

**INTERNATIONAL INVESTMENT BANK**

**SME SUPPORT PROGRAM  
FOR 2014 – 2017**

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## **I. Significance of the SME Sector for Economies of the IIB member states**

In accordance with the Development Strategy of International Investment Bank (hereinafter, 'IIB' or the 'Bank') for 2013-2017, the mission of IIB is promoting the social and economic development and growth of people welfare and economic cooperation of the member states.

The sector of small and medium enterprises (hereinafter, the 'SME') is the priority for all IIB member states and is considered to be a catalyst of economic growth, innovations, and progress. The SME sector ensures the employment of 60-80% of able-bodied population and accounts for 45-70% of the GDP in leading global economies. Increasing the SME share in the GDP is among priorities of the economic development in the IIB member states.

The small and medium business in the market economy is a leading sector that defines the economic growth, structure and quality of the gross domestic product, increase in the employment of able-bodied population at small and medium enterprises. This sector is typically market-based in its essence and is the basis of the modern market infrastructure, as it, first of all, procures competitive environment in the economy.

The small business or small entrepreneurship is the most numerous layer of small and medium owners who define the social and economic and partially political development level in a country due to its mass nature. In terms of their life level and social position, they relate to the majority population, being simultaneously both direct producers and consumers of a variety of goods and services. The small and medium entrepreneurship sector forms the most branched network of businesses operating mostly in local markets and directly connected with mass consumers of goods and services. Together with moderate sizes of small businesses and their technological, production and managerial flexibility, this allows them to response to changing market infrastructure in a prompt manner.

In accordance with the laws of the European Union, the most recognized definition of SME is their classification by the number of employees in an organization, annual turnover, and balance sheet total:

Enterprise category	Number of employees	Annual turnover	Balance sheet total
Medium	< 250	≤ EUR 50 million	≤ EUR 43 million
Small	< 50	≤ EUR 10 million	≤ EUR 10 million
Micro	< 10	≤ EUR 2 million	≤ EUR 2 million

Pursuant to Law No. 209-FZ ‘On Small and Medium Entrepreneurship Development in the Russian Federation’ (2007), small and medium enterprises comprise consumer cooperatives and commercial organizations included in the Unified State Register of Legal Entities (except for state-owned and municipal unitary enterprises) and individuals included in the Unified State Register of Individual Entrepreneurs and conducting their business without establishing a legal entity (hereinafter, the ‘individual entrepreneurs’), peasant households, and farms.

Enterprise category	Number of employees	Earnings from sales of goods/services <sup>1</sup>
Medium	101-250	≤ RUB 1,000 million (up to EUR 20.2 million)
Small	<100	≤ RUB 400 million (up to EUR 8.1 million)
Micro	<15	≤ RUB 60 million (up to EUR 1.2 million)

In Vietnam, activities of all businesses are regulated by Business Companies Act No. 60/2005/QH11 2005), effective as from July 1, 2006:

Enterprise category	Small		Medium		Large	
	Number of employees	Capital (VND bln) <sup>2</sup>	Number of employees	Capital (VND bln) <sup>2</sup>	Number of employees	
Agriculture, forestry and fishing	≤ 10	≤ 20 (up to EUR 688 thou)	10-200	20-100 (up to EUR 3.4 million)	200-300	
Industry and construction	≤ 10	≤ 20 (up to EUR 688 thou)	10-200	20-100 (up to EUR 3.4 million)	200-300	
Trade and services	≤ 10	≤ 10 (up to EUR 344 thou)	10-50	10-50 (up to EUR 1.7 million)	50-100	

In Mongolia, small and medium enterprises are classified under the applicable laws as follows:

Business area	Number of employees	Annual turnover (MNT)	Annual turnover (EUR) <sup>3</sup>
Production	< 200	up to 1.5 bln	612 thou

<sup>1</sup> Converted at the exchange rate as of April 9, 2014 (EUR 1 = RUB 49.3)

<sup>2</sup> Converted at the exchange rate as of April 9, 2014 (EUR 1 = VND 29,098)

<sup>3</sup> Converted at the exchange rate as of April 9, 2014 (EUR 1 = MNT 2,452)

Wholesale	< 150	up to 1.5 billion	612 thou
Retail	< 200	up to 1.5 billion	612 thou
Services	< 50	up to 1.0 billion	408 thou
Small entrepreneurship	< 20	up to 250 million	102 thou
Entrepreneur in the field of services and trade	< 10	up to 250 million	102 thou

## II. Purpose of the SME Support Program

Switching to the economic growth stage sets new objectives for the IIB member states not only to increase their GDP growth, but to improve the life of people in a qualitative manner, form a favorable environment to develop the society and a human being, and provide long-term prospects for their social and economic development.

To contribute to the sustainable social and economic development and speed up the growth in the IIB member states, support the commercial and economic cooperation of the IIB member states with each other, extend the access of small and medium enterprises to financial resources, increase the Bank's recognition ratio and its business reputation, IIB places primary emphasis in its activities upon the cooperation with leading international and national financial institutions for implementing joint projects in the SME support area.

Developing and approving the SME Support Program for 2014-2017 (hereinafter, the 'Program') is an important step within pursuing the IIB Development Strategy for 2013-2017 and the Bank's Country Strategies for 2013-2015.

Taking into consideration the fact that the SME support is a priority in IIB's activities, **the strategic purpose of the Program is to promote accessibility of credit resources for SME entities in segments that procure sustainable development of the IIB member states.** However, the strategic purpose of the Program may not be achieved without systematizing activities of the Bank in this area:

- Defining the list of specific objectives and target quantitative and monetary indicators of the Program implementation;
- Developing a clear and transparent mechanism to support the SME sector in the IIB member states and project and partner selection criteria;
- Carrying out follow-up control over the target use of financing.

The successful accomplishment of the objectives set to the Bank within this Program will enable IIB to unblock its potential as a multilateral financial development institute and increase its significance for the member states.

### **III. IIB's Objectives in the SME Support Area**

Within supporting SME in the IIB member states for 2014-2017, the Bank defines the following objectives and areas, as well as the list of specific sub-objectives that are to be successfully implemented as a precondition for progressive advance towards the strategic purposes of IIB for 2013-2017:

- Forming specific project and counterparty selection criteria in accordance with provisions of the Program;
- Developing specialized SME-focused products and updating them in a regular manner;
- Developing a flexible price policy that takes into consideration specific features of the SME sector (including a mechanism to limit the interest rate for ultimate borrowers);
- Drafting a format of the report on target use of financing and a list of documents to confirm financing of SME entities by partners (to be included in the loan agreement);
- Drafting a format of the information exchange agreement with partner counterparties (to be signed simultaneously with execution of loan agreements);
- Intensifying the search of partners for implementing this Program (banks, investment and guarantee funds, leasing companies, microfinancial organizations, and factoring companies);
- Exploring scenarios for participating in joint projects (funds and syndicates) to support SME together with leading multilateral financial institutions;
- Organizing work to raise privileged financing for the SME Support Program. To extend the resource base and increase volumes of lending, IIB plans to raise additional financial funds on privileged conditions both in national capital markets of the member states and in international financial markets;
- Exploring governmental projects and programs (at the federal and municipal level) intended to develop SME in the member states. Analyzing the ability of IIB to participate in these programs (in particular, as a partner bank or otherwise);
- Exploring a system for engaging guarantee mechanisms from specialized governmental funds;
- Conducting researches of the SME sector by country on a regular basis (including joint researches with leading economic and financial educational institutions of the Bank's member states);
- Studying practices of SME financing by leading international development banks and multilateral financial institutions;
- Organizing trainings for IIB's employees in leading financial development institutes for experience exchange and studying the best world practices in SME financing;

- Participating in conferences, seminars, round tables, and other events for promoting the SME development;
- As part of the SME Support Program, publishing an information booklet, ‘The Success Story’, describing some projects implemented with the Bank’s participation;
- Monitoring target financing of SME support projects on a quarterly basis;
- Monitoring the progress of this Program on annual basis and issuing an annual report;
- Updating the Bank’s regulatory base in accordance with requirements of the Program;
- Adapting the Bank’s IT system to needs and requirements of the Program.

#### **IV. Key SME Support Areas**

As a part of this Program, IIB defines the following list of priority areas in financing of SME entities:

##### **A. Innovation (including support to high-tech start-up projects)**

- Financing costs of SME entity intended to introduce and commercialize technologies based on intangible assets owned by the SME entity (patents, licenses, industrial models, and other intellectual property items).
- Purchasing by SME entity of equipment under 5 years old or technologies based on international and national patents under 5 years old.
- Purchasing by SME entity of intangible assets for their further use in its business.

##### **B. Modernization (including technical upgrading)**

- Financing costs of SME entity to purchase fixed assets (machinery, equipment, software, etc.) and/or utilities.
- Purchasing by SME entity of land plots, buildings and structures required to improve (extend) an existing production or create a new one.
- Financing costs of SME entity to construct buildings and structures required to improve (extend) an existing production or create a new one.
- Financing costs of SME entity to renovate buildings and structures owned or leased by SME entity on a long-term basis.

##### **C. Resource Saving and Energy Efficiency**

- Financing costs of SME entity to purchase, repair and install equipment that ensures material savings of natural and energy resources.

- Financing costs of SME entity to purchase and repair equipment meeting selection criteria in terms of energy efficiency indicators (based on an independent expert opinion).
- Financing costs of SME entity to purchase, repair and install equipment relating to metering of energy resources.

The Bank considers that these are innovations, modernization, resource savings and energy efficiency that will contribute to:

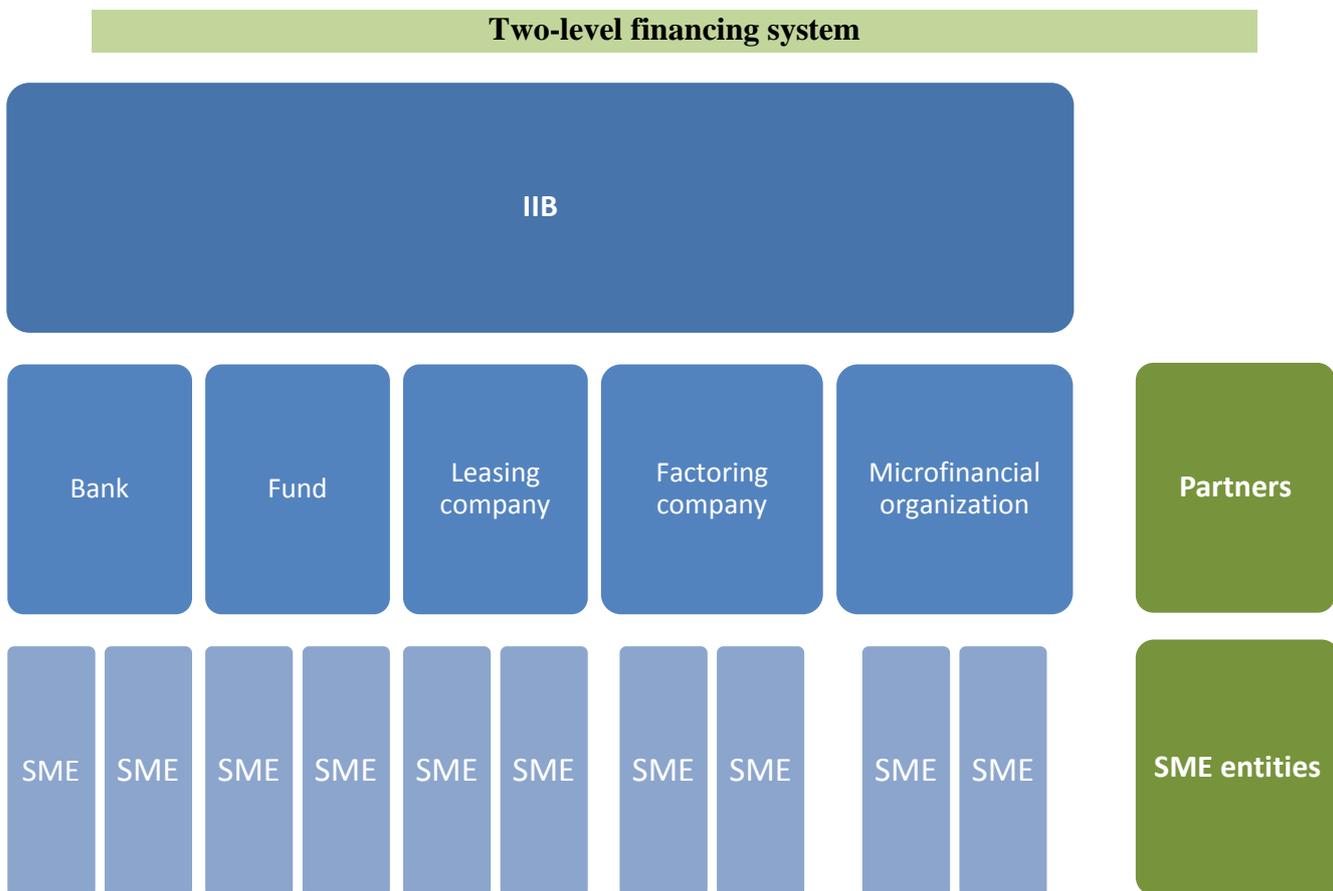
- higher competitiveness and investment attractiveness of economies in IIB member states;
- increasing employment and creating leading edge job places;
- GDP and tax revenues growth for the member states due to activities of SME.

## V. Implementation Mechanism of the SME Support Program

Within implementing this Program of support to SME in the IIB member states, the Bank applies a two-level lending system that provides financing to SME entities through a system of agents – commercial partner banks, leasing companies, factoring companies, microfinancial organizations, funds, etc. The Bank, generally, does not provide financing or other types of services directly to SME entities. Instead of that, IIB controls the target use of funds.

Key advantages of this system are:

- No risks relating to ultimate borrowers for the Bank;
- No costs relating to the establishment of its own branch network.



Therefore, target SME support tools include:

- bank lending;
- equity participation;
- leasing;
- factoring;

- microfinancing;
- guarantees.

### **Counterparty Selection Criteria**

Dealing with financial institutions IIB will carefully select financial intermediaries that must meet the following key criteria<sup>4</sup>:

#### **1. General Criteria:**

- financial activity to be performed in IIB member state;
- a license should be obtained;
- credit rating not below a certain level;
- availability of favorable audit reports;
- experience in financing SME entities;
- good business reputation;
- obtained consent of the IIB member state for providing a loan ('no objection') if a potential counterparty has pending litigations with governmental authorities of this member state.

#### **2. Financial Criteria (Sustainable Financial Position):**

- capital adequacy (not below a certain level);
- liquidity indicators;
- overdue debt level (not above a certain level);
- profitability, etc.

Relevant criteria must be developed separately for each type of counterparties (bank, leasing company, factoring company, microfinancial organization or investment fund).

However, criteria for participation in capital of small and medium business support funds need additional examination subject to specific parameters and extent of participation.

### **Project Selection Criteria**

The Bank will take into account the following factors when considering scenarios for financing a specific project:

- SME sector origin of a project;
- compliance of the project with the strategic purpose of the Bank's SME Support Program;

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<sup>4</sup> Specific quantitative and qualitative values of the criteria will be defined separately for each type of counterparty and product.

- relation of the project to a priority SME segment in accordance with the provisions of this Program (innovations, modernization, resource savings, and energy efficiency);
- availability of all documents required to receive financial support;
- compliance of the project with sustainable development criteria.

When selecting specific SME financing projects, the Bank will also pay attention to such aspects as contribution to export of goods and services, diversification of the economy, support of high added value production, new jobs creation and participation in projects covering several IIB member states (for implementing the status of a multilateral development institutes to a fuller extent).

The Bank's ability to participate in a specific project will depend on the risk assessment and the priority to be given to transactions with lower or medium risk and with an acceptable level of revenues.

**SME entity selection criteria** are defined in accordance with national laws of a member state and take into account the following factors:

- type of business;
- number of employees;
- earnings for the previous year;
- etc.

## **VI. Monitoring of the SME Support Program Implementation**

**To monitor the SME Support Program implementation, the Bank shall:**

1. Issue the Report on implementation of the SME Support Program on annual basis.
2. Monitor trends in target value and volume indicators specified by the Program on a quarterly basis.
3. Control the target use of funds intended for financial support of small and medium entrepreneurship at least once per quarter.

**The system of control over the target use of funds intended for financial support to small and medium entrepreneurship includes:**

- analysis of financial statements and documents confirming financing of SME entities by partners;
- regular selective on-site and office audits, paying special attention to control of SME entities conformity with the requirements stated by national laws of the member states and compliance of financing purposes with those set out in the loan agreement with a partner counterparty;
- collection of information about SME entities (including photo and video materials) that have received financial support out of IIB's funds illustrating final results of the SME financial support program (for preparing and publishing 'The Success Story' booklet).

Monitoring of the target use of loans based on the reports of partner counterparties on SME loan portfolios is effected by IIB in accordance with terms and conditions of loan agreements on monthly or quarterly basis.

Forms of reports are drafted by the Bank subject to specific features of each credit product for their further automatic processing.

In the course of such automatic processing, the following parameters of loans provided to SME entities shall be controlled:

- amount of loans provided to SME entities;
- debt of SME entities;
- lending term;
- pricing conditions;
- lending purpose;
- regional distribution of SME entities;
- economic performance indicators of SME entities;
- etc.

If any errors in completed reports or their non-compliance with terms and conditions of agreements are found, an electronic inquiry is sent to partner counterparty to receive explanations. Received documents and explanations of partner counterparty shall be included in electronic profile<sup>5</sup> of the specific SME entity.

The credit profile of SME entity shall include the following documents:

- Contractual base;
- Documents relating to the target use of loan funds;
- Documents confirming that the counterparty relates to SME sector and does not deal with trade activities;
- Financial statements and business plan (if any);
- Other documents.

Terms and conditions of the loan agreement shall reflect the right of IIB to request the partner counterparty to present originals of the documents, including:

- loan agreement with all amendments and supplements, other documents being an integral part of this agreement;
- collateral agreements (pledge, suretyship, guarantee, etc.) with all amendments and supplements, other documents being an integral part of these agreements;
- copies of payment documents confirming provision of a loan to SME entity;
- loan account statement reflecting the debt outstanding of SME entity;
- documents confirming the target use of the loan;
- founding documents of SME entity and other documents.

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<sup>5</sup> The question whether it is reasonable to create and maintain electronic profiles for partner counterparties and SME entities shall be considered subject to the volume of active SME support transactions.