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The Argentine Republic

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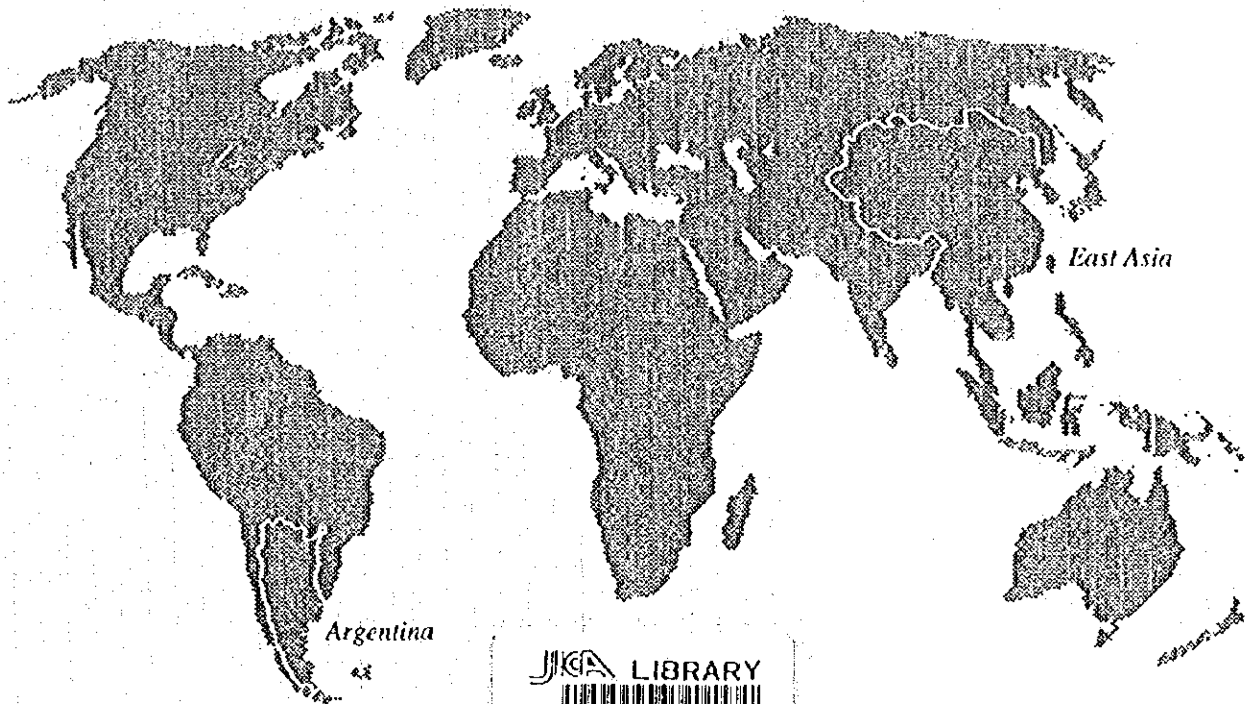
TOWARD A GREATER INTERDEPENDENCE BETWEEN ARGENTINA AND EAST ASIA: A NEW OPPORTUNITY FOR THE ARGENTINE ECONOMY

Final Report



Vol. 6 Development of Argentine Small- and Medium-sized Manufacturing Enterprises

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International Development Center of Japan

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Country	Currency	Average Exchange Rate		
Argentina	Argentine Peso	¥1	=	US$1.00
Australia	Australian Dollar	A$10	=	US$7.45
Belgium	Belgium Franc	BF.100	=	US$3.39
Brazil	Real	R$1	=	US$1.03
Canada	Canadian Dollar	C$10	=	US$7.36
Chile	Chilean Peso	Ch$1,000	=	US$2.38
Hong Kong	Hong Kong Dollar	HK$10	=	US$1.29
Indonesia	Rupiah	Rp.10,000	=	US$4.31
Italy	Lira	Lit.10,000	=	US$6.26
Japan	Yen	¥100	=	US$0.97
Korea	Won	W.1,000	=	US$1.29
Malaysia	Ringgit	RM.10	=	US$3.90
Mexico	Mexican Peso	N$10	=	US$1.33
Singapore	Singapore Dollar	S$10	=	US$7.09
South Africa	Rando	R.10	=	US$2.73

Above exchange rate figures were calculated from the actual purchases of the currencies made by the Study Team members during the visits to those countries concerned in the period between June 1995 through March 1996.

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Summary and Recommendations

Summary and Recommendations

Based on a national economic census performed in July 1994, there are about 90,000 small and medium size enterprises in the manufacturing sector in Argentina employing over one million people.

The industrial production of SMEs covers almost all the industrial sectors, and it is estimated that they generate more than 40% of industrial production. The three important sectoral groups of food and beverages, textiles and clothing, and metal mechanics account for almost 70% of total the manufacturing by SMEs and contribute to a large part of their export.

Compared with large firms, SMEs in the past grew through engaging in labor-intensive activities with less advanced technology, resulting in lower productivity. They found their market niches and were local-market oriented, without being influenced by foreign countries because of the high import tariff.

However, Argentina's dramatic economic reforms, which include trade liberalization, have created both competition with foreign manufactured goods and the means to meet the competition. The opening of the economy sent clear signals to local firms to increase efficiency to avoid losing their market share or be replaced in the market.

In view of the new macroeconomics, many SMEs started to modernize and restructure their production activities by introducing new technology and obtaining funds for investment. There are other firms, however, that are unable to change their concept or philosophy, sticking to traditional way without responding to structural changes in the economy. Sooner or later these firms will be expelled from the market.

At the same time, a considerable number of SMEs exist which are struggling to cope with the new situation but suffer from the insufficient resources such as funds, technology, and human resources.

The government's role is very important to these firms. They are able to grow further by receiving government-based support. Through developing good business environments with adequate supporting programs, competitive firms will be established and grow. The government supporting programs should be changed, modified, or enhanced according to the needs of SMEs in the changing economic surroundings.

The public support system should also be directed to new businesses, because the birth of new businesses is a key factor in maintaining and increasing employment, and also in sustaining the vital contribution of SMEs to the overall performance of the Argentine economy.

The efficient distribution and use of the fiscal budget is another important point to be considered, especially under a tight fiscal budget. It should be allocated to supporting programs according to their priority and the importance of SMEs' needs.

The function and initiative of the private sector is also important, not only from the standpoint of saving government expenditure but also in view of the potential and effectiveness of large firms supporting SMEs. The government decision to promote and accelerate the Supplier Development Program, as expressed in Law 24467 of March 1995, is the correct way to encourage SMEs by involving large private firms in the supporting programs.

As agreed to by the Argentine government., we studied the SMEs' present circumstances and the obstacles SMEs face relevant to their access to credit or financing, acquisition of new technology, and improvement in the quality of manufactured goods. We have adopted the auto parts sector as the subject of our case study of Argentine SMEs. We visited auto part manufacturers in Argentina as well as automobile assemblers, because the auto parts industry is strongly influenced by the strategic policy of assemblers.

We also studied public and private support programs and their framework in other countries, including some countries competing with Argentina in the international market. We visited eight countries (Brazil, Chile, Mexico, Australia, Italy, USA, Malaysia, and Korea) in addition to Japan, collecting information on the three items included in our study.

Many measures have been taken in each country. Some of them are unique and others are prevalent in many countries. There is a common trend, however, in many countries to enhance support to SMEs in recent years, being conscious of the importance of SMEs to the dynamic growth of the economy and to create jobs.

As a supplement to our study on Argentine SMEs, we referred to the research performed by KPMG and CEPAL in Buenos Aires regarding the SMEs' status quo and problems they are facing. Both researches were informative and helpful to our work, but we must mention that while KPMG's research, which is mainly based on a questionnaire, covers almost 100 SME's in the auto parts industry, CEPAL's research, mainly based on interviews, covers 39 SMEs only in the four industrial sectors.

Since the number and sectors of the sampled firms are limited, the results of their research, which are partially quoted in this report, do not always reflect the general trend and problems of Argentine SMES. Nevertheless, their research was helpful in confirming our findings.

After considering the applicability of other countries' support systems to Argentina taking account of the problems of Argentine SMEs and the present Argentine government-based SME support we prepared our recommendations and suggestions relevant to financing, technology, and quality control, which are summarized below (the illustration of our recommendations and suggestions is given in page 9).

We believe that the development of Argentine SMEs will not only contribute to macroeconomics' growth and job creation but also to the growth of underdeveloped local regions and an increase in export to many other countries.

1. The Financial Problems of SMEs and the Recommendable Measures to Facilitate Credit Access for SMEs

The dramatic macroeconomics reforms implemented by the Menem Administration have brought about the recovery of the financial system and capital market. The efficiency and competitiveness of financial institutions have been improving through re-organization and privatization, despite the sudden economic crisis of Mexico; which had a serious negative impact on Argentina's financial system.

According to our survey it is still difficult for SMEs to access credit, primarily for the following reasons:

- High interest rate for borrowing;
- Insufficient resources for loans from financial institutions, especially long term;
- Strict requirements for mortgage and guarantees;
- The complexity of the procedures and formalities for granting loan;
- The special financing program for SMEs by BICE and Banco de la Nación is not well-known;
- Difficulty to obtain equity financing.

In view of the problems mentioned above and as a result of our study of support programs from other countries, the following recommendations are made to the Argentine government to facilitate credit access for SMEs:

(1) Strengthen the function of public financial institutions, especially BICE and Banco de la Nación, through increasing the endowment fund, diversification of funding sources, and increase of the direct financing by Banco de la Nación to borrowers (SMEs). The publicity and marketing of the special funding allowances for SMEs is also necessary, indicating the requirements and conditions of those loans.

(2) Create an institutional guarantee system for borrowing, initiated by the government but allowing for participation by the private sector. This guarantee can limit the purpose of the loan (for instance the purchase of machinery or equipment).

(3) Promote lending on a cash flow basis instead of relying totally on personal assets or guarantees; making use of financial consultants both by SMEs and financial institutions.

(4) Promote equity finance through the creation of a development fund program for investment under a governmental support which includes tax incentives or guarantee for fund raising by investors. Developing the stock market is another key factor in equity finance.

(5) Create a matching program between investors (individuals or investing companies seeking equity investment) and investees (SMEs) looking for equity finance to increase their productivity and efficiency.

(6) Promote diversification of financial sources like leasing or factoring reviewing and studying the legal and physical aspects and possible incentives of the operations.

(7) Conduct a periodic survey of the financial problems and barriers to SMEs in order to reflect them in the government policy in a timely manner.

2. The Technological Problems of SMEs and the Recommendable Measures or Framework forthe Acquisition of New Technology and Know-How

According to the survey made by CEPAL, Argentine SMEs have the following obstacles impeding the development of technology:

- Insufficient financing
- Shortage of expert human resources
- Expensive machinery or equipment
- Shortage of technological information and know-how
- Insufficient support for innovating activities

In order to overcome these obstacles, SMEs wish to receive the following external support:

- Financing
- Process development
- New technology information
- Technological training
- New product development

To cope with this situation, the Argentine government started "Small- and Medium-Size Enterprises Promotion 3-Year Plan" in 1992, which includes a plan for the development and acquisition of new technology.

As a governmental support institution, INTI offers technological services such as tests and analyses, product certification, technological guidance, technology development and transfer.

CIEI (Industrial Information and Statistics Data Center) has provided SMEs with database information from the Secretary of Industry, including industrial and trade statistics and a directory of local SMEs. However, this database did not include technological information.

In the Three-Year Development Plan, there are three financial support programs: credit for the acquiring technology, the Argentine Technology Fund (FONTAR), and national programs for technological innovation and transfer of information.

In order to improve access to the existing government support programs and improve the services quality of the entities concerned, the following measures are suggested:

(1) Provide and disseminate (to SMEs) simple and readily understandable promotion materials regarding technological support schemes, including success stories of SMEs that applied the public support scheme.

(2) Utilize the functions and connections of the local administration, public research laboratories, and industrial associations in the private sector as a communication vehicle to convey the intentions and contents of the public technological support programs to each SME across the nation.

(3) Explore the tax reductions for research and development which would be useful in motivating SMEs to initiate new technology development.

(4) Organize a specialist training system for the support program to improve the abilities of public advisors. Inviting experienced technology experts from other countries and continuously sending Argentine experts abroad is recommended.

(5) Create a computer-based information network system for technical support and substantialize network of the technology support system by involving both national and foreign public and private organizations.

3. The Obstacles for Argentine SMEs' Quality Improvement Activities and Our Recommendations

According to the survey done by CEPAL on leather products, chemical/plastic products, metallic products, and scientific machinery and equipment manufacturers, the main obstacles to conducting quality development activities are the lack of financial resources, difficulties in changing the enterprises' culture, and the insufficient institutional support.

Auto part manufacturers noted the need for training services to obtain the ISO9000, subsidies to pay for consultant fees, information services, and an in-house quality control auditor.

Some SMEs have been enthusiastically running quality improvement programs since 1990, introducing 5-S programs, problem analysis tools, the cell's system, quality self-control and fool-proof systems in plants. Over the past five years, some have succeeded in significantly reducing their defect rates.

However, many SMEs still exist which subject their final products to little more than visual checks or inspections that rely only on venire micrometers and other unsophisticated instrumentation. These companies must work on quality improvement and strive for serious increases in their product quality by seeking assistance from quality-control organizations or consultants.

The following items are suggested in view of the present obstacles:

(1) Develop practical programs in Argentine quality-control research and education organizations
A sizable share of SMEs want more practical seminars and/or training courses which have an immediate effect. Argentine quality-control organizations are needed to develop such programs. Those programs should include references to successful SMEs. If the organizations have difficulties in developing the programs that SMEs need, they should work together with selected foreign organizations.

(2) Construct a nationwide quality service network
Since Argentina is a relatively large country with SMEs located nationwide that prefer to access assistance at the local level, the government must support the establishment of provincial organizations and create a nationwide quality improvement service network.

(3) Subsidies for SMEs quality improvement projects
Most SMEs lack the financial resources to practice quality improvement programs. The government should explore subsidizing the consulting and training costs, like Chile, Australia, and Malaysia do.

(4) Increase the supply of long-term low-interest financing for SMEs
In order to cut the rates of defective products, it is essential to enlarge and reinforce the existing quality control systems and pursue full modernization campaigns aimed at replacing outdated plant facilities.

Since most of the firms do not have enough capital for investment, the government should increase the supply of long-term, low-interest financing, such as the special financing program by BICE and Banco de la Nación. An investment tax credit and an accelerated depreciation system are also recommendable because they have almost the same effect in assisting the replacement of plant facilities.

The Process of Introducing TQM

SMEs

Do the Quality Control (QC) activities have been sufficiently conducted in the plant or not?

NO

Promotion of QC system and Activities

* 5S Program
* Quality Self-Control System
* Poka-Yoke System
* QC Circle
* Proposal System

YES

Introduction of TQM

Introduce the system and activities which satisfy the requirements of ISO 9000, Deming Application Prize, etc.

Establishment of TQM

Challenge and Obtain ISO 9000 Certificate, Deming application Prize for Overseas, etc.

The main important points to introduce and diffuse TQM to Argentine SMEs

* Strengthen the leadership of management and factory manager
* Deepen the understanding of workers about the importance of Quality Control
* Provide practical programs for training by Quality Control organizations

The Summarized Recommendation/Suggestion Relevant to Financing, Technologies and Quality

	Problems and Barriers for SMEs	Recommendation/Suggestion	Examples of Other Countries
Financing	- High interest rate and insufficient resources of loans of financial institutions	Strengthen the function of BICE and Banco de la Nación Promote the publicity of their special financing menu	Japan, Brazil, Chile, Mexico
	- Institutional supporting programs are unknown	Create the institutional guarantee system for borrowings	Japan, USA, Chile, Brazil, Mexico
	- Strict requirements for mortgage and guarantees	Promote of lending on cash flow base	Chile, Australia, Italy
	- The complexity of procedures and formalities for granting loan	Create development fund for investment and matching program between investors and SMEs Promote capital market development	Australia, USA, Japan
	-Difficulty to obtain equity finance	Promote other sources of financing especially leasing	USA, Japan, Chile
Technologies	-Insufficient financing or funding for the purchase of machinery or acquisition of new technology	Provide SMEs with readily understandable information on technological supporting program and harness industrial organizations of the private sector	Australia, Japan, Korea, Brazil
	-Shortage of expertise human resources	Explore the tax reduction frameworks for R&D	Australia, Malaysia, Japan, Korea
	-Shortage of technology-related information and know-how	Organize a specialist training program to improve the quality of advisors	Japan
	-Insufficient technical assistance and training -Costly machinery and equipments	Create computer network system for information sharing of new technology and technical support	Australia, Japan, Korea, Mexico, Brazil, Malaysia
Quality	-Difficulties to change the enterprise's culture	Develop practical programs in quality-control organizations	Brazil, Chile
	-Insufficient institutional supports including information services and subsidies for consultants and training	Build a nation-wide quality improvement service network	Mexico, Brazil
	-Underdeveloped level of quality control system	Provide SMEs with subsidies for quality improvement projects and activities	Chile, Australia, Malaysia
	-Insufficient financial resources for quality development activities	Increase supply of long-term low-interest financing for SMEs' modernization of obsolete plant and facilities	Japan, USA, etc.

4. The Automobile Industry and Autoparts SMEs in Argentina: Policy Recommendations

Increase supply of long-term, low-interest financing for SMEs evaluate the relative attraction of the MERCOSUR region and Argentina as well as the capability of their plants and local auto parts suppliers. Despite "Tequila Shock," assemblers have thus far remained optimistic about expanding the market in the MERCOSUR countries. The MERCOSUR Trade Agreement / Protocol 21 enables them to build a more efficient plant

The scale and direction of the auto parts trade within and between MERCOSUR countries depends not only on the trade agreement but also on the automobile regime of each country. The Automobile Regime was introduced in Argentina in 1991; a similar regime is also being introduced in Brazil in 1995-96. The former has raised the merit of manufacturing in both Argentina and Brazil, while the latter might tilt the balance towards Brazil again. In that event, assemblers in Brazil could produce almost a complete line-up due to its large market, but assemblers in Argentina might be forced to reduce their model range to only one or two per brand.

Production of brand-new models will not be allowed if the assembling plant fails to satisfy the productivity and quality standard of the headquarters. Assemblers would then have a small number of superior suppliers deliver sub-assemblies. They have a classification system for their suppliers based on performance and capability:

Rank A: Those who have demonstrated excellent performance in cost, quality, and delivery management. They are usually joint ventures with overseas OEM suppliers or licensees of their technologies. Many of them have some research and development abilities and an ISO9000 or equivalent certificate. Public support is not required for Rank A firms.

Rank B: Those who are reasonably well-managed and quality-conscious but without the resources necessary to introduce new production technology and facilities.

Rank C: Mainly family businesses with management closed to drastic changes in the economic situation. They usually depend exclusively on a single assembler.

In order to use the limited resources as effectively as possible, the government policy should be primarily targeted at Rank B firms. Assemblers have already raised their techno-managerial capability but cannot take risks to provide long-term financing for a fixed investment. For Rank B firms, therefore, the role of INTI is less important than that of financial institutes in the SDP framework.

Although Rank C firms will probably be cut off from assemblers, they could still grow as second-tier or after-market suppliers. They need to acquire more sophisticated techno-managerial capabilities before spending public financial assistance wisely. As first-tier suppliers are not accustomed to looking after second-tier suppliers, INTI and CIEI play much more important role than in the case of Rank B firms.

Therefore, the recommended policies are (see Figures 1 and 2):

(1) To revise the Automobile Regime jointly with ADEFA in accordance with the progress of the MERCOSUR Agreement. Although trade policy is not the primary focus of the current study, this may have a more powerful impact than any other PyME policies. In addition, it is an area where government initiative is uniquely demonstrated.

(2) To make the current SDP framework more flexible so that public and private participants, and their divisions of labor, can be modified case by case (i.e. whether the supplier is a Rank B or Rank C firm).

(3) To reinforce BICE, BNA, FONTAR and SGR so that they can provide timely financing for the investment plan of Rank B firms as soon as they are endorsed by assemblers and approved as financially and technologically viable.

(4) To assist the transition of INTI by offering financial incentives, so that the institute may become more oriented to solving practical problems. More concretely, the subsidy to INTI should be based on the amount/number of contracts for joint R&D (Rank B) and consulting services (Rank C).

Figure 1 Policy Framework for the Rank B Firms

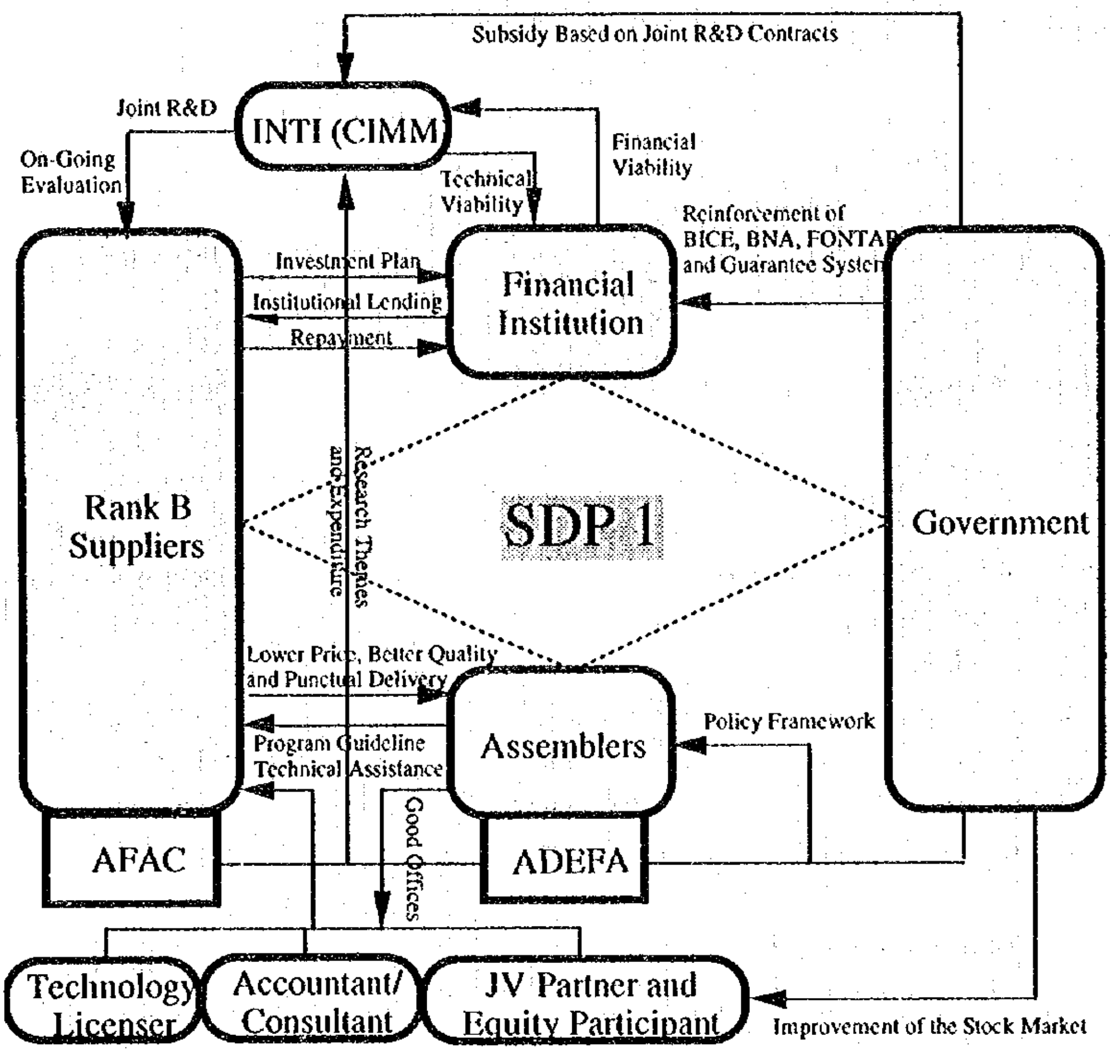
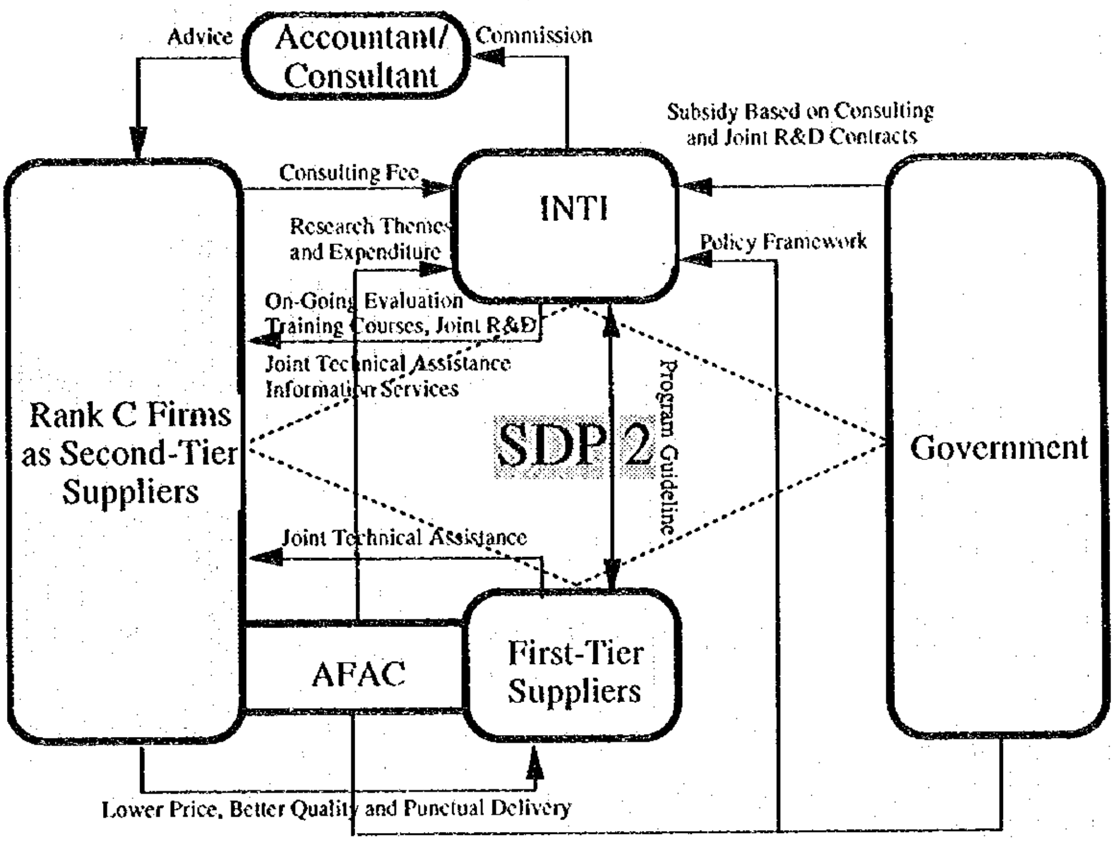


Figure 2 Policy Framework for the Rank C Firms



Chapter 1
The Financial Supporting Measures for Argentine Small- and Medium Enterprises (SMEs)

1.1 The Current Trend of Argentine Financial Market and Main Problems for SMEs

Since the convertibility program was implemented in April 1991 by the Menem Administration, Argentina has succeeded to realize a strong economic recovery reducing the hyperinflation to the normal level and regaining the high economic growth. The dramatic macroeconomic reforms have also brought the recovery of the financial system and the capital market.

Since the beginning of 1995, however, the sudden economic crisis of Mexico has brought serious problem to Argentina through the outflow of short term capital from the country. Although the country has already overcome this problem regaining capital inflow during 1995, financial institutions especially those small or regional ones have been suffering from the decrease of deposits and lack of liquidity.

Under the circumstances, the borrowing from financial institutions has become more and more difficult for small and medium enterprises (SMEs), and even if they succeed to obtain it, the interest rate is much higher in comparison with the rate applied to large firms. In addition, since the country's capital market has not been well developed, equity finance for SMEs is extremely difficult, including the listing in the stock market.

Through the merger and acquisition of small and medium banks and through the privatization and re-organization of provincial banks, the efficiency and competitiveness of financial institutions will be improved by reducing the intermediation cost. However, the access to credit of SMEs will not be facilitated immediately remaining the problem for SMEs how to obtain finance, either debt or equity capital.

According to the survey conducted by KPMG in July-August 1995, on the Argentine autoparts manufacturers (members of CIFARA and CAIA), the current situation and the problems that SMEs facing are summarized as below:

Of the total companies surveyed (among 221 surveyed companies 93 effectively replied to questionnaire), to date approximately 71.2% received loans from financial institutions mainly for the purpose of working capital and replacement of outdated machinery or equipments.

Private banks are the main financing source followed by credit unions, provincial banks. However, neither the Banco de la Nacion Argentina (BNA) nor the provincial banks are an important source of financing for the surveyed companies, and none of them has ever used BICE's finance. It should be noted that a large number of respondents (45.45%) stated that they had no knowledge of special financing programs for SMEs by BICE and BNA.

A significant number, 40% of respondents, answered that those special programs offer no advantage over other sources available in the financial market and 30% of them commented that they did not use those programs due to the strict requirements such as securities and formalities for obtaining loan.

In the case of BICE, SMEs must first apply for a loan to the financial institution approved by BICE and in most cases guarantees are required. Since this system is two-step loan, it is likely that the spread added by the intermediary financial institution lift the interest rate up to the level close to the usual one in the market. Otherwise agent banks are unwilling to finance SMEs because of the higher credit risk.

The financial measures in need or expected by autoparts SMEs are as follows:

- Decrease the high interest rate for borrowing
- Simplify the procedures and formalities for granting loan (especially those of BICE and BNA)
- Increase the resources of loans of financial institutions for greater financing availability
- Mitigate the requirements for mortgage and guarantees
- Create institutional loan guarantee system with less stringent requirements for guarantors
- Increase the availability of trade finance
- Provide SMEs with subsidies for loan interest

In order to decrease the high interest rate for borrowing, it is necessary to take account of various elements which influence the intermediate margin of financial institutions. They may include high funding cost in the market, degree of money supply, trend of domestic savings, administration cost of financial institutions, etc. Those macroeconomic issues or those peculiar internal issues of financial institutions are beyond the scope of this report, and thus have not been analyzed.

The following items are our recommendation to facilitate the access to credit of SMEs taking account of the Argentine SMEs' needs, and the current support systems, and as a result of our study on those supporting programs / measures taken in other countries.

1.2 Principal Recommendations and Suggestions on Financial Measures Potentially Applicable to Argentina

1.2.1 Measures to Strengthen Public Financial Institutions

1.2.1.1 Issues

SMEs have more difficulty than larger enterprises in obtaining finance from financial institutions owing to their fragile financial standing or insufficient guarantee or collateral. It is much more difficult for them to obtain long term finance for investment of capital goods. The lending conditions especially interest rate applied to SMEs are in general inferior to those applied to large firms.

In order to solve those problems, the public financial institutions, i.e. BICE and Banco de la Nacion, have been supporting SMEs, increasing their lending to them which includes medium and long term loan under better terms and conditions. However, those SME's financial need especially for inexpensive money is quite large and the available fund of those institutions is not enough to meet their need at present. Therefore many SMEs especially those located in provinces are unable to borrow from those public institutions.

1.2.1.2 Recommendations (Short-term measures)

It is widely recognized that public financial institutions have the following function to support SMEs:

(1) Supply SMEs the necessary fund to grow when private banks are reluctant to lend them for various reasons, especially for reason of higher credit risk.

(2) Supply loans under more favorable conditions than those of private financial institutions.

(3) Supply working capital to SMEs during periods of government's tight money policy when such loans are most acutely needed.

(4) Induce or prompt the lending of private banks to SMEs by the initiative of the public institutional financial support (motivate other private financial institutions to supply their loans to SMEs).

For the reason mentioned above, the existence and function of public financial institutions is very important in every country.

In order to strengthen the support of public financial institutions in Argentina, the following measures are recommended:

(a) To increase the endowment fund and enlarge the lending capacity of BICE and Banco de la Nacion

It is necessary for them to raise fund continuously in the capital market to increase their lending capacity, and also the constant increase of endowment fund subscribed by the government will be required.

However, since the government fiscal budget as well as the borrowings from the international financial institutions like World Bank, IDB, J-EXIM are limited, the new funding source should be found out enlarging the funding source, for example, to other financial institutions of other industrialized countries.

In the case of Brazil, the working capital of "SEBRAE", which provides comprehensive support service to SMEs, comes from the contribution of firms through a retention of 0.3% of the commercial and industrial enterprise salaries throughout the country. Although this may be regarded as a kind of corporate tax, this system has been contributing greatly to enlarge the supporting activities without imposing a burden on the fiscal budget of the country.

(b) To increase the supply of direct loan to SMEs instead of financing through agents

BICE in Argentina is mainly specialized in financing investment and international trade and they supply fund in the form of two-step loan through their agent banks (second tier banks). In this way they can avoid lending risk of final borrowers, but this brings some restraint of lending on the part of agent banks.

Agent banks are not always willing to finance SMEs because of lending risk, high cost in assessing the project and high administration cost of follow-up study. Unless they can secure sufficient margin spread of loan and mortgage or guarantees, they are unwilling to finance SMEs.

In the case of Japan, there are three public institutions specialized in different aspects of SME finance, the Small Business Finance Corporation, the People's Finance Corporation and the Central Bank for Commercial and Industrial Cooperatives (The Shoko Chukin Bank) which supply loans with very favorable interest rate -- usually short term or long term prime rate -- to SMEs.

In the case of Small Business Finance Corp., they supply loans directly to SMEs or indirectly through agent banks as the case may be. Other two institutions provide SMEs with direct loans.

In view of the bitter experience of Banco de Desarollo, it may not be easy to confer such direct loan function upon BICE. Instead of it, the activities of Banco de la Nacion should be enlarged and strengthened further placing more emphasis on SMEs' loan, lightening at the same time, the relatively strict or bureaucratic procedures to obtain loans. Since Banco de la Nacion has wide network all over the country (550 branch offices), even the regional SMEs are able to utilize their financing. Special attention, however, should be paid to avoid any unfair financings maintaining the highest impartiality in its lending activities.

(c) To let SMEs be well informed about institutional supporting programs

Since SMEs especially those in provinces have little knowledge about institutional supporting programs, it is necessary that they will be well informed through various public institutions, government offices, private banks, etc., as to the details of those programs together with the explicit terms and conditions of financing and minimum requirment for eligibility. (Their lending criteria should be clearly communicated to and understood by SMEs.)

1.2.2 Guarantee System to Facilitate Borrowings From Financial Institutions

1.2.2.1 Issues

Many factors including the high risk and uncertainty of investment impede the supply of funds to SMEs.

Some banks in other countries have implemented a initiative to grant loan to SMEs on cash flow base or project analysis base (see 1.2.3.1). However, most of banks in Argentina are not well prepared to assess cash flow or future business plan and still they regard guarantee or collateral as an essential element for lending.

In Argentina in order to solve this problem the system of the Reciprocal Guaranty Societies was institutionalized in 1955, regulated by the Corporations Act. However, this system covers limited number of SMEs (120-500 participant firms), and, therefore, those SMEs which do not participate in the system are unable to enjoy the benefit to make use of this system.

1.2.2.2 Recommendations (A medium-to long-term measures)

One of the most effective and useful measures to facilitate the borrowing of SMEs from financial institutions would be the creation of a credit guarantee system with an endowment fund by the government. It will be possible and realistic to establish semi-public guarantee system with the participation of private financial institutions to reduce the burden on governmental budget.

In comparison with public financing by BICE or Banco de la Nacion, this guarantee system dose not require huge amount of endorment fund or fund raising for lending. Because the intention of this system is to draw the funds of private institutions to finance SMEs, and usually guarantee is provided many folds of the endorment fund.

The objective of this system is to help SMEs by guaranteeing loans which otherwise they could not get from financial institutions. Such guarantee system helps SMEs obtain loans and also helps their business grow.

The essential parts of the typical credit guarantee system like the one practiced in Japan are summarized as follows:

(1) Guarantee should be used for medium long term loans which are not easy to obtain for SMEs.

(2) The purposes of the loan under this guarantee system should include the investment in equipment, real estate, and expansion purchases, working capital, export and so on, but the maximum amount of guarantee should be regulated according to the purpose.

(3) Financial institutions that provide loans should share a certain percentage of the guarantee risk (e.g., 20 - 50%) in order to avoid their unprincipled or at random finance to SMEs. (In other words, this guarantee system does not cover the full amount of loan only 50 - 80%.)

(4) The interest rate applied to the guaranteed loans should be set as a reasonable and moderate level. (Higher than the funding cost but lower than the usual interest rate applied by financial institutions.)

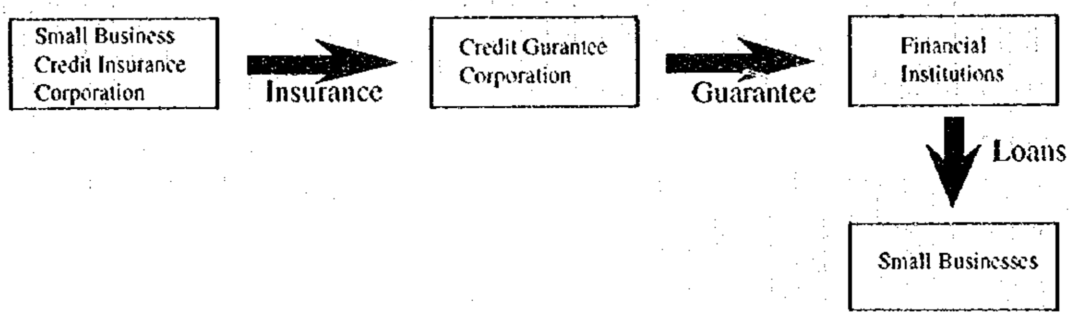
(5) Reasonable percentage of guarantee fee should be collected to cover the running cost of guarantee agency.

(6) Such guarantee agency should be established in each province.

(7) Since the governmental fund to be used for guarantee is limited, the objectives should be selective in accordance with the preferential sectors in promoting the industrial policy of the country.

(8) In establishing guarantee agency or institution, two systems are conceivable:

(a) Credit guarantee system directly responsible for non-fulfillment of debt
(b) The two-tier structure of credit supplementation -- credit guarantee system and the credit insurance system (Japan's case as illustrated below)



1.2.3 Promotion of Lending on Cash Flow Base

1.2.3.1 Issues

Traditionally financial institutions have been supplying loan to SMEs on a fully collateralized basis. For this reason those SMEs, which are not endowed with sufficient assets or guarantee, have not been able to obtain loans from financial institutions.

In recent years, however, banks in many countries like Chile and Australia have started to finance SMEs on the basis of cash flow regarding it as a key factor in the loan assessment process.

Cash flow, which means the funds flowing in and out of a business and the consequent accumulated profit, represents the degree of the soundness and strength of the company. Therefore, the SME's ability of business to generate positive cash flow is very important.

Banks look into the past and future chas flow stream to assess the ability of payment of interest and repayment of loan principal. In order to confirm the capability to generate sufficient cash flow, the lender must examine theborrower's performance of business reviewing the recent financial figures, profit and loss and cash flow streams. also the lender must examine the business strategy, business surroundings, as well as the ability of the management.

It is also necessary for lenders to check regularly the performance of the business after granting loan. Naturally, on the part of SMEs, the proper cash flow management is indispensable for their survival.

In Argentina, banks are extremely reluctant to lend on the basis of cash flow and future business plan. Two reasons are conceivable for such bank's attitude:

(1) Many SMEs have not produced cash flow statements as part of their accounting and therefore they are not capable of preparing an adequate and qualitative cash flow which are well acceptable to financial institutions.

(2) Banks, on their part, are also not capable or not skilled in properly and efficiently assessing the cash flow or future business plan of SMEs.

1.2.3.2 Recommendations (Medium term measures)

There should be adequate consultation to cover the insufficient financial skills of the proprietor of SMEs. Some financial experts like an external accountants or consultants should support SMEs to prepare elaborate and reasonable present and future cash flows and business plan.

Also there need the expertized internal or external financial analysts for financial institutions to assess the cash flow.

To prepare training courses provided by private or public institutes for both parties is one way to solve this problem, but to make use of those financial consultants is the fastest way to remove the impediments to cash-flow based lending.

Government support in the form of subsidies for consultant fee is highly recommendable to promote this scheme.

It should be noted, however, that cash flow lending does not mean banks ignore security. It means that they do not rely heavily on mortgage or guarantee focusing principally on the payment ability by cash flow surplus. They are therefore entitled to ask legitimate security if they consider it necessary after assessment.

1.2.4 Promotion of Equity Financing: Creation of Development Fund for Investment and the Matching System Between Investors and Growing SMEs

1.2.4.1 Issues

Business enterprises usually go through various stages of development: seed, start-up, growth, maturity and decline. Those enterprises of a seed stage may require external equity at an early stage because of the longer time before they generate regular cash inflows and profit and also because of the difficulty of borrowings from banks. After the formation of enterprise, those growing SMEs may also require external equity finance to achieve growth because their retained earnings and credit from banks are usually limited.

In Argentina, equity financing is extremely difficult due to the relatively under-developed stock market and the insufficient equity investors.

In other countries, like the United States, Canada, Japan, Australia, private or institutional investors, like a so-called "business angles" or venture capital and development fund companies, are the source of equity. Through their investment they support entreprises to grow and their contribution to SMEs has been increasing year by year.

1.2.4.2 Recommendation and Suggestions (Medium-to long-term measures)

(1) Creation of development fund scheme backed by the government

In spite of the relatively underdeveloped stock market and the general trend of the unwillingness of SMEs to introduce external shareholders, the role of equity financing should not be ignored. Especially development fund, which aims at making investment in the established growth companies, will play a supplemental role to cover their financial needs.

In recent years, some investment companies were established in Argentina mainly by foreign capital. Their business activities range widely from the merger and acquisition to the investment in stock market, and equity of private firms.

The opportunities for those companies to make investment in Argentine firms have been increasing, because many growing companies are emerging especially after the privatization of the state-owned companies.

In order to promote the investment in growing SMEs, the following scheme by the initiative of the government can be suggested.

- Funds (investors funds): Private sector funds that provide growing SMEs with long term equity. Investors in funds will benefit in later years from the increase of value of investee companies.

  At present in Argentina, pension funds are not allowed to invest in the equity of SMEs, but in the future some portion of this funds should be allowed to allocate to such investment.

  On the other hand, life insurance system has not been well developed yet in Argentina. After prevailing such system in the future, some parts of insurance premium should also be directed to the investment in the equity of growing enterprises including those listed in the second-tier stock market.

In the long run, development funds should include pension funds, life insurance premium, private investors' funds, private banks' and companies' funds and so on.

- Investee companies: Established SMEs seeking funds for further growth.

- Share of ownership by the investor: 10 - 50% (management will be kept in the hand of the proprietor of the company).

- Government support: Tax incentive on income, on capital gains and R&D expenses of registered development funds, i.e., tax free upon capital gains, lower tax upon the income of the companies who manage funds.

  Just like the SBIC (Small Business Investment Companies) program in the United States, government assistance for fund raising (e.g. credit guarantee for medium and long-term debentures or securities issued by firms under certain terms and conditions) will be also useful to promote this program.

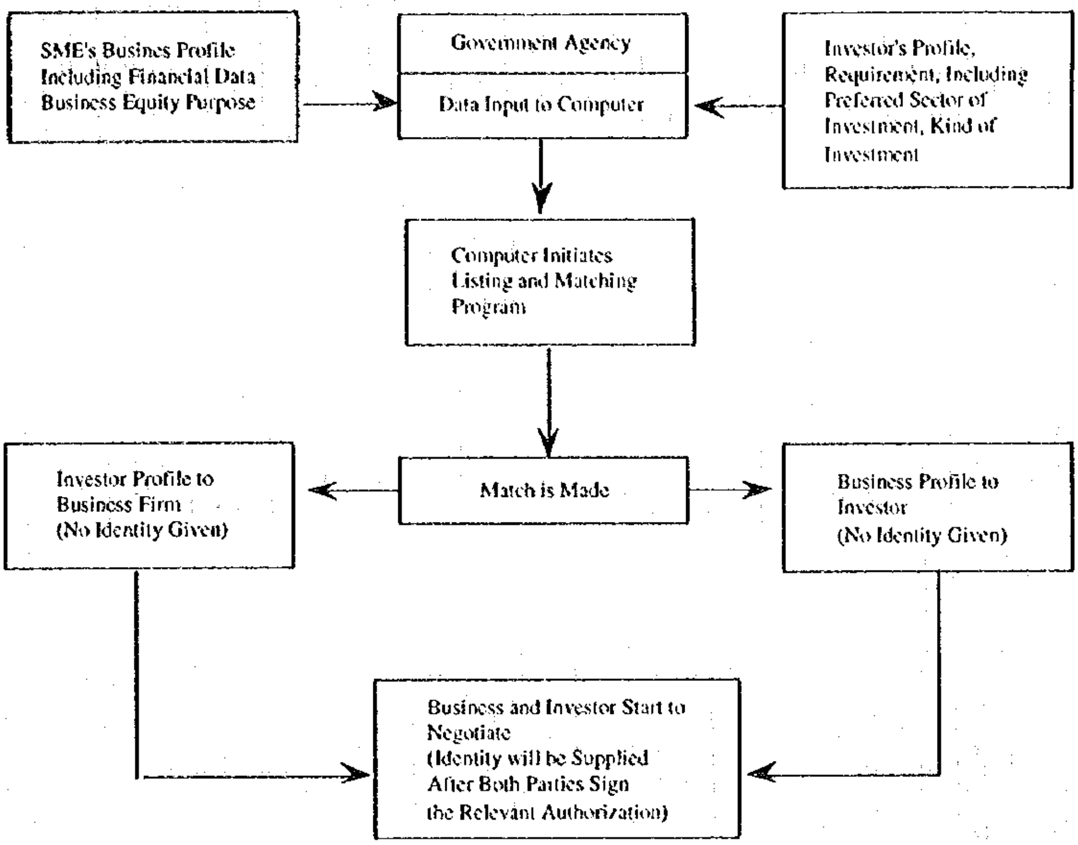
- Characteristics of funds: Long term investment funds which aim at higher return from higher risk investment.

- The eligibility of the managing company of the development funds:

  In order to receive generous tax concessions, the applicant of such fund must satisfy the criteria set by the government which may include the management capacity of raising and investing funds as well as the available resources of the company. Annual business results should be reported to the government periodically.

(2) Creation of the matching system between investors and SMEs which are looking for equity investment

By the government initiative, the following matching program can be created to support business finance of SMEs.



In this scheme annual listing fee for both business firm and investor can be charged.

After match is made, the government agency which carry out such business finance support program does not participate or intervene in the negotiation between the two parties.

(3) Development of local stock market

There are about 160 companies listed in the Buenos Aires stock market. Market operations are highly concentrated, five companies account for 70% and 25 companies for 90% of the market capitalization.

On the other hand, the number of the listed companies in the scond-tier market is limited and its trading volume is rather small.

In the case of U.S.A., NASDAQ is quite well known for listing SMEs. Many present large firms like INTEL, Microsoft, Apple Computer grew up through the listing in the NASDAQ stock market. (see 1.3.2.7. (c))

It is recommendable to study deeply how to develop stock market from the long term point of view.

One of the measures to make the second-tier stock market more active would be the allocation of new pension fund, which started in August 1994, to invest in the listed companies of the same stock market.

The eligibility for listing in the market should also be reviewed.

1.2.5 Other Recommendations and Suggestions

(1) The diversification of financing sources is also important for SMEs

In other countries, leasing and factoring are often used as a supplemental financing vehicle to SMEs. Both operations usually do not require special guarantee or collateral except the leased machinery or equipment.

As to the factoring operations, the government has initiated to introduce the system called "Factura Conformidad" legislating new law. This new regulation of invoice will certainly promote the factoring transactions protecting at the same time the interest of the parties concerned.

It is advisable to review legal and physical aspect of leasing because leasing is very useful vehicle for financing and it has not been prevalent in Argentina. Tax incentive for leasing is worth considering to promote this operation. (see 1.3.2.1 (4) Japan's Case)

(2) It is important to recognize accurately the financial need or problems of SMEs to ensure that government policies are targeted realistically and effectively. Their problems and need are variable according to the change of economic environment, and they should be reflected timely in the government policy.

In Italy, Mediocredito Centrale, which is government-owned financial institution, engage in comprehensive survey on 500 SMEs every 3 years.

Reserve Bank Small Business Advisory Panel in Australia also effects such survey to provide assessments of banking conditions and advise on problems in raising finance from the perspective of SMEs.

Periodical survey on small business problems or barriers is mostly recommendable to be undertaken in Argentina either through government financial institution or through private research institute for such purpose.

1.3 Public and Private Financial Supporting Measures Taken in Various Countries

1.3.1 Summarization of Measures in Accordance with the Type of Support

1.3.1.1 The financial institutions specialized in providing loans mainly to SMEs

There are many countries which have a public financial institution specialized in loans to SMEs.

In the case of Japan there are three public financial institutions, the People's Finance Corporation *(Kokumin Kinyu Koko),* Japan Finance Corporation for Small Business *(Chushokigyo Kinyu Koko)* and the Central Bank for Commercial and Industrial Cooperatives *(Shoko Chukin Bank).* They were established in 1949, 1953 and 1936 respectively.

The People's Finance Corp. supplies loans to small enterprises and Small Business Finance Corporation is mainly engaged in long-term loan for investment in plant and equipments and for use of long-term operating funds in line with the needs of the time and government policy.

The Shoko Chukin Bank (The Central Bank for Commercial and Industrial Cooperatives), which is mainly owned by the government, primarily engage in the direct finance both long-term and short-term loan to their member firms (SMEs). (see 1.3.2.1 (1))

While the People's Finance Corp. and the Shoko Chukin Bank supply loan to SMEs directly through their offices, Japan Finance Corporation for Small Business (JFS) provide loans both directly and indirectly through their agent banks. (see 1.3.2.1 (1))

The outstanding loans of the JFS and the Shoko Chukin Bank as of end of December 1994 amount to US$90 billions and US$115 billions respectively.

Backed by the governmental support such as equity investment, supply of fund, guarantee for bond issuing, those government affiliated financial institutions are able to grant loan through their nation-wide network under very favorable conditions, normally long-term or short-term prime rate is applied to their lending rate.

In Latin American countries there are many financial institutions which supply loans to SMEs. Take Mexico, for instance, NAFIN provides SMEs loan for various purposes through their special program called "PROMIN". (see 1.3.2.4 (1)) However, different from the Japanese institutions, most of them, like FINAME, FINEP of Brazil and CORFO, SERCOTEC of Chile, grant loan for some specific purposes like technological development and equipment acquisition.

To make use of the limited fiscal budget, such differentiation in pace with the government industrial policy is worthwhile in the public financial support to SMEs.

In the private banking sector, there exist some banks in many countries which are mainly specialized in financing to SMEs. Banco Concepcion, Banco de Desarrollo of Chile, Cariplo of Italy are the examples of this type of bank. Their approach to lending is based primarily on cash flow or project analysis rather than on collateral or guarantee.

1.3.1.2 The public guarantee system for borrowing

Many countries have a public guarantee institution which facilitate SMEs to obtain loans, especially long-term loans from financial institutions for enhancement of their activities.

The method of those guarantee systems can be divided into two ways according to their purpose and function, one is a guarantee for many kind of long-term loans, another is for some specific purpose of loans like a loan for purchase of machinery.

(a) Guarantee system for various purposes of loans

The typical guarantee institution of this kind is the Credit Guarantee Corporations in Japan. There are 52 corporations in all over Japan and they provide guarantee to many financial institutions including local banks.

In the case of Credit Guarantee Corporation of Tokyo (see 1.3.2.1 (2)), it has 10 branches in Tokyo Metropolitan Area and it serves around 308,000 of the 754,000 SMEs in that area (more than 40% of SMEs are utilizing this guarantee system).

The use of funds range from working capital to the acquisition of new machinery, research and development, start-up of new business, anti-pollution measures and so on.

They usually do not collect any collateral for loans less than J¥20 millions (US$200 thousand), and guarantee fees vary according to the purpose of loan but maximum 0.90% per year (in any case less than 1%).

The corporation receives funds from the national government, local bodies and also from Small Business Credit Insurance Corporation with which they usually make credit insurance contract. (see 1.3.2.1 (2))

U.S. Small Business Administration (SBA) also provides guarantees for many kind of loans. (see 1.3.2.7 (a)) The loan purposes are to finance augment working capital, increased receivables, existing debt (refinance), purchase of machinery and equipment, purchase of real estate, etc.

The term of loan is usually 5 to 7 years for working capital and up to 25 years for real estate or equipment. The maximum amount of their guarantee is US$750 thousand and covers 90% of a loan made by a lender. Usually they receive all collateral available including personal property.

The SBA has offices located around the country and their guarantee covers 30 - 40% of all the medium long-term loan of the States.

(b) Public guarantee system for specific purpose of loans

In many countries, since their fiscal budget is limited, they confine the guarantee to some specific purposes of loans.

The followings are examples of such specific guarantees.

- Banco del Estado of Chile Non Traditional Exporters Guarantee Fund (FOGAEX)

  This is a guarantee of up to 50% of the amount of the loan with maximum equivalent to 212,480 UF[1] for exporters of non-traditional goods.

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1 The Financial Unit (UF) is set by the Central Bank of Chile on a daily basis, according to the average geometric rate corresponding to the consumer price index variation of the previous month.

- SDEBRAE (Brazil) loan guarantee fund for new project and new loan guarantee system implemented as test project in July 1995 for the acquisition of new technology.

- BANCOMEXT (Mexico) supplies export credit guarantee starting from pre-export stage (working capital for production of export goods) covering up to 90% of the amount of loan (usually 70%). (see 1.3.2.4 (2))

In some countries the private or semi-private guarantee system has been functioning:

- Guarantee for loans by a bank and SERCOTEC (Chilean technical corporation service)

  A group of members of an entrepreneurial association established a fund through individual contributions. This fund is deposited at a fixed term in a bank to guarantee a credit line for its members.

  The bank receiving the deposit establish a credit line for the members of the group, for an amount equivalent to three times as much as the deposited fund (Entrepreneur's contributions plus SERCOTEC's loan).

- Consorzio di Garanzia FIDI (CONFIDI)

  In Italy there are 90 CONFIDI as a member of FEDERCONFIDI (Federazione tra i Consorzi di Garanzia Collectiva dei FIDI) throughout the country. CONFIDI provides guarantee to a bank with a maximum of 50% of loan amount to their member firms (SMEs).

  The term of guarantee is from one to five years (average 18 months).

  Under this guarantee they can borrow loans with the interest rate under prime plus one percent level.

  The funds of CONFIDI consist of endowment fund paid by each member firm, contribution from Chamber of Commerce and Industrial Association. (details of CONFIDI see 1.3.2.6 (2))

1.3.1.3 Venture capital, development capital, investment fund which support the equity financing of SMEs

Smaller companies are usually financed by bank debt, family loans, suppliers' credit and retained profits. However, under-capitalization is one of the more serious problems facing SMEs.

In other countries especially in the advanced countries, there exist many firms of venture capital or development fund which involve small and medium businesses unlisted in the stock market. They participate in the equity of prospective businesses which have a new or innovative products or service and which promise high rate of growth.

After keeping their shares for certain period (usually 3 - 10 years) the investors are able to obtain benefit by disposing the shares of investee firms either by selling in the market or to other investors.

In the case of Japan there are about 120 investment companies of venture capital. The first one was established in 1972 and most of them were set up as subsidiaries of commercial banks and securities houses. As of end of March 1993, the total balance invested in SMEs amount to J¥876 billion (about US$8.76 billion). Investment in foreign firms especially U.S. or Asian firms has been increasing very rapidly.

The biggest one is called JAFCO founded by Nomura Securities Company in 1982 and their investment fund amounts to J¥166.8 billion (about US$1.67 billion) with more than 1,100 investees (all SMEs).

In the case of Japan, however almost all the venture capital companies invest in the established company which seeks funds for further growth and they place the highest priority on short-term capital gains. Their investments in start-up and other young companies are necessarily limited.

Japanese semi-public institution, Small and Medium Business Investment & Consultation Company, Ltd. (SBIC), which was founded in 1963, has a different policy. SBIC has a long-term perspective holding shares for an extended period so their investees have enough opportunity to strengthen their position. They invest even in new firms subscribing to their initial share of offerings (from 15% to 50% of initial share offering).

In Australia, the Pooled Development Funds (PDF) program encourages the supply of equity capital to SMEs. (see 1.3.2.5 (3))

This program was started in 1992 by the Government's initiative. PDFs are private sector funds that provide long-term equity for SMEs of start-up stage. While strong dividend flows are less likely in the early years, the investors in PDFs can expect to benefit in later years from the substantial growth in the value of investee companies.

PDF companies can receive concessional tax treatment on profits at a rate of 15%, and all investors are exempted from capital gains tax on the disposal of their shares in a PDF. There are now 26 companies registered as PDFs. In the first six months of 1995, more than A$21 million was raised, which brings the total capital raised by PDFs to more than A$56 million since the PDF program started in 1992.

In the United States, Congress created the Small Business Investment Company (SBIC) program in 1958. Licensed by the U.S. Small Business Administration (SBA), under the Small Business Investment Act, SBICs are private investment firms that independently make their own investment decision. Utilizing their own private capital plus funds obtained on favorable terms through assistance from Federal Government, SBIC provides finance to SMEs for growth, modernization and expansion.

There are two types of SBICs: The regular SBICs and the Specialized Small Business Investment Companies (SSBICs).

SSBICs are specifically oriented towards the needs of entrepreneurs who have some social or economic disadvantages. Within the SBIC program, an SBIC in good standing can receive funds by issuing its securities either directly to the government or with a government guarantee.

A regular SBIC may receive leverage of as much as 300% of its private funds, and for an SSBIC up to 400%. The most basic type of leverage is a 5 or 10-year debenture that is sold in the public markets and which carries credit guarantee of both principal and interest by the U.S. Government.

1.3.1.4 The matching program between investors and SMEs

In Australia, Victorian Employers' Chamber of Commerce and Industry (VECCI) together with Department of Industry Science and Technology introduced the Business Finance Support Program.

This program was designed to help match investors with SMEs and is modeled on successful overseas programs such as COIN (Canada Opportunities Investment Network) and VCN (Venture Capital Networks) in the U.S.A. and U.K.

Canadian program COIN is the first national investors/ entrepreneurs matching service in the world. The investment pool exceeded half a billion Canadian dollars. Since its inception, COIN has matched more than 21,800 investors and businesses.

VECCI's program is to identify people with investment funds who are looking to make equity investments in small and growing enterprises.

They may be specialized investment group, retired people, individuals or company interested in the development of small businesses.

Investees (business participants) are usually well-established company looking for equity financing which will complement their operations for products increase, overhead cost savings, access to markets and technology and so on.

After collecting information both from investors and investees by sending the information pack (including questionnaire), VECCI makes database entry and matching begins.

Once a match has been made participants will be informed by letter with an attached undomiciled profile. If both parties wish to enter the negotiation stage, they must provide VECCI with written authority to disclose their identity. VECCI will not participate in the negotiation of participants but will follow them to a conclusion.

As of September 1995, the umber of participants inputted to the database are as follows:

Business firms:	600
Investees:	150

1.3.2 The Detailed Information on Supporting Measures Taken in Various Countries

1.3.2.1 Japan

(1) Japan Finance Corporation for Small Business (JFS)

JFS is an independent government financial institution providing stable long-term, fixed-rated funds, that would be difficult to obtain through ordinary private financial institutions, for the development of small businesses. The corporation was established in August 1953 in accordance with the Japan Finance Corporation for Small Business Law.

JFS extends loans to small businesses for investment in plant and equipment and for use as long-term operating funds. As a government financial organization, JFS maintains the highest impartiality in its lending activities.

In addition to lending operations, JFS offers information and consultation services to small-businesses such as the support for start-up of new business, establishment of subsidiary/factory in overseas country, re-organization or modernization of the company, etc.

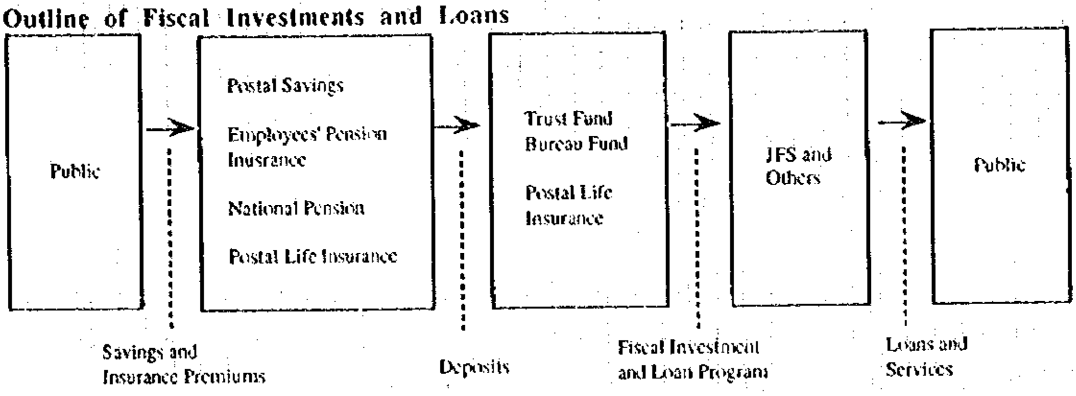
(a) Corporate data (As of December 31, 1994)

Purpose of Establishment:	To supply long-term funds necessary for the promotion of small businesses which would be difficult for them to obtain through ordinary private financial institutions (Article 1 of the Japan Finance Corporation for Small Business Law)
Capital:	¥157.3 billion
Loans Outstanding	¥8,985.9 billion
Number of Employees:	1,760
Number of Offices:	59
Number of Agencies:	795

(b) JFS's source of funds

JFS's source of funds include borrowings from the Japanese Government and proceeds from small-business bonds guaranteed or underwritten by government, which are based no fiscal investments and loans.

Outline of Fiscal Investments and Loans



(c) Lending operations

Kinds of loans:

The Corporation offers two kinds of loans: general-purpose loans, which are extended to all types of small businesses under certain terms and conditions and are primarily used for investment in plant and equipment or as long-term operating funds; and special-purpose loans, which are provided to small businesses needing funds for specific reasons in line with certain governmental policies. The terms and conditions for special-purpose loans are more favorable than those for general-purpose loans.

Lending system:

JFS loans are available to borrowers through either direct loans or agency loans. Direct loans are managed from application, credit analysis and project evaluation through to contract and loan disbursement by the Corporation's 59 offices. During the lending procedures, JFS examines the potential effectiveness of funds as well as the growth prospects of the borrower.

Agency loans are handled by such private financial institutions as city banks, regional banks, member banks of the Second Association of Regional Banks, credit associations and credit cooperatives acting, throughout the lending procedure, on behalf of the Corporation.

Lending conditions:

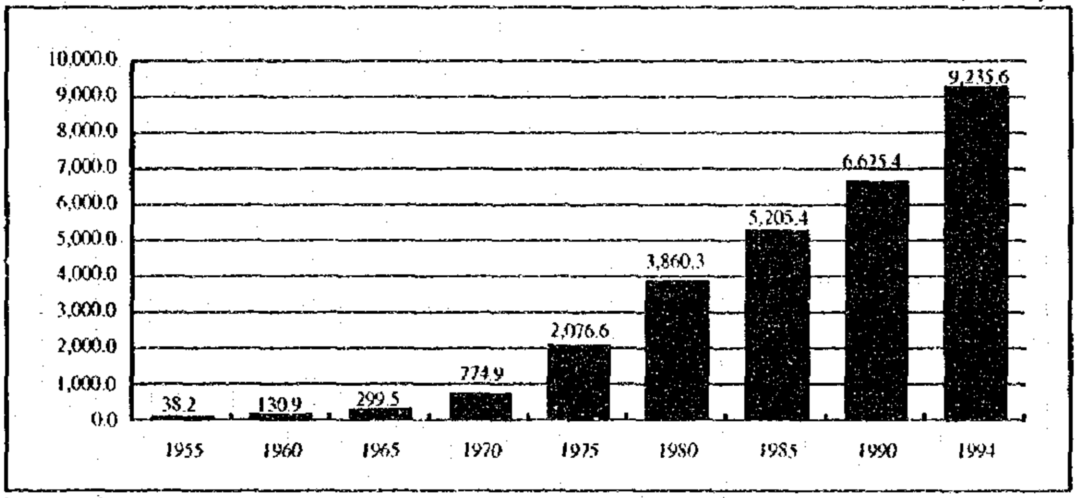
General-Purpose Loans

	Direct Loans	Agency Loans
Use of Loans	Plant and equipment investment (*1) and long-term operating funds (*2)	
Maximum Amount	¥400 million (of which ¥200 million is for long-term operating funds)	¥100 million
Lending Rate	Fixed rate, same as long-term prime rate	
Lending Period (deferred)	(*1) Within 10 years (within 1 year) (*2) Within 5 years (within 1 year)	(*1) Within 7 years (within 1 year) (*2) Within 5 years (within 6 months)
Repayment Terms	Every two months for remainder	
Collateral	Real estate	
Guarantor	Management	

Source: JFS

Changes in JFS's Loans Outstanding

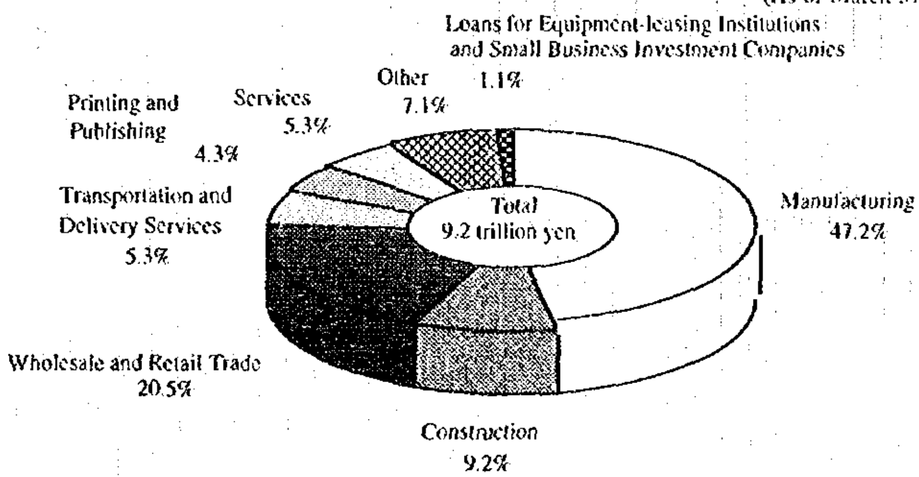
(As of March 31) (Billion yen)



Source: JFS

JFS's Loans Outstanding by Industry

(As of March 31, 1994)



Source: JFS

(2) Credit Guarantee Corporation of Tokyo (CGCT)

The CGCT is one of the 52 credit guarantee corporations in all over Japan. The CGCT was established in 1937 as Japan's first public credit guarantor basing on the Credit Guarantee Corporation Law. The CGCT helps SMEs by guaranteeing loans that otherwise SMEs could not get from financial institutions. This helps SMEs grow to their full potential.

The CGCT acts as a bridge that brings SMEs together with financial institutions. The CGCT works in close cooperation with city banks, regional banks, subregional banks, *Shinkin banks* (credit associations), credit cooperatives, the *Shoko Chukin Banks* and other financial institutions. Credit Guarantee Corporation of Tokyo has ten branches and two annexes in addition to its head office and currently serves around 308,000 of the 754,000 small and medium enterprises operating in the Tokyo Metropolitan Area.

(a) Enterprises to which the credit guarantee system applies

Range of companies

Small and medium enterprises under The Small and Medium Enterprise Basic Law are applicable in principle. Enterprises that fulfill the requirements in either capital or number of employees qualify for application.

Type of Business	Max. Capital	Max. Employees
Manufacturing (including transportation and construction)	¥100 million	300
Wholesale trade	¥30 million	100
Retail trade and services	¥10 million	50
Health care, etc.	–	300

Requirement

Its sales case should be in Metropolis of Tokyo. In principle, it is expected to manage one business at the same location for at least one year. However, as to funds for independent establishment in the same business, a guarantee system is exceptionally available.

Source: The CGCT

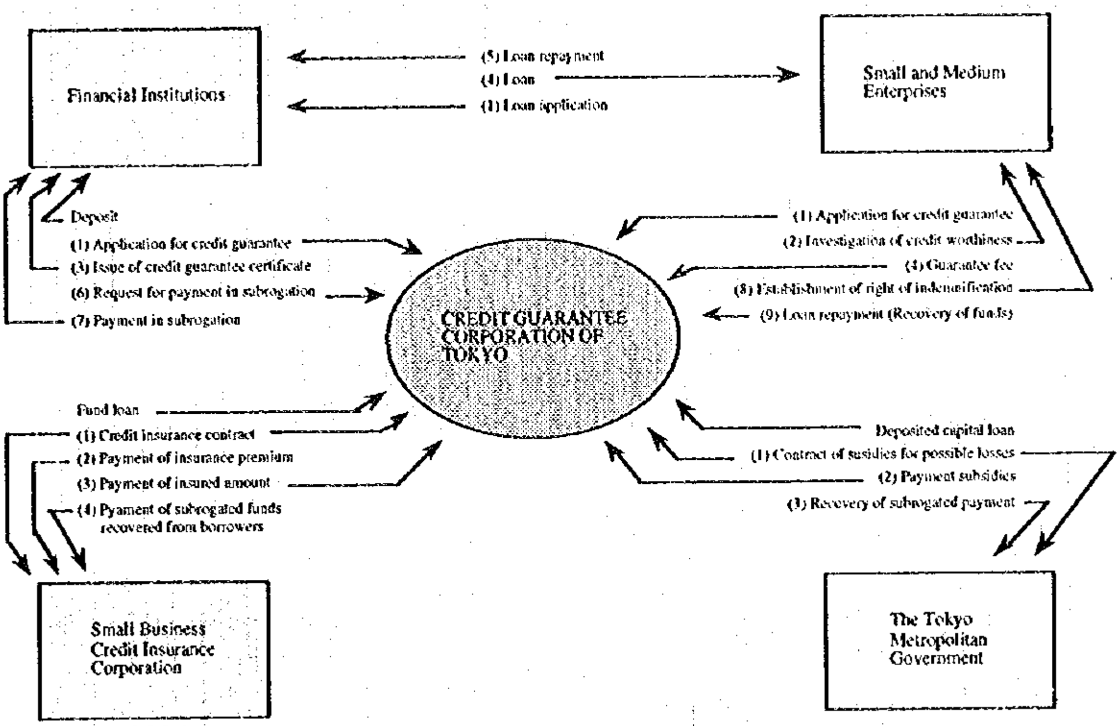
(b) Type, term, and maximum amount of guarantee

<table>
<tr><th colspan="2">Type of Guarantee</th><th>Use of Funds</th><th>Max. Term</th><th>Maximum Amount</th></tr>
<tr><td colspan="2">Individual guarantee</td><td>Operation
Equipment</td><td>10 years*</td><td rowspan="3">¥200 million</td></tr>
<tr><td colspan="2">Maximum Guarantee</td><td>Operation</td><td>1 year</td></tr>
<tr><td rowspan="2">Maximum guarantee for overdrafts</td><td>Business loan</td><td rowspan="2">Operation
(Equipment)</td><td>2 years</td></tr>
<tr><td>Business card loan</td><td>1 and 2 years</td><td>¥10 million</td></tr>
</table>

* In the case of special long-term loan, 15 years or less for operating funds and 20 years or less for equipment funds.

Source: The CGCT

(c) Mechanism of credit supplementation system

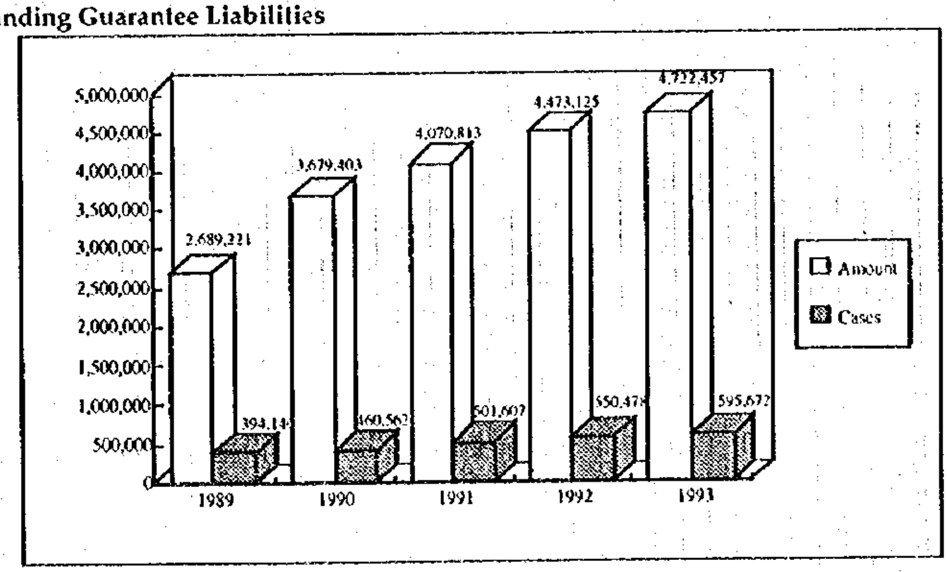


Source: The CGCT

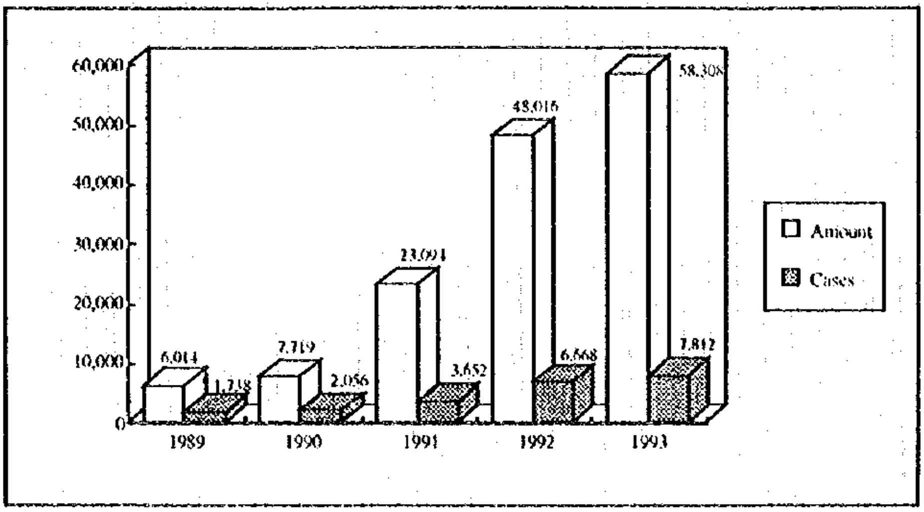
(d) Statistics

(unit: ¥ million)

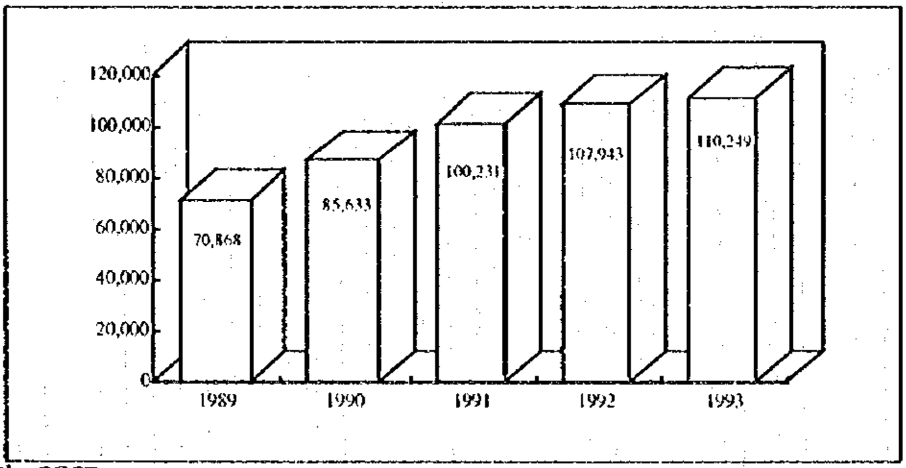
Outstanding Guarantee Liabilities



Subrogation



Fundamental Assets



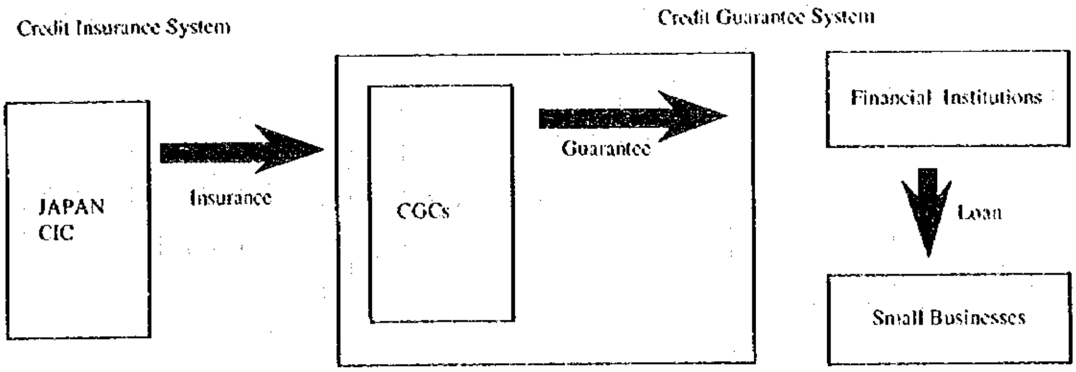
Source: The CGCT

(3) Small Business Credit Insurance Corporation (JAPAN CIC)

Japan CIC was founded in 1958 as a government affiliated institution having the role of facilitating SME's access to funds needed to run their operations. Japan CIC is one of the key players in Japan's unique system to overcome the financial disadvantages facing small businesses.

Its main function is to insure loan guarantees given by the Credit Guarantee Corporations, i.e., it reinsures the guarantee liabilities of the CGCs covering their risks in order to help promote their guarantee activities. This two-tier structure of credit supplementation is unique by international comparison.

The success of the system is well verified by the fact that approximately 1.8 million small businesses -- about one fourth of total Japanese SMEs -- were utilizing this system to obtain loans at the end of fiscal 1993.



(a) Insurance requirements

All guarantees provided by a CGC must meet all the requirements shown below for insurance coverage.

- Eligible financial institutions

  Guaranteed loans made by such financial institutions as banks, credit associations, credit cooperatives, government financial institutions, labor credit associations and insurance companies can be insured. Loans from agriculture cooperatives and money lenders cannot be covered by the insurance system.

- Qualified types of industry

  Enterprises in the manufacturing, construction, wholesaling, retailing and service sectors qualify for guaranteed loans. The agriculture, forestry, fisheries and finance sectors are not eligible.

- Small and medium sized enterprises

  Firms using guaranteed loans should fall under the "small and medium sized enterprises" category. In most industries, the borrower should be an enterprise with capital of ¥100 million (US$1 million) or less, or with 300 employees or less.

- Purpose of the loans

  Guaranteed loans can be used only for operating funds and equipment funds needed to run the business. Funds not directly linked to business operation such as funds for consumption, living expenses or speculation are not covered by the insurance scheme.

- Maximum amount of insurance

  The maximum amount of insurance that an enterprise can use is fixed by insurance type. For instance, the maximum amount of insurance for Ordinary Insurance is ¥200 million.

(b) Types of insurance

This insurance system has been improved by bringing in various new types of insurance to ensure the smooth flow of funds to meet the needs of small businesses. Also, the maximum amount of insurance cover which one company can obtain has been frequently increased.

The Japan CIC offers seven types of insurance. They are:

- Ordinary Insurance to facilitate the borrowing of funds for general purposes,
- Non-collateral Insurance to allow small businesses to borrow money without collateral,
- Special Small Sum Insurance to give very small companies access to loans without collateral or a surety,
- Environmental Pollution Preventive Facilities Insurance, Energy Saving Facilities Insurance, Overseas Investment Financing Insurance and New Business Development Insurance to promote the flow of funds for special projects without difficulties.

The type of insurance to be applied depends on the nature of the guarantee.

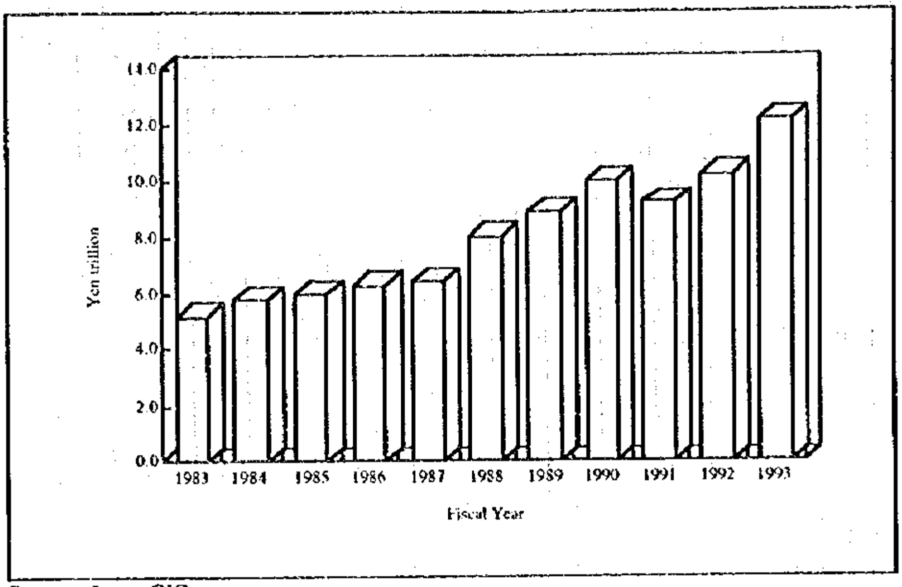
Insurance conditions by type

	Maximum Amount (¥ million)	Coverage	Annual Premium Rate
Ordinary	200	70%	0.57%
Non-collateral	20	80%	04.6%
Special Small Sum	5	80%	0.33%
Environmental Pollution Preventive Facilities	50	80%	0.50%
Energy Saving Facilities	200	80%	0.55%
Overseas Investment Financing	200	80%	0.55%
New Business Development	150	80%	0.55%

Source: Japan CIC

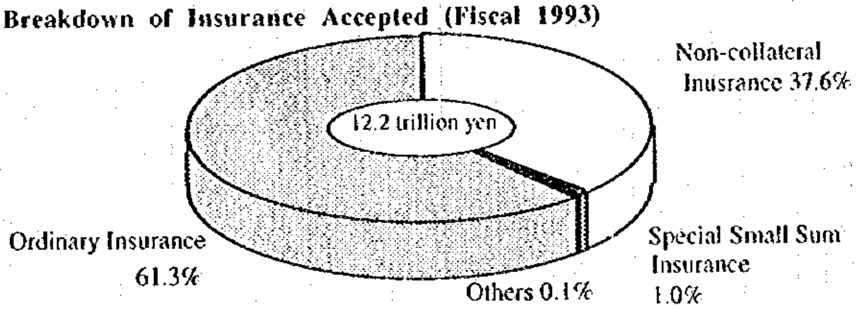
(c) Result of operations

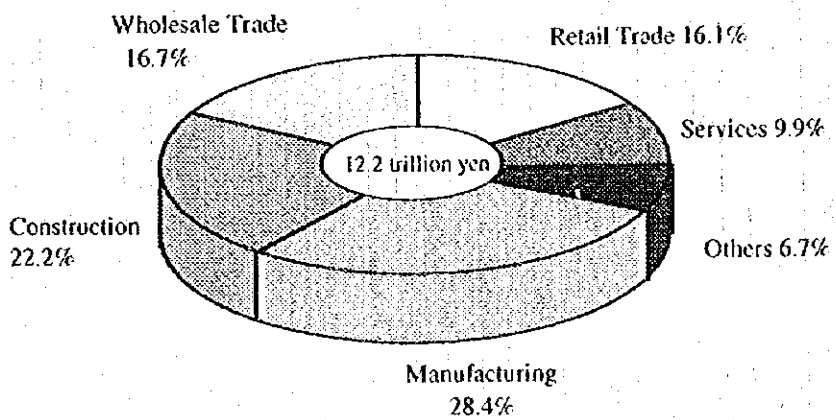
The amount of insurance accepted by the CIC more than doubled from fiscal 1983 to 1993 when it reached ¥12.2 trillion (US$122 billion).



Source: Japan CIC

Breakdown of Insurance Accepted (Fiscal 1993)





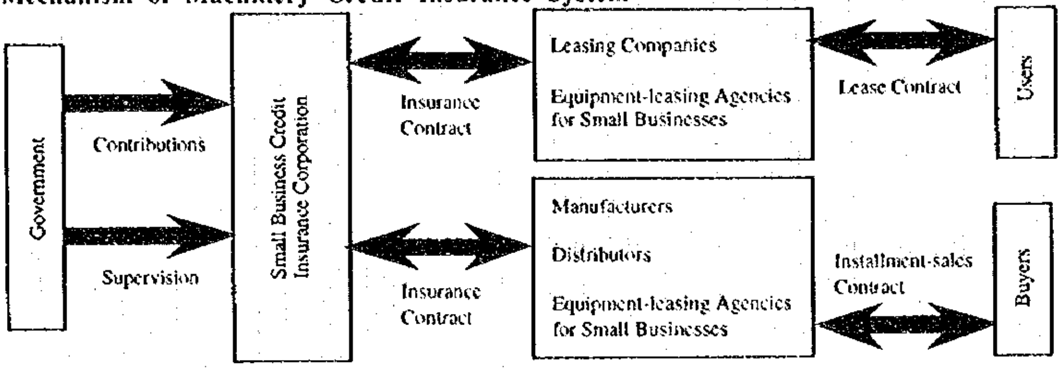
Source: Japan CIC

(d) Other activities of Japan CIC

- To promote the CGCs' guarantee activities, the Japan CIC also extends two kinds of long-term, low-interest loans to the CGCs, i.e., "ordinary loans" to increase the CGCs' capacity to provide guarantees and "special loans" to help promote special purpose guarantees such as new business development guarantees. The loans outstanding at the end of march 1994 amount to ¥498 billion (US$4.7 billion).

- The Japan CIC insures lease contracts and installment-sales contracts for machinery (including software programs to run the machinery). This system makes it easier for leasing companies or machine suppliers (manufacturers or distributors) to lease machinery or sell it on an installment basis without running the risk of a serious loss caused by the default of the users or buyers. Over the past three years the Japan CIC accepted around 240,000 - 250,000 applications for machinery credit insurance in the total amount of ¥1.2 - 1.6 trillion (US$12 - 16 billion) each year.

Mechanism of Machinery Credit Insurance System



The Outline of the Lease Credit Insurance

Eligible Companies

- Leasing Companies of Designated Machinery (37 types)
- Equipment-leasing Agencies for Small Businesses

Conditions

Lease Term	over 3 years
Number of Payments	over 12
Coverage	50%

Premium Rate

	36 months	60 months
Basic Premium Rate (*)	0.47%	0.782%
Equipment-leasing Agencies for Small Businesses	0.362%	0.602%

(*) Higher or lower rates could be applied in accordance with the rate of insurance risk incurred in the previous year with an enterprise.

(4) Leasing operation

(a) The trend of leases

In Japan, leasing transactions have grown in excess of 20% a year for two decades, outpacing expansion in the overall economy. today, more than 8% of total equipment investment is lease-based.

Operating in areas previously the exclusive domain of banks and securities firms, leasing companies are adding new tools to their rosters of financial instruments. As a result, standards in the highly competitive Japanese leasing industry are rising and companies are turning from elementary leasing packages to sophisticated financial engineering services.

Although the slow growth of the Japanese leasing industry has been observed in recent years, the industry has made a tremendous growth as illustrated on the next page.

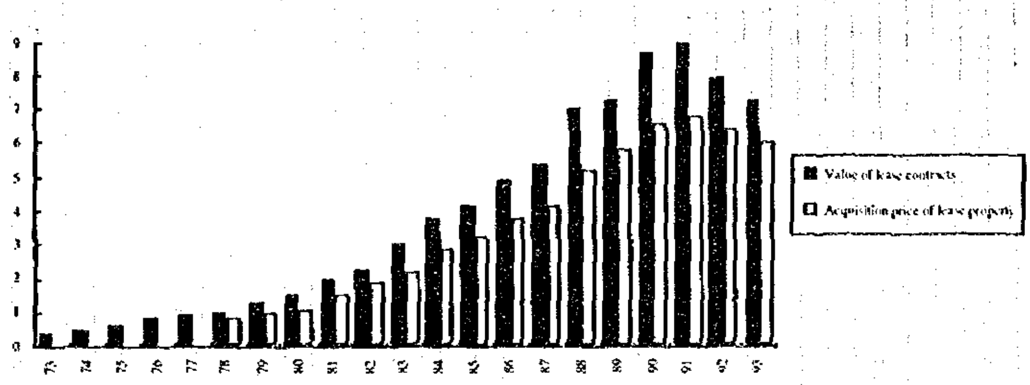
In the speech made at the Thirteenth General Assembly of the Asian Leasing Association on April 28, 1994, Mr. Mitsuru Nochiide mentioned the following four points as the main reasons for the successful growth of the Japanese leasing industry.

First, the industry has been supported by the business sector. In most cases, leasing companies were created by major banks, trading companies and leading manufacturers. For example, banks and other financial institutions established their subsidiaries as part of their financial services to their customers. The leasing companies were expected to play a certain role in the total expansion of the business group.

Second, there was a prevailing need, particularly among SMEs to use leasing as a method to finance equipments purchases so that they do not have to borrow money from banks.

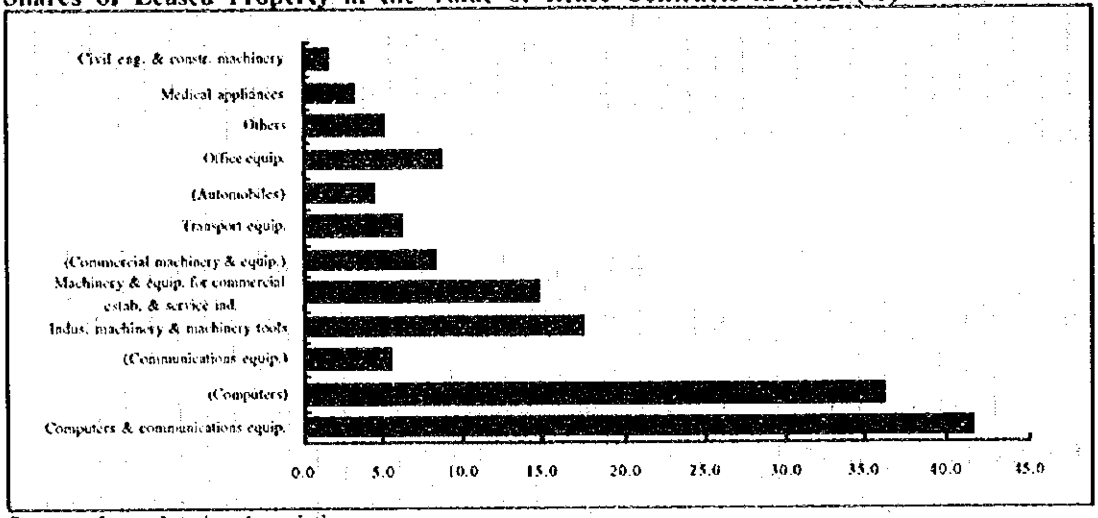
Changes in the Value of Lease Contracts

(trillion ¥)



Source: Japan Leasing Association

Shares of Leased Property in the Value of Lease Contracts in 1992 (%)



Source: Japan Leasing Association

Third, Government support and guidance (mainly by MITI) has been available. For example, "Leasing Credit Insurance Program" or so-called "Mecatronics Investment Tax Credit", a program that gives tax credits to SMEs which introduce mecatronics equipment through leasing, where typical cases in the early stage of the development of the industry in Japan.

The fourth reason is that the leasing industry has taken initiatives on its own, conducted fact-finding surveys regarding user needs, and addressed these needs appropriately. The industry established itself as a viable and important industry by making itself able to respond to the diversified needs of the market. For example, the industry could provide a way for SMEs to procure facilities and equipments which would not be able to satisfy the lending criteria of banks.

Those reasons of the growth are very informative for future development of leases in Argentina.

(b) The advantages of the use of leasing

The following points are widely admitted as the advantages of leasing.

- It is possible to set up an adequate period of leasing in accordance with the pace of technological revolution and the durable period of machinery or equipments. Therefore, it is possible to update the necessary machinery or equipments systematically and efficiently.

- The huge amount of investment funds for the purchase of capital goods is not required, because the monthly payment of leasing fee is relatively small. It is possible, therefore, to make use of the unused or extra portion of cash flow for other purposes to make profit.

- Leasing fee can be accounted totally as administrative expense.

- The cost of products can be calculated precisely because the fixed monthly leasing fees can be added to the cost of finished goods automatically.

- Leasing contract produces the same effects as raising long-term funds for the purchase of machinery or equipments from the leasing company without need of any mortgage or collateral which, in turn, can be used for debt finance from banks if necessary.

- It reduced the administration cost because the accounting of depreciation cost, tax on fixed assets, insurance, etc. is not necessary.

- The lease assets are not included in the fixed assets of the balance sheet. Therefore, the sound financial ratio can be maintained.

- Since the leasing fees are fixed at the time of the contract, there is no need to concern about future inflation.

(c) Tax merit of leasing transactions

- The mecatronics investment tax credit

  In 1984 through the tax reform the government introduced the concessional tax incentive to promote the acquisition of new machinery and equipments.

  This tax incentives are oriented only towards SMEs which have a capital of less than 100 million yen or less than 1,000 employees.

  The leasing term should be more than 5 years and the amount of each machinery mecatronics instruments, computers or terminals should be more than 1,900 thousand yen (US$1.9 million). For such leasing contract special tax treatment is applied (7% tax discount for the 60% of the leased amount, but maximum up to 20% of the corporate tax)

- Leveraged lease (tax-oriented lease)

  Towards 1985 a leveraged lease came to emerge in Japan, following the examples of the United States and European countries. Known as the "Japanese-style leveraged lease", it is a transaction where, with the leasing companies acting as intermediary, large equipment is leased out by two or more business corporations who are its owners over the period longer than the legal useful life of that equipment.

The characteristics of the transaction can be summarized as follows:

a) The Leesor is a group of general business corporations (not the leasing companies);
b) Most of leased property are large equipment, such as aircraft, ships;
c) The term of lease extends longer than the legal useful life of leased property;
d) Differences between ex-ante depreciation expenses allowed under tax laws and rental payments for each term constitute the tax benefits (reduced taxable income) for the Lessor, the beneficial effect of which may be reflected in leasing charges;
e) The longer lease term enables the Lessee to reduce rental payments for each term and hence lower burden to shoulder;
f) The leasing companies receives a commission by acting as intermediary in the transaction/

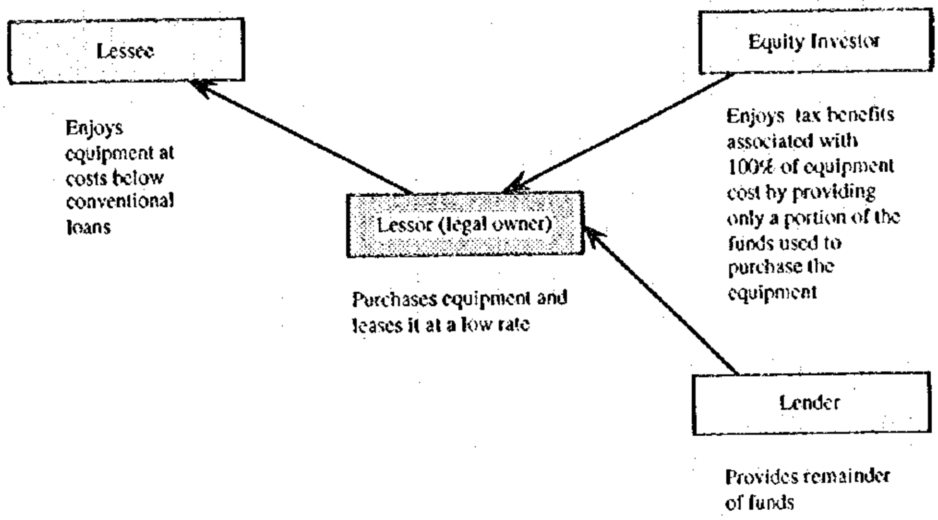
There is MOF Lease Regulation of 1988, however, which restricts the leveraged lease transactions to brake tax abuses. If the following four requirements are all met and lease term exceeds 120% of the legal useful life of leased property, sale and lease back transactions shall be treated as financial transactions or purchase and sale transactions instead of leasing transactions.

a) Full pay-out lease
b) Non-cancelable lease
c) Sale and lease back transactions
d) Lease not allowing the lessee to purchase property at fair market value.

In spite of the regulations mentioned above, leveraged leases lower the cost of equipment to lessees while generating ample returns for investors and lenders.

The necessary funds are raised partly from investors able to claim tax benefits equal to the entire purchase price and partly from lenders levying interest charges. Thus, the lessee obtains the equipment at a lower cost than that incurred with traditional loan arrangements.

Typical Leveraged Lease Arrangement



1.3.2.2 Brazil

In Brazil, small firms (less than 100 employees) account for 98% of all Brazilian business firms.

They generate about 60% of the nation's employment and contribute 42% of all the value produced by the private sector.

According to the survey conducted by SEBRAE in 1991, the majority of small firms do not use computers or information technology of any kind, either at management level or at manufacturing level.

They have little or no capital of their own for investment and do not have easy access to the credit facilities offered by the financial system, and interest rates on financing from private banks are much higher than those applied to large firms.

In order to cope with such situation, there are various supporting institutions or organizations in Brazil.

The major supporting institutions are summarized as follows:

a) governmental agencies, responsible for industrial policies outlines, such as the Industrial Policy Secretariat of the Ministry of Economy, Commerce and Tourism and its Micro, Small and Medium Enterprises Coordination Office;
b) financing institutions such as Banco do Brasil, BNDES, CEF, FINEP;
c) technical organization such as ABNT, IBICT, INMETRO, INPI, SIPRI and SEDAI.

d) entrepreneurial institutions such as CNI and SEBRAE, which provide support to MSMEs.

In the field of finance the major instrument addressed to industrial firms is long-term financing. The financing has been provided on subsidized terms and, during some periods, with favorable interest rates.

The main supporting financial institutions are Banco do Brasil, BNDES (National Bank for Economic and Social Development), CEF (Federal Savings Bank) and FINEP (Project and Studies Financing Agency) whose main programs are as follows:

(1) Banco do Brazil (BB)

The Banco do Brasil is owned by the federal government (51%) and private sector (49%). It provides assistance to enterprises of relatively smaller size through more than 5,000 subsidiaries (agencies, offices, mobile assistance points, etc.) in almost all the country. It has agreements with other institutions, with which it operates on a joint basis -- in the spreading of information on credit lines and programs. The Banco do Brasil finances projects on S&T research, technological development, and management system. It has agreements with SEBRAE for the promotion of regional and municipal development programs through the wide network of branch offices of both institutions.

MIPEM-OURO (Support Program to Micro and Small Enterprises) is BB's specific support program. It is the outcome of the agreement signed with SEBRAE. It aims at supporting investment projects, basically related to technology and expenses of introduction of entrepreneurial management systems and working capital, providing a fixed loan.

The maximum amount of financing is 80% of the project value for micro enterprises and 70% for small enterprises with grace period of one year and repayment of up to two years. For entrepreneurial management projects, the limits are similar to the mentioned one with grace period of 6 months and repayment of one year.

(2) BNDES

The BNDES is a public enterprise related to the Ministry of Economy. It was created in 1952 as BNDE (National Bank for Economic Development). Its present denomination appears in 1982 when it was designated as administrator of part of the resources of FINSOCIAL (Social Investment Fund).

BNDES basically supports major projects for the development of Brazilian economy, stimulating private initiative. The financial action of BNDES aims at boosting the goods and services production, promoting technological updating and training, generating employment and widening the competitive product supply in abroad.

The BNDES system consists of the National bank for Economic and Social Development and two subsidiaries, namely: FINAME (Special Agency for Industrial Financing); and BNDESPAR.

FINAME has the objective of promoting development and updating of machinery manufacturing of Brazilian industry. It operates, basically, through other financial institutions. Thus, the machinery and equipment purchaser, regardless of the size of his firm, submits his proposal to the bank he has selected.

BNDESPAR performs high technology implementation and development, updating and expanding industrial productive capacity, strengthening the firms' financial and investment structure and promoting reorganization (M&A) to improve competitiveness.

BNDESPAR and FINAME have the following programs to serve Micro, Small and Medium Enterprises (MSMEs) in a specific and differentiated way:

BNDESPAR operates the CONTEC -- Condominium of Technological Small Enterprises Capitalization. Its objective is to supply risk capital to the technological based emerging SMEs which are specialized in the development of new products or processes with scientific and technological knowledge. This equity finance is limited to a maximum of 40% of the firm's total capital.

FINAME has two programs specifically aimed at MSMEs:

- The Automatic Program (Two Step Loan) supporting the acquisition of machinery and serial production equipment with favorable financing conditions for MSMEs.
- The Financing Program for Machinery and Equipment Exports -- destined to export industries with pre-shipping financing.

The payment terms of the loans vary from of the loans 12 to 60 months with grace period ranging from 3 months to one year. The amount of the loans oscillates between 40% and 70% of the project value.

(3) CEF (Federal Savings Bank)

It is a public entity connected with the Ministry of Economy, participated by Social Bank and a Commercial Bank. The former finances social activities and the latter operates ordinary financing services with credit lines.

The CEF has a specific program for MSMEs: the CEF-GIRO which operates on the basis of an agreement with SEBRAE. It provides short term loan up to R$10,000 (around US$10,000) without grace period. It requires credit insurance.

Besides, there are some benefits for micro enterprises such as the exemption of certain expenses, reduction of bureaucratic procedures and simplification of operations.

(4) FINEP (Financing Agency for Projects and Studies)

The FINESP is a public enterprise related to the Secretariat of Science and Technology of the National Presidency. It has been working for more than 25 years as an organization dedicated to the promotion and financing of various researches such as basic research, research on the technology transfer, research on the infrastructure projects.

The FINEP is characterized as the sole public agent in Brazil -- and one of the few in the world -- having instruments capable of operating in any of the stages of the knowledge creation. Thus, it operates at technology demanding enterprise level, and at university level, research centers level, or technological institutes level.

Its resources come from different sources, among them, the National Treasury, special development funds, financial institutions with which FINEP reaches agreements in addition to the international banks like IDB, World Bank.

The amount granted by FINEP for financing programs and projects in 1993 amounted to $175.6 million. That amount was assigned as follows: 43.7% was destined to technological development projects, 25.6% to equipment acquisition, 18.1% to administrative and financial training, 6.7% to industrial assembling projects and 3.2% to basic research. Additionally, in FINEP's budget for 1993 a credit line destined to Brazilian enterprises which participate in the Mercosur Technological Cooperation Program was added with the amount of $50 million.

The following are some of the operational instruments of FINEP:

- ACN -- National Consulting Agencies Support Line

It aims at training and strengthening consulting and engineering enterprises.

- ADTEN -- Technological Development Support Program for National Firms
  Its objective is financing and investing in the projects of technological development or improvement.
- AUSC -- Support to Consulting Services
  It provides public and private entities with the financial resources necessary to hire national consulting agencies.
- Credit Guarantee System
  It was recently incorporated -- jointly with the SEBRAE -- and aims at supporting MSMEs access to financing with a guarantee fund. It is limited to 90% of the total project's cost (maximum R$120,000); with terms of up to 5 years with 3 years of grace period; guarantees are required (120% of the financed value in the case of real estate and 135% in the case of machinery.)
- FNDCT -- National Fund for Scientific and Technological Development
  It finances specific projects performed by non-profit institutions such as postgraduate centers, universities, research institutes, etc.
- LAGQ -- Quality Management Support Line
  It fiancees expenses for the implementation of total quality systems.
- PADCT -- Competitiveness and Technological Development Support Program
  It was created to support technological and scientific development, covering the activities of the FINEP, the CNPq and the CAPES.
- PATME -- MSEs Technological Support Program
  It operates through an agreement with SEBRAE and its objective is to provide donations for quality improvement and productivity increase. Financing may reach 70% of the total cost of the project.
- PETI -- Industrial Technological Extension Program for MSEs.
  It works through an agreement with the CNI. Its objective is to provide assistance to facilitate the access to available technologies and the development of new technologies.

Financing Lines for Productivity and Quality Management and Industrial Technological Training

National		
Institution/Program/Line	Objective	Modality
BANCO DO BRASIL		
FBB (Banco do Brasil Founding)	Science and Technology research	Semi-annual amortization after grace period, with neither inflation monetary adjustment nor interests, according to schedules.
FEPEMI (Special Support Fund for Industrial SMEs)	Technical and Training assistance to improve firms' administrative structure	Financing with payments to service firms. Semi-annual services of up to five years terms and a two year grace period; with neither inflation monetary adjustment nor interest, according to schedule.

FINEP-OURO (with FINEP)	Technological development, equipment acquisition	Financing of up to 70% of the total project value. Annual interest from 6% to 12% plus inflation monetary adjustment. Grace period: up to two years with an amortization term of up to three years upon completion of grace period.
MIPEM-OURO (with SEBRAE)	Investment on technology, entrepreneurial management systems and incremental working capital for updating	Beneficiaries: Micro (80% of investment) and Small (70%) enterprises. Amounts up to 35,000 UFIRs, equivalent to $28,000 (July 1995). Terms of up to 36 months with 12 months grace period. Guarantees for 130% of the financed value: real or endorsements.
BNDES		
BNDESPAR/CONTEC (Condominium of Technological Enterprises Capitalization)	Participation in shares operated by BNDESPAR in technological firms, at start-up, expansion or development stages	Participation of up to 40% of the capital.
FINAME	Equipment and machinery acquisition	
Quality and Productivity	Incorporation of production managerial and organizational techniques	Annual rates of 9% plus inflation monetary adjustment. Financing of up to 80% of project value. Amortization of up to 4 years with a grace period of 6 months.
FINEP		
ACN (National Consulting agencies Support Line)	Increasing competitiveness of engineering consulting agencies	Up to 70% of the project value, real guarantees covering 120% of financing. Annual interest from 6% to 12% plus inflation adjustment. Grace period up to two years. Amortization up to three years upon completion of grace period.
ADTEN (Technological Development Support Program for National Firms)	Developing test lines, assembling and productive processes projects, from pre-industrialization to launching	Financing up to 70% of project value. Stock participation up to 50% of capital. Annual interest of 12% plus inflation adjustment. Amortization of up to 10 years. Grace period up the three years.
AUSC (Support to Consulting Services Users)	Contract of consulting firms	financing up to 70% of project value. Annual interest of 12% plus inflation adjustment. Amortization of up to three years upon completion of grace period. Grace period up to two years.
FNDCT (National Fund for Scientific and Technological Development)	Scientific and Technological development; human resources; technological management and network methods	a) Non-reimbursable grant of up to 100% of project value. b) Reimbursable financing, considered case by case.
LAGQ (Quality Management Support Line)	Introduction of new total quality management methods	Participation of up to 70% of total project value. Annual interest from 8 to 12%. Terms of up to 6 years and grace period of two years.
PADCT (Scientific and Technological Development Support Program)	Improving the technical scientific competence; financing scientific and technological development projects	a) Donation of up to 100% of project value. b) Reimbursable financing of up to 70% of project value. annual interest from 6% to 12% plus inflation adjustment. Grace period of up to three years.
PACDT (Technological Extension and Competitiveness Support Program) (with CNPq)	Technological development and human resources formation on quality and productivity	Scholarships in the country and broad; donations

PATME (MSEs Technological Support Program) (with SEBRAE)	Technological assistance to facilitate access to available technologies, development of new technologies and to stimulate productivity improvements. Any industrial and service sector. Micro enterprises of up to 20 employees and Small Enterprises with national decisive control.	30% grants with counterparts. Adjustable limit values depend on the project.
PROTAP (Training Program on Technological and Scientific Research Administration)	Management of basic research activities	a) Donations of up to 100% of project value. b) Reimbursable financing subject to individual negotiation.
Loan Guarantee System (agreement with SEBRAE) (Implemented as test project on July 1995)	Providing a loan guarantee fund for ADTEN lines of FINEP	Up to 90% of the project value for values of up to R$120,000. Terms of up to 60 months with 24 of grace period. The fund of loan guarantee supplements the deficiencies when applying for a loan.

1.3.2.3 Chile

In the case of Chile more than half of the loan portfolio of financial institutions is directed towards SMEs including micro companies. The ratio of the non-performing loan of those institutions is very low (less than 1% at present) which encourages them to increase their loans to SMEs.

However, as in other countries, SMEs still face restrictions which are not only linked to the lack of available resources but also to the difficulty in gaining access to them.

The government supporting programs are oriented towards supplying resources in the long term with the interest rate compatible with profitable investment projects improving SMEs' access to collaterals, developing a specialized financial consultant market for SMEs. The instruments may be classified as two groups: a) those related to financing, and b) those related to improvement of SMEs' access to financing.

a) Relative to financing

- CORFO-BANKS Financial Intermediation Program
- CORFO-LEASING Financial Intermediation Program
- SMEs-Banco del Estado de Chile Program
- credit line for non traditional exporters
- credit line for refinancing loans oriented to purchase of capital goods and use of engineering services
- credit card

b) Relative to access to financing

- SUAF (CORFO), subsidy to reduce financing costs
- CUBOS (CORFO), supplement of guarantee deficiencies through loan insurance system
- CUBOS for exporters (CORFO) supplement of exports guarantee deficiencies
- ASSOCIATIVE GUARANTEE FUNDS, SERCOTEC AND ENTERPRISES, supplement of guarantee deficiencies
- PRIVATE GUARANTEE FUNDS, FUNDES, etc., supplement of guarantee deficiencies
- FONDO DE GARANTIA PARA EXPORTADORES NO TRADICIONALES DEL BANCO DEL ESTADO (FOGAEX) BANCO DEL ESTADO NON TRADITIONAL EXPORTER GUARANTEE FUND, guaranteeing loans for exporters of non traditional products
- GUARANTEE FLEXIBILITY, BANCO DEL ESTADO DE CHILE, promoting SMEs evaluation criteria
- CORFO CONSULTANTS RECORD, developing the specialized consultants market

a) Relative to financing

- CORFO'S Fund Intermediation Program

It aims at providing financing to the financial sector with favorable terms and conditions, so that, in turn, banks may assign larger resources to the SMEs financing. Acting as a financial intermediary, CORFO picks up resources from external capital markets (basically long-term loans from the Inter-American Development Bank), and periodically holds fund auctions open to the solvent financial institutions.

Bank and other financial institutions use those funds to grant loans to SMEs entrepreneurs to cover investment projects. SMEs must self-finance at least 15% of the total cost of the project. These loans are oriented towards the acquisition of capital goods under the maximum term of 12 years and with three year grace periods.

Within the framework of the agreement with the Inter-American Development Bank (Program of Multisectoral Global Loan CORFO-IDB, IDB Loan 576/OC-CH), the current loan programs include loans to banks for the increase of SMEs' productive capacity, loans to leasing companies for the purchase of new assets by SMEs and CORFO's loan for exports of capital goods, non-durable goods and engineering services.

There are also CORFO's other supplementary credit lines like a bilateral loan tied to capital assets imports form various European companies and loans to university professionals for their postgraduate studies in abroad.

The global results of the CORFO's fund intermediation program show that fifteen banks, a financing association and sixteen leasing enterprises have participated in it. These institutions have granted resources, which amount to $638 million to approximately 2,700 enterprises. Leasing enterprises have bidden off 54% of the total resources, indicating a growing presence. This is very important, taking into account of its orientation towards SMEs as target market. Outcomes also show that in the last bids, the resource demand of leasing companies exceeded greatly the supply. This system has become as the normal funding source for leasing enterprises and banks are not so much attracted by this bid system. The possibility of canceling the bidding system for banks is being considered, and in return of it the implementation of rediscount credit line is under study.

- Direct loans from The Banco del Estado to SMEs

The Banco del Estado (state-owned institution) has a specific loan lines for SMEs. Small enterprises receive special treatment as regards risk assessment analysis.

The Bank replaced the traditional evaluation system which was based on the available guarantees and collaterals, with a flexible evaluation system. This system places emphasis on the quality criteria of the project and the entrepreneur's history. The minimum guarantee is 40% of the total loan and the maximum, an average 70% in the case of established enterprises and 80% in the case of new enterprises.

It must be noted that SMEs seeking loans for working capital or investment can request a subsidy for the fees of a financial consultant which helps to draft the background information requested by bank (Subsidy Financial Assistance Program - SUAF). The banks must be the institutions authorized to access to SUAF.

The Banco del Estado also manages a guarantee fund in order to facilitate the access to working capital loans granted by financial institutions to SMEs exporters of non-traditional goods.

The following are the existing financing lines:

- Working capital financing
- Promotion loans for small enterprises
- Investment financing

- Capital goods financing via leasing
- Import loans
- Export loans

The loan program of the Banco del Estado has been outperforming its goals. During the 1992 - 1994 period, the Banco del Estado granted loans for UF33.5 million (equivalent to $837.5 million as of December 1993), concentrating on small business (79% of the total).

The outstanding line among various credit lines is the non-readjustable small enterprises promotion line. This line grants up to a maximum of UF1,000 at a variable term (12, 24, 36 or 48 months), with a possible grace period of up to six months. A mortgage, collateral or guarantee is required. By June 1994, a total of almost 25,000 operations had been completed, which amounted to UF5.5 million (equivalent to %137.5 million in December 1993). In order to be eligible, the enterprise must have annual sales below UF25,000 (equivalent to $625,000 as of December 1993).

- Leasing Pro Empresario

This program aims at financing capital goods for SMEs whose annual sales do not exceed UF15,000 (equivalent to $375,000 as of December 1993), with no need of real guarantees. It can be obtained at Leasing Pro Empresario, Banestado Leasing and Banco del Estado de Chile. It operates as a machinery or equipment leasing agreement with a purchase option.

- Banco Concepción's production credit card

It is a credit card which operates between suppliers and industrial firms for the purchase of materials, inputs and cash advances to solve short-term shortage of cash flow. The main beneficiaries are micro enterprises.

This was an initiated by SERCOTEC and Banco de Concepción in May 1992. This card operates in a similar way as the Consumption Card. The difference lies in that its users are industrial firms which use the card to purchase from suppliers who belong to this system.

This card allows access of firms to the automatic credit facilitates for working capital and cash advances. The credit line is established according to the entrepreneur's indebtedness capacity. This credit line is reviewed once a year.

b) Relative to access to financing

- Subvencion a la Asistancia Financiera (SUAF) de CORFO -- CORFO's subsidy to financial assistance

Aiming at reducing the transaction costs faced by entrepreneurs and financial institutions, CORFO grants subsidized financing to the smaller size enterprises for hiring of specialized consultants. They take responsibility for preparing and submitting the necessary information requested by banks, other financial institutions, leasing enterprises, credit cooperatives and the Technological Development Fund (FONTEC).

Consultants are selected from the Consultant Record of the SMEs Technical Assistance Subsidy Program. Their main tasks are collecting the necessary information to fill out loan or leasing applications as well as making and evaluating technological innovation projects. For short-term loans and leasing operations, the consultant must draw up balance sheets, profit-loss statements and cash flow budgets. In the case of investment projects, the consultant must also evaluate it and prepare cash flow projections. The consultant should also cooperate with the entrepreneurs in the negotiations with bank.

All enterprises with annual sales (before VAT) approximately less than UF25,000 ($625,000 as of December 1993) may request this subsidy. It covers up to 75% of the consultant's fees with a maximum of UF50 ($1,250 as of December 1993) for leasing and other short term operations, and up to a maximum of UF75 ($1,875 as of December 1993) for long term operations.

From November 1991 to June 1994, 1,221 applications were approved, the largest number is from the industrial sector (36% of the total). The program has hired 280 consultants, who performed an average of 3.7 consultations.

- Programa de Cupones de Bonificacion de Primas de Seguros de Credito (CUBOS) de CORFO -- CORFO's Loan Iinsurance Premium Bonus Coupon Program

In order to solve the SMEs' scarce capacity to offer the collateral required by the financial institutions, CORFO created system of Loan Insurance Premium Bonus Coupons (CUBOS). Through this system, the demand for real guarantees is completely (in the case of leasing) or partially (in the case of banking institutions) substituted by a loan insurance.

The insurance covers at least 70% of the non-payment risks of their debtors. The State subsidizes the premium of this insurance through CORFO with the CUBOS, for which, until recently, the interest financial institutions should bid. This system solves guarantee problems to have access to loan operations with almost no additional cost for SMEs.

This subsidy may be requested by entrepreneurs with net annual sales below UF25,000 ($625,000 as of December 1993). guaranteed operations should not exceed UF3,000 ($75,000 as of December 1993) with terms ranging from 18 to 48 months. Operations taking advantage of CUBOS may belong to any productive economic activity, with the exception of the purchase of houses and personal use and urban transport vehicles.

From December 1991 up to June 30, 1994, there have been six bids for a total of 44,908 CUBOS which have been granted to 686 enterprises. These CUBOS have granted access to loans for a total of UF665,394 ($16.6 million as of December 1993). The average per benefited firm is UF970. This instrument has been welcomed by leasing companies.

Due to the fact that there is only one loan insurance firm in Chile participating in the program and little competitive pressure for the CUBOS, CORFO has recently decided to modify its operative mechanism. Financing agencies may acquire their CUBOS directly at the Support Corporation, at a price set periodically by CORFO. The price valid until October 31, 1995 is UF0.28 per CUBOS and the effective subsidy granted is 72% of the guarantee cost. They have a valid term of 365 days.

CORFO is about to launch the Exports CUBOS, a subsidy to the prime cost of an exports loan insurance to cover the external payments for small exporting enterprises.

- SERCOTEC Associative Guarantee Funds (SERCOTEC is a technical cooperation service, public agency under CORFO)

This is an initiative of SERCOTEC for the promotion of medium and small industrial enterprises. This program consists in encouraging small entrepreneurs to get together, networking, in order to build guarantee fund for their borrowings.

The fund is deposited at a limited term in a bank to guarantee a loan credit for its members. The start up of this instrument depends almost exclusively on the entrepreneurs' initiative and on the bank's receiving of the funds.

Small enterprises also have private guarantee funds such as FUNDES, ASIQUINTA, etc.

- FUNDES

Chile belongs to a Latin American Private Foundations network. This network was created in 1985 by Swiss entrepreneurs and entrepreneurs from each Latin American country. In Chile, it was introduced in 1991. FUNDES provides the SMEs' entrepreneur with consulting services and guarantees to support credits, through its Program for Credit Access. For that purpose, it has reached agreements with Banks and financing entities. Normally, the firm submits a project to FUNDES, which analyzes and studies it, thus facilitating its application to financing entities.

- Fondo de Garantia para Exportadores no Tradicionales del Banco del Estado de Chile (FOGAEX) (Banco del Estado de Chile's guarantee fund for non-traditional exporters)

This fund is used to guarantee operation capital loans granted by financial institutions to exporters of non-traditional products. It consists of a guarantee covering 50% of the total loan up to a maximum of $212,480 a year for each non-traditional exporter, with a maximum of one year term.

Table VI-1-3-1 Financial Support System

Instrument	Institution	Methodology	Beneficiary
Financial Intermediation to ensure the cash flow of the financial system	CORFO	Bidding for multilateral external credit to finance investment projects.	Leasing firms and commercial banks
SUAF to apply for credit and/or leasing, formulate or evaluate FONTEC's investment and technological innovation project	CORFO	Subsidizing contracts of SMEs specialized consultants. Such consultants are selected from CORFO's Consultant Record.	SMEs (annual invoicing up to UF25,000)
CUGOS to solve collaterals insufficiency	CORFO	Subsidy for insurance contracted by financial institutions. The CUBOS are the premium of such insurance an they are paid by CORFO which, in turn, offers them in bid periodically among financial institutions.	SMEs (annual invoicing inferior to UF20,000)
Small Enterprises Credit Program	Banco del Estado de Chile	Financing small enterprises' investments needs to fixed assets and or working capital, with a flexible guarantee system.	SMEs (annual invoicing up to UF25,000)
Production Credit Card for temporal financing of input purchase and for quick cash availability	Banco de Concepción	Rotating credit granted by the bank to the benefited entrepreneurs after the corresponding evaluation.	Micro-enterprises and small entrepreneurs
Endorsement and Guarantee Funds to facilitate the access to short term financing	SERCOTEC and banks	Fund constituted by a group of enterprises and SERCOTEC. The bank which receives the fund opens a credit line for each member of the group for an amount equivalent to three times the deposited fund.	SMEs

FUNDES,. ASIQUINTA to facilitate the access to credit	FUNDES, ASIQUINTA	Fund constituted by private foundations offering consulting services and guarantees to endorse credits to small enterprises	Enterprises with assets value between UF2,000 and UF25,000

1.3.2.4 Mexico

The main financial institutions which support SMEs are NAFIN and BANCOMEXT. Although their financial supporting programs are now under review because of the adverse effect of the currency devaluation, the followings are main characteristics of the financial pogroms of both institutions.

(1) NAFIN (Nacional Financiera)

NAFIN is a public development bank established in 1934. Up until 1989 NAFIN together with BANCOMEXT and Bank of Mexico administered trust funds for financing SMEs directly. After 1989, however, NAFIN was re-organized to finance SMEs indirectly through its agent financial institutions (411 institutions as of 1992).

NAFIN integrated various trust funds such as FOGAIN, FOMIN, FONEP into the following 6 programs in 1989, shifting its borrowers from a public sector to a private sector.

(a) Micro and small business development program (PROMyP)
(b) Business modernization program (PROMyP)
(c) Technology development program
(d) Infrastructure development program
(e) Environment improvement program
(f) Study and consultation program for investment

In 1995, the above 6 programs were integrated into one modernization program called "PROMIN". PROMIN provides SMEs or even large firms which have production linkage with SMEs, with financing for modernization of machinery and equipments, re-financing (shift of loans from private or non-banks to NAFIN) technological development, environmental investment, etc.

The extension of loan term is up to 20 years selective either in local currency or in U.S. dollars. In the case of U.S. dollar loan, the interest rate varies from libor + 2% to libor + 5% according to the length of loan period.

Up until the end of 1994, the amount of the finance performed by NAFIN under the program of PROMIN amounted to 49,918 million New Pesos for total of 136,900 enterprises, 70% of which are MSMEs.

NAFIN also provides SMEs with credit guarantee facility, although NAFIN is now reviewing those programs for possible modification. The outline of the programs is as mentioned below.

(a) Guarantee for issue of bonds in the capital market
(b) Guarantee for loans to develop technology
(c) Guarantee to facilitate borrowing from financial institutions

This program includes "automatic guarantee" program which covers 50% of financing with relatively speedy procedure.

(2) BNACOMEXT

BANCOMEXT was established in 1937 to promote foreign trade especially export. It is specialized in finance for export related businesses, export/import trade finance and credit guarantee for export promotion.

About 90% of their finances have been granted through their agent banks as two-step loans. However, it has been increasing direct loans to SMEs in recent years because of their difficulty to obtain credit from private financial institutions.

During 1994, BANCOMEXT financed US$16 billions for about 20,000 firms, 90% of which are SMEs. To promote the SMEs' export is one of their most important targets.

Two-third of their loans are short-term financing. Their financing ranges from working capital or project finance to the finance for commercialization or sales promotion of Mexican products in foreign markets.

The main features of BANCOMEXT's guarantee program are as mentioned below:

Purpose of the guarantee:	To cover the financing risk of financial institutions (from pre-export to after-export financing)
Maximum amount of guarantee:	US$500 millions
Coverage:	70% of the amount financed
Length of guarantee period:	Within one year

L/G fee:	1%
Others:	BANCOMEXT covers the political and commercial risk for pre-export finance. However, after export is effected, commercial risk is covered by "COMESEC" (Compañia Mexicana de Seguros de Credito) in which BANCOMEXT participate 10.34% of their capital.

During 1994, BANCOMEXT granted guarantee fro about US$1 billion.

1.3.2.5 Australia

Just like in many other countries, it is generally regarded in Australia that SMEs have more difficulty in obtaining appropriate debt and equity finance than larger firms.

Many factors hinder the supply of funds to SMEs such as high risk of financing, uncertain return of investment and the high cost of reviewing.

The government has taken various initiatives to increase the availability of finance to small and medium enterprises.

The main initiatives include the expansion of the lending capacity of the Commonwealth Development Bank, expansion of the role of the National Investment Council, and supporting programs to improve the flow of equity capital to SMEs.

(1) Commonwealth Development Bank (DevBank)

DevBank has been increasing its lending to SMEs in response to the continuing need for development capital by SMEs and DevBank undertook a national campaign to raise awareness among SMEs about its range of services.

DevBank works on the campaign together with government advisory group such as AusIndustry AUSTRADE, etc.

DevBank focuses on growing businesses, in particular those with export potential. Of particular note for small and medium sized businesses is that DevBank's approach to lending is based primarily on cash-flow rather than on collateral. This, of course, depends on applicants to have a sound business plan as an important indication of potential business success.

DevBank is providing longer term and more flexible financial support through cash-funded term loans (generally for five years and longer) and equipment finance.

The conditions and structures of DevBank's financial products are flexible to meet individual needs.

DevBank receives an annual subsidy of $20 million from the Commonwealth Government. In addition to this annual subsidy, the Government injected $30 million into the DevBank to expand its portfolio in 1994.

(2) National Investment Council

The National Investment Council (NIC) is the primary source of private sector advice to the Commonwealth Government on investment issues.

The membership of the NIC consists of the Minister for Industry, Science and Technology, Minister and Private sector representatives.

The main objects of the NIC are to provide high level private sector advice on all issues which influence on investment climate, trends in domestic investment and capital flows into and out of Australia.

In addition to the Government's campaign to attract regional headquarters of overseas companies to Australia, their program includes the development of project outlines, terms of reference for examining the significance of assets such as venture and development capital, infrastructure and SME finance in the portfolios of superannuation funds. Their program also includes a study into capital availability for SMEs.

(3) Business Equity Information Service

The Business Equity Information Service aims to increase capital inflow to the small business sector and raise awareness about equity capital as an effective option for financing business expansion.

The following two projects are being supported under the program.

The Victorian Employers' Chamber of Commerce and Industry (VECCI)

VECCI has designed the program to help match investors with small business enterprises.

The program is an equity information service, and is modeled on successfully established overseas network programs such as COIN (Canada Opportunities Investment Network) and VCN (Venture Capital Networks) in the U.S.A. and U.K.

The program targets firms seeking equity funding, human resource skills and affinity partnerships.

Both investors and enterprises use a comprehensive questionnaire to provide information on their needs. Once the matching has been made, a meeting can be arranged between the two perspective parties. VECCI does not participate in the negotiation withdrawing from the negotiation.

VECCI has been building a database of small business investment opportunities and potential investors (more than 600 in total) and is going to expand the database to a national on-line facility.

Pooled Development Funds (PDF)

The PDF program is the government's key initiative for increasing the provision of equity capital of SMEs.

The program promotes the establishment of Pooled Development Funds (PDFs). PDFs are private sector funds that provide long-term equity for SMEs.

The investors in PDFs will benefit in later years by receiving strong dividend flows or by disposing the share of increased value as a result of the substantial growth of investee companies.

PDFs must invest in newly issued ordinary shares in Australian companies with total assets of less than $50 million. PDFs cannot invest in companies whose primary activity is retaining or property development, nor can PDFs invest more than 30% of their capital in any one company. The government encourage PDFs by giving both PDFs and their shareholders generous tax concessions.

PDF shareholders receive their income by way of concessionally taxed dividends or tax-free capital gains on disposal of their PDF shares.

The extent of the concession on dividends paid to PDF shareholders is dependent upon a number of factors such as the source of the PDF income, the standard rate of tax applicable to the shareholder, and the extent of franking on any dividend paid by the PDF. The table below illustrates the effective tax rate on dividend flows for two classes of PDF shareholders, a high marginal tax rate individual (normally facing a 48.5% tax rate) and a superannuation fund (normally facing a 15% tax rate), when the company rate of tax is 36%.

Effective Tax Rates to Investors on Dividends are Paid by PDFs

		Form of PDF Income			
		Capital Gain from Equity	Interest Income	Franked Dividend	Unfranked Dividend
Type of Investor	High Marginal Tax Rate Individual (48.5%)	15%	25%	36%	0%
	Superannuation Fund (15%)	6%	10%	15%	0%

Source: Dept. of Industry, Science and Technology, Australia.

1.3.2.6 Italy

In Italy the number of SMEs exceed 200,000. 120,000 SMEs are registered with CONFINDUSTRIA (The Italian Confederation of Industry). The 95.2% of those SMEs belong to small enterprises which have employees less than 100 people.

Since the Italian economy has developed on the base of SMEs, the central and local government have taken various financial supporting measures through the enactment of laws mainly for the purpose of technological innovation, R&D activities, marketing research and investment for capital goods.

From the viewpoint of financial support, the following measures practiced in Italy, are considered to be very informative for Argentina.

(1) Financing program of MEDIOCREDITO CENTRALE

MEDIOCREDITO CENTRALE was incorporated in 1952 as a credit institute to provide medium and long-term loans to SMEs and to support export credits.

Today MEDIOCREDITO acts as an industrial policy agency implementing various laws providing incentives to businesses on behalf of the government. MEDIOCREDITO also acts as a development bank offering companies innovative financial solutions to finance investments, exports, various projects and equity needs.

Loans to SMEs

MEDIOCREDITO CENTRALE, in cooperation with banks extends long-term corporate loans, finance for new business initiatives, expansions and investments in new technologies undertaken by SMEs.

This is performed through CO-financing and re-financing operations at favorable market rates. In particular, MEDIOCREDITO CENTRALE provides re-financing/co-financing facilities, participating loans and short-term debt consolidation loans.

The borrowing enterprises have generally the following features: no more than 500 employees, net fixed assets not exceeding 75 million ECU, and not owned by large-sized enterprises to the extent of over one-third of their capital.

Re-financing facilities, for instance, have the following characteristics:

Purpose of loan:	- Real estate intended to be used by corporate - Machinery, plants, equipment - Permanent stocks of raw materials or semi-finished goods
Extent of financing:	Up to 70% of the investment scheme (or 80% in specific areas listed by the European Union - EU), and up to a maximum of 3 billion Lire
Interest rate:	Floating rate calculated by the most widely-accepted market parameters
Duration of loans:	Generally not beyond seven years
Procedure:	The Application for financing must be forwarded by enterprise to a bank authorized to handle MEDIOCREDITO CENTRALE re-financing facilities

(2) Guarantee system for financing

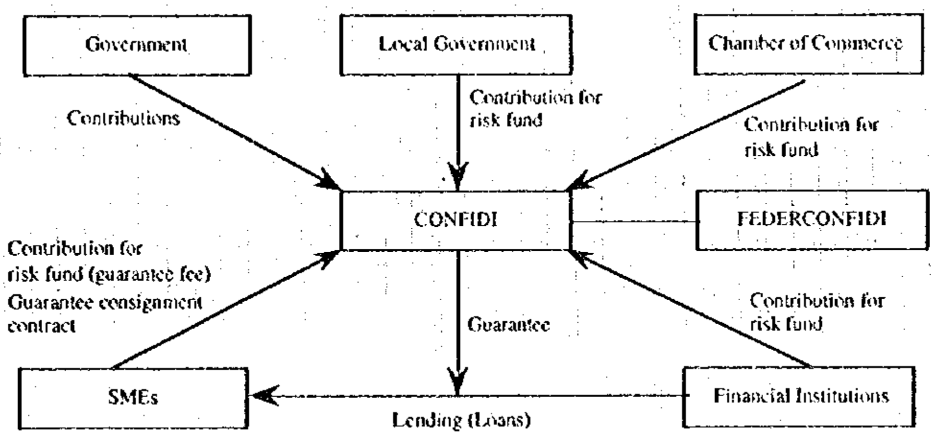
In Italy the system of collective guarantee consortium has been widely developed all over the country in order to facilitate the access to borrowings from financial institutions.

Under the FDERCONFIDI (Federazione tra i Consorzi di Garanzia Collettiva dei FIDI), there are 97 consortiums (CONFIDI) all over the country with 32,000 membership SMEs. The first CONFIDI was established in 1961 in Como, and during 1970s many other consortiums were created.

The main function of CONFIDI is to provide financial institutions with guarantee for short-term borrowings. In addition to that, they provide guarantee for leasing, factoring and real estate financing with duration of beyond 2 years.

The total balance of guarantee as of December 1992 amounted to 3,233,600,000,000 Lire covering 19,673 loans.

The system of CONFIDI can be illustrated as mentioned below.



While FEDERCONFIDI belongs to industrial sector, there are other federations such as FEDERASCOMFIDI for commercial sector, CONFAPI for SMEs, FEDART-FIDI for artisans.

General feature of CONFIDI

- CONFIDI is non-profit making consortium and therefore they are exempted from tax payment.

- The basic fund for guarantee consists of endorsement fund (Capitale sociale), risk fund (Fondo rischi) and pooled guarantee fund (Fidejussioni)

- Extent of guarantee is usually up to 50% of lending amount

- Guarantee fee (contribution of risk fund) ranges from 0.075 to 1.50% of lending amount

1.3.2.7 U.S.A.

Small businesses are a critical part of the U.S. economy. They employ almost 60% of the work force, account for about 40% of GDP. More than 600,000 new firms have been created annually over the past decade.

The main external sources of financing available to small businesses are debt capital from financial institutions or bond issues and also equity capital from venture capitalists or small business investment companies.

In recent years while commercial and industrial loans outstanding from U.S. banks have shown no increase or decline, business loans by the U.S. Small Business Administration (SBA) have made significant increases.

A continued strong stock market has been providing a strong stimulus to the initial public offering and venture capital markets. Funding in these markets have been continuing at a high level. The followings are brief features of the SBA's loan programs and NASDAQ stock market which is very important and dynamic stock market for the initial public offering of SMEs.

(a) The SBA's guaranty loan program to small businesses

SBA's basic guaranty program is generally used to fund the varied long-term capital needs of small businesses. Guaranteed loans are made by private lenders, usually banks and guaranteed up to 90% by SBA.

- Eligibility

  The business generally must be operated making profit and within the size standards set by the SBA. In the case of manufacturing sector, maximum number of employees may range from 500 to 1,500, depending on the type of product manufactured. There are some exemptions of loans for those businesses like newspapers, magazines or speculation/investment in rental real estate.

- Use of proceeds
  Loans are available for many business purposes, such as real estate, expansion, equipment purchases, working capital or inventory.

- Terms of loans
  The length of time for repayment is usually 5 to 7 years for working capital and up to 25 years for real estate or equipments.

  Both fixed and variable interest rates are available. Generally interest rate cannot exceed 2.75% over the New York prime rate.

The SBA guarantees up to 90% of the amount of loans up to $155,000 against loss due to borrower default. On larger loans, the SBA usually guarantee 85%, up to a maximum guarantee of $750,000.

The SBA takes all collateral available including personal guarantees or liens on personal assets of the principal owners.

(b) Specialized loan programs of the SBA

In addition to its regular loan program, SBA makes a number of specialized programs to meet the particular needs of small businesses.

- Small loan program
  This program allows lenders making SBA-guaranteed loans of $50,000 or less with greater than 12 months. The guarantee fee remains at 2% of the amount that SBA guarantees on loans.

- Microloan program
  Under this program, loan ranges from less than $100 to a maximum of $25,000. The proceeds of the loan can be used for the purchase of machinery and equipment, furniture and fixtures, inventory, supplies and working capital. A microloan must be paid on the shortest term possible -- no longer than 6 years.

- International trade loan program
  This is designed to help small business obtain long-term financing to develop or expand international markets to assist small business adversely affected by competition from imports.

  Loan funds may be used to buy land and building(s); build new facilities; renovate, improve or expand existing facilities; purchase or upgrade equipment and fixtures; and to make other improvements.

  SBA can guarantee up to $1.25 million and up to $250,000 for working capital.

- Other programs
  There are many other loan programs such as contract loan program, pollution control loan program, export revolving line of credit program, seasonal line of credit program, etc.

(c) The listing stock market of SMEs

In many countries it is not so easy for SMEs to be listed in a stock market up until they successfully grow up and fulfill the financial requirements for initial listing.

In the case of Japan there are two main stock markets for big companies (first section and second section market) for smaller companies, there is an over-the-counter market and now under discussion whether or not to create the second over-the-counter market for small businesses.

The most famous market for listing SMEs is NASDAQ in the United States. Today, NASDAQ is the fastest growing and the second largest stock market in the United States. It is also the second largest equity market in the world on the basis of its dollar volume.

The NASDAQ Stock Market is composed of two segments:

1) The NASDAQ National Market, which has more than 3,400 well-capitalized companies including many well-known names like Apple computer, INTEL, MICROSOFT.

2) The NASDAQ Small-Cap Market, which has more than 1,300 smaller, emerging growth companies. The requirements for listing in this market

are significantly lower than those for NASDAQ National Market companies.

Those emerging companies after becoming more established, they often move to the NASDAQ National Market from the NASDAQ Small-Cap Market. Increasingly, well-known and successful companies often move to the New York Stock Exchange from the NASDAQ National Market later on.

To be listed on the NASDAQ Stock Market a company must register its securities with the SEC which means that each NASDAQ company must publicly disclose information about its business, results of operations, financial condition, principal shareholders, and management. In making these disclosures, a NASDAQ company must follow uniform standards prescribed by the SEC.

In addition to SEC registration, those companies must meet various qualitative and quantitative standards before listing on NASDAQ and to retain their listing, they must meet maintenance standards.

The summary of financial requirements for initial listing on the NASDAQ Small-Cap Market is as follows:

	Entry Requirements	Maintenance Requirements
Total assets	$4 million	$2 million
Total stockholders' equity	$2 million	$1 million
Registration under Section 12(g) of the Securities Exchange Act of 1934 or equivalent	Yes	Yes
Public float (shares)	100,000	100,000
Market value of public float	$1 million	$200,000
Shareholders	300	300
Minimum bid price per share	$3	$1**
Number of market makers	2	2

Since NASDAQ Market is opened to overseas non-U.S. based companies, Argentine companies are able to raise equity financing in this market as long as they meet the financial requirements and a corporate governance standards of the market.

Chapter 2
Public and Private Assistance Frameworks for the Acquision of New Technologies and Konw-how by SMEs

2.1 Introduction

In recent years, the role of SMEs in industrial development and the importance of policy implication to strengthen SMEs have been widely recognized in a number of countries under market economy.

The major reasons why SMEs are important and why various supporting measures have been reinforced by the governments are as follows. Firstly, it is perceived that SMEs' potential growth is high and they will become the driving force for further expansion of the entire economy. The second reason is that reinforcement of SMEs' competitiveness will be indispensable in the era of real global competition, SMEs need to maintain industrial linkages with large enterprises.

It is imminent that SMEs must keep up technological innovation in order to sustain their growth.

Needless to say, private enterprises improve their technical activities by their own decision. However, it is not easy for SMEs with limited resources such as funds, expertise, human resources and information to improve their technical activities without external assistance. Therefore, public support are needed to supplement their self efforts.

Under a closed economy in Argentina until the end of 1980's, the business environment did not promoted innovative activities of SMEs through free competition. The closed economy was converted to an open economy in the early 1990's and the Argentine market was linked more tightly with international market.

Though SMEs have been making their innovation efforts since then, the lag resulted in 1980's has not been completely recovered until today. A lot of SMEs with weak competitiveness have already disappeared from the market.

Further international competition will inevitably result in more severe conditions of the selection and survival of enterprises in the future. However, SMEs with adequate competitiveness will be able to catch a chance of growth. The Government should help such SMEs.

2.2 Issues and Recommendations

2.2.1 Current Activities and Needs of SMEs in Technology Acquisition

The study team examined in cooperation with CEPAL the activities and needs of 39 enterprises active in technical fields ranging from leather processing to fine chemicals, metal products, and scientific instrumentation.

All SMEs in the sample engaged in technical innovation financed their necessary expenditures with their own funds. Though the vast majority were pursuing independent technical innovation solely by their own, another 40 percent (the second largest share) were engaged in programs supported by outside private organizations. Such support came primarily from the clients, consultants, suppliers, or other private firms. By contrast, almost none of the enterprises in the sample were receiving support from public institutions or programs. What is more, they apparently saw no difficulty in obtaining technology information, per se.

Lack of funding was cited by the largest number of SMEs in the sample as an obstacle to future effort in technological development. Inadequate support was the second-most item. As to the type of support desired, funding was cited the most followed by support in the areas of process development, the acquisition of information on new technologies, and training, relatively few firms cited a need of support in the area of product development.

These findings support the following conclusions.

(a) To date, the sample SMEs have assumed a cautious stance in pursuing their technological development. They have held their technological development to a level they can finance with their own internal funds. In effect, their technical innovations are for the most part an extension of past accomplishment.

(b) The sample enterprises recognize a need to enlarge their development activities and thereby strengthen their future competitiveness.

(c) In pursuing that lofty objective, however, it is anticipated they will face various difficulties in the area of technological development. For that reason, they now look forward to receiving technical support, albeit apparently from private sector sources.

Table VI-2-2-1 Potential Obstacles to New Efforts in Development (As Perceived by Sample Manufacturing SMEs)

(Unit: %)

1) Personnel	Heavy cost burden	18
	Internal personnel shortages	10
	Difficulties in contracting qualified personnel	10
	Training related difficulties	8
	Poor access to consulting services	0
2) Facilities and Technologies	Expense involved	15
	Inadequate technological information	10
	Inadequate expertise	8
3) Others	Inadequate funding	46
	Inadequate development assistance	31
	High business risk	15
	Inadequate technical assistance	10

Source: CEPAL

Table VI-2-2-2 Types of Outside Assistance Desired (By Sample SMEs)

(Unit: %)

Financing	62
Process development	26
Technological information	23
Training	21
Product development	15
Technical assistance	15

Source: CEPAL

The study team also visited approximately 20 SMEs in the automotive parts industry and queried each about its business strategies, financing, quality control, and technologies. The majority were either blue-chip suppliers or unaffiliated manufacturers of after-parts. Primarily for the reasons outlined below, it appears the technical needs of these enterprises are for the most part being met.

(a) Automotive assemblers and other corporate clientele furnish technical guidance to blue-chip suppliers.

(b) It is relatively easy for blue-chip suppliers to obtain licenses from foreign companies.

(c) Most unaffiliated manufactures of after-parts have a massed arsenals of exclusive technology. Whereas some have developed their own, independent facilities and processes, others have pursued production-line modifications with the assistance of locally based machine-tool design and development firms. Foreign suppliers of plant equipment and technologies have typically provided needed information and consulting on new technologies.

(d) Automotive component firms basically utilize INTI testing, analysis and evaluation services and product-certification frameworks.

(e) These firms have been active in gathering information on technologies and technological trends in the industrialized economies, and often participate in international business shows and industry research seminars.

2.2.2 Current Programs to Support SMEs

In 1992, the Argentine Government launched a 3-year SME industrial promotion program that bundle sub-programs of public sector support for SMEs undertakings in technology development, the acquisition of new technology and enhancements to existing technologies.

Technical Support Programs

(1) INTI (National Institute of Industrial Technology)

INTI was engaged in the development of industrial technologies and assisted public and private sector firms with technology development undertakings prior to implementation of the above mentioned 3-year government program. Under said program, it is now responsible for providing various forms of technical assistance to SMEs e.g., in such areas as testing, analyses, and evaluations, product certification, technical guidance, technology development, technology transfer and collaborative development projects. Of course, these activities are also being provided to large enterprises; they have not been limited to SMEs in any sense. At present, however, major activities of INTI are concentrated on testing and analysis.

In addition to supervising technical assistance in the area cited above, the INTI also serves as the government institution responsible for running the technical support program under the jurisdiction of the Subsecretariat of Small and Medium-sized-industry, and as such, it cooperates closely with that agency.

(2) CIEI (Center for Information and Industrial Statistics), Information Center for SMEs

This program consists of information services aimed at supplying enterprises with information held in the Central database of the Secretariat of Industry. The system for the provision of those services is a computer-based information network linking together local information centers for SMEs that have been set up across the nation. Presently, though the system serves primarily as a data source for industrial and trade statistics and corporate directories, not for technology-related information, per se.

(3) Suppliers Development Program

Launched in August 1994, this is a relatively new program. Its mission on is to assist small and medium-sized suppliers of large enterprises in cultivation and improving their strengths in the area of quality, design and technology enhancement. As of July 1995,14 large enterprises were engaged in program-based efforts to assist or train their suppliers.

Credit Programs for the Acquisition of New Technologies and the Pursuit of Technological Innovations

(1) Credit for Acquisition of Technology

This program was set up as a course of funding for low-interest, medium-term loans aimed at assisting SMEs in effort to modernize their technologies and management practices. It provides credit for SMEs undertakings in process and product technology development, quality control, and the modernization of organizational structure (Administrated by the Secretariat of Industry, 4% subsidies for the credit furnished through commercial banking channels).

(2) Argentine Technology Fund (FONTAR)

FONTAR provides medium-term credit with concessional rate for various undertakings of SMEs: e.g., in new technology or product development, the enhancement of existing technologies or process, the establishment of pilot plants or production of prototypes, and the introduction of production control technologies. Eligible projects must exceed 12 % of internal rate of return.

(3) National Program for Technological Innovations and Transfers

Set up with the objective of bolstering competitiveness through the promotion of R&D and Technology transfer, this program provided medium-term financing with a concession rate and subsidies (Administrated by National Institute of Science and Technology, with credit furnished through the BNA)

The government programs which have recently been launched in Argentina for providing SMEs with technical support have yet to bear fruit as envisaged because of the limited availability of fund and expertise. The Government is, however, on the process of enhancing these programs as demonstrated by the enactment of the Law 24467 in March, 1995, which stimulates the establishment of Sistema Unico Integrado de Informacion y Asesoramiento (the Integrated System of Information and Advise for

SMEs)[1], and the expansion of the Suppliers Development Program.

It is certain that these programs will eventually bring forth expected achievement in the future by the Government positive supporting policy for SMEs, involving as many SMEs as possible in the programs.

2.2.3 Issues and Recommendations for Public Support to SMEs

Recommendation 1 Promote publicity to make the programs understood by SMEs

Issues

Programs now in progress provide the foundation of assistance for core SME activities in the area of technological development. They include programs of technical guidance, of public institution-led technology development, and of credit for technology acquisition and development. Nonetheless, most SMEs remain relatively cautious about the idea of utilizing public support programs for various reason. Judging from the experiences of the firms which we surveyed, SMEs in general have apparently received little information on programs. Another factor effectively hampering the utilization of the programs of credit for technological activities is the strong aversion SMEs generally have about putting up collateral in order to receive such credit. This, however, is fundamentally a credit system issue, and as such, is outside the scope of this section of the report.

Recommendation

Mutual understanding between suppliers of public support and the SMEs who apply that support will be an essential precondition for the effective promotion of these programs.

To that end, the government should take action in improving the level of dialogue and root out causes of misunderstanding. Specific measures for that purpose are outlined below.

(a) Supply information to SMEs in a readily comprehensive format

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1 According to the Article 12 of Law 24467, the system will be established to provide SMEs with various information and advice such as technology, organization, accounting, finance and marketing in the whole country. Related information useful to SMEs will be collected both from public and private sectors.

At present, most of the documentation on public programs of technical support provide overly abstract explanations of program content and objective. There is certainly ample room to reconsider whether the SMEs who receive such materials actually find the information contained therein to be easily understood or of interest. It will likely be essential to also take steps toward providing as many companies as possible with concise and clear information on program benefit. One practical method, for example, would be to work together with companies that have already participated in and benefited from such schemes of public programs, and produce and distribute one-page accounts of their "success stories".

In publicity-oriented undertakings of this kind, it will be important to draw on as many communication channels as possible: e.g., newspapers, private trade publications, letter correspondence, telephone contacts, facsimile transmissions, and E-mail networks.

= Action program =

(1) Establishment of a working team composed of the members who represent each of existing organizations concerned.

(2) The team will work as follows.

  (i) Identification of successful cases in which technological development or improvement have been supported by the public technical support measures;

  (ii) Analysis of the success factor of each case identified; and

  (iii) Producing "success story" of each type of industry.

  An appropriate model for reference of the Argentina would be the "success story" of the Australian support program.

(3) The Subsecretariat of SMEs will disseminate the "success story" to all enterprises registered in the RIN.

(b) Strengthen the initiative of private sector entrepreneur associations in consensus-building

Seeking the full cooperation of local administration, research laboratories and private entrepreneur associations, and striving to have them play a continual supportive role, consensus building will be vital.

This can be expected to effectively increase SME contact and familiarity with public programs, and spontaneously improve private sector receptiveness to, and understanding of, the intention of central government institutions. Smoother communication will result as well because program exponents and targets alike will be private business and businessmen.

= Action program =

(1) Under the initiative of the Subsecretariat of SMEs, each public technical support entity will collaborate with the provincial governments and private industrial associations in order to implement the following activities.

(i) The provincial governments or private industrial support will hold seminars for guidance of existing technical support programs, co-sponsored by the public support entities. The seminars will be held in the capital and major cities of each province, depending on the number of the SMEs located in the region.

(ii) In each seminar questionnaire survey will be conducted on the participating SMEs to identify their technical assistance needs.

(iii) Each provincial administration or private industrial association will undertake the function as the gateway to the public support programs helping each SME to find an appropriate program.

(iv) Each provincial administration or private industrial association will hold regularly a "technology consulting day", to guide technological problems of each local SME, with cooperation of the public support entities concerned.

(v) A "technology SMEs club" of technology oriented SMEs would be organized without charging member's fee under the management of each gateway. To support the gateway's activities, public technical support entities would offer the latest technology-related information and also hold a seminar for this club members.

Recommendation 2 Explore a possibility of introducing the incentive for R&D activity

Issues

More than anything else, SMEs crave financing for technology development. Already, no less than three public programs have been set up to furnish credit for undertakings aimed at achieving technical innovations or breakthroughs. As implemented, though, they place practically all the burden of risk associated with development work on the shoulder of the eligible SMEs. Needless to say, only a limited number of blue-chip SMEs are positioned to take advantage of these credit sources.

Recommendation

Development work on any promising new technology exposes the developer to a formidable burden of risk. R&D-oriented tax breaks count as one way of providing private sector enterprises with enough incentive to accept and confront that risk.

The Argentine Government has already introduced a number of measures aimed at promoting private investment; these include its industrial restructuring and specialization regime, the elimination of import duty on capital goods and the automotive industry regime. Such actions have been effective. Moreover, tax breaks for R&D activities, if introduced, could show impressive results.

It therefore seems advisable that tax incentives of this kind be explored and implemented at an early date if demonstrated to be justifiable.

= Action program =

"A committee for R&D tax concessions system" consisting of members who represent all the organizations concerned will be set up.

The committee is responsible for the following task.

(i) Definition of the target R&D to be covered by the tax concessions

(ii) Survey on the enterprises regarding the current taxation and R&D activities

(iii) Examination of effective tax concessions systems based on surveys on various countries. (Tax concession systems of Japan and Australia are reported in section 3 of this chapter.)

(iv) The Government should make the tax concessions system perfectly known to individual SMEs, if its adoption is justified.

Recommendation 3 Establish a comprehensive framework for efforts in technical support

Issues

Government in many countries world-wide have attached growing importance to SMEs and taken extra pains to reinforce and expand their SME-oriented support programs. In view of the fiscal constrains and the relatively short span that has elapsed since implementation, Argentine measures of this kind are still in their formative stages. A challenge now is to add substance to an emerging support framework without wasteful investment.

Recommendation

(a) Prepare programs aimed at strengthening the capacity of personnel responsible for technical support

The qualification of each technical advisor will be an important factor determining the effectiveness of any undertakings aimed at furnishing technical guidance. One issue at present, however, is that most such personnel have not been trained to serve as advisors specializing in the provision of technical guidance to SMEs.

To address this issue, we recommend that Argentine entities concerned, including INTI, invite advisers from a country with an established track record in providing such support to SMEs, establish domestic frameworks for the training of Argentine advisors, and in tandem with that undertaking, set up training programs overseas for the local enterprises or organizations that play an advisory role in the provision of technical support. The same measures would apply to the personnel responsible financing for technical support.(A short-range issue)

= Action program =

(i) The Government will conduct a survey to identify the primary fields of technical support for SMEs, which are of great necessity and can be easily accepted by the local manufacturing SMEs in Argentina. Based on the conclusion of the survey, the Government will provide special programs as mentioned below, to train Argentine experts as core personnel for the SMEs assistance.

(ii) The Government will invite foreign experts of SMEs technical support field, through an effective means such as an international technical cooperation program, etc. In addition, training courses will be established so that Argentine experts of public entities concerned can be given intensified expertise.

(iii) The Government will establish a program to dispatch Argentine experts of public technical support entities for training in foreign institutions.

(b) Strengthen institutional networks for technical support

Unless Argentina can create a framework for technical support that is supported by the cooperation of public and private institutions, such support will be extremely limited in its scope, i.e., in terms of the number of beneficiary SMEs. Accordingly, the Government must have maximum possible participation from those institutions with expertise in technical support for SMEs. To bring that cooperative net work into being, however, it will be imperative to drastically strengthen the powers and capabilities of those institutions expected to form its core.(A medium-to long-term issue)

= Action program =

The framework of action program for this issue is primarily same as that of the case of the Recommendation 1 (b).

(c) Create a computer-based information network system in the technical support field

Harnessing the capabilities of a fully computer-based information network would enable the activities outlined in (b) above to make significant strides. That network should be put together, however, for reasons beyond those of its usefulness to the immediate goals of technical support. Argentina currently lacks systems of electric distribution of information on new technologies, industrial patents and property rights, and so forth. Further, it still lags in terms of certain elements of information infrastructure vital to the provision of technical support. Therefore, to cope with this situation, one has to explore the possibility of establishing a computer-based information network that connects the valuable database run by the institutions and organizations involved in technical support activities to SMEs. The existing information systems in Japan, Australia and Mexico are mentioned in sections 2.2 and 2.3 of this chapter. (A medium-to long-term issue)

= Action program =

The team suggests that the Government should first carry out a study on design and development of a computer-based technology information network system.

As for this study, an international technical cooperation will be taken into consideration.

In the study a feasibility analysis will be made on the technical and economic aspects of introducing a new information network system. Terms of reference of the study should include the following aspects.

(i) Suitable relation between the new information network system recommended and the Integrated System of Information and Advice for SMEs

The study results will recommend an appropriate relation between the computer-based information network for technical support and the Integrated System of Information and Advise for SMEs (Sistema Unico Integrado de Informacion y Asesoromiento) which is indicated in Article 12 of Law 24467.

(ii) Category and specification of the information network and its database

The study will examine the purpose of and the way to use the information network system most appropriately.

(iii) Framework of the information registration under the system

The study will draw a registration system for the information network system. Private large enterprises which are the treasure house of technology information should be invited to register their technology information.

(iv) Framework for the use of the network

The study will provide framework for users to approach the information network system. It is important to assume that any parties including individuals can use the information network system. The system will be bilingual; English and Spanish.

(v) *Evaluation of computerized communication technologies to be adopted*

Such technological innovation will be realized probably by the use of the INTERNET. The study team analyze the merits and demerits of the INTERNET system as against the other computerized communication systems.

(vi) *Estimation of the development and operation costs*

The study will estimate the development cost and the operation cost of the information network system.

(vii) Examination of service fares charged to users.

The level of service fares of the information network system should be fixed not based on the development and operation costs but according to the SMEs' willingness to pay.

(viii) Plans for cash-flow projection of the information network system

The study will provide fund raising plans for and income statement projection of the information network system.

(ix) Organization plan

The study will provide an organizational framework for the information network system.

(x) Tender for building the information network system

The study will prepare specifications for the international tender to contract the construction of the information network system.

2.3 Measures for Supporting SMEs in Brazil, Chile, Mexico, Australia, Malaysia, Korea and Japan

2.3.1 Framework for Cross-national Review

The team has reviewed technical support measures to SMEs implemented by the public and private institutions in Brazil, Chile, Mexico, Australia, Malaysia, Korea and Japan.

Based on the field survey, the team has compiled, in this chapter, a report on the *programs with remarkable performance, and/or with some unique aspects.*

Measures practiced can be classified into several categories; technical training, technical guidance, R&D support, technology-related information & technological exchange, and fostering of small and medium-sized suppliers. Thus, the structure of the supporting measures could be summarized as shown in Figure 3.2.1, although none of these countries has full coverage of all the categories mentioned above.