



# SAPF-FSG Joint Webinar

## Specialized Institutions to facilitate SME Financing

25 February 2021

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# Agenda

**1. Introductory Remarks**

**2. Session : Public SME Financing Institution in Korea**

**3. Presentation by discussant**

**4. Open floor discussion**

**5. Session : Government Lending Schemes  
(The Case of the U.S. Small Business Administration)**

**6. Presentation by discussant**

**7. Open floor discussion & Closing remarks**



# Introductory Remarks

**Mr. Kenich Yokohama**

**Director General**

**South Asia Department, Asian Development Bank**



*Mr. Kenich Yokoyama oversees the operations of seven sector divisions and six country offices in South Asia regions as well as regional cooperation initiatives. The six countries include Bangladesh, Bhutan, India, Maldives, Nepal and Sri Lanka.*

*He joined ADB in 1999. Early in his ADB career, he was assigned to project operations in South Asia covering the water resources sector. Between 2012 and 2017, he served as Country Director for Nepal Resident Mission. In 2017, he was appointed as Country Director for India Resident Mission where he stayed until April 2020.*

*He is a national of Japan. He holds a master's degree in Agriculture Economics from Stanford University, USA and obtained his undergraduate degree in Agriculture Engineering from Iwate University Japan.*

**Prof. Jaejoon Han**

**Department of Global Finance & Banking College of Business  
Inha University, Korea**



*Prof. Han is a Financial Sector Specialist with a long record of working on Policy finance, including SME and low-income financing. He holds a Ph.D in Economics in financial economics and industrial organization from Univ. of Texas at Austin. He also has a bachelor's and master's degree in economics from Seoul National University, Korea.*

*He started his career as an economist in the Research Bureau at the Bank of Korea since 1996. After earning a doctorate in economics in 2006, he worked in the Capital Markets Department at the Korea Institute of Finance. He is the head of finance at Inha University. He has a lot of experience working in public-private committees, public enterprise evaluation teams, Korea public finance bank management budget deliberation committee, and small business finance policy committee.*

# Public SME Financing Institution in Korea: *The Industrial Bank of Korea*

**Jae-Joon Han**

*Professor,*

*Department of Global Finance & Banking College of Business,*

*Inha University*

The ADB logo is a dark blue square with the letters 'ADB' in white, serif font.

ADB

# Background of difficulty of SME financing

## **SME's Difficulty Obtaining Formal Finance**

*Informational asymmetries*

*Collateral requirements*

*Banks Impose High Lending Rates  
on SME Borrowers*

*Financial regulation*

# Case of SME financing in Korea



***Recent case of the adjustment to the change of Basel Regulation***



***SME Support Systems in the Republic of Korea***



***Introduction of IBK***

## ***The Impact of Basel III on SMEs***

▪The introductions of Basel II and III regulations had adverse impacts on SME lending.

•This called for regulators to implement a number of measures to support and facilitate SME financing.

**First, financial institutions have been allowed to use collateral and credit enhancements such as government guarantees**

**Second, for SME exposure less than euro (€) 1 million, the concessional risk weight is 75%, providing SMEs a substantial relief from 100% unrated risk weight.**

**Third, banks that adopted an internal ratings-based approach were provided an adjustment in the correlation formula for SMEs with total sales or assets below €50 million.**

•In the Basel III reform, a new category—General Corporate SME—was introduced and further “granularity” was allowed for unrated exposures.



## Regulatory Challenges to SME Lending related to Basel III

Issue	Implication	Consequence
Weak internal ratings-based models	Such models treat large companies and SMEs alike	SMEs end up getting 100% risk weight regardless of years of cash flow and business performance.
Provisioning requirement for a secured loan is cheaper than an unsecured loan	The board and the management are wary about taking assets that can adversely affect their balance sheets.	SMEs that are unable to provide eligible collateral against loan exposures are charged with higher risk premium.
Introduction of liquidity and leverage requirements	The liquidity and leverage framework demands high quality and liquid assets.	SMEs have generally low credit rating and lack flourishing capital market and securitization market so banks refrain from SME exposures

### New Classification of SMEs by the Korean Financial Services Commission under Basel III

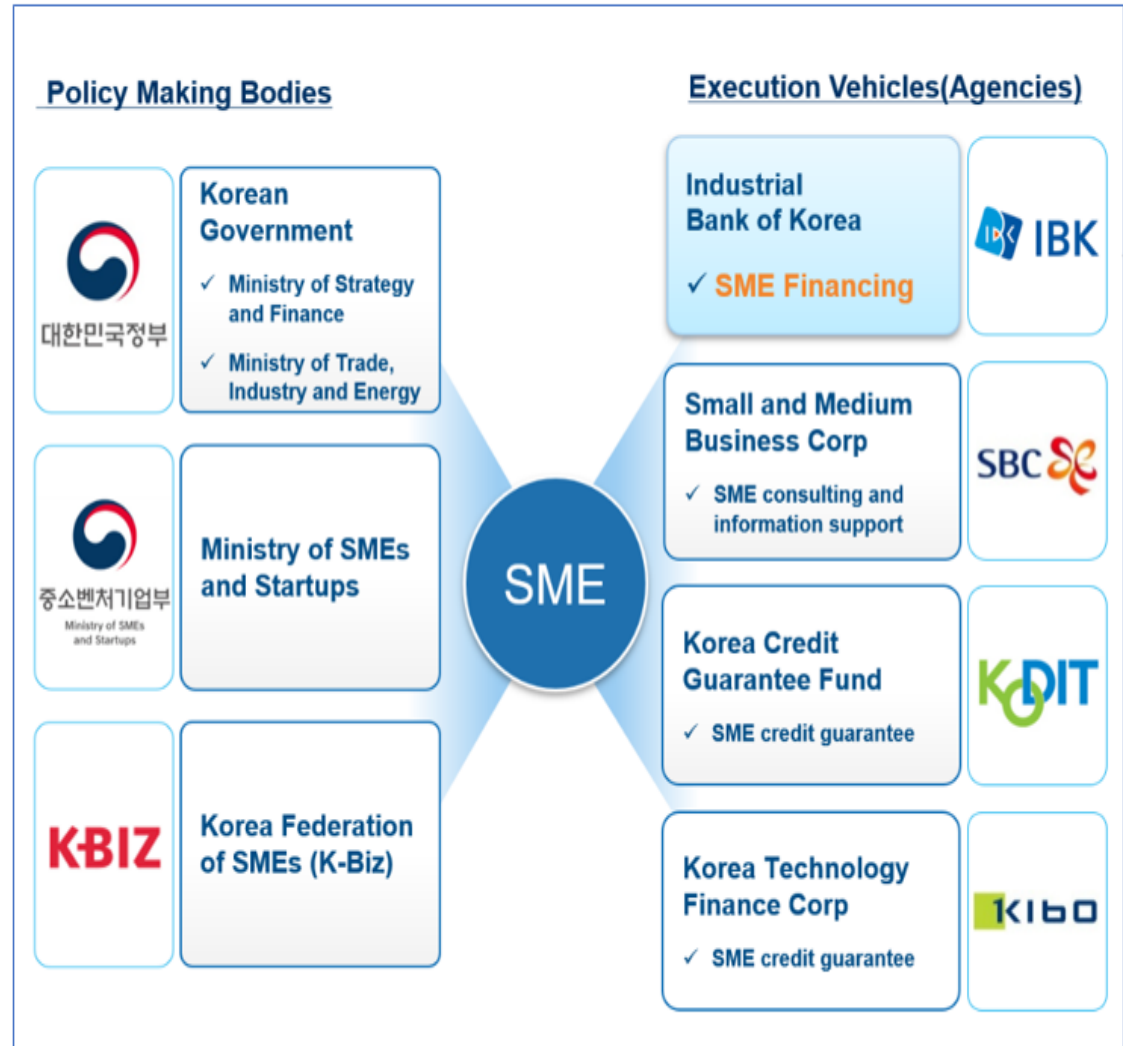
	Current	Revision
Expanding the scope of SMEs	SMEs with total sales of less than Korean won (W)60 billion	SMEs with total sales of less than W70 billion
Expanding the criteria for SMEs	Only SMEs can be recognized by total sales	SMEs can be recognized by total sales or total assets
Eliminating disadvantages for new companies	Regarded as a general enterprise due to lack of corporate information	Regarded as an SME
Effect	<p>Due to these new provisions, about 9,000 corporate borrowers were classified as SMEs whose risk weight is down to 75% from 100%.</p> <p>As a result, the capital burden of lenders dealing with SME loans has been reduced, improving lending capacity for SMEs. Further, the interest burden on SME borrowers has been eased somewhat.</p>	

# SME Support Systems in the Republic of Korea

At the beginning of the implementation of the economic development policy, in the 1970s, the Korean government focused on developing heavy and chemical industries

Economic power was thus concentrated in big conglomerates, which the government recognized was not good and thus tried to foster SMEs as a countermeasure to pursue balanced and inclusive economic growth.

The government has since passed laws enhancing both governmental and private support to SMEs



## **Brief Summary of introduction of IBK**

Access to finance is a key constraint for SMEs in growing their businesses in emerging and developed economies.

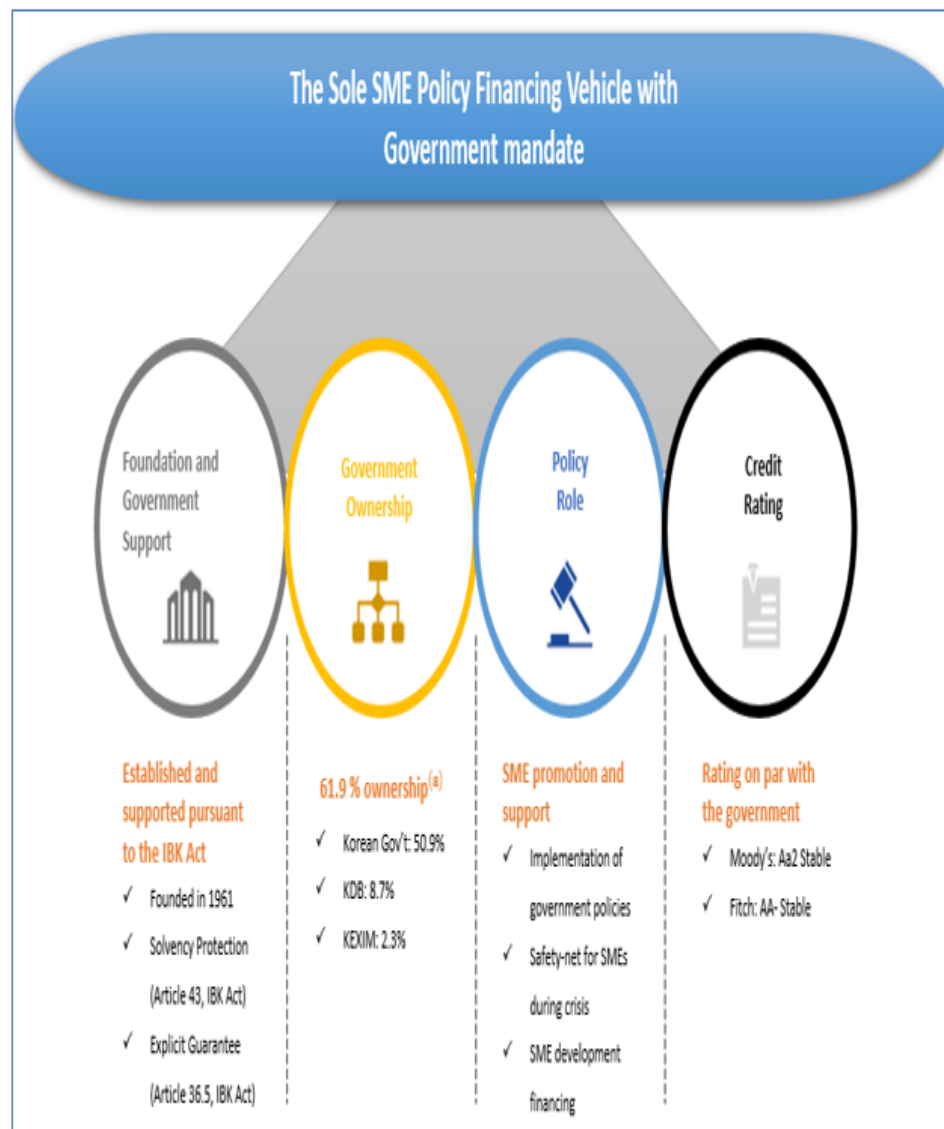
These small firms have limited access to capital markets and difficulty obtaining formal finance from lenders such as commercial banks. Even when SMEs can obtain formal finance, they often face onerous loan terms such as high interest rates and demands for collateral.

To overcome the impediments to SME access to credit, Korean government set up a specialized bank (Industrial Bank of Korea) to provide credit to SMEs in 1961. It has Ministry of SMEs and Startups, which is mandated to develop and implement government policy for promoting business growth, fostering start-ups, and supporting micro, small, and medium-sized enterprises (MSMEs). The ministry collaborates with 9 SME-related (or affiliated) institutions. Among them, two key institutions are the Industrial Bank of Korea (IBK) for financing, the Korea Credit Guarantee Fund for credit guarantees.

IBK is required to allocate at least 70% of its loan portfolio to SMEs bank under the IBK Act. The Korean government also enables IBK to issue Small and Medium Industry Finance bonds separately—with a government guarantee of the interest and principal repayment—to prepare loan resources, because deposits alone are not enough for IBK to raise the funds it needs. IBK also provides consulting support to SMEs at every stage of business, in addition financing.

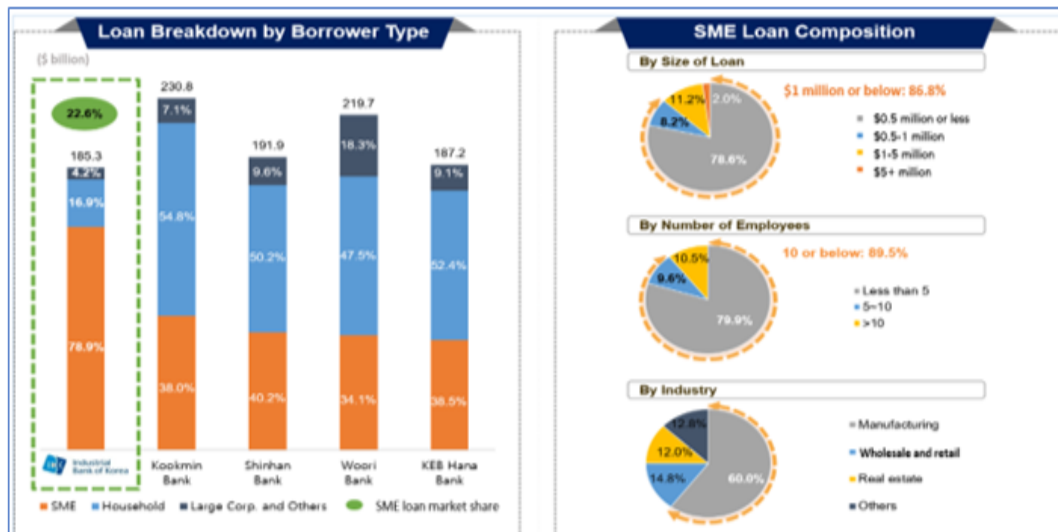
Furthermore, IBK Financial Group constituents provides nonbank financial services through securities companies, venture capital, capital companies, asset management companies, and credit information companies dedicated to SMEs, using other these IBK Group constituents, in addition to bank since 1986.

# Industrial Bank of Korea at a Glance



Purpose	To promote the independent economic activities of small and medium-sized enterprises (SMEs) and enhance SMEs' economic position in the national economy	Article 1
Governance	President of the Republic of Korea appoints the president and CEO of Industrial Bank of Korea (IBK)	Article 26
Business plan	Government approves IBK's annual business plan	Article 35
SME lending	At least 70% of total loan portfolio for SMEs	Enforcement Decree 31
SME research	Conduct research and business consultation for SMEs	Article 33.3
Solvency protection	Government shall provide funds to cover IBK's deficit	Article 43
IBK bonds	Government may provide guarantee on the payment of interest and principal of IBK's bonds, subject to the approval from the National Assembly	Article 36.5

# Loan portfolio of IBK



Source: Industrial Bank of Korea

## Unsecured Loans for SMEs by IBK

	FY2015		FY2016		FY2017		1H 2018	
	Amount (\$ billion)	Ratio	Amount (\$ billion)	Ratio	Amount (\$ billion)	Ratio	Amount (\$ billion)	Ratio
SME	105.1	100%	112.0	100%	118.6	100%	123.9	100%
Collateral	46.1	43.8%	51.2	45.7%	58.5	49.3%	62.9	50.7%
Guaranteed	19.4	18.4%	19.8	17.7%	20.6	17.3%	21.0	16.9%
Unsecured	39.7	37.8%	41.0	36.6%	39.6	33.4%	40.1	32.3%
Micro-Business	28.2	100%	30.6	100%	33.0	100%	34.7	100%

Source: Industrial Bank of Korea

## Loan Breakdown

- As of the first quarter of 2018, 78.9% of IBK's loans were for SMEs, a 22.6% share of the country's SME market. Among its SME loans, 78.6% were \$0.5 million or less, 89.5% for firms with 10 or fewer employees, and 60.0% of the loans were for the manufacturing industry.

## Relatively High Unsecured Loan

- As of the first half of 2018, unsecured loans comprised 32.3% of the SME loan portfolio and 23.6% of the micro-business portfolio of IBK.

## Funding structure of IBK

	Q1 2018		Q4 2018		Q1 2019	
	Amount (\$ billion)	Ratio	Amount (\$ billion)	Ratio	Amount (\$ billion)	Ratio
<b>Total Depository</b>	<b>169.7</b>	<b>100%</b>	<b>180.9</b>	<b>100%</b>	<b>186.9</b>	<b>100%</b>
<b>IBK Bonds</b>	<b>74.7</b>	<b>44.0%</b>	<b>86.0</b>	<b>47.5%</b>	<b>88.7</b>	<b>47.5%</b>
Branch	50.3	29.6%	52.2	28.9%	52.9	28.3%
Market	24.4	14.4%	33.7	18.6%	35.9	19.2%

IBK = Industrial Bank of Korea, Q = quarter.

Source: Industrial Bank of Korea. Annual reports. <https://global.ibk.co.kr/en/investor/AnnualReport>

- IBK's funding consists of deposits and SMIF bonds.
- SMIF bonds procured were 47.5% of total funding (depository) in 2019.
- In addition, 60% of IBK's SMIF bonds (28.3% of the total) were sold through branch networks and the remaining 40% through the capital market.
- Branch networks account for a high share because, as the SMIF bonds are not subject to deposit insurance fees, these can give customers a higher interest rate than the general deposit rate provided by other commercial banks.

# Major roles of IBK



**Fostering economic growth through SME development**



**Overcoming market failure**

*Caused by Information Asymmetry*

*Safety Net Provision for SMEs*



**Financing products**

*Schemes*

*A Representative Product*



**Comprehensive consulting services**



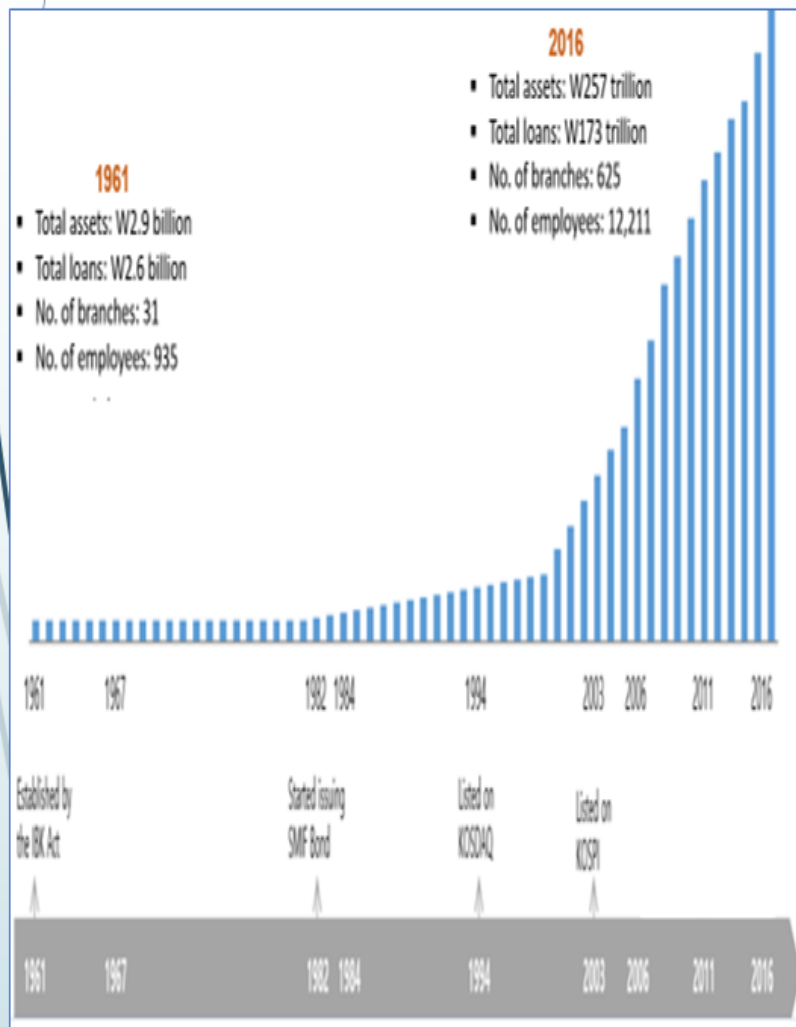
**Risk Management specialized for  
SME financing**

*Low delinquency ratio*

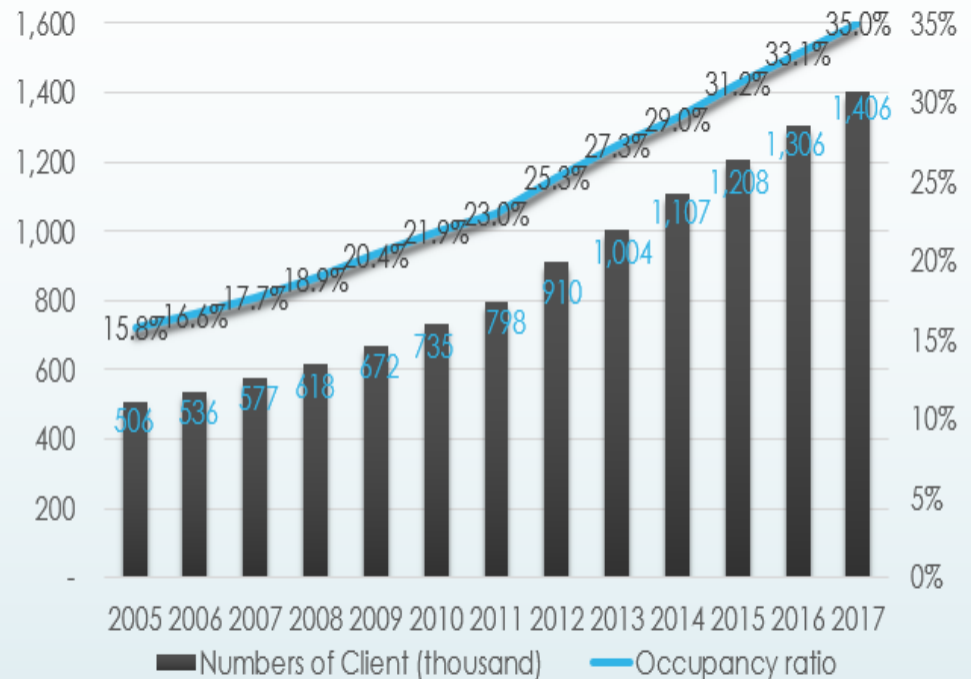
*Good rehabilitation support*



## Fostering economic growth through SME development



Source: Industrial Bank of Korea



- IBK has played an essential and pioneering role in the industrialization and economic development of the Republic of Korea through its financial support for the growth of SMEs.
- It is the only de facto policy bank responsible for directly funding SMEs and it has contributed greatly to the number of SMEs, the number of employees, the proportion of SMEs in GDP, etc.
- As such, IBK's SME clients have grown steadily, reaching more than 1.4 million, accounting for 35% of SMEs in the Republic of Korea in 2017



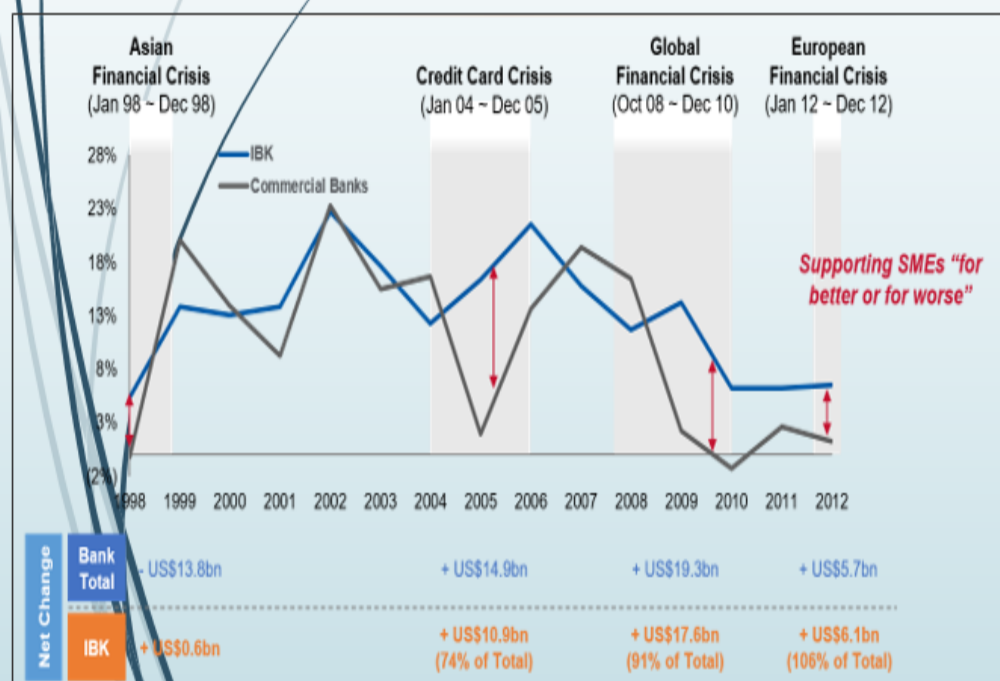
# Overcoming market failure

Table: Unsecured SME Loans among Major Korean Banks

	April 2018	April 2019	April 2018	April 2019
	Amount (\$ billion)	Ratio	Amount (\$ billion)	Ratio
IBK	38.6	38.5%	49.4	39.1%
Kookmin Bank	17.1	17.0%	21.5	17.0%
Shinhan Bank	17.1	17.0%	19.7	15.6%
Woori Bank	14.1	14.0%	18.8	14.9%
Hana Bank	13.5	13.4%	17.1	13.5%
Total	100.2	100%	126.5	100%

## Resolve information asymmetry

- IBK systemizes information on SMEs that have accumulated over a long period of time. This enables IBK to develop specialized financial products for SMEs, ultimately narrowing the gap in financing of these smaller firms left by commercial banks .
- IBK's share in the unsecured SMEs loan among other Korean banks is 39.1% as of April 2019



Source: Industrial Bank of Korea

## IBK's Liquidity Injection in Economic Turmoil

- IBK's key philosophy is that "it does not take away umbrellas at the time of rain". It has helped overcome economic downturns by expanding its loans along with financial services to SMEs.
- the total net increase of SME financing was \$19.3 billion by banks during and after the 2008 global financial crisis. IBK played a crucial role in financing \$17.6 billion of SME loans, accounting for 91% of the total net increase in loans for SMEs.
- As such, macroeconomic money velocity and IBK's loan growth are negatively correlated, that is IBK's loans rise whenever the economic business cycle declines.

## IBK's SME Financing during COVID-19

- During the COVID-19 pandemic that began in late 2019/early 2020, IBK has provided the largest amount of SME financing

## Financing products

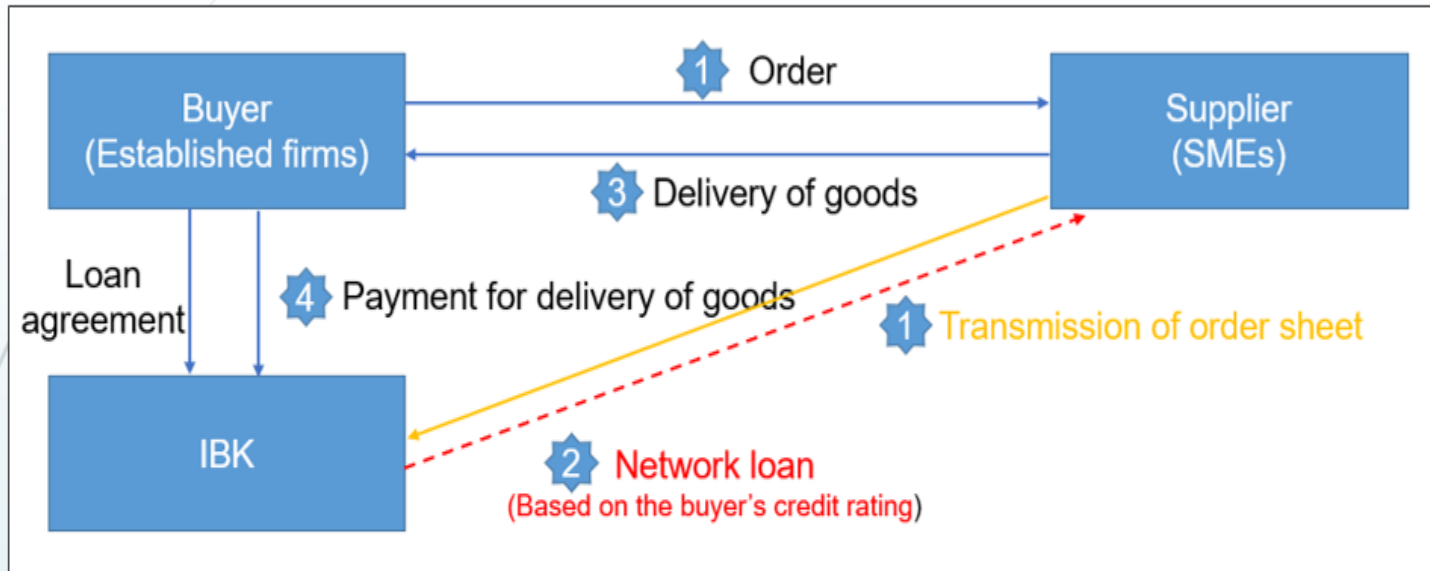
### Scheme in 4 different business stages of SMEs

- **In start-up stage**, active in proactively finding & nurturing SMEs with fewer than 5 employees.
- **In technical development stage**, IBK provides R&D funding, commercialization preparations.
  - To do this, it operates a separate division to evaluate the technology of SMEs.
- At the commercialization, it provides working capital; facilities; sales facilities loans and etc. to SMEs.
- **At the globalization**, IBK provides resources to SMEs through international aid funds, equity investment, and initial public offerings, overseas consulting, and more.

### A Representative Product Network loan

- Many SMEs face cash flow issues for a variety of reasons, including rising raw material prices and delayed delivery of goods. Delays in payment is a particular problem. To address the cash flow problem, IBK designed network loans, based on the purchase order issued by buyers, who repay the loan to IBK

## Flow Chart of Network Loans



Source: Industrial Bank of Korea

### Scheme of Network loan

- First, IBK undertakes network loan business contracts with established buyers. It is audited by an external agency if the asset exceeds \$12 million.
- The buyers must also hold a BBB or higher credit rating in order to sign this business agreement and, for this buyer's credit based loan scheme, buyers need to place an order with the supplier and send the order sheet to IBK.
- IBK then provides the supplier with a network loan, subject to the terms of the business contract.
- Interest in network loans is lower than regular credit because it is calculated based on the buyer's high credit rating. This is in fact cross-subsidization.

# Comprehensive consulting services

In 1962, it built the SME Consultation Center, which provided consultation and education services on finance, management, accounting, taxation, etc.

In the 1980s,

- IBK played a vital role in developing the operational and technological capabilities of SMEs, such as entrusting foreign consultants to provide on-site technical support.
- IBK held SME CEO seminars to reflect the current concerns of SMEs

In 1989, IBK launched a corporate information center to strengthen the functionality of its existing SME service center.

In 1990, IBK opened a permanent exhibition hall to promote products for SMEs and also sought to complement weak marketing capabilities

In 1996, IBK launched consultation services for M&A.

In 2015, IBK launched the "SMEs Hope Consulting Project"

## SME 'HOPE' Consulting Service

Finance, tax, patent

Start  
-Ups

Large  
Corp.

Global strategy, M&A

Business model,  
labor relations

Small  
Corp.

Mid  
Corp.

HR, cost, ERP/PI



Business

Biz strategy/Management/HR  
Labor relations/Production management



Succession

Long-term plan/Inherent tax consulting



Tax &  
Accounting

Assessment/Cost accounting/  
Financial accounting



Law

Risk assessment/legal advisory



IP

Patent application/dispute assist



Green

Green SCM/Emission trading



Start-up

Business plan/advisory



Certification

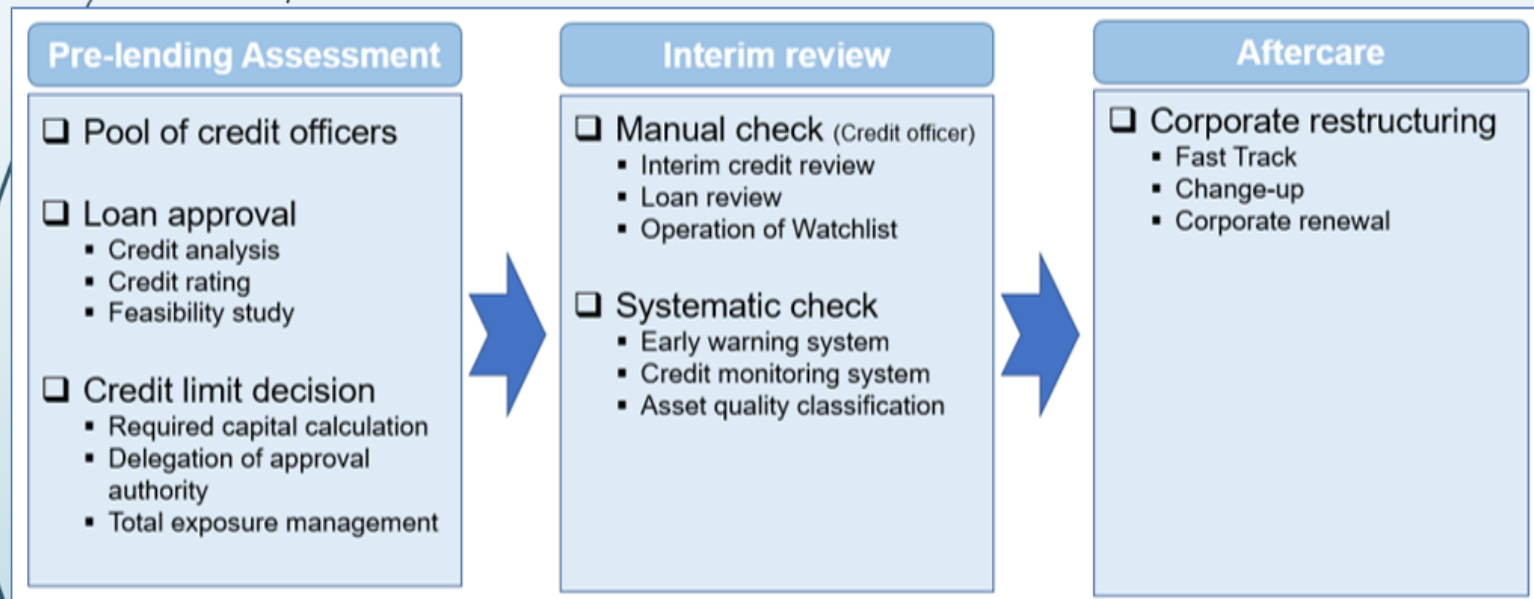
Certification consulting

Source: Industrial Bank of Korea

# Risk Management System of IBK

## Risk Management System

- **Pre-lending assessment is the decision-making stage before the loan is issued.**
  - ✓ The main system consists of a pool of credit officers, loan approvals, and credit limit determination.
- **The interim review phase, after the loan is disbursed.**
  - ✓ This is mainly divided into manual checks performed directly by specialized credit officers, and systematic checks filtered by various systems.
- **Aftercare is the final stage of risk management.**
  - ✓ It takes place primarily with SME borrowers that may be at risk of bankruptcy during the interim review process.
  - ✓ The key features of IBK's interim review consists of early warning, credit monitoring, and asset quality classification systems





## Low Delinquency Ratio of IBK

Delinquency Ratio in SME Loans

	FY2009	FY2010	FY2017	FY2018	FY2019
Industry average (A)	1.15%	1.50%	0.48%	0.49%	0.44%
IBK (B)	0.81%	0.98%	0.42%	0.51%	0.51%
Win-win collaboration loan <sup>a</sup> (C)	-	0.29%	0.21%	0.33%	0.35%
B-A	-0.34%	-0.52%	-0.06%	0.02%	0.07%
C-B	-	-0.69%	-0.21%	-0.18%	-0.16%

FY = fiscal year, IBK = Industrial Bank of Korea, SME = small and medium-sized enterprises.

Source: IBK

<sup>a</sup> The impact of the 2008 global financial crisis has created a social consensus on shared growth. Thus, a win-win collaboration loan was developed during 2019 to provide loans to the partner SMEs of large enterprises by utilizing the financial resources deposited by large enterprises in IBK. In other words, large enterprises deposit the surplus cash without receiving interest from IBK, and then IBK uses these funds by providing low-interest loans to the partner SMEs. Meanwhile, large enterprises may receive tax credit or incentives when bidding for government products according to their funding performance.

### Good Risk management of IBK

- As IBK has established a loan review system specialized for SMEs in the interim review stage, the criteria for judging the possibility of rehabilitation begin to differ from those of other banks, with the advantage of being able to more accurately determine whether SMEs are insolvent.
  - ✓ While other private banks determine whether SMEs are insolvent according to the overall business conditions and financial market conditions, IBK uses a loan review system specialized for SMEs, so that the timing and support for SMEs recoverable through financial support can be differentiated.
- Overall, the risk management process contributes to IBK's low delinquency rate, at 0.34%–0.52% points lower than the industry average in the aftermath of the 2008 global financial crisis.
  - ✓ However, rates do not differ significantly between IBK and the industry average in recent years.
  - ✓ Nevertheless, IBK's special financial products, such as win-win collaboration loans, still record a delinquency rate 0.16% points lower than those of IBK average (B) as of 2019

## Current corporate rehabilitation support programs

Graduation Rate of IBK for all Rehabilitation Support Programs

	FY2015		FY2016		FY2017		FY2018		FY2019	
	No. of SMEs	Amount (\$ million)	No. of SMEs	Amount (\$ million)	No. of SMEs	Amount (\$ million)	No. of SMEs	Amount (\$ million)	No. of SMEs	Amount (\$ million)
<b>Graduation</b>	181	408	216	612	219	540	154	441	102	310
<b>Drop-Out</b>	147	454	148	551	122	362	91	309	104	310
<b>Graduation Rate (%)</b>	<b>55.2%</b>		<b>59.3%</b>		<b>64.2%</b>		<b>62.9%</b>		<b>49.5%</b>	
<b>Industry Graduation Rate (%)</b>	36.4%		30.0%		15.4%		no data		no data	

FY = fiscal year, SME = small and medium-sized enterprises.

Source: Industrial Bank of Korea, and Korea Institute of Finance (only for the industry graduation rate).

- IBK activates customized rehabilitation support programs for SMEs whose financial condition is at risk. Three programs—Change-up, Fast-Track, and Pre-FTP (Fast Track Program)—are applied dependent upon the corporate situation.
  - ✓ Change-up is a procedure for promoting business normalization through debt adjustment support and voluntary self-reliance plans for companies (both large enterprise and SMEs) that have been selected for restructuring in accordance with the regulations of the financial supervisory authority and are eligible for business normalization.
  - ✓ In fast-track, banks holding loans jointly support liquidity for SMEs experiencing temporary liquidity shortages.
  - ✓ In contrast, pre-FTP is a new procedure to support liquidity solely by IBK for SMEs experiencing temporary liquidity shortages since September 2015
- This is determined considering the SME's insolvency progress, the complexity of the creditor structure, and the intensity of restructuring. IBK preemptively supports the structural adjustment of such marginal SMEs.
- Graduation of IBK is higher than that of industry average.

# Supplementary-digitization of IBK

## Key areas of digitization

## Details of promotion

### Build digital infrastructure

**Pursuit of completely non-face-to-face corporate loans** (Financial support program for small businesses related to Corona 19)

**Launched “i-ONE Small Business”, an exclusive app for small business owners**

- supports management tasks such as personal and business account inquiry and transfer and labor, legal, tax, etc. with one app

**Automated post-verification work for credit screening using AI**

- the time required for post-verification of credit screening documents has been significantly reduced from 8 to 10 weeks to 3 to 4 days.

### Non-face-to-face work

**Introduced “a non-face-to-face account”**

**Launched “Non-Face Document Submission Service”**

**Departments in IBK headquarter apply RPA(Robotic Process Automation) to 40 tasks**

**Introduction of chatbot for employee/customer consultation**

### Business automation

**Introduced the “real estate mortgage loan review system using AI solution” for the first time in the financial sector**

- Based on public data collected by the Ministry of Land, Infrastructure and Transport, the AI solution automatically calculates the availability and amount of loans.
- Reduction of screening time by up to one hour/Prevention of unfair or illegal handling

**Establishment of “IBK Big Data Platform”**

**Establishment of “Big Data Credit Rating Model”**

### Build the foundation of

### data handling capability

- Development of non-face-to-face loan products exclusively for small businesses using AI solution analysis results for commercial area data and visiting customer tendencies
- Develop credit rating and loan execution based on commerce data with Open API package
- For example, after converting basic information and commerce data of sellers accumulated in the e-commerce platform into data necessary for loan examination, they are used for loan examination.

### Digitizing compliance

**Self-development of “Financial Fraud Detection Model”**

**Developed “automated model for reporting suspicious money laundering transactions”**





# Thank You

Queries and Feedback to [jjhan@inha.ac.kr](mailto:jjhan@inha.ac.kr)

**Ms. Damitha Kumari Rathnayake**

**Acting General Manager/CEO**

**Regional Development Bank , Sri Lanka**



*Ms. Damitha Rathnayake is the Acting General Manager/CEO of the Regional Development Bank (RDB), Sri Lanka while she is also the Additional Director General of the Treasury Operations Department of Ministry of Finance. She holds positions of Director of the Sir Lanka Petroleum Corporation, and Peoples Bank of Sri Lanka. She had served as Acting General Manager of National Savings Bank in the past.*

*She graduated from the University of Sri Jayewardenapura, with a bachelor's degree in Business Administration and obtained a master's Degrees in Financial Economics from the University of Colombo and in Economic Policy from the Australian National University.*

*She is a well-known professional in the financial sector with experience over a decade both in public finance and the banking sector.*



# **Discussion on Public SME Financing**

Damitha Rathnatyake

Acting General Manger/ CEO, Regional Development Bank, Sri Lanka



# CHALLENGES TO SME FINANCING

## **General Observations**

Pricing on collateralized loans

Financial regulations enabling or restructuring

Basle III impact on SMEs

## **IBK specific comments**

Role of IBK's SME research

Funding structure

IBK's consultancy services



# CURRENT NATIONAL SME INFRASTRUCTURE IN SRI LANKA

## **CURRENT SME SUPPORT SYSTEMS**

- Ministry of Industry and Commerce
- Credit Information Bureau
- Rating Agencies
- Export Credit Insurance Corporation
- Industrial Development Board
- National Enterprise Development Authority
- Chambers of commerce

## **REGULATIONS**

- Adoption of Basle III and IFRS 9 by all regulated financial institutions
- SME classifications based on Central Bank definition

## **FUTURE SME INITIATIVES**

- Credit Guarantee Institution – Under discussion with ADB
- Fintech and innovation support to ensure information asymmetry is minimized and digitalization benefits MSMEs.
- Plans to commence a national development bank (RDB identified as a potential candidate)

# Regional Development Bank– Empowering Sri Lankans

- **Premier state development bank-**  
Mandate is to improve rural living standards by providing accessible and affordable financial services.\*
- **Excellent Reach** - 276 branches around the country (40% of the LSBs network in the country) serving xx customers in 9 provinces.
- **Experience in Financial Inclusion-**  
Manages Sri Lanka Warehouse Financing Scheme under 6 warehouses.
- **First state development bank to receive direct ADB assistance** –  
USD50 million 2019 and Technical Assistance (JFPR) and PFI in the SME Line of Credit

*\* RDB was formed by merging six provincial development banks in May 2010 under the Pradesiya Sanwarhana Bank Act No. 41 of 2008.*



# ADB Assistance and Impact

- **Compliance with international regulations** – Basle III achieved through ADB's investment in the subordinated debt issued by RDB.
- **Enhanced Access to borrowers** - Through capital increase and leveraging.
- **Environment and Social Safeguard management established** – Projects identified and staff trained.
- **Distribution increase** - Board strategy focusing on outreach to MSMEs including those led by women was developed and ready to launch.
- **Capacity of women MSMEs increased** - Trainings and Training of Trainers program.
- **Capacity of Staff increased** - Training on credit operations.
- **Risk Management enhanced** - Support to strengthen the credit and risk management through policies, processes, credit scoring system.

# RDB Roadmap for SME Development

- **Promote noncollateral based lending** – Staff training undertaken for this purpose.
- **Focus on women with gender-based loan products** - Current women SME portfolio 40%.
- **Provide products to the transitory SME client group** – Ensure retention of upgraded “Small level” (From Micro level) entrepreneurs by new lending and deposit products.
- **Encourage savings by MSMEs** - New Deposit products to be launched using fintech.
- **Enhance Credit operations and strengthen credit risk systems** - Centralized credit system.
- **Continuous training of SME customers for mentorship development** and staff for continued skills in credit underwriting.
- **Focused training of trainers** to ensure sustainability of skills upgrade.





# Q&A

**Prof. Rebel A. Cole**

**Department of Finance, College of Business  
Florida Atlantic University, USA**



*Prof. Cole is the Lynn Eminent Scholar Chaired Professor of Finance in the College of Business at Florida Atlantic University in Boca Raton, FL. He holds a Ph.D in Business Administration with a concentration in Finance from the Univ. of North Carolina at Chapel Hill. He also has a bachelor's degree in Economics from the same university.*

*Dr. Cole started his career as an economist in the Federal Reserve System where he worked in the Banking Supervision and Research Depts. Since leaving the Fed in 1998, he has served as a special advisor to the Asian Development Bank, the International Monetary Fund, the World Bank and other non-governmental organizations, providing training and technical assistance to central banks around the world in more than 60 countries. His primary areas of research are corporate governance, entrepreneurship, financial institutions, and real estate.*

**Ms. Manohari Gunawardhena**

**Financial Sector Specialist**

**South Asia Department, Asian Development Bank**



*Manohari is Financial Sector Specialist in the South Asia Department of the Asian Development Bank. She is currently working for lending and technical assistance projects in Sri Lanka, Bhutan and India, in the areas of MSME finance, financial market development and industrial development.*

*Earlier, she worked for the nonsovereign operations department of ADB where she was managing portfolio of private sector clients in a multiple countries in South Asia, East Asia, Central Asia and South East Asia. She is also an experienced banking and finance professional prior having worked in multi-national and local commercial and development banks in Sri Lanka.*



# **Government Lending Schemes**

Manohari Gunawardhena

Discussant



# GOVERNMENT LENDING SCHEMES

## General

- Disaster definition
- SME criteria eligible for financing from SBA
- Comparability with other GLS
- Goal 4 achievement
- Direct lending to households
- SBIC



# FORMAL FINANCIAL SYSTEM IN SRI LANKA

**Central Bank of Sri Lanka, Securities and Exchange Commission, Insurance Board of Sri Lanka**

**BANKS – Commercial and Specialized - 30**

**NONBANKS- Finance, Leasing Companies-44**

**MICRO FINANCE INSTITUTIONS - 4**

**INVESTMENT FUNDS- 40**

**CAPITAL MARKETS – Main Board, Dirisavi Board and Empower Board (for SMEs) -283**



# GLS in Sri Lanka

## **COVID-19**

- Liquidity Facility to Contractors and Suppliers of the Government
- The Saubagya COVID-19 Renaissance Facility
- Relief Measures to assist COVID-19 impacted businesses through the banking and nonbanking financial sector.
- 6-month refinance facility to COVID-19 impacted businesses and individuals

## **Other Schemes**

- New Comprehensive Rural Credit Scheme
- Donor funded lending schemes
- Limited credit guarantee schemes
- Interest subsidy schemes

# CURRENT AVAILABLE OVERVIEW OF CORPORTAE SECTOR

	Definition # of employees	# of Establishment (estimate)	Total # of Employees (estimate)	Registered (%) (estimate)	Women-led (%) (estimate)
<b>Large</b>	>200	1,200 (0.1%)	600,000 (27.6%)	100%	3%
<b>Medium</b>	51-200	3,300 (0.3%)	274,860 (12.6%)	100%	5%
<b>Small</b>	11-50	22,500 (2.2%)	434,600 (20.0%)	100%	7%
<b>Micro</b>	5-10	57,000 (5.6%)	341,400 (15.7%)	85%	9%
<b>Informal</b>	1-4	936,000 (91.8%)	526,300 (24.2%)	55%	27%
<b>Total</b>		<b>1,020,000 (100.0%)</b>	<b>3,000,000 (100.0%)</b>		

Note: Industrial, Trade and Services Sectors only (Agriculture Sector is excluded).

Source: ADB's estimate based on Industry Trade and Service Sector Economic Census 2013/14





# ADB's Intervention

Strengthening selected financial institutions who cater to the SME sector- Capital, Capacity, Innovation through fintech (***Regional Development Bank Loan and TA***).

Providing financing at comparable costs to SME lenders with good financial performance (***SME Line of credit with a number of PFIs***).

Introduction of Credit Guarantee Schemes (***in process***).

Capital Market development (***in process***).



# FINTECH INNOVATION IN THE SME SECTOR

- Reduce high intermediation costs through templated credit assessment approach using information technology for automation – Credit Scoring systems
- Reduce fund mobilization costs and widen reach through fintech applications.
- Possibility of enhancing the capacity of Fintech Regulatory framework in the country which will enhance business opportunities for SME.

*Central Bank set up a Fintech Regulatory  
Sandbox in 2018*



# **Q&A and Closing Remarks**



# Closing Remarks

**Mr. Junkyu Lee**

**Chief of Finance Sector Group, Asian Development Bank**



*He is an economist of seasoned policy-making experience and knowledge in financial development and stability, and international economic policies. Since 2013, he has been leading policy and operational discussions on Asia's banking sector stability, NPL resolution and capital market development in ADB.*

*As a former G20 finance advisor, he also has deep policy-making experience of macro prudential policy, capital flows management measures, and financial development policy in the G20 Finance Process, and ASEAN+3 Finance Process.*