SME Banking-Africa

A Unique Opportunity for the Continent

Key Messages

- More to be done
- The opportunity
- Challenges in SME financing
- Profitable segment
- A proposed solution

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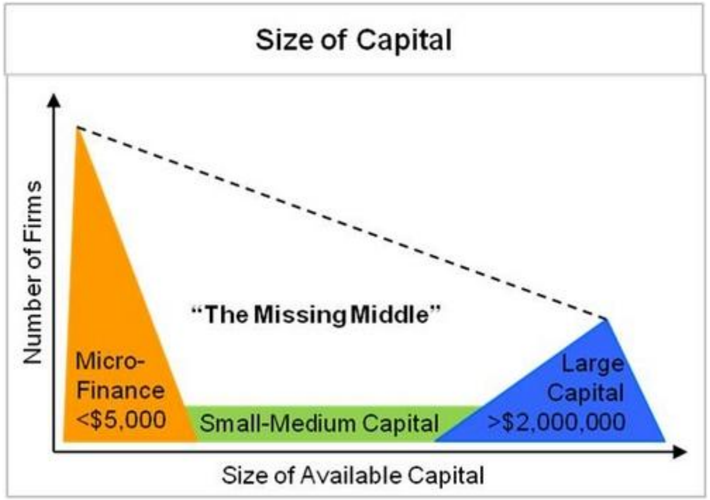
SMEs in Africa- “The Missing Middle”

- Contributes to around 40% of GDP

- Contributes to 50% of overall employment

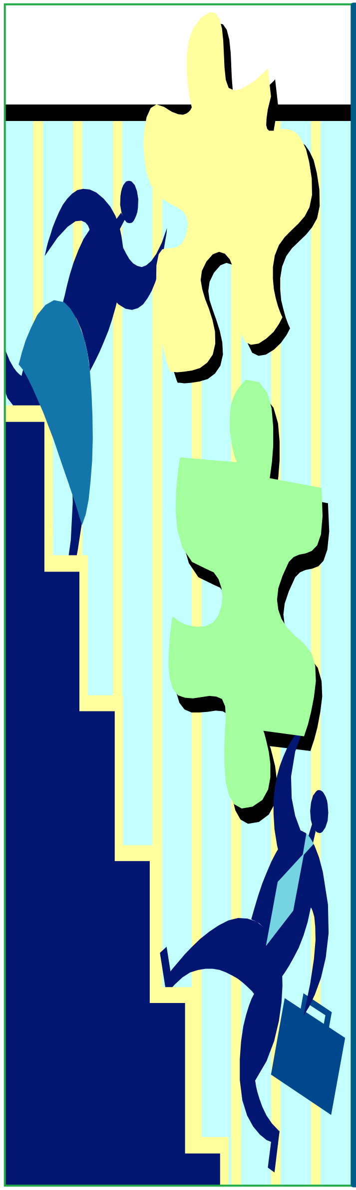
- Largely into Trading and services sector



- Mostly family owned registered as Sole proprietorships or partnerships

- Evolving Corporate Governance and awareness of transparent accounting.

Opportunities



❑ International Trade Corridors – Export/Import	❑ Our international presence across 80 markets enables us to capture the trade finance and remittance needs of the segment
❑ Soft Supply Chain	❑ Leverage on the Private Sector/State Owned Enterprise (SOE) client base to finance the SME in the value chain on supply and buying side by providing invoice financing, Term financing for expansion etc
❑ Intra Africa trade	❑ By opening trade corridor within Africa
❑ Administrative One Stop shop	❑ A center of excellence for all administrative issues including registration, tax disputes, litigation and financing

Challenges in SME financing

- Largely Unorganized sector because of high start up costs and stringent and lengthy registration requirements
- Lack of established credit bureau for the commercial enterprises
- Availability of Audited Accounts from SMEs and hence disclosure of information
- Legal System efficiency on security creation and foreclosure
- Scarcity of experienced bankers who can access the credit requirements of SME

The Standard Chartered Experience

SME Africa contributes 11% of global SME revenues at Standard Chartered

We have ~100,000 customers, 150+ RMs across 8 markets in Africa

In a tough external environment , we doubled our assets in 2011 and focused on cross border trade with China, India and Middle East

Approximately 80% of SME Banking income is generated from non-lending products, lead by CASA, FX and insurance

Small Business $0-10m sales t/o
Medium Enterprises $10-25m sales t/o

SME Banking has world class RMs who provide customer centric need based solutions

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Role of a Credit Guarantee Scheme (CGS) in SME

SME

Role

- Beneficiary of financial access
- Provide documentation for credit assessment
- Loan utilization and repayment
- Contribute to the economic growth and employment

Advantages

- Access to formal finance
- Support for SME innovation and growth
- Reduce borrowing costs and lower collateral requirement

Guarantors

Role

- Catalytic role
- Co-ordinate partners
- Set agendas and objectives for the scheme
- Establish effective regulation

Advantages

- Financial and economic additionality
- SMEs contribution to economic growth
- Capital leverage to support scheme
- Reputation

Lenders

Role

- Financial supervision of CGS
- Credit assessment for providing loans
- Underwriting standards
- Experienced Staff
- Access to SME customers

Advantages

- Reduce bank's risk exposure as they build their book
- Build experience and comfort level on supporting SME for future

The basic framework of a model CGS

Main objectives	Mission statement of the CG scheme
RULES OF THE SCHEME	
Eligibility criteria	Characteristics of eligible firms (size, sectors, age) and eligible financing
Coverage ratio	Percentage of risk taken by the guarantee fund
Fees	Price of the guarantee
Payment rules	Triggers related to the payment of the guarantee
Collateral and down payment	Collateral and down payment required when using the guarantee
MANAGEMENT OF THE SCHEME	
Operational mechanism	Individual, portfolio or hybrid approach
Credit risk management	Credit risk management tools (credit scoring and rating, credit registry)
Capacity building	Assistance to participating institutions designed to increase their lending and risk management capacity
OUTCOMES OF THE SCHEME	
Outreach	Number of eligible firms that are covered by the scheme
Additionality	Capacity to target firms that are effectively credit constrained
Financial sustainability	Capacity to contain losses and maintain an adequate level of equity given the expected liabilities and the speed of claim settlement

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