

SME Finance and Credit Rating of SMEs

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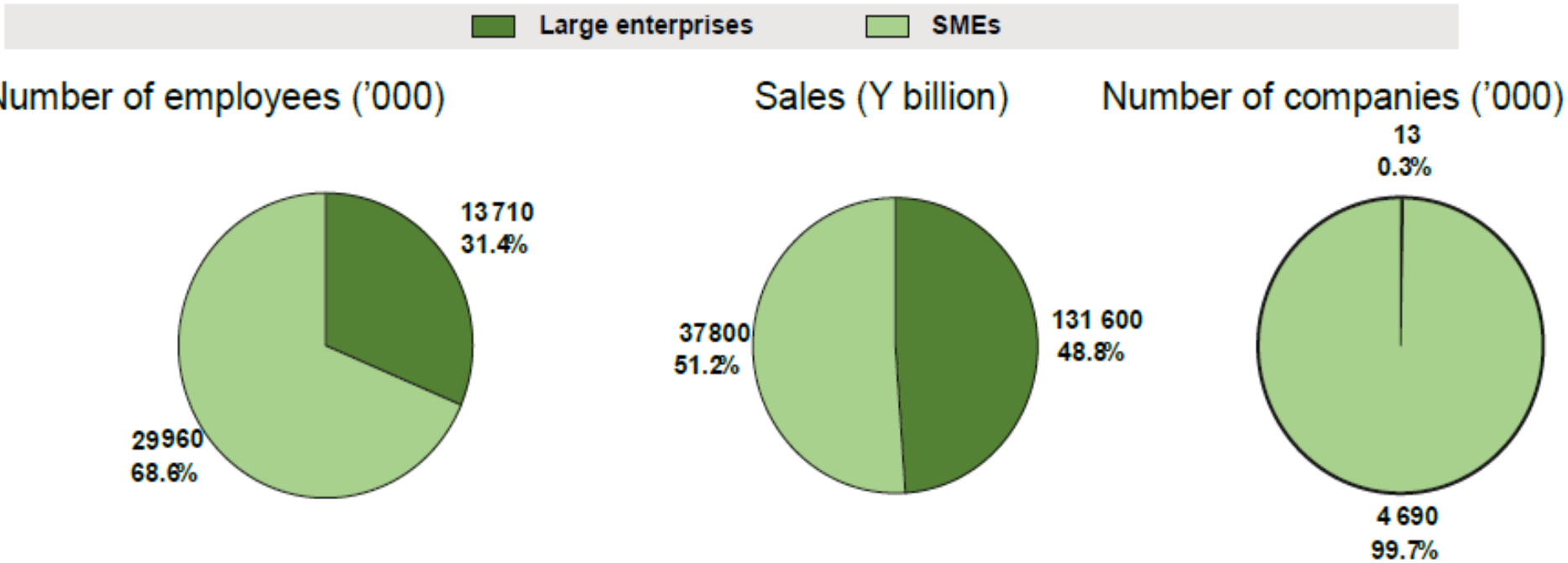
I. Introduction: SME Finance

- Venture business:
- Successful Japanese examples:
 - Toyota, Honda, SONY, Seven-Eleven
- **HONDA had no support by the government**
- **HONDA could not borrow money**
- M-bank made loans to HONDA
- How to finance start-up business?
- Human capital development in SME

II. Asian Financial Markets: Main Features

1. Bank-dominated financial system
2. Small share of bond markets Needs for long term financing
3. Lack of long-term investors such as pension funds and life insurance
4. Bench mark bond market (sovereign bond) Infrastructure bond, corporate bond
5. High percentage of SMEs
6. Large share or Microcredit (finance companies); lack of venture capital

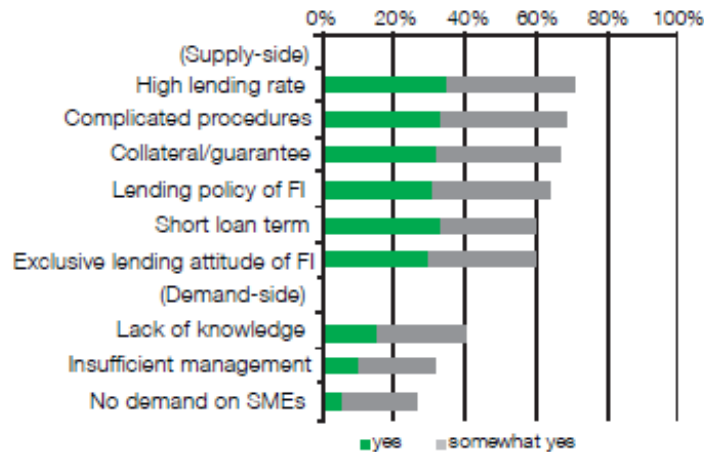
III. SMEs in Japan



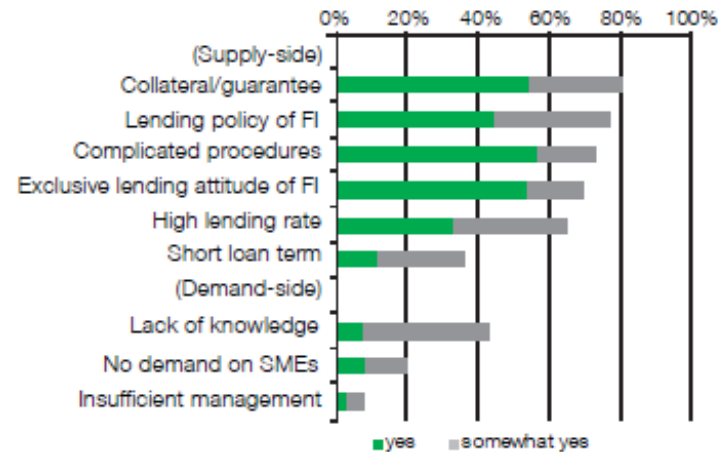
Source: White Paper on SMEs, Japanese Government, METI, 2011.

Barriers for SMEs in Accessing Financial Institutions

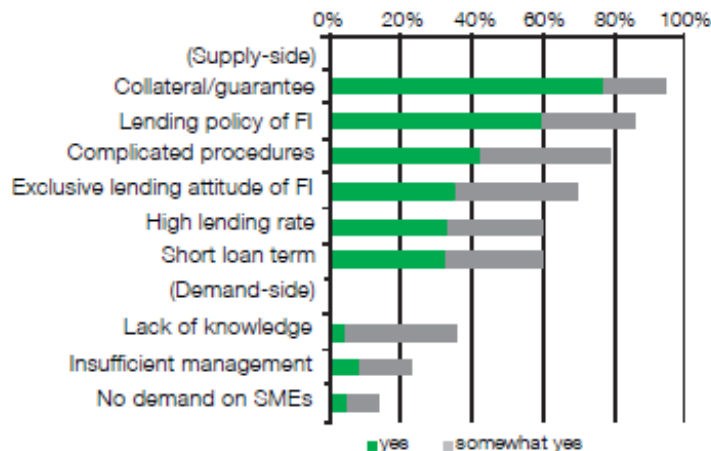
A. People's Republic of China



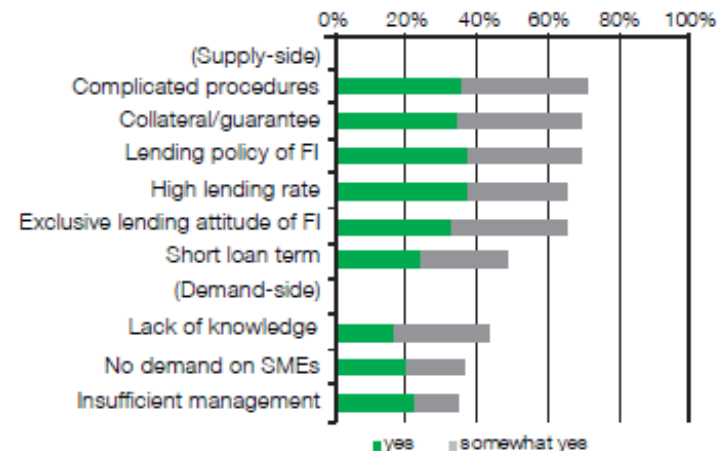
B. India



C. Republic of Korea

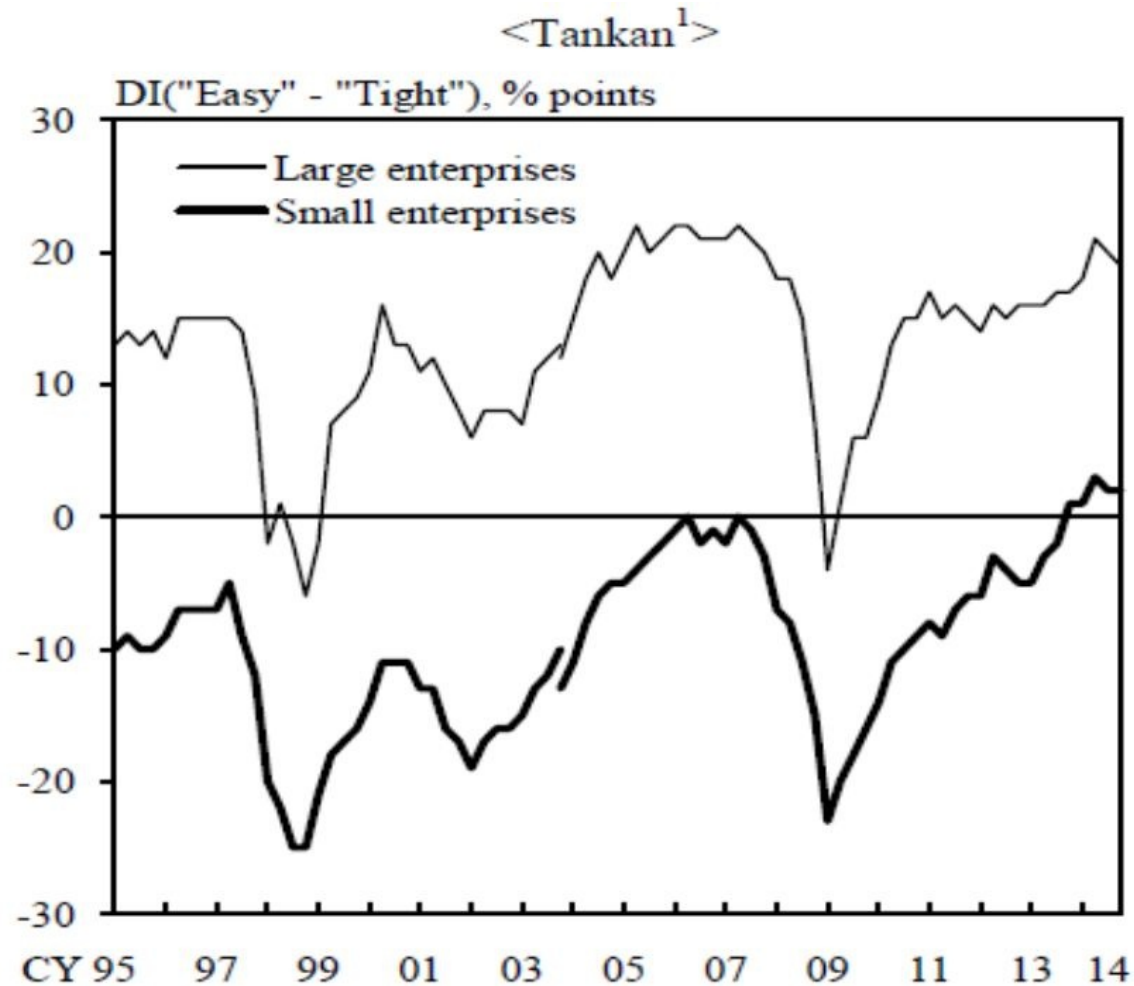


D. Malaysia



Source: ADB–OECD study on enhancing financial accessibility for SMEs: Lessons from recent crises. Mandaluyong City, Philippines: Asian Development Bank, 2013

Access to Finance by SMEs and Large Firms in Japan



Borrower, Lender and Market

Borrower
SMEs
Individuals

Market

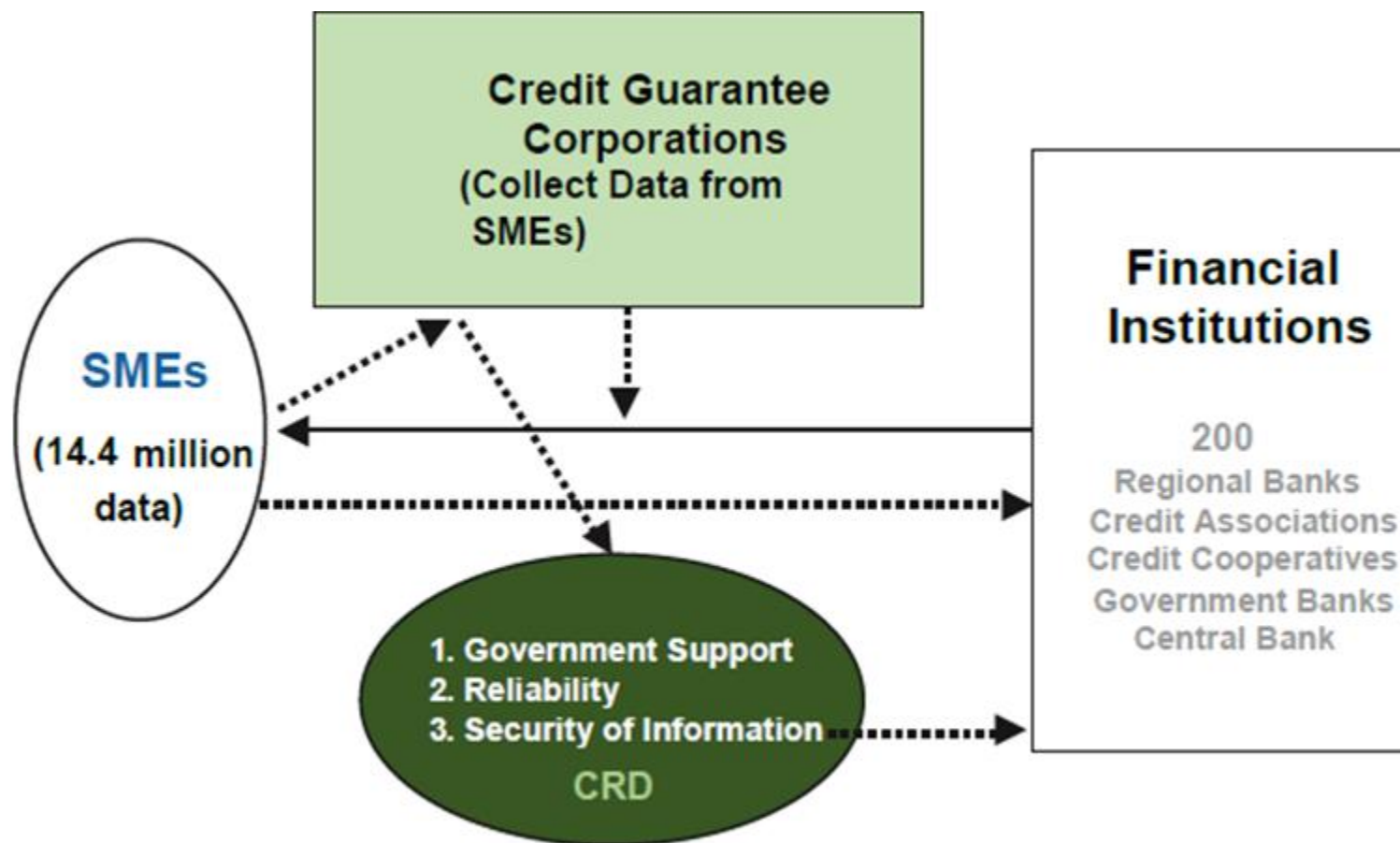
Lender
Banks
Microcredit

Information Asymmetry
Especially SME market

Four Accounts by SME

1. Account to show to **bankers**
2. Account to show to **tax authority**
3. His own account
4. Account to show to **his wife**

Credit Risk Database of Credit Guarantee



Source: Yoshino (2012).

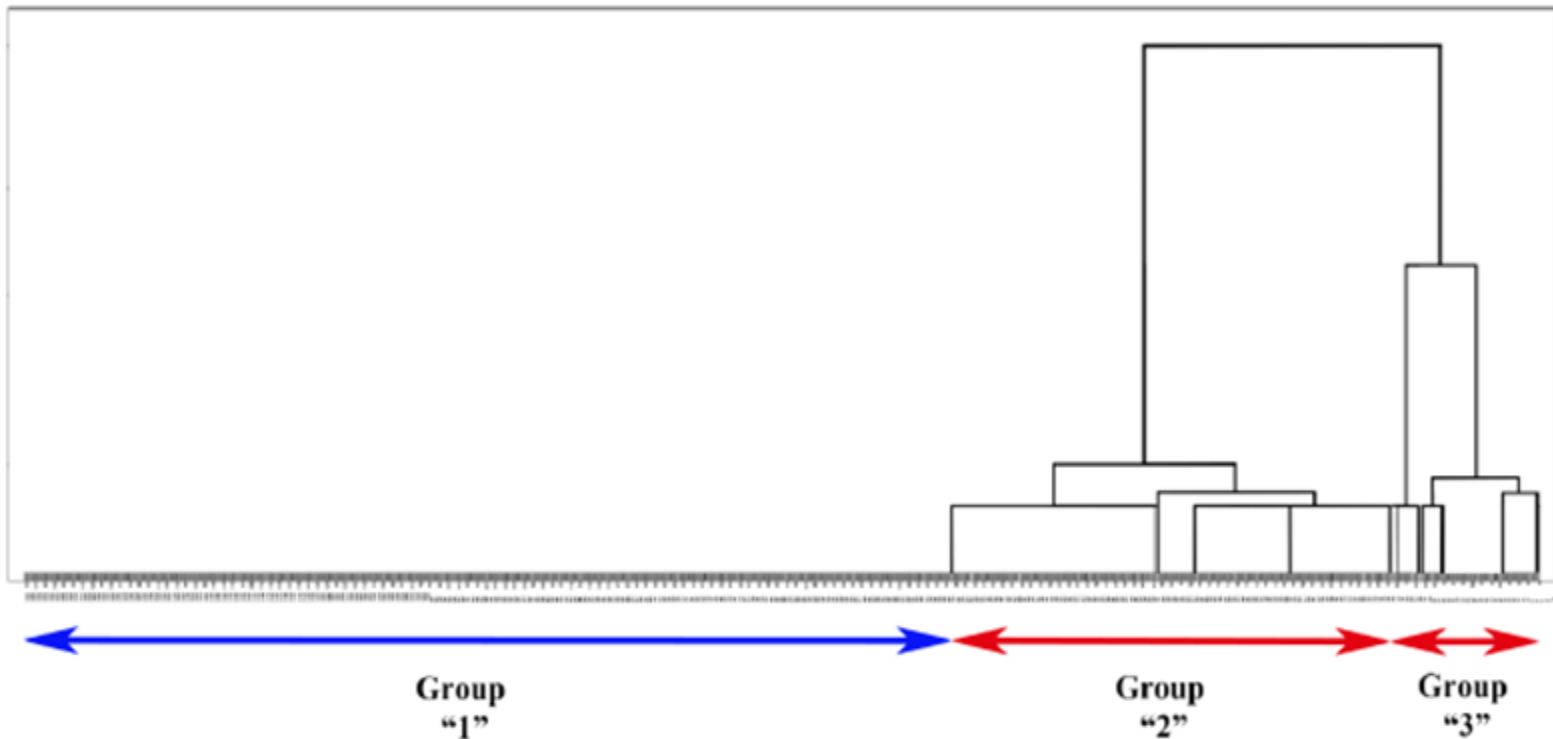
Examined Variable

No.	Symbol	Definition	Category
1	Equity_TL	Equity (book value)/total liabilities	Leverage
2	TL_Tassets	Total liabilities/total assets	
3	Cash_Tassets	Cash/total assets	Liquidity
4	WoC_Tassets	Working capital/total assets	
5	Cash_Sales	Cash/net sales	
6	EBIT_Sales	Ebit/sales	Profitability
7	Rinc_Tassets	Retained earnings/total assets	
8	Ninc_Sales	Net income/sales	
9	EBIT_IE	Ebit/interest expenses	Coverage
10	AP_Sales	Account payable/sales	Activity
11	AR_TL	Account receivable/total liabilities	

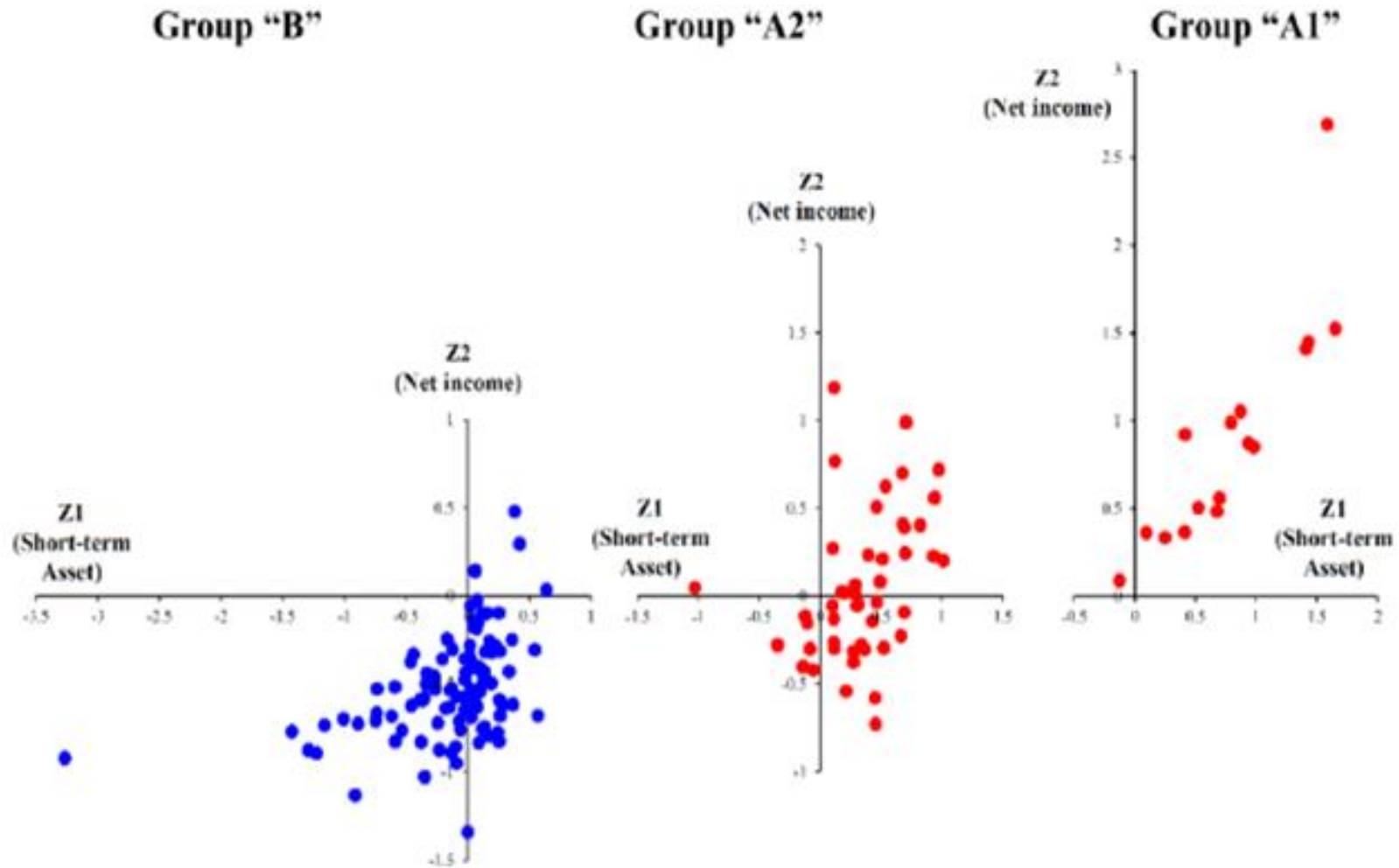
Note: Retained earnings = the percentage of net earnings not paid out as dividends, but retained by the company to be reinvested in its core business or to pay debt. It is recorded under shareholders' equity in the balance sheet. Ebit = earnings before interest and taxes. Account payable = an accounting entry that represents an entity's obligation to pay off a short-term debt to its creditors. The accounts payable entry is found on a balance sheet under current liabilities. Account receivable = money owed by customers (individuals or corporations) to another entity in exchange for goods or services that have been delivered or used, but not yet paid for. Receivables usually come in the form of operating lines of credit and are usually due within a relatively short time period, ranging from a few days to a year.

Cluster analysis: The average linkage method

Dendrogram Using Average Linkage



Grouping Based on Principal Component and Cluster Analysis



Credit Rating of SMEs using Asian Data

(i) Sales

(ii) Assets

(iii) Liquidity (Cash)

(iv) Total Debt

IV. Financial Education for SMEs

Education Program and Textbooks

- 1. Financial Planners Association:**
Individual Borrowing
- 2. Central Bank of Japan:**
Text books, **educate school teachers,**
regional Education Program
- 3. Various Financial Associations:**
Bankers Association, Stock Exchange

V. Alternative Solutions: Start up businesses

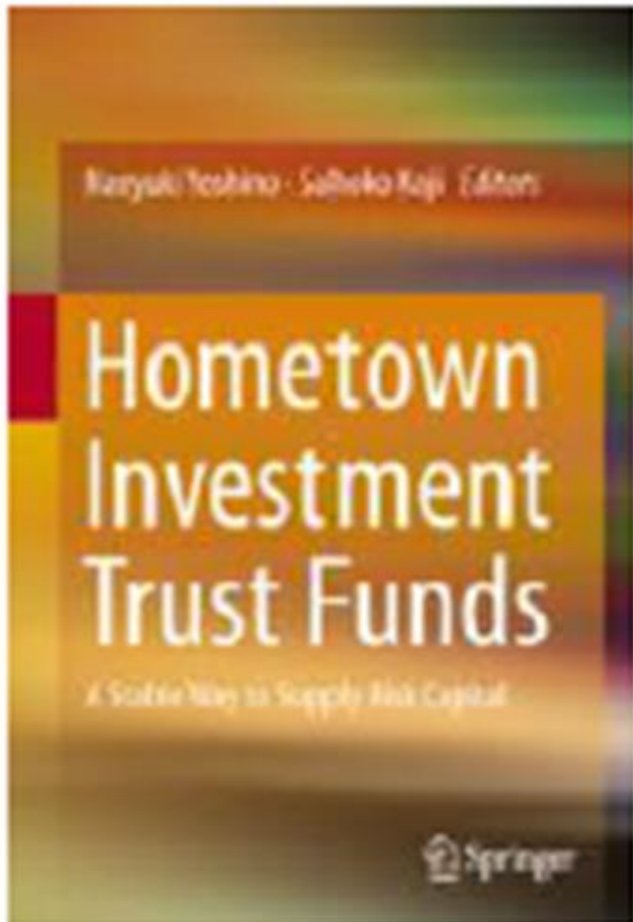
Hometown Investment

A Stable Way to Supply Risk Capital

Yoshino, Naoyuki; Kaji Sahoko (Eds.)
2013, IX, 98 p. 41 illus., 20 illus. in color

Available Formats:

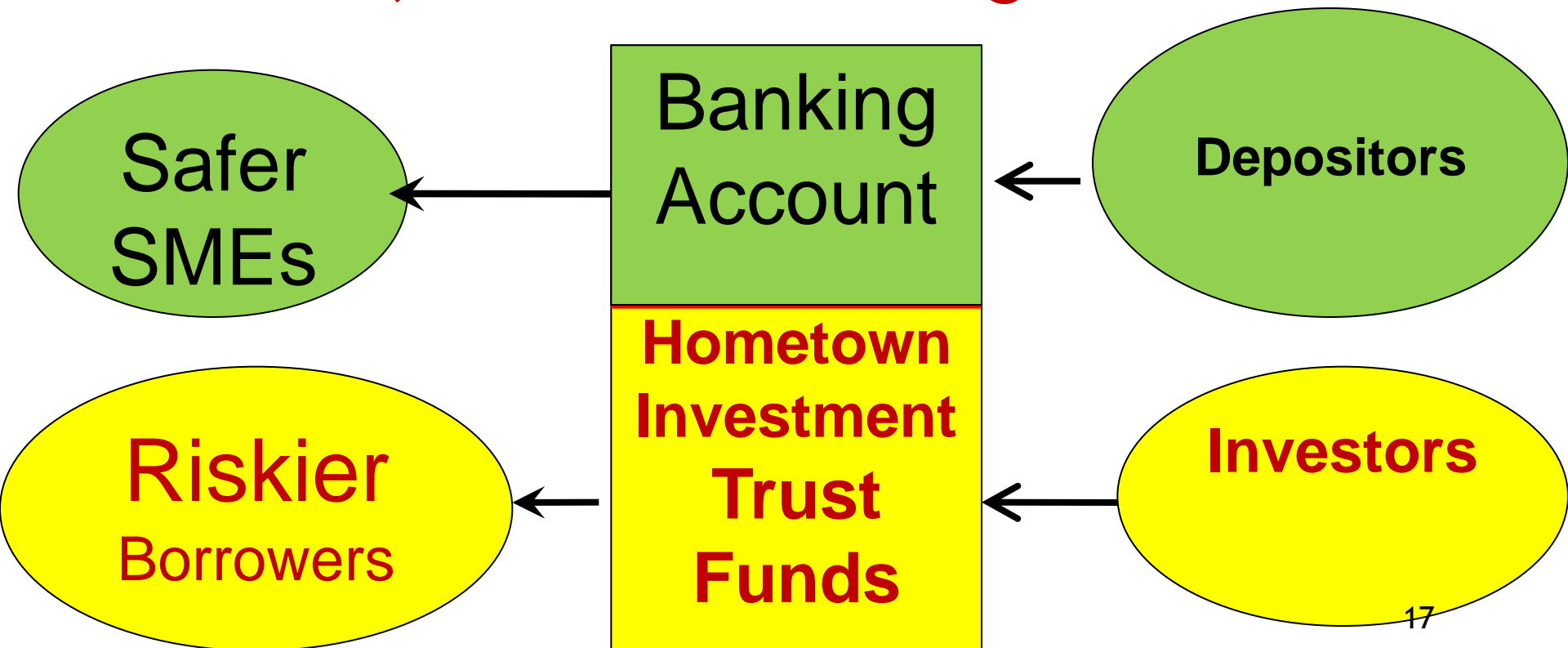
- ebook
- Hardcover



Bank-based SME financing and regional financing to riskier borrowers

1. Bank Loans to relatively safer borrower
2. Hometown Investment Trust Funds/

E-Finance, Internet financing



Investment in SMEs and start up businesses



Two Types of Investors

1. Community Type Infrastructure

- **Hometown Investment Trust Funds**
 - Wind power Generator Funds
 - Japanese Wine Fund
 - **Local Airport**
 - **Agricultural Sector**

2. Large Projects and Professional Investors

- Pension Funds **Brown fields**
- Insurance companies **Not green field**
- Mutual Funds

Reference: Cargill and Yoshino: "Postal Savings and Fiscal Investment in Japan". Oxford University Press

Credit Guarantee Mechanism

1. Credit Guarantee System
 - 100% guarantee
 - Partial guarantee (80%, 20%)
2. Differential guarantee ratio to each bank based on their past performance
3. How to avoid moral hazard ?
4. To reduce information asymmetry
5. Temporary downturn of business
6. Structural downturn of business
7. Costs and Benefits of Credit Guarantee

***Thank you very much
for your attention***



Sharing development knowledge
about Asia and the Pacific