

1 April 2013

Ms. Christine Lagarde  
Managing Director  
International Monetary Fund  
700 19<sup>th</sup> Street, NW  
Washington, DC 20431

**Re: ICSA Emerging Markets Committee Report on “Financing of SMEs through Capital Markets in Emerging Market Countries”**

Dear Mr. Lagarde:

We are writing to you on behalf of the Emerging Markets Committee of the International Council of Securities Associations (ICSA), which is the global forum for the trade associations and self-regulatory organizations that represent and/or regulate the securities industry.<sup>1</sup> ICSA’s Emerging Markets Committee (ICSA EMC) brings together ICSA members located in emerging market economies so that those associations work on issues of particular relevance for them.

Please find enclosed with this letter a copy of the EMC’s recent study examining “Financing of Small and Medium Sized Enterprises (SMEs) through Capital Markets in Emerging Market Countries”. As you are aware, throughout the world SMEs are financed primarily through bank loans since the amount of financing that is available to SMEs through capital markets is limited. However, as was apparent during the recent financial crisis, bank loans are not always a reliable source of financing and, consequently, SMEs need to have access to more diversified funding sources. This is particularly the case for SMEs that are located in emerging market economies, where capital markets are generally less developed and, as a result, SME’s ability to rely on this source of funding is even more restricted than is the case for SMEs in developed economies.

The members of ICSA’s EMC believe that it is important to improve SME’s access to capital markets in emerging market economies so that these firms can have a greater impact on job creation and economic growth. Consequently, we undertook this study in order to have a better

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<sup>1</sup> ICSA is composed of trade associations and self-regulatory organizations that collectively represent and/or regulate the vast majority of the world’s financial services firms on both a national and international basis. ICSA’s objectives are: (1) to encourage the sound growth of the international securities markets by promoting harmonization in the procedures and regulation of those markets; and (2) to promote mutual understanding and the exchange of information among ICSA members. More information about ICSA is available at: [www.icsa.bz](http://www.icsa.bz)

understanding of the policy measures that have been taken in various emerging market economies as a means to improve SME's access to financing from capital markets.

Our report focuses on policy measures taken to promote SME's access to capital markets in Bulgaria, Korea, Mexico, and Turkey. Despite the relatively limited sample size, we believe the observations and policy recommendations summarized below are relevant for emerging market economies in general:

1. The study finds that separate equity markets have been established for SMEs in several of the economies in this report, with quite successful results. However, in general, policy makers have not introduced measures intended to improve SME's access to fixed income markets. Based on the results of the study we recommend that policy makers facilitate SME's access to both equity and fixed income markets through the establishment of separate markets specifically for those firms.
2. One notable feature of the dedicated equity markets that have been established for SMEs is that listing requirements have been relaxed, which in turn has reduced issuance costs for the SMEs active in those markets. Therefore, we recommend that the listing rules for any dedicated equity and fixed income markets established for SMEs should be more relaxed than those in the main market.<sup>2</sup>
3. In addition, the study finds that the dedicated equity markets for SMEs that have market advisors, which assist firms so that they can be properly prepared for listing, have developed at a faster pace after the introduction of the market advisor system. Therefore, we recommend that policy makers introduce a market advisor system to facilitate the issuance of securities by SMEs.
4. In the secondary market, the study observes that a market making system is instrumental to improve market liquidity for securities issued by SMEs. Therefore, we recommend that, wherever possible, policy makers should introduce a market making system for securities issued by SMEs.
5. The study also finds that policies which encourage the issuance of securities through private placements help to improve SMEs' access to capital markets. Since SMEs are perceived as riskier than bigger companies, encouraging private placements also provides a cushion for investor protection. Therefore, we recommend that policy makers introduce measures that facilitate SME's ability to obtain funding through private placements.
6. Finally, the study finds that alternative methods of financing, such as private equity, venture capital and securitisation, can become effective tools for financing of SMEs. We therefore recommend that policy makers promote these alternative sources of financing for SMEs.

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<sup>2</sup> At the same time, in order to encourage investor interest in these markets, we also recommend that the procedures for custody, clearing and settlement should be the same in the dedicated SME markets as in the main markets.

We hope that the study undertaken by ICSA's Emerging Markets Committee may contribute to the IMF's work on this issue. Should you wish to discuss the issues addressed in this letter, please do not hesitate to contact Mr. Alparslan Budak at ([abudak@tspakb.org.tr](mailto:abudak@tspakb.org.tr)).

With very best regards,



Jong Soo Park  
Chairman  
ICSA



Attila Köksal, CFA,  
Chairman  
ICSA Emerging Markets Committee