



**CERTIFIED EXPERT
IN SME FINANCE**



Course Overview

Small and medium-sized enterprises (SMEs) are important engines of growth, jobs and social cohesion. However, the creation, survival and growth of SMEs is often hampered by access to finance. Thus, access to SME finance has become a key priority in developing and transition countries. This online course, is tailored to the needs of mid-level managers and loan officers active or interested in SME Finance.

The introduction to the course starts with positioning SME Finance compared to other client segments, e.g. corporate clients or retail clients. The learning goal of the course is to explain the main SME Finance principles, mainly focusing on credit risk analysis, the lending decision process and appropriate risk-taking intermediation as well as customer relationship management. SME businesses face a number of specific risks in their business but SME lending is a profitable business for many MFIs and banks that use the right methodology –cash flow based lending- and appropriate decision making tools. Understanding the challenges that small and medium business owners are facing is fundamental to the provision of excellent service and achieving good credit decisions.

Unit 1: Introduction to SME Finance

Most SMEs work in specific environments with particular characteristics. These change from country to country, region to region and even in between cities in same provinces. A framework to characterize and categorize the specifics of SMEs in a geographically limited area will be explained and judged against international best practice approaches. Typical products and services required by SMEs in transition and developing countries will be presented and best practices on how to approach the segment explained.

Unit structure:

- Definition of SMEs
- SMEs as customers of financial institutions
- International Trends in SME finance
- The role of regulation and supervision and national and regional policies
- Tax evasion as fact: challenges and barriers
- Organizational set-up of a SME unit/department
- Lending processes with international best practice approaches

- Individual cash flow based lending
- Relationship banking
- Group lending
- Credit scoring (statistical, judgmental, expert modus)

- Products and banking services to SMEs
- Marketing for SMEs

Unit 2: SME Credit Analysis - Collecting and Understanding Information

“Know your client” is an important principle to understand your customer in terms of business needs as well as for sound loan decisions. Many SMEs work in informal or semi-formal environments. Often no reliable financial data is provided or sometimes not existing. Non-financial information can be cross checked against financial information in order to get a realistic picture of the business’ economic situation. Furthermore, the importance of understanding the purpose of a loan (“investment project”) will be stressed.

Unit structure:

Introduction to SME services and clients' needs assessment

- Lending products
- Deposit products
- Banking services and others

Customer relationship management

- Know your client principle- Service quality

Introduction to SME Lending

- Basic SME lending criteria

Specifics of SMEs

- Non-financial vs. financial information
- Repayment willingness and capacity

Understand main SME Business Risks

- Character/Integrity
- Management risk
- Governance risk
- Market risk
- Financial risk
- Legal risk/Compliance
- Environmental (reputational) risks
- Collateral risk

Verification of clients' information

- How to verify reliability of information provided
- Cross checking of non-financial information
- Cross checking of financial information (level 1)

Investment project evaluation

Unit 3: SME Credit Analysis - Verifying Information

This course builds on the information provided in Unit 2. Verifying that the information provided by the business owner is correct is fundamental to achieving good risk decisions. This unit will introduce the cross checking of financial information and develop the 8 SME risk categories in more detail.

Unit structure:

Understanding clients' financing needs, assessment based on:

- business nature and situation,
- investment project financing structure and (verified) cash flow forecast

Verification of financial statements

- The need for cross checking refresher - Misleading financial statements
- Link between financial and non-financial information
- Cross checking of financial information (level 2 - balance sheet, income statement and cash flow items)

Unit 4: SME Credit Analysis - Financial Analysis

Understanding financial statements for SME business is an important element of good risk decisions and a low NPL profile. This course will introduce participants to understanding and interpreting key characteristics of SME financial statements. There will be a strong focus on analyzing SME financial statements to assist with sound credit risk appraisal.

Unit structure:

The Balance Sheet

- Assets and Liabilities
- Shareholders' equity
- The importance of valuations

Income statements

- Trading statement
- Operating statement
- The difference between Cash and Profit

Analysis of Financial Statements

- Performance
- Profit
- Efficiency
- Liquidity
- Return
- Solvency

Working Capital

- Accounts receivable analysis
- Accounts payable analysis
- Inventory analysis
- Cash flow implications of changes in working capital

Investment project

- Break-even calculation and analysis
- Internal rate of return

Unit 5: SME Credit Analysis - Cash Flow Analysis

Understanding the importance of cash flow for SME business is a key skill. This unit introduces the key features of cash flow analysis and financial forecasting. There will be a strong focus on preparing and analyzing SME cash flow statements and financial forecasts to enhance with financial analysis.

Unit structure:

Preparing Cash flow statements

- Operating Cash flow
- Investing Cash flow
- Financing Cash flow

Preparing financial forecasts

- Balance sheet forecast
- Profit forecast
- Cash flow forecast

Assessing financial forecasts

- Cross checking
- Sensitivity analysis

Unit 6: Loan Portfolio Management and Monitoring

Proper monitoring systems as well as efficient loan work-out schemes are an important element of effective SME Finance for financial institutions. Key approaches will be laid out and effective instruments (e.g. loan restructuring) will be presented.

Unit structure:

Introduction to basics of loan monitoring and portfolio management

- Onsite visits
- Offsite investigation
- Portfolio indicators
- Monitoring processes
- Loan workout
- Portfolio handover procedures

Monitoring

- Reporting and MIS
- IT requirements
- Early warning systems
- From warning to action

Loan workout

- Instruments of loan work-out
- Restructuring
- Watch listing
- Intensified Servicing
- Legal action
- Sequencing of instruments

Portfolio handover

- Preparation and framework
- Basic portfolio handover process

Unit 7a: SME Finance and Supporting Activities

Based on the understanding of general SME Finance management, several key topics will be reviewed and efficient as well as effective solutions presented.

Unit Structure:

HR management and organization

- Job description and recruitment profiles/exams/interviews
- Bonus and incentive systems

Process management

- Importance of process management
- Visualization of processes and development of manuals and procedure
- Lean banking principles
- Implementation of Six Sigma

MIS and ICT

- Reporting and monitoring
- Modern ICT and process efficiency (e.g. use of tablet PCs in onsite visits)

Interdepartmental competition and interaction

Unit 7b: Alternative Forms of SME Finance:

Understand the key differentiating features of different prevalent types of financial instruments that are offered by FIs, NBFIs and non-traditional FIs for typical SME finance needs. Identify opportunities for the FI to offer adequate products to SME customers resulting in a standardized approach that saves cost and improves the risk profile of the transactions. Learn about debt, equity, and hybrid finance. Appreciate that different financial instruments will fit the needs of a business depending on its stages of development.

Unit Structure:

- Alternatives to FI Loans
- Financing Networks of SMEs, linkages and clusters
- Financing Seasonal Business
- Financing Production and Purchase orders
- Invoice Discounting and Factoring
- Inventory Finance – Warehouse Receipt Finance
- Renting and Leasing
- Purchase Finance
- Financing Ownership Successions and Business Takeovers
- Alternative Debt
- Equity Instruments

Unit 7c: Gender Finance/ Women in Business

There is a significant opportunity to better serve the Women's Market and a strong business case for solutions tailored for women. There are several myths about women-owned businesses that are preventing financial institutions from proactively participating in this very important market.

Understand the important role of female entrepreneurship in the World's economy. Identify opportunities for FIs to build better relationships with Women owned small and medium businesses (WSMEs). Show how FIs can build a loyal and sustainable customer base by offer products that are better aligned to the needs of WSME customers. Dispel the myths that many financial institutions associate with Women-owned businesses. The Perils of Stereotyping. How Gender Influences the Sales Cycle.

Unit Structure:

- Women in Business
- Women as Entrepreneurs
- Understanding the Banking Services Market for Women-Owned Businesses
- Actions to Close the Credit Gap
- Communication Styles
- Future Developments – Financing the Missing Middle

