

Credit Supplementation Institutions: Going beyond Guarantee for SMEs

by

Chih-peng CHEN

(Section Chief Rating System Sec. Review Dept. for Simplified Cases)

Angie Kao

(secretary to president)

Agenda

- **SMEs in Taiwan**
- **Outline of Taiwan SMEG**
- **State of the Operations**
- **Performance**
- **Going beyond Guarantee for SMEs**

SMEs in Taiwan

Statistics of SMEs in Taiwan

- **No. of Enterprises of SMEs: over 1.4 million**
 - SMEs/All Enterprises (%): **97.7%**
- **Annual Sales: NT\$11.76 trillion**
 - SMEs/All Enterprises (%): **30.7%**
- **Employed by SMEs: 8.81 million persons**
 - SMEs/All Enterprises (%): **78.2%**

Problems and Suggested Measures of SME Financing

Problems

Short of proven financial statements and transparent information

Lack of knowledge and skills of financing

Short of collateral

Suggested Measures

Financing Service Companies or SMEA - help SMEs establish proper accounting system to improve financial structure

**Choosing Correspondent banks
Studying the tips of applying for loans**

Utilizing the credit guarantee mechanism

Outline of Taiwan SMEG

Profile of Taiwan SMEG

- **Establishment: 1974**
- **Nature: Non-profit organization**
- **Supervisory Agent: MOEA**
(Ministry of Economic Affairs)

TAIWAN
SMEG



Profile of Taiwan SMEG

- **Leverage:** Up to 20 times net worth (End of 2016: 10 times)
- **Employees:** 355
- **Net worth:** NT\$61.5 billion (End of 2016)
- **CFIs (Contracted Financial Institutions):60**
(with more than 3,600 branches)
- Taiwan SMEG acts as a bridge to connect banks and SMEs

TAIWAN
SMEG



Objectives & Functions(1)

Objectives:

Help SMEs which are **in normal operations**
but short of collateral secure bank loans
by **providing credit guarantees**

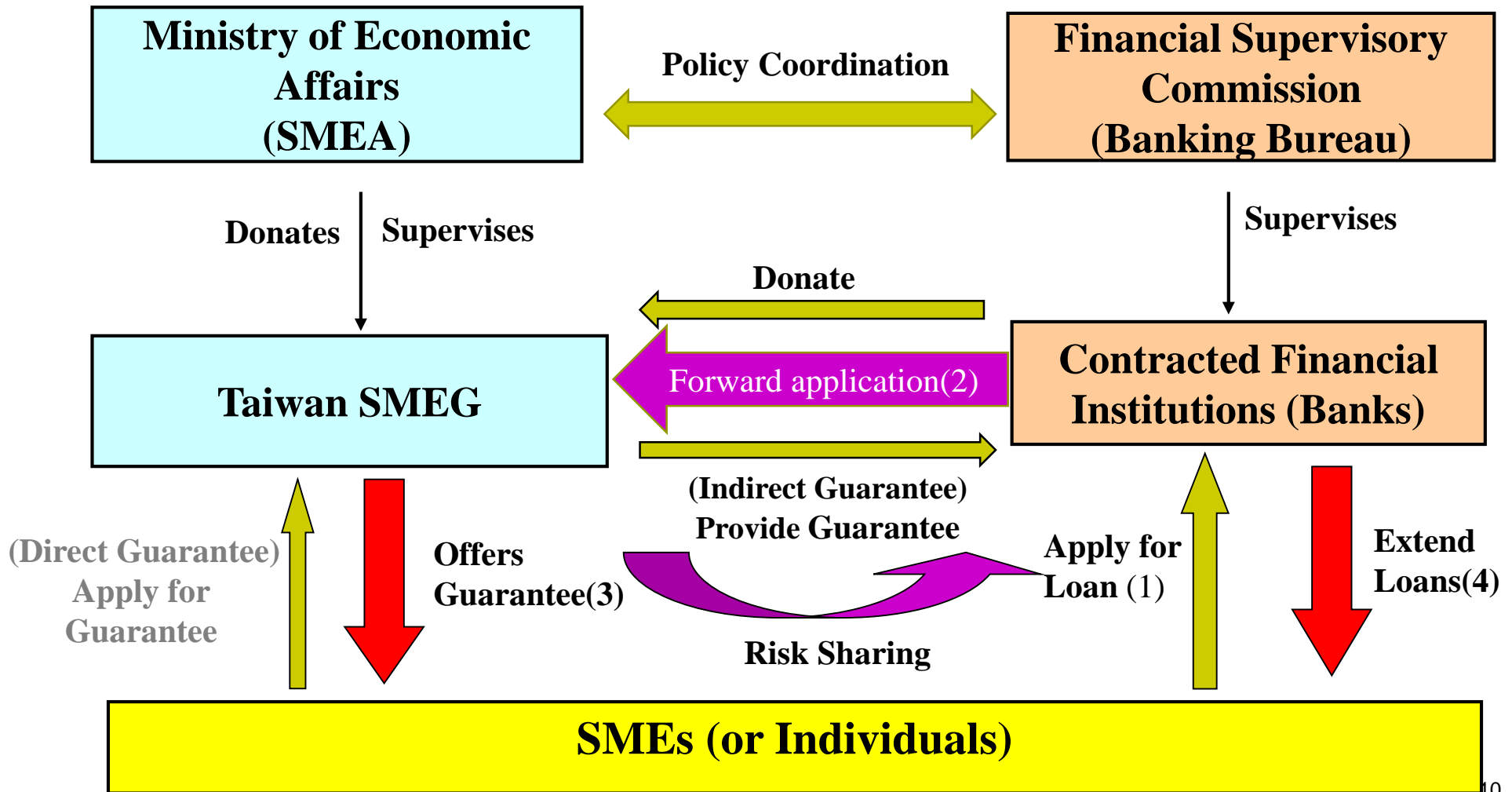


Objectives & Functions(2)

Functions:

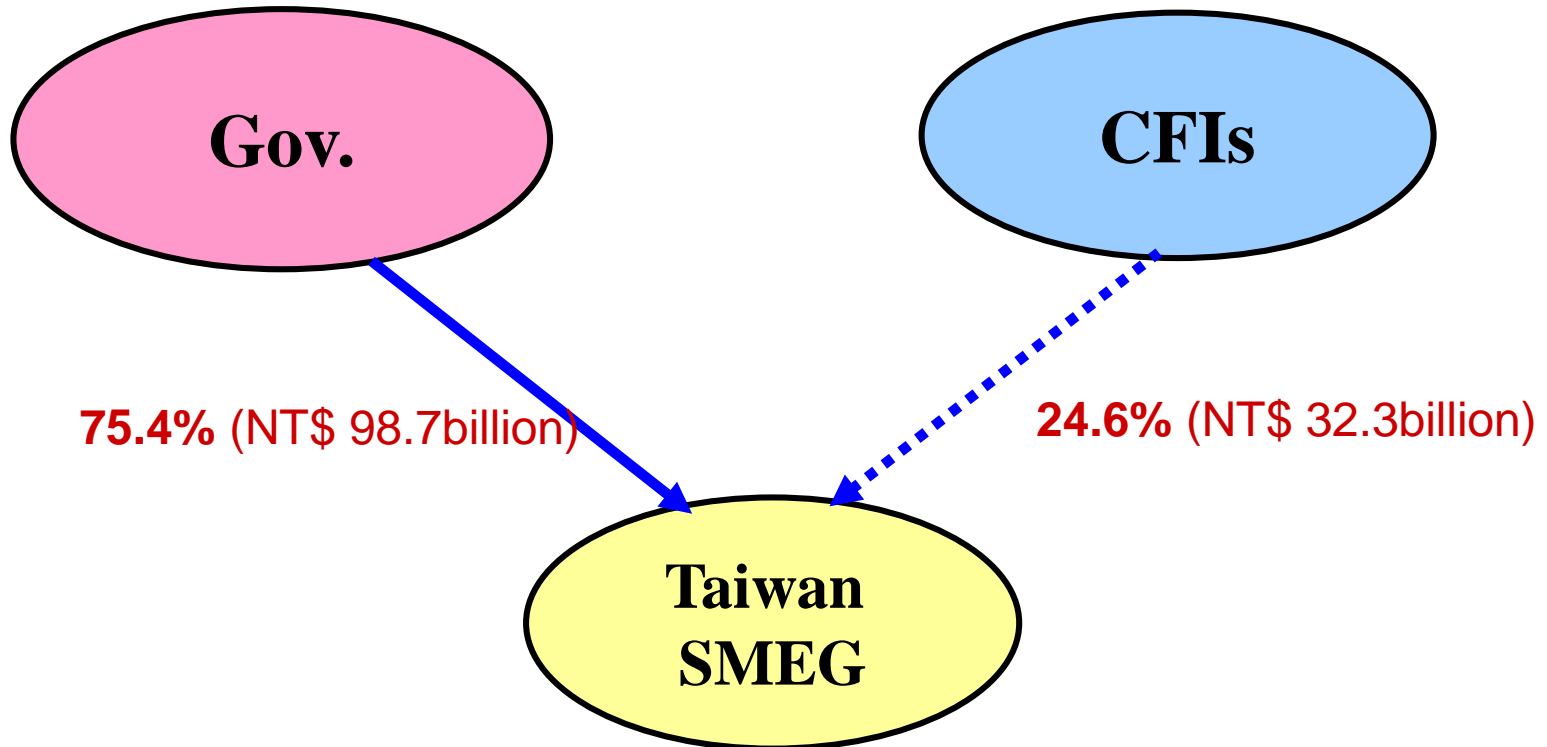
- **Enhance banks' willingness to finance SMEs**
- **Comply with the government policies**
- **Promote economic growth, create and stabilize employment**
- **Mitigate the impact of economic recession on SMEs**

Mechanism of Credit Guarantee System



Sources of Funds

Up to the end of 2016,
donations received have totaled **NT\$131 billion**



State of the Operations of Taiwan SMEG

Eligible Clients

**Enterprises in Manufacturing,
Construction, Mining or
Quarrying Industry**

**Max. capital: NT\$80million
or
Employees under 200 persons**

**Enterprises in
other industries**

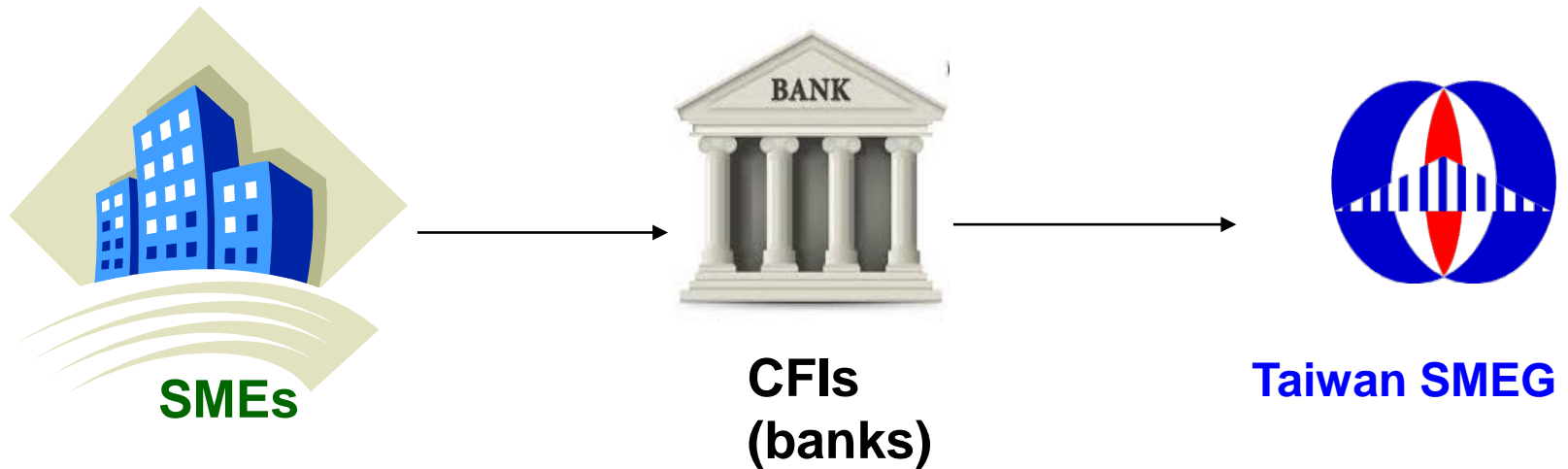
**Max. annual sales : NT\$100million
or
Employees under 100 persons**

**Start-up
Individuals**

- **Youth entrepreneurs (aged 20-45)**
- **Micro & small business owners
(aged 20-65, employees under 5 persons)**

Application Procedures (1-1)

■ Apply to Banks - **Indirect Guarantee**

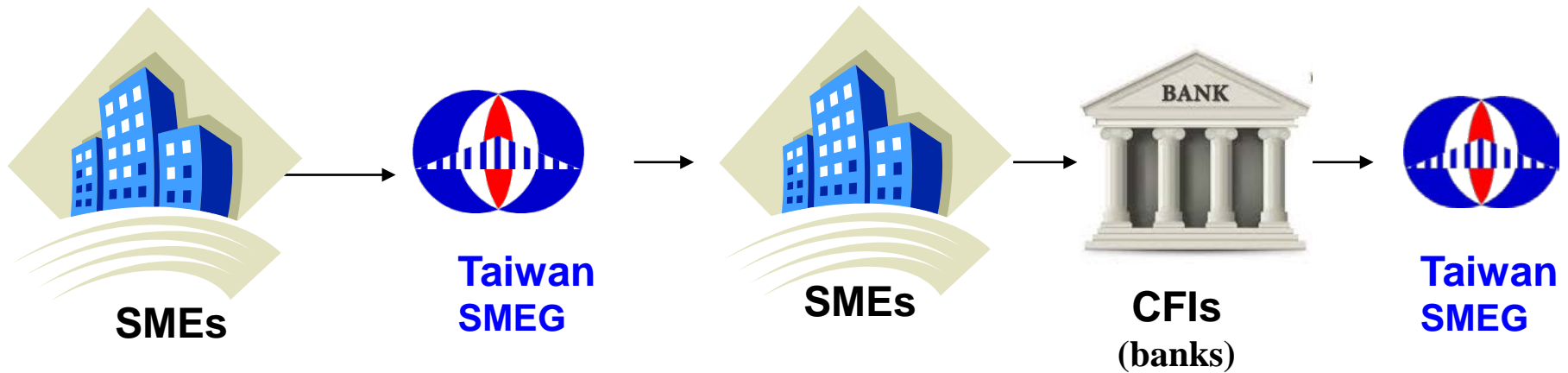


Application Procedures (1-2)

- **Apply to Banks -Indirect Guarantee**
 - Simplify the applications **via internet to speed up the procedures**
 - Extend guarantees to SMEs via **60 contracted financial institutions** with over **3,600 branches**
 - Reduce SMEs' financial burden **with lower guarantee fee rate**
 - **Around 99% cases were channeled through Indirect Guarantee**

Application Procedures (2-1)

■ Apply to Taiwan SMEG -Direct Guarantee

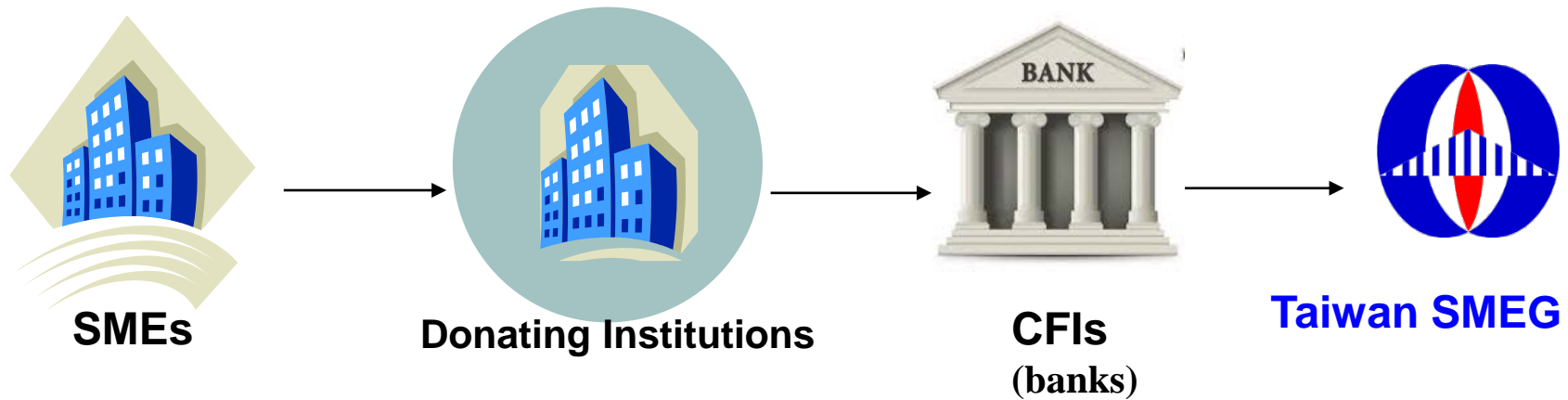


Application Procedures (2-2)

- **Apply to Taiwan SMEG :Direct Guarantee**
 - Comply with the **government industrial policies** and enhance development of **core industries to SMEs in early stage**
 - Offer credit guarantee to SMEs **with intellectual property** or SMEs **engaging in new technology industries**
 - **Complement the insufficiency of Indirect Credit Guarantee**

Application Procedures (3-1)

■ Apply to Donating Institutions: **Co-guarantee**



Application Procedures (3-2)

- **Apply to Donating Institutions: Co-guarantee**
 - Work with **big companies, government agencies** and **local governments** to help disadvantaged groups or local SMEs.
 - The donating institutions and Taiwan SMEG **jointly set up Co-guarantee Fund** to provide special credit guarantees to specific groups of SMEs or individuals.
 - **Risk Sharing of Co-guarantee Fund: 40/60 or 50/50**

Credit Amount, Coverage Ratio and Fee Rate

- **Maximum amount of guaranteed loans:**

- **NT\$120M** / Single Enterprise





- **Credit guarantee coverage ratio:**

- **Range: 50-95%**
- **Coverage ratio: average 75%** (90-95% for micro business and start-ups)

- **Credit guarantee fee rate:**

- **Indirect Guarantee: 0.5~1.5%**
(fixed 0.5% for micro business and start-ups)
- **Direct Guarantee: 0.5~3.5%**

Measures to Tackle Financial Crisis

		Before	Revised
Guarantee Coverage Ratio		63% (2008)	75%
Guarantee Amount		NT\$100million	NT\$120million
Additional Guarantees	Ex. Loans for SME's participation in Domestic Investment		
Loosen Regulations	Ex. Debt ratio, Loan-to-sales ratio,...		
Guarantee Fee Rate		0.75%	

Torchbearer Institute (TI)

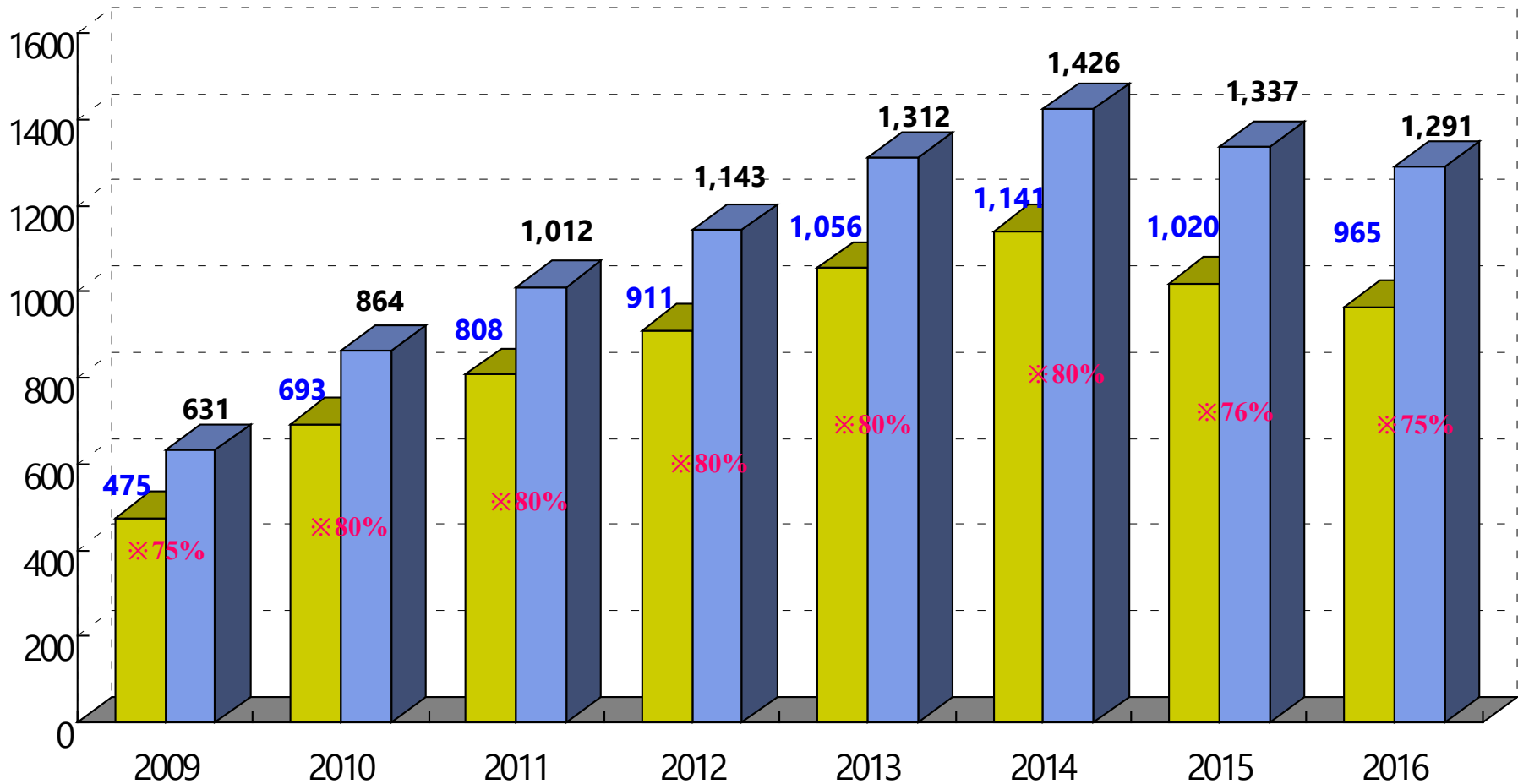
- From its inception in **July 2005** to **Dec. 2016**
- Forum: **26**; Lecture: **108**; Course: **91**
- Total participants: **22,706**



Guar./Loans (2009~2016)

billion NT\$

■ Amount Guaranteed ■ Amount of Loans Supported



Performance

(As of the end of 2016)

No. of SMEs became big firms: 2,694

Listed on stock market: 304

Listed on OTC* market: 417

*OTC: over-the-counter

}
}

721 enterprises

44% of the total (1,642 enterprises)

Outstanding Guaranteed Enterprises:

National Award of SMEs

National Quality Award

Rising Star Award

SME Innovation Research Award

}
}

920 SMEs

73% of the total (1,264 SMEs)

Going beyond Guarantee for SMEs

Going beyond Guarantee for SMEs

- Take active care to our clients
- Assist our clients to encounter difficulties in operation
- Launch Torchbearer Institution (TI)
- Establish Service Platform to reinforce direct interaction with guaranteed enterprises (to be completed soon)

Going beyond Guarantee for SMEs

-Take Active Care of Our Clients

- Visit our clients irregularly and provide service to meet their needs
 - Consultation
 - Disseminate guarantee information and advocate consultative resources of the government
 - Recommend candidates for important SME awards
- Take active care to guaranteed enterprises that suffered emergency from natural disasters or big events and provide resources to meet their needs

Going beyond Guarantee for SMEs

-Assist our clients to encounter difficulties in operation

- Set up Torchbearer Consultant Fund which was donated from successful enterprises and CFIs
- Subsidy consultant fee to our clients that encounter difficulties in operation and help them establish proper accounting system, strengthen their competitiveness or turn around.
- Max. amount of subsidy is NT\$300 thousand

Going beyond Guarantee for SMEs -Torchbearer Institution(TI)

- Torchbearer Institution(TI) was launched in July 2005, and serves as a virtual platform through which guidance and assistance can be provided to those SMEs in need.
- TI includes TI Forums, TI Lectures, TI Courses.

Torchbearer Institution

-TI Forums

- Invite governors, experts or academic scholars as keynote speakers
- Important information such as successful operational experiences of our clients , government policies, trend of economical development ...could be passed down and discussed through the forums
- TI Forums are held twice a year

Torchbearer Institution

-TI Lectures

- Owners or managers of SMEs are invited to TI Lectures through which opinions and ideas regarding strategies of operation or KSF of the business...could be shared and exchanged amount SMEs and financial institutions
- TI Lectures are held monthly

Torchbearer Institution -TI Courses

- TI Courses aims to improve SMEs ability of competitiveness, risk and financial management by the method of case study.
- TI courses are held once per two months

Torchbearer Institution -Performance

- From its inception in **July 2005** to **Dec. 2016**
- Forum: **26**; Lecture: **108**; Course: **91**
- Total participants: **22,706**





Going beyond Guarantee for SMEs

-Establish Service Platform (to be completed)

- Set up Service Platform to reinforce interaction and keep in touch with our clients
- Strengthen mutual understanding and make up insufficiency of direct contact with our clients due to Indirect guarantee approach.
- Guaranteed enterprises could check guarantee-relative information, such as guaranteed amount, coverage ratio, fee rate...through Service Platform
- Promote information to our clients for potential needs

Conclusion

We'd continue to carry out our mission

- Provide SMEs with diversified and all-around service in line with policies of governments
- Become the best partner for SMEs during each growth stage
- Enhance cooperation with banks and governments



Thank You!

