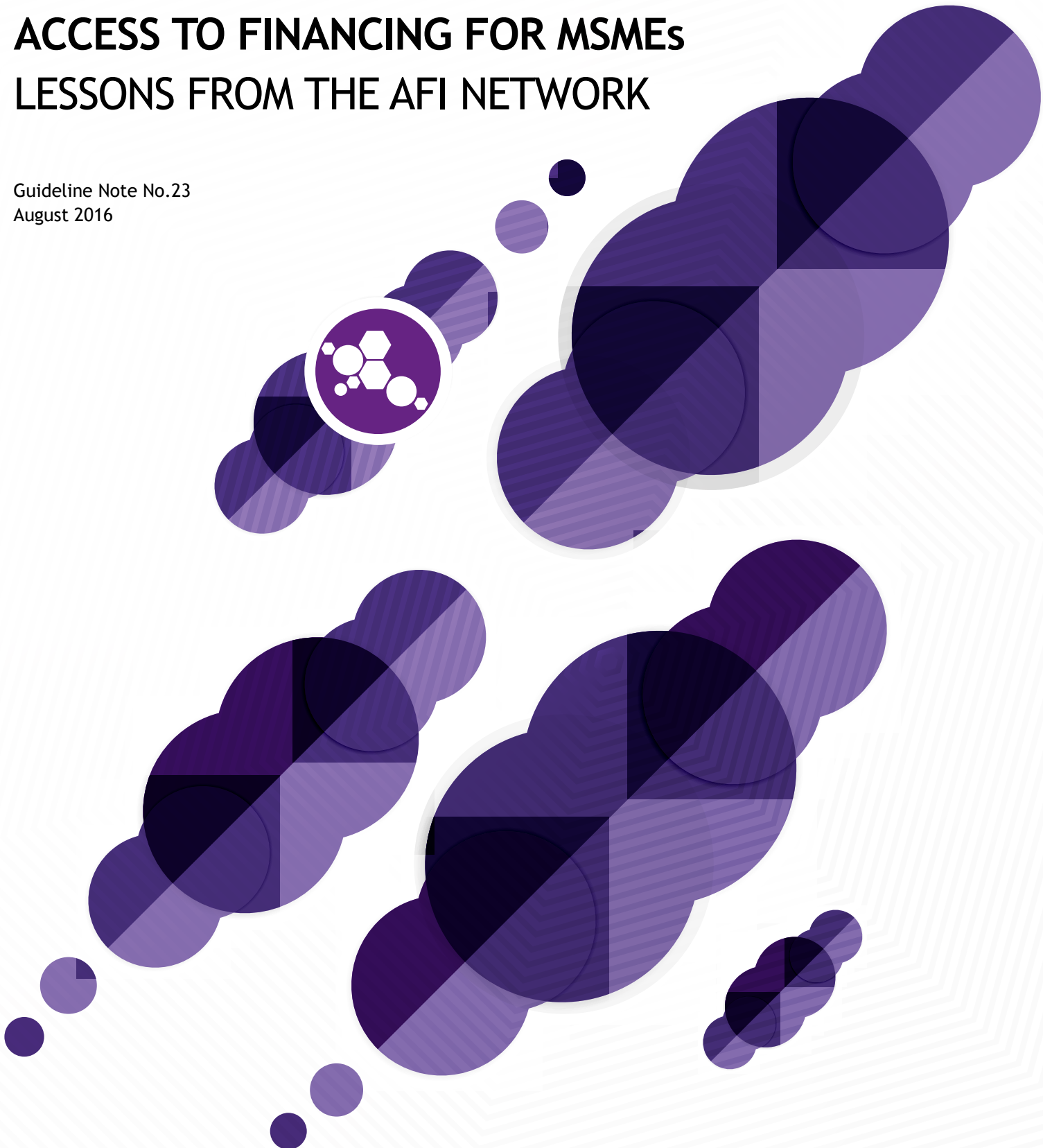




THE ROLE OF FINANCIAL REGULATORS IN PROMOTING ACCESS TO FINANCING FOR MSMEs LESSONS FROM THE AFI NETWORK

Guideline Note No.23
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ABOUT THIS GUIDELINE NOTE

This Guideline Note was developed by the AFI SME Finance (SMEF) Working Group. The information presented here is based on evidence and findings from two surveys conducted with over 25 SMEFWG member institutions in seven regions, as well as secondary research. The purpose of the Guideline Note is to share the experiences and practices of member countries that have implemented various policy initiatives to increase access to financing for SMEs. The initiatives are organized by the overarching objectives the member countries aimed to achieve.

The Guideline Note does not provide assessments or recommendations on whether these policy initiatives are suitable or effective. Rather, in line with the key objectives of the SMEFWG, we aim to create a deeper understanding of the various policies and interventions available and currently implemented across the globe.

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ABOUT SME FINANCE (SMEF) WORKING GROUP

The Small and Medium Enterprise Finance (SMEF) Working Group was formally launched at the September 2013 AFI Global Policy Forum in Kuala Lumpur, Malaysia. This followed a decision by AFI member institutions earlier that year at a high-level meeting in Bangkok, Thailand, to establish a dedicated new working group on SME finance to support peer learning in this area.

The vision of the SMEFWG is to contribute to the development of SMEs in developing and emerging countries through financial services. The SMEFWG promotes the development and implementation of policy frameworks that improve access to financial services for SMEs within national contexts.

The SMEFWG has two key objectives:

- (1) to create a shared understanding of how different aspects of financial services contribute to the development of sustainable SMEs in developing and emerging countries; and
- (2) to identify policy frameworks and interventions that enable and enhance the socio-economic role of SMEs, with a specific but not exclusive focus on financial sector policy.

THE ROLE OF FINANCIAL REGULATORS IN PROMOTING ACCESS TO FINANCING FOR MSMEs. LESSONS FROM THE AFI NETWORK.

CONTEXT

A sound and progressive SME sector is critical to balanced and inclusive economic growth. In many countries, small and medium enterprises comprise more than 90% of all businesses (on average). By creating employment and fostering economic growth, SMEs have enormous potential to assume a greater role in the economy. As recently reported by the International Labour Organization (ILO), SMEs create 67% of global employment, regardless of a country's income level or size of its region. Having a strong, vibrant, competitive and resilient base of SMEs is key to enhancing wealth creation and social well-being.

Access to financing is crucial for SMEs. With sufficient funds, SMEs can prosper, expand and have a greater impact on the economy through higher tax contributions, job creation and employment. The unanimous adoption of the Maputo Accord by AFI members at the 2015 Global Policy Forum reinforces the importance of access to finance for SMEs “in driving employment, economic development and innovation.”

Governments, particularly financial regulators, have established various measures, programs and schemes aimed at providing SMEs with better access to financing. The motivations of these initiatives may differ depending on the stage of a country's financial sector development, its specific short- and long-term goals and the diverse needs of SMEs. The implementation of programs and schemes, including prioritizing and sequencing various measures, are also influenced by the available resources in a country, both financial and non-financial.

THE ROLE OF FINANCIAL REGULATORS IN SME FINANCE: BEYOND SUBSIDIES

The collective experience of SMEFWG member countries suggests government funding for subsidized loans to SMEs is not enough. The role of financial regulators is to ensure the stability of the financial sector and, to accomplish this goal, policymakers need to 1) ensure smart policies and supervision are in place and 2) establish rules and frameworks for financial institutions to perform effective intermediation for all segments of the economy. These are essential to a well-functioning economy.

Based on responses to the SMEFWG survey, member institutions have initiated a variety of measures to support SMEs, ranging from legislation and regulations, to establishing the necessary infrastructure to support engagement between SMEs and lenders and allowing lenders to conduct better credit assessments. Capacity building, training, financial education and awareness are also integral features of the measures member countries have undertaken.

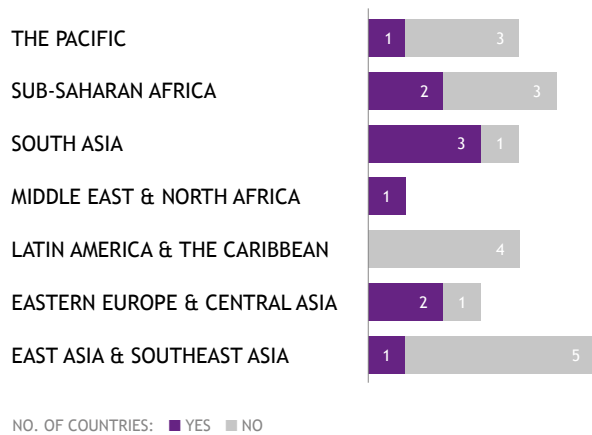
For the purpose of this Guideline Note, these measures and interventions are grouped into three main areas: 1) direct monetary intervention, 2) legal and regulatory frameworks for SMEs and 3) policy and market development initiatives.

A. DIRECT MONETARY INTERVENTION

Direct monetary intervention (DMI) through subsidized credit and refinancing programs provides lending at below market rates to targeted SMEs. This type of financing allows micro, small and medium enterprises to lower the cost of doing business and, for the government, could offer an effective strategy for spurring entrepreneurship, reducing poverty, lowering income inequality and stimulating economic growth. The survey highlights that these programs have been primarily implemented by governmental institutions other than the financial regulator. Findings show that seven out of the 27 countries surveyed conduct subsidized credit or refinancing schemes implemented by financial regulators.

The member survey showed that Malaysia and Russia are the only countries where financial regulators manage DMIs. In countries where financial regulators do not provide DMI, the study found that this role was assigned to other public entities, such as governmental funds, specific SME programs, public state-owned banks, public funds or credit guarantee corporations. Finally, as Figure 1 evidences, DMI is primarily a trend in South Asia.

FIGURE 1: EXISTENCE OF INDIVIDUAL SUBSIDIZED CREDIT PROGRAM/ REFINANCING SCHEMES IMPLEMENTED BY THE FINANCIAL REGULATOR



BOX 1: DIRECT MONETARY INTERVENTION FOR SMEs IN RUSSIA AND MALAYSIA

1. Central Bank of Russia Refinances Credit Institutions to Support the Development of SMEs

To stimulate certain segments of the credit market, the development of which is constrained by structural factors, the Bank of Russia uses special refinancing instruments to grant long-term funds to credit institutions at preferential interest rates. These mechanisms are intended to support the financing of investment projects, including those implemented by SMEs and export-oriented companies, as well as mortgage lending.

The Bank of Russia monitors and analyzes the effectiveness of the mechanisms and takes actions to optimize the application. At the same time, the Bank of Russia limits the volume of funds under these programs because they are not part of the main instruments of monetary policy and their use should not reduce the effectiveness of the monetary policy and hinder the achievement of the inflation target. The Bank of Russia plans to use special refinancing tools until financial market conditions are created to replace the incentive programs for priority segments of the economy by market mechanisms.

The Bank of Russia provides a number of special refinancing tools for the development of SMEs in collaboration with two institutions: the Joint Stock Company “Russian Bank for Small and Medium Enterprises Support” (JSC “SME Bank”) and the Joint Stock Company “Federal Corporation for the Development of Small and Medium Enterprises” (JSC “RSMB Corporation”).

JSC “SME Bank” implements a financial support program for SMEs that includes financing for private and state banks, leasing and factoring companies, and microfinance institutions (first and second tier MFOs and CCs) at a reduced interest rate. JSC “RSMB Corporation”¹ provides independent guarantees for loans provided by its partner banks to SMEs, as well as syndicate guarantees and counter guarantees. Using these special refinancing tools (“Program 6.5%”), the Bank of Russia extends loans to:

- > JSC “SME Bank” (at a rate of 6.5% for up to three years) secured by a pledge of receivables under loans provided by JSC “SME Bank” for its partner banks (beginning in 2015 for microfinance institutions and leasing companies) to finance SMEs; and

- > Partner banks of JSC “RSMB Corporation” (at a rate of 6.5% under the guarantee of JSC “RSMB Corporation”). In March 2016, following a decision of the Bank of Russia, the limit for this refinancing tool was increased from 50 billion rubles to 75 billion rubles. As of May 2016, this special mechanism applies not only to loans provided by banks to SMEs, but also to loans provided by the banks to leasing companies (in order to finance SMEs).

The final interest rate for loans to SMEs provided under Program 6.5% is 9-11% (for reference, the inflation rate is 7.3%).

2. Bank Negara Malaysia’s Special Funds for SMEs

Since 1993, Bank Negara Malaysia (BNM) has established various special funds to allow viable and eligible SMEs to have access to financing at reasonable costs (lending rates from 3.75% p.a.). BNM currently administers five funds, with a total allocation of RM 9.15 billion.² See table 1 ‘BNM Special Funds for SMEs’, below.

These funds are channeled through participating financial institutions (PFIs), including banking institutions and development finance institutions. Since they were established, these five funds have collectively financed more than 68,000 SMEs at an amount in excess of RM 28 billion.

BNM provides funding to PFIs at a low rate of interest. The PFIs on-lend to eligible SMEs at below market rates, ranging from 4% to 6% per annum. The credit risks are fully borne by the PFIs. As of the end of 2015, financing under these funds constituted about 3% of total financing to SMEs by financial institutions.

- 1 The main objectives of JSC “RSMB Corporation” are to:
 - support SMEs and SME infrastructure-forming companies;
 - mobilize funds from Russian, foreign and international institutions to support SMEs;
 - provide information, marketing, financial and legal support to investment projects implemented by SMEs;
 - implement measures aimed at increasing the share of consumer purchases of SMEs’ goods, works and services (defined by the Government of the Russian Federation) in the annual volume of purchases of goods, works and services, and in the annual volume of purchases of innovative products, high-tech products;
 - support information exchange between the SME Development Corporation and state authorities, local authorities and other bodies and organizations with an aim to support SMEs; and
 - draft proposals on improving support measures for SMEs, including proposals on legislative improvements regulating this field.
- 2 The original allocation was RM 9.65 billion. RM 500 million was reallocated for the purpose of disaster relief assistance.
- 3 Bumiputera is an indigenous ethnic group in Malaysia.

TABLE 1: BNM SPECIAL FUNDS FOR SMEs

Each of the five funds has specific objectives, outlined in Table 1 below.

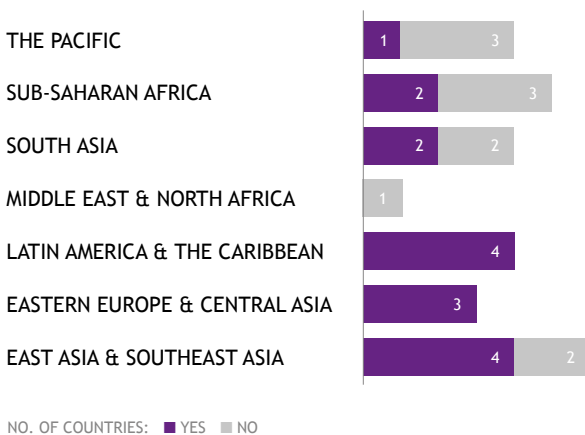
NAME OF FUND AND OBJECTIVE	FUND SIZE	TOTAL APPROVALS (END OF 2015)	FINANCING INTEREST RATE P.A.
1 FUND FOR SMALL AND MEDIUM INDUSTRIES 2 Provide financing to Malaysian SMEs for working capital and business expansion	RM 6,050 m	RM 20,304 m	4%-6%
2 NEW ENTREPRENEURS FUND 2 ¹ Provide financing to Bumiputera ³ SMEs for working capital and business expansion	RM 2,300 m	RM 4,589 m	4%-6%
3 FUND FOR FOOD Provide financing to SMEs in agriculture/agro-based industries and food producing sectors	RM 300 m	RM 2,034 m	3.75%
4 MICRO ENTERPRISE FUND Provide financing to microenterprises under BNM’s Skim Pembiayaan Mikro (Microfinancing Scheme)	RM 200 m	RM 375 m	n/a
5 BUMIPUTERA ENTREPRENEURS PROJECT FUND-ISLAMIC Provide financing to Bumiputera SMEs with secured projects from government and reputable companies	RM 300 m	RM 806 m	6%
TOTAL	RM 9.15 m	RM 28,108 m	n/a

B. LEGAL AND REGULATORY FRAMEWORK FOR SMEs

i. SME-specific Laws

Seventeen of the countries surveyed have legislation specific to SMEs. A key motivation for this legal backing is to provide clarity on the roles and responsibilities of the various parties involved in a country's SME development efforts. SME laws aim to promote, support, strengthen and encourage the growth and development of SMEs in all productive sectors of the economy. These laws commonly define SMEs by classifying them as micro, small and medium enterprises (MSMEs). This provides a standardized, universal understanding of SMEs within the national context and enables policy to target specific sectors within the economy, facilitate technical assistance and channel financial benefits and other policy incentives more effectively. It also supports the collection of relevant and comparable data on SMEs to build databases.

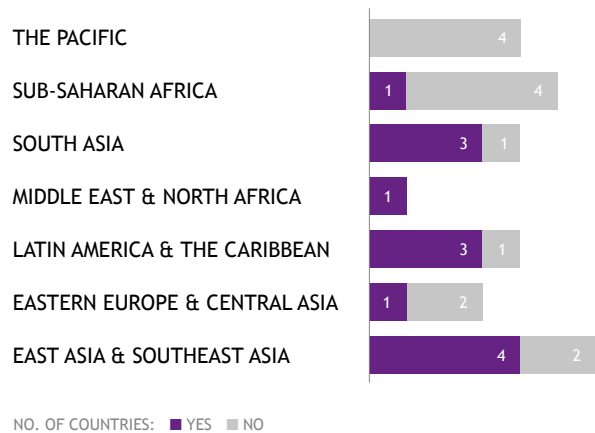
FIGURE 2: EXISTENCE OF SME-SPECIFIC LAWS, BY REGION



ii. Prudential Regulation and Lending Guidelines on SME Financing

Notwithstanding specific SME laws or legislations, financial regulators may issue guidelines to directly or indirectly encourage banks and financial institutions to lend to SMEs. Based on the survey, the two most common prudential regulations are implemented through lower risk weights for SME loans and lower liquidity requirements. Other types of regulation used to spur lending to SMEs include improving credit processes and imposing a quota/lending requirement for financial institutions to dedicate a certain percentage of their total lending to SMEs.

FIGURE 3: EXISTENCE OF PRUDENTIAL REGULATIONS APPLICABLE ONLY TO SME FINANCE, BY REGION



BOX 2: BANGLADESH BANK'S SME LENDING GUIDELINES

The share of MSME credit to total loans and advances remained at a lower level—22%—prior to Bangladesh Bank intervening with lending guidelines in 2010. Banks and NBFIs in Bangladesh did not consider the MSME segment profitable due to the perceived risk associated with SME financing. However, in 2010, Bangladesh Bank issued the first comprehensive MSME lending guideline for banks and NBFIs, “SME Credit Policies and Programmes”. The target-based lending practices and development strategies for women entrepreneurs stipulated in the guidelines have significantly increased the level of MSME access to finance over the last six years.

The target for MSME lending is not imposed by the central bank; rather, banks and NBFIs independently determine their targets every year and Bangladesh Bank simply monitors whether they have been met using pre-determined indicators. To push the banks and NBFIs to achieve their targets and boost MSME lending, Bangladesh Bank also puts significant emphasis on target performance and achievements (including women entrepreneur financing) in determining the banks' CAMELS rating. In addition, Bangladesh Bank has recently issued two other policies to incentivize MSME lending by banks and NBFIs. These are:

- > lowering the provisioning ratio of unclassified loans to MSMEs; and
- > raising the limits of maximum lending amounts to small entrepreneurs.

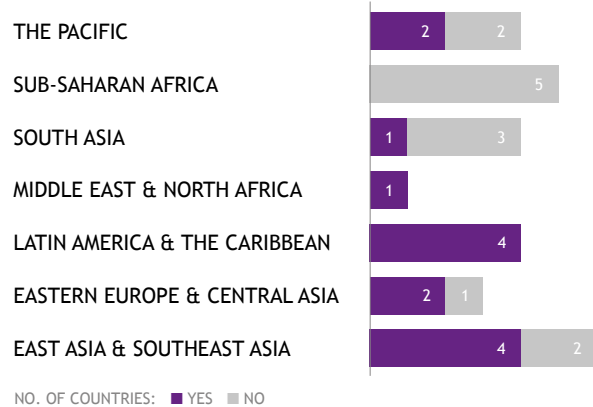
These interventions have had a major impact on the level of MSME financing and MSME access to finance in Bangladesh. The annual credit disbursement to MSMEs has more than doubled, from USD 6,695 million in 2010 to USD 14,375 million in 2015. Over the last six years, more than 350,000 new cottages, micro and small entrepreneurs, including 25,000 women entrepreneurs, have gained access to credit. Bangladesh Bank's interventions in MSME lending have ultimately resulted in about a two percentage point increase in the share of MSME credit to total loans and advances in Bangladesh.

iii. Secured Transactions Framework

Due to the perceived credit risks of lending to small businesses, lenders are reassured if they can hold an interest in borrowers' properties as collateral, reducing their potential losses from loan defaults. However, many SMEs do not possess valuable fixed assets, such as land and buildings, to pledge as security for loans. Instead, most small enterprises have 'movable' collateral, such as equipment and machinery, livestock and accounts receivables and inventories, to name a few. Having a secured transactions framework that provides adequate protection to lenders allows SMEs to leverage these types of assets and secure loans to grow their businesses.

The SMEFWG member survey found that secured transactions frameworks are more common in East Asia and Southeast Asia, as well as in Latin America and Caribbean countries.

FIGURE 4: EXISTENCE OF SECURED TRANSACTION FRAMEWORKS FOR REGISTERING CHARGE OR MOVABLE ASSETS (E.G. MOVABLE ASSETS REGISTRY), BY REGION



BOX 3: SECURED TRANSACTIONS FRAMEWORKS IN INDONESIA AND COSTA RICA

1. Indonesia's Secured Transactions Framework

Many MSMEs in Indonesia still have problems securing financing for their businesses. As of February 2016, the number of MSME debtors represented only 20.5% of all MSMEs. Often perceived as a high-risk group of borrowers, securing collateral is important to banks. Due to the lack of fixed assets among MSMEs, fiduciary security is an important alternative collateral for MSMEs to obtain bank financing. Based on Indonesia's Law No. 42 of 1999, the "fiducia" covers almost all movable assets, such as account receivables, inventories, equipment, machinery, crop and fertilizer commodities, livestock and negotiable instruments.

To enhance fiduciary registration, the Ministry of Law and Human Rights, which manages the fiduciary registration system, developed a centralized online registration system in March 2013. Users include notaries, financial institutions, legal business entities, limited corporations and individuals. Fiduciary registration is based on notarial deeds, although this is not necessarily conducted by the notary since banks, corporations or individuals can directly access the system and register. The online system provides a fast and simple registration process that can be completed in just seven minutes, provided all required documents are ready.

Online registration gives users access to information on whether a particular asset has been pledged to another party. The types of information provided in the fiducia online registration system include the identity of the security provider, the identity of the beneficiaries, key information on the fiducia security deed, the number and dates of deeds, names of the notary, and other information such as the principal agreement. To increase usage and awareness of the online system, public awareness programs have been organized at the regional level.

Following the implementation of the online registry, the number of fiduciary registrations has increased significantly from 5,862,747 in 2013 to 8,177,692 in 2014.⁴ The system has also helped to improve the 'Getting Credit' category in Indonesia's 2016 Ease of Doing Business report.

2. Costa Rica's Movable Guarantees Act

The main objectives of Costa Rica's recently enacted Movable Guarantees Act (Act 9246, enacted May 2014 and implemented since May 2015) are:

1) increasing access to credit; 2) expanding the categories of goods that can be pledged as collateral; 3) creating a uniform and simplified system to create, publicize, prioritize and enforce transaction security; and 4) creating the Secured Transactions System. This law creates a special registry for movable guarantees, but is not specific to SMEs or non-incorporated entities. This movable assets registry is maintained by a specific governmental office designated as the "National Registry", which is responsible for implementing and managing the system.

The movable guarantees defined under the law are "a real right conferred to a preferential creditor, guaranteed on a movable asset given as collateral." When the movable guarantee is publicized under this law, the secured creditor has a preferential right to be paid from the cash obtained in the sale of the collateral or the payment in kind, if it is accepted by the secured creditor.

According to the law, movable guarantees may be constituted through contracts or by a provision of this law. These guarantees may encumber one or more specific movables, generic groups of chattels, or real or contractual rights, including but not limited to the following:

- > The inventory and equipment of physical or legal persons, including pension trusts.
- > Any other current assets, including rights to the execution of contracts or compensation for the violation or breach of contractual or non-contractual obligations.
- > Accounts receivables resulting from the exercise of any lawful activity by individuals or corporations, including autonomous heritage.
- > All the movable property of the secured debtor, whether present or future, tangible and intangible, capable of ensuring compliance with one or more present or future obligations, as long as these goods are susceptible to pecuniary valuation at the time of creation of the security, or after this, provided that they refer to the property on which this law applies.
- > Harvests, future rights to the value of standing timber and any other products from agricultural activities that can be confirmed as legitimate property of the owner or where that agricultural activity is exercised.

⁴ Number of registrations in 2015-2016 still needs to be updated.

C. POLICY AND MARKET DEVELOPMENT INITIATIVES

i. Capacity Building and Training

As the primary financial service providers to MSMEs, the banking sector plays an important role in providing information and advising their customers on the services, products and schemes available to them. Based on the SMEFWG survey, 15 of the 27 countries placed an emphasis on enhancing the capacity of bankers in SME finance through regular workshops, seminars and training.

The central banks of India and Malaysia have implemented specific training programs for bankers to improve the quality of their advisory services and address the information gaps MSMEs face. This will eventually enable MSMEs to gain access to financial services that meet their needs and improve their capabilities, particularly in the area of financial management and business strategy.

BOX 4: CAPACITY BUILDING AND TRAINING IN INDIA AND MALAYSIA

1. India's National Mission for Capacity Building of Bankers for Financing the MSME Sector (NAMCABS)

Formal finance is extended to the MSME sector in India primarily by commercial banks. Banks therefore need to have entrepreneurially sensitive and competent representatives looking after this function at every level. With this in mind, a nationwide capacity building program, the National Mission for Capacity Building of Bankers for Financing MSME Sector (NAMCABS), was launched by the Reserve Bank of India in August 2015.

Commercial banks in India comprise 27 public sector banks in which the government is the major shareholder, 21 private sector banks and 41 foreign banks. There are 3,000 branches of public sector banks that focus specifically on the MSME sector, which accounts for more than 60% of their portfolios.

The NAMCABS initiative has been rolled out across four areas:

1 Training for MSME vertical heads of commercial banks

Customized two-day training programs were conducted for vertical heads by the College of Agriculture Banking (CAB), Pune, a training institution within RBI. The program emphasized enhancing the skills and knowledge of officials to develop innovative products for the MSME sector.

2 Training of trainers in commercial banks

The objective of this phase was to train a group of motivated trainers who would take on the responsibility of training their field-level representatives who deal with the MSME sector. The trainers were to be equipped to act as motivators and mentors for younger staff members placed in MSME-specialized branches.

3 Capacity building for managers of specialized MSME branches

This phase aimed to develop effective leadership in specialized MSME branches. The training included "softer" issues, such as entrepreneurial sensitivity and effective communication with credit seekers. The workshops were conducted in 28 regional offices of RBI in collaboration with industry associations and local partners. The College of Agricultural Banking, Pune, developed the schedule, syllabus and reading materials for the program.

4 Capacity building for credit officers posted in specialized MSME branches

This training was for field-level credit officers in specialized MSME branches, and focused on developing sensitivity to the needs of entrepreneurs and "handholding" entrepreneurs when necessary.

The focus was on younger staff members who did not have the requisite experience and skills in lending to this sector.

The faculty of the training centers were expected to act as mentors and resource support for the younger staff posted in specialized MSME branches.

Monitoring Mechanism

RBI has put a monitoring mechanism in place to implement the training program. Under the NAMCABS initiative, about 2,700 officials have received training since August 2015. The program is expected to build a group of well-trained officials and usher in significant credit flow to the sector.

2. Malaysia's 'Train-the-Trainers'

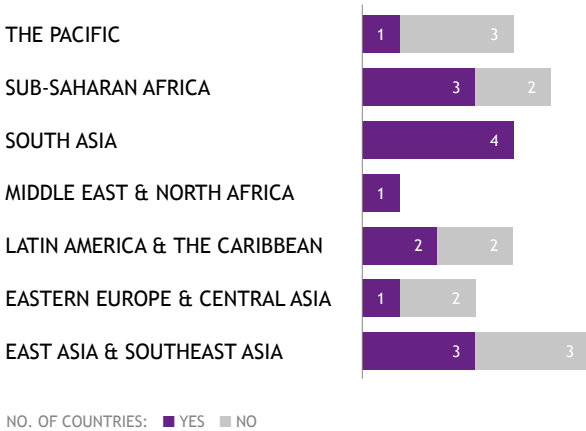
Bank Negara Malaysia has initiated the Train-the-Trainers Programme on SME Financing (TTT), in collaboration with the associations of financial institutions, such as SME Corporation Malaysia, Credit Guarantee Corporation Malaysia Berhad, Credit Bureau Malaysia Sdn. Bhd. and Agensi Kaunseling dan Pengurusan Kredit. The TTT program trains a pool of financial institution officers nationwide to become trainers and conduct a series of briefings for internal staff and training sessions for SMEs.

The program is part of a continuous effort to enhance the capabilities of financial institutions to deliver quality advisory services and address the information gaps SMEs face. The program will increase the awareness and knowledge of SMEs on the availability of various funds and financing schemes, capacity building initiatives, financial and advisory services and improve their understanding of financing requirements. This will enable SMEs to gain access to financial services and improve their capabilities, particularly in the area of financial management and business strategy.

Bank Negara Malaysia conducted the TTT training workshop in December 2015, covering comprehensive modules that addressed knowledge gaps related to access to financing. To facilitate further training and capacity building for its staff, a CD of the TTT training modules has been developed. The CD includes videos of presentations by resource persons, slide presentations, trainers notes, frequently asked questions (FAQs) and relevant e-brochures. SME Corp, in collaboration with the Association of Banks in Malaysia, will roll out 22 SME financing seminars in all states in the country. The resource persons will be among a pool of trainers representing the associations of financial institutions.

To further promote SME awareness of the availability of TTT programmes nationwide, BNM has developed video trailers that will be broadcast in social media platforms and on the websites of its partners.

FIGURE 5: CAPACITY DEVELOPMENT FOR BANKS IN SME FINANCE



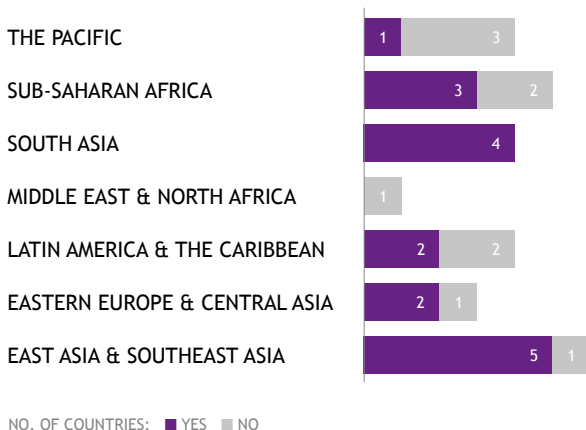
ii. Financial Education and Awareness

As part of enhancing access to financing for MSMEs, regulators in 17 countries also provide financial education to raise public awareness of the various services and schemes available to MSMEs and to equip MSMEs with knowledge of financial management, which in turn helps entrepreneurs to be more financially savvy and bankable. Countries in East Asia, South Asia and Southeast Asia have been strong proponents of expanding outreach for financial education and awareness.

Bangladesh Bank has recently implemented the “Skill for Employment Investment Program (SEIP)” with financial support from the Asian Development Bank (ADB) and the Swiss Agency for Development and Cooperation (SDC). The project aims to train 10,200 people in the next three years and each course has a separate module on MSMEs.

Meanwhile, Bank Negara Malaysia (BNM) conducts regular outreach and awareness programs, including some in collaboration with financial institutions and other agencies. BNM has a dedicated SME Promotions team that regularly participates in events, seminars and exhibitions nationwide. Depending on the attendees and the focus of the events, financial education topics are routinely included.

FIGURE 6: FINANCIAL EDUCATION AND AWARENESS PROGRAMS CONDUCTED FOR SMEs

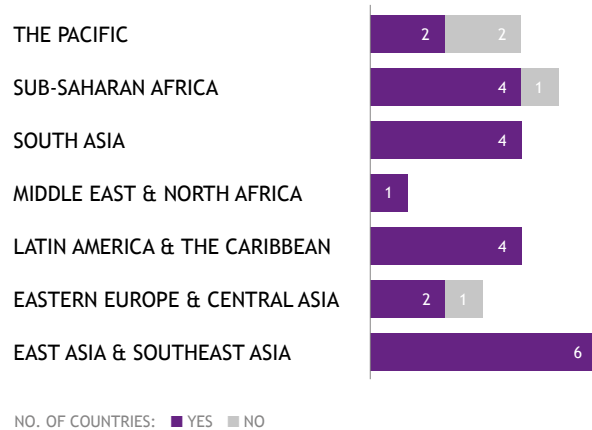


iii. Credit Information and Credit Bureaus for SMEs

Credit information addresses the information gaps associated with SME lending, providing banks and lenders with additional information to assist in the credit evaluation process. Lenders assess the creditworthiness of applicants based on their financial capacity and willingness to repay the loan. However, for many small enterprises, especially those that have not had prior dealings with financial institutions, a great deal of information is either not readily available or opaque. A credit information mechanism will facilitate access to financing for SMEs by providing additional enhanced, fact-based information on SME applicants.

Twenty-one of the member countries surveyed have credit bureaus in place that include SME-specific information, and four have a dedicated SME Credit Bureau (Bhutan, Cambodia, Malaysia and Tajikistan).

FIGURE 7: CREDIT BUREAUS THAT INCLUDE SMEs, BY REGION



iv. SME Credit Scoring and Credit Rating Mechanism

Credit ratings and scores are an extension of credit information services and credit bureaus that provide value-added information on SMEs. However, not many countries have introduced credit scoring guidelines or a regulated credit rating industry for SMEs.

FIGURE 8: EXISTENCE OF GUIDELINES ON SME CREDIT SCORING BY, REGION

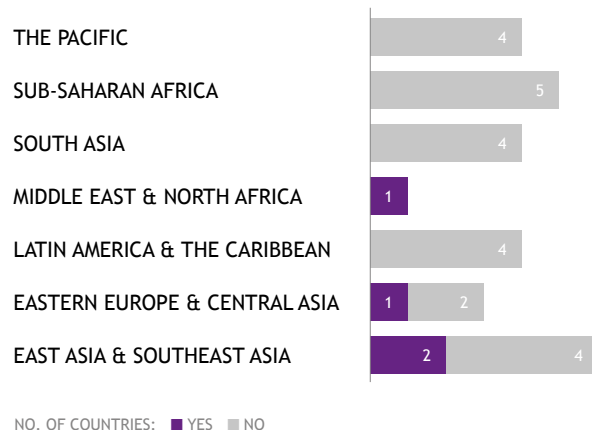
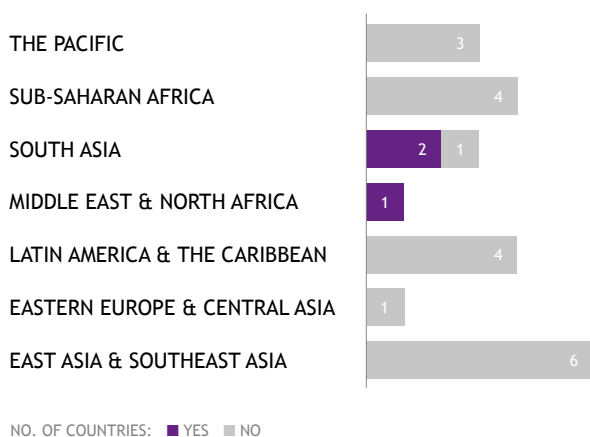


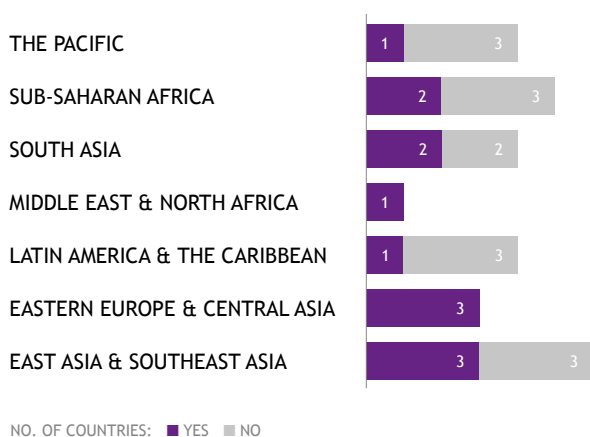
FIGURE 9: REGULATION OF CREDIT RATING REGULATION FOR SMEs, BY REGION



v. Venture Capital Funds for SMEs

Venture capital is a form of private equity financing that investors provide to start-up companies and small businesses they believe to have long-term growth potential. For start-ups without access to capital markets or formal banking, venture capital is an essential source of financial assistance. Twelve of the 27 countries surveyed had venture capital funds in their countries, primarily in Asia and Eastern Europe. Venture capital funds were not widely available in the Pacific, Latin America and the Caribbean, Middle East and North African regions.

FIGURE 10: VENTURE CAPITAL FUNDS FOR SMEs, BY REGION



vi. Credit Guarantee Mechanism for SMEs

Credit guarantees provide access to financing for SMEs with insufficient collateral and/or credit track records. The credit risks are shared between lenders and the providers of the credit guarantees, which can be an institution established by the government/financial regulator, or an existing arrangement within the government. Different mechanisms are used to set up guarantee schemes. The World Bank has published the Principles for Public Credit Guarantee Schemes (CGSs) for SMEs, which member countries could implement.

BOX 5: TANZANIA'S SMALL AND MEDIUM CREDIT GUARANTEE SCHEME

The Government of Tanzania, in collaboration with the Bank of Tanzania, established the SME Credit Guarantee Scheme (SME-CGS), officially launched on 24 May 2005, and in operation since September 2005. Twenty-two participating financial institutions (PFIs) signed the Guarantee Framework Agreement, which allows them to apply for a credit guarantee under the scheme. Currently, all banks licensed under the Banking and Financial Institutions Act 2006 are eligible to participate on a case by case basis.

The Scheme is managed by the Bank of Tanzania as an agent of the government on a transitional basis, pending the formation of an independent guarantee institution.

The initiative is part of the implementation of the National Policy on SME Development 2002 and the 2004 Financial Sector Reforms program. Among other things, the policy recognizes SMEs as an important engine of economic growth in the country. However, SME development has been hindered by limited access to financial resources, due to a lack of adequate collateral as security for loans from commercial banks. The SME-CGC is one strategy to promote access to credit facilities and enhance SMEs' access to bank financing.

The SME-CGS will share the credit risks of loans with PFIs on a pro-rata basis, whereby risk exposure shall not exceed 50% of the outstanding principal amount unless otherwise determined by the Scheme.

The performance of loans guaranteed under the Scheme has been favorable, with only one claim received and paid. Efforts are underway to review the SME Development Policy and encourage greater uptake of the Scheme by PFIs.

MAJOR FEATURES OF THE SME-CGS

Commencement date	September 2005
Capital	TZS 14 billion
Risk sharing	Up to 50%
Duration of the guaranteed loans	1 to 5 years
Target beneficiaries	Borrowers engaged in formal productive activities capable of creating employment, with capital requirements of TZS 5 million to 500 million
Cumulative loans granted by lending institutions since inception	TZS 8.65 billion
Cumulative value of guarantees issued since inception	TZS 4.2 billion
Claims paid	TZS 250 million
Number of jobs created	3,358

Note: Exchange rate is 1 USD to TZS 2,100

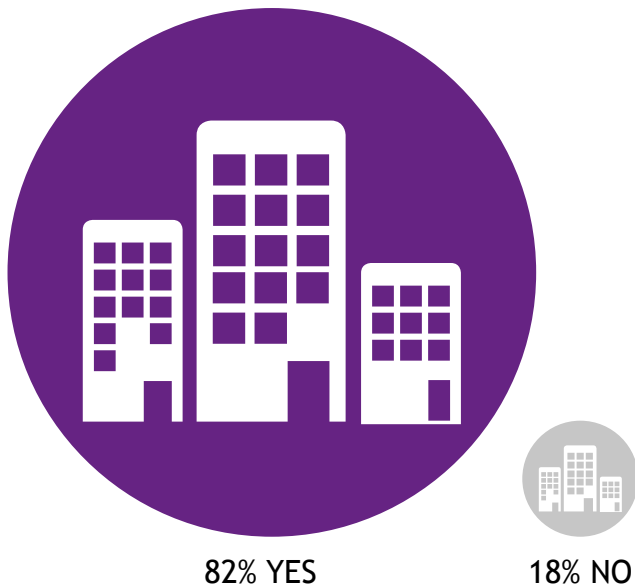
vii. Debt Resolution Mechanism

MSMEs may at some point have difficulty repaying their loans for a variety of reasons, such as an economic downturn, increased competition, changes in the business landscape or the introduction of new regulations, which may adversely impact business revenue and cash flow. In general, the rescheduling or restructuring of a loan facility is market-driven, made on a case by case basis by the borrower and the lender.

The member country survey revealed the majority of regulators are not involved in the process. However, four of the 22 countries indicated there were policies or regulations in place to assist MSMEs experiencing difficulties repaying their bank loans.

In Malaysia, a dedicated scheme was established to encourage banks to be more flexible and attentive to the needs of MSMEs in difficult times, particularly those with viable businesses, and allow entrepreneurs to focus on turning around their business performance and becoming more sustainable. See box 6 'Malaysia's Small Debt Resolution Scheme', on page 12.

MEMBER COUNTRIES WITH A DEBT RESOLUTION SCHEME TO HELP FINANCIALLY DISTRESSED MSMEs RESTRUCTURE/RESCHEDULE LOANS



Note: The result above is based on 22 responses received from AFI network

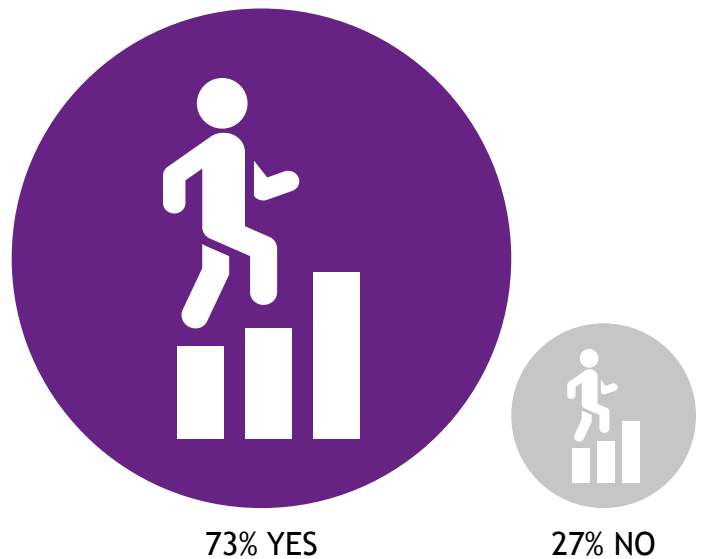
viii. Consumer Protection

The majority of member countries have put a mechanism or platform in place to deal with financial dispute resolutions with customers and to strengthen consumer protection. While many financial regulators have a dedicated department or division to oversee consumer protection and issue policies and regulations, some countries have also created dedicated entities or financial ombudsman offices that are responsible for receiving and resolving consumer complaints.

In Malaysia, the Financial Mediation Bureau (FMB), which began operating in 2005, provides consumers with objective and timely resolution of disputes, claims and complaints arising from services or products provided by financial service providers (FSPs) supervised by Bank Negara Malaysia. This scheme is a free service for complainants and operates under a voluntary arrangement with FSPs and is funded entirely by the FSPs through an annual levy.

However, the Financial Services Act and Islamic Financial Services Act of 2013 provide for the approval of a financial ombudsman scheme (FOS), which would ensure effective and fair handling of complaints and resolution of disputes with FSPs. The transformation of the FMB into the approved FOS is currently underway, and will provide financial consumers with an inexpensive and effective independent redress mechanism to resolve their disputes with FSPs quickly and with minimum formality. The service will be an alternative to, and not a replacement for, the courts.

MEMBER COUNTRIES WITH A CONSUMER PROTECTION PROGRAM OR REDRESS MECHANISM TO RESOLVE FINANCIAL COMPLAINTS/DISPUTES



Note: The result above is based on 22 responses received from AFI network

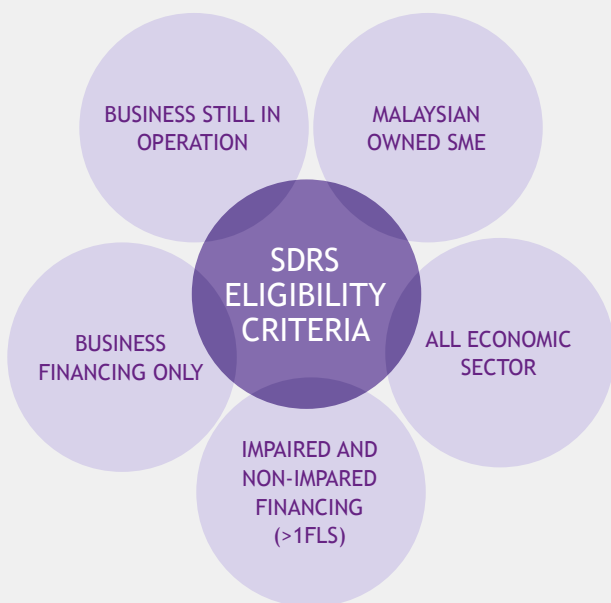
BOX 6: MALAYSIA'S SMALL DEBT RESOLUTION SCHEME

To provide a holistic and conducive financing ecosystem for MSMEs, Bank Negara Malaysia established the Small Debt Resolution Scheme (SDRS) in 2003 with the aim of providing assistance to viable MSMEs in all economic sectors with impaired financing or those facing difficulties with financing from multiple banks. In essence, the SDRS facilitates the rehabilitation of problematic financing accounts,⁵ either through restructuring or rescheduling an MSME's existing financing facilities.

As the largest provider of financial services, banks are playing a major role in assisting distressed MSMEs through their own loan restructuring or rescheduling schemes. However, if an MSME's application is rejected by the banks, the SDRS provides them with an opportunity for their application to be re-evaluated by an independent committee.

The SDRS Mechanism

Eligible MSMEs may apply for assistance under the SDRS by submitting a complete application form and necessary supporting documents to their respective bank or the SDRS Secretariat at BNM. The bank is then required to evaluate and make a decision on the application within a certain time frame. If the application is declined by the bank, an independent committee, known as the Small Debt Resolution Committee⁶ (SDRC), will undertake an independent assessment of the application and the viability of the business. If eligible, the SDRC will propose that the bank assists the MSME by restructuring or rescheduling the financing facilities.



Under the Scheme, the financing facility can be restructured through a combination of several strategies including, among others, lower monthly instalments, a lower interest rate and/or an extended loan repayment period. The restructuring or rescheduling terms are deliberated and recommended by the SDRC after thorough consideration of, among other things, the affordability of each MSME, the reasons the accounts are in default, the business model, and the entrepreneur's plan and strategies to turn the business around. Generally, new repayment terms with lower monthly instalments will provide the breathing space distressed SMEs need to improve their cash flow without increasing their debt level. Ultimately, the proposed plan aims to provide a win-win solution for both the SMEs and the banks.

The SDRS has helped distressed MSMEs turn their businesses around

As of the end of May 2016, 83%, or 973 applications, were approved for restructuring or rescheduling, amounting to RM 1.1 billion (or USD 275 million). Meanwhile, about 54% of MSMEs assisted under the scheme were able to improve their cash flow, turn around their businesses and remain viable. The success of the scheme indicates that amicable restructuring and rescheduling arrangements for impaired financing continues to be the best way to support the viability and sustainability of financially distressed SMEs.

The SDRS not only helps banks to rehabilitate faulty MSME loans, it also encourages them to be more supportive and attentive to distressed MSMEs that have the potential to turn around their businesses given sufficient time and effort, rather than resorting to legal proceedings as an exit mechanism.

5 "Loans" connotes conventional loans only. "Financing" is used when it covers both conventional loans and Islamic financing.

6 The independent committee comprises nine individuals with vast experience in business, law, banking and entrepreneur development.

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