

Why Banks in Emerging Markets Are Increasingly Providing Non-financial Services to Small and Medium Enterprises



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Oesterreichische Entwicklungsbank AG



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**International
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Table of Contents

Foreword	5
Introduction	6
PART 1: KEY FINDINGS	
Methodology	8
Summary	9
CHAPTER 1: Understanding Bank Objectives and Motives.....	10
Bank Motives: Differentiation from Competition Is a Key Driver	10
Underlying Bank Rationale: Seeking Profitability.....	11
Bank Timing and Planning: Provision of Non-financial Services Is a Recent Trend	11
CHAPTER 2: Understanding the Supply Side of Non-financial Bank Offerings	13
Banks Deliver a Variety of Offerings.....	13
Tier-1 and -2 Banks Have More Capacity to Deliver Non-financial Offerings.....	14
Direct Support of SMEs through Account Managers	14
Serving SMEs with Information Dissemination	15
Transferring Business Skills to SMEs through Training	16
Strengthening SMEs with Consulting Services (Coaching and Mentoring)	17
Banks' Service-Provider Partners.....	18
Pricing Considerations	19
Measuring the Impact of Non-financial Services.....	20
Other Findings	20
CHAPTER 3: Banks' Familiarity with IFC's Non-financial Services for SMEs	21
Conclusion	22
LIST OF FIGURES	
Figure 1: Banks' Objectives for Offering Non-financial Services to SMEs	9
Figure 2: Typology of Services by Bank Tier	14
Figure 3: Innovative Models in Information Dissemination	16
Figure 4: Are There Sufficient Service Providers?	18
Figure 5: Banks' Main Service Suppliers	19
Figure 6: Do Banks Charge for Services?	19
LIST OF TABLES	
Table 1: Banks Interviewed by Region, Country, and Bank Tier.....	8
Table 2: Typology of Non-financial Offerings	13
Table 3: Advice and Guidance through Account Managers.....	14
Table 4: Details of Bank Training Programs.....	17
Table 5: Examples of Fees and Financial Sustainability.....	19

PART 2: CASE STUDIES

TÜRK EKONOMİ BANKASI (TEB)	25
Introduction	26
Background	27
Developing an SME Banking Strategy	28
Understanding the Turkish SME Banking Client	29
Formation of TEB's Value Proposition to SMEs	29
Designing and Rolling Out New Non-financial Services	30
Establishing a Dedicated SME Banking Department	30
Developing a Comprehensive Business Plan	30
Experimenting with New Ideas	30
Starting with TEB SME Academy	30
Deepening the Approach through TEB SME Consultants	32
Expanding through Diverse Offerings	33
TEB's SME Support Line	33
TEB SME TV	34
TEB SME Club	34
Measuring Return on Investment	35
Benefits to TEB: Client Acquisition, Customer Loyalty, Cross-Selling, and Profitability	35
Benefits to SME Clients: Feeling They Are Valued Bank Clients	37
Benefits to SME Clients: Improving Business Practices and Achieving Growth	37
Conclusion and Looking Ahead	38
LIST OF FIGURES	
Figure 1: TEB's Standard Banking Products for SMEs	29
Figure 2: TEB's Non-financial Service Offerings	31
Figure 3: TEB SME Academy Training Sample Agenda (Varies by Event)	32
LIST OF TABLES	
Table 1: Turkish Firms by Size and Growth of Sector, 1992-2002	28
Table 2: TEB SME Consultants Training Phases	33
Table 3: Outputs of TEB's Non-financial Services	35
Table 4: Benefits to TEB from Non-financial Service Activities	36

STANDARD CHARTERED BANK (SCB)	39
Introduction	40
Understanding the Broader Context: Standard Chartered Bank's SME Banking Practice	41
Identifying SME-Market Growth Trends	41
Tailoring Bank Products for Different SME Client Segments	41
Positioning SMEs as the Top Consumer Banking Segment	42
Achieving Impressive Results in SME Banking	43
Delivering Non-financial Services to the SME Segment:	
Bank Objectives, Service Typology, and Management	44
Deepening the SME Client Relationship	44
Sharing Information and Providing Training	44
Centralized Coordination, Decentralized Delivery	44
Developing a Business Case for Delivering Non-financial SME Services	46
1. Create Product and Service Offerings	46
2. Justify Costs and Determine Pricing Strategy	49
3. Define How to Measure Return on Investment and Developmental Impact	50
Conclusion and Recommendations	51
Product Development	51
Impact Measurement and Return on Investment	51
LIST OF FIGURES	
Figure 1: SCB SME Market Presence	42
Figure 2: SME Lending 2010 per Main Markets	42
Figure 3: Pakistan Pilot Training Program Results	47
Figure 4: Benefits to SCB from Pilot Initiatives	50
LIST OF TABLES	
Table 1: SME Banking Revenues, 2007	41
Table 2: Typology and Examples of Non-financial Offerings	44

ICICI BANK	53
Introduction	54
ICICI Bank's Move into SME Banking	55
"Beyond Banking" Approach: The Role of Non-financial Initiatives at ICICI Bank.....	55
Non-financial Service Initiatives and Programs	56
1. SME Toolkit: "A complete online resource centre for SMEs"	56
2. SME CEO Knowledge Series: Platform for Mutual Learning and Networking....	57
3. SME Dialogue: Covering Relevant SME Issues in the Media	57
4. SME Workshop Series: Sector-Targeted Training	57
5. SME Connect: Educating SMEs on Opportunities for Business Growth	58
6. Business Beyond Borders: Helping SMEs to Expand Globally	58
7. Emerging India Awards: Recognizing India's Best SMEs	58
Conclusion	59

Foreword

If your client does well, you do well. This simple observation has been at the heart of what was a monumental shift in customer service in many industries over the past decades, when health insurers started investing in preventive health care, when utilities began investing in demand-side-management, or when Apple Stores around the world began offering free “geek classes” to prospective and actual customers. Also banks have for many years now provided non-financial services to their clients—primarily to their small and medium enterprise clients—to help them succeed. On offer are training opportunities on varied ranges of managerial and entrepreneurial topics, events designed for information sharing and networking, and even business consulting services such as market or supply chain analyses.

So what’s new here?

Offering non-financial services is new to most banks in emerging markets.

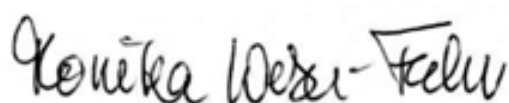
But it’s not new to all of them. And this is what we in the International Finance Corporation (IFC) wanted to find out more about: What is the motivation—when a bank expands into non-financial services? What are the primary types of non-financial services offered? How familiar are banks with non-financial service offerings from industry partners such as IFC?

This report seeks to provide answers to these questions based on data gathered during interviews with 21 banks across Sub-Saharan Africa, East Asia and the Pacific, South Asia, Latin America and the Caribbean, and Europe and Central Asia. Three of these banks—Türk Ekonomi Bankasi (TEB), Standard Chartered Bank and ICICI Bank—are featured as case studies.

The relatively new banking practice of offering non-financial services in emerging markets has not been extensively studied. Indeed, this report is perhaps the first work carried out on the subject. *Why Banks in Emerging Markets Are Increasingly Providing Non-Financial Services to Small and Medium Enterprises* does not purport to be an exhaustive study of the topic, though it does provide several key insights. First, banks of all sizes are clearly using non-financial services to differentiate themselves. Second, they go beyond simple website-based outreach tools—they take it seriously and offer sophisticated services such as media content and consultancy. Third, they are beginning to manage the benefits for themselves beyond the marketing impact, aiming at non-financial services that improve their clients’ ability to repay loans or to grow their businesses.

There is more to learn. What is the banks’ bottom-line impact of offering such services—is it profitable in the end? What is the prospect for standardizing and replicating, and to what extent should banks collaborate? And to what extent does what is offered actually meet the needs of small and medium enterprises? What is the role of business partners such as IFC in supporting their efforts and replicating non-financial offerings across markets?

We hope that this first examination of a growing trend in SME banking generates interest in the subject and acts as a catalyst for further study within development and financial institutions alike.



Monika Weber-Fahr
Global Business Line Leader
Sustainable Business Advisory

Introduction

Recent research from International Finance Corporation (IFC), McKinsey & Company, and the G-20¹ generated important data about the market size of the small and medium enterprise (SME) sector and the financing needs of SMEs at a global scale. It is estimated that there are 365 to 445 million formal and informal micro, small, and medium enterprises—with a subset of 25 to 35 million formal SMEs—in the developing world. Of these, 70% do not use external financing from financial institutions, although they are in need of it. Approximately 85% suffer from credit constraints.

These latest market research studies are beginning to fill in previously missing knowledge about the SME financing gap globally. Additionally, IFC and other development financial institutions are providing guidance to commercial banks on how they can help to close the finance gap for SMEs, through technical assistance and through resources such as IFC's "SME Banking Knowledge Guide."

IFC's experience suggests that commercial banks are starting to gain a better market understanding of the needs and preferences of their SME clients and are beginning to see, through financial returns, the profitability of serving SMEs. Anecdotally, IFC has been observing more banks beginning to serve their SME clients with not only financial products, but also non-financial tools and services. Such services have the potential to help SMEs become more bankable, increase

their ability to repay loans, and improve their business practices to grow their enterprises. Such bank offerings also help banks increase SME customers' loyalty and acquire new clients in the SME sector.

However, this relatively new banking practice in developing countries—commercial banks providing and facilitating access to non-financial services for SMEs—has not been extensively studied and measured in recent research studies. IFC has taken a first step toward better understanding this trend. In 2010, IFC commissioned a new market study of the practices, rationale, and patterns of 21 banks providing non-financial services to SMEs in developing countries.

This study, *Why Banks in Emerging Markets Are Increasingly Providing Non-financial Services to SMEs*, builds on recent studies from the World Bank Group and other research organizations to determine market trends related to commercial banks serving the SME sector in emerging economies on a profitable basis. For example, a recent study by Beck et al. surveyed 91 banks in 45 developed and developing countries and found that the majority of banks view the SME sector as a sizable market with good business prospects.² This finding suggests that banks are willing to make significant investments in developing SME business units and creating sophisticated products and services to meet the banking needs and preferences of SMEs.

1 IFC and McKinsey & Company. 2010. "Two Trillion and Counting: Assessing the Credit Gap for Micro, Small, and Medium-Size Enterprises in the Developing World." See also G-20, Financial Inclusion Experts Group. 2010. "Scaling-Up SME Access to Financial Services in the Developing World."

2 Beck, T., A. Demirguc-Kunt, and M. S. Martinez Peria. 2008. "Bank Financing for SMEs around the World: Drivers, Obstacles, Business Models, and Lending Practices." The World Bank, Washington, DC.

Part 1: Key Findings

METHODOLOGY

SUMMARY

CHAPTER 1: Understanding Bank Objectives and Motives

CHAPTER 2: Understanding the Supply Side of Non-financial Bank Offerings

CHAPTER 3: Banks' Familiarity with IFC's Non-financial Services for SMEs

CONCLUSION



Methodology

Senior bank managers, SME account managers, and SME department officials were interviewed at 18 banks at 21 locations in Sub-Saharan Africa, East Asia and the Pacific, South Asia, Latin America and the Caribbean, and Europe and Central Asia (the study refers to a total of 21 banks to capture interviews with different bank branches). Please see Table 1 for a listing of the banks by geographic region, country, and bank tier.³

The banks interviewed for this study have varying definitions of SMEs. The most common measure for defining SMEs among the banks is annual sales, and the definitions vary from sales of at least US\$20,000 up to \$5 million. However, some banks use alternative

measurements such as the number of employees or the minimum size of bank loan. The World Bank Group defines SMEs as registered businesses with fewer than 250 employees.

The 21 participating banks are not a random sample of banks in developing countries, and readers should interpret the results with this in mind. The 21 banks selected for the study were drawn from a convenience sample, using the guideline of selecting representative banks in terms of geography, area of service (including both international and local banks), bank size, and banks' familiarity with IFC's non-financial products.

Table 1: Banks Interviewed by Region, Country, and Bank Tier

Region	Bank	Country	Tier
Sub-Saharan	Access Bank Plc	Nigeria	Tier 2
	Advans Bank	Congo	Tier 3
	Barclays	African Region, Uganda	Tier 1
	First National Bank of Namibia	Namibia	Tier 2
	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 1
	Cambodian Public Bank	Cambodia	Tier 3
	Planters Bank	Philippines	Tier 3
South Asia	ICICI Bank	India	Tier 2
	NIC Bank	Nepal	Tier 3
Europe & Central Asia	ProCredit 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 2

³ A bank tier is defined by the size of bank assets. Tier 1 represents bank assets of \$100 billion or more, tier 2 represents bank assets of between \$1 billion and \$100 billion, and tier 3 represents bank assets of \$1 billion or below.

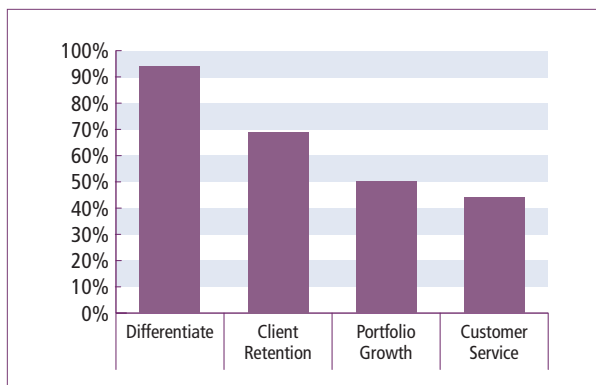
Summary

This study provides information about the 21 banks in three key areas: (1) understanding banks' objectives and motives, (2) understanding the supply side of banks' non-financial offerings, and (3) banks' familiarity with IFC products. Important study findings are highlighted below.

BANKS AIM TO DIFFERENTIATE FROM COMPETITORS

First, 94% of banks indicated that their main objective in providing non-financial services to SMEs is to differentiate themselves from the competition. Other bank objectives include improving client retention, portfolio growth, and customer service (see Figure 1). The majority of the banks interviewed indicated that the major increase in their non-financial service activity came about in the past one to five years.

Figure 1: Banks' Objectives for Offering Non-financial Services to SMEs



FOCUS ON INFORMATION SHARING, TRAINING, AND CONSULTING SERVICES

Second, banks supply a variety of non-financial service offerings. According to the results, 90% of the 21 banks provide direct support to their SME clientele through their account managers. Additionally, banks reported offering the following other types of services: information dissemination (81%), training (76%), and consulting (19%).

PROVISION OF SERVICES TYPICALLY OUTSOURCED

A majority of the banks do not use their internal training centers for delivery of training services. Instead, they partner with a variety of service providers, both international and domestic. According to the results, 79% of the 21 banks reported that they can identify sufficient service providers for current needs. Examples of partner service providers are training institutions, consulting firms, government training institutions, or nongovernmental organizations (NGOs).

SERVICES OFFERED FOR FREE OR AT SUBSIDIZED RATE

The majority of the non-financial services offered by the 21 banks to SMEs are free or offered at a reduced rate. Most of the banks interviewed do not conduct return on investment (ROI) calculations for their SME non-financial service offerings or use alternative quantitative measurements to determine the effects of non-financial services on their own profitability or on their SME clients' business profitability. However, the banks identified the need to move in this direction in the future.

CHAPTER 1

Understanding Bank Objectives and Motives

Bank Motives: Differentiation from Competition Is a Key Driver

The majority of the 21 banks indicated that their **main objective for providing non-financial services to SMEs is to differentiate themselves from the competition** (94%). Many of the banks conveyed that their main goal is to be positioned as the bank that supports entrepreneurship and the bank that is SMEs' main partner for growth. Other bank objectives include the following:

- Improve client retention (69%)
- Improve portfolio growth (50%)
- Improve customer service (44%)

Several banks indicated that they developed non-financial services to **respond to offerings by the competition**. In addition, several banks reported that they seek to **encourage client sustainability and reduce the level of delinquency**.

As more commercial banks enter the market for SME banking—as the IFC and G-20 market studies cited in the introduction have shown—competition has intensified. It is difficult for banks serving SMEs in the same markets to compete primarily on price differentiation because this strategy is not sustainable in the long term. Another strategy for banks to differentiate themselves in the market is to offer SMEs unique services that other banks are not offering, such as non-financial services.

The format of this study's interviews with bank officials and the use of open-ended questions allowed respondents to describe their respective bank's experience and share details about circumstances and motives unique to their particular bank. Detailed responses from bank officials at ICICI Bank in India, Banco BCSC in Colombia, and ProCredit Bank in Macedonia provide a deeper understanding of these banks' motives for providing non-financial services to SME clients.

ICICI Bank's main objective in supporting SMEs is to **create a positive perception of the bank** and establish an image of the bank as SMEs' main partner for growth. ICICI, India's second-largest bank and the largest SME bank in the world, created the SME Group five

years ago because bank management recognized that SMEs' needs are different than the needs and preferences of their corporate clients. The bank tries to ensure that its offerings are responsive to SMEs' business challenges and meet their changing needs. Senior Managers often conduct customer meetings and focus groups with SME clients to discuss their requirements, and bank relationship managers try to monitor the relevancy of their products and services through their relationships with SMEs.

Banco BCSC in Colombia seeks to differentiate itself from its competitors and establish its reputation as an **innovative financial institution that supports microbusinesses and SMEs**. The majority of banks in Colombia offer financing under similar terms and interest rates, and many banks provide financial products to micro and SME businesses. Therefore, targeted non-financial service offerings for this client segment are something that clients cannot find at other banks in Colombia.

ProCredit Bank in Macedonia was established in 2003 specifically to provide financing to microbusinesses and SMEs. Most of its non-financial services are offered through its Business Center, which provides training on improved business practices through workshops and forums and hosts business-to-business (B2B) meetings in regional markets. Bank officials reported that ProCredit Bank's objective for both its financial and non-financial SME services is to **gain competitive advantage over its bank competition**. They also reported that a positive result of this approach is that it appears to decrease the level of loan delinquency. ProCredit's loan delinquency

"ICICI Bank's objective is to establish its reputation as SMEs' main partner for growth."

rate is 2%, as compared to the Macedonian market level of 10%. While it is difficult to attribute causality for the low delinquency rate to the provision of non-financial service offerings, there could be a correlation between the two.

Underlying Bank Rationale: Seeking Profitability

The core business of banks is to provide financial services and products to clients. In the past, banks have had difficulty in profitably serving SME clients because of information asymmetry problems, high transaction costs, high credit risk, and regulatory obstacles, among other reasons.

However, recent studies provide evidence that **SMEs can be a profitable sector for banks** and that some banks report higher returns on assets with their SME clients than with traditional clients.⁴ Banks are developing new credit-scoring tools and banking methodologies to enable transaction-based lending to SMEs. Complementarily, banks are also developing non-financial services and tools to enhance relationship-based lending to SMEs.

The banks interviewed for IFC's study offer information services, training, and consulting to SMEs, and a majority of these non-financial services are managed by SME account managers. Through this business model, the account managers obtain detailed information about the SMEs' business, financial situation, and banking needs, replacing—to some degree—the hard information gained through credit reports or audited financial statements. Therefore, **the information asymmetry problem is mitigated** as banks gain more accurate information on SME loan applicants.

Bank officials from Advans Bank in the Congo shared that the majority of applicants for microbusiness and SME financing do not understand the requirements of a financial organization. Many do not have a basic understanding of bookkeeping, marketing, or other important facets of business operations. Currently, only 37% of applicants for financing are approved. It can be speculated that training and mentoring services, among other types of non-financial bank services, help strengthen SME owners' business management and financial skills. They learn important business practices such as conducting cash-flow analysis, preparing financial statements, building information systems, and developing long-term business plans to grow their business.

As SME owners and managers apply their new business skills and knowledge to their enterprises, their business operations should improve and generate more profit. This, in turn, should **improve their ability to repay their bank loans, thereby mitigating SME credit risk**. For example, officials from NBS Bank in Malawi reported that most of their SME clients who were trained in loan management proved to be loyal clients with good repayment records.

Bank Timing and Planning: Provision of Non-financial Services Is a Recent Trend

Other noteworthy findings, based on interviews with the 21 banks, include the following:

- **Banks have only recently started to engage in SME capacity-building activities.** The majority of the banks interviewed indicated that the major increase in their non-financial service activity came about in the past one to five years. This recent increase in activity could be correlated with the relatively recent rise in SME bank lending in developing markets, as shown in the various World Bank Group studies discussed in the introduction.

⁴ Various studies referenced in IFC's "SME Banking Knowledge Guide" 2009, including Beck et al. (2008) and de la Torre et al. (2009).

- **Banks serve mainly current clients, but also prospective clients.** Self-help information is offered to all SMEs. However, 70–80% of the 21 banks target existing clients for seminars and workshops.
- **Banks engage in market assessments to determine SME service offerings.** The banks' main tool for designing service offerings is needs

analysis. Other tools used include observations and input from account managers (58%), consultation with SME experts (47%), and formal market surveys (32%). Nedbank in South Africa undertakes extensive market research on a regular basis. Annually, the bank conducts a major market survey asking entrepreneurs for a broad array of information in 60 to 70 questions.

CHAPTER 2

Understanding the Supply Side of Non-financial Bank Offerings

Banks Deliver a Variety of Offerings

The banks provide a variety of different non-financial tools and services to SMEs to help business owners and managers develop practical business skills and better grow their enterprises. The 21 banks interviewed for this study generally provide services and products that fit into the following four broad areas (examples are provided in Table 2):

- **Account Manager Support Services:** One-on-one support from the banks' account managers (or relationship managers)
- **Information Dissemination:** Self-help knowledge delivered to SMEs via Web sites, publications, business centers, and/or interactions with account managers
- **Training Activities and Programs:** Interactive activities designed to facilitate the learning and development of new and existing skills and improve performance
- **Consulting Services (Counseling or Mentoring):** Direct interactions with knowledgeable sources to gain insights and expertise.

As previously mentioned, the SME banking market is becoming more saturated, and bank competition in

developing countries is intensifying. As illustrated in Figure 2 on page 14, banks across all tiers are offering a wide array of services to SMEs. The banks are developing strategies to increase their share of the SME market in their respective economies and strengthening their value proposition to SMEs through innovative non-financial service offerings. Both large and small banks, as well as international and local banks, are trying to build their reputation as banks that SMEs can trust and to provide a variety of financial and non-financial solutions to meet the needs and preferences of SMEs. Some tier-3 banks, such as Planters Bank in the Philippines, are branding themselves as "The SME Bank" and targeting SMEs as a majority share of their banking portfolios.

This study's interviews show that **90% of the 21 banks provide direct support to their SME clientele through their account managers** (or relationship managers). Additionally, the banks reported offering the following other types of services (see Figure 2):

- Information dissemination (81%)
- Training (76%)
- Consulting (19%)

Table 2: Typology of Non-financial Offerings

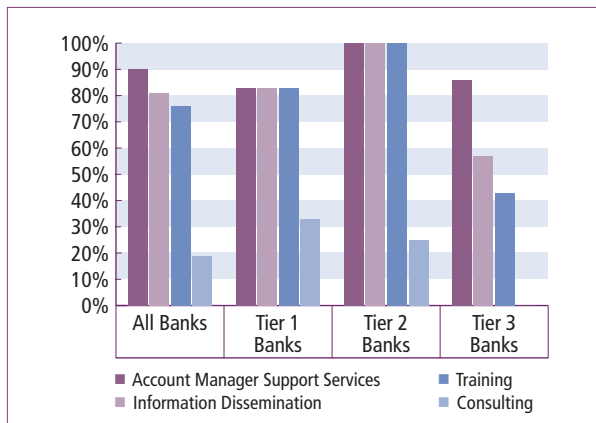
Account Manager Support	Information Dissemination	Training	Consulting Services
<ul style="list-style-type: none"> • Advice and business assessments from account managers 	<ul style="list-style-type: none"> • Computer software and Web-based SME information platforms (e.g., IFC SME Toolkit or B2B platform) • Trade fairs • Road shows • SME Expo series • Reality television shows • SME Excellence Awards • Networking events • Sharing industry-specific publications and media articles • Negotiated discounts for business solution (e.g., software) providers 	<ul style="list-style-type: none"> • Workshop/seminar training through business clubs • Training through IFC Business Edge • Training referrals to training institutions, information technology firms, nonprofits, universities, and others • Specialized training programs for women SME owners (IFC GEM) 	<ul style="list-style-type: none"> • Advice and guidance through business clubs or through partnerships with business mentors or coaches

Tier-1 and -2 Banks Have More Capacity to Deliver Non-financial Offerings

Banks in both tiers offer all four types of services and in relatively similar proportions. For example, 83% of tier-1

banks offer support through their account managers, information dissemination, and training, and 100% of tier-2 banks supply these three service offerings. Similarly, 33% of tier-1 banks and 25% of tier-2 banks offer consulting services. Tier-3 banks are significantly different from banks in the other tiers, offering the four services with varying but consistently lower frequency. Of these banks, 86% provide support through their account managers, 57% provide information on SME topics, and 43% offer training. None provide consulting services.

Figure 2: Typology of Services by Bank Tier



Direct Support of SMEs through Account Managers

The most common type of assistance is one-on-one support from the banks' account managers (or relationship managers). According to the results, 90% of the 21 banks provide this type of service. The account managers are the banks' key contact with

Table 3: Advice and Guidance through Account Managers

Banco Santander	Account managers are trained to interact with SMEs and provide information on the bank's non-financial services.
Cambodian Public Bank	None of the bank's clients prepare audited financial statements, and many SME clients lack an understanding of basic bookkeeping. As a result, account managers are trained to educate clients on bookkeeping and understanding bank statements through either seminars or individual sessions.
NBS Bank	Account managers are trained in interacting with SMEs and making referrals to service providers. They are also trained to interview clients to identify and find solutions for their financial service needs. The bank's management team tracks non-financial service activities through each employee's scorecard, which is appraised quarterly.
Planters Bank	The bank identifies SMEs' needs through the interaction of account managers with clients at the branch level. The account managers serve as consultants to their clients and make referrals to the private sector.
FNB Bank	Relationship managers and business analysts receive typical bank training in risk management and credit assessment. They are encouraged to attend the SME Compete training sessions to better understand SMEs' issues and needs. In addition, the relationship managers receive training to communicate the benefits of the SME Toolkit to clients and prospective clients.
Nedbank	This bank uses small business service managers at the branch level to address the needs of most SME clients. The top 20% of revenue-generating clients are closely monitored by relationship managers in area offices.
NIC Bank	Account managers are expected to work closely with clients and gain an understanding of their needs. If a client is seeking help, for instance, with the preparation of financial statements, then the account managers are expected to provide assistance without charge on a case-by-case basis.
ProCredit Bank	Both relationship managers and credit analysts handle clients at all levels. They do not rely on prospective SME clients' financial statements or business plans. Instead, the relationship manager interviews clients to identify their business needs and assess their potential for financial and non-financial services. The relationship managers and credit analysts then work with the prospective client to complete an in-depth analysis of the business, including a balance sheet, an income statement, a cash-flow analysis, and an analysis of business operations. Through this process, both ProCredit Bank and the client are able to better understand the business, the level of risk, and the financial products best suited to the client's needs.

SME clients and prospective clients and have the best understanding of SMEs' needs. Account managers are trained to understand SMEs' financial needs, suggest financial solutions, administer loans, and make appropriate referrals to service providers.

Table 3 provides examples of the roles account managers play in providing non-financial services to their SME clients.

Serving SMEs with Information Dissemination

PRINCIPAL SERVICES: PUBLICATIONS, SOFTWARE, AND WEB SITES

As noted above, 81% of the 21 banks provide information services to SMEs as a self-help resource for the business owners or managers. Many banks share media articles, brochures, white papers, or industry trade papers that include information on sound business practices, explain the export process, demystify the business start-up process or complex legal regulations, and share knowledge about other important business topics. Some banks provide industry magazines or economic papers that inform SMEs about market trends in their sectors or about indicators to assess the health of their country's economy. For example, Access Bank in Nigeria provides its SME clients with "The Market Intelligence Report," which reports data related to the economy and the financial industry to help inform businesses about the economic environment in which they operate.

Similar business topic information is also disseminated via the banks' Web sites or through business software (see Figure 3). Web sites offer self-help resources such as video testimonials by successful entrepreneurs, blogs discussing business growth challenges, listings of business-training providers, articles on best practices, and so forth. For example, Planters Bank in the Philippines hosts the online platform **SME Solutions**, which supports SMEs through event listings and information listings for companies in

consumer products, foods and agriculture, industrial products, and services. **IFC's SME Toolkit** is hosted through this Web portal. Planters Bank promotes SME Solutions and IFC's SME Toolkit through a series of road shows throughout the country. The bank's branches invite clients and prospective clients to these events and present the benefits of using the SME Toolkit and SME Solutions. ICICI Bank in India also hosts IFC's SME Toolkit. The site receives 40,000 to 50,000 hits per month and is the largest and most-used business Web site in India.

In another example, Access Bank in Nigeria provides the **Access SME Toolkit**, which is a free financial tool in CD format. This CD helps businesses with financial management and business planning by providing templates for business start-up plans and spreadsheets for cash-flow forecasting, profit and loss analysis, and a balance sheet.

Banco Santander in Brazil also provides business-planning software to SMEs, but it is coupled with additional services. **Banco Santander's online "Business Assessment" tool** assesses the entrepreneurship potential of prospective start-up businesses. The assessment consists of 60 questions about entrepreneurship and the applicant's business idea. If Banco Santander finds the idea acceptable, it provides the individual with a password to access business-planning software. The individual has two months to complete a business plan. Banco Santander is establishing a call center to manage all facets of this initiative. The call-center staff will review the submitted business plans and refer accepted plans to an account manager, who will investigate and submit a loan request, if appropriate.

Furthermore, several banks offer SMEs discounted rates on business resources. For example, Banco BCSC in Colombia offers SMEs Microsoft software at low cost through a negotiated deal with Microsoft. ICICI Bank negotiates discounts for the SMEs with providers of appropriate services such as business software, telecommunications, and accounting.

INNOVATIVE SERVICES: TELEVISION SHOWS AND SME EXCELLENCE AWARDS

Nedbank in South Africa is creatively using social media to educate SMEs about smart business practices. The bank aired a 13-episode **reality television show** called “Fix My Biz.” This show focused on practical advice for small businesses experiencing challenges, and business consultants on the show offered solutions to SMEs.

Other banks present public awards to SMEs to recognize high performance. Banco BCSC in Colombia presented its first SME Award of Excellence eight years ago. Last year, more than 600 SMEs applied for the award. Banco Galicia in Argentina presents numerous award programs, in cooperation with partners such as FedEx, at gala events on different occasions throughout the year to recognize key successes of both client and nonclient SMEs.

Figure 3: Innovative Models in Information Dissemination

BANCO SANTANDER	ICICI BANK
<ul style="list-style-type: none"> • Banco Santander provides an online enterprise resource planning software for all SME clients. • It is establishing a Call Center to support online business assessment for start-up SMEs and to process start-up loan applications. 	<ul style="list-style-type: none"> • ICICI’s SME Expo Series is a B2B platform offered with leading trade associations to offer SMEs market information about their industry. • In partnership with <i>Economic Times</i>, ICICI produced a 52-week running section with articles on critical success factors for SMEs.

Transferring Business Skills to SMEs through Training

As noted above, 76% of the 21 banks provide training services to SMEs to facilitate the learning and development of new and existing skills and to improve business performance. Innovative models of training provision include the use of SME business clubs and training targeted to women entrepreneurs.

TRAINING TOPICS

Banks reported that their SME clients often start their businesses without business planning. They also reported that to address this, SMEs need **training on effective business management**. Examples of business topics on which the various banks provide training are as follows:

- Business planning
- Marketing and sales
- Product design
- Financial management
- Business environment and regulations
- Accounting/bookkeeping
- Human resources
- Taxation
- Trade and export

TRAINING STRUCTURE

In partnership with service providers, banks provide training courses, workshops, and seminars in a variety of teaching formats, class sizes, and lengths. Table 4 provides some examples of the varying topics, formats, and audiences of bank training activities.

Westpac in Australia has learned from its experience that education and information programs have to be interactive. The session leader must be knowledgeable on the topic, but it is critical to combine lectures with break-out group sessions for in-depth discussions and sharing of best practices among the SMEs to maximize

Table 4: Details of Bank Training Programs

Banco Galicia–Argentina	Nedbank–South Africa	NBS Bank–Malawi
<p>Certificate for Foreign Trade Training: Training on trade and export by invitation to SMEs</p> <p>Format: 4-hour sessions for 7 weeks</p> <p>Audience: 25 SMEs</p>	<p>Seminar Training: Topics such as steps to starting a business, financial cash-flow management, and sales and marketing</p> <p>Format: 14 different venues twice a year</p> <p>Audience: 300 individuals</p>	<p>Information, workshops, and training sessions on formulating a business plan</p> <p>Format: 3- to 4-day training</p> <p>Audience: 50 SMEs</p>

their learning. Westpac offers a wide array of interactive workshops on business financial and management concepts in easy-to-follow and practical formats.

Several of the banks have innovative approaches to their training delivery. For instance, for the past six years, the Republic Bank in Trinidad and Tobago **partnered with local graduate schools** to offer a series of business seminars free to SMEs. Furthermore, ProCredit Bank in Macedonia also provides training to journalists through a Banking School for Journalists. The school annually provides a one-week training session on different facets of banking. The bank has noticed significant improvement in the quantity and quality of articles concerning banking in the print and electronic media in Macedonia.

BUSINESS CLUB MODEL

Barclays Africa's Business Club is the bank's main vehicle for providing non-financial services to SMEs. Participants in the Business Club pay an annual fee of \$150 and are able to attend seminars and training events on business topics such as interpreting the tax code, learning how to export, and learning about financial management, among others. The Business Club is very successful, and **in Kenya the Club has 10,000 members**. Business Club members also receive the services of a Barclays relationship manager, who offers specific advice and guidance on the businesses' financial needs. Barclays Africa's other major non-financial activity is organizing visits for clients to foreign countries such as China to learn about their business practices and build their network beyond Africa.

TARGETED TRAINING FOR WOMEN BUSINESS OWNERS

The Women's Markets Business Unit of Westpac in Australia has been in existence for more than 12 years. The focus of this business unit is to train, educate, and provide information to women business owners. Account managers conduct extensive needs analysis prior to establishing programs for women business owners. Support programs include seminars, events, a dedicated online resource providing networking support for women in business, and women's markets team, which offer women business owners leadership, education, and networking opportunities.

Nigeria's Access Bank, in partnership with IFC, established the Gender Empowerment Management (GEM) program. The GEM program emphasizes provision of information, training, and access to finance for women entrepreneurs in three major centers in Nigeria. Participants in the GEM program must be women who own 51% of a business or manage its day-to-day affairs.

Strengthening SMEs with Consulting Services (Coaching and Mentoring)

Only 19% of the 21 banks offer consulting services to SMEs. This is the least developed type of service, and no tier-3 banks from the study's sample are providing this sophisticated bank offering. Multiple explanations are plausible. Developing consulting service offerings, whether in the form of in-house consulting services at banks or in the form of partnership with consulting firms

providing SME coaching, is an expensive investment, compared to more basic offerings such as providing free information on the bank's Web site. Additionally, it may not be cost-effective for many banks, particularly larger international banks, to provide one-on-one services to a large volume of SME clients. Furthermore, playing the role of banker while also trying to offer business counsel could present a significant conflict of interest for bankers. Relationship managers could be held responsible for giving bad business advice to SME owners, and this could be a liability to the bank.

These factors present entry barriers for banks in developing consulting service offerings. Yet some banks are finding solutions to overcome these challenges and offering innovative consulting services, as business coaching is an important strategy to help SME owners and managers gain new business-management knowledge and skills and solve important business problems. Banks from tiers 1 and 2 that do provide consulting are doing so through one-on-one, in-depth support in the form of coaching and mentoring programs.

Nedbank has an **association with Business Partners International (BPI)**, which uses a large cadre of more than 800 retired business professionals who serve as **mentors to SMEs** to assist with financial, production, or operational challenges. Examples of mentors' assistance include the following:

- Working with clients in developing their business, taking into account the industry within which they operate, the life stage of their business, and the business's specific problems
- Offering specialized assistance needed for short periods (for instance, to help with budgets, administration, credit control, cash flow, information systems, marketing, human resources, and production)
- Offering sector-based assistance to businesses in manufacturing, trading, or services
- Providing turnaround services to assist businesses in financial trouble to restore profitability

Namibia's FNB is another bank that offers coaching and mentoring services through its **SMEs Compete** program. The program's primary objective is to improve SMEs' entrepreneurial, management, marketing, and information technology skills. More than 700 clients have upgraded their skills through SMEs Compete's training and coaching. Each of the SMEs Compete staff has a portfolio of 10 to 15 clients, which they visit on a monthly basis to provide one-on-one coaching. During these visits, they assess the businesses' current problems and help the owners find solutions. Clients graduate when SMEs Compete staff determine that they have a good grasp of the fundamentals of running their business.

Banks' Service-Provider Partners

A majority of the 21 banks interviewed indicated that they do not use their internal training centers for service delivery. Instead, they partner with a variety of service providers. Banks reported that 50% of their service-provider partners are international organizations. As shown in Figure 4, 79% of the 21 banks reported that they can identify sufficient service providers for current needs. Types of partner providers are listed in Figure 5 by frequency, and they range from training institutions to nonprofits.

Figure 4: Are There Sufficient Service Providers?

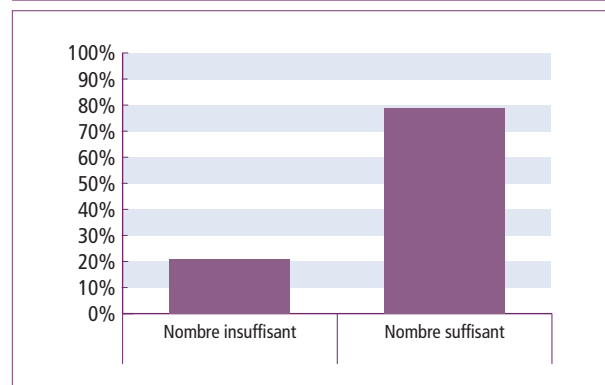
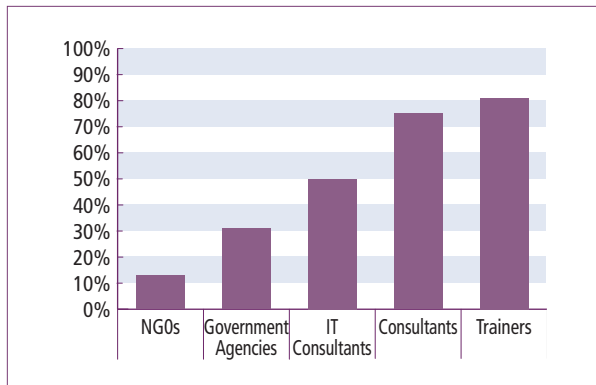
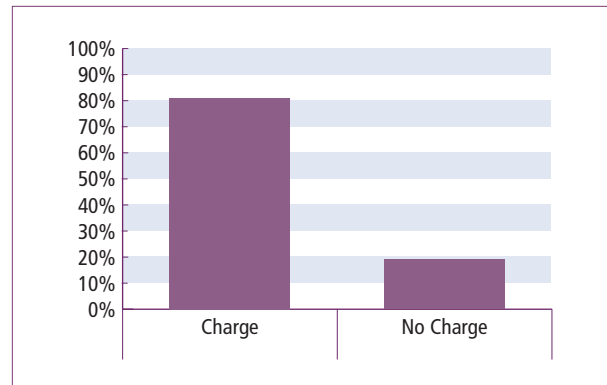


Figure 5: Banks' Main Service Suppliers**Figure 6: Do Banks Charge for Services?**

Pricing Considerations

Many banks charge at least a nominal fee for workshops and seminars, as the fee places value on the service being provided and ensures SMEs' commitment to attend. Banks reported, however, that many SMEs hesitate to invest in business training or consulting support because of high costs. For example, First National Bank reported that the fees of professional consulting firms in Namibia are usually higher than what 90% of SMEs are willing to pay.

Table 5 summarizes some of the bank's responses with regard to the pricing details of their non-financial services.

Several banks reported that it is not a good idea to provide non-financial services completely free of charge. First, charging fees creates an important demonstration effect. SMEs need to see that their peer businesses are willing to pay for non-financial bank services and that they place value on the service being offered and believe it can help improve their business practices. Second, it is important to charge fees because this will be sustainable in the long

Table 5: Examples of Fees and Financial Sustainability

Access Bank	Initially, IFC and Access Bank subsidized the GEM program. After three years, the GEM program is now fully self-funded from its operations. GEM program members pay a reduced fee for participation (\$15, versus \$20 for nonmembers).
Advans Bank Congo	The bank learned that it was important to inform Business Edge participants of the cost of coaching early in the process. Often there is resistance from microbusinesses and SMEs to paying fees for training because they are not accustomed to paying, as NGOs or international organizations often offer training for free.
Nedbank Namibia	SMEs pay 20% to 30% of the costs of the SMEs Compete training.
ICICI Bank	Initial mentoring sessions with knowledge experts through the CEO Knowledge Series are free.
NBS Bank	Information services are offered for free. Other services, such as seminars on preparing a business plan or record keeping, are either paid for on a cost-sharing basis (50%/50%) or paid for in full by the client.
Westpac	Currently, the bank does not charge participants for workshops.

term for the bank's business model. However, there is a trade-off between charging fees to ensure financial sustainability and subsidizing non-financial services to create access for smaller enterprises. This is a critical issue for the banks interviewed for this study, as well as for banks interested in entering the market of non-financial services provision in the future.

Measuring the Impact of Non-financial Services

Most of the banks interviewed **do not conduct ROI calculations** for their non-financial SME service offerings or use alternative quantitative measurements to determine the effect of non-financial services on their own profitability or on SME clients' business profitability. However, banks identify the need to move in this direction in the future. The following are examples of banks that use specific **measurement tools**:

- **Banco Galicia** in Argentina conducts global measurement of brand awareness and data analysis of Web site activity.
- **Banco Santander** in Brazil monitors the results of initiatives, access response rates, the number of hits to its Web site, and the number of phone calls to its call center.
- **Barclays Africa** measures business outcomes for SME client members of the Africa Business Club. The bank finds that, on average, Business Club members generate twice as much income as nonmember clients.
- **ICICI Bank** in India tracks the number of Web site hits for the SME Toolkit. ICICI Bank also calculates each non-financial SME service activity, measuring the number of quality leads converted into clients.
- **ProCredit Bank** in Macedonia uses mystery shoppers to conduct customer surveys to determine the level of client satisfaction and identify SMEs' needs.

Other Findings

Other noteworthy findings, based on interviews with the 21 banks, include the following:

- **Banks use a variety of marketing channels.** Banks use account managers as the main marketing channel for sharing information about their non-financial services (100%). Other channels include seminars or workshops (94%), Web sites (69%), information sessions (69%), software (25%), newsletters (19%), and brochures or books (6%).
- **Banks offer services in multiple locations.** A majority of banks offer information to SMEs via the Internet (75%). Also, banks offer seminars and workshops at the branch level (63%) and at major centers (37%).
- **Banks plan to expand current offerings.** Of the 21 banks interviewed, 50% plan to expand their current offerings, 47% plan to increase the volume of their activities, and 44% plan to increase the number of locations offering non-financial services. Additionally, 31% of the 21 banks indicated that they have started or are exploring partnerships with companies that offer SMEs assistance with business software, telecommunications, accounting, or consulting.
- **Banks modify service offerings.** Of the banks that differentiate their service offerings for different SME target groups, 56% reported that they modify their offerings for different sectors, and 31% reported that they adapt their services and products according to gender considerations.

CHAPTER 3

Banks' Familiarity with IFC's Non-financial Services for SMEs

The study found that IFC itself has strong brand recognition (100%) with banks but limited brand recognition for its SME Capacity Building products, Business Edge (31%) and the SME Toolkit (53%). The SME Toolkit is a free online program that provides resources and technology to help business owners learn business skills and management best practices. Globally, IFC's various SME Toolkit Web sites have more than 5 million visitors each year. The Business Edge Program is a comprehensive SME-management training program that consists of 52 courses on five topics: Marketing, Finance and Accounting, Human Resources, Production and Operations, and Personal Productivity Skills. As of 2011, Business Edge had more than 140,000 paying customers with an overall satisfaction rate of 89%.

Comments offered by representatives from banks that do not use IFC products provide some interesting insights.

First, several banks provided specific reasons why they are not using Business Edge and the SME Toolkit. Banco BCSC and Banco Galicia are familiar with IFC products, but are not using them for budgetary reasons.

Second, a couple of the banks expressed interest in partnering with IFC in the future. NBS Bank of Malawi

was not familiar with any of IFC's products, but was interested in partnering with IFC on the delivery of non-financial services in the following areas: marketing and sales, product design and business development, business planning, and financial management. Furthermore, the Republic Bank of Trinidad and Tobago was not aware of IFC's Business Edge program, but the bank was interested in learning more about this initiative because it considers the quantity and quality of support services currently available to SMEs in Trinidad insufficient.

Finally, Advans Bank of Congo uses Business Edge and provided some feedback about its experience. The bank believes that the IFC Business Edge program in the Congo is good and hopes to see it expand to other sectors. The bank's experience with the program's graduates has been excellent. The bank does not offer lower interest rates to Business Edge participants, but it requires less collateral for loans to the participants. By the end of 2011, IFC's Business Edge and SME Toolkit tools are, and have been, used by more than 41 banks and microfinance institutions to provide business tools, information, and training to SMEs and small businesses.

Conclusion

This report, *Why Banks in Emerging Markets Are Increasingly Providing Non-financial Services to SMEs*, presents information on 21 banks to better understand the demand- and supply-side considerations underlying banks' provision of non-financial service offerings to SMEs in developing countries.

As mentioned above, IFC's study is one of the first in the SME field examining banks' provision of non-financial services to SMEs in the developing world. Although this study generated interesting insights about the 21 banks interviewed, certain questions remain about larger industry trends, market gaps, and impacts.

This report found that the majority of the 21 banks started to offer non-financial services to SMEs in the past one to five years, and the findings suggest that the offering of these non-financial services is a growing market trend. This is supported by other World Bank Group reports that analyzed market trends in the SME banking industry in developing countries, which found that SME banking has

only recently emerged as a distinct industry.⁵ Future large-scale market studies in the field of non-financial banking services could provide more evidence and insights at an industry level.

Furthermore, additional research and analysis must be conducted to find out which types of non-financial bank services have the most effect on improving SMEs' business practices. Do they include direct support from account managers, information dissemination, training, or consulting? Also, which non-financial services offer the highest return to both banks and businesses? And how can banks rigorously measure and quantify the impact of their non-financial service offerings on their own profitability and SME clients' business profitability, in order to determine appropriate levels of investment in non-financial services? The answers to questions such as these could guide IFC and commercial banks in developing countries to better understand the training and non-financial support needs of their SME clientele.

5 IFC, "The SME Banking Knowledge Guide," 2009.

Part 2: Case Studies

TÜRK EKONOMİ BANKASI (TEB)

STANDARD CHARTERED BANK (SCB)

ICICI BANK



CASE STUDY

Türk Ekonomi Bankası (TEB)

PROVIDING COMPREHENSIVE NON-FINANCIAL
SERVICES TO SMEs IN TURKEY: A SUCCESS STORY
FOR BOTH BANK AND CLIENTS



TEB

Introduction

Despite being a latecomer to the Turkish SME banking sector, Türk Ekonomi Bankası (TEB) is now a market leader among Turkish banks in experimenting with new approaches to help small and medium enterprises (SMEs) improve their business practices and achieve growth.

TEB believed that providing capacity-building support to small and medium companies could have enormous potential in building a client base of healthy businesses, gaining new SME clients, increasing customer loyalty, and decreasing credit risk in the SME sector. With visionary leadership and steadfast commitment from TEB's CEO, board, and senior management, the bank has developed and implemented training, consulting, and information-sharing services for the past six years.

The results are impressive. The number of the bank's SME clients increased from under 20,000 in 2005 to just over 700,000 in 2011;¹ its SME loans as a share of total loans grew from 25% in 2006 to 44% by 2011; and loan delinquency rates in its SME portfolio decreased. Driven by the success in Turkey, BNP Paribas (one of TEB's larger shareholders) replicated some of TEB's non-financial services in Algeria and is looking to further replicate this model in select European markets.

This case study reveals how TEB's leadership made the decision to enter the SME market with a different banking approach centered on the provision of non-financial services. It also describes key aspects of this approach and how it has generated strong bottom-line results for the bank.

¹ These numbers also reflect a merger with Fortis Bank in 2010.

Background

TEB was originally established in 1927 as a small-scale regional bank (named Kocaeli Bankası). By 2004, it had grown into an established Turkish banking brand, covering all geographic regions of the country with operations in corporate, commercial, retail, private banking, and treasury activities. TEB was very strong in corporate banking, serving large top-tier Turkish and international blue-chip companies. Reflecting this corporate orientation, its systems and approach were geared toward meeting the banking needs of large firms and were characterized by long-term relationships and low-volume, high-value transactions.

Although TEB's traditional focus on corporate banking achieved favorable results and helped the bank build its reputation among clients as a trusted partner, TEB realized that it needed to innovate in order to maintain its edge in an increasingly competitive banking industry. By the mid-2000s, securing new business from Turkey's largest corporations was becoming increasingly difficult owing to heightened competition and the corporate sector's relatively slow growth following Turkey's financial crisis in 2000–2001. As a result, profit expectations for the corporate banking sector were considerably lower than they had been in the past.

To counter this situation, TEB senior management knew that the bank's existing model and client mix would need to be adapted if TEB hoped to maintain and improve its market position in the highly competitive Turkish banking sector. Specifically, TEB would have to focus more aggressively on developing new domestic markets with higher prospects of profitability. Drawing upon their personal experience as former relationship managers and branch managers, TEB decision makers knew that Turkey's burgeoning SME market had a high profit potential and was also underserved by the bank's competitors. Senior management also knew that many of Turkey's larger banks had already been starting to eye the SME market, for the same reasons TEB was taking an interest in this segment.

For these reasons, in 2004, TEB's management surveyed the Turkish banking landscape to better understand the emerging trend of increased bank lending to SMEs. TEB's market research confirmed senior management's suspicion that the SME market was expanding far more rapidly than the corporate market (see Table 1 below). Research also confirmed that some of TEB's larger competitors were moving into SME banking as well. As a result of these factors, TEB decided to enter the SME banking market.

Developing an SME Banking Strategy

SMEs represented an attractive market to TEB. According to the Turkish Statistical Institute, in 2002, there were approximately 1.85 million micro, small, and medium enterprises (MSMEs)² compared with approximately 1,850 large enterprises (see Table 1). Moreover, the government data showed that SMEs were outpacing the large-enterprise sector in terms of number of businesses. For example, the number of SME businesses increased by 172% from 1992 to 2002, significantly more than the large-enterprise sector, which grew by 96% in the same time period. Clearly, the SME banking market was expanding faster than the large-enterprise market in Turkey. TEB management knew from market contacts and personal experience that the sector was underbanked and untapped, presenting an attractive market opportunity for TEB.

However, the large size of the SME segment, combined with the fact that TEB was a relative latecomer entering the SME market, required that the bank formulate an effective strategy that would enable it to focus as well as differentiate itself from other banks. Competing on price

was not a viable option because, as a new player in the SME market, TEB needed time to develop the appropriate risk-adjusted pricing structure for its SME products and services. Also, TEB would have difficulty competing on volume, because it had a narrower branch network than its larger bank competitors: TEB had 113 branches, compared to larger banks that had at least 600.

As a starting point for expanding its SME banking business, TEB decided to extend the strong brand recognition and trust that it had built with its corporate clients to SMEs by targeting smaller companies that were suppliers and distributors of TEB's larger customers as well as SMEs that were already in the bank's existing portfolio.

However, TEB knew that to capture a significant share of the SME sector, it would have to innovate and provide SMEs with something that other banks did not offer. Toward this end, senior management invested significant resources to learn about the unsatisfied demands of Turkish SMEs in terms of financial and non-financial support from banks.

Table 1: Turkish Firms by Size and Growth of Sector, 1992–2002

Enterprise size	No. of employees ^a	No. of enterprises 1992	No. of enterprises 2002	% increase 1992–2002
Micro	1-9	1,047,102	1,788,835	70.8%
Small	10-49	21,200	58,521	176%
Medium	50-250	3,663	8,984	145%
Large	251+	943	1,851	96%
Total		1,072,908	1,858,191	73%

^a TEB's SME definition mirrors the Turkish government's definition, but the ranges are slightly different. Based on annual turnover (in US\$), TEB's categories are as follows: micro = less than \$1 million; small = between \$1 million and \$10 million; medium = between \$10 million and \$20 million.

Source: Turkish Statistical Institute

² "SMEs" in this case study refers to MSMEs, because TEB groups microenterprises together with SMEs in its small business banking and non-financial services.

Understanding the Turkish SME Banking Client

TEB realized that the financial sector was not equipped to deeply analyze the behaviors and workings of SMEs, and that it could gain a comparative advantage by developing intimate knowledge of the SME market. To do so, it conducted an unofficial market survey to gather primary research and tasked relationship managers (RMs) at the branch level to share information with bank management about SMEs' banking behaviors and preferences, based on their observations, interactions, and data on their current customer base.

Through this market research, TEB learned that Turkish SMEs face three key challenges in growing their businesses: (1) limited access to information, (2) lack of technological know-how, and (3) limited capacity for research and development. Of these three constraints, TEB found that limited access to information was the most pressing problem; SMEs lacked market information as well as knowledge about long-term business planning.

TEB's clients face a challenge common to SMEs around the world—an unsophisticated understanding of markets and market demand. They tend to sell what they can produce based on their technical knowledge and production capacity instead of what the market demands. SME owners typically lack the resources or skills to conduct market research on the preferences of domestic and international consumers. They also have limited access to information about market prices and other important market data. This has tremendous implications for both SMEs and the banks supplying finance to SMEs. If the gap between production and market demand is too large, the business can experience declining profits and may be in danger of defaulting on its bank loan. TEB recognized an opportunity to help SMEs address the problems of poor access to information and limited business-planning skills.

Formation of TEB's Value Proposition to SMEs

Based on its market research, TEB decided that a cornerstone of its SME strategy would be the design and delivery of comprehensive and innovative non-financial services to SMEs. Every non-financial service—consultancy, training, and information sharing—was designed to achieve the greater goal of supporting SMEs in strategically planning their future and growing their business. Such an approach would yield strong benefits both to SMEs in terms of growth and to the bank through increased profitability in its SME portfolio. TEB also believed that providing capacity-building services would allow SME clients to feel that their needs had been understood and addressed by the bank and this would build their trust, make them more loyal bank clients, and encourage them to use more financial products and services offered by TEB.

TEB set out to become not only a bank for SMEs but also their provider of technical services. The bank would not only focus on the financial needs of its clients, but also address their non-financial business problems. This was the unique value proposition TEB planned to offer. (See Figure 1 for a list of TEB's SME banking products.)

Figure 1: TEB's Standard Banking Products for SMEs

Cash loans for working capital
Cash loans for investment
Letters of credit and loan guarantees
Receivable discounts (including export)
Import and export transactions
Cash management solutions
Time deposits, mutual funds, and treasury bills
Supplementary services: insurance, factoring, and leasing

Designing and Rolling Out New Non-financial Services

ESTABLISHING A DEDICATED SME BANKING DEPARTMENT

In mid-2004, TEB established a dedicated SME Banking Department and began to develop the necessary organizational infrastructure to support the delivery of its non-financial services and banking approach to SMEs. At the time, the department started with a team of four staff members in headquarters—which since has grown to 60 staff members in the SME Banking Group, including sales, marketing, product, and strategy departments—to manage TEB's SME banking operations, including the oversight of all its non-financial services.

DEVELOPING A COMPREHENSIVE BUSINESS PLAN

Entering new territory required serious commitment and planning. A business plan covering a three-year period guided TEB in all aspects of the process. TEB management invested the time up front to define its vision and strategy for SME banking, determine its financial goals, and decide on plans for marketing, finance, operations, and human resources. Moreover, management decided to cover the start-up investment costs and ongoing operational costs from the bank's core business budget.

Contrary to conventional practice, TEB initially made a conscious decision that it would not charge fees for the majority of its non-financial services. As TEB's relationship managers knew, many Turkish SMEs did not have the time or feel the need to attend trainings or seek opportunities to invest in business education opportunities. The RMs were skeptical that SMEs would be willing to pay for capacity-building services they did not believe would benefit them. The first step toward motivating SMEs to engage with TEB was to increase the SME owners' awareness that they needed support and that there is value in learning new business concepts and skills. After attending training or receiving consultancy advice from the bank, they would

understand how long-term business planning and other business tactics like market research could improve their businesses. Sustained engagement could potentially lead to long-term bank loyalty and cross-selling of financial products.

Experimenting with New Ideas

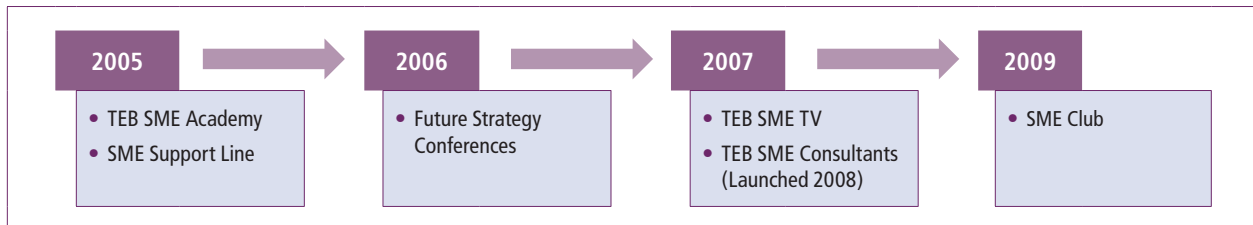
Through a phased approach, TEB created a comprehensive package of non-financial services: TEB SME Academy, TEB SME TV, TEB SME Club, TEB SME Support Line, TEB SME Consultants, Future Strategy Conferences,³ and a CSR Project (2007).⁴ Clients select individual services based on their needs. TEB designed TEB SME Academy and SME Support Line early on, and the other non-financial service offerings evolved over time (see Figure 2), as the bank continued to learn about its SME clients' non-financial needs.

Starting with TEB SME Academy

TEB began offering training services to both SME clients and prospective clients in 2005 through TEB SME Academy. This initiative is a training program that aims to help SMEs increase their competitiveness in local and global markets and to enhance SMEs' strategic-planning capacity. The training events are offered on a monthly basis in different Turkish cities. The bank developed a strategic partnership with Girişim Danışmanlık, one of Turkey's leading companies in SME training and

3 TEB implements the Future Strategy Conferences initiative, which convenes the bank, local government officials, private-sector leaders, and other city stakeholders to engage in strategic planning for local economic development planning. This initiative is not covered in this case study.

4 TEB also manages the SME Corporate Social Responsibility (CSR) Project, financed by a 12-year loan agreement with Agence Française de Développement (AFD) valued at 40 million euros. The project aims to create CSR awareness among Turkish SMEs. This project is not covered in this case study.

Figure 2: TEB's Non-financial Service Offerings

consulting services, to leverage the firm's expertise and help build the success of TEB's training program.

Four important design and implementation principles helped make TEB SME Academy a successful offering for Turkish SMEs:

1. KEEP IT SHORT AND ACCESSIBLE

First, the training is limited to a one-day session. SME owners and managers are very busy with day-to-day management issues and cannot afford to attend lengthy trainings.

2. MAKE IT RELEVANT TO SME NEEDS

Second, TEB makes the training relevant to the needs of Turkish SMEs. Based on previous market research, the bank decided to focus the training content on strategic planning and competitiveness. As mentioned above, many SMEs do not engage in strategic planning and do not have long-term growth strategies. The training aims to build their capacity for strategic planning, to understand their business from the perspective of the market, and to identify and respond to market opportunities for their products and services. Furthermore, TEB SME Academy offers workshops that address other business needs identified in TEB's market research: foreign trade, growth strategies, and process management.

3. ENSURE INTERACTION AND MUTUAL LEARNING

Third, the training structure caters to different learning styles and provides opportunities for interaction. TEB SME Academy includes expert lectures along with interactive workshops and case-based learning examples. The interactive learning workshops are a strong focus of training events because they allow SME participants themselves to select topics most relevant to their businesses and to network with other businesses.

4. LEVERAGE CONTENT EXPERTS

Fourth, TEB recruits reputable SME topic experts to deliver lectures for TEB SME Academy that have credibility with an SME audience. Education and experience credentials are important for trainers and instructors in Turkish culture. Therefore, TEB successfully secures respected SME figures—such as tax law experts, foreign trade experts, and well-known SME authorities—to serve as guest speakers.

Successful implementation of these four training principles has been key to TEB SME Academy's success (see Figure 3 for an example of how the program is designed according to these principles). Since 2005, TEB SME Academy has delivered more than 50 training sessions in 32 cities and achieved participation by more than 10,000 businessmen and women. Although SMEs do not pay to attend the training, TEB SME Academy helps bring bottom-line results to TEB's SME portfolio. It provides a forum for bank staff to initiate direct contact

**Figure 3: TEB SME Academy Training Sample Agenda
(Varies by Event)**

09:15 – 09:30	Registration
09:30 – 09:45	Opening Speeches (TEB General Manager & Presidents of SME related NGOs)
09:45 – 10:00	TEB SME Banking Approach (TEB SME Banking Ass. General Manager)
10:00 – 10:45	Recent Changes in Tax Legislation (Tax Expert Ph.D. Sükür Kizilot)
10:45 – 11:00	Coffee Break
11:00 – 11:30	Global Competition, State of Play of Turkish SMEs and Future Strategy Alternatives (TEB SME Consultant, Ph.D. Tamer Muftuoglu)
11:30 – 12:30	Turning “Growth” into “Corporate Development” for SMEs (Consultant Firm)
12:30 – 13:30	Lunch
13:30 – 17:30	Workshops

with SMEs and bring new clients to the bank. TEB’s data show that 60% of attendees are clients and 40% are prospective clients, and that 60% of these prospective clients end up becoming clients. Additionally, through the SME Academy, the bank deepens its relationships with its existing client participants, creates strong brand recognition and demonstrates TEB’s commitment to and leadership in the SME sector.

Deepening the Approach through TEB SME Consultants

TEB SME Consultants is a non-financial service offering that complements TEB SME Academy. While TEB’s SME Academy training-delivery model reaches a large number of Turkish SMEs with a “low-touch” service,⁵ TEB SME Consultants service takes SME support to a much deeper level and provides a “high-touch” service.

⁵ A low-touch service is characterized by a low level of tailored personal contact with customers, as opposed to a high-touch service, which is defined by high level of customized, direct contact with customers.

TEB management believes it is important to understand the full potential and risks of its SME clients. Therefore, it adopted a 360-degree approach in analyzing its clients so that the bank has a more comprehensive assessment of a client’s company, understanding not only the financial aspects of the business, but also its business strategy, production, sales and marketing, human resources, and organizational infrastructure.

Management launched TEB SME Consultants in 2008 to implement this new approach to banking SME clients. Through TEB SME Consultants, highly trained RMs provide free one-on-one consulting services to the bank’s SME customers.⁶ The relationship begins with a detailed company analysis report. The RMs, trained as consultants, analyze the client’s business to identify strengths, detect business problems, and provide a data-driven basis for recommendations.

This is a highly innovative approach to offering non-financial services. It can potentially strengthen SME business performance and thus reduce loan delinquency risk. However, there is the risk in this approach that SMEs may blame TEB for bad advice in cases where the business performs poorly or defaults on its bank loan.

To address this concern, TEB management has made an important distinction between consultancy recommendations and business suggestions. The bank does not provide direct consulting services to SMEs as management consulting firms do. Instead, trained RMs assess SME clients from a non-financial perspective, in addition to the standard financial analysis, and use this as a basis for diagnosing business problems and offering related suggestions. TEB’s clients then decide for themselves whether to receive these suggestions and apply them to their businesses. Over the past three years, TEB reports that it has not encountered any conflict-of-interest cases in its SME Consultants program.

⁶ Recently, TEB has also launched a similar consultancy program for micro clients called Micro Business Experts.

Table 2: TEB SME Consultants Training Phases

Phase	Qualification	Period	Role
SME Guide	RMs (assistant branch managers) who have worked at least 6 months at TEB and have good performance on their banking scorecard can qualify for the training.	Training lasts for 5-6 months.	Through company analysis reports, determine existing problems of SME clients and assess businesses in terms of strategic management, growth management, and enterprise operations.
SME Expert	Completion of SME Guide training. Good performance on banking scorecard.	Training lasts for 5-6 months and is certified by TOBB Economy and Technology University.	Provide guidance and suggestions to SME clients in one of four specialized business areas: 1. Domestic sales and marketing 2. Foreign trade 3. Production management 4. Finance management
SME Consultant	Completion of two different SME Expert trainings. Good performance on banking scorecard.	Level can be reached at the end of 24 months.	Consult SME clients, drawing on broad knowledge and solutions expertise. Consultancy will be offered in 1. Sales and marketing 2. Reconstruction 3. Investment management

TEB's consultants make sound suggestions, grounded in the extensive business management training they have received. Their training spans two years, in three phases: SME Guide, SME Expert, and SME Consultant (see Table 2 for a description of each phase). The TEB SME Consultants program requires significant investment in TEB's RMs in terms of financial resources, time, and partnerships. TEB's SME Banking Department works in collaboration with the bank's training department, with Girişim Danışmanlık consulting firm, and with TOBB Economy and Technology University, one of Turkey's leading academic institutions, to develop the curriculum, implement the training, and provide human resources support.

One of the advantages of SME Consultants is that it helps to develop a cadre of competent bank staff members that are deeply educated in business topics. After RMs complete the three phases of training, they gain two years of specialized training in business administration. RMs approved for the SME Consultants training program sign a two-year contract with TEB; this encourages retention of staff members that receive advanced training. Another benefit of SME Consultants is that it creates long-term commitment and satisfaction among bank employees. The average turnover ratio of SME consultants is lower

than that of other bank employees. No other bank in Turkey offers this training program to its employees. To date, 300 TEB RMs, out of 550 SME-focused RMs, have completed training as SME Guides and SME Experts and are preparing to complete the training as SME Consultants. This cadre of RMs has prepared 800 company analysis reports and provided consulting services to hundreds of SME clients. The majority of TEB's branches have at least one SME Guide to offer this service to SME clients, providing wide coverage.

Expanding through Diverse Offerings

TEB offers a range of other support services. As with TEB SME Academy and TEB SME Consultants, the main scope of TEB's other offerings is to provide access to information and build SMEs' capacity for business planning and growth. TEB tries to reach SMEs using every available channel: telephone support lines, Web sites and videos, and discount clubs.

TEB'S SME SUPPORT LINE

TEB's SME Support Line is a free and dedicated information phone line, which is available 24 hours every day of the

week. SMEs can call this line to receive information about any business topic that is useful to their operations. In many cases, TEB Support Line staff can refer the callers to topic experts and get immediate answers to their questions. The line provides information services on many pertinent topics, such as tax and auditing, foreign trade, EU funds, leasing, and insurance. The line receives an average of 150 to 200 calls monthly.

TEB SME TV

TEB further helps SMEs gain immediate access to relevant information for their business through TEB SME TV, a business-oriented Internet television service that provides dynamic Web and video content through the Web site www.tebkobitv.com. TEB SME TV has more than 5,000 videos. The Web site provides the latest information related to the Turkish economy and global markets, including financial information, recent changes in legislation affecting SMEs, new trends in production and marketing, and a range of other relevant information. The Web site is accessible to all SMEs in Turkey. However,

there are special features on the Web site that are available only to TEB SME TV members. For example, members can pose questions to well-known SME experts and receive responses in the form of TEB videos. Videos about taxes and incentives are most popular with users. The Web site receives 20,000 hits on a daily basis, and TEB SME TV has more than 94,000 SME members.

TEB SME CLUB

TEB helps SMEs gain access to discounts and build purchasing power collectively through TEB SME Club. This is one of the largest business-to-business platforms for SMEs in Turkey, creating business relationships between SME consumers and large corporate suppliers. Through this membership-based loyalty club, SMEs receive discounts of up to 70% from companies that offer products popular with SMEs, such as UPS, Xerox, and Google. Only TEB clients can join TEB SME Club as members; the club presently has 15,500 SME members. A member pays US\$125 as an annual fee and can receive up to \$12,500 in corporate discounts.

Measuring Return on Investment

TEB management and staff are continuously learning from experience and using the learning to understand the impact TEB's non-financial services have on both SME clients and the bank. TEB closely monitors the cost of implementing non-financial services. The total annual cost, reflecting only management costs, to TEB is US\$1.6 million. TEB's management information systems have the capacity to track the outputs of each of its non-financial service activities, such as attendance for training events, number of monthly calls to the phone support line, number of Web site hits, membership levels, and so forth. Specific results associated with each service offering are also listed in Table 3 below. The highest-cost service, TEB SME TV, also generates the greatest scale in SME coverage.

Table 3: Outputs of TEB's Non-financial Services

Service	Outputs
TEB SME Academy	Since 2005, training in 32 cities has reached over 10,000 businesspeople, with an average of 300 participants per event.
TEB SME TV	More than 5,000 videos; 20,000 daily visits; over 94,000 members
SME Support Line	150 to 200 calls per month
TEB SME Club	Since 2009, 15,500 members and 45 business partners, resulting in over \$1,500,000 yearly transactions
TEB SME Consultants	180 SME Guides and 120 SME Experts trained and 800 company analyses conducted

While the cost of implementing a given service can be evaluated against the direct results it yields, such as number of participants, it is much more difficult to measure the return on investment in terms of bank profitability and SME delinquency risk. TEB does not have the capacity and information technology to measure which of the non-financial services have the greatest effect on improving SME clients' business practices and

which ones offer the highest return on investment for TEB. However, TEB is able to quantitatively measure the benefits associated with the provision of some of these services, as demonstrated in Table 4. In general the bank is confident that its SME non-financial services strategy helps grow its SME business, deepens its relationships with existing SME customers, and leads to new SME customer acquisition, and therefore it continues to invest in these non-financial services.

Benefits to TEB: Client Acquisition, Customer Loyalty, Cross-Selling, and Profitability

TEB's provision of non-financial services leads to acquisition of new clients and increased loyalty among existing clients. Also, the bank can bundle non-financial and financial products together and cross-sell products to existing customers. Table 4 highlights benefits to the bank that TEB SME staff associate with each of the non-financial service offerings. Wherever possible, benefits are quantified, though TEB does not have the capacity to quantify each benefit associated with its non-financial services.

One way TEB is able to measure the benefits of its services is by tracking attendance at TEB SME Academy and measuring client acquisition. As noted above, TEB's data show that 60% of attendees are clients and 40% are prospects. Of the 40% that are prospective clients, TEB is able to acquire 60% as clients, which translates to 72 new clients per event and 576 new clients on an annual basis, at a cost of about \$555 per new client. According to TEB, the revenue it generates from a new client is about three times higher than the cost of acquiring one through the SME Academy.

While TEB is able to calculate the financial profitability of TEB SME Academy, it has not yet developed the

Table 4: Benefits to TEB from Non-financial Service Activities

Service	Benefits to TEB
TEB SME Academy	<ul style="list-style-type: none"> • Supports new customer acquisition. Each training event has approximately 300 SME participants. 40% are prospects and TEB is able to gain business with 60% of the prospects, resulting in approximately 72 new clients per training event and 576 new clients per year (from 8 events per year). • Builds loyalty of existing clients. • Strengthens brand awareness and positive PR image for TEB.
TEB SME TV	<ul style="list-style-type: none"> • Supports new customer acquisition. SMEs that apply for SME TV membership are automatically directed to the nearest branch. The branch sales officer checks if the member is a bank customer, and if not, he/she contacts the member. • Strengthens TEB brand awareness. Has mass market reach with 20,000 daily Web site hits. • Sustains loyalty of current customers that use the Web site and become members (although it is not necessary to become a TEB customer to view the Web site and videos).
TEB SME Support Line	<ul style="list-style-type: none"> • Sustains loyalty of current customers. • Increases cross-sales to current customers through the opportunity to introduce specific products to callers.
TEB SME Club	<ul style="list-style-type: none"> • Supports new customer acquisition. Nearly 1,800 companies that were not TEB customers applied for SME Club membership. • Generates bank revenue. • Strengthens TEB brand awareness and PR image. Through coverage in 40 different news outlets, TEB reached an estimated 5 million individuals.
TEB SME Consultants	<ul style="list-style-type: none"> • Increases cross-sales to current customers. • Supports new customer acquisition through word-of-mouth advertising. • Reduces risk profile of current customers and lowers loan delinquency rates. • Sustains the loyalty of current customers. • Strengthens and diversifies expertise of TEB employees. • Increases employee loyalty through investment in training and incentives.

capacity to calculate the benefit-cost ratio of its other non-financial service offerings. This is due to the fact that some of its products, like TEB SME TV and TEB SME Support Line, are much more costly and difficult to track. Nevertheless, TEB management is confident that TEB's decision to focus aggressively on SMEs by developing innovative non-financial services to better serve them has yielded benefits to the bank. TEB's formal and informal market research reveals that SMEs associate positive brand recognition with TEB. Although TEB cannot provide evidence of direct causation, it is highly plausible that high-visibility and high-coverage activities such as TEB SME TV and TEB SME Academy have increased TEB's brand recognition and consequently the number of its SME clients. For example, as mentioned above, the number of the bank's SME clients increased from

under 20,000 in 2005 to just over 700,000 in 2011, and TEB's SME loans as a share of total loans grew to 44% by 2011 from 25% in 2006. Moreover, TEB is the 10th-largest private bank in terms of asset size in Turkey, but it is the fifth-largest bank in terms of number of point-of-sale (POS) machines and volume of transactions. This suggests a high SME market share, because 95% of merchants (POS owners) are SME customers. However, TEB has not conducted impact measurement to be able to determine that it is non-financial service provision that is driving these changes, and not other factors such as the merger with BNP Paribas or market conditions. Similarly, the provision of non-financial services could be correlated with a decrease in SME delinquency loss and an increase in bank profitability per SME client during this time period.

Benefits to SME Clients: Feeling They Are Valued Bank Clients

Typically, banks take a wholesale approach to banking SMEs, focusing on high-volume transactions, minimal personal interaction, and standardized products. Though this approach creates efficiency gains for banks, it leaves the SME customers feeling that they are just an account number to their bank and that the bank does not take the time to develop a relationship and listen to their specific banking needs and preferences.

Unlike these other banks, which deliver standardized products and a uniform approach, TEB tailors its offerings to its clients. RMs spend individual time with SME customers to learn about their respective businesses and assess which of TEB's non-financial services could add the most value. SME Guides and SME Experts spend significant time with SME customers to conduct company analysis reports and diagnose the strengths and weaknesses of each company, thus gaining intimate knowledge of the SME owner and the workings of his or her business. TEB's approach builds trust with its clients and is responsive to SMEs' preference for personal contact with their bank.

Benefits to SME Clients: Improving Business Practices and Achieving Growth

TEB's non-financial services—training activities, personalized consultancy sessions, and multiple outlets for information sharing—help SMEs gain new skills and business knowledge to increase their productivity and income.

The story of Ibrahim Afyon, an egg producer, illustrates how TEB clients benefit from receiving non-financial services from the bank.

CLIENT SNAPSHOT

Many Turkish SMEs have difficulty exporting their products. Small manufacturing firms face a range of problems in entering markets beyond Turkey: meeting international product-quality standards and specifications; lacking sufficient market information about prices and consumer demand; being unfamiliar with trade regulations and customs issues; and lacking capital to finance increased production. Additionally, in many small firms, the SME owner is typically in charge of export activities, yet lacks international business experience and critical foreign-language skills.

One of TEB's SME clients, Mr. Ibrahim Afyon of Afyon Etas Poultry Company, was facing such challenges. Since childhood, Mr. Afyon helped his father with the family egg business and learned everything about egg production. When he inherited the egg production company in 1990, he helped grow the company and increase the number of chickens from 5,000 to 150,000, exponentially increasing the business's production capacity.

For many years, Mr. Afyon wanted to move his company to international sales, but lacked the business know-how and confidence. In 2009, he decided his company needed to export in order to survive financially. At the time, the Turkish domestic market was shrinking because of the global economic crisis, and his business sales were also shrinking. He turned to TEB SME Consultants to help him expand to international markets.

One of TEB's SME consultants visited Mr. Afyon's firm and conducted a diagnosis of the firm's foreign sales capacity, which included detailed international market research for the capitalization of its production in foreign markets. TEB's diagnosis suggested that the firm should begin exporting at a small scale to see if it could compete internationally. As a result, Afyon Etas Poultry sent its first container of eggs to Iraq as a trial. After initial success, Mr. Afyon began exporting on a larger scale and sold 20 containers of eggs. The company's annual export value is now approximately US\$2 million, and the profit on the trade is 43 percent. Currently, 20 percent of the company's production is for local markets and 80 percent is for export.

Looking to the future, Mr. Afyon wants to begin exporting regionally to new markets such as Azerbaijan and to become a larger integrated company. Feeling loyalty and trust toward TEB, he says he plans to continue working with TEB SME Consultants for advice as he expands his export production, and he will continue to use TEB financial products for all of his financing needs.

Conclusion and Looking Ahead

TEB has developed a highly successful and innovative range of non-financial services geared toward the SME market. One of the most compelling aspects of TEB's approach is how it has been able to successfully integrate the delivery of financial and non-financial services to SMEs. TEB's demand-driven approach to non-financial services has helped to differentiate the bank from its competitors and advance its position in a highly competitive market. By offering innovative and high-quality business development services TEB has significantly expanded its client base.

Looking ahead, TEB plans to continue to innovate by developing new non-financial service offerings and expanding the reach of existing ones. For example, TEB is considering designing business support services and counseling for start-up enterprises. According to the Turkish Ministry of Industry and Trade, 80% of newly established firms in Turkey close within five years. TEB wants to help start-up businesses be more successful and increase their chances of survival. As another example, TEB management also wants to build a set of non-financial

services tailored to the needs of agribusinesses and farmers. This represents an underbanked market segment, and there is opportunity to be a first mover in creating new banking services for the sector.

In order to maintain its competitive position, TEB is aware that it needs to continue to think innovatively and offer unique services that add value to both the bank and the SMEs it serves. In doing so, TEB hopes to continue to build on its position as a leading Turkish bank that not only sets the standard for non-financial services in Turkey, but also serves as a cutting-edge model for banks in other countries as well. Toward this end, TEB has successfully provided knowledge sharing and assistance to BNPP Algeria, which led to BNPP Algeria successfully implementing an adapted version of SME Academy in Algeria in 2007. As a result, BNPP Algeria has hosted 14 SME Academy training events since the program's launch and is planning seven events for 2011. Moving forward, TEB will help BNP Paribas to introduce SME Academy and other elements of its non-financial service offerings to European markets in Italy, Belgium, and France.

CASE STUDY

Standard Chartered Bank (SCB)

GETTING CLOSER TO SMEs THROUGH
NON-FINANCIAL SERVICES



Introduction

Standard Chartered Bank (SCB) is committed to supporting small and medium enterprises (SMEs), which are key drivers of growth and employment across the bank's markets in Africa, Asia, and the Middle East. Recently, SME banking has become an increasingly important part of SCB's operations. The bank has dedicated SME operations in 30 countries, serving over 650,000 SME customers. In 2010, SCB provided US\$17.575 billion in lending to SMEs, an increase of 32% from 2009, and launched new financial products and services tailored specifically to meet the needs of these vital SME customers.

As SCB has become more engaged with the SME sector, the bank has realized that providing financial services

alone to SMEs may not be enough: SMEs need targeted business training to reach their full potential. To this end, SCB has been offering a variety of non-financial services to SME customers to strengthen their capacity and to add value to this important client segment. Currently, SCB is beginning to develop a strategy for offering a more programmatic approach in the delivery of non-financial services across its various geographic markets. This case study discusses SCB's SME banking practice and profitability, shares information about the bank's past and current SME non-financial service activities, and assesses the bank's decision-making process as it is refining its future SME non-financial services strategy.

Understanding the Broader Context: Standard Chartered Bank's SME Banking Practice

SCB's interest in more aggressively entering the SME non-financial services space, and its potential to define a business case for the provision of SME capacity-building services, are better understood within the broader context of its successful SME banking practice.

Group SME Banking has been responsible for the fact that SME banking has become an increasingly important part of SCB's business operations in the past five to ten years. SMEs are an important customer segment for the bank across markets in Africa, Asia, and the Middle East. The bank believes that profitability lies in the growth potential of the SME segment in emerging economies. The SME sector tends to grow as a proportion of the economy as the economy develops.

Identifying SME-Market Growth Trends

A 2010 white paper conducted by SCB's research division, "Special Report: SMEs' Changing Role,"¹ confirms the bank's important assumption that there is growth potential in the SME market. This study provides the bank with new data on both the challenges and the growth potential of SMEs in Asia, one of SCB's key markets. In Korea, SCB's top SME lending market, SMEs account for 99.9% of enterprises and 87.7% of employment. In Singapore, another top market for SCB's SME lending, SMEs account for 99% of businesses, 60% of employment, and 49% of value added. This study also quantifies the top 10 SME markets in Asia by bank lending revenue and forecast growth percentages, as shown in Table 1.

Table 1: SME Banking Revenues, 2007

	2007 USD billions	Forecast growth
Japan	46.0	1
China	36.0	13
Australia	12.0	7
Korea	6.6	-6
India	6.0	12
Hong Kong	5.8	5
Taiwan	2.8	5
Indonesia	2.3	13
Thailand	1.4	0
Singapore	0.7	4

McKinsey data and forecasts.

Source: Understanding the SME Landscape—Opportunities for Indian Banks, McKinsey study.

As emerging markets grow, SMEs also grow and begin to demand increased financial assistance from banks. They need working capital and loans to expand their production and grow their business. They also need transactional products and services such as automatic payroll and payment collection, debit cards, cash management, and others. SCB's experience has shown that compared to larger corporations, SMEs typically remain loyal to their main bank to meet the full range of their financial needs.

Tailoring Bank Products for Different SME Client Segments

Over the years, SCB has tailored its credit and transactional financial products to specifically meet the needs of these vital SME customers and has differentiated its products, particularly for female clients. Recognizing the growth and value of female SME customers, in Bangladesh and Malaysia, SCB offers a tailored business installment

¹ http://www.standardchartered.com/sme-banking/en/SMEs_changing_role_30_09_10_05_29.pdf

loan, which provides unsecured and partially unsecured loans to female entrepreneurs. In Bangladesh, the loan features lower interest rates, and quick turnaround time is guaranteed in Malaysia. Portfolio analysis in Malaysia proves that the loans to female entrepreneurs have particularly strong results and have been well worth the risk. Unsecured loans provide businesswomen with the liquidity to meet cash flow requirements without needing land or other collateral. In fact, unsecured loans are a large part of SCB's small business product portfolio in many countries. In addition to the credit and transactional products, the bank also provides trade services and foreign exchange hedging to SMEs in the export business.

Positioning SMEs as the Top Consumer Banking Segment

Moreover, SCB has developed a sophisticated and segmented consumer banking strategy for serving its SME clients. SMEs are divided into two segments: small enterprises, with annual sales under \$10 million, and medium enterprises, with annual sales under \$25 million. By positioning SMEs as the top segment of its consumer banking business, SCB is able to leverage the high level of interaction that SMEs have with its branches and offer them more focus and investment than they would receive if they were housed within SCB's wholesale banking business, where they would be a bottom segment. Also, by serving SMEs through its consumer banking business, SCB is able to seamlessly offer SME owners solutions to their personal banking needs from its private banking business.

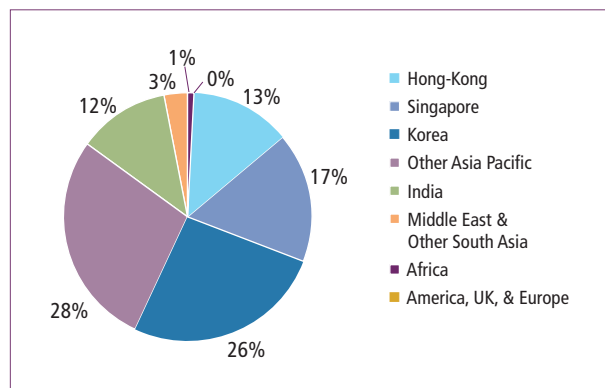
Until recently, SCB consumer banking was largely a product-led business, but in 2008, management reshaped consumer banking to focus on building deep, long-standing, multiproduct relationships with its customers, including SMEs. Now, segmenting SME customers and providing a higher degree of personal services is a priority in consumer banking. SCB has identified four levels of

services for SME customers to enhance its offerings. It generally provides a dedicated relationship manager (RM) to businesses with over \$10 million in annual revenue. For smaller firms, it uses the value of the customer to the bank to determine one of the three other service levels: no RM (mass-market services), a portfolio manager who manages smaller firms in groups, or a virtual RM, who provides service primarily from a call center. SCB segments its SME clients by various criteria to determine their value to the bank: sales turnover, current revenues, assets and liabilities under management, and potential wallet and bank earnings.

Figure 1: SCB SME Market Presence



Figure 2: SME Lending 2010 per Main Markets



Sources: Maximizing Retail Banking for SMEs, 2009, PowerPoint presentation, and 2010 SCB Annual Report.

Achieving Impressive Results in SME Banking

This detailed attention to its SME clients has led to impressive results for SCB. By 2010, the bank had over 650,000 SME clients in 30 countries across Africa, Asia, and the Middle East. In 2010, SCB SME Banking grew its footings by 25% and income by 14% year over year. SCB provided over \$17.575 billion in lending to SMEs in 2010, an increase of 32% from 2009. Figure 1 and Figure 2

depict SCB's global SME operations and SME lending by geographic market. Across the bank, 90% of SCB's profit comes from Africa, Asia, and the Middle East.

SME operations are coordinated by a global strategy but implemented by local SME teams. At headquarters, SCB has organized the SME segment as a distinct business and continually measures and evaluates this business line to determine profitability and identify potential improvements.

Delivering Non-financial Services to the SME Segment: Bank Objectives, Service Typology, and Management

SCB's SME non-financial service offerings—such as SME pilot training programs in select African and Asian markets and a business resource Web site available to the bank's global SME clients—are driven by multiple objectives, such as the following:

- Deepening the SME customer relationship
- Providing value to the SME customer beyond financial services
- Using SCB's core business to contribute to SMEs' business development and growth
- Contributing to the achievement of developmental goals, such as the Millennium Development Goals (MDGs)

Deepening the SME Client Relationship

The first three are the main objectives that drive SCB's work in the area of non-financial services. SCB delivers an SME business that is focused on the customer, and Group SME Banking continuously looks at areas that provide value to the customer, such as non-financial services, to deepen its relationship with SME customers and help them strengthen their businesses. This objective is the underlying rationale driving the past and current non-financial service activities as well as the development of future strategy in this area.

Table 2: Typology and Examples of Non-financial Offerings

Information Dissemination		Training	
Global	Providing free business information through the Women in Business Resource Center Web site to help female entrepreneurs start and grow their own businesses. (Featured in this case study.)	Dubai	Partnership with Dubai SME (a governmental development agency working for the growth of the SME sector) to deliver training to SME customers in various areas, including foreign exchange, hedging, and trade risk mitigation.
India	Publishing SME-related business information and analysis in monthly business magazines, such as Business India.	China	Formal partnership (memorandum of understanding) with the Chongqing Federation of Industry and Commerce to train SME customers.
China	Hosting annual SME Award in cooperation with APEC SME Summit.	Pakistan/ Kenya	Partnership with IFC to deliver SME training using Business Edge. (Featured in this case study.)
		Global	Regular training on trade and foreign exchange risk mitigation for customers.
		Global	Workshops and conferences with SMEs on the "Internationalization of the RMB" and the potential impact on their businesses.

Sharing Information and Providing Training

SCB's non-financial services vary across the different geographical areas, but they can be broadly classified as either information dissemination or training. Examples of different activities and initiatives in the different regions and branches are presented below in Table 2.

Centralized Coordination, Decentralized Delivery

SCB's various non-financial services are managed and supported both in headquarters and in the different geographies. The services are decentralized across

geographical areas with central support. In headquarters, Group Sustainability (housed in Group Corporate Affairs) and Group SME Banking support non-financial services at the group level. The SME business teams at the country level deliver the services, such as training programs and follow-up activities.

SCB is adopting a balanced approach, with Group SME directing and sharing best practices while allowing countries to come up with and drive their own initiatives in non-financial activities. Tools, materials, and channels for delivery are increasingly being standardized across the group and are being translated into local languages while allowing for customization to reflect market nuances. In the future, the bank is interested in developing a more programmatic strategy that links the various components of SME non-financial activities.

Developing a Business Case for Delivering Non-financial SME Services

Currently, SCB's Group SME Banking is working to determine if the bank can create a more programmatic offering for its non-financial services and integrate non-financial services with its SME financial offerings. The bank recognizes that SMEs need targeted business training to reach their full potential. SCB aims to be a business partner, not just a banker, to SMEs. As reported by Group SME Banking, there is no magic in developing non-financial services, but the timing is right for refining its strategy. The group is reviewing whether a business case can be made for supporting SMEs with capacity-building services.

As Group SME Banking is refining its future SME business strategy and deciding what role SME capacity building will play within the larger SME strategy, the group is facing decisions in three key areas related to non-financial services for its SME customers and prospective customers:

1. Create product and service offerings
2. Justify costs and determine pricing strategy
3. Define how to measure return on investment

1. Create Product and Service Offerings

An important step in creating a non-financial services program as part of SCB's SME banking operations is conducting product development. The bank needs to decide which types of services it should develop and in what combination. As a starting point, it can more closely examine the strengths and weaknesses of two of its initiatives—the IFC-partnered SME training pilot programs in Pakistan and Kenya and the Women in Business Resource Center Web site—to determine if these services bring benefits to SCB and are capable of

reaching scale. It can also use the findings of its recent market research to inform product development.

TRAINING SERVICES: LEARNING FROM THE PAKISTAN AND KENYA SME PILOT PROGRAMS

SCB worked in partnership with IFC and used its product Business Edge, a comprehensive SME management training program, to provide training to SME clients in Pakistan and Kenya on the fundamentals of business. This initiative was related to a pledge made by SCB leadership. In March 2009, SCB's CEO Peter Sands joined U.K. Prime Minister Gordon Brown to launch the bank's commitment to provide business training to SMEs in response to the U.K. government's call to action urging the private sector to deploy its resources and business expertise to help achieve the MDGs.²

The Pakistan and Kenya pilot programs targeted SMEs that have potential for growth but are traditionally underserved by the financial sector, and they included similar components: SME identification, skills development, and business mentoring. In Pakistan, 146 SMEs participated in the two-day training; the group represented diverse sectors such as trade, metalwork, rice processing, and textiles, and 90% of participants were existing SCB clients. The SMEs were trained in basic finance, accounting, and customer service by local Pakistani training and consulting firms. Three months after the training, the SMEs received a follow-up one-day mentoring session designed to deepen the skills training and gather feedback from the participants.

In October 2010, a similar pilot training program was replicated in Kenya, engaging 60 SMEs in the training event. As in Pakistan, the Kenya training used IFC Business

2 This is now a UN initiative: <http://www.businesscalltoaction.org/>.

Edge methodology and trainers. The training included three modules delivered over a two-day period: (1) Basic Financial Planning, (2) Elements of Financial Statements, and (3) Basic Analysis of Financial Statements. One follow-up training session was held in March 2011.

Results from the Pakistan pilot program indicate that the training had a positive impact on improving business practices of the SMEs. Both baseline and post-training surveys were conducted to measure satisfaction, behavior change, and business impact. The results, as reported by SME participants, are listed in Figure 3. The evaluation of the Kenya training is currently underway (as of fall 2011). The initial responses indicate that the Kenyan SMEs improved their financial management knowledge and are better able to understand how financial statements relate to the credit assessment process.

Figure 3: Pakistan Pilot Training Program Results

- 69% of the participants reported direct application of business knowledge gained from the workshops.
- 56% reported improved financial reporting, budgeting, and financial decision making.
 - Preparation of cash flow statements increased from 70% to 90%.
 - Preparation of profit and loss and income statements increased from 81% to 89%.
- 60% reported changes to company structures and systems to improve customer care.
- 20% had irregular credit histories, but by the end of the program, out of the 20%, 71% had cleared or decreased their outstanding amounts (data collected from credit bureau).

Moreover, general feedback shared by Kenyan SMEs with SCB during the follow-up mentoring sessions seems to validate the idea that there are long-term benefits to SCB from offering training programs. The SMEs reported that in addition to improving their financial management knowledge and skills, they also improved their working relationship with SCB and strengthened their understanding of the bank's procedures. The SMEs met with senior bank managers, credit approvers, and RMs during the training and gained a better understanding of

the bank's assessment process. As SMEs become more knowledgeable about the bank's processes and build deeper relationships, their likelihood of using the bank's services and building loyalty increases.

The SME pilot training programs were driven by SCB's commitment to use its core business skills to help SMEs grow their businesses. These first two programs did not specifically measure the financial returns to the bank as a result of increased business with SME clients. However, the longer-term objective is to quantify how the training supported the growth of SME business clients and then to determine if that growth led to increased business with SCB. This measure will be a key part of developing the business case for non-financial services.

ONLINE BUSINESS RESOURCE PLATFORMS: LEARNING FROM THE WOMEN IN BUSINESS RESOURCE CENTER

To support female entrepreneurs to start and grow their businesses, the bank developed the Women in Business Resource Center in 2009. It is part of the bank's larger commitment to the 2008 Clinton Global Initiative to educate at least 5,000 women in Asia through financial literacy training, ranging from basic financial knowledge to SME capacity building.

The Web site was formally launched on March 8, 2010, to mark International Women's Day and is accessible globally via the SCB external Web site. The Women in Business Resource Center is targeted at women entrepreneurs to address specific challenges they face, including the lack of female role models, access to financial education, or

"Standard Chartered is very keen to champion women entrepreneurs by providing the products, services and support they need to run successful businesses. Standard Chartered is committed to being the right partner for SMEs to help them achieve their business ambitions."

—Som Subroto
Group Head, SME Banking

confidence to start or grow their own businesses. The Resource Center directly addresses these challenges by providing a variety of educational and interactive components, including modules and exercises on business planning, leadership skills, and finances. It offers practical information for analyzing balance sheets and controlling cash flow and features tools for leadership practices, management styles, and negotiation skills. The Web site also showcases inspirational videos of role models to provide examples of successful entrepreneurship.

While the Web site is part of the bank's commitment to support women's financial literacy, it is available to both men and women, customers and noncustomers alike, at no cost. Visitors can reach an SME representative through the site or learn more about banking products, but the site does not directly cross-sell or pitch bank products. With more than 16,000 users, the site has been well received since being launched in Asia and the Middle East. Seventy-four percent of users are female and 57% are already SCB customers; 69% are from Asia. All content is relevant globally, and the most popular modules are those that cover analyzing financial statements, including income statements and balance sheets, as well as a module on penetrating new markets.

There is great potential for expanding the breadth and reach of the Women in Business Resource Center. The site can publish more dynamic and sophisticated content, including, for example, profiles of new role models, new modules, and links to additional external resources. The interactive aspect of the site can also be developed to facilitate networking and sharing of best practices among users. The bank could further integrate the Web site into

The Women in Business Resource Center was launched to support the bank's commitment to women's financial literacy in Asia, though users include men and women in the Middle East (7%) and Africa (13%). The Web site content is available in nine languages, including Thai, Bahasa Indonesia, traditional and simplified Chinese, Bengali, Hindi, Korean, English, and Arabic.

its SME business by using it to learn more about the needs of its female SME customers—asking for feedback about related products and services and potentially requesting more detailed information from users in order to tailor both its financial and non-financial products for SMEs. In order to promote more business, the bank could also consider using the site to direct users to information about the bank's relevant products and services.

CONSIDERING VARIOUS OPTIONS FOR FUTURE NON-FINANCIAL OFFERINGS

To summarize, it seems that both training events and Web site resources present viable options for developing more programmatic non-financial service offerings to SME clients and prospective clients. SCB's past experiences with the Pakistan and Kenya pilot training programs and its Women in Business Resource Center show that these non-financial services help meet the developmental objectives of strengthening SME management capacity. They also demonstrate potential to bring financial benefits to SCB, if the bank develops a business strategy for offering non-financial services as a means of building its overall SME business. In doing so, the bank should conduct a feasibility study to determine if these services could reach scale and how cost-effective SME training events and Web site resources are.

As Group SME Banking continues to develop its non-financial services strategy, it does recognize that it has limitations in its role as business partner. For example, the group views consulting or advisory services as falling outside its core focus as a bank and recognizes that there is high risk associated with such an approach. Consulting and advisory services are not the main area of expertise of Group SME Banking. Instead, the group identifies its core skills as information sharing and training, in order to add value to SME clients.

Group SME Banking's primary focus will be to provide tools and resources to SME customers and to focus on training events, building on its experience with the IFC pilot training programs and its online resource platform.

However, it needs to develop the specific details of how to design and deliver training events and online resources in a more programmatic and scalable manner. For example, will the SME group roll out new services to all 30 geographical areas at once or will it sequence the rollout? Will it try to expand both training services and online resources at the same time, or will one service offering take priority? Also, will it develop any new products or services it has not yet experimented with?

In February and March 2011, Group SME Banking hired a market research firm to conduct a market survey, which gathered responses from 233 SME customers in six SME markets (the United Arab Emirates, China, India, Singapore, Taiwan, and Hong Kong), to identify SMEs' needs and preferences for nonbanking services. The findings of this market research could be formative in developing SCB's future strategy for SME capacity building. Examples of key insights generated by the customer survey include the following:

- Over 90% of SME clients chose e-mail as the preferred mode of communication with the bank. Only 18.3% of clients chose one-on-one communication as the preferred way to communicate.
- When asked what would benefit them as an offering from the bank, SME clients responded as follows: knowledge sharing—55.6%; help identifying potential customers—53.2%; and networking—47.8%.
- More than 45% of clients do not use accounting software.
- SMEs indicated that they most frequently received training on trade and working capital and cash management products. Moreover, they indicated that they most frequently received advice and consultancy services in taxation and trade.

These results suggest that future product offerings should continue to focus on knowledge sharing and training and should use e-mail and other Web-based modes of communication. Furthermore, the findings indicate that relevant topics are accounting, trade, cash management, taxation, and working capital.

2. Justify Costs and Determine Pricing Strategy

Developing technology platforms, systems, and processes for delivering SME capacity-building services across 30 geographical areas would require a significant investment for SCB in terms of time, cost, and human resources. Group SME Banking needs to develop a value proposition for its SME non-financial services strategy that will justify the bank's investment. It will be critical for the group to figure out a strategy for delivering new services cost-effectively across markets in order to convince management that it is worthwhile to invest in the new field of non-financial services, as this is an unconventional approach for commercial banks.

Furthermore, the group should determine where the resources will come from—likely a combination of the central budget and cost-sharing with the business teams in different geographical areas—and calculate the cost of the initial investment, as well as estimating the cost of ongoing support. Examples of different components of the cost will include training, marketing, staff time, and consulting fees, if the group seeks external assistance in developing these offerings. Group SME Banking resources supported the Pakistan and Kenya pilot training programs. The long-term goal is that as the non-financial services deliver value to the businesses, the businesses' budgets will cover the costs.

In addition to calculating cost estimates, SCB's Group SME Banking will have to determine its pricing strategy. First, the bank needs a revenue pool from its non-financial services to justify the cost base and achieve some level of cost recovery. SCB cannot achieve long-term financial sustainability if it does not build a pricing structure for its SME capacity-building offerings. Second, there is power in paying, as services with a fee are perceived by SME customers to have value. SMEs need to see that their peer businesses are willing to pay for non-financial bank services and that they commit to attending training and using services that can help improve their business performance.

Moreover, the SME group recognizes the potential to partner with IFC and other international partners in the future and draw upon IFC's established SME capacity-building programs and products, such as Women in Business and Business Edge. The donor partners have well-developed tools and training materials that support the delivery of non-financial services. SCB could further explore opportunities to work together on product development in order to support more SME clients.

3. Define How to Measure Return on Investment and Developmental Impact

SCB has been measuring the impact of some of its non-financial service initiatives, including conducting a simple cost-benefit analysis of some of its training activities, such as the IFC pilot training programs. The analysis assesses the cost of delivering the training, including the cost of staff time, and evaluates the perceived value of the training to clients via interviews and feedback. Group SME Banking plans to deepen this type of analysis over time once it begins to measure business growth as a result of the training and when the training initiatives grow in scale.

SCB is monitoring the Pakistan and Kenya pilot training programs at a central level and reporting the results to the United Nations. The results will be used to measure development impact and determine the bank's future strategy. Figure 4 highlights the benefits to SCB from the pilot training programs.

Figure 4: Benefits to SCB from Pilot Initiatives

- Deeper relationships with existing clients
- Identification of new clients
- Stronger relationships with the governments and chambers of commerce in Pakistan and Kenya

The Pakistan experience yielded positive results, and training participants reported gains in business skills. However, it is difficult to measure how the application of new business knowledge causes a change in productivity or business growth for the SMEs without long-term tracking. The bank can build on this type of measurement in the future and develop a more rigorous methodology for measuring return on investment. For example, SCB might consider investing resources in long-term monitoring and evaluation of its non-financial services and in conducting impact or quasi-experimental studies to determine the developmental impact on SMEs that can be attributed to the provision of non-financial services. Such strong evidence could help justify replicating this training program in other geographic markets in a more systematic manner.

Group SME Banking is currently using the following metrics to measure the benefits that the provision of non-financial services brings to SCB in terms of potential profitability.

- Number of SME clients and growth percentages
- New SME customer acquisition
- SME customer loyalty
- Cross-selling of financial products and services
- Total net SME revenue and growth percentages

In the future Group SME Banking could consider adopting additional metrics to measure the return on its investment:

- SME market share compared to SCB's main competitors
- Brand recognition in the SME segment (bank differentiation)
- SCB's "promoter score" (how many clients recommend SCB to other SMEs)
- SME loan delinquency rates

Conclusion and Recommendations

As this case study has detailed, Standard Chartered Bank has successfully offered various non-financial services to SMEs that have benefited its clients and, in so doing, strengthened SCB's relationship with its SME customers. The bank is presently deliberating whether Group SME Banking should build on this success and develop a more formal and larger-scale non-financial services program. As SCB works through this process, the bank should consider the following recommendations with regard to developing new or expanding existing non-financial service products, measuring their impact on clients, and measuring their return on investment to SCB:

Product Development

- Closely examine the strengths and weaknesses of two of its larger initiatives—the IFC-partnered SME pilot training programs in Pakistan and Kenya and the Women in Business Resource Center Web site—to determine how to replicate these initiatives in more markets and assess if these services are capable of reaching scale.
- Devote resources to expanding the breadth and reach of the Women in Business Resource Center. The site can publish more dynamic and sophisticated content, and the interactive aspect of the site can also be developed to facilitate networking and sharing of best practices among users.
- Use existing SCB non-financial service initiatives for market-research purposes. For example, the bank could further integrate the Women in Business Resource Center Web site into the SME business by using it to learn more about the needs of female SME customers through feedback about related products and services and requesting more detailed information from users.

- Use results from the market survey conducted in February/March 2011 to inform product development. These results suggest that future product offerings should continue to focus on knowledge sharing and training and should use e-mail and other Web-based modes of communication. Furthermore, the findings also indicate that relevant topics are accounting, trade, cash management, taxation, and working capital.
- Determine a pricing strategy for new and existing non-financial products and services to achieve some level of cost recovery and signal added value to SME users.
- Explore deeper partnerships with IFC and other international partners in the future. For example, the bank can further draw upon IFC's established SME capacity-building programs and products, such as Women in Business and Business Edge. IFC has well-developed tools and training materials that support the delivery of non-financial services, and leveraging these resources could help SCB support more SME clients.

Impact Measurement and Return on Investment

As noted above, SCB already measures the impact of many of its non-financial service offerings, including conducting simple cost-benefit analyses of some of its training activities. If Group SME Banking wishes to deepen both its impact-measurement practices and its calculation of the return on investment that its non-financial services provide to the bank, it should consider the following recommendations:

- Measure how the application of new business knowledge gained by SME clients from training services leads to increases in client productivity or business growth through long-term tracking. For

example, SCB might consider investing resources in long-term monitoring and evaluation of its non-financial services and in conducting impact or quasi-experimental studies to determine the developmental impact on SMEs that can be attributed to the provision of non-financial services. Such evidence could help justify replicating this training program in other geographic markets in a more systematic manner.

- Quantify more rigorously how non-financial services, such as training initiatives, lead to increased business with SCB through cross-selling, increased client retention, and other means.
- Adopt the use of additional metrics to better gauge the impact that non-financial services have on SCB's overall SME business:
 - SME market share compared to SCB's main competitors

- Brand recognition in the SME segment (bank differentiation)
- SCB's "promoter score" (how many clients recommend SCB to other SMEs)
- SME loan delinquency rates

Creating a more formal SME non-financial services program will require a significant investment for Standard Chartered Bank in terms of time, cost, and human resources. To justify that investment, Group SME Banking will need to more deeply identify the financial returns to SCB. If it moves forward, a key challenge facing Group SME Banking will be developing new non-financial services that are not only more standardized, and therefore more cost-effective and easier to scale up, but also sufficiently tailored to the nuances of local markets. If successful, however, SCB will be able to even better accomplish its objective of strengthening its SME business by placing its customers first.

CASE STUDY

ICICI Bank

BEYOND BANKING: THE ROLE OF NON-FINANCIAL
INITIATIVES IN ICICI BANK'S SME GROUP



Introduction

Small and medium enterprises (SMEs) play a vital role in India's economy. Annually, they contribute 45% of the country's industrial output, generate 40% of its exports, and create over 1 million jobs.¹ ICICI Bank, which was initially founded as a development financial institution in 1955, has grown to become India's largest private-sector bank and second largest bank overall, as defined by asset size. ICICI Bank sees itself as playing a vital role in helping develop and maintain a healthy business ecosystem that enables SMEs to thrive and, in so doing, strengthens India's overall economy.

To achieve this important objective, ICICI Bank offers Indian SMEs a wide range of financial products that are complemented by various non-financial initiatives designed to help SMEs build their capacity. The ultimate objective of ICICI Bank's holistic approach to SME finance is to be the primary banking partner and partner in growth for SMEs in India.

This case study provides an overview of ICICI Bank's SME banking business, discusses the bank's motivation for offering non-financial initiatives to SMEs, and details information about such initiatives and activities.

¹ <http://www.eicc.be/Events/Events2011/VibrantGujarat/ConceptNote.pdf>

ICICI Bank's Move Into SME Banking

SMEs are often referred to as the silent heroes of the India growth story. In addition to their contribution as noted above, SMEs produce more than 8,000 products for Indian and international markets, not only participating in markets for traditional consumer products, but also venturing into segments such as industrial goods and chemicals. As a result, SMEs today are presented with a greater and more diverse range of expansion opportunities both globally and in India.

ICICI Bank has emerged as one of the fastest growing and leading banks in the Asia-Pacific region. After creating a successful model for consumer banking and building on its corporate banking foundation the bank identified an opportunity in SMEs and emerging enterprises as India was entering a high-growth phase of economic development. The bank set up a Strategic Business Unit to serve the SME segment in India in 2001. Recognizing as well that the needs and requirements of SMEs vary by business sector, ICICI Bank evolved the idea of segmenting the SME market into various clusters that were primarily growth oriented and focused resources for tapping the potential in these clusters. From the bank's perspective, this approach allowed it to specifically reach out to SMEs on a growth trajectory, and from the customers' perspective, it allowed them to get faster sanctions and in-time funds. This is the cluster-banking approach at ICICI Bank—through which in-house experts try to serve the unique needs of every distinct business cluster through a differentiated approach instead of viewing financial solutions as “one size fits all.” The focus clusters include engineering, auto, infrastructure, IT and ITES, life sciences, education, agribusiness, and others.

To date, ICICI Bank has close to 1 million SME clients. ICICI Bank offers them a wide range of financial products and services that serve the varied needs of the SMEs over their life span, including working capital, term loans, transaction banking, trade finance, foreign exchange, supply-chain financing solutions, cash management, and investment

banking advisory services. Also, acknowledging the fact that SMEs need cutting-edge financial solutions to stay competitive, ICICI Bank offers structured and customized products to SMEs, which are typically offered to bigger corporations only by traditional banks. With regard to non-financial initiatives, ICICI Bank partners with various providers to deliver capacity-building initiatives and programs for SMEs. These initiatives range from educational media campaigns to high-profile business training events that help SMEs build the business skills and knowledge they need to excel and provide business networking opportunities. (ICICI Bank's non-financial initiatives are described in greater detail below.)

Because of ICICI Bank's focus on the SME market, the banking industry has recognized its SME banking practices with several awards. In 2008, ICICI Bank was named the “Best Bank in SME Financing (Private Sector)” at the Dun & Bradstreet Banking awards. In 2009, ICICI Bank won the Asian Banker Award for Excellence in SME Banking. In 2011, ICICI Bank won the Triple A Award for Best SME Bank in India.

“Beyond Banking” Approach: The Role of Non-financial Initiatives at ICICI Bank

As ICICI Bank developed and refined its SME banking model, it realized there were significant issues beyond access to finance confronting SMEs that had a significant bearing on their performance. While SMEs were competent in their core business activity, peripheral support structures like human resources, finance, taxation, marketing, and access to markets and networking opportunities were limited because of their scale of operation and manpower specializations. So, to fulfill its objective of being the primary partner in growth for the SMEs as well as to strengthen the overall

Indian SME ecosystem, ICICI Bank decided to partner with various organizations to develop and deliver non-financial initiatives to SMEs that would complement the bank's core financial products and services.²

Presently, to decide which non-financial initiatives to offer SMEs, ICICI Bank utilizes informal customer feedback and client surveys as well as input from relevant partners and business associations. The bank also takes into consideration feedback from its SME Group sales team and relationship managers across the country to understand the needs of the SME customer.

ICICI Bank's decision to offer non-financial initiatives is directly in line with its business strategy, which is to utilize non-financial initiatives as a means to fulfill the bank's objective of being the primary partner for SMEs. To this end, the bank finances its non-financial initiatives largely through its marketing budget, in the form of events, forums, interactions, communication, and online activities.

ICICI Bank's non-financial initiative offerings, a large part of its "beyond banking approach," are driven by two main objectives: (1) to become the partner in growth for SMEs and (2) to be the banker of choice in the SME ecosystem. ICICI Bank promotes initiatives intended to provide SMEs with tools to deal with internal management needs as well as more specialized industry-focused workshops aligned with the bank's cluster-banking approach. While a number of programs are offered only to ICICI Bank customers, most of the initiatives serve all SMEs, regardless of their affiliation with the bank. Some examples include the SME CEO Knowledge Series, Business Beyond Borders, SME Knowledge Forums, and the SME Workshop Series.

ICICI Bank does not charge for any of the non-financial initiatives that it offers to SMEs. As mentioned above, the

initiatives are planned so as to complement the bank's core financial services in line with its business strategy.

Non-financial Service Initiatives and Programs

While ICICI Bank provides a wide range of non-financial initiatives, the five summarized below represent the key initiatives of the SME Group.

1. SME TOOLKIT: "A COMPLETE ONLINE RESOURCE CENTRE FOR SMEs"

In partnership with IFC and IBM, ICICI Bank manages the India SME Toolkit Web site. According to ICICI Bank's Web site, the SME Toolkit has had more than 750,000 visitors and more than 2,000,000 page views.

Through the SME Toolkit Web site, the bank promotes knowledge, training, and consultancy to SMEs absolutely free of cost. It provides a "one-stop shop" for easy-to-use information on business topics like business planning, accounting, human resources, international business, legal issues, insurance, taxation, marketing, operations, and technology. The SME Toolkit offers free downloadable software tools such as Business Plan Maker, Website Builder, more than 4,500 business forms, and over 650 draft agreements, as well as over 4,000 legal FAQs. Additionally, it shares success stories of SMEs and occasionally allows visitors to chat with experts on topics relevant to SMEs.

To promote the SME Toolkit, ICICI Bank's relationship managers receive training so that they can effectively communicate the benefits of the SME Toolkit to the SME Group's clients and prospective clients.

² Bank regulations in India do not permit banks to offer non-financial initiatives directly. ICICI Bank can offer products and services to SMEs in accordance with India's banking regulation act of 1934. More information on Indian banking regulations can be found on the Web site of the Reserve Bank of India: <http://www.rbi.org.in/home.aspx>.

2. SME CEO KNOWLEDGE SERIES: PLATFORM FOR MUTUAL LEARNING AND NETWORKING

In 2007, ICICI Bank partnered with Cyber Media, one of Asia's largest specialty media houses, to launch the CEO Knowledge Series, which is telecast on CNBC TV 18 and CNBC Awaaz, India's leading business channel. The Knowledge Series targets leaders—chief executive officers and chief financial officers (CEOs and CFOs)—of leading clusters and sectors, and its programs have been held across India. The initiative aims to empower CEOs of various SMEs by providing them with a platform for knowledge sharing and joint learning.

The first part of the program is a customized one-to-one mentoring session geared toward the interests of CEOs and CFOs in areas such as finance, marketing, human resources, legal issues, and taxation. Simultaneously, Finance Clinics are run, which are one-to-one discussions addressing the financial needs of SMEs with regard to raising capital, mergers and acquisitions, foreign exchange, risk management, or other finance-related issues. The second part of the program is a panel discussion, which features experts and successful local entrepreneurs talking about the issues faced by SMEs in the areas of finance, marketing, human resources, legal issues, taxation, and other critical business issues.³

3. SME DIALOGUE: COVERING RELEVANT SME ISSUES IN THE MEDIA

In partnership with the Economic Times, India's leading business newspaper, starting in July 2005 ICICI Bank began sponsoring a weekly section called "SME Dialogue," which was devoted to SMEs. The series, which ran for three years, featured best practices and key success factors for SMEs.

Forums were held in conjunction with the SME Dialogue campaign in multiple locations around the country, including Mumbai, Delhi, and Bangalore, and focused on

issues pertaining to SMEs. SME Dialogue is considered a milestone initiative that helped position ICICI Bank as a thought leader in SME Banking.⁴

4. SME WORKSHOP SERIES: SECTOR-TARGETED TRAINING

The SME Workshop initiative is designed to provide critical value-added information to premium SME members of various national associations, such as the Apparel Exports Promotion Council (AEPC), the Engineering Export Promotion Council (EEPC), the Federation of Indian Export Organisations (FIEO) and the Chemicals, Pharmaceuticals, and Cosmetics Export Promotion Council (CHEMEXIL), India's most influential trade councils in the apparel, pharmaceutical, and engineering segments. The SME Workshop series provides information on topics such as technology upgrading, SME ratings, financing opportunities, telecommunications solutions, and other topics. ICICI Bank's SME Workshop partners vary, depending on the subject matter covered.

Another program that addresses the market-making and networking needs of SMEs is the SME Expo Series. Taking into consideration the economic importance of the logistics sector in the Indian economy and the fact that SMEs are a major player in logistics provision, the SME Expo Series in logistics and transportation was designed to share insights, challenges, and trends in the logistics industry. The SME Expo Series started in 2006 and is a business-to-business (B2B) platform. Deloitte serves as the knowledge partner.

The SME Expo Series has taken place once a year and has attracted, on average, more than 60–80 exhibitors and 2,000 visitors annually. The series consists of a two-day seminar held simultaneously with a three-day B2B event that is designed to create business opportunities for buyers and sellers in the logistics sector.⁵

3 Press release: www.icicibank.com/aboutus/pdf/SME_Knowledge_Series.pdf.

4 SME Dialogue briefing on ICICI Web site: www.icicibank.com/business-banking/knowledgeforums/knowledge-forum.html

5 <http://www.sme-expo.com/logistics09/PresentingSponsor.htm>

5. SME CONNECT: EDUCATING SMEs ON OPPORTUNITIES FOR BUSINESS GROWTH

A series that is run in India's biggest mainstream English daily print newspaper, the *Times of India*, SME Connect explores new avenues for growth for SMEs. The topics covered include mergers and acquisitions, private equity, new models of partnership (such as BOT—build, operate, transfer), international trade, SME lending, green businesses, and others.

For each topic, an expert is featured writing on a particular issue. SMEs are featured with their growth story and their secrets of success. The series also addresses queries from readers to help provide them with solutions.

6. BUSINESS BEYOND BORDERS: HELPING SMEs TO EXPAND GLOBALLY

The objective of these televised seminars is to help promoters and senior managers of Indian SMEs understand the opportunities and realities of exporting to or investing in foreign countries, forming strategic partnerships, and mergers and acquisitions.

- “Invest. Trade. Collaborate.” is an eight-part series hosted by ICICI Bank's Business Banking Group in partnership with CNBC TV 18.

- This program also features focused on-the-ground events on different sectors in eight cities and has an elite panel of trade facilitation experts and industry practitioners.
- Besides panel discussions, the forum includes showcases from commissions from partner countries like the United States, the United Kingdom, Germany, China, the United Arab Emirates, Singapore, Hong Kong, and others. The SMEs can talk to the representatives at these showcases about their queries regarding trade with these countries.

7. EMERGING INDIA AWARDS: RECOGNIZING INDIA'S BEST SMEs

The Emerging India Awards is a partnership between ICICI Bank and CNBC TV 18, India's leading English-language business channel, and is supported by CRISIL (a global analytical company providing risk and policy advisory services). The awards were launched in 2005 and are the first initiative in India whose sole aim is to highlight and recognize the work and impact of SMEs. Today, the Emerging India Awards is the largest business award program in the country; it recognizes SMEs in seven different industries and also includes nine across-industry award categories. The purpose of the awards is to establish benchmarks and foster best practices for SMEs to emulate.

Conclusion

Through strategic partnerships with other companies, ICICI Bank seeks to provide a wide range of non-financial initiatives that (1) establish the bank as the main partner for growth for SMEs, (2) create a positive brand image of ICICI Bank in the SME market, and (3) contribute to the development of a sustainable ecosystem for SMEs by building their capacity.

ICICI Bank works continuously to ensure that its non-financial initiatives are responsive to the challenges and needs of SMEs. Senior managers from the SME Group often conduct customer meetings and focus groups with SME clients to discuss their requirements, and relationship managers monitor the relevance of ICICI Bank's products and services through their interaction with clients.

Additionally, the feedback received on the SME Toolkit provides further information that allows management to design offerings relevant to ICICI Bank's current and prospective SME customers. ICICI Bank also tracks the quality of all its events through follow-up and incorporates feedback it receives into improving existing offerings and designing new ones. ICICI Bank will continue to focus on its Beyond Banking initiatives to help both the bank's clients and prospective customers through its financial and non-financial support. Given its standing as the second largest bank overall and the largest private-sector bank in the country, the bank truly believes that it can help strengthen India's SME ecosystem and help SMEs to flourish in a rapidly changing global economy.

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