SME FINANCE
FORUM

ANNUAL REPORT

2017

GPFI Global Partnership for Financial Inclusion

MANAGED BY IFC International Finance Corporation WORLD BANK GROUP

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Foreword

Traditional banking was never designed to meet the needs of small and medium enterprises (SMEs). At present, the bigger a traditional bank is, the less comfortable it is in servicing this market. The SME market is too small to serve with people-intensive approaches, too complex to operate with fully automated approaches, and too expensive for most banks to provide loans. Therefore, it is not surprising that most bankers do not feel comfortable operating in the SME realm.

However, the world is changing, and SMEs are changing alongside it. This reinforces the importance of the SME Finance Forum's work in helping our members learn from each other, link to new business opportunities, and lead in a constructive industry dialogue with policymakers.

More and more financial transactions that used to be made in cash are now being done digitally. Previously, the only way we could understand what was happening in an SME was to visit it and see directly for ourselves. Today, this is no longer necessary. We can obtain the information we need by taking advantage of these new electronic data streams. This, in turn, allows for a new scale of SME banking that was never before possible. It transforms the SME segment from a banking problem into a real opportunity.

Given this environment, the SME Finance Forum provided an extensive reflection on these developments with a new, major research publication, Alternative Data Transforming SME Finance. It was produced for the G20's Global Partnership for Financial Inclusion with the active participation of many of our members, and many more from the industry.

In 2017, a new milestone was reached. The total supply of electronic data from emerging markets became greater than that from developed countries. In future, will see even more data from the emerging markets as the penetration rate of smartphones increases. Until now, bankers have not used much of this new information, even when it comes to data from their own clients. It has been the alternative lenders who have led the way in showing what this data can facilitate in terms of SME finance.

An even greater challenge than that from the alternative lenders is the entry of "the internet giants" in the financial services industry: Amazon, Apple, Facebook, Google, PayPal, and perhaps the biggest of all — Alibaba, and its banking subsidiary Ant Financial. Indeed, Ant Financial has grown in just a few years to serve some 500 million customers, and is now moving beyond China. Internet data giants like Ant can develop risk management systems and credit scores with a much higher degree of accuracy by using artificial intelligence and machine learning to constantly update and enhance their models. They can identify and serve masses of clients without ever having to visit them.

During the past year, the SME Finance Forum has helped Ant to share its experience in global meetings, such as the Business Information Industry Association's Biennial Global Conference. The Forum has also worked with PayPal and the Asia-Pacific Economic Cooperation (APEC) Business Advisory Council on how regulators can create an open and enabling environment in which both the new and established players are motivated to compete for greater SME business.

Partnerships allow banks to do what they do best, for instance, by hiring specialized financing technology companies (fintechs) to act as service providers. In many cases, these fintechs have found better ways of performing the functions that the established banks have not been so good at doing. Even in some of the most digitally savvy banks, such as Wells Fargo, many of their functions are already conducted through specialized fintech partners. Banks that think about the future are building a model of "banking as a platform" (BaaP). This allows for better cooperation with emerging fintechs, and a more flexible, adaptable way of dealing with fast moving markets.

In a sense, banks may be finding the sort of "flexible specialization" approach that the garment sector evolved a few decades ago. In this context, institutional innovation opened all sorts of doors to emerging markets that changed the world profoundly! Even some of the challenger banks are now adapting their approaches as they grow into new markets — transforming from competitors into partners with established banks. This is what SME Finance Forum member, Fidor Bank, is doing as it moves into emerging markets, and what member Kabbage (as an alternative lender) has been doing for some years now. However, in their home markets, it is expected that they will continue as competitors, and that, too, will be good for SMEs. SME Finance Forum webinars, study tours and the Global SME Finance Forum are helping to accelerate the development of new partnerships, including the many individual introductions facilitated by the Forum for its members and the industry.

In future, the cell phone, and in particular the smartphone, will be the key tool both for bankers and their customers. Although it is just one of the many channels that banks can use, it will be the fastest growing channel, particularly for Millennial generation. However, there is still a lot of old technology that slows the banking system and limits financing and global market access for SMEs — in particular, the SWIFT system (based on the telex of the 1970s) for cross-border payments, as well as the trade finance system, which is based on extensive use of paper documents. Indeed, the latter has barely changed from its invention by the Venetians of the 14th century!

The SME Finance Forum predicts important changes in both systems within the next 5-10 years. Distributed ledger technology — not the completely open blockchain, but the decentralized, permissioned ledgers backed by digital fiat currencies — will underpin this replacement. It will not be one single system, like SWIFT. Rather, it may be many decentralized ledgers on the surface, adapted to particular value transfer needs. At the same time, though, there will have to be a SWIFT-like set of rails below the surface that enables the connection competitors, like China's "Ant Shares" initiative, (no relation to Ant Financial) to provide financing.
Regardless of how the competition between traditional, alternative and new banking service providers evolves, the result will likely be a vastly improved situation for those who move relatively small units of value around, that is, the SME sector. Indeed, this is the reason why supply and value chain financing will be the greatest growth opportunity in SME finance. As predicted by the SME Finance Forum some years ago, it is also the reason why the world is already seeing that more and more fintechs will gravitate to this area. The Forum will continue its focus on this important topic, connecting the financiers — both established and alternative — to the large firms whose buying and selling underpins these chains.

Despite these positive developments, there are also some big clouds on the horizon for Initial Coin Offerings (ICOs) in 2018 and beyond. In principle, this structure is a great way to level the playing field for accessing capital markets for smaller players. However, is has now become a playground for speculation on the rising value of Bitcoin and a few other popular crypto currencies. Few, if any, investors are actually looking at what the underlying firms are proposing to do, and whether they can ever be profitable. The entrepreneurs are cashing out the crypto currencies into Dollars and Euros as soon as the ICO allows. Investors are expecting outlandish returns, given past rises in crypto prices, whereas the underlying currencies evidence high volatility.

Even if some of these companies do well, it is doubtful that they can satisfy the irrational enthusiasm of their investors, and a course correction will occur. The most unfortunate consequence of this will be discrediting the whole ICO concept, which will then completely fall away. This will mean missing out on a great opportunity for capital market democratization — unless a way can be found to move to a less volatile crypto-currency base for ICOs, such as a digital fiat currency base with Dollars or Euros. In this context, perhaps the real goal should be digital special drawing rights (SDR). The SME Finance Forum, assisted by its many member experts on distributed ledger technology, will do what it can to put this important innovation on a firmer footing.

In the coming years, will robots replace bankers in financing SMEs, as artificial intelligence and machine learning continue to advance? Probably not, but what bankers do with clients will change enormously. The robots will do the repetitive and formulaic work better, thereby providing the bankers with more time for client interaction that has more added value.

Matthew Gamser
Chief Executive O, SME Finance Forum

SME Finance Forum at a glance

ABOUT THE SME FINANCE FORUM

The SME Finance Forum works to expand access to finance for small and medium businesses. The Forum operates a global membership network that brings together financial institutions, technology companies, and development finance institutions to share knowledge, spur innovation, and promote the growth of SMEs.

Together, we really can reduce the gap in the credit and financing market for SMEs. As part of the network, innovators and financial institutions of all shapes and sizes can create the conditions necessary for the market to really offer affordable and convenient financial services for small businesses to grow,

HRH Queen Máxima of the Netherlands

Why is Small Business Finance a Big Deal ?

MSMEs are at the heart of job creation. They account for

9/10
of businesses worldwide

½
of global gross domestic product (GDP)

2/3
of jobs worldwide

By the year 2030, **600 million** jobs will be needed to absorb the growing global workforce.

MSMEs need financing to grow:

65 million or **40 %** of formal MSMEs in developing countries have unmet financing needs.

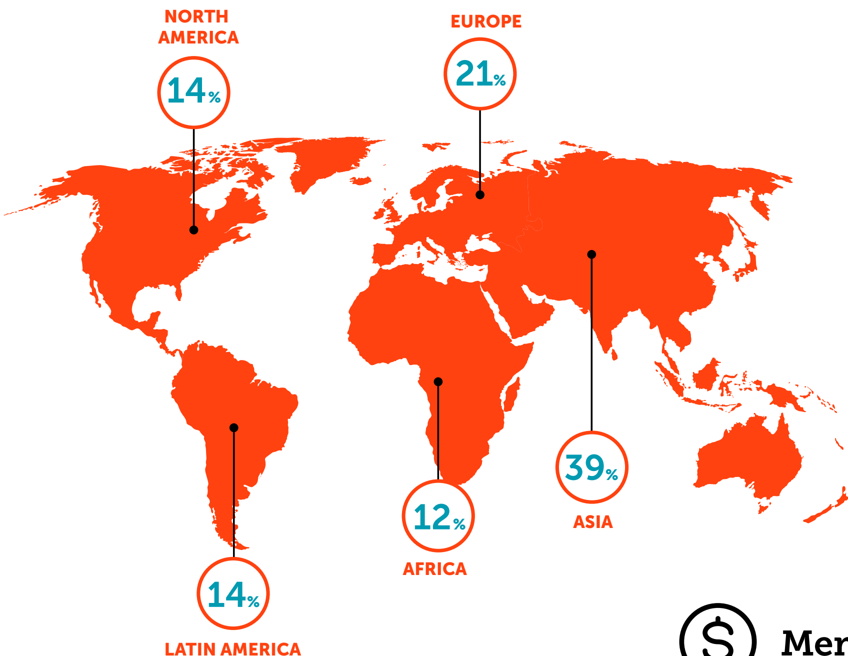
The unmet demand for credit is estimated to be **$5.2 trillion**.

Women-owned businesses account for **28 %** of MSMEs and **32 %** of the financing gap.

MEMBER NETWORK

140 members from 60 countries

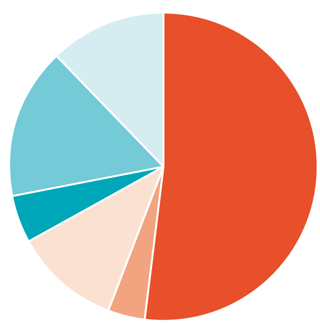
Members by region



Banks speak to other banks. Regulators are getting much better at speaking to other regulators and tech firms talk to tech firms. But getting them all to talk to each other is really important and rather unusual. When they come together and think about the problem together, you really see progress.

Edward Glassman, Group Executive, Global Commercial Products, MasterCard

Members by asset size



< $1 billion	**52%**
$1-2 billion	**4%**
$2-5 billion	**11%**
$5-10 billion	**5%**
> $10 billion	**16%**
N/A	**12%**

Members by sector

49% Bank

27% Fintech

13% Development finance institutions

11% Other

Members of the SME Finance Forum

AC Fund
Access Holding
ACCIS
ADFIAP
Afluenta
Afriland First Bank
Akiba Commercial Bank
AMP Credit Technologies
Ant Financial
Asifma
Association of Banks in Malaysia
Associazione Bancaria Italiana
Bank BTPN
Bancamia
Banco de Crédito de Bolivia
Banco Delta
Banco Galicia
Bancolombia
Bancop
Banco Patagonia
Banco Pichincha
Banco Regional
Banhcafe
Bank of China
Bank of Palestine
Bank of the Philippine Islands
Banking Association of SA
BanRegio
BBVA
Bitbond
BNP Paribas
Bolstra Group
BPB
BRAC Bank
Business Information Industry Association
Cambodia Post Bank
CDC Group
City Bank
China Rural Bank Development Forum
Credit Guarantee Company Egypt
Cogebanque
Commercial Bank of Africa
Commonwealth Bank of Australia
Co-operative Bank of Kenya
CreditEase
CRDB Bank
CRIF
Dashu Finance
Development Bank of Rwanda
Diamond Bank
DigiVation
Dun & Bradstreet
Ecobank
eFactor
EMPEA
Equifax
European Association of Guarantee Institutions
European Investment Bank
European Investment Fund
Experian
Fawry
FCI
Feidai
Fern Software
Fidelis Finance
Fidor
FINTQ
Financial Sector Deepening Trust
FINCA Impact Finance
Fnconn
Fondo de Garantías de la Provincia de Buenos Aires (FOGABA)
Fonds de Développement Industriel (FDI-Haïti)
Funding Circle
Fuse Lending
FSD Uganda
Garanti Bank
Global Communities
Grupo Promerica
Hattha Kaksekar
ICICI Bank
IDLC Finance Limited
IDmission
Inter-American Investment Corporation (IIC)
Intesa Sanpaolo
Islamic Corporation for the Development of the Private Sector (ICD)
Janalakshmi Financial Services
Kabbage
Kafalah SME Finance Guarantee Program
Kredi Garanti Fonu (KGF)
Khan Bank
Khushhali Bank
Korea Credit Guarantee Fund
Lawrence Sikutwa & Associates
Linklogis
Lionbridge Capital
Mambu
Mastercard
The Mastercard Foundation
Mekar
Multibank
Next Money
National Microfinance Bank
Octet
OPIC
Palestine Investment Bank
Payoneer
Prasac
Qatar Development Bank
Qianhai Credit Bureau
Raiffeisen Bank International
Rakuten
Ripple
Sathapana Limited
Sberbank of Russia
Shanghai F-Road Commercial Services
SIDBI
Societe Financiere Haitienne de Developpement (SOFIHDES)
Société Ivoirienne de Banque (SIB)
Software Group
Superintendencia General de Entidades Financieras (SUGEF)
Standard Chartered Bank
State Bank of India
Strands
Sudameris
TransferGo
TEB Bank
The Montreal Group
Triodos Investment Management
TUHF
Unkapt
US Chamber of Commerce
Verde International
WellsFargo
World Savings and Retail Banking Institute
XacBank
Xero
Yoma Bank
ZhongNan

MEMBERSHIP SERVICES

Learn

Online library*

Linkedin discussions*

Monthky webinars

Global regional and partner events

FIntech expos/demos

Expert tips

Publications*

SME data*

Link

Communities of practice

Networking

Contact brokering

Study tours

B2B marketplace

Mobile app

Lead

Connecting industry with policymakers

Voice in key policy bodies - G20, AFI, APEC/ABAC, Basel Institutions, OECD

It's a forum in the literal Latin Roman sense of the word, a place where people meet and exchange ideas and goods. The guys here are trying to sell me their fintech devices. I'm trying to sell the services of my bank. But more important than that, I'm trying to exchange ideas and contacts.

Sir Sherard Cowper-Coles, Group Head of Government Affairs, HSBC

I think that the SME Finance Forum is [a] phenomenal value for money. It has by far the best networking and the best content.

Tom DeLuca, CEO, AMP Credit Technologies

I don't think there is any other forum out there that gives us a window into the G20 world.

Hemant Baijal, Vice President of Global Public Policy, Mastercard

Source:

Note: B2B= business-to-business; ABAC= APEC Business Advisory Council; AFI= Alliance for Financial Inclusion; APEC= Asia-Pacific Economic Cooperation; OECD= Organisation for Economic Co-operation and Development.

2017 - Year in Review

Learn

Facilitating knowledge-sharing

> Website and Social Media

- 3500+ knowledge resources
- 56,000 users and 193,000 page views in 2017
- 21,000+ social media and newsletter subscribers
- Top 10 countries for web traffic include:
  - United States
  - India
  - United Kingdom
  - Italy
  - Germany
  - Singapore
  - Russia
  - Philippines
  - Nigeria
  - Malaysia

> Member App

Download the "SME Finance" app from the Google or Apple app store to access:

- Tips from the Expert
- News and calendar of events
- Webinars and event proceedings
- Member directory
- Networking and messaging

> Webinars

The SME Finance Forum hosts monthly webinars featuring industry experts from banks and fintech firms. The webinars are designed to be interactive, and participants are encouraged to ask questions and engage in a discussion with the speakers.

Over 1,000 participants attended our 13 webinars in 2017, including:

- SME Collections Strategy — JAN 23
- FEB 1 — Impact of Basel III on SME Lending
- Risk Management — FEB 22
- MAR 22 — Gender Intelligent Banking
- Building Credit Scorecards in a Data Scarce Environment — APR 19
- MAY 17 — Making Islamic Finance Work for SMEs
- Technology-Driven Financial Inclusion — JUN 7
- JUN 12 — Alternative Data transforming SME Finance
- High-Growth SMEs – What Makes Them Different? — JUN 21
- JUL 19 — SME Loan Process Automation
- Non-Financial Services — AUG 16
- SEPT 20 — Making Bank-Fintech Partnerships Work
- The Next Big Opportunity: The Women's Market for Insurance — OCT 3

> Conferences

The SME Finance Forum's conferences draw industry leaders from banks and fintechs, as well as regulators, policymakers and development financiers. These events feature interactive panels and working groups, fintech demos, a B2B marketplace, networking sessions and study tours to high-performing institutions.

International Financial Institution/Development Financial Institution (IFI-DFI) Working Group Meeting - Digital Transformations in SME Finance, London, UK, May 31 2017.

Every year the IFI-DFI Working Group Meeting on SME finance brings together important stakeholders to share strategies and action plans, as well as to reflect on what works in SME finance. Around 100 participants from 40 organizations attended the event, co-hosted by the International Finance Corporation's (IFC's) SME Finance Forum and the CDC Group, the UK's development finance institution.

Global SME Finance Forum – Digitization of SME Finance, Berlin, Germany, November 1-3, 2017.

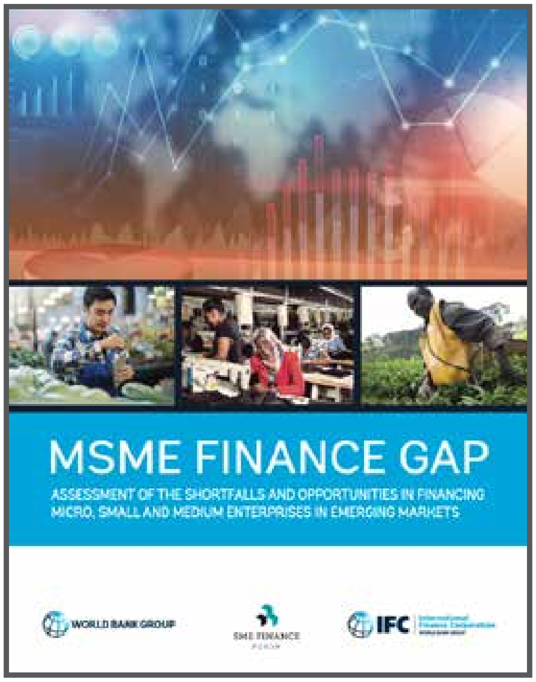
A record number of about 500 participants from 250 institutions and 80 countries gathered at the forum to discuss impactful and innovative ways of addressing the MSME finance gap.

> Study tour

In 2017, 250 banking and fintech professionals participated in the SME Finance Forum's study visits to gain insights into small business finance in Berlin. The study visits, which were a blend of professional knowledge-building and on-site visits, were hosted by the following twelve institutions:

- AccessHolding
- Deutsche Bank Labs Berlin
- Bitbond
- Deutsche Bank Branch
- Fidor Bank
- Funding Circle
- Kontist
- Mobisol
- Mambu
- Raisin
- Spotcap
- SumUp

> Publication



MSME FINANCE GAP

This joint report by the SME Finance Forum and IFC found that 65 million enterprises, or 40 percent of formal micro, small and medium enterprises (MSME) in developing countries, have an unmet finance need of $5.2 trillion a year. This gap is larger than previously estimated. IFC and McKinsey & Company conducted the first comprehensive assessment of the global MSME finance gap in 2010 and assessed the gap at $2 trillion at an aggregate level. The report, which presents new data points compiled by the SME Finance Forum and analyzed by IFC's research units, focuses on data points from 128 countries, both from the demand and the supply sides. This analytical work has allowed for more accurate, actionable country-level estimates of the MSME finance gap.

MATT'S VIDEO INTERVIEW

Matthew Gamser, the CEO of the SME Finance Forum (managed by IFC), discusses the staggering $5.2 trillion financing gap for micro, small and medium enterprises and what governments, banks and fintech companies can do to address it.

Link

Fostering partnerships

> Contact brokering

The SME Finance Forum provides one-on-one contact brokering services for member banks and fintech firms. This can help them to leverage new market opportunities, form mutually beneficial partnerships and/or expand their know-how in SME finance.

> B2B Marketplace

The SME Finance Forum organizes B2B Marketplace sessions during its conferences. Participants have an opportunity to schedule 15-minute, one-on-one introductory meetings with investors, advisory service providers and fintech companies. The Business Development Bank of Canada, the CDC Group, the International Finance Corporation, Germany's KfW Development Bank and Investment Corporation (DEG), the United States Overseas Private Investment Corporation (OPIC), and Triodos Bank are among the 25 investor organizations that participated in the Marketplace at the 2017 Global SME Finance Forum. Around 150 B2B meetings were facilitated as part of the event.

> Privileged access to partner events

SME Finance Forum members received discounted access to partner events, including FinnoSummit, Felaban, Finovate, LendIt, SME Banking Club, and the BIIA Biennial Conference.

Lead

Supporting policy discussions

> Shaping SME finance policy

The SME Finance Forum's G20 and World Bank Group leadership provides it with unprecedented access to high-level policy dialogue regarding SME finance matters. In addition to the G20, the SME Finance Forum also actively participates in policy discussions alongside the Organisation for Economic Co-operation and Development (OECD), the Alliance for Financial Inclusion (AFI), the World Economic Forum (WEF), the APEC Business Advisory Council (ABAC), and so on.

> Bringing the private sector perspective to G20 meetings

The SME Finance Forum invited several banks and fintech companies to participate in G20 meetings to share their private sector perspective with policymakers. Allied Crowds (UK), Ant Financial (China), Awamo (Uganda), the Commercial Bank of Africa, CreditEase (China), Funding Circle (United Kingdom), Mekar (Indonesia), the Small Industries Development Bank of India (SIDBI), Verde (US), and Zoona (Zambia) were among the institutions that participated in the G20 meetings in Frankfurt and Berlin, Germany.

> G20 Publication

Include a snapshot of the publication cover and link to the publication

Alternative Data Transforming SME Finance
Fueled by the phenomenal intersection of and growth in mobile, cloud, big data and electronic payments, the world's stock of digital data will double every two years through 2020. This report, produced by the SME Finance Forum on behalf of the G20, takes stock of the range of data and institutions using such data. It considers the opportunities alternative data presents to narrow the financing gap for SMEs. It also highlights the new issues and potential risks raised by this massive increase in and diversification of data supply to the stability of the financial sector, as well as to consumer protection.

Member stories

Bank of Palestine

Aiming to be the "Bank of Choice" for women and small businesses

Bank of Palestine was established in 1960 to serve Palestinians of all socio-economic groups. With a network of 70 branches, 31 percent market share of deposits, 33 percent market share of loans and more than 890,000 customers, the bank serves retail, corporate, small and medium enterprises, microenterprises, and the Palestinian diaspora. The bank has been listed on the Palestine Exchange since 2005, and it is the second largest listed company.

The SME sector is responsible for more than 85% of economic activity in West Bank and Gaza, and for Bank of Palestine it's a key part of their business, which they are looking to expand.

Bank of Palestine has the largest SME portfolio among its peers, comprising 18% of the bank's total portfolio, which reached nearly USD350 million in 2017. The SME portfolio has grown by 44% consistently over the past three years. This growth reflects the very real need for financing that exists for SMEs in West Bank and Gaza. Banks were failing to meet this need, and Bank of Palestine saw the opportunity, with the help of IFC, to develop products and policies to serve the small and medium enterprises in the country.

The bank offers a range of products for SMEs: equipment loans based on moveable assets; overdrafts; financing deals; and a series of innovative products for women, including collateral-free loans and loans for those who use gold as collateral.

The innovations go beyond financial products to some unique non-financial offerings for SMEs, which help entrepreneurs to manage and grow their businesses. The bank has pioneered financial literacy programs in West Bank and Gaza, holding workshops across the country, and training bank staff to provide business advice for SME business owners. They also launched an online Business Toolkit to support the development of SMEs and women in business by providing tools and advisory services that help them advance their business and increase their chances of success.

In October 2015 in partnership with IFC, Bank of Palestine launched a unique program to boost women entrepreneurs' business performance and spur economic growth in West Bank and Gaza. The Felestineya Mini-MBA program combines access to financial products with non-financial services, including networking, mentoring, coaching, and business information.

Already the bank is seeing results: participants in the program so far doubled their revenue and profits, took steps to formally register their businesses, and created new jobs. An evaluation of the program found that better bookkeeping and financial management practices led to better business management and increases in profits. Women were also able to expand their business networks, while for the bank it's meant increased sales of financial products and enhanced brand equity.

"As we've grown a comprehensive set of products and services to help SMEs advance their businesses, it has helped our business. More importantly, it has contributed to creating the jobs that are so needed to help the national economy grow."

Mr Hashim Shawa, Group Chairman, Bank of Palestine

Many of the challenges that SMEs face anywhere in the world—cash flow management, the need for support in preparing financial statements, and in streamlining business operations in order to be cash flow positive—are magnified for businesses facing movement restrictions and an uncertain political situation. Marketing is a challenge for SMEs, particularly for Palestinian businesses looking to export to other markets, and the high price of raw materials is acute. These challenges are all factored in to the bank's business as they try to guide and support their customers.

"SME customers are eager to prove their credit worthiness, and understand that this credit is a hard-earned gateway to move from joblessness and despair into hope and productivity. We plan to increase the SME segment of our loan portfolio, while maintaining a balanced portfolio."

Mr Hashim Shawa, Group Chairman, Bank of Palestine

Bank of Palestine sees being a member of the SME Finance Forum as an opportunity to tap into a network of peers to exchange best practices. They have found that exchanges in the Forum can be very productive and interactive: "We seek new ideas, innovations, and we're able to share lessons learned," says Group Chairman, Hashim Shawa.

BBVA

Reinventing banking as a digital business

BBVA is Spain's second largest bank and an innovative global financial group that provides financial services in more than 30 countries to 72 million customers, of which SMEs is a very important client segment. In recent years, the bank has reinvented itself as a digital business, and it aims to be as nimble as a fintech. BBVA is recognized within the industry for being more pro-technology than many of its competitors. The bank is investing in technology, and both acquiring and allying with fintechs.

Under Chief executive Francisco González, BBVA started early. It began overhauling its computing systems in 2007. Since then, BBVA has bought fintechs, a digital design company, digital banks in America and Finland, and a stake in a British online bank, and it invests in young fintechs. But it also has a capable in-house design team and a "tech-savvy" culture.

BBVA is using that "tech-savviness" for and with SMEs, leveraging new technologies and collaborating with the start-up ecosystem. One example is Commerce 360, in which BBVA uses credit card payments data to help retail businesses in Spain to take informed decisions, understand their clients buying patterns, and compare their sales with their competitors. Another example is Azlo, a start-up in which BBVA invests, that helps entrepreneurs in the US to run their business through a digital account: to make national and international payments, pay their bills, and integrate with their e-commerce and PoS solutions.

"At BBVA, our aim is to bring the age of opportunity to everyone, and we think that by providing digital solutions, we help our clients to make decisions for their business in the most convenient way."

Ignacio López-Perea Páramo, Global Head of Distribution Models for Corporate and Commercial Banking, BBVA

Since access to finance is one of the main concerns for SMEs, in Spain BBVA launched Click&pay working capital loans, a short term line of credit for paying payrolls, suppliers, taxes or imports that can be accessible online with one click. Once the line of credit is authorized, the client can use that line anytime, anywhere, from the website or the app. More than 65,000 SMEs and entrepreneurs have signed up for a Click&pay credit line since its launch in April 2016 and as of March 2018, 80% of the disbursements were made online. Similar solutions have been developed in Mexico, Colombia and Peru.

BBVA Group joined the SME Finance Forum last year. Garanti Bank, its bank in Turkey, had joined two years before. BBVA wanted to tap into the Forum's ecosystem for SMEs, to improve financing and innovation for small businesses, especially in emerging economies.

"We have been able to attend very interesting Webinars and events organized by the SME Finance Forum, and especially access and connect with the network of fintechs, banks, regulators, and other very interesting members of this great initiative," says Ignacio López-Perea Páramo, BBVA's Global Head of Distribution Models for Corporate and Commercial Banking.

> **“Banks are not going to be banks in the future, they will be service providers, they will be platforms for financial and non-financial services.”**
>
> *Francisco González, Group Executive Chairman, BBVA.*

At the SME Finance Forum annual event in Berlin, BBVA presented its Open Talent Competition at a gala dinner. The competition, now in its tenth year, looks for the best fintech ideas that will shape the future of banking and gives them a chance to grow their business with BBVA. Ultimately, the bank seeks to ensure that technology works as a catalyst for positive change in an environment where industry lines are blurring.

BRAC Bank, Bangladesh

SMEs are not just another business opportunity, they are a reason for being.

BRAC Bank was founded in 2001 by Sir Fazle Hasan Abed (the founder of Brac, the largest non-governmental organization [NGO] in the world) to serve SMEs and help grow the vibrant, yet unbanked SME sector in Bangladesh.

The bank serves small and medium-sized enterprises and includes strong retail and corporate banking divisions. However, serving SMEs is the BRAC Bank's reason for being. Under Chief Executive, Selim R F Hussain, SMEs now comprise an increasing share of the bank's work. Overall lending to SMEs reached 41 percent of the total loan book at the end of 2017, an increase from 34 percent just two years earlier, when Hussain arrived at the bank. Indeed, he would like to see this percentage rise further, specifically to more than 50 percent by 2020.

"I want lending to SMEs to represent more than half of the bank's book by 2020."

Selim R. F. Hussain, CEO, BRAC Bank

In December 2017, the bank's outstanding SME portfolio reached US$ 975 million, and non-performing loans stood at an impressively low rate of 2.5 percent, the lowest in the industry in Bangladesh. In 2017, AsiaMoney named BRAC Bank the "Best Bank for SMEs" in the country.

BRAC Bank provides more than 60 percent of the collateral-free SME loans offered in Bangladesh, with the highest level of rural penetration of any of the banks. This level of reach is made possible through nearly 2,500 specialized SME staff, working from about 500 SME unit offices, and 186 bank branches.

"Being a member of the SME Finance Forum gives us insight into innovations around the world. We learn from this and bring some of them home to Bangladesh. We're also able to share what we've learned over seventeen years of working with SMEs."

Selim R. F. Hussain, CEO, BRAC Bank

BRAC Bank is also embracing cutting-edge learning and technologies to increase their reach to SMEs. In this context, BRAC Bank connected with two fintech members, Verde and AMP Technologies, through the SME Finance Forum. They are currently evaluating relevant technology solutions for the bank.

BRAC Bank learned about a credit-scoring model for small business customers at the Global SME Finance Forum event in Beijing, China. With the help of IFC's Advisory Service, they have now implemented their own credit-scoring model.

One of the earliest members of the SME Finance Forum, BRAC Bank has made the most of the global platform, and emphasizes that the benefits are immense.

BRAC Bank staff members are some of the SME Finance Forum's most committed participants in Webinars. Syed Abdul Momen, Head of SMEs at BRAC Bank, says that the Webinars provide in-depth solutions to the real-world problems SME banks and financial institutions face. In this regard, they have helped him and his staff to improve their operational processes.

Whether it is the Webinars, the network of members, or global and regional events, says Syed Abdul Momen: "The SME Finance Forum gives you access to the world, access to what is happening in the SME finance space around the world."

CreditEase, China

Big data makes what once seemed impossible, possible.

CreditEase is a Beijing, China-based fintech, specializing in inclusive finance and wealth management. It also provides products and services such as payment technology, marketplace lending, crowdfunding, robo-advisory services, insurance technology and blockchain products and services.

In the twelve years since it was founded by current CEO, Ning Tang, CreditEase has gone from being China's first marketplace lender to a full-service fintech company with a global footprint. As such, it is committed to giving traditionally underbanked SMEs access to comprehensive financial services.

CreditEast offers Chinese MSMEs unsecured credit, financial leasing for small-scale operating equipment, agricultural machinery and livestock leasing of stockbreeding, as well as supply chain financing.

"Today we can reach small businesses and entrepreneurs—businesses that were not traditionally covered by the Chinese financial system. Fintech helps make the financial system more comprehensive, and helps make financial services more efficient."

Ning Tang, CEO CreditEase, China

SME Finance Forum research conducted with IFC shows a US$ 1.890 billion financing gap for China's 56 million MSMEs. For fintechs and entrepreneurs, like Ning Tang, that represents both a substantial business opportunity and a profound need.

A lack of regulatory supervision allowed the peer-to-peer (P2P) lending sector in China to grow rapidly — and, along with it, a number of fraud cases. In August 2016, Chinese authorities introduced tougher regulations, which Creditease warmly welcomed. Ning Tang sees protecting the integrity of the marketplace platform as the industry's top priority. He maintains that the industry is much healthier because of the regulatory clean-up. Today, these funds go through the banking system. Many of the regulations came from industry best practices, and Creditease embraced them enthusiastically. "It's a trillion-dollar market, and the regulatory guidelines that came out make us stronger," he says.

"The challenge for SMEs in accessing capital is very real in China, but the challenge isn't unique to China. Innovative business models and technology are making a dent. But there's still a big market for those ready to address it in a responsible way."

Ning Tang, CEO CreditEase, China

The Financial Cloud Model has been a critical development in Creditease's approach and relationship to SMEs. The CreditEase Financial Cloud, developed over the past nine years, offers modularized services in an eco-system supported by cloud computing and big data technology.

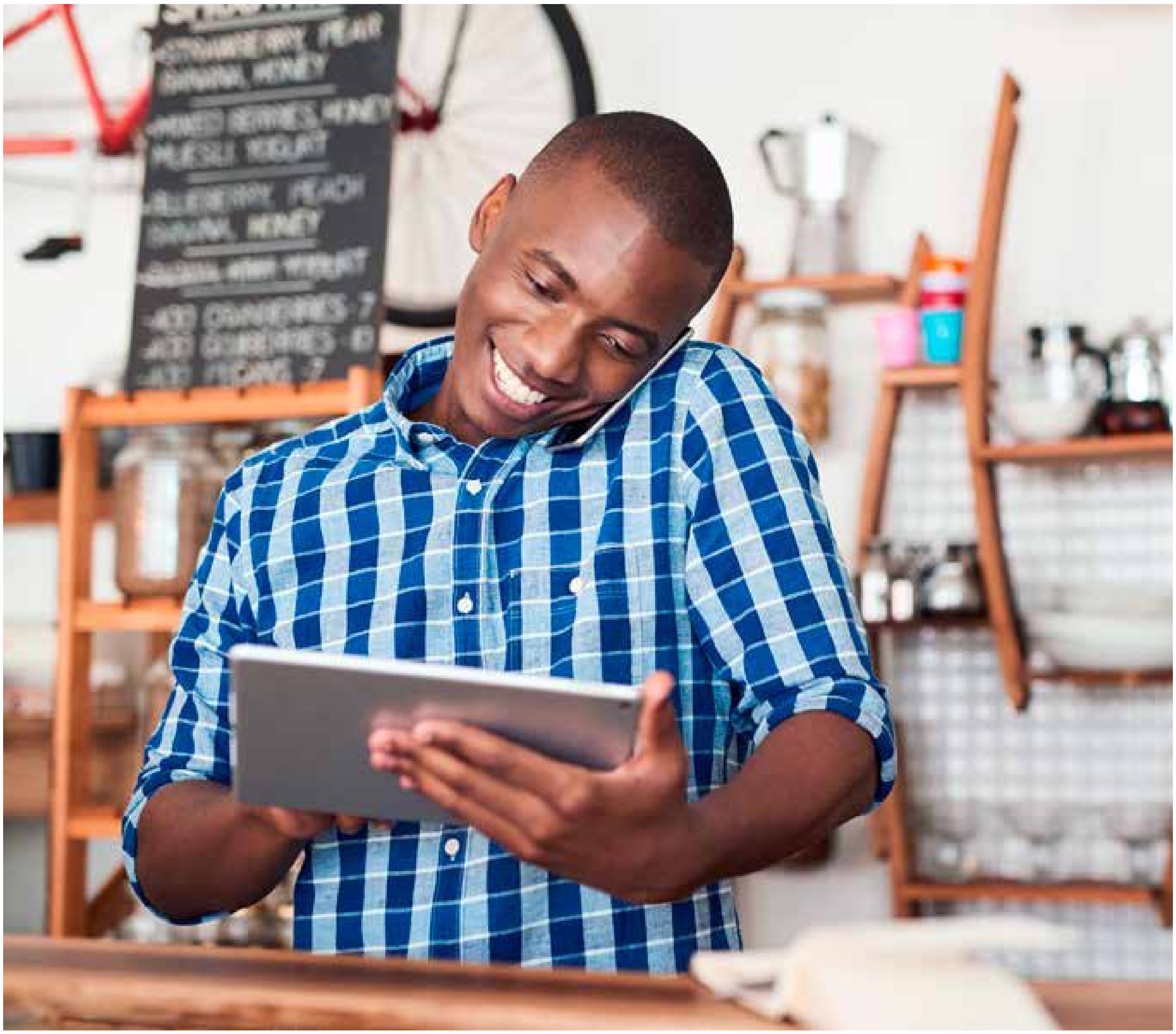
Today, Tang says, "We have a multiproduct relationship with small businesses. For example, small businesses that don't know much about insurance coverage can get advice from our insurance arm. It's a separate business, but it makes for a comprehensive offering for SMEs."

Helping SMEs to better their internal management, training, finance and customer relationships are all part of the cloud strategy: "Now, we can offer a suite of financial and non-financial offerings that every small business can customize and use. At the same time, we have access to business data that makes our side of the business far more efficient."

CreditEase has been an active member of the SME Finance Forum, and has gained a great deal from the international knowledge exchange it offers, says Tang. In Beijing, other members benefited from a study tour hosted by CreditEase, and participants were able to share best practices. Tang says they also appreciate the policy discussions and reports offered by the SME Finance Forum, and its connection to the work of the G20 Global Partnership for Financial Inclusion (GPFI). They believe that this kind of exchange is improving banking practices and making financial services more available and relevant to the evolving needs of SMEs in China.

Commercial Bank of Africa

From corporate banker to digital pioneer



The Commercial Bank of Africa (CBA) is the largest privately-owned bank in East Africa.

Beginning as a corporate bank, CBA has transformed its offerings in the last six years. In the process, it has acquired well over 26 million customers to become Kenya's most popular bank, as well as a regional powerhouse looking to capture the East African market. It currently has banking operations in Kenya, Rwanda, Tanzania, and Uganda. Furthermore, it has plans to expand to 16 markets in Africa in the next 5-10 years.

While previously the Kenyan banking sector had catered to wealthy customers and corporates, the digital revolution offered a chance to provide services that meet the needs of middle and low-income consumers, as well as entrepreneurs.

In November 2012, CBA partnered with Safaricom to harness the power of the mobile phone and the M-Pesa mobile payments platform, creating a revolutionary mobile savings and loan account called M-Shwari. Almost overnight, CBA became one of Kenya's top players. With this new product, M-Shwari gained a million customers in just the first 41 days, and CBA acquired more than 21 million customers in the next five years.

SMEs account for 50 percent of CBA's commercial customers, up from 25 percent two years ago. The target is to have SMEs represent 30 percent of the bank's overall revenues.

In 2016, CBA introduced a revamped Business Banking Proposition, aimed at strengthening the bank's position in the Kenyan shilling (Kshs) 807 trillion (US$ 7.7. trillion) SME market. The bank introduced a real-data credit appraisal methodology that reduced the loan-processing period to two days. In addition, it gave those borrowers who have diligently paid back their loans more favorable credit terms.

Three out of every four people employed in Kenya work in SMEs, which also contribute nearly 20 percent to Kenya's gross domestic product (GDP). Government statistics show that the sector is growing faster than any other sector of the economy.

SMEs account for 92 percent of all new jobs created annually in Kenya, according to government statistics. CBA focuses its SME work on key industries. For example, the bank offers a term loan that supports project financing for real estate property developers, and a stock loan facility that appeals to vehicle spare-parts dealers. A walk along Kirinyaga Road in downtown Nairobi any day will highlight the demand for such a product.

CBA has partnered with Strands, a fintech software provider and member of the SME Finance Forum, to help businesses move their payments and records online. In doing so, it not only helps the businesses to keep better records; it also helps the bank to gain and maintain more detailed data for credit decisions.

"Business owners have access to a robust internet banking platform, so they can do financial transactions from their offices or in the comfort of their own homes."

Michael Makau, Head of Business Banking and Asset Finance, CBA

Business customers also have access to a specialized "reverse factoring" SME product that allows them to provide credit to SME suppliers — with no need for collateral.

CBA was one of the founding members of the SME Finance Forum, and Group Managing Director, Isaac Awuondo, is an Advisory Board Member. CBA has been active in the SME Finance Forum's annual and regional events, as well as its Webinars, sharing knowledge and learning from others. Awuondo highlights the study tours as a high-value part of being a member, as well as the partnerships they have forged through the Forum that have improved the way they do business.

"The knowledge we've gained from being a member of the SME Finance Forum, and the relationships we've developed, particularly with fintechs, has been invaluable."

Isaac Awuondo, Group Managing Director, CBA

Verde International

A fintech before the term was even a trend

In 2006 Co-founders Patrick Reily and Jason Daniels launched Verde International to provide lenders with fintech solutions to source, underwrite and manage loans effectively. It was in the days well before "fintech" was a big trend, but Patrick had been building advanced loan decision systems using big data for some of the world's largest financial institutions since the late 80s.

Based in Atlanta, Georgia, today Verde works in twenty-three countries worldwide, and they pride themselves on building systems that satisfy the most demanding regulatory requirements.

"Lenders that share our vision for improving communities face tough challenges to underwrite loans with sparse and often unreliable data, using labor intensive and costly processes," says Reily. Verde offers these lenders automated lending and decision-making systems that provide the best underwriting performance, at lower cost, while satisfying the toughest regulatory standards.

"I'm a big believer in harnessing technology to improve performance, efficiency, compliance and reliability. It's win-win-win: better business performance, more jobs, greater inclusion, better lender performance and better capital deployment."

Patrick Reily, CEO and Co-Founder, Verde International

Verde focuses on removing the friction from SME lending—anything that increases credit risk, drives up cost, slows the process, hampers inclusion, and impedes productive use of capital. As a result, they see the SME market as a realistic proposition for any financial institution.

For thirty years, Verde has used Artificial Intelligence (AI) and machine learning, teaching computers how to build reviewable underwriting systems. In 2017, Verde had what they see as a major breakthrough, the culmination of years of research and development. Today, they say their proprietary AI systems can perform 90% of the work involved in building automated underwriting systems. That means that high quality underwriting and loan management systems can now be delivered at significantly lower cost: "Just about every lender in every country, even the poorest, can now afford to have the very best underwriting decision system," says Reily. He's seen as much as a fivefold economic yield for Verde clients and the results, he says, are far-reaching: "More SMEs get loans, at lower interest rates, while lenders see higher profits."

Reily sees the SME Finance Forum as a great fit for their business. At the Forum they have found like-minded institutions, fintechs, and policy makers from around the world that recognize the challenge, and also see the opportunity to serve SMEs more effectively.

For Verde, the Forum represented the "perfect opportunity to more effectively support SME lenders around the world."

Even though the company is small, Verde has committed to sponsoring the annual meetings over the past three years. Says Reily: "The Forum community is actively solving some of the most critical challenges we face as a global community, and we're determined to be part of that."

"I'm very selective about where we spend our time, but the SME Finance Forum is one place where we always get rich content, rich information, and an opportunity to connect with people that we can partner with."

Patrick Reily, CEO and Co-Founder, Verde International

Budget and Financial Outlook

The annual operating cost of the SME Finance Forum was around $2.2 million for 2017, which is $1 million lower than the 2016 operating cost. The goal is to keep the operating costs low, while expanding revenues from membership fees and sponsorship to cover costs.

In 2017, the SME Finance Forum generated US$833,000 in membership dues and around US$175,000 in sponsorship and event registration fees. Currently, around 45 percent of the SME Finance Forum budget is covered by membership fees and other revenues.

SME FINANCE FORUM OPERATING COSTS	
Communication and Information Technology	8,451
Travel and Representation	202,333
Consultants and Contractual Services	689,395
Staff	1,278,060
Other expenses	16,336
TOTAL	2,194,575

Although the SME Finance Forum strives to become financially self-sustainable, it continues to rely on the generous contribution of its donors. It acknowledges with gratitude contributions from the following donors:

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