



IDB – ADFIMI – Central Bank of Mozambique
Joint CEO Seminar

SME BANKING IN SUB-SAHARAN AFRICA

Joaquim Chissano International Conference Center, Hall No:2
Maputo, Mozambique
09 June 2015, 16.00 - 18.00

According to the IMF's latest *Regional Economic Outlook*, sub-Saharan Africa's economy is set to register another year of solid performance, expanding at 4½ percent in 2015. While this rate will be at the lower end of the range experienced over the last few years, sub-Saharan Africa will remain among the fastest growing regions of the world.

The deceleration in growth reflects the adverse impact of the sharp decline in oil price (eight oil exporting countries) and other commodities such as iron ore, natural gas, coal, cotton and coffee and this impact will be highly differentiated across the region.

Growth among oil importers will remain strong, notably in low-income countries, driven by investments in mining and infrastructure and by strong private consumption. Excluding South Africa, Guinea, Liberia, and Sierra Leone—where the Ebola outbreak continues to exert a heavy economic and social pressure in the latter three—growth among oil importers is still expected to reach close to 6 percent in 2015 and 6½ percent in 2016.

Countries depending on external financing to cover large deficits are vulnerable to a steep increase in their financing costs.

Further weaknesses in Europe and Japan and an abrupt slowdown of growth in China could also lower the demand for sub-Saharan Africa's products, driving growth lower and widening fiscal imbalances. Meanwhile, further dollar appreciation would make imports more expensive, lower investment and growth, and fuel inflationary pressures.

Region-specific risks include security-related risks which may generate serious fiscal costs, hamper growth, and deter domestic and foreign investors.

The sub-Saharan African population, projected to grow to 2 billion by 2050 and 3.7 billion by 2100. As a consequence, the region will become the main source of new entrants into the global labor force over the next 20 years. This trend could yield a valuable "demographic dividend" the magnitude of which will critically depend on the strength of accompanying policies. The largest dividend will be gained if policies would be focused on a set of interlinked actions, including fostering private sector development outside agriculture, bridging the infrastructure and human capital gaps, tackling labor market rigidities, and supporting stronger trade ties.

The region's integration into the global economy, focus on trade and participation in the global value chains is also important. The sub-Saharan Africa has become significantly more open to trade since the 1990s, developing new partnerships with China and other emerging markets as well as trade within the region. While the expansion of trade has contributed significantly to growth, productivity gains have lagged those recorded in other regions.

To leverage this potential and tap the region's comparative advantages, the region needs to improve infrastructure, reduce tariff and nontariff barriers to trade, improve the business climate and access to credit, and improve education.

SME Financing Issues in SSA

Small and Medium Enterprises (SMEs) play a vital role in economic development, by increasing competition, fostering innovation, and generating employment. In African countries, as in many other developing and transition economies, SMEs employ the largest share of workers. However, in Africa, these enterprises' contribution to GDP is significantly lower than anywhere else in the world: while they contribute to up to 50 percent of GDP for high-income countries, the percentage in Africa remains below 10 percent.

SMEs in Africa face several challenges to growth, ranging from unfavorable macroeconomic environments to administrative barriers and red tape.

Research by IFC and by Mc Kinsey and Company showed that there are around 40 million Micro – Small and Medium Enterprises (MSMEs) in Africa and total credit need of both informal and formal MSMEs in SSA was estimated to be in the range USD 140 – 170 billion whereas current outstanding credit to these MSMEs was only USD 25 – 30 billion. In other words, there was a critical gap in SME financing in SSA.

Another study by World Bank, IFC and Enterprise Surveys showed that 24,8% of the SMEs in Africa identified access to electricity as the most serious challenge to the growth of SMEs while 17,4% considered access to finance to be the next most serious challenge.

In other words, access to finance (as well as to proper infrastructure) is a major impediment to SME growth.

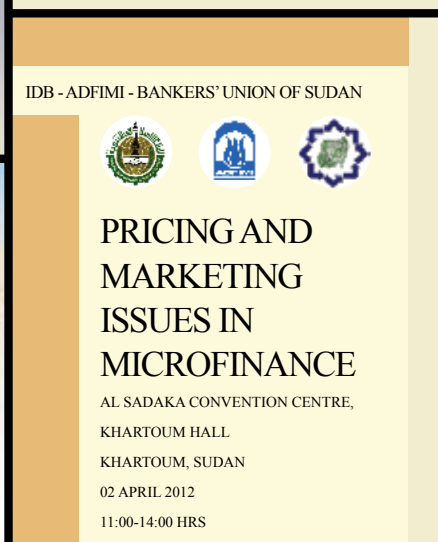
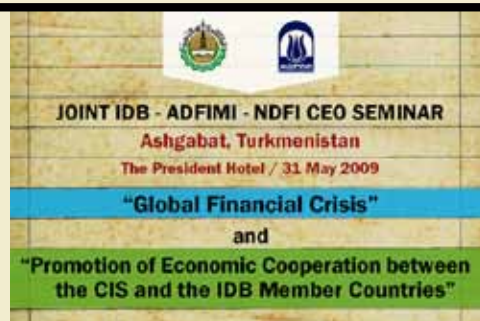
Objective

The objective of the seminar is to provide an overview of the present state of play in bank financing of SMEs in SSA.

SCHEDULE

Time	Topic
16.00 – 16.15	Welcoming remarks by Co-Chairs: - Mr. Mehmet Emin Özcan, Chairman, ADFIMI - Co-Chair from IDB (to be announced) - Co-Chair from Central Bank of Mozambique (to be confirmed)
16.15 – 17.00	Keynote Speech: SME Banking Prospects in Sub-Saharan Africa <i>by Mr. Khaled Al-Aboodi</i> CEO, General Manager, Islamic Corporation for the Development of the Private Sector (ICD)
17.00 – 17.15	SME Banking – Uganda’s Experience <i>by Ms. Patricia Ojangole</i> CEO, Uganda Development Bank and Member of ADFIMI Audit Board
17.15 – 17.30	Bank Financing of SMEs in Mozambique <i>by Dr. Paulo Sousa</i> CEO, Banco Comercial e de Investimentos S.A., Mozambique
17.30 – 17.75	Finance Models for Innovation SMEs in Sub-Sahara <i>by Dr. Osama Rayis</i> Director General, Africa City of Technology, Sudan
17.75 – 18.00	Q&A and Closing remarks

PREVIOUS CEO SEMINARS





Mr. Khaled Al-Aboodi

CEO, General Manager,

Islamic Corporation for the Development of the Private Sector (ICD)

Mr. Khaled Al-Aboodi joined the Islamic Development Bank (IDB) Group in November 2001 as Deputy Director General of the Islamic Corporation for the Development of the Private Sector (ICD), the Private Sector arm of IDB.

Since 2007 till now, Mr. Khaled Al-Aboodi is the Chief Executive Officer of (ICD). Mr. Al-Aboodi has over 20 years of experience serving the developing Finance industry in the Middle East and USA. He started his tenure with Ministry of

Finance & National Economy of Saudi Arabia in 1982 as an Economic Researcher, served as Director of the Environment Unit, Acting Director of the International Financial Institutions Department.

In 1995 he moved to Washington DC to serve as Assistant to the Saudi Executive Director at the World Bank; and was later appointed Alternate Executive Director for Saudi Arabia at the World Bank Board until 2000. Later in 2000, he joined the Saudi Public Investment Fund (Ministry of Finance) as Senior Economist where he was in charge of several privatization operations.



Ms. Patricia Ojangole

Chief Executive Officer, Uganda Development Bank

Based in Kampala, Patricia is a professional accountant and Leader with 13 years international experience in banking and finance. Patricia has spent a larger part of her career in Internal Audit, Risk Management and Governance in a large multi-national financial institution and in the past few years in Development Banking.

As the Chief Executive Officer of Uganda Development Bank, Patricia has been instrumental in turning around the Bank that has among other achievements enabled promotion and successful implementation of viable private sector led businesses across the country.

Patricia holds an Executive Master's Degree in Business Administration from Eastern and Southern Africa Management Institute, Arusha, Tanzania; a Bachelor of Commerce (Hons) Degree from Makerere University, and has previously completed a number of leadership and management programs.

Patricia is a Fellow of the Association of the Certified Chartered Accountants (UK); the Certified Public Accountants of Uganda, as well as The Institute of Internal Auditors Uganda. Patricia is Passionate about supporting and developing new business concepts and is married, with four wonderful children.

ABSTRACT

It is now undisputed that SMEs are the key drivers of job creation, innovation and growth in many countries. Uganda has an extensive MSME sector which accounts for approximately 90% of the entire private sector, over 80% of manufactured output and contributes about 75% of GDP. The sector employs more than 4 million people making it one of the largest players in the country.

The major challenges facing the SMEs have been identified as lack of access to finance, limited business development services, poor mind-set, weak linkages with large enterprises and inadequate managerial & technical skills amongst others.

Uganda's banking sector is predominantly commercial Banks but all have an SME banking segment and providing different financial products to SMEs that include: Trade Finance, supplier finance, overdrafts, commercial loans, Bonds & Guarantees, working capital, Business advance loans Asset backed finance, mortgages, lease financing, venture capital finance, equity finance. However, most of the SMEs are unbanked and do not benefit from the SME products available in the commercial Banks due to various inherent challenges as will be discussed.

The Banking industry in Uganda recognizes the strategic importance of the sector to their business and consider it a strategic priority. To this end, they are considered a profitable business prospect and provide an opportunity for cross selling; the SME lending market is large, not saturated and with very positive outlook.

There are however common challenges to banking SMEs where in the Banks' further engagement with SMEs is constrained by lack of adequate collaterals, lack of adequate information by SMEs as well as management challenges among others.

Many banks have adopted to the SME environment and developed innovative mechanisms such as relationship management for SME customers, special desk for SMEs to cope with its unique characteristics, training SMEs, providing credit after establishing a relationship among others.

The average aggregate exposure to SME loans to total lending to the private sector is between 42-45 percent. The Banks have positive perception of the long-term opportunities within the SME market. This indicates that all banks in Uganda are very bullish about the outlook for SMEs market.

Challenges related to SMEs access to finance include lack of collateral, information asymmetry, and the environment in which they operate. Specials schemes have been established in the past and present to support SME finance such as BUDS, credit guarantee and export promotional schemes, some being government interventions.

Solutions to increase SME access to financial from banks include: increase network, improve operational, managerial and technical efficiencies by SMEs and regulatory and legal reforms targeting creditor rights.



Dr. Paulo Sousa

The CEO of Banco Comercial e de Investimentos (BCI), Mozambique

Dr. Paulo Sousa is currently the CEO of Banco Comercial e de Investimentos (BCI), but before this he was at Caixa Geral de Depósitos Group as Central Director of the Financing and Real Estate Business Division and was previously engaged in various technical and commercial functions. He was an active participant in the management and decision-making process of Caixa Geral de Depósitos Group's real estate business, notably as a Director of various CGD Group companies. He also taught and lectured for many years in several schools, higher education institutes, and universities in the Mathematics, Financial Marketing, Management, and Real Estate areas. He holds a degree in Management from Lisbon Technical University and postgraduate qualifications in Export Strategies and International Marketing from the same Institution.



Mr. Osama A. Rayis

Director General, Africa City of Technology, Sudan

Dr. Osama A. RAYIS is presently the Director General, Africa City of Technology, Khartoum. At the same time he is the Lead Scientist in System Engineering & Innovation at the Africa City of Technology, Chairperson, Applied Science & Technology Research Council, Sudan Academy of Sciences and Chairperson GA, Pan-Africa e-network, African Union, Adiss.

Dr. Rayis has 25+ years of experience in profession, consultation, teaching and research.

He has visited more than 50 countries and has connections and active in networks in academia in software and ICT industry in most of Africa, Europe, Asia and USA. He has published 60+ papers (journals, conferences and technical reports) in System Development and Software Engineering, Innovation, Futuristic Studies, Strategic Management and Excellence, Science and Technology Parks, Technology Transfer & Technology Incubators, Space Systems and Technology, Geomatics, Emerging Computing technologies (Nano computing, Grid computing, cloud computing), Formal Methods, Reliability Engineering, Information Systems Security, E-government solutions, E-learning solutions and Knowledge Management, Intellectual Property, Virtual Property and e-crime.

Dr. Rayis has a Bachelor of Technology, 1st Class Honours in control engineering, 1989, from Khartoum Polytechnic, an MS, in Electrical and Electronic Engineering, Jan. 1996, and a PhD in Computer Engineering (Software Engineering), April 2000, both from the Middle East Technical University, Ankara. He completed his Executive Education in 2010 on Innovation Economy from John F. Kennedy School of Government of Harvard University.

Born in 1966 in Khartoum, he is fluent in English and Turkish, Fair German and French Education.

Dr. Rayis is a member of many national, regional and international research and professional boards, societies and committees including Senior Member IEEE, IEEE education Society & IEEE Aerospace and Electronic Systems Society (AESS), African Leadership Conference On Space Science & Technology For Sustainable Development, United Nations Committee on the Peaceful Uses of Outer Space, Arab Futuristic Studies Society, Technical Committee member, UN-ESCWA Technology Centre, Amman, OIC-COMSTECH, Regional Center for Remote Sensing of North Africa States.

ABSTRACT

Innovation economy is already taking place all over the globe. In some place like G7 and BRICS innovation economy is dominating the arena, in some other economies like Turkey countries are heading towards that. LCDs and especially in Sub-Sahara are still economies that are struggling the resource-based scenarios. Innovation with its nature is based on the capacities of individuals. Innovation based economies are those who had discover ways and means of incubating, supporting and harnessing innovation in their ecosystems. A healthy economy is healthy from its grassroots. Innovation for inclusive growth is now a major issue in the global forums. One of the key issues is how to support innovation startups to withstand

and grow. Incubation is the business process of supporting the acceleration of innovation SMEs by providing them with an array of resources and services. A key service is finance. This paper examines suitable finance models for innovation SMEs in Sub-Sahara. Moreover it links finance to other elements in the incubation process. One of the contributions in this paper is that it develops a finance model which is based on the concept of venture capital and uses social finance mechanisms. Risk is proposed to be managed within the incubation framework. A growth within innovation sector is thought to spark higher than linear growth in the ecosystem.

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