

Innovative Mechanisms for Financing Tech-based Startups & SMEs in Asia

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and Management Capacities of Startups and SMEs: Session III
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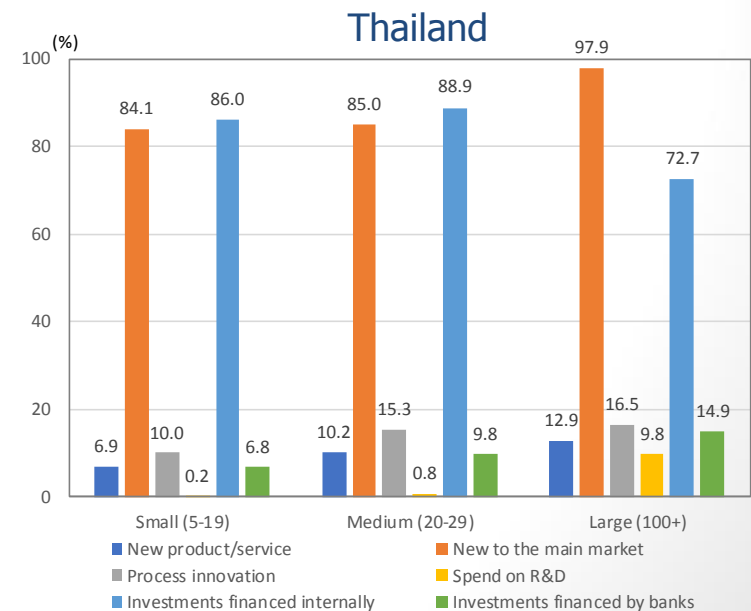
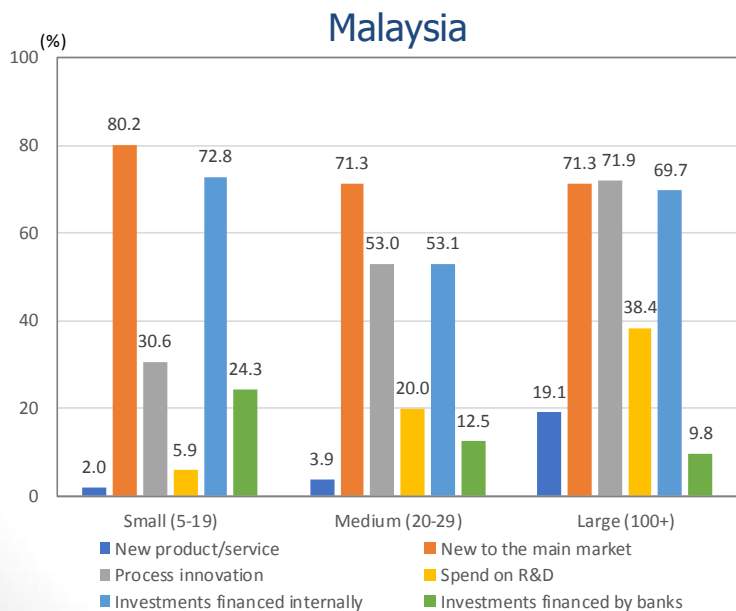
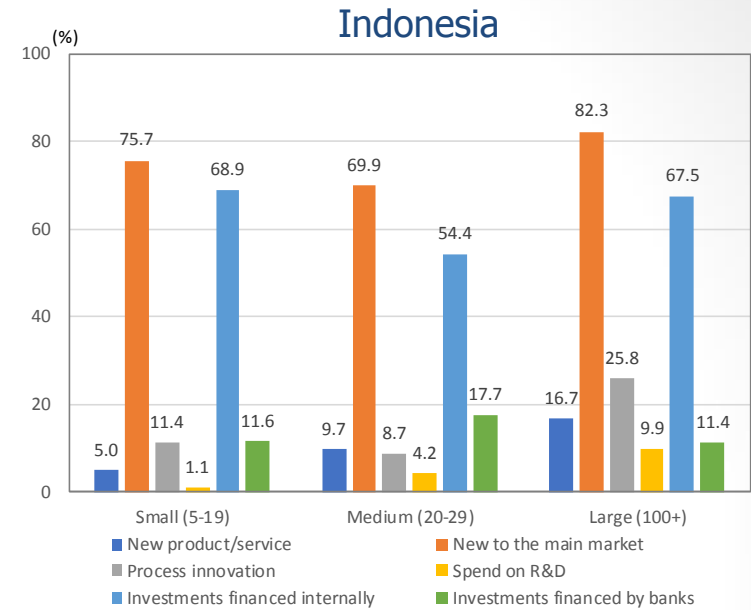
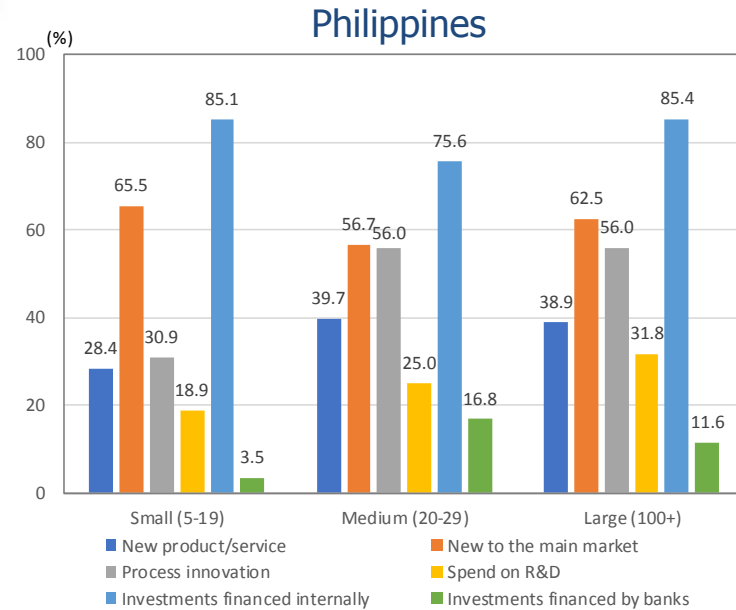
Agenda

- I. Innovation and Technology for SMEs
- II. Business Opportunities for Tech-based SMEs
- III. Critical Constraints for Business Development
- IV. Challenges in Traditional Financing Models
- V. Alternative SME Finance Models
- VI. Policy Implications in Asia

Innovation and Technology for SMEs

- SMEs stimulate domestic demand through job creation, competition, and innovation.
- Technology, as an enabler of innovations, enables SMEs to survive and grow.
- SMEs' innovation capability requires investment in R&D, human capital, and technology transfer & commercialization.
- Access to finance is one of the policy priorities to support for SMEs, including tech-based startups & venture businesses.

Innovation and Technology for SMEs

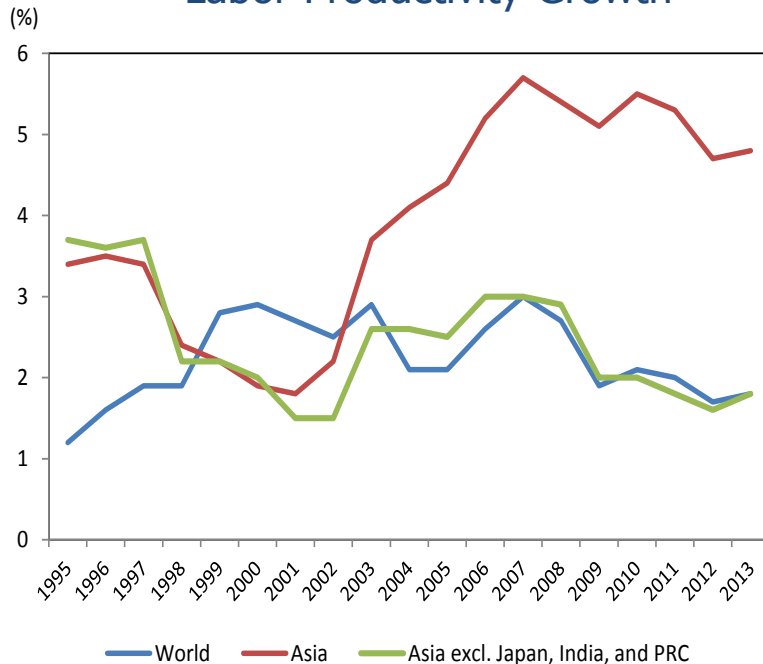


Source: World Bank Enterprise Surveys Data. PHI (2015), INO (2015), MAL (2015), and THA (2016). First four items: % of firms; last two items: proportion of investments (%).

Business Opportunities for Tech-based SMEs

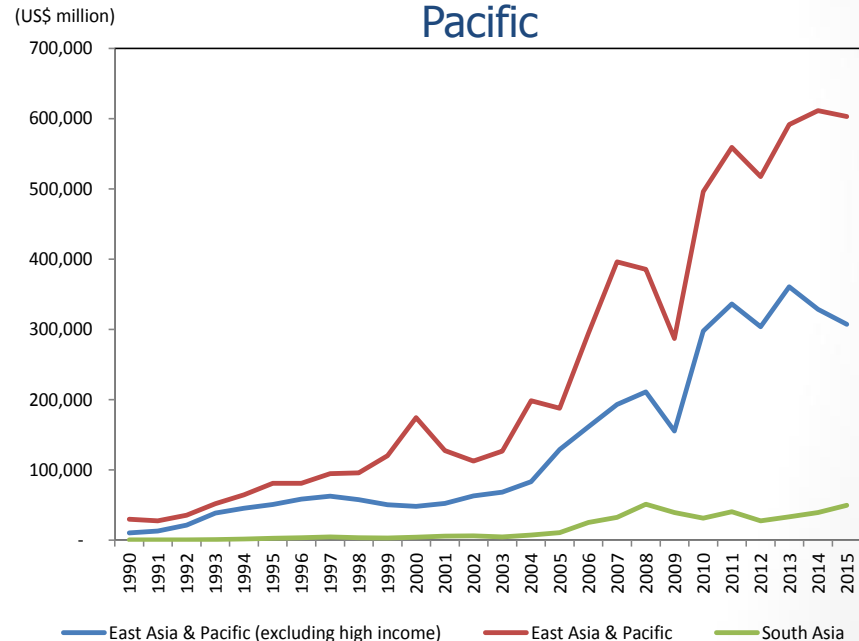
- Labor productivity growth is slowing in developing Asia since the GFC.
- FDI inflows to Asia create opportunities for SMEs to increase productivity.

Labor Productivity Growth



Source: ADB Regional Cooperation and Productivity Gains for All. Key Facts. <http://aric.adb.org/productivity4all>

FDI Net Inflows in Asia and the Pacific



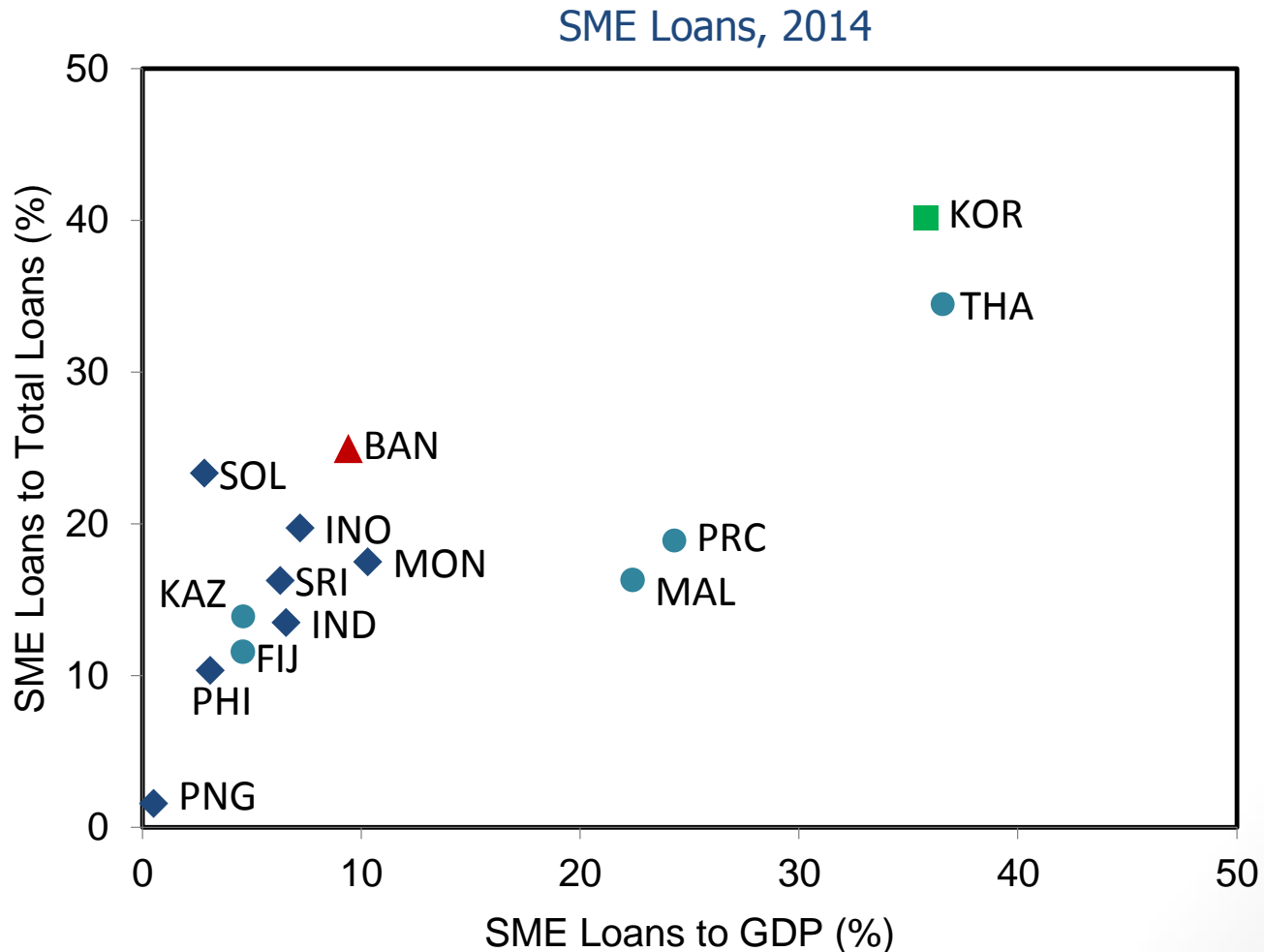
Source: World Development Indicators, The World Bank. BoP, current US\$ million.

Critical Constraints for Business Development

- SMEs are mostly facing limited technical skills and knowledge for innovations, indulging in the use of mature technology.
- Low or no investment in R&D makes SME capability of innovation remain weak.
- Global value chains and FDIs provide opportunities on access to advanced technologies for developing Asia; but it doesn't well materialize to SMEs.
- Funding constraints, esp., a lack of long-term financing options, make SMEs difficult to obtain technologies for sustainable innovation.
- Diversification of financing models is vital for tech-based startups & SMEs, with appropriate government support.

Challenges in Traditional Financing Models

- Limited access to bank credit decelerates growth pace of SMEs.

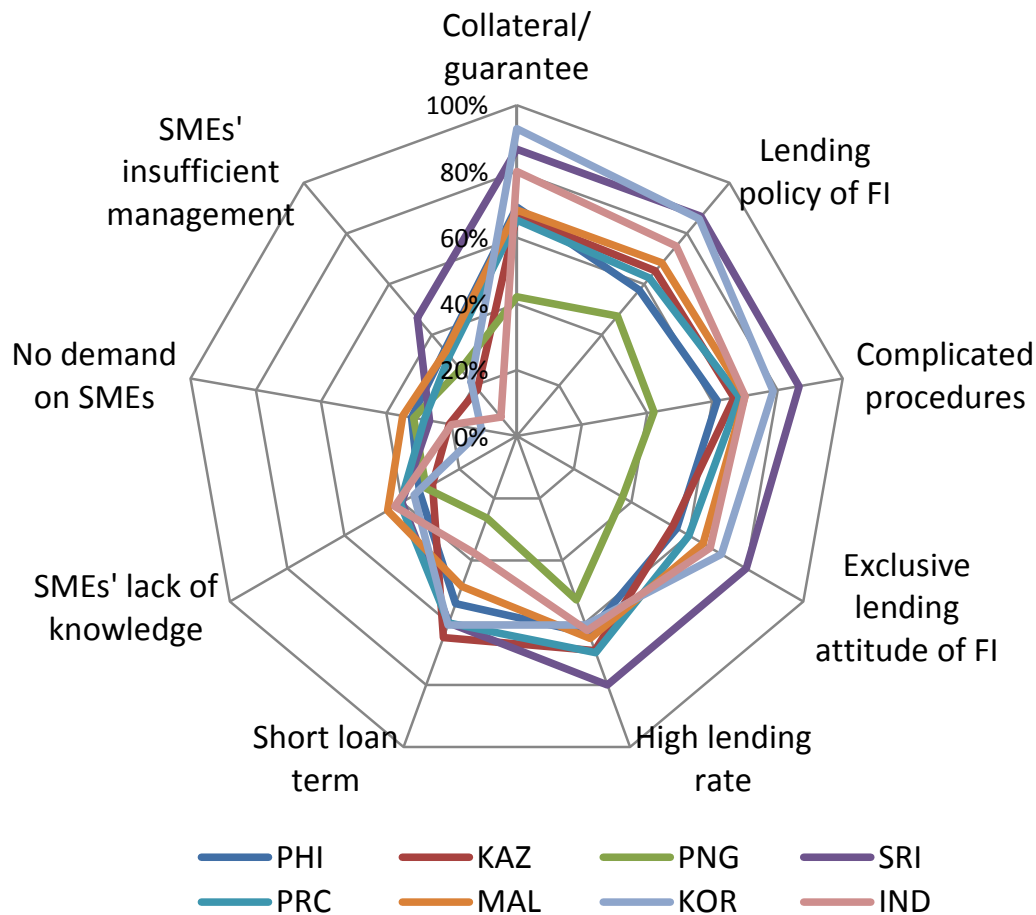


Challenges in Traditional Financing Models

- Basel III may negatively affect banks' lending attitude to SMEs.
 - ✓ Basel III requires banks to have tighter risk management as well as greater capital and liquidity.
 - ✓ Resulting asset preference and deleveraging of banks could limit the availability of funding for SMEs.
 - Capital requirements
 - Liquidity framework
 - Leverage ratio framework

Challenges in Traditional Financing Models

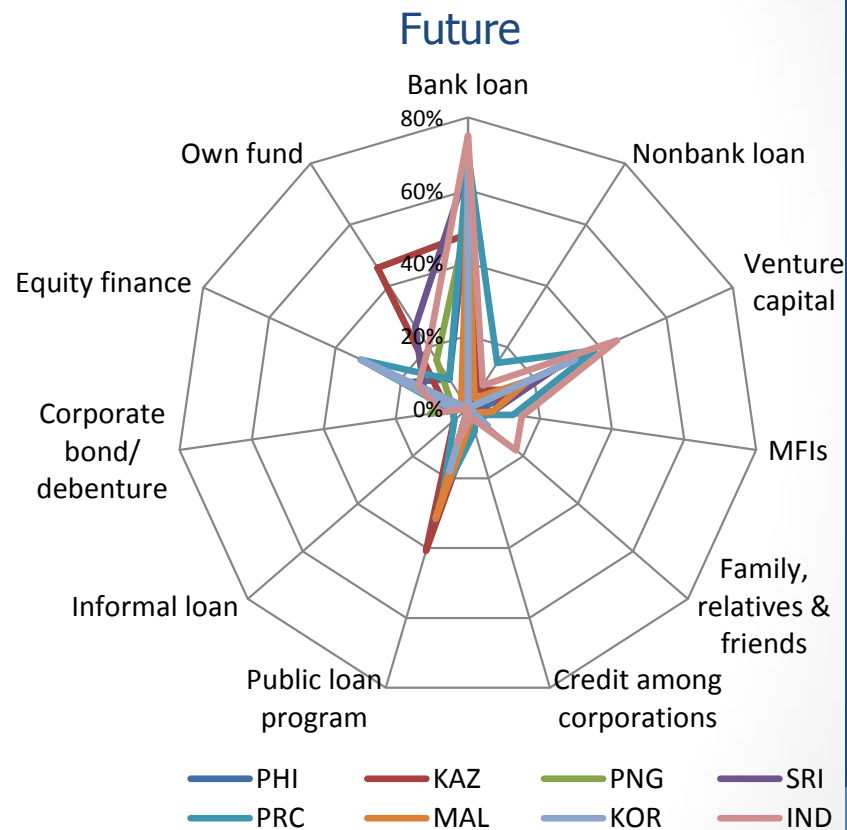
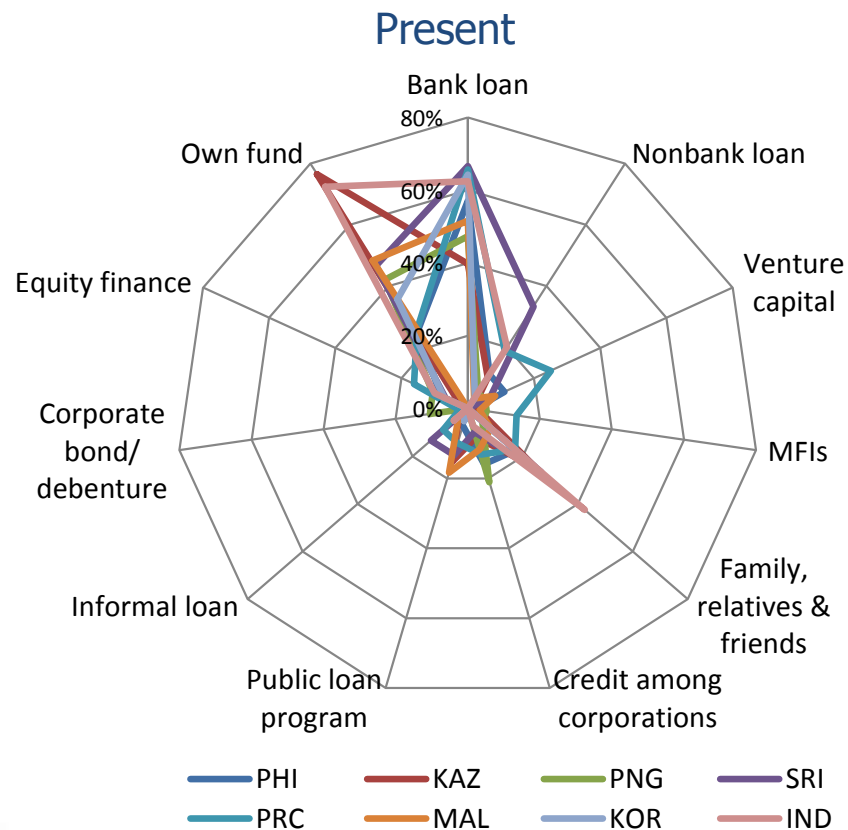
Barriers to Accessing Financial Institutions



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: Author's compilation.

Challenges in Traditional Financing Models

Funding Needs



Notes: "Present" refers to funding instruments accessed while "Future" refers to funding instruments desired in the future. Percentage as the share of funding instruments utilized and desired by SMEs to total number of surveyed SMEs by country. 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: Author's compilation.

Alternative SME Finance Models

- Approaches to reduce supply-demand gap in SME finance
 - ✓ Credit data infrastructure (credit bureau)
 - ✓ Secured lending legal reform (collateral registry)
 - A wide-range of pledgeable assets (inc. IPR) as collateral stipulated in the secured transaction law.
 - A sound registration system on movable assets.
 - A speedy & efficient collateral enforcement mechanism.
- Policy measures affecting SME banking
 - ✓ Public credit guarantee schemes
 - Kredit Usaha Rakyat (KUR) in Indonesia.
 - Portfolio guarantee schemes (PGS) in Thailand.
 - ✓ Government facilities/funds
 - Refinancing facilities in Bangladesh (BB, ADB, JICA, & IDA Funds)
 - SME incubation fund, R&D fund, etc.

Alternative SME Finance Models

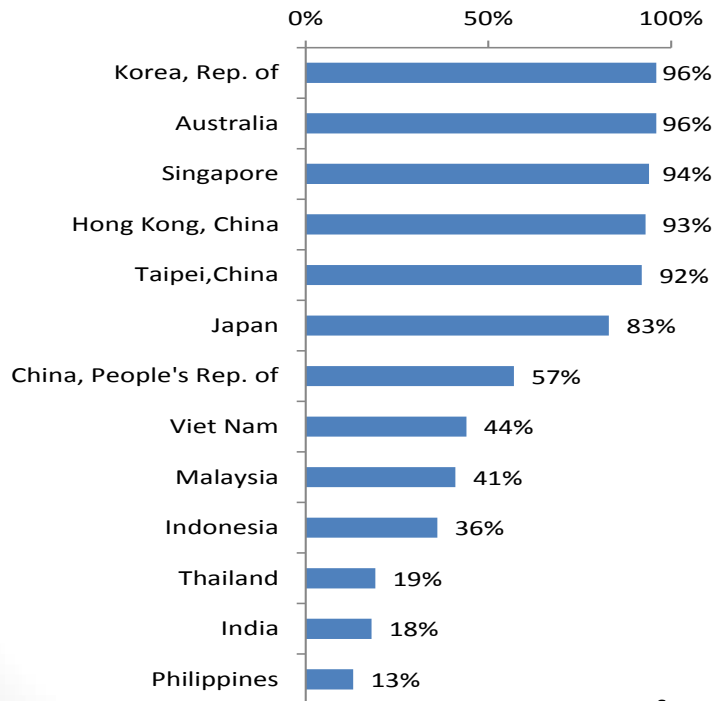
- Develop nonbank finance industry
- ✓ Nonbank finance is a viable substitute for bank lending.
- ✓ Bank-MFI linkage.
- ICICI Bank partnership model in India.
- Innovative product design
- ✓ Asset based finance
- ✓ Credit score based lending
- ✓ SME cluster financing
- ✓ Debtor-in-possession (DIP) financing
- ✓ Digital financial services
- ✓ Venture capital/angel investment funds
- ✓ SME capital markets

Alternative SME Finance Models

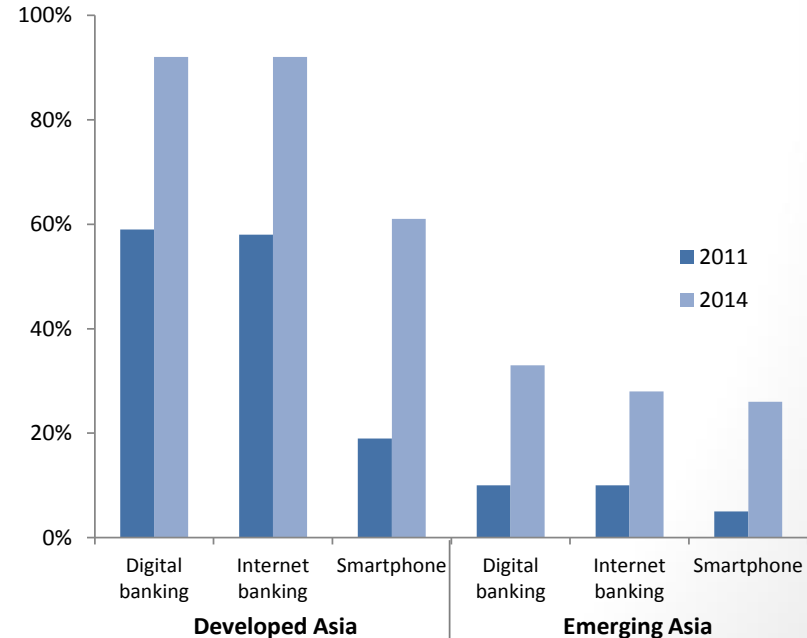
Digital Finance Approaches

- Over 700 million consumers use digital banking regularly in Asia.
- Emerging Asia: 28% of respondents used internet banking and 26% used banking services via smartphones in 2014, increasing trend but still low penetration.
- Digital payment, credit, savings, and insurance for small businesses.

Digital Banking Penetration

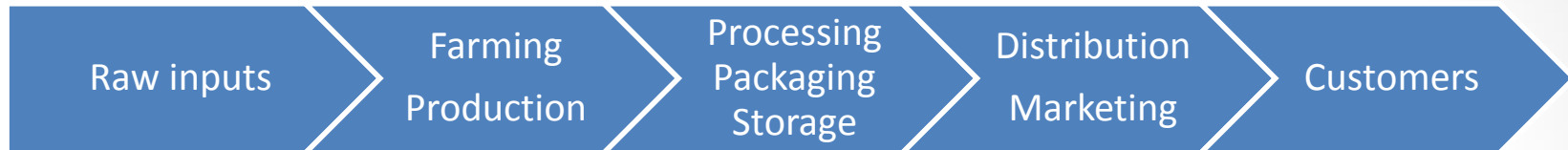


Digital Banking Channels



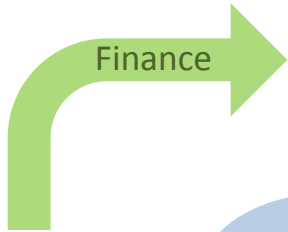
Source: Mckinsey&Company. 2015. Digital Banking in Asia: What do customers really want?

Alternative SME Finance Models: Value Chain Financing for Agribusiness

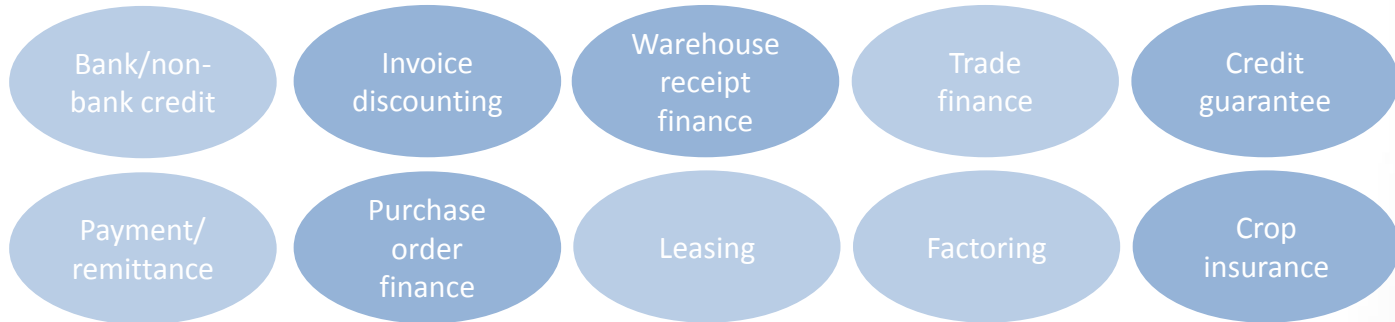


Smallholder farmers:

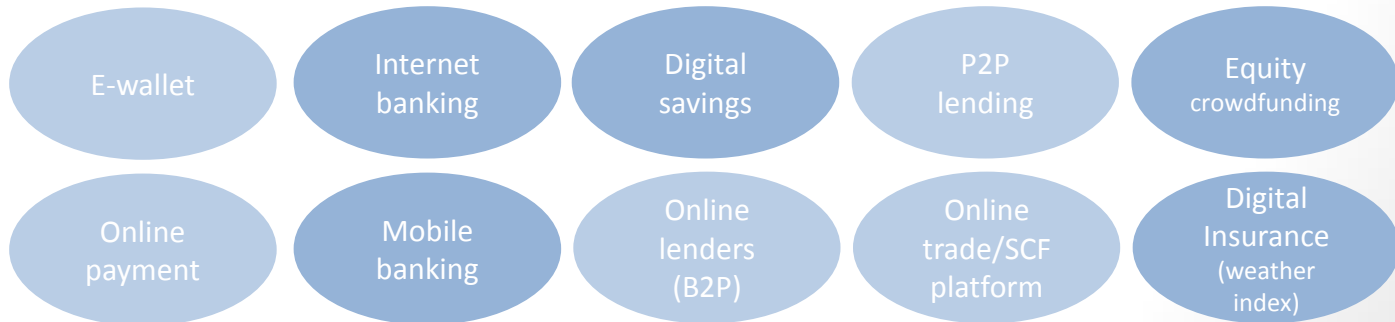
- Limited access to finance for inputs & working capital. (e.g., \$7.9 billion credit gap in PHI)
- Lack of market access.
- Liquidity constraints (post harvest).
- Cost inefficiency.



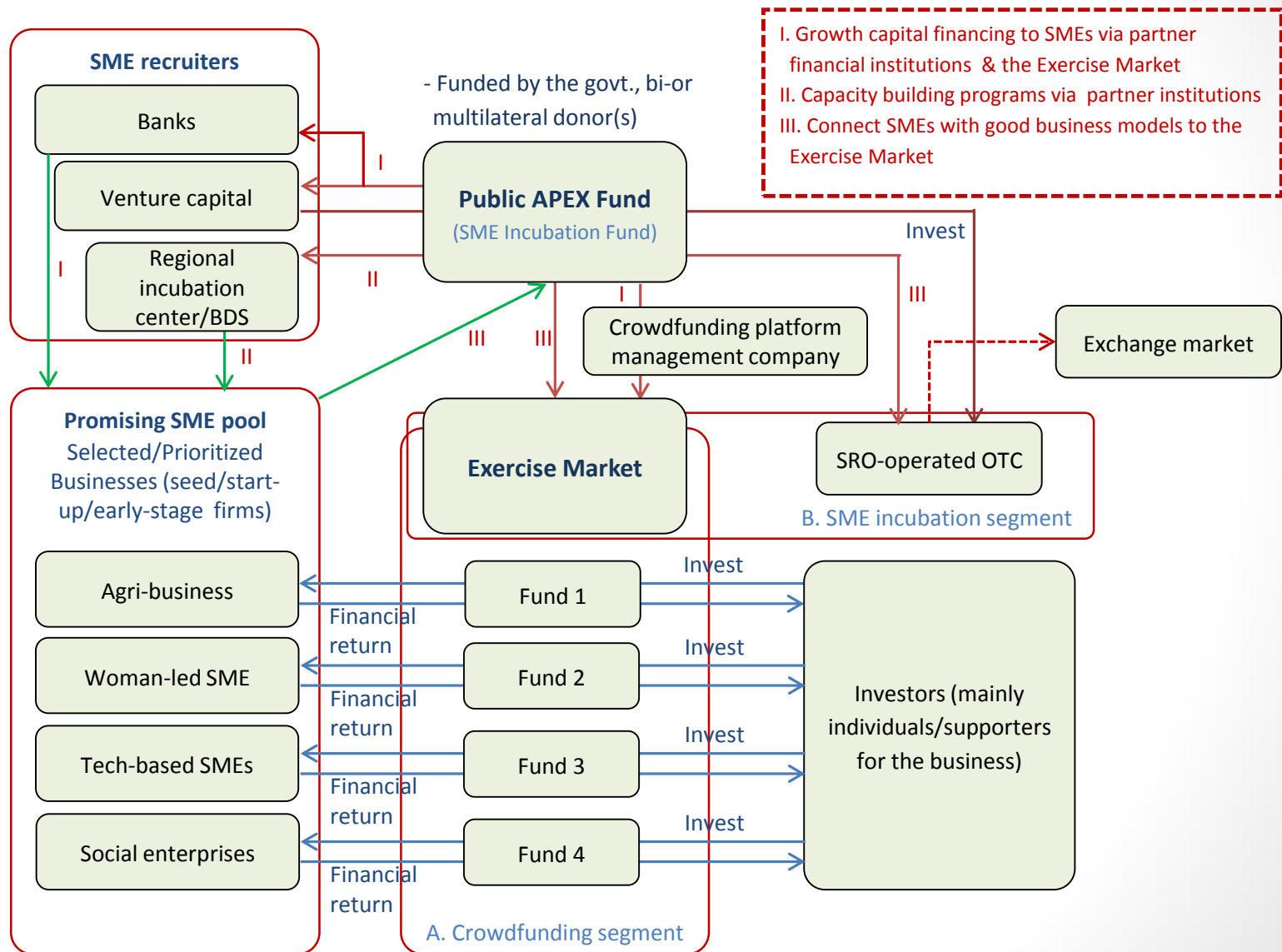
Traditional offerings



Digital offerings



Alternative SME Finance Models: Public-Private Sector Collaboration and Digital Solution



Policy Implications in Asia

- Provide timely financing opportunities for SMEs while responding to their needs with flexibility and innovation.
- ✓ Poor access to finance limits the ability of SMEs to survive and grow.
- ✓ Limitations of bank lending under global financial uncertainty, e.g., possible negative impact of Basel III.
- ✓ No one-size-fits-all financing solution. Diversification of SME finance models is needed.
- ✓ Long-term funding needs increase as SMEs grow further. Potential for developing SME capital markets in Asia.
- ✓ The advent of fintech will bring more opportunities for SMEs to access low-cost financing.

Policy Implications in Asia

- New environment requires new financing solutions for SMEs.
- ✓ Economic integration and increasing FDI inflows to Asia stimulate the structural change of SME business models.
- ✓ A globalized economy will bring more SME internationalization and new financing demands from SMEs.
- ✓ Increased importance of supply chain finance & trade finance to involve SMEs in global value chains.
- Regulations as the enabler for new financial instruments.
- Flexible & holistic policy approaches for SME financing beyond measures already established.
- ✓ Support for SME bankability.
- ✓ Support for nonbank & market-based financing to SMEs.
- ✓ Consumer protection.

Thank you for your attention.

For further questions:

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