

Small and medium-sized enterprises (SMEs) including micro enterprises account for more than 60% of total employment and approximately 30 to 60% of GDP in most of the Association of Southeast Asian Nations (ASEAN) countries. While SMEs are drivers of the sustainable economic development in these countries, they face a variety of managerial challenges among which the ability to raise sufficient funds is the key to achieving sound growth.

Banks play an important role in financing SMEs in ASEAN countries. However, banks are generally reluctant to provide loans to SMEs. The main reasons include their inability to provide adequate collateral to banks, unstable cash flows, and poor credit information. In some countries, the governments mandate banks to allocate a certain percentage of loans to SMEs, but lending to SMEs is not still sufficient in general. Under these circumstances, the governments in this region support SMEs' fundraising by several initiatives including providing loans at preferential interest rates and developing credit information platforms.

In recent years, there has been growing interest in utilizing technology to promote financing of SMEs in the ASEAN region. Peer-to-peer (P2P) lending that matches borrowers and lenders via internet is considered promising among other schemes. Financing SMEs through P2P lending platforms is on the rise in some countries, especially in Indonesia. Equity crowdfunding (ECF) that matches fast-growing startups with equity investors via the internet is another example that is gradually drawing attention in this region. Venture capital firms have been major investors in startups until now, but more types of investors including individual accredited investors have started to participate as equity investors through ECF platforms. Other recent developments include the establishment of a new board for startups with relaxed listing requirements on some stock exchanges. This led to the emergence of startups that successfully raised funds through initial public offerings.

Recently, business environments for many industries have worsened due to the COVID-19 pandemic in the ASEAN region. As a result, an increasing number of SMEs and startups are having difficulties in fundraising, and various efforts are being made to improve the financing environments for them in each country.

This issue of Nomura Journal of Asian Capital Markets features articles that discuss the current status, challenges, and future prospects for fundraising by SMEs and startups in ASEAN countries.