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MODELS OF FINANCIAL BUSINESS SERVICES

CASE STUDIES AND LESSONS LEARNED FROM FINANCIAL INTERMEDIARIES

March, 2009

This publication was produced for review by the United States Agency for International Development. It was prepared by Drew Tulchin, a consultant for Chemonics International Inc.

FINANCIAL SECTOR PROGRAM

MODELS OF FINANCIAL BUSINESS SERVICES - CASE STUDIES AND LESSONS LEARNED FROM FINANCIAL INTERMEDIARIES

Contract No. 674-M-00-08-00043-00

CONTENTS

ACRONYMS

ADB	African Development Bank
BDS	Business Development Services
Bn	Billion
BDSP	Business Development Service Providers
BX+	Banco Ve Por Mas
CSR	Corporate Social Responsibility
DMS	Deepening Malawi's Microfinance Sector Project
EGAT	Bureau for Economic Growth, Agriculture and Trade
fBS	Financial Business Services
FI	Financial Institution (also financial intermediary)
FIRA	Fideocomiso Institutos en Relación con la Agricultura
FIRCO	Fideocomiso de Riesgo Compartido
FSP	Financial Sector Program
IADB	Inter-American Development Bank
IFC	International Finance Corporation
M&E	Monitoring and Evaluation
MFI	Microfinance Institution
MSME	Micro, Small, and Medium Enterprises
NGOs	Non-Government Organizations
PE	Private Equity
PEAC	Promoting Enterprise Access to Credit
ROI	Return on Investment
SA	South Africa
SBA	Small Business Administration
SME	Small and Medium Enterprises
TA	Technical Assistance
US	United States
USAID	United States Agency for International Development
USD	U.S. Dollars
VC	Venture Capital

EXECUTIVE SUMMARY

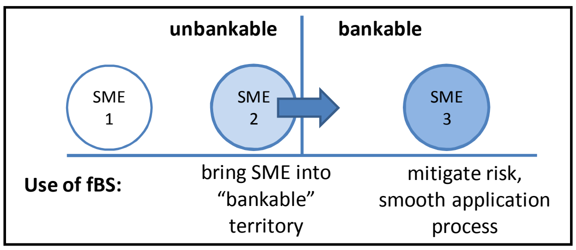
Introduction

USAID's Financial Sector Program (FSP) in South Africa means to expand access to finance related business services (fBS) and lower financing costs for SMEs through reforming the legal and regulatory framework affecting the financial sector and business environment, plus improving the commercial viability of lending to historically disadvantaged SMEs in South Africa, thereby expanding SME access to a range of high quality and affordable financial services.

This report intends to support the **objective** by identify global lessons learned, and best practice if possible, in service delivery of finance related business development services (fBS) to SMEs by (bank or non bank) financial intermediaries, taking into account the contexts in which they are applied. The report drew upon research on current practices worldwide. Comparative review of several examples generated a framework for analysis. Lessons learned are drawn predominantly from eight case studies of FIs offering different forms of fBS which offer insights into leading practices. These were drawn from Ghana, India, Indonesia, Malaysia, Mexico, the U.S. and world-wide. Annexes provide additional examples of commercial, philanthropic, and subsidized fBS providers, types of fBS they offer, and their goals.

Background to issues

Globally, SME access to capital varies in quality and quantity. Financial intermediaries (e.g. banks, finance companies, investment funds) are often reluctant to invest in SMEs because of real or perceived lack of business skills, documented track records, financial statements, and/or collateral. Traditionally, finance related business services (fBS) have not been offered directly by financial institutions, however, increasingly support ranging from "light touch" advice to more engaged services such as training, and technical assistance are being offered either directly or by third parties to enhance SME bankability, facilitate lending, and ultimately help access capital while reducing lending risks. As access to finance for SMEs remains a challenge, this report seeks to provide a framework for critiquing various – but particularly commercial - approaches to the way that fBS are offered as a means to enhancing access to finance.



Leading practice in pre-finance fBS

There are not yet established 'best practices' in this area, although a number of commonalities are highlighted in the report. The eight case studies from around the world illustrate similarities but were chosen to expose breadth in approach. The report identifies the following lessons learned for commercial FI's:

1. *Good banking practices contribute to success in this arena*: Effective and efficient institutions are better able to address fBS. While this is logical, it bears

highlighting FI's need to be able to have good systems and products to reach this population, for which fBS might be one element of business activity.

2. *Subsidized fBS and capital should interact with commercial FIs:* It is artificial to divorce commercial FI activity from the wider 'ecosystem' of SME support, financing, and fBS. Subsidized fBS and capital can provide valuable benefits for FIs.

3. *FIs need encouragement to discover profitability of SME banking:* Banks and investment funds can make money from SME lending. And, SME banking provides numerous additional benefits including diversification, PR, community goodwill, marketing, and retail market building

4. *Deal sourcing requires proactive behavior:* Reaching the SME sector may require new behaviors on the part of the FI. fBS for demand creation and partnerships, can contribute to successful and profitable efforts.

5. *'Pull' strategy to create demand:* FIs may have to create a market for their services through PR, recruitment, and education. Even basic financial literacy and de-mystification of banks, can have profound effect.

6. *Partnerships can improve the model:* FIs can develop partnerships across sectors to improve deal flow, reduce screening costs, and make their financial models work by incorporating outside inputs into their offering to SMEs.

7. *FIs must genuinely be invested in reaching the SME market:* Serving SMEs and providing fBS activities must be a core aspect of business strategy. The FI must have specialized staff and structure products of interest to SMEs, fit their needs, and are understandable to owners.

8. *FIs should develop physical presence where SMEs operate:* Primary fBS should be that which helps the SME as well as the bank and include an explicit element of accessibility as FIs need to see SMEs to understand them (and vice versa).

9. *Developing-country FIs have fBS cost advantages:* Institutions should draw upon competitive advantage, such as low labor costs and social cohesion.

Challenges in fBS delivery

<u>fBS is a cost:</u> It requires personnel and resources to reach, select, and serve SMEs. FIs have to consider the balance between the cost of providing fBS, potential benefits of increased sales, and risk mitigation of this sector to ensure profitability. Key barriers to serving the SME market include that it is different from most FIs typical client comfort zone. Demand for financial services by SMEs is latent as they do not typically look to banks for solutions. There is a general lack of understanding, information and education in the SME marketplace about the role that FI's and fBS play in promoting access to finance. This puts the onus on FIs to educate SMEs and publicize their fBS.

<u>Measurement:</u> SME banking generates a range of benefits to FI's but there is little data highlighting successes and no standard formula to measure fBS value or return on investment. Many managers identified longer term performance goals. The

definition of success may be different for commercial institutions than for public and NGO partners whose goals and performance indicators are less to do with profitability than with economic development objectives, for example.

Subsidization: The danger of subsidized models has potential to stifle commercial approaches to fBS and possibly lending. Improper and/or overuse of subsidies, creates dis-incentives for commercial entities to foster solutions. A healthy use of subsidized models will target the SME population outside the realm of commercial FIs; help near-bankable SMEs become bankable, and reduce risk for new activities by commercial FIs that encourage them to explore fBS activities that may be profitable additions to their business.

Conclusion

Despite the separation in modern financial service provision between lending/ investing and technical assistance, FIs are increasingly considering or actively participating in the provision of business services. Pre-finance fBS as a tool in particular, can provide real opportunities to FI's to increase access to capital and to diversify by building profitable SME practices. There are not yet established 'best practices' but, leading efforts are emerging increasing client base expansion and market penetration, positively impacting SMEs. Ultimately, success will be measured by profitable additions to business and healthy bottom lines benefiting both the SME and the financial intermediary.

1. BACKGROUND AND INTRODUCTION

a. Financial Sector Program

USAID's Financial Sector Program (FSP) supports the accomplishment of the U.S. Government's Economic Growth Objective in South Africa – to promote vibrant growth of historically disadvantaged small and medium enterprises (SMEs) and reduce unemployment and poverty. The objectives of this program are to expand access to finance related business services (fBS) and lower financing costs for SMEs through reforming the legal and regulatory framework affecting the financial sector and business environment, plus improving the commercial viability of lending to historically disadvantaged SMEs in South Africa, thereby expanding SME access to a range of high quality and affordable financial services.

As part of this effort, this study seeks to assess models in which commercial financial intermediaries (FIs) offering debt and/or equity to SMEs, support the needs of their clients, improve and increase SME deal flow, and mitigate default risk through pre-finance business services.

b. Scope of work

In South Africa, an increasing number of FI's have adopted varying approaches to helping potential clients access finance, deploying in house full time staff (a direct approach), or contracting third party providers (indirect support) to offer fBS to clients.

Finance related service provision *independent* of the FI has traditionally been regarded as desirable in order to reduce lender liability, and limit market distortion. The view is that the dual service provision by an FI (meaning both credit and fBS) effects lender liability, risk, and return on investment; the concern is that the way that such services are delivered, (viz. who provides the BS, to whom the BS are provided, for what purpose are services offered, what the service consists of, etc.) potentially distorts the FI/client relationship and what would otherwise be solely a financial transaction. Evidently though, certain FIs have adopted various approaches to service delivery reflecting a movement toward FI as provider, not only of finance, but of services which have typically been the domain of independent providers.

FSP, in an effort to provide guidance and to facilitate discussions with its FI partners and industry stakeholders has commissioned this consultancy to investigate models of pre-finance service provision around the world by FI's (either directly or via a third party), in order to assess which models are most and least effective, and why, in promoting access to finance by SME clients.

The goals of this report are to:

- Describe models used by FIs to support their SME client needs for fBS;
- Identify why particular models/approaches have been adopted;
- Provide a framework for critiquing these approaches;
- Detail lessons learned for what is most and least effective in terms of fBS provision and promoting access to finance for SMEs.

The investigation covers debt (banks and finance companies) and equity investing, but focuses primarily on commercial FIs engaged in lending activities, with fBS that:

- Promote access to finance by SME clients;
- Has sustained delivery in the market;
- Is enhancing or supposed to enhance SME bankability;
- Is motivated by an ROI to the providers of capital and / or fBS;
- Have positive impacts on SME clients.

c. Structure of the report

The report is structured as follows:

Section 2 describes the methodology used to conduct the study, namely a combination of desk based research and interviews with particular FI's and/or programs in order to develop a framework of analysis and case studies from which lessons learned would be extracted.

Section 3 addresses the different dimensions of fBS delivery, viz. whether offered directly or indirectly by finance providers, the degree of engagement with the SME client, and the extent to which services are subsidized. It offers two possible frameworks through which to consider finance providers – one which relates cost of delivery to intensity of engagement, the other which relates type of institution and provision of finance with direct or indirect fBS provision.

Section 4 and 5 describe various models by categorizing them in terms of whether their approach is commercial or non-commercial. This in turn is reflected in the way that the case studies on targeted institutions have been structured.

Section 6 and 7 document the lessons learned and conclusions reached extracted from the theory as well as from analysis of the case studies themselves.

2. METHODOLOGY

a. Goals and approach

This report began with developing an understanding of the range of current fBS activity, in order to place the focus of this report (commercial, pre-finance fBS) in context. Then an exploration into pre-finance fBS support offered by a broad variety of FIs was instigated. This global review was filtered to understand the following:

- Where and how fBS is done (with a focus on pre-finance, but including post fBS);
- How these activities are financed (by the FI or externally);
- What types of institutions are implementing fBS and for what reasons;
- What, if any, financial return is expected by FIs providing pre-finance fBS;
- What barriers or market failures exist that prevent commercial FIs from providing capital and pre-finance fBS to more SMEs.

The initial scan covered a variety of FIs, fBS types, geographies, and models. A listing of FIs is available in Annex A, with detailed comparable information based on numerous variables. The range of fBS services are provided in Annex B. Final selection was honed to those FIs which were most pertinent to the pre-finance fBS investigation, those that were illustrative for the South African context, and those for which sufficient information could be acquired. Exemplary models were selected for deeper analysis as a case study, detailed below.

b. Literature review

The most prominent literature reviewed is detailed in Annex F. In-depth, publicly available documentation on fBS is relatively scarce, especially as it pertains to efforts by commercial FIs to provide fBS to SMEs. Therefore, most documents relate to donor and development programs.

The objective of the literature review was to identify global lessons learned and best practice in delivery of fBS to SMEs. This effort included an extensive search within publicly available working papers, reports, and studies of fBS delivery models and the commercial FIs involved, as well as a review of websites and publications made available by FIs (commercial and non-commercial) themselves.

The literature review yielded significant information on certain delivery models. Donor-sponsored and government efforts provided better data, more extensive information available in the public realm, and included more analytical conclusions than anything available on commercial FI approaches to fBS.

For commercial FIs, data at the FI level is not usually readily comparable. Public information, including websites, press releases, and reports tend toward a public relations function rather than detailing activities or objective research.

Institutions featured in this report had relevant models and sufficient information to warrant inclusion. Representation is skewed to organizations with extensive web presence, those that have received acclaim or were the source of study, or where direct communications were possible.

Overall, there are few resources that provide comprehensive information about fBS and its impacts on both FIs and SMEs. Definitive reports providing industry-wide summations or country-level comparisons were few.

c. Interviews

A series of supplementary interviews and email exchanges took place; the list of references and contacts is provided in Annex E.

Where possible, phone interviews were used to gather more detailed and more specific information. They proved vital in shedding light on the current realities for both commercial and non-commercial FIs, especially in the absence of significant reporting on fBS efforts.

Interviews included programs introduced by the Financial Sector Program, and with best practice, institutions with which the consultant had prior contact. Interviews also included professionals contacted in both the global North and South to provide input on the analytical topic, as well as recommend programs for consideration. Their content and information went into the body of the report, was used for annexes, and went into case studies.

d. Case studies

Case studies for this report are included as annex A, and are referenced throughout this report.

Case study selection emphasized diversity, successes, and challenges. The following criteria were prioritized for case inclusion:

1. Market driven, sustainable approaches;
2. Commercial FIs, with select examples of donors, NGOs, and government actors included for contrast and context;
3. Debt financing, with a venture financing example provided for contrast;
4. Emphasis on pre-finance fBS;
5. Geographic diversity, with economies or cases with parallels for South Africa preferred;
6. Availability and quality of information and/or access to stakeholders.

The following cases were selected:

#	Institution	Country	Type	Finance Offering	Pre/post fBS	fBS approach	Source of Finance
1	Commerce Bank	USA	bank	debt / guarantee	both	direct / indirect	private and gov't
2	EcoBank	Ghana	bank	debt	pre	direct	private and donor
3	ICICI	India	bank	debt	pre	direct	private
4	Intellecap	India	vc	equity	both	direct	private and donor
5	PEAC	Indonesia	ngo	debt	pre	indirect	donor
6	ProCredit	Worldwide	bank	debt	both - 'light'	direct	private and donor
7	SME Bank	Malaysia	bank	debt	both	direct	gov't
8	Ve Por Mas (BX+)	Mexico	bank	debt	both	indirect	private

3. UNIVERSE OF FBS SERVICE PROVISION

a. Definition of terms

Small and Medium Enterprise (SME): Nearly every financial institution has its own parameters defining SMEs; most use minimum and maximum numbers for headcount and annual turnover, based upon national standards.

The Banking Association of South Africa defines SMEs as having an annual turnover of R500k - R20m (USD~$50k – 2m); Some FIs change scales for different industries.

This report does not propose a single definition and numerical range to define SMEs. Varying global economies make it difficult and of arguable utility to compare SME turnover in U.S. dollars. Instead, in all cases, the definitions used by FIs and governments are used.

This report uses the following definitions and terms to provide clarity and transparency in its analysis.

DEFINITIONS & TERMS	
Financial intermediary (FI)	An institution that primarily provides credit. This could act as a middleman between investors and firms raising funds. Can include banks, mutual funds, investment funds, and pension funds. Also: “financial institutions”.
Commercial financial intermediary	For the purposes of this paper, a distinction is made for “commercial” FIs, in order to distinguish those financial intermediaries operating and competing commercially in the open market, with sustainability and profit-maximization as a primary goal. This stands in contrast to FIs that are run by governments or NGOs, or that are partially or wholly subsidized by the same, with economic development, employment growth, and social impacts as the primary goals.
Investment vehicle	In general, any method by which to provide capital to an enterprise. Examples include loans, equity investments, bonds, and annuities.
Non-financial business services	Advisory and technical business development services offered to business that are not directly (but might be indirectly) tied to access to and repayment of capital. These services might help businesses develop business thinking, improve management skills, attract customers, access suppliers and distributors, and compete with other businesses.
Pre-finance fBS	fBS offered to a business to facilitate finance by a) helping prepare plans, documents, applications to access capital (e.g. debt and equity); and/or b) working toward “bankability” so that it is acceptable to lenders/investors
Post-finance fBS	fBS offered to a business after a financial investment, to help it use the capital to invest in growth, monitor cash flow, and repay its debts (in the case of loan finance) or work toward exit (in the case of equity finance).
Direct fBS	fBS provided to SMEs by the FI providing finance
Indirect fBS	fBS provided to SMEs by a third party, either contracted by the participating FI or external to the FI transaction (the latter often occurs in the case of NGOs and government programs supporting SMEs generally)
Loan guarantee	A pledge by a third party to repay all or part of a loan if the borrower is unable to repay.

b. Barriers to commercial financing of SMEs

There are numerous challenges to SME financing throughout the developing world. As the report is interested in the connection between financing which is directly tied to the provision of fBS by banks and other FIs, it is illustrative to consider the barriers to financing SMEs as perceived by commercial FIs. These concerns extend from lending and also provision of fBS. Many of the following barriers are common across developing countries. They are listed in priority order for pertinence to this study:

Issue	Details
1. Business capability deficiencies on the part of SMEs	Many SMEs have poor (or no) financial statements, making evaluation difficult. In countries with low human capital in accounting, this contributes to SMEs' difficulties in improving financial statements. Many SME owners have inadequate formal education and business training, which affects their presentation skills.
2. Risk aversion by FIs	Many FIs consider SME financing a high risk activity with large transaction costs, high default rates and low / negative returns on investment.[1] This issue is exacerbated when SMEs lack documented borrowing histories and usable collateral.
3. Cultural Divide between FIs and SMEs	Historically, FIs have expected customers to come to them. Some entrepreneurs will not approach FIs due to fear or lack of knowledge. If FIs are proactive, many are not familiar with SMEs and the sectors in which they work, decreasing ability to identify strong customers.
4. Legal and regulatory system inefficiencies	Inefficient legal systems can hinder FIs' recourse with delinquent borrowers. Unclear property rights and lack of ownership documentation reduces bankable value of assets. Bureaucracy can hinder decision-making, taking years to resolve.
5. Lack of credible information to assess risk and performance	On the macro level, SME performance data is often scarce, as with centralized information on bad debtors (such as a credit bureau). In the absence of authoritative information, FIs must use other methods to identify and analyze SMEs.
6. Low /no incentives for banks to lend to SMEs	SME financing is perceived to be unprofitable for banks. There have been numerous unsuccessful efforts to reach this sector. Although SME lending may also offer other additional value, including diversification, positive public relations, a gateway to the retail market, and potential for long-term profitability, it may be difficult to sway decision-makers focused on limited experiences and the bottom line.

It is to overcome the barriers for which FIs have the most control that finance related business services offer a potential solution and provide opportunity to increase bankability of SMEs. The first three barriers, FIs could most readily address themselves; the last three require FIs to develop compensatory measures to address deficiencies at the macro and/or country level. In exploring the use of fBS by FIs, the historical concerns and explicit separation of these is noted. For the purposes of this investigation, existing actual efforts and associated benefits are highlighted.

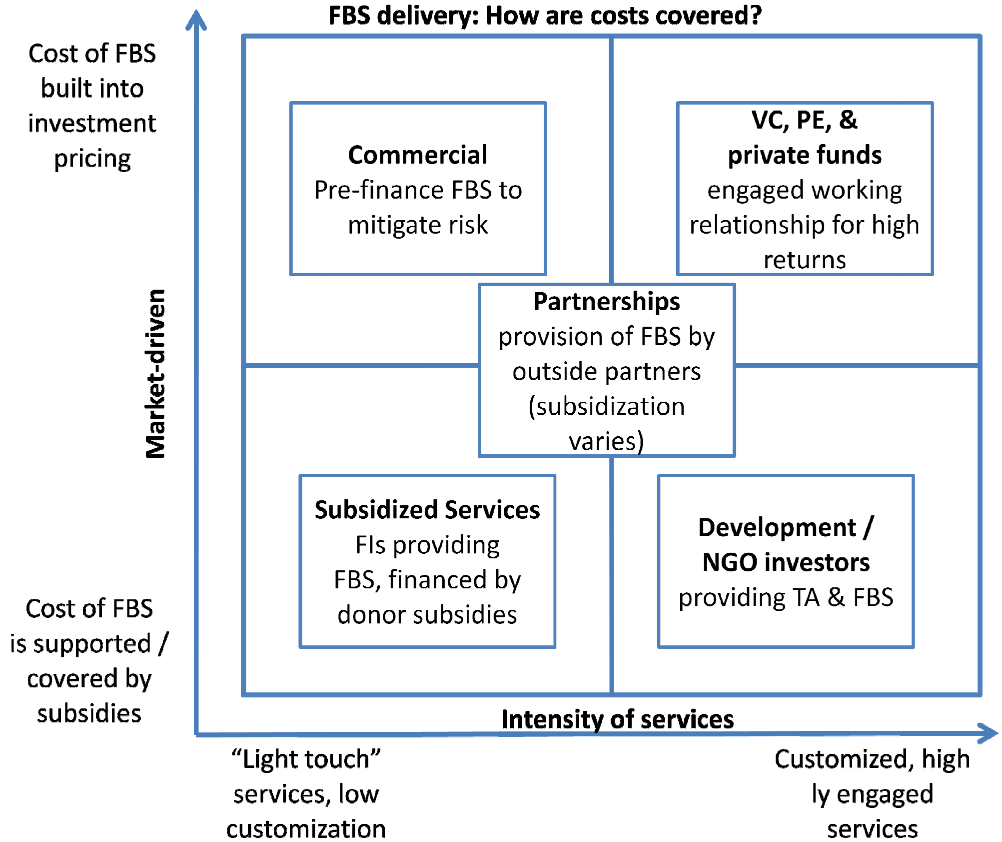
c. Spectrum of fBS delivery

Based on the global investigation conducted, a picture of the spectrum of fBS, and the FIs that provide it, has emerged. A summation of services is provided as a table in Annex B.

Existing fBS activities are conducted by a wide variety of players – from purely commercial to purely philanthropic entities, across which various approaches to fBS are employed. The table below puts forth a universe of institutions involved in delivery.

[1] Ashitey, Samual, "Speech by the Managing Director of EcoBank Ghana on Strategic Planning for SME Lending", USAID-sponsored conference on SME financing in Africa, 21 October 2008.

Graphic 1: fBS Delivery – the 'Universe' of Providers



Institutions involved in fBS delivery are placed in a universe along two continuums:

1. Intensity of service engagement (x-axis): from less contact as with a light, informal touch, to heavy, sustained engagement;
2. Market driven (y-axis): whether cost for services is completely subsidized through donor and philanthropic involvement or if costs are passed on to the borrower.

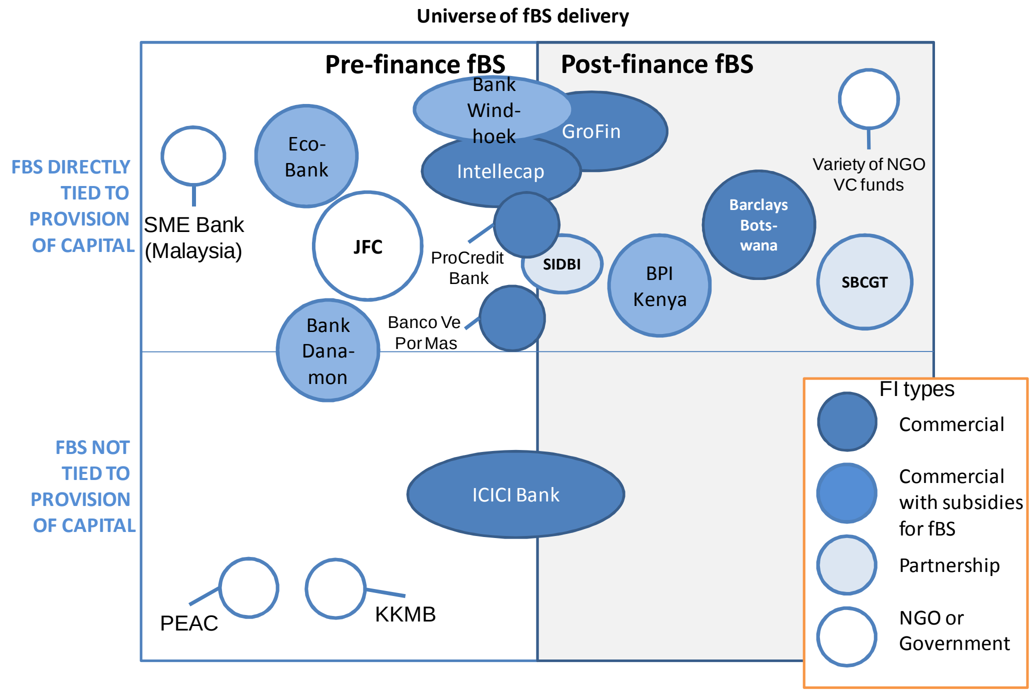
The major 'players' in this 'universe' (identified by the boxes above) include:

- Commercial FIs offering fBS as a commercial strategy to mitigate risk and increase probability of debt repayment;
- Venture institutions or funds that do equity, near equity and equity like investing and include fBS in their activities;
- Partnership approaches (between commercial and subsidized / NGO entities);
- Commercial FIs receiving subsidies to offer fBS and capital;
- Philanthropic entities engaged in fBS and possibly also provision of capital.

Some providers of pre-finance fBS offer services that are not tied to actual access to capital by an SME; for example, an NGO or government program might work with SMEs to help them improve their business plans or operations, without explicitly tying them into an FI or formally requiring that relationship.

The graphic below places specific examples in the universe defined above. The examples are representative, including entities highlighted in the Case Studies and also in Annex A.

Graphic 2: Specific Examples in the Universe of fBS Delivery



To highlight a few details of the graphic above:

- The boxes divide the universe between pre- and post-access to finance activities and how closely tied these services are to the provision of capital;
- Circle size is a representative effort to show institution / project volume;
- Color ranges from commercial (darkest) to fully subsidized (white);
- Institutional placement on the chart may not encompass all activities or programs of an entity, but are representative for illustrative purposes to demonstrate a range of activity.

The focus of this report lies with the left quadrants, in which FIs provide pre-finance fBS, directly or indirectly, as a facilitator to, or part of, the financing process. Many institutions do not explicitly limit their efforts to only pre-finance activities. FBS activity across the spectrum is illustrative and informative and is drawn on throughout the report and findings.

d. Issues with existing pre-finance fBS models

In theory, finance related business services facilitate access to capital by helping SMEs improve their business performance and become “bankable”, and by assisting SME applicants in preparing business plans and application documents. Despite the potential benefits of building a market for SME financing, pre-finance fBS is not widely employed as a direct strategy by FIs, especially commercial banks. Several issues underpin this gap, identified here, and for which solutions are explored later:

Scarcity of commercial models to follow

Despite the potential demand from SMEs for capital and for services that help them access that capital, few commercial FIs offer direct, meaningful services to SMEs to help them access capital and lessen the risk of default. Contributing factors to this include:

- Lender liability concerns inhibit FIs from providing both finance and advice / consultancy;
- Support to SMEs can be intensive and require customized services, which in turn, pushes up costs of lending / investing;
- In some countries, FIs are not knowledgeable about SMEs or strong in the sectors in which SMEs are most common;
- Existence of / dependence on a market of external service provision, or providers specialized in relevant services;
- Question of extent to which FI should involve itself in ancillary services i.e. whether finance related business services are part of their core business or not;
- Not perceived as a profitable investment or resource.

Latent demand for fBS by SMEs

Some SMEs do not realize they are eligible for commercial financing. The assumption is that where demand for finance is high, demand for finance related business services will be high. However, several factors impact this, such as:

- Where / who SMEs seek finance from;
- Related to this, financial literacy levels of SMEs in knowing what type of finance and / or fBS they need (as well as where to source it);
- Perceived ease of access to finance – cost of finance and/or fBS, as well as FI requirements in order to access finance;
- Accessibility and responsiveness of finance / service provider;
- The market of provision of finance and fBS and the role of subsidized services which "crowd out" demand for commercial services or those which better meet the need of the entrepreneur to access finance.

As long as the disconnect between supply and demand exists in the market, SMEs are less likely to seek out FIs for support and capital without institutions going to them first or 'creating a market'.

Most existing pre-finance fBS by commercial FI's is "light touch"

Where commercial FIs do provide direct assistance to access capital, it tends to be "light touch" rather than necessarily the kind of specific or in depth assistance that SMEs need. Many FI's do not tailor their support services to individual SME needs (for the reasons given above). Information and technical assistance is offered (e.g. in the form of advice) but generally, is not sufficient to overcome the kind of hurdles faced by SMEs in accessing finance. This is most commonly seen by:

a) Broad based information like websites offering advice, planning tools, examples and templates;
b) General business trainings open to all existing and potential customers;
c) Informal / sporadic advice from a loan officer or FI personnel.

Even in the U.S. where concerns for lender liability are actually legally binding, this "light touch" form of fBS is highly common; one U.S. banker highlighted that the bank averages eight contacts before lending to a first time borrower. All financial professionals contacted with regards to this research identified informal T.A. as inherent in the business.

From the FI perspective, investment in such services does not always produce immediately tangible results or translate into actual "sales", and so formalizing the offering is not necessarily seen as profitable or worthwhile. .

Direct vs. indirect provision of fBS

Some commercial FIs adopt an indirect approach to supporting potential customers, providing capital but outsourcing finance related service provision to a third-party provider. Use of a third party can be attractive to an FI with low internal capacity to deliver fBS itself, lack of specific skills, or less knowledge of this target market.
It is apparent however, that in some markets, and in order for SMEs to access finance, some form of finance related business service is required. The challenge for FI's is to decide which approach is best if indeed they wish to finance SMEs. The following table indicates some of the reasons why an FI might adopt a particular approach.

Table 1: Advantages of direct and indirect provision of finance related business services

Arguments Favoring Direct Provision	Arguments For Indirect Provision
• Better able to control quality of service provided to SMEs; • Ability to offer services which enable SMEs to meet specific FI requirements (whereas external service providers do not always provide finance related business services that enable the SME to meet FI requirements); • Potential to build long term relationships with SME clients; • Greater potential to screen deals and evaluate financing potential of SMEs; • Potential to stimulate demand for capital and to cross-sell products;	• Provides buffer against lender liability overcoming fBS risks to FIs, as borrowers might later claim that advice received from the FI led to inability to repay; • Fosters development of a market for fBS provision; • Maintains specializations and focus, removes potential conflict of interest in FI decision-making; • Makes use of capacity and skill located in the market rather than having to develop it in-house. • Requires proper feedback loops (to ensure SMEs are benefitting) and alignment of incentives (to ensure fBS is helping SMEs access capital)

4. COMMERCIAL APPROACHES TO FBS DELIVERY

a. Relationship between type of finance provided and fBS

There are two major categories of commercial FIs offering fBS: financial institutions (predominantly banks, but also finance companies) and funds largely providing equity or equity-like capital. These two categories are highlighted. Although they might share a focus on SMEs as a sector with significant growth potential, their financing approaches and nature of fBS provision differ.

Banks and finance companies, which form the bulk of case studies documented for this report, concentrate mainly on lending to SMEs and tend to operate on volume. If they are proactive about gaining SME business, they see SMEs as a potential growth sector and wish to capture market share. However, most banks have historically approached volume in terms of large transaction sizes. And, such institutions are typically reactive, with few resources devoted to bring SMEs to "bankable" status, so that investment in fBS and engagement with the SME client tends to be limited. One example in Africa is Barclays Botswana, which has an SME banking presence in its business mix but only provides very "light touch" fBS to SMEs in the form of quarterly networking sessions, which require a subscription. The case studies of EcoBank and ProCredit, among others, speak to this in more detail.

Funds focused on SMEs typically take high-risk, high-return equity stakes, investing money and internal resources in mentoring and even controlling portfolio companies. VCs place larger bets in fewer entities, seeking greater returns from the few. They are known to be highly selective, "cherry picking" a limited number of advanced SMEs at the top end. Pre-finance fBS tends to be around the submission process and relationship building towards the investment decision. Client engagement is more structured and regular post-finance.

b. Pre-finance fBS delivery

The case studies selected illustrate a range of types of pre-finance fBS. These include:

1. *Virtual services*: Online portals offering tools, information, advice, industry reports, examples of business plans and financial statements, directories of SMEs and vendors, and networking opportunities. **ICICI India** and **SME Bank Malaysia** have developed online suites of services tailored for local SME needs.
2. *Group services*: Training sessions or networking for SMEs. **EcoBank Ghana** emphasizes their customer service ethic to be of value to SMEs and covers the costs of offering regular business trainings to potential and existing customers.
3. *Individual indirect services*: Where there is a third-party consultant that works with the client to prepare financial statements, provide assistance with the loan application, and/or assist with business planning. **PEAC Indonesia** facilitated a process whereby commercial units strengthened private fBS companies to facilitate access to finance for SMEs, and to encourage local banks to lend to local SMEs. **Ve Por Mas (BX+) in Mexico** works with a government agency to provide T.A. and other services to rural SMEs.
4. *Individual direct services*: Face-to-face advisory services, in which an SME might be assigned a dedicated manager or have access and time with an FI employee to provide support in developing the business, preparing for a loan

application, or other value added services. **Intellecap India** works this way in a deep way with few institutions. Financial professionals such as **Commerce Bank in the U.S. and ProCredit worldwide**, speak to the importance of this via an informal or 'light touch' approach.

The table below summarizes the approaches described above:

fBS delivery	Who provides	Customisation	Subsidy	Case Study
Virtual information & tools	Direct though development / management may be outsourced	Low	Varies across providers	ICICI (India) SME Bank (Malaysia)
Individual advice	Direct	Low to moderate	None	Commerce Bank (USA) ProCredit (Worldwide) Intellecap (India)
Group training / networking for SME clients	Direct	Moderate	None	EcoBank (Ghana)
Technical assistance to individual SMEs	Indirect - third party (private companies)	Moderate to high	None	PEAC (Indonesia)
Technical assistance to individual SMEs	Indirect - third party (government agency)	Moderate to high	Varies by provider; most yes for high costs of TA provision	Ve Por Mas - BX+ (Mexico)

c. Institutional rationale for offering fBS

For commercial FIs, whether offering direct or indirect services, the objective for these services may differ. Reasons why commercial FI's may offer fBS include:

- Increasing and improving deal flow by attracting SMEs looking for an engaged financing partner;
- Creating new markets, by bringing "unbankable" SMEs up to bankable status through training and mentoring;
- Mitigating lending risk by screening out undesirable SMEs and by providing a means for FIs to learn more about each SME applicant;
- Building long-term customer relationships, which can help FIs win repeat deal flow as SMEs repay their original loans and seek follow-on financing;
- Fostering additional sales, by building trust with the entrepreneur and employees leading to cross selling and retail services.

As commercial ventures, one assumes that the primary goal is to make a profit and that any activities invested in must lead to some form of return, whether defined as such by the FI or not.

What is evident is that the mission and objective of the institution determines the type of activities offered; the extent of investment and way that cost is covered; and the way it measures performance or defines success. In addition, this has important implications for the type of partnerships formed, be they with third party providers or collaborating with private or public sector to improve access to finance, services or technology, for instance.

d. Uses of fBS

fBS for marketing and customer recruitment

Some FIs use fBS to recruit customers and position themselves as leading credit providers to SMEs. In this case, Return on Investment (ROI) is in the form of long-term positioning as a market leader for SME finance. This approach will be more successful in economies which enjoy a thriving and growing SME sector that is likely to produce profitable demand for capital from FIs.

Commerce Bank is a U.S. lender that focuses on the SME market. It began as what is called a community bank (a local bank) and has grown to a regional presence in the Mid-West. Part of its strategy was to create an online presence, with an extensive SME resource portal, and a personal presence, through active participation in SME events, work in the community, and extensive contact with existing and potential SMEs. In this way, it has become known as a leading credit provider and market leader in financing SMEs in the US.

fBS to create new demand for finance

Some FIs create new demand for financing (from existing or new SME clients) by forming partnerships with companies who recommend specific products and services that SMEs need. SMEs are then assisted to procure the product with financing from the FI partner. In this configuration, all three parties benefit and the transactions are entirely commercial in nature.

ICICI Bank (India) is the largest private bank in India, which, through partnerships is aggressively targeting the SME market. Through its partnership with Intel, ICICI provides financing specifically to enable SMEs to purchase technology which Intel provides and advises them on.

fBS as a deal flow screening tool

Many FIs use pre-finance fBS as a way to screen and select bankable SMEs, and to make the application process smoother. The ROI in this case more likely comes from risk mitigation, reducing losses and increasing the likelihood of better loan performance.

Ve Por Mas (BX+) in Mexico is a small privately held bank. It partners with Mexican government agencies FIRA and FIRCO to work with SMEs, particularly those in rural and government priority sectors. By referring potential clients to the agencies for technical assistance, it can rely on the agencies to advise them when a client is ready for finance.

fBS as a means to cross-sell

Direct delivery of fBS provides a clear mechanism for FI employees to better understand the needs of their SME clients and be able to offer appropriate products. .

EcoBank Ghana has a customer service approach which employs this model. The bank offers regular business trainings to SMEs. Part of its employees' responsibility is to maintain regular contact with potential and existing customers, to offer them information about the economy that may be of value, such as pending exchange rate fluctuations, and to track business activities so that the bank can offer appropriate, tailored services. EcoBank has also developed products like factoring and short term lines of credit, which it can offer specifically to SMEs.

e. Performance measurement

Success indicators vary depending on the type of FI and its goals for providing or supporting fBS. While governments, NGOs, and donor agencies often use metrics such as jobs created, increased livelihoods for employees and SME owners, and long-term contribution to economic growth (all indicators of social impact and economic development objectives), commercial FIs tend to use more tightly defined financial metrics to analyze performance, because these metrics support continued allocation of resources to fBS (see Annex C).

Banks in particular and FIs broadly, enter this market to diversify and increase profitability. They analyze their costs, and set these against loan repayment rates, lending performance, and interest spread. They may value this portfolio by repeat business, cross-selling and increased/improved deal flow, but this is not necessarily disaggregated or defined in terms of FI performance with respect to SMEs.

There are also auxiliary benefits for targeting SMEs with finance and/or support, which the institutions may or may not quantify. This includes market and product diversification, and positive PR. FIs might also measure how building an SME practice might provide access to additional, and often less expensive forms of subsidizing capital – for example, government funding, philanthropic grants, or socially responsible investing funds. These sources of capital might offer inexpensive capital to FIs in order to further their own goals for the social and economic impacts SME growth can have. Most private institutions do not make information publicly available, so it is difficult to determine whether and how they are measuring outcomes, and how closely these outcomes can be tied to the provision of fBS.

Private funds including VC and private equity have an even narrower focus. They are interested in business performance (especially growth and sale-ability) within the fund's target exit period. Fund success depends on its investor parameters and return horizon. Key areas include increase in turnover, market share, and profitability, more often tied to post-finance fBS. .

5. SUBSIDIZED APPROACHES TO FBS DELIVERY

In some cases, as discussed above, FIs find it commercially viable to provide directly or underwrite third party pre-finance fBS. The assumption is that the cost of such services is ultimately passed on to the borrower.

In other cases, FIs such as NGOs and government agencies, engage in fBS (directly or indirectly) based on subsidies in the form of donor technical assistance funds, support by philanthropic partners or government, for example, where the rationale may be any combination of investment based on a social and/or economic return.

Government guarantees are used to incentivize FI's to lend to SMEs, and as such, can motivate investment in pre-finance fBS.

In a similar way, partnerships and/or access to donor funds can serve as a catalyst to offer fBS to SMEs, whether it be on a commercial basis or not, as the partner sometimes has the expertise or technology that SMEs need, where the other does not.

Government guarantees and donor funds potentially provide a source of funding which enables finance providers to offer services which they otherwise might not offer, and as such, can serve as a significant stimulus to helping SMEs access finance.

The various models are illustrated here, with the conclusions for better practices congregated in the sections below.

a. Subsidized fBS approaches

fBS as a form of Corporate Social Responsibility (CSR)

Some commercial FIs use their philanthropic or Corporate Social Responsibility budgets to subsidize fBS delivery costs to potential and existing clients. Bank Windhoek of Namibia (see Annex A and B) uses money from its "social investment fund" to cover SME support costs. From an accounting perspective, lending activities are priced based on the actual cost of service, but pre-finance services are considered a 'social good' and addressed using CSR money that is really already 'written off' by the company. While CSR funds can be used to donate to charitable causes, or encourage employee volunteerism; in this case they are used to provide social benefits by supporting the financial readiness of SMEs.

fBS as an externally subsidized offering

There are numerous examples of outside funders (namely government agencies and donors) financing third-party fBS provision or acting as third-party provider for fBS tied to specific FIs. Examples include the government of Malaysia, which supports SME Bank through the Ministry of Finance; various foundations, which subsidized the launch of GroFin in Africa until it became profitable; and the Namibian government-funded Small Business Credit Guarantee trust.

External subsidization reduces cost for FIs, helping their bottom line, while still providing the pre-finance services necessary to get customers 'bankable'. The government-funded Small Business Credit Guarantee Trust (SBCGT) in Namibia pays a portion of the costs for the fBS, bringing both SME clients and Namibian commercial banks to avail themselves of these services when they would unlikely do so without incentives.

In some cases, the commercial FI might benefit without any inputs at all. For example, an NGO or government agency helps an SME apply to a bank for finance, without the bank initiating or requesting it. These 'subsidized' approaches are more widely reported in the public domain, largely by the donors, governments, and foundations themselves, and the development organizations that evaluate them. It is challenging to specifically price such services at market rates or in lending costs, although the inference is that this approach is a way of managing costs, improving risks, and reducing defaults.

fBS as delivered by philanthropic or development FIs

Many philanthropic or development-focused FIs offer both capital and fBS as part of their model, which tends to prioritize economic growth and livelihoods impact over financial ROI, and can therefore provide capital to riskier SMEs, and more in-depth (and therefore costly) fBS to SMEs. Intellecap (India) receives donations via philanthropy and donor involvement, which reduces their program operating costs and investing cost of capital.

Seed capital to prove a market for finance and fBS

Some foundations, such as the Shell Foundation and its role in seeding the African GroFin fund, use capital to seed investment funds or banks, with the goal of providing a commercial market for SME investment and eventually moving those FIs into financial sustainability and profitability. Domestic governments, international donors, and foundations might also provide "soft" or cheap capital to FIs to allow them to lend to and support SMEs. ProCredit used this wisely, particularly in its early years. Commerce Bank gives donations to local NGOs that help small business, even though clients helped might not all be/become their customers through NGO service.

fBS as a government-sponsored economic development initiative

Investment on the part of government can take the form of capital (grants or loans) to development banks, credit guarantee funds, grants to fBS programs, and wider activities in regulation, tax law, key industry investment, and infrastructure to improve SME success rates. The Mexican government has not one but three departments that provide T.A., finance training, guarantees and even directly finance SMEs in rural sectors. The Bank Ve Por Mas has found a successful and lucrative niche working with them and benefiting from their programs.

b. Social impact goals of subsidized approaches

The subsidized approach to finance and fBS typically has different goals than commercial FIs providing such services. Subsidized organizations or programs are, broadly speaking, able to offer services that do not have to contribute to hard financial ROI goals. Although these services are valuable and foster public good, their mission driven focus creates a different emphasis for impact measurement.

It is important to consider an organization's purposes and goals for providing services. Varied motivations will naturally lead to interest in different performance metrics and differing approaches in pursuit of those goals. For example, a donor program might value starting businesses or giving trainings, so those activities are emphasized, rather than a commercial FI's goal of making loans and earning a return. Such program metrics are compared in Annex C. It is important for FIs to understand these differences and different language for performance, especially in developing partnerships.

c. Comparing subsidized approaches to commercial ones

There are extensive differences between subsidized and commercial approaches to this type of SME service. In general, subsidized FIs and fBS delivery organizations are able to provide more and deeper fBS. These organizations more readily accept costs and expect softer (if any) ROI targets. fBS is more likely and more readily a core focus of their activities.

Impact is more likely measured in long-term impacts on individual SMEs and their employees and communities, the sector as a whole, and the economy. In the U.S. the Small Business Administration is interested in the number of small businesses started, still in business, and hours of training they have enrolled, while the bank receiving the guarantee is focused on repayment, loan performance, and continued lending.

These approaches carry several challenges when compared with commercial FIs delivering fBS to existing and potential customers. These include:

- Distorting the market, crowding out potential commercial player participation
- Creating a 'free rider' dynamic in which commercial FIs de facto (or explicitly) do not provide fBS, or provide only subsidized fBS, even when those FIs might be able to afford fBS costs or might be motivated to do so
- Providing fBS and capital that, divorced from market driven ROI goals, is not focused on SME profitability or growth, and not SME performance-based
- For guarantee funds, creating inefficiencies if guarantees are used for loans that would be done anyway, and not unlocking additional capital
- For government funders, danger that funding is used to curry influence, provide political favors, and complete government agendas, rather than fulfill community or small business needs

However, subsidized and philanthropic approaches offer positive aspects to contribute to the landscape in which commercial FIs operate:

- Fostering markets where commercial FIs are not engaging, but could be involved in profitable fBS and financing activities
- Creating markets by working with SMEs that are not currently commercially attractive, eventually bringing them up to commercial FI standards so they can enter "bankable" territory, or by subsidizing commercial FI activity until the market matures and can be addressed profitably by commercial FIs
- Investing in broader SME development and enabling environments, so more SMEs launch, stay in business, and eventually access commercial financing
- Bringing together FIs and SMEs to allow them to learn about each other's needs, and convening disconnected actors to build a comprehensive picture of the gaps in SME financing and support

6. LESSONS LEARNED FOR COMMERCIAL LENDERS

This section highlights key lessons learned for FIs, drawing upon the framework presented above, the annexes, and the case studies. In addition to this, each case study highlights its own specific lessons, although citations from the case studies should be viewed as representative, not exclusive.

a. Banking practices responsive to SMEs enhance bankability

The FI's investigated in the case studies demonstrate intentional strategies to support SMEs and promote access to finance:

- As building an SME portfolio requires a different way of doing business and new behavior, adaptable institutions are more likely to succeed, evidenced by, among others, the ability to offer different products for various target markets, and in particular, products customized for SMEs.
- Strong customer service and an SME customer focused ethos fosters demand creation since many SMEs do not know how to – or whether to – access financing; In these examples, FI's have personnel specifically trained to deal with SMEs and focused on relationship management
- Operational efficiency is important as SME lending is often characterized by "high volume, low ticket" portfolios.[2] Associated fBS services must be able to accommodate and process large numbers.
- fBS can be incorporated as part of a business strategy used to the FI's benefit for screening, selection, and risk mitigation. This approach can be seen in the EcoBank case study, in which business training can build relationships and knowledge that will assist the bank in making financing decisions later on.
- Strong systems are helpful as SME services to ensure cost savings. ProCredit put extensive effort into this area, as have others.
- SME lending has different risk profile, so requires expertise. Intellecap provides a deep example with their dedicated focus on this sector.

b. Subsidies can enhance commercial FI offerings to SMEs

It is artificial to divorce commercial FI activity from the wider 'ecosystem' of SME support, financing, and fBS. Both subsidized fBS and capital to SMEs can play an important role in developing and incentivizing the role of commercial FIs in SME financing and fBS support, and in moving forward SMEs otherwise regarded as 'un-bankable' (due to size, location, risk profile, or level of business education). When the ecosystem functions, these different organizations have great benefit for SMEs, increase profitability of commercial FI activity, and generate economic development.

In a healthy ecosystem:

- Distortions from non-commercial sources are minimized, by encouraging those sources to apply their capital to bringing more SMEs into bankability, rather than using their capital in areas that might already be financially viable
- Limited public/philanthropic funds are used to leverage larger amounts of private capital

[2] Experian white paper, "Origination for SME lending – management of high volume, low ticket value lending", 2008. Excerpt available at http://www.experian-da.com/resources/instant/wp_summaries/ExperianDA_WPSumm_OrigSME.pdf

- Mission oriented capital, such as socially responsible investment, provides a lower cost of capital to begin fBS services or make it more affordable
- Non-commercial efforts are specifically used to unlock commercial capital
- Guarantees build up expertise to make a market for commercial FIs. Subsidies that just continue indefinitely as subsidies offer less incentive to foster private investment behavior.

Intellecap: This Indian equity fund is structured as a for-profit venture. It was initially capitalized by a combination of private, socially responsible investment, and philanthropic support. It has used grants, donor programs, and government support to underwrite costs for fBS to build up applicable SMEs, ready them for potential investment with Intellecap and also to continue to provide value added services after the investment is made.

c. FIs need encouragement to discover profitability of SME banking

Despite opinions to the contrary, banks and investment funds can make money from SME lending. In Haiti, for example, SogeBank bank went 'down market' to serve SMEs. It recently did a profitability analysis of all its product lines. It found that while small business banking was not its most profitable activity, neither was it the least profitable..

SME banking provided a number of ancillary benefits for the bank, making it worthwhile. Most of the bank's income came from corporate clients, who were sensitive to economic downturn and local politics, so that diversifying their client base was an important strategy in securing stable income for the bank.I t also provided strong publicity, as it garnered media attention and community goodwill toward the bank. It allowed access to capital from a donor through an open, long term line of credit and advisory services (subsidizing operations). It also increased deposits in the bank, as SME owners and their employees began to use bank services for personal needs.

Government regulatory influence, such as in India and the U.S., can be a positive force, where both rate involvement in underserved sectors and low income populations, which has led to some banks specializing in services to these populations (see Case Studies and Annex comparative spreadsheet).

Because many commercial FIs hold the perception that SME banking is unprofitable, there remains a market opportunity for those institutions that take advantage of the market. Leveraging donor/philanthropic capital in the form of investment, grants, or guarantees is therefore a logical way to manage the risk while entering this market.

Subsidized support should ideally be conditional or performance based to reward behaviors, and, it should be specifically short term and decline in use over time in order to move institutions to market based decision making. By contrast, guarantees used on a continual, rather than a declining basis, do not motivate FIs to assume greater risk and therefore to get to know customers and/or sectors in which they are operating.

Banco Ve Por Mas (BX+): This Mexican bank has explicitly chosen the SME niche. It is privately financed, but works closely with Mexican government agencies. These agencies provide the SMEs TA as well as training. Bank guarantees however, have enabled them to target a sector which is typically under-served: In interviews with bank officials, they emphasized their ability and willingness to serve sectors and clients which other banks do not. They package loans by drawing upon staff expertise for different geographies and sectors. They have also lent to an intermediary company, such as a grain mill, which then on-lends to smaller entities to help them finance raw material sales to the mill.

d. Deal sourcing requires proactive behavior

Reaching the SME sector may require new behaviors on the part of the FI. Many institutions, particularly in the developing world, are largely reactive to potential customers approaching them for capital because many SMEs are either outside the formal system or lack a level of business skill which banks require. Many of the lessons described below, including demand creation and use of partnerships, can contribute to a proactive strategy to bring SMEs into the mainstream financial system.

In countries in which the SME sector has strong growth prospects and increasing numbers of SMEs entering "bankable" territory, commercial FIs can use their services to SMEs as a marketing tool to position themselves as leading providers of capital and services to the sector. This requires community presence, to raise trust and profile, commitment to customer service and relationship building, and a long-term view of the ROI of SME services.

> EcoBank: This Ghanaian bank is also in other countries, particularly West Africa. Its business model is to be pro-active, reaching out to SMEs and helping them to become bankable. They have a staff person in each branch dedicated to SMEs, more of a liaison, rather than an underwriting, position. The role of this person is to go into the marketplace and talk with potential customers. They go armed with useful information for SMEs, such as anticipated currency devaluations, or dollar exchange rate prices. They ask business owners what they need and match them to non-bank services, when possible. The department offers free trainings to potential and existing customers on topics including accounting, marketing, and succession planning. The bank has also created tailored debt products. These collective strategies make it the leader for this market segment in Ghana.

e. 'Pull' strategy to create demand

There is potential in the SME credit market, but to date, it has generally perceived to be un-/under-realized. The formal SME market in many countries is small, although the number of businesses is often much larger. SMEs have not historically seen FIs as a solution to their needs. They often do not know how to use a bank or access capital from regulated institutions. In some cases, there are negative perceptions that they will simply lose their money.

To create a market for SME financing, FIs must invest to awaken latent demand that exists in SMEs through proactive publicity, client recruitment, and education. Even financial literacy and de-mystification of these institutions, while seemingly basic, can have profound effects on markets and create demand. FIs can assess this investment in creating customer loyalty and should take a long term view for return.

ICICI Bank in India developed a partnership with Intel in which Intel advised SMEs on IT infrastructure improvements, and ICICI provided the financing for those SMEs wishing to carry out Intel's recommendations. This is a new initiative. The motivator for this effort came from IT customers that wanted to make IT purchases and saw how investment would fuel their business, but lacked sufficient cash flow. Purchasing decisions were slowed or stopped due to lack of funds. The partnership between ICICI, Intel and SMEs saved business owners time and connected them to financing to afford new equipment. This win-win-win provided SMEs a positive financing experience, increased sales for Intel, and enabled ICICI use this entrée to cross sell other services and extend retail offerings to this population.

f. Partnerships can improve the model

FIs can develop partnerships across commercial, public, and philanthropic sectors to improve deal flow, reduce searching and screening costs, and make their financial models work by incorporating outside inputs into their offering to SMEs. A bank might work with an NGO to promote its SME services to smaller or rural SMEs, or partner with a government program that is already providing business training to SME entrepreneurs. Additionally, if demand for SME fBS exists in the private sector, creating links can forge win-win situations for the lenders as well as fBS providers.

FIs can partner with government agencies and NGOs to develop win-win approaches to serving SMEs and building a sustainable market for SME finance. Mexico has extensive examples of this, with the government agencies FIRA, FIRCO and Financiera Rural reaching into rural sectors to support SMEs. Arguably, these are overlapping services, but they do create financial linkages where they did not exist previously.

In Indonesia, PEAC (Promoting Enterprise Access to Credit), a Swiss-funded program, took a proactive approach to building partnerships across the financing and support ecosystem. It selected five independent, commercial organizations to train local providers of fBS and SME support services, and connected them with local banks. This fostered relationships and partnership approaches to the provision of fBS and capital. These relationships were codified through formal partnership documentation and in active engagement with hundreds of SMEs. The Indonesian market benefitted from the intervention of SwissContact, the supporting NGO. Over three years, 79 organizations reported providing trainings and other engagements leading to successful credit facilitation to more than 15,000 enterprises. A major lesson learned her is access to credit facilitation services (referred to in this paper as finance related business services) strongly improves bankability and access to credit.

g. FIs must genuinely be invested in reaching the SME market

Some banks pay "lip service" to SME banking and fBS, as a CSR exercise or to please specific stakeholders. This approach will not result in meaningful and long-term profitable SME business for banks. Serving SMEs and providing fBS activities must be core to the business strategy of the FI, requiring dedication of resources and appointment of staff trained and specialized in working with SMEs.

The FI must also structure products that are of interest to SMEs, fit their needs, and are understandable to their owners. It will not work to expect an SME to adapt its capital needs to established financial products. The bank must be able to add product offerings like factoring and seasonal lines of credit. It is helpful to make existing products more accessible, such as stand-by letters of credit for small shipments, andit should streamline procedures to be less complicated such as when offering online bill pay or having lower minimum balances to avoid fees.

ProCredit is an international banking entity in more than 22 countries worldwide including Latin America, Eastern Europe, and four countries in Africa. This German based holding company began 'greenfield' operations in each country (i.e. as a new banking entity) dedicated to SMEs and to providing accessible retail services for all people. According to their website, "More than 93% of our outstanding loans were for amounts of less than €10,000, and over 50% were for amounts of less than €1,000."

h. FIs should develop physical presence where SMEs operate

Many successful fBS efforts include an explicit element of outreach to SMEs. Because formal training is low among SME entrepreneurs and formal documents such as financial statements are often non-existent or poorly developed, traditional assessment criteria might not provide an accurate picture of SME bankability and chances of success – a dynamic similar to the microfinance industry.

FIs need to see SMEs to understand them (and vice versa), which requires both grassroots presence and staff training to look for / develop SME-specific signs of bankability. Presence in the community and regular contact with clients can provide FIs with good information to protect their loans. A banker interviewed for this assignment stated he would rather hire someone who knows SMEs and specializes in a sector first and teach them banking, than try to adapt a banker to work with SMEs and the sectors in which they operate.

Many of the case study entities have demonstrated their understanding of this lesson.

BX+ maintains limited retail presence and puts its time into staff working in the field and through government agency offices. ProCredit and EcoBank locate near central markets to minimize travel for this market segment and promote access to their products and services. ICICI has an extensive online presence in a country in which low income people regularly use internet kiosks.

i. Primary fBS should be that which helps the SME and the bank

As commercial FIs explore offering fBS to SMEs, they should start with services that make the process easier for the customer, and that also help the bank. For example, banks can use pre-finance fBS to help SMEs with the loan application process, as this service also allows banks to screen and select SMEs, and to bring unbankable SMEs into bankable territory.

EcoBank has frontline staff whose job is to work with potential clients and be helpful to them. They are trained in customer service and to be pro-active. They perform a wide range of support from direct bank benefits like offering assistance with application forms, to economic assistance like steering clients to the most cost effective products, to indirect assistance, such as helping an owner navigate the regulatory registration process. The bank also offers regular trainings. It is this frontline staff that recruits participants and attends the event with the clients, to ensure they are comfortable.

j. Developing-country FIs have fBS cost advantages

FIs in developing economies need to draw upon their strengths such as low labor costs, and / or social cohesion where it exists.

Because labor costs *tend* to be lower in developing economies, FIs can use more people to deliver personal, tailored fBS to SMEs than could be afforded in the developed world. The right type of labor, although incurring additional cost, can readily yield a viable financial return if the resource generates new business. A U.S. banker and international volunteer mused he wished he could do the hiring he sees done in fast growing financial institutions in cheaper economies.

Additionally, while the U.S. and other markets have enforced restrictions on lender liability which minimizes bankers' willingness to advise clients, other countries appear to be less limited. This separation of services has been the accepted norm in commercial financing for a long time, but it is not the only paradigm. One example is the microfinance 'Credit Plus' model, also called 'Credit Plus Education', which begins with pre-finance engagement and continues post-finance. It has proven not to be a repayment liability, but a source of profitability for institutions in Asia, Latin America, and Africa that reach millions of clients.[3]

Starting salaries for entry level employees in banks like ProCredit and EcoBank can be $200 a month for enterprising young people who are literate but perhaps have just a high school education. Competition for these jobs is fierce and many employees have higher education degrees. Minimum standards for loan officers in the U.S., such as those at Commerce Bank, are likely to require a college degree, if not higher, specialised curriculum of study, and remuneration of at least $40,000 a year. If it is assumed both banks have the same spread or margin (a highly generous assumption), then it is easy math to see how much less transaction volume is needed for break-even. In addition, with shorter terms in developing countries, the institutions generate faster capital turnover, so can manage more volume in terms of transactions and earn more in fees from loan closings (which can also increase income with higher APRs).

[3] Examples include Freedom From Hunger, CARD (Philippines), ProMujer, CARE, and World Vision. These are significant, industry leading institutions reaching millions of clients.

7. CONCLUSION

Pre-finance fBS can provide real opportunity to FI's as a tool to increase access to capital and to diversify by building profitable SME practices. SME access to commercial capital remains unevenly successful around the world and lacks a single standard, such that it is not possible to put forth a set of 'best practices'. However, sufficient examples exist which can inform commercial FIs and interested stakeholders on how to more effectively promote access to finance for, what is in the main, an under-served market.

The most successful pre-finance fBS, as delivered by commercial FIs, is that which:

- Has sustained delivery in the market, built success over time, learnt from experience, and achieved scale which has improved costs
- Enhances SME bankability and therefore increases ongoing SME consumption of financial services
- Offers an attractive / sustainable ROI to the providers of both capital and fBS
- Has positive impacts on SME clients, including a positive experience and perceived value, increasing their promotion of it through word of mouth

a. Commercial FIs: what works

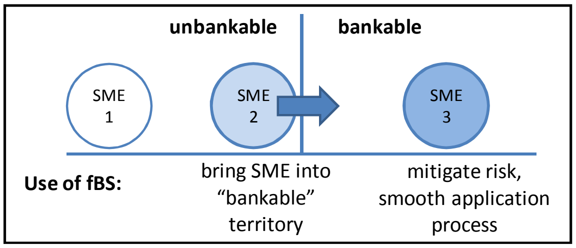
<u>fBS must be a central strategic consideration</u>

Some commercial FIs are taking risks and investing in domestic SME sectors as viable markets for long-term growth, most often in economies in which SMEs are growing and thriving, and where the ecosystem of support for SMEs is strong. These FIs use fBS as part of the strategy to win SME business via:

- Free services to SMEs (positioning as an "SME-friendly bank")
- Tailored services to targeted SME customers to attract and close deals, screen for best deals

Other FIs are testing the waters, using government and/or donor capital and resources to learn more about the SME market, the needs of SMEs, and potential business models to make serving SMEs deliver a positive ROI. Developing strong systems, having capable staff, and achieving sufficient scale are key elements for success.

In economies with patchy or struggling SME sectors, fBS can be used to make unbankable (but promising) businesses viable, or to mitigate risk and smooth the application process for already-bankable SMEs (in box at right, SMEs 2 and 3).



<u>Use subsidies without being/becoming dependent upon them</u>

Commercial FIs should view subsidized sources of capital, fBS, and other support – be it government, NGOs, donor agencies, or their own CSR funds – as useful tools to build markets, test products and services, and unlock capital for previously unbanked SMEs. This ecosystem of capital and support works best when actor's interests and incentives can be aligned, even if their goals and performance metrics differ.

Ideal FI strategy with regards to subsidies is to maximize use of these 'positive externalities' by having others shoulder costs and provide guarantees, and to then use the subsidy to develop competencies in the market. This reduces reliance on subsidy over time, so that it can be reduced or even removed with minimal adverse impact on business activities. An example is GroFin, a fund offering long term loans to SMEs that launched with funds from the Shell Foundation, IFC, other DFIs and GroFin's owners, and was able to prove the market for one segment of SME investment in Africa, and move to a sustainable and profitable model.

Level of fBS

Pre-finance fBS does not have to be an extensive, formal undertaking to be helpful. Even smaller, more informal offerings, done at little expense, can add value to SMEs and/or reduce risk for the FI. Even "light touch" fBS can be used to build markets and position the FI as an SME leader. These services can include virtual tools and platforms for SMEs, basic document screening services, and collaboration with credit guarantee funds to unlock capital. For example, ICICI Bank's online SME portal and its CEO education series position it as *the* SME bank in India, a country with a robust SME market with many bankable or near-bankable SMEs.

What is important is the quality of the service, the skills of the staff, and the perceived value by SMEs. Comprehensive trainings that are not valued by business owners will have less impact than basic support for which entrepreneurs are desperate.

"Heavy touch" pre-finance fBS, in addition to being beneficial for FIs with highly engaged financing models (such as private equity funds), can help FIs develop deep relationships with promising SMEs that can bring repeat business, as evidenced by EcoBank's strategy to create an "emotional relationship" with its SME clients.

SME banking is different

Commercial FIs must recognize and embrace the differences between the SME market (and the nuances within it) and its core business banking market. More personal, supportive interactions from the FI is a solid strategy, but must be done genuinely and as part of core business activities. New, tailored products and services will be needed, which will likely impact operations and systems. fBS efforts must recognize SMEs' unique needs and tailor solutions to common SME skills deficits. Similarly, FIs should recognize the differences within the SME sector, including differences between small and medium enterprises; differences across sectors such as manufacturing, agriculture, fisheries, and services; and differences across regions.

b. Understanding roles of other stakeholders

In the SME financing ecosystem in which commercial FIs operate, there are other actors of potential value. It is important to understand who they are, what they offer, and how they communicate. Doing so maximizes potential for drawing upon their resources. Engaging with them is key to shaping future actions.

Macro actors, including donors and governments, hold great potential. FIs must closely track their activities. Those macro actors, in turn, should aim to motivate commercial activity, not crowd it out. They should continue to create positive enabling and regulatory environments to make it attractive for FIs to serve the market. If possible, FIs should also work together to advocate or lobby for their best interests.

Encouraging private-sector development first

Donors and government entities can play a high-impact role growing the SME finance sector by financing and rewarding desired behavior among existing commercial FIs, rather than devoting resources to create new institutions and organizations.

Acting as conveners

Support organizations are important stakeholders who can leverage their relationships by acting as conveners, serving as ‘honest brokers’ or ‘matchmakers’. Bringing disparate groups together that can benefit from one another, facilitating introductions, and helping different entities to understand common interests is an unsung, but important, contribution to increasing pre-finance fBS and, by extension, increasing financial services to SMEs.

Reducing barriers

Government regulations should reduce barriers for SMEs and those who wish to finance them. The clearest path to answering this question is open dialogue with commercial banks, SMEs, and other stakeholders in the value chain. It is in the interest of FIs to work with these institutions towards such goals.

Moving to the market fringes

In economies where FIs are serving the SME sector, donors and governments should turn their attentions to market fringes, including:

- Credit bureaus which will increase lending and decrease transaction costs for hard-to-reach SMEs
- Bringing fBS and capital to un- or under-served markets where people remain unbanked, either directly or by subsidizing or providing guarantees for the activities of commercial FIs
- Supporting commercial FIs with leveraged assistance to close the gap making SMEs bankable

c. Outstanding and unresolved issues

Given the nascent state of the industry and limited information and time in the investigation, there are a few areas of enquiry that do not yet have complete answers.

Quantifying ROI and risk mitigation

There is no definitive ROI data on the value of pre-finance fBS in terms of increasing profitability, reducing credit risk, or improving repayment rates. There are few examples of commercial FIs measuring and publicizing the value of its fBS offerings.

- Performance goals and indicators may differ for FIs and other stakeholders and partners. Therefore, it is important to understand the others’ perspective, language, and metrics
- Greater dialogue between entities with agreed calculation on fBS value (for comparative purposes) would enhance evaluation of practice
- There is no single solution or formula for calculating ROI or quantifying risk mitigation, as FIs have different motivations and timelines, including:
  - How they build cost of pre-finance fBS into their fees and rates
  - Whether fBS is expected to have a direct impact on loan repayment
  - If fBS is used for marketing and positioning

Market segmentation

- Not all SMEs are good or will be good customers
- Much more analysis must be done to provide adequate client profiling and risk mitigation. Greater transparency from FIs would provide more information
- Understanding sector analysis and underwriting systems will increase knowledge as to how commercial FI's can better and more safely work with these populations

Impacts of current economic climate

The recent financial situation worldwide may impose an additional macro-economic deterrent on lending and fBS to SMEs, or to FIs undertaking new initiatives.

- Some governments are investing in shoring up SMEs during the current crisis
- Commercial FIs might be able to access more capital and support to enable them to launch or continue services to SMEs

8. ANNEXES

A. CASE STUDIES

CASE STUDIES - SUMMARY

#	Institution	Country	Type	Finance Offering	Pre/post fBS	fBS approach	Source of Finance
1	Commerce Bank	USA	bank	debt / guarantee	both	direct / indirect	private and gov't
2	Ecobank	Ghana	bank	debt	pre	direct	private and donor
3	ICICI	India	bank	debt	pre	direct	private
4	Intellecap	India	vc	equity	both	direct	private and donor
5	PEAC	Indonesia	NGO	debt	pre	indirect	donor
6	ProCredit	More than 22 worldwide	bank	debt	both - 'light'	direct	private and donor
7	SME Bank	Malaysia	bank	debt	both	direct	gov't
8	Ve Por Mas (B+X)	Mexico	bank	debt	both	indirect	private

CASE STUDY 1: COMMERCE BANK – US SBA EXPRESS LOAN
Mid-West, USA

Commerce Bank provides financial products to consumer and commercial customers including lending, payment processing, trust, brokerage and capital market services.

Picture: US SBA loan recipient, www.sba.gov/idc/groups/public/documents/sba_program_office/ed_annual_report_fy2007.pdf

Pro: Community bank that knows its community.

Con: Doesn't offer all banking services due to regional size and SME focus.

www.commercebank.com and www.ussba.gov.

OVERVIEW

Commerce Bank has more than 350 locations in five states. It prides itself on fostering relationships with clients and tailoring products to meet needs. Commerce Bank offers online services, marketing tailored to SMEs, and has a high presence in the SME community.

Commerce Bank is a leading U.S. small business agency (SBA) lender. The U.S. SBA is an independent agency of the federal government designed to aid, counsel, assist and protect the interest of small business concerns. Guaranteed loans are provided through commercial banks and certified development companies. Commerce Bank facilitates U.S. SBA ExpressLoans, a service unlike other U.S. SBA products in that it allows authorized lenders to use their own application process, internal credit guidelines and make the loan process fast and convenient for SMEs.

Start date: Bank established in 1865, long time provider of ExpressLoans
Financing vehicles: Debt with government guarantee
Partners: U.S. SBA
Total assets: $16.2 billion
% assets devoted to SMEs: 80%
Typical transaction size: Maximum size US SBA ExpressLoan is $350,000
Target SME categories: All sectors

FINANCIAL BUSINESS SERVICES

Pre- & Post-finance:

Commerce Bank provides several business services including free online workshops, and remote financial transaction options. Its loan officers specialize in SME lending with deep sector and community knowledge. Bank conducts business with extensive staff involvement with clients, helping SMEs with any/all needs. This includes multiple visits before a loan approval and also 'light touch' T.A. to help their business grow.

Other services:

Commerce Bank has operating subsidiaries providing mortgage banking, leasing, credit-related insurance, and venture capital activities.

Delivery model:

Online and in person. Bank has retail presence in small business communities. Staff travel to clients. ExpressLoans - delivered via government guarantee (up to 50%), is set up so that bank can make decisions within 24 hours.

FINANCIAL MODEL FOR FBS DELIVERY

Commerce Bank has strong retail presence throughout 'the Mid-West'. It has good online resources for clients. U.S. SBA guarantee of 50% reduces risk to allow reaching clients that might not otherwise be bankable. Relationship banking provides for numerous client contacts before transactions in which informal T.A. is provided, referrals to applicable needs, and thorough review of materials. This strategy has enabled Commerce Bank to maintain high profitability.

MODEL STRENGTHS AND WEAKNESSES

Strengths	Weaknesses
• Works with clients extensively to ensure proper screening to offer appropriate products • Wide range of products to offer SMEs • Risk mitigation – 50% loan guarantee allows regular ongoing lending to SMEs • Operational efficiencies to manage volume of transactions to maintain profitability	• Creating relationships with SMEs and customizing products requires time and resources • Loan guarantees subject to fluctuations based on changes in government policy

RESULTS

In interviews, bank staff cite profitability increases four times when relationships are fostered through the entire lending process and bank personnel support SMEs to address their needs. This is due to the ability of personnel to better assess clients, established trust, and increased knowledge of client allows cross selling of valuable products. Bank has long track record of success, profitability, repayment, and growth. Write-offs are low by industry standards. Bank regularly ranks as a leader of US SBA programs in the region.

SUCCESS FACTORS

- Strong operations that integrate U.S. SBA loan programs into lending systems
- Rapid response time to clients
- High community presence
- Strong and sustained client relationships
- U.S. Community Reinvestment Act (CRA) requirements reward banks focused on SME market and working with low income, rural clientele

CASE STUDY 2: ECOBANK (GHANA)
West, Central and East Africa

Ecobank provides loans to SMEs and retail credit services as a full service bank serving all people

Picture of entrepreneur, www.accion.org/Page.aspx?pid=555

Pro: Customer service focus, in the community, multiple products

Con: Requires strong people for its success

www.ecobank.com

Visit www.ecobank.com for more information on Ecobank or www.accion.org for more information on ACCION.

OVERVIEW

Ecobank is a full service commercial bank providing wholesale, retail, investment and transaction banking services and products throughout 26 countries in West, Central, and East Africa. In 2007 Ecobank launched the largest bank in Nigeria focused on the lower markets.

Ecobank Ghana (the specific entity investigated) expects to be the leading SME provider by 2010. It focuses on high quality customer service and direct contact with potential and existing clients. It also provides business trainings, which it offers for free.

Start date: Established as a bank in 1985, SME fBS specified initiatives began in Ghana in 2007.
Financing vehicles: Debt
Partners: ACCION and International Finance Corporation (IFC)
Total assets: Over USD$6bn
% assets devoted to SMEs: 30% (Ghana)
Typical transaction size: Not available
Target SME categories: Ecobank is increasing financing for critical sectors including agribusiness, education, health, housing, and infrastructure.

FINANCIAL BUSINESS SERVICES

Provides customized products to cater to SME development based on local needs, including pre-approved credit packages that help fast credit delivery for lease, inventory, distributorship, export, receivables, investment, and contract financing.

Pre- & Post-finance:

- SME relationship officer that works with potential and existing clients to offer them valuable information and seek to address their specified needs.
- Business trainings offered bi-monthly in Ghana.
- Financial literacy courses and assistance with book-keeping, succession planning, marketing, business development and networking.
- Several electronic products including credit cards, internet banking, e-alert, and e-Collect.

- ACCION assists Ecobank with developing risk-management tools such as credit scoring and data mining, point-of-sale terminals, cell phone banking, and the overall scaling of the delivery of products, services, and education.

Delivery model:

Extensive physical presence. Every Ecobank branch has a SME relationship officer to assist SMEs with business needs.

FINANCIAL MODEL FOR FBS DELIVERY

SME relationship manager is the first point of contact. They are located in every branch and also go into the field to visit clients on a regular basis, offering them valuable information and seeking to assist them and address business concerns.

Ecobank provides free trainings and incurs the costs associated with the events. Typically these are offered 6-8 times a year and are attended on average by 40 participants. This helps to reduce defaults on loans and generates stronger future customers.

MODEL STRENGTHS AND WEAKNESSES

Strengths	Weaknesses
• Excellent reputation in Africa • Niche in SME banking services and mission dedication to it • Pro-active staff activity and focus on customer service • IFC funding and USAID DCA guarantees mitigate risk • ACCION partnership helped establish high quality operational systems and fBS delivery model • Diversification of loan portfolio	• Insufficient understanding of some SME markets so limited work there – e.g. timber and fisheries • Costs associated with identifying and delivering customized solutions taking into account local knowledge and practices

RESULTS

30% of Ecobank Ghana clients are SMEs. Increased regional trade and improved market access has been observed. Ecobank has developed SME help desks and organized SME business support forums. In 2007 Ecobank recorded gross revenues of USD$697m and generated loans and financial assistance in excess of USD$3b.

CONCLUSIONS

Customer service ethic permeates the entire organization and is the basis for the entity's success. The SME activities are not 'window-dressing' but core strategies in the bank's operating activities. Dedicated staff to SMEs are pro-active in serving clientele and offering them information of value to their business. Staff incentives are tied to customer contacts. Specialized SME products ensure clients needs are met with appropriate financing. Banks growth and profitability appear to document its success.

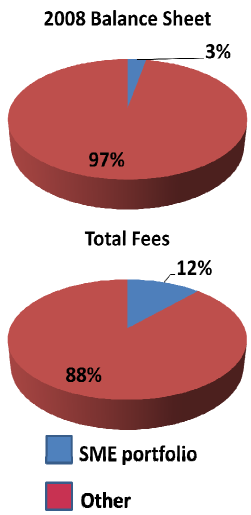
SUCCESS FACTORS

- Geographic expertise has enabled the bank to expand throughout Africa
- Socially motivated capital and donor support subsidized start-up phase
- Trainings serve as excellent marketing tools for existing and potential customers
- Pro-active staff go into the community, find out what customers need (even non-banking needs) and seek to address their problems
- Tailored products for SMEs

- **CASE STUDY 3: ICICI BANK**

India

Indian bank lends to SMEs with blend of technology, partnerships



SME Toolkit: online support

Pro: Low-cost resource that positions ICICI as premier SME bank, strong corporate partnerships, management commitment

Con: Generalist in nature, not tailored services, targeting larger SMEs

www.sme.icicibank.com

OVERVIEW

ICICI is India's second largest bank, with total assets of Rs 3,700bn (USD$ 77bn). ICICI's SME Group (SME-G) won Dun & Bradstreet's 2009 award for best private bank in India for SME financing.

Start date: 1994, with previous institutional history.
Financing vehicles: Debt, including equipment loans, working capital finance, and invoice discounting.
Partners: See below.
Total assets: USD $77bn
Assets devoted to SMEs: In 2007, SME business contributed 12% of the bank's total fees4. In 2008, ICICI had 3% of its assets in SME portfolio5.
Typical transaction size: Specifics not available, appropriate for SMEs
Target SME categories: ICICI defines SMEs as companies with net worth up to Rs 50 crore (USD$ 9.7m).

FINANCIAL BUSINESS SERVICES

Pre-finance:

- 2009: CEOs Knowledge Series Program for SMEs turnover over Rs 5 crores (USD$1m). Held in 26 cities,[6] includes Finance Clinic on growth, debt, equity. SMEs are pre-screened for participation.
- 2007: Partnership with IBM and IFC to launch SME Toolkit,[7] online resource for SMEs. Platform will later include Web 2.0 features. Open offering, does not explicitly feed SMEs into ICICI's financing.
- 2006: Intel partnership providing SME financing for IT solutions.[8]
- 2005: Partnership with UK-based private equity fund Avigo. ICICI to provide database on Indian SMEs, Avigo to take equity stakes.[9]

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4 "ICICI Bank ties up with IFC, IBM for SME toolkit", The Hindu Business Line, 9 August 2007
5 "SME Lending: ICICI Bank 'cautious'", The Hindu Business Line, 22 Nov 2008
6 "ICICI SME campaign reaches Bangalore," New Kerala News, 26 Feb 2009
7 www.india.smetoolkit.org
8 "Intel-ICICI Bank collaboration for SME sector" The Hindu, 8 Mar 2006
9 "ICICI Bank to tie up with UK firm Avigo for SME sector", The Financial Express, 16 Sept 2005

Post-finance / other services:

Online financial calculators and templates help businesses with breakeven analysis, financial ratios, cash flow analysis, working capital needs, loan amortization, and inventory analysis.[10]

Delivery model:

ICICI supports and markets the SME Toolkit, and is delivering the CEO Series directly. In the Intel partnership, ICICI provides financing and advises Intel on IT solutions.

FINANCIAL MODEL FOR FBS DELIVERY

- **SME Toolkit:** The toolkit is free to users. The basic platform was developed through subsidy by IFC[11], and IBM contributed $1.6m to technology development. ICICI's financial contribution is not reported; the bank covers the toolkit's on-going operational costs. The site also provides advertising space to SME service providers. As noted in 2008 news reports, the bank is aggressively working in this space to "woo new SME clients" with technology[12]. ICICI's SME support via the toolkit is seen by this lens as a business development effort.
- **CEOs Knowledge Series:** This service appears to be funded by ICICI. It is geared towards larger and more higher performing SMEs. Provides valuable service, including T.A. and press for SMEs, but appears mostly to be a bank promotional tool to access high-performing SMEs.
- **Others:** ICICI's partnerships with Intel and Avigo are fully commercial, benefiting SMEs and the bank.

MODEL STRENGTHS AND WEAKNESSES

Strengths	Weaknesses
• Website toolkit draws on IFC resource to provide baseline resource for any SME • Strong corporate partnerships leverage resources to provide targeted SME services • Subsidy covered costs so banks fBS and lending remains highly profitable • Numerous marketing and promotional benefits for SMEs, partners, and the bank	• Not a universal solution; focus is on larger, highly commercial SMEs • Required extensive subsidy to develop • Partnerships take time/money to develop

RESULTS

ICICI Bank had 1,000,000 SME clients as of 2007[13], and adds 2,000 more daily. In late 2008, SME Group head Vijay Chandok stated, "The return on equity in SME lending is significantly higher as of now and we will continue to focus on the segment

[10] Online at www.sme.icicibank.com/Calculators.aspx
[11] The SME Toolkit is used by more than 20 countries globally.
[12] "SME Lending: ICICI Bank 'cautious'", more here and for all references with only title?
[13] "ICICI Bank ties up with IFC, IBM for SME toolkit"

which has been growing at 35% for the last three years." [14] The impact of recent economic slowdown is unknown for this business unit.

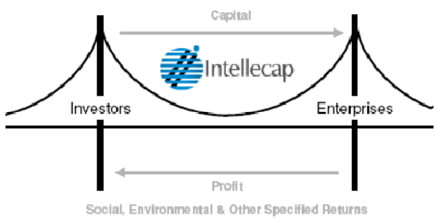
SUCCESS FACTORS

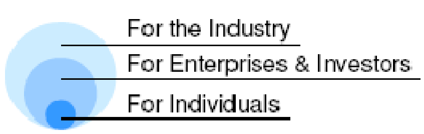
- The key success factor in ICICI Bank's approach to SME services is in providing support and education of SMEs as a marketing tool, which positions ICICI as a leader in Indian SME finance.
- The Indian government contributes to an enabling environment for SMEs, including the launch of a separate Department of SMEs to consolidate fragmented SME support efforts, and a 2006 Finance Ministry directive for relevant entities to double credit to the SME sector by 2011. Government mandates bank involvement in rural sectors, low income populations, and small business, so there is an incentive for banks to find business models to satisfy these requirements. Vijay Chandok of the SME Group noted, "With the Indian government laying tremendous emphasis on development of the SME sector, the year-on-year credit flow to this sector should witness a significant rise."

[14] "SME Lending: ICICI Bank 'cautious'"

CASE STUDY 4: INTELLECAP
India

Indian investment fund with multiple-bottom-line goals





Investment advisory services

<u>Pro:</u> Specialized management team, well connected, venture model, profitable, rapid growth

<u>Con:</u> Limited scope and reach, targets larger SMEs with track record

www.intellecap.net

OVERVIEW

Intellecap is a social investment consulting and advisory firm serving companies, investors, NGOs, and development agencies. It offers investment banking, advisory, and incubation services for businesses in a range of industries in India.

Start date: 2002
Financing vehicles: equity, debt
Partners: Aaavishkaar Goodwell
Total assets: Not available
Assets devoted to SMEs: Not available, estimated to be moderate
Typical transaction size: Facilitated the largest equity deal in global microfinance, helping SHARE Microfin raise USD $27m in 2007.
Target SME categories: Range includes financial services, health, education, clean tech, and agriculture.

FINANCIAL BUSINESS SERVICES

Pre-finance:

- Investment banking / "social investment advisory": Connect investors with enterprises generating multiple-bottom-line returns; work with enterprises on business plan refinement, capital structuring; support work valuation, deal structuring, negotiations
- Enterprise development: Helps companies streamline processes, improve management, understand value chains, improve performance, refine pitches
- Offers courses to address specific knowledge and skill gaps

Post-finance / other services:

- Knowledge advisory: Training for senior and middle management to understand industry-wide issues; manages internet platform that allows entrepreneurs to share information
- Incubation: Business planning, human resources, mentoring, and fund raising support to early-stage businesses

Delivery model:

Intellecap uses a global network of banks, investors, and donor organizations to source capital for Indian enterprises. The fund uses its own internal resources to provide mentoring, support, and business plan refinement to portfolio enterprises.

FINANCIAL MODEL FOR FBS DELIVERY

- Intellecap is a socially minded, for-profit business. It provides fee based services to investors including venture capital funds, financial institutions, development agencies, and foundations.
- Serves as a development finance consultancy, with clients such as IFC, international foundations, NGOs, and corporations seeking input for corporate social responsibility (CSR) strategy.
- Conducts process audits on microfinance institutions for banks.
- Hosts the Srijan business plan competition, which receives domestic and international support in sponsorships and partnerships

MODEL STRENGTHS AND WEAKNESSES

Strengths	Weaknesses
• Commercial approach provides valued service to a range of clients – from venture capitalists to large foundations; allows Intellecap to provide in-depth fBS to enterprises • Has venture approach of the 10x potential • Triple bottom line and mission driven enterprise 'does well by doing good' • Diverse clients base – from venture capitalists to development funders	• Apart from limited incubation capacity, support to enterprises requires them to have strong track record – Intellecap does not work with small institutions or start-ups • Benefits highly from donations and subsidized capital, profitability is due to subsidy and low cost of capital; potentially crowds out some private investment

RESULTS

As of 2009, Intellecap had intermediated more than USD $100m in capital. It currently is incubating several enterprises. It has attracted capital from a wide range of venture, socially motivated, donor, and philanthropic sources. In 2007, social development investor Legatum invested USD $8.4m in Intellecap.

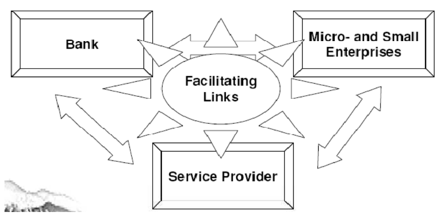
SUCCESS FACTORS

- Intellecap's management team has strong experience in venture capital, investment banking, consulting, and project management in commercial industry. The team also has experience with micro enterprise and development.
- Intellecap has identified a niche with potential to be profitable while funneling capital to enterprises that might not otherwise have access to it – it is able to provide expert advice as well as strong deal flow from India to international investors for whom it would be costly and inefficient to source deals on their own.

CASE STUDY 5: PEAC
Indonesia

Donor project to develop "credit facilitator" fBS providers in Indonesia

PEAC
Promoting Enterprise Access to Credit



Interventions with fBS providers

- Training local consultant firms
- Improving fBS providers' understanding of finance and banking products
- Developing linkages between banks and fBS provider firms

Pro: Partnership model brings in other players, fosters a marketplace for new services, reached large numbers of SMEs

Con: Has not yet found a sustainable marketplace

OVERVIEW

Promoting Enterprise Access to Credit (PEAC) supports the growth and development of business development services providers (called BDSP in the PEAC project, here referred to as fBS providers) which provide credit-related services to MSMEs.[15] PEAC's goals were to promote enterprise and job growth through enhanced access to credit

Start date: 2005(Duration until mid 2008)
Financing vehicles: Not applicable
Implementing Partners: Swisscontact, IFC, KKMB Program of Bank of Indonesia.
Total assets: Not applicable, financial partners are of significant size
Assets devoted to SMEs: Not applicable, small percent for partners
Typical transaction size: Not applicable, wide range for partners
Target SME categories: PEAC did not focus on specific enterprise categories. For monitoring purposes, the project followed the SME definition of Bank Indonesia which defines businesses based on *how much credit they receive:*

- Microenterprises, up to IDR 50m (USD $5,300 avg. rate for project)
- Small enterprises between IDR 50 and 500m (USD $53,000
- Medium enterprises between IDR 500m and 5bn (USD $530,000).

PEAC recognized and documented significant differences in the distribution of enterprises (micro vs. small vs. medium enterprises) if different categorizations are used, specifically number of employees instead of credit size.

FINANCIAL BUSINESS SERVICES

Pre-finance:

The PEAC Project did not work directly with business development service providers (BDSPs), or even with SMEs. Instead, PEAC supported five specialized organizations who in turn worked with BDSPs in five provinces of Indonesia. These five units conducted trainings with firms on finance, banking products, and SME needs, and

[15] Interview with the project manager and review of program documents.

developed linkages between these providers and local banks to encourage provision of capital.

FINANCIAL MODEL FOR FBS DELIVERY

The project was financed by the Swiss State Secretariat for Economic Affairs. The specialized units under PEAC are commercially oriented, working with credit facilitator / BDSP firms that have commercial relationships with MSME clients and can in turn pay for training by the PEAC units. 3 units are Ltd. companies and 2 private public partnerships.

MODEL STRENGTHS AND WEAKNESSES

Strengths	Weaknesses
• Targeting private sector fBS providers fosters a marketplace seeking sustainability • Resources devoted to research and developing market linkages benefit the whole system so incent involvement, over immediate economic benefits for any single actor • Broad reach among a large population • Job creation and increased access to finance	• Because of indirect approach, supporting units that in turn support BDSPs, it is difficult to determine impacted and results • Sustainability of the units is a challenge at project conclusion

RESULTS

PEAC results

PEAC tracked the growth and successes of the BDSPs with which its units worked, noting increases in:

- Number of BDSPs accredited
- Number of BDSPs with contracts with SME
- Number of BDSPs successfully facilitating credit for MSMEs
- Total credit facilitated through BDSPs, and MSMEs accessing credit through BDSP facilitation

By the mid of 2008, 79 BDSP organizations reported successful credit facilitation to 15,239 businesses, in the amount of IDR 552bn. The project found that access to credit facilitation does improve bankability and access to credit. PEAC states that it has achieved its core goal of increased turnover and job creation for MSMEs working with PEAC-supported BDSPs. PEAC also over achieved its target of 15% of businesses accessing credit for the first time during the PEAC Project with ratios of 31% for the privately owned units and 57% for the public private partnership.. The project also reported improved loan repayment.

Research results

The project revealed strong demand for credit-related services, and showed that loans of enterprises using credit facilitation services outperformed average bank loans. The project also concluded that Indonesian banks are improving their support of SMEs by providing similar services as the BDSP in the project, some very successfully (such as

Bank Danamon and Bank Rakyat Indonesia), but that the need for credit facilitation still exists.

SUCCESS FACTORS

- Strong partnerships between public sector donors, large financial institutions, and extending to private sector service providers
- Tied to its goal of "developing a market for credit-related services", PEAC invested in developing a comprehensive understanding of:
  - How SMEs access credit and finance their businesses
  - How credit facilitators and SMEs interact
  - Difficulties credit facilitators / BDSPs have in identifying clients and how to overcome them
  - Local government support of SME access to credit
  - Motivation of SMEs to work with credit facilitators
- PEAC also has benefitted from having specific targets for the program, including how credit facilitation affected:
  - Enterprises receiving credit for the first time
  - SME using business services for the first time

CASE STUDY 6: PROCREDIT BANK
Eastern Europe, Latin America, and Africa

The ProCredit business model is based on socially responsible banking that is transparent, efficient and profitable catering to SMEs and low income people

Picture of entrepreneur, www.procreditholding.com

Service highlight:
Pro: Focus on lower market end. Provides social and economic improvements in the communities in which they work while simultaneously generating profit

Con: Focused on lower market. Seen as a microfinance provider in some places. May lack some products.

OVERVIEW

ProCredit Bank consists of more than 22 fast-growing banks operating in transition economies in Eastern Europe, Latin America, and Africa. All banks are registered locally and regulated as commercial banking entities.

ProCredit majority shareholder is ProCredit Holding AG, in Germany, developed in 1998 to provide strategic guidance and management, refinance, human resources, management information systems, auditing, controlling, marketing, retail operations, risk management, staff training and core business lending.

Start date: 1981
Financing vehicles: Debt
Partners: As the institution has evolved it has partnered with NGOs, state banks, publicly owned savings institutions, co-operatives and private commercial banks. Its investors are a range of commercial, donor, socially responsible investors, and philanthropic entities
Total assets: USD $5.2b (2007)
Assets devoted to SMEs: 100%
Typical transaction size: As of June 2008, 94% of loans were less than $15,000 and 50% less than USD $1,500
Target SME categories: SMEs, and lower income retail savers with previously limited access to formal financial services

FINANCIAL BUSINESS SERVICES

Pre-finance:

- Technical Assistance: Financial literacy on how much financial services cost and how they are used
- Utilizes proven effective credit technology and conducts an analysis of capacity a customer to repay debt to deter over-indebted
- Light touch business assistance to help clients with loan packages and in business review. For any client turned down, provides interview to educate them and allow them to improve

Post-finance / other services:

- Ongoing relationship building is a priority
- Strong monitoring and immediate action (TA) for defaults
- Regular visits with clients and outreach in their communities

Delivery model:

Brightly lit, branded locations. Retail branches located near markets, public transport. ATMs and electronic services.

FINANCIAL MODEL FOR FBS DELIVERY

Central operations in Germany oversee strategic decisions and monitor individual banks. Day-to-day decisions are made locally. Retail operations are offered with efficient systems in place. FBS is done through early visits and serve as a series of screens for clients. Financial literacy and education in using card technology are incorporated into operations. T.A. and client engagement are formal part of staff procedures. Staff have expertise in the sector and communities, including the sectors.

MODEL STRENGTHS AND WEAKNESSES

Strengths	Weaknesses
• Regimented operations and systems, proven internationally, with extensive staff training • Adopts to local lending regulations and environment • Focus on SMEs and low income clientele; specified geographic areas (urban mainly) • Capacity of clients assessed • High public confidence and support due to transparency standards and ethics	• Required socially motivated capital to lower initial cost of capital. Due to international cash flows, at risk of currency fluctuations • International holding company standards and systems has not worked in all countries • Limited product offerings • Does not serve all market segments

RESULTS

In 2007, ProCredit met profit targets with a ROI of 12.6% and issued dividends. As of June 2008, 94% of loans were less than $15,000 and 50% less than USD $1,500. In 2007, ProCredit expanded operations to three new countries, opening a total of 150 branches. As of June 2008, more than 1,017,000 loans with a combined value of USD$4 bn were outstanding. Portfolio quality remained high: loans in arrears more than 30 days were only 1.3% of total loan portfolio. Savings equals 88% of total assets. High business ethics, risk management and auditing is encouraging competition in the sector and improving financial service standards in the communities that ProCredit operates.

CONCLUSIONS

ProCredit has international, fully commercial, for profit model in banking dedicated to SME and low income clients. It has proven success in many regions and countries. It successfully uses socially responsible capital to keep its cost of capital low when launching operations. Light touch fBS tailored to a less sophisticated marketplace works with poor people, screens clients, and builds up clientele.

SUCCESS FACTORS

Key success factors include

- Extensive staff training
- High transparency standards to foster trust
- Strong customer relationships with good screening to bring in desirable clients
- Ability to operate and adhere to local lending regulations
- Reliance on global network of institutions to capture and share learning

CASE STUDY 7: SME BANK

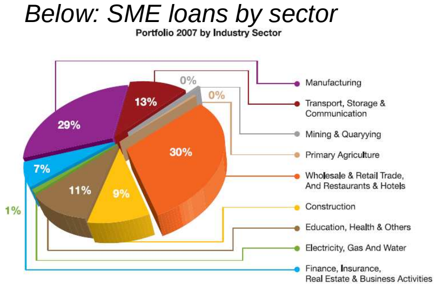
Bank Perusahaan Kecil dan Sederhana - Malaysia

An outgrowth of Malaysia's development bank, SME Bank aims to be Malaysia's SME "hub" by 2010. Provides loans to SMEs, offers end-to-end business support.

SME Bank

Agensi MeCD

Below: SME loans by sector



SME Advisory Centre

Pro: Allows Bank to invest in SME development with less strict ROI requirements

Con Generous loan terms to SMEs might distort commercial market; approach not fully commercial

www.smebank.com.my

OVERVIEW

Malaysia's SME Bank is a development finance institution "dedicated to the accelerated growth of Malaysian SMEs". Its vision is to become Malaysia's SME hub by 2010.

Start date: Established in 2005

Financing vehicles: SME Bank offers five types of SME loans:

1. Start-up (manufacturing), to RM10m (USD$2.7m)
2. Franchise, up to RM3m (USD$820k)
3. Professional, up to RM10m for service industry
4. Procurement, up to RM50m (USD$13.7m), for original equipment manufacturers
5. Global, up to RM50m, for overseas expansion

Partners: Bank Negara Malaysia (Central Bank), Ministry of Finance, variety of service providers and consulting partners

Total assets: 2007: RM4.6b (USD$ 1.15 bn)

Typical transaction size: Loan sizes listed above.

Target SME categories:

	Manufacturing	Services
Medium	Revenues RM10m - RM25m Employees 51-150	Revenues RM1m - RM5m Employees 20-50
Small	Revenues RM250k - RM10m Employees 5-50	Revenues RM200k - RM1m Employees 5-19
Micro	Revenues <RM250k Employees <5	Revenues <RM200k Employees <5

FINANCIAL BUSINESS SERVICES OFFERED

Pre- & Post-finance:

Business Planning and Modeling. Potential customers can access the SME Advisory Centre, providing assistance in business modeling and financial planning.

Financial Advisory Services. SME Bank works with delivery partners to provide services including strategy development, knowledge management, customer management, "people alignment", process/systems alignment, communications integrations, performance management, industry reporting, and market facilitation.

Incubation. Kompleks Kilang SME Bank is an integrated financing, incubation, and factory space rental program. Launched in 1985, the Bank Pembangunan. The program has 24 factories nationwide.

Online SME portal. One stop shopping for SMEs looking for financial assistance and how to information.

Other services:

Special programs for Malaysian entrepreneurship:

- Vendor Entrepreneurial Programme, which matches entrepreneurs with an anchor company
- Batik and Craft Entrepreneurs Program, including financing
- Rural Economic Development to encourage "bed & breakfast" entrepreneurship
- Filmmaker & Drama Financing Scheme, in collaboration with Ministry of Culture, Arts, and Heritage
- Graduate Entrepreneurs Scheme, in collaboration with the Ministry of Entrepreneurs & Cooperative Development (MECD), to encourage and incubate graduate entrepreneurs

FINANCIAL MODEL FOR FBS DELIVERY

SME Bank is a subsidized model. In 2008, it became independent of the government development bank, and was placed under the Ministry of Finance. Financial statements show capitalization from international donors and Malaysia's Central Bank with "soft" loans, interest rates 2% to 4.5% and repayment holidays.

SME Bank works with NGO, and commercial funding sources. The Bank promotes access to finance by SME clients by working with NGO, government, and other organizations to provide favorable rates to SME clients. It considers its extensive business support services to be beneficial to SME bankability and risk mitigation. Because its mission is to increase its role in financing and supporting SMEs, the Bank actively works to bring more SMEs into "bankable" territory.

MODEL STRENGTHS AND WEAKNESSES

Strengths	Weaknesses
• Holistic approach to SME development • Subsidized financing of the bank allows for affordable loans and services to SMEs • Coordinated with others doing SME support • Strong relationships from Central Bank founding	• Potential to distort the commercial lending market with "soft" loans to SMEs • Dependent on subsidies; potential long-term sustainability issues • Operational track record still unknown

RESULTS

From their own materials: In 2007, SME Bank had 1,622 SME borrowers. Its total loan portfolio was RM2.61 billion (USD$716m), or 2.3% of total Malaysian SME financing. In 2007, the Bank posted a pre-tax profit of RM53.43m (USD$14.7m), supported by growth in net loan assets portfolio.

SUCCESS FACTORS

SME Bank's multiple partnerships and its placement within the Ministry of Finance are key success factors. It evolution from subsidiary of the government's development bank to a standalone SME bank under the Ministry of Finance is significant, and might be able to be replicated in other countries. Malaysia is an interesting example of a multi-faceted approach to SME development, backed by government and international development funders.

RELATED EFFORTS

Malaysia's Central Bank, Bank Negara Malaysia, leads a number of efforts to support SMEs, including:

- SME Assistance Guarantee Scheme: an RM2b (USD$ 550m) fund providing Malaysian Financial Institutions with 80% guarantee cover on principal and normal interest for loans to SMEs.
- SMEinfo Portal (www.smeinfo.com.my), an online "one-stop information gateway for SMEs" including financing news, government programs, financial management tools, and business support.

CASE STUDY 8: VE POR MÁS BANCO (BX+)
Mexico

Mexican bank serves SME and agriculture sector

Pro: Privately held bank. Specialized staff in variety of sectors. Close partnership with gov't agencies.

Con: Decentralized structure. No retail presence. Focus on debt services

www.vepormas.com.mx

OVERVIEW

Banco Ve Por Más (BX+ - roughly translated: "Go For It") is a small private bank headquartered in Mexico City, offering lending services to farmers, SMEs, and consumers. It is private held by experienced bankers and founded as a niche market community minded bank to profitably serve underserved markets.

Start date: Bank was launched in 2003 by seasoned bank executives who had sold Bank Bital to HSBC.
Financing vehicles: Debt, benefits from guarantees
Partners: Numerous, including Mexican gov't agencies Relación con la Agricultura (FIRA), and Fideicomiso de Riesgo Compartido (FIRCO).
Total assets: not available
% assets devoted to SMEs: 100% (sometimes indirectly)
Typical transaction size: not available, typically bundles deals for US low millions
Target SME categories: Rural, agriculture

FINANCIAL BUSINESS SERVICES

Pre-finance:

- Partners provide provides demonstrations, trainings, TA and special information services to improve SME's skills and competitiveness.[16]
- Niche market specialized products with tailored fBS to address special sector needs
- Packages 'second tier' financing, such as through distributors for smaller clients, and includes fBS in the packaged debt services

Post finance / other services:

- Online direct services with a consultant available during business hours for clients.
- Financing through guarantees
- Partners continue to provide monitoring and assistance services to maximize potential for business success and loan repayment

[16] "ALIDE'S 38th General Assembly Proposes Strengthening the Role of Banks in Raising Funds to Ensure Sustainable Growth", Latin American Association of Development Financing Institutions, July, 2008 at http://www.alide.org.pe/download/E-News/ALIDE_E-News_2008-07.pdf

Delivery model:

BX+'s model is to have decentralized operations with minimal infrastructure and work through government assistance agencies for deal flow, client support, services, and guarantees.

FINANCIAL MODEL FOR FBS DELIVERY

BX+ has a dedicated triple bottom line approach. It seeks to serve low income, SME, rural and agricultural clients. It benefits from partners, such as the government agencies FIRA and FIRCO for deal referral, working with clients to make them more bankable, and guarantees to reduce lending risk.

It has a partnership approach where it is a 'second tier' lender to one client that works with a larger number of SMEs and also low income retail clients. The overall model is to bring in NGOs and other partners to provide fBS and other services and consolidate repayments through an intermediary to reduce costs for the bank.17

BX+ controls costs. It maintains a limited retail presence and encourages online transactions such as electronic loan payments.

MODEL STRENGTHS AND WEAKNESSES

Strengths	Weaknesses
• Aggressive growth providing credit to SMEs and agriculture sector • 'Second tier' model allows them to do larger deal to reach more clients through one transaction • Working with partners like FIRCO and FIRA reduces costs and mitigates risk	• Bank is young; founded in 2003, so long-term impact and sustainable financing unknown • Few branches limit reach and retail presence

RESULTS

BX+ is working at the national level basing its credit strategy catering to the needs of SMEs and the agriculture sector. The bank continues to grow rapidly, with loan officers moving to increasing regions beyond Mexico City. The bank is privately held and owners are involved in operations. Press reports are that the institution is doing very well, repayment rates are strong, and that government partners are delighted.

SUCCESS FACTORS

- Strong ownership and well capitalized
- Invested time in relationships with government agencies that provide client referral, extensive fBS, and lucrative guarantees
- Low physical presence and electronic operations means lower overhead
- 'Second tier' approach creates packaged deals that are larger transactions, which is good for the bank, while still serving large numbers of people, which is good for access, and involves partners that carry support service costs.

[17] FIRCO website, www.firco.gob.mx

B. COMPARATIVE CHART OF FIS PROVIDING FBS - 1

Financial Institution or FBS provider	Organization type	FI level of commerciality	Organization and FBS model	Business Service Description	Pre- or post-finance	Financing vehicle(s)	FBS direct /indirect by FI	Country / Region
AfricInvest	VC fund - private	Fully commercial	VC Investment fund	Mentoring and business development, linkages for portfolio SMEs	Post-finance	equity	direct	Africa
Banco Ve Por Mas (B+X)	Bank - commercial	Fully commercial	Commercial bank working with gov't agencies with T.A. and guarantees	Small, privately held bank, community oriented with national reach but few retail operations. Strong connection with clients with triple bottom line, community and/or sector specialization	Both	debt	both	Mexico
Bank Danamon Indonesia	Bank - commercial	Fully commercial	Commercial bank with IFC funding for SME loan and advisory	SME lending	Both	debt	direct	Indonesia
Bank of Indonesia - KKMB Program	Market facilitator	Non-commercial	Trains fBS service provider, builds market linkages and implements cluster model	Secondary intervention by working with local FBS providers	Pre-finance	debt	direct	Indonesia
Bank Windhoek	Bank - commercial	Fully commercial	Bank with CSR-based "social investment fund" to support fBS	Mentoring of SME borrowers	Both	debt	direct	Namibia
Banorte - Pronegocio	Bank - commercial	Fully commercial	Partnership with chamber of commerce (Canacintra)	ProNegocio is a Special Purpose Financial Institution subsidiary of Banorte; partnership gives Canacintra affiliates access to finance through ProNegocio	Pre-finance	debt	direct	Mexico

Financial Institution or FBS provider	Organization type	FI level of commerciality	Organization and FBS model	Business Service Description	Pre- or post-finance	Financing vehicle(s)	FBS direct /indirect by FI	Country / Region
Barclays Botswana	Bank - commercial	Fully commercial	Commercial bank with dedicated resources for small business solutions	Subscription-based business club with quarterly meetings	Post-finance	debt	direct	Botswana
Business Partners International (BPI) Kenya SME Fund	VC fund - subsidized	Subsidized	Investment fund with additional TA fund	Investment TA and customized financial services based on individual SME needs	Post-finance	debt quasi-equity	indirect	Kenya
Commerce Bank - U.S. Small Business Association (SBA) Express Loan	Commercial bank utilizing guarantee fund - gov't	Subsidized commercial	gov't loan guarantee program distributed by commercial bank	A gov't funded loan guarantee program (50%)	Pre-finance	guarantees, debt and equity	direct	Missouri, Kansas, Oklahoma, and Colorado, USA
EcoBank	Bank - commercial	Fully commercial	Commercial bank with IFC funding for SME loan and advisory, one-on-one TA and group training	Partners with ACCION to provide fBS	Pre-finance	debt	direct and indirect	Central, West, and East Africa to include Nigeria and Ghana
GroFin	VC fund - private	Fully commercial	VC investment fund	VC equity investment Highly engaged support to portfolio SMEs	Post-finance	equity	direct	Africa
ICICI Bank	Bank - commercial	Fully commercial	Commercial bank using E-financing to deliver services	Using the internet to provide financial products and services to customers to increase access by SME	Both	debt	direct	India
Intellecap	VC fund - subsidized	Subsidized commercial	Incubation, enterprise development and investment	Mentoring and business development, linkages for portfolio SMEs	Both	equity	direct	India

Financial Institution or FBS provider	Organization type	FI level of commerciality	Organization and FBS model	Business Service Description	Pre- or post-finance	Financing vehicle(s)	FBS direct /indirect by FI	Country / Region
Inter-American Development Bank (IDB)	Bank - development	Non-commercial	gov't subsidized, voucher model	Training vouchers are subsidized (usually 40-80%) training opportunities to reduce consumers up-front costs.	Pre-finance	debt	indirect	Pauaguay
Japan Finance Corporation - SME Unit	Bank - development	Subsidized	gov't owned public organization	SME lending Loan guarantees Consulting services	Both	debt guarantees	direct	Japan
Mecene Investment	VC fund - private	Fully commercial	Private Equity and advisory company	Mentoring and business development, linkages for portfolio SMEs	Post-finance	equity	direct	Africa
Promoting Enterprise Access to Credit (PEAC)	Market facilitator	Non-commercial	Trains FBS services providers and facilitates linkages between resources and SMEs	Secondary intervention by working with local FBS providers	Pre-finance	debt	indirect	Indonesia
SCORE	**gov't**	**Subsidized**	Gov't entity providing SMEs TA	TA and trainings for SMEs	Pre-finance	n/a	indirect	USA
Small Business Administration	gov't	Subsidized	gov't agency working with bank providing fbs and loan guarantees	Loan guarantees in paratnership with banks and also funds NGO TA providers	Both	debt	both	USA
Small Business Credit Guarantee Trust	Guarantee fund - gov't	Non-commercial	SBCGT pays 98% mentoring costs, SMEs pay 2%, deal flow from banks	Mentoring and business development	Post-finance	guarantees	indirect	Africa
Small Industries Development Bank of India (SIDBI)	Bank - development	Subsidized	Development bank with partners	Lending TA provided by Cisco Business advice by local incubator	Post-finance	debt	indirect	India

Financial Institution or FBS provider	Organization type	FI level of commerciality	Organization and FBS model	Business Service Description	Pre- or post-finance	Financing vehicle(s)	FBS direct /indirect by FI	Country / Region
SME Bank	Bank - development	Subsidized	Bank under Ministry of Finance, providing loans and advisory services	Pre-finance support Ongoing business support to customers	Both	debt	indirect	Malaysia
Société Générale Haïtienne de Banque (SogeBank)	Bank - commercial	Fully commercial	Bank going downmarket	Bank that has gone down market	Both	debt	direct	Haiti
VC Fund operated by states within Mexico	VC fund - gov't	Subsidized	Public supported VC fund for job creation	VC equity investment TA	Both	equity	direct	Mexico

C. COMPARATIVE CHART OF FIS PROVIDING FBS - 2

Financial Institution or FBS provider	When launched	Total assets	SME investing as % of total assets	Strengths	Weaknesses	Enabling Factors	Sustainability
AfricInvest	2004	$75.5 million	100%	Targets growth investments, buy-outs, privatization, seed & re-structuring investments. Acquires significant minority stakes through equity and quasi-equity instruments	Operates with objective of delivering strong returns to investors and shareholders. When can't deliver VC investment will inevitably decline	funding from Dutch development finance, Bank of Africa, Nigerian IBTC	subsidized - development money
Banco Ve Por Mas (B+X)	2003	Est. $100 million	100%	Decentralized model. Intensive attention to clients. Know the community and have sector specializations. Work with gov't agencies on T.A and guarantees	Rely on gov't guarantees heavily. Private financed so mission orientation dependent upon largess of owners. Small footprint, so limited reach	Private company with mission driven focus. Strong relationships with applicable gov't programs, know their markets	High
Bank Danamon Indonesia	1956	$7,400 million	30%	Largest Indonesian SME banker. IFC funds strengthen SME development, mitigate foreign currency risk, promote lending among banks. Promotes value chains, capacity building.	It does not appear that there is any technical assistance provided with lending to SMEs	In 1990s, merged with 8 banks in crisis. 2006: IFC loaned $140m for long-term credit to promote SME development.	High

Financial Institution or FBS provider	When launched	Total assets	SME investing as % of total assets	Strengths	Weaknesses	Enabling Factors	Sustainability
Bank of Indonesia - KKMB Program	Bank founded in 1953, program adopted in 2004	Assumed $100s of millions	22%	Reaches smaller businesses, supports emergence of credit facilitators, using the cluster model and value chain linkages to connect SMEs and needed resources	Dependent on gov't mandates and FBS provider	gov't-mandated community reinvestment requirements	Moderate
Bank Windhoek	Founded 1982, SME services since 2000	$38 million	Unreported	FBS not divorced from provision of capital, understanding of need to reach SME population and utilizing partnerships and resources to effectively meet SME needs	Depends on continued use of CSR funds	CSR "social investment fund" pays 98% of services for SME mentoring. GTZ & German Development Corp subsidize with 2%	Mod to high - subsidized by own internal philanthropic funds
Banorte - Pronegocio	2006		100% of ProNegocio	Part of bank with strong presence in Mexico; partnership gives bank access to deal flow	Relationship with public sector entity has benefits, but could also suffer from diverging priorities between the partners	Bank's strength in Mexico	High
Barclays Botswana	1950	$1,300 million	Unreported	Established SME banker in Botswana; offers variety of products. Barclays has a diversified bank base in several African countries.	Requires subscription of members; services are only quarterly	Growing political stability and financial prudence	High

Financial Institution or FBS provider	When launched	Total assets	SME investing as % of total assets	Strengths	Weaknesses	Enabling Factors	Sustainability
Business Partners International (BPI) Kenya SME Fund	BPI since 1981, partnership with Kenya - 2006	$15 million + 2.5m TA fund	100%	Uses Kenya-based organization to invest and support, success with this model in South Africa and Madagascar, investments are customed financed based on the needs of the SME	Application approval subjective to approvals committee, rather than being based on collateral or track record.	Funding from IFC, Business Partners International, CDC Group, East African Dev Bank, Trans-Century Ltd	subsidized - development money - through Gov of Kenya and World Bank
Commerce Bank - U.S. Small Business Association (SBA) Express Loan	Commerce Bank began in 1865, US SBA - 1953	Over $16 billion	80%	50% loan guarantee allows regular ongoing lending to SMEs, application for ExpressLoan fast and easy compared to other SBA programs	Loan guarantee products are subject to fluctuations based on changes in gov't policy	U.S. gov't appropriations, regulatory agency. Integrated into bank processes	Mod
EcoBank	Established in 1985, MSME initiatives/focus beginning in 2007	$1,250 million, $213 m from IFC	30%	Well established in Africa. Electronic products include credit cards, internet banking, e-alert, & e-Collect.	Extent of FBS through partner ACCION is not detailed.	IFC loan - $100m to support expansion, $25m loan & advisory services EcoBank to promote SME lending	Low: subsidized - IFC
GroFin	2005	$255 million	100%	Profitable, monitors SME growth to increase success, invests in viable businesses that would otherwise not be able to access finance	Works with high-potential, already viable SMEs therefore many start-up SMEs are underserved	initially subsidized by Shell Foundation and others, ongoing VC support	initially subsidized but now viable

Financial Institution or FBS provider	When launched	Total assets	SME investing as % of total assets	Strengths	Weaknesses	Enabling Factors	Sustainability
ICICI Bank	Founded in 1955	$100 billion	Unreported	India's largest private sector bank, now in 18 countries. Low transaction costs, increases creditworthiness, flexibility in product parameters and one-on-one relationships without opening costly branches.	Not possible to replicate all products available at a traditional bank online	Reliable internet access, regulation that supports digital certification and cyber laws	High
Intellecap	2002	Un-reported	100%	End-to-end services, to include seed money to market expansion strategies. Triple bottom line returns.	Model is in early stages; still needs to be tested	Global network of banks and investors, wide client base (grass-roots to larger developed enterprises)	High
Inter-American Development Bank (IDB)	1995	Total approved over last 12 months = $10 billion	Unreported	Diminishes risk for consumers, suppliers. Vouchers provide incentives for learning to improve business. Suppliers more willing to invest if training yields payments.	This assumes accessibility to training locations, time/availability, and willingness to pay for a portion of training.	Referrals to match supply and demand, control system audits compliance, and exit strategies & time frames lowering subsidies	Low to Mod
Japan Finance Corporation - SME Unit	2008	$56 billion in loan programs	100%	Catalyzing investment into SME sector; reports several investees' success including going public	Subsidized by Japanese gov't; seen as a "safety net" for SMEs, assumes ongoing gov't support	Japanese gov't support	Mod

Financial Institution or FBS provider	When launched	Total assets	SME investing as % of total assets	Strengths	Weaknesses	Enabling Factors	Sustainability
Mecene Investment		AfriCap fund: $50 million + $8m TA	100%			TA funds attached allow for stronger post-finance services	Mod to High
Promoting Enterprise Access to Credit (PEAC)	2005		100%	Working to improve the overall environment in which FBS is delivered; focused on private sector and sustainability	Success of unit not well publicized electronically	Multiple funding sources and local buy in. SwissContact, IFC PENSA, Bank Indonesia & other banks, Indonesian gov't.	Low: subsidized - development money
SCORE			100%	Indirect connection to banks, so impartial. Free/low cost. Trainings and TA.	Volunteer staff, so quality varies. Banks don't always trust it. No set schedules.	Gov't funding, national presence, volunteer participation	Med
Small Business Administration			100%	Works with and through banks for guarantees. No obligations on TA. Nationwide.	Gov't regulations. Slight costs.	Gov't funding, national presence, bank relationships, trust	Med
Small Business Credit Guarantee Trust	1999	$2.7 million	100%	Working with multiple commercial banks; expanding beyond credit guarantees	Depends on funding 98% itself	Development funding - GTZ and others	Subsidized - development money
Small Industries Development Bank of India (SIDBI)	1990, FBS with Cisco piloted in 2008	$3,600 million	100%	Partnership approach to deliver appropriate services	In pilot phase only	partnerships and ICT business sector	Mod. Gov't financing.

Financial Institution or FBS provider	When launched	Total assets	SME investing as % of total assets	Strengths	Weaknesses	Enabling Factors	Sustainability
SME Bank	2005	$1.2 million	100%	Mandate to become "hub" of SME in Malaysia by 2010; focused on growing portfolio; not constrained by full profit motivations	Only 19 branches nationwide	gov't support, partnerships, strong SME support from Malaysian gov't & NGOs	Subsidized by Malaysian gov't, international lenders
Société Générale Haïtienne de Banque (SogeBank)	1985	$750 million	15%	Large commercial conglomerate, private sector leadership. Long-time strength in Haiti. Gov't connections. Serious commitment to go 'down-market'	SME is small part of operations, as is microfinance, mostly in the cities, so less help to rural people	Socially motivated investment from ACCION and others. Commitment to down scaling and MFI activities.	High
VC Fund operated by states within Mexico	Vary	$10s millions	100%	VC model. Local knowledge. Private/public partnership at the state level. Rural focus. TA and investment	Bureaucratic fluctuations and narrow focus. Takes longer and has lower returns than market VC	Gov't support, local implementation, state support, private investors	Mod private and public capital

D. FBS SERVICES OFFERED

Service Name	Timing	Access Capital	Loan Compliance	Business Success	Social Impact	Market facilitation	Primary goal of providing fBS	Example Providers
	Pre/Post/Both	Stated Service Purpose						
Credit facilitation								
Arranging required documents	Pre-finance	x					smooth application process	EcoBank
Introduction to bank officer	Pre-finance	x					build relationships	KKMB Program PEAC
Obtaining references	Pre-finance	x					mitigate risk	
Business plan verification	Pre-finance	x	x	x			mitigate risk	Japan Finance Corporation - SME Unit
Loaning funds for transaction chronology	Pre-finance	x					smooth application process	
Credit guarantees	Pre-finance	x					unlock capital	US SBA SBCGT, Namibia Bank Negara Malaysia Japan Finance Corporation - SME Unit
Land certification	Pre-finance	x					unlock capital	
Work with provider of services or equipment to finance SME	Pre-finance	x					unlock capital	ICICI Bank / Intel partnership
Accompany SME to meeting	Pre-finance	x					smooth application process	

Service Name	Timing	Access Capital	Loan Compliance	Business Success	Social Impact	Market facilitation	Primary goal of providing fBS	Example Providers
Mentoring & TA								
Management mentoring and assistance	Both		x	x			increase ROI of investment	Bank Windhoek AfricInvest BPI Kenya SME Fund SBCGT, Namibia
Business plan development	Both	x		x			mitigate risk	SBCGT, Namibia Grofin
Incubation space / support	Both			x			increase ROI of investment	SIDBI, India SME Bank, Malaysia
Business training	Both			x			increase ROI of investment	Barclays Botswana
Vouchers for assistance	Both			x			increase ROI of investment	Bank SETA, South Africa Inter-American Development Bank
Dedicated manager	Post-finance			x			increase ROI of investment	GroFin CARE Enterprise Partners
Monitoring & evaluation								
Cash flow monitoring	Post-finance		x	x			increase ROI of investment	SBCGT, Namibia
General loan compliance, collections	Post-finance		x				increase ROI of investment	SBCGT, Namibia
Business performance	Post-finance		x	x			increase ROI of investment	SBCGT, Namibia
Employment creation	Post-finance		x		x		ensure social impacts	SBCGT, Namibia

Service Name		Timing	Access Capital	Loan Compliance	Business Success	Social Impact	Market facilitation	Primary goal of providing fBS	Example Providers
Network support									
	Identify synergies across portfolio	Post-finance			x		x	increase ROI of investment	AfricInvest GroFin Intellecap
	Facilitate networks and relationships	Post-finance			x		x	increase ROI of investment	Mecene Investment, Africa Equity for Africa USAID Emerging Markets Group
Low engagement support / non-tailored to SME									
	Online platform / resource	Both	x	x	x		x	various	ICICI Bank, India Bank Negara Malaysia
	Advertising platform	Post-finance			x		x	various	Bank Negara Malaysia
	Surveys of business environment	Post-finance			x			various	Japan Finance Corporation - SME Unit

E. FBS GOALS AND METRICS USED BY VARIOUS ACTORS

	Goals of FBS	Goals related to	Collection method	Potential Issues	Barriers to obtaining information
1	**Increase size / profitability of SME**				
Metrics	Increase in turnover	☑ ROI for Investor ☑ Economic development ☐ Social impact	Reporting		Reporting / data collection issues
	Achieve breakeven / increase in profit margins		Reporting		
	SME perspective on value of FBS to business success		Survey of SMEs		Bias due to perceived need to please FIs / FBS providers
2	**Increase employment**				
Metrics	Increase in number of employees	☐ ROI for Investor ☑ Economic development ☑ Social impact	Reporting	Artificial goal? Headcount not a goal for some SMEs	Reporting / data collection issues
	Compare SME employment growth and national employment growth		Reporting / analysis		
3	**Increase transactions (FI to SMEs)**				
Metrics	% using FBS and receiving credit for first time from FI	☑ ROI for Investor ☑ Economic development ☐ Social impact	Survey of SMEs FI reporting	Definition of FBS; including intensity of services required	
	SME perspective on value of FBS to access credit		Survey of SMEs		SMEs might feel they can not complain about FBS support
4	**Increase repayment / bankability**				
Metrics	Increase in SME repayment rates (risk mitigation)	☑ ROI for Investor ☑ Economic development ☐ Social impact	FI reporting		
	Comparison between SME repayment with/without FBS		FI reporting	Definition of FBS; including intensity of services required	

	Goals of FBS	Goals related to	Collection method	Potential Issues	Barriers to obtaining information
5	**Increase market for SME lending**	5	**Increase market for SME lending**	5	**Increase market for SME lending**
Metrics	Increase in number of SME clients	☑ ROI for Investor ☑ Economic development ☐ Social impact	FI reporting		
	Repeat business from successful SME clients		FI reporting	SMEs going to multiple FIs - not providing repeat business at one FI	How to track access to credit across multiple FIs
6	**Develop sustainable FBS delivery**				
Metrics	Increase in FIs sustainably providing FBS	☐ ROI for Investor ☑ Economic development ☐ Social impact	FI reporting	Maintaining FBS currently provided by subsidized programs	Transparency of FI reporting - currently not strong on FBS
	Decrease in subsidized models		Market survey	Will subsidized models move down foodchain to less bankable SMEs?	

F. EXAMPLES OF ONLINE PROVISION OF SME SUPPORT

	Institution	Type of entity	Online services	Capitalization / financing	Additional information
Malaysia	Bank Negara	Central bank	Info portal for SMEs incl. financing, advisory services, training, & networking opportunities	National SME Development Council (government) and managed by Secretariat, Small and Medium Industries Development Corporation	View portal at www.smeinfo.com.my
India	ICICI Bank	Commercial Bank	Online toolkit to help with accounting, finance, business planning, HR, legal and insurance, marketing and sales, operations,& technology	ICICI Bank, IBM, and IFC	Free online toolkit www.india.smetoolkit.org available for SME needs
U.S.A.	Commerce Bank	Commercial Bank	Online courses available to all clients plus business calculations	Commerce Bank	To view workshop options visit www.commercebank.com/smallbusiness/resource-center/online-workshops.asp powered by Virtual Advisor
Namibia	Bank Windhoek	Commercial Bank	E-banking, financial calculations	Bank Windhoek	View service tab at www.bankwindhoek.com.na/index.php?page=home
Japan	Japan Finance Corporation	Development Bank	E-banking, electronic library of case studies available to SMEs to review based on unique challenges	Japan Finance Corporation	

G. LIST OF CONTACTS AND REFERENCES

List of people contacted by email and phone for interviews, sources, and information.

Abdulai Abdul-Rahman
SME Department
EcoBank Ghana

Allan Kauders
National Healthcare Executive
Business Banking
Bank of America

Andrew Baird
Making Cents
Facilitator to USAID IGP Learning Network SME

Andrew Kaplan
SME Department
Commerce Bank

Anicca Jansen
Senior Technical Advisor
Economic Growth, Agriculture, & Trade
USAID

Belinda Richards (née Hoff)
Boston College Institute for Responsible Investment

Donna Katzin
Shared Interest
New York
(South African partner is Thembani International Guarantee Fund)

Frank Nagel
Senior Project Manager
Rabobank / Rabo Development
Netherlands

Geoffrey Chalmers
ENV
USAID Mexico

Goetz Ebbecke
Management Board Member
Swisscontact PEAC Project, Indonesia

Guillermo Aguilar Rios
FOMIN Specialist
Inter American Development Bank
Mexico City Office

Jesse C. Fripp
Vice President
Shorebank International

Jessica Shortall
International Development Consultant

Jodi Fischer
International Development Consultant

Mary McVay
Value Chain Competitive Initiative
SEEP Network

Tim Nourse
West Bank Country Director
USAID / AED

H. LITERATURE REVIEW

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Botswana SME Under-Banked Market Research
Enterprise Banking Group, Peter Hinton, Unami Mokobi and Caspar Sproket
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Cluster Competitiveness in Practice: The USAID Boznia & Herzegovina CCA Project-Final Report
USAID and Emerging Markets Group
Boznia & Herzegovina, 2008
http://bosnia.usaid.gov/FIRMAandFARMA/FIRMA/Cluster%20Competitiveness%20in%20Practice%20-%20BiH%20CCA%20Project%20-%20EMG%20-%202008.pdf
Details the progress of a four year USAID funded cluster competitiveness intervention project. It focuses on the importance of market linkages, details the activities, lessons learned and suggestions for sustained impact.

Deepening Malawi's Microfinance Sector Project (DMS) 2008 Annual Report
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This paper examines and analyses the role of SMEs in different sectors and their contribution to the economy. Thorough review of existing literature and identification of major challenges (domestically and globally)

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Equity Bank's strategy for SME financing. Discusses how Equity Bank serves SMEs, charts growth in SME clients

Financial and Non-financial Services for Small and Medium-Sized Enterprises: New Approaches in Latin America, with Special Reference to Chile
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Industrial Clusters and SME Promotion in Developing Countries
Commonwealth Secretariat, authors Eileen Fisher and Rebecca Reuber
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http://books.google.com/books?id=sGliMcf3KPcC&pg=PT27&lpg=PT27&dq=paraguay,+SME,+vouchers&source=bl&ots=S6WgcGR5cL&sig=ZkY6trYGG8oSoPf5Fzy

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www.nathaninc.com/NATHAN/files/CCPAGECONTENT/docfilename/0000566508/Economic%20Impact%20of%20TCI%20Cluster%20Initiatives.pdf
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International Finance Corporation (IFC)/World Bank, author Kristin Hallberg
Global, 2000
http://books.google.com/books?id=Yca0bwttyFIC&printsec=frontcover&source=gbs_similarbooks_r&cad=3_0#PPA3,M1
Market-Oriented Model investigates the economic rationale for intervention and the role of the government in support of SME financial services. The paper suggests a framework for SME intervention in the design of strategies, gauging the effectiveness of assistance programs, and raising SME competitiveness.

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