



**Financial Sector Deepening Trust**  
“Promoting greater access for more people to the  
financial system in Tanzania”

***SME Finance Innovation Challenge Fund - Main Launch Event***

***Dar es Salaam, Tanzania***

***June 8, 2011***

***”SME Success Factors”***

**by**

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# Why (M)SME?

- Main GDP growth and employment driver (80%+)
- Also consider social impact of job creation



“Mittelstand”, Germany



vs. “Arab Spring”, Egypt

# Why the Banks?

- Less than 10% of Micro's registered with Government  
BUT
- 100% can / could use financing and banking support
- Limited use of information "just out there"
  - e.g. Tanzania Chamber of Commerce SME site (could not access)
  - e.g. "goafricago" blog (posted March 2007, NO comments as of June 2011)

- It makes  for the banks...

# Success Factor # 1

## Right Approach – Organization

- Need to use RETAIL approach, not “scaled down Corporate”
  - Most SMEs have no collateral or audited financial statements (98%)
  - Personal and business sides mix together (80%)
  - Loan loss distribution matches Retail, not Corporate
  - 6x more expensive to provide Corporate services vs. Retail
  - SMEs prefer retail approach
- Set up separate SME Business Unit within Retail Bank
  - Track and control
  - Understand P/L
  - Case study:



**Raiffeisen**  
**INTERNATIONAL**

# Success Factor # 2

## Right Timing & Overall Targeting

- SMEs go under first in recession
- SMEs boom first in expansion
- Different sectors and geographies have different dynamics
- Beware of affiliations, non-EVA SMEs and non-business drivers
- Case study:



# Success Factor # 3

## Understand the TRUE Financial Needs of SMEs

- FAST response, not “corporate banking review”
- Start up loan, working capital loan, leasing (on stock?), factoring
- Cash management, transfers, FX, cards, (remote) 24 hr access
- Packaged solutions?
  
- What is a “product”?
  - Case study:
    - Croatia bank attempting to switch in new SME clients
    - Wanted “best current account” to do this – based on research
    - Reality: credit approval on overdraft (lack of it) was limiting factor
    - Change in credit policy eliminated problem
    - Packaging “switch” process created marketing message
    - Results: outstanding

# Success Factor # 4

## Understand the NON-Financial Needs of SMEs

- Two-thirds had no training before starting business
- Helping them succeed will help the banks
  - More financial needs from a growing business
  - Lower loan losses from more knowledgeable owners

## Use ALL Channels to Deliver Help

- Case study:




web site with SME "toolkit":

- start up guide
- start up offer (packaged product)
- self help kit... and more

# Success Factor # 5

## Use Non-Bank Partners to Deliver Non-Financial Help



- Create win / win / win - with private companies, government and NGOs
- Case study:  of Trinidad and Tobago



- Uses local graduate schools to provide free SME training


# Success Factor # 6

## Extend Innovation Beyond Product Offers

- Channels, processes, policies... and more!
- Channel example:  **ABN·AMRO** in Romania, Direct Sales Agents
- Credit scoring example:  **citibank** set up "bucket of funds" to lend, to develop own scoring system
- Processes: be prepared to GROW with your clients, don't make them jump from one silo to the next... you may lose them!

# Success Factor # 7

## Use Proxies for Targeting if Information is Not Available

- Case study:  wanted to target small business owners in Hungary
- Issue: who are the best to go after? No reliable registry of profit making SMEs
- Solution: those who bought a new non-luxury Western made car over the past 3 years
- Execution: cooperate with car dealerships to target the right people

# Success Factor # 8

## Target Both the Personal and the Business Needs

- Get a 60% "lift" in revenues, for very limited extra costs
- $1+1 \neq 2$
- $1+1 = 2 + 0.6 \times 2 = 3.2$
- N.B.: assumes you are taking a "retail approach" to SMEs



# Success Factor # 9

## Build Your Model Gradually

1. Define segments to go after – WHAT?
2. Define sub-segments for priority – WHICH?
3. Build skills to deliver offers needed – HOW?

- Case study:



- 5 MSME segments identified (#1)
- Focused product offers (part #3)

- "Counter case study":



- Good success with general approach
- Service quality focus

# Success Factor # 10



## Take Advantage of Help Available

- Example:  and Eastern Europe / CIS
- Example:  and Africa
- Example:  and Tanzania

# Success Factor + 1!

*Innovation Does NOT Mean "Reinventing"... - Borrow and Adapt the best Ideas!*

Some examples...

- *Channel Innovation:*



- Community banking model for remote ("outback") areas of Australia
- Social inclusion of local entrepreneurs
- Better services to communities
- Profitable reach of low population density areas

# Success Factor + 1!

- *Non-Bank Partnerships:*



in Hungary, with



&



- Taktikon provides free business start up and marketing advice
- HVG provides media support
- OTP provides financial support and financial SME offers
- Results: WIN for everyone, including Micro / Small business owners!

# Success Factor + 1!

- *Web Based Advice:*



Bank in India

- Over 4000 legal FAQs
- 4500 business forms
- 650 draft agreement
- 25,000 circulars, updates
  
- Very rich and practical information content to help start ups

# Success Factor + 1!

- *Product Innovation:*

From Bangladesh...



**Grameen Bank**




to Hungary!




**Bank of Hope**

- Micro-finance idea tested in new market
- Rural poor targeted (primarily gypsy ethnicities)
- Broad support secured from banks, government, other

# Success Factor + 1!

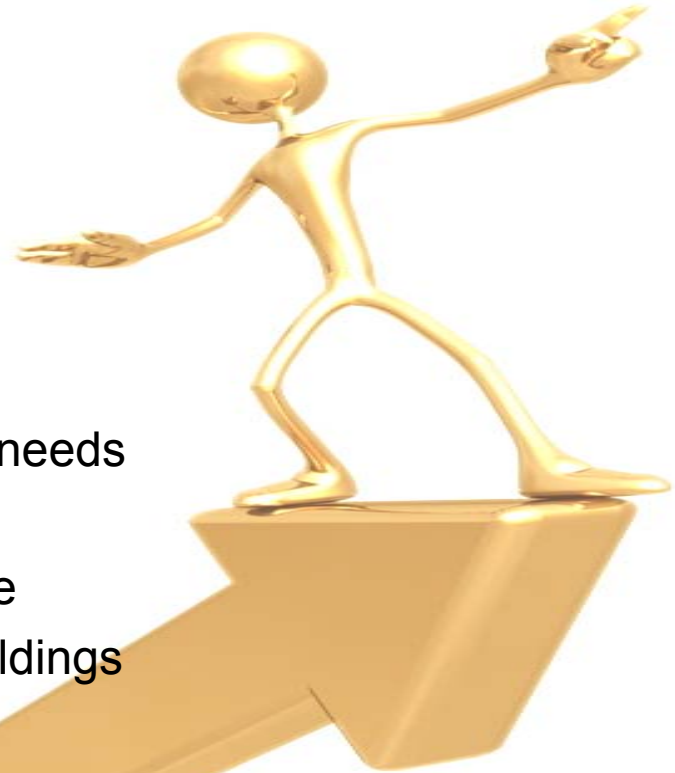
- *Targeting:*  **Raiffeisen** in Poland  
**INTERNATIONAL**
  - Issue: Micros and SMEs claim no revenues, to avoid paying taxes
  - Insight: certain professions are guaranteed to be profitable if survived 3 years: legal, accounting, medical
  - Solution: target at least 3 year old SMEs in those segments, regardless of claimed profitability

# Success Factor + 1!

- *Credit Scoring:* use  psychometric scoring of owners,  
if company scores not available
  - “Test the jockey, not the horse”
  - Model validated in several African markets
  - Matches or beats other scoring models
  - Good separation ability: 12% avg. 30+ day late payers could be split into
    - 30% with 3% default
    - 40% with 10% default
    - 30% with 23% default
  - Can target these three groups in different ways

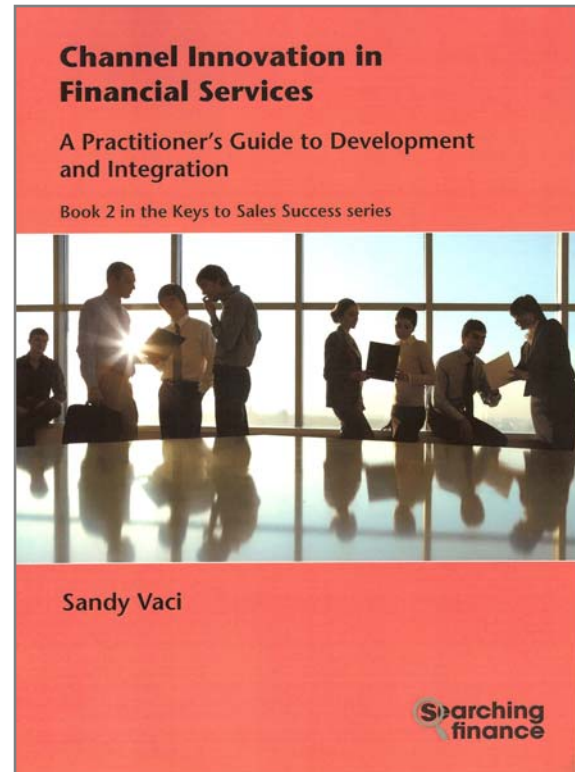
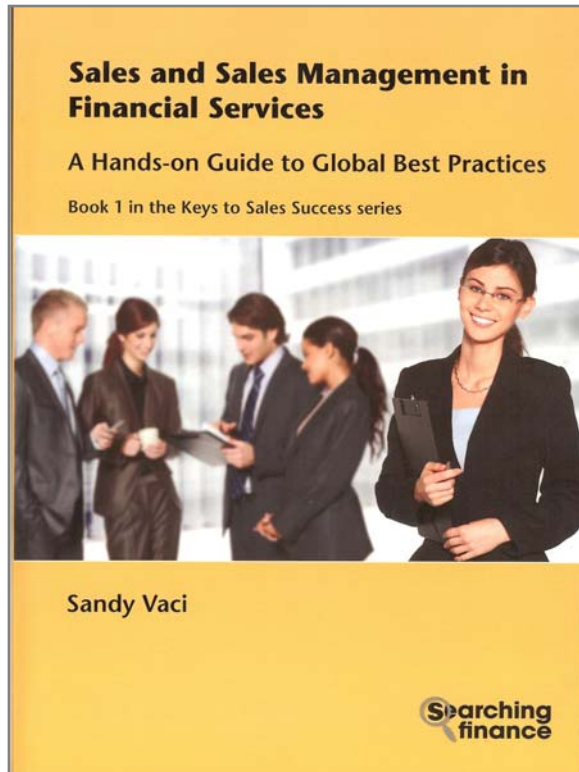
# RECAP

1. Use retail approach
2. Beware of timing / targeting
3. Understand true financial needs
4. Understand non-financial needs
5. Use all channels to address needs
6. Use partners to address non-banking needs
7. Innovation goes beyond products
8. Use proxies if information not available
9. Target both personal and business holdings
10. Build your business model gradually
11. Use help as offered and available
12. Borrow and adapt – do not reinvent



# Q &A

- Any question?
- Contact: [sandyvaci@t-online.hu](mailto:sandyvaci@t-online.hu)
- Help:



# Thank You for Your Attention!

**FSDT**

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