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Government Savings Bank

Raising of Growth Capital by SMEs and Startups in Thailand

Overview of SMEs in Thailand

Based on data from the Office of Small and Medium Enterprises Promotion (OSMEP), the total

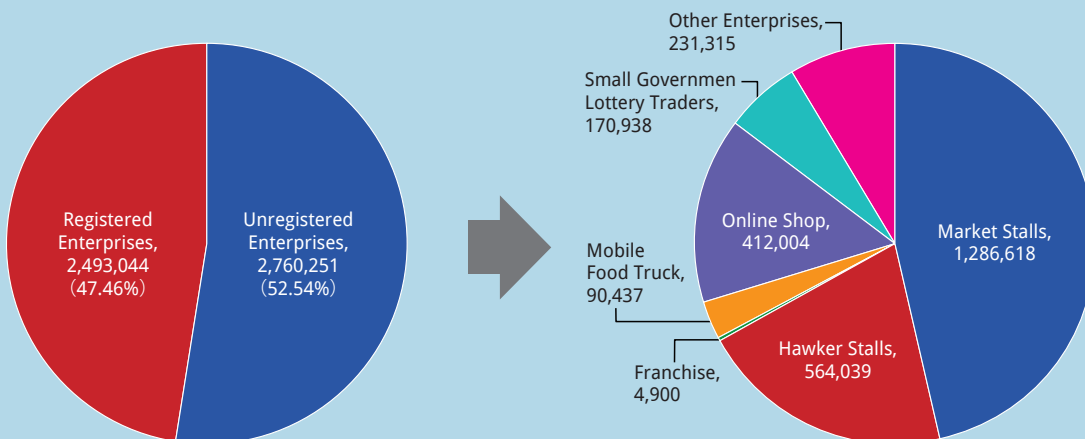
number of Small and Medium Enterprises (SMEs) in Thailand at the end of 2018 was 3,077,822. Of these, 23.03% or 708,883 enterprises were classified as Juristic Persons, 2.70% or 83,208 were Community Enterprises, and 74.26% or 2,285,731 were classified as Persons/Others.

Classified by industry, the trade sector accounts for 41.57% or 1,279,557, the service sector accounts for 39.79% or 1,206,763, manufacturing accounts for 17.14% or 527,485 and agri-business accounts for 1.5% or 46,217.

A joint survey conducted by the SME Development Bank (SME Bank) and the

Thai Chamber of Commerce University (UTCC) found 5,253,295 Thai SMEs, including both registered and unregistered enterprises. The difference between OSMEP and UTCC is OSMEP only includes SMES with a physical location however UTCC includes services and a lot of the informal sector such as taxis. Figure 1 shows the distribution by type of enterprise.

Figure 1: Number of SMEs by UTCC Survey



Source: The Center of Economic and Business Forecasting, UTCC Published on June 29, 2018

Financing of SMEs

The problem of financial access for Thai SMEs is the financial gap, or the difference between the demand for funds by SMEs and the supply of funds in the financial market. Access to finance is frequently identified as a critical barrier to their growth. Fiscal Policy Office data indicate 1.5 million SMEs cannot access credit (Figure 2) and the UTCC survey data cited above indicated 2.7 million SMEs are unregistered.

The financial gap for SMEs is attributed to a number of factors including their inadequate collateral, strict government rules and regulations, their lack of business experience and understanding of

modern business management, their unreliable accounting systems, and their low technological capabilities.

To alleviate the financial constraints facing SMEs, the government provides various support programs including encouraging banks to provide more SME lending via soft loans, providing more financial assistance and offering entrepreneurship development guidelines. Figure 3 summarizes the government's promotional programs and entrepreneurship development guidelines.

ant supporting role in the development of SMEs from the past up to the present day by adopting policies and measures to promote and support small and medium-sized businesses. These policies address almost all aspects of their operations from finance to marketing, technology, innovation, management, and adjustment of laws and taxes based on cooperation between the state and the private sector.

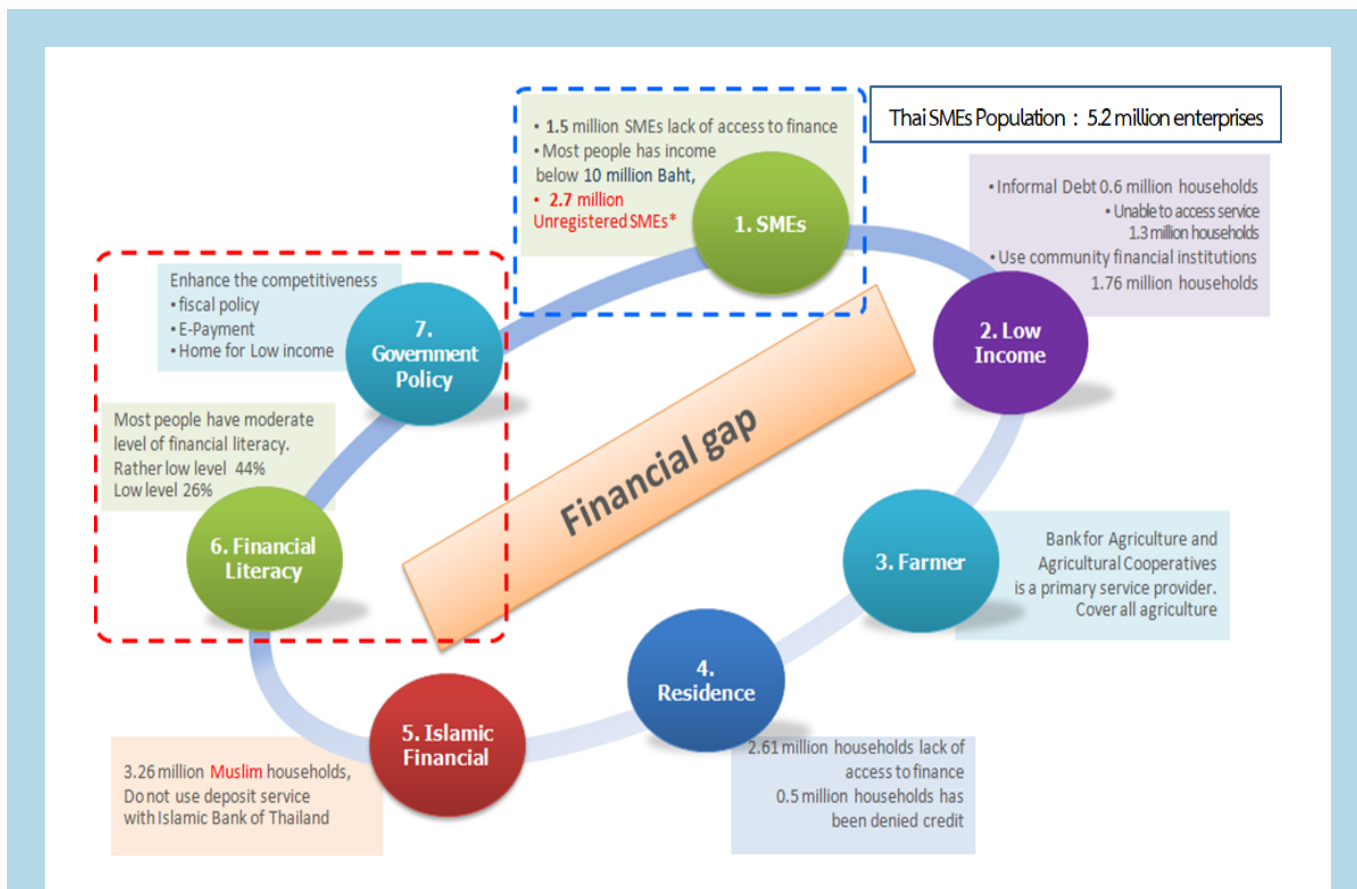
SME development policies

Before 2000, Thailand did not have a basic law on SMEs that could give coordinated and explicit guidelines for their promotion and long-term development. Since the financial crisis in 1997, SMEs have become one of the main engines for sustainable economic growth. Between 1999 and 2000, the government enacted the Small and Medium Enterprises Promotion Act 2000 and established a Board of SME Promotion, a Market for Alternative Investment (MAI) to create new fund-raising opportunities for SMEs, and an SME Venture Capital Fund as well as recapitalized the

Role of the Government in Promoting Financial Access for SMEs

The government has played an import-

Figure 2: Financial Gap for Thai SMEs



Source : Fiscal Policy Office (FPO)

Small Industry Credit Guarantee Corporation. Over the next four years, the government established the OSMEP, the SME Bank, the Assets Capitalization Bureau and more venture capital funds. It also brainstormed strategies for SME development, set and implemented a national plan for SMEs Promotion (2002-2006), and took steps to create an entrepreneur society and to solve existing problems and expand the roles of several government agencies. Since 2004, the Thai government has focused on medium to long term plans, promoting sustainable development, gradually shifted from an authoritative to a more supportive role, and emphasized coordination between businesses and clustering systems especially for strategic sectors.

Financial assistance programs

Over the past three decades the government has introduced a variety of financing initiatives targeted to specific needs of SMEs. To solve their credit access problem it 1) set up (2002) the SME Bank as a specialized financial institution to provide financial support and promote new SMEs; 2) set up (1991) the Small Business Credit Guar-

antee Corporation (SBCG) to provide credit insurance to SMEs with business potential and inadequate or no collateral and to extend cooperation with commercial banks; and 3) established the Central Credit Information Service Company and the Thai Credit Bureau Company to collect information and facilitate information sharing for SMEs. To address the need for equity funding the government undertook two main initiatives: establishing the MAI in 1999 to provide an alternative for investors as well as funding for SMEs and set up the Venture Capital Fund (THB5 billion, USD12 million) in 2003 to look for investors to take a share in potential SMEs and help improve their capability and efficiency.

In 2017 under the Startup Policy, the government classified startups as distinct from SMEs. Startups are technology-driven businesses and as such they need a comprehensive ecosystem to transform their unique ideas into operating businesses. After only three years of development, startups have been proliferating and the government acknowledges that it is essential to push them to develop further to achieve the country's mission to be the startup hub

of Asia.

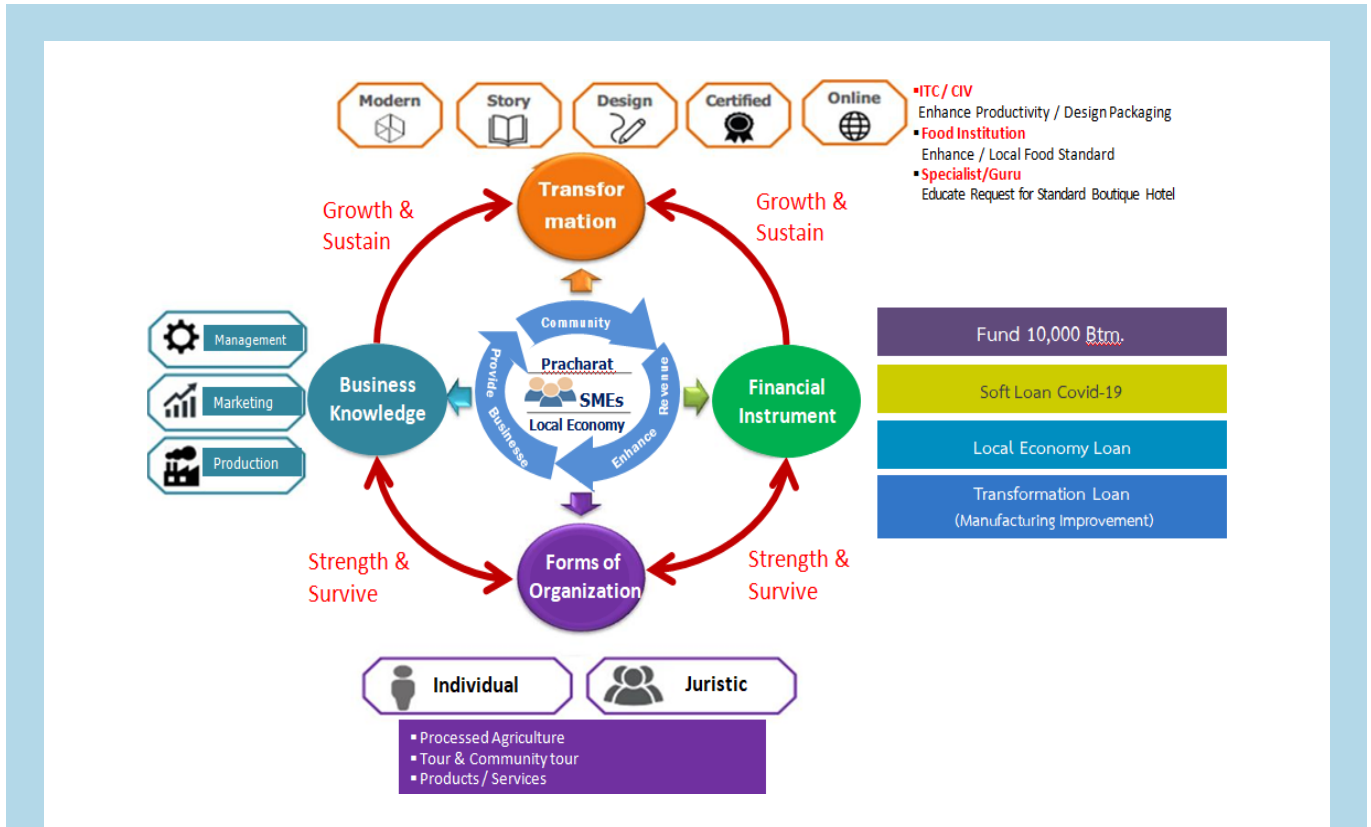
Alternative Finance

Financial access is essential for the growth of SMEs and startups. Alternative financing can fill the financial gap for small and new enterprises that are not able to access loans from commercial banks. With the operations of SMEs and startups depending on a diverse range of knowledge, innovation and networking, the demand is increasing for new sources of funding that meet the requirements of their current business models.

Venture Capital (VC)

VC is a form of private financing provided by VC firms or funds to startup,

Figure 3: Government Programs and Entrepreneurship Development Guidelines Promoting SMEs



Source: Created by the author with various sources

early-stage, and emerging companies with high potential or demonstrated growth in exchange for equity or an ownership stake. Typically, VC investors exit through initial public offerings (IPOs) or mergers and acquisitions.

Venture capitalists take on the risk of financing startups in hopes that some will become successful, but, because startups are commonly centered around innovation and new technology they face high uncertainty, and VC investments have high rates of failure. For SMEs, VC financing offers the opportunity for expansion, valuable guidance and expertise, help in building networks and connections, and no repayment obligations. On the other hand, with VC financing the entrepreneur's ownership and control are diluted, the business might require a high return on investment, and it might be undervalued.

In Thailand, there are generally four types of VC: investors, venture companies (VC Funds), venture capital management companies and SMEs.

VC financing was introduced in Thailand in 1987 when Business Venture Promotion Co., Ltd. was formed by a joint venture between six commercial banks and the United States Agency for International Development (USAID). Its purpose is to provide an alternative source of funding to support the expansion of SMEs and to encourage them to become the foundation of Thailand's economy.

Since its introduction, VC financing has not received adequate attention from entrepreneurs or SMEs due to the lack of awareness and the stigma behind bank funding. In addition, the regulations on VC are inflexible, making investing in startup businesses difficult. Venture capitalists refrained from investing in startups due to their small size, unattractive return on investment and high risk, and they mostly invested in growing businesses that already had a track record and required accelerated growth.

Aware of the potential growth in VC-financed businesses and wanting to support SMEs lacking financing, the Ministry of Finance advocated establishing VC funds. A cabinet resolution approved the establishment of the SME Venture Capital Fund (SMEVC), the Thailand Equity Fund (TEF), the Thai Recovery Fund (TRF), the Tsunami Thailand Recovery Fund, and the VC Fund by SME Development Bank (SME Bank).

Corporate venture capital (CVC) in Thailand started in 2012 and has developed in three stages. It started with companies in the telecommunications industry,

such as InVent, Dtac Accelerate and True Ventures, which are in the innovative fields of technology and digital business. In the second stage, starting in 2016 as technology played a greater role in financial businesses, financial companies began to set up corporate VC arms primarily focused on investing in FinTech startups. These ventures included Digital Ventures (by Siam Commercial Bank, SCB), Beacon VC (by Kasikorn Bank), Bualuang Ventures (by Bangkok Bank) and Krungsri Finovate (by Bank of Ayudhya). The third stage of CVC evolution began during 2017 when several non-financial businesses became more interested in investing in startups. Such companies as Siam Cement Group (SCG), in construction materials, Sansiri and Ananda, in real estate, PTG, in the energy sector, and MithrPhol, in sugar production, focus on investing and advancing innovations. Some companies also invest in other businesses for self-interest.

Overall, these CVCs are more diverse and have more monetary resources. Digital Ventures of SCB has already invested USD100 million (about THB3.3 billion). On September 8, 2015, the Cabinet approved measures to support startups through a joint investment/venture fund of THB2 billion with Government Savings Banks (GSB), SME Bank and Krung Thai Bank Public Company Limited (KTB). Altogether the fund had a total of THB6 billion to invest in high potential startups that would significantly contribute to the nation's economic growth. At the end of 2019, the GSB has jointly invested THB429.9 million in 20 SMEs and between 2015 and 2019, SME Bank invested a total of THB219 million in 10 SMEs.

VC investors often face a number of problems and obstacles including a lack of business potential, a lack of knowledge about VC financing, and the failure of SMEs to comply with the agreement especially in the preparation of financial statements and the adjustment of accounting standards.

In the funding process, there are also several domestic and international private equity firms in the public and private sector that provide funds to SMEs. A lack of strict accounting standards and few auditors affect the due diligence process.

Startup businesses

Over the six years from 2011 to 2017 more than 90 startups in Thailand received VC funds with a combined value of USD305 million. In 2017, Thailand had 12 VC firms compared with only three firms in 2016. The rise of startups has created the image of Thailand as "Startup Universe" and

helped Bangkok's selection as the best city for startups in Asia and the world's seventh-best city for startups. Thailand has 30 startup networks active in 25 countries. The National Innovation Agency (NIA) is a state system integrator for startups. Under phase 2 of the national master plan for startup development for the years 2018-2021, NIA outlined the so-called 3I strategic plans to help the country achieve a place among the world's top 20 startup nations. The 3I strategies stand for innovation, investment and international.

The year 2019 was a challenge for entrepreneurs, investors, and various sponsors in Thailand's startup scene, but investment in the country's startup ecosystem has grown. According to TechSauce's *Thailand Tech Startup Ecosystem Report*, in 2019 the total investment in startups amounted to USD 97.55 million from 35 deals. Even though the investment figure is not record-breaking, it did increase from the 2018 level of USD 61.25 million (Figure 4).

In 2019, CVCs were still the main source of investment for startups in both the growth and seed stages. Many strategic partnerships were made directly with companies or through CVC events, including profit-based relationships. Traditional VCs still played a significant role in funding startups at the pre-seed stage to Series A. The government continues to support the startup ecosystem creating various platforms. Every department within the government aims to develop itself. The Thai government has generated a good foundation and structure for supporting the ecosystem (Figure 4).

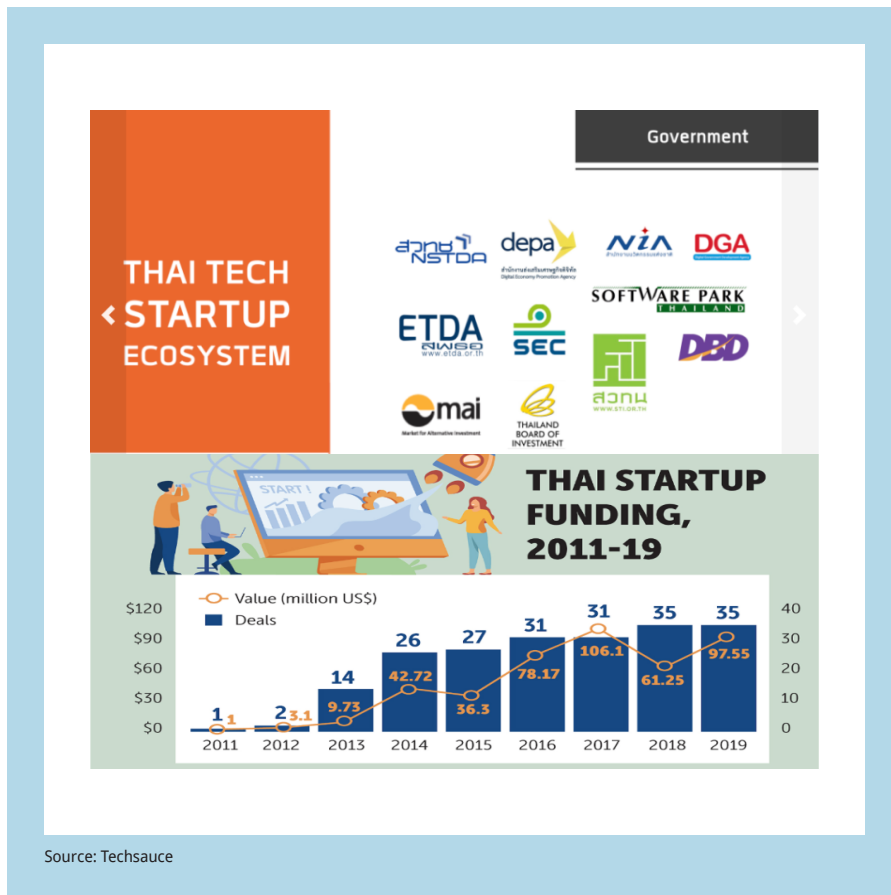
The public sector can support startups in two ways: reducing regulatory risks by amending laws and launching programs for areas that need support. The government can also use startup products and services. In terms of incubating innovation, no country in the world introduces regulation before innovation. The government should aim to relax regulation in areas that do not pose much risk so that there is space for growth and future opportunities that create benefits for consumers and producers.

Crowdfunding

Crowdfunding is another new option available to small businesses and startups seeking injections of financing.

Crowdfunding is a form of fundraising forms using digital platforms to provide businesses with financial access. The crowdfunding process is conducted through an intermediary website or platform; an operator seeking to raise funds

Figure 4: Startup Ecosystem and Funding 2011-2019



will propose a project or business via the platform and interested investors can provide the capital by transferring resources or funds to the business.

Generally speaking, there are four categories of crowdfunding. With donation-based crowdfunding, funds are provided to projects by a community of donors who do not expect tangible returns. Often, this type of crowdfunding is used to fund social causes, non-profit organizations, films, and artistic endeavors. Rewards-based crowdfunding is typically used to raise funds for a new startup or organization that offers a product or service. Peer-to-Peer lending, also known as debt crowdfunding, is the practice of lending money to individuals or businesses through online services that match lenders with borrowers. Finally, with equity-based crowdfunding, also called investment crowdfunding, entrepreneurs sell part of their company to outside investors in exchange for capital, making the investor a shareholder in the business.

Peer-to-Peer (P2P) lending

Among the categories of crowdfunding,

P2P lending, whereby money is lent to individuals or business on the expectation of regular interest payments, is expected to transform the lending business and reduce funding gaps for small businesses in the Thai market. Furthermore, P2P offers the potential for firms to take out micro-loans and it will enable savers to benefit by lending their savings in a greater variety of ways. A P2P loan is a person-to-person agreement made through online channels with a platform to match and provide a contract between the borrower and the lender (matchmaker).

To regulate and facilitate P2P lending, which is still in the early stages of development, the Bank of Thailand (BOT) announced regulations in September 2018 that became effective in January 2019. The regulations highlight the boundaries within which operators are to function. They define a P2P platform provider as a person or entity that delivers an electronic system or network for lending between peers and define a lender as an individual or juristic person that offers a loan via an electronic system or network. BOT regulations stipulate that a P2P platform provider must:

not be a financial institution (including banks, although subsidiaries of banks are permitted); be a private company or public company incorporated in Thailand; have paid-in capital of at least THB 5 million; and have at least 75% of its total shares held by Thais.

For individuals and businesses, P2P lending provides another fast and convenient funding option via an online platform with a ceiling interest rate of 15% a year, while for lenders it offers another option to invest, in smaller amounts, and earn an appropriate return. The risks with P2P lending are that borrowers create excessive debt and that loans are not repaid.

Recently, P2P lending is become more popular due to affordable pricing. Borrowers can find cheap funding while lenders or investors have the potential to gain higher returns. Examples of the emergence of P2P lending in Thailand include PeerPower, which focuses on creating a platform for borrowers and lenders of SMEs, JFin Coin, which is well known as the first initial coin offering (ICO) created by Jaymart Group, and Daingern.com, an online platform in the car for cash loan market, offering low interest rates for borrowing while lenders can get a higher return.

Conclusion

Together, the Thai government and banks are creating a supportive environment that stimulates entrepreneurship, startups and innovation by making financial resources and funding accessible for all. Throughout the decades, the government and banks have and will continue to raise awareness over resources and make them accessible to support the success of startups. Various strategies such as government-subsidized banks, VC funds, and alternative financing have been employed to develop SMEs. These actions have enabled Thailand to succeed in growing SMEs.



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Mongkon Leelatham was president of SME Development Bank from 2016 to 2019. Prior to that he was a member of the board of executive directors as well as deputy vice president of Thai PBS from 2012 to 2015. He has also been a member of the advisory committee of The Federation of Thai SME (2017-2019) and director of the board of the National Credit Bureau NCB (2010 – 2012). He was also a member of the subcommittee on the Economy and Driven, National Legislative Assembly of Thailand (2017-2018). In addition, he was the president of Thai Investors Association (2011-2016) and the chairman of the Board of Executive Directors for the Thai Credit Retail Bank, Plc (2007-2012). He is a former Deputy Vice President and Committee Member of the Federation of Thai Capital Market Organizations (FETCO).

He currently serves as chairman of the board of executive directors and member of the expert committee for Small and Medium Enterprises Promotion; member of the expert committee of the board for the Promotion and Preservation of

Cultural Heritage (Ministry of Culture); chairman of the project team to integrate the rubber solution of Thailand (Rubber Authority of Thailand); director and executive committee of MFC Asset Management, Plc; member of a board committee of Puay Ungphakorn School of Development Studies at Thammasat University; director on the board of the Marketing Organization for Farmers (Ministry of Agriculture and Cooperatives); and director and chairman of the board of executive directors for Information Technology and Board of Executive Directors for Government Savings Bank.

He earned a Masters of Development Economics and a high vocational certificate in development economics from the National Institute of Development Administration. He earned a Bachelor of Commerce and Accountancy at Thammasat University and a Bachelor of Economics at Ramkhamhaeng University.

He was awarded the title ‘Banker of the Year’ in 2018 by DOKBIA THURAKIJ Magazine.