



# Anatolian Banking

Keys to Success in Serving Craftsmen,  
Micro, and Small Enterprises

IN PARTNERSHIP WITH:



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# ACRONYMS

<b>CRM</b>	Customer relationship management
<b>EBRD</b>	European Bank for Reconstruction and Development
<b>EIB</b>	European Investment Bank
<b>FMO</b>	Netherlands Development Finance Company
<b>IFC</b>	International Finance Corporation
<b>IPC</b>	Internationale Projekt Consult
<b>KfW</b>	German Development Bank
<b>MSME</b>	Micro, small and medium enterprises
<b>NPL</b>	Non-performing loan
<b>POS</b>	Point of sale
<b>QR</b>	Quick response
<b>O/S</b>	Outstanding
<b>RM</b>	Relationship manager
<b>SLA</b>	Service Level Agreements
<b>SME</b>	Small and medium enterprises
<b>TRY</b>	Turkish Lira
<b>VAT</b>	Value-added tax
<b>VSE</b>	Very small enterprise
<b>YE</b>	Year end

Note:

All conversions of Turkish Lira (TRY) amounting to US Dollars are at TRY 2.15 = US\$ 1, the conversion rate as of September 2014. US Dollar amounts are intended to be indicative for international readers. Şekerbank and the Government of Turkey use TRY in specifying business sizes.



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# PREFACE

Many banks around the world have been successful by focusing their services around micro, small and medium enterprise (MSME) banking. However, there is a tendency for such banks to focus on the higher end of the MSME market, avoiding the risks and administrative costs that come with serving smaller businesses. Şekerbank in Turkey is an interesting case because it has targeted the lower end of the spectrum in its MSME banking line of business. Şekerbank classifies such businesses as craftsmen and “micro” businesses — referring to a business size in between the craftsmen and small business. The bank has been successful in reaching these sectors by tailoring its policies and credit procedures to these markets, as well as by developing products that address the needs of these very small enterprises.

Şekerbank provides an exciting example of a full-service commercial bank that has chosen to specialize in serving smaller businesses in Turkey, specifically micro enterprises and craftsmen. These are collectively referred to as very small enterprises, or VSEs, in this publication. This case study is not an assessment of the full operations of Şekerbank. Rather, it is intended to identify the key choices that Şekerbank has made to serve these clients and keep the focus of the bank’s operations on them— instead of defaulting to the easier option of serving larger clients.



# INTRODUCTION



Şekerbank was established in 1953 as a financial institution by and for sugar beet farmers and agricultural cooperatives. Even today a third of the bank's equity is owned by its staff pension fund, reflecting this historical community banking orientation.

The keys to success in this path to growth reflect both inherent characteristics of the bank and deliberate choices about business models and products. These reflect Şekerbank's commitment in targeting the lower end of this market, and developing itself as a community bank with an MSME focus (see Box 1).<sup>1</sup>

Şekerbank's determination to specialize in serving Very Small Enterprises (VSEs), resulted in choices, or differentiators, including:

- **Segmentation** – Services are divided into four size-based segment levels, including “micro” and craftsmen, which are separately tracked;

- **Staffing** – Incentives are tied to product numbers more than volume of lending;
- **Credit Approvals and Monitoring** – Separate scorecards are maintained for each segment, as are scorecards for monitoring and problem loan management;
- **Product Design** – Multiple products have been developed for craftsmen and other segments; and
- **Delivery Channels** – Non-traditional delivery channels include cash machines and card-based access. In addition, Şekerbank also offers on-line Internet Banking options.

Şekerbank's **key strategies** reflect a dedication to serving small and medium enterprises (SMEs). These are described in this report, along with insights for financial institutions trying to reach the VSE customers at the lower end of the spectrum.

## Box 1: MSME Finance – Vision and Mission

Although Şekerbank serves all business and consumer sectors, its vision and mission statements identify an interest in MSME finance in general, and in small-scale businesses in particular. Its vision is to become the “*leader bank in financing the small enterprises*” of Turkey's top ten private banks in terms of asset size. In this context, its mission statement describes its commitment:

*“With the Community Banking understanding from village to city, we are a modern bank that:*

- *Considers local features and needs,*
- *Introduces banking services to those who do not have any bank,*
- *Grows by creating value together with its satisfied customers, employees and partners, and*
- *Takes strength from its deep rooted past.”*

Source: Şekerbank.

<sup>1</sup> Although farmers are generally included in the MSMEs, they are excluded in this case study because they are now managed by a separate bank department.

## Targeting Şekerbank's Strategy to VSE Needs

Şekerbank seriously considered the question of how best to meet VSE market needs. In this context, it launched surveys and focus group meetings and identified the following VSE needs and priorities:

- Physical proximity of the branch is essential;
- A single point of contact at the branch is preferred;
- Customers need financial consultancy;
- A simple borrowing procedure is important;
- Customers are less price-sensitive;
- Last minute transactions are typical; and
- Customers respond to a sincere attitude.

The VSE needs and priorities, along with the bank's own vision and outreach approach, shaped its strategy for reaching the VSE market: Components of Şekerbank's strategy include the following:

- Develop innovative but simple products to increase market share and profitability;
- Adopt relationship-based banking instead of transaction-based banking to become business partners for the long-term;
- Address niche segments to reach under-banked people;
- Introduce the unbanked population to formal banking;
- Bundle products in order to increase cross-selling, and present advantageous prices without sacrificing profitability;
- Adapt and revise products and services according to local needs;
- Build strategic relationships with leading brands to offer added value;
- Use alternative delivery channels effectively;
- Develop industry-/sector-based packages to meet specific needs in terms of relevance, and timeliness; and

- Become a leading bank in financing sustainable development while increasing its market share.

Thus, Şekerbank has been actively engaged in reaching this underserved business segment. Indeed, it has been innovative in developing products and services that respond to this market segment's unique needs.

## MSMEs and the Banking Sector in Turkey

Turkey has a vibrant entrepreneurial sector, and according to the Turkish Statistical Institute (2011)<sup>2</sup>, over 97 percent of its approximately 2.4 million businesses have twenty or fewer employees. Together, they comprise 46.5 percent of total employment in Turkey. These very small businesses are responsible for 29 percent of the value added to the economy.

There are over forty commercial banks in Turkey with a robust mixture of state-owned, private, and foreign-owned banks, as well as leasing companies. Very small businesses will often keep deposit accounts with the state-owned bank that has the largest branch network nationwide. As of 1999, several of the private and foreign banks established SME departments. Their SME bank offerings, particularly for women-owned enterprises and non-financial services, have been documented as best practice models.

As noted, Şekerbank was originally established as a bank to serve cooperatives. Later it shifted to full-service banking, concentrating on commercial customers. With support from the International Finance Corporation (IFC), the German Development Bank (KfW) and other technical advisors such as the Internationale Projekt Consult (IPC), Şekerbank began by serving microenterprises. In 2009, it established an SME department, separate from commercial banking. This occurred relatively late compared to other banks in Turkey that are focused on serving SMEs. Although the title is the same, Şekerbank's SME department differs from the other

<sup>2</sup> Cited in European Union, Small Business Act (SBA) Fact Sheet, 2014.

banks by focusing on smaller-scale SMEs. Şekerbank considers its interest in the MSME sector to be more focused on very small enterprises than its competitors, although interest in VSEs is growing in the financial sector. The bank sees itself as going back to its roots in targeting services to microenterprises and craftsmen. In this regard, it is looking for niche opportunities where it can be a market leader by addressing the needs of underserved clients.

**Box 2: Case Study Taxonomy**

Şekerbank defines MSMEs as having annual revenues ranging from less than US\$ 70,000 – 4.6 million, and loan range should be up to 3.3 million. These reflect adjusted ranges shown in Figure 2. These businesses are all served through the bank’s SME department and are segmented into four size categories, including:

- Medium
- Small
- Micro
- Craftsmen

Although Şekerbank uses a size category that it calls micro, these businesses are registered and are larger than “micro” businesses as generally described by the World Bank Group. Şekerbank’s micro and craftsmen customers fit the definition of “very small enterprise” (VSE) as described in Box 3, and are collectively referred to as VSEs in this case study.

*Source: Şekerbank.*

Şekerbank has borrowed internationally to fund its MSME portfolio. It frequently used bond issues secured by MSME loans which were then purchased by IFC, the Netherlands Development Finance Company (FMO), the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD), and others. The first of these MSME-covered bonds was issued in 2011. These were the first of their type in the world. The primary reason for securing such bond funding was to establish a sustainable longer term funding source for MSME loans.

**Box 3: What are VSEs?**

The Very Small Enterprise (VSE) segment is a distinct segment with typically 5-30 employees, small loan sizes (US\$ 8,000-60,000), with unique characteristics and needs that place them above the micro segment, but below the upper-small and medium segments. In some countries, the government authorities have even created a separate definition for this segment in the market. For example, in Morocco, VSEs have been defined to be businesses with an annual turnover of less than US\$ 360,000 and loans outstanding in the range of US\$ 120,000 – 240,000.

VSEs have distinct characteristics which include some level of formalization. However, they may not necessarily meet all the requirements to be considered a formal business (for example, they may have a trade license and municipal permit, but no tax identification). The organizational structure and bookkeeping of the business is typically more sophisticated compared to the business of a micro entrepreneur, but not necessarily as complete as that of a small business. This can make the credit analysis of financial performance by financial intermediaries difficult.

There are also various VSE sector concentrations that are typically found across countries. Many VSEs are found among professional groups, such as doctors, lawyers, and craftsmen who have licenses to operate — but may not necessarily have registered their practice as a business. In these cases, they often rely on personal bank accounts to operate their business transactions.



# ANATOLIAN BANKING AND KEY STRATEGIES



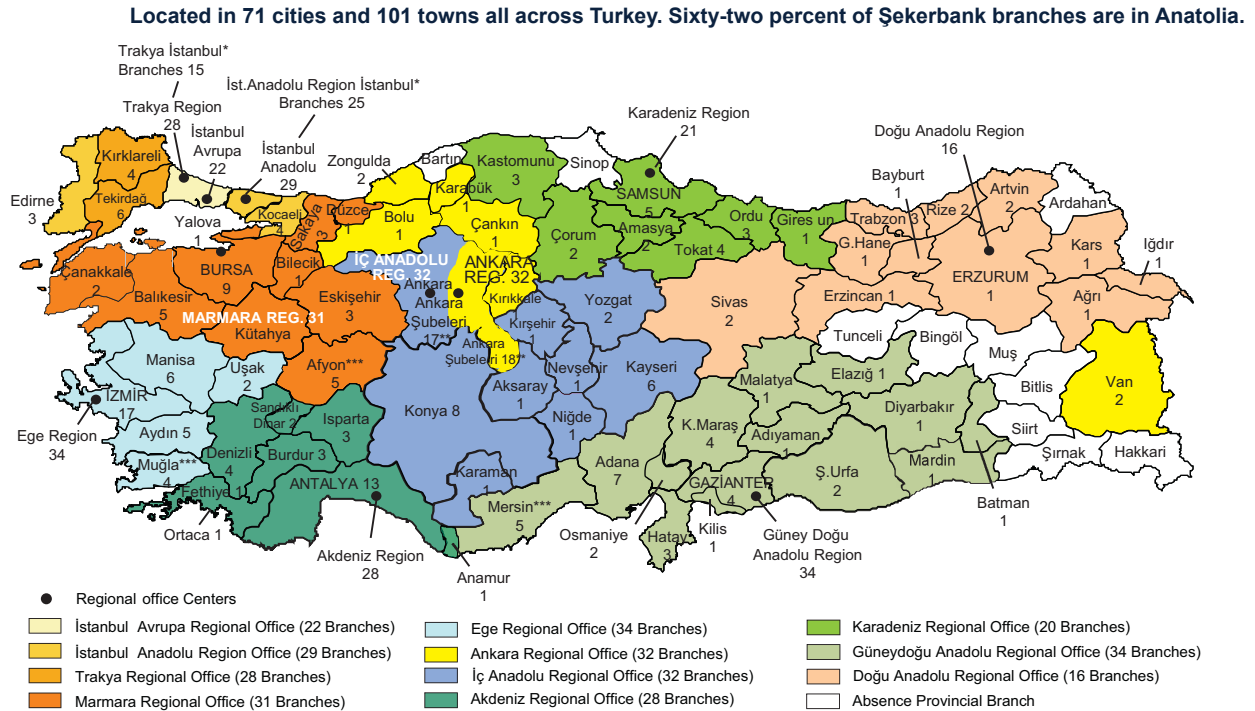
## Şekerbank Has Branded Its Community Banking Approach As “Anatolian Banking”

### Anatolian Banking

Şekerbank’s branch network covers most of Turkey, but has a particular concentration of branches in Anatolia (see Figure 1). The bank was founded in this region, which also comprises several rural and agricultural provinces in

western Turkey. Whereas the bank has only the twelfth largest branch network in Turkey, its presence and name recognition in Anatolia are much greater than many larger banks, which tend to have their branch concentrations in Istanbul.<sup>3</sup>

Figure 1: The Distribution of Şekerbank branches



\* 15 branches are connected to Trakya Regional Office in Istanbul province. The total number of branches in Istanbul (including the Corporate Branches) is 65.

\*\* 24 branches of the Ankara Regional Office, 11 branches are connected to the Anatolia Regional Office in Ankara province. The total number of branches in Ankara (including corporate branches) is 36.

\*\*\* 1 branch in Mersin province, 2 branches in Afyon province and 2 branches in Muğla province are connected to the Akdeniz Regional Office.

1 branch in Izmir province, 1 branch in Ankara province and 3 branches in Istanbul province are Corporate branches.

Prepared by : ORGANIZASYON, SATIN ALMA VE İNŞAAT MÜDÜRLÜĞÜ

Source: Şekerbank, 2014.

<sup>3</sup> Turkish Banks Association, March 2015.

Şekerbank has capitalized on its strong rural presence to gain a greater market share, and to use its name recognition in the region. It has branded its community banking approach as “Anatolian Banking”. In this regard, choices and decisions for the MSME line of business are made with an eye to what products and services are demanded in Anatolia. This is an example of leveraging the bank’s existing footprint and carving out a market niche of service to more rural MSMEs in geographic areas where it is better positioned to compete.

## Key Strategy: Market Segmentation Strategy

### Identification of Craftsmen as a Separate MSME Segment

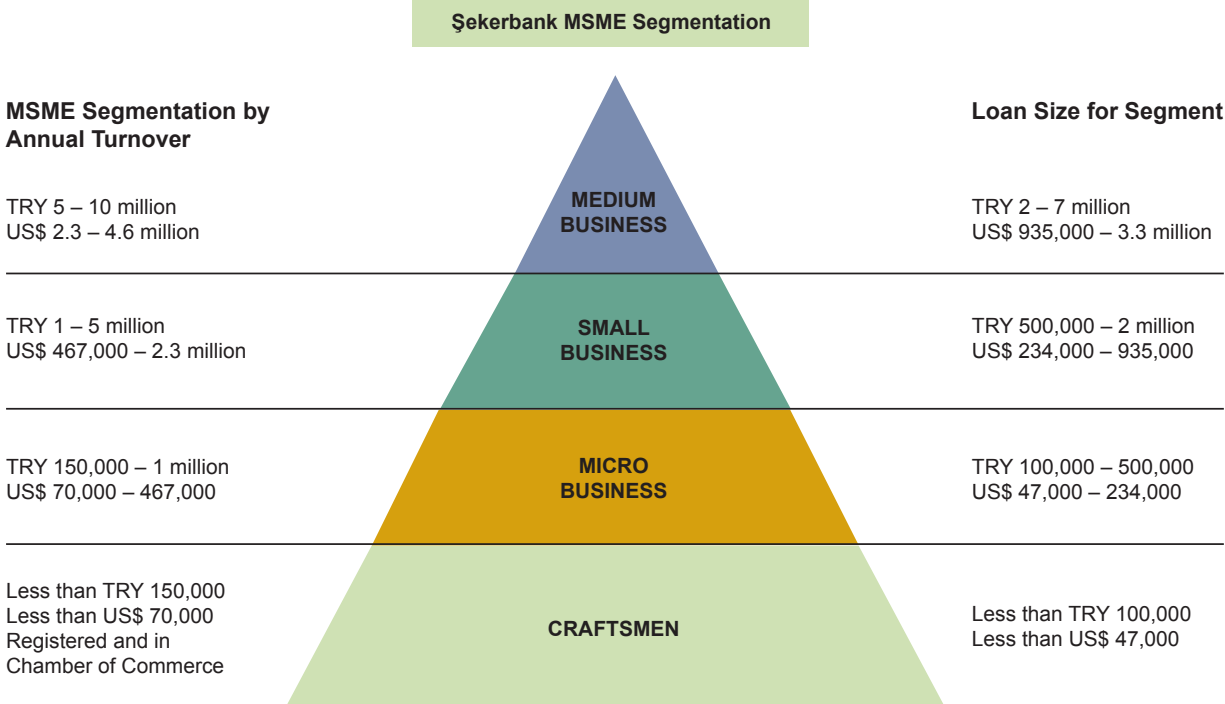
Şekerbank’s segmentation strategy has been key to developing its MSME customer base. It has segmented

its MSME portfolio into four distinct sub-segments, which reflect its commitment to reaching the lower end of the market (see Figure 2).

A comparison of Şekerbank’s segmentation to the government definitions of market segments is instructive in understanding the lower-market end orientation of the bank. Table 1 compares Şekerbank’s size definitions to the Government of Turkey’s guidelines, as revised in November 2012 by the government. Şekerbank had set its MSME size definitions earlier in the same year.

The government cutoffs for small and medium businesses were previously annual revenues of TRY 8 million and 40 million (US\$ 3.7 – 18.6 million). However, Şekerbank chose not to follow the government’s November 2012 changes, largely because it had only just increased its limits to TRY 5 million and 25 million (US\$ 2.3 – 11.7 million) respectively in 2012. In addition, it wanted

**Figure 2: Şekerbank Segmentation of the MSME Market is based on Annual Sales Turnover and Loan Size (US\$ 1 = TRY 2.15) (2014)**



Note: MSME = Micro, Small and Medium Enterprises; TRY = Turkish Lira.  
Source: Şekerbank.



**Table 1: Comparison of Şekerbank’s and Government of Turkey’s MSME Definition (US\$ = TRY 2.15) (2014)**

Business Size	Government Definition	Şekerbank Definition
Medium business	< 250 employees, annual turnover < TRY 40 million (US\$ 18.6 million)	Annual turnover TRY 5 – 10 million (US\$ 2.3 – 4.6 million)
Small business	< 50 employees, annual turnover < TRY 8 million (US\$ 3.7 million)	Annual turnover TRY 1 – 5 million (US\$ 467,000 – 2.3 million)
Micro business	< 10 employees, annual turnover < TRY 1 million (US\$ 467,000)	Annual turnover TRY 150,000 – 1 million (US\$ 70,000 – 467,000)
Craftsmen	No specification in the November 2012 regulation	Annual turnover < TRY 150,000 (US\$ 70,000)

Source: Şekerbank, Government of Turkey.

to maintain its focus on the lower end of this market. (Şekerbank has since revised the cutoff annual revenues for medium-sized businesses to TRY 10 million.)

Şekerbank concedes that maintaining segmentation sizes that are different from the government guidelines means that comparisons to government data sets are difficult or unfeasible for relatively detailed analysis. Therefore, this is a drawback of its segmentation choices. Şekerbank is the only Turkish bank that sub-segments the MSME market to disaggregate craftsmen as a separate segment, reflecting its community banking orientation.

**Seeking “Unbanked” Clients**

Another particularly significant difference in market segmentation is that Şekerbank proactively seeks to serve “unbanked” entrepreneurs, that is, those micro businesses and craftsmen that have not received loans from any financial institutions and which do not have credit bureau records. Surveys show that this currently comprises 30-35 percent among micro businesses and craftsmen which equals approximately 500,000 - 600,000 individuals in Turkey. Thus, this reflects a substantial unserved market. In this context, Şekerbank believes that there is a strong loyalty factor among these clients. In serving this market, Şekerbank can continue to rely on a steady base of customers with expanding businesses.

**Agricultural Businesses Handled Separately**

Until August 2014, the MSME and agricultural customers were handled by the same head office department, which was a separate department housed under the Retail Division. The agricultural portfolio is divided by legal entity versus individual farmers, and customers are handled by the same relationship managers (RMs). The RMs now specialize in handling MSME clients, comprising all sub-segments, and agriculture clients are handled by agricultural RMs.

There are now two separate departments for SMEs and Agriculture clients. Both still report to the Executive Vice President of Retail. In addition, a separate head office and regional staff have been designated for SMEs and Agriculture in the eleven regions around the country.

Branches always have RMs for MSMEs. They will also have new agricultural RMs and corporate RMs, depending on the local customer base. In rural areas, any corporate business will be handled by a RM for MSMEs.

**Key Strategy: Dedicated Staffing Holistic Approach**

The bank’s preference to have all RMs for MSMEs handle portfolios comprising all MSME market segments is its most controversial choice, as SME banks will typically

assign MSME staff to serve specific market segments. Şekerbank has made a deliberate choice not to do so in order to ensure that all staff understand the bank's commitment to smaller businesses. At the same time, Şekerbank believes that the RMs benefit from exposure to different types of customers. Some RMs have indicated that most of their micro business and craftsmen customers previously did not have access to conventional financing. Therefore, they are more appreciative of Şekerbank's offerings. Indeed, Şekerbank provides these VSE clients with a means to access financing, even when they have no central credit bureau track record and are deemed too risky to deal with by some other banks. Şekerbank has been able to serve this market by applying intensive analysis and a cash flow-based lending methodology.

### Staffing Rooted in Local Community

In keeping with its community orientation, Şekerbank recruits its RMs locally. In this way, it can build on the RM's own network and local knowledge. Şekerbank will also relocate RMs every 3-5 years so that RMs are not too tied to clients. This in turn reduces the pressure on RMs to give fee reductions to long-time customers. From the client's perspective, working with a new RM is not as challenging as it might be because that new person will also be local, and the branch manager is likely to know all of the customers.

### Staff Incentives to Engage in Outreach

The performance expectations for RMs reflect the strong commitment of the bank to the lower end of the MSME market. Whereas volume and loan quality are tracked as part of performance, the main performance measure is the number of products sold, particularly loans. There are no performance targets by sub-segment. Incentive programs are set by business units, not by the Human Resources Department. (See Box 4).

### Mobile Sales Agents

In addition to RMs who have a great deal of autonomy in starting and developing client relationships, the bank also uses a mobile sales force. Specifically, these are mobile agents, an outsourced staff of "hunters" for the

bank who call on a mixture of MSMEs and consumers, and who have highly prescribed "rules of engagement". The mobile agents sell point-of-sale devices and new card products. They are compensated partly by salary and partly by commissions based on products in use, such as a credit card that has been activated.

Currently there are 60 mobile staff. This number will be expanded to 100 by the end of the year. In the past, the mobile sales agents all reported to a single manager. However, more recently, they report more to local managers. Their particular focus is on covering craftsmen and micro businesses. If the mobile sales force identifies a credit prospect, the RM branch staff will call again to obtain documentation and more information.

Mobile agents may later be recruited into the RM program.

## Key Strategy: Tailored Credit

### Approvals and Monitoring

Although credit scoring is common in handling the volumes associated with MSME portfolios, Şekerbank's use of this technology reflects the differences among its MSME segments. The bank has also been innovative in integrating scoring into its entire credit process.

#### Box 4: Differentiating RM Training and Development

From Şekerbank's perspective, the following are differentiating factors with respect to its training programs and RM development:

- Training days offered is higher (5.5 days per year bank-wide; 7.5 days per year for the SME department);
- All employees are eligible for training programs;
- The bank looks to select branch managers internally;
- The bank prefers to select from the SME staff for branch manager positions, as well as for commercial staff;
- Training at each staff grade is nearly 20 days, typically spread between 15 days of credit training and 5-6 days of banking development.

Source: Şekerbank.

## Smart Use of Credit Scoring and Rating

With the volume of product sales that is needed to be successful in MSME banking—particularly when focused on the lower end of the market — it is no surprise to find that the bank is using credit scoring extensively for approvals. In this context, it is also starting to use scoring systems as a part of loan monitoring and collection management. With the growth and wide coverage from the local credit bureau, scoring is increasingly prevalent in the local market.

## Scorecards for Unbanked Clients

What is unusual about Şekerbank is that its scorecards do accommodate “unbanked” clients, defined as those who do not have credit bureau histories. The bank has particularly sought out these businesses as prospective clients. There are separate scorecards for banked and unbanked craftsmen and businesses, specifically those with revenues of up to TRY 150,000 (US\$ 70,000).

## Scorecards by Sector and Segment

Şekerbank’s application scorecards are segment specific, tiered and robust. They are used as a key decision tool. The bank uses multiple scorecards for MSME credit approvals, with differences based on revenue size and sector, such as trading, manufacturing, and services. Variations among the scorecards reflect typical differences in business type and size, for example, the debt to net worth and current ratios expected for a manufacturer are different than those typical of a service-oriented business.

Whereas the micro scorecard is based on statistical logistic regression, the SME scorecard is an expert model, developed based on existing data and re-calibrated on a regular basis. The scorecards for the larger MSMEs are based on cash flow analysis, including trend analysis. The card also requires market information to conduct the application. The scorecards for craftsmen evaluate financial performance, as well as place of business and business assets. In addition, they will use credit bureau information as well as personal payment habits. The scorecards are used in conjunction with a brief credit analysis, and the process also includes site visits.

## Risk-Based Pricing

The scores from the MSME scorecards will indicate the credit approval level, and will also suggest the interest rate level tied to a base rate. The scorecard for craftsmen has a simpler result, with only a “yes-review-no” scoring, and without such built-in pricing recommendations. Credit approvals for all loans start in the branch with signoffs by the RM and branch manager. Higher level signoffs will depend on the size of the loan and the scorecard result.

## Scoring Applied to Monitoring and Problem Loan Collection

The bank is also developing scorecards for monitoring and problem loan collection. A behavioral scorecard is automatically created if irregular behavior is detected. This might come from review of deposit balances, or from outside sources, including the behavior of guarantors and related businesses. The bank is also running models pertaining to collections, and using scorecards to recommend follow-up actions for loans that are one or more days past due.

## Multipurpose Credit Limits: Credit Approvals and Documentation within the Core Banking System

Şekerbank is experimenting with other technology to speed up the turnaround time for approvals, and otherwise facilitate and smooth the lending and documentation process. Plans are for RMs and mobile sales agents to start collecting information on tablets to feed directly into a customer relationship management (CRM) system that is being developed in-house. Credit approvals and documentation are done within the core banking system, and the system decides which scorecard should be used. Credit limits are multi purpose, allowing flexibility to borrowers regarding the usage of funds. The bank is also moving to a pool collateral concept for credit, rather than attaching specific assets to specific loans. In this way, fewer filings are needed and assets can be used sequentially for collateral.

At present, the bank has a 1-3 day turnaround time for loans to very small businesses, and up to seven days for larger loans that have collateral filings. The bank does regard turnaround time as an area for improvement. There are Service Level Agreements (SLAs) within the bank, and an appropriate time for different activities is specified by an administrative department. Adherence to time allotments is in turn fed into performance ratings.

## Key Strategy: MSME-Focused Products

Şekerbank is offering several products that are particularly tailored to very small businesses. It is also taking some innovative outreach approaches. Product development reflects research into markets, and a good understanding both of customer needs and the creation of business value. These are differentiated from standard MSME products (see Box 5). Products developed for very small enterprises, and the active campaign management are described herewith.

### Box 5: Standard MSME Products

Standard products offered to MSMEs include the following:

- Installment loans for working capital and investment;
- Revolving lines of credit – interest payable monthly, annual principal cleanup;
- Overdraft lines;
- Letters of credit, bank guarantees;
- Checks. Post-dated checks in Turkey are used as promissory notes for payments for purchases between companies. They can be endorsed over to other holders, and may be used as loan collateral. They are QR coded for additional security;
- Business debit and credit cards; and deposit accounts.

Source: Şekerbank.

## Green-Financing

**Eko Kredi:** Eco loans are developed for energy conservation. Although these loans are available to all business segments of the bank, Şekerbank is looking for niche areas to apply this loan product, and it is working through associations for standard packages (for example, for bakeries converting to natural gas). The loans are subject to a conventional loan approval process. However, the bank's marketing for this product includes providing an energy savings payback period calculator, so that prospective borrowers can understand the savings benefit that they will receive from energy conservation.



Many of the banks in this market are implementing energy efficiency loans. However, unlike other banks, Şekerbank will do very small-scale loans. More than TRY 572 million in loans has been disbursed since 2009 to individuals, SMEs and farmers, amounting to 3.9 million tons of carbon dioxide (CO<sub>2</sub>) emission savings. As of the first quarter of 2015, 7,093 small, micro, and craftsmen businesses — including farmers — have used Eko Kredi. The farmers developed their businesses through modern irrigation systems, new technology and energy efficient tractors. Solar power systems investments were also made through Eko Kredi. In addition, Eko Kredi was also used by small businesses to replace the lighting of the workplace with energy-efficient products, and hotels replaced their old air conditioners with more energy efficient ones.

## Creative Collateral

**Local Market Stall Owners (Craftsmen/Tradesmen):** In Istanbul it is difficult to obtain market stalls, so a business that has an established stall will have some credible value. The bank offers a product package for local market stall owners, including a point-of-sales machine, mobile service, and a cash pickup.

**Taxi Owners:** These are classified as micro businesses, with annual revenue ranging from between TRY 150,000 – 1 million (US\$ 70,000 – 467,000). A taxi license costs TRY 800,000 – 900,000 (US\$ 372,000 – 419,000) in Istanbul (lower for other cities). As there are only a limited number of licenses per city, the business effectively has this license price as a minimum value. The loans will have a flexible payment schedule because of the slower summer season. The maximum loan amount varies by city, and is based on a standard expected cash flow.



## Customized Product Bundles

**Hesaplı Paket (“Economical Package”):** This is a product bundle that the client pays for in advance, and is then charged less for certain bank services. Clients receive a lump sum of “free” transactions. There are different packages based on business size. For example, micro businesses that pay a service fee of TRY 199 (US\$ 93) receive 10 internal transfers, 5 electronic funds transfers, a Euro account, and a checkbook. Unbundled, all of these services would cost TRY 650 (US\$ 302).



**Üreten Paket (“Producer Package”):** This bundle is mostly targeted to craftsmen and micro businesses, and includes a range of services for a single price. These comprise access to dedicated call center lines that are part of a package that includes advisory services for legal, tax, and other business matters. A client is also given a 4-5 page information customizable website to publicize its business. The insurance



products in the package cover emergency health care, accident, fire, theft, and floods.

This has been an interesting product line for the bank, reflecting the need to understand what customers want. Revisions of the product offerings are done as necessary in communication with clients. The product initially included an interest rebate. However, this has been withdrawn because it was not well-understood. In this regard, Şekerbank concedes that it needs to better understand how to explain such services and benefits to its customers.

## Communication Breakthrough

Şekerbank has embarked on an extraordinary manner of communication by combining its VSE banking communications with its Anatolian banking mission. Şekerbank generally uses real craftsmen in its commercials rather than selecting from a professional cast of actors. Although many banks’ advertising is geared toward this segment in Turkey, Şekerbank has always stood out with its sincere communication language that represents its founding mission.

## Key Strategy: Innovative Distribution Channels

Closely tied to product design are innovations based on new distribution channels, as well as untraditional sourcing.

## Innovative Use of Technology

**Üreten Card:** This is a combined credit and debit card, and is the first of its kind in Turkey and in Europe for commercial types of card owners. It was launched in May 2014, and just finished its pilot stage. It is more of an acquisition than a retention product. The benefit to the bank is that using the card for transactions reduces processing costs. There is a single application



for all the associated products, and the client receives the benefit of a single monthly statement that shows all transactions.

Şekerbank is also looking to the card to be the platform for closed-circuit supply chain payments between a large company and small-scale buyers and sellers to the company. Like other banks, Şekerbank is doing some value chain-/supply chain-based segmentation, and looking to its corporate clients as the lead firms. For example, Şekerbank has begun signing contracts with certain suppliers, following an industry-specific approach. At present, there are 60 flour factories as contracted suppliers and more than 1,700 bakeries buying from them. The difference, however, is that Şekerbank cultivates larger firms because of their relationships with SMEs, and does not regard this simply as a peripheral benefit of the corporate relationship.

## Win-Win Partnerships

### Acik (“Open”) Platform

**Concept:** This has been a major initiative by the bank in its outreach to craftsmen and smaller businesses. It looks to reach them by linking with and leveraging relationships with the national and local craftsmen associations and business chambers.<sup>4</sup> In 2013, Şekerbank held a major advertising and promotion campaign for a city-by-city program that was offered in cooperation with the Ministry of Trade and the Association of Craftsmen. The bank encouraged buying locally and supporting local merchants, particularly on the 15<sup>th</sup> of each month. On the 15<sup>th</sup>, the bank would then offer a big benefit tied to local businesses.

This program has given the bank access to local chambers of commerce. Indeed, over 400 agreements with local chambers have been signed, giving the bank over 200,000

potential new clients. Customer campaigns and special product bundles are offered through the chambers. These represent strong value propositions that will benefit the customer, the bank, and the association (which is often looking for ways to ensure that annual dues are paid). The bank is also seeing a halo effect that it says it cannot quantify.

When the Acik program began, it seemed like it was done as a corporate social responsibility initiative. However, all along, Şekerbank intended it to be a marketing venture to smaller businesses. The small local craftsmen and micro businesses have been hurt by the big chains and cannot compete on pricing. From Şekerbank’s perspective, the campaign is to help them “keep the doors open.” Customers and consumers are encouraged to shop locally, especially on the 15<sup>th</sup> of the month. Specifically, the bank sends short message service (SMS) messages to its retail clients to encourage them to shop locally on the 15<sup>th</sup> of every month, and all promotions to craftsmen are tied into the 15<sup>th</sup> date promotion. Fifteen branches are also selected each month for special focus and offers.

The success of the program resulted in Şekerbank being approached by large nationwide or multinational companies. These companies are suppliers of craftsmen and expressed a wish to participate. Each has provided some benefit to small local business owners. Since the intention has been to have an open platform, the benefit is not specified by the bank. Rather, it is determined by the large supplier itself. For example, Vodafone offered free minutes in a raffle/lottery with chances provided through point-of-sale (POS) receipts (that is, customers who bought something from the local merchant through the POS machine was given a chance to win minutes), and Pinar absorbed the value-added tax (VAT) on purchases from it for a day. These larger suppliers support local stores because there is a large market potential. It also serves their corporate responsibility for sustainable development. This project also aims to become an exemplary model which brings together the state, and the real and financial sectors under the same umbrella for sustainable development.



<sup>4</sup> In Turkey, craftsmen and small businesses are required to be members of the local chamber of commerce.

## Distribution Closer to the Clients

**Point-of-Sale Open Technology:** Şekerbank has been imaginative in developing uses for POS technology to bring more benefits to small business users. The POS can track inventory flow from barcode recording, and is also used for coupon tracking. The program can be used to sell Vodafone tokens/top-ups, as well as accept utility bill payments for clients. Additional applications are also being developed. Şekerbank collects a monthly fee for the use of the POS machines, plus a small fee for each transaction. Indeed, 1,200 of 25,000 POS machines that Şekerbank has in place are currently benefiting from these expanded uses.

## Key Strategy: Industry-/Sector-Focused Products

In 2015, Şekerbank began to address its potential and existing client base by focusing on their sector or industry. For example, a special package for all MSMEs operating in the tourism sector was developed. This included not only hotels, but suppliers to any of the craftsmen/tradesmen whose business is closely tied to tourism, such as gift shops or local restaurants in holiday resort towns. Payback plans for installment loans which take seasonality into account are one of the main offers of those packages tailored specifically to the sector. The Üreten Card, which helps to connect suppliers to endpoints in a cash flow cycle in certain sectors (for example, flour factories to bakeries, fresh food traders to groceries, optical instrument importers to eyewear shops, and so on) is one of the major products included in these packages.





# PERFORMANCE RESULTS



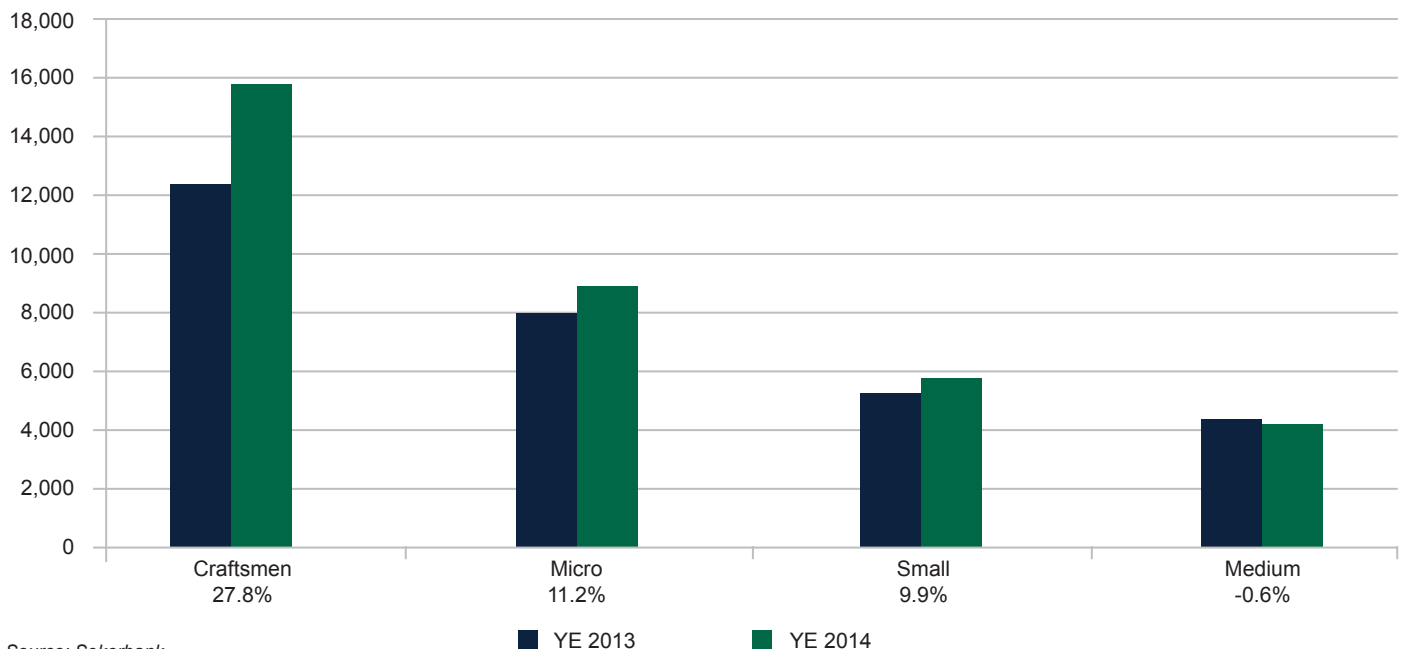
The new products and processes have been geared to increasing the craftsmen and micro business segment coverage. Positive results were evident in 2014, as shown by the growth in the volume of loans, number of loans, and number of borrowers in these segments. Figure 3 shows the growth in the number of customers. Craftsmen are by far the fastest growing segment, with a 27.8 percent growth over 2013.

As Table 2 shows, the growth in the number of loans and the percentage of portfolio growth has also been strongest for the VSE market segment. Overall, the gross value of MSME loans grew faster than the bank's gross portfolio as a whole, at 14.9 percent versus 9.0 percent, respectively.

At the same time, the VSE loans — with a combined total of 25.7 percent of the value — are still only a small part of the bank's outstanding MSME portfolio. This reflects the appropriately smaller loan size.

Şekerbank's MSME portfolio as a whole has a non-performing loan (NPL) rate of 7.28 percent, which compares unfavorably to the NPL rate for the bank as a whole, which stood at 5.52 percent as of the end of 2014. However, the NPL rate for the craftsmen loans was only 4.28 percent, giving credence to Şekerbank's claim that the craftsmen are more preferable as a safer segment to serve.

**Figure 3: Number of Borrowers in Each MSME Segment (at Year End 2013 and 2014), and Percentage Growth (over 2013) in Each Segment**



Source: Şekerbank.

**Table 2: Characteristics of MSME Gross Portfolio Growth 2013-2014**

MSME Gross Portfolio Growth from 2013-2014		% Increase in Number of Loans	% Increase in Value of Loans	% of MSME Portfolio	Average Loan Size (TRY)	Average Loan Size US\$ Equivalent
MSME	Craftsmen	44.5%	62.0%	9.4%	18,326	8,524
	Micro	21.8%	29.0%	16.3%	46,283	21,527
	Small	20.4%	13.1%	26.4%	91,501	42,559
	Medium	3.5%	6.0%	47.9%	222,265	103,379
Total MSME Portfolio		25.4%	14.9%	100.0%	73,120	34,009
Reference:						
Total Portfolio			9.0%			

Source: Şekerbank.

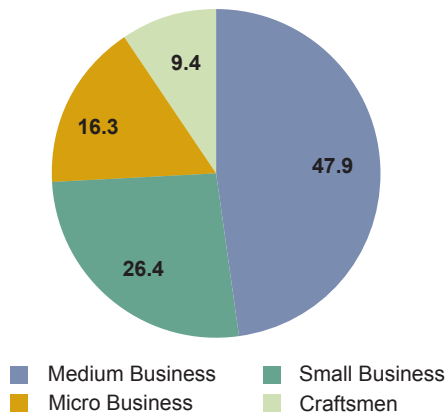
Figures 4, 5, and 6 show the percentage share of the MSME portfolio by value and by number of customers. These figures are followed by Figure 7 showing the average size of loan for each market segment.

Şekerbank indicates that it had 200,000 active MSME clients as of September 2014, with “active” defined as having some activity in the prior 12 months. The bank is redefining this activity concept because the product mix is more complex than just loans and deposits. For example, for credit cards it would be the last transaction. For loans, it might be open

balances, and for alternative channels, last login. Currently the Cross-sell Ratio for MSME clients is over 3.11.

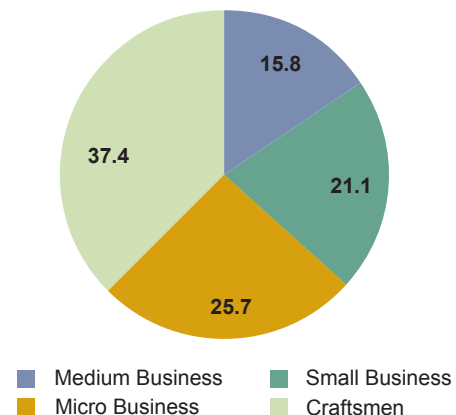
The bank is seeking new MSME clients, especially VSE clients, classified by the bank as “micro” and “craftsmen”. The bank wants to be the primary bank for many of these clients, which accounts for its interest in targeting the unbanked businesses which is approximately 30-35 percent of craftsmen and microenterprises in the country. It has found that very small enterprises are more loyal, and less price sensitive. This also holds much significance for the country’s sustainable development, a critical aspect for Şekerbank.

**Figure 4: Percentage Share of MSME Segments to Total MSME Portfolio in Terms of Gross Volume of Loans Outstanding (As of Year End 2014)**



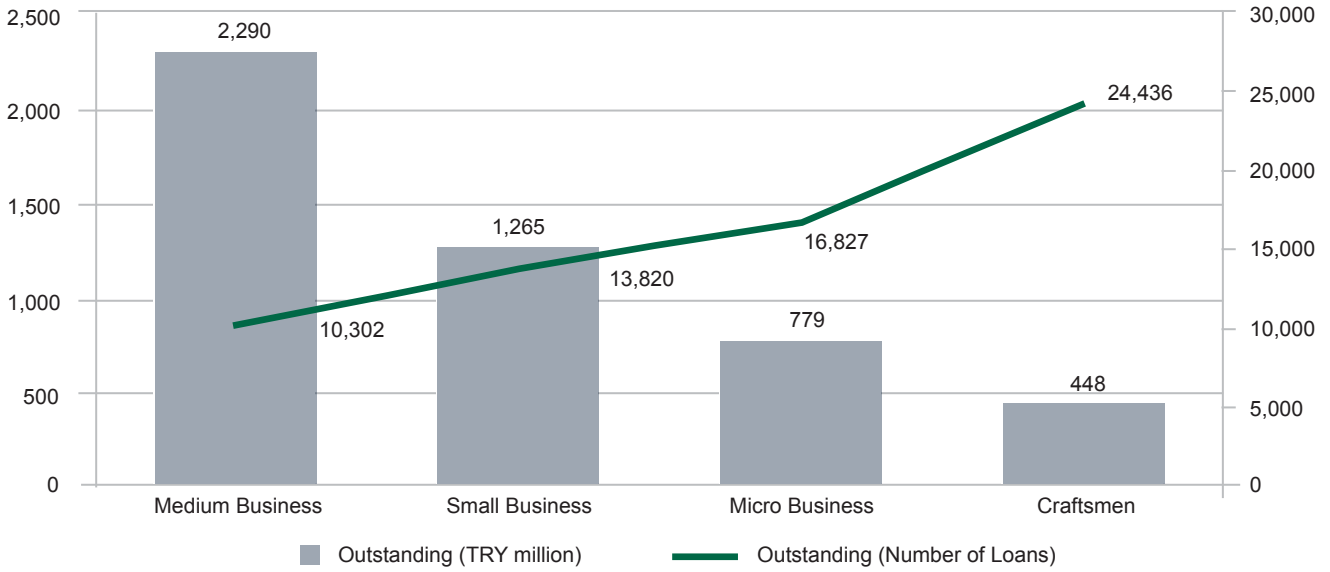
Source: Şekerbank.

**Figure 5: Percentage Share of MSME Segments to Total MSME Portfolio in Terms of Number of Loans Outstanding (As of Year End 2014)**



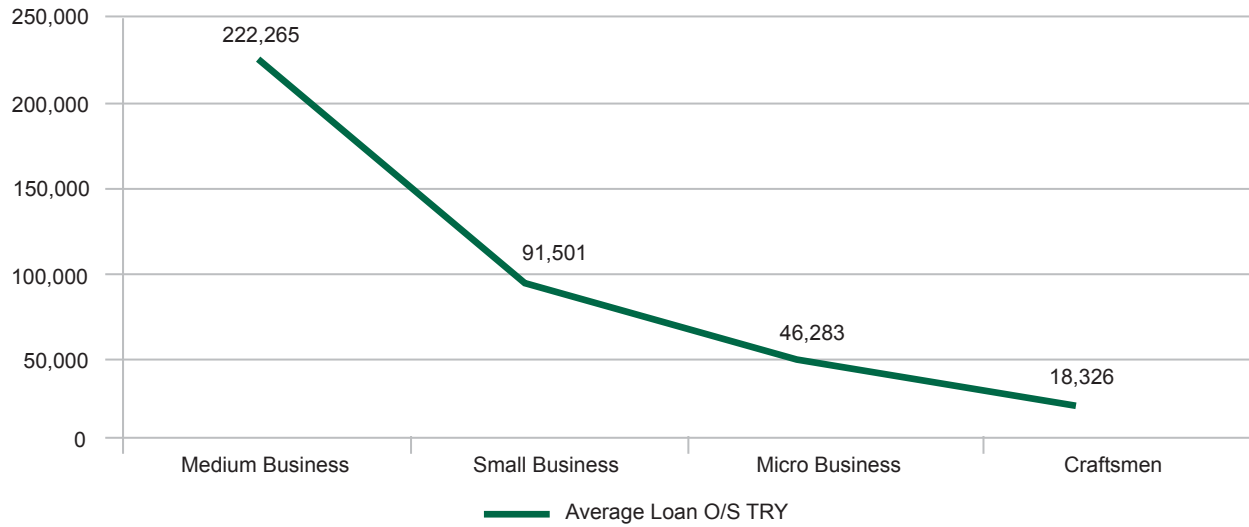
Source: Şekerbank.

**Figure 6: Number and Gross Value of Loans Outstanding in the Şekerbank MSME Portfolio (As of Year End 2014)**



Source: Şekerbank.

**Figure 7: Average Loan Size Across The Şekerbank MSME Portfolio (As of Year End 2014)**



Note: O/S = Outstanding  
Source: Şekerbank.

## Looking Forward

Delivering quality banking services is an ongoing process that never stops. New technology is constantly available, the economy is changing, and both customers and prospective customers are growing. At the same time, competitors are also looking for new opportunities. Şekerbank should be considered a bank “in progress” on a number of fronts. These will help it to expand services to its targeted sector, and be in keeping with the bank’s mission, as well as financially beneficial.

**Cross-selling.** At present, each customer is estimated to have 3.1 products, which is low. The RMs and branch managers historically have focused on credit sales, not on cross-selling. This will be addressed at least in part by greater adoption of the new product bundles, which include insurance and deposit products, as well as sales team measurement that will be expanded to include cross-sales.

**Turnaround time on credit approvals.** Şekerbank’s perception is that the Turkish banking sector has faster processing speeds and is quicker to adopt technological innovations in commercial and retail loans compared to micro and VSE loans because this special segment requires additional attention and manual operational processes.

However, the plans are for Şekerbank to improve its VSE banking sales force with new technological channels in order to accelerate its turnaround time for smaller loans.

**Banking services for women and women-owned businesses.** These are under development now, and a new approach and customer value proposition will be introduced in 2015, with an initial focus on female consumers.

### **Separation of SME and Agriculture Departments.**

These departments were operating jointly until the summer of 2014. Therefore, there will be a period of adjustment as staff reassignments take place. One important element will be the separate tracking of MSME and agricultural performance.

**Branch expansion.** Şekerbank is mostly working to expand its business through its existing 300-plus branches through a market research process that includes evaluating MSME and agricultural potential in the region. The bank has the 12<sup>th</sup> largest branch network in Turkey, but covers 70 of 81 provinces, and 101 off-center districts. This amounts to the seventh greatest coverage among banks, and shows the more rural orientation of the bank.

# LESSONS LEARNED



Although Şekerbank is not a big bank by Turkish standards, it has been able to carve out niches where it is the market leader. These niches include both customers such as craftsmen, and products, such as Eko Loans. Şekerbank has committed to serving VSEs, which is reflected in its products, processes, delivery channels, and staffing. Perhaps most important, the bank and staff see themselves as embodying these choices. Indeed, Anatolian banking is the standard for serving small-end MSMEs. Although Şekerbank's VSE outreach is still in development, there are several lessons that can be drawn by financial institutions that are also strategizing to reach these segments.

**Use of credit scoring** – although this is a common and obvious choice for doing volume MSME lending, Şekerbank has taken this a few steps further. It has separate scorecards for its VSE clients, and the scorecards can accommodate clients that are not listed in the credit bureau records. Scorecards are also being used for loan monitoring and performance management, and then integrated into the core banking system.


**Product design for VSEs** – Several products specifically leverage the value of the business in credit evaluation, such as the inherent value of a taxi license, or of an established Istanbul market stall. The bank has been a leader in energy efficiency loans, and promotions include energy savings payback calculators. Additionally, Şekerbank has introduced innovative product bundles that are right-sized for VSE clients, including handling multiple transactions at a big cost-savings for a single fee and products/services packages specially designed for certain sectors or niche segments such as tourism, bakeries, fresh food wholesalers, and so on.

**Delivery channels** – Şekerbank has been a leader in developing services for VSEs that can be delivered through automatic teller machines (ATMs), as well as in card-based technology. These are channels that clients prefer, and are more cost-effective for the bank in delivering smaller-scale services. Bundled products include access to call centers, which also include some advisory services on business and tax matters.

**Sincere Communication** – Şekerbank's communications at the local level are done with a sincere language in line with its Anatolian Banking mission.

**Sourcing clients** – RMs will directly call on VSEs to solicit business, but the bank is moving to the use of mobile agents to make cold calls, that is, calls to businesses that the bank is not currently serving. Another major approach is through the development of partnerships with local, regional, and national craftsmen chambers and associations. Şekerbank works with these groups to develop product bundles that specifically address the needs and constraints of the associations' members.

**Non-segmentation of RM portfolios and incentives** – One surprising choice that Şekerbank has made is that its RMs for MSME handle all types of MSMEs rather than having portfolios of one or another segment (although a more experienced RM is likely to handle the medium-sized customers, not because of the complexity of the credits, but because these clients are more likely to negotiate hard with respect to loan terms). RM and branch incentives are more heavily weighted toward the number of loans and other products sold than on volume, thus encouraging RMs to seek out and serve multiple VSEs rather than a few large clients.



Through its vision statement and “Anatolian Banking” catch phrase, as well as its Acik Open Platform program, Şekerbank has announced to the business world that it wants to serve VSEs. It has the trained staff, and special products, and systems to do this. So too, it has dedicated the technology and product development resources needed to realize its commitment to this under-served market.



2121 Pennsylvania Avenue, NW  
Washington, DC 20433, USA  
[www.ifc.org](http://www.ifc.org)

