International Trade Centre

EXPORT IMPACT FOR GOOD

Trade Finance for SMEs
Road Map for Implementing the Strategy

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1. Background

ITC's vision and mandate – export impact for good – aims at ensuring that trade contributes in a sustainable way to employment and income generation, poverty reduction, and to the fulfilment of the Millennium Development Goals (MDGs). As a 100% Aid for Trade organization and in alignment with the Global Partnership, ITC's approach is to promote entrepreneurship and connect economically disadvantaged groups, including women, to global markets.

The recent economic crisis has demonstrated that access to finance is a crucial component of the world economy, underpinning some 80% to 90% of world trade. As a result, the tightening of trade finance market conditions[1], which has been steadily disrupted since the beginning of the crisis, has severely impacted global trade and in particular on exporting markets[2] from countries in development[3].

ITC's response to the crisis is twofold. On the one hand, a better partnership and cooperation with sister agencies (World Bank group, World Trade Organization among others) in large initiatives such as the Aid for Trade, and on the other hand a better integration and consultation on the global agendas such as the MDGs for the improvement of social welfare, gender promotion and economic development. Indeed, the recent MDG task force report of September 2009 has highlighted that the economic crisis has intensified the need for strengthened partnerships in MDG 8 and particularly the areas of aid, trade and debt relief amongst others. Moreover, ITC's strategic plan 2010 – 2013 puts the emphasis on contributing to the MDGs for narrowing the gap in development issues by 2015.

The three strategic objectives of ITC are the following:

- Strengthen the integration of the business sector into the global economy through enhanced support to policy makers;
- Increase the capacity of Trade Support Institutions (TSIs) to support businesses;
- Strengthen the international competitiveness of enterprises through ITC training and support.

These provide an opportunity to contribute to the implementation of three of the five pillars of Aid for Trade, specifically: Trade Policy, Trade Development and Building Productive capacity.

The Trade Finance for SMEs strategy is particularly well positioned for contributing to Building Productive Capacity by ensuring that:

- Financial Institutions (FIs) are well equipped to attract, support, fund and sustain new and existing businesses
- Micro, Small and Medium sized enterprises are well equipped with skills and competencies to elaborate and defend sound and viable business proposals

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[1] Global Economic Prospects in 2010, (Specifically Box 3.3 Survey Evidence on the decline in Trade Finance during the crisis, p.83) The International Bank for Reconstruction and Development / The World Bank, 2010

[2] ITC Trade Map Factsheet "Developing Country Exports Decline in2009" Oct 2009 and ITC Trade Map Factsheet " LDC Trade Recovery in 2009", January 2010

[3] Small and medium enterprises (SMEs) account for 97 percent of businesses and over 50 percent of employment worldwide. A thriving SME sector can drive growth and jobs in developing countries. However, access to financial services for SMEs remains severely constrained in many emerging markets *IFC Issue Brief / Small and Medium Enterprises, 2009*

- A climate of trust and dialogue with Banks is in place for a better understanding of Small and Medium sized Enterprise (SME) needs and banking requirements
- Long term and medium term financial resources are effectively mobilized to support SMEs development.

Regional Aid for Trade review meetings held during 2009 in Latin America, Africa and Asia have reconfirmed the above and particularly the need to identify ways to improve access to finance, which was mentioned in all reviews as one of the major impediments to SME growth, productivity and recovery from the crisis. Furthermore, during the annual meeting with formal stakeholders (JAG 2009) WTO and UNCTAD have given an official mandate to ITC to contribute to Aid for Trade in making access to finance a priority of its work with SMEs.

This “road map” is prepared to show the areas of intervention of ITC’s Trade Finance for SMEs’ program, its operational modalities, its integration into ITC’s operational plan, its roll out at country level and the partnerships aimed, as well as the resources required for a successful and sustainable implementation. The purpose of this document is to inform and raise awareness of donors, governments and TSIs on the scope and outputs of this program, as well as mobilise resources from donors and sister organizations for the benefit of exporting SMEs.

2. Rationale for Enhancing Access to Finance for SMEs (what, and why it is important)

Access to finance is fundamental for the survival of SMEs worldwide, and is limited availability of capital is considered as a top barrier to their growth. Studies highlight that this is especially true for young and smaller firms, and for women entrepreneurs.

Three major problems are affecting exporting SMEs, compounding the risk factor associated to their financial needs and limiting their ability to acquire the necessary levels of capital to maximize their cash flow generation.

The first is their capacity to produce bankable proposals supported by sound financial figures and business plans. **The second is the difficulty for SMEs to have access to a conducive business environment** where information is readily available and an improvement of skills and competencies is possible. Additionally, SMEs often have difficulties receiving adequate support from national institutions and sector associations who are often not properly equipped to provide the full range of support that their members would need. **Third, the relation between banks and SMEs** is often characterized by a knowledge gap with difficulties assessing the real potential of enterprises. Therefore Banks tend to assess risk using credit history and accumulated wealth to compensate for the weakness of proposals and limited exposure to financial skills of SME managers.

The crisis has exacerbated these problems by making access to credit even more difficult for SMEs to access, especially exporting SMEs. The shortage of liquidities and reluctance of Banks to take additional risks by lending to SMEs has considerably contributed to reducing the volume of exports and specifically those of commodities and raw material from developing countries. According to “ITC’s Trade Map Factsheet: Developing Country Exports Decline in 2009”, export value in Least Developed Countries (LDCs) declined by as much as 43% during the first two quarters of 2009 compared to 2008.

ITC has reviewed its Trade Finance technical assistance program to focus primarily on exporting SMEs from developing and emerging countries, with a particular focus on LDCs. The objective of this re-orientation was a better response to the needs of the SMEs especially in the aftermath of the crisis. By improving their access to trade finance, ITC enables SMEs to generate new businesses and undertake productive investments that will enhance their capacity to generate cash flow. Moreover, it will help SMEs access markets, gain competitiveness on international markets and therefore increase their market shares. A second reason for this re-orientation was to ensure that Access to Trade Finance activities are fully integrated in other programs and services offered by ITC, consolidating on current large programs such as EnACT and PACT, and linking up with ITC's functions or services such as its Certified Trade Advisors Program (CTAP).

3. Modalities and Operating Model

The Trade Finance for SMEs' strategy is based on a strong local institutional anchorage and ownership for better impact on the ground and a broader outreach to SMEs, while ensuring sustainability. The program also secures a solid partnership with financial institutions at the national, regional and international levels, given their primary role in extending credit and guarantee lines. It is to be noted that ITC believes that a full recovery from the crisis requires concerted efforts between Governments, Trade Support Institutions, Development and commercial Banks and the exporting SMEs, and therefore aims at restoring dialogue and confidence among them.

Lastly, recognizing that ITC is not a funding agency, but an Organization aiming at contributing to poverty reduction through trade related technical assistance activities such as improving human capital, the Trade Finance for SMEs programme is conducted in partnership with bilateral, regional and other organizations, sharing common goals and bringing complementary assets and services.

The Trade Finance for SMEs program is based on the following objectives:

- **Strengthening the financial management capacities of SME managers;**

  Capacities are built before, during and after the loan application phase, to ensure that SME managers can access finance, develop viable business plans and meet their loan obligations, thereby becoming creditworthy borrowers.

- **Facilitating banks' appraisal of SMEs, through an interactive screening tool that rapidly assesses SMEs' potential and associated risk;**

  Financial institutions (FIs) have traditionally considered SMEs as a risky segment. As a result of the financial crisis, FIs' risk aversion towards SMEs has increased. Often ill-equipped to assess the risks presented by that particular segment, FIs tend to consider all SMEs as equally risky, thereby missing out on good investment opportunities.

- **Securing from regional development banks and other bilateral institutions medium and long-term credit and guarantee lines specifically targeting exporting SMEs;**

  ITC intends to negotiate and mobilize short, medium and long term credit and guarantee lines specifically dedicated to exporting SMEs, particularly those operating in sectors with highest export potential, with the aim of generating a significant and sustainable impact on the livelihoods of poor households.

- **Broadening the range of financial services made available to SMEs to improve their international competitiveness;**

In the present context of credit crunch, SMEs need to be fully aware of alternative sources of finance. Moreover, specific solutions for SMEs located outside of major urban centers of developing countries and countries in transition have to be found. To this end, ITC seeks innovative ways to extend the range of financial services targeting SMEs. For instance, ITC developed a publication on Islamic Finance, exploring how it can be leveraged by SME managers in developing countries, LDCs, and transition economies. Additionally, ITC is considering a number of solutions such as postal banking, e-banking and mobile Banking to enhance SMEs' access to a wider range of financial services, at a more affordable cost.

The set of tools and services developed by ITC in support of these objectives should enable both ITC and partner TSIs to generate funds, which in turn can be used to improve services in a sustainable way.

The Trade Finance for SMEs activities are conducted either at national or regional level according to the following modalities.

3.1. National level

The program can be provided in a generic way or oriented towards specific sectors or products. In the same way, it can target specific groups such as women entrepreneurs, cooperatives, etc.

Before starting any project, a needs assessment is conducted, and strategic partnerships are sought with organizations such as the World Bank, Development Banks and Exim Banks and other UN bodies or bilateral organizations to ensure a stronger impact at the country level.

The program is conducted through three main axes:

- Setting up sustainable mechanisms to strengthen the capacities of SME managers in financial management;
- Working with commercial or development banks to help them better understand the real potential of SMEs;
- Fostering a constructive dialogue between banks, TSIs, and exporting SMEs.

3.1.1. Strengthening the financial and overall management capacities of SME managers

Building the capacities of SME managers is achieved through two channels: on the one hand through a structured training, advisory and coaching system provided by a network of experts and TSIs, and on the other hand through a set of self tutorials, online tools and publications that enable SME managers to develop their skills on their own. In both cases, coaching and support aims at accompanying the SME managers **prior, during and after the loan**, to ensure they not only access finance but also meet their loan obligations, thereby becoming creditworthy borrowers. By reaching a critical mass of SMEs, ITC seeks to contribute to business creation, export development, job generation, and thereby growth and poverty alleviation.

<u>Assistance through a network of experts</u>

To maximize its outreach to SMEs, ITC partners with local TSIs to set up local teams of counselors capable of providing business and financial management training, diagnostic and advisory services to SME managers. In this program, candidates are selected from partner institutions and other organizations to receive training aimed at enhancing SMEs' business management skills, in particular their ability to adopt sound financial management practices and to develop bankable proposals.

Capitalizing on ITC's CTAP approach, the Trade Finance for SMEs' program first tailors its set of generic training modules in financial management (see list in Annex) to the context of the country, sector or target group considered, before using them to train candidates. This rigorous training includes practical work with existing SMEs, during which participants receive coaching from ITC. Upon successful completion of the program, participants are certified by ITC and the partner institution, and are equipped to provide their services to SMEs. Experienced counselors, moreover, contribute to training new counselors following the Training of Trainer approach, thereby further enhancing the multiplier effect.

Sustainability is ensured through:

- *The Selection of Partner TSI*: Amongst existing local TSIs, ITC selects its partners based on the following criteria: whether the TSI is knowledge based, the range and quality of services it offers, the size and quality of its membership, its training and coaching ability or potential, and its linkages to national institutions such as the government. The aim is to ensure the broadest and most effective outreach to SMEs. In some cases, a program will be undertaken with several partner TSIs in case where one single TSI does not offer sufficient coverage.

- *The Careful Selection of Counselors:* Candidates to the training program are recruited based not only on their educational and professional background, but also on their willingness to contribute to the program and on their long term commitment to the development of SMEs in their country. Their participation to the program is conditional to their acceptance of strict terms of engagements that specify the requirements of the program, a minimum of trainings to be conducted upon completion of the program, ethical behavior, as well as reporting requirements during and after the program. It is primarily against these rules of engagement that counselors will be monitored and evaluated by the TSI and ITC.

- *Linking Qualified Counselors to Local TSIs:* In order to ensure that knowledge is properly shared and disseminated in the country, successful counselors are linked to the partner TSIs. Localized training material and supporting documents also become the property of the TSIs. In that way, knowledge becomes part of the institutional memory of the country, and can be enhanced and reused throughout the years. An appropriate reporting mechanism is put in place so that ITC is informed by the TSI on the use of the network and tools, and can thereby continually improve its approach and offering.

- *Self-Sustainability of Support and Coaching Services:* Although the training, advisory and coaching services of the counselors are initially offered free of charge to SME managers, the aim is for those services to become self sustainable through market based mechanisms. For example, SME managers participating in an ITC program learn about the services offered by counselors and gain awareness of their benefits. Satisfied managers will seek continued services after the project ends, and will be ready to do so against a fee. Word of mouth and publicity from the TSI is expected to further help counselors extend their pool of clients. In the same way, the TSI, once its services are well established and known, can decide to charge a fee for its trainings or for the use of its tools.

<u>Self-learning mechanisms</u>

ITC developed a range of publications and online tools aimed at enhancing the capacities of SME managers to assess and enhance their own competencies in financial management. These include a series of self-checkers that strengthen their ability to determine their real financial needs, develop bankable proposals, negotiate good terms with a bank and adopt sound financial management practices. Such online tutorials are tailored to the specific country, sector or target group considered by selected national experts well aware of local financial mechanisms and conditions. The partner TSI makes them available online or offline to its members. In the same way, publications targeting specific topics are developed to provide additional support to SME managers, such as ITC's publications "How to access finance – a guide for exporting SMEs" or "Business Navigator on e-Finance for SME exporters in developing countries".

These self-assistance tools enable a broader outreach to SME managers as they do not require the physical presence of a tutor and can be used whenever managers feel the need, allowing concurrent use by numerous managers at the same time. Sustainability of new tools is secured by ensuring that they respond to a real need of SME managers and that content is effectively tailored to their specific context. In this process, ITC relies strongly on its partner TSIs, who are in direct and constant contact with SME managers and can point to appropriate experts for tailoring purposes. TSIs also play a central role in the dissemination of the products and in monitoring their use and effectiveness.

3.1.2. Encouraging SME lending by financial institutions through facilitating their understanding of SME needs and risks

First of all, the program aims at facilitating the financial institutions' understanding of SME needs and risks. For this purpose, ITC, in close partnership with Exim Bank of India, developed an innovative risk assessment / risk management software (LoanCom). Besides looking into traditional financial parameters such as financial ratios, credit history and collateral, this software thoroughly assesses the SME's non-financial performance and potential. More precisely, the software looks into the SME's capacity to define sound and sustainable strategies, reach its business objectives through an efficient management of its production, marketing, distribution and transaction functions, and its ability to manage its resources efficiently. It quantifies the SME's performance along these categories, displays a visual representation of the SME's strengths and weaknesses (green, yellow or red light is provided for the banker's final decision), and provides recommendations to the financial institution on how to proceed.

The software is adapted to each financial institution's requirements and to the specificities of the countries and sectors considered, and is made available online on the partner bank's intranet. By providing a new angle to assess SMEs and a quick, interactive way of evaluating loan requests, LoanCom constitutes an effective decision-support system.

Partner banks are selected based on their commitment to SME development and their willingness to contribute time to the development and testing of the tailored version of the software, and to integrate the LoanCom methodology into their practices. Input from key staff is needed to ensure that the customized software reflects the requirements and expectations of the bank. Moreover, the bank should commit to comply with specific reporting requirements that will enable ITC to determine to which extent the tool is being used and the quality of the output generated, for the purposes of continually improving the LoanCom software and methodology.

In order to further encourage SME lending, ITC negotiates with regional development banks or bilateral organizations to secure medium and long term credit and guarantee lines dedicated to SME lending. This ensures that financing is effectively made available to SMEs, while assisting partnering commercial banks in mitigating risks associated to SME lending.

3.2. Fostering dialogue between Banks, TSIs and exporting SMEs

The interventions cited above would have limited impact if conducted in isolation. This is why the Trade Finance for SMEs program is designed to interlink these components, so that partner TSIs, partner banks and SMEs selected naturally work side by side.

In summary, a regional development bank provides a line of credit as part of a technical assistance package to a local commercial bank, namely the partner bank selected by ITC. ITC conducts some of the technical assistance, specifically the development and adaptation of its risk assessment / risk management software, and the capacity building of local TSIs to support exporting SMEs before, during and after the loan. By screening loan requests using ITC software and providing successful candidates with coaching from local institutions, the chances of success of loan beneficiaries is considerably enhanced.

Throughout the different stages, continuous information sharing is encouraged between TSIs and exporting SMEs, so the latter can provide feedback on the effectiveness and relevance of the training, and TSIs can adapt it accordingly. In the same way, the partner bank is asked to share detailed information with the TSI on the areas of weaknesses of the SMEs to enable the TSIs to better accompany them. Last but not least, an early warning system is put in place between the Bank, the TSI and the exporting SMEs to detect soon enough if an SME to whom a loan has been extended will be encountering problems to repay its loan. Both the bank and the TSI are well positioned to detect such a situation, the bank through its books and the TSI through its proximity with the SME, so both can benefit from exchanging information to better accomplish their mandate.

Once again, the success of this approach depends on the willingness of the actors involved to contribute to SME development in their country and their openness to innovative ways of working together. It is hoped that the practice of consultation adopted during the program will build the basis for future collaborations between these different key entities.

3.2.1. Regional level

As part of the competency building process and taking into consideration the importance of relying on a critical mass of trainers and consultants and widening the contacts with potential partners from commercial Banks, the Trade Finance strategy also intervenes at the regional level.

Through this approach, a pole of competency is identified in a region preferably sharing the same commonalities and presenting similar needs. The objective is to create in the region a Centre for Excellence for Financial Management which would be the platform for exchanges between TSIs, SMEs and Commercial or Development Banks for:

1. Identifying SME needs for the region, for a specific sector or for specific markets
2. Identifying the needs for services and competencies available and / or required at the regional level
3. Identifying specific SME banking solutions such as better risk assessment/ assessment of potential
4. Provide a forum for exchanging / sharing best practices and lessons learned for SME development
5. Provide a platform for raising the awareness of funding partners
6. Assisting in the design of specific country oriented projects and mobilize or coordinate the human resources to be identified from the region

7. Participate actively in the monitoring and assessment processes to constitute a reference unit on initiatives undertaken for enhancing SME access to finance in that region.

A similar initiative is at present being tested in South East Asia with the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) based in Manila and the International Institute for Trade and Development (ITD) in Bangkok. The pilot should be presented for funding in June 2010 and should cover a wide region of which eight countries will be considered as part of the first roll out. The duration of this pilot will be of three years which provides a reasonable time for testing the approach and adjusting it accordingly.

The advantages of this regional approach are critical in dramatically increasing the opportunity cost by identifying and using regional specialists, consultants and trainers; develop specific strategies for the region closer to the needs of the beneficiaries; quicker response to the needs and increasing the follow up and monitoring of the activities. Last but not least, this approach is contributing to the impact on global agendas from a regional perspective

4. Targeted Beneficiaries per Geographical Region

4.1. Rationale

Recognizing the widespread needs for trade finance technical assistance, especially in the area of access to finance, and the importance of identifying mechanisms facilitating the response to these needs, the Trade Finance Unit is identifying a number of institutions in different regions of the world capable of showcasing its approach and undertaking activities at the regional level.

In addition, to allow an optimal use of ITC resources and the widest exposure to and use of ITC programs and activities, the Trade Finance Unit responds in priority to the needs of countries already included in ITC's operational plan and preferably countries where parallel activities are taking place. Considering the importance of National Export Strategies (NES) and Sector Strategies for developing countries and the close linkages and dependence of these strategies with the SMEs access to finance, those countries receiving a specific assistance on strategy building are being considered a priority.

The rationale for an intervention by the Trade Finance Unit is for a country to satisfy at least one of the following criteria:

1. To be a country with an ongoing National Export Strategy program and active in one or more of the priority sectors identified by ITC;
2. To be part of one of the large ITC programs (PACTII, ENACT, EIF, ACP) or projects such as ACCESS;
3. To be part of a regional economic group of countries with specific needs such as land locked or small island countries;
4. To have the potential for hosting a regional hub or knowledge centre that will act as a forum of exchange and best practices for countries in the region;
5. To have relevant regional or commercial banks sharing ITC's views and interested in teaming up with the Trade Finance Unit.

Based on the above criteria and taking into consideration the severe drop in exports due to the fall in market demand, the Trade Finance Unit, in collaboration with relevant ITC country officers, determined that the following LDC / LLDC / SIDS and sub-Saharan African countries would represent a short and medium term justification for a trade finance initiative.

Africa	Asia
Liberia ITC priority, EIF, PACTII, ACP EU; Additional interest by Finland and DFID Uganda ITC priority, Gender, EIF, NTFII, PACT II, ACP EU; NES; Additional interest by Finland Ethiopia EIF, PACTII, ACP EU Zambia EIF, PACTII, ACP EU; Additional interest by AfDB Mali ITC,EIF, PACTII, ACP EU; Additional interest by USAID and AFD Senegal ITC, EIF, PACTII, ACP EU; Additional interest by AFD RD Congo EIF, PACTII, ACP EU; Additional interest by UNDP and AFD	Cambodia EIF, ACP EU; NES; part of the ADFIAP project; additional interest by AFD Laos EIF, ACP EU; NES; Part of the ADFIAP; additional interest by AFD Vietnam EIF, ACP EU; NES; Part of the ADFIAP project; additional interest by the Swiss government Bangladesh ITC, EIF, ACP EU; NES; additional interest by EU Samoa EIF, ACP EU; NES; additional interest by DFID Mongolia EIF, ACP EU; NES; part of the ADFIAP project; additional interest by the Swiss government
Latin America	**Arab States**
Peru Additional interest by Swiss government Bolivia Additional interest by the Swiss government Jamaica NES	ENACT countries

4.2. Ongoing discussions

From the above listing, the Trade Finance Unit is presently in discussion with the following countries who have expressed a specific interest for Trade Finance activities and where funding opportunities have been identified.

<u>Africa</u>

Insists Congo DRC: Funded by UNDP. A pilot program is currently taking place in Kinshasa, which aims at strengthening the financial management capabilities of the TSIs and SME associations from multi sectors in the area of Kinshasa. Partnering banks being considered: RAWBANK and BIAC.

Uganda: Under consideration for a financing by Finland, this program will focus on the coffee and fish cooperative sectors. Partnering bank under consideration: PTA bank

Mali: Under discussion with the Banque de Development du Mali and the USAID. The program should provide assistance to the sectors of fruit production and exports.

Zambia: Under discussion with UNDP / AMSCO and the African Development bank. This project aims at providing assistance to the small artisans from the mining and agricultural industry in association with two banks: Zaneco and Investrust.

<u>Asia and the Pacific</u>

Cambodia: Ongoing discussions with the Agence Française de Développement (AFD) for a specific program targeting Commodities (specifically Rice). AFD is conducting a program providing guarantee funds to participating commercial banks and subsidies to keep interest rates below 10 percent. Partnering bank under consideration: ANZ Royal Cambodia.

Lao PDR: Ongoing discussions with the LAO PDR Government and EIF for a Trade Finance initiative targeting the SMEs in three cities (Sayaboury, Luang Prabang and Savanaketh). The Swiss government Government has already provided a financial contribution for training of trainers (TOT) program conducted by the Trade Finance Unit.

Mongolia: Ongoing discussions with the UNDP, EBRD and the Swiss government Government for financing a project covering the needs of Micro enterprises and SMEs. This initiative would be part of the One Village – One product project financed by UNDP. Partnering Bank under consideration: XAC Bank.

<u>Latin American and the Caribbean</u>

Jamaica: Exim bank of Jamaica has expressed a need for a Trade Finance activity. The country is particularly well suited for this type of intervention due to the work done by the Jamaica Corporate Finance Brokerage Unit.

5. Partnerships and Resources

5.1. Partnerships

For reaching its objectives in the above countries, the Trade Finance for SMEs Unit needs to develop strategic partnerships with sister organizations and funding partners.

The following table indicates the organizations and funding agencies contacted by the Trade Finance Unit and playing an important role that could be complementary to the Trade Finance activities.

Asia and The pacific	Africa
International and regional organizations Asia Development Bank WTO World Bank – IFC Agence Française de Développement KFW GTZ Swiss government Government DFID EBRD Commercial banks ANZ Royal Cambodia ACLEDA (Laos, Cambodia) Xac bank (Mongolia) Planters Bank SME bank Malaysia Exim bank of India	International and regional organizations African Development Bank World Bank – IFC UNDP Agence Française de Développement Belgian Coopération AMSCO USAID AFREXIM BANK Commercial banks PTA Bank Banque de Développement du Mali Zanaco Investrust BIAC Eco bank
Central America	**Arab States**
Inter American Development bank World Bank / IFC UNDP	ITFC National SME Banks in Tunisia, Morocco, Egypt

A number of the above organizations and agencies are exploring partnering possibilities with the Trade Finance Unit such as the Agence Française de Développement for Cambodia and USAID in Mali. The challenge presented is to build the greatest complementarities and foster synergies among the partners. As an example, the discussion in Cambodia is involving several actors who are considering a direct or indirect involvement in support of the project such as UNDP, EU, World Bank, IFC, JAICO, AFD. The same model of discussion is taking place in Zambia under coordination of the AfDB with UNDP / AMSCO, ILO, World Bank and ITC involvement.

This demonstrates that for every country the assessment of needs and subsequent design of an activity must be closely conducted with all key actors at national, regional and international level.

Partnering with the Trade Finance Unit can take several shapes:

5.1.1. Providing funds for technical assistance

This was the case with the EU in India, the Government of Italy in Tunisia and UNDP in Congo, the funds being used by ITC to implement an entire program based on the outline indicated above.

5.1.2. Providing long term guarantees

This can be done by a regional development Bank or a Bilateral Organisation such as the proposed program by the AFD in Cambodia. The guarantees can cover up to 70 per cent of a loan to an SME having been screened through ITC tools and methodology. The guarantees, in combination with ITC tools and methodology, contribute to mitigating the risk associated with SME lending and therefore further encourage partner banks to provide funds to this particular segment.

5.1.3. Providing interest rates subsidies

This can be provided by Bilateral Organisations or development Banks, based on value added portfolios of loans identified thanks to ITC's servicing.

5.1.4. Parallel activities

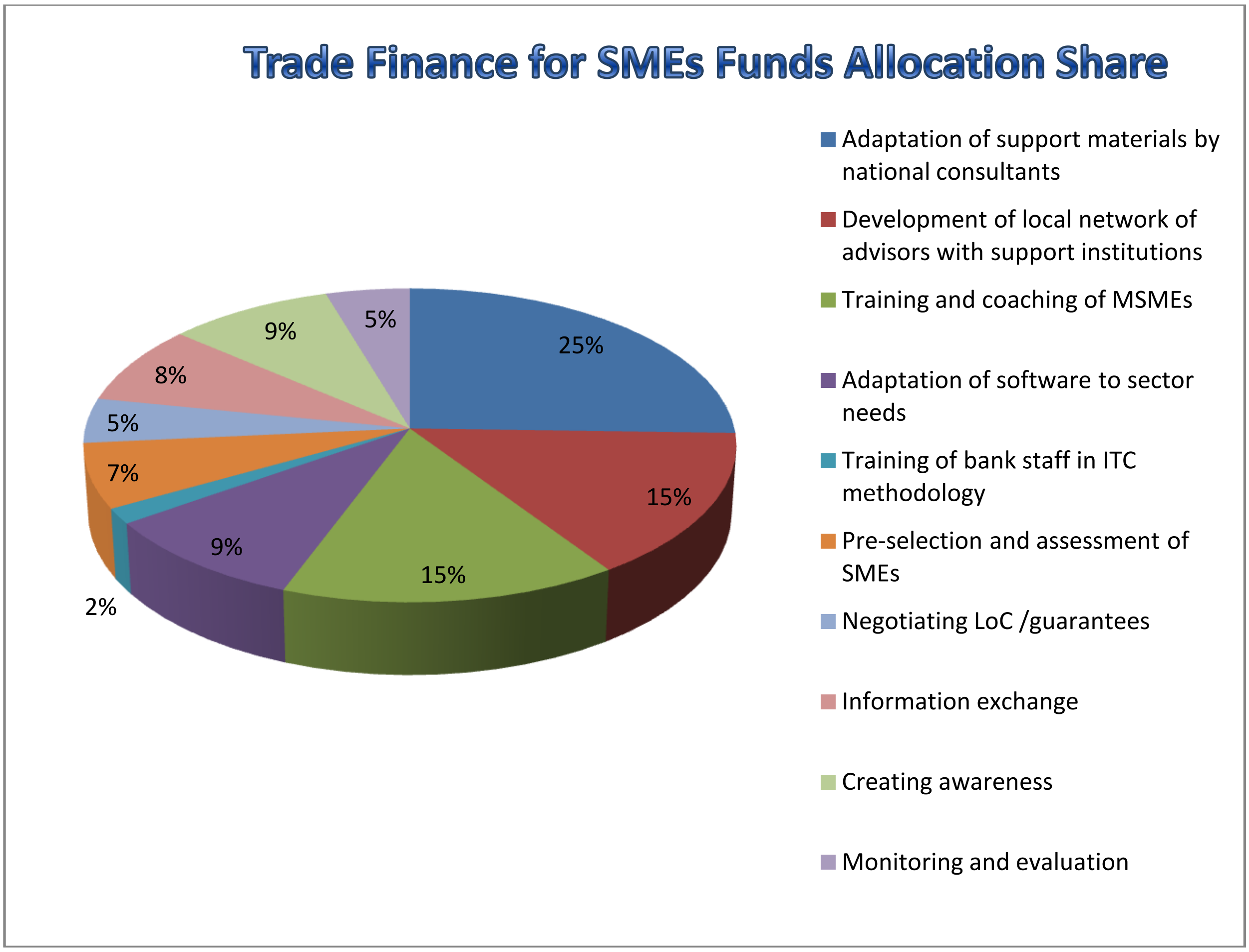
This can be the case, for example, of IFC and World Bank, through the Business edge program that could serve as an entry point for an ITC activity. Synergies could be obtained by involving in ITC programs SMEs and counsellors that have successfully participated in IFC programs.

5.2. Resources required

To implement the above program, ITC's Trade Finance Unit needs to mobilize funding mostly covering the technical assistance activities. On average, an activity in a country requires about USD300,000 over a lapse of 18 months and covers about 60 to 100 SMEs from one or more sectors dedicated to exports. These funds are for the most part used within the country with about 20 per cent used by ITC to cover activities such as programming conducted in Headquarters and monitoring and evaluation.

The following chart provides a model for budget assignment for each of the budget components. The largest budget component is the training of trainers and certification of CTAP[4] trainers, to ensure that the quality and sustainability of their loans have increased.

[4] Certified Trade Advisors Programme (CTAP) implemented by the Enterprise Competitiveness Section of DBIS/ITC



Based on the above, to implement the activities in its eight priority countries, ITC will need to mobilize a total of approximately USD 2,400,000 over the next two to three years. At present, ITC has mobilized or received indications of interest for funding for a total of USD 1,038,000 leaving USD 1,362,000 yet to be mobilized.

The following table summarizes expected or confirmed sources of finance for 2010:

Project	**Expected/ Confirmed source**	**Amount mobilized**
Pilot for a regional SME Finance and knowledge centre in Asia Pacific (ITC/ ADFIAP/ ITD)	ITC	USD 162 000
Trade Finance for SMEs in the Democratic Republic of Congo	UNDP	USD 376 000
Trade Finance in Cambodia (Commodities)	AFD, WB	USD 250 000
Trade Finance in EIF country	Finland	USD 250 000
	Total	**USD 1 038 000**

6. Outcomes and Results

To survive, flourish and gain access to global markets, SMEs must achieve higher levels of competitiveness. This implies a number of issues ranging from access to information, knowledge of markets, management competencies, the ability to develop sound and competitive strategies and most important having access to a conducive business environment. None of these issues can be effective as a standalone. All of them must be accessible to the SME manager for a tangible and sustainable impact on competitiveness.

The ITC approach can be considered as a holistic one directed exclusively to enterprise competiveness. Through its Trade Finance for SMEs program, the following concrete outputs are achieved at SME, TSI and Bank level:

A. National institutions and sector associations are better equipped to provide training and coaching to their members through a team of advisors trained and certified by ITC. These advisors are part of a network (Certified Trade Advisors Program “CTAP”) organized by ITC at the national and regional level contributing in sharing knowledge and best practices to consolidate cooperation within the country and between countries in a regional setting. The advisors provide training to SME managers in financial management and coaching in preparing business plans and presenting them to banks. This coaching process is then available during the loan process and continues after the loan is granted to make sure that the SME objectives are realized. All of the training material developed for this program (see listing of the seven generic modules in the Annex) is adapted to the specific country context and to the specificity of the target audience and sector. To maximize ownership, training is conducted mostly by nationals with coaching provided by ITC.

B. ITC provides one or more partnering Bank a tailored version of its software “LoanCom”. This software takes into account the specificity of a sector or a market as well as the risk exposure factor of the partnering bank. Bank Officers are trained on the use of the software which is eventually integrated into the Bank’s management information system.

C. Medium and long term credit and guarantee lines are made available to further encourage SME lending.

D. On average for each country 70 to 100 SMEs are successfully selected through this program and receive the required support to improve their production and competitiveness

E. Better dialogue is established between SMEs, Banks and TSIs at country level, leading to improved support to SMEs, enhanced access to finance, higher repayment rates and higher exports.

F. The program puts an emphasis on women entrepreneurs (target of 30% of total) and enterprises with a good job creation potential, on communities and on green technologies.

7. Monitoring and Evaluation

From the preliminary needs assessment and design stage to the implementation of the activities, monitoring and evaluation of the progress of the project is constant.

The essence of this project is centred on strengthening and consolidating national institutions to provide better services to their members and ensuring that their members have a better access to finance. Therefore, the monitoring and assessment starts with the TSIs to make sure that the training and coaching skills provided by ITC are rolled out with quality, that the material used has been adequately adapted to the specific needs in the country, and that it is continually enhanced and used once the program is completed. Indicators of achievement during and after the project include the number of counsellors trained per year, the number of SMEs receiving coaching and advisory services and having access to self-learning material, the rate of satisfaction as expressed by counsellors and SME managers, and the ability of the TSI to generate funds through the use of ITC material and methodology.

The performance of the trainers and counsellors is fundamental to the success of the project and therefore mechanisms of supervision are developed for the TSI and ITC to gauge the work they conduct with SME managers through direct follow up and through the verification of the quality of business proposals generated by the SMEs. Evaluating the level of activity of the network of experts after the program is ended is also part of ITC's monitoring strategy.

The performance of the partnering Banks for whom a tailored version of the LoanCom software was developed is done by monitoring the use made by the Bank of the software provided, the number of loans granted using the tool, and the associated repayment rate.

The Trade Finance Unit and the TSIs are also monitoring the rate of default as a primary indicator of the success of the Trade Finance coaching provided by the project.

The Trade Finance Unit is gauging the impact of the project on specific targeted groups such as women entrepreneurs, impact on communities and specifically job creations.

This monitoring and evaluation is conducted closely with the partners and stakeholders involved in the project, who must buy in and accept clear rules of engagements about reporting back to ITC on a regular basis. A regional meeting will be planned with donors, banks and SMEs to evaluate collectively the impact of the programs and draw lessons learnt.

8. Key milestones for the strategy Road map

Five key milestones are defined for implementing this road map, they are:

A. Marketing and Endorsement by International Organisations (World Bank, UNCTAD, WTO etc) = Immediate
B. Implementation of ongoing projects / activities = Ongoing and in line with ITC work plan 2010
C. Negotiate and schedule new activities 2010 – 2011 (Mali, Zambia, Cambodia, Lao PDR, Mongolia and Jamaica)
D. Monitoring, Evaluation and Reporting = Ongoing

Key Milestones for the Strategy Roadmap

Activities	2010				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
A. Marketing and Endorsement by International Organizations World bank, IFC, UNDP, AFD								
B. Implementation of ongoing projects								
B.1. Congo DRC						New project UNDP subject to positive evaluation		
B.2. ADFIAP / ITD/ ASIA/ Pacific					New project regional Asia subject to funding			
D. Negotiate and schedule new projects								
D.1 Benin (Finland)								
D.2. Mali								
D.3. Zambia								
D.4.Cambodia								
D.5. Lao PDR								
D.6. Mongolia								
D.7. Jamaica								
E. Monitoring and Evaluation		Monitoring Congo and ADFIAP	Evaluation ADFIAP	Monitoring A1	Evaluation A2 (Congo) with UNDP and decision on new project	Evaluation on A4	Monitoring A3	

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