Pacific) provides partial credit guarantees for SMEs (50% of the credit applied). The Philippines has two credit guarantee programs for MSMEs: the partial guarantee scheme provided by the Small Business Corporation (70% of the credit applied), and the Credit Surety Fund Program under the central bank. In Solomon Islands, the central bank provides a credit guarantee scheme for SMEs, called the Small Business Finance Scheme, covering 90% of the credit applied. The central bank in Sri Lanka also provides credit guarantee schemes for SMEs as well as several credit lines. Thailand developed the portfolio guarantee scheme for SMEs in 2009 as part of the Thai economic stimulus measures against the global financial crisis. Viet Nam has two channels of credit guarantees, although they do not directly target SMEs: the credit guarantee fund operated by the Vietnam Development Bank (85% partial guarantees), and the local credit guarantee funds operated by provincial authorities under the supervision of the Ministry of Finance.

There is also financial infrastructure that promotes SME lending among the ASM countries. The Credit Bureau Malaysia provides comprehensive credit information and ratings for SMEs. The Philippines established the centralized national credit bureau, the Credit Information Corporation, in 2011. Viet Nam has the Credit Information Center as a unit of the central bank. Legal reforms for secured lending have been promoted in the Pacific region. One example is the collateral registry for movable properties in Solomon Islands, established under the Secured Transaction Act 2008. The PRC has set up the Movable Assets Financing Public Registry System serving SMEs. In Thailand, the draft Collateral Law is being screened in the Cabinet.

Nonbank Sector

The financial system in Asia and the Pacific is bank centered, and therefore the nonbank industry is still in the early stage of development in ASM countries. However, nonbank financing is expected to fill the supply–demand gap in SME bank lending and become an increasing part of SME financing.

In Bangladesh, nonbank financial institutions (NBFIs) that deal with a wide range of business, such as leasing, factoring, invoice discounting, and equity investment, are considering SME financing as a potential business undertaking. In Cambodia, two leasing companies licensed by the central bank are operating and informal pawnshops serve SME financing needs with high interest rates. To diversify financing models for SMEs, in Cambodia the regulation on specialized credit institutions is being processed. In the PRC, the national financial reform in 2008 allowed the creation of microcredit firms to serve funding needs of SMEs, farmers, and households. In India, registered nonbank financial companies (NBFCs) are engaged in lending, leasing, insurance, and equity investment with limited activities and are focusing on the SME sector as a new business area.

In Indonesia, the nonbank sector is small in scale but is a growing segment for filling the unmet financing demand of MSMEs. As of September 2013, 202 financing companies licensed by the Financial Services Authority (OJK) were operating, their main business being leasing, factoring, credit card financing, and consumer financing. Leasing is active in the electricity, gas, and water supply sectors; factoring is not popular in Indonesia. Venture capital companies are also categorized as NBFIs in Indonesia because their main business is profit-share financing. A large number of savings and loan cooperatives and various types of MFIs are also active in Indonesia.

Several NBFIs, including MFIs, pawnshops, factoring firms, and leasing firms, operate in Kazakhstan but do not service SME financing demands. In the Republic of Korea, the large number of registered venture capital companies and funds are active but target their investments to the information technology sector. In Malaysia, NBFIs, such as venture capital, factoring, and leasing companies, also cater to SME financing needs. The Malaysian Venture Capital Association serves the small number of SMEs or early stage firms through agriculture funds. In the Philippines, the central bank regulates NBFIs including savings and loan associations and pawnshops. The Securities and Exchange Commission also regulates NBFIs such as finance companies. The pawn business has been gradually growing in the Philippines.

Papua New Guinea has experienced sharp growth of the nonbank sector, especially finance companies offering vehicle and machinery financing. However, their business focus is mainly on large firms in the mining sector. Although small in scale, the nonbank sector is also active in Solomon Islands. The Credit Corporation, a finance company, recorded sharp growth in its financing activities in 2012, making full use of the collateral registry for SME lending.

Sri Lanka has two types of NBFIs: licensed finance companies, and specialized leasing companies. They have showed strong annual growth (22% in 2012), catering to both large enterprises and SMEs. In Thailand, there are only two financing and investment firms licensed by the central bank; NBFIs have yet to serve the financing needs of Thai SMEs. As of the end of 2012, 18 finance companies and 12 financial leasing companies were operating in Viet Nam under central bank supervision. They are mostly affiliates of large enterprises, or are bank subsidiaries.

Capital Markets

Asia's rapid economic growth requires the development of diversified financing models, beyond traditional bank lending, that are accessible for SMEs. Such growth in Asia generates demand for long-term financing by growth-oriented SMEs. Capital market financing, e.g., equity finance, corporate bond issuance, and mezzanine financing, is one such diversified financing model to be developed in Asia. At present, seven ASM countries provide capital market financing opportunities for high-end SMEs (Table 2.2).

In the PRC, the Shenzhen Stock Exchange launched the SME Board in 2004 and the venture board, called ChiNext, in 2009 as an equity financing venue for high-growth SMEs and/or start-ups. As of the end of 2012, more than 1,000 firms were listed, with market capitalization of $594 billion in both markets in total. In addition to equity finance, the PRC has launched three types of bond instruments for SMEs: (i) the SME Joint Bond (traded in the interbank and exchange markets), (ii) the SME Collective Note (traded in the interbank market), and (iii) the SME Private Placement Bond.

In the Republic of Korea, KOSDAQ is the largest exchange market that SMEs can tap. As of the end of 2012, it had more than 1,000 listed firms with market capitalization of $96 billion. However, as the KOSDAQ market has become an equity financing venue for larger firms, the Korea Exchange launched a new market for start-ups and SMEs, called the KONEX, in July 2013.

Table 2.2: SME Equity Markets in Selected Asian Countries

Name of Markets	Market Type		Established	No. of Listed/ Registered Companies	Market Capitalization			Year of data	Exchange rate (end 2012)
	Exchange	OTC				LCY (million)	$ (million)		
SME Board	SZSE		2004	701	CNY	2,880,403	456,482	2012	6.31
ChiNext	SZSE		2009	355	CNY	873,120	138,371	2012	6.31
KOSDAQ	KRX		1987	1,005	W	109,122,000	96,871	2012	1,126.47
KONEX	KRX		2013	…	W	…	…	2013/ Jul	…
FreeBoard		KOFIA	2000	52	W	590,000	523.8	2012	1,126.47
SME Platform	BSE		2012	22	Rs	10,091	188.8	2013/ Apr	53.44
EMERGE	NSE		2012	3	Rs	…	…	2013/ Apr	53.44
ACE	Bursa Malaysia		2009	112	RM	6,935	2,244	2012	3.09
SME Board	PSE		2001	2	P	586	14	2012	42.23
mai	SET		1998	81	B	133,017	4,280	2012	31.08
UPCoM	HNX		2009	132	D	28,868,424	1,386	2012	20,828

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 2013.

In addition to exchange markets, an over-the-counter (OTC) market called FreeBoard has been launched by the Korea Financial Investment Association (KOFIA). As a trading system for SME bonds, the qualified institutional buyers system, operated by KOFIA, was launched in May 2012.

In India, in response to the recommendation of the Prime Minister's Task Force, two dedicated SME exchanges were launched in 2012: the SME Platform under the Bombay Stock Exchange, and Emerge under the National Stock Exchange.

The Philippines launched the SME Board under the Philippine Stock Exchange in 2001 but only two companies have been listed in it. There is no preferential treatment for firms applying for listing in this board.

In Malaysia and Thailand, there are no dedicated SME capital markets, but there are markets that SMEs can tap. The ACE market (holding 112 listed firms as of the end of 2012) under Bursa Malaysia and the Market for Alternative Investment (mai) (holding 81 listed firms as of the end of 2012) under the Securities Exchange of Thailand are a type of sponsor-driven alternative market for emerging corporations. The Securities Commission Malaysia also plans to launch an OTC market for unlisted stocks, called MyULM. Together with the Thai Credit Guarantee Corporation, the Securities and Exchange Commission in Thailand has brainstormed the development of the SME bond market with a guarantee scheme specially designed for potential SME bond issuers.

In Viet Nam, the Hanoi Stock Exchange has a trading venue for unlisted public companies, named UPCoM, which was established in 2009. This market is not a dedicated SME market but is an equity finance venue that SMEs can access. UPCoM requires no listing fees.

Indonesia has no SME capital market but so far 10 enterprises that are regarded as SMEs according to the capital market rule have conducted initial public offerings in the Indonesia Stock Exchange. Preferential treatments are given to SMEs to tap the Indonesia Stock Exchange market, such as simplified disclosure documents compared to what is required of non-SMEs.

Policy and Regulation

SMEs are the backbone of the national economy in any country. SME sector development brings to the country inclusive economic growth and pro-poor growth through job creation. Thus, all ASM countries have attached importance to encouraging the SME sector through the launch of midterm or annual SME development plans, and regard SMEs as growth entities that can help achieve resilient national economies (Table 2.3). In general, national SME development plans cover wide-ranging topics to promote the healthy growth of domestic SMEs, e.g., encouraging market access, productivity enhancement, sound competitive environment, formalization of informal SMEs, capacity development, concessional business regulations, and technology adaptation to innovative SMEs. Access to finance is a critical part of such comprehensive national SME policies, which are administered and implemented by a special government unit, a specialized SME agency, or line ministries responsible for SME promotion, generally with strong cooperation from the central bank.

Under the policy pillar of access to finance, various government and central bank support measures have been developed at the national level, e.g., public credit guarantee schemes in Indonesia (KUR) and Thailand (portfolio guarantee scheme), mandatory lending in the Philippines, secured transaction reforms to establish collateral registries and promote movable asset financing in the Pacific region, refinancing schemes by the government or central bank in Bangladesh and Malaysia, and establishment of a centralized credit bureau in Viet Nam. Also, policy focus to enterprises differs by country, i.e., targeting micro enterprises, MSEs, MSMEs, SMEs, or specific segments such as women entrepreneurs.

In ASM countries, on average from 2007 to 2012, SMEs accounted for 98% of all enterprises and 66% of national labor forces, with moderate absorption of labor at 6% year-on-year average growth. The average SME contribution to national productivity remained at 38% of GDP or manufacturing value added in Asia during the same period, suggesting it can be expanded further. Finance is critical for SME sector development. As a whole, policies on SME access to finance focus mainly on enhancing bankability in Asia and the Pacific. Policies on nonbank financing avenues and capital market financing for SMEs have yet to be widely developed in most ADB developing member countries. Government measures to support SME bankability, typically public credit guarantees, are contributing to improving the supply–demand gap in SME lending at the national level. However, these have yet to sufficiently fill the unmet financing demand of SMEs. SME loans to total bank loans are still in the 20%–30% range, with 10% year-on-year lending growth on average in Asia and the Pacific, but it is a decreasing trend. This suggests that banks are raising risk consciousness to SME credit from the perspective of banking stability. In addition, the nonbank sector, including the venture capital industry and capital markets, has yet to successfully develop feasible SME financing business models. This would require a more flexible policy approach to scaling up SME finance in Asia and the Pacific.

Given the lack of a single solution for financing SMEs, national policy makers are required to develop comprehensive policy frameworks for supporting innovative and diversified financing models that better serve the financing needs of SMEs in various business stages. The globalized economy will encourage SME internationalization further, especially in supporting industries, which may bring new financing demand from SMEs, e.g., local currency financing for SMEs that operate in overseas markets. In particular, SMEs in Southeast Asian countries will be exposed to further liberalized trade and investment after the establishment of the Association of Southeast Asian Nations Economic Community in 2015. Policies for expanding SME finance should be addressed in a holistic manner that goes beyond already established ways.

Table 2.3: SME Policies and Financial Regulations

Region	Country	Regulators and Policy Makers		Regulations	Policies
Central Asia	Kazakhstan	SME Promotion	DAMU (National Fund)	Private Entrepreneurship Law, N 124-III (2006)	(1) Stabilisation Program 1st Tranche (2007) (2) Stabilisation Program 2nd Tranche (2008) (3) Stabilisation Program 3rd Tranche (2008) (4) DAMU-REGIONS Program (2010) (5) Business Road Map 2020 (2012) (6) Program of Regional Financing of SME (2009)
			Ministry of Industry and New Technologies	Ministerial Regulation No. 04-2-2/5-5319 [SME definition]	
		Banking Sector	Fiscal Policy Office, Ministry of Finance [state-owned banks]	...	
		Nonbank Sector	National Bank of Kazakhstan (NBK)	Law on Banks and Banking Activities (1995)	
		Capital Markets		Securities Market Law (2003)	
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) (2) Opinions on Further Supporting Healthy Development of MSEs (2012) (3) Implementation Plan on Supporting the Development of MSEs (2013) (4) Scheme on Division of Work for Key Authorities to Further Support Healthy Development of MSEs (2012)
			National Development and Reform Commission (NDRC)		
			Ministry of Industry and Information Technology (MIIT)	Regulations on SMEs Classification Criteria (2011)	
		Banking Sector	China Banking Regulatory Commission (CBRC), People's Bank of China (PBC)	Banking Supervision Law (2003)	
		Nonbank Sector			
		Capital Markets	China Securities and Regulatory Commission (CSRC)	Law on Securities (2005)	
				Securities Investment Fund Law (2012)	
			National Association of Financial Market Institutional Investors (NAFMII)	...	
	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)	

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Table 2.3 continued

Region	Country	Regulators and Policy Makers		Regulations	Policies
				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	
South Asia	Bangladesh	SME Promotion	National SME Task Force	...	(1) Industrial Policy (2005 and 2010) (2) Policies and Strategies for development of SMEs (2005) (3) Small and Medium Enterprises Credit Policies and Programs
			Ministry of Industries		
		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 Commision, MOF	Securities and Exchange Ordinance No.XVII/1969	
	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 (NMCP) (3) Policies initiated by the Prime Minister's Task Force on MSMEs (4) Rajiv Gandhi Udyami Mitra Yojna (RGUMY) (5) Public Procurement Policy for Goods and Services Produced and Rendered by MSEs
			Ministry of Micro, Small and Medium Enterprises		
		Banking Sector	Reserve Bank of India (RBI)	Banking Regulation Act 1949	
		Nonbank Sector		Reserve Bank of India Act 1934	
		Capital Markets	Securities Exchange Board of India (SEBI)	Securities Laws (amendment) 2013	

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Table 2.3 continued

Region	Country	Regulators and Policy Makers		Regulations	Policies
	Sri Lanka	SME Promotion	Ministry of Traditional Industries and Small Enterprise Development	...	(1) Mahinda Chintana - Vision for the Future (2010) (2) National Budget Proposals 2012 and 2013
			Ministry of Industries and Commerce		
			Ministry of Finance and Planning		
		Banking Sector	Central Bank of Sri Lanka (CBSL)	Banking Act Regulation No.9/2011	
		Nonbank Sector			
		Capital Markets	Securities and Exchange Commission	SEC Act No.36/1987	
Southeast Asia	Cambodia	SME Promotion	Ministry of Industry, Mines, and Energy (MIME)	...	(1) SME Development Framework (2005) (2) SME Development Strategic Framework (2010-2015) (3) Financial Sector Development Strategy [NBC] (2006-2015)
		Banking Sector	National Bank of Cambodia (NBC) [banks & MFIs]	Laws and Regulations Applicable to Banks and Financial Institutions	
		Nonbank Sector			
			Ministry of Economy and Finance [pawnshop, insurance & real estate]		
		Capital Markets	Securities and Exchange Commission of Cambodia		
	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)
		Banking Sector	Bank Indonesia	Law No.7/1992 & Law Mo.10/1998 (amendment) on Banking	
			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 2.3 continued

Region	Country	Regulators and Policy Makers		Regulations	Policies
				Regulation No.222/2008 and No.99/2011 on Guarantee Institutions and Reguarantee Institutions	
			Ministry of Cooperatives and SMEs	Law No.17/2012 on Cooperatives	
				Law No.1/2013 on Microfinance Institutions	
		Capital Markets	Financial Services Authority (OJK)	Law No.8/1995 on Capital Market	
				Bapepam-LK Rule No.IX.C.7	
	Malaysia	SME Promotion	National SME Development Council (NSDC)	National SME Development Council Directive 2004	(1) SME Master Plan 2012-2020 (2) Financial Sector Blueprint 2011-2020 [BNM]
			SME Corporation Malaysia (SME Corp.)	Small and Medium Enterprises Corporation Malaysia Act 1994	
		Banking Sector	Bank Negara Malaysia (BNM)	Financial Services Act 2013	
		Nonbank Sector			
		Capital Markets	Securities Commission Malaysia	Capital Markets and Services Act 2007	
	Philippines	SME Promotion	Department of Trade and Industry (DTI)	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 Enteprise Development Plan (2004-2010) (2) Micro, Small and Medium Enteprise 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	Bangko Sentral ng Pilipinas (BSP)	General Banking Law 2000; Rural Banks Act;	
		Nonbank Sector		Thrift Banks Act, Pawn Shops Regulation Act, etc.	
			Cooperative Development Authority (CDA)	Cooperatives Code	
		Capital Markets	Securities and Exchange Commission	Securities Regulation Code (RA8799)	

Continuation on next page

Table 2.3 continued

Region	Country	Regulators and Policy Makers		Regulations	Policies
	Thailand	SME Promotion	Office of Small and Medium Enterprises Promotion (OSMEP)	SME Promotion Act, B.E.2543 (2000)	(1) The First SME Promotion Plan (2002-2006) (2) The Second SME Promotion Plan (2007-2011) (3) The Third SME Promotion Plan (2012-2016) (4) Thailand Country Strategy (2012) (5) Five-Year Strategic Plan [BOT] (2012)
			Ministry of Industry [SME definition]	Ministerial Regulation B.E.2545 (2002)	
		Banking Sector	Fiscal Policy Office, Ministry of Finance [state-owned banks]	...	
			Bank of Thailand (BOT)	Financial Institution Business Act B.E.2551 (2008)	
		Nonbank Sector			
		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 Develoment 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)		
			Agency for Enterprise Development, MPI	Decree No.56/2009/ND-CP (2009)	
			Ministry of Science and Technology	...	
			Ministry of Industry and Trade		
		Banking Sector	Ministry of Finance [Credit Guarantee Fund]	...	
			State Bank of Vietnam (SBV)	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	
The Pacific	Papua New Guinea	SME Promotion	National Executive Council (NEC)	Small Business Development Corporation Act (1990)	(1) 12 Point SME Stimulus Package (2012) (2) Industrial Development Policies (3) Small to Medium Enterprise Policy
			Small Business Development Corporation (SBDC)		
			Investment Promotion Authority (IPA)		

Continuation on next page

Table 2.3 continued

Region	Country	Regulators and Policy Makers		Regulations	Policies
		Banking Sector	Ministry of Trade, Commerce and Industry (MTCI)	National Development Bank Act (2007)	
			Bank of Papua New Guinea (BPNG)	Banks and Financial Institutions Act (2000)	
		Nonbank Sector		Savings and Loan Societies Act (1995)	
		Capital Markets	Securities Commission of PNG, IPA	Securities Act (1997)	
	Solomon Islands	SME Promotion	Ministry of Commerce, Industries, Labor and Immigration (MCILI)	...	(1) National Financial Inclusion Goals (2010)
		Banking Sector	Central Bank of Solomon Islands (CBSI)	Financial Institutions Act (1998)	
				Secured Transaction Act (2008)	
		Nonbank Sector		Credit Union Act (1986)	
		Capital Markets	...	...	

[ ] = responsible area/entities.

Source: Compilation from country review papers in the Asia SME Finance Monitor 2013.

Thematic Discussion: Supply Chain Finance for SMEs in Asia—Trends and Key Challenges

Introduction

Supply chain finance (SCF) is one of the most widely used terms in financing markets today. Although core products such as factoring have been available in some form for hundreds of years, SCF is certainly creating a resurgent market "buzz" as new variations emerge and banks vie for market leadership.

For small and medium-sized enterprises (SMEs) that supply goods and services to major corporate buyers, access to SCF products is slowly becoming more common and SCF is a welcome additional working capital alternative. For SMEs that sell materials to other SMEs, however, the options are much scarcer, constrained by weak legislative environments, poor infrastructure, and conservative bank practices.

This section discusses the broader definition of SCF and explores differences between the traditional risk assessment approach to SME credit and asset-based assessment. It stresses the need for further improvement of legislative frameworks to assist regional SCF development and suggests criteria for assessing whether asset-based SCF facilities are adding new credit.

What is Supply Chain Finance?

Although definitions vary in different markets, the common theme is that SCF provides one or more financing products to assist the manufacture, supply, and delivery of products to end customers. The European Banking Association defines SCF as the use of financial instruments, practices, and technologies to optimize the management of the working capital and liquidity tied up in supply chain processes for collaborating business partners.

SCF is commonly perceived as a bank product structured around corporate buyer risks and, therefore, benefitting SMEs that are direct suppliers to those buyers. The small supplier benefits from the financing mechanism, which effectively allows it to achieve early payment of invoices. Meanwhile, the corporate buyer benefits from longer payment terms and a more robust supply chain.

The bank, as an intermediary, finances the payment period and has credit risk on the buyer, not the SME. The interest costs are at corporate levels and typically better than comparative SME borrowing costs. In

Box 3.1. QMC Oil – Ha Noi, Viet Nam

QMC specializes in cooking oil and animal feed supplements. After an initial establishment period, product demand was very high. The sales turnover rapidly increased from $3 million to $150 million in the 5 years to 2009. It was a constant challenge to find sufficient finance to continue processing and pay suppliers. Traditional property security was insufficient to meet bank collateral requirements. The company sourced supply chain finance through the use of accounts receivable and inventory finance. The accounts receivable finance was against selected debtors only and funding was capped at 80% of those approved and assigned debtor invoices. The inventory finance was based on both raw materials and finished goods. It was subject to movement controls whereby on-site security staff as agents for the bank gave approvals for stock movements. With these tight controls in place, bank funding grew and sufficient cash flow was sourced to finance the fast-growing supply chain. QMC is now a top-100 business in Viet Nam.

some cases, banks utilize integrated software services to upload these invoices on to their banking platform so the invoices payable are immediately verified.

This model is buyer focused, which means that banks can only extend the SCF product through a limited range of corporate clients who meet their criteria, which typically requires high-quality financial strength and high volume.

Another SCF model is needed for coping with the supply chains outside of such selected buyers, including the SME-to-SME supply chain, which requires more diverse financing products.

SCF in the broader definition includes inventory finance, purchase order finance, and various types of accounts receivable finance including factoring. The scope of SCF should also extend beyond a single buyer–supplier relationship to sublevels in the supply chain. The key difference with each of these latter variations is that the focus switches more to the supplier risk rather than the buyer risk. Box 3.1 gives an example of an SME supply-focused SCF facility. The assessment and management of that supplier risk adds some extra complexity and needs a supportive legal framework.

Understanding the Credit Process for SME Risks

A new SME credit facility requires all banks and financiers to consider whether the client meets their credit acceptance requirements under the traditional financial-statement-based criteria. This typically requires 2–3 years of financial statements, audited or at least signed by a recognized accountant and showing above-average financial strength by way of equity, profitability, and interest cover. The majority of banks use credit scoring mechanisms to ensure their approach is consistent across multiple branches. This credit approach also requires the potential client to show capable management and to provide adequate collateral, which is typically real estate property. The primary repayment source is from the client's ongoing business cash flow. The financier does not plan to sell the collateral as the "first way out"; it expects the business to repay the facility from business trading.

Once a client credit facility limit is approved, the range of products available to the SME may include overdrafts, term loans, and some SCF products. In this instance, however, the SCF products are used as a control funding mechanism to ensure the client uses the credit line for the correct purpose, i.e., to assist business trading. The availability and quantum of the facility is not linked to the transaction activity or strength of trading partners; it is solely determined by the financial strength of the client.

Many SME clients do not meet the financial statement criteria because of weak financial conditions or they simply do not have accurate financial statements available. The bank may consider asset-based lending as an alternative financing model for SMEs. Under this scheme, the primary source of repayment, or the first way out, is secured collateral including movables and accounts receivable. The bank may still have certain minimum financial criteria but the benchmarks are lower because the bank has assessed the risk on repayment from the collateral. Trade finance is an example where reliance is placed on the certainty of repayment, for example from a letter of credit. This credit decision is primarily based on the terms of the letter of credit and the trustworthiness of the issuing bank. This is not to say that the financial position of the SME client is irrelevant, but rather that the weighting of risk analysis changes from a focus on the financial statement approach to the asset-based approach. The same principle applies to some extent if the bank client is considering buying a new car or truck.

The test of financial strength may not be as high as, for example, a request for an overdraft because the bank places higher value on the collateral and the ongoing cash flows during the period the asset is used in and then from proceeds when it is sold at the end of its term. The bank can recover or at least mitigate a potential loss by exercising its security rights if needed.

Straightforward funding against letters of credit or vehicles is one step, and most banks will extend facilities at that level. However, if the assets are less tangible, such as open account invoices or warehoused inventory, the availability of bank funders is sharply reduced. A compatible legal environment and a different range of lending products are required to assess and manage the risks involved.

SCF, as more broadly defined here, relies on asset-based lending principles to assist SMEs to finance all their supply chain activity, not just corporate-initiated transactions.

Supply Chain Finance Products and Trends in Asia and the Pacific

A wide range of SCF products are used in the markets for SME clients in Asia and the Pacific. Broadly speaking, these can be split into two categories (Table 3.1). It is noted that terminology of individual products differs by country and some terms may be interchangeable.

Table 3.1: Supply Chain Finance Products

Buyer-Focused SCF Products	Supplier-Focused SCF Products
Vendor finance, Vendor prepay	Inventory finance
Nonrecourse, single invoice, and single debtor factoring	Purchase order finance
Reverse factoring	Recourse factoring - whole of turnover
Invoice exchange platforms	Value chain finance (multiple levels)

SCF = supply chain finance.
Source: S. Thompson. 2013. *Building movables finance best practice,* Mumbai, October.

SMEs do not have the size, strength, or bankability to match those larger corporations and, thus, need to look at alternative finance methods using SCF products. SMEs are more likely to be operating on open account trading terms and their biggest markets are usually domestic rather than international.

SCF products for SME-to-SME activity involve what are commonly known as movable assets, such as inventory and accounts receivable. These assets form a major part of the typical SME balance sheet but are more challenging to use as bank collateral, simply because they are not static but are indeed movable. Inventory, for example, rotates frequently. Bankers need to rely not just on the asset as security but also on the transactions surrounding these assets, such as purchase orders, accounts receivable systems, and inventory warehouse receipts, to add value and thus become bankable.

The availability of what this paper considers to be broadly defined as SCF relies on banks accepting additional or new credit lines under asset-based lending criteria, beyond the levels of credit that banks would otherwise approve on a financial-statement-based assessment.

All banks require collateral for lending, particularly in the SME sector. They need specialized products and a suitable legal framework to use movable assets as collateral.

Supply Chain Finance Activities in Asia

While data gathering for SCF statistics is difficult, especially for information relevant to SMEs, there are useful factoring industry figures, supplied by Factors Chain International. Table 3.2 shows that factoring is growing faster in Asia than in the rest of the world. However, Asia still has only 27% of the worldwide factoring value (2012), although this had increased from 13% in 2006.

Since the 2008/09 global financial crisis, world factoring turnover has expanded by 161% as of 2012, but by even more in Asia (244%). The overall growth is attributed to traditional trade finance lines becoming more difficult to attain, although in Asia the single biggest factor has been improving legal frameworks, noticeably in the People's Republic of China (PRC).

Table 3.2: Factoring Value in Asia, 2006–2012

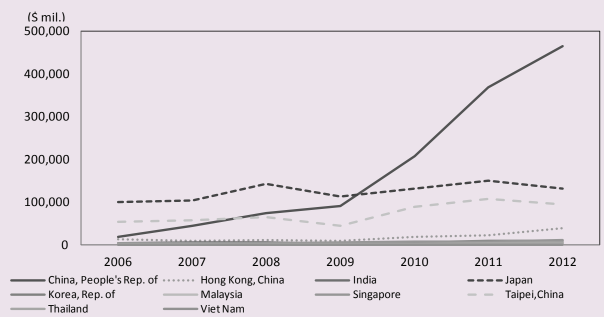
($ million)	2006	2007	2008	2009	2010	2011	2012	% World	Growth in post GFC (%)
China, People's Rep. of	19,305	44,518	74,250	90,855	208,575	369,482	464,075	16.1	625.0
Hong Kong, China	13,109	10,395	11,475	10,907	19,440	23,474	39,614	1.4	345.2
India	4,806	6,824	7,020	3,578	3,713	3,780	4,928	0.2	70.2
Japan	100,616	104,923	143,775	112,995	132,975	150,181	131,234	4.6	91.3
Korea, Rep. of	1,148	1,289	1,215	3,965	6,857	10,917	10,800	0.4	888.9
Malaysia	648	632	743	945	1,428	1,418	2,406	0.1	324.0
Singapore	3,989	4,415	5,400	6,345	7,830	9,005	11,705	0.4	216.8
Taipei,China	54,000	57,375	65,813	45,630	90,450	107,730	94,500	3.3	143.6
Thailand	2,599	3,024	3,195	2,844	2,828	4,158	5,858	0.2	183.3
Viet Nam	22	58	115	128	88	90	82	0.0	71.8
Asia Total	**200,240**	**233,453**	**313,000**	**278,192**	**474,183**	**680,234**	**765,200**	**26.6**	**244.5**
World	**1,529,811**	**1,755,967**	**1,788,287**	**1,732,806**	**2,225,325**	**2,720,300**	**2,878,511**		**161.0**

GFC = global financial crisis.
Note: Dollar data converted from euro data using the exchange rate of $1 = €1.35.
Source: Factors Chain International. http://www.fci.nl/

The PRC has seen spectacular factoring volume growth since the new Accounts Receivable Laws were passed in 2007 (Figure 3.1). Other economies with high transaction values are Japan and Taipei,China, with the Republic of Korea showing good growth recently as well. Most of the remaining countries are barely registering any turnover values.

The next question leading from that data is whether SMEs are benefitting directly, and the numbers correlate to better SME access to SCF lines. Factoring is generally considered an SME finance product, but there is subjective evidence that many Asian banks still prefer to use SCF products primarily for large enterprises or strong, creditworthy SMEs. They continue to use strict financial statements criteria, rather than broaden their risk acceptance criteria to more SMEs using asset-based lending principles. For example, in the PRC, the big three banks—the Bank of China, the Industrial Commercial Bank of China, and the China Construction Bank—jointly wrote 70% of all domestic factoring business and more than 80% of all international factoring business in 2012. This indicates that the SME sector is still not well served. The Government of the PRC has been urging banks to shift their focus to micro and small enterprises. In 2012, the Ministry of Commerce announced policies aimed at developing independent factoring companies.

Figure 3.1: Factoring Growth in Asia and the Pacific, 2006–2012



Note: Dollar data converted from euro data using the exchange rate of $1 = €1.35.
Source: Factors Chain International. http://www.fci.nl/

Creating Best Practices in Supply Chain Finance Legal Environments

Without exception, every Asian country considers development of the SME sector to be a key economic priority, and access to finance for SMEs is a vital component of that. SCF market initiatives in selected

Asian and Pacific countries over recent years are outlined in Table 3.3.

The three essentials for broader SCF product development are (i) the legal capacity to take security over movable assets such as accounts receivable and inventory; (ii) the transparency of a collateral registry system, preferably online so that all interested parties can see the security interests; and (iii) enforcement powers, which requires not only sufficient legal enforcement but also effective implementation, e.g., training of judges about the new laws.

The example of the PRC is the most dramatic case of legislative change, and India has the potential for similar growth. More work is needed to improve this framework in many countries.

In some cases, more infrastructure, such as collateral warehouse facilities and improved credit bureaus, are needed. For example, India and the PRC have established warehouse receipt finance markets for inventory finance but in both markets the biggest restricting factor is the lack of high-quality warehouses and professional collateral managers. In this case, it is the physical infrastructure rather than legal infrastructure which is the barrier.

Bank conservatism is another issue and probably even more significant than legal constraints. The reluctance of major banks to broaden their product range to include SCF and movables finance products to the SME sector, using asset-based criteria, is restrictive. They typically prefer to use real estate as collateral for lending. Change is often led by the nonbank entities that have more flexible credit approval chains.

Governments can support instruments of change in more than just legislative ways. They have the opportunity to set the example by allowing SCF products to be used for their own supply chains. However, the reality in many Asian markets is that government invoices are considered the strongest security but the slowest to be paid and timing is often uncertain, making financing very difficult despite the low sovereign risk. It will be worthwhile for governments to formulate proper policies on supplier payment terms. This would make SCF more accessible for their suppliers.

Table 3.3: Supply Chain Finance Market Initiatives in Selected Asian and Pacific Countries

Country	Actions Taken
Australia	The legislation on personal property securities was implemented in January 2012. The collateral registry held more than 7 million security interest registrations by the end of 2012.
People's Republic of China	The 2007 Property Law (amendment) introduced a new legal framework to facilitate accounts receivable finance, including clearer legal priorities and a national online collateral registry to record security interests. In the period from commencement to June 2012, more than \$3.5 trillion of accounts receivable were pledged to secure a variety of commercial lending activity, with \$1.1 trillion of this relating to the SME sector. Factoring activity specifically grew from \$20 million to \$464 million in this period.
India	The Factoring Regulations Act was passed in 2011 and in the same year the Central Registry of Securitization Asset Reconstruction and Security Interest of India (CERSAI registry) commenced operations. It is limited to factoring transactions and certain property interests, with the intention of expanding the scope to all movable assets in the future. Priority and enforcement issues are restraining growth but are under review. The State Bank of India (India's central bank) recently endorsed the development of an online invoices exchange.
New Zealand	The Personal Property Securities Act (PPSA) was introduced in 2000; the PPSA registry commenced in 2002. The online registry covers all movable asset categories. Within 5 years from commencement the New Zealand registry was the most active in the world.
Papua New Guinea	Secured transaction enabling laws have been enacted and the collateral registry framework is in place for roll-out in early 2014.
Viet Nam	Security laws have been updated several times through to 2012 when an online central registry was established allowing more transparent security interests in accounts receivable and other movables. Market activity has been slow but two banks are now actively promoting international factoring and recent volumes have been showing improvement. Capacity development projects are ongoing.

Source: World Factoring Yearbook 2013.

Increasing Access to Finance

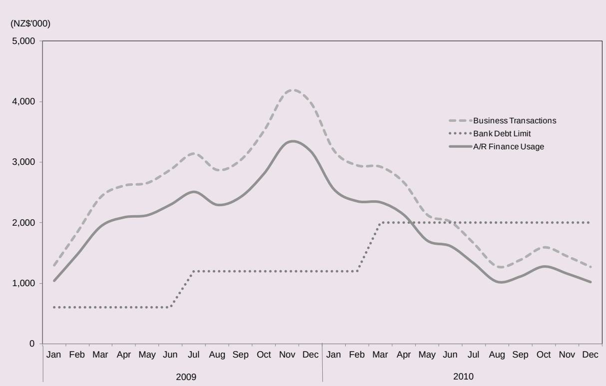
Traditional SCF based on corporate buyer risk increases finance availability for SME suppliers. More broadly defined SCF using asset-based finance products could do likewise. The SME client is getting access to increased finance based on its supply chain collateral strength. The facility limits should exceed those which they would otherwise be able to access based on financial statement strength.

However, it is not always easy to examine whether the bank is expanding SCF products as a funding mechanism only or as genuine extra credit. There are some recognizable signs to assess if the bank is using asset-based criteria and placing added value on these assets, thereby increasing access to finance.

Financial availability fluctuates with business activity

SCF products are usually delivered by some form of revolving credit facility. This should be linked closely to supply chain transaction levels and, as activity rises and falls, credit availability also rises and falls. Figure 3.2 demonstrates how funding availability under a factoring facility closely tracks the accounts receivable activity. The same principle can apply to inventory finance facilities.

Figure 3.2: Business Transactions and Accounts Receivable Finance



A/R finance = accounts receivable finance.
Source: Lock Finance New Zealand, sample client data 2008–2010.

Documentation requirements are more stringent

Banks will require more documentation under SCF facilities as the credit is linked to the collectability of the collateral. Clients may be required to give copies of purchase orders, shipping documents, delivery notices, and invoices to verify the stages of the collateral along the supply chain.

Monitoring and facility reviews are more frequent

SCF facilities need to be closely monitored as the facility does not amortize monthly and the limits fluctuate; an annual review process will not be sufficient. It will be necessary for banks to perform more frequent periodical audits and where necessary have the capacity to track and control specific transactions. The reviews will consider the collateral, documentation, and process to ensure the repayment sources from the collateral are sufficiently robust.

The attributes of SCF imply that more work is involved, not only for the bank but also for the client. It is a necessary trade-off that the client provides more transparent information to the bank on its activities, supported by documentation, and in return has access to increased finance.

The biggest challenge for banks to manage SME clients' use of SCF products is the ongoing monitoring of the facilities. Detailed review processes will be needed, often down to individual transactions. The pay-off comes from being able to finance a wider range of customers and the increased margins which are charged on these facilities. However, banks tend to consider the costs and efforts not worth the investment in SMEs, and rely basically on financial statement analysis models. This is particularly common for the larger international banks that focus on corporate clientele. Some of these may still report good volumes on SME banking but, on investigation, the SME limits are fixed limits based on the financial assessment criteria.

Opportunities to Increase Supply Chain Finance

Many countries in Asia already have some capacity to use movable assets as security, and most of those which lack such capacity have new projects under way. Utilization of that capacity varies considerably, from the prolific growth seen in the PRC to relatively low usage to date in India.

Once the legal framework is in place, local markets need time to adjust and build capacity. As each SCF market develops, there is typically growth in two ways:

- Banks become more comfortable with the product and the related security weighting increases so that the product reach can be extended more widely to reach lower-credit-quality clients.
- Banks broaden the product offering into different segments.

Many banks commence cautiously, requiring full control of inventory and selective debtor financing, but wider product levels emerge as technology and monitoring systems improve.

Some banks that offer broader SCF products do so in a limited manner, primarily on the basis of acceptance of financial statements. There are strong opportunities for banks that broaden the use of such products to the SME sector.

Early movers will capture long-term clients

SMEs have higher loyalty to banks that assist them in the early stages of growth, when finance is the most challenging. These businesses are keen to repay loans and build good credit histories so that additional credit will be granted in future.

Closer monitoring builds closer relationships

SCF allows the banks to get to know the customer much better than just an annual review process does. Although monitoring is more time consuming, the added benefit is better risk analysis as the bank witnesses trade activity in real time rather than relying on year-old financial statements.

Ability to recover without court proceedings

A well-functioning SCF law allows the bank to act quickly on its security interests, e.g., collecting accounts receivable directly from debtors or selling inventory, without waiting for lengthy court proceedings.

High earning products

Asset-based SCF products are generally provided at a price premium over traditional bank lending and can generate good returns for banks.

Conclusion

SCF should not be just for big business. Many SMEs in Asia have already been benefitting from access to a wide range of financing products and, as reforms continue, more will get this access. Banks need to be proactive in exploring new products as the legal environment changes.

As banks grow in confidence with SCF and establish robust management systems, there is considerable potential for SCF to be expanded to more SMEs based on asset-lending principles, which helps improve access to finance for the SME sector.

SCF can extend beyond the traditional corporate buyer model to multiple-level financing. While many banks offer vendor-finance-style products, only a small number of banks extend new SCF credit lines directly to SMEs for SME-to-SME business. Even for those SMEs that are fortunate to have access to broader SCF products, it is still often just a funding instrument, provided to SME clients under approved credit limits which the bank predetermines based on financial strength or real estate collateral.

SCF should be broader based and allow increased access to finance, but needs a supportive legal framework and progressive bank risk assessment which goes beyond traditional collateral.

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Glossary: Supply Chain Finance Terminology

Accounts receivable finance	Similar to factoring but using security interests to formalize a pledge over the assets, rather than legal assignment. Under modern secured transactions laws, the registration of a security interest offers the same level of security. This term can also relate to more complex securitization methods under which parcels of receivables are pooled for secondary financing purposes.
Factoring – whole or partial turnover basis	Invoices are sold and/or assigned to a factor and the assignor receives an advance payment up front. The ledger is typically managed on an open item basis with sales ledger management and collection services included. Notification of the assignment is given to the debtors. Although the risk is on the debtors, the management and systems of the supplier require close scrutiny also and, in most emerging markets, the supplier remains on recourse to the financier for any defaulting debts. Debtors are instructed to pay the invoices directly to a bank account controlled by the factor.
	Variations include undisclosed factoring and bulk discounting, where the receivables are managed on a ledger basis rather than open item basis.
Inventory finance – collateral management facility	Inventory is managed by a third-party professional collateral management company at the collateral manager's own warehouse facility. This keeps the inventory separated from the client and has more arm's-length protection.
Inventory finance – stock monitoring facility	Security is taken over raw inventory and/or finished goods. The financier needs the legal capacity to register a security interest and control the stock movements. Under a stock monitoring system, this is done at the client site. This method is used in Viet Nam. Banks have security staff or agents on-site at the client's premises monitoring the stock movements.
Inventory finance – warehouse receipt	Client's inventory is held by a collateral manager as above but formal certificates are issued allowing the certified value to be held by the bank and traded or sold as needed without realizing on the actual inventory. This system is used in countries such as India and the People's Republic of China.
Nonrecourse factoring	Initiated at the supplier level. A financier undertakes to discount high-quality accounts receivable and/or invoices issued by the supplier to creditworthy buyers.

Continued on next page

Glossary continued

Online invoice exchange markets	These online markets allow competitive bidding by financiers and investors to fund the verified corporate invoices, as approved under the vendor finance and reverse factoring supply chain finance models. Suppliers can offer the invoices for auction and accept the lowest net discount or cost. In some markets this is now accessible for mid-tier transactions, e.g., successful models operate in the United States (Receivables Exchange) and in Mexico (NAFIN Bank). Within Asia there is a trial exchange already operating in India under the Small Industries Development Bank of India (SIDBI) which is currently supported by SIDBI only, but phase 2, with external banks and institutions bidding, is due in 2014. The People's Republic of China is also understood to be developing exchanges.
Open account trading	Commercial sales between a buyer and seller without any credit enhancement via trade finance or credit guarantees. The seller has credit risk on the buyer until its invoices are paid.
Purchase order finance	This is early stage finance based on creditworthy customer orders. The value is in the purchase order documentation. Banks may require copies of all orders, shipping documents, delivery notes, and any other documentation up to and including invoicing. At the invoicing stage this facility would usually be repaid and switched to factoring or accounts receivable finance, as it moves along the supply chain.
Reverse factoring	Early supplier payment model similar to the vendor finance model, initiated at the buyer level. Legal assignment is taken and this may be offered by an independent factor with no prior relationship banking contact to the corporate buyer or small or medium-sized enterprise (SME) supplier.
Security interest	A mortgage, charge, or pledge over assets, including receivables, without necessarily requiring legal assignment or possessory interest such as holding the ownership papers. For security interests to have full effect, a clear priority law and collateral registry system are needed, so that all creditors have full transparency on competing security interests.
Structured supply chain finance	Uses a broader definition of supply chain finance which includes a wider range of finance products to assist financing those supply chains which are not linked to a buyer-initiated scheme above, e.g., SME-to-SME supply chains.
Supply chain finance, vendor finance, or vendor prepay	The narrow view of supply chain finance defines it as purely a buyer-focused product. A financier works with a prime corporate customer to offer early payment terms on suppliers' invoices, based on verification and acceptance of the invoices by the corporate. The invoices are accepted on an irrevocable basis.
Value chain finance	Value chain finance extends the reverse factoring model through multiple levels so that smaller SMEs that are further down the supply chain from the name buyer also get access to credit, primarily based on the strength of the transaction chain. This is most common in the agriculture sector as, for example, rice growers band together to supply processors who supply major food chains. A bank may agree to finance subsuppliers based on the name buyer, down multiple levels, if there are robust supply agreements for services and products which flow through to meet the supply chain demands of the name buyer. Although the end risk may be secure, more emphasis is placed on supplier capabilities and delivery risk in this model. This product is growing in popularity amongst regional and second-tier banks in Asia which have difficulty competing with larger international banks for prime customers. By using reverse factoring and value chain models, these banks finance smaller SMEs but with credit risk reliance on the prime end buyer.

COUNTRY REVIEW

Bangladesh

SME Landscape

Small and medium-sized enterprises (SMEs) are the backbone of the national economy in Bangladesh. They are expected to create jobs, reduce poverty, and drive a resilient national economy. The International Monetary Fund (IMF) Country Report (2012)[1] indicated that SMEs in Bangladesh accounted for more than 99% of private sector industrial establishments and created job opportunities for 70%–80% of the nonagricultural labor force. The share of SMEs' production value added to gross domestic product (GDP) ranged between 28% and 30%. The report also mentioned that the contribution of SMEs to national exports is significant.

There are no comprehensive SME statistics available at the national level. The Bangladesh Bureau of Statistics collects annual production data from sampled manufacturing industries that employ 10 or more workers, but the data do not include nonmanufacturing sectors. There are some initiatives to develop an SME database in the country. The South Asia Enterprise Development Facility, managed by the International Finance Corporation (IFC) in partnership with the Department for International Development of the United Kingdom and the Norwegian Agency for Development Cooperation, launched the SME Database in 2011. However, estimates and reports on SMEs have yet to become available through this database.

The Bangladesh Industrial Policy 2010 set a unified definition of SMEs which is followed by fiscal, monetary, and financial authorities. The Bangladeshi definition is based on the value of fixed assets (excluding land and building) and/or the number of employees. Cottage and micro industries were also defined for greater financial inclusion. This definition has been adopted by the Bangladesh Bank (the central bank) through its Circular No 1 of 2011. Manufacturing, service, and trade firms with fixed assets of less than Tk0.5 million and 10 or less employees (including family members) are considered cottage enterprises. Manufacturing firms with fixed assets of Tk0.5 million–Tk5.0 million and 10–24 employees, and service and trade firms with fixed assets of less than Tk0.5 million and less than 10 employees are considered micro enterprises. Manufacturing firms with fixed assets of Tk5 million–Tk100 million and 25–99 employees, and service and trade firms with fixed assets of Tk5 million–Tk10 million and 10–25 employees, are considered small enterprises. Manufacturing firms with fixed assets of Tk100 million–Tk300 million and 100–250 employees, and service and trade firms with fixed assets of Tk10 million–Tk150 million and 26–100 employees are considered medium-sized enterprises.

The IMF Country Report also suggested that SMEs in Bangladesh suffer from poor access to finance, infrastructure bottlenecks (especially unreliable power), low levels of technological competency, difficult market access, and regulatory barriers.

The Government of Bangladesh has recognized the roles played by SMEs in national economic development and poverty reduction. To this end, the government has taken several measures to prioritize SME sector development through provision of adequate infrastructure (e.g., better supply of electricity), credit, entrepreneurship development, and training and research.

Banking Sector

Bangladesh is a leading country in microfinance with a world-renowned success story of Grameen Bank, but SME finance is needed to vitalize the "missing middle" (the SME sector that is reconciled to lower productivity).

1 International Monetary Fund (IMF). 2012. The Bangladesh Poverty Reduction Strategy Paper (PRSP- II). IMF Country Report No:12/293. Washington, DC. Poverty reduction strategy papers are documents required by the IMF and World Bank before a country can be considered for debt relief within the Heavily Indebted Poor Countries initiative. These papers are also required before low-income countries can receive aid from most major donors and lenders.

While microfinance is promoted as an effective tool for poverty reduction, SME finance is seen as an instrument to realize sustainable, resilient economic growth.

There are two types of commercial bank in Bangladesh: scheduled and nonscheduled. Scheduled banks are licensed under the Banking Companies Act 1991 (amended in 2003), while nonscheduled banks are those established under special legislation enacted to meet particular objectives; their activities are more limited than those of scheduled banks. There are 52 scheduled banks working in Bangladesh: (i) 4 state-owned commercial banks, (ii) 4 specialized development banks, (iii) 28 conventional private commercial banks, (iv) 7 Islami Shariah-based private commercial banks, and (v) 9 foreign commercial banks. There are four nonscheduled banks.

Bangladesh Bank compiles SME credit data, but most data consolidate the figures on both bank and nonbank financing to SMEs. SME commercial lending, combining banking and nonbanking sectors, is quite small in scale in Bangladesh; in 2012 Tk697,539 million (6.7% of GDP) was disbursed as SME commercial loans (Figure 4.1 and Table 4.1). While nonbank loans to SMEs are decreasing, bank lending to SMEs has been expanding; in 2012, Tk682,629 million was disbursed as SME bank loans, an increase of 31.1% over the previous year. SME lending interest rates typically range between 14% and 16%.

Bangladesh Bank set an indicative annual credit volume target to SMEs for all banks and nonbank financial institutions (NBFIs). In 2012, the overall SME loan target was Tk590,127 million, but actual provision exceeded this by 18.2%, resulting in 29.8% annual growth of total SME commercial lending. As of the end of March 2013, banks and NBFIs provided Tk193,520 million, 26.1% of the annual target of Tk741,869 million.

By firm size (Figure 4.2), loans to small enterprises (including cottage firms) accounted for 54.2% of total SME commercial loans in 2012, a sharp increase of 46.3% over 2011. However, a widening geographical gap in SME financing has been identified. SME loans disbursed in urban areas accounted for 73.5% of total SME commercial loans, and indicated a constant increasing trend (30.4% increase in 2012 over 2011).

The most active sector in SME lending is the wholesale and retail trading sector (63.4% of total SME commercial loans) which increased by 28.6% in 2012 over 2011, followed by the manufacturing sector at 31.4% share of total SME lending with 38.5% increase in 2012 over 2011 and the service sector at 5.2% share with 2.8% increase in 2012 over 2011.

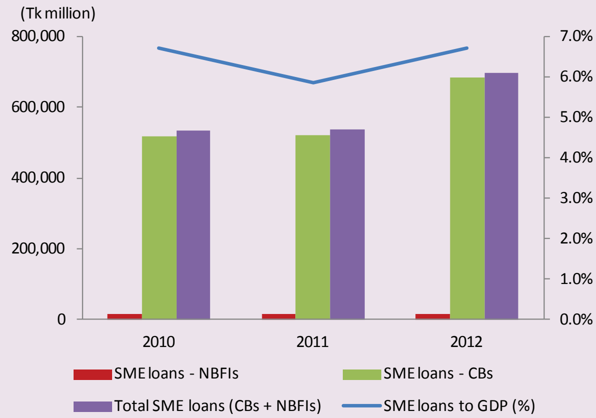
There were 462,513 SMEs with access to bank and nonbank loans in 2012 (Figure 4.3). Among these,

Table 4.1: Banking and Nonbank Sectors—SME Loans

Item	2010	2011	2012
SME Borrowers			
Total number	308,950	319,340	462,513
Small firms*	201,403	225,170	350,689
Medium firms	107,547	94,170	111,824
Manufacturing	63,458	63,482	157,756
Trade	229,459	243,894	290,035
Service	16,033	11,964	14,722
SME Loans (disbursed)			
SME commercial loans - banks and NBFIs (Tk mil.) [a + b]	535,475	537,195	697,539
SME commercial loans to GDP (%)	6.72	5.85	6.72
a. SME loans - banks (Tk mil.)	518,491	520,737	682,629
SME bank loans to total loans** (%)	96.83	96.94	97.86
b. SME loans - NBFIs (Tk mil.)	16,984	16,458	14,910
SME nonbank loans to total loans** (%)	3.17	3.06	2.14
SME public sector loans*** (Tk mil.)	37.5	30	40
SME Loans by Size (Tk mil.)****			
Small firms*	230,349	258,561	378,285
Medium firms	305,126	278,634	319,254
SME Loans by Region (Tk mil.)****			
Urban	349,515	393,293	512,986
Rural	185,960	143,902	184,553
SME Loans by Sector (Tk mil.)****			
Manufacturing	151,477	158,060	218,973
Trade	350,405	343,826	442,252
Service	33,593	35,309	36,314
Nonperforming Loans (NPLs)			
NPL SME clients to total SME borrowers (%)	3.62	3.61	6.39
SME NPLs to total loans (%)	0.76	0.74	1.42
Gross NPLs to total loans (%)	7.10	6.20	10.00

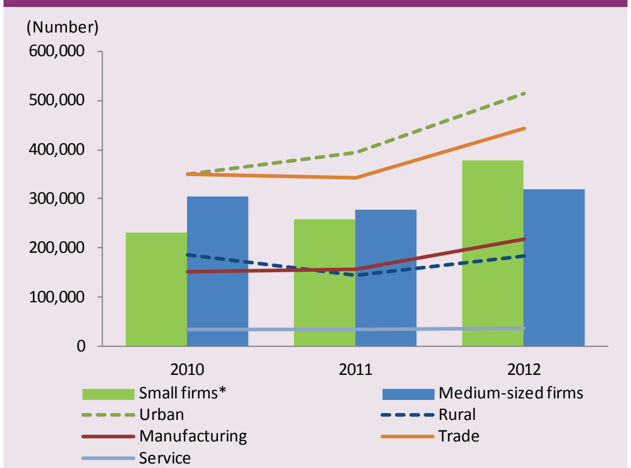
* including cottage enterprises. ** % of total lending by banks and NBFIs. *** lending by SME Foundation included. ****SME commercial loans (banks + NBFIs).
Source: Bangladesh Bank.

Figure 4.1: SME Loans Disbursed



CB = commercial bank, NBFI = nonbank financial institution, SME = small and medium-sized enterprise.
Source: Bangladesh Bank.

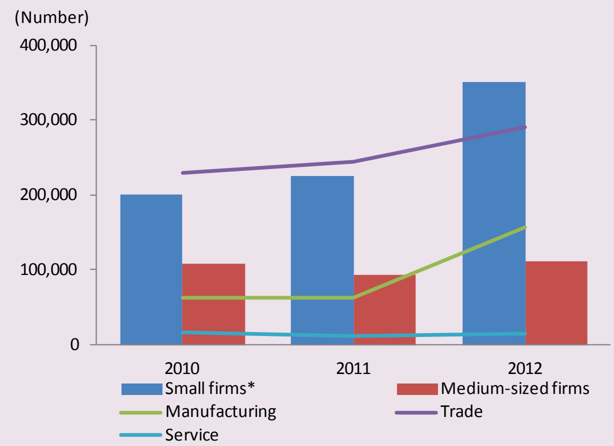
Figure 4.2: SME Loans by Size, Region, and Sector



SME = small and medium-sized enterprise.
Note: SME loans disbursed by commercial banks and nonbank financial institutions.
* including cottage enterprises.
Source: Bangladesh Bank.

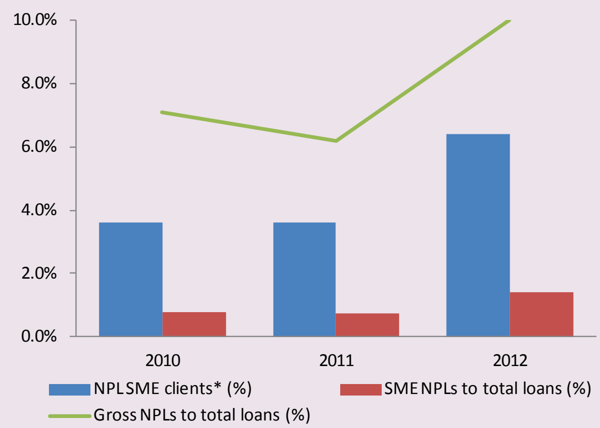
small enterprises accounted for 75.8% of the total SME commercial loan clients, and there was rapid growth of 55.7% in 2012 over 2011. By sector, SMEs in the trading sector accounted for 62.7% of the total SME borrowers with 18.9% annual growth in 2012 over 2011, followed by those in the manufacturing sector with 34.1% share and 148.5% growth, and in the service sector with 3.2% share and 23.1% increase in 2012 over 2011.

Figure 4.3: SME Borrowers



SME = small and medium-sized enterprise.
* including cottage enterprises.
Source: Bangladesh Bank.

Figure 4.4: 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.

The nonperforming loan (NPL) ratio in SME lending is low at 1.42% of total loans outstanding of commercial banks and NBFIs in 2012 (Figure 4.4). Meanwhile, the number of small enterprises with NPLs has sharply increased—6.39% of the total SME borrowers in commercial banks and NBFIs in 2012 compared with 3.61% in 2011. Accordingly, the gross NPL ratio was 10.0% in 2012. However, it should be noted that

NPL data in 2012 was based on the new loan asset classification adopted by Bangladesh Bank.

To facilitate sustainable SME lending, refinancing schemes are supported by Bangladesh Bank and bilateral and multilateral donors (Table 4.2). Bangladesh Bank, with the support of the government and its development partners, including the Asian Development Bank (ADB), Japan International Cooperation Agency, and the International Development Association, has implemented four refinance facilities to commercial banks and NBFIs against their disbursed SME credit. All of the funds are revolving in nature. A total of Tk31,204 million has been placed at the disposal of Bangladesh Bank to refinance as many as 21 banks and 24 NBFIs, out of which ADB contributed Tk9,486 million, the International Development Association Tk3,126 million, and the Japan International Cooperation Agency Tk731 million, while the Bangladesh Bank contribution was Tk17,861 million. Out of the total loans, Tk7,044 million has been provided as working capital loans, Tk16,750 million as medium-term loans, and Tk7,410 million as long-term loans. As of June 2013, 38,647 enterprises had been provided loans through refinancing schemes.

Bangladesh Bank has launched several schemes—such as setting up a separate Women Entrepreneur's Dedicated Desk and SME Help Desk in the head offices and branches of all banks—to encourage women entrepreneurs by providing easy access to credit. Bangladesh Bank has instructed banks to allocate up to Tk2.5 million to women entrepreneurs without any collateral. In addition, 15% of the Bangladesh Bank's refinance fund is reserved for women entrepreneurs, and Bangladesh Bank has instructed financial institutions to charge a lower interest rate of 10% to women entrepreneurs on refinance schemes.

In Bangladesh, banks have recognized the importance of lending to SMEs, and most of them have set up separate divisions to monitor and accelerate SME lending. There are some leading examples of SME lending. Islami Bank Bangladesh is the largest lender to SMEs, with more than 83,000 SME clients. BRAC Bank, a specialized development bank licensed by Bangladesh Bank, is the fourth-largest specialized SME bank in the world. As of May 2012, BRAC Bank captured 5.9% of the market share of SME banking in Bangladesh, and provides collateral-free loans ranging from Tk200,000 to Tk1.5 million to small enterprises based on the character assessment of the entrepreneur. These loans are distributed through BRAC's 400 SME unit offices. The Bangladesh Small Industries and Commerce Bank (BASIC), a state-owned bank established in 1989 for small-industry development, is obliged to allocate 50% of its loan portfolio to finance SMEs. BASIC's SME loans were 61.6% of its total loan portfolio and amounted to Tk85,956 million in 2012. Other banks having significant SME loan portfolios include Sonali Bank, Eastern Bank, and Mutual Trust Bank.

Table 4.2: SME Refinance Scheme

Name of the Fund	Budget/Fund (All funds are Revolving)		Refinance up to June 2013		Remarks
			Amount of Refinance (Tk million)	No of Enterprises	
BB Fund	Tk 6,000 millon	General	11,757	12,285	Ongoing
		Women entrepreneur	6,104	8,037	
	Sub total		17,861	20,322	
EGBMP Fund (IDA Fund)	Tk 1,160 million		3,126	3,160	Closed
ADB -1 Fund	Tk 2,020 million	General	3,185	3,134	Closed
		Women entrepreneur	165	130	
	Sub total		3,349	3,264	
ADB -2 Fund	Tk 7,000 million	General	5,978	11,613	Ongoing
		Women entrepreneur	158	191	
	Sub total		6,136	11,804	
JICA Fund	Tk 4,150 million		731	97	Ongoing
Grand Total			31,204	38,647	

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.

The main challenges faced by banks for financing SMEs are poor collateral, inadequate documentation, and improper business plans. With relatively high interest rates for SME lending, stringent collateral and guarantee requirements are a 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

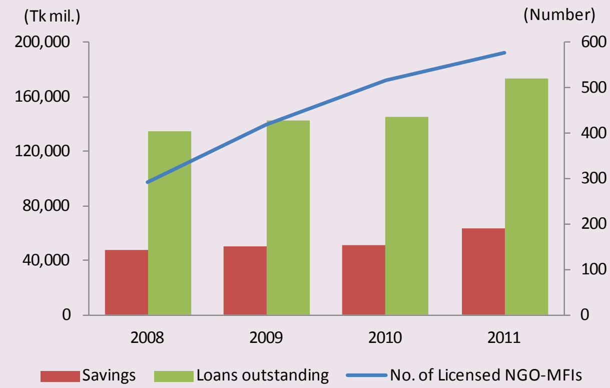
Nonbank financing to SMEs is quite small in scale in Bangladesh; the share of total SME commercial lending (including bank lending) was 2.1% in 2012, down from 3.1% in 2011.

The first NBFI was established in 1981 and currently 31 NBFIs are operating in Bangladesh: 2 state-owned firms, 1 subsidiary firm of a state-owned bank, 13 private commercial firms, and 15 joint-venture firms. NBFIs are regulated and supervised by Bangladesh Bank through licensing under the Financial Institutions Act 1993. Their operations cover wide-ranging financing models such as syndicate financing, bridge loans, leasing, factoring, bill and invoice discounting, work order financing, distributor financing, securitization, and equity investment. The Industrial Development Leasing Company of Bangladesh, established in 1985, is the largest NBFI in Bangladesh and started its SME operations in 2006. SME credit accounts for 36% of its total loan portfolio. The company had 5,222 SME clients in 2012, an increase of 50% over 2011. It is also the largest participant in the refinance programs of Bangladesh Bank, and is a leading institution in factoring and financial lease in Bangladesh.

NBFIs have perceived SME financing as a potential business area, and are trying to expand their SME business. However, high transaction costs and a competitive market dominated by banks make it difficult for NBFIs to develop SME financing business models.

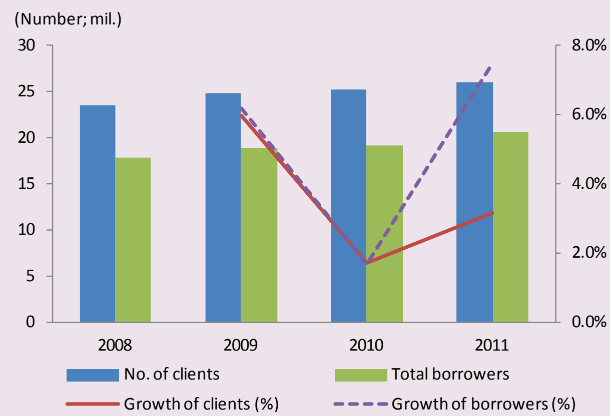
Although a separate discussion from SME finance may be needed, microfinance plays a key role in developing the micro, small, and medium-sized enterprise sector in Bangladesh, and provides growth capital for start-ups. The Micro Credit Regulatory Authority (MRA), established in 2006, is an independent regulator for the microfinance sector. Credit and savings cooperatives and nongovernment microfinance institutions (NGO-MFIs) are required to obtain a license from the MRA for microfinance operations.

Figure 4.5: Savings and Loans – NGO-MFIs



NGO-MFI = nongovernment microfinance institution.
Note: All data as of the end of June in each year.
Source: MRA-MIS Database 2011.

Figure 4.6: NGO-MFI Clients



NGO- MFI = nongovernment microfinance institution.
Note: All data as of the end of June in each year.
Source: MRA-MIS Database 2011.

The major microcredit products include micro loans (less than Tk50,000) and micro enterprise loans (more than Tk50,000). As of the end of June 2011, 576 licensed NGO-MFIs operated with 18,066 branches and 111,828 employees, in which microcredit outstanding was Tk173,798 million with 20.7 million borrowers, indicating an increasing trend for the microfinance industry (Figures 4.5–4.6 and Table 4.3).

BRAC, the largest NGO-MFI licensed by the MRA and a parent organization of BRAC Bank, is leading the MFI industry in Bangladesh with a market share of more than 11%. ASA is the second-largest licensed NGO-MFI with a 5.4% market share.

Table 4.3: NGO-MFI Performance

Item	2008	2009	2010	2011
No. of Licensed NGO-MFIs	293	419	516	576
No of Branches	15,077	16,851	17,252	18,066
No. of Employees	98,896	107,175	109,597	111,828
No. of Clients (mil.)	23.45	24.85	25.28	26.08
Total borrowers (mil.)	17.79	18.89	19.21	20.65
Value of Loan Outstanding (Tk mil.)	134,681	143,134	145,023	173,798
Value of Savings (Tk mil.)	47,386	50,610	51,363	63,304

NGO-MFI = nongovernment microfinance institution.
Notes: All data as of end June in each year.
Source: MRA-MIS Database 2011.

Typically, interest rates charged by MFIs are more than 20% and until recently were as high as 30%. However, the MRA has capped the maximum interest rate at 27% since July 2011. Most of the microcredit products offer 1-year loan terms with 46 installments. The average recovery rate for microcredit is 97%–98%.

Capital Markets

Capital markets have performed relatively well in Bangladesh. There are two stock exchanges in Bangladesh—the Dhaka Stock Exchange and the Chittagong Stock Exchange. The Dhaka Stock Exchange was originally established in 1954 and has 253 listed companies with market capitalization of Tk1.9 trillion (all listed company shares) as of September 2013. The Chittagong Stock Exchange was established in 1995 and has 257 listed companies with market capitalization of Tk1.9 trillion as of September 2013. Both markets are self-regulated but supervised by the Bangladesh Securities and Exchange Commission.

Most SMEs are typically excluded from even applying for listing in these exchange markets because of minimum paid-up capital requirements (Tk100 million for the Dhaka Stock Exchange and Tk10 million for the Chittagong Stock Exchange). There are currently no specialized SME capital markets in the country.

Some work is being done on SME sector development policy to establish a capital market financing venue for SMEs. One idea is that the existing over-the-counter market is reorganized as an SME exchange under the Dhaka Stock Exchange; however, the feasibility study should be elaborated to ensure this is not a speculative venue but responds to real SME financing needs.

Venture Investment Partners Bangladesh is Bangladesh's first private social venture capital fund specially designed for promoting SME growth. As of the end of 2012, it had made 687 investments amounting to Tk639 million in the form of equity and mezzanine finance. Two other venture capital firms are also active in Bangladesh.

Venture capital firms can play a significant role in SME development as they follow a strict due-diligence process in analyzing business plans and provide capacity building and marketing and/or management support to promising SMEs. Appropriate laws and regulations for the venture capital industry do not currently exist in Bangladesh, and as a result venture capital firms are hesitant to develop business models for investing in SMEs.

Policy and Regulation

The National Council for Industrial Development, headed by the prime minister of Bangladesh, is the apex body for industrial development policies. The executive committee of the national council (headed by the minister for industries) and the National SME Task Force (headed by the principal secretary to the prime minister) work for the development of SMEs in Bangladesh (Table 4.4).

An important government institution working for SME policy advocacy and research is the SME Foundation, an independent center of excellence created and capitalized by the Government of Bangladesh. The main objectives of the foundation are to (i) implement national SME policies and strategies, (ii) recommend SME-friendly strategies, (iii) provide capacity building programs for SMEs and relevant research, and (iv) operate credit wholesaling programs for SMEs. Under the credit wholesaling program, collateral-free loans and single-

Table 4.4: 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 policy makers		
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	Ministry of Industries	1) Recognize SMEs as an important engine for economic growth and treatment of the SME sector as priority
		2) Identify the type of industries most suitable for SMEs
		3) Lay down the objective of establishing on a greater scale
		4) Draw up a separate SME policy to provide necessary guidelines and strategic assistance in respect of establishing SMEs throughout the country
Policies and Strategies for Development of SMEs 2005	SME Cell – Ministry of Industries	1) Proposal to form an SME advisory panel to work with the SME Cell of the Ministry of Industries
		2) Over the medium term and beyond, proposal to form an SME foundation as a pivotal organization for the development of SMEs
		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
Industrial Policy 2010	Ministry of Industries	1) Adopt the Policy Strategies for the Development of SMEs by 2010
		2) Accentuate and sustain SME activities through motivation, loan allocation, and training of entrepreneurs
		3) Refinance the SME sector through three funds created by Bangladesh Bank
		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
		5) Special preferences to be provided to the development of industries dealing with information and communication technology
Small and Medium Enterprises Credit Policies and Programs	Bangladesh Bank	1) Propose the target for SME credit
		2) Lay down the refinancing schemes of Bangladesh Bank for SME financing
		3) Special arrangement for women entrepreneurs
		4) Propose the adoption of cluster development policy by banks and nonbank financial institutions

SME = small and medium-sized enterprise.
Sources: SME and Special Programmes Department, Bangladesh Bank; SME Foundation; and Micro Credit Regulatory Authority of Bangladesh.

digit interest-free loans are granted to entrepreneurs of target clusters through partner financial institutions. As of 5 November 2013, the total amount that the foundation had approved under the credit wholesaling program was Tk223 million, while the total amount disbursed was Tk195 million.

The Bangladesh Small and Cottage Industries Corporation is an autonomous corporation under the Ministry of Industries. It was established by the Act of Parliament 1957 and is responsible for developing small and cottage industries in Bangladesh. Among other services, the corporation supports entrepreneurship development through counseling and training, provides necessary infrastructure facilities, and assists project profiling and proposals. It also runs several credit programs with the support of financial institutions and government programs, including the rural industry development program, poverty alleviation through income generation program, self-employment through small and cottage industries program, women entrepreneurship development program, and the revitalization of the rural economy through development of rural industries program.

Bangladesh Bank has a special department for SME sector development to respond to policy needs, and provides a comprehensive guideline for the banking sector (Small and Medium Enterprises Credit Policies and Programs) to streamline and promote SME lending. In its SME policies, Bangladesh Bank focuses on the financially excluded and unbanked mass, especially small and women entrepreneurs and the manufacturing and service sectors.

Various industry associations also actively participate in policy advocacy for SME development in Bangladesh. The Dhaka Chamber of Commerce, jointly with the Metropolitan Chamber of Commerce and Industry and the SME Foundation, set up a special organization, the Business Initiative Leading Development (BUILD), in October 2011. BUILD is a public–private dialogue platform set up to address regulatory barriers faced by the private sector, unlock the investment potential of the country, and reduce the cost of doing business. BUILD has four thematic working committees, one of which is an SME development working committee. The objective of this committee is to support the Government of Bangladesh in achieving an investment-friendly environment and assist in setting up at least 40,000 new SMEs in the country.

The industrial policies initiated between 1970 and 2000 did not focus on SME development, but the Industrial Policy 2005 placed it as a key national economic issue and formulated a policy framework entitled the Policy Strategies for Development of Small and Medium Enterprises 2005 (Ministry of Industries). The Industrial Policy 2010 laid out the national definition for micro, small, and medium-sized enterprises with its revised SME policy framework.

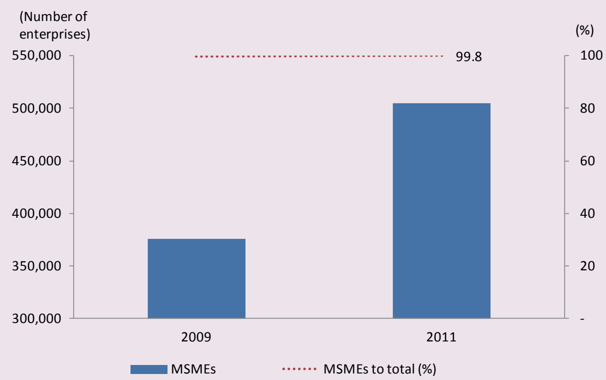
COUNTRY REVIEW

Cambodia

SME Landscape

The Economic Census of Cambodia 2011 and Nationwide Establishment Listing of Cambodia 2009 reported that 99.8% of enterprises in Cambodia are micro, small, and medium-sized enterprises (MSMEs) (Figure 4.7 and Table 4.5). In particular, the results from two censuses revealed a total of 504,353 MSMEs in 2011, up by 34.1% from the recorded 376,069 MSMEs in 2009, of which micro enterprises accounted for 96.5% in 2009 and 97.7% in 2011. The number of micro enterprises has been increasing at an annual rate of 16.5% during 2009–2011 as opposed to the 6.7% annual decline in the number of small and medium-sized enterprises (SMEs). MSMEs are concentrated in the trade sector (58.0%), followed by manufacturing (15.2%), and services (26.9%) (Figure 4.8).

Figure 4.7: Number of SMEs



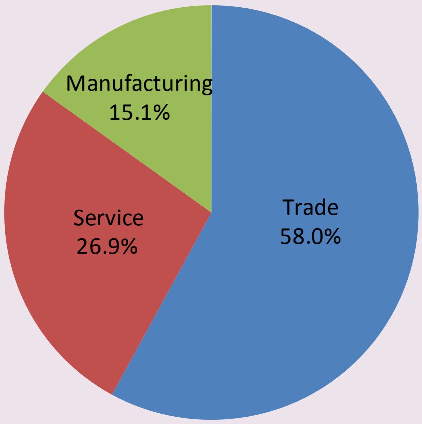
MSME = micro, small, and medium-sized enterprise.
Note: Data include micro enterprises. The Nationwide Establishment Listing of Cambodia 2009 excludes street business (stalls, booths, etc. that run at a fixed location on the sidewalk or roadside).
Source: Economic Census of Cambodia 2011 and Nationwide Establishment Listing of Cambodia 2009.

Table 4.5: SME Landscape

Item	2007	2008	2009	2010	2011	2012
Number of MSMEs						
MSMEs (number)	…	…	376,069	…	504,353	…
MSMEs to total (%)	…	…	99.8	…	99.8	…
MSME growth (%)	…	…	…	…	34.1	…
Trade (% to MSMEs)	…	…	…	…	58.0	…
Service (% to MSMEs)	…	…	…	…	26.9	…
Manufacturing (% to MSMEs)	…	…	…	…	15.1	…
Employment by MSMEs						
MSME employees (people)	…	…	1,096,947	…	1,221,651	…
MSMEs to total (%)	…	…	74.6	…	73.0	…
MSME growth (%)	…	…	…	…	11.4	…
Trade (% to MSMEs)	…	…	…	…	44.9	…
Service (% to MSMEs)	…	…	…	…	38.6	…
Manufacturing (% to MSMEs)	…	…	…	…	16.5	…

MSME = micro, small, and medium-sized enterprise.
Note: Data include micro enterprises.
Sources: Economic Census of Cambodia 2011 and Nationwide Establishment Listing of Cambodia 2009.

Figure 4.8: SMEs by Sector, 2011



SMEs = small and medium-sized enterprises.
Note: Data include micro enterprises.
Source: Economic Census of Cambodia 2011.

Figure 4.9: Employment by SMEs

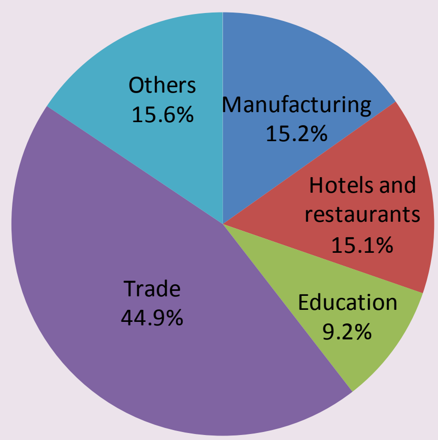
MSME = micro, small, and medium-sized enterprise.
Note: Data include micro enterprises.
Source: Economic Census of Cambodia 2011 and Nationwide Establishment Listing of Cambodia 2009.

The MSME sector accounted for 73.0% of the total workforce according to the Census 2011, which decreased as compared with 2009 (74.6%) (Figure 4.9). Around half of MSME employees worked in the trade sector (Figure 4.10).

A large number of MSMEs are informal. Census results in 2011 showed that 96.7% of MSMEs were not registered with the relevant approving authority. In order to be formalized, MSMEs are required to obtain business approval from the Ministry of Commerce and/or other approving ministries or agencies, depending on the nature of their business; MSMEs that are engaged in trade activities (e.g., retailers, wholesalers) need to register with the Ministry of Commerce only. MSMEs in other nontrade industries, such as food processing, packaging, and garments, need to register with the Ministry of Commerce and the Ministry of Industry, Mines, and Energy. MSMEs in wood processing register with the Ministry of Commerce and the Ministry of Agriculture, Fishery, and Forestry, while those that provide health services are required to register with the Ministry of Commerce and the Ministry of Health.

Cambodia does not have a legal definition of SMEs; however, the Small and Medium Enterprise Development Framework of 2005, the government's SME policy framework, outlines an SME definition based on a proposal made by the SME Sub-Committee, an interministerial committee chaired by the minister of industry, mines, and energy. The proposed definition is based on the number of employees and net assets excluding land.

Figure 4.10: Employment by SMEs by Sector, 2011



SME = small and medium-sized enterprise.
Note: Data include micro enterprises.
Source: Economic Census of Cambodia 2011.

Enterprises with less than 10 employees are classified as micro enterprises, while those with 11–50 employees are categorized as small and those with 51–100 employees are categorized as medium sized. The net asset value excluding land is used if the number of employees is not suitable to classify an enterprise. Micro enterprises are establishments with assets of less than $50,000 excluding land. Small enterprises are those with net assets of $50,000–$250,000 excluding land, and medium-sized enterprises are those with net assets of $250,000–$500,000 excluding land.

Banking Sector

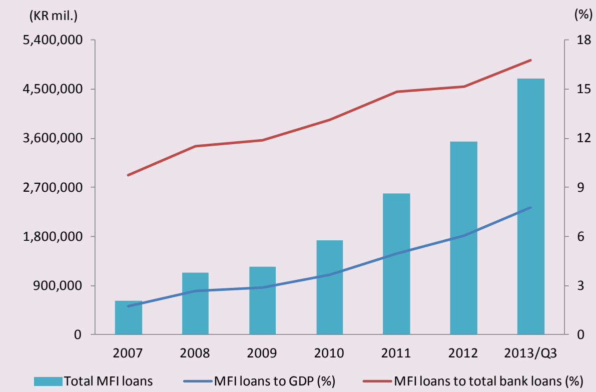
Apart from commercial banks and specialized banks, microfinance institutions (MFIs) play an important role in SME financing. However, the absence of a legislated SME definition makes it difficult to track SME lending activities.

The Law on Banking and Financial Institutions of 1999 requires MFIs to be registered and incorporated as legal entities. The law provides grounds for the supervision and regulation of the microfinance sector. The *Prakas* (proclamation) on Licensing MFIs outlines the criteria for MFI licensing and registration. Licensed MFIs are allowed to take public deposits if they meet certain criteria stipulated in the *Prakas* on Licensing of Microfinance Deposit-Taking Institutions. All MFIs, including licensed and registered MFIs and deposit-taking MFIs, are supervised and regulated by the National Bank of Cambodia.[1] As of September 2013, there were 35 commercial banks, 8 specialized banks, and 36 MFIs (of which 7 are allowed to mobilize deposits from the public or deposit-taking MFIs.[2]

Noteworthy in this respect is the large number of MSMEs (96.7% of total) in the informal sector. With or without legal status, an MSME can access MFI financing depending on the business plan and amount of loan. In 2012, MFI loans outstanding were KR3.5 trillion (or 6.0% of gross domestic product [GDP]), which is relatively small when compared to the KR22.9 trillion in commercial bank loans (or 39.2% of GDP), while lending of specialized banks amounted to KR400 million (Figure 4.11 and Table 4.6). As of September 2013, MFI loans outstanding were KR4.7 trillion (7.8% of GDP). The portfolio is still small compared to commercial bank lending, which was KR27.6 trillion as of September 2013, but it has already surpassed specialized bank lending of KR452 billion in the same period.

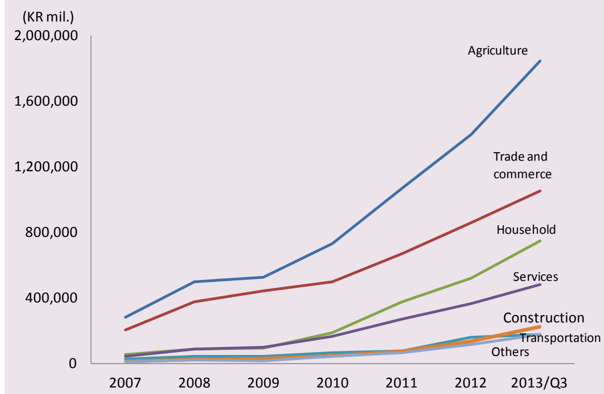
MFI loans are typically short-term credit, with terms ranging from 6 months to 1 year. MFIs charge 24% per annum, compared with commercial banks which have charges ranging from 7%–8% (low) to 10%–12% (high) per annum. The agriculture sector benefited the most from MFI lending, receiving 39.4% of total MFI loans in 2012. It was followed by trade and commerce (24.2%), households (14.7%), services (10.3%), transportation (4.5%), and construction (3.7%) (Figure 4.12).

Figure 4.11: MFI Loans



GDP = gross domestic product, MFI = microfinance institution, Q = quarter.
Source: National Bank of Cambodia.

Figure 4.12: MFI Loans by Sector



MFI = microfinance institution, Q = quarter.
Source: National Bank of Cambodia.

1 The regulations on registration and licensing of MFIs provides that registration is compulsory for MFIs with loan portfolios of $25,000 or more or 100 or more deposits. Licensing is compulsory for MFIs with loan portfolios of $250,000 or more or 1,000 or more deposits.

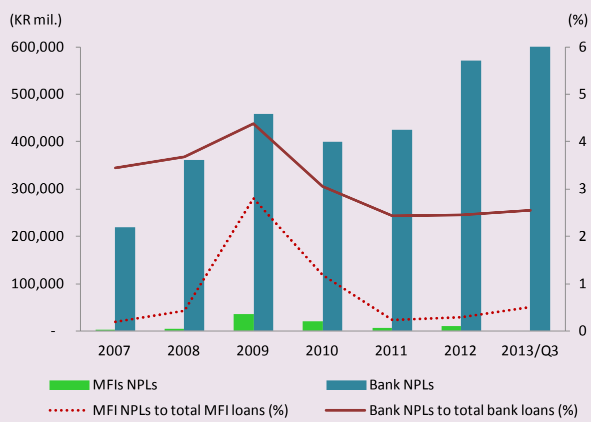
2 There are seven deposit-taking MFIs in Cambodia: PRASAC, AMRET, SATHAPANA, Hattakaksekar, Angkor Microherhvatho Kampuchea, KREDIT, and Vision Fund Cambodia.

Table 4.6: MFI Loans

	2007	2008	2009	2010	2011	2012	2013/Q3
Loans Outstanding							
MFI loans to GDP (%)	1.8	2.7	2.9	3.7	5.0	6.0	7.8
MFI loans to total bank loans (%)	9.7	11.5	11.9	13.1	14.8	15.2	16.8
MFI Loans -Total (KR mil.)	617,271	1,130,585	1,244,970	1,724,841	2,591,263	3,538,889	4,691,707
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	28,002,250
MFI Loans by Sector (KR mil.)							
Agriculture	279,121	495,279	525,314	730,543	1,066,669	1,395,536	1,843,587
Trade and Commerce	200,505	376,812	441,030	497,057	666,772	857,238	1,052,103
Household	51,592	87,280	93,644	185,834	372,670	518,482	746,626
Services	42,054	83,944	96,990	162,903	268,684	364,414	478,137
Transportation	23,247	45,016	44,501	63,122	76,469	158,008	175,499
Construction	11,372	20,395	29,174	44,460	73,463	132,376	220,107
Others	10,016	21,858	14,317	40,922	66,537	112,835	175,648
Nonperforming Loans (NPLs) - MFIs							
MFI NPLs (KR mil.)	1,171.0	4,719.0	34,847	20,361	5,753	10,284	23,258
Gross bank NPLs (KR mil.)	218,011	360,291	457,449	400,570	424,682	571,504	713,533
MFI NPLs to total MFI loans(%)	0.2	0.4	2.8	1.2	0.2	0.3	0.5
Gross bank NPLs to total bank loans (%)	3.4	3.7	4.4	3.0	2.4	2.4	2.5

CB = commercial bank, GDP = gross domestic product, MFI = microfinance institution, NPL = nonperforming loan, PFI = public financial institution (specialized bank), Q = quarter.
Source: National Bank of Cambodia.

Figure 4.13: MFI Nonperforming Loans



MFI = microfinance institution, NPL = nonperforming loan, Q = quarter.
Source: National Bank of Cambodia.

The ratio of nonperforming loans (NPLs) in MFIs fell to 0.3% in 2012 from 2.8% in 2009, while the NPL ratio in the banking sector was 2.4% in 2012 (Figure 4.13). As of September 2013, the NPL ratio in MFIs was 0.5% while in the banking sector it was 2.5%.

Nonbank Sector

One of the challenges for MSMEs in taking out loans is the collateral requirements of financial institutions. There are, however, ways to overcome this, such as having a good business plan.

MSMEs also turn to informal sectors such as pawnshops to cover their financing needs. Pawnshops in Cambodia charge 10%–15% per month, as opposed to the 2% per month for MFI loans. Currently, two leasing companies have obtained a license from the National Bank of Cambodia—GL Finance and RMA Financial Service. The sector has also become popular recently with investors interested in participating in the leasing market. In addition, a draft regulation on specialized credit institutions is being finalized, and it aims to

Table 4.7: Capital Market

	2007	2008	2009	2010	2011	2012*	2013**
Market Performance – Main Board							
Index	...	...	...	...	...	667	538
Market capitalization (KR mil.)	...	...	...	...	...	539,234	434,865.8
Trading value (KR mil.)	...	...	...	...	...	53,590	12,308
Trading volume (mil. shares)	...	...	...	...	...	6.9	2.0
Listed Companies							
No. of listed companies	...	...	...	...	...	1	1

* The first trading date was 18 April 2012. Thus, data from 18 April 2012 to 31 December 2012.
** Data from 1 January 2013 to 31 October 2013.
Source: Cambodia Securities Exchange.

increase access to finance for SMEs as well as scrutinize the operation of MFIs. There is no factoring company currently operating in the country.

Capital Markets

The capital market in Cambodia is in the early stage of development. The Cambodia Securities Exchange started operating on 18 April 2012. It is a public organization in which 55% of the registered capital is owned by the government and the remaining 45% by the Korea Exchange. There is only one listed state-owned company, the Phnom Penh Water Supply Authority, whose main business is supplying water to households (Table 4.7). At present, there is no concrete plan to launch an SME board.

Policy and Regulation

The General Department of Industry, an agency under the Ministry of Industry, Mines, and Energy and a regulator for industry sectors, is responsible for formulating and implementing government policies and strategies for developing the manufacturing sector (Table 4.8). The department also acts as secretariat to the SME Sub-Committee, which is responsible for overall coordination of crosscutting policies and strategies related to SME development. The SME Sub-Committee is one of the four steering subcommittees under the policy and strategy mechanism for private sector development initiated by the Government of Cambodia in 2007.

The achievements of the first SME Development Framework 2005 include the passage of the Secured Transaction Law in 2007 and the Law on Financial Leasing in 2009. Despite the passage of these laws, there is no specific legal framework for SME leasing. It is also difficult to monitor lending activities to MSMEs because of the absence of a legislated MSME definition in the country.

The Credit Bureau was launched in March 2013 to help mitigate the credit risk of institutions and at the same time enhance access to finance specifically for borrowers with good credit histories. Membership of the Credit Bureau is required for all banks, MFIs, and other financial institutions.

The second framework, the SME Development Strategic Framework for 2010–2015, covers core strategic areas such as business enabling environment, capacity development and technology transfer, investment promotion and SME access to finance, business development services, and economic links and SME clustering. Other SME development issues include the collateral registry and land titles, an accounting framework for SMEs, and efforts to reduce costs and create a conducive environment for doing business. In terms of access to finance, the SME Sub-Committee is tasked to develop a policy mechanism that will address the issues of SME formalization and fiscal and nonfiscal incentives for global or specific sectors.

The Securities and Exchange Commission of Cambodia is responsible for regulating and supervising the securities market. The Financial Sector Development Strategy 2006–2015 pushed for the establishment of the Cambodia Securities Exchange in March 2009.

Table 4.8: SME Policy and Regulation

Regulations		
Name		**Outline**
SME Support System (2013–2015)		SME promotion polices (Ministry of Industry, Mines, and Energy [MIME])
SME Development Framework 2005		SME definition (MIME)
Regulators and policy makers		
Name		**Responsibility**
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, Mines, and Energy (MIME)		Regulate the manufacturing sector
Securities and Exchange Commission of Cambodia (SECC)		Regulate and supervise the capital market
Policies		
Name	**Responsible Entity**	**Outline**
SME Development Framework (2005)	MIME	1) Set up an incentive policy and support for SMEs. 2) Prepare a strategy to increase competitiveness capacity for SMEs. 3) Prepare an action plan, promote and support SMEs, as well as follow up and review the implementation. 4) Promote the preparation of regulations on the management of SMEs. 5) Implement other roles related to the promotion and support of SMEs.
SME Development Strategic Framework (2010–2015)	MIME	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). 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. 3) Develop effective mechanism and legal instruments to support and provide incentives to potential SME sectors 4) Promote business development services focusing on SMEs. 5) Promote industrial and SME clusters.
Financial Sector Development Strategy (2006–2015)	NBC	1) Facilitate the development of finance. 2) Integrate informal and formal sectors. 3) Increase benefits to the poor. 4) Increase resource mobilization. 5) Facilitate savings and investment. 6) Improve resource allocation.

SME = small and medium-sized enterprise.
Sources: SME Development Framework 2005, SME Development Strategic Framework 2010–2015, Financial Sector Development Strategy (2006–2015).

The National Bank of Cambodia is the sole regulator and supervisor of the banking sector including MFIs.

The Ministry of Economy and Finance acts as a regulator of insurance, pawnshops, and real estate. It is currently preparing the Pawnshop Law, which aims to legalize pawnshop businesses and decrease the monthly interest rates from 10%–15% (equivalent to 120%–180% per annum) to 24% per annum.

COUNTRY REVIEW

People's Republic of China

SME Landscape

The number of small and medium-sized enterprises (SMEs) has continuously expanded since the Government of the People's Republic of China (PRC) introduced the reform and opening-up policy in 1978. SMEs play a crucial role in boosting the economy, increasing employment opportunities, and creating industries. According to an article by the Ministry of Commerce, there were 12.5 million enterprises (the majority of which were SMEs) registered with the industry and commerce administration in the PRC, while there were 37.6 million privately or individually owned businesses as of the end of 2011. SMEs contributed to 50% of tax revenues and 60% of gross domestic product (GDP). SMEs also provided 80% of urban job opportunities, introduced 75% of new products, and accounted for 65% of patents and inventions.[1]

Data from the National Bureau of Statistics on the number of industrial enterprises above a certain operational scale[2] show that the number of SMEs was 334,321 in 2012, representing 97.3% of total industrial enterprises above a certain operational scale (Figure 4.14 and Table 4.9). SMEs contributed to 64.7% of total employment of industrial enterprises above a certain operational scale in 2011 (Figure 4.15) and provided 41.5% of total export value of industrial enterprises above a certain operational scale in 2012 (Figure 4.16).

Figure 4.14: Number of SMEs

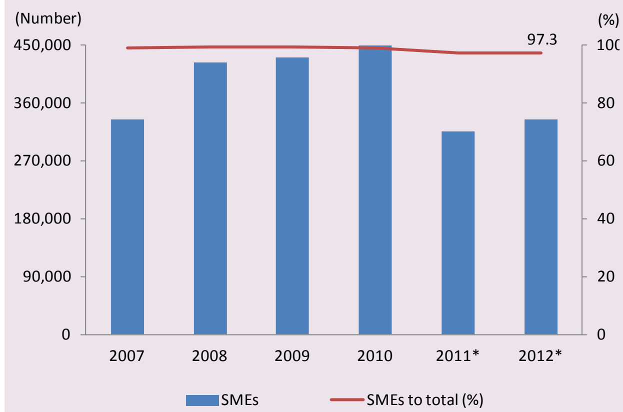
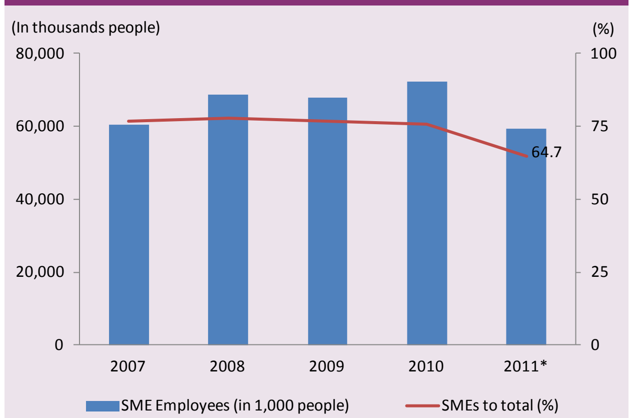


Figure 4.15: Employment by SMEs



SME = small and medium-sized enterprise.
Note: 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.
*Data from 2011–2012 is based on the 2011 SME classification criteria.
Source: National Bureau of Statistics.

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1 Ministry of Commerce. 2012. Ambassador Cheng Jingye's Speech at China SME Global Development Forum. 25 June. Ministry of Commerce, PRC. http://vienna2.mofcom.gov.cn/article/bilateralvisits/201206/20120608202341.shtml

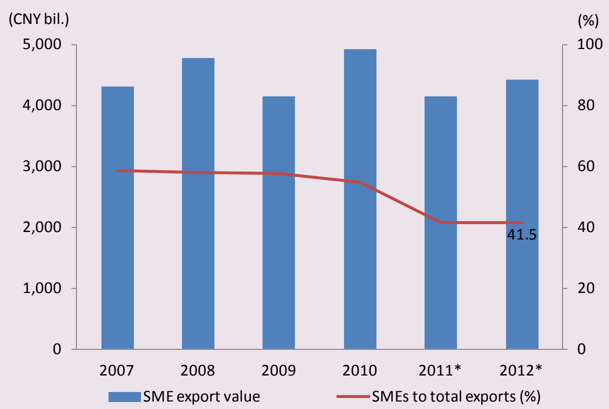
2 The data covers industrial enterprises above a certain operational scale. For 2007–2010, "above operational scale" refers to all industrial enterprises that generated a minimum annual income of CNY5 million from their core business. For 2011–2012, it refers to all industrial enterprises that generated 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.

Table 4.9: SME Landscape

Item	2007	2008	2009	2010	2011*	2012*
Number of SMEs						
SMEs (number)	333,858	422,925	431,110	449,130	316,498	334,321
SMEs to total (%)	99.1	99.3	99.3	99.2	97.2	97.3
Employment by SMEs						
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	...
SME Exports						
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 less 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.

Figure 4.16: SME Exports



SME = small and medium-sized enterprise.
Note: 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.
*Data from 2011–2012 is based on the 2011 SME classification criteria.
Source: National Bureau of Statistics.

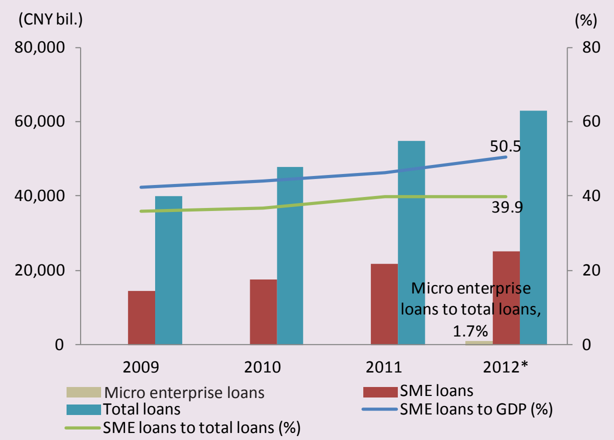
The PRC has a broad definition of SMEs based on the Regulations on SME Classification Criteria published by the Ministry of Industry and Information Technology in 2011. The new guideline replaced the previous criteria set by the Chinese Economic and Trade Commission in 2003. Revisions included the narrowed scope of medium-sized companies and the expanded range of small companies that created a new category—micro-sized enterprises. The amendment of the SME definition is in line with the State Council's move to give micro and small enterprises (MSEs) wider access to policy and financial support.[3] Excluding SMEs belonging to the construction, real estate, and lease and business service sectors that are classified according to turnover and total assets, SMEs in the PRC are mostly categorized as micro, small, or medium-sized based on the number of employees and total turnover. According to the National Bureau of Statistics, SME data are being adjusted to reflect the revised definition of the SME sector in 2011. SME-related data for all the sectors will be available in the second half of 2014.

[3] N. Zhong and J. Zhang. 2010. Smaller Firms to Benefit from New Definition of SMEs. China Daily. 27 October. http://www.chinadaily.com.cn/bizchina/2010-10/27/content_11463340.htm

Banking Sector

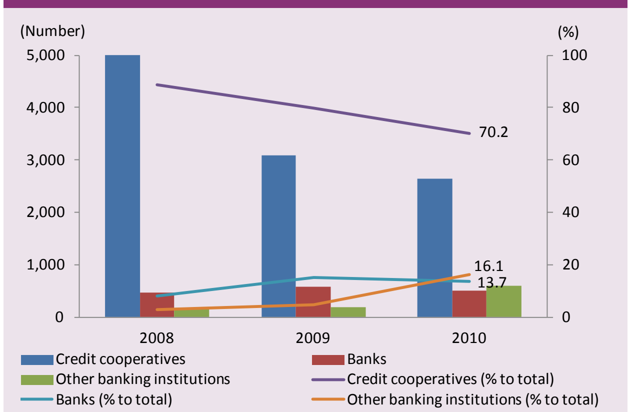
Banks have increased lending to the SME sector, given the 15.5% annual growth of SME loans outstanding in 2012. In particular, SME loans outstanding stood at CNY25.15 trillion in 2012, representing 62.2% of total enterprise loans outstanding and 39.9% of total loans outstanding including consumer lending (Figure 4.17 and Table 4.10). The Financial Stability Report 2013 of

Figure 4.17: SME Loans Outstanding



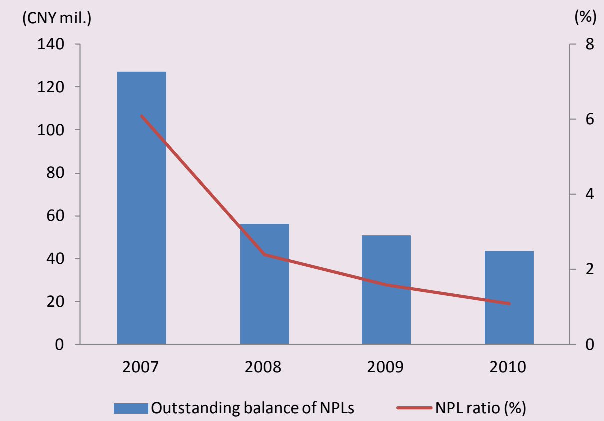
GDP = gross domestic product, SME = small and medium-sized enterprise.
*Based on revised national SME definition in 2011.
Source: People's Bank of China. Computation based on publicly available data.

Figure 4.18: Number of Banking Institutions



Source: China Banking Regulatory Commission Annual Report 2008, 2009, and 2010.

Figure 4.19: Nonperforming Loans – Commercial Banks



NPL = nonperforming loan.
Source: China Banking Regulatory Commission Annual Report 2007, 2008, 2009, and 2010.

the People's Bank of China (PBC) indicated that micro and small enterprise (MSE) loans outstanding rose by 16.6% year-on-year to CNY11.87 trillion in 2012. Newly extended loans to MSEs were CNY1.71 trillion in 2012, which accounts for 36% of new corporate loans and 18.8% of total new loans.[4] The increase in SME lending was due to the series of measures undertaken by the government to alleviate SME financing difficulties.

There were 515 commercial banks in 2010, which accounted for 13.7% of total banking institutions in the PRC. Credit cooperatives comprised the majority of the total (70.2%) in 2010 (Figure 4.18). Although no data on SME nonperforming loans (NPLs) are available, net NPLs by commercial banks have been decreasing and were CNY43.4 million, or 1.1% of total commercial bank loans outstanding, in 2010 (Figure 4.19).

The establishment of a national social credit system was included in the country's 12th Five-Year Plan. As of 2012, sector-specific credit reporting systems are being enhanced. Other than the PBC's individual and enterprise credit information and the credit information of the China Securities Regulatory Commission (CSRC), local governments consolidated credit information from different government departments. Credit records have been established for 143.0 million

[4] People's Bank of China (PBC). 2013. *[The People's Republic of] China Financial Stability Report 2013*. June. http://www.pbc.gov.cn/publish/english/959/2013/20130813151434349656712/20130813151434349656712_.html

Table 4.10: Banking Sector – SME Loans

Item	2009	2010	2011	2012*
Loans Outstanding				
Micro enterprise loans (CNY bil.)	...	...	...	1,051
SME loans (CNY bil.)	14,391	17,678	21,769	25,150
Total loans (CNY bil.)	39,969	47,920	54,795	62,991
SME loans to GDP (%)	42.2	44.0	46.2	50.5
Micro enterprise loans to total loans (%)	...	...	...	1.7
SME loans outstanding to total enterprise loans (%)	54.9	56.8	60.7	62.2
SME loans to total loans (%)	36.0	36.9	39.7	39.9
Number of Banking Institutions				
Credit cooperatives	3,083	2,646	...	...
Banks	587	515	...	...
Other banking institutions**	187	608	...	...
Nonperforming Loans (NPLs) – Commercial Banks			...	...
Net NPLs (CNY mil.)	50.7	43.4	...	...

GDP = gross domestic product, 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.
Sources: People's Bank of China, China Banking Regulatory Commission Annual Report 2009 and 2010, and computation based on publicly available data.

rural households in 2011, 81.5 million of which received a total of CNY1.52 trillion of bank lending.[5]

According to the PBC's Financial Stability Report 2012, the Movable Assets Financing Public Registry System serving SMEs played a crucial role in receivables financing and financial leasing services. The receivables financing system had 501,800 registrations, while the financial leasing system had 47,200 registrations in 2011 (Footnote 4).

Credit rating agencies are on the rise as well, with the number of credit ratings services in the interbank bond market and loan market increasing by 15% year-on-year to 49,200 in 2011 (Footnote 4).

Nonbank Sector

While the banking sector presented SMEs with new financing opportunities, nonbank financial institutions (NBFIs) have been serving SMEs as well. The government's financial reform in 2008 allowed the creation of microcredit companies to serve the borrowing needs of SMEs, farmers, and individuals.[6] As a result, the number of microcredit companies increased by 63.8% year-on-year to 4,282 in 2011 (Figure 4.20 and Table 4.11), while the number of pawn enterprises rose to 5,237 in 2012, representing a 20.9% annual increase (Figure 4.21). There were also 8,402 credit guarantee institutions as of 2011. However, various measures still need to be taken to enhance internal disciplines and risk prevention capabilities of these institutions. The PBC noted in the Financial Stability Report 2012 that, because of insufficient regulatory requirements, some of

[5] PBC. 2012. *[The People's Republic of] China Financial Stability Report 2012*. June. http://www.pbc.gov.cn/image_public/UserFiles/english/upload/File/China%20Financial%20%20Stability%20Report%281%29.pdf

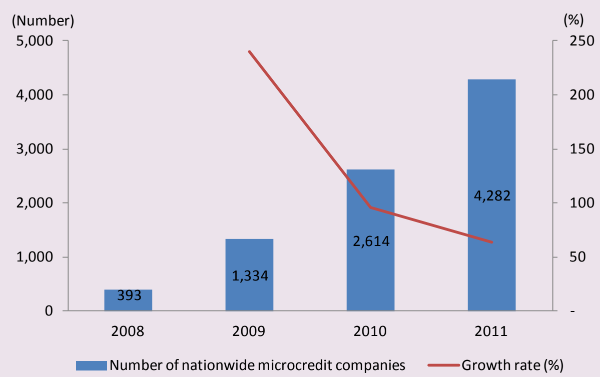
[6] China Banking Regulatory Commission. 2008. Annual Report. http://www.cbrc.gov.cn/EngdocView.do?docID=20091009CD797A55341D3FA4FFB543A01255F300

Table 4.11: Nonbank Sector

Item	2008	2009	2010	2011
Microcredit Companies				
Number of nationwide micro credit companies	393	1,334	2,614	4,282
Growth rate (%)	...	239.4	96.0	63.8
Pawn Enterprises				
Number of pawn enterprises	...	...	4,333	5,237
Total registered capital	...	...	58.4	70.0

Source: Annual Report of Financial Services for SMEs in [the People's Republic of] China (2012).

Figure 4.20: Microcredit Companies



Source: Annual Report of Financial Services for SMEs in [the People's Republic of] China (2012).

Figure 4.21: Pawn Enterprises

Source: Annual Report of Financial Services for SMEs in [the People's Republic of] China (2012).

these institutions diverged from their main businesses to high-interest financing and illegal fund raising, leading to risk events in individual regions (Footnote 4).

The Government of the PRC continued to offer SMEs additional support by issuing 816 SME credit guarantee funds in the second half of 2013.[7]

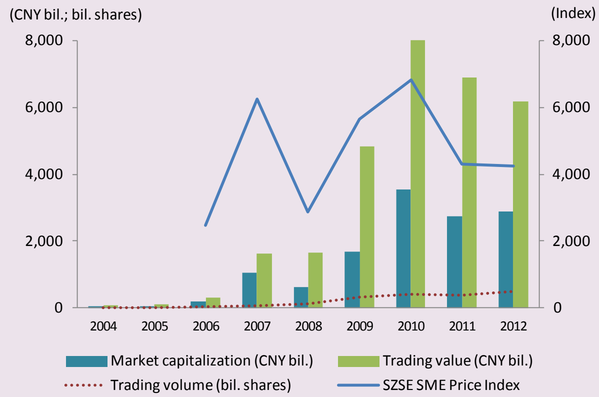
Capital Markets

The PRC first opened the equity market for SMEs with the launch of the SME Board under the Shenzhen Stock Exchange (SZSE) in May 2004. Originally, the board was designed as a pilot market for the smooth rollout of a venture market, but since then it has expanded to a number of growing and emerging SMEs. In the wake of the 2008/09 global financial crisis where SMEs were hard hit, the State Council established another market under the SZSE, named the ChiNext (or the Growth Enterprise Board) in September 2009. Under the regulation and supervision of the CSRC, ChiNext's main mission is to foster innovative industries and help transform the nation's economic growth model.[8] As of the end of 2012, the SME Board had 701 listed companies with total market capitalization of CNY2,880 billion and total trading value of CNY6,189 billion, while ChiNext had 355 listed companies with total market capitalization of CNY873 billion and total trading value of CNY2,331 billion (Figures 4.22–4.24 and Table 4.12). Manufacturing companies dominate the two boards, followed by information technology companies.

[7] SME.gov.cn. 2013. 2013 SME Credit Guarantee to Support the Project Publicity. 11 July. http://policy.sme.gov.cn/zhengcefagui/content/content.jsp?contentId=2745320867637

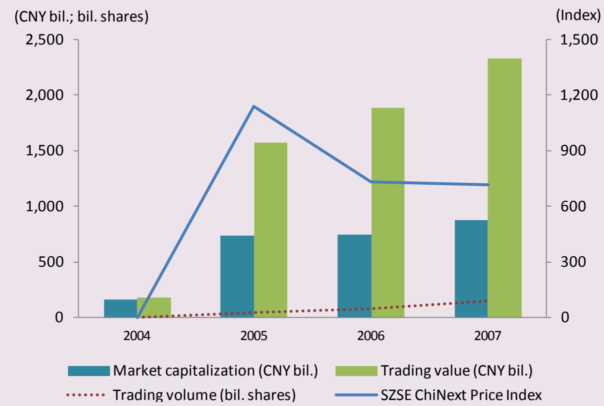
[8] Shenzhen Stock Exchange. Small is Beautiful. http://www.world-exchanges.org/insight/views/small-beautiful

Figure 4.22: Market Performance – SME Board, Shenzhen Stock Exchange



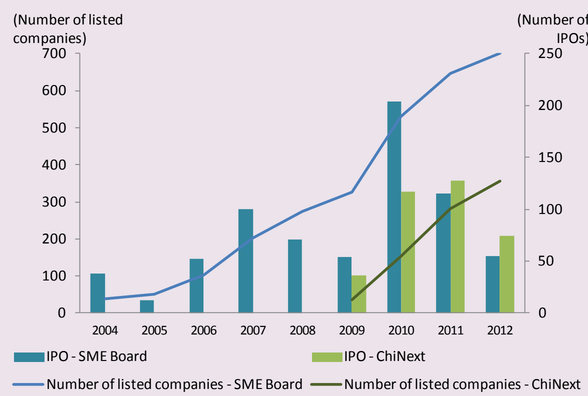
SZSE = Shenzhen Stock Exchange, SME = small and medium-sized enterprise.
Source: Shenzhen Stock Exchange Fact Book 2007 to 2012.

Figure 4.23: Market Performance – ChiNext, Shenzhen Stock Exchange



SZSE = Shenzhen Stock Exchange.
Source: Shenzhen Stock Exchange Fact Book 2007 to 2012.

Figure 4.24: 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.

The SME Board adopted almost the same listing rules as the main board of the SZSE, including profitability in the last 3 consecutive years with net profits of not less than CNY30 million in aggregate and post-initial-public-offering (IPO) share capital of at least CNY50 million; however, the SME Board is geared towards private growth companies. Meanwhile, ChiNext offers less stringent listing rules and shorter operational history, and primarily caters for innovative enterprises and other growing start-ups. Among the listing requirements are profitability in the last 2 consecutive years, with aggregate net profits of not less than CNY10 million (or making profits in the last year before IPO with a net profit of not less than CNY5 million, and business income in the last year of not less than CNY50 million with a growth rate of not less than 30% over the last 2 years) and post-IPO share capital of not less than CNY30 million.

While the SME Board and ChiNext provide opportunities for SMEs in the PRC that are planning to raise equity through an exchange market, they have not been accessible since October 2012. As of October 2013, the CSRC continued to freeze all IPO approvals in the SZSE and Shanghai Stock Exchange.[9] Instead, the regulator has promoted the new national platform for unlisted companies to gain direct financing through a share transfer system. The National SME Share Transfer System Company (NSSTS Co), managed by the National Equities Exchange and Quotations Company, is an alternative for unlisted companies and is the only over-the-counter (OTC) market regulated by the CSRC.[10]

The launch of the national OTC market was based on pilot OTC programs in Beijing, Shanghai, Tianjin, and Wuhan. The CSRC released measures for the regulation of unlisted public companies in September 2012, and NSSTS Co was put into operation in January 2013. According to *Securities Daily*, 272 companies had listed

[9] S. Rabinovitch. 2013. China Badly Needs IPO Thaw. Financial Times. 29 October. http://www.cnbc.com/id/101150291

[10] A. Lee. 2013. China's OTC Equities Markets Explained. IFLR. 21 February. http://www.iflr.com/Article/3158505/Chinas-OTC-equities-markets-exp

Table 4.12: Capital Market – Equity (SME Board and ChiNext in Shenzhen Stock Exchange)

Item	2004	2005	2006	2007	2008	2009	2010	2011	2012
Market Performance - SME Board									
SZSE SME Price Index	...	...	2467.70	6247.56	2863.99	5631.76	6828.98	4295.86	4236.60
Market capitalization (CNY bil.)	41.3	48.2	201.5	1,064.7	627.0	1,687.3	3,536.5	2,742.9	2,880.4
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	6,189.1
Trading volume (bil. shares)	...	13.0	29.7	81.6	118.9	328.4	405.5	373.0	507.6
Market Performance - ChiNext									
SZSE ChiNext Price Index	...	...	...	...	...	...	1137.66	729.50	713.86
Market capitalization (CNY bil.)	...	...	...	...	...	161.0	736.5	743.4	873.1
Trading value (CNY bil.)	...	...	...	...	...	182.8	1,571.8	1,887.9	2,330.5
Trading volume (bil. shares)	...	...	...	...	...	3.9	40.1	76.2	147.8
Listed Companies - SME Board and ChiNext									
Number of listed companies - SME Board	38	50	102	202	273	327	531	646	701
IPO - SME Board	38	12	52	100	71	54	204	115	55
Number of listed companies - ChiNext	...	...	...	...	...	36	153	281	355
IPO - ChiNext	...	...	...	...	...	36	117	128	74

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.

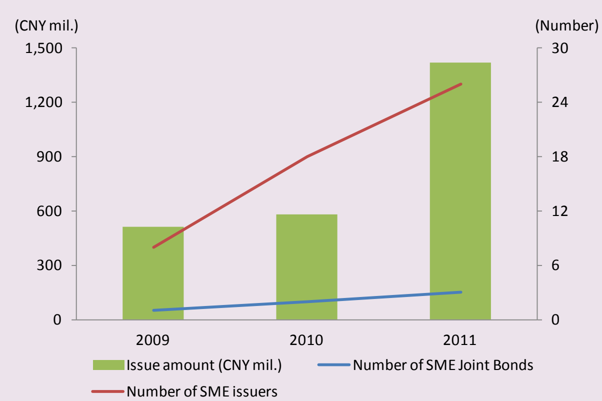
on NSSTS Co, with a combined capital stock of more than 8.1 billion shares as of 6 August 2013.[11]

Other than raising capital through equity, a variety of bond instruments for SMEs have been created. The SME joint bond was introduced in 2007 to overcome the shortcomings of the small size of SME financing. A joint bond is originated by one entity but is jointly applied for by several enterprises under one common name. SME joint bonds are traded in the interbank and exchange markets. Issuance of SME joint bonds stood at CNY1.5 billion in 2011 (Figure 4.25 and Table 4.13).

In November 2009, a new type of medium-term note, the SME collective note, was launched by the National Association of Financial Market Institutional Investors. The collective note, which is traded in the interbank market, is issued by pooling 2–10 SMEs. The collective issuance enhances the credit ratings of SMEs. The association approves the registration of collective notes, which are increasingly popular in the bond market, with a growing annual issuance of CNY6.6 billion in 2011 (Figure 4.26).

As part of the development of the bond markets, the China Bond Insurance Company was established in

Figure 4.25: SME Joint Bonds Issuance



SME = small and medium-sized enterprise.
Source: Annual Report of Financial Services for SMEs in [the People's Republic of] China (2012).

11 Yonggang. 2013. Expansion of Share Transfer System. Securities Daily. 7 August. http://zqrb.ccstock.cn/html/2013-08/07/content_369499.htm

Table 4.13: Capital Market – Bonds
(SME Joint Bonds and SME Collective Notes)

Item	2009	2010	2011
SME Joint Bonds			
Number of SME Joint Bonds	1	2	3
Number of SME issuers	8	18	26
Issue amount (CNY mil.)	515	583	1,418
Average bill coupon rate (%)	6.53	4.91	6.54
SME Collective Notes			
Number of SME Collective Notes	4	19	22
Number of SME issuers	23	72	98
Regions	2	11	11
Issue amount (CNY mil.)	1,265	4,657	6,623
Average bill coupon rate (%)	5.33	4.46	6.47

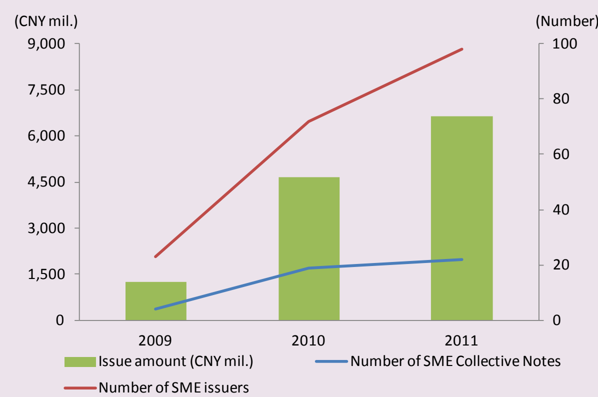
SME = small and medium-sized enterprise.
Source: Annual Report of Financial Services for SMEs in [the People's Republic of] China (2012).

2009 to become the primary bond credit promotion institution in the PRC.

In April 2012, the CSRC gave approval for unlisted SMEs to issue private placement bonds. Regulatory permits are not required for issuing the bonds, but the placement agents should file relevant material with stock exchanges for record keeping. As of November 2013, 234 SME private placement bonds had completed filing with the SZSE, with 150 having accomplished offerings worth CNY16.6 billion. The average coupon rate was 9.15%.

Private equity funds are also growing in the PRC. As cited in the 2012 Financial Stability Report by the PBC (Footnote 5), Zero2IPO reported that 617 funds were raised in 2011 to make investments in mainland PRC, an increase of 2.57 times from 2010. These are driven by the increasing participation of financial institutions in private equity funds, the launch of the New Qualified Foreign Limited Partner pilot program, and the inclination of investors to make more diversified equity investments. The PBC noted that the boom in private equity funds supported the financing of SMEs (Footnote 4).

Figure 4.26: SME Collective Notes Issuance



SME = small and medium-sized enterprise.
Source: Annual Report of Financial Services for SMEs in [the People's Republic of] China (2012).

Policy and Regulation

The Government of the PRC recognizes that the development of SMEs is urgently needed to stabilize growth, adjust industrial structure, and promote development and has been adopting a series of policies and support mechanisms to alleviate the financing difficulties faced by SMEs.

The outline for SME development in the PRC is discussed in the Growth Plan for SMEs in the 12th Five-Year Plan (2011–2015), which is published by the Ministry of Industry and Information Technology (Table 4.14). It focuses on further development of SMEs by accelerating economic transformation, continuously improving policies and regulations, and enhancing services provided that will optimize the growth of SMEs.

Critical projects in the plan are constructing an SME public service platform network and advancing the information accumulation of SMEs. There are four major action plans: (i) building the innovation capacity of SMEs, (ii) establishing small enterprises, (iii) upgrading management of SMEs, and (iv) developing the SME market. Further, the plan noted that the number of SMEs will grow steadily over the 5 years 2011–2015 with an average annual growth rate of 8%.[12]

The State Council, together with various ministries, has announced specific action schemes in support of the Growth Plan for SMEs, and in August 2012 the council released specific schemes to support the development of MSEs. The special fund for MSEs was increased from CNY12.87 billion to CNY14.17 billion in 2012. The government will also allocate CNY15 billion to the SME Development Fund on a 5-year basis, with CNY3 billion for 2012.[13] Additionally, the State Council announced temporary exemption from value-added tax and sales tax for small businesses with monthly sales of less than CNY20,000, starting from 1 August 2013.[14]

The PBC, the China Banking Regulatory Commission, and the National Development and Reform Commission have regulatory responsibilities concerning the bank market, with some areas of overlap.

As the PRC's central bank, the PBC acts as the overall regulator of the banking sector, although some policy banks, such as the China Development Bank and Export-Import Bank of China, are also supervised by the National Development and Reform Commission. Both the PBC and National Development and Reform Commission are developing policies to encourage financial institutions to support SMEs, while controlling credit access.

The China Banking Regulatory Commission is an agency under the PBC that regulates and supervises all deposit-taking financial institutions in the PRC.

The National Association of Financial Market Institutional Investors is a self-regulatory organization in the interbank market under the PBC. It has made self-disciplinary rules for the underwriting and trading of corporate bonds.

The CSRC is the chief regulator of the capital markets in the PRC, and has the power to approve public securities offerings. In June 2013, the CSRC became the sole regulator of the private equity market through the 2012 Revisions of the Securities Investment Fund Law. Previously, private equity funds were registered with the National Development and Reform Commission.

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12 SME.gov.cn. 2011. Ministry of Industry Issued Five-Year SME Growth Plan. 20 October. http://policy.sme.gov.cn/zhengcefagui/content/content.jsp?contentId=2633364188955

13 China Briefing. 2012. China Releases Scheme to Support Micro and Small-Sized Enterprises. 31 August. http://www.china-briefing.com/news/2012/08/31/china-releases-scheme-to-support-micro-and-small-sized-enterprises.html

14 China Taxation News. 2013. The State Council: Some MSMEs to be Temporarily Exempt from VAT [value-added tax] and Business Tax from Next Month. 26 July. State Administration of Taxation of The People's Republic of China. http://www.chinatax.gov.cn/n6669073/n11561411/12374721.html

Table 4.14: 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 policy makers	
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	1) Enhance vitality of entrepreneurial innovation and its capacity to absorb employment 2) Optimize the industrial structure 3) Improve the level of development of specialized, sophisticated, distinctive new industries and industry clusters 4) Improve the management level of SMEs 5) Improve the service system for SMEs
Opinions on Further Supporting Healthy Development of Micro and Small-Sized Enterprises (2012)	SC	1) Implement preferential tax policies 2) Optimize financial policies 3) Establish national development funds 4) Support development through government purchases 5) Lower enterprise-related charges and cancel noncompliance charges
Division of Work for Key Authorities to Further Support the Healthy Development of Micro and Small-Sized Enterprises (2012)	SC	1) Strengthen financial and tax support to MSEs 2) Make efforts to relieve MSEs from difficulties in financing 3) Promote the innovation development and structural adjustment of MSEs 4) Intensify support to the market exploration of MSEs 5) Assist MSEs to improve their operation and management 6) Facilitate the cluster development of MSEs 7) Intensify public service provided to MSEs
Action on Supporting the Development of MSEs (2013)	MIIT	1) Promote supporting measures to assist the development of small and micro enterprises (MSEs) that are innovative, entrepreneurial, and labor intensive 2) Complete the recognition procedure for the third batch of 100 national public service demonstration platforms for SMEs 3) Support more than 500 guarantee institutions to provide guarantee services to MSEs 4) Train 500,000 management personnel and 1,000 leading talents to help MSEs improve their management 5) Establish a management and consultation database for MSEs

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.

India

SME Landscape

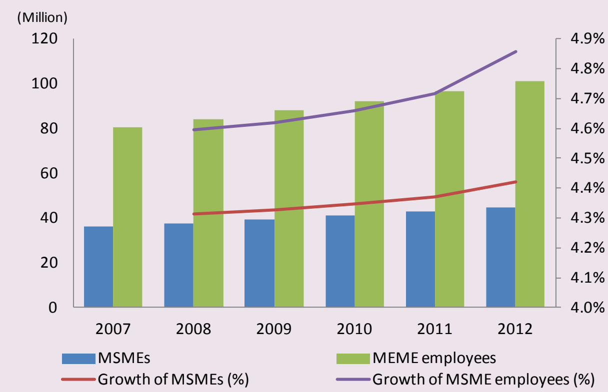
Micro, small, and medium-sized enterprises (MSMEs) play a pivotal role in the Indian economy. As of the end of March 2012, there were 44.8 million MSMEs (a 4.4% increase compared to the end of March 2011) employing 101.3 million people (4.9% increase) and generating gross outputs of Rs18,343 billion (6.6% increase) (Figures 4.27–4.28 and Table 4.15). They contribute more than 45% of the total industrial outputs in India.[1]

The Micro Small and Medium Enterprise Development (MSMED) Act 2006 defines MSMEs on the basis of the investment in plant and machinery. In the manufacturing sector, firms investing less than Rs2.5 million are classified as micro enterprises, firms investing Rs2.5 million–Rs50.0 million are classified as small enterprises, and those investing Rs50 million–Rs100 million are classified as medium-sized enterprises. In the service sector, firms investing less than Rs1 million are classified as micro enterprises, firms investing Rs1 million–Rs20 million are classified as small enterprises, and those investing Rs20 million–Rs50 million are classified as medium-sized enterprises. Based on this, the Annual Report of MSMEs for the Financial Year 2012–13[2] indicated that 31.8% of MSMEs were engaged in manufacturing and 68.2% were in the service sector (Figure 4.29 and Table 4.16). When looking at the detailed sectors, retail trade except for automotive and two wheelers accounted for 39.9% of MSMEs (Figure 4.30).

1 The data from the Report of the Working Group on Micro, Small and Medium Enterprises Growth for 12th Five-Year Plan (2012–2017). 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 under way.

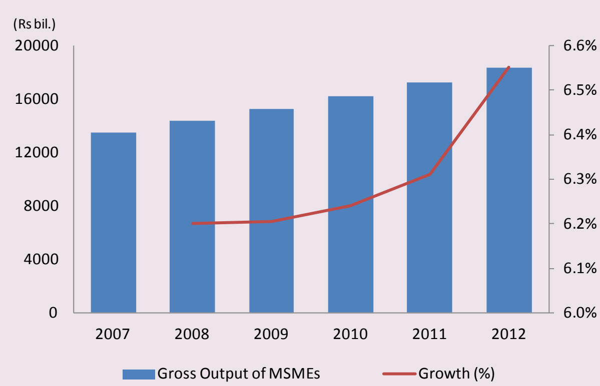
2 In India, the financial year starts on 1 April and ends on 31 March next year. Thus, in this chapter, for example "2012 data" means data as of 31 March 2012.

Figure 4.27: Number of SMEs and Employment by SMEs



MSME = micro, small and medium-sized enterprise.
Note: Data based on registered and unregistered MSMEs.
Source: Annual Report of MSMEs for the Financial Year 2012–13.

Figure 4.28: Gross Output of SMEs



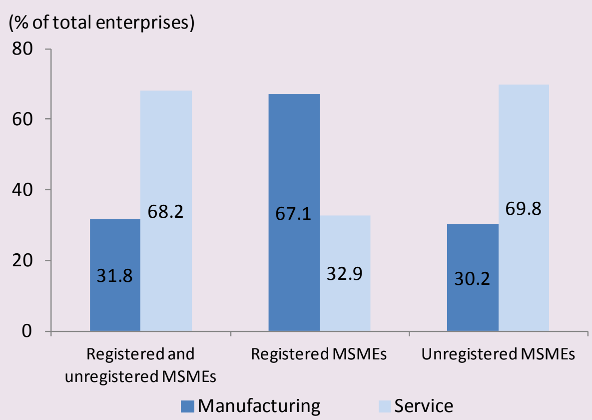
MSME = micro, small and medium-sized enterprise.
Note: Data include micro enterprises.
Source: Annual Report of MSMEs for the Financial Year 2012–13.

Table 4.15: SME Landscape (1)

Item	2007	2008	2009	2010	2011	2012
Number of MSMEs						
MSMEs - registered and unregistered (mil.)	36.2	37.7	39.4	41.1	42.9	44.8
Growth (%)	...	4.3	4.3	4.3	4.4	4.4
Employment by MSMEs						
MSME employees - registered and unregistered (mil. people)	80.5	84.2	88.1	92.2	96.6	101.3
Growth (%)	...	4.6	4.6	4.7	4.7	4.9
Gross Output of MSMEs (Rs bil.)	13,514	14,352	15,242	16,194	17,216	18,343
Growth (%)	...	6.2	6.2	6.2	6.3	6.6

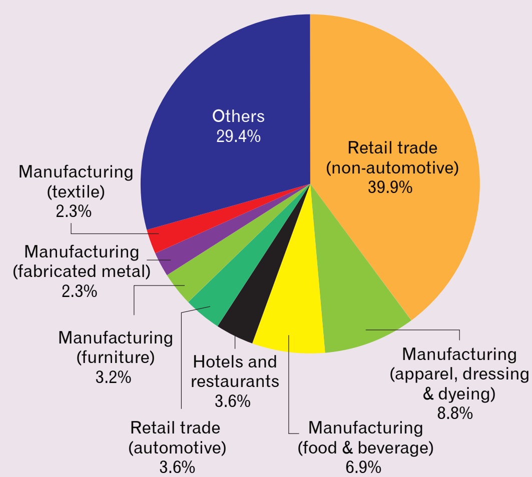
MSME = micro, small, and medium-sized enterprise.
Notes: Data include micro enterprises. Projected statistics of total number of MSMEs and total employment beyond 2006–2007 (after the Fourth All India Census of MSMEs).
Source: Annual Report of MSMEs for the Financial Year 2012–13.

Figure 4.29: Composition of SMEs



MSME = micro, small and medium-sized enterprise.
Note: Data include micro enterprises.
Source: Annual Report of MSMEs for the Financial Year 2012–13.

Figure 4.30: SMEs by Sector



MSME = micro, small, and medium-sized enterprise.
Note: Data include micro enterprises.
Source: Annual Report of MSMEs for the Financial Year 2012–13.

The Ministry of Micro, Small and Medium Enterprises is the focal ministry for MSME development. MSMEs are obliged to register their business through the district industries centers under the Ministry of MSMEs. The Office of Development Commissioner under the ministry is responsible for collecting data pertaining to the MSME sector through the national census. However, attempts are being made by the government to accurately capture SME conditions in India.

The All India Census of Micro, Small and Medium Enterprises provides general indicators of MSMEs, e.g., number of firms and employees. The MSME census has been conducted four times so far. While the first (1973–1974) and the second (1990–1992) censuses focused on registered SMEs, the third (2001–2002) and fourth (2006–2007) extended the survey coverage to registered and unregistered MSMEs. The fourth census coincided with the enactment of the MSMED Act 2006, and was required to broaden the scope of enterprises, covering the manufacturing and service sectors and medium-sized enterprises.

Table 4.16: SME Landscape (2) (million)

Item	Registered Sector	Unregistered Sector	Total
Number of MSMEs			
Total working enterprises	1.56	34.61	36.17
Women enterprises	0.21	2.44	2.66
Enterprises running perenially	1.51	18.91	20.42
By sector			
Manufacturing	1.05	10.45	11.50
Service	0.51	24.16	24.67
By location			
Rural enterprises	0.70	19.31	20.01
Urban enterprises	0.85	15.30	16.15
By organizational type			
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
By main source of power			
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
Employment by MSMEs			
MSME employees	9.30	71.21	80.52
By sector			
Manufacturing	8.08	23.92	32.00
Service	1.22	47.29	48.51
By gender			
Male employees	7.40	61.06	68.46
Female employees	1.90	10.15	12.05

MSME = micro, small, and medium-sized enterprise.
Notes: Data include micro enterprises. 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.

Two separate methodologies were employed for compiling data on registered and unregistered MSMEs in the fourth census. The registered MSMEs were estimated based on the surveys for three segments: (i) firms permanently registered at the district industries centers by the end of March 2007, (ii) firms registered under the Factories Act 1948,[3] and (iii) village enterprises registered under the Khadi and Village Industries Commission[4] and Coir Board.[5] Unregistered MSMEs were estimated based on the sampling method wherein activities in wholesale and retail trade; legal, education, and social services; hotels and restaurants; transportation; and storage and warehousing were excluded from the sampling coverage and such data were extracted from the Economic Census 2005.[6] The sampling was conducted at two levels: villages and urban areas. The MSME time-series data beyond the fourth census has been projected in the Annual Report of MSMEs for the Financial Year 2012–13.

This annual report also gives the growth rates in registered MSMEs. The number of MSMEs registered in district industries centers has increased 10% every year between 2007 and 2011, whereas growth almost doubled (19% in 2012). The Indian economy recorded 7.9% growth during 2006–2012 despite the 2008/09 global financial crisis. High growth of the MSME sector during this period (13% every year) contributed to economic growth in India. In the 12th Five-Year Plan (2012–2017), a midterm economic policy, there are plans to double the disbursements compared to the previous plan (2008–2012) for MSME sector development; the Ministry of MSME is the second-highest recipient among all ministries and departments.

3 The Factories Act 1948 is the law regulating labor in factories enacted in 1948. The act is enforced by the factories directorates under the state governments.

4 *Khadi* means Indian home spun cotton. The Khadi Village Industries Commission (KVIC) works under the administrative control of the Ministry of MSMEs. The KVIC was established under the KVIC Act 1956 (Act no 61 of 1956) as a statutory organization engaged in developing and promoting khadi and village industries for providing employment opportunities in rural areas.

5 Coir is fiber from the outer husk of the coconut, used for making ropes and matting. The Coir Board is a statutory body established by the Government of India under legislation enacted by the Parliament, the Coir Industry Act 1953 (45 of 1953), for the promotion and development of the coir industry in India as a whole. The Coir Board also works under the administrative control of the Ministry of MSMEs.

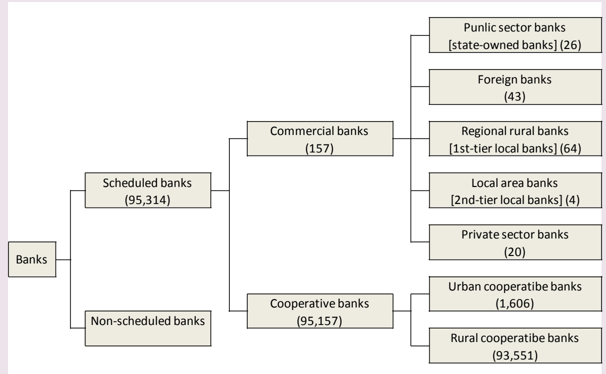
6 The Economic Census is the census of the Indian economy which counts all entrepreneurial units in the country involved in any economic activities (in agriculture or not), and engaged in production and/or distribution of goods and/or services not for the sole purpose of own consumption. The Economic Census was launched in 1976 and is conducted by the Central Statistical Organization of India.

Banking Sector

In the Indian banking system, banks are classified into scheduled banks and nonscheduled banks (Figure 4.31). Scheduled banks have been listed in the Second Schedule section of the Reserve Bank of India (RBI) Act 1934[7] as licensed banks. Scheduled banks are able to carry out extensive banking operations, including foreign exchange operations, whereas nonscheduled banks can only carry out limited activities. Scheduled banks are divided into commercial banks and cooperative banks. As of the end of March 2013, among commercial banks there were 26 public sector banks (state-owned banks), 20 private sector banks, 43 foreign banks, 64 regional rural banks (first-tier local banks),[8] and 4 local banks (second-tier local banks).[9] Cooperative banks comprised 1,606 urban and 93,551 rural cooperative banks. In terms of the share of financial assets, banks control 63% of the total.

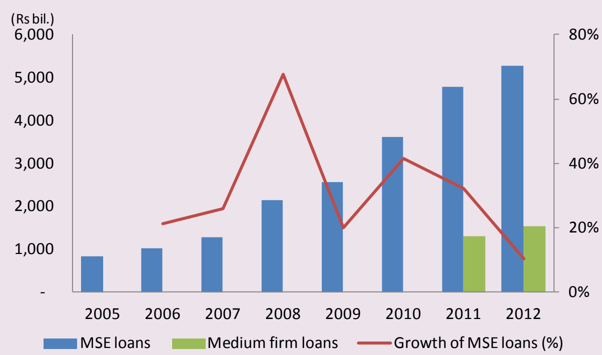
As of the end of March 2012, 9.95 million MSMEs held their bank accounts with scheduled commercial banks, and the total outstanding credit to MSMEs was Rs6,813 billion. The total credit to micro and small enterprises (MSEs) by scheduled commercial banks increased from Rs2,136 billion as of the end of March 2008 to Rs5,277 billion at the end of March 2012 (Figure 4.32 and Table 4.17). Public sector commercial banks controlled 76.0% of the total finance to the MSE sector, followed by private sector banks (20.2%) and foreign banks (3.8%) as of the end of March 2012. Access to credit for MSEs has gradually improved but the geographical financing gap remains and is widening (Figure 4.33).

Figure 4.31: Banking System in India



Note: ( ) = number of licensed banks.
Source: Recomposed based on data from the Reserve Bank of India.

Figure 4.32: SME Loans Outstanding



MSE = micro and small enterprise, SME = small and medium-sized enterprise.
Note: Data based on MSEs.
Source: Reserve Bank of India.

The Government of India launched the Credit Guarantee Fund Scheme for Micro and Small Enterprises in August 2000 with the objective of improving access to credit for MSEs, particularly micro enterprises. The scheme is being operated by the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) set up jointly by the Government of India and the Small Industries Development Bank of India (SIDBI). The scheme covers collateral-free credit (term loan and/or working capital) extended by eligible member lending institutions to existing and new MSEs up to Rs10 million per borrowing unit. The guarantee cover provided is up to 75% of the credit facility with a maximum of Rs5 million in total, and 50% incremental guarantee of the credit facility is available above Rs5 million with a maximum of Rs10 million. A one-time guarantee fee of 1.50% of the credit facility is applied and an annual service fee of 0.75% is collected from member lending institutions. The CGTMSE is funded by the Government of India and the SIDBI in the ratio of 4:1, and stood at Rs22,015 million as of the end of 2012. There were 131 lending institutions registered as

7 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.

8 Regional rural banks are operated by different states of India with the objective of mobilizing financial resources from rural and semi-urban areas and grant loans mostly to small and marginal farmers, agricultural laborers, and rural artisans. The area of operation of such banks is limited to the area as notified by Government of India covering one or more districts in the state. Regional rural banks were established under the provisions of an ordinance passed on 26 September 1975 and the RRB Act, 1976.

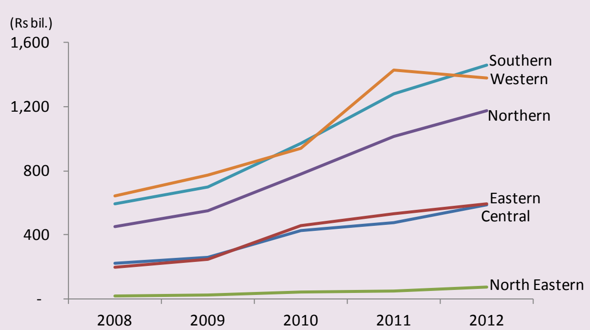
9 Local area banks were established with a view to overcoming the deficiencies of regional rural banks. Local area banks are regional banks set up in rural and semi-urban areas.

Table 4.17: Banking Sector – SME Loans

Item	2005	2006	2007	2008	2009	2010	2011	2012
Loans Outstanding								
MSE loans (Rs bil.)	835*	1,012*	1,273*	2,136**	2,561	3,623	4,785	5,277
Growth of MSE loans (%)	...	21.2	25.8	67.8	19.9	41.4	32.1	10.3
Medium firm loans (Rs bil.)	...	...	...	...	...	...	1,290	1,536
Growth of medium firm loans (%)	...	...	...	...	...	...	...	19.1
MSE Loans by Region (Rs bil.)								
Central	...	...	...	222	262	429	474	591
Eastern	...	...	...	199	248	456	533	594
North Eastern	...	...	...	20	26	41	51	72
Northern	...	...	...	451	548	779	1,013	1,179
Southern	...	...	...	596	700	974	1,283	1,463
Western	...	...	...	646	777	944	1,432	1,379
Number of Loan Accounts held by MSEs (mil.)								
Central	...	...	...	0.72	0.65	1.34	1.4	1.55
Eastern	...	...	...	0.79	0.96	1.52	1.54	1.63
North Eastern	...	...	...	0.12	0.16	0.2	0.24	0.22
Northern	...	...	...	0.78	0.65	1.34	1.5	1.46
Southern	...	...	...	1.71	1.65	2.87	3.1	3.37
Western	...	...	...	0.73	0.78	1.24	1.52	1.62

MSE = micro and small enterprise.
Note: Data based on MSEs.
* Data for 2005–2007 has been extracted from the Annual Report of MSMEs for the Financial Year 2012–13.
** The high growth witnessed during 2008 is attributable to reclassification of MSE's as per the MSMED Act 2006, wherein the investment limit of small (manufacturing) enterprises was raised from Rs10 million to Rs50 million, and small service enterprises were added to include enterprises with investment limits of Rs1 million–Rs20 million. The coverage of service enterprises was broadened to include small road and water transport operators, small businesses, professional and self-employed, and all other service enterprises as per the definition provided under the MSMED Act 2006. Under the Reserve Bank of India vide circular no RPCD.CO.Plan. BC.24/04.09.01/2009-10 dated 18 September 2009, retail traders with credit limits not exceeding Rs2 million have also been included as MSEs.
Source: Reserve Bank of India.

Figure 4.33: SME Loans by Region



SME = small and medium-sized enterprise.
Note: Data based on micro and small enterprises.
Source: Reserve Bank of India.

member lending institutions of the trust as of the end of 2012. Cumulatively, 958,122 proposals were approved for guarantee cover for total applied loans of Rs476 billion as of the end of 2012.

The RBI has identified SME credit by banks as a priority area for lending.[10] On the recommendations of the Prime Minister's Task Force on MSMEs,[11] banks have been advised to achieve 20% year-on-year growth in credit to MSEs, 10% annual growth in the number of micro enterprise accounts, and 60% of total lending to the MSE sector compared to the previous end of

[10] Detailed guidelines on priority sector lending are available in the RBI Master Circular no. RPCD.CO.Plan.BC 9 /04.09.01/2013-14 dated 1 July 2013.

[11] 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.

March lending to micro enterprises.[12] In the wake of the recent slowdown in the Indian economy, which has put additional pressure on the liquidity position of MSMEs, the RBI introduced two separate schemes on 18 November 2013. The first scheme covers MSEs and is a refinance facility of Rs50 billion provided to the SIDBI under the provisions of section 17 (4H) of the RBI Act 1934 for a period of 1 year ending 13 November 2014. Under the scheme, refinance will be available against receivables outstanding as of 14 November 2013 at the prevailing 14-day repo rate for a period of 90 days. During the 90-day period, the amount can be flexibly drawn and repaid or rolled over. Under the second scheme, medium-sized enterprises are included in the purview of priority sector lending (earlier only MSEs were covered) and incremental credit will be provided to such enterprises by scheduled commercial banks (excluding regional rural banks).

The State Bank of India (SBI) is the largest scheduled public sector commercial bank in India. Its total loans to SMEs as of the end of March 2013 were Rs1,841 billion, accounting for 17% of total bank loans. SME loans registered year-on-year growth of 12.5% as of the end of March 2013. The SBI launched SME City Credit Centers at the end of March 2005. The centers serve as centralized loan processing venues for application of SME loans up to Rs10 million. At present, 78 centers are functional across the country, enabling quick processing of SME loans. The SBI is also a member lending institution under the CGTMSE scheme, and its total credit outstanding under the scheme was Rs72 billion as of the end of March 2013. To provide additional relief to SME borrowers under the scheme, the bank absorbs the guarantee charges payable to the CGTMSE instead of passing it on to borrowers. Apart from the general working capital requirements—such as cash credit, bill discounting limits, letters of credit, and bank guarantees—to meet the day-to-day requirements and term loans to take care of investment needs for acquiring fixed assets, the SBI has an array of products and schemes to cater to the enterprise-specific requirements of SME units in the manufacturing, trade, and service sectors. Some innovative products include the SME Credit Card, which provides term and working capital loans up to Rs1 million to MSEs for 3 years with annual review. The product has a simplified approval process which does not require supply of elaborate financial data. The SBI also grants interest-free loans as equity up to a maximum of Rs1 million, to assist eligible professional and technically qualified entrepreneurs in setting up new MSEs.

The ICICI Bank is India's largest private sector commercial bank and the second-largest overall. SMEs are central to ICICI Bank's overall expansion strategy and to this end it has strategically separated a banking unit with a mandate to serve SMEs only. The ICICI Bank endeavors to provide customized solutions for SMEs and, to achieve this objective, the bank has invested heavily in understanding the industries where Indian SMEs are most present. The bank identified 12 priority industries out of 165 at the national level and worked to develop deeper expertise in serving SMEs in these industries. The bank also employs the detailed credit risk evaluation methodology which includes trade references, business profiles, transaction histories, and other nontraditional mechanisms to help compensate for SMEs' lack of financial statements. To better serve SMEs in India, the bank, in association with the International Finance Corporation (IFC), has created an SME toolkit website as an online resource center providing comprehensive and easy-to-use information on a variety of topics such as business planning, accounting, human resources, international business, legal matters, insurance, taxation, marketing, operations, technology, and tenders.[13] It also has free downloadable software tools such as the Business Plan Maker, the Website Builder, and a large collection of how-to articles.

Nonbank Sector

As per the RBI, nonbank financial companies (NBFCs) are firms registered under the Companies Act 1956.[14] They are engaged in lending, investments in shares and bonds, leasing, hire purchase, insurance, and chit business.[15] NBFCs include deposit-taking financial institutions. However, institutions whose principal

[12] 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 1 July 2013.

[13] ICICI SME Toolkit Website: www.icicibank.com/business-banking/sme-toolkit/SME-toolkit.html

[14] The Companies Act of 1956 is an act of Parliament of India, enacted in 1956, which enabled companies to be formed by registration. The Companies Act 1956 is administered by the Government of India though the Ministry of Corporate Affairs.

[15] A chit fund company is one which manages, conducts, or supervises as foreman, agent, or in any other capacity, chits as defined in Section 2 of the Chit Funds Act, 1982. As per the act: "Chit means a transaction whether called chit, chit fund, chitty, committee, kuri or by any other name by or under which a person enters into an agreement with a specified of persons that every one of them shall subscribe a certain sum of money (or a certain quantity of grain instead) by way of periodical installments over a definite period and that each such subscriber shall, in his turn, as determined by lot or by auction or by tender or in such other manner as may be specified in the chit agreement, be entitled to the prize amount."

business is agriculture; industrial activity; or trading, sale, purchase, or construction of immovable property are not included as NBFCs. In addition to being a banking regulator, the RBI also regulates and supervises NBFCs in accordance with the RBI Act 1934.

The RBI classifies NBFCs into the following categories: asset finance company, investment company, loan company, infrastructure finance company, systemically important core investment company, infrastructure debt fund, NBFC microfinance institution, and NBFC factors.

According to the Ministry of Finance,[16] the number of NBFCs decreased from 13,014 in 2006 to 12,409 in 2011, but the NBFC industry grew by 2.6 times between 2006 and 2011 at a compound annual growth rate of 21%. It accounted for 10.8% of outstanding loans and 13.0% of assets of the banking system in 2006. This share rose to 13.2% of outstanding loans and 13.8% of assets in 2011.

The Frost and Sullivan's report[17] indicated that the MSME loan market for NBFCs in India stood at Rs72,030 million in financial year (FY) 2012 and is estimated to reach Rs3,84,170 million in FY2020, growing at a compound annual rate of 23.3%. It estimated that MSMEs in India have a total finance demand of Rs32.5 trillion, of which the addressable market for financial institutions is Rs11.8 trillion. Given that Rs7.0 trillion is currently provided by financial institutions, the supply–demand gap of close to Rs4.8 trillion has broadened the potential markets for NBFCs in India, on which they need to capitalize through innovative business models.

NBFCs are aggressively focusing on loans to the SME sector. Though the cost of funding through NBFCs is generally 1.0%–1.5% higher than bank lending rates, the terms of funding—such as security and collateral requirements and structured repayment terms—are more benign than those of banks. Furthermore, NBFCs have focused on a new segment of clients who are not yet served by banks, i.e., financing SMEs through innovative products and services such as loans against property and financing for secondhand and reconditioned vehicles, construction equipment, and secured and unsecured working capital.

[16] Department of Financial services, Ministry of Finance. Key Advisory Group Report on Non Banking Finance Companies in India dated 31 July 2012.

[17] S. Kothari. 2013. Analysis of MSME Small Loan Credit Market for NBFCs in India. http://www.frost.com/sublib/display-report.do?id=P759-01-00-00-00

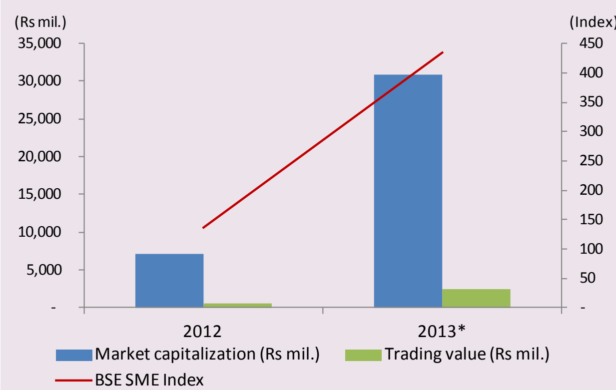
Capital Markets

The Securities Exchange Board of India (SEBI) regulates and supervises capital markets, and laid down the framework for SME exchanges in 2008. As per SEBI guidelines, SME exchanges should be set up as corporatized entities (bodies with a structure found in publicly traded firms). The Prime Minister's Task Force also recommended the setting up of a dedicated SME platform or a stock exchange for SMEs (January 2010). The SEBI guidelines for listing on the SME platform stipulate that an issuer with a post-issue face value of up to Rs100 million would invariably be covered under the SME exchange, whereas issuers with a post-issue face value capital of Rs100 million–Rs250 million may get listed either on the SME exchange or on the main board (Table 4.18). The SEBI has relaxed norms for listing on the SME exchange as issuers do not need to have a track record of distributable profits for 5 years, as is the case when listing on the main board.

The Bombay Stock Exchange (BSE) and the National Stock Exchange are the two largest stock exchanges in India. They work under the supervision of the SEBI, and both have launched a separate SME exchange.

In September 2011, the BSE was the first to receive the approval of the SEBI to launch an SME platform in India. As of 19 November 2013, 41 companies were listed on the BSE SME platform, and the total market capitalization was Rs30,808 million (Figure 4.34 and

Figure 4.34: Market Performance - SME Platform, Bombay Stock Exchange



* Data on 19 November 2013.
BSE = Bombay Stock Exchange, SME = small and medium sized enterprise.
Source: Bombay Stock Exchange SME Platform.

Table 4.18: Listing Criteria - Main Board and SME Exchange

Parameters	Main Board	SME Exchange
Post – issue paid up capital (Face value)	Not less than Rs 100 million	Any amount less than Rs 250 million
Minimum number of allotees	1,000	50
IPO (Initial Public Offering) Application Size	Rs 10,000 - Rs 15,000	Minimum Rs 1,00,000
Observation on Draft Red Herring Prospectus (DRHP)	By SEBI	By Exchange
IPO Grading	Mandatory	Non Mandatory
Track record	Three years of track record of profitability	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)
Time Frame for Listing	6-8 months	2-3 months
Reporting Requirements	Quarterly	Bi-annually

IPO = initial public offering, SEBI = Securities Exchange Board of India, SME = small and medium-sized enterprise.
Source: Securities Exchange Board of India website.

Table 4.19: Market Performance - SME Platform, Bombay Stock Exchange

Item	2012	2013*
BSE SME Index	137	435
Market capitalization (Rs mil.)	7,197	30,808
Trading value (Rs mil.)	605	2,527

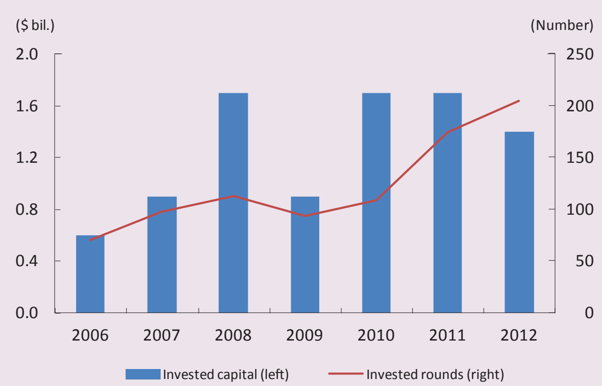
*Data on 19 November 2013.
BSE = Bombay Stock Exchange, SME = small and medium-sized enterprise.
Source: Bombay Stock Exchange SME Platform.

Table 4.19). By sector, the financial services industry accounted for 15% of the total number of companies listed, followed by construction and engineering (12%), and food processing and agriculture (10%).

The National Stock Exchange SME platform, called Emerge, was launched in September 2012. Firms with paid-up capital of less than Rs250 million can get listed; as of 30 July 2013, only three companies were listed on the Emerge section. All were manufacturing enterprises and the total market capitalization was Rs1,987 million.

Venture capital has emerged as an important source of capital for SMEs in India. Ernst and Young's report [18]indicated that venture capital investments in India in 2012 stood at $1.4 billion (approximately Rs74 billion), while in 2011 it was $1.7 billion (approximately Rs79 billion) (Figure 4.35 and Table 4.20). It was also noted in the report that venture capital investments in India weighed towards later-stage investments. The proportion of deals in the revenue-generating stage was 87% in 2012, up from 83% in 2011 and 81% in 2010. Currently there are three sets of regulations dealing with the venture capital industry in India: (i) the SEBI Venture Capital Regulations 1996, (ii) the Guidelines for Overseas Venture Capital issued by the Ministry of Finance, and (iii) the Central Board of Direct Taxes Guidelines for Venture Capital Companies 1995 (amended in 1999).

Figure 4.35: Venture Capital Investments



Source: Ernst and Young Report – Turning the Corner Venture Capital Insights 2013.

[18] Ernst and Young. 2013. Turning the Corner – Global Venture Capital Insights and Trends 2013. http://www.ey.com/Publication/vwLUAssets/Global_VC_insights_and_trends_report_2012/$FILE/Turning_the_corner_VC_insights_2013_LoRes.pdf

Table 4.20: Venture Capital Investments

Item	2010	2011	2012
Invested capital ($ bil.)	0.9	1.7	1.4
Invested rounds	109	175	205
Median round size ($ mil.)	7.25	5.45	3.61
No of VC backed IPOs	6	2	2
IPO capital raised ($ bil.)	0.5	0.05	0.02

IPO = initial public offering, VC = venture capital.
Source: Ernst and Young Report – Turning the Corner Venture capital Insights 2013.

SIDBI is a public financial institution involved in venture capital funding operations. It operates through its wholly owned subsidiary, SIDBI Venture Capital, incorporated in July 1999. The funds managed by SIDBI Venture Capital include the National Venture Fund for Software and Information Technology set up by SIDBI in association with the Ministry of Communications and Information Technology. The fund is a 10-year fund with a corpus of Rs1 billion. The SME Growth Fund has also been set up by SIDBI in association with commercial banks. It is also the fund dedicated to the SME sector with a corpus of Rs5 billion. The India Opportunities Fund set up in association with public sector banks and insurance companies is a sector-agnostic fund (i.e., not focused on a particular sector) focused mainly on growth capital needs of India's growing and unlisted MSMEs.

Another central government company, IFCI Venture Capital Funds, also operates venture funds focusing on SMEs; these funds include the Indian Automotive Components Manufacturers Private Equity Fund, the Green India Venture Fund, and the India Enterprise Development Fund.

Since 2006, new venture capital entities have been focusing on SMEs; these include Helion Venture Partners, Erasmic Venture Fund (Accel India Venture Fund), Seed Fund, and Upstream Ventures. While technology remains the most sought-after investment field, interest has been shifting from internet companies to other types of operations—especially information and communication technology services and biotechnology.

A few venture capital entities also have an early stage firm focus; these include Erasmic Venture Fund, Seed Fund, Infinity Venture, and the government schemes such as SIDBI Venture Capital and the Gujarat Venture Fund. Early stage venture capital entities seek smaller deals, typically in the $1 million–$3 million range. However, they rarely go below the $0.5 million mark, where there is a strong appetite for financing but very few opportunities. Possible sources of smaller investments are represented by local public sector facilities, business angels, business incubator funds, and isolated cases of seed venture capital entities funds such as micro venture schemes, e.g., the Aavishkaar India Micro Venture Capital Fund.

Policy and Regulation

The MSMED Act 2006 is the first legal framework for the recognition of the concept of enterprise both in the manufacturing and service sectors, and defines MSMEs for the first time (Table 4.21). The act provides for the establishment of specific funds for the promotion of competitive MSMEs, notification of schemes and programs, and credit policies and mechanisms for mitigating the problems of MSMEs.

The Government of India Rules 1961, which stipulate responsibilities and business allocation among government entities, were amended in May 2007 to merge the erstwhile Ministry of Small Scale Industries and the Ministry of Agro Rural Industries to form the Ministry of MSMEs.

The ministry is the premier organization responsible for formulating policy frameworks and regulations for the development of SMEs and supplementing the initiatives of various state governments for MSME development. The ministry has two divisions: the SME Division and the Agro and Rural Industry Division. Each has several organizations working under it for the development of SMEs, agriculture, and rural industries. The ministry established the Office of Development Commissioner to implement various policies and programs for MSME development.

The Limited Liability Partnership Act 2008 is expected to boost the SME sector. Because of the high compliance costs for companies, most SMEs run either as a proprietorship or partnership firm, which generally forms part of the unorganized sector. The Limited Liability Partnership Act enables SMEs to avail the themselves of the benefits of lower compliance requirements associated with partnership firms and, at the same time, be eligible for certain benefits applicable to limited liability corporations.

The Factoring Regulation Act 2011 was passed by the Government of India to address the problem of delayed payments to micro and small businesses for purchase of goods and services by large firms. Factoring enables

Table 4.21: 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	
Regulators and policy makers		
Name	**Responsibility**	
Ministry of Micro, Small and Medium-Sized Enterprises	Policies and regulations for the development of SMEs	
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	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	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	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	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	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.

MSME = micro, small, and medium-sized enterprise, SME = small and medium-sized enterprise.
Source: Annual Report of MSMEs for the Financial Year 2012–13 and Ministry of MSMEs website.

MSMEs to sell their accounts receivable or invoices to the factor at a discount. As per the act, any company can commence factoring by obtaining registration from the RBI as an NBFC. Such registration shall be governed by the existing law applicable to NBFCs (Chapter III B of the RBI Act 1934) as well as the Factoring Regulation Act 2011. Banks and corporations established under the act can also undertake factoring without registering with the RBI. Thus, organizations such as SIDBI and the Export-Import Bank of India can undertake factoring.

The RBI has notified lending to MSMEs as a priority sector and provided guidelines on MSME lending through its various circulars.

Various policy measures have also been issued by the government. The Policy of Reservation of Products for Exclusive Manufacture in Small Scale Industries (currently targeting MSEs) was initiated in 1967 with the objective of socioeconomic development and countering regional industrial imbalances. However, with the gradual liberalization of the economy, certain products reserved for exclusive manufacture by MSEs had to be dereserved but at the same time opportunities had to be provided to MSEs for technological upgrade. Products are reserved or dereserved (for the exclusive manufacture by MSEs) in accordance with section 29 (B) of the Industries Act 1951, which, among other things, provides for the constitution of the advisory committee which makes recommendations for reservation or dereservation of products. Currently, 20 products are reserved for exclusive MSE manufacture.

The Government of India announced the National Manufacturing Competitiveness Program in 2005. It was done with a view to building the manufacturing capacity of Indian MSMEs so as to overcome competition in global markets and effectively deal with the challenge posed by the entry of multinationals into the domestic market. The program lays down 10 components to support MSMEs, including marketing support, incubation support, setting up training centers, and building awareness on intellectual property rights.

On the recommendation of prominent MSME associations, the prime minister set up a task force on MSMEs on 2 September 2009. The task force is headed by the principal secretary to the prime minister, and includes members of the Planning Commission, secretaries of government departments, the deputy governor of the RBI, the chair of SIDBI, and representatives of MSME associations. The recommendations of the task force cover six thematic areas: (i) credit, (ii) marketing, (iii) labor rehabilitation and exit policy, (iv) infrastructure, (v) technology and skill development, and (vi) taxation.

Other policy measures for the development of MSMEs include the Rajiv Gandhi Udyami Mitra Yojna, which provides support and assistance to potential first-generation entrepreneurs who have already completed various training programs offered by the Ministry of MSMEs. Through this scheme, new and existing entrepreneurs are educated about legal and other procedures necessary to set up and run new enterprises, and guidance is provided on various government support programs.

In exercise of the powers conferred in section 11 of the MSMED Act 2006, the Government of India has notified the Public Procurement Policy for goods and services produced and rendered by MSMEs. This policy mandates all central governmental entities to allocate a minimum 20% of their procurement of goods and services to MSMEs.

Indonesia

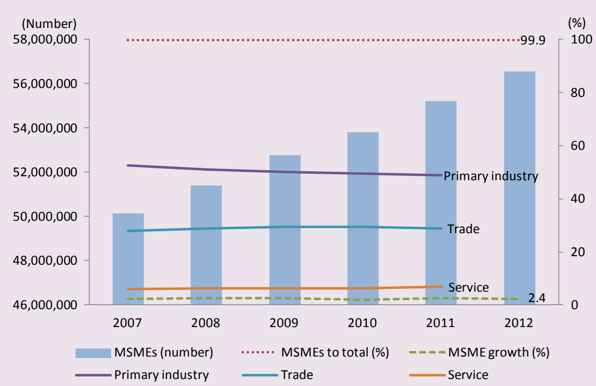
SME Landscape

The Indonesian economy has been growing with resilience amid rapid change in the global economy. Such growth is backed by strong domestic demand and is being driven by the micro, small, and medium-sized enterprise (MSME) sector. In Indonesia, there were 56.5 million MSMEs accounting for 99.9% of total enterprises in 2012 (Figure 4.36 and Table 4.22). The MSME sector has constantly recorded around 2% year-on-year growth, even during and after the 2008/09 global financial crisis. Primary industry such as agriculture, forestry, and fisheries accounts for around 50% of MSMEs, followed by wholesale and retail trade and the hotel and restaurant sector (28.8% combined in 2011).

The MSME sector absorbs 97% of the total workforce in business sectors, with 107.7 million employees with 5.8% year-on-year growth in 2012 (Figure 4.37). The majority of MSME workers belonged to primary industry (42.4% of MSME employees in 2011), followed by trade (21.7%), manufacturing (11.7%), and services (10.5%). They have underpinned the national economy with a stable contribution of around 60% of gross domestic product (GDP), in which the trade sector is most active (26.7% of MSME GDP in 2011) (Figures 4.38–4.39).

Indonesian MSMEs have a relatively good influence on international trade, contributing 14.1% of total export values in 2012 (Figure 4.40). Small-scale export-oriented manufacturers, e.g., handicrafts and wooden furniture industries, exist all over Indonesia. They often organize a cluster and succeed in making their production process efficient (e.g., a wooden furniture cluster in Jepara, Central Java). MSME exports were directly impacted by the global financial crisis, with a sharp decrease of 8.9% in 2009. Although the business environment is gradually recovering, growth of MSME exports remains volatile (11.1% year-on-year decrease in 2012).

Figure 4.36: Number of SMEs



MSME = micro, small, and medium-sized enterprise; Primary industry = agriculture, forestry, and fisheries.
Note: Data include micro enterprises.
Source: Ministry of Cooperatives and SMEs.

Figure 4.37: Employment by SMEs

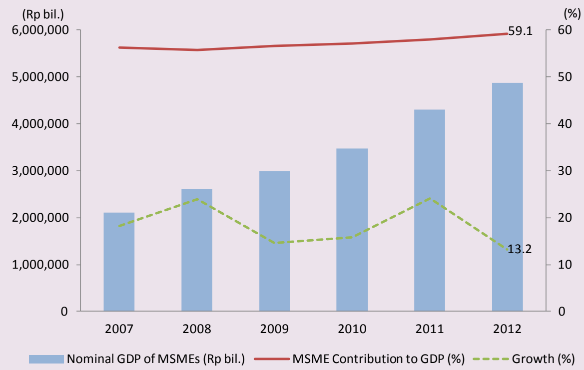
MSME = micro, small, and medium-sized enterprise; Primary industry = agriculture, forestry, and fisheries.
Note: Data include micro enterprises.
Source: Ministry of Cooperatives and SMEs.

Table 4.22: SME Landscape

Item	2007	2008	2009	2010	2011	2012
Number of MSMEs						
MSMEs (number)	50,145,800	51,409,612	52,764,603	53,823,732	55,206,444	56,534,592
MSMEs to total (%)	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
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	...
Employment by MSMEs						
MSME employees (people)	90,491,930	94,024,278	96,211,332	99,401,775	101,722,458	107,657,509
MSME employees to total (%)	97.3	97.2	97.3	97.2	97.2	97.2
MSME employees growth (%)	2.9	3.9	2.3	3.3	2.3	5.8
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	...
MSME Contribution to GDP						
Nominal GDP of MSMEs (Rp bil.)	2,107,868	2,613,226	2,993,152	3,466,393	4,303,572	4,869,568
MSME Contribution to GDP (%)	56.3	55.7	56.5	57.1	57.9	59.1
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	...
MSME Exports						
MSME exports (Rp bil.)	140,364	178,008	162,255	175,895	187,442	166,627
MSMEs to total exports (%)	17.7	18.1	17.0	15.8	16.4	14.1
MSME export growth (%)	13.4	26.8	(8.9)	8.4	6.6	(11.1)
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	...

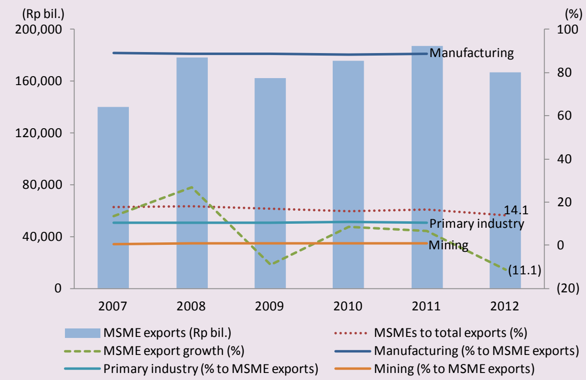
GDP = gross domestic product; MSME = micro, small, and medium-sized enterprise.
Note: Data include micro enterprises.
* Primary industry includes agriculture, forestry, and fisheries.
** Trade includes wholesale and retail trade and the hotel and restaurant sectors.
Source: Ministry of Cooperatives and SMEs.

Figure 4.38: SME Contribution to GDP



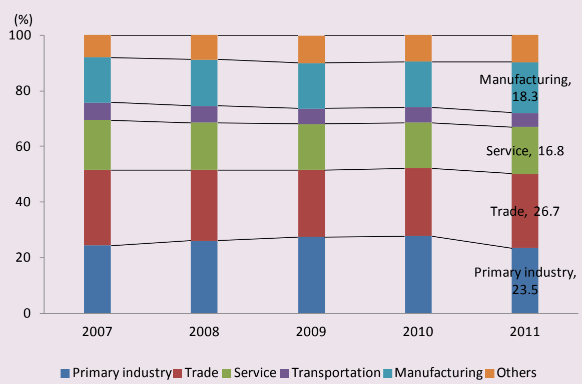
GDP = gross domestic product, MSME = micro, small, and medium-sized enterprise.
Note: Data include micro enterprises.
Source: Ministry of Cooperatives and SMEs.

Figure 4.40: SME Exports



MSME = micro, small and medium-sized enterprise.
Note: Data include micro enterprises.
Source: Ministry of Cooperatives and SMEs.

Figure 4.39: GDP Composition of SMEs



GDP = gross domestic product.
Note: Data include micro enterprises.
Source: Ministry of Cooperatives and SMEs.

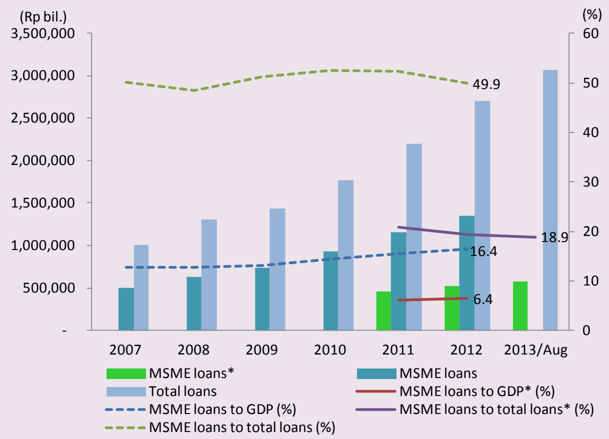
Law No.20/2008 (MSME Law) defines an MSME as a productive entity owned by an individual or individual business unit with maximum net assets excluding land and buildings of Rp10 billion or maximum annual net sales of Rp50 billion. Foreign-owned and/or invested firms are not counted as MSMEs in Indonesia. Before the launch of the MSME Law in 2008, the national statistics office (BPS), central bank (Bank Indonesia), financial authority, and line ministries had relied on their own MSME definitions to compile MSME data and implement their policy measures. Currently all government authorities and the central bank follow this single national MSME definition.

Banking Sector

Rapid growth of the Indonesian economy requires the existence of a robust and stable financial system, where the banking sector plays a pivotal role in developing the private sector. MSME funding needs are strong, and accordingly banks have shifted their business strategies to retail financing, especially for MSMEs, which is promoted by various government support measures such as public credit guarantees.

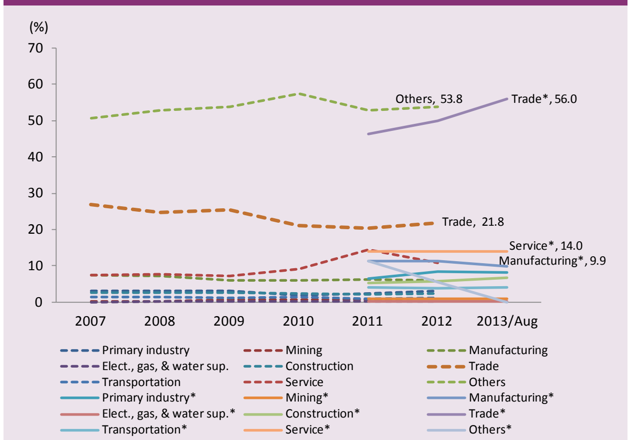
Banks are roughly classified into two types: commercial banks, and rural banks (BPRs). There are five types of commercial banks: (i) state-owned banks, (ii) private commercial banks, (iii) regional development banks (BPDs), (iv) joint-venture banks, and (v) foreign bank branches. In particular, large commercial banks have developed microfinance windows and programs; e.g., BRI Units (Bank Rakyat Indonesia), Danamon Simpan Pinjam (DSP; Bank Danamon), Unit Mikro Mandiri (UMM; Bank Mandiri), and Swamitra (Bank Bukopin). BPRs are generally regarded as formal microfinance providers. While microfinance has a long history of development in the national poverty reduction context, and is closely linked to local economies, small and medium-sized enterprise (SME) finance faces a different challenge—coping with the "missing middle" or SMEs reconciled to lower productivity. In Indonesia, SME finance, together with microfinance, is key for building a resilient national economy.

Figure 4.41: SME Loans Outstanding



GDP = gross domestic product, MSME = micro, small, and medium-sized enterprise.
Note: Data based on commercial bank loans and include micro enterprises.
* based on fair value. Since January 2011, MSME credits are calculated based on fair value.
Source: Bank Indonesia.

Figure 4.42: SME Loans by Sector



SME = small and medium-sized enterprise.
Note: Data based on commercial bank loans and include micro enterprises.
* based on fair value. Since January 2011, MSME credits are calculated based on fair value.
Source: Bank Indonesia.

Compiling reliable MSME credit data is a big challenge but the data are needed to promote evidence-based policy making for MSME finance. Two types of MSME credit data coexisted until March 2013 in Indonesia. Since January 2011, MSME credits have been calculated based on fair value in accordance with the MSME definition under the MSME Law. The previous MSME credit data included unidentified financing for consumption purposes, and were based on the credit limit of banks. Since April 2013, only the fair-value-based MSME credit data are available.[1]

In August 2013, MSME loans outstanding totaled Rp579.3 trillion and accounted for 18.9% of total commercial bank loans (Figure 4.41 and Table 4.23). This was equivalent to 6.4% of GDP in 2012, which is still small in scale. Bank lending to MSMEs has been less impacted by external shocks and has been increasing, even during and after the global financial crisis, supported by timely government measures such as a public credit guarantee scheme called People's Business Credit (KUR).

The most active MSME sector in bank lending was trade (56.0% of total MSME loans in August 2013), which included wholesale and retail trade and the hotel and restaurant sectors, followed by the service sector (14.0%) (Figure 4.42). Working capital financing is the main reason for MSME fund raising, standing at 73.4% of MSME loans outstanding in August 2013. The nonperforming loan (NPL) ratio remains low in MSME lending at 0.7% of total commercial bank loans as compared to the gross NPL rate of 1.9%, but was 3.6% to total MSME loans in August 2013, and is gradually increasing (Figure 4.43).

Credit guarantees are a popular instrument for credit enhancement in Indonesia. Two government-sponsored guarantee institutions—Askrindo, and Perum Jamkrindo[2] established in the early 1970s—have been coping with MSME loan guarantees nationwide. As a private credit guarantee corporation, PKPI has also been operating nationwide since its establishment in 1995. Presidential Decree No.2/2008 on guarantee institutions and the Ministerial Regulations (the Ministry of Finance) No.222/2008 and No.99/2011 on guarantee institutions and re-guarantee institutions are a legal basis for the guarantee business in Indonesia. Based

[1] MSME credit data reporting from banks have been adjusted with the Law No.20/2008 on MSMEs since January 2011 in an effort to improve data quality.

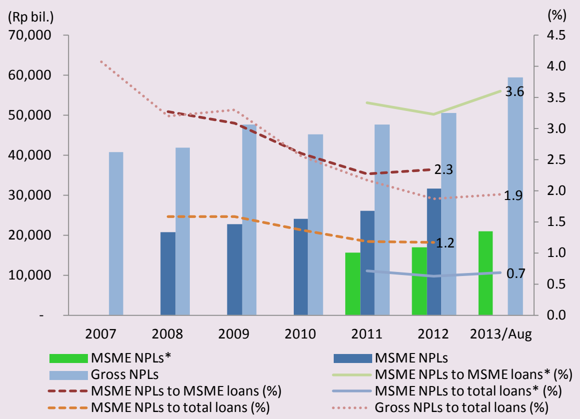
[2] While the legal status of Askrindo (Asuransi Kredit Indonesia) is an insurance company, it has provided guarantees for SME loans since its establishment in 1971. However, Askrindo experienced bankruptcy twice—in 1985 and 1994—because of the highly risky nature of guaranteeing SMEs. From these lessons, Askrindo has expanded its product line from a single SME loan guarantee scheme to diversified services, e.g., nonbank loan guarantees, export credit insurance, and surety bond issuance. Perum Jamkrindo (Jaminan Kredit Indonesia) was originally established in 1970 as a government initiative to support cooperatives through credit guarantees. Its corporate name has been changed several times according to the change of service coverage, e.g., LJKK, PKK, and SPU. In 2008, Perum Jamkrindo took over the business of Perum SPU to further focus on MSME credit guarantees.

Table 4.23: Banking Sector – SME Loans

Item	2007	2008	2009	2010	2011	2012	2013/Aug
Loans Outstanding - CBs							
MSME loans to GDP (%)	12.7	12.8	13.2	14.4	15.5	16.4	...
MSME loans to GDP* (%)	...	...	...	...	6.2	6.4	...
MSME loans to total loans (%)	50.2	48.5	51.3	52.5	52.3	49.9	...
MSME loans to total loans* (%)	...	...	...	...	20.8	19.4	18.9
MSME loans (Rp bil.)	502,796	633,945	737,385	926,782	1,151,392	1,350,606	...
MSME loans* (Rp bil.)	...	...	...	...	458,164	526,397	579,308
Total loans (Rp bil.)	1,002,012	1,307,688	1,437,930	1,765,845	2,200,094	2,707,862	3,067,402
MSME Loans by Sector (% share)							
Primary industry	3.2	3.1	3.1	1.8	2.3	3.0	...
Mining	0.3	0.3	0.6	0.8	0.8	1.3	...
Manufacturing	7.5	7.3	6.0	6.0	6.1	6.0	...
Electricty, gas, and water supply	0.1	0.1	0.1	0.1	0.1	0.1	...
Construction	2.6	2.7	2.6	2.3	2.2	2.3	...
Trade	26.8	24.8	25.5	21.1	20.4	21.8	...
Transportation	1.4	1.4	1.3	1.3	1.0	1.0	...
Service	7.4	7.6	7.2	9.2	14.3	10.8	...
Others	50.7	52.8	53.7	57.4	52.7	53.8	...
(Fair value)							
Primary industry	...	...	...	...	6.5	8.3	8.1
Mining	...	...	...	...	0.9	1.0	0.9
Manufacturing	...	...	...	...	11.4	11.3	9.9
Electricty, gas, and water supply	...	...	...	...	0.3	0.3	0.3
Construction	...	...	...	...	5.3	5.8	6.6
Trade	...	...	...	...	46.4	49.9	56.0
Transportation	...	...	...	...	4.0	3.9	4.0
Service	...	...	...	...	13.9	13.9	14.0
Others	...	...	...	...	11.4	5.6	0.1
Nonperforming Loans (NPLs)							
MSME NPLs (Rp bil.)	...	20,712	22,720	24,045	26,115	31,714	...
MSME NPLs* (Rp bil.)	...	...	...	...	15,674	17,011	20,890
Gross NPLs (Rp bil.)	40,767	41,872	47,548	45,241	47,695	50,595	59,378
MSME NPLs to MSME loans (%)	...	3.3	3.1	2.6	2.3	2.3	...
MSME NPLs to MSME loans* (%)	...	...	...	...	3.4	3.2	3.6
MSME NPLs to total loans (%)	...	1.6	1.6	1.4	1.2	1.2	...
MSME NPLs to total loans* (%)	...	...	...	...	0.7	0.6	0.7
Gross NPLs to total loans (%)	4.1	3.2	3.3	2.6	2.2	1.9	1.9
Credit Guarantees - KUR							
Guaranteed loan disbursed (Rp bil.)	982	11,475	4,733	17,229	29,003	33,471	28,475
No. of debtors	3,623	1,652,965	718,320	1,437,650	1,909,912	1,943,609	1,598,847

CB = commercial bank; MSME = micro, small, and medium-sized enterprise; KUR = People's Business Credit; NPL = nonperforming loan.
Note: Data include micro enterprises.
* based on fair value. Since January 2011, MSME credits are calculated based on fair value.
Source: Bank Indonesia.

Figure 4.43: SME Nonperforming Loans



MSME = micro, small, and medium-sized enterprise, NPL = nonperforming loan.
Note: Data based on commercial bank loans and include micro enterprises.
* based on fair value. Since January 2011, MSME credits are calculated based on fair value.
Source: Bank Indonesia.

Figure 4.44: Credit Guarantees - KUR

KUR = Kredit Usaha Rakyat (People's Business Credit).
Source: Bank Indonesia.

on those regulations, licensed regional credit guarantee corporations, mainly owned by local governments, have been established in East Java, West Java, Bali, Riau, West Nusa Tenggara, and West Sumatra.[3] A sharia-based (Islamic) guarantee corporation—Penjaminan Pembiayaan Askrindo Syariah, owned by Askrindo—was also established on 28 December 2012.

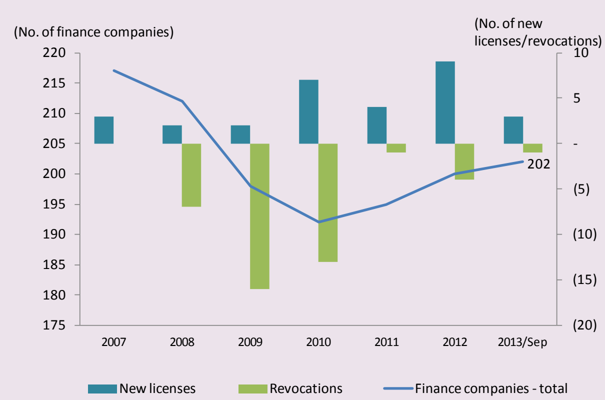
KUR, started in late 2007, is a government initiative to improve the bankability of MSMEs through the dedicated guarantee scheme with concessional lending rates and free of collateral for MSMEs, especially new clients in banks. KUR is delivered by designated banks, starting with six banks in 2007 and currently expanded to 33 banks (7 commercial banks and 26 BPDs). KUR guarantees 70%–80% of the credit applied while the remaining 20%–30% risk is taken by participating banks. As of October 2013, Rp129.1 trillion of KUR have been disbursed since establishment in 2007, accommodating around 9 million MSMEs. In 2013 alone (as of October 2013), total KUR loans were Rp32.3 trillion, or 89.6% of the total target in 2013 (Figure 4.44).

[3] As of 11 December 2013, eight new approvals of regional credit guarantee corporations by local governments (i.e., Bangka Belitung, South Sumatera, East Kalimantan, Central Kalimantan, Yogyakarta, South Kalimantan, West Kalimantan, and Banten) are in progress.

Nonbank Sector

The nonbank sector is small compared to the banking sector but is a growing segment for filling the unmet fund-raising demands of MSMEs. As of September 2013, 202 finance companies licensed by the Financial Services Authority (OJK) operate in Indonesia (Figure 4.45 and Table 4.24). OJK's supervision of finance companies focuses on capital adequacy, asset efficiency, and lending risk management, which means that only financially healthy firms have survived. Since the establishment of OJK in 2012, the supervisory function of nonbank financial institutions (NBFIs), which had been the responsibility of Bapepam-LK

Figure 4.45: Number of Finance Companies



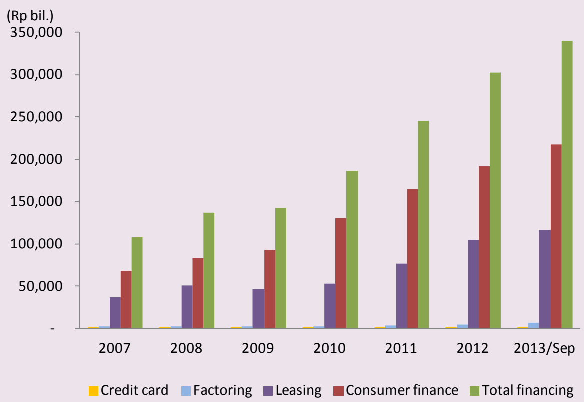
Sources: Annual Report Finance Companies 2011. Bapepam-LK; Statistic 2012 and Directory 2013 Financing Institution. OJK.

Table 4.24: Nonbank Sector

Item	2007	2008	2009	2010	2011	2012	2013/Sep
No. of finance companies	217	212	198	192	195	200	202
No. of new licenses	3	2	2	7	4	9	3
No. of revocations	...	(7)	(16)	(13)	(1)	(4)	(1)
Financing Receivables (Rp bil.)							
Total financing	107,686	137,237	142,539	186,354	245,300	302,079	339,916
Leasing	36,482	50,680	46,528	53,167	76,592	105,088	116,661
Factoring	2,200	2,221	2,027	2,295	3,915	5,148	6,394
Credit card	1,442	1,145	930	876	2	2	2
Consumer finance	67,562	83,191	93,054	130,016	164,791	191,841	216,859
Leasing by Sector (% share)							
Agriculture	2.3	7.4	3.3	3.4	3.4	3.7	...
Mining	8.9	9.2	11.0	14.4	17.1	16.4	...
Manufacturing	13.9	12.8	11.7	10.4	8.2	9.6	...
Electricty, gas, and water supply	37.8	37.7	31.7	27.7	30.7	30.5	...
Construction	6.3	8.0	14.1	14.7	6.4	5.8	...
Trade	8.9	4.0	4.4	5.2	12.3	12.1	...
Transportation	7.5	7.0	9.1	9.3	7.3	7.4	...
Service	4.9	4.5	4.3	4.9	4.5	5.0	...
Others	9.5	9.4	10.4	10.0	10.1	9.5	...
Factoring by Sector (% share)							
Agriculture	4.0	4.9	5.2	3.7	2.8	0.4	...
Mining	2.4	1.9	1.7	1.9	7.6	2.2	...
Manufacturing	24.6	25.1	17.9	12.3	7.8	6.4	...
Electricty, gas, and water supply	0.0	0.0	0.0	0.0	1.0	0.4	...
Construction	7.7	3.1	5.7	4.4	3.5	3.4	...
Trade	9.7	13.5	15.9	12.6	14.5	16.2	...
Transportation	4.3	5.0	8.2	7.4	4.6	2.3	...
Service	13.1	18.2	22.7	35.1	39.7	51.3	...
Others	34.2	28.3	22.7	22.6	18.5	17.4	...
Nonperforming Financing Ratio*							
Total financing (%)	2.1	2.7	1.9	1.4	1.2	1.1	...
	...	2.7	2.6	2.3	2.0	2.0	...
Leasing (%)	2.2	3.8	1.5	0.6	0.3	0.3	...
	...	1.8	1.9	0.9	0.5	0.6	...
Factoring (%)	11.5	11.5	5.9	3.1	2.8	1.5	...
	...	11.5	12.7	6.5	3.6	2.4	...
Credit card (%)	3.7	3.4	3.9	4.6	...	...	...
	...	7.2	7.8	7.8	...	...	...
Consumer finance (%)	1.7	1.8	2.0	1.6	1.6	1.6	...
	...	3.0	2.6	2.7	2.7	2.8	...

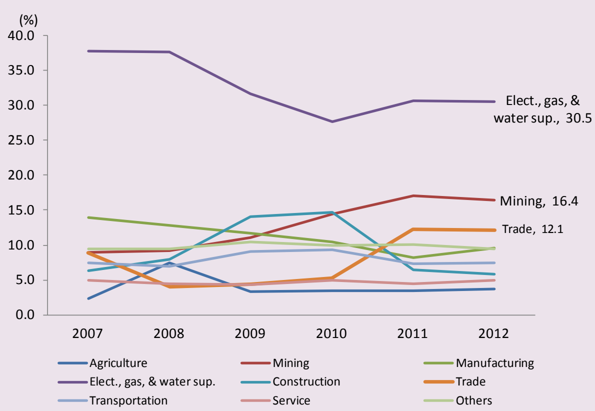
*upper row: based on bad debts; lower row: based on doubtful + bad debts.
Sources: Annual Report Finance Companies 2011. Bapepam-LK; Statistic 2012 and Directory 2013 Financing Institution. OJK.

Figure 4.46: Financing Receivables



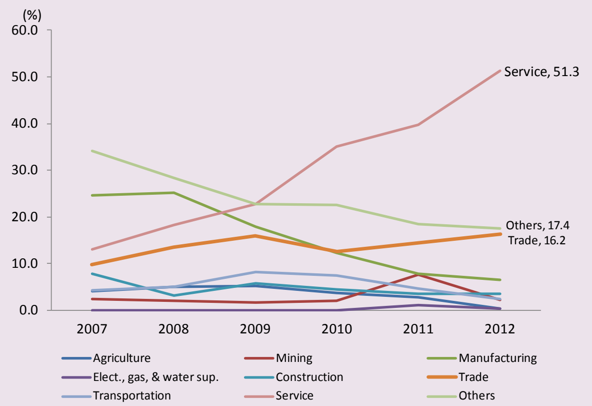
Sources: Annual Report Finance Companies 2011. Bapepam-LK; Statistic 2012 and Directory 2013 Financing Institution. OJK.

Figure 4.47: Leasing by Sector



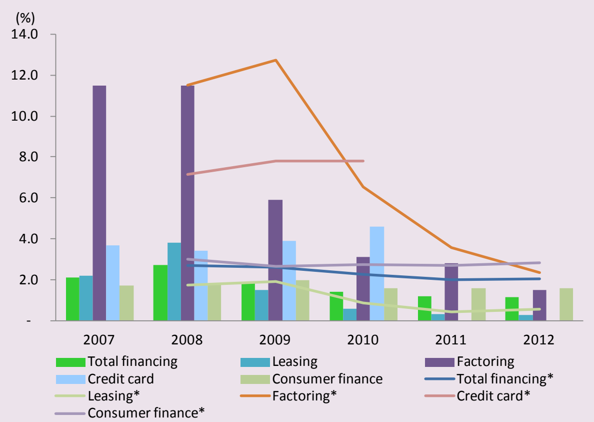
Sources: Annual Report Finance Companies 2011. Bapepam-LK; Statistic 2012 and Directory 2013 Financing Institution. OJK.

Figure 4.48: Factoring by Sector



Sources: Annual Report Finance Companies 2011. Bapepam-LK; Statistic 2012 and Directory 2013 Financing Institution. OJK.

Figure 4.49: 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. OJK.

(Capital Market and Financial Institution Supervisory Agency, Ministry of Finance), has been merged into the OJK.

The main business of finance companies is leasing, factoring, credit card financing, and consumer financing, where consumer finance accounted for 63.8% of total financing receivables of finance companies in September 2013, followed by leasing (34.3%) (Figure 4.46). Financial lease is active in the electricity, gas, and water supply industries, with a 30.5% share of total lease financing in 2012 (Figure 4.47). Factoring (short-term accounts receivable finance) is not popular in Indonesia but is mainly utilized in the service sector (51.3% of total factored receivables in 2012) (Figure 4.48). The ratio of nonperforming financing to total financing receivables, calculated based on bad debts only, was 1.1% in 2012, decreasing from 1.2% in 2011 (Figure 4.49). If it includes doubtful debts, however, the nonperforming financing ratio in 2012 was 2.0%.

Venture capital companies are also categorized as NBFIs according to Presidential Regulation No.9/2009 on financing institutions. Their main business is not capital participation in the client companies but profit-share financing, especially for SMEs. In 2012, 89 venture capital companies obtained a business license from Bapepam-LK.

There are a large number of saving and loan cooperatives active all over Indonesia. They are regulated by the Ministry of Cooperatives and SMEs under Law No.17/2012 on cooperatives, and play a critical role in providing microfinance for local MSMEs, together with a state-owned pawnshop named Perum Pegadaian.

A variety of microfinance institutions (MFIs) are active in Indonesia, including commercial banks' microfinance windows, credit cooperatives, and informal entities neither legally registered nor regulated by competent government authorities. LDKP is a generic term for MFIs mainly established by local governments but mostly regarded as informal entities. The Banking Law obliged these entities to convert to licensed rural banks (BPRs) but most of them were not able to do so because of the stringent requirements on obtaining a BPR license. Responding to this situation, the Joint Decree on MFI Promotion Strategy was enacted in 2009 among four competent authorities: Bank Indonesia, Ministry of Finance, Ministry of Cooperatives and SMEs, and Ministry of Home Affairs. Law No.1/2013 on Microfinance Institutions, which represents major progress, was enacted in January 2013.

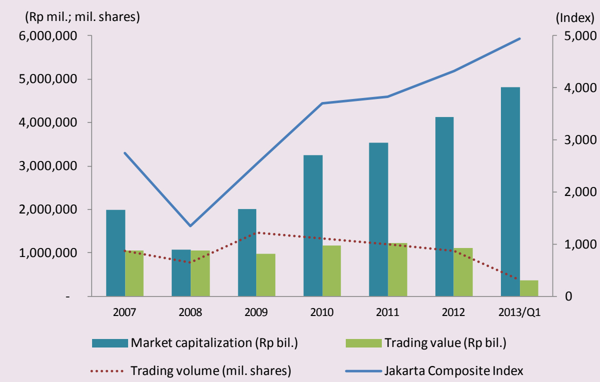
Capital Markets

The capital market in Indonesia has grown significantly since the Yudhoyono administration started in 2004. The Jakarta Composite Index (close) reached 4,940.99 in the first quarter of 2013, with 464 listed companies and market capitalization of around Rp4,813 trillion in equity markets (Figure 4.50 and Table 4.25). Similar to other countries, the Indonesian capital market was seriously affected by the global financial crisis with a 50.6% year-on-year decrease in 2008, but it achieved a V-shaped recovery with an 87.0% year-on-year increase in 2009 and has been constantly growing since then. The corporate bond market has also been growing moderately, with 91 listed issuers as of the first quarter of 2013 (Figure 4.52). While market confidence has improved among investors and issuers, only 10 SMEs conducted initial public offerings (IPOs) in the Indonesia Stock Exchange between 2000 and March 2013 (Figure 4.51). There is no dedicated stock exchange for SMEs established in Indonesia, although there was some consideration of it among regulators and policy makers in the past.

The SME definition in the capital market is different from one stipulated in the MSME Law. According to Rule No.IX.C.7 on Guideline of Format and Content of Registration Statement for SME Public Offering, an SME is a legal entity established in Indonesia with assets of not more than Rp100 billion and not affiliated or controlled by a non-SME. Investment funds, even if fulfilling such criteria, are not regarded as SMEs. So far, 10 SMEs have held IPOs but most of them are classified as large firms under the MSME Law.

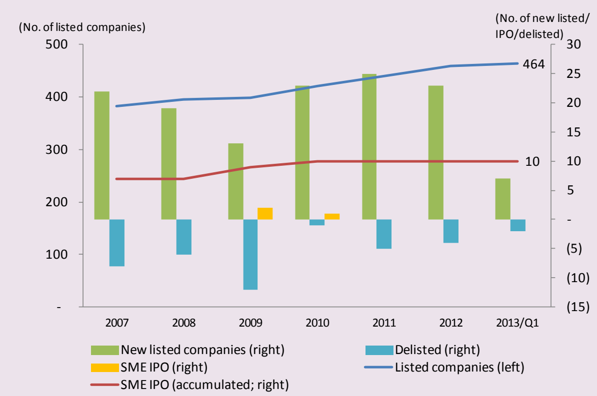
To attract more high-end SMEs to the capital market, OJK, taking over the capital market supervisory function from Bapepam-LK, provides concessional listing rules for potential SME issuers. For instance, SMEs have no obligation to publish a summary prospectus, and are required to disclose 2-year financial statements in the

Figure 4.50: Market Performance - Indonesia Stock Exchange



Source: Indonesia Stock Exchange Fact Book 2013.

Figure 4.51: Listed Companies - Indonesia Stock Exchange



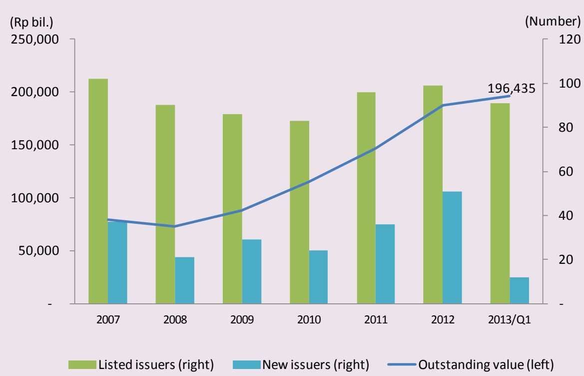
IPO = initial public offering.
Source: Indonesia Stock Exchange Fact Book 2013.

Table 4.25: Capital Market - Indonesia Stock Exchange

Item	2007	2008	2009	2010	2011	2012	2013/Q1
Equity							
Jakarta Composite Index	2,746	1,355	2,534	3,704	3,822	4,317	4,941
Market capitalization (Rp bil.)	1,988,326	1,076,491	2,019,375	3,247,097	3,537,294	4,126,995	4,812,790
Trading value (Rp bil.)	1,050,154	1,064,528	975,135	1,176,237	1,223,441	1,116,113	376,054
Trading volume (mil. shares)	1,039,542	787,846	1,467,659	1,330,865	1,203,550	1,053,762	375,973
Listed companies	383	396	398	420	440	459	464
New listed companies	22	19	13	23	25	23	7
Delisted	(8)	(6)	(12)	(1)	(5)	(4)	(2)
SME IPO	0	0	2	1	0	0	0
SME IPO (accumulated)	7	7	9	10	10	10	10
Corporate Bonds							
Outstanding value (Rp bil.)	79,065	73,010	88,452	114,817	146,969	187,461	196,435
Listed issuers	102	90	86	83	96	99	91
New issuers	37	21	29	24	36	51	12

IPO = initial public offering, SME = small and medium-sized enterprise.
Source: Indonesia Stock Exchange Fact Book 2013.

Figure 4.52: Local Currency Corporate Bonds on Indonesia Stock Exchange



Source: Indonesia Stock Exchange Fact Book 2013.

prospectus (3-year financial statements are required for non-SMEs). However, there are limitations on deregulating public offering rules for SMEs under Law No.8/1995 on capital markets in terms of investor protection, and these may not fit well with the direct financing needs of high-end SMEs.

Mutual funds and private equity investment are another source of growth capital for SMEs. OJK is supporting vitalization of the mutual fund and private equity industry to channel more capital to growth entities so as to create a resilient national economy. As of the first quarter of 2013, four private investment funds especially designed for MSMEs have been organized since 2010, two of which were organized by Danareksa and the other two launched by PNM. Venture capital companies, currently part of nonbank lending bodies in Indonesia, are a potential segment to be involved in capital markets as initial risk capital providers for growth-oriented SMEs. To this end, the creation of a dedicated SME exchange might be worth consideration.

Policy and Regulation

Since the start of the Yudhoyono administration in 2004, the government has attached special importance to development of the MSME sector, where MSMEs are regarded as growth entities driving sustainable and pro-poor growth of the Indonesian economy. With this vision, the government launched a pair of comprehensive economic policy packages in 2007 and 2008, called the New Economic Policy Package, which were prepared by all economic ministries and agencies (Table 4.26). These packages included policies on improving the investment environment, developing the finance sector and infrastructure, and strengthening the MSME sector, with action plans with target years to be completed. The pillars of MSME development consisted of access to finance, access to market, human resource development, and deregulation. The subpillar of access to finance focused on specific government measures to support the bankability of MSMEs, e.g., strengthening the function of credit guarantee corporations and MFIs; effectively implementing KUR; and developing financing schemes for MSMEs, including sharia-based products.

As part of national poverty reduction strategies, microfinance development is critically important in Indonesia. To effectively reach out to the poor and micro enterprises, formalizing informal MFIs has been a long-standing priority. To facilitate intergovernment collaboration, the Joint Decree on MFI Promotion Strategies in 2009 allotted concrete responsibilities to four competent authorities, depending on the type of MFIs formalized. The discussion on creating an MFI law started in the early 2000s, and after attempts at drafting the law several times from different angles, the MFI Law (Law No.1/2013) was finally enacted in 2013.

Bapepam-LK, then a capital market and NBFI regulator and now merged to the OJK, announced midterm policies for capital markets and NBFIs covering 2010–2014. These included the pillar of easily accessible, efficient, and competitive source of funds, which aimed to (i) reduce constraints on business communities in accessing capital market funds; (ii) increase public accessibility to finance and guarantee institutions; and (iii) improve the role of professionals, supporting institutions, and underwriters in public offerings.

In June 2012, the government announced the National Strategy for Financial Inclusion at the First Association of Southeast Asian Nations (ASEAN) Conference on Financial Inclusion held in Jakarta. The strategy aims to promote poverty reduction, economic growth, and financial stability through enhancing access to finance for all. To this end, the strategy set three target clusters under Indonesia's poverty reduction strategy: (i) the low-income poor, (ii) the working poor and MSMEs, and (iii) the near poor. By creating a single strategy, various initiatives on financial inclusion by various government authorities are expected to be well coordinated.

Table 4.26: 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
Presidential Decree No.2/2008 on Guarantee Institutions	Regulation on credit guarantee and reguarantee institutions
Regulation No.222/2008 and No.99/2011 on Guarantee Institutions and Reguarantee Institutions	Regulation on credit guarantee and reguarantee institutions (Ministry of Finance)
Law No.17/2012 on Cooperatives	Regulation on cooperatives
Law No.1/2013 on Microfinance Institutions	Regulation on microfinance institutions (MFIs)
Presidential Regulation No.9/2009 on Financing Institutions	Regulation on nonbank financial institutions (NBFIs)
Law No.8/1995 on Capital Market	Regulation on capital markets
Bapepam-LK Rule No.IX.C.7	SME definition in capital markets
Regulators and policy makers	
Name	**Responsibility**
Bank Indonesia (BI)	Regulate and supervise banks SME access to finance and financial inclusion policies *Banking supervisory function by BI is supposed to be merged into OJK.
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 NBFIs and capital markets. *Established in 2012 based on Bapepam-LK (Capital Market and Financial Institution Supervisory Agency, Ministry of Finance).
National Team for the Acceleration of Poverty Reduction, Office of the Vice-President (TNP2K)	Financial inclusion policies and strategies

Continued on next page

Table 4.26 continued

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; NBFI = nonbank financial institution.

Sources: Bank Indonesia; Ministry of Cooperatives and SMEs; Bapepam-LK; TNP2K; S. Shinozaki et al. 2008. Enhancing Financial Accessibility for SMEs in Indonesia. Jakarta; S. Shinozaki, 2011. Regulatory Framework for Microfinance Institutions in Indonesia and the Policy Direction. Jakarta; S. Shinozaki. 2011. Framework for Regulating Venture Capital Companies in Indonesia. Jakarta.

COUNTRY REVIEW

Kazakhstan

SME Landscape

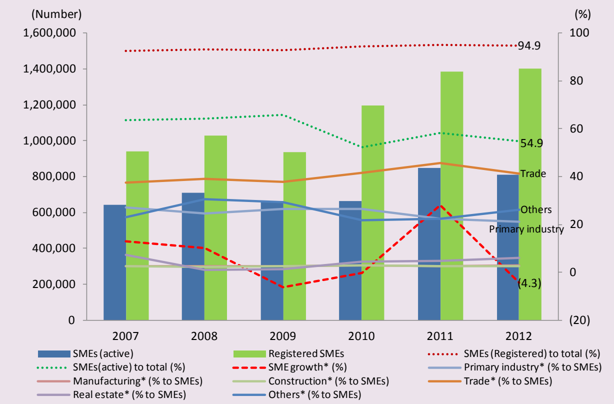
Small and medium-sized enterprises (SMEs) are a significant part of Kazakhstan's economy. In 2012, there were 1,399,787 registered SMEs comprising 94.9% of the total number of registered businesses (Figure 4.53 and Table 4.27). Of these, 809,750 SMEs (54.9% of the total number of SMEs) are active. The SME sector is, however, easily affected by external factors. The 2008/09 global financial crisis and its aftermath caused a reduction in the number of active SMEs of 6.3% in 2009 and 0.3% in 2010. Although the number of SMEs increased again (by 27.9%) in 2011, the SME sector is still fragile with a 4.3% year-on-year decrease in 2012.

The wholesale and retail trade sector accounted for 41.3% of total active SMEs in 2012, followed by other economic sectors (e.g., services and transportation) at 26.3% and the agriculture sector at 21.0%.

The SME sector employed 2.3 million people which accounted for 28.0% of the total Kazakh workforce in 2012. The number of people employed by SMEs has declined during the last 2 years, with a year-on-year decrease of 7.7% in 2011 and 1.8% in 2012. Comparing SME employment across the sectors used for industry classification by the Kazakhstan Agency for Statistics (agriculture, forestry and fisheries, industry, construction, wholesale and retail trade, real estate, and others), there has been a steady decline in employment in agriculture during 2007–2012, but this has been more than compensated for by growth in employment in other SME sectors (Figure 4.54).

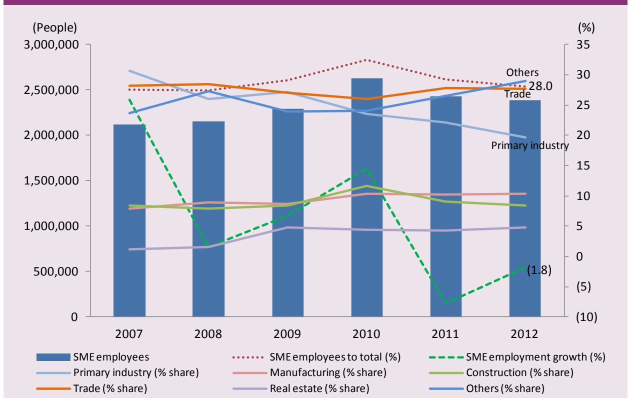
Despite the large absolute number of SMEs relative to all registered businesses, their contribution to gross domestic product (GDP) in Kazakhstan is still modest, as seen in their combined contribution to GDP of

Figure 4.53: 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.

Figure 4.54: Employment by SMEs



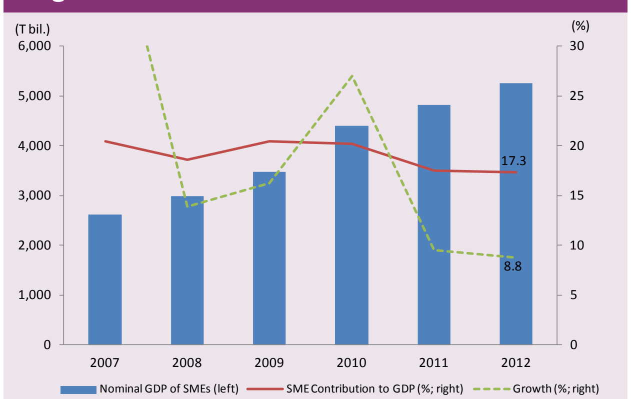
Primary industry = agriculture, forestry, and fisheries; SME = small and medium-sized enterprise.
Source: National Fund DAMU.

Table 4.27: SME Landscape

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

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.

Figure 4.55: SME Contribution to GDP



GDP = gross domestic product, SME = small and medium-sized enterprise.
Source: Agency for Statistics of the Republic of Kazakhstan.

T5,250 billion or 17.3% in 2012 (Figure 4.55). However, the output of SMEs has been increasing over the past several years, growing at 8.8% during 2011–2012.

SMEs are defined in the Private Entrepreneurship Law enacted in 2006 as firms with fewer than 250 employees with annual average and net assets of no more than 325,000 times the monthly calculated index set by the government every year. For 2012, this measure equates to net assets of less than T560 million. The National Bank of Kazakhstan, commercial banks, and other financial institutions follow this definition for financing SMEs. In addition to the Private Entrepreneurship Law of 2006, 420 regulations and orders related to SMEs were issued by the government during 2006–2012.

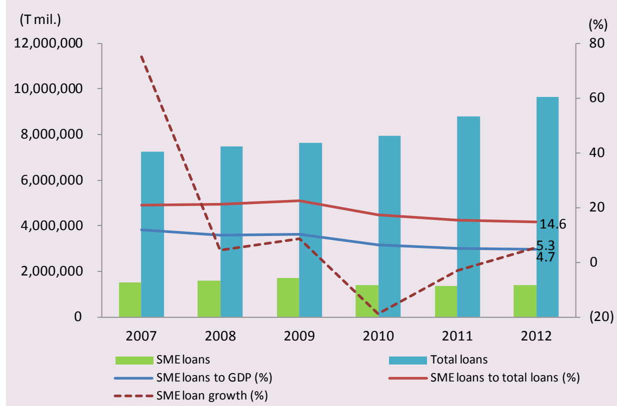
Banking Sector

The banking system in Kazakhstan has two tiers: the National Bank of Kazakhstan (central bank) occupies the first tier, and all other banks (with the exception of the Kazakhstan Development Bank) comprise the second tier. According to the National Bank of Kazakhstan, as of 1 November 2013, there were 38 second-tier banks operating in Kazakhstan, with a combined total of 393 branches.

The banking sector is a main source of funding, especially for working capital, for SMEs in Kazakhstan. SME loans disbursed by second-tier banks amounted to T1,412 billion in 2012, which accounted for 14.6% of the total second-tier bank enterprise lending, a figure that has been shrinking since 2008 (Figure 4.56 and Table 4.28). The share of SME loans to GDP has been also falling since 2010, to 4.7% in 2012. The government's new program—Increasing Competitiveness and Performance of SMEs, launched in 2011—targets the increase of SME contribution to GDP to 40% by 2030 and 50% by 2050.

The banking sector was seriously hit by the global financial crisis and this led to a sharp decrease in loans disbursed to SMEs (18.9% in 2010 and 3.1% in 2011), but lending conditions have gradually improved, with

Figure 4.56: SME Loans Outstanding



GDP = gross domestic product, SME = small and medium-sized enterprise.
Source: National Fund Damu and National Bank of Kazakhstan.

Table 4.28: Banking Sector - SME Loans

Item	2007	2008	2009	2010	2011	2012
Loans Outstanding						
SME loans to GDP (%)	11.7	9.8	10.0	6.3	4.9	4.7
SME loans to total loans (%)	20.7	21.1	22.3	17.4	15.3	14.6
SME loan growth (%)	74.8	4.3	8.7	(18.9)	(3.1)	5.3
SME loans (T mil.)	1,505,488	1,570,734	1,707,188	1,384,956	1,341,385	1,412,005
LE loans (T mil.)	5,752,512	5,889,266	5,936,812	6,567,044	7,439,615	8,231,995
Total loans (T mil.)	7,258,000	7,460,000	7,644,000	7,952,000	8,781,000	9,644,000
SE loans - quarterly data total (T mil.)	1,870,000	1,274,000	752,000	690,000	794,000	...
SE loan growth - quarterly data total (%)	...	(31.9)	(41.0)	(8.2)	15.1	...
SME Loans by Sector (T mil.)						
Agriculture	109,270	98,085	94,851	67,797	61,377	53,651
Manufacturing	112,068	165,319	166,123	124,529	192,318	186,531
Construction	305,667	276,395	271,306	194,308	233,287	229,448
Transportation	36,085	39,979	42,596	52,470	40,396	49,513
Telecommunication	14,020	15,250	19,416	12,221	19,154	21,038
Wholesale and retail trade	619,714	644,641	697,973	526,735	414,177	460,457
Others	308,664	331,064	415,923	406,896	380,676	411,367
SME Loans by Region						
Capital city (Astana)	108,955	90,446	96,581	148,229	102,639	170,473
Local cities	1,396,532	1,480,288	1,611,608	1,236,727	1,238,746	1,241,532

GDP = gross domestic product, LE = large enterprise, SE = small enterprise, SME = small and medium-sized enterprise.
Source: National Fund Damu and National Bank of Kazakhstan.

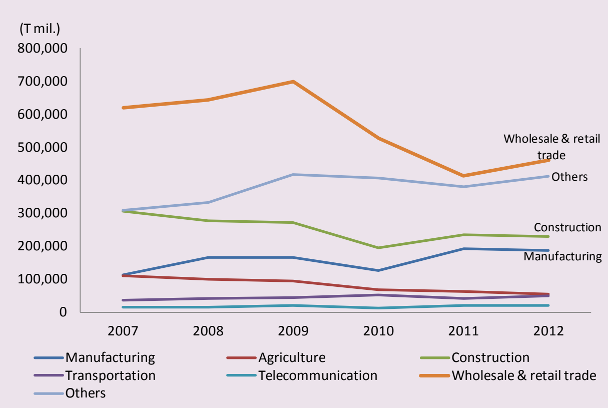
5.3% year-on-year growth in 2012. The annual lending rate of banks was 13.6% on average in 2012, an increase of 1.1 percentage points over 2011.

Lending to small enterprises (quarterly disbursement data total) has been further seriously and immediately impacted by the global financial crisis (Figure 4.57). Loans to small enterprises have sharply dropped since 2007, with a 31.8% drop in 2008 over 2007 and a 40.9% drop in 2009 over 2008. This contraction slowed to an 8.2% fall in 2010 over 2009, and lending to small enterprises started expanding in 2011 over 2010, showing 15.1% year-on-year growth and T794 billion. This amount, however, is still only 42% of credit disbursed to small enterprises in 2007 (T1,870 billion).

Figure 4.57: Loans to Small Enterprises

Source: National Fund Damu and National Bank of Kazakhstan.

Figure 4.58: SME Loans by Sector



SME = small and medium-sized enterprise.
Source: National Fund Damu and National Bank of Kazakhstan.

The largest sector of SME loans outstanding in 2012 was the wholesale and retail trade sector at 32.6% of total SME loans (T460 billion), which was followed by other sectors (including services) at 29.1% (T411 billion), construction at 16.3% (T229 billion), and manufacturing at 13.2% (T187 billion) (Figure 4.58).

By region, 12.1% of SME loans (T170 billion) were distributed in the capital city, Astana, in 2012, while the remaining 87.9% (T1,242 billion) were distributed in smaller cities and, of these, the large portion of SME loans was disbursed in the former capital and leading commercial city, Almaty (T812 billion as of 1 October 2013). Historically, distribution of SME loans has been concentrated in Astana and Almaty, and this is still the case.

A partial credit guarantee scheme for SMEs is available as part of a range of SME support programs under the Damu Entrepreneurship Development Fund, a wholly owned subsidiary of national financial holding company Baiterek (recently split from national holding company Samruk-Kazyna). The Damu credit guarantee scheme, which began in April 2010, provides up to 70% guarantees for long-term bank loans to SMEs, particularly those in priority sectors such as manufacturing, medical services, education, and tourism.

Nonbank Sector

Nonbank financing for SMEs is in the early stage of development in Kazakhstan, and does not fill the supply–demand gap in bank lending to SMEs. There are several nonbank financial institutions (NBFIs), including microfinance institutions, pawnshops, and factoring and leasing companies, but there are no standardized regulatory frameworks for NBFIs in Kazakhstan. Thus, the NBFI data are not available because of the lack of monitoring by statistics agencies and the government.

Capital Markets

The Kazakhstan Stock Exchange, established in 1993, is the only financial exchange in Kazakhstan. It provides a venue for trading in currencies, equities, and derivatives, and had 62 members as of 1 November 2013. As of the end of 2012, the total market capitalization was T5,700 billion, or 19% of GDP. The Kazakhstan Stock Exchange index fell 12.5% from 2011 to 2012.

At present, there is no SME board under the Kazakhstan Stock Exchange and no dedicated stock exchange for SMEs in the country. The exchange's criteria for full listing have precluded the listing of SMEs. There is currently no plan to develop a second tier or "junior" market for SME securities in Kazakhstan.

Policy and Regulation

The government initiatives on SME sector development became tangible through the establishment of the Small Entrepreneurship Development Fund joint-stock company in March 1997. During 2002–2007, this fund played the role of quasi-financial institution, providing project financing, financial leasing, and credit guarantees so that small businesses in priority sectors could access finance further. At the end of 2007, the fund changed its status and name to the Damu Entrepreneurship Development Fund with a clearer mission of Kazakh SME development (Table 4.29).

The Damu is responsible for allocating and managing government funds to facilitate SME financing under the Program of Conditional Placement of Funds through Second-Tier Banks. The Damu has also taken the role of an executing agency of the Business Road Map 2020, a government-operated entrepreneurship development program in the non-raw-material sectors, since 2010. The Damu typically subsidizes interest rates and provides credit guarantees for SME loans. The following summarizes the major policy programs related to SME finance under the Damu.

Stabilization Program 1st Tranche

Pursuant to Resolution No.1039 of the Government of Kazakhstan (6 November 2007), the Damu Fund operated first tranche funds of T48.8 billion under the Stabilization Program. Seven partner banks—KazKommerts Bank, Halyk Bank, Aliance Bank, BTA Bank, ATF Bank, Bank Center Credit, and Temir Bank—received the allocated funds for financing SMEs in December 2007 according to Decision No.17-5/011-3 of the State Committee for Economy Modernization of Kazakhstan (26 November 2007). As of 1 November 2013, the aggregate amounts of the funds disbursed to participating second-tier banks, including redistribution and disbursement on a revolving basis, were T92,792 million. A total of 2,845 SME borrowers were financed through this fund. The average loan amount for SMEs was T32.6 million, with an average loan tenor of 26 months and average weighted interest rate of 16.0% per annum, while the effective interest rate was 8% per annum. Through this program, 3,113 jobs were created.

Stabilization Program 2nd Tranche

Following the minutes of interministerial meeting No.25 (28 June 2008), an extra fund allocation of T50 billion was determined to further support SMEs in financing. These funds were onlent to SMEs through the SME Co-financing Program between the Damu and second-tier banks. The Damu also allocated T4.7 billion from its own funds to implement this program. Ten partner banks had utilized this fund as of August 2008 as per Decision No.17-5/011-10 of the State Committee for Economy Modernization of Kazakhstan (27 June 2008). A total of 3,701 SME borrowers were financed for a total of T194,469 million through this fund as of 1 November 2013. The average loan amount was T52.6 million with the average loan tenor of 38.7 months and the weighted interest rate of 12.4% per annum, while the effective interest rate was 14.0% per annum. Under this program, 5,083 jobs were created.

Damu-Regions Program

The Damu-Regions Program was implemented jointly with *akimats* (local governments) under Resolution No.1039 of the Government of Kazakhstan enacted on 1 November 2010, which provided funds through the Damu to the local branch networks of second-tier banks for onlending to SMEs. According to Decision No.17-5/011-08 of the State Committee for Economy Modernization of Kazakhstan (21 April 2008), seven partner banks were involved in the implementation of this program. Based on interministerial meeting No.25 (28 June 2008), T28 billion was allocated from the national budget to the Damu for financing SME projects under this program. The Damu has placed T2 billion from these funds into second-tier banks in 14 *oblasts* (provinces). The aggregate funds allocated by *akimats* was T6.7 billion, which was further distributed through the second-tier bank branch networks. The Damu allocated T150 million from its own funds for financing SME projects in Astana city. As of 1 November 2013, the aggregate amounts of the funds provided to SMEs was T63,358 million, and 1,566 SME borrowers were financed. The average loan amount for SMEs was T40.5 million with the average loan tenor of 35.9 months and the average weighted interest rate of 12.5% per annum, while the effective interest rate was 13.6% per annum. Through this program, 2,775 jobs were created.

Table 4.29: SME Policy and Regulation

Regulations	
Name	**Outline**
Private entrepreneurship Law, N 124-III (2006)	General entrepreneurship development policy
Ministerial Regulation No. 04-2-2/5-5319 (Ministry of Industry and New Technologies)	SME definition and restrictions
Regulators and policy makers	
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 Industry and New Technologies	Regulate and supervise industry-related activities
DAMU (National Fund)	SME promotion policy

Policies		
Name	**Responsible Entity**	**Outline**
Stabilisation Program 1st Tranche (2007)	DAMU	1) provision of in-time financial support to SME in the climate of increasing liquidity crisis for STB; 2) retention of STB share of loans at a precrisis level. However, the program appeared to lack efficiency, due to the following factors: (a) failure to change the territory structure of financing, thus, the sphere of trade remained as it was; (b) poor influence on extension, renovation, and modernization of fixed assets of SMEs; the largest part of funds was disbursed on financing of working capital; (c) unbalanced allocation of funds to the regions; (d) high effective loan interest rates for the end borrowers. Analysing the funds allocation results under the 1st tranche of the Stabilization Program allowed conduct of proper adjustment to the conditions of provision of further tranches under the program.
Stabilisation Program 2nd Tranche (2008)	DAMU	Positive differences between this program and the previous one: 1) mandatory allocation of banks' own funds in 1:1 proportion to the fund's money on a similar terms during the whole tenor of the program; 2) restriction of nominal loan interest rate to 12.5% per annum for the end borrowers; 3) increase of financing limit for manufacturing projects to 500,000 of minimal calculation index.
Stabilisation Program 3rd Tranche (2008)	DAMU	The program was a relevant financial instrument to support SMEs. The terms of the program were ultimately suitable for SMEs, due to the following: 1) requirement that the STB establish the effective interest rate higher than 12.5% p.a.; 2) increase of the maximum loan amount to T750 billion; 3) increase the share of refinancing of existing loans to 70%; 4) absence of industry restrictions.
DAMU-REGIONS Program (2010)	DAMU	1) akimats (local governments) provided funds to the Damu which were onlent to SMEs through STB branches found in the akimats' respective regions 2) the terms of the program for financing of projects out of local executive bodies' budgets were developed by the akimats directly which allowed financing of those projects that best met the demands and needs of a given region.
Business Road Map 2020 (2012)	DAMU	BRM 2020 is being implemented in three directions: 1) support of new business initiatives 2) decrease of currency risks for entrepreneurs 3) strengthening of the entrepreneurial potential
Program of Regional Financing of SME (2009)	DAMU MRD	1) increase financing efficiency 2) implement regional SME programs aimed at supporting and developing SMEs through financing of their projects in priority sectors

BRM = Business Road Map 2020, MRD = Ministry of Regional Development, SME = small and medium-sized enterprise.
Source: National Fund Damu (www.damu.kz) and National Law Database (www.adilet.zan.kz).

Stabilization Program 3rd Tranche

Under Resolution No.1085 of the Government of Kazakhstan (25 November 2008), T117 billion was allocated to implement the third tranche of the Stabilization Program. The allocated funds were distributed to 12 partner banks in February 2009 according to Decisions No.17-55/И-99 (27 January 2009) and No.17-5/И-144 of the State Committee for Economy Modernization of Kazakhstan (2 February 2009). The terms of the program provided partner banks with possible participation in the program with their own funds. However, the fund of T10 billion was allocated only to ATF Bank. Thus, the total financing pool under the program was T127 billion. As of 1 November 2013, the partner banks financed 3,819 SME borrowers for a total of T258,008 million. The average loan amount was T67.6 million with an average loan tenor of 32.7 months and an average weighted interest rate of 11.3%, while the effective interest rate was 12.1% per annum; 4,800 jobs were created under this program.

Business Road Map 2020 Entrepreneurship Development Program

To solve the problems of post-crisis development of the country under the framework of the 2010–2014 State Program of Accelerated Industrial and Innovative Development of the Republic of Kazakhstan, the Business Road Map 2020 Entrepreneurship Development Program has been implemented since April 2010 and has already proven its effectiveness. This program is the largest initiative to ensure stable and balanced development of regional entrepreneurship in the non-raw-material sectors which contribute to job creation. The Damu is the executing agency of the program, and its role is to partially provide interest rate subsidies for loans to entrepreneurs and SMEs, as well as to issue partial guarantees for bank loans applied for by them.

References

http://www.stat.gov.kz/digital/mal_pred/Pages/default.aspx
http://www.damu.kz/content/files/OtchetObEffektivnostiProgrammyDorozhnayaKartaBiznesa2020.pdf
http://www.nationalbank.kz/?docid=308
http://www.nationalbank.kz/?docid=306

COUNTRY REVIEW

Republic of Korea

SME Landscape

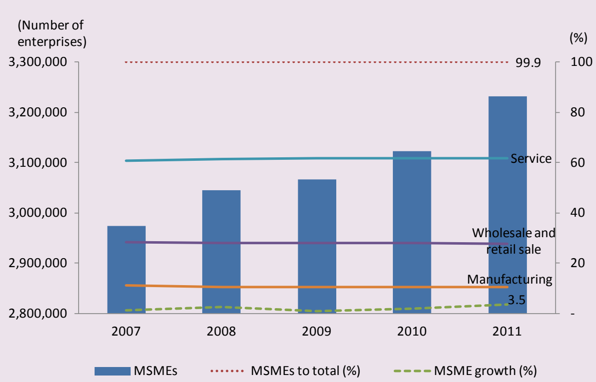
There were 3.2 million micro, small, and medium-sized enterprises (MSMEs) in 2011, 99.9% of the total enterprises (Figure 4.59 and Table 4.30). MSMEs are concentrated in the service sector (e.g., transport and storage, accommodation, and food service) which accounted for 61.1% of total MSMEs, followed by wholesale and retail sales (27.8%) and manufacturing (10.5%).

MSMEs provided jobs to 12.6 million people in 2011, 86.9% of total employment (Figure 4.60). Most MSME employees were working in the service sector (57.3% of total MSME employment), while the trade sector accounted for 22.5% and manufacturing 20.2%.

MSMEs contributed W237 trillion to the economy in 2011 (Figure 4.61). This is equivalent to 47.3% of the total value added in the manufacturing sector, which provided 31.3% of the country's gross domestic product (GDP) in 2011. MSME exports reached $102.6 trillion in 2012, equivalent to 18.7% of total exports (Figure 4.62).

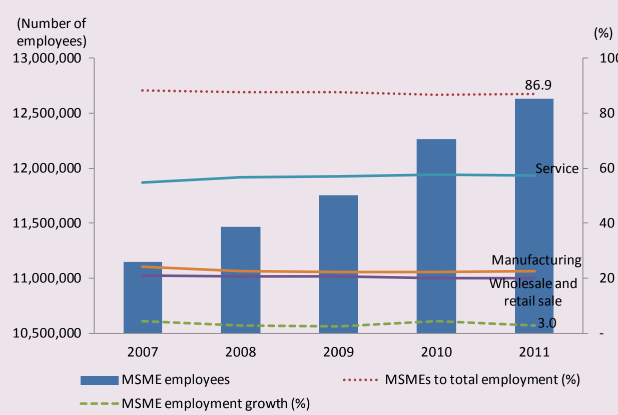
The MSME definition is based on the 1996 Framework Act on Small and Medium Enterprises (fully amended in 2007) covering three segments; micro, small, and medium-sized enterprises. The criteria used in classifying an MSME is the number of employees or the amount of capital and/or annual sales. For the manufacturing sector, establishments with fewer than 300 employees or capital worth W8 billion or less are classified as MSMEs (micro enterprises are establishments with fewer than 10 employees, and small enterprises are those with 10–50 employees). MSMEs in the agriculture, forestry, and fisheries sector are establishments with fewer than 200 employees or annual sales of W2 billion or less.

Figure 4.59: Number of SMEs



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

Figure 4.60: Employment by SMEs



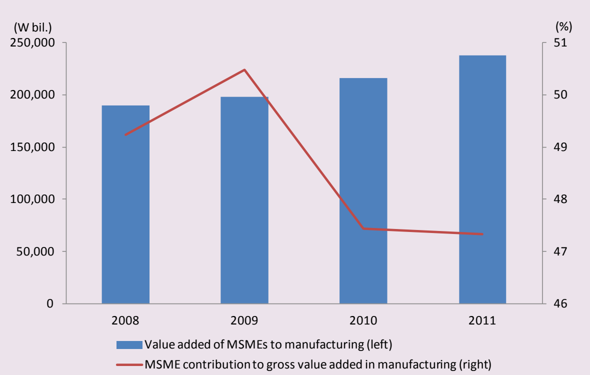
MSME = micro, small, and medium-sized enterprise.
Note: Data include micro enterprises.
Source: Small and Medium Business Administration.

Table 4.30: SME Landscape

Item	2007	2008	2009	2010	2011	2012
Number of MSMEs						
MSMEs (number)	2,974,185	3,044,169	3,066,484	3,122,332	3,231,634	...
MSMEs to total (%)	99.9	99.9	99.9	99.9	99.9	...
MSME growth (%)	1.2	2.4	0.7	1.8	3.5	...
Wholesale and retail sales (% to MSMEs)	28.4	28.0	27.9	27.9	27.8	...
Service (% to MSMEs)	60.5	61.5	61.7	61.7	61.7	...
Manufacturing (% to MSMEs)	11.1	10.4	10.4	10.4	10.5	...
Employment by MSMEs						
MSME employees (people)	11,149,134	11,467,713	11,751,022	12,262,535	12,626,746	...
MSMEs to total (%)	88.4	87.7	87.7	86.8	86.9	...
MSME growth (%)	1.3	(0.7)	(0.0)	(1.1)	0.1	...
Wholesale and retail sales (% to MSMEs)	21.1	20.8	20.8	20.1	20.2	...
Service (% to MSMEs)	54.8	56.6	57.0	57.6	57.3	...
Manufacturing (% to MSMEs)	24.1	22.6	22.2	22.3	22.5	...
MSME Contribution to Gross Value Added - Manufacturing						
Value added of MSMEs to Manufacturing (W bil.)	174,677	189,516	198,196	215,736	237,382	...
Gross value added in manufacturing (W bil.)	344,964	384,873	392,660	454,776	501,551	...
MSME contribution to gross value added in manufacturing (%)	50.6	49.2	50.5	47.4	47.3	...
MSME Exports and Imports						
MSME exports ($ bil.)	...	89,267	76,783	98,624	101,560	102,651
MSME imports ($ bil.)	...	...	...	...	...	...
MSMEs to total exports (%)	...	21.2	21.1	21.2	18.3	18.7
MSMEs to total imports (%)	...	...	...	...	...	...
MSME export growth (%)	...	...	(14.0)	28.4	3.0	1.1
MSME import growth (%)	...	...	...	...	...	...

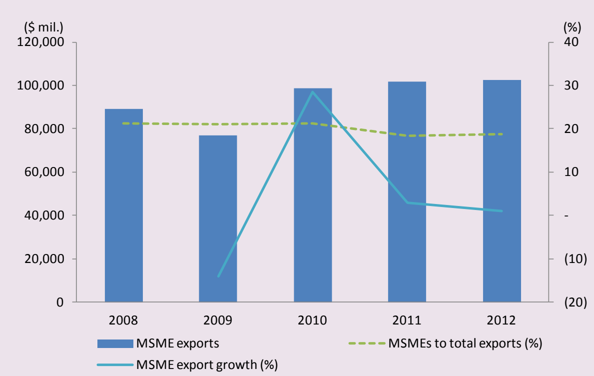
SME = small and medium-sized enterprise.
Source: Small and Medium Business Administration.

Figure 4.61: SME Contribution to Gross Value Added in Manufacturing



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

Figure 4.62: SME Exports



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

Banking Sector

SMEs received a total of W495 trillion loans in 2012, of which W461 trillion (93.2% of total SME loans) were denominated in won, with the rest in foreign currency (Figure 4.63 and Table 4.31). The ratios of SME loans to GDP was 38.9% and of SME loans to total loans 40.5%. Of the total SME loans denominated in local currency, commercial banks provided W284 trillion (61.7% of total SME loans) while the balance was from special banks (Figure 4.64).[1]

In terms of sector breakdown, SMEs in the manufacturing received W175 trillion (38% of total SME loans), followed by services (20.2%), real estate (16.8%), wholesale and retail trade (15.8%), and construction (4.7%) (Figure 4.65). Other sectors (e.g., telecommunication, transportation, and others) received W20.8 trillion of loans (4.5%) in 2012.

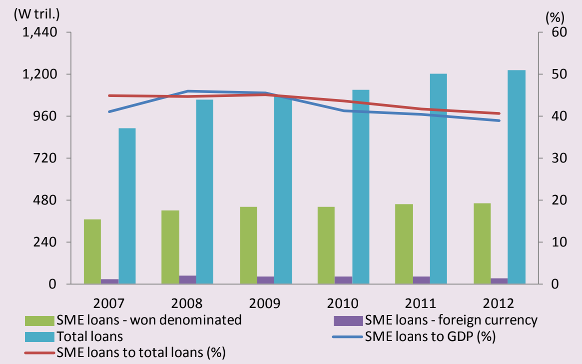
SME classified loans, which include loans in substandard, doubt, and loss categories, decreased by 10.4% from the previous year to W10.1 trillion in 2012 (Figure 4.66). The lower level of classified loans led to an improvement in the SME classified loan ratio, to 2.0% in 2012 from 2.3% in 2011.

Most SMEs managed to access bank loans, as noncollateral SME loans reached W202 trillion (43.8% of total SME loans) in 2012. Meanwhile, secured SME loans stood at W198 trillion (43.0% of SME loans).

For some SMEs, lack of collateral is an obstacle to obtaining credit from banks. The absence of an SME credit rating agency makes it more difficult for them to obtain bank loans. To ease this problem, the government established credit guarantee schemes. Outstanding guaranteed SME loans were W61 trillion (13.2% of total SME loans) in 2012, up from W59 trillion (13.0% of total SME loans) in 2011 (Figure 4.67).

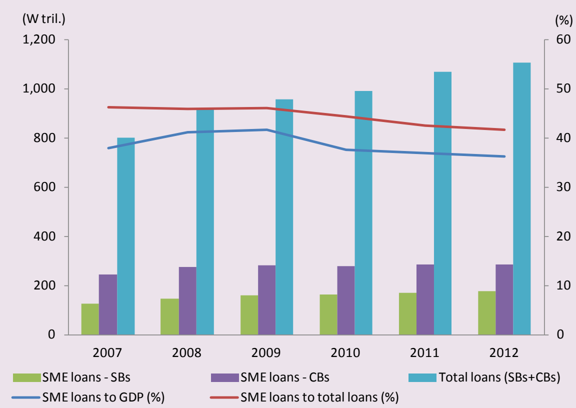
Two credit guarantee institutions were created for SMEs. The Korea Credit Guarantee Fund (KODIT) was established in June 1976 to extend credit guarantee for the liabilities of promising SMEs, while the Korea Technology Finance Corporation (KOTEC) was founded in 1989 to focus on providing guarantees to those with competent technological capabilities. In 2012, KODIT served 230,296 SMEs, of which 44,815 were new clients.[2] Meanwhile, 4,762 new technology start-ups benefited from KOTEC.[3]

Figure 4.63: SME Loans by Type



GDP = gross domestic product, SME = small and medium-sized enterprise.
Note: SME loan in bank account only.
Source: Financial Supervisory Service.

Figure 4.64: Local Currency Denominated SME Loans



CB = commercial bank, GDP = gross domestic product, SB = special bank, SME = small and medium-sized enterprise.
Note: SME loan in bank account only.
Source: Financial Statistics Information System.

1 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 NongHyup Bank.

2 Republic of Korea. Korea Credit Guarantee Fund (KODIT). 2012. *Annual Report 2012*. Seoul.

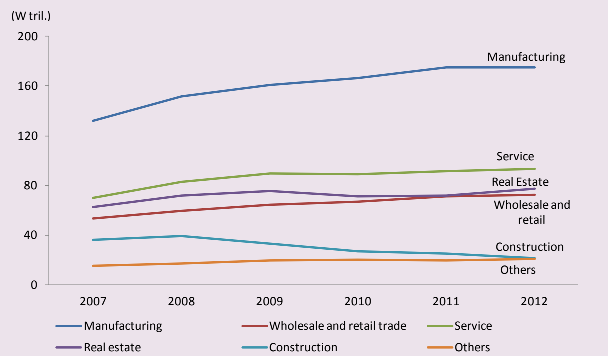
3 Republic of Korea. Korea Technology Finance Corporation (KOTEC). 2012. *Annual Report 2012.* Seoul.

Table 4.31: Banking Sector – SME Loans

Item	2007	2008	2009	2010	2011	2012
Loans Outstanding						
SME loans to GDP (%)	41.0	45.9	45.5	41.4	40.5	38.9
SME loans to total loans (%)	44.9	44.7	45.1	43.7	41.6	40.5
SME loans - won denominated (W tril.)	370	422	443	441	455	461
SME loans - foreign currency (W tril.)	30	49	41	44	45	34
Total SME Loans [won+foreign] (W tril.)	400	471	484	485	500	495
Loans Outstanding - local currency denominated						
SME loans to GDP (%)	37.9	41.1	41.6	37.6	36.8	36.2
SME loans to total loans (%)	46.2	45.9	46.1	44.4	42.4	41.6
SME loans - SBs (W tril.)	126	147	160	163	171	177
SME loans - CBs (W tril.)	244	275	283	277	284	284
Total loans [SBs+CBs] (W tril.)	800	916	957	990	1,067	1,105
SME Loans by Sector (W tril.)						
Manufacturing	132	151	161	166	175	175
Wholesale and retail trade	53	59	64	67	71	73
Service	70	83	90	89	91	93
Real estate	63	72	75	71	72	77
Construction	36	39	33	27	25	22
Others	15	17	20	20	20	21
SME Classified Loans						
SME classified loans (W tril.)	4	10	9	16	11	10
Gross classified loans (W tril.)	8	15	16	25	19	19
SME classified to total SME loans (%)	1.1	2.1	1.9	3.3	2.3	2.0
SME classified loans to total loans (%)	0.5	0.9	0.9	1.4	0.9	0.8
Gross classified to total loans (%)	0.9	1.4	1.5	2.2	1.6	1.5
Noncollateral, Guaranteed, and Secured SME Loans						
Noncollateral SME loans (W tril.)	177	212	218	212	211	202
Guaranteed SME loans (W tril.)	39	43	59	60	59	61
Secured SME loans (W tril.)	154	167	166	170	185	198
Noncollateral SME loans to total SME loans (%)	47.8	50.1	49.2	48.0	46.3	43.8
Guaranteed SME loans to total SME loans (%)	10.6	10.2	13.4	13.5	13.0	13.2
Secured SME loans to total SME loans (%)	41.5	39.7	37.4	38.5	40.7	43.0

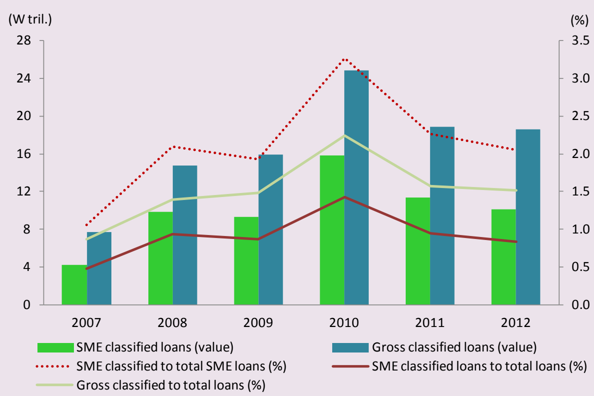
CB = commercial bank, GDP = gross domestic product, SB = special bank, SME = small and medium-sized enterprise.
Loan in bank account only unless specified. Local currency denominated loan unless specified.
Others in the SME loan by sector include transportation and telecommunication.
Source: Financial Supervisory Service.

Figure 4.65: SME Loans by Sector



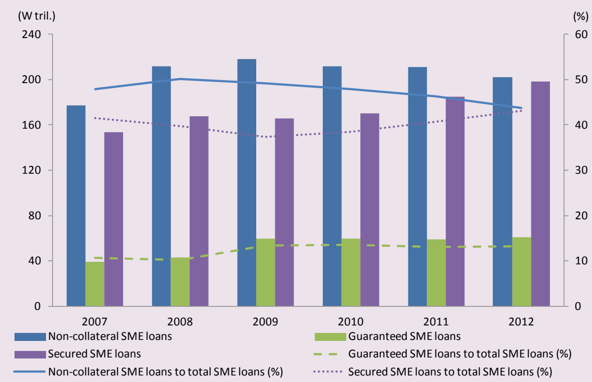
SME = small and medium-sized enterprise.
Note: SME loan in bank and asset trust accounts.
Source: Financial Supervisory Service.

Figure 4.66: SME Classified Loans



SME = small and medium-sized enterprise.
Note: SME loan in bank account only.
Source: Financial Supervisory Service.

Figure 4.67: Noncollateral, Guaranteed, and Secured SME Loans



SME = small and medium-sized enterprise.
Source: Financial Supervisory Service.

Nonbank Sector

In 2012, there were 105 registered venture capital companies (VCCs) and 412 venture capital funds (VCFs) (Figures 4.68–4.69 and Table 4.32). Six VCCs and 41 VCFs were added to the list, while six VCCs and 46 VCFs were deregistered. VCCs were able to raise W747.7 billion from 41 funds. Meanwhile, 46 funds were dissolved, which resulted in a W858.6 billion reduction in capital. Total committed capital stood at W9.4 trillion in 2012.

As of September 2013, there were 102 registered VCCs, of which three were newly formed. The number of VCFs was 424, with a total commitment amount of W9.9 trillion brought about by the dissolution of 24 funds and the introduction of 36 new funds.

Actual investments stood at W984 billion covering 579 companies. Investee companies in their later stage (more than 7 years) received the bulk of venture capital funding of W480.6 billion (49% of total investment); W249.3 billion (25.3% of total investment) was channeled to 275 companies in their early stage (less than 3 years), while the rest of the funds (W254.3 billion) covered 170 companies in their expansion stage (3–7 years) (Figure 4.70).

In terms of sector breakdown, 36.8% of investments were made in the information technology sector (Figure 4.71). The service sector (e.g., biotechnology, distribution, and recycling) received 21.9% of the funds, followed by manufacturing (20.8%) and culture and the arts (20.5%).

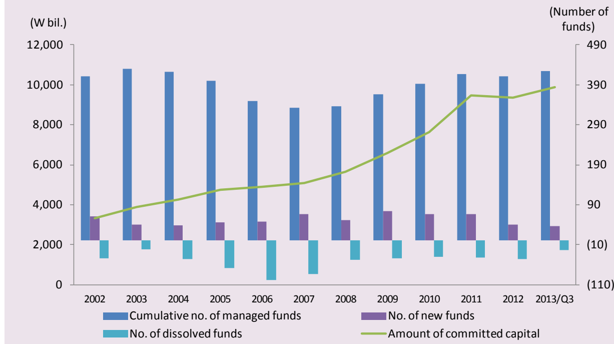
Established in 1989, the Korean Venture Capital Association is an organization of 98 members—89 VCCs and 9 foreign VCCs, limited liability companies, and investment companies. Its main mission is to promote a more favorable system and vibrant investment environment for the development of the venture capital industry and enhance awareness and understanding of the importance of venture capital to the economy.[4]

[4] Korean Venture Capital Association. http://eng.kvca.or.W/sub01/sub0102.jsp

Figure 4.68: Venture Capital Companies

Source: Korean Venture Capital Association.

Figure 4.69: Venture Capital Funds



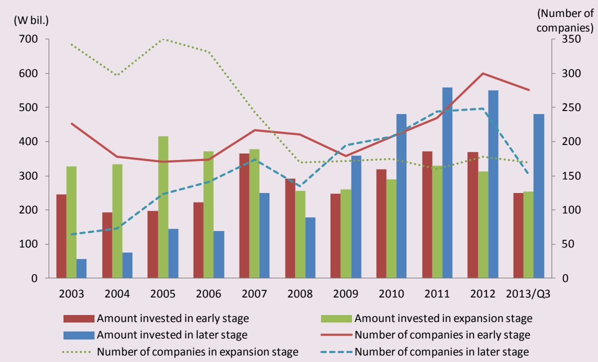
Source: Korean Venture Capital Association.

Table 4.32: Nonbank Sector – Venture Capital

Item	2007	2008	2009	2010	2011	2012	2013/Q3
Venture Capital Company							
Newly registered company (number)	7	5	12	13	9	6	2
Deregistered company (number)	(10)	(9)	(9)	(10)	(7)	(6)	(6)
Outstanding registered company (number)	101	97	100	103	105	105	102
Outstanding amount (W bil.)	1,556	1,476	1,361	1,384	1,399	1,446	1,402
Venture Capital Funds							
New funds (number)	67	51	74	67	67	41	36
Amount (W bil.)	1,128	975	1,421	1,590	2,286	748	951
Dissolved funds (number)	(84)	(48)	(44)	(40)	(43)	(46)	(24)
Dissolved funds (W bil.)	929	406	492	550	440	859	435
Cumulative managed funds (number)	333	336	366	393	417	412	424
Amount of committed funds (W bil.)	5,091	5,660	6,589	7,629	9,475	9,364	9,865
Actual Investments							
Investee companies (number)	615	496	524	560	613	688	579
Amount of actual investment (W bil.)	992	725	867	1,091	1,261	1,233	984
Investments by Stage							
Investee companies in early stage (number)	217	210	179	207	235	300	275
Investment in early stage (W bil.)	365	291	248	319	372	370	249
Investee companies in expansion stage (number)	243	170	172	175	160	178	170
Investment in expansion stage (W bil.)	377	255	260	290	330	314	254
Investee companies in later stage	174	135	195	207	244	248	152
Investment in later stage (W bil.)	249	179	359	481	559	550	481

Source: Korean Venture Capital Association.

Figure 4.70: Venture Capital Investment by Firm Stage

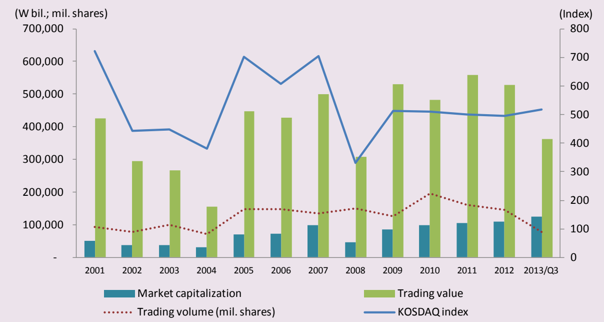


Source: Korean Venture Capital Association.

Figure 4.71: Venture Capital Investment by Sector

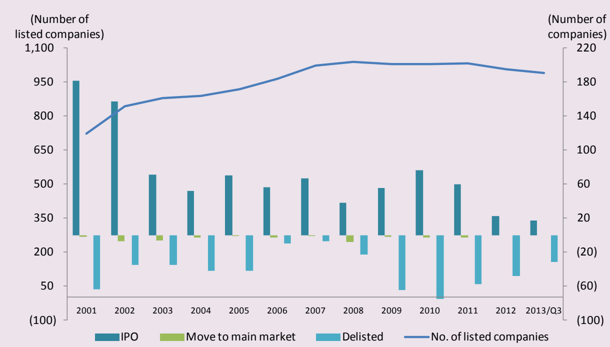
Note: Service includes biotechnology, distribution, recycling, and others.
Source: Korean Venture Capital Association.

Figure 4.72: Market Performance – KOSDAQ



Source: Korea Exchange.

Figure 4.73: Listed Companies - KOSDAQ



IPO = initial public offering.
Source: Korea Exchange.

Capital Markets

The KOSDAQ market was originally established as an organized over-the-counter (OTC) market in 1987 but evolved to become an exchange market and a division of the Korea Exchange in 2005. KOSDAQ caters to the direct financing needs of information-technology-related innovative SMEs but is not exclusively for SMEs.

Compared with the main board, KOSDAQ has softer listing requirements. For instance, in terms of equity capital, KOSDAQ requires a general company to have at least W3 billion, as opposed to W10 billion in the main board. However, venture companies are given special treatment and the capital requirement is lowered to W1.5 billion.[5] Other incentives for venture businesses include preferential credit guarantee from the Korea Technology Credit Guarantee Fund and lower income tax for venture company employees. Income earned from employees' stock purchase options is not categorized as earned income, business income, or other income.

From W46.2 trillion in 2008, market capitalization in KOSDAQ reached W109.1 trillion in 2012 (Figure 4.72 and Table 4.33). However, the value of traded stocks in KOSDAQ dropped to W528 trillion in 2012 from W558 trillion in 2011. The number of traded stocks also fell to 146.5 billion in 2012 from 161.4 billion the previous year. The number of KOSDAQ-listed companies also decreased to 1,005 in 2012 from 1,031 in 2011 (Figure 4.73). The lower number of listed

[5] Venture companies as defined in the Act on Special Measures for the Promotion of Venture Businesses.

Table 4.33: Capital Market – Equity

Item	2007	2008	2009	2010	2011	2012	2013/Q3
Market Performance - KOSDAQ							
KOSDAQ index	704	332	514	511	500	496	517
Market capitalization (W bil.)	99,876	46,186	86,103	97,972	105,994	109,122	124,573
Trading value (W bil.)	499,516	308,979	530,961	483,091	558,007	528,028	362,217
Trading volume (mil. shares)	134,051	151,001	125,464	196,771	161,403	146,478	78,993
Listed Companies							
No. of listed companies	1,023	1,038	1,028	1,029	1,031	1,005	990
Initial public offerings (IPOs)	67	38	55	76	60	22	17
Move to main market	(1)	(8)	(2)	(3)	(3)	0	0
Move from main market	…	…	…	…	…	…	…
Delisted	(7)	(23)	(65)	(75)	(58)	(48)	(32)
Market Performance - FreeBoard							
Market capitalization (W bil.)	460	5,740	740	810	860	590	520
Trading value (W bil.)	42	32	16	58	50	26	17
Trading volume (mil. shares)	35	29	82	87	64	36	26
Listed Companies							
No. of listed companies	54	70	66	71	63	52	50
Initial public offerings (IPOs)	7	25	10	18	11	6	2
Move to KOSDAQ	(1)	(1)	0	(2)	0	0	(1)
Move from KOSDAQ	(1)	(1)	(1)	0	0	0	0
Delisted	(9)	(9)	(14)	(13)	(19)	(17)	(4)

Source: Korea Exchange and Korea Financial Investment Association.

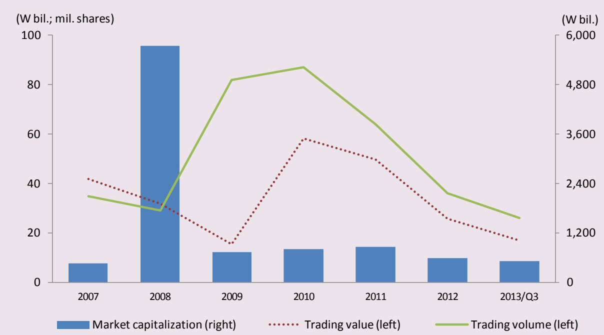
companies in 2012 was the result of two initial public offerings (IPOs) and removal of 48 companies in the list.

As of September 2013, market capitalization stood at W124.6 trillion with a value of W362.2 trillion and trading volume of 80 billion shares, while the number of companies declined to 990, brought about by the addition of 17 IPOs and the delisting of 32 companies.

In addition to the stock market, the country has a systematized OTC market called FreeBoard. It serves as a venue for companies which are unable to meet the listing requirements of the main board and KOSDAQ to trade their stocks, and acts as a financing channel, particularly for venture companies and SMEs. A self-regulatory organization, the Korea Financial Investment Association (KOFIA), was created when the Financial Investment Services and Capital Markets Act became effective in 2009.

FreeBoard's market capitalization reached a peak of W5.7 trillion in 2008 (Figure 4.74). However, its performance has been relatively stagnant since as market capitalization has been less than W1 trillion since 2009. Its market capitalization in 2012 was W590 billion with 52 listed companies resulting from the addition of 6 and removal of 17 companies in the list (Figure 4.75).

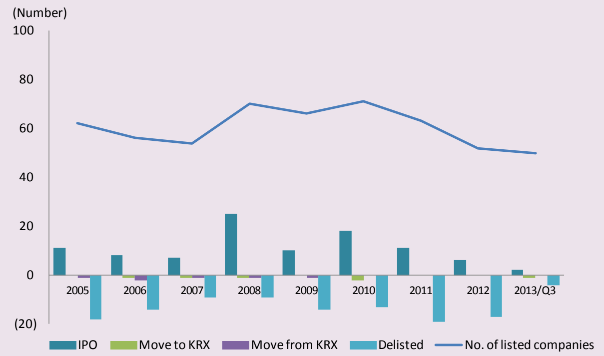
Figure 4.74: Market Performance - FreeBoard



Source: Korea Financial Investment Association.

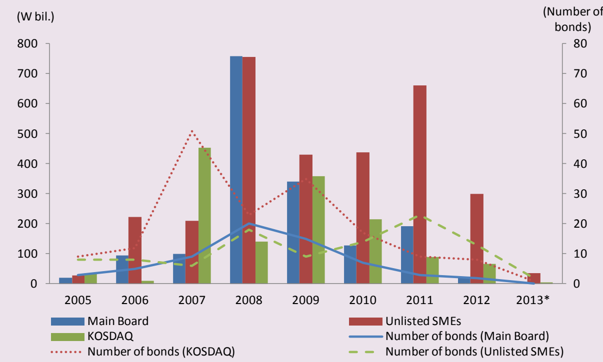
Taking into account the protracted downturn in the stock market and the stringent requirements to get listed

Figure 4.75: Listed Companies - FreeBoard



IPO = initial public offering, KRX = Korea Exchange.
Source: Korea Financial Investment Association.

Figure 4.76: SME Bonds Issuance



* January to July.
Source: Financial Supervisory Service.

Table 4.34: Capital Market – Bonds

Item	2007	2008	2009	2010	2011	2012	2013*
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	1
KOSDAQ market SME bond offerings (W bil.)	453	140	359	216	89	67	4
Bond offerings of unlisted SMEs (number)	6	18	9	14	23	13	2
Bond offerings of unlisted SMEs (W bil.)	210	756	430	438	662	300	35
SME total bond offerings (number)	66	61	59	38	35	23	3
SME total bond offerings (W. bil)	764	1,655	1,129	782	944	390	39

SME = small and medium-sized enterprise.
*January to July.
Source: Financial Supervisory Service.

in Korea Exchange, the Financial Services Commission, the country's policy making body and regulator of capital markets, initiated the establishment of a new stock market for SMEs under the management of Korea Exchange. The Korea New Exchange (KONEX) was launched in July 2013 to help start-ups and SMEs with high growth potential but which were too small to be listed in the main board or KOSDAQ. The listing requirement in KONEX was softer (e.g., at least W500 million paid-in capital compared with W3 billion for a general company in KOSDAQ). Moreover, KONEX-listed companies benefit from less stringent disclosure requirements (e.g., exempt from submitting quarterly or biannual business reports as opposed to listed companies in the main board and KOSDAQ).

Aside from issuing stocks, SMEs also tap the bond market for their financing needs. Bonds are traded in the main board, KOSDAQ, and OTC. Data from the Financial Statistics Information System of the Financial Supervisory Service documented SME bond issuance since 2001. The Qualified Institutional Buyers (QIB) system for professional investors started operating in May 2012. The QIB Trading Platform operated by KOFIA is exclusively for SME bonds.

Two SMEs issued bonds in the main board with a value of W23 billion in 2012 (Figure 4.76 and Table 4.34). At the same time, eight SMEs obtained W66.8 billion in financing from bonds issued in KOSDAQ. However, W299 billion, or 77% of the total SME bond financing, was from unlisted SMEs.

Policy and Regulation

With the aim of developing the capital market and financial investment industry, the Financial Investment Services and Capital Markets Act was enacted in July 2007. The main features of the law include the introduction of a new concept of financial investment products, adoption of a functional regulation system, expansion of the scope of business activities that investment service companies can perform, and improvement of the protection mechanism for investors.

When the act became effective in 2009, three self-regulatory organizations—the Korea Securities Dealers Association, the Asset Management Association of Korea, and the Korea Futures Association—were merged to form the KOFIA.

SME-specific policies and initiatives are developed by the Small and Medium Business Administration (Table 4.35). In 2007, the Promotion of Small and Medium Enterprises and Encouragement of Purchase of Their Products Act was enacted to strengthen the competitiveness of SMEs, encourage the purchase of their products, extend their markets, and expand their business share. Furthermore, the Framework Act on SMEs provided for programs and measures to be taken to advance the SME sector. Other policies that were enacted during that time include the Support for SME

Table 4.35: SME Policy and Regulation

Regulations	
Name	**Outline**
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 activites, restructuring ,and management stabilizaion 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 Concering 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 Activites Act (2005)	Facilitate business start-ups and entrepreneurial activites 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)
Support for Small and Medium Enterprises Establishment Act (2007)	Contribute to the establishment of a solid industry structure through sound development of SMEs by facilitating the settting-up of small and medium-sized businesses and developing a firm basis for their growth (SMBA)

Continued on next page

Table 4.35 continued

Regulations	
Name	**Outline**
Small and Medium Enterprises Promotion Act (2007)	Strengthen the competitiveness of SMEs through their structural advancement, and expand the business sphere for SMEs (SMBA)
Small and Medium Enterprise Cooperatives Act (2007)	Provide equal economic opportunities to SMEs and encourage their independent economic activites to improve the economic status (SMBA)
Act on Facilitation of Purchase of Small and Medium Enterprises-Manufactured Products and Support for Development of Their Markets (2009)	Facilitate the purchase of SME-manufactured products (SMBA)
Act on the Fostering of Sole-proprietor Creative Business (2011)	Foster sole-proprietor creative business (SMBA)
Framework Act on Small and Medium Enterprises (2007)	SME definition (SMBA)
Regulators and policy makers	
Name	**Responsibility**
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
Small and Medium Business Administration (SMBA)	Develop and deliver SME-related policies
Bank of Korea	Formulate and implement monetary policy

Policies		
Name	**Responsible Entity**	**Outline**
Annual SMBA Business Plan (2013)	SMBA	1) Foster venture and start-up ecosystem for realizing a creative economy 2) Construct small and medium-sized enterprise growth ladder 3) Reinforce the core competitiveness of small and medium-sized enterprises 4) Restore vigor of small commercial and industrial businessmen and traditional marketpalce
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 stimulation of intellectual property generation and commercialization

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

Establishment Act, the SME Promotion Act, the SME Cooperatives Act, the Act on Facilitation of Purchase of SME-Manufactured Products, and the Support for Development of Their Markets.

In terms of SME financing, the Small and Medium Business Administration supervises a system that insures SME bonds. Another form of SME financing is the aggregate credit ceiling system that was introduced by the Bank of Korea in October 2008. The Bank of Korea provides low-rate loans to banks in proportion to their loans to SMEs. It has raised the aggregate credit ceiling several times (e.g., from W9 trillion to W10 trillion in March 2009 and to W12 trillion in April 2013). Furthermore, the Bank of Korea put in place an obligatory SME loan ratio for banks and provided extension on the maturity of SME loans.

The Financial Services Commission acts as the regulator of banks, nonbank financial institutions, and capital markets. Supervisory and examination works are delegated to the Financial Supervisory Service.

Malaysia

SME Landscape

In 2010 there were 645,136 micro, small, and medium-sized enterprises (MSMEs), which was 97.3% of total enterprises (Figure 4.77 and Table 4.36). The service sector (including construction and mining and quarrying) had 600,567 MSMEs (93.1% of MSMEs), followed by manufacturing (5.9%) and agriculture (1.0%).

MSMEs are also important in providing employment to about 4.9 million people, or 57.4% of the workforce in 2012 (Figure 4.78). The majority of MSME workers were in the service sector, which accounted for 72.8% of total MSME employment (including 7.1% from construction and 0.1% from mining and quarrying). Manufacturing provided 19.4% of total MSME jobs, and agriculture 7.9%.

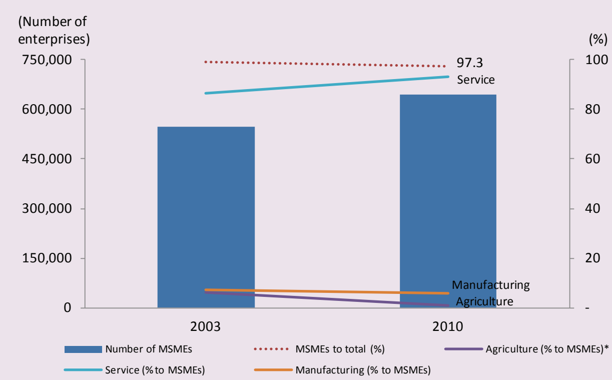
Aside from job creation, MSMEs also contributed 32.7% to total gross domestic product (GDP) in 2012 (Figure 4.79). The service sector was the main contributor at 61.7% to total MSME GDP (Figure 4.80). This was followed by manufacturing (24.1%), agriculture (10%), mining and quarrying (0.2%), and construction (2.8%).

The National SME Development Council, chaired by the prime minister, was formed in August 2004 as the highest-level policy making body to chart the direction and strategies for the development of MSMEs. The council announced the adoption of a national definition for MSMEs in 2005.

Government agencies and the central bank, Bank Negara Malaysia (BNM), follow this national MSME definition.[1] MSME refers to establishments with annual turnovers of less than RM25 million or less than 150 full-time employees for manufacturing, agro-based industries, and manufacturing-related services.

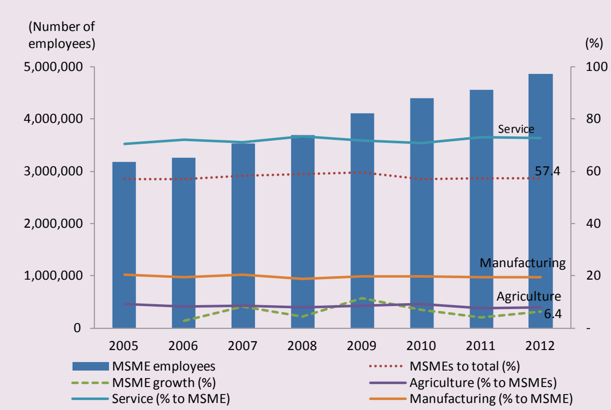
[1] In the Malaysian context, "micro, small, and medium-sized enterprises" refers to SMEs rather than MSMEs.

Figure 4.77: Number of SMEs



MSME = micro, small, and medium-sized enterprise; SME = small and medium-sized enterprise.
Note: Data include micro enterprises. Service sector includes transportation and storage, wholesale and retail trade, telecommunication, construction, real estate, and mining and quarrying.
Source: Census of Establishments and Enterprises 2005 and Economic Census 2011: Profile of SMEs, Department of Statistics Malaysia.

Figure 4.78: Employment by SMEs



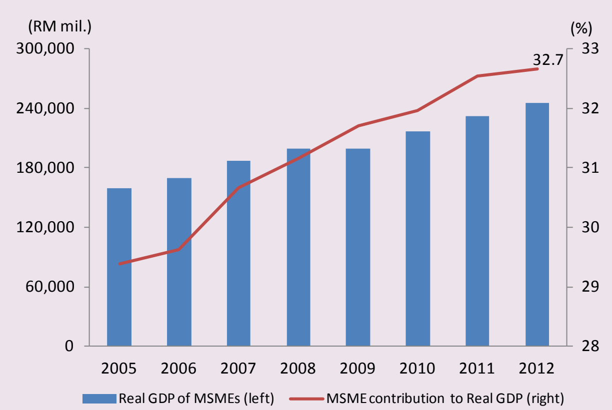
MSME = micro, small, and medium-sized enterprise; SME = small and medium-sized enterprise.
Note: Data include micro enterprises. Service sector includes construction and mining and quarrying.
Source: Census of Establishments and Enterprises 2005 and Economic Census 2011: Profile of SMEs, Department of Statistics Malaysia.

Table 4.36: SME Landscape

Item	2003	2005	2006	2007	2008	2009	2010	2011	2012
Number of MSMEs									
MSMEs (number)	548,267	…	…	…	…	…	645,136	…	…
MSMEs to total (%)	99.2	…	…	…	…	…	97.3	…	…
MSME growth (%)	…	…	…	…	…	…	17.7	…	…
Agriculture (% to MSMEs)	6.2	…	…	…	…	…	1.0	…	…
Service (% to MSMEs)	87	…	…	…	…	…	93.1	…	…
Manufacturing (% to MSMEs)	7.2	…	…	…	…	…	5.9	…	…
Employment by MSMEs									
MSME employees (people)	3,154,667	3,172,117	3,257,309	3,529,121	3,684,210	4,100,952	4,389,823	4,562,815	4,854,142
MSMEs to total (%)	…	56.8	56.9	58.2	58.9	59.4	57.1	57.3	57.4
MSME growth (%)	…	…	2.7	8.3	4.4	11.3	7.0	3.9	6.4
Agriculture (% to MSMEs)	2.4	9.2	8.3	8.5	8.0	8.6	9.3	7.7	7.9
Service (% to MSMEs)	24.1	70.4	72.2	71.0	73.3	71.6	70.8	72.9	72.8
Manufacturing (% to MSMEs)	73.5	20.4	19.6	20.4	18.7	19.8	19.9	19.4	19.4
MSME Contribution to GDP (at constant 2005 prices)									
Real GDP of MSMEs (RM mil.)	…	159,718	169,978	187,040	199,285	199,690	216,267	231,473	245,379
MSME Contribution to GDP (%)	…	29.4	29.6	30.7	31.2	31.7	32.0	32.5	32.7
GDP Composition of MSMEs (at constant 2005 prices; % to MSME GDP)									
Agriculture	…	11.6	11.8	11.1	10.6	10.7	10.5	10.4	10.0
Mining and quarrying	…	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
Construction	…	2.5	2.3	2.4	2.3	2.5	2.6	2.6	2.8
Service	…	57.9	58.1	59.4	61.2	62.7	61.9	61.8	61.7
Plus: import duties	…	0.3	0.3	0.3	0.5	0.6	0.8	0.9	1.2

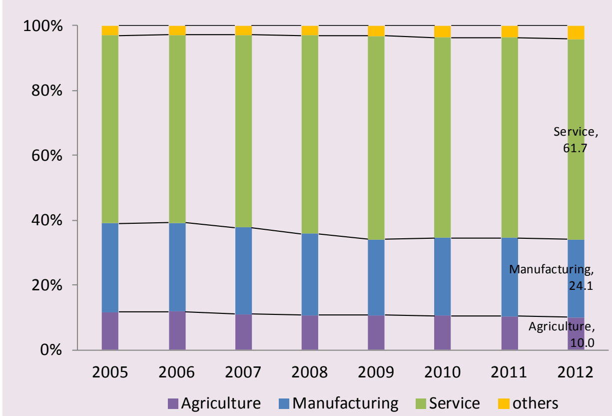
GDP = gross domestic product; MSME = micro, small, and medium-sized enterprise.
Note: Data include micro enterprises. Service sector includes transportation and storage, wholesale and retail trade, telecommunication, construction, real estate, and mining and quarrying.
Source: Census of Establishments and Enterprises 2005 and Economic Census 2011: Profile of SMEs, Department of Statistics Malaysia.

Figure 4.79: SME Contribution to GDP



GDP = gross domestic product; MSME = micro, small and medium-sized enterprise; SME = small and medium-sized enterprise.
Note: Data refer to real GDP at constant 2005 prices and include micro enterprises.
Source: SME National Accounts, Department of Statistics Malaysia.

Figure 4.80: GDP Composition of SMEs



GDP = gross domestic product, SME = small and medium-sized enterprise.
Note: Data refer to real GDP at constant 2005 prices and include micro enterprises. Service sector includes construction, and mining and quarrying.
Source: SME National Accounts, Department of Statistics Malaysia.

For the service and agriculture sectors, MSMEs are establishments with less than RM5 million and less than 50 full-time employees. The thresholds also differ by size of operations. A review has been undertaken on the definition because of structural changes and changing business trends. On 1 January 2014, the definition for the manufacturing sector was revised to an annual turnover of up to RM50 million or up to 200 full-time employees. For all other sectors, the threshold was increased to RM20 million or up to 75 full-time employees.

Banking Sector

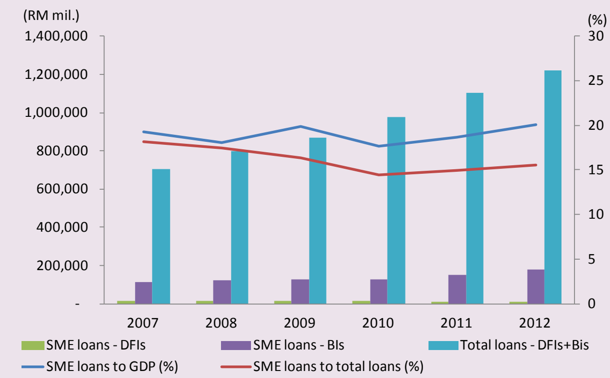
SME loans outstanding were RM189 billion in 2012 (Figure 4.81 and Table 4.37). This is equivalent to 15.5% of total loans, or 20.1% of GDP. Banking institutions are the main providers of financing to SMEs, with financing outstanding amounting to RM177 billion, accounting for 93.6% of the financial system. Apart from banks, SMEs also sought financing from government-backed development finance institutions, which provided RM12 billion.[2]

SME financing by financial institutions remains robust, with approvals for SME loans expanding by 12.5% to RM84.7 billion in 2012 from RM75.2 billion in 2011 (Figure 4.82).[3] SME beneficiaries also increased to 148,232 in 2012 compared with 142,378 in 2011.

Concurrently, the number of outstanding SME accounts was 682,849, up by 5,400 from 1 year before (Figure 4.83). Meanwhile, the average lending rate of SME loans by commercial banks has been steady at 5.5%–5.7% since 2010. The annual average lending rates for total loans stood at 4.8% in 2012.

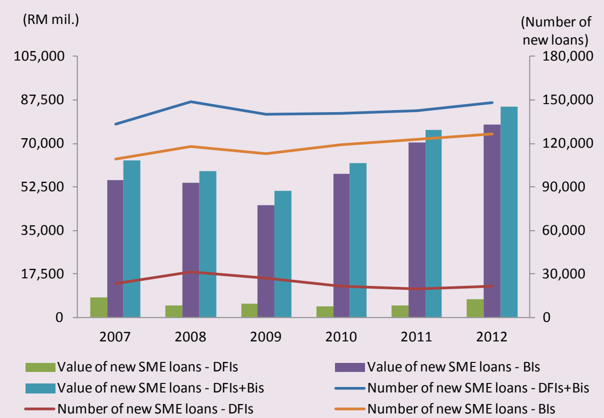
BNM provides five special funds for SMEs aimed at enhancing access to finance at reasonable cost with financing rates of 3.75%–6.00%. The funds are channeled through participating financial institutions. As of September 2013, the number of SME beneficiaries reached 57,781 with total approved financing of RM23.9 billion (Figure 4.84). Between the end of 2012 and the end of September 2013, the total drawdown

Figure 4.81: SME Loans Outstanding



BI = banking institution, DFI = development finance institution, GDP = gross domestic product, SME = small and medium-sized enterprise.
Source: Bank Negara Malaysia.

Figure 4.82: New Loans to SMEs



BI = banking institution, DFI = development finance institution, SME = small and medium-sized enterprise.
Source: Bank Negara Malaysia.

had increased by 4.6% and repayment had increased by 11.8%.

BNM together with other financial institutions established the Credit Guarantee Corporation to provide guarantee cover for SMEs with or without adequate collateral or with no track record of accessing financing from financial institutions. Credit Bureau Malaysia, a joint venture between the Credit Guarantee Corporation, Dun and Bradstreet Malaysia, and the Association of Banks in Malaysia, provides comprehensive and credible credit information and ratings for SMEs.

The Credit Guarantee Corporation has reached out

2 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.

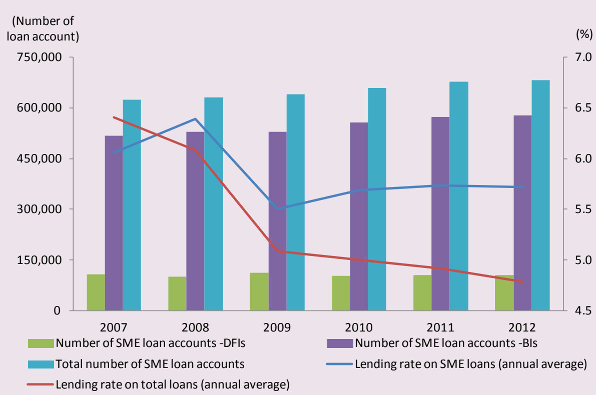
3 In the Malaysian context, "banking sector" refers to banking institutions only; "financial institutions" refer to both banking institutions and development finance institutions.

Table 4.37: Banking Sector – SME Loans

Item	2007	2008	2009	2010	2011	2012	2013/Q3
Loans Outstanding							
SME loans to GDP (%)	19.2	18.0	19.9	17.7	18.7	20.1	...
SME loans to total loans (%)	18.2	17.4	16.3	14.4	15.0	15.5	...
SME loans - Total (RM mil.)	127,984	138,859	141,608	141,159	165,316	188,968	...
SME loans - DFIs (RM mil.)	13,847	14,105	16,285	12,805	12,147	12,018	...
SME loans - BIs (RM mil.)	114,137	124,753	125,323	128,354	153,168	176,950	...
Total loans - DFIs + BIs (RM mil.)	127,984	138,859	141,608	141,159	165,316	188,968	...
New Loans to SMEs							
Number of new SME loans - DFIs	23,477	31,228	27,121	21,278	19,747	21,719	...
Value of new SME loans - DFIs (RM mil.)	8,130	4,813	5,611	4,354	4,811	7,201	...
Number of new SME loans - BIs	109,497	117,575	112,997	119,208	122,631	126,513	...
Value of new SME loans - BIs (RM mil.)	55,111	54,132	45,284	57,827	70,431	77,467	...
Number of new SME loans - DFIs+Bis	132,974	148,803	140,118	140,486	142,378	148,232	...
Value of new SME loans - DFIs+BIs (RM mil.)	63,240	58,946	50,896	62,181	75,241	84,667	...
BNM Special Funds for SMEs							
No. of approved accounts	33,717	37,498	40,331	46,943	50,988	54,379	57,781
Soft Loans and Guarantee Schemes							
Number of funds	...	...	64	62	61	49	...
Amount disbursed (RM bil.)	...	...	69	81	96	43	...
Amount of SLs and GSs (new approvals)	...	...	47	52	55	50	...
No. of SLs and GSs (new approvals)	...	...	1,847,316	2,174,115	2,211,331	2,339,009	...

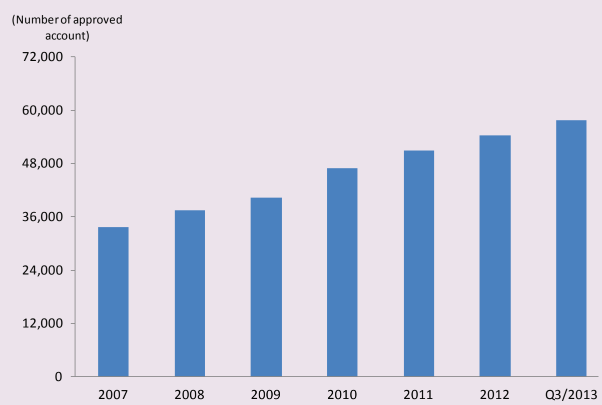
BI = banking institution, BNM = Bank Negara Malaysia, DFI = development finance institution, GDP = gross domestic product, GS = guarantee scheme, SL = soft loan, SME = small and medium-sized enterprise.
Sources: Bank Negara Malaysia and 2009/10, 2010/11, 2011/12, 2012/13 SME Annual Reports.

Figure 4.83: SME Loan Accounts and Lending Rate



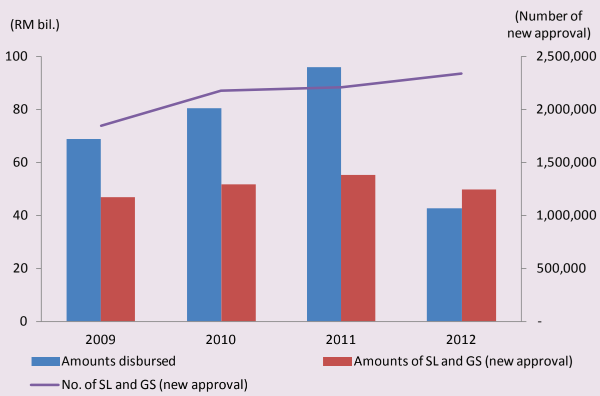
SME = small and medium-sized enterprise.
Source: Bank Negara Malaysia.

Figure 4.84: Bank Negara Malaysia SME Funds



SME = small and medium-sized enterprise.
Source: Bank Negara Malaysia.

Figure 4.85: SME Soft Loans and Credit Guarantees



GS = guarantee scheme, SL = soft loan, SME = small and medium-sized enterprise.
Sources: 2009/10, 2010/11, 2011/12, 2012/13 SME Annual Reports.

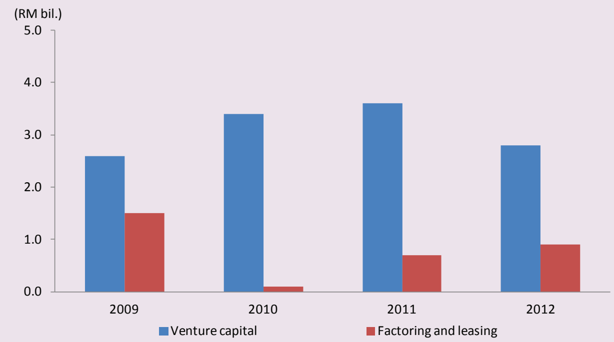
to more than 2,000 viable SMEs across all sectors, guaranteeing close to RM43 billion of loans in 2012. However, 2012 showed a decline in the value of loans guaranteed compared with 2011 (RM96 billion) (Figure 4.85). This is largely the result of government-backed schemes initiated during the economic downturn in 2008/09 maturing, and also because of the corporation's decision to gradually exit its Direct Access Guarantee Scheme to align its portfolio towards products after the implementation of risk-based pricing. The SME Annual Report 2012/2013 pointed out that Credit Bureau Malaysia continued its collaborative efforts with the Unit Peneraju Agenda Bumiputera (Teraju) program through the SME ratings program, providing ratings to 1,500 SMEs under this program.

Nonbank Sector

In addition to banks, nonbank financial institutions such as venture capital, factoring, and leasing companies also cater to SME financing needs. As of December 2012, venture capital provided RM2.8 billion investment, and factoring and leasing companies provided RM1.0 billion financing for SMEs (Figure 4.86 and Table 4.38).

According to the Securities Commission Malaysia Annual Report 2012, there were 53 registered venture capital management corporations and 59 venture capital corporations or funds (Figures 4.87–4.88). Two management corporations were added to the

Figure 4.86: SME Financing Outstanding

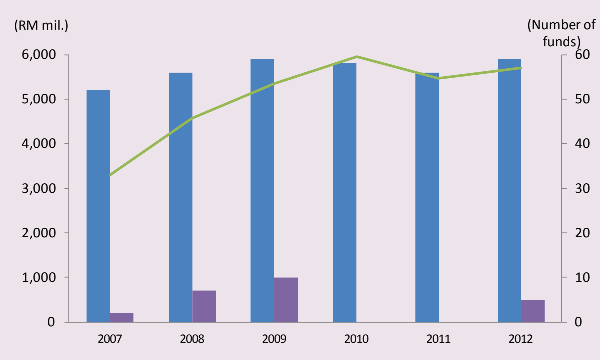


Sources: 2009/10, 2010/11, 2011/12, 2012/13 SME Annual Reports.

Figure 4.87: Venture Capital Management Corporations

Source: Securities Commission Malaysia.

Figure 4.88: Venture Capital Corporations and Funds



Source: Securities Commission Malaysia.

Table 4.38: Nonbank Sector – Venture Capital

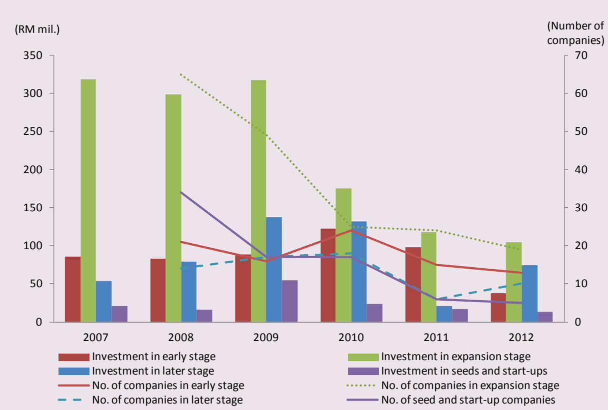
Item	2007	2008	2009	2010	2011	2012
Venture Capital Management Corporation (VCMC)						
No. of newly registered corporations	5	7	8	2	0	2
No. of deregistered corporations	0	0	0	0	0	(2)
No. of registered corporations	46	52	55	55	52	53
Amount of investment (RM mil.)	1,784	1,929	2,586	3,389	3,586	2,757
Venture Capital Corporation/Fund (VCC)						
No. of new funds	2	7	10	0	0	5
Amount of new funds (RM mil.)	97	132	60	0	0	401
No. of dissolved funds	...	...	...	...	...	...
Amount of dissolved funds (RM mil.)	(105)	(45)	(43)	(89)	(146)	(235)
Cumulative no. of managed funds	52	56	59	58	56	59
Amount of managed funds (RM mil.)	3,308	4,570	5,347	5,959	5,460	5,698
Investment (Cumulative)						
No. of companies	433	450	445	389	409	466
Amount of investment (RM mil.)	1,784	1,929	2,586	3,389	3,586	2,757
Investment by Stage						
No. of seeds and start-ups	...	34	17	17	6	5
Investment in seeds and start-ups (RM. Mil)	21	16	54	23	17	13
No. of companies in early stage	...	21	16	24	15	13
Investment in early stage (RM mil.)	86	83	88	122	98	38
No. of companies in expansion stage	...	65	49	25	24	19
Investment in expansion stage (RM mil.)	319	299	317	176	118	104
No. of companies in later stage	...	14	17	18	6	10
Investment in later stage (RM mil.)	54	79	137	132	21	75
Investment by Sector						
Information and communication technology (RM mil.)	89	72	104	84	49	16
Manufacturing (RM mil.)	131	59	112	124	29	103
Life sciences (RM mil.)	86	128	151	82	125	61
Others (RM mil.)	173	222	231	164	50	50

Source: Securities Commission Malaysia.

list, while five newly created corporations or funds received RM401 million in 2012. Meanwhile, two venture capital corporations and one venture capital management corporation were deregistered because of the expiry of the fund's charter and changes in company direction. The amount of managed funds increased to RM5.7 billion in 2012 compared with RM5.5 billion in 2011. However, actual investments by management corporations dropped to RM2.8 billion from RM3.6 billion in 2011.

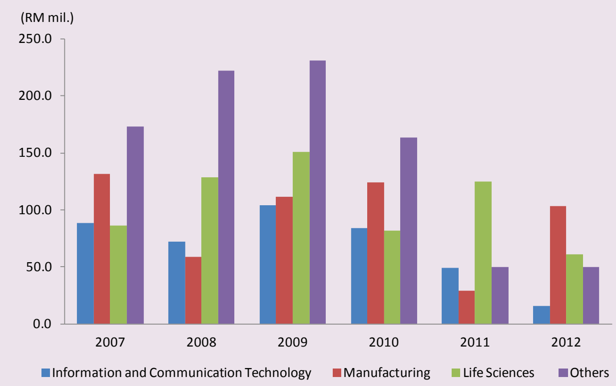
Investee companies are classified based on stage of development. Companies at the expansion and growth stages took RM104 million covering 19 companies, which made up 45.3% of total investments in 2012 (Figure 4.89). Companies in this stage of development need additional capital expenditure or working capital to increase production capacity, marketing, or product

Figure 4.89: Venture Capital Investment by Stage



Source: Securities Commission Malaysia.

Figure 4.90: Venture Capital Investment by Sector



Source: Securities Commission Malaysia.

development. Seed and start-up companies received RM13 million, or 5.6% of total investment. Thirteen early stage companies obtained RM38.1 million (16.6% of total investment). Companies in this category get capital expenditure or working capital to initiate commercialization of technology or product. In addition, RM75 million (32.4% of total investment) went to 10 companies in the later stage category (also referred to as bridge, mezzanine, or pre-initial-public-offering [IPO] stage) in support of their interim funding needs, while expecting to be listed in the stock exchange.

In terms of investment breakdown by sector, manufacturing received the bulk of investment at RM103.5 million (45% of total investment) increasing by 255.7% from RM29.1 million in 2011, as follow-on investment flowed into the sector (Figure 4.90). However, investment in the life sciences sector was cut to RM60.7 million, from RM124.7 million in 2011. The amount of investment received by companies in the information and communication technology sector decreased by 67.4% to RM16.1 million in 2012. A total of RM49.7 million (21.6% of total investment) was allotted to nontraditional sectors including electricity and power generation, education, and construction sectors which are combined into the "others" category.

Malaysia has one venture capital association, the Malaysian Venture Capital Association, serving about 10 SMEs annually. Under its 5-year plan, the association receives about RM500 million (or RM100 million per year) from the government. In addition, the association manages agriculture funds, 70% of which were allotted to early stage companies in 2011. The length of investment of this type is 7–10 years, but for growth companies it is only 3–5 years. The main exit point is through an IPO in the ACE market of Bursa Malaysia.

Capital Markets

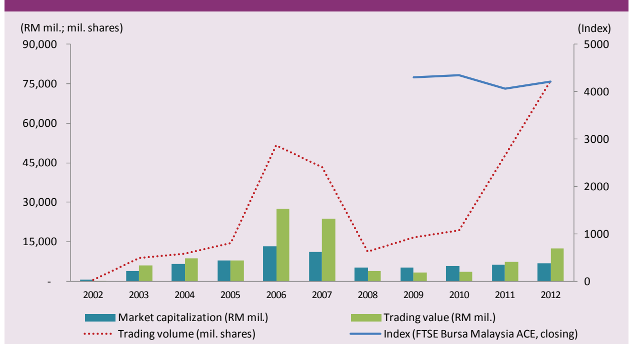
The ACE market, as a market for emerging corporations, was introduced in August 2009 as a result of the reorganization of the former MESDAQ market. It is sponsor driven and open to companies of all sizes and from all sectors.

Market capitalization in the ACE market was RM6.9 billion in 2012, up by 8.1% from the previous year (Figure 4.91 and Table 4.39). The trading value stood at RM12.5 billion with 76.1 billion traded shares. Trading value rose by 67.2% year-on-year in 2012, and volume rose by 59.5%.

Companies listed on the ACE market vary in size, with the average IPO market capitalization of RM68.7 million. There are no minimum quantitative criteria for listing on the ACE market, which gives SMEs access to the capital market. These companies, however, must demonstrate growth prospects and good governance. As of the end of 2012, there were 112 companies, with three new companies joining the list, four graduating to the main market, and six being delisted (Figure 4.92).

Companies listed on the ACE market may subsequently apply for a transfer to the main market upon meeting the minimum profit track record for listing. Despite flexibility in the entry requirement, generally the size of companies seeking listing is larger than the defined size

Figure 4.91: Market Performance – MESDAQ/ACE



Source: Bursa Malaysia.

Table 4.39: Capital Market – MESDAQ/ACE

Item	2007	2008	2009	2010	2011	2012
Market Performance - MESDAQ/ACE						
Market capitalization (RM mil.)	11,065	5,328	5,293	5,761	6,415	6,935
Index (FTSE Bursa Malaysia ACE, closing)	…	…	4,300	4,348	4,069	4,214
Trading value (RM mil.)	23,838	3,848	3,426	3,779	7,520	12,576
Trading volume (mil. shares)	43,278	11,234	16,696	19,248	47,737	76,131
Listed Companies - MESDAQ/ACE						
No. of listed companies	124	122	116	113	119	112
Initial public offering	3	8	3	6	11	3
Delisted	(2)	(4)	(2)	(4)	(5)	(6)

( ) = negative, FTSE = Financial Times and the London Stock Exchange.
Source: Bursa Malaysia.

Figure 4.92: Listed Companies – MESDAQ/ACE

Source: Bursa Malaysia.

of an SME in Malaysia. Apart from the equity market, the government established the Financial Guarantee Institution (Danajamin Nasional) in 2009 to provide guarantees against default of bonds and help businesses access the bond market.[4]

Recognizing the need to bridge the gap for capital market financing for start-ups, micro enterprises, and SMEs, in July 2012 the Securities Commission Malaysia announced the establishment of an unlisted market that connects the capital market to various alternative investment products, including innovative ventures, creative works, and socially responsible investments. In May 2013, the Securities Commission Malaysia shared with the industry a conceptual framework for an unlisted market (MyULM), Malaysia's first online platform to trade unlisted securities and alternative investment products. MyULM, which is being developed in consultation with key stakeholders including government agencies and the private sector, is one of the measures identified under the Securities Commission Malaysia's Capital Market Masterplan 2. It will be regulated as a registered electronic facility by the Securities Commission Malaysia and is expected to be launched by the first half of 2014.

Policy and Regulation

On 12 July 2012, the government unveiled the SME Master Plan 2012–2020 defining the policy direction for SMEs in achieving Malaysia's goal of becoming a high-income country by 2020, although the government has been continuously providing various schemes and programs, which have been rationalized over the years (Table 4.40).

The SME Master Plan 2012–2020 has four main goals: (i) increase business formation to facilitate a constant stream of new entrants into the market (6% annual increase in the number of company registrations), (ii) increase the number of high-growth and innovative firms (10% annually), (iii) raise SME labor productivity (from RM47,000 per head in 2010 to RM91,000 in 2020), and (iv) intensify formalization to promote growth and fair competition (informal sector reduced from 31% of gross national income to 15% in 2020). Also included in the master plan are six high-impact programs, one of which is the SME Investment Programme providing early stage financing through the development of investment companies that would invest in potential SMEs in the

[4] The Danajamin Nasional was created in 2009 with equal ownership between the government and the Credit Guarantee Corporation.

Table 4.40: 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*

Regulators and policy makers	
Name	**Responsibility**
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)	BNM SME Corp.	1) Build the capacity and capability of SMEs, specifically in the areas of enterpreneur development, human capital development, advisory services, awareness and outreach, technology enhancement, and product development. 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. 3) Enhance SME access to financing, which involves the development and strengthening of institutional arrangements to support SME financing needs. 4) Innovation and technology adoption, human capital development, access to financing, market access, legal and regulatory environment, and infrastructure.
SME Master Plan 2012–2020	SME Corp.	1) Increase business formation. 2) Expand the number of high growth and innovative firms. 3) Raise labor productivity of SMEs. 4) Intensify formalization to promote growth and fair competition.
Financial Sector Blueprint 2011–2020	BNM	1) Effectively intermediate for a high value-added and high-income economy. 2) Develop deep and dynamic financial markets. 3) Promote financial inclusion for greater shared prosperity. 4) Strengthen regional and international financial integration. 5) Internationalize Islamic finance. 6) Safeguard the stability of the financial system. 7) Promote electronic payments for greater economic efficiency. 8) Empower consumers. 9) Promote talent development to support a more dynamic financial sector.

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 SME Annual Reports, SME Master Plan 2012–2020, and Financial Sector Blueprint 2011–2020.

form of debt, equity, or a hybrid of both. In particular, the program aims to expedite the growth of the venture capital industry, angel investment, and risk capital segments to cater to the needs of SMEs requiring early stage financing.

SME Corporation Malaysia (SME Corp.; formerly the Small and Medium Industries Development Corporation and currently an agency under the Ministry of International Trade and Industry) is the main focal point for SME-related information and advisory services. As the central coordinating agency, the corporation has been tasked with coordinating and facilitating the implementation of the SME Master Plan 2012–2020 with the respective ministries and agencies to ensure that the goals of the master plan are met. BNM, a regulator of financial institutions, has continued to support SMEs through its five special funds for SMEs. BNM, together with the Alliance for Financial Inclusion, also hosts the global policy forum, an annual capacity building program specifically providing the venue for central bankers to share their policy and regulatory responses to financial inclusion initiatives including SME finance.

BNM, in its Financial Sector Blueprint 2011–2020, has recommended the enhancement of the finance sector's capability to support high value-added activities specifically supporting (i) the financial needs of innovative enterprises and facilitating efficient exit for early stage investors, (ii) promotion of the establishment of funds of funds that invest in the venture capital industry both domestically and regionally, and (iii) provision of incentives for investments in innovative local start-ups. BNM also supports the regionalization and internationalization of Malaysian businesses in the areas of trade finance, and international and project finance.

The Securities Commission Malaysia, among its many functions, acts as a regulator of capital markets and a supervisor of exchanges, clearing houses, and central depositories. It is also the registering authority for prospectuses of corporations (except for unlisted recreational clubs), the approving authority for licensing, and the supervisor of all licensed persons. Pursuant to the Capital Market Masterplan 2 initiative on the establishment of the unlisted market, the Securities Commission Malaysia is currently preparing for the launch of the MyULM by the first half of 2014.

The 2013 Financial Services Act and Islamic Financial Services Act also came into effect in June 2013 and made it easier for applicants to obtain written acknowledgement from BNM before conducting factoring, leasing, development finance, and credit business.

Papua New Guinea

SME Landscape

Papua New Guinea (PNG) is the largest and most populous Pacific island nation. It is rich in raw materials and has fertile soil. The country has struggled with law and order issues but continues to attract foreign investment because of its wealth of resources. Major industry sectors are mining, crude oil, natural gas, copra, palm oil, wood chips, construction, fisheries, tourism, and manufacturing.

While there is no formal definition of SMEs in PNG, the Bank of Papua New Guinea (BPNG), the central bank, using a guideline of less than 100 employees, estimated that there are 49,000 SMEs in PNG and these account for 90.7% of the total number of enterprises in PNG.

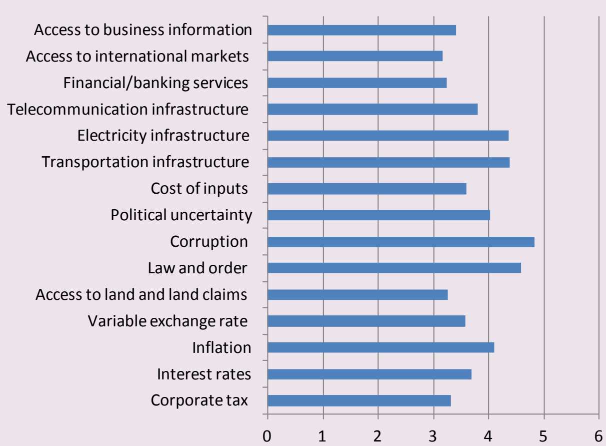
According to the survey completed by the PNG Institute of National Affairs and Asian Development Bank (ADB) in 2012, SME business owners rated corruption and law and order as the biggest constraints on their business (Figure 4.93).

Banking Sector

The financing needs of businesses are serviced by 4 banks, 21 savings and loan societies, 4 microfinance institutions (MFIs), and 10 finance companies. BPNG oversees the finance sector and records gross lending to the private sector. There is no clear definition of SMEs commonly applied for lending and thus no authorized SME lending data available in PNG.

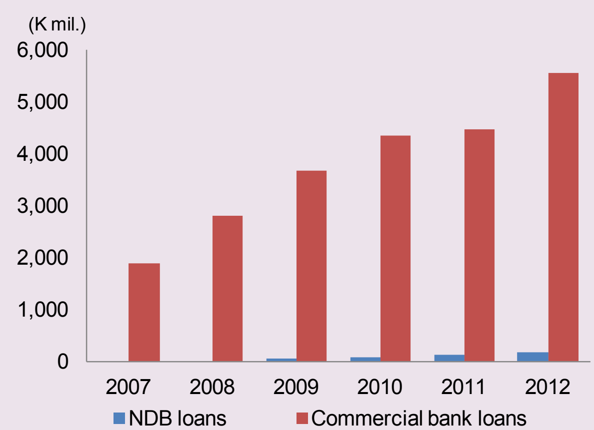
Bank loans outstanding amounted to K5,557.9 million in 2012, and increased by 24.7% as compared to the previous year (Figure 4.94). The most active sectors in bank lending were real estate (21.3% of total commercial bank loans), transportation and communication (20.2%), and manufacturing (13.9%) in 2012 (Figure 4.95).

Figure 4.93: SME Business Constraints



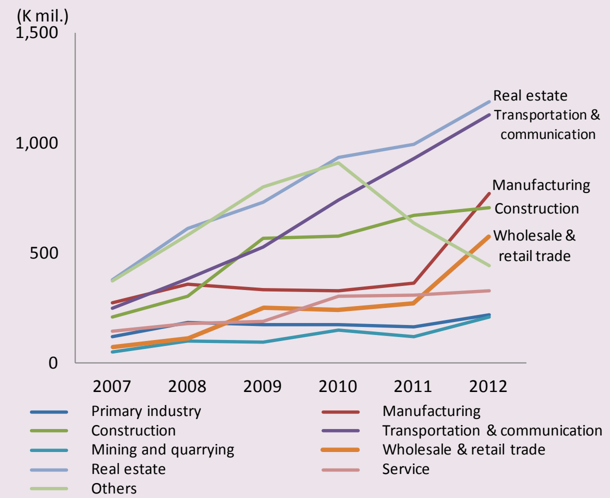
Note: 0 = not applicable, 1 = not a problem, 6 = extremely problematic.
Source: PNG Institute of National Affairs and ADB. 2012. *Private Sector Survey 2012*.

Figure 4.94: Bank Loans Outstanding



NDB = National Development Bank.
For NDB loans, private sector loan assets.
Source: Bank of Papua New Guinea.

Figure 4.95: Bank Loans by Sector



Source: Bank of Papua New Guinea.

The banking sector relies on financial statement credit analysis and full collateral cover for all SME loans, which is almost exclusively real estate collateral. That is constrained by 95% of land being unregistered customary land which does not qualify for bank security. There is no movable security registry established but the legislation has been passed in the Parliament. If fully implemented, it is expected to broaden the product range and collateral options for lending.

SME lending facilities are charged at around 14% interest for loan terms up to 3 years. Nonperforming loan (NPL) rates vary among banks from 1% to more than 5%. Across all of the main commercial bank's portfolios, BPNG advises that overall bank NPL rates are controlled within 1%. Some commercial banks have developed a loan product specially designed for start-up SMEs with less than 30 employees, where loans are available for K50,000–K250,000.

Bank of South Pacific (BSP), a regional bank, uses a partial credit guarantee scheme for SMEs supported by the International Finance Corporation (IFC), whereby 50% of the credit applied is covered.

Mobile banking is offered by BSP, Nationwide Microbank, and the Australia and New Zealand Banking Group (ANZ), with more mobile services pending. This is lifting SME participation in the banking system.

BSP tried expanding its operations beyond its banking business to the nonbank sector. In mid-2013, the bank made an offer to buy the region's leading finance company, Credit Corporation Finance, but this did not receive the required shareholder support.

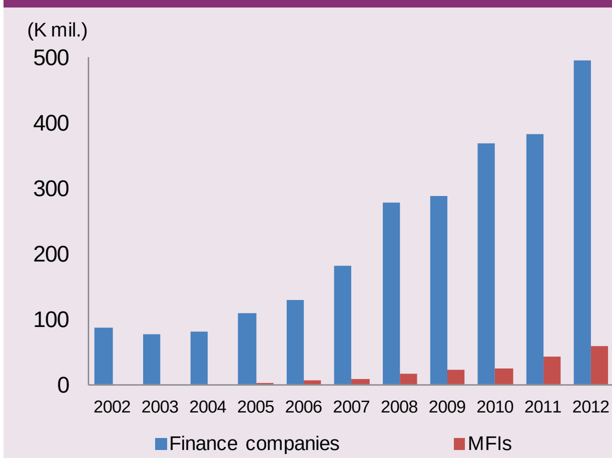
The National Development Bank (NDB) is the only bank not under supervision of the central bank. It is not a deposit-taking entity and operates under a charter from the Ministry of Agriculture. The NDB has received financial support from the ministry, including grants of K80 million to allow subsidized 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%. In 2013 BPNG granted NDB a micro banking license to its fully owned subsidiary, People's Micro Bank, which also offers a concessional lending rate of 6.5% in NDB's priority sectors, against commercial microfinance institution (MFI) rates of 20% or more.

Nonbank Sector

BPNG Statistics indicate that the nonbank finance sector has experienced sharp growth in PNG, especially among finance companies with vehicle and machinery financing. Loans by finance companies increased by 29.4% in 2012, amounting to K494.1 million (Figure 4.96). MFI loans increased by 38.0% in 2012, amounting to K58.3 million.

There are currently 10 active finance companies, which have seen strong growth predominately from the

Figure 4.96: Nonbank Financing



MFI = microfinance institution.
Source: Bank of Papua New Guinea.

transportation sector which accounts for 50% of their financing activities. Most of this business is done in the highlands region around Lae, which is a culturally entrepreneurial region. The Credit Corporation, the largest finance company with 30% market share, advised that half of its ledger was based in Lae and approximately 35% in the capital city, Port Moresby.

Finance company products are chattel mortgages, property mortgages, financial leasing, and commercial loans. Collateral is vehicles, property, plant, and machinery, with a minimum 20% deposit and financed over 3 years at effective interest rates ranging between 13% and more than 30%. The industry does not specifically separate SME lending from corporate lending. It has been active in providing financing to major corporations in the mining and exploration sector, estimated at more than 50% of total lending. The barriers to more SME activities are weak financial reporting and higher perceived risks, as SMEs by definition are smaller and less stable than large corporate customers.

Statistics in 2010 show that 21 savings and loan credit unions had membership of 200,000 and loans of K200 million. There is no detailed analysis available on sector lending in the credit union industry.

Business training facilities for SMEs have helped improve business skills. For instance, the Enterprise Centre in Port Moresby provides business training for SMEs and company assessments.

Capital Markets

The Port Moresby Stock Exchange was established under the Securities Act 1997 and is under the supervision of the PNG Securities Commission. As of 8 November 2013, 19 companies are listed on the exchange, which covers banking, transportation, mining and exploration, and sundry service sectors. The two national superannuation funds are supportive of the market but liquidity is low. Most companies have dual listings, primarily on the Australian Securities Exchange.

To be listed, a company must have net assets exceeding K1.5 million and profits of more than K0.6 million over the previous 3 years. A single main board operates in the Port Moresby Stock Exchange. There is a discussion about a second board for smaller companies that is expected to be launched by the end of 2014. The challenges, however, include a lack of transparency on qualifying SMEs and a lack of government support. The stock exchange expects better tax treatment, such as dividend franking for prospective listing companies, to encourage listing.

Policy and Regulation

SME promotion policies are handled by several ministries and agencies in PNG (Table 4.41). The Ministry of Trade, Commerce and Industry is encouraging SME sector development as part of PNG's industrial development policies. The Small Business Development Corporation, established under the Small Business Development Corporation Act 1990, is a government statutory authority under the Ministry of Trade, Commerce and Industry with a mission of promoting viable SMEs for job creation and enhanced living standards in PNG. The Investment Promotion Authority is supporting the Small to Medium Enterprise Policy which aims to instill a business culture among SMEs and encourage their long-term sustainability, focusing on technology transfer and connectivity between SMEs and support institutions.

In November 2012, the National Executive Council approved the 12 Point SME Stimulus Package. In summary, the government has committed itself to the following interventions:

- Annual recapitalization of the NDB for each of the next 5 years.
- The enactment of reserve and business empowerment legislation.
- The establishment of a credit guarantee corporation.
- The revival of the Stret Pasim Stoa which is a national scheme to support selected indigenous Papua New Guineans to go into business.
- Introduction of tax incentives and other concessions for PNG-owned businesses.
- Introduction of online company registration.
- Introduction of a new limited liability company structure.
- Increased training and mentoring for SMEs.
- Creation of a foreign investment review board.
- Reduction of NDB interest rates to 6.5% per annum.
- Increased trade missions and trade fairs.
- Creation of a business awards scheme.

The government has been progressively implementing its 12-point plan. The NDB was allocated K80 million in the 2013 budget and has cut its rates as planned. There have been several trade missions and SME training has also been expanded. A tax review and implementation of

Table 4.41: SME Policy and Regulation

Regulations		
Name		**Outline**
Banks and Financial Institutions Act (2000)		Regulation for commercial banks and financial institutions
National Development Bank Act (2007)		Regulation for the National Development Bank
Savings and Loan Societies Act (1995)		Regulation for savings and loan societies
Small Business Development Corporation Act (1990)		Regulation for savings and loan societies
Regulators and policy makers		
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	MTCI	Investment promotion, SME promotion, technology transfer, etc.
Small to Medium Enterprise Policy	IPA	Promote SMEs related to technology transfer, strengthen business linkage between SMEs and support institutions, etc.

SME = small and medium-sized enterprise.
Source: Bank of Papua New Guinea; Ministry of Trade, Commerce and Industry; National Executive Council; Small Business Development Corporation; Investment Promotion Authority.

online company registration is ongoing and a business awards scheme has been launched. However, there has been limited progress on the more contentious initiatives, such as the reserved industry list and the foreign investment review board. The Ministry of Trade, Commerce and Industry is advocating for SME development in PNG and has hosted a series of summits and workshops on this topic.

The microfinance sector is under review by the central bank with a major expansion project under way. The PNG Microfinance Expansion Project was approved in 2010 and is funded by Australian Aid, ADB, and the Government of PNG. The microfinance sector in PNG is small in scale but growing. ADB estimated that only 15% of the population has access to formal or informal banking facilities. The main objective of the project is to improve access to financial services, particularly in poor and rural areas.

The project formally started in April 2012. It builds on the achievements of the Microfinance and Employment Project, which was implemented between 2001 and 2010, and was also cofunded by the governments of Australia and PNG.

This project will expand and improve PNG's microfinance sector by

- providing financial literacy training for more than 120,000 people living in rural areas, at least 40% of whom are women;
- developing the management and technical capacity of MFIs;
- providing business skills training to customers of MFIs;
- working with the BPNG to improve laws and regulations to strengthen the sector as a whole; and
- sharing loan risk with lending MFIs in order to increase the number of loans to micro, small, and medium-sized enterprises.

In addition to the above initiatives, there is the IFC-supported risk share scheme, which only BSP is utilizing, and some private risk-sharing models whereby large enterprises such as Exxon have assisted small suppliers through financial literacy training and financial guarantees via MFIs. Politicians also support regional projects with discretionary funds.

The barriers to further growth in SME financing, as advised by bank and finance companies, can be summarized as follows:

- limited real estate collateral because of the high ratio of customary indigenous land,
- the lack of a movables registry (but due to commence),
- poor financial reporting and weak financial literacy skills, and
- reluctance of commercial banks to use collateral other than real estate.

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COUNTRY REVIEW

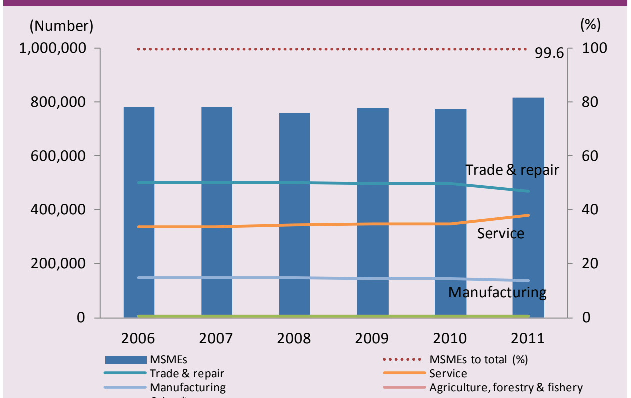
Philippines

SME Landscape

While most countries place entrepreneurial firms in the category of small and medium-sized enterprises (SMEs), the Philippines refer to such firms as micro, small, and medium-sized enterprises (MSMEs). In 2011, the number of registered Philippine MSMEs was 816,759, representing 99.6% of total enterprises; 47.0% of the MSMEs are in the trade and repair (wholesale and retail trade and repair of motor vehicles and motorcycles) sector, followed by services with 38.5% (Figure 4.97 and Table 4.42). The service sector had the largest MSME contribution to employment at 46.1% of total MSME employment, while trade and repair accounted for 33.9% in 2011 (Figure 4.98). The MSME sector contributed to 35.7% of the total gross value added in 2006 (Figures 4.99–4.100).

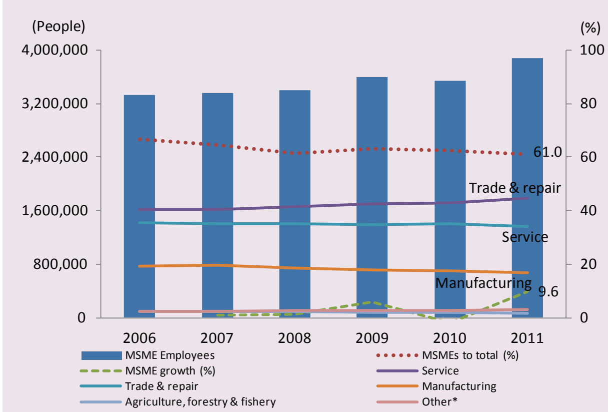
MSME statistics are generated by the National Statistics Office, which classifies MSMEs as those having less than 200 employees. This definition is different from the legislated definition of MSMEs through the Small and Medium Enterprise Development Council Resolution No.01 Series of 2003 dated 16 January 2003. Specifically, MSMEs are defined as enterprises with total assets (excluding land) of P100 million or less. The Bangko Sentral ng Pilipinas uses the legislated definition when guiding financial institutions for MSME lending. According to the Bureau of Micro, Small and Medium Enterprise Development, additional government budget is needed to generate essential statistics based on the legislated MSME definition. Nonetheless, MSME statistics using data on total assets can be generated from the 2012 Census of the Philippine Business and Industry. A special release of the 2012 census results will be available in the second quarter of 2014.

Figure 4.97: Number of SMEs



MSME = micro, small, and medium-sized enterprise.
Note: Data include micro enterprises.
*Includes construction, electricity, gas and water supply, and mining.
Source: National Statistics Office; and Bureau of Micro, Small and Medium Enterprise Development.

Figure 4.98: Employment by SMEs



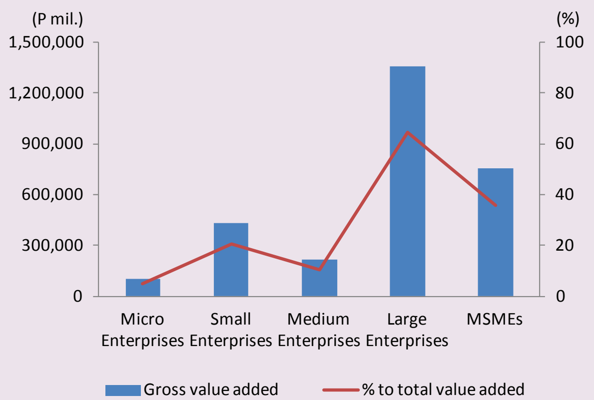
MSME = micro, small, and medium-sized enterprise.
Note: Data include micro enterprises.
*Includes construction, electricity, gas and water supply, and mining.
Source: National Statistics Office; Bureau of Micro, Small and Medium Enterprise Development; and Micro, Small and Medium Enterprise Development Plan 2011-2016.

Table 4.42: SME Landscape

Item	2006	2007	2008	2009	2010	2011
Number of MSMEs						
MSMEs (number)	780,469	781,201	758,436	777,357	774,664	816,759
MSMEs to total (%)	99.7	99.7	99.6	99.6	99.6	99.6
MSME growth (%)	…	0.09	(2.91)	2.49	(0.35)	5.43
Trade & repair (% to MSMEs)	50.1	50.1	49.9	49.6	49.7	47.0
Service (% to MSMEs)	33.7	33.8	34.2	34.8	34.8	38.1
Manufacturing (% to MSMEs)	14.9	14.9	14.7	14.4	14.4	13.7
Agriculture, forestry & fishery (% to MSMEs)	0.7	0.7	0.7	0.7	0.6	0.6
Other* (% to MSMEs)	0.5	0.5	0.5	0.5	0.5	0.6
Employment by MSMEs						
MSME employees (people)	3,327,855	3,355,742	3,395,505	3,595,641	3,532,935	3,872,406
MSMEs to total (%)	66.8	64.7	61.2	63.2	62.3	61.0
MSME growth (%)	…	0.8	1.2	5.9	(1.7)	9.6
Service (% to MSMEs)	40.3	40.3	41.4	42.7	42.7	44.7
Trade & repair (% to MSMEs)	35.5	35.3	35.1	34.8	35.0	33.9
Manufacturing (% to MSMEs)	19.4	19.5	18.7	17.7	17.5	16.7
Agriculture, forestry & fishery (% to MSMEs)	2.3	2.3	2.2	2.0	2.0	1.8
Other* (% to MSMEs)	2.5	2.5	2.5	2.8	2.8	2.9
MSME Contribution to GVA*						
GVA of MSMEs (P mil.)	751,943.0	…	…	…	…	…
MSME contribution to GVA (%)	35.7	…	…	…	…	…
GVA Composition of MSMEs						
Trade & repair (% to MSME GVA)***	18.4	…	…	…	…	…
Service (% to MSME GVA)***	41.9	…	…	…	…	…
Manufacturing (% to MSME GVA)***	19.3	…	…	…	…	…
Agriculture, forestry & fishery (% to MSME GVA)***	1.0	…	…	…	…	…
Other* (% to MSME GVA)***	19.3	…	…	…	…	…

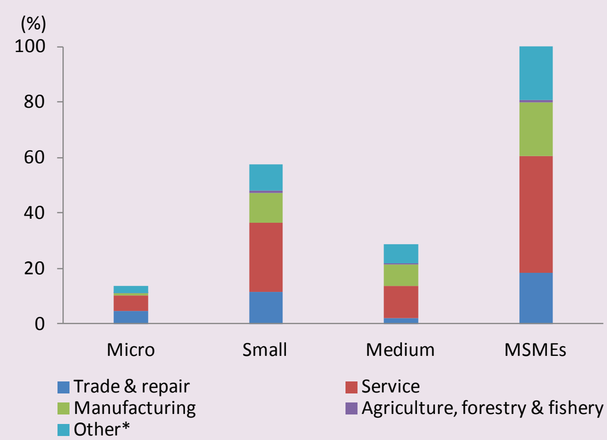
( ) = negative; GVA = gross value added; MSME = micro, small, and medium-sized enterprise.
Note: Data include micro enterprises.
* Includes construction, electricity, gas and water supply, and mining.
** GVA refers to the total payment to factors of production, i.e., wages, interest, profits, and rents. 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.

Figure 4.99: Gross Value Added, 2006



MSME = micro, small, and medium-sized enterprise.
Source: MSME Development Plan 2011–2016.

Figure 4.100: Gross Value Added by Sector, 2006



MSME = micro, small, and medium-sized enterprise.
Note: % to MSME Gross Value Added.
*Includes construction, electricity, gas and water supply, and mining.
Source: Computation based on MSMED Plan 2011–2016.

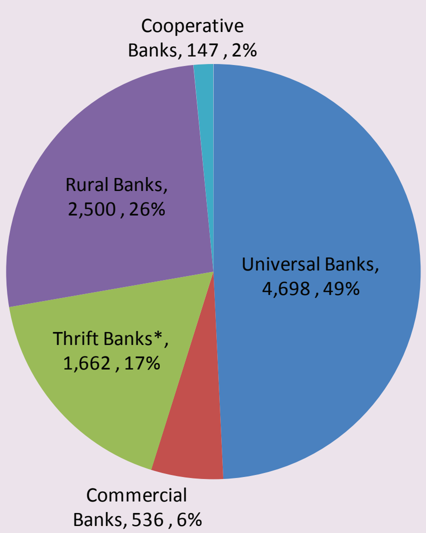
Banking Sector

The Magna Carta for Micro, Small and Medium Enterprises as amended by Republic Act (RA) 9501 mandates banks to allocate at least 8% of their loan portfolio to micro and small enterprises (MSEs) and at least 2% to medium-sized enterprises. As provided in the law, the Bangko Sentral ng Pilipinas, the central bank, has obliged all banks to provide mandatory lending to MSMEs from 17 June 2008 to 16 June 2018. The central bank collects information on the loans allocated to MSMEs every quarter. It should be noted, however, that the summary report on compliance with MSME credit required does not reflect individual bank lending to MSMEs, as the data represent an aggregate figure.

The Philippine banking sector comprises universal banks, commercial banks, thrift banks, rural banks, cooperative banks, and Islamic banks. Universal banks account for around half of all banking institutions in the Philippines (Figure 4.101).

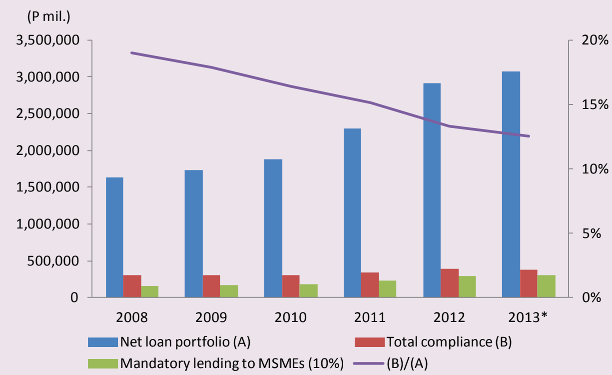
Latest Bangko Sentral ng Pilipinas data show that the net loan portfolio of the Philippine banking sector expanded from P1.6 trillion in 2008 to P3.0 trillion in June 2013. However, MSME lending remains limited at P384.6 billion, or 12.5% of the net loan portfolio as of June 2013 (Figure 4.102 and Table 4.43). In particular, the percentage of compliance with MSE credit required stood at 6.09% as of June 2013, which was short of the mandated 8.00% (Figure 4.103). Lending to medium-sized enterprises reached 6.44% as of June 2013, which was beyond the target of 2.00% (Figure 4.104). Data from 2008–2013 reveals that universal banks in aggregate have reported undercompliance for MSE lending since 2008.

Figure 4.101: Licensed Banks as of June 2013



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 4.102: Net Loan Portfolio of Banks and Compliance with Mandatory Lending



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 4.103: Compliance for MSE Lending

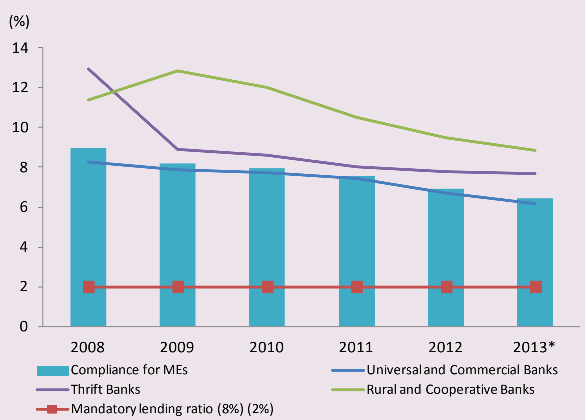
MSE = micro and small enterprise.
* as of 30 June 2013.
Source: Bangko Sentral ng Pilipinas.

Table 4.43: Compliance with SME Loans Required

Item	2008	2009	2010	2011	2012	2013*
Net loan portfolio (P mil.)	1,637,533	1,728,628	1,881,139	2,303,436	2,912,347	3,070,505
Min. amount required to be set aside** (P mil.)	163,753	172,863	188,114	230,344	291,235	307,050
Total funds set aside for MSMEs (P mil.)	310,882	309,357	308,554	348,915	387,681	384,579
Compliance for MSEs (%)	**10.0**	**9.7**	**8.5**	**7.6**	**6.4**	**6.1**
Universal and Commercial Banks	7.1	7.1	6.8	5.8	5.3	4.8
Thrift Banks	16.4	16.1	14.0	16.2	11.3	10.8
Rural and Cooperative Banks	51.8	41.1	34.1	29.6	22.3	26.5
Compliance for MEs (%)	**9.0**	**8.2**	**7.9**	**7.6**	**6.9**	**6.4**
Universal and Commercial Banks	8.3	7.9	7.7	7.4	6.7	6.2
Thrift Banks	12.9	8.9	8.6	8.0	7.8	7.7
Rural and Cooperative Banks	11.4	12.8	12.0	10.5	9.5	8.9

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).
*as of 30 June 2013.
**8% of net loan portfolio to micro and small enterprises and 2% to medium-sized enterprises.
Source: Bangko Sentral ng Pilipinas.

Figure 4.104: Compliance for Medium-Sized Enterprise Lending



ME = medium-sized enterprise.
*as of 30 June 2013.
Source: Bangko Sentral ng Pilipinas.

According to the Bangko Sentral ng Pilipinas, some large banks, particularly international banks, opted to pay a fine rather than set aside funds for lending to risky borrowers such as MSEs. The Bangko Sentral ng Pilipinas imposes a P500,000 a year fine for zero compliance, while the penalty fees for undercompliance are commensurate with the percentage of undercompliance; 90% of the penalties collected will be remitted to the MSME Development Council Fund, while the remaining 10% is retained by the Bangko Sentral ng Pilipinas for administrative expenses.

The Bangko Sentral ng Pilipinas has also instituted regulatory incentives for MSME lending, such as recognized specialized credit guarantee schemes, risk-based lending, lowered risk weighting of MSME loans from 100% to 75%, and increased borrowers' limit for SME receivables.

Various government financial institutions set up the SME Unified Lending Opportunities for National Growth program in 2003 to support the national MSME development plan. Under the program, government financial institutions apply simplified and standardized lending procedures and guidelines for evaluating loan applications of MSMEs. Maximum interest rates under the program are 9.00% for short-term loans, 11.25% for medium-term loans of up to 3 years, and 12.75% for loans of 3–5 years. In late 2012, the program was revised to form the Access of Small Enterprises to Sound Lending Opportunity. During 2004–2012, total loan release of government financial institutions under the program was P272.8 billion (Figure 4.105 and Table 4.44). The Access of Small Enterprises to Sound Lending Opportunity working group pledged to release at least P31 billion in 2013.

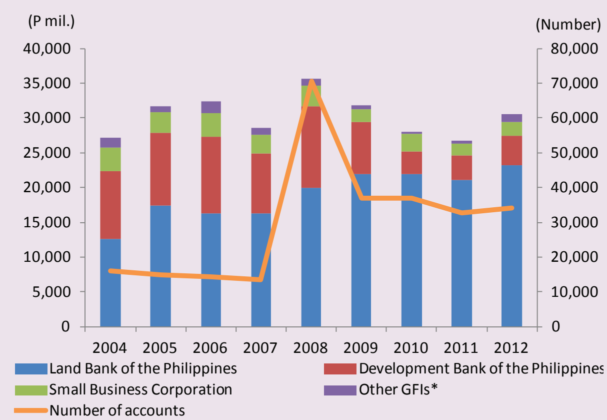
Credit guarantee programs for MSMEs in the Philippines are mainly provided by the Small Business

Table 4.44: SME Loans Released by Government Financial Institutions under the ASENSO Program

Item	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013*
Total loans released (P mil.)	27,216	31,727	32,407	28,576	35,596	31,809	28,080	26,795	30,583	19,566
Land Bank of the Philippines	12,560	17,431	16,214	16,353	20,001	21,883	21,937	21,126	23,263	…
Development Bank of the Philippines	9,872	10,488	11,051	8,515	11,630	7,592	3,282	3,434	4,192	…
Small Business Corporation	3,268	2,939	3,443	2,690	3,005	1,825	2,459	1,784	2,015	…
Other GFIs**	1,517	868	1,698	1,019	959	509	402	451	1,112	…
Number of accounts	15,886	14,939	14,284	13,585	70,666	36,994	36,892	32,808	34,054	34,275

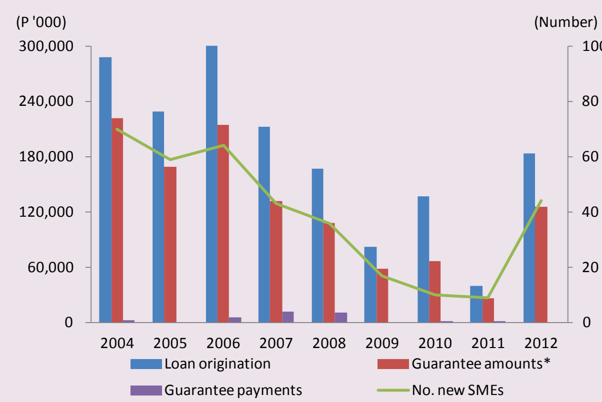
ASENSO = Access of Small Enterprises to Sound Lending Opportunity, GFI = government financial institution, SME = small and medium-sized enterprise.
Note: Data include micro enterprises.
*For the period January to June 2013.
** Other participating GFIs are National Livelihood Development Corporation, Philippine Export-Import Credit Agency, Quedan and Rural Credit Guarantee Corporation, and Social Security System.
Source: Small Business Corporation.

Figure 4.105: 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.

Figure 4.106: Credit Guarantees - Small Business Corporation



The Small Business Corporation is the largest provider of wholesale credit guarantees for MSME lending.
* Average guarantee cover is 70%.
Source: Small Business Corporation.

Corporation and the Credit Surety Fund Program of the Bangko Sentral ng Pilipinas. The Small Business Corporation offers a credit guarantee program which aims to help financial institutions consider the granting of loans to MSMEs through credit sharing, with the corporation taking on the bulk of the risk for a fee. Credit evaluation is based on the borrower's risk rating to assess the enterprise itself and to determine the pricing of the guarantee. Guarantee cover is 70% of the loan for a clean loan facility and 70% of the unsecured portion for a collateralized loan facility. During 2002–2012, the total amount guaranteed by the Small Business Corporation was P1.4 billion (Figure 4.106 and Table 4.45). Meanwhile, the Bangko Sentral ng Pilipinas Credit Surety Fund is created by pooling the contributions of cooperatives, nongovernment organizations (NGOs), local government units, and partner institutions. It provides 80% surety cover of the principal amount of the loan, which increases in accordance with the percentage of payment made by the borrower. A total of 276 cooperatives and 9 NGOs are participating in the Credit Surety Fund with a combined amount of pledged

Table 4.45: Small Business Corporation's Credit Guarantee Program

Item	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
Loan origination	287,970,000	228,740,870	316,061,318	212,555,000	166,500,000	82,500,000	136,600,000	40,200,000	183,550,000	**2,045,525,188**
Guaranteed amount*	221,964,500	168,696,109	214,955,744	131,346,500	107,810,172	58,300,000	66,890,000	26,390,000	125,635,000	**1,411,483,225**
No. of new SMEs	70	59	64	43	36	17	10	9	44	**453**
Guarantee payments	2,420,793	664,869	6,216,703	11,607,602	10,448,183	…	1,122,163	2,106,533	…	**34,586,847**

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.
Source: Small Business Corporation.

Table 4.46: Outreach, Loans, and Savings - Microfinance Institutions, 2004–2011

Item	2004	2005	2006	2007	2008	2009	2010	2011
No. of active borrowers ('000)	1,291	1,508	1,815	2,143	2,497	2,887	3,166	3,600
Banks	550	597	669	779	878	883	931	1,032
NGOs	683	839	1,054	1,353	1,605	1,985	2,212	2,478
Cooperatives	58	72	92	11	14	19	23	90
Loans oustanding (P mil.)	6,318	7,478	9,964	12,979	14,297	16,547	18,037	20,605
Banks	3,321	3,478	4,522	5,676	6,380	6,677	6,904	7,207
NGOs	2,716	3,581	4,950	7,226	7,803	9,703	10,893	12,701
Cooperatives	281	419	492	77	114	167	240	697
Savings/deposits (P mil.)	2,169	2,615	3,636	4,858	4,753	6,841	7,683	9,225
Banks	1,131	1,066	1,438	1,990	1,777	2,977	3,244	3,891
NGOs	940	1,417	2,008	2,868	2,931	3,792	4,331	5,003
Cooperatives	98	132	190	…	45	72	108	331
No. of MFIs (reporting data)	218	227	248	258	248	241	230	218

MFI = microfinance institution, NGO = nongovernment organization.
Notes: Banks are rural banks, thrift banks, and cooperative rural banks. Data for banks sourced from Bangko Sentral ng Pilipinas. Data for NGOs and cooperatives represent only those that submitted to the MIX Market.
Source: ADB. 2012. *Performance Evaluation Report.* Microfinance Development Program in the Philippines. Manila.

and paid funds of nearly P350 million as of the end of June 2012.[1]

The Bangko Sentral ng Pilipinas was mandated by the General Banking Law of 2000, through sections 40, 43, and 44, to recognize microfinance as a legitimate banking activity and to set the rules and regulations for its practice within the banking sector. In the same year, the Bangko Sentral ng Pilipinas declared microfinance as its flagship program for poverty alleviation. Microfinance services are provided mainly by banks (rural and thrift), NGOs, and cooperatives (Table 4.46). The regulatory framework for microfinance institutions (MFIs) was crafted by the National Credit Council in 2002.

Under Circular No.272, the Bangko Sentral ng Pilipinas defined microfinance loans as small loans given to low-income households to finance micro enterprises and small businesses. While the maximum principal amount of microfinance loan is P150,000, the central bank issued Circular No.744 in 2011 to allow banks to offer the option of "microfinance plus" loans up to P300,000.

[1] Delivered by BSP Deputy Governor Nestor Espenilla during the 9th Annual Meeting and Conference of Asia Pacific Economic Cooperation (APEC) Financial Institutions Dealing with SME on 20 July 2012 at the Sunset Pavilion of Sofitel Philippine Plaza, Manila. http://www.plantersbank.com.ph/2012/10/bsp-policies-for-micro-small-and-medium-enterprises/

The People's Credit and Finance Corporation is the only government institution mandated by law, through Memorandum Order No.261 and Administrative Order No.148, to provide microfinance lending. It provides wholesale funds to banks, cooperatives, and NGOs, as loanable funds.

In 2012, the seven largest MFIs in the country formed a private credit bureau, the Microfinance Data Sharing System (MiDAS), which allows participating MFIs to submit reports, send inquiries, and retrieve information on borrowers. MiDAS has a special feature that allows town- or village-level search for delinquent borrowers.

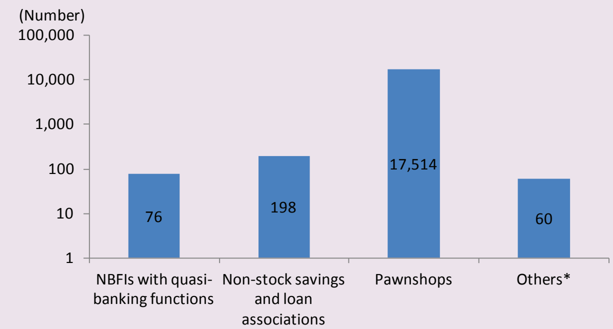
Nonbank Sector

As of June 2013, the Bangko Sentral ng Pilipinas regulated and supervised 17,848 nonbank financial institutions (NBFIs), consisting of NBFIs with quasi-banking functions, nonstock savings and loan associations, pawnshops, and NBFIs without quasi-banking functions that are bank subsidiaries (Figure 4.107). The majority of NBFIs regulated by the Bangko Sentral ng Pilipinas are pawnshops. The number of pawnshops rose from 14,333 in 2008 to 17,335 as of the end of 2012 (Figure 4.108 and Table 4.47), while total resources also grew from P21.4 billion in 2008 to P33.5 billion in 2012. Pawnshops are increasingly popular among those in quick need of money since loans are granted based solely on the pawned item, with no credit investigation needed. According to the Bangko Sentral ng Pilipinas, about 10,000 pawnshops were exclusively in the pawning business, while the rest have other revenue streams, particularly remittance services.[2]

The Securities and Exchange Commission (SEC) also regulates NBFIs such as financing and lending companies. SEC data showed that there are 563 active financing companies with active certificates of authority as of 31 December 2012. Based on latest available annual financial data in 2010, 2011, or 2012, 399 active financing companies reported combined total assets of P186.1 billion, of which P138.3 billion are finance receivables.

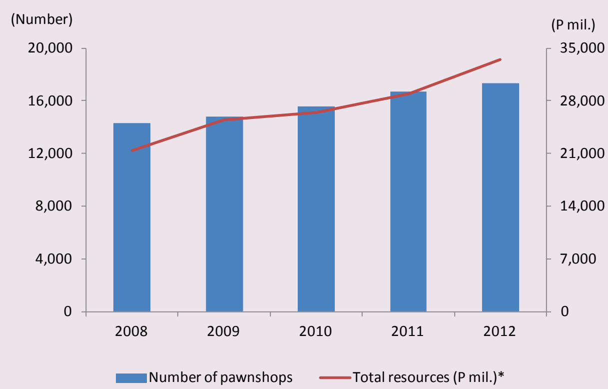
Informal lending such as "5–6 credit" or loan sharks and *paluwagan* (modified sinking fund) are also competing with banks and MFIs in providing financial access to micro entrepreneurs. In a 5–6 credit, a person borrows P5 and repays P6, implying a nominal interest rate of 20% over an agreed period of time. This type of lending is popular among low-income sectors and areas where access to financial products and services is limited or lacking. In *paluwagan*, a group of people pool money daily, weekly, or monthly, depending on the agreement. The members take turns to bring home the accumulated amount. This system is based on mutual trust.

Figure 4.107: Regulated NBFIs as of June 2013



NBFI = nonbank financial institution.
Note: NBFIs regulated by Bangko Sentral ng Pilipinas. Number of NBFIs includes head offices and branches.
*NBFIs without quasi-banking functions that are bank subsidiaries.
Source: Bangko Sentral ng Pilipinas.

Figure 4.108: Number of Pawnshops



Note: Number of pawnshops includes head offices and branches.
*Based on Consolidated Statement of Condition.
Source: Bangko Sentral ng Pilipinas.

[2] M. Remo. 2012. Why Do Many Go To Pawnshops More Than Banks. Philippine Daily Inquirer. 1 December. http://business.inquirer.net/96065/why-do-many-go-to-pawnshops-more-than-banks.

Table 4.47: Number of Pawnshops

Item	2008	2009	2010	2011	2012
Number of pawnshops	14,333	14,800	15,596	16,729	17,335
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: Bangko Sentral ng Pilipinas.

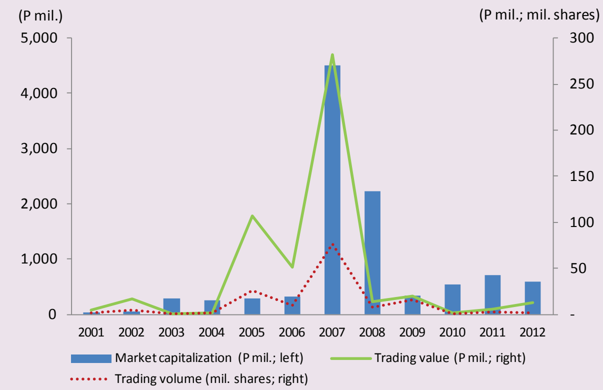
Capital Markets

The Philippine Stock Exchange opened its doors for enterprises with smaller capital issuance size through the launch of the Small and Medium Enterprise Board (SME Board) in July 2001. The establishment of the SME Board was simultaneous with the listing of the securities of the first company on the board. In June 2013, the stock exchange revamped its listing board structure to replace the prior scheme wherein companies could list in three boards: First Board, Second Board, and the SME Board. The new structure comprises two boards—the Main Board and the SME Board. The SME Board, which now stands for the Small, Medium and Emerging Board, has enhanced listing criteria to accommodate more potentially viable emerging companies. Four companies have made their initial public offerings (IPOs) on the SME Board since 2001, two of which successfully moved to the Main Board (Figures 4.109–4.110 and Table 4.48).

A company planning to list in the Philippine Stock Exchange must first register its securities with the SEC. There are no preferential treatments for companies wanting to be listed on the SME Board other than the relaxed listing criteria of the board in terms of capital, profit, and number of shareholders. The requirements include cumulative earnings before interest, taxes, depreciation, and amortization of at least P15 million (P50 million in the Main Board) for 3 years immediately preceding the application for listing, minimum authorized capital stock of P100 million (P500 million in the Main Board), and having 200 stockholders (1,000 in the Main Board) upon listing.

The Philippine Stock Exchange only offers equity and equity-based products. Another exchange market, the Philippine Dealing and Exchange Corporation, operates the country's sole fixed-income platform. The Philippine Dealing and Exchange Corporation market largely consists of government securities, while a handful of corporate bonds are also being traded.

Figure 4.109: Market Performance – SME Board



Source: Philippine Stock Exchange.

Figure 4.110: Listed Companies – SME Board

IPO = initial public offering.
Source: Philippine Stock Exchange.

Table 4.48: Capital Market – SME Board

Item	2006	2007	2008	2009	2010	2011	2012
Market Performance - SME Board							
Market capitalization (P mil.)	322	4,509	2,226	335	549	713	586
Trading value (P mil.)	51	282	14	20	1	5	12
Trading volume (mil. shares)	9	77	7	16	0	2	2
Listed Companies - SME Board							
No. of listed companies	3	2	2	2	2	2	2
Initial public offerings	0	0	0	1	0	0	0
Move to main board	0	1	0	1	0	0	0
Delisted	0	0	0	0	0	0	0

Source: Philippine Stock Exchange.

While it remains restrictive for SMEs to tap the exchange market, the SEC is looking towards developing alternative trading systems, which is defined by the SEC as an electronic market place or facility which brings together buyers and sellers of innovative securities and securities of small, medium, growth, and/or venture enterprises, and technology-based ventures. The SEC approved the registration of the first alternative trading system application in 2004. Specifically, the Development Bank of the Philippines' Marketplace for SME Receivable Purchases (M4SME-RP) is an electronic marketplace designed for the trading of receivables of SMEs from large companies. The receivables that will be traded need to be registered at the SEC. In 2013, the SEC granted the Regina Capital Development Corporation approval to launch an alternative trading system. The corporation is a registered securities dealer that came up with an auction market to liquidate receivables from local government units.

The Development Bank of the Philippines and Philippine Stock Exchange are encouraging SMEs to improve their competitiveness and financial capability by going into the stock market. As a development finance institution, the Development Bank of the Philippines has a mandate to develop innovative financing facilities for the SME sector other than banking intermediation. Its vision is to be able to capitalize funding for SMEs in the capital market in order to address the chronic lack of long-term credit.[3]

[3] Development Bank of the Philippines. 2011. DBP Bats for Public Listing of SMEs. Manila. 3 March. http://www.dbp.ph/news.php?id=73

Policy and Regulation

The Magna Carta for Micro, Small, and Medium Enterprises is landmark legislation that defines the current national policies to foster a dynamic MSME sector (Table 4.49). It was passed in 1991 as Republic Act (RA) No. 6977, amended by RA No.8289 in 1997, and further by RA No.9501 in 2008. Three major provisions contained in the legislation are the creation of the Micro, Small and Medium Enterprise Development (MSMED) Council, creation of the Small Business Guarantee and Finance Corporation, and the mandatory credit allocation of 8% to MSEs and 2% to medium-sized enterprises by all lending institutions. In 2001, the Small Business Guarantee and Finance Corporation and the Guarantee Fund for Small and Medium Enterprises merged to form the Small Business Corporation, the major provider of loan guarantees for MSMEs.

The Barangay Micro Business Enterprises Act of 2002 is another law that supports micro enterprises through exemption from taxes, fees, and coverage of the minimum wage law, setting up of special credit windows by government finance institutions, and technical support of government institutions.

The Department of Trade and Industry is the primary government agency responsible for the development and regulation of Philippine MSMEs, together with large enterprises. Under the department, the MSMED Council formulates a comprehensive strategy to promote MSMEs and integrate it into other Philippine development plans. The Bureau of Micro, Small and Medium Enterprise Development serves as the secretariat of the MSMED Council. The bureau initiates and implements programs and projects addressing the needs of MSMEs in areas concerning entrepreneurship development, institutional strengthening, and productivity improvement. MSME policies are being implemented by various government

Table 4.49: 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 further amended by R.A. 9501 of 2008)		MSMEs promotion policies, MSME definition, and direction of the establishment of the institutional framework for MSME promotion system
Barangay Micro Business Enterprises (BMBE) Act, R.A. No. 9178 (2002)		Micro enterprises and informal sector promotion policies
Regulators and policy makers		
Name		**Responsibility**
Department of Trade and Industry (DTI)		Primary government agency responsible for the development and regulation of MSMEs
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 Enteprise Development Plan (2004–2010)	MSMED Council	Increase the contribution of SMEs as an important engine of growth 1) Increased productivity 2) Increased production output and sales 3) Contribution to growth of exports 4) New creative enterprises
Micro, Small and Medium Enteprise Development Plan (2011-2016)	MSMED Council	Envision the implementation of measures to deliver expected results for four outcome portfolios: 1) Enabling business environment 2) Access to finance 3) Access to markets 4) Increasing productivity and efficiency
Philippine Development Plan (2011–2016)	NEDA	1) Anticorruption/transparency, accountable, and participatory governance 2) Poverty reduction and empowerment of the poor and vulnerable 3) Rapid, inclusive, and sustained economic growth 4) Just and lasting peace and the rule of law 5) Integrity of the environment and climate change mitigation and adaptation

NBFI = nonbank financial institution; NEDA = National Economic and Development Authority; MSME = micro, 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, and Small and Medium Enterprise Development Plan 2004–2010.

agencies according to their mandates through regional and/or provincial counterparts. However, at the local level, the provincial MSMED Council monitors the agencies' MSME development efforts as well as what is being done by the MSMED Council at the national level. The Department of Trade and Industry's regional and provincial offices carry out the implementation of programs for the development of MSMEs at the regional level.

The Bangko Sentral ng Pilipinas is the sole regulator and supervisor of the Philippine banking sector. It also exercises regulatory powers over NBFIs with quasi-banking functions, pawnshops, nonstock savings and loan associations, and NBFIs without quasi-banking functions that are subsidiaries of banks.

While cooperatives are under the regulation and supervision of the Cooperative Development Authority, financial service cooperatives are also subject to Bangko Sentral ng Pilipinas regulation as provided under the Cooperative Code of 2008. These are cooperatives that wish to perform functions beyond deposit taking that are subject to Bangko Sentral ng Pilipinas supervision.

NGOs are currently not regulated but are encouraged to submit information to the Microfinance Council of the Philippines. Nongovernment MFIs collecting savings greater than the compensating balance will need to convert into entities that are authorized to take deposits, such as cooperatives or banks. The Microfinance Council of the Philippines, in collaboration with its network MFIs, is developing a bill to enact a microfinance code for the Philippines. The draft legislation intends to clarify the regulatory framework of microfinance NGOs, codify social performance management standards, and provide support to accredited MFIs.

The SEC is the sole regulator of the securities market in the country. The commission regulates NBFIs such as investment houses, financing companies, investment companies, and securities dealers and brokers registered under the Securities Regulation Code, Investment Houses Law, and the Financing Company Act. Further, the SEC closely monitors nonstock, nonprofit organizations or associations which are acting as microfinance companies, and it is planning to regulate NGOs. In July 2013, the SEC released draft rules and regulations on microfinance NGOs.

The SME Development Plan (2004–2010) noted that the majority of SMEs had to rely mainly on owners' savings for funding and personal loans from family and friends. Institutional debt financing is used by only a small segment, mainly out of fear of loan exposure, inability to qualify because of lack of collateral, and lack of knowledge on credit sources and processes.[4]

The MSME Development Plan (2011–2016) aims to address the key challenges and constraints facing the MSME sector and envisions a more focused implementation of measures. Two primary targets under the plan are to create 2 million new and sustainable jobs by 2016 and raise the economic contribution of MSMEs from 35.7% of total gross value added in 2006 to 40% by 2016.[5]

While the lack of collateral and lack of credit information were noted as major impediments in MSME lending, the Bangko Sentral ng Pilipinas and policy makers are continuously developing key financial infrastructure components to improve the enabling environment for MSMEs' access to finance. There are existing credit information systems in the country, however these are fragmented and underdeveloped. In 2008, the Credit Information System Act under RA No.9510 mandated the creation of the Credit Information Corporation to provide a non-collateral-based credit system in the country. The act required all types of banks, insurance companies, credit card issuers, cooperatives, MFIs, and other institutions that extend credit to share their credit data with the Credit Information Corporation. The credit information system is targeted to be fully implemented by 2016.

In June 2013, the Department of Finance and various representatives from the private and government sectors signed the movable collateral framework document, which aims to establish a system that will encourage financial institutions to accept non-real property assets as security for lending to MSMEs by 2015.[6]

4 Department of Trade and Industry. 2006. SME Development Plan 2004–2010. Manila. http://www.dti.gov.ph/uploads/file/SMED%20plan%202004-2010.pdf?bcsi_scan_e41ddc73166bc1eb=0&bcsi_scan_filename=SMED%20plan%202004-2010.pdf

5 Department of Trade and Industry. Micro, Small and Medium Enterprise Development Plan 2011–2016. Manila. http://dti.gov.ph/uploads/DownloadableFiles/2012_DTI_MSMEDPlan_2011-2016.pdf?bcsi_scan_e41ddc73166bc1eb=0&bcsi_scan_filename=2012_DTI_MSMED-Plan_2011-2016.pdf

6 P. Magtulis. 2013. Small Businesses Gain Access to Financing. *The Philippine Star*. 9 June. http://www.philstar.com/business/2013/06/09/951726/small-businesses-gain-access-financing

COUNTRY REVIEW

Solomon Islands

SME Landscape

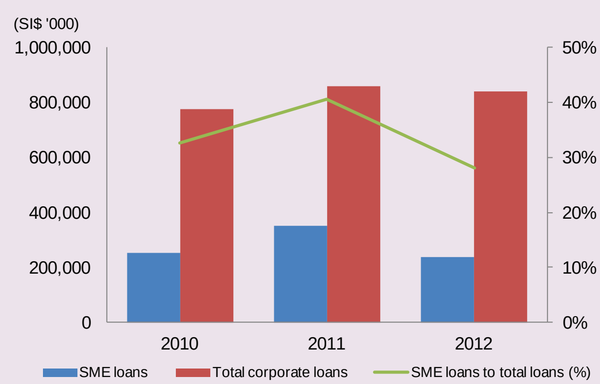
Solomon Islands consists of more than 1,000 islands in the southwest Pacific Ocean. It is the second most widespread island nation, in terms of sea travelling distances, behind the Marshall Islands. Honiara, the capital city, is home to less than 100,000 of the 528,000 population, with the balance well spread around the islands. It is a country of small and medium-sized enterprises (SMEs) with only a handful of entities having more than 50 employees. The priority sectors are agro-business, fisheries (tuna), mining, logging, tourism, financial services, copra and coconut, and manufacturing.

There is no official SME definition, but the Micro, Small and Medium Enterprises Policy and Strategy drafted by the Ministry of Commerce, Industries, Labors and Immigration in August 2013 recommends that a company fulfilling two of three criteria is classified as an SME: (i) less than 50 employees, (ii) less than SI$50.0 million turnover, and (iii) less than SI$7.5 million capital invested. The ministry estimated that there are 5,400 SMEs in Solomon Islands, and that 80% of these are regarded as informal entities.

Banking Sector

There are three commercial banks active in Solomon Islands: (i) Australia and New Zealand Banking Group (ANZ), (ii) Bank of South Pacific (BSP), and (iii) Westpac Banking Corporation. A further new bank license is in progress. SME loans outstanding were SI$236 million in 2012, a decrease of 32.4% compared to the previous year (Figure 4.111). SME credit accounted for 28.1% of total bank corporate loans in 2012, a decrease from 40.6% in 2011, and it is still small in scale, accounting for 3.8% of gross domestic product (GDP) in 2012. As a standardized SME definition has yet to be introduced, for convenience the Central Bank of Solomon Islands

Figure 4.111: SME Loans Outstanding



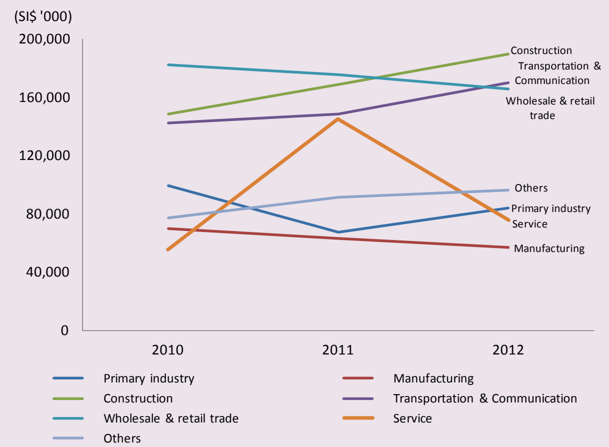
SME = small and medium-sized enterprise.
Source: Central Bank of Solomon Islands.

estimated SME loans by deducting large transactions from total bank commercial lending, which means that SME credit data is not based on firm size. This excludes personal lending which may be used for SME purposes. Although only some banks reported the sector data to the central bank, three industries—construction (22.6% of total lending), transportation and communications (20.3%), and wholesale and retail trade (19.8%)—were identified as the most active sectors in the reported bank lending in 2012 (Figure 4.112).

Bank products available in Solomon Islands include working capital overdraft facilities, term debt, property investment loans, credit guarantees, financial leasing, foreign exchange, and transactional services. Annual lending rates are approximately 14%–15% for the SME sector, an interest rate premium of 4–5 percentage points over average bank rates. All lending is secured by collateral.

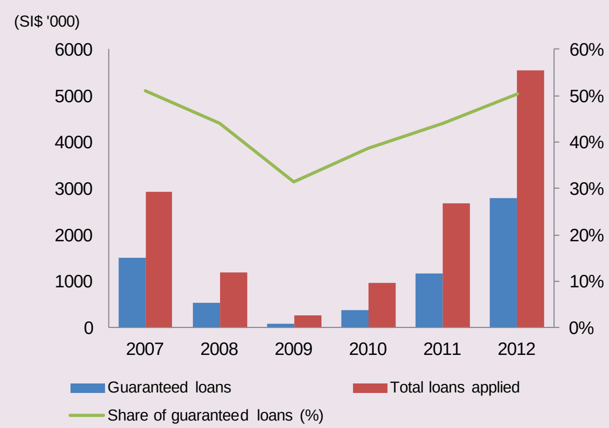
There is a collateral registry for movable properties in Solomon Islands, which was established under the Secured Transaction Act 2008. Although all forms of

Figure 4.112: Total Bank Loans by Sector



Source: Central Bank of Solomon Islands.

Figure 4.113: Credit Guarantees – Small Business Finance Scheme



Source: Central Bank of Solomon Islands.

movable properties including intangible assets can be secured, banks traditionally rely on real estate security as collateral for loans, resulting in only a small amount of machinery and vehicle financing. The challenge banks face is that more than 80% of land is unregistered and is under customary title, which is not generally considered valid bankable security. This is one of the factors that accounts for the wide supply–demand gap in SME finance. Moreover, more than 75% of bank activities are concentrated on the capital city, Honiara, rather than rural areas, which centralizes bank lending. Banks are making efforts to obtain reliable financial information from SMEs and improve poor financial literacy among them to better serve their funding demands.

Mobile banking, a financing model accessible to SMEs, is a new initiative in Solomon Islands. ANZ was the first to release its mobile banking and the other banks have recently introduced the service. The central bank has simplified the Know Your Customer rules to make it easier for banks to register new businesses and for rural people to open bank accounts. It is expected to lift SME participation in the banking system further. Agent banking models, which use local village stores to take deposits and provide basic banking services, are also being developed by all three banks.

Commercial banks have advised that they all have strong liquidity and few market opportunities to invest these funds, at least not in areas which meet their current credit criteria.

The central bank provides a credit guarantee scheme for SMEs called the Small Business Finance Scheme, which was established in 2007. It is a partial guarantee scheme that covers 90% of the credit applied. Eligible businesses are SMEs that operate in rural areas or the export sector. The guarantee coverage is up to SI$300,000 per transaction, with a fee of 1% of the loan applied. This scheme is available up to SI$1 million of total loan amounts, with a limited application period of 5 years. Procedurally, the bank submits the guarantee application to the central bank on behalf of the client. Guaranteed loans were negatively affected by the 2008/09 global financial crisis, but started growing after 2010. The total guaranteed loans were SI$2.8 million in 2012, which accounted for 50.5% of the total loans applied for and had increased by 137% compared to the previous year (Figure 4.113 and Table 4.50). ANZ accounts for 90% of the total guarantee applications in this scheme. The central bank entrusts the recovery work on claims to participating commercial banks.

Table 4.50: Credit Guarantees – Small Business Finance Scheme (SI$'000)

Items	2007	2008	2009	2010	2011	2012
Gross loan amount (a)	2,930	1,197	260	963	2,682	5,545
Guaranteed amounts (b)=(d)+(e)	1,498	529	82	373	1,180	2,801
Risk to borrowers (c)	1,432	668	178	590	1,503	2,745
Risk to the Scheme (d)	1,198	423	66	299	897	2,236
Risk to banks (e)	300	106	16	75	282	565
No. of guarantees nominated	20	12	3	2	7	11

Source: Central Bank of Solomon Islands.

Nonbank Sector

The nonbank sector is small in scale but active in Solomon Islands. There are 16 credit unions, 26 reported savings clubs, 1 microfinance institution, and 1 finance company active in this sector.

Credit Corporation, a finance company, recorded sharp growth of its financing activities with SI$125 million in 2012, compared with SI$25 million in 2009. Around 90% of its clients are estimated to be SMEs. Credit Corporation makes full use of the collateral registry for SME lending. The products available from Credit Corporation include chattel mortgages, leasing, and commercial loans, which are all secured by plant, machinery, vehicles, and sometimes real estate. Before finance is approved, deposits of up to 50% of loans applied for are required for new clients, and the requirement on such mandatory deposits is lowered for repeat clients. All loans amortize over 2–4 years. Except for Credit Corporation, collateral registry and/or asset-based finance is not popular for financing SMEs among nonbank financial institutions (NBFIs) in Solomon Islands.

Lending by NBFIs is typically charged for on a flat basis with an effective rate of 20% or more. Nonperforming loans (NPLs) in this sector range between 2% and 5%.

NBFIs are not supported by the government schemes for financing SMEs. The most active sectors for asset financing are transportation in agro-business, followed by service and retail industries. Collectively, the NBFI exposure is estimated at 9% of the financial markets in Solomon Islands.

In late 2012, South Pacific Business Development, a network of microfinance institutions in Fiji, Samoa, and Tonga, opened a branch office in Solomon Islands. Through its programs, it supports women entrepreneurs involved in a wide range of income-generating activities such as crop harvest, fisheries, livestock farming, handicrafts, food, and retail trading.

Capital Markets

There is no stock exchange and no capital market financing for businesses in Solomon Islands. The government and central bank are considering options to develop a capital market through one of two approaches, i.e., a national securities market or a regional exchange market. Developing a Melanesian stock exchange is one of the ideas that can be realized in collaboration with neighboring countries, considering economies of scales. The Solomon Islands National Provident Fund has commenced preliminary works to support investment banking in the country, which is expected to provide added capital to priority sectors such as primary industry and the service and manufacturing sectors.

Policy and Regulation

The SME sector is pivotal to the national economy in Solomon Islands. The collateral registry commenced operation under the Secured Transaction Act 2008, and a new online company registration system has started.

The Ministry of Commerce, Industries, Labors and Immigration is drafting an SME policy framework which has yet to be reviewed by the Cabinet but the intention is that it will include a recommendation for establishment of a dedicated SME bank in Solomon Islands (Table 4.51). There was a development bank established earlier but it was closed because of poor lending performance and weak management system,

Table 4.51: SME Policy and Regulation

<table>
<tr><th colspan="3">Regulations</th></tr>
<tr><th colspan="2">Name</th><th>Outline</th></tr>
<tr><td colspan="2">Financial Institutions Act (1998)</td><td>Regulation for banking business</td></tr>
<tr><td colspan="2">Secured Transaction Act (2008)</td><td>Establishment of collateral registry</td></tr>
<tr><td colspan="2">Credit Union Act (1986)</td><td>Regulation for credit union activities</td></tr>
<tr><th colspan="3">Regulators and policy makers</th></tr>
<tr><th colspan="2">Name</th><th>Responsibility</th></tr>
<tr><td colspan="2">Central Bank of Solomon Islands (CBSI)</td><td>Regulate and supervise commercial banks and nonbanks</td></tr>
<tr><td colspan="2">Ministry of Commerce, Industries, Labor and Immigration (MCILI)</td><td>SME promotion policy</td></tr>
<tr><th colspan="3">Policies</th></tr>
<tr><th>Name</th><th>Responsible Entity</th><th>Outline</th></tr>
<tr><td rowspan="2">National Financial Inclusion Goals (2010)</td><td>MCILI</td><td rowspan="2">1) Financial education for all
2) Access to financial services
3) Use of financial services to achieve financial stability and create business opportunities</td></tr>
<tr><td>CBSI</td></tr>
</table>

SME = small and medium-sized enterprise.
Source: Central Bank of Solomon Islands; and Ministry of Commerce, Industries, Labors and Immigration.

which provides lessons on creating a specialized bank, i.e., the need to have a loan facilitation mechanism and a well-functioning internal control system.

The government and central bank have developed the national financial inclusion goals with three key pillars: (i) financial competence through financial education and financial literacy for all, (ii) access to financial services, and (iii) use of technology to provide financial services and products to achieve financial stability and create business opportunities.

The government is undertaking a policy review of its credit union legislation, with technical assistance from the Asian Development Bank (ADB), which is expected to lead to drafting of a new credit unions bill in 2014.

There are a number of public funds, grant-based projects, and credit facilities available to SMEs outside of the traditional bank lending (Tables 4.52–4.53). These initiatives exceed SI$220 million and are popular.

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Table 4.52: Public Funds and Grant-Based Projects

Facility	Fund Manager	Size (SI$ million)
Government's Eco-tourism Grants Program	Ministry of Culture and Tourism	4.0
Australian Government Direct Aid Program	AHC DAP	0.6
Embassy of Japan's Grass roots Human Security projects	Japanese Embassy	4.2
NZHC Head of Mission Fund	NZHC	0.8
UNDP Global Environment Fund – Small Grants Programme (SGP)	UNDP	1.8
Solomon Islands Rural Development Program (RDP)	MDPAC	46.0
RCDF	MRD	20.0
SIRCLF	MRD	53.0
RFE	MFMR	...
PRC Grass root project micro project	MRD	10.0
Millennium Development Fund	MRD	20.0
Provincial Grants (MPs)	MPG Provinces	...
RAMP Micro Projects – Phase III, EU (EDF 10)	MDPAC	27.0

AHC DAP = Australian High Commission Direct Aid Program; EDF = European Development Fund; EU = European Union; MDPAC = Ministry of Development, Planning and Aid Coordination; MFMR = Ministry of Fisheries and Marine Resources; MP = Members of Parliament; MPG = Ministry for Provincial Government; MRD = Ministry of Rural Development; NZHC = New Zealand High Commission; PRC = People's Republic of China; RAMP = Rural Advancement Micro-projects Program; RCDF = Rural Constituency Development Fund; RDP = Rural Development Programme; REF = Rural Equity Fund; SIRCLF = Solomon Islands Rural Constituency Livelihoods Fund; UNDP = United Nations Development Programme.
Source: Micro, Small and Medium Enterprises Policy and Strategy (draft). August 2013.

Table 4.53: Credit Facilities

Facility	Fund Manager	Size (SI$ million)
RDP Equity Fund	MDPAC, ANZ, BSP, WESTPAC	46.0
Credit Unions	SICUL and Other Union	34.2
MCILI-CGS	MCILI	...
Small Business Credit Guarantee Scheme	CBSI	...
Westpac SME Business Loans	Westpac	...
ANZ	ANZ Bank	...
BSP	BSP Bank	...

ANZ = Australia and New Zealand Banking Group; BSP = Bank of South Pacific; CBSI = Central Bank of Solomon Islands; MCILI-CGS = Ministry of Commerce, Industries, Labors and Immigration's credit guarantee scheme; MDPAC = Ministry of Development Planning and Aid Coordination; RDP = Rural Development Programme; SICUL = Solomon Islands Credit Union League; Westpac = Westpac Banking Corporation.
Source: Ministry of Commerce, Industries, Labors and Immigration. 2011.

Sri Lanka

SME Landscape

SMEs are critical to the growth of the Sri Lankan economy, which has emerged from more than three decades of war. The Ministry of Traditional Industries and Small Enterprise Development estimated that small and medium-sized enterprises (SMEs) accounted for 80%–90% of the total number of enterprises. Leading SME industries include agriculture, plantation, construction, manufacturing, trade, and services. SMEs contributed to 30% of gross domestic product (GDP), 20% of exports, and 30% of the production value added in the manufacturing sector, and employed 35% of the total workforce.[1]

The Government of Sri Lanka has identified SMEs as key to sustainable economic growth. The government's policy framework for economic development—the Mahinda Chintana: Vision for the Future—released in 2010 has identified micro, small, and medium-sized enterprises (MSMEs), traditional industries, and the handicraft industry as strategic sectors.

Sri Lanka does not have a national definition of SMEs, resulting in a lack of sufficient data on SMEs; different organizations use different parameters to define SMEs. For instance, the SME Task Force 2002[2] classified SMEs based on the net asset value, excluding land and building. The SME also must be any business activity or enterprise engaged in industry, agri-business, and/or services whether single proprietorship, partnership, or corporate venture. In its definition, small enterprises are firms with net assets of more than SLRs1 million and less than SLRs20 million, while medium-sized enterprises are firms with net assets of more than SLRs20 million and less than SLRs50 million. This value is to be adjusted for inflation once in 5 years based on the implicit GDP deflator.

The Mahinda Chintana provides another definition of SMEs. 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 are classified as SMEs. To combat the definition issue, the Department of Census and Statistics has started the Economic Census 2013/14 with the key objective of preparing a unified definition of MSMEs.

The Ministry of Traditional Industries and Small Enterprise Development identified that the main problems faced by Sri Lankan SMEs are the limited access to finance, technology, and markets; lack of information; inadequate capacity for compliance with standards and certifications; and lack of innovation.

Banking Sector

Sri Lankan banks are regulated and supervised by the Central Bank of Sri Lanka (CBSL) under the Banking Act No.30/1988. Sri Lankan banks consist of (i) licensed commercial banks, and (ii) licensed specialized banks. Licensed commercial banks are allowed to accept demand deposits from the public and deal with foreign exchange business. Licensed specialized banks have a limited engagement in foreign exchange business with the approval of the central bank.

As of the end of September 2012, the banking sector in Sri Lanka comprised 24 licensed commercial banks and 9 licensed specialized banks. The six largest local licensed commercial banks are identified as systemically

1 Annual Report of the Ministry of Finance and Planning 2012.

2 The minister in charge of industrial development in Sri Lanka appointed a task force in October 2001 to inquire into the needs, problems, and future requirements of SMEs, and develop a national strategy for Sri Lanka. The task force submitted its white paper entitled the National Strategy for Small and Medium Enterprise Sector Development in Sri Lanka in December 2002.

important banks:[33] Bank of Ceylon, Peoples Bank, Commercial Bank of Ceylon, Hatton National Bank, Sampath Bank, and Seylan Bank.

Sri Lanka has a bank-centered financial system, with banks accounting for 56.4% of total finance sector assets in 2012, up from 55.1% in 2011. Licensed commercial banks are the most influential segment among financial institutions in Sri Lanka, with 48% of entire finance sector assets and 86% of total bank assets. Among licensed commercial banks, systemically important banks represented 77% of the licensed commercial bank sector assets and 66% of bank assets as of the end of September 2012.

The banking sector is a main source of finance for SMEs in Sri Lanka. Banks are increasing their exposure to SMEs because of higher interest margins in the SME sector. The Ministry of Finance and Planning in its 2012 annual report pointed out that private sector banks rather than state-owned banks actively invested in the operations of SMEs in 2012.

Total bank lending disbursed to SMEs through CBSL schemes was SLRs265,652 million with 175,473 loans in 2012. The manufacturing sector accounted for 39.8% of the SME loans disbursed, followed by "others" at 28.1%, services at 20.3%, and agriculture at 11.7% (Figure 4.114 and Table 4.54).

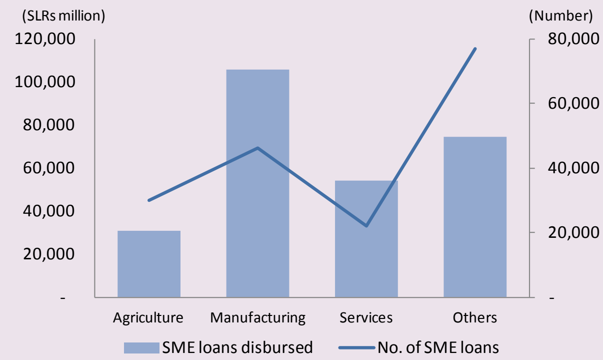
The 2012 national budget encouraged banks to set up state-of-the-art facilities, SME bank centers, to provide advisory and financial support for SME entrepreneurs at district level. The total lending approved by the created SME bank centers was SLRs7,387 million spread across 931 loans in 2012.

The CBSL issued the Banking Act Regulation No.9/2011 for banks to qualify their criteria for SME exposure. This regulation stipulates that the maximum credit exposure of a bank to an SME shall not exceed SLRs200 million, and the annual turnover of the SME should not exceed SLRs600 million as per the audited financial results.

The CBSL has also launched several credit lines and credit guarantee schemes to promote better access to credit for SMEs through commercial banks by providing concessional loans with preferential interest rates (Table 4.56). The most notable CBSL financing scheme is the

[3] The CBSL has identified the six largest licensed commercial banks as systemically important as they control a major portion of banking sector assets and are systemically important for the financial stability of the economy.

Figure 4.114: SME Loans by Sector – Central Bank of Sri Lanka Schemes



SME = small and medium-sized enterprise.
Source: Ministry of Finance and Planning Annual Report 2012.

Saubhagya Loan Scheme, which provides two types of loans: (i) loans up to SLRs500,000 at 10% interest rates for a maximum of 5 years to all SMEs, and (ii) loans up to SLRs20 million to disaster-affected SMEs at 9% for 5 years through 17 participatory commercial and specialized banks. Another notable CBSL credit line is the Awakening North scheme, which provides loans up to SLRs200,000 for any legally accepted income-generating activity for a maximum period of 5 years at 9% through eight participating banks.

In the 2011 national budget the government introduced the Investment Fund Account for SMEs to be set up by all banks.

In this scheme, banks firstly enjoy two types of concessional tax treatments: (i) corporate income tax of 28% discounted from the original 35%, and (ii) value-added tax on financial services of 12% discounted from the original 20%. Then, banks put the amounts saved by discounted taxes into separate investment fund accounts, to be utilized as a funding source for national SME development programs.

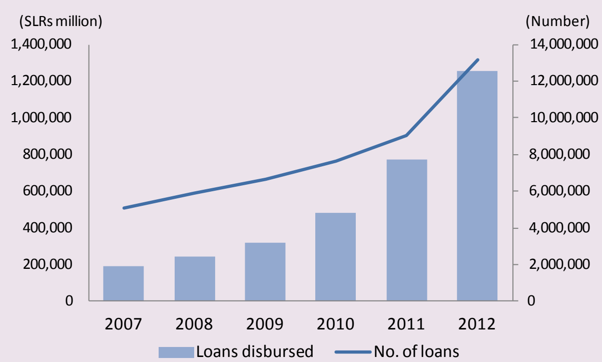
In addition to regular loan products, pawning has become the most popular financing modality for banks. Pawning loans is a type of asset-based finance which can be provided by both banks and nonbanks where loans are granted against mortgaged gold or jewelry. Pawning loans by banks have increased during 2007–2012 at an average rate of 47% per annum. The interest rate for gold pawning is market based and varies between 14% and 20%. The total pawning loans disbursed in 2012 exceeded SLRs1,254 billion with 13,139,894 clients.

Table 4.54: SME Finance Schemes of the Central Bank of Sri Lanka Implemented through Banks

Name of Bank	Agriculture		Industries		Services		Others	
	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	12	15	356	3,354	231	2,395	36	346
Peoples Bank	3,274	6,869	1,607	10,394	1,795	4,136	1,227	3,643
Regional Development Bank	385	195	590	490	170	85	280	590
Lankaputhra Development Bank	42	101	241	1,121	39	243	31	114
Sansa Development Bank	22	152	42	581	9	139	61	625
National Development Bank	370	1,726	1,098	3,347	380	1,133	2,817	5,748
DFCC Bank	487	1,445	2,953	13,054	1,017	5,981	…	…
Commercial Bank of Ceylon	18,362	8,987	31,186	50,940	9,724	19,225	18,210	16,363
Sampath Bank	163	895	1,828	7,746	215	1,074	191	1,633
Hatton National Bank	4,364	9,324	2,553	8,800	4,670	13,500	10,397	31,000
Nations Trust Bank	132	679	537	1,130	2,453	3,806	8,876	10,929
Union Bank of Colombo	2,526	756	3,286	4,839	1,382	2,326	34,873	3,680
Total	**30,112**	**31,145**	**46,277**	**105,795**	**22,085**	**54,043**	**76,999**	**74,672**
% of Total Loans Value		**11.7**		**39.8**		**20.3**		**28.1**

SME = small and medium-sized enterprise.
Source: Ministry of Finance and Planning Annual Report 2012.

Figure 4.115: Pawning Loans by Banks



Source: Ministry of Finance and Planning Annual Report 2012.

The average loan size has more than doubled within the last 6 years, from SLRs37,729 in 2007 to SLRs95,470 in 2012 (Figure 4.115 and Table 4.55).

Remittances from Sri Lankan migrant workers abroad comprise a significant part of the national economy. In 2011, Sri Lankan migrants contributed to 8.5% of GDP. By utilizing the remittances of Sri Lankan migrant workers, the Commercial Bank of Ceylon, in association with the International Finance Corporation (IFC), has adopted a new financing scheme for them in Sri Lanka. Under this scheme, IFC financed $65 million to the Commercial Bank of Ceylon, and future foreign receipts of the bank are supposed to be securitized offshore, which enables the bank to obtain longer-term funding at a competitive price to boost its SME portfolio.

Table 4.55: Pawning Loans by Banks

Item	2007	2008	2009	2010	2011	2012
Loans disbursed (SLRs mil.)	188,647	245,372	318,040	479,598	772,189	1,254,470
Number of loans	5,095,518	5,900,434	6,673,524	7,608,067	9,027,369	13,139,894
Interest rate (%)	19–24	18–24	14–23	10–14	10–14	17–21
Average loan size (SLRs)	37,729	42,301	47,682	63,899	85,538	95,470
Growth of loans disbursed (%)	…	30.1	29.6	50.8	61.0	62.5

Source: Ministry of Finance and Planning Annual Report 2012.

Nonbank Sector

Nonbank financial institutions (NBFIs) contribute 6% of total finance sector assets in Sri Lanka. NBFIs are 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. They are regulated and supervised by the CBSL.

The NBFI sector consisted of 47 licensed finance companies and 13 specialized leasing companies as of the end of September 2012. NBFIs in Sri Lanka have grown strongly, with 26% annual growth in 2011 and 22% in 2012. They cater to both large enterprises and SMEs. Although no data on SME finance by NBFIs are available, it is estimated that it is a large portion of the total financial assets of NBFIs.

The Lanka ORIX Leasing Company, a joint venture between the ORIX Corporation of Japan and IFC, is one of the leading NBFIs in Sri Lanka. The main objective of the company is to provide finance for MSMEs in Sri Lanka. The major products it offers for SMEs are mortgage loans for long-term funding, and revolving loans for working capital needs. The Lanka ORIX Leasing Company also offers innovative products such as the Speed Draft, designed to provide quick short-term loans, and Development Finance, designed to grant specialized credit schemes tailored to the SME sector from international sources at concessionary rates and terms.

Microfinance is an important instrument for serving the financing needs of SMEs in rural areas, specifically for those which do not have equitable collateral for loans. Both banks and NBFIs can provide microfinance products and services in Sri Lanka. In 2012, the outstanding loan portfolio of five major microfinance institutions (MFIs) was SLRs256 billion. The Regional Development Bank holds the highest outstanding microcredit portfolio at SLRs106 billion, followed by the Samrudhi Banking Society with SLRs84 billion in 2012. Commercial banks also disbursed microcredit totaling SLRs92 billion in 2012.

Capital Markets

The Colombo Stock Exchange is the main exchange market in Sri Lanka. As of 1 October 2012, the exchange had 288 listed companies representing 20 business sectors and with market capitalization of SLRs2,380.9 billion. The Securities Exchange Commission, established under the Securities Exchange Commission Act No.36/1987, is a regulator for capital markets and the Colombo Stock Exchange in Sri Lanka. The stock exchange's market performance has improved significantly since the end of the war in May 2009. It was announced as the world's best performing exchange in 2010 by Bloomberg, as its index jumped 110.9% that year.

The Colombo Stock Exchange has two boards: the main board and the Diri Savi Board. The main board is organized as a financing venue for large firms, and requires minimum share capital for listing of SLRs500 million. The Diri Savi Board is organized as a financing venue for smaller companies and startups, which initially required minimum share capital for listing of SLRs50 million but this was reduced to SLRs35 million to encourage SMEs to tap the exchange market. However, this has recently been increased to SLRs100 million. A total of 61 companies were listed on the Diri Savi Board as of 1 October 2013. The listing criteria in the Diri Savi Board are less stringent than those in the main board. Companies listing on the Diri Savi Board need to have a minimum public holding of 10%, whereas the main board requires a minimum of 25% public holding for listing.

Venture capital as a source for financing startups and SMEs has not taken off in Sri Lanka. Initially there were 5–6 venture capital firms but they were all investing in large firms rather than SMEs; venture capital firms surviving today are also not focusing on SMEs. The most notable venture capital firm in Sri Lanka is Lanka Ventures. It was established in 1992 as a venture company and the main shareholders were the Asian Development Bank (ADB), John Keels Holdings, Forbes Walker, and the DFCC Bank. At present, the Hatton National Bank and the DFCC Bank are the main shareholders. Blue Ocean Ventures is another venture capital firm in Sri Lanka, formed as an alliance of Indian and Sri Lankan investors. In association with the Indian Angel Network and sponsoring companies including Dialog Axiata and Expo Lanka, Blue Ocean Ventures has launched a project called the Venture Engine. This is a business plan competition aimed at assisting entrepreneurs with innovative ideas in financing seed capital. The winners of this competition get investment and other support from investors.

The Government of Sri Lanka is encouraging venture capital for financing SMEs. In the 2013 annual budget, the government invited all banks and other financial institutions to finance venture capital firms up to SLRs10 million, using their funds in the Investment Fund Account.

Policy and Regulation

The government's national development plan, the Mahinda Chintana, has identified SMEs as crucial for the economic development of Sri Lanka (Table 4.57). The Mahinda Chintana also envisages the need for a commonly accepted national SME definition and the formulation of an MSME act or policies elaborated for the MSME sector.

The Ministry of Traditional Industries and Small Enterprise Development has a mandate to formulate policies, programs, and projects for traditional and small enterprises. To this end, it has set up various departments including the Industrial Development Board, the National Crafts Council, the National Design Centre, and the Palmyrah Development Board. The ministry also organizes banking clinics to enable entrepreneurs to secure loans from banks and financial institutions for economic activity.

The Ministry of Economic Development has launched a prioritized economic development program called the Divi Neguma. The objective of the program is to strengthen the home-based economy through the establishment and development of cottage industries at the household level. The program is expected to create 3,000 successful entrepreneurs at the village level in Colombo district. This program is directed by the Ministry of Economic Development and implemented through the Ministry of Traditional Industries and Small Enterprise Development, Ministry of Industry and Commerce, Ministry of Research and Technology, Ministry of Youth Affairs and Skills Development, and Ministry of State Resources and Enterprise Development.

The National Enterprise Development Authority under the Ministry of Industry and Commerce also works for the development of SMEs. The Ministry of Industry and Commerce has placed the Small and Micro Industries Leader and Entrepreneur Promotion Project Revolving Fund with the CBSL to grant loans to SMEs through participating financial institutions.

The Ministry of Finance and Planning, through its National Council of Economic Development, works to resolve issues related to MSMEs. The ministry is also responsible for framing budget proposals for development of the SME sector in consultation with various stakeholders.

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.

The Institute of Chartered Accountants of Sri Lanka has introduced the Sri Lanka Accounting Standards for Small and Medium Enterprises. This standard supersedes the Sri Lanka Accounting Standard for Smaller Enterprises. It broadly aligns the financial reporting framework for SMEs with that of the full Sri Lanka Accounting Standards while facilitating financial reporting of SMEs by simplifying and reducing the detailed guidance in full accounting standards and removing more complex options in certain areas. This standard became effective in January 2011.

The national budgets for 2012 and 2013 support SME sector development. These budgets include several concessionary measures for developing the SME sector, such as exemption from the Economic Service Charge for certain SMEs, the creation of SME bank centers, and the provision of a 50% treasury guarantee to banks providing loans to restructure SMEs and improve their performance.

Table 4.56: Central Bank of Sri Lanka Schemes for the SME Sector

	Project Name	Eligible Subprojects	Maximum Loan Value / Borrower (SLRs)	Maximum Repayment Period (inc. grace period) (years)	Interest Rate to Borrower (%)
1	Sabaragamuwa Province Integrated Rural Development Project (Revolving Fund) (SPIRDPRF)	Any legally accepted income generating activity.	250,000	4	12
2	Susahana Loan Scheme	All affected micro, small, and medium-sized enterprises located in tsunami-affected districts.	1,000,000	8	6
3	Post-Tsunami Line of Credit – EIB Contract B Loan Scheme	Tourism, industries, other services.	65,000,000	9	9
4	Construction Sector Development Project	Purchase of machinery and equipment and working capital requirement of construction companies engaged in Tsunami Reconstruction Work.	30,000,000	6	9
5	Skills Development Project	Any legally accepted income-generating activities.	250,000	4	10
6	Northern Province Development Special Loan Scheme, “Awakening North”	Any legally accepted income-generating activities.	200,000	5	9
7	Eastern Province Development Special Loan Scheme	Any legally accepted income-generating activities.	250,000	5	9
8	Provincial Development Credit Scheme	Any legally accepted income-generating activities.	5,000,000	5	12
9	Saubhagya Loan Scheme	All income-generating activities in the small and medium-sized enterprise (SME) sector.	500,000	5	10
		Restoration of activities of disaster-affected SME Projects.	20,000,000	5	9

SME = small and medium-sized enterprise.
Source: Central Bank of Sri Lanka website.

Table 4.57: 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 policy makers		
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	
Central Bank of Sri Lanka (CBSL)	Regulate and supervise banks and nonbanks	
Policies and guidelines		
Name	**Responsible Entity**	**Outline**
Mahinda Chintana - 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
National Budget Proposals 2012 and 2013	Government of Sri Lanka	1) Introduction of special loan schemes for SMEs 2) Exempting certain SMEs from Economic Service Charge 3) Exempting certain SMEs from NBT and VAT

NBT = national building tax, SME = small and medium-sized enterprise, VAT = value-added tax.
Sources: Central Bank of Sri Lanka, Ministry of Finance and Planning, Ministry of Traditional Industries and Small Enterprise Development.

COUNTRY REVIEW

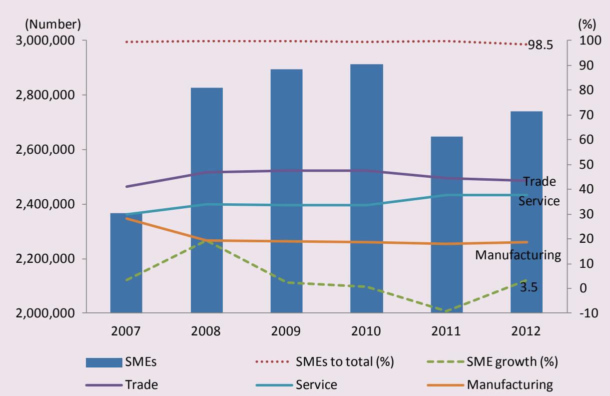
Thailand

SME Landscape

There were 2.7 million small and medium-sized enterprises (SMEs) in Thailand in 2012, accounting for 98.5% of total enterprises (Figure 4.116 and Table 4.58). Trade (wholesale, retail trade, and automotive repair), manufacturing, and service (e.g., hotels and restaurants) are dominant sectors in number, employment, and contribution to gross domestic product (GDP). The devastating flooding in 2011 seriously damaged all enterprises, but the SME sector is continuing to support economic growth and the job market in Thailand. In 2012, SMEs accounted for 37.0% of GDP and 80.4% of the workforce (Figures 4.117–4.119). Thai SMEs also have a positive influence on international trade, contributing to 28.8% of total exports and 31.9% of total imports in value (Figure 4.120). The SME export and import industries achieved a V-shaped recovery from the 2008/09 global financial crisis, but the flooding in 2011 slowed down both imports (growth of 3.7% in 2012) and exports (3.5%). SME exports are smaller than imports in scale, and the gap between them has been increasing.

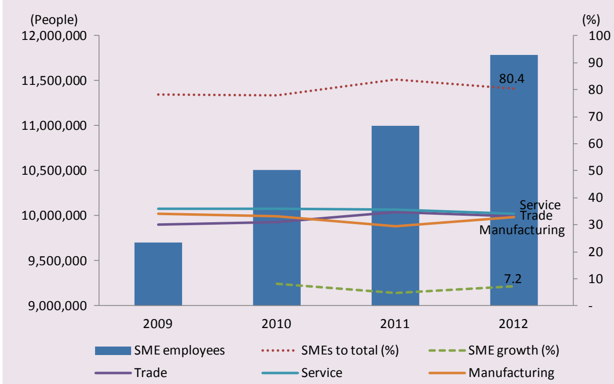
The SME sector is defined by the Ministry of Industry's regulation enacted in 2002. The SME definition differs

Figure 4.116: Number of SMEs



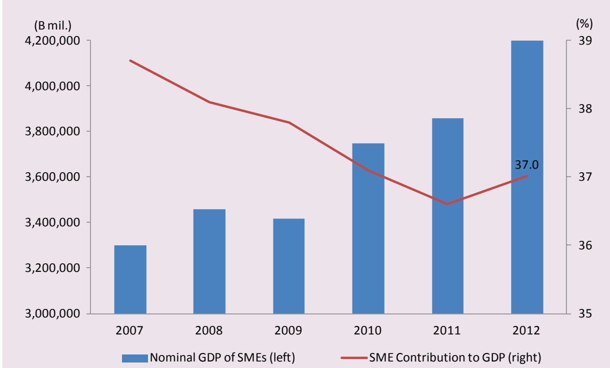
SME = small and medium-sized enterprise.
Source: Office of Small and Medium Enterprises Promotion.

Figure 4.117: Employment by SMEs



SME = small and medium-sized enterprise.
Source: Office of Small and Medium Enterprises Promotion.

Figure 4.118: SME Contribution to GDP



GDP = gross domestic product, SME = small and medium-sized enterprise.
Source: Office of Small and Medium Enterprises Promotion.

Table 4.58: SME Landscape

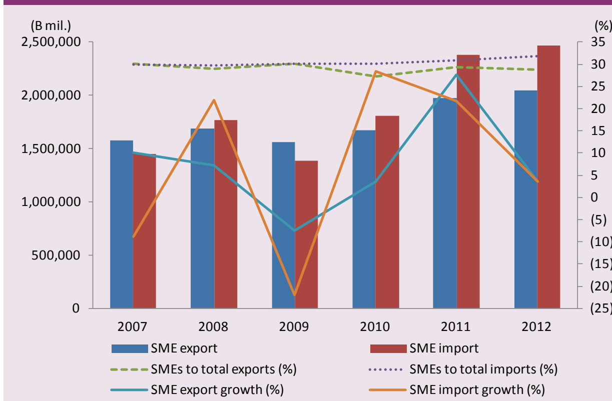
Item	2007	2008	2009	2010	2011	2012
Number of SMEs						
SMEs (number)	2,366,227	2,827,633	2,896,106	2,913,167	2,646,549	2,739,142
SMEs to total (%)	99.6	99.7	99.8	99.6	99.8	98.5
SME growth (%)	3.3	19.5	2.4	0.6	(9.2)	3.5
Trade (% to SMEs)	41.1	46.7	47.4	47.5	44.5	43.5
Service (% to SMEs)	30.0	33.8	33.7	33.8	37.7	37.8
Manufacturing (% to SMEs)	28.2	19.3	18.9	18.7	17.8	18.7
Employment by SMEs						
SME employees (number)	8,900,567	…	9,701,354	10,507,507	10,995,977	11,783,143
SMEs to total (%)	76.0	…	78.2	77.9	83.9	80.4
SME growth (%)	3.1	…	…	8.3	4.6	7.2
Trade (% to SMEs)	27.3	…	30.0	30.9	34.8	33.2
Service (% to SMEs)	33.8	…	35.8	35.8	35.6	34.1
Manufacturing (% to SMEs)	38.9	…	34.2	33.3	29.6	32.7
SME Contribution to GDP						
Nominal GDP of SMEs (B bil.)	3,298.5	3,457.7	3,417.9	3,747.7	3,859.6	4,211.3
SME Contribution to GDP (%)	38.7	38.1	37.8	37.1	36.6	37.0
GDP Composition of SMEs (% to SME GDP)						
Mining	1.5	1.7	1.6	1.7	1.8	1.9
Manufacturing	30.7	32.0	30.4	32.3	31.2	30.9
Construction	6.3	6.2	5.9	5.9	5.8	6.0
Trade and maintenance	29.1	28.5	29.9	28.3	28.0	27.7
Service	32.2	31.4	32.0	31.6	33.0	33.3
Electricity, gas, and water supply	0.2	0.2	0.2	0.2	0.2	0.2
SME Exports and Imports						
SME exports (B bil.)	1,576	1,691	1,564	1,669	1,971	2,044
SME imports (B bil.)	1,453	1,772	1,384	1,810	2,383	2,467
SMEs to total exports (%)	30.1	28.9	30.1	27.3	29.4	28.8
SMEs to total imports (%)	29.8	29.8	30.1	30.0	31.0	31.9
SME export growth (%)	10.1	7.3	(7.5)	3.6	27.7	3.7
SME import growth (%)	(8.8)	21.9	(21.9)	28.3	21.6	3.5

GDP = gross domestic product, SME = small and medium-sized enterprise.
Sources: Office of Small and Medium Enterprises Promotion SME White Paper 2008, 2009, 2010, 2011, and 2012.

Figure 4.119: GDP Composition of SMEs

SME = small and medium-sized enterprise.
Source: Ministry of Finance and Planning Annual Report 2012.

Figure 4.120: SME Exports and Imports



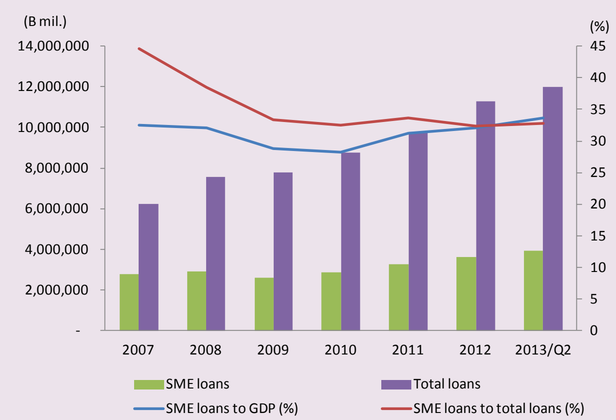
SME = small and medium-sized enterprise.
Source: Office of Small and Medium Enterprises Promotion.

by sector; for instance, firms having less than 200 employees and net assets of B200 million are regarded as SMEs in the manufacturing and service sectors. For SME lending, the Bank of Thailand guides financial institutions to follow this national SME definition, but they have often used their own definitions for operations.

Banking Sector

SME loans outstanding amounted to B5 trillion in the second quarter of 2013, in which commercial bank loans were B3.9 trillion and loans by public financial institutions were B1.1 trillion (Figure 4.121 and Table 4.59).[1] SME credit accounted for 32.8% of total commercial bank loans, which is still small in scale. This ratio was almost the same as that to GDP (33.7%). Bank lending to SMEs has recovered from the impact of the global financial crisis and is increasing even during and after the 2011 flooding, supported by timely government measures such as special credit guarantee schemes. The most active SME sectors in bank lending were trade (29.8% of total SME loans), service (26.0%), and manufacturing (22.8%) in the second quarter of 2013 (Figure 4.122). Working capital financing is the main reason that SMEs want to raise funds. Banks basically provide short-term loans up to 3 years for SMEs, with annual lending rates of 3%–5% risk premium plus the minimum retail rate. The ratio of nonperforming loans (NPLs) remains high in SME lending, at 3.4%, compared with the gross NPL rate of 2.2%, in the second quarter of 2013, although the situation is gradually improving (Figure 4.123).

Figure 4.121: SME Loans Outstanding



GDP = gross domestic product, SME = small and medium-sized enterprise.
Note: Data based on commercial bank loans.
Source: Bank of Thailand.

Figure 4.122: SME Loans by Sector

SME = small and medium-sized enterprise.
Note: Data based on commercial bank loans.
Source: Bank of Thailand.

Three factors can be considered to be behind the increasing trend of SME credit in Thailand: (i) SMEs' strong appetite for growth capital, (ii) banks' lending attitude shifting from large lot transactions with large firms to retail financing, and (iii) the portfolio guarantee scheme. The global financial crisis forced large firms to take longer for business recovery and encouraged banks to head for the retail market, addressing the SME demand. The portfolio guarantee scheme started in 2009 as part of the Thai economic stimulus measures against the global financial crisis. The Thai Credit Guarantee Corporation, a public guarantee institution mainly funded by the Ministry of Finance (95% of the capital), is an executing agency for the portfolio guarantee scheme. Provided that the SME is a major client, the Thai Credit Guarantee Corporation guarantees 100% of payment stated in each letter of guarantee issued for participating banks when prosecuted, but up to 15.5% of average guarantee outstanding in each portfolio that pools all guaranteed SME loans from the participating bank every year. The portfolio guarantee scheme is a special measure with a limited period of 5–7 years. This scheme was also utilized at the time of the flooding in 2011. Guaranteed loans outstanding have been steadily increasing and accounted for B180 billion with 59,469

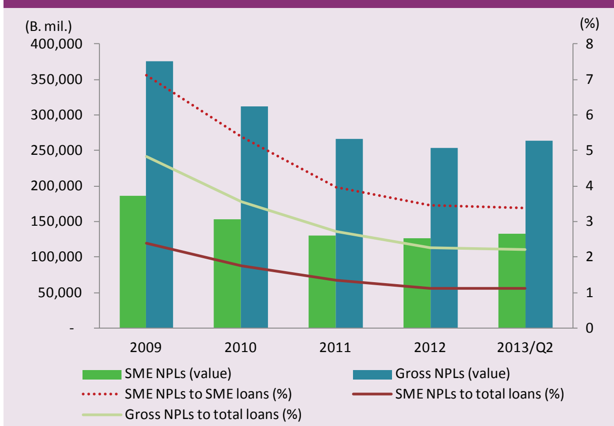
[1] SME loans provided by five public financial institutions: the Small and Medium Enterprise Development Bank, Government Savings Bank, Islamic Bank of Thailand, Bank for Agriculture and Agricultural Cooperatives, and Export-Import Bank of Thailand.

Table 4.59: Banking Sector – SME Loans

Item	2007	2008	2009	2010	2011	2012	2013/Q2
Loans Outstanding							
SME loans to GDP* (%)	32.6	32.0	28.9	28.2	31.2	32.1	33.7
SME loans to total loans* (%)	44.5	38.5	33.4	32.6	33.7	32.3	32.8
SME Loans -Total (B bil.)	…	…	…	3,640	4,391	4,826	5,048
SME loans - PFIs** (B bil.)	…	…	…	786	1,099	1,180	1,102
SME loans - CBs (B bil.)	2,775	2,907	2,609	2,854	3,292	3,646	3,946
Total loans - Total (B bil.)	7,394	8,856	9,473	10,955	12,493	14,222	15,020
Total loans - PFIs** (B bil.)	1,165	1,307	1,666	2,192	2,711	2,944	3,006
Total loans - CBs (B bil.)	6,229	7,549	7,807	8,763	9,782	11,278	12,014
SME Loans by Sector* (B bil.)							
Primary industry	83	77	69	70	69	76	80
Mining	10	15	16	15	18	13	15
Manufacturing	749	739	681	723	801	843	901
Elect., gas, & water sup.	82	82	72	71	93	129	145
Construction	113	113	100	108	116	127	134
Wholesale & retail trade	705	714	697	783	930	1,093	1,176
Transportation	66	75	72	72	88	107	114
Service	720	827	674	786	914	948	1,025
Real estate	245	264	227	224	264	311	356
Others	0.2	0.0	0.0	0.2	0.1	0.3	0.4
Nonperforming Loans (NPLs)*							
SME NPLs (B bil.)	…	…	186	154	131	126	133
Gross NPLs (B bil.)	…	…	376	313	266	254	264
SME NPLs to SME loans (%)	…	…	7.1	5.4	4.0	3.5	3.4
SME NPLs to total loans (%)	…	…	2.4	1.8	1.3	1.1	1.1
Gross NPLs to total loans (%)	…	…	4.8	3.6	2.7	2.3	2.2
Credit Guarantees - TCG							
Guaranteed loan outstanding (B bil.)	22	22	40	73	113	180	…
Approved guaranteed loans (B bil.)	6	3	22	43	52	83	…
No. of L/G (accumulated)	8,999	8,631	13,084	24,593	39,045	59,469	…
No. of L/G (new approval)	2,298	1,366	5,763	13,346	17,641	24,357	…

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.
** five PFIs combined: Small and Medium Enterprise Development Bank, Government Savings Bank, Islamic Bank of Thailand, Bank for Agriculture and Agricultural Cooperatives, and Export-Import Bank of Thailand.
Sources: Bank of Thailand and Thai Credit Guarantee Corporation.

Figure 4.123: SME Nonperforming Loans



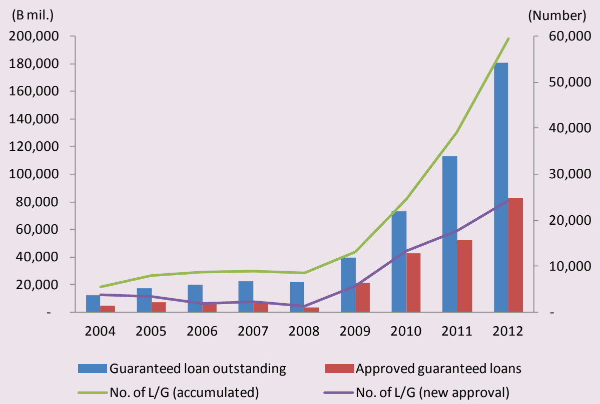
NPL = nonperforming loan, SME = small and medium-sized enterprise.
Note: Data based on commercial bank loans.
Source: Bank of Thailand.

letters of guarantee in 2012 (Figure 4.124).[2] Newly approved guarantees have been rapidly expanding since the introduction of the portfolio guarantee scheme in 2009.

The lack of collateral is a critical barrier for Thai SMEs in raising business funds. For more than a decade, the Government of Thailand has been discussing the legal framework for secured lending that enables movables and assets other than real estate security to be utilized as collateral for credit. The draft Collateral Law is being screened in the Cabinet.

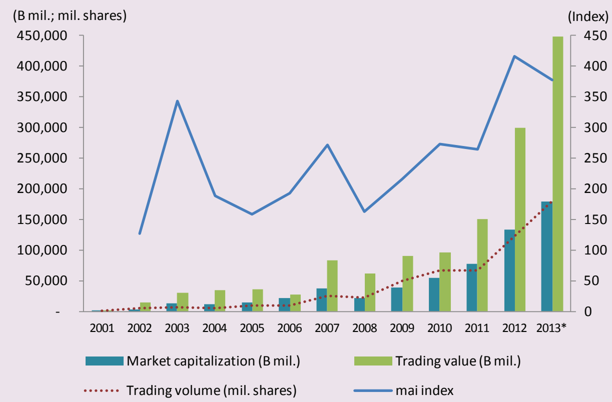
2 Thai Credit Guarantee Corporation guarantee operations are based on the Small Industry Credit Guarantee Corporation Act B.E.2534 (1991), which does not allow the corporation to directly provide guarantee for SMEs. Bank's credit approval is a precondition for granting guarantee.

Figure 4.124: Credit Guarantees – Thai Credit Guarantee Corporation



L/G = letter of guarantee.
Source: Thai Credit Guarantee Corporation.

Figure 4.125: Market Performance – mai

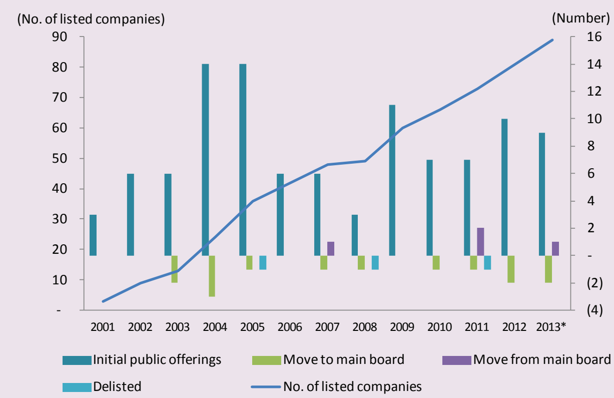


mai = market for alternative investment.
* 19 September 2013.
Source: Stock Exchange of Thailand.

Nonbank Sector

Nonbank financing for SMEs is in the early stage of development in Thailand. There are two financing and investment companies licensed by the Bank of Thailand, one of which is targeting SMEs as potential clients.[3] Factoring and leasing have yet to become active in Thailand. According to Factors Chain International, eight factoring companies, mostly bank oriented, are dealing with domestic and international factoring, with total annual business turnover of €4,339 million, with domestic factoring accounting for 97% in 2012. Nonbank financial institutions (NBFIs) are not filling the supply–demand gap in SME bank lending or unmet financing demands of SMEs because of the small scale and scope of business.

Figure 4.126: Listed Companies – mai



mai = market for alternative investment.
* 19 September 2013.
Source: Stock Exchange of Thailand.

Capital Markets

The Market for Alternative Investment (mai) was established under the Stock Exchange of Thailand in 1998. Its main mission is to provide opportunities for entrepreneurs and SMEs to tap long-term growth capital. Since the first listed company appeared in 2001, the mai market has been growing. As of 19 September 2013, mai holds 89 listed companies with total market capitalization of B180 billion and total turnover value of B448 billion (Figures 4.125–4.126 and Table 4.60). So far, 14 companies have successfully moved from the mai to the main board of the stock exchange. The Government of Thailand initially introduced a tax incentive scheme for newly listed companies in the mai, i.e., corporate tax reduction from 30% to 20% for five accounting periods, which boosted the number of listed companies in 2004 and 2005. This tax privilege is no longer available as the government has uniformly reduced corporate tax for all firms.

The listing requirements on the mai have been relaxed as compared to the main board. For instance, the issuer

[3] (i) Advance Finance Public Company (SMEs as part of business targets), and (ii) Bangkok First Investment and Trust Public Company.

Table 4.60: Capital Market - mai

Item	2007	2008	2009	2010	2011	2012	2013/Sep
Market Performance - mai							
mai index	272.4	162.9	215.3	272.8	264.2	415.7	377.0
Market capitalization (B bil.)	38	22	39	55	77	133	180
Trading value (B bil.)	83	61	90	96	151	299	448
Trading volume (bil. shares)	25	23	50	67	66	123	180
Listed Companies - mai							
No. of listed companies	48	49	60	66	73	81	89
Initial public offerings	6	3	11	7	7	10	9
Move to main board	(1)	(1)	0	(1)	(1)	(2)	(2)
Move from main board	1	0	0	0	2	0	1
Delisted	0	(1)	0	0	(1)	0	0

mai = market for alternative investment.
Source: Stock Exchange of Thailand.

must continuously operate for at least 2 years (3 years in the main board) and hold paid-up capital of no less than B20 million after public offering (B300 million in the main board). There should be no less than 300 minority shareholders (1,000 in the main board).

The mai copes with only equity products (common stock and warrant) and no bond issuance and trading. At present, the Securities and Exchange Commission has brainstormed the development of an SME bond market, together with the Thai Credit Guarantee Corporation, addressing the potential for developing guaranteed SME bond products.[4]

The active issuers in the mai are manufacturing and service industries, most of which are family-run businesses operating for 5–20 years. The technology sector is the potential segment of mai issuers in future. The main investors in mai stocks are domestic individuals and institutions (97% of trading in 2012). Foreign investor participation in the mai accounted for only 1.6% of trading in 2012.

The Thai Venture Capital Association comprises 14 members. The government has supported the establishment of several venture capital funds, such as the SME Venture Capital Fund, in the amount of B1 billion since 2000, but the venture capital industry is still quite small in scale in Thailand.

[4] By law, the Thai Credit Guarantee Corporation is not allowed to provide guarantee for nonbank financial institutions. Amendment of Act B.E.2534 (1991) is needed for the corporation to enter the guaranteed bond business.

Policy and Regulation

The Office of Small and Medium Enterprises Promotion, established by the SMEs Promotion Act B.E.2543 in 2000, takes a pivotal role in planning and coordinating national SME policies across the government organizations in Thailand (Table 4.61). So far, three sets of the 5-year SME Promotion Master Plan have been formulated by the office. These provide comprehensive guidelines for the resilient and sustainable development of Thai SMEs. The third master plan, covering 2012–2016, comprises four strategies addressing conducive business environment, competitiveness, balanced growth across the country, and economic integration. Promoting SME access to finance is one of the strategic actions under the pillar of developing conducive business environment for Thai SMEs. Given that the Association of Southeast Asian Nations (ASEAN) Economic Community will be launched in 2015, the master plan incorporated the strategy of strengthening the knowledge base and international networks so that Thai SMEs can operate easily in the integrated regional economy.

The SME database is also a key policy issue to supporting SME business operations. The Office of Small and Medium Enterprises Promotion has issued an annual SME white paper since 2001 to promote evidence-based policy making, which provides general SME indicators including firm number, employment, GDP, and international trade, but does not cover SME financing data.

There are two regulators in the Thai banking sector: (i) the Bank of Thailand for regulating commercial banks, and (ii) the Fiscal Policy Office under the

Table 4.61: SME Policy and Regulation

Regulations		
Name		**Outline**
SMEs Promotion Act, B.E.2543 (2000)		SME promotion policy
Ministerial regulation B.E.2545 (2002)		SME definition (Ministry of Industry)
Regulators and policy makers		
Name		**Responsibility**
Bank of Thailand (BOT)		Regulate and supervise commercial banks and nonbanks
Fiscal Policy Office, Ministry of Finance		Regulate and supervise state-owned banks
Office of Small and Medium Enterprises Promotion (OSMEP)		SME promotion policy
Securities and Exchange Commission (SEC)		Regulate and supervise capital market (inc. mai)
Policies		
Name	**Responsible Entity**	**Outline**
The First SMEs Promotion Plan (2002-2006)	OSMEP	1) Reinvigorate SMEs as key economic and social mechanism 2) Build and improve infrastructure and reducing obstacles in business operations 3) Reinforce SMEs to attain sustainable growth 4) Capacity building for SMEs in the export sector 5) Create and develop new entrepreneurs 6) Promote the role of community enterprises
The Second SMEs Promotion Plan (2007-2011)	OSMEP	1) Create new entrepreneurs and promote capacity building among existing entrepreneurs 2) Upgrade productivity and innovative capability in manufacturing sector 3) Enhance efficiency and reduce modern trade effects in trade sector 4) Promote value creation and value added in service sector 5) Promote SMEs in regional and local areas 6) Develop enabling factors favorable to business operation
The Third SMEs Promotion Plan (2012-2016)	OSMEP	1) Develop enabling factors and a conducive business environment for Thai SMEs 2) Build and strengthen Thai SMEs competitiveness 3) Promote balanced growth for regional Thai SMEs 4) Build and strengthen business capability of Thai SMEs for international economic integration
Thailand Country Strategy (2012)	NESDB	1) Growth and competitiveness 2) Inclusive growth* 3) Green growth 4) Internal process
Five-Year Strategic Plan (2012)	BOT	1) Connectivity 2) High value-added economy 3) Financial inclusion 4) Economic and financial stability

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.

Ministry of Finance for regulating specialized state-owned banks. The Bank of Thailand also regulates and supervises licensed NBFIs, of which there are currently two. SME credit data in both commercial banks and specialized state-owned banks are compiled by the Bank of Thailand.

In line with the Thailand country strategy initiated by the Office of National Economic and Social Development Board, the Bank of Thailand formulated the Five-Year Strategic Plan covering 2012–2016, addressing connectivity, high value-added economy, financial inclusion, and economic and financial stability. Extending more loans and financial services to SMEs is a core policy agenda under the pillar of high value-added economy.

The Securities and Exchange Commission is responsible for regulating and supervising Thai capital markets, including the stock exchange and the mai. Although still in the trial-and-error stage, the commission is taking several initiatives to develop SME capital markets in Thailand, which mainly comprise three programs. The first is the program to promote SME bond issuance through educating SMEs (free seminar on issuing bonds) and creating incentive schemes for them (concessional rating fees, bond application fee exemption, and registration fee exemption in the Thai Bond Market Association). The second is the program named IPO, Pride of the Province, to assist potential local firms to raise funds from capital markets through the provision of free training courses, consultations, and listing fee exemption. The third is the program to allow accredited investors (institutional investors and high net worth individuals) to invest in riskier products such as unrated bonds. Enhancing capital market literacy for the traditionally underserved or SMEs is a common approach across those programs.

Viet Nam

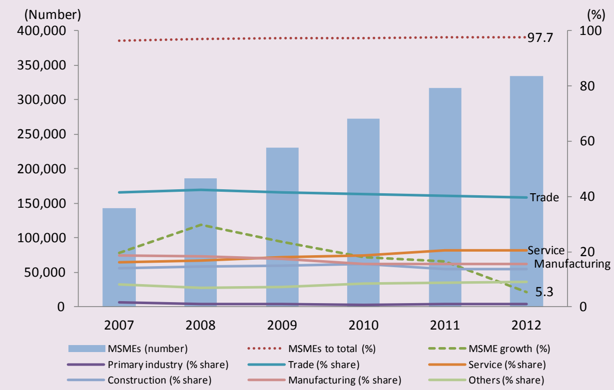
SME Landscape

In 2012 there were 333,835 active micro, small, and medium-sized (MSMEs), 97.7% of total enterprises, that paid corporate tax (Figure 4.127 and Table 4.62). The growth in the number of MSMEs has been slowing, with year-on-year growth of 5.3% in 2012. The MSME sector in Viet Nam consists of state-owned enterprises (0.6% of total active MSMEs in 2011), non-state-owned enterprises (97.1%), and foreign invested enterprises (2.3%). Wholesale and retail trade is dominant in Viet Nam's MSMEs in number, accounting for 39.8% of total active MSMEs in 2012, followed by the service sector, including technology, accommodation, and food services (20.5%), and manufacturing (15.7%).

The MSME sector employs 5.1 million people, which accounted for 46.8% of total employees in 2012 (Figure 4.128). The number of MSME employees had been increasing at more than 10.0% until 2011, but growth slowed to 2.4% in 2012. More than half of MSME employees belonged to labor-intensive industries, such as manufacturing (31.8% of total MSME employees in 2012) and construction (23.6%). Workers engaged in wholesale and retail trade accounted for 21.8% of MSME employees in 2012, and in the service sectors 13.0%.

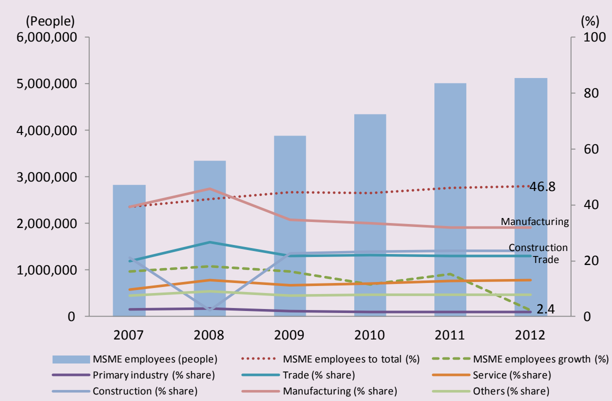
The white paper on small and medium-sized enterprises (SMEs) in 2011, published by the Agency for Enterprise Development under the Ministry of Planning and Investment, gave SME financial indicators. As of the end of 2011, total capital in the SME sector was D5,369 trillion, and fixed assets and long-term investment D1,839 trillion (Figure 4.129). The total fixed assets and long-term investment of SMEs had been sharply expanding until 2010, even during the 2008/09 global financial crisis. The total net income of SMEs was D3,351 trillion in 2009 with 12.7% year-on-year growth

Figure 4.127: Number of SMEs



MSME = micro, small, and medium-sized enterprise.
Note: Data include micro enterprises.
Source: Agency for Enterprise Development, Ministry of Planning and Investment.

Figure 4.128: Employment by SMEs



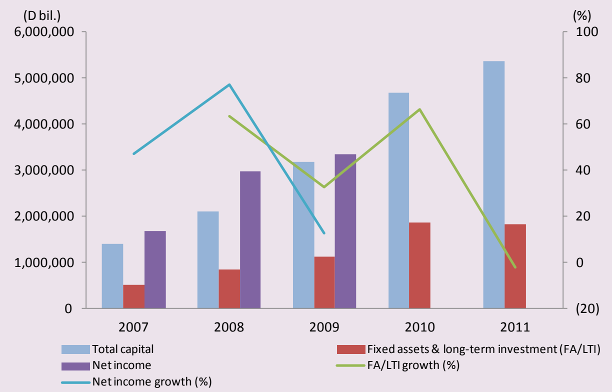
MSME = micro, small, and medium-sized enterprise.
Note: Data include micro enterprises.
Source: Agency for Enterprise Development, Ministry of Planning and Investment.

Table 4.62: SME Landscape

Item	2007	2008	2009	2010	2011	2012
Number of MSMEs*						
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
By type (% to MSMEs)						
State-owned enterprises	1.3	1.0	0.8	0.7	0.6	…
Non-state-owned enterprises	96.1	96.7	97.0	97.2	97.1	…
Foreign invested enterprises	2.6	2.3	2.2	2.1	2.3	…
By sector (% to MSMEs)						
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
Employment by MSMEs						
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
By sector (% to MSME employees)						
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
Financial indicators of SMEs (D bil.)						
Total capital	1,401,076	2,108,421	3,191,115	4,681,677	5,369,536	…
Fixed assets and long-term investment	519,916	849,831	1,128,917	1,877,337	1,839,961	…
Growth (%)	…	63.5	32.8	66.3	(2.0)	…
Net income	1,679,861	2,973,456	3,351,404	…	…	…
Growth (%)	47.0	77.0	12.7	…	…	…

MSME = micro, small, and medium-sized enterprise.
Note: Data include micro enterprises. Primary industry includes agriculture, forestry, and fisheries.
* Active enterprises based on labor scale.
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.*

Figure 4.129: Financial Indicators of SMEs



FA = fixed assets, LTI = long-term investment, SME = small and medium-sized enterprise.
Source: Agency for Enterprise Development, Ministry of Planning and Investment.

but, because of the aftermath of the global financial crisis, this was less than the 77.0% year-on-year growth in 2008.

The MSME definition is stipulated in Decree No.56/2009/ND-CP, and differs by sector (except for micro enterprises). Firms with less than 10 employees are categorized as micro enterprises. In the primary industry (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.

Banking Sector

As of the end of 2012, the banking sector in Viet Nam comprised 5 state-owned commercial banks, 2 policy banks (Vietnam Bank for Social Policies and Vietnam Development Bank), 34 joint-stock commercial banks, 4 joint-venture banks, 50 branches of foreign banks, and 5 wholly foreign owned banks. The establishment of wholly foreign owned banks has been permitted by law since 2006. The Vietnam Bank for Social Policies was established as a policy bank in 2002 as a provider of microfinance for the poor.

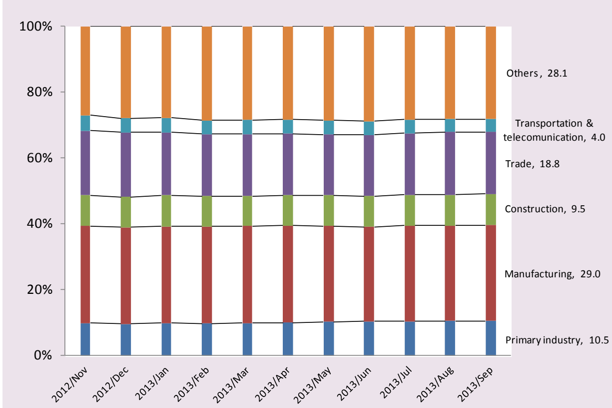
There is currently no SME credit data available publicly. The State Bank of Vietnam (the central bank) announced that, as of September 2013, bank loans outstanding totaled D3,303 trillion with a gradual increase and a nonperforming loan (NPL) ratio of 4.62% (Figure 4.130 and Table 4.63). The manufacturing sector is the most active borrower and accounted for 29.0% of total loans outstanding in September 2013, followed by the wholesale and retail trade sector (18.8%) (Figure 4.131). Given that the most active sector in MSMEs is wholesale and retail trade, it is considered that MSME access to bank credit is limited.

The Credit Information Center, a unit of the State Bank of Vietnam, stores more than 600,000 business records and 20 million individual records and provides analytical reports. All data are collected from credit institutions licensed under Law No.02/1997/QH10 on Credit Institutions (Credit Institutions Law), are periodically

Figure 4.130: Bank Loans Outstanding

NPL = nonperforming loan.
Source: State Bank of Vietnam.

Figure 4.131: Bank Loans by Sector



Source: State Bank of Vietnam.

Table 4.63: Banking Sector

Item	2012/ Nov	2012/Dec	2013/ Jan	2013/ Feb	2013/ Mar	2013/Apr	2013/ May	2013/ Jun	2013/Jul	2013/ Aug	2013/ Sep
Bank loans outstanding (D bil.)	2,984,314	3,090,904	3,079,409	3,089,273	3,127,145	3,159,403	3,187,637	3,236,786	3,256,543	3,289,999	3,303,252
Growth (%)	...	3.6	-0.4	0.3	1.2	1.0	0.9	1.5	0.6	1.0	0.4
Primary industry (% to total)	9.8	9.6	9.9	9.8	9.8	9.9	10.2	10.4	10.4	10.4	10.5
Manufacturing (% to total)	29.6	29.3	29.3	29.4	29.4	29.5	29.1	28.7	29.1	29.1	29.0
Construction (% to total)	9.3	9.3	9.5	9.2	9.1	9.3	9.3	9.3	9.4	9.3	9.5
Trade (% to total)	19.6	19.5	19.0	18.8	18.9	18.7	18.6	18.6	18.7	19.0	18.8
Transportation and telecomunications (% to total)	4.7	4.3	4.4	4.2	4.3	4.3	4.2	4.1	4.1	4.0	4.0
Others (% to total)	27.0	28.0	27.9	28.5	28.4	28.4	28.6	28.8	28.3	28.1	28.1
NPL ratio (%)	4.86	4.08	4.30	4.46	4.51	4.67	4.65	4.46	4.58	4.64	4.62

NPL = nonperforming loan.
Note: Primary industry includes agriculture, forestry, and fisheries.
Source: State Bank of Vietnam.

updated, and stored for 5 years. The Credit Information Center is expected to enhance bank lending efficiency and access to finance for all, including MSMEs. The center has contributed to developing the credit rating system in Viet Nam. According to the State Bank of Vietnam annual report 2011, the Credit Information Center rated 20,000 enterprises in 2011.

Credit guarantees are provided through two channels: (i) a credit guarantees fund operated by the Vietnam Development Bank, and (ii) local credit guarantee funds operated by provincial authorities under the supervision of the Ministry of Finance. The Vietnam Development Bank's credit guarantees fund is funded by the state budget and not subject to the State Bank of Vietnam. To support SMEs affected by the global financial crisis, since 2009 the government has assigned the Vietnam Development Bank to provide credit guarantees to enterprises nationwide. In 2009 and 2010, the bank issued credit guarantees to enterprises implementing investment projects to develop business (on loans for fixed assets) and business plans (on loans for working capital), with the exception of the fields of consultancy, real estate, securities, services (excluding freight services, education, and health), and a loan to pay the debt of other credit contracts. By 2011, according to Decision No. 03/2011/QĐ-TTg dated 10 January 2011 of the prime minister, the Vietnam Development Bank had provided guarantee to SMEs for medium- and long-term loans to implement projects in the following sectors: agriculture, forestry, and fisheries businesses; manufacturing and processing industry; production of gas, hot water, steam, and air-conditioning; water supply, sewage treatment and management activities; construction, automotive, motorcycle, and other motor vehicle repair; transportation; and warehousing. Overall, the Vietnam Development Bank provides 85% partial guarantee to total investment capital of the project, and total guarantee for enterprises if the maximum does not exceed five 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 as bank income. Since 2009, the bank has issued letters of guarantee for enterprises with loans at 39 commercial banks with a total value of D9,975.23 billion.

Nonbank Sector

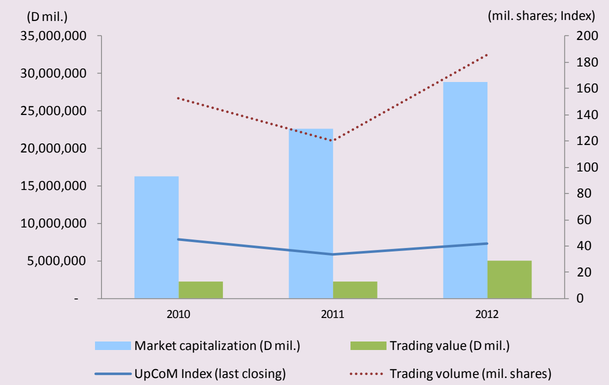
As of the end of 2012 there were 30 nonbank financial institutions (NBFIs) in Viet Nam—18 finance companies and 12 financial leasing companies. NBFIs, together with banks, are regulated and supervised by the State Bank of Vietnam under the Credit Institutions Law. This law also allows NBFIs to take deposits from the public under limited conditions (deposits of less than 1-year are not permitted for NBFIs). Finance companies include affiliated firms of large enterprises, while financial leasing companies are mostly subsidiary firms of banks. People's credit funds are credit cooperatives, which consist of the central People's Credit Fund and 1,095 local people's credit funds as of the end of 2012. The NBFI industry in Viet Nam is still in the early stage of the development and is expected to increase financing to SMEs.

Capital Markets

There are two state-owned stock exchanges in Viet Nam: the Ho Chi Minh Stock Exchange established in 2000 and the Hanoi Stock Exchange established in 2005. Viet Nam's capital market has been developed through the privatization of state-owned enterprises, starting in 1992. The State Securities Commission of Vietnam is a regulator of securities firms and stock exchanges in accordance with Law No.70/2006/QH11 on Securities (Securities Law). The Vietnam Securities Depository is a central depository responsible for clearing and settlements of all traded stocks in exchange markets.

As the Securities Law does not prohibit unlisted stock trading, informal trading of unlisted companies has been relatively widespread in the Viet Nam economy. The over-the-counter (OTC) market is also active for certain unlisted large companies' stocks. The Hanoi Stock Exchange has a trading venue of unlisted public companies, named UPCoM, which started operations at the end of 2009. Uniquely, there are many companies not listed on stock exchanges after an initial public offering (IPO) (i.e., firms only increase the number of shareholders by IPO); they are categorized as unlisted public companies. The UPCoM market, where only common stocks are traded, has been modestly growing. As of the end of 2012, it had market capitalization of D28.8 trillion and trading value of D5.0 trillion with 132 registered companies and 88 securities firms as UPCoM members (Figures 4.132–4.133 and Table 4.64). 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. Energy (electricity), manufacturing, and securities firms are major registered companies in the UPCoM, and investors in the UPCoM market are typically individuals.

Figure 4.132: Market Performance - UPCoM



Source: Hanoi Stock Exchange.

Figure 4.133: Listed Companies - UPCoM

Source: Hanoi Stock Exchange.

Table 4.64: Capital Market - UPCoM

Item	2010	2011	2012
UpCoM Index (last closing)	45.19	33.76	41.81
Market capitalization (D mil.)	16,237,680	22,663,598	28,868,424
Trading value (D mil.)	2,266,651	2,280,259	5,064,991
Trading volume (mil. shares)	152	120	185
Registered companies	109	131	132
Newly registered companies	…	31	7
Deregistered companies	…	(8)	(6)
Securities firms (UPCoM members)	91	92	88

( ) = negative.
Source: Hanoi Stock Exchange.

Policy and Regulation

Decree No.90/2001 ND-CP on Support for Development of SMEs stipulated (i) the set-up of the Credit Guarantee Fund for SMEs under the coordination of the Ministry of Finance, and (ii) the creation of two SME promotion organizations—the SME Development Promotion Council as an advisory body to prime minister, and the Department for SME Development under the Ministry of Planning and Investment (Agency for Enterprise Development as an executing agency of MSME development policies). This decree was replaced by Decree No.56/2009/ND-CP, wherein the definition of MSMEs was legally clarified (Table 4.65).

So far, two midterm SME development national plans have been approved by the government—the Five-Year SME Development Plan 2006–2010 in 2005 and the 2011–2015 plan in 2012. Both plans are a comprehensive SME development policy package prepared by economic ministries and agencies. In the second 5-year plan, numeric targets to be accomplished by 2015 were set up: (i) 350,000 SMEs to be newly established during 2011–2015, (ii) direct exports of SMEs to be 25% of total exports nationwide, (iii) investment from SMEs to be 35% of total investment, (iv) SME contribution to gross domestic product (GDP) and the total revenue of the state budget both to reach 30%, and (v) 2.5 million–4.0 million new jobs to be created by SMEs in 2011–2015.

There are several public funds to support SME sector development. For instance, local governments have mobilized development investment funds, industrial and agricultural promotion funds, and fisheries promotion funds to expand SME business, upgrade business equipment and machinery, and train SME labor forces. The Ministry of Science and Technology promotes SME access to finance under the National Program of Technology Innovation, including seed financing, grants for developing "one village, one product", credit guarantees, and interest rate subsidies for credit. The Ministry of Industry and Trade has attached importance to fostering a supporting industry (small suppliers and subcontractors), which mostly consists of SMEs, focusing on automotive, textiles, plastics, and other export-oriented industries. The ministry plans to launch a dedicated law on the supporting industry. The Ministry of Planning and Investment is currently preparing the SME Promotion Law to comprehensively encourage SME sector development. To this end, the annual SME white paper is a critical tool for promoting evidence-based policy making for creating a viable SME base nationwide.

Table 4.65: SME Policy and Regulation

Regulations	
Name	**Outline**
Law No.02/1997/QH10 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 Develoment 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 People's Credit Fund
Decree No.28/2005/ND-CP on MFIs Decree No.165/2007/ND-CP on MFIs (amendment)	Regulation of microfinance institutions (MFIs)
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 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	Credit Guarantee Fund 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
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%)
Regulators and policy makers	
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.

Appendixes

Appendix 1: SME Definitions

Bangladesh

Sector			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		Less than 10	10–25	26–100
Cottage	Fixed assets	Less than Tk0.5 million			
	Employees	Less than or equal to 10 including family members			

Source: Bangladesh Industrial Policy 2010.

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.

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.

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 Rs20 million 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 of services.
Source: Micro, Small and Medium Enterprises Development Act, 2006.

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	Rp300.0 million–Rp2.5 billion	Rp2.5 billion to Rp50.0 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.

Kazakhstan

Type	Item	Small	Medium
Legal entity	Asset value	Annual average value of assets of less than 60,000 times the monthly calculation index (MCI)	Annual average value of assets of no more than 325,000 times the MCI
	Number of employees	Annual average number of employees of less than 50	Annual average number of employees of more than 50 but less than 250
Individual entrepreneur	Number of employees	Annual average number of employees of not more than 50	Annual average number of employees of more than 50 but less than 250

Notes: 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. According to the Law of the Republic of Kazakhstan on November 23, 2012 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.

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.

Malaysia

Sector	Micro		Small		Medium	
	New	Old	New	Old	New	Old
Manufacturing	Sales turnover of less than RM300,000 OR	Annual sales turnover of less than RM250,000 ($83,300) OR	Sales turnover from RM300,000 to less than RM15 million OR	Annual sales turnover from RM250,000 ($83,300) to less than RM10 million ($3.3 million) OR	Sales turnover from RM15 million to not exceeding RM50 million OR	Annual sales turnover from RM10 million ($3.3 million) to less than RM25 million ($8.3 million) OR
	Employees of less than 5	Full time employees of less than 5	Employees from 5 to 74	Full time employees from 5 to 49	Employees from 75 to 200	Full time employees from 50 and 150
Services and Other Sectors	Sales turnover of less than RM300,000 OR	Sales turnover of less than RM200,000 ($62,500) OR	Sales turnover from RM300,000 to less than RM3 million OR	Sales turnover from RM200,000 ($62,500) to less than RM1 million ($312,500) OR	Sales turnover from RM3 million to not exceeding RM20 million OR	Sales turnover from RM1 million ($312,500) to less than RM5 million ($1.6 million) OR
	Employees of less than 5	Full time employees of less than 5	Employees from 5 to 29	Full time employees from 5 to 19	Employees from 30 to 75	Full time employees from 20 to 50

Note: The old definition was endorsed by the National SME Development Council (NSDC) in September 2005, while the 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.

Papua New Guinea

Micro, Small, and Medium
Less than 100 employees

Note: Based on the guideline of the Bank of Papua New Guinea.
Source: Bank of Papua New Guinea.

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-sized enterprises as provided by the Small and Medium Enterprise Development Council Resolution No. 01 Series of 2003 dated 16 January 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.

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$300,001 to SI$10,000,000	From SI$10,000,001 to SI$50,000,000
Number of employees	1–5	6–25	26–50

Notes: Based on the draft SME Policy paper by the Ministry of Commerce. MSME definition covers formal and informal enterprise. Informal enterprise is defined as not registered in accordance with the company instructions and Company Act.
Source: Ministry of Commerce.

Sri Lanka

Item	Small	Medium
Annual turnover	Less than SLRs2000 million OR	More than SLRs100 million OR
Fixed assets	Less than SLRs400 million	More than SLRs10 million

Source: Mahinda Chintana Vision for the Future, Government of Sri Lanka.

Thailand

Sector	Item	Small	Medium
Manufacturing	Number of 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	Number of 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	Number of 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	Number of 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

Note: Thailand adopted a national SME definition as defined in Ministry of Industry's Ministerial Regulations on 11 September 2002.
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 billion	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 billion	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 billion	More than D10 billion but less than or equal to D50 billion
	Number of employees	1–10	11–50	51–100

Source: Government's Decree No 56/2009/ND-CP.

Appendix 2: Pilot SME Data Request Forms

1. SME Landscape

Asian Development Bank (ADB) Asia SME Finance Monitor 2013: *SME Landscape*

Please fill in the data form below.

Please indicate "n/a," if no data is available.

** Please refer to the national definition. In case that you have own SME definition, please attach the explanatory note.*

*** If the industry classification is not fit to the reality, please make use of your national classification.*

**** Please identify type of SME contribution to GDP, e.g. production value, sales value, etc*

***** LCY = local currency.*

	2006	2007	2008	2009	2010	2011	2012	2013 (as of XXXX)
(1) Number								
Number of enterprises								
Microenterprises								
SMEs								
Large enterprises								
Total								
MSMEs to total (%)								
MSME annual growth (%)								
Number of MSMEs **by sector****								
Primary industry (agriculture, forestry, and fishery)								
Manufacturing								
Construction								
Transportation								
Telecommunication								
Wholesale & retail trade								
Real estate								
Service								
Others								
Number of MSMEs **by region**								
Capital city								
Other cities (local areas)								
(2) Employment								
Number of employees								
Microenterprises								
SMEs								
Large enterprises								
Total								
MSMEs to total (%)								
MSME annual growth (%)								
Number of MSME employees **by sector****								
Primary industry (agriculture, forestry, and fishery)								
Manufacturing								
Construction								
Transportation								
Telecommunication								
Wholesale & retail trade								
Real estate								
Service								
Others								
Number of MSME employees **by region**								
Capital city								
Other cities (local areas)								
(3) GDP Contribution								
A. GDP of MSMEs (LCY)***								
B. Nominal GDP (LCY)								
SME Contribution to GDP (A/B)(%)								
GDP composition of MSMEs **by sector****								
Primary industry (agriculture, forestry, and fishery)								
Manufacturing								
Construction								
Transportation								
Telecommunication								
Wholesale & retail trade								
Real estate								
Service								
Others								
(4) Export and Import								
A. MSME export (LCY)								
B. MSME import (LCY)								
C. Total exports (LCY)								
D. Total imports (LCY)								
MSME export to total exports (A/C) (%)								
MSME import to total imports (B/D)(%)								
MSME export annual growth (%)								
MSME import annual growth (%)								

2. Banking Sector

Asian Development Bank (ADB) Asia SME Finance Monitor 2013: *Banking Sector*

Please fill in the data form below for bank lending. Also, please describe what types of credit institutions are included in the data.

If necessary, please create a copy of this worksheet by type of credit institutions. Please indicate "n/a," if no data is available.

** Please refer to the national definition. In case that you have own SME definition, please attach the explanatory note.*

*** If the industry classification is not fit to the reality, please make use of your national classification with explanatory note.*

**** % to respective loan categories, e.g.,non-performing loan (NPL) ratio of SMEs is described as % of SME NPLs to total SME loans.*

***** LCY = local currency.*

[Name of credit institutions included in this data:]

	2006	2007	2008	2009	2010	2011	2012	2013 (as of XXXX)
Loan outstanding (in LCY) **[by size]***								
Microenterprises								
SMEs								
Large enterprises								
Total								
SME loan outstanding (in LCY) **[by sector]****								
Primary industry (agriculture, forestry, and fishery)								
Manufacturing								
Construction								
Transportation								
Telecommunication								
Wholesale & retail trade								
Real estate								
Service								
Others								
SME loan outstanding (in LCY) **[by region]**								
Capital city								
Other cities (local areas)								
SME loan outstanding (in LCY) **[by type of use]**								
For working capital								
For capital investment								
Others (in case of no classification of lending purpose)								
SME loan outstanding (in LCY) **[by term]**								
Less than 1 year								
1-5 years								
More than 5 years								
Guaranteed SME loans (in LCY)								
Guaranteed SME loans (% of total SME loans)								
Non-collateral SME loans (in LCY)								
Non-collateral SME loans (% of total SME loans)								
SME loan rejection rate (% of total applications)								
SME loan to GDP (%)								
Number of new lending (annual aggregate)								
Microenterprises								
SMEs								
Large enterprises								
Total								
Value of new lending (annual aggregate; LCY)								
Microenterprises								
SMEs								
Large enterprises								
Total								
Non-performing loans (in LCY)								
Microenterprises								
SMEs								
Large enterprises								
Total								
Non-performing loan ratio (%)***								
Microenterprises								
SMEs								
Large enterprises								
Total								
Number of SME loan accounts opened in banks								
Number of SME savings accounts opened in banks								
Lending rate on SME loans (annual average)								
For working capital								
For capital investment								
Others (in case of no classification of lending purpose)								
Lending rate on total loans (annual average)								

3. Nonbank Sector

Asian Development Bank (ADB) Asia SME Finance Monitor 2013: *Non-Bank Sector*

Please fill in the data form below for non-bank lending. If necessary, please create a copy of this worksheet by type of financial institutions.
Please indicate "n/a," if no data is available. If you have data other than finance companies, leasing companies, and factoring companies, please fill in the Item D.
** Please refer to the national definition. In case that you have own SME definition, please attach the explanatory note.*
*** If the industry classification is not fit to the reality, please make use of your national classification with explanatory note.*
**** % to respective financing categories, e.g.,non-performing financing (NPF) ratio of SMEs is described as % of SME NPLs to total SME financing.*
***** LCY = local currency.*

	2006	2007	2008	2009	2010	2011	2012	2013 (as of XXXX)
A. Finance Companies								
No. of finance companies								
No. of new licenses								
No. of revocations								
Total financing outstanding (LCY)								
Financing outstanding by sector** (LCY)								
Primary industry (agriculture, forestry, and fishery)								
Manufacturing								
Construction								
Transportation								
Telecommunication								
Wholesale & retail trade								
Real estate								
Service								
Others								
B. Leasing Companies								
No. of leasing companies								
No. of new licenses								
No. of revocations								
Total financing outstanding (LCY)								
Financing outstanding by sector** (LCY)								
Primary industry (agriculture, forestry, and fishery)								
Manufacturing								
Construction								
Transportation								
Telecommunication								
Wholesale & retail trade								
Real estate								
Service								
Others								
C. Factoring Companies								
No. of factoring companies								
No. of new licenses								
No. of revocations								
Total financing outstanding (LCY)								
Financing outstanding by sector** (LCY)								
Primary industry (agriculture, forestry, and fishery)								
Manufacturing								
Construction								
Transportation								
Telecommunication								
Wholesale & retail trade								
Real estate								
Service								
Others								
D. Other type of non-bank financial institutions [please describe the type of non-bank financial institution]								
No. of companies								
No. of new licenses								
No. of revocations								
Total financing outstanding (LCY)								
Financing outstanding by sector** (LCY)								
Primary industry (agriculture, forestry, and fishery)								
Manufacturing								
Construction								
Transportation								
Telecommunication								
Wholesale & retail trade								
Real estate								
Service								
Others								
Non-performing Financing (NPF) Ratio* **								
Finance companies (%)								
Leasing companies (%)								
Factoring companies (%)								
Other non-bank financial institution (%)								

4. Capital Market—Equity

Asian Development Bank (ADB) Asia SME Finance Monitor 2013: *Capital Market*

A. Equity Market

Please fill in the data form below. If necessary, please make a copy of this worksheet by ***type of markets****.*

Please indicate "n/a," if no data is available.

Please refer to the national definition. In case that you have own SME definition, please attach the explanatory note.

** If the industry classification is not fit to the reality, please make use of your national classification.*

*** If this is not fit to your data, please make use of your own classification, with footnote.*

**** LCY = local currency.*

[Name of the market:]

	2006	2007	2008	2009	2010	2011	2012	2013 (as of XXXX)
Stock price index								
% change								
SME index [name:]								
% change								
Market capitalization (in LCY), **total**								
% change								
Market capitalization (in LCY), **listed SMEs**								
% change								
Trading value (in LCY), **total**								
% change								
Daily trading value (anual average; in LCY), **total**								
% change								
Trading value (in LCY), **listed SMEs**								
% change								
Daily trading value (anual average; in LCY), **listed SMEs**								
% change								
Trading volume (number of shares), **total**								
% change								
Daily trading volume (anual average; number of shares), **total**								
% change								
Trading volume (number of shares), **listed SMEs**								
% change								
Daily trading volume (anual average; number of shares), **listed SMEs**								
% change								
Number of listed companies, **total**								
of which number of **SMEs**								
Number of IPOs (newly listed companies), **total**								
of which number of **SMEs**								
Number of delisted companies, **total**								
of which number of **SMEs**								
Number of listed companies that moved to the main board, **total**								
of which number of **SMEs**								
Listed SMEs **by sector** (number of company)*								
Primary industry (agriculture, forestry, and fishery)								
Manufacturing								
Construction								
Transportation								
Telecommunication								
Wholesale & retail trade								
Real estate								
Service								
Others [industry type:]								
Listed SMEs **by region** (head office location, number of company)								
Capital city								
Other cities (local areas)								
Type of investors (% of total trading value**), **total**								
Individual investors (domestic)								
Institutional investors (domestic; pension funds, insurance companies, etc.)								
Banks/financial institutions (domestic)								
Venture capital companies (domestic)								
Investment funds (domestic)								
Domestic enterprises (except the above mentioned)								
Foreign investors								
Others [ ]								
Type of investors in **listed SMEs** (% of total trading value**)								
Individual investors (domestic)								
Institutional investors (domestic; pension funds, insurance companies, etc.)								
Banks/financial institutions (domestic)								
Venture capital companies (domestic)								
Investment funds (domestic)								
Domestic enterprises (except the above mentioned)								
Foreign investors								
Others [ ]								

5. Capital Market—Bonds

Asian Development Bank (ADB) Asia SME Finance Monitor 2013: ***Capital Market***

B. Bond Market

Please fill in the data form below. If necessary, please make a copy of this worksheet by ***type of markets****.*

Please indicate "n/a," if no data is available.

Please refer to the national definition. In case that you have own SME definition, please attach the explanatory note.

** If the industry classification is not fit to the reality, please make use of your national classification.*

*** Bonds guaranteed by government institution(s) or guarantee institution(s).*

**** If this is not fit to your data, please make use of your own classification, with footnote.*

***** LCY = local currency.*

[Name of the market:]

BOND MARKET DATA	2006	2007	2008	2009	2010	2011	2012	2013 (as of XXXX)
Bond issuance amount (denominated in LCY), **total**								
% change								
Bond issuance amount (denominated in LCY), **SMEs**								
% change								
Bond issuance amount (denominated in US$), **total**								
% change								
Bond issuance amount (denominated in US$), **SMEs**								
% change								
SME LCY bond issuance amount **by sector** (in LCY)*								
Primary industry (agriculture, forestry, and fishery)								
Manufacturing								
Construction								
Transportation								
Telecommunication								
Wholesale & retail trade								
Real estate								
Service								
Others [industry type:]								
Guaranteed SME LCY bonds (in LCY)**								
Guaranteed SME LCY bonds (% of total SME LCY bond issuance amounts)								
Number of LCY bonds issued, **total**								
of which number of **SME bonds issued**								
Number of SME LCY bonds issued **by region** (head office location of issuers)								
Capital city								
Other cities (local areas)								
Number of SME LCY bonds **rated** by rating agencies***								
AAA or equivalent								
AA & A or equivalent								
BBB or equivalent								
BB or below								
No rating								
Number of SME LCY bonds issued **by maturity**								
Less than 1 year								
1-3 years								
3-5 years								
5-10 years								
More than 10 years								
SME LCY bond **yield** to maturity (%, on average)								
Less than 1 year								
1-3 years								
3-5 years								
5-10 years								
More than 10 years								
Type of **investors** in SME bonds (% of total SME LCY bond issuance amounts)***								
Individual investors (domestic)								
Institutional investors (domestic; pension funds, insurance companies, etc.)								
Banks/financial institutions (domestic)								
Venture capital companies (domestic)								
Investment funds (domestic)								
Domestic enterprises (except the above mentioned)								
Foreign investors								
Others [ ]								

Asia SME Finance Monitor 2013

The Asia SME Finance Monitor 2013 is the knowledge sharing product on SMEs in Asia and the Pacific, specially focusing on SME access to finance. The Monitor 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.

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Printed in the Philippines