

APEN / ACFi (Asian Community Finance Initiative)

**Community Finance System as a New Horizon of
SME Finance in Asia/Africa**

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(Asia Professional Education Network)

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Community Finance

[SME Finance]

1. Development of SMEs is a vitally important in most of developing economies.
2. Establishment of a proper system of SME Finance is the key strategy in fostering SMEs.
3. A SME Finance system faces a kind of 'market failure' caused by
 - a. asymmetric information
 - b. small business amountthus we need to innovate a new scheme for SME finance.

Community Finance

[SME Finance]

4. Solution of the 'market failure'

- a. governmental institution
- b. special commercial systems concentrating on SMEs

5. In the latter half of the 20th century, Japan has established many of

- a. governmental institution
- b. special commercial systems concentrating on SMEs

6. The unique commercial system concentrating on SMEs is SHINKIN system, born in Japan and developed only in Japan, based on the Community Finance schemes.

Community Finance

[ACFi]

1. APEN and SHINKIN people believe that Community Finance Schemes, developed in SHINKIN in Japan, would be quite effective in fostering SMEs in Asia.
2. APEN established ACFi (Asian Community Finance Initiative) as a committee of APEN in December 2013, in order to develop new SME Finance systems based on Community Finance Schemes in Asia.

ACFi is...

**ACFi (Asian Community Finance Initiative) is ;
an APEN Committee established under the Constitution of APEN**

**The objective of ACFi is ;
to develop and establish
the 'community type' (Not-for-Profit) financial systems for SMEs
in Asia.**

**(the Japanese SHINKIN (Credit Association) system will be an
effective model)**

ACFi is...

**ACFi invites ;
'community type' financial entities in Asia**

Members at this moment are ;

The Johnan Shinkin Bank (Japan)

: total deposits (March 2014) 3,444 bil. yen

The Okazaki Shinkin Bank (Japan)

: total deposits (March 2014) 2,612 bil. Yen

The Hiroshima Shinkin Bank (Japan)

: total deposits (March 2014) 1,210 bil.yen

(the Secretariat of APEN)

ACFi was established on ;

November 5, 2013 (Tokyo)

Activities of ACFi

Establishment of ACFi (November 5th, 2013 (Tokyo))



Activities of ACFi

**ACFi Seminar in Yangon (Central Department of SME Development
Ministry of Industry, the Government of Myanmar)
(March 18, 2014 (Yangon))**



Activities of ACFi

**FY2014 General Assembly Meeting of ACFi
(July 29, 2014 (Tokyo))**



Activities of ACFi

**ACFi Seminar in Vientiane
: Microfinance on the Sustainable Economy in Lao PDR
(co-sponsored by APEN and the Bank of Laos)
(December 5, 2014 (Vientiane))**



Activities of ACFi

**APEN International Seminar on SME Finance
(March 19, 2015 (Phnom Penh))**

APEN International Seminar on SME Finance

Date: March 19, 2015 (Thu)

Sponsored by:

WAC



Activities of ACFi

**General Assembly Meeting of ACFi
(July 15th, 2015 (Okazaki, Japan))**



Activities of ACFi

ACFi Seminar in Hanoi

: Industrial Community Building : The ASEAN Developmental Strategy under the Globalization 2.0 and the Implication to Vietnam
(July 28th, 2015 (Hanoi))



Community Finance

Community Finance

[definition](ACFi)

Not-for-Profit type financial schemes (mainly loans), provided for the purpose of community building, which use social relations, typically ostracization from the community, as the collateral.

Community Finance

- 1. There are Various types of Community Finance in Asia. SHINKIN System is one of them, the best and the only successful system utilized in SME development.**
- 2. ACFi aims at introducing SHINKIN System, as a new SME finance scheme in Asia, under the collaboration with existing Community Finance Schemes in each region.**

Community Finance

[the Japanese SME Finance System]

1. (before WW II)

- No systematic SME Finance Schemes
- Small financial schemes like ; mutual financing associations, credit unions, pawnshops

2. (after WW II)

*governmental

- The People's Finance Corporation (1949)
- The Housing Loan Corporation (1951)
- Agriculture, Forestry and Fisheries Finance Corp. (1953)
- Small Business Finance Corp. (1953)

Community Finance

[the Japanese SME Finance System]

*commercial banks

- Mutual Banks Law (1951)

→transformed to member banks of the Second Association of Regional Banks (after 1968)

→disappeared in 1992

- Shinkin Bank Law (1951)

Community Finance

[Shinkin Banks]
(legal features)

- **A Not-for-Profit collegial regional financial organization**
- **Investments by members**
(Rochdale Principle : one man one vote for decision)
- **Loans only to SMEs in a specifically designated area**
(need to be a member to get loans)

Community Finance

[Shinkin Banks] (characteristics)

①relatively high interest rate
(as of March 2014, source : Johnan Shinkin Bank)

Banks	1.23%
Shinkin	1.98%

②relatively low default ratio
(as of March 2014, source : Johnan Shinkin Bank)

Banks	0.03%
Johnan Shinkin Bank	0.02%

③relatively small number of customers in charge per head
(source : Johnan Shinkin Bank)

Banks	normally 100~200 customers per head
Johnan Shinkin Bank	aprox. 60 →frequent visiting to customers

Community Finance

**[Shinkin Banks]
(competencies)**

- ① hybrid of finance and consultations
backed by accumulated know-hows of entrepreneurship
(consulting fees are included in the relatively high interest rate)
- ② special competencies in Industrial Community Building

Challenges of ACFi

[ACFi tries to ...]

- Establish a new Community Finance type SME finance schemes in Asia/Africa.

-main targets at this moment are CLMV
(Cambodia, Lao PDR, Myanmar and Vietnam)

*ACFi Seminars

=Phnom Penh (March 2015)

=Vientiane (December 2014)

=Yangon (March 2014)

=Hanoi (July 2015)

Challenges of ACFi

[Vientiane Agenda (December 2014)]

: Modernization of existing community type finance schemes : micro-finance by applying the Shinkin methodologies

Challenges of ACFi

[agendas to be tackled]

1. Community matters

- micro-finance is based on 'Agricultural Community'
- we need to establish 'Industrial Community'
- necessity of ICBM (Industrial Community Building Measures)

2. Volume matters

- micro-finance normally provides USD 100-1,000 loans
- we need to finance USD 100th – 10 mil loans
- necessity of introducing 'modernized' financial management system

*pilot projects in preparation
in Lao PDR and Cambodia

A Proposal of Cross-Financing Initiative

AEC (ASEAN Economic Community) 2015 accelerates intra-regional investments of local SMEs in East and South-East Asia.

=Asian SME Connectivity (ASC)



Invested SMEs need finance, of course,

Invested SMEs need finance in the invested economy.

Finance should be ;

- promptly
- Local currency
- Low cost (low interest rate, when loan)

Systemic barriers of cross-border SMEs finance

1. Difficulties in proving SMEs' credibility to local finance entities

(asymmetric information)

→ difficult to get loans from local finance entities

[Credibility Barrier]

2. The origin economy provides finance to origin SMEs.

(finance entities in the origin economy hold credit information of SMEs)

→ face with high exchange cost

[Exchange Cost Barrier]

3. High interest rate in most of Asian economies

[High Interest Rate Barrier]

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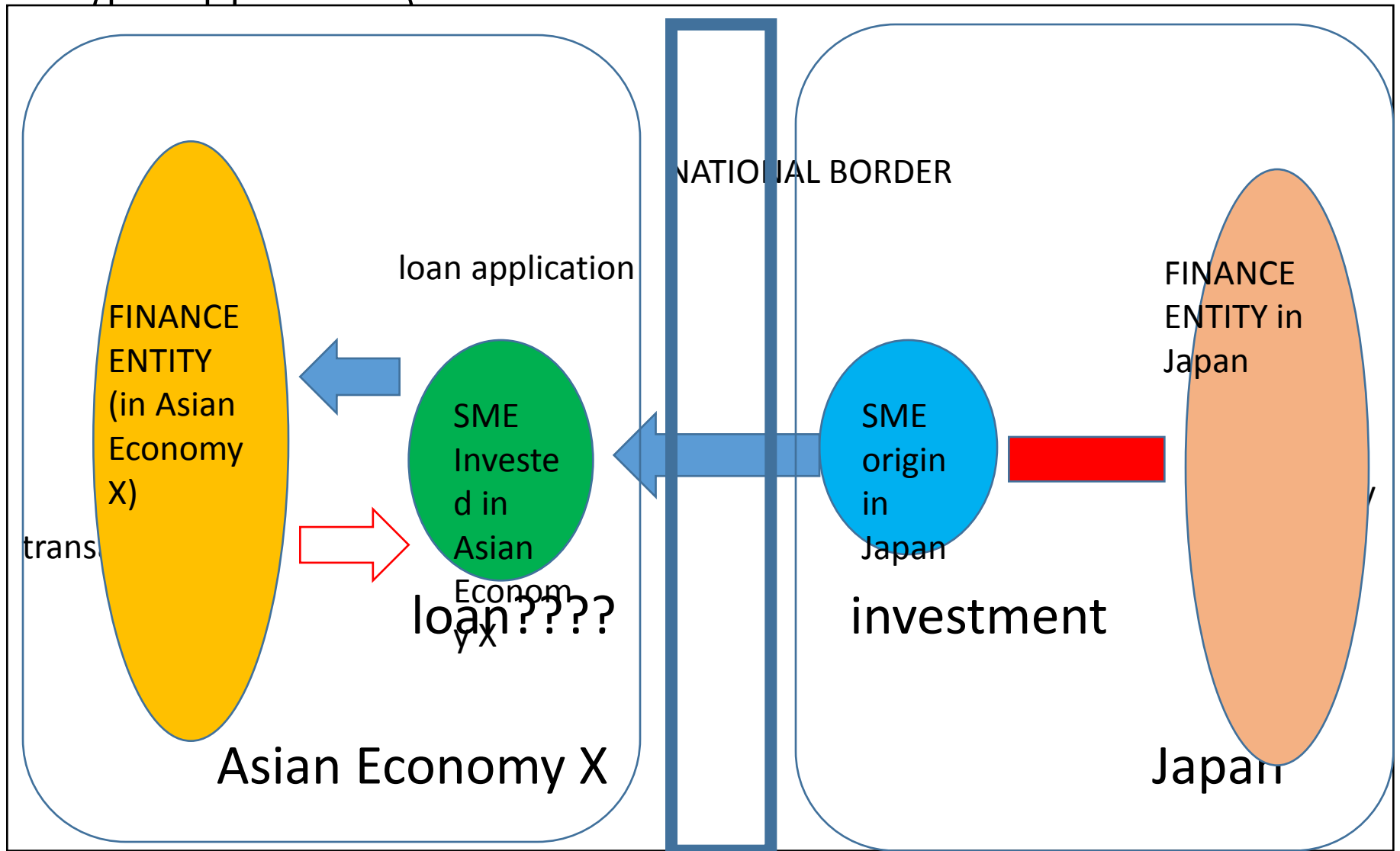
[Exchange Cost Barrier]

→ **Cross-Financing Initiative**

[High Interest Rate Barrier]

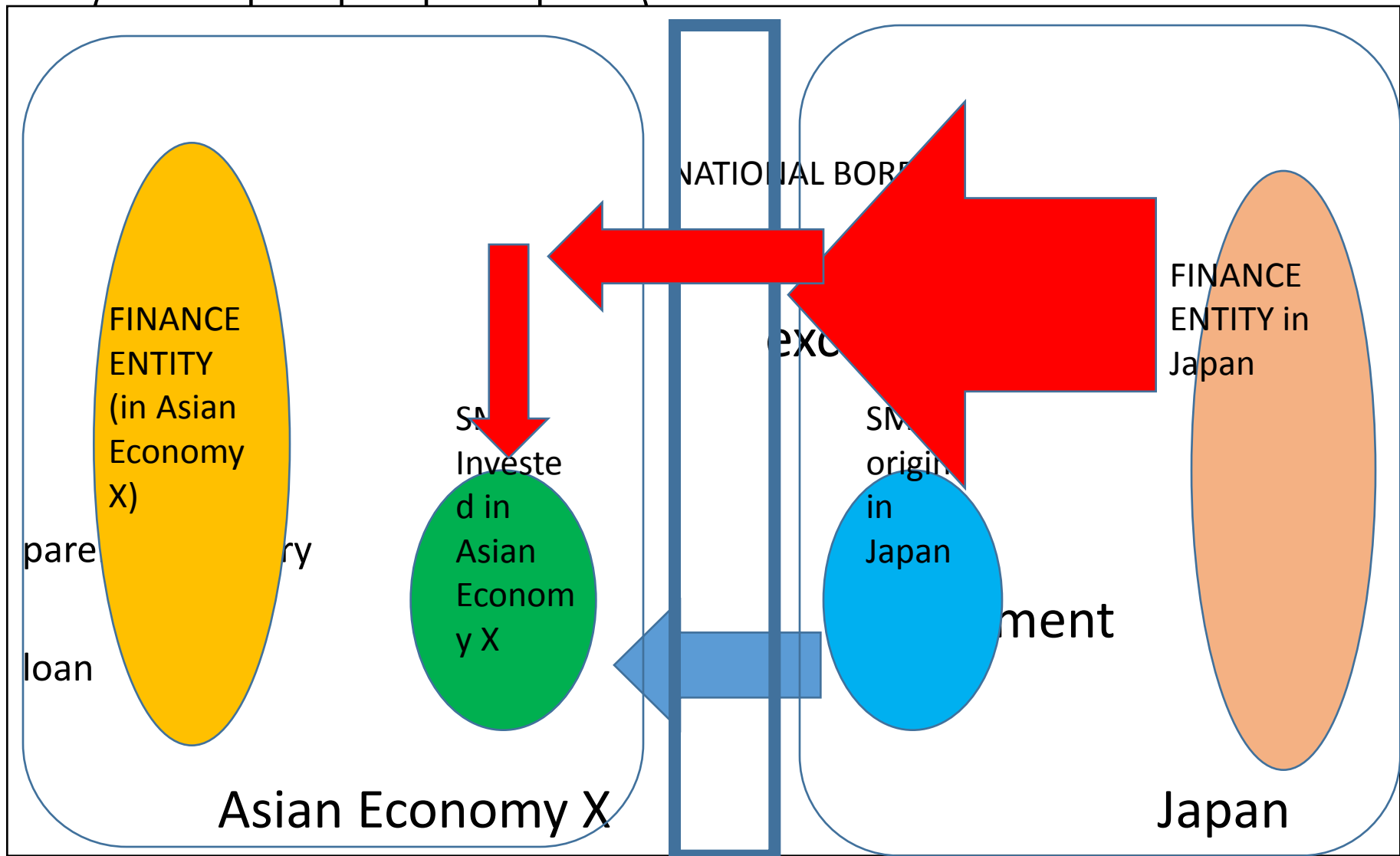
an authentic cross-border SMEs finance

system

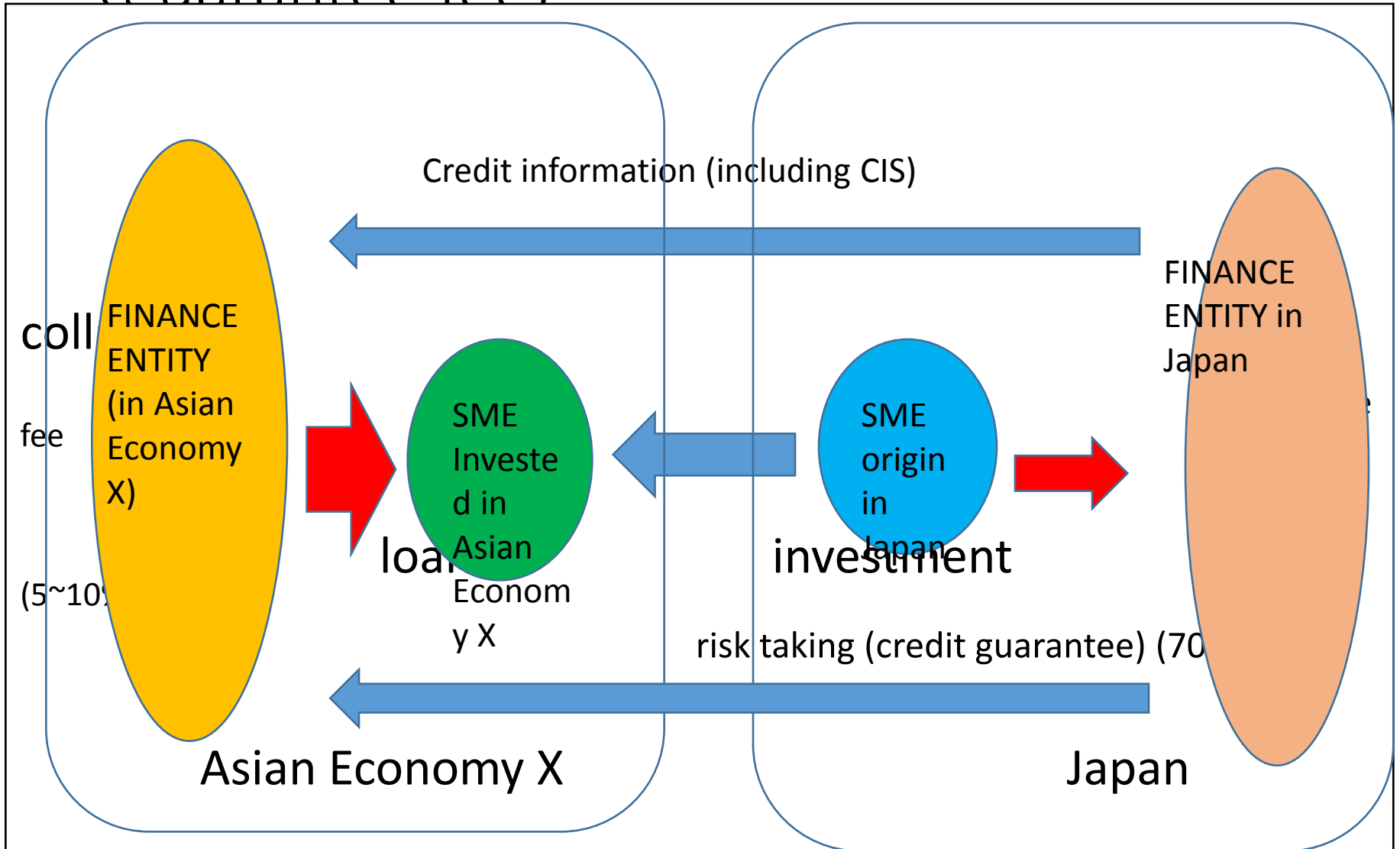


an authentic cross-border SMEs finance

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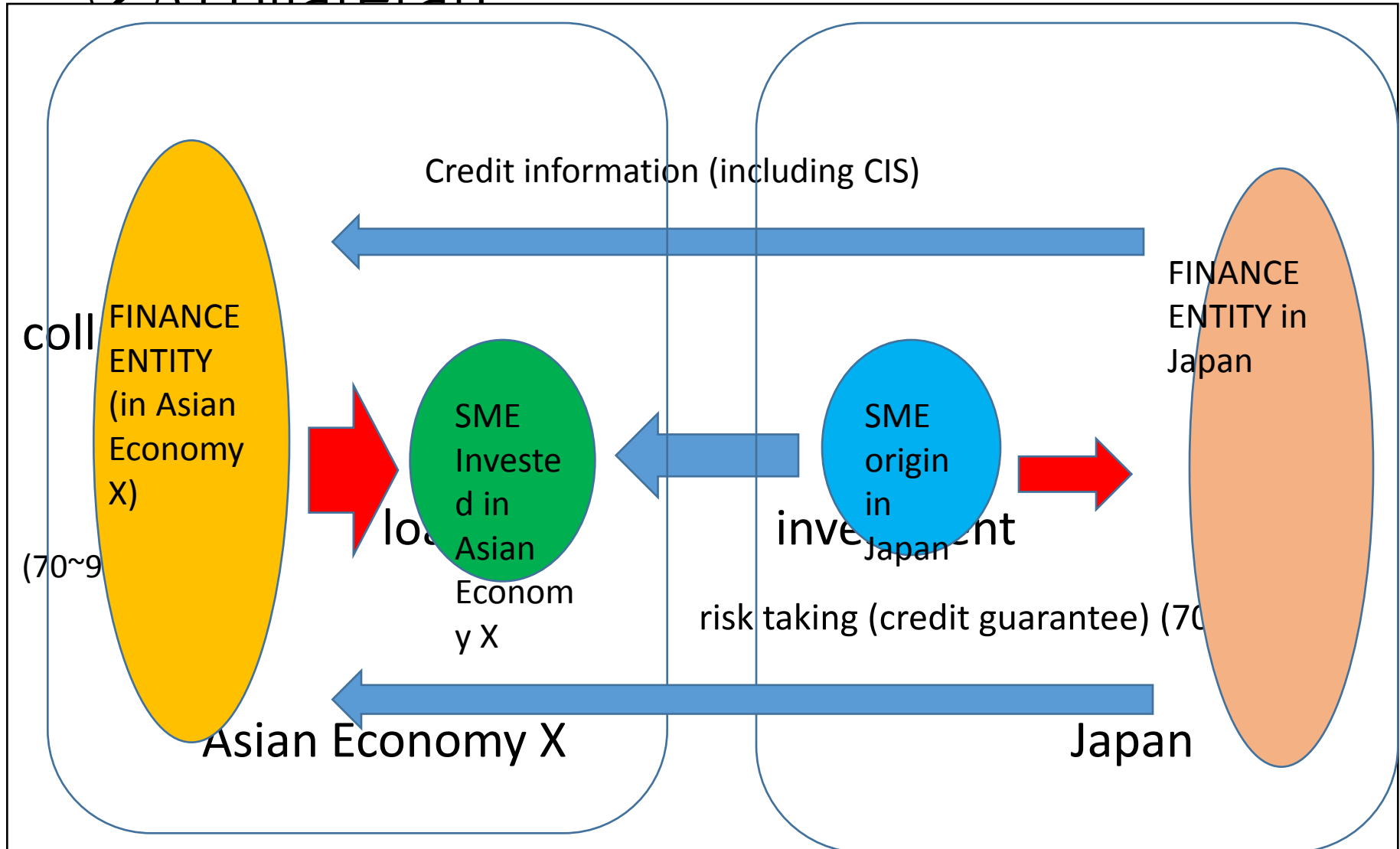


a concept of cross-financing system① (guarantee fee)



a concept of cross-financing system

② (collateral)



Process of Cross-Financing Initiative

1. SME α , located in Japan, invests and establish a local function unit in Asian economy X. (SME established in economy X is called SME $X\alpha$.)
2. SME α asks the main bank (finance entity) in Japan (Finance Entity β) to support in getting finance in Asian economy X.
3. Finance Entity β sends credit information (including CIS : Credibility Index for SMEs) to finance entity δ , a member of Cross-Financing Initiative, in Asian economy X.
4. Finance entity δ examines, and makes a judgment of the credit, basically based on the credit information sent by Finance Entity β .
5. Finance entity δ asks Finance Entity β to take the credit guarantee at the agreed level.
6. Finance Entity β asks SME α to
 - Pay guarantee feeor
 - submit collateral, at the fair level to meet the credit guarantee.
7. The guarantee fee or collateral is submitted, and Finance Entity β answers to Finance entity δ to take the credit guarantee.
8. Finance entity δ makes loans to SME $X\alpha$.

Advantages of Cross-Financing Initiative

(solves the Credibility Barrier)=benefit of SME : A SME investing to a foreign economy can get finance in the economy without complicated procedures.

(solves the Exchange Rate Barrier)=benefit of SME: A SME investing to a foreign economy can get local currency finance, without paying high exchange rate cost.

(global business)=benefit of finance entities in the origin economy: Finance entities in the origin economy can make a big business in SMEs' investment abroad, which will be an overwhelming trend in the near future.

(local business)=benefit of finance entity in an Asian economy: Finance entity in an Asian economy can make a big business in foreign SMEs' investment, without paying huge costs for investigation of investing SMEs (solving asymmetric information problem).

(ICB : Industrial Community Building): Industrial communities in each region could be connected to other communities globally, thus Industrial Community Building in this region shall be developed

APEN Headquarter

Center of Industrial Community Building in Asia

