IMPROVING ACCESS TO CREDIT FOR SMALL BUSINESSES

DESCRIPTION OF THE EU/EBRD PROJECT FOR FINANCING SMALL- AND MEDIUM-SIZED ENTERPRISES (SMEs) AT UNIBANKA

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UniBanka, a.s. has since its foundation (26 June 2005 was the 15th anniversary since the bank's establishment, its predecessors having been initially Slovenská poľnohospodárska banka, a.s. and then Poľnobanka, a.s.) declared a strategy of focusing on the sector of small- and medium-sized enterprises. Indeed, Slovenská poľnohospodárska banka [the Slovak Agricultural Bank] was the first bank which began back in 1993, to provide, in co-operation with the Slovak-American Enterprise Fund, loans and advice to this market segment, and this in particular in drawing up business plans. Poľnobanka, a.s. likewise was among the first banks to begin co-operation with the National Agency for Development of Small- and Medium-Sized Enterprises and via the Support Credit Programmes it provided loans totalling SKK 2.596 billion. The bank was also involved in financing small- and medium-sized enterprises by using resources of the Japan EXIM, in co-operation with the NBS. Via this programme the bank re-financed SKK 3.448 billion.

An important task in implementing the strategic focus on small- and medium-sized enterprises was played also by the 19.9% shareholder – the European Bank for Reconstruction and Development (the EBRD – has been the bank's shareholder since 1993). Back in 1995 EBRD signed with Poľnobanka, a.s. a contract on co-financing the agricultural business sector. The target segment for financing in the framework of this project were also small- and medium-sized enterprises, particular in the food-processing industry. Co-operation with the EBRD continued, via another joint project – financing warehouse warrants, which was at that time a jointly developed "pilot" project of the EBRD and Poľnobanka, a.s. Via this project warehouse warrants totalling SKK 1.441 billion were re-financed. Poľnobanka, a.s. and the EBRD's co-operation continued via the Risk Sharing Programme, in the framework of which the EBRD no longer directly financed warehouse warrants, but shared in the coverage of potential risk up to a total exposure of 50%.

Over the years the bank's strategic focus on the SME segment has grown, however the method of implementing this strategy has changed so that the bank has come as close as possible to its clients' needs and competition conditions. The customer-oriented approach has required a broad range of changes in the bank's organisation and processes. This is where the EU/EBRD credit line is currently playing a very important role at UniBanka, a.s. Bratislava.

Objectives and aims of the European Union and EBRD in support for financing SMEs

The European Union by creating the specific position of SME Envoy, and through the funding of numerous interventions, both direct and multi-beneficiary, has clearly recognized the critical role played by the small- and medium-sized enterprises in creating a vibrant economy and healthy, sustainable communities. Since 1999 the EU has co-operated with the EBRD in the framework of a basic programme that focuses on improving the opportunity for small- and medium-sized enterprises to access capital simply and at competitive market rates from established financial institutions.

Via the Financial Framework for SMEs, the EBRD allocated and by the end of 2004 it committed EUR 900 million in the framework for lending and lease financing. The EU provided EUR 138.75 million for technical assistance and financial stimuli to banks, and to a lesser extent to leasing companies operating in the acceding EU countries. The EBRD defines the following basic aims of the programme:

• To build up the ability of participating banks and leasing companies to incorporate SME lending as a normal part of their regular business activity;

• To assist participating financial institutions in their transition from lending procedures created for large loans unsuitable for SME clients over to procedures based on strict but efficient credit analysis tailored for small businesses;

• To provide investment financing and financing of operating capital for micro, small- and medium-sized enterprises.

• The financing scheme for SMEs usually contains the following components:

• a credit line provided to the bank for SME lending;

• performance fee the purpose of which is to compensate certain risks and costs that the financial institution may incur in connection with the development of specific credit procedures for SMEs;

• a technical co-operation programme, the purpose of which is to optimise procedures, or implement lending methods and systems for SMEs.

In connection with the initiatives aimed at developing the financial sector the Financial Framework for SMEs focuses on stimulating market mechanisms at a community level. The aim is to stimulate investment flows of both financial as well as human capital which increase the actual and potential returns to stakeholders in the community. The development encompasses increasing the ability of a region defined geographically or sectorally, such as small businesses, to participate in or exploit the advantages of an already functioning market economy. The government and other providers of financial aid are guided towards accelerating this process, since the development of the important entrepreneurial class in the local economy helps create dynamic social entrepreneurship, which is in the interest of the long-term socio-economic welfare of a society.

Implementation of the framework at UniBanka

In June 2004 UniBanka signed a contract with the EBRD on the provision of a credit line in the amount of EUR 5 million. Subsequently, the company Shorebank Advisory Services (SAS) was engaged to provide a technical co-operation programme over a period of 18 months. SAS is an advisory subsidiary of a holding bank company, having a value of USD 1.5 billion, and is the largest community development financial institution in the USA. It was established in 1973 for the purpose of demonstrating the ability of regulated commercial banks to restore normal market forces in economically weaker regions suffering a very low inflow of investment.

As part of the SME Finance Facility project advisor's scope of work was to assess the existing lending procedures and to identify possibilities for improvement, redesign key lending procedures and the implementation of a new lending programme. Key output indicators which were proposed with a view to creating small business lending that would be a sustainable and profitable business included:

Growth indicators – level and number of loans, percentage of loans provided to the target segment and the rate of penetration in the target market;

Indicators of human capital and organisation building – meaning strengthening the stabilisation and growth of the organisation, staff training and re-training;

Indicators of portfolio performance and profitability – the quality of the portfolio and overall profitability.

Successes

Thanks to UniBanka's commitment to succeed in this programme and to serve the small business sector, the originally set aims for providing loans were attained in half the expected time. This result documented the ability of all levels of the bank to successfully change the fact that clients prior to the programme's implementation used short-term credit lines as the basic credit product, whereas today they use various products better satisfying small businesses' needs. The aim was to provide access to credit in the form of investment loans serving to improve the balance sheet, in particular equity, something which further enables the owners of small businesses to expand and better prepare for economic or personal crises that may arise.

Human capital and organisation building

As agreed with the bank's management, the focus of the technical cooperation was of a dual nature: to create a culture of lending to small and micro businesses via an organisation that would focus on satisfying the credit needs of small businesses; and to create a managerial approach focused in particular on the relation with the client and not on staff's focus on the sale of credit products. Any successful influence in both these strategic fields requires close co-operation and trust between the UniBanka staff and advisors and this at every level of the organisation, starting with the staff working in the field of lending through to the board of directors.

A crucial aim of the programme was the building up of a permanent ability of UniBanka to provide loans to small businesses and this by forming a staff which would be able to perform all the key line and managerial functions and, what is perhaps more important, to help in developing the management's focus on small business lending as a part of the overall business strategy. In order to create a lending culture, the advisor closely co-operated with six various fields in the framework of UniBanka: with the staff providing loans, branch management, credit analysts, the credit committee, the loan administration and monitoring department, the board of directors, and the regional management of UCI. It was important to adopt a holistic approach towards the changing behaviour in the framework of the organisation; since focusing simply on one or two fields would not bring the required synergy for bringing about any impact of significance.

The key to developing the bank human capital is more through continuous on-the-job training of the bank's staff, rather than through relying on short-term training programmes providing staff only with a general introduction to concepts and terminology. Over the course of this project the consultant co-operated closely with the bank's lending staff on several hundred specific transactions. In many cases the advisor's staff visited the client together with the bank's employees. During these visits advisors were able to lead the bank's relationship managers in gathering the information necessary for credit analysis and also in understanding of the client's needs. The advisor's employees then co-operated intensively in preparing a credit memorandum and were often present at the review of a loan by the credit committee.

UniBanka's regional branch managers greatly supported this project by arranging seminars for clients to whom the EBRD project was presented together with information concerning EU structural funds. These evening seminars usually contained a short presentation of the EU structural funds which was arranged by UniBanka staff and a presentation of the EBRD project by SAS staff. This was then followed by a reception. These seminars had several aims: for the bank; to learn that small businesses greatly need accurate, timely and useful information as well as to present the fact that banks can support small businesses in an untraditional manner; to demonstrate the need to appreciate clients by providing them with useful information. An important part of seminars was also the reception, the aim of which was to provide relationship managers with the possibility to meet their clients at informal meetings and practice their presentation and interpersonal skills.

Indicators of portfolio performance and profitability

The portfolio's performance for the whole programme as implemented in all the acceding countries has been significantly better than expected, and this with a 60-day arrears comprising less than 1% of the whole EBRD portfolio. Although the portfolio at UniBanka is new, there are signals that it likewise will have as equally good performance as in the other acceding countries.

Conclusion

By all measures the SME financing project in general and particularly at UniBanka has proven to be a well-aimed intervention in economic development, and one which has been successfully implemented in many types of financial institutions in the various countries of central Europe. As perhaps the sincerest form of flattery, the Facility's success is being studied by major multilateral development organizations for replication in other parts of the world. But the true success of the program can be measured only one small business at a time.