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INTERNATIONAL WORKSHOP ON COMMERCIAL BANK LENDING FOR SMALL ENTERPRISES AND OPERATION OF CREDIT GUARANTEE SCHEMES

London Business School
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July 15 - 17, 1986

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Financial Development Division
WORLD BANK
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SUMMARY RECORD OF INTERNATIONAL WORKSHOP ON COMMERCIAL BANK LENDING FOR SMALL ENTERPRISES AND OPERATION OF CREDIT GUARANTEE SCHEMES

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The International Workshop on Commercial Bank Lending for Small Enterprises and Operation of Credit Guarantee Scheme took place at the London Business School, London, July 15-17, 1986, cosponsored by the World Bank and the Overseas Development Administration (ODA) of the UK. In addition the meeting was supported financially by development assistance agencies from Canada, Germany, Japan, Netherlands, Norway, Sweden, Switzerland, USA as well as by the I.L.O and the Inter-American Development Bank.

Participants included twenty four persons from twenty different developing countries--Argentina, Bangladesh, Colombia, Cyprus, Egypt, India, Indonesia, Jamaica, Kenya, Liberia, Malaysia, Mexico, Nepal, Pakistan, Portugal, Sri Lanka, Tanzania, Thailand, Turkey, and Uganda.

The development assistance agencies were represented by thirty-two persons from Canada (CIDA), Germany (BMZ, GTZ, KFW, DEG), Japan (Ex-Im Bank), Netherlands (Development Ministry, FMO, RVB), Norway (NORAD), Switzerland (SDC), UK (ODA, ITDG), USA (US AID). There were also representatives present from the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, the European Investment Bank and the World Bank. In addition there were 11 observers from UK organizations.

Morning Session, July 15, 1986

The meeting was opened by Mr. Jacob Levitsky, Advisor to the World Bank who welcomed the participants and explained the objectives of the meeting, namely to exchange experience of developing and developed countries on involvement of commercial banks in lending to small enterprises and the operation of credit guarantee schemes. The aim was to feed back this experience to donor agencies so that they could plan their assistance for small enterprise development. Mr. Levitsky pointed out that World Bank had been responsible for organizing the meeting with ODA acting as host. He added that the meeting was also supported financially by virtually all the donor agencies.

He then introduced the two key speakers for the opening session, Mr. Millard Long, Chief, Financial Development Division of the World Bank, and Mr. Jose Silva Lopez, an economic advisor to the Caixe Geral in Lisbon, Portugal and a former Minister of Finance and Governor of the Central Bank of Portugal.

Mr. Long pointed out that the cost to a commercial bank of making a loan included administrative costs, costs of obtaining information on applicants, and costs due to the default of borrowers. Most of these costs fell on a unit basis as the loan size increased. He then presented a curve in which he maintained that the profit per unit loan fell as the size of the loan became smaller until there was a certain point at which such loans were not profitable.

Governments intervene to encourage banks to lend to small firms, the speaker maintained, for both social and economic reasons. From an economic point of view it was contended that small firms had a higher rate of return on investment than large firms and that they were able to create jobs cheaper. Thus with better access to finance small firms would make a better contribution to growth.

In the industrialized countries, such as the US, small risky firms were funded primarily by venture capitalists, not by loans from commercial banks. A venture capitalist using equity could make high returns from a few winners thus compensating for a larger number of losers, but a commercial bank would only get loan repayments even from very successful firms.

Such venture capital funding was usually not available in most developing countries so that the smaller risky firms, had difficulty in obtaining financing. Most frequently governments intervened to support the financing of small firms through special programs. Credit guarantee schemes could help by reducing some costs but they might increase others. In Mr. Long's view a credit guarantee scheme that would be attractive to banks would of necessity lose money as fees charged would not cover the losses incurred let alone the administrative costs. If banks had enough small loans they could in fact self insure so that the only inducement to a bank to use a credit guarantee scheme is if the fee charged is less than the expected losses.

The start up stage of such firms is the most risky as it was in this phase that many firms failed. Mr. Long thought that the most interesting phase was during the expansion of the firm, when the need for capital is substantial, more than can be raised from family or friends or from retained earnings. If schemes aim to further economic growth rather than social welfare then this was the stage in the business life cycle which should be supported.

The speaker than suggested that if the objective was social, then the credit guarantee program would have to finance new firms with little equity of their own and limited management experience. If the focus was on promoting growth then assistance should be mainly for expanding firms with more experienced management.

Summing up Mr. Long held out that the economic arguments for all credit schemes for small enterprises was to promote growth and was based on an imperfect financial market, namely in the absence in many developing countries of sources of equity financing. If the objective is the promotion of economic growth, credit guarantees should be seen in the view of the speaker as a short term substitute for a more lasting solution of building a proper equity market.

The next speaker was Mr. Jose Silva Lopez of the Caixe Geral, Lisbon, Portugal who spoke on selective credit policies in relation to commercial banks. Mr. Lopez contended that selective credit policies existed in all countries both developed and developing although at differing levels. Even the US had a whole range of selective credits. In some industrialized countries, notably France there is now a tendency to reduce the use of selective credits. Mr. Lopez pointed out that the World Bank itself was a prime example of an institution concentrating its activities on selective credits.

The basic economic justification for the wide use of selective credits in developing countries was to compensate for the differences between the private costs of banks and enterprises and the social costs from a national point of view. Selective credits were usually aimed at performing a "public good" because of the social effects and this was particularly so in the case of credit policies applied to small industries. Such programs were usually intended to offset the unequal competition with large enterprises for limited financial resources.

Problems arose from selective credit policies at two levels. First, it was not sure that they produce the desired reallocation of resources and second, even if the financial flows were redistributed that does not mean they produce the intended effects in the economy. It had been shown that borrowers often got low cost credits for preferred operations but used their own funds for non-selective purposes. Mostly this was not illegal but there were also many examples of fraud and corruption.

Mr. Lopez emphasized that the use of selective credits involved high administrative costs in the operation of special programs, a loss of control of the money supply, distortions such as encouraging capital intensive investments, and stimulating over-borrowing. There was a formidable array of possible instruments in selective credits such as portfolio requirements, rediscounting preferences, total or partial exemptions from credit ceilings, differential reserve requirements, guidelines for credit allocation, interest rate control, interest rate subsidies, control over credit terms, operation of specialized financial institutions, credit guarantees by governments, exchange rate schemes and so on. Some of the instruments are interlinked.

Portfolio constraints, Mr. Lopez explained, required financial institutions to place a minimum percentage of their assets in certain types of credits and so limit the freedom of commercial banks to choose credit operations considered less risky or more profitable. As an example of the problems created by excessive recourse to instruments of this type, Mr. Lopez referred to a country where because of controls of the Central Bank, commercial banks were in reality able to decide freely only on about 10 percent of their credits.

The adverse effects of interest rate controls were well known. Banks tried all ways to avoid the effects of these controls or ceilings through special commissions or by insisting on compensatory balances in deposit accounts.

Interest rate subsidies, in the view of the speaker, when operated explicitly, were preferable to other methods of control because they interfered less with the operation of market forces and if their costs were explicit they could be more easily controlled. Interest rate subsidies, granted either to borrowers or to financial intermediaries, can be financed from the budget, by the central bank, or by surcharges levied on other banking operations. Since most countries have budgetary problems, interest rate subsidies borne by the government are not frequent. Most subsidies granted by the Central Bank are based on preferential rediscount rates. Mr. Lopez preferred the use of "interest rate subsidization funds" which collected surcharges levied on banking operations and paid out the subsidies.

In countries with high levels of inflation where there was a need to keep raising nominal interest rates or where the exchange rate depreciated substantially, subsidies to medium and long term credits tend to be high. In such countries all terms loans should have floating interest rates and if they are subsidized care should be taken that the margin of subsidization is fixed.

Discussing the role of specialized financial institutions created in various countries for agricultural credits, credits to small enterprises, housing credits, export credits, etc., Mr. Lopez thought these institutions have some merit because they were usually better informed than multi-purpose banks in dealing with specific categories of credits. On the other hand, specialized institutions have their risks more concentrated and their administrative costs are sometimes high because of the small scale of operations. In many countries the disadvantages outweigh the benefits of creating such specialized institutions. In recent years, such specialized institutions including development banks, agricultural credit institutions and so on, have suffered from a high incidence of non-performing loans, having been the victim of foreign exchange movements and inadequate interest rates. On government guarantees, Mr. Lopez thought that the guarantee schemes can be effective as instruments of selective credit policy but if the guaranteed portion approaches 100 percent there are serious risks of wastage.

In conclusion, Mr. Lopez gave his view that the use of selective credit policies can be justified only where there was a significant diversion between private and social rates of return and where this can better be corrected by preferential credits than by other measures. Such credits had created distortions and fragmentation of the financial system. Selective credits when used, should preferably be limited to a few sectors and instruments should be used in which the financial costs are explicit, and where the margins of subsidization are moderate.

<u>Discussion</u>

In the comments that followed the opinion was expressed that there was no alternative to selective or directed credits to help small enterprises since when market forces are allowed to operate without intervention, these units could not obtain access to finance. There was agreement with Mr. Lopez's contention that selective credits produce distortions and some participants wondered if there were ways of limiting these distortions. One participant questioned whether mandating commercial banks to lend to small enterprises could not be controlled to reduce its negative effects.

As regards the risks involved in lending to small enterprises some participants thought that this had been exaggerated by Mr. Long and that perhaps the perceived risks were higher than the reality. There were many examples of successful programs of commercial bank lending to small enterprises with comparatively low default rates.

The next speaker was Mr. Klaus May of the German Saving Banks Association, who reviewed the German experience in the role of savings banks in small enterprise lending. Saving banks in Germany play a major role in promoting savings and provide both personal mortgage loans, and loans for investment. Small enterprise lending was a major part of the saving banks credit programs. The bigger banks in Germany, Mr. Klaus commented, used their funds primarily to finance their large customers' while the saving banks tried to lend to as many borrowers as possible and thereby help the small business community.

The saving banks in the Federal Republic of Germany now have a portfolio of DM 767.5 billion which represented 38.7 percent of the total credit market. This figure includes roughly DM 97 billion of loans to small and medium scale businesses, i.e., just under 30 percent of the savings banks total lending. Its lendings to the craft sector amounted to DM 50 billion with a market share of 57.2 percent. Savings banks in Germany could pride themselves on a long tradition of lending to small businesses.

Mr. May noted that the equity resources of small- and medium-sized business in Germany had fallen to under 20 percent of their total business assets which made modernization and expansion difficult. Soon after World War II, credit guarantee associations were founded supported by the state and the federal Governments. Most of the credit guarantee associations which help to provide security for lending to small enterprises operate for one industry only. To date the CGA has been responsible for guaranteeing over DM 8 billion of loans to 87,000 borrowers.

Mr. May went on to describe the activities of the saving bank he manages in the city of Ludwigshafen with 160,000 inhabitants. This bank has twenty four branches, employs over 500 people and its balance sheet is in excess of DM 1.5 billions. Mr. May stated that his saving bank had a portfolio of loans equivalent to DM 900 million at the end of 1985 of which DM 346 million, (38 percent) was for small enterprise lending. Part of the reason, in his view, for the success of his bank in lending to this sector was the close relations it maintains with small businesses.

This close relationship of the bank with its clientele made it easier to handle credits. The bank examines the balance sheet and operating data of all loan applicants and tries to advise its customers on further investments. In some cases, such advice has made customers reduce the amount of credit requested and in some cases resulted in withdrawal of loan applications. In assessing credit applications the savings banks worked closely with experts, with chambers of commerce and with associations. After establishing that the debt can be serviced, if the security furnished by the borrower is insufficient then the credit guarantee associations are asked for help. In most cases the interest charged on loan to small enterprises was at the lower end of the range of offered by the competitors despite higher administrative costs.

Mr. May went on to describe some contacts he had made in developing countries, referring to visits to the Middle East and in Asia. He believed that the saving bank concept was applicable in these countries in helping provide small loans to craftsmen and small enterprises. He referred to the first success scored in the setting up of a Municipal Savings Bank in Peru. In a few years he hoped there would be more results from other projects now being undertaken.

Afternoon Session, July 15

After lunch the meeting was addressed by the Right Honorable Timothy Raison, M.P, UK Minister for Overseas Development who was introduced by Mr. Jon Wilmshurst of ODA. After expressing his pleasure at having this opportunity of welcoming to London so many representatives of organizations concerned with the promotion of small scale enterprises, the Minister stressed the great interest that the British Government had at this time in fostering small scale enterprises.

There had been a change in the attitude in Britain to small enterprises. Some decades ago large businesses were seen as the most promising ground for the generation of wealth and employment but now more emphasis was being put on the 1.4 million small firms in Britain that accounted for 96 percent of all businesses and which employed 25 percent of the total work force. The UK Government was now designing policies to provide incentives for those starting businesses. Between 1980-84 130,000 more small firms started up than went out of business, and in 1984 the surplus of firms set up was 36,000, double the 1980 figure.

Mr. Raison went on to describe two major programs that the UK Government had launched to foster small enterprises. The first was the Loan Guarantee Scheme, introduced in 1981 in response to the evidence that many viable small business propositions could not attract adequate loan finance. The Scheme, which had recently been extended for three more years offers a Government guarantee of 70 percent on loans made by financial institutions to small businesses. A premium of 2.5 percent is payable in addition to normal interest charges.

To date, over 16,500 guarantees have been issued in respect of £530 million in bank loans, an average of £32,000 per loan. There is much evidence, the Minister went on, that many of the businesses that had benefitted from the guarantees would probably not have been started in the absence of the Loan Guarantee Scheme.

The second scheme mentioned by the speaker was the Business Expansion Scheme designed to stimulate the flow of risk capital to small companies by providing generous tax relief to individuals who consider investing in unquoted companies. In the first year of the Scheme's existence, some 715 companies raised £105 million (about £150,000 per company) and the Scheme is playing an useful part in providing equity capital to small companies with good growth prospects.

In addition to the two measures described, the Government is providing a network of information and expert advice through its own offices and through local enterprise agencies. The British Government is also looking at the burden of regulations on the small business sector to see where these can be reduced.

Turning to British Aid Policy, Mr. Raison believed that the aid would be most effective if the economic environment in which it operates is conducive to economic development and this meant addressing the key elements of the broad policy framework and issues such as pricing, exchange rate policy, credit allocation, import controls, interest rates, and so on.

While the major thrust of the British Aid program over the years has been in providing infrastructure, each year the British Government spent about £43 million on training personnel both in Britain and overseas. Like other donors the British Aid program has provided financial assistance to development finance institutions in countries such as Kenya, Pakistan and India. The Commonwealth Development (CDC) which receives financial support from the ODA provides finance to development finance institutions and also promotes private enterprise in other ways. Another form of direct assistance to small enterprises is the activities of the Intermediate Technology Development Group (IGDG).

In summing up, the Minister recognized that the ODA had not been as active as some other donors in providing direct aid to small enterprises in developing countries and he felt that there was room to do more. It seemed that an idea worth exploring in developing countries was how British experience of relying on commercial banks and the development of the Loan Guarantee Scheme could be utilized. He would very much like ODA to see if it was feasible to use aid for this purpose. Mr. Raison concluded by saying that the workshop held a real interest for him and he looked forward to hearing of the experience of other countries with credit guarantee schemes. He was quite sure that the commercial banks with their network of branches and their business experience and trained staff could be put to excellent use in promoting small enterprise development. He hoped that the workshop would assist in an exchange of ideas and experience and that useful initiatives would emerge.

The next speaker, was Mr. Alan Doran of the Economists Advisory Group UK, who reported on a recently completed study commissioned by the UK National Economic Development Office (NEDO), with the cooperation of ten banks in the UK, to study the financing of small companies.

The widely held view of banks in Britain was that competitive interest charges on a well spread portfolio of unsecured or partially secured loans whose borrowers were giving their maximum commitment to the projects financial would not compensate for bad debts and that full security was necessary. This view was used to justify requiring all small business borrowers to provide security for loans from personal assets where there were insufficient business assets available.

In the UK the traditional view of the leading banks on the risk reward function as related to financing small business, is that there were basically two extreme points, one was fully secured lending and the other was equity investment. There was little understanding of the territory between these two extremes.

Mr. Doran went on to describe the experience of the Loan Guarantee Scheme (LGS) introduced in U.K. in 1981. The LGS had had a high failure rate during 1981-84 and so had served only to strengthen the entrenched position of UK bankers. The two most serious misconceptions on the LGS was that the high failure rate, amounting in the first two years of the scheme to close to 30 percent of borrowers and giving a net cost to the scheme of about three times the income from the guarantee premium of three percent, proved that relaxing security requirements was a mistake. The second misconception was that guaranteed loans were a substitute for equity.

One of the biggest mistakes of the LGS was that, uniquely among guarantee schemes, personal guarantees were not taken by the lender or the guarantor. Thus businessmen were able to "walk away" when things got tough. The second misconception was that in some start up situations gearing ratios were allowed to exceed prudent limits.

One of the purposes of the NEDO study was to examine what actually occured in an encounter between the small businessman and the banker. In general it was difficult to change the traditional outlook of U.K. bank managers even though efforts are being made to educate bank managers at courses. Banks have moved a little in the direction of assessing businesses from the point of view of profit potentiality rather than simply from "risk averseness".

In the UK there was a low level of financial management in small businesses producing a low standard of loan applications and poor information for monitoring and control. In Mr. Doran's view the UK was unusual among developed economies in the low level of professionalism in the small firms sector.

Another major constraint in the UK is the gap in the availability of equity in small amounts, say, below £100,000. Because equity was not available inappropriate financial structures were used for small business funding and credit was substituted for equity.

The speaker then suggested that the appraisal process could be reduced to four criteria. These were: the perception of the business plan as either satisfactory or unsatisfactory; the perception that the persons involved were able or unable to carry through the plan; the appropriateness of the financial structure and the availability of security. Most small business plans used a time horizon of 12 months in preparing cash flow forcasts and this resulted in over-optimistic growth projections. A longer time horizon might produce better projections.

The presentation of business plans was poor. Some bank rejected applications because the marketing aspects of the plan were unconvincing as accountants who usually prepared the plan were generally weak in marketing. Unsatisfactory business plans were sometimes accepted because they were well presented with professional looking documents and more usually because they were backed by security.

In Mr. Doran's view, in appraising a project as to whether the principals would be able to carry out the business plan particular attention, should be paid to previous performance. One bank now credit scores all applicants for business loans of less than £20,000.

Some proposals were rejected because the debt equity ratio was too high. There is need for commitment on the part of the borrower and the need to provide the business with sufficient non interest bearing capital. In practice equity acts as a loss buffer and a means of reducing average financial costs.

Finally, the non-availability of security is the reason for most rejections of loan applications even though good banking looks at this last. The NEDO study revealed, that it was claimed that about 20 percent of new National Westminster Bank business development loans were unsecured. Most banks at both branch and regional level claim with some justification that the potential rewards from unsecured lending margins would be completely insufficient to compensate for the losses incurred because the banks have not demanded the borrower's full commitment. The speaker noted that most UK branch bank managers have only the vaguest of guidelines to assess correctly how to charge for unsecured loans. The unsecured loans by National Westminster Bank, for example, carry an interest rate premium of just one percent. It would be comforting to infer that this differential is the real cost of not taking security.

Mr. Doran's concluding remarks referred to the findings of the NEDO study on the subject of loan monitoring. Actual losses in small business lending in the UK over the last few years have not been particularly bad but have been highlighted by the LGS experience. Banks have reacted more in improving loan monitoring activities than their appraisal practices. The problem seems to lie in accepting loans that should have been rejected and that goes back to the appraisal stage rather than increasing loan monitoring. Loan monitoring now depends more on customer generated information and is moving away from reliance by banks on account scrutiny. As businesses improve their management information systems they also become better customers for the bank.

Mr. Doran stressed that the relationship between a bank and a small business is between a large powerful organization and a small weak one but the banks also depend on the small firms sector as a source of customers. Research shows that firms do not change their banks for a marginal gain in the cost of borrowing but rather when they perceive that the financial services offered is superior.

Mr. Doran observed that for small business lending in the UK branch network geography is fast becoming an irrelevance. Where the bank is located matters less than the type of service they are able to offer. Some banks are recognizing this and are becoming suppliers of small firm financial services including equity and consultancy. Others will continue to supply only low margin short term money, fully secured in high volume without trying to understand the business of their borrowers. In any event, Mr. Doran concluded, the next 10 years will see a good deal more experimentation and changes in the UK as regards small firm banking.

Mr. M. F. De Jong, Head of the Small Enterprise Development Department of the FMO, Netherlands Development Finance Company, then presented a paper describing the years preceding the establishment of the Netherlands Bank for Small and Medium Business (NMB). Mr. De Jong described the financial sector in Holland in 1900 as consisting of four large commercial banks, some local "confessional" banks for small and medium business either of catholic or protestant denomination, some credit unions, some philanthropical institutions and some private money lenders. After 1900, there was a wave of take-over of small banks by larger ones and then came World War I when business suffered from war conditions. In 1914 at the initiative of the then Minister of Agriculture, the small and medium enterprise banks came together and the ANCM Bank was legally established as an apex institution. It did not lend directly to entrepreneurs, and its purpose was mainly to bring some coordination among the participating banks and to provide funds for these banks. The government was not a shareholder but only guaranteed discounting facilities to the ANCM Bank and provided an annual subsidy.

By the end of 1915 fifty nine bank branches participated in the ANCM whose losses were covered by the Dutch government's annual subsidy. Two of the four Catholic bank groups were bigger and all of them were doing better than the ANCM. The slow development of ANCM was mainly due to not enough management time invested in banking activities, to low interest rates, and to an inefficient organization operating in an unfavorable economic climate.

In 1918 the ANCM was reorganized. Commercial interest rates were charged, and the ANCM began to provide credit directly to SME.

From 1919 onwards the "Centrale", that is the newly constituted ANCM, expanded under dynamic leadership. A number of banks gave up their independent operations and twelve banks had joined the "Centrale" by 1921 as against eight in 1915. In 1923 five more larger banks joined after running into difficulties. According to the records of the time the portfolio of "Centrale" was well distributed regionally and sectorially. The average loan size was low, and most medium term credit was to retail shops and to artisans.

The year 1923 was a year of disaster for the "Centrale". The equity base of four of the five larger banks taken over in 1923 was insufficient to cover their portfolio of bad debts and so the "Centrale" faced a dilemma: either it could guarantee the savings and deposit holders, thus taking a loss and avoiding a run on the bank, or risk a crisis of confidence in all the SME banks in the country. The "Centrale" decided to guarantee the creditors after the four banks were declared bankrupt. Bad debts amounted to 90 percent of the outstanding portfolio. All the reserves and profits up to 1923 totalling more than F 750,000 were used to write off bad debts but this did not settle the problem. The events led to the "Centrale" adopting a conservative credit policy cutting down loans carefully auditing all participating banks and making sure subscribers paid up on their subscriptions.

By the end of 1925 the "Centrale" was on the verge of bankruptcy. A new 28 year old chairman was appointed who made his acceptance of the appointment conditional on an increase in the guarantee of the government from F 1.5 million to F 11.5 million. The new team followed a cautious policy on loan approvals, made efforts to acquire new deposits, to improve the quality of the portfolio and started reorganizing the Head Office and branches to lower administrative costs. The associated banks claimed these measures decreased further the independence of the local banks.

In 1927, the government stated it was prepared to make further resources available only if all SME banks would join together. Then, the NMB was created bringing together the Centrale, the Protestant banking group and the SMB bank of Limburg, each for one third of the equity. The government gave subsidies to each of the three participants. The NMB was established as a Small and Medium Business bank and has remained so until this day although now its banking operations are much wider and it is the fourth largest bank in the Netherlands.

Summing up the lessons to be learned from the period 1914-1927, Mr. De Jong saw that the main conclusions as:

(1) individuals exerted a tremendous influence at each stage of the developments.

(2) there were interest groups that also played a significant role, sometimes positive, but in some cases also representing vested interests that had to be overcome.

(3) the role of the government was crucial and, in general, it can be said that in this period of Netherlands history, the role of the government was positive. The government acted when it was necessary for it to do so.

Finally the establishment of the NMB was characterized by activity both from the top down--since the first initiative for a unification came from the government--and also from the bottoms up since the basis for the NMB was laid by numerous small banks operating at the local level.

This history, was instructive but, does not lead to a definite conclusion or the type of organization most suitable to provide credit for SME. In the last twenty-five years or so the NMB has grown to a full commercial bank and now only to a limited extent specializes in SME financing. Due to the success of the NMB in the Netherlands together with the credit guarantee scheme in which the NMB for many years occupied a monopoly position, the other commercial banks have also become active in SME financing. This was partially a result of the government financed credit guarantee scheme no longer being a monopoly of the NMB.

One conclusion that can be drawn from the recent history of the Netherlands is that commercial banks can be effectively involved in SME financing. But this cannot be done without the active support--but not necessarily interference in operations--of the government.

The next speaker was Mr. J. H. Frimpong-Ansah of the Standard Chartered Bank. London, who reviewed some past experiences on commercial bank lending to local enterprises in Africa. Mr. Frimpong-Ansah gave his view that the historical development of commercial banking in Africa created banking structures which are too centralized to be suited to the needs of local small scale enterprises. A closer look at the expatriate and indigenous commercial banks of these countries does not indicate that these structures can easily be adapted to local needs. The speaker questioned whether there was any desire on the part of the expatriate commercial banks to modify their operations to suit the needs of the African economy. He questioned whether public policies have aided such attempts as have been made.

Reviewing the emergence of new indigenous commercial banks in the post independence period, Mr. Frimpong-Ansah maintained that most of these followed the pattern of expatriate banks which was not surprising since most of the expertise had in fact come from these institutions. It would have been unrealistic to expect that the lucrative urban banking business would be left in the hands of expatriate banks while indigenous banks would concentrate on the more difficult and less rewarding rural and subsistence economies. Such views were regarded as unpatriotic and the rural communities have never been able to constitute themselves into commercial or political groups strong enough to change public policy in this respect.

Mr Frimpong-Ansah then called for the development of small locally owned banks with operations limited to the town and village, and managed under technical arrangements with larger commercial banks or even with the central bank. Commercial banks might visit rural areas at regular intervals to take deposits and to offer other services. New banking structures should be created that emphasized these district banks and which placed more emphasis on domestic rather than international business. Such banks would focus on local financial needs and would try to retain resources in the district. He thought efforts should be made to develop specialized banks, at district or regional level to finance enterprises to link the urban and rural sectors.

On interest rates, the speaker argued that high nominal interest rates may not be a bad thing since there was evidence that arbitrarily low interest rates to agriculture act as a disincentive to the financial institutions since they do not reflect the real cost of such lending. There is also increasing evidence that cheap money does not encourage borrowing for development purposes.

In the view of the speaker, the commercial banks often allocate greater proportions of credits (when ceilings are imposed as has happened in several African countries) to their better customers to protect long established relations. Experience in Africa indicates that in situations of foreign exchange scarcity the large post independent state-owned commercial banks behaved similarly to expatriate banks with regard to local small scale enterprises. Some large expatriate businesses even shifted their allegiance to large indigenous commercial banks in the hope of obtaining larger amounts of foreign exchange which are sometimes allocated disproportionately to the larger state owned banks.

In the view of the speaker, exchange restrictions and the growth of informal markets are not always to the disadvantage of small scale enterprises as SSE are able to transact most of their business in the more competitive parallel markets. But a principal factor that fuels the growth of informal markets in Africa, namely the concealment of illicit transactions, impedes the development of proper relations between local entrepreneurs and the banks. Local entrepreneurs cannot channel these informal transactions through bank accounts as they aim to avoid taxation and the declaration of such transactions would itself be illegal. For the same reason commercial banks some countries where informal markets have flourished and, where governments have tried to undermine the confidentiality of bank customer relations, have experienced at times shortages of liquidity as local currencies have been held mainly outside the banking system.

The expatriate banks also recognize that the banking structures are unsuited to the needs of local enterprise, but they maintain that they cannot be changed in view of the international character of these banks. Past efforts by the expatriate banks, to lend to local enterprises have encountered serious problems of supervision, and they have ended up with a load of bad debts even though there were few bankruptcies. After this experience the banks' involvement with indigenous business has been very selective. There is a general view among expatriate bankers in Africa that most local enterprises do not distinguish bank loans from the capital needed for the business nor do they differentiate properly between personal affairs and their businesses. In general, expatriate banks believe that the majority of local enterprises are too small and their financial needs are not commercially viable.

Most indigenous banks, especially state owned banks, have numerous bad debts in their portfolios of loans made to local enterprises. The number of these may have dropped in recent years possibly because indigenous bank management may be maturing in their lending experience or local businesses may be better managed, or possibly political pressures are diminishing. When governments attempt to limit indigenous bank lending to local enterprises, these banks feel that they cannot expect to be profitable without a better mix of customers and therefore press to be allowed to lend also to non-indigenous enterprises. It is true, however, that the indigenous banks are more suited to dealing with local enterprises, socially and culturally.

The speaker mentioned some criticisms of local entrepreneurs of expatriate banks. They contended that branch managers discussed loans in a manner unrelated to the present day needs of African business. An example of this is the form of security demanded by banks, usually limited to real estate. Entrepreneurs prefer personal guarantees which are less cumbersome and do not tie up liquid capital.

Some indigenous enterpreneurs have complained to me, said Mr. Frimpong-Ansah that their credit facilities were often cancelled suddenly and arbitrarily, without any justifiable reason. Most local African entrepreneurs seem satisfied with the working relations that have developed with indigenous banks both public and private. They admit that some "expatriate attitudes" have developed in some indigenous banks, but the more mature enterprises recognize that these are moves towards greater efficiency. Not unexpectedly, some larger local enterprises have the same complaints against the indigenous banks as against the expatriate banks. They would like quicker decisions and a better understanding of their problems.

The general conclusion of the speaker was that the most suitable commercial banking institutions for small scale local enterprises would be smaller independent rural and district banks which operate in the same environment as the local enterprises.

The final speaker of the first day was Mr. D. J. Kanvinde, Head of the Economic Research Department of the State Bank of India, who described the experience of his bank in providing finance for small industry development. Mr. Kanvinde described the growth of small scale industries in India, reviewed the various large government support programs and referred to the creation of the Small Industry Development Organization headed by a Development Commissioner for Small Scale Industry in New Delhi. In addition, in India there were government regulations reserving certain items for the exclusive production of the small scale sector, (of which there were 873 items in 1984-85), special price preferences to favour the purchase of items from the small scale sector by the central government and by various public entities, and also the creation of sixteen subcontracting exchanges. He mentioned also the construction of over 600 industrial estates, mostly prior to 1980 and the setting up of District Industry Centers after 1978.

Turning to the role of the commercial banks, Mr. Kanvinde stated that scale the rationalization of the major commercial banks in 1969 helped overcome the reluctance of these banks to finance the priority sectors which as agruculture and small scale industries. The concept of priority sectors evolved in India to focus attention on the credit needs of neglected sectors of the economy, particularly in the rural areas.

Together with the mandatory stipulations on commercial bank leading to priority sectors, Mr. Kanvinde noted that the Reserve Bank of India also made available liberal re-finance facilities to the banks for this type of loans. Another stimulant was the creation of the credit guarantee scheme, which provided in its early form, guarantee cover of 90 percent on the loans up to Rs 25,000. The Industrial Development Bank of India also refinanced loans granted by commercial banks and state finance corporations to small scale industries.

By March 1985 the target in respect of lending to priority sectors was raised to 40 percent of aggregate bank advances. Within this overall target 40 percent was set as the subtarget for the agricultural sector and 12.5 percent for small scale industries. In practice by the end of March 1985, the public sector banks had actually reached 41.3 percent for priority sector lending. The number of accounts in respect of small scale industries assisted by commercial banks increased from 73,987 for a total of R2.51 billion, in June 1965 to 1.2 million accounts for a total of R 53.9 billion at the end of December 1983.

Mr. Kanvinde explained that the State Bank had to change former more conservative traditions to assume greater risks in granting term loans, to provide venture capital by setting up an equity fund, and to charge a lower rate of interest despite higher risks involved. It also now provides technical and managerial consultancy and helps promote entrepreneurial development. No loan applicant with a viable project is now denied credit for lack of collateral.

In 1967, a scheme was launched to provide up to 100 percent of financing of projects to quality entrepreneurs which covered people with technical qualifications, experience and skills with management qualifications such as accountants. The State Bank of India has also conducted studies on the causes of "sickness" in small scale industries, which revealed the need for more consultancy assistance. The State Bank's experience with small industry financing showed that a large number of small scale units suffer because their initial equity is too low. In 1975 the State Bank recommended to the government the creation of a "national equity fund" for new small sale industries, and in 1978 it set up its own equity fund from its profits with an initial capital of R 10 million. Assistance under the scheme is given to new units through interest free loans ranging from R 5,000 to R 50,000 to meet shortfalls in equity.

Mr. Kanvinde acknowledged that the large expansion of lending to small scale industries which has taken place has led to some problems within these industries such as the underutilization of installed capacity and inadequate market demand. The State Bank has tried to develop systems which detect early symptoms of problems so that corrective action can be taken.

Undoubtedly this new development role of the State Bank of India has cut into its profits. It began to regard the success of the units it financed as the only real security to ensure loan repayment. Mr. Kanvinde acknowledged that the State Bank of India, together with the other commercial banks charged a concessionary rate of interest to small scale industries, as compared to those charged to large industries, even though it recognized that the administrative costs and the risk element involved in small industries lending was significantly higher. Funds are still being lent to artisans and rural craftsmen at 4 percent per annum.

The State Bank conducts studies to determine the cost of the difference types of business in which it is engaged. The data available for 1984 indicate that the "profitability" of financing small scale units was negative, at 0.73 percent, with an average interest yield at 12.12 percent, servicing costs at 2.79 percent and cost of funds (i.e. interest on deposits and borrowings and also the servicing costs) at 10.06 percent. While the average cost of deposits has risen from 3.76 percent in 1976 to 6.74 percent in 1984, the interest on loans to small enterprises has risen only marginally over the period from 11.73 percent (1976) to 12.12 percent

(1984). One positive feature has been that the average size of loans has increased so that the cost of handling each loan to small enterprises has fallen. Between 1976-84 the cost of handling loan accounts to small enterprises declined from 4.67 percent to 2.79 percent.

Mr. Kanvinde acknowledged that the number of non-performing accounts in the small scale industry portfolio was rising. At the end of 1984, the banking system as a whole was concerned with over 92,000 such accounts for a total of R 8.79 billions. Out of these 6,242 were considered as potentially viable, and 2,208 of these units were placed under a "nursing program" for rehabilitation. The State Bank of India has also suffered from this trend and at the end of 1982 had 52,473 units not servicing their loans, involving R 3,397 billions. These units constitute about 11 percent of SSI units financed by the State Bank and 19.6 percent of the credit for this sector.

Mr. Kanvinde concluded by raising some of the issues faced by the commercial banks in India. The commercial banks have been able to cross-subsidize the priority sectors such as small scale industries because of the substantial profits made on other loans. The development role played by the State Bank of India has been financed out of profits made on large loans, foreign exchange business and overseas operations. Mr. Kanvinde acknowledged that it was more feasible to cross-subsidize in this way when the commercial banks are owned by the government. Indirectly this is a government subsidy, since the profits which will ultimately go to the treasury of the country is correspondingly reduced. It is the experience of the banking sector in India that the banks can play a promotional role more effectively than the government. In Mr. Kanvinde view, there was nothing wrong in principle if public sector banks supplemented the services provided by government agencies in this way.

Of course, the increasing costs of this development role and subsidization should not be used as a cover for inefficiency. The State Bank of India is continuously studying the cost and benefits of the various services it offers to small scale enterprises. It is the perception of the State Bank Mr. Kanvinde concluded, that it has, over the years, made a significant contribution to meeting the financial needs of the small scale sector in India which it regards as a vital segment of the economy.

Discussion

In the ensuing questions and discussions, various participants spoke favorably of Mr. Frimpong-Ansah proposal to foster the development of local and regional banks and agreed that these might better be able to serve the needs of local small scale industry. Some questions were raised as to whether the costly Indian program with its heavy emphasis on subsidies might not have detrimental effects on the development of other sectors of the economy such as larger industries. Mr. Kanvinde felt that it was Indian policy to support the weaker sectors of the economy and believed that this was a social as well as an economic need. Other participants raised the question of social objectives as against purely economic or financial aims, and felt that the Indian experience had decided heavily in favor of supporting social objectives.

Morning Session, Wednesday, July 16, 1986

The morning session was devoted to special issues in commercial bank lending as based on the experience of anumber of programs in developing countries. Mr. M. Farbman of USAID was in the chair.

The first speaker was Mr. Sergio Luis Cano, the director of FOGAIN in Mexico who described the two tier lending program operated by his organization. FOGAIN--the guarantee and development fund for small and medium enterprises--was set up by the government of Mexico within National Financiera, (the main development bank of the country) in 1952. As a second tier institution 97 percent of its operations consist of refinancing loans made to small and medium scale enterprises in 5,500 branches of more than thirty commercial banks. FOGAIN also refinances loans made by 65 industrial credit unions that lend mainly to very small/micro enterprises. The lending institutions take the risk and are required to repay the loans whether or not they receive payment from the borrowers.

In Mexico, a micro enterprise is defined as one which employs up to 15 workers, and in 1985 had sales of not more than US$84,000 equivalent; a small enterprise is one employing from 15 to 100 persons with annual sales not greater than US$1 million equivalent; a medium enterprise is one which employs up to 250 persons with annual sales not more than US$3 million equivalent. FOGAIN refinances credits made both for working capital and for the purchase of new equipment or for the construction of buildings. More recently, FOGAIN has initiated a program for rediscounting purchase orders put out by large public sector entities ordering products from small and medium enterprises. The operations are as follows: when a small scale borrower reaches agreement with his banker as to the amount and terms of credit, the institution requests that it be rediscounted by FOGAIN. FOGAIN remits the approved funds within an average period of 15 working days. FOGAIN then has a two month period in which to decide whether the rediscounts requested fits the regulations. The system is different in credit unions since they do not have accounts at the central bank as do the commercial banks. When an industrialist seeks a rediscounted credit through a credit union, it has to await FOGAIN's approval before he can receive the funds.

Mr. Cano pointed out that following the general policy of the government of Mexico, FOGAIN gave preference to the smallest micro industries and charged them interest rates at 85 percent of the ACF level, (ACF is an index of the average costs of borrowed funds to the bank as calculated by the central bank on a monthly basis). Small enterprises were charged 95 percent of ACF and the medium industries pay the ACF interest rate if they were borrowing for what was recognized as priority activities. However, the rate went up to ACF + 5 points when the loan was to non priority medium sized industries. The rates charged do not allow for any further commissions, compensatory accounts or other special charges above the interest paid. Mr. Cano explained that the lending banks are allowed spreads on FOGAIN funds in inverse relation to the size of borrowers, that is 5 points for credits to micro enterprises, four for small, and three and two for priority and non priority medium sized loans. According to the recent limits, micro enterprises may obtain credits up to the equivalent in Mexican currency of US$100,000, small enterprises up to US$593,000 equivalent, and medium up to a little more than the equivalent of US$1 million. Following government policy, FOGAIN aims to support industrial decentralization thus granting credits for working capital to those in the highly congested metropolitan areas of Mexico city and the other large urban centers only when they are developing priority activities. FOGAIN allows commercial banks to authorize and execute financing without prior approval up to US$31,000, for micro enterprises, US$105,000 for small, and US$210,000 for medium sized enterprises.

Mr. Cano then explained that as most micro enterprises in Mexico cannot provide adequate collateral the state governments have set up guarantee funds to guarantee loans for micro enterprises from commercial banks so that they too can have access to FOGAIN's resources. Currently there are 22 such state guarantee funds which guarantee 80 percent of the credit requested.

It is FOGAIN's aim, Mr. Cano concluded, to become self supporting. Repayments now amount to four-fifths of the total resources of the institution. The remainder is from government contributions, loans from the central bank, from Nacional Financera, from the Inter-American Development Bank and the World Bank. FOGAIN's administrative costs account for 1.75 percent of the portfolio.

The next presentation was that of Mr. Ahmed Ertugrul, the General Manager of the Turkiye Halk Bankasi (THB) in Ankara, Turkey. Mr. Ertugrul stated that eligibility for credits granted by his bank, was limited to small establishments employing up to 50 workers for investments in machinery valued at less than TL 120 million (about US$250,000 at present exchange rates). Turkey was a country in which small and medium scale enterprise played a very important role in the economic structure. According to the statistics of 1980, out of 185,000 industrial establishments, 178,000 were small industries, and their total employment were more than 1.5 million. The speaker explained that apart from usual banking transactions, THB granted credit to tradesmen, craftsmen, small and medium scale industrialists, cooperatives, and professional institutions, for both investment and for working capital. At present, THB has a nominal capital of TL 30 billion (about US$60 million), 635 branches and 13,067 employees. It is the second largest public bank in Turkey.

Mr. Ertugrul explained that without THB there was almost no financing by commercial banks of this sector in Turkey. The THB granted credits in three groups: cooperative credits, credits to small industry and credits and for induscrial estates. Cooperative credits were granted to tradesmen and craftsmen under the guarantee of their cooperatives at interest rates of 30-35 percent short term and long term loans respectively. This interest rate was substantially below prevailing commercial rates. For cooperative credits the borrower's ownership of his business, his skill and his experience were accepted as proof of his creditworthiness with the cooperative providing the necessary guarantee. Other securities were not requested by the Bank. In 1985, THB gave credits to 769 cooperatives which covered 512,575 craftsmen/tradesmen.

THB also granted medium and long term investment credits and loans for working capital to SME at interest rates considerably lower than prevailing market rates. The maturity of investment credit for small industries was three to six years and for working capital, usually around two years.

The third type of credit given by THB were investment credits from funds allocated by the Ministry of Commerce and Industry to groups of SME for the construction of industrial estates to provide factory space for small enterprises. The maturity of this credit was 10-15 years and the credit was for 60 to 100 percent of the amount of the investment. THB had provided financial support to 197 small industry industrial estates up to the end of 1985. 51 such estates were completed in that year.

Recently in 1986, THB was the recipient of a $20 million loan approved by the World Bank.

Mr. Ertugrul pointed out that THB also tried to be of assistance in the provision of non-financial help such as advice in management and technology. Apart from THB's direct assistance, the government had created SIDO--Small Industry Development Organization which was setting up consultancy and technical services for small industry.

In conclusion, Mr. Ertugrul pointed out that as in most developing countries, THB credits were provided to SME at subsidized interest rates. At these subsidized interest rates, THB and other institutions offering such credit had to find cheap sources of funds outside the financial market where the cost of funds was too high to onlend at these rates. These funds were made available from central bank resources and from the government budget. As a result of the tight monetary policy followed by the Turkish Government, in the last years, such funds for small industry have been limited and this has created difficulties in finding enough resources to onlend to small scale enterprises.

Very small enterprises in Turkey have organized guarantee cooperatives to guarantee credits from THB. These cooperatives have established a guarantee fund at THB to reimburse the credit if it is not paid as scheduled. Unfortunately, medium scale enterprises in the country have not been able to create similar cooperatives and without such guarantees, banks require considerable collateral from clients before approving loans. Investment credits of small enterprises are met by THB to the extent of its resources at concessionary interest rates. In Mr. Ertugrul's view, most SMEs in Turkey are unwilling to take loans at normal commercial bank rates because they have become used to credits at concessionary rates. There is a task in Turkey to integrate SME within the commercial credit system and in the capital markets and to gradually wean them away from concessionary financing.

The next speaker was <u>Mr. L. Masaviru</u> of the Kenya Commercial Bank (KCB), who described the experience of this bank and the Kenya Commercial Finance Company (KCFC, a subsidiary of KCB) in lending programs to small and medium scale enterprises using overseas lines of credit. KCB, Mr. Masaviru explained, had the largest branch network in Kenya, with 59 branches, 45 sub-branches and 137 mobile centers, and offers full range of banking and financial services. This explains why KCB was chosen to administer the five lines of credit he was about to describe--two from the International Finance Corporation (IFC), two from OPEC and one from USAID. KCFC was incorporated in 1971, its main activities being to provide medium and long term loans for investment in property, in machinery and in leasing of vehicles.

The first IFC loan to KCB was implemented in 1977-78 for an amount of US$2 million which assisted 20 SME borrowers. The average loan size was US$234,000 equivalent. The second IFC loan in 1981 was for US$2.5 million with KCB again providing a similar amount in Kenyan shillings as matching funds as in the case of the first loan. 45 projects were assisted under this line. OPEC provided two lines of credit; in 1981, for $3 millions when 236 projects were financed and a second line of credit in 1985. In 1983, KCB/KCFC signed a loan agreement with USAID for US$2.5 million and KCB/KCFC contributed a similar amount. So far 95 projects have been financed under this last credit.

Mr. Masaviru went on to present some of the issues that had arisen in KCB/KCFC experience in handling these loans. Although KCFC agreed to the concept of matching funds it has found it difficult to mobilize the funds needed. Also, there was the problem of interest rates which are controlled in Kenya by the central bank so that non-banking financial institutions are allowed to charge up to 19 percent while the commercial banks are limited to a maximum of 14 percent. This resulted in non-banking institutions being able to offer higher interests on deposits and so attracting more funds. KCB/KCFC demanded a 25 percent equity contribution from the borrowers in financing a project and the external lenders expect KCFC to contribute a similar proportion of the total loan fund. KCFC's local currency contribution usually goes to meet the working capital requirements of the borrowers and in practice, the ratio of working capital to fixed asset expenditure in most projects more than 1:1.

Mr. Masaviru explained that taking into account the onlending rates of IFC and the USAID lines of credit, in order to cover administrative and supervisory costs, and to leave some profit margin, KCFC is now allowed to charge interest of 19 percent per annum which most borrowers find too high, believing that the funds made available to the Kenyan Government are at concessionary terms. It is KCFC's experience that projects have to be very viable to service a loan in Kenya at these interest rates. Incidentally, KCB still charges only 14 percent on its own loans. There is no doubt that the higher interest rates now being charged on the new credit lines, especially the USAID loan, has made it difficult to interest borrowers in these credits.

As regards the loan limits under the IFC line of credit after some revisions these range from Ksh 300,000 to Ksh 4 million. One of the problems faced by KCFC is that the different external lenders have various minimum and maximum amounts of loans to be onlent to the same segment of borrowers, which creates difficulties.

In all five lines of credit the foreign exchange risk is covered by the government without which it is unlikely that KCFC would have been able to participate. It should be noted that at the time of the negotiation of the first line of credit under IFC in 1977 the exchange rate was Ksh 7.2 per US$ while early 1986 it was Ksh 17.0.

Experience has shown that most applicants have problems in raising the required 25 percent equity contribution and KCFC has found that those who meet this requirement do not necessarily have more viable projects that those who are unable to do so. As in other developing countries most borrowers lack experience in making financial projections and in presenting acceptable feasibility studies. KCFC has found most of the reports, including those prepared by accountants and consultants, to be inadequate and has set up a Business Advisory Services division to help borrowers prepare their projects. There is a need in such programs for SME for external donors to incorporate technical and training grants of at least 10 percent, to help in entrepreneurial development.

KCFC has faced problems of diversion of funds which is a feature of the implementation of many such loan programs in the third world. As for collateral requirements, these are taken in the form of tangible assets, debentures, or individual guarantees, and if the business is connected to other firms, an additional guarantee by those firms. The most common acceptable security in Kenya are land title deeds. Since such titles have not been completed throughout the country, credit schemes have tended to favor those applicants from areas where such deeds have been completed and these are the same areas where other credit schemes already operate.

It cannot be denied, Mr. Masaviru said, that KCB, following practices of commercial banking has tended to make its lending security based rather than on the viability of the proposals. It is difficult for those trained in banks like KCB to change their philosophy of commercial banking more in keeping with that of development banking. Security requirements often have to be more than 100 percent of the value of the loans granted and this excessive security requirement undoubtedly impedes the financing of some very viable, technically feasible and economically desirable projects which could provide employment. The KCFC's feeling is that the credit risk really should be shared by the foreign lender, the government and the commercial banks to a greater extent so that security requirements can be relaxed.

Finally Mr. Masaviru stated that KCB/KCFC feels that fees charged by foreign lenders on uncommitted funds are in most cases unjustified since the delay in commitments are beyond the lender's control. Mr. Masaveru identified the major issues that need to be resolved as; the local banks contribution to the credit schemes, problems of collateral, disbursement procedures, orientation of the bank staff in processing loans, and the hedging against the foreign exchange risk. There is also a problem in training and orienting the borrowers. While the speaker was of the opinion that development banks are often a better alternative for financing SME, but because of their wide branch networks and close relationship with potential borrowers. commercial banks will and should continue to be vehicles for this type of lending. But the constraints identified must be given serious consideration.

Mr. T. Hadjichristodoulou of the Bank of Cyprus was the next speaker in presenting a paper entitle "Key issues in lending to small and medium sized businesses based on Cyprus experience". The Bank of Cyprus was the major commercial bank in Cyprus and and was making every effort to strengthen its cooperation with the small scale manufacturing sector. Credit officers were spending a great deal of time helping small businessmen to prepare the data and projections needed for making loan applications. In Cyprus firms tended to finance all their activities through bank overdrafts which should really be used to finance only short term working capital requirements. The misuse of bank overdrafts has led to liquidity problems and has negatively affected the growth of such firms.

It is the policy of the Bank of Cyprus, the speaker explained, that new industrial projects of doubtful financial viability should not be financed even if the sponsors offer full security. Also, although not a rigid rule, the bank generally insists on a reasonable equity contribution in each project, usually in the range of 30-40 percent of the total cost of the project. For riskier projects a higher equity contribution is expected. The bank also should be satisfied that there is satisfactory management at all levels crucial to the viability of the project since a common reason for failure among manufacturing concerns in Cyprus is a lack of managerial ability.

The speaker went on to point out that banks in Cyprus are often criticized for demanding too much security and for preferring clients known to them, thus discriminating against new entrepreneurs who are unable to provide security. Banks in Cyprus rely for security on personal guarantees, mortgages on properties belonging to the business or to its proprietors, fixed and floating charges on the assets of the concern, pledging of goods or shares of public companies, and government guarantees. Government guarantees were provided extensively in the period after the Turkish invasion of 1974 and played a significant role in reactivating the Cyprus economy. A guarantee scheme was introduced by the government in early 1975 which covered up to 75 percent of loans but during the last five years little use has been made of the government guarantees by the manufacturing sector save for short term banking facilities for exports.

In the last five years there has been a fall in investment in the manufacturing sector in Cyprus but there is no indication that this is due to lack of finance or to the conservative lending policies of the commercial banks. The commercial banks have every reason to finance projects in the manufacturing sector since this type of finance could be provided through the Special Fund for Financing Priority Projects operated under the Central Bank of Cyprus. A proportion of the minimum liquidity requirements the banks are asked to maintain with the Central Bank (presently 7 percent of their total deposits,) is deposited in this Special Fund, which is then loaned to the private sector for investments in priority sectors. If commercial banks do not use this fund, which can be used only for fixed investments, they have to keep a part of their assets in very low return deposits with the Central Bank. Despite this incentive the Fund remains underutilized. It is generally considered that the decline in investment is a result of lower profitability and labour costs which have been increasing faster that productivity, and because of more difficult market conditions. Some decline in manufacturing investment is the result of a lack of projects. Even in cases were new technology projects are identified, their capital investments are usually beyond the resources of the typical family concern. Joint ventures with foreign investors have been sought but so far few have developed.

The Bank of Cyprus is also collaborating with the Cyprus Development Bank (CDB) and the International Finance Corporation (IFC) in the creation of CISCO (Cyprus Investment Securities Corporation) to provide venture capital for small and medium sized businesses.

Mr. Hadjichristodoulou pointed out that since 1944 the maximum allowable interest rate in Cyprus was 9 percent. In light of the high administrative costs of lending to small businesses this was bound to suffer from this ceiling on interest rates. Of course if commercial banks think long term, they can expect that a small business today may become larger tomorrow and have increased demand for banking services. In addition some commercial banks regard lending to many small businesses as spreading risks rather than having most of their funds in large loans to a few big companies. Because of the 9 percent interest rate ceiling, commercial banks in Cyprus have started to charge commissions and management and negotiation fees to make loans more profitable. There is great pressure on the government to abolish the 9 percent ceiling, and there is some legislative move in this direction.

It is the view of the Bank of Cyprus that a healthy small business sector is vital both for employment creation and for the future prosperity of the island. It is important that banks take into account the criticisms raised against them by the small business. However, the small businessmen themselves need to take some corrective measures, particularly in strengthening the equity base of their business and improving their management. There is a need for both banks and small businesses to learn from each other, the speaker concluded.

The final speaker in the morning session was Mr. Jose Luis Soriano, the General Manager of the Banco Espanol del Rio de la Plata of Buenos Aires. After describing recent measures in Argentine for stabilizing the economy and arresting the hyper-inflation, the speaker stated that there has been an improvement in the current account in the second half of 1985 and early 1986. Mr. Soriano explained that small and medium businesses in Argentine were mostly companies run by individuals or families, who are linked together not only by business interests but also on a personal level. Although some had up to 300 employees, in general a small enterprise has less than 25 employees and a medium one possibly up to 100. Such small enterprises have little professional staff and have problems in maintaining formal accounting. When small industries grow they rarely do so in a planned manner. Small and medium enterprises in Argentine tend to operate with only one bank and generally the most important document for accounting purposes is the statement of the current account. In taking decisions such entrepreneurs rely more on personal relationships than on data and procedures. Such small enterprises take little advantage of leverage in finance or economies of scale in production. Most small scale entrepreneurs are too busy dealing with the present to think about the future.

The policy of his bank, said Mr. Soriano, was to give overall assistance to small scale business, adding management and information help to financial assistance. The bank has set up a number of non-financial services which it believes will help to improve business operations and to minimize credit risks. As the Banco Espanol has a wide branch network it is able to assist small enterprises all over the country. The entrepreneur is made aware of dangers looming as his financial situation deteriorates. The bank also puts out small booklets helping small and medium enterprises on legal matters, labor issues, social security, taxes and managing the business and arranges forums to discuss foreign trade patterns and it helps small and medium scale businesses to find export markets. The entrepreneurs are advised on trade possibilities with other Latin American countries. A comprehensive package offered by the Banco Espanol includes a wide range of innovative banking services through networks shared between banks, such as credit cards, agri-business bonds and different lines of credit for specific industrial and commercial activities.

Discussion

Questions that followed the presentations covered such issues as the number of banks that participated in such refinancing schemes as the one in Mexico, how the foreign exchange risk was handled, what forms of incentive had been tried to overcome the reluctance of the banks to take part and the level of arrears in such programs.

Afternoon Session

The afternoon session was devoted to a review of credit guarantee schemes. Mr. Jacob Levitsky of the World Bank who chaired the session opened by stating that the World Bank had recently conducted a major review of such schemes both in developed and developing countries. There was now a great deal of interest in the possibility of using such schemes to encourage commercial banks to lend to small enterprises. He pointed out that some schemes were introduced without any clear idea how claims would be met or even how the whole scheme would be financed.

The aim of credit guarantee schemes was to share the risk with commercial banks in the event of a default on a loan taken out by a small scale borrower. The purpose was clearly to encourage financial institutions to overcome their perception of riskiness of lending to small enterprises so that they would be ready to lend for viable projects for which the borrower was unable to provide adequate collateral.

Questions that arose in designing a scheme were what should be the degree of risk sharing, what should be the level of the fees, how claims should be handled and how the scheme should be financed. Unless the scheme resulted in providing access to borrowers who have not previously been able to obtain institutional finance, the scheme failed in achieving its purpose.

On the matter of risk sharing, although there were schemes in Japan and France where 100 percent of the loan was guaranteed, and now in some developing countries too, this was proposed in exceptional circumstances. The general concept was for the schemes to share the risk with the lending institution, so that the guarantee would be for only 50 to 80 percent of the loan. Some schemes also limited the size of any single guarantee. Most prevailing opinion was that guaranteeing 100 percent loan increased the danger that the lending institution would feel no real commitment in appraising and approving the loan and in debt collection knowing that the institution was incurring no risk itself.

As regard fee, some schemes were planned with the objective, as in India and the UK, that fees should cover all costs including administration and settlement of claims. This has proved unrealistic in most cases. If in reality the fee were to cover the claims, it would have to be high--probably in the order of 4 to 5 percent and this would make the cost of borrowing high and might deter borrowers from using the scheme. The Indian scheme was an exception in that it forced banks to guarantee all loans once they join the schemes and levies the fee on total loan amounts even though the guarantee applies to only 60 percent of a limited amount. If the fee is lower then there has to be another source of income to cover payment of claims. In most cases in a reasonably well-run scheme the fee was enough to cover administrative costs. Claims for default is then covered in funded schemes from income from investments on the original guarantee fund with possibly some contribution from the fees. In some countries the guarantee scheme was recognized as a form of subsidy to small enterprises so that the government was ready to cover defaults from the public treasury.

Claims handling was a vital element since this in the end would determine the degree of confidence the banks would have in the scheme. Gaining the confidence of commercial banks to participate seems to be a major problem in developing countries where the level of trust in government commitments was often low.

Despite the difficulties in designing and operating a credit guarantee scheme, it was clear that this was the preferred way in most developed countries for governments to help provide finance for small enterprises. Loss rates in guarantee schemes varied but clearly some loss had to be accepted otherwise the scheme would have little purpose since this would signify that the lenders were prepared to approve only very low risk loans. There were other forms of guarantee schemes such as mutual guarantee associations and cooperatives but in general the types of schemes that had wide coverage were those in which the government played a role and had made some direct financial inputs even though in some cases funding also came from various sources including banks, for associations, of small scale entrepreneurs from local governments.

Mr. Levitsky concluded by referring to the paper prepared by the World Bank and distributed to the participants which gives comprehensive information on schemes in operation in over 30 developed and developing countries. Mr. Levitsky was followed by Mr. A. Doran (UK) who commented on his experience of schemes in the UK, Europe and Japan. Expressing agreement with several of the points made by Mr. Levitsky, Mr. Doran gave his view that the guarantee schemes should not establish an organization to replicate what the banks were doing. For that reason he was not entirely in favor of having independent evaluations of applications for guarantee submitted by banks, although this had been the "modus operandi" of some schemes. He rather favored some "post facto" action in withholding claims if it could be shown that the banks had not taken due care in processing the loans and in assuring themselves of the creditworthiness of the borrower.

Mr. Doran maintained that a major problem with the UK loan guarantee scheme was that the banks had looked upon guaranteed loans as a substitute for equity. It was also a peculiarity of the UK scheme, as he had mentioned in his earlier presentation, that they did not allow the taking of personal guarantees which reduced considerably the degree of commitment of the borrower. It was advisable for banks participating in schemes to share some of the risk, Mr. Doran thought.

As for "additionality", namely whether the guarantee scheme actually resulted in additional lending, this was difficult to evaluate. In the UK those applying for a guarantee had to show evidence that they could obtain a loan from banks in the normal way but even this did not really prove the "additionality" of the guaranteed loans. Still the procedure did make it more difficult for the banks to pass on their regular more risky loans to the guarantee scheme.

Mr. Doran also thought that by raising the fee too much or imposing a heavy front-end premium, finance could be made too expensive and thereby put loans beyond the debt-servicing capacity of the borrowers in some cases.

In general he too favored funded schemes although in some parts of the world it had been possible to operate successfully schemes that represented only a general commitment of the government to make good to banks on loan defaults. One needed to educate the banks in the operation of guarantee schemes and to avoid disputes as much as possible.

The next speaker was Mr. Aswin Kongsiri, Executive Vice President of the Industrial Finance Corporation of Thailand (IFCT). Although his paper was on his experiences of credit guarantee schemes in Malaysia, Nepal and Thailand, he opened his remarks by stating that there was little published information on credit guarantee schemes and how they can be integrated into the financial system. He saw the workshop as a welcome start in providing an opportunity for people directly involved in this field to exchange information.

Turning to the situation in Malaysia and Nepal where Mr. Kongsiri worked as a consultant for the World Bank in advising on credit guarantee schemes, he pointed out that in both these countries schemes were introduced in the early 1970's based on the model of the Credit Guarantee Corporation of India. In both the paid up capital of the Credit Guarantee Corporation (CGC) was small and there was an impression that the commercial banks were coerced into joining the scheme as shareholders. In Malaysia in

1982 the Central Bank held approximately 20 percent of the paid capital and the 35 commercial banks that took part, 80 percent. In Nepal in 1986, the central bank held 44 percent of the paid up capital the Ministry of Finance 40 percent and the commercial banks 16 percent. In Malaysia the paid up capital of the CGC was increased only by requiring three new commercial banks were to join the scheme. In Nepal there were only two commercial banks at the time the CGC was established, one of which was wholly owned by the government and the other 51 percent. This raised the question whether, in fact, a separate credit guarantee institution was needed in Nepal or whether self-insurance by the two commercial banks might have served the purpose.

In Malaysia in the early years few banks actually used the CGC and so in 1974 the Central Bank issues a guideline that 3 percent of the commercial bank savings deposits should be lent to small enterprises under CGC guarantees. In Nepal, following the Indian example, the Central Bank introduced mandatory lending for the priority sectors and laid down that such loans below a certain size were to be automatically guaranteed by the CGC.

In both Malaysia and Nepal it is an open question how much the commercial banks would have used the schemes if they had been provided on a completely voluntary basis. This is in fact the problem now being faced by the Small Industry Credit Guarantee Fund (SICGF) in Thailand.

The speaker pointed out that in both Malaysia and Nepal commercial banks were completely unprepared for lending to small scale enterprises and for the first six years or so the guaranteed loans were not properly appraised or supervised. They simply did not have the staff nor the procedures for this type of lending. The situation was made worse by interest rate ceilings on guaranteed loans which did not allow the commercial banks enough spread to cover the high administrative costs.

In 1982 in Malaysia the CGC guarantee covered 60 percent of the loans and the guarantee fee was 0.5 percent per annum of the total amount guaranteed. Claims were paid after the bank had taken all legal steps including liquidation of all collateral. In 1986 the CGC of Nepal guaranteed 75 percent of the loan including interest and the fee was 1 percent, again calculated on the total credit amount. Banks can submit a claim in Nepal after a loan has been overdue for 50 days and if approved, the CGC will pay 50 percent of the guaranteed amount straightening, the remaining 50 percent to be paid when the bank's auditor certifies that the loan is unrecoverable.

In both the schemes claims are paid fully only after the banks take legal steps to recover the loan which may take a long time. To alleviate the problem the requirement for legal action was relaxed in the case of smaller loans in Malaysia and advance payment of 50 percent is now made in advance of the estimated claim. In practice the CGCs have considerable descretionary power to reject claims on the basis of incomplete documentation, claims of inadequate loan evaluation, or lack of information on loan utilization. It's not surprising that banks try to reduce the risks of not being paid for a claim by taking full collateral coverage, as well as the guarantee.

In both Malaysia and Nepal, the capital base of the funds was small and the rapid growth in obligations due to Central Bank guidelines to use the scheme, soon created major financial problems. In Malaysia, for instance, five years after the Central Bank guidelines, the actual guarantee fund amounted to only 4.4 percent of its guarantee obligations. In Nepal after operating under the Central Bank's priority sector guidelines for seven years, the CGC's capital fund amounted to 6 percent of its guarantee obligations while reported overdue loans amounted to 52 percent of outstanding guaranteed credits. The situation has not improved significantly up to 1986 despit a 3.6 times increase in the CGC's capital fund.

It was the speaker's view that commercial banks have to learn how to evaluate better the viability of a small enterprise rather than just make loans against collateral. In both Malaysia and Nepal the schemes were launched when the other aspects of small enterprise development had not yet been developed. It seems that to maintain the credibility of the guarantee scheme at all times in such conditions it may be necessary to have 100 percent backup against guarantee obligations. In Nepal, for instance, the under capitalization of the CGC was so acute that when the World Bank provided a new credit for financing cottage and small industries, a second credit guarantee scheme was set up in the Central Bank to guarantee loans under this program. The main difference between the two schemes was that the government undertook to replenish the resources of the second scheme when necessary.

Mr. Kongsiri then described the attempt to set up a credit guarantee scheme in Thailand where there are 16 commercial banks and one industrial development bank in the financial system. The Small Industry Credit Guarantee Fund (SICGF) was established in 1985 with a capital fund of BT 200 million (approximately US$7 million) with the responsibility for management given to IFCT. The first guidelines put out by SICGF in November, 1985 drew a negative response from both the banks and the small industrialists, when the SICGF suggested the banks appraise projects in a manner of development bank. The banks considered this to be administratively too costly. SICGF, finally agreed to accept the commercial banks' credit screening procedures.

The SICGF in general covers 80 percent of the collateral short portion which is considered high enough to be attractive for the banks. The problem facing SICGF, as in all credit guarantee schemes, is how to determine the collateral snort portion of the loan. The SICGF first proposed that its guarantee would cover the banks' actual loss, after foreclosure on the collateral, but after the banks' objections, agreed to accept the banks' estimate of the loss and its evaluation of the collateral. The SICGF has the authority in some exceptional cases to increase the guarantee to 100 percent and only require as a minimum that the assets financed under the project be pledged as collateral. SICGF's other basic requirement is that the borrower finance at least 20 percent of the project with own funds. The guarantee fee charged is 1.5 percent per annum on the guaranteed amount considered to be enough to cover the administrative expenses involved. SICGF in reality receives two forms of subsidies; first its capital fund is provided without cost and can be invested to earn interest income, secondly, it is tax deductible.

There is no doubt that the SICGF over-estimated the willingness of commercial banks to be involved in this type of lending. Even after revision of the guidelines to meet objections of the banks, they were still reluctant to use the scheme. The problem is that the banks do not see any direct benefit to themselves from the scheme, but only see more work and more problems even if the risk of loss on loans is reduced. Also the interest rate ceilings in Thailand do not allow the banks to receive sufficient spread for lending to small enterprises. Lifting the interest rate ceiling is politically difficult.

The speaker closed with some comments on guarantee schemes in general. If the Central Bank coerces commercial banks to make priority sector loans to be guaranteed under a guarantee scheme, then the credit guarantee institution must have the funds to meet its obligations. Also the lending rate for guaranteed loans must allow the banks sufficient spreads.Credit guarantee organizations should play a more active role in screening and supervising guarantee credits. Often guarantee fee rates are kept too low for political reasons. A good credit guarantee scheme should achieve the voluntary participation of commercial banks without coercing them to take part.

Apart from adequate spreads, commercial banks need training to evaluate project viability. Loans must be supervised to insure that the guaranteed loans are used for the purposes for which they were intended.

Guarantee institutions, Mr. Kongsiri observed, can only create confidence by demonstrating their ability and willingness to pay claims and to disburse them promptly. There should also be some mechanism for refusing guarantees to banks or branches of banks which have misused the scheme.

Mr. Kongsiri felt that guarantee obligations at least in the first stage should be limited to the amount available in the capital fund. However, he recognized that as many guarantee schemes are backed by the government, this is not a major problem since in theory there is an unlimited government commitment to fund any losses. In practice however, there were budgetary problems.

In practice, the only sources of income for a guarantee institution are usually the guarantee fee and the income from its capital fund. Raising the guarantee fee too much was not politically feasible and would discourage borrowers and banks from using the scheme. The other income which depends on deposit rates and the size of the capital fund, should be to meet claim payments as they arise. In general, most schemes are designed for the guarantee fee to cover only the cost of administering the scheme.

Mr. Kongsiri concluded that in his view credit guarantee schemes will probably require some subsidy directly related to the claims. It is, however, essential at all times to assess the economic and social benefits of the scheme in the form of additionality, employment generation, decentralization or whatever government objective is pursued, as this has to be related to the costs of the subsidy.

There is strong argument, for the financial institutions participating in the schemes to contribute to the capital fund so they can play a role in formulating policies and managing the institution. Their share should not exceed 50 percent and possibly less. The bulk of the capital fund should come from the government and/or the Central Bank.

The next speaker was K. K. Saksena, General Manager of the Deposit Insurance and Credit Guarantee Corporation of India. Mr. Saksena stated that the Deposit Insurance Corporation and Credit Guarantee Corporation (CGC) of India were merged together in 1978 to create the institution of which he is now manager. The CGC introduced three credit guarantee programs for small borrowers--the most important of which was the Small Loans Guarantee scheme of 1971 applicable to commercial banks. This scheme was superseded by a new guarantee scheme in 1981 which covered credit to small scale industries from commercial banks and other financial institutions. Thus at present credits to small scale industries are covered by guarantees under two schemes--The Small Loans Guarantee Scheme of 1971 and the Small Loans (SSI) Guarantee Scheme 1981.

Mr. Saksena explained that the Corporation is an autonomous non-profit making body whose shared capital is 50 crores [1] entirely subscribed by the Reserve Bank of India. The Corporation maintains three funds--a Credit Guarantee Fund, a Deposit Insurance Fund and a General Fund. The Credit Guarantee Fund is made up of guarantee fees received by the Corporation augmented by interest on investments, and is used exclusively for meeting claims. The Small Loans (SSI) Guarantee Scheme 1981 covers lending to small scale industries by commercial banks for both investments in fixed assets or for working capital. Small Scale Industries are defined in India as units with assets up to Rp. 3.5 million and investments in fixed assets up to Rp. 4.5 million if they act as subcontractors to large industry. The guarantee fee is 0.75 percent per annum with a concessional rate of 0.5 percent per annum on loans less than 25,000 rupees (around US$2,000).

The present guarantee covers 60 percent of the amount in default with respect of credits up to 0.2 million rupees. For loans in excess of 0.2 million, the reduced guarantee cover is 50 percent except for small scale industries in backward areas where it continues to be 60. The condition to be fulfilled before a claim is paid out is that the loan has not been repaid within one month from the date of which a notice of demand for repayment of the entire amount has been served on the borrower and that the loan is accounted for as a bad debt by the institution.

Mr. Saksena maintained that participation in the Indian scheme was voluntary in that the guarantee cover is available only to those financial institutions that choose to join the scheme. Once an institution has joined the scheme, all eligible loans are automatically covered without requiring the institution or commercial bank to submit to the CGC each loan proposal for prior acceptance. Neither the commercial bank nor the CGC has the right to exclude any loan from coverage nor avoid the payment of the guarantee fee. The principle followed Mr. Saksena insisted, is similar to that of an insurance scheme which covers both good risks and bad. On account of the automatic bulk coverage, the Corporation, Mr. Saksena

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1/ 1 crores - 10 million rupees (approximately US$0.8 million) contended, is able to charge a uniformally low fee on all guarantees. The fee is charged on the total loan not only on the guaranteed portion.

In the Indian scheme the guarantee cover is considered to be a contract for credit insurance between the Corporation and the financial institution involved, in consideration of the payment of a guarantee fee. The Corporation does not have any direct contract with the borrowers.

The guarantee scheme was meant to provide cover for loans granted to small borrowers who without such support would find it difficult to have access to institutional credit. To reflect this an absolute limit has been placed on a corporation's claim liability for a given loan and the scheme is weighted in favor of the smaller borrowers.

The CGC attempts to collect enough money from fees to meet all claims. In the past when fee receipts were judged to be short of expected claims the corporation raised the fee from 0.5 percent to 0.75 percent per annum in July 1980 and also introduced a two-tier rate so the benefits would be weighted in favor of smaller borrowers. Similarly, in 1984 when the scheme came under financial strain the CGC reduced the guarantee from 75 percent to 60 percent.

In the past years, guarantees have been extended to cover also loans by non-scheduled commercial banks and by regional rural banks. The number of commercial banks participating in the 1971 scheme rose from 71 at the start in 1971 to 244 is of January 1985. In the scheme started in April 1981, 449 financial institutions were participating.

Claims have increased significantly since 1984 and the CGC has stepped up the process of settlement. Claims for small amounts are being settled with computer aided procedures within 8 to 10 weeks of being lodged but higher value claims are subject to pre-settlement inspections. As against a claim settlement rate of 12,876 per month achieved in 1983 the Corporation settled 41,500 claims per month during 1985, despite the fact that the CGC's staff has been pegged at the 1982 level. A total of 1721.7 million rupees of claims were received during 1984 and for 1149.1 million rupees in 1985. For all claims received to the end of 1985, claims from the agriculture sector accounted for 56.7 percent. Small businesses accounted for only 5.3 percent of claims to end of 1985. As a result of the high claims received from the agricultural sector, the Reserve Bank of India is initiating action to improve controls in lending to small farms and non-farm enterprises in the rural sector.

Loan recovery received by the Corporation by virtue of subrogation rights have ranged 10 to 12 percent of the guaranteed amounts. Since 1982 the Corporation has made full provision in its accounts for the estimated liability in respect to credit guarantee claims made to it but not yet registered. Total fees of 4.16 billion rupees were collected during 1985 and the amount of claims paid during that year were 1.86 billion. After providing for the estimated liability for claims lodged but not yet settled, a net reserve of 1.25 billion rupees was set up for meeting future claims.

Mr. Saksena argued that in order to help the SME sector it was necessary to provide loans at concessional rates which meant subsidizing both interest rates and the guarantee fee. Considering the very large flow of credit to the priority sector and small scale industries, it was inevitable that there has been some laxity in credit appraisal, in loan supervision and in debt collection. The Corporation felt that it had to change the attitude of some commercial banks to claiming on guarantees. It held that some banks needed to improve debt collection and to try to recover more funds through rescheduling and through helping firms in difficulties. It was observed that some banks invoked guarantees within one to two years of loan disbursement and it could be questioned whether this is a sufficient period to declare the loan as unrecoverable. Some financial institutions have criticized the CGC for charging guarantee fees on the entire balance outstanding rather than on the actual guaranteed amount. As explained, the rationale behind this practice was to enable the Corporation to set a low guarantee fee for everyone.

Mr. Saksena concluded by noting that all risks in the guarantee scheme were borne by the Corporation and there was no form of reinsurance in India. He asked whether consideration might to given to creation of an international agency to provide reinsurance facilities to credit guarantee organizations in developing countries.

Discussion

In the questions and discussion that followed, the ratio of the amount of guarantees to the size of guarantee fund was questioned. It was argued that giving out guarantees only to the amount in the fund was a conservative approach, which contemplated an unduly high degree of default. It was felt that by increasing the quality of appraisals and supervising the institutions using the schemes, more guarantees could be given out without incurring too great a risk of not being able to meet claims.

There were questions raised as to how the guarantee fund should be financed. It was agreed that some public funds were necessary and that the government had to play a role, but other participants felt that it was of value to have the banks participating so that they themselves had an interest in seeing that the scheme was properly managed. Other claimed that since the banks were in any case participating in the loans with some risks and paid a fee for using the scheme, there was little justification for asking them also to provide finance for the guarantee fund.

Most participants thought that credit guarantee schemes should be designed so as not to eliminate the banks taking some risks. Some felt that the schemes should actually guarantee only collateral shortage and that banks should be encouraged to take all available collateral. It was felt by some that re-examining loans by guarantee organizations would increase delays and administrative costs. However, others thought that there was need for some check on the appraisals of the banks of the loans submitted for guarantees. It was recognized that there were in fact two approaches. One was that first a borrower was screened by a guarantee organization (as in Korea) and after a guarantee was approved the bank then processed the loan. The other approach was that the bank processed the loan and that afterwards the credit guarantee was virtually automatic.

Most, but not all, thought the second approach would reduce costs and there was a remedy against abuse in cutting out those institutions where claim rates became unduly high.

It was noted that guarantee fees increased the cost of loans (as virtually all fees were passed on to the borrowers) and if the administrative costs became high, this might, in the view of some participants, raise the loan costs through higher fees beyond the politically acceptable level for small scale borrowers. A question was raised whether guarantee organizations should participate in loan supervision but it was generally agreed that this again would increase administrative costs. A similar point was made about recovery of loans after claims had been settled. In general the banks had the better organization to do this rather than the credit guarantee organization who would have to set up an expensive administration for this purpose. However, the question was raised whether banks would have any interest in making serious efforts to recover loans on which guarantee claims had been settled. It was pointed out that in most cases banks had some residual interest in recovering their own part of the risk, and furthermore, failure to make serious efforts at recovery could result in institutions being banned from participating in the scheme.

Morning Session, Thursday, July 17, 1986

In the morning session the workshop was divided into two discussion groups. The first discussed 'Organizing Commercial Banks for Small Enterprise Lending'; the second was devoted to 'Credit Guarantee Schemes'. Following the discussions, the rapporteur of each of the groups reported to the plenary meeting of the workshop.

Mr. Kanvinde (India) reporting for the first group stated that there had been a great deal of discussion as to whether commercial banks were the most suitable institutions for financing small enterprises. It was noted that in some African countries, the banks were still very reluctant to finance small scale enterprises and specialized development institutions were more appropriate for doing this. It was accepted that well-designed credit guarantee schemes could help.

The group agreed that only viable, or potentially viable, small industry projects should be considered for financing but there was a difference of opinion as to what constituted viability. Banks, it was claimed, by some, adopted an overly-negative attitude and there was a need for a change of attitude on the part of these institutions.

Cost of funds to the lending institutions was important but this was not exclusively a problem of small enterprise lending. Some thought that the availability of low-cost funds through the Central Bank of the country--either from a donor agency or from the government--could help provide funds for SSE financing.

Another problem mentioned was that deposits with banks are short term whereas the need of small enterprises is often for medium and long term loans. How, it was asked, could commercial banks be expected to borrow short and lend long-term? It was felt by some, that commercial banks should restrict themselves to financing working capital needs and more specialized development financial institutions were needed to do term lending. Where such institutions did not exist, or were inadaquately funded, commercial banks would have to be persuaded to provide term loans, but for this they would have to have access to long term funds at appropriate cost. Where foreign funds were made available, these intermediary institutions must be protected from the risk of fluctuations in foreign exchange values.

Administrative costs such as the cost of field staff, specialized staff, persons to provide technical assistance or training was high but these were needed to work with small enterprises. Spreads available to commercial banks did not cover this type of cost. Controlled interest rates in many countries, was also a disincentive for commercial banks to provide finance for small enterprises. It was felt that cross-subsidization (as practiced in India) could cover the extra costs of SME lending but this may mean subsidizing losses, or projects with low profitability.

Several participants thought that private commercial banks would expect the high cost of SSE lending to be covered by allowing them to charge higher interest rates. Most felt that the small scale sector should be charged prevailing commercial rates of interest. Access to financing was felt by most as more important for the small enterprises than the level of interest rates. The alternative, for most SSE was to pay a much higher rate to informal lenders.

The prevailing view was that the full cost of administering loans to small enterprises cannot be charged fully to these enterprises as this would not be politically acceptable in most developing countries. An element of subsidy, whether directly from the government or in the form of cross-subsidization was inevitable in the view of most of the group.

In conclusion it was agreed by most participants that commercial banks, with their broad branch network, and their skills at handling loans and debt collection were well-suited for dealing with the dispersed sector of small enterprises and could be considered as appropriate intermediaries if they were given the required support from government and donor agencies. This was reported as the broadly shared (but not unanimous) view of the group.

Mr. Malcom Harper (UK) then reported on the second discussion group. The group agreed that the objectives for setting up credit guarantee schemes were both social and economic. It was accepted that such schemes should provide help both for the very smallest micro-enterprises and for small or medium enterprises, but it was agreed that the schemes might operate differently as far as these different groups are concerned. A majority favored risk sharing. It was agreed that a desirable division might be for a project to be financed around 20 percent from the equity of the borrower and of remaining 80 percent--25 percent by the lending institution and 75 percent guaranteed under a guarantee scheme. In the case of micro-enterprises or possibly in respect of working capital loans the ratios might be different.

On the payment of a premium or fee, there was some discussion as to whether it was preferable to levy a one-time front-end fee or whether there should be an annual fee on the guaranteed amount or on the total loan amount. It was felt that a regular annual payment on the guaranteed portion was probably preferable although it might be possible to devise a form of fee in which there was a small front-end payment on the whole amount and then a fee on the guaranteed portion annually. It was recognized that the maximum rates that could be considered were in the order of 3 - 4 percent, but in most developing countries, acceptable rates were more likely to be 1 - 2 percent. Efforts should be made for the fees to cover at least the administrative costs of the scheme. The group agreed that the higher rates would be needed if the schemes attempted to cover claims out of the revenue and to achieve more 'additionality.'

Most thought that a funded scheme was preferable to one in which there was just an open commitment of the government. Experience in developing countries had been that the second type of scheme ran into budgetary problems. As regards the capital for the guarantee funds while government must be a major source, it was felt that it was desirable to set up a fund in which business associations, chambers of commerce, and the banks themselves were all participants to some degree. Some interest was also expressed in the Korean scheme where a levy was imposed on bank profits. It was recognized that a major source of funds for settling claims must be the returns earned on the investment of the capital fund and this of course was absent when there was only a government commitment.

Guarantee organizations should be autonomous, be entirely independent in making their decisions and should be managed as independent financial institutions. They should be free to regulate the total amount of guarantees in relation to the size of the fund and to the income accruing in fees and interest earned. Guarantee schemes should monitor carefully the volume of claims to decide on fees and on the risk sharing ratio, and also the performance of different participating institutions so that they can take appropriate action when required against specific institutions where there were abnormally high claim rates. Reference was made also to a system in Japan and now being considered in some other countries, of reinsuring regional guarantee schemes by a general credit reinsurance fund.

With regards to settling claims, the prevailing view (although not unanimous) was that payments should be made after an agreed period of arrears, in order to establish the scheme's credibility, although there were some who maintained that action to foreclose on a loan or some legal action should be required from the bank before a claim is settled as evidence that the loan was deemed beyond recovery. Interest was expressed in the scheme in Colombia where 50 percent of a claim was paid within a specified number of days of arrears and another 50 percent after legal proceedings were undertaken. There was also schemes where small credit claims were paid out without requiring legal action, whereas larger--or at least part of larger claims--were settled only after recourse to litigation. It was agreed by the whole group that the guarantee contract should be explicit as to when claims would be paid and this should be strictly adhered to by both sides to generate and maintain confidence in the scheme.

The prevailing view as regards loan recovery was that the lending institutions should be left to do this but the schemes should be designed so that a major effort to recover as much as possible would be to their advantage.

Finally, it was agreed that all available collateral should be taken by the banks and that, at the minimum, the assets financed under the project should be used as security together with whatever personal guarantees were available.

Afternoon Session

The afternoon session, which was chaired by Mr. J. Wilmshurst (ODA), was devoted to two presentations on efforts of donor agencies to increase commercial bank lending in developing countries. The first speaker was Mr. Sean P. Walsh of USAID who described his agency's programs for promoting commercial bank financing of small enterprise development. USAID efforts to help finance small and medium enterprises through the private sector had been through a Revolving Fund operated through the Bureau for Private Enterprises (PRE) which was created in 1981 to develop innovative private enterprise projects. The Revolving Fund was established by the US Congress in 1983 and was limited to lending activities that have a demonstration effect, are innovative, are financial viable, have an impact on employment, on use of technology and were directed to small businesses and cooperatives. The Fund is planned to reach a maximum level of US$100 millions, US$46 millions of which have already been appropriated. To speed the reflow into the fund, grace and maturity periods were recently shortened.

Of the 17 loans in the Fund portfolio (as of September 30, 1985), 14 were with financial intermediaries which constituted 82 percent of the total loan value of $30.5 million. Loan maturities were shortened recently from 6.8 to 4.7 years and the leverage of the Funds resources are to be increased from 2.5 to 3.5 between 1984 and 1985. Of the 14 operations with financial intermediaries, 8 involved private banks. Together with earlier operations with the Kenya Commercial Bank and the Siam Commercial Bank, there is now a PRE portfolio of 10 direct deals with banks including three Latin American financieras and seven commercial banks. Apart from the Kenya Commercial Bank all the others are private organizations owned by local and/or foreign stockholders. Eight new projects are planned in the 1986 program.

The first two operations were direct $2 million loans from PRE to Kenya and Siam Commercial Banks, but the more recent operations involved credit guarantees. These latter involve arrangements whereby USAID places funds in a US depository bank to guarantee a portion of the SME credit operations by the client bank in the LDC. So far there have been direct specific deals with each bank but PRE is now thinking of a credit guarantee arrangement in which a number of banks would have access on a first-come-first-serve basis to a general guarantee facility. In the first guarantee arrangements USAID deposited funds in a US Bank account to guarantee foreign exchange borrowing made by the client bank. These deals carried high foreign risks for the client bank and soon became unacceptable. Under the new arrangement the US bank opens a collateral account with USAID funds in the name of the client bank. In the event of a default, the developing country bank could call on the collateral account to cover itself. Thus, only in the event of a default, would the transfer of dollars take place.

Mr. Walsh emphasized that PRE tries to price its products and those of client banks at market rates. Interest rates on the Fund's loans are usually set at the rates for the US Treasury notes of equal maturities and those of the loan operations of the client bank at market rates. In the credit guarantees schemes the client bank does not pay the interest directly as the funds remain in the US bank and are invested in US securities the interest for which is paid to the Fund.

The fees charged involve a transaction or facility fee--usually a one time charge of one percent of the loan amount, and guarantee fees set high enough to cover the expected loss on the guarantee facilities. This is usually set at twice the historic loss record of the client bank. Guarantee fees are charged each year on the average daily amount of USAID funds outstanding as guarantees.

The Revolving Funds total return is the sum of the interest it receives plus the fees charged, less a management fee by the US. bank. The Fund's return now runs at about 8 to 10 percent. Reflows to the fund as a of June 1986 were about US$250,000 on total disbursement of US$10.7 millions. Mr. Walsh pointed out that the spreads given to the client banks are the usual spreads less the facility and guarantee fees and have varied from 3 to 11 percent. About 60 percent of the spread goes to covering direct operating costs and the remainder can be considered as profit, but this differs somewhat in each country. The client banks insist on collateral on all loans made.

So far there have been no losses at all, Mr. Walsh stated not even in the early loans in Kenya and Thailand. Until now the client banks have not taken much initiative in putting deals together. In most cases lending to SME represents unfamiliar territory for these banks.

One of the lessons learned in these operations, the speaker noted, is not to push the client too far from their current operations or to expect them to start new services. The security offered by the Fund which generally covers fifty percent of the risk, has been enough to persuade the banks to move into this field. The period of operation of the whole program has been too short to be able to evaluate fully the performance of the client banks.

The main lesson for USAID is that private commercial banks have been able to have a development impact in SME development. With careful structuring Mr. Walsh stated, private commercial banks are a suitable vehicle for obtaining development goals. Earlier concerns that development would be retarded by interposing a for profit intermediary has been shown to be unjustified. In the evaluations of the experience of the Siam Commercial Bank and the Kenya Commercial Bank, it was found that the six development goals ranging from employment generation to skill development to poverty alleviation were met.

One lesson learned from the Siam Commercial Bank operation where the sub-borrowers were asked to take on the foreign exchange risk and were hit badly after the devaluation of the local currency, was not to ask small scale enterprises to take on risks beyond their control.

In conclusion, Mr. Walsh stated that one of the concerns of the fund now was that while giving more attention to supervision and evaluation, efforts will not be reduced to develop new projects. There will be need to increase staff for this purpose.

The Fund is developing innovative products to encourage private banks to serve SME. It is pleasing to note, Mr. Walsh concluded, that other donor agencies are looking with interest at these activities for possible use in their own programs.

The next speaker was Mr. Jacob Levitsky, Operations Advisor at the World Bank, who reviewed the experience of the World Bank on lending to Small Enterprises through Commercial Banks. Mr. Levitsky pointed out that in the early projects financed by the World Bank targetted at small enterprise, development finance institutions were used as intermediaries. However, it soon became clear that there were severe limitations in the use of these institutions for delivering credit and other assistance to small enterprises and so the World Bank began to seek ways of using commercial banks. In the period 1978 to 1986 the World Bank approved 36 projects in support of small and medium enterprises in which commercial banks were the main intermediaries in 16 different countries for a total amount of over US$1.5 billion. This represented around 60 percent of all the finance lent by the Bank during this period in support of SME. Commercial banks participated in projects in Asia, Latin America and North Africa but in Sub-Sahara, Africa, World Bank lending to small enterprises continued through development finance institutions. Also outside Africa there were exceptions in some countries where SME lending continued to be channelled through specialized development finance institutions.

Mr. Levitsky explained that as the World Bank decided to work through commercial banks, it looked for new approaches that would encourage these institutions to take part in these projects. Such approaches included providing commercial banks with long-term funds at acceptable costs specifically for lending to small enterprises, allowing commercial banks an adequate spread to cover the higher administrative costs, influencing governments to follow credit and interest policies that would be conducive to banks participation in SME lending programs, and encouraging the establishment of credit guarantee schemes to reduce the perceived risks of such lending.

Commercial banks were generally unwilling to use their own funds which were in the form of deposits, so that it was important to make available other funds. This was done by the World Bank channelling its loans to a special fund which was then used to rediscount credits made by the lending institutions to small enterprises. This fund is usually located in the Central Bank, but in some cases in a development bank. Usually the sub-loans made by a commercial bank under earlier projects were rediscounted at one hundred percent but in later projects efforts are made to rediscount only 70 of 80 percent to encourage the banks to use some of their own funds.

The spread allowed the commercial banks for onlending to small enterprises was increased as most studies showed that four to five percent was usually required for such lending to be regard as profitable. In practice the spread varies from 2 percent in Morocco to 8 percent in some Asian countries. However, Mr. Levitsky pointed out that experience has shown that many commercial banks participated in lending to SME for reasons beyond the profitability of the lending operations. There was evidence that banks became involved because they thought such actions created opportunities to attract new customers for their other banking services.

In such refinancing arrangements the World Bank has generally allowed all financial institutions to take part in the scheme provided that they met certain standards thus introducing an element of competition in the use of the funds. Eligibility criteria usually laid down that all participating financial institutions be financially sound, that they should have an acceptable debt/equity ratio, that their loan portfolio should be in reasonably good state and that they should have made adequate provision for loan losses. Participating banks have also been required to have a suitable branch network and adequate staffing.

Interest rates, Mr. Levitsky noted have been a major issue in most World Bank SEE lending projects. The World Bank has succeeded in convincing most governments (with a few exceptions) that subsidized interest rates for small enterprises was counter-productive, produced distortions in the type of benefits, encouraged investments that were not justified on economic grounds and eroded the real value of the loan funds. In many countries SMI loans are now made at real market interest rates and other countries are moving in this direction. The speaker pointed out that World Bank loans for SME require that the foreign exchange risk be borne by the government.

With regard to portfolio performance, Mr. Levitsky pointed out that there was evidence that where commercial banks participated, arrears were less than in projects involving only public development finance institutions. For instance, commercial bank lending through World Bank supported credit programs involving refinancing in Mexico, Honduras, and Ecuador have enjoyed high repayment rates. However, the speaker acknowledged that there has been serious deterioration in repayment situations in some projects where commercial banks have participated notably in Bangladesh, Indonesia, Sri Lanka and Morocco. Understandably, Mr. Levitsky commented, as portfolio performance deteriorated, the commercial banks have less inclination to lend to smaller borrowers.

As regards credit guarantee schemes, the speaker emphasized that the World Bank itself does not provide finance for such guarantee funds but has encouraged and assisted governments to introduce such schemes. In several cases, however, where such schemes were in operation together with World Bank credit lines, for example, in Sri Lanka, in Cameroon, in Jamaica in Liberia and in Morocco they were not adequately funded or were under staffed so that claims could not be handled in reasonable time and commercial banks lost confidence. It is the World Bank's view that such guarantee schemes can be useful but a more serious approach to the design and operation of these schemes is needed.

The speaker concluded that it was the World Bank's experience that it is possible to involve commercial banks in lending programs for small enterprises but this does not mean that in all countries these institutions are ready to play this role. While some developing countries--India for instance--claim success in channelling funds to SME through commercial banks by mandating a designated proportion of their portfolio in loans to small enterprises, the World Bank's view is that it is more desirable to provide incentives for banks to lend to this sector. These incentives could include allowing them to lend at real interest rate levels that would ensure the profitability of the lending operation and to allow spreads enough to cover the high administrative costs. Credit guarantee schemes, properly designed and operated, can also help to encourage increased lending from commercial banks for small enterprises in developing countries as they have in developed countries.

Discussion

A number of questions were raised on the conditions attached to World Bank loans. Some speakers thought that some of these were unreasonable and that the World Bank should also participate in the risks involved in credit lines. It was explained that all World Bank loans are guaranteed by governments but the IFC did in fact assume some risk in its lending. Some comments referred to problems that commercial banks faced in using World Bank funds claiming that the procedures were cumbersome requiring approval at different stages. It was pointed out that in recent years institutions have been allowed a great degree of autonomy in approving subloans from World Bank credit lines and only a few subprojects above a certain size were referred to Washington.

There were some questions to how the World Bank had overcome the reluctance of commercial banks to take part in programs for lending to SME. It was emphasized that this had been in some cases a slow process whereby only a few banks had participated in the first projects with more joining later when they saw that this type of lending was feasible and profitable. In some countries Bank loans had been helped by the government agreeing to the loans being considered outside prescribed credit ceilings. In other countries government pressures to lend to the SME sector made banks started using World Bank funds for this purpose. In several countries, however, the commercial banks participate in the schemes voluntarily out of the conviction that the risks in the type of lending are not as high as originally perceived if a careful screening is made of borrowers and care is taken to have loans covered with collateral or guarantees. Mexico was a good example of a program that now had been going for more than thirty years with more than thirty commercial banks participating. Mr. Levitsky maintained that the World Bank's experience has shown that this model of refinancing of loans made by commercial banks together with appropriate incentives has proved successful in getting commercial banks to lend to small enterprises. Gradually they are beginning to use their own resources where the lending conditions are right.

Concluding Session: Chairman, J. Wilmshurst (ODA)

The final session was devoted to a review of the discussions that had taken place at the workshop. Mr. Millard Long reviewed these discussions by giving his view that there was need to reflect on the advantages and disadvantages of directed lending in the form of special credit lines for small enterprises. The arguments might be strong in favor but there were other considerations that had been covered at length in Mr. Lopez' presentation, in the first session. He thought that there had been some recognition in the workshop that there was need to provide funding for small enterprises in some circumstances through directed credits but that if one could achieve financial sector reforms to the point where the financial system operated independently, in the end the small and medium enterprises would also benefit. In his view, there was need to reach consensus both on building up a healthy financial sector and also for catering for the special needs of the small enterprise sector. As had been outlined in the discussions the commercial banks could play a role if the situation make this type of lending attractive and profitable.

Mr. Jacob Levitsky in summing up thought that the consensus of the meeting seemed to be that a balance had to be found between a high volume of credits directed at small enterprises and improving the general availability of credits to all efficient and profitable enterprises in which small enterprises would ultimately gain. He believed that some element of cross-subsidation might be healthy and attractive to commercial banks provided the amount of lending to small enterprises sector was kept in proportion in relation to more profitable activities undertaken by the banks. He believed that the commercial banks could find lending to small enterprises profitable after they became more familiar with how to handle loan applicants from this sector but they needed incentives such as being allowed to lend at commercial rates to small enterprises and receiving an adequate spread to cover administrative costs. The workshop has generally agreed that a risk sharing arrangement such as in credit guarantee schemes could be an incentive to persuade commercial banks to lend to SME.

There was need to support commercial bank lending by some form of nonfinancial assistance to help improve the efficiency of operation of the borrowing firms and to help the banks to obtain the type of information that they needed to make correct appraisals and better loan decisions.

The session was concluded by a statement on behalf of the World Bank and ODA thanking the participants and the speakers for their contributions. Some participants thanked these institutions for their support and their organization of the workshop and particularly the ODA staff who had been responsible for the local arrangements and had helped the World Bank to reproduce and distribute the extensive documentation. It was agreed that the World Bank would in the near future produce a report of the proceedings to be distributed to all participants.

INTERNATIONAL WORKSHOP ON COMMERCIAL BANK LENDING TO SMALL ENTERPRISES AND THE OPERATION OF CREDIT GUARANTEE SCHEMES

JULY 15-17, 1986
London Business School, London, UK

Agenda

Tuesday, July 15 -	Large Lecture Theatre
10:00	Chair: J. Levitsky (World Bank)
	Policy Issues in Commercial Bank Lending for Industrial Finance: Millard Long, World Bank
	Commercial Banks and Selective Credit Policies: Jose Da Silva Lopes, Advisor, Caixa Geral de Depositos, Portugal.
11:15	Coffee
11:30	Role of Savings Banks in Small Enterprise Lending- German and International Experience: Klaus May, German Savings Bank Association, Bonn, FRG.
12:45	Lunch hosted by World Bank.
	Chair: J. B. Wilmshurst (ODA)
2:30	Address by the Rt Hon Timothy Raison MP, Minister for Overseas Development.
3:00	Attitudes of Commercial Banks to Lending to Small Business in the UK: Report of a Recent Study: Alan Doran, Consultant, London.
	The years preceding the development of NMB-- Nederlandsche Middenstandsbank N.V. - A Bank for Lending to Small and Medium Enterprises - Martin de Jong, FMO, Holland.
4:00	Tea Break
	Commercial Bank Lending to Local Enterprises in Africa - J. H. Frimpong-Ansah, Standard Chartered Bank.
	Mandated Lending to Small Industries: Experience of India - D. J. Kanvinde, State Bank of India.

6:00	Reception--Host: Sir Crispin Tickell (Permanent Secretary ODA) Executive Common Room

Wednesday, July 16 - Fairbairn Room

	Special Issues in Commercial Bank Term Lending to Small Enterprise in Developing Countries
9:30 12:30	Chair: M. Farbman (USAID)
	Experience of Lending Programmes to Small Enterprises - Mexico--Sergio Luis Cano, Director, FOGAIN - Turkey--Ahmet Ertugrul, General Manager, Halk Bank - Kenya--Lawrence Masaviru, Kenya Commercial Finance Company
10:45	Coffee
11:00	- Cyprus--A Hadjichristodoulou, Bank of Cyprus - Argentina--Jose Luis Soriano, Banco Espanol del Rio de la Plata
12:30	Lunch: London Business School
	Credit Guarantee Schemes
	Chair: J. Levitsky (World Bank)
2:00- 5:00	Review of Credit Guarantee Schemes for Small Enterprises: Jacob Levitsky, World Bank/Alan Doran, Consultant
	Credit Guarantee Schemes in Developing Countries: Aswin Kongsiri, Senior Vice President, IFCT, Thailand
3:30	Tea
	Credit Guarantee Schemes in India K. K. Saksena, Manager, Credit Guarantee Corporation, India.
4:00	Discussion
6:00	Video presentation by GTZ (Germany) "New Business Creation"; the film will deal with an enterprise development programme in Nepal.

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Thursday, July 17 -	Fairbairn Room
	Discussion Groups (2)
9:30- 11:00	Subject: How to Increase Commercial Bank Lending to Small Enterprises
	a. Organizing Commercial Banks for Small Enterprise Lending.
	b. Operation of Credit Guarantee Schemes
11:00	Coffee
11:15 12:30	Report of Discussion Groups and Discussion
12:30	Lunch: London Business School
2:00- 3:30	Future Programmes - Increasing Commercial Bank Lending in Development Countries
	Chair: J.B. Wilmshurst (ODA)
	USAID Programmes for Promoting Commercial Bank Financing of Small Enterprise Development--Sean Walsh, Bureau of Private Enterprise, USAID
	World Bank Programmes for Small Enterprises Lending through Comercial Banks--Jacob Levitsky Advisor, World Bank
3:30	Tea
4:00	Concluding Session
	Discussion
5:00	Closing Remarks

July 1986
Agenda/ODA

INTERNATIONAL WORKSHOP ON COMMERCIAL BANK LENDING FOR SMALL ENTERPRISES AND OPERATION OF CREDIT GUARANTEE SCHEMES

LONDON, U.K. 1[illegible] - 17 JULY 1986

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