Financial Inclusion Experts Group | SME Finance Sub-Group

G20 SEOUL SUMMIT 2010

Scaling-Up SME Access to Financial Services in the Developing World

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IFC International Finance Corporation
World Bank Group

Table of Contents

List of Abbreviations

AFR	Africa region
AMSME	Africa Small and Medium Enterprise Finance
ATISG	Access Through Innovation Sub-Group
BDC	Business Development Bank of Canada
BCBS	Basel Committee for Banking Supervision
CCRIS	Central Credit Reference Information System
CGAP	Consultative Group to Assist the Poor
CDC	Citizens' Development Corps
DFIs	Development Finance Institutions
EAP	East Asia and Pacific
EBRD	European Bank for Reconstruction and Development
ECA	Europe and Central Asia
EE	Energy Efficiency
EIB	European Investment Bank
EU	European Union
FIBEN	Fichier Bancaire des Entreprises
FIEG	Financial Inclusion Experts Group
GDP	Gross Domestic Product
GNI	Gross National Income
GPFI	Global Partnership for Financial Inclusion
GSM	Government Support Mechanisms
HIC	High Income Countries
IADB	Inter American Development Bank
IDA	International Development Association
IFIs	International Finance Institutions
IFRS	International Financial Reporting Standards
IFC	International Finance Corporation
IPO	Initial Public Offering
IRR	Internal Rate of Return
JICA	Japan International Cooperation Agency
LAC	Latin America and Caribbean
LIC	Low Income Countries
LRS	Legislation, Regulation, and Supervision
MASSIF	Micro and Small Enterprise Fund
MEs	Medium Enterprises
MENA	Middle East and North Africa
MFI	Micro Finance Institution
MIC	Middle Income Countries
MSMEs	Micro, Small, and Medium Enterprises
NAFIN	Nacional Financiera
NGO	Non Governmental Organization
OECD	Organization for Economic Co-Operation and Development
PERC	Policy and Economic Research Council
PCGs	Partial Credit Guarantees
SAR	South Asia region
SBs	Small Businesses
SMEs	Small and Medium Enterprises
TA	Technical Assistance
USD	United States Dollar
VC	Venture Capital

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Introduction

At their September 2009 meeting in Pittsburgh, the G-20 Leaders announced the creation of the Financial Inclusion Experts Group (FIEG), tasked with: (i) supporting innovative modes of financial service delivery capable of reaching the poor; and (ii) scaling up models of small and medium enterprise (SME) financing. Two sub-groups have been formed, the Access Through Innovation Sub-Group (supported by the Consultative Group to Assist the Poor (CGAP) and co-chaired by Brazil and Australia) and the SME Finance Sub-Group (supported by IFC and co-chaired by Germany and South Africa).

In the constituent meeting of the SME Finance Sub-Group on December 3rd 2009, the G-20 FIEG members agreed that the Sub-Group will follow a development agenda on SME Finance, focusing on providing SME Finance solutions for developing countries in particular. A work plan was established and articulated in two tracks: (i) A stocktaking and scaling-up of best practices in SME Finance; and (ii) the SME Finance Challenge, a call to the private sector to put forward its best proposals for how public finance can maximize the deployment of private finance on a sustainable and scalable basis.

The SME Finance Challenge was launched by the G-20 Leaders in Toronto on June 26–27, 2010; winning proposals will be announced at the November 2010 G-20 Summit in Seoul, South Korea (Korea).

The Stocktaking Report aims to provide the G-20 Leaders with a summarized but comprehensive framework by which to understand the SME finance gap and its challenges. The first part of the report is conceptual and primarily consists of a review of the literature on SME Finance in the developing world; the second part of the report discusses the analysis of 164 cases of SME Finance interventions compiled through a collective effort involving G-20 member countries, non-member countries, development finance institutions, and private sector players. Finally, the report highlights key recommendations that are proposed to the G-20 Leaders in order to achieve significant and sustainable scale-up of SME access to financial services across the developing world.

Executive Summary

Small and Medium Enterprises (SMEs) play a major role in economic development, particularly in emerging countries. Studies indicate that formal SMEs contribute up to 45 percent of employment and up to 33 percent of GDP in developing economies; these numbers are significantly higher when taking into account the estimated contributions of SMEs operating in the informal sector. The informal sector presents one of the greatest challenges in the SME space, with issues that go well beyond finance. In the context of the international development agenda, and given the critical importance of job creation in the recovery cycle following the recent financial crisis, promoting SME development appears to be an important priority.

Access to finance remains a key constraint to SME development in emerging economies. Comprehensive data on the SME finance gap is still to be more consistently collected and monitored over time; however various data sources and studies indicate that small firms rely on internal financing much more than large firms do, and that the likelihood of a small firm having access to a bank loan in low-income countries is about a third of what it is for a medium-sized firm, and less than half of what it is for a larger firm. Other sources of SME finance, such as leasing and factoring, are also less developed in emerging countries.

A recent study by the IFC and McKinsey and Company (McKinsey) suggests that there are close to 365-445 million micro, small, and medium enterprises in emerging markets of which 25-30 million are formal SMEs and 55-70 million are formal micro enterprises, while the rest (285-345 million) are informal enterprises and non-employer firms. According to the same study, **close to 45 to 55 percent of the formal SMEs (11-17 million) in the emerging markets do not have access to formal institutional loans or overdrafts despite a need for one.** The finance gap is far bigger when considering the micro and informal enterprises – 65-72 percent of all MSMEs (240-315 million) in emerging markets lack access to credit. The proportional size of the finance gap varies widely across regions and is particularly daunting in Asia and Africa.

Closing the credit gap for formal SMEs will be less daunting than for informal SMEs. Close to 70–76 percent of the formal SMEs (18-22 million) in emerging markets already have a banking relationship via deposit/checking accounts, while only about 30–35 percent of SMEs (8-10 million) have access to credit. Hence the key challenge is to support banks in extending credit facilities to SMEs who have a deposit/checking account, but do not yet have access to credit. Risk-sharing facilities, coupled with the introduction of best practice SME lending approaches, are key interventions that can help banks provide credit to those SMEs. These interventions need to be accompanied by enhancements to the enabling environment for SME lending, such as improved credit bureaus, and collateral and insolvency regimes.

It will be a greater challenge to reach informal SMEs. Informal SMEs are far less likely than formal businesses to have existing deposit relationships with financial institutions, and are also far more difficult to serve, especially for commercial banks. Short of comprehensive approaches to move informal

businesses into the formal sector, reaching informal businesses will have to build on microfinance approaches, including up-scaling existing microfinance institutions to serve small businesses. As in the case for expanding credit to formal SMEs, this will need to be combined with enhancements to the enabling environment for SME lending, including improvements to the financial infrastructure of credit reporting and collateral registries.

The SME finance gap is the result of a mismatch between the needs of the small firms and the supply of financial services, which typically are easier for larger firms to access. The SME bankable universe, in which providers are able to meet their expected return on capital while serving client needs, can be severely limited. This is due to SME intrinsic weaknesses, flaws in provider delivery models and, most importantly, lingering deficiencies in the enabling environment for financial services: financial infrastructure (accounting and auditing standards, credit reporting systems, and collateral and insolvency regimes), and the legal and regulatory framework for financial institutions and instruments.

Deficiencies in the enabling environment and residual market failures have motivated government interventions to foster SME access to financing. Government interventions can be justified in many cases, but research shows that some of these interventions can have mixed results. In addition, although a large spectrum of interventions have been implemented in various countries to support SME access to finance, little is known with respect to the actual evaluation of these interventions in terms of additionality, outreach, and sustainability.

In order to scale up the best practices in SME Finance, the G-20 FIEG SME Finance Sub-Group executed a global SME Finance stocktaking exercise with various SME finance models. This exercise entailed the collection of 164 SME finance models spanning across a broad spectrum of interventions, including: (i) legal and regulatory framework; (ii) financial information infrastructure; (iii) public support schemes; and (iv) private sector initiatives.

The stocktaking exercise confirms the rise in various parts of the world of specific business models aimed at providing financial services to SMEs in a cost-effective manner. From microfinance up-scaling to bank down-scaling, including community banks, these models share common characteristics: they reduce cost to serve through intensive use of technology and/or the adoption of cost-effective client-relationship models; they combine offering of savings, transactional, and credit products, with a view to increase generated income; they use advanced risk management technology to maximize the risk/reward balance; and, they achieve strong focus on the small and/or medium enterprise segment, to help implement excellent execution capabilities in the above areas.

Effective SME financing models can be implemented in different country and market environments, but greater outreach is achieved in the most developed environments for the financial sector. In particular, financial information and the ability to enforce collateral are seen as critical by major SME banks operating in developed markets. Weaknesses in these areas appear to impede more aggressive financial services growth in developing markets.

Although SME banking and microfinance models are successfully being rolled out in an increasing number of countries and regions, equity financing remains a challenge in developing economies. Given that banking and lending services represent the bulk of SME financing in the developing world, especially for small firms, equity financing presents an opportunity for the development of a complementary financial product. Interesting models that provide a select number of mid-sized firms with equity capital for growth are starting to be developed, with significant support from governments and development agencies.

SME finance in the developing world has typically been an area of experiment for multiple government

support mechanisms. Although these mechanisms are difficult to assess in terms of effectiveness, leverage, and additionality, and their performance is observed to be mixed, some of these initiatives have played a catalytic role by providing an incentive to innovate in the SME finance space. Public support schemes (funded facilities, guarantee schemes, and state banks) represent the large majority of the collected models, a confirmation that support to SME finance is seen as necessary to address weaknesses and possible market failures in this space.

The role of International Finance Institutions (IFIs) and Development Finance Institutions (DFIs) to foster SME financing in the developing world has been significant so far. IFIs and DFIs have supported both public and private sector initiatives in the SME finance space, with a mix of technical assistance, capacity-building, financing and risk mitigation instruments. The G-20 has a unique opportunity to leverage this experience and accumulated knowledge by scaling up this effort on a more comprehensive and strategic basis.

Increasing access to finance can only be successful if qualitative aspects are taken into account. Adhering to principles of responsible finance and the G-20 principles on innovative financial inclusion can serve as qualitative orientation in this regard. It should also be noted that although financial access is critical for SME growth, expansion of financial access should not be achieved at the cost of financial stability. Appropriate prudential measures need to be exercised while offering finance to SMEs, in order to avoid the potential pitfalls stemming from excessive credit.

In the light of the new understanding of the SME finance challenge that this report synthesizes, the FIEG makes four key recommendations for the G-20 leaders to implement, in order to achieve a significant and global scale-up of SME access to financial services in the developing world:

1. *Endorse a set of recommendations for policymakers in the developing world to establish a supportive enabling environment for SME access to financial services in their respective countries by:*
   - **a.** Developing country specific diagnostics and strategies;
   - **b.** Developing a supportive legal and regulatory framework;
   - **c.** Strengthening the financial information infrastructure;
   - **d.** Designing effective government support mechanisms;
   - **e.** Building consistent and reliable data sources on SME finance; and,
   - **f.** Building capacity of the financial institutions.

2. *Establish a Global SME Finance Forum as a knowledge sharing and monitoring platform to further identify and promote best practices across countries and institutions, establish baselines, and monitor progress.*

3. *Scale up previous G-20 successful development interventions in the SME Finance space by setting up a global funding platform to build capacity, provide technical assistance, mitigate risks, and create incentives for the delivery of sustainable and scalable financial services to SMEs, by means of a collaborative effort implemented by its bilateral and multilateral development finance institutions.*

4. *Lead the efforts to gather better SME finance data in a coordinated fashion by establishing a platform to consistently collect the cross-country data.*

CHAPTER 1
Role of SMEs in Economic Development

The term "SME" typically encompasses a broad spectrum of definitions across countries and regions. Many countries and international organizations set their own guidelines for defining an SME, often based on the number of employees, sales, or assets. For example, the European Union (EU) defines SMEs as firms with 10 to 250 employees, with less than Euro 50 million in turnover or less than Euro 43 million in balance sheet total (Table 1.1). This definition explicitly distinguishes between micro-firms and SMEs. Although the EU thresholds are very high for most developing countries, this definition is presented as an example because the EU has made the greatest effort to standardize the SME definition. Currently, at least 27 countries follow the EU definition.[1]

Many countries adopt a definition of SME that covers all firms with fewer than 250 employees, therefore including micro-firms. Under this definition, the vast majority of all businesses are SMEs, typically 95 to 99 percent.[2] The definitional issue is further complicated by the fact that individual banks in the same country use different definitions of SME for their own strategic and risk management purposes.[3] For instance, among banks in the Middle East and North Africa (MENA), the cut-off between small and medium firms ranges from 5 to 50 employees, and the cut-off between medium and large firms ranges from 15 to 100 employees.[4] Since this report relies on a broad number of data sources, it considers different definitions of SMEs, following the definition used in each source and stating these definitions in the accompanying notes, whenever available. Box 1.1 presents the preliminary estimates from the recent IFC-McKinsey database on micro, small, and medium enterprises (MSMEs).[5]

SMEs account for a significant share of employment and GDP around the world, especially when taking into account the informal sector. In developed countries, SMEs employ an average of 67 percent of the

TABLE 1.1 EUROPEAN UNION SME DEFINITION

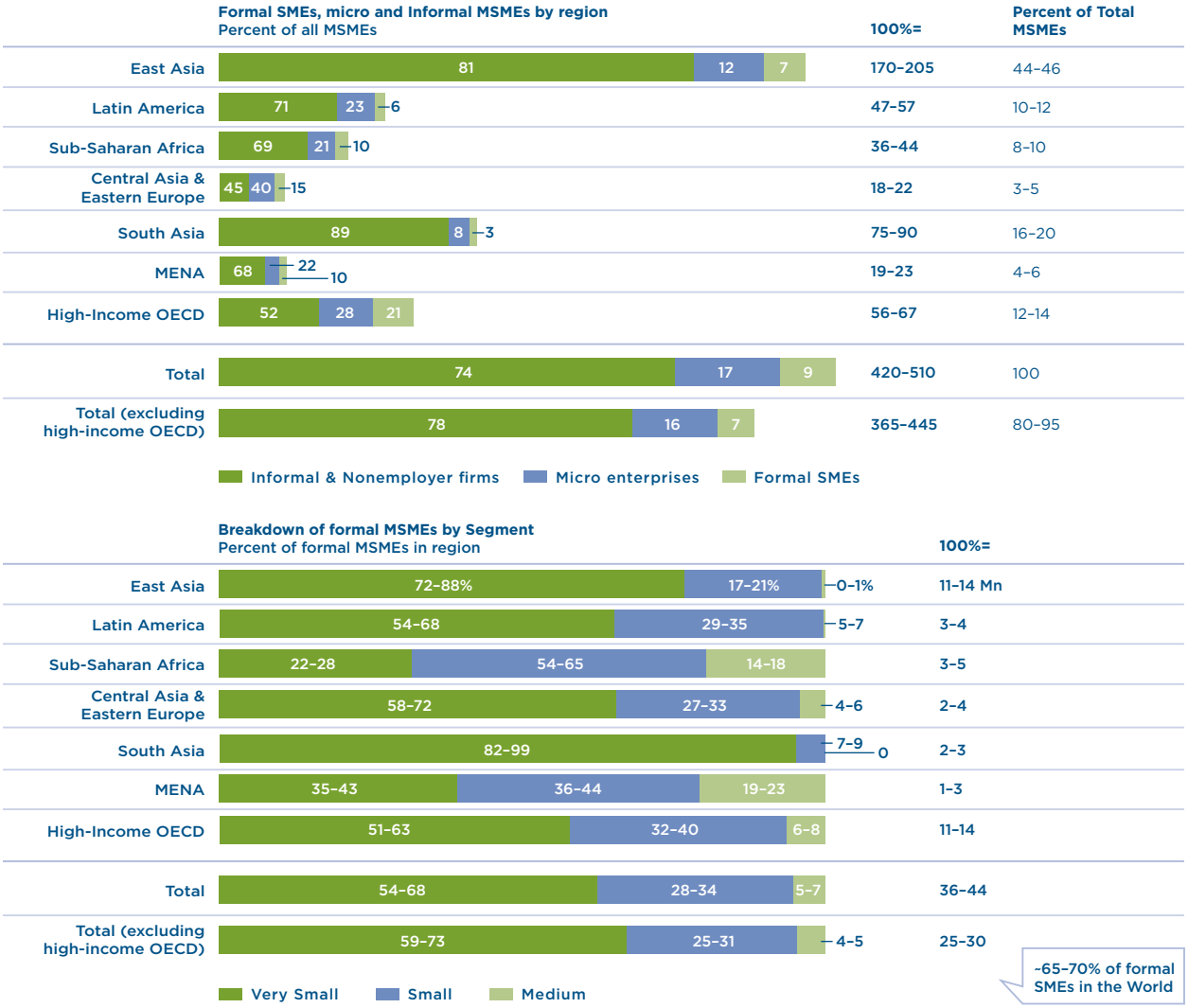
Firm Size	Headcount	Turnover	or	Balance Sheet Total
Medium-sized	< 250	≤ € 50 million		≤ € 43 million
Small	< 50	≤ € 10 million		≤ € 10 million
Micro	< 10	≤ € 2 million		≤ € 2 million

Source: European Commission Recommendation 96/280/EC

1 See Annex A (attached separately) for a list of different SME definitions.
2 OECD (2006)
3 Beck, Demirgüç-Kunt, and Martinez Peria (2008)
4 Rocha, Farazi, Khouri, and Pearce (2010)
5 MSMEs included in the IFC-McKinsey database do not include farmers or sole proprietorships.

BOX 1.1 ESTIMATED NUMBER OF MSMES IN THE WORLD BY REGION

BOX 1.1 | FIGURE 1 ESTIMATED NUMBER OF MSMES



IFC and McKinsey recently built a detailed database on MSMEs, drawing on readily available global datasets that provide coverage to a large number of countries in terms of number of micro (1-4 employees), very small (5-9 employees), small (10-49 employees), and medium enterprises (50-250 employees). The MSMEs can be further classified into formal and informal based on their registration status.*

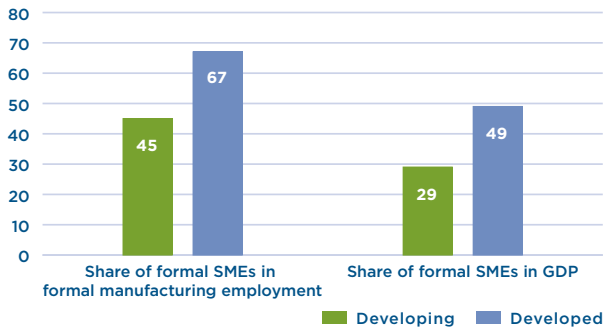
As seen in Box 1.1: Figure 1, there are an estimated 420 to 510 million MSMEs worldwide , of which 9 percent are formal SMEs (typically registered businesses with 5-250 employees) and 80-95 percent are in emerging markets. The figure also emphasizes the importance of informal sector firms, particularly in the emerging markets. As discussed later in this chapter, the informal sector presents one of the greatest challenges in the SME space, with issues that go well beyond financing.

*MSMEs include micro, very small, small, and medium enterprises, while SMEs include very small, small, and medium enterprises. Non-registered or informal enterprises and nonemployer firms are grouped together due to the lack of data to consistently differentiate between formal and informal nonemployer firms.

Note: Please see Annex B for the methodology used to derive the estimates.

formal employment in the manufacturing sector. In developing countries, this number is around 45 percent. Similarly, SMEs contribute a sizable share to formal GDP — 49 percent on average in high-income countries and 29 percent on average in low-income countries, respectively (Figure 1.1).[6] The contribution of SMEs to employment and GDP in developing countries seems comparatively modest, but estimates suggest that the informal sector (which consists essentially of SMEs) accounts for up to 48 percent of the total labor force and 37 percent of GDP in developing countries. The corresponding percentages for developed countries are much lower, at 25 of the total labor force and 16 percent of the GDP[7] (Figure 1.2).

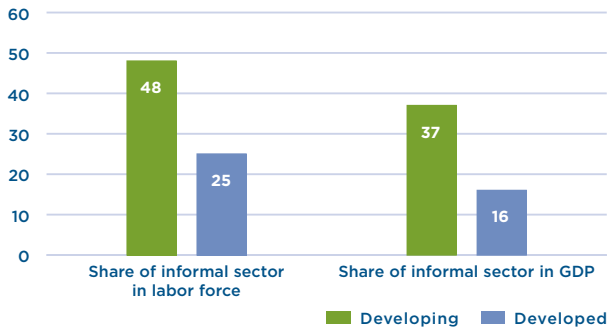
FIGURE 1.1 SHARE OF FORMAL SMES IN FORMAL MANUFACTURING EMPLOYMENT AND GDP



Source: Based on Ayyagari, Beck, and Demirgüç-Kunt (2007)

Note: The share of formal SMEs in employment corresponds to their share in formal employment in the manufacturing sector when 250 employees are taken as the cut-off for the definition of an SME.

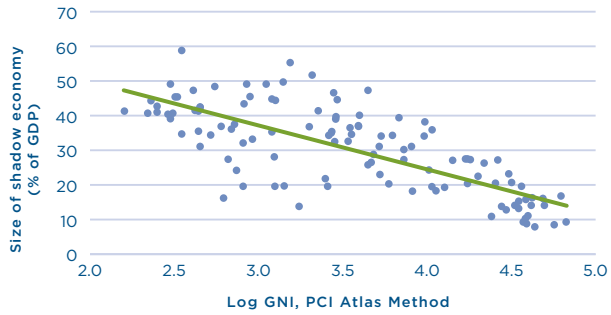
FIGURE 1.2 SHARE OF INFORMAL SMES IN LABOR FORCE AND GDP



Source: Based on Ayyagari, Beck, and Demirgüç-Kunt (2007)

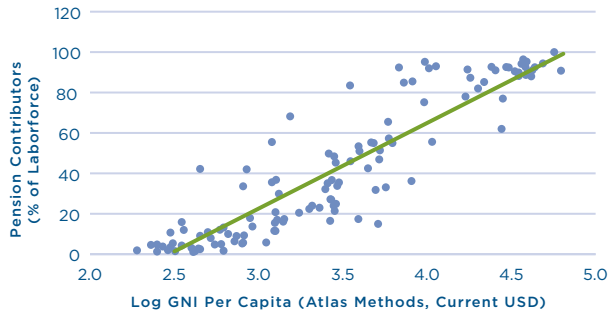
Note: The informal sector includes all informal sector firms irrespective of the size and sector of operation.

FIGURE 1.3 SIZE OF INFORMAL ECONOMY VS. GNI PER CAPITA



Source: Size of shadow economy from Schneider and Buehn (2009), GNI per capita from World Development Indicators (WDI)

FIGURE 1.4 SOCIAL SECURITY COVERAGE VS. GNI PER CAPITA



Source: WDI based on national sources, either household surveys or national social security administrations

6 Numbers by income group are simple averages of all countries that fall in the income group. The data on employment and GDP comes from a large number of country specific sources and some general databases, such as OECD, Eurostat, and UNEC, implying that the definition of formal firms may vary within the data. Table II in the appendix to Ayyagari, Beck, and Demirgüç-Kunt (2007) provides the list of data sources.

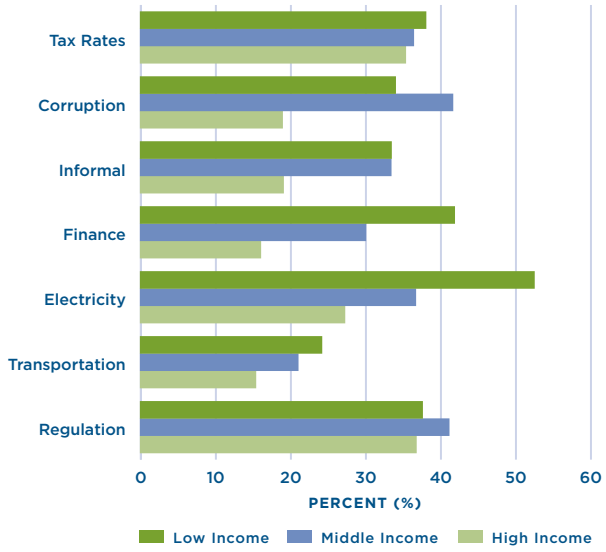
7 Ayyagari, Beck, and Demirgüç-Kunt (2007). Data on SME (formal or informal) contribution to GDP and employment are scarce. Figures 1.1 and 1.2, although preliminary and illustrative, are presented to depict the importance of the informal sector (which typically comprises SMEs) in the context of developing countries.

Figures 1.3 and 1.4 illustrate further the importance of the informal economy for developing countries. At low levels of per capita income, informal GDP reaches as much as half of recorded GDP, implying an important contribution of informal SMEs to economic activity. Similarly, Figure 1.4 shows that the coverage of the social security system (a measure of job formality) is very small at low levels of per capita income, implying that informal SMEs may absorb a significant share of the labor force that is not employed by the formal sector.

This report addresses primarily the financial constraints of formal SMEs, as well as small firms operating in the vicinity of formality, but does not provide a comprehensive treatment of informality.[8] Informality is a complex phenomenon, strongly related to the level of economic and social development. Addressing the problem of informality requires the implementation of a variety of policies, including education, regulation (e.g., taxation and registration), and regional development policies. In principle, the regulatory issues discussed in this report are relevant to policy discussions about the informal sector, to the extent that they affect the incentives for formalization, but they are only a subset of the policies required to address the issue of informality.

SMEs typically create more jobs than do large firms, which is especially the case for recently created companies. Several studies have found that SMEs create more jobs than large firms do, both in developed and developing countries. SMEs also shed more jobs than do large firms, but job creation tends to

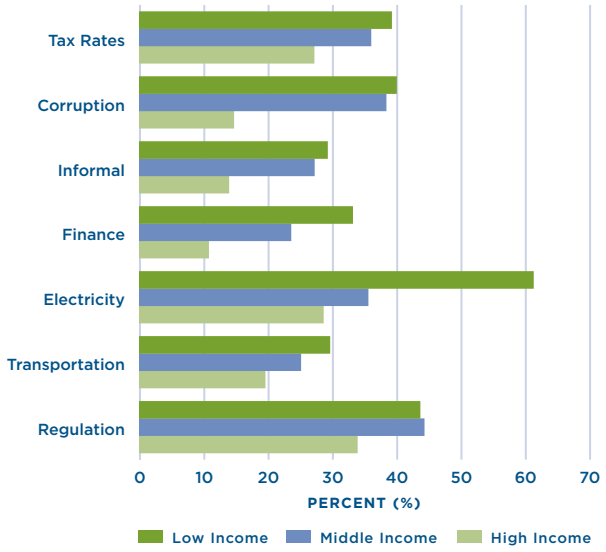
FIGURE 1.5 FINANCIAL AND NON-FINANCIAL BARRIERS TO SME GROWTH BY COUNTRY INCOME GROUP



Source: World Bank Enterprise Surveys (2006–09)

Note: 1. Regulation refers to licenses and permits, tax administration, labor regulation, and functioning of courts.
2. Competition in the informal sector as a constraint was not asked for high income countries.

FIGURE 1.6 FINANCIAL AND NON-FINANCIAL BARRIERS TO LARGE FIRM GROWTH BY COUNTRY INCOME GROUP



Source: World Bank Enterprise Surveys (2006–09)

Note: 1. Regulation refers to licenses and permits, tax administration, labor regulation, and functioning of courts.
2. Competition in the informal sector as a constraint was not asked for high income countries.

8 For more information on informality, please see the materials from the Donor Committee for Enterprise Development's conference on informality organized in South Africa in April 2010. http://www.enterprise-development.org/page/informal-economy-conference-2010

outweigh job destruction, so that net job creation is higher in SMEs than in large firms.[9] This creative job destruction and net job creation characterize the innovative, competitive, and dynamic nature of SMEs. Research has shown that business start-ups contribute greatly to overall job creation. In addition to job creation, a vibrant SME segment can help economic development through other channels such as innovation and competition. In fact, when leaving out jobs created by start-ups, the U.S. net employment growth rate is negative on average.[10]

There is evidence that, in developing economies, SMEs could contribute more to economic development than they currently do. SMEs tend to be small in developing countries, and the percentage of medium-sized firms is often low. A number of studies show that both small and large firms account for most of the employment in developing countries, with medium-sized firms accounting for a relatively low fraction of overall employment.[11] Helping SMEs in developing countries to grow would lead to income growth and poverty reduction. The fact that SMEs tend to be smaller in developing countries suggests that they face greater constraints to growth, including financial constraints. An environment that fosters dynamism by allowing easy entry and exit of new enterprises and helps in their growth is critical.

Enterprise surveys conducted by the World Bank show that SMEs face more severe financing constraints than do large firms. SMEs face a host of non-financial and financial constraints, as shown in Figure 1.5, especially in low-income countries. Although large firms generally face the same constraints, they seem to be much less constrained by the lack of access to financing, at all income levels (Figure 1.6). Other research on obstacles to business growth also shows that the smallest firms are most adversely affected by financial and non-financial constraints, and that these constraints are particularly severe in developing countries.[12]

This stocktaking report is structured as follows: Chapter Two briefly reviews non-financial barriers to SME development in emerging countries. Chapter Three discusses in greater detail the issues that may affect SME access to financing. These issues include identifying the range of products that SMEs should be able to access in order to sustain growth, assessing the magnitude of the SME finance gap on the basis of available indicators, examining the possible reasons why SME finance remains a challenge for most countries, and providing a brief review of the main government interventions in this area. An overview of the stocktaking exercise conducted January through March 2010 is provided in Chapter Four. Finally, Chapter Five presents a set of policy recommendations and discusses the role of the development community in scaling up their support to the SME finance cause.

9 See Globalization and Economic Policy Centre (2010), Aterido, Hallward-Driemeier and Pagés (2009), Klapper and Richmond (2009), OECD (1997) and (2003a), Neumark et *al.* (2008)

10 Haltiwanger, Jarmin, and Miranda (2009)

11 Tybout (2000), Sleuwaegen and Goedhuys (2002), Snodgrass and Biggs (1996)

12 See Beck, Demirgüç-Kunt, and Maksimovic (2005)

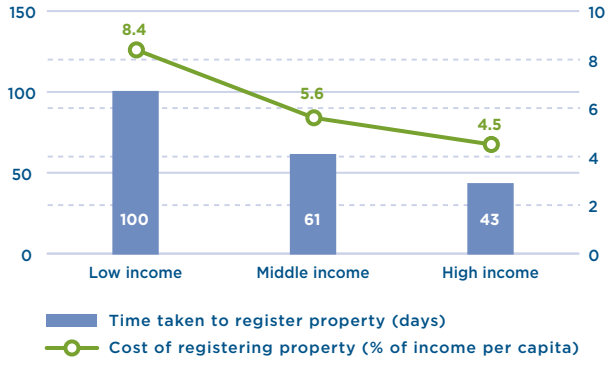
CHAPTER 2
Non-Financial Barriers to SME Development

Prior to exploring financial constraints to SME development, it is important to acknowledge the wide range of non-financial barriers that disproportionally affect SMEs. Often, the non-financial and financial barriers can be correlated, and this relationship may be strong in some cases. For example, improvement in physical infrastructure can generate important productivity gains and enhance the prospects of higher rates of returns, facilitating access to a wider range of financial services. Furthermore, some of the non-financial constraints are also binding on financial institutions and might undermine outreach and, ultimately, access to finance. For example, electricity shortages and the consequent need for generators may increase the costs of physical outreach for banks.

There are significant differences across countries in terms of the quality of their business environments. This is evident from the World Bank Doing Business indices (made up of a variety of business relevant indicators), which rank countries based on their ease of establishing, running, and closing an enterprise. Figures 2.1 and 2.2 demonstrate the differences among countries in terms of the time taken and costs incurred in registering property and enforcing contracts, two indicators that are particularly relevant for financial access. Not surprisingly, such costs are lower in high-income countries than in lower-income ones. These results are also confirmed by firm-level studies, as shown below.

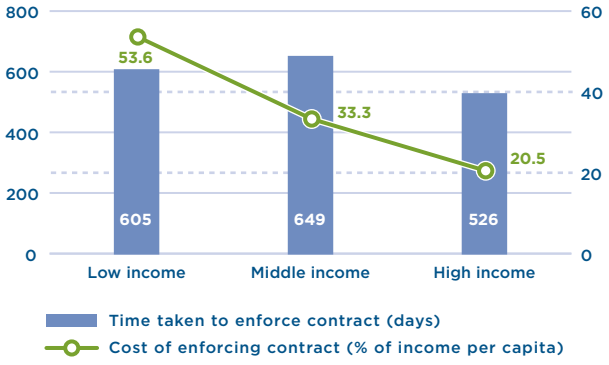
Specific constraints have a disproportionate effect on smaller firms in developing countries compared to their counterparts in the developed markets. As shown in Chapter 1, the five non-financial components of the business environment that SMEs most frequently rate to be major obstacles are lack of electricity, heavy regulation, high tax rates, practices of competitors in the informal sector, and corruption. Although they complain about high tax rates and heavy regulation as well, SMEs in high-income countries are less likely to report major non-financial obstacles than are SMEs in low and middle-income countries.

FIGURE 2.1 REGISTERING PROPERTY



Source: World Bank, Doing Business Indicators 2010

FIGURE 2.2 ENFORCING CONTRACTS



Source: World Bank, Doing Business Indicators 2010

In low-income countries, the factor that SMEs most frequently perceive to be a major obstacle is electricity, with 52 percent of SMEs viewing it as a significant issue. Although this information is self-reported, additional data from the Enterprise Surveys suggest that lack of electrical infrastructure could hinder SMEs' operations, since SMEs seldom have alternative sources of electricity. On average, only 22 percent of small firms own a generator, compared to 35 percent of medium-sized firms, and 51 percent of large firms, probably due to the substantial fixed costs of owning and operating a generator. The importance of electricity as an obstacle to SMEs' operations declines as country income increases and electricity infrastructure becomes more developed. In high-income countries, only 6 percent of SMEs report electricity to be a major obstacle.

The second component of the business environment that is most frequently perceived to be a major obstacle for SMEs is regulation, as designated by over 36 percent of SMEs. SMEs often lack the capacity of larger firms to navigate through the complexities of regulatory and bureaucratic procedures. Research shows that countries with lower entry costs and lower costs of registering property have a larger SME sector in manufacturing.[13] Moreover, regulatory reform can foster the creation of formal SMEs. For example, reforms in Mexico and Colombia that simplified business registration procedures led to increases in the number of registered businesses.[14]

Removing regulatory obstacles could also significantly increase SMEs' access to finance. A lower cost of registering property may lead to an increase in collateralizable assets. In addition, more efficient courts and legal procedures have the potential to reduce enforcement costs for lenders. In fact, property registration and legal procedures are considered to be an important part of financial infrastructure, as discussed in Chapter Three. In order for efforts to promote SME growth through other policies to succeed, especially in the long run, regulatory shortcomings must be addressed.

More than 33 percent of SMEs in low and middle-income countries report tax rates and practices of competitors in the informal sector[15] as major obstacles to growth. These two obstacles are closely linked, since governments in developing countries often impose heavy taxes on the formal sector where the informal sector is large, in order to compensate for forgone tax revenue from informal businesses. However, the higher taxes in the formal sector may result in an even larger informal sector in these countries. Typically, the practices of competitors in the informal sector become an obstacle for formal firms due to the fact that informal companies do not pay taxes, allowing them to offer lower prices and thereby draw customers away from their formal sector competitors.

SMEs in countries with different per capita incomes complain about taxes, even SMEs in developed countries. This reflects in good part the high taxes on payroll in all countries. According to the World Bank's Doing Business report, the median profit tax rates are higher in low and middle-income countries (20 percent) relative to the median in high-income countries (14 percent). Although the imposition of taxes from the fiscal standpoint is justified, SMEs face a disproportionately high tax compliance cost burden compared to larger enterprises. Moreover, SME taxation does not contribute significantly to increased fiscal revenue. Adjustments to administrative approaches and/or policy to reduce the tax compliance costs for SMEs are thus called for.[16]

SMEs in low and middle-income countries frequently cite corruption as a major obstacle. About 42 percent of firms in middle-income countries perceive corruption to be a major obstacle, a number that is slightly lower in low-income countries (34 percent),

13 Ayyagari, Beck, and Demirgüç-Kunt (2007)

14 Bruhn (2011) and Cardenas and Rozo (2007)

15 The Enterprise Surveys questionnaire does not define "practices of competitors in the informal sector" further. Firms are open to interpret this obstacle in their own way.

16 OECD (2009)

and much lower in high-income counties (18 percent). SMEs are somewhat more likely to pay a bribe to get things done than are large firms, since SMEs have fewer resources and less bargaining power to avoid paying bribes. However, this could also reflect the fact that SMEs may not comply with all regulations, making them a more likely target for corrupt officials.[17]

In addition, a broader set of policy environment issues could act as non-financial barriers to SME development. An example would be the prudent fiscal policies that avoid the crowding-out of the private sector by government borrowing. With a decline of demand from the government and large enterprises, this can act as a relevant driver for banks to increase SME lending. Furthermore, policy uncertainty caused by frequent changes in the "rules of the game" such as through price controls, changing tax rates or export bans may constitute barriers for investment and long-term financing. Weak investor protection, on the other hand, has a negative impact on both the demand and supply of long-term financing for SMEs.

Specific characteristics of SMEs put them at disadvantage in comparison with large firms. On top of obstacles arising from the investment climate, SMEs face several non-financial barriers related to the capacities of SMEs themselves. The small size of these firms implies that managers (or owners) of SMEs often need to perform a wider range of tasks than do those in larger firms, since there is less room for specialization. This requires diverse skills that SME managers may not have, particularly in developing countries where the quality of management education tends to be lower than that found in developed countries.[18] Moreover, SMEs cannot take advantage of economies of scale related to accounting, business planning, and market research to the same extent that large firms can. This may lead SMEs to under-invest in activities and services that could potentially enhance their transparency and productivity. For example, data from the Enterprise Surveys indicates that only 37 percent of small firms have their annual financial statement reviewed by an external auditor, compared to 58 percent of medium-sized firms and 79 percent of large firms.

In several developed countries, SME management training appears to have been successful in reducing the failure rates of small firms.[19] Preliminary findings from recent research in Mexico indicate that management consulting for SMEs can increase productivity, sales, and profits.[20] A related constraint is lack of financial education. Recent evidence suggests that levels of financial literacy are often low among small business owners, which can potentially pose difficulties for managing a firm's finances effectively.[21]

Lack of business and management skills can magnify financial barriers for SMEs. Low levels of financial literacy can prevent SMEs from adequately assessing and understanding different financing options, and from navigating complex loan application procedures. Similarly, the fact that SMEs' accounting and financial statements are often not transparent makes them risky borrowers and thus less attractive to lenders. Capacity building of SMEs in terms of preparing financial statements and business plans, as well as improving their financial literacy and management training, is shown to have positive impact on SME development.[22] Furthermore, strengthening the horizontal linkages with other SMEs and vertical linkages with larger firms would improve SMEs' market access.[23]

17 Aterido, Hallward-Driemeier and Pagés (2009) suggest that in countries with low corruption and a strong rule of law, access to finance promotes employment growth among SMEs.

18 Chaudhry (2003)

19 OECD (2003b)

20 Bruhn, Karlan, and Schoar (2010)

21 Studies on the link between financial literacy and business outcomes are ongoing. For example, Bruhn and Zia conducted a survey among youth entrepreneurs in Bosnia who are microfinance clients to assess their financial knowledge through a series of questions. This survey shows low levels of financial literacy. The same project provided financial literacy training to a randomly selected group of youth entrepreneurs. A follow-up survey, to be conducted in mid-2010, will provide information on whether the training improved levels of financial literacy, as well as business outcomes.

22 European Commission (2006)

23 Hussain (2000)

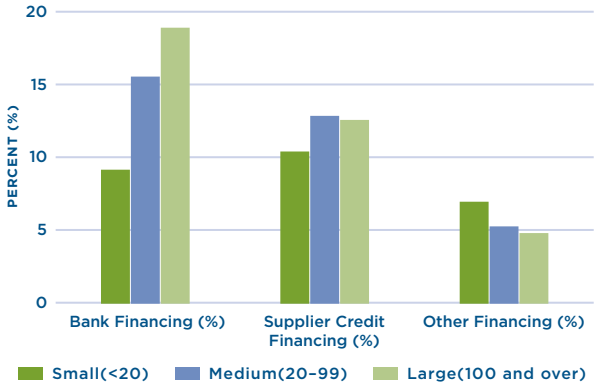
CHAPTER 3
Access to Finance as a Key Constraint to SME Development

This chapter describes the SME life cycle and financing needs, and reviews information about the SME financing gap based on the available data from the enterprise and financial institution sides. The chapter also discusses the reasons why SME finance remains a challenge, stressing the lingering deficiencies in the legal/regulatory frameworks and in financial infrastructures of many emerging countries. Finally, the chapter examines policy interventions that have been introduced to alleviate the access constraint, while also identifying possible shortcomings of these interventions.

3.1 SME Life Cycle and Financial Needs

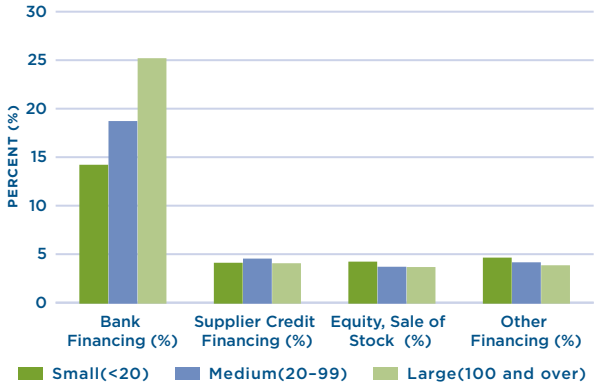
Financial access can help firms start up and expand their businesses through *inter alia* development of new products and production processes, and investment in human capital. A variety of financial services (credit, savings, insurance, and payment facilities) are crucial for growth in the SME life cycle; however, the focus of this report is on expanding access to finance. Firms often depend on informal sources of funding in the very early stages of their development. External sources, however, become more important as firms start expanding, and their availability can determine decisively the growth trajectory of SMEs.[24] Internal financing sources typically include an entrepreneur's own savings, retained earnings, or funding through the sale of assets. The external sources of finance can be informal (family and friends or supplier finance) and formal (debt or equity). Figures 3.1 and 3.2 present the proportion of firms' working capital and investment needs funded by various external financing sources, for firms of different sizes.

FIGURE 3.1 EXTERNAL FINANCING SOURCES FOR WORKING CAPITAL NEEDS



Source: World Bank Enterprise Survey Data (2006–09)

FIGURE 3.2 EXTERNAL FINANCING SOURCES FOR FIXED INVESTMENT NEEDS



Source: World Bank Enterprise Survey Data (2006–09)

24 Entry and growth of small firms is facilitated in countries that provide a supporting enabling environment, including easier access to finance (Klapper, Laeven, and Rajan, 2006).

Bank financing remains by and large the most important source of external finance to SMEs. As shown in Figures 3.1 and 3.2, banks finance a significant proportion of companies' investment finance needs and are also the major provider of financing for working capital. SMEs typically need a variety of additional financial services that only commercial banks are well-positioned to provide. These include cash management, insurance, transfers, and other transactional products. In the past few years, some banks have mainstreamed gender and sustainable finance (energy finance) under SME banking. For example, banks are designing special financing programs to increase access to business financing by women-owned SMEs. In some cases, such programs are accompanied by support such as training in business development skills. Under sustainable finance, banks assist their SME clients along the road to environmentally sustainable business practices by offering them specific financing instruments.[25]

Supplier credit is a common source of finance for many SMEs and corporations all around the world. Such transactions typically occur between two businesses. Trade credit allows businesses to delay payment for goods and services purchased, and thus helps with effective cash flow management. It may also substitute for financing, such as short-term bank credit or other more formal arrangements. Trade credit is usually used to meet short-term working capital needs.[26]

Factoring clearly appears as an important complementary source of working capital finance for SMEs, especially in jurisdictions where the financial infrastructure presents gaps (see Figure 3.1, Other Financing). Factoring entails the purchase by the lender of a firm's accounts receivables and the collection of invoices from the parties that owe money. Factoring addresses the problem of SME opacity by focusing on the quality of the obligor. In recent years, the concept of reverse factoring as a financial instrument has become popular. With reverse factoring, the financial institution purchases receivables only from high-credit quality buyers, resulting in the provision of low-risk loans to high-risk suppliers such as SMEs. Reverse factoring is particularly useful for SMEs in countries with underdeveloped contract enforcement regimes and weak credit information systems.[27]

Likewise, leasing appears as an important complementary source of investment finance, especially in countries where the collateral regime and the information infrastructure are weak. This is particularly the case for smaller firms, as suggested in Figure 3.2 ("Other Financing"). The advantage of leasing lies in the fact that it focuses on the firm's ability to generate cash flows from business operations to service the leasing payment, rather than on its credit history or ability to pledge collateral. A second way-out for the leasing providers in case of payment default is the repossession and sale of the leased asset, which provide additional risk mitigation. Leasing is also an appropriate financing instrument for demand-side reasons, as small entrepreneurs, especially those who are not incorporated might be very reluctant to yield their personal property as collateral for a loan.

Equity financing is often necessary to enable firms to grow, invest in fixed assets, and support increased needs for debt. Typically, private equity investors receive a return on their investment through an initial public offering (IPO), a management buy-back, or the sale of the controlled company to a larger one. Private equity investment in start-ups and very young firms is also known as venture capital finance. Venture capitalists inject cash into such companies and are likely to provide management expertise. In some countries, business angel investors ("informal venture capitalists") contribute their own capital and business experience in order to assist fast-growing companies with high potential.[28] A few specialized private equity companies have started investing in SMEs in developing markets with positive development outcomes and financial returns.

25 Jeucken (2005)
26 OECD (2006)
27 Klapper (2005)
28 OECD (2006)

BOX 3.1 SME EQUITY FUNDS

Private equity funds are pooled investment vehicles that invest in unlisted equity, quasi-equity and, occasionally, debt securities. Equity funds are often structured as partnerships, comprising two kinds of partners:

1. Limited partners are the fund's investors. Their partnerships have fixed investment terms (e.g., 10 years). Limited partners are passive investors who do not get involved in the day-to-day management and investment decision-making of the fund, but have a role overseeing the fund's governance.
2. General partners are the fund managers. They are responsible for all investment decisions following a pre-determined investment strategy. Fund managers generate growth and development in emerging markets by unlocking value in their investee companies.

Market practice for successful equity funds is based on a set of parameters:

- Funds have a fixed life of typically 10 years, often with annual extensions, including a fixed investment period (4–5 years). The main challenge is that funds must exit their investments by a fixed date.
- Funds usually have a 2 percent fee and 20 percent share of profits in invested companies. Except for venture capital, equity funds need consistent performance across their portfolio companies and cannot afford many failures.
- Performance is measured by the funds' internal rate of return (IRR), achieved through any of four basic strategies: leverage, multiple expansion, growth, and efficiency. Most funds use a blend of the four, although IRR in emerging markets is primarily driven by growth and efficiency.

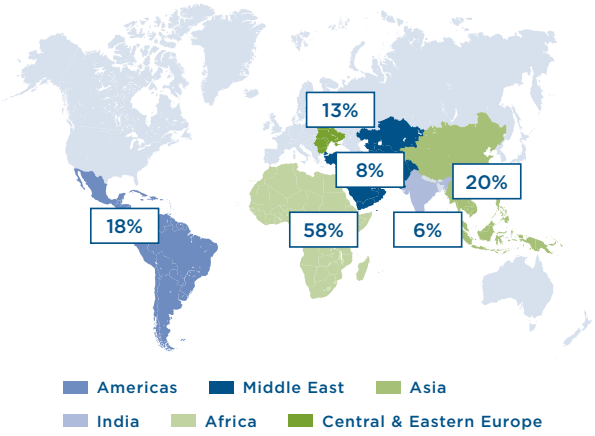
For the majority of SMEs in emerging markets, equity investments are not available. SME equity funds in emerging markets face unique challenges, including: (i) Shortage of experienced fund managers with the right skill set and market knowledge; (ii) Volatile exit windows as IPO markets appear and disappear quickly; (iii) High cost of technical assistance during due diligence and post-investment phase, in response to risk mitigation; (iv) Extensive fundraising efforts; (v) Low capital needs of small businesses, making the deal sizes unattractive to most private equity firms; and (vi) Capturing and quantifying non-financial benefits generated by investees.

In general, deal flow and exit opportunities in most of the smaller emerging countries are too limited to support dedicated single-country funds. Thus, successful SME fund models usually cover more than one country, with a small central team and local management teams in each country. This structure allows the local teams to focus on investments while spreading overhead costs over as broad a base as possible. The central "platform" shortens the learning curve for the local teams and provides necessary services and support in an efficient and cost effective way.

Over the last decade, DFIs have expanded their participation in SME equity funds. While they are considered among the riskier SME finance models and require highly skilled human resources, equity funds are being recognized as a profitable asset class with significant development impact, allowing DFIs to connect with SMEs that they otherwise would be unable to reach directly. Moreover, SME equity funds provide an opportunity to strengthen investees' environmental, social, and governance policies, while also providing co-investment opportunities for DFIs' direct investment in such companies.

Recent analysis conducted by the Dahlberg Global Development Advisors suggests that there are close to 192 investment funds supporting small and growing businesses (SGB) in emerging markets, with the majority of funds concentrated in Asia, Africa, and Latin America. These funds are typically willing to make investments smaller than USD 2 million. The cumulative target size of these investment funds is estimated at USD 7 billion. Such funds have seen rapid growth since 2006.[29]

BOX 3.1 | FIGURE 1 PERCENTAGE OF IDENTIFIED SGB FUNDS INVESTING IN KEY REGIONS



Note: N=186, does not include 6 funds with unknown investment regions. Funds investing in multiple regions are counted once for each region.

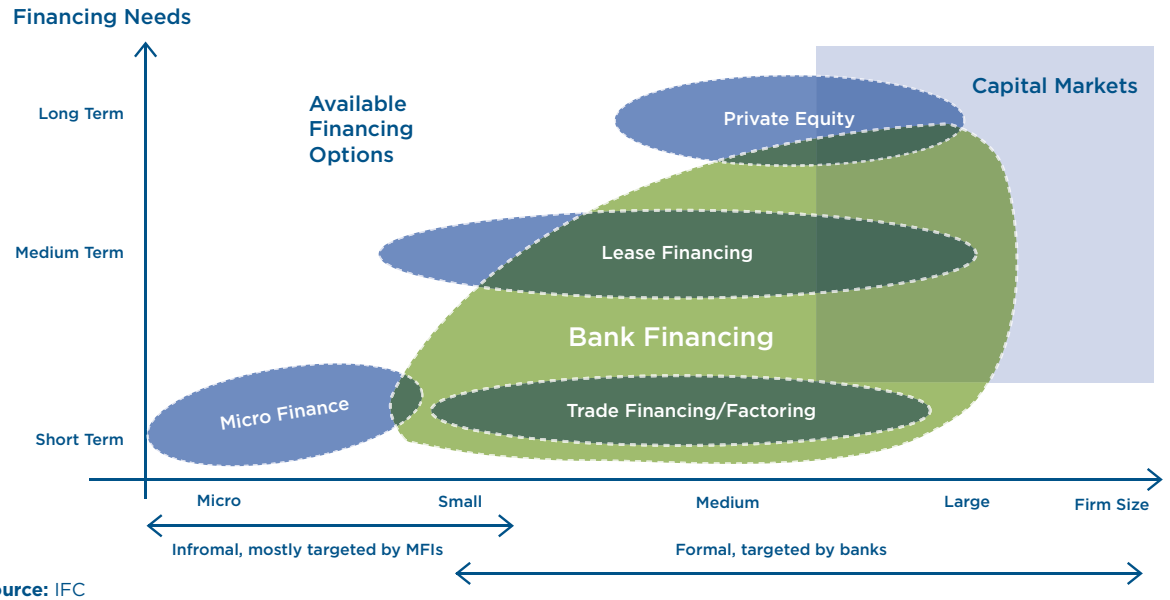
Source: Dalberg analysis

29 Aspen Network of Development Entrepreneurs, 2009

Equity finance can be a potentially beneficial financing source for SMEs — including high-risk SMEs — in their early lifecycle stages, when cash flow is not yet regular. For these firms, bank debt often is not available in sufficient amounts for a variety of regulatory reasons, making equity their primary source of finance. However, even well-established and successful SMEs face a number of challenges when trying to access local or international capital markets. To begin with, the cost of raising capital tends to be considerably higher for SMEs, not only because of the perceived greater risk associated with lending to or investing in such enterprises, but also due to the smaller relative amounts of financing that SMEs require in order to fund their growth at any given stage. Since many of the compliance costs associated with accessing capital markets are fixed (e.g., listing and rating agency charges, legal fees, prospectus preparation costs, etc.), SMEs usually find that the all-in cost of using the capital markets is prohibitive (Box 3.1).[30]

Striking the right balance between debt and equity financing is the key. Debt and equity financing play a complementary role in a firm's growth. Just piling more debt onto SMEs without a balanced capital structure may prevent them from securing or repaying the debt, and make them vulnerable to business downturns and changes in interest rates. Carrying little or no debt may be an indicator of risk aversion. Too much equity, on the other hand, dilutes firms' ownership interest. The IFC experience suggests that the lack of equity finance is a binding constraint for many SMEs, in particular for larger SMEs, in developing countries, while extending additional debt financing for undercapitalized SMEs may be counterproductive. Unlike the large-buy-out funds in developed markets, typical SME funds in emerging markets rarely try to use leverage to increase their returns, focusing instead on making money by assisting with operational, management, and marketing improvements.

FIGURE 3.3 SME FINANCE COVERAGE

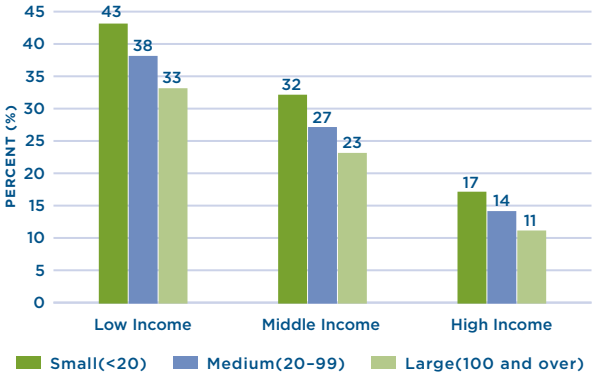


Source: IFC

30 An additional challenge to equity finance with SMEs can come from the reluctance of many SME owners to engage in a process that might result in equity providers or associates interfering with the day to day running of the business.

Some countries have created SME stock exchanges to facilitate access to public funds, although the performance of these exchanges has been mixed.[31] Over the years, many countries have sought to address the issues faced by SMEs by establishing dedicated stock exchanges, junior market segments, or separate trading platforms exclusively for the SME sector, with the aim of facilitating access to capital markets more quickly, with less stringent eligibility criteria and at a lower all-in cost. However, the performance of many of these junior exchanges, particularly in some lower-income countries, has been unimpressive, with only a handful of SMEs electing to list in certain markets and with little or no new capital actually being raised. Notable exceptions are found in the high or middle income countries and include the Alternative Investment Market (AIM) in London, the Growth Enterprises Market (GEM) in Hong Kong, KOSDAQ in Korea, MESDAQ in Malaysia, TSX in Canada, the MOTHERS market in Japan, and the Shenzhen SE in China.

FIGURE 3.4 PERCENTAGE OF FIRMS VIEWING ACCESS TO FINANCE AS A MAJOR OBSTACLE BY FIRM SIZE AND COUNTRY INCOME GROUP



Source: World Bank Enterprise Surveys (2006–09)

Note: The Enterprise Surveys define small firms as having fewer than 20 employees and medium-sized firms as having between 20 and 100 employees. Data are for the most recent year available for each country, ranging from 2003 to 2009. Statistics by country income group are simple averages of the countries in each group.

In developing countries, and in developed countries to a lesser extent[32]**, the SME finance coverage appears limited to only a few financing options.** Figure 3.3 illustrates the SME finance coverage by looking at the most commonly used financing tools across two dimensions: firm size and maturity of financing. Traditional banking models typically target the largest firms. While commercial banks in developed countries have become better able to serve the needs of smaller firms, banks in most developing countries often limit their SME activities to fully secured working capital facilities. Microfinance companies have developed specific skills and business models to provide small loans to the informal sector and the smallest formal enterprises, but they have limited ability to accompany client firms as they grow. They also lack the ability to offer additional non-lending products that are critical to their clients. Leasing and factoring volumes remain small in most developing economies, yet these products could help address some of the financing needs of smaller and informal firms. Finally, only a very limited number of innovative SMEs with clear growth potential are able to access venture capital.

SME access to finance usually starts through the provision of short-term credits. When banks and other financial institutions start lending to SMEs, they usually remain at the lower risk of the spectrum (smaller loans and shorter tenures), until there is sufficient credit history and infrastructure available to enable larger volumes of lending and longer tenures while also containing risks. Beginning the credit relationship based on short-term finance enables banks to build credit histories with borrowers, even in markets with poor land title regimes, poor collateral registries, and weak credit bureaus. It also allows banks to gain experience, reach an increasing number of new cohorts of smaller firms over time, and graduate these enterprises to access medium and long-term loans as well as unsecured financing.

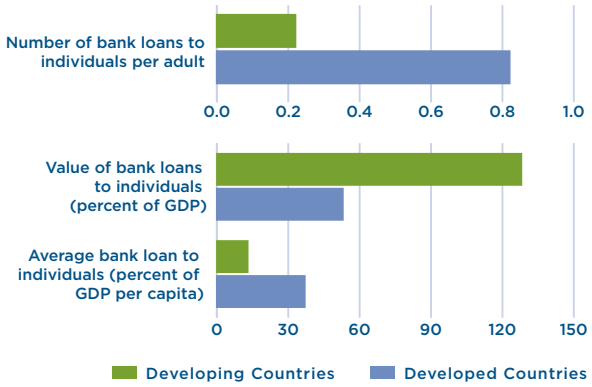
3.2 Quantifying the SME Finance Gap

SMEs in low and middle income countries perceive access to financing as a major obstacle to growth and development, indicating that most of

31 OECD (2006) provides a comprehensive review of equity finance in the early stages of the life cycle.

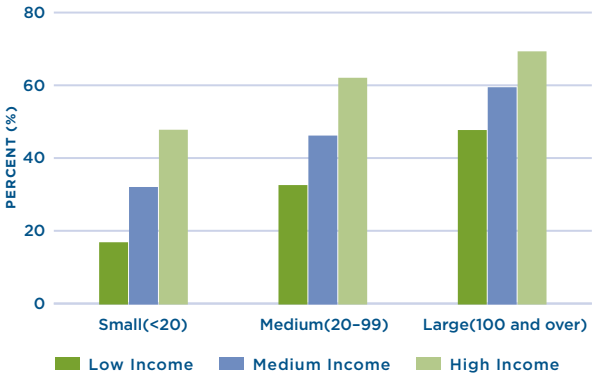
32 OECD, 2006. "The SME Financing Gap, Vol. I: Theory and Evidence"

FIGURE 3.5 FINANCIAL ACCESS: DEVELOPED VS. DEVELOPING COUNTRIES



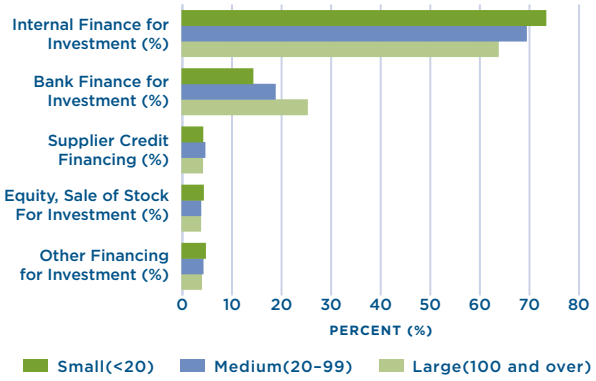
Source: CGAP (2009)

FIGURE 3.6 PERCENT FIRMS WITH A LOAN/LINE OF CREDIT FROM FINANCIAL INSTITUTION



Source: World Bank Enterprise Surveys (2006–2009)

FIGURE 3.7 FINANCING SOURCES FOR FIXED INVESTMENT IN DEVELOPING COUNTRIES



Source: World Bank Enterprise Surveys (2006–2009)

the financial instruments discussed above are not readily available in most of these countries. The World Bank Enterprise Survey results indicate that SMEs in developing countries are more likely than SMEs in developed countries to report that access to finance is a major obstacle to their development. As shown in Figure 3.4, 43 percent of small enterprises and 38 percent of medium-sized firms in low-income countries report that access to finance is a major obstacle to their operations. The equivalent figures in middle-income countries are 32 and 27 percent, respectively. Financial access is reported to be a relatively less significant constraint in high-income countries.

Quantifying the SME Finance Gap (where the offer of available financial services only partially meets SME needs) remains a difficult challenge, given the absence of reliable and consistently monitored sources of data on both the SME segment and SME access to financial services. This section provides an assessment of SME financing constraints based on available sources, including enterprise surveys, banking surveys, and data directly provided by central banks or financial regulators. In enterprise surveys, SMEs are interviewed in order to explore their financial needs, access, and constraints. The World Bank Enterprise Surveys provide a starting point for examining obstacles that SMEs face, although these surveys cover only a small fraction of firms in each country and typically represent only certain industries, in most cases the manufacturing and services (including retail) sectors. On the supply side, financial access for SMEs can be measured by collecting data through banking surveys, although very few surveys of this type have been conducted. More recently, some central banks and financial regulators have started requiring the banks to report their SME portfolios. This is possibly one of the most promising sources of information on SME finance, which is being compiled for several countries by the OECD and the World Bank Group/CGAP.

In general, financial access in developing countries is observed to be much lower compared to that for developed countries, and concentrated among top borrowers. Figure 3.5 shows that financial access for individuals

(measured by the ratio of the number of loans per adult) in developed countries is almost four times higher than the average ratio in developing countries. Moreover, in developing countries the average loan amount relative to per capita income is much higher, indicating that credit is much more concentrated among fewer borrowers. The relatively low number of loans to individuals in developing countries to some extent captures SME finance constraints, as many early stage SMEs rely on personal loans to the owner to meet their business needs.

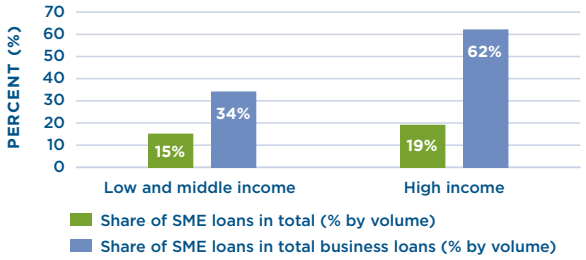
The story of SME Finance is not much different, and Enterprise Surveys conducted by the World Bank in over 120 countries show that SMEs face more severe financing constraints than large firms, especially in lower income environments. As shown in Figure 3.6, only 17 and 32 percent of small firms in low and middle-income countries, respectively, have a loan or line of credit. This ratio is over 50 percent in the case of high-income countries. Medium-sized enterprises are also constrained in lower-income settings, although to a lesser degree. Large enterprises are generally much less constrained, even in low and middle-income countries. On average, the likelihood of a small firm having access to a bank loan in low-income countries is less than half of what it is for a medium-sized firm, and about a third of what it is for a larger firm (Figure 3.6).

Although firms of all sizes in developing countries rely on internal sources to meet their fixed investment needs, SMEs have a much stronger reliance on such sources.[33] As shown in Figure 3.7, banks remain the most important source of external finance in developing countries. Only 14 percent of the fixed capital investment of small firms is funded by banking sources, while the proportion is significantly higher — at 25 percent — for large firms. These results are in line with other studies reflecting the positive association between firm size and external finance.[34]

BOX 3.2 MEASURING THE VOLUME OF SME LENDING: THE SUPPLY SIDE APPROACH

Lack of cross-country data on the level of SME financing presents major challenges, both in evaluating the needs in the sector and in assessing progress. To address this data gap, the Financial Access 2010 survey, implemented by the CGAP and the World Bank Group and launched in February of 2010, included a number of questions on measurement of SME financing levels. The survey is addressed to the main financial regulator and asks to identify the main sources of data on SME financing, definition of SME, value and number of outstanding SME loans, and the number of SMEs with loans.

BOX 3.2 | FIGURE 1: SHARE OF SME TOTAL/BUSINESS LOANS



Financial Access 2010 received responses from 142 countries, of which 50 provided information on the volume of SME financing. Countries were asked to provide information on the definition of SMEs used in the country and statistics based on those definitions. This approach limits comparability of data across countries but allows for greater coverage.

SME loans account for 19 percent of total lending volume in developed countries, and 15 percent in developing countries. The difference in the ratio is statistically significant between high-income and middle and low-income countries. Variation in the statistics is high, reflecting in part the different definitions used. The Financial Access 2010 report discusses in detail both the challenges related to the measurement of SME financing volume using supply side data and the need for a greater standardization in definitions and measurement metrics for SME Finance.

Source: World Bank Group/CGAP Financial Access 2010 Survey

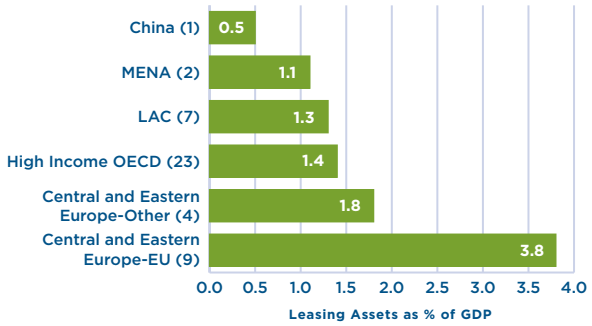
33 It should be noted, however, that in some countries firms — especially family-owned SMEs — may be reluctant for cultural reasons (fear of loss of independence) to call on external finance, and often rely on family or other informal financing sources deliberately, not because they are constrained.

34 Beck, et al. (2006)

TABLE 3.1 AVERAGE SHARE OF SME LOANS IN TOTAL BANK LOANS

	Developed Countries		Developing Countries	
Source	OECD (2010)[36]	World Bank (2008)[37]	World Bank (2008)[38]	World Bank/UAB (2010)[39]
Number of Countries	5 countries	7 countries	38 countries	10 non-oil Middle East countries
SME Loans/Total Loans (%)	26.8	22.1	16.2	14.5

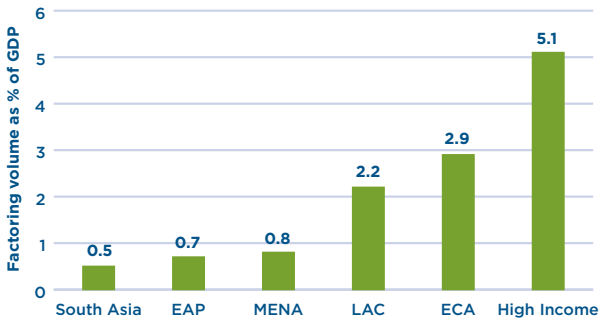
FIGURE 3.8 LEASING ASSETS (% OF GDP)



Source: World Leasing Yearbook (2010), Data for 2008

Note: Number in parenthesis indicates the number of sample countries for that region.

FIGURE 3.9 FACTORING VOLUME (% OF GDP)



Source: Factor Chain International (2008 data)

Note: High-income countries include some ECA countries.

Supply side information (provided by bank surveys or financial regulators) portrays a similar picture — SME loans as a percentage of total bank loans is generally smaller in developing countries, implying more restricted access to finance. Information on SME lending is available from two World Bank surveys, and from central banks and financial regulators (compiled by the OECD). These studies show that banks generally hold smaller SME portfolios in developing countries (Table 3.1). The pattern is consistent with the results of enterprise surveys, which show that proportionately fewer SMEs in developing countries have a loan or a line of credit. The CGAP is collecting information on SME lending in its 2010 survey, and preliminary results confirm the same pattern — as shown in Box 3.2, the average share of SME lending is smaller in the case of developing countries.[35]

Leasing and factoring markets, which are particularly useful for SMEs, are unevenly developed around the world. As shown in Figure 3.8, the leasing sector seems to have been more developed in Central and Eastern Europe, particularly among that region's EU countries. This is possibly due to the efforts made in overcoming the weaknesses in creditor rights during the period of transition, and also to the large market share of multinational banking groups that may have used leasing as a more secure way to provide financing to firms in riskier

35 Beck, Demirgüç-Kunt and Martinez Peria (2010) show that SME lending volumes and prices are significantly affected by measures of financial infrastructure, including creditor rights and credit information. Rocha, Farazi, Khouri, and Pearce (2010) show the results of a recent survey in which Middle Eastern banks report weaknesses in the financial infrastructure that constrain their willingness to lend to SMEs.

36 Canada, France, Korea, Sweden, and the US.

37 Beck, Demirgüç-Kunt, and Martinez Peria (2008)

38 Ibid

39 Rocha, Farazi, Khouri, and Pearce (2010)

BOX 3.3 THE IMPACT OF THE GLOBAL FINANCIAL CRISIS ON SME FINANCE: FINDINGS FROM THE RECENT OECD STUDIES

Assessments of the impact of the financial crisis on SMEs' access to finance have revealed that policymakers and major stakeholders (e.g., financial institutions) lack the hard data necessary to monitor and evaluate the situation. Thus, it was deemed necessary to develop a coherent set of core indicators that would: (i) improve the understanding of business financing needs and provide a basis for a better-informed public discussion; (ii) give the suppliers of finance a more comprehensive understanding of their clients' needs; and (iii) facilitate the assessment of whether firms' financing needs were being met and help with evaluating the effectiveness of government policies and programs. In order to achieve these objectives, OECD is constructing a pilot Scorecard with core access indicators satisfying the criteria of usefulness, availability, feasibility, timeliness, and comparability.* Since the various definitions used in the OECD pilot Scoreboard are still not standardized, a number of challenges in data collection and harmonization still remain in many countries.

In parallel, the OECD also conducted a study examining the impact of the global financial crisis on SME and entrepreneurship financing. The findings of this study suggest that SMEs and entrepreneurs have suffered two shocks that adversely affected their cash flows during the financial crisis: a drastic drop in final demand for goods and services, and a deterioration of credit conditions.** A recent survey of firms in Eastern Europe has identified the drop in demand as a more challenging constraint than the credit crunch. Most SMEs have responded to the evaporation of liquidity since 2008 by reducing operating costs, running down inventories, and cutting investment, including innovation spending. The reliance on trade credit as a substitute for bank financing is also observed during credit crunches.*** Overall levels of SME borrowing have remained steady or declined slightly, but trends have diverged between demand for investment capital, which has reduced significantly almost everywhere, and demand for working capital, which has risen sharply.

The preliminary analysis of these on-going studies suggests that during the financial crisis there was a slowing down in business lending in general, and in SME lending in particular. The majority of SMEs in surveyed countries experienced hardening of credit terms in 2009, due to low profitability as a result of the recession, a decline in their creditworthiness, and weakened financial markets. With banks becoming increasingly risk averse, many firms experienced difficulties in obtaining export finance. In a number of countries, the percentage of firms using bank credit fell, while the use of alternative financing sources such as leasing and factoring declined even faster than bank financing. Tight credit conditions were further exacerbated with shortened maturities, increased collateral requirements, and high lending margins on SME credit.

In the face of severely tightened credit conditions, the governments of OECD countries intervened forcefully in late 2008 and early 2009. Under special crisis support/emergency measures packages, existing programs were strengthened and new programs were introduced to enhance the access of viable SMEs to credit. Government responses (including the shortening or maintaining the payment terms by the governments) to contain the credit squeeze for SMEs appear to have been instrumental in saving a large number of firms from bankruptcy and in preventing job losses from becoming even more serious. In order to ensure long-term gains in SME finance, governments should emphasize strong banking systems, adequate regulation, and financial stability.

*The Scorecard has been constructed with the cooperation of nine volunteer countries: Canada, Finland, France, Italy, Korea, New Zealand, Sweden, Thailand and the United States. Core indicators for the pilot scorecards are being developed for these nine countries.

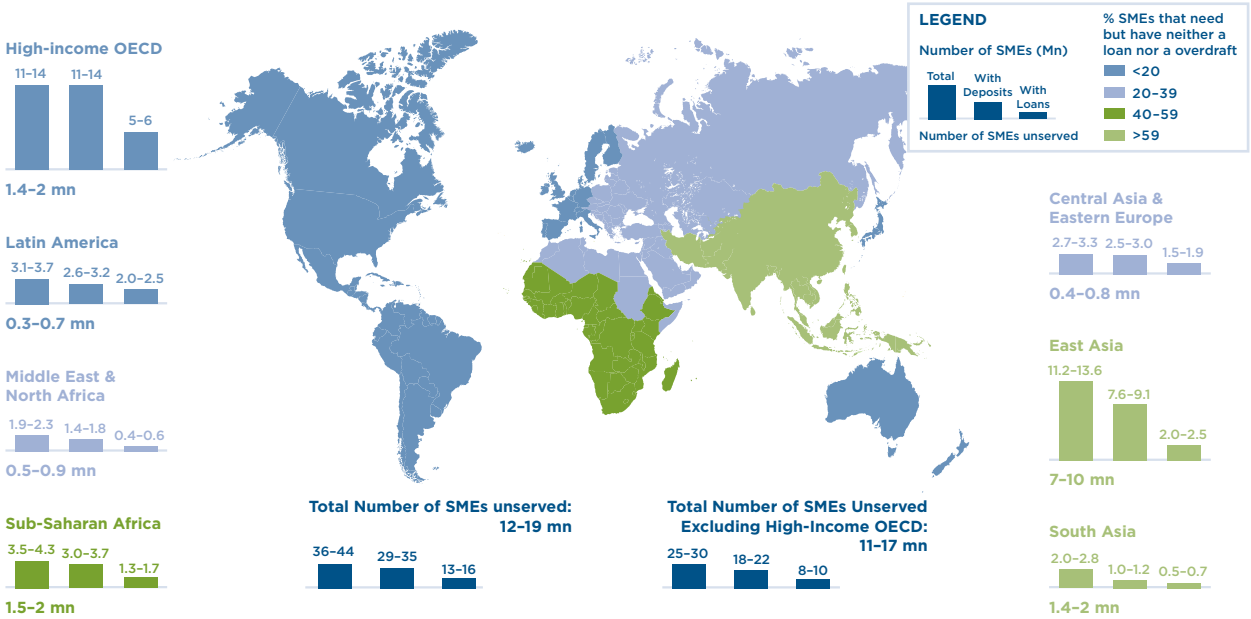
**The study included 17 OECD and 2 non-OECD countries: Australia, Austria, Belgium, Canada, Czech Republic, Finland, France, Germany, Hungary, Italy, Japan, Netherlands, New Zealand, Poland, Sweden, Turkey, United Kingdom, Israel, and Estonia. World Bank Enterprise Surveys News Release (2010).

***Love, Preve, Sartia-Allende (2007)

Source: OECD (2010a) and OECD (2010b)

FIGURE 3.10 FORMAL SMES' ACCESS TO FINANCE BY REGION

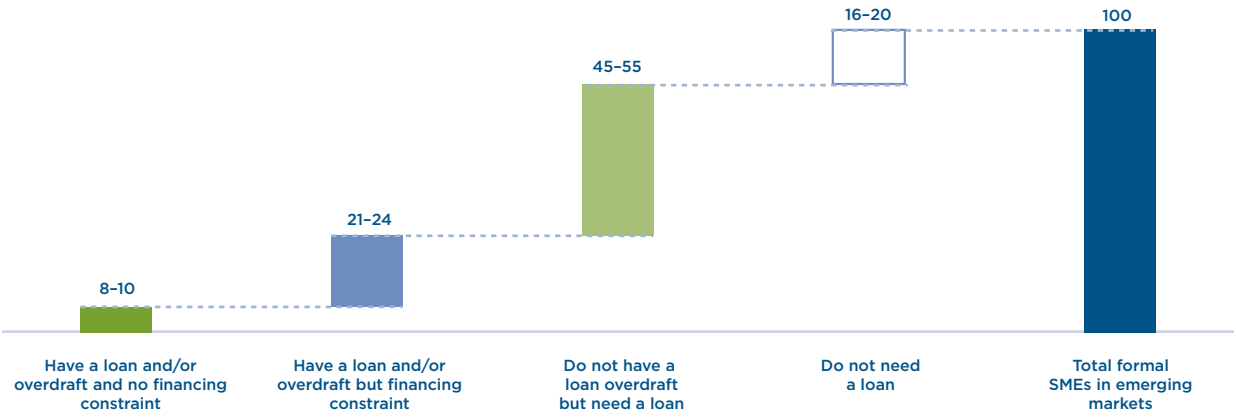
Bar graphs refer to million of formal SMEs in the region (i.e., typically 5 employees and above)



Source: IFC and McKinsey Database 2010
Note: Data for calculation from World Bank enterprise surveys, IFC MSME database, literature searches and McKinsey proprietary research.

FIGURE 3.11 FORMAL SMES' USE OF FINANCIAL INSTITUTIONS LOANS AND FINANCING CONSTRAINTS

Percent of total enterprises in emerging markets (i.e., excluding high-income OECD)



Source: IFC and McKinsey Database 2010

Note: The number of SMEs unserved or underserved is calculated based on SME access to bank loans and overdrafts only (i.e., not including SMEs' access to trade financing, leasing, factoring, and other forms of credit). Data for calculation from World Bank enterprise surveys, IFC MSME database, literature searches, and McKinsey proprietary research.

environments. In many parts of the world, the leasing sector remains underdeveloped. Measured as a percentage of Fixed Capital Formation, leasing penetration in investment finance varies from 2.2 percent in China to 27.3 percent in Hungary.[40] Likewise, factoring markets seem comparatively more developed in high-income countries, and remain relatively weak in developing countries, particularly in Asia and MENA (Figure 3.9).

The global financial crisis has further constrained financial access for SMEs. The crisis has had a negative impact on SME activity in terms of employment, output, sales, and exports. Low profitability resulting from the crisis has adversely affected SMEs' creditworthiness. At the same time, financial institutions have become increasingly risk-averse in expanding financial access to SMEs and, in many cases, have tightened credit conditions, thus further worsening SMEs' financial access. (Box 3.3)

The quantification of the SME finance gap remains today as a major challenge, at both the global and national levels. While the above data show in broad terms the extent of the SME access to financing problem, there is limited capacity to assess the potential areas for improvement and track progress over time. Due in large part to the enterprise surveys, the availability of data on formal SMEs is somewhat better, while data acquisition and assessment is more severely problematic for the micro and informal sectors. Moreover, little is known about specific demand-side constraints that may hamper a sustainable increase in access to finance for SMEs.

This makes policy design particularly challenging. Intensifying efforts in data collection should therefore be a key area of focus for the FIEG. A Working Group on SME Finance Data has been set-up by the FIEG, with the mandates to design a possible approach to SME Finance data collection and aggregation, assess the possibility of setting targets for SME Financing, and recommend a global mechanism to ensure monitoring of progress.

In the absence of an accurate and academic approach to measure the (formal) SME finance gap and track progress globally, the IFC and McKinsey have engaged in an effort to combine all available data sources as of June 2010, establishing proxies to allow cross-regional comparisons and using assumptions when needed to fill the data gaps. This effort represents one of the most comprehensive attempts to quantify and map the SME finance gap globally.[41] The results of this exercise are preliminary, and constitute a starting point on gathering data for mapping the global SME finance gap. The methodology used to develop these data points had to make assumptions where data gaps prevailed, which are specified in more detail in the annex B. Going forward, significant improvements to data collection for SME finance are necessary to guide policy decisions and monitor progress. The G-20 SME Finance Data Working Group established in May 2010, is preparing a set of recommendations, which — if put into practice — should help improve data availability and quality.

Approximately 45–55 percent of formal SMEs[42] (11–17 million) in emerging markets are unserved (i.e., they need credit but do not have access), **21–24 percent (5–7 million) are underserved** (i.e., they have access to some credit but identify financing as a constraint), **and 16–20 percent (4–6 million) do not need credit.**[43] The magnitude of the credit gap varies by size of enterprises: 18–22 percent of formal medium enterprises in emerging markets are unserved compared to 49–59 percent of very small formal enterprises.[44] Moreover, there are significant regional differences in terms of financial access. Access to credit for SMEs is particularly daunting in Asia and Africa (Figure 3.10 and 3.11).

40 World Leasing Yearbook, Euromoney, 2010

41 Please see Annex B for the methodology used to derive the estimates.

42 Segmentation of SMEs as per the Box 1.1.

43 Estimates as a proportion of total SMEs in emerging markets.

44 Estimates as a proportion of formal SMEs in the respective segment.

The credit challenge for formal SMEs is easier to tackle, given that close to 18–22 million formal SMEs in emerging markets (70–76 percent of total SMEs in emerging markets), already have a banking relationship via deposit/checking accounts; hence the need is to incentivize banks to lend to their existing clients. Interestingly, close to 9.5–11.5 million formal SMEs in emerging markets (75–80 percent of all unserved SMEs in emerging markets) do not have loans or overdrafts but have deposit accounts. Hence the key challenge is not only to support banks in opening accounts for the 25 to 30 percent of formal SMEs (6–8 million) with no access to banks, but also to extend credit facilities to those SMEs that have a deposit/checking account, are credit worthy, but do not have access to credit. Such pre-existing clients could be the first/ most straightforward targets for the banks in expanding outreach to other financial services, particularly to credit.

3.3 Why SME Finance Remains a Challenge

Lingering deficiencies in the enabling environment help explain the constrained access of SMEs to finance. The enabling environment is defined here to include both financial infrastructure and the overall legal and regulatory framework for financial institutions and instruments. Financial infrastructure includes the informational, contractual, and transactional frameworks that provide the basis for financial intermediation. The legal and regulatory framework for finance is the collection of laws and secondary regulations on financial institutions and instruments that provide the foundations for market development and the overall degree of market competition.

3.3.1 THE LEGAL AND REGULATORY FRAMEWORK

The legal and regulatory framework is defined here to include the collection of laws and regulations that define the scope and depth of all the financial institutions, instruments, and markets operating in a given country. This includes, for example, banking, insurance, leasing, factoring, and security laws, as well the respective bodies of secondary regulations and guidelines. Effective legal and regulatory frameworks promote access to finance while preserving financial stability. This is achieved by expanding the range of financial institutions and instruments and promoting market development and competition, while subjecting financial institutions and agents to sound prudential rules, as well as rules of conduct.

The legal and regulatory framework plays a critical role in improving the SME Finance landscape. For example, banking regulations that allow entry of sound and efficient banks and promote market competition may reduce margins in traditional business lines and induce banks to develop SME banking. This is a driver of SME lending typically reported in SME surveys conducted by the World Bank.[45] Legislation that promotes leasing and factoring also promotes access to finance by SMEs, especially in environments where financial infrastructure remains deficient. The lower development of leasing and factoring in most developing countries (shown above) may reflect gaps in the legal and regulatory environment of these countries. Legislation that facilitates bond and equity finance for large firms may promote competition to bank lending, reducing bank margins on traditional business lines and inducing banks to diversify lending to SMEs. Financial regulation can also constitute a hindering factor, however, as in the case of interest rate ceilings that do not allow banks to cover lending risks and discourage lending to the SME segment.[46]

45 See De la Torre, Martinez Peria and Schmukler (2010), Beck, Demirgüç-Kunt and Martinez Peria (2008), and Rocha, Farazi, Khouri, and Pearce (2010).

46 IFC (2009)

One regulatory framework widely discussed in the context of SME Finance is the Basel II framework, which seeks to align banks' capital allocations with the risk characteristics of their loan portfolio. After considerable initial debate, the effects of Basel II on SME Finance are now considered to be neutral or positive (Box 3.4).

3.3.2 FINANCIAL INFRASTRUCTURE

Financial infrastructure as defined here includes accounting and auditing standards, credit reporting systems (credit registries and bureaus), collateral and insolvency regimes, and payments and settlement system.[47] Financial infrastructure reduces the information asymmetries and legal uncertainties that increase risk to lenders and constrain the supply of finance. Financial infrastructure development improves financial access for all firms, but SMEs benefit proportionately more, as the problems of opacity and information asymmetry are more severe in the case of smaller firms.

Strong accounting and auditing standards improve SME access to finance by reducing informational opacities and encouraging lending based on financial statements, but countries have had to strike a balance between improving transparency and reducing the regulatory burden for SMEs. International Financial Reporting Standards (IFRS) have been adapted to SMEs, and about 60 countries seem to have adopted the SME version of IFRS.[48] Other countries have concluded that the SME version of IFRS is still too costly for SMEs, and have adopted a simpler set of obligatory standards. This includes Germany and other EU countries.[49] There are similar concerns regarding obligatory auditing. Although auditing improves the reliability of financial statements, the EU exempts firms with fewer than 50 employees from obligatory audits, a rule that also attempts to strike a balance between the objectives of improving transparency and reducing the regulatory burden for small firms. Some studies have found that effective accounting standards are positively associated with measures of access[50], but research in this area has been limited by the lack of good quantitative indicators of the quality of financial reporting, and are not focused on SMEs.

Public credit registries and private credit bureaus can play a fundamental role in SME Finance by providing information on borrower creditworthiness.[51] Well-functioning credit information systems reduce adverse selection and moral hazard, and can contribute to both an expansion of credit and a reduction in lending costs. Considerable variation across countries is observed in the depth of credit information and the coverage of credit registries and bureaus. A credit registry or bureau will be more effective to the extent that it obtains both positive and negative information from regulated and unregulated institutions (e.g., utilities, retailers), builds credit histories for a large number of potential borrowers, and processes comprehensive credit reports timely. Credit bureau information also facilitates the adoption of lending technologies based on credit scoring models. The World Bank Group is leading an international effort to define standards for credit reporting systems. The new standards are intended to benefit SMEs.

The development of credit registries and bureaus improves access to finance. A study of 5,000 firms in 51 countries suggests that SMEs find it relatively easy to obtain a bank loan in countries where credit information is available through credit bureaus/registries

47 See World Bank (2009). Although the payment/settlement systems are also part of the financial infrastructure, due to their limited relevance for SME finance, they are not discussed in this report.

48 International Accounting Standards Board (2009). See iasb.org.

49 See the European Commission's consultations on the adoption of IFRS for SMEs (European Commission 2010).

50 La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1998), Rajan and Zingales (1998), and Beck, Levine, and Loayza (2000).

51 For more research on the respective roles and relative importance of public credit registries and private credit bureaus, please refer to: Love and Mylenko (2003), Djankov et al. (2007), Jappelli and Pagano (2005), World Bank Doing Business Indicators (2010) and OECD discussion paper on Credit Information Sharing which can be accessed at http://www.oecd.org/dataoecd/37/1/45370071.pdf

BOX 3.4 BASEL II AND SME FINANCE

The release of the final version of Basel II in June 2004 was preceded by several years of intense discussions and studies about its potential impact on the economy, particularly on SMEs. Some empirical studies supported claims that the risk-sensitive nature of Basel II would reduce the availability and increase the cost of finance for SMEs, in particular unrated SMEs, as banks would be required to hold relatively more capital for SME exposures.

In response, the Basel Committee made some specific changes to accommodate SME Finance. These changes included: (i) calibration of risk-weight functions in a way that, at a given probability of default, exposures to SMEs require relatively less capital than larger firms; (ii) introduction of a specific risk weight curve for SME exposures classified as retail; (iii) reduction of the risk weight for non-mortgage retail exposures under the standardized approach; and (iv) better recognition of credit risk mitigants, particularly collateral and guarantees.

The design of specific risk weighting formulas for SMEs was justified on the basis that SME and retail portfolios exhibit lower asset correlations compared to large firms, reflecting the importance of idiosyncratic factors in driving the default risk of small borrowers. Thus, the Committee believed that unexpected losses for SME and retail portfolios would be relatively lower, warranting lower risk weights. However, some studies have rejected the assumption that asset correlations consistently fall with firm size, classifying the special treatment of SMEs as excessive. This lack of strong empirical evidence supporting lower capital charges on SME exposures has been referred to as the main reason for the enactment of national Basel II versions that do not confer preferential treatment to SMEs (e.g., the United States).

The debate on the impact of Basel II on SME Finance has abated since the release of the final version of the Basel II Framework. The changes largely succeeded in addressing the main concerns about the potential impact of Basel II on SME Finance. Indeed, the impact studies of the Basel Committee have suggested that broadly speaking capital requirements for SMEs would not be significantly higher than those under Basel I. The impact of Basel II on SME finance will however ultimately depend, among other things, on the particular mix of obligors for any given bank in any given country. The results of the Basel impact studies were supported by other studies, which have also stressed that Basel II would provide incentives for banks to implement advanced risk management techniques that would possibly make SME lending easier, cheaper, and profitable.

Moreover, a study commissioned by the European Commission to assess the consequences of Basel II on the European economy, with particular attention to SMEs, did not anticipate an overall reduction in the availability of, and access to, credit. It concluded that the overall impact of Basel II would be positive for Europe's SMEs, despite possible variations across sectors, segments of SMEs, regions, and other dimensions.

Nevertheless, the impact of ongoing financial reform on SME lending remains to be seen. Renewed attention to the risks that banking regulation may pose for SME access to finance may be required.

Source: Jacobson, et al. (2004), Dietsch and Petey (2004), Saurina and Trucharte (2003), Altman and Sabato (2005), PricewaterhouseCoopers (2004)

(Figure 3.12). Moreover, in countries where financial information is available through credit bureaus, smaller firms report relatively lower financing constraints.[52] The existence of credit registries and bureaus seems to matter more in developing countries, suggesting a more important role for the government in promoting information sharing in these countries.[53] In transitional economies, the adoption of a credit reference bureau reduced obstacles in access to and cost of finance and increased use of external finance.[54] The development of credit registries and bureaus is particularly important for smaller firms, given the more severe problems of information opacity and asymmetry in these cases.

Effective collateral regimes contribute to SME finance by reducing the risks and losses of lenders. A well-functioning collateral regime entails a wide range of allowable collaterals (especially movable collateral), the establishment of clear priority rankings (clarifying the rights of secured creditors), efficient collateral registries (making priority interests publicly known), and effective enforcement of collateral in the case of default (both seizure and disposition). Efficient collateral regimes encourage lending by reducing the probability of default (by reducing adverse selection and moral hazard) and reducing losses of lenders given default.

Stronger creditor rights improve access to finance. As shown in Figures 3.13 and 3.14, countries with stronger creditor rights tend to have a higher number of loan accounts per adult population and also higher rates of private credit to GDP.[55] As in the case of credit bureaus, effective collateral regimes improve access to finance for all firms, but can prove particularly effective in improving access to SMEs. In countries with strong secured transactions regimes, asset-based lending technologies are facilitated.[56] Typically, SMEs have limited immovable assets but possess a wider range of movable assets. An effective secured transactions regime facilitates lending by using the available movable assets as collateral in loan contracts.[57]

Credit information and creditor rights remain relatively weak in developing countries, constraining access to finance in these countries. As indicated in Table 3.2, private bureau coverage has increased in all regions and is wider than public registry coverage. In general, however, credit bureau coverage in developing regions is much lower than the average of the OECD. Credit bureau coverage in Sub-Saharan Africa and in South Asia seems particularly weak. Lingering deficiencies in credit information are confirmed by the relatively low credit information index score for many emerging regions. Finally, creditor rights (measuring the strength of the collateral and insolvency regimes) are relatively strong in the OECD and ECA regions but weaker in the other regions, especially in MENA, Africa, and South Asia. In these regions, policy interventions that strengthen the financial information infrastructure have the potential to expand SME financial access by reducing information asymmetries between SMEs and financial institutions and by facilitating the use of various lending technologies. (Box 3.5)

52 Love and Mylenko (2003)

53 Djankov, McLiesh and Shleifer (2007).

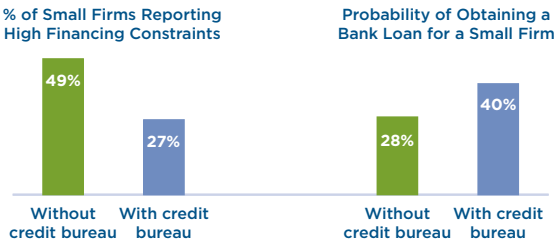
54 Brown, Jappelli, and Pagano (2009)

55 Also see Chong, Galindo, and Micco (2004)

56 Berger and Udell (2006)

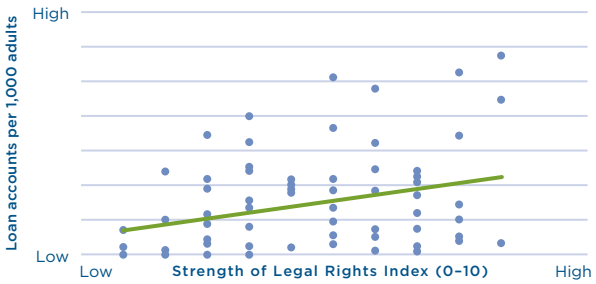
57 World Bank (2007)

FIGURE 3.12 EXISTENCE OF CREDIT BUREAUS AND SMALL FIRMS' LIQUIDITY CONSTRAINTS AND ACCESS TO FINANCE



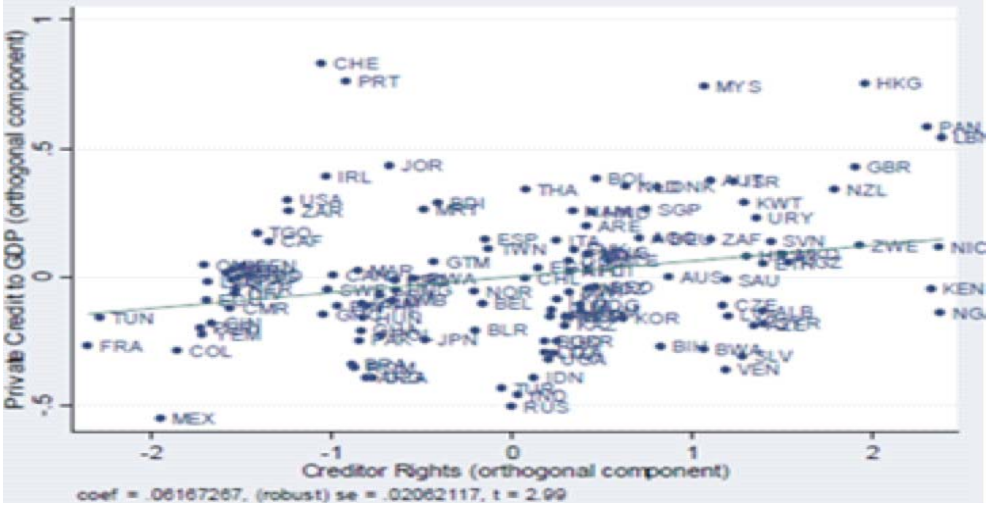
Source: Love and Mylenko (2003)

FIGURE 3.13 CREDITOR RIGHTS AND NUMBER OF LOANS



Source: World Bank Doing Business Indicators (2009) and CGAP Financial Access Database (2009)

FIGURE 3.14 CREDITOR RIGHTS AND PRIVATE CREDIT/GDP



Source: Djankov, McLiesh and Shleifer (2007)

3.3.3 FINANCIAL INSTITUTIONS CAPABILITIES AND DELIVERY MODELS

To a certain extent, weaknesses in the enabling environment for financial services can be mitigated through internal lending technologies that reduce information asymmetries, such as the traditional relationship lending model. Relationship lending still plays an important role in SME finance in many countries. Banks can reorganize themselves internally so as to develop the SME business and optimize the balance between risk, reward, and cost to serve, even in weak enabling environments. For instance, more effective business models for SME banking can be developed through a clear strategy, dedicated SME units with specialized staff, a standardized set of products to reduce cost to serve, internal credit scoring models, and a client relationship approach that does not focus on credit only but on the cross-selling of a mix of financial services beyond credit (Box 3.6).[58]

Relationship lending still entails high internal transaction costs, limiting financial institutions' ability to outreach to SMEs at acceptable rates. A weak enabling environment will ultimately limit the extent to which institutions may be able to expand finance to SMEs. For example, credit scoring technology can support the implementation of cost-effective delivery models that can mitigate risks, such as automation of credit underwriting, but the accuracy of these models depends to a large extent on a solid financial information infrastructure (Box 3.7).

On the revenue side, risk-based pricing models have allowed financial institutions to profitably serve SMEs by incorporating the associated risks

TABLE 3.2 CREDIT INFORMATION INFRASTRUCTURE AND STRENGTH OF LEGAL RIGHTS BY REGION

Region	Strength of Legal Rights Index (0–10)	Depth of Credit Information Index (0–6)	Public Registry Coverage (% of adults)	Private Bureau Coverage (% of adults)
Sub-Saharan Africa	4.6	1.5	2.4	4.5
South Asia	5.3	2.1	0.8	3.3
OECD	6.8	4.9	8.8	59.6
Middle East and North Africa	3.3	3.3	5.0	10.9
Latin America and Caribbean	5.5	3.3	10.0	33.2
Eastern Europe and Central Asia	6.6	4.0	9.7	19.4
East Asia and Pacific	5.7	1.9	7.2	14.4

Source: World Bank-Doing Business Database (2010).

58 De la Torre A., M. S. Martinez Peria, and S. Schmukler, 2009

BOX 3.5 INSOLVENCY REGIME FOR SMES

Extensive literature addresses the so-called "finance-growth nexus"[59], whereby a good financial system comprising factors such as an efficient and predictable bankruptcy system, positively correlates with economic growth and a reduction in inequalities between firms of different sizes.[60] Bankruptcy regimes feed into such an effective financial system, insofar as they regulate the efficient exiting of the market, and make the resolution of multiple creditors' conflicting claims more orderly, resulting in more extensive opportunities for recovery by both the bankrupt entity and its creditors.

Many countries have significant legal gaps such that insolvency frameworks are unable to deal with SMEs effectively. SMEs can be divided into two broad categories: corporates and non-corporates. Under most legal systems, corporates effectively limit the liability of shareholders to the amounts of their capital contributions to the business and, absent fraud or other mitigating circumstances[61], do not extend that liability to the ordinary debts of the business. Non-corporates, by contrast, do not possess a distinct legal identity from their shareholders and, as such, the debts of the business are the debts of the individual shareholders. Although the trend in insolvency reform has been towards the creation of a single, unified insolvency act that deals with all legal forms, most countries have not undertaken such reforms. In many common law countries that inherited the English legal framework, insolvency provisions are contained in the companies acts. The cumulative effect is that most legal systems either have severely outdated insolvency law provisions or have modern insolvency frameworks contained in companies acts that either do not apply to non-corporates and or contain outdated or nonexistent personal insolvency provisions.

For non-corporate SMEs, the absence of a personal or "merchant"[62] insolvency framework leaves the SME exposed on at least three critical fronts. First, SMEs that are fundamentally viable but find themselves in short-term liquidity crises have no safety valve for business distress. Where the legal framework is absent, the SME cannot seek temporary protection from its creditors, cannot propose a plan of reorganization, and cannot compromise debts in order to achieve greater returns to all creditors. Admittedly, the reorganization of an SME might be a rare event in most developed economies. However, this underscores the second problem, which is the absence of an efficient, orderly, and transparent liquidation process to repay creditors and return productive assets into the economy as quickly as possible.

Third, and perhaps more importantly, where the legal framework is absent, individual owners of SMEs cannot obtain discharge from the SMEs' debt. It is impossible to overstate the importance of this element. When an SME fails, its outstanding obligations will be the obligations of the individual entrepreneur, *in perpetuity,* unless specifically forgiven by creditors. This has created innumerable social problems in countries that have seen a dramatic increase in credit to individuals.[63] The absence of these effective exit mechanisms inhibits entrepreneurship, limits the entry of SMEs into the market, and imperils the ability of creditors to be repaid. Not only are productive SME assets locked in a legal limbo for a longer period of time, delaying creditor repayment, but the absence of a debt discharge effectively inhibits the entrepreneur from re-entering the marketplace. Studies have tested the hypothesis that personal bankruptcy regimes stimulate entrepreneurship. They demonstrate that bankruptcy laws have the most statistically and economically significant effect on levels of self-employment across countries, and that more "forgiving"[64] bankruptcy systems increase the supply of entrepreneurs.

Few countries have placed insolvency reform at the top of the policy agenda. Between 2004 and 2009, in every region of the world other than Eastern Europe, Central Asia, and the OECD countries, fewer than 25 percent of countries engaged

59 See for example, La Porta *et. al* (1998), Levine and Zervos (1998), Rajan and Zingales (1998), Beck and Levine (2004), Beck, Demirgüç-Kunt, and Levine (2004).

60 Beck and Demirgüç-Kunt (2006)

61 Many legal systems prescribe specific classes of debts for which an officer of the company might be personally liable. These usually relate to debts arising under extraordinary circumstances (such as money held in trust for third parties) and do not usually relate to ordinary debts of the corporation.

62 Some countries, such as Jordan, have specifically included a class of businesses, called "merchants," in their corporate insolvency law to extend that law to proprietorships.

63 The incidence of credit card debt in China has resulted in young entrepreneurs getting into severe debt, with the result being that debt collectors from banks are hounding them and their parents for repayment. See <http://edition.cnn.com/2009/BUSINESS/11/10/china.credit.debt/index.html>

64 Four dimensions are considered in assessing how "forgiving" a bankruptcy regime is: (i) availability of and time to discharge; (ii) exemptions; (iii) restrictions on debtor's rights during bankruptcy; and (iv) difficulty in reaching an agreement with creditors.

in insolvency reforms[65], a number that is dramatically lower if filtered for reforms materially impacting SMEs. Indeed, as noted in a report on the MENA region by the World Bank, OECD, and other partners, there has been a disproportionate focus on legal reforms relating to business entry and credit origination, without properly addressing the issue of exit.[66]

A modern framework for SME insolvency will start with legislation for corporate SMEs that will include "fast-track" and expedited bankruptcy provisions in unified or corporate bankruptcy laws. Additional frameworks for dispute resolution, such as mediation, might also be included to help improve efficiency.[67] For the vast majority that are non-corporate, however, this will involve entirely new legal frameworks for personal insolvency or dramatic updates to outdated personal insolvency legislation. In engaging in such reforms, countries may wish to distinguish between personal (i.e., household) debts and debts incurred by individuals on behalf of, or for the purpose of funding, SME activities. However, the act of distinguishing between such debts may be difficult and, if left to the courts, may exacerbate delays in resolving insolvencies.

Legislation on personal/SME insolvency will have a number of critical components. It should set out a clear and transparent process by which entrepreneurs can seek to rescue their troubled businesses (including stays of proceedings and methods for making proposals to creditors for plans of arrangement) and, should the business fail, will articulate a very clear method for liquidating the business, repaying creditors in a timely manner, and discharging the remaining debts.[68] There should be clear punishments for fraudulent behavior, such as the act of dissipating the assets of the business so that creditors cannot recover their claims and for negligently incurring obligations from creditors when the entrepreneur knew, or should have known, that the business was insolvent. These critical protections for creditors will help ensure that SMEs continue to be able to access credit at reasonable rates.

Legislation, alone, will not be enough and should not negatively impact access to finance. Although it has been noted that many countries have focused on business entry and credit origination, without adequately addressing exit, the new exit mechanisms for SMEs should not undo these access to finance reforms or unduly inhibit access to finance. Legislation must be balanced, as an insolvency framework for proprietorships cannot be achieved by legislation alone and there must be an equilibrium between debtor and creditor protection. Balancing legislation will require ensuring that entrepreneurs seeking the protection of reorganization procedures will assume the burden of making the *prima facie* case that the business cannot be reorganized. Where the business enters a reorganization process and the creditors do not approve of the business plan, it must be moved swiftly to liquidation so that creditors can be repaid as quickly as possible.[69] There will need to be severe penalties for fraud, to act as a disincentive to entrepreneurs for malfeasance or for "asset tunneling" (stealing assets from the business so as to defraud creditors). The rules of discharge will have to be clear and the debts that survive the discharge process should be well articulated. Creditors should also be given a chance to object to the debtor's discharge on clearly enumerated grounds, and there should be lifetime limits on the number of times an individual entrepreneur can go bankrupt. A range of other institutions must also be in place to ensure that the SME insolvency framework is properly implemented and does not harm the already fragile ability of small businesses to get credit.

First and foremost, this will require credit information bureaus. For instance, where lenders had access to comprehensive information, interest rates for SMEs increased by 5.4 percentage points (and for corporate firms, by 2.1 percentage points) in situations where a previous insolvency filing had already been made.[70] As such, a well-functioning credit bureau will be critical to ensuring that lenders do not unnecessarily scale back credit to SMEs. A good secured transactions regime is also important, as it will enable countries to focus their attention on developing bankruptcy regimes that provide flexible solutions for SMEs. Finally, a key component of the framework will be the insolvency administrators who deal with the debtors on a day-to-day basis. Efficiency in the personal insolvency framework will likely require

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65 Doing Business Database

66 Hawkamah Institute/World Bank/OECD/INSOL International, "Study on Insolvency Systems in the Middle East and North Africa", (2009).

67 Canada, for example, uses court mediation for small claims involving corporate entities.

68 Different countries take different approaches to the concept of discharge and the assets with which the debtor will be left after the process is concluded. These could be arranged along a spectrum from "most debtor-friendly" to "most creditor-friendly." What is most important is the clear articulation of the discharge rules and process.

69 Many models can be looked at in this regard, ranging from Canada to the U.K. to France.

70 Jeremy Berkowitz and Michelle White, "Bankruptcy and small firms' access to credit" 35 *RAND Journal of Economics,* (2004) 68–84 at p. 81

BOX 3.5 CONTINUED

debtors to seek the assistance of these individuals, who will help prepare the necessary financial information to submit to creditors for their approval in a reorganization. In a liquidation, they will work to ensure that the assets are sold for maximum value and that creditors are repaid as quickly as possible. This will require a cadre of trained professionals (usually accountants or lawyers). There is a trend towards the introduction of licensing requirements for such professionals (where they do not already exist) to ensure a certain level of skills and ethical behavior.

In addition to legislation, however, the necessary institutions that are required to implement the law will be critical. The so-called "implementation gap" (the gap between the quality of the legislation and the quality of the institutions that implement it) has been shown to have a significantly deleterious effect on the functioning of the overall insolvency framework. Reform of such institutions is a complex undertaking. Indeed, countries that have, for example, introduced specialized courts to deal with insolvency cases have found that these courts have very little positive impact unless they are well-funded and adequately resourced to fundamentally change how these cases are dealt with.[71] Efforts are underway in a number of countries to reduce dependence upon the courts by introducing frameworks for "out of court" solutions and for encouraging the use of mediation and other forms of alternative dispute resolution (ADR) to resolve insolvency cases.

into the pricing of various financial products. Experience suggests that effectively priced non-lending products are the major drivers of SME banking profitability, while loan products may be used to attract and retain clients. Typically, SMEs are willing to pay the risk-adjusted prices, as the financial products offered tend to be cheaper than alternative financing sources.[72]

Alternative lending technologies, such as project financing, leasing, and factoring can expand access to finance, but these technologies also depend on the legal and institutional framework, as well as the financial institutions' capabilities in using such products. For example, leasing cannot flourish when providers experience difficulties in repossessing the leased asset and disposing of the asset. Bankers may be reluctant to apply the concept of project finance in general, and especially with SMEs, for lack of technical understanding or perceived high risks.

A recent study by the IFC and Oliver Wyman suggests that about 80 percent of the SME Finance Gap can be directly attributed to the cost of distributing credit, although this figure varies by market. The findings of the study suggest that interventions that focus on reducing a lender's loss in the event of default are likely to have the largest impact on closing the SME Finance Gap (Box 3.8).

Financial providers can implement approaches and delivery models that help expand their set of SME clients, but the quality of the enabling environment will ultimately define the SME finance frontier. The SME Finance Frontier, or Productivity Frontier, defines the maximum number of SMEs that can be served prudently and cost effectively by financial institutions. Individual providers can achieve efficiency gains, both in terms of costs and risk management, and the collection of these individual efforts can expand the overall SME finance frontier to some degree. However, the expansion of the frontier will depend to a large extent on factors that are exogenous to the individual providers (Figure 3.15).[73]

3.4 Policy Interventions Designed to Expand SME Finance

Governments play a fundamental role in ensuring a supportive enabling environment and expanding the frontier for SME Finance. Ensuring a stable macroeconomic environment, an effective financial infrastructure, and a supportive legal and regulatory framework, is arguably the most important and

71 Uttamchandani et al. (2005)

72 IFC (2009)

73 Beck and De la Torre (2004)

effective contribution that governments can make to expand the supply of finance to SMEs. For example, in countries where public credit registries are the only source of credit information, government has a direct responsibility for ensuring maximum coverage of financial and non-financial institutions, extensive reporting of the relevant information, and easy access to credit reports. Government action is also fundamental in the regulation and supervision of private credit bureaus, ensuring effective credit reporting and curbing any abuse of market power (through regulation or promotion of entry and competition). Government may also play a critical role in ensuring a legal and regulatory framework that fosters financial development and competition. In some cases, it may also play a fundamental role in introducing technological platforms for some sources of finance, such as venture capital and reverse factoring.

Ensuring a supportive enabling environment is not a trivial task, as it frequently requires facing vested interests and, in some low and middle-income settings, also overcoming technical limitations. For example, government attempts to introduce

BOX 3.6 SME BANKING: BEST PRACTICES

Contrary to the conventional wisdom that banks are not interested in SMEs, studies have found that most banks in both developing and developed countries have SME clients.[74] The main driver for banks' involvement with the segment is the perceived profitability of this line of business. A majority of banks are setting up dedicated units and developing specific business models to target this segment. In most cases, the dedicated business units approach SMEs in an integrated way, offering them a wide array of products and services, such as deposit accounts, investment products, factoring, leasing, and international trade financing, , among many others. On the financing side, there are more products than just the typical loans offered through relationship lending. Box 3.6: Table 1 shows that the average number of deposit products varies between 5.3 and 10.6 for developed and developing countries, respectively. The number of credit products ranges between 9.4 and 18.7, while payment and other transactional products are between 7.7 and 16.9 for developed and developing countries, respectively. Each SME client uses an average of five deposit and credit products. The diversity and number of products is associated with the revenues that they generate. Box 3.6: Table 1 also displays the revenue breakdown by type of product. The table shows that credit generates only part of the revenue, 32 percent and 38 percent for developed and developing countries, respectively. The rest is divided between deposits and other products and services. In the case of developing countries, 29 percent corresponds to deposits and 32 percent to other products.

Bank headquarters typically design the strategy and the campaign in terms of which SMEs banks will target and what products they will offer to them. The products tend to be standardized or combined with some tailored products (Box 3.6 Figure 1), with the importance of tailoring rising with the size of the firm. Banks design products tailored to SMEs with similar needs, such as schools, fishing companies, and agricultural producers. The individual SME perceives the products as tailored to its specific needs, though these are frequently the same products with some degree of customization.

Banks that can sell these products on a large scale tend to benefit the most, by having branches and SME account managers that act as the "personalized" point of contact for SMEs while delivering mostly generic products that have been designed centrally at headquarters. Many banks, particularly the larger ones, have created business centers that service various branches within a geographic area. This helps them reduce costs by centralizing some functions that are subject to economies of scale, such as back-office functions. The account manager in a branch reaches out to new SMEs and manages the daily operations with existing SMEs, relying on the business center for specific back-office work.

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74 De la Torre, A., Martinez Peria, M.S., and Schmukler, S, (2010) and Beck, T., Demirgüç-Kunt, A., and Martinez Peria, M.S., (2010)

BOX 3.6 CONTINUED

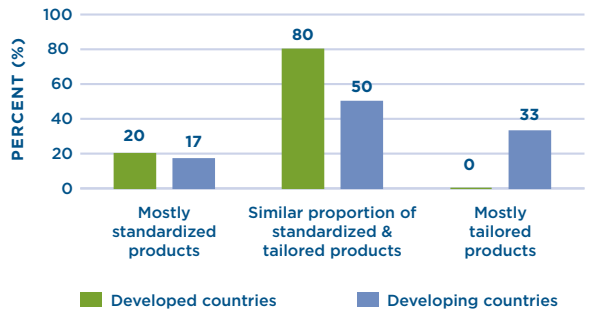
As they learn to deal with SMEs, banks are reorganizing their credit risk management systems, with a greater degree of sophistication among international banks and large domestic banks. In most large banks, and with the exception of pure credit scoring, credit risk management is not automated, often involving a credit risk analyst. Typically, risk management is a function that is organizationally separate from sales and is done primarily at headquarters (Box 3.6: Figure 2). The risk management department is given independence and strong approval and veto powers, an arrangement not typically found among small, niche, and public banks. While maintaining independence in judgment, risk analysts and managers work cooperatively with those who sell products and originate loans (e.g., the SME account managers in countries where business models are more advanced). In effect, risk analysts endeavor to train SME account managers and raise their risk awareness, so that the credit approval process is streamlined and the loan application has a higher likelihood of not being rejected later on by risk analysts.

BOX 3.6 | TABLE 1 PRODUCTS OFFERED TO AND USED BY SMES AND BREAKDOWN OF REVENUE GENERATED

CONCEPT	DEVELOPED COUNTRIES	DEVELOPING COUNTRIES
Average number of products offered to SMEs		
Deposit products	5.33	10.6
Credit products	9.38	18.7
Transactional products	7.67	16.9
Number of Products used per SME client		
Deposit products	2.75	2.29
Credit products	3.25	2.41
Breakdown of Revenue from SME segment by Product type (% of revenue)*		
Credit (%)	31.7	38.47
Deposit & Acc Mgt (%)	42.4	29.11
Other (%)	23.9	32.33

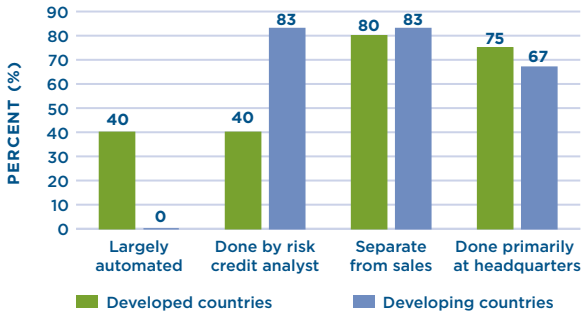
* The percentages across products do not add up to 100, as averages across banks and within banks are considered.

BOX 3.6 | FIGURE 1 STANDARDIZATION OF SME PRODUCTS



Source: Bank interviews conducted by the World Bank and the IFC

BOX 3.6 | FIGURE 2 RISK MANAGEMENT PRACTICES



Source: Bank interviews conducted by the World Bank and the IFC

BOX 3.7 CREDIT SCORING

Credit Scoring is a mathematical technique that uses historic credit data to predict a future outcome, typically the probability of default (PD). More commonly used in retail/consumer credit, the methodology has been adapted successfully for use with smaller SMEs where traditional financial analysis has proven to be unreliable. The technique involves the development of a mathematical algorithm, using characteristics of the borrower and/or his/her past repayment behavior, which produces a series of "odds," in the form of a score, that represent the probability of future repayment.

In the context of lending to SMEs, this technique is particularly valuable, as it is not only an objective measure of risk but also a means of establishing credit worthiness using a minimum of data that can be easily validated. While traditional underwriting techniques typically require extensive analysis of financial statements, which in the case of SMEs are often unreliable or need to be physically constructed by the loan officer, credit scoring uses a combination of simple predictive variables, including: length of time in business; nature of business; length of time with bank etc. These factors help generate a score that can be easily calibrated into an Accept/Reject cut-off strategy.

While it is unlikely that lenders in emerging markets would rely solely on a credit score to make a lending decision, these models can be effectively deployed as an early pre-screening tool to establish which applications to investigate more thoroughly and which to reject before having to investigate in depth. Credit scores are also ideally suited to partial automation of the lending process and have a tendency to improve the overall quality of lending decisions in environments where experienced human underwriters are hard to find. As such, they play an important role in reducing the average time to process applications and therefore the cost of acquisition, two key factors that deter lenders from servicing the SME market.

However, the methodology has its limitations, not the least of which is the availability of historical data from which to build the models. Most lenders are unlikely to have sufficient portfolio data, in particular the requisite number of "bad" accounts, for the model-building process to be statistically reliable. In these circumstances, one option is to deploy a generic model that has been proven to work in a similar environment, then fine tune the variables and points allocation over time in the light of experience.

Credit scoring is not to be confused with "credit rating" which, despite similarities, is typically deployed as a post-acceptance means of quantifying portfolio risk. Credit rating is typically performed on higher value loans to categorize exposures into buckets of risk. These risk buckets are then used for tracking portfolio quality over time and the allocation of specific provisions. Under Basel II principles, credit ratings would also tend to go further than simply calculating PD and would usually incorporate a measure of Loss Given Default (LGD), the net amount at risk after collateral has been liquidated, and Expected Loss, the probable ultimate loss dependent on the time the debt is crystallized.

BOX 3.8 QUANTIFYING THE POTENTIAL IMPACT OF INTERVENTION ON THE SME FINANCE GAP

The recent IFC / Oliver Wyman study developed a methodology to establish how much of the SME finance gap in any given market could be linked to the cost of lending in that market. The model first assumes that the price for debt charged by a rationale lender will be function of its costs, plus a reasonable return on capital. It uses a detailed understanding of these costs to calculate the maximum level of debt that the SME sector can — in theory — support, and compares this to the level of debt that is actually being provided to the SME sector, to calculate the SME finance gap. In the model, the cost of lending comprises operating and funding costs, as well as credit losses. Credit losses, in turn, are disaggregated into the number of customer defaults, and the lender's loss in the event of a customer default. The value of each cost component clearly varies by country, and therefore an aggregate picture of the actual cost of lending in each market can be built up using country specific data for each of these cost components. The model also assumes a best practice value for each cost component, drawn from Oliver Wyman's experience of leading lending institutions in mature SME markets around the world. The results showed that the majority of gap could be eradicated if lenders in each country were able to move towards a best practice cost base, and transfer these benefits through to the customer via prices.

Using a sensitivity analysis, bounded by the differences between the best practice and actual value of each cost component, the model quantifies the contribution of each cost component to the relative inefficiency of SME lending in each market. Although results differed slightly across the six markets (France, Kenya, Morocco, Philippines, Turkey,

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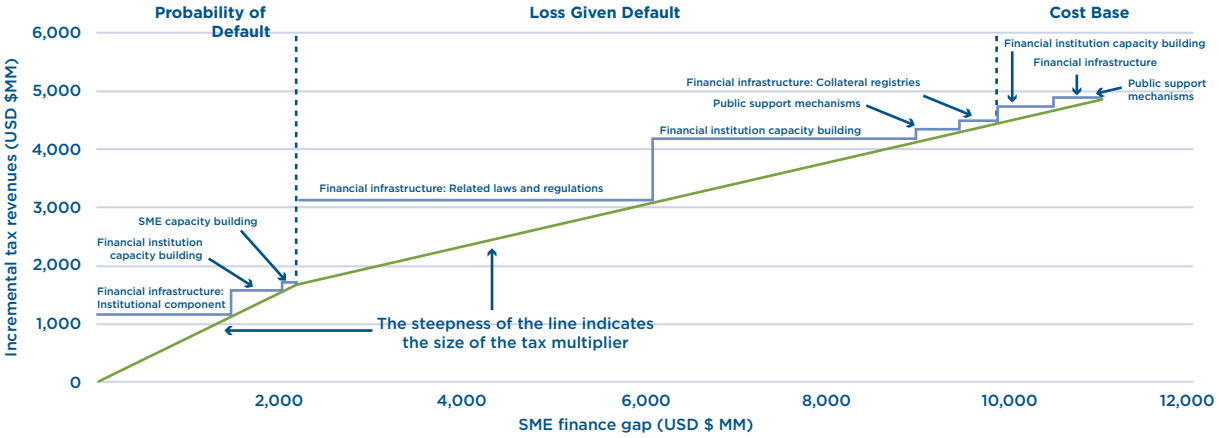
BOX 3.8 | FIGURE 1 SME FINANCE ABATEMENT CURVE



BOX 3.8 | TABLE 1 MAPPING WELL KNOWN BARRIERS TO SME FINANCE AGAINST COST COMPONENT, AND CLASSIFYING POTENTIAL INTERVENTIONS TO TACKLE EACH BARRIER

Cost component	Barrier to SME finance	Potential intervention	Description of potential intervention	IFC classification
Probability of Default (PD)	Asymmetry of information (e.g., lack of relevant credit information on SMEs)	Business registration	Streamline and standardize business registration processes Increase transparency of incorporation information to the general public	Financial infrastructure: Institutional component
		Credit bureau	Improve lender's access to historical delinquency and behavioral credit information, allowing more informed discriminate of good customers from bad	
		Accounting standards	Greater transparency and reliability of financial accounts would enable more robust risk assessments of SMEs to be undertaken by lenders and other creditors	
	Institutional capacity of financial intermediaries (e.g., no rating tools)	Technical assistance	To improve lender skill levels in credit risk measurement and management	Financial institution capacity building
	SME access to skills / knowledge / markets (e.g., low levels of financial literacy)	Financial literacy program	Promote understanding of financial markets, products and investments through financial education programs	SME capacity building
		Business advice networks	Provide advisory services for enterprises, assisting them in making good investment choices and entrepreneurial decisions	
Loss Given Default (LGD)	Legal environment (e.g., poorly drafted laws, and/or weak enforcement of them)	Creditor rights	Ensure creditors' rightful claims on assets to reduce losses during liquidation or bankruptcy proceedings	Financial infrastructure: Related laws and regulations
		Bankruptcy law	Improve efficiency of bankruptcy laws to ensure creditors' rightful claims on assets during bankruptcy	
		Property rights	Improve efficiency and ease of registering property and collateral	
	Institutional capacity of financial intermediaries (e.g., collection unit)	Technical assistance	To improve lender skill levels in product design, collateral management, collections, restructuring and recovery	Financial institution capacity building
	Public policy support (e.g., to stimulate private sector lending)	Guarantee schemes	Stimulate private sector lending by passing on a proportion of Loss Given Default to the scheme	Public support mechanisms
	Asymmetry of information (e.g., understanding which unencumbered assets are available as collateral)	Collateral registry	Improve access to information on collateral type and value	Financial infrastructure: Collateral registries
Cost base ▪ **Operations** ▪ **Funding**	High transaction costs (e.g.,due to limited scale of lenders, or lack of products tailored to needs of SMEs)	Technical assistance	To encourage best practices from around the world (in the absence of international competition within a local market)	Financial institution capacity building
	High fixed cost base (e.g., due to limited scale of individual lenders)	Infrastructure joint ventures	Share common platforms where this ensures scale benefits are maximised, but does not affect competition at front line	Financial infrastructure
	Underdeveloped local capital markets (e.g., for term local currency funding)	Bank funding schemes	Provide a low cost source funds to be distributed by lenders directly to SMEs (i.e., ring-fenced)	Public support mechanisms

BOX 3.8 CONTINUED

and UK) examined in the study, this analysis established that loss in the event of default typically has the highest influence of all the cost components, often accounting for the majority of relative inefficiencies. The likelihood of a customer default (more commonly known as the probability of default) was found to be the next most significant driver, while funding and operating cost components do not have as big an impact as the others.

The various barriers to SME finance have been well documented, and these can be mapped against each of the cost components contained within the model. It is possible, for example, to identify barriers that unnecessarily drive up a lender's loss in the event of default: these might include a legal environment that results in weak creditor rights, or a lengthy and unpredictable bankruptcy process. The study used this mapping, coupled with the results of the scenario analysis described above, to determine which interventions were likely to have the greatest impact on reducing the relative inefficiency of lending in each market, and hence close the SME financing gap. A simple tax multiplier was then used to estimate the second order benefits that an increase in SME finance — as a result of a successful intervention — would have on the economy. With this, a marginal abatement curve for each type of potential intervention was developed as illustrated in Figure 1 for Philippines.

mandatory data reporting to private bureaus may face opposition from powerful incumbents, which may not want to share information on their clientele. Private bureau legislation may also be blocked in legislative bodies due to concerns over data secrecy. Strengthening of collateral regimes may be hindered over concerns that debtors may become unprotected. Attempts to improve competition in banking systems may also be hindered by incumbents and concerns that the system is already overbanked. These constraints may delay significantly the pace of reform in some countries.

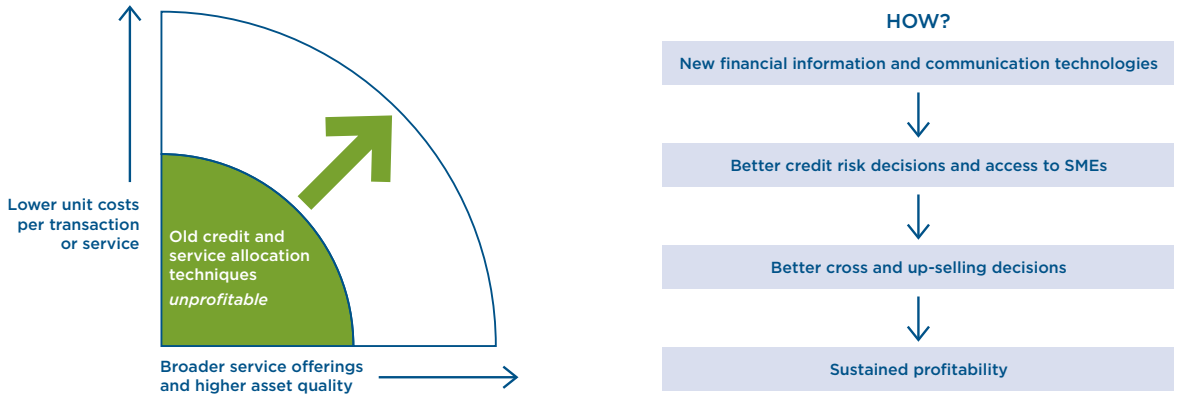
Even an effective enabling environment may not be able to ensure access to some target groups, especially start-ups and very young firms, without sufficient credit history or collateral. Young and small firms may have sound business plans and promising growth potential, but they may not have a sufficient credit history to be captured by credit reporting systems, or lenders may have lingering doubts about the quality of their collateral. SME lending also depends on internal credit and risk management capacity, and this may take time to build in some countries. Furthermore, SMEs may suffer a loss of access in periods of financial crisis, even in sophisticated environments.

Deficiencies in the enabling environment and residual market failures (such as enforcement difficulties, imperfect information, protection of depositors, and market power) have motivated government interventions in the SME Finance space.[75] Well-designed policy interventions may be justified in periods where the government is trying to strengthen financial infrastructure and the legal and regulatory framework. It may also be justified in cases where some groups remain difficult to reach, even when efficient financial infrastructure and regulations are in place. Interventions are warranted in period of crisis, where there is a systemic collapse of financial intermediation by private agents. Traditionally, such policy interventions have included partial credit guarantee schemes, direct lending facilities (sometimes entailing credit subsidies), and lending by state-owned financial institutions.[76] These interventions provide different combinations of liquidity and risk mitigation strategies and can be priced at or below market rates. The choice of instrument/intervention typically depends on the binding constraint in the respective environment. Whenever there is a subsidy component associated with these interventions, a consistent assessment of cost-benefit analysis of using subsidies is called for in order to minimize their potentially market-distorting consequences.

75 Besley (1994)

76 The World Bank (2008) provides a review of some of these interventions.

FIGURE 3.15 THE SME FINANCE PRODUCTIVITY FRONTIER



Source: IFC

Partial Credit Guarantee (PCG) schemes are operated by a large number of countries around the world. In developed countries, such schemes have been operational for over four decades, while their use in developing countries is fairly recent. In PCG schemes, loans offered by a financial institution to the borrower are partly guaranteed by a third party (typically a government agency) subject to the payment of a premium and other rules and conditions. When default occurs, the lender is compensated by the guarantor as per the initial agreement.[77]

PCG schemes are considered one of the most market-friendly types of interventions. Unlike other types of interventions, they may generate fewer distortions in the credit market and are more consistent with a well-functioning banking system.[78] PCG schemes may prove an effective vehicle for reaching underserved groups such as start-ups and small firms. They may also generate positive externalities by encouraging banks to get into the SME market, and improve their lending technologies and risk management systems. Historically, PCG schemes have been used for countercyclical purposes, as with the case of Korea, illustrated in Figure 3.16. The recent financial crisis highlighted the importance of this countercyclical role — several governments (including Canada, Chile, Germany, Korea, the Netherlands, and Malaysia) scaled up their guarantee schemes or introduced new and special schemes to soften the impact of the credit crunch on SMEs.

PCG schemes may add limited value and prove costly when they are not designed well. PCGs differ significantly in fundamental design features, such as eligibility criteria, fees, coverage ratios, and payment rules. Loose criteria, low fees, and overly generous coverage ratios and payment rules may result in the provision of guarantees to enterprises that would have obtained credit anyway. They may also result in financial imbalances requiring large and recurrent government contributions. Although country studies have found evidence that some of these schemes alleviate SME finance constraints, measuring the additionality of PCGs accurately remains technically challenging. More research on PCG schemes is warranted, as this is one of the interventions that can contribute to promoting access while minimizing distortions in the marketplace.

77 Beck, Klapper, and Mendoza (2008) provide an overview of PCGs based on a worldwide survey. Saadani, Arvai, and Rocha (2010) provide an overview of PCGs in MENA based on a recent regional survey.

78 Beck and De la Torre (2006).

Direct lending to SMEs, which may be subsidized, can take several forms, including provision of lines of credit to financial institutions and co-financing facilities. Some governments impose quotas on bank lending to SMEs or offer lines of credit through SME agencies or development banks to retail banks for SME lending. These lines of credit may entail co-financing arrangements. International organizations also offer concessional loans to governments to support bank lending to SMEs, usually channeled through an SME agency or state bank. These lines of credit usually entail conditions to strengthen the capacity of financial intermediaries and prevent market distortions.[79] More recently, equity funds supporting SMEs have been developed by some governments, typically focusing on fast growing young and technology sector firms.

There is evidence that some of these programs have alleviated credit constraints, but there are also unsuccessful experiments, and the impact of many of these interventions has not been properly evaluated. Research on some of these schemes has shown that they can release constraints and promote enterprise growth, rather than substitute for subsidized credit.[80] However, some programs can prove costly and be politically captured, especially when they involve subsidies.[81] Thus far, there has not been sufficient research on the impact of the variety of directed lending programs implemented worldwide. This is especially the case of programs that entail lending quotas at below-market rates, and where there is a less transparent element of cross-subsidization from non-favored sectors.

State-owned financial institutions have been used in many countries to serve the SME sector. Surveys conducted by the World Bank show that state-owned banks have played an important role in SME finance in many countries.[82] These have included commercial banks, development banks, and banks specialized in SME Finance. In contrast with credit guarantee schemes, however, the risks associated with more direct interventions such as state-owned banks are higher. The same surveys show that state banks have, on average, weaker risk management systems.[83] Empirical research indicates that state banks in developing countries have not performed well in general and have negatively impacted economic and financial development.[84] Research also shows that state banks provide political patronage and that their lending is correlated with the election cycle.[85] There are many cases of state banks that are subject to systematic political interference and that have to be recurrently recapitalized at a high cost to taxpayers. At the same time, some countries seem to have been able to introduce reasonable mandates and governance structures to state banks.[86] Indeed, there is some research that indicates that once public banks are provided with the right incentives they can play a positive role in mobilizing savings and reducing credit pro-cyclicality.[87] In addition, state banks have played an important countercyclical role in the recent financial crisis in many countries.

While state-owned financial institutions may play a useful complementary role in the provision of credit to SMEs, a review of the more successful cases shows that the preconditions for sustained positive

79 The World Bank's policy on lending to SMEs through financial intermediaries highlights that the ultimate goal is for financial intermediaries to raise funds on a self-perpetuating and growing basis. This requires the development of market sources rather than continued dependence on official lending with sovereign risk cover. The World Bank's policy on financial intermediary lending also establishes eligibility criteria to assess participating financial institutions, including portfolio quality, capacity domestic resource mobilization, managerial autonomy and appropriate prudential policies and business procedures while providing guidance on directed credit and subsidy issues to ensure that the line of credit does not create market distortions.

80 Banerjee and Dufloe (2004).

81 Adams, Graham and Von Pischke (1984).

82 Beck, Demirgüç-Kunt, and Martinez Peria (2008) and Rocha, Farazi, Khouri, and Pearce (2010).

83 Rocha, Farazi, Khouri, and Pearce (2010).

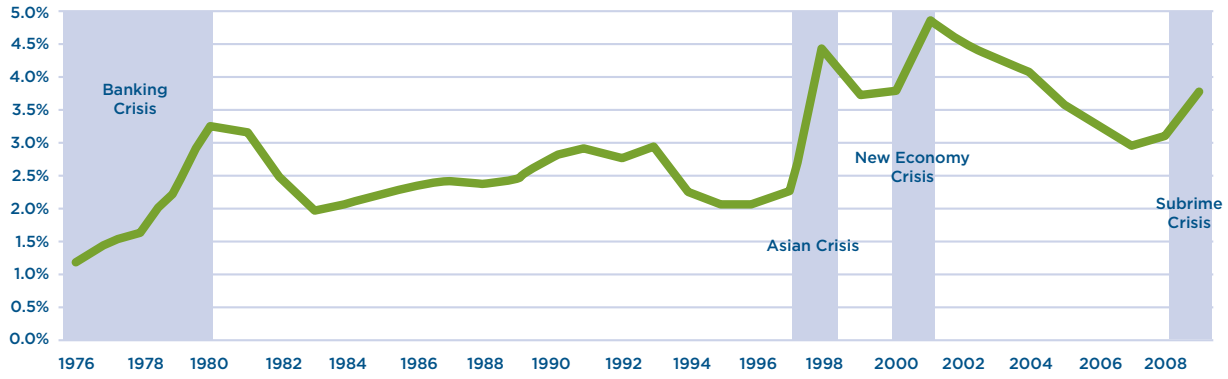
84 Micco, Panizza, and Yañez (2007) show that state-owned banks tend to have lower profitability, higher overhead costs and higher NPLs when compared to private banks. La Porta, de Silanes and Shleiffer (2002) find that government ownership of banks is associated with slower subsequent financial development and economic growth.

85 Sapienza (2004), Khwaja and Mian (2005), Micco, Panizza, and Yañez (2005), Dinç (2005), and Cole (2008).

86 Rudolph (2009).

87 Levy Yeyanti, Micco and Panizza (2006) examine a database of Latin American banks and conclude that not all state banks have performed poorly.

FIGURE 3.16 KOREA GUARANTEE SCHEME (KODIT) — OUTSTANDING GUARANTEES (% OF GDP)



Source: Based on raw data from KODIT

outcomes can be demanding. The successful cases usually entail legislation specifying clear mandates, establishing sound governance structures with independent boards, and imposing clear performance criteria. In some cases, specific legislation or board directives stress that the bank will not compete directly with the private sector but will fill remaining gaps and target the segments that remain underserved. These banks may have a mandate to serve SMEs, but are essentially run on a commercial basis. Not all countries are able to replicate these conditions.[88]

Government may play a role in building the capacity of financial institutions to serve the SME sector, frequently with the assistance of international organizations. For many international organizations, institutional capacity building has been a significant component of their SME finance assistance strategy, wherein assistance is provided to financial institutions in understanding the needs of the SMEs, developing appropriate structures/products for servicing the SME clients, training staff and management in SME financing, and managing information and knowledge efficiently. Over the years, IFC has been effectively providing advisory services and capacity building programs for financial institutions, which should be further scaled up in order to provide sustainable financial services to SMEs. In addition, the capacity building of SMEs themselves (financial education, assistance in the development of business plans and loan applications) is important, although this is not the focus of this report.

88 Rudolph (ibid)

CHAPTER 4
Exploring Various SME Finance Models

As part of the SME Finance work plan, and as a complement to the literature and evidence review conducted in Chapters One through Three of this report, the FIEG SME Finance sub-group has developed a comprehensive collection of successful models that can maximize the deployment of private sector resources on a sustainable and scalable basis. The models were identified and analyzed between January and March 2010, under the leadership of the sub-group co-chairs. Members of the FIEG, other OECD country representatives, and bilateral and multilateral development finance institutions have contributed a total of 164 models of SME finance interventions, covering the following:

- Legal and regulatory interventions that enable SME access to finance;
- Financial infrastructure components designed to help address information asymmetry and reduce transaction cost;
- Public support mechanisms to foster SME financing; and,
- Private sector models suited to provide sustainable financial services to SMEs

4.1 Stocktaking Exercise Methodology

Five criteria have been used to evaluate the relevance of the submitted models in the context of the FIEG objectives:

- **Leverage:** Models should maximize the leverage of public interventions — if any — in catalyzing private SME finance to a maximum number of firms.
- **Scale and Sustainability:** Models must credibly demonstrate either existing relevant scale or potential to be scaled up over the long term, and must be able to function on a sustainable basis.
- **Replicability:** Models should be able to prove their potential to be replicable in other countries and contexts.
- **Results and Track Record:** Models should have a clear and measurable financial access impact on SMEs, as demonstrated by the results from pilot or empirical testing.
- **Implementation Capacity:** Models must have a realistic time frame for implementation and be suited to the technical, legal, and financing capacity of the IFIs.

A standardized template has been designed for the purpose of this exercise, with a view to capture as comprehensively and accurately as possible the key features and data points needed for the evaluation of a given model across the five dimensions (Table 4.1). Although SMEs require a variety of financial services, the main focus of the stocktaking exercise is on lending/credit services rather than on the other types of financial services.[89] Nonetheless, some of the stocktaking models cross-sell financial products, while others provide only credit services.

The comprehensive list of all collected models with a summary of the key descriptive information relevant to each model is provided in Annex C.[90] For the purpose of this report, and particularly for Chapter 4, the words "model" and "case" are used interchangeably.

The stocktaking exercise is designed to illustrate objectively a broad range of current practices and features in the SME finance space. It does not attempt to be an academic exercise or a comprehensive inventory of SME

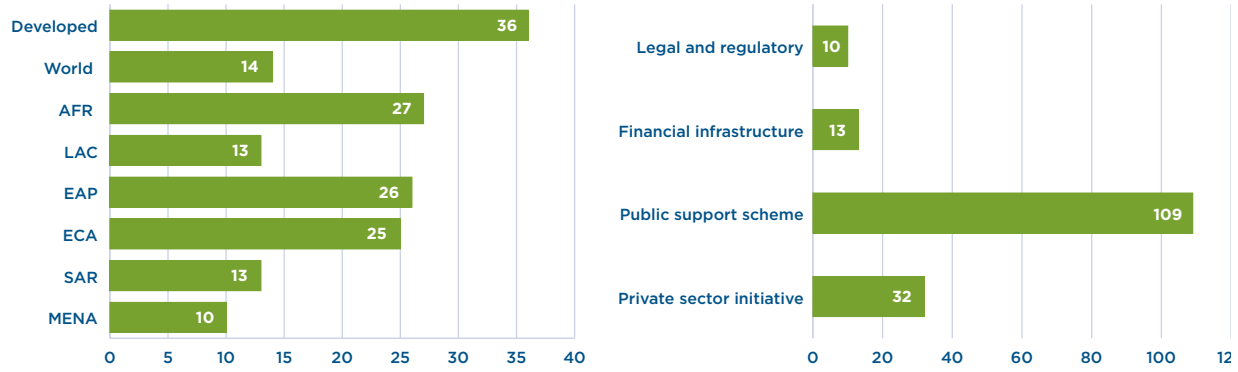
89 Tables, figures, and boxes in this chapter are based on the data from the G-20 SME Finance Stocktaking Exercise, unless otherwise stated.

90 Annex C attached separately.

TABLE 4.1 STOCKTAKING REPORT TEMPLATE

Stocktaking Exercise Template: Case Information Requested	
Basic Information	▪ Name of the initiative ▪ Implementing parties ▪ Year started ▪ Targeted SME sector ▪ Category of information ▪ Summary of initiative and results achieved ▪ Links to background research
Model Description	▪ Initiative background and rationale ▪ Objective ▪ Description of the mechanism: ▫ Sources of public and/or private sector funding ▫ Performance of mechanism in leveraging public funding to facilitate private financing ▪ Pricing policy ▪ Results: ▫ Timeframe for results ▫ Amount of financing facilitates to date ▫ Number of SMEs reached to date ▫ Cost benefit: (i) For public initiatives: amount of public funding needed per USD 100 of financing to one SME; (ii) For private initiatives: total private investment, break-even period, and internal rate of return (IRR). ▫ Expected results by end of the initiative
Key Success Factors, Scalability and Replicability	▪ Description of success factors based on categories, and scalability and replicability opportunities

FIGURE 4.1 COLLECTED SME FINANCE MODELS BY TYPE OF INTERVENTION AND REGION



Source: G-20 SME Finance Stocktaking Exercise 2010

finance experiences worldwide. It should be further noted that the case collection captures a small sample of actual SME finance models worldwide and, as a result, the composition of cases from the stocktaking might not match the global composition of mechanisms and experiences. The purpose of the stocktaking is not to advocate for specific SME finance models and policies. Rather, the stocktaking is aimed at gathering and presenting valuable insights on SME finance, based on the set of criteria mentioned above, and serving as resource for the G-20 in expanding SME finance practices.

4.2 Overview of the Case Collection

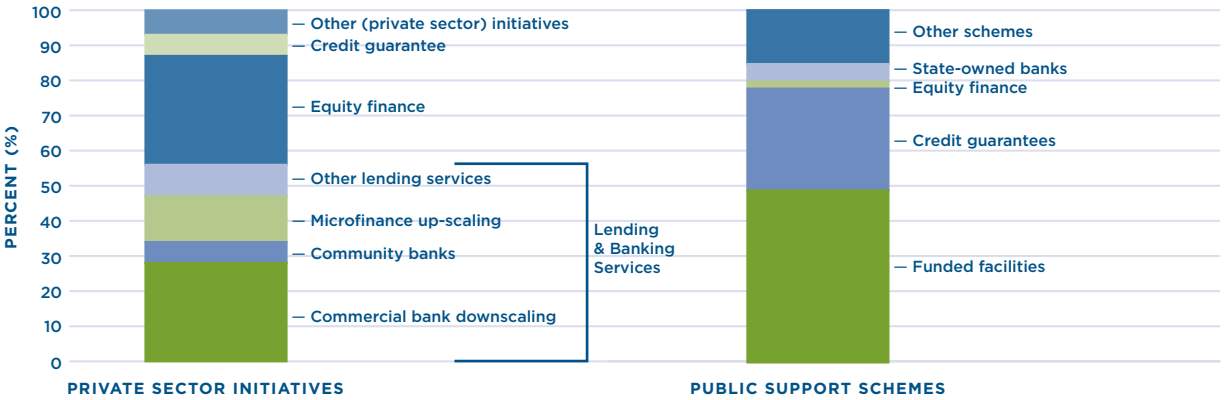
As a part of the stocktaking exercise, 164 models of SME finance interventions have been gathered. Collected models represent all regions of the world and display a balance of developed and developing country cases. Models implemented in developed economies represent the largest share of the collection, followed by models in the East Asia and Pacific region and the Africa region. The cases include single, multi-country, regional, and multi-regional models (Figure 4.1).

The database of collected models provides an excellent overview of a wide range of SME finance mechanisms and policy interventions implemented in various countries and regions. The mix of submitted models seems fairly representative of the four main categories of interventions described earlier (Figure 4.1). Public support schemes and private sector initiatives are the most widely represented categories, accounting for 86 percent of collected models. A broad range of initiatives are included under each category, and the cases are further classified by sub-categories (Figure 4.2).

Legal and financial infrastructure initiatives are the least represented cases in the collection. While good legal frameworks and financial infrastructure set the necessary pre-conditions for SME finance to flourish; they take longer time to implement compared to other initiatives and thus may be relatively less preferred forms of interventions in the SME finance space.

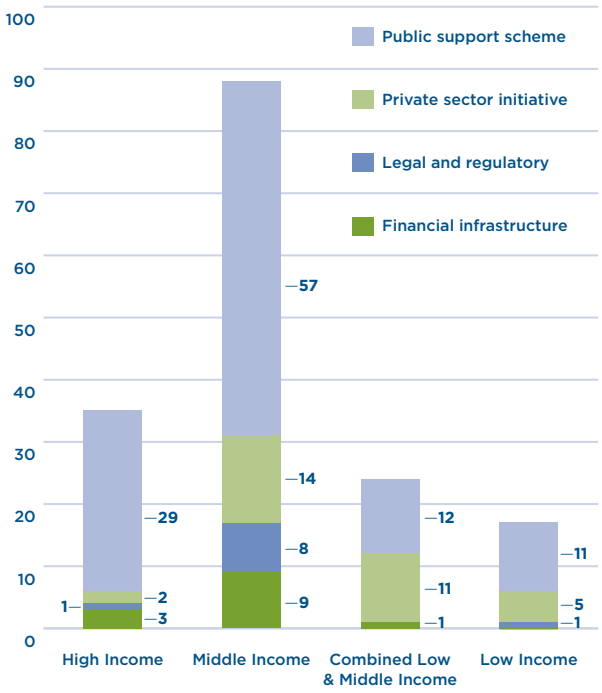
Private sector initiatives and providers of financial services are primarily represented by banking services and equity finance, and account for 20 percent of collected models (Figure 4.2). Lending and commercial banking services represent the primary channel for SME financing. Given the important role of commercial banks in the SME finance space, as well as the different types of banking services provided under the stocktaking, initiatives under the

FIGURE 4.2 PUBLIC SUPPORT SCHEMES AND PRIVATE SECTOR INITIATIVES BY SUB-CATEGORIES



Source: G-20 SME Finance Stocktaking Exercise 2010

FIGURE 4.3 NUMBER OF CASES PER COUNTRY CLASSIFICATION



Source: G-20 SME Finance Stocktaking Exercise 2010

banking services sub-category have been further divided into four types of models: commercial banks that are down-scaling to SMEs; microfinance institutions up-scaling to SMEs; community banks; and, other lending services targeting SMEs.

Public support schemes are the most widely represented models in the collection, with 66 percent of cases (Figure 4.2). Under this category, funded financing facilities and credit guarantee schemes supported by the public sector represent the largest share of submitted initiatives. These models appear to be governments' preferred SME finance interventions, as government sources submitted 70 percent of such cases. Funded and guarantee facilities are primarily implemented at a country level, although there are various initiatives at a regional and multi-regional level involving the support of development agencies. Other public support models include state bank initiatives, equity investments, and institutional capacity programs, while models designed to strengthen the enabling environment include credit and collateral registries and regulatory reforms.

TABLE 4.2 OUTREACH DATA: ILLUSTRATIVE EXAMPLES

Category and Sub-category	Name of Initiative	SME Outreach
Financial infrastructure: Credit bureau	Egypt's I-Score Credit Bureau	45,000
Legal and regulatory: Financial sector law and regulation	Pakistan's Prudential Regulation for SMEs	60,000
Public support scheme: Credit guarantee	India's Credit Guarantee Trust Fund for Micro, Small, and Medium Enterprises	250,000
Public support scheme: Funded facility	China's Commercially Sustainable Micro and Small Business Finance	35,000
Private sector initiative: Commercial banking	ProCredit Bank Bulgaria	160,000

Note: This table is not meant to be comparative. By nature, different kinds of mechanisms address different financing needs and have varying levels of outreach.

Source: G-20 SME Finance Stocktaking Exercise 2010

Initiatives located in middle-income countries (MIC)[91] represent the largest share of cases in the stocktaking (54 percent), while initiatives in low-income countries (LIC) are the least represented (10 percent). The higher percentage of models in middle- and high-income countries may suggest that initiatives in these nations tend to be more effective and/or successful due to stronger enabling environments, greater macroeconomic stability, and more business opportunities relative to LIC. However, G-20 donors and development agencies account for the large majority of case-submitting entities, which may have led to a higher number of submitted cases in MIC. As illustrated in Figure 4.3, MIC cases represent the highest share in every category (i.e., legal, financial infrastructure, private sector, and public schemes), while case sub-categories present varied results. For instance, guarantee schemes from the sample are evenly distributed among high-income countries (HIC) (47 percent), and MIC and LIC (53 percent combined). Meanwhile, funded facilities are primarily implemented in MIC (62 percent), suggesting that developing economies rely more on direct support relative to HIC. Initiatives with grants or subsidy components are also more widely found in MIC (80 percent of cases), followed by HIC (14 percent) and LIC (7 percent). While the lack of LIC cases including subsidies or grants may suggest that such models have a lower probability of success relative to similar models in MIC or HIC, it is difficult to draw conclusions based on the collected sample and the nature of the stocktaking exercise.

There is still a long way to accurately quantify the performance of the proposed models in terms of outreach, sustainability, and leverage. It has been difficult to quantify outreach in a way that can be benchmarked across models. For instance, the development impact of an SME credit guarantee facility would be measured on number of SMEs reached. In contrast, the development impact of equity funds that select only high-growth SMEs are not measured by the number of firms reached but by the financial performance of the fund, job growth at investee level, and firm development impact such as benefits of better governance and management of social and environmental risks. But even across similar initiatives, comparisons are difficult given that collected mechanisms have various maturities, operate in different environments, and cater to different target segments under the generic SME umbrella. Even when outreach, sustainability, and leverage data are provided, it is often difficult to draw conclusions in the absence of thorough impact evaluations (Table 4.2). This chapter does not set out to identify good or poor practices, but instead draws key lessons from the qualitative comparison of models inside a given category of interventions. The purpose is to highlight initiatives that seem particularly promising, while keeping in mind the information weaknesses described above.

The remainder of this section of the report discusses qualitative findings drawn from the collected SME finance models. The discussion starts from the perspective of the providers of financial services to the SME segment, and explores what models have been deemed successful and why. Next is an examination of the few enabling environment initiatives (legal and regulatory, financial infrastructure) that may have helped these providers of financial services reduce information asymmetry and transaction costs, leading to an expansion of the SME finance frontier. The section also explores the 109 submitted examples of government and development interventions representing the large majority of the collected models, which suggest that SME finance support can effectively address weaknesses and possible market failures in that space when the support is well designed. Finally, the analysis takes a more specific look at initiatives that address more specific gaps in the SME Finance space and present features that may warrant further analysis.

91 Classification of countries follows the World Bank definition based on per capita income. The cutoffs in U.S. dollars as of 2010 were: low-income countries (LIC), USD 995 or less; middle-income countries (MIC), USD 996 to USD 12,195; high-income countries (HIC), USD 12,196 or more. These cutoffs are updated annually.

4.3 Primary Providers of Financial Services to SMEs

Eighteen of the models in the stocktaking exercise describe direct providers of financial services to the SME segment within the category of private sector initiatives, including:

- Full-fledged commercial banks that have successfully down-scaled toward the SME segment;
- Micro-finance institutions that have successfully up-scaled to serve the needs of the SME segment;
- Community banks, whose shareholders (including the State) may have a primary interest in economic development in addition to pure economic profit; and,
- Private equity/venture capital funds.

Some models may have features that fall under more than one of these sub-categories. In such cases, team judgment was used to classify the models on a best-fit basis. Because this report classifies state-owned banks and development banks as support mechanisms in the SME finance space, submitted cases are discussed under public support schemes (section 4.5).

4.3.1 COMMERCIAL BANK DOWN-SCALING

Nine commercial bank cases with significant outreach to SMEs from developed and developing countries were submitted to the stocktaking exercise. Seven of the models operate in emerging markets, one operates in a developed country, and one is implemented at a global level. These models suggest that private sector players are finding effective solutions in reaching to the SME segment, which was previously perceived as risky and too costly to serve. Based on distinct characteristics resulting from the environment in which they operate, these banks are classified into two types:

1. Developed country banks, which leverage robust local enabling environments and information technology to reach SME clients and overcome information asymmetry. They use innovative systems and approaches for client acquisition, assessment, and servicing, and rely on limited external support from governments and IFI/DFIs. To assess SME risk in a cost-effective manner, banks such as Wells Fargo and Standard Chartered Bank rely on proprietary credit scoring models and differentiated credit processes.

2. Emerging market banks, which tend to follow more traditional banking models with no differentiated strategy for SMEs. These banks operate within limited financial infrastructure and comparatively weaker regulatory environments, and typically rely on DFI support through loans, institutional capacity, and technical assistance to expand their access to the SME segment. This is reflected in the cases of Banque Nationale de Développement Agricole in Mali and Cooperative and Rural Development Bank in Tanzania. However, some banks in emerging markets, such as ICICI Bank in India, show similar features to developed country models, making use of innovative methods to reach out to SME clients.

Of these nine models, three private bank examples have been particularly successful in down-scaling to the SME market and have achieved strong levels of outreach, scale, and sustainability, despite operating in very different environments. The three models leverage their respective core competency and adapt to their local environment to effectively serve SMEs. Wells Fargo operates in the United States and is able to rely heavily on transactional lending (e.g., through the use of technology and credit scoring systems), leveraging on available credit bureau information, and a relatively strong enabling environment. ICICI Bank, on the other hand, operates in India and primarily follows a relationship lending strategy (e.g., evaluating risk through a combination of financial and nonfinancial parameters) in order to overcome deficiencies in its enabling environment. Standard Chartered, which has operations at a global level, adapts its lending technology to local conditions while seeking to follow a consistent, over-arching strategy. As a result of the different environments in which it operates, Standard Chartered

BOX 4.1 THREE APPROACHES TO SME BANKING

Initiatives: ICICI Bank, Wells Fargo, and Standard Chartered Bank

ICICI Bank was initially founded as a development financial institution in India in 1955 and today it is the largest private sector bank in the country. ICICI is implementing its SME banking model in India despite a weaker environment and relatively poor financial infrastructure. ICICI's model is based on an effective segmentation of the SME market by industry and business linkages, a proprietary 360-degree credit risk evaluation covering financial and non-financial parameters to compensate for SMEs' lack of financial information, and a "beyond lending approach" that relies primarily on deposit products and other banking services for SMEs (95 percent of SME clients) rather than only on lending products (5 percent of SME clients). Client servicing is done though multiple channels: relationship managers, doorstep banking, branches, Internet, and automatic teller machines (ATMs), relying primarily on cost-efficient, technology-based channels.

Wells Fargo, founded in 1852, is now one of the five largest banks in the United States. Wells Fargo decided to enter the SME market space by initially following a learning approach and building a foundation of SME client understanding. The bank has capitalized on a strong enabling environment in the United States, making automated use of personal and business credit reports to assess SME risk and relying on an effective legal system that enforces creditors' rights. In 1992, Wells Fargo pioneered the use of credit scoring systems for small businesses. Today, two thirds of Wells Fargo's revenues come from its Commercial Banking Group, which serves consumers and small businesses. The bank manages SME credit risk through a total portfolio approach instead of the more traditional individual loan approach, making use of statistical methods that tolerate losses similar to consumer lending. Automation is a key for efficient cost management and fast customer response: credit reports and scoring, a large percentage of credit decisions, and customer communication are automated. Customer acquisition is done via branches and direct marketing, which also keep costs low.

Standard Chartered Bank was formed in 1969 from the merger between Standard Bank of British South Africa and Chartered Bank of India. In 2002, Standard Chartered implemented a client-centric model on a global scale, separating its SME banking operations as a distinct business within the consumer bank unit, with its own resources and credit processes. Today, the SME banking business unit operates in over 30 countries. Income from SME banking has grown nearly four-fold over the last 5 years. SMEs are sub-divided into small businesses (SB) and medium enterprises (ME). Credit processes for SB follow a more standardized program lending approach, whereas ME credit processes are modeled after wholesale banking. The bank follows three customer acquisition and servicing approaches: larger MEs are served by relationship managers, middle-sized SMEs are managed by a portfolio team via a mix of salespersons and virtual relationship managers, and smaller SBs — whose needs are more similar to those of individuals — are serviced by branches. Standard Chartered has a program to assist SMEs in their cross-border trades and expansion plans, and the bank manages costs by leveraging extensively on systems, infrastructure, and resources across both consumer and wholesale banking.

	SME Outreach	SME Financing Facilitated (USD)	Average Loan Size (USD)
ICICI	946,000	3,000,000,000	3,171
Wells Fargo	764,200	20,200,000,000	26,433
Standard Chartered	550,000	13,300,000,000	24,180

uses a mix of relationship lending (primarily) combined with some transactional lending. Box 4.1 presents the different approaches for profitable SME banking followed by these three banking models.

The cases include several banking initiatives that address specific SME sub-segments, such as gender financing, supply chain, and sustainable energy financing. These models are largely mainstreamed into SME banking practices, but they can also cut across different categories of interventions in this report, including commercial banking, community and state banks, and public support-funded facilities. Banking initiatives targeting specific SME segments or addressing specific gaps in SME finance are discussed in section 4.6.

4.3.2 MICROFINANCE INSTITUTIONS UP-SCALING

The stocktaking includes four cases of microfinance institutions (MFIs) that are up-scaling their models to address the SME segment in developing markets. These institutions have modified their microfinance business models to incorporate SME operations by taking advantage of their market knowledge and network, and by adapting their microfinance methodologies. Models from the stocktaking include three multi-regional models, and one local model in Bangladesh.

The models share a common objective based on socially responsible and profitable banking, targeting primarily microfinance entrepreneurs. The ProCredit Group and Access Holding models are both internationally established models implemented in multiple regions and countries. Two of the submitted cases refer to ProCredit models in Latin America and Bulgaria. BRAC Bank in Bangladesh is largely owned by one of the largest non-governmental organizations (NGOs) in the world, the BRAC NGO, which is known for its microfinance support. ProCredit and Access banks are integrated under their respective international holding companies and leverage group experience and synergies. Both holding companies support their group banks by providing equity capital, technical assistance, and guiding business principles. BRAC Bank, a commercial bank focused on the lower segments of the population, is modeled on collateral free SME lending and community development through a wide distribution network, including remote rural areas. While the SME segment is BRAC's main target market, the bank's major shareholder, BRAC NGO, supports primarily micro-entrepreneurs, resulting in the case's classification under MFI up-scaling. Box 4.2 presents a comparison of the three microfinance models in the stocktaking.

All stocktaking cases of MFI up-scaling rely heavily on IFI/DFI support in their start-up phase. The IFI/DFI support is particularly needed in adapting the MFIs' lending technologies to serve the new clientele, as well as in building the financial institutions' capacity in staff training and information management. In the case of BRAC, the bank's second and third largest shareholders are Shorecap International Limited and IFC, with 7 percent and 5.8 percent ownership respectively. ProCredit bank models from Colombia, Honduras, and Mexico were established with equity investments from the Inter-American Development Bank (IADB), and Access Holding has investments from EIB (European Investment Bank) and committed investments from CDC (Citizens Development Corps.), IFC, and the German development bank KfW.

Sample commercial banks that are down-scaling and sample MFIs that are up-scaling to SMEs lean towards different ends of the SME spectrum, based on their strategies and core operational competencies. Up-scaling MFIs typically target the lower end of the SME spectrum, namely very small businesses that have more features in common with their main target market of microfinance clients, as reflected by the average loan size of these institutions. For small firms operating on the verge of informality, up-scaling of microfinance to SME finance seems to have great potential. In such cases, up-scaling would comprise offering financial services/products that cater to the special needs of a small enterprise. The benefits of up-scaling may encourage a transition from an informal to a formal enterprise. However,

BOX 4.2 UP-SCALING TO SMES

Initiatives: Access Microfinance Holding, ProCredit Group, and BRAC Bank

Access Microfinance Holding was founded in 2006 by an international group of private and public investors, with the purpose of investing in a network of microfinance institutions in low-income countries. Access investments are developed through a combination of growth capital, holding services, and management assistance. Access concentrates on start-up and early-stage MFIs, and transforms existing non-bank micro-lending institutions into full-service microfinance banks. To date, AccessBank Network comprises five network banks located in Azerbaijan, Nigeria, Madagascar, Liberia, and Tanzania. SME products, procedures, and organizational set-ups were first developed, implemented, and improved in the first AccessBank (Azerbaijan), which was established in 2006 and is the largest of the network banks. As of December 2009, the AccessBank network had a total outstanding portfolio of USD 320 million, with 120,000 loans outstanding and a portfolio at risk of 0.88 percent (30 days past due). Market rates are applied to clients in all network banks. Since 2008 the bank has registered profits and reached out to 2,200 SMEs. While the four newer banks are still experiencing start-up losses, these are offset by AccessBank Azerbaijan's profits.

ProCredit Group was established in 1998 to invest in both socially responsible and commercially viable MFIs. After consolidating its position in the microfinance market, the Group began financing small businesses with the purpose of diversifying its loan portfolio. The German Development Bank KfW was involved in establishing ProCredit Holding and its precursor at the beginning, and is the largest institutional shareholder in the holding reflecting its support in the buildup of this network. ProCredit has become a pioneer in establishing greenfield full-fledged banks that specialize in micro- and small business lending in developing countries. The ProCredit network comprises 22 ProCredit banks in Latin America, Africa, and Eastern Europe, which adhere to common group-wide ethical, environmental, and professional standards. As of December 2009, more than 89 percent of ProCredit's outstanding loans were for amounts less than USD 12,000. In the case of ProCredit Bulgaria, ProCredit Holding came together with Commerzbank from Germany and DFI investors (DEG, EBRD, and IFC) in 2001 to establish a specialized SME bank with a total investment of USD 7.3 million. Today, the bank's asset base comprises 85 percent small business loans, accompanied by a broad and stable deposit base that funds 75 percent of the loan portfolio. In 2007, ProCredit institutions were established in Colombia, Honduras, and Mexico. In cooperation with ProCredit Group, IADB supported the operations with minority equity investments in each bank (USD 3 million, USD 2.5 million, and USD 3 million, respectively) as well as technical assistance for staff training. Micro- and small business outreach is 9,966 for Colombia, 9,265 for Honduras, and 9,303 for Mexico.

BRAC Bank Ltd. was established in 2001 with a focus on the small business sector, operating with a "double bottom-line" agenda: a combination of profit and social responsibility. The SME Banking unit goes beyond traditional banking and works as a business partner to entrepreneurs, building awareness, providing training, and arranging road shows to support and develop their businesses. BRAC Bank is the premiere small business bank in the Bangladesh in terms of small business loans outstanding, with nationwide coverage and a network (44 percent of coverage is in rural areas). The bank's small business banking model emphasizes relationship banking and collateral free lending up to USD 14,000.

	SME Outreach	SME Financing Facilitated (USD)	Average Loan Size (USD)
Access Holding	120,000	320 million	2,666
ProCredit (Bulgaria)	160,000	1.8 billion	11,250
BRAC Bank	100,085	414 million	4,136

in some countries up-scaling can entail enormous costs to the enterprises, with stringent documentation and disclosure requirements. Down-scaling commercial banks, on the other hand, tend to focus on the higher end of the SME segment, mostly small enterprises that are closer to retail, and medium enterprises, whose assessment and servicing is relatively similar to corporate and commercial clients. For comparison purposes, refer to the average loan size in Boxes 4.1 and 4.2.

4.3.3 COMMUNITY, COOPERATIVE, AND MUNICIPAL BANKS

Community, cooperative, and municipal banks are represented by five cases and tend to have a similar social mandate to MFIs in their goal to serve the lower segments of the population However, these banks also tend to serve a broader client base in line with commercial banks, and further differ from MFIs in that they are groups or unions of member-owned or local state-owned banks. While there are differences among these three categories of banks – such as their ownership structures – they are grouped together for the purpose of this report due to their common interest in supporting economic development in their communities. Four of the models in the collection are being implemented in the developing world, and one in a developed country.

All community bank initiatives claim that proximity to their local clients and communities is one of their strongest competitive advantages. Close interaction with clients provides banks with the capacity to understand and assess client risk more effectively, resulting in their ability to support riskier clients that are usually neglected by commercial banks. The German Savings Banks Finance Group (Sparkassen Finanzgruppe) provides loans for almost 50 percent of start-ups in Germany. Despite higher risk-taking, the collection of community bank models appears relatively sustainable and profitable. Fedecredito of El Salvador, for instance, currently has an annual internal rate of return of 60 percent and has been operating for over 50 years. As community banks do not seek to maximize profit but rather balance their market and social targets, their retained earnings are reinvested to create a strong equity base, providing stability and sustainability. While each bank in the community bank group is independent in its business decisions, they achieve economies of scale by closely cooperating with their network of banks, sharing experience, training, external auditing, and/or political lobbying, which further supports their profitability.

Three sample community banks mention technology as a key success factor in the operations. Technological support is necessary due to the granularity of loans, short — sometimes daily — loan payment cycles. Caja Municipal Sullana in Peru and Fedecredito provide wireless Personal Digital Assistants (PDA) to their salespersons and loan servicing officers, which allow them to process loan payments and collect savings in the field during their client visits. This technology allows them to personally visit clients to assess their businesses, and collect clients' loan payments and savings at the same time.

All community bank initiatives in emerging markets receive substantial support from DFIs. Financial access is especially scarce among rural entrepreneurs in developing countries, and the broad branch network of community banks provides the foundation to reach out to rural SMEs. Raiffeisenbank in Bulgaria has loan facilities from EBRD, KfW, and EIF to facilitate access to finance for farmers and small enterprises in rural areas, and to support SME investments in expansions and energy efficiency projects.

The Savings Banks model from Germany presents particularly high levels of scale, sustainability and track record. The Savings Banks have been providing loans to MSMEs for over 150 years and have a business relation with 72 percent of SMEs in Germany (2.6 million). The group comprises 438 independent local Savings Banks in every region, which are owned by their municipalities or counties (Box 4.3). This model has been replicated successfully by Cajas Municipales in Peru (including Caja Sullana) since the 1970s. The Peruvian banks have not only survived economic and

political crises, they are also financially successful and the most important providers of financial services to SMEs in Peru.

In general, the unique characteristics of mutual banks derive from their membership and ownership structures, as well as the incentives to meet member borrowing needs — including those of SMEs — while managing risk and protecting depositors. There is evidence that external donor funding for savings and credit cooperatives — which are a form of mutual bank — can disrupt those incentives and cause unsustainable expansion that no longer protects depositors or serves member needs.[92] Therefore, while mutual banks and other mutual financial institutions are well-suited to serving SMEs, care must be taken in supporting their expansion, to ensure that the provision of external funding (such as credit lines) is not disproportionate compared to member deposits and institutional capacity.

4.3.4 EQUITY FUNDS

SME equity and venture capital funds included in the stocktaking exercise comprise 12 cases of country specific funds, regional funds, and funds of funds. Ten of the cases refer to private equity funds and two refer to local government supported equity funds. Due to equity funds' intrinsic risk, these initiatives are typically found in advanced economies; however, 10 cases from the stocktaking collection operate in emerging markets, including six in Africa, confirming the growing trend of equity investments in developing countries. Such funds have the potential for significant positive financial and developmental impact, including increased employment, skills development, corporate governance best practices, and innovation. All submitted private fund cases are supported by DFI investments, allowing them to serve difficult-to-reach clients. DFI support is highly desirable, as most emerging markets lack both highly skilled human resources and the skills to manage

BOX 4.3 SME SUPPORT BY GERMAN COMMUNITY BANKS

Initiative: Savings Banks Finance Group (Sparkassen Finanzgruppe)

Savings Banks was founded in Germany over 250 years ago by philanthropic societies and municipalities, with a mandate to serve the lower segments of the population. SMEs are served on a cost-covering basis and no subsidies are provided. The Savings Banks Finance Group also provides professional training and services to partner institutions around the world through its development arm, the Savings Banks Foundation for International Cooperation (SBFIC). The Banks' pricing policy is market-based, but the main purpose of the Sparkassen's business is not to maximize profit, but rather to promote a balanced approach with both market and social targets. In contrast to stock-listed banks, Savings Banks do not need to maximize dividends nor reduce equity in order to maximize their return on equity (ROE) or their share price. In order to benefit from economies of scale, Savings Banks cooperate closely through a common network that provides common services to the banks such as training, external auditing and political lobbying. At present, all subsidies to the banks have been removed and since 2005, they operate without sovereign guarantees. Today, the Group comprises 438 independent Savings Banks, 7 regional banks, 10 building societies, 6 leasing companies, 3 factoring companies, and 12 insurance companies, among others. The Group provides 42 percent of all corporate loans and loans for almost 50 percent of start-ups in Germany. Success factors from this initiative include: (i) proximity to clients; (ii) stakeholder value instead of shareholder value; (iii) highly sophisticated systems to serving SME and mass markets; and (iv) local refinancing through deposit mobilization.

Amount of financing facilitated: USD 230.6 billion in SME loans.

SME outreach: 2.6 million

92 As cited by CGAP in Donor Brief 25, 2005

BOX 4.4 THREE TYPES OF EQUITY FUNDS

Initiatives: Business Partners International Kenya SME Fund, Aureos Regional Funds , and Korea Venture Capital Investment Corp.

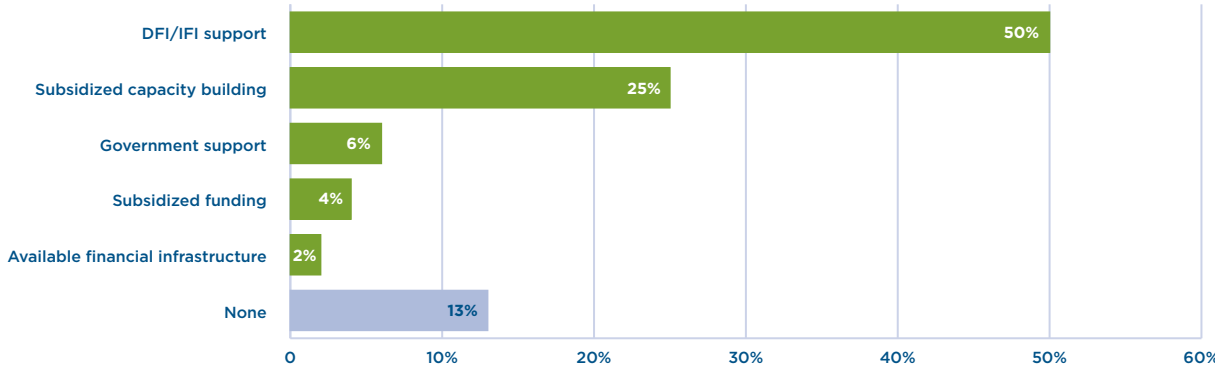
Local Fund: Business Partners International (BPI) Kenya SME Fund is a private, fixed-life fund established in 2006 that invests in equity, quasi-equity, and debt instruments in Kenyan SMEs. The firm's success has attracted DFI and IFI investors, including CDC, Norfund, East African Development Bank, EIB, IFC, and Trans-Century. The fund's lean organization is viewed as a success factor, with staff performing multiple roles that ensure their full engagement with investments from proposal to realization. BPI provides technical assistance to investee companies in order to strengthen management capacity, information systems, and accounting systems, and also provides consulting support for new lines of businesses. BPI can invest up to USD 500,000 per deal. To date, BPI has approved more than 50 investments in Kenyan SMEs, with a total value of around USD 5 million.

Regional Fund: Aureos East Africa Fund (AEAF), Aureos West Africa Fund (AWAF), and Aureos South Africa Fund (ASAF) invest in the Africa region and were set up in June 2003 to have an 8-year limited life, with the support of CDC, Norfund, European Investment Bank (EIB), and IFC. The three funds are wholly-owned subsidiaries of Aureos Capital, a fund management firm with extensive experience and presence in Africa, Asia, and Latin America. AEAF, AWAF, and ASAF facilitate equity for African SMEs in a commercially sustainable manner. AEAF had a final close at USD 40 million, while AWAF and ASAF both closed at USD 50 million. To date AEAF, AWAF, and ASAF have demonstrated commercial success, and SME investees have adopted sound governance, environmental, and social standards. Aureos has a successor fund in the market that has raised USD 380 million to date, with a large proportion of private sector investors.

Fund of Funds: The Korea Venture Capital Investment Corp (KVIC) is a government-backed fund of funds established in 2005 to provide stable capital to SMEs in innovative technology sectors. KVIC currently has USD 1.5 billion assets under management in over 150 venture capital and buyout firms, and commits USD 200 to USD 300 million every year to venture capital funds. The KVIC also supports partnerships funds to invite foreign investors into the funds, promoting global networks and ensuring transparent fund management systems. The establishment of KVIC led to creation and strengthening of Korean legislation to provide stable capital to the venture capital industry, and also influenced the amending of regulation to attract more private investors into venture capital funds.

	Internal Rate of Return (IRR)
BPI Kenya SME Fund	low teens
Aureos Regional Funds	mid to high teens
KVIC Fund of Funds	13.8% (multiple IRRs)

FIGURE 4.4 EXTERNAL SUPPORTING FACTORS FOSTERING PRIVATE SECTOR INITIATIVES



such funds. Continuous support for equity funds is solicited in expanding financial access for SMEs. Government-supported funds from the collection operate in developed countries, namely in Korea and New Zealand. Both funds target specialized SMEs in the relatively riskier segments of high-growth technology and innovation, reflecting their more mature SME equity markets and lower information asymmetries relative to developing countries where equity funds have recently begun to develop, and thus cater to the overall SME segment.

Equity is a necessary complement to debt for high-growth, innovative SMEs. As such, development impact is based on financial performance and job creation rather than SME reach. Outreach by equity funds ranges from 156,000 to 930 SMEs in the case of funds of funds, and from 120 to 3 SMEs in the case of individual equity funds. Compared to other SME finance initiatives presented in this report, equity funds have a limited SME outreach, as they focus on the best firms with high-growth potential. These firms receive hands-on, in-depth development to encourage growth, which often leads to high job growth in the firms and formalized systems, as required by investors. Box 4.4 compares examples of local, regional, and funds of funds. Key success factors of these equity fund cases include having a skilled and experienced fund manager, and achieving the targeted financial return through the fund's investments. In addition, regional funds tend to be preferred over country-specific funds in smaller emerging markets, as this allows the funds more access to investment opportunities and outreach.

4.3.5 KEY SUCCESS FACTORS FOR PROVIDERS OF FINANCIAL SERVICES TO SMES

For the submitted private sector initiatives, an attempt was made to identify external supporting factors that effectively foster the involvement of private sector players in the SME finance space (Figure 4.4). Development agencies appear to play a key role in promoting the mobilization of private funds, primarily through credit facilities. Subsidized capacity building programs for financial institutions and SMEs seek to foster sustainable access to finance for this market segment. Models in which no particular external factors were identified are mostly driven by internal or private incentives and appear to require no external drivers for their development (e.g., Garanti Bank in Turkey). Available financial infrastructure provides relevant external support in only one submitted initiative — Wells Fargo — which operates in the relatively solid enabling environment of the United States. This suggests that further support to strengthen the enabling environment in most countries can lead to additional private sector initiatives in SME financing. In fact, surveys conducted with banks in MENA identify the lack of SME transparency and the weak financial infrastructure (e.g., weak credit information, weak creditor rights, and collateral infrastructure) as the main obstacles for further engagement in SME finance. External support actions to improve financial infrastructure can entail expanding the range of movable assets that can be used as collateral, improving registries for movables, and improving enforcement and sales procedures for both fixed and movable assets. It can also entail upgrading public credit registries and introducing complementary private credit bureaus capable of expanding coverage and the depth of credit information.

4.4 The Enabling Environment for Access

4.4.1 LEGAL AND REGULATORY INITIATIVES

Governmental policy support to lower the barriers to SME financing is demonstrated by stocktaking cases aimed at strengthening financial sector laws and regulation, and supporting the creation of an enabling environment for SMEs through targeted or integrated approaches. Some models show an increase in the level of SME bank loans after the introduction and implementation of legislative and regulatory measures. However, conclusive results from these measures, as well as levels of outreach, are difficult to assess due to the lack of qualitative data. It should be noted that having a strong legal and regulatory framework for SME finance is not sufficient for

TABLE 4.3 INTEGRATED APPROACHES TO SME DEVELOPMENT: FRANCE, KOREA, AND MALAYSIA

Country	Category	Initiative
France	Legal & Regulatory	▪ Banking regulation and capital requirement for retail/SME risk under Basel II
	Financial Infrastructure	▪ Fichier Bancaire des Entreprises (FIBEN) Companies Database ▪ INFOGREFFE's initiative for collection of SME information
	Public Support Scheme	▪ OSEO Innovation Facility ▪ OSEO Financing Facility for SMEs through FIs ▪ OSEO guarantees for SMEs
Korea	Public Support Scheme	▪ Aggregate Credit Ceiling Loans for SMEs through FIs ▪ Building up the foundation for active SME direct financing ▪ Korea Credit Guarantee Fund (KODIT) ▪ Korea Fund of Funds: Korea Venture Investment Corp. ▪ Network Loan Facility through Industrial Bank of Korea ▪ Technology Appraisal Guarantee Scheme ▪ Credit guarantee programs for small and micro enterprises
Malaysia	Legal & Regulatory	▪ Comprehensive SME Development Framework
	Financial Infrastructure	▪ SME Competitive Rating for Enhancement (SCORE) ▪ Central Credit Reference Information System
	Public Support Scheme	▪ Small Debt Resolution Scheme (loan restructuring for SMEs) ▪ Cradle Investment Program to support start-ups ▪ MAVCAP Venture capital funding (with outsourced fund management) ▪ Venture Debt and Project Financing Facilities for Information & Communications Technology and Biotechnology Companies ▪ Perdana Fund for venture capital in high growth, high tech start-ups ▪ Credit Guarantee Corporation Malaysia ▪ SME Assistance Guarantee Scheme ▪ Working Capital Guarantee Scheme ▪ Development of a Sustainable Microfinance Framework ▪ Outreach programs to enhance access to finance by MSMEs ▪ Business Advisory Services for SMEs ▪ SME Financial Advisory by Bank Negara Malaysia

expanding access; such frameworks must be effectively enforced in order to maximize their impact.

Three countries submitted multiple interventions that seem to follow a comprehensive approach, aimed at creating a more conductive environment for SMEs by coordinating and addressing SME development efforts in an integrated manner. France, Korea, and Malaysia appear to follow an integrated SME development approach by submitting initiatives that cover a wide range of measures across categories, including crisis-response schemes. Their SME initiatives are illustrated in Table 4.3.

The stocktaking includes five cases in which legislative and regulatory measures for the financial sector have been introduced to promote SME lending. Four of the cases refer to legislation in developing countries and one in a developed country. The measures include a range of initiatives, from the development of leasing legislation in Jordan and Kosovo, to the set-up of mandatory SME lending targets for banks in India. Box 4.5 illustrates the introduction of legislative reform for the creation of a leasing market in Jordan. This initiative has multiple components that provide policy support to draft and introduce the legislation and capacity building support for leasing stakeholders in order to develop a financial leasing market and increase financing alternatives for SMEs.

The case collection includes five examples that aim to support legal policies in developing countries to benefit SMEs, mainly through the provision of loans and technical assistance programs to governments or government entities. Initiatives include support for the

BOX 4.5 FOSTERING SME LENDING THROUGH THE CREATION OF A LEASING MARKET

Initiative: Jordan Leasing Project

Jordan's Ministry of Industry and Trade, in coordination with IFC, introduced an initiative in 2006 with the objective to improve the leasing environment in Jordan, and to promote and increase the volume of leasing activities. The project's main activities include: (i) provide support to policymakers to draft, lobby, and promote leasing legislation based on best practices; (ii) build capacity of leasing stakeholders (e.g., FIs, equipment suppliers, investors) through consultations and training; (iii) increase awareness of benefits of leasing to MSMEs to finance business assets; and, (iv) promote and facilitate leasing investments.

As a result of the initiative, four laws were introduced: Law on Leasing, Movable Leased Assets Registration Instructions, Registration Instructions for Leased Vehicles, and Internal Procedures for Land Registration. Financial leasing has become more favorable and the leasing market has grown substantially. From 2005 to 2008, annual leasing volume more than doubled, from USD 111 million to USD 240 million. At the same time, the number of registered lessors grew from 18 (2005) to 31 (2008) and the cumulative leasing portfolio increased from USD 227 million to over USD 450 million. The leasing market growth is expected to continue as MSMEs are becoming more familiar with leasing, and as financial institutions have greater capacity and willingness to offer the product.

BOX 4.6 FOSTERING AN ENABLING ENVIRONMENT THROUGH COMPREHENSIVE SME DEVELOPMENT APPROACHES

Initiative: Comprehensive SME Development Framework

Malaysia's National SME Development Council (NSDC) and SME Corp Malaysia created the Framework in 2004 to increase SMEs' ability to participate and contribute more effectively to Malaysia's economic development and growth process. The Framework follows a three-phased approach: (i) strengthening the infrastructure for SME development; (ii) building capacity of domestic SMEs; and, (iii) enhancing access to financing. SME Corp Malaysia was established to ensure a coordinated and effective implementation of SME development initiatives, including those under this approach. To further enhance the Government's role, and for greater coordination and focus in SME development, the NSDC was established in June 2004 to provide direction for Government policies that ensure that sufficient support programs are in place and are effectively coordinated and implemented to assist SMEs. Since the establishment of NSDC, various initiatives have been implemented to benefit policy-makers and SMEs in the areas of improved policy formulation, monitoring and assessment, capacity building of SMEs, enhanced access to finance, improved statistical information, and provision of a comprehensive dissemination framework.

BOX 4.7 COMPARATIVE ANALYSIS OF CREDIT BUREAU CASES

While there are only 11 examples of how this vital component of financial infrastructure can significantly reduce information asymmetry, and thereby facilitate access to finance for SMEs, these cases represent the broad spectrum of possible interventions. Each case is unique and addresses different sectors of the SME market with methodologies that are both innovative and proven. The cases demonstrate the complementary roles of the public and private sectors, and how the strengths of each can be leveraged. As such, there are numerous lessons to be learned and clear opportunities for these initiatives to be replicated and scaled in emerging markets.

The most commonly argued case against lending to SMEs from a commercial bankers' perspective is the perceived risk that, for the most part, is derived from the opacity of the business and its owners. The cost of reducing this information asymmetry typically makes the prospect of lending to SMEs uneconomical, especially for smaller businesses and lower value loans. Easy, cost-effective access to information is the key to driving down the cost of acquisition, thereby making the business of serving the SME market more lucrative and sustainable. Each of the highlighted models goes some way to achieving this goal and has had significant impact on access to credit.

Traditional credit risk management underwriting techniques typically used in corporate lending (one-on-one customer relationship management and a reliance on detailed analysis of financial statements) are, for the most part, impractical for SMEs in emerging markets. The vast majority of businesses in these countries do not maintain or record detailed financial statements and those that do are most likely considered to be unreliable. In many cases, simply confirming that a small business is correctly incorporated and entitled to trade is a major challenge. To this end, models such as the FIBEN companies' database managed by Bank of France and Infogreffe's database of court records and trade registries provide a source of reliable information to validate the bone fide nature of the business in question. They also append to these records both historical credit data (FIBEN) and good will commitments (Infogreffe), which help lenders assess both credit exposure and the legitimacy of proposed collateral.

The FIBEN case demonstrates how a central bank can add value in a market in which commercial banks are reluctant to share information. Even in developed markets, it is not uncommon to find resistance on the part of commercial banks to share information, usually owing to a fear that they will lose market share or valuable customers. Central banks have the power to enforce the provision of data on loan performance, initially as part of their duty to monitor systemic risk. However, as the Bank of France illustrates, such banks can also expand this role to provide valuable information back to commercial lenders (despite the fact that positive data, such as the history data of loan accounts that are up-to-date, is currently not available in France). This model has value in emerging markets where private credit bureaus have thus far failed to gain acceptance, although there are limitations in the role of the central bank and different models to overcome these deficiencies.

Having established that a prospective SME customer is legitimate, the next challenge is to establish relative risk, then price the loan accordingly. This is typically achieved by some form of scoring algorithm or credit rating. Objective mathematical modeling of this kind is common in developed markets but faces serious constraints in emerging markets, particularly for smaller organizations with limited experience in the SME field. The models in question use historical information to predict a future outcome. Lenders who do not possess such historical data find it very difficult to collate the requisite data to build the models. To bypass this situation, credit bureaus and service providers can build generic models, using data from a variety of sources that provide a foundation for implementing this type of methodology. The Banco Estado (Chile) case study demonstrates how this can be successfully achieved within the public sector, while the SMERA case in India is an example of how the private sector can achieve similar results on a commercial basis. On balance, the private sector approach is perhaps more appropriate, as it avoids any potential conflict of interest between the central bank as supervisor to the industry and provider of guidance as to who should be eligible for credit.

For markets in which understanding of the SME market place is significantly impaired, there may be value in out-sourcing a greater portion of the credit evaluation process. Some lenders in emerging markets lack experience in working with SMEs and do not know how to evaluate the comparative strengths and weaknesses of potential customers. In such cases, credit bureaus have a role to play in both mapping the landscape and undertaking

CONTINUED ON NEXT PAGE

BOX 4.7 CONTINUED

detailed diagnostics on behalf of the lender. In both cases, the objective is to reduce information asymmetry and present to the lender a business proposition that is more "bankable." The FINPYME model in Latin America and the SCORE model in Malaysia both achieve this by undertaking detailed diagnostics of both the market place and specific industry sectors.

Access to traditional credit history data does not overcome reluctance on the part of lenders to make loans to small businesses with little or no track record. The majority of credit bureaus and public registries maintain history data on the performance of existing or prior loans. This information is typically sourced from within the formal lending sector. But many SMEs find it difficult to obtain credit simply because they never previously had credit and have had no opportunity to build "reputational collateral" by way of a proven repayment history. Nontraditional credit data, such as payment history on contractual obligations with utilities and telecommunications companies, can provide a good proxy for repayment behavior and has been statistically proven (see Policy and Economic Research Council — PERC research) to add value to the credit evaluation process. Capturing this data enables SMEs to build a credit profile without access to formal credit. This form of credit reporting is particularly important at the bottom of the pyramid (micro-finance), as demonstrated by the San Riegos project in Nicaragua. Expanding beyond collecting data from the formal banking sector is one of the limitations faced by public registries and is, therefore, one of the core strengths of the private credit bureau sector.

Perhaps the biggest challenge to providing services to help reduce information asymmetry in the SME space is the shear diversity of the entities in question. SMEs are not homogeneous, and are in fact intrinsically heterogeneous. While some of the case studies recognize this fact, there is still a tendency on the part of lenders to consider SMEs as smaller versions of their larger corporate client base. While these lenders may entertain a top-down strategy to develop services to the "M" sector, few recognize the potential of the mass market of SMEs, over 90 percent of which are small and micro-enterprises. Engaging these clients requires an altogether different approach, one that is more commonly aligned with retail banking methodology. At the lower end of the SME spectrum, the financial behavior of the individual business owner is, for all intents and purposes, the same as his or her personal financial circumstances. To penetrate this market requires a detailed understanding of both retail lending methodology and access to personal credit data.

There is no single, universal solution, as different models address different circumstances. Following the Asian financial crisis in 1997, Bank Negara (Malaysia) recognized the importance of sharing credit data as a means to improve the quality of lending decisions and prevent over-indebtedness. As such, the bank initiated the Central Credit Reference Information System (CCRIS) project, which today provides perhaps the most comprehensive repository of financial data in the region. The data set incorporates information on both individuals and companies, and is used by practically all lenders in Malaysia. The CCRIS database is among the best examples of a modern public registry, but while it adequately serves the needs of the retail sector, it has its limitations in the SME sector. Recognizing these weaknesses, Bank Negara is exploring ways to develop more SME-centric services in cooperation with the Credit Guarantee Corporation of Malaysia and the private sector. In Egypt, the central bank also recognized its capacity limitations in respect to credit reporting and decided to encourage more active participation from the private sector. Local banks were tasked with forming a private credit bureau (IScore) to which was added the historical data from the public registry. This bureau is now looking to expand its data coverage to non-bank financial institutions and the MFI sector. The central bank in Morocco adopted a more public/private partnership approach. Recognizing its ability to enforce participation in the credit information sharing environment, it engaged the private sector to build a platform for information sharing, which the central bank ultimately controls. Data within the public registry is available to any licensed private sector credit bureau to enhance, append, or build value added services. Each of these initiatives could be replicated in other markets, depending on the stage of market development and the willingness of lenders to participate in information sharing.

Credit where credit is due: the Singapore example in promoting the development of SMEs. It is no coincidence that Singapore consistently tops the World Bank Doing Business ratings on Getting Credit. The combination of public sector policy reform and private sector implementation is effectively demonstrated in the case of Credit Bureau Singapore (CBS). This bureau was another post-crisis initiative, but unlike Malaysia, the Monetary Authority of Singapore (MAS) tasked the private sector with building an industry-wide credit information system. Membership and participation in the bureau remains heavily supervised by MAS, but CBS has been given free rein to develop a service offering that meets all the market needs, with particular focus on supporting SMEs. The bureau combines information from both the consumer and the corporate sectors, which it blends with commercial trade credit data, effectively linking the personal credit behavior of individuals with the businesses they run. More recently, the bureau has launched a "blended credit score" designed to provide an evaluation of risk for any business, large or small, based on statistically proven characteristics. The research and development for this offering was funded by SPRING, a government institution (Singapore Business Federation) and developed by Fair Isaac, a globally recognized leader in the development of credit scoring solutions. While the bureau is still relatively young, the value of these techniques has been proven previously in developed markets such as the United Kingdom and Australia, and represents an example of effective modern credit bureau methodology.

Sharing of information is good for business, good for lenders, and good for SMEs. Each of the highlighted cases demonstrates how increased access to information can lead to better, easier, and more cost-efficient lending decisions. The case is intrinsically win-win. Improved financial infrastructure reduces information asymmetry, reduces the cost to serve, and makes lending to SMEs less risky and more viable and sustainable. At the same time, credit reporting helps to prevent unnecessarily risky loans and over-indebtedness, and promotes responsible lending and a fairer allocation of capital. In turn, understanding the value of reputational collateral helps SMEs appreciate the importance of maintaining a good credit history and promotes better repayment behavior.

strengthening of SME Credit Management Systems in the Philippines and the development of financing policies and mechanisms for SMEs in China. Four of the five cases are supported by DFIs, which is not surprising considering DFIs' significant involvement in policy reform support in emerging markets. The comprehensive SME development framework created by the Malaysian government, illustrated in Box 4.6, aims to support the promotion of SME development and their participation in the economy from multiple fronts, including comprehensive development programs to enhance SMEs' capacity and access to finance support. To translate Malaysian SME development strategies into effective results, the National SME Development Blueprint has been established as a structured approach to track the implementation of SME development programs. The Blueprint outlines: (i) objectives, strategies, and targets for SME development; (ii) key programs and financial commitment; and, (iii) ministries and agencies involved in the implementation of such programs. However, monitoring data are not yet available to assess the impact of this initiative.

4.4.2 FINANCIAL INFRASTRUCTURE

The private sector considers an enabling environment, including financial infrastructure, to be a key success factor for SME finance development. Despite their key role in reducing information opacity and asymmetry to increase the supply of finance for SMEs, only 13 models for financial infrastructure were submitted. Over 75 percent of these cases are implemented in developing countries in East and South Asia, Latin America, and Middle East and North Africa; eight are supported by DFIs.

Financial infrastructure cases represent a variety of initiatives, including 10 models for credit bureaus, and one model each of collateral registries, SME rating agencies, and SME banking codes of conduct. Access to credit information is needed when applying modern financial technologies to credit decisions for the SME market segment on which financial information is particularly lacking. Success factors mentioned

BOX 4.8 ADDRESSING DEFICIENCIES IN FINANCIAL INFRASTRUCTURE

Initiative: Credit Bureau Singapore, FIBEN Companies Database, China's Collateral Registry, and SMERA SME Rating Agency

Credit Bureau: Credit Bureau (Singapore) Pte (CBS), with support from the Government of Singapore (SMART), recognized at the beginning of the financial crisis that lending to SMEs was tightening and that additional tools were need to reduce information asymmetry. CBS is one of the few private credit bureaus in South East Asia that collates data with respect to both consumers and businesses. Through its association with Dunn & Bradstreet, CBS has access to the "trade credit" data of thousands of Singaporean companies. In May 2010, CBS, in association with Fair Isaac Corporation, launched a purpose-built credit scoring solution designed to accurately quantify the risk (probability of default) associated with SMEs' applications for credit. The algorithm behind the score incorporates credit history data from the business, including trade credit experience, and blends this with the personal credit history of the business owner and/or key stakeholders. This form of blended score is especially useful when assessing the risk profile of smaller businesses, where detailed financial information is either not available or often unreliable.

Companies Database: FIBEN is a corporate database set up by France in 1982 to facilitate the implementation of monetary policy and verify credit quality of bills issued for rediscounting. FIBEN is managed by the Banque de France. Credit institutions and public economic bodies have access to the FIBEN database, which contains data necessary for the analysis of credit risk (identity, legal event, management, indebtedness, financial appraisal by the Banque de France), serving as an important tool for analyzing risk, making decisions, and monitoring companies. Companies may also gain access to refinancing through the banking system, using private bills as collateral and supported by the central banks' payment systems operations. As of November 2009, the total amount of credit to SMEs in France was USD 262.4 billion. Credits granted by the banking sector to SMEs increased by over 1.9 percent between November 2008 and November 2009, whereas credits granted to the private sector in general decreased by 0.9 percent over the same period.

Collateral Registry: In 2004, China embarked upon a reform of its movable collateral framework to encourage financing against valuable movable assets. Before the reform, use of movable collateral under Chinese law was a key constraint for SME financing, as bank lending was largely based on real estate collateral, which SMEs typically do not possess. The model had three phases: development of the property law; creation of an electronic registry for pledged assets; and training of lenders to use movable assets as a basis for lending. As a result of the reform, USD 910 billion in loans were facilitated, 40 percent of which went to SMEs. Through awareness raising and knowledge dissemination, the reform led to further development of factoring, from USD 6.4 billion in 2004 to a value of USD 77 billion in 2008.

SME Rating Agency: The government of India initiated the creation of SMERA in 2005, in coordination with other stakeholders, including 11 public and private FIs exposed to SMEs, in order to improve credit flow to the MSME sector. Diversified equity ownership by 11 banks enabled the lenders to accept SMERA's ratings and extend both financial and non-financial benefits to well-rated SMEs. SMERA ratings categorize MSMEs based on size, so that each MSME is evaluated among its peers. The pricing policy aims to keep fees affordable for SMEs. The rating fee does not exceed USD 1,155, for which the government provides a 75 percent rating fee subsidy. SMERA has completed over 6,500 ratings. The ratings have improved access to bank financing for at least 20 percent of rated clients, and collateral requirements have decreased in 10 percent of rated cases. A rating renewal in 20 percent of cases indicates usage of ratings for monetary benefit as well as a self-improvement tool. By the end of 2011, SMERA operations are expected to generate profits of 15 percent. Over the course of the global financial crisis, the perspective of bankers has shifted from heavy reliance on External Credit Rating Agency reports as a risk mitigation tool toward local ratings, helping SMERA to increase its business from the lenders. However, a challenge for sustainability of the model lies in the government subsidy of rating fees.

by credit bureau cases share similar trends, including: (i) an active exchange between the agencies that collect data and the suppliers of data to maintain an updated database; (ii) the use of non-traditional data sources to assess a company's credit risk; and (iii) increasing or recurring use of the database by the financial sector (Box 4.7).

One model each of a credit bureau, a company's database, an SME rating agency, and a collateral registry illustrate the positive impact of financial infrastructure initiatives in reducing information asymmetries and improving financial access by SMEs. The Credit Bureau Singapore was created in 2002 as the country's first commercial credit bureau, with the objective of helping lenders make faster and better-informed credit decisions. The FIBEN companies' database, managed by Bank of France, was established to facilitate the implementation of monetary policy and payment systems operations, and provides banks with access to needed data for credit analysis. Over 1 million SMEs in France have benefited from this model. In addition to strengthening France's financial infrastructure, the initiative has supported the strengthening of legislation for SME development by providing the central bank with all rights to collect data and give access to such information to the banking community. India's SMERA is the country's first rating agency focusing on the MSME sector, and provides comprehensive ratings for the use of financial institutions in the assessment of credit. By the end of 2011, the agency is expected to have reached over 80,000 SMEs. Following China's reform of a movable collateral framework and establishment of the receivables registry, SMEs can now use movable assets, such as inventory and receivables, as a basis for borrowing. The percent of movable=based lending in China has gone from 12 percent to about 20 percent since the reform, which has facilitated approximately USD 340 billion in credit to 48,000 SMEs in the 2 years of its existence (Box 4.8).

4.5 Public Support Schemes

Governments actively seek to encourage access to finance through direct government interventions. As such, public support schemes comprise the largest share of cases in the collection with 109 models. The government support initiatives with the greatest representation in the stocktaking exercise include:

- Funded financing facilities extended via state banks and/or private financial institutions;
- Credit guarantees also extended via state banks and/or private financial institutions; and,
- State bank initiatives.

4.5.1 FUNDED FINANCING FACILITIES

The stocktaking exercise includes 54 cases of funded facilities, which account for the highest share of public support schemes at 49 percent. Models from every region of the world are represented, two-thirds of which are implemented in developing countries, most of which are in Africa. Regional and global facilities are presented in eight submitted cases. Funded facilities range from simple structures such as loans for SME on-lending through the financial sector, to more complex lending structures involving lending facilities with various components such as risk-sharing mechanisms, capacity-building support, and technical assistance features for SME lenders and/or SME borrowers. The collection includes a balance between simple structures of funded facilities that are relatively easier to structure or faster to implement, and structures with multiple components that may have a broader impact on SMEs by addressing market deficiencies from various fronts.

Models supported by governments include 28 cases, while DFI-supported models are represented by 26 cases. Fourteen models include grants and/or subsidy components, most of which are government-supported models. Subsidized interventions from the collection fall under two categories based on

BOX 4.9 COMPARATIVE ANALYSIS OF FUNDED FACILITY CASES

Funded Facilities often direct credit toward a specific sector, such as SMEs and infrastructure. In many emerging markets, potential borrowers in certain productive sectors — even though they are viable and bankable — may not have full access to financial services. This market failure may be due to infrastructure problems, such as lack of lender experience, or real sector policies, such as nonexistent or weak land titles. Directed credit through funded facilities, when managed appropriately in the context of actions to eliminate the sources of market failure, can help overcome such obstacles sustainably. Some of the key factors of successful facilities are highlighted below.

1. Complementing Funding with Capacity Building/Technical Assistance. The analysis shows that a key design feature is to complement funding interventions with tailored capacity building programs. This factor is closely related to ensuring the quality of private financial institutions (PFIs). For example, **the EU and EBRD SME Finance Facility** features a comprehensive technical assistance program managed by EBRD, funded by the European Union, and aimed at developing the capacity of PFIs to engage in SME finance on a sustainable basis. By complementing the restricted-purpose credit line with valuable capacity-building technical assistance, the Facility equips PFIs with the tools, human resources, and a change in attitude towards the segment (for more details on the EBRD/EU SME Finance Facility, please refer to Box 4.18). The **German Azerbaijani Fund (GAF),** a revolving credit fund, funded by KfW, provides a case for the importance of selecting appropriate PFIs and building PFI capacity. The GAF Facility started in 1999 when the German Federal Government (represented by KfW) extended a credit line to the Republic of Azerbaijan totaling 8.6 million EUR (according to IDA conditions). As of December 31, 2009, within the framework of the GAF, six partner banks have disbursed more than 20,000 loans for a total volume of USD 120 million. At the outset, GAF focused on strengthening the overall institutional capacity of partner banks with regard to organization, internal control, and risk management. A key GAF focus was to establish organizational preconditions for SME lending and to implement delegation and control mechanisms. The provision of loans to SMEs resulted in benefits to the partner banks (risk diversification, profitability, and profit smoothing) and to the community, by contributing to job creation. The impact analysis shows that 54 percent of the SMEs and 26 percent of the microenterprises have raised the numbers of full-time employees.

2. Balanced Government and Private Sector Role. While the defining feature of Funded Facilities is that these programs represent government supported initiatives, the role of the government must be appropriately balanced and tailored to the project objectives. For example, the **Inovar Program** — which is fostering the creation of an SME venture capital market in Brazil — showcases how important it is both to leverage the government role and to incorporate a strong private sector delivery angle. The program was funded through a technical assistance grant with money from the Multilateral Investment Fund (MIF) and FINEM (Brazilian government agency), totaling approximately 11.1 million USD. FINEP hired new staff for the Program, with a private sector mentality from the beginning and trained staff in venture capital best practices. A key success factor was gaining engagement and support from the private sector, especially local and international fund managers, which considers FINEP and the MIF's investments as a seal of quality that facilitates fundraising with other investors.

3. Niche Sector-Specific Focus. Funded Facility cases with a niche, sector-specific focus demonstrate strong replicability potential. The **Inovar Program,** which was targeted to Brazilian technology-based SMEs and towards fostering the creation of an SME venture capital mar ket in Brazil, served as model for MIF projects in Peru and Colombia and envisions further replication in Africa and Asia. **Malaysia's Cradle Investment Programme (CIP),** the country's first development pre-seed and commercialization funding programme supporting the conversion of innovative technologies ideas to a successful SME technology start-up, can be replicated in a developing country that aspires to build a critical mass of technology entrepreneurs and develop a dynamic innovation ecosystem. Similarly, **Malaysia's Venture Debt and Project Financing Facilities for Information and Communications Technology ("ICT") and Biotechnology** Companies Program, implemented by Malaysia Debt Ventures Berhad (MDV), has high replicability potential for interventions in other country's technology sectors, given the universal nature and characteristics of the technology sectors. As of December 2009, MDV approved applications to finance more than 388 ICT and Biotech projects cumulatively since 2003 with total loans amounting to USD 1.4 billion.

BOX 4.10 SMALL BUSINESS LOAN PROGRAM WITH CAPACITY BUILDING AND TECHNICAL ASSISTANCE COMPONENTS

Initiative: Small Business Loan Program — SELP II

SELP II was created in Turkey in 2008 as a small business lending program (mainly long-term lending) with a technical assistance component for on-lending through private banks. Implementing organizations of the initiative are the Undersecretariat of Treasury (European Commission), KfW, and Council of Europe Development Bank (CEB), Private Commercial Banks, and the Frankfurt School of Finance and Management. SELP II originated from the successful creation and implementation of SELP I in 2002, but with higher volumes and broader outreach. The program leverages funds sourced from European Union (EU) grants to Turkey and includes the following components: (i) the European Fund for Turkey is a revolving fund totaling USD 116 million for small business on-lending through banks, with a structured fund comprising EU grants and public funds (first loss tranche), and DFI funds (mezzanine tranche). Issuance of shares for private investors is projected for the near future; (ii) Exchange Risk Coverage Fund for USD 2.4 million to mitigate currency risk, as loans by banks are denominated in local currency; and (iii) technical assistance aimed at improving small business lending capacity of banks. TA is delivered by a consulting firm and supervised by the Treasury and KfW. Participating banks are funded with close-to-market conditions, and the pricing for loans to SMEs is also market based.

Amount of financing facilitated: USD 118 million

SME outreach: 7,275

BOX 4.11 COMPARATIVE ANALYSIS OF CREDIT GUARANTEE MODELS

An analysis of the 31 cases on credit guarantees shows that country models submitted differ on fundamental design features. The key design parameters — eligibility criteria, coverage ratio, fees, and payment rules — vary substantially across schemes. For example, the main Korean scheme (KODIT) has generous ceilings (loans up to 3 USD million), while the Canadian scheme (SBFP) is targeted toward small investment loans (up to USD 500,000). Coverage ratios are fixed and low in several African countries (50 percent) but can be as high as 90 percent in other cases. Fees are fixed and low in some cases, and high and risk-based in others. Payment rules are stricter in some developed countries such as the United States (payments based on realized losses after loan recovery) and more generous in other countries (payments triggered by default and initiation of loan recovery).

These differences in design reflect to some extent local conditions and the different weights given to conflicting objectives. For example, developed countries can maintain stricter payment rules because loan recovery is more efficient, while the same rules would make the system unattractive in some developing countries. Design features also reflect the weights given to different objectives. The Canadian scheme focuses on additionality, while the main Korean scheme emphasizes outreach. While the stock-taking exercise entailed an effort to examine outcomes and replicability, the variety of local conditions and the existence of trade-offs underline the need for pragmatism.

Regarding outcomes, some of the submitted schemes are too young and cannot be properly assessed, although some look more promising than others. Several schemes introduced in Africa in recent years seem to have a limited outreach (less than 100 guarantees issued). This could be partly explained by the low coverage ratio in some of these schemes (50 percent), possibly insufficient to cover the risks and attract the interest of credit institutions. At the same time, the schemes introduced in Afghanistan and Palestine have generated some positive initial outcomes (about 1,200 loan guarantees issued and low loan losses), and have also contributed to the build-up of capacity in participating institutions, showing that credit guarantee schemes can work in challenging environments.

Several of the submitted cases entail recent schemes especially created to soften the impact of the financial crisis. Some countries simply scaled up the resources of their main schemes to meet the higher demand for guarantees resulting from the crisis (e.g., Korea), while other countries created special schemes with pre-defined funding and time limits. For example, the submitted cases include temporary schemes recently introduced in Germany, the Netherlands, Malaysia (two separate schemes), and Turkey. These schemes seem to have softened the impact of the

the purpose that they serve: (i) medium and long-term initiatives developed for vulnerable SME groups with the least access to finance, such as France's Agency for Innovation (OSEO) model for innovative small enterprises, and (ii) short-term initiatives that support SMEs in times of crisis, such as Turkey's subsidized interest rates for SME groups during the recent global crisis. While subsidies and grants can be justified under certain conditions, they are likely to face sustainability constraints, as discussed in Chapter Three. Moreover, it is critical to ensure that such programs do not crowd out other private sector players who are engaged in SME finance activities without the benefit of subsidies.

Outreach for funded facilities varies, depending on the design features and objective of the model. For example, facilities for equity investments have the lowest average outreach, with 139 SMEs, while loan facilities through financial institutions have the broadest average outreach with 55,000 SMEs. Despite differences in design features, several facilities share common views on successful implementation criteria. Some of these criteria include: close coordination among implementing parties, support and/or partnership with private sector entities, lean structures with staff performing multiple roles and good quality of human capital, and the use of information and online technology to provide efficient turnaround to clients (Box 4.9).

One model illustrates a facility with multiple components, designed to maximize the leverage of public funds under effective coordination by stakeholders from the public, development, and private sectors. The SELP II program in Turkey uses grants and public

credit contraction somewhat, but the available information does not allow an in-depth evaluation of their effectiveness. It is also difficult to assess the pros and cons of the option of scaling up the resources of existing schemes to address the crisis versus the option of creating completely new schemes for this purpose.

Several mature schemes seem to have had a reasonable performance overall, although outcomes still differ in important aspects. The table below shows that the Chilean, Korean, and French schemes seem to have achieved a good outreach, although that does not necessarily mean that these schemes have been equally successful in achieving additionality (i.e., restricting guarantees to SMEs that would not have had access to credit otherwise). The Canadian scheme has a lower outreach ratio than these schemes, but this is partly due to a stricter targeting policy (smaller and riskier SMEs), suggesting higher additionality. However, few of the schemes have made an effort to evaluate rigorously their economic impact, and accurately measuring additionality remains a challenge, as noted in Chapter Three. The net loss rates of these schemes vary between 1.5 and 3.5 percent, suggesting that they are financially sustainable, but the information provided does not allow a full assessment of long-run sustainability.

SAMPLE OF CREDIT GUARANTEE SCHEMES SUBMITTED

Country	Year Started	Number of Guarantees Issued/Year		Amount of Guarantees Issued per Year (USD)
		Total	Per Million People	
Netherland – BMK	1915	3,200	200	700 Million
Chile – FOGAPE	1980	30,000	1,800	450 Million
Korea – KODIT	1976	200,000	5,000	25 Billion
Canada – SBFP	1999	10,000	300	1 Billion
France – OSEO	1982	80,000	1,250	4 Billion
USA – SBA 7 (a)	1959	80 000	266	10 Billion
India – CGTMSE	2000	100,000	78	900 million

Note: Average 2006–2008

funds in combination with DFI funds to leverage private sector capital through a local currency structured lending facility and exchange risk coverage fund for SME on-lending through banks, combined with a DFI-supported technical assistance component for institutional capacity building of banks dealing with SMEs. Grant and public funds bear in full the first loss in case of payment default on the loans and provide a risk cushion for private sector investors in the fund. The project aims at addressing currency risk for lenders and borrowers, strengthening the ability of banks to mobilize their own long-term lending resources (Box 4.10).

4.5.2 CREDIT GUARANTEES

As part of the stocktaking exercise, 31 models of credit guarantees were submitted by 20 participating countries (including the EU). These models account for 29 percent of government support schemes and 19 percent of all cases submitted, representing the second largest category in the collection after funded facilities. Some countries submitted more than one scheme, including the main guarantee scheme and complementary schemes targeting particular SME segments or types of loans (e.g.,

BOX 4.12 TWO PROMISING MODELS OF PARTIAL CREDIT GUARANTEES

Initiatives: FOGAPE and Small Business Financing Program

FOGAPE is a Chilean SME guarantee fund and government initiative to increase access to finance to SMEs by providing a partial credit guarantees to banks in favor of SMEs who lack necessary collateral to gain access to credit, or need longer maturities. FOGAPE guarantees are risk sharing instruments meant to leave some risk with the lenders. The fund was originally financed by the government, but over time profits from operations contributed significantly to the fund's capital base.

The Small Business Financing Program (SBFP) is a statutory loan-loss guarantee program in Canada. Loans are approved and funds provided and disbursed by private sector lenders. The purpose of the SBFP is to increase the availability of financing for the establishment, expansion, modernization, and improvement of small businesses. The SBFP shares in the risk of lending to SMEs by sharing in loan losses. In the event of default, the SBFP will pay a lender 85 percent of the eligible loss.

	FOGAPE	SBFP
Outreach (per year)	30,000 guarantees issued (1,800 per million people)	10,000 guarantees issued (300 per million people)
Sustainability	Net loss rate = 1.5%	Net loss rate = 3%
Additionality	Increases probability for small firms to get credit by 14 percentage points	74% of firms using the guarantee would not have been able to get a loan otherwise
PCG Design	▪ Targeted to small firms (low ceilings) ▪ Portfolio approach ▪ Variable coverage ratio (70%-80%), higher for investment loans ▪ Unique bidding procedure ▪ Risk-based fees, set at reasonable levels (1%-2%), depending on default rates	▪ Targeted to small firms (low ceilings), investment loans ▪ Portfolio approach ▪ Lower coverage ratio for larger loans ▪ Reasonable fees (2%) ▪ Strict payment rules ▪ Evaluation efforts

BOX 4.13 TWO EXAMPLES OF STATE BANKS ADDRESSING SMES

Initiatives: Development Bank of Canada and Banco Estado

Development Bank of Canada (BDC) provides support to businesses in all stages of development, with particular focus on riskier segments than those targeted by commercial banks, including SMEs. Because the pricing policy of BDC reflects the risk of the borrower, loans from BDC are generally more expensive than loans from commercial banks. BDC is expected to generate a return similar to the long-term cost of funding of the government. BDC has pioneered innovative solutions for entrepreneurs. It was the first institution to offer flexible long-term loans to businesses and was also one of the first banks to offer an integrated approach to business development via its financing and advice to improve Canadian business capacity. While non-performing loans at BDC are higher than those of its peers due to higher-risk clients, revenues are sufficient to ensure a consistent return in line with shareholder objectives. BDC has played an important countercyclical role during the financial crisis. While credit conditions were tight for many entrepreneurs — particularly in the manufacturing sector — BDC's financing and securitization services increased and produced record results. BDC increased its loan allocations about 50 percent in fiscal year 2010*, compared to the same period of the previous year. This was achieved by participating in syndicates and replacing departing lenders; sharing new deals with other financial institutions on a 50/50 basis; buying commercial mortgages; and creating a line of credit guarantee. In addition, BDC supported a government program for purchasing term asset-backed securities. In the context of the crisis and as a way of supporting Canadian businesses, BDC decided to increase its tolerance to risk. As a result of BDC's sophisticated enterprise risk management system, the bank was able to maintain risks at a desired level.

Banco Estado of Chile targets SMEs and segments of the population not generally served by commercial banks. The Chilean government supported Banco Estado in its early years, but later pushed an autonomous and independent management of the bank. Banco Estado has since competed in an open financial market and reinvests the bank's own profits in order to grow. Competition and prudential regulation have supported Banco Estado's sustainable business model. Pricing policy is based on market references and the bank is not allowed by law to subsidize credit operations or lend to state-owned institutions. Banco Estado applies the same standards of efficiency as the rest of the commercial banks, and is required to have a return on equity aligned with the average of the banking industry. In association with private partners, Banco Estado has been efficient at using its broad, countrywide capacity to provide access to MSMEs, as well as low-income households. In 2009, Banco Estado played an important countercyclical role in the Chilean economy by providing credit to companies and individuals that, as a result of the crisis, were no longer eligible for credit from privately owned commercial banks. Under strict control of the risk parameters, BancoEstado increased its market share by almost 3 percentage points, from 13.3 percent to 16.2 percent, between December 2008 and November 2009. Another decision that proved to be material was an anticipated reduction of the foreign exchange net position of the bank to levels close to zero. The sound financial position of bank at the beginning of the crisis and the timely capitalization of the bank (USD 500 million) were essential for applying countercyclical financial policy.

	BDC	Banco Estado
SME Outreach	27,617	24,017**
Financing facilitated (USD)	close to 19 billion***	613 million**
Net profits (USD)	90 million (2009)	86 million (2008)

*BDC's fiscal year 2010 ran from April 1, 2009 to March 31, 2010
**Data refers only to Banco Estado's SME lending guarantee fund (FOGAPE)
***Financing facilitated refers to the size of BDC's portfolio

high-tech SMEs, microenterprises, and investment loans), especially designed to soften the impact of the financial crisis. These countries include Korea, Malaysia, the Netherlands, and the United States. The large number of credit guarantee schemes submitted is not surprising, as these schemes are a popular policy instrument to facilitate SME access to finance, both in developed and developing countries, as discussed in Chapter Three (Box 4.11).

Several of the mature schemes can be replicated in other countries, but their relevance depends on the weights given to different objectives, and replication will require adapting the design parameters to local conditions. Box 4.12 provides additional information on two particular schemes — the Chilean FOGAPE and the Canadian SBFP. The Chilean scheme has achieved a good outreach with a low net loss ratio of 1.5 percent. An evaluation of the scheme suggests that it increases the probability of SMEs obtaining credit by 14 percent. These good results are due to an innovative design that includes a bidding procedure and risk-based fees. The Canadian scheme is an interesting example of a scheme that has been able to achieve a reasonable outreach despite a strict targeting policy. An evaluation of the scheme suggests that 74 percent of firms using the guarantee would not have been able to obtain a loan otherwise. The net loss ratio has been kept at 3 percent, despite the higher risk of the targeted population, possibly due to strict payment rules.

4.5.3 STATE BANKS

State bank models are represented in four[93] cases of the stocktaking exercise. One of the submitted models comes from Canada, while three models are from developing countries in different regions: East Asia and the Pacific (Malaysia), Latin America (Chile), and South Asia (India). All four models share a mix of policy and commercial mandates.

The state bank models from Canada and Chile provide access to finance and capacity building to SMEs and other segments of the population while maintaining a positive and sustainable track-record. Both banks are playing an important countercyclical role in their local economies in response to the global financial crisis. Despite being state-owned, these banks are managed and governed independently, with little if no involvement by the government. Banco Estado of Chile acts as a full-fledged commercial bank competing with private sector banks, while BDC of Canada plays a complementary role to the financial sector and, instead of competing with commercial banks, provides financing for higher-risk transactions not taken on by other banks, pricing these transactions on a risk basis (Box 4.13). The two other examples illustrate the use of the state bank network for a particular SME financing function, such as the financing of energy saving equipment by MSMEs (India) and support for viable small businesses facing difficulties by facilitating rescheduling or restructuring of financing facilities and, where appropriate, providing new financing to these enterprises (Malaysia).

4.6 Models Addressing Specific Gaps

Beyond the various categories of interventions described above, a few initiatives from the stocktaking seek to address more specific market gaps in SME finance. These cases cut across different categories of intervention (e.g., private sector initiatives, public support schemes, financial infrastructure) and include:

- Crisis-response;
- Gender finance;
- Sustainable energy finance; and,
- Other innovative models.

4.6.1 CRISIS RESPONSE

Various cases in the stocktaking aim to support SMEs in overcoming periods of crisis with the least possible impact. Some of the models from the collection are specifically designed as crisis-response mechanisms, while

93 One of the five models refers to Banco Estado in Chile, which submitted two cases: a credit bureau and a credit guarantee initiative. Both cases are also classified under those respective categories (e.g., financial infrastructure and credit guarantees).

BOX 4.14 PRIVATE INITIATIVE IN RESPONSE TO ECONOMIC CRISIS

Initiative: Union of Chambers and Commodity Exchanges of Turkey (TOBB) Support Program

The TOBB Support Program was created in 2001 by TOBB, a private non-profit business organization, together with 16 Chambers and Commodity Exchanges in Turkey, in order to support SME exporters during a period of crisis in the financial sector. The initiative aims to increase credit volume for SMEs through the banking system. Under this structure, TOBB makes deposits in selected public banks (Eximbank and Halkbank), creating a pool of funds that used by the banks to provide loan packages for SMEs. TOBB's (and its members') cash funds are used to: (i) buy commercial paper issued by Eximbank; and (ii) make 1-year deposits in Halkbank. The pool of funds is used by the banks to on-lend to SME members of TOBB as 1-year cash credits at below-market rates. The banks are in charge of the selection and servicing of loans for SMEs.

Amount of financing facilitated: USD 813 million

SME outreach: 33,192

BOX 4.15 TWO MODELS FOR SME GENDER FINANCE

Initiatives: Financing women-owned SMEs (Nigeria) and Women Entrepreneurs' Package (Turkey)

The program for financing women-owned SMEs was created under the coordination of Enterprise Development Center (EDS), Fate Foundation, and IFC, in order to support African financial institutions. The initiative consists of a direct credit line for on-lending to women-owned SMEs, coupled with an advisory service program for financial institutions to assist them in expanding their reach to women-owned SMEs. The three components of the program are: (i) advisory services to financial institutions; (ii) capacity building for banks to increase growth prospects of women-owned businesses in the program, training them on financial literacy, trade, business planning, etc.; and (iii) investments by IFC in banks to support increased lending to women-owned SMEs. Since 2006, the program has been implemented by Access Bank PLC Nigeria. Access Bank has received USD 15 million in IFC loans but has lent over USD 35.5 million (with non-performing loans of less than 0.5 percent). Close to 700 women have been trained as part of the program.

The Woman Entrepreneur's Package has been offered by Garanti Bank in Turkey since 2006, with the objective of meeting businesswomen's communication networking, training, and financial needs, and thus help grow their businesses. The package includes: (i) a support loan (term up to 60 months, grace period, and a special rate); (ii) supplementary banking products (overdraft account, point of sale (POS) terminal, business credit card, insurance coverage, and automatic payment orders); and (iii) networking and training support, including Women Entrepreneur meetings organized by Garanti and the Women Entrepreneurs' Association — KAGIDER, Turkey's Women Entrepreneur of the Year Contest, along with a free training program known as "Basic Entrepreneurship," Results from the package reflect that USD 157 million in loans have been granted to 8,400 women, and approximately 1,600 participants have attended the Woman Entrepreneur Meetings to share expertise, business ideas, and experiences. Over 3,000 applications have been submitted to Turkey's Woman Entrepreneur of the Year contest in the three years since the program was launched.

	SME Outreach	SME Financing Facilitated (USD)
Financing Women owned SMEs	1,300	35.5 million
Woman Entrepreneur's Package	8,400	156 million

BOX 4.16 ADDRESSING SUSTAINABLE ENERGY FINANCE FOR SME DEVELOPMENT

Initiative: Russia Sustainable Energy Finance

The program was created in 2005, led by IFC with the sponsorship of the Global Environment Facility (GEF), Finland, Denmark, and Free State of Saxony, to address local challenges by fostering investments in energy efficiency programs. Energy prices had been rapidly increasing in Russia. However, many industrial companies were still using energy-intensive equipment installed more than 20 years ago. As a result, the program supported the creation of the federal law on Energy Efficiency Improvement and Energy Saving, which removes key barriers to large-scale modernization of Russian SMEs. In addition to legal and policy reform, the program provides a combination of advisory services in support of long-term loans to Russian financial institutions, in order to stimulate the financing of energy-efficient projects of Russian SMEs. Currently, eight banks have financed over 130 energy efficiency projects worth USD 135 million, with bank loans totaling over $100 million. These projects have an expected lifetime carbon dioxide equivalent (CO2e) savings of almost 5.7 million tons and an annual energy savings of 727,000 MWh.

Amount of financing facilitated: USD 104 million

SME outreach: 132

BOX 4.17 TWO INNOVATIVE APPROACHES TO SME FINANCING

Initiatives: Reverse Factoring at Nacional Financiera — NAFIN (Mexico), and Inovar Program (Brazil)

NAFIN is a local development bank in Mexicothat offers on-line factoring services to SME suppliers. In 2001 Nafin developed a "Productive Chains" program that works by leveraging the links between large corporate buyers and small suppliers. The program allows small suppliers to use their receivables from big buyers to receive working capital financing, effectively transferring suppliers' credit risk to their high-quality customers to access more and cheaper financing. Two types of factoring are offered: (i) Factoring offered to SMEs without any recourse, collateral, or service fees, at variable risk-adjusted rates; and (ii) Contract Financing, which provides financing up to 50 percent of confirmed contract orders from big buyers with NAFIN supply chains, with no fees or collateral, and a fixed rate. Financial training and technical assistance are also offered under the program. As of mid-2009, the program comprised 455 big buyers (about 51 percent in the private sector) and more than 80,000 SMEs, and had extended over USD 60 billion in financing. About 20 domestic lenders participate in the program, including banks and independent finance companies.

The Inovar Program in Brazil was designed in 2001 by Financiadora de Estudos e Projetos (FINEP), which provides funding to strengthen technological and scientific development in Brazil, in coordination with the Inter-American Development Bank. The objective of the program is to support the development of new, SME technology-based companies through the establishment of a venture capital (VC) market and to enhance private investment in technology businesses. Inovar created a research/knowledge and information dissemination platform and develops managerial capacity for channeling and accelerating VC investments in small-company funds in Brazil. The program successfully achieved the creation of a VC portal with information on how to register for different program components, with over 2,650 registered entrepreneurs, and over 200 investors. It also established a Technology Investment Facility where investors can perform joint analyses and due diligence on VC finds, which resulted in over 50 joint due diligences with approximately USD 165 million committed/approved in 15 VC funds. The program has also established 20 venture forums for SMEs to interact with potential investors and present business plans, resulting in 45 SMEs receiving over USD 1 billion in VC/PE investments.

	SME Outreach	SME Financing Facilitated (USD)
NAFIN	78,600	60 billion
Inovar Program	3,250	11 million

other models are helping SMEs to mitigate the impacts of economic crises, despite having been created for other purposes. These initiatives are represented in a wide range of cases — mostly lending facilities and guarantee schemes — including: (i) liquidity facilities such as the multi-regional Microfinance Enhancement Facility through MFIs; (ii) credit guarantee facilities with subsidized guarantee fees to support SMEs during crises, such as Malaysia's SME Assistance Guarantee Scheme; and (iii) programs designed to support complete banking solutions (e.g., loans, deposits and technical assistance) that allow banks to more easily justify SME involvement in times of crises, such as the Africa SME Finance (AMSME) Program developed for Sub-Saharan Africa. As discussed in Chapter Three, the crisis response models were instrumental in supporting SMEs during the financial crisis, as is evident from the experiences of the OECD countries.

A recent OECD study on the impact of the global crisis describes several initiatives by governments that are seeking to maintain or increase business cash flows in response to the global crisis. There are two important factors that significantly increase SME vulnerability in times of crisis: (i) extended payment delays on receivables, combined with (ii) increased difficulty in accessing short-term loans, as banks tighten their credit conditions. Several government interventions in OECD countries seek to mitigate and address liquidity constraints by reducing or shortening payment delays for public procurement. This is a simple but key initiative in support of SMEs, since the largest source of financing for these enterprises comes from internal cash flows that can become constrained by the lengthening of payment schedules. Specific measures being undertaken by governments include the European Commission's recommendation that public authorities pay their bills within 30 days, as well as the Commission's commitment to expedite payment of goods and services to fully respect the targets for bill payments. In addition, countries such as Australia, France, the Netherlands, New Zealand, and the United Kingdom are also easing tendering and procurement procedures and policies.

One stocktaking model submitted by Turkey illustrates an innovative crisis-response initiative created by a private business organization and implemented through public banks. The TOBB support program (Union of Chambers and Commodity Exchanges of Turkey) was created in response to the 2001 economic crisis and represents the first case in Turkey where a private business chamber sought public banks to launch an initiative to revitalize SME export financing, a key challenge in times of crisis. Box 4.14 provides additional information on the TOBB initiative, whose innovative approach has potential for replicability in other markets.

4.6.2 GENDER FINANCE

Two submitted initiatives in Nigeria and Turkey are seeking to address the gap in women entrepreneurs in SMEs, and are fostering the development of a new market for this segment. One of the models is a DFI-supported program for financing women-owned SMEs in Africa that consists of a credit line specifically designed for women-owned SMEs, coupled with an advisory services component to assist banks in understanding and expanding their reach to the target segment. The program has had a catalytic effect in the Nigerian market, and other financial institutions have started to replicate the model. The second model, a Woman Entrepreneur's Package, is a private sector initiative launched by Garanti Bank in Turkey (commercial bank) to support capacity building and financing needs of women SMEs in cooperation with Turkey's Women Entrepreneur Association. Results from both programs have shown positive results, suggesting that women-owned SMEs are a profitable business with good repayment rates, in turn reflecting the fact that women are often good savers. More information on these two cases is provided in Box 4.15.

4.6.3 SUSTAINABLE ENERGY FINANCE

Four developing country models from different regions are supporting sustainable energy finance, with the aim to reduce costs and climate change risks for SMEs. These initiatives are being implemented in different

regions, including South Asia, Latin America, and Eastern Europe and Central Asia. By stimulating financing in energy efficiency (EE) and renewable energy (RE), these initiatives seek a double purpose — to increase SME profitability and sustainability while also reducing greenhouse gas emissions.

Submitted cases address Sustainable Energy Finance through various approaches. These approaches include: (i) legal and policy reforms to promote EE investments across multiple sectors; (ii) lending facilities targeting banks (e.g., stimulating them to support energy efficient project financing) or directly targeting SMEs (e.g., stimulating the purchase of EE equipment); and, (iii) technical assistance to raise awareness of sustainable energy benefits among financial sector players and SMEs. Russia's Sustainable Energy Finance initiative (Box 4.16) is an example of a facility that includes all three components and involves strong collaboration among DFIs, government officials, and the financial sector. This collaboration is considered a key success factor for the initiative.

4.6.4 OTHER INNOVATIVE MODELS

Innovations in delivering financial services to SMEs have the potential to expand the SME finance frontier. The channels through which this can happen can be cost related (reduction in costs allowing previously unserved population to use newly affordable financial services) or outreach related (changes in lending technology allowing reaching new clientele that remained inaccessible earlier). Although some of the underlying mechanisms in these models have existed for some time (e.g., supply chain finance) and have shown significant potential for success, they are not yet widely mainstreamed relative to other mechanisms, especially in developing countries, which allows for such categorization. Some of these innovations have been adapted to serve the local markets; other mechanisms are country-specific and may not be replicable elsewhere. However, sharing examples of such innovative initiatives from around the world might prove useful in the promotion of SME finance in other countries.

Two initiatives submitted by Brazil and Mexico stand out as promising models to SME finance, based on the uniqueness of their features. These cases are having a positive impact in their respective markets and show potential for replicability, particularly in the developing world. Both cases are being supported by DFIs and government entities:

- **Supply chain finance.** The reverse factoring initiative of Nacional Financiera (NAFIN) in Mexico is a supply chain credit mechanism that allows high-risk suppliers to transfer credit risk to their high-quality buyers. Suppliers' accounts receivable are discounted on a non-recourse basis once a buyer has agreed to pay on the due date, thus mitigating supplier performance risk and isolating credit risk to the buyer. Supply chain finance is particularly attractive to SMEs in emerging markets, as SMEs (e.g., suppliers) can borrow based on their buyer's credit rating, which is often superior in the case of large domestic and foreign firms. These mechanisms are a promising source of financing in many developing countries where the financial information infrastructure remains relatively weak. Governments can stimulate factoring and other sources of supply chain finance by creating a supportive regulatory and legal environment, such as electronic security and signature laws necessary for the quick and electronic sale of accounts receivable.

- **Venture capital markets for SMEs.** The Inovar Program is a unique model that fostered the creation of an SME venture capital market in Brazil. The initiative created infrastructure conductive for venture capital investments in new, high-tech SMEs, enhancing private investment in technology businesses, attracting, for instance, pension funds that had previously never financed venture capital funds.

The NAFIN and Inovar cases are explained in further detail in Box 4.17. Both cases are already serving as models for replication in other Latin-American countries, such as Peru and Colombia (Inovar) and Argentina, Chile, and Central America (NAFIN).

BOX 4.18 THREE EXAMPLES OF DFI SUPPORT TO SMES THROUGH FINANCIAL INTERMEDIARIES

Initiatives: European Union and EBRD SME Finance Facility, Africa MSME Finance Program, and Micro and Small Enterprise Fund (MASSIF)

The EU and EBRD SME Finance Facility is a regional facility, created in 1999, consisting of EBRD-funded loans to participating financial intermediaries (banks or leasing companies) (FIs) for on-lending to eligible SMEs for investment and working capital needs. EBRD supports the loans with comprehensive technical assistance programs, and grants funded by the European Union are aimed at developing the capacity of FIs to engage in SME finance on a sustainable basis. As a result, EBRD funds have financed over 100,000 loans, with an average individual loan size of USD 30,000. Technical assistance funds have been used to train more than 7,300 FI staff across all areas of their business (sales, credit analysis, management, back-office support, etc). The FIs graduate from the European Union grant support under the Facility after 5 years, and the majority of these institutions continue to provide finance to the SME segment as a key strategic market.

The IFC Africa MSME Finance (AMSME) Program is a regional facility developed in 2006 to increase SME access to financial services in Sub-Saharan Africa through capacity building efforts of selected financial institutions. The program draws on lessons from various DFIs, including IFC's experience in the region and EBRD's experience in accelerating SME lending in Eastern Europe and the former Soviet Union. The program has two components: (i) investments in African banks with an appetite for MSME business (e.g., up to 5-year debt investments); and (ii) advisory services for those banks to grow, better manage, and service their SME portfolio. The IFC AMSME Program has demonstrated its replicability by spreading to 16 banks in Africa in a period of 4 years. An additional eight banks are expected to join the program in 2010.

MASSIF is a revolving fund created in 1986 and originally funded by the Dutch government. The fund is managed by FMO and, by bearing the currency risk, provides local currency financing to financial institutions for on-lending to small enterprises. MASSIF is generally used to fund financial institutions in early stages of development. Despite being funded primarily by public funds, the fund operates without grant schemes and on a sustainable basis. Public funds are thus rolled over on a constant basis and MASSIF loans are priced based on market reference plus a margin for credit risk. MASSIF mitigates its risk through the following strategies: (i) portfolio risk diversification worldwide; (ii) variable interest rates on MASSIF loans (if a currency depreciates, the local interest rate usually increases, partially compensating for the loss); (iii) no-prepayment policy, which avoids potential prepayment by clients shortly after depreciation. MASSIF can only operate in relatively stable macroeconomic environments and not in hyperinflation situations, as currency losses would have a substantial negative impact on the fund's portfolio.

	SME Outreach	SME Financing Facilitated (USD)
EU AND EBRD SME Finance Facility	101,000	3.2 billion
Africa MSME Finance Program	28,151	473 million*
MASSIF	n/a	487 million

*Financing facilitated cannot be exclusive attributed to the AMSME Program.

4.7 Development Interventions in the SME Finance Space

As part of the stocktaking exercise and the international development agenda, DFIs and IFIs support models across all the dimensions previously described, namely private sector initiatives, financial infrastructure, legislation and regulation, and public support schemes. Over 15 different DFIs and IFIs submitted and support cases from the collection, and at least half of those cases have received support from one or more development agency. DFIs and IFIs that submitted cases include, among others, the African Development Bank (AfDB), Asian Development Bank (AsDB), EBRD, IADB, KfW, and the World Bank Group (represented by the International Bank for Reconstruction and Development (IBRD) and IFC). Not surprisingly, close to 95 percent of development interventions in the collection target developing countries. A key value added by DFIs is their ability to go beyond lending and provide additional necessary support in the form of risk-sharing, equity investments, technical assistance, and capacity building, as well as regional or global know-how to maximize development impact. Relying on their experience, DFIs can add significant value by fostering cooperation and collaboration among local, development, and international stakeholders, including public and private sector players, for the creation and implementation of projects.

Two thirds of DFI interventions support public sector initiatives. In general, these projects seek to provide a stronger platform to increase financial intermediation for underserved segments. DFI support is primarily provided through: (i) funded facilities for SME loans; and (ii) credit guarantee facilities that share the risk of SME loans with lending institutions. DFIs provide support to more than half of the legal, regulatory, and financial infrastructure initiatives in the collection, seeking to provide the platform to ease constraints for SME financing. This is seen in the case of the Japan International Cooperation Agency's (JICA) endorsement of Indonesia's development policy loan to improve access to credit for MSMEs, and in the case of the Inter-American Investment Corporation's (IIC) development of a standardized SME scoring methodology in Latin America (FYNPYME). By supporting public interventions, DFIs seek to foster the creation of new markets and mechanisms that will strengthen SME growth and development, for instance by creating the necessary conditions for the development of venture capital markets in Brazil (Box 4.17) or promoting the development of leasing markets in Kosovo and Jordan in initiatives supported by the World Bank and IFC respectively.

Private sector initiatives, widely viewed as engines for sustainable development, are part of at least 30 percent of DFI-supported cases. These initiatives include lending facilities through private banks, equity investments in financial institutions or equity funds, and risk-sharing facilities in the form of credit guarantees. Most of these sample cases seek to obtain commercial returns (e.g., profits) as well as social returns (e.g., increase SME access to finance). This is particularly illustrated in the cases of Advans SA, ProCredit, and Access, all of which are dedicated to the establishment of sustainable banks in developing countries targeted for underserved market segments, and receive strong support from DFIs and private sector investors.

Development interventions include global, regional, and country specific facilities. Global and regional facilities not only diversify risk, but can also achieve broader scale. For instance, the European Fund for Southeast Europe (EFSE), the Microfinance Finance Facility for Sub-Sahara Africa (including equity support to MFIs as well as REGMIFA, which provides debt to MFIs (supported by KfW)) and the Microfinance Enhancement Facility (supported by multiple DFIs) invest in financial institutions at a regional and global level. Through their investments, they have reached out to over 200,000 SMEs in 20 countries. The IFC Africa MSME Finance (AMSME) Program provides financing to qualifying African banks through a

combination of tailored on-site technical assistance and an IFC investment package to better service SMEs (see Box 4.18 for further details on the IFC AMSME Program). On the other hand, country or project-specific initiatives generally seek to address specific market gaps, which include: (i) provision of long-term financing for SMEs through financial institutions, as in the cases of Vietnam's Cooperation Program on the Development of SMEs (supported by JICA) and South Africa's Promotion of SMEs (supported by KfW); and (ii) stimulation of energy-efficient investments by SMEs, as in the cases of the Green for Growth Fund in Southeastern Europe and the Micro, Small, and Medium Enterprises Energy Saving Project in India (supported by KfW and JICA, respectively)

Local currency financing initiatives, although scarcely present in the stocktaking, can substantially increase development impact, and play an important role in addressing the needs of SME borrowers and lenders. Among the stocktaking cases, the Micro and Small Enterprise Fund (MASSIF) represents the only case whose main purpose is to address local currency risk.[94] MASSIF was created by the Netherlands Development Finance Company (FMO) and the Dutch government in recognition that hard currency loans can have a negative impact on financial institutions and/or their SME clients, since the vast majority of SME borrowers and lenders do not earn hard currency income. Thus, the resulting higher risk from currency mismatches puts them in a vulnerable position in case of depreciation/devaluation of the local currency, which in turn can erase the positive development results that the initiatives may have created. MASSIF operates on a global level by bearing the currency risk of FMO projects with financial institutions targeting SMEs, and to date has funded 125 financial institutions worldwide. (Further information on MASSIF is provided in Box 4.18.)

The largest share of DFI-supported interventions is being channeled through the financial sector. Development interventions primarily rely on financial institutions for credit risk assessments, loan approval decisions and, ultimately, SME on-lending, allowing DFIs to reach out to a larger number of SMEs in a more efficient manner. Furthermore, on-lending through the financial sector targets dual results by fostering sustainable access to finance for SMEs while also supporting the development of financial markets. This is confirmed by the fact that about 60 percent of cases with DFI support — across both public and private initiatives — have technical assistance and/or capacity building components for financial institutions that seek to promote sustainability, and therefore play a key part in the development agenda. However, in order to evaluate the development and sustainability of financial institutions with more accuracy, start-up subsidies and technical assistance funds provided by DFIs and IFIs should be accounted for as part of the institutions' capitalization costs, as these funds sometimes prove to be significant. Technical assistance activities conducted by submitted initiatives support areas such as SME sales and understanding of the market, credit assessment, client portfolio management, and back-office support, among others. Box 4.18 provides an example of a design commonly present in DFI models of the stocktaking: a regional DFI-led initiative that combines a regional SME lending facility through banks with a technical assistance component for capacity building of financial institutions. The dual objective of this and similar facilities from the collection is to maximize access to finance for underserved segments of the population while promoting the development of financial markets.

94 Other cases such as SELP II (Box 4.10) offer local currency support as part of their multiple components.

The stocktaking exercise examines various SME finance models practiced globally and consequently sheds light on the magnitude of the SME finance market that remains to be served. The current practices span a variety of interventions, multitude of countries and regions, and comprise a diversity of implementing agencies. However, as seen in Chapter Three, the SME finance gap remains enormous, and systematic efforts are needed at the national, regional, and international levels to expand the SME finance landscape in the near future. Given this background, the G-20 has the unique opportunity to scale up the scope of the global SME finance agenda by leading the collaborative effort on initiatives related to financing, knowledge sharing, and capacity building in the SME finance space.

CHAPTER 5
Increasing Financial Access for SMEs: Suggested Actions and Policy Recommendations

The global gap in access and use of financial services remains a challenge. An estimated 2.7 billion[95] people lack access to basic formal financial services, such as savings or checking accounts, while access to financial services is equally challenging for micro, small and medium sized businesses. The largest share of the "unbanked" live in Sub-Saharan Africa (12 percent banked) and South Asia (22 percent banked). East Asia, Middle East and North Africa, Latin America, and Eastern Europe and Central Asia are also low-access regions, with 50 percent or less of their population banked. Among the unbanked, a large proportion lives on less than USD 5 a day.[96] Empirical evidence suggests that improved access to finance is not only pro-growth but also pro-poor, reducing income inequality and poverty.[97] Finance performs two key functions beneficial to households and businesses: risk management and inter-temporal consumption smoothing. These functions yield multiple direct and indirect benefits to households and firms, allowing them to take advantage of investment opportunities, smooth their consumption, manage day-to-day resources, and insure themselves.

With access to finance remaining limited for many households and small businesses in developing countries, financial inclusion has become an important policy objective in these countries. Broadly speaking, financial inclusion entails sustained and convenient access to a range of quality financial services at a reasonable cost for everyone who can use such services including hard-to-reach populations (poor, rural, informal, and groups that are discriminated against - women or ethnic minorities). Such services are typically provided by a variety of financial service providers while respecting the dignity of clients and with appropriate consumer protection measures in place.[98]

There have been substantial efforts and funding for improvements in financial inclusion from various stakeholders, including governments, the development community, standard setting bodies, the private sector, NGOs and research bodies, and others. The G-20 has also committed to improving financial inclusion with concrete and pragmatic actions. The G-20 commitment to addressing the global finance gap includes the two sub-groups created after the Pittsburgh Summit. The deliverables of the two sub-groups consist of this report, the Principles for Innovative Financial Inclusion that were agreed upon at the Toronto Summit in June 2010, and the G-20 SME Finance Challenge. The Principles aim to help create an enabling policy and regulatory environment for innovative financial inclusion.

In order to maximize the impact of the various ongoing efforts and the G-20 activities related to financial inclusion, to monitor progress over time, and to ensure continuity in the global discussions, an effective coordination mechanism is crucial. It is in this context that the FIEG has proposed establishing the Global Partnership for Financial Inclusion (GPFI). The GPFI's primary role would be to serve as a consultative body

95 CGAP 2010
96 Ibid
97 Beck et al. (2009) and World Bank (2008)
98 Accion International

to enhance coordination and effectiveness of financial inclusion efforts, as well as to coordinate and ensure the follow-up of the work plan, and monitor the progress. Through the GPFI, the G-20, as the premier forum for global economic cooperation, is in the best position to initiate and promote a more integrated and systematic global effort by leveraging its convening power and leadership.

Moving forward, the GPFI would support both the FIEG sub-groups: the access through innovation sub-group and the SME finance sub-group. The financial inclusion work being prepared in advance of the Korea Summit highlights that financial inclusion should leverage different types of financial services providers to address the global gap in access and use, and emphasizes the importance of SMEs as the main driver of job creation in emerging markets. The financial inclusion agenda, which forms part of the broader development agenda for the G-20 Korea Summit, is linked to the SME finance agenda, as progress on both fronts and parallel implementation of recommendations will accelerate global improvements in increasing financial access.

Specifically related to SME finance in emerging markets, **over two thirds of all formal small and medium-sized businesses in emerging markets seek credit, and over a quarter do not even have a bank account.** Out of a total of 25 to 30 million formal SMEs in emerging markets, 12 to 15 million SMEs do not have a loan or overdraft but need one, and 5.5 to 7.0 million do have some form of credit, but are credit constrained.[99]

Progress is being made in the developing world, with strong support from local governments and from the development community. However, successful models must be better identified, evaluated, and replicated more systematically, while taking into account regional and local conditions. **The G-20 is in a unique position to leverage the most recent research on the SME finance space, and support a strategic and comprehensive effort to bridge the significant SME finance gap.**

On the basis of the conceptual and empirical findings of this report, the FIEG recommends that G-20 Leaders implement a four-fold action plan to achieve the above objective:

1. Endorse a set of recommendations for policymakers in the developing world to establish a supportive enabling environment for SME access to financial services in their respective countries.

2. Establish a Global SME Finance Forum as a knowledge sharing and monitoring platform to further identify and promote best practices across countries and institutions, establish baselines, and monitor progress made.

3. Fund the winners of the SME Finance Challenge and scale up successful development interventions in the SME Finance space, including improvements to the financial infrastructure. Set up a longer term and more sustainable funding framework to increase access to finance for SMEs, complementing existing mechanisms. This would be a global funding platform to build capacity, mitigate risks, and create incentives for the delivery of sustainable and scalable financial services to SMEs, through means of a collaborative effort implemented by the bilateral and multilateral development finance institutions.

4. Lead the efforts to gather SME finance data in a coordinated fashion by establishing a platform to consistently collect cross-country data. This might fall under the mandate of the Global SME Finance Forum.

It should be noted that the recommendations proposed deal only with directly increasing access to finance for SMEs. As pointed out in Chapters 1 and 2, other non-financial issues, including informality, need to be addressed for the overall SME development agenda, but the non-financial issues remain outside of the scope of this stocktaking report.

99 IFC-McKinsey Study (2010)

5.1 Endorse a Set of Recommendations for Policymakers in the Developing World to Establish a Supportive Enabling Environment for SME Access to Financial Services

By endorsing and promoting a set of key policy recommendations that are directly derived from decades of SME finance experiments in both developed and developing markets, the G-20 will help policymakers in the developing world focus their resources on creating the right environment for SME access to financial services, address remaining market failures through well-designed government interventions, more consistently measure effectiveness, and continuously strive for the adoption of best practices by benchmarking themselves to their international peers.[100] On the basis of the key lessons learned from the stocktaking exercise, these recommendations are outlined as follows:

DEVELOPING COUNTRY SPECIFIC DIAGNOSTICS AND STRATEGIES

The development of an effective SME finance strategy for an individual country should ideally be based on a comprehensive diagnostic of its SME finance gap and the quality of its SME finance architecture. Such a diagnostic would encompass an evaluation of demand and supply side data aimed at estimating the SME finance gap, an assessment of the quality of financial infrastructure and relevant laws and regulations, as well as an evaluation of the range and effectiveness of policy interventions. Such a diagnostic would identify existing weaknesses, facilitate the formulation of coherent and integrated policies and provide the basis for monitoring progress in expanding the SME finance space. With their expertise and resources, IFIs are well positioned to provide such strategic support to national governments.

DEVELOPING A SUPPORTIVE LEGAL AND REGULATORY FRAMEWORK

Financial services for SMEs are best served by strong banking and non-banking institutions that can develop various business models to achieve the optimal balance between risk, reward, and cost to serve the SME segment. The more supportive the overall enabling environment in a given country is, the larger the size of the bankable SME space, which provides incentives for financial players to engage in this space, and increases odds of success and demonstration effects.

Competition is a key incentive for financial players to expand business lines beyond the large corporate segment and develop the SME business. An effective legal and regulatory framework will promote competition by avoiding overly restrictive licensing requirements and allowing international and regional banks with better SME lending technologies and downscaling capacity to enter the market. It will also enable the growth of institutions that have proved effective, such as mutual banks, and promote the development of alternative lending technologies such as leasing and factoring. Finally, an effective legal framework promotes the development of securities markets and institutional investors as an alternative to bank lending for the largest firms, thus producing positive spillovers effects to SME lending.

Competition among financial sector players can be promoted further by introducing technological platforms in key areas, facilitating a variety of financial products and services, driving down the costs of financial access, and reaching previously untapped markets. Mexico's platform for reverse factoring and Brazil's information platform for venture capital are good examples of government interventions that can mobilize private resources for SME finance. The competitive marketplace for SME finance should include both financial institutions and non-financial institutional providers with extensive

100 Although it is acknowledged that demand-side constraints can be binding for SME financial access, the focus of this report and thus of the suggested recommendations is on the supply side.

business networks meeting appropriate criteria.[101] Example of this includes the agent banking model in Brazil, where financial services are successfully provided by private agents using point-of-sale devices.[102]

Of course, competition should not be introduced at the expense of prudential safeguards. Minimum capital requirements, adequate fit, proper tests, and other regulations should still apply.[103] Moreover, banks in developing countries will also be subject to more stringent capital requirements (with greater reliance on core tier capital), leverage ratios, and other rules being proposed at the international level by the Basel Committee for Banking Supervision (BCBS). This should not pose an immediate problem, as emerging country banks are generally better capitalized and less leveraged than banks in developed countries, but these banks will need to build up more capital in order to meet the growing needs of their economies, including the demand for credit by SMEs. Emerging country banks will also need to strengthen their risk governance in line with the more stringent standards being currently proposed by the BCBS.

STRENGTHENING THE FINANCIAL INFRASTRUCTURE

Establishing a solid financial infrastructure (auditing and accounting standards, credit registries/bureaus, collateral, and insolvency regimes) should be a priority in the financial development agenda of most developing countries. As indicated in Chapter Three, financial infrastructure remains weak in many of these countries, particularly those in Africa, Asia, and the Middle East. Weak infrastructure remains one of the most important obstacles to SME finance, and the need for greater efforts in this area cannot be stressed enough. A sound financial information infrastructure should improve transparency and disclosure for SMEs in a cost-effective way, and help SMEs build a credit history, which is critical in helping to address both challenges of information asymmetry and cost to serve.

Accounting and Auditing Standards: As mentioned in Chapter Three, there has been substantial debate around developing accounting and auditing standards for SMEs that strike the right balance between transparency and regulatory simplicity. SMEs are typically non-public entities with simple financial transactions. Many of the disclosures aimed at public shareholders and lenders may be unnecessary for SMEs. Several countries still resist adopting IFRS for SMEs, claiming that these standards remain excessively complex and costly for smaller firms. Therefore, a further review of IFRS rules for those firms below, say, 50 employees, may be warranted. Likewise, and for precisely the same reasons, governments may consider adopting the EU policy of exempting firms with fewer than 50 employees from obligatory audit requirements. These thresholds should be calibrated according to country conditions.

Credit Bureaus/Registries: Governments and public authorities have a critical role to play in developing public credit registries and/or promoting the development of private credit bureaus. The aim should be to develop a comprehensive credit reporting system that covers both personal and commercial credit information, and hence can seamlessly cover micro, small and medium-sized businesses and thus help lenders better manage credit risk and extend access to credit. Provision of data to credit registries/bureaus should be made mandatory, as well as the consultations to the registries/bureaus. This would ensure the rapid build-up of coverage and a reliable database. Moreover, credit registries/bureaus are most effective when their data are electronically accessible and available in real time, and the credit report information (positive as well as negative) is up-to-date and processed in a short time. In a developing country context, where

101 Center for Global Development (2009)
102 ATISG (2010)
103 Ibid

the information environment is particularly weak, there is a need to start collecting information from all relevant players inside the financial services industry, including microfinance institutions, banks, non-bank financial institutions, and — as far as it is economically and practically feasible — players outside the financial services industry, such as utilities and retailers. Finally, bureaus should be encouraged to provide additional services such as credit scores.

SME Rating Agencies: Some countries, such as India, have introduced SME rating agencies as an additional institution designed to generate and provide more information to prospective lenders. This is a relatively recent initiative that merits consideration by other countries. There are some critical issues that need to be revisited, such as who pays for the ratings to avoid conflicts of interest (like those observed in the case of credit rating agencies). It is also possible that these agencies require a critical size of market to break even and become profitable. If this is the case, DFI and governments could consider regional solutions, involving regional hubs that are large enough to dilute fixed costs, but that also contain expertise at the country level.

Secured Transactions Regime: Governments are central to developing another crucial component of the financial infrastructure: an effective secured transactions regime. A well-functioning collateral regime is characterized by a wide range of allowable collaterals (immovables and movables), the establishment of clear priority rankings of claims over collateral, efficient collateral registries making priority interests publicly known, and effective enforcement of collateral in the case of default, including both seizure and disposition. In the case of developing countries, it will prove essential to develop out-of-court enforcement mechanisms, given the low efficiency of court systems and the long time period necessary for reforms to take effect in this area.[104]

DESIGNING EFFECTIVE GOVERNMENT SUPPORT MECHANISMS

Government support mechanisms can expand significantly the SME finance space, although it is always important in these cases to minimize their potential market distorting consequences. As is clear from the stocktaking exercise, government-supported interventions in the SME finance space are commonplace. The perfect enabling environment for finance being a long-term/tentative objective, government support is likely to always be needed to provide incentives, catalyze a market, or create demonstration effect, if not for purely political reasons. It is critical that the government-supported special support programs be used as complements to, rather than substitutes for, the development of basic enabling environment for financial services.

In all cases, government interventions (state banks, lending facilities, credit guarantees, risk-sharing, capacity-building, etc.) should be carefully designed and better evaluated with a view to accurately measure their achievements in terms of outreach, additionality, and leverage. Such interventions should be designed to respond to market needs in a timely and cost-effective manner, and should be sufficiently flexible to respond to changing macro-economic conditions. It is also important to ensure alignment of interests between the public authority providing funding and the implementing institution, so that the latter also has an interest in achieving the policy objectives. In general, any financial support scheme should be able to make a profit. Subsidies should not distort the market and should only be reserved to address more severe market failures, and focus on cases where there are substantive positive externalities. Moreover, there should be a measure of subsidy dependence, and a practical and meaningful impact evaluation approach involving a real cost-benefit analysis that assesses whether the positive net impact was worth the cost in subsidy.

104 World Bank (2009)

Partial Credit Guarantee Schemes: These schemes should probably remain an important form of intervention. However, empirical research and the stocktaking exercise do not provide clear guidance either on the optimal number of guarantee schemes (some countries maintain several schemes) or on their design features. In this regard, it would be highly desirable for DFIs to coordinate an initiative aimed at developing core principles/guidelines to orient developing countries in the design of such schemes that also minimize their subsidy component (depending on the guarantee pricing/conditions). These principles would contain guidelines on eligibility criteria, coverage ratios, fees, payment rules, use of collateral/down-payment, and equity ratios, among other parameters. Moreover, these schemes should be subject to more systematic evaluations of impact that assess, inter alia, their degree of outreach, additionality, and sustainability. Finally, credit guarantee schemes can play a much more proactive role in capacity building and training of participating banks, especially in less-developed financial systems. There seems to exist substantial scope for assistance from DFIs in this area.

State Banks: For those countries that do not already have such institutions, this report does not recommend the creation of new state banks to serve the SME market. If there is a rationale for a market intervention, it could arguably be better achieved by a well-designed credit guarantee scheme with an adequate capital base. Where state banks already exist and play a role in SME finance, the first priority should be to ensure clear mandates and governance structures. Moreover, in countries where there is a state bank operating side by side with a credit guarantee scheme, the role and target markets of the two institutions should be well defined. Arguably, the credit guarantee scheme would target the segment of riskier and smaller firms. This would presumably promote transparency and facilitate the identification of losses and the possible need for government support.

Lending Facilities: Direct lending in the form of soft loans/lines of credit/co-financing/equity funds would continue to remain a popular intervention in the SME finance space due to its simple structure and faster implementation. However, the impact of many of these programs has been limited due to the subsidy and political components associated with them. More research needs to be conducted on the impact of the various directed lending programs that have been implemented globally. Furthermore, guidelines for designing such programs should be developed in order to maximize their impact while minimizing the subsidy component, political involvement, and crowding-out effects impacting the private sector. To further minimize their market distorting effect, an optimal exit strategy for such programs should also be developed.

BUILDING CONSISTENT AND RELIABLE DATA SOURCES ON SME FINANCE

The task of measuring the SME financing gap and tracking progress remains a challenge at the local and global levels. It is, however, a necessary condition for continuous improvement. An effective data collection framework at the national level should include efforts to standardize the definition of SMEs, centralize the collection of supply-side data by the central bank/banking supervisors and other financial supervisors, and survey SMEs in order to identify and quantify under-served SME segments. Demographic data on SMEs by number of employees, turnover, and asset size should be available and help normalize access to finance data across countries with different SME definitions, thus allowing global aggregation. Increased information on all aspects of SME market development could promote SME financing, as financial institutions would be better able to judge the attractiveness of the segment and adapt their business models to serve it. In order to get a more complete picture of the SME finance landscape, systematic efforts should be launched to estimate the number of SMEs in the informal sector as well as to examine their access to financial services.

Promoting computerized business registries would further facilitate the data gathering process and

would serve as an important first step for firms joining the formal sector. Required annual filings of business and financial information can provide important measures over time on the size of the SME sector, their entry/exit, job creation/destruction, access to finance, etc. In addition, credit bureaus can also report the number of small loans — which is a good proxy for SMEs that receive credit — and the aggregate new credit granted, by size (and other) buckets.

BUILDING CAPACITY OF THE FINANCIAL INSTITUTIONS

The capacity building of financial institutions is critical in their sustained expansion and strengthening. It helps participant institutions in accessing new markets/clients, broadening their product offerings, and learning the skills to integrate sustainable finance practices into their strategy and operations. For many international organizations, institutional capacity building (streamlining credit processing, standardizing product offering, segmenting the SME market, training staff and management, introducing management information system, etc.) has been a significant component of their SME finance assistance strategy. DFIs/IFIs can scale up their efforts to provide capacity building/advisory services to financial institutions and help them serve SMEs more efficiently.

The capacity building of SMEs is also important in improving their formal financial access and would include providing technical and business support services such as training, business development services, assistance in formalizing financial statements, and loan application preparation. Such services could be potentially provided by appropriate associations such as SME development agencies, SME associations, or chambers of commerce, but remain beyond the focus and scope of the report.

5.2 Establish a Global SME Finance Forum

While the stocktaking exercise has highlighted the individual and innovative initiatives undertaken by policymakers, governments, and private sector players, it also revealed the lack of a global center of expertise on SME finance. Unlike the microfinance industry, where CGAP and the MIX Market are the recognized centers for expertise, knowledge and data sharing, and monitoring among industry stakeholders, the SME finance industry lacks a global central repository of knowledge.

The G-20 should lead the establishment of a Global SME Finance Forum as continuation of the SME finance sub-group. The Forum is envisioned to be an independent operation and research center advancing the financial access for SMEs to foster economic growth, employment, and poverty alleviation. It would further formalize the long-term commitment of the G-20 to the SME finance cause and could become an integral part for the GPFI. The Forum would require appropriate funding. Its objectives would be to promote and disseminate best practices in the SME Finance space; offer global access to a network of peer institutions, tools, and benchmarks; organize workshops and events on the subject matter; and conduct relevant research. The Forum's goal would be to strengthen the SME market infrastructure by disseminating information and providing consistent support and reference to relevant stakeholders. The various stakeholders of the Global SME Finance Forum would include policymakers, DFIs, practitioners, researchers, data providers, investors, and SME representatives. A Global SME Finance Forum would promote improved access to information with the objective of catalyzing a movement of consensus amongst stakeholders on good practices and performance standards which would ultimately benefit the advance of the SME finance industry.

The Global SME Finance Forum would offer a variety of services while acknowledging regional conditions. As part of its networking service provisions, it would coordinate annual meetings/workshops, provide global access to a network of peers, broaden and engage new network of players to increase the reach and impact of financing to SMEs, and share best practices and standards on SME finance. The Forum would also facilitate developing the SME finance data collection framework, analysis, and dissemination. This would involve coordinating the aggregation and maintaining of benchmarks at global, regional, and country-specific levels. Coordination would also be required for data collection frameworks, monitoring global funding needs for SMEs, evaluating policy impact on SME finance, and conducting analytical assessments on SME finance and industry trends. The Forum would conduct research and disseminate publications on relevant topics, coordinate the development of technical assistance tools and advisory services for key stakeholders, and leverage the expertise of complementary SME finance initiatives from DFIs/IFIs, private governments and funders, while also facilitating efforts for capacity building to SMEs and supporting the development of SME non-financial support.

While supporting the general industry infrastructure and key stakeholders is critical, capacity building of the SMEs themselves is also an important component on the demand side. Hence, although beyond the Forum's core scope, it would, at a high level, support SME development agencies, SME associations and chambers of commerce seeking to provide capacity building programs to SMEs. The Forum would facilitate efforts from agencies for the creation of non-financial support services such as training and business development services targeted to enhance the skill sets of SME management.

5.3 Fund the Winners of the SME Finance Challenge and Set up a Global Funding Platform to Build Capacity, Mitigate Risks, and Create Incentives for the Delivery of Sustainable and Scalable Financial Services to SMEs

The stocktaking exercise seems to confirm the proactive role that the development finance community has attempted to play, with some success, in the SME finance area in emerging markets. IFIs and DFIs have supported both public and private sector initiatives in the SME finance space, with a mix of capacity-building, risk mitigation, and funding mobilization. The G-20, through its high convening power and high level strategic support, has a unique opportunity to leverage this experience and accumulated know-how, in order to further scale-up this effort and complement existing initiatives and efforts on a comprehensive and strategic basis.

The immediate focus should be on funding the winners of the SME Finance Challenge and advancing improvements to necessary financial infrastructure, while establishing a funding platform that would further leverage resources of IFIs, DFIs and the private sector to bridge the SME finance gap. The funding platform would complement existing channels for SME finance support. The stocktaking exercise has identified a significant demand-driven gap in SME financing and a need for the establishment of a multilateral SME financing initiative, over and above the immediate contributions to the SME Finance Challenge, to help put in place a longer term and more sustainable mechanism for enhancing SME access to finance. This platform, based on voluntary funding, is expected to help promote and apply successful models and best practices, leverage and share lessons learned in the SME finance space from the experiences of other countries, and ensure the adoption and the replication of the most effective identified models across developing countries.

5.4 Lead the Efforts to Gather Better SME Finance Data in a Coordinated Fashion and Establish a Platform to Consistently Collect the Cross-Country Data

The need to obtain better data on SME finance in a coordinated fashion goes beyond the guideline for national governments to collect SME finance data. Data on SME finance are scarce and fragmented. As a starting point, it would be important to build on the existing data exercises, such as the World Bank Group's enterprise surveys on the demand side and financial access surveys on the supply side, which can be used to establish cross-country benchmarks, assess common patterns, and inform coordinated policy responses. Furthermore, Multilateral Development Banks (MDBs), IFIs and DFIs should be encouraged to harmonize the reporting on their support for SME finance.

In May 2010, the G-20 Working Group on SME data was launched with the United Nations Secretary General's Special Advocate for Inclusive Finance for Development, Her Royal Highness Princess Máxima of the Netherlands, as the honorary chair, and with participation from donors, international organizations, and the private sector. The G-20 Working Group on SME Data has been established with the aim to consolidate and harmonize various international efforts for SME data collection and to improve the overall availability of data on SME finance. As a first step, the SME Finance Data Working Group cataloged the existing data on SME finance. The catalog focused on three main dimensions: demand-side data (what firms report about SME finance), supply-side data at the market level (what central banks and regulators report about SME finance), and supply-side data at the institutional level (what each financial institution reports about SME-finance). While there is a significant amount of existing data and research available on SME finance, there are still many gaps (lack of data on micro/informal firms, scarcity of consistent and disaggregated data on the supply side, and fragmented data availability on DFI/IFI support to SME finance as well as institutional level data on financial institution serving SMEs) that need to be filled in order to accurately measure the SME finance space.

As indicated in Chapter 3, there has not been sufficient evaluation of the impact of policy interventions designed to expand SME finance. These interventions may be justified in many cases, but they frequently entail fiscal costs and may also distort resource allocation and hinder market development. A more rigorous evaluation of the developmental impact of different classes of interventions, such as credit guarantee schemes and directed lending, would greatly contribute to the improvement of SME finance strategies adopted by national governments and IFIs. Such evaluation could be carried out according to various criteria such as leverage, scalability and sustainability, replicability, results and track record, implementation capacity, effectiveness in addressing market failures, added value (through public funding as opposed to other types of intervention), and cost efficiency. The G-20, through the Data Working Group, could contribute significantly in this area through the provision of resources for research and impact evaluation.

In summary, given the fragmented SME finance data space, the G-20 has a unique opportunity to lead the collaborative effort on improving the availability and quality of SME finance data globally. This can be achieved through encouraging and coordinating the data collection efforts at regional, national, and global levels conducted by a multitude of sources including national governments/agencies and international organizations and effectively addressing the data collection challenges along the way to ensure continuity of these efforts moving forward.

ANNEX A
SAMPLE SME DEFINITIONS

TABLE A.1: MALAYSIA SMIDEC DEFINITION

Firm Size	Manufacturing, Agro-based Industries	Service, ICT, or Primary Agriculture
Micro	<5 employees OR <66,000 in sales	<5 employees OR <$53,000 in sales
Small	<50 employees OR <$ 2 million in sales	<19 employees OR <$200,000 in sales
Medium	<150 employees OR <$6.6 million in sales	<50 employees OR <$1 million in sales

TABLE A.2: OTHER COUNTRY EXAMPLES

Country	Employees	Annual Sales (Revenues)
United States	10–499	<$7 million for most non-manufacturing, but ranges up to $ 35.5 million
Canada	10–499	<CAD 50 million
Mexico	11–250	
South Africa	Agriculture <100; other <200	<ZAR 64 million, depending on industry
Thailand	≤51 Production <200 ≤51 Service <200 ≤26 Wholesale <50 ≤16 Retail <30	
Turkey	20–249	<TL 25 million in Net Sales or <TL 25 million in Total Assets

TABLE A.3: IFC DEFINITION (ENTERPRISES MUST MEET AT LEAST 2 OF 3 CRITERIA)

Firm Size	Employees	Assets	Annual Sales
Micro	<10	<$100,000	<$100 000
Small	10<50	$100,000<$3 million	$100,000<$3 million
Medium	50<300	$3 million < $15 million	$3 million < $15 million

Source: WB Enterprise Survey and IFC's SME Banking Knowledge Guide (2009)

ANNEX B
METHODOLOGY FOR KEY ESTIMATES ON SME FINANCING GAP

1 ESTIMATING NUMBER OF INFORMAL ENTERPRISES

Estimate size of the informal workforce: Because little to no data is available for informal enterprises in most countries, the size of the informal workforce was estimated using the following steps:

- Estimate size of the informal sector as a percentage of the formal labor force, based on four different sources with a total coverage of 71 countries and approximately 80% of population providing the percentage of the formal labor force participating in the informal sector.
- Collect labor-force and unemployment data from the ILO data
- Estimate the number of adults working in the informal economy: The labor force was multiplied by the percent of the formal labor force that participated in the informal economy, and then this number was multiplied by 1 minus the unemployment rate to account for the unemployed in the informal sector

Estimate the percentage of the informal workforce that works in informal enterprises: The 2002 ILO Paper, "Women and men in the informal economy: a statistical picture," was used to get estimates for India, Mexico and South Africa on the percent of the total informal workers employed in informal enterprises. These estimates were 30% for India, 38% for Mexico, and 49% for South Africa. (One important distinction is that the Mexico and South Africa data includes only employment in informal, non-agricultural enterprises, whereas for India it does not. Farmers were excluded from the analysis, but not agri-businesses, to the extent possible.)

- For South Asia and East Asia: the India estimate of 30% was used.
- Sub-Saharan Africa: The South Africa estimate was adjusted from 49% to 33% after feedback from experts suggested the improbability that half of all informal-sector persons worked in informal enterprises outside of agriculture across the continent
- Latin America: The Mexico estimate of 38% was adjusted to 50% based on estimates from an Inter-American Development Bank's 2005 paper, "El Grupo BID y La Microempresa."
- OECD countries: An estimate of 85% was used to take into account the much smaller percentage of the informal working in agriculture
- Other regions: Based on feedback and syndication and barring better data, 50% estimate was used for the remaining regions.

Link informal workforce in informal enterprises to the number of informal MSMEs:

- It is assumed that all informal sector workers in informal enterprises work in informal MSMEs (versus large informal enterprises)
- Using local data from India, it was estimated that the average informal enterprise employs 2 people in South Asia and all informal employees of informal enterprises were divided by 2 to arrive at the number of informal MSMEs.

- In other regions, the estimate of how many people work in each informal enterprise was adjusted from 2 to 1.7 based on the number of people who are self-employed (using data from the 2002 ILO paper cited above). For example, in India, 52% of people outside of the agricultural sector are self-employed, while the Latin America figure is estimated at 60%. A ratio of the percent of self-employment in India over the amount in Latin America was created, and this ratio was multiplied by 2 (the number of people per informal enterprise in India) to estimate that there are 1.7 people per informal enterprise in Latin America. This exercise was repeated this for the other regions, using the India data as base.

2 ESTIMATING THE NUMBER OF FORMAL SMES

Create initial regional estimates: IFC's "MSME Database" was used to estimate initially the number of formal SMEs. These tables contain national data on the number of formal SMEs in approximately 130 countries.

Conduct country deep-dives: This initial data was refined for about 25 countries, using local government sources, literature review, and additional research and insights from local IFC and McKinsey colleagues.

Manage varying definitions of SMEs: Although national definitions for formal SMEs vary, a majority of the national data is based on definitions similar to those used for the current analysis.

Estimate the very small segment: The very small segment is not found in countries' national data. The size of the very small segment was estimated—based on the number of enterprises with less than 10 employees—in two steps: In Brazil, India, Kenya and Mexico, detailed data was available to estimate the proportion of all MSMEs with <10 employees that are micro (i.e., 1-4 employees) and very small (5-9 employees). These ratios were applied to other countries' definitions of enterprises with less than 10 employees to estimate the proportion of these enterprises that fit the definitions of micro (1-4 employees) and very small (5-9 employees).

Extrapolate for each region: Data was extrapolated from countries where there was complete formal MSME data to the remaining countries by developing ratios of the enterprise numbers by size in proportion to the population. The regional average was used to scale up the findings.

3 ESTIMATING THE NUMBER OF FORMAL SMES WITH NO CREDIT OR INSUFFICIENT CREDIT THAT NEED FINANCING

Create categories for analysis: SMEs are divided into 4 categories of credit usage and need:

- Well-served: need credit and their needs are being met
- Under-served: using some credit but still cite financing as a constraint
- Unserved: want a loan but do not have credit
- No need: neither have nor want formal credit

Focus on bank loans and overdraft: Throughout the analysis, focus is on bank loans and overdrafts while formal trade finance, leasing, and factoring are excluded due to data constraints.

Incorporate data from World Bank Enterprise Survey: This survey provides data cuts that match the definitions used in this analysis for very small, small, and medium enterprises and divides those enterprises into these categories:

- SMEs that do not use formal credit (i.e., a bank loan and/or overdraft facilities), which includes unserved enterprises and enterprises with no credit needs
- SMEs that use formal credit (i.e., a bank loan and/or overdraft facilities), which includes under-served enterprises and well-served enterprises

Extrapolate findings: This data was extrapolated to cover complete regions by taking the regional average for countries with data and applying that average to other countries in the region. The percentages of SMEs were multiplied by the actual number in each country and region to estimate the number of SMEs according to level of credit usage and need.

Limitations of the Current Methodology and Potential Actions Going Forward to Better Estimate the SME Finance Gap

A What are the shortcomings to the methodology and the exercise in general?

- Lack of comparable official data for many countries is the major challenge of this exercise and has led us to extrapolate data in many cases. The three major data shortcomings are:
  - Very limited available data covering two areas of the analysis:
    - Current available credit to MSMEs in each country (supply side of the analysis)
    - Number of informal and nonemployer firms (i.e., firms with 0 employees)
  - Lack of harmonized definitions across countries on what is classified as formal SMEs and whether nonemployer firms are included
  - Uneven quantity of data available among countries (i.e. very limited data available for most of the countries in Sub-Saharan Africa)
- Most of the analyses in the report are based on data from the Enterprise Survey that has demonstrated to be a very valuable tool to estimate the current level of access to finance in different countries.

B What is the margin of error we can expect from the findings?

- It is very difficult to estimate the margin of error of this work. The uncertainty in the work was reflected by introducing ranges for each value in each region that were believed to be appropriate to capture the uncertainty in the estimates. The level of confidence in estimates is higher for formal SMEs and all the regions other than Sub-Saharan Africa
- The data at a country level have much higher variability and degree of confidence is generally lower particularly for most of the smallest countries, which is why the analysis is reported only at the regional level

C What remains to be done/analyzed? How this could be done and what additional data/information would be required?

- Most of the data available today "over the counter" are leveraged for the analysis. Thus, in order to significantly improve the quality of the estimates there is the need to get better data based on harmonized definitions for few major countries by working directly with local governments and central banks. The following information should be collected:
  - Number of formal and informal MSMEs
  - Average revenue for each category
  - Credit available to MSMEs (in terms of volume and percent of MSMEs well-served, partially served and unserved)
- In the medium-term SME Finance sub-group could work with a wider range of governments and central banks as possible to improve data availability

ANNEX C
SME FINANCE STOCKTAKING MATRIX

G-20 SME FINANCE: STOCKTAKING OF SUCCESSFUL MODELS

BASIC PROJECT DATA

Code	Region	Country	Submitting Entity	Name of the Program	Implementing organization	Starting Year
1	EAP	China	IFC	Access to bank credit-Secured transactions	People's Bank of China IFC National People's Congress	2004
2	AFR	Ghana, Nigeria, Kenya, Tanzania, Uganda, Rwanda, South Africa	AfDB	GroFin	GroFin	2004
3	AFR	South Africa	AfDB	Enablis Financial Corporation (Pty) Ltd	Enablis Financial Corporation (Pty) Ltd First National Bank Khula Enterprises Enablis SA (NGO)	2005
4	EAP	China	ADB	Technical Assistance: Development of financing policies and mechanisms for SMEs	PRC/State Economic and Trade Commission Asian Development Bank	2001
5	EAP	Cambodia	ADB	Loan 2129: Small and Medium Enterprise (SME) Development Program Loan and TA4476-CAM: SME Sector Development	Ministry of Industry, Mines, and Energy, Cambodia ADB	2005
6	EAP	Philippines	ADB	Technical Assistance: Strengthening SME Credit Management Systems	Philippines: Department for Trade and Industry (DTI) through Small Business Guarantee and Finance Corporation (SBGFC): SME Development Plan 2004–2010/ ADB	2005
7	Developed	Australia	Australia	Commercializing Emerging Technologies (COMET) program	Department of Innovation, Industry, Science and Research, Government of Australia	1999

PROJECT DESCRIPTION

Type	Sub-type	Project Summary
Financial infrastructure	Collateral registry	In 2004, China embarked upon a reform of its movable collateral framework. The goal of the reform was to encourage financing against valuable movable assets such as inventory and receivables. The model had three phases: Development of the property law, creation of an electronic registry for pledged assets, and training the lenders to use movable assets as a basis for their lending
Private sector initiative	Equity finance	The project provides finance and business development assistance to SMEs. At the core of the finance solution is a fair risk-reward relationship between GroFin and its SME clients. This is a business model based on detailed business planning, cash-flow analysis, and financial forecasting. GroFin's team of local professionals provides business development assistance to entrepreneurs, and supports entrepreneurs in growing their business skills and knowledge.
Private sector initiative	Lending/ banking services	Enablis Financial Corporation manages two funds in South Africa. These funds provide loan guarantees and direct loans to Enablis entrepreneurs. It uses a unique risk mitigation strategy that engages entrepreneurs in capacity building, training, networking, and mentorship through its sister NGO Enablis Entreprenurial Network. Investors in the fund include Canada Fund for Africa, Khula Enterprise Finance, and First National Bank.
Legal and regulatory	Legal environment for SME development	The program promotes SME sector development through the formulation of policies and mechanism designs that would facilitate SME's access to credit and equity financing. In line with ADB's country operational strategy for PRC, this assistance would support the establishment of efficient financial markets and the acceleration of enterprise reforms in the country. Conducting a survey and reviewing of existing SME credit guarantee fund operations to identify suitable strategies and conditions to facilitate the provision of capital for SMEs from non-government sources including venture capital funds, specialized commercial SME investment funds, and domestic capital markets.
Legal and regulatory	Legal environment for SME development	The objective of the ADB program loan is to support the Government's efforts to create a legal and regulatory framework that is conducive to SME growth. The TA by ADB was meant to assist capacity building for policy formulation and implementation and was piggy-backed to the program loan.
Legal and regulatory	Legal environment for SME development	The goal of the TA is to promote financial deepening by expanding SMEs' access to credit. The purpose is to expand and improve the quality of lending operations of SBGFC, while lowering risk, and mainstreaming market acceptance of nontraditional collateral.
Public support scheme	Other	The COMET Program is a merit-based assistance program with the aim of increasing the commercialization of innovative products, processes, and services, by providing early-growth stage companies, spin-off companies, and individuals with a tailored package of support to improve their potential for successful commercialization. This is achieved through assistance in raising capital/joint ventures/licensing/agreements for distribution, manufacturing or product release/ production. COMET financial assistance is available through a two-tier funding structure.

BASIC PROJECT DATA

Code	Region	Country	Submitting Entity	Name of the Program	Implementing organization	Starting Year
8	SAR	India	GTZ	MSME access to Institutional Finance — Innovative Financial products for upstream supply chain micro-enterprises in the unorganized sector. Credit up-scaling from Microfinance Institution — MFI and Credit down-scaling from Development Bank — SIDBI	Small Industries Development Bank of India-SIDBI Satin Creditcare Network Ltd-MFI	2008
9	SAR	India	GTZ	MSME access to finance — Credit linkage of MSMEs with banks/FIs with help of financial consultants in the selected clusters	State Bank of India Bank of India SIDBI ICICI bank	2007
10	SAR	India	IFC	SME banking cluster approach	ICICI bank	2003
11	World	Developing, Emerging, Transition countries	CDC	Access Holding	KFW/CDC IFC/EIB Omidyar Tufts Microfinance Fund/LFS Consulting / MicroAssets (private sector)	2007
12	World		EIB	Advans SA	KfW/CDC/FMO/AFD IFC/EIB Horus Development Bank	2005
13	AFR	East, West, Southern Africa	CDC	Aureos East Africa Fund (AEAF); Aureos West Africa Fund (AWAF); and, Aureos South Africa Fund (ASAF)	CDC Norfund European Investment Bank IFC	2003
14	AFR	Kenya	CDC	BPI (Business Partners International) Kenya SME fund	East African Development Bank, European Investment Bank, Transcentury Limited, IFC	2006
15	AFR	East and Pan African	CDC	Grofin East Africa Fund (GEAF); Grofin Africa Fund (GAF)	CDC FMO Shell Foundation IFC GroFin	GEAF — 2005; GAF — 2008
16	AFR	Sierra Leone	CDC	Sierra Investment Fund	Private Foundations/High Net Worth Individuals CDC	2006

PROJECT DESCRIPTION

Type	Sub-type	Project Summary
Public support scheme	Funded facility	The project involved GTZ in capacity building of MFIs through developing a special credit scheme and in capacity development of MFIs
Public support scheme	Other	For the facilitation of credit linkages of MSMEs with the banks/financial institutions, a team of Financial Consultants was empanelled by GTZ on a nominal professional fee per MSME and financial consultants were free to charge market-driven success fees from MSMEs after the loan was sanctioned by the bank/FI.
Private sector initiative	Lending/ banking services	This model is based on effective segmentation of SMEs, 360 degree credit risk analysis (supply chain coverage for credit checks, credit scoring, financial analysis), and beyond lending approach (transaction banking products, use of technology, advisory services, SME recognition program)
Private sector initiative	Equity finance	Access Microfinance Holding AG is a commercial microfinance holding company. Its purpose is to invest in a network of MFIs, and to develop these investments through a combination of equity finance, holding services, and management assistance rendered by its technical partner, LFS.
Private sector initiative	Other	Advans is a Luxembourg-registered SICAR, established to build a network of primarily green-field microfinance institutions in Asia, the MENA region, and Africa. It is managed by Horus Development Finance ("HDF"), part of a group of consulting business companies based in Paris. Investors subscribe to shares in Advans SA as a holding company.
Private sector initiative	Equity finance	AEAF, AWAF, and ASAF are regional private equity funds, set up with an 8-year limited life in June 2003. AEAF had a final close at USD 40m, whilst AWAF and ASAF both closed at USD 50m. The strategy was to back established and growing companies with expansion capital (particularly for regional roll-outs) and capital for change-of-control transactions. Aureos is now a completely independent emerging market private equity fund manager, with a focus on the lower end of the market.
Private sector initiative	Equity finance	Business Partners International Kenya SME Fund (The Fund) is a fixed-life fund, investing equity, quasi-equity, equity related and debt instruments in Kenyan SMEs. It is managed by a local investment team in Nairobi and is able to provide technical assistance (TA) to investee companies. The TA facility is used to fund projects to strengthen management capacity, information systems, and accounting systems, as well as consulting projects for new lines of businesses.
Private sector initiative	Equity finance	GEAF: Closed in 2006 with almost USD 25m in commitments. GEAF targets investments of between USD 100,000 and USD 750,000. The investments are made in local currency and structured as loans/mezzanine capital with structured equity kickers. GAF: Closed in 2009 with USD 170m in commitments. GAF makes investments in local currency term loans carrying: (i) an interest rate based on the prime lending rate; and (ii) performance based incentive payments.
Private sector initiative	Equity finance	Sierra Investment Fund was established as the only private equity fund with Sierra Leone as its main target market and closed with just over USD 20m in 2009. The fund seeks to invest both growth and start-up capital into businesses with good growth potential within the SME segment.

BASIC PROJECT DATA

Code	Region	Country	Submitting Entity	Name of the Program	Implementing organization	Starting Year
17	EAP	Indonesia	World Bank	Second BRI/ KUPEDES Small Credit Project	Government of Indonesia (GOI) (Borrower) Bank Rakyat Indonesia (BRI) (Beneficiary) The World Bank (Lender)	1990
18	SAR	India	World Bank	India SME Financing and Development	Small Industries Development Bank of India (SIDBI) World Bank DFID	2004
19	SAR	India	India	Credit Guarantee Trust Fund for Micro and Small Enterprises (CGTMSE)	Government of India SIDBI	2000 but took off post 2005–06
20	SAR	India	India	Directed lending to the Small Enterprises	Reserve Bank of India, Commercial banks, Regional rural banks, Cooperative banks	1974 for local banks, 1988 for foreign banks
21	Developed	USA	USA	Small business program	Overseas Private Investment Corporation (Government) Financial Institutions (Investors) Private Investors Not-for-profit entities	1971
22	ECA	Azerbaijan	Sparkassen	German Azerbaijani Fund (GAF)	KfW, Sparkassenstiftung für internationale Kooperation	1999
23	EAP	Indonesia	Sparkassen	Savings Banks Reconstruction Fund for South Asia	(Bank Pembangunan Daerah) Sparkassenstiftung fuer internationale Kooperation	2005
24	Developed	Germany	Sparkassen	Savings Banks Finance Group	German Savings and Giro Association Sparkassenstiftung für internationale Kooperation	1856
25	ECA	Bulgaria	EBRD	ProCredit Bank Bulgaria	EBRD/IFC/DEG Commerzbank and International Micro Investitionen (now ProCredit Holding)	2001

PROJECT DESCRIPTION

Type	Sub-type	Project Summary
Public support scheme	Other	The Project was designed to promote BRI's ongoing efforts to strengthen and expand its Unit Desa system, which is the only nationwide network meeting the needs of both small borrowers and small savers
Public support scheme	Credit Guarantee	The project was designed to address the key constraints facing SMEs: Access to finance and development, in the short term and over the medium/ longer term. The Project included the following three components, Credit Facility, a Risk Sharing Facility and Technical Assistance for regulatory and institutional reform (support of credit bureau, SME rating agency, BDS, capacity building for financial institutions).
Public support scheme	Credit Guarantee	The Credit Guarantee Scheme (CGS) was a direct intervention by the Government of India and SIDBI.CGS) seeks to reassure the lender that, in the event of a Micro and Small Enterprise (MSE) unit that availed itself of collateral free credit facilities failing to discharge its liabilities to the lending institution, the Guarantee Trust would make good the loss incurred by the lender to a maximum extent of 85 percent of the credit facility.
Legal and regulatory	Banking/ Financial sector law and regulation	Small enterprises have been assigned Priority Sector status. Targets have been fixed for banks (domestic 40 and foreign 32 per cent of Adjusted Net Bank Credit (ANBC) and or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher), which are required to lend to the sector, with a view to ensuring that credit was channeled to various priority sectors of the economy that were previously neglected, and in accordance with the national planning priorities. The banks must ensure that the stipulated targets are met. Failing that, the banks are required to deposit the shortfall amount, with the funds earmarked for the purpose where the interest rates offered to them are not profitable.
Public support scheme	Funded facility	OPIC offers direct loans and loan guaranties from USD 100,000 up to USD 250 million to facilitate and support an overseas investment by a U.S. business. OPIC offers direct loans, loans through Non Bank Financial Institutions ("NBFIs"), and some loans through banks.
Public support scheme	Funded facility	In 1999, the German Federal Government (represented by KfW) extended a credit line to the Republic of Azerbaijan (according to IDA conditions) totaling € 8.6 million. This is called the "German Azerbaijani Fund" (GAF), a revolving credit fund. The loan has been used to disburse credit lines to Azerbaijani partner banks. Banks are supported by technical assistance measures while implementing/developing this line of business.
Public support scheme	Other	After the 2004 tsunami struck the Indonesian province of Aceh, the German Savings Banks Finance Group contributed to the reconstruction in Aceh with a technical assistance program of about 2.2 million USD and a refinancing line of 2.8 million USD. The project focused on the publicly owned Bank BPD Aceh.
Public support scheme	State owned bank (community)	Savings Banks continues to provide small scale savings, money transfer, mortgages and MSME lending throughout the various phases of the historical, economic, and political development in Germany.
Private sector initiative	Lending/ banking services	The aim of the project was the establishment of a greenfield financial institution to provide financial services to SMEs in Bulgaria. A group of investors consisting of Commerzbank Germany, International Micro Investitionen (now ProCredit Holding), DEG, EBRD, and IFC agreed to participate in the establishment of a specialized SME bank in Bulgaria. The start-up equity totaled to USD 8.2mln, and the above named investors acquired approximately 20 percent stakes each. Shareholders also made available funds for on-lending to SMEs and technical assistance to support the start-up phase and later regional expansion of the institution.

BASIC PROJECT DATA

Code	Region	Country	Submitting Entity	Name of the Program	Implementing organization	Starting Year
26	ECA		EBRD	EU/EBRD SME Finance Facility	EBRD EU	1999
27	World	Georgia Mozambique Vietnam	Netherlands	Schokland Mesofinance Fund	InReturn Triodos Facet Wereld Hypotheek/ Foundation	2008
28	Developed	Netherlands	Netherlands	Borgstelling BMKB (SME Credit Guarantee Scheme)	Dutch Ministry of Economic Affairs Agentschap Nederland (executing agency) Dutch banks	1915
29	Developed	Netherlands	Netherlands	Groeifaciliteit (Growth Facility or GFAC)	Dutch Ministry of Economic Affairs Agentschap Nederland (executing agency) Dutch banks Private equity companies	2007
30	Developed	Netherlands	Netherlands	Garantie Ondernemings-financiering (GO)	Dutch Ministry of Economic Affairs Agentschap Nederland (executing agency) Dutch banks	2009
31	MENA	Palestinian Territory	KfW	European Palestinian Credit Guarantee Fund	KfW Private banks	2005
32	World	Islamic Corporation for the Development of the Private Sector (ICD) member countries	ISDB-ICD	Line of Financing for SMEs Development	International Bank of Azerbaijan, Azerbaijan Banque pour le Commerce et L'Industrie, Mauritania PT Mandala Multifinance Indonesia Ipak Yuli Bank, Uzbekistan Private commer-cial banks	2003
33	LAC	Argentina	Argentina	National Fund for the Development of Micro, Small, and Medium Enterprises (FONAPyME)	Under Secretariat for Small and Medium Enterprises and Regional Development of the Secretariat of Industry, Commerce and Small and Medium Enterprises of the Ministry of Industry and Tourism National Bank of Argentina	2002

PROJECT DESCRIPTION

Type	Sub-type	Project Summary
Public support scheme	Funded facility	The Facility consists of loans funded by the EBRD to participating financial intermediaries (banks or leasing companies) for on-lending to eligible SMEs to meet their investment and working capital needs. The EBRD loans are supported by comprehensive institution building technical assistance (TA) programs managed by EBRD, funded by grants from the European Union, aimed at developing the capacity of PFIs to engage in SME finance on a sustainable basis.
Public support scheme	Funded facility	Under the Schokland Agreement on Mesofinance, the Dutch government seeks to promote development of credit options for small and medium-sized enterprises and/or the financial services industry in order to achieve the first Millennium Development Goal of reducing the number of people living in extreme poverty by at least 50 percent by 2015. To achieve this, three pilot projects related to Mesofinance in Georgia, Mozambique, and Vietnam have been selected.
Public support scheme	Credit Guarantee	The BMKB guarantee scheme helps SMEs in financing their plans. In case an SME enterprise is unable to offer a bank enough collateral for a loan, the bank involved can avail itself of the BMKB scheme: a State guarantee on loans issued by banks to companies. The size of the guaranteed credit is limited to a maximum of USD 2 mln (€ 1.5 million). The bank pays the State a one-off commission fee of 2 to 3.6 percent of the total loan amount that is part of the BMKB. The bank passes on this commission to the company.
Public support scheme	Credit Guarantee	The GFAC guarantee scheme aims to enlarge the risk capital base of SMEs, so as to hasten their growth or ease the acquisition of other enterprises. In case an SME is unable to attract risk capital by itself, it can appeal to the GFAC scheme: a State guarantee on risk capital issued by banks and private equity companies/informal investors to enterprises. The GFAC targets SMEs that are in need of relatively large bank loans and risk capital, up to a maximum of USD 67.5 mln (€ 50 million).
Public support scheme	Credit Guarantee	The GO guarantee scheme helps enterprises finance their plans. In case a bank considers a loan to a certain company too risky (e.g., in relation to the size or the exposure in certain sectors), the bank involved can avail itself of the GO scheme: a State guarantee on loans issued by banks to companies.
Public support scheme	Credit Guarantee	EPCGF is a credit guarantee fund established in December 2005. The fund signed partnership agreements with seven banks operating in Palestine. EPCGF helped partner banks establish specialized departments for SME lending and assisted them in applying best lending practices (i.e., cash flow lending), and portfolio management tools. EPCGF developed a risk rating system to help banks mitigate the risks and better manage the SME portfolio.
Public support scheme	Funded facility	ICD provides lines of financing to selected local financial institutions (preferably private sector commercial banks) for onward financing of financially viable SMEs projects with a clear developmental impact. The facility is based on the Murabaha islamic mode of financing, which is akin to the Sale on Cost Plus model with deferred payment and is ideal for machinery and equipment financing.
Public support scheme	Funded facility	FONAPyME fund was created to facilitate financing to SMEs in order to promote development within a social inclusive model. Credits are granted at a nominal fixed interest rate, for the long term (in Argentina, this means 5 years). The most important market failures that triggered this initiative were high interest rates and the unprecedented fall on credit offer (the fund was created after the 2001 crush).

BASIC PROJECT DATA

Code	Region	Country	Submitting Entity	Name of the Program	Implementing organization	Starting Year
34	LAC	Argentina	Argentina	Reciprocate Guarantee Company (RGC)	Under Secretariat for Small and Medium Enterprises and Regional Development of the Secretariat of Industry, Commerce and Small and Medium Enterprises of the Ministry of Industry and Tourism RCG	1997
35	Developed	Canada	Canada	Canada Small Business Financing Program (CSBFP)	Canada government	1999
36	World		Canada	Développement international Desjardins (DID)	Community Finance Institutions: Microfinance Institutions, cooperatives and banks CentralBanks and Financial Sector oversight bodies Local and International investors	1970
37	AFR	Senegal	France	Strengthening the capacity of Senegalese SMEs	Ministry of Industry and SMEs (Senegal) Ministry of Finance (Senegal) Bureau de mise à niveau (capacity building bureau) Senegal Agence Française de Developpement (AFD)	2004
38	MENA	Tunisia	France	Strengthening the capacity of Tunisian SMEs	Tunisian Ministry of finance Central bank of Tunisia Local banks Agence Française de Developpement (AFD)	1997
39	AFR	Madagascar	France	Support program to the Madagascar SME and microfinance sector — component: creation of a SME lending service and development of information services for small companies	ADEFI ACEP Développement CITE (all private sector)	2002
40	AFR	South Africa	France	Republic of South Africa	Agence Française de Développement (through ARIZ initiative) Standard Bank of South Africa (private sector)	2006
41	AFR	Western and Central African countries	France	FONDS AFRIQUE	TECH DEV (France) GARRIGUE (France) TECH DEV partners in Africa AGENCE FRANCAISE DE DEVELOPPEMENT (France) with its ARIZ guarantee	2005

PROJECT DESCRIPTION

Type	Sub-type	Project Summary
Public support scheme	Credit Guarantee	RGCs facilitate access to credit by granting SMEs — by means of a Reciprocate Guarantee Contract — the guarantees they need in order to properly comply with their commitments. RGCs have two different kinds of partners: Patron Partners (big companies and public banks that contribute the money that backs up the granted guarantees), and Participant Partners (SMEs interested in receiving financial support). Patron Partners benefit from tax exemptions as a consequence of their contributions to the Risk Fund.
Public support scheme	Credit Guarantee	The CSBFP is a statutory loan-loss guarantee program. Loans are approved and funds provided and disbursed by private sector lenders. The purpose of the CSBFP is to increase the availability of financing for the establishment, expansion, modernization, and improvement of small businesses. The CSBFP shares in the risk of lending to SMEs by sharing in loan losses. In the event of default, the CSBFP will pay a lender 85 percent of the eligible loss.
Public support scheme	Other	DID supports the development and growth of community finance organizations to increase access to finance for MSMEs. DID provides two forms of assistance: technical assistance/support (use of technology, product development, etc.) and investment. Investment is channeled through three different funds: — the Investment Fund for International Development (FONIDI), — the Partnership Fund and the Guarantee Fund.Each fund has broadly similar objectives but offers different investment horizons and types of financing.
Public support scheme	Other	The objective of this project was to assist SMEs and help them adapt their capacity to the requirements of international trade. The companies applied to the project for support. If they were selected, they benefited from advisory services delivered by local consultants and financed by the project. Once the private sector consultants issue their recommendations, they are submitted to the steering committee of the "Bureau de mise à niveau." The Bureau then evaluates the strengths of the project and decides whether to grant it the financial resources needed for implementation.
Public support scheme	Funded facility	The project aimed to reinforce competitiveness of Tunisian SMEs and help them to face the stakes of international trade. It has been implemented through a credit line to the government, with the funds then redistributed to local banks to finance the enterprises. The original purpose of this global project (implemented in four phases since 1997) was to conduct an extensive analysis of the situation of the enterprises in order to recommend some strengthening actions.
Public support scheme	Other	Promotes the financing of domestic market oriented Madagascar SMEs, in particular for investment needs, and facilitate the access of entrepreneurs to markets and new technologies. The project has two components: Creation of a SME lending service (product development, staff training), within the Madagascar MFI ADEFI and development of information services for small enterprises. The entire financing was provided as a grant of USD 2.16 million. The financing agreement was signed between AFD and ADEFI. ADEFI then established service contracts with ACEP Développement and CITE
Private sector initiative	Credit guarantee	In order to facilitate granting of loans to Black Economic Empowerment (BEE) SMEs in South Africa, an agreement on a credit risk sharing mechanism of up to USD 10.8 million worth of guarantees (covering up to 50 percent of final loan loss) targeting loans for black SMEs was signed between AFD and Standard Bank of South Africa (SBSA).
Public support scheme	Credit Guarantee	Fonds Afrique is a Venture Capital Fund managed by GARRIGUE-France; in 2005, GARRIGUE decided to open its fund to African SME's in partnership with TECH DEV. GARRIGUE collects private savings that are allocated by investors to one of the five "compartments" of GARRIGUE Fund (four compartments in France and Fonds Afrique). AFD guarantees GARRIGUE for 50 percent of the risk of bankruptcy of Fonds Afrique portfolio through their guarantee fund ARIZ. Requests are taken into consideration by Fonds Afrique only in countries where TECH DEV intervenes with its local partner, with whom confidence has been established for a significant length of time.

BASIC PROJECT DATA

Code	Region	Country	Submitting Entity	Name of the Program	Implementing organization	Starting Year
42	AFR	Cameroon	France	ARIZ	Agence Francaise de Développement (AFD) Banque Internationale du Cameroun pour l'Epargne et le Crédit (BICEC) — private bank	2008
43	AFR	Mali	France	CML 6012 — BNDA PMT4	Agence Francaise de Développement (AFD) Banque Nationale de Développement Agricole (BNDA) -private bank	2008
44	World	Africa in particular	France	ARIZ "Danone Communities"	AFD Danone communities (private sector)	2008
45	ECA	Turkey	France	CTR 6011 — HALKBANK PME	HALKBANK (private sector) AFD	2008
46	ECA	Turkey	France	Sekerbank — SME finance downscaling credit facility	Sekerbank IPC AFD	2009
47	Developed	France	France	FIBEN	Banque de France/Central Bank, banking sector	1982
48	Developed	France	France	Banking regulation/capital requirement for retail risk	Banque de France as responsible for the banking supervision	2007

PROJECT DESCRIPTION

Type	Sub-type	Project Summary
Private sector initiative	Credit guarantee	The initiative aims at helping the downscaling of the credit supply to small SMEs by providing portfolio guarantee to local banks so they will be able to supply credit to small companies. The term of the portfolio guarantee is 2 years, renewable. It guarantees 50 percent of each eligible individual loan. The guarantee covers the principal amount plus the outstanding interest at the rate of the loan at the date the guarantee is called in, with a 1-year limit on interest.
Private sector initiative	Lending/ banking services	The objective of the project is to support the diversification of BNDA's activities and the development of the bank's strategy toward SMEs, by increasing its portfolio of middle-term credits to private firms and microfinance institutions.The project has three components: USD 8.1 million loan to BNDA that should be used to finance the investments of Malian SMEs; USD 1.35 million grant dedicated to the increase of BNDA's capacity to address the SMEs clients in terms of credit process or risk management; and USD 3.62 million grant to support the development and reinforcement of three rural MFIs from the CECAV network.
Private sector initiative	Equity finance	The danone communities' mutual fund was launched with the help of a USD 27 million investment by Groupe Danone and the support of institutional investors in the amount of USD 40.5 million. USD 13.5 million are to be invested in the following years in developing countries, to finance social projects. In order to provide additional support to the fund, AFD, via its guarantee scheme ARIZ, decided in 2008 to guarantee at 50 percent of these USD 13.5 million; as a consequence, each investment in equity of the fund will be partially guaranteed. The upper limit of the portfolio to be guaranteed amounts USD 6.8 million. The support of AFD allows the Fund to share the risk of loss on its investments, with a solid partner (AFD rated AAA).
Private sector initiative	Lending/ banking services	The project consists of a USD 108 million credit facility with a 12-year term, disbursed in four tranches of USD 27 million under soft conditions (subsidized interest rate), which will help Halkbank to finance about 400 middle to large-sized SMEs in the least developed regions of Turkey and to implement a corporate social responsibility (CSR) program with an SME component. At the proposed interest rate, the loan includes a "grant element," which may be defined as a financial advantage resulting from the difference between the discounted cash flows of a loan at market rate and of the AFD concessional loan to be used for TA.
Private sector initiative	Lending/ banking services	The project consists of a USD 13.5 million credit facility under soft conditions (subsidized interest rate), which will help Sekerbank develop its SME strategy, particularly toward small enterprises located in rural and semi-rural regions, where access to credit is particularly difficult and SMEs are less numerous than in urban areas. Against the "grant element" of the credit facility, Sekerbank has committed itself to implementing, with the external support from IPC, a support program aimed at strengthening its organization, processes, and internal competencies in the field of SME lending.
Financial infrastructure	Credit bureau/ Financial or Credit Information registry	The Banque de France manages a Companies Database called "FIBEN." The FIBEN Companies Database was set up to facilitate the implementation of monetary policy and the supervision of banks. Since 1982, credit institutions and public economic bodies have had access to the FIBEN database. For such players, the information that is collected and processedto make up the database is an important tool for analyzing risk, making decisions, and monitoring companies. By giving access to all the data used in analyzing credit risk (identity, legal event, management, indebtedness, financial appraisal by the Bank de France), the asymmetric information between a banker and a borrower is reduced.
Legal and regulatory	Banking / Financial sector law and regulation	The Basel II agreement, Pillar I (minimum capital requirement) set a general capital requirement for claims on corporate loans and a general derogation for SME loans, considered as "retail", with a risk weighed at 75 percent. The minimum capital requirement that a bank must charge on an asset is 8 percent, such that for a loan of 100 to a corporation with a rating that is neither excellent nor bad, the bank must put aside 8 percent of the capital. Because of the special requirement for retail, the capital requirement for a loan of 100 to a SME is not 8 but (100*0.7) *8% = 5.6. It enables banks to further expand their loans to SME, rather than to big corporations, or to mitigate the credit risk with the opportunity to save capital.

BASIC PROJECT DATA

Code	Region	Country	Submitting Entity	Name of the Program	Implementing organization	Starting Year
49	Developed	France	France	INFOGREFFE's initiative for SME's	GIE Infogreffe	1986
50	AFR	Tanzania	Denmark	Private Agricultural Sector Support (PASS Trust)	The Pass Trust (Private sector)	2001
51	SAR	India	Japan	South Asia Regional Apex (SARA) Fund	Donor: JICA, IFC, ADB National: Indian state governments (State Industrial Development Corporations) and investors	1994
52	SAR	India	Japan	Micro, Small and Medium Enterprises Energy Saving Project	Small Industries Development Bank of India (SIDBI) with assistance from donor (Japan International Cooperation Agency)	2008
53	SAR	Sri Lanka	Japan	Small and Micro Industries Leader and Entrepreneur Promotion Project (Phases I, II, and III)	Banks with assistance from donor (Japan International Cooperation Agency)	1997
54	Developed	Vietnam	Japan	Cooperation Program on the Development of Small and Medium Enterprises (SMEs) and Supporting Industries (SIs)	Banks with assistance from donor (Japan International Cooperation Agency)	1999
55	EAP	Indonesia	Japan	Improve access to credit for MSMEs	Indonesia, World Bank, Asian Development Bank and Japan International Cooperation Agency (JICA)	2007
56	Developed	Korea, Rep.	Korea	Aggregate Credit Ceiling Loans	Bank of Korea (central bank) through the commercial banks	1994
57	Developed	Korea, Rep.	Korea	Building up the foundation for active SME direct financing	Korea Securities Dealers Association (KSDA) Securities companies Government	1996

PROJECT DESCRIPTION

Type	Sub-type	Project Summary
Financial infrastructure	Credit bureau / Financial or Credit Information registry	The 135 French Courts and Trade Registrars collect and make publicly available information regarding the financial and economic picture of each company in France, by receiving, reviewing, authenticating, registering, and archiving documents as prescribed by regulation. This includes, for example, company identity, financial statements, debts, leasing, and good will mortgages. Each new French company must be registered in the Business Register and is required, during its entire life, to report events and documents. For potential lenders, customers, or partners, Infogreffe's up-to-date and technically efficient services give online and immediate access to the company information.
Public support scheme	Credit Guarantee	Private Agricultural Sector Support (PASS) was established in 2000 as a project under the Danish-funded Agricultural Sector Program Support in Tanzania. In 2007, PASS was converted into a trust. PASS assists its clients in preparing bankable investment prospects and facilitating access to credit. PASS's main products are BDS (mainly business plans and feasibility studies) and the provision of credit guarantees through six commercial banks.
Public support scheme	Funded facility	SARA Fund was established by JICA, IFC, ADB and Indian Investors. SARA Fund invests in the State Funds, which were founded by the state industrial development corporation and Indian private investors (bank, entities and etc). State Funds implement investments in listed SMEs by providing equity investment, and contribute to the increase of their capital.
Public support scheme	State owned bank	The purchase of energy-saving equipment by MSMEs in India is enhanced through the network of SIDBI and other lending institutions accessing the concessional Japanese ODA loan provided by JICA. Awareness campaigns funded by JICA are conducted in some segments in India for better understanding of energy saving/efficiency.
Public support scheme	Funded facility	The project aims to improve the productivity, profitability, and technical capabilities of small and micro-enterprises by providing them with financial assistance at low interest rates. The financial source of the project is a soft loan from JICA to the Sri Lankan government. Part of the sub-loans includes subsidies from the government. The government extends loans to the project's executing bank. The executing bank refinances the end users through the participating credit institutions.
Public support scheme	Funded facility	Loans are provided to the participating financial institutions (PFIs) to on-lend to SMEs. The project involves: Two-Step Loans (TSL sub-loan and on-lending loan) to meet mid- to long-term financing needs for SMEs (Phase 1–3); Capacity Building for SMEs as well as for banks; and TA for Financing Policy/Institutions.
Legal and regulatory	Legal environment for SME development	The policy action to improve access to credit for MSMEs was set in the Development Policy Loan's policy matrix. So far, the Presidential Decree and relevant Ministry of Finance regulations were issued to allow national and provincial credit guarantee and re-guarantee companies to be established.
Public support scheme	Funded facility	Aggregate Credit Ceiling Loans have been introduced to induce commercial banks to expand loans to SMEs and support the balanced regional development. The Bank of Korea sets the Aggregate Credit Ceiling in consideration of monetary trends and the financing conditions of SMEs, and allocates it to commercial banks at a low interest rate in accordance with banks' performance in extending loans to SMEs. Commercial banks have a strong incentive to expand their SME loans because of the interest margin resulting from the central bank's support at an interest rate below the market rates. The funding source of Aggregate Credit Ceiling Loans comes from the central bank's right of issue.
Public support scheme	SME stock exchange	The KOSDAQ was established to facilitate financing for SMEs and venture firms as well as to provide alternative investment tools to investors under government support (legislation, tax benefits, and capital investment of USD 5 million). KOSDAQ provides sound capital links among enterprises, venture capitalists, and investors.

BASIC PROJECT DATA

Code	Region	Country	Submitting Entity	Name of the Program	Implementing organization	Starting Year
58	Developed	Korea, Rep.	Korea	Korea Credit Guarantee Fund (KODIT)	Korea Credit Guarantee Fund (government)	1976
59	Developed	Korea, Rep.	Korea	Korea Fund of Funds	Korea Venture Investment Corp. (private sector), Government: Small and Medium Business Administration (SMBA), Ministry of Culture, Sports and Tourism, Korean Intellectual Property Office	2005
60	Developed	Korea, Rep.	Korea	Network Loan	Industrial Bank of Korea (IBK)	2004
61	Developed	Korea, Rep.	Korea	Technology Appraisal Guarantee Scheme	Korea Technology Finance Corporation (KOTEC-non-profit) Government- Financial Services Commission Small and Medium Business Administration (SMBA) Major commercial banks in Korea	1999
62	Developed	New Zealand	New Zealand	Seed Co-Investment Fund (SCIF)	Ministry of Economic Development (MED) New Zealand Venture Investment Fund (NZVIF) -Government	2006
63	EAP	Philippines	GTZ	loan 2129: Small and Medium Enterprise (SME) Development Program Loan and TA4476-CAM: SME Sector Development	Government: Department of Trade and Industry (DTI) University of the Philippines-Institute for Small Scale Industries (UP-ISSI) Private: Associated Resources for Management and Development (ARMDev)	2004
64	World		EIB	Access Microfinance Holding	LFS Financial Systems GmbH (Promoter and Manager) IFC KfW CDC	2006
65	ECA	Romania	WSBI	A special SME Financing vehicle	Good.bee Holding (a joint-venture between Erste Group Bank AG, Erste Foundation)	2009

PROJECT DESCRIPTION

Type	Sub-type	Project Summary
Public support scheme	Credit Guarantee	The KODIT facilitates the financing of SMEs by extending credit guarantees to SMEs that lack tangible collateral but have good credit standing and growth potential. To determine the eligibility of a company for credit guarantee, the KODIT professionals analyze the company's real value with the KODIT's in-house credit rating systems. With its capital fund sourced from contributions of government and banks as well as income from guarantee fees, the KODIT can extend credit guarantees of up to 20 times of the capital fund. (In practice, the KODIT keeps its leverage ratio at 12.5, on average)
Public support scheme	Equity finance	The Korea Venture Investment Corp. (KVIC) was incorporated in 2005 as a government-backed Korea fund of funds management company. Its purpose is to support SMEs and boost high-tech industries in Korea.
Public support scheme	Funded facility	Under this product scheme, the IBK signs an MOU with a purchaser that provides order and payment details electronically, and concludes a credit line agreement (or an individual loan agreement) with a supplier recommended by the purchaser to provide production capital based on the order. The payment by the purchaser to the supplier in the future will be used for repayment of the loan via the e-settlement system.
Public support scheme	Credit Guarantee	The KOTEC is a non-profit organization existing as a public policy vehicle for the benefit of technology-based SMEs. The KOTEC takes a lead in financing technology-based small firms, including individuals with idea, invention, and intellectual properties, primarily through a credit guarantee scheme, utilizing its own uniquely-created and patented technology rating system, Kibo Technology Rating System (KTRS). The government and financial institutions mainly provide capital funds of the KOTEC.
Public support scheme	Funded facility	The Seed Co-Investment Fund was established to help develop New Zealand's early stage capital markets through catalyzing angel investment into New Zealand's technology-based seed and start-up companies. There are two program mechanisms: (i) an annual budget of USD 70,000 for market development initiatives; and (ii) USD 28 million for passive co-investment alongside pre-qualified angel investment partners.
Public support scheme	Other	GTZ, through the Private Sector Promotion (SMEDSEP) Program in partnership with the Department of Trade and Industry (DTI), has introduced the-cash flow-based approach to SME lending. SMEDSEP developed a comprehensive, modularized training, including a trainers' manual. This introduced a new technology (cash-flow-based lending) to the banking sector of the Philippines. Furthermore, it created a sustainable framework to roll out the training. Two training providers – UP-ISSI and ARMDev – have been accredited by SMEDSEP.
Private sector initiative	Lending/ banking services	Access Holding aims at developing financial institutions in low-income countries, including Mozambique, Madagascar, Liberia, and Tanzania. To this effect, Access Holding aims to become a leading commercial strategic investor in a global range of microfinance institutions (MFIs), focusing on greenfield and early-stage institutions. To date, the total number of operational network banks is five. EIB is providing patient equity capital to the Investment Company with a long-term commitment. Market rates are applied to clients in all network banks.
Private sector initiative	Lending/ banking services	Provides micro loans and consultancy to low-income clients and small entrepreneurs from rural areas and small towns through a network of 10 national offices covering 21 counties across Romania.

BASIC PROJECT DATA

Code	Region	Country	Submitting Entity	Name of the Program	Implementing organization	Starting Year
66	MENA	Tunisia	World Bank	Pre-Shipment Export Finance Guarantee (PEFG) Facility	Pre-Shipment Export Finance Guarantee (PEFG) Unit — Independent unit COTUNACE (Tunisian Company for the Insurance of Foreign Trade- public agency)	2000
67	Developed	France	France	OSEO Innovation	OSEO Innovation: Government	1969 (ANVAR)
68	Developed	France	France	OSEO financement	OSEO financement — a development bank supported by the French Government with partnerships with commercial banks and other FIs	1980
69	Developed	France	France	OSEO garantie	OSEO garantie delivers guarantees. OSEO garantie is a subsidiary of OSEO. Works with partnerships with commercial banks and other FIs	1982
70	Developed	Spain	Spain	Liquidity SME Second Floor Facility	ICO: State owned- financial institution and commercial banks	2009
71	LAC	Brazil	IADB	Inovar Program I – II	IADB/MIF and Financiadora de Estudos e Projetos / FINEP	2001
72	LAC	Colombia, Honduras, Mexico	IADB	Creation of: ProCredit Colombia, ProCredit Honduras, ProCredit Mexico	ProCredit Holding, IADB/MIF, Stichting DOEN	2007
73	AFR	Sub-Saharan Africa	IFC	Africa Micro, Small, and Medium Enterprises (AMSME) Finance Program	Private sector banks, IFC, and consulting firms	2006
74	ECA	Russia	IFC	Russian Sustainable Energy Finance	IFC	2005

PROJECT DESCRIPTION

Type	Sub-type	Project Summary
Public support scheme	Credit Guarantee	The World Bank-supported PEFG encourages financial institutions to provide pre-shipment working capital to emerging exporters with viable export contracts. Eligible sub-loans financed are guaranteed for up to 90 percent of the outstanding principal, representing nonperformance risks of SMEs and emerging exporters, which the participating financial institutions must bear for up to 180 days. PEGF is backed by COTUNACE, the Tunisian foreign trade insurance company.
Public support scheme	Funded facility	The underlying concept is to finance innovation projects by sharing risks with the companies through free-interest loans (repayable in case of success; in case of default, the loan is turned into subsidy) and grants. Free interest loans and grants are mainly funded by the French government from the State budget and by local governments. The global mechanism is a mix of public and private funding, and the rate of public financing is about 50 percent of the total cost.
Public support scheme	Funded facility	OSEO financement facilitates access to finance by co-financing with commercial banks the financial needs of the SMEs. The co-financing by OSEO financement can take the form of loans and/or mezzanine loans. In the case of mezzanine loans, OSEO can finance — without collateral — intangible assets, assets with poor collateral value, and working capital generated by the investment program presented by the SME, while the bank loan can be secured with valuable collateral.
Public support scheme	Credit Guarantee	OSEO garantie implements a public mission to facilitate access to finance for SMEs by offering commercial banks and venture capital risk-sharing through guarantees on financing. OSEO garantie takes more risk in the difficult phases of an SME's development: creation, implementation of an innovation investment, internationalization, business transfer, etc. Guarantee quotas: from 40 to 70 percent. Pricing: depends on the riskiness of the company financed.
Public support scheme	Funded facility	The facility's purpose is to meet enterprises' working capital requirements in the current credit crunch. There are operations in which financing and risk could be shared by ICO and the commercial banks. Maximum amount of financing per customer: Up to USD 2 million (€1.5 Mill.) per client and per year. Operational risk is shared on a 50/50 basis.
Public support scheme	Funded facility	FINEP provides funding to strengthen technological and scientific development in Brazil. The INOVAR program was designed to stimulate the development of new, small, and medium technology-based companies through the establishment of a venture capital market, and to enhance private investment in technology businesses. INOVAR created a research/knowledge and information dissemination platform and develops managerial capacity for channeling and accelerating venture capital investments in small-company funds in Brazil.
Private sector initiative	Lending/ banking services	Establishment of three specialized, regulated financial institutions within the ProCredit network, to expand financial services available to micro and small enterprises in Colombia, Honduras, and Mexico. The business model combines an entrepreneurial approach with a development policy orientation. IADB/MIF made investments through minority equity interests in each of the three new financial institutions, and non-reimbursable technical cooperation through staff training.
Public support scheme	Funded facility	AMSME program was jointly developed by IFC's CGF, CSM, and CAF. The program has two components: (i) investments in African banks with an appetite for MSME business; and (ii) advisory services for those banks (AS) to grow, better manage, and service the SME portfolio. Its objective is to increase access to financial services in Africa through the capacity building efforts of selected financial institutions.
Public support scheme	Funded facility	Russia is one of the largest and least efficient energy consumers in the world. The Russian Sustainable Energy Finance initiative has two components: 1. A combination of advisory services in support of IFC-Global Environment Facility (GEF) investments in Russian FIs, to stimulate the financing of Energy Efficient (EE) projects of Russian companies, mainly SMEs. 2. Support of legal and policy reforms. and raising awareness of EE benefits among FIs and SMEs. This case focuses on the first component.

BASIC PROJECT DATA

Code	Region	Country	Submitting Entity	Name of the Program	Implementing organization	Starting Year
75	Developed	Finland	Finland	Vigo Accelerator program for young innovative high-growth companies	Finland's Tekes (Technology & Innovation Development Center), Government Seed Fund Avera, selected Vigo management teams, venture capital companies	2009
76	MENA	Morroco, Tunisia, Algeria, Libya	IFC	Maghreb Invest Private Equity Fund II LP	Tuninvest Ltd, Averroes Finance, Financière Océor, Olayan Financing Company, European Investment Bank (EIB), IFC, African Development Bank, FMO, CDC Group, Proparco, Swiss State Secretariat for Economic Affairs Sifem, Belgian Investment Company for Developing Countries (BIO).	2006
77	MENA	Jordan	IFC	Jordan Leasing Project	Jordan Ministry of Industry and Trade and IFC	2006
78	LAC	13 LAC countries to date	IIC	FINPYME	Inter-American Investment Corporation- IIC (part of IADB Group), donor country, local universities, management schools, and business associations, and (in some countries) local implementing administrators.	2006
79	LAC	Chile	World Bank	Banco del Estado SME lending platform	Government of Chile, Banco del Estado.	1995
80	LAC	Chile	World Bank	FOGAPE (SME lending guarantee fund)	Banco del Estado (Chile), and Private FIs	1980
81	LAC	Nicaragua	World Bank	Sin Riesgos (inclusive credit bureau)	Sin Riesgos private credit bureau, The MIX (TA provider)	2004

PROJECT DESCRIPTION

Type	Sub-type	Project Summary
Public support scheme	Other	The Vigo accelerator program was created by Tekes (the most important government agency for R&D and innovation financing) and the Avera Fund to promote growth and investment of innovative companies in their early stages. The Vigo program is based on selecting private accelerator teams (local or international private sector individuals or organizations) who choose up to 10 companies to coach. The Vigo team has to invest a small amount of its own money into the target companies, and Tekes and Avera provide grants and equity/loans, respectively, to support the companies' financing needs for up to 24 months.
Private sector initiative	Equity finance	The Maghreb Fund was established as a 10-year private equity fund for equity and quasi-equity investments in diversified local companies (mainly SMEs) in Morocco, Algeria, Tunisia and Libya. The fund is managed by local fund manager Tuninvest, which had an established SME-related track record of over 12 years. The Fund was established with USD 76.3 mln in capital commitments and reached a final closing value of USD 170 mln in April 2008.
Legal and regulatory	Banking/ Financial sector law and regulation	The project's main objective was to improve the leasing environment in Jordan and promote and increase the volume of leasing activities. The project's main activities include: (i) provide support to policymakers to draft, lobby, and promote leasing legislation based on best practices; (ii) build capacity of leasing stakeholders (e.g., FIs, equipment suppliers, investors) through consultations and training; (iii) increase awareness of benefits of leasing to MSMEs to finance business assets.
Financial infrastructure	Credit bureau / Financial or Credit Information registry	FINPYME is a diagnostic tool to review and analyze SMEs competitive positions and provide a point of reference for FIs to determine credit eligibility for SMEs. It has three main phases: 1. Diagnostic: The FINPYME methodology is based on a set of criteria including industry attractiveness, competitive position, innovativeness, owner's commitment to company, and financial position. The diagnostic is carried out by local universities, and business schools and associations (instead of professional consultants) to allow for technology transfer and know-how within the country. 2. Technical Assistance: offer to help diagnosed SMEs make necessary improvements identified in the review. 3. Training: SMEs gain access to expert evaluations and FINPYME training through the learning institutions.
Financial infrastructure	Credit bureau / Financial or Credit Information registry	Banco Estado developed a specialized platform for lending to SMEs, with an SME tailored analysis of SMEs, and special parametric model, adjusted to financial statements and performance of SMEs. This model is similar to the Pro-Credit methodology of a specialized platform to assess the credit risk of SMEs. There is a special type of loan officer, and the portfolio is managed separately, so that SME lending can be separately analyzed/measured.
Public support scheme	Credit Guarantee	FOGAPE is an SME guarantee fund and government initiative to increase access to finance to SMEs by providing partial credit guarantees to banks in favor of SMEs who lack the necessary collateral to gain access to credit, or need longer maturities. FOGAPE guarantees are risk-sharing instruments meant to leave some risk with the FI. The fund was originally financed by the government, but over time profits from operations contributed significantly to the fund's capital base.
Financial infrastructure	Credit bureau / Financial or Credit Information registry	Sin Riesgos was created as an innovative credit-rating system in Nicaragua that goes beyond banking information and uses non-traditional types of data (e.g., utility bills), opening up the credit information system to MSMEs. The World Bank financed some of the initial investment costs and The MIX provided support for the initial feasibility study. The World Bank has also provided some TA. Sin Riesgos is primarily owned by Nicaragua's microfinance association ASOMIF.

BASIC PROJECT DATA

Code	Region	Country	Submitting Entity	Name of the Program	Implementing organization	Starting Year
82	LAC	El Salvador	KfW	Credit Program for Environment and Renewable Energy	Banco Multisectorial de Inversiones (BMI) — National Development Bank	2009
83	World		KfW	Microfinance Enhancement Facility (MEF)	KfW, IFC, Germany	2009
84	ECA	Southeast European countries	KfW	European Fund for Southeast Europe (EFSE)	KfW, German Government, European Investment Fund (EIF), and IFC	2005
85	ECA	Southeast European countries and Turkey	KfW	Green for Growth Fund	KfW, European Investment Bank, EU Commission	2009
86	AFR	Republic of South Africa	KfW	Promotion of Small and Medium-sized enterprises	KfW, and Industrial Development Corporation (IDC)	2008
87	MENA	Armenia	KfW	Credit Program for the Promotion of Private SMEs via the German-Armenian-Fund (GAF)	Central Bank of Armenia, Program Management Unit of the German-Armenia Fund (GAF), Partner FIs	1998
88	LAC	El Salvador	WSBI	Popular Credit Model	Fedecredito (local Financial Institution)	1952
89	LAC	Peru	WSBI	Caja Sullana		1986

PROJECT DESCRIPTION

Type	Sub-type	Project Summary
Public support scheme	Funded facility	El Salvador has significant ecological and economic potential for environmentally friendly investments in SMEs. This program consists of: (i) a long-term loan from KfW to BMI to be on-lent via local commercial banks to SMEs for environmentally friendly and energy efficient investments; and (ii) a TA component for participating SMEs for the preparation and assessment of the investment. Loans to SMEs are based on clearly established eligibility criteria.
Public support scheme	Funded facility	Despite the continued strong performance of the microfinance industry, some MFIs face problems refinancing debt as a result of the global financial crisis. MEF was created as a short- to medium-term (liquidity) facility to support sound MFIs facing funding shortfalls, so they can continue on-lending to micro-entrepreneurs. Germany and other donors provide the first loss (USD 41 mln) and IFC and KfW provide the mezzanine tranche (USD 400 mln). Senior investors can be approached if needed.
Private sector initiative	Equity finance	EFSE is a commercial investment fund that provides long-term funding to FIs in Southeast Europe, for on-lending to SMEs. EFSE's funding strategy is to use scarce donor funds to leverage additional large-scale funds for development purposes. Key shareholders include governments and DFIs. About 25 percent of the Fund's capital comes from private commercial investors and smaller investors. EFSE is structured as a fund of funds with different national/ regional sub-funds. EFSE started in 2005 with a transferred portfolio of about USD 175 million. EFSE issues different tranches of risk to attract different investors: a Junior Tranche (First-Loss Tranche — reserved for public donors), Mezzanine Tranche, and Senior Tranche.
Private sector initiative	Equity finance	The Fund provides finance primarily through local FIs, and also through direct financing to SMEs for Energy Efficiency (EE) and Renewable Energy (RE) investments. Targeted investors in the Fund are both public and private entities. Fund has a Technical Assistance Facility that offers capacity building for partner FI institutions and supports SMEs in preparing projects. The fund has a layered risk/return structure: First-loss tranche is provided by grants from EU and other governments, Mezzanine tranche consists of equity investments from DFIs. Senior tranche is currently provided by DFIs, but private investors are anticipated to invest in senior tranche at a later stage.
Public support scheme	Funded facility	KfW provided IDC with a long-term Financial Cooperation Composite Loan. IDC on-lends directly to SMEs at medium and long terms. The composition of the loan is as follows: (i) one third for a term of 40 years, including 10 grace years, and an interest rate of 0.75 percent p.a. (funds come from German Federal Budget), and (ii) two thirds for a term of 10 years including 5 grace years, and a market-based interest rate (funds come from KfW's own capital market funding).
Public support scheme	Funded facility	The program has two components: (i) a 40-year concessionary loan provided by KfW to CBA, for SME on-lending through partner FIs in local currency; (ii) TA component for partner FIs for capacity building in SME lending and portfolio management.
Private sector initiative	Lending/ banking services	Fedecredito was founded over 65 years ago to offer financial assistance to MSMEs, primarily to microenterprises. At the moment, the FEDECRÉDITO SYSTEM is a financial group comprising 48 credit unions, seven Workers' Banks, and its federation. The popular credit model was designed as a revolving line of credit for working capital to micro/small entrepreneurs, based on individual business cycles. Loans have a tenure of 30 to 180 days, and loan payments are usually made in daily, weekly, or monthly installments.
Public support scheme	State owned bank (municipal)	Caja Municipal (CMAC) Sullana is a municipal savings bank specializing in micro and small businesses. CMAC focuses on businesses in the following sectors: industry, commerce, services. and agriculture. CMAC started out with USD 30,000 in capital in 1986, and by 2008 had 23 branches, about USD 100 mln in loans, and USD 22 mln in capital.

BASIC PROJECT DATA

Code	Region	Country	Submitting Entity	Name of the Program	Implementing organization	Starting Year
90	AFR	Nigeria	IFC	Financing women-owned SMEs	Access Bank PLC Nigeria, Enterprise Development Center (EDS), Fate Foundation, and IFC	2006
91	Developed	New Zealand	New Zealand	Venture investment fund (VIF)	Ministry of Economic Development (MED) New Zealand Venture Investment Fund (NZVIF) — Government	2002
92	World		DEG	Strengthening of SME banks by taking an equity stake in an SME bank accompanied by management assistance	DEG IFC EBRD Shareholders	1970
93	ECA	Kyrgyz Republic	World Bank	Aiyl Bank (formerly Kyrgzy Agriculture Finance Company)	Kyrgyz government World Bank	1996
94	Developed	Canada	Canada	Business Development Bank of Canada (BDC)	Government of Canada	1944
95	AFR	Madagascar	World Bank	Partial credit guarantee project	IDA/IFC Government of Madagascar Commercial banks	2006
96	AFR	Nigeria	World Bank	Performance bases grants	IDA/IFC MFIs Commercial banks	2003
97	AFR	Ethiopia	World Bank	Business plan competition		2007

PROJECT DESCRIPTION

Type	Sub-type	Project Summary
Private sector initiative	Lending/ banking services	This is an IFC program that consists of a direct credit line for on-lending to women-owned SMEs, coupled with an AS program to FIs to assist them in expanding their reach to women-owned SMEs. The three components of the program are: (i) AS to FIs with the aim of increasing outreach to women; (ii) capacity building with FIs to increase growth prospects of women owned businesses in the program, training them on financial literacy, trade, business planning, etc.; and (iii) investments by IFC in FIs to support increased lending to women entrepreneurs. This was the first IFC program of this kind.
Public support scheme	Equity finance	VIF is an equity investment vehicle investing USD 110.4 million into a series of privately managed venture capital investment funds. The fund managers in turn make a decision about which companies to invest in. Investments are likely to be focused on technology companies with potential for high growth. The venture capitalist funds that NZVIF invests in are private equity investment vehicles typically operating for 10 years. NZVIF only invests in funds that have been successful in raising matching capital from private investors. The maximum amount the NZVIF invests is USD 17.3 million.
Public support scheme	Funded facility	The program focuses on reaching smaller local companies (beyond a DFI´s outreach) through capable local banks, and to this end, financially supporting and qualifying local banks to build up and expand sustainable SME finance, through capacity building, SME technology, risk management, strategic orientation, and SME credit lines. Equity stakes in SME banks by a reputable DFI stabilizes the shareholding and adds to the bank´s reputation and creditworthiness so that the bank improves its access to long-term finance, which in turn is needed to provide SMEs with their capital needs for investments that ultimately create employment.
Public support scheme	Other	Over 13 years of its existence, Aiyl Bank achieved considerable success in providing access to loans for essential part of the country's rural population. Kyrgyz Agricultural Finance Company (KAFC) was established in December 1996 under a World Bank project as a state-owned non-bank finance institution with the mandate to lend exclusively to the agricultural sector. In December of 2006, KAFC was granted a limited banking license and became Aiyl Bank and has introduced traditional banking services in addition to lending to agricultural producers.
Public support scheme	State owned bank	BDC provides support to businesses in all stages of development, with particular focus on SMEs. BDC offers financing services (loans, investments, and guarantees) complementary to services available from other financial institutions.
Public support scheme	Credit Guarantee	The main components of this project are: (i) sharing risks with selected banks on portfolios of new MSME loans; (ii) advisory services provided by IDA to the participating banks to enhance their capacity to better underwrite new SME loans on a profitable and sustainable basis; and (iii) advisory services for MSMEs in loan applications as well as basic financial concepts. The RSF covers up to 50 percent of net outstanding principal amount of a portfolio of new loans originated by local participating banks.
Public support scheme	Other	The project's main components are: (i) access to finance: grants to commercial microfinance providers for training and capacity building to help kick-start the commercial microfinance market and catalyze private sector investment; (ii) business development services: matching grants are provided to service providers; and (iii) investment climate program: support for credit bureau regulations, alternative dispute resolution, streamlining business registration, and secured transactions (like leasing).
Public support scheme	Other	Small businesses are invited to present their innovative business plans to an implementing agency for review. Sixty selected applicants are taken through a rigorous, 1-week training on basic business skills, controlling cash flows/basic bookkeeping, selling techniques, and how to review their business plans. A jury reviews the revised business plans and selects 20 proposals as winners of a cash reward. The cash reward is subsequently deposited with a commercial bank against which the winners/SMEs can borrow. The participating bank provides credit and follows up on the implementation of the business plans and ensures the loan is paid. SMEs are able to withdraw the cash prize when they have fully paid their loan, or may continue to roll the credit if they choose.

BASIC PROJECT DATA

Code	Region	Country	Submitting Entity	Name of the Program	Implementing organization	Starting Year
98	AFR	Tanzania	World Bank	CRDB's SME business model	Cooperative and Rural Development Bank	2005
99	LAC	Mexico	IFC	Reverse Factoring Nacional Financiera	Nacional Financiera S.A. (NAFIN)	2001
100	Developed		EIF	Competitive and Innovation Program (CIP)	European Investment Fund European Commission Financial Intermediaries	2007
101	EAP	China	World Bank	China: Commercially Sustainable Micro and Small Business Finance	China Development Bank (CDB) World Bank Group KfW Participating commercial banks	2006
102	EAP	Indonesia	World Bank	Indonesia: 1st–4th DPLs	Ministry of Finance, Ministry of Economy World Bank Group ADB Government of Japan	2004
103	ECA	Kosovo	World Bank	Leasing market development	Ministry of trade and industry World Bank	2007
104	SAR	Pakistan	DFID	Prudential regulations for SMEs	Central Bank of Pakistan	2004
105	Developed	USA	IFC	Credit scored small business credit up to USD 100,000	Wells Fargo Bank, Business Banking	1992

PROJECT DESCRIPTION

Type	Sub-type	Project Summary
Private sector initiative	Lending/ banking services	This program has three primary elements: (i) introduction of customer relationship concept at the branch level; (ii) widening the range of acceptable collateral to include non-traditional collateral (such as residential license, machines, and used motor vehicles); and (iii) capacity building for CRDB staff.
Public support scheme	Funded facility	Nacional Financiera (Nafin) is a development bank in Mexico that offers on-line factoring services to SME suppliers. It works by leveraging the "chains" that exist between "Big Buyers" and small suppliers. The Nafin program allows small suppliers to use their receivables from Big Buyers to receive working capital financing, effectively transferring their credit risk to their high-quality customers to access more and cheaper financing. Two types of factoring are offered: (i) factoring, which is offered without recourse, collateral, or service fees, at a maximum interest rate of 4 percentage points above the interbank rate, and (ii) contract financing, which provides financing up to 50 percent of confirmed contract orders from big buyers with Nafin supply chains, with no fees or collateral, and a fixed rate.
Public support scheme	Credit Guarantee	Under the SME Guarantee Facility (SMEGF), EIF provides capped guarantees partially covering portfolios of financing to SMEs. These are known as EU Guarantees. The EC Guarantee typically covers 50 percent of the total loan portfolio to align interests with the intermediary, and is capped ex ante at the expected losses of the loan portfolio (e.g., 5percent), which creates a leverage effect (typically 8–10 times the budget).The SME Guarantee Facility comprises four "windows," or product types: loan guarantee, micro-credit guarantee, equity guarantee, and securitization.
Public support scheme	Funded facility	The project consists of two closely linked components: (i) a Credit Facility to CDB for on-lending to Participating Financial Institutions – PFIs; and (ii) a TA Facility to support: (i) capacity building and MSE loan administration in the PFIs; and (ii) capacity building of CDB.
Public support scheme	Funded facility	Between 2004 and 2008, a series of DPL programs supported the government's reform program under four core policy areas. The second area involved improving the investment climate with focuses on tax and customs reforms, financial sector reforms, rationalizing regional government taxes and fees, public private partnerships to develop infrastructure, and improved policy toward SMEs. The actions undertaken include: (i) developed a medium-term action plan and effective framework to coordinate the development of SMEs; (ii) submitted to Parliament the Warehouse Receipts Law that establishes a system of designated warehouses providing official, centrally registered receipts for commodities stored by farmers and SMEs; (iii) issued a comprehensive SME policy package that increases access to finance and implements the Warehouse Receipts Law.
Legal and regulatory	Banking/ Financial sector law and regulation	In 2007–08, in view of the lack of finance for investments in Kosovo, the World Bank worked toward encouraging the development of a financial leasing industry. The Bank adopted a comprehensive approach, including three main activities. First, it worked with the Ministry of Trade and Industry to prepare a draft Financial Leasing Law. These efforts culminated in June 2009 when the Parliament of Kosovo approved a Financial Leasing Law. Second, the Bank organized a week-long workshop on leasing targeted at the Kosovar banking community and other financial services providers, and aimed at teaching them the basics of leasing operations. Third, the Bank worked with a local consulting firm that offered advisory services to banks on their first leasing transactions.
Legal and regulatory	Banking/ Financial sector law and regulation	Key elements of this project include: (i) separate definition for SMEs introduced; (ii) emphasis on cash flow and program-based lending; (iii) a larger limit for unsecured/clean lending; (iv) the requirement of audited financials was made mandatory only for loans in excess of Rs 10 million; (v) Abolition of previous margin requirements against various forms of collateral, which were to be met by SMEs while accessing banks for financing facilities.
Private sector initiative	Lending/ banking services	Wells Fargo's Business Banking pioneered the use of "credit scoring" for small businesses in 1992 with a product that was an unsecured line of credit up to USD 50,000. An entirely new business unit with dedicated management was soon created around this line of credit product called "BusinessLine." The business unit was and still is called "Business Direct."

BASIC PROJECT DATA

Code	Region	Country	Submitting Entity	Name of the Program	Implementing organization	Starting Year
106	EAP	Malaysia	Malaysia	SME Competitive Rating for Enhancement (SCORE)	SME Corp. Malaysia Multimedia Development Corporation (MDeC) Professional Skills Development Centre (PSDC) Perbadanan Usahawan Nasional Berhad (PUNB)	2007
107	EAP	Malaysia	Malaysia	Central Credit Reference Information System (CCRIS) — Public Credit Bureau	Central Bank of Malaysia Financial institutions DFIs	2001
108	World		IFC	SME Banking	Standard Chartered Bank	2002
109	Developed	Singapore	IFC	SME Blended Score	Credit Bureau (Singapore) Pte Ltd FICO SPRING (Government) Singapore Business Federation	2010
110	EAP	Malaysia	Malaysia	Small Debt Resolution Scheme (SDRS)	Bank Negara Malaysia (government)	2003
111	EAP	Malaysia	Malaysia	Cradle Investment Program (CIP)	Cradle Fund Sdn Bhd (CFSB) —Government	2003
112	EAP	Malaysia	Malaysia	Comprehensive SME Development Framework	National SME Development Council (NSDC) SME Corp Malaysia	2004
113	EAP	Malaysia	Malaysia	Credit Guarantee Corporation Malaysia (CGC)	Bank Negara Malaysia Commercial banks and DFIs	1972

PROJECT DESCRIPTION

Type	Sub-type	Project Summary
Financial infrastructure	Credit bureau / Financial or Credit Information registry	SCORE is a diagnostic tool used to rate and enhance competitiveness of SMEs based on their performance and capabilities. It serves to identify strengths and weaknesses of SMEs in order to recommend measures for improvement and to facilitate linkages of potential SMEs with large companies/MNCs/hypermarkets. Under SCORE, the capability and performance of the SME is measured based on seven parameters that vary across sectors. Six models of SCORE have been developed for various sectors, such as manufacturing, retail, construction, ICT, maintenance, and professional services.
Financial infrastructure	Credit bureau / Financial or Credit Information registry	CCRIS is a web-based system used by the public credit bureau at the Central Bank of Malaysia to compile credit information from financial institutions (commercial banks, Islamic banks, investment banks, development finance institutions, insurance companies, credit and charge companies, and other financial institutions). The credit information is then shared with the financial institutions for the purpose of assisting in assessing the credit worthiness of financial institutions existing and potential customers.
Private sector initiative	Lending/ banking services	Standard Chartered Bank SME Banking unit is a distinct business within Consumer Bank. The main components of the business model include: dedicated business unit, differentiated service model, international network, banking the full relationship beyond just lending, and leveraging the whole bank.
Financial infrastructure	Credit bureau / Financial or Credit Information registry	SME Blended Score serves as a timely and immediately available risk assessment tool. This will empower lenders with a tool that rides on the existing Credit Bureau Singapore (CBS) platform and connectivity between CBS and the lenders. Adoption is simple and without any significant infrastructural change. The blended score would be a risk tool for lenders when assessing loan applications. The score can also assist in trade credit among SMEs.
Public support scheme	State owned bank	The main objective of the SDRS is to support viable businesses facing difficulties by facilitating rescheduling or restructuring of financing facilities and, where appropriate, providing new financing. The Scheme provides an avenue for viable SMEs to seek redress in the event financial institutions are not agreeable to providing the necessary assistance. The Scheme aims to achieve a win-win situation for all parties, where financial institutions can achieve full recovery and SMEs can resolve financial impediments and have access to financing.
Public support scheme	Funded facility	The Cradle Investment Program (CIP) is Malaysia's first development pre-seed and commercialization funding program for technology ideas and budding start-ups. It offers two products: CIP Catalyst provides up to RM150,000 in conditional grant funding, for entrepreneurial teams to develop their technology prototypes or proofs of concept, and also provides commercialization support. CIP 500 funds the commercialization of prototypes into full-fledged Malaysian-owned business entities for young companies that are below 3 years and has a cumulative revenue of less than RM5 million.
Legal and regulatory	Legal environment for SME development	The Comprehensive Framework for SME Development in Malaysia was formulated to put in place an infrastructure needed for institutional and capacity building of SMEs in order to augment their ability to participate and contribute more effectively to the country's economic development and growth process. To further enhance the Government's role, and for greater coordination and focus in SME development, the NSDC was established in June 2004. NSDC provides direction for the Government policies to ensure that sufficient support programs are in place and are effectively coordinated and implemented to assist SMEs. To accelerate the development of SMEs, the SME Central Coordinating Agency, renamed SME Corporation Malaysia (SME Corp), was established.
Public support scheme	Credit Guarantee	CGC is the premier guarantee provider to SMEs in the country. CGC facilitates SME access to financing via a guarantee mechanism. The role of CGC is to formulate and manage viable credit guarantee schemes with the participation of its partners (lending institutions).Since 2006, CGC has adopted a risk-adjusted pricing mechanism, whereby the price of the guarantee is determined based on the risk of a borrower. On certain government-funded guarantee schemes such as the SME Assistance Guarantee Scheme, no guarantee fee or minimal guarantee fee is imposed on borrowers.

BASIC PROJECT DATA

Code	Region	Country	Submitting Entity	Name of the Program	Implementing organization	Starting Year
114	EAP	Malaysia	Malaysia	SME Assistance Guarantee Scheme (SME AGS)	Credit Guarantee Corporation Malaysia (CGC) Commercial Banks DFIs	2009
115	SAR	India	IFC	Improving Credit Flow to MSME Sector through SME Rating Agency of India Ltd. (SMERA)	SIDBI Dun & Bradstreet Information Services India Pvt Ltd Commercial banks (95% of which exposed to SME lending)	2005
116	EAP	Malaysia	Malaysia	Working Capital Guarantee Scheme (WCGS)	Syarikat Jaminan Pembiayaan Perniagaan Berhad-SJPP (government) Malaysian Ministry of Finance	2009
117	EAP	Malaysia	Malaysia	Development of a Sustainable Microfinance Framework	9 Commercial Banks, 3 DFIs, and Bank Negara Malaysia (regulator)	2006
118	EAP	Malaysia	Malaysia	Promotion and outreach programs to enhance access to financing by SMEs including micro enterprises	Bank Negara Malaysia (BNM) —Government	2005
119	EAP	Malaysia	Malaysia	Business Advisory Services (BAS)	SME Corporation Malaysia MIDF SME Bank Ministry of International Trade and Industry	2008
120	EAP	Malaysia	Malaysia	SME Financial Advisory by Bank Negara Malaysia	Bank Negara Malaysia (government)	2003
121	EAP	Malaysia	Malaysia	Venture capital funding, and Outsourcing of venture capital fund management	MAVCAP (government) Private sector: Musyaraka Venture Management Sdn Bhd Expedient Equity Two Sdn Bhd DTA Venture Two Sdn Bhd	2001

PROJECT DESCRIPTION

Type	Sub-type	Project Summary
Public support scheme	Credit Guarantee	The USD 600 million SME Assistance Guarantee Scheme (SME AGS) was launched by BNM to ensure that viable SMEs adversely impacted by the current economic slowdown continued to have access to adequate financing. Eligible SMEs could obtain financing of up to USD 150,000 each under this Scheme, for tenures of up to 5 years. CGC would provide an 80 percent guarantee for financing approved under this Scheme. The guarantee cover is provided free of charge and the cost of the guarantee is fully borne by Bank Negara Malaysia. Financing obtained under this Scheme was for new financing only and must be used for business purposes, such as working capital, project financing, and capital expenditures. This Scheme could be accessed at any commercial or Islamic bank, and at selected DFIs.
Financial infrastructure	SME rating agency	SMERA is the country's first rating agency that focuses primarily on the Indian MSME segment. SMERA's primary objective is to provide ratings that are comprehensive, transparent, and reliable. This would facilitate greater and easier flow of credit from the banking sector to MSMEs. SMERA ratings categorize MSMEs based on size, so that each MSME is evaluated amongst its peers. The pricing policy of SME Rating Agency of India Ltd is to keep the fees affordable for SME units. The rating fee does not exceed USD 1,155, of which 75 percent is provided by the Government as a subsidy to the unit.
Public support scheme	Credit Guarantee	The Working Capital Guarantee Scheme (WCGS) was initiated for the purpose of working capital financing. Credit evaluation of the applicants is the responsibility of the financial institutions, to determine the genuineness of the customer based on their respective credit evaluation procedures. A special purpose vehicle (SPV) was incorporated to implement the scheme. Since it is 80 percent guaranteed by the Government of Malaysia, the pricing structure of the Scheme is reasonable and reflects the sovereign risk. The guarantee fee amounts to 0.5 percent p.a. payable upfront, upon disbursement, annually.
Public support scheme	Other	In 2006, the National SME Development Council (NSDC) approved a comprehensive institutional framework proposed by Bank Negara Malaysia, comprising banking institutions, development financial institutions (DFIs), and credit cooperatives, to develop a sustainable microfinance industry. Currently nine financial institutions (FIs) have launched microfinance products. These financial institutions have adopted various business models to meet the diverse financial needs of the micro-enterprises involved in various economic activities and sectors.
Public support scheme	Other	The program is involved in outreach programs and information dissemination to SMEs.
Public support scheme	Other	A holistic approach has been undertaken to ensure that SMEs are accorded priority in getting access to information. Complementary business advisory services to SMEs are provided.
Public support scheme	Other	BNM provides financial advisory services to SMEs in the following areas: information on various sources of financing including guarantee schemes; facilitate resolution of SME financing issues, e.g,. on request for new/additional financing, rejection of loan, delay in approval/disbursement of facilities, and loan restructuring/rescheduling; and advice on other financing matters, e.g., on ways to improve financial management, identify financial requirements, preparation and submission of financial information, etc.
Public support scheme	Funded facility	Initiative 1: Venture capital investment. MAVCAP supports and seeds the growth of ICT companies in Malaysia by providing venture capital investment to companies at all stages of investment. MAVCAP also plays the role of grooming a pool of venture capital talent capable of sourcing, evaluating, delivering, and executing venture capital investment. Initiative 2: Outsourcing of venture capital fund management. MAVCAP is a catalyst in the venture capital industry. Through the outsourcing of the venture capital management, 11 fund companies have been established, one of which is an Islamic venture capital fund.

BASIC PROJECT DATA

Code	Region	Country	Submitting Entity	Name of the Program	Implementing organization	Starting Year
122	EAP	Malaysia	Malaysia	Venture Debt and Project Financing Facilities for Information and Communications Technology ("ICT") and Biotechnology Companies	Malaysia Debt Ventures Berhad	2003
123	EAP	Malaysia	Malaysia	Perdana Fund	Kumpulan Modal Perdana Sdn Bhd (government)	2004
124	AFR	South Africa	South Africa	SMME/ Co-Ops	Ithala	1960
125	AFR	South Africa	South Africa	SMME Finance	ECDC (Multilateral development bank)	2008
126	AFR		South Africa	Debt Funding	Industrial Development Corporation of SA Limited (Multilateral development bank)	1940
127	AFR	South Africa	South Africa	Ikapa Absa Fund	IKAPA ABSA Fund, was a partnership between Western Cape Provincial Government and ABSA CASIDRA (implementing agent)	2003
128	AFR	South Africa	South Africa	Red Finance program	Red Finance (Western Cape Provincial Government owns the Fund) and CASIDRA	2008
129	SAR	Bangladesh	IFC	Small & Meduim Enterprise Financing	BRAC Bank Ltd.	2001
130	Developed	Germany	Germany	Guarantee Program of the German Economic Fund	Germany and German Federal States (counter guarantee), Guarantee Banks (private banks)	2009

PROJECT DESCRIPTION

Type	Sub-type	Project Summary
Public support scheme	Funded facility	MDV was formed in mid-2002 as a wholly-owned subsidiary of Minister of Finance, Inc. and tasked with providing innovative financial products and facilities for the ICT sector. In 2008, MDV launched its Biotechnology Financing Program to facilitate the implementation of the National Biotechnology Policy. MDV provides project financing facilities via term loans or revolving credit facilities.
Public support scheme	Funded facility	Perdana Fund is a Malaysian-based venture capital fund managed by Kumpulan Modal Perdana Sdn Bhd (KMPSB). Perdana Fund invests in high-growth and high-tech start-up /expansion companies. Through this Fund, KMPSB is able to build a pool of local SME companies as potential recipients of technology transfer arising from KMPSB's international investments (United States and China).
Public support scheme	Funded facility	Ithala provides debt funding as well as business support and debt rehabilitation. Ithala receives grant funding from the provincial government
Public support scheme	Funded facility	The project provides financing products in the form of bridging finance for contracts received by SMMEs, mainly from Government departments.
Public support scheme	Funded facility	The IDC provides financing for the establishment and expansions of SMEs. The IDC also leverages outside resources by partnering with other financing intermediaries in providing wholesale funds. The interest rates applicable are market-related rates that have been adjusted according to the risks applicable to the individual cases
Public support scheme	Funded facility	This project aimed at addressing selected needs of SMMEs in the Western Cape via grants, loans, and non-financial support through services such as training, mentorship, business plan writing, and capacity building. The project derives from a framework agreement entered into between ABSA bank and the Western Cape Provincial Government, which confirms ABSA's obligation in terms of a tender agreement to promote economic development and support to SME's. The condition of the agreement was that ABSA invest 40 percent of the profit from the contract with the Provincial Government to support SMMEs.
Public support scheme	Funded facility	The Red finance program is the umbrella intervention encompassing four levels of funding: Survivalist Fund funding of USD 130 to R 1,300, Small Business Fund (SBF) funding of R 1,300 to R 13,000, Co-operatives Fund funding of up to USD 13,000, Bridging Finance Funding of up to USD 6,500, for which there must be a valid government, municipality, or state-owned enterprise contract in place.
Private sector initiative	Lending/ banking services	BRAC Bank Ltd. (BBL) is a relatively young bank (less than 10 years old), whose largest shareholder is BRAC (30 percent ownership), the largest NGO in the world and a well-known micro-finance institution. BBL has a main focus on the SME sector and it operates with a "double bottom-line" agenda: a combination of profit and social responsibility. The SME Banking division goes beyond traditional banking divisions and actively works as business partner of entrepreneurs, through building awareness, providing training, and arranging road shows to support and develop their business prospects. IFC has an equity investment in BRAC Bank.
Public support scheme	Credit Guarantee	The German Economic Fund was launched in Mar2009 and will be in place until December 2010. Under the guarantee program (for working capital & investment loans) up to USD 2.7 mln are granted to SMEs by private banks ("Guarantee Banks"), guarantees USD 2.7 to USD 67 mln are granted by West Germany Federal States and USD 2.7 to 13 mln granted by East Germany Federal States, and guarantees exceeding USD 67 mln in West Germany Federal States, and USD 13 mln East Germany Federal States are granted by the German Federal Republic. Features of the guarantee program include: Maximum loan to guarantee ratio is 90 percent, Guarantee Banks have independent credit assessment authority and are entitled to receive a counter-guarantee from the government, but are required to retain 20–25 percent of risk (West German States) and 10 percent risk (East German States). Guarantee banks must not hold more than 50 percent of their portfolio in guarantees securing working capital loans.

BASIC PROJECT DATA

Code	Region	Country	Submitting Entity	Name of the Program	Implementing organization	Starting Year
131	ECA	Bulgaria	World Bank	Raiffeisenbank	Raiffeisenbank, DFI/IFIs supporting specific facilities at the bank.	2007 through 2009
132	Developed	USA	USA	7 (a) Loan Program	Small Business Administration (SBA), Regional/Commercial/ Community banks, Small Business Lending Companies	1959
133	Developed	USA	USA	CDC/504 Program	Small Business Administration (SBA), Certified Development Companies (CDC), Regional and Commercial banks	1980
134	ECA	Turkey	Turkey	Small Business Loan Program — SELP II	Undersecretariat of Treasury (European Commission), KfW and CEB, Private Commercial Banks, Frankfurt School of Finance and Management	2008
135	ECA	Turkey	Turkey	European Investment Bank SME APEX Facility	TSKB (privately owned Turkish development bank)	2005
136	ECA	Turkey	Turkey	Project Based Wholesale Banking	Development Bank of Turkey (Kalkinma — State Bank), World Bank, CEB, AFD, 2 local banks.	2006

PROJECT DESCRIPTION

Type	Sub-type	Project Summary
Private sector initiative	Lending/ banking services	Raiffeisenbank Bulgaria was established in 1994 and is 100 percent owned by Raiffeisen Austria (co-cooperative bank) through Raiffeisen International Bank-Holding. Over the last few years, Raiffeisenbank Bulgaria has been penetrating the SME market and is now one of the leading SME banks in the country. From 2007 to 2009 the bank has worked with DFI/IFIs to offer SME oriented products such as: > Has 2 EBRD Rural Finance Facilities (each for USD 13 mln) for farms and small businesses > KfW SME Credit Line (USD 27 mln) for investments in energy savings projects > EIF Guarantee Facility (USD 97 mln) for investments and expansion of enterprise facilities.
Public support scheme	Credit Guarantee	The 7 (a) Loan Program is SBA's primary program to help start-up and existing SMEs obtain financing by providing guarantees on loans from eligible banks that otherwise would not lend to the SME. As a government initiative, SBA does not make loans itself but guarantees loans made by FIs (so taxpayer funds are only used in event of borrower default). Lenders can be approved for delegated lending (they can approve applications themselves) under certain conditions. Program terms: > Loan size up to USD 2 mln > Guarantee terms 75 percent of loans > 150,000; 85 percent <USD 150,000 > Eligibility: Small businesses not able to obtain credit elsewhere.
Public support scheme	Credit Guarantee	Through the CDC/504 loan program, small businesses can access long term, fixed-rate, low-cost capital for their fixed asset projects (expansion and modernization). Financing is available for up to 90 percent of the project cost. CDCs leverage SBA guarantees to provide loans in concert with private bank loans. CDCs are non-profit organizations in an area of operation set up to contribute to economic development. A typical 504 project includes: 1. A secured loan from a private bank (up to 50 percent of project cost) with a senior lien. 2. A secured loan from a CDC (100 percent backed by an SBA guarantee) 3. A contribution from the borrower of < 10 percent equity CDC's role: market program, process loan applications, service loans, and provide technical and financial assistance to borrowers in relation to the loans.
Public support scheme	Funded facility	This is a small enterprise lending program (mainly long-term lending) with a TA component aimed at private on-lending banks. SELP leverages funds sourced from EU grants to Turkey. Program components include the following: > European Fund for Turkey: Revolving fund totaling USD 116 mln for small business onlending through banks. The fund comprises EU grants (first loss tranche), which provide a cushion for investors, and DFI funds (mezzanine tranche). Issuance of shares for private investors is projected for the near future. > Exchange Risk Coverage Fund: to mitigate currency risk, as loans by banks are denominated in local currency. Total volume: USD 2.4 mln. > Tech. Assistance: aimed at improving small business lending capacity of banks. TAs are delivered by a consulting firm and supervised by the Treasury and KfW.
Private sector initiative	Lending/ banking services	The facility was designed to provide medium- to long-term finance for fixed asset investments of SMEs. The loan was secured from the European Investment Bank and TSKB designed the structure and was the borrower of the loan. Turkey's Treasury guaranteed TSKB's obligations and TSKB acted as wholesale (APEX) bank providing credit lines to approved banks and leasing companies (AFIs) for on-lending to SMEs. AFIs manage project risk assessments and submit loan/leasing applications to TSKB. Minimum leasing/loan maturities are 4–6 years (including a 1-year grace period) and loans up to 50 percent of investment cost.
Public support scheme	Funded facility	Kalkınma revised its business strategy in 2006 to add wholesale lending business to existing direct lending, in an effort to improve effectiveness as a development finance agency and compensate for the lack of a branch network. Two examples of wholesale banking in Kalkinma are: 1. OSTIM-Ivdik Industrial Apex program, using own bank funding (USD 27 mln); 273 SMEs have been supported. 2. AFD loan (USD 13 mln) for SMEs in less developed regions of Turkey; 32 SMEs supported.

BASIC PROJECT DATA

Code	Region	Country	Submitting Entity	Name of the Program	Implementing organization	Starting Year
137	ECA	Turkey	Turkey	Treasury Support to Credit Guarantee Institutions	Undersecretariat of Treasury, Credit Guarantee Fund, Private Banks	2009
138	ECA	Turkey	Turkey	TOBB Support Program	Union of Chambers and Commodity Exchanges of Turkey (TOBB), 2 state banks: Türk Eximbank (2001–2003), and Türkiye Halk Bankası (2004, 2005, 2006, 2008, 2009)	2001
139	ECA	Turkey	Turkey	SME export promotion support credit	Small and Medium Enterprise Development and Support Organization (KOSGEB), Public Banks (3), Private Banks (7), Credit Guarantee Fund	2008–2009
140	ECA	Turkey	Turkey	Sector specific SME support credit	Small and Medium Enterprise Development and Support Organization (KOSGEB), Public banks, Private banks, Credit Guarantee Fund, Tradesmen and Craftsmen Cooperatives Union (TESKOMB)	2008/ 2009/ 2010
141	ECA	Turkey	Turkey	1000+1000 SME Machinery-Equipment Support Credit	Small and Medium Enterprise Development & Support Organizations (KOSGEB), Private Banks (2), Credit Guarantee Fund	2008
142	ECA	Turkey	Turkey	Emergency Support Credit	Small and Medium Enterprise Development & Support Organizations (KOSGEB), Public Banks (3). Private Banks (10), Credit Guarantee Fund.	2009
143	ECA	Turkey	Turkey	Machinery Equipment credit of Southeastern Anatonia Project (GAP) Provinces	Small and Medium Enterprise Development & Support Organizations (KOSGEB), Public Banks (2). Private Banks (10), Credit Guarantee Fund.	2009

PROJECT DESCRIPTION

Type	Sub-type	Project Summary
Public support scheme	Credit Guarantee	The scheme was designed to ease credit constraints faced by the SMEs after the global financial crisis, providing financial support of USD 650 mln to SMEs through credit guarantee institutions that provide guarantees to eligible banks lending to SMEs. The scheme will remain in effect until July 2011. Mechanism: SME loan maturities range from 6 months to 4 years, for up to USD 650,000 per SME. All loan applications are channeled through the 20 banks participating in the program. Treasury guarantees cover up to 65 percent of risk, while the remaining 35 percent risk is borne by the banks. Collateral and a commission fee of 0.5–1.5 percent on the guaranteed loan amount is required from the SMEs.
Public support scheme	Funded facility	TOBB and the selected public banks signed several deals to provide 1-year loan packages to SMEs. This was the first time in Turkey in which a business organization (TOBB) launched an initiative with public banks to support SME access to finance. Using TOBB's (and its members) cash funds, TOBB buys commercial paper (issued by Eximbank) and deposits a certain amount of money for 1 year (in Halkbank). The pool of funds is used by banks as 1-year cash credits for SMEs, at below-market rates. The banks are in charge of selection and servicing loans of SMEs.
Public support scheme	Funded facility	The program aimed to promote SME exports while decreasing financial constraints of export costs. Loans (trade loans) to SMEs are for up to USD 200,000, for maturities up to 6 months. Export has to be realized up to 18 months after credit approval. The program has an interest rate subsidy component: two thirds of the interest rate is paid by KOSGEB to banks on behalf of enterprises. The remaining one third of the interest is paid by the enterprises.
Public support scheme	Funded facility	KOSGEB provided special financial support programs to different sectors of SMEs to cope with the global economic crisis. Loans are provided by banks in the program. General SME Loans are for a maximum of USD 16,500, and women-owned SMEs have a higher limit of USD 19,700.
Public support scheme	Funded facility	The programs provide loans for SME machinery-equipment investments of (Program 1) medium-high, high and (Program 2) medium-low, low-technology sectors (as defined by OECD criteria). The maximum loan for each Program 1 loan is USD 395,000, and USD 197,000 for Program 2. All KOSGEB database registered SMEs are eligible for support. A subsidy of 100 percent of the loans' interest rates to banks is covered by KOSGEB on behalf of borrowing SMEs. Payment on principal is covered by the SMEs themselves. SMEs must certify that machinery equipment has been purchased with the credit and is operational for repayment period.
Public support scheme	Funded facility	This is a credit program providing special financial support to SMEs to cope with natural disaster effects (e.g., floods, earthquake, droughts, storm, wars, fire, etc.) that have damaged their businesses. The maximum for each loan is USD 65,800. All KOSGEB database registered SMEs are eligible for support if they documented firm's disaster effects with official authorities. A subsidy of 100 percent of the loans' interest rates to banks is covered by KOSGEB on behalf of borrowing SMEs. Payment on principal is covered by the SMEs themselves.
Public support scheme	Funded facility	This program provides loans for SME machinery-equipment investments in the Southeastern Anatolia region (the region comprises about 10 percent of Turkey). All KOSGEB database registered SMEs are eligible for support. A subsidy of 75 percent of interest rates to banks is covered by KOSGEB on behalf of borrowing SMEs. Payment on principal and 25 percent of the interest rate is covered by the SMEs themselves

BASIC PROJECT DATA

Code	Region	Country	Submitting Entity	Name of the Program	Implementing organization	Starting Year
144	ECA	Turkey	Turkey	Credit Support for the Movement of the Leather Sector to Organized Industrial Zones	Small and Medium Enterprise Development & Support Organizations (KOSGEB), Public Banks (3)	2007–2008
145	ECA	Turkey	Turkey	Tradesmen-Craftsmen Credit Program	Undersecretariat of Treasury, Halkbank, Tradesmen-Craftsmen Credit & Guarantee Cooperatives.	1951
146	ECA	Turkey	Turkey	Woman Entrepreneur's Package	T. Garanti Bank, Woman Entrepreneurs Association Turkey (KAGİDER) – NGO	2006
147	Developed	USA	USA	Small Business Investment Company (SBIC) Program	Small Business Administration (SBA), Small Business Investment Companies	1958
148	Developed	Italy	Italy	Avviso Comune alla Moratoria dei Debiti delle PMI	Italy's Ministry of Economy and Finance, Banking Association (ABI), Industry Associations	2009
149	Developed	Italy	Italy	Guarantee Fund for SMEs	Ministry of Economic Development, Unicredit, Industry Associations (MGIs)	2000
150	Developed	Germany	Germany	KfW StartGeld Program	KfW and European Investment Fund (EIF)	2008
151	AFR	Republic of Congo (Brazzville)	Belgium	Brazzaville Funds	Government of the Republic of Congo Brazzaville and the Minister for SMEs, Belgian Federal Minister for SMEs, Belgian Bankers Academy and Participation Fund	2009
152	Developed	Korea, Rep.	Korea	Credit guarantee programs for small and micro enterprises	KOREG – Korean Federation of Credit Guarantee Foundations	2000

PROJECT DESCRIPTION

Type	Sub-type	Project Summary
Public support scheme	Funded facility	KOSGEB provided special financial support for the relocation of the leather sector to industrial zones with proper water treatment facilities (in response to claims to reduce risk of environmental pollution). All KOSGEB database registered SMEs are eligible for support. Subsidy of 100 percent of loans' interest rates to banks is covered by KOSGEB on behalf of borrowing SMEs. Payment on principal is covered by the SMEs themselves. The maximum for each loan is USD 75,600 with a 1-year grace period.
Public support scheme	Funded facility	The program's objective is to encourage and develop tradesmen and craftsmen enterprises. A subsidy of 50 percent of the loans' interest rates to banks is covered by the Treasury on behalf of borrowing SMEs. Suretyships from cooperatives serve as insurance: 6.5 percent of credits are blocked in cooperatives accounts as a guarantee for the bank. The maximum for each loan is USD 75,600 with a 1-year grace period.
Private sector initiative	Lending/ banking services	Garanti offers the Woman Entrepreneur's Package in all sectors in order to meet businesswomen's communication network, training, and financial needs to grow their businesses. The package includes: (i) a support loan (term up to 60 months, grace period and a special rate); (ii) supplementary banking products (overdraft account, POS terminal, business credit card, insurance coverage, and automatic payment orders); and (iii) networking and training support (Women Entrepreneur meetings organized by Garanti and KAGIDER), Turkey's Women Entrepreneur of the Year Contest, free Training Support "Basic Entrepreneurship").
Public support scheme	Credit Guarantee	The SBIC Program mission is to provide long-term debt and equity to small businesses. Under the program, SBA licenses, regulates, and provides guarantee leverage for privately owned and operated venture capital investment firms. Mechanism: SBICs are public-private partnerships in which SBICs raise capital from private resources and the government (SBA) guarantees long-term debentures (10 years) to provide up to two to three times the private capital raised. Leverage is pooled in the market with the SBA guaranteed debentures.
Private sector initiative	Other	Due to the financial crisis, a large number of Italian SMEs were having difficulty repaying their loans with FIs. Consequently, the ABI and several industrial associations, with the sponsorship and under the management of the Italian Minister of Economy and Finance, agreed to temporarily suspend the payment of installments in favor of SMEs having some minimum requirements, and with no additional cost to SMEs. In order to benefit from the program, SMEs must meet a set of criteria and demonstrate adequate financial prospects. The project is financed entirely by the private sector, particularly by banks in the treaty.
Public support scheme	Credit Guarantee	The Fund began operations in 2000 with an initial endowment of USD 90 mln. The fund can guarantee about USD 40.5 mln p.a. of loans that meet a tight criteria. The Fund grants three types of subsidiary guarantees: (i) direct guarantee to banks; (ii) counter guarantees to MGIs; and (iii) co-guarantees with MGIs. Guarantee coverage is between 60–80 percent per loan, up to USD 2 mln.
Public support scheme	Credit Guarantee	The KfW StartGeld program was launched in January 2008 to address start-up finance. KfW and the European Investment Fund (EIF) entered into a guarantee agreement in which EIF guarantees financing transactions for start ups. The guarantee is part of the SME Guarantee Facility funded by the European Community and operated by the EIF. EIF guarantee defaults are covered up to a certain percentage rate and amount.
Public support scheme	Funded facility	The Participation Fund is a Belgian public credit institution, whose objective is to share its know-how by providing financial, technical, and administrative services to other institutions. The mechanism studied for the Republic of Congo Brazzaville includes three complementary tools: 1. Coaching Fund for SME training 2. Quasi-capital Fund to strengthen SME capitalization 3. Guarantee Fund to reduce financial partners' risk.
Public support scheme	Credit Guarantee	KOREG and 16 CGFs have introduced various kinds of special guarantee programs for micro-enterprises that have low credit ratings and are unregistered (informal sector).

BASIC PROJECT DATA

Code	Region	Country	Submitting Entity	Name of the Program	Implementing organization	Starting Year
153	SAR	India	India	Code of banks Commitment to Micro and Small Enterprises	Banking Codes and Standard Board of India (BCSBI) and member banks	2008
154	World		FMO	Micro & Small Enterprise Fund (MASSIF)	FMO	1986
155	MENA	Afghanistan	DEG	SME Credit Guarantee Facility (KGF) for Afghanistan	DEG, USAID	2005
156	World		DEG	Public Private Partnership Program	Ministry of Economic Cooperation and Development, DEG, Private Companies	1999
157	World	Developing countries. Fifty percent of the funds of the Development Fund should be invested in the partner countries of the Belgian Development Cooperation and 10 percent of the funds in Central-Africa (DRC, Rwanda, Burundi).	Belgium	BIO's Financial Sector Department (formerly Development Fund)	Belgian Investment Company for Developing Countries (BIO)	2001
158	World	Developing countries. Fifty percent of the funds of the Development Fund should be invested in the partner countries of the Belgian Development Cooperation and 10 percent of the funds in Central-Africa (DRC, Rwanda, and Burundi).	Belgium	Enterprises Department (formerly SME Fund)	Belgian Investment Company for Developing Countries (BIO)	2004
159	AFR	Ghana	UNCTAD	Capacity Development & Utilization Program (CDUP)	Government of Ghana, UNDP-Ghana, EMPRETEC Ghana Foundation (private sector)	1996

PROJECT DESCRIPTION

Type	Sub-type	Project Summary
Financial infrastructure	SME Banking Codes	The BCSBI was set up by the Reserve Bank as an independent body to plan, evolve, prepare, develop, promote, and publish voluntary comprehensive codes and standards for banks for fair treatment to their customers. In 2006 the BCSBI finalized a Code of Banks Commitment to Micro and Small enterprises and the code was launched in 2008. The code is funded by the Reserve Bank of India and registered as an independent and autonomous body. Banks agreeing to comply with the standards and as members pay an annual subscription, which is building up reserves for when the RBI funding is exhausted.
Public support scheme	Funded facility	MASSIF was established by the Dutch Ministry of Foreign Affairs and FMO to provide local currency financing to financial institutions for onlending to small enterprises. Recognizing that hard currency loans can have a negative impact on SMEs because the vast majority of SMEs do not earn hard currency income, MASSIF bears the currency risk. The creation of MASSIF was the result of FMO not being able to take on the risk of local currency lending. Therefore, the Ministry of Foreign Affairs provided most of the funding for MASSIF, but FMO manages the fund.
Public support scheme	Credit Guarantee	This is a credit guarantee fund to facilitate sustainable access to financing for SMEs (working capital and investments) through the issuance of guarantees to Afghan FIs. The facility also provides technical assistance to partner FIs.
Public support scheme	Funded Facility	Through PPP, DEG provides co-financing for private sector projects in the developing world. German and European companies are eligible for PPP projects if they can demonstrate good financial standing and sustainability of the project. Projects can be in the form of investments, joint ventures, export and imports, and contributions to country development. The program also contains a TA component for companies involved in the PPPs.
Public support scheme	Funded facility	BIO's Financial Sector Department takes equity stakes, and provides debt and other related forms of financing under market conditions to financial institutions and investment funds/ companies. BIO has the right to: co-found companies; participate directly in the equity of companies; provide subordinate loans, or medium- or long term loans; and supply guarantees to or in favor of companies. Financial institutions and investment funds financed by BIO must be established in or focus exclusively on developing countries and have goals that are compatible with BIO's mission.
Public support scheme	Funded facility	In 2001, the Belgian State and the Belgian Corporation for International Investment established BIO as a Development Finance Institution. The main goal of BIO's Enterprises Department is to support the private sector in developing countries through long-term financing. BIO directly finances local enterprises by means of different instruments: (i) loans; (ii) equity; (iii) quasi-equity; and (iv) guarantees.
Public support scheme	Funded facility	The UNDP, as part of its support to the Government of Ghana's Capacity Development and Utilization Program (CDUP), made available to EMPRETEC Ghana an amount of USD 700,000 (then equivalent of GH¢114,000) to be used in setting up a revolving fund out of which credit would be made available to micro, small, and medium enterprises in Tourism, Manufacturing, Construction, and Non-Traditional export sectors, in order to expand their businesses.

BASIC PROJECT DATA

Code	Region	Country	Submitting Entity	Name of the Program	Implementing organization	Starting Year
160	LAC	Argentina	UNCTAD	"Entrepreneur's Credit" (Crédito Emprendedor)	Fundación Empretec Argentina (private sector) Banco de la Nación Argentina (govt) Instituto Nacional de Tecnología Industrial – INTI (National Industrial Technology Institute) Subsecretaría de la Pequeña y Mediana Empresa y Desarrollo Regional de la Nación (Sepyme) (National SME and Regional Development Undersecretariat)	2009
161	MENA	Morocco	IFC	Improving the credit information system	Central Bank of Morocco Private Credit Bureaus, IFC, banks	2009
162	MENA	Morocco	World Bank	Caisse Centrale de Garantie	Moroccan government, World Bank	2007
163	MENA	Egypt	IFC	I-Score Credit Bureau	Twenty-five banks in addition to the Social Fund for Development, Dun & Bradstreet International, IFC	2007
164	EAP	China	IFC	Chengdu Small Enterprise Credit Guarantee (Chengdu CGC)	IFC, Chengdu CGC, DFID, and State Secretariat for Economic Affairs of Switzerland (SECO)	2001

PROJECT DESCRIPTION

Type	Sub-type	Project Summary
Public support scheme	Funded facility	The initiative entails offering newly established dynamic and innovative companies' medium and long-term financing in more flexible conditions and with lower rates of interest than the financial system would otherwise offer them. In the case of technology companies, the initiative also offers free (or partially subsidized) technical assistance. In light of the difficulties the financial system presents to SMEs with regard to obtaining financing (due to strong regulations the system has to face), the Banco de la Nación Argentina created a trust fund that allows it to finance promising projects of companies that would usually be excluded from any kind of external financing. In the case of newly created companies, the initial selection is accomplished by Fundación EMPRETEC due to its previous contacts with the different institutions and because of its knowledge in the entrepreneurship field and the creation of companies.
Financial infrastructure	Credit bureau / Financial or Credit Information registry	In 2006 the Central Bank of Morocco (BAM), under the guidance of IFC, undertook a radical reform of the aged national credit reporting system by revamping the outdated Public Credit Registry (PCR) and simultaneously establishing the first Private Credit Bureau. All supervised entities (banks, NBFIs, MFIs) are mandated to provide BAM with full data on all loans on a monthly basis. BAM consolidates the data and provides the same to all licensed credit bureaus. BAM plays an active role in the initiative through support the private sector and by delegating the PCR services, while also being the only licensing and supervising authority of private credit bureaus. First Credit Bureau became fully operational in Nov 2009.
Public support scheme	Credit Guarantee	In 2007, Morocco initiated a reform of the national credit guarantee scheme (Caisse Centrale de Garantie-CCG). The objective of this reform is to enable the CCG to provide access to credit to a larger number of SMEs with better loan origination incentives and to overcome the old system's deficiencies.
Financial infrastructure	Credit bureau / Financial or Credit Information registry	Egypt's first private credit bureau was established in 2007. Information in the credit report is collated from the members of the Credit Bureau.
Public support scheme	Credit Guarantee	Chengdu CGC was set up in 2001 under a DFID project for the restructuring of state-owned enterprises (SOEs). The objective of Chengdu CGC is to support SME lending through the provision of partial guarantees to the local lenders in a commercially sustainable manner. CGC only guarantees up to 70 percent of the loan amount and charges a market/risk based fee on guarantees. CGC leverages on key strategic partnerships with selected banks that share the same vision in this business model. IFC has provided a range of technical assistance tools to CGC. SECO and IFC have investments in the company, with 20 percent and 9.48 percent ownership, respectively.

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