

AFRICA SME FINANCE FORUM NAIROBI

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PROCEEDINGS

Panel on Examining Business Opportunities of Non-Financial Services

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Panelist 1: Sally Gitonga, Country Manager, Business Partners International (BPI)

Panelist 2: Karim Idrissi Kaitouni, Head of Enterprise Markets, Attijariwafa Bank

Panelist 3: Babatunde Abiola, SME Banking, Product Management, Digital Banking, GT Bank

Panelist 4: Anthony Kiogora, General Manager - Enterprise Development and Financial Inclusion, Equity Group Foundation (EGF)

Executive Summary

Non-financial services (NFS) are complimentary to core financing. They entail a strategy to enhance the efficiency of SMEs and guarantee the sustainability of the ecosystem, including financiers that benefit from diminished risk of default. To assess their impact, there are several tools, including multi-dimensional monitoring and data collection that allow for the measurement of the revenues and profits generated by NFS.

Equity Group Foundation (EGF)

- Equity Group Foundation (EGF) was established in 2008 as a not for profit organization. The Foundation has six thematic areas centered on education and leadership, agriculture, the environment, health, innovation and entrepreneurship, and financial inclusion. Equity Group has supported the roll out financial inclusion and enterprise development programs in Kenya, Uganda, Tanzania and Rwanda in partnership with the Group subsidiaries in this country.
- The foundation seeks to champion the social and economic transformation of the people of Africa through job creation, capacity building, youth development, and linkages to formal financial services. Enterprise development and financial inclusion are critical goals within the foundation's agenda.
- The EGF's Enterprise Development Program has been in operation for seven years and has reached about Over 36,000 SMEs, mostly in Kenya. EGF also co-developed programs with Equity bank, with the vision of enhancing financial inclusion across the spectrum of enterprises.

- The Foundation has a team of enterprise development specialists located across their bank partner's infrastructure, with close to 250 branches and 40,000 agents in the region. These experts work closely with a team from the MSME lending arm to acquire MSMEs and provide an array of services, including training, mentorship and coaching.
- For microenterprises group mentorship coaching is delivered through on-site business visits and business improvement groups, with an emphasis on women and youth client segments.
- EGF has partnered with Norfund, the Africa Management Initiative(AMI), the Mastercard Foundation, and the International Labor Organization(ILO) in promoting jobs for youth and women entrepreneurs in the region.
- SMEs have access to new opportunities when they digitize, whether through online markets, input sources, or online portals, such as the one provided by Kenya's government that facilitates access to supply services. EGF has completed business digitization training for 5,000 people and is expecting to train another cohort of 5,000 trainees in Digital literacy in the year 2018.
- Over 55 percent of Enterprise Development Program participants move from accessing micro loans to small loans or small-to-medium loans. For instance, an evaluation of 11,000 people, showed that 69 of them had loans for US\$485,000; within just one year of disbursement, the same cohort, was able to borrow US\$20 million. Cumulatively, all beneficiaries to date have been able to access about US\$50 million.
- In terms of results, EGF seeks to measure the impact of the enterprise development program through a very scientific approach by utilizing SME control/Comparison groups. One SME group does not receive any interventions, but is likely to do so in after completion of the study. The second group receives EGF interventions. EGF then compares the differences across the two groups in terms of employment, opportunities created, adoption of digital tools, and so on.

Attijariwafa Bank

- Attijariwafa Bank (Morocco) operates as a global bank in 15 countries offering a wide range of services, including retail banking, insurance, consumer financing, and corporate and investment banking. It is ranked as the fifth largest bank in Africa, with a market capitalization of US\$10.5 billion and 4,000 branches. It is ranked as the largest bank in Morocco and Senegal.
- Attijariwafa Bank launched a SME Plan, mainly around integrating financial services and non-financial services for SMEs.
- The Bank identifies two customer segments: very small businesses (VSBs), defined as enterprises with turnover of less than US\$500,000, and SMEs, defined as businesses with a turnover up to US\$50 million.
- The Bank provides four major services to VSBs and SMEs: training for the improvement of business practices; networking to create and generate more business opportunities, mainly for startups; innovation promotion for talent and innovative ideas; and advisory and support services that provide the necessary tools to enhance productivity and support entrepreneurship.
- "Dar Al Moukawil" (The Entrepreneur House) is a hybrid program that operates through a web platform and dedicated centers. Its main goal is to provide entrepreneurs with tools, skills and networks at an early stage. It then provides advice on a regular basis to help entrepreneurs make their businesses scalable and sustainable.
- Attijariwafa offers visibility to the best-in-class enterprises by showcasing the most innovative proposals in its Smart Up Program.

- The Bank also promotes business-to-business (B2B) sessions, including sensitization meetings on how to do business and promote an entrepreneur mindset. Other sessions address the onboarding of very small businesses into the entrepreneurship ecosystem.
- The SME Plan is a support and guidance mechanism that includes business development access through advisory and digitization services. As such, it allows companies to interact with their broader ecosystem, including the banking system.
- Attijariwafa is working to duplicate the Dar Al Moukawil concept for the SME segment by adopting a new client-centric approach. This is supported by the digital platform, Attijari Business Link. The platform builds a community ranging from startups to SME businesses, and includes the ability to pitch sessions, engage in digital talks and networking, and exchange information.
- The success of the Entrepreneur House was measured with the conversion rate of onboarded enterprises among the supported VSBs. In a two-year period, the conversion rate was nearly 21 percent. The web platform has hosted more than 400,000 visitors. The Productivity Enhancement Program with the Casablanca Stock Exchange supported 350 SMEs and demonstrated an improvement in productivity of 40 percent.
- The client acquisition trend for VSB's tripled during the past eight years from 300,000 to 850,000 customers. Regarding the satisfaction rate, which is the qualitative analysis of the portfolio, the ratio reached more than 85 percent in 2016.
- EGF designs its programs based on sustainability and scalability. As such, they can guarantee that programs will continue, even if development partners are not available.
- For Attijariwafa Bank, NFS is a way to onboard clients and build loyalty. In eight years, the number of clients receiving NFS increased from 300,000 to 900,000. Thus, the return on investment in terms of loans is higher without raising the cost. Attijariwafa Bank also measures people, for instance, the number of people accessing its platform.

Guaranty Trust Bank (GTBank)

- Guaranty Trust Bank was established in 1990. It has 10 subsidiaries in Africa and one in the United Kingdom. To date, it has about 13 million customers, and about 300,000 SMEs active on its platform.
- GTBank was recognized as the most innovative bank in Nigeria in terms of its use of technology. Last year, it processed about 30-40 million transactions monthly, amounting to 5.1 trillion Naira (US\$4 billion).
- GTBank created a Marketplace to offer NFS and leverage technology. This marketplace brings SMEs to a platform, where they are able to offer their products to 13 million customers. Today there are over 4,000 merchants on the platform, and they have sold over 200 million Nigerian Naira (US\$ equivalent) in one year.
- GTBank hosts fairs and exhibitions for its SMEs customers. Two fairs were held for the food and drink and fashion and entertainment segments. For instance, a master class was created, whereby chefs from all over the world could meet SMEs and train them in improving their businesses, offering them innovative ideas. The fair brought together 1,200 merchants and 300,000 buyers.
- GTBank is also partnering with Google and Facebook to train SMEs merchants in how to market effectively and sell their goods and wares online. Most of Africa's population is under 25 years old, implying a significant trend toward mobile usage with a large online market.
- The bank also implemented an online platform that allows SMEs to book advisory appointments when they need help in meeting business challenges.

- GTBank is the most innovative bank in Nigeria when it comes to Unstructured Supplementary Service Data (USSD) technology¹. Last year, it had around 30 and 40 million USSD transactions monthly, accounting for US\$4 billion. Merchants can be paid through USSD by obtaining a unique merchant code.

Business Partners International (BPI)

- Business Partners International is a financial institution established in 1981 to provide risk capital finance specifically to SMEs for mentorship, technical assistance and capacity building activities. They maintain offices in Kenya, South Africa, Uganda, Rwanda, Malawi, Namibia, and Zambia—and are looking to expand to West Africa in the near future.
- BPI compliments some of market gaps by traditional plans and the financial services sector. It designs products and services to provide financial capital to the SME market, taking risks, pricing those risks — and not insisting on the usual collateral requirements. In some cases, BPI takes equity in some businesses.
- BPI takes risks, but their return on investment is high. In fact, the default rates for their loans are very low.
- BPI's work with SMEs involves more than lending money. It includes upscaling, providing mentorship, and helping businesses move to higher levels.
- BPI is also interesting in servicing the “missing middle” of SMEs. Many financial institutions have avoided financing this segment of the SME market because of security issues.
- BPI received funding for the commercial loans from the International Finance Corporation (IFC), and other DFI's, and the World Bank to implement a technical assistance facility to provide technical assistance to each SME that receives a loan. The purpose is mentoring SMEs to improve their processes and scale their operations. To date, they have over 2,000 active investments. Every year, BPI disperses over US\$100 million to SMEs, including access to technical assistance funding.
- The technical assistance funding is provided interest free, but it is not a grant, and requires repayment. The process starts with a due diligence phase. BPI assesses the need for a loan, identifying any gap areas that SMEs may have. For instance, BPI can identify whether a business needs a more sophisticated financial management system, an automated manufacturing plan, or even training for some staff. Based on its findings, BPI will work on a budget using its database of service providers. At the same time, BPI seeks approval for the loan, as well as the intervention.
- One success case concerns a dairy processor that came to BPI for financing of additional equipment. A partnership was established with an expert from Denmark who provided mentoring. The company was able to work through the learning curve much more quickly. Furthermore, many experienced corporate clients are willing to assist SMEs at no cost.
- A study was conducted on BPI's Kenyan portfolio in conjunction with the World Bank to assess the impact of international services with technical assistance. The findings showed that business turnover grew by 32 percent in comparison to those SMEs that did not receive technical assistance. Profitability also increased by 79 percent. The default rate was 8 percent in comparison to 22 percent for other businesses.

¹¹ “USSD technology is a communications service controlled by Mobile Network Operators, that enables customers to send instructions to the Mobile Financial Services (MFS) provider along with their personal identification number (PIN) for authentication, while enabling the MFS provider to send responses to clients and confirm transactions.” Hanouch, Michel, and Greg Chen. “Promoting Competition in Mobile Payments: The Role of USSD.” CGAP. (2017). www.cgap.org/publications/promoting-competition-mobile-payments-role-ussd#overlay-context=blog/what-ussd-why-does-it-matter-mobile-financial-services.

- BPI's assistance is not sector specific, but it does not engage in primary agriculture, on-lending, non-governmental organizations (NGO's) and residential real estate.
- BPI continuously works with the SME to identify other opportunities because its technical assistance to each industry is capped at 30 percent of the commercial loan.

Importance of Offering Non-Financial Services

- NFS is a new strategy, and it is on the rise. It requires continued multi-dimensional monitoring, including the collecting of information about resulting revenues and profits.
- Banks have used NFS to build profitable businesses and grow their portfolios.
- In many cases, banks start with financial services first and add non-financial services as they move forward.
- The provision of NFS results in higher added value for SMEs, thereby increasing their competitiveness.
- Added services accompanied by core financing contribute to enhanced efficiency in business processes. They are also good for the financier who is less likely to have to deal with the risk of default.
- NFS is essentially research and development. Thus, banks should be willing to make this investment in SMEs.
- When SMEs contribute a small commitment fee for the non-financial services that they receive, the results are better than when they receive the services for free.
- Once an SME adopts better business practices, it becomes less risky. NFS leads to sustainability for SMEs and all other institutions concerned.

Challenges for SMEs

- Security remains a challenge for SMEs. Some are unable to access credit or may not have adequate security.
- Since many of SMEs are family and lifestyle businesses, some are not as sophisticated as corporates. They may have many gaps within their businesses that present challenges to financiers in terms of time and costs.
- SMEs have very limited skill resources, and many are relying on the key entrepreneur or partner to drive the business forward. Therefore, financiers should exercise patience, which can also imply a cost.
- Some of SMEs grow slowly and organically, and many financiers consider them too limited.