

Regional Development of Financial Market

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Asian Financial Markets' Main Features

1. Bank-dominated financial system
2. Small share of bond markets --->
Needs for long term financing
3. Lack of long-term investors such as
pension funds and Life insurance
- 4, Bench mark bond market (sovereign bond)
Infrastructure bond, corporate bond
5. High percentage of SMEs
6. Large share or Microcredit (finance companies); Lack of venture capital

Needs for Improvement

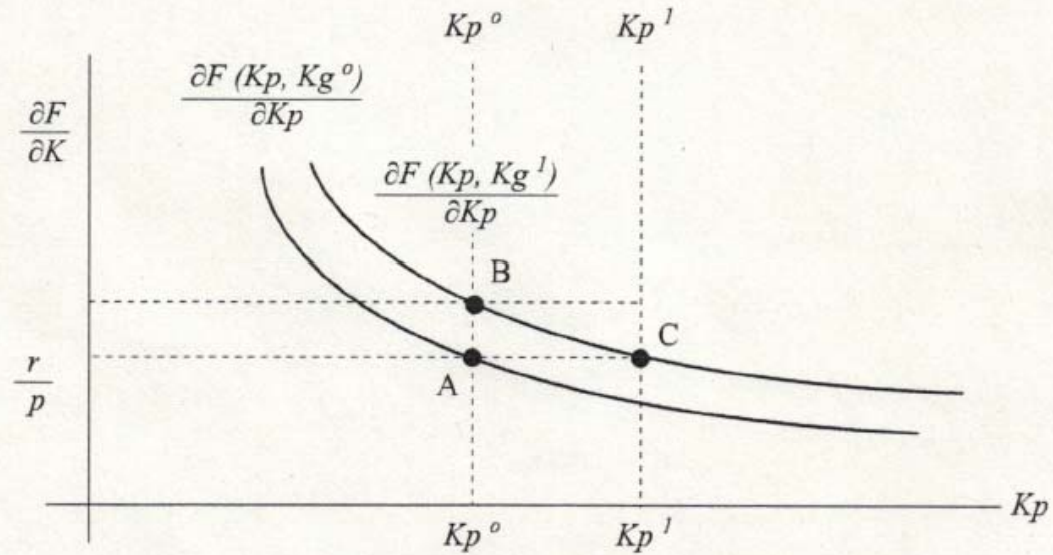
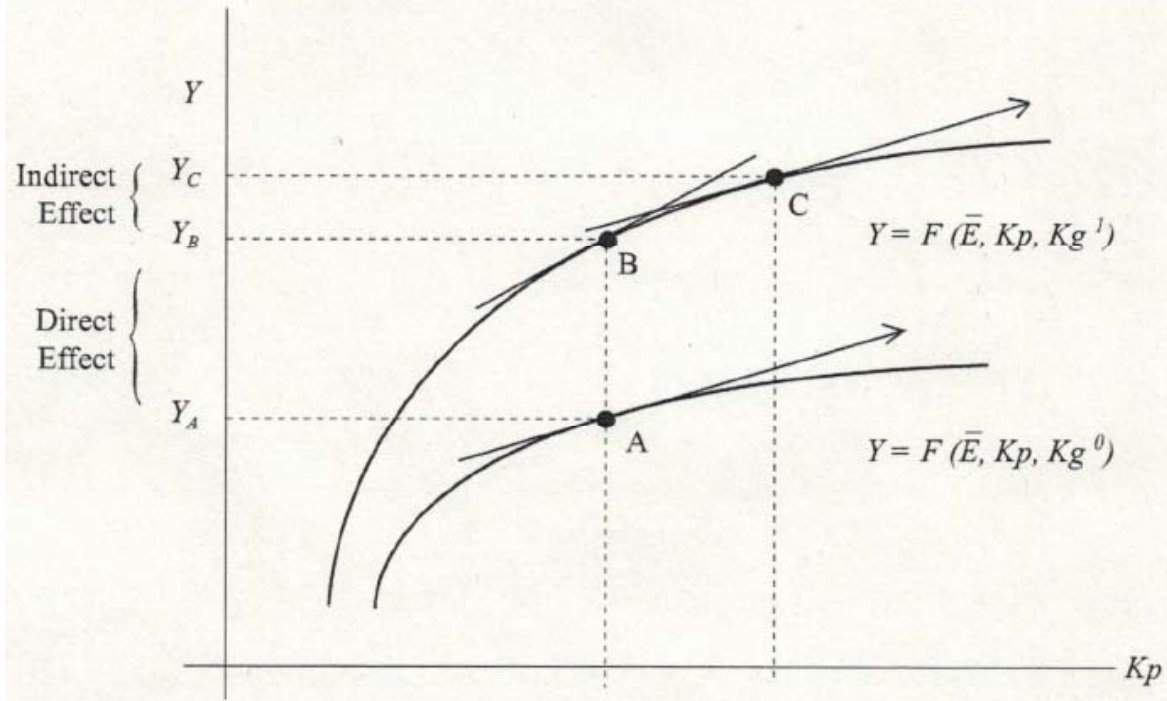
- 1, Bank dominated financial system
- 2, Bank debenture
- 3, Sovereign bond (Central government)
(Local government)
- 4, Long-term finance (corporate bond)
- 5, Long-term investors
Pension funds and insurance

*Marginal Productivity of Public Capital,
Japan
(Production Function, 1980-2004)*

Year	1980-84	1985-89	1990-94
Private Capital Stock	0.1587	0.1499	0.0658
Public Capital Stock	0.3100	0.2654	0.2189

Year	1995-99	2000-04
Private Capital Stock	0.0633	0.1551
Public Capital Stock	0.1752	0.1615

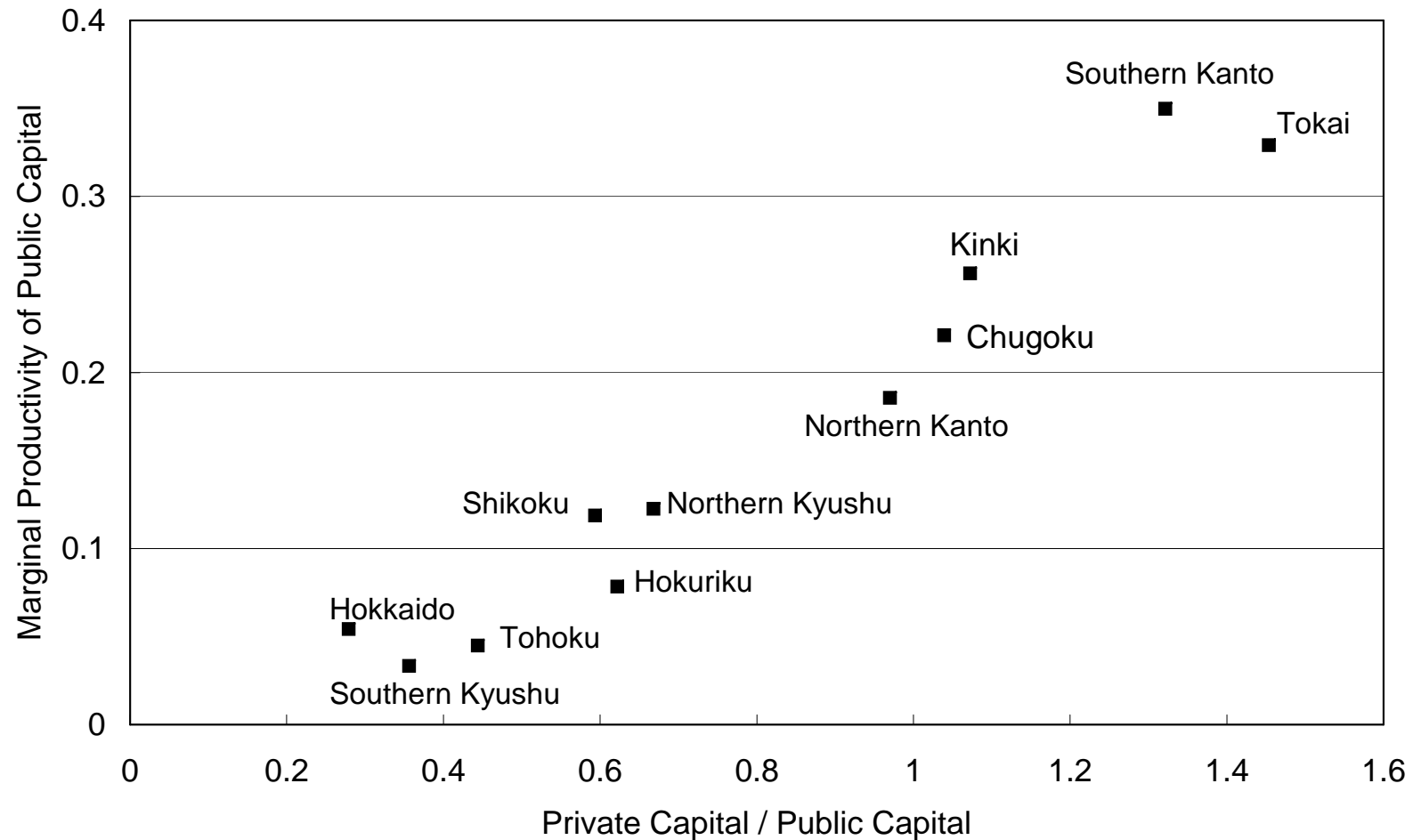
Explanation of Direct and Indirect Effects



Effectiveness of Public Capital Stock

- "Private capital/Public capital ratio" to "Marginal productivity of Public capital" -

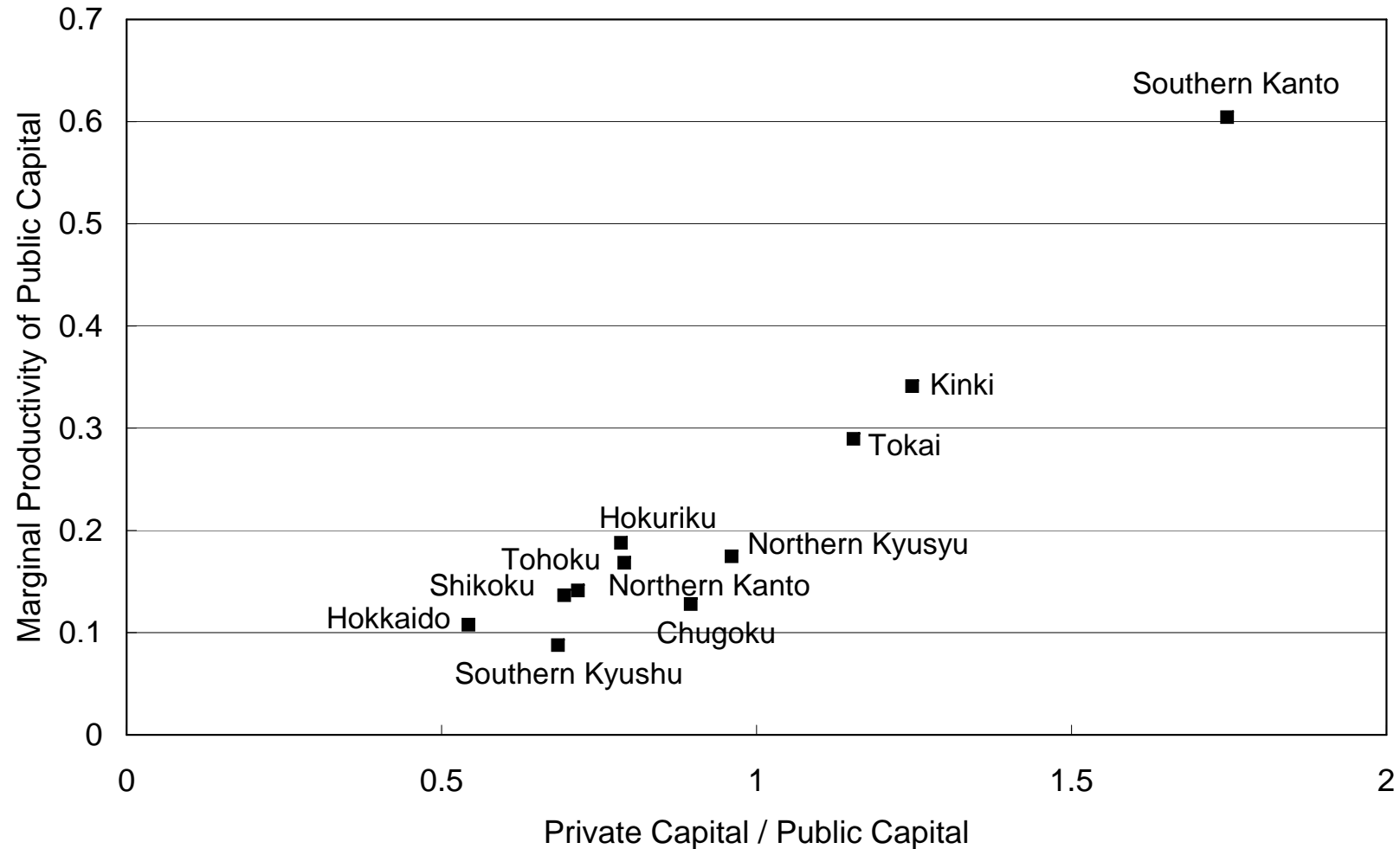
Secondary Industry (Industrial Sector)



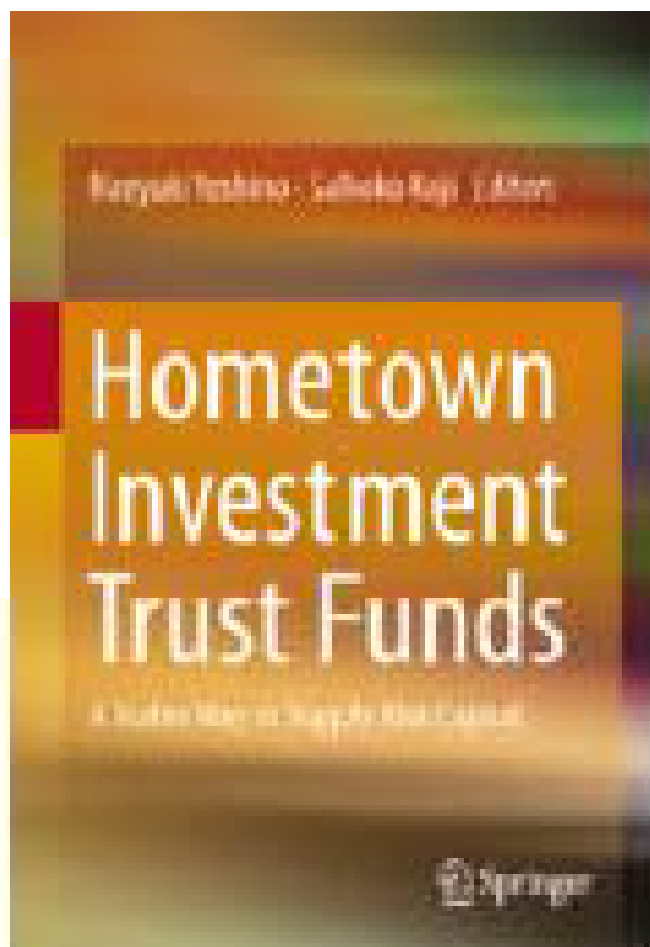
Effectiveness of Public Capital Stock

- "Private capital/Public capital ratio" to "Marginal productivity of Public capital" -

Tertiary Industry







Hometown Investment

A Stable Way to Supply Risk Capital

Yoshino, Naoyuki; Kaji, Sahoko (Eds.)

2013, IX, 98 p. 41 illus., 20 illus. in color.

Available Formats:

eBook

Hardcover

(gross) price



Donation and Investment to community



Investors

Community Type Infrastructure

→ Hometown Investment Trust Funds

Wind power Generator Funds

Japanese Wine Fund

Local Airport

Agricultural Sector

Large Projects and Professional Investors

Pension Funds

Insurance companies

Mutual Funds

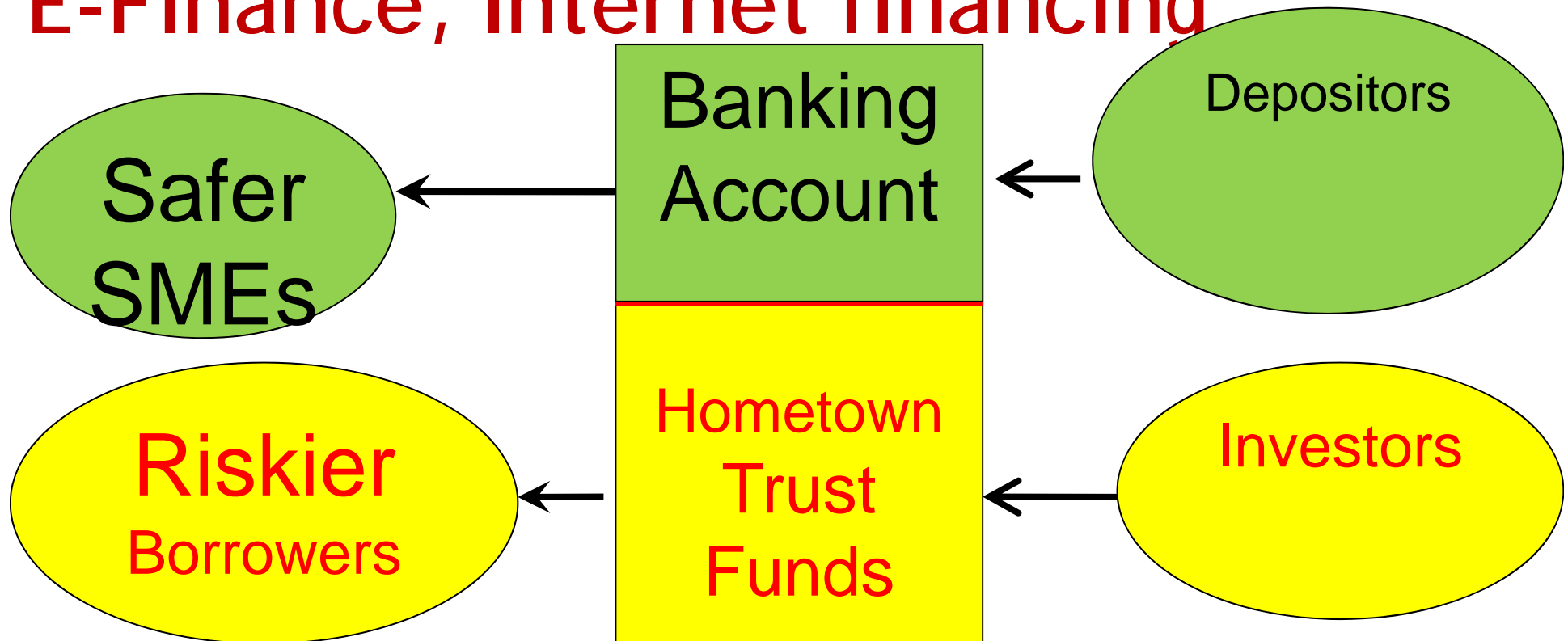
Brown fields

not green field

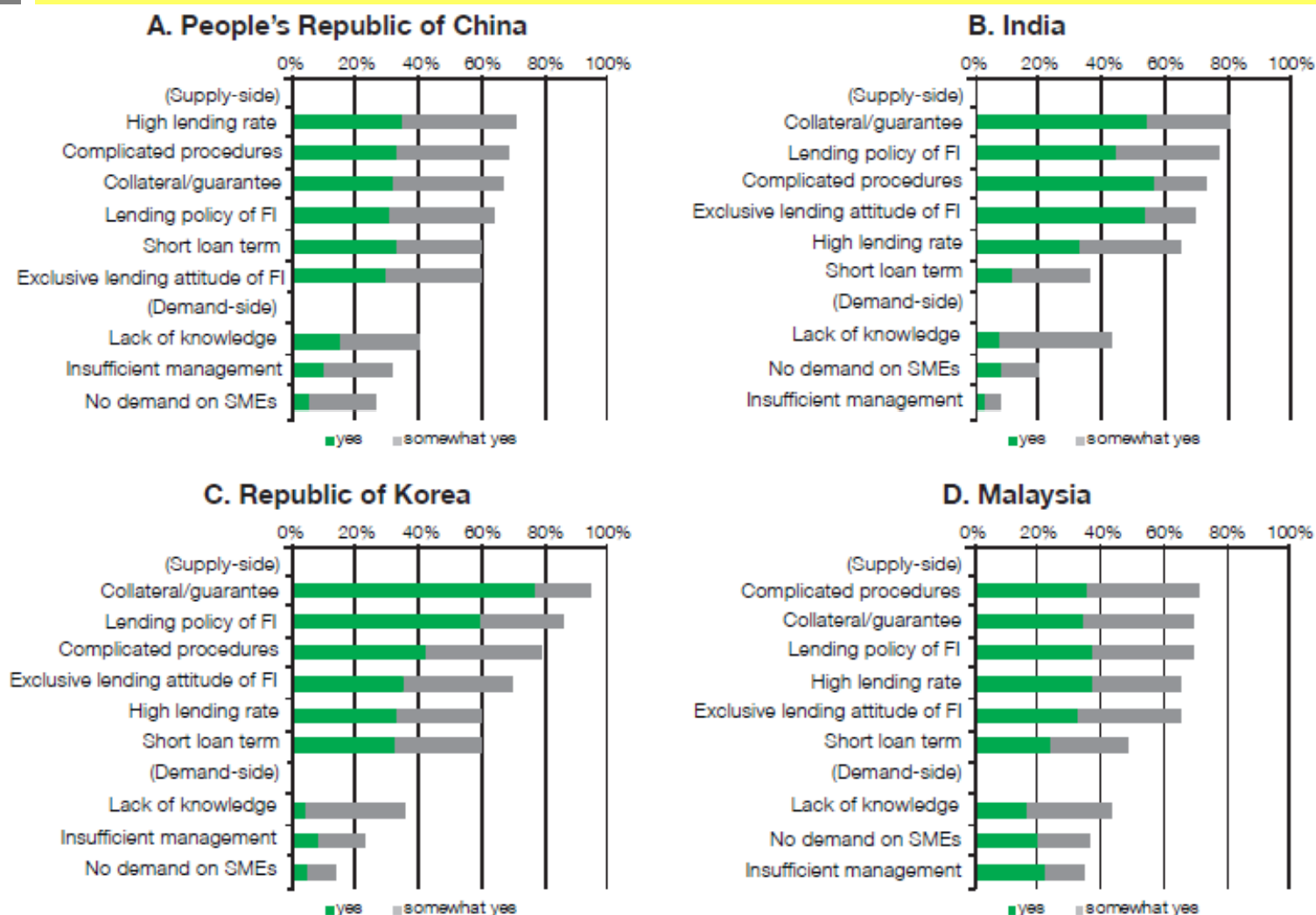
Bank based SME financing and Regional financing to Riskier Borrowers

- 1, Bank Loans to relatively safer borrower
- 2, Hometown Investment Trust Funds/

E-Finance, Internet financing

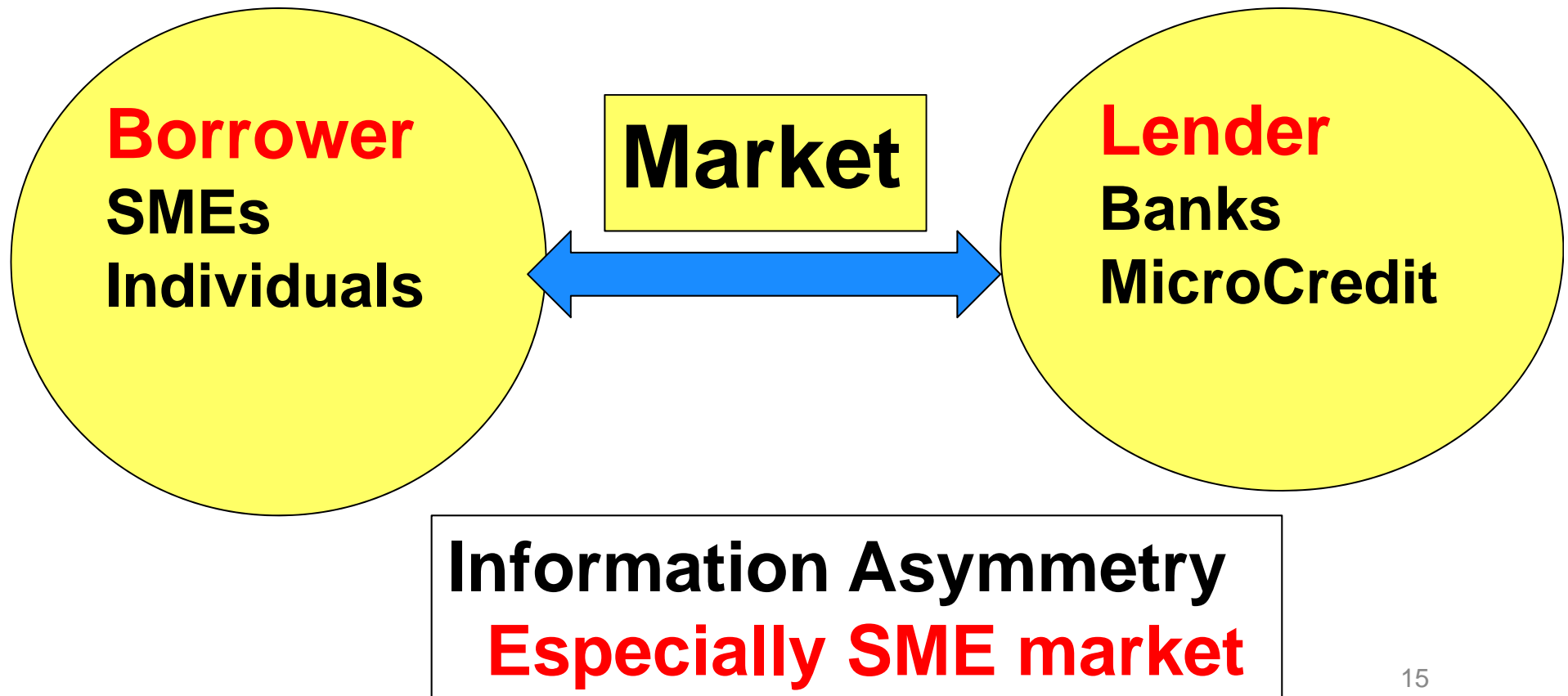


Barriers for SMEs in Accessing Financial Institutions



Source: ADB–OECD study on enhancing financial accessibility for SMEs: Lessons from recent crises. Mandaluyong City, Philippines: Asian Development Bank, 2013

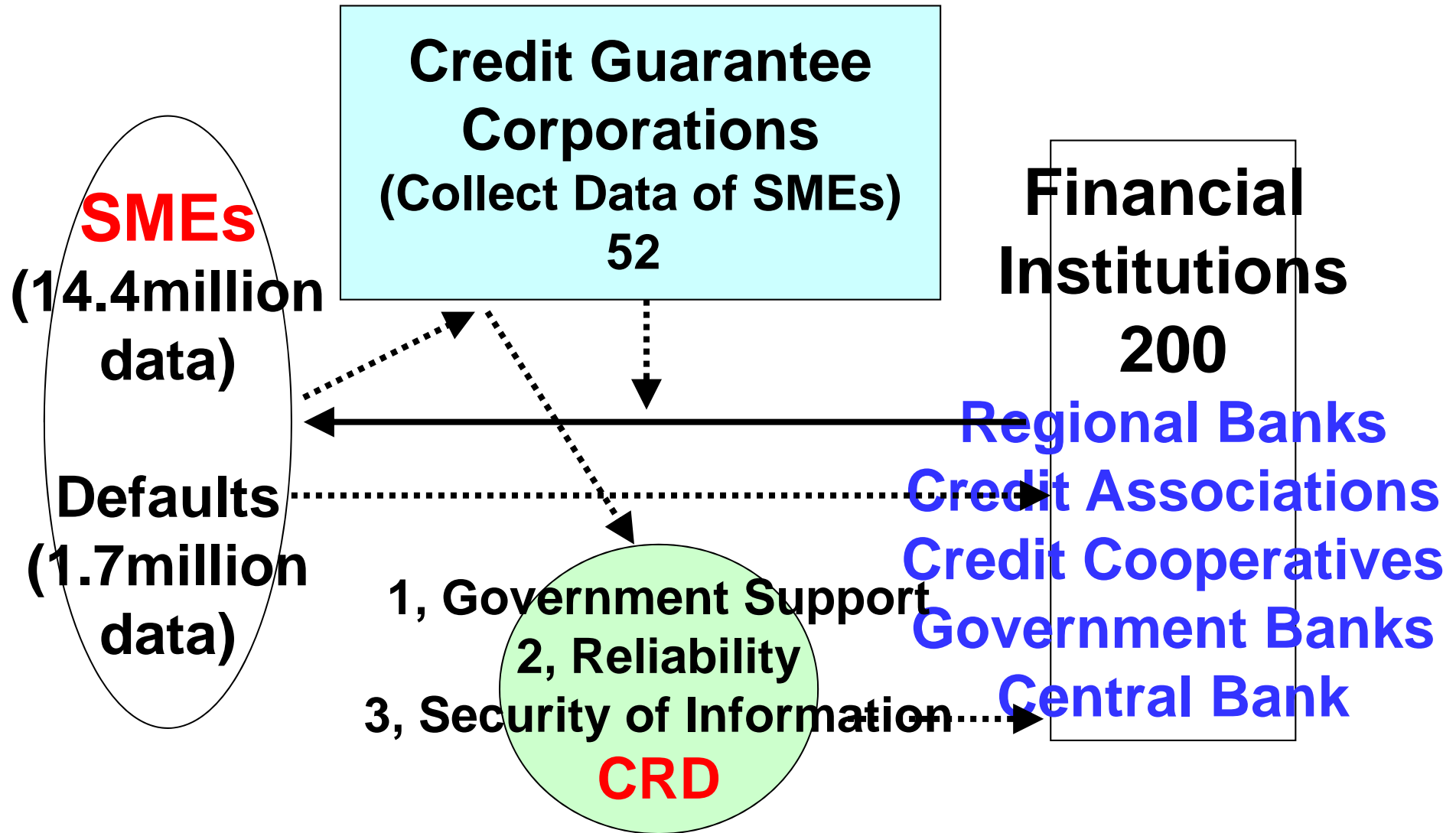
Borrower, Lender and Market



Four Accounts by SME

- 1, Account to show **Bankers**
- 2, Account to show **tax authority**
- 3, His own account
- 4, Account to show to **his wife**

SME Data base (CRD Data base)



Basel Capital Requirements

Basel III

- 1, Adequate Capital for Banks
- 2, To keep healthy
- 3, SME loans will decline
- 4, Micro credit
- 5, Loan sharks
- 6, Education to SMEs and borrowers

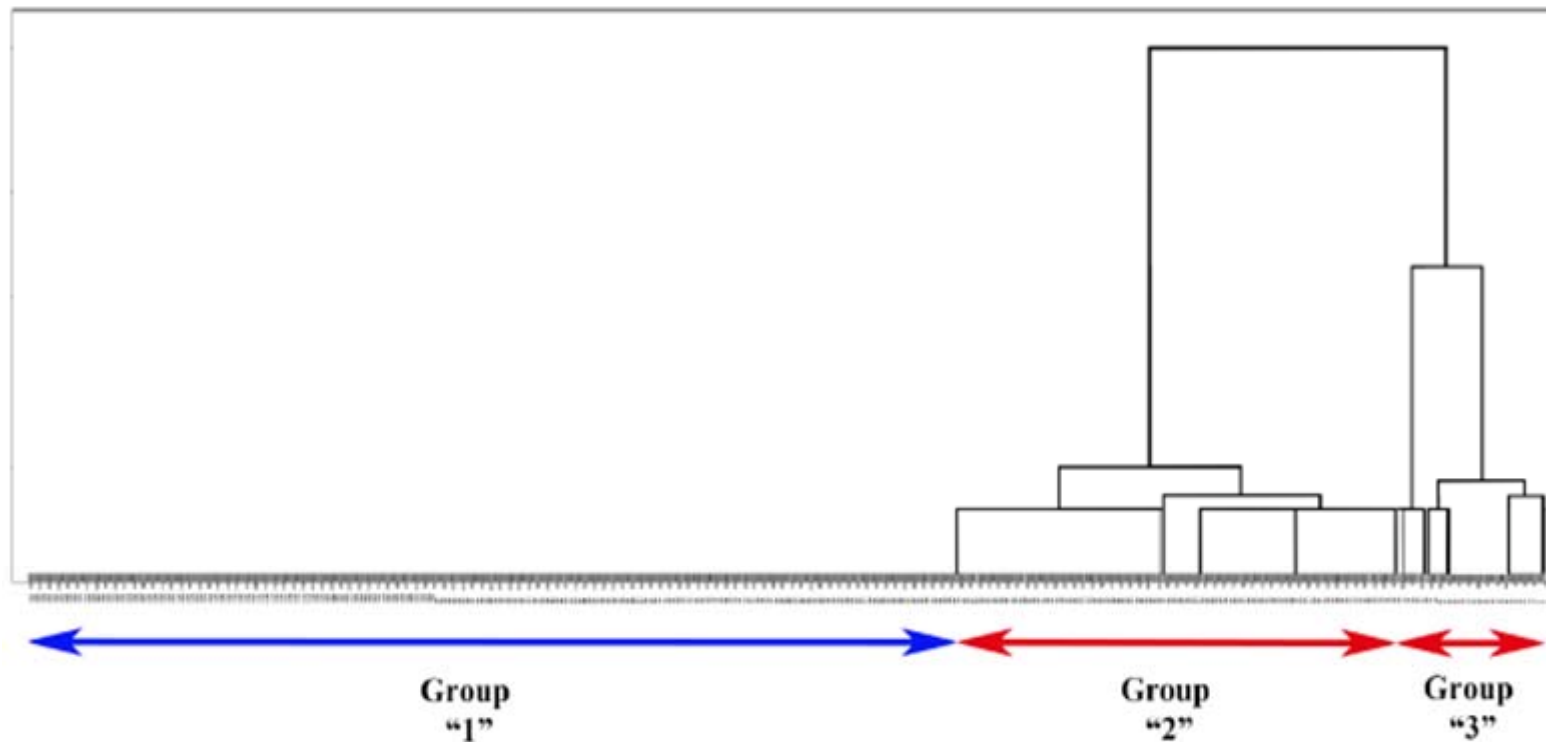
Examined Variable

No.	Symbol	Definition	Category
1	Equity_TL	Equity (book value)/total liabilities	Leverage
2	TL_Tassets	Total liabilities/total assets	
3	Cash_Tassets	Cash/total assets	Liquidity
4	WoC_Tassets	Working capital/total assets	
5	Cash_Sales	Cash/net sales	
6	EBIT_Sales	Ebit/sales	Profitability
7	Rinc_Tassets	Retained earnings/total assets	
8	Ninc_Sales	Net income/sales	
9	EBIT_IE	Ebit/interest expenses	Coverage
10	AP_Sales	Account payable/sales	Activity
11	AR_TL	Account receivable/total liabilities	

Note: Retained earnings = the percentage of net earnings not paid out as dividends, but retained by the company to be reinvested in its core business or to pay debt. It is recorded under shareholders' equity in the balance sheet. Ebit = earnings before interest and taxes. Account payable = an accounting entry that represents an entity's obligation to pay off a short-term debt to its creditors. The accounts payable entry is found on a balance sheet under current liabilities. Account receivable = money owed by customers (individuals or corporations) to another entity in exchange for goods or services that have been delivered or used, but not yet paid for. Receivables usually come in the form of operating lines of credit and are usually due within a relatively short time period, ranging from a few days to a year.

Cluster analysis: the average linkage method

Dendrogram Using Average Linkage



Factor Loadings of Financial Variables after Direct Oblimin Rotation

Variables (Financial Ratios)	Component			
	Z1	Z2	Z3	Z4
Equity_TL	0.009	0.068	0.113	0.705
TL_Tassets	-0.032	-0.878	0.069	-0.034
Cash_Tassets	-0.034	-0.061	0.811	0.098
WoC_Tassets	-0.05	0.762	0.044	0.179
Cash_Sales	-0.937	0.021	0.083	0.009
EBIT_Sales	0.962	0.008	0.024	-0.004
Rinc_Tassets	0.014	0.877	0.015	-0.178
Ninc_Sales	0.971	-0.012	0.015	0.014
EBIT_IE	0.035	0.045	0.766	-0.098
AP_Sales	-0.731	-0.017	-0.037	-0.016
AR_TL	0.009	-0.041	-0.104	0.725

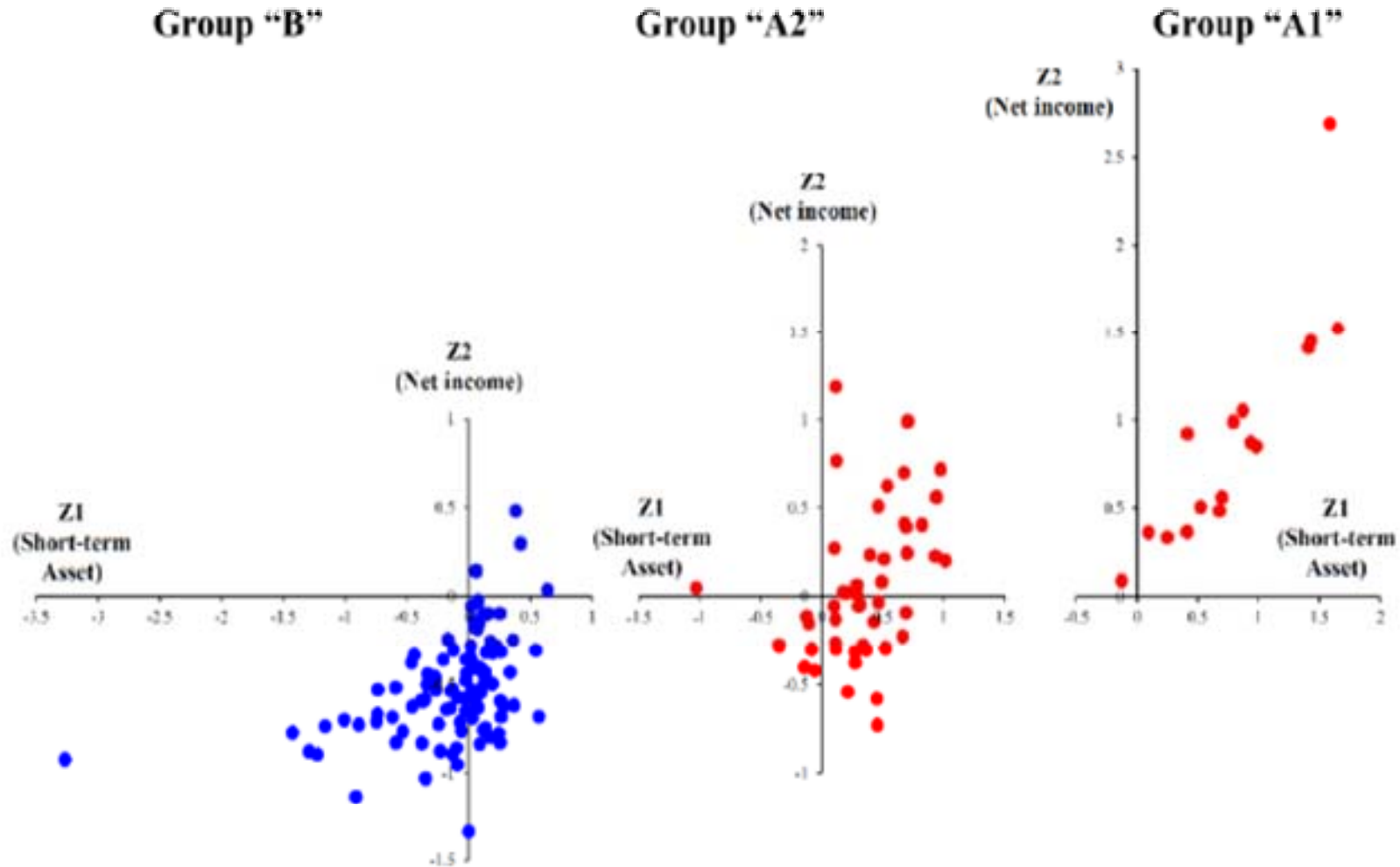
Note: The extraction method was principal component analysis, The rotation method was direct oblimin with Kaiser normalization.

Credit Rating of SMEs using Asian Data



- (i) Sales
- (ii) Assets
- (iii) Liquidity (Cash)
- (iv) Total Debt

Grouping Based on Principal Component (Z1-Z2) and Cluster Analysis



Credit Rating for SMEs *by Use of SME Database*

- 1, Credit Rating is only applicable to large companies
- 2, Credit Rating for SMEs based on SME Data
- 3, Three ranking of SMEs (Asian country)
Five ranking of SMEs (Japan's case)
- 4, SME data can produce default risk ratio
- 5, Risk based Interest rate

References

Yoshino N. Kaji, S. (2013) *Hometown Investment Trust Funds*, Springer, March 2013

Yoshino, N and T. Hirano (2012) “Counter-Cyclical Buffer of the Basel Capital Requirement and Its Empirical Analysis” , chapter in *Current Developments in Monetary and Financial Law* (Vol. 6): Restoring Financial Stability—The Legal Response, edited by the International Monetary Fund (IMF, 2012).

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