
“Why Banks in Emerging Markets are Increasingly Providing Non-Financial Services to SMEs”

SME Banking Conference

Karachi, Pakistan - March 15, 2011



Study Objectives

| | |
|--|---|
| 1. Understanding and Differentiating Bank Demand | <ul style="list-style-type: none">▪ What are banks looking for and why? What are main objectives?▪ Is there a difference between 1st tier and 2nd/3rd tier banks?▪ Are there regional differences and trends?▪ When did all of this start? What are the key trends at the demand level? |
| 2. Understanding the Supply Side | <ul style="list-style-type: none">▪ What kind of tools, products, and services are currently being provided?▪ Who are the main suppliers? Are banks using internal training centers?▪ Are banks charging for these services?▪ What is the current market benchmark globally in emerging markets? |
| 3. Assessing the Market: Trends, Impact, and Gaps | <ul style="list-style-type: none">▪ What are the lessons learned?▪ What are the current market failures/gaps?▪ What does it take to successfully provide such services?▪ What do we know about impact assessment? |
| 4. Moving Forward: IFC's Role | <ul style="list-style-type: none">▪ Does IFC have a comparative advantage in this field?▪ Prospects and forecast for future demand?▪ What would it take to increase IFC's footprint and impact in this field? |

22 Commercial Banks Interviewed

| Region | Bank | Country | Tier |
|--|----------------------------------|-----------------------|--------|
| Sub-Saharan Africa | Access Bank Plc | Nigeria | Tier 3 |
| | Advans Bank | Congo | Tier 3 |
| | Barclays | Africa Region, Uganda | Tier 1 |
| | First National Bank of Namibia's | Namibia | Tier 3 |
| | Invest Trust Bank | Zambia | Tier 3 |
| | NBS Bank | Malawi | Tier 3 |
| | NedBank | South Africa, Namibia | Tier 2 |
| | Standard Bank | Malawi | Tier 1 |
| East Asia & the Pacific | Westpac | Australia, Pacific | Tier 2 |
| | Cambodian Public Bank | Cambodia | Tier 3 |
| | Planters Development Bank | Philippines | Tier 3 |
| South Asia | NIC Bank | Nepal | Tier 3 |
| Europe & Central Asia | Pro Credit Macedonia | Macedonia | Tier 2 |
| Latin America & The Caribbean | Banco BCSC | Colombia | Tier 2 |
| | Banco Galicia | Argentina | Tier 2 |
| | Banco Santander | Brazil | Tier 1 |
| | Republic Bank | Trinidad & Tobago | Tier 3 |
| Middle East & North Africa | Standard Chartered Bank | Pakistan, Kenya | Tier 1 |

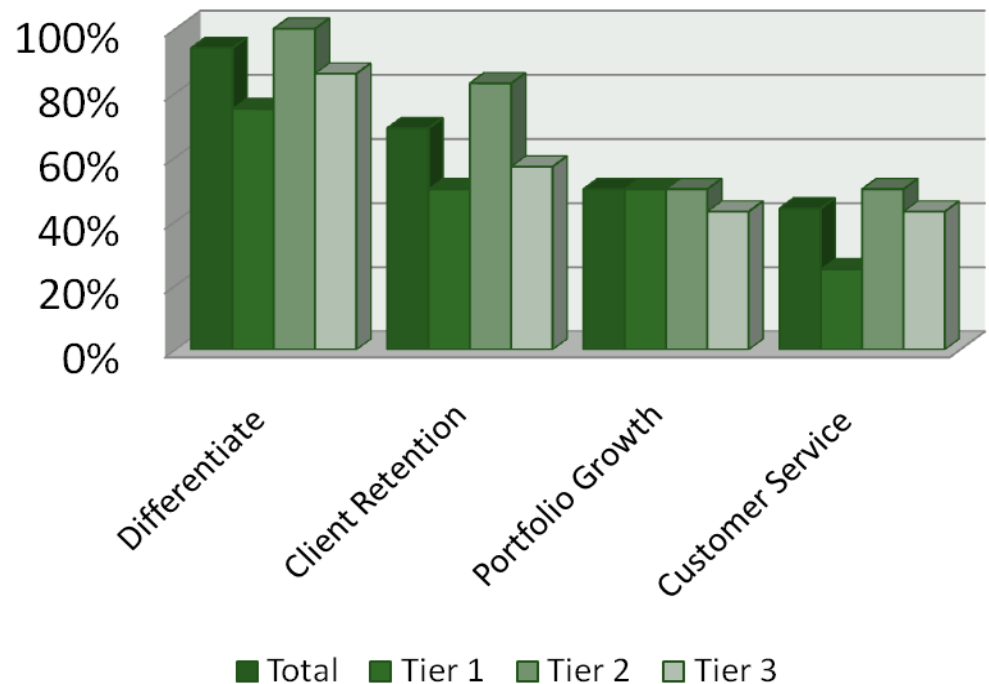
1.Understanding Bank Demand:

Banks' primary incentives are differentiation from competitors (94%) and client retention (69%). A majority of banks report starting to offer non-financial services in the past 1-5 years.

Other important bank objectives include:

- Portfolio growth (50%)
- Customer service (44%)
- Response to competitor offerings
- Decrease SME loan account delinquency

Banks' Main Objectives for Non-Financial Service Offerings



1. Understanding Bank Demand (continued): Summary of Key Trends

Banks serve both current and prospective clients

- Self-help SME information is offered to all clients. However, banks target existing clients (70-80% participants) for seminars and workshops.

Banks mainly use needs analysis to determine service offerings

- Banks' main tool for designing service offerings is needs analysis. Other tools: observations and input from Account Managers (58%), consultation with SME experts (47%), and formal market surveys (32%).

Banks plan to expand current offerings

- Of the banks interviewed, 50% plan to expand current offerings, 47% plan to increase volume of activities, and 44% plan to increase locations offering non-financial services.

Banks modify service offerings

- Banks primarily differentiate their service offerings for different sectors (56%) and for gender considerations (31%).

2. Understanding the Supply Side:

Typology of Non-Financial Services Offered to SMEs

Information Services

- Self-help knowledge delivered to SMEs via websites, publications, business centers, or interactions with Account Managers.

Training Services

- Interactive activities designed to facilitate the learning and development of new and existing skills and to improve performance.

Consulting Services

- Direct interactions with knowledgeable experts to gain insights and expertise (can be in the form of counseling or mentoring).

2. Understanding the Supply Side (continued): Summary of Key Trends

Banks utilize variety of distribution channels

- Banks use Account Managers as main distribution channel in offering non-financial services (100%). Other methods include seminars/workshops (94%), website (69%), information sessions (69%), software (25%), newsletters (19%), and brochures/books (6%).

Banks find sufficient supply of service providers

- The majority of banks indicate they can identify sufficient service providers for current needs (79%). However, 29% of banks responded that they do not offer non-financial services to SMEs because of low quality of service providers.

Banks partners with both international and local service providers

- Banks deliver services through a variety of organizations: trainers (81%), consultants (75%), IT consultants (50%), government agencies (31%), and NGOs (13%). Of these, 50% of banks' partners are international organizations.

Banks offer services in multiple locations

- A majority of banks offer SMEs information via the Internet (75%). Also, banks offer seminars and workshops at branch level (69%) and at major centers (31%).

3. Assessing the Market: Lessons Learned

SMEs' Needs: Technical Assistance

- SME client business start-ups are often unplanned: educational need on separating personal and business affairs and finances.
- Banks reported SMEs need training in effective business management, particularly in the areas of accounting and marketing.

Best Practice: Expert Trainers & Interactive Training

- Trainers need to be content experts in business management areas.
- SME participants prefer interactive training modules, such as breakout sessions for in-depth group discussion and sharing of best practices business to business.

Best Practice: Charge for Service Offerings

- Banks suggested charging at least a nominal fee for non-financial service offerings as it places value on the services and products and ensures SMEs' commitment to attend.

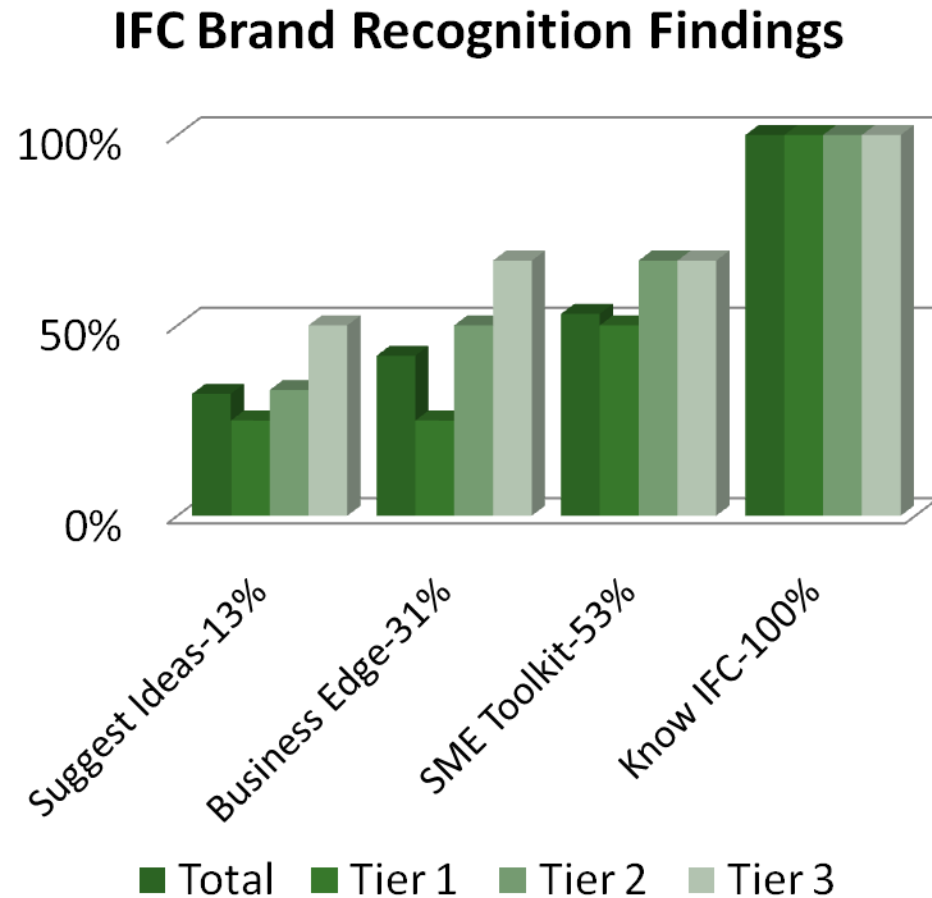
Best Practice: Impact Measurement

- Most of the banks interviewed undertake limited impact assessments and do not conduct ROI calculations for their SME non-financial service offerings. Banks recognize the need to move in this direction in the future.

4. Moving Forward, IFC's Role:

Strong IFC brand recognition with banks but limited brand recognition for IFC Business Edge and SME Toolkit.

How can the IFC increase its impact in the field of non-financial service offerings and expand the market reach of Business Edge and SME Toolkit?



Remaining Questions and Future Areas of Research



Better Understanding the Market Trend

- **Big picture:** How can IFC better understand this new trend of banks providing non-financial services, differentiated by a) geographic location, b) country income level, and c) bank sophistication level (Tier 1 vs Tier 2/3)?
- **Big picture:** Half of the banks surveyed were in Africa. Do the study's findings hold true across geographic markets?
- **Big picture:** What are lessons learned? What is the current market benchmark globally in emerging markets?
- **Demand:** What are the trigger points for banks deciding to offer non-financial services and products? What is a more in-depth understanding of bank incentives? Where do banks' budgets come from for these offerings? (CSR, marketing?)
- **Supply:** What can IFC further determine about the quality of tools, products, and services that are currently being provided? What does it take to successfully provide such services, and what are the greatest challenges?
- **Impact:** What impact should banks try to measure?

Better Understanding IFC's Comparative Advantage and Value Proposition to Banks

- What is IFC's comparative advantage in this field?
- How is Business Edge/SME Toolkit a better value proposition for banks, and how do these products help achieve IFC's development objectives in terms of growing SMEs and reducing credit risk?
- Where is the market opportunity for IFC in relation to current non-financial services and product offerings? Who are other relevant international providers?
- What would it take to increase IFC's footprint and impact in this field?

Annex

Case 1: *SME Toolkit* for a Financial Institution



Objectives

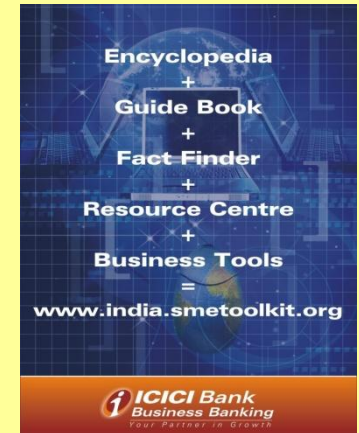
- Provide a complete online resource centre for SMEs and entrepreneurs
- Be a partner in growth for SMEs
- Address key needs of SMEs & fulfilling their beyond banking needs
- Provide an interactive system through which SMEs can share, learn, exchange and grow their business
- Strengthen relationships with SMEs, Trade bodies, vendors and partners
- Collaboration with IFC and IBM

SME Toolkit : An Ecosystem for SMEs



Case 1 (continued)

- Added thousands of pages of local content on the website with relevance to business in India and states within the country
- Using Google analytics to capture user behaviour
- Enabling and capturing user feedback on website and tools
- Using ICICI Bank's existing infrastructure
 - Branch network
 - Sales network
 - Customer network
 - SME group events
- Mass media
 - Advertising in The Economic Times
 - Partnered with NDTV profit as a media partner
- Internet marketing



The SME Toolkit “has helped build credibility and positive perception about ICICI Bank among its customers and industry”

Case 2: SMS for improving performance of portfolio clients: IFC's *Business Edge* for SC (Pakistan)

The Demand

- SC supports SMEs as its contribution to MDG
- SC has selected IFC's Business Edge
- Significant corporate buy-in



The Project (FY09)

- Delivering Management training courses (in Urdu) to 140 SME Stanchart clients in 4 cities of Punjab in order to provide owner managers with skills to grow their business, improve financial management / reporting and increase their customer loyalty.
- Assessing Impact before potential replication in other markets

Results

- *Improved skills: 69% of clients applied learning and saw improvements in business results*
- *Improved financial reporting: preparation of cash flow statements increased from 70% to 90%, preparation of P&L from 81% to 89%*
- ***Improved credit history: 14% improved their rating with the Credit Information Bureau***
- *Improved Customer Care: 60% reported changes in systems to provided customer care*
- *SCB is now replicating the project in 4 more countries*

Case 3: Novartis GMS



Client's issues

- Distributors & pharmacies loyalty when guiding the patient's choice
- Distributors can't capture pharmacists attention with an effective sales pitch
- Pharmacies Skills gap (Plan Business, manage stocks, effectively serve the client)

Business Edge™ solution

- **Innovative Training approach for the pharmacy owners, managers and sales staff** to improve their Business Planning, General Management, Customer Care & Selling skills
- **139 participants trained** in 7 workshops over 17 days, including 28% women

Impact

- 90% trainee satisfaction rate
- **increased sales: 281 % ROI measured by Novartis**
- improved business relationships and loyalty of the distribution chain
- a ripple wave in the Egyptian Market – major competitors embarked on similar initiatives

"the IFC BE program has rigorous criteria for selecting quality training providers. The program is cost-effective and delivers high-quality products. This is why we chose to partner with IFC", **Fouad Fahmy, Head of the Novartis Pharmacists Patient Network**

"The Training material is simple and applicable, and the Trainer is a pharmacist like us so he understands the challenges we face. (...) I also find it easier now to draft a strategy and working plan. The workshop taught me to link medication orders to a business plan, and I am now sharing this knowledge with my team", **Basel Medhat, Branch Manager of the Pharmacy Chain.**