



CHECKLIST FOR EVALUATION OF SME FINANCE

This checklist serves as a reference for USG program officers when considering SME finance options. It contains a non-exhaustive series of questions relevant to three sources of SME finance. It is designed to help programmers identify and compare opportunities for SME finance market development or a package of interventions to incorporate in a unified SME finance project.

Key Questions	Yes	No	Comments/ Responses
Capital Markets			
1. Do SMEs seek either equity or debt finance in the capital markets?			
2. If yes, does the country have a competent securities regulator who can enforce rules concerning shareholder and bondholder rights?			
3. Are there credit-rating agencies and a credit-rating system applicable to SMEs?			
4. Have local banks used the domestic bond market as a source of liquidity to fund their SME portfolios?			
5. Are there domestic investors prepared to invest in shares or bonds of individual SMEs or bonds issued by financial intermediaries that lend to SMEs?			
Traditional Banking			
1. Are banks well-capitalized, prudentially sound, and adequately supervised (e.g., BASEL II compliant)?			
2. Do banks lend to SMEs on a significant scale? If not, what are the major obstacles cited?			
3. Does the country have effective collateral laws and registries, an efficient bankruptcy regime, and credit-recovery procedures that protect lenders, supported by reliable commercial courts?			
4. Is reliable credit information on SMEs available from public credit registries and/or private credit bureaus?			
5. Do banks have plans to increase activity in the SME sector through expansion of branch networks, development of new SME finance products, or other initiatives?			
Asset-Based Finance			
<i>A/R Finance, Factoring & POF</i>			
1. Do local SMEs have significant sales to clients with established credit ratings?			
2. Does the legal system recognize SME assets underlying asset-based finance as separate from the other assets of the SME in case of bankruptcy?			
3. Does the country have a collateral registry and lien system on which asset-based finance providers can rely?			
WHRs			
1. Does the country have a system of warehouses with adequate regulation that is trusted by banks?			
2. Do SMEs/small-scale farmers have adequate access to market information to make informed decisions on the optimal time to sell their commodities?			
3. Is there a system in place that allows SMEs/small-scale farmers to pool their commodities efficiently?			

Key Questions	Yes	No	Comments/ Responses
Leasing			
1. Do SMEs regularly use capital equipment that is suitable for leasing? Are there a sufficient number of potential users of the instrument to support an ongoing program?			
2. Are financial institutions prepared to consider the use of leasing?			
3. Does the country have an adequate leasing law? Can leased assets be legally repossessed?			
4. In case of bankruptcy, does the legal system recognize leased assets as separate from the borrower's other assets?			
5. Does the country have well-functioning collateral registry and lien system?			
DCA Guarantee Facilities			
1. Are there SME finance market imperfections and risks that could be mitigated by a DCA guarantee? Which SME finance product(s) are most likely to merit consideration?			
2. Is there a financial intermediary committed to expanding SME finance that has the solvency, liquidity, and management commitment to undertake a DCA guarantee agreement with USAID?			
3. Is it reasonable to believe that the use of guarantees will provide "additionality" (i.e., not simply replace unguaranteed financing that would have occurred in any case)?			

RESOURCES

There are numerous resources on SME finance that may be referenced to better understand the context, theory and practice of the questions and issues covered in this checklist. Primary resources used in the development of this checklist can be found in the bibliography section of *FS Series #4: Enabling Small and Medium-Sized Enterprise Access to Finance*. In addition, select websites recommended as "gateways" to further resources on SME finance and web accessible country-level data sources on SME finance are listed below:

Recommended Web Sites

CGAP Microfinance Gateway: <http://www.microfinancegateway.org/p/site/m/template.rc/1.11.47398/>

The International Finance Corporation: <http://www.ifc.org/>

The International Labour Organization: <http://www.ilo.org/global/lang--en/index.htm>

US Agency for International Development - Development Credit Authority:

http://www.usaid.gov/our_work/economic_growth_and_trade/development_credit/index.html

US Agency for International Development: microLinks: Microenterprise Learning, Information and Knowledge Sharing:

http://www.microlinks.org/ev_en.php

The World Bank: <http://www.worldbank.org/>

Country-level Data Sources on SME Finance

International Monetary Fund 2007 database on micro, small, and medium sized enterprises:

[http://www.ifc.org/ifcext/sme.nsf/AttachmentsByTitle/SMEDatabase.xls/\\$FILE/SMEDatabase.xls](http://www.ifc.org/ifcext/sme.nsf/AttachmentsByTitle/SMEDatabase.xls/$FILE/SMEDatabase.xls)

World Bank Doing Business Project: <http://www.doingbusiness.org/>

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