

# Financing Micro, Small and Medium-Sized Enterprises (MSMEs)



LFS ADVISORY

Advisory, Management and Capacity Building Solutions

Capability Statement & References



## The Gap in MSME Lending

65 million or 40% of formal MSMEs in developing countries are estimated to have unmet financing needs. The total MSME finance gap in developing countries is estimated to be \$5.2 trillion - 1.4 times the current level of MSME lending. Women-owned businesses account for 28% of MSMEs and 32% of the MSME finance gap.

## Introduction

Micro, Small and Medium Enterprises (MSMEs) are one of the strongest drivers of economic development, innovation and employment. Access to finance is frequently identified as a critical barrier to growth for MSMEs. Creating opportunities for MSMEs in emerging markets is a key way to advance economic development and reduce poverty.

The institutions themselves providing MSME finance are almost as diverse as the enterprises they serve. The field of active players includes banks, NGOs, non-bank financial institutions and specially licensed microcredit or microfinance institutions (MFIs). The diversity and complexity of their own institutional setting, their market environment and strategy demand different services centered around MSME finance.

LFS has built up a considerable track record of successfully providing managerial, consultancy, training and transaction services related to MSME finance and projects related to financial systems development. In the past 20 years we have implemented well over 120 projects in these fields all over the developing world. In addition to providing technical

services to third party clients, LFS is also a strategic investor in the MSME finance industry.

Our core competencies consist of advising existing commercial banks on the introduction of SME financing products (Downscaling), consulting existing MFIs or NGOs who are transforming into a different institution type or introducing new products (Upgrading) and setting new institutions up from scratch (Greenfielding). Our expertise covers all aspects of successful management of MSME lending services including but not limited to: product development, development or assessment and enhancing of MSME policies and procedures including underwriting and approval process, policies and procedures for monitoring, restructuring as well as risk mitigation techniques for MSME loans and risk management in general. We have a comprehensive set of best practice MSME banking tools and templates such as business policies and procedures, product specifications, training manuals and market research instruments.



# Fields of Expertise

## Greenfielding: setting up a new institution

### Feasibility Study

Examine critical areas such as review of the operating environment and the supply and demand side.

### Initial Management

Initial long-term consultant to perform critical roles as CEO, Chief Credit Officer. Support by short-term consultants in various fields.

### Business Plan

Assess the cost factors, draft the features of the institution such as capital structure, product & marketing strategy, refinancing, HR, and others.

### Transition

The management of the fully operational institution is handed over to local employees who received intensive training beforehand.

## Downscaling: introduction of MSME

### Initial Market Scoping

Cover the supply and demand side of MSME finance as well as the most important actors on the macro (central bank, regulation & supervision) and meso level (credit bureaus, BDS providers)

### Institutional Gap analysis

Compare existing processes in key areas and benchmark them against best practices in MSME Finance

### Introduction phase

Develop the MSME lending scheme by setting up the organizational structure, procedures and decision-making authority. Strengthen risk management by reviewing and adapting the existing risk management department and processes. Set the product strategy including development of new products and adapt sales & marketing. Select or shift staff and train for MSME finance.

## Transformation / Upgrading

### Introduction of new product segment

Support the introduction of a new product segment, e.g. SME lending

### Institutional change

Transform e.g. from an MFI into a fully commercial bank

### Digital Finance

Introduce fully digital loan assessment, e.g. Digital Field App

### Organization

Accompany the necessary organizational changes and documenting them

## Advisory Services

### Training of staff

Classroom, webinar or on-the-job training for staff members

### Product Development

Review the existing product portfolio and change, introduce or remove products according to client needs

### Credit Advisory

Evaluate existing credit policies and procedures and adapt where necessary

### IT & CBS

Check of IT-infrastructure and CBS and suggest updates and enhancement including vendor selection and negotiation.



## **Project Spotlight: Establishing and Managing a Small and Medium Enterprise Bank in bc v hBrunei**

In 2016 LFS Advisory conducted a study to assess the feasibility for setting up a Greenfield MSME bank in Brunei. Based on the results of the study, a comprehensive business plan for a tailor-made intervention (the establishment of a cash-less greenfield bank) was drafted and presented to the client. This business plan included all aspects of setting up head office structures and operational functions as well preparation of the financial projections for the first five years of operations.

LFS Advisory provided a full range of planning and scoping services including but not limited to:

- Analysis of the macroeconomic and political situation of the country
- Assessment of the legal and regulatory framework for a microfinance institution or an MSME Bank
- Initial discussions with regulators and other relevant industry stakeholders on the creation of a specialized microfinance institution or MSME Bank
- Assessment of the size and structure of competition, description of main players and competitors
- Market study of the MSME sector and its demand for and supply of financial services, including a survey
- Identification of potential investment partners for a specialized MSME Bank
- Establishment of a five-year business plan for a specialized MSME Bank

In 2017, LFS was contracted to set up and manage an MSME Bank. The Bank provides Micro, Small and Medium Enterprises in Brunei with access to affordable financial services following Islamic Finance principles.

- Establishment and organisation of the FI, branch network, and Head Office functions
- Setting up all Departments of the Bank (including operations, credit, back office, risk, finance internal audit, HR, Administration, IT, Legal) from inception and training its staff
- Operational and strategic management of the FI
- Selection and parametrization of the Core Banking System/MIS
- Selection, training and development of bank staff and management
- Development of loan products (incl. MSME and agricultural loans as well as supply chain financing)
- Building up and developing the lending business
- Implementation, maintenance and further development the IT infrastructure
- In the initial period, LFS Advisory provides the Bank with long-term experts to fill the CEO and the Operations Manager respectively. These are supported by the Project Manager and a team of technical short-term consultants in the various fields of Bank Management

# The LFS Toolbox

## Key Elements of the LFS Advisory MSME Toolkit

- Credit policies and procedures
- Portfolio monitoring/controlling and portfolio management tools
- Credit scoring
- Introduction of new products with strategic planning, pilot testing
- Risk management guidelines and tools
- Gap analysis tools
- Stress testing and sensitivity tools for investment portfolios
- Tools to identify and measure portfolio sensitivity and credit risks
- Internal auditing of credit procedures and risk
- Training and Mentoring for credit operations (e.g. Financial Analysis training, Loan Assessment Training)

## LFS' Toolbox in a Downscaling Project

### **MSME Lending Scheme Introduction and Optimization**

- Templates for policies, procedures, forms, and training materials
- Comprehensive financial planning models and benchmarks gained from international LFS experience, including scenario analysis
- Organizational charts, process templates and other details on the internal organization of a bank or MFI
- Set of HR guidelines, policies and instruments, including Code of Conduct, recruiting guidelines, tests, gap analysis, HR Manual, Job Descriptions for all kind of roles, performance assessment systems, staff incentive schemes, etc.
- Customer Protection - SMART: illiterate customers, complaint resolution, collection policy

### **Risk Management Systems Enhancement**

- Templates and tools for comprehensive Risk Management Assessment
- Vintage risk analysis tool: for PAR mitigation analysis, fraud mitigation analysis and fine-tuning existing products
- Credit scoring model
- Integrated Risk Management tools covering financial and non-financial risks
- Package of job descriptions of risk management department members
- Structure and terms of reference for board and management risk committees and applied processes
- Business continuity and disaster recovery plans
- Tools for improved credit risk management, such as credit scoring and OLAP cubes





## ➤ Staff Selection and Training in SME Lending

- Extensive experience from staff selection for various positions around the globe
- Training schemes and material (incl. training manuals, evaluation forms, handouts, on the job training and coaching for key operational staff e.g. loan officers, middle management and training of trainers)
- Comprehensive Training of Trainers courses (ToT)
- Structured and guided exposure visits to AccessBanks
- Middle management soft skills training program (Management Development Program or MDP) and AccessCampus Berlin (for senior managers of AccessBanks and selected MFI and banks that do not belong to the AH network)
- Technical training schemes and material for all areas of SME/Corporate finance focused financial institutions
- Senior and middle management soft skills training program, ToT, CEO mentoring program

## ➤ MSME Product Development, Sales, and Marketing

- Standardized methodology and tools for market studies targeting micro and SME clients
- Standardized methodology and templates for Business Plans for the development of micro and MSME finance products and services, including tools to define a pricing and marketing strategy
- Tools to assess reporting needs and management information systems
- Blueprints for financial planning and analysis

# Project References

Country	Client	Years	Description
<b>Brunei</b>	Public sector	2017 – 2020	Feasibility study, business planning and greenfielding of an MSME bank.
<b>Egypt</b>	Regional development finance institution and Development Fund	2014 – 2018	Feasibility assessment, greenfielding and capacity building of a microfinance institution.
<b>Global</b>	AccessHolding	2006 – 2017	Establishing and managing ten MSME banks.
<b>Georgia</b>	AccessHolding	2014 – 2017	Acquisition of a leading rural MFI, followed by transformation into full commercial bank.
<b>Yemen</b>	International Development Bank and Regional Development Fund	2013 – 2016	Consulting services for the promotion of the MSME related finance sector in Yemen.
<b>Peru</b>	Local and International development bank	2016 – 2019	Strengthen selected partner financial institutions' abilities to evaluate credit risk in the rural sector, and to apply methods of risk mitigation specifically adapted to rural MSME lending.
<b>Jordan</b>	Regional Development Bank	2014 – 2015	Strengthening Institutional Capacities for SME Lending of a leading MFI.
<b>Kyrgyzstan</b>	Regional Development Bank	2016 – 2017	Strengthening of Institutional capacity for MSME Lending.
<b>Various countries</b>	Various clients	2001 – 2018	Greenfielding, Downscaling, Upgrading, Capacity Building in: <b>Brazil</b> (2015); <b>China, Kyrgyzstan</b> (2016-2017); <b>Colombia</b> (2008-2009); <b>Ghana</b> (2016-2018); <b>Indonesia</b> (2009-2011); <b>Uzbekistan</b> (2011-2014, 2017) ; <b>Iraq</b> (2013); <b>Jamaica</b> (2010-2012); <b>Jordan</b> (2007, 2014, 2016, 2017); <b>Kazakhstan</b> (2002, 2014, 2016); <b>Malawi, Moldova</b> (2007-2009); <b>Mongolia</b> (2005-2006); <b>Morocco</b> (2012-2013); <b>Myanmar</b> (2015-2016); <b>Nepal, Namibia</b> (2014); <b>Nicaragua</b> (2013-2014); <b>Romania</b> (2007-2010); <b>Russia</b> (2010-2011, 2011-2012); <b>St. Lucia</b> (2008-2010); <b>Serbia</b> (2002-2005); <b>Sudan</b> (2011); <b>Tajikistan</b> (2003-2008, 2014-2015); <b>Trinidad and Tobago</b> (2007); <b>Uganda</b> (2001-2003); <b>Nigeria</b> (2018); <b>Zimbabwe</b> (2014, 2015).

## Contact within LFS

To discuss how LFS can support you in financing micro, small or medium-sized enterprises, please contact Jov O'Brien at [jov.obrien@lfs-advisory.com](mailto:jov.obrien@lfs-advisory.com)

### Jov O'Brien

Manager, Advisory Services

Jov O'Brien's expertise includes over 10 years as Chief Executive Officer (CEO) and Chief Operating Officer (COO) of regulated and non-regulated financial institutions. He is highly competent in microfinance credit product and process design, new product implementation, as well as in delivering urban, rural and agricultural oriented financial services. He has extensive experience in change management, developing, strengthening and expanding enterprises. He has overseen complex business operations in varied settings for financial institutions worldwide. He has a record of leading change of lending-only businesses into well rounded microfinance institutions, including building up SME lending, savings and mobile banking. Jov O'Brien had been working for LFS Advisory for 2 years and will rejoin the company in January 2019. He holds an MBA and BA in Business Administration and is fluent in Russian, Spanish and his native English.



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