



**Asia-Pacific
Economic Cooperation**

2015/SMEWG40/028

Agenda Item: 13.2.3

“Finance” Matters for SME and Trade Policy

Purpose: Information

Submitted by: Japan



APEC
PHILIPPINES
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**40th Small and Medium Enterprises Working Group
Meeting
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“FINANCE” MATTERS FOR SME AND TRADE POLICY

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Kazumi Nishikawa

Special Advisor to METI Minister

Executive Director of JETRO Singapore

1. “Access to Finance” is top priority of SME and trade policy in Asia and Pacific

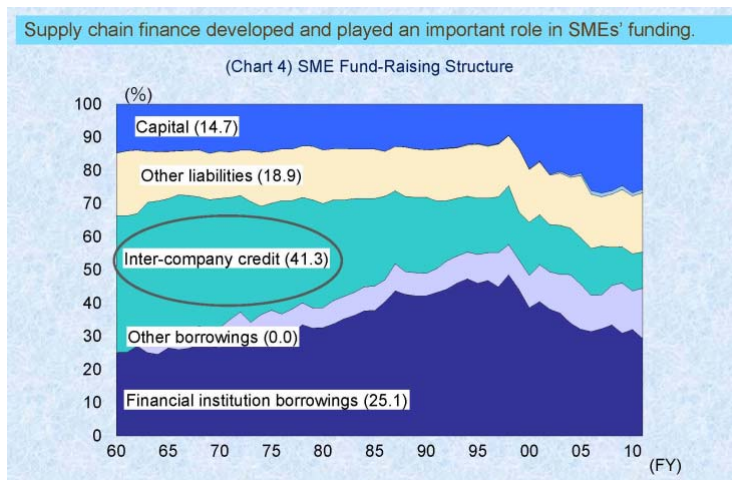
- ◆ SMEWG Strategic Action Plan 2013-2016
 - Mission Statement
 - The SMEWG has a critical and strategic role to provide support and guidance for APEC member economies to achieve SMEWG's mission of:
 - strengthening access to finance for SMEs and MEs
 - http://mddb.apec.org/documents/2012/SMEWG/SMEWG2/12_smeWG35_035.pdf
- ◆ Boracay Action Agenda to Globalize MSMEs – Fostering the Participation of APEC MSMEs in Regional and Global Markets
 - Support measures to widen options on financing for MSMEs and further develop the infrastructure to facilitate lending to them
 - http://www.apec.org/Meeting-Papers/Ministerial-Statements/Trade/2015_trade/2015_mrt_standalone.aspx
- ◆ APFF Interim report to APEC Finance Ministers
 - Expand access of MEMSs to finance through improved legal and institutional frameworks for credit information and the use of factoring, movable assets and accounts receivables as collateral in secured transaction systems, as well as to trade and supplychain finance
 - http://mackglobe.com/wp-content/uploads/2014/10/APFF_summary.pdf#search=APFF+interim+report
- ◆ ASEAN SME Strategic Action Plan (2010-2015)
 - “Access to Finance” is top priority among 5 goals
 - (*) Others are “Access to Market, HRD, Information and Advisory, Innovation
 - <http://www.asean.org/archive/SME/SPOA-SME.pdf#search=ASEAN+SME+strategicaction+plan>
- ◆ ASEAN Business Advisory Council Report to ASEAN Leaders (April 2015)
 - The establishment of Financial Services and Capital Markets Expert Group
 - The establishment of ASEAN MSMEs Bank (commercial bank)
 - <http://www.abis2015.com/wp-content/uploads/2015/04/Report-to-ASEAN-Leaders-2015.pdf>
- ◆ Bi-lateral cooperation, IFC initiative, ADB initiative, G20 initiative and etc.

Boracay Action Agenda to Globalize MSMEs

5. Support measures to widen options on financing for MSMEs and further develop the infrastructure to facilitate lending to them.
- a. APEC to promote inclusive finance mechanisms with focus on broad-based financial products and services such as equity finance, venture capital mechanisms, trade and supply chain finance and business risk protection, including resilience against crises such as financial crises, natural disasters and, economic instability.
 - b. APEC to cooperate in developing efficient and effective infrastructure for credit information and secured transactions/movable collateral systems to realize the seamless MSME financing environment throughout the APEC economies to strengthen global value chain.
 - c. APEC will promote innovative and diversified financing options to meet the needs of MSME at different stages of growth, particularly financing early-stage investment, including through taking into account not only financial data but their own business model strategies - e.g. growth potential, anticipated earnings - to assess individual companies' creditworthiness.
 - d. APEC will enhance cooperation among financial institutions, and promote designated loans for MSMEs in supporting mutual investment across member economies.
 - e. APEC will support open and transparent business environments through discussions on possible codes of ethics in sectors of export interest to MSMEs.

2. But, finance issues tend to be technically difficult to understand for SME/Trade policy people.

- (1) Role of Inter-company credit for SME fund raising

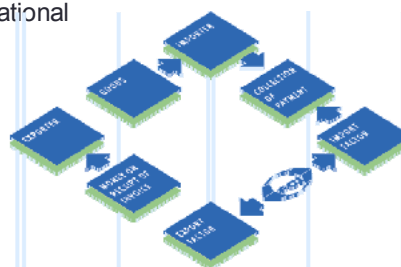


Cont.

(2) SMEs can use domestic / international factoring service even where promissory note does not work or where no governmental export credit guarantee exists.

- Membership of Factors Chain International

Australia	1
China	25
Chinese Taipei	22
Hong Kong, China	16
India	6
Indonesia	1
Japan	3
Malaysia	2
Singapore	5
Thailand	3
Vietnam	2



<https://www.fci.nl/en/home>

Cont.

(3) APFF interim report is very good start for SME policy people to understand issues. However it does not cover entire SME finance issues. Neither do it categorize traditional / non-traditional issues.

	Access to bank loan	Access to inter-company / trade / supply chain credit	Access to equity
Traditional issues	<ul style="list-style-type: none"> • Credit Information (cooperate research, credit rating) • Asset-based lending (real estate collateral) 	<ul style="list-style-type: none"> • Promissory note • Account receivables • Export loan insurance • Letter of credit • Factoring 	<ul style="list-style-type: none"> • Equity Finance
Non-traditional issues	<ul style="list-style-type: none"> • Credit risk database • Asset-based lending (movable collateral, account receivable collateral) • Securitization 	<ul style="list-style-type: none"> • Digital/electronic platform for trade credit (E-commerce, Bank Payment Obligations) 	<ul style="list-style-type: none"> • Crowd Funding
Governmental regulation/support issues	<ul style="list-style-type: none"> • Capital and liquidity standard on Bank (Basel, KYC, AML) • Public finance (credit guarantee, government bank, subsidized interest payment, response to crises) • Accounting standard, SME financial literacy 	<ul style="list-style-type: none"> • (Accounting standard, SME financial literacy) 	<ul style="list-style-type: none"> • Public fund • (Accounting standard, SME financial literacy)

Red issues are focused in the APFF Interim report (2014). The chart itself is written by author.

3. SME policy people should not think the bottlenecks of SME finance as fixed conditions but try to mitigate them.

《Bottlenecks of SME finance》

1. Examination of new loans and monitoring cost are not small
 - Private banks tend to prioritize lending to larger companies
2. Information asymmetry – difficult to capture the financial condition of SMEs
 - Private banks hesitate to take risks in SME finance
3. When economic crisis occur, this trend is accelerated.
 - Private banks try to keep capital adequacy ratio and reduce lending to SMEs.

Best practice to guide financial institution (Japan's case)

- Institutional approach to secure a financial institution to support SME so as to improve local economy, which lead to stable profit for the financial institution – Community bank, SME bank
- Regulatory approach to support the above virtuous cycle by ordinary bank – relationship bank

Shinkin bank achievement in Japan (1952-1955)

(fy)	1952	1953	1954	1955
Number of established Shinkin bank	381	508	559	556
Number of branches	1,524	1,806	2,076	2,197
Deposits outstanding	87,384	153,184	201,213	242,674
Lending outstanding	61,644	114,617	161,063	186,613

Loans result of Shoko Chukin Bank

	1936	1946	1956	1966
Loans	2	474	171,081	1,140,947

(million yen)

Practices of Relationship Banks

- ✓ Business matching
- ✓ Promote unsecured loans
- ✓ Skill training programs
- ✓ Help Setting Mid-term Management Plan
- ✓ Support Innovation and Human Resource Development
- ✓ Utilize outside resources

Best practice to increase credibility (Japan's case)

- To form SME union or alliance to increase credibility
- To reduce information asymmetry by enhancing SME accounting

Main SME Unions in Japan (as of 2014)

- ◆ Business Cooperative Associations: about 30,000
- ◆ Syndicates: about 1,900
- ◆ cooperative partnerships : about 800

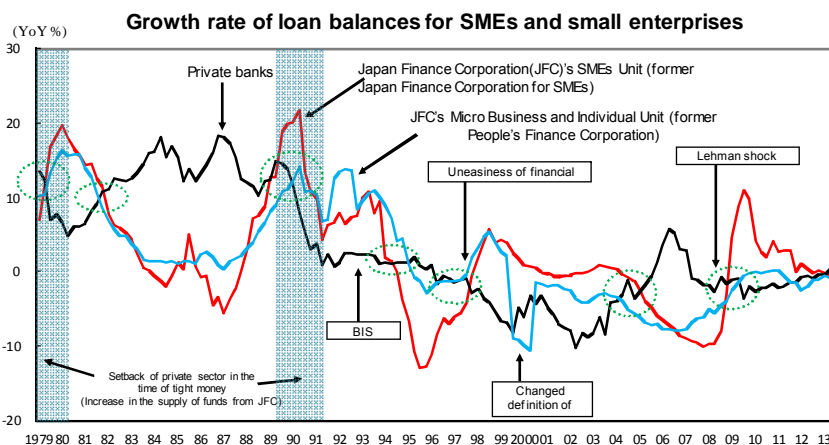
The General Accounting Standard for SMEs*

- ✓ Help SME owners/operators to know how their own financial conditions exactly are.
- ✓ Serve to provide SME stakeholders (financial institutions, trade partners, shareholders, etc.) with necessary accounting information.
- ✓ Fully take into consideration the accounting practice followed by SMEs in their business, harmonize their accounting system with the existing tax.
- ✓ Not to impose excessive paperwork burden on SMEs.
- ✓ Conform to the "fair and reasonable accounting practice."

*developed by the WG set up by the SME Agency and the Financial Services Agency, in collaboration with SME-related parties (SME associations, tax accountants, certified public accountants, financial institutions, etc.)

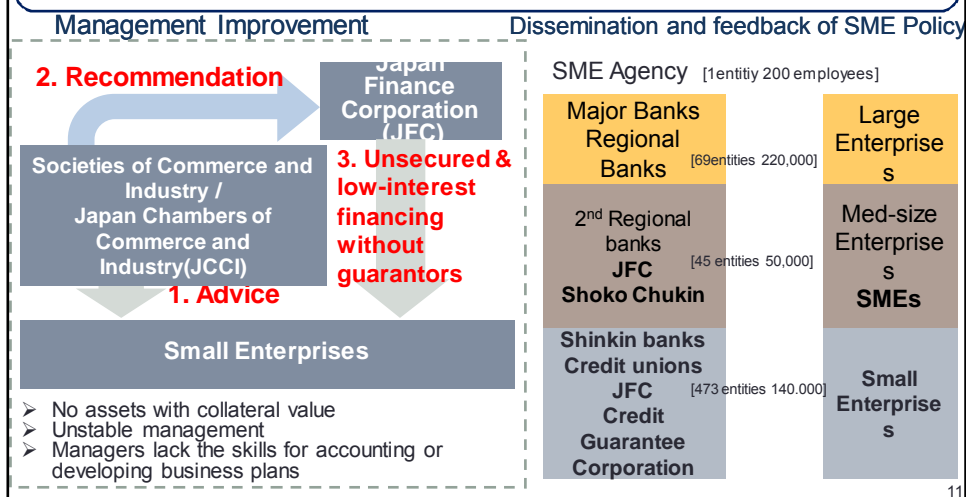
Best practice to respond against crises (Japan's case)

- Governmental financial institutions show inverse correlation with the ones from private financial institutions.
- They work as a safety net in case of tightened lending from private financial institutions and occurrence of major economic shocks such as Lehman shock and Earthquake(2008-11.)
- Not only providing liquidity, they support SMEs to craft and realize their business plans. (I.g. Shoco-chukin provided loans to 47,000 SMEs and 95% of them recovered in some indicators. Nobody but Shoco-chukin helped 16,000 SMEs and they saved 950,000 of workers.)



4. Finance as a tool and contributor of other goals

Financial issues can be utilized to implement other policy goals such as management improvement, business matching and SME globalization. Financial institutions are great resources to implement SME policy.



5. Bridge the gap between ...

- As we see, in order to improve SME access to finance,
 - SME policy people should understand financial issues as its own agenda, engage proactively and provide political support [2]
 - SME policy people should address the bottlenecks of SME finance [3]
 - SME policy people should utilize financial measures / institution to achieve other policy goals. [4]
- Institutionally, we should fill the gap between
 - SME/Trade Ministers and Financial Ministers domestically
 - SME/Trade forum and Financial forum regionally / internationally
 - Government and private entities (SME and financial institutions)
- APEC SME Ministers and APEC Forum on Financing Small and Medium Enterprises (SEP 2015) are good opportunities to discuss how to fill such gaps.

Related Schedule

- May ASEAN SME WG
- OECD Regional SME Policy Network meeting[BKK]
- ASEAN SME Showcase, APFF SME forum [KL]
- APEC MRT [Boracay]
- June APEC SME WG [Atlanta]
- July APFF SME Forum [Cancun]
- Japan-ASEAN PPD for New business [KL]
- Aug ASEAN/EAS Ministerial / Business Dialog [KL]
- Sep APEC Financial Ministers
- APEC SME Ministers, Financial Forum [Iloilo]
- Nov ASEAN/EAS/APEC/G20 Leaders
- ASEAN SME WG...[TBD]

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Created based on author's available information. Not fixed or final schedule.