



Capital Market Solutions that Help Mobilise Financing for SMEs

Special Report

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This paper presents capital market solutions that help mobilise financing for SMES, discusses preconditions and challenges for establishing them, and makes recommendations which will enable the sector to fully reap the benefits of a more diversified sources of funding.

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Introduction and Background

The largest portion of enterprises in the world are Small and medium enterprises (SMEs.) These consist of firms varying widely in size and characteristics, namely from very small start-up firms in an infant stage of development to established SMEs already listed on the stock market. Small and medium enterprises face significant financing gaps that stifle innovation and economic growth. The credit gap alone is estimated at \$4.5 trillion as of 2017 for Emerging Markets and Developing Economies (EMDEs) only. This represents the unmet financing needs of 21 million SMEs. The inability of these enterprises to sufficiently fund their development threatens larger growth trends in EMDEs as formal SMEs constitute 45 percent of employment and 33 percent of gross domestic product (GDP) in EMDEs.¹ Key reason for SMEs' limited access to finance is due, in part, to the relatively higher risks associated with investing in them. The SME financing challenge has been particularly exacerbated following the introduction of significant financial regulatory reforms in the aftermath of the global financial crisis, heightening banks' risk aversion when extending loans. Capital markets, therefore, have an imperative role in bridging this financing gap through the provision of alternative funding sources for SMEs, particularly as their needs evolve over the different phases of their life cycle.

The objective of this paper is therefore, to present capital market solutions that help mobilise financing for SMES, discuss preconditions and challenges for establishing them, and make recommendations which will enable the SME sector to fully reap the benefits of a more diversified sources of funding. The paper is broadly structured into four parts. The first part presents type of financing required at each stage of an SME life cycle. The second presents factors constraining SMEs in accessing financial resources while section three discusses capital market solutions that help mobilise financing for SMES. Section four presents preconditions and challenges for the emergence of many of the solutions. Section five highlights some country experiences in equity capital markets for SMES. The paper concludes by making recommendations for capital markets policy actions in the development and financing of the SME sector in Africa.

I. Type of Financing Required at Each Stage of an SME Life Cycle.

The following are financing required at each stage of an SME life cycle:

¹ World Bank Group, "Capital Market and SMES in Emerging Markets and Developing Economies: Can They Go a Distance", p.19. <https://openknowledge.worldbank.org/handle/10986/33373>

- (i) At the start of a small business or during the seed stage, personal savings of entrepreneurs, family and friends, etc. are often the most important sources of financing, as these firms tend to be highly risky with intangible assets, a lack of trading history and informational opacity. These features pose difficulties for small businesses to secure loans from financial institutions, such as banks.
- (ii) At the second phase of survival during the start-up stage, personal funds become depleted and external sources of funding become necessary. At this stage, the investment in small businesses is still regarded as high risk and the business is not large enough to attract the attention of venture capitalists. Wealthy individuals like business angels (as defined below) can fill the gap between personal funds and institutional venture capital funds. The other appealing factor with regards to business angels is that they contribute their expertise, knowledge and contacts.
- (iii) After the small business has passed through the early stages, it requires a further injection of capital to fund growth. At this stage, the SME may still not qualify for debt financing due to its reliance on intangible assets, inability for investors to assess its future growth prospects, low profitability and short track record, thus making the SME unsuitable to raise equity through a public listing. Venture capitalists play a role in alleviating such financing obstacles faced by young firms at this stage. Venture capitalists scrutinize such firms intensively before providing capital and then monitor them closely afterwards.
- (iv) In the more advanced stages, such as the emerging and the development stages, the firm has established a track record, has the ability to provide collateral and information regarding its performance and has become more transparent, such that it may access securitised debt and publicly listed equity markets. The firm can access debt financing such as bank loans, mezzanine funding, and debt securities.

II. Factors Constraining SMEs in Accessing Financial Resources.

Key factors which constrain access to finance by SMEs are categorized as demand and supply factors.

The supply factors are among others, banks refusal to lend due to risks arising from track record of performance, risk of default, lack of collateral, lack of management knowledge and experience, and poor presentation of the business plan. On the demand side many entrepreneurs do not like to borrow long term loans because of high rate of interest that is compounded annually.

These constraints can be categorized into firm characteristics, financial characteristics, and ownership characteristics. Firms characteristics include size, years of operations, and ability to produce collateral of the business. Financial characteristics on SMEs' funding include factors namely, start-up capital, current status of capital, interest rate, banking process, repayment period, and business plan. Entrepreneurial characteristics consists factors such as, education, experience, management skills and relationship building.

To overcome some of the constraints, it is necessary for governments and other relevant stakeholders in African countries to design programmes and policies that are market driven and market non-distorting to support SMEs. These include among others the creation of stable macroeconomic conditions, liberalizing the economy, and encouraging the growth of micro-financing business, enacting laws to guide the development and sustainability of micro-finance institutions, while at the same time allowing them to collect deposits. Nevertheless, the challenge to SMEs in accessing financial services will also depend on how they increase their own creditworthiness.

III. Capital Market Solutions that Help Mobilise Financing for SMES

Capital market solutions that help to mobilise financing for SMEs are categorized into two main groups, namely (a) indirect and (b) direct mechanisms²

a) Indirect Mechanisms for SME Financing

Indirect mechanisms refer to capital markets solutions that are used by Medium and Small Scale Enterprise (MSME) lenders to improve their funding structure so that the lenders can compete more effectively in the credit markets. These could in turn result in an expansion of SME financing; the provision of credit to SMEs on better economic terms; or both.

² Ibid pp. 15-23

Indirect mechanisms, which are implemented in some emerging and developing economies are:

- I. Plain vanilla issuances by specialized SME lenders; and
- II. SME loan securitization.

(i) Plain Vanilla Issuances

Plain Vanilla issuances by specialized SME lenders are defined as equity and debt issuances by entities different from banks that provide financing to microenterprises and SMEs. These include microfinance institutions, cooperatives, factoring and leasing companies, and, more recently, fintech companies that specialize in providing financing online. Some of these entities cater to SMEs that are not served by banks. In addition, some of them require less collateral than that required by banks. This is of particular importance to SMEs because many of them lack the type of collateral (real estate) that banks prefer. Plain Vanilla issuances by specialized SME lenders are a viable solution for many Emerging and Developing Economies (EMDEs). Recent examples in Africa include issuances in Zambia (Bayport), Kenya (Faulu), and Tanzania (Pride), which attracted interest from both global and local institutional investors. Nevertheless, in some countries, access has remained relatively restricted to larger, well established nonbank financial institutions (NBFIs). Smaller NBFIs have struggled to tap the local markets for various reasons - including the cost of listing requirements relative to the size and sophistication of the NBFI, weak governance structures, and the inability to meet minimum credit ratings (in the case of bond issuances), among other constraints. That is why, for example, initial bond issuances by less-established NBFIs have typically required credit enhancements or anchor investments from reputable banks or DFIs. See box 1, regarding, the case of corporate bond issuances by specialized SME lenders: Bayport in Zambia.

Box 1: Bayport Financial Services Corporate Bond Issuance in Zambia.³

Bayport is Zambia's largest microfinance lender, serving more than 100,000 customers across 30 branches, with a net loan book of US\$216 million. As a market leader in payroll-based lending, Bayport wanted to expand its services to small businesses and low and middle-income borrowers. With support from the International Finance Corporation (IFC), Bayport established a medium-term note program that would enable it to regularly raise funds in the domestic capital markets to fund the expansion of services. In 2014, Bayport became the first nonbank financial institution in Zambia to tap local capital markets, with the issuance of a four-year medium-term note of ZMW172 million (US\$26.5 million at the exchange rate at the time). The initial ZMW150 million offered was increased by ZMW21 million in response to strong investor demand. The IFC provided an anchor investment of ZMW60 million (US\$9.3 million at the exchange rate at the time) and the African Local Currency Bond Fund, a unit of Germany's KfW, committed to invest 13 percent of the issuance. These anchor investments enhanced Bayport's profile and attracted other investors, including pension funds and insurance companies, to the transaction. Bayport has since issued a second five-year corporate bond worth ZMW300 million in the local capital markets. The issuance was approved by the Securities and Exchange Commission of Zambia in 2017.

(ii) SME Loan Securitization

SME loan securitization is a financing technique that allows the transformation of SME loans, which are illiquid in nature, into tradable securities. To this end a bank or SME lender (the "originator") bundles a package of SME loans into a pool ("portfolio") and sells the portfolio to capital market investors through the issuance of securities by a special purpose vehicle (SPV). The securities are backed by the loan portfolio (asset-backed securities (ABS)). They potentially enable banks to achieve economic and regulatory capital relief. Also, this solution could reduce the cost of financing for SMEs. Further, SME securitization can potentially have a multiplier effect in the funding available to SMEs if the lender uses the capital "freed" through the transaction to lend again to SMEs. From an investor's perspective, SME loan securitization could have many benefits. First, it enables investors to gain access to an asset class whose performance is tied to the whole economy. While other asset classes can do that, the attractive feature of SME securitization is that it has the potential to include a portfolio of more diverse and granular (smaller individual) assets, thus allowing investors to better diversify their risk. India is one of the few countries where SME loan securitization is used consistently. To a large extent its use has been driven by regulatory requirements imposed on banks, which are required to meet certain targets for

³ IFC, "Case Study: Bay Port Financial Services: How Can Businesses Tap Local Capital Markets to Expand," <https://openknowledge.worldbank.org/bitstream/handle/10986/30336/106018-BRI-PUBLIC-EMCompass-2-EMCompass-Case-Study-Bayport-Financial-Services.pdf?sequence=1&isAllowed=y>

SME financing either through their own lending or via holdings of ABS in which the underlying assets are SME loans. This requirement has prompted securitizations by microfinance institutions. Specialized lenders are using the securitization markets as their first step to access the capital markets.

SME securitization seems more viable for larger EMDEs, since development of SME loan securitisation requires a corporate bond market to already be in place. Further, given the risk imbedded in SME loans, the existence of a public guarantee program might be a critical element to align the risk appetite of investors with SME securitization. The other critical challenge affecting the viability of the product is the need for a sufficient volume of quality SMEs.

b) Direct Mechanism for SME Financing

Until recently SMEs had very few mechanisms to access the markets directly. In general, two mechanisms have been used: venture capital (VC) and private equity (PE) funds and small securities offerings via private or public placements. However, VC funds have been restricted to start-up companies and PE funds to more established/larger companies, and small securities offerings have been an option mainly for the larger SMEs. Since the recent financial crisis, other solutions are emerging that have the potential to serve a wider range of SMEs. These include among others receivable based solutions, receivable platforms, lending platforms, and equity solutions.

(i) Receivable-based solutions:

Even before long-term finance, what most SMEs need is working capital. Although many factors affect the cash flows of SMEs, a key element refers to the contractual terms under which SMEs sell their goods and services, terms which in many cases require them to sell at credit and under extended payment terms. While late payment terms help buyers optimize their own working capital, from the SME perspective late payments increase their costs and financial uncertainty and could result in bankruptcies of otherwise viable businesses. In practice, this situation forces many SMEs to sell their receivables (credits) and under extended payment term to banks or factoring companies to obtain liquidity. However, in many cases, the spreads are high, because of lack of competition. Financial technology has opened space for competition to the factoring industry and have improved the conditions under which SMEs obtain short-term funding via different types of solutions. Some of those solutions aim to bring capital markets

investors to the table. These solutions have the potential to expand SMEs' access to working capital, both by expanding the range of SMEs that could get access to financing and by providing better conditions than those offered by more traditional solutions, in terms of the spreads paid. The key to obtaining such benefits lies in increasing competition in the factoring industry via the entrance of additional "financiers".

(ii) Receivable platforms:

Receivable platforms are defined as electronic platforms that enable SMEs to sell their receivables directly to a wide range of investors. The platform acts exclusively as an intermediary that prescreens the receivables using proprietary technology, but ultimately the credit risk is borne by the investor. The platforms create a market place for receivables by allowing the entrance of a plurality of investors. Available data indicate that volumes traded on this type of platforms are growing significantly. From 2013 to 2017, the volume of financing raised in these platforms grew from \$0.3 billion to 6.7 billion. Most of these volumes were raised in China. Other countries in the top 20 include Chile, Czech Republic, Mexico, Slovenia, Estonia, United Arab Emirates and Poland. In EMDE's, some of the platforms have been developed with government support. In some cases, domestic development banks have been directly involved in the creation and implementation of the platforms. The operators of the platforms vary in some cases, the platforms are operated by "traditional" exchanges, while in others they are operated by fin-tech companies.

(iii) Lending platforms:

SME lending platforms are defined as platforms that consumers and businesses can use to obtain loans directly from a wide range of investors. The platforms act exclusively as intermediaries. Their role is to prescreen the loans through a low cost information technology that allows them to collect standardized information from dispersed borrowers to assess the credit risk, but the ultimate decision to invest relies on the investors who bear such credit risk. Lending platforms have been growing at a very fast pace and currently concentrate the bulk of the volume raised via fintech solutions for fundraising. From 2013 to 2017 volumes raised in lending platforms grew from \$8.8 billion to \$ 345.3 billion. Although most of the funding has been raised in China, other countries in the top 20 include Korea, Georgia, Poland, India, Latvia, and Brazil

(iv) Equity Solutions.

Venture Capital (VC) has been a key mechanism for equity financing of innovative firms. In EMDEs VC is at an earlier stage of development. The public markets, on the other hand, have not been accessible to SMEs. Companies that want to raise equity financing from the public are subject to not only disclosure requirements but also corporate governance obligations, both aimed at protecting investors. It is required that investors have all the necessary information to make their investment decisions. In addition, corporate governance obligations are imposed on the companies seeking equity investors to ensure that the company works to the benefit of all its shareholders. In practice, the imposition of disclosure and governance requirements has had consequences for SMEs' use of the public equity markets. Governance requirements constitute a tremendous challenge for SMEs. Most SMEs are family owned and lack the governance that outside investors require, from a board with independent directors who are able to exercise effective oversight of management to a management structure that is supported with robust internal policies and procedures across all activities. Furthermore, because they are often family owned, many SMEs are reluctant to open their capital to outside shareholders and be accountable in their decisions to such shareholders. Increasingly, countries are looking at mechanisms to ease SME access to equity financing via the capital markets. In general, two types of developments are taking place. First, countries are revisiting the definitions of public and private offerings in an effort to reduce the requirements for companies to access the capital markets under specific conditions. Equity crowdfunding is a key example of such adjustments. Second, countries are developing specialized SME equity exchanges, with the objective of fostering the liquidity of SME equity issuances.

(v) Equity Crowdfunding:

Is defined as electronic platforms that allow companies to raise equity, or equity like funding directly from investors. The platform acts as a conduit, putting together investors and companies in need of resources. The platforms are obliged, however, to conduct due diligence on the companies that want to raise capital through them, in order to ensure that the companies do exist and that the information they provide to investors is true, thus mitigating the risk of fraud. Equity crowdfunding provides retail investors access to an asset class that in the past was restricted to sophisticated investors. Previously, the main vehicle to invest in start-ups was VC funds to which institutional investors and high net worth

individuals had access. Retail investors were mostly confined to the public markets, which in most countries target companies that have a track record and are already profitable. Available data indicate that equity crowd funding is growing. From 2013 to 2017, equity raised via crowd funding grew from \$0.2 billion to \$1.3 billion. Although China was responsible for most of that amount, other EMDEs, namely India, Korea, Malaysia, Brazil, The United Arab Emirates and Indonesia also made the top 20 countries by total volume.

(vi) Equity Issuances and Specialised SME Markets:

Over the past 10 years, many countries have sought to develop specialized SME exchanges, based on proportionate requirements, on which SME equity offerings could be listed and traded. Such exchanges seek to alleviate the burden and cost of regulatory compliance that may deter SMEs from listing. The proportionality principle usually applies to performance, disclosure, and governance requirements. As of 2018, there were 37 exchanges classified as SME equity exchanges or alternative equity markets globally, with 25 of them in EMDEs, listing over 7,000 companies (World Federation of Exchanges database). In spite of the relatively large number of SME equity exchanges, the bulk of listings are concentrated in a few exchanges. Of the top 10 SME exchanges measured by market capitalization, seven are located in six advanced economies, while the remaining three are located in two EMDEs— China (which has two SME exchanges, ChiNext and the Growth Enterprises Market) and Romania. In most cases, the SME exchanges operate as a second board within the structure of a traditional exchange. In only a very few cases are there stand-alone SME exchanges. A 2018 report by the World Federation of Exchanges (WFE 2018) based on information from 33 exchanges showed that in two-thirds of the markets covered, the capitalization of the SME board is less than 1 percent of the total market capitalization of the main exchange.

See box 2 below on how SMEs can raise capital: the case study of Kenya⁴.

Box 2: How SMEs Can Raise Capital: The Case of Kenya

Capital is money or resources set aside for a specific purpose, usually starting or expanding a company. All businesses, regardless of their size, need capital to offset daily running costs, build

infrastructure, for marketing, research, and development, customer acquisition, among others. Large companies often have many options open to them as far as financial backing is concerned. However, for small and medium enterprises (SMEs), securing conventional financing can be a great challenge and could mean their death. Luckily, there are a few alternatives through which SMEs can raise capital, as discussed below:

1. Bootstrapping

This is the act of funding the business from your personal finances. These include savings, income from other investments and pension. This method is an ideal starting point for new ventures, especially if market validation of their products or services is yet to be done.

The advantage of this method is that the owner of the SME has complete control.

2. Angel Investing

This is having successful entrepreneurs and or corporations committing their funds to your business for potential future gains. They are willing to invest at startup or the early growth stage in exchange for equity in the venture. They could be friends or family members but are mostly strangers interested in helping new companies with innovative ideas to bring them to fruition. For example, some of the angel investor networks in Kenya include;

- Kenya Angel Investors
- Adlevo Capital
- African Business Angels Network

3. Venture Capital Firms

These are firms that have done market proof and have initial revenues and inject quite a substantial amount of capital into an SME. In exchange, they get equity in the company, which means a seat in the board and a say in the activities of the SME. In some instances, the injected capital can be structured as a convertible debt. A successful example of an SME that pursued venture capital funding is Safaricom-backed logistics company, Sendy, which has just completed a \$2 million funding series. For example, some of venture capital firms Kenyan SMEs can consider are:

- VC4Africa

- Safaricom Spark Fund
- DOB Equity
- Savannah Fund

4. Crowdfunding

This is the practice raising of capital by getting small contributions from the public, usually via an online or mobile-based platform. The contributors then receive some sort of reward from the business, which could be gifts, discounts or even equity. This is still a new concept in Kenya but have some inspiring success stories, such as Enda, Kenya's first running shoe brand, which raised USD128,187 on Kickstarter. Examples of locally accessible crowdfunding platforms are:

- M-Changa
- One Percent Club
- Kickstarter
- Indiegogo

5. Loans

This is where a business borrows from an individual, microfinance institution or a bank an amount which should be repaid after a specified period with interest. Loans can be difficult to access, especially where security is required. However, technology has made it easier to access unsecured loans from mobile-based services such as M-Shwari, Branch, Tala, LoanBee, among others. The main drawback of some of these applications is that they are unregulated and sometimes charge exorbitant interest.

In conclusion, securing finance is not as difficult for SMEs as it once was, and the options outlined above are proof of that. Furthermore, innovation and advances in technology means that the list will keep growing. If business owners think outside the box, or at the very least, do their research, getting capital will never be a problem.

IV. Preconditions and Challenges

The following are preconditions and challenges for the emergence of many of the solutions which are detailed above. If these essentials are not in place, it is unlikely that authorities would be able to develop many of the solutions:

- a) To be scalable and have impact, many of the solutions discussed would require a sizable investor base;
- b) A certain level of development of the capital markets;
- c) Macroeconomic stability, financial sector development, and a robust institutional and enabling environment;
- d) Venture capital requires the existence of a robust capital market that can provide an exit mechanism for such investments;
- e) The health of the SME sector and more generally of the more traditional SME finance market can affect the viability of the solutions described above.

Beyond these preconditions specific challenges affect the emergence of capital markets solutions for SME financing in EMDEs. The following are some of the challenges which affect the supply side, the demand side, the market infrastructure, and the enabling environment.

- a) SMEs lack the type of information that is traditionally used by banks to assess credit risk;
- b) A challenge affecting some indirect solutions, particularly SME loan securitization, is the lack of a sufficient volume of quality and standardized SMEs loans;
- c) Many SMEs lack knowledge about capital markets solutions. But even when they know the options available, those that can obtain financing from banks usually prefer that option because it requires less information and organizational changes from them than what is required to access the capital markets via a securities offering. In the case of equity, the hurdle is even higher, because most SMEs are family-owned businesses that are reluctant to change their management culture and include outside shareholders.
- d) In addition, information barriers persist, making valuation of SMEs difficult and leading to gaps in perceived valuation between potential investors and the companies (and in the case of PE/VC between the manager and potential partners).
- e) All the instruments this report has discussed carry risks to investor protection and, depending on the country, potentially also to financial stability. Thus, an appropriate

regulatory framework must be in place that should strike the right balance between the need to ensure investor protection and financial stability and the objective of expanding SME access to financing.

- f) Capacity constraints hinder many promising candidates for PE/ VC investment. In this context, technical assistance (TA) serves to strengthen the case for PE and VC in EMDEs
- g) The lack of transparency has also been noted as a key explanation for inadequate institutional investment in SMEs. Many of the SME solutions described in this report are executed in private markets, which are not subject to the same level of disclosure and transparency as the markets of public offerings.
- h) Finally, robust enforcement is a challenge for most EMDEs because of a complex set of factors. Those factors range from gaps in their authority and capacity challenges to more political issues such as the perception in many countries that strong enforcement can stifle market development. However, experience indicates that weak enforcement ends up weakening the credibility of the supervisor and, by inference, investors' confidence in capital markets.

Understanding the above challenges, many countries have programs to prepare companies to come to market. In many countries, the exchanges have initially been the developers of such programs, sometimes subsidized by DFIs.

V. Country Experiences in Equity Capital Markets for SMES 5

In Korea and Turkey, there are specific market segments for SMEs within the main exchange. The listing and disclosure requirements are relaxed in both countries compared with the main markets. There are also government, exchange or regulator incentives to improve SME listings. Over-the-counter (OTC) markets for unlisted companies, which are mostly SMEs, are also established in both countries. Generally, market advisors assist the companies to list on the exchanges. India has recently developed dedicated stock exchanges for SMEs, following the recommendation of the Prime Minister's Task Force in June 2010. The Bombay Stock Exchange (BSE) launched the SME Exchange in March 2012 and it had

⁵ The Growth and Emerging Market Committee of the International Organisation of Securities (OICU-IOSCO), "SME Financing through Capital Markets" July 2015, p25.

41 listed SMEs as of 19 November 2013

Equity markets for SMEs in emerging Asia are typically small in scale, with market capitalisation equal to less than 10 percent of GDP. This suggests that equity markets in Asia, except for those in China and Korea, have not yet become a financing venue for SMEs. Extensive national policies and strategies for improved SME access to capital markets are needed.

In China, the Shenzhen Stock Exchange (SZSE) has developed a three-tier market venue comprising the Main Board, SME Board (May 2004), and the high-tech venture board, in line with national economic development strategies. Hong Kong, China's Growth Enterprise Market (GEM), is an alternative stock market for high-growth enterprises operated by the Stock Exchange of Hong Kong Ltd⁴. Another successful equity market in China that was established in 2013 is China National, Equity, Exchange and Quotations (NEEQ), which was designed to address the different needs of SMEs of varying size and stages of development.

VI. Recommendations

The following are some of the recommendations which will enable the SME sector to fully reap the benefits of a more diversified sources of funding:⁶

- (i) Increasing the awareness and understanding of SMEs about alternative financing opportunities;
- (ii) Supporting SMEs in developing a long-term strategic approach to business financing, that is, understanding how different instruments can serve their different financing needs at specific stages of the life cycle, the different advantages and risks implied, and the complementarities and possibility to leverage these sources. Such education program could be developed by the capital market authorities of the country and implemented through the capacity building institution of the financial sector.

⁶ The recommendations are extracted mainly from the following:

(i) OECD "Enhancing SME Access to Diversified Financial Instruments" SME Ministerial Conference, 22-23 February 2018, Mexico City pp16-20, <https://www.oecd.org/cfe/smes/ministerial/documents/2018-SME-Ministerial-Conference-Plenary-Session-2.pdf>

(ii) Capital Market Authority of Kenya "Capital Raising Opportunities for SMEs : The Development of Micro-Cap Securities Market in Kenya, 2010

- (iii) Designing and implementing effective regulation, for example exemptions or relaxing registration provisions which are too costly, too time consuming, and contain too many technicalities for smaller companies. Such actions should however, balances financial stability, investors' protection and the opening of new financing channels for SMEs.
- (iv) It is important for policy makers to incentivise capital market participants to take a longer-term approach and offer additional services to growth-oriented entrepreneurs. This include among others the following:

- Dividend taxes might be substantially reduced or eliminated for publicly-held SME's;
- Licensing fees might also be modified;
- Priority consideration for bidding by government contracts might be given to publicly-traded SMEs.

- (v) Address the information gap between SMEs and potential investors by facilitating their direct interaction, with different degrees of public engagement, from awareness campaigns to brokerage and match-making.
- (vi) Micro data and micro level analysis are essential to improve understanding about the different needs of the SMEs sector and may help to better understand the potential and challenges of new business models emerging in the financial sector.
- (vii) Introduction of an Over-the-Counter Market to facilitate investment through private placements with a medium to provide exit strategies, and transparent pricing.
- (viii) Establishment of a SME Support Bureau to ensure that adequate attention, guidance, and support are provided to SMEs. Such office could provide any and all of the following services: regulatory coordination: education and training: financial; market evaluation, etc.
- (ix) Establishment of a Credit Guarantee Scheme. Technical credit rating deficiencies could be alleviated through the establishment of a credit guarantee scheme specifically targeted at SMEs wishing to raise debt/equity capital from the capital markets. Such a scheme could effectively relieve the investor of any risk, and therefore the motivation to spend time and expensive efforts to appraise the companies.

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- (vi) The Growth and Emerging Market Committee of the International Organisation of Securities (OICU-IOSCO),"SME Financing through Capital Markets" July 2015, p25. <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD493.pdf>
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