 Asia-Pacific Economic Cooperation	Document: AGFSCB 30-023 Draft: FIRST Source: ABAC Japan Date: 18 May 2010 Meeting: Taipei, Chinese Taipei
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THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM
 CAPACITY-BUILDING
 A Public-Private Sector Initiative

Second Meeting 2010
 20 May 2010
 2:00 PM - 4:00 PM
 Grand Ballroom II, Level 3, Grand Hyatt Taipei
 Taipei, Chinese Taipei

Meeting Paper 7-A
The Development of SME
Credit Information Database to promote SME
Lending

Prof. Naoyuki Yoshino
 Keio University

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 2010/May/20

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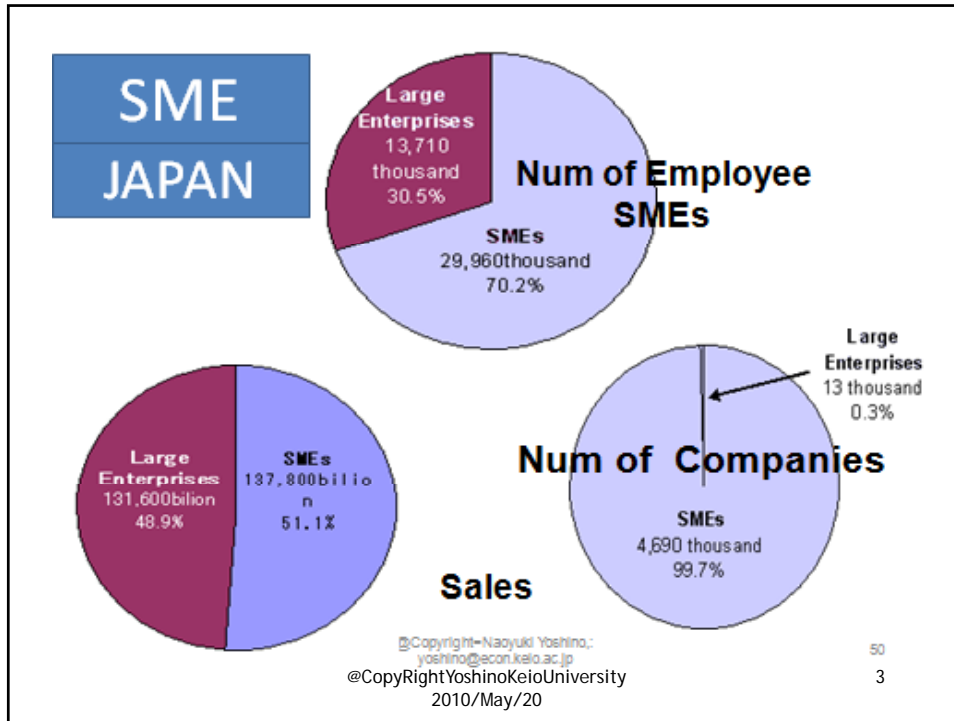
The Development of SME
Credit Information Database
to promote SME Lending

Presented by Naoyuki Yoshino
Keio University, Japan,
May 2010, Taipei

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SME in Japan shows large share

Industry	Size of enterprise	SMEs				Large enterprise		Total	
		Of which small enterprise		Company regular employees + sole proprietors' workers	Percentage share	Company regular employees + sole proprietors' workers	Percentage share	Company regular employees + sole proprietors' workers	Percentage share
		Company regular employees + sole proprietors' workers	Percentage share						
Secondary industry		8,807,646	69.1	3,544,327	27.8	3,932,114	30.9	12,739,760	100.0
Tertiary industry		19,027,904	69.5	5,748,780	21.0	8,359,316	30.5	27,387,220	100.0
Total		27,835,550	69.4	9,293,107	23.2	12,291,430	30.6	40,126,980	100.0

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SMEs in Thailand

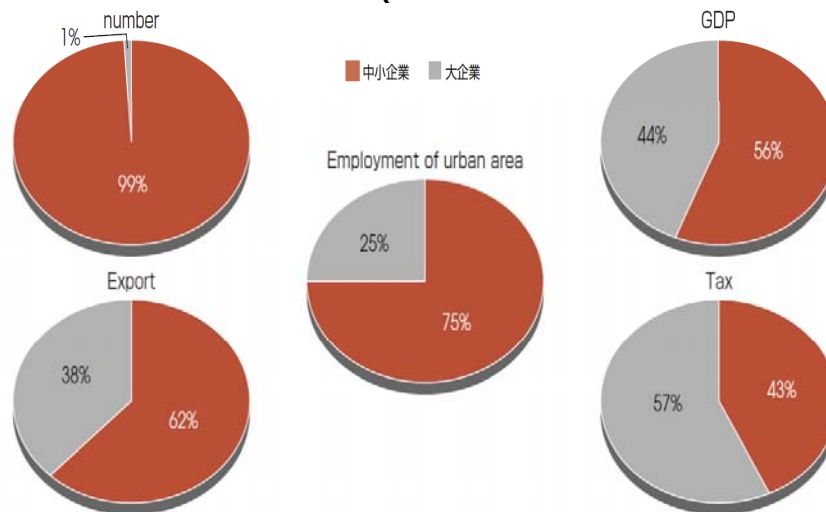
Type of Enterprise	No. of Enterprises (% of total)	No. of employment (% of total)	GDP Mill. Baht (% of total)
SMEs	2,366,227 (99.6%)	8,900,567 (76.0%)	3,244,974 (38.2%)
Large Enterprise and Others	9,141 (0.4%)	2,810,767 (24.0%)	5,239,226 (61.8%)
Total	2,375,368 (100%)	11,711,334 (100%)	8,484,200 (100.0%)

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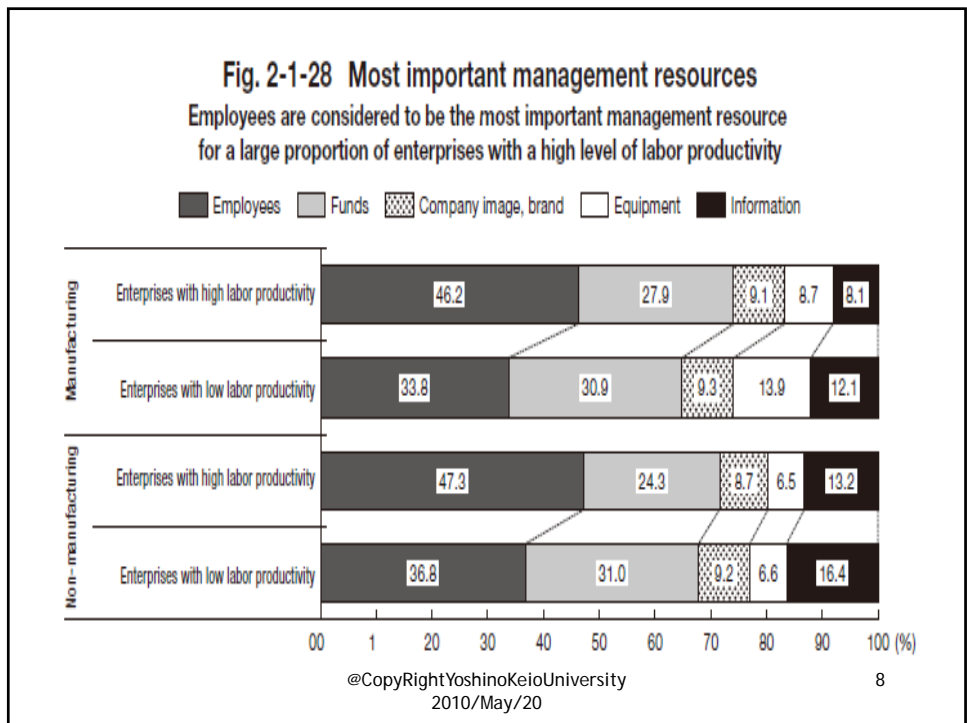
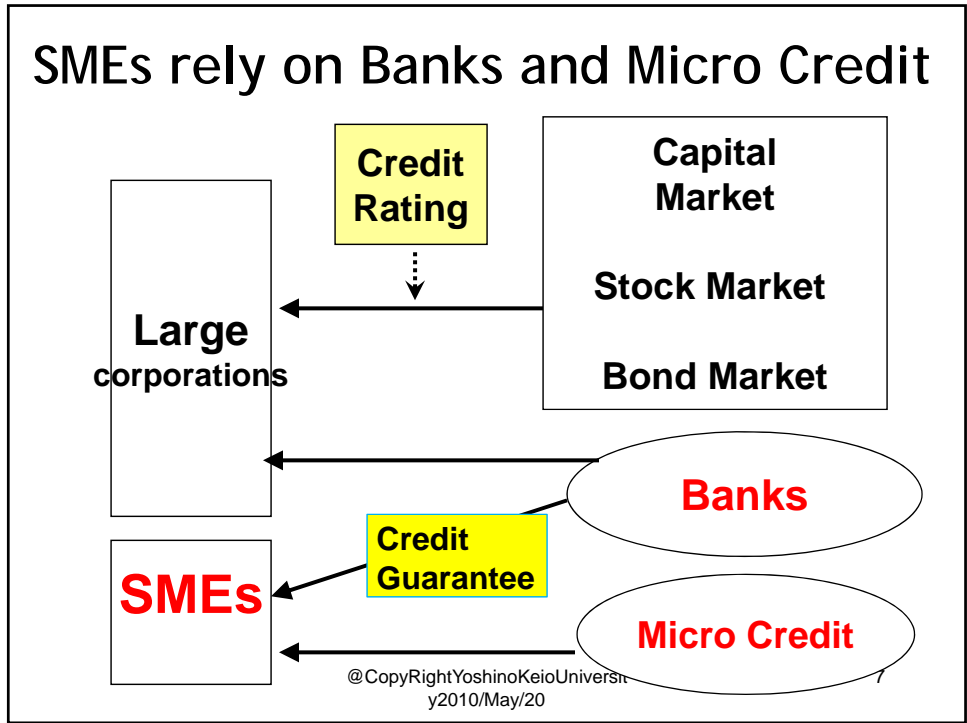
SMEs in China

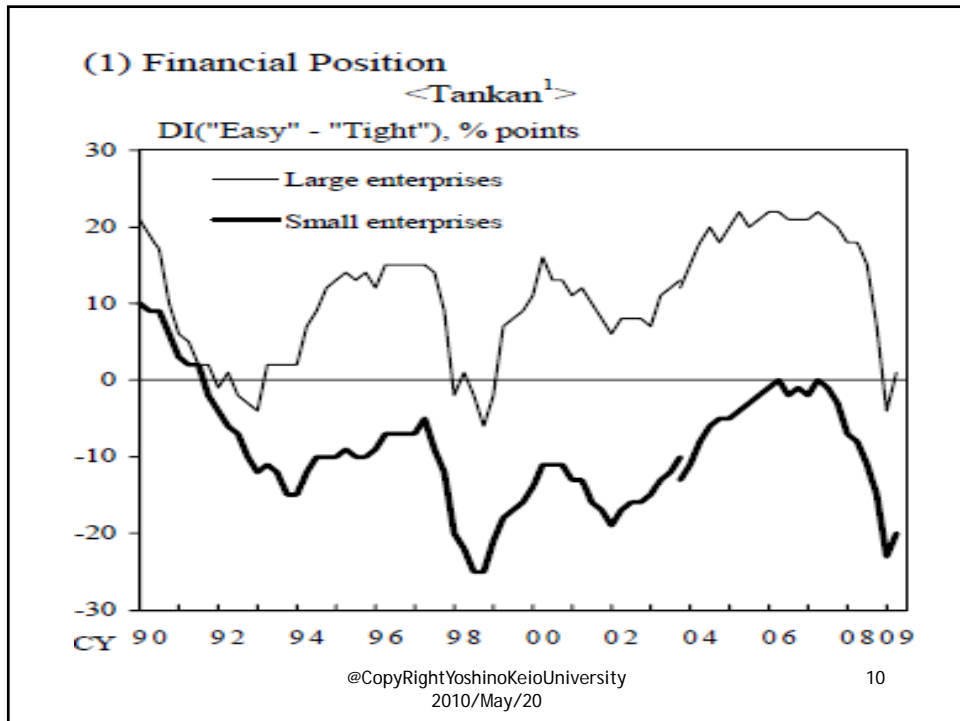
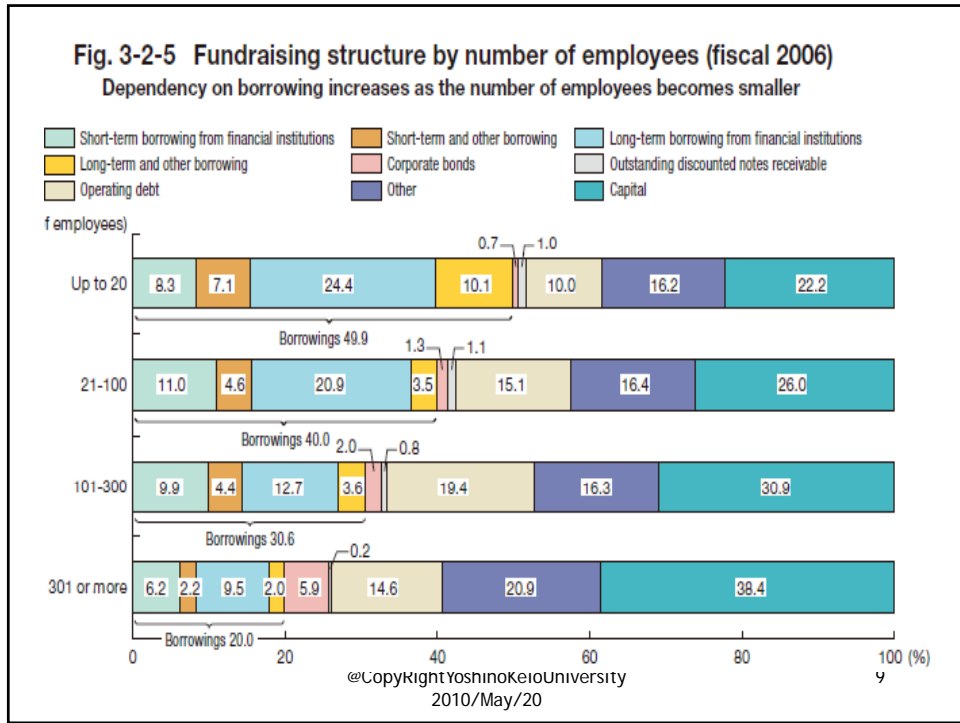
(Red Mark is SMEs' share)



Source: Department of SMEs, China National Development and Reform Commission
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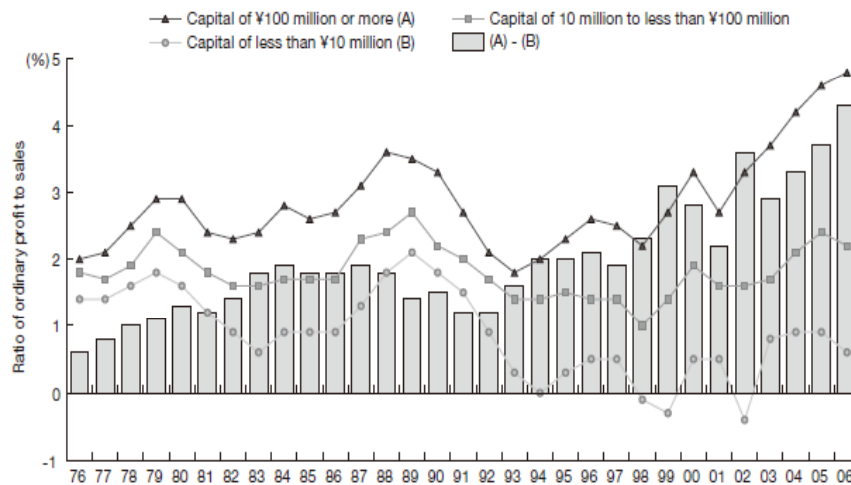
The SME Industry and Credit Information Infrastructure in East Asia

- ✦ **SMEs dominate the business landscape of ASEAN** economies and influence output, employment and income growth.
- ✦ **Information asymmetry still exist** and the type of infrastructure that could appropriately address this problem in terms of existence and state of development across the ASEAN region.
- ✦ **It is imperative to have a credit information system** for the SME sector to help address the persistent challenge of **information asymmetry and financing access.**

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Profit Ratio of Large companies versus SMEs

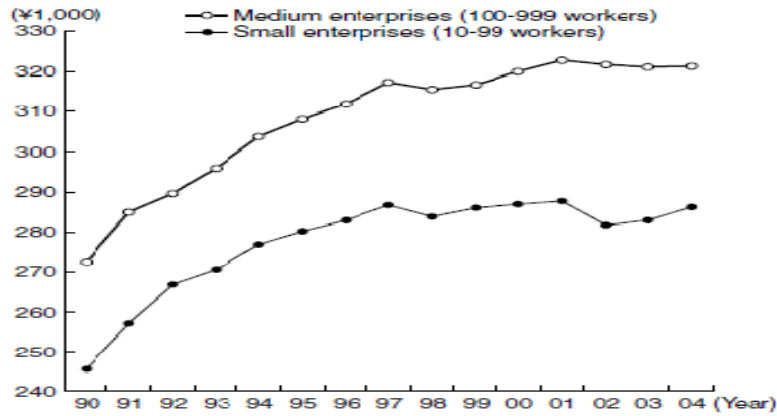


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Wage Differentials between Large companies and SMEs

Fig. 1-1-35 Trends in wages by enterprise size
Slight upward trend in wages, mainly at small enterprises



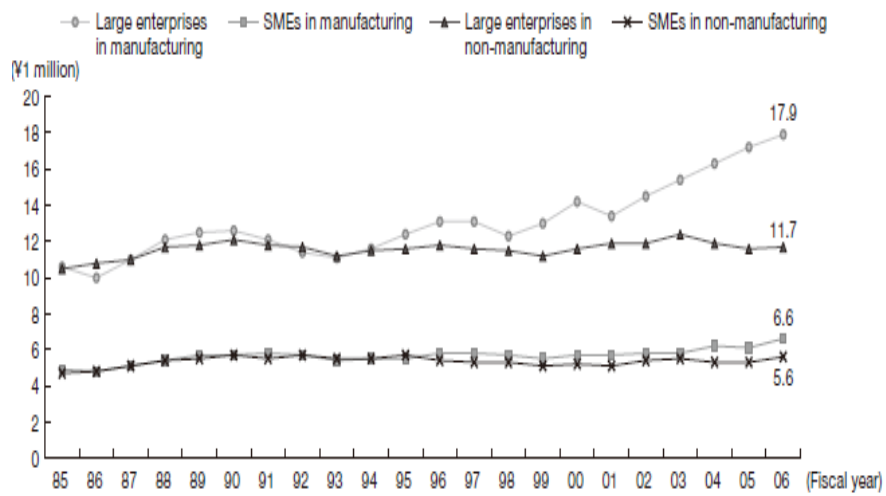
Source: MHLW, *Basic Survey on Wage Structure*.

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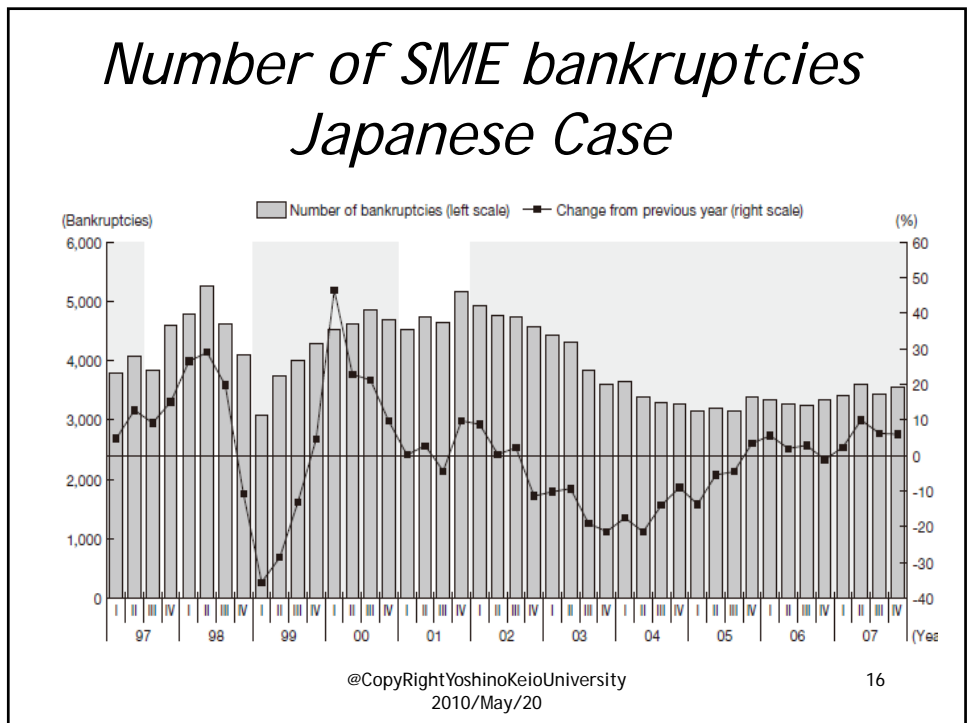
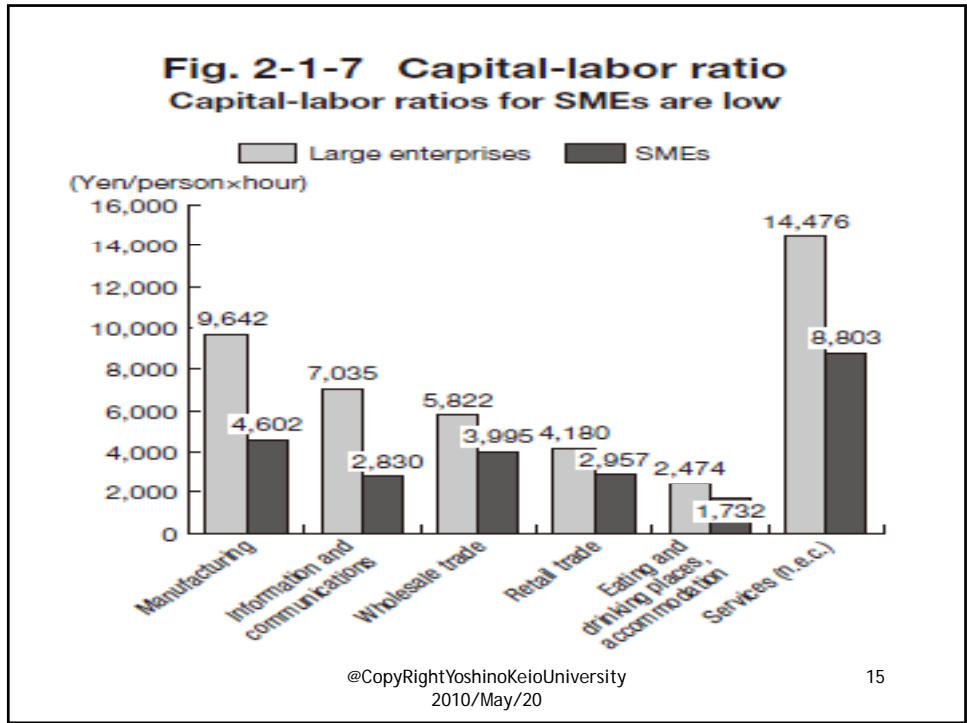
Fig. 2-1-11 Trends in gross value added per employee

Gross value added per employee is growing significantly among large manufacturers



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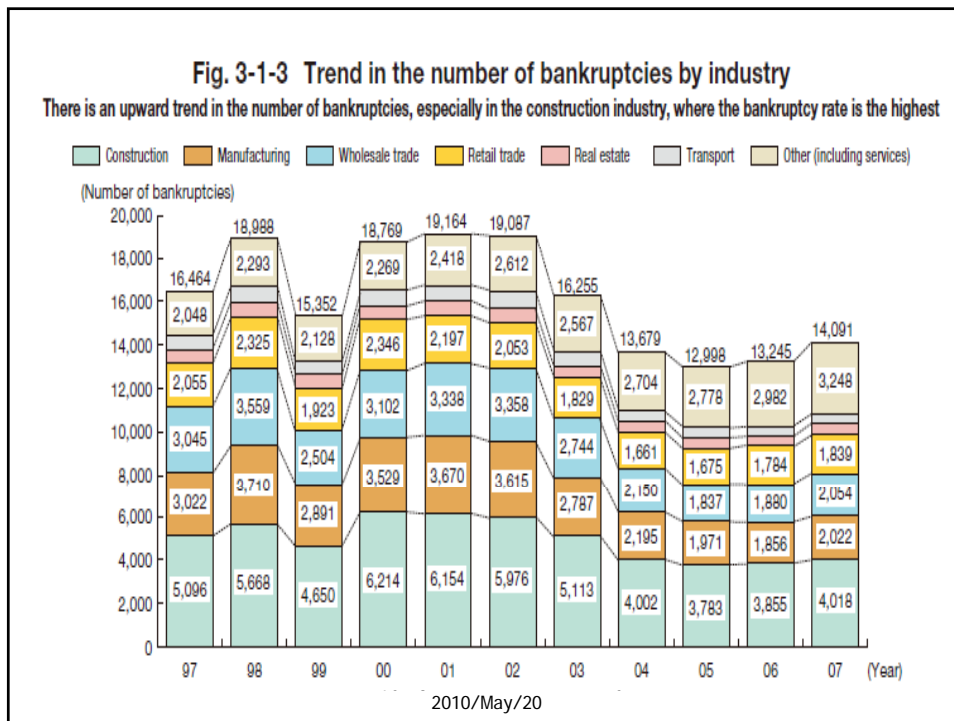
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No of Bankruptcies				Debts (100million yen)		
Overall	SME	Percentage of which SME	Overall	SME	Percentage of which SME	
1994	14061	13965	99.31726051	56294	40917	72.68447792
1995	15108	14970	99.08657665	92411	46561	50.38469446
1996	14834	14731	99.30564918	81299	49693	61.12375306
1997	16464	16293	98.96137026	140447	57494	40.93643866
1998	18988	18749	98.7413103	137484	68329	49.69960141
1999	15352	15135	98.58650339	136214	80640	59.20096319
2000	18769	18497	98.55080185	238850	65691	27.50303538
2001	19164	18819	98.19974953	165196	73151	44.28133853
2002	19087	18867	98.84738304	137824	77540	56.26015788
2003	16255	15877	97.67456167	115818	57651	49.7772367
2004	13679	13392	97.90189341	78177	53656	68.63399721

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SME = Types of Financial Institutions

trillion Yen

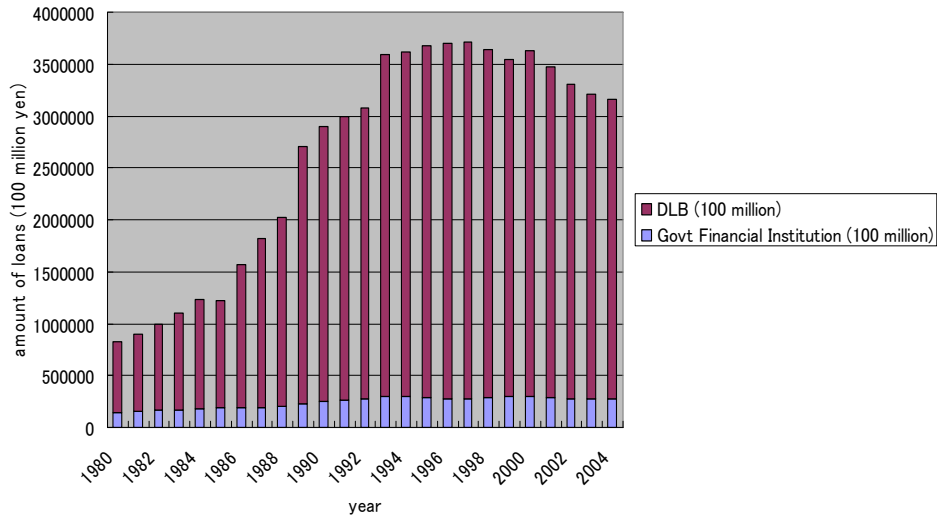
Financial institution	Year Month	2003			
		Mar.	Jun.	Sept.	Dec.
City banks		89.3	83.4	83.1	79.2
Regional banks		67.8	66.0	66.4	66.8
Member banks of the Second Association of Regional Banks		24.4	23.2	23.2	23.7
Other		12.5	11.1	11.9	10.7
Domestically-licensed bank banking accounts total		194.0	183.7	184.6	180.5
Domestically-licensed bank trust accounts, etc.		2.6	2.1	2.0	1.9
Credit associations		41.6	41.0	41.3	41.8
Credit cooperatives		9.2	9.1	9.2	9.2
Private-sector financial institutions total		247.4	235.8	237.1	233.4
Private-sector financial institutions total (excluding trust accounts, etc.)		244.7	233.7	235.1	231.5
Shoko Chukin Bank		10.1	9.9	9.9	10.0
Japan Finance Corporation for Small and Medium Enterprise		7.5	7.5	7.6	7.6
National Life Finance Corporation		9.2	9.2	9.1	9.2
Government-affiliated financial institutions total		26.8	26.6	26.7	26.8
Total outstanding lending to SMEs		274.1	262.5	263.7	260.3
Total outstanding lending to SMEs (excluding trust accounts, etc.)		271.5	260.4	261.7	258.4

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Financial institution	Year Month	2005				2006				2007			
		Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.
City banks		--	--	--	--	--	--	--	--	--	--	--	--
Regional banks		--	--	--	--	--	--	--	--	--	--	--	--
Member banks of the Second Association of Regional Banks		--	--	--	--	--	--	--	--	--	--	--	--
Other		--	--	--	--	--	--	--	--	--	--	--	--
Domestically-licensed banks' banking accounts total		179.4	171.7	175.9	177.7	181.6	177.8	185.2	186.2	186.4	182.0	183.8	184.2
Domestically-licensed banks' trust accounts, etc.		1.6	1.7	1.6	1.9	1.9	1.9	1.7	1.6	1.5	1.6	1.5	1.4
Credit associations		40.4	40.1	40.8	41.5	40.8	40.5	41.5	42.1	41.7	41.3	41.9	42.3
Credit cooperatives		9.2	9.1	9.2	9.3	9.3	9.3	9.4	9.4	9.4	9.3	9.4	9.5
Private-sector financial institutions total		230.6	222.5	227.5	230.4	233.6	229.5	237.7	239.3	239.0	234.2	236.5	237.4
Private-sector financial institutions total (excluding trust accounts, etc.)		229.0	220.8	226.0	228.5	231.7	227.6	236.1	237.6	237.5	232.6	235.1	236.0
Shoko Chukin Bank		9.6	9.5	9.5	9.6	9.4	9.3	9.3	9.4	9.3	9.3	9.2	9.3
JASME		7.5	7.4	7.3	7.2	7.0	6.9	6.8	6.7	6.4	6.3	6.2	6.0
NLFC		8.4	8.3	8.2	8.2	7.8	7.7	7.6	7.5	7.2	7.1	7.0	7.0
Government-affiliated financial institutions total		25.5	25.2	25.0	24.9	24.3	23.9	23.7	23.5	23.0	22.7	22.4	22.4
Total outstanding lending to SMEs		256.0	247.8	252.5	255.3	257.9	253.3	261.4	262.8	262.0	256.9	259.0	259.8
Total outstanding lending to SMEs (excluding trust accounts, etc.)		254.5	246.1	250.9	253.5	256.0	251.4	259.7	261.2	260.5	255.3	257.5	258.3

Government Bank and Private Banks

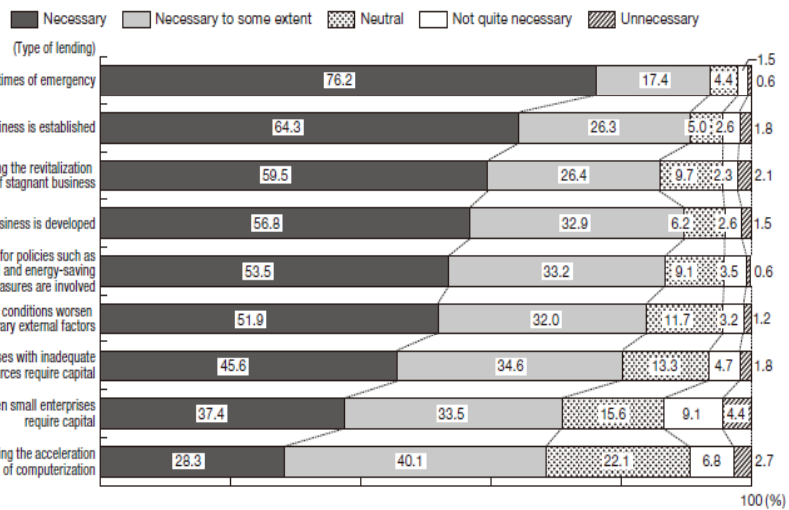


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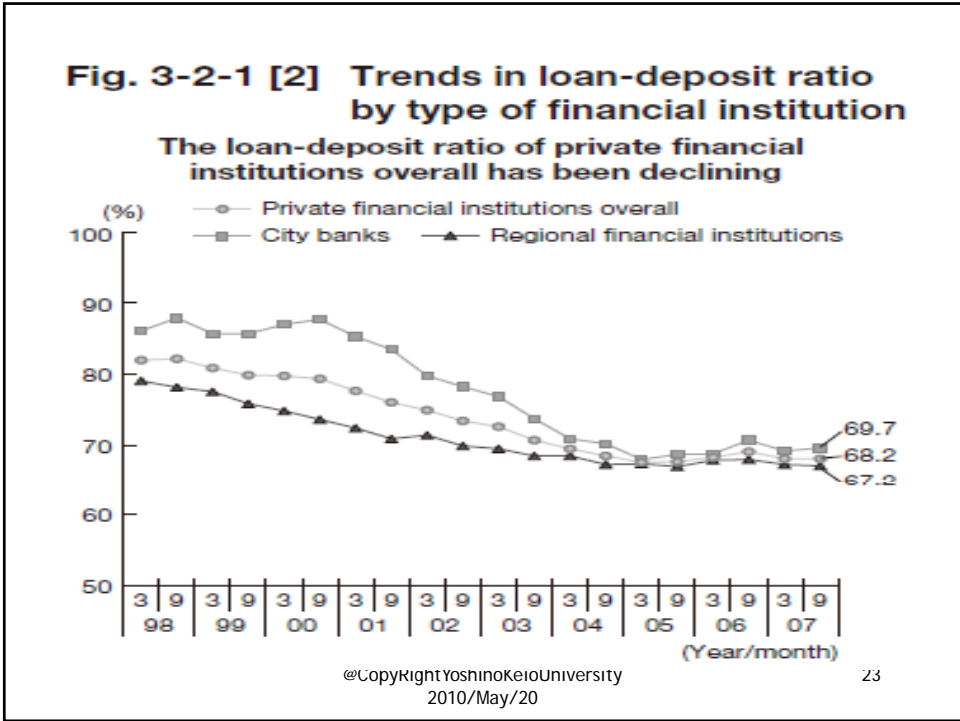
Appended note 3-2-10 Significance of lending from government-affiliated SME financial institutions

Regional financial institutions have high expectations of lending from government-affiliated SME financial institutions

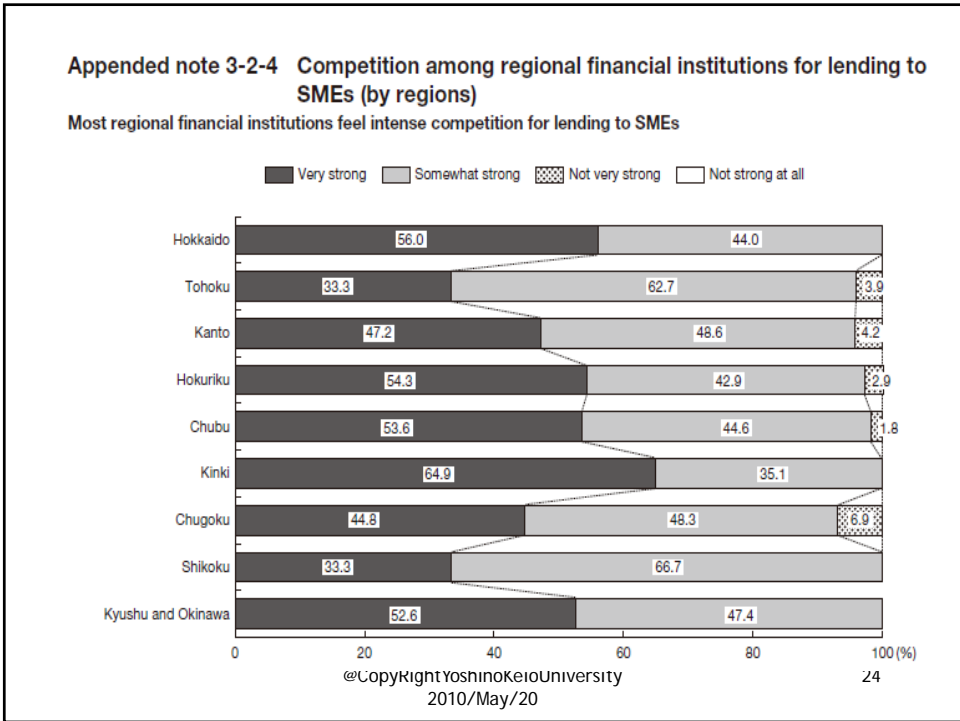


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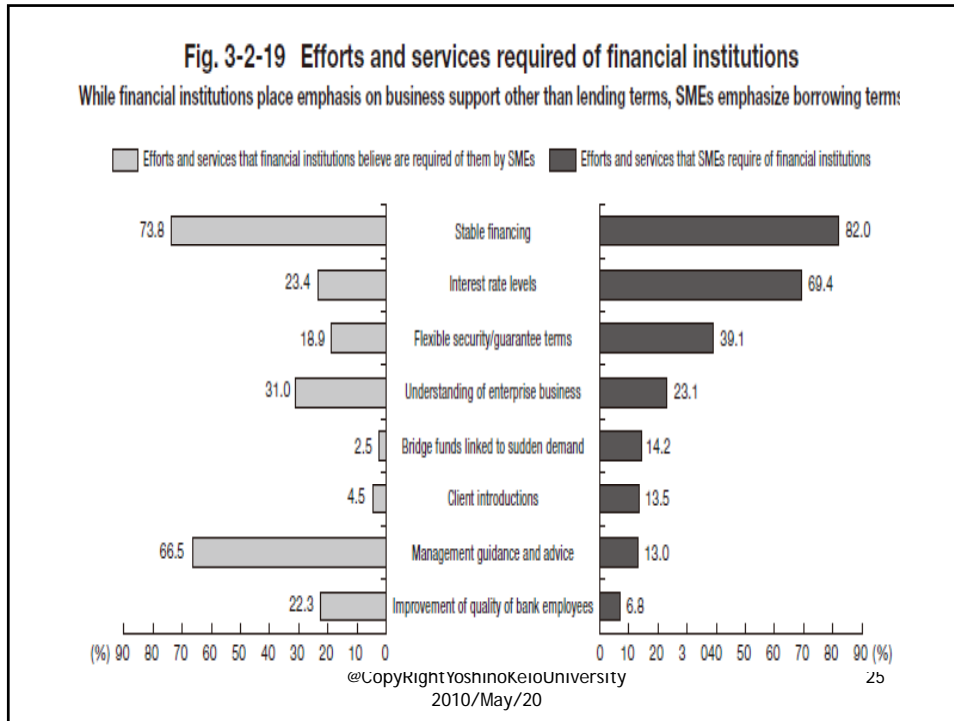
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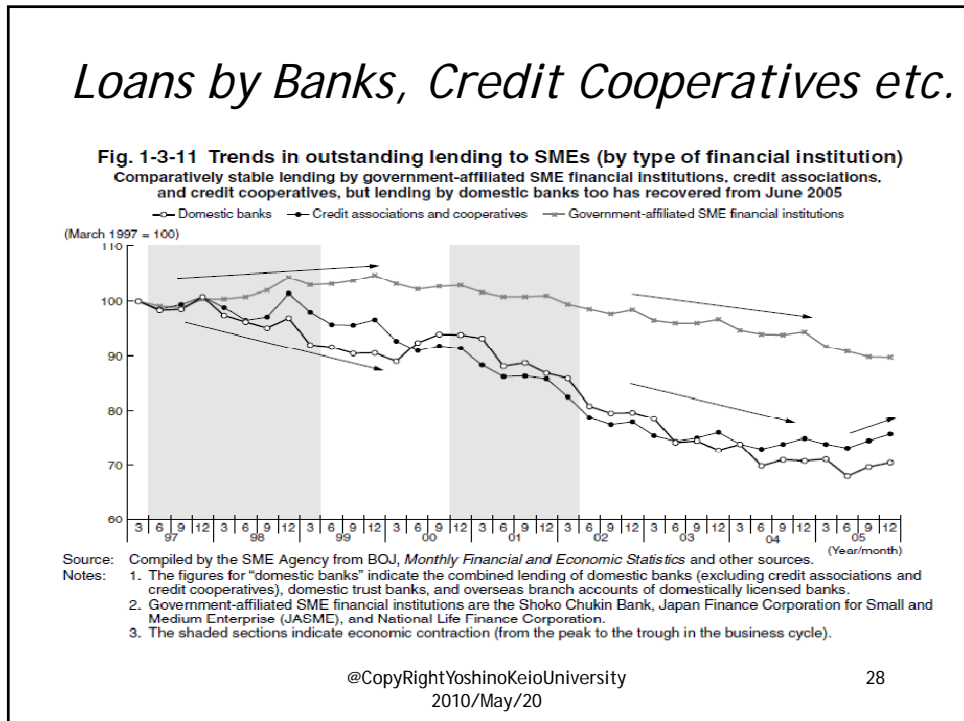
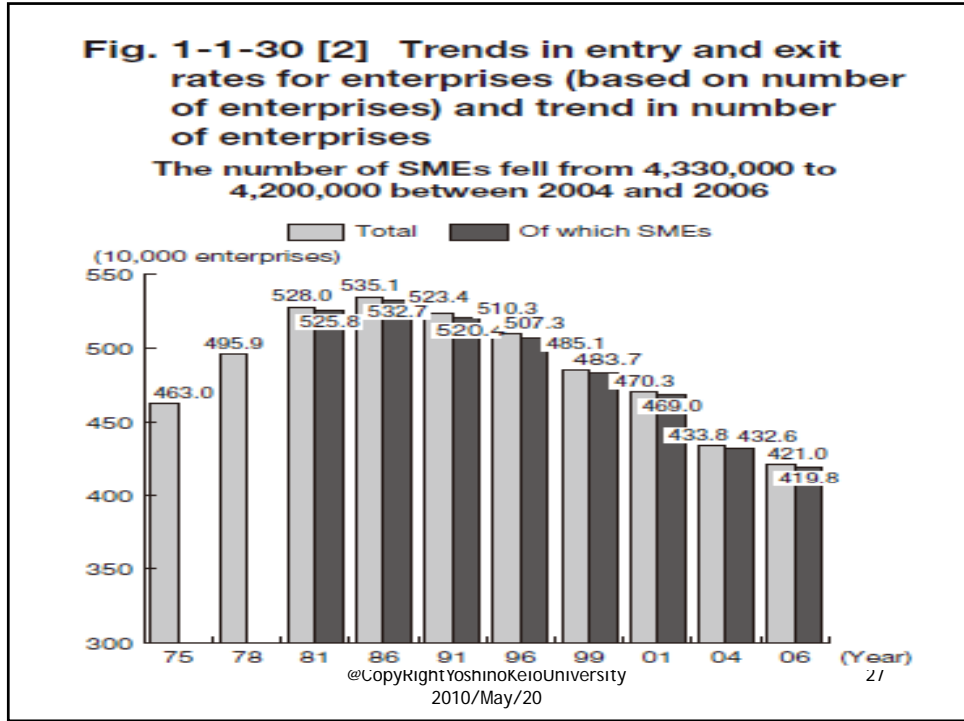


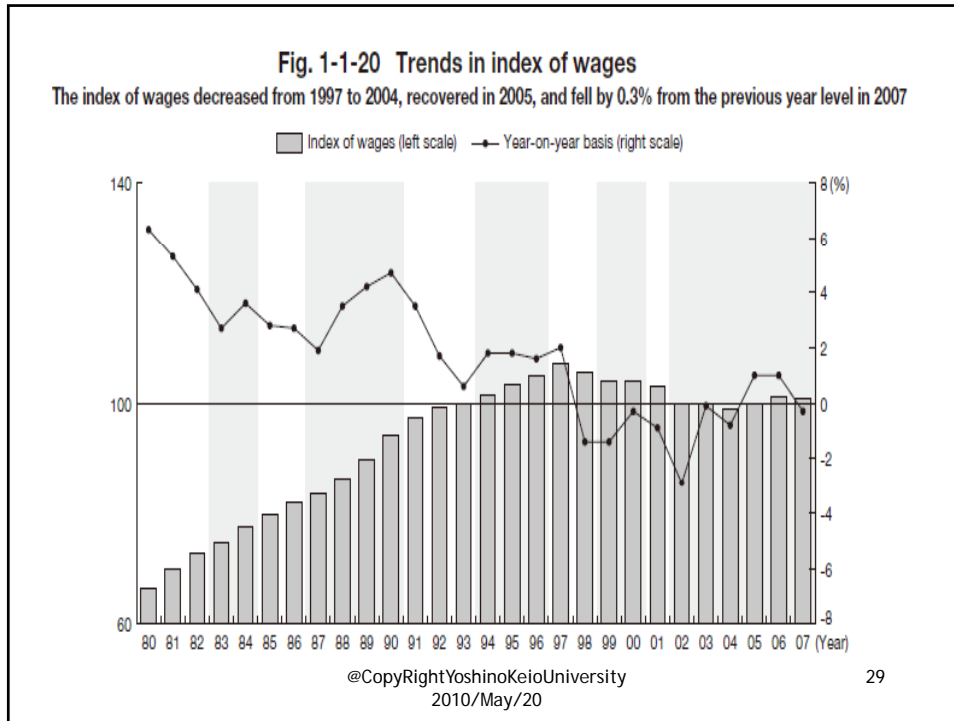
Changes in start-ups and closure rates

	'75- '78	'78- '81	'81- '86	'86- '91	'91- '96	'96- '99	'99- '01
Start-up Rate	5.90%	5.90%	4.30%	3.50%	2.70%	3.60%	3.10%
Closure Rate	3.80%	3.80%	4.00%	4.00%	3.20%	5.60%	4.50%

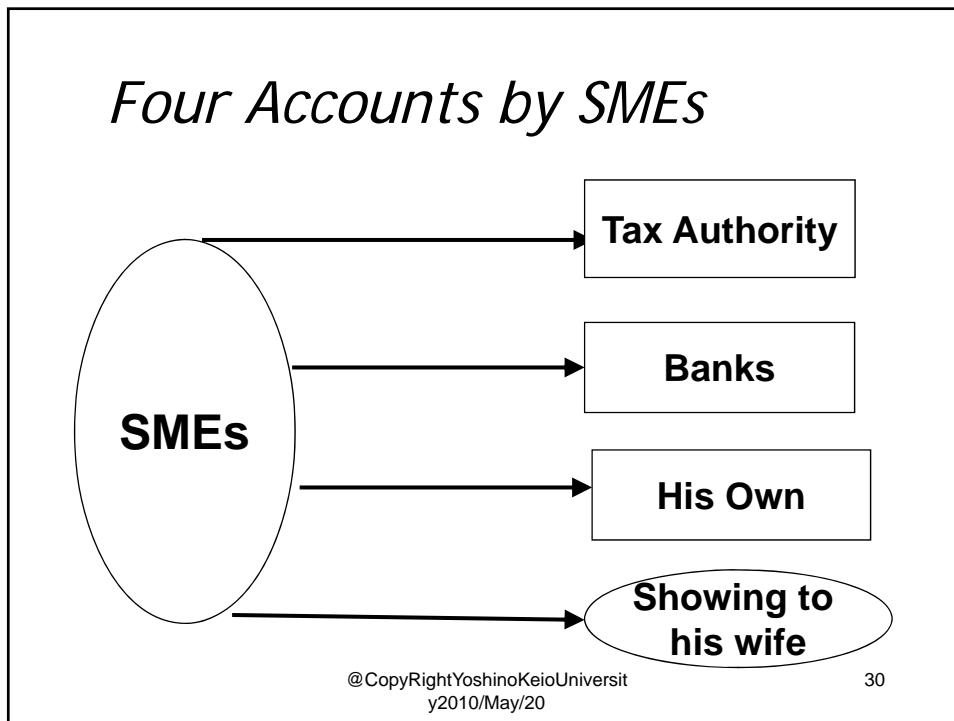
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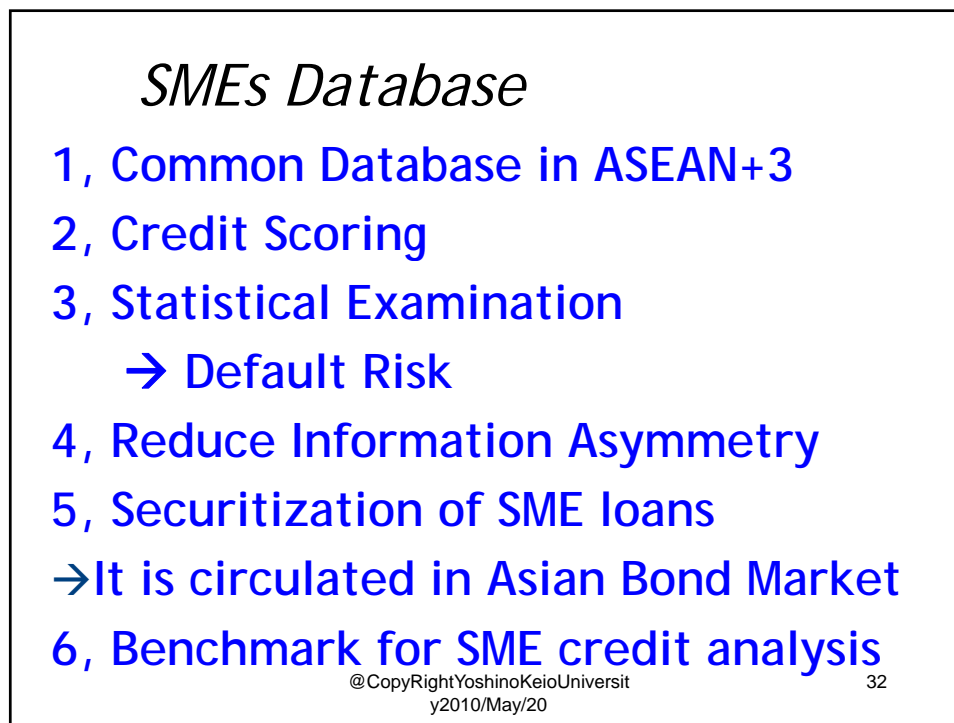
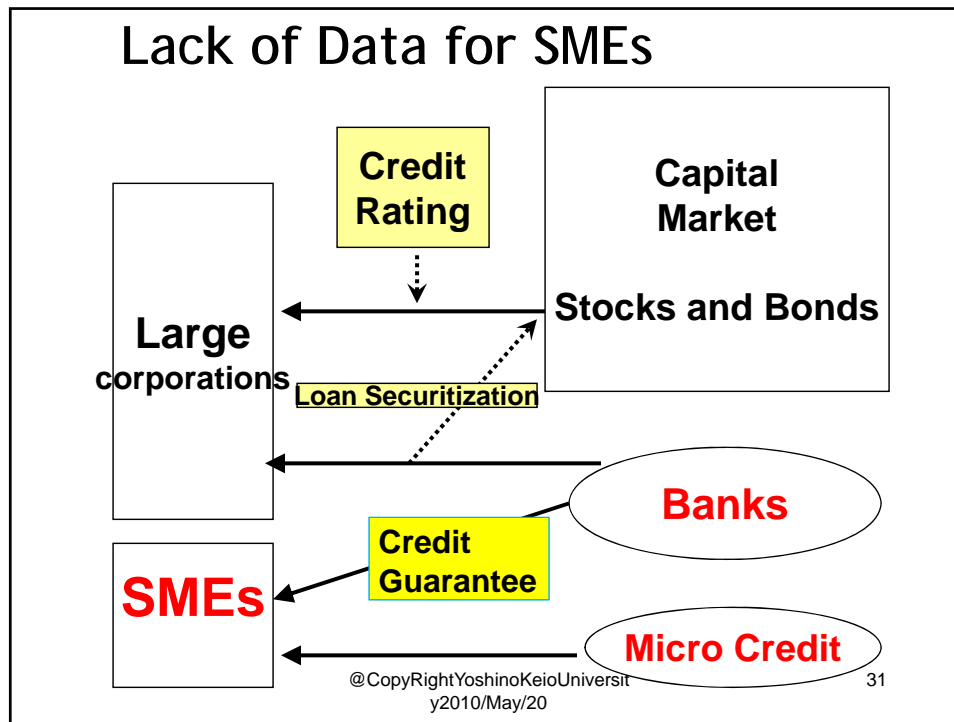




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Credit Guarantee Systems (CGS) And SME Finance in ASEAN

- ✦ Credit guarantee schemes (CGS) have the objective of absorbing part of the loss resulting from the default of a bank loan.
- ✦ It reduces lender's risk, serves to improve the supply of credit and facilitates the smooth operation of the SME loan market.

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Credit Guarantee Systems (CGS) and SME Finance in ASEAN

- ✦ Sustainability of CGS
 - ✦ motivation,
funding;
 - ✦ To avoid moral hazard;
 - ✦ Going concern

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Credit Guarantee Systems and SME Finance in ASEAN

- ✦ The APBSD seeks to engage ASEAN countries in:
 - ✦ Capacity building to improve SME financing access via the institutionalization of capacity building measures in the areas of **accounting and financial information reporting and maintenance**;
 - ✦ Financial institutional capacity building specifically **the development of a credit information system**;
 - ✦ Widening and deepening of **SME access** through the regionalization and sub-regionalization of **financial schemes and alternative financial measures**.

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SME Financing and the State of Credit Guarantee Systems (CGS) in ASEAN

CGS Lessons and Insights

- ✦ To the extent that CGS have somehow influenced Asian banks' lending behavior by encouraging them to make SMEs part of their market and develop SME-focused financial products and services, **CGS can be said to have indirectly influenced the promotion of financial sector deepening**.
- ✦ **Partial Guarantee rather than 100%.**
- ✦ **To Avoid Moral Hazard**

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Credit Guarantee Systems and SME Finance in ASEAN

✦ **Macroeconomic CGS Success Factors**

- ✦ Open and competitive banking environment
- ✦ Dynamic and expanding business sector
- ✦ Government policies that do not crowd-out market-driven initiatives
- ✦ Monetary and regulatory environment that is conducive to lending to SMEs
- ✦ Enterprise-centered business framework
- ✦ Supportive agencies that champion enabling environment for SMEs
- ✦ **A credit bureau that provides effective and efficient access to SME credit information.**

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Considerations in Establishing a Regional Framework for SME Funding Mechanisms

- ✦ Promoting CGS for financial development is NOT the same as promoting SME development.
- ✦ Governments must be ready to support CGS schemes in times of distress so as not to derail the goal of SME promotion.
- ✦ Credit bureaus and credit ratings agencies for SMEs will help CGS expand its reach and maximize its impact.
- ✦ One of the outcomes of the APBSD which the ASEAN hopes to achieve by 2015 is the establishment of **the SME development fund to benefit all ASEAN SMEs and promote entrepreneurship on a regional level.**

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CRD (Credit Risk Database) Membership composition (July,2009)

Credit guarantee corporations	52
Government financial institutions	3
Private financial institutions	136
Credit-rating agencies, etc.	6
Small and Medium Enterprises Agency, Bank of Japan, etc.	5
Total	202

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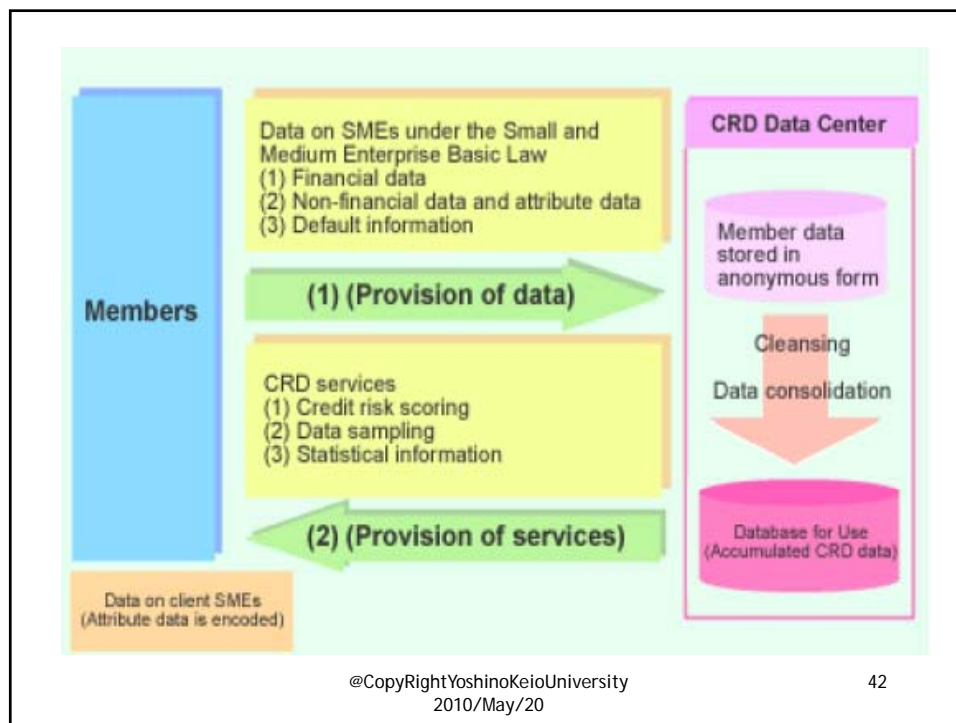
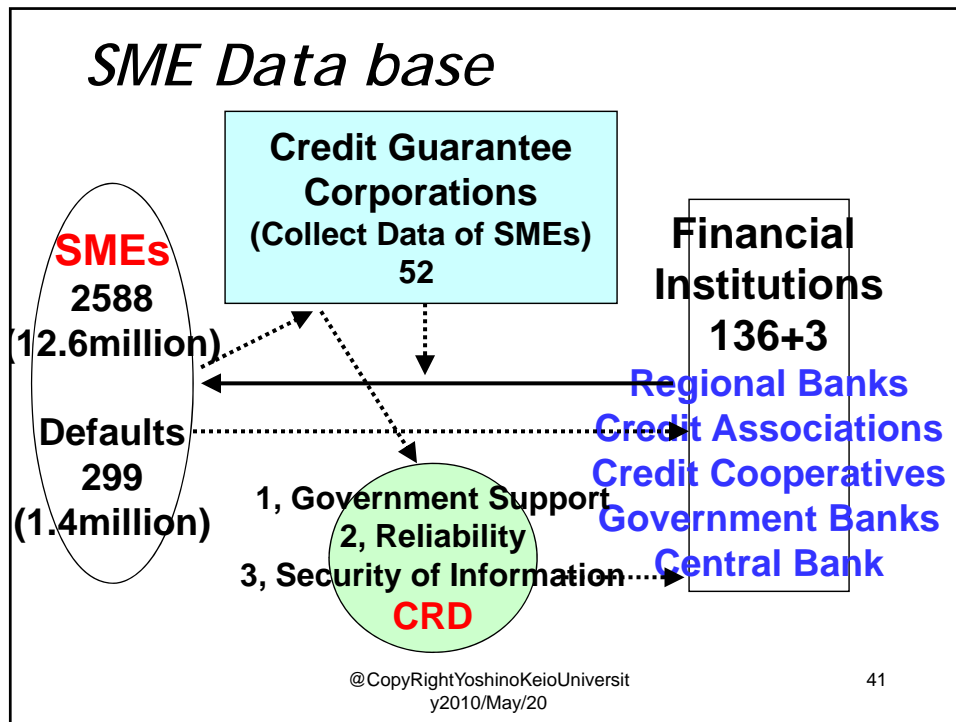
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CRD Data: Since 1995

Corporations	March-2009	
Total	10,180,000	(1785)
Default data	1,117,000	(209)
Individual owned company		
Total	2,496,000	(803)
Default data	301,000	(90)
	Number of	(Number of
	Accounts	companies)

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CRD Data Collection

- ✦ **Financial data** - B/S and P/L
- ✦ **Non-financial data** -E.g. date of establishment and geographical location.
- ✦ **Default data**
 - ✦ 3 months or more arrears;
 - ✦ de facto bankruptcy;
 - ✦ subrogation by credit guarantee corporations
 - ✦ possible bankruptcy.

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Consolidation and Anonymity

- ✦ An effective credit information database **needs a large amount of data.**
 - ✦ The database needs to consolidate the data on the same borrower.
- ✦ **Anonymity** is important to form a large and effective credit information database.
- ✦ **Anonymity is a legal protection issue.**
- ✦ **Confidentiality**

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Policy Remarks and Recommendation

✦ Elements of a Regional Credit Information Sharing Mechanism

- ✦ Legal and regulatory frameworks for credit reporting - anticipated as the most challenging of all elements
- ✦ Technology platform
- ✦ Providers and users of data
- ✦ Quantity and quality of data to be collected/distributed
- ✦ Advocacy of credit reporting discipline and **education, Book keeping by SMEs**
- ✦ Institutional arrangements to govern the collection and use of credit information *across borders*.
- ✦ Policy guidelines for the use of regional credit information for benchmarking purposes.

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In the context of SME participation in bond markets:

- ✦ **The securitization of SME bonds** plus a credit guarantee on those bonds could render it more attractive to investors.
- ✦ Establishment of SME credit information entities must be continuously pursued. This development would help generate a **critical mass of SME information** and help create SME-focused credit ratings agencies.
- ✦ Existing domestic rating agencies need to be more efficient.
- ✦ **A strong legal and regulatory framework** must be in place to protect investors, promote financial reporting and accounting discipline and encourage transparency in capital market transactions.

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Lists of Policy Recommendations

(1) **SMEs have to have incentives to disclose their truth data.** In Japan, SME data are collected nationwide by Credit Guarantee Corporations, which have 47 offices in all the prefectures in Japan. When SMEs want to borrow from banks, they are often asked to put credit guarantee on their loans. This is because SMEs are perceived to be much riskier than large corporations. Since ASEAN countries have different financial and SME lending systems, the kind of organization to collect SME data in each country must be studied well.

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Lists of Policy Recommendation

(2) **An institution that is mandated to collect SME data while looking after the confidential and trustworthiness interests of the SMEs in its database must be established.**

(3) Once the organization to collect SME data is set up, the government must spend for the initial cost of its establishment to help get its operations off the ground. The cost must be as minimum as possible. **At the same time, it must have its own revenue source.** In Japan, CRD (credit Risk Database) collect fees from financial institutions by **selling data and by providing the computation of default risks. Consultation of data analysis** with various banks is another source of income from CRD.

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- (4) The SME database should be a repository of both financial and non-financial SME data. In Japan, **the data collected by CRD includes sales, operating profits, ordinary profits, investment in plant and equipment, investment in P&E** (excluding investment in software), **increase in inventories, ratio of operating profits to sales, ratio of ordinary profits to sales, ratio of net worth, liquid assets, inventories, fixed assets, deferred assets, total assets, liquid liabilities, fixed liabilities, net assets, interest expense and personnel expenses.**
- (5) **Statistical analysis** is required to compute the default risk ratio of SMEs. The database institution can then provide statistical analysis to its member banks.

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- (6) If SME data are collected in various Asian countries, **cross border comparison becomes possible for SME credibility.** SME loans can be securitized based on the accurate database, which can **widen the opportunity for SMEs to raise funds** from the capital market. SMEs can start to issue CPs and corporate bonds as a group. The information contained in the SME database can help reduce the risks of SME bond and pooled SME bonds can be used to diversity the risks of investors.

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(7) Continuous efforts need to be made to improve the kind of data to be collected in each country so as to ascertain the exact situation of firms in the SME industry. Credit risk models can be developed and improved with the use of various SME data. **The development of SME database will contribute to the enhancement of the Asian bond market by allowing SMEs to issue SME bonds.**

If SME data sets were disclosed in Asian countries, and under the auspices of the ABMI, capital flow among Asian countries will be enhanced.

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Summary---SMEs Database

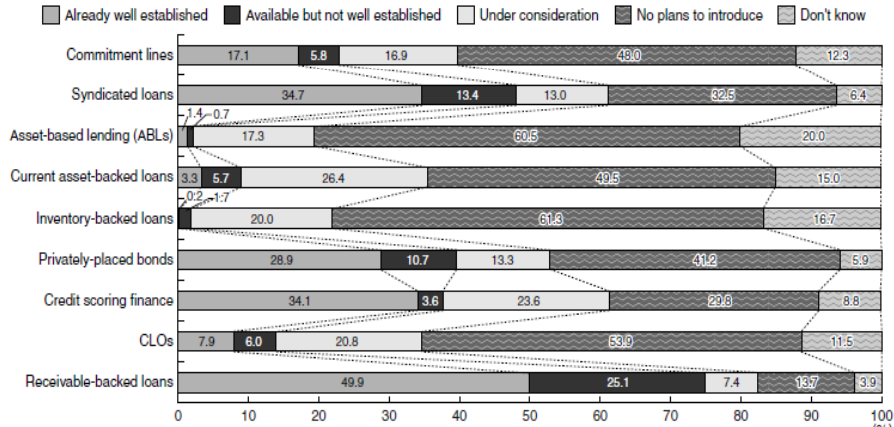
- 1, Common Database
- 2, Credit Scoring
- 3, Securitization of SME loans
 - It is circulated in Asian Bond Market
- 4, Benchmark for SME credit analysis
- 5, Statistical Examination
 - Default Risk
- 6, Reduce Information Asymmetry

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More than 60% use Credit Data

Fig. 1-3-34 New methods of financing and extent of use
New lending products being developed by financial institutions too



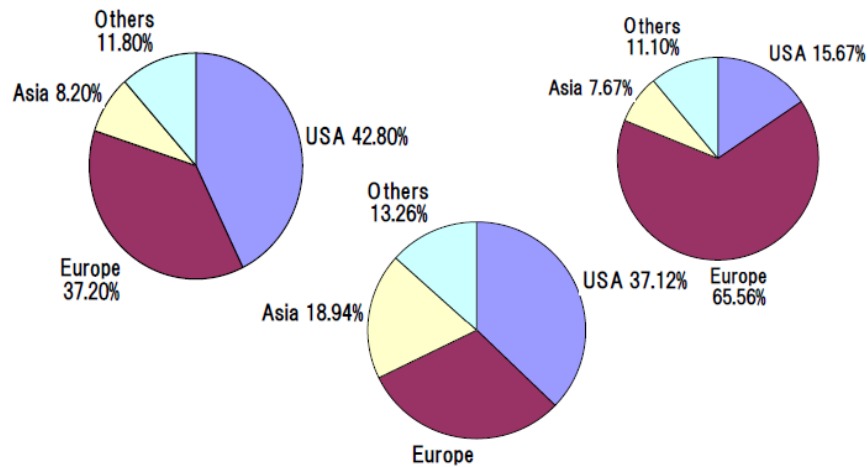
Source: RIETI (conducted by Tokyo Shoko Research, Ltd.) (2006), Survey of the Financial Environment of Small and Medium Enterprises.

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Direction of Portfolio Investment

Figure 1, From Asia, Figure 2, To Asia, Figure 3, Europe



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ABMI (Asian Bond Market Initiative)

Steps so far

- 1, Government Bond Market
 - 2, Semi-Government Bond (Power plant)
 - 3, Large Companies
 - 4, Infrastructure Financing (Revenue Bond)
 - 5, Housing Loan, Securitization
- Small Businesses are neglected
- Credit Data is difficult to obtain

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Reference

Development of Corporate Credit
Information Database and Credit
Guarantee System

Presented to the ASEAN Secretariat

By Naoyuki Yoshino, Koichi Suzuki,
Yasuhiro Maehara and Kazutomo Abe

February 2009

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