

# *The Development of SME Credit Information Database to promote SME Lending*

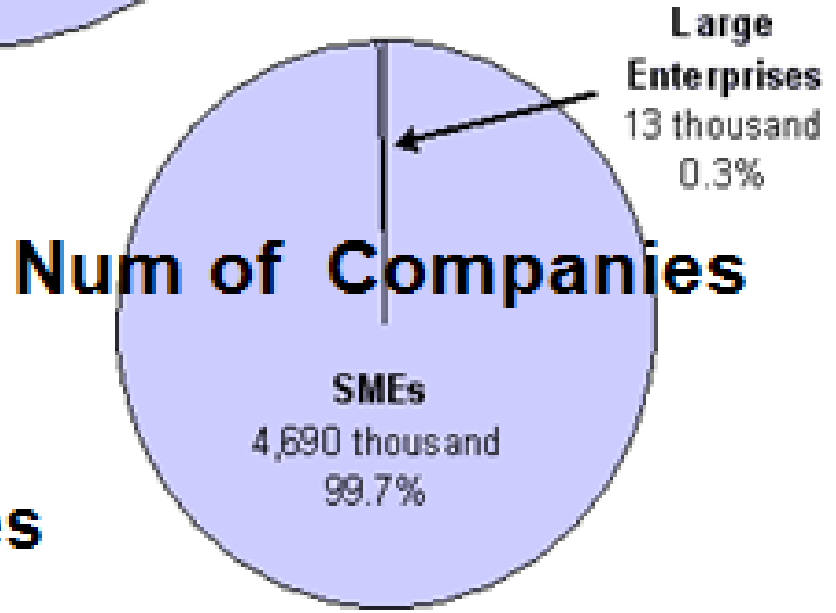
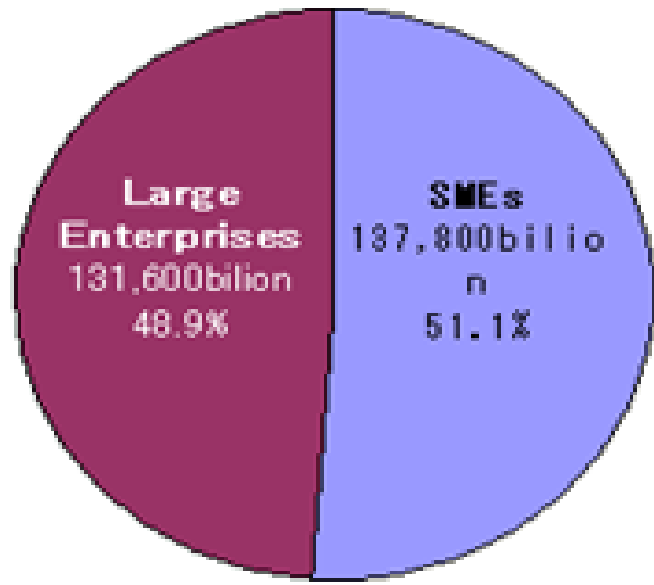
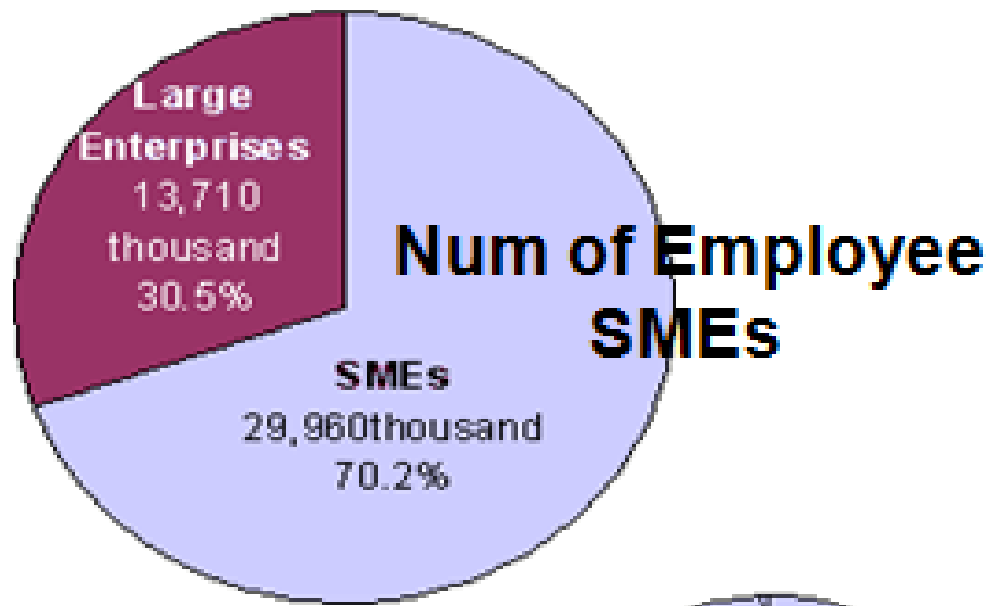
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August 4, 2010, Kuala Lumpur*

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# SME JAPAN



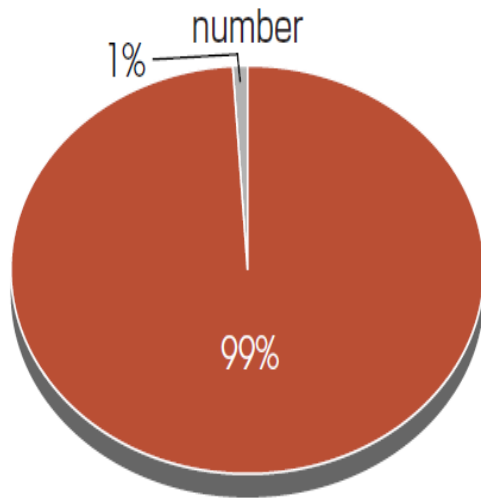
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# SMEs in Thailand

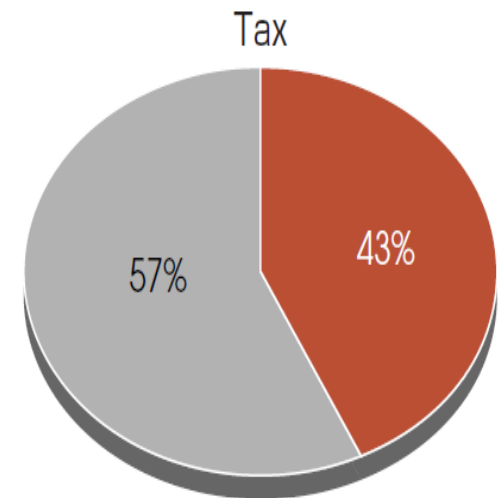
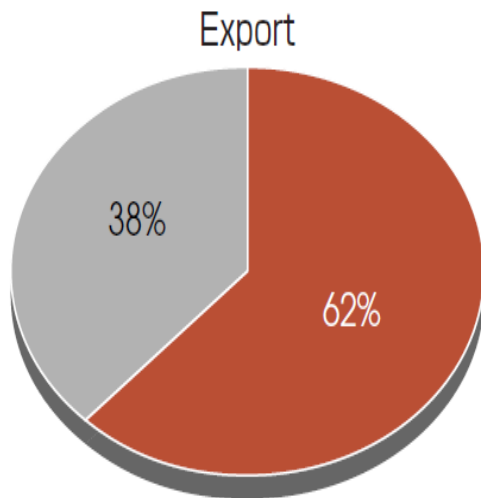
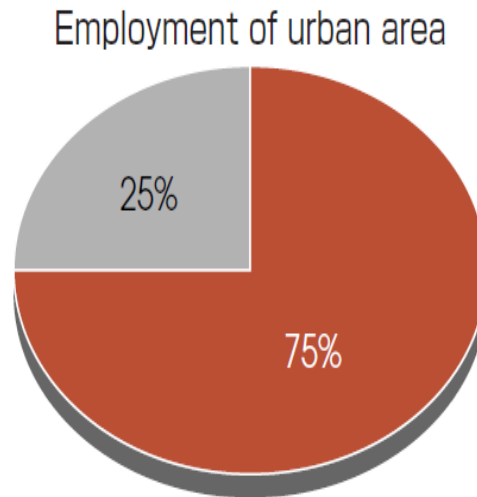
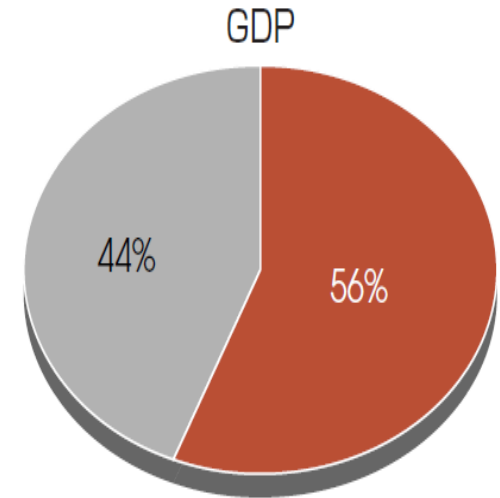
Type of Enterprise	No. of Enterprises (% of total)	No. of employment (% of total)	GDP Mill. Baht (% of total)
SMEs	2,366,227 (99.6%)	8,900,567 (76.0%)	3,244,974 (38.2%)
Large Enterprise and Others	9,141 (0.4%)	2,810,767 (24.0%)	5,239,226 (61.8%)
Total	2,375,368 (100%)	11,711,334 (100%)	8,484,200 (100.0%)

# SMEs in China

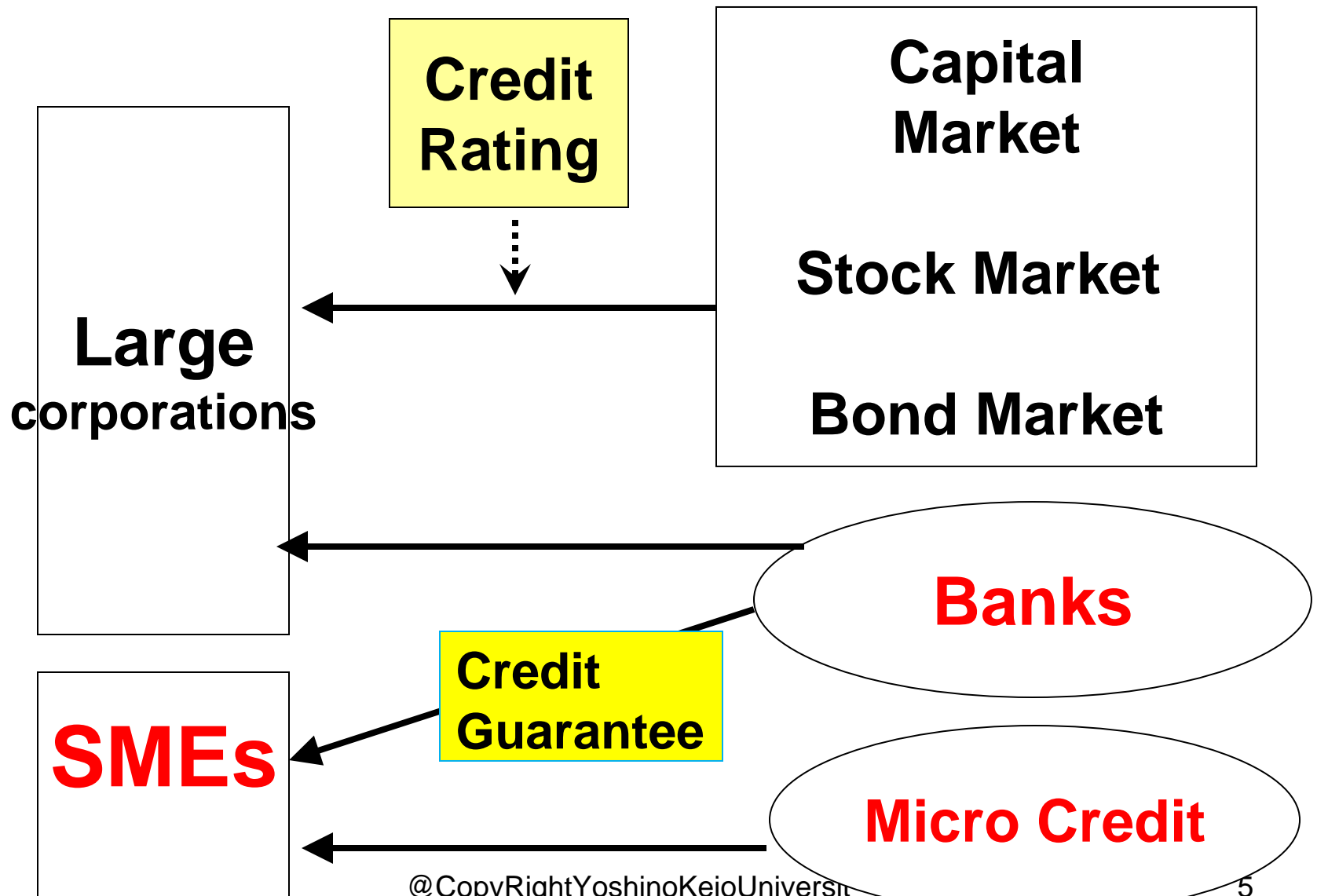
(Red Mark is SMEs' share)



■ 中小企業 ■ 大企業



# SMEs rely on Banks and Micro Credit



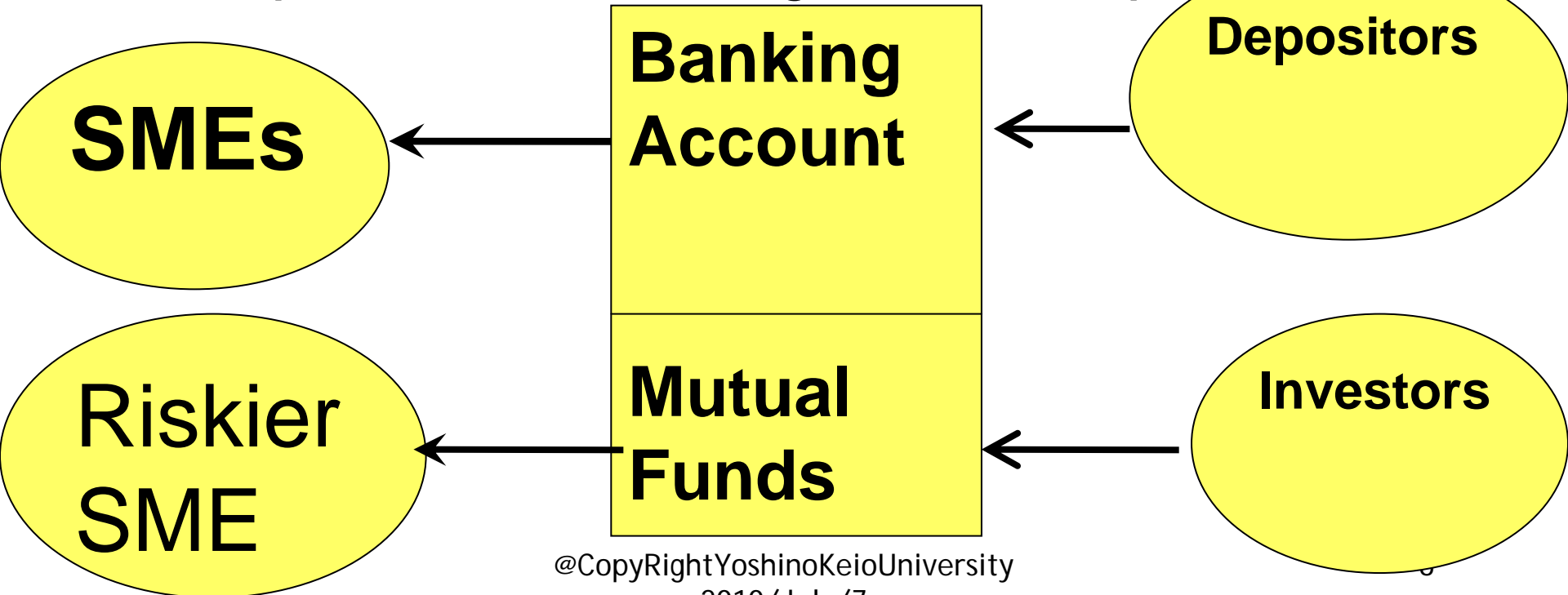
# *Bank based SME financing*

## *Start-up SMES*

1, Bank Loans to SME

2, SME mutual funds / SME fund

to provide financing to start ups



# *Separate Accounts of SME financing*

1, Traditional Bank finance

Private banks

Government banks

2, SME fund, SME mutual funds

Sell these products through banks

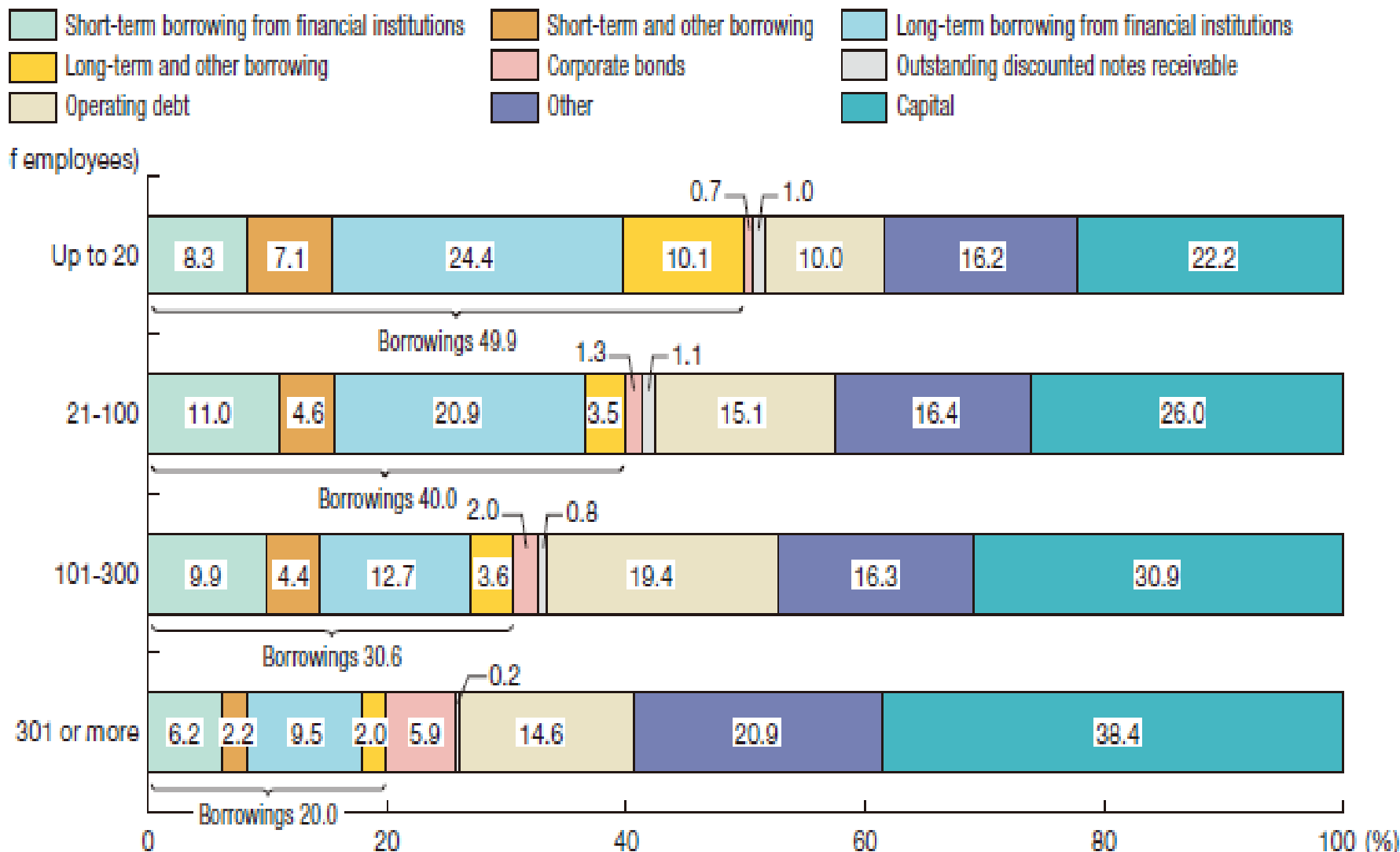
3, Separating two accounts

Bank accounts (Guarantee)

SME fund (non-guarantee)

# Fig. 3-2-5 Fundraising structure by number of employees (fiscal 2006)

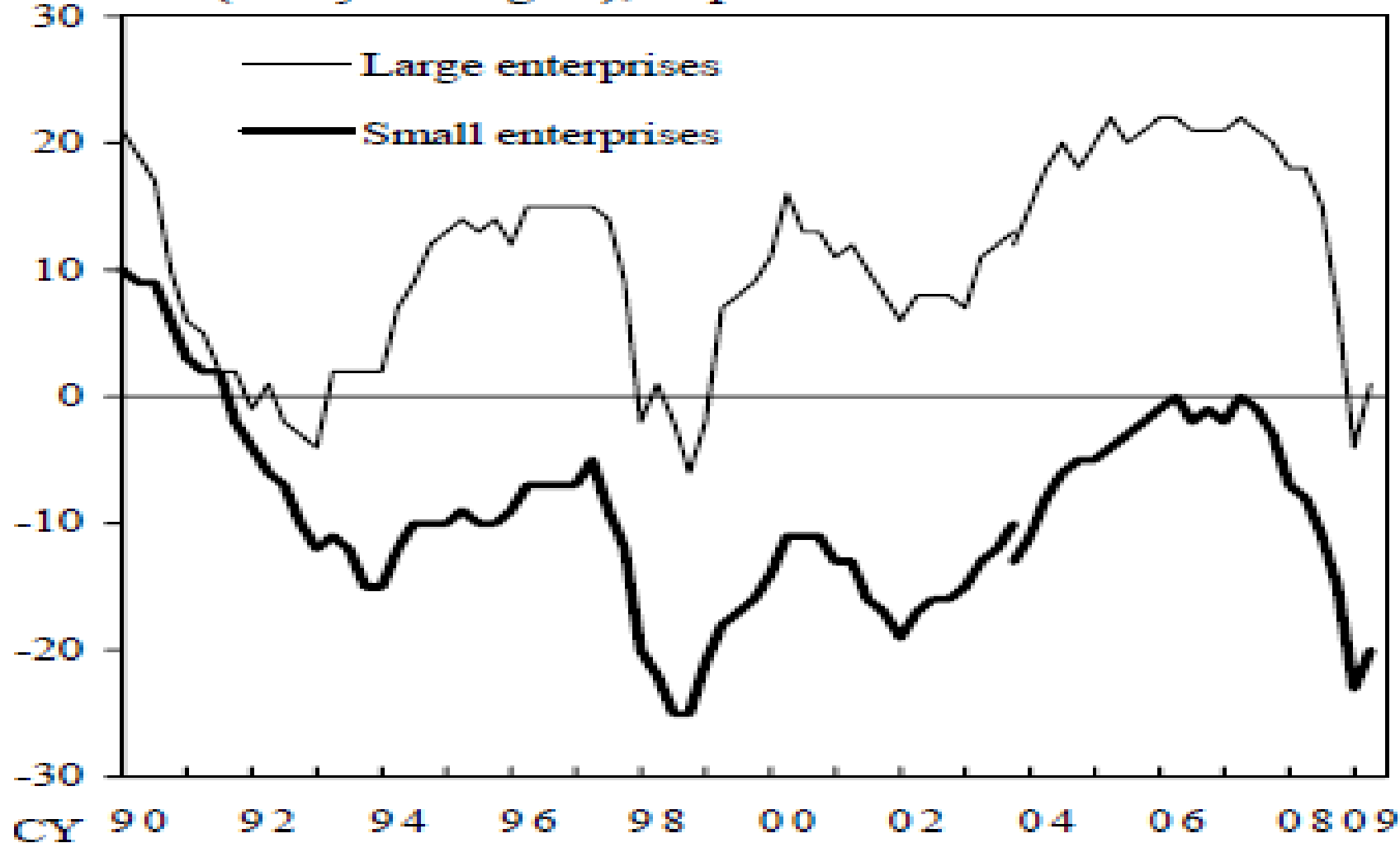
Dependency on borrowing increases as the number of employees becomes smaller



# (1) Financial Position

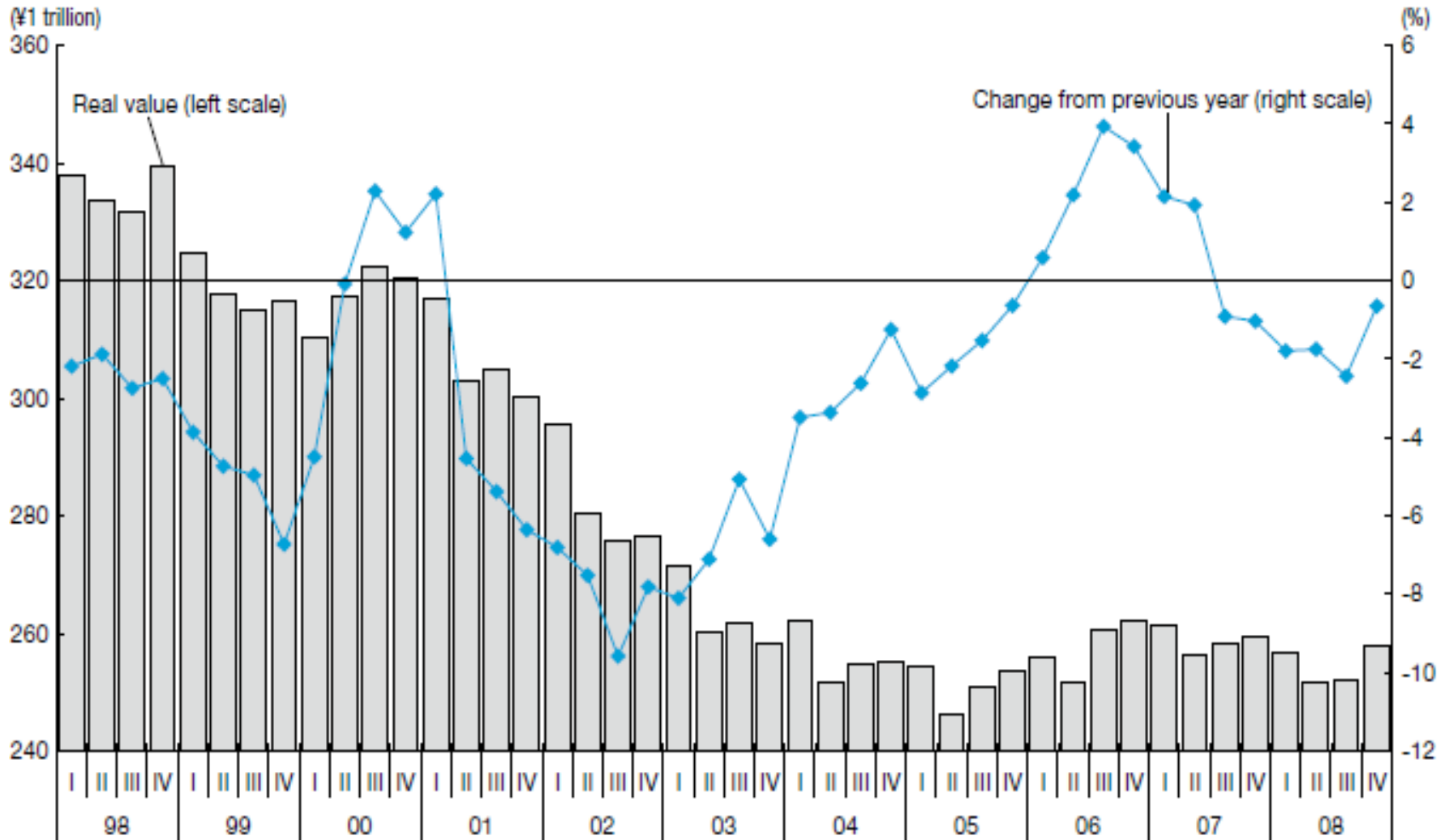
<Tankan<sup>1</sup>>

DI("Easy" - "Tight"), % points



### 3. 1-3-9 Trends in SME loan balance by financial institutions

SME loan balance by financial institutions decreased overall between the 1990's and early 2000's, increased year-on-year in 2006, and has, again, been decreasing since the second half of 2007

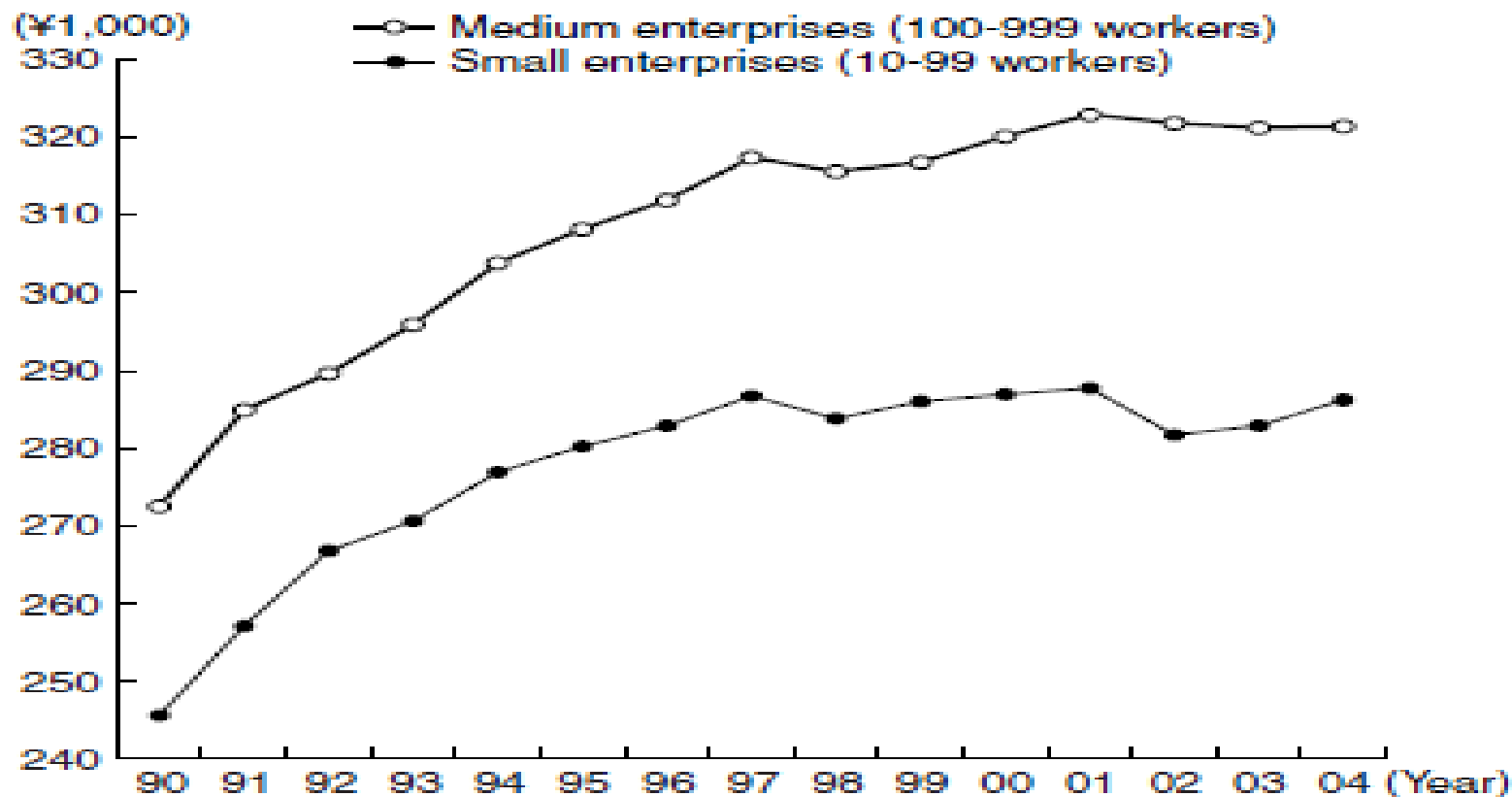


# *The SME Industry and Credit Information Infrastructure in East Asia*

- ✦ **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.**

# Wage Differentials between Large companies and SMEs

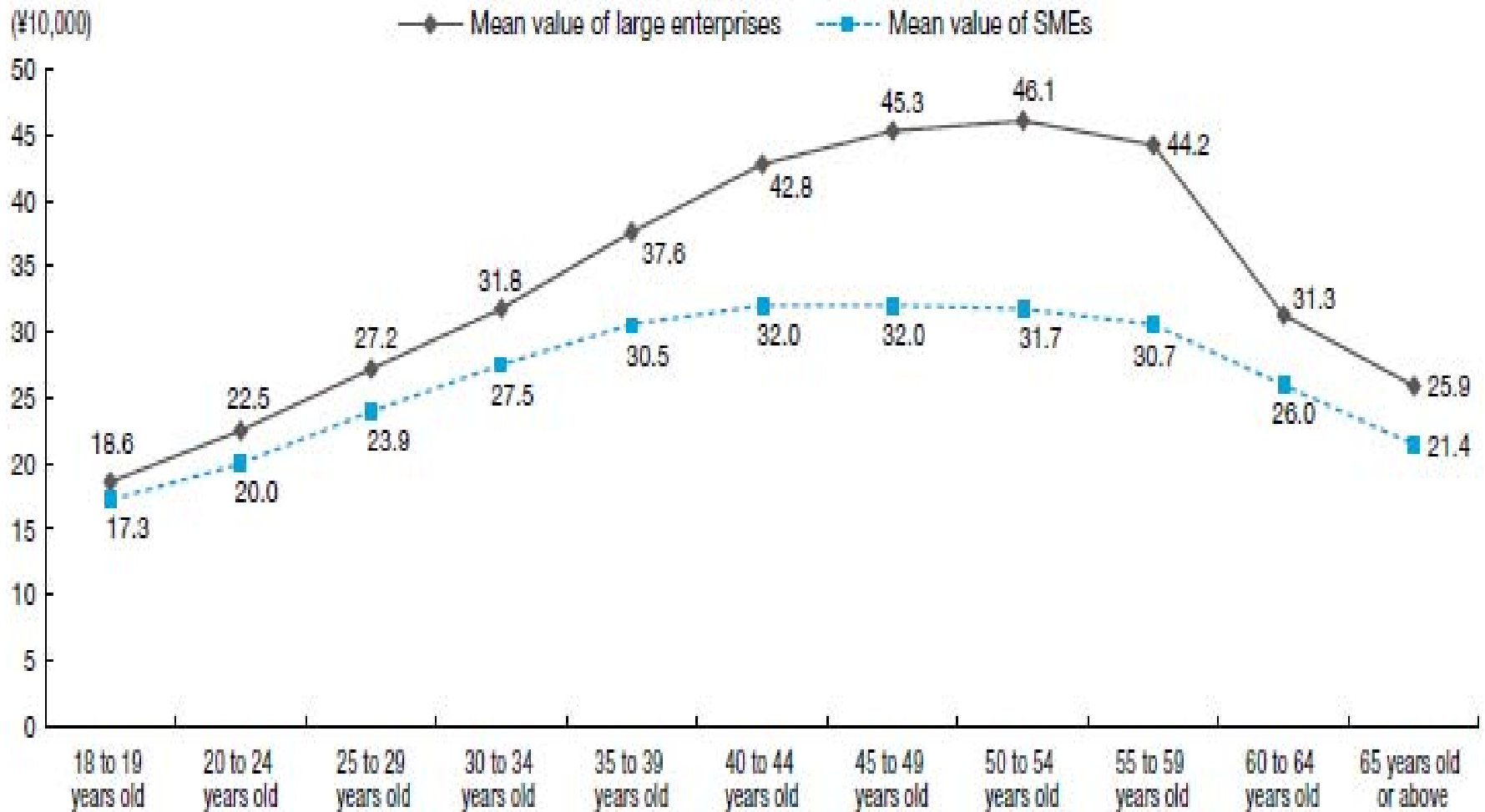
**Fig. 1-1-35 Trends in wages by enterprise size**  
Slight upward trend in wages, mainly at small enterprises



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

### Fig. 3-3-1 Wage curve of permanent employees

The rise in the wages of SME permanent employees is more moderate in comparison to that of large enterprise permanent employees

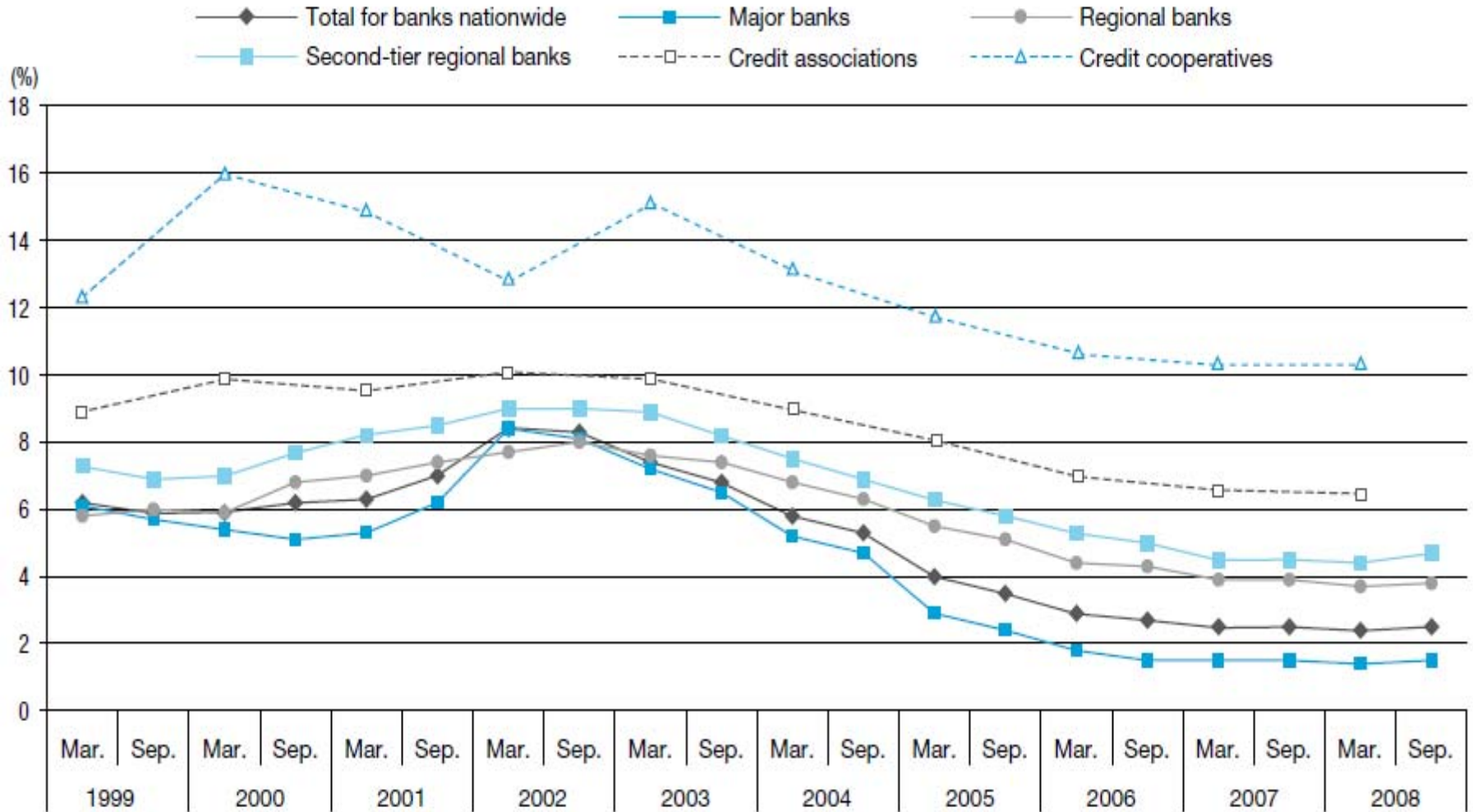


Source: Recompiled from MHLW, FY2007 Basic Survey on Wage Structure.

2010/July/7

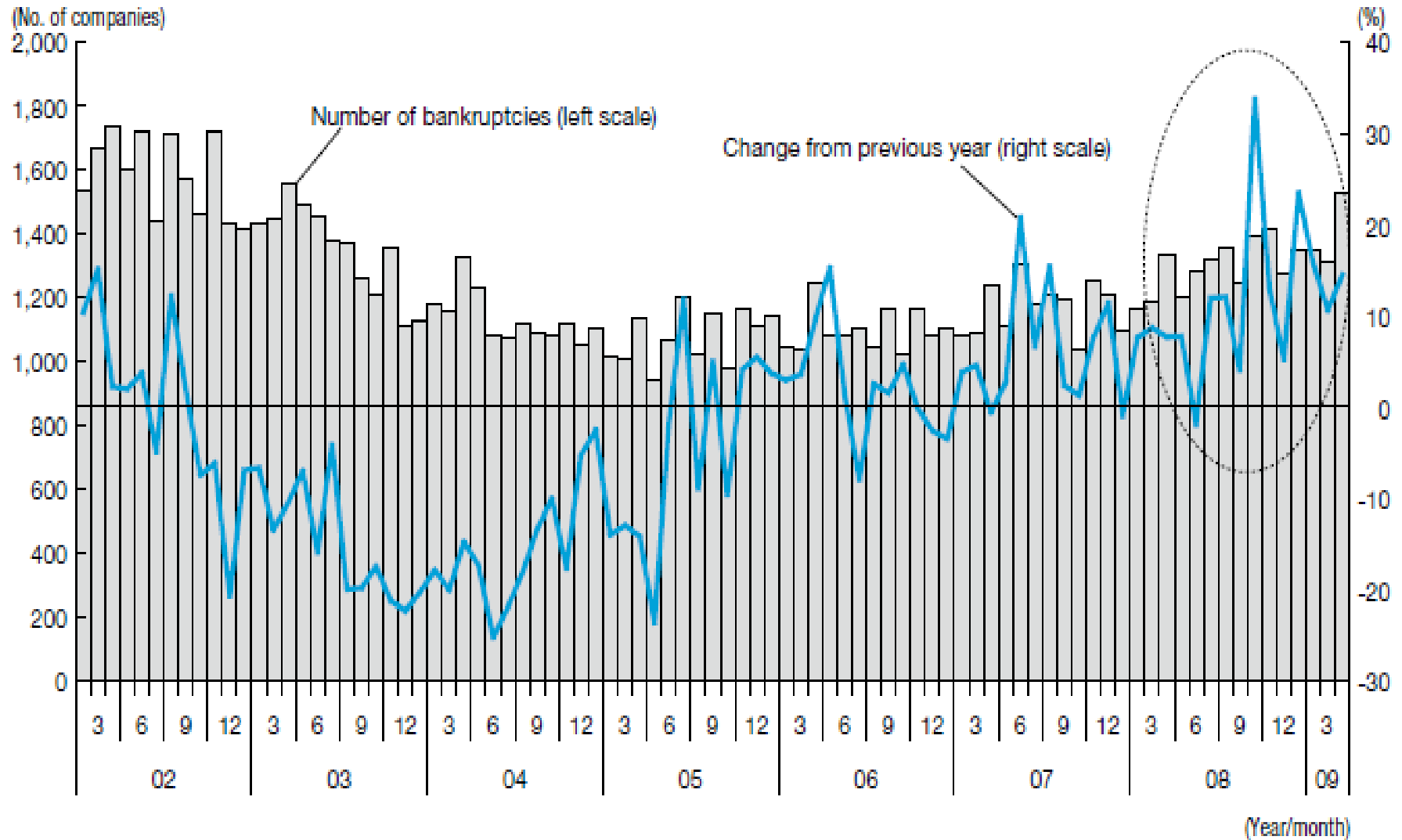
**Fig. 1-3-16 Trend in non-performing loan ratio**

The non-performing loan ratio increased slightly for banks nationwide in the term ending September 2008 compared to the term ending March 2008 due to the economy turning to a recessionary phase



### 3. 1-2-9 SME bankruptcy trends

The number of SME bankruptcies has been increasing recently



Financial institution		Year	2003				2004				2005			
		Month	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.
	City banks		89.3	83.4	83.1	—	—	—	—	—	—	—	—	
	Regional banks		67.8	66.0	66.4	—	—	—	—	—	—	—	—	
	Member banks of the Second Association of Regional Banks		24.4	23.2	23.2	—	—	—	—	—	—	—	—	
	Other		12.5	11.1	11.9	—	—	—	—	—	—	—	—	
Domestically-licensed banks' banking accounts total			194.0	183.7	184.6	180.5	186.0	176.4	179.1	178.6	179.4	171.7	176.0	177.7
Domestically-licensed banks' trust accounts, etc.			2.3	1.8	1.7	1.6	1.6	1.4	1.5	1.6	1.6	1.7	1.6	1.9
Credit associations			41.5	41.0	41.2	41.8	40.5	40.0	40.5	41.1	40.4	40.1	40.8	41.5
Credit cooperatives			9.2	9.1	9.2	9.2	9.1	9.0	9.1	9.2	9.2	9.1	9.2	9.3
Private-sector financial institutions total			246.9	235.5	236.7	233.1	237.3	226.9	230.3	230.5	230.6	222.5	227.6	230.4
Private-sector financial institutions total (excluding trust accounts, etc.)			244.7	233.7	235.0	231.5	235.7	225.5	228.8	228.9	229.0	220.8	226.0	228.6
	Japan Finance Corporation (Small and Medium Enterprise Unit)		7.5	7.5	7.6	7.6	7.6	7.6	7.6	7.6	7.5	7.4	7.3	7.2
	Japan Finance Corporation (Micro Business and Individual Unit)		9.2	9.2	9.1	9.2	8.9	8.9	8.8	8.8	8.4	8.3	8.2	8.2
	Shoko Chukin Bank		10.1	9.9	9.9	10.0	9.8	9.7	9.7	9.8	9.6	9.5	9.5	9.6
Government-affiliated financial institutions total			26.8	26.6	26.7	26.8	26.3	26.1	26.1	26.2	25.5	25.2	25.0	24.9
Total outstanding lending to SMEs			273.7	262.1	263.4	260.0	263.6	252.9	256.3	256.7	256.1	247.8	252.5	255.4
Total outstanding lending to SMEs (excluding trust accounts, etc.)			271.5	260.3	261.7	258.3	262.0	251.5	254.8	255.1	254.5	246.1	250.9	253.5

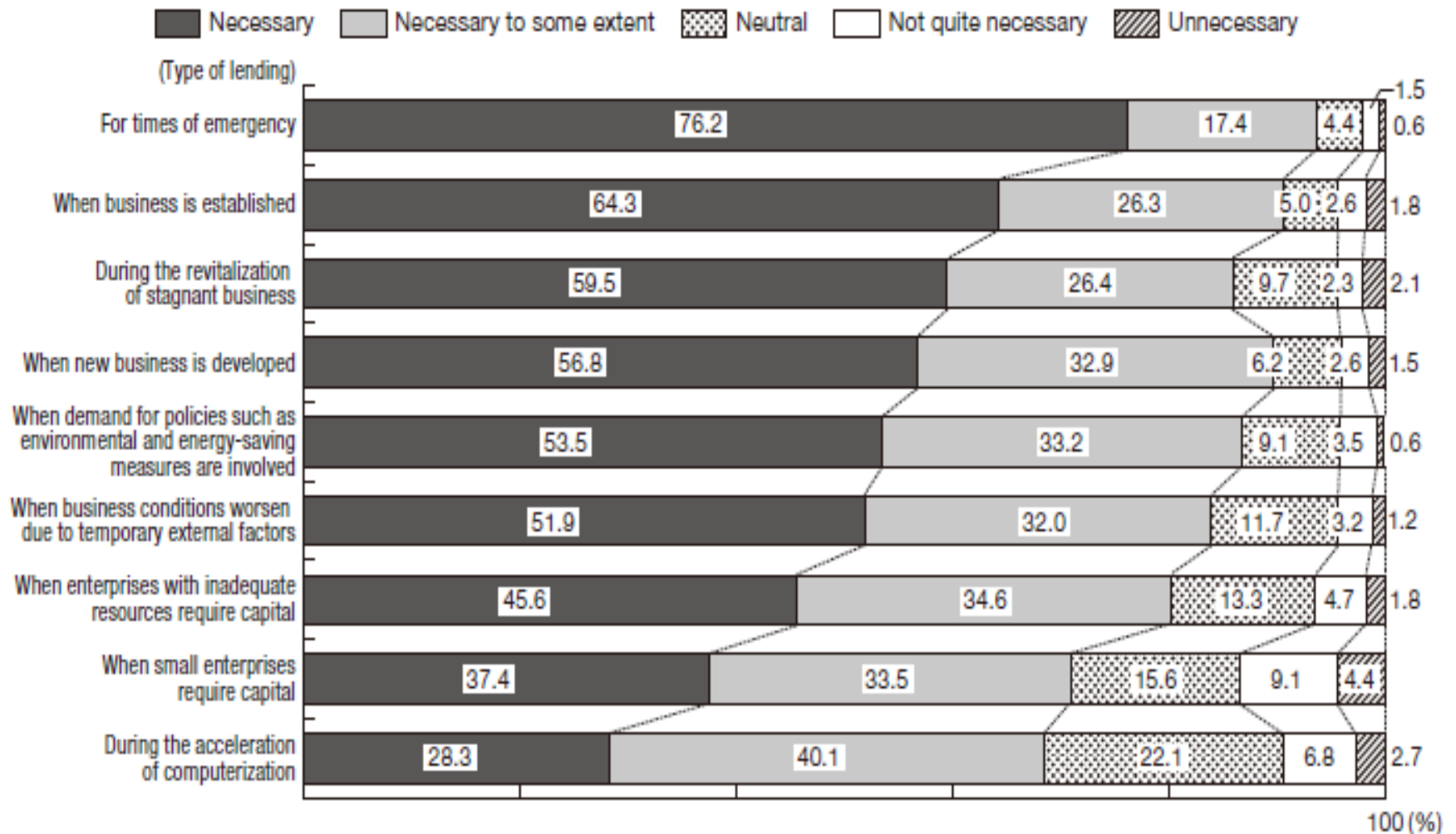
Financial institution		Year		2006				2007				2008			
		Month		Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.
	City banks			—	—	—	—	—	—	—	—	—	—	—	
	Regional banks			—	—	—	—	—	—	—	—	—	—	—	
	Member banks of the Second Association of Regional Banks			—	—	—	—	—	—	—	—	—	—	—	
	Other			—	—	—	—	—	—	—	—	—	—	—	
Domestically-licensed banks' banking accounts total				181.6	177.8	186.2	187.1	187.4	183.0	184.6	185.3	184.1	179.8	179.6	184.0
Domestically-licensed banks' trust accounts, etc.				1.9	1.9	1.7	1.7	1.6	1.6	1.5	1.5	1.5	1.4	1.3	1.2
Credit associations				40.8	40.5	41.5	42.1	41.7	41.3	41.9	42.3	41.6	41.3	42.0	43.0
Credit cooperatives				9.3	9.3	9.4	9.4	9.4	9.3	9.4	9.5	9.4	9.3	9.4	9.5
Private-sector financial institutions total				233.6	229.5	238.8	240.2	240.0	235.2	237.5	238.5	236.5	231.8	232.3	237.7
Private-sector financial institutions total (excluding trust accounts, etc.)				231.7	227.6	237.1	238.6	238.5	233.6	236.0	237.1	235.1	230.4	231.0	236.5
	Japan Finance Corporation (Small and Medium Enterprise Unit)			7.0	6.9	6.8	6.7	6.4	6.3	6.2	6.0	5.8	5.7	5.6	5.5
	Japan Finance Corporation (Micro Business and Individual Unit)			7.8	7.7	7.6	7.5	7.2	7.1	7.0	7.0	6.8	6.8	6.7	6.7
	Shoko Chukin Bank			9.4	9.3	9.3	9.4	9.3	9.3	9.2	9.3	9.1	8.9	8.9	9.0
Government-affiliated financial institutions total				24.3	23.9	23.7	23.5	23.0	22.7	22.4	22.4	21.7	21.4	21.1	21.3
Total outstanding lending to SMEs				257.9	253.3	262.5	263.8	263.0	257.9	259.9	260.9	258.2	253.2	253.4	258.9
Total outstanding lending to SMEs (excluding trust accounts, etc.)				256.0	251.4	260.8	262.1	261.5	256.3	258.4	259.4	256.8	251.8	252.1	257.8

# *Role of Government Banks for SME*

- 1, Information Asymmetry
- 2, Lack of information by lenders
- 3, role of government  
    employment opportunities  
    SMEs are engine of growth
- 4, tax payers' money
- 5, Private financing vs. government banks

## 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



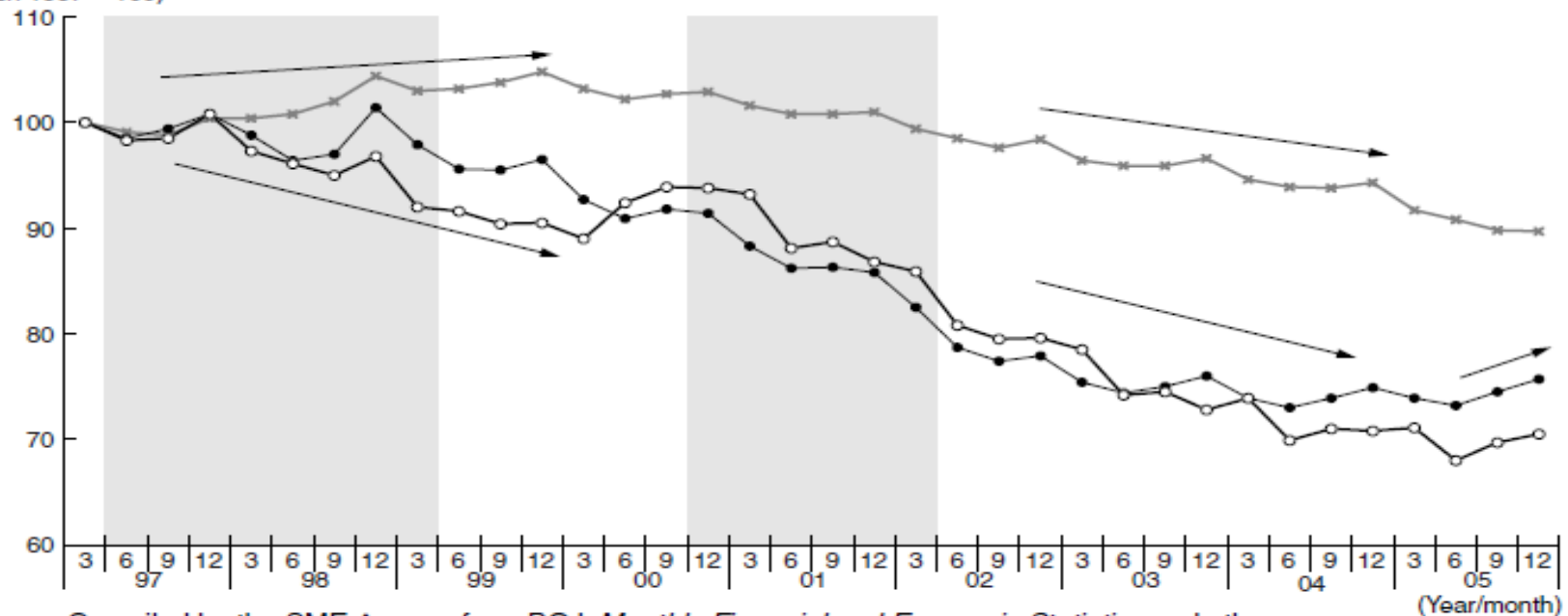
# Loans by Banks, Credit Cooperatives etc.

**Fig. 1-3-11 Trends in outstanding lending to SMEs (by type of financial institution)**

Comparatively stable lending by government-affiliated SME financial institutions, credit associations, and credit cooperatives, but lending by domestic banks too has recovered from June 2005

—○— Domestic banks    —●— Credit associations and cooperatives    —×— Government-affiliated SME financial institutions

(March 1997 = 100)

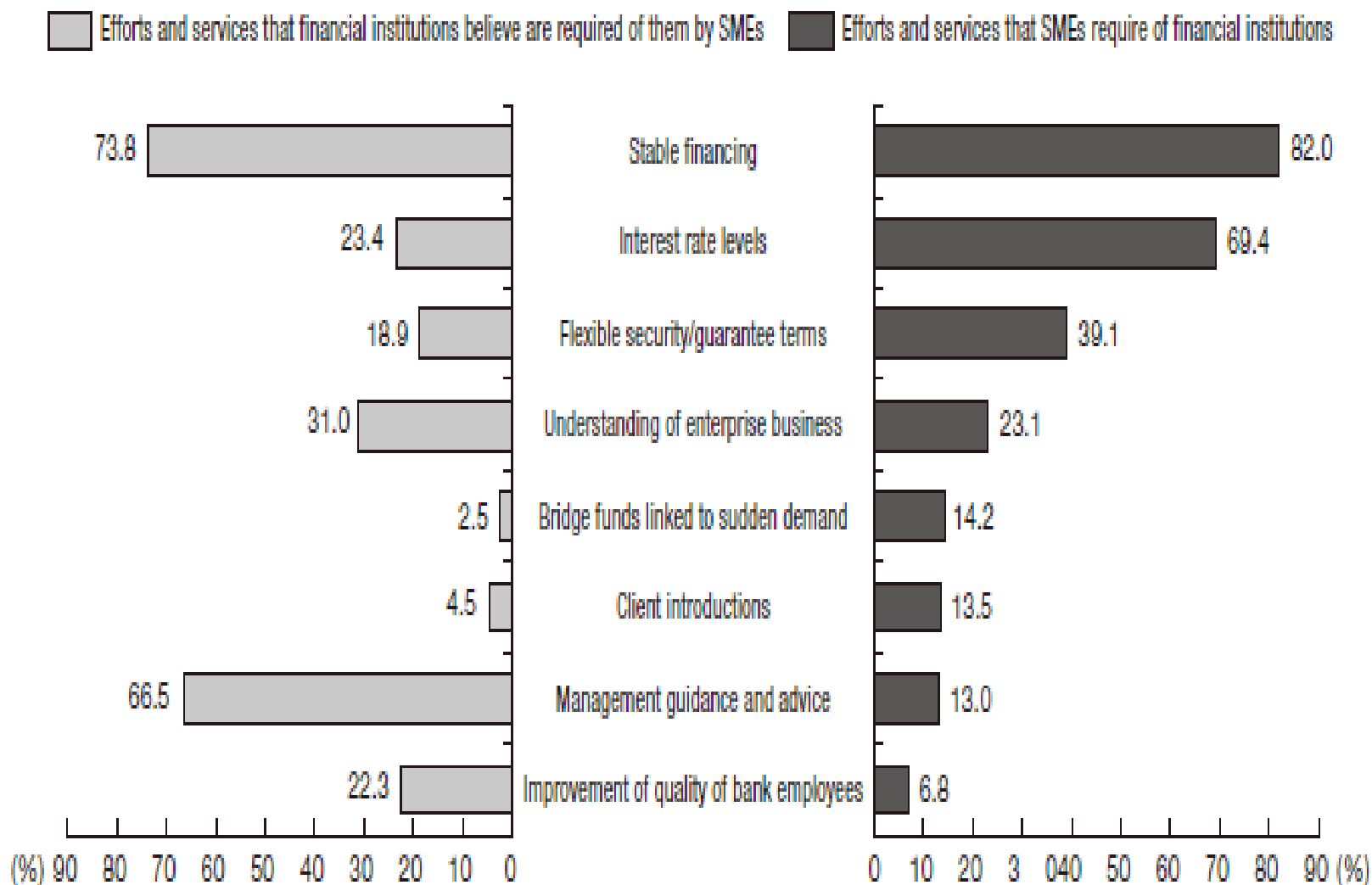


Source: Compiled by the SME Agency from BOJ, *Monthly Financial and Economic Statistics* and other sources.

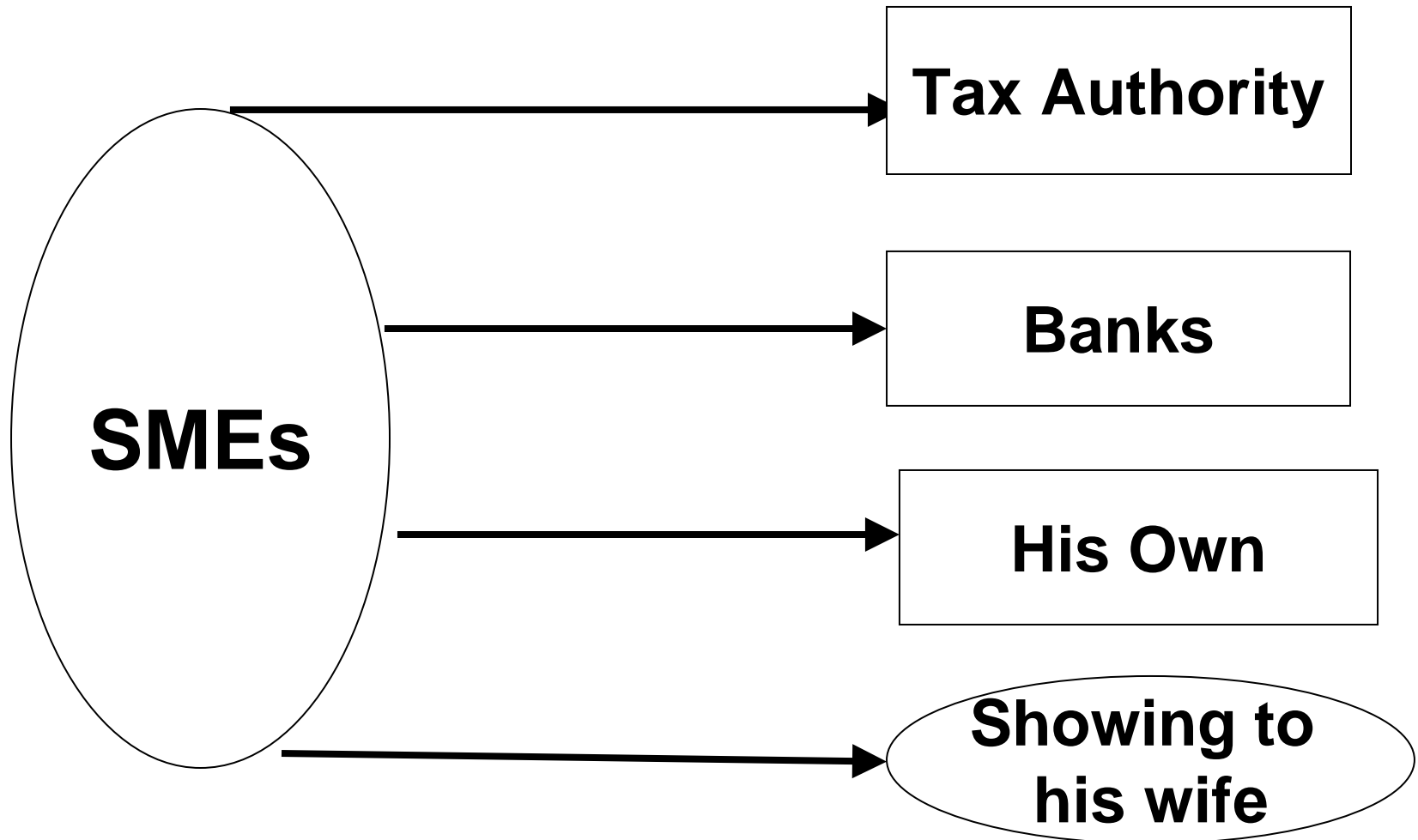
- Notes:
1. The figures for "domestic banks" indicate the combined lending of domestic banks (excluding credit associations and credit cooperatives), domestic trust banks, and overseas branch accounts of domestically licensed banks.
  2. Government-affiliated SME financial institutions are the Shoko Chukin Bank, Japan Finance Corporation for Small and Medium Enterprise (JASME), and National Life Finance Corporation.
  3. The shaded sections indicate economic contraction (from the peak to the trough in the business cycle).

## Fig. 3-2-19 Efforts and services required of financial institutions

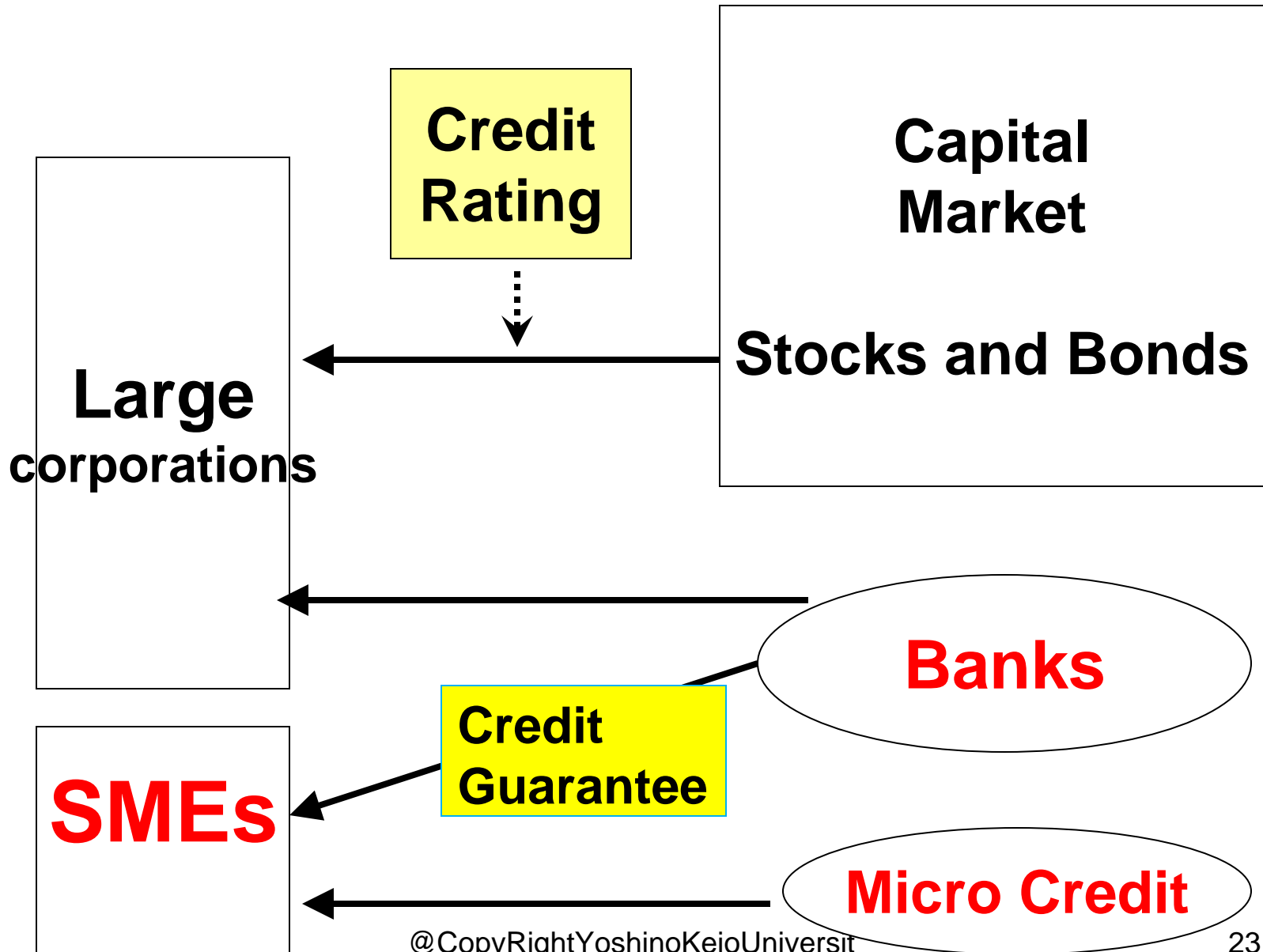
While financial institutions place emphasis on business support other than lending terms, SMEs emphasize borrowing terms:



# *Four Accounts by SMEs*

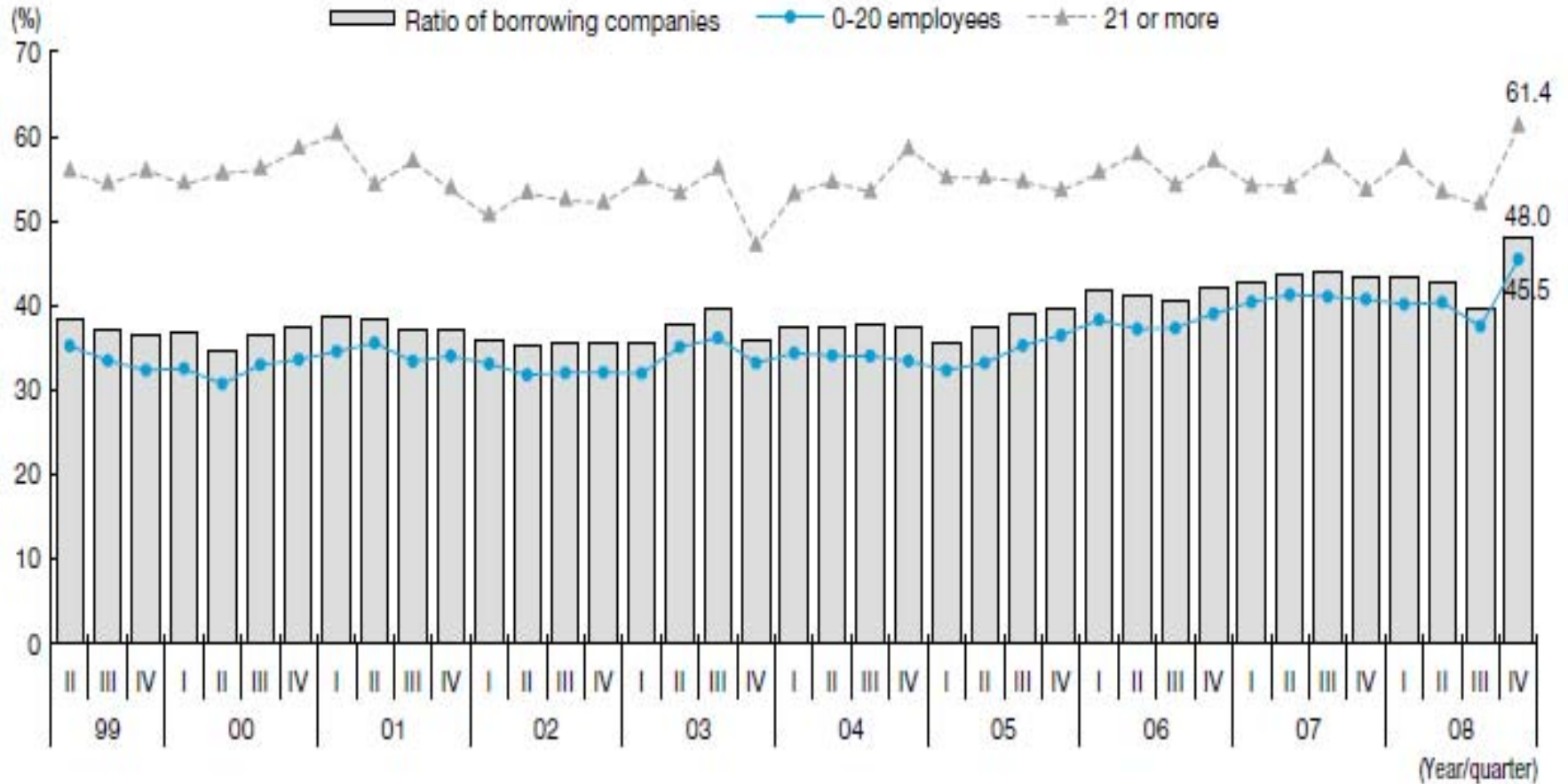


# Lack of Data for SMEs



**Fig. 1-3-20 Ratio of borrowing companies which have guarantees by Credit Guarantee Corporations**

Ratio of borrowing companies showed a recent increase



Source: Japan Finance Corporation, *Survey on Financial Status of SMEs with Guarantees* (January 2009).

# *SMEs Database*

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

# *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.

# *Credit Guarantee Systems (CGS) and SME Finance in ASEAN*

## **Sustainability of CGS**

1, motivation,

2, To Avoid moral hazard;

3, Going concern

(Revenue, selling information  
providing data analysis)

# *Credit Guarantee System*

- 1, Put incentive mechanism to banks
- 2, provide incentive mechanism to SMEs
- 3, 100 % guarantee → moral hazard problem
- 4, partial guarantee
- 5, performance based coverage ratio
  - good banks are given higher guarantee
  - bad banks only receive low rate guarantee
- 6, Policy oriented CGS (government support)

# **CRD (Credit Risk Database)**

## **Membership composition (July,2009)**

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

# CRD Data: Since 1995

## Corporations

March-2009

**Total**                    **10,180,000**    **(1785)**

**Default data**            **1,117,000**    **(209)**

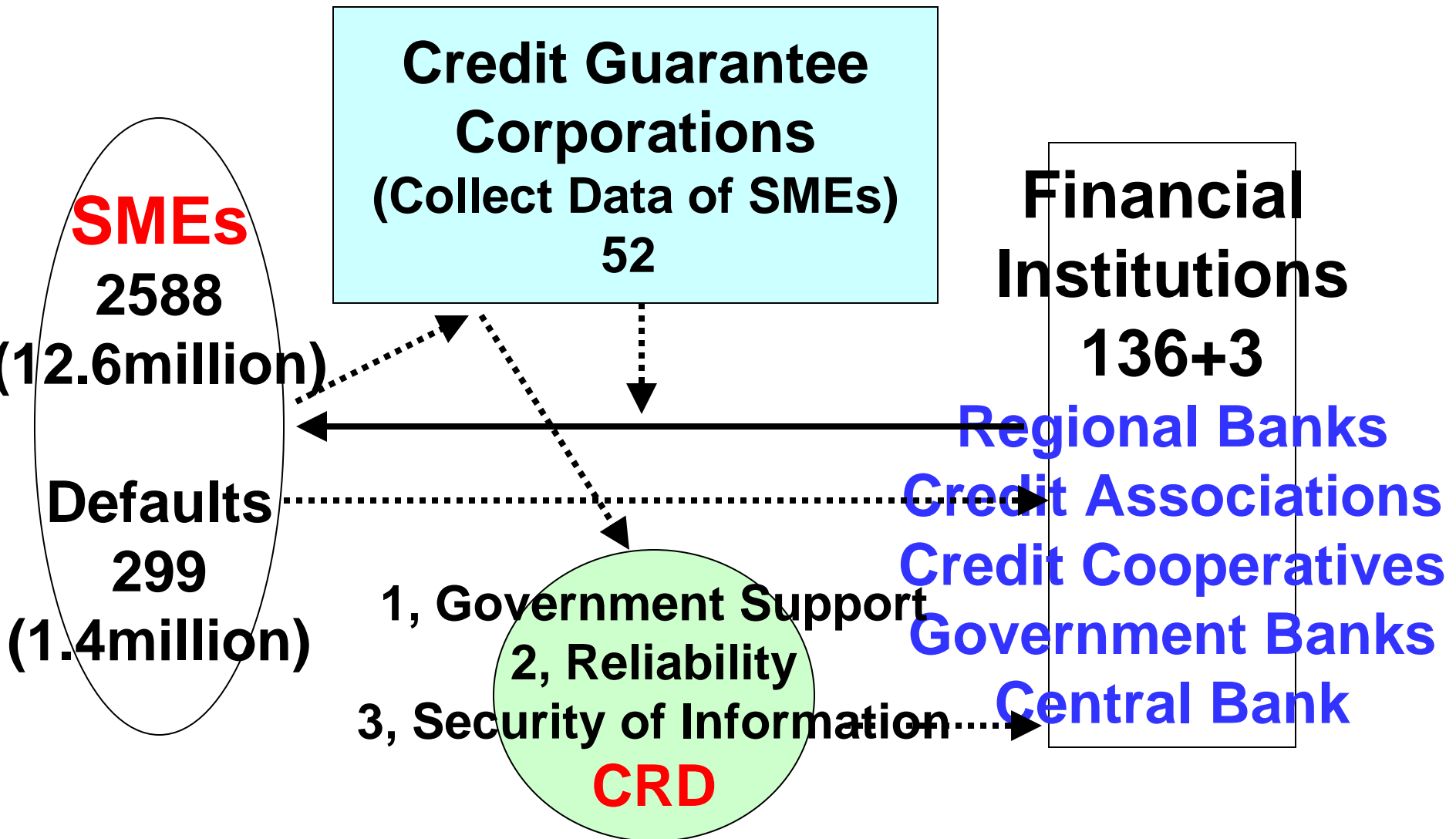
## Individual owned company

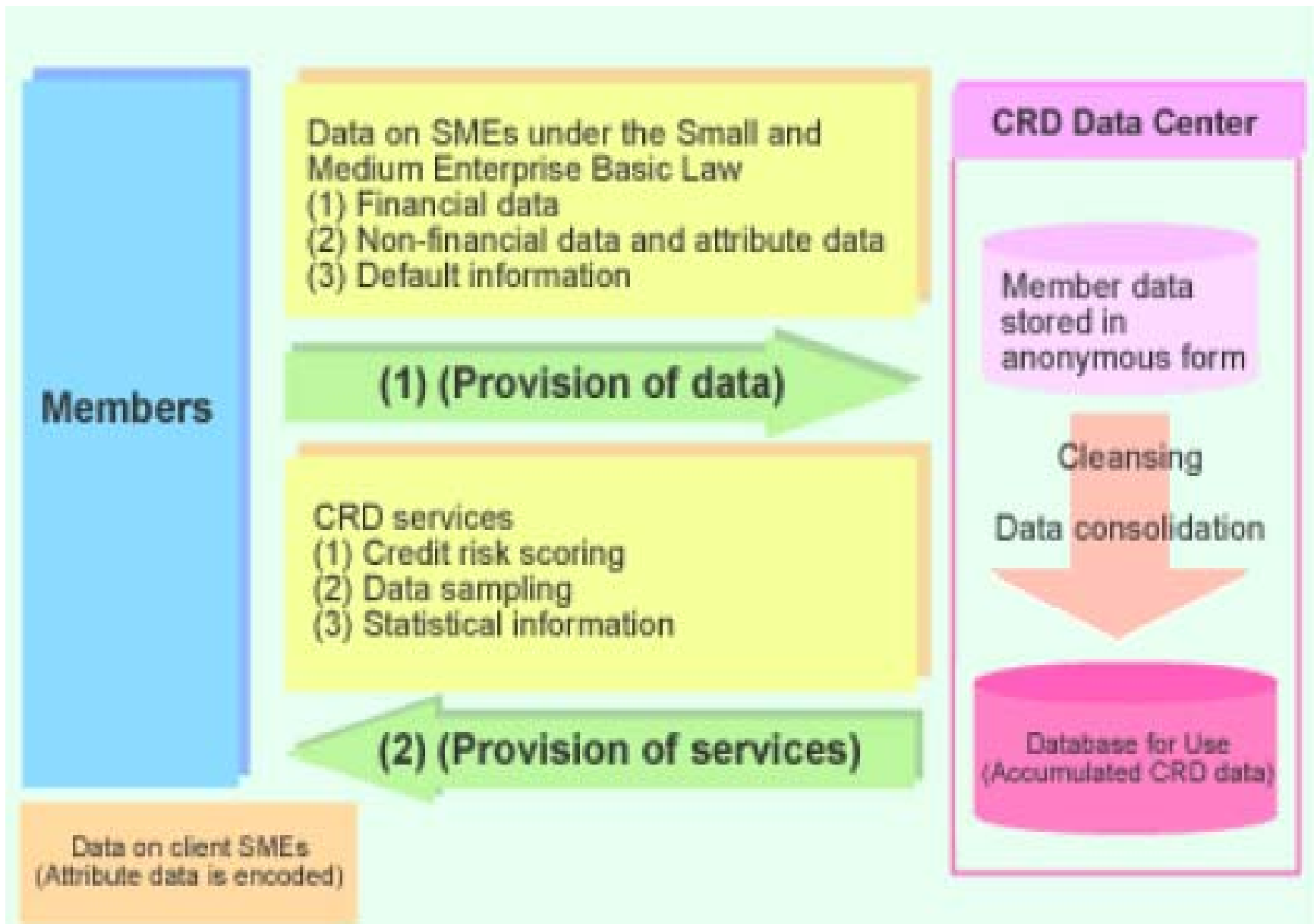
**Total**                    **2,496,000**    **(803)**

**Default data**            **301,000**      **(90)**

**Number of**    **(Number of**  
**Accounts**    **companies)**

# SME Data base





# *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.

# *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**

# 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.
- ★ **Nation wide data**
- ★ 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.

# 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.

# 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.

(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.

# *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

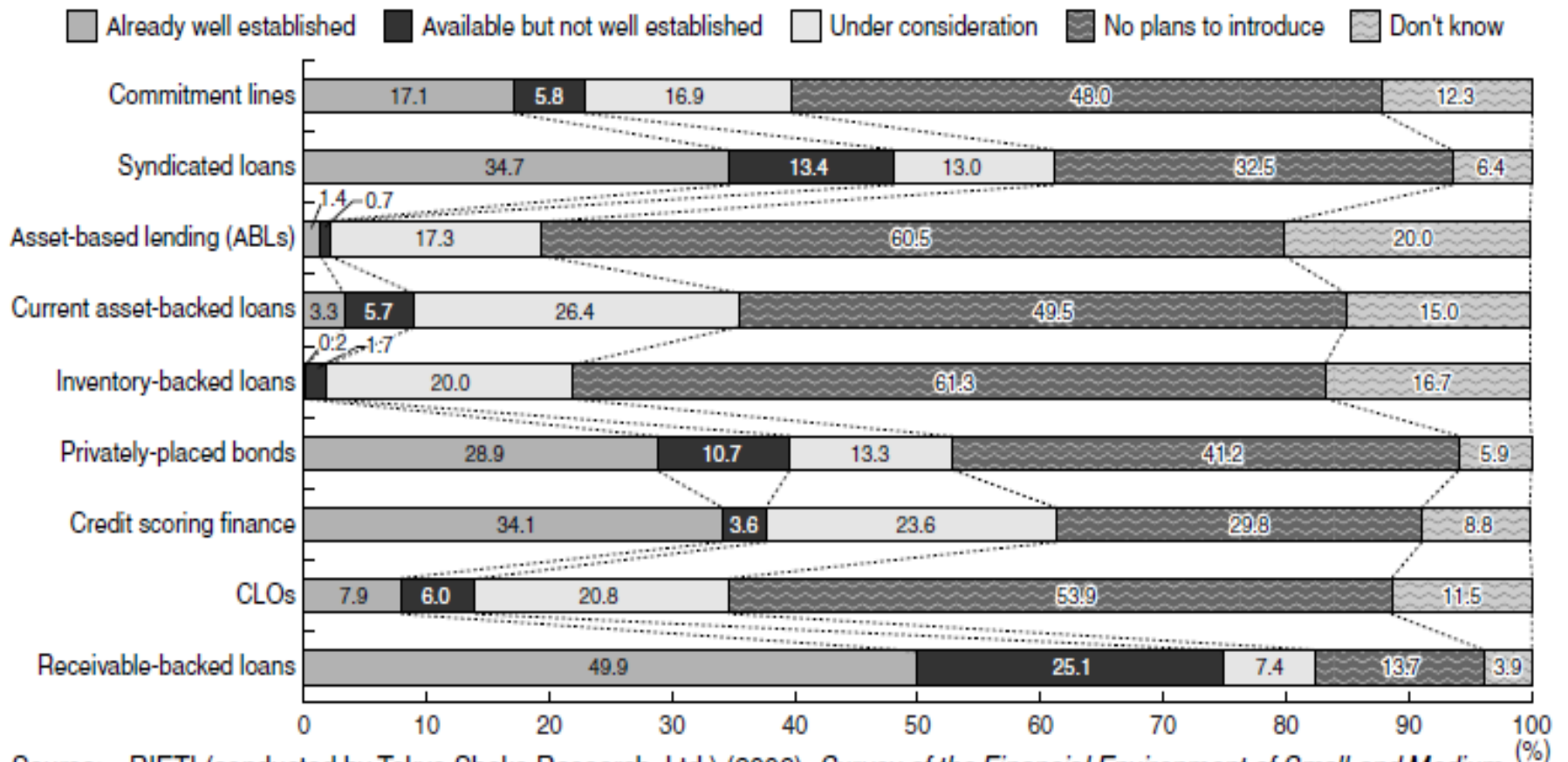
5, Statistical Examination

→ Default Risk

6, Reduce Information Asymmetry

# More than 60% use Credit Data

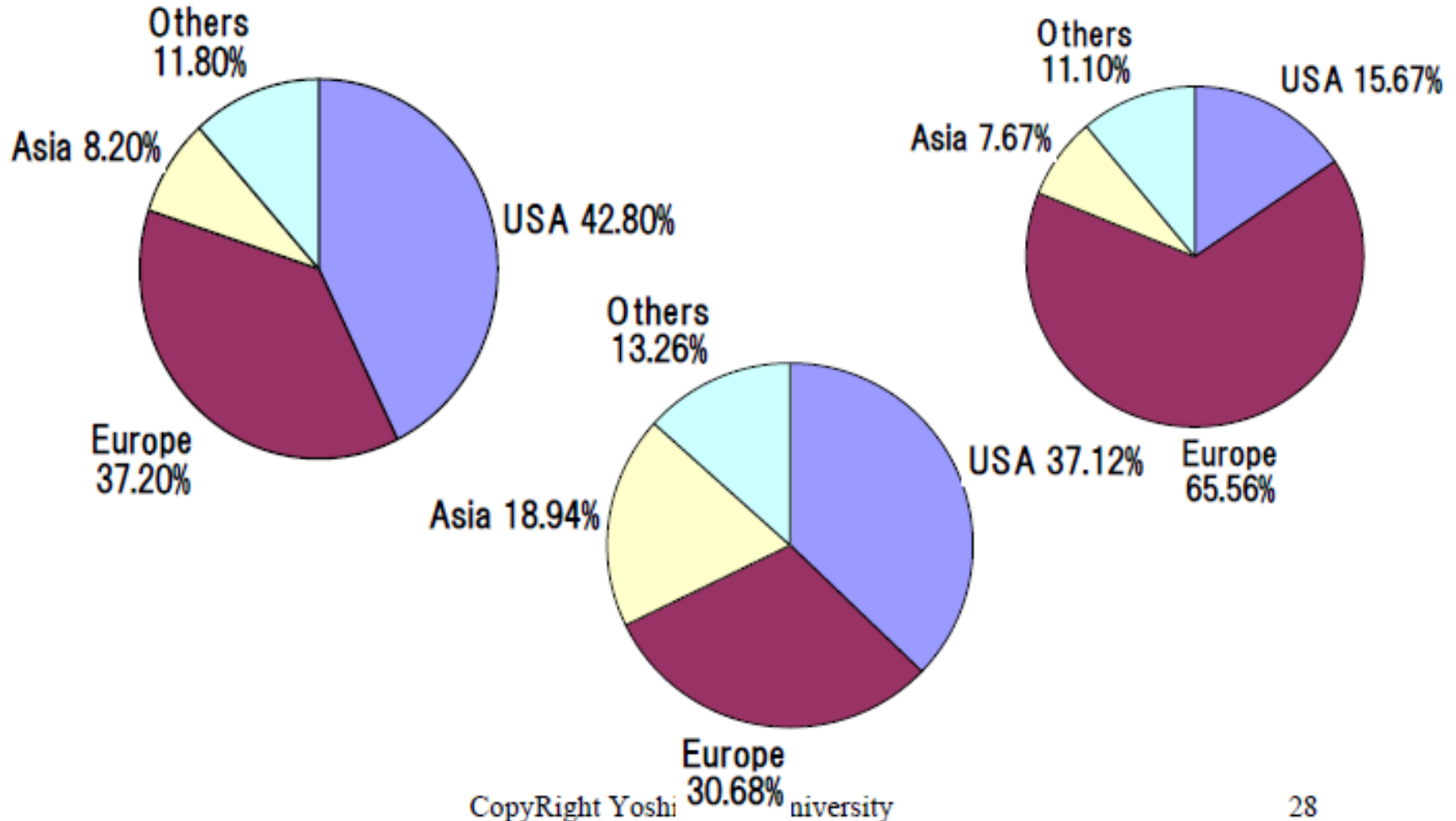
**Fig. 1-3-34 New methods of financing and extent of use**  
New lending products being developed by financial institutions too



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

# 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

# *Reference*

## Development of Corporate Credit Information Database and Credit Guarantee System

Presented to the ASEAN Secretariat

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Yasuhiro Maehara and Kazutomo Abe

*February 2009*