



PANEL - EaSI and Business Development Services

International Best Practice on Banks Providing Non Financial Services

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Bratislava, 31 May 2016



Outline

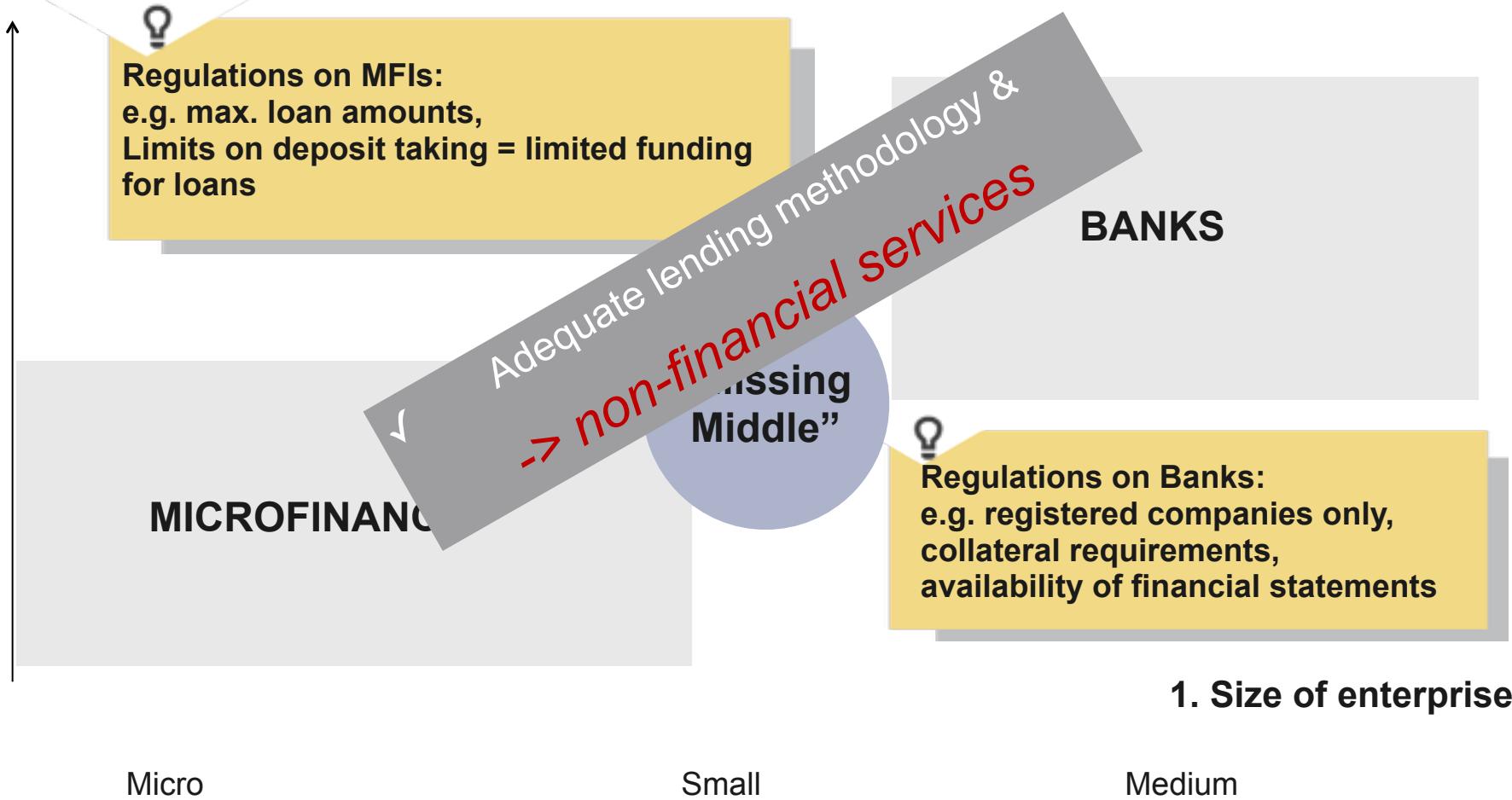


1. Banks in Emerging Markets – Providing Non Financial Services To MSMEs
2. An Innovative Way To Reach MSMEs – Non Financial Services
3. MSME Access To Non Financial Services – Results and Impact
4. Why Should It Work for Bank Clients?
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1. Banks in Emerging Markets - Providing Non Financial Services To MSMEs



2. Loan amount



2. An Innovative Way To Reach MSMEs - Non Financial Services



- **Non Financial Services** consists of providing services beyond financial advice
- It can include **training or advice** on
 - Institutional frameworks
 - Human resources
 - Entrepreneurship
 - Social and cultural factors
 - Business development
 - Emergency
- **The objective is to improve** the overall **performance** of the firm: sales, business volume, efficiency, alliances or patents.
- In return, it contributes to **diversify the business** of the financial intermediary
- While, in the long-run, strengthening the fundamentals of the economy

3. MSME Access To Non Financial Services - Results And Impact (1/3)



Malaysia

- “In Malaysia, there have been numerous support programmes (...) **that the majority of SMEs do not receive any government assistance.**”¹

Thailand

- “Several factors have been identified (...) as affecting SME performance, in particular ability to access finance. (...) **Results reveal that quality of financial information has significant positive effect on performance.**”²



Access to finance is a major constraint for SMEs and a lot of SMEs do not benefit from training

¹ Abdullah, M.A. (1999), “The accessibility of the government-sponsored support programmes for small and medium-sized enterprises in Penang”

² “THE EFFECT OF FINANCIAL INFORMATION QUALITY ON ABILITY TO ACCESS EXTERNAL FUNDS AND PERFORMANCE OF SMES IN THAILAND”, 2006 NARUANARD SARAPAIVANICH, BERNICE KOTÉY

3. MSME Access To Non Financial Services - Results And Impact (2/3)



Africa

- “While access to affordable finance was found to be the primary constraint to establishing and expanding local small and medium-sized energy businesses, a range of significant non-financial constraints were also identified. (...) These barriers include the institutional frameworks, human capacities and social and cultural factors.”³



UK

- “The degree of use of a range of external advice was positively related to the growth rate of the SME. (...) the nature of the advice provided by external accountants, which was found to include business, emergency, and financial management support in addition to statutory advice.”⁴



Canada

- “Based on a sample of 228 early-stage firms, of which 101 used business advisory services (...) We find services are positively associated with firms' sales growth, patents, finance and alliances.”⁵

But access to finance is not the only constraint: non financial constraints and provision of non-financial services can have an impact on companies' growth.

³ Non-financial constraints to scaling-up small and medium-sized energy enterprises: Findings from field research in Ghana, Senegal, Tanzania and Zambia, James Haselip, Denis Desgain, Gordon Mackenzie

⁴ Anthony J. Berry Robert Sweeting Jitsu Goto, (2006), "The effect of business advisers on the performance of SMEs", Journal of Small Business and Enterprise Development, Vol. 13 Iss 1 pp. 33 - 47

⁵ Publicly funded business advisory services and entrepreneurial outcomes. Douglas J. Cumming*, Eileen Fischer

3. MSME Access To Non Financial Services - Results And Impact (3/3)



Worldwide

- “Because most employment in low and middle income countries is in micro-, small and medium-sized enterprises, governments, non-governmental organizations and donors spend on targeted programs and broader policies to enhance employment creation in these firms. (...) **The effects of finance interventions have on average been weaker than the effects of entrepreneurship training or business development services.**”⁶



Manuel set up a hairdresser's shop in Portugal



Oroszla Mihai from Romania



Miguel's workshop, Mexico



Susana owns a shoe-repair shop in Italy



Laszlo set up his enterprise in the building industry, Hungary

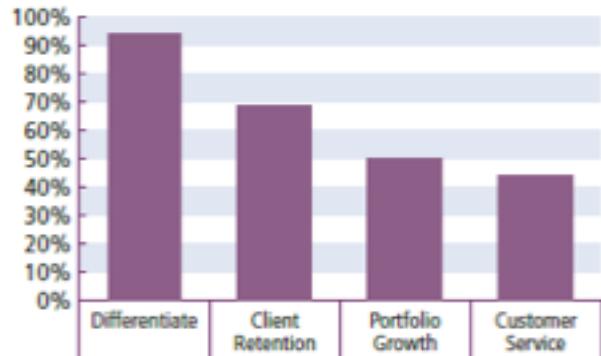
But access to finance is not the only constraint: non-financial trainings can have a larger impact than financial interventions on MSMEs.

⁶ “Do interventions targeted at micro-entrepreneurs and small and medium-sized firms create jobs? A systematic review of the evidence for low and middle income countries” Michael Grima, Anna Luisa Paffhausen
Photos: Courtesy from European Microfinance Network

4. Why Should It Work For Bank Clients? (1/2)



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



Typology of Non Financial Offerings

- ✓ Account Manager Support
- ✓ Information Dissemination
- ✓ Training
- ✓ Consulting Services

Figure 5: Banks' Main Service Suppliers

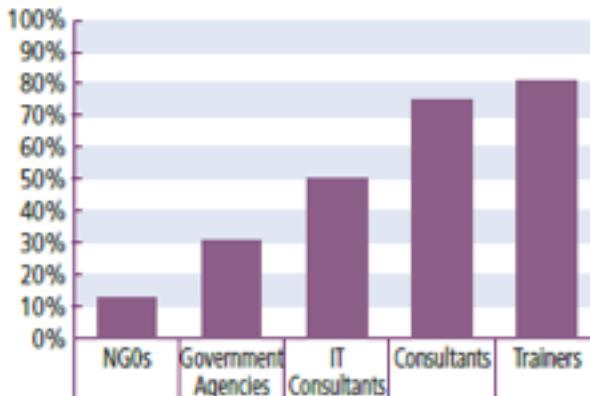
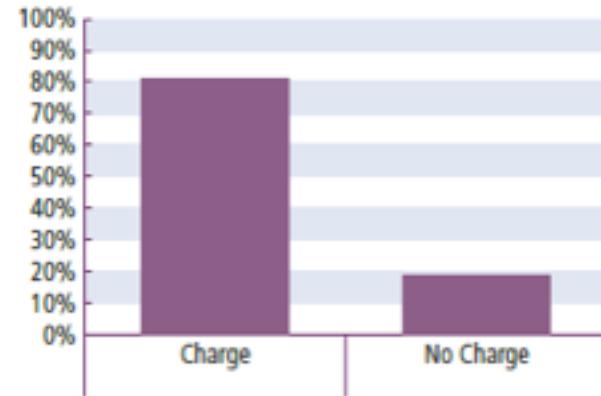


Figure 6: Do Banks Charge for Services?



4. Why Should It Work For Bank Clients? (2/2)



- It benefits MSME Clients:
 - They feel they are valued bank clients
 - It improves their business practices
 - They achieve stronger growth
- It benefits the bank:
 - They know their customers better
 - Their customers expand activities
 - They diversify their business
- Ultimately, it strengthens the economy

5. The Case of Turkey's TEB (1/4) *



TEB was originally established in 1927 as a small-scale regional bank. By 2004, it had grown into an established Turkish banking brand. TEB was very strong in corporate banking, serving large top tier Turkish and international blue-chip companies, with long-term relationships and low-volume, high-value transactions until the Turkish Financial Crisis...



*Sources for all information: "Why Banks in Emerging Markets are Increasingly Providing Non-Financial Services to Small and Medium Enterprises" , International Finance Corporation (2012) and Annual Reports 2010-2015 as well as TEB's webpage <http://www.teb.com.tr/en/>.



5. The Case of Turkey's TEB (2/4)



During the Turkish financial crisis, TEB decided to diversify towards the SME market.

However, competing on price was not a viable option:

- As a new player in the SME market, TEB needed time to develop the appropriate risk-adjusted pricing structure.
- It also couldn't compete on volume because of narrower branch network

It used its strengths:

- Strong brand recognition and trust
- Targeting suppliers and distributors of larger customers as well as SMEs that were already in the bank's existing portfolio.

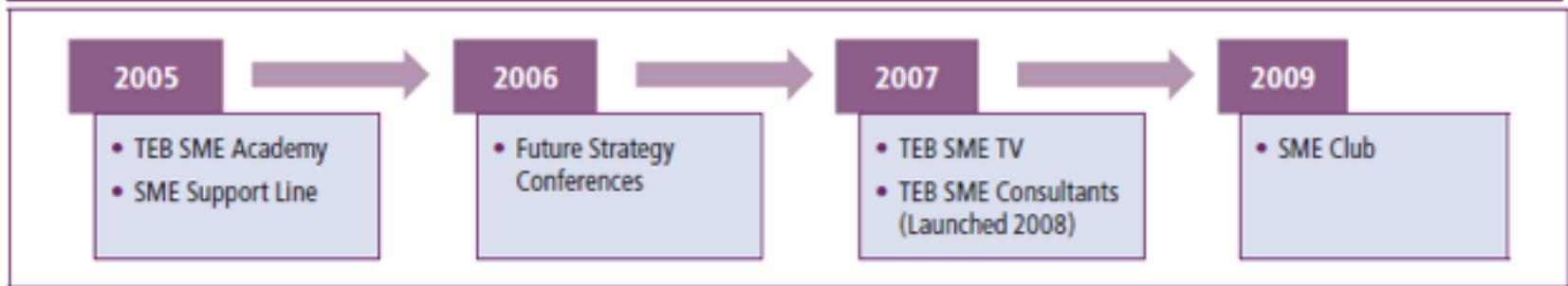


Additionally, TEB decided to provide SMEs with something that other banks did not offer: *Non financial support*

5. The Case of Turkey's TEB (3/4)



Figure 2: TEB's Non-financial Service Offerings



Kick-off: It established a dedicated SME Banking Department, developed a comprehensive business plan, did not charge fees for the majority of its non-financial services. It developed a strategic partnership with Girisim Danismanlik, one of Turkey's leading companies in SME training and consulting services, to leverage the firm's expertise and help build the success of TEB's training program.

Later on, TEB deepened the approach through TEB SME Consultants and expanded through diverse offerings (telephone support lines, Web sites and videos, and discount clubs)



***From 9,000 (2005) to
over 1 million SME
customers***

5. The Case of Turkey's TEB (4/4)



TEB's successful trainings were based on:

- Keeping it short and accessible
- Making it relevant to SME needs
- Ensuring interaction and mutual learning
- Leveraging content experts

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. 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.

TEB's provision of non financial services leads to acquisition of new clients and increased loyalty among existing clients.



Thank you

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