



TRACKING THE PROPENSITY OF FINANCIAL INSTITUTIONS IN LATIN AMERICA AND THE CARIBBEAN TO FINANCE SMALL AND MEDIUM ENTERPRISES

UPDATED: 2008



IRAM-ISO 9001:2000

Diseño y realización de encuestas telefónicas, on line y con PDA (handset)

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1. INTRODUCTION

The Inter-American Investment Corporation (IIC), the Multilateral Investment Fund of the Inter-American Development Bank (MIF/IDB) and the Latin American Federation of Banks (FELABAN) conducted an initial survey in December 2004 of 111 Latin American financial institutions, the purpose of which was to identify the propensity of Latin American and Caribbean banks to finance small and medium enterprises (SMEs).

In 2006, the study's second survey was conducted to research the SME funding situation in the institutions as well as its evolution since 2004.

The present report presents the results of **the study's third survey**, which collected feedback from officials responsible for the SME sector: directors, managers, and assistant managers in areas related to lending programs – **108 banks** in 19 countries in Latin America and the Caribbean, surpassing the number of requested surveys.

In this third survey, a series of questions was added to identify the **impact of the recent financial crisis** and how long survey respondents think it will last, as well as its effect on SME funding.

The questionnaire used in this case included not only the key questions from the previous surveys, but also others on the new issues relevant to this segment that are of interest to the **IIC/MIF** and **FELABAN** project team leaders.

Once again we are grateful that the services of D'Alessio IROL (www.dalessio.com.ar) have been requested. Our firm conducts market research and consultation on specific strategies, marketing and image for the financial market in Latin America as well as the Hispanic market in the United States.

The present study has quality certification. D'Alessio IROL received ISO 9001:2000 certification in 2006 and 2008 in procedural quality in **phone** surveys, as well as **online** surveys and **onsite** with PDA devices.

2. TECHNICAL SPECIFICATIONS

The present survey was conducted in November-December 2008. It includes 108 cases from the following countries:

Survey composition by region and country
- % and numbers -

<i>Region</i>	<i>%</i>	<i>Country</i>	<i>Number surveyed</i>
<i>Mexico</i>	6	Mexico	6
<i>Central America and Caribbean</i>	37	Costa Rica	4
		El Salvador	2
		Guatemala	3
		Honduras	8
		Nicaragua	2
		Panama	9
		Dominican Republic	7
		Jamaica	2
<i>South America</i>	66	Argentina	6
		Bolivia	7
		Brazil	7
		Chile	4
		Colombia	11
		Ecuador	8
		Paraguay	7
		Peru	5
		Uruguay	3
		Venezuela	7
<i>Total</i>		<i>Total</i>	108

The present survey includes banks that participated in the previous surveys as well as others that were recommended by the IIC/MIF and FELABAN.

The present survey's sampling is similar in terms of bank size, and it also allows the changes reported since 2004 to be monitored.

The annex includes the equation used to calculate the indicator of size.

“Bank size” indicator
- % -

	<i>2004</i>	<i>2006</i>	<i>2008</i>
<i>Small banks</i>	35	29	36
<i>Medium-sized banks</i>	49	49	41
<i>Large banks</i>	16	22	23

Survey respondents varied in terms of distribution of personnel in the institutions, from less than 300 employees to more than 5000. This survey in particular includes responses from South America.

Distribution of banks by volume of personnel
By size - % -

	<i>Mexico</i>	<i>Central America and Caribbean</i>	<i>South America</i>
300 or less	50	49	30
301 - 999	17	20	23
1000 - 4999	17	29	35
Over 5000	17	3	12

Half the banks surveyed operate with less than 50 branches. At the other extreme, two out of every ten surveyed (22%) have more than 151 points of attention.

Relationship of number of branches/number of employees
- % -

		<i>Number of branches</i>			
		<i>10 or less</i>	<i>11 - 50</i>	<i>51 - 150</i>	<i>> 151</i>
<i>Number of employees</i>	Under 300	92	17	34	13
	301 - 999	4	60	14	--
	1000 - 4999	4	23	52	46
	Over 5000	--	--	--	42

A mix of local-capital banks and international banks was noted. Among those reported on the source of capital in their institution, half are from local capital and the rest are international and mixed, in equal parts.

<i>Origin</i>	<i>Survey</i>		
	<i>2004</i>	<i>2006</i>	<i>2008</i>
Local	58	60	50
International	24	17	21
Mixed	18	17	21
Prefer not to answer	-	6	8

The survey shows that local capital banking is more common in South America, and mixed capital banking in Central America and the Caribbean and Mexico. In terms of international banks, no significant differences were noted among the institutions surveyed.

Also, there is mix of banks with different sizes in their respective countries: 35% of the respondents said their banks place in the top five-ranked banks for deposits in their country; 16% in 6th-10th place, and 49% in 11th place or higher.

3. OBSERVATIONS

1. From the perspective of the survey respondents, one impact of the global financial crisis will be less funding available for financial institutions in the Latin American and Caribbean region.
2. Financial markets will take two years to recuperate.
3. The upward trend in SME development seen in 2006 has come to an abrupt halt and the future is fraught with uncertainty and complexity. South American SMEs could suffer the worst impact.
4. SMEs are recognized as an integral part of banking activity, but currently their strategic position has diminished. Allocation of SME loans has dropped significantly in bank branches. However, banks in the region hope to maintain SMEs in their client base.
5. Banks have sharply reduced their focus on allocating SME loans, as reflected in the reduced number of applications considered. Today many banks' main focus is on visits to the executives of the companies.
6. Of every ten banks surveyed, they say they did not give priority to any sector at the moment of decision on approving a loan or not. This definition about financing decisions is greater for South American institutions. Priority is given to the commerce sector, unlike in 2006 when the services and industry sectors were given higher priority.
7. Working capital financing is the main service offered by Latin American banking institutions to SMEs.
8. Compared with the previous survey, the different types of SME loans available in the region dropped from four to three.
9. The sharp drop in mortgage loans and account advances, as well as the greater weight assigned to verified proof of the firm's solid standing, reflect efforts to prevent default resulting from reduced activity in the sector.
10. In addition to the interest rate, as in the 2006 survey, the banks mention insurance and taxes as major factors in calculating an SME's loan costs. And now, add in the cost of verification of financial statements by certified public accountants as well.
11. Along with the value given to the demonstration of solidity by the company applying for a loan, financial statement assessment appears to be an essential risk-assessment technique, important regardless the size of the bank.
12. Along with the importance of demonstrating solidity, a company's difficulty in demonstrating solvency for repayment is evaluated as a significant barrier to accessing credit in eight out of ten surveyed. Also, its relevance rose 13 points compared with the 2006 survey.
13. As in the 2004 and 2006 surveys, equity capital continues to be the main funding source for financing SMEs, although less than in the previous survey. Government-backed funding increased, as well as funding from international financial organizations and other banks. Deposits have continued to drop sharply since 2004.
14. Technical assistance continues at the 2006 levels: eight of ten banks consulted were interested in receiving technical assistance to develop SME loan programs. Updating

lending methodology is a priority. The trend toward co-financing of technical assistance programs increased.

- 15.** The general level of information in databases remains consistent, with specific increases in data on credit history and current levels of indebtedness.
- 16.** The presence of fiscal incentives and public sector securities, viewed as low in the 2006 survey, dropped even lower in the current survey.
- 17.** This year microenterprises have grown as a business of potential interest. In 2006, they were considered attractive to six out of ten institutions. Today that figure has risen to eight out of ten.
- 18.** Half the institutions surveyed have a specialized department for individual remittances.

4. DATA ANALYSIS

4.1 Impact of the international financial crisis

From the perspective of Latin American and Caribbean banks, the global crisis will hit hard, evaporating funding available for financial institutions in the region.

» Financial markets may take two years to recuperate.

Seven out of ten surveyed view the shrinking of **available financing for the banks** as the main threat in the scenario of the international financial crisis. “*Retention of international lines of financing*” is a common response in the survey.

Other problems that could loom from the crisis result from less international trade and remittance flows.

This combination of factors has led banks to monitor and control loans more closely. Thus, their strategies in response to the situation include:

“Need for greater focus on loan evaluation.”

“Closer control of operations.”

What effects do you think the financial crisis will have on banks in the region?

Multiple answers (2 options) -%-

Less financing available for institutions	64
Reduced remittance flow	23
Reduced international trade	12
Less interest in venturing into new areas of business	10
Less demand for investment loans	7
Increased interest in mobilizing deposits	6
Increased interest in seeking out new partners	3
Other	27
Prefer not to answer	2

“Other” options mentioned by survey respondents include some **threats** and other **opportunities**.

Worries about future difficulties, due to reduced economic activity and the effect on clientele, include:

“Increased write-offs in the portfolio.”

“Reduced quality in portfolio and repayment capacity of clientele.”

“Drop in sales.”

“Increase in arrears.”

Some respondents also mentioned opportunities:

“Exploration of new markets to place products.”

Some 66% of respondents predicted that the financial market crisis will last **1-2 years**.

It is important to note that two out of every ten respondents stressed the uncertainty: some said they could not make a prediction at this moment, since it will depend on the decisions and actions of various institutions that may overdraw credit from their bank and/or country.

How long do you think the effects of the financial crisis will last in your country? -%-

Under 1 year	16
1-2 years	51
2-3 years	11
Over 3 years	3
Do not know	17
Other	1
Prefer not to respond	1

Mexican banks appear to be the most optimistic in predicting the length of the crisis.

How long do you think the effects of the financial crisis will last in your country?
 -By region %-

	<i>Mexico</i>	<i>Central America and Caribbean</i>	<i>South America</i>
Under 1 year	33	11	17
1-2 years	67	51	50
2 -3 years	--	11	12
Over 3 years	--	3	3
Do not know	--	23	15

The respondents consistently predicted that the crisis would last 1-2 years, although the smaller banks' predictions were longer.

How long do you think the effects of the financial crisis will last in your country?
 -By size %-

	<i>Small banks</i>	<i>Medium banks</i>	<i>Large banks</i>
1 year or less	10	18	21
1-2 years	56	50	46
2 -3 years	10	16	4
Over 3 years	5	--	4
Do not know	16	16	21
Other	3	--	--

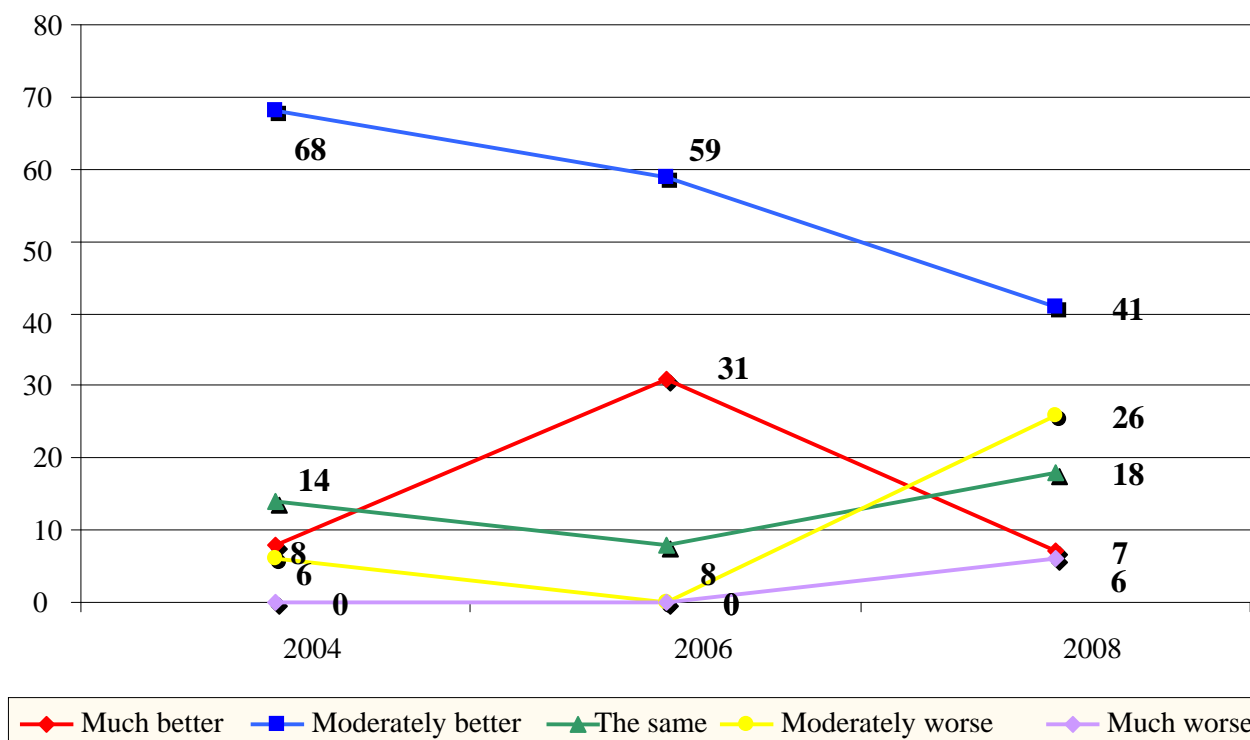
4.2 SMEs' Future Perspectives

The upward trend in SME development seen in 2006 has come to a halt and the outlook is troubled with a complex and uncertain future. South American SMEs could suffer the greatest impact.

The survey respondents have **ambivalent views** on the future of SMEs. The tendency toward optimism that grew from 2004 to 2006 has ground to a halt.

Now the outlook appears to combine **uncertainty** with greater **complexity**. Positive views on the Latin American SME situation reached 48% (including *much better* and *moderately better*), a drop in 42 points from 2006.

How do you predict the SME situation will be in your country two years from now?
- % -



As in the previous survey, **large banks are more optimistic** about the scenario for the SME sector over the next two years. However, the portion of institutions predicting *much better* dropped 26 points.

Conversely, small banks predict that the scenario for SMEs will be *moderately worse*.

¿How do you predict the SME situation in your country will be in two years?
 -By size % -

	<i>Small banks</i>	<i>Medium banks</i>	<i>Large banks</i>
Much better	3	7	17
Moderately better	33	45	46
Same	20	18	11
Moderately worse	36	21	21
Much worse	8	7	--
Other	--	--	5
Prefer not to respond	--	2	--

How do you predict the SME situation in your country will be in two years?
 -By region % -

	<i>Mexico</i>			<i>Central America & Caribbean</i>			<i>South America</i>		
	<i>2004</i>	<i>2006</i>	<i>2008</i>	<i>2004</i>	<i>2006</i>	<i>2008</i>	<i>2004</i>	<i>2006</i>	<i>2008</i>
Much better	12	40	33	6	19	3	9	37	8
Moderately better	50	40	33	69	71	49	71	53	38
Same	38	20	17	21	10	23	7	6	15
Moderately worse	--	--	17	3	--	20	10	--	30
Much worse	--	--	--	--	--	6	--	--	6
Other	--	--	--	--	--	--	3	4	3

Mexican institutions showed less negativity in their views on SME development.

Latin American and Caribbean banks showed a significant drop in optimism for the future development of SMEs.

South America institutions were the most pessimistic: three out of ten said they thought the SME situation will be *moderately worse* in the next two years – 36% including *moderately worse* and *much worse*.

A correlation exists between the view of a better panorama for SMEs and the prediction of duration of the recovery period: the institutions that predict the crisis will last 2-3 years estimate that the SME

situation will be *moderately worse*. Conversely, those that predict a quicker recovery from the crisis (under 1 year) tend to predict the future reality of SMEs as the *same* or *moderately better*.

The world financial crisis will have a significant impact, even two-fold, on SMEs: reduced activity and reduced funding.

In terms of the **specific aspects of SMEs impacted** by the crisis, decreased funding emerges as a potentially significant effect: six of every ten label it as such.

Increased interest rates for SMEs is also mentioned as another possible effect by five out of every ten respondents.

What do you think will be the global financial crisis's main effects on SMEs in your country?

Multiple answers -%-

Less financing available for SMEs	58
Increased interest rates for SMEs	45
Reduced sales in domestic market	30
Reduced sales in international market	26
Weaker SMEs will not withstand the crisis	17
Less interest in venturing into/expanding SME financing	10
Other	9
Prefer not to respond	5

The perception that less economic support will be available for SMEs does not show significant differences among regions. It is slightly higher in Mexican banks.

Conversely, the increase in interest rates is more significant among Central American and Caribbean banks.

¿What do you think will be the global financial crisis' main effect on SMEs in your country?
By region -%-

	<i>Mexico</i>	<i>Central America and Caribbean</i>	<i>South America</i>
Less financing available for SMEs	67	54	59
Increased interest rates for SMEs	17	57	41
Reduced sales in domestic market	33	20	35
Reduced sales in international market	33	17	30
Weaker SMEs cannot resist crisis	33	14	17
Less interest in venturing into/expanding in the area of financing SMEs	17	6	12

In terms of bank size, more respondents from large banks consider that financing will decrease for the sector.

The drop in SMEs' sales in domestic markets is perceived as a bigger problem among small and medium-sized banks, while decreased product placement in international markets is more of a problem for large banks.

What do you think will be the global financial crisis's main effects on SMEs in your country?
By size -%-

	<i>Small banks</i>	<i>Medium banks</i>	<i>Large banks</i>
Less funding available for SMEs	54	55	71
Increased interest rates for SMEs	41	48	46
Reduced sales in domestic market	36	32	17
Reduced sales in international market	21	27	33
Weaker SMEs will not resist crisis	13	18	21
Less interest in venturing into/expanding SME financing	8	14	8

A correlation exists between reduced SME financing and the view that the SME situation will be *moderately worse* in the period of recovery from the international financial crisis.

4.3 Banks' Treatment of SMEs

SMEs are recognized as an integral part of bank business, but at this moment their strategic value has diminished.

A significant drop was noted in the distribution of SME loan allocation in the network of branches. Yet banks in the region hope to maintain SMEs as clients.

The position of SMEs in financial business continues to be recognized: seven out of ten banks have an active policy for financing the SME sector and a specialized SME loan unit with officials in charge.

However, while in 2004 and 2006 eight out of ten banks considered SMEs to be a strategic part of their business, today seven out of ten report that perspective.

Increased activity in providing assessment to SMEs in international trade was reported, compared with 2004.

Indicate whether your bank...
Positive answers -%-

	<i>2004</i>	<i>2006</i>	<i>2008</i>	<i>Gap in points (compared to 2006)</i>
...has an active policy for financing SMEs	69	82	76	-6
...has a special SME loan department/unit	--	84	73	-11
...has personnel trained to work exclusively with this sector	62	73	73	0
...assesses SMEs in international trade	44	57	67	+10
...considers SMEs to be a strategic part of bank business	84	80	66	-14
...has an SME department/unit in all branches	39	64	55	-9

The bigger the bank, the bigger the various actions and resources that the banks allocate to this economic sector, with special emphasis on assessing SMEs in international trade and the possibility of having a department and officials specialized in small and medium enterprises.

Indicate whether your bank...

Positive answers

By size-%-

	<i>Small banks</i>	<i>Medium banks</i>	<i>Large banks</i>
...has an active policy to finance SMEs	46	91	88
...has a department/unit specialized in SME loans	46	81	94
...has personnel specialized in SMEs who work exclusively with this sector	49	79	94
...assesses SMEs in international trade	41	72	94
...consider SMEs to be a strategic part of bank business	49	72	76
...has an SME unit/department in all branches	35	58	76

Respondents from Mexican and South American banks reported more active SME policies than those operating in Central America and the Caribbean.

In general, the Mexican institutions showed more focus on the different dimensions of action for SMEs.

Indicate whether your bank...

Positive answers

-By region % -

	<i>Mexico</i>	<i>Central America</i>	<i>South America</i>
...has an active policy to finance SMEs	83	60	83
...has a section/unit specialized in SME loans	100	57	79
...has personnel specialized to work exclusively with SME sector	100	60	77
...assesses SMEs in international trade	83	60	70
...consider SMEs to be a strategic part of bank business	83	49	74
...has an SME unit in all branches	67	40	62

Half of the banks surveyed report that 20% of their loans are allocated to the SME segment.

What percentage of branches offers credit to SMEs?

- % -

	2006	2008
0 - 20%	8	27
20 - 40%	13	11
40 - 60%	8	4
Over 60%	67	38
Other	4	1
Prefer not to respond	--	19

In comparison with the other regions, South American institutions have more branches that offer loans to SMEs. SME loans are the most restricted in the network of branches in the Caribbean and Central America.

What percentage of branches offers SME loans?

By región- % -

	<i>Mexico</i>	<i>Central America and Caribbean</i>	<i>South America</i>
0 - 40%	50	75	33
40 - 60%	--	4	6
60 - 100%	50	21	62

The distribution of SME loan allocation in the network of branches has decreased. Of every ten banks in the region, four have more than 60% of their network of branches equipped to place SME credit, compared to seven in 2006. Among large and medium-sized banks, the number of branches that can place SME loans is greater.

What proportion of branches can allocate SME loans?

- % -

	<i>Small banks</i>	<i>Medium banks</i>	<i>Large banks</i>
0 - 40%	60	41	42
40 - 60%	7	5	--
60 - 100%	33	54	58

4.4 Pro-SME actions at banks in the context of the crisis

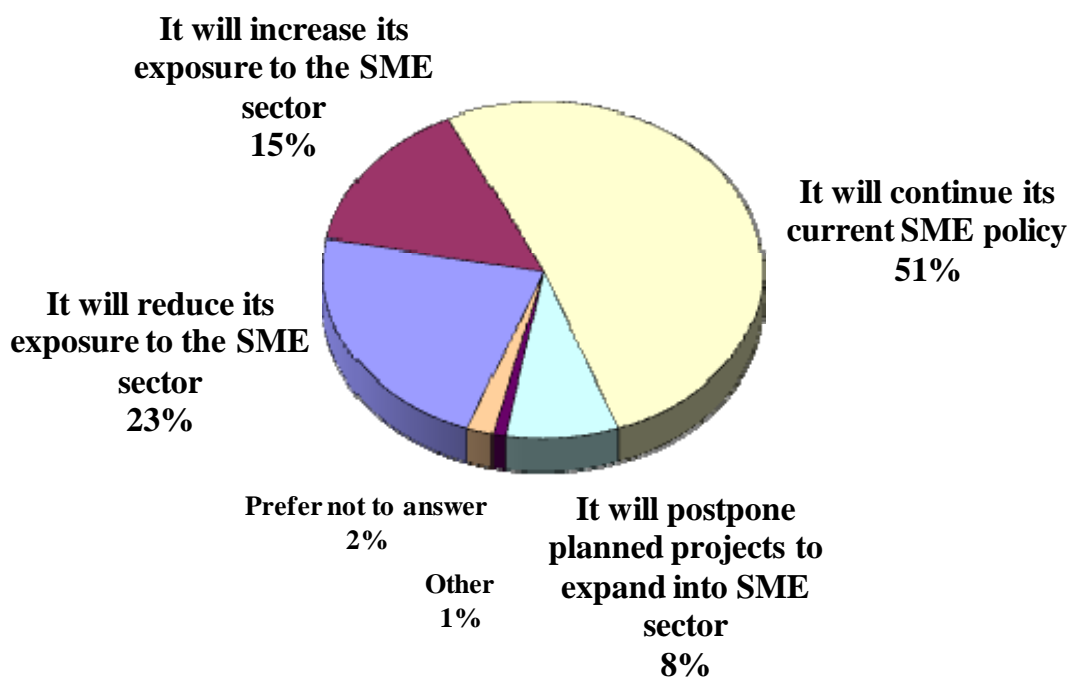
Even when the growth outlook for SMEs has halted, and today there is an ambivalent view of their short-term and medium-term future, financial institutions will continue to support the development of this sector.

One conclusion of the 2008 survey is that banks in the region hope to maintain their standing with SMEs.

Of every ten institutions surveyed, five will continue fostering the development of SMEs and four affirm that they will expand their exposure in this sector.

Despite the crisis, only two out of ten surveyed said that their bank could end up reducing its activity in the sector.

As a result of the crisis, what do you think will happen to your bank with respect to SMEs?



The possibility of reducing SME-sector activity increases as the size of bank decreases. Three out of every ten respondents from small institutions predict that pro-SME activities will decrease.

As a result of the crisis, what do you think your bank will do in terms of SMEs? By size -%-

	<i>Small banks</i>	<i>Medium banks</i>	<i>Large banks</i>
Reduce exposure to SME sector	31	20	13
Increase exposure to SME sector	8	18	21
Continue its current policy toward SME sector	49	57	46
Postpone projects planned to expand into SME sector	8	5	17
Other	3	--	--
Prefer not to respond	3	--	4

In terms of bank size, no significant differences were found on the specific dimensions and aspects of the impact of the crisis on the institutions' SME policies.

The respondents who confirmed that **their institution's current pro-SME policy will continue** are those who tend to be **optimistic** in the face of the crisis, that is, those who predict that the crisis will last less than 1 year.

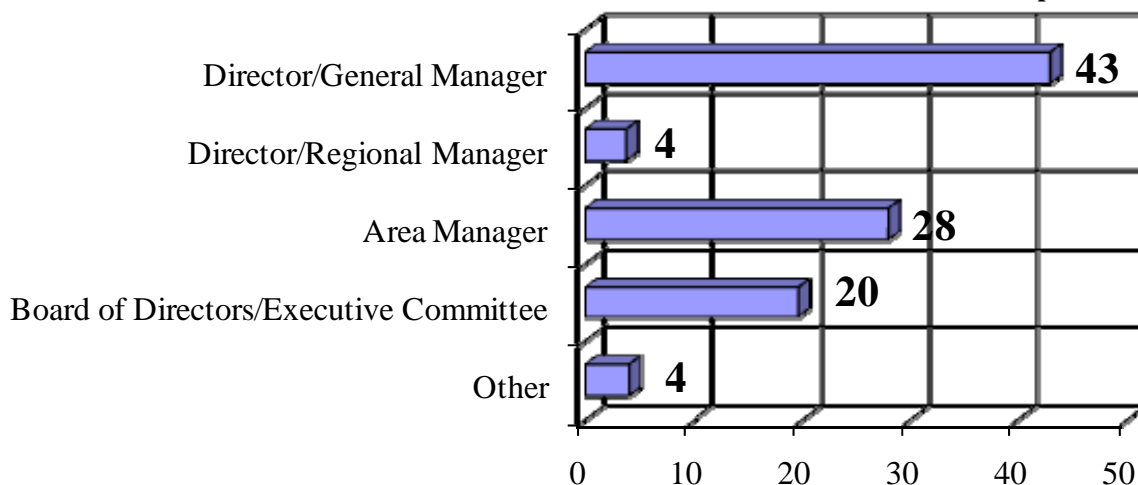
Also, those who said their institution is a **leader in the sector** continue their position in support of continuing SME projects (60% vs. 47% of those surveyed who say their institution is not a leading pro-SME institution).

Even if half of the respondents consider that **the administrative cost of working with SMEs is high**, especially among small and medium-sized banks, this aspect is not key at the moment of defining strategies for this sector.

In general, decisions on bank SME policies are made by top management (the institution's director, general manager, regional manager, or board of directors).

What is the position of the person responsible for setting SME-sector strategies in your bank?

Multiple answers - %



As in the 2006 results, banks in Mexico reported that those responsible for defining the different lines of action for the SME segment hold the top positions in the hierarchy.

Conversely, more respondents in Central America and the Caribbean and South America mentioned middle-management positions focused on SMEs.

What is the position of the person responsible for setting SME-sector strategies in your bank?

Multiple answers

-By region % -

	<i>Mexico</i>	<i>Central America and Caribbean</i>	<i>South America</i>
Director/ General Manager	67	34	45
Director/ Regional Manager	33	--	3
Management/ Board of Directors	--	14	24
Unit Manager	17	34	26

4.5 Type of bank actions to promote SME loans

The focus of institutions on allocating SME loans has dropped sharply in banks' business plans, as reflected in the drop in the number of actions carried out to attract SMEs. Today they mostly concentrate on visits to the executives.

In 2008, banks on average used two actions to promote SME loans, but they prioritized to focus on active participation by officials: seven out of ten contacted SMEs through their representatives or sent their consultants to make personal visits.

What type of activities does your bank use to promote SME loans?

-%-

	<i>2006</i>	<i>2007</i>	<i>2008</i>
Consultants/ representatives personally visit or contact	84	81	67
Meetings/ events organized by our bank	47	55	21
Internet sites	22	60	21
Newspapers	46	45	18
Television	24	33	17
Material sent to SMEs	51	58	16
Radio	30	40	15
Expositions/ fairs of the sector	49	36	11
Business magazines/ Sector-focused magazines	32	49	6

In general, the level of actions increases with the size of the bank. Visits to companies and meetings with the institution are the most significant difference in terms of bank size.

For medium-sized and large banks, the Internet is an important tool, as well as the strategy of sending material to the SMEs.

What type of activities does your bank use to promote SME loans?
-By size %-

	<i>Small banks</i>	<i>Medium banks</i>	<i>Big banks</i>
Consultants/representatives visit or contact personally	46	75	88
Meetings/events organized by our bank	8	34	21
Internet sites	8	27	29
Newspapers	8	16	37
Television	10	13	33
Materials sent to SMEs	8	34	20
Radio	5	14	33
Expositions/fairs of the sector	3	11	25
Business/sector-focused magazines	3	5	13

In Mexico they appear to give priority to more firsthand contact such as visits to the companies and participation in fairs and expositions.

In South America, mass media activities, including the Web, received a greater number of mentions.

What type of activities does your bank use to promote SME loans?
By region- %-

	<i>Mexico</i>	<i>Central America and Caribbean</i>	<i>South America</i>
Consultants/representatives visit or contact personally	83	63	68
Meetings/events organized by our bank	33	20	21
Internet sites	--	11	27
Newspapers	17	6	24
Television	--	3	26
Material sent to SMEs	17	12	18
Radio	--	6	16
Expositions/fairs of the sector	--	3	17
Business/sector-focused magazines	--	--	9

4.6 SME financing priorities by sector

Three out of ten banks report that they do not favor one sector over another at the moment of approving a loan or not. Definitive restrictions in financing decisions are greater in South American institutions. Greater weight is given to the commercial sector, as compared to 2006 when services and industry were top priorities.

The commercial sector focus does not show significant differences in terms of bank size.

Mid-sized bank respondents mentioned **industry** as a major recipient of loans.

Among small banks, a slight rise in priority was noted in the **service** sector.

Which SME sector does your bank favor in granting loans?

-%-

	<i>2004</i> (Single answer)	<i>2006</i> (Multiple answers)	<i>2008</i> (Single answer)
No sector favored	--	--	34
Commerce	--	37	22
Industry	26	46	13
Services	31	58	9
Agriculture	9	26	7
Construction	--	25	2
Other	28	33	7
Prefer not to respond	6	--	6

With respect to region, some significant differences were found. Banks in South America were more inclined not to favor a particular sector at the moment of loan approval.

Mexican institutions, in turn, placed more emphasis on industry and commerce.

Which SME sector does your bank favor when approving loans?

Significative differences-by region -%-

	<i>Mexico</i>	<i>Central America and Caribbean</i>	<i>South America</i>
No priority	--	20	44
Commerce	33	26	20
Industry	33	14	11

The large financial institutions do not appear to set priorities; medium-sized ones favor industry, and small ones: services.

What type of SME sector does your bank favor when approving loans?
Significant difference -by size -%-

	<i>Small banks</i>	<i>Medium banks</i>	<i>Large banks</i>
No priority	26	30	54
Industry	10	20	4
Services	15	5	8

4.7 Types of SME services and loans

Working capital financing is the main service offered by Latin American banking institutions to the SME sector.

In the previous surveys, the different types of SME loans in the region dropped from four to three.

The drop in mortgage loans and account advances, as well as the greater weight assigned to the demonstration of a firm's solid position, is correlated with the focus on preventing default in payments due to the drop in the sector's activity.

Half of the institutions surveyed report that they offer working capital financing to SMEs in their respective countries.

What services are being evaluated/developed for the SME sector?
Multiple answers -%-

Finance working capital	51
Lines of credit	32
Payment of utilities	13
Outside assessment	12
Payroll	11
Deposits	9
Corporate credit/debit cards	7
Owners' credit/debit cards	6
Treasury	3
Other service	22

Other services mentioned were:

"Acquisition of investment goods."

"Opening bank accounts."

"Electronic banking."

"Capturing deposits."

"Training programs."

"Seasonal costs."

"Discounted checks, overdraft facilities, and purchasing checks."

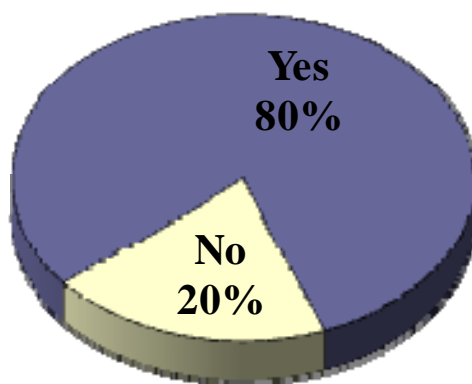
"Financing for payment of seasonal bonuses and other bonuses."

"Improvement in collection and payment services."

"Non-financial services such as product marketing network."

From the perspective of the banks, many reported **a significant demand by SMEs for loans** from the banking institutions: eight out of ten respondents affirmed that SMEs approach the institutions to apply for loans.

Do SMEs come to the bank to apply for a loan?



Approximately 92% of large banks respond affirmatively, a proportion that decreases with the size of the institution.

However, in the current situation, the range of loan type available for these companies decreases: the average number of types of SME loans offered dropped from four to three.

Five out of ten institutions surveyed cite loans for working capital, in first place in the types of loans granted to SMEs. There were fewer mentions of mortgage loans, account advances, and discounts in commercial instruments.

What type of loans does your institution offer for SME development?

- Multiple answers % -

	2004	2006	2008
Working capital	--	--	48
Financial loans	68	58	43
Mortgage loans	57	62	24
Leasing	15	22	21
Car loans	45	37	21
Cash advance	27	55	18
Checking accounts	--	--	18
Discount in commercial instruments	36	42	17
Factoring	13	15	13
Warrants	7	4	8
Refinancing for international trade	--	--	5
Reciprocal guarantee society	7	17	3
Business cards	--	--	3
Other	6	21	27
Prefer not to respond	--	--	9
Average	3.1	3.6	2.8

Responses included:

“Medium- and long-term credit with real guarantees.”

“Acquisition of fixed assets.”

“Seasonal letters/ revolving lines of credit.”

“Purchase of capital goods and cattle.”

“Credit for infrastructure and land and equipment.”

“Local loans.”

“Direct loans.”

“Amortizable loans.”

The bigger the bank, the wider the range of loans. While large institutions on average mention four types, small institutions mention only two.

The **larger banks** offer significantly more credit for different purposes: **working capital, discounts of commercial instruments, checking accounts, and factoring.**

What type of loans does your institution offer for SME development?

Multiple answers

-By size % -

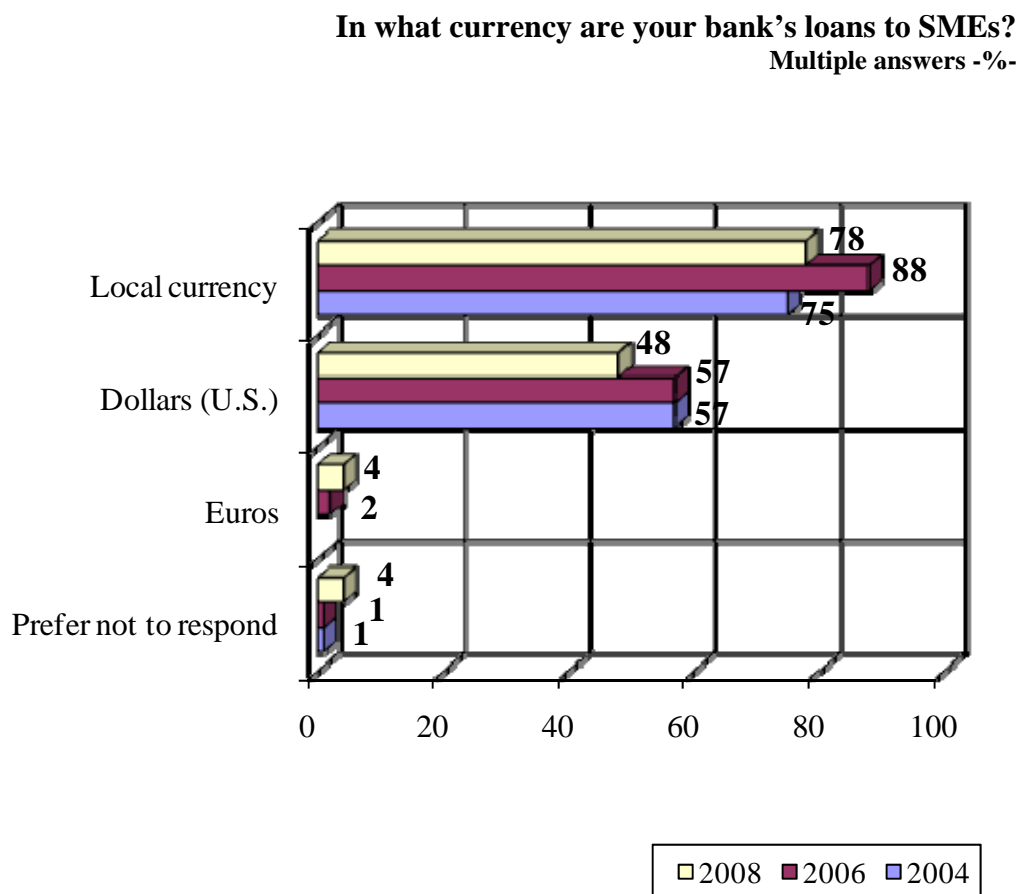
	<i>Small banks</i>	<i>Medium banks</i>	<i>Large banks</i>
Working capital	28	52	71
Financial loans	36	48	46
Mortgage loans	18	30	25
Leasing	20	20	25
Car loans	18	21	29
Cash advance	10	21	25
Checking accounts	5	18	38
Discounts in commercial instruments	10	9	42
Factoring	13	14	12
Warrants	8	9	8
Refinancing for international trade	8	2	4
Reciprocal guarantee society	3	--	8
Business cards	--	2	8
Average	2.1	2.8	3.7

Financial institutions considered to be leaders in the SME sector are more likely to mention the entire range of loan types.

Another noteworthy point is the connection between the loans granted to SMEs for working capital with those institutions that consider the administrative costs of dealing with SMEs as not high.

4.7.1 Currency type

Eight out of ten banks affirmed that they offer loans in local currency. Financing in dollars dropped nine points compared with 2006. Loans in euros remained steady at a low level: 4%.



The number of loans in local currency increases with the size of banks, but loans in dollars do not show significant distinctions according to size.

In what currency are your bank's loans to SMEs?
Multiple answers
-By size %-

	<i>Small banks</i>	<i>Medium banks</i>	<i>Large banks</i>
Local currency	64	82	92
Dollars (US)	49	50	42
Euros	3	5	4

4.7.2 Requirements

The **requirements** that banks have for SMEs to qualify for loans vary, with greater emphasis on the demonstration of the applicant's **solid position**.

The banking institutions' key requirements for approval of an SME loan are information on the company's cash flows and the company's realistic perspectives, as well as information on the company and its sector.

The **solidity** that the company can demonstrate, with feasible financial statements and cash flows that reflect its strong position, are mentioned more often in the 2006 survey as the main requirement at the moment of deciding whether to approve a SME loan.

These requirements show a 10-point increase over 2006.

What are the requirements that your bank always, almost always, or never has before approving a SME loan?
-%-

	<i>Always</i>	<i>Almost always</i>	<i>Never</i>
That the SME's cash flows are robust	79	13	8
That the financial statements are feasible	78	14	8
Firsthand knowledge of the SME and the environment in which it operates	71	22	7
That it has a previous credit history with punctual repayment	69	22	9
That collateral cover at least the amount of the loan	56	35	9

As bank size increases, the requirement that the company applying for the loan prove solidity increases as well.

Conversely, the credibility of the SME's financial statements and the knowledge about the firm and the context in which it operates is important irregardless of the size of the institution.

What are requirements that your bank always, almost always, or never has before approving an SME loan?
Significant differences-By size %-

	<i>Small banks</i>	<i>Medium banks</i>	<i>Large banks</i>
That the firm's cash flows are robust	72	77	96
That there is a credit history of previous loans paid punctually	64	71	75

In the previous surveys, the question on guarantees was more general. In this survey, in order to obtain more precise data, the questions asked about the specific guarantees required for approval of SME loans.

The institutions on average accept two types of guarantees.

Mortgage loans were mentioned by eight out of ten respondents. In a distant second place were car loans.

Even if the question is not the same, a change was noted with respect to the 2006 survey, in which half of the cases accepted public sector securities, whereas this time the number dropped to only one in ten.

What type of guarantee does your bank accept for SME loans?
Multiple answers -%-

Property	78
Movable assets owned by beneficiary company	40
Third-party collateral	25
Deposit accounts	21
Inventories	17
Public sector security	10
Other	15

Other guarantees accepted are:

- *Fixed-term deposits*
- *Bearer checks, term deposits, stand by, coupons,*
- *Co-debtors*
- *Trust funds.*

Acceptance of real estate/personal property is greater among small and medium-sized banks, while movable assets and third-party assets increase among medium-sized and large banks.

Public sector securities appear to be more common in the larger institutions.

Deposit accounts are more common in small banks.

What type of guarantees does your bank accept in order to provide SME loans?

Multiple answers

-By size %-

	<i>Small banks</i>	<i>Medium banks</i>	<i>Large banks</i>
Property	85	79	68
Property assets owned by the beneficiary company	35	42	42
Third-party collateral	20	24	32
Deposit accounts	35	12	21
Inventories	20	15	16
Public sector security	--	9	21

Immovable guarantees are more accepted by Central American and Caribbean banks – 86% vs. 76% for South America and 60% for Mexico – and movable assets in South America and Mexico.

Also, 60% of the officials from Mexican institutions mentioned third-party collateral, compared to 24% in South America and 18% in Central America and the Caribbean.

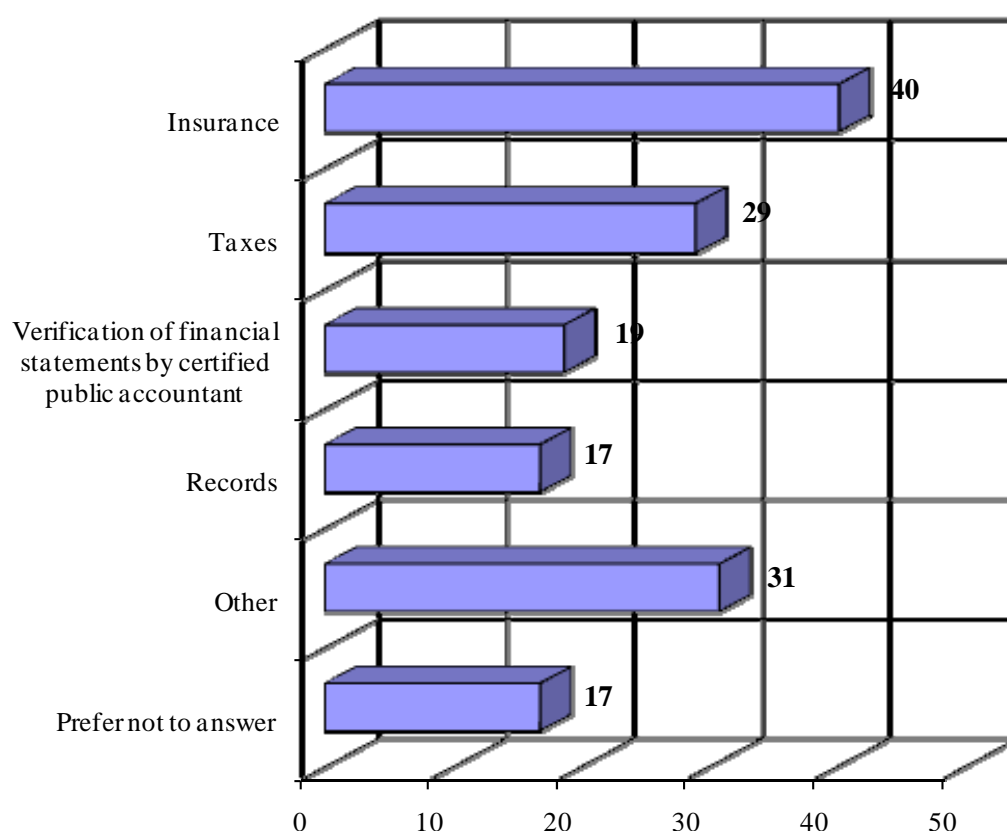
4.8 Loan costs for SMEs

Besides interest rates, the banks mention, as in 2006, insurance and taxes in calculating the loan costs that SMEs must pay. But in the 2008 survey, verification of financial statements by certified public accountants must also be added. Two out of ten surveyed mention this factor.

One aspect that differs between the 2006 and 2008 surveys is the uncertainty about new loan costs for SMEs, which rose from 1% to 17%.

Apart from the interest rate, what other costs do SMEs face in applying for a loan?

Multiple answers -%-



(Other: May include application fee, disbursement fee, procedural fees, administrative expenses, import expense fee, among others.)

Medium-sized banks put more emphasis on insurance. Taxes received more mentions among medium-sized and small institutions.

Verification of financial statements by certified public accountants does not show significant differences in terms of bank size.

Apart from the interest rate, what other costs do SMEs face when applying for a loan?

Multiple answers
Significant differences--by size %-

	<i>Small banks</i>	<i>Medium banks</i>	<i>Large banks</i>
Insurance	31	55	29
Taxes	31	32	21

Many respondents from South American banks mention taxes as an integral aspect of costs, while the Mexicans mention insurance and records.

Insurance is also mentioned by respondents from South American institutions.

Apart from the interest rate, what other costs do SMEs face when applying for a loan?

Multiple answers
Significant differences--by region %-

	<i>Mexico</i>	<i>Central America and Caribbean</i>	<i>South America</i>
Insurance	50	34	42
Taxes	17	14	38
Verification of financial statements by certified public accountant	--	29	15
Records	33	14	17

4.9 Risk Assessment Technologies

Along with the importance given to the demonstration of solidity by the company applying for a loan, financial statement assessment appears in first place of importance among the risk assessment techniques. And its importance is independent of bank size.

At the same time, four out of ten mentioned the analysis of assets and validation of financial statements, including cash flow and analysis of assets.

Credit scoring is used at three out of ten institutions.

Which of these aspects are part of your bank's procedure to analyze SME loans?
Multiple answers -%-

Financial statement assessment	60
Assets base	39
Validation of financial statements including cash flow	37
Credit scoring	35
Analysis of owner's equity	12
Other	5
Prefer not to respond	13

The validation of financial statements and analysis of assets increase with the increasing size of the bank. Large and medium-sized banks are more likely to implement credit-scoring methodology.

Which of these aspects form part of your bank's procedure to analyze SME loans?
Multiple answers
Significant differences -by size -%-

	<i>Small banks</i>	<i>Medium banks</i>	<i>Large banks</i>
Financial statement assessment	59	66	50
Assets base	33	39	50
Validation of financial statements including cash flow	33	39	42
Credit scoring	16	48	42

The analysis of financial statements and assets occurs more in South American banking institutions.

4.10 Banks' limitations in financing SMEs

Along with the importance placed on a company's solidity, the company's difficulty in demonstrating solvency for repayment is evaluated as a significant barrier for access to credit by eight out of ten surveyed, 13 points higher than in the 2006 survey.

Six out of ten respondents mention various difficulties with guarantees as obstacles to obtaining loans, such as value and quality, and the difficulty of taking possession in the case of non-payment. They also mentioned the instability of the economic sector in which they operate and debts already incurred with other financial institutions.

Indicate the importance of these statements in your bank as *barriers to accessing credit* for SMEs
-% outlook-

	<i>Not important</i>	<i>Slightly important</i>	<i>Somewhat important</i>	<i>Very important</i>	<i>Prefer not to respond</i>
Difficulty in demonstrating solvency for repayment	2	1	9	79	8
Unstable business	1	--	21	65	1
Difficulty in taking possession of the guarantee in the case of default	1	7	18	65	9
Debt with other financial institutions	4	7	16	64	8
Lack of guarantee / difficulty in verifying quality/value of guarantee	2	8	18	64	7
SMEs' faulty corporate management (lack of financial statements, lack of transparency)	1	9	24	58	7
Informality	3	10	35	45	7

The larger the bank, the more variables there are that function as significant obstacles to granting loans.

Faulty corporate management in the SMEs is the barrier that most differentiates big banks from small banks.

Indicate the importance in your bank of these statements as a *barrier to accessing credit* for SMEs

Very important
Significant differences—by size -%-

	<i>Small banks</i>	<i>Medium banks</i>	<i>Big banks</i>
Difficulty demonstrating solvency for repayment	74	82	83
Unstable business	59	71	67
Difficulty taking possession of the guarantees in the case of default	62	64	75
SME's faulty corporate management	46	61	71
Informality	41	43	54

4.11 Co-financing with international organizations

As in the 2004 and 2006 surveys, equity capital continues to be the main source of funding for financing SMEs, although it is mentioned less than in the previous survey.

Government-backed funding has increased, as well as funding from international financial organizations and other banks. Capturing deposits continued to drop sharply since 2004.

How does your bank seek funds for medium- and long-term SME financing?

Multiple answers -%-

	<i>2004</i>	<i>2006</i>	<i>2008</i>
Equity capital	65	65	49
Capturing deposits	68	33	20
Government	5	8	16
International financial organizations	10	9	15
Other banks	6	4	15
International lines	15	14	13
Central Bank	2	15	7
Wholesale banks	6	4	1
Other	9	11	12
Prefer not to respond	10	7	17
Average	2.0	1.7	1.6

Respondents mentioned other options:

“Development financial agencies.”

“Multilateral agencies.”

“Medium- and long-term bonds.”

“Deposit holder and second-tier bank lines.”

And also: *“There is no medium- and long-term financing.”*

This survey verifies that the use of an institution’s equity capital increases significantly with the size of the bank.

Also, the larger institutions report greater access to capturing deposits and financing through international financial organizations and other banks.

How does your bank seek funding for medium- and long-term financing for SMEs?

**Multiple answers
Significant differences—by size -%-**

	<i>Small banks</i>	<i>Medium banks</i>	<i>Large banks</i>
Equity capital	28	52	75
Capturing deposits	15	18	29
Government	13	18	17
International financial organizations	13	14	21
Other banks	15	11	21
International lines	15	16	4
Central Bank	5	11	4

In this survey, funding through equity capital, which in 2006 was greater among South American banks, does not vary significantly between regions.

The Mexican banks give significant weight to obtaining government-backed funding for SMEs as well as from other banks.

Central America and the Caribbean are the regions that most benefit from international financial organizations.

How does your bank seek funds for medium- and long-term financing of SMEs?

Multiple answers

Significant differences-by region -%-

	<i>Mexico</i>	<i>Central America and Caribbean</i>	<i>South America</i>
Equity capital	50	49	49
Capturing deposits	17	17	21
Government	33	11	17
International financial organizations	--	20	14
Other banks	33	17	12
International lines	17	17	11
Central Bank	--	11	6

In this survey the question on international organizations offering financing was asked only if the respondent had already mentioned this as a funding source.

The IDB Group continues to hold first place among international organizations financing banks for SMEs, followed by the Central American Bank for Economic Integration.

In this tracking survey a decrease was seen in funding from these organizations.

From what international organizations do you receive funds?

Multiple answers -%-

IDB Group	63
CABEI (Central American Bank for Economic Integration)	19
IFC (Internacional Financial Corporation)	13
CAF (Andean Promotion Corporation)	6
European bilateral (FMO, DEG, CDC)	6

Base: Those institutions that receive funding from international organizations

The larger the institution, the higher the incidence of financing from the IDB Group and the IFC.

From what international organizations do you receive funds?

Multiple answers

By size -%-

	<i>Small banks</i>	<i>Medium banks</i>	<i>Large banks</i>
IDB Group	40	50	100
CABEI (Central American Bank for Economic Integration)	20	17	20
IFC (Internacional Financial Corporation)	--	--	40
CAF (Andean Promotion Corporation)	--	17	--
European bilateral (FMO, DEG, CDC)	--	17	--

Base: Those institutions that receive financing from international organizations

4.12 Technical assistance

Levels of technical assistance remained steady compared with the 2006 values: eight out of ten banks surveyed expressed interest in receiving technical assistance to develop SME loan programs. Assistance would focus on updating lending methodology.

The trend toward co-financed technical assistance programs increased.

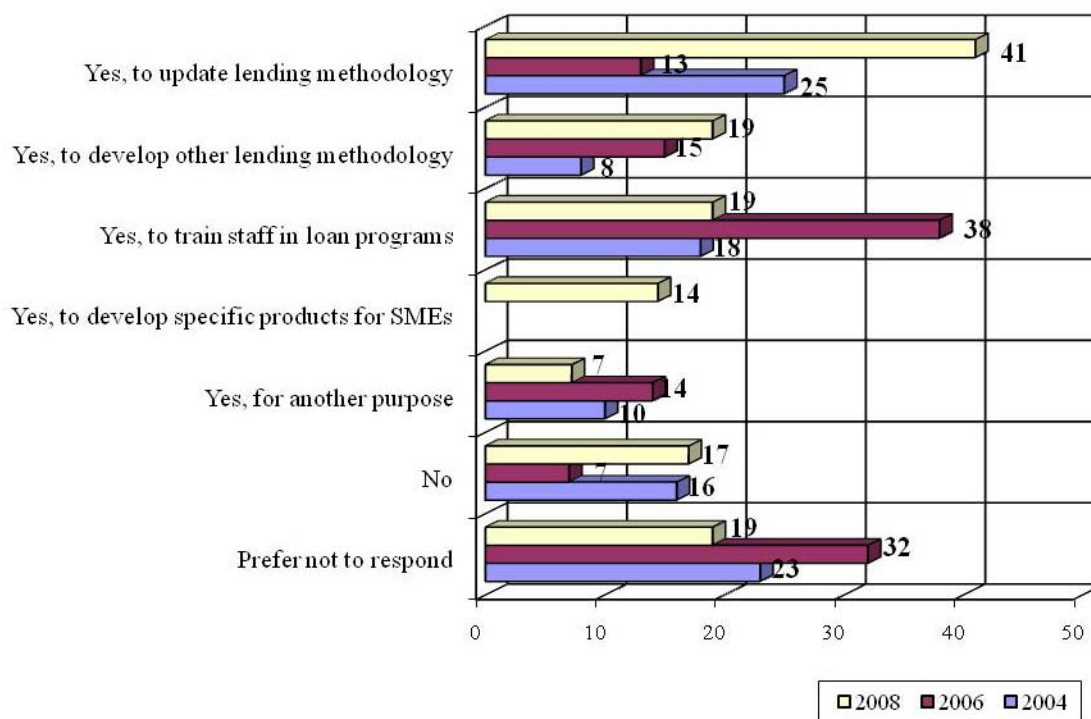
Specialization and training are two strategies that the institutions have implemented in these last two years. In effect, while the training of loan officers was a technical assistance priority in 2006, now **the focus has shifted to updating lending methodologies**, which had been in first place in 2004 and then dropped significantly in 2006 (from 25% to 13%).

Also, there was an increase in the number of banks interested in receiving technical assistance to **implement other lending methodologies** for SMEs.

The current survey included questions on developing specific products for SMEs and 14% of the respondents answered positively.

On the other hand, it is important to point out that **the lack of responses to the possibility of receiving technical reinforcement to help develop SMEs loans has decreased** considerably; 32% did not respond in 2006, while in 2008 the proportion decreased to 19%.

Would your bank be interested in receiving technical assistance to develop SME loan programs?
By year -%-



Opinions on the scope of the crisis have a significant impact on the trend toward receiving technical support. Interest in assistance to update lending methodology tends to be greater among those who affirm that the SME situation in the next two years will be the *same* or *slightly better*, and so, thus, they predict that the effects of this global problem will last less than a year.

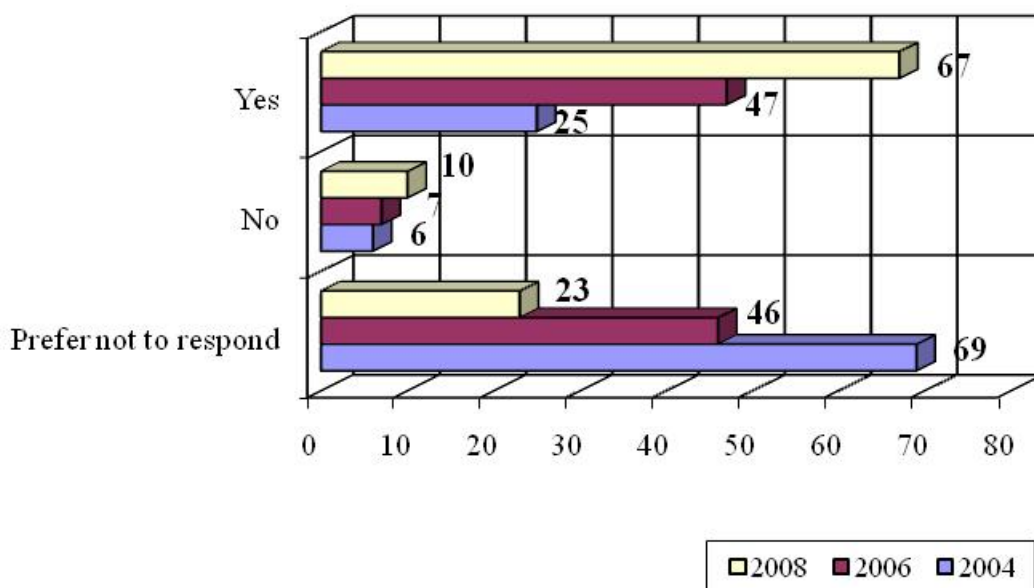
At the same time, institutions that focus on the commerce and service sectors show more interest in receiving technical assistance at the moment of SME loan approval.

The trend toward co-financed technical assistance programs has increased significantly since 2004.

Seven of every ten banks interested in receiving technical assistance would be willing to co-finance such a program, which is a 20-point increase compared with the 2006 study.

Along with these statistics, uncertainty also diminishes.

Would your bank be willing to co-finance a technical assistance program?
-%-



Base: Those institutions that are willing to receive technical assistance to develop an SME loan program.

Medium-sized banking institutions are the most prone to co-finance a technical assistance program (77%).

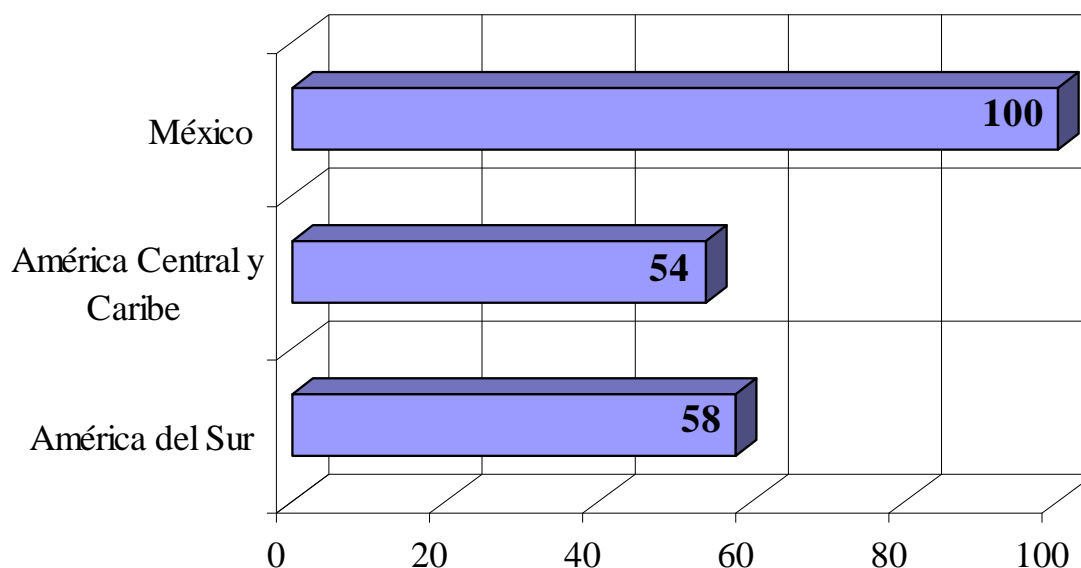
The willingness to provide the information requested by the international organizations in the case of receiving financial support continues at the levels shown in the previous survey: six of every ten institutions affirm that they are willing to meet this requirement.

Would your bank be willing to complete the information requirements requested by the international organizations in the case of receiving financial support?
By year -%-

	2004	2006	2008
Yes	77	60	59
No	6	5	10
Prefer not to respond	17	35	31

A shift was seen compared with the 2006 statistics. In the previous survey, Mexican banks appeared to be the least interested in meeting the information requirements requested by the international organizations in the case of obtaining financial support: today they respond that they are the most willing.

Would your bank be willing to complete the information requirements asked by the international organizations in the case of receiving financial support?
Significant differences- Positive responses by region -%-



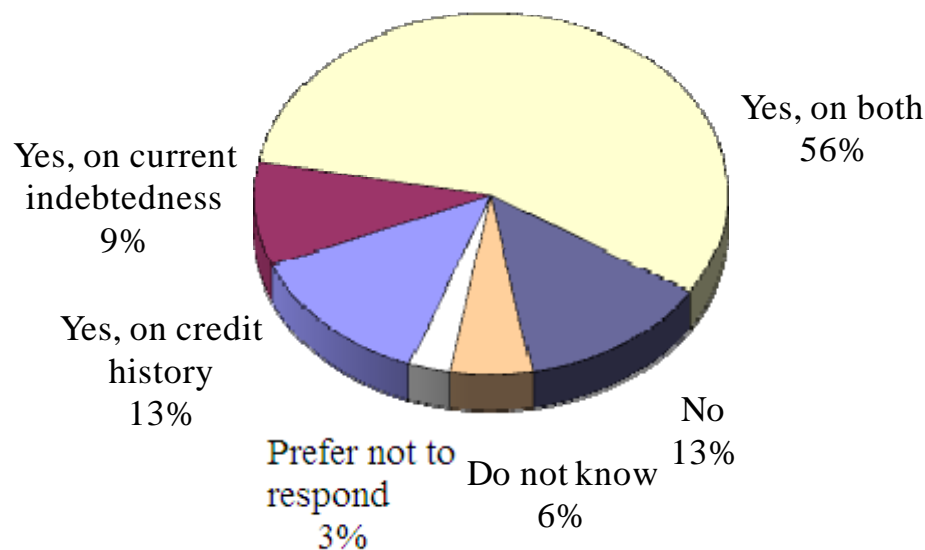
4.13 Databases on SME credit history and indebtedness

The general level of information in databases remains steady; in particular, databases on credit history and current indebtedness have increased.

Five out of every ten respondents indicated that their institutions have access to databases on SME financial statements: information on credit history and current indebtedness.

¿Is there a centralized database in your country (risk central) where financial institutions can access information on SMEs' credit history payments and current indebtedness?

-%-



Nine out of ten surveyed report the information provided by these databases to be **very useful**.

As in the 2006 survey, Central America, the Caribbean, and South America are the regions where respondents report there is information available on SME financial statements and indebtedness. In South America, however, there is a lack of such information.

In the Mexican institutions, as in 2006, there was evidence of greater knowledge of the existence of a database with information on SMEs' credit history, although a significant number were unaware of the possibility of accessing such a database.

Is there a central database (risk center) in your country where financial institutions can access information on SMEs' credit history and current indebtedness?

By region -%-

	<i>Mexico</i>	<i>Central America and Caribbean</i>	<i>South America</i>
Yes, database on credit history	33	17	9
Yes, on current indebtedness	--	9	11
Yes, both	33	60	56
No	--	9	17
Do not know	33	3	5

4.14 Fiscal incentives and public sector securities for SME loans

The presence of fiscal incentives and public sector securities, which had been defined as low in the 2006 survey, dropped further in the current survey.

Of every 10 surveyed:

- Four mention fiscal incentives for SMEs in their country.
- Four say there are none.
- Two respond "unknown."

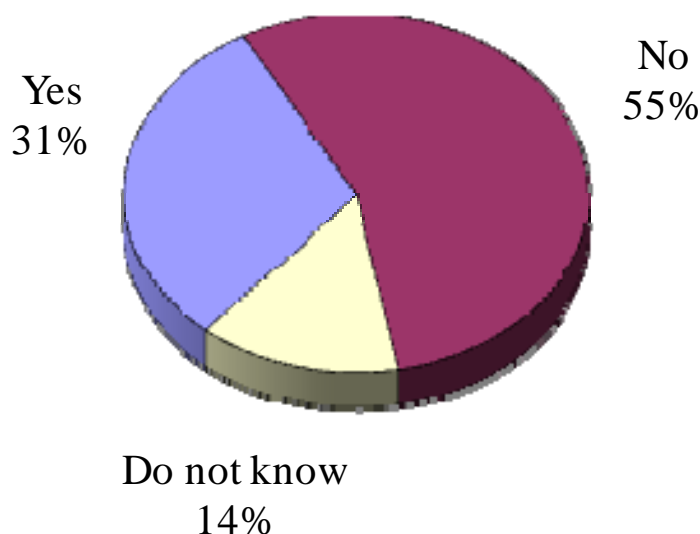
Is there some kind of fiscal incentives for SMEs in your country?

By year -%-

	<i>2006</i>	<i>2008</i>
Yes, there are incentives	47	39
No incentives	21	36
Only disincentives	--	1
Do not know	20	21
Other	8	1
Prefer not to respond	4	2

Only three out of ten institutions consulted participate in SME loan programs with public-sector securities. This proportion decreased significantly – 20 points – compared with 2006.

Does your bank participate in SME loan programs with public sector securities?
-%-



This drop is seen in different regions. Mexico and South America returned to their 2004 levels and Central America and the Caribbean – where significant increases were seen from 2004 to 2006 – showed a significant drop in loan programs with public sector securities.

Does your bank participate in SME loan programs with public sector securities?
Significant differences- Positive responses -%-

	2004	2006	2008
Mexico	63	80	67
Central America & Caribbean	34	48	20
South America	34	47	33

4.15 Microenterprises and remittances

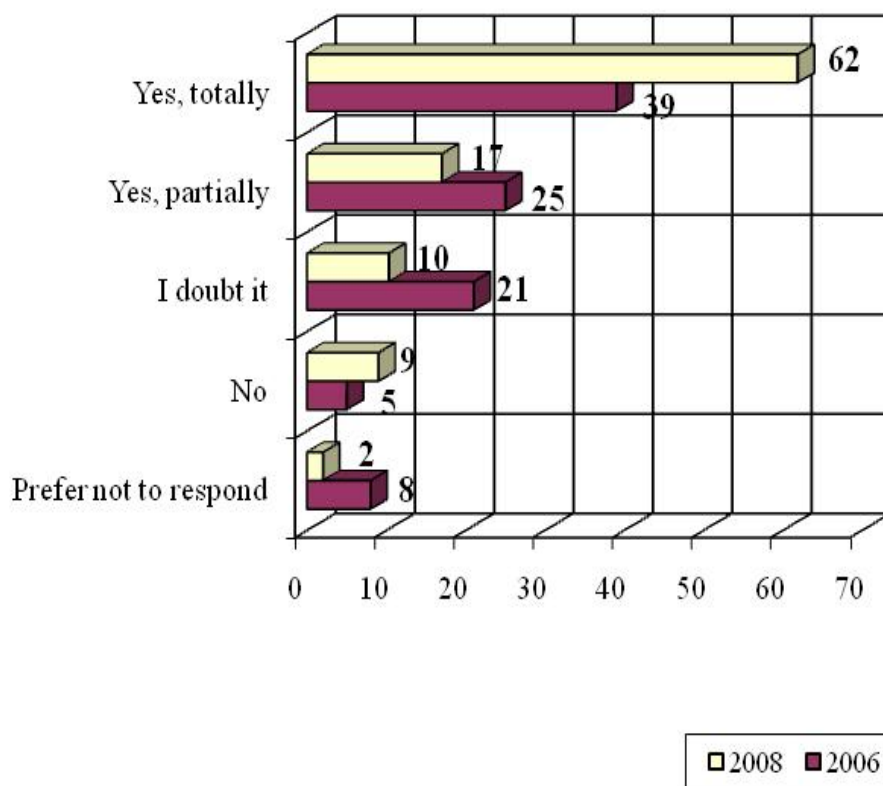
The 2006 survey included an exploratory section on microenterprises and remittances, since it is not part of the tracking's main objectives to research bank financing of SMEs.

This year microenterprises have grown as a potential business of interest. In 2006, six out of ten institutions considered them to be attractive. Today eight out of ten respondents share that view.

Half of the institutions have a specialized department/unit dedicated to individual remittances.

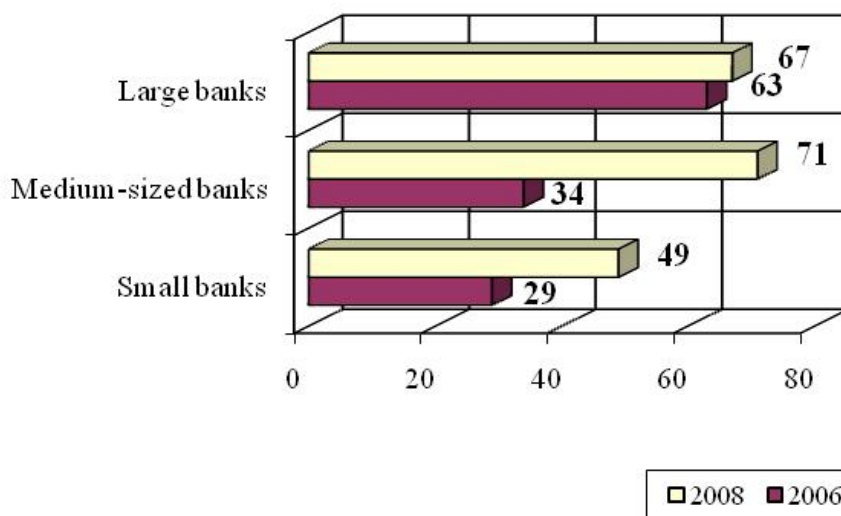
4.15.1 Microenterprises

Do you think that banking services for microenterprises could be an attractive business in your country?
-%-



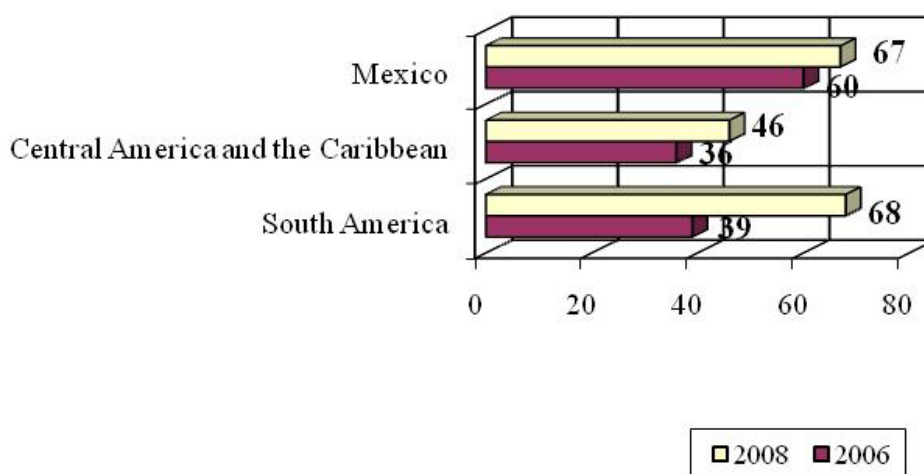
In terms of bank size, a pro-microenterprise view persists among large banks, and has increased significantly among medium-sized and small banks.

Do you think banking services for microenterprises could be an attractive business in your country?
Yes, totally



Microenterprises are viewed as potential business in South American and Mexican institutions. The positive perception of this economic sector increased significantly among South American banks.

Do you think that banking services for microenterprises could be an attractive business in your country?
Yes, totally
By region -%-



Of every ten banks surveyed, four already provide microenterprise services, and two were contemplating such services for the future.

Are you studying/undertaking or have you studied/undertaken developing services for microenterprises?
-%-

Yes, we already provide services for microenterprises	44
Yes, we are evaluating it and will probably begin providing services in 2009	12
Yes, but 3 to 5 years ahead	18
It is not part of our plans	21
Do not know (work in different area)	4
Other	1

Base: those institutions that consider microenterprise services to be attractive

A significantly larger portion of respondents from large banks affirm that they provide microenterprise services than medium-sized or small institutions.

Many small banks mentioned that such service is not among their projects.

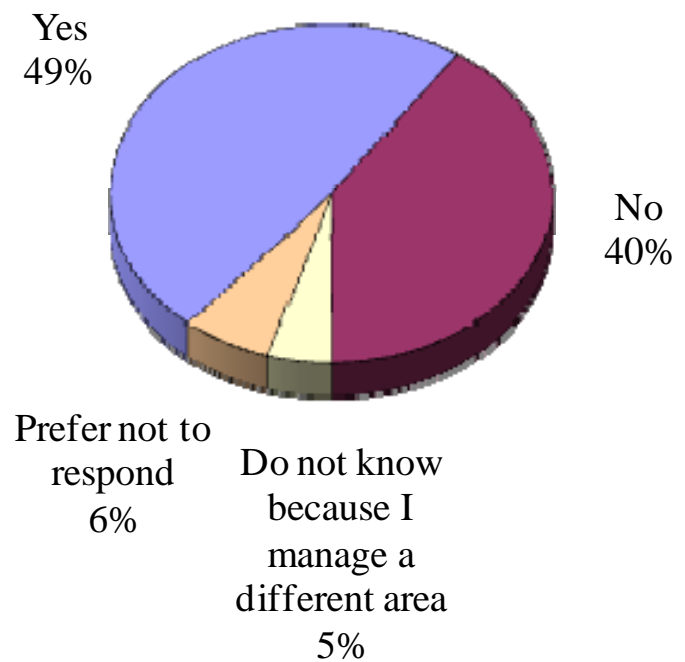
Are you studying/undertaking or have you studied/undertaken the development of services for microenterprises?
By size-%%-

	<i>Small banks</i>	<i>Medium banks</i>	<i>Large banks</i>
Yes, we provide services to microenterprises	24	41	71
Yes, we are evaluating it and will probably begin to offer services in 2009	12	15	5
Not part of our plans	32	26	--

4.15.2 Remittances

Half the banks have a department specialized in remittances.

Does your bank have a special remittance unit?



5. ANNEX

5.1 Calculating “bank size” indicator

“Bank size” indicator
-Absolute numbers -

		Number of branches			
		Up to 10	11 - 50	51 - 150	Over 151
Number of employees at each bank	Under 300	22	5	10	3
	301 - 999	1	18	4	--
	1000 - 4999	1	7	15	11
	Over 5000	--	--	--	10
	Total	24	30	29	24

- ✓ **Small banks:** Institutions with less than 300 employees, or more than 300 employees disbursed in up to 10 branches
- ✓ **Medium-sized banks:** Institutions with 301-5000 employees and 11-150 branches
- ✓ **Large banks:** Institutions with more than 150 branches

We can calculate the following frequency:

F_j: Frequency that each size (j) is observed in the sampling

X_j: Number of banks with size j

For j: “Small banks,” “Medium-sized banks,” and “Large banks.”

5.2 Certificate of Quality

D'ALESSIO IROL RECEIVED ISO 9001 CERTIFICATION

IRAM and IQNet have awarded ISO 9001:2000 certification to D'Alessio IROL for our quality management in the development of research procedures, focused on telephone surveys as well as online surveys and those conducted with PDA handsets.

D'Alessio IROL is the first firm on the entire American continent to receive accreditation for online surveys, showing that it is possible to be a leader in innovation and also maintain high service levels, from proposal to delivery of final report.

