



Plenary 4

Capital Markets and Economic Development -
New Avenues for the Financing of Small and Medium
Enterprises (SMEs)

Mr. Japheth Katto

Chief Executive Officer, Capital Markets Authority
of Uganda

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Capital Markets and Economic Development

*New Avenues for the Financing of Small and
Medium Size Enterprises*

Japheth Katto
CEO, Capital Markets
Authority-Uganda



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Presentation Outline

- Common SME Financing Options
- Sources of Financing for New Investments
- Limitations of SME Financing in Capital Markets
- Common Features
- Is there a Muhammad Yunus Solution?
- Conclusion



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Common SME Financing Options

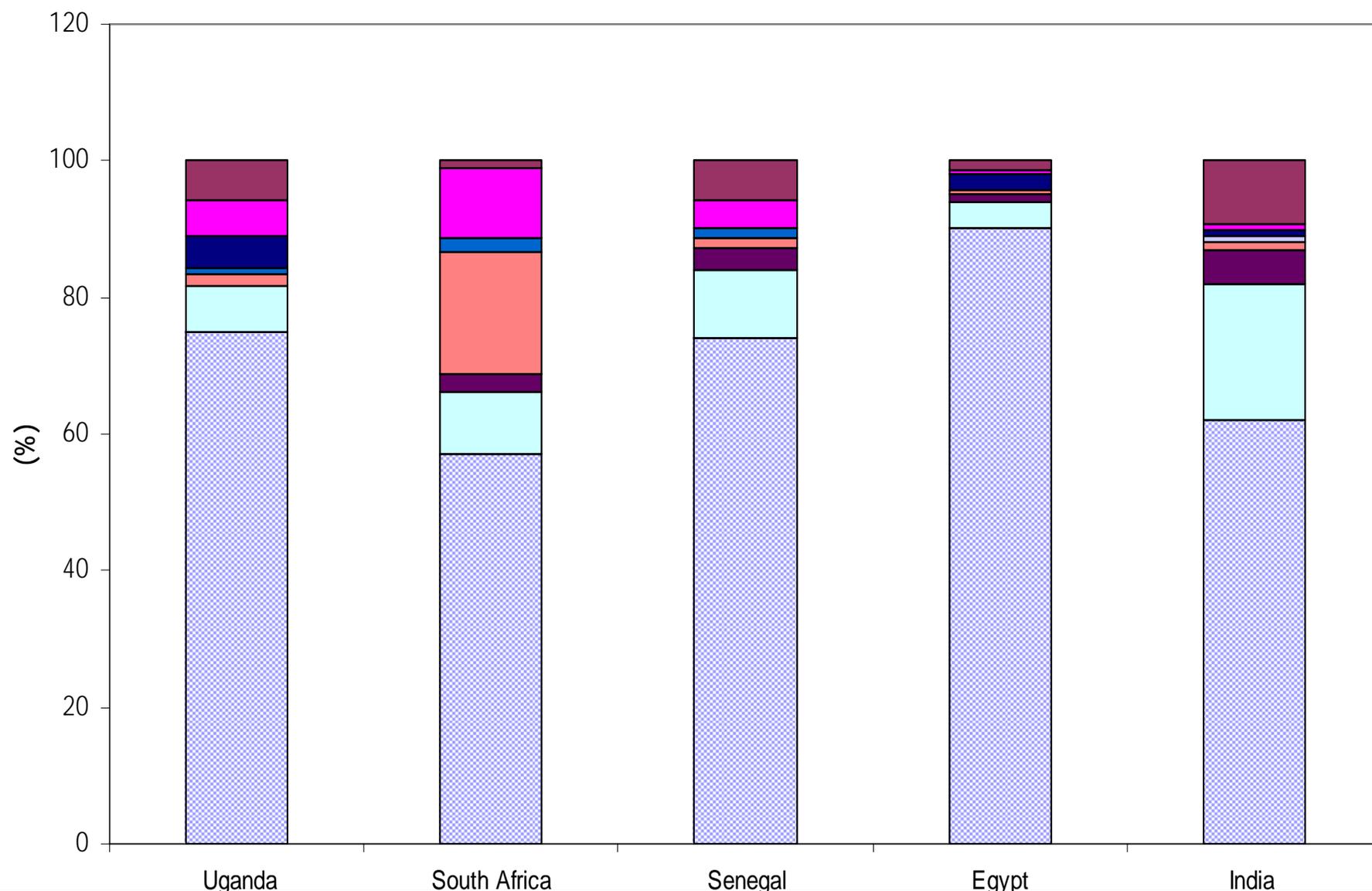
- Retained Earnings/Internal Finance
- Family and Friends
- Money Lenders
- Banks and Other financial Institutions
- Trade Credit
- Equity
- Bonds/Commercial Paper

Sources of Financing for New Investments- Small Enterprises(1-19 employees)

Source of finance	Uganda (2003)	South Africa (2003)	Senegal (2003)	Egypt (2003)	India (2006)
Internal Finance	75	57.14	74.18	90.05	62
Bank Finance	6.52	9	9.88	3.9	19.52
Informal Finance	5.73	1.02	5.79	1.41	9.3
Supplier Credit	0.17	2.65	3.22	1.17	5
Leasing Finance	1.8	18	1.49	0.61	1
Development Finance	0.9	2	1.29	0.02	-
Credit Card Finance	-	-	-	-	1
Equity, Sale of Stock	4.49	-	-	2.23	0.74
Other Financing	5.39	10.2	4.16	0.61	0.97
Total	100	100	100	100	100

Source: www.enterprisesurveys.org

Sources of Financing for Investment-Small Enterprises (1-19 Employees)

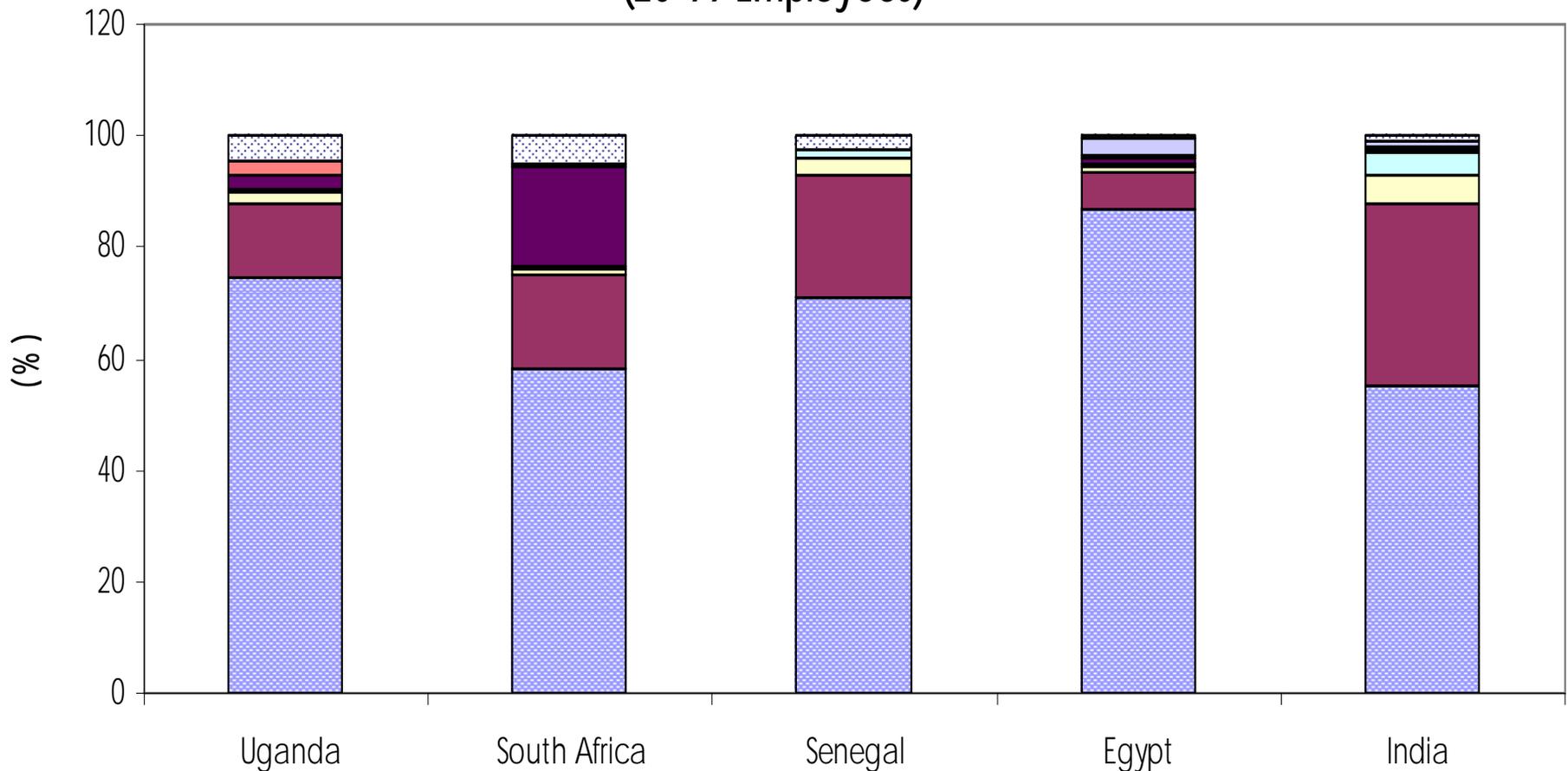


Sources of Financing for New Investments- Medium Enterprises(20-99 employees)

Source of finance	Uganda (2003)	South Africa (2003)	Senegal (2003)	Egypt (2003)	India (2006)
Internal Finance	74.55	58.13	70.9	86.96	55.4
Bank Finance	13.49	16.84	22.02	6.64	32.34
Informal Finance	2.	0.93	3.26	0.69	5.2
Supplier Credit	0.14	0.47	1.57	0.76	4
Leasing Finance	2.56	18.12	-	1.05	0.5
Development Finance	2.56	0.44	-	0.36	-
Credit Card Finance	-	0.1	-	-	0.6
Equity, Sale of Stock	-	0.18	-	3.27	0.9
Other Financing	4.7	4.8	2.25	0.27	1
Total	100	100	100	100	100

Source: www.enterprisesurveys.org

Sources of Financing for New Investments-Medium Enterprises (20-99 Employees)



Internal Finance

Bank Finance

Informal Finance

Supplier Credit Finance

Leasing Finance

Development Finance

Credit Card Finance

Equity, Sale of Stock Finance

Other Financing

Limitations of SME financing in Capital Markets

- Capital, net assets and shareholders' requirements
- Lack of sound financial and accounting practices and difficulties in applying IFRS
- Lack of sound management standards
- Lack of good corporate governance standards
- Fear of loss of control of ownership
- Inappropriate legal and regulatory frameworks for SMEs
- General fear for disclosure
- Lack of venture capital finance suitable for SMEs

Experiences of "AIMS" & "OTC" markets in Emerging Economies

- **AIMS Markets**

- ✓ Malaysia (MESDAQ)
- ✓ Thailand(MAI)
- ✓ Kenya (NSE-AIM)
- ✓ South Africa(AltX)
- ✓ Zambia (LSE-AIM)

- **OTC Markets**

- ✓ Taiwan (GTSM)
- ✓ Pakistan (KSE-OTC)
- ✓ Mauritius (SEM-OTC)



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Common Features (Eligibility Criteria & Listing Requirements)

- Paid up capital and/or asset size
- Track record range from 0 to a maximum of 5 years
- With the exception of MESDAQ a profit requirement is common.
- With the exception of MESDAQ continuity of management is a requirement at least for one year
- Share spread to the public is also an important requirement for all the markets



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Common Features (Eligibility Criteria & Listing Requirements)

- A moratorium on the promoters is a common requirement
- Sponsor requirements are prevalent in OTC markets but they are also applied in for example MESDAQ and GEM.
- Companies listed on AIMS and OTCs are all required to meet high standards of corporate governance.



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Is there a Muhammad Yunus Solution?

- If Junk Bond and Sub-Prime Mortgage Markets Can thrive then “Micro Capital Markets are a possibility” .
- The stiff requirements of past financial performance, capital and assets adequacy need to be relaxed
- However prospective companies should have:
 - ✓ Atleast a five (5) year business plan
 - ✓ Feasibility study report
 - ✓ Moratorium on shareholders
 - ✓ Special professional/advisory services throughout listing. (*Sponsorship*)

Conclusion

- Being small with no track record does not mean weakness or failure. Potential for growth is key.
- The Capital markets should make provision for start-up companies with no track record but with high growth potential.
- We need to review the regulatory frameworks we have adopted from developed markets and be prepared to take measured risks.



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Thank You



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