

Better access to finance for SME by linking the goals to interventions via benchmarking

By Karin Reinprecht

Three issues need to be solved, in order to bring about a better access for SME to financing: The risks of SME themselves, the inappropriate legal framework and the low quality of financial services. But how to go about solving them? On the basis of her experience in south-eastern Europe, the author presents her experiences on solving one of the issues, the quality of financial services. She suggests to solve this issue by improving the finance providers' abilities to serve SME clients, by opening the access of finance providers to refinancing sources in the financial markets and by offering soft refinancing for finance providers, the conditions of which should be based on the demand of SME. In order to find the right interventions to bring about all these improvements, a number of criteria, indicators and benchmarks are suggested to lead the way and choose the appropriate interventions. The author also puts forward some ideas on which of the criteria and indicators are the most decisive ones.

The major goals of many actors in the financial sector of developing countries and countries in economic transition – be it finance providers, be it central banks and governments, be it donors and international agencies – is that their interventions overcome the barriers to SME finance and that more SME get access to more finance.

Goal: More SME get access to more finance

In a conference on the “SME¹ Financing Gap “ in Vienna in 2000 the world-wide problem of small businesses to get financing in the range between 10.000 USD and 100.000 USD² was discussed. The speakers concluded that good SME financing would be the biggest booster for economic development, as SMEs are the biggest employer in most countries and contribute an important share to the GDP. This important role of SME is mainly due to the fact that most SME own their businesses for business sake (and not for survival only) and thus have a long-term interest in their business. This “motor of the economy”, as SME are often called, lack, however, access to proper finance, which would be long-term financing, bigger amounts of financing and financing tailored to the needs (e.g. investment or trade finance) and problems (e.g. lack of collateral) of SME.

Three barriers:
- risks of SME
- inappropriate legal framework
- low quality of financial services

It became clear in this conference that the interventions to fill the SME financing gap should mostly be targeted at surmounting three major barriers:

1. The risks of the SME themselves, the interventions aiming at the reduction of these risks

¹ SME = Small and Medium Enterprise

² Loans below 10.000 are offered in many countries by microfinance institutions; loans above 100.000 USD is often considered as usual, normal bank business, but is only available to top performing, larger industrial enterprises in most countries.

2. The inappropriate legal framework, the interventions trying to improve this framework
3. The low quality of financial services and the limited number of SME having access to them, the interventions aiming at the improvement of the service quality and of the outreach of the financial services.

(see image 1)

This paper focuses on the third field of interventions, on the good quality financial services for more SME. The paper presents a number of hypotheses based on the experience of the Austrian Development Co-operation in south-eastern European countries, which carried out its projects there in co-operation with KfW, and on the author's consulting experience with SME financing institutions - banks, microfinance institutions, credit unions, specific financial institutions - in these countries. The contents of this paper were first presented in the SME Finance Working Group of the Committee of Donor Agencies for Small Enterprise Development at their annual meeting in the Danish Ministry of Foreign Affairs, Copenhagen in September 15-16, 2003 and discussed there.

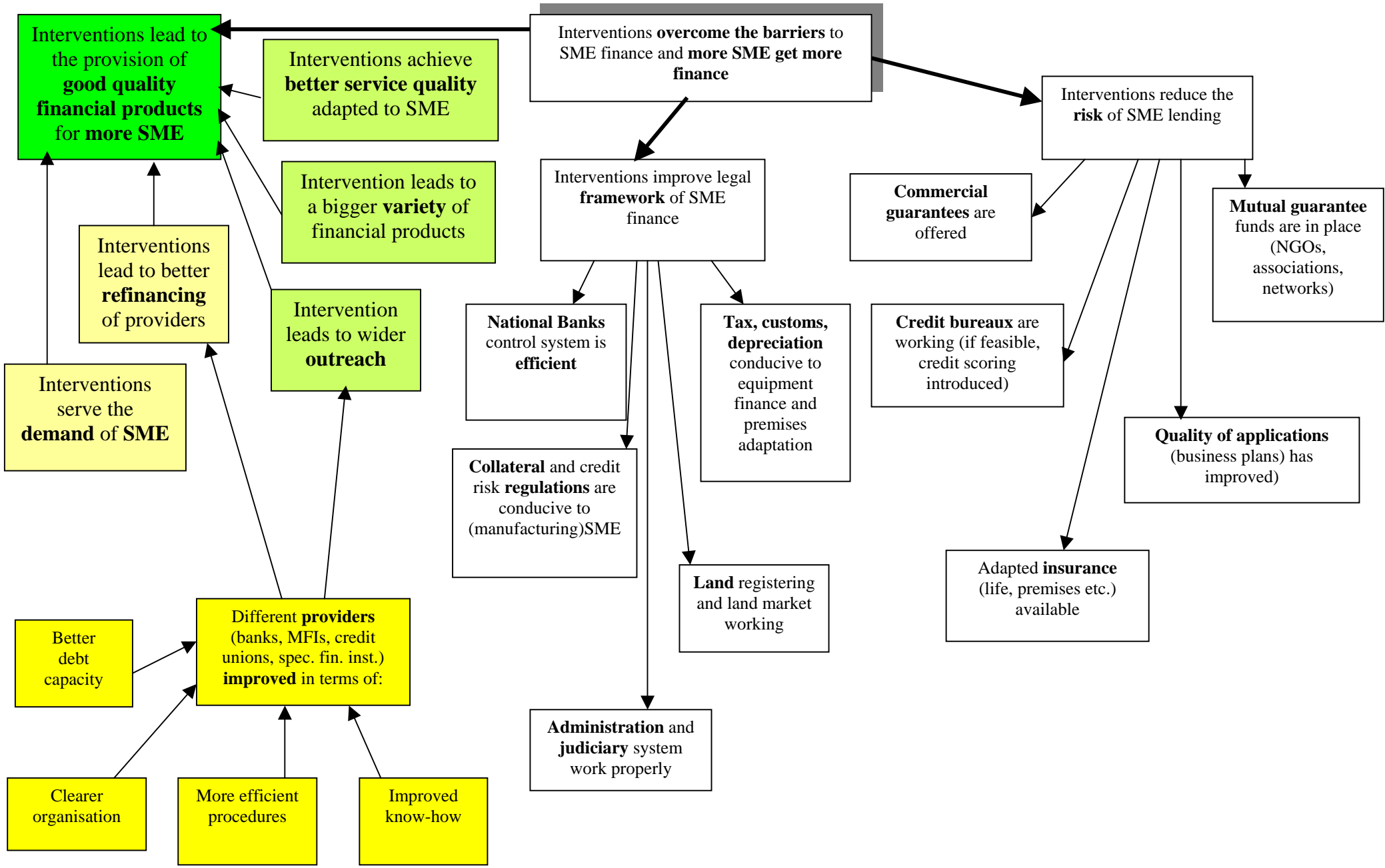
Experience shows, that the provision of good quality financial services is mainly depending on the skills of the providers of financial services – their know-how, procedures and organisation – and on their debt capacity. Better know-how will allow them to research the demand of the SME clients and to offer a higher quality and variety of financial products adapted for SME. Better procedures will also improve the service quality and a better organisation will widen the outreach. A better financial standing and thus higher debt capacity will lead to better refinancing and thus again to a better outreach.

Low quality of financial services is mainly linked to the low quality of the finance providers

The paper therefore discusses,

- ❖ The criteria to choose a financial service provider with good potential to offer good quality services to a considerable number of SME.
- ❖ Then a number of indicators and benchmarks are presented which can be used to evaluate, if a potential co-operation partner is prepared for an intervention
- ❖ as well as benchmarks which represent the minimum standard to be reached after the intervention.
- ❖ Finally, interventions are suggested which were observed to be the most appropriate for reaching the benchmarks.

IMAGE 1



Pre-requisites for the support of finance providers

As was said above, in order to achieve a better quality of financial services, interventions need to concentrate on finance providers and their ability

1. to adapt the type and quality of financial services to SME
2. to create a bigger variety of financial products
3. and to achieve a wider outreach of their financial services.

Which characteristics should a finance provider have before the start of interventions? Who will finally be able to provide a **better service quality**?

The finance institution should

- Know the financial product per se well (e.g. medium-term loan) and should have adapted it to SME needs
- Know the target group well
- Have the required licences and balance sheet structure
- Have the approaches and procedures which fit to SME in place

Some hypotheses on major characteristics of providers before interventions start

Finance providers, which will achieve a **wider outreach**

- Have already a relatively wide geographical outreach
- Have a high portion of SME clients
- And their SME finance has got a bigger profit margin than alternative investments

A **higher variety** can be offered by an institution which,

- Is a relatively large established financial institution with a relatively high variety of clients – innovation on the basis of the know-how about the clients' needs, demands and capacities
- Is a specialised financial institutions which can build on a very specialised product know-how and be thus innovative
- Shows interest to innovate its products

A donor or other support institution which plans to achieve “A bigger variety of good quality financial products for more SME” and which therefore has the sub-goals to improve the quality of financial products for SME, to achieve a wider outreach of financial services to SME and who wants to see a higher variety of financial products and services for SME in the market, can judge the local financial provider's ability to achieve these goal and sub-goals by the above mentioned criteria/characteristics. These are summarised in Table 1 below.

TABLE 1: The provider, who is finally achieving the goals, needs to have certain abilities to be successful

Goal	Sub-goals	The provider' s required abilities: criteria
A bigger variety of good quality financial products for more SME	1. Improved quality of financial products for SME	<ul style="list-style-type: none"> ➤ Knows the fin. product well and has adapted it to SME needs ➤ Knows the target group well ➤ Has the required licences and balance sheet structure (national bank standards) ➤ Has the approaches and procedures fit for SME in place

	2. Wider outreach of financial services to SME	<ul style="list-style-type: none"> ➤ Has already a wide geographical outreach ➤ Has a high portion of SME clients ➤ SME finance has got bigger margin than alternative investments
	3. Higher variety of financial products and services for SME	<ul style="list-style-type: none"> ➤ Is a relatively large established financial institution with a relatively high variety of clients – innovation on the basis of the know-how about the clients' needs, demands and capacities ➤ Is a specialised financial institutions which can build on a very specialised product know-how and be thus innovative ➤ Shows interest to innovate its products

Which of these abilities are more important than others? If one has to choose among potential intervention partners (finance providers), which are those abilities, which need to be a pre-requisite and those which can be worked on during the intervention?

It is suggested that the absolute pre-requisites are that the finance institution

1. Knows the target group and its demand, if it wants to improve its service quality
2. Has a high portion of SME clients already, if it wants to increase its outreach
3. Shows interest to innovate, if it wants to develop a better variety of financial products

Without these, the author believes that the intervention will not be successful.

Benchmarks and indicators to measure finance providers' abilities

For banks as well as for microfinance providers, a lot of material has been published on indicators to measure the financial standing of these institutions and, in the case of microfinance providers, on their ability to service their clients in developing countries.

Concerning countries in economic transition as well as developing countries, however, these indicators and benchmarks for banks and microfinance institutions are rarely published. And SME finance is mostly not included in the set of indicators and benchmarks.

Support institutions have different or additional interests, goals and standards than international investors, for whom most indicators and benchmarks for banks were developed. To measure the achievement of the goals of the support institutions, as described above and on the next pages, indicators and benchmarks, however, which give a means of comparison have not yet been standardised by these support institutions.

The typical set of indicators & benchmarks of banks ignores countries in transition, and often SME finance

Donors measure other results than international private investors

Many of the support institutions, e.g. development banks or bilateral donors, have developed their own set of indicators and benchmarks, but no discussion has yet taken place among them, which soft and quantitative indicators could picture which intervention result and which benchmarks should be achieved before entering in a co-operation contract with an institution.

This paper therefore presents indicators and benchmarks, which measure the achievement of the goals of support institutions - e.g. development banks, bilateral donors - of SME finance provision in transition countries, thus aiming to create a basis for discussion. The paper suggests benchmarks fitting to countries in economic transition, differing between standards to be demanded before entering in a co-operation with the local finance providers. It also suggests the minimum which should be achieved by the finance providers after a typical intervention period of two to three years. If the benchmarks after intervention are not achieved, it is assumed that a further support would be a waste of resources.

The first indicators and benchmarks suggested here, deal with the ability of the finance provider, to improve its service quality. In the following Table 2, criteria (the same as suggested in Table 1), indicators and benchmarks to measure these pre-requisites and the outcomes after intervention are suggested.

TABLE 2: To evaluate the abilities of a finance provider to improve the quality of the financial services (suggestions)

Criteria: Provider' s ability (Quality)	Indicators & Benchmarks: Prerequisites	Benchmarks: After intervention
Knows the fin. product well and has adapted it to SME needs	<ul style="list-style-type: none"> • Have fin. products adapted to SME: at least one (e.g. trade, s.t. loan) • Regular training of staff for the SME fin. product: 1x/year in-house • Experience of staff in banking (those dealing with SME products): head of department 5 years 	<ul style="list-style-type: none"> • Have fin. products adapted to SME: at least three (e.g. trade, s.t. loan, l.t. loan) • Regular training of staff for the SME fin. product: 2x/year in-house • Experience of staff in banking (those dealing with SME products): head of department 5 years plus reinforced by two experienced co-workers (3 years)
Knows the target group well	<ul style="list-style-type: none"> • Market analysis on the target group SME is planned; some SME market know-how was already collected in a structured way; • MIS is fit to integrate statistics on the SME target groups behaviour in relation to different fin. products • Number of staff allocated to work for SME financing: 5% of the whole personnel • SME products adapted in terms of volume, term, 	<ul style="list-style-type: none"> • Market analysis on the target group SME was carried out and marketing plan on the basis of this was provided • MIS provides reports on the SME target groups behaviour in relation to different fin. products • Number of staff allocated to work for SME financing: 10% of the whole personnel • SME products additionally adapted to different sectors

	collateral demand, repayment schedule	
Has the required licences and balance sheet structure	<ul style="list-style-type: none"> • Licence which allows to carry out lending to SME or full licence for specialised financial product • Equity/loans: at least National Bank requirements; for MFIs: 25% 	<ul style="list-style-type: none"> • Licence which allows to carry out lending/savings operations or full licence for specialised financial product • Loans/equity: 25%
Has the approaches and procedures fit for SME in place	<ul style="list-style-type: none"> • Efficient approach: loan number per loan officer: at least 30, loan volume per loan officer: at least 450.000 Euro • Time application to loan pay out: not more than 6 weeks • Loan officers do some cash-flow analysis (not only P/I, BS) before looking at the securities (collateral, guarantee) • Loan officers know accounting flaws and are able to analyse SMEs' financials • Application requirements simple, but containing all information necessary • Loan officer visits client before credit • Functioning network (credit union) 	<ul style="list-style-type: none"> • Efficient approach: loan number per loan officer: at least 50, loan volume per loan officer: at least 900.000 Euro • Time application to loan pay out: not more than 2 weeks • Loan officers are very proficient in cash-flow analysis (and P/I, BS) and make the basic loan decision before looking at the securities (collateral, guarantee) • Loan officers know accounting flaws, know the differences (e.g. markets) in different sectors and have a practical and useful tool for the analysis of SMEs' financials • Loan documentation is streamlined; • Application requirements streamlined; nevertheless loan officer prepared to discuss numbers provided by client with him, in order to improve their quality • Loan officer visits client before credit and does regular follow-up, at least shortly after loan disbursement • Networks linked by MIS and service provision (e.g. product development, financing) by headquarters;

In the evaluation of finance programmes and institutions in south-eastern Europe, it was concluded that the most important factors for achieving a better **service quality** for SME are

- ❖ regular market analysis,
- ❖ continuous product development,
- ❖ building of efficient organisational procedures and
- ❖ in depth cash-flow analysis know-how.

In order to judge, if a finance provider will be able to increase its outreach to SME clients, the following criteria can be measured against the suggested benchmarks.

*TABLE 3: To evaluate the abilities of a finance provider to increase the **outreach** (suggestions)*

Criteria: Provider' s ability (Outreach)	Indicators & Benchmarks: Prerequisites	Benchmarks: After intervention
------------------------------------------------	----------------------------------------------	-----------------------------------

Have already a wide geographical outreach	<ul style="list-style-type: none"> • no. of branches/outlets: 3 • % of clients outside the area of the headquarters: 20% • no. of groups and members (e.g. credit union) 	<ul style="list-style-type: none"> • no. of branches/outlets: 5 • % of clients outside the area of the headquarters: 40%
Have a high portion of SME clients	<ul style="list-style-type: none"> • no. of SME clients/ all clients at least 15% • no. of m.t. (1 yr. +) loans between 15.000 and 300.000 Euro • vol. of SME³ loans/all loans: 20% • no. of SME loans/all loans: 40% 	<ul style="list-style-type: none"> • no. of SME clients/ all clients increased • no. of m.t. (1 yr. +) loans between 15.000 and 300.000 Euro at least 20% higher than before • vol. of SME⁴ loans/all loans: 30% • no. of SME loans/all loans: 60%
SME finance got bigger margin than alternative investments	<ul style="list-style-type: none"> • prevailing situation: SME margin probably lower than Treasury Bills – but also no pricing strategy on the part of the provider 	<ul style="list-style-type: none"> • the ratio TB/SME loans decreased • the profit margin on SME loans increased because of improved pricing strategies

Experience in Eastern Europe showed that the most important factors for achieving more **outreach** is

- ❖ firstly to increase the proportion of SME in overall clients and
- ❖ only secondly to raise the number of outlets/groups.

Table 4 shows two criteria, and indicators and benchmarks to measure them, which help to evaluate, if a finance provider will be able to develop and offer innovative financial products which fit to the demand of SME clients and requirements of a country in economic transition.

*TABLE 4: To evaluate the abilities of a finance provider to innovate its financial services and offer a higher **variety** of fin. services (suggestions)*

Criteria: Provider' s ability (Variety)	Indicators & Benchmarks: Prerequisites	Benchmarks: After intervention
Is a relatively large established financial institution with a relatively high variety of clients – innovation on the basis of the know-how about the clients' needs, demands and capacities	<ul style="list-style-type: none"> • management states that innovation is important • has at least three different clients' groups and knows about the differences between the groups (first attempts to analyse these were carried out) • is among the biggest seven institutions of the country and thus has an interest to know the different demands of the different target groups in different geographic areas • has already a variety of 	<ul style="list-style-type: none"> • actions followed: target groups differentiated, first pilot testing of products developed for them

³ Taking the country's own definition what concerns T/O; if statistics on this available in the financial institutions, SME are enterprises with 5 – 100 employees;

⁴ Taking the country's own definition what concerns T/O; if statistics on this available in the financial institutions, SME are enterprises with 5 – 100 employees;

	products (3) which need to be adapted to SME	
Is a specialised financial institutions which can build on a very specialised product know-how and be thus innovative	<ul style="list-style-type: none"> • realises SME demand and wants to react on it • realises market pressures and wants to react on it 	<ul style="list-style-type: none"> • have done market research, analysis and marketing plan • have developed special products for different target groups or have adapted existing products for them

From the author's work in south-eastern Europe, she concluded that the most important factor for achieving a higher **variety** of financial products is that the provider is prepared to innovate and is prepared to invest in the financial product development.

Interventions to improve quality, outreach and variety

It is the support institutions objective to improve the access of SME to finance and one set of interventions could look at offering a bigger variety of good quality financial products for more SME. To achieve this goal, the three sub-goals, the improvement of quality, outreach and variety, need to be fulfilled.

In Table 5 below, interventions are suggested for reaching these sub-goals – quality, outreach, variety.

Apart from the most important factor of technical assistance, equity finance plays an important role in improving the product quality, because an organisation's culture can be influenced mostly by the negotiation power of a strong investor.

A wider outreach can be mainly achieved by loans for on-lending to the final (rural) SME borrower. The conditions of these loans to the finance providers should be based on the conditions to the final borrower (term, repayment schedule, interest rate).

A higher variety of financial products, again, can mainly be achieved by technical assistance – except one is prepared to build its own specialised finance institution by investing equity and providing loans and guarantees.

TA, equity finance, loans – which of these is best for reaching the goals?

TABLE 5: Suggested interventions to achieve the sub-goals quality, outreach and variety

Sub-goals	Technical Assistance and Grants	Financial Assistance (conditions to the provider)
<p>Quality:</p> <ul style="list-style-type: none"> ➤ Knows the fin. product well and has adapted it to SME needs ➤ Knows the target group well ➤ Has the required licences and balance sheet structure ➤ Has the approaches and procedures fit for SME in place 	<ul style="list-style-type: none"> ➤ Market-analysis plus product development know-how plus marketing plan ➤ Staff training (on-the-job, internships, courses) on efficient work and SME debt capacity analysis (cash-flow based) ➤ Management mentoring ➤ Support to build sustainable organisation - re-organisation consulting, consulting for up-grading of fin. inst. (e.g. to become a bank) ➤ MIS building ➤ Liquidity management ➤ Create new institution specialised on SME 	<ul style="list-style-type: none"> ➤ Financial grants for product testing – proportion of grant linked to success indicators ➤ Equity finance for existing providers, in order to turn around the institutions internal business culture ➤ Provide equity finance + long-term loan finance + guarantee for short-term refinancing in the inter-bank market
<p>Outreach:</p> <ul style="list-style-type: none"> ➤ Have already a wide geographical outreach ➤ Have a high portion of SME clients 	<ul style="list-style-type: none"> ➤ Develop new pricing strategies on the basis of a (local) market analysis ➤ Feasibility studies for new outlet creation ➤ Support development of expansion strategy 	<ul style="list-style-type: none"> ➤ Promote group creation of credit unions by providing external loan funds for on-lending (loans with conditions based on the conditions granted to the final borrower) ➤ Loan funds for SME on-lending (loans conditions based on the conditions granted to the final borrower) ➤ Special funds for agricultural, rural lending which is linked to the agricultural cycle: long-term (5 years at least), repayment instalments once a year, I.R. fixed, requirements: small volume loans for productive activities and geographical outreach;
<p>Variety:</p>	<ul style="list-style-type: none"> ➤ Support product development (market 	<ul style="list-style-type: none"> ➤ Provide loan for product testing – soft

<ul style="list-style-type: none"> ➤ Is a relatively large established financial institution with a relatively high variety of clients – innovation on the basis of the know-how about the clients’ needs, demands and capacities ➤ Is a specialised financial institutions which can build on a very specialised product know-how and be thus innovative ➤ Shows interest to innovate its products 	<p>research, concept, testing, follow-up evaluation)</p> <ul style="list-style-type: none"> ➤ Support new product introduction in the market (marketing strategies) ➤ Create new specialised (certain financial products and services) providers 	<p>conditions</p> <ul style="list-style-type: none"> ➤ Provide equity finance + long-term loan finance + guarantee for short-term refinancing in the inter-bank market
-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

SME demand and the choosing of right interventions

As was said above, the one criterion to measure the quality of the financial products as well as the ability to innovate is the knowledge about the target group and its needs, demands and capacities.

Also, the support institution which plans an intervention, to promote the access of SME to finance needs to know the demand of the targeted SME in a specific region, to be able to finally negotiate the right intervention instrument plus appropriate conditions with the finance provider.

Usually, the support institutions know the SME market and SME demand from a number of years of experience in the market or they carry out a market study or survey, in order not to rely on the information provided by their negotiation partners only. In this paper, the demand of SME is linked to the typical financial sector development goals of support institutions.

From the author's experience in south-eastern European countries, the typical demands of SME, which are differing depending on the sector, size, geographic location and culture of a specific country and region, are those mentioned in Table 6 below.

TABLE 6: The typical demand of SME in south-eastern European countries as a basis of the design the right interventions

Goal	Sub-goals	The typical demands of SME
A bigger variety of good quality financial products for more SME	1. Improved quality of financial products for SME	<ul style="list-style-type: none"> ➤ Finance for equipment/premises <ul style="list-style-type: none"> • Medium-term, long-term finance • and higher volume available • Leasing • Venture capital and equity finance ➤ Guarantee funds available ➤ Flexible working capital available for different purposes <ul style="list-style-type: none"> • Overdrafts, credit lines, short-term credits available • Trade finance, FX services, money transfer available ➤ Insurance available (e.g. life insurance as collateral) ➤ Simple and transparent application procedures

		➤ Quick decision making
	2. Wider outreach of financial services for SME	➤ Easy to reach in terms of time and costs to be reached ➤ All services available in the outlet
	3. Higher variety of financial products and services for SME	➤ Alternatives available ➤ Products/Services and product packages tailored to specific needs of their sector, location etc. ➤ Services with lower collateral needs

It was observed that when designing interventions to reach the sub-goal “Improved quality of financial products for SME”, the provision of high volume and long-term loans proved to be the most important intervention. For the sub-goal “Wider outreach of financial services for SME”, it was the intervention to ensure that the financial service provider operates close to the location of the SME. For the sub-goal “Higher variety of financial products and services for SME”, SME appreciated most, when they were being offered a solution which requires less collateral.

In the following table, again interventions are suggested. In Table 5, the suggested interventions were aimed at improving the finance provider’s standing and thus reaching the goal of “A bigger variety of good quality financial products for more SME”. The interventions suggested in Table 7, are aiming at catering for the demand of SME - assuming that the local finance providers are already able to meet it – and thus reaching the above mentioned overall goal. Also indicators and benchmarks are suggested in this table, which give an indication of the minimum results achievable.

TABLE 7: The link between benchmarks on the demand of SME and interventions

Demand of SME	Benchmarks: After intervention (in a certain geographic area)	Technical Assistance (TA) Financial Assistance (FA)
<ul style="list-style-type: none"> ❖ Finance for equipment/premises <ul style="list-style-type: none"> ➤ Medium-term, long-term finance ➤ and higher volume available ➤ Leasing ➤ Venture capital and equity finance ❖ Guarantee funds available 	<ul style="list-style-type: none"> • medium and long-term loan volume provided for a certain area can cover 20% of the demand in a certain area • 10% of start-ups in a certain area financed by venture capital fund 	FA: <ul style="list-style-type: none"> • Long-term loans to provider which are one year longer than the longest term granted to SME sub-loans • Commercial guarantors receive a re-guarantee of a part of their SME loan portfolio (certain conditions) • Equity capital to venture capital funds which really go SME is invested • Medium-term loan is provided to leasing companies for manufacturing equipment (the term linked to the

<ul style="list-style-type: none"> ❖ Flexible working capital available for different purposes <ul style="list-style-type: none"> ➢ Overdrafts, credit lines, short-term credits available ➢ Trade finance, FX services, money transfer available ❖ Insurance available (e.g. life insurance as collateral) ❖ Simple and transparent application procedures ❖ Quick decision making 	<ul style="list-style-type: none"> • all SME in defiance of guarantee have access to a mutual or commercial guarantor • Overdrafts etc. a “normal” service for providers and SME of a certain area • Each SME has access to trade finance in a certain area • Clearly stated requirements, procedures transparently described in brochures for the public • Two usual loan application processing time 	<p>average depreciation period of the equipment)</p> <ul style="list-style-type: none"> • Refinancing guarantees provided for banks for short-term financing and especially trade finance <p>TA:</p> <ul style="list-style-type: none"> • Support newly created mutual guarantee funds • Support introduction of credit-scoring techniques for over-drafts and the like • Find solutions for better trade finance services and packages • Use transparency to better market products and services
<ul style="list-style-type: none"> ❖ Easy to reach in terms of time and costs to be reached ❖ All services available in the outlet 	<ul style="list-style-type: none"> • Next outlet to clients within 30 km • All services can be at least sold in all outlets (if not packaged and tailor-made) 	<p>TA:</p> <ul style="list-style-type: none"> • Support outlet capacity building <p>FA:</p> <ul style="list-style-type: none"> • Support outlet creation by providing loan funds through refinancing loans (see above)
<ul style="list-style-type: none"> ❖ Alternatives available ❖ Products/Services and product packages tailored to specific needs of their sector, location etc. 	<ul style="list-style-type: none"> • Creative solutions for financing needs and purposes are offered 	<p>TA:</p> <ul style="list-style-type: none"> • Support capacity building and creative thinking in all departments dealing with SME clients • Install systems (computer, procedures) which enable a creative combination of products and “cross-pricing” of them

Usually, one of the best ways to cater for the SME demand is to provide high-volume, long-term loans and to solve their collateral/guarantee problem, all the while installing systems which bring the providers closer to the SME in terms of flexible, efficient and transparent procedures and outlets close to their location.

Refinancing and providing more finance to more SME

To achieve the goals and sub-goals, providers need re-financing which fit to the activities necessary for achieving these objectives. The most important types of refinancing are mentioned in Table 8.

TABLE 8: Define which type of refinancing is required most to reach the goals

Goal	Sub-goals	Typical refinancing required
A bigger variety of good	1. Improved quality of financial products for SME	➢ Different types (terms, costs) of refinancing in

quality financial products for more SME		the (external) inter-bank market available
	2. Wider outreach of financial services for SME	<ul style="list-style-type: none"> ➤ Receive high amount of savings ➤ Increase the equity base to attract more refinancing
	3. Higher variety of financial products and services for SME	<ul style="list-style-type: none"> ➤ Flexible refinancing is available ➤ Access to refinancing, when it is needed, is assured

What are the most important refinancing issues? Is it the attraction of savings more important than the functioning of the inter-bank market? No general conclusions could be made here, as the refinancing situation is completely dependent on the local legal basis and the specific situation of the finance provider.

To solve the refinancing problem technical and financial assistance (shown in Table 9) can be given, to cater for the refinancing needs mentioned in Table 8. Also benchmarks to be achieved after the intervention, were formulated in Table 9.

TABLE 9: Interventions and benchmarks for refinancing of the finance providing institutions

Refinancing	Benchmarks: After intervention	Technical Assistance (TA) Financial Assistance (FA)
<ul style="list-style-type: none"> ➤ Different types (terms, costs) of refinancing in the (external) inter-bank market available 	<ul style="list-style-type: none"> • Most providers in the market received credit ratings • Supported providers have easy access to refinancing in the (international) inter-bank market 	TA: <ul style="list-style-type: none"> • get credit rating or improve it FA: <ul style="list-style-type: none"> • give guarantees to banks for the (international) inter-bank market
<ul style="list-style-type: none"> ➤ Receive high amount of savings 	<ul style="list-style-type: none"> • Savings/equity of supported providers rose by 30% in one year; set similar indicator for savings/loans providing for loan growth at the same time 	TA: <ul style="list-style-type: none"> • support development of saving service products (pricing, terms, conditions)

<p>➤ Increase the equity base to attract more refinancing</p>	<p>loan growth at the same time;</p> <ul style="list-style-type: none"> Equity base of supported provider strengthened 	<ul style="list-style-type: none"> Support marketing of saving services enable them to attract equity capital – from private and institutional investors, from members of credit unions; <p>FA:</p> <ul style="list-style-type: none"> Invest in equity capital to attract more and cheaper refinancing loans and to considerably increase the outreach Grant to support infrastructure improvement of providers = safe savings
<p>➤ Flexible refinancing is available</p> <p>➤ Access to refinancing is assured</p>	<ul style="list-style-type: none"> Access to the international inter-bank market is opened National Bank monitoring and control is strengthened and perceived as reliable 	<p>TA:</p> <ul style="list-style-type: none"> get credit rating or improve it strengthen National Bank control system <p>FA:</p> <p>give guarantees to banks for the international inter-bank market</p>

Technical assistance for attracting more savings and the investment in equity of an innovative and outreaching provider often were the most important and successful interventions.

Linking the Goals with the Intervention: Major Conclusions

*Improving the **quality** of the financial services, the following interventions are key:*

The most important factor is **technical assistance** to the provider (market analysis, product development, building organisational sustainability, cash-flow analysis know-how). Secondly, **equity finance** plays an important role in improving the service quality, because an organisations culture can be influenced mostly by the negotiation power of a strong investor.

*Increasing the **outreach**, the following interventions are key:*

A wider outreach can mainly be achieved by **loans** for on-lending to the final (rural) SME borrower. The conditions of these loans to the providers should be based on the conditions to the final borrower (term, repayment schedule, interest rate). These loans should increase the **proportion of SME** in overall clients and raise the **number of outlets/groups** of providers.

*Increasing the **variety**, the following interventions are key:*

A higher variety of financial products, can mainly be achieved by **technical assistance** to providers, a prerequisite being that the provider is **prepared to innovate** and to invest in the financial product development. Otherwise, one could build its **own specialised finance companies** by investing equity and providing loans and guarantees.

*To solve the outreach, but especially **quality** and **variety demands of SME** following interventions are key:*

The best way to cater for the SME demand is to **provide high-volume, long-term loans** and to solve the **collateral/guarantee problem** of SME, all the while installing systems which bring the providers **closer** to the SME in terms of flexible, efficient and transparent procedures and outlets close to their location.

*Quality and variety and especially **outreach** can be improved by better **refinancing**. Following interventions are suggested:*

To solve the refinancing problem, give **technical assistance** for **attracting more savings** and **invest in equity** of an innovative and outreaching provider.

An e-mail discussion on these hypotheses and also on their applicability for Central Asian countries and Africa with the readers would be much appreciated by the author (reinprecht@reinprecht.net).

References

Books

Balkenhol, Bernd and Schütte, Haje: "Collateral, collateral law and collateral substitutes", 2nd edition 2001, Working Papers on the Social Dimension of Finance No. 26, ILO Geneva

Becker, Dirk: "Bewertung und Bankakquisitionen unter Einbeziehung von Zusammenschlusseffekten", 1999, Berlin

Blitz, Michael: "Finanzdienstleistungen", 2000, München, Wien, Oldenburg

Börner, Christoph: „Bankmanagement: ressourcen- und marktorientierte Strategien von Universalbanken“, 2000, München, Wien, Oldenburg

Kramer, Jost W.: „Bilanzanalytische Frühwarnung bei Genossenschaftsbanken“ 1998, Göttingen

Ledgerwood, Joanna: "Microfinance Handbook", July 2000, IBRD/The World Bank, Washington D.c.

Ledgerwood, Joanna, Mtebi, Samuel, Mpendo, Anne: "MFI Performance Monitoring Tool – User Guide", 2003, Kampala, Uganda

Meyer zu Selhausen, Hermann: "Bankinformationssysteme: eine Bankbetriebswirtschaftslehre mit IT-Schwerpunkt", 2000, Stuttgart

"The Microbanking Bulletin", Issue No. 8, November 2002

Nickerl, Josef: "Bankbilanzanalyse durch Kennzahlenvergleich", 1981, Wien

OECD: "Financing Newly Emerging Private Enterprises in Transition Economies" OECD Paris, 1999

Rolfes, Bernd: „Gesamtbanksteuerung“ 1999, Stuttgart

Articles in books

Glaubitt, Klaus and Schütte, Haje: "Providing Long-Term Funds to Local Financial Institutions – The European Refinancing Funds in Southeast Europe" in: Matthäus-Maier, Ingrid and Pischke, J.D. von: "The Development of the Financial Sector in Southeast Europe", 2004 KfW, Springer, Heidelberg

Mehl, Arnaud and Winkler, Adalbert: "The Financial Sector and Economic Development: Evidence from Southeast Europe" in: Matthäus-Maier, Ingrid and Pischke, J.D. von: "The Development of the Financial Sector in Southeast Europe", 2004 KfW, Springer, Heidelberg

Wallace, Elizabeth: "EBRD's Micro and Small Enterprise Lending Programmes: Downscaling Commercial Banks and Starting Greenfield Banks" in: Matthäus-Maier, Ingrid and Pischke, J.D. von: "The Development of the Financial Sector in Southeast Europe", 2004 KfW, Springer, Heidelberg

Wisniowski, Sylvia and Maurer, Klaus: "Impact of Financial Sector Projects in Southeast Europe – Effects on Financial Institutions and the Financial Sector", in: Matthäus-Maier, Ingrid and Pischke, J.D. von: "The Development of the Financial Sector in Southeast Europe", 2004 KfW, Springer, Heidelberg

Articles

Bateman, Milford: "“New wave” microfinance institutions in south-east Europe: towards a more realistic assessment of impact", Small Enterprise Journal Vol 14, Number 3, September 2003

Demirgünc-Kunt, Asli and Huizinga, Harry: "Determinants of Commercial Bank Interest Margins and Profitability: Some International Evidence", The World Bank Economic Review, Vol. 13, No.2 379 – 408

Dietsch, M., Petey, J.: „The credit risk in SME loan portfolios: Modeling issues, pricing, and capital requirements“ in: Journal of Banking and Finance, Vol. 26 No. 2, 2003

Watson, R., Wilson, N.: "Small and Medium Size Enterprise Financing: A Note on Some of the Empirical Implications of a Pecking Order" in: "Journal of Business Finance & Accounting", Vol. 29 No.3, 2003

Vitols, S.: "Are German Banks Different?" in: Small Business Economics, Vol. 10 No. 2, 2003

Valenzuela, Liza: "The experience of commercial bank downscalers in microfinance" Small Enterprise Development Journal, Vol. 13, Number 4, December 2002

Conference Papers

Glaubitt, Klaus: "Supporting Small and Medium-Sized Enterprises Professionally – Microbanks in Southeast Europe" at: World Bank Conference on "New Technologies for Small and Medium Sized Enterprise Finance", December 4 – 6, 2002, Washington DC

Groot, Emile: "What do Financial Intermediaries really need to serve SME's in emerging markets" (FMO) at: International Discussion of the Donors' Finance Working Group on "The SME-Financing Gap and New Financial Products for SME in Developing Countries and Eastern Europe", October 2000, Vienna

Hüttenrauch, Harald: "SME Financing in the German Bilateral Financial Cooperation – Selected Issues" (KfW) at: International Discussion of the Donors' Finance Working Group on "The SME-Financing Gap and New Financial Products for SME in Developing Countries and Eastern Europe", October 2000, Vienna

Kassarjian, Raffi: "Information Infrastructure for SME Lending" at: World Bank Conference on "New Technologies for Small and Medium Sized Enterprise Finance", December 4 – 6, 2002, Washington DC

McGillivray, Gavin: "Lending by MicroFinance Institutions to Small and Medium Enterprises: Some Notes on Experiences and Prospects" (DFID), at: International Discussion of the Donors' Finance Working Group on "The SME-Financing Gap and New Financial Products for SME in Developing Countries and Eastern Europe", October 2000, Vienna

Schmidt, Reinhard H., Zeitinger, Claus-Peter: „Micro-finance Banks: Building New Institutions instead of Remodelling Existing Ones" at: International Discussion of the Donors' Finance Working Group on "The SME-Financing Gap and New Financial Products for SME in Developing Countries and Eastern Europe", October 2000, Vienna

Stanton, David: "Joining up Donors' Approaches to Small and Medium Enterprise Development (Draft Discussion Document for the Donors Meeting)", September 2001, DFID London

Wallace, Liz: “Agenda the SME Financing Gap and New Financial Products for SME in Developing Countries and Eastern Europe” (EBRD) at: International Discussion of the Donors’ Finance Working Group on “The SME-Financing Gap and New Financial Products for SME in Developing Countries and Eastern Europe”, October 2000, Vienna

Wendel, Charles B.: “Frontier Products and Services in SME Finance” at: World Bank Conference on “New Technologies for Small and Medium Sized Enterprise Finance”, December 4 – 6, 2002, Washington DC