

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: EARG

TA No., Country and Name TA 4350-PRC : Development of Small and Medium-Sized Enterprise Credit Guarantee Companies			Amount Approved: \$550,000.00 Revised Amount:	
Executing Agency: National Development and Reform Commission		Source of Funding: TASF	Amount Undisbursed: \$13.50	Amount Utilized: \$549,986.50
TA Approval Date: 18 Jun 2004	TA Signing Date: 3 Nov 2004	Fielding of First Consultant(s): 10 Jan. 2005	TA Completion Date Original: 30 Jun. 2005 Actual: 30 Apr. 2007	Account Closing Date Original: 30 Jun. 2005 Actual: 31 Jul. 2007
Description				
<p>Despite their significant role in the economy of the People's Republic of China (PRC), small and medium-sized enterprises (SMEs) experience significant difficulties in accessing financing due to poor creditworthiness, and the lack of collateral, proper accounting procedures, and a sound business track record, all of which results in higher administrative costs for banks. To address these difficulties, many local governments and business communities established SME credit guarantee companies (CGCs) in the mid-1990s. However, most CGCs were too small and could not achieve the expected risk-sharing arrangements with banks for SME financing, due to their limited financial, technical, and risk management capabilities. The lack of an effective regulatory, entry and monitoring system, and the absence of risk-sharing mechanisms through a re-guarantee system also prevented the development of the CGC market. The Government of PRC (the Government) recognized the need to expand the service coverage and quality of CGCs by enhancing their creditworthiness and operational efficiency through an effective regulatory and supervisory framework. During the 2003 Country Programming Mission, the Government requested technical assistance (TA) from ADB for advisory support for the SME Department of the National Development and Reform Commission (NDRC).</p> <p>TA 4350-PRC builds on previous ADB support to develop the financing and legal structure for SMEs in PRC. This support took the form of several projects, including TAs on the Development of a SME Credit System (TA 3493-PRC) and the Development of Financing Policies and Mechanisms for SMEs (TA 3534-PRC). ADB also helped the Government draft the SME Promotion Law, as well as policies and regulations for the SME Development fund.</p>				
Expected Impact, Outcome and Outputs				
<p>TA 4350-PRC was expected to facilitate SME access to financing. Its expected outcomes included (i) supporting the institutional reform and financial strengthening of CGCs; (ii) strengthening the regulatory and supervisory framework for CGCs; and (iii) helping to establish the central government re-guarantee company aimed at optimizing risk and capital allocations for the SME credit guarantee system. Its major expected outputs were (i) standardized procedures and templates for various aspects of CGCs operations such as financial control, business plans, corporate governance standards, and recommendations on the proper standards for accounting and audit that apply to CGCs; (ii) policy measures and monitoring procedures for CGC operations regarding market entry, accounting, prudential criteria, corporate governance, operational behaviors, and financial management practices; and (iii) an international comparative study for SME credit guarantee systems to identify operational modalities of the central government re-guarantee company, including institutional arrangements, operational procedures, and a pilot program of re-guarantee operations between selected CGCs and the re-guarantee company. The TA design was relevant and the TA was adequately formulated for the establishment of an effective policy, regulatory, and operational framework for CGCs.</p>				
Delivery of Inputs and Conduct of Activities				
<p>The TA's initial inputs required 10 person-months of two international consultants (e.g. an SME finance and credit guarantee specialist and a guarantee regulatory and supervisory specialist) and 12 person-months of two national consultants who had the same fields of expertise.</p> <p>The consultants conducted a detailed literature survey and field research, including a comprehensive international comparative study, on SMEs. These studies were aimed at supporting the institutional reforms and financial strengthening efforts and the regulatory and supervisory framework for CGCs that would be proposed by the TA. They were also aimed at evaluating the feasibility of establishing the central government re-guarantees company. The consultants also organized workshops on the "Reform of the China SME Credit Guarantee Regulatory and Risk Management System," and the "Planning Development of a Re-Guarantee System" to share their findings from domestic and international studies with NDRC and relevant agencies. They also presented the "Re-Guarantee System" to NDRC which sought additional detailed information about the system. The final report was presented in the dissemination conference. The consultants' inputs, suggestions and recommendations were provided efficiently and were practical and useful for NDRC and relevant agencies.</p> <p>The performance of the consultant was satisfactory.</p>				

The TA completion date was extended from June 2005 to February 2007 due to delays in the signing of the TA Letter Agreement between ADB and Ministry of Finance; the EA's preparations for its staff's study tour to Japan, the Republic of Korea, and Sweden; and the submission of the report by the EA on their study tour. The time needed to translate the report NDRC submitted, from Chinese to English, also contributed to the need to extend the TA's completion date. The delay did not affect the TA's cost or impact.

ADB's administration of the TA was satisfactory. Appropriate support and supervision were given during TA implementation through review missions and exchanges of e-mails with the EA and the consultants.

The performance of the EA was satisfactory. The EA gave its complete support to achieve the TA's objective. It exhibited strong commitment to the TA objectives and established a close working relationship with the consultants.

Evaluation of Outputs and Achievement of Outcome

The consulting team provided the EA with an analytical review of both successful and less-successful SME credit guarantee schemes based on their extensive research, including an international study. It recommended improved and standardized operational modalities for CGCs, especially in the areas of risk sharing (adequate level of risk coverage by a CGC), risk pricing (adequate guarantee fees to keep financial sustainability of CGCs), and reserve provision. It also recommended a revised or new CGC regulatory and supervisory framework which would make NDRC the primary regulator responsible for monitoring CGCs in the areas of auditing, accounting, licensing, regulatory reporting, and inspection. It also suggested the revision of past and outdated laws and regulations for CGCs. The TA project examined various options for the design of a mature re-guarantee system and provided the most practical and feasible solution for solving PRC's need for a credit re-guarantee system composed of the publicly-funded National Re-guarantee Institution (NRI) and the private Provincial/City Re-guarantee Companies whose risks are all assumed by NRI.

The workshops and conferences conducted under the TA successfully disseminated policy recommendations to NDRC and relevant agencies, and strengthened the institutional capability of NDRC in terms of policy making and monitoring of CGCs. The recommendations by the consultants were broadly accepted and these helped relevant agencies amend related laws and regulations such as the SME CGC Law and SME CGC administrative measures. NDRC and relevant agencies also gained better knowledge on international best practices in SME credit guarantee systems, including operational, regulatory, and supervisory frameworks for CGCs, and the re-guarantee system. Day-to-day discussions with highly experienced consultants were also valuable for the EA counterpart staff involved in this TA. A comprehensive final report was produced. It was well received by both ADB and the EA.

The consultants delivered high quality outputs in line with their terms of reference. The performance of the consultants was evaluated as satisfactory. The TA's results were effective and the EA was satisfied with the outputs and the outcomes of the TA.

Overall Assessment and Rating

The TA is rated as successful. It was implemented effectively and efficiently due to the satisfactory performance of consultants and the active participation of the EA. Its benefits will be sustainable since workshops, conferences, and a significant volume of reference materials provided by the consultants enhanced the NDRC's and relevant agencies' understanding of policy reform for the CGC system. Moreover, the Government has started adopting some of the consulting team's recommendations. SME financing has improved little by little with bank lending continuing to downscale as CGCs begin to emerge as finance companies.

Major Lessons

The TA proved that intensive involvement of EA staff, harnessed through training and workshops, enhances the capacity strengthening initiatives of a project. The overseas study tour also gave participants deep and comprehensive knowledge and varied experience in SME financing.

Recommendations and Follow-Up Actions

The final report recommended that the Government push forward with the comprehensive improvement of the CGC guarantee system. Improving SME financing is one of the focuses identified in the Country Partnership Strategy 2008-2010, and the Government and ADB should continue to address this need through appropriate reforms in the regulatory and supervisory framework, and the strengthening of the capacity and financial sustainability of financial institutions, including banks and CGCs.

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