

Presentation for OECD Conference

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What is ShoreBank?

- A fully-regulated U.S. commercial bank founded 30 years ago in Chicago to revive disinvested communities
- America's premier community development bank
- Holding company owns three commercial banks, four non-bank financial intermediaries and nine other subsidiaries and non-profits
- Total assets at year-end 2003: \$1.4 billion

"The Dual Bottom Line"

What is ShoreBank Advisory Services?

- The advisory arm of the ShoreBank Group disseminates and adapts ShoreBank's unique experience and models – both in the US and internationally
- Since 1990, active in managing small business lending programs through banks in Central and Eastern Europe and the Former Soviet Union
- Also active internationally in direct lending, micro-enterprise finance, microfinance institution assessment and development and SME loan and equity funds

ShoreBank Advisory Services SME Finance in CEE & FSU

****19 programs, 45 banks, 9 countries****

****More than 1,000 bankers trained****

****8,300 loans disbursed for over \$250 million****

****Average charge-off ratio less than 1.0%****

SAS History – SME Bank Lending Projects

SAS in Romania:

Small and Medium Loan Program of the Romanian-American Enterprise Fund (1996-1999)

- Pilot project began in selected branches of Banca Transilvania and Banca Romaneasca (BROM); eventually shifted into all branches of BROM
- Initial \$5 million RAEF loan fund leveraged to \$17 million with additional contributions from IFC, USAID and BROM itself
- After RAEF purchased controlling interest in BROM:
 - RAEF hired SAS consultant as Senior Advisor to BROM management on strategy development and restructuring
 - Team of local SAS-trained advisors drafted new Credit Policy, essentially adapting SAS' SME lending methodology for use in all BROM's lending
 - Loan portfolio purchased by BROM

EU SME Finance Facility

- EBRD credit lines to Partner Banks in ten EU ascension countries
- Technical assistance and performance bonuses funded by European Union
- Credit lines used for onlending to SME's:
 - Maximum loan amount: € 125,000
 - Maximum number of employees: 100

SAS in Romania:

EBRD SME Finance Facility at Banca Transilvania (2000 – 2003)

- Initial credit line of \$5 million increased to \$15 million by end of program and technical assistance extended to three years
- Formally trained all of BT's loan officers and credit department managers
- BT adopted SAS lending methodology for all of its SME lending
- Introduced streamlined procedures for "micro" loans
- SAS-trained personnel now hold important positions in Credit and Marketing Departments
- SAS consultant now advising BT on Risk Management Policy

SAS in Romania:

***EBRD SME Finance Facility at
Banca Comerciala Romana (2001 – 2004)***

- Rolled out lending program into all 41 judet within one year
- Initial credit line of €20 million fully disbursed within 18 months, increased to €40 million
- Technical assistance extended to third year
- BCR incorporated SAS cash flow format and methodology into general lending norms
- Credit scoring data collected and pilot model developed

***SAS in Romania:
EBRD SME Finance Facility at
Alpha Bank Romania (2002 – 2004)***

- Trained loan officers and introduced loan program in all bank branches within three months
- Initial credit line of €10 million increased to €20 million after 18 months, technical assistance extended for additional year
- Successfully developed new market segment in a traditionally upper market bank
- Assisted in revision of Credit Policy Manual
- Credit scoring data collection and model development ongoing

SAS – SME Finance Facility Projects

SAS – SME Finance Projects-Timisoara Specific

***SME Lending Consultancy in CEE & FSU –
General Assumptions:***

- Many banks are overly conservative in their approach to small businesses credits, perceiving them to be excessively risky and too time consuming
- Credit analysis is narrowly focused on historical ratios and collateral values
- SME accounting reports are often unreliable
- Loan officers lack selling skills, client-oriented approach to business development

As a result, the banks fail to capture a substantial portion of this market

***SME Lending Consultancy in CEE & FSU –
Domestic Credit to the Private Sector as a % of GDP:***

CEE markets are generating substantial cash flows that are not being credited by the local banking sector

***SME Lending Consultancy in CEE & FSU –
Lending Philosophy:***

- Cash flow-based – Attempt to measure the client's real capacity to generate future cash flow for servicing debt
- Character based – Quality and experience of management
- Project-based – Is this a well-founded business with a long-term future?
- While important in the evaluation process, we place less emphasis on collateral values than on the items above
- Analysis and processing of small loans must be efficient in order to be profitable

***SME Lending Consultancy in CEE & FSU –
Standard Approach:***

- Flexible and collaborative project implementation:
 - Working together with the bank to determine needs
 - Introducing improved SME lending methods within existing bank structures
- Combination of formal seminars and on-the-job training
- As strong credit skills are transferred, shift focus to processes
 - Training in business development and selling skills
 - Analysis and implementation of Credit Scoring

The ultimate objective is to help make SME lending a more profitable business line for the bank through increased market share and efficiency improvements

Observations & Recommendations

- Banks need to take more risk***
- Implement formal Monitoring and Risk Management Programs***
- Decentralize loan procedures***
- Utilization of MFI's***