



NON-FINANCIAL SERVICES IN SME BANKING

By Dr. Pat Richardson

> INTRODUCTION

Across the globe, banks and other financial Institutions (FIs) have long delivered non-financial services (NFS) to their business customers, especially their corporate clients, as part of helping these customers to succeed in business. These services have typically been provided in the form of advisory services, training and information as well as business clubs and other networking events. More recently, banks have been developing and delivering NFS targeted at their small and medium enterprise (SME) customers. This increasing provision of SME focused NFS, whilst quite common in more developed financial markets, is also becoming more prevalent in emerging markets.¹

NFS aimed at the small enterprise market, are not a new phenomenon as such. These services – often referred to as business development services or BDS, have been used as a key economic developmental tool for some time by international donors and agencies. Training programmes, in particular, have aimed at assisting different groups of individuals (often the most disadvantaged in societies) to start up and grow their own businesses. Some commercial banks have been active in such initiatives, in both developed and emerging economies, but very much as part of their charitable or corporate social responsibility (CSR) activities.

Indeed, several banks in Kenya are active in this respect, delivering similar NFS support through their foundations, working in partnership with UN agencies such as The World Bank and ILO (International Labour Organisation) and others such as The Gates Foundation and The MasterCard Foundation together with local trusts and non government organisations.

About GrowthCap

Over the past few years FSD Kenya has been at the forefront of SME banking development through conducting market assessments and studies in areas such as trade finance and SME equity funds, as well as supporting development of the credit reference bureau. Through its partnerships with its Action Research Partners (ARPs), FSDK's GrowthCap initiative is supporting adoption of SME best practices by individual financial service providers.

This paper is part of a series of resources that FSD Kenya has developed around transforming finance for enterprise. These resources provide detailed information about best practice and are intended for use by financial service providers and those supporting such institutions which are entering the SME market.

Abstract

This technical note examines what type of non financial services (NFS) have been offered by banks and other financial institutions(FIs); their rationale for delivering such services; the common challenges faced in the provision of NFS to SMEs; and what factors should be considered by FIs when deciding to deliver such services.

¹ See IFC/ Miliaras, C and Barbarasa, E. 2012 as well as Calice, P et al 2012



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For example, KCB (Kenya Commercial Bank Limited) states that 60% of its Foundation's budget goes to 'promoting enterprise development' and focuses especially on agribusinesses and youth enterprise. Much of this support involves training and mentoring.² Similarly, one of the seven work areas of Equity Bank Group's Foundation focuses on innovation and entrepreneurship and states that this work "stimulates job creation and economic growth by providing micro and small entrepreneurs with advisory services, mentoring, and business development training". They pay particular attention to working with young people and women.³

These more 'charitable' oriented NFS activities are important for enterprise growth but are often focused on micro enterprises and as such are not the topic of discussion for this Technical Note (Note or TN). This Note examines a more recent and growing phenomenon in the NFS field whereby banks and other FIs are delivering NFS as part of their commercial offer to their SME customers. A seminal piece of research on NFS in emerging markets undertaken by the IFC⁴ in 2012 referred to NFS provision for SMEs as 'a growing trend.' The report noted that banks in emerging markets were using NFS provision for their SME clients as a means of differentiating themselves in what was seen as an increasingly competitive market.

A 2015 mystery shopping study undertaken by FSD Kenya⁵ examining the SME banking offers of 30 banks in Kenya, found

that just over a quarter (9 or 26%) of the banks said they provided NFS for their SME clients. Therefore, we know that there are some banks in Kenya who have the provision of some form of NFS on their agenda. A review of the websites of these 30 banks at the time of writing (July 2016) suggests a similar level of engagement (see Annex 2).

From the SME perspective there would appear to be a demand for these NFS. A 2013 report on SME development in South Africa noted a strong unmet demand for business NFS amongst SME owners⁶. Similar some recent research with growth SMEs; and in Kenya acknowledged the desire by entrepreneurs for similar support.⁷

This TN examines what type of NFS have been offered by banks and other FIs; their rationale for delivering such services; what shapes good practice in this emerging aspect of SME finance; the common challenges that banks, in particular, have faced in providing NFS to SMEs; and what factors should be considered by FIs when deciding to deliver such services.

It is important to say up front, that this TN should be read in conjunction with a number of other TNs that have been developed by the GrowthCap project at FSD Kenya. A series of resources addressing various aspects of SME focused finance are available, as free downloads, from www.fsdkenya.org.

² <http://www.kcbbankgroup.com/foundation/pillars/>

³ www.equitygroupfoundation.com/our_pillar/innovation-and-entrepreneurship/

⁴ IFC/ Miliaras, C and Barbarasa, E. (2012)

⁵ Oyaro, D. et al (2016)

⁶ JP Morgan (2013).

⁷ Bennett, D. et al (2016)

> WHAT ARE NON-FINANCIAL SERVICES?

NFS come in many different forms with FIs developing an increasing range of such services for their business customers, often building on the increased delivery options and extended reach offered by new and mobile technology platforms. Looking at those aimed specifically at SME clients, the IFC's 2012 review of NFS for SMEs in emerging markets uses a simple four group categorisation of NFS which provides a useful framework for this Note. They see NFS as comprising the activities detailed below:

Account Manager Support

Offering one-on-one advice to SME customers is probably the most popular form of NFS delivered by banks as this can be easily incorporated into any existing service approaches. In their recent mystery shopping study,⁸ FSD Kenya found that the majority of those who said they offered NFS (seven of the nine) to SMEs said they did so through one-on-one SME relationship management approaches; both Barclays Bank of Kenya and the Co-operative Bank of Kenya describing these as business advisory services.

Tailored SME management approaches are typically offered to those SMEs which have grown or who can demonstrate growth potential. Typically, these services are offered by bank officers called SME relationship managers and in some cases such staff are located in dedicated SME branches or units. GT Bank of Kenya's website states that a personal relationship manager will be appointed to SME customers who are defined as having annual turnover of up to Ksh 400 million.

⁸ Oyaró, D. et al. 2016



FSD Kenya has been working closely with several banks to help build their capability to deliver such SME relationship banking support. In doing so FSD Kenya have developed competency based training programmes as well as a series of technical notes looking at various aspects of good practice in SME relationship management.⁹

Provision of Information and Knowledge

A wide range of NFS activities are captured under this heading, ranging from hard copy publications through to website content, in some cases dedicated web based portals, as well as business clubs and other SME focused events and competitions.

In Kenya business clubs are a popular format through which to offer NFS to SME clients, where business owners can gain access to business development advice and knowledge through seminars and networking events and meet others in business. In many cases these business clubs are open to all businesses and not dedicated to SMEs per se, but some of

⁹ For example, see Atterton, T. 2015 and Bennett, D. et al 2015

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the marketing messages used to promote the business clubs might highlight specific benefits of membership for SMEs. For example, to become a member of KCB's Biashara business club you simply have to be a business account holder with the bank. The bank promotes the club through a specially designed platform stating that members will have “an opportunity to learn, network & broaden their business scope”¹⁰. However, one of the benefits of joining this club targets SMEs specifically, stating members will have access to “Business advisory services through SME management seminars and workshops.” Similarly, Family Bank's Business Club describes the club and website as being “dedicated to provide you with an opportunity to profile your business and a forum whereby you can dialogue with likeminded business men and women regarding various business related topics.”¹¹

Internationally, there are a wide range of examples of web based NFS offers. Alliance Bank in Malaysia disseminates a wide range of information, knowledge and events through its on line 'Bizsmart academy' (See screen shot above and <http://www.bizsmart.com.my/Knowledge-Bank>) with a specific focus on younger entrepreneurs and innovation.

10 <https://ke.kcbbankgroup.com/business/clubs/biashara-club>.

11 <http://familybank.co.ke/business-club/>

In 2012 Santander Bank set up their 'Breakthrough Programme' alongside a £200 million fund for SMEs. The programme, promoted through an online portal, was created with the idea that funding alone is not enough to ensure orderly growth. It is aimed at SMEs with a turnover of £500,000 to £25 million and solid plans for growth. The programme offers a mix of online tools and face to face opportunities, as well as sharing experiences with other businesses.

Training programmes

Training SMEs to better manage and develop their businesses is another form of NFS. In some cases, this training can comprise more substantive and engaging training programmes which address several aspects of developing a business. Alternatively they may comprise a series of discrete shorter seminars looking at specific business topics or aimed at particular groups of business owners.

Typically banks who are supporting training for their SME customers are doing so by working in partnership with educational and training institutions and/ or private trainers.

Both the ILO and IFC organisations have developed comprehensive training programmes and materials aimed at growing SMEs and have worked in partnerships to make these accessible throughout the world. In Kenya they have 'master' trainers licensed to deliver these programmes. The ILO's 'Improve your Business Programme' is more micro enterprise oriented but both of the IFC's SME Toolkit and Business Edge resources are oriented to more substantive smaller enterprises that are aspiring to grow further. The IFC have worked alongside banks and other partners throughout the world to make this training available to SMEs.¹²

In Kenya DTB are IFC's partner bank giving their SME customers online access to training and materials using the bank's website to connect to IFC's SME solutions Centre in Kenya. The website has a clear tab on its home page titled 'SME Toolkit' and opens a page (see screen shots on the page 5) which states “Supporting SMEs to upgrade and grow”.¹³

This then leads to a 'learn more' link to the IFC Kenyan SME Solutions Center. These toolkits provide online resources that include a set of guides videos and checklists on various business topics aimed to help SMEs formalise and grow their businesses. They are aimed at SMEs in general but the Center highlights

12 to see where and how the SME toolkits are being used by banks globally go to <http://www.smetoolkit.org/smetoolkit/en/content/en/57193/Our-Partner-Network>

13 <https://www.dtbk.dtbafrika.com/sme-toolkit>

training and resources specifically for women business owners and family owned businesses. The toolkits are free to any SME owner after registering on IFC's/DTB's SME solutions website.

In Kenya there are three Business Edge licensed providers¹⁴ who have provided this training for banks in the past. At the time of writing, no banks in Kenya appeared to be working with these trainers in offering this programme to entrepreneurs.¹⁵

Internationally, another good example of a bank led online training programme for SMEs is the Bizsmart academy which offers learning opportunities through their 'knowledge bank' of training materials as well as business development role model videos on the same website. The site also links businesses to face-to-face training through a series of seminars on various aspects of business development.

Other banks – for example Royal Bank of Scotland (RBS)/ Natwest, in the UK, have joined forces with KPMG and use a dedicated website portal to attract young aspirational entrepreneurs to their 'Entrepreneurial Spark' programmes. These are accelerator programmes that are aimed at those that want to significantly grow their businesses. Its success has led to the programme being rolled out to major cities throughout the UK.

Wells Fargo Bank in the US provides various online training resources through its 'Wells Fargo Works for Small Business' portal' and categorises its online resources for 3 different groups – those starting, those running and those growing their own businesses.

Specialist consulting services

In addition to offering general business advisory services to SMEs through relationship managers, some banks have been offering more specialist consulting services to their more substantive SME clients. Globally, these services do not appear to be widely offered and when they are, they tend to focus on issues pertaining to particular business sectors or more specialist aspects of business such as international trade or equity investment. Equity Bank in Kenya has offered sector specialist support for their medium sized enterprise clients as well as investment readiness mentoring for those considering equity investment. GT Bank Kenya also offers sector specialist advisers to back up their SME relationship managers.

¹⁴ <http://www.businessedgeworld.com/ke/en/content/en/56996/Kenya>

¹⁵ It is important to note that Kenyan training and consultancy companies are providing NFS to growing SMEs (see for example Wylde International Consulting) but this Note is focussing on FI led NFS provision.



The above discussion illustrates some of the main forms of NFS aimed at SMEs, however new examples of NFS initiatives appear on a regular basis. Interestingly Standard Bank (South Africa) produced a report highlighting a decade of their work with SMEs in various countries showing a variety of financial and NFS interventions for different groups of SMEs and how these services have evolved. Further examples of NFS from FIs around the world are given in the Annex 1 to this TN.



► THE RATIONALE FOR DELIVERING NFS

The provision of NFS by FIs presents a direct cost to the institution, as these services are usually offered either free of charge or at a greatly subsidised rate. So why do and should FIs provide such services for their SME customers? What benefits does the offering of NFS bring to FIs?

In brief NFS are used to raise an FI's profile, attract new clients, offered as 'extras' or 'bonuses' to retain existing clients and used in a developmental way to help smaller business clients grow their businesses and through this take up a wider range of the financial solutions that FIs can provide.



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Promoting their SME credentials to the market and generating new business

Banks have used promotional type of NFS to raise their brand recognition amongst SMEs and generate new business in this market place. In the UK banks such as Barclays, RBS/ Natwest and Lloyds, have in the past, all sponsored SME business competitions where the winner gets prize money, a business account and access to free specialist mentoring as part of their prize.

At the time of writing, KCB is partnering with a local TV station to host the 'Lions' Den' competition which is Kenya's equivalent of the globally successful Dragon's Den and Shark Tank investment pitching programmes. The Lions' Den is aimed at both new and existing SMEs and through the application process KCB will access intelligence on a large number of potentially new SME clients and at the same time raise its brand awareness a bank that is supportive of SMEs.

Interestingly Family Bank offers open membership to their Family Bank Business Club and its associated activities. Their website states that anyone running a legal business or who is thinking of starting a business can apply but they encourage non account holders to consider an account as they do so.

Alliance Bank in Malaysia hold an annual 'SME Innovation Challenge'¹⁶ which is open to businesses that have been operating for 3 years. Out of all the applicants, 20 get chosen to receive intensive business coaching; from these 6 finalists get media exposure through a public vote and the final 3 get the opportunity to pitch and win cash prizes that come with further mentoring. Each year the bank receives hundreds of

¹⁶ <http://www.bizsmart.com.my/SME-Challenge/About-the-SME-Challenge>.

applications which gives them access to new clients as well as the opportunity to 'touch base' with the ambitions of any applicants who are existing clients.

These promotional types of NFS are also used in a more targeted way to attract particular types of new clients. Barclays in the UK have a web based portal 'Entrepreneurs Barclays' that acts as a entry point to all their services aimed at entrepreneurs and high growth SMEs. In the bank's own words, they are looking to attract those business owners who want to "energise their ambition". Barclays also have a technology focused new business accelerator programme that operates in New York, London, Cape Town and Tel Aviv. The Programme's dedicated web based portal¹⁷ attracts a large number of applicants with a small number getting onto the actual programme. By offering this programme Barclays have profiled themselves to and accessed details of a large number of aspiring new Fintech businesses throughout the world.

A slightly different approach was undertaken by RBS in the UK that funded a £1.5 million women's business programme under the banner of 'Inspiring Women in Enterprise'. This programme involved women's business competitions, business development training, setting up business networks and other activities. Whilst the aim was to develop the women's business market in general, by doing this the bank set out to better position itself in this market and attract new customers .

These competitions or competitively based training offers can also be used as market research exercises on the financial needs of SMEs. Banks, by gathering information as part of the application process for competitions or programmes, have the opportunity to find out a great deal of useful intelligence about the typical profile, operations and business development needs of potential SME new customers.¹⁸

Retaining existing clients

Business clubs, are a well established form of NFS provided by banks as a means of retaining their SME customers and building customer loyalty. Membership of such clubs gives SMEs preferential access to benefits such as business development seminars, specialist consulting services, international trade trips and key business and banking networks.

Barclays Kenya has one of the most established business clubs – simply called 'The Business Club' and appears to have a strong focus on supporting international trade trips as well as local trips, holding regular seminars, producing a quarterly

¹⁷ <http://www.barclaysaccelerator.com/#/about/>.

¹⁸ impact report http://www.rbs.com/content/dam/rbs/Documents/Sustainability/rbsfullreport_2016.pdf

InBusiness magazine and holding an annual trade fair. Its website states that since its inception the club has helped 7000 businesses with visits to more than 10 countries.

I&M Bank in Kenya has introduced an 'online business club' for all its business account customers. The club is in fact an online mobile market using a mobile APP (see screen shot) where I&M bank business customers can put brochures, contact buyers, sell products and receive payments into their I&M accounts. The bank promotes this 'club' as "An attractive *THANK YOU* incentive for being a business customer of I&M" and has developed a 'You Tube' guide on how to use the app.¹⁹

A recent report found that women business owners rated their banks as much by the NFS services offered, especially opportunities to access knowledge and networks, as the financial products on offer.²⁰ These NFS were seen by those interviewed, as an important element of retaining women's business owners as customers.

Banks also use other forms of NFS to retain their clients. For example, as early as 2007 RBS in Scotland set out to retain their women customers by appointing and training a cadre of their staff to become 'Women in Business Ambassadors' offering tailored advisory services for their women business clients.

Türk Ekonomi Bankası (TEB) based in Turkey established a dedicated SME Banking Department in 2004 and as part of this began developing a series of NFS to complement its new banking approach to SMEs. Through a phased approach, TEB has created a comprehensive package of NFS (TEB SME Academy, TEB SME TV, TEB SME Club, TEB SME Support Line, TEB SME Consultants, and Future Strategy Conferences) all aimed at retaining its SME customers as well as attracting new clients. According to the IFC, TEB has one of the most well established SME academies where clients select individual services based on their needs. The evaluation of these services have been reported to show very positive results for both the bank and their SME customers²¹.

Developing more profitable clients

Some banks and other FIs have chosen to engage more actively with selected clients who have the potential to grow and extend their businesses, by providing intensive training, coaching, trade missions and exchanges. Helping such business develop in this way helps reduce the potential risks faced in financing their growth, helps build loyalty to the bank with a view to opening the door for future cross and upselling opportunities.

¹⁹ <https://www.imbank.com/business/online-business-club/>

²⁰ Global Banking Alliance for Women (2014)

²¹ RTI International (2011)



Such interventions, often in partnership with other organisations such as accountancy firms, educational institutions and technology companies are sometimes aligned to particular financial products of the bank or the launch of new funds.

For example, in 2015 Barclays announced plans to support UK scale-ups and their founders through the provision of two new dedicated funds and a team of relationship directors, under a new programme titled 'Barclays High Growth and Entrepreneurs Programme.' The programme is aimed at scale-ups which Barclays describe as "early-stage fast-growth businesses with more than 10 employees that have achieved annual growth of more than 20% over three years". The bank also invested in the training of 50 'High Growth and Entrepreneur Relationship Directors' whose job is to actively seek out such entrepreneurs.

Santander Bank offers various forms of training and access to resources to help their existing SME customers further develop their businesses. Support is offered through programmes and dedicated websites in the UK, Spain, Portugal, Brazil and Argentina and Uruguay. As noted earlier their programme in the UK is delivered under the banner "Breakthrough - providing rocket fuel for your business" and in Uruguay this programme is called Santander Advance.



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The Standard Bank have highlighted their NFS support for helping growth SMEs throughout Africa in their recent report 'Our SME Journey' which gives examples of both financial and NFS activities in several African countries.²²

➤ WHAT SHAPES THE NFS OFFER?

NFS are not a core activity for FIs and as such they are not always best placed, both competency and capacity wise, to effectively design and deliver such services. Therefore, FIs need to consider a number of factors before deciding whether and how they should go about offering NFS to SMEs.

The following questions address the factors that shape these decisions using banks as a typical FI considering the provision of NFS.

- **What are the bank's aspirations in the SME market?**

Banks in Kenya often express their desire to be seen as leaders in serving the SME market, but then do not express in detail how they are doing or will do this. Banks need to be clear about their aspirations in the SME market, which part of the SME market they wish to excel in and why and how does offering NFS contribute to that goal. To what extent is the bank seeking to retain and further develop its existing SME customers or is the primary driver to attract new SME customers to the bank and if so which type of SME customer?

²² Standard Bank undated

The answer to these questions will determine whether and how the provision of NFS can be seen as a useful means to engage and support targeted SMEs.

- **Is the bank clear about their target SMEs and how NFS can meet the needs of this group of customers?**

Just as with the development of any new product or service, banks need to be clear about what their customers need. If for example, the bank's focus is to use NFS to retain existing SME customers, then the first point to clarify is what their current SME customer portfolio looks like, whether SMEs are likely benefit from the offer of NFS at their stage of development and will the bank benefit from helping them in this way? If the answer to these questions is 'yes' then what type of NFS would be relevant and how best should they be delivered?

If the bank is seeking to attract a new /different group of SME clients to their current portfolio, then they must undertake some form market research amongst this target group to establish whether these SMEs want NFS and how the provision of which type of NFS might be used to attract such SMEs to the bank.

Generic online delivery of information can be provided at relatively little cost and be made freely available to all SME clients without much targeting. In the same way, an online presence can be used to promote what might be quite generic bundles of financial products in different ways to very different SME segments (women young entrepreneurs, ethnic /cultural groups, sectors, rural v urban based businesses etc.) through add on NFS.

However more sophisticated and/or resource intensive NFS, such as business club meetings, or face-to-face training courses and interactive portals have to be tailored to the needs of a selected group of SMEs. Similarly, participation in a trade mission should be for those starting to export or looking to export to new markets and access to growth mentoring for those identified, through research, as aspiring SMEs.

Banks use different methods to retain existing customers and attract new ones. Some use competitions with open access while others have more intensive staged offers. These latter approaches start with an open call for applicants then use various means to select the types of SMEs that they are interested in and who will have access to their intensive NFS offers. Alliance Bizsmart follows this approach with their innovation competition and Barclays do this with their Fintech mentoring programme.

▪ Does the bank have a budget for NFS?

As noted earlier NFS are a direct cost to the bank and as such a full cost budget needs to underpin the development of any NFS offer. This should include the development costs, some piloting element and then delivery over a period of time – the time frame of delivery being determined by the goal set for offering NFS. The precise size of this budget will reflect this goal and mirror how important the SME segment of the market is to the bank: what proportion of their business /profits comes from SMEs currently and what future profits they hope to generate from this customer group?

Funds for NFS development often come from marketing, business development and/or in some cases the corporate social responsibility budgets of the bank rather than the SME or business banking departments, as these services are often seen as primarily promotional activities and loss leaders. Are these departments or sections of the bank on-board with supporting NFS for SMEs?

▪ Does the bank have the experience and competencies to deliver NFS?

To what degree has bank previously offered NFS to business clients and to what extent have done this successfully? Knowing this is critical in deciding the type and scale of NFS delivery that should be considered.

If the bank has experience of successfully delivering NFS to SMEs then it can build on this track record and the approaches and operational systems that have underpinned and supported this type of service delivery, especially if the current plan it to operationalise the new NFS proposal in-house. If the bank has no previous experience of designing and delivering NFS for SMEs or has had a poor experience of NFS delivery in the past, then particular attention needs given to the competencies and capacity within the bank before embarking with any new NFS offer.

Staff from across the bank need to be involved with developing an NFS offer (as well as consulting SMES themselves of course). Such staff would typically include branch staff who understand and work closely with SMEs customers; those that can develop the content of the support; those that are able to deliver or commission the delivery of the NFS and those that know how to promote particular NFS offers to specific SME customer groups.

▪ Should the bank deliver NFS in-house or outsource?

Irrespective of whether a bank has the competencies to design and deliver NFS, banks need to check whether they have the

in-house capacity to do so and consider the opportunity costs of taking staff away from core banking services to do this.

There can be benefits to developing and designing NFS in-house: it ensures greater confidentiality; builds 'know-how' internally; can be used for staff development and provides an opportunity, through the research process, to get closer to some SME clients. However, there can be potential conflicts of interest for the internal provision of some NFS, notably with some forms of advisory services. Here it may be important to separate the business adviser role from that of the financial lender.

Outsourcing can bring many benefits: providing a different perspective to the whole exercise, acting as a sounding board and challenging some of the inward looking assumptions that all institutions tend to develop. External providers can bring a much clearer current market perspective on how best to deliver to that market, especially those forms of NFS dependent on new technology and social media. Also they can provide a focused dedicated resource, bring a wider breadth of expertise to a proposal and are often cheaper when all costs are taken into consideration.

This latter point is important. Having a clearly articulated and fully costed proposal helps to guide these decisions.

▪ The need to be 'tech savvy' but not 'tech driven'

Online web based delivery aligned with social media vehicles for promoting and supporting NFS activities have opened a wealth of opportunities and options for NFS delivery by the financial sector. Indeed, the IFC research on NFS for SMEs in emerging markets found that those demonstrating leadership and good practice in this field were doing so largely through virtual web fronted models. As shown by examples within this TN, banks are presenting SME academies, learning centres, and knowledge/resource centres online through dedicated websites that are linked back to the banks' main sites. Many then complement these virtual academies with electronic based information for download as well as face-to-face seminars, conferences, events and competitions.

However, it is important to note that technology provides a means to deliver rather than an end in itself. It provides a way of accessing a wide range and large volumes of SMEs to a wealth of resources and support. The technology itself should not drive what type of support is offered. When considering technology based NFS it is important to carefully assess the sophistication of your SME customer base and their familiarity with using technology. The reality is that not all SME business owners will use online support to develop their businesses. Some



It's important to remember that technology provides a means to deliver a wealth of resources and support to SMEs rather than being an end in itself.



Some SME owners prefer face-to-face options when discussing their business matters, so that their individual circumstances can be taken into account and their concerns can be addressed.

SME owners prefer face-to-face options when discussing their business matters, so that their individual circumstances can be taken into account and their concerns can be addressed. Again market research and market testing technology delivery modes with the target group of SMEs are critical to NFS success.

> THE CHALLENGES OF DELIVERING EFFECTIVE NFS

What is clear from international experience to date, is that the effective provision of NFS services, both for the FIs and their SME clients, depends upon careful consideration of the issues highlighted above. Due consideration leads to greater opportunity for success and a lack of careful consideration, which is often the case, results in expensive and not necessarily effective marketing exercises and or having redundant/ severely under used resources requiring ongoing funding.

The worst case scenario is when a FI launches a new NFS initiative, gets some SME customers engaged but not sufficient to deem it successful and then withdraws the service after a limited time. This type of performance can frustrate SME customers leading some to switch banks. If the particular NFS was open to SMEs in general – as in the case of a web based resource portal – then the sudden withdrawal of such a service can present a very poor image of the bank in the SME market place

Experience would suggest that the failure of any NFS provision usually occurs because one or more of the following 5 factors takes place.

I. NFS are not delivered to a clear purpose

So often NFS are introduced by FIs because their competition has done so. SME business clubs are a prime example of this, where banks set up clubs and then hold irregular meetings with generic offers. They don't set out to use club meetings to address specific groups of SMEs and align topics to the key financial solutions that the bank has to offer these SMEs. A lot of the problems surrounding the lack of impact evidence for NFS offers stem from the fact that banks are not clear about what they want from their NFS offer. Success comes when banks have a clear purpose for their NFS and an operational plan that backs this.

As mentioned earlier, RBS/Natwest introduced their *'Inspiring Women in Business Programme'* because they wanted to increase their share of the women's enterprise market in Scotland. At the same time, they appointed and developed a team of Women's Business Ambassadors in their bank to complement and service any increase in customers that came about.

II. NFS offers do not match the needs of targeted SME clients.

Banks have a tendency to copy what has been offered for one set clients directly to another and this often leads to failure. So taking NFS that have been delivered to corporates and simply 'downsizing' this offer wont necessarily work for SMEs. Likewise, NFS that work with one group of SMEs won't automatically work with another.

For example, recently a well established Kenyan bank decided to design and offer an online interactive resource portal to its SME customers. The offer was not well thought through, was driven by internal assumptions about what was needed and without much consultation or testing with the target group of SMEs as to how the resources should be offered. Designing and launching the portal involved significant investment of staff time and money and yet it was taken off line after a short period of time as SME customers did not use it.

III. NFS offers are not aligned with the bank's core SME financial solutions

The most successful NFS delivery takes place when the delivery of these services are closely aligned with what the bank has to offer as regards financial solutions. For example, Barclays high growth programme was launched alongside two new

investment funds for this group. Introducing NFS in a financial vacuum does not generate maximum impact from these services as well as the bank's core business.

IV. NFS are not fully costed and so effective choices cannot be made.

To date the experience of NFS provision in the financial sector is that the FI will be subsidising their NFS to some extent or covering the entire cost. Therefore it is critical to know the full cost of delivery in order to assess how effective they have been and whether they should be continued. For example, a bank will typically know the direct costs of running a business club event but not the associated staff time spent in attending the event or undertaking any follow up afterwards. If these events were managed internally what was the preparation time costs and the opportunity costs for the staff involved when compared to outsourcing the organisation of such events?

Lack of full costing means it is difficult to compare alternative NFS options and also, perhaps more importantly, whether or not to outsource delivery. Also as noted earlier, new NFS that are not fully costed and tested can be launched only to be withdrawn after a very short period when they are found not to be cost effective. Such a withdrawal of NFS can be damaging to a bank's reputation with the very SMEs that they are trying to attract or retain as customers.

V. Delivering in-house when outsourcing is the better option

There are numerous pros and cons of both internal and outsourcing NFS development and delivery as noted earlier. Banks can so easily decide to deliver NFS in-house, especially if the idea to offer NFS is the brainchild of an individual staff member and they have championed this idea through to approval. However, FIs are rarely staffed with individuals whose core strengths relate to NFS and so it is not surprising to

find that many banks offer NFS services through partnerships with third parties such as educational institutions (e.g. universities colleges), developmental organisations (e.g. IFC, ILO, private foundations) trade institutions (e.g. ITC, Chambers of Commerce) as well as private sector service providers (e.g. training, business consultancy, events and PR companies).

Knowing the strengths and weaknesses of your institution as regards delivering and supporting NFS is critical. The choice of internal delivery partnership or fully outsourcing is about deciding what is best for both the bank and the customers, taking into account all the factors discussed as regards purpose, target group, costs and prior experience.

VI. Little follow up contact and evaluation

Whilst the promotional benefits of NFS services can be evident, there have been very few evaluations of what and how NFS contribute to a bank's bottom line and in what ways the SMEs have benefited in business performance terms. Clearly internal bank and individual business assessments are confidential and, as such, will not be shared amongst the financial community more broadly. However, this does not diminish the importance of evaluating the outcomes of NFS offers.

At the bank level there would appear to be very little follow up on NFS provision, beyond website or online portal hits or attendance numbers at business club events. Evaluation involves short term follow-up after SMEs have used or engaged with an NFS as well as the selling of financial products. In the longer term, there is the assessment of financial outcomes and benefits for the bank and business development benefits for the SMEs involved.

The IFC research on NFS for SMEs by banks in emerging markets demonstrated positive financial benefits for some banks and their SME clients but this evidence is anecdotal at best and much more research is needed.



> SUMMARY

NFS are an increasingly prevalent aspect of the banking offer to SMEs throughout the world. It is an aspect of support to SMEs that continues to evolve, enabled not in the least, by the use of new technology and social media which make such services accessible to many. However just as with all new products and services, FIs need to give due consideration to the factors and issues discussed in this Note, if they are to deliver NFS successfully for both their bottom line and those of their SME clients.

What is apparent from international experience to date is that the effective provision of such services, both for the bank and its SME clients, depends upon the bank considering a number of factors.

If you are working within or acting as a consultant to a FI that is seeking to introduce or extend their NFS offer, then there are 6 key factors to consider and steps to take in your discussions about this.

These are:

1. **Taking stock** – have you /they delivered NFS previously and if so what, to whom when, how and to what effect?
2. **Establishing a clear purpose** – get clear statement of purpose for NFS development and delivery. Why do this and what does the desired impact of doing this look like?
3. **Identifying the target SME segment/s** - what do you/ they want to do, for which SMEs, and how do you/they know that these SMEs want or will benefit from such NFS?
4. **Knowing the costs and funding** – how much is this going to cost to develop test and deliver and where is the funding coming from for how long?
5. **Deciding in-house or out** – look at the pros and cons of doing this in-house versus in partnership with an external organisation or completely outsourcing its development and /or delivery. NFS is not a core FI area of expertise so there needs to be a strong argument for doing it internally.
6. **Setting indicators of success and monitoring them** - make sure you/they are evaluating the delivery outcomes of any NFS offered with a schedule of follow up contact to SMEs that works closely alongside the bank's core financial offers.

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> ANNEX 1

SOME EXAMPLES OF NFS OFFERED BY FINANCIAL INSTITUTIONS

I. Garanti Bank Turkey – support of women's enterprise

Garanti is Turkey's second largest private bank with full subsidiaries based in the Netherlands, Romania, and Russia. In 2006, Garanti became the first bank in the region to offer products and services specifically targeted towards women entrepreneurs. They do this through a three pillars support approach including: financial services; training and general promotional activities such as annual awards and competitions.

http://www.garanti.com.tr/en/sme_banking/sme_specific/events_exclusive_to_smes.page

<http://www.ifc.org/wps/wcm/connect/0322f080439654d493a9bb869243d457/Garanti+WE+Case+Study+FINAL+March+4+2014+.pdf?MOD=AJPERES>

II. Banks partnering the IFC using their SME Toolkit

IFC partners for the SME Toolkit. To see how these Toolkits are being used by partner banks go to <http://www.smetoolkit.org/smetoolkit/en/content/en/57193/Our-Partner-Network>

For example in Kenya see <https://www.dtbk.dtbafrika.com/sme-toolkit>. and <http://kenya.smetoolkit.org/kenya/en>. In India ICIC profile the toolkit through the bank's website <http://www.icicibank.com/business-banking/smetoolkit/SME-toolkit.page>.

In Jordan Jordan Ahli Bank (previously Jordan National Bank) was established in 1955. They have worked with IFC to develop their SME offer and their SME Academy. The bank has a specific area on their website for 'my business' and offers consulting support through dedicated business centres as well as access to the IFC Toolkits.

<http://www.ahli.com/en/jordan/my-business/my-business>

www.jordan.smetoolkit.org/jordan/en/

III. RBS/Natwest – UK accelerator support programme alongside funding

Promoted as the world's largest free business accelerator for early stage and growing ventures. The aim is for RBS to develop entrepreneurs who have a #GoDo attitude with a solid grasp of how to create value . . . which makes them investable. With mentors, ambassadors and supporters, workshops, pitch practice and a full time 'entrepreneurial enabler,' the focus is on the individual. They have developed a proprietary 'entrepreneurial enablement' programme that takes entrepreneurs through a cognitive and action centred development process – from Bootcamps, to ideation, to shaping mindsets and behaviours, from online content to our Acceler-8[®] days. <http://www.entrepreneurial-spark.com/about/>

IV. The SME Bank Group - Malaysia - CEDAR Centre for Entrepreneurial development and research

In 2012 the SME Bank Group set up its own Centre for Entrepreneur Development and Research (CEDAR) as a specialised SME and Development Financial Institution training, consultancy and research centre. CEDAR is a fully incorporated as a subsidiary of SME Bank with particular focus on young people and women starting up in business <http://cedar.my/dev/>

> **ANNEX 2**

SOME EXAMPLES OF NFS OFFERED BY FINANCIAL INSTITUTIONS

Bank	SME specific tab on website*			NFS Provision as promoted on the bank's website (July 2016)
	1	2	3	
Kenya Commercial Bank	√			<ul style="list-style-type: none"> Biashara club – not SME specific. No fee mentioned Supporting 'Lions Den competition
National Bank of Kenya			√	None
Guaranty Trust Bank (GT Bank Kenya)		√		Personal relationship manager offered to SMEs
Co-operative Bank of Kenya		√		None
Bank of Baroda (K) Ltd.			√	None
Consolidated Bank of Kenya			√	Business club open to all business current account holders. 250Ksh to join
Barclays Bank of Kenya			√	Barclays Business Club with a wide range of activities. No fees mentioned
Prime Bank			√	None
Gulf African Bank		√		None
Commercial Bank of Africa	√			None
Imperial Bank Ltd			√	None (in receivership)
Spire Bank Kenya formally Equatorial Commercial Bank			√	None
I&M Bank			√	Online Business club mobile App. Free and open to all business customers
Bank of India				None
Fidelity Commercial Bank			√	None
Diamond Trust Bank (K)	√			SME Toolkit on home page
Housing Finance Co of Kenya		√		None
UBA Kenya			√	Lion Magazine downloaded from website gives some business tips but not a business /SME magazine as such
Equity Bank			√	
Chase Bank (in receivership)		√		SME Toolkit online and Mobile banking facility described as 360 financial business toolkit http://mobile2bank.chasebankkenya.co.ke/
African Banking Corporation	√			None
Standard Chartered (K)			√	Mobile money platform aimed at businesses
Bank of Africa (K)			√	None
K-Rep Bank now Sidian Bank		√		None although bank's mission to help entrepreneurs
CFC Stanbic Bank (K)			√	None
Family Bank			√	Family Business Club with a wide range of activities no fees mentioned
Jamii Bora Bank		√		None
NIC Bank		√		None
EcoBank Kenya		√		None
Development Bank of Kenya			√	None

*** Key:**

1 = an explicit SME tab on the website home page

2 = reference to SMEs under a general 'business' tab on the website home page

3 = no reference to SMEs on the website