

MINUTES OF THE 64th BOARD OF DIRECTORS' MEETING

November 29, 2006
Parkroyal Hotel Kuala Lumpur
Kuala Lumpur, Malaysia

Members Present

Ambassador Jesus P. Tambunting, Planters Development Bank, Presiding Chairman
Mr. Fuimaono Falefa Lima, Development Bank of Samoa
Mr. Zaigham Mahmood Rizvi, House Building Finance Corporation
Mr. Nihal Fonseka, DFCC Bank
Mr. Tukana Bovoro, Fiji Development Bank
Shri V. P. Shetty, IDBI Limited
Dr. Mehdi Razavi, Bank of Industry and Mine
Mr. Milan Bikram Shah, Nepal Industrial Development Corporation
Mr. Abdullah Celik, Development Bank of Turkey
Mr. Nawang Gyetse, Bhutan Development Finance Corporation
Ms. Anar Omarova representing Mr. Askar Sembin, Development Bank of Kazakhstan
Mr. Michel Bergeron, representing Mr. Jean Rene Halde, Business Development Bank of Canada
Haji Aladdin Haji Mohd Lip, representing Ybhg. Dato' Adbul Rahim Mohd. Zin, Bank Pembangunan Malaysia Berhad
Ms. Tran Anh Thu, representing Mr. Le Dao Nguyen, Bank for Investment and Development of Vietnam
Mr. Zenya Yamazaki representing Mr. Takeshi Komura, Development Bank of Japan
Mr. Octavio B. Peralta, Secretary General

Others Present

Mr. Tsuyoshi Sakuma, Development Bank of Japan
Mr. Hiromasa Kondo, Development Bank of Japan

Members Absent¹

Mr. Son Koun Thor, Rural Development Bank of Cambodia
Mr. Chen Yuan, China Development Bank
Mr. Chang-lok Kim, Korea Development Bank
Mr. Siilegmaa Monhbat, Trade & Development Bank of Mongolia
Mr. Saidakmad B. Rahimov, National Bank of Uzbekistan
Dr. Subhak Sirawaksa, TMB Bank Public Co. Ltd.

(Note: The Board Meeting was preceded by a presentation of Germany's KfW Development Bank on potential cooperation activities with ADFIAP – please refer to Annex 1 for the presentation notes and then by the meeting of the Board's three Permanent Working Committees – please refer to Annex 2 for the PWC's report)

¹ Board Members absent have sent their regret letters for not being able to attend or send a representative to the meeting.

The Minutes

1. Call to Order and Brief Remarks by the Chairman

The Chairman welcomed all the Board Members to the meeting and thanked ADFIM, represented by Haji Aladdin Haji Mohd. Lip, of Bank Pembangunan Malaysia Berhad, for hosting both the CEO Forum III and the 64th BOD Meeting. The Chairman also congratulated the host for the excellent arrangements made for the success of the CEO Forum and Board Meeting in Kuala Lumpur.

2. Approval of the Minutes of the 63rd Board of Directors Meeting

Upon the request for a motion for approval by the Chairman which was seconded, the minutes of the 63rd Board meeting held last May 9, 2007 in Colombo, Sri Lanka was adopted by the Board.

3. The Secretary General's Report

A. Routine Matters:

a) Membership Matters

The Secretary General reported an increase of membership to 70 members in 35 countries, up from 66 members in 33 countries since the last meeting in Colombo in May. There were also 22 other potential members that were invited during the period and this has to be followed up. He commented that membership is the lifeblood of any Association and recruitment has to be continuously sustained in earnest

The Secretary General thanked the Board members for helping the Secretariat in recruiting members in their respective countries which proved to be an effective way in increasing membership.

Ms. Omarova of the Development Bank of Kazakhstan (DBK) suggested to explore sourcing members in Russia through the Russian connection of ADFIAP members in Central Asia like DBK and the National Bank of Uzbekistan (NBU).

Mr. Rizvi of House Building Finance Corporation (HBFC) also suggested to initially offer an Observer Status to prospective members. On this suggestion, the Secretary General mentioned that this is already being done by the Secretariat such as offering a one-year no-commitment, complimentary membership so that the officers and staff of the prospective member can get acquainted firsthand with the workings and activities of the Association as well as receive some of the ADFIAP services. Their CEOs are also invited to attend some of the conferences and meetings of the Association.

Mr. Shetty of IDBI suggested that ADFIAP could also tap into the membership list of local bank associations to interest them on an ADFIAP membership. Mr. Shetty has offered to follow-up with the Indian banks invited by ADFIAP on their possible membership in ADFIAP.

In terms of membership-related services, the Secretary General reported that under its Country Host Programme², seven (7) such assistance were made to visiting members and partners during the period.

b) Programs

The Association's programs consist of the capacity-building and training programs, the credential program and the information program.

Under ADFIAP's capacity-building and training programs, the Secretary General reported altogether a total of eleven (11) seminars/workshops conducted during the six-month period, as follows:

- three (3) programs under the "*DFIs for Corporate Governance*" project with the Center for International Private Enterprise (CIPE) held with members in Palau, Cambodia and Malaysia (SCC).
- four (4) programs under the "*Environmental governance Standards for DFIs*" funded by the EU-Asia Pro Eco Programme held with members in India (IDBI), Sri Lanka (DFCC), Thailand (TMB) and Malaysia (BPMB).
- three (3) programs under the "*SME Finance Initiative*" project with ADFIM and the International Trade Centre UNCTAD/WTO (ITC) held with members in the Philippines (DBP and PDB), Japan (DBJ in cooperation with JERI) and Thailand (SME Bank).
- one (1) program under the "*Microfinance Initiative*" project for the Microfinance Development Fund of Mongolia (which is now another member from that country) that visited various Philippine-based MFIs.

Under the credentialing program of ADFIAP's *Institute of Development Finance* (IDF), the Secretary General reported two (2) programs, namely, the Executive Development Program and the Core Development Banking Course. On IDF's fee-based programs, two (2) programs were promoted, one with Wharton-Hitachi Institute of Management and one with the Development Bank of Palau.

On the information program, the Secretary General informed the Board that ADFIAP continues to disseminate to its members and partners, publications like the Journal of Development Finance (JDF), the ADFIAP Newsletter and Annual Report as well as publishes in-house, newsletter digests on management, green banking, governance and SMEs. He reported that some of these publications are sold in the Internet with some degree of success.³

² The *Country Host Programme* is ADFIAP's way of assisting CEOs, senior officers and staff of member-banks and partners in their travel concerns in cooperation with the local host-member. This includes arranging for business meetings, appointments and provision of a temporary office and message center for the visiting executives.

³ Such publications are purchased by academics and researchers from as far as Brazil and other parts of the world.

Regarding websites, the Secretary General mentioned that ADFIAP has enhanced its official website www.adfiap.org and has three (3) other websites for its main programs, i.e., the *SME Finance Initiative* www.smefi.com, the *Environmental Governance Standards for DFIs* www.egs-asia.com, and the *DFIs for Corporate Governance* www.governance-asia.com. He also informed the Board that a website for the 30th ADFIAP annual meeting will soon be uploaded in the Internet to drum up support for the event from ADFIAP members, partners and other invitees.

The Secretary General informed the Board that they can now access anytime, the present and previous Board minutes in the ADFIAP official website by logging on the following in the appropriate box in the homepage:

User name: Board
Password: adfiap30

c) Grants and Projects

The Secretary General mentioned that while ADFIAP was successful this year on its grants and technical assistance applications, this may not be the case always, especially that getting these funding are like going through the “eye of the needle” in terms of matching objectives, putting together the proposal as well as committing resources to the project. Nevertheless, he continued that grants and TAs are a good source of revenue for the Association, which is now more self-reliant and financially-sound.

He reported three (3) main source of grants and TAs such as the EU-Asia Pro Eco Programme, the CIPE and the EU-Asia Trust Fund for ADFIAP’s “green banking, governance and SME projects.

Aside from the on-going EU project, the Secretary General also reported that ADFIAP received another one-year grant from CIPE and that the International Trade Centre (ITC) is seriously looking at providing ADFIAP a TA for its *SME Finance Initiative* which is meant to set up a regional training center for SMEs under the auspices of the Chairman’s institution, Planters Development Bank.

d) International Relations

The Secretary General reported to the Board the various development institutions around the world with which ADFIAP has maintained a relationship, as well as details of many speaking invitations to ADFIAP as part of its branding and visibility. He mentioned about his new contacts in the Federation of Social and Alternative Banks (FEBEA) and the Federation of Investors in the Social Economy (INAISE), both based in Brussels which are potential partners for ADFIAP’s “social banking” project that will complete the “sustainability triangle” advocacy of the Association.

e) Secretariat Matters

The Secretary General apprised the Board of the Secretariat’s organizational structure that is based on results expectations than administrative function. He also reported that the Secretariat remains a lean organization, with still ten (10) permanent staff, including the Secretary General.

He then detailed the key performance indicators for the year, as follows:

- Ten new members for 2006
- Service fees⁴ of US\$ 7,700 net of expenses
- Grant money proceeds of about US\$ 40,000
- Additional revenues of US\$ 7,000 from office rental fees
- Savings of US\$ 6,600 in operational expenses
- Net annual proceeds greater than US\$ 66,000 to sustain a fair beginning cash level for each year

As regards new members, there were already seven (7) new members registered during the period, leaving three (3) more before the year ends⁵. The Chairman, at this point, mentioned that at his invitation, the Credit Guarantee Corporation Malaysia Berhad is sure of joining the Association.

On the service fee target of US\$ 7,700, the Secretary General reported the amount attained at US\$19,858, surpassing the target by 257%.

On grant money, ADFIAP received US\$ 173,694 as of the period, which is 434% over the targeted amount of US\$ 40,000.

On additional revenues from office rental⁶, the total amount attained was US\$ 27,500, which is 392% on top of the target of US\$ 7,000.

On the savings target, due to rising costs, the US\$ 5,300 achieved was about 80% of the targeted amount of US\$ 6,600.

On the annual net proceeds, the achieved amount of US\$ 445,260 was 674% of the targeted amount of US\$ 66,000.

Overall, the Secretary General reported that the targets set was surpassed largely due to the team effort in the Secretariat and the support of the Board, giving a healthy and stable financial condition of the Association.

With these achievements, Mr. Rizvi complimented the Secretariat for the comfortable financial position that ADFIAP is enjoying presently.

The Chairman also thanked the Board and the members' support for effecting the change in the financial position of ADFIAP from "barely surviving" to "financial soundness".

The Secretary General also added that the "seeds" of good governance in the Association that have been earlier "planted" are now "bearing fruit". The visioning session that started in Almaty and the Board retreat sessions held thereafter during the annual meetings helped in defining a very clear delineation between the Board and

⁴ Includes training fees, sale of publications, sponsorships, etc.

⁵ Three (3) more members were approved after the KL meeting, completing the targeted ten (10) new members for 2006.

⁶ Lease of rentable office space in the ADFIAP Headquarters in Makati City, Philippines

management, i.e., the Secretariat. Furthermore, he added, that the formation of Permanent Working Committees in the Board also enhanced the governance process.

f) Financial Highlights

Based on the interim financial report made by the Secretariat as of October 31, 2006, the Secretary General reported the following:

- Cash Position: US\$ 482,975.45
- Cash Flow Balance: + US\$ 461,150.00
- Membership Dues Collection
 - Total Annual Collectibles: US\$ 288,860.00 (100%)
 - Total Collection: US\$ 252,100 (87%)
- Aging of Receivables: Balance (after write-off⁷): US\$ 100,960.00

The Secretary General also informed the Board that growth of assets have almost doubled from last year's financial statement and that these amounts do not include those contribution-in-kind by member-institutions hosting events.

On the aging of receivables which the Board noted, the Secretary General mentioned that some Indian banks like Bank of Maharashtra (BOM), IIBI Ltd. and IFCI, Ltd. have not been updating their membership fees. In this regard, Mr. Shetty mentioned that of these three institutions, BOM is financially-sound and mentioned that he would remind its CEO to remit its arrearages to ADFIAP. In the case of Bank Pertanian Malaysia, the Board requested Bank Pembangunan Malaysia Berhad to assist in following up their outstanding account with ADFIAP.

On the query of Dr. Razavi of Bank of Industry and Mine, as to why the net income for this year decreased while the total assets increased, the Secretary General replied that the reason for this is that 70% of the total EU grant funds were remitted in advance last year in order to start the grant project and were booked accordingly also last year, however, it is only this year that ADFIAP has started spending bulk of the amount for the activities that ADFIAP has committed under the EU project. In this regard, there was a suggestion from Mr. Rizvi to discuss this with the auditor so that accounts could be presented in more details.

B. Consent Matters

a) Confirmation of New Members

The Board approved the confirmation of the membership of four (4) new members, namely:

- Development Bank of American Samoa
- The Bank of the Cook Islands
- Federated States of Micronesia Development Bank
- Micro-Finance Development Fund (Mongolia)

⁷ Existing regulations call for a two-year arrears write-off policy

- b) Approval of World Federation of DFIs' Projects and Payment to it of US\$ 10,000 as ADFIAP's Share in the Project Cost

Upon detailed deliberation of the World Federation projects, its merits and value to ADFIAP, the Board approved the proposal.

- c) Approval of the Annual Budget

After review of the budget and subsequent deliberation, the budget for 2007 was approved by the Board.

- d) Venue and Dates for the 30th ADFIAP Annual Meetings and the 65th Board Meeting in 2007

Upon the kind offer of the Bank for Investment and Development of Vietnam (BIDV), through its representative, Ms. Tran Anh Thu, it was announced that the venue and dates for the 30th ADFIAP Annual Meetings and the 65th Board of Directors Meeting will be in Hanoi, Vietnam on May 9 to 12, 2007.

C. Report of the Board's Permanent Working Committees

The three PWCs, namely, the Training Committee, the Business Cooperation Committee and the Finance & Relations Committee, made a report to the Board on their suggestions and recommendations for 2007 (please see Annex 2 for the reports).

Having completed the agenda and there being no other matters to be deliberated on, the Chairman called the meeting to an end at 2:00 p.m.



Octavio B. Peralta
Secretary General

KfW and ADFIAP: Charting a Course for Future Dialogue and Cooperation

Uwe Ohls and Haje Schütte

ADFIAP CEO Forum, Kuala Lumpur, Nov. 29, 2006



Common Challenges and Joint Interests



In Germany and all ADFIAP member countries:

- ⇒ SMEs play a key role in generating employment, income and economic growth
- ⇒ Access to long-term financing is a fundamental constraint to SME growth

Joint mission and interests:

- ⇒ Serve developmental target groups while maintaining financial and institutional viability
- ⇒ Play a central role in improving SMEs' access to finance
- ⇒ Contribute to strengthening financial markets and conditions for SME finance
- ⇒ Collaborate with strategic partners to achieve common goals

Advantages of Working Together

Collaboration affords the opportunity to:

- ⇒ Exchange institutions' know-how and lessons learned
- ⇒ Bring together academic researchers from Germany and Asian countries to discuss key issues and challenges
- ⇒ Leverage partners' comparative advantages and expertise to launch joint initiatives at the regional or country level
- ⇒ Begin and intensify business partnerships between KfW and ADFIAP members, including for refinancing and equity investments

What KfW Offers



- Leading SME finance provider in Germany and Europe
- Expertise in developing a wide range of innovative SME financing products at the domestic, regional and international levels, including:
 - various debt, mezzanine and equity instruments
 - structured financing, securitization, guaranties and local currency financing
- Experience promoting SME finance in 15 countries across Asia
- Experience implementing joint projects with various DFIs in the region
- Strong working relationships with other bilateral and multilateral development institutions
- Highest rating assigned by Standard & Poor's, Moody's and Fitch



What ADFIAP Offers (KfW's Understanding)



- An institutionalized forum for dialogue and knowledge sharing
- An extensive network of 69 DFIs
- Members who are leading financiers of SME Finance
- Knowledge of local needs, constraints and opportunities in 35 countries
- Connections to key local actors and institutions
- A platform for initiating collaborative projects at the local and regional levels

Launching a Dialogue: Proposed Next Steps



- Identify potential ADFIAP “champions” who will lead joint initiatives
- Select an organization to monitor the dialogue (InWent?)
- Hold a workshop among key partners on topics identified as important for all parties
- Explore common interests, market needs, and comparative advantages during the workshop
- Establish concrete next steps for initiating joint projects

Possible workshop topics:

- ❖ **Promoting Innovation and Technology through Equity and Venture Capital Investments**
- ❖ **Developing Effective Rating Systems for SMEs**
- ❖ **Securitizing SME Loans**
- ❖ **Export Financing and FDI Support for SMEs**
- ❖ **Encouraging Investment through Clean Development Mechanism (CDM) Facilities**
- ❖ **Exploring the Potential for a Regional SME Fund**

Regional SME Fund: An Example from KfW



EFSE Institutional fund under Luxembourg Law (1991) as SICAV *

Structure

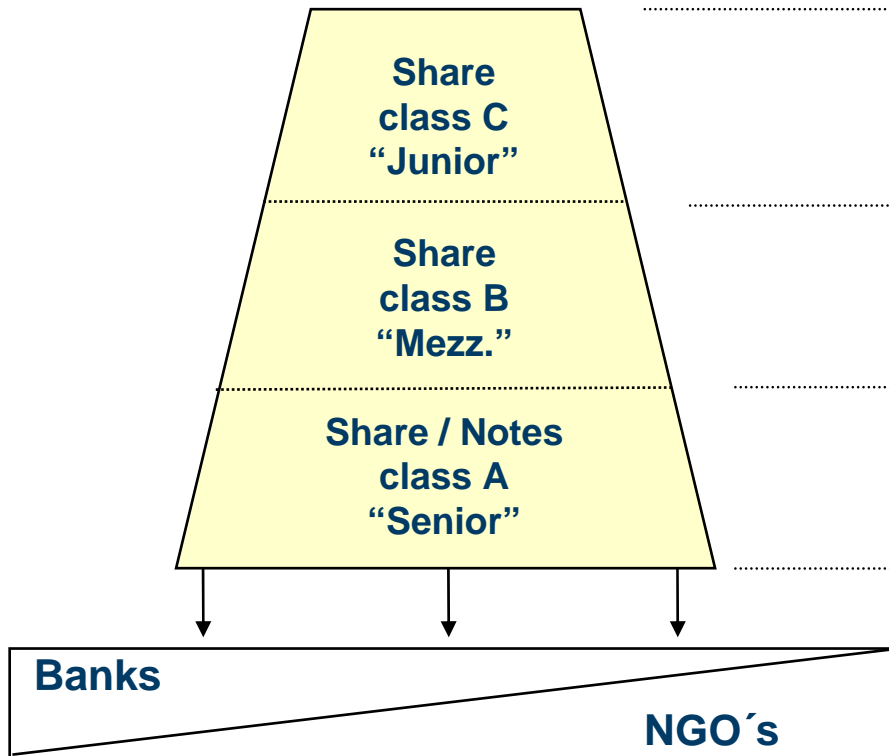
- **Shareholder:** German, Swiss, and Austrian Government; EU/EIF; IFC; FMO; KfW; EBRD; EIB; private investors
- **Promoter/Arranger:** KfW
- **Fund Manager:** Oppenheim / Bankakademie
- **Admin. Agent:** Citigroup
- **Advisory Board:** Central Bank representatives

Features

- **Target Group:** Micro and small enterprises (max. EUR 100.000)
- **Intermediaries:** Qualified Financial Institutions
- **Product Mix:** LT loans, Mezzanine Finance, Equity, Guarantees
- **Coverage:** Broad regional investment fund (Serbia, Kosovo, Montenegro, Bosnia, Bulgaria, Rumania, Albania, Moldova, Macedonia)
- **TA:** Support of capacity building

EFSE: Leverage of Funds

Several risk tranches



Fund Volume in million EUR			
	1 st closing 12/05	2 nd closing 06/06	11/10
Share class C "Junior"	83	143	150
Share class B "Mezz."	62	82	120
Share / Notes class A "Senior"	20	20	230
Σ	165	245	500

Preliminary Questions

- What is the economic rationale of a regional SME fund, and what are the advantages compared to national SME funds?
- To what extent do ADFIAP members need and demand such a fund?
- Which ADFIAP members would initiate the fund?
- Who would be the lead sponsors and investors, and how would risks be allocated among different owners?
- How would a new regional fund differ from or complement existing regional equity funds such (Mekong Enterprise Fund, Aureos Asia Funds)?
- Should it be an equity or debt fund?
- What would the process for developing the concept and plan for a regional SME fund look like?

Conclusion



- KfW is dedicated to further strengthening its partnerships with ADFIAP member banks
- KfW offers a wide array of SME finance instruments and extensive experience in the region, while ADFIAP contributes local expertise and a platform for action
- One of the first steps is to identify potential ADFIAP “champions” who are willing to commit to and lead joint initiatives
- KfW sees itself supporting, but *not spearheading*, collaborative efforts, such as an SME regional fund

Thank You!

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Report Highlights of the Permanent Working Committees

Finance & Relations Committee

Rapporteur: **Mr. Tukana Bovoro**, Fiji Development Bank, Member of Committee

a) **On Financial Growth:**

1. Make ADFIAP more relevant to members
2. Increase membership
 - each member to recruit one new member in 2007
3. Sustain search for grant money
 - consider hiring of a grant writer
4. Increase fee-based training revenue
5. Pursue the idea of an ADFIAP Fund (ADFIAP to receive a fee)
6. Think of other fee-based services

b) **On International Relations:**

1. Consider joint sponsorships with other international organizations
2. Invite other associations to attend ADFIAP Annual Meetings
3. Ask the Secretary General to attend other meetings and spread the ADFIAP message.

Business Cooperation Committee

Rapporteur: **Mr Zaigham Rizvi**, House Building Finance Corporation, Committee Chair

1. Increase the level of technical assistance collaboration among members
 - a deeper understanding of each member's business
 - member-to-member, member-to-client, and client-to-client information database and interaction
 - strategic alliances of members through study exchange missions
2. Enhance knowledge information
 - provide information on each country's potential
 - more information on members in website
 - Secretariat be kept 'in the loop' of what's going on in members
3. Build capacity on:
 - Islamic finance
 - SMEs (e.g., Business Development Bank, Planters Bank have a lot to offer)
4. Explore opportunities with:
 - KfW, ITC, CIPE, etc.

Training Committee

Rapporteur: **Mr. Fuimaono Falefa Lima**, Development Bank of Samoa, Committee Chair

1. Continue dialogue with KfW on SME training programs, as presented.
2. Undertake training needs assessment (TNA) as before
 - encourage members to respond to TNA survey
 - improve members' participation afterwards in ADFIAP programs
3. Continue 'grant' training programs to enhance and improve the profile of the Association.
4. Sustain the ADFIAP Career Credentialing Program