



# Recent Trends and Strategic Issues for SME lending and Access to Finance in sub-Saharan Africa (SSA)

## Key Results from EIB Survey of Banking Groups in sub-Saharan Africa

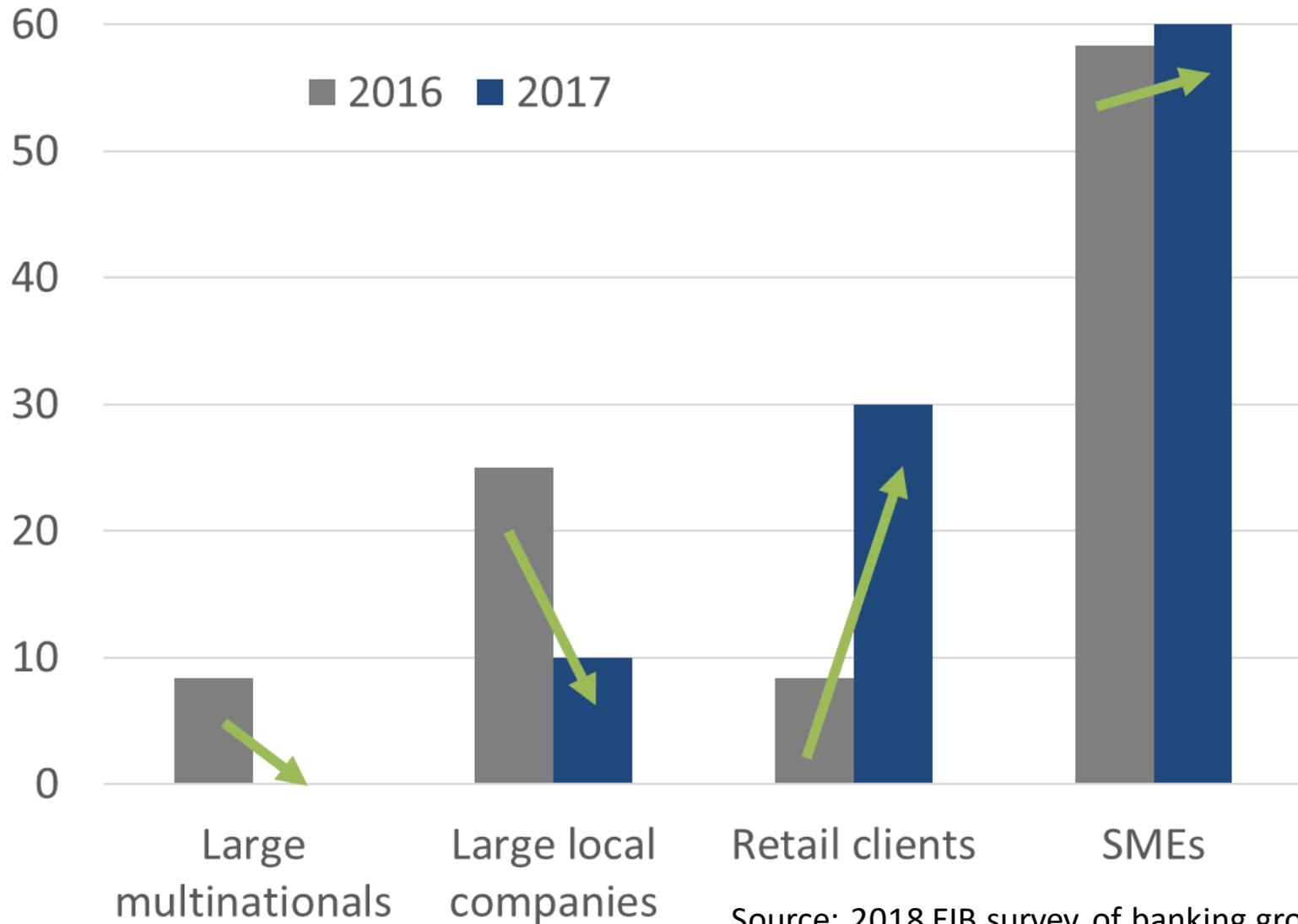
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November 11, 2018

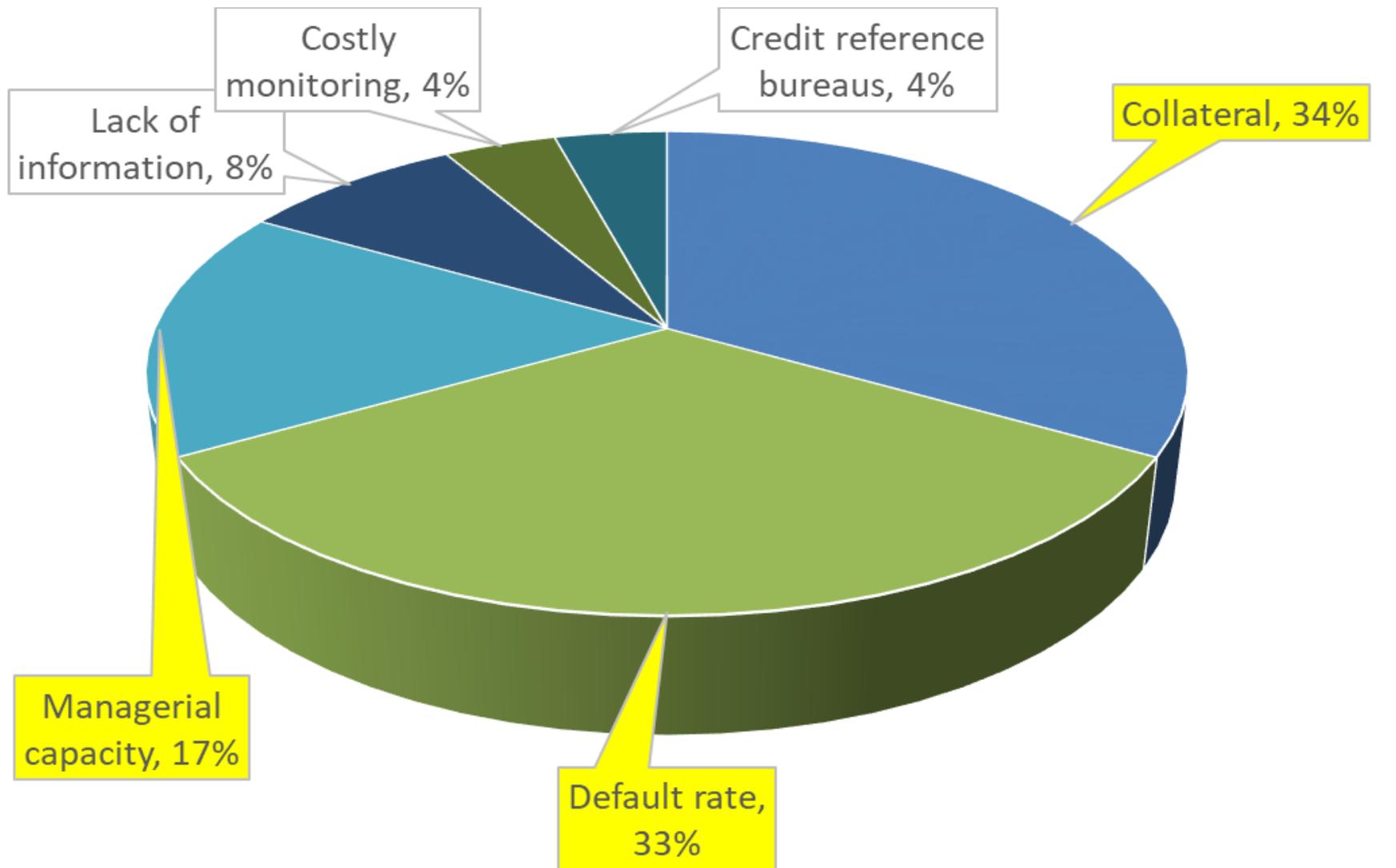


## 2. Market Focus of Banks in SSA (share of respondents)



Source: 2018 EIB survey of banking groups in SSA.

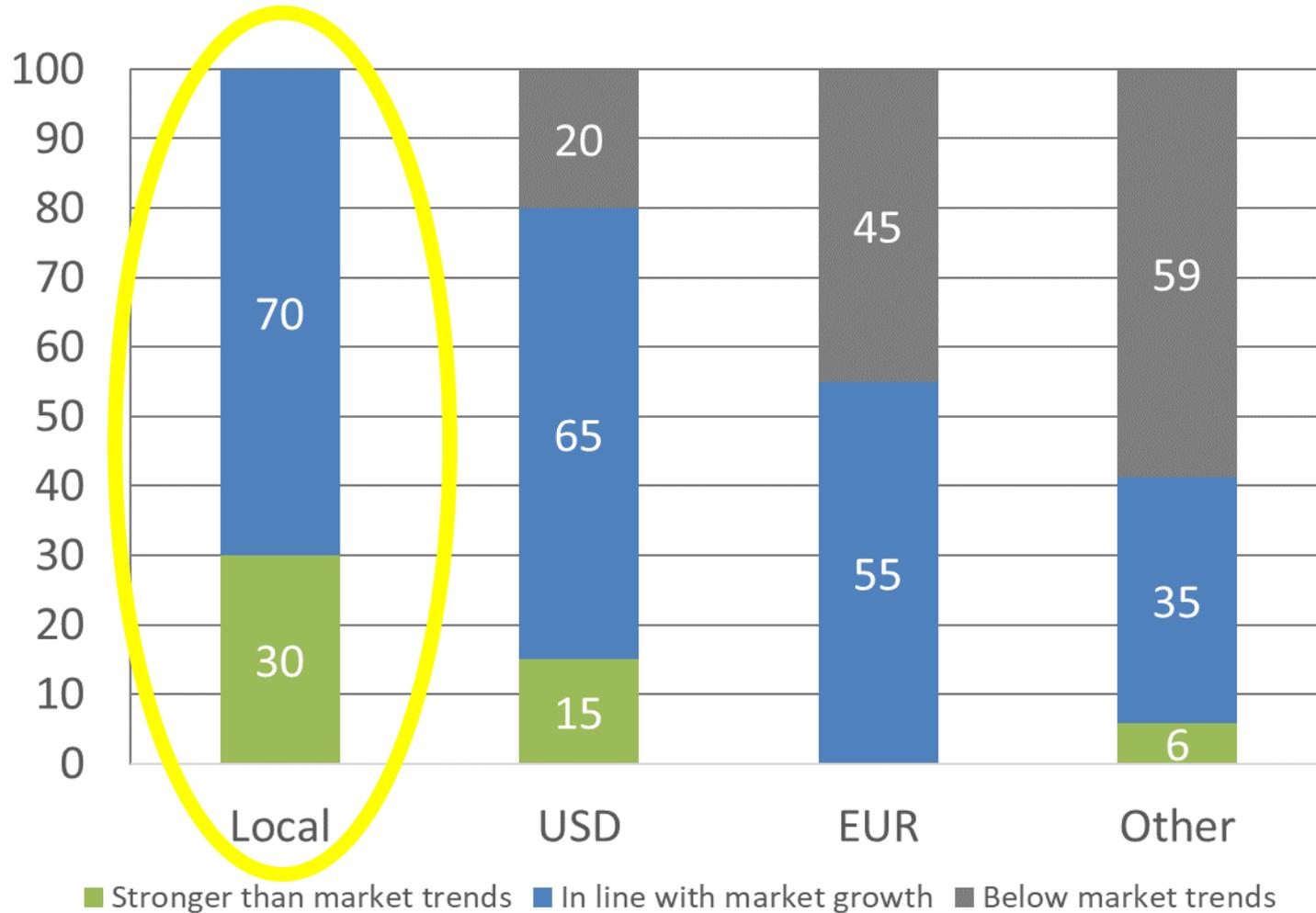
### 3. Main obstacle to SME lending (share of respondents)



Source: 2018 EIB survey of banking groups in SSA.



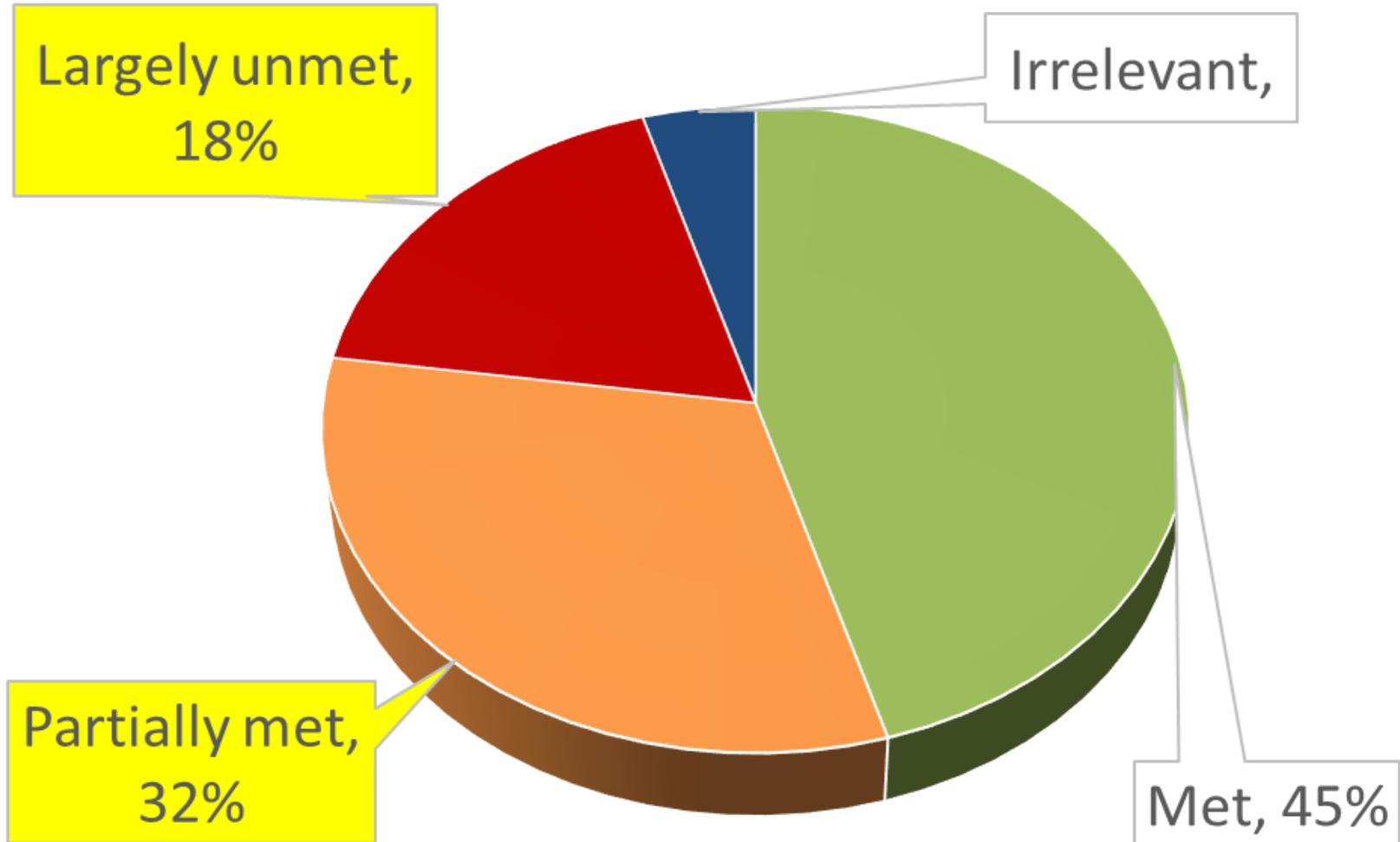
## 4. Demand for Loans by Currency (share of respondents)



Source: 2018 EIB survey of banking groups in SSA.



## 5. Needs for Portfolio Guarantees (share of respondents)



Source: 2018 EIB survey of banking groups in SSA.



# Opportunities



**Rising competition and increasing focus on SME lending.**

**Local currency lending and guarantees are needed**

**Financial Inclusion is rising but still has a long way to go**



# Challenges



Need to protect first-time depositors and borrowers

Rising non-performing loans (NPLs) need to be risk-controlled

Further boost to SME lending will require financing *and* capacity building

Stay tuned for the release of the full study...



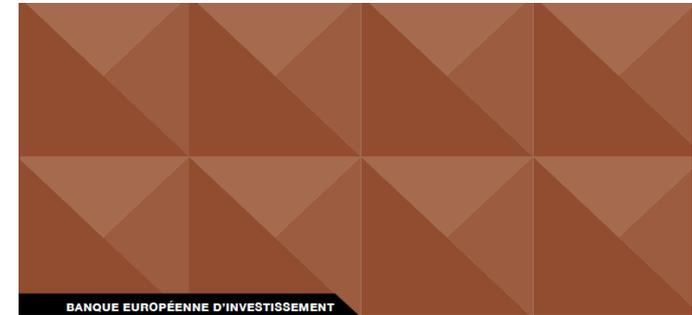
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<http://www.eib.org/en/infocentre/publications/all/economic-report-banking-in-africa-delivering-on-financial-inclusion-supporting-financial-stability.htm> or simply <https://goo.gl/PtYv92>

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Official  
Launch  
on



**Banking in Africa:**  
Delivering on Financial Inclusion,  
Supporting Financial Stability

**22nd  
November**  
in

**Le secteur bancaire  
en Afrique**  
De l'inclusion financière  
à la stabilité financière

Addis Ababa,  
Ethiopia





# EIB and commercial banks: what does EIB bring to the party?

November 2018



- Why EIB wants to lend to financial institutions
- Why financial institutions want long-term funding
- The attractions of borrowing from EIB
  - Local currency borrowing
  - Long maturities
  - Pricing for results
- What are the strings attached?
  - 'Allocations'
  - Environmental, social, compliance issues
- Conclusions: getting the best from the relationship

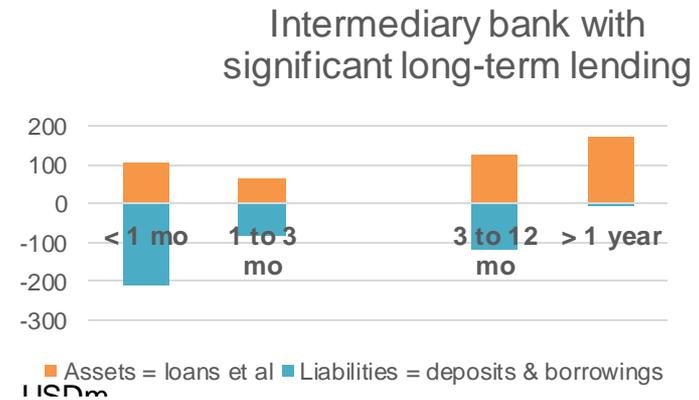
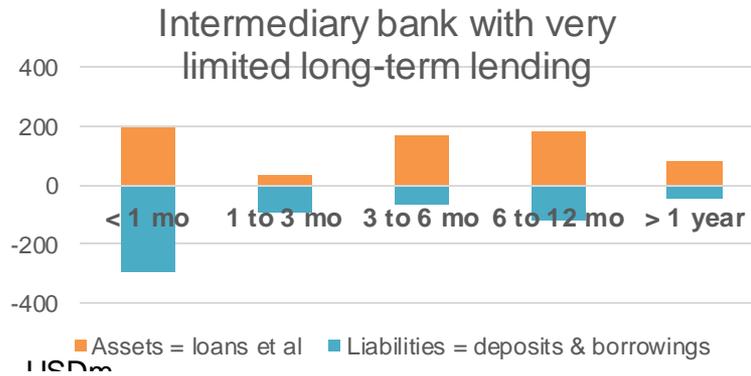


## Why EIB wants to lend to financial institutions

- Encouraging banking services, especially credit, for smaller businesses
  - employment
  - development of industry
  - development of financial sector
- Scale and spread
- Support to national and regional banks, with focus on Africa
- Integrating financial institutions in emerging markets into global flows
- Because it works...

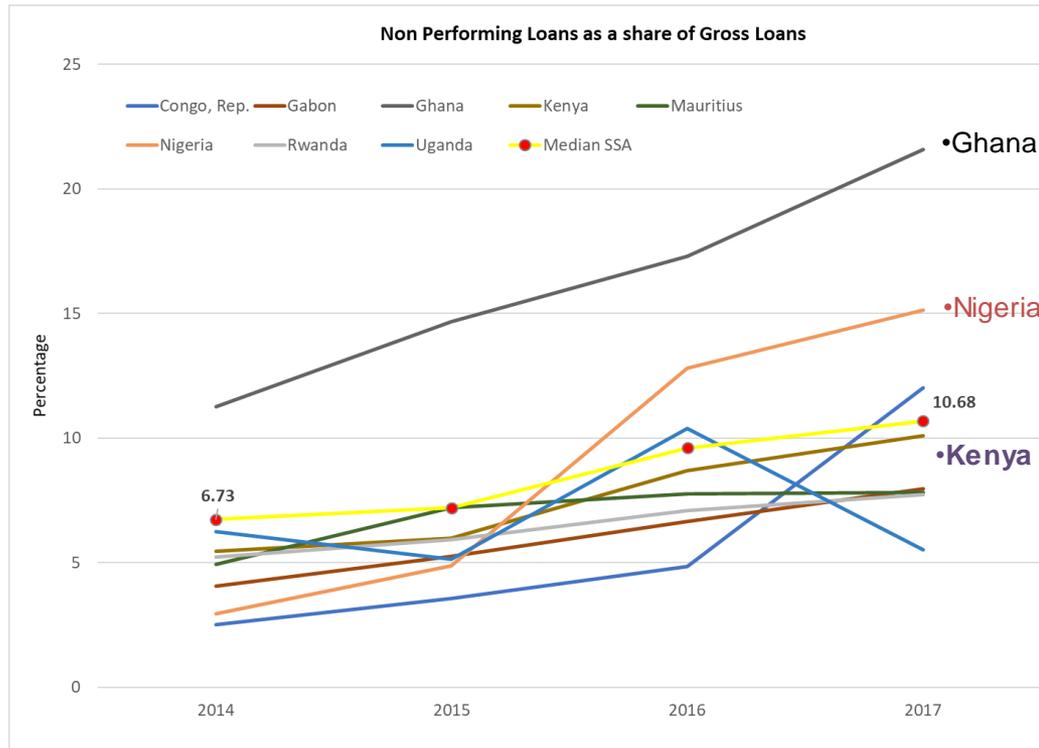


# Why financial institutions want long-term funding





# Constraints on activity - increase in impaired loans



# Maturity mismatches, capital constraints



- Observations:
  - Banks in emerging markets have further limited their funding of the real economy during economic downturn
  - They need long term funding, especially in local currency, so that they can fund their customers' investment plans with suitable and sustainable long term credit
  - Currently, as well as requiring senior debt, many commercial banks may need to reinforce their capital

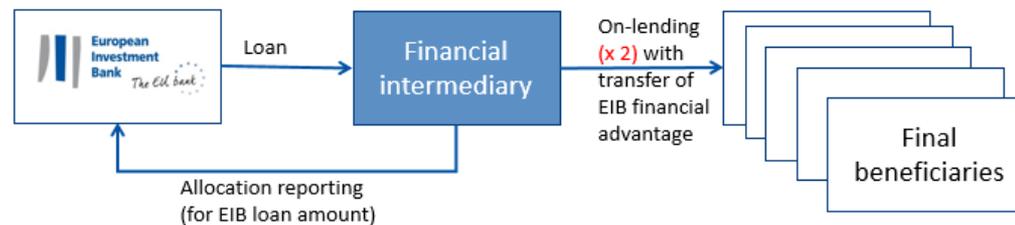


# The attractions of borrowing from EIB



- Synthetic local currency loans to commercial banks
- Available in many African currencies much of the time...  
... at rates determined by political, financial and market developments
- Available up to 7 years final maturity
- Longer maturities available for international currencies
- 'Pricing for results' for priority areas

# Allocations: purpose and practice



- ❖ EIB makes a loan to a financial intermediary for on-lending to small-scale projects and investments promoted by multiple beneficiaries such as SMEs
- ❖ Financial intermediary retains the financial risk of the on-lending; EIB collects information on final beneficiaries as ‘allocations’
- ❖ Final beneficiaries need to be informed about EIB involvement
- ❖ Financial advantage from EIB’s involvement can be in form of longer tenor, reduced interest rate, or other appropriate benefit agreed with intermediary



# Getting the best from the relationship



- ❖ What's in it for EIB?
  - relationships with long-term partners
  - reaching key parts of the economy
  - fulfilling policy goals of European Union
  
- ❖ What's in it for the banks?
  - flexibility: not back-to-back lending
  - longer term loans at attractive rates, including in local currency
  - technical assistance programmes on regional basis
  - stable long-term partner



# European Investment Bank

*The EU bank*



- Technical Assistance for our MSME Lending
- Carmelo Cocuzza



- Why does the EIB provide Technical Assistance to the Financial Sector
- TA tools to support MSME Banking and Microfinance partners
- The EIB's TA delivery model
- The example of our Southern Africa financial sector TA programme
- What's in it for MSME-lending intermediaries?
- Targeted outcomes from the provision of TA activities

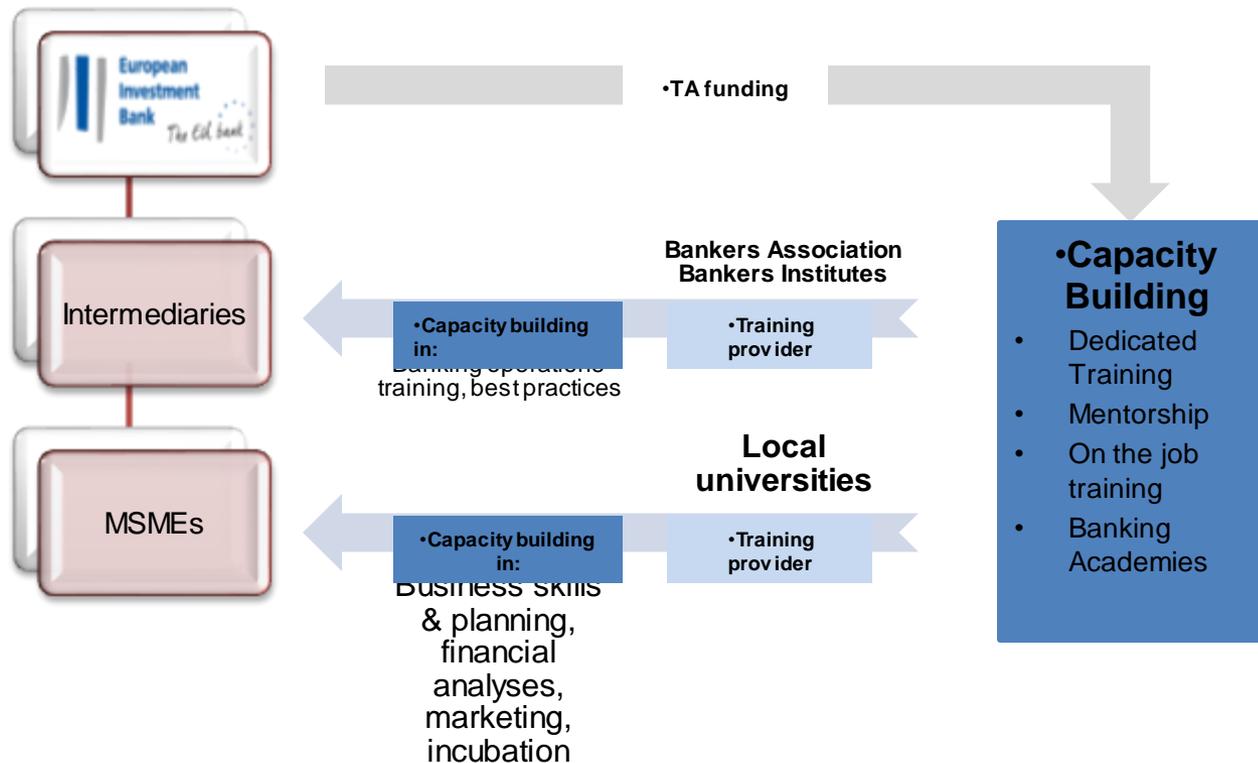


## Why Technical Assistance?

- Technical assistance programmes are designed to enhance the performance and impact of our financial sector lending and equity interventions mitigating also some of the implementation risks.
- It supports both financial sector operations preparation in terms of scoping and addressing market failures and implementation, in terms of capacity-building of our partner financial institutions and of their final beneficiaries. The intent being to help raise, amongst others, best practice and governance standards, ensuring long-term sustainability of the SME banking intermediaries, their clients and impact on the ground.

# EIB Financial Sector Lending and TA programme

## Technical Assistance Delivery Model





## TA PROGRAMME TO VARIOUS FINANCIAL SECTOR OPERATIONS IN SOUTHERN AFRICA

<b><u>Region</u> – Southern Africa</b>	<b><u>Amount</u>: EUR 4.8m</b>
<b><u>Beneficiaries</u>: 11 Partner Financial Institutions (MSMEs)</b>	<b><u>TA Duration</u>: 2015– 2018 <u>Status</u>: Extended to 2020</b>
<b><u>TA Type</u>: Project Implementation</b>	<b><u>Sector</u>: Financial Sector</b>

- **TA Operation Description:**

- The key components of this TA programme are:

- 1) Design and deliver training courses on banking operations/credit risk;
- 2) Provide targeted capacity building coaching to key bank staff;
- 3) Organize a series of MSME support activities such as training courses in financial literacy, small business management and entrepreneurship;
- 4) Develop and enhance local bank training and basic business skills capacity through the establishment of Academies



## TA PROGRAMME TO VARIOUS FINANCIAL SECTOR OPERATIONS IN SOUTHERN AFRICA

### • Main achievements:

- 1,500 bank staff trained
- Enhanced the financial and business skills of more than 6,800 participants through boot-camps, workshops and local courses
- Establishment of a “Banking and Finance Academies” with Banking Institutes and national Universities in Botswana, Malawi, Zambia and Mozambique,
- Since 2016, the establishment of an executive “ Southern Africa Micro and SME Finance Academy” an annual event encompassing
  - MSME banking and Microfinance partners, banking associations and national governments
- Improved best practices particularly with regards to Basle II and III compliance, implementation of ESG practices, gender based lending
- TA EXTENDED: NEW TA to EIB Lending Operations in Southern Africa of EUR 1.2m (approved in March 2018)



# 3rd EIB Southern Africa SME and Microfinance Academy 5-8 February 2018





# TA services that support the Banking and Microfinance Sector

## What's in it for our partners and their clients?

- Direct capacity building interventions
- Supporting linkages to business/ entrepreneurship groups
- Advisory support in meeting compliance & regulatory requirements,
- Provide Financial literacy and business skills training
- Incentives for financial inclusion
- Organize Entrepreneurship competitions
- Marketing MLT funding
- Support the establishment of business clubs, networking groups
- New Product development
- Organizing business clinics
- Establishing platforms for bank staff training (Academies)
- Promote innovation, environment, climate resilience, social activities



## Key anticipated outcomes of these TA services

- Enhance the utilization of MLT funding
- Support financial inclusion initiatives
- Improve Banking Portfolio Quality
- Generate an increasingly healthier bankable loan pipeline
- Compliance to best banking practices
- Mitigate Banking / Business Risk / Failure
  
- Facilitate Sustainable Enterprise Development
- Enhance Business Environment
- Incentivise Business Acumen
- Develop Business/Vocational/Financial Skills