

ADB's support on SME financing

12 April 2019

Seung Min Lee
Senior Financial Sector Specialist
East Asia Regional Department
ADB

The views expressed in this presentation are the views of the author/s and do not necessarily reflect the views or policies of the Asian Development Bank, or its Board of Governors, or the governments they represent. ADB does not guarantee the accuracy of the data included in this presentation and accepts no responsibility for any consequence of their use. The countries listed in this presentation do not imply any view on ADB's part as to sovereignty or independent status or necessarily conform to ADB's terminology.

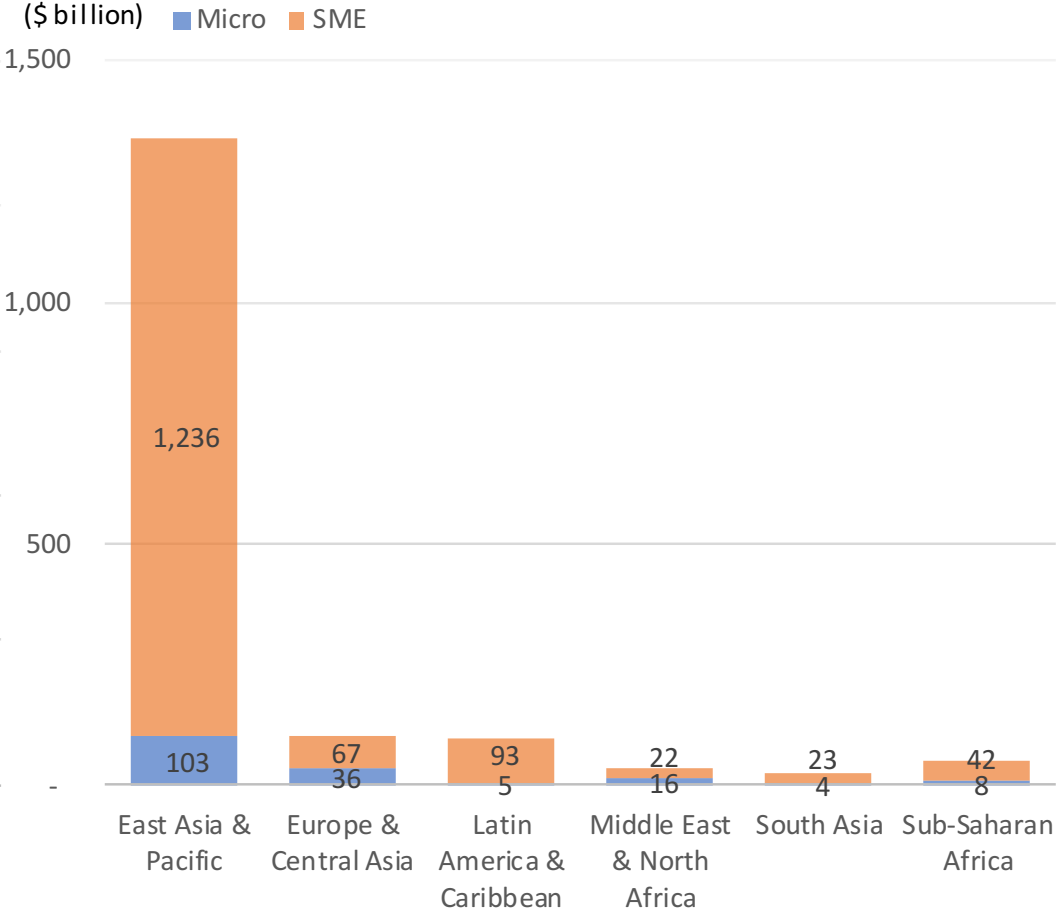
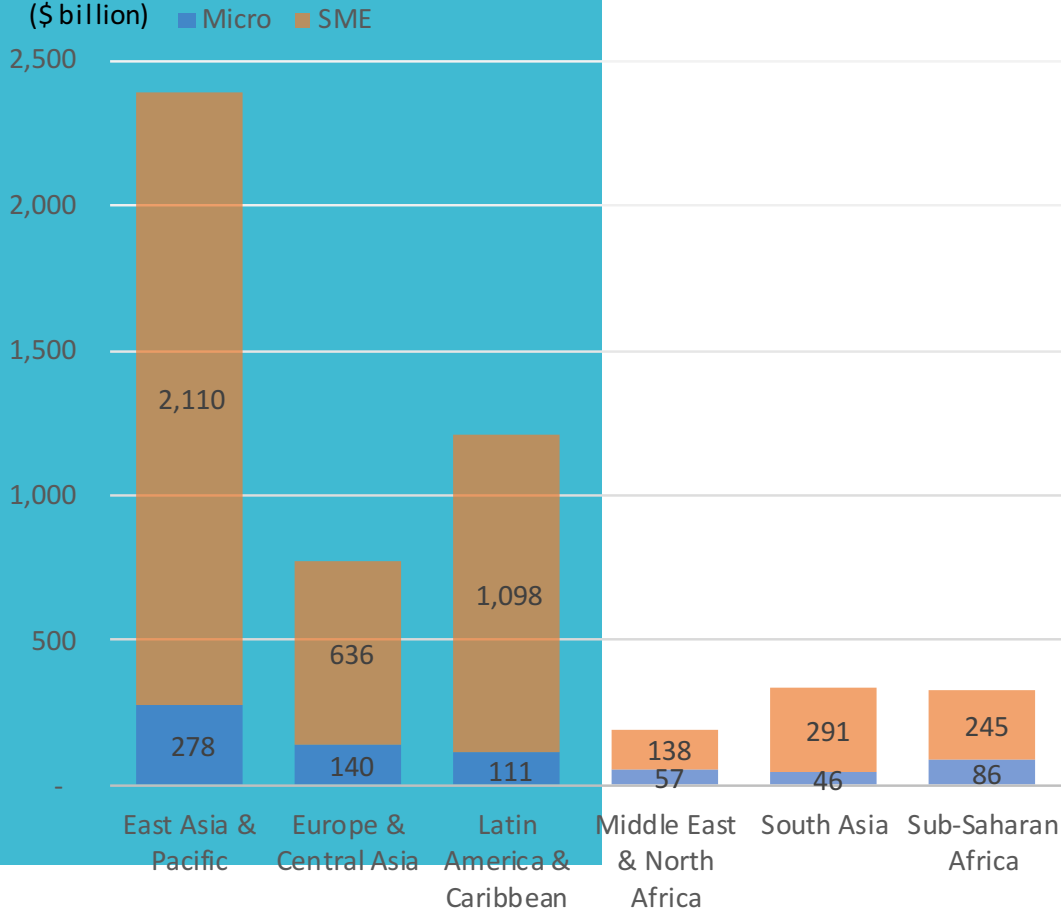
Outline

- Challenges for SMEs and Financing Gap
- ADB Support Framework, Strategic Direction and Roles for SMEs
- ADB experiences and cases
- ADB Value Addition

Challenges for SMEs and Financing Gap

MSME Finance Gap in Developing Economies

Women-led MSME Finance Gap in Developing Economies

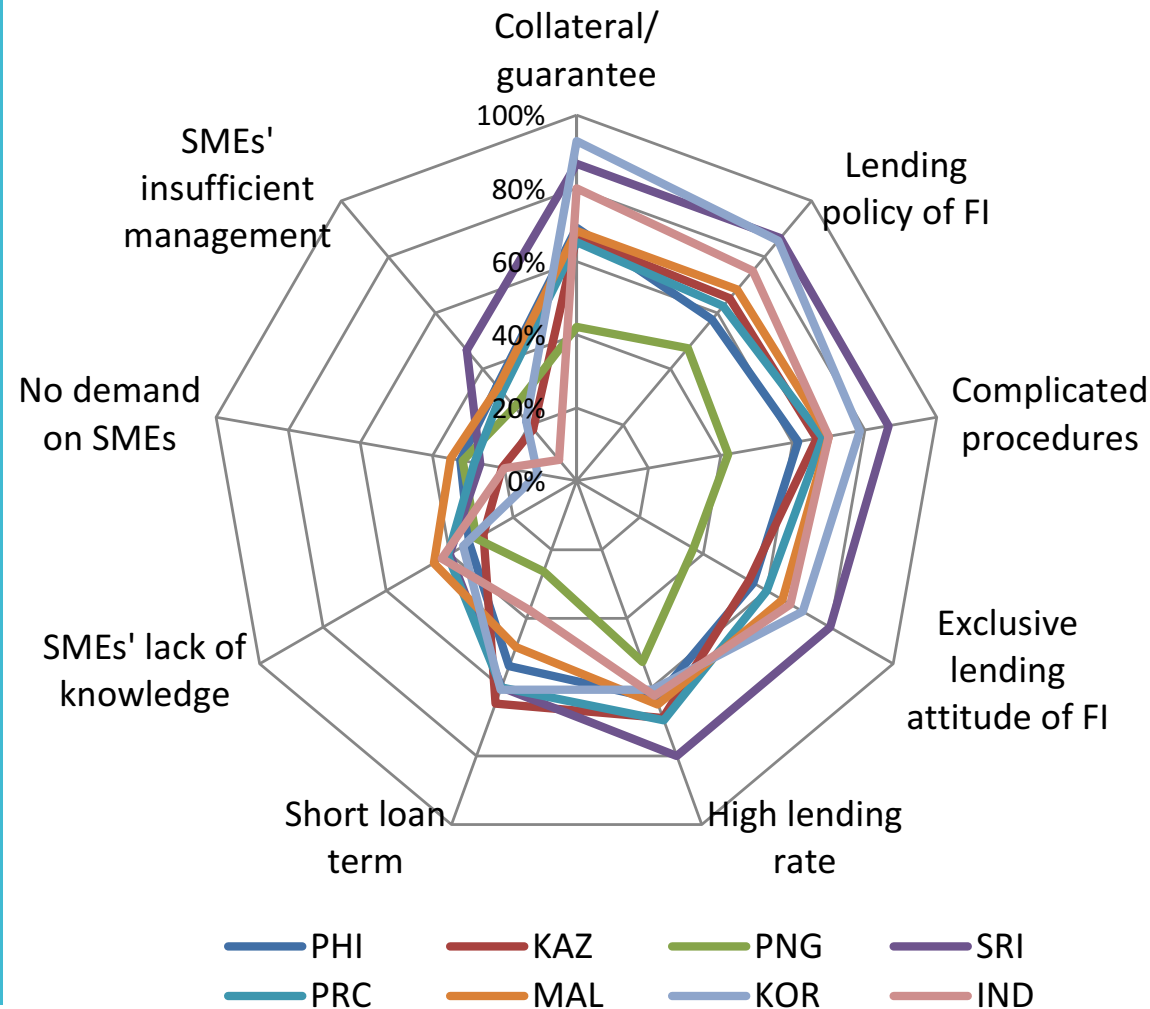


Source: Shigehiro Shinojaki, recomposed from IFC, 2017. MSME Finance Gap.

Challenges for SMEs and Financing Gap

Barriers to Accessing Financial Institutions

Collateral/guarantee requirements & high lending rates are top barriers for SME access to finance



Notes: Percentage as the share of SMEs that answered yes plus somewhat yes from five scale scores (yes, somewhat yes, neutral, somewhat no, and no) about barriers to access finance. Valid samples: the Philippines (PHI): 63; Kazakhstan (KAZ): 98; Papua New Guinea (PNG): 19; Sri Lanka (SRI): 15; People's Republic of China (PRC): 303; Malaysia (MAL): 60; Republic of Korea (KOR): 28; India (IND):40.
Source: by Shigehiro Shinojaki

Challenges for SMEs and Financing Gap

- Too much dependence on informal financing
- Difficulties of accessing to credit (banking)
- Limited access to nonbanking financial institutions (insurance, venture capital, leasing, factoring, etc.) and capital markets
- Insufficient and inadequate financial infrastructure -> credit scoring, credit rating, online collateral registry system, credit guarantee mechanism
- Capacity constraints: human resource management, financial literacy, etc.

SMEs in DMCs face unique challenge depending on the level of economic development and depth of financial sector

Strategic Direction and ADB's Roles for SMEs

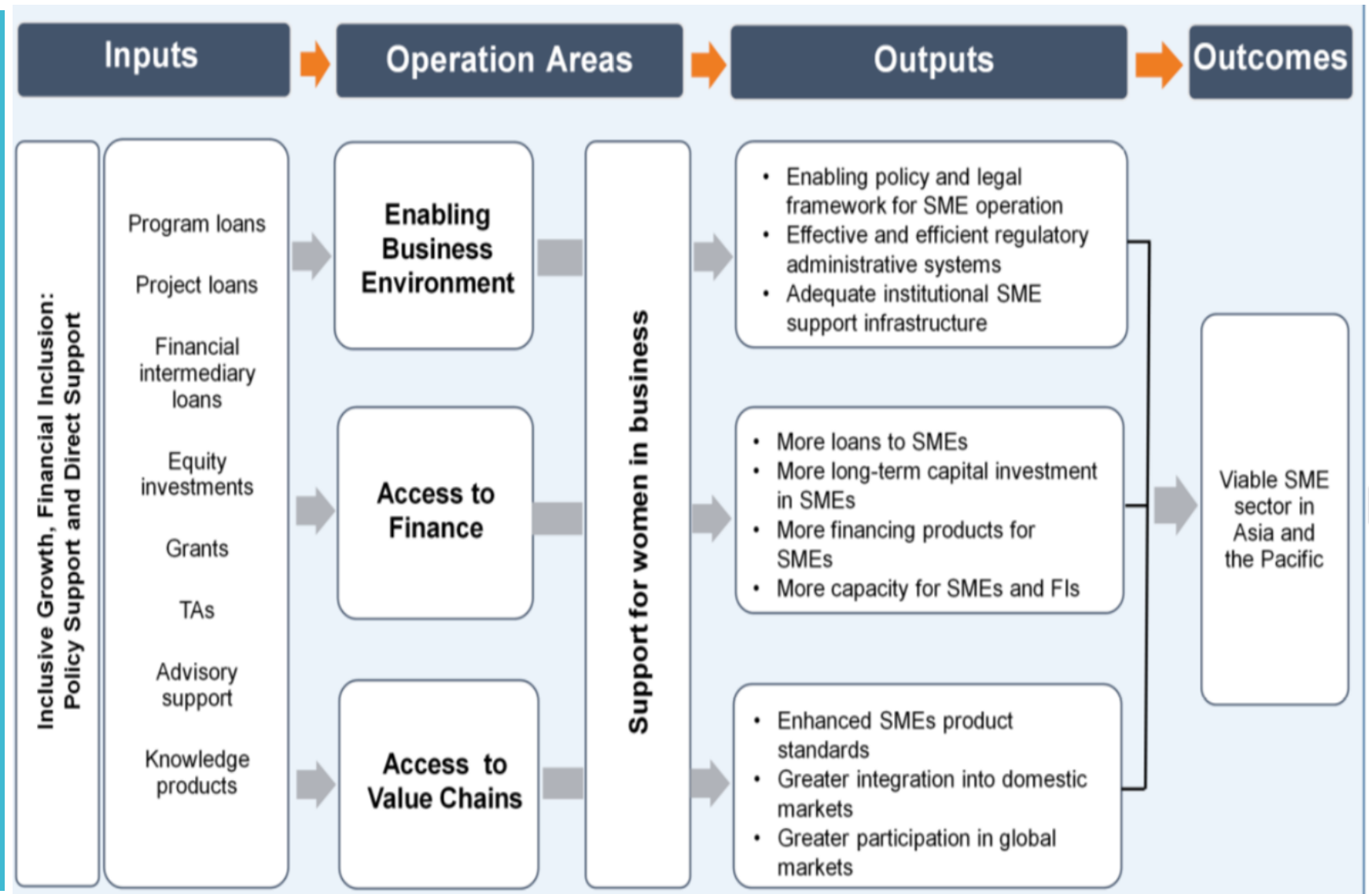
ADB Strategy 2030's Operational Priority:

Addressing Poverty and Inequalities, by supporting DMCs in improving business environment for SMEs

ADB Financial Sector Operation Plan: Promotion of financial inclusion for the underserved (rural, poor, women, minority) and SMEs

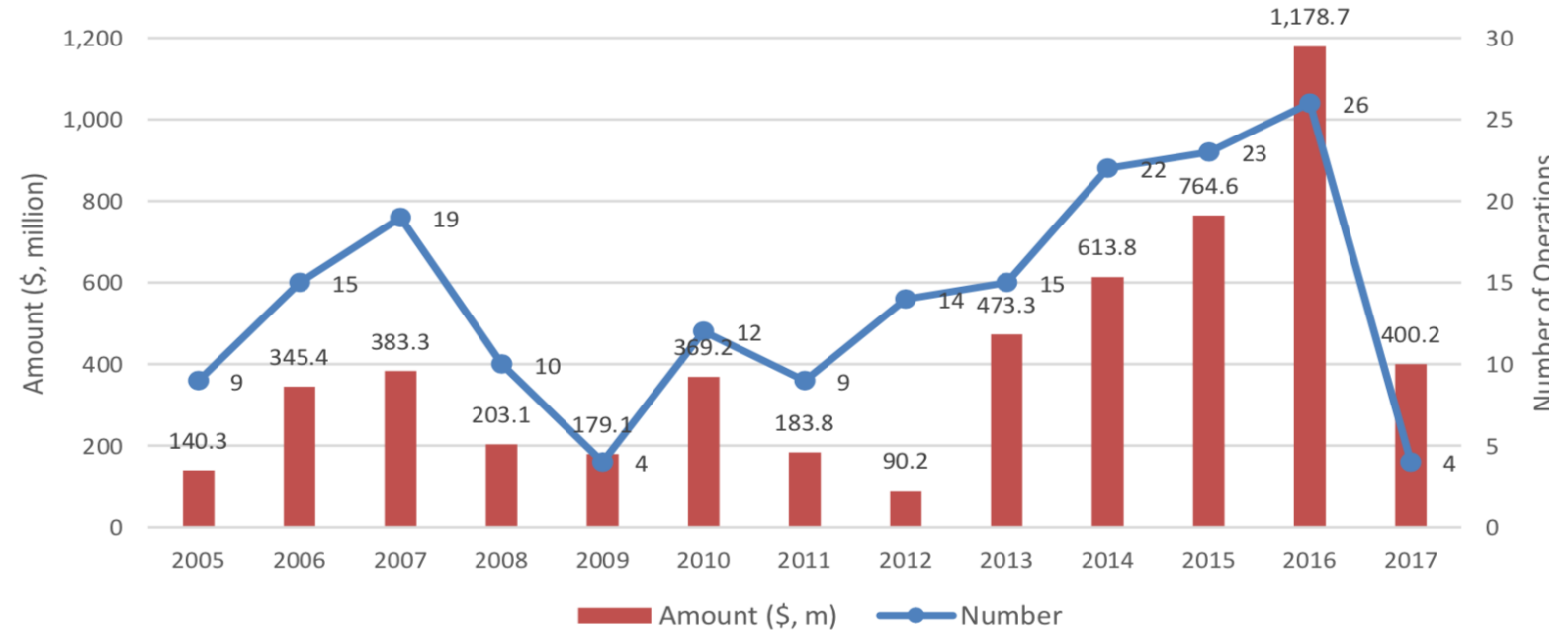
Role of ADB: Addressing physical and institutional barriers (with mix of Financing, Knowledge, Capacity building)

ADB Support Framework for SMEs



Strategic Direction and ADB's Roles for SMEs

ADB Operations Approval, 2005-2017



Source: Evaluation team compilation from ADB operations database.

- 25 DMCs, \$2.4 b for 100 sovereign, \$2.9 billion for 82 nonsovereign.
- 15% for business environment for SMEs, 87% for access to finance. Almost 50% of the operations address gender issues to promote women-led SME portfolio reaching around 4% of overall ADB financing.
- Around 50% of the total portfolio was for credit lines using FIL

Strategic Direction and ADB's Roles for SMEs

Trend in ADB's SME Support

- More non-sovereign loans
- Financial sector (banking and non-banking) and private sector development
- Specific sector focused (agriculture, energy efficiency, green technology, etc.)
- Various support mechanism for SMEs at different stage
- Innovation driven: fintech, blockchain, green tech, innovative modalities

ADB's Roles for SMEs: Experiences and Cases

Policy level, legal, and regulatory constraints

- ✓ Primary modality: TA & PBL
- ✓ Case: Viet Nam-Second Small and Medium-sized Enterprises Development Program (\$40mili for SP1 \$50mil for SP2, 2010-2014)
 - Enhancing the policy and planning framework for SME development
 - Enhancing SME access to finance
 - Sequencing approach: National SME Development Plan -> defining roles of various govt agencies -> established national web-based business registration system and tax admin system-> SME Law -> credit guarantee scheme with VDB -> SMEs listing in HNX
 - Result: reduced cost for business registration, 5% growth of SME sector annually, longer tenor loans, women-led SMEs access to credits increased from 9% in 2009 to 25% in 2013 (28,6000)

ADB's Roles for SMEs: Experiences and Cases

Knowledge and capacity constraints

- ✓ Primary modality: TA, knowledge sharing, capacity building
- ✓ Knowledge sharing, researches & publication (SME Finance Monitor)
- ✓ Case: TA for Asia SME Finance Monitor (2012-2015)
 - Creating multi-country data platform for SMEs covering 20 DMCs
 - Provide in-depth analyses relevant to SME sector development and SME finance, and present timely comparative data on SMEs and SME finance in Asia for policy makers of DMCs

<http://www.adb.org/publications/asia-sme-finance-monitor-2014>

ADB's Roles for SMEs: Experiences and Cases

Investment and financing constraints

- ✓ Primary modality: Sovereign & non-sovereign loan, co-financing, guarantee
- ✓ Specific sector or target focused: Agriculture, tourism, energy efficiency, women-led
- ✓ Case 1: Mongolia Supporting the Credit Guarantee System for Economic Diversification and Employment Project (\$ 60 mil, 2015 ~)
 - Mining dependent economy with 90% of SMEs having difficulties to access to banking
 - CGFM established in 2012, but quite limited in capacity
 - \$60 mil on lent to CGFM and deposited to PFIs, solely to be used for SME lending up to 5 years with guarantee
 - Targeted to support women-led SMEs and SMEs outside of UB and in rural areas

ADB's Roles for SMEs: Experiences and Cases

Investment and financing constraints

- ✓ Case 2: PRC Green Financing Platform for Accelerated Air Quality Improvement in BTH(FIL, \$500 mil, 2016 ~)
 - FIL for energy efficiency, renewable energy, emission reduction
 - \$ 140 million allocated for SMEs with diverse modalities: secured and unsecured lending, guarantee, guarantee liquidity reserve invested to green bonds, green leasing
 - \$25 equity investment into high-tech startups with collaboration with Tsinghua Univ.

ADB's Value Addition

- ✓ Facilitator and advisor
- ✓ Tailor-made investment plan (PBL, MFF, FIL, etc.)
- ✓ Catalyzing private sector investment
- ✓ Resource mobilization: sourcing expertise, special funding, dialogue facilitation, etc.
- ✓ Knowledge exchange and capacity development per needs



Thank you.

sminlee@adb.org