BANKS AND SMES: RAISING THE GAME

4TH REGIONAL SURVEY IN LATIN AMERICA AND THE CARIBBEAN

2011

109 BANKS SURVEYED

22 COUNTRIES IN LATIN AMERICA AND THE CARIBBEAN

73%

OF THE FINANCIAL INSTITUTIONS SURVEYED FORECAST AN INCREASE IN THEIR SME PORTFOLIO.

83%

OF THE FINANCIAL INSTITUTIONS SURVEYED EXPECT THAT THE FINANCIAL POSITION OF SMES WILL IMPROVE IN THE NEXT TWO YEARS.

CONFIDENCE GROWS IN SMALL AND MEDIUM ENTERPRISES AS THEY TAKE A STRATEGIC ROLE IN THE BUSINESS OF PRIVATE BANKS IN LATIN AMERICA AND THE CARIBBEAN.

ACCORDING TO A NEW SURVEY, PRIVATE BANKS IN LATIN AMERICA AND THE CARIBBEAN (LAC) ARE INCREASINGLY PREDISPOSED TO FINANCE SMALL AND MEDIUM ENTERPRISES (SMES). THE IDB GROUP REMAINS THE MOST IMPORTANT INTERNATIONAL FINANCIAL ENTITY PROVIDING CREDIT TO PRIVATE BANKS IN THEIR QUEST TO EXPAND THEIR PORTFOLIO OF SMES.

SMEs are positioning themselves as a strategic branch of banking operations in the region, while banks are increasingly pushing for more active policies when it comes to the financing of SMEs. This is one of the highlighted conclusions from a 2011 joint survey done by the Inter-American Development Bank Group's entities dealing with the private sector: the Multilateral Investment Fund (FOMIN), the beyondBanking program of the department of Corporate and Structured Financing (SCF), and the Inter-American Investment Corporation, along with the Latin American Banking Federation (FELABAN).

According to the results from this fourth survey (previous surveys took place in 2004, 2006 and 2008), 73 percent of the financial institutions forecast an increase in their SME clientele compared to their regular portfolio of clients. 83 percent believe SMEs will grow in the next two years.

The surveyed banks indicate that there are two main indicators that affect their willingness to make loans to SMEs: higher returns from these operations; as well as the desire to diversify risk in a segment that is experiencing economic growth. Results show that banks mostly finance working capital of SMEs. In relative terms, bigger banks offer a larger array of leasing products, compared to the smaller financial institutions; however, smaller institutions may have more to offer when it comes to factoring credits.

In the foreseeable future banks are planning to offer SMEs an average of four different credit services and products. They are also considering extra transaction-based services, backed by commissions coming from clients.
The survey also highlights that most banks do not take into account the particular industry sector of the SME when weighing their credit decisions. About 90 percent of the largest banks do not pay attention to the sector, as compared to 61 percent and 58 percent of the medium-sized and smaller

ones, respectively. There are also important regional differences, with 69 percent of the Central American and Caribbean banks tending not to focus on an exclusive business sector at the time of offering a credit.

WEIGHING RISK

The study also illustrates that banks do take into account three key aspects of the SMEs when evaluating credit risks. Analysis of financial statements ranks first (84%), followed by the valuation of financial statements including statement of cash flows (77%).

The third and final factor when evaluating credit risk is the tangible assets of the business owner (65%) - 6 out of 10 banks care about it while 5 out of 10 also prioritize the company's assets.

Since the 2008 report, credit scoring has gained ground with 5 out of 10 banks adding it to their priority list, compared to 3 out of 10 in the previous survey.

MARKETING CAMPAIGNS

Financial institutions use an average of two different ways to promote financing to SMEs. The study reveals that banks tend to promote their credit offers to SMEs using direct action, through bank representatives or advisors either contacting or personally visiting the SMEs (68 percent) as well as through gatherings and events organized by the bank (25 percent). These are followed by information campaigns on the Internet (19 percent), newspapers (17 percent), radio (16 percent) and television (14 percent).
Financial entities with strong emphasis on direct marketing and Internet campaigns tend to offer a broader spectrum of products and services for SMEs.

FINANCING

While South American banks tend to rely on their own capital for the financing of SMEs, banks located in Central America and the Caribbean are still benefiting from foreign credit lines as well as funding from international financial institutions. This is a trend that was already described in the 2006 report.

In this scenario, the IDB Group is the leading body providing means for the local banks in LAC to expand their client base of SMEs.

METHODOLOGY

This report introduces the general results obtained during the fourth survey encompassing the views and opinions of directors, managers and deputies of the SME division of 109 banks scattered across 22 countries in Latin America and the Caribbean. It also includes an itemized analysis of the answers divided by the banks size and location, as well as their interrelations with other trends in that sector.

109 banks from Latin America and the Caribbean participated in the survey – more specifically, 58 banks from South America, 46 from Central America and the Caribbean and 5 from Mexico.

Inside this spectrum 28 percent were small banks, 49 percent were medium-sized banks and 23 percent were large banks. The questionnaire included some of the key questions from the three previous surveys, as well as new questions about current issues related to SMEs, which seemed relevant to the project coordinators from the IDB Group and FELABAN.

The three previous surveys took place in 2004, 2006 and 2008. In December 2004, FOMIN, the CII and FELABAN launched the first survey among financial entities in Central America with the aim of understanding regional banks' willingness to finance SMEs. The subsequent surveys in 2006 and 2008 were focused on gathering information regarding the financing the SMEs via private banks, based on the 2004 findings.

The current survey has been produced by the Argentina-based consultancy D'Alessio and its quality is certified. In 2006 and 2008, D'Alessio was awarded the ISO 9001:2000 thanks to the quality of their procedures in personal (with PDAs), telephone and online polls. Earlier this year the consultancy received the ISO 9001:2007 thanks to their management of their handling of surveys.

* "BANK SIZE" INDICATOR

Small banks: *Institutions with fewer than 300 employees, or if counting more than 300 employees have up to 10 branches*

Medium-sized banks: *Institutions with between 301 and 5,000 employees and 11 to 150 branches*

Big Banks: *Entities that have more than 150 branches*

F I R S T P A R T

1

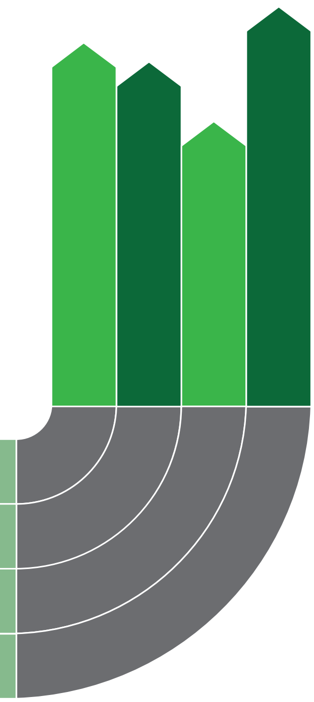
SMES AS BANK CLIENTS

DOES YOUR BANK....?

AFFIRMATIVE ANSWERS % -%-

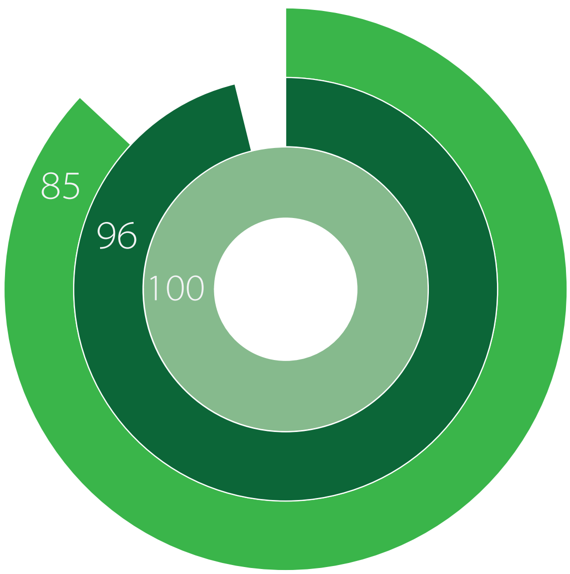
CONSIDER SMES AS STRATEGIC TO YOUR BUSINESS?

2004	84
2006	80
2008	66
2011	93

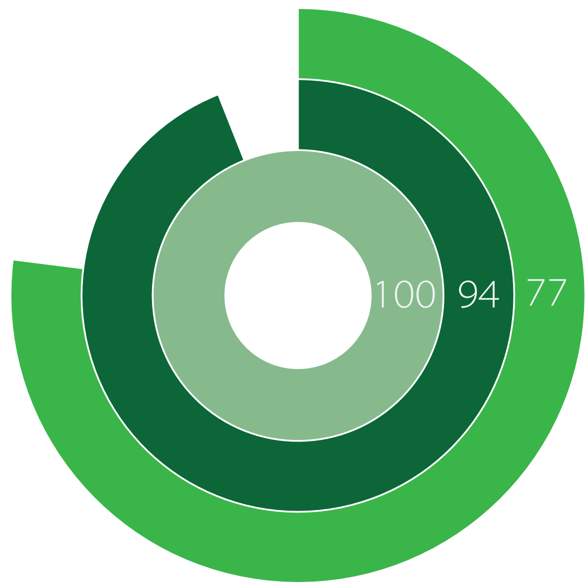



HAVE AN ACTIVE POLICY WHEN IT COMES TO FINANCING SMES?
2004 69
84 2006 82
73 2008 76
78 2011 89
HAVE A SECTION/AREA SPECIALIZED IN PROVIDING LOANS TO SMES?

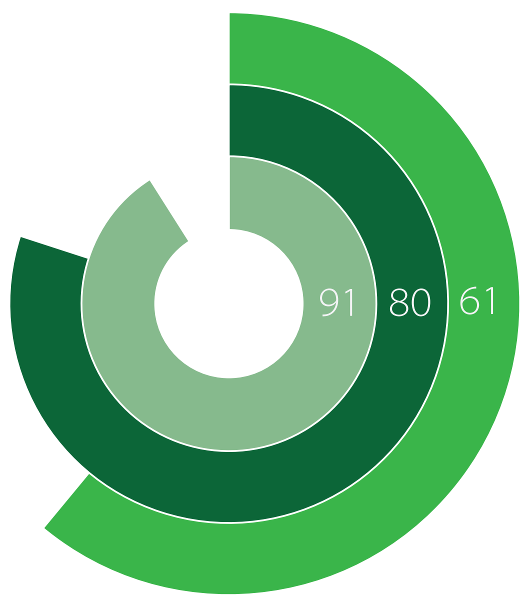
DOES YOUR BANK CONSIDER SMES STRATEGIC TO YOUR BUSINESS?



DOES YOUR BANK HAVE AN ACTIVE POLICY WHEN IT COMES TO FINANCING SMES?



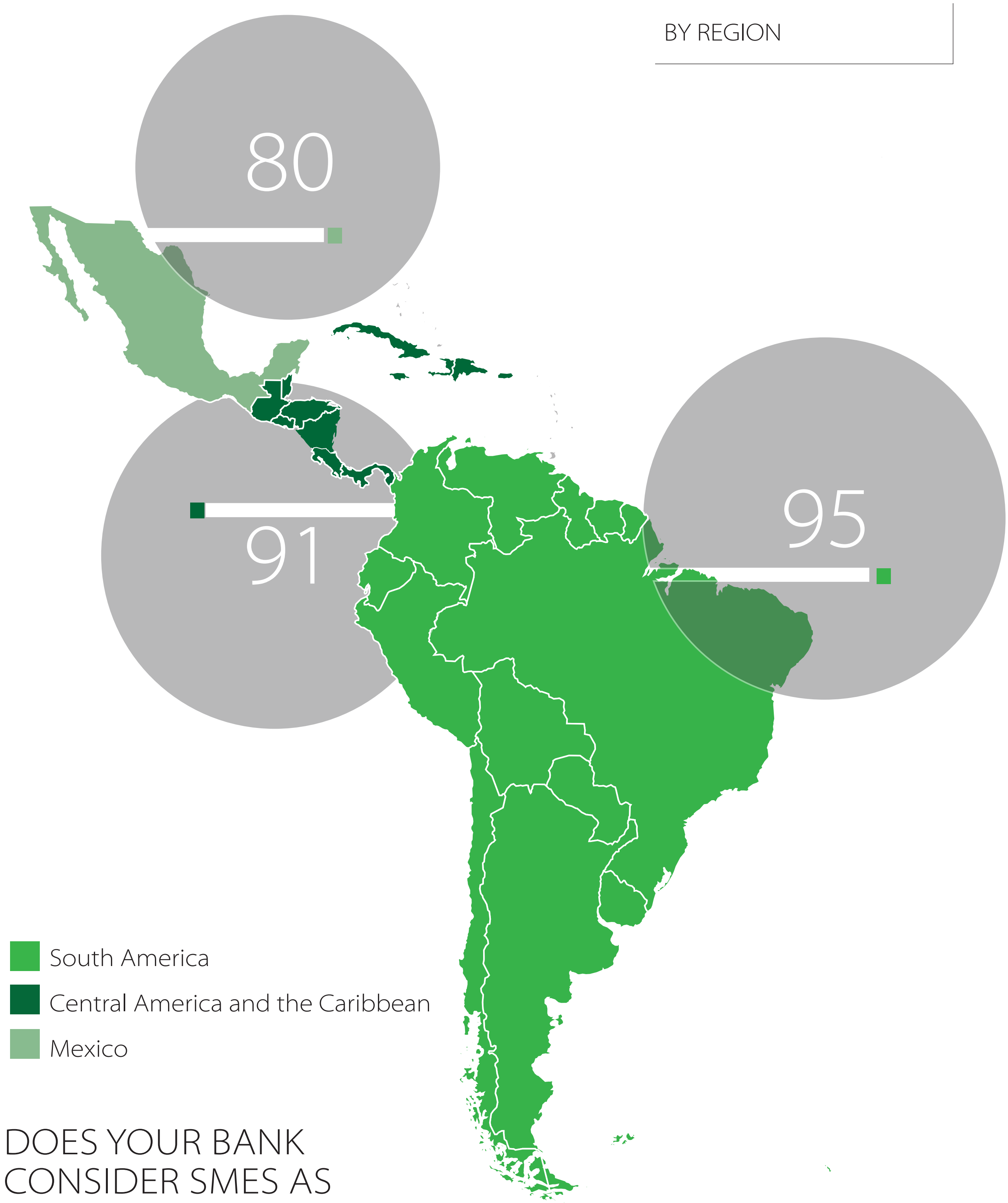
DOES YOUR BANK HAVE A SECTION/ AREA SPECIALIZED IN PROVIDING LOANS?



- Small Banks
- Medium-sized Banks
- Large Banks

AFFIRMATIVE ANSWERS % -%-

BY REGION

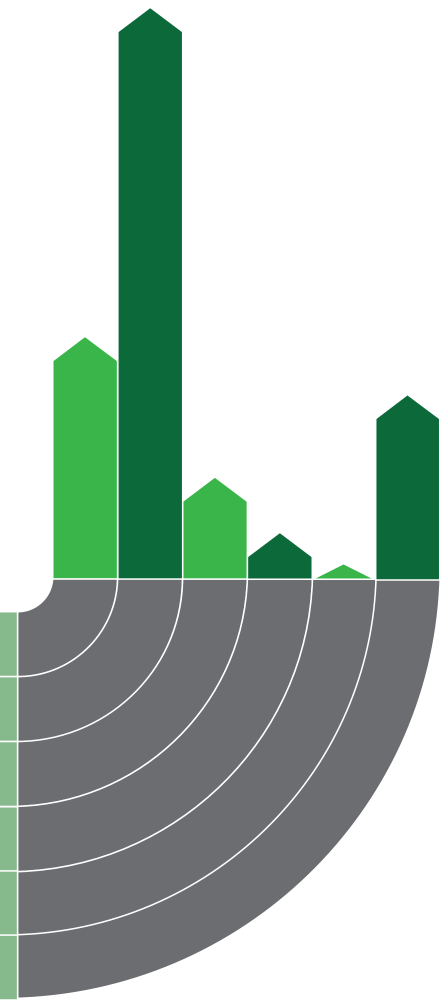


DOES YOUR BANK CONSIDER SMES AS STRATEGIC TO YOUR BUSINESS?

WHAT ARE THE VARIABLES THAT YOUR BANK USES TO DECIDE IF A CLIENT IS A SME OR A LARGE COMPANY/CORPORATE CLIENT?

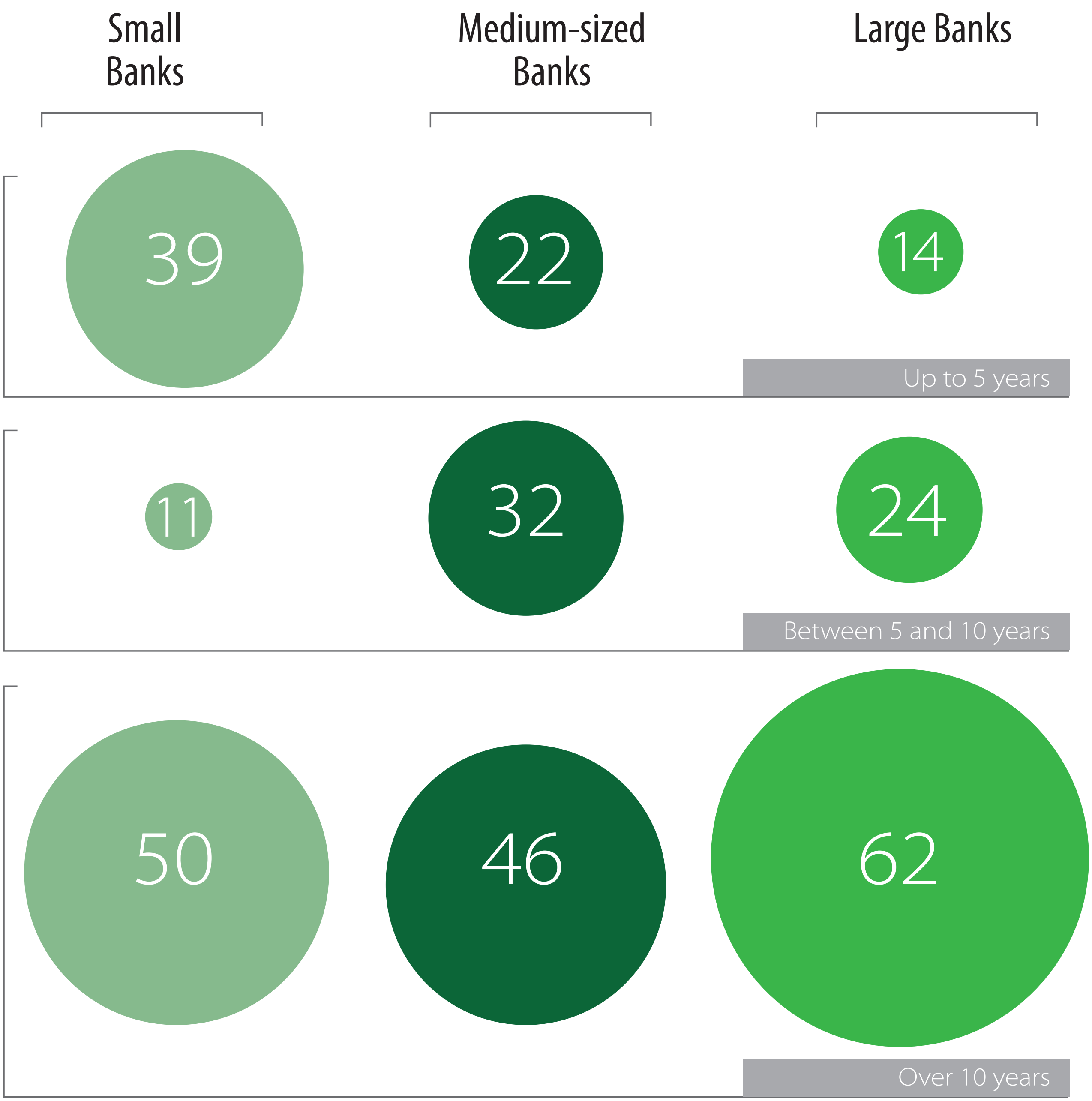
MULTIPLE ANSWERS -%-

By the number of employees	31
By revenues	73
By leverage	13
By its ability to borrow	6
By deposits	2
Other	24



HOW LONG HAS YOUR BANK BEEN OFFERING LOANS TO SMES?

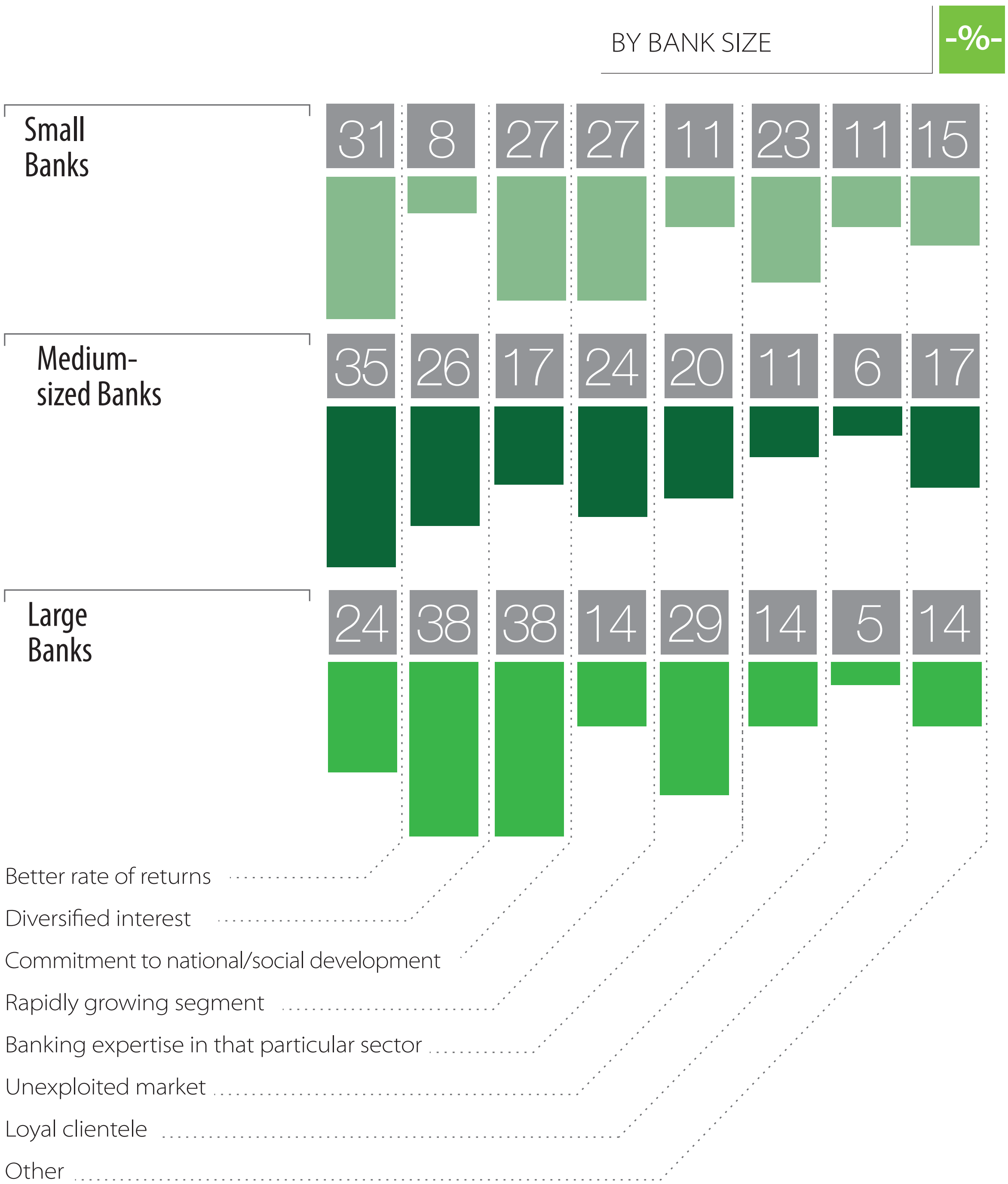
BY BANK SIZE -%-



WHAT ARE THE MAIN REASONS FOR YOUR BANK TO WORK WITH SMES?

MULTIPLE ANSWERS -%-

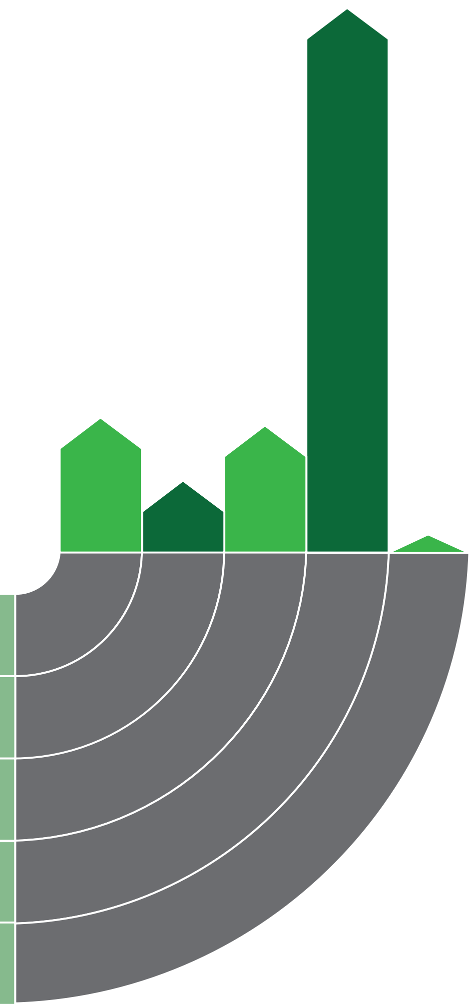
Better rate of returns	32
Diversified interest	26
Commitment to National/Social development	21
Rapidly growing segment	21
Banking expertise in that particular sector	22
Unexploited market	15
Loyal clientele	6
Other	14


BY BANK SIZE
-%-
Small Banks
31
8
27
27
11
23
11
15
Medium-sized Banks
35
26
17
24
20
11
6
17
Large Banks
24
38
38
14
29
14
5
14
Better rate of returns
Diversified interest
Commitment to national/social development
Rapidly growing segment
Banking expertise in that particular sector
Unexploited market
Loyal clientele
Other

INSIDE YOUR BANK'S STRUCTURE, WHERE IS THE DEPARTMENT DEDICATED TO SMES?

-%-

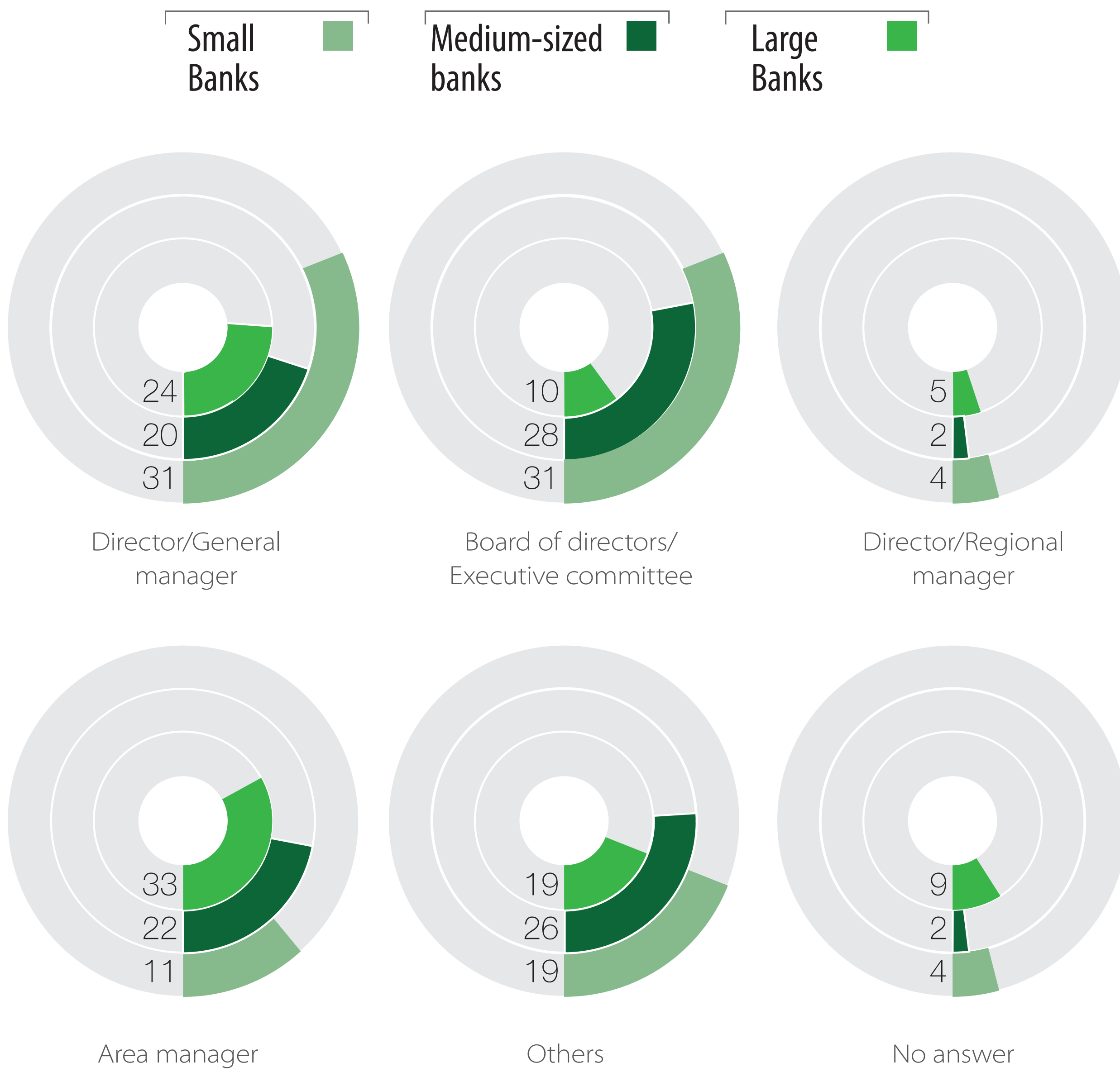
Corporate banking	15
Retail banking	8
Independent from other areas	14
Others	60
Non-existent	2



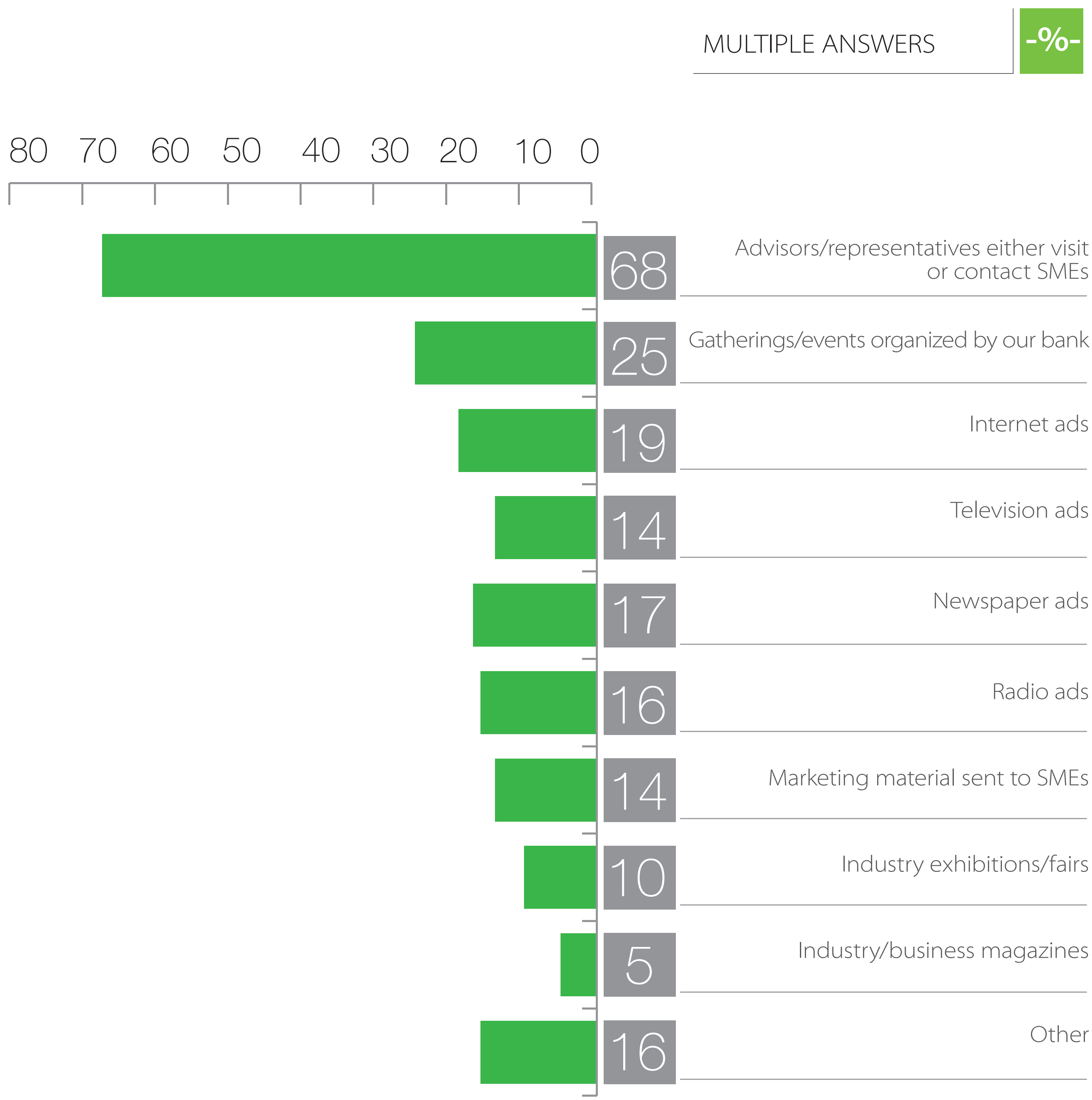
INSIDE YOUR BANK'S STRUCTURE, WHAT IS THE POSITION OF THE PERSON IN CHARGE OF SETTING THE STRATEGIES FOR SMES?

MULTIPLE ANSWERS -%-

BY BANK SIZE



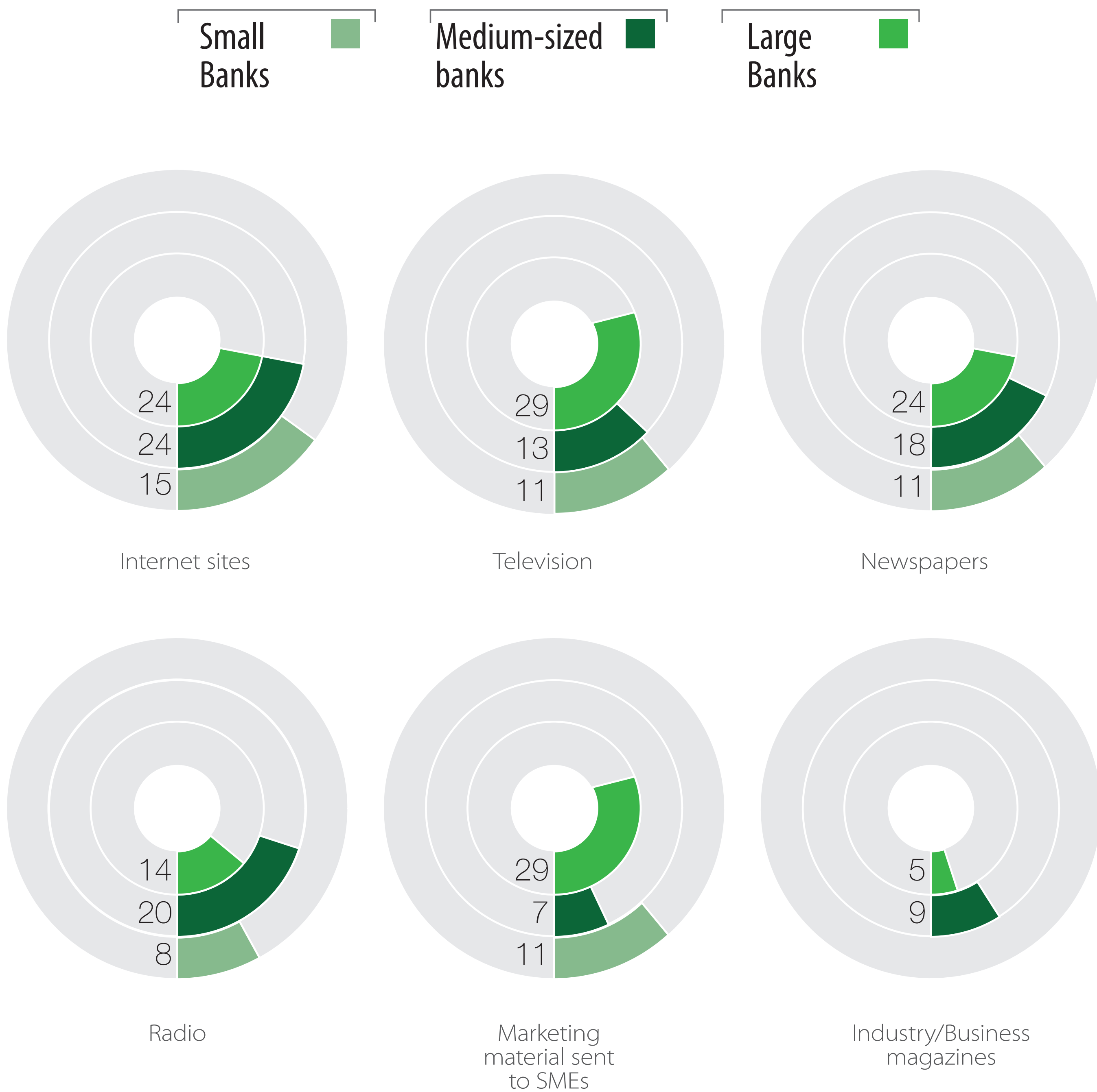
WHAT KIND OF COMMUNICATION STRATEGY DOES YOUR BANK USE TO PROMOTE LENDING TO SMES?



MULTIPLE ANSWERS

-%-

BY BANK SIZE



S E C O N D P A R

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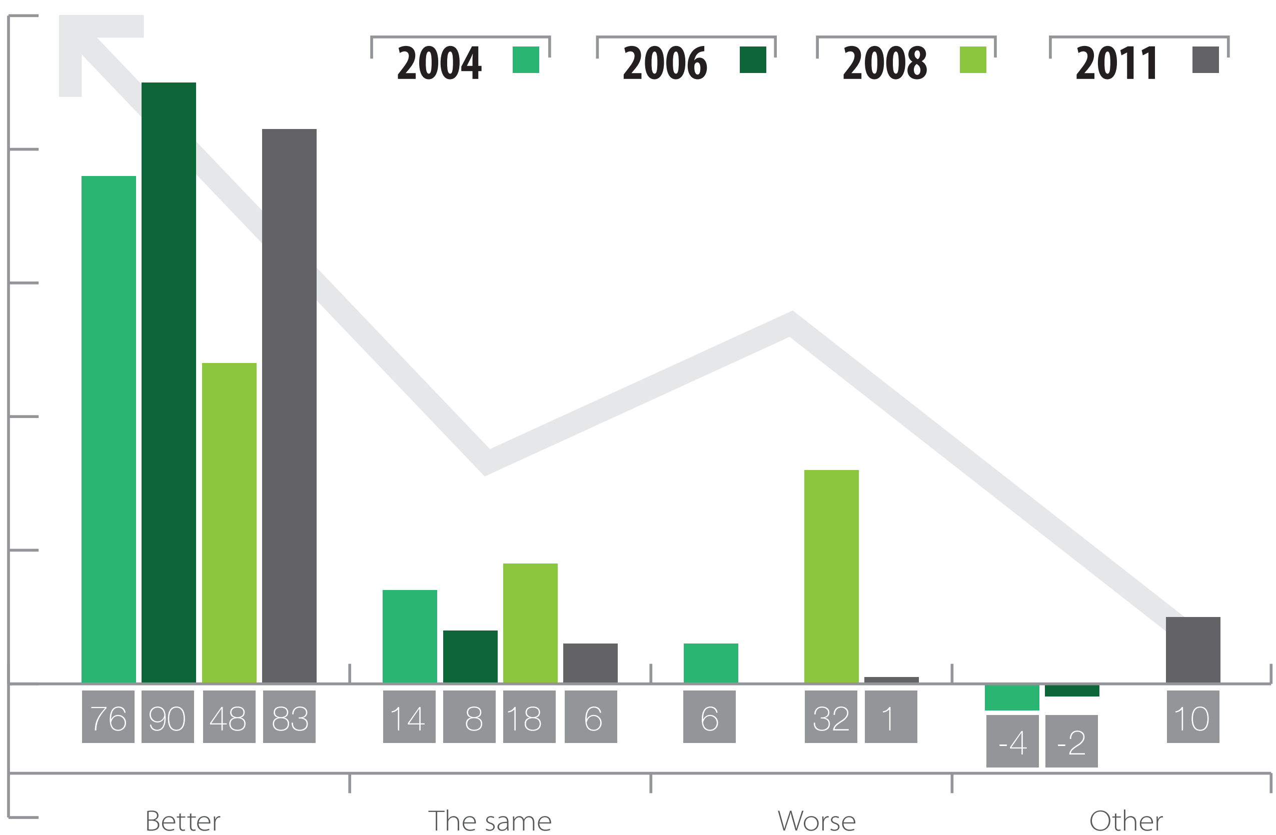
2

TRENDS IN THE FINANCING OF SMES

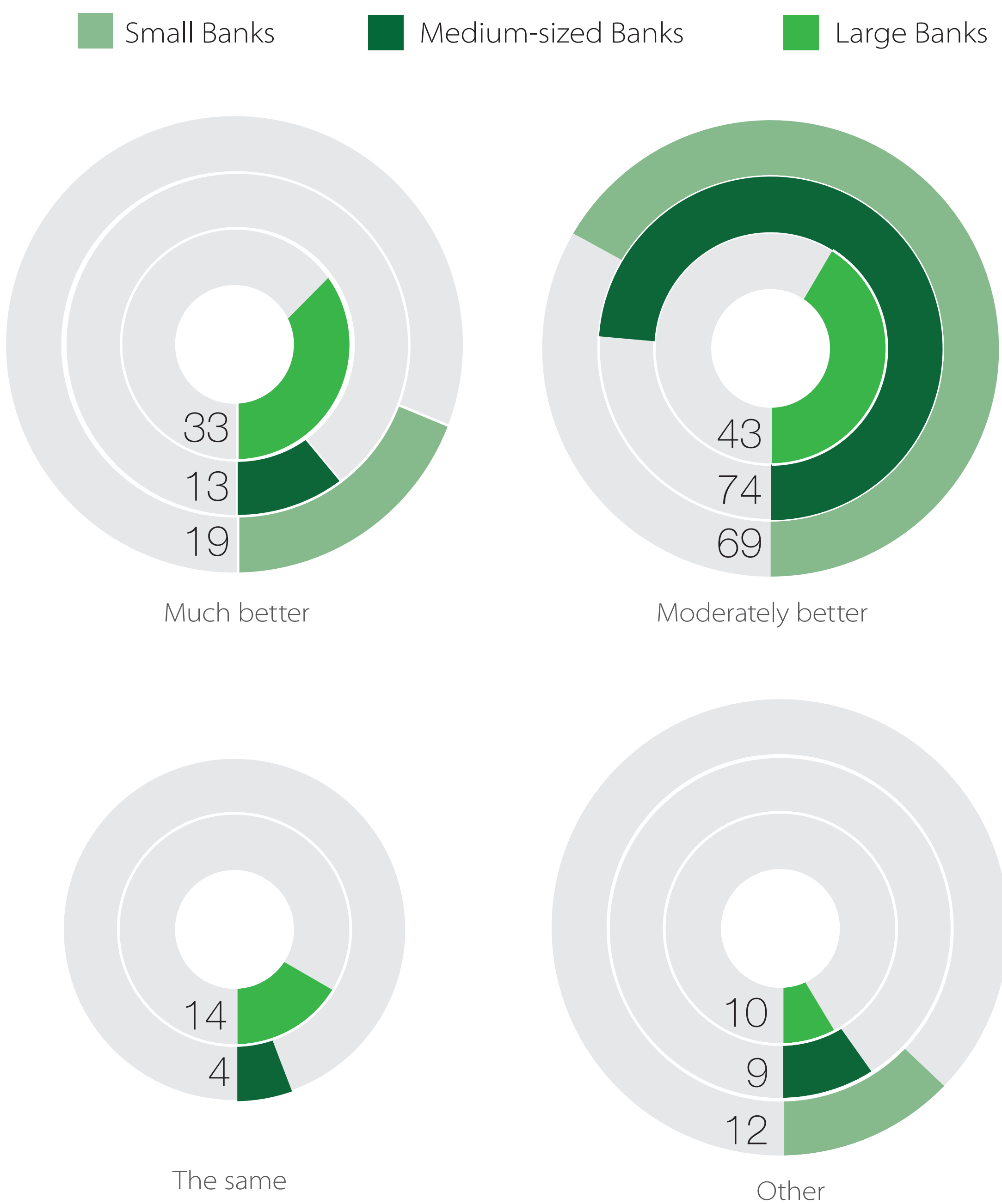
WHAT WOULD YOU EXPECT THE FINANCIAL POSITION OF THE SMES IN YOUR COUNTRY TO BE IN TWO YEARS?

-%-

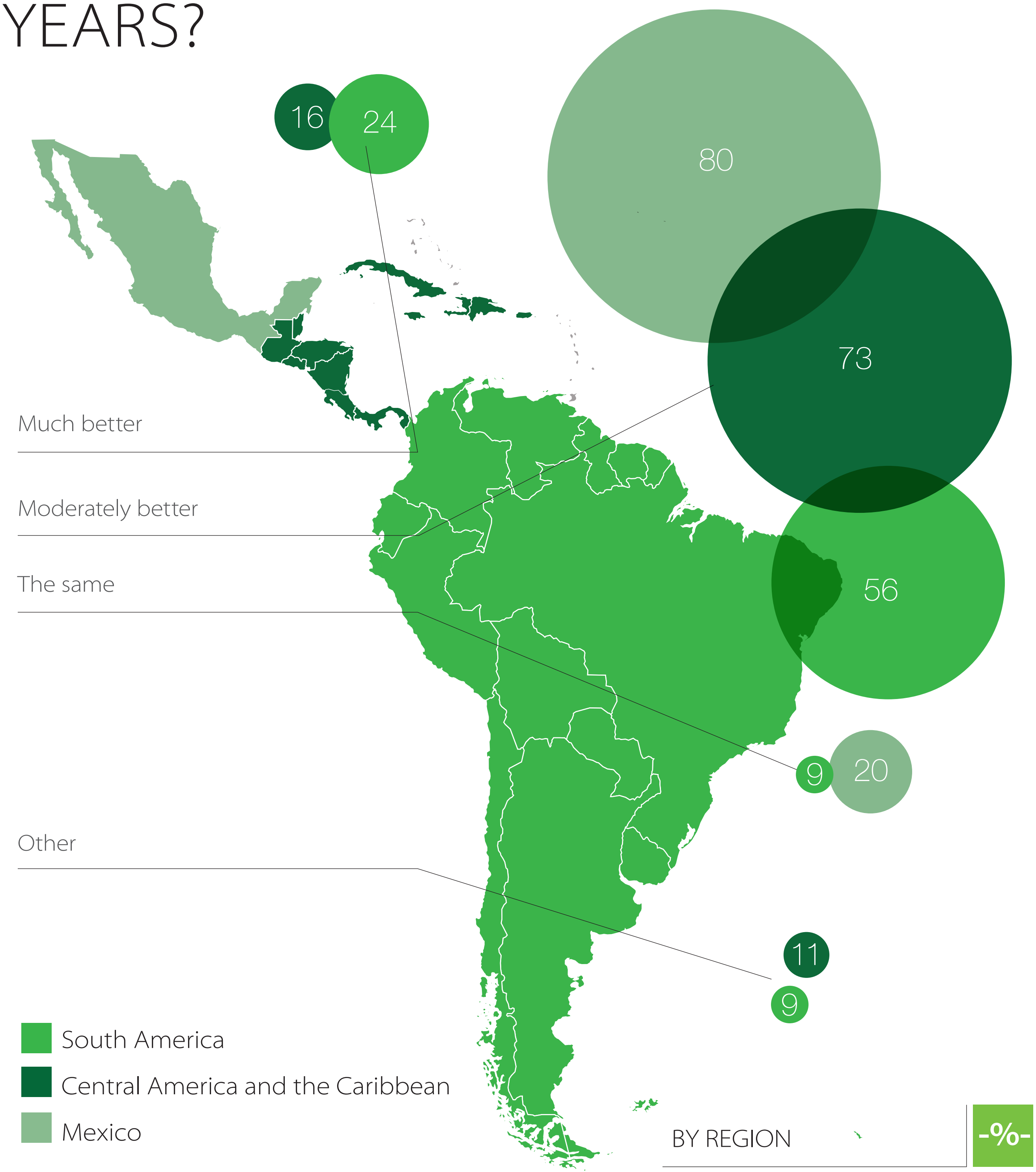


WHAT WOULD YOU EXPECT THE FINANCIAL POSITION OF THE SMES IN YOUR COUNTRY TO BE IN TWO YEARS?

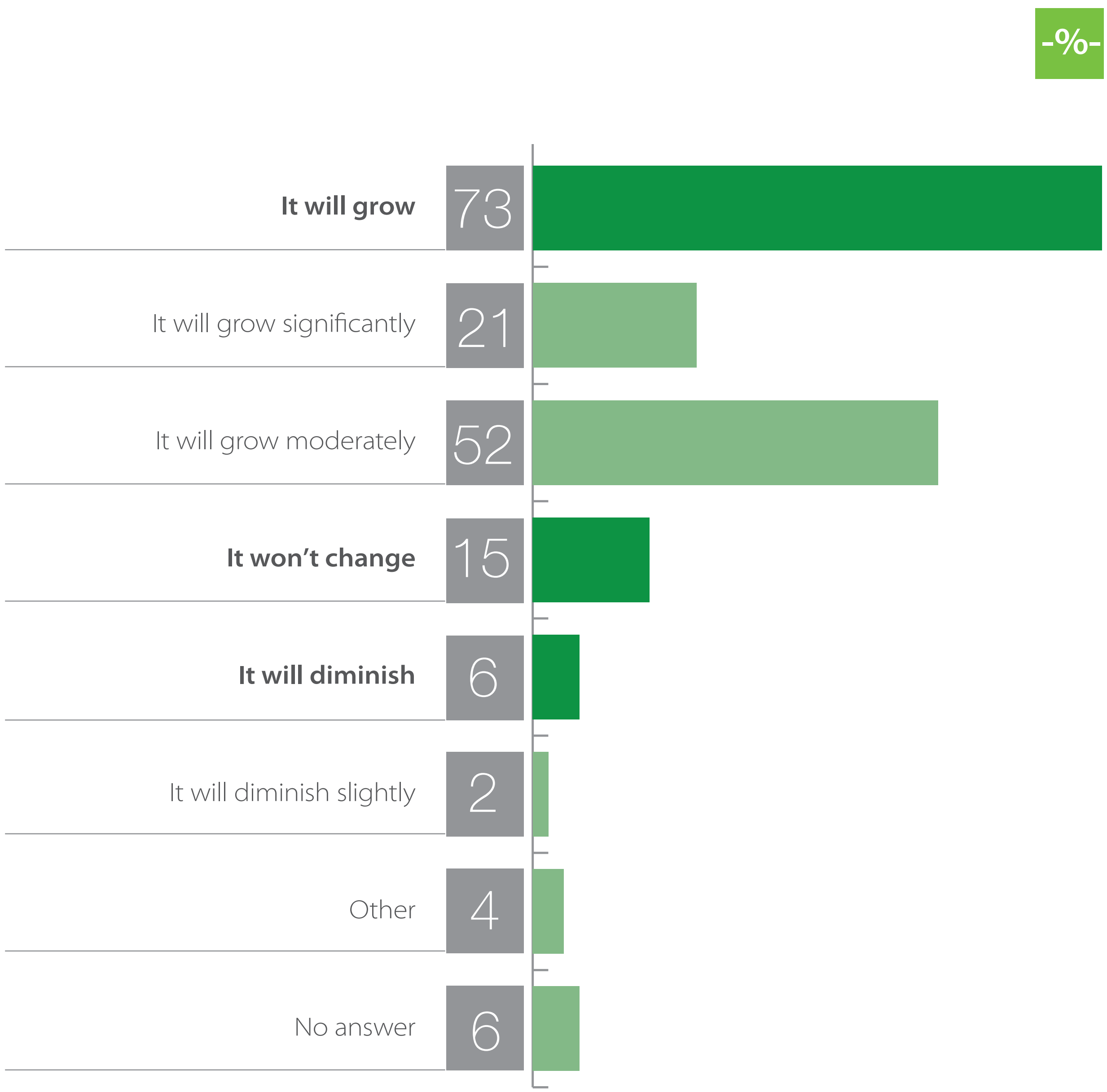
BY BANK SIZE -%-



WHAT WOULD YOU EXPECT THE FINANCIAL POSITION OF THE SMES IN YOUR COUNTRY TO BE IN TWO YEARS?

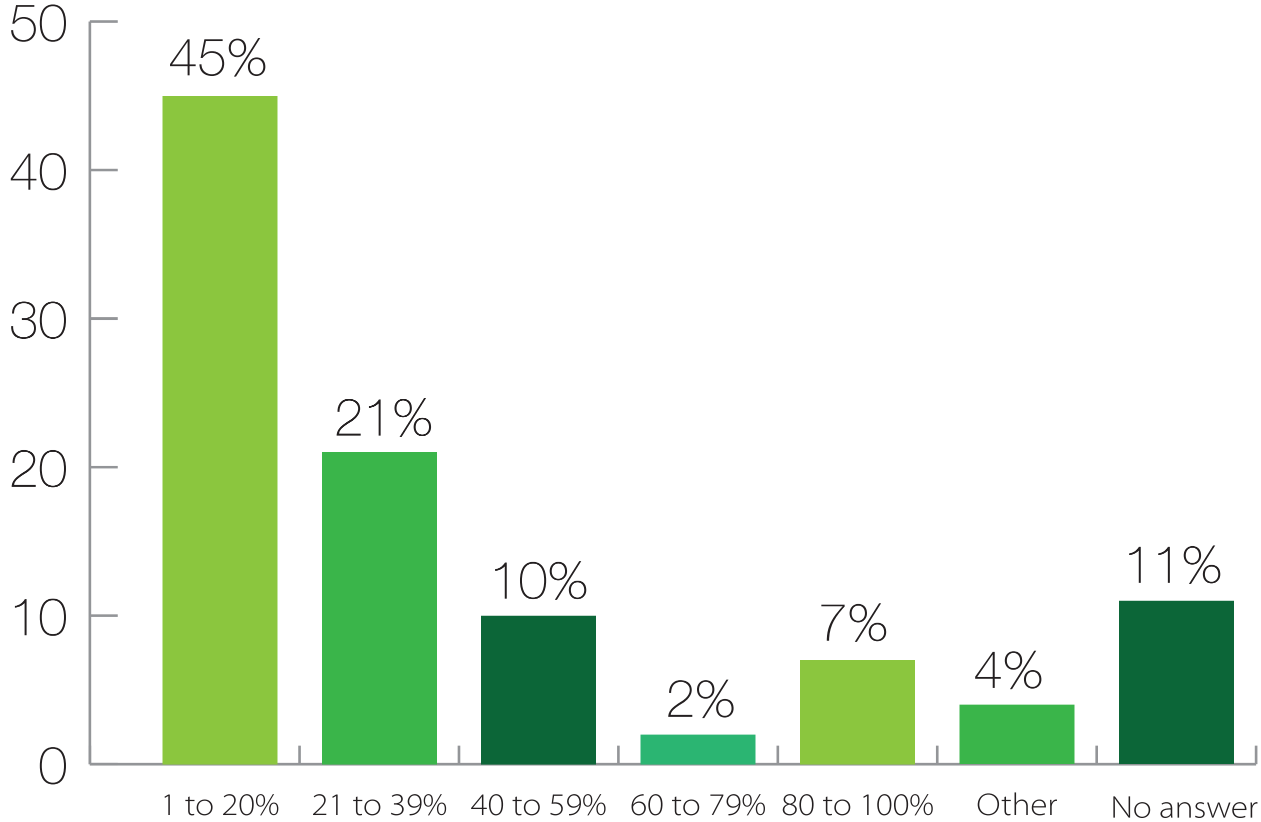


DO YOU EXPECT YOUR BANK'S PORTFOLIO OF SMES TO GROW COMPARED TO THE BANK'S TOTAL PORTFOLIO FOR 2011?



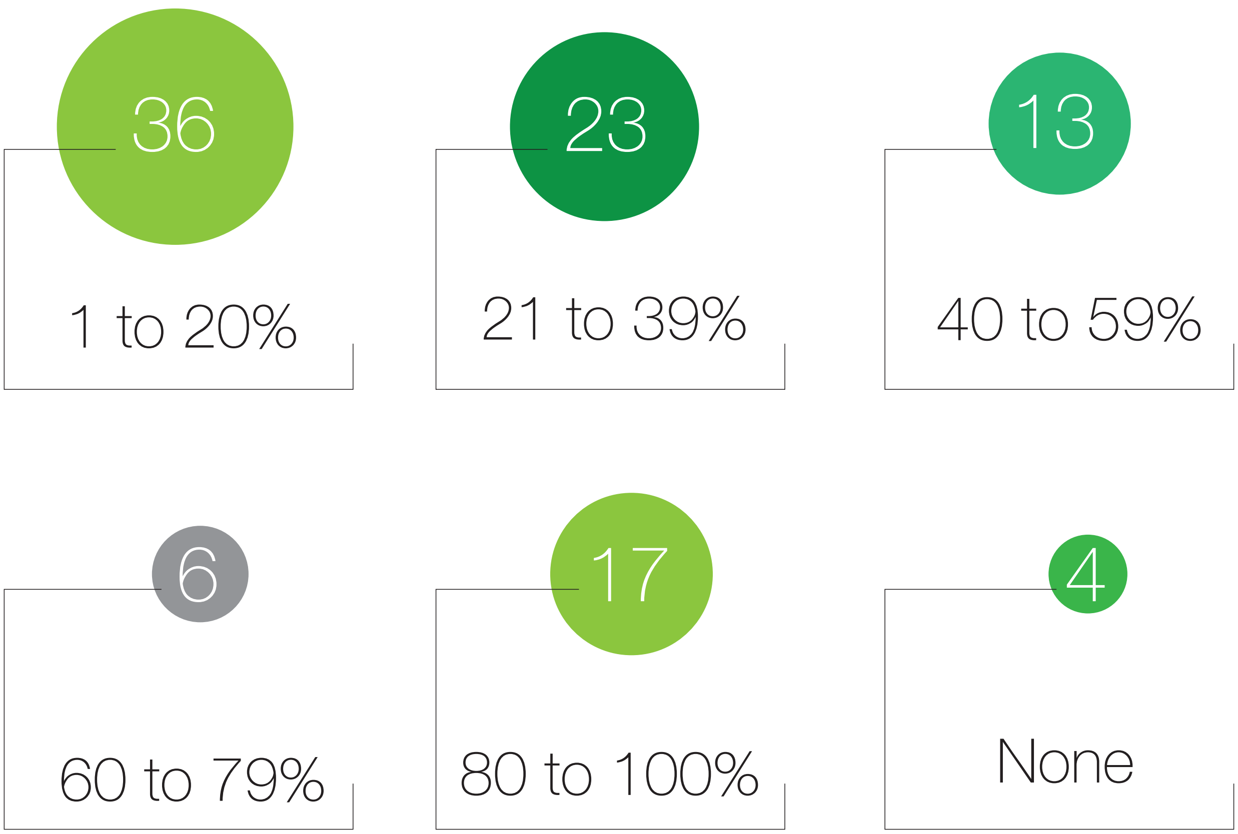
WHAT WOULD THE GROWTH RATE BE?

-%-



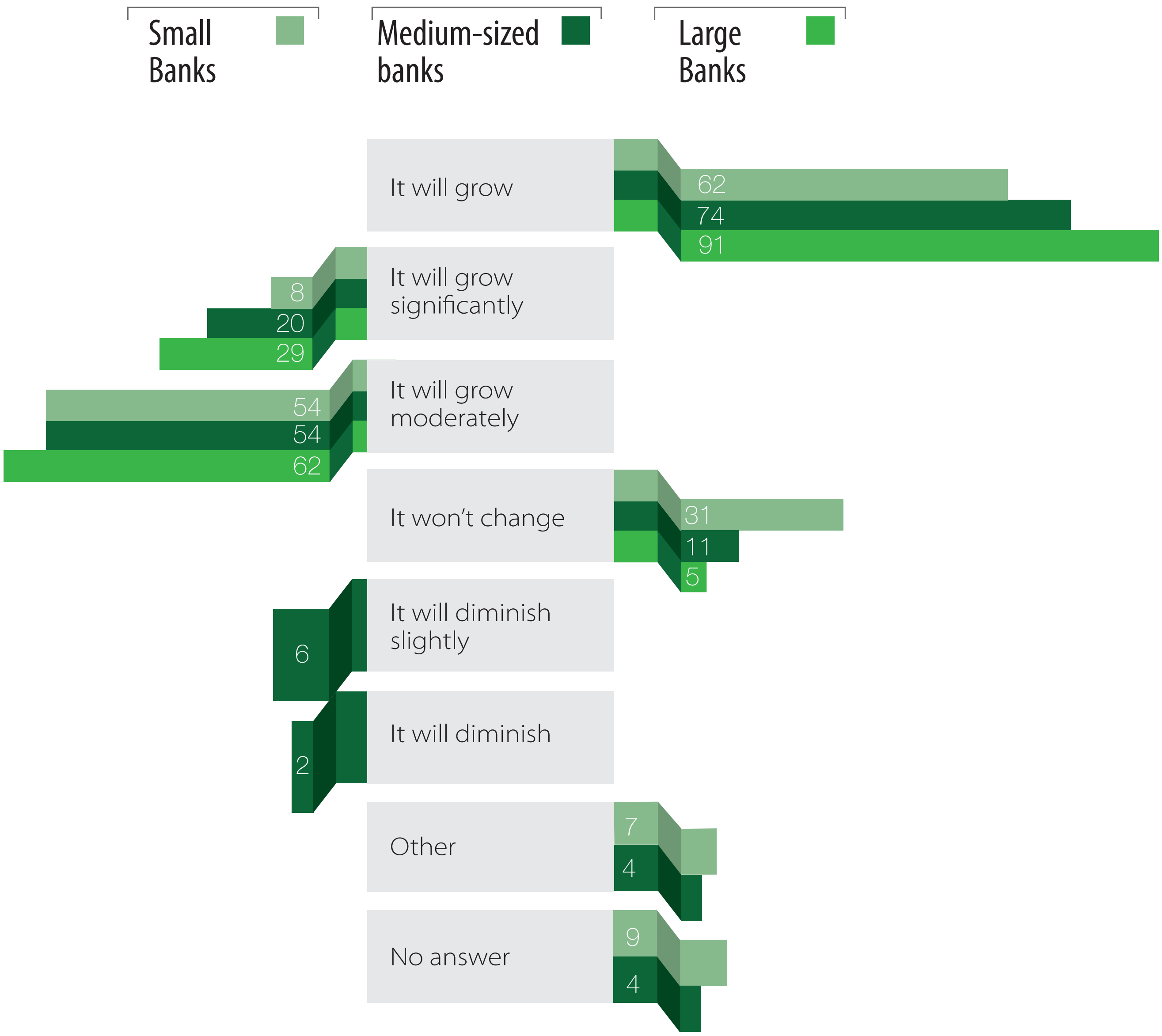
WHAT PERCENTAGE OF LOANS GRANTED BY YOUR BANK ARE TARGETED TO SMES?

-%-

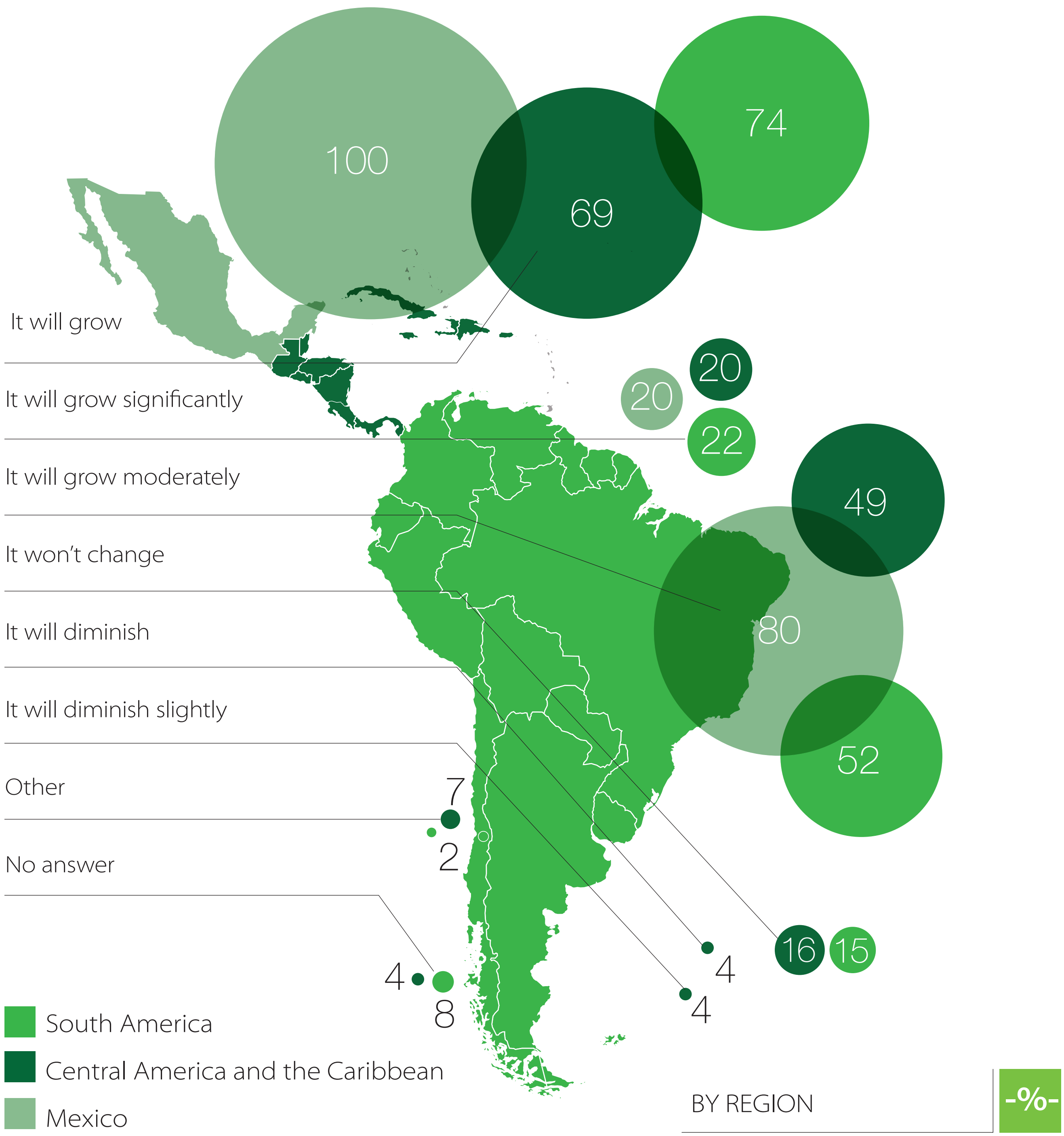


WHAT IS THE EXPECTED GROWTH OF YOUR BANK'S SMES PORTFOLIO COMPARED TO THE TOTAL PORTFOLIO FOR 2011?

BY BANK SIZE -%-



WHAT IS THE EXPECTED GROWTH OF YOUR BANK'S SMES PORTFOLIO COMPARED TO THE TOTAL PORTFOLIO FOR 2011?

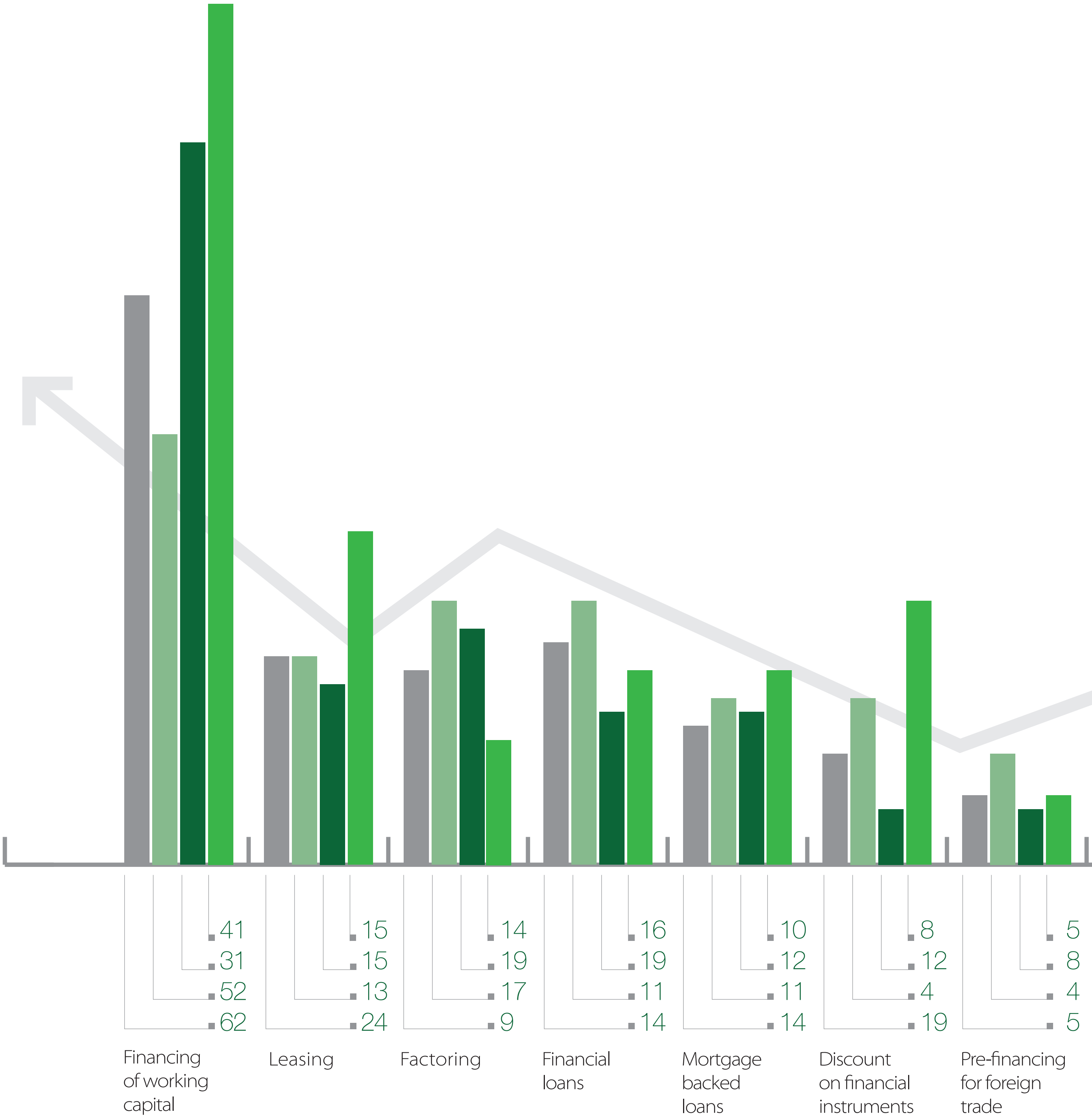


T H I R D   P A R T

3

SECTORS, PRODUCTS AND SERVICES OFFERED TO SMES

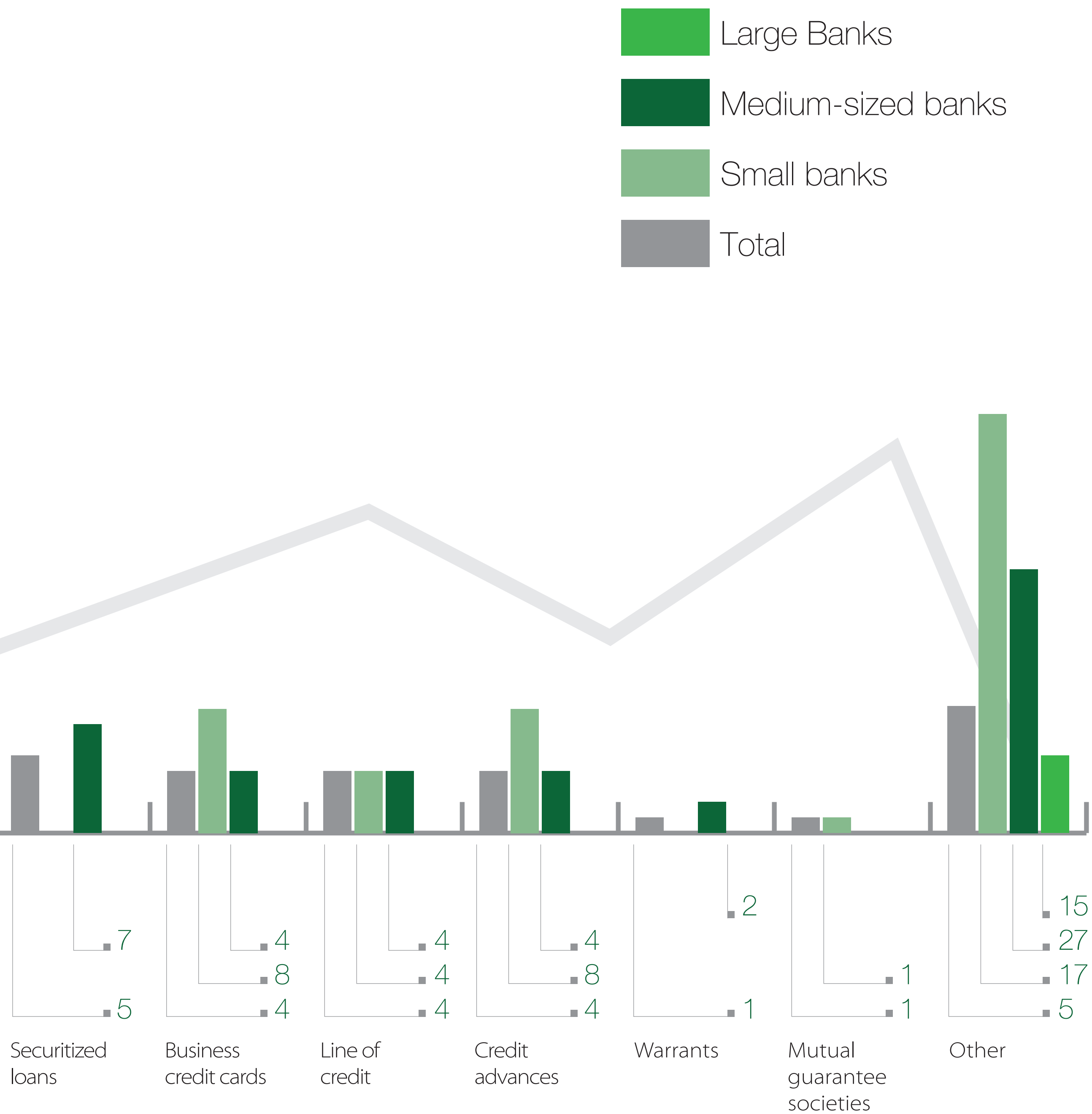
WHAT KIND OF LOANS ARE YOU OFFERING TO SMES?



MULTIPLE ANSWERS

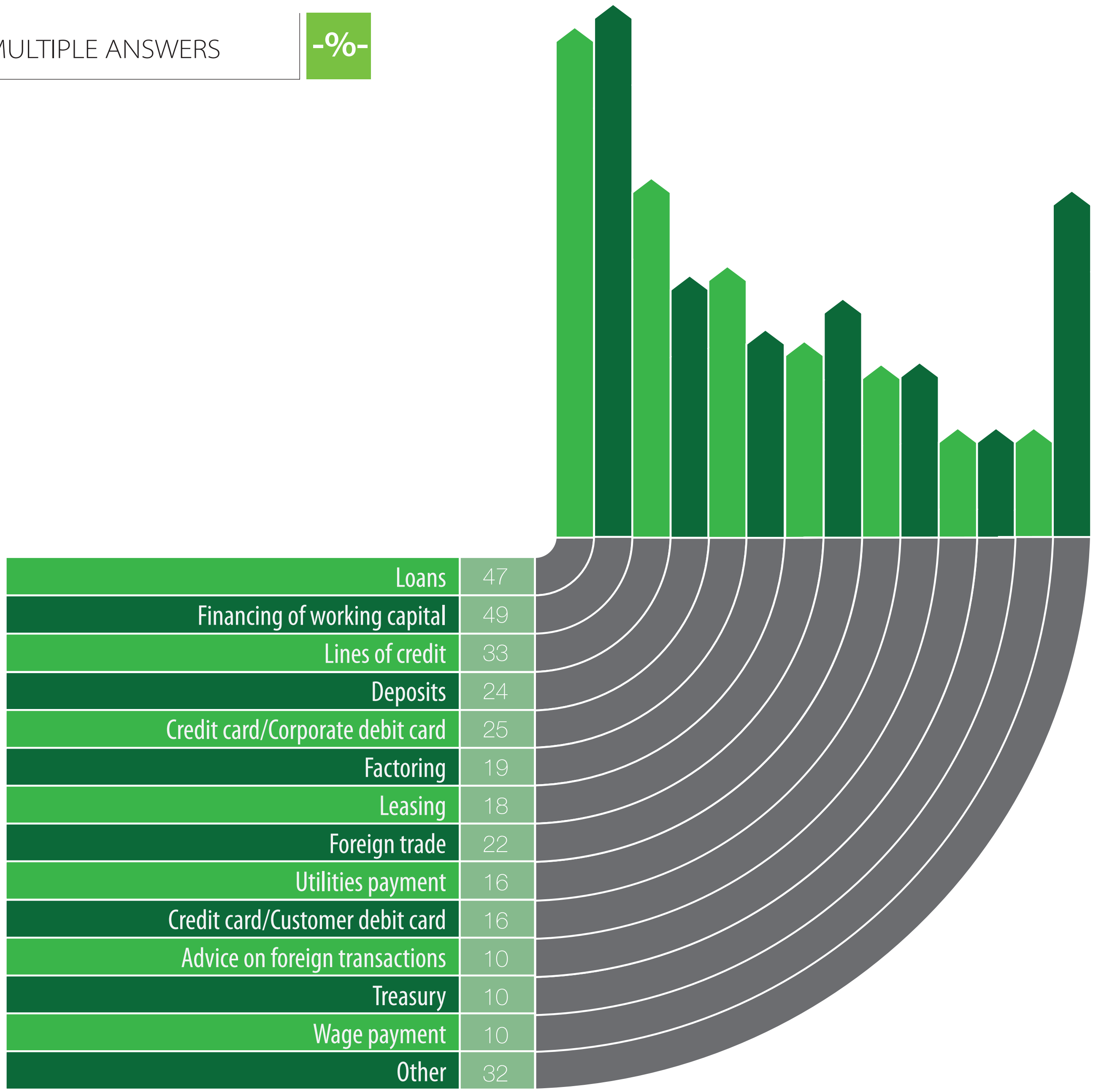
BY BANK SIZE

-%-



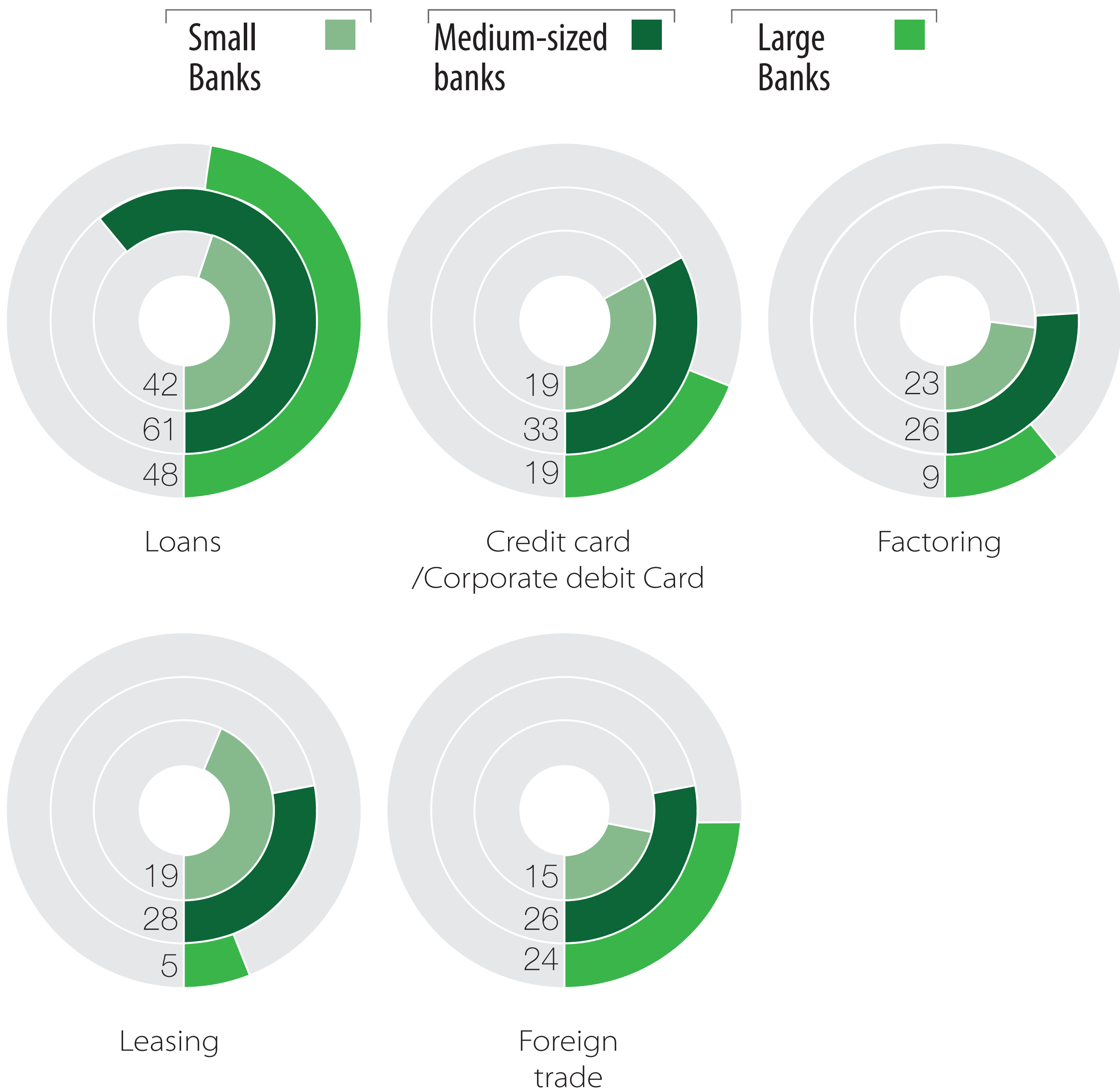
WHICH SERVICES ARE YOU EVALUATING/DEVELOPING FOR THE SME SECTOR?

MULTIPLE ANSWERS -%-

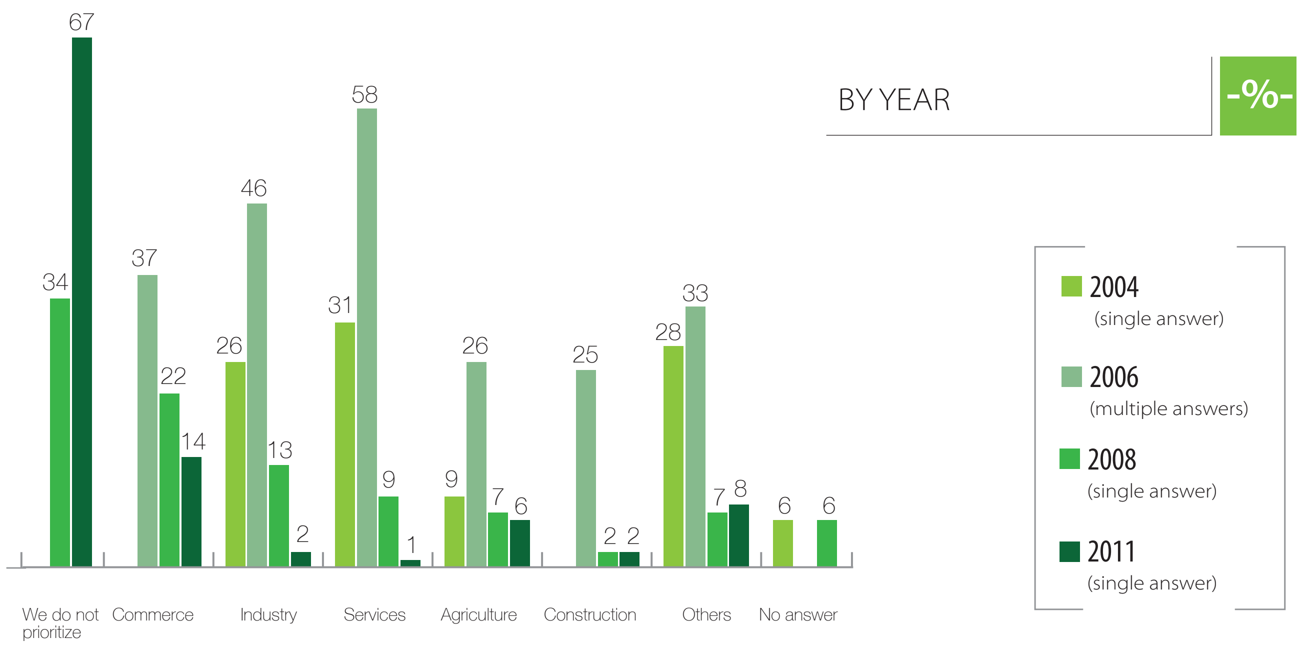


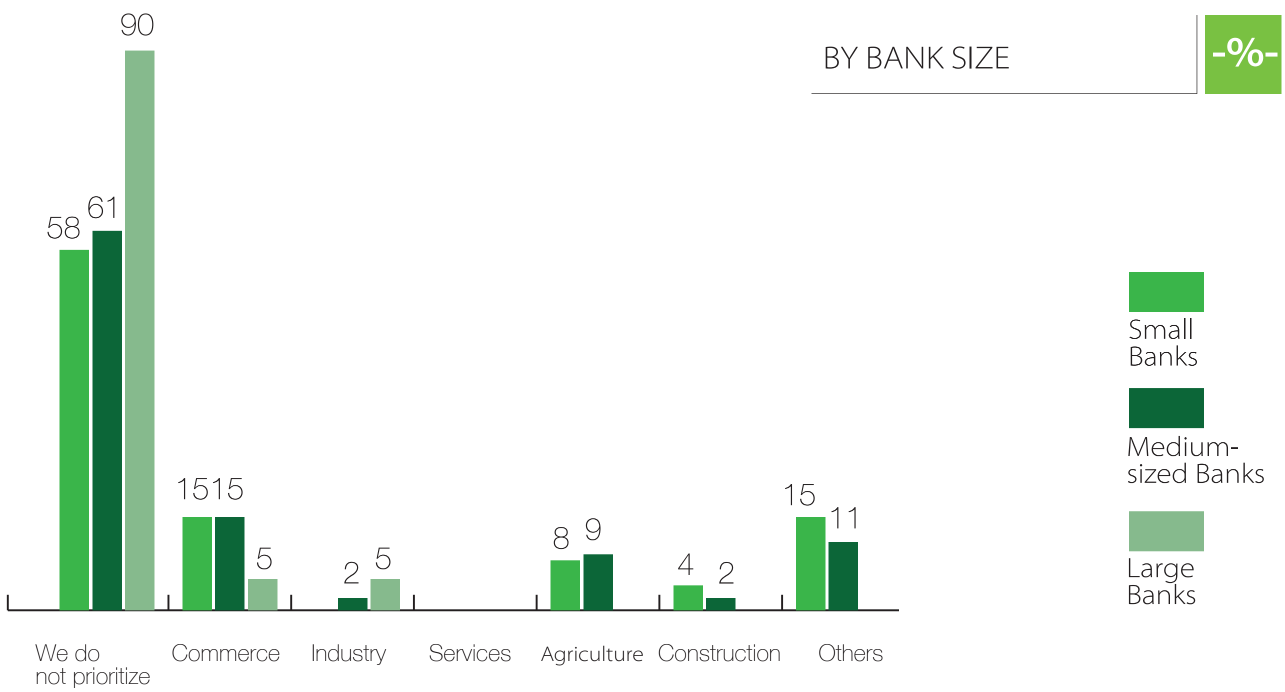
MULTIPLE ANSWERS -%-

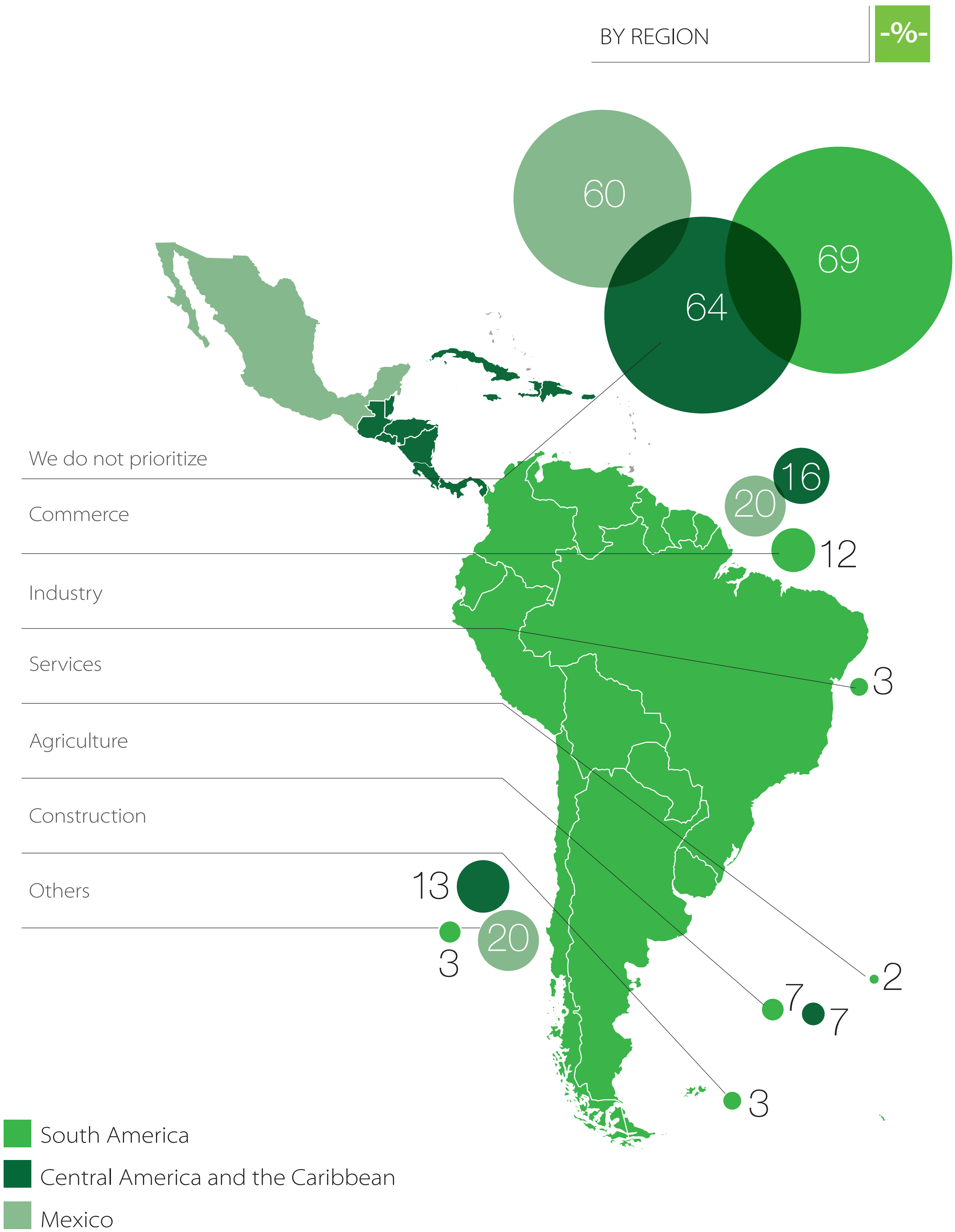
BY BANK SIZE



WHICH SME SECTOR DO YOU PRIORITIZE WHEN DECIDING ON A CREDIT?

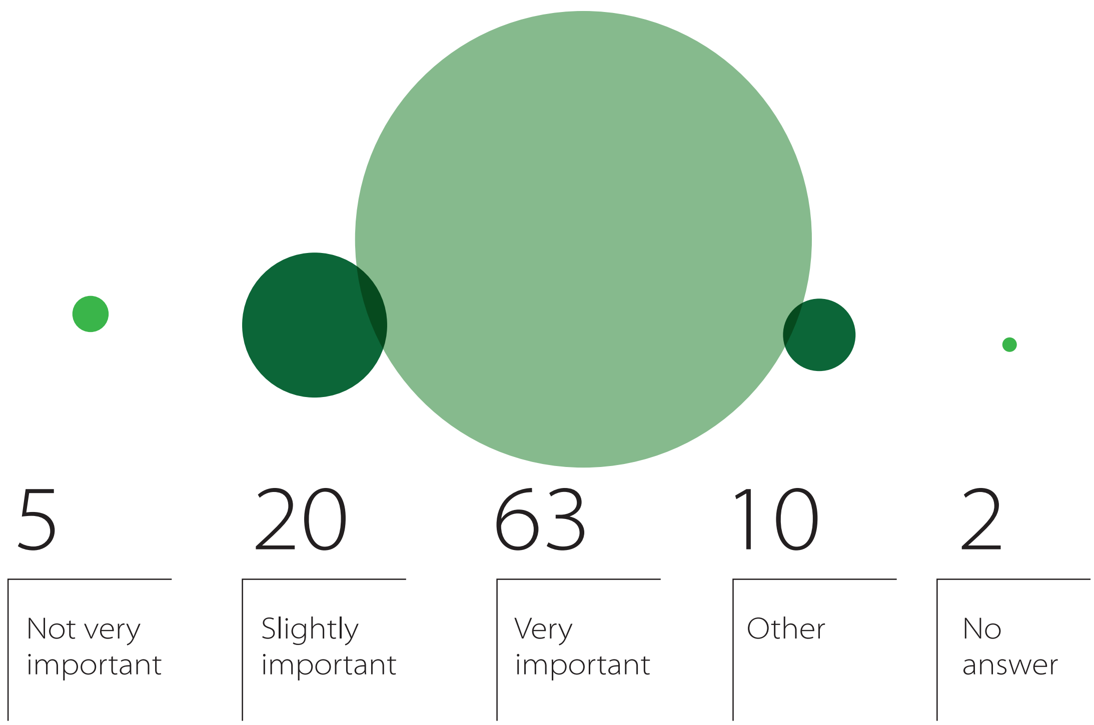






BY REGION
-%-
60
64
69
We do not prioritize
Commerce
16
20
12
Industry
3
Services
Agriculture
Construction
Others
13
20
3
2
7
7
3
South America
Central America and the Caribbean
Mexico

INDICATE THE LEVEL OF IMPORTANCE YOUR BANK ASSIGNS TO THE LACK OF CORPORATE MANAGEMENT IN SMES – BE IT INFORMALITY, LACK OF FINANCIAL STATEMENTS, ETC - AS A BARRIER TO ACCESSING CREDIT.



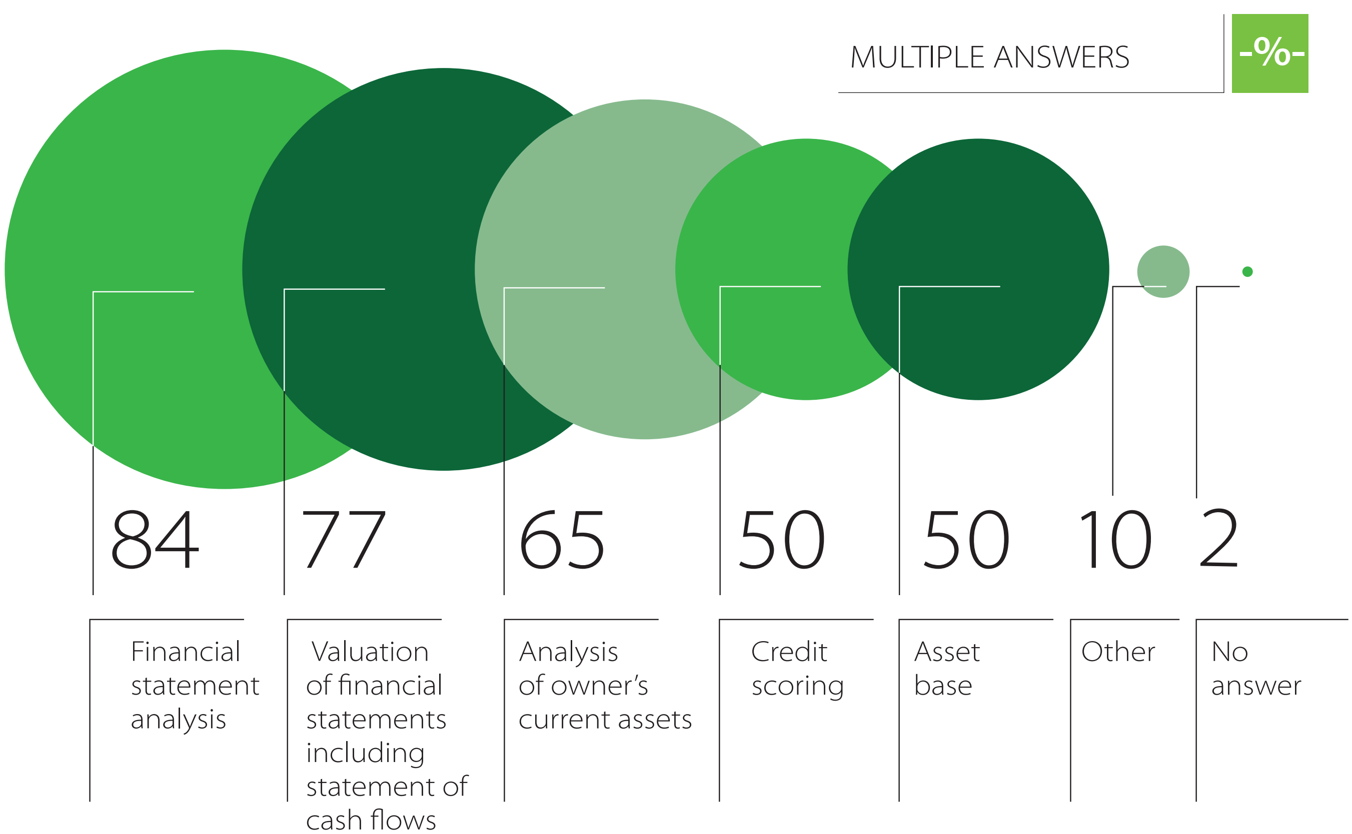
TECHNOLOGIES TO EVALUATE RISK

Banks take into account three key aspects of SMEs, on average, before offering a loan. Financial statements, with or without cash flow, are the first and most important element banks take into account when evaluating risk.

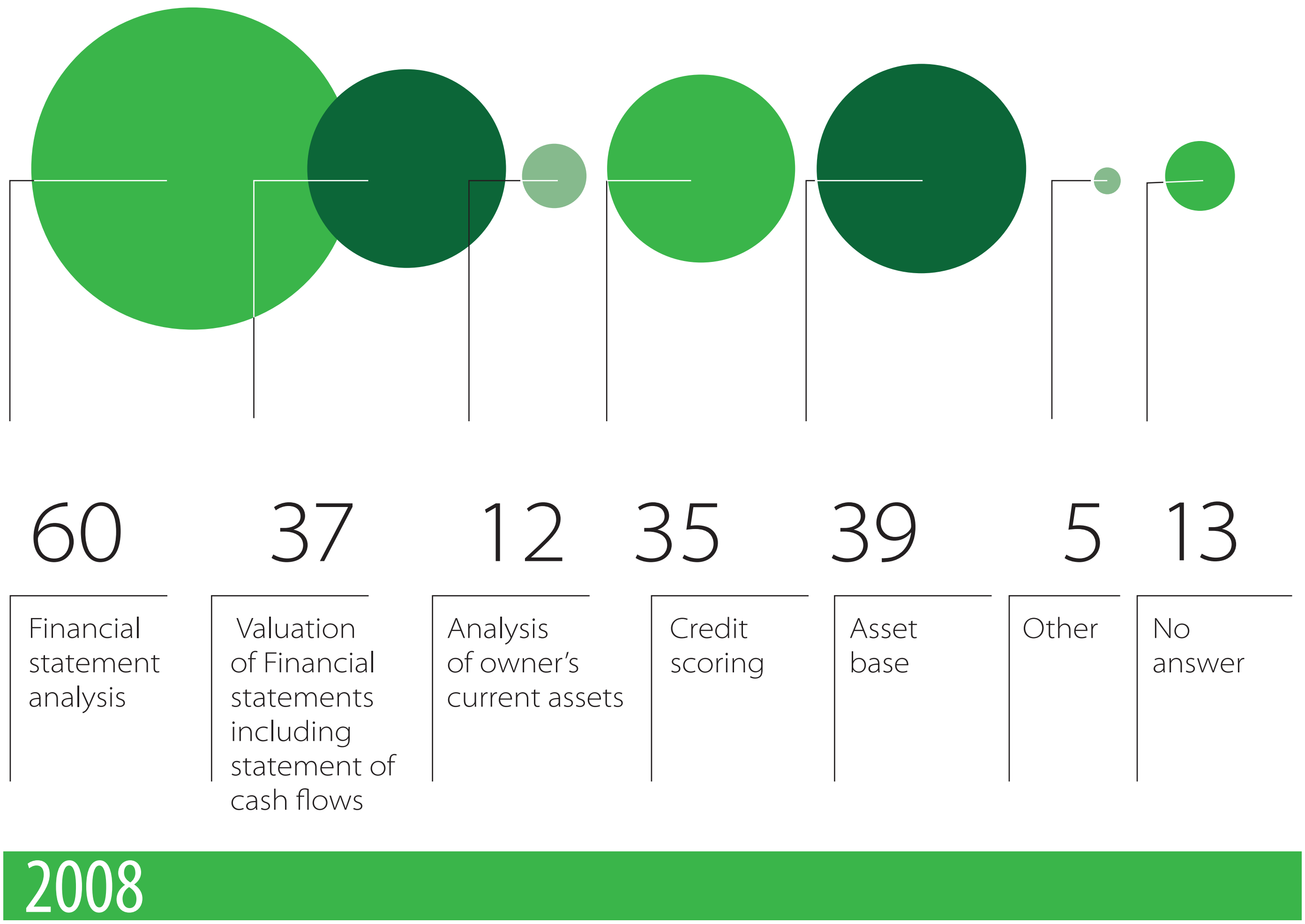
The informality of corporate management tends to be the main barrier for the SMEs to access credit.

6 out of 10 surveyed banks identified the business owner's assets, while 5 out of 10 also mentioned the company's assets. Credit scoring has gained ground among the surveyed banks, climbing from 3 to 5 out of 10 financial institutions.

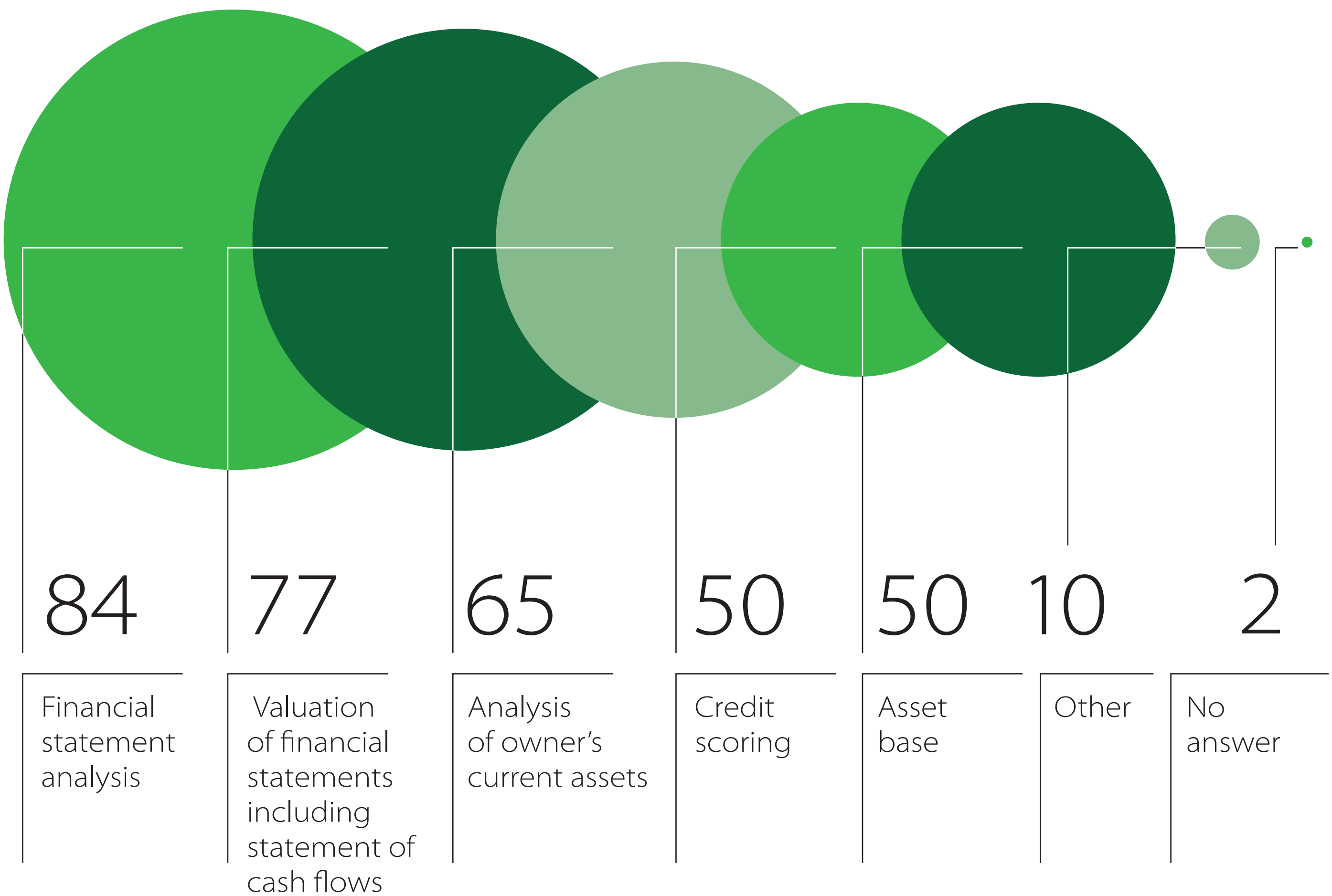
WHICH OF THESE TOOLS DOES YOUR BANK USE WHEN PERFORMING A CREDIT ANALYSIS OF SMES?



WHICH OF THESE TOOLS DOES YOUR BANK USE WHEN PERFORMING CREDIT ANALYSIS OF SMES?



MULTIPLE ANSWERS -%-



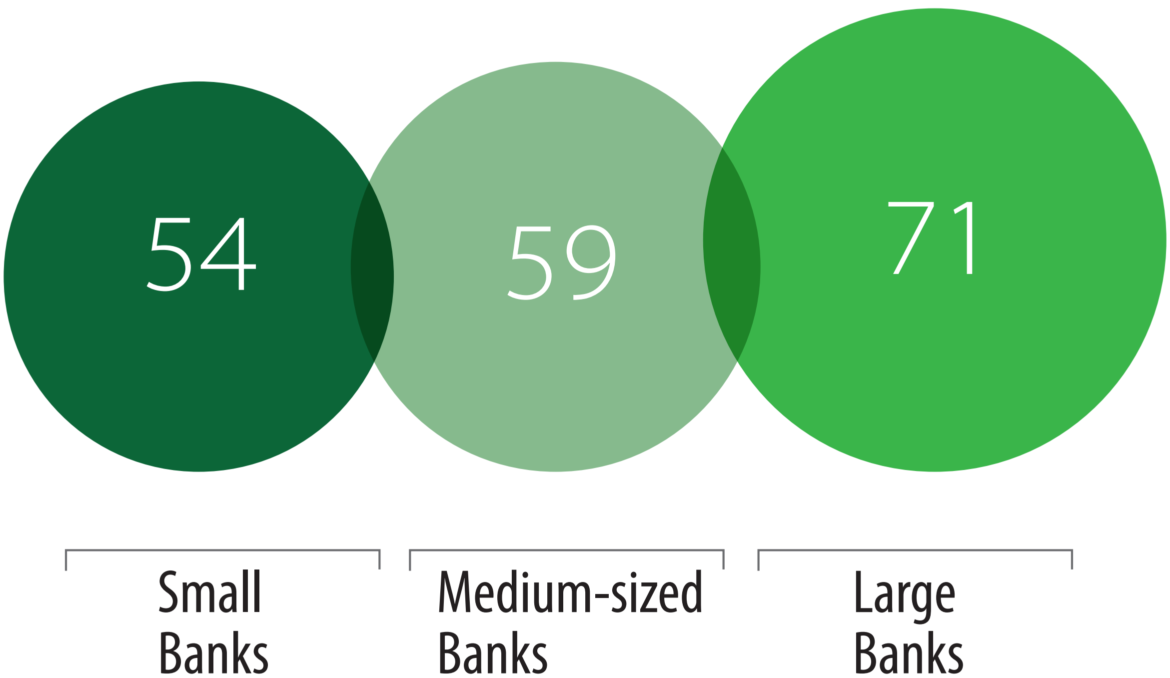
2011

COULD TELL US IF YOUR BANK...?

AFFIRMATIVE ANSWERS -%-

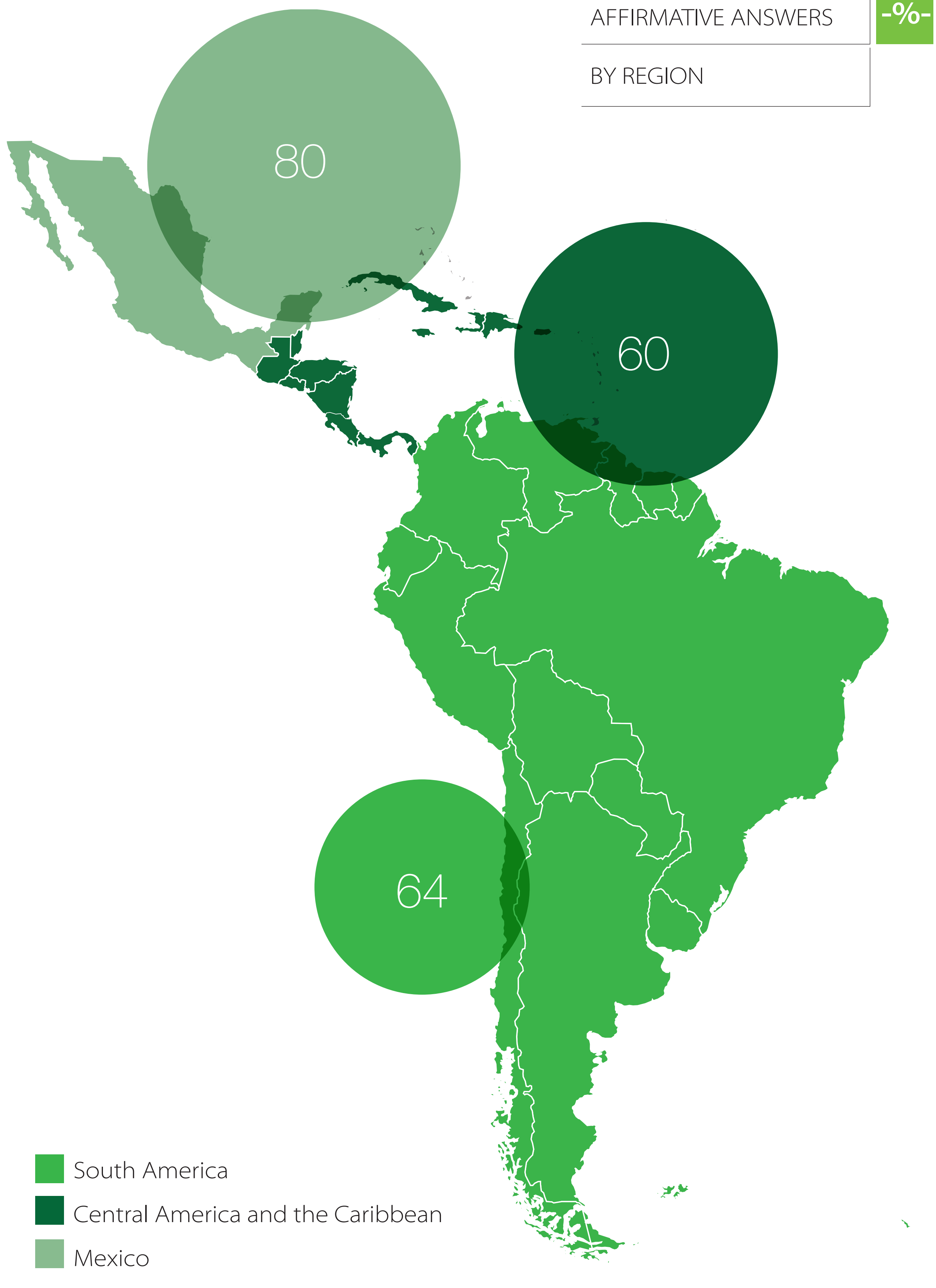
BY BANK SIZE

ADVISES SMES ON FOREIGN TRADE?



AFFIRMATIVE ANSWERS -%-

BY REGION



F O U R T H P A R

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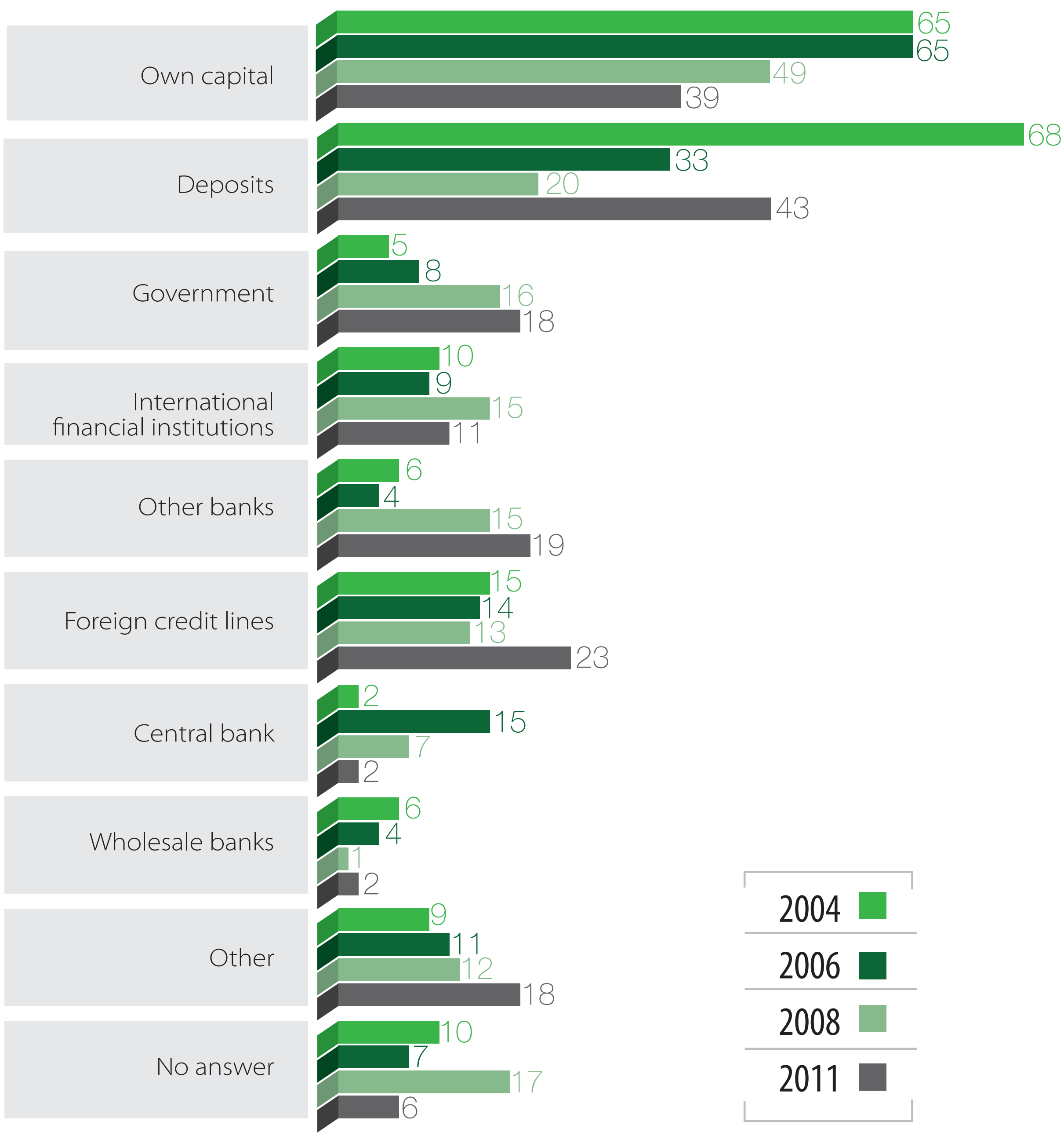
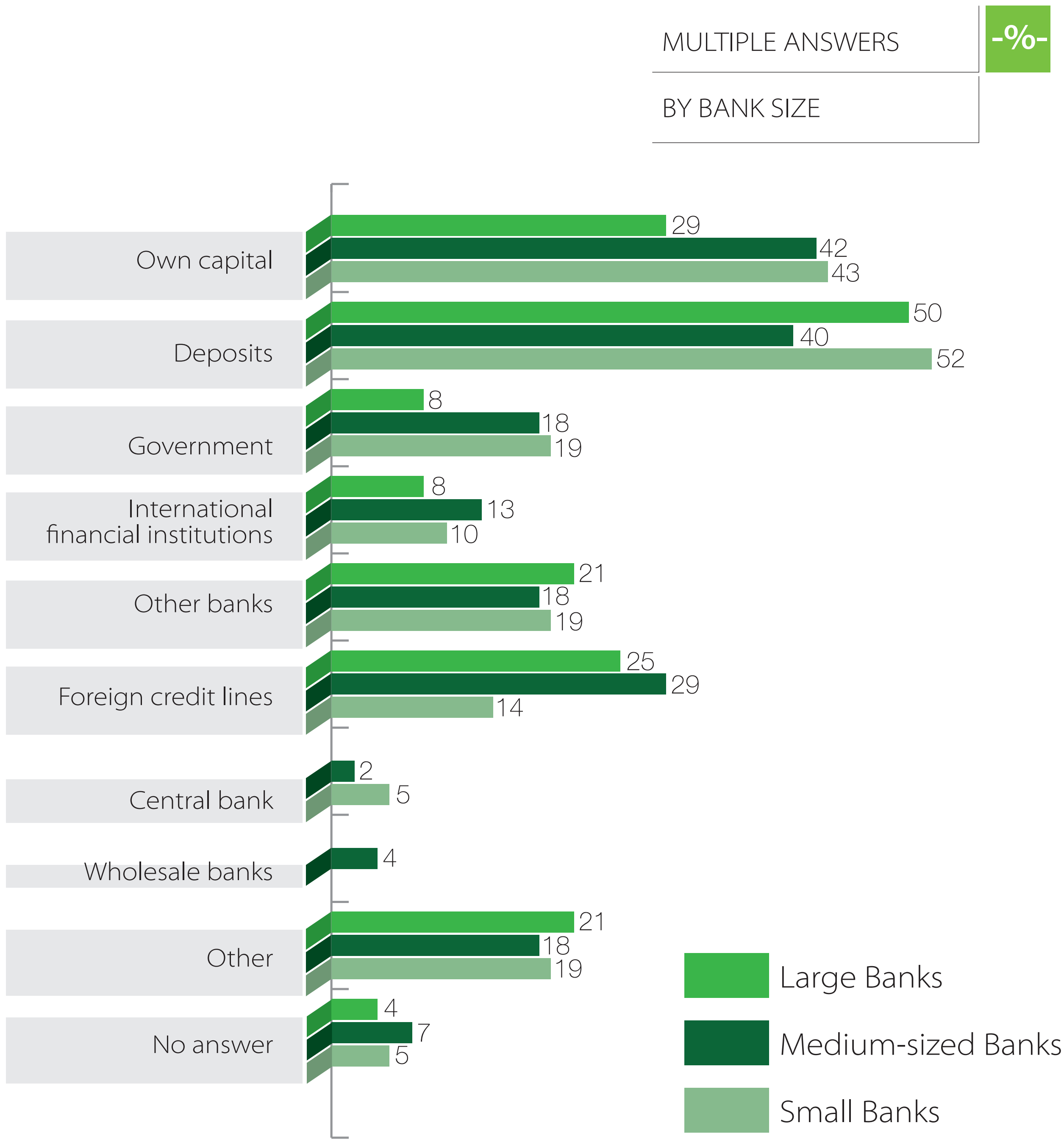
4

FUNDING SOURCES FOR BANKS

HOW DOES YOUR BANK FIND FUNDING FOR FINANCING SMES IN THE MEDIUM AND LONG TERM?

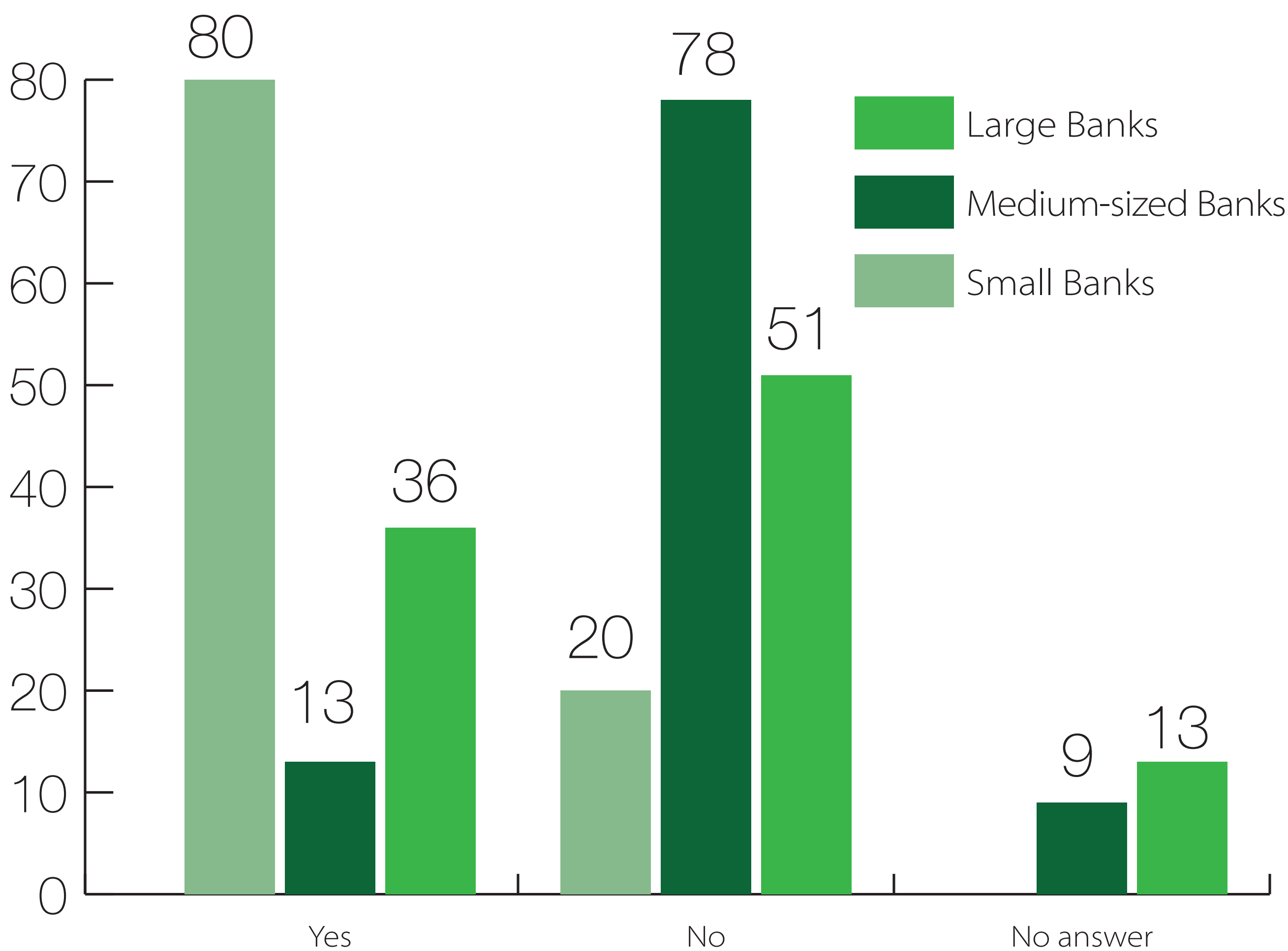
MULTIPLE ANSWERS -%-




MULTIPLE ANSWERS
-%-
BY BANK SIZE
Own capital
29
42
43
Deposits
50
40
52
Government
8
18
19
International financial institutions
8
13
10
Other banks
21
18
19
Foreign credit lines
25
29
14
Central bank
2
5
Wholesale banks
4
Other
21
18
19
No answer
4
7
5
Large Banks
Medium-sized Banks
Small Banks

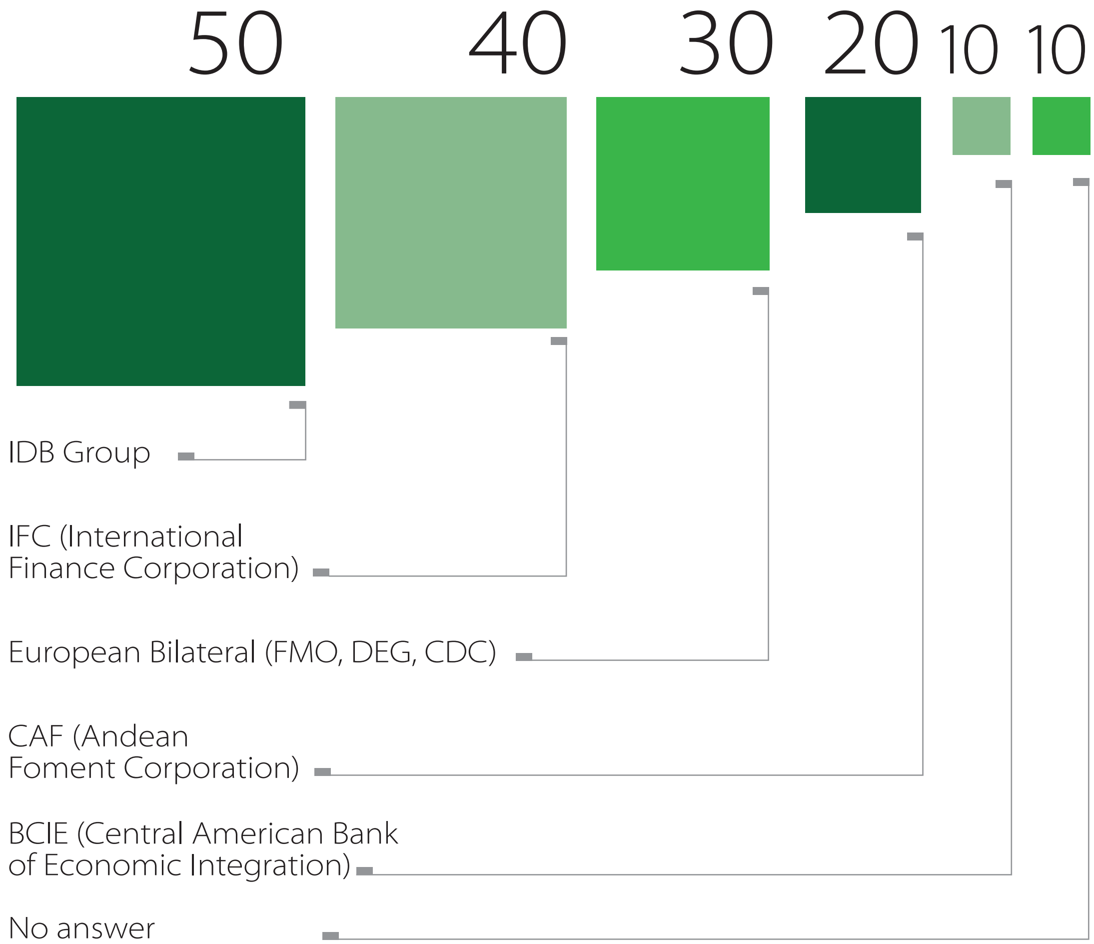
IS YOUR BANK PARTICIPATING IN ANY CREDIT PROGRAM FOR SMES WITH PUBLIC SECTOR GUARANTEES?

BY BANK SIZE -%-



FROM WHICH INTERNATIONAL ORGANIZATIONS DOES YOUR BANK GET FUNDING?

MULTIPLE RESPONSES -%-



F I F T H P A R T

B2
UNITED STATES
FEDERAL RESERVE SYSTEM
THIS NOTE IS LEGAL TENDER FOR ALL DEBTS, PUBLIC AND PRIVATE
Treasurer of the United States.
100
SERIES 2003 A
FRANKLIN
B 32790271 C
Secretary of the Treasury.
HUNDRED DOLLARS
SERIES 2001

5

SPECIFICATIONS

SPECIFICATIONS

The survey was done in 2011.

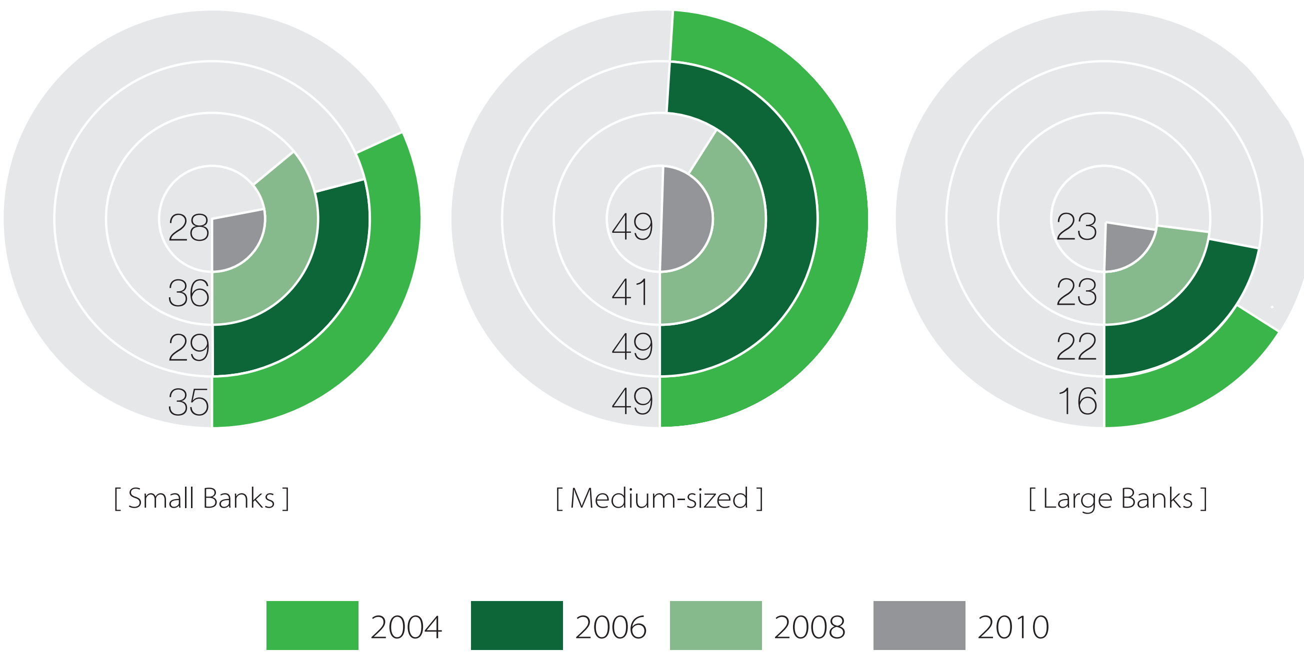
COUNTRY DISTRIBUTION:

IN -%- AND AMOUNTS

REGION	%	COUNTRY	SAMPLE
MEXICO	5	México	5
CENTRAL AMERICA AND THE CARIBBEAN	42	Costa Rica	5
		El Salvador	5
		Guatemala	5
		Honduras	7
		Nicaragua	5
		Panama	6
		Dominican Republic	5
		Barbados, Belize, Suriname	3
		Jamaica	5
SOUTH AMERICA	53	Argentina	9
		Bolivia	2
		Brazil	7
		Chile	7
		Colombia	5
		Ecuador	7
		Paraguay	8
		Peru	6
		Uruguay	3
		Venezuela	4
TOTAL	100	TOTAL	109

SAMPLE COMPOSITION BY BANK SIZE

BY BANK SIZE -%-



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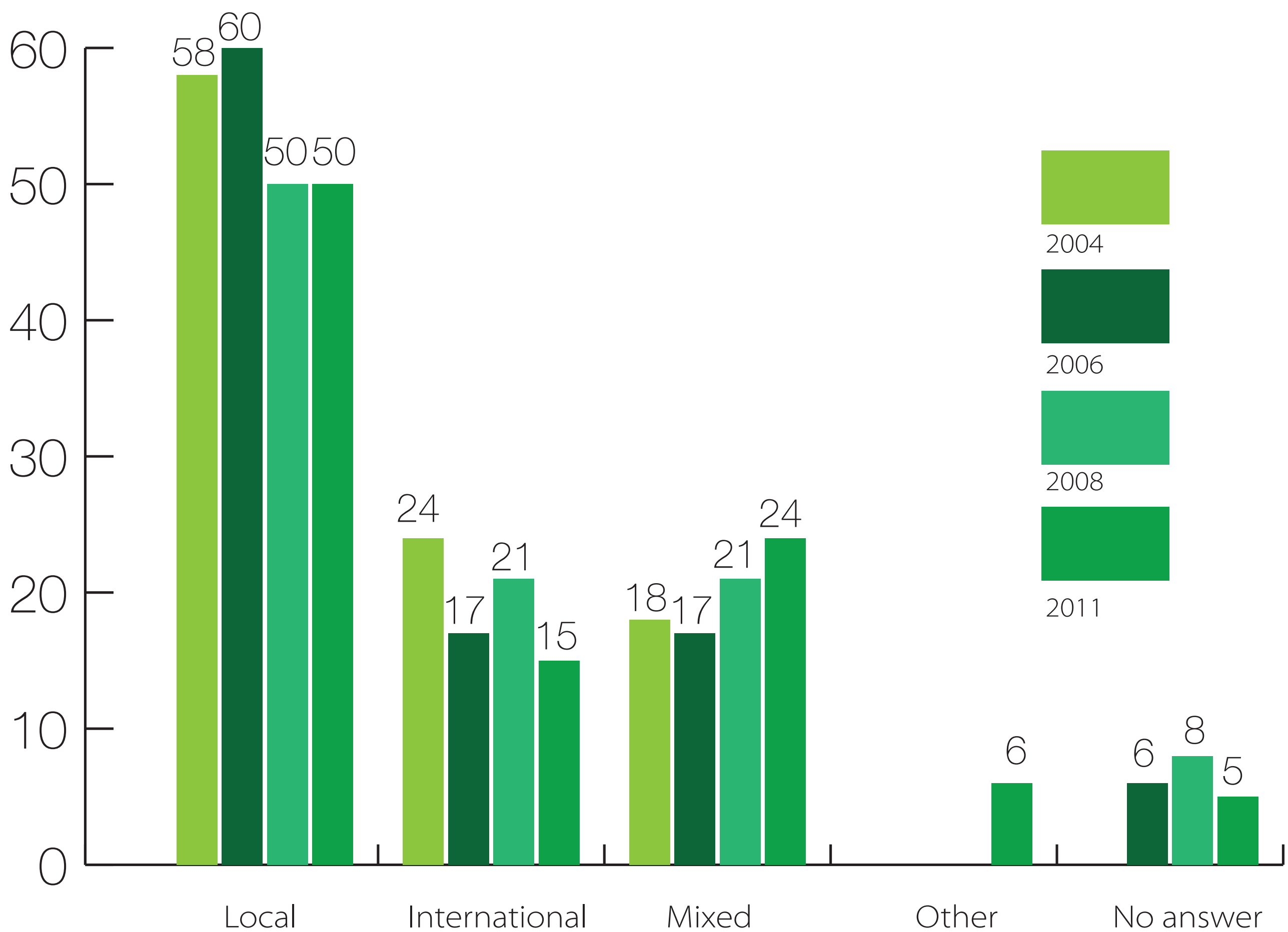
Big Banks: *Entities that have more than 150 branches*

ORIGIN OF CAPITAL

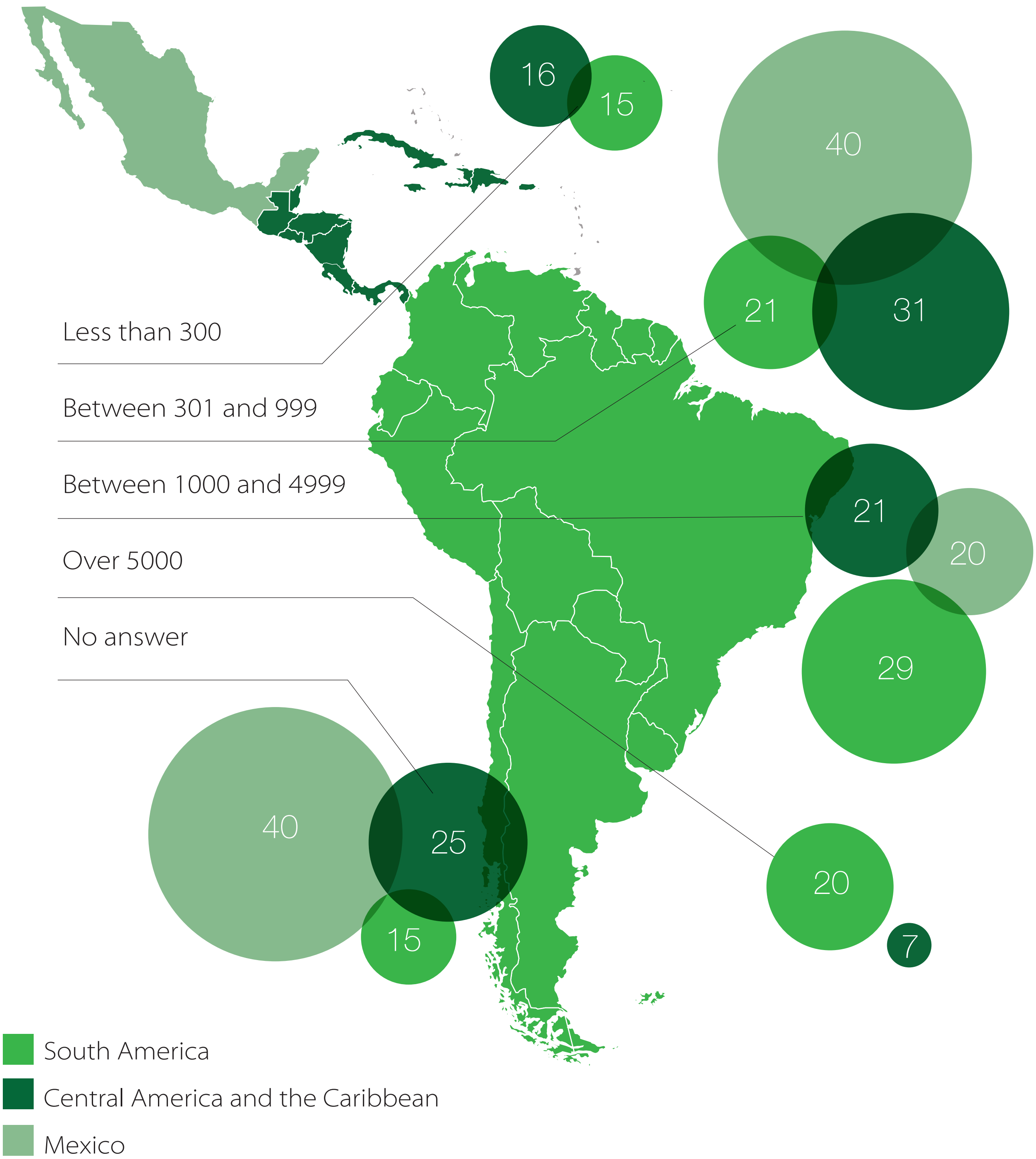
-%-



RELATIONSHIP BETWEEN BRANCH NETWORK AND EMPLOYMENT

DISTRIBUTION OF BANKS BASED ON NUMBER OF EMPLOYEES

BY REGION -%-



SURVEYED BANKS BY COUNTRY

ARGENTINA	Banco Comafi
	Banco de la Provincia de Córdoba
	Banco Galicia
	Banco Credicoop
	Banco de la Nación Argentina
	Standard Bank
	Banco de Corrientes
	Banco Julio
BARBADOS	Scotiabank
BELIZE	Belize Bank
BOLIVIA	Banco Económico
	Banco Nacional de Bolivia
BRAZIL	Banco do Brasil
	HSBC
	Bradesco
	Banco do Nordeste do Brasil
	Banrisul
	Caixa Economica Federal
	Citibank
CHILE	Banco Security
	Banco do Brasil
	Scotiabank
	Banco de Crédito e Inversiones
	Banco del Estado de Chile
	Citibank
	Banco Internacional
COLOMBIA	Bancoldex
	Banco Davivienda
	Banco Popular
	HSBC
	Bancolombia S.A.
COSTA RICA	Banco de Costa Rica
	Banco Nacional

SURVEYED BANKS BY COUNTRY

COSTA RICA	Banco Promérica
	Banco Improsa
	Banco Interfin
DOMINICAN REPUBLIC	Banco Caribe
	Banco León
	Banco BHD S.A
	Banco Popular
	Banco de Desarrollo Industrial
	Banco de Machala
	Banco Amazonas
	Banco Ramiñahui
EL SALVADOR	Banco Promérica
	Banco Hipotecario
	Banco Credomatic
	Banco Procredit
	Banco G&T Continental
GUATEMALA	Banco G&T Continental
	Banco Centroamericano de Integración Económica
	Banco Agromercantil de Guatemala
	Banco Reformador
	Banco Americano
HONDURAS	HSBC
	Banco Continental
	Banco de América Central
	Banco de Occidente
	Banpaís
	Bancafe
	Banco Popular Covelo
JAMAICA	Jamaica National Small Business Loans
	Micro Credit Limited
	Development Bank of Jamaica Limited
	Access Financial

SURVEYED BANKS BY COUNTRY

MÉXICO	RBTT Bank Jamaica Ltd.
	Banco Ve por Más
	Banorte
	Banca Mifel
	Banco Monex
	Banco Invex
NICARAGUA	Banco Procredit
	Banco Crédito Centroamericano
	Banco Lafise Bancentro
	Banco Finanzas
	Banco de la Produccion
PANAMA	Scotiabank
	Citibank
	Credicorp Bank
	Banvivienda
	Banco Panamá
	Metrobank S.A.
PARAGUAY	Banco Amambay
	Banco Familia SAECA
	Banco Sudameris
	Banco Nacional de Fomento
	Banco Integración
	Banco Continental SAECA
	Vision Banco SAECA
	BBVA Paraguay
PERU	Crediscotia Financiera
	Mi Banco
	Citibank del Perú SA
	BBVA
	Banco de Comercio
	Amerika Financiera
SURINAME	Hakrinbank N.V.
URUGUAY	Banco República

SURVEYED BANKS BY COUNTRY

URUGUAY	Lloyds Bank
	Banco de Seguros del Estado
VENEZUELA	Banco De Venezuela
	Bangente
	Banco Venezolano de Crédito
	Activo Banco Universal

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