

The Potential of SMEs Bond Issuance in Thailand

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Received April 28, 2020

Revised May 27, 2020

Accepted May 27, 2020

Abstract

The aim of this research is to examine the potential of SME Bond issuance in Thailand. The comparative accessibility to debt financing for SMEs or SMEs bond issuance in various countries is used to study problems and obstacles. The focus group interview is used to develop guidelines of non-listed Thai SMEs Bond issuance. The respondents are the executives from related parties of bond issuance in Thailand. Our result indicates that SMEs in selected EU countries and those in many developing economics have been funded their capital using debt instrument or SMEs bond. The bond fund-raising problems are the financial management, accounting standard, as well as transparency and performance issues. The obstacles are rules and regulation, information disclosure, the flotation cost and the trust of institution and investors. Moreover, we propose that SMEs bond in Thailand should be issued by the medium-sized enterprise due to its revenue capability comparing to the minimum issue size. Credit scoring method is suggested in order to access company qualification with offering via private placement method. The issuing instruments must be legally supervised by SEC and Thai BMA. It should be straight bond with owner-guaranteed, no conversion and no option features. The issue size is about 120 – 150 million Baht within the range of the respondents' suggestions. The coupon rate should be between 5% and 7% per year with semiannual payment. The maturity is about 5 years and allow the issuer to redeem its bond.

Keywords: SME financing; SME bond

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Introduction

According to the majority of businesses and a significant source of employment and export earnings, small and medium-sized enterprises (SMEs) play an important role in Thailand's economic development. This sector contributes to about 37% GDP and employs about 80% of the labor force. In 2017, outstanding SME loans totaled THB 4,220,624 billion, representing 50.47% of all outstanding business loans (OECD, 2019). Bank loans are the main sources of financing SMEs sector of the Thai economy.

One of the most important parts of a firm activity is its financing. Required funds can be secured from equity to debts. If debt is the main source of financing, its use in the capital structure of firms increases return on equity and the trade-off with increasing of the firms' risk. In Thailand, the big listing firms can choose between the loans from the banking institutions and bond issuance. While for SMEs, the bond issuance is the challenge. The opportunity for SMEs to access to capital is more promising. As previously SMEs only relies their source of funding capital from banks. About 99% of SMEs secure a loan from commercial banks and from government's banks (Money market). Banks or financial institutions would support SMEs through loans or working capital. A loan can be secured by making collateral from SME's assets or be guaranteed by owners of the enterprises. However, as for medium and the long-term debt, securing a loan is not complement for SMEs to grow their business since assets from companies cannot grow with the intentions to expand businesses such as sales growth would demand more capital for operations.

As an ASEAN Economic Community (AEC), has now officially opened since before the end of 2016. AEC calls for cooperation among the Asian countries: Thailand, Myanmar, Laos, Vietnam, Malaysia, Singapore, Indonesia, Philippines, Cambodia and Brunei. The cooperation means regulators in Thailand that oversees the issuance of bond from private sectors

must undertake a new approach to develop Thailand's capital market that would benefit SMEs. This new approach requires participations from the Securities and Exchange Commission of Thailand, from the Stock Exchange of Thailand, and from Thai Bond Market Association.

To study problems, obstacles and develop guidelines of non-listed Thai SMEs Bond market about the bond issuance and the investment demand make will draw suggestions to improve current policy as to adjust new regulations that will contribute to the benefits for SMEs.

Literature Review

The financial theories and concept have been developed to explain the alternatives of debt financing or equity financing. Bond as a debt instrument may fill the gap between demand side and supply side of SMEs.

Financing Theory and Leverage Policy

The optimal capital structure is one of the conditions that make the firm reaches the objective of maximizing value of firm. The optimal structure measures the ratio of debt to equity that depends on the leverage policy. Modigliani and Miller, two professors in the 1950s, studied capital-structure theory intensely (Ross *et. al.*, 2015). As taxes and bankruptcy costs do significantly affect a company's stock price. So, the optimal capital structure exists. The tradeoff theory assumes that there are benefits to leverage within a capital structure up until the optimal capital structure is reached (Berk and DeMarzo, 2014). Weighted Average Costs of Capital (WACC) is employed to incorporate cost of the various sources of bearing- interest liabilities with tax effect and equity. However, SMEs has limited access to capital market, they cannot meet the market value of all sources of fund. The book valued weight of fund will underestimate the real cost of capital. The owners are not realized the required rate of return of equity to compensate their risk from operating and

financial risk. In general, SMEs may not have the target leverage.

In the study of Spanish panel data collected during the period 1995–2005, the SMEs analyzed appeared to be over-levered and fairly is motivated to adjust (Aybar-Arias, Casino-Martínez and López-Gracia, 2012). The opposite result was found in India. Kumar (2014) collected the secondary data for a period of four years from 2010–2013. The long-term funds had apportioned nearly two- third of total funds when compared to short term funds employed. Since the firms showed more dependence on equity financing the associated financial risks were comparatively low.

Hashemi (2013) analyzed the data of 201 SMEs in Iran over the period of 2006 to 2010. The result indicates that profitability has a strong impact on SMEs borrowing decisions besides profitability, size and asset structure. Firms are more willing to finance their projects with short term debt, rather than long term debt. Short term debt is costly, and the probability of bankruptcy is higher with long term debt. Although long term debt is riskier for SMEs, but it shows the management confident in the firm's future since it obliges the firm's management to make legally binding future payments of interest.

The pecking order theory is from Myers (1984), and Myers and Majluf (1984). From the perspective of those inside the firm, retained earnings are a better source of funds than is debt, and debt is a better deal than equity financing. Retained earnings have no adverse selection problem. Equity is subject to serious adverse selection problems while debt has only a minor adverse selection problem. From the point of view of an outside investor, equity is strictly riskier than debt. Both have an adverse selection risk premium, but that premium is large on equity. Therefore, an outside investor will demand a higher rate of return on equity than on debt.

Akerlof (1970) brought informational issues at the forefront of economic theory. He showed that information asymmetry

could increase adverse selection in the market. However, Myers and Majluf (1984) argue that managers know more about the firm's value of assets and opportunities than potential investors do. They also assume that managers act in the interests of existing shareholders. Since managers act in the interests of existing shareholders, there is an incentive to sell new equity when it is overvalued. Thus, selling equity on average conveys negative information about the firm, and the stock price drops at the equity issue announcement.

A market failure of imperfect information impeded SMEs' ability to access the finance (Department for Business Innovation and Skill, 2014). Because of information asymmetry, lenders tend to have a hard time differentiating between good credit risks and bad credit risks. They demand a blanket premium over and above the existing rates as compensation for the risk arising out of the inability to determine who indeed should be lent to. After the money has been disbursed to the borrower and it arises out of the fact that the borrower may have an incentive to breach the loan covenants by investing in 'immoral projects' which are unacceptable in the eyes of the borrower because in as much as they have a high possibility of gain to the borrower, they also have a high possibility of failure which will have the most detrimental effect on the lender. The information symmetry will cause the higher cost of capital. So, the information disclosure will help both.

As firms grow and mature, their cash flows and risk exposure follow predictable patterns. While the business life cycle contains revenue, earnings, through time. Cash flows become larger, relative to firm value, and risk approaches the average risk. The financing choices will reflect these changes (Damodaran, 2014). Mature growth: as growth starts leveling off, firms will generally find two phenomena occurring. The earnings and cash flows will continue to increase rapidly and the need to invest in new projects will decline. These firms will be more likely to use debt in the

form of bank debt or corporate bonds to finance their investment needs. Decline stage, internal financing is likely to exceed reinvestment needs. Firms are unlikely to be making fresh stock or bond issues but are more likely to be retiring existing debt and buying back stock. In a sense, the firm is gradually liquidating itself.

The concepts of financing decision are applied in SMEs. In Sri Lanka, a survey was carried out based on 300 SMEs and the hypotheses formulated from pecking order and life cycle theories are tested (Menike, 2015). The results support the pecking order theory and the life cycle theory. The variable of age, size, ownership structure, information asymmetry and level of intangible activity are important determinants of the capital structure of SMEs. When firms become older and larger, they accumulate enough fixed assets by eliminating informal asymmetry, they tend to acquire long term loans providing fixed assets as collaterals. The results also reveal that the industry specific effects are important in the context of SME capital structures and SMEs in Metal and Wood industries are less likely to use internal finance while the SMEs in Textile industry are more likely to use long-term debts.

OECD (2015) suggests that traditional debt finance generates moderate returns for lenders and is therefore appropriate for low-to-moderate risk profiles. It typically sustains the ordinary activity and short-term needs of SMEs, that generally characterized by stable cash flow, modest growth, tested business models, and access to collateral or guarantees. While the alternative of financing range, the investor that has the higher risk tolerance may be interested in the alternative debt instrument that is SMEs corporate bond.

Lending to SMEs in global perspectives generally increased at a moderate pace across countries in 2017. Outstanding SME loans grew strongly in a majority of middle-income countries at a median growth rate of almost 5% (OECD, 2019). The median SME interest rate declining for the seventh

consecutive year. Survey data of SME owners identify the interest rate as a major concern, together with low collateral requirements and rejection rates, pointed to a stabilisation of the credit conditions. The share of long-term SME loans continued to rise in 2017 because the owners wanted to lock the low interest rate. In Thailand, SMEs still face problems including collateral constraints and a lack of credit history, which limit their access to bank loans (OECD, 2019).

SME finance remains high on the policy agenda. Many governments developed the policy initiatives to ease SMEs' access to finance. Some examples are following.

In March 2013 the European Commission (EC) adopted the Green paper on long-term financing of the European economy, which highlights the need to mitigate the barriers faced by SMEs on line of the access to finance through the development of non-banking alternative sources of financing (Roman and Rusu, 2015). The objective of EU is to encourage people to become entrepreneur and also make it easier for them to set up and grow their business since only 37% of Europeans would like to be self-employed, compared to 51% of people in the US and China. (www.europa.eu) In the European countries, borrowing from banks is the dominant source of external financing for SMEs. In comparison, equity, factoring, other sources of financing and debt securities have a very small share in SME financing. (Roman and Rusu, 2015). A Capital Markets Union (CMU) policy take into account the different types of SMEs in terms of financing needs and the market realities of the EU member state (Demary Hornik & Watfe, 2016). The effect of the proposed policy actions may be heterogeneous across different types of SMEs as well as across countries.

Factors that have been identified to differ across SMEs include firm age, its ownership structure, the past, present and expected growth rates and profitability (Moritz et. al., 2015). The firm-specific differences are

complemented by diverse characteristics in terms of product or service innovation and industry-specific elements. The more established and larger firms tend to use more diversified financing instruments when compared to smaller and younger ones. Firms that are owned by families or have more than one owner typically profited from a wider range of financing sources.

The Board of the International Organization of Securities Commissions (2014) found that Long-term financing is an essential element for supporting investment and growth. SMEs can bypass traditional bank lending by issuing equity and bond securities in the capital market instead of bank lending. Yet the fixed costs make this more difficult for SMEs than for larger firms. Some measures are believed to help to achieve this (Peterhoff, Romeo and Calvey, 2014) are Information platform and support services from exchange, Pan-regional SME market place, Virtual Bulletin Boards across exchanges, Government supported SME Platform and Hybrid models linkage and exchange. Debt securities is the other source of SMEs financing when comparing with the dominamt source of external financing (Roman and Rusu, 2015).

In United Kingdom there are SMEs promotional measures. Overdrafts and bank loans are the most common sources of additional finance for SMEs. The significant advantage they have over raising equity is that neither involves relinquishing any share of ownership or control of the business. Equity finance enables the raising of share capital from external investors in return for handing over a share of the business. The contract guarantee provides expert trade advice and practical support to UK-based companies wishing to grow their business overseas. Moreover, they have other business advice programmes such as business and product strategies creation, innovation development, new product ideas and market opportunities generation (Department for Business Innovation & Skills, 2013). Enterprise Finance Guarantee (EFG) help in public guarantee on SMEs

loans. The guarantee applies on loans up to 1£mn and covers 75% of each specific contract (Infelise, 2014).

In France, promotional banks such as BPI, KfW, CDP and ICO play an important role to foster high-quality investment and innovation at the national level to complement European initiatives (Abel-Koch et al. 2015). The public investment bank 'Bpifrance' provided substantial funds for research and innovation. SMEs that want to form innovation partnerships turn to the 'competitiveness clusters', yet to be reformed. Innovation instruments, such as the 'tax research credit', remained unchanged and are increasingly used by SMEs (European Commission, 2016). Bank has developed a specific loan scheme to address the SMEs' need to fund investments. It is usually difficult to fund, especially because of the lack of collateral associated with this type of needs such as innovation development, export, digitalisation, external growth. These loans, guaranteed by a public fund, require no collateral from the entrepreneur and have a maturity of 7 years, with a 2-year grace period. These loans are systematically accompanied by a loan or equity investment by a private actor, for an amount at least equal to the public loan (Bpifrance, 2018).

Main task of Chambers and Associations, in German is informing about public financial assistance programs as follows: assisting in accessing these programs, advisors in loan schemes and guarantee schemes, seminars and training courses for company financing, Individual advisory services regarding company financing. Moreover, in some German states the Chambers of Skilled Crafts have established own guarantee facilities for members of the Chambers (Over and Henkel, 2013).

In 2010, The Fondo Italiano di Investimento of CDP in Italy, endorsed a partnership with private investors and public sponsors in order to launch a new investment fund called Fondo Italiano di Investimento

(FII or the Fund). The aims of the Fund, designed for a medium- to long-term time horizon, create a broader spectrum of medium- sized companies by encouraging the aggregation of smaller companies, allowing them to be more competitive (Abel- Koch et al. 2015). After that, The SME Initiative is a joint financial instrument of the EC and the EIB Group (the European Investment Bank and European Investment Fund) which aims to stimulate SME financing by providing partial risk cover for SME loan portfolios of originating financial institutions (European Investment Fund, 2018).

As in Thailand, SME lending has been on the rise, and the Bank of Thailand reported that SMEs accounted for the largest share of loans in Thailand in 2016 with 33. 4% , compared to consumer lending (32. 6%) and corporate lending (25. 1%) (Oxford Business Group, 2017). In January 2017, for example, Siam Commercial Bank announced it was launching a small business lending programme, SME Ready 2 Grow, offering favourable lending terms, including a maximum loan-to-value (LTV) ratio of 150% for SME expansion or working capital support, and 100% LTV for workplace purchases. In July 2016 Krung Thai Bank (KTB), announced the launch of a venture capital fund as the SME Private Equity Trust Fund. The fund targets investment in three SME categories: high- growth start- ups, technology- based SMEs and larger suppliers, with the aim of supporting healthy long-term growth and enabling businesses to eventually raise funding from the stock market as an exit strategy. The Thai government is intensifying its focus on SME development in 2017, launching a series of support mechanisms aimed at boosting SME exports, supporting digital business development and e-commerce activities, and increasing access to finance at commercial banks and the Thai bourse.

The Landscape of universal banking in Europe, so the financing system is more-bank-based than in US (Demary, Hornik & Watfe 2016). Thus deepening the European

capital markets appear to be a neccessity especially if the banking crises happened which worsen the financing decision of non-financial companies.

Financing gap of SMEs in developing economies

Lending to SMEs generally improved in 2015 from 2013 – 2014, with a significant upward trend in new SME Loans Overall outstanding. SME loans also continued to increase in 2015, but at a slightly slower pace (OECD, 2017). In some emerging economies i. e Chile, Colombia, Malaysia, Serbia and Turkey, SME loan growth slowed when compared to previous years. The average interest rate charged to SMEs declined in 2015 for almost every scoreboard country, mainly due to loose monetary policies. However, in emerging economies with relatively high inflation rates, including Brazil, Chile, Colombia, Georgia, Malaysia, Mexico, the Russian Federation, Serbia and Thailand, 2015 interest rates remained on average more than twice as high as the median value of participating countries. The gap in credit costs between SMEs and large enterprises remains wide. For the first time since the crisis, payment delays declined in a majority of participating countries. SME bankruptcies continued their downward path.

The demand for funds by SMEs and the supply of funds in the financial market is a “ financing gap ”. Access to finance is frequently identified as a critical barrier to growth. The SME Finance Forum (2017) reported that the SME finance gap in developing countries was about \$4.5 trillion. Micro, small, and medium- sized enterprises (MSMEs) continue to face more difficulty accessing trade finance than large firms (Caprio, Kim & Beck 2017). Banks report that 74% of rejections of trade finance come from MSMEs and midcap firms from the trade finance gap. This 2017 survey results were obtained through the participation of 515 banks from 100 countries and 1,336 firms from 103 countries. Some firms failed

to execute the transaction. This reflects one of the negative impacts in the aggregate overall economic growth.

The public sectors try to close the SMEs financing gap. Two features are particularly important: the financial structure and competition. The direct intervention is commonly used include state-owned bank lending to SMEs or directed credit and providing credit guarantees. Risk-sharing arrangements can increase lending by lowering the amount of collateral that a SMEs needs to pledge to receive a loan because the guarantor provides part of the collateral. The more market-oriented actions are proposed (SME finance forum 2017): (i) fostering the availability of credit information by improving corporate accounting and supporting information sharing between parties, including lenders and utility companies; (ii) passing movable collateral laws and supporting collateral registries; (iii) improving insolvency regimes; (iv) strengthening the legal, regulatory, and institutional infrastructure for factoring and leasing; and (v) creating enabling environment for fostering innovation.

However financial institutions in developing markets often find it hard to enter and operate in the market. Typical challenges include: having high levels of informal businesses; a lack of reliable data; and lack of collateral coverage to hedge the perceived high risks. In addition, financial institutions in developing markets often have inappropriate processes, products and services, risk frameworks, and sales and servicing models to serve the segment profitably (SME finance forum 2017). Basel III's capital constraints have led to a few unintended but predictable consequences for SMEs. On one hand, new capital requirements might have encouraged the banks to acquire more capital to sustain the same level of risk — but on the other hand, they could also choose to reduce their lending to retain the same level of capital.

There are two important reasons that prevent more SMEs from listing on the stock

market. One of them is the high fixed costs of an IPO. The other one is reporting requirements implied by the high costs for SMEs. In some cases, stringent regulations that are intended to meet the interests of investors may even prevent SMEs from listing on large stock exchanges altogether. The other factor that has prevented the growth of the exchange in the region is the lack of institutional investor participation. The stock markets may not be a financing solution for a broad range of SMEs that are in the startup and expansion stage. And SME stock markets are relatively illiquid when compared to stock markets where larger listed firms traded (ESCAP, 2014).

The significant growth the institutional investors such as the insurance company and pension fund have the potential to contribute to the financing gap bridging. However, their current level of investment in these two strategic sectors is limited due to complex set of issues, including the need to develop instruments that cater to their risk-return appetite. Fixed income instruments are likely to be fit for a broad range of institutional investors as they have the potential to deliver long cash flows with attractive yields but with less volatility than equity investments. (World Bank, 2015)

However, small and medium-sized enterprises are not only different in size, industry but also their stage in the life cycle criteria and ages. Some are very small and in start-up stage to established firm listed in the stock market. How the bond can fill the financing gap in Thailand SMEs is a learning lesson from others.

Thai corporate bond market

Thai bond market in 2019 showed the 5.72% growth from 2018, both in corporate bond issuance and fund flows from non-resident investors. The total outstanding value of corporate bond 29% of all value. (ThaiBma, 2019). Long term corporate bond outstanding value is 3,584 billion Baht with the 13.13% growth rate from 2018. The 25.68% growth of long term corporate bond issuance underlines the important source of

fund besides of bank loan and equity. The long term corporate bond issuance (including foreign Baht-denominated bond and foreign currency denominated (FX) bond) in 2019 reached new historical record by breaking THB 1 trillion-level for the first time.

While the commercial paper outstanding value in 2019 decreases 24.19% to be 280 billion Baht. The issuance of short term corporate bond was at THB 990 billion, falling 62.13% from last year. The decrease was due to issuer switching from short term to long term on the back of lower rates environment.

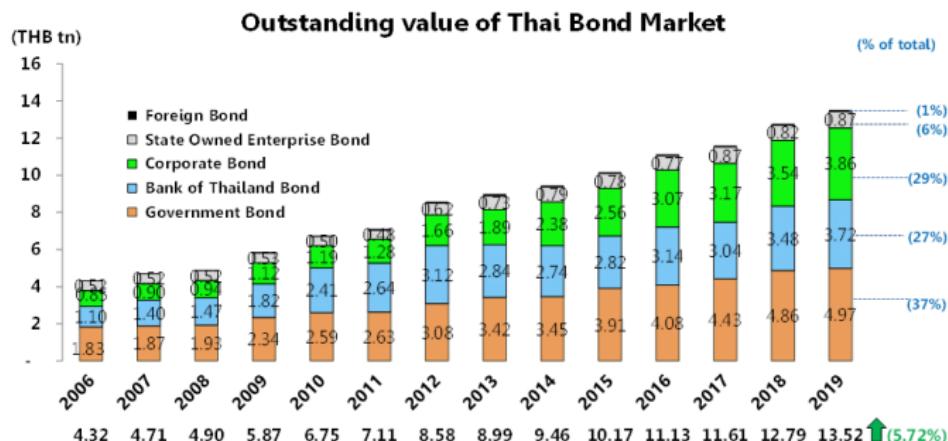


Figure 1 Outstanding value of Thai bond market (ThaiBma, 2019, p.10)

From Figure 1, corporate bonds show the continually growing. In 2019 top five business sector made up nearly 60% of total outstanding. The Energy sector has the biggest outstanding value at 13% of total corporate bond outstanding value. The others are food sector, property sector, and bank sector share 12% equally. The last one, finance sector share is 11%. The weighted average maturity of corporate bond issuance dropped slightly to 4.96 years from 5.33 years in 2018, the weighted-average issue term has been on the upward trend as back in 2015 it was 4.71 years. In term of ratings, approximately 94% of total issuance was in an investment grade categories (AAA, AA, A, and BBB). The proportion of non-rated bonds issuance, over half of the total non-rated long term corporate bond issuance was secured bond, backing by assets (e.g. Land, Stocks, etc.) or guarantors or both assets and guarantors. The corporate bond market stood at 8%, while bank lending is 34% and the market capitalization of stock outstanding is

37% of GDP (Tulayatasathien, 2019). This posted both challenges and opportunities for the corporate sector to be able to utilize lower cost of funding in the capital market

Thai bond market was developed a lot more from the past study of Sharma (2001) that investigate the bond market of the three countries in Southeast Asia. The conclusion proposed some measures to strengthen the bond issuance and investment. They were market infrastructure and institutional change such as legal reform to improve corporate governance and the policy to strengthen market infrastructure and make regulations favorable for both the bond issuance and investors. In 2014, Mizen and Tsoukas who studied the behavior of corporate bond issuance in Asia, including Thailand found that the firm characteristics such as asset size, growth, leverage, profitability, and collateral affect positively but liquidity affected in the opposite direction. However, they also proposed that an important step towards bond issuance

were the policy that fostering market deepening and improving liquidity.

SMEs Experience in bond market

SMEs in Europe and Asia can issue bond. The lesson from these countries will help Thailand SMEs bond development.

In UK, The Order Book for Retail Bonds ('ORB') is a platform created by the London Stock Exchange, where most investors of SMEs bond are individuals (Association for Financial Markets in Europe, 2015). A full prospectus is required. This market allows investors to purchase bonds in lots of as little as £1,000. The minimum issue size is £200,000; there is no rating requirement. Issue sizes may range from £15m to £300M, with most bonds issued between £50-75M. Maturities range from five to 12 years. Bonds can have fixed rate coupons in the range of 4.75%-6.25% at that time and can also be floating rate. King (2016) addressed that in Europe companies can issue mini-bonds via crowdfunding platforms or market directly to individuals. Mini-bonds typically have terms of three to five years, with investors earning regular interest payments for the duration, as well as their initial investment and an interest lump sum at the end of the term. Interest rates on offer can be between 6% and 8% a year, or even higher where investors are given the choice of store credit or other benefits. . In the UK, minibonds are not protected by the Financial Services Compensation Scheme. They are fundamentally risky investments.

Small firms in the French bond market may face the scarce liquidity so the issuers should place these bonds in the market with more relaxed listing requirements than for larger companies. (ESCAP, 2014). the small cap bond fund Micado in France is an example of such bundling. Pooling of minibonds of medium- size corporate in aggregate vehicles, as well as multi-originator "club"/joint deals in the form of consortia can give SMEs the scale of issuance required to render the issuance attractive for smaller SMEs (de Morais & Sebton, 2014). The Initial Bond Offering is

a debt market where unlisted and listed small and mid- sized companies have access to both institutional and retail investors (AFME, 2015) . They raise a minimum amount of €5m on Alternext and €10m on Euronext. Companies must comply with the same admission and ongoing obligations as for a traditional equity listing. The typical coupon is 5-8% at that time. A rating of the bond is mandatory for listed companies with a market capitalization of less than €100m and for unlisted companies which fall within the European Commission's definition of an SME.

The German SME bond market (also called mini- bonds) is a fixed- income segment created on several German exchanges around 2009– 2010. The minimum issuance volume is around € 10 million together with lower standards regarding the in- vestment prospectus. The segment saw a large increase in issuances for a few years before the first defaults appeared and issuance activity almost stopped completely in 2014 (Feihlel and Lawrenz, 2017) . Mid- cap bonds is a financing instrument for German medium- sized companies. In general the funds are used for a combination of growth financing and refinancing (Stübiger, 2019). For the bond placement differentiation is made between a private placement with a limited circle of institutional or semi- institutional investors or a public placement usually via specially set- up market segments for the medium- sized companies such as the "Bondm" from the Stuttgart stock exchange, the "Entry standard" of the German stock exchange or the "Mid- sized market" of the Düsseldorf stock exchange.

For SMEs debt securities in Italy have benefit from the enactment of the civil and fiscal laws that aligns domestic regulations with European ones since 2012. Simultaneously, the Italian stock exchange has established specific segment of the market called ExtraMot- Pro for the mini- bond market, which only institutional investors can access (Gruber & Clamagirand, 2014, Malavasi, Riccio and

Aliano, 2017). The issuers tend to be Italian SMEs, not listed companies, with at least 10 employees and over €2 mn turnover. The underwriters or subscribers are only institutional professional, qualified investors (no retail investors). Mini-bonds can be unrated and rated: documentation is not light and the instrument is still too costly compared to a bank loan. However, SMEs can raise longer term funds with mini-bonds, compared to bank loans which have shorter maturities (Bufacchi, 2017).

A main policy tool for supporting Korean SMEs has been Korea's Credit Guarantee Agency (KODIT), which is one of the largest credit guarantee schemes (CGSs) in the world. Also in the capital market, started in 1999, the Korean government introduced the primary collateralized bond obligation (P-CBO) program in order to smooth out liquidity constraints and support SMEs (Park, Lim, & Koo 2008). It was expanded to include venture firms in 2001. A P-CBO is a type of asset-backed security (ABS) with newly-issued corporate bonds as the underlying asset. P-CBOs pool bonds have the overall risk of default decreases because P-CBOs are issued through strict surveillance by credit rating agencies. They are a relatively safe and fairly attractive investment. Furthermore, P-CBOs can offer higher yields than general corporate bonds to mezzanine tranche investors. The Korean government used to directly invest in venture investment funds before the government's "Fostering Venture Companies" drive was announced in 2004. A stable and unified source of venture investment. A qualified institutional buyer (QIB) system was established for SME bond trading in May 2012. However, SME bond transactions under the QIB system are quite limited and not attractive to individual and institutional investors due to the existence of low investment grade bonds (BB or below) (ESCAP 2014). The Small and Medium Business Corporation (SMBC) and venture capital firm are approved to invest in the QIB system.

In mid- 2012, the China government formally legitimized the issuance of private placement bonds. The SME Private Placement Regulation streamlined the approval process and increased leverage limits, offering a more realistic chance of debt issuance and additional leeway for leverage. Since the regulation was passed in late June of 2012, close to 150 SMEs have issued private placement bonds, and size of the market has grown from nothing to over RMB 10 billion in under a year (Lunar, 2013). Private companies issuing SME bonds include manufacturers of consumer staples, electronics, environmental products and producers of chemicals and raw materials. It's rare for an SME bond to carry a rating higher than single-A. To help offset the increased credit risk, underwriters sometimes combine two or more SMEs into a single issue, known as an "SME collective bond." (Johnson, 2013) However in some cluster such as High- tech SME clusters contain many risk factors. Some proposals are put forward to optimize High-tech SMEs Collective Bond financing, including the perfect screening mechanism of financing cluster formation process, build the sound financial cluster security institutions, improve the multi-level financing security system and reduce financing costs. (Xu & Li 2012). China, also has developed three types of SME bond instruments: (i) SME Collective Note, (ii) SME Joint Bond, and (iii) SME Private Placement Bond. While the SME Collective Note market, an inter-bank market regulated by the People's Bank of China and the National Association of Financial Market Institutional Investors, is growing rapidly, SME Joint Bonds that are traded in the inter- bank and exchange markets, which are regulated by the National Development and Reform Commission (NDRC).

Research Methodology

The primary data of the related bond issuance parties are interviewed in terms of current situation and proposed guidelines of SMEs bond issuance in Thailand in the

future. As Thai SMEs bond, a new kind of corporate bond, to gather and analyze information from knowledgeable people is very essential. Demographic of respondents are agencies that involved in the supply side of bond issuance in Thailand. They divided into five groups, regulators, credit rating agencies, securities firms, institutional investors and auditing firms. The regulators, credit rating agencies and auditing firm are involved in the bond issuance. The securities and the institutional investors represent the demand of SMEs bond. To obtain high quality information, the purposive sampling is used to get the representative of each group. The representatives of the executive members in the selected agency are the respondents. Research tool is the close and open- end questions. Part I consists of common question about current situation and SMEs bond solution scheme. Part II is the specific suggestion from each group to drive the potential of SMEs bond issuance. There are no expert-experts communication along the gathering information to reduce the psychological and social factors bias.

The analysis of studying the potential of SMEs Bond issuance in Thailand can be defined the descriptive analysis of this study is to compare the accessibility to capital for Thai SMEs with other countries.

Furthermore, the study explores the rules and regulations, problems and obstacles in order to obtain capital from SMEs Bond issuance of the non- listed company in Thailand. The quantitative data is analyzed with the frequency and percentage. The data collection process are in November 2018 and January 2019. The 13 respondents are from every group and the responsive rate is about 81.25%

The Findings

1. Current situation and SMEs bond solution scheme for Thailand

1.1 Most of the respondents agree that the policy of the SMEs bond market development is priority importance as in Table 1.

The reasons for the very important policy have few varieties of debt products in Thailand. And SMEs that are ready to issue bond are listed in the Stock of Thailand. The role of the Security Exchange Commission (SEC) put the great importance in funding businesses of all sizes. In one of the strategic plans in the year of 2018 - 2020 is to help fund all businesses including SME and startups. This aims to promote the Thai capital market as an important mechanism for finance economic growth for the country.

Table 1 The important degree of SMEs bond policy priority

Degree of important	Numbers	Percentage
Very important	2	15.38
Important	7	53.86
Moderately important	2	15.38
Slightly important	1	7.69
No comment	1	7.69
Total	13	100

1.2 SMEs bond is the alternative to solve the problem of the limitation of capital sufficiency of SMEs. The traditional financing for small and medium size comes from the owners or the shareholders and bank loans. In the starting period of the small size the funding is that is appropriate may be from joint ventures or angel investors. SME companies have the little option of finding

sources of funds that are used to expand the business. Loans are mainly requested from commercial banks primarily and many SME companies are denied loan requests or loans due to lack of collateral, even though the company's project is a good project and has potential. New rules such as BASEL III, IFRS9, currently banks are stricter in terms of lending money. This makes it more

difficult for smaller SME businesses to access the required funding source especially with the appropriate financial costs.

In order to raising funds through the capital market or the stock exchange, it will take a minimum of 2-3 years to prepare. The problem of SMEs to be raised fund in the capital market comes from their own internal factors. They are the management system that is still a family system. So there is the problem of financial management and the trustworthiness of numbers in the financial statements and transparency. The financial statements, accounting records, and internal control systems may not be perfect. Moreover, the timing of doing accounting stuff, preparing financial statement at low performance may be lateness. In order to raise funds using the stock market, it must take a long time to prepare for the company's financial needs in order to expand the business.

The obstacles to impede that financing are the external factors. The issuers must obtain approvals from the Securities and Exchange Commission ("SEC") after qualifying numbers of criteria. All kinds of financing need the disclosed information. There are also limited information that is revealed to the public about funding sources other than the commercial bank. Financial institutions and investors don't have enough trust. If the financial statement has credibility, there are needs to be backed up by another institution. The floatation of bond issuance is high such as financial advisors and underwriters.

SMEs bond is an alternative way to raise funds that is suitable for those who are ready to disclose their information to investors and understand and accept investment risks involved. This is done in conjunction with providing knowledge to investors to create demand (investors), which may be limited as well as well informed about the risk involved in investing in SME bond.

1.3 The alternative of SMEs bond fund raising may be more suitable for medium size than for small size enterprise. With the characteristic of starting SME businesses, they have a high level of risk in terms of credit. Due to that reason, the SEC has rules for issuing and offering for sale of funds through debt instruments of businesses in order to issue debt instruments under the protection of investors at the appropriate level. By companies that do not have a rating (Unrated bond) can be offered the institutional investors (Institutional Investors: II) and large investors (High Net Worth Investors: HNW). This helps to reduce the cost of credit rating. In addition, for companies that want to issue debt instruments in order to raise funds for investors in limited groups are allowed no more than 10 persons can do so with lower costs than offering to institutional investors or large investors. A small enterprise may not have a certain income stream. However, if they did, there would be a very high financial cost, in addition to that, the cost of issuing may not be worth it for the small issuance limit.

The medium enterprise will be more advantage from the size and growth prospect. The funding with debt securities in small value for the investors that understands and accepts the risk is an option, which SME businesses should be ready to disclose their information to the investors for them to both be informed as well as understand about the risks involved with the business.

1.4 The proposed type of SMEs bond market. There are ten persons choose the SMEs bond market type. Most of them (60%) choose the alternative investment market (AIM)/ international (Intl.) market for professional investors as shown in Table 2. Institutional investors have more knowledge, expertise and resources than individual investors. They can analyze risk and information before investment.

Table 2 Proposed types of SMEs bond market

	Exchange Market		Non-Exchange Market	
	Market for individuals	AIM/Intl. Market for Professional Investors	Organized OTC (SRO-Operated)	Market for Unlisted SME (Non SRO-Operated)
Percentage	10	60	30	0
Comments	1. Not attract institutional investors because of size and performance	1. Readiness of knowledge and expertise 2. Details of bond features 3. With limited buy/see to increase reliability 4. Risk analysis before investment. 5. Too risky for individual investors.	1. Difficulty to develop exchange market 2. Should not separate OTC market 3. Risky securities and in the initial stage of development 4. Should be under setup law and organization	

1.5 The appropriate features of SMEs bond. The amount of fund raising depends on the project and debt capacity and not too much. The maturity should be less than 3 years. The view of the interest rate is different. The creditability of SMEs bond is needed with the credit rating. The regulators about SMEs bond issuance should be The Office of the Securities and Exchange Commission (SEC). In general, the term of bonds is correlate each other by the theme of “high risk and high expect return” and “capital market mechanism under the regulation.

In conclusion, SMEs bond should specify the duration of time of the redemption period, the fixed or floating interest and should determine the rating as most SME are not ready to be assessed in terms of rating. Value, interest, time, rating, expenses are in accordance to the situation already. A respondent gives an example of the bond features as:

- (a) Less than 3 years of maturity
- (b) Coupon rate between 5% and

7%

(c) Secured and Non- secured bond
(d) The issuance size about 100 – 400 million Baht

(e) For high net worth investors
1.6 Critical Factors to Create the SMEs bond Market. The respondents rank the critical factor to create the SMEs bond market in Thailand. The marks of 12 factors use to separate into four groups of the important level, very important (score between 1.00 – 3.75), important (score 3.76 – 6.50), quite important (score 6.51 – 9.25), and little important (9.26 – 12.00). In Table 20 the critical factors are ranking from the most important to the least important as following:

Group 1: The very important group,
- Well established regulatory and supervisory framework.

- Simplifying disclosure requirements and the mechanism to support.

Group 2: The important group
- Small amount funding available for SMEs

- Easier information dissemination in SME capital market
- Simplify listing and issuance procedures
- Tax incentive schemes for issuers & investors

Group 3: The quite important group

- A mechanism enhancing liquidity of SME bonds
- Raising fund speedily for SMEs
- Low cost for establishing and operating of SME bond markets
- Low cost for a company listing and operating in the SMEs bond market

Group 4: The little important group

- Exclude foreign investors
- Exclude foreign issuers

2. Suggestions to drive the potential of SMEs bond issuance

The respondents give some suggestions in relation to their responsibility for SMEs as issuers and investors' side.

2.1 Issuer side

The development of issuers' loan database reduces credit information limitations includes combining information of SME in one database, making it convenient for those in need of access such as the commercial bank, those interested in investing in SME debt instruments and those interested in doing credit scoring. Due to the large number of SME businesses. This may cause an incomplete spread of communication. Disclosure of information could impact companies that may not be ready to disclose their information as well as comply with other relevant rules. SMEs could provide support by changing their beliefs in disclosing their information to avoid taxes. This will help them access investment funds easier as well as more sufficient initial cost.

The enactment of the Business Security Act increases the asset types that the company can use as collateral for debt repayment and also provides SMEs that do not possess tangible assets the ability to use intellectual property as collateral for issuing debt instruments to expand their business.

However, in practice, there is still not clear, for example, questions such as who will be the registrar (registry) as well as the guarantor as well as the qualifications of these duties. This causes limitation of the enactment of the Business Security Act.

The criteria for credit rating in terms of firm size, and business, large companies (compared to the company in the same level) may have a positive effect reliability if the size of the company brings operational advantages, savings in economic scale, financial flexibility as well as competitiveness. However, new large companies that come from using a large amount of loan will not benefit in terms of credit rating as the reliability rating of FITCH is the comparison of the company's ability to repay their debt when compared with other company in the same industry or similar and it has no lower class value in the ranking.

The accounting standard involved the sufficient accounting information for assessing the financial status and the performance appropriately. The investors can analyze and compare the risk of each bond. Practically, there might not be the accounting standard for this special issue. It should concentrate on the disclosure base for interested investors. It should be the unique disclosure standard for those lack of the knowledge and the ability as well as the ability to subsidize the cost of finding and obtaining the information. The timing of studying should be at least three months before the issuance date with at least three years backward. And the quarterly statements reporting should be decreased to twice a year.

2.2 Investor side

Mutual fund for accredited investors can invest in unrated or non-investment grade bonds. That fund has the initial investment of more than 500,000 baht. However, if it's direct investment, the minimum is 10 million baht. SMEs bond will be an option for these investors with the assumption that they understand the risk and return. However, there are a few of issuers

of unrated or non-investment grade that has strong position with low probability of default. That makes the cluster investment. Issuers of non-listed company may not follow the financial statement quarterly or does not have the information regarding their business that is up-to-date making it's hard to determine the credit.

The establishment of mutual funds that is offered for sale to accredited investors (AI Fund) can help increase investments in unrated bond, which SME businesses may be interested in starting to utilize those bonds as they are fundraising bonds that are small and not account for credit rating. The AI funds have restrictions on investments with debt instruments such as product limit, concentration limit. This may cause SME businesses to offer up many of their debt instrument to AI Funds in order to obtain substantial money.

The database can reach investors quickly. Allowing the database of acknowledged investors who understands and wants to invest in SME instruments. This makes the target group of investors clear. However, the investors database cannot be developed. Investors does not want others to know what they're upto. This is due to investor's information being a trade secret and cannot be disclosed unless given permission by the investor. This makes it more difficult to link it to the database.

Guidelines of published bond and company analysis or research can provide investors with information they can use to analyze the data to reach better decisions. They can know the status of the issuer, whether it's good or bad as well as change the yield for business to better or worse. This makes the investors know the information of the company that issued SME Bond instruments. It allows investors to take advantage of the analysis of the decision regarding the investment. However, the research of non-listed company cannot be done easily. The SMEs' financial statements outside the market are done only once a year and are not reliable. The preparation of the

analysis has a relatively high cost of doing so.

A small of fundraising is advantage to SMEs to pay back bond in the short term. Or that uses for funding the asset that make cash flow, it's easier for investor's decision. SMEs, itself will accommodate with the information disclosure or building investors' relation. The limitation for SMEs issuers is the trust in the beginning stage. For the reason of the systematic SMEs bond development, the suitable regulations are essential.

2.3 Education, seminar and follow-up

Training to provide knowledge and follow-up of projects to enhance the knowledge as well as to prepare funding of debt issuance are very important. This helps SME to understand the criteria and processes associated with offering various types of debt instruments. They can choose to raise funds suitable for the needs of the business. It helps for preparing the correct issuance of debt instruments as well as reduce the period to needed to proceed. The communication should start after the enough clarification of rules and regulations. The issuers will understand debt instruments, including the issuance of debt instruments as well as relevant rules.

Conclusion and suggestions

Thai SMEs and SMEs in other countries will have the advantages of the debt capital market. The debt financing has the lower cost of capital comparing with the equity financing (Ross et al. 2015). However, the difference of SMEs in terms of life cycle such as young company or mature company, growth or no growth potential still are the important issues in debt financing (Damodaran 2014, Demary, Hornik and Watfe 2014). In EU they found that the debt-financed SMEs are mature, low-innovation and low growth firm.

One of the market-based solutions is the debt capital market. It is believed that the real economy will be less reliant on traditional bank financing. Though the

interest rate or cost of fund from bond may be lower than bank loan, the cost of bond issuance will be very high for SMEs to be break even in financing and the process of bond issuance is very hard.

The successful of SMEs bond issuance found with the government scheme that support. The lesson is the Korea's Credit Guarantee Agency, the Chinese Government in the SME Private Placement Regulation, the enactment of civil and fiscal law in Italy.

Along with the support from the government regulations, the secondary market is very important for the liquidity of SMEs bond. The secondary market in each country are under different regulators and both of the over the counter market and the exchange market. The ExtraMot-Pro in the Stock Exchange of Italy allow only institutional investors. The SMEs bond in Korea are traded in the KOFIA over the counter market with qualified institutional buyers.

The example of regional coordination in Europe is the ideal type for ASEAN countries leads to ASEAN+3. The Capital Market Union or CMU plan in the European Commission is an example of how to mobilize capital and fill the financing gap of SMEs in the region. Although the difference in laws and regulations, the goals is the deeper and more integrated capital markets will help the lower cost of funding and offer greater opportunities for savers also. Though the mission of ASEAN+3 is to the stimulate of the bond market in this region both the government bonds and corporate bonds and still not to focus on SMEs bond but that is the good fundamental.

The developing of bond market for SME is a policy priority. SMEs is an important source for employment that can help solve poverty problems especially in developing countries such as Thailand. Which is why it is important that SME must have a stable and sufficient starting capital in order to develop. With the characteristic of starting SME businesses, they have a high level of risk in terms of credit. Due to that reason, the SEC has rules for issuing and offering

for sale of funds through debt instruments of businesses in order to issue debt instruments under the protection of investors at the appropriate level. By companies that do not have a rating (Unrated bond) can be offered the institutional investors (Institutional Investors: II) and large investors (High Net Worth Investors: HNW). This helps to reduce the cost of credit rating. Those businesses may be too small to issue debt instruments.

In particularly, after previous events with the default on the payment of BE tickets in the past 2 years. This cause small businesses with low credit rating or business with no credit rating greater difficulty in issuing debt instruments. If the business wants to sell their debt instruments, they must be guaranteed by another organization such as CGIF (Credit Guarantee and Investment Facility) that serves as a guarantor for companies that wants to issue debt instruments.

Therefore, the development of SMEs bond in Thailand will add an alternative source of funding for SME companies. The bond market will help SME in accessing capital. That will promote the economic system growth. However, it will be more important for the listed SMEs. The essential issue is the risk management system for the investors.

SME business must provide enough information that is considered enough and appropriate for the investors to make their decision to investing. The disclosure of these information may cause SME businesses difficulty, which is why SME businesses must be used to analyze the value in the increase of costs as well as the benefits received. SME bond will be able to solve the problem if the problem is not resolved at the cause.

The proposed issuers are the medium enterprise in the group of manufacturing and service business. The assets size is between 51 – 200 million THB. They should have more than three years of operation and report net profit at least one financial year before filing bond issuance proposal. The

SMART-MBond (the proposed name for the bond) will be the registered bond whose bondholder's information is kept on record with the issuing party. By archiving the owner's name, address, and other details, issuers ensure they're making the bond's coupon payments to the correct person. If the bond physically printed on the bond certificate, transferring the ownership of registered bonds requires registered owners either endorse the back of the certificate or sign the certificate over to someone else.

It uses the credit scoring to qualify the company and the series, as well as offering in private placement method. The issuing instruments are legally supervised by SEC and Thai BMA. It should be straight bond and owner-guaranteed, no conversion and no option features. The issue size about 120 – 150 million Baht within the range of the respondents' suggestions. The par value or face value is about 1 million baht. The fixed coupon rate is between 5% and 7% per year, with semiannually payment. The maturity is no more than 5 years and allow the issuer to

redeem its bond. In general, the term of bonds is correlate each other by the theme of "high risk and high expect return" and "capital market mechanism under the regulation.

The tax incentives should be applied such as the flotation cost of bond issuance to be double tax deductible or the subsidiary of floatation cost by the government. The flotation cost for the financial advisor is about 300,000 – 500,000 Baht. The underwritten fee is about 1% of the issuing size. The revenue tax exemption for bond issuer should be considered.

For the further study should be focus on the demand side of the SMEs. The characteristics of SMEs that are suitable for the bond issuance. The bond issuance process that are beneficial for the SMEs while protect the investors such as credit rating process. The scheme cooperation in the ASEAN region is whether be important or the study of guidelines to promote SMEs and SMEs bond financing.

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