

## Appendix Q

### Task C Power Point Presentations

- SME Financing in China: Discussion on Reguaranty Policy Framework
  - Public Policy
  - Credit Reporting
  - Loan Scoring
- Ideas on Set-Up and Improvement of SME Credit Guarantee System
- Establishing and Developing the Ploicy Framework of SME's Credit Guarantee Association

Beijing Seminar on SME Finance  
October 30, 2001

ADB TA-The projects of supporting the development of SMEs of SETC

**SMEs Financing in China: Discussion on Reguaranty Policy Framework**  
(September-October, 2001, Beijing)

- Bringing forward of the policy creed of establishing credit guaranty and reguaranty system of Chinese SMEs
- International experience of reguaranty service
- Report on the research on credit guaranty and reguaranty of SMEs in Inner Monguia and Shanghai
- Financial problem of provincial reguaranty system
- Operation principle of provincial reguaranty institution
- Operation principle of central reguaranty institution



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**.Bringing forward of the policy creed of establishing credit guaranty and reguaranty system of Chinese SMEs**

**Several milestone documents:**

- In June, 1999, Guide Opinion on Establishing Pilot Credit Guaranty System of SMEs ( No. 540 [1999] of SMEs of SET, thereafter called Guide Opinion for short of SETC formally put forward the policy guide opinion on establishing and developing national system of credit guaranty of SMEs in China.
- In August, 2000, the Office of State Council issued to the lower levels No.59 document [2000], called Encouragement Policy for short, thought to be the first policy document of encouraging and promoting the development of SMEs coming on since the reform and opening-up of Chinese government, transmitting the notice of several policy opinions about encouraging and promoting the development of SMEs of SETC.
- In March 2001, SETC issued the Notice on The Problems Related to The Establishment of Credit Guaranty System of NMEs of The Country ( document no. 198 of SMEs of SET [2001] ), to put forward the basic conditions the guaranty institutions listed in the credit guaranty system of SMEs of the country should possess, therein one of the points is " see also the compulsory reguaranty of the credit guaranty institutions of NMEs of higher level"

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**II. International experience of reguaranty service**

Japan passed SMEs Credit Guaranty Insurance Law in 1989 ( amended in 1977), establishing the "Public House of Insurance of SMEs Credit Insurance" totally subsidized by the government. This Public House provides the classified "common insurance", "no guaranty insurance", "special small sum insurance", "insurance against social effects of pollution", "energy conservation insurance", "new technique practical insurance" as well as "modernization insurance". The common operation procedures are:

- Firstly all associations extend loan guaranty to qualified SMEs, financial institutions provide loan to these SMEs;
- Sector association signs guaranty insurance contract with the Public House on the basis of guaranty contract to pay premium according to the proportion;
- Financial institution reports in time to the sector association directly providing guaranty to ask for compensation when the SME accepting guaranty and loan breaches the repayment of the loan;
- The guaranty provider on one hand performs the compensation obligation to the financial institution according to the contract, on the other hand reports to the Public House to ask for the payment of the premium;
- After finishing the compensation procedures, the sector association becomes the creditor of the SME as the object of the guaranty contract to exert the recourse and pays reclaim money to the Public House according to the proportion after finishing the recourse.

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**Report on the research on credit guaranty and reguaranty of SMEs in Inner Mongolia and Shanghai**

Table1: Basic Condition of the business of three SMEs guaranty institutions in Inner Mongolia Autonomous Region ( RMB10,000, number )

Item	Inner Mongolia	Shanghai	Shandong
Number of institutions	3	1	1
Total assets	1,200	1,200	1,200
Total liabilities	1,200	1,200	1,200
Total loans	1,200	1,200	1,200
Total guaranty	1,200	1,200	1,200
Total premium	1,200	1,200	1,200
Total compensation	1,200	1,200	1,200
Total assets per institution	400	1,200	1,200
Total liabilities per institution	400	1,200	1,200
Total loans per institution	400	1,200	1,200
Total guaranty per institution	400	1,200	1,200
Total premium per institution	400	1,200	1,200
Total compensation per institution	400	1,200	1,200

Data source: our investigation. In review with the year-end data of late 2001.

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Table 2: Basic condition of the business of the SMEs guaranty institutions of 8 districts in Shanghai

Item	Yongpu	Yongpu	Yongpu	Yongpu	Yongpu	Yongpu	Yongpu	Yongpu
Number of institutions	1	1	1	1	1	1	1	1
Total assets	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Total liabilities	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Total loans	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Total guaranty	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Total premium	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Total compensation	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Total assets per institution	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Total liabilities per institution	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Total loans per institution	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Total guaranty per institution	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Total premium per institution	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Total compensation per institution	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200

1. Data source: our investigation. In review with the year-end data of late 2001.

2. The assets and liabilities of the institutions are in RMB10,000.

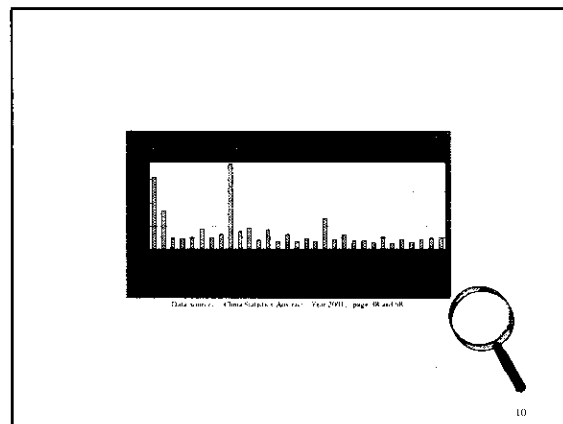
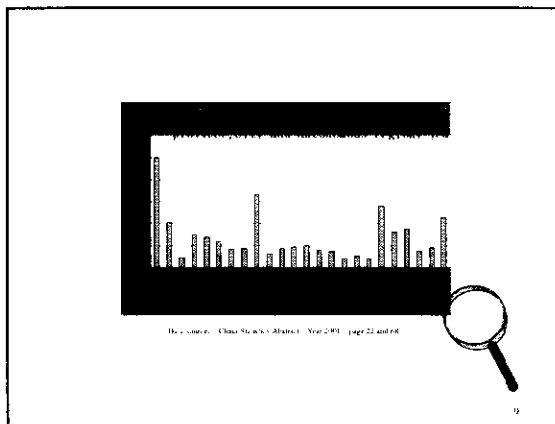
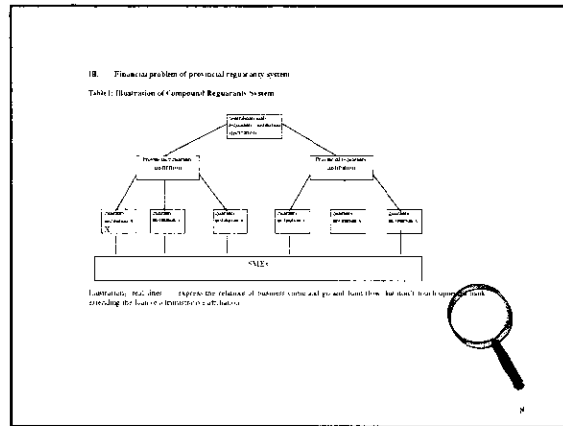
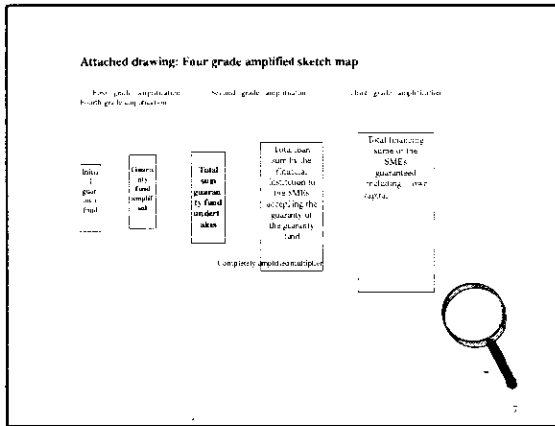
3. The assets and liabilities of the institutions are in RMB10,000.

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- Imbalance of the capital scope of the direct guaranty institutions, insufficiency of the absolute quantity;
- Full guaranty, effecting the amplified multiplier;
- Relative lack of the quantity of the "small enterprises" in SMEs, relative lowness of the popularization degree of guaranty, relative concentration of risk.



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**V. Operation Principle of Provincial Guaranty Institution (Policy suggestions)**

- Operate within a defined service area;
- Establish the criteria for local guaranty companies;
- Establish upper limit for project size;
- Organized as a non profit entity;
- Establish ratio of risk sharing;
- Establish standards for compulsory participation;
- Limit operations to re-guaranty activities, avoiding benefit conflict;
- Establish division of responsibilities between guaranty and re-guaranty functions;
- Establish as centralized function without branch operations;
- Promote spirit of informational transparency;
- Establish a personnel system that clearly defines responsibilities and accountability

**VI. Operation Principle of Central Guaranty Institution**

- Division of two functions: guaranty operations and capital support;
- Establish relation to specific needs of each provincial guaranty institution;
- Institutional orientation as opposed to SME orientation;
- Establish level of risk sharing and benefit sharing;
- Establish fee schedule;
- Establish guaranty payment and loan liquidation standards;
- Business scope: not providing guaranty service directly to the direct guaranty institutions, nor engaging in direct guaranty service business;
- Establish operation for assets securitization;
- Fund account management;
- Promote spirit of informational transparency;
- Establish a personnel system that centers on accountability and appropriate rewards

**PROGRAM PURPOSE**

*The purpose of a public sponsored program is to attain Public Policy Goals*

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**PUBLIC POLICY INFLUENCES PROGRAM STRUCTURE**

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**PUBLIC POLICY**

- ❖ Defines who is to receive the assistance
- ❖ Why the assistance will be given
- ❖ Who will be responsible for attaining the Public Policy Goals

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**PROGRAM STRUCTURE**

- ❖ Program structure must be designed with goals of Public Policy in mind
- ❖ Program structure must answer: How do we reach the clients that are to benefit from the Public Policy?

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**PROGRAM STRUCTURE IS INFLUENCED BY**

1. MAXIMUM LOAN AMOUNT
2. MAXIMUM GUARANTY PERCENTAGE
3. MAXIMUM GUARANTY AMOUNT

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- ❖ 4. SIZE STANDARDS
- ❖ 5. LOAN MATURITY
- ❖ 6. MAXIMUM INTEREST RATE
- ❖ 7. PERSONAL GUARANTEES & COLLATERAL
- ❖ 8. FEES & SUBSIDY

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***GREAT CARE MUST BE  
TAKEN IF MODIFYING  
PRUDENT CREDIT  
STANDARDS IN REACHING  
PUBLIC POLICY GOALS***

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***BEST PRACTICES***

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***MAJOR COMMITMENT TO  
OUTREACH EFFORTS BY  
BOTH LENDERS AND  
GUARANTOR***

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***TECHNICAL ASSISTANCE  
PROGRAMS TO  
STRENGTHEN AND  
IMPROVE  
CREDITWORTHINESS OF  
SMEs***

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***INCLUDE SMEs AND  
LENDERS IN DESIGN OF  
GUARANTY LOAN  
PROGRAMS AND GUARANTY  
DELIVERY SYSTEMS***

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***DEVELOP AND MAINTAIN  
PRUDENT AND CONSISTENT  
CREDIT ANALYSIS  
STANDARDS***

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**QUICK RESPONSIVE LOAN  
PROBLEM SOLVING**

**INCLUDING FREQUENT  
CONTACT WITH SME**

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**WELL-TRAINED LENDERS  
COMMITTED TO SMEs AND  
THE GUARANTY PROGRAM**

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**ENCOURAGE LENDER  
PRACTICES THAT REWARD  
RISK TAKING IN SUPPORT OF  
COMMITMENT TO SMEs**

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**CONSISTENCY**

**LACK OF CONSISTENCY LEADS TO:**

**CONFUSION  
INEQUITY  
LOSS OF PROGRAM INTEGRITY**

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**IN SUMMARY**

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**CREDIT GUARANTY  
PROGRAMS MUST HAVE:**

- ❖ **SPECIFIC PUBLIC POLICY GOALS**
- ❖ **UNIFORM POLICIES AND PROCEDURES**
- ❖ **SOUND PROGRAM OVERSIGHT STANDARDS**

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***CREDIT GUARANTY PROGRAMS MUST HAVE:***

- ❖ **CONTINUOUS LENDER & SME TRAINING AND COMMUNICATION**
- ❖ **LENDER INCENTIVES THAT WILL MAKE LOANS AVAILABLE TO SMEs**

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- ❖ **THINK - CREDIT EXTENSION BASED ON CASH FLOW NOT COLLATERAL**
- AND**
- ❖ **LONGER MATURITIES**

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***RE-GUARANTY LOAN PROGRAM***

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***RE-GUARANTY PROGRAM***

- ❖ **BRINGS CONSISTENCY TO PRC PROGRAMS**
- ❖ **IMPROVES GRADING OF THE GUARANTY**
- ❖ **ALLOWS FOR PROGRAM EXPANSION**
- ❖ **ENCOURAGES INFLUX OF CAPITAL**

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- ❖ **REDUCES GEOGRAPHIC RISKS BY CONSOLIDATING LOAN PORTFOLIOS ACROSS PROVINCIAL LINES**

- ❖ **ASSISTS IN IMPLEMENTING PUBLIC POLICY GOALS ACROSS GEOGRAPHIC LINES,**

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***OPTIONAL STRUCTURES FOR RE-GUARANTY PROGRAM***

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**#1**

**RE-GUARANTY SOUNDNESS OF A  
GUARANTY PROGRAM BY PAYING  
GUARANTIES IF TOTAL PROGRAM FAILS**

**#2**

**SHARE IN EXPOSURE OF INDIVIDUAL  
LOANS BY TAKING PART OF THE RISK**

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**#1**

- ❖ **IMPROVES QUALITY OF ORIGINAL  
GUARANTY TO THE LENDERS**
- ❖ **BRINGS NATIONAL STRENGTH TO  
GUARANTY**
- ❖ **DOES NOT ASSIST IN PROGRAM  
EXPANSION**
- ❖ **DOES NOT ENCOURAGE  
SECONDARY MARKET**

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**#2**

- ❖ **SPREADS RISK AMONG SEVERAL  
PARTIES**
- ❖ **ENCOURAGES SECONDARY  
MARKET**
- ❖ **INCREASES CAPACITY OF  
GUARANTY PROGRAMS BY  
ASSUMING PART OF THE RISK**

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**#2**

- ❖ **ASSISTS IN DECREASING  
GEOGRAPHIC & INDUSTRY RISKS**
- ❖ **GREATER OVERSIGHT  
RESPONSIBILITY**
- ❖ **GREATER PROGRAM  
INVOLVEMENT**

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***EVALUATE EACH LOWER  
LEVEL PROGRAM***

- ❖ **Assure all lower level programs are  
being operated in sound manner**
- ❖ **Do not re-guaranty existing loan  
portfolios before Review**
- ❖ **Accept into Re-guaranty Program  
only programs meeting criteria**

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***RE-GUARANTY PROGRAM***

- ❖ **Assure compliance with program  
policies and procedures**
- ❖ **Design national program to  
support Public Policy Goals**
- ❖ **Provide incentives to lenders that  
support the program**
- ❖ **Train SMEs and Lenders**

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*IN SUMMARY*

**DESIGN PROGRAMS THAT MEET  
NEEDS OF:**

- ✦ **PUBLIC POLICIES**
- ✦ **SMEs**
- ✦ **LENDERS**

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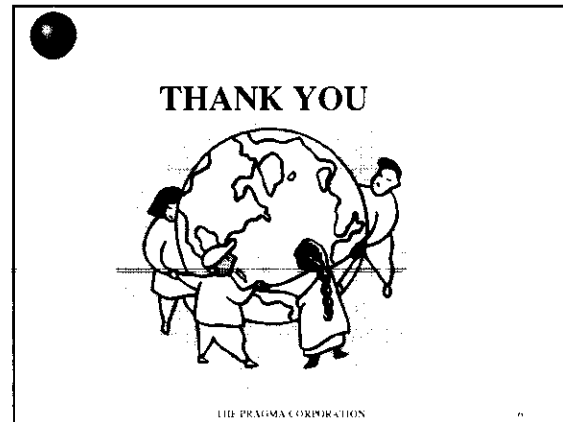
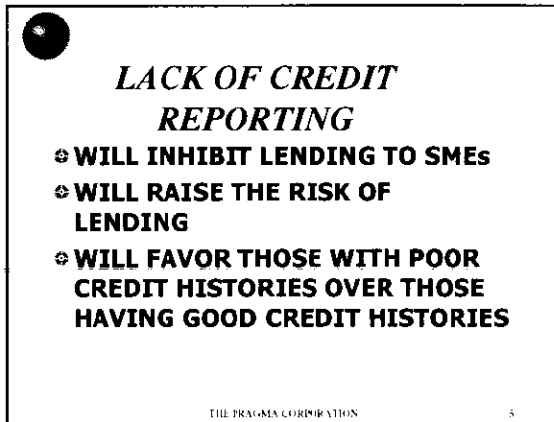
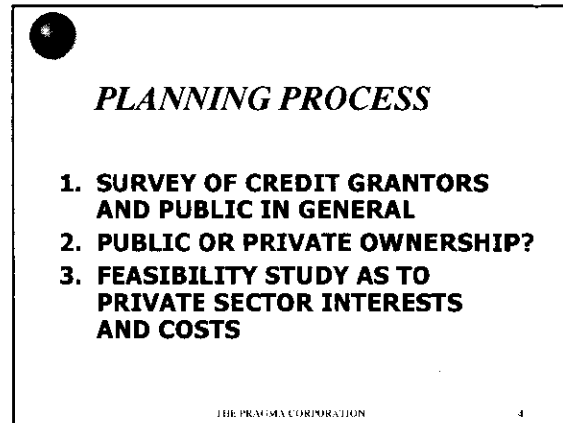
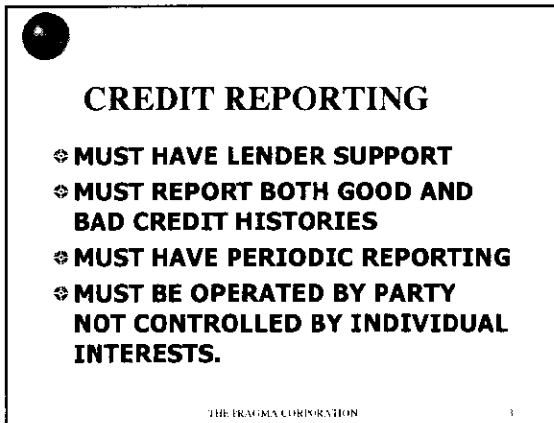
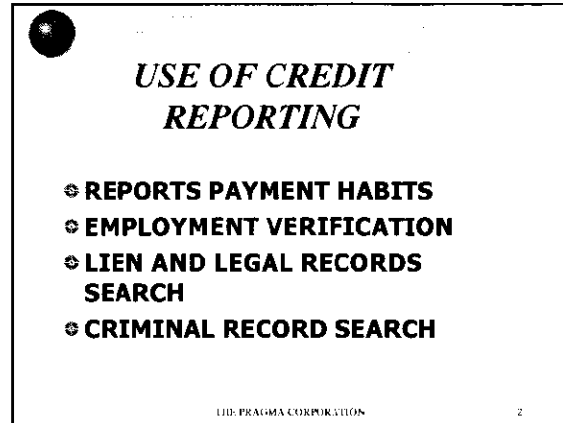
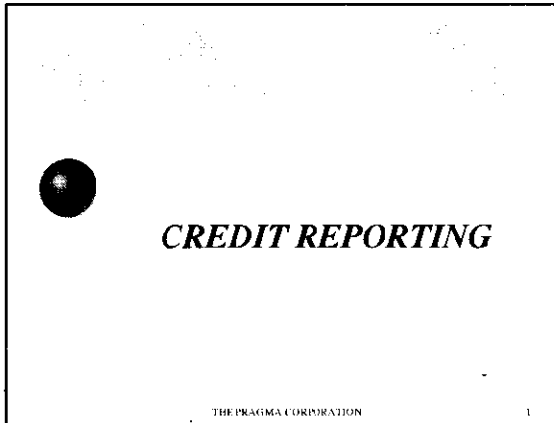
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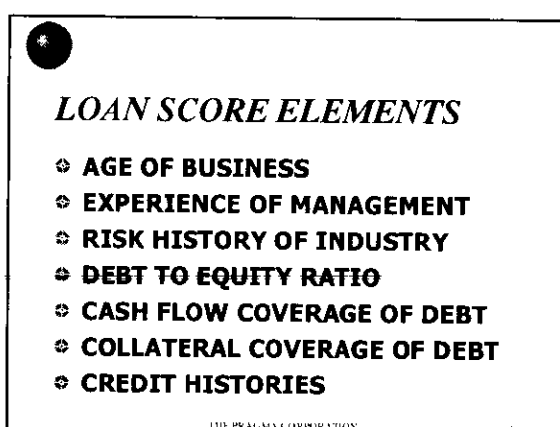
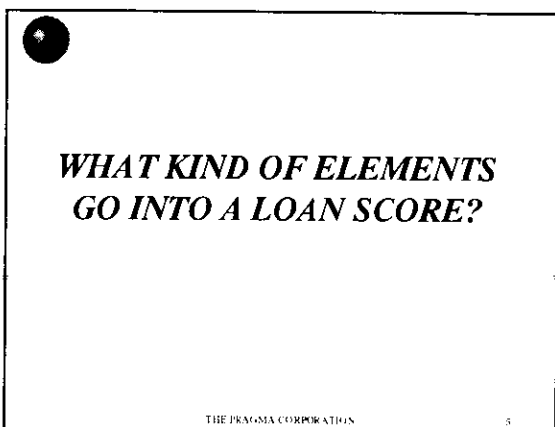
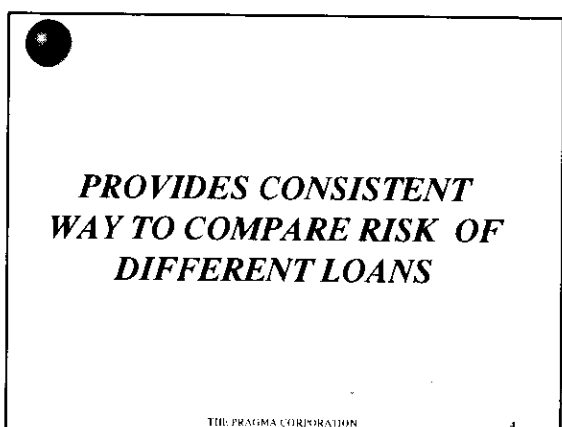
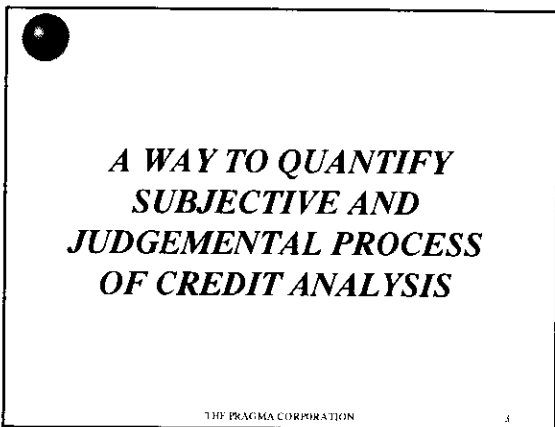
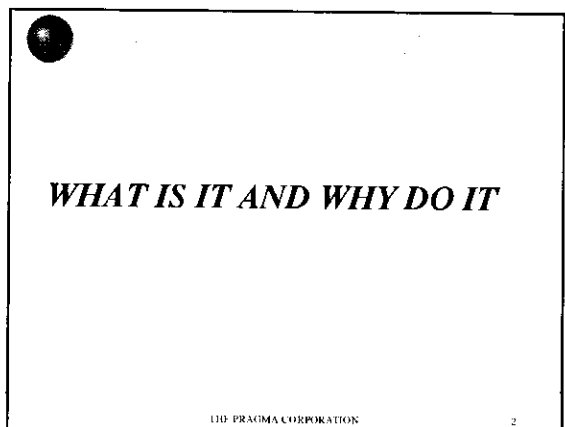
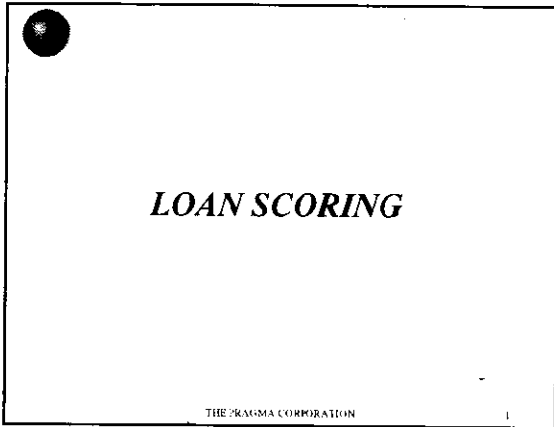
*NEXT STEPS*

- ✦ **RE-GUARANTY STRUCTURE**
- ✦ **PROGRAM PURPOSE**
- ✦ **PROGRAM STRUCTURE ELEMENTS**

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***LOAN SCORING SHOULD BE  
A SUPPLEMENT NOT A  
SUBSTITUTE FOR  
TRADITIONAL CREDIT  
ANALYSIS***

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***LOAN SCORING ENHANCES  
PROGRAM OVERSIGHT***

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***LOAN GUARANTY PROGRAM  
OVERSIGHT AND REVIEW***

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***OVERSIGHT MEASURES  
SUCCESS OF PROGRAM  
MISSION  
and  
FINANCIAL HEALTH OF  
LOAN PORTFOLIOS***

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***SOUND MONITORING  
BEGINS WITH ACCURATE  
DATA REPORTED  
FREQUENTLY BY LENDERS***

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***DATA SHOULD SUPPORT***

- ⊕ **CURRENCY RATE**
- ⊕ **DELINQUENCY RATE**
- ⊕ **PURCHASE RATE**
- ⊕ **LIQUIDATION RATE**
- ⊕ **LOSS RATE**

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***PROPER MONITORING  
HELPS DETECT POOR  
PERFORMANCE BY:***

***GEOGRAPHIC AREA,  
LENDER, INDUSTRY, LOAN  
SIZE, MATURITY....***

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***LENDER REVIEWS ASSURE  
COMPLIANCE WITH  
ESTABLISHED POLICIES  
AND PRUDENT INTERNAL  
CONTROLS***

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***LACK OF COMPLIANCE -  
POOR MANAGEMENT  
AND  
EARLY WARNING OF  
DEVELOPING LOAN  
PROBLEMS***

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***CONSISTENCY IS CRITICAL  
IN CONDUCTING LENDER  
REVIEWS***

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## Ideas on set-up and improvement of SME Credit Guarantee System

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Since 1998, remarkable progress has been made on SME Credit Guarantee, with a variety of SME Credit Guarantee Institutions coming forth all over China, which, to some extent, relieves SME financing difficulty. To better push forward SME Credit Guarantee, these ideas are presented to set up and perfect SME Credit Guarantee System on the Basis of experiments.

Note:

1. improvement of Ideas on Setting up Experiments of SME Guarantee System published by SECT in 1999.
2. summary of work on 1998 China SME Credit Guarantee System

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### 一、 Guidance, Nature and Principles of SME Credit Guarantee

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#### (一) Guidance

Starting from the thought of fostering social credit system and pushing SME sound growing-up, government allocated Credit Guarantee System of standardized operations, well circulating fund and better development of businesses is formed to solve essentially good SME financing difficulty.

1. "Guidance" manifests government's leading role in fostering social credit system.
2. government has the responsibility to standardize social credit guarantee system.
3. obviously, social credit guarantee can only solve part of SME financing difficulty.

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#### (二) Nature

1. SME Credit Guarantee is a kind of social public performance and social credit performance with credit expansion, which necessitates standardized operations and industry monitoring.
2. SME Credit Guarantee Institutions are legal entities, running according to Company Law.
3. SME credit guarantee activities are a gradual and periodic process. Both government guidance and socialized operations are emphasized in the course of execution and socialization and marketing of SME credit guarantee activities are determined by government policies.

1. SME Credit Guarantee business and nature of credit guarantee institutions specify that it is a public social performance and guarantee institutions are legal entities and society sets the criteria under guidance of the government.

2. Gradual development and specialized progress

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#### (三) Principles

1. combination of government support and marketing operations
2. combination of improving efficiency and guarding risks
3. combination of credit guarantee and socialized services

##### Original principles

1. combination of supporting development and guarding risks
2. combination of government support and marketing operations
3. combination of engagement in guarantee and raising credit

Why to change:

considerations are based on recent progress and more suitable principles and future development.

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## 二、SME Credit Guarantee System

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(一) Structure

Led by government guarantee institutions, actively developing folk guarantee. Government-sponsoring SME Credit Guarantee institutions are organized by local municipal government and serving mainly SME under their administration. Encouragement of all walks of life to set up diverse SME credit guarantee institutions. Re-guarantee institutions are organized by provincial and municipality government, mainly serving SME credit guarantee institutions re-guarantee businesses.

SME conducts most grass roots economic activities. In light of Chinese present situations, Credit Guarantee Institutions organized by local municipal government while re-guarantee institutions by provincial government.

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(二) Information System

Information is shared by SME Credit Guarantee Institutions. Data base should be set up by local SME management institutions and branches of People's Bank of China. Guarantee institutions and banks involved in the data base acquire information according to their rights and conduct their duties to provide information in the meantime.

Information is the most important asset in future economic activities as well as a major carrier for setting up and advocating for credit system. SME management institutions should grasp social economic changes from the most basic angle.

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(三) Guidance System

SETC sponsors to set up Guidance System on SME Credit Guarantee with related ministries, guiding guarantee institutions, corresponding commercial banks and other social service organizations on industry development and guarantee businesses and pushing forward the set-up of social credit organization and guiding SME in terms of financial data and management.

1. It is improper for SETC to propose to set up National Credit Guarantee Institution.
2. The set-up of SME Credit Guarantee Guidance System for business social services is easy for operating and aims at the key point of problem.

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## 三、Operating System of SME Credit Guarantee System

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(一) choice of coordinating banks


Chinese and foreign banks capable of conducting RMB loan business and shouldering corresponding cooperation can act as banks for SME credit guarantee. SME Credit Guarantee Institutions should grant more business cooperation and policy preferential to banks serving SME.

This policy is presented for China's joining WTO.



 (二) Choice of businesses  
 Based on its industry development and economic structure, local government stipulates industry inclination, financial standards and management criterion of SME Credit Guarantee and accordingly choose appropriate businesses.

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National standards are not appropriate due to unbalanced economic development, differences from Western economy diversified economic development.



 (三) Basic procedures for guarantee operations

1. borrower's application for loan ;
2. review by banks and guarantee institutions and put-up of suggestions;
3. When banks and borrowers sign main contract, guarantee institutions and borrowers sign pledge agreement, and if necessary, the guarantee institutions and borrowers sign counter-guarantee contract.
4. Failure of main contract is compensated by guarantee institutions as agreed.
5. Guarantee institutions conduct loan liquidation.



 (四) Re-guarantee

1. Guarantee institutions apply to re-guarantee institutions for re-guarantee ;
2. Review of re-guarantee according to credit of re-guarantee institutions;
3. Signing of re-guarantee contract ;
4. After compensation by guarantee institutions, re-guarantee institutions shoulder responsibility as agreed and s corresponding rights ;
5. Guarantee institutions liquidate debtors.


 四、Forms of SME Credit Guarantee



 For the principle of combination of raising operation efficiency and guarding risks, authority guarantee and specialized guarantee are taken according to borrower's loan size and guarantee percentage:

The two forms are presented in light of international experiences, including Taiwan region to contribute to cooperation between banks and rise of guarantee efficiency.


 (一) Authority Guarantee


For programs of smaller amount and lower guarantee percentage, the guarantee institution can clarify in the agreement with banks that authorized banks have the freedom of review and extending of the loan application and then present the re-guarantee institutions for approval. This method takes advantage of financial institutions' expertise in review of loan and evades low efficiency by duplicate examinations, lowers the work load of guarantee institutions, greatly expands credit guarantee and attains the purpose of supporting SME, the majority of which are small businesses.

Definition and Significance of Authority Guarantee


  
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To guard against overuse of the mechanism by banks, guarantee institutions stipulate in the cooperation agreement that it has the right to terminate bank's authority guarantee if delinquent loan amounts to certain percentage of total loan outstanding.


Corresponding punishment


  
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(二) Specialized Guarantee

For high-tech programs of larger amount, higher guarantee percentage and projected higher risks, guarantee institutions and banks review separately. On the premises that Guarantee Institutions agree to accept entrust and sign guarantee contract with banks, the latter extend loan. This method is applied under bank control.

It is applicable for regions where SME guarantee has just started.


  
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五、Funding, application and compensation of SME Credit Guarantee


  
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(一) funding

1、funding of municipal SME Credit Guarantee (including regions, autonomous district and league)


(1) municipal financial budget

(2) land access, and other operational or operational estate appropriated by the municipal government ;

(3) private fund raising ;

(4) domestic and overseas donations ;

(5) other


  
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2、funding of provincial SME Re-Guarantee Institutions (including autonomous regions, direct municipality)

(1) Central financial budget and appropriating to provinces periodically or non-periodically.


(2) provincial financial budget ;

(3) land access and other operational or operational estate appropriated by the provincial government;

(4) private fund raising ;

(5) domestic and overseas donations ;

(6) other.


  
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(二) fund application


SME Credit Guarantee Fund is applied as down payment by guarantee institutions for SME loan guarantee and compensation when failure to duties occurs.

(三) fund compensation

Re-guarantee institutions will compensate guarantee institutions who has made its compensation. Local government should record injected funding for guarantee and re-guarantee institutions and establish a better fund compensation mechanism.


This is specialized funding and can not be appropriated for other purposes.

  
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 六、Risk Control and Monitoring of SME Credit Guarantee  
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(一) Risk control

- 1、Choice of guarantee amplifier. Guarantee amplifier refers to the amplified proportion between guarantee funding and guarantee loan, generally within 10 times, which varies according to different business development. Any kind of Guarantee Institutions must acquire approval from provincial and municipal SETC and the related departments.
- 2、Set-up of data base of SME Credit Guarantee Loan by SME management departments in local governments and branches of People's Bank of China.

  
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3、Set-up of pre-review, in-course warning and after-supplementation control mechanism. Pre-review is ensured by cooperation of guarantee institutions, local People's Bank of China and coordinating banks making use of data base credit appraisal and program verification. In-course warning is achieved by cooperation between guarantee institutions and coordinating banks exchange of information and notification of risks. After-supplementation mechanism is a process of compensating and handling risks for later control.

  
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(二) Monitoring of SME Credit Guarantee Institution

- 1、SETC sets up Work Conference, located in SETC with Ministry of Finance, Ministry of Science & Technology, People's Bank of China and Bureau of Industry and Commerce. SME Department under SETC sets up an office for guiding and managing SME Credit Guarantee and SME credit.
- 2、Provinces and autonomous regions set up SME Credit Guarantee Association or other industry-discipline organizations, stipulating industry rules and regulations. SETC conducts industry guidance and SME Program Guarantee Association acts as industry-discipline organizations.

## Establishing and Developing the Policy Framework of SMEs Credit Guaranty Association



## 1. Basic background of Establishing and Developing SMEs Credit Guaranty Association

- Status Quo
- Policy Ground
- Overseas Experiences

### (1) Status Quo

- In 1999 the economic and trade commission, the planning commission and the financial office of Inner Mongolia Autonomous Region have required together in the document that SMEs guaranty association be organized, this is the first SMEs credit guaranty association in our country. At present, the SMEs credit guaranty association in Inner Mongolia has had the special institution and personnel handling affairs, and has made special Constitution and Member Management Measures.

- Many other provinces, cities and regions are setting about establishing SMEs credit guaranty association, some have entrusted the corresponding function of SMEs credit guaranty association to the SMEs leagues that have been set up in advance.
- It is estimated by the personnel of SETC that national SMEs credit guaranty association will be established in 2003.

### (2) Policy Ground of Establishing SMEs Guaranty Association

- In August, 2000, the Office of the State Council released the Opinion of SETC on Some Policies of Encouraging and Promoting the Development of SMEs (State Council Office [2000]59, putting forward "establishing and consummating the admittance system, financial contribution system, credit evaluation and risk control system, sector coordination and self-discipline system of guaranty institution".

- In the beginning of 2001, SETC put forward in the *Notice on the Problems in respect of Establishing National SMEs Credit Guaranty System* that, SMEs credit guaranty institution should "join the compulsive reguaranty of the SMEs credit guaranty institution of the higher level and join the SMEs credit guaranty sector association, promise to realize lawfully the partaking of credit information sources."

Besides, there are three regulations and policies for the general association to be found;

- "regulations on social organization's registration" issued by the State Council;
- "opinions on speeding up and developing the association in the fields of industry and commerce" (State Council)
- "Opinions on entrusted industries association management"(State Council)

## 2. Guide thoughts and basic principle of establishing SMEs credit guaranty association

### (1) Guide thoughts

- Aiming at ameliorating the financing environment and condition of SMEs and promoting the healthy and quick development of SMEs;
- Earnestly carrying out Social Group Registration Administration Statute promulgated by the State Council and Some Opinions on Speeding up the Fostering and Developing of the Associations in the Business Field (trying out) printed and distributed by SETC;
- persisting in market-oriented reform orientation, working in the course of the reform of governmental institution;
- establishing step by step the self-discipline organization of national SMEs credit guaranty sector with that basic function reaches the designated position, the organizational system is sound, the social relations are unobstructed and the operation management is normative.

### (2) Basic Principles

- Principle of persisting in market-oriented reform orientation.
- Principle of persisting in setting out from the practice.
- Principle of persisting in the intermediary character and service tenet of the sector association.
- Principle of persisting in simplification, high efficiency and democratic management
- Principle of persist in enrolling of one's own accord and quitting freely.

## 3. Major function and organizational system of SMEs credit guaranty association

### (1) Major Functions

- According to the need of actual development and the development for the future, general functions of SMEs credit guaranty association can be defined as: "communication, service, coordination and self-discipline"

## (2) Concrete functions

- Establishing the sector admittance standard. Including Establishing the uniform requirement for capital scale and personnel aptitude
- Establishing the sector criterion. Organizing SMEs to develop credit self-discipline, standardizing credit behavior and debt repayment behavior, vindicating normal economic order. Including stipulating the standard of charging the premium, guaranty variety design and practice scope.
- Establishing the evaluation standards for sector credit
- Providing management consulting to the development scheme of guaranty institution

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- Consulting to enterprise financing
- Organizing the training and cognizance to sector practice qualification
- Participating in the making of and responsible for amending the uniform financial accounting principle of the sector.
- External promotion and communication for the sector. Including publishing the association publications, setting up website, holding annual conference and so on.
- Organizing the international exchange and cooperation of the sector
- Authorizing and commissioning work of the relevant departments of the government

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## (3) Issues regarding the function contents of SMEs credit guaranty association for the two aspects:

- 1 Whether the association has the function of direct guaranty to SMEs
- 2 Whether the association has the reguaranty function to SMEs credit guaranty institution.

It appears that as the sector self-discipline organization, the association doesn't have the direct guaranty function, neither does it have the function of reguaranty, but in practice it has already appeared that the association exerts direct guaranty function, and quite a number of localities require the association to have the reguaranty function. These two aspects await require further exploration and standardization in the future practice.

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## (4) Organizational System

### (1) Members composition

- One point of view thinks that, service object of SMEs credit guaranty association is all SMEs and the credit guaranty institutions providing services to SMEs;
- Another point of view thinks that, service object of SMEs should be and can only be the guaranty institution engaging in SMEs credit guaranty business, here the SMEs credit guaranty institution can be public undertaking or corporation, furthermore can be mutual;
- There is also another point of view, thinking that service object can only be non-profit SMEs credit guaranty institution (public undertaking).

Thus three points of view of wide, medium and narrow views exist.

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Corresponding to this is that the composition of the members of SMEs credit guaranty association forms three structures:

- one structure is all the SMES and the credit guaranty institutions serving SMEs.
- another structure is the credit guaranty institutions serving SMEs.
- another structure is the non-profit SMEs credit guaranty institution of public undertaking type.

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### ② Setup of administrative levels

- Corresponding to the wide point of view is the three-level system; namely, setting up SMEs credit guaranty association respectively in the three levels of central, provincial, and prefectural jurisdictions. The association of each level is an independent juridical association. The association of the lower level is its superior level's natural member, the central and provincial SMEs credit guaranty associations do not absorb SMEs as members, while major members of a city SMEs credit guaranty association are SMEs.

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- Corresponding to the medium and narrow points of view is a two-level system, namely setting up SMEs credit guaranty associations only in the central and provincial levels, both of the associations of the two levels are independent juridical associations. The provincial association is the natural member of the central association, while the basic members of the provincial SMEs credit guaranty are SMEs credit guaranty institutions. SMEs credit guaranty institutions engaging in over-province business can join a provincial SMEs credit guaranty association and the central SMEs credit guaranty association as well.
- Corresponding to the medium and narrow point of views is the one-level system, namely setting up a national SMEs credit guaranty association only at the central level, only with a juridical person at one level. A local commission can be set up in the province, city or district with developed SMEs credit guaranty businesses.

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## Organizational structure

- Member conference or member representatives conference. Member representative conference is composed of the representatives recommended by the whole members. Member conference or member representative conference is the highest authority institution of SMEs credit guaranty association. Member conference or member representative conference is held every four years. If necessary, the council can advance or postpone the changing of the composition.
- Council. It comes into being through the election by member conference or member representative conference. It is the executive institution in the closing session of member conference or member representative conference, leading the work of the association and responsible for the member representative conference. Council is generally held once at the end or the beginning of each year, in which the chairman of the council gives the working report.

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- Administrative council. It comes into being through the election by the Council, exerting parts of the authorities of the Council in the closing session of the Council. Administrative council is generally held at the beginning or in the middle of each year. If necessary, it can be held temporarily through the advancing of the secretary-general and the decision of the conference of the chairman of the council.
- Conference of the chairman of the Council. It is composed of the chairman, administrative chairman, vice-chairman, secretary-general and vice-secretary-general, responsible for the daily concrete affairs. The conference of the chairman is generally held twice each year. If necessary, the chairman can temporarily decide to hold this conference. The council can entrust the working conference of secretary-general to take charge of the concrete work of the association, making concrete management system and holding the relevant activities.

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## 4. Membership Dues and Members Management of SMEs Credit Guaranty Association



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### (1) Membership Dues

According to the current relative policy provisions of the state and some experiences of sector association, the sources of the membership dues of SMEs credit guaranty association can have the following channels:

1. Transferring the one-off formation expense.
2. Collecting a certain membership dues
3. Reimbursable service charging.
4. Governmental subsidy.
5. Financial contribution and donation of the government and the relevant enterprise and public undertaking and individual.
6. Interest revenue
7. Other legal revenue

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### (2) Members Management

Take the example of the setup model of the SMEs credit guaranty association which sets up only central level with the guaranty institution (no matter whether it is for profit, whether is public understanding or business corporation) as the basic members, it can have the following management stipulations in enrolment condition, enrolment procedures and the rights and obligations of the members:

1. Enrolment condition.
2. Enrolment procedures.
3. Membership rights.
4. Member obligation

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**(3) Major Difficulties and Problems Faced by the  
Establishing of SMEs Credit Guaranty  
Association at Present**

- Correctly Solving the Cognition Problem of Establishing and Developing Sector Association
- Correctly Handling the Relation between Administrative Sector Management and Self-discipline Sector management
- Correctly Dealing with the Problems of Not-for-profit and Onerous Service of the Sector Association