



Market Based Innovative Long-Term Financing Solutions for SMEs

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A “Holistic Approach” is necessary when it comes to LTF and SME Financing

A broad range of interconnected factors need to be considered to enhance LTF and SME financing:

- Restoring financial stability and confidence in the markets
- Efficiency and effectiveness of markets to offer LTF instruments
- Capacity of financial institutions to channel financing
- Financial infrastructure should be in place (taxation, accounting rules, auditing standards, etc)
- Availability of different financing options for SMEs

The current landscape

- Bank deleveraging and capital requirements
- Budget deficit & fiscal constraints— government funding under severe pressure
- Increased supply and demand gap for SME financing
- The need to channel private capital into SME financing
- An evident shift from bank to market based financing

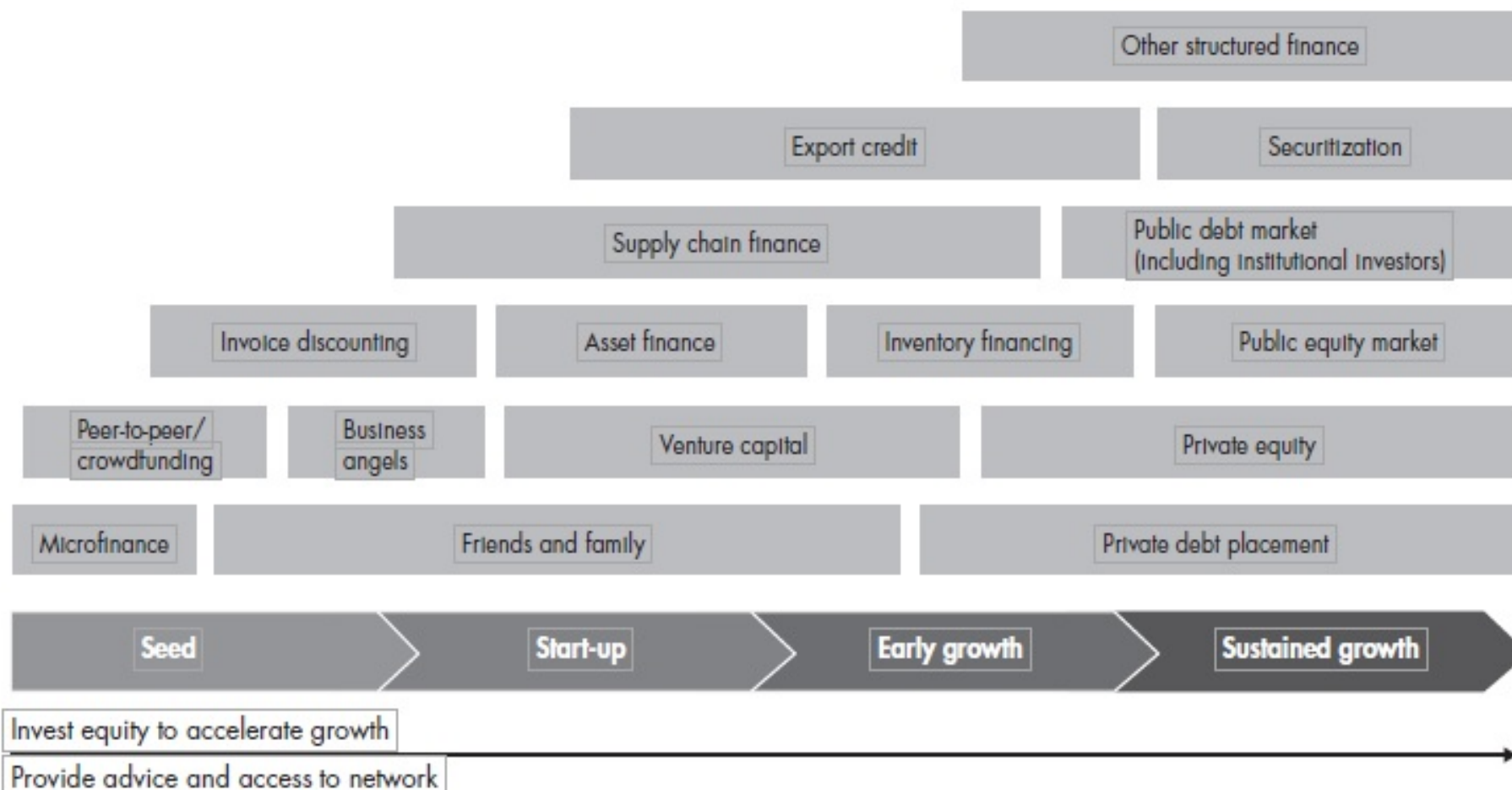
What are the main issues and impediments in SME Financing ?

- “Liquidity” is a major problem keeping the demand side (institutional investors) away from SME shares
- Improving credit information about SMEs
- Analyzing the funding escalator. Financing issues in different phases of the life cycle of an SME.
- Improving SME loan data
- Issues around financial infrastructure (bankruptcy laws, disclosure requirements, accounting rules and auditing standards)
- Role of governments and government support

What are the main issues and impediments in SME Financing? - Cont

- Impact of the macro-prudential regulation
- The role of technology to meet the suppliers of capital with SMEs (e.g. crowd funding)
- Possible role for securitization
- Secured transactions
- Developing other non-traditional sources of finance (leasing, supply-chain finance, internet based financing such as crowd funding).
- Larger businesses stimulating growth through supporting SMEs

Figure 12: As companies grow, their financing needs change



Crowd Funding & SME Financing An Infant Industry Growing Fast

- IOSCO Research Report on CF
- CF and SME financing
- Financial return CF is growing rapidly
- Currently, there is no cross-jurisdictional harmonization in the regulation of CF
- Yet CF does not present systemic risk to the financial system at present, mainly due to its small size. However, rapid future growth of the market could change this.
- Concerns about investor protection

IOSCO G-20 Report on Long Term Financing of SMEs and Infrastructure

- **IOSCO Long Term Financing Task Force**
 - 86 stakeholder consultations
 - One Public Conference
 - Madrid Board Decision - Research Note to the G20
- **Research Report on Market Based Financing Solutions**
 - 20 case studies (Emerging and Developed markets)
 - A joint dialog between IOSCO and the industry
 - Factual assessments without any recommendations or principles on LTF of IS and SMEs

Long-term Financing

Market-based Solutions for SMEs

Equity Capital Market

Multi-tiered Market:
NEEQ-China

Multi-tiered Market:
TMX-Canada

Listed Acquisition Vehicle:
TSXV Capital Pool Company Program

Debt Capital Market

Micro-credit ABS:
Alibaba

SME Loan ABS:
Quadrivio

Securitization

SME Leasing:
German Mittelstand

Trade Receivables:
Trafigura

Franchise:
Domino's Pizza

Auto Loan:
Korean Auto ABS Market Primer

Pooled Investment Vehicles

Business Development
Companies

Market-based Solutions for Infrastructure

Equity Capital Market

Asset Spin-off:
YieldCo

Infrastructure Project IPOs:
IPC Initiative

Debt Capital Market

Sector Specific Bond:
Green Bonds

Municipal Bonds:
Lagos State Bonds

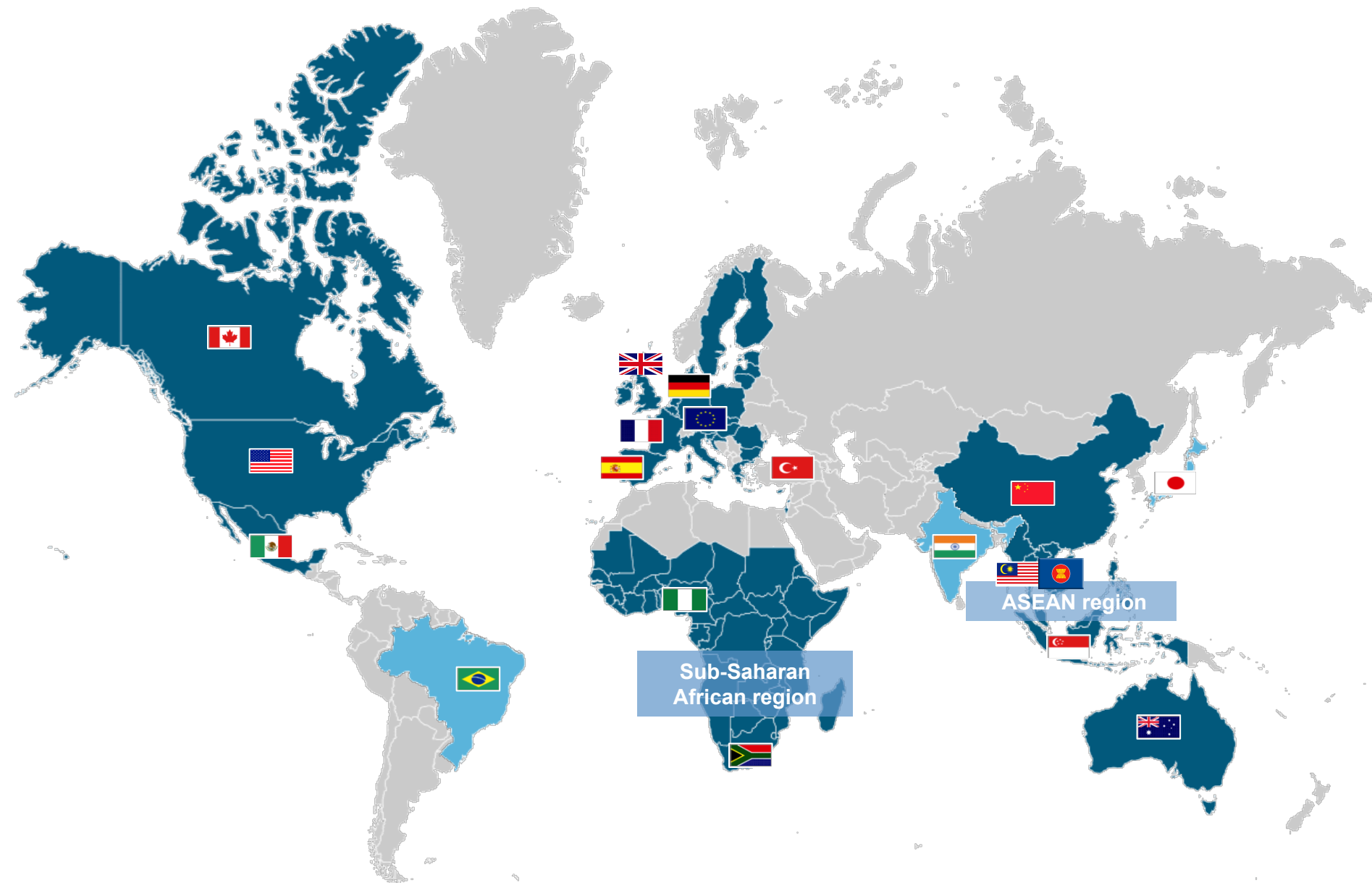
Islamic Finance-Sukuk:
TNB Western Energy Berhad
Europe 2020 Project
Bond Initiative

Securitization

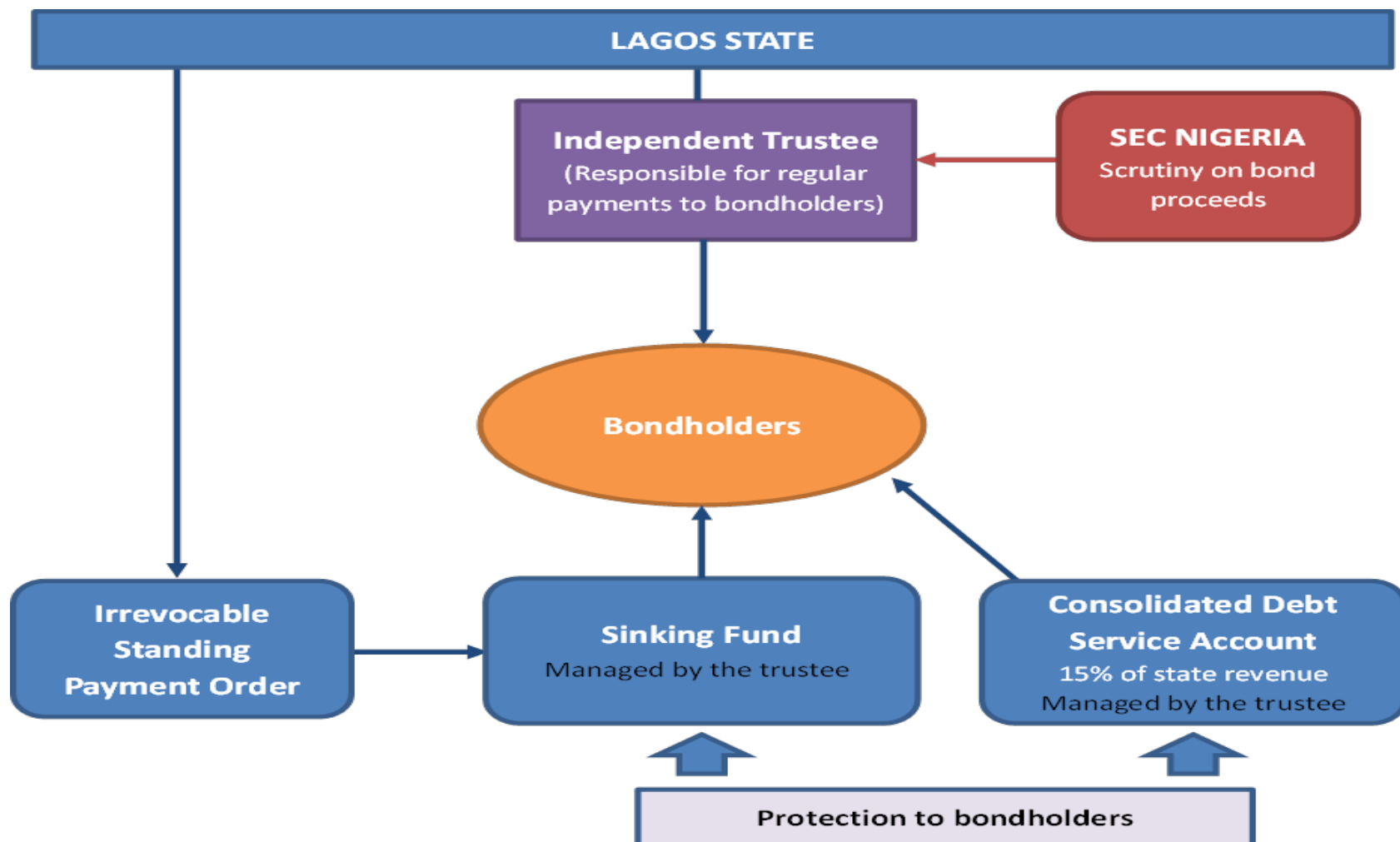
INFONAVIT and FOVISSSTE
Mexico

Pooled Investment Vehicles

Emerging Africa
Infrastructure Fund
Infrastructure Fund:
IFM Investors
ASEAN Infrastructure
Fund



Structure of the Lagos State Municipal/Subnational Bond Program



Common Themes for SMEs and Infrastructure

- **Impact of Regulation**
- **Ways to Improve Financing Conditions**
 - Catering to Existing Investors' Needs
 - Accessing Broader Investor Base
 - Establish New Investors/Facilitators
 - Setup New Markets
- **Role of Governments and Development Banks**
- **Challenge of Deal Sourcing and Due Diligence**

Themes Specific for SME Financing

➤ Economies of Scale

- Use of technology for standardization, automation and portfolio management
- Leveraging on standardization at the business level (franchise, equipment leasing, auto or trade finance)

➤ Risk Management

- Collateral based financing
- Risk sharing arrangements, risk retention, credit enhancement
- Loan monitoring and recovery

The Role of Securitization

- Important market based finance technique
- Development of simple and transparent securitization structures (BCBS-IOSCO review)
- The case studies in the RN demonstrate:
 - Simple structure, transparent and well-identified assets
 - Track record of asset performance
 - Risk transfer to non-bank financial institutions
 - Lower cost of financing compared to other options
- Uncertainty about regulatory treatment of securitization

Some Key Takeaways

- Solutions are already there in the market place. Policymaker should recognize the ingenuity of the markets
- Technology and innovation are changing finance
- Regulators and markets should benefit from each other's experiences
- Regulation should create a “level playing field”
- Sustainable market based SME financing through policy design and regulation
- “Smart regulation” rather than “strict regulation”

Thank you