

SMEs and Credit Reporting

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Global Credit Reporting Program: current engagements*

Latin America & Caribbean

- Barbados
- Bahamas
- Belize
- Guyana
- Jamaica
- OECS
- Trinidad & Tobago

Eastern Europe & Central Asia

- Azerbaijan
- Kyrgyzstan
- Tajikistan
- Uzbekistan
- Mongolia
- Moldova

Middle East & North Africa

- Afghanistan
- Egypt
- Jordan
- Morocco
- Oman
- Palestine
- Syria
- Tunisia
- Yemen

Sub - Saharan Africa

- Ethiopia
- Ghana
- Senegal
- Sierra Leone
- Tanzania
- UEMOA

Asia & Pacific

- Bangladesh
- Cambodia
- China
- India
- Lao
- Maldives
- Nepal
- Pakistan
- Pacific Islands
- Sri Lanka

* The list reflects the Program's active client countries as of June 2012 and does not capture all of the Program's country involvements to date.

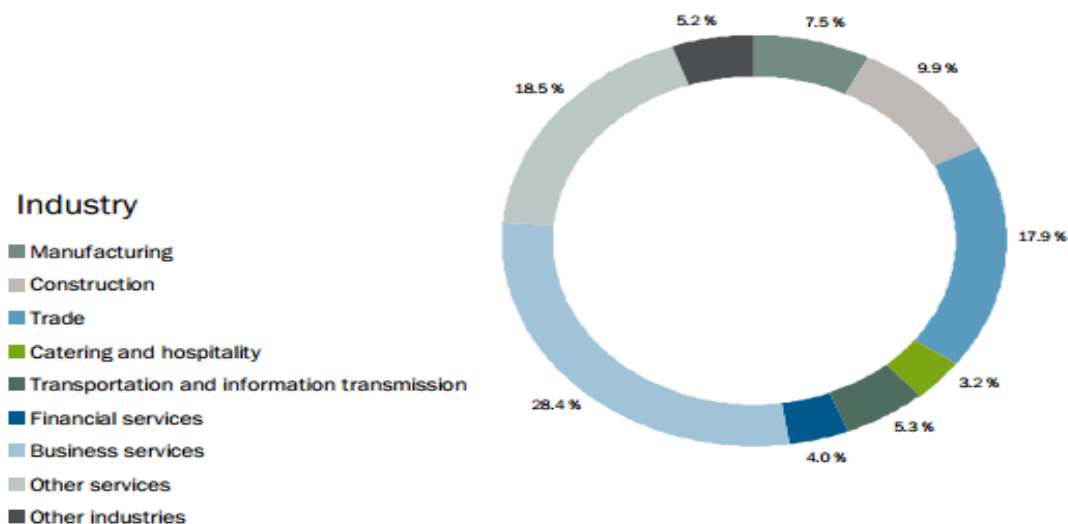
- The economy is not dominated by large and multinational enterprises
- More than 90% of European businesses are defined as SME's
- This is determined by the number of employees and turnover

Firm Size	Headcount	Turnover	or	Balance Sheet Total
Medium-sized	< 250	≤ € 50 million		≤ € 43 million
Small	< 50	≤ € 10 million		≤ € 10 million
Micro	< 10	≤ € 2 million		≤ € 2 million

- Nine out of ten SME's employ less than 10 Individuals
- SME's are greatly responsible for economic growth and therefore an important sector to focus on

Note: The definition of SMEs varies across countries and financial institutions

- The 3.76 million small and medium-sized enterprises form the backbone of the German economy
- They employ 29.1 million people, or almost 71 % of the working population
 - Micro enterprises with less than 10 employees provide a good third (35 %) of workplaces



... and service-oriented

- Some three quarters of small and medium-sized enterprises operate in service industries.
- Business services account for the greatest share at 28.4 percent.
- Less than 8 percent of the SMEs operate in the manufacturing industry.

The Background

Firm level

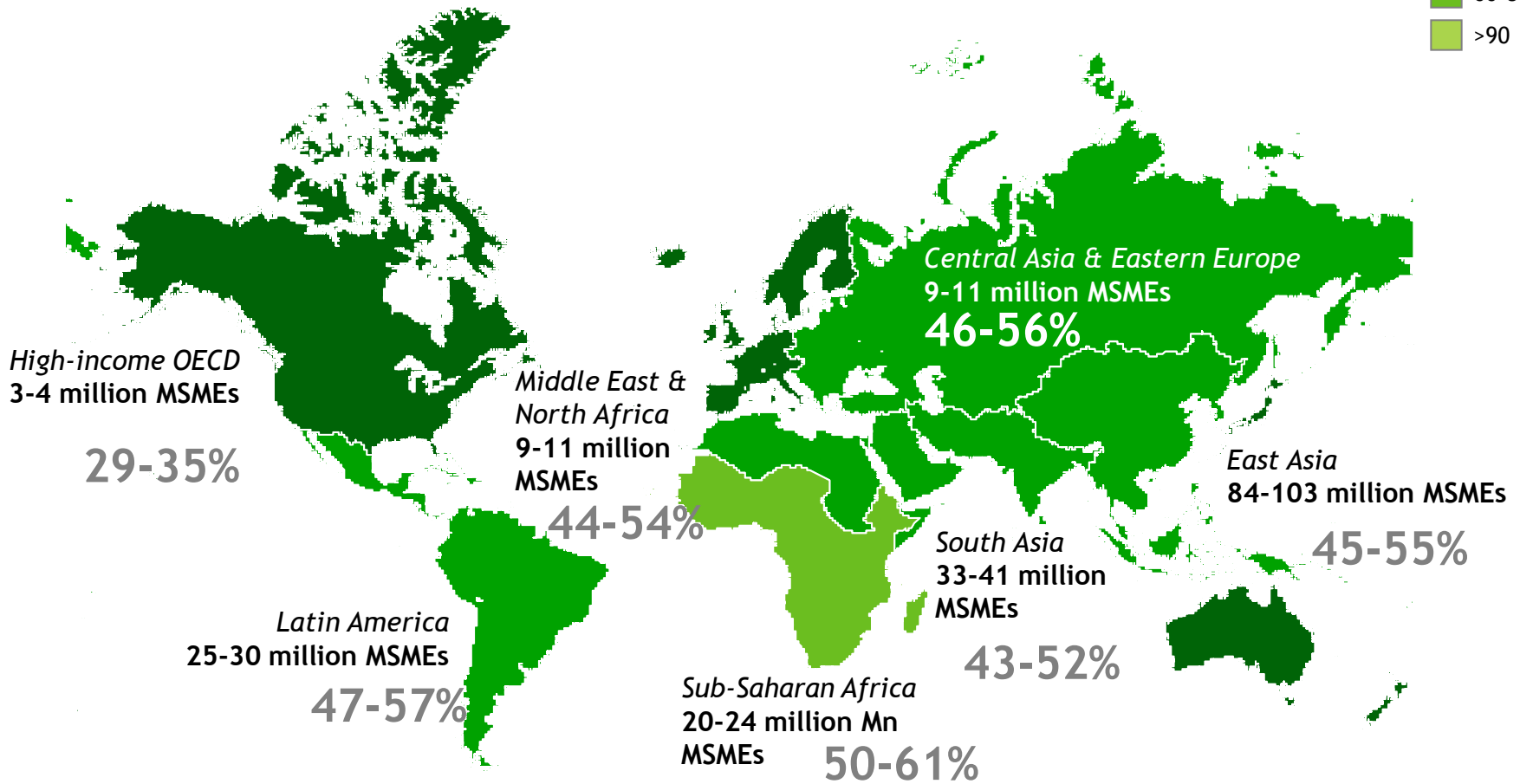
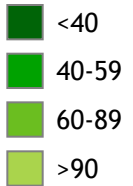
Approx. **300m MSMEs**
(70% of all) are unserved
and the total need for
credit exceeds **\$2 trillion***

Household Level

Over **60%** of people remain unbanked and underserved in emerging markets* and only **50% of adults** worldwide have an account at a formal financial institution*

50-60% MSMEs in emerging markets are unserved or underserved

Percent of formal and informal MSMEs that are unserved or underserved



Total # of unserved or underserved MSMEs: 184-225 Mn **45-55%**

Total # of unserved or underserved MSMEs excluding high-income OECD: 181-221 Mn **45-55%**

Where does credit reporting need for starts from?

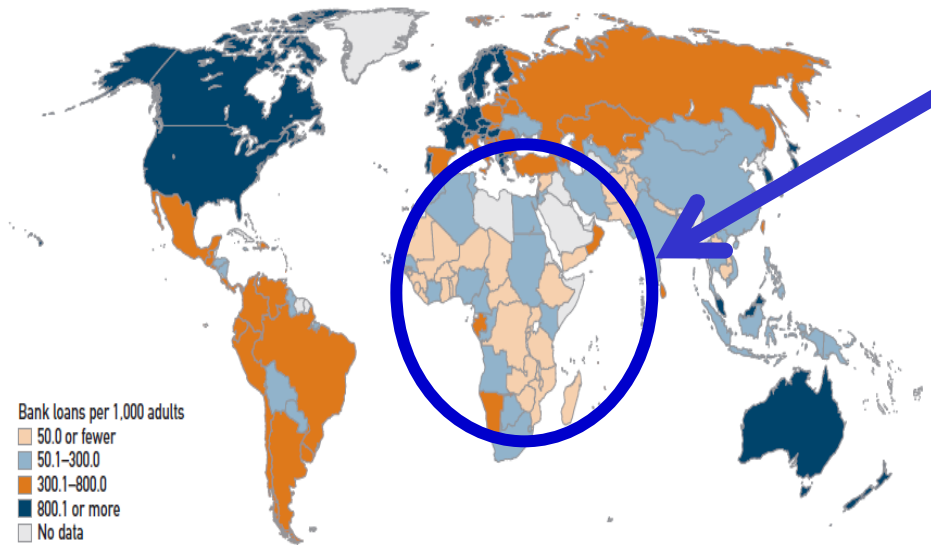
Countries without Credit Bureaus are generally the same...



The map shows which countries have existing, developing or no private consumer credit bureaus serving financial institutions and other lenders. The data comes from country assessments and advisory work of IFC's Global Credit Bureau Program and Doing Business Surveys.

Source: Global Credit Bureau Program and Doing Business Report.

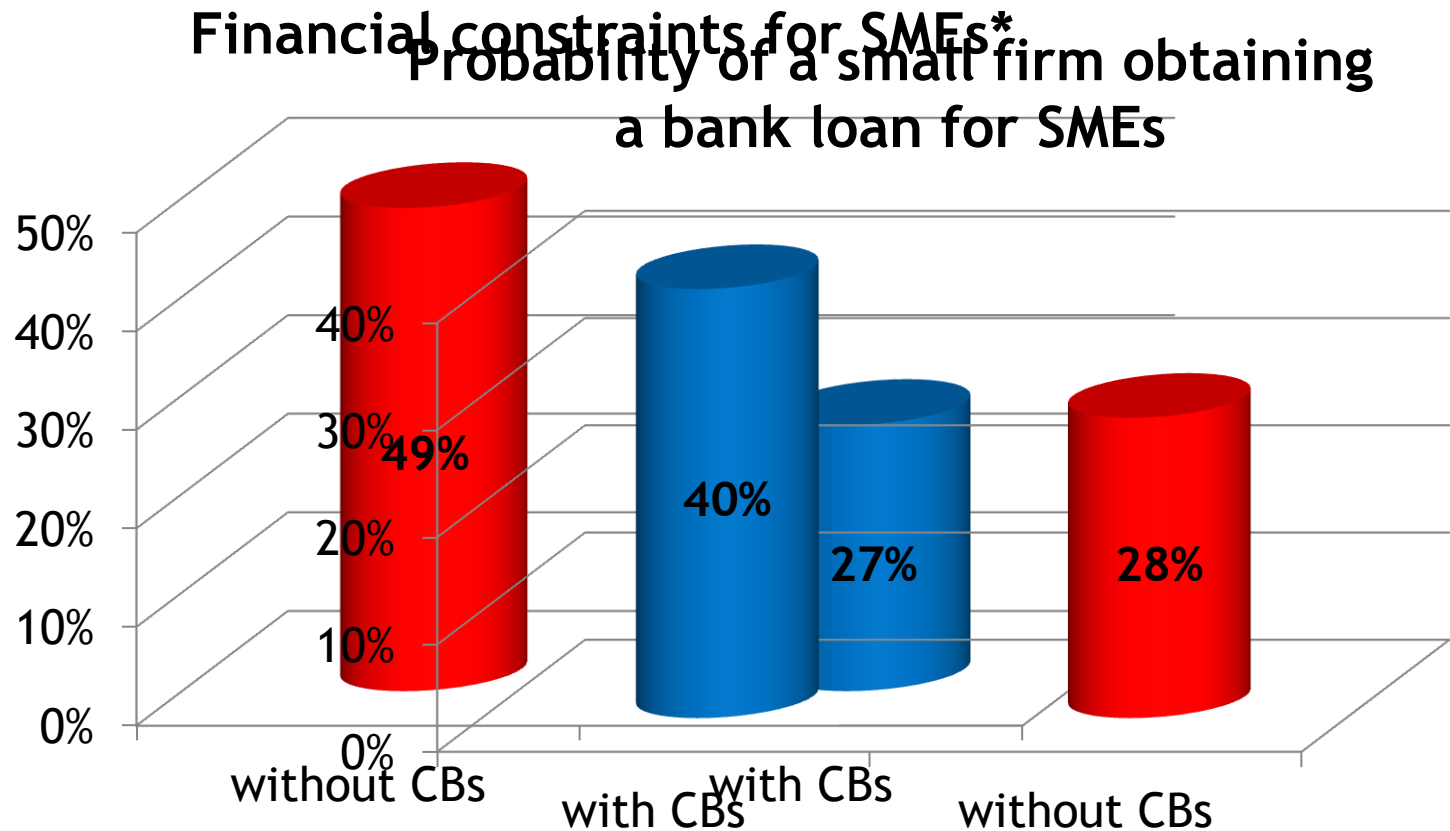
IFC International Finance Corporation



...where access to credit is more difficult!

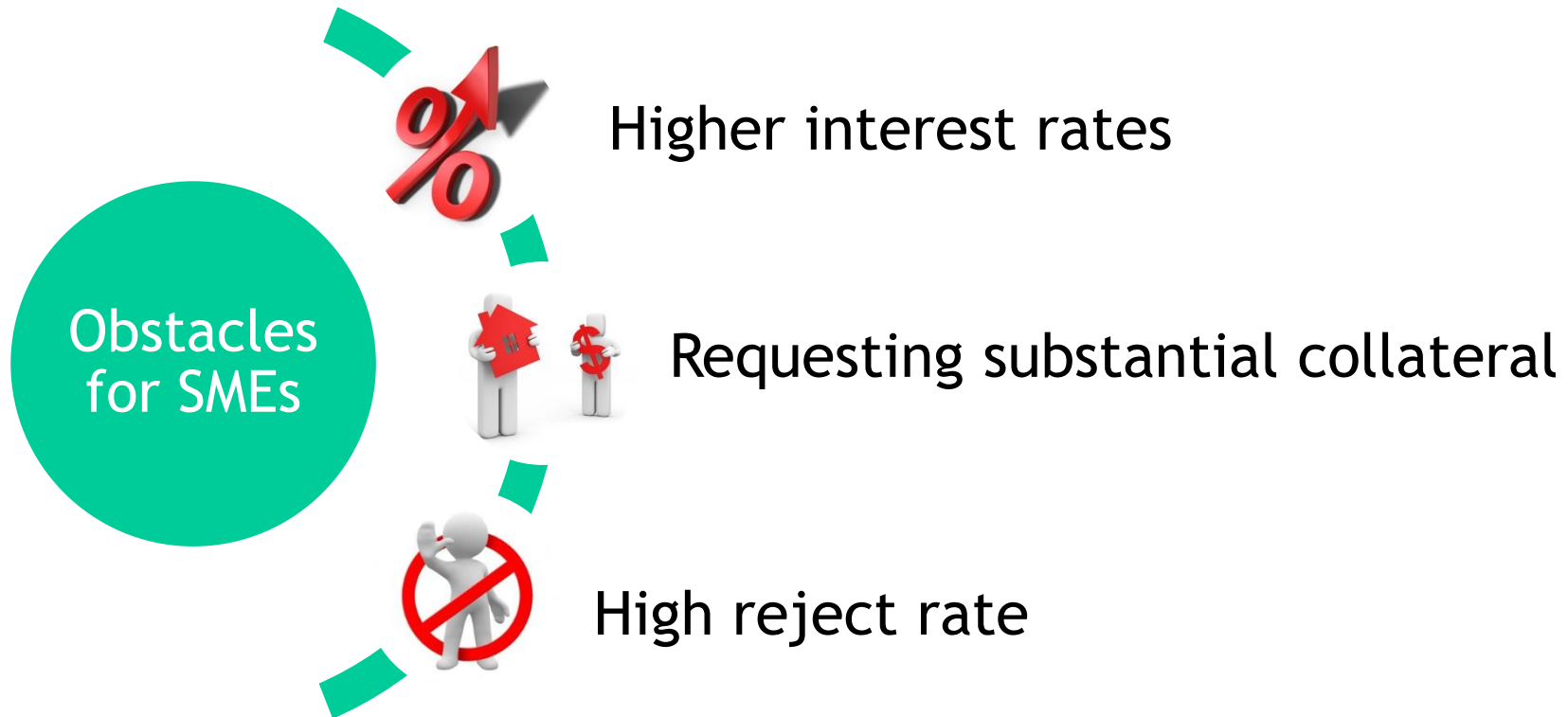
Note: Estimates for countries that did not report the number of bank loans were generated from a statistical model that uses income per capita and various features of the financial system—such as the number of bank branches per 100,000 adults and the value of deposits per adult—to predict the number of commercial bank loans. Where the number of loans in nonbanks was not reported, an attempt was made to fill in data from other sources. The estimates for bank and nonbank categories were summed by country to estimate the total number of loans in each country. See the methodology appendix for more details.
Source: Financial Access database.

SME financing/Credit Bureaus



*A 2003 World Bank study that looked at data from 5,000 firms across 51 countries: Love et al., 2003.

Obstacles for access to finance for SMEs



Credit Reporting in Russia

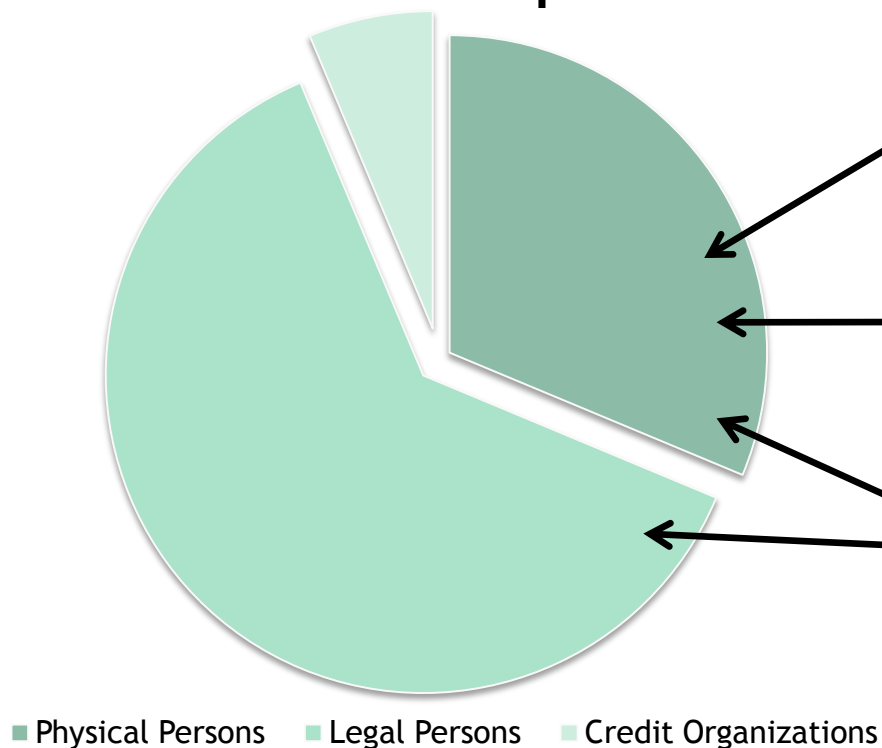


Indicator	Russian Federation	Eastern Europe & Central Asia	OECD
Strength of legal rights index (0-10)	3	7	7
Depth of credit information index (0-6)	5	5	5
Public registry coverage (% of adults)	0.0	17.3	10.2
Private bureau coverage (% of adults)	45.4	29.8	67.4

Coverage	Private credit bureau	Public credit registry
Number of individuals	45,810,324	0
Number of firms	525,967	0
Percent of total	45.4	0.0

Volume of financing

Volume of Loans provided*



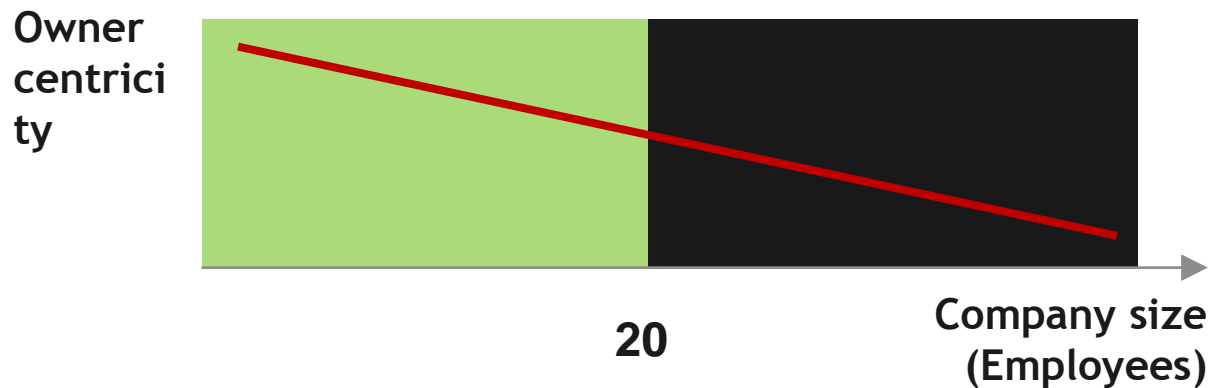
31% Loans to physical persons
62% Loans to legal persons

Majority of banks more oriented on consumer finance rather than SME

It is difficult to differentiate SMEs from others in the PCBs' databases.

*as of 01.07.2013, data of Bank of Russia

- The smaller the business the greater the owner-centricity



- At which point will the owner's risk be the same or more than the risk for the company as a whole

Using business information only:

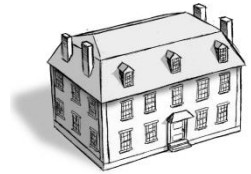
Risk assessment	% probability	Risk category / description
Probability of default	4,77%	 6
Probability of insolvency	4,08%	Watch



- Information about the owner revealed:
 - A poor score of related companies
 - Negative payment remarks on the owner
 - Linkages to bankrupt companies



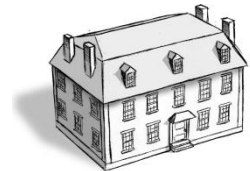
Risk assessment	% probability	Risk category / description
Probability of default	4,77%	 6
Probability of insolvency	4,08%	Watch



Risk assessment	% probability	Risk category / description
Probability of default	33,01%	 9
Probability of insolvency	20,42%	Extreme Risk



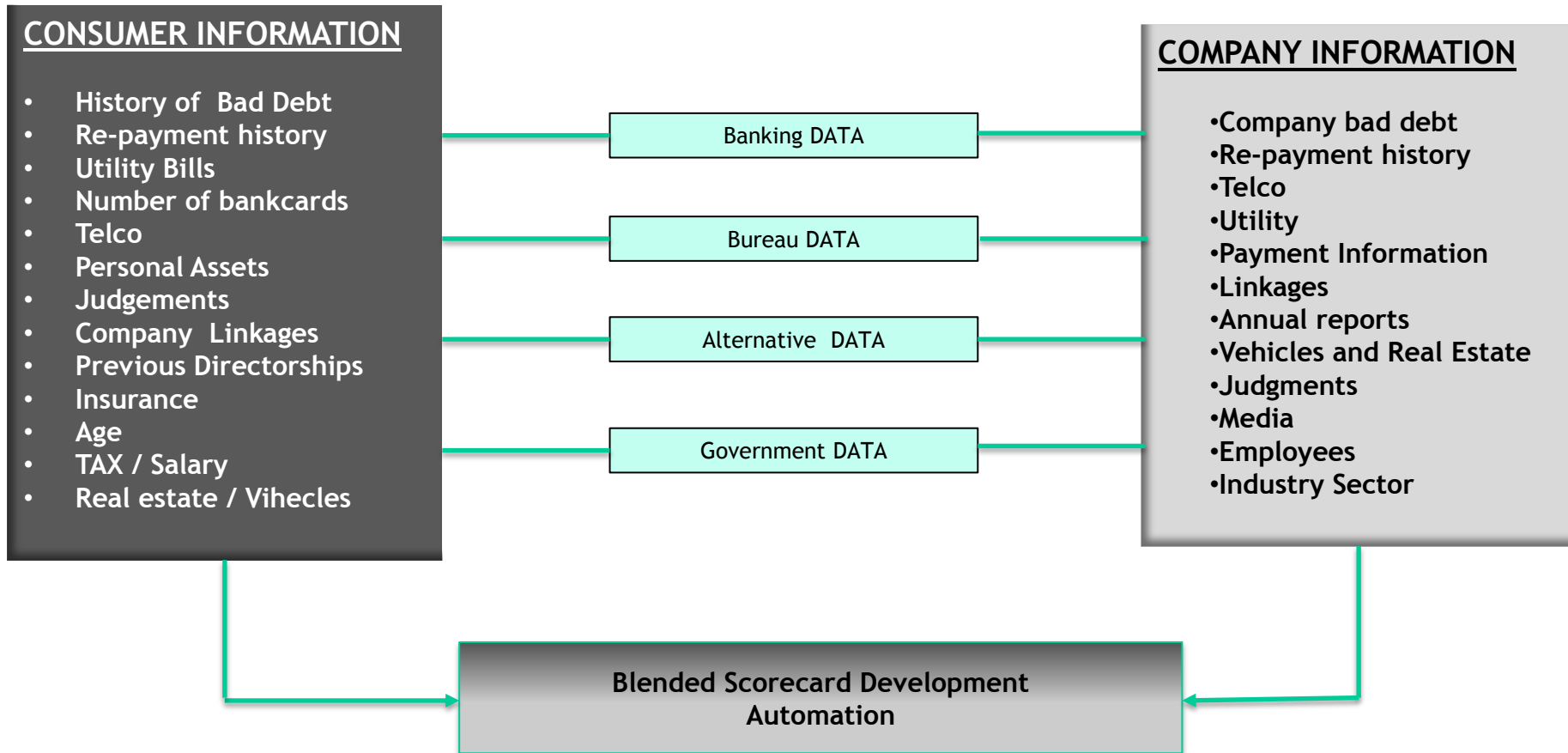
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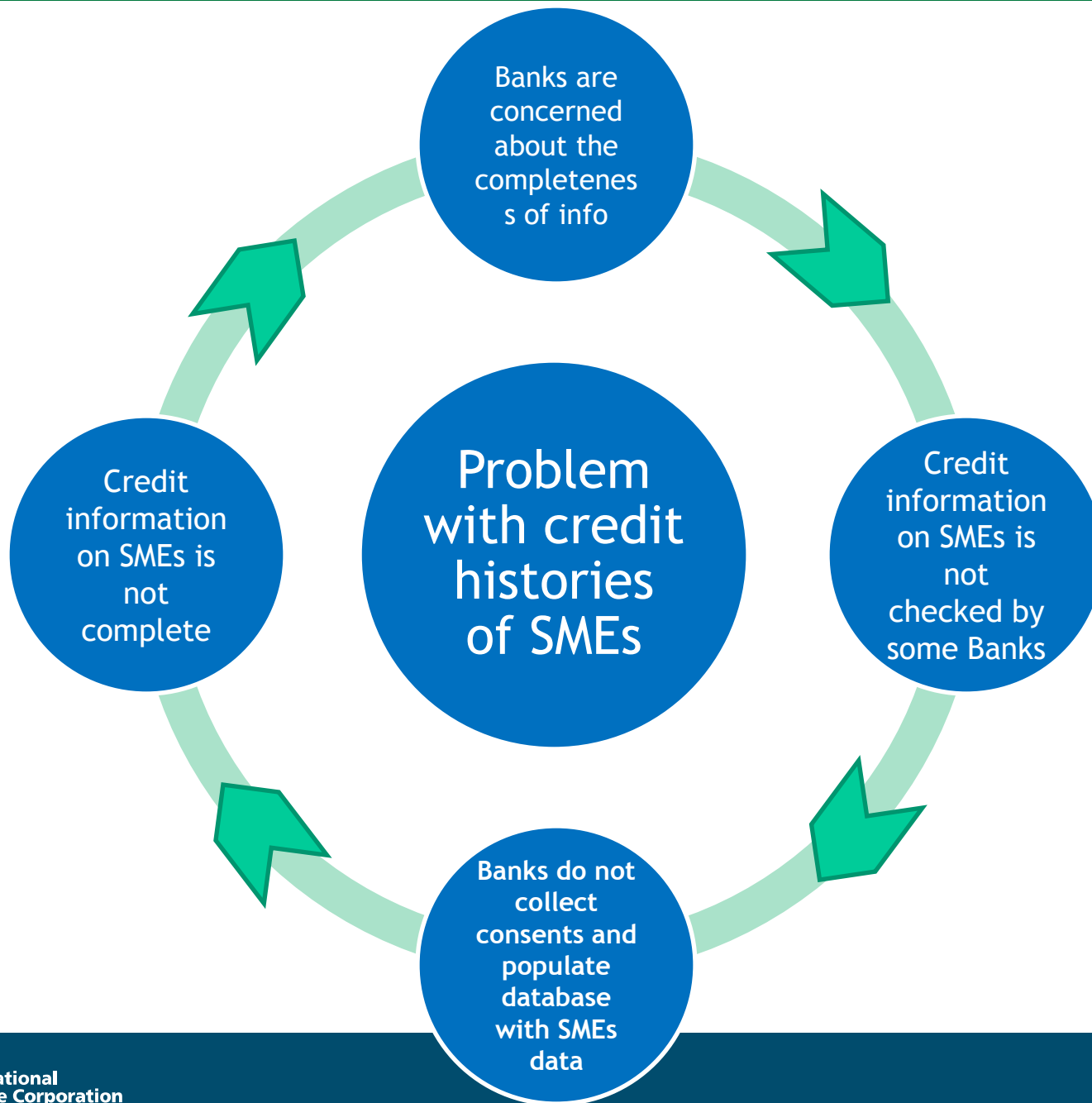


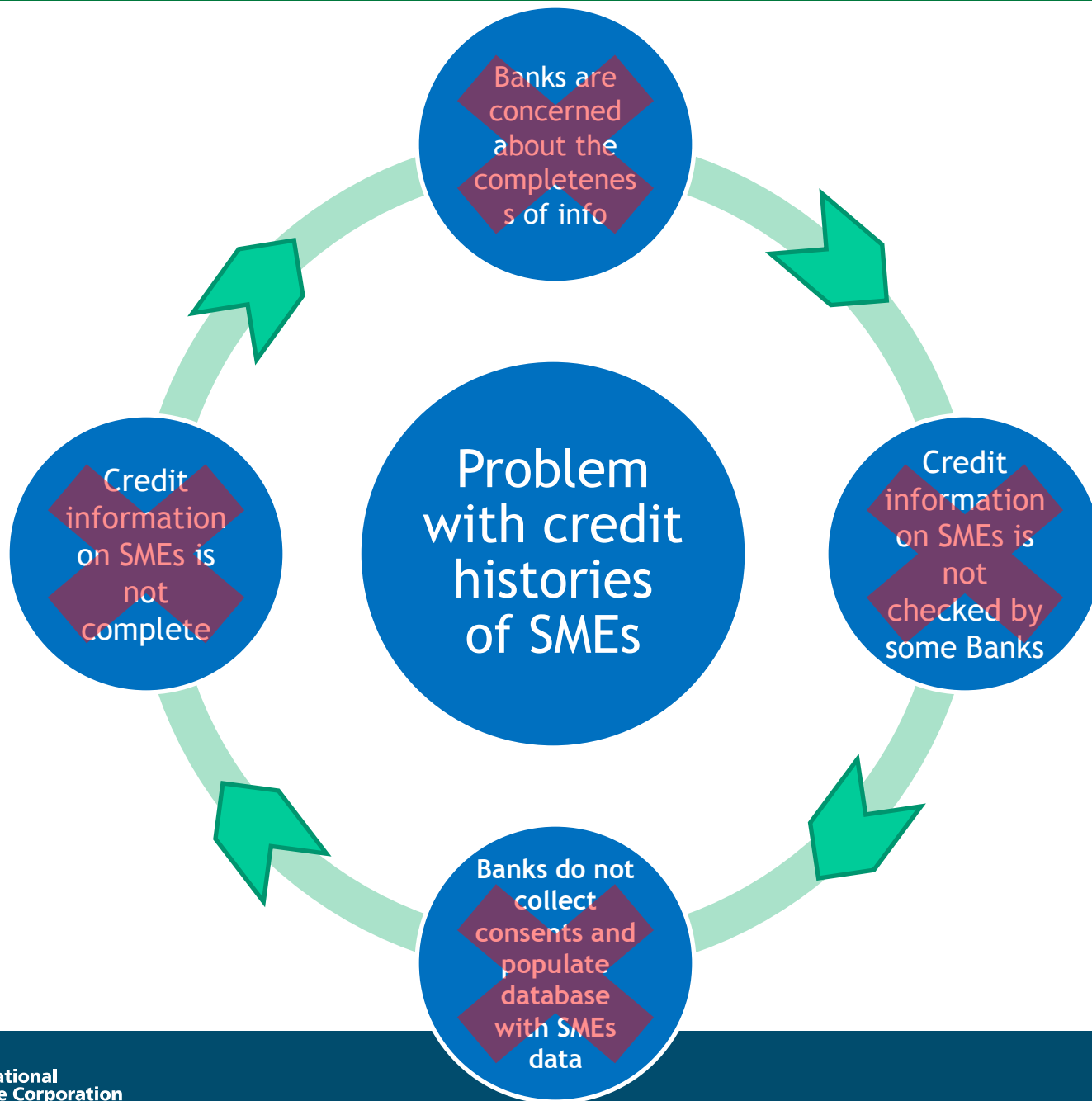
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SME financing

Gathering relevant data from all sources is essential







Benefits of using SME data through credit reporting

MORE CREDIT FOR SMEs (through using personal loans data)

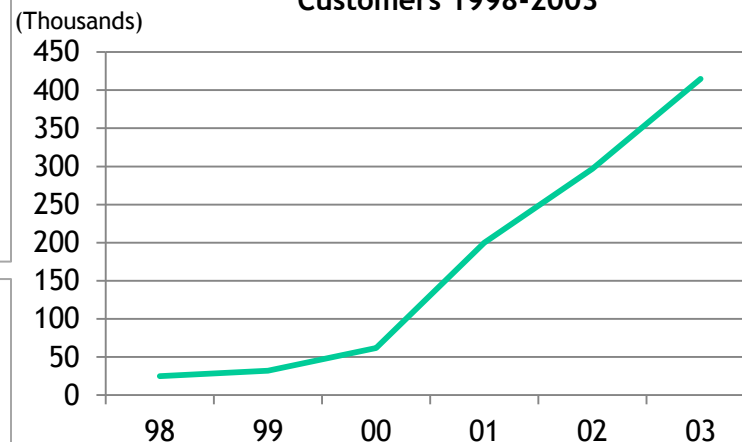
Background:

- In 1994 Wells Fargo started Business Direct (new SME division)
- Average client profile: sales <US\$ 325.000 year; employ <5 people
- Average loan amount US\$15.000; max loan amount US\$ 100.000

Results:

Portfolio: by 1999 US\$ 9.9 billion; by 2003 US\$ 15bn
In 2002 WF rated number 1 SME lender in the USA

Wells Fargo Online Small Business Customers 1998-2003



Success factors?

- Loan applications accepted by Internet, phone, mail (or branch)
- Fully automated decisions (70% taken with credit bureau + bureau scores)
- No tax return or financial / income statements required;
- No collateral required (about 94% of loans unsecured)
- Decision based mainly on SME owner consumer loans information
- Lower processing costs (US\$ 30)
- Lower processing time (15 minutes) to underwrite a loan
- By end 2004 over 1,5 million applications processed automatically



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Thank you!

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