

SME/FI Activities Underway

Following the successful launching of the SME Finance Initiative (SME/FI) during the CEO Forum held in Kuala Lumpur on September 12-13 and the signing of the tripartite agreement among ADFIAP, the Association of Development Finance in



actively assisting SMEs, using the experience and expertise of Planters Bank as well as other

member-institutions of ADFIAP.

Simultaneously, the project's official website which is to be the "Knowledge Net on SME Finance" that will contain relevant resources

(readings, training events, experts, etc.) on the subject is currently being constructed.

The project partners have also developed a project logo of the SME/FI and are currently producing its first visibility brochure providing the basic information on the project that will be shortly disseminated to all members and partner-organizations.

As conceived, the SME/FI will be a knowledge and business network that will put together development banks and other specialized financial institutions to dialogue and address specific issues of financing SMEs.

Understanding SME Risk Sharing

In many emerging markets, banks tend to view SME loans as inherently risky, due to lack of transparency and because of informal business practices. A specialized approach, combining guarantees and technical assistance, can help make SME projects more "bankable". Currently, IFC is focusing on SMEs through Risk Sharing Facilities as a means to respond to the concerns of banks that lend to SMEs. SME Risk-Sharing Facilities are partial loan guarantees of SME loan portfolios.

In addition to the risks unique to small business, SMEs must cope with the general risks associated with projects in developing nations. Over the past 20 years, the World Bank Group and Regional Development Banks (ADB, IDB, EBRD) have created new instruments to cover such risks, which can include those associated with political instability or with general economic instability. These instruments enhance the investment climate and spur investment by the private sector.

What is the advantage of a portfolio approach to SME loan guarantees? SME Risk-Sharing Facilities coupled with appropriate technical assistance offer banks:

- ⇒ Competitive, risk-appropriate pricing
- ⇒ Creation of significant volume of credits
- ⇒ Easy, timely implementation
- ⇒ Local currency financing for SME customers (thereby reducing foreign exchange risk)
- ⇒ Availability of technical assistance

For more details, please visit the International Finance Corporation (IFC) Website at: www.ifc.org

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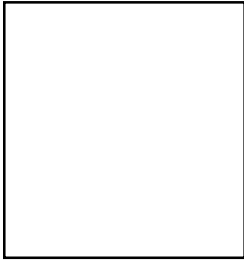
"SMEs play an important role in any country's economic development, let's support this very important economic sector by providing them an access to sustainable finance."

SMEFI
SMALL & MEDIUM ENTERPRISE
FINANCE INITIATIVE

International Trade Centre
Various activities in the implementation phase of the project are on going.

The Regional Training and Advisory Center of the Initiative to be based in Manila is currently being firmed up in cooperation with Planters Development Bank, the major SME bank in the Philippines. The Center is envisioned to provide training and capacity-building programs to financial institutions engaged in financing SMEs, government ministries and agencies promoting the sector as well as NGOs

CDB on Lending to SMEs



For some time, the Development Bank of China has been exploring ways to meet the

funding needs of the small- and medium-sized enterprises (“SMEs”). This has been difficult since many commercial banks have experienced high levels of non-performing loans in this particular sector, largely a result of the lack of a well-established credit information system in China. However, the experience of many developed countries has indicated to CDB that SMEs are a significant source of jobs in a growing economy. CDB has little doubt that SMEs will be part of the solution to a number of social challenges related to the urbanization of rural China and the privatization of small- to medium-sized state-owned enterprises.

As a PRC government development bank, CDB believes that it has a special social obligation to promote the growth of this critical economic sector and recognize that this will involve taking on risks that other banks are unwilling to take at this time. CDB understand that it will have to develop policies and processes that will enable the Bank to properly assess and manage the risks related to SME lendings in order to properly balance its social and commercial objectives. Unlike many commercial banks, CDB does

not have a large branch network. Any foray into SME lending would be fundamentally flawed without the ability to manage the origination and administration of SME loans close to the borrowers. The only way to achieve success in this sector is to combine CDB’s capacity to fund a substantial SME funding initiative with the development of a network and credit culture to support proper credit risk management which is quite challenging.

However, CDB believes that the creativity of its professionals is unlimited. The Bank loan officers and credit administration professionals have designed a platform through which lending to SMEs can be effectively and profitably managed. This platform relies heavily on the support of local governments, through loan guarantees, and on the credit history of distinct local groups of SMEs, rather than a single borrower. These SME groups, with the assistance of local governments and commercial banks, form associations. Each participant makes a commitment to repaying its loans and allowing their repayment status to be transparent to other members. In addition, each participant contributes a certain percentage of its loans to a reserve fund that serves as collateral to the borrowings of all members within the association. Through this arrangement, SME borrowers face social pressure to remain current on their obligations.

At the end of 2004, CDB’s lending to SME’s totalled RMB 4.5 billion.

Understanding a Credit Bureau

A credit bureau is an independent business agency/company that compiles public record data, statutory information, credit transactions and payment histories of individual consumers and businesses. By keeping track of both personal finances and business affairs of business owners, these institutions provide a valuable service to the financial sector. They allow lenders to (i) know the people who are behind the small business seeking loans; (ii) know their credit histories; and (iii) discover signs of incompetence or dishonesty that may lie hidden behind the corporate curtain.

The role of credit bureaus is to (i) facilitate information sharing; (ii) bridge lenders and borrowers; (iii) protect financial institutions against making bad loans; (iv) protect consumers by helping lenders and borrowers ration credit based on capacities to pay; (v) facilitate large volume access to credit without security by assisting evaluations of the ability to pay and payment diligence; (vi) report information which positively or negatively affects creditworthiness; and (vii) limit fraud.

Credit bureaus require both legislative and technical infrastructure to operate efficiently. A conducive legal framework should promote adherence to a credit bureau code of conduct in order to protect the rights and interests of both lenders and borrowers, and provide access to public records. Good technical infrastructure should process data sharing efficiently, provide the right communication network, and offer an effective delivery mechanism.

New Approaches to Customer Value

When you think about focusing on your most valuable customers, make sure that you value customer based on:

1. The total value of their relationship with your company.
2. The potential value of their

relationship.

3. The profitability of their relationship.
4. The insights they can provide your company.
5. The influence that they wield over the customer.