

Africa SME

Finance Forum 2018

Harnessing Innovation

May 2018 - Nairobi, Kenya

Conference Proceedings



Conference Highlights:

The Africa SME Finance Forum 2018 examined the key challenges faced by MSMEs in Africa, and explored innovative local and global best practice solutions to promote youth entrepreneurship and enhance access to financing for MSMEs. The conference focused on how Africa is harnessing digital technology to disrupt traditional banking industry and to create new banking infrastructure to fill gaps where there has been a lack of access to financial services. Topics covered included block-chain and SME finance, incumbent and “challenger” banking, electronic pay-

ments and remittances, and youth entrepreneurship finance.

The Africa Forum also featured global good practices and cutting-edge innovations by bringing leading and successful innovators, internationally recognized experts, and successful practitioners to share their perspectives and experiences. The conference was preceded by member only study visits to financial institutions and fintechs that have innovative ways of serving SMEs clients.



70+

Speakers

7

Study Visits

320+

Attendees

170+

Institutions

12

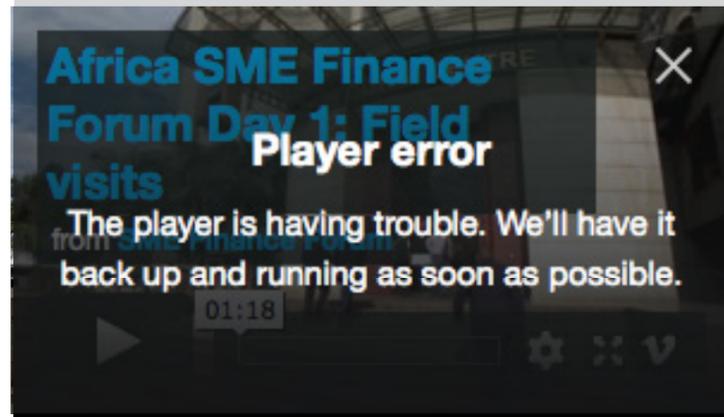
Fintech Demo

23

B2B Market
Place Vendors

Equity Bank

Equity Bank presented its history and key focus areas, including MSMEs, agriculture finance, the work of the Equity Group Foundation, agency banking and their fintech solutions. The format of the visit was a museum-style tour guided by the key area specialists along the panels, specifically prepared for our visit.



CBA

Commercial Bank of Africa presented an overview of mobile banking in East Africa and Kenya, strategy and history of m-Shwari, including product demo, customer experiences and impact.



Uber

Uber focused on their auto loan program and experience with their bank partner – Stanbic Bank. The presentation was followed by an office tour and a conversation with UBER drivers.



Sokowatch

Sokowatch presented their history and demo the Sokowatch model. They also shared their experience with implementation of the model at the field level and their plans. The visit concluded with an office tour and a discussion with the team.

Kountable

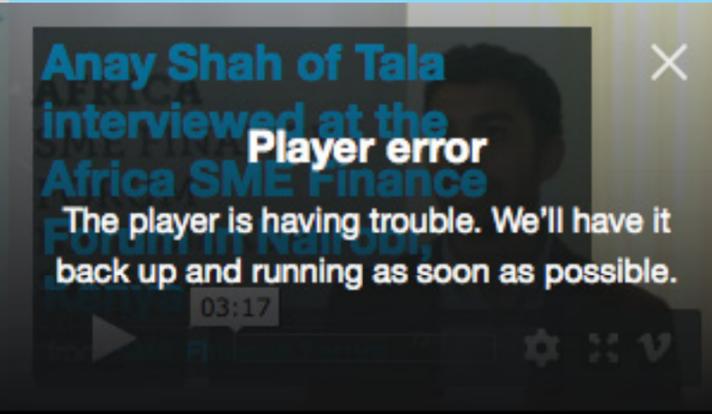
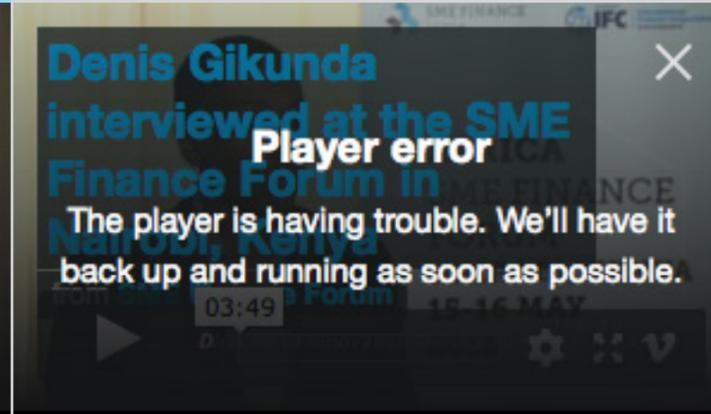
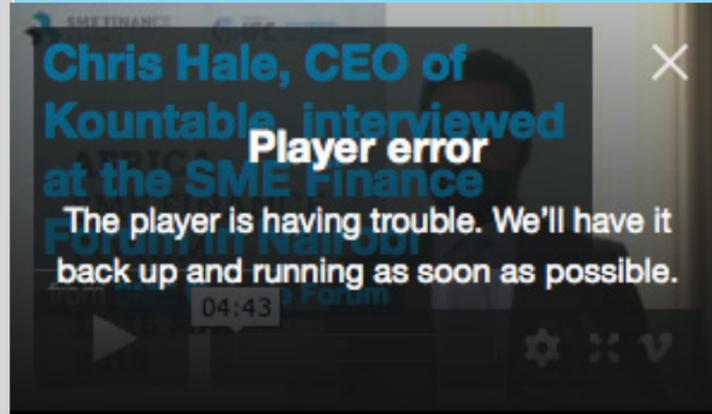
Kountable demoed their products for resellers and entrepreneurs. They told us how they onboard new entrepreneurs and track payments and deliveries. Kountable also presented the pitch they use for banks and other lenders on partnering with them, including their value proposition, eligibility, risk management and KYC/AML.

Mastercard

Mastercard Labs for Financial Inclusion presented and demoed their Masterpass Quick Response (MPQR) mobile payments solution. They also gave an overview of the labs and their current projects.

Tala

Tala presented how they use mobile data to score credit. The visit concluded with a discussion with the team



Fintech Pitches

Alternative Circle

Kountable demoed their products for resellers and entrepreneurs. They told us how they onboard new entrepreneurs and track payments and deliveries. Kountable also presented the pitch they use for banks and other lenders on partnering with them, including their value proposition, eligibility, risk management and KYC/AML.

<http://www.alternativecircle.com>

LenddoEFL

LenddoEFL's mission is to provide 1 billion people access to powerful financial products at a lower cost, faster and more conveniently. They use AI and advanced analytics to bring together the best sources of digital and behavioral data to help lenders in emerging markets confidently serve under-banked people and small businesses.

<https://include1billion.com>

Q-Lana

Q-Lana is a comprehensive and easy to use cloud-based credit management platform serving SME Banks and their clients in developing countries.

<http://www.q-lana.com>

Topicus Finance

Topicus helps banks, insurers and service providers make financing simple and accessible for consumers and entrepreneurs. It solves frustrating problems in processes by using technology as it is intended: a way of making things easier and more effective. Especially when it comes to complex financial matters.

<https://topicus.com>

LendEnable

LendEnable is a data aggregation and analytics company that works with lenders across emerging markets to help them build high quality SME loan portfolios and to grow their business. It provides a suite of tools that significantly reduces the turn-around-time and the cost involved in sourcing relevant creditworthy clients.

<http://www.lendenable.com>

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N-Frnds

N-Frnds is a ground-breaking cloud-based SaaS platform providing enterprises unparalleled reach to customers and suppliers in emerging markets. They digitize entire ecosystems, drive and deliver solutions such as branchless banking, supply chain automation, loyalty solutions and digital government services to all citizens.

<http://www.nfrnds.com>

Mobbisurance

Mobbisurance is a South African based startup that is dedicated to providing access to affordable crop insurance to smallholder farmers. They utilize satellite imagery to, analyze crop growth, identify crop stress that is due to adverse weather such as drought or floods, and to also quantify the extent of damage.

<https://mobbisurance.com>

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Tala

Tala is an innovative, fast-paced mobile technology startup, that provides a credit scoring and reporting platform to financial services institutions in emerging countries.

<https://tala.co>

SME Credit Pro

The SME Credit Pro platform combines an online, intuitive, easy to fill out MSME information application with third party innovative data sources, artificial intelligence, and machine learning to provide MSMEs in Africa with the business, financial, and credit ratings

<http://www.smecreditpro.com>

Uber

Uber Technologies is a peer-to-peer ridesharing, food delivery, and transportation network company headquartered in San Francisco, California, with operations in 633 cities worldwide

<https://www.uber.com>

Tag Pay

TagPay has developed a digital banking platform that powers 30+ financial services in 15+ countries, with a strong footprint in Africa. The TagPay digital banking platform replaces the legacy core banking system of the financial institution. With its open architecture and APIs, TagPay allows the bank to be at the center of the digital financial service ecosystem.

<http://en.tagpay.fr>

The Things Network

The Things Network is building a network for the Internet of Things by creating abundant data connectivity, so businesses can flourish. They use a technology called LoRaWAN that allows for things to talk to the internet without 3G or WiFi.

<https://www.thethingsnetwork.org>

May 14 2018 DAY 1

Opening remarks

from SME Finance Forum

Player error

The player is having trouble. We'll have it back up and running as soon as possible.

19:10

Dr. Patrick Ngugi Njoroge, Governor, Central Bank of Kenya

from SME Finance Forum

Player error

The player is having trouble. We'll have it back up and running as soon as possible.

15:46

Aliou Maiga, Regional Industry Head, FIG, Sub-Saharan Africa, IFC

Connecting Africa's SMEs to Wider Markets

Executive summary

Kenya's food market accounts for 45 percent of consumer spending because the market is fragmented and inefficient. Indeed, about 30 percent of stock is lost in the process of multiple trades between farmers and the final vendors. However, the company, Twiga foods (Twiga), loses only about 3-4 percent in the course of its trading activities. How does it do it? Twiga's mobile-based ordering platform enables about 1,500 vendors a day to buy stock using their phones and then delivering the stock directly to them. Farmers gain certainty that their produce will be sold, while vendors can access a better-quality stock at lower prices. This predictability facilitates the financing

from SME Finance Forum

Player error

The player is having trouble. We'll have it back up and running as soon as possible.

27:49

Grant Brooke, CEO, Twigafood and Matthew Gamser, CEO, SME Finance Forum

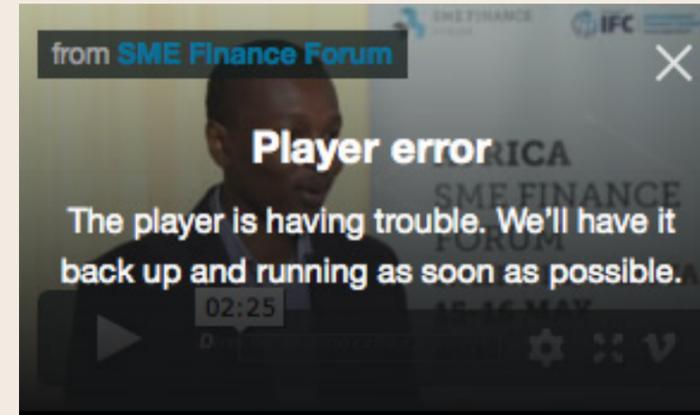
of farmers and vendors, and opens a new set of possibilities for Kenya's agricultural sector. Twiga's activities also enable it to predict future prices. This allows for the creation of a new type of commodity market, which in turn will enable a secondary level of investment to be introduced into the system. Four years ago, as a start-up, Twiga struggled to access capital. No local bank would lend to it, and it was forced to turn to European banks because the local market is not equipped to deal with venture capital-backed start-up products, which typically need several years to become profitable. This limits Africa's ability to build its own multibillion dollar start-up market, and it is a regional disadvantage when compared with the rest of the world.

SME Supply Chain Financing: Creating Markets for SMEs

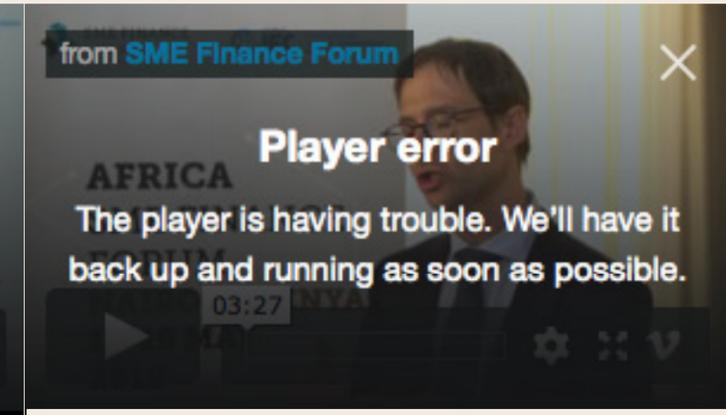
Executive summary

Supply chain finance is an effective method of offering short-term credit to both the buyer and seller, thereby smoothing and enabling the financing of trade. With the advances in technology and the rise of FinTech, supply chain finance options available to SMEs are increasing.

Furthermore, growing trade flows and the increased availability and sophistication of technology platforms have combined to make supply chain finance more efficient and transparent. In Africa, SMEs not only lack access to finance, but professionalism and qualified skillsets. Improving SME abilities can make them more competitive in the supply chain sector.



Denis Gikunda, Director, Innovation Management, Mastercard



Philip M. Sigwart, Director of SME Banking, Equity Group Holdings

Leapfrogging Development Through Innovation: Showcasing Successful Innovation and Partnership Between Banks and Fintech

Executive summary

New opportunities have arisen that make it possible for the SMEs in low-income African economies to leapfrog other countries by adopting technologies that are suitable to their specific circumstances. Technologies, such as open application programming interfaces (API), allow people to connect and collaborate. Innovation enables closer interaction between different markets, improving the efficiency of business exchange. Thus, the top priority for financial inclusion is to make finance useful. Currently, 43 percent of the African population has active bank accounts compared to 69 percent globally.

The rapid development of digital banks, as well as advanced information sharing systems, have contributed to the fast growth of SMEs in Africa. To continue the leapfrogging momentum, SMEs need to improve business-customer relations and address the challenges of the quickly changing landscape of financial services.

The micro, small and medium enterprise (MSME) financing gap in developing countries currently totals US\$5.2 trillion. Leapfrogging can play a role in bridging this gap.

M-Shwari and M-PESA

SME Finance B2B Marketplace

Executive summary

The Marketplace is an exclusive opportunity for financial institutions and other Forum participants to have a 15-minute one-on-one introductory meeting with investors, advisory service providers and financial technology companies. This year we facilitated 120 B2B introductory meetings with investors such as IFC, OPIC, Fern Software, Opportunity Network, Alternative Circle, LenddoEFL, Q-LANA, Strands Finance, DEG, Ennovative Capital, SOKOWATCH, FMO, Tala, Lendable, N-Frnds, Topicus, Mobbisurance, Triple Jump, Omidyar Network, AMP, SME Credit Pro, LendEnable, Uber, Fidor, Verde and Pay System joining us as vendors in the Marketplace.



May 15 2018 DAY 2

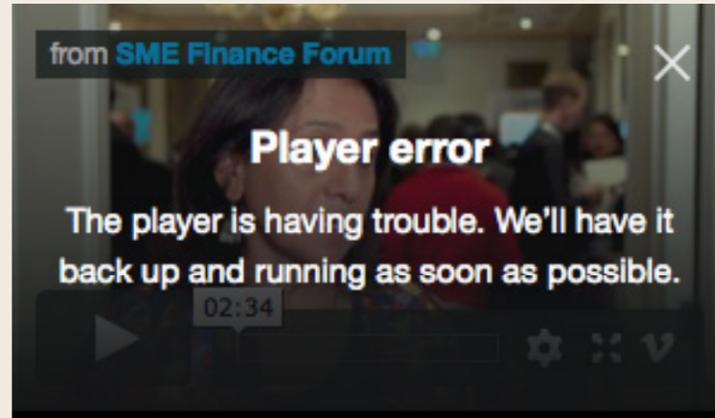
Disrupting Systems: Financing Africa's youth

Executive summary

The majority of Africa's population is young and in the coming years, an increasing number of youth will hit the job market. We know that SMEs are estimated to account for 80 percent of employment on the Continent. Financing youth entrepreneurs offers enormous potential to generate employment, innovation, and economic growth.

Disrupting the system means changing the status quo and looking at youth entrepreneurs as solution-providers. They need to be part of the conversation, building better policies from the ground up.

The objective of this session was to paint a holistic picture of financing for young African entrepreneurs, including the challenges, gaps and opportunities. Themes were explored from the perspective of the investor, innovation & technology, business services & linkages, as well as from the view point of the young entrepreneur.



Parminder Vir, CEO, Tony Elumelu Foundation

Breakout sessions

Enabling SME Growth Through Franchising

Executive summary

With their proven business models, management expertise and established brands, franchises represent important opportunities to increase the number of SMEs in Africa. As the economies in the Africa region continue to grow, a significant number of franchises are now operating in many more African countries. Moreover, since franchising represents a lower business risk, the number of franchises in Africa is expected to grow.

The franchising business also faces numerous challenges, ranging from the limited amount of working capital to slow returns on investment. Also, the lack of intellectual property rights protection in Africa has raised concerns from international franchises. In the future, to accelerate the development of franchising, banks should be more forward-thinking, and



franchises should be more mindful of their relationship management with financial institutions and intellectual property protection.

Breakout sessions

SME & E-commerce: Lessons Learned and Opportunities for Digital Financial Services for SMEs

Executive summary

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Breakout sessions

Bridging the Last Mile in SME Financing

Executive summary

"Bridging the Last Mile" in SME financing is fundamental, considering the key role of SMEs in transforming economies. "Bridging the Last Mile" means focusing on the segments in SME finance that remain underserved. There are many. Sometimes there are geographic challenges because of the many countries and regions that are characterized by fragility, conflict and violence. Geographically, rural SMEs can also be difficult to target and serve. Gender is also an issue, as women-led SMEs tend to be underserved. Many developing countries have large numbers of very small enterprises and informal enterprises that also tend to be underserved.

IFC has provided support to several programs across Africa that have been proven successful in combining investment with capacity building. Some of the most frequent challenges that financial institutions face in dealing with SMEs include risk issues and understanding the customers and their unique approach to conducting business.



Banking on Women – What's the ROI

Executive summary

Commercial bank experience has demonstrated that banking on women is a sustainable and profitable business opportunity. Challenges in promoting women businesses arise both internally from within the organizations and externally from the larger ecosystem. Each bank takes a different approach in addressing these challenges, but non-financial services seem to play a crucial role.

Innovations in Agrifinance

TaniFund

ALES by The Frankfurt School of Finance

Farm force

Executive summary

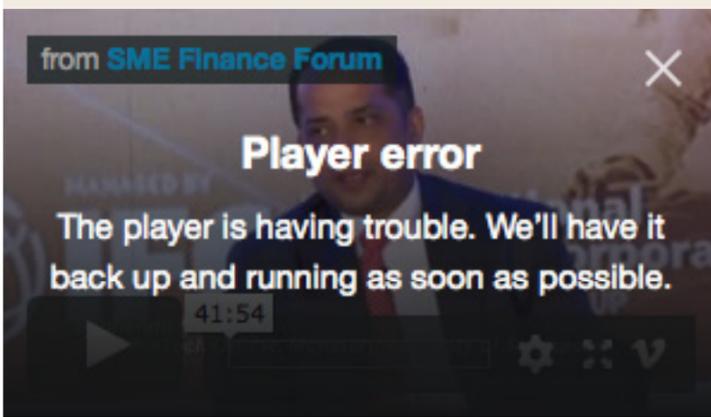
Agriculture remains an important activity in emerging markets. With the assistance of technological devices, agricultural companies can significantly improve their management skills and business models.

The AgriTech companies help smallholder farmers obtain access to markets and finance through various online platforms. Moreover, these high-technology platforms can also help business managers to make lending decisions by scor-

ing on the evidence provided by the farmer to a series of questions. However, sometimes banks tend to view the agricultural sector as a highly risky sector and are reluctant to provide large amounts of finance.

In future, agricultural SMEs need to expand collaboration with more banks. An increased focus on the education of farmers and buyers is also needed. More importantly, to be more cost-effective, SMEs should combine technology to reduce their production costs.

Accelerating Innovation Through Sandboxes: Lessons from Singapore and AFIN



Sopnendu Mohanty, Chief Fintech Officer, Monetary Authority of Singapore

Executive summary

Singapore has revolutionized and accelerated innovation through the utilization of regulatory sandboxes and various digital platforms. Moreover, the country has learned to rethink regulations and explore best practices in support of the FinTech ecosystem in general, and FinTech in particular

Definition of FinTech

Singapore is an advanced economy and a large financial center. FinTech is anything in financial services that is transformed or reimaged using technology. Whereas in the Western narrative, FinTech has centered around lending, payments and disruption, in Singapore, the narrative has been how to bring technological innovation into the entire sector, in effect, reimagining the whole FinTech space.

Lessons and Solutions in Managing Non-Performing Loans to SMEs in Africa

Executive summary

To successfully manage non-performing loans (NPLs), it is necessary for a lender to have the right approach, specifically to develop good governance, choose the right business model and make accurate pricing decisions. It is also important to ensure that there is proper understanding of customer in-

formation and that the right data is being used in developing scoring models. Moreover, there is a need to realize that NPL management is a people business – the bank's people have to deal with real people, real borrowers.

Stephen Mwaura, International Consultant & Central Bank of Kenya PPT

Janet Geddes, GBRW Consulting

Syed Abdul Momen, Head of SME Banking, BRAC Bank

Examining the Business Opportunity of Non-Financial Services

Executive summary

“Bridging the Last Mile” in SME financing is fundamental, considering the key role of SMEs in transforming economies. “Bridging the Last Mile” means focusing on the segments in SME finance that remain underserved. There are many. Sometimes there are geographic challenges because of the many countries and regions that are characterized by fragility, conflict and violence. Geographically, rural SMEs can also be difficult to target and serve. Gender is also an issue, as

women-led SMEs tend to be underserved. Many developing countries have large numbers of very small enterprises and informal enterprises that also tend to be underserved. IFC has provided support to several programs across Africa that have been proven successful in combining investment with capacity building. Some of the most frequent challenges that financial institutions face in dealing with SMEs include risk issues and understanding the customers and their unique approach to conducting business.

Karim Drissi Kaitouni, Head of Entreprises Market, Attijariwaffebank Bank

Overcoming Trade Finance Challenges for SMEs in Africa

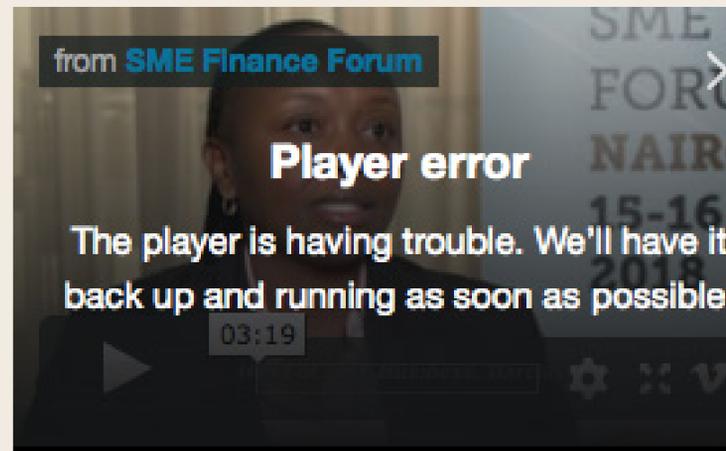
Executive summary

Trade Finance can be described as the provision of finance and services by Financial Institutions for the movement of goods and services between two points, either within a country or cross border. Trade finance is a core business activity for commercial banks in Africa, as it continues to be relatively low-risk. However, due to the credibility risks and connectivity limitations, a significant trade finance gap persists in Africa. This is in contrast to middle-income and high-income countries, where there is a narrower gap in terms of trade finance.

Although SMEs are a huge growth engine for the financial and private sectors in Africa, a disproportionate share of the available financing is provided to large corporations at the expense of SMEs. Indeed, SMEs comprise more than 80 percent of all businesses in Africa. Also, significant regional differences exist in the share of total assets devoted to trade finance.

First time applicants face significant challenges in accessing trade finance facilities from banks because banks tend to fa-

vor big corporations. Thus, there is a need for better financial infrastructure, including credit information systems, to de-risk transactions and enhance banks' ability to supply trade finance in Africa.



Susan Situma, Head of SME Business, Barclays Bank, Kenya

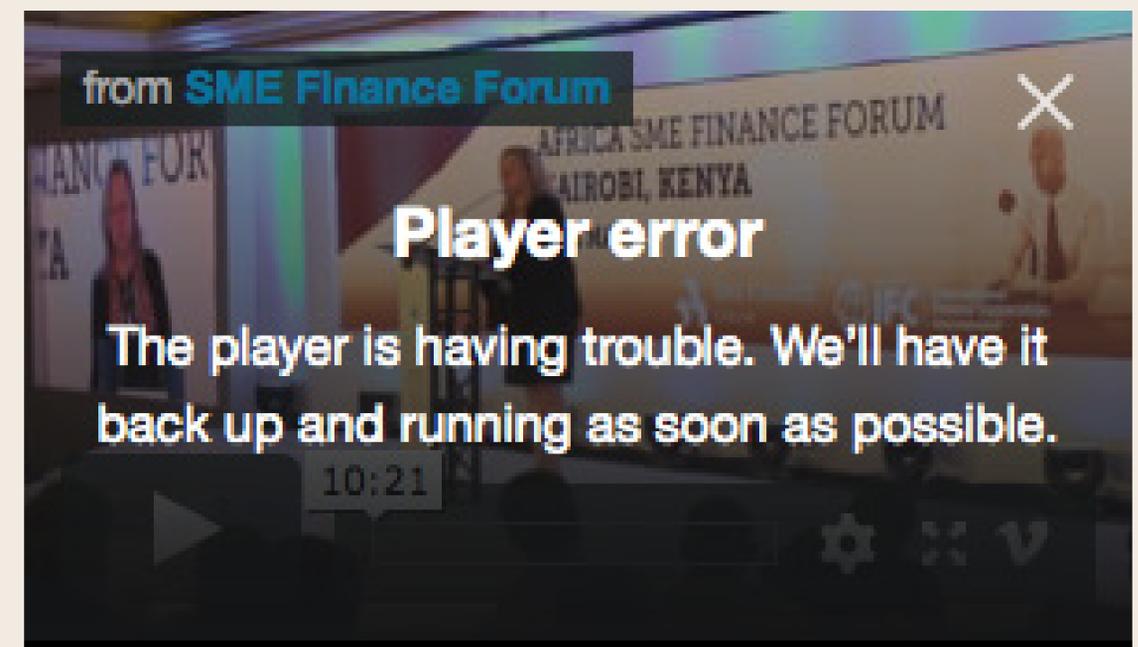
Digitization in trade finance: India's experience

Executive summary

India has achieved significant success in the digitization of business transactions. Despite people's tendency to pay with cash, the national government changed its policies and withdrew some Rupee banknotes from circulation in late 2016. This provided a significant impetus to the development of digitization. Thanks to strong government support and smart policies, widespread digital transactions have become possible across India, and both merchants and consumers have

reaped benefits from this process. However, bank charges for digital payments remain a major deterrent to increased usage. These charges range between 1-2 percent, as compared to SME profit margins of 3-4 percent. As experience from India shows, the establishment of a regulatory mechanism and the involvement of the non-banking financial sector are both necessary for the development of the digitization of business transactions.

Closing remark



Karin Finkelston, Vice President, Partnerships, Communication and Outreach, IFC

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Attendee testimonials

Tony Fosu - Sinapi

The Board Chairman and CEO of Sinapi Aba attended the Global SME Finance Forum program in China and Kenya respectively. The learning experience and linkages created were phenomenal. We want to enjoy the full benefit of membership.

Ravi Aurora - Mastercard

It's not just the content but then having such a diverse group of individuals ... fintech ... different financial institutions, policy makers etc. ... that are here and the opportunity to listen to their perspectives. But then being able to network and build those relationships - has been extremely productive.

Ndiao Eric, Relationship Manager, Business Banking - Co-operative Bank, Kenya

We are seeing better ways to help SMEs finance through technology. The Forum has brought in some ideas and some experts who have now given us ideas on how better we can help the MSMEs in Africa.

Chanda Chime-Katongo - Zambia

Though I came as a speaker, I actually feel like I'm leaving as a student and I've gained so much knowledge and so much insight.

Abdallah Abdulkhalik, Managing Director - Gulf African Bank

I've met at least 50 people and have exchanged cards with them. So even if only 10 of them happened, that we will be able to do business, it's something very good!

Ndiao Eric, Relationship Manager, Business Banking - Co-operative Bank, Kenya

We've seen a number of bank CEOs with regional heads or local heads. But at the end of the day you get the opportunity to network with them you get the opportunity to hear from them and all the other big players in the African market.

This is good for the SMEs because it gives them a similar opportunity to interact with the policymakers to interact with the decision makers.

Kevin, CEO - Alternative Circle

The quality of audience has been one of the best I've witnessed in Africa. When I got on stage yesterday and I saw some of the faces I've been trying to get meetings with, it was an amazing feeling for us!

Now you can actually walk up to the Central Bank Governor and ask him about a particular policy and all that is because the SME Finance Forum got everybody to come together, and it's that interaction, that networking that's opening doors even further for the fintechs, opening doors for the African SME, so I'm very happy about that.

Philip Siegwart - Equity Bank

You come to the SME Finance Forum and it's like you're brainstorming with 200 people in the room and you get out and you have lots of ideas.

Christina Gonzalez, VP of Risk - Pinchicha Bank

You have the opportunity to meet all the suppliers of software, not only software but also other banks from the region where you would learn from especially the information on workflows and the payment systems and that type of product brings around a lot of information. That's very, very useful.

Denis - Mastercard Labs

I am very impressed with the quality of the audience. Every conversation I had on the networking breaks or in the panels has been very focused right.

Henant - Mastercard

The SME Finance Forum is more like a convener of different players so you've got the traditional players like the FIs, the banks, you've got international payment technology platforms like Mastercard, and then you've got a whole bunch of fintechs which are from Africa and from outside Africa who are interested in sort of coming into this market.

This is one place where it's allowing around certain people to share ideas and form partnerships. That's the uniqueness of all of this.

Jacqueline - Stanbic Bank

I'm extremely delighted by the content, it's really relevant and speaks to our space. It's content that you can get out of here and do something about it.

[The SME Finance Forum] fully understands our market and they're speaking to solutions that we've been looking for, for our customers.

Patrick Reily - Verde International

The marketplace was awesome. We had many people from Africa, but also representatives from around the world meeting with us. We probably established 20 new contacts.

Ruth - Mastercard Foundation

I was struck by the fintech pitches yesterday and also the technology exhibition hall. To see all the innovations coming up not only here from Kenya but elsewhere in the continent about very creative ways to address problems.

Ravi - Standard Chartered

I find it hugely valuable in fact so much that this time I dragged seven of my colleagues along. And the big value is that it provokes thought. It kind of points to the direction in which the market is developing. And it also points to the possibilities of new technologies.

There are very few forums that you can go to which talk only about SME.

Susan Situma - Barclays Bank

The Forum has really been eye-opening and very insightful. Just sharing the experiences, the fintechs, it's what's available out there to try and digitize some of these transactions and be able to reach that last mile for the SMEs.

Tom DeLuca

The kick off with the Governor was amazing. I really enjoyed the opening session, but also hearing from the fintechs and all the ideas that they're putting into motion here.

Certainly, a great opportunity.

There are so many trade shows and events and networks that you can join to speak to banks or to meet fintechs, but there's none quite like the SME Finance Forum, which is really driven by people who are trying to address the needs are on a non-profit basis and really brings together all the parties.

AFRICA SME FINANCE FORUM 15-16 MAY NAIROBI, KENYA



Social media storytelling (<https://wakelet.com/>) >



Speakers

Opening Speaker



DR. PATRICK NJOROGE
Governor
Central Bank of Kenya



MILIE BOYLE
General Manager
Sokowatch



RUEDIGER GEIS
Head Trade Affairs
Commerzbank AG



PRAVEEN KHANDELWAL
National Secretary General
Confederation of All India Traders
(CAIT)



GAMAR SALEEM
Global Technical Lead, SME
Banking Practice
IFC

Keynote Speakers



GRANT BROOKE
Co-Founder and CEO
Twiga Foods



CATHERINE BUSSAULE
Trade Finance Specialist
Ecobank ETI



DENIS GIKUNDA
Director, Innovation
Management
Mastercard



PAULA LEYNES FELIPE
Senior Risk Management
Specialist, East Asia and Pacific
IFC



AZAM SAMANANI
shareholder and Managing Director
Hoggers Limited



KARIN FINKELSTON
Vice President
of Partnerships,
Communication & Outreach
IFC



**CHANDA
CHIME-KATONGO**
Head Corporate Affairs
Stanbic Bank Zambia
limited



CRISTINA GONZALEZ
Vice President
Banco Pichincha



ALIOU MAIGA
Regional Industry Head
Financial Institutions Group, Sub-
Saharan Africa IFC



ROSTAN SCHWAB
Africa Head, Fintech Investments
IFC



SOPNENDU MOHANTY
Chief FinTech Officer
Monetary Authority of
Singapore



COLIN DALEY
Global Specialist -
Banking on Women
IFC



BUHLE GOSLAR
Director of Customer
Intelligence
JUMO



MICHAEL MAKAU
Head, Business Banking and
Asset Finance
Commercial Bank of Africa



NEIL SCHWARTZMAN
CEO of E-Commerce
Econet Wireless Group

Speakers



SYED ABDUL MOMEN
Head of SME Banking
BRAC Bank



RUTH DUECK-MBEBA
Senior Program Manager,
Financial Inclusion
Mastercard Foundation



SHAMILA HARDI
Senior Manager
Financial Institutions
Group, IFC



JOSECK LUMINZU MUDIRI
Senior Operations Officer
IFC



JUAN SECO
COO
JumiaPay



DAVID ASHIAGBOR
Coordinator
Making Finance Work for
Africa



RACHEL FREEMAN
Advisory Manager, Asia
Pacific
IFC



CHIZOBA IHEME
Head, Liabilities-Emerging
Businesses
Diamond Bank



STEPHEN MWAURA NDUATI
International Consultant



LUBNA SHABAN
Co-Director
Child and Youth Finance
international



GEORGE W. BAKKA
CEO and Founder
Patasente



LAURA FRENCH
Program Manager
Mastercard Foundation



FAITH KAMENCHU
Head
Farmforce Operations
Africa



JEREMY NGUNZE
CEO
Commercial Bank of Africa



PHILIP SIGWART
SME Banking Director
Equity Group Holdings



NORAH BECERRA
Frankfurt School of Finance &
Management



MATTHEW GAMSER
CEO
SME Finance Forum



THIERRY KANGOYE
Senior Research
Economist
African Development Bank
Group



HABIL OLAKA
CEO
Kenya Bankers Association



PORUSH SINGH
Country Corporate Officer - India &
Division President, South Asia
Mastercard



AMREI BOTHA
Senior SME Banking Advisory
Service Specialist, Financial
Institutions Group
IFC



JANET GEDDES
GBRW Consulting



ANUSHE KHAN
Senior Operations Officer
IFC



MARK PAPER
COO
Business Partners International



SUSAN SITUMA
Head of SME Banking
Barclays Bank Kenya



MAARTEN SUSAN
Managing Director and a Founding
Shareholder
FACTS (Africa)

Conference proceedings



ing in a mismatch. The ability to control timing provides a lot more certainty in the network, which helps to enable financing for farmers. Twiga sells to about 1,500 vendors a day, who collectively try to set prices. That pricing data is then pushed back to farmers and provides them with predictability about their incomes. Furthermore, if farmers have knowledge about what they can sell, they are more likely to invest in production.

Blockchain and Informality

A recently launched project with IBM uses blockchain to provide financing for retail vendors. The results showed that vendors ordered about 30 percent more stock when financing was provided alongside delivery. Blockchain provides certainty to farmers and vendors. Specifically, it eliminates the issue of informal payments by having thousands of third parties verify and store their transactions on an indelible public ledger that cannot be modified. Certainty in turn drives investment in production, as farmers are more willing to invest if they reliable information about what they can sell. It is likely that there will be more blockchain applications in future, leading to the de-risking of the informal credit sector.

Informality is a requirement for working in Africa, and the actors in the sector are rational businessmen. Banks are also increasingly interested in the informal sector. However, if banks lack reliable and affordable information, they will require collateral that most people lack. The challenge then is making transactions verifiable, especially within the agriculture sector.

The system could work more efficiently in a better policy environment. For instance, agricultural contracts should be enforceable. Alternatively, smart contracts could be implemented by geo-tracking the commodities.

On the consumer side, informality is here to stay. Most consumers do not have more than a week's worth of cash to spend. Most cannot put groceries in their car and drive home. They are very much local shoppers. Also, most do not have refrigerators, so they need to shop on a daily basis, or at least every other day. Furthermore, with rapid urbanization occurring across the continent, by 2025 the majority of the population will be urban. These consumers are the future face of the retail market. Laborers are typically paid in cash because they do not have bank accounts. They also do not want to pay the transactions fees of M-PESA, a mobile phone-based money transfer service. Obtaining data on agricultural production remains a major challenge. Specific technology is needed to address this problem, and M-PESA cannot provide the solution. However, new start-ups are arising to tackle this issue.

Looking Ahead: The Triumph of Retail Over Big Grocery Stores

A whole new set of possibilities has opened as the fragmenta-

tion problem has been addressed, allowing improved access to markets, commodities and finance.

The policy agendas of most Sub-Saharan African nations include an objective of building commodities markets based on the traditional model of people going to a centralized floor and trading tickets. However, this does not work well in the food marketplace because the buyers are not large. Rather, such a marketplace can be built through the use of mobile phones, offering all the benefits of the traditional commodities markets. For farmers, it means that they do not have to short sell their produce. Furthermore, if farmers have a secured market and a history of payments to a certified buyer or marketplace, such as Twiga, they can bring this transaction history to a bank and obtain discount financing. As a result, their products would not have to be sold at 20 to 30 percent discount to a broker.

East Africa's two largest grocery stores are currently in some form of receivership. This is related to the misdiagnosis of what the African middle class means. Even in more established markets like South Africa, the informal sector is gaining more market share against formal retailers. The only place that formal groceries have an advantage is in imported products, where they can negotiate the importation terms.

The small-scale retail sector is experiencing a renaissance. For instance, in the United Kingdom, there is a big trend back toward front grocery/convenience shops. Twiga's data shows that the average Kenyan household spends about 80 percent of its income on the same 65 products. Therefore, it will be hard for big grocery stores to make the margin they need on the lower velocity products to substantiate such infrastructure.

Lack of Local Financing for Venture Capital-Backed Start-Ups in Africa

As a start-up, Twiga struggled to access capital for the first few years. No local bank would lend to it, and it had to turn to European banks for financing. The local market was not equipped to deal with venture capital-backed, start-up products, which need several years to become profitable. This is still the case, and it limits Africa's ability to build its own multibillion dollar start-up sector. As such, the region is at a disadvantage with the rest of the world. Many entrepreneurs are ready to change this world. Those working in venture capital and high finance should turn their attention to this issue.

SME Supply Chain Financing: Creating Markets for SMEs

Moderator: Qamar Saleem, Global Lead, SME and Supply Chain Finance Practice, International Finance Corporation (IFC)

Panelist 1: Manshuk Erzhanova, Director, Trade Finance Consultant, Ledovi Limited

Panelist 2: Eva Degenhart, Senior Supply Chain Finance Specialist, Erste Group Bank AG

Panelist 3: Christopher Hale, Founder and CEO, Kountable

Panelist 4: Maarten Susan, Managing Director and Founding Shareholder of FACTS (Africa)

Executive Summary

Supply chain finance is an effective method of offering short-term credit to both the buyer and seller, thereby smoothing and enabling the financing of trade. With the advances in technology and the rise of FinTech, supply chain finance options available to SMEs are increasing.

Furthermore, growing trade flows and the increased availability and sophistication of technology platforms have combined to make supply chain finance more efficient and transparent. In Africa, SMEs not only lack access to finance, but professionalism and qualified skillsets. Improving SME abilities can make them more competitive in the supply chain sector.

Basics of Supply Chain Finance

Supply chain finance necessitates short-term, multi-faceted information to entrepreneurs both on the supply and the buyer side. It implies a whole network of suppliers and buyers, connecting the buyer, the seller and the financier.

The ability to understand supply chain finance through all its phases is very important. The supply chain starts with a physical business, followed by the planning and execution of financial institutions. The ability to identify qualified participants is a priority. Therefore, the ultimate goal is to examine the needs and performances of supply chains, utilizing institutions to offer and anchor the right products.

The traditional players in the market have failed to sufficiently engage in SME financing. Financing in global markets is predominantly provided by global banks, regional banks and factoring companies, that together account for 80-85 percent

of the total turnover in global supply chain finance. However, these major financial players tend to only finance corporates, especially large corporates on a receivables basis. Thus, a big shortage exists in terms of the working capital for SME suppliers. Alternative financing providers need to enter the market.

The Role of Technology

Technology plays an increasingly important role in supply chain finance. For example, by specifically looking at bank software, a group of ex-bankers started FACTS in Africa to expand supply chain finance opportunities.

Emerging financial technologies, such as blockchain and artificial intelligence, are playing an increasing role in the SME supply chain finance, as are FinTech companies. Technology now enables financial institutions to operate more efficiently. For example, ecosystems in Singapore have been adapted to link various players, such as logistics companies and banks, to streamline financial processes. This greatly helps SMEs to trade in the most efficient way.

Digitization can expand the ecosystem of supply chain finance, providing a platform for participants. The emergence of digitization expands SME access to finance opportunities. By bringing all sorts of entities, including the traditional participants, to the table, the ecosystem provides some capabilities that SMEs often have difficulty accessing on their own. For example, some global logistics providers have decided to use the SAS platform to coach SMEs and match their commercial terms with suppliers.

Inbound supply chains can now be forecast with the help of technology platforms.

Requirements and Challenges of Supply Chain Finance

Government execution and interference is one of the key factors influencing SME supply chain finance. At the same time, governmental institutions not only act as regulators, but also serve as big buyers. Government companies conduct large procurements worldwide and have launched into big supply chain client programs.

The ability to address the late payment problem is very important to SMEs. To avoid this problem, a third-party data provider is needed, one that does not require the involved actors to rely on information provided by either SMEs or the government.

By cutting bureaucracy and operational restrictions inherent in traditional financial solutions, new supply chain finance tools extend beyond the largest importers. New and innovative financial technologies have opened the doors to an entirely new set of financial players, giving them a broader reach and

allowing SMEs to take advantage of opportunities formerly only available to large enterprises.

To avert operational risks — such as supplier, transit and end payment risks — SMEs can build a technology platform to make retail transactions appear more institutionalized.

SMEs can be volatile, unpredictable and opportunistic, making supply chain finance more difficult.

Know your customer (KYC) is another important factor in supply chain finance, and can include authorization of signatures, and legal, tax and regulatory checks—all in line with the respective markets.

The issue of cross-border supply chain financing arises. Some foreign financiers are not licensed to provide financing in a given country and may have to team up with a local bank or company.

Supply Chain Finance in Africa

One groundbreaking accomplishment by an African company entailed the building of an identity and the creation of data around co-production, linking production and forward costs to the intermediate growers. They were then able to successfully sell their products to the trading companies.

In Africa, the problem for SMEs is the absence of quality, professionalism, and skill sets of the entrepreneurs which contributes directly to a lack of access to finance. Thus, an initiative called “Ignite my SME” was established across Kenya, Tanzania and Uganda. Its main objective is to provide a platform through which SMEs can gain knowledge that will help them to grow into better and more successful businesses. Specifically, it helps them to more effectively present themselves to potential financiers. Improving SME capabilities can translate into more competitiveness in the supply chain field.

Supply chain finance is in its infancy stages in East Africa.

Africa is characterized by very imperfect markets, with implications for supply chain finance.

The Way Forward

Many SMEs lack an understanding of the basic requirements of obtaining financing. It is suggested that IFC could send groups of consultants to help train the banks to enhance their trade and supply chain finance capabilities. Meanwhile, SMEs can be advised in how to deal with banks on this issue.

It is necessary to bring together various funding players and fund managers who can really understand the risks in the local supply chain. Moreover, the ability to connect with the large

trading companies is very important, as they often maintain good relationships and excess to capital funding from foreign banks.

Sufficient space exists in adding new and innovative products to supply chains. To help companies grow and expand their access to finance, SMEs need to focus on their budget balances. It is important to understand the motivations of each participant and communicate with each other, to reduce the existing friction.

Leapfrogging Development Through Innovation: Showcasing Successful Innovation and Partnership Between Banks and Fintech

Moderator: Sharmila Hardi, Senior Manager, Financial Institutions Group, International Finance Corporation (IFC)

Panelist 1: Jeremy Ngunze, Chief Executive Officer (CEO), Commercial Bank of Africa, Kenya

Panelist 2: Pau Velando, General Manager, Strands

Panelist 3: Denis Gikunda, Director, Innovation Management, Mastercard

Panelist 4: Shilen Morjaria, Head of Middle East, Africa and India, Fidor

Panelist 5: Philip M. Sigwart, Director of SME Banking, Equity Group Holdings, Kenya

Executive Summary

New opportunities have arisen that make it possible for the SMEs in low-income African economies to leapfrog other countries by adopting technologies that are suitable to their specific circumstances. Technologies, such as open application programming interfaces (API), allow people to connect and collaborate. Innovation enables closer interaction between different markets, improving the efficiency of business exchange. Thus, the top priority for financial inclusion is to make finance useful. Currently, 43 percent of the African population has active bank accounts compared to 69 percent globally.

The rapid development of digital banks, as well as advanced information sharing systems, have contributed to the fast growth of SMEs in Africa. To continue the leapfrogging momentum, SMEs need to improve business-customer relations and address the challenges of the quickly changing landscape of financial services.

The micro, small and medium enterprise (MSME) financing gap in developing countries currently totals US\$5.2 trillion. Leapfrogging can play a role in bridging this gap.

The “Leapfrog” Effect of Technology

The financial inclusion landscape is rapidly changing. Financial service providers are creating tools to generate new types of digital footprints. For example, by using voice recognition features, small business owners can track their stock in a simple and intuitive way that facilitates the keeping of an accurate record of the company’s activities. Mobile solutions offer an alternative to physical banks, creating an entirely new financial mechanism, whereby trusted members of the community act as agents to verify identities, providing real-time solutions to everyday problems.

FinTech will build on organic and formal systems that are already in place, providing people with a sense of security, and access to features that go beyond payments. As such, it will empower them with greater control over their preferences.

Innovation enables closer interaction between different markets. The ability to translate services and languages from one market to another is crucial to scale up the impact of innovation. In this regard, it is important to test & tweak promising concepts from ‘origin’ markets to regions that may have similar end users profiles and strained access to financial services. For instance, Mastercard has a global R&D practice, essentially a network of labs that thinks about the future of commerce. This practice explores how emerging technology like distributed ledgers, artificial intelligence and digital identity will impact commerce. In 2015, Mastercard set up a lab in Nairobi, Kenya to focus on applying these capabilities towards inclusion challenges faced by SMEs and financial institutions in frontier markets. Mastercard has seen its incubations initially piloted in with farmers and micro-retailers in East Africa graduate to rollouts in larger markets like Egypt and India, supported by commercial footprint in these countries.

The centerpiece of financial inclusion is finding out how to make finance useful, particularly for underserved customers. For example, Equity Bank, one of the largest banks in Kenya, East Africa, started as a building society about 30 years ago. Now, it has become one of the largest commercial banks, offering financial services to a large portion of the MSME segment. It is present in 6 countries in the region, with 12 million customers. Currently, it has the largest market capitalization among the banks in Kenya. More importantly, what makes Equity Bank special is that 60 percent of its total loan portfolio is in the MSME segment, accounting for US\$1.6 billion. In addi-

tion, Equity bank has invested heavily in FinTech and new technologies. As a result, it has gained a few million subscribers in the last 2 years, accounting for 20 percent of the total money transfers in Kenya.

Surprisingly, the emergence of digital banks has improved bank-customer relations. Digital banks are entirely web and mobile based, without conventional banking infrastructure such as automatic teller machines (ATMs). The key priority for digital banks is to reduce some issues customers face from their traditional banks, enabling a digitalized and paperless environment. With the prevalence of smartphones, banking relationships can be improved, and customers can be the focal point. For example, Fidor Bank, a digital bank founded in Germany in 2009, has already expanded its business to other European territories. What underpins Fidor's vision is its dedication to the community and its transparency, enabling account holders to directly engage with bank leadership and management.

Targeting micro-retailers, also known as "Kiosks" or "Dukas" can be a powerful engine for SME development. Kiosks provide informal credit to their loyal clients for fast moving consumer goods, which in some countries represents the largest credit channel for the poor and financially excluded in rural and peri-urban settlements. Their informality and limited capacity implies existing systems such as traditional POS systems and barcode scanners are appropriate. However, with the emergence of the greater computing power on smartphones, new cloud based & voice activated approaches, an SME owner can now talk to his/her phone to receive updates on the fastest moving products, use his phone camera to rapidly identify goods, even respond to real time offers from manufacturers & financial institutions. This scenario is by no means far-fetched and under trial across several Mastercard's labs.

The Essentials of "Leapfrogging"

The key criteria for the development of digital banks are openness and quick problem-solving capabilities. From a technology standpoint, allowing people to plug into the core system would be the first step. Learning to become collaborative is crucial because working by oneself will be too costly and time-consuming. Finally, after quickly identifying problems, a key task would entail going through a cycle of continuous improvement and enhancement of the solutions.

The ability to cooperate with regulators is very important during the start-up phase of digital banks. The first thing to recognize is that the central banks from the various countries want to play a role. Usually, the money that central banks ask to hold will be safeguarded in the form of a trust account. In addition, bankers should establish good relationships with

regulators from neighboring countries because they normally have the capacity to drive regulations that enable mobile savings solutions to move forward.

It is necessary to bridge the gap between SMEs and banks. SMEs in Africa often confuse personal finance with business. Thus, it is a good idea to start by building software that specifically serves the needs of SMEs. Next, tools need to be provided to manage cashflow, forecasting, working capital and budgeting. These tools will help SMEs to move one step further in managing their finances.

An analysis of the digital footprint of businesses will need to be provided to strengthen SME bonds with banks. In this way, banks can better understand their customers.

Building good user experience is important. Even if a software program is very intelligent, it will not work unless it is user-friendly.

Behavioral biometrics is a new branch of biometrics that could be used to counter potential fraud in the SME financing space. The approach, pioneered by Mastercard- acquired 'Nudata Security', accurately verifies users based on their inherent behavior, such as typing speed, device angle, and hundreds of other behavioral patterns.

SMEs often lack high-quality accounting data. As small businesses are not very formalized, they are more accustomed to keeping records in notebooks instead of doing it digitally. Afraid of background checks such as tax inspectors, some small business owners do not want to formalize their business and have difficulties accessing take loans from banks. Therefore, a change of mindset from the entrepreneurs is required so that they can understand the benefits of formalizing their businesses. As finance becomes more data driven, it is important that SME's start formalizing their businesses at an early stage.

The future will be about remodeling identity and the entire customer experience, that is, using data to understand who is being served and how.

Partnerships will be important in leapfrogging SMEs into the future.

The Way Forward

To continue to leapfrog in the future, SMEs are confronted with two major challenges. First, they need to recognize the fast-changing landscape of financial services. A financial provider can shift to a completely different field in 5 years due to the rapid pace of market developments. Second, it is difficult to establish convenient ways to communicate and process

transactions.

Two important opportunities exist for SMEs to leapfrog. First, it is necessary to combine the strengths of both humans and machines to continue pushing forward on data processing and client relationship management. Second, it is important to im-

Panel on Disrupting Systems: Financing Africa's Youth Entrepreneurs

Moderator: Laura French, Program Manager, MasterCard Foundation

Panelist 1: George Bakka, Chief Executive Officer (CEO), Patasente & Founder, Angels Initiatives

Panelist 2: Lubna Shaban, Co- Director, Child and Youth Finance International

Panelist 3: Buhle Goslar, Director of Customer Intelligence, Jumo

Panelist 4: Parminder Vir, CEO, Tony Elumelu Foundation

Executive Summary

The majority of Africa's population is young and in the coming years, an increasing number of youth will hit the job market. We know that SMEs are estimated to account for 80 percent of employment on the Continent. Financing youth entrepreneurs offers enormous potential to generate employment, innovation, and economic growth.

Disrupting the system means changing the status quo and looking at youth entrepreneurs as solution-providers. They need to be part of the conversation, building better policies from the ground up.

The objective of this session was to paint a holistic picture of financing for young African entrepreneurs, including the challenges, gaps and opportunities. Themes were explored from the perspective of the investor, innovation & technology, business services & linkages, as well as from the view point of the young entrepreneur.

prove business-consumer relationships by expanding access to capital as economically and efficiently as possible.

Mastercard Foundation

Mastercard Foundation was founded in 2006 and in the years since, has grown from a small "start-up" to one of the largest private foundations in the world. The Foundation's work focuses primarily on Africa and they recently launched a new strategy, Young Africa Works. The strategy outlines how the Foundation will work over the next decade to ensure that 30 million young people in Africa secure dignified and fulfilling work.

Young people are early adopters of new technologies, and the start-up space is driven by youth.

When small firms and entrepreneurs access financial services, they have the resources to grow and create job opportunities for others in the community, thereby lifting people out of poverty. This is also a profitable segment for finance, and a significant portion of banks' potential clientele are young entrepreneurs.

Tony Elumelu Foundation Entrepreneurship Program

The Tony Elumelu Foundation Entrepreneurship Program was founded in 2015 with the vision of committing US\$100 million to empower 10,000 African entrepreneurs across 54 countries over a period of 10 years. The participants are SMEs and entrepreneurs that need access to networks and finance having businesses of 0-3 years. This implies that 60 percent of the applications selected are from people who have only developed a business idea.

The Program starts with a very rigorous application. In 2018, 151,692 people visited the portal, but only 64,000 actually submitted their applications. After participants are selected, they engage in a 12-week training program, where they work with a mentor and have access to a curated resource library. At the end of those 12 weeks, the entrepreneur submits a business plan and a group of partners reviews it and provides feedback. The Foundation delivers US\$5,000 dollars in capital as a proof of concept. All participants are then invited to an entrepreneurship forum in Lagos, Nigeria, forming a new network of 3,000 people.

Since 2015, the Foundation has invested a total of US\$20 million, including US\$15 million directly in the capital to 3,000

entrepreneurs. A sample of just 426 entrepreneurs, for which the Foundation invested US\$2 million, have created 4,000 jobs in two years, contributing US\$25 million in revenues. This demonstrates that a structural approach to financing with a long-term investment can yield extraordinary returns.

Bankers need to think and see things from the perspective of SMEs. Every financial institution should have an entrepreneur as part of its team. For instance, the Tony Elumelu Foundation Entrepreneurship Program has partnered with United Bank for Africa (UBA), requiring that every participant open a bank account with them. UBA is currently active in 20 countries. UBA is now considering establishing SME desks and developing specific products to support SMEs. Legacy banks must change and embrace the digital era.

The Foundation has 300,000 entrepreneurs from 54 African countries on its network utilizing three languages: English, French and Portuguese.

Patasente

Patasente is an online supply chain platform that facilitates trade between businesses in Africa. It enables clients to undertake e-commerce, settle payments and secure payables and receivables financing.

Its solution facilitates growing revenues with online sales, reduce transaction costs with digital payments and unlock millions in working capital with its factoring service. Patasente factors invoices on 50-50 syndicate basis from its Factoring Fund with other lenders that lend against its Guarantee fund.

To date, it has enrolled 1500 MSMEs, generating trading volume worth of US\$4 million and syndicated over USD\$1 million in factoring on the platform.

Patasente is focused on enrolling micro, small and medium businesses, both buyers and suppliers in the construction, agriculture, manufacturing and textiles sector.

JUMO

JUMO (jumo.world) is a technology platform for micro and small enterprise owners, banks, and mobile network operators. JUMO is also a holder of capital and big data. Sixty-five percent of its customer base is under the age of 35, and 20 percent is under the age of 25. Most live on under US\$10 a day.

JUMO issued its first mobile loan in May 2014. It has now served over 7.5 million customers across 6 African markets, and is currently expanding into Bangladesh and Bangladesh. One of the challenges for JUMO is that their customers are not very mobile because they sometimes run multiple businesses. This implies that JUMO must take its products directly to the

clients, including financial capacity building. Another aspect of businesses of this nature, is that there is a fluidity between the entrepreneurs' lives and their businesses. Therefore, JUMO looks at the entrepreneurs realistically, seeking to better understand their specific needs.

JUMO will be launching a product to address the issue of unpredictable incomes. The product allows young entrepreneurs to purchase income-generating assets with repayment terms adjusted to manage the unpredictability of their income flows.

Sometimes there is a mismatch between the way in which the customers are receiving their income and the way in which the financial product is structured. JUMO introduced an installment product and a cash advance product, and find that customers perform better when matched with the right product. It is crucial to flip the lens and determine how the institution can help customers demonstrate the best version of themselves through their respective enterprises.

JUMO has invested in predictive analytics and engineering to better understand risks.

Child and Youth Finance International (CYFI)

CYFI has an initiative called YE! Entrepreneurship Community. It is a global network of entrepreneurs under the age of 30 that includes a database of volunteer mentors, educational resources and tools, and access to peers. It is complemented by physical networks of young entrepreneurs at the country level.

For CYFI, a supportive ecosystem in which young entrepreneurs work would be one in which the educational institutions provide entrepreneurship education, the financial sector caters to the needs of young entrepreneurs, and policymakers create regulations, policies and programs that support the entrepreneurial journey.

CYFI is currently working on a paper with the SME Finance Forum to determine which financial products can best support entrepreneurs. They disseminate the information to financial institutions and facilitate partnerships with policy makers.

CYFI works to have all the different parts of the ecosystem work in tandem to help the entrepreneur move from the idea stage, to the implementation stage, and finally to the sales stage.

There are 70 million unemployed youth around the world. What CYFI has found by working with entrepreneurs in the YE! community is that, on average, a successful young entrepreneur will employ 11 other youth. Consequently, this segment cannot not be ignored, especially in a continent as young as Africa. If 5 million successful enterprises are supported, huge strides can be made in eradicating the income problem.

What constitutes disruption?

The word disruption is a Western terminology around entrepreneurship that has been parachuted into the African continent. What young people require are not solutions from the outside, but rather from within the African private sector itself. Actual disruption would entail making them — the entrepreneurs and SMEs — part of the conversation. Policies should be built from the ground up, asking them what they think the solutions should be, because they are ultimately the solution-providers.

Disrupting the system means changing the status quo. Currently the ecosystem needs change in terms of access to finance and the role that the financial sector has played. Innovations need to be shared and players should not work in silos. Innovations can help to de-risk financing for SMEs.

Disruption is the other side of the coin of inclusion because it is related to access. Referring to it as inclusion opens opportunities. The solution starts by partnering with banks, who hold capital at little cost, but are risk-averse. This means that predictable assets must be created because driving down costs is critical. JUMA achieves this by assigning two-thirds of its employees to predictive analytics and engineering.

The key to disruption is embracing risk, embracing SMEs and putting oneself in their shoes. In this context, more African private sector leaders are needed.

Financing Young Entrepreneurs

Money follows good propositions. Entrepreneurs will find the financing they need once they have obtained the requisite skills and can manage and pitch their business ideas to financial institutions through a common language.

SMEs and entrepreneurs need a combination of training, mentoring, and access to networks and finance — particularly that first few thousand dollars for proof of concept. They also need training in communications skills to effectively present their ideas to financiers. The Tony Elumelu Foundation has found that after training entrepreneurs using a holistic approach and showing that their model is successful, institutions like the Red Cross, the United Nations Development Programme (UNDP) and the French Development Agency (AFD) have offered to invest in their programs. Entrepreneurs do not need grants. They need investment.

JUMO finds that financing youth is not riskier than financing other clients. They have a 95 percent rate of loan repayment because their products fit into the lives of the entrepreneurs and customers value access to their services. The more customer utility is maximized, the less performance issues arise from the product. Still, JUMO is working to enrich its digital

footprint through mobile data. JUMO is now utilizing user-generated data, thereby helping to improve their portfolio performance.

Helping young entrepreneurs to better communicate their ideas is essential. Mentorship, workshops and partnerships are some of the tools that have been used to develop their potential.

Mentoring must be integrated into business development training, and it must be based on a concrete business idea. Mentors provide guidance, not therapy. Their job is to ask open questions and help the entrepreneur go deeper into the issues and challenges. Otherwise, mentoring becomes abstract and theoretical. It is also a two-way street in that mentors learn from the experience. However, it must be seen as part of a structured approach within the context of a wider network, including learning from peer-to-peer relations.

Banks are failing young entrepreneurs. Banks cannot be forced to take risks, but there are high risks in financing small businesses. The key is finding local companies that are willing to make these businesses more bankable, and mitigating the risk with FinTech experimental design solutions.

Presenting a partner value proposition is essential and should be optimized. The investor should feel that the project is going to drive their average revenue per user, drive up their numbers, or help retain customers. At the same time, it is necessary to immerse oneself in understanding what the customer wants.

As it is not the nature of banks to be risk-takers, they do not have the sole responsibility of supporting entrepreneurs. Rather, they are one of many players. The right partnerships that complement what the bank has to offer can be created. Indeed, creating the right partnerships can facilitate the entire SME journey process.

Equity markets are not yet evolved in Africa. Equity financing, provided by angel investors or early stage investment funds where they seek exits to larger firms, or non-collateral-based lending that frees up working capital, remains the best instrument for financing SMEs especially if the risks are well assessed and managed.

The cluster syndrome needs to be avoided. It is a real risk to look at SMEs as one homogenous group. SMEs are not all looking to be part of a hub. It is important to look at what is scalable and transferable. In this way, the system can be transformed into a more inclusive one.

By learning and collaborating with others, efforts to support youth entrepreneurs can be synchronized and complemented.

SMEs and E-commerce: Lessons Learned and Opportunities for Digital Financial Services for SMEs

Moderator: Joseck Luminzu Mudiri, Senior Operations Officer, International Finance Corporation (IFC)

Panelist 1: Juan Seco, Chief Operating Officer (COO), JumiaPay

Panelist 2: Peter Ndiangu, General Manager, OLX

Panelist 3: Neil Schwartzman, Chief Executive Officer (CEO) of E-Commerce, EcoNet

Panelist 4: Milie Boyle, General Manager, Sokowatch

Executive Summary

E-commerce is defined as any activity around an online transaction, including products and services. E-commerce has made tremendous progress and has helped SMEs to achieve wider market access. SME education in e-commerce is key because of the importance of understanding market needs and establishing efficient online platforms.

Although Africa has great potential for developing e-commerce, barriers such as lack of business data and financing methods still pose difficulties for its future development. However, very soon, the success of businesses will hinge on bridging the gap between consumers and e-commerce platforms. Moreover, innovation will become the key driver for e-commerce development.

The Impact of E-commerce on SME Growth

E-commerce is an efficient platform for SMEs to connect to customers and brand their products. It enables SMEs to refocus on their product advantages and adjust their services accordingly. The platform is also useful for coaching SMEs and facilitating online marketing.

There has been a rapid evolution in e-commerce services available to SMEs. Initially, SMEs entering the e-commerce space were faced with challenges such as low website access, payment management difficulties, and barriers in selling their

products. However, SMEs now find it much easier to enter the e-commerce industry because many sorts of tools and platforms are now available to them, including companies that help with building websites, managing payments and getting products to customers. For example, SMEs can complete an application with a third-party seller to have their online payments processed.

Key Factors for E-commerce Development

The ability to work with consumers is significant for the development of e-commerce. For example, in Africa, people are accustomed to using cash to pay for their purchases, a custom that is contrary to e-commerce in western countries. Thus, SMEs will need to be able to demonstrate a high level of trust for consumers to be willing to shop online.

The education of SMEs is key to their future development. The first step is to teach them how to research and understand the needs of the market, and how to access transaction platforms. For young people starting their e-commerce businesses, it is important to cast their net as wide as possible and capture all the opportunities to reach out to customers. E-commerce companies trying to enter the African market have learned the importance of education and communication.

E-Commerce in Africa: Opportunities and Challenges

In Africa, e-commerce has changed many of the business paradigms. However, the logistics and language aspects are still far from making it a satisfactory customer experience. The challenge that SMEs are now facing is how to secure local financial support. One of the key solutions is to educate SMEs on how to fulfill an online product according to specifications. Thereafter, financing can be provided to grow their inventory.

For Africa, the speed and adoption of e-commerce will probably surpass many other fast-growing countries, such as China and India. Africa's total population's access to mobile devices is growing at a rapid rate of 34 percent. For example, the total online population of Nigeria is more than the population of France. Therefore, e-commerce in African countries will probably take different paths compared with India and China.

Although access to infrastructure and payments logistics are already in place, competence is still lacking. For example, the reputations of some e-commerce businesses have suffered because of poor customer service delivery. This is significant because even a single bad experience can be devastating for a SME's future development.

Although the popularity of smart phones has reached high levels in some markets, only few consumers in Africa know how to use their phones to make online transactions. The older

generations may find it odd to use mobile devices to purchase goods. In this context, some e-commerce platforms enter new markets without understanding consumers.

The ability to bridge the gap between consumers and e-commerce is very important. For example, Safaricom has one of the best models in Kenya. Its success derives from its long-term dedication to investment in education and cultivating its online platform.

Players need to begin to bridge the ecommerce platforms for financing.

Many SMEs do not understand the immediacy of service delivery that is required when selling online.

Some e-commerce platforms are built without an adequate understanding of SMEs and/or their customers.

Cash/payment agencies can facilitate e-commerce.

One of direct challenges to e-commerce in Africa is how to more effectively use networks to reach to a larger consumer base. For example, a company in the marketplace in Senegal owned an app and a website, but unfortunately had only 500 people visiting the site. However, after moving into a United States Satellite Broadcasting (USSB) channel, website traffic increased and more than 100,000 people visited its platform. Moreover, many e-commerce businesses try to utilize non-traditional channels, such as WhatsApp and Facebook, to reach more people.

It is difficult for sellers to fulfill all their objectives on the lending market. Normally, lenders will lend a ticket to a seller, which means that the financial support does not necessarily cover the entire range of sellers.

Future Opportunities for E-commerce Growth

The real opportunity in the e-commerce market is in the business-to-business (B2B) transaction model. Due to the wide availability of merchants and shops, the true value of e-commerce exists in an efficient network with retailers. By working with the right models, businesses would be able to extend their reach to broader consumer groups.

Enormous opportunities exist in using automatic channels to facilitate e-commerce. Indeed, e-commerce can also contribute in redefining how retail is done. For example, EcoCash, a dominant mobile mini platform in Zimbabwe, has a network of

physical agents that process cash payments and mobile credits. The efficient automatic channels enable buyers and sellers to meet and communicate more directly.

Time and data are the two major constraints for e-commerce SMEs in accessing capital. Due to the lack of personnel and the risk of starting new business branches, sellers are not normally willing to spend time applying for loans. Moreover, because of the lack of reliable data, traditional lenders may find some SMEs unqualified to borrow.

Another example of how innovation is the key driver for e-commerce is an online platform in Zimbabwe. It organizes pick-up, drop-off and cash collection points, making transactions easier for customers.

Escrow services can make communications between sellers and buyers more assuring.

The cost of retail infrastructure and improvement of education are drivers of future e-commerce development. Expensive retail infrastructure will necessarily force more and more buyers onto the internet. Moreover, as people become more educated, people's ability to use e-commerce platforms will certainly grow.

Bridging the Last Mile in SME Financing

Moderator: Wendy Teleki, Creating Markets Lead, Financial Institutions Group, Blended Finance Department, International Finance Corporation (IFC)

Panelist 1: Aliou Maiga, Regional Industry Head, Financial Institutions Group, Sub-Saharan Africa, IFC

Panelist 2: Abdalla Abdulkhalik, Managing Director, Gulf African Bank Limited

Panelist 3: Moses Gitau, Head of Business Banking, Co-operative Bank of Kenya Limited

Panelist 4: Sally Gitonga, Country Manager, Business Partners International

Executive Summary

“Bridging the Last Mile” in SME financing is fundamental, considering the key role of SMEs in transforming economies. “Bridging the Last Mile” means focusing on the segments in SME finance that remain underserved. There are many. Sometimes there are geographic challenges because of the many countries and regions that are characterized by fragility, conflict and violence. Geographically, rural SMEs can also be difficult to target and serve. Gender is also an issue, as women-led SMEs tend to be underserved. Many developing countries have large numbers of very small enterprises and informal enterprises that also tend to be underserved.

IFC has provided support to several programs across Africa that have been proven successful in combining investment with capacity building. Some of the most frequent challenges that financial institutions face in dealing with SMEs include risk issues and understanding the customers and their unique approach to conducting business.

The SME Sector

Many segments of SME finance remain underserved.

The role of SMEs in the economy, specifically their contribution to gross domestic product (GDP) and employment creation, is quite significant. For example, in the financial sector, 70 percent of business comes from micro, small and medium enterprises (MSMEs), with around US\$1.5 billion from micro-enterprises and \$US4 billion from SMEs. At the same time, they

are probably the most underserved segment of the economy because of the high levels of risk involved in SME lending. For SMEs, non-performing loans (NPLs) can typically reach 7-10 percent, which is very high compared to the corporate segment.

Other than investment and finance, access to markets is another important requirement for SMEs. If a company does not have access to the market, it cannot be viable. Therefore, efforts should be directed to linking SMEs to markets through value chains or warehousing.

Many SMEs, particularly those located outside of major cities, face challenges in gaining access to power and energy infrastructure.

The SME sector must be organized, and appropriate legislation should be in place. SME capacity should be formalized, just like any other sector. Ultimately, this will make SMEs more bankable.

The IFC’s Role

IFC has been engaged in SME financing for the past 20 years. Its first SME loan in Africa was a single investment in 1976 with the KCB Bank Kenya Limited. In 2005-2006, IFC launched the Africa MSME Program to enable banks to provide financial products and investment and advisory services to this untapped market. For each of the more than 20 investments that were made over a 5-6-year period, a resident advisor worked directly with each of the banks to develop a SME department with all the necessary tools.

In recent years, IFC has focused on securing more resources to sustain SME development in terms of de-risking, first-loss, pricing incentives and capacity building. One of the programs for the Global SME Finance Facility, funded by British Petroleum (BP) and others, raised US\$200 million to address these issues.

International Development Association (IDA)18 has allocated US\$2 billion to the IFC to sustain its investments with banks serving SMEs. Of this amount, US\$1 billion is destined for de-risking and local currency financing because some banks that manage risk on the balance sheet can accept dollar funding, but ideally local currency is needed. Banks need to have proper information to lend to SMEs.

In China, ten years ago, no collateral registry existed. IFC provided support to update the database with millions of entries in just 3 years.

In 2016, IFC provided US\$2.8 billion to the financial sector, but direct investment is around US\$5 billion, with 60 percent of

that amount going to SMEs. In Africa, the SME portfolio for banks is about US\$1.7 billion, with more than 10 financial institutions. In addition, US\$34 million is directed to 33 active MSME advisory service projects. A significant portion of this money is also destined to digital financial services (DFS), reducing the cost of involving more smaller customers. DFS can potentially do what mobile telephones did for telecommunications in Africa.

One of the hallmarks of IFC’s Africa Program is the focus on SMEs and the recognition that the advisory and the investment services need to be combined in building capacity of their partners.

IFC frequently uses partial risk and credit guarantees to address the issue of banking liquidity and credit risk. It creates a de-risking pool of money to allow banks to do more for SMEs.

Cooperative Bank of Kenya Limited

In 1968, a group of peasant farmers came together with the intention of forming their own bank. The President at the time helped them to raise capital, and they opened their doors in 1968. The bank’s majority shareholders were peasant farmers. In 1994, they received a license to operate as a fully-fledged commercial bank, the Cooperative Bank of Kenya, and welcomed other/new sectors, individuals, corporates and diaspora clients.

The cooperative movement in Kenya is the largest in Africa, with over 22,000 registered cooperatives.

The Cooperative Bank of Kenya currently have 7.1 million customers. When taking into account all family members, the bank has an impact on over 30 million Kenyans. Of the 22,000 cooperatives in Kenya, around 500-700 are Savings and Credit Cooperative Organization (SACCOs). In fact, some are even larger than Tier 2 and Tier 3 banks in Kenya. Some have bought out banks, with the cooperative running advisory services for them.

In 2008, the bank was listed on the Nairobi Stock Exchange, and maintains the ownership 65 percent ownership by the cooperative movement in Kenya.

In terms of “Bridging the Last Mile”, the cooperative bank has developed a mobile platform that enables it to service customers, with a cooperative switch that connects SACCO members with the cooperatives. SACCO members can then run their accounts through a cooperative bank or agent.

With a large number of customers, cooperatives found that most clients were going to the branches for very basic needs.

They decided to launch a branch transformation and encourage customers to use alternative banking channels, such as agents and mobile banking. Today, 84 percent of their transactions are conducted through these alternative channels.

The implementation of new banking channels means that customers spend less time waiting in a bank queue. This is particularly important for SME owners that may need to close their businesses while they are running errands. The cooperative, Kwa Jirani (neighbor in Swahili), are the next-door agents with whom customers can make their transactions.

The bank’s 10,000 agents are also MSME owners that have a second line of revenue. The agents are empowered to sell through a salesforce effectiveness program. The SFE program entails training of the Agents, their employees and the bank agent support team on the expanded banking services offered by the agents. This includes account opening, insurance & loan application further to the normal transactional services of cash in & cash out.

The bank has been a beneficiary of the IFC credit programs with the latest being US\$15.2 million in January 2018 targeting the MSME sector.

The bank is also a beneficiary of the IFC SME advisory services currently ongoing since October 2016. The program aims at transforming the MSME services offering for co-operative bank.

Gulf African Bank (GAB)

The Gulf African Bank began operations in Kenya in 2008. At first, the bank struggled to define a structured plan vis-à-vis SMEs because it had people from different backgrounds and cultures. In 2014, the GAB signed a consultancy agreement with IFC that helped in segmenting its customers properly, specifically by analyzing and understanding the different types of risks and dynamics in each region’s markets. IFC also maintains an equity share in GAB.

During the first few years, the GAB doubled its SME portfolio. Today, its lending portfolio is 70 percent corporate and 30 percent SMEs — with plans to turn these numbers around, that is, with the majority of the portfolio going to SMEs. In this context, since every bank’s definition of SMEs is different, larger banks might view GAB’s clients as largely comprised of SMEs.

Considering that most SMEs tend to be family businesses or formed by sole proprietorships, they face the challenge of sustainability. With an expected short lifespan, owners often think that there is no need to keep proper books or records, especially since there is a great amount of fear surrounding the Kenya Revenue Authority (KRA). The lack of records also

poses an obstacle to lenders looking to finance this segment of the SME market.

Kenya's government has made improvements in some areas pertaining to SMEs and financial inclusion. Today, the Constitution states that 30 percent of all government contracts must go to women, youth and persons with disabilities. However, challenges persist, given that only 2 percent of the land in Kenya is owned by women. Moreover, men find ways of circumventing the 30 percent contractual rule.

The GAB has implemented a program that offers unsecured loans for women, youth and persons with disabilities that are backed by government tenders and Local Purchase Orders (LPOs). The first loan can be made for up to 3 million Kenyan Shillings (US\$30,000 equivalent). If it is successful, a second loan can be made up to 20 million Kenyan Shillings (US\$200,000 equivalent). These loans have the lowest default rate within the GAB's portfolio. Business Partners International (BPI)

BPI began operations in 1981 in South Africa as a risk capital financier, working as a complement to banks. Its mandate was to support the development of the small business sector through customized financial solutions, mentorship, and technical assistance in capacity building. BPI views itself as complementing the banks and other financial service players.

A pilot project was implemented in Kenya and Madagascar with the expertise of BPI in South Africa, and funding from IFC and two development finance institutions (DFIs). After the Kenyan project's 10-year fund successfully closed, new engagements were made in Namibia, Malawi, Rwanda and Zambia. Moreover, a permanent vehicle has been established in Kenya, Rwanda and Uganda, and the plan is to continue expanding the footprint to become truly pan-African.

Some SME challenges include capacity constraints, a lack of efficient financial management systems, and the inability to meet collateral requirements. Financiers seeking to work with these businesses must also become advisors, and this comes with a cost. BPI's model operates in this difficult space by providing interest-free capacity-building, technical assistance funding, and financing when there is no collateral.

BPI provides SMEs with financing at a price that could be higher than the market, but it structures its funding using mechanisms to include a mix of debt and equity. These self-liquidating instruments enable BPI to fund SMEs and still receive a return. The model has been successful, with 2,000 active clients and yearly disbursements of over US\$100 million. How to "Bridge the Last Mile"

The "Last Mile" revolves around how to develop the next set of products that can better serve SMEs. For instance, many SMEs have great ideas and capacity, but no collateral. It is also important to keep in mind that different segments of the population may have different needs. For instance, IFC is a partner and shareholder to one of the first Sharia (Islamic) banks in Kenya. Indeed, Islamic banking is becoming a significant segment in many countries.

The topic "Bridging the Last Mile" can be looked at from a variety of perspectives. From a physical distance perspective, it concerns how to go from cities to villages. From a technology perspective, it concerns how to do banking in new ways. From a product perspective, it may concern the design of new products to go beyond the old ways, perhaps encompassing a broader policy or environmental perspective.

Financial institutions have the challenge of working with some of the riskiest, important sectors of the economy. Indeed, education, health and agriculture are some of the most challenging sectors. For instance, if a school is taken as a security itself, a bank cannot shut it down in the event of a default. The same applies for medical equipment or seeds that did not germinate in a crop. In this regard, insurance companies may not cover some of the risks in these sectors.

Collateral issues need to be addressed. Even when there is collateral, it can be difficult to obtain compensation in case of default. Financiers need to provide financing to help SMEs deal with this issue.

Another challenge is how to build SME capacity and skills. For example, many banks shy away from Greenfield projects because they do not know how to assume such a risk.

NPL levels are higher in the SME sector. However, only a half or a third of the NPL levels actually translates into losses.

There is no simple answer as to how to segment SMEs. It is necessary to look at the economic structure and the nature of their economic activities. The new approach is not to segment based on annual sales turnovers. BPI defines SMEs as those who need funding from between US\$50,000 and US\$1 million.

International Financial Reporting Standard (IFRS) 9 presents a challenge because it requires banks to provide funding from the very start. In this context, the biggest problem for Kenya is the interest rate cap that came into effect in 2016.

Banking on Women – What is the Return on Investment?

Moderator: Colin Trevor Daley, Global Specialist, Banking on Women, International Finance Corporation (IFC)

Panelist 1: Chizoba Iheme, Head, Liabilities-Emerging Businesses, Diamond Bank

Panelist 2: Chanda Chime-Katongo, Public Relations and Communications Manager, Women's Banking Proposition and Corporate Affairs, Stanbic Bank Zambia Limited

Panelist 3: Maria Christina Gonzalez, Vice President, Risk Management, Banco Pichincha, Ecuador

Executive Summary

Commercial bank experience has demonstrated that banking on women is a sustainable and profitable business opportunity. Challenges in promoting women businesses arise both internally from within the organizations and externally from the larger ecosystem. Each bank takes a different approach in addressing these challenges, but non-financial services seem to play a crucial role.

Defining a Woman-led Business

IFC defines a woman-led business as a firm with either more than 51 percent women's ownership, or with 26-50 percent women's ownership in a business that has a woman Chief Executive Officer (CEO), Chief Operating Officer (COO) or Vice President (VP). If there is a board, 30 percent of the board structure would be comprised of women.

Banking on Women as a Business Opportunity

A report jointly produced by IFC, AXA and Accenture revealed that by the year 2030 the insurance needs for women will amount to US\$1.7 trillion.

A market research conducted by World Wide Worx in South Africa showed that 78 percent of female-run businesses are successful, compared to 69 percent of those run by men.

Typically, in Africa, a man is likely to borrow twice before a woman is able borrow once, thereby constituting another barrier for women.

Stanbic Bank of Zambia noticed that 26.7 percent of its ac-

count holders were women. On average, those accounts have higher balances and much lower levels of non-performing loans (NPLs).

Zambia has a population of 17 million people, 51 percent of which are women. However, a large proportion of them are unbanked, that is not served by a bank or other financial institution.

Banks in Peru have shown that the loan ticket for women is considerably lower than that for men.

Data has shown that women are very keen on saving money and purchasing insurance.

Diamond Bank made a case for a woman proposition based on the following: 41% of women in Nigeria are entrepreneurs, the highest number of female entrepreneurs in the world according to the Bill & Melinda Gates Foundation. Women are loyal customers who are more relationship than transaction driven. If satisfied, women customers are more likely to refer business through word of mouth advocacy and are also less likely to defect. But women are four times more likely to complain to others if they have a bad service experience according to a survey conducted by Trendsight Group.

Promoting Banking for Women

CEOs and bank executives commonly assert that they already provide the same products and services to both men and women, and that there is no reason to differentiate them. Others argue that they have invested in gender-differentiated products before, but saw no profit.

The position or role of the CEOs and executive team working at banks will determine how much attention is paid to women clients.

It is important that banks have a clear internal strategy, and that bank executives and boards see the benefits of reaching out to women clients.

Employing women in leadership and management positions can lead to greater focus on women clients. For example, Stanbic's staff is 42 percent female, and the executive team is 50 percent female.

Banks should have a socially responsibility strategy and show their commitment to increasing bank services to women. Pichincha was the first private bank in Ecuador to sign the United Nations Women's Empowerment Principles.

Gathering data is very helpful in formulating business strategies

and understanding women's banking needs. Personal account data is easily obtainable, but there is less information available about the women's business segment.

After launching Anakazi Banking, one of the challenges for Stanbic concerned the lack of sufficient knowledge among staff at the branches about the product as compared with the headquarter staff. Therefore, information about the offering and selling this product was included in the sales goals and Key Performance Indicator (KPI) dashboards. Top sellers in terms of the number of accounts opened are now being rewarded.

Banco Pichincha, with the aid of IFC, is now training its sales force on a nationwide basis.

Staff are receiving reinforced training to listen to customers and be more accommodating in understanding customer needs.

Regarding customer management, various channels will be used for existing customers, as well as for attracting potential new customers.

Stanbic has seen that Non-Financial Services (NFS) attract women to banks.

Diamond Bank's Experience

Diamond Bank of Nigeria works with women in business in terms of granting access to financial services, technology and information.

Diamond Woman is a Value Adding Proposition for potential and existing female customers of Diamond Bank, regardless of their product holding. It is not a product offering for women only. It is a proposition that deliberately seeks to identify some of the pain points of women in the pivotal areas of their lives and provide meaningful solutions to them. The proposition caters to women in all spheres of life. They include the homemaker, the entrepreneur and the professional.

Diamond Bank of Nigeria works with women in business in terms of granting access to financial services, technology and information also works with the professional and the homemaker to provide lifestyle benefits and other financial products.

Diamond Bank provides NFS, partnering with Google, Microsoft, Facebook and other organizations to help its clients in capacity building, training and financial retraining.

Every year Diamond Bank hosts the Beauty Souk, a beauty products and services fair, where women are able to sell their products, network and access the larger market.

For the past seven years, Diamond Bank has partnered with the Enterprise Development arm of the Pan African University under the Building Entrepreneurs Today Program. The program involves the training of over 50 SMEs, a large percentage of which are managed by women. At the end of the training period, five of the firms are awarded a \$8,333 USD (N3-million-Naira grant) grant ensuring that up to 40 percent of them are women businesses. Over 350 SMEs have been trained and 35 rewarded with the grant.

Diamond Bank is pro women. The CEO sits on the board of Women's World Banking (WWB), a global microfinance non-Governmental Organization (NGO) focused on financial inclusion for low income women. Diamond Bank worked with WWB to grant loans targeted at women using the Cashflow based Lending Methodology. This is in recognition of the cultural challenges women face in securing loans in Nigeria.

As part of its financial inclusion strategy, Diamond Bank developed the Beta Proposition and the Beta account. A product designed in collaboration with WWB, BETA Proposition for the Un(Der) Banked Woman in Nigeria, is driven by the need to avail access & deepen usage of formal and innovative savings options. BETA provides access to doorstep banking services from mobile sales and service agents known as BETA friends, in addition to branches and ATMs.

Women were not accustomed to putting their money in banks. More than 1,200 Diamond Bank field agents are now reaching out to women to help them to collect money to open accounts.

Diamond Bank discounts the interest rate paid by female led businesses, lower than the rate with their male counterparts.

The bank's complaint platform is the same for women and men, however the bank has a Diamond Woman Website where women can interact.

Diamond Bank launched a new platform for SMEs called the DiamondSMEzone at its TechFest. It's an Events and Learning Management Platform used in capacity building, Information Dissemination, Advisory Services and Social networking for SMEs

Stanbic Bank Zambia Limited

Stanbic bank is part of the Standard Bank group, which has been in Africa for more than 150 years. It is the largest bank in Africa in terms of asset size.

Stanbic works in Zambia with key players in different sectors,

such as agriculture, mining, energy, infrastructure and SMEs. The bank has found women to be a successful story of the SME sector.

The Zambian population is 51% female and a large number of these women are entrepreneurs.

Stanbic's women's banking proposition focuses on providing women with access to finance, knowledge and convenient banking services. In this context, Zambia's Central Bank has introduced key strategic partners to Stanbic as part of its effort to increase financial inclusion for women in particular. It became the first bank in Zambia to be part of the Global Banking Alliance for Women.

With the help of IFC and other key partners, Stanbic launched its women's banking proposition in 2017. Its strides to increase the size of its women's market share in Zambia. As a result of its efforts, it has been recognized numerous times by the national government and international bodies, and has received women's entrepreneur awards.

Within the first year, the bank had seen a significant increase in the number of accounts opened by women.

The banking solution for women was named Anakazi (Women) Banking, after feedback from several female client focus groups.

Reaching out to female clients is fundamental. Stanbic Bank gathered groups of women from across the country to understand what their banking needs were. It did not entail the redesign of their products to look more feminine.

Stanbic has given women a voice through a dedicated website for Anakazi Banking as well as the Anakazi Banking social media pages.

The provision of non-financial services has been important in attracting women to the bank.

Women can raise concerns, complaints and promote their businesses on the bank's platforms. Some lifestyle partners advertise their products to other female entrepreneurs. For instance, Shop Zed is a company through which women have a personal shopper and can have the products delivered directly to their homes.

One of the pillars of Anakazi Banking is access to knowledge and to increasingly work on NFS. Stanbic's female clients are very interested in the mentorship and training sessions. They have partnered with Babson College under the Goldman Sachs

10,000 Women Initiative to train and mentor 10,000 women by the year 2020. One of the events involved bringing experts from Babson College to Zambia to work with entrepreneurs, eliciting positive responses from both men and women.

Banco Pichincha

Banco Pichincha has been operating in Ecuador for 120 years, representing 28 percent of the country's financial market.

Ten years ago, the bank received technical support and guidance from various multilateral organizations to begin working on their women's business strategy.

Pichincha saw a great business opportunity in microfinance. Indeed, 50 percent of the micro-businesses are women-led, compared to 30 percent of SMEs.

The methodology entails financing with inclusive conditions. It is important to develop a close working relationship with customers, training them, and providing them with both financial and non-financial support. This helps customers to build their businesses, and scale them from microenterprises to SMEs.

Pichincha did not create a separate brand for women. Instead, a new lending product was designed that did not require the usual collateral and a husband's signature.

Regarding the working capital product, the length of the lending product was extended and grace periods were provided.

Products should be targeted to women, but be equally available to women and men.

Pichincha promotes different digital alternatives for its banking customers. With respect to women, however, they have found from their microfinance experience that women prefer person-to-person connections.

Innovations in Agri-finance

Moderator: Hans Dellien, Agrifinance Specialist for East Asia and the Pacific, International Finance Corporation (IFC)

Panelist 1: Norah Becerra, Senior Project Manager, Frankfurt School of Finance

Panelist 2: Faith Kamenchu, Head of Africa Operations, Farm Force

Panelist 3: Mina Stiernblad, International Business Manager, InspiraFarms

Panelist 4: Pamira Wineka, Co-Founder and President, TaniGroup

Executive Summary

Agriculture remains an important activity in emerging markets. With the assistance of technological devices, agricultural companies can significantly improve their management skills and business models.

The AgriTech companies help smallholder farmers obtain access to markets and finance through various online platforms. Moreover, these high-technology platforms can also help business managers to make lending decisions by scoring on the evidence provided by the farmer to a series of questions. However, sometimes banks tend to view the agricultural sector as a highly risky sector and are reluctant to provide large amounts of finance. In future, agricultural SMEs need to expand collaboration with more banks. An increased focus on the education of farmers and buyers is also needed. More importantly, to be more cost-effective, SMEs should combine technology to reduce their production costs.

Farm Force Innovations in Kenya

Farm Force is a Software-as-a-Service solution that simplifies the management of small-holder farmers, increases traceability and enables access to formal markets. It is used to efficiently manage outgrower schemes and contract farming programs. The system is cloud hosted therefore there is no need to employ an IT manager or purchase servers/ IT equipment.

The system manages geo referencing of the farmers locations, maps the area in production and determines specific condi-

tions of their production, including the type of crops/variety they are growing and the chemicals they are using to cure diseases. The system also gathers information regarding farmer complaints, pests and diseases through a survey.

Producers and extension managers can use the Farm Force mobile application to make conducting business easier. The Web application enables managers to see remotely producers' data, including the profile, yield forecast, total weight of each commodity purchase, and loans disbursed to which farmers /installments that are due/ payments made. In addition, the Farm Force also has a web platform on which banks can generate farmers' historical data and conduct credit scoring or evaluate which farmers are viable for a loan or vice versa. The mobile application is able to capture data offline and when the connection becomes available the data is synchronized to the cloud (web application) to enable managers to see what is happening in fields in real time.

The Farm Force team is not involved in day-to-day activities on the ground level. Normally, aggregators, cooperatives or farmer groups would deploy Farm Force and appoint extension officers or lead farmers who would manage the data entry responsibilities, (day-to-day field operations). The Farm Force team would conduct system user training, offer technical support and helps with the platform configuration and setup as required. They would help set up pesticides, fertilizer and seeds application rates (set the maximum dosage for a specific chemical according to the Pest Control Products Board (PCPB) label). It also provides instructions about harvesting times, farmer, crop variety and a harvest summary.

Indonesian Agrifinance Company, TaniGroup's Farm Platforms

TaniGroup aims to help Indonesian smallholder farmers in the two major issues they face: access to markets and access to finance. Through its e-commerce platform, TaniHub, farmers can sell their harvest to businesses such as restaurants, hotels, caterings, supermarkets, local markets and exporters. Their crowdlending platform, TaniFund, is designed to help farmers obtain more capital to expand their farms and increase their production.

TaniGroup is currently the leading AgTech company in Indonesia, helping more than 18,000 farmers, and working with more than 2,000 business clients. On average, the farmers collaborating with TaniGroup earn more than 30 percent of their previous income.

TaniGroup started off with TaniHub which experienced some difficulties when it started. First, it was very difficult to work with farmers because of their small landholdings and limited

production capacity. Second, convincing the farmers to sell through the TaniHub platform could be difficult as they had already agreed to borrow money from and sell their products to middle men. As such, they were reluctant to break their original contracts with the middle men.

TaniGroup found that traditional banks were reluctant to work with them either was it to finance their transactions with the clients or to finance the capital for the farmers to increase their production. This was because they were seen as a new company (less than 3 years) and with no collateral. TaniGroup decided to adopt a crowdfunding platform. They succeeded in helping farmers obtain capital and increasing their incomes by more than 100 percent.

TaniGroup believes that the success in its model is the focus on the demand side. One of its new strategies is to create markets through the TaniPreneur program which help individuals or groups with the financial ability to open their own restaurants, juice bars and fruit stores. TaniGroup provides free training, free menu list with recipes, SOP, designs and collaborates with banks for financing purposes. TaniGroup is growing quickly because of its collaboration with multiple banks in the development of a supportive ecosystem.

The Business Model of Frankfurt School of Finance and Management—The "ALES" System

One of the important tools that separates the Frankfurt School's business model from others that it provides technical assistance and training to financial institutions at all levels. Traditionally, lenders spend a substantial amount of time assessing loan applications, and even more time preparing tailor-made credit proposals for review and decision. With the emergence of a new automated credit assessment, both time and money can be saved.

"ALES" is an electronic platform developed by the Frankfurt School. It enables banks to expand their agricultural lending to farmers and agribusinesses by automating the credit assessment process. Currently, such automated systems are mostly used for consumer and small business lending. However, considering the relatively high costs of conducting assessments for agricultural clients, an increasing number of banks are identifying opportunities for automating parts of this process. The Frankfurt School platform provides an efficient and standardized scoring tool for agricultural loans. Banks utilize loan officers, who may have limited knowledge of agriculture. By contrast, "ALES" is tailored to each local set of circumstances, using local agricultural information that is updated regularly to ensure its accuracy. The system is also tailored with respect to issues of risk appetite, policy, and lending strategy of the financial institution in question.

ALES's work mode is built on the development of tech cards, which incorporate local agronomic data. These provide an overall average expense and income figure for each specific crop by sub-region. Tech cards are developed by the financial institution based on the key agricultural commodities in their region. They include information about the working capital needs for one hectare of land for each commodity in question, along with income assumptions. This enables gross margins for each commodity to be calculated, which is critical to ALES's quantitative analysis. ALES has so far shown impressive results, with significant expansion of lending to agricultural sectors where it's been utilized, along with high levels of portfolio performance.

ALES can also be used to make lending decisions. It includes productivity questions, which focus on identifying the structure and features of the farmer or agricultural enterprise. This will include the numbers of years of experience, the number of years spent growing a particular crop, ownership and investment in the land and machinery, irrigation, and water usage and access. This data helps identify good farmers. Scoring is based on the evidence provided by the farmer to these questions. Only a farmer who meets an acceptable productivity standard will be considered suitable for borrowing. Moreover, upon entry of the loan application details into ALES, it automatically calculates the working capital needed, and the most likely yield and income. It then produces a report which provides suggested loan limits for each type of product requested.

The biggest advantage of the ALES system is its ability to assure consistently applied credit assessment rules and decisions for the specific crop and region in question. In this way, it ensures that lending decisions are based on the quality of an individual farmer, while applying the bank's portfolio limits on agricultural sectors.

InspiraFarms

With food security becoming more important and intensified by climate change — and with the incidence of food-borne illnesses on the rise — producers in the developing world have a vital role to play. However, without adequate support and access to reliable sustainable energy, these smallholder farmers will miss out on substantial economic and social opportunities. And the world will miss out on the 2.8 billion tons of food produced by the developing world each year.

InspiraFarms provides small and growing agribusinesses with turn-key solutions that significantly reduce produce loss, cut energy costs, and improve market access. Whether on or off the grid, InspiraFarms' energy efficient cold storage (which meets European export standards) and food processing plants come with a food safe certification and are equipped with re-

remote performance monitoring software and energy back-up systems.

InspiraFarms offers modular plants that grow and move with producers. It also offers technical support, warranty, and flexible leasing terms to ensure returns on investment.

Successes and Challenges for Agrifinance Companies

It is important to incorporate aggregators rather than individuals into the business system. By doing so, companies can better manage farmers' activities while blocking irrelevant information, such as selling and buying site locations. In addition, companies also need to focus on traceability so that they can know farmers' planning conditions.

The education of farmers and buyers is very important. Companies should care more about the fulfillment rate, which is the acceptance rate of the goods delivered to customers, because it concerns the quality and quantity of products. As such, it is necessary to spread the knowledge of how to produce good quality crops at scale among farmers. In addition, buyers should be educated to understand that the products are harvested by farmers utilizing sustainable practices. In other words, low prices should not be their sole focus.

Banks tend to view the agricultural sector as a highly risky sector. However, it is possible to convince them, that when managed appropriately, an agriculture loan portfolio can be profitable. Indeed, many financial institutions introducing these kinds of tools are finding that their agriculture loan portfolio outperforms other sectors. In this context, many financial institutions are also introducing various tools to better evaluate the performance of the agriculture loan portfolio, perhaps better than in other sectors.

Banks can sometimes question the accuracy of data. The data monitoring the agricultural products is collected by Global Positioning System (GPS), which only provides information on the location. Therefore, banks do not have access to the entire data entry and tend to provide more limited loan options.

Enlarging the farmer base can be difficult for agricultural companies. For example, TaniHub only acquires farmer clients based on the recommendation of the existing partner farmers, which makes for very slow increases in client acquisition. Companies will therefore need to implement all the scoring methods available with any kind of technology as a means to acquiring more farmer clients.

Sometimes buyers lack knowledge about how to properly

store and transport food products. Despite the higher quality and good price, vegetables can easily spoil if the buyers fail to provide cold storage. Thus, it is equally important to educate the buyers.

Findings and Recommendations

Indonesia can be a good example for African banks to follow. Most of the banks in Indonesia are not deleveraging. Rather, they are trying to work together with more start-ups to build a larger ecosystem. With the establishment of such an ecosystem, banks can more readily monitor and trace farmer activities and loans. In this context, the Indonesian government requires all banks to provide more than 50 percent of their loans to SMEs and the productive sectors.

In future, the AgTech companies need to collaborate with more financial institutions, especially multilateral institutions, such as the World Bank. For example, TaniGroup has reached the limits of its lending from most of the banks in Indonesia. Also, it is unrealistic to continuously ask for collateral from technological companies.

It will be more cost-effective if companies can combine the technology to reduce their staff costs. For example, one person who used to monitor 10 hectares might now be able to monitor 100 hectares with the support of sensors and technology, thereby improving the efficiency of production and management.

Fireside Chat on Accelerating Innovation Through Sandboxes: Lessons from Singapore and the ASEAN Financial Innovation Network (AFIN)

Moderator: Rachel Freeman, Advisory Manager, Financial Institutions Group, Asia Pacific, International Financial Corporation (IFC)

Panelist: Sopnendu Mohanty, Chief FinTech Officer, Monetary Authority of Singapore (MAS)

Executive Summary

Singapore has revolutionized and accelerated innovation through the utilization of regulatory sandboxes and various digital platforms. Moreover, the country has learned to rethink regulations and explore best practices in support of the FinTech ecosystem in general, and FinTech in particular

Definition of FinTech

Singapore is an advanced economy and a large financial center. FinTech is anything in financial services that is transformed or reimaged using technology. Whereas in the Western narrative, FinTech has centered around lending, payments and disruption, in Singapore, the narrative has been how to bring technological innovation into the entire sector, in effect, reimagining the whole FinTech space.

Singapore's FinTech Policies

Singapore has 10 digital policies or enablers centered around FinTech:

1. Trusted digital identity. This is a starting point for any policy maker. Since the individual cannot be physically seen, there must be a way of building a trusted digital identity. The Indian case of building identity is a good example.
2. Trusted digital data hub. Policy makers should build trust-

ed data around trusted identity.

3. Customer consent architecture. Once some of the data can be trusted and somehow curated by the government, consent must be provided for any data to be used by a third party FinTech, or other party. If these 3 steps are not established from the start, then FinTech becomes a temporary narrative in the space.
4. Public infrastructure for the digital economy. Why should banks spend money identifying customers? It could be a public responsibility to have distributed ledgers to verify customers.
5. Data residency policies (open, privacy, ethics). Countries are becoming nationalistic when it comes to sharing data. Data should be open, but privacy must be maintained. Furthermore, ethical standards on how to use the data should be considered. This avoids causing any unanticipated, adverse consequences.
6. Scaled computing. (cloud, quantum and edge computing) Central banks must think about building policies around the cloud, quantum and edge computing.
7. Open architecture (Application Programming Interface (API) driven). SME digitalization can begin when various sectors mix data using pipes.
8. Talent and entrepreneur growth capital. The issue of a talent deficit must be addressed. Policy makers, banks and Chief Information Officers (CIOs) may need to work on upgrading their skills. This includes capital provided from the start. For example, MAS gave US\$ 25 million in risk capital for startups seeking to innovate.
9. Policy making through experimentation and empirical data (Sandbox). Technology moves at the speed of 6 months, whereas developing public policies (through white papers) may take as long as 3 years. Policy makers need to switch to experimentation.
10. Cybersecurity. If there is no strong cybersecurity policy, the whole digital narrative will collapse. It is possible that the next financial crisis may be a cybersecurity crisis.

Singapore has a very small market of 5.5 million people. FinTech companies move there for policy support and testing of their products. They then use this experience to export to other markets.

SMEs are small, but they dream big. Only the digital economy platform can help SMEs realize their dreams. The public-sector infrastructure, such as an inclusive marketplace platform, can bring together the entire ecosystem, creating new opportunities for SMEs.

Globally, 5,000 FinTechs exist, and only 5 percent have gone beyond their domestic market. Even Alibaba, for example, does not run a platform outside of China. Fin-

Techs are all domestically-driven.

The ASEAN Financial Innovation Network (AFIN)

Source: Monetary Authority of Singapore.

In addressing the problem of FinTech companies moving beyond their own jurisdictions, MAS proposes an open platform in the cloud allowing FinTechs from around the world to connect with each other. Indeed, MAS has imagined a platform whereby banks can connect with each other directly, facilitating lending across borders. This soon-to-be launched platform was created by the International Finance Corporation (IFC) and 15 partner banks and will connect 10 Asian countries. This is what is called an "Industry-Partnered Sandbox".

The platform connects the private FinTech innovators to the banks who have a legacy system and who previously could not connect with FinTech entrepreneurs. As such, this partnership has the potential to transform the ecosystem. It does not crowd out the private sector. Rather, it is helping FinTechs to succeed in this sector. Banks spend US\$500 billion on technology annually, and almost 40 to 60 percent of the large technology companies come from the financial sector. However, the financial system has the oldest technology. Thus, FinTech companies will unbundle the legacy companies and create a new ecosystem. The real FinTech disruptors are the technology companies, not the banks. These FinTech companies will unbundle the financial services, write the software, come to the platform and build a new ecosystem.

Trust, financial instability, cybersecurity issues and cross-country data flows are some of the concerns of regulators with respect to this new platform. MAS has conducted workshops with regulators and invited them as observers to address this issue.

The Sandbox Approach

The Singapore-based sandbox is a regulatory sandbox, not an industry sandbox. Banks and FinTech companies from all over the world are invited to the sandbox when they have compliance risk issues. If no policy barriers are found, they are encouraged to continue with their business. If there are policy challenges, MAS works with them for a period of 6 months and then tests a new approach with them.

Source: Monetary Authority of Singapore.

This FinTech platform will help each of the countries in adopting best practices, and the data collected from it will be used to educate policy makers.

Many central bankers are very progressive. In ASEAN countries,

for example, no policy barriers are expected for now.

The biggest challenge of the banking sector concerns the middle office. The FinTech platform will address this risk management component in the middle office function by improving credit-discerning practices.

The sandbox allows banks of all sizes from any country to experiment without risk of failure. Indeed, it is a collective effort to select the best opportunities in connecting this platform.

The role of public infrastructure is fundamental, and a Fintech company cannot provide an e-Know Your Customer (KYC) facility for every bank

In Singapore, 70 percent of the population — and soon 100 percent of the population — can open a bank account in less than five minutes. This works because of a combination of the following: a trusted ID; a trusted data hub; and electronic consent architecture. People can click on any account opening page of a bank, and then their national ID from a trusted government database is verified through an API with electronic consent. This is achieved using a live platform that connects the public database with the banking system. Singapore provides 30 real-time verified data items. It is shared with everyone, but a basic protection is ensured.

Know Your Customer (KYC)

An estimate shows that almost 30 percent of banks' expenses are attributable to verifying the customer's identity. As such, banks have created the e-KYC function.

Singapore's next effort entails the building of a shared private-public partnership for corporate KYC.

To date, Ubin is the largest blockchain experiment conducted by any central bank. Eleven financial institutions, blockchain platform providers (including Hyperledger, Corda and Quorum) and MAS are working together on this project. The main focus is on how to tokenize the Singapore dollar, and once tokenized how to use it for domestic wholesale payments, as well as overseas. It could also be used to buy securities. The team of 40 people is in the third phase of conducting cross-border transfers using the tokenized Singapore dollar.

MAS is the only central bank that has contributed to developing code for the public infrastructure GitHub. MAS can now empirically prove that blockchain is the best option for cross-border payments. If policy makers do not participate in this activity, then poor policy choices may result. This experiment allows for the flexibility and opportunity to work with the industry in a much more thoughtful way.

MAS has started to establish the only production blockchain

platform in Hong Kong SAR, China and Singapore, called Global Trade Connectivity. It uses data from companies and inputs it into a blockchain platform using customs, logistics, and supply data. Banks can then directly plug into the platform, in real-time, and conduct trade finance.

In Singapore, a free payment system is now available — even faster than Alipay — using public infrastructure. It involves the following steps: entering the sender's mobile phone number, entering the recipient's phone number, the payment amount and the password. Singapore is also looking at deregulating the entire payment infrastructure payment policy.

Re-Thinking Payment Regulation

MAS proposes the re-thinking of payment regulation by breaking down the regulation according to the activity. Any company doing performing that particular activity will follow a limited regulatory obligation. This brings down the cost, helps better manage the risk, and captures a bigger canvas of unregulated activities. Furthermore, it will allow FinTechs to raise more capital.

Having run the sandbox for three years, MAS has found that 95 percent of the FinTech companies who come to it do not need any regulatory guidance. Indeed, what the companies are doing is already within the regulatory expectations of Singapore.

Recommendations

Most regulators are quite open to the idea of experimentation. However, the people interpreting the regulation, including the lawyers or compliance officers, are not.

There are concerns about the overreliance on models with flawed assumptions since it is believed to have been one of the contributors to the financial crisis. However, there was no sandbox when the global financial crisis happened. Also, the current practice of testing the model before it becomes large and unsustainable can help mitigate such risks.

The history of the sandbox comes from the pharmaceutical industry. It is now using the sandbox process to quickly release drugs and save millions of lives.

Singapore's recommendation for other countries is to start their own revolution by helping the bankers associations to work together, building a partnership with the regulators, and bringing the regulators to a confidence level where they can start to experiment and integrate FinTechs and young people into the discussion. Sharing best practices among all stakeholders is also important.

The Singapore FinTech Festival brings about 30,000 regulators, policy makers and technology companies together every year. They can accept another 20,000 from Africa.

Unless policy makers build a trusted data hub, allow for APIs, and put the right policies in place, the digital economy and digital platforms will remain just a dream.

Women central bankers tend to be more sympathetic to these issues. More women are needed to join the discussion and provide more diverse thinking.

Panel on Examining Business Opportunities of Non-Financial Services

Moderator: Anushe Khan, Senior Operations Officer, Financial Institutions Group, International Finance Corporation (IFC)

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) technology. 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.

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.

Digitization in Trade Finance: India's Experience

Moderator: Matthew Gamser, CEO, SME Finance Forum

Panelists:

Porush Singh, Country Corporate Officer, India & Division President, South Asia, Mastercard

Praveen Khandelwal, National Secretary General, Confederation of All India Traders (CAIT)

Executive Summary

India has achieved significant success in the digitization of business transactions. Despite people's tendency to pay with cash, the national government changed its policies and withdrew some Rupee banknotes from circulation in late 2016. This provided a significant impetus to the development of digitization. Thanks to strong government support and smart policies, widespread digital transactions have become possible across India, and both merchants and consumers have reaped benefits from this process. However, bank charges for digital payments remain a major deterrent to increased usage. These charges range between 1-2 percent, as compared to SME profit margins of 3-4 percent. As experience from India shows, the establishment of a regulatory mechanism and the involvement of the non-banking financial sector are both necessary for the development of the digitization of business transactions.

SMEs in India

SMEs constitute one of the most important sectors of India's economy. With 60 million enterprises in 2016, SMEs accounted for approximately 30 percent of the country's gross domestic product (GDP), employing 400 million people. Yet only 7 percent of SME financial needs were met by the formal banking sector. (The remainder of SME financial needs were met by informal means, including family members and friends). This means that 93 percent of SMEs lack financial and digital inclusion in India's overall economy.

Previously, most business transactions in India were conducted in cash, accounting for 95 percent of total transactions. Merchants and consumers alike did not want to shoulder the

additional costs associated with digital payments and preferred to use cash instead. The merchants also had to pay for the device to process digital payments, which did not make much financial sense given the low volumes of digital transactions.

Impact of Government Policy Changes in India

Policy changes by the Indian government have had an enormous impact on the development of mobile transactions. For example, in November 2016, seeking to eradicate black money and corruption, Indian Prime Minister Modi announced that 500 and 1,000-Rupee (US\$7 and US\$14 respectively) banknotes would be withdrawn from the financial system virtually overnight. This represented 86 percent of the country's currency. Due to the sudden unavailability of large amounts of cash, the announcement prompted about 40+ percent of SMEs across the country to adopt digital transactions. Consumers also began to favor digital transactions because of the shortage of physical money.

The Indian government developed several policies to promote digital transactions. The government encouraged each citizen to open/own a bank account and a national biometric identification (ID) called Aadhaar. The government then leveraged the mobile ecosystem, particularly because India already had 1.3 billion mobile phone holders and about 350 to 400 million smart phone users, which will reach 700 million by 2022. Indeed, the use of mobile phones has made it possible for small traders to become digitally conscious.

Strong government support for the use of digital transactions makes India unique. For example, India's government was able to cover the cost of certain fees associated with digital payments for small merchants for a period of three years, a situation rarely found in other markets. This helped to make digital transactions for even very small amounts possible.

India made two extraordinary efforts with regard to the development of digital transactions. India is the first country in the world where the Quick Response (QR) Code is interoperable. In particular, BharatQR, which was developed by the National Payments Corporation of India, Mastercard, and Visa. It is an integrated payment system that only requires a single QR code to access all payments. Indian users will receive more value from digital transactions for their businesses with the introduction of Goods and Services Tax (GST). There will be incentives in the form of cashback for payments digitally.

In this context, one of the major reasons why the Indian government decided to enable the discounting of digital transactions is to enlarge the country's tax base.

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potential and Challenges With the available platform for digital transactions, there is potential to create infrastructure to enable the widespread use of digital transactions. However, the cost of the device to process digital payments needs to be lowered. The government should work toward making all payments interconnected, which in turn will facilitate the e-Know Your Customer (KYC) requirement in a quick manner using Aadhaar. Last, there must be a policy in place to make receivables and payables far more transparent.

Women can also be increasingly brought into the system, particularly those 33 percent of Indian women who are self-employed, small merchants. In this context, it should also be noted that 75 percent of all purchasing decisions are made by women in India. Thus, women should be targeted in the development of the digitization of the payment system and trade finance.

As SMEs go digital, it will be increasingly easier to make more data available to the financial sector.

Bank charges on digital payments are a major deterrent in the use of digital transactions in India. Neither merchants nor consumers are willing to pay bank charges. Bank charges range between 1 and 2 percent, as compared to SME profit margins of 3-4 percent. Therefore, if bank charges remain in place, digital adoption will slow. However, the national government could institute a subsidy and pay bank charges directly to the banks. Thus, there would not be any levy of bank charges on either the merchant or the consumer.

Policy Recommendations for Africa

Establishing a regulatory mechanism, such as a digital payment board, is the first step. Furthermore, for developing countries with low literacy rates, it is necessary to launch a mass awareness campaign about digital payments. The less developed cities should be especially targeted. Also, incentives should be provided by the government for each usage of digital payments, especially for the initial four or five years. In addition, bank charges should be kept at a low rate. Later, as transactions grow, the discount rates should continue to decrease.

Cyber security systems are essential to protect the transaction ecosystem. More importantly, policy makers should focus on creating a SME lending ecosystem to promote digital payments, and allow for the monitoring of different categories of loans.

Digitization itself can help pay for the process. If even 10 percent of the systems can be digitized, it would mean a 27 percent increase in value. That 27 percent is more than enough to pay for all the systems, as in the case of Hong Kong SAR, China

and Singapore.

The digitization process cannot proceed further without involving the non-bank financial sector. In acting as actual lenders to SMEs, non-bank financial companies and microfinance institutions should also be allowed to become an integral part of the digital payment system.

Enabling SME Growth through Franchising

Moderator: Amrei Botha, Senior SME Banking Advisory Service Specialist, Financial Institutions Group, International Finance Corporation (IFC)

Panelist 1: Michael Makau, Head, Business Banking and Asset Finance, Commercial Bank of Africa

Panelist 2: Kendal Tyre, Partner, Nixon Peabody and Co-leader, Franchise Team

Panelist 3: Azam Samanani, Shareholder and Managing Director of Hoggers Limited

Executive Summary

With their proven business models, management expertise and established brands, franchises represent important opportunities to increase the number of SMEs in Africa. As the economies in the Africa region continue to grow, a significant number of franchises are now operating in many more African countries. Moreover, since franchising represents a lower business risk, the number of franchises in Africa is expected to grow.

The franchising business also faces numerous challenges, ranging from the limited amount of working capital to slow returns on investment. Also, the lack of intellectual property rights protection in Africa has raised concerns from international franchises. In the future, to accelerate the development of franchising, banks should be more forward-thinking, and franchises should be more mindful of their relationship management with financial institutions and intellectual property protection.

The Basics of Franchising

The franchise industry market is saturated in Western economies. As a result, there is a real effort to expand these systems internationally.

As the economies in the Africa region continue to grow, and many countries become more stable, foreign investment is increasing. Also, with the rise of middle classes with disposable incomes, international franchisors are increasingly interested in entering regional markets. In this regard, the middle class is larger in Africa than in India, which has a larger population. As such, growing number of franchises now operate in an in-

creasing number of African countries.

Ninety percent of businesses in Africa are SMEs. As such, the expansion of franchising could have an enormous impact on SME growth, foreign direct investment and general growth in the economy.

The franchise industry has many positive development impacts in terms of job creation and contribution to gross domestic product (GDP) growth. In South Africa alone, the franchise sector employs approximately 400,000 people through 757 franchise systems and their 35,111 franchise outlets. The sector contributes 13.3 percent to South Africa's overall GDP. The franchise industry's turnover was estimated at South African Rand 587 billion (US\$ 41 billion equivalent) in 2017, compared to R465 billion (US\$ 32 billion equivalent) in 2014. This is a testament to the positive growth rates that the sector has experienced in recent years.

Franchising often entails lower business risks. Research shows that average business failure rates can be as high as 85 percent, whereas in the case of franchising it drops as low as 15 percent. This significantly reduces the risks associated with starting a business, as well as the financial attractiveness of such ventures to financial institutions.

It is important to understand the various characteristics and categories of franchising. The three M's represent the basic characters of franchising: Mark (license), Money and Marketing. As such, it is important for merchants to consider the franchise laws under every jurisdiction. In addition, different types of franchising exist. For example, a single-unit franchise, although not common in international franchising, gives one individual the license to operate one particular unit. The master franchise provides an entity or an individual with the rights to an entire country or region. They in turn can provide sub-licenses, acting as a franchise organization within their own country. Also, there are many types of franchises beyond the food industry. For example, they may involve educational tutoring, the automotive industry, childcare and professional services.

There are a number of franchise associations that provide information and assistance for franchising opportunities in Africa, including the Egyptian Franchise Association, the Nigerian Franchise Association, the South African Franchise Association, and the Pan-African Franchise Association.

Franchising Challenges

There are three major challenges for the franchise system, including access to finance, access to supply chains, and enforcement of intellectual property.

Supply chains can be problematic in Africa, often involving hundreds of suppliers to run a small franchise, overwhelming the owner with administrative tasks.

Intellectual property protections may be absent in some African countries.

From the financial perspective, franchisees often lack the level of working capital required by banks. Due to the traditional thinking of some banks, franchises can find it difficult to secure appropriate financing unless they can provide collateral. In addition, franchises are mainly concentrated in urban areas, creating a misleading image of being expensive. This discourages most of the population in Africa from contributing to the business. Moreover, in Kenya, for example, people in urban areas only account for 20-25 percent of the total population. Efforts to establish copycat businesses can also cut into franchise profits.

In managing these challenges, banks should be more forward-thinking, and should train their relationship management teams. Relationships between bankers and franchises should be fostered to help bankers to appreciate the difference between traditional businesses and franchises.

Franchises face difficulties in securing finance because of the relatively slow rate of return on investment, compared to other opportunities such as real estate speculation. For example, in a restaurant franchise that is doing well, you might earn a 20% return on your investment, and get your money back in five years. Continuing in the same business for another five years, after a modest renovation, would then yield an excellent subsequent return, potentially as high as 300 or 400% per year, but only after the first five-year break even. Banks that are unaware of the business model are reluctant to provide financial support to franchises because they do not have enough experience.

Sometimes franchises may find the terms of finance unrealistic. For example, a restaurant under ideal running conditions can earn a net profit of 20 percent, whereas the rate at which banks are normally comfortable lending to SMEs is also 20 percent. Therefore, franchises are only able to pay interest, without being able to pay off the principal.

Franchising, targeted to the bottom of the pyramid, where there is an exploding consumer base, is probably the biggest opportunity in Africa, and that is where FinTech and innovative banks can really make a difference. FinTech, in particular, has the ability to assess risk in a totally different way.

Financial and Regulatory Challenges for the Development of Franchising in Africa

It is important for franchises to understand the local conditions and accommodate local tastes. For example, when Kentucky Fried Chicken (KFC) was looking to expand its business in South Africa, it could not find sufficient poultry of good quantity and quality. KFC currently sells about 10 percent of the commercially available poultry in the country, which is an enormous proportion for a single business to consume. Thus, franchisors should be comfortable in accommodating local conditions and supply chains.

Despite the absence of franchise-specific laws across the African continent, there are many laws that can impact franchising. These laws vary greatly from one country to another. For example, there are transfer technology laws in Ghana and Nigeria to govern the transfer of know-how to the local population. Mozambique's laws are based on the Portuguese legal framework, and look at franchising as an agent. Therefore, it is necessary for franchises to fully understand the legal environment in which they may be operating in the event of takeover or shutdown attempts against their businesses.

The lack of intellectual property rights protection has raised concerns from international franchises. A basic understanding of any franchise arrangement is that the intellectual property of the franchisor is licensed to franchisees for a limited time and under certain terms and conditions. The "rule of law" is critical to maintaining any franchise agreement and protecting property. Without the franchisor's ownership of its intellectual property, the franchisor would have no interest in teaching a potential competitor its proven trade secrets. Concerns over the weak protection of intellectual property in Africa have been expressed by several brands, such as McDonald's and Starbucks. Moreover, examples of recent court decisions underscore the fact that intellectual property expertise varies within Africa.

SME Growth Opportunities in Franchising

There is great potential for African countries to develop more local franchises. Out of approximately 10,000 different franchise concepts in the world, only 3-4 percent originate in Africa, and 98 percent of them are concentrated in Egypt, Morocco, and South Africa. Thus, there is tremendous opportunity for a unified franchise industry umbrella organization to be established, especially one that addresses local concerns. In addition, efforts should be made to develop indigenous brands/franchises, allowing the industry to grow at a faster pace.

Lessons and Solutions in Managing Non-Performing Loans to SMEs in Africa

Moderator: Paula Maria Felipe, Senior Risk Management Specialist for East Asia and Pacific, International Finance Corporation (IFC)

Panelist 1: Stephen Mwaura, International Consultant, Central Bank of Kenya (retired)

Panelist 2: Janet Geddes, GBRW Consulting

Panelist 3: Dr. Habil Olaka, Chief Executive Officer (CEO), Kenya Bankers Association

Panelist 4: Syed Abdul Momen, Head of SME Banking, BRAC Bank

Executive Summary

To successfully manage non-performing loans (NPLs), it is necessary for a lender to have the right approach, specifically to develop good governance, choose the right business model and make accurate pricing decisions. It is also important to ensure that there is proper understanding of customer information and that the right data is being used in developing scoring models. Moreover, there is a need to realize that NPL management is a people business – the bank's people have to deal with real people, real borrowers.

Current NPL Situation in Kenya

From 2012-2016, Kenyan banking industry assets experienced significant growth. The rapid growth of the banking industry's assets has been occasioned by a double-digit growth in credit to the private sector. From an annual average high of nearly 26 percent, private sector credit growth rate has subsequently plummeted to single-digit levels. Regarding the evolution of NPLs, there was a rise in rates following stable levels between 2011 and 2014. This relates to what is a broader weakness in the rest of Sub-Saharan Africa, where the day-to-day growth in NPLs has risen.

Causes of NPL Level Increases

Causes Specific to Kenya

Credit toward government-driven growth is associated with delayed payments.

Some economic sectors have been affected in Kenya, particularly tourism, which is very sensitive to the political situation in the country, including incidents such as the Westgate shopping mall attack.

The expansion strategy among market players from 2004-2014, was associated with heightened risk appetite on the part of the banks.

The eventual slowdown in the rate of credit growth on the back of market volatility resulted in three large bank failures (2015-2016), resulting in more cautious asset classification and attendant volatility.

The slowdown in economic growth in 2017 has implications regarding expectations about private sector credit, and how this could influence the NPL position of the banking sector.

The year 2017 was a challenging year for the banking sector in Kenya due to numerous factors, such as the droughts that affected the food supply and a very prolonged government election, negatively impacting economic activities.

General

A study by Nelson M. Waweru and Victor M. Kalani identifies three causes of NPLs. The first cause is the national economic downturn or "external factor". The second cause concerns customer failures to provide high quality information during the loan application process, that is, the "customer specific factor." This has implications for the ability to score the borrower. The last cause is that banks lack an aggressive debt collection policy, that is, the "bank specific factor". There must be a good policy or agreement in place on how to collect debt.

The housing bubble in the United States (U.S.) was a lesson about the need to be very cautious about easy credit.

Information asymmetry causes bank failures, whether banks are using technology or traditional methods. For example, if there is good information for 10 percent of the loans, the remaining 90 percent of loans will be a problem. If a bank borrowed from 100 lenders and none of them is talking to one another, what stops the customer from borrowing excessively from multiple providers. As a result, the bank may have an exposure of \$100,000, when the bank was only capable of having an exposure of \$10,000. Thus, those who have capital in the bank are exposing themselves to unnecessary risk. At the macroeconomic level, this is suicidal for the economy at large as it creates banking sector instability.

Many financial institutions have a problem in extending credit because they are not able to score their borrowers very well.

Institutions must be very careful in managing and mitigating information asymmetry, and to price in the related risks, even with the benefit of technology.

NPLs are very similar all over the world. One of the causes of NPLs is fraud from the borrowers and in some cases from some of the bank staff. Strong institutions are characterized by strong management with adequate capacity to ensure effective corporate governance and internal controls to mitigate operational risks. The use of technology for instance linking credit and debit cards to mobile phones has enhanced fraud detection and prevention.

Key Issues for Analysis

Given the link between economic performance and private sector credit growth, there is need for a better understanding of the relationship between NPLs and the business cycle.

The link between NPLs and public sector-driven growth must be analyzed, particularly when it comes to the management of NPLs associated with lending to agencies doing business with the government.

The regulation that capped interest rates resulted in banks being discouraged from lending to the private sector because it prevents lenders from implementing proper risk-based pricing practices. It is critical to understand the connection between this form of regulation and the quality of assets. It is also important to understand the link between this form of regulation and the pooling of assets

The market is currently leaning toward short-term credit. Banks prefer current assets and transactional accounts as opposed to fixed account deposits. This has negatively impacted on economic performance. More consideration is needed regarding how this phenomenon affects NPLs.

There are regulatory issues that could have an impact on asset quality. For instance, in January 2018, International Financial Reporting Standards (IFRS) 9 replaced International Accounting Standards (IAS) 39. The critical difference between IFRS 9 and IAS 39 lies in the way in which impairment on financial assets is recognized. IFRS 9 introduces the Expected Credit Loss model that replaces the Incurred Credit Loss model under IAS 39, and requires recognition of expected loss over the life of the asset in the event of asset quality deterioration. Basel principles have driven banks to ensure credit exposures are managed proactively and priced appropriately so that they

generate the desired returns given the related capital charges on exposures.

Bangladesh's Experience with NPLs

The BRAC Bank has been conducting small business lending for 17 years with loan amounts ranging from US\$3,000-25,000. In 2015, it disbursed 63 percent of all collateral-free loans in the industry. Currently, it holds a 37 percent market share of the collateral-free small business portfolio. Currently, it is the most profitable bank in Bangladesh.

The key to BRAC Bank's success lies in the continuous development of its business model, product features, governance culture and product pricing.

BRAC Bank started its collateral-free small business lending journey by embracing the model of BRAC NGO's microfinance operation which helped the Bank to rapidly grow its small business portfolio and footprint across the country. However, this model started showing very high NPLs after 5 years of operation due to lack of governance culture at field level. In 2009, BRAC Bank changed its small business lending model again where loans were given for longer tenor which resulted in low repayment rates from its borrowers & a very high portfolio growth. A separate team collected the debt and had no relationship with customer lending. In 2013, BRAC Bank transitioned to a new model where the Bank established strong governance, including a monitoring team. The key success factor of the model is accountability both at the Area Credit Manager (credit) and Customer Relationship Officer (business) levels, which has resulted in better quality loan booking as well as stronger collection.

Designing the product specifically for its customers, including competitive pricing, has allowed BRAC Bank to attract higher quality clients.

During BRAC Bank's experimental years, the NPL level reached around 15.6 percent. In recent years, this level has dropped to 2.6 percent. BRAC Bank's collateral-free portfolio is much better than its collateralized book. The collateral-free NPL rate was 17 percent, and has now decreased to 1.9 percent, and the PAR (portfolio at risk) has also dropped from 22.7 percent to 3.1 percent.

BRAC Bank is planning to transition to Fintech, moving away from its very high cost business model. BRAC Bank wants to design a scoring model and a scorecard in collaboration with its area credit managers.

Managing NPLs

NPLs are normal in the banking business. Every bank should

develop experts in NPLs, and these loans should be maintained in one unit, separate from the bank's regular lending business. One mistake that banks make is losing NPL expertise during good financial periods. Suggestions for improving expertise include recording it, having video group discussions, bringing people back to mentor others, and collecting data.

Bank procedures must be the same for every NPL in every department or branch. In this context, banks should bear in mind that customers speak with one another and follow social media reports.

The key to managing NPLs is to recover as much cash as possible for the bank at a reasonable cost, time and risk. IFRS9 implies that time is money.

Whatever a bank decides to do, the balance sheet must be stabilized. If it is not stabilized, then regulators, shareholders, and depositors lose confidence in the management of the bank. One example is Kabul Bank, in Afghanistan, that ran out of cash because customers launched a panic run on the bank, taking all of their money out of the bank. It was definitely insolvent, but had the balance sheet been stabilized, the government and international donors could have had time to repair the problem. Instead, they were forced to take emergency action.

There is a need to find structures for holding good assets that will recover easily in the future, such as Asset Management Corporations (AMCs).

A bank may decide to manage NPLs instead of packaging and selling them off. The key points to consider are: consistency, meaning treating all customers the same; transparency, in terms of being open about procedures and requirements, including procedure manuals, instructions, and a strong internal audit; and finally, honesty is important, in telling the customers and staff the truth. If you don't tell the truth, you will be found out.

Managing NPLs is a people business, the bank's people, the borrower's people and everyone should be treated consistently and fairly.

The Future of NPLs

In Kenya

Many of the causal factors of NPLs in Kenya may disappear in the near future. The slowdown in economic growth of 2017 is expected to be reversed. The country has experienced good rainfall and a new government is in place. The interest rate capping law is still being discussed.

Optimism influences expectations regarding the provision of

private sector credit, and it has an impact on the position vis-à-vis NPLs.

The policy of fiscal consolidation needs to be seen in the context of its potential to lower the extent to which the government is a core driver of economic growth. It should also be viewed in the context of how it impacts the degree to which the private sector gathers momentum and demands more credit. Both of these aspects will have an influence on the NPL position.

The major concern for central bank regulators is what causes banks to fail and what role NPLs play in the process.

The regulatory response to NPLs is contained in Kenya's Banking Act section 20(2): "Every institution shall: (a) make provision for loans, advances and other assets before any profit or loss is declared; and (b) ensure that the provision for loans, advances and other assets made under paragraph (a) is adequate according to such guidelines as may be prescribed by the Central Bank."

The Central Bank's "Prudential Guideline on Risk Classification of Assets and Provisioning" requires licensed banks to make adequate provisions for perceived losses.

The minimum amount for provisioning is determined by the classification of loans. It ranges from 1 percent for loans classified as "normal", 20 percent for loans classified as "substandard", and 100 percent for loans classified as a "loss". However, the issue is not the loan classification itself. Rather, it is the lender not doing a good job in properly classifying its borrowers, and recognizing losses promptly.

In general

There is a need for discussion regarding the regulation of loan providers, credit and technology. It is essential to know who is providing lending, how are they lending, and if they are classifying the loans properly.

Financial institutions must ensure they assess the risks around new technology used in internal systems and services offered to customers to mitigate the impact of these risks, including those resulting from fraudulent activities.

Innovation and technology must overrun the fraudsters.

Non-collateralized loans can deliver reasonably good results in terms of NPL levels if credit managers are appropriately rigorous and proactive in assessing and managing the risks of the exposures.

Overcoming Trade Finance Challenges for SMEs in Africa

Moderator: David Ashiagbor, Coordinator, Making Finance Work for Africa (MFW4A)

Panelist 1: Thierry Kangoye, Senior Research Economist, African Development Bank (AfDB)

Panelist 2: Ruediger Geis, Head, Trade Affairs, Commerzbank AG

Panelist 3: Catherine Busaule, Trade Finance Specialist, Eco-bank Transnational Incorporated (ETI)

Panelist 4: Susan Situma, Head of SME Business, Barclays Bank, Kenya

Executive Summary

Trade Finance can be described as the provision of finance and services by Financial Institutions for the movement of goods and services between two points, either within a country or cross border. Trade finance is a core business activity for commercial banks in Africa, as it continues to be relatively low-risk. However, due to the credibility risks and connectivity limitations, a significant trade finance gap persists in Africa. This is in contrast to middle-income and high-income countries, where there is a narrower gap in terms of trade finance.

Although SMEs are a huge growth engine for the financial and private sectors in Africa, a disproportionate share of the available financing is provided to large corporations at the expense of SMEs. Indeed, SMEs comprise more than 80 percent of all businesses in Africa. Also, significant regional differences exist in the share of total assets devoted to trade finance.

First time applicants face significant challenges in accessing trade finance facilities from banks because banks tend to favor big corporations. Thus, there is a need for better financial infrastructure, including credit information systems, to de-risk transactions and enhance banks' ability to supply trade finance in Africa.

Trade Finance in Africa

Trade finance, by definition, is the term used for the department of a commercial or investment bank where trade transactions (either cross border and domestic) are financed. Financing is usually between a supplier and an end buyer, with the occasional involvement of a trader.

Trade finance is a core business activity for commercial banks in Africa. In 2014, 87 percent of Africa's commercial banks were offering trade finance. However, African trade finance markets are also subject to outside influences, such as the debt crisis in Europe and the slowdown in China's economy.

Interestingly, trade finance is quite profitable and entails less business risk for African banks. For example, trade finance activities comprised 15 percent of the total income for commercial banks in 2014. Trade finance is relatively insensitive to macroeconomic challenges, such as foreign exchange risks, thus making it especially attractive to various cooperates.

Trade Finance Challenges in Africa

The African Development Bank estimated that the trade finance gap in Africa is USD 91 billion based on a survey of commercial banks from 49 countries in Africa. However, the gap is probably larger. It is difficult to assess the size of the trade finance gap in Africa, mainly because banks do not have a common definition of trade finance. They are also reluctant to fully disclose their trade finance portfolios. For example, the survey contacted more than 900 commercial banks, but less than a third responded. Moreover, the level of rejection rates for lines of credit is quite high for low-income and conflict-affected countries, as well as for fragile states because they tend to have more embedded financial assistance.

Source: African Development Bank Group.

Two major reasons account for the gap in trade finance. According to the African Development Bank's survey, the first is weak credit histories, which makes it more difficult for banks to appraise the credit risk of their clients. Sometimes, applications can also be rejected because of insufficient collateral, which is second most reported reason for rejection.

Most SMEs have very little collateral, mostly consisting of cash (10-15 percent) and limited assets. De-risking on the collateral side can be done through finance-sharing programs.

One of the challenges in the know your customer (KYC) process are the high costs associated with it, that can be reduced with automation. Know your business (KYB) and know your authorities (KYA) are crucial steps that facilitate a proper KYC process.

A lot of African SMEs are usually quite reluctant to disclose the full nature of their businesses and ownership structures, which makes it difficult for banks to do an appropriate KYC, a pre-requisite for providing trade finance

The issue of lack of liquidity is more manageable in low-income countries than in more developed ones. For example, Liberia tends to report more liquidity in trade finance. Banks in more developed countries have more competition simply because of the large number of corporations and tend to face more financial restrictions.

Intra-African trade received limited finance mostly because the relatively developed African countries do not trade much with each other. The total amount of intra-African trade is only 15 percent of the total trajectory in Africa, compared with 63 percent in Europe and 50 percent in North America.

Although access to trade finance is critical for SMEs to expand and intensify their international trade activities, it is often difficult to obtain. Moreover, there is a concentration of trade finance portfolios among the top clients of the banks. SME trade finance proposals are rejected at a relatively high percentage rate, whereas large corporates find it easier to have their trade finance proposals approved.

The default rate for SMEs in African trade finance remains quite high, with approximately 40 percent of the full-time trade finance customers resulting in defaults. However, some countries in West and Central Africa have lower default rates because they have more relationship-based than transaction-based lending.

SMEs in Africa normally have poor access to trade finance assets. Trade finance is highly concentrated among large corporates, with limited exposure to new market entrants. Hence, there is a consistent pattern of high concentration of trade finance assets among top clients, leaving limited options for SMEs.

There are significant regional differences in the share of total assets devoted to trade finance. West Africa has a significant exposure to trade finance, whereas banks in North and Southern Africa record lower trade finance exposure. This could reflect a more developed financial sector, with banks in North and Southern Africa holding a more diversified portfolio of assets under a wider range of banking activities.

Risks for trade finance in Africa fall into two categories. First, exposure to adverse government actions (expropriation, embargo) or instability (war, crime) is a major political risk for banks. Second, a wide variety of economic risks, such as sov-

ereign risk, weak credit histories of importers and/or exporters, and inability to fulfill payment obligations, are also a source of concern for banks engaged in trade finance.

Regarding de-risking between banks, on average, a country is financed or served by 16 correspondent banks. However, 45 percent of all banks in the country would probably say they only have two correspondents, and in some countries, there are no correspondents left.

The Way Forward

Education of customers and banks is necessary for the development of trade finance. It is important for customers to find their appropriate identities, as it would certainly be beneficial to their future business development. At the same time, training staff in commercial banks is essential. Various cases have shown that many new employees in African banks are not equipped with knowledge of some basic aspects, such as country regulations and taxation.

It is necessary to see the two sides of the coin of trade finance. On the one hand, it is easy since there are no issues with correspondent banks or compliance with western standards, and the risks are relatively low. On the other hand, it is difficult to promote trade finance because it usually entails smaller transactions and more frequent purchases. Also, the lack of a unified foreign currency exchange system across Africa makes it difficult to conduct cross-border financial activities.

Trade finance has been found to be more promising in Africa's coastal areas. Due to the poor conditions of transportation from, for instance, Kenya to Uganda, banks are often reluctant to provide financial support. However, transportation is more developed

SMEFF members

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	AccesBanque Madagascar
	Access Holding
	Access to Finance Rwanda
	ACCION
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	Afluenta
	Afriland First Bank
	AMP Credit Technologies
	Ant Financial
	Bancamia
	Banco de Crédito BCP - Bolivia
	Banco Delta
	Banco Galicia
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	Basware
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	CashDirector
	CDC Group

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	City Bank		FEDECRÉDITO
	Co-operative Bank of Kenya		Fern Software
	Cogebanque		Fidelis Finance
	Commercial Bank of Africa		Fidor
	Commonwealth Bank of Australia		FINCA Impact Finance
	Council of Europe Development Bank (CEB)		FINTQ
	Credit Guarantee Company Egypt		Fnconn
	CreditEase		Fondo de Garantías de la Provincia de Buenos Aires (FOGABA)
	CRIF		Fonds de Développement Industriel – Haïti
	DBS		FSDT
	Development Bank of Nigeria		FUNAN Microfinance
	Diamond Bank		Funding Circle
	DigiVation		Garanti Bank
	Dun and Bradstreet		Grupo Promerica
	Ecobank		Gulf African Bank
	eFactor		Hattha Kaksekar
	European Association of Guarantee Institutions - AECM		HCM Capital - Foxconn
	European Investment Bank		I&M Bank Rwanda
	European Investment Fund		ICICI Bank
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	Islamic Corporation for the Development of the Private Sector - ICD		PRASAC
	JD Finance		Q-lana
	Jumo		Qatar Development Bank
	Kafalah SME Finance Guarantee Program		Raiffeisen Bank International
	Khan Bank		Rakuten
	Khushhali Bank		Shanghai F-Road Commercial Services
	Korea Credit Guarantee Fund		Sinapi Aba
	Kredi Garanti Fonu – KGF		Société Financière Haitienne de Développement
	Lawrence Sikutwa & Associates - LSA		Société Ivoirienne de Banque
	Linklogis		Spartan
	Mambu		SPGM
	Mastercard		Standard Chartered Bank
	MEKAR		Strands
	Middle East Investment Initiative		Sudameris Bank
	Morocco Credit Guarantee Corporation		Superintendencia General de Entidades Financieras - SUGEF
	Multibank		TEB Bank
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	Global Alliance for Banking on Values
	Global Banking Alliance for women
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