BANK SURVEY REPORT

Commercial banks' lending practices and internal organization

Findings of a survey in sub-Saharan Africa

Overview of the main findings:

A survey of 77 banks located in 14 sub-Saharan African countries and more particularly in Kenya, Tanzania and Ghana, which represent 80% of the sample.

Portfolio profile and loan processing

Banks have a strong exposure to the corporate segment: on average, loans to corporates represent 46% of total loans, followed by loans to small and medium enterprises (SMEs) (30%), loans to the retail sector (20%), to microfinance (3%) and to others (cooperatives, etc.) (1%).

The top three sectors financed are manufacturing, trade, and construction/real estate.

Centralized credit management organization: 87% of the banks have centralized SME loan appraisal functions at their local headquarters.

Nearly half of the banks surveyed use credit scoring methods (47% of the banks surveyed use credit scores for SME loans, 45% for personal (consumer) loans and 45% for large corporate loans).

Major constraints faced by banks in SME lending: lack of reliable information and of SME managerial capacity.

Main reasons for rejection of SME loans: a lack of satisfactory financials (87% of responses) and a lack of good collateral (40% of the responses).

Rapid diffusion of mobile banking: 48% of the banks surveyed offer mobile banking services (58% in East Africa).

Bank funding

Access to customer deposits is a challenge for half of the foreign affiliates of regional African banks and domestic banks, while 90% of the managers of foreign affiliates of global banks reported having easy access to deposits.

60% of the foreign banks had received capital from their groups over the last two financial years. 40% had received internal capital in the form of loans or deposits and 40% had received equity capital.

Economic and institutional environment

Competition in the corporate segment and access to customer deposits were the two challenges most often cited by banks.

62% of the bank managers interviewed considered that the court system was an important or extreme obstacle to their activities. Banking regulations, however, were generally well-perceived by respondents.

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Goal of the survey research

The banking sector in sub-Saharan Africa has evolved considerably over the last 10 to 15 years, with the regional expansion of African banks coupled with financial innovations such as the rapid diffusion of mobile banking, especially in East Africa with M-Pesa, and regulatory changes, notably the steady increase in minimum capital requirements imposed on banks by the regulator in many countries. As a result, the banking environment has progressively become more competitive, and sub-Saharan Africa is the developing region of the world with the largest proportion of foreign-owned banks (Claessens and Van Horen, Foreign banks: Trends, impact and financial stability. Technical report, IMF, 2012). In this report I distinguish between three groups of foreign banks competing in the region: foreign affiliates of global banks from developed countries (henceforth, Global MNB); foreign affiliates of banks from emerging countries, in which I include the foreign affiliates of banks from South Africa (henceforth, Emerging MNB); foreign affiliates of regional African banks (multinational banks from Nigeria, Kenya, etc.) (henceforth, African MNB). The goal of this survey was threefold. The first objective was to document and compare credit practices between the three groups of foreign banks identified and domestic banks. A second objective was to examine the interaction between headquarters and their foreign affiliates in sub-Saharan Africa. Third, the survey aimed to gather managers' perceptions of the local business environment and to identify areas constituting potential obstacles to the development of their business activities.

Presentation of the bank survey sample: scope and size

Data collection and survey response rate

Fieldwork was conducted in Kenya (October-November 2013), Tanzania (November-December 2013) and Ghana (March-April 2014) to collect data through interviews with bank managers. The choice of these three countries was motivated by the significant number of foreign banks operating in these markets, as shown in Figure 1 in Appendix. The target population included all the active retail and commercial banks in these countries (target population of 97 banks in total), and data on 62 different banks was collected in total during the fieldwork. As such, the survey data covers 66% of the commercial banks in Kenya, 59% in Tanzania and 67% in Ghana (obtaining an average response rate of 64%). 27 banks were located in Kenya, 19 in Tanzania and 16 in Ghana. In addition, I collected data from Uganda (4 banks) and Zambia (2 banks) by calling the local headquarters in these countries to obtain the email addresses of the persons in charge of the credit department and emailing the questionnaire to them. I also contacted the global headquarters of foreign banks with affiliates in Africa to ask for their help with distributing the questionnaire to their African subsidiaries. Through this channel, 9 additional questionnaires were obtained from foreign affiliates in Mali, Ivory Coast, Congo, Burkina Faso, Cameroon, Senegal, Equatorial Guinea, Madagascar and Chad (see Figure 2 for a graphical representation of the repartition of banks in the sample by host countries). In total, I obtained a sample of 77 banks from 14 sub-Saharan African countries. 33 questionnaires were completed by me during interviews, 36 questionnaires were completed directly by the respondents and 8 questionnaires were completed by the respondents, followed by a shorter interview. The interviews were conducted in English and lasted 45 minutes on average, ranging from 90 minutes to 15 minutes (shorter interviews in the case of follow-up interviews after the respondents had completed the questionnaire).

Respondents' characteristics.

The respondents were mainly heads of credit (retail, SMEs or corporates) (35%), followed by heads of credit risk or credit administration (26%) and CEOs (14%). The rest of the respondents were branch managers or relationship officers (9%), chief financial officers (CFO) (1%), chief operating officers (COO) (1%) or general managers (13%) (see Figure 3 in Appendix). On average, the respondents had been with their bank for 7.5 years at the time of the survey, with a minimum of 6 months and a maximum of 42 years.

Characteristics of banks in the sample

Out of the 77 banks surveyed, 36 were domestic banks, 14 were foreign affiliates of regional African multinational banks including North Africa but excluding South Africa ("African MNB"), 19 were affiliates of global multinational banks (from France, the U.S., Germany and the U.K.) ("Global MNB") and 8 were affiliates of multinational banks from other emerging or developing countries (from South Africa but also India, Malaysia and Pakistan) ("Emerging MNB") (see Figure 4 in Appendix). 61% of the banks (domestic and foreign) were multinationals.

Concerning the foreign banks, 38 were organized as subsidiaries and only 3 as branches. In terms of entry mode, foreign banks tended to favour Greenfield entry. 64% of African MNB, 63% of Global MNB and 75% of Emerging MNB entered these markets through a Greenfield operation.

The banks were 27 years old on average in 2014, the average incorporation date being 1987, but important variations existed between banks, depending on the country of origin of the parent bank. The oldest group was constituted by the foreign affiliates of Global MNB (39 years old on average), followed by Emerging MNB (37 years old) and domestic banks (24 years old). The foreign affiliates of African MNB were the last entrants (8 years old), which conforms to the fact that the expansion of African MNB is a relatively recent phenomenon.

In terms of size as measured by the number of employees, domestic banks were the largest (1022 employees on average), followed by Global MNB (650 employees), Emerging MNB (243 employees) and African MNB (233 employees). The ranking remained the same in terms of bank branches in the country of operation, with on average 40 branches for domestic banks, 26 branches for Global MNB, 13 branches for African MNB and 10 branches for Emerging MNB.

Portfolio profile, loan application and approval

Banks' loan portfolio profile

A large majority of the surveyed banks explained that the sectorial allocation of their loan portfolio was driven by market conditions and demand. However, large banks (foreign and domestic) are still very conservative in terms of the sectors they finance. The three main industrial sectors to which banks lend are manufacturing, trade and construction, and real estate (see Table 1 in Appendix). Many respondents pointed out that there is currently a boom in construction and real estate in the Kenyan market. However, if the focus on real estate is very strong for local banks, this is not the case for global banks. Some respondents mentioned the reluctance of their global headquarters to be greatly exposed to real estate, given recent negative experiences at home. Agriculture, despite being one of the largest sectors in African economies, is relatively under-financed. Indeed, only 18% of the banks mentioned agriculture as one of the main sectors in their loan portfolio and only 16% of the banks had special loan products targeted at this sector.

On average, loans to large corporates represent 46% of total loans, followed by loans to SMEs (30%), loans to the retail sector (20%), to microfinance (3%) and others (cooperatives, etc.) (1%). However, the composition of each portfolio varies depending on the country of origin of the bank. Indeed, foreign banks are more heavily exposed to the corporate segment than domestic banks (over 50%, against 38% for domestic banks, see Table 2 in Appendix). In fact, some global banks only finance corporate and institutional clients. This is in line with the academic literature (Detragiache, Tressel, and Gupta, 2008; Gormley, 2007[1]), which has pointed to market segmentation in developing countries with foreign banks mainly financing the top firms. However, the results also indicate that regional African banks have around a third of their portfolio allocated to SMEs, which is similar in proportion to domestic banks' portfolio. For Global MNB and Emerging MNB, SMEs represent a smaller portion of their portfolio, at around 20% of total loans. However the differences between the three groups of banks in the average shares of their loan portfolios allocated to SMEs are not statistically significant. Furthermore, both domestic banks and Global MNB have around a quarter of their loan portfolio allocated to the retail segment. Overall, this suggests that although the portfolio of domestic banks is less concentrated in the corporate segment than that of foreign banks, the latter are also actively involved in both SME financing and retail financing.

Rather than giving banks a predetermined firm size classification, the survey questionnaire directly asked banks for their definitions of SMEs. Most of the banks defined SMEs according to their annual turnover (77%), the rest of the banks interviewed defining them according to their transaction amounts. On average, the annual turnover varies between US$200000 and US$5 million, and the transaction amount varies between US$3,000 and US$300,000, depending on the client and the bank. Some of the domestic banks which were focusing on SMEs from the start now have some clients who have graduated from SMEs to corporates. Some of these corporates are then turning to more established, global banks, to service their expanding funding needs.

Constraints faced by banks in SME lending: lack of information and SME managerial capacity

Banks generally hold a positive view of the SME segment; 70% of them considered that it offered good financing opportunities. However, they face important constraints in expanding their portfolio of SME loans.

According to the managers interviewed, the major constraints faced by their banks in expanding their portfolios of SME loans are the lack of management capacity in SMEs or the reputation of the business owner (35% of responses), the lack of reliable information (34% of responses) and the lack of collateral (mentioned by 31% of the respondents). Counterparty risk and an insufficient branch network are also important challenges for banks. Other constraints mentioned are administrative delays in obtaining appropriate documentation (especially with the ministries of land) and, in many cases, a lack of fully operational Credit Reference Bureaus.

[1] Detragiache, E., Tressel, T., & Gupta, P. (2008). Foreign Banks in Poor Countries: Theory and Evidence. Journal of Finance, 63(5), 2123-2160.
Gormley, T. A. (2007). Banking Competition in Developing Countries: Does Foreign Bank Entry Improve Credit Access? Olin School of Business, Washington University in St Louis.

Despite these perceived obstacles, some respondents, especially in Kenya, mentioned that their bank was disengaging from the corporate segment to reallocate their loan portfolio towards the SME segment, which offers higher returns than corporates due to strong competition at the top.

Generally speaking, financing SMEs requires good monitoring and information systems, which depend on the operational capacity of the bank and can be costly to implement for smaller banks – contributing to increased overhead costs.

A centralized organization for credit management

How do banks manage credit risk in countries with little information and a weak judiciary system? One of the first elements is that they tend to operate a very centralized credit function organization. Indeed, for most banks surveyed, only the gathering of information and identification of clients and monitoring are devolved to branches. Very rarely do branches have the mandate to approve loans. Many respondents indicated that the movement towards centralization of loan decisions at the top was to prevent leniency in lending approval due to close relationships between borrowers and relationship managers. More than 87% of the banks have centralized SME loan appraisal functions at local headquarters (see Table 3 in Appendix). For corporates, only 1% of the banks in the sample grant some autonomy to their branches to approve loans, while for a third of foreign banks final approval for corporate loans is given higher up the hierarchy, above the local headquarters echelon, being executed at either their regional or global headquarters. Concerning loan recovery, banks tend to have dedicated teams at their headquarters for both SME and corporate clients, working in tandem with the local branch managers in charge of following-up on clients' repayments.

Assessing borrowers' "character" in a low information environment

What sources of information on borrowers do bank managers' use?

Credit reference bureaus (CRBs) are regularly used by banks in Kenya, Ghana, Zambia and Uganda. In Tanzania, two CRBs have been licensed recently but very few banks were using them at the time of the survey. The other countries in the sample, all francophone, do not yet have CRBs. Where CRBs were in place, all the bank managers surveyed reported using them, as this is generally made mandatory by the regulator. CRBs were often lauded by bank managers but the respondents also often indicated that they face challenges related to inaccurate or incomplete information in databases. Bank managers also mentioned problems with reporting and gaining a general understanding of the system at initiation. In fact, a CRB manager mentioned that it was actually quite difficult at the outset to gain the trust and cooperation of banks. CRBs are now trying to collect positive information on borrowers using, for instance, utility bills, but the accuracy and availability of good data in a digital format is a real challenge.

Apart from CRBs, another source of information on prospective borrowers consists of the other banks operating in the same market and with which potential borrowers have had a previous banking relationship. Information on loan applicants from other banks can be obtained either informally or formally. Information is obtained informally when a bank manager has contacts in a bank in which a potential borrower has or used to have an account. However, some of the respondents pointed out that such information may be biased and not always truthful. Information can also be obtained formally when a bank manager asks another bank with which a prospective borrower has or has had a banking relationship to provide certified bank account statements. Bank managers also use their personal networks to obtain information on borrowers. Finally, foreign banks may rely on information from their parent group when one of their clients has a pre-existing banking relationship with the group (see Table 5 in Appendix).

Screening and loan appraisal rest on an analysis of customers' banks' statements to identify a customer's "character" (through analysing how a customer manages his money), coupled with indicators such as age of the business or managerial capacity of the owners and regular on-site visits. For SMEs, the "character" of the customer was the most important factor in loan appraisals for 71% of the banks interviewed. In this market segment, relationship lending is often the norm, with intense follow-up, weekly communication via the phone and regular on-site visits. Banks tend to require collateral for SME term loans but they rely more on information from bank account statements to make a judgment, partly because collaterals are extremely difficult to recover in cases of default. For corporates, business plans and the sector of activity, along with financials, were the most often cited criteria in loan appraisals.

To ensure repayment, some respondents indicated that they often link with suppliers of the SMEs they finance. Concerning the financing of large assets, such as the purchase of important machines from abroad, banks will sometimes pay the supplier of the machine directly.

Finally, 42% of the banks interviewed offer uncollateralized loans to SMEs. Banks offering these types of loans assess ability to repay by examining bank statements. Some of them also explained that they use non-traditional collateral (land with no title deed), cash collateral or obtain information from informal networks (suppliers or customers of the SMEs, neighbours).

Use of credit scores

The use of credit scoring is relatively diffused, and may increase in prevalence when positive information sharing from CRBs is established. Generally, information contained in credit scores includes financial information, information on management (the experience and reputation of business owners), and information on the business (the age of the business and its sector). Credit scores are slightly more often attributed to SME loans (47% of the respondents indicated that their bank use credit scores for SME loans) than to personal (consumer) loans (45%) and large corporates (45%). Interestingly, Global MNB tend to rely less on credit scoring methods than other foreign and domestic banks, as shown in Table 6 in the Appendix. The means difference in the use of credit scores for SMEs between Global MNB and the two other groups of foreign banks is statistically significant, while there is no statistically significant difference in the use of credit scores between regional African MNB and Emerging MNB, as the latter group also frequently use credit scoring for SMEs. This may reflect the fact that Global MNB are slightly less exposed to the SME sector, and more to large corporates, for which appraisal decisions are less easily reduced to a score and are more often based on good judgment.

Loan turnaround time and rejection rates

Loan appraisal is relatively quick (assuming all the required documents are provided in time by the borrowers), being generally less than a week for SMEs and between 24-72 hours for personal loans (see Table 4 in Appendix). One bank manager of an African MNB actually mentioned that they were competing more aggressively on appraisal time than on interest rates. However, the actual disbursement of the loan can take much longer, on average 2-3 months from the loan approval decision, as the banks need to secure title deeds from the land registry, which can be a very lengthy administrative process. Another bank manager at an Indian bank mentioned that SMEs often proceed by "word of mouth", with banks gaining reputations based on the swiftness of their appraisals and services. Loan approval can be slightly slower for foreign banks as they may need to get approval from their regional or global headquarters. Indeed, close to 31% of Global MNB take more than a month to approve corporate loans, while this figure is 7% for African MNB and 19% for domestic banks.

Rejection rates for loan applications are higher for SMEs (28% on average) than for corporates (22%) and personal loans (19%). The lower rejection rate for personal loans is due to the fact that banks essentially finance salaried employees. Banks generally sign Memorandums of Understanding with large corporates or public administration bodies (civil service, teachers' unions) to provide loan facilities to their employees. Once an employee is offered a loan facility the payment is directly deducted from his salary, which represents low-risk and low-administration-cost business for the banks. Rejection rates for SMEs are on average higher for African MNB (37%), Emerging MNB (36%) and Global MNB (30%) than for domestic banks (21%). This may be due to different risk appetites and also to different abilities to screen borrowers and manage risks in this particular segment. The main reasons for rejecting SME loans advanced by respondents were a lack of satisfactory financials (87% of responses) and a lack of good collateral (40% of the responses).

Bank funding: sources and constraints

Access to cheap deposits: a challenge for domestic banks and foreign affiliates of African MNB

All banks are heavily reliant on deposits (more than 80% of their funding). They also participate in the interbank market but to a lesser extent. While a large majority of the banks find access to the interbank market easy (83% of the banks consider that access to the interbank market is easy, somewhat easy or very easy), only 60% of the respondents consider that it is easy to gather customer deposits. However, this number hides significant differences between banks. Respondents from foreign affiliates of Global MNB perceived access to deposits as easier than respondents from domestic banks and foreign affiliates of African banks. Indeed, a little under 50% of the domestic and regional African banks surveyed considered that it was easy to access deposits, whereas this number was close to 90% for Global MNB (see Table 7 in Appendix). The global brand of the latter helps them garner customers' trust and attract customer deposits. Most of the respondents who perceived access to customer deposit to be difficult cited competition issues, followed by high interest rates to pay on deposits.

Capital constraints and syndication

Given the restriction on loan concentration (25% of core capital to one lender), smaller domestic banks are not able to provide large loans, whereas large foreign banks can borrow offshore, which reinforces market segmentation. Indeed, 41% of the banks explained that the size of their capital base and limits on single borrowers were major constraints on growing their corporate loans portfolio. A way for banks to overcome these capital constraints is to syndicate loans with other banks. However, 44% of the banks interviewed said that they rarely or never participated in

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syndication. The large syndications in US dollars tend to be made offshore or by the big local players. To give an example, in 2012 the largest syndicated loan was for the Kenyan Government (600M USD) and was arranged by Citi (lead arranger), StanChart and Standard Bank.

Financial support received by foreign affiliates from their group

Many foreign affiliates of multinational banks also receive financial support from their headquarters. 40% of banks received internal capital in the form of loans or deposits, and 40% had also received equity capital over the last two financial years. While there is no significant difference between the three groups of foreign banks in terms of reception of internal capital in the form of loans or deposits from their group, the survey results indicate that 85% of foreign affiliates of African MNB reported having received equity capital from their group over the last two financial years, while only 11% of the foreign affiliates of Global MNB and 29% of the foreign affiliates of emerging MNB reported having done so. The difference in equity capital practices between African MNB and the two other groups of foreign banks is statistically significant. It may be due to the fact that the international expansion of African MNB is much more recent than that of global MNB, and as a consequence the regional African affiliates may still need support from their parent banks to grow their balance sheets. The main reasons cited by managers for the reception of internal funds was the desire to take advantage of new lending opportunities (59% of the respondents cited this reason), followed by the necessity to bridge shortfalls in wholesale funding (32%), helping to meet credit growth targets (27%), the need to meet banking regulation requirements (23%) and to increase the capital base after losses (9%). Regional African banks also syndicate loans with other foreign affiliates of their groups, located in either East Africa or in large African economies such as Ghana or Nigeria. The interviews with bank managers in global MNB revealed that this was a less common practice for their group.

Foreign affiliates - organization and group support

Organizational structure and communication with headquarters

The interviewed managers of foreign affiliates generally reported that communication was intense with their global headquarters. 67% of the managers of foreign affiliates of Global MNB interviewed had daily communication with their direct headquarters (regional or global). 62% of African MNB also communicated on a daily basis with their headquarters, whereas communication was less frequent for Emerging MNB, with only 43% having daily communication with their headquarters. 32% of the Global MNB surveyed (and 16% of all foreign banks) have an intermediary regional headquarters in South Africa, which is in charge of African subsidiaries and to which these subsidiaries directly report, and some global groups have additional clusters by sub-areas (i.e. an East Africa cluster and a West Africa cluster).

Decentralization of decision-making to the foreign affiliates in Africa

Decision-making is generally slower at Gobal MNB due to more hierarchical echelons, which may give domestic banks an edge in terms of innovation and responsiveness to local market conditions. To further investigate foreign affiliates' autonomy from their headquarters, managers were asked who makes the final decisions regarding key areas of operations. The survey focuses on the degree of subsidiaries' autonomy vis-à-vis their headquarters (ranked from one to five) in seven key decisions: hiring of senior managers (level just below CEO), introduction of new banking products, local expansion (opening of new branches), portfolio allocation, operational risk management, asset-liability management, and Capital management. Overall, hiring of top management, branch expansion and the introduction of new products tend to be predominantly the reserve of group headquarters, or carried out in cooperation with the group headquarters, while decisions regarding portfolio allocation, operational risk, asset liability management and capital management are more decentralized (see Figure 5 in Appendix). To further investigate the decentralization of decision-making within banking groups I constructed an index of overall decentralization, taking the un-weighted average of scores across all 7 decision areas. The results reported in Table 8 in Appendix indicate that African MNB are more decentralized (higher index), their foreign affiliates having more authority in the 7 decision areas identified by the survey instrument than managers of subsidiaries of both Global MNB and Emerging MNB. However, the differences in the mean of the decentralization index are not statistically significant between the three groups of foreign banks.

Know-how and technical support received by foreign affiliates from their group

Respondents were asked to rate on a scale of 0 "none" to 3 "a lot" the extent to which they received information and technical support from their group in 5 areas of business operations: marketing knowhow, IT and technological know-how, operational risk management techniques (fraud and corruption and process management), credit risk management techniques, and lending technology. The results indicate that foreign affiliates depend more heavily on their headquarters for their IT systems (68% responded "a lot") and for their lending technology (34% responded "a lot"), while around a third mentioned that they depended a lot on their headquarters for their operational risk and credit risk management, with only 8% depending on them for their marketing (see Table 9 and Figure 2 in Appendix). Foreign affiliates of Global MNB receive on average significantly more technical support from their group than the two other groups of foreign banks, especially in the domain of operational risk management techniques (fraud and corruption, process management) and credit risk management techniques.

Overall, the survey results regarding foreign banks' organizational structures and relationships with their groups indicate that regional African MNB tend to operate in a more decentralized way than Global MNB. Global MNB benefit highly from group support, especially in the areas of information technology and lending technology. The last section will shed some light on the business environment in which these banks operate.

Perception of the business environment

Perception of the intensity of competition

Competition and access to customer deposits were the two challenges most often cited by the banks. 87% of the banks interviewed perceived competition in the deposit segment to be strong or intense, while in the corporate segment 82% of the bank managers evaluated the competition as strong or intense (see Table 10 in Appendix). Competition in the

SME segment is also stiff, with 66% of the bank managers considering that competition in this segment is strong or intense. For microfinance, however, the majority of the banks (67%) considered that the competition was only moderate or light, which is related to the lower number of banks participating in this segment. Finally, Table 10 in Appendix also reveals that on average competition in the four business segments considered tends to be perceived as higher in Kenya and Ghana than in Tanzania, which is related to the fact that Tanzania has a less developed banking market with fewer active banks.

Institutional and regulatory environment

Banking regulations are generally not perceived as creating obstacles to banks' activities (see Table 11 in Appendix). 62% of the banks considered that the banking regulations were not or were only a minor obstacle to their business operations. Employment laws are not perceived as a problem (79% of respondents considered that they did not constitute an obstacle or only constituted a minor obstacle to their operations), while the court system generally is. Indeed, 62% of the banks interviewed considered that the court system is an important or extreme obstacle to their activities (see Table 11 in Appendix). Procedures in court are generally very long and courts are only used as a last resort, which may partly explain why collateral may not be the main element banks consider when appraising a loan. In terms of skills, most of the respondents indicated that there is a large pool of skilled people, especially in Kenya, but retention of talent can be a challenge as there is strong competition for skills, especially in key sectors such as risk management. In total, 32% of the bank managers interviewed considered that the difficulty of hiring managers with the right skills was an important or extreme obstacle to their business, while 25% considered that it was a moderate obstacle. Global MNB also rely heavily on local skills as most of their top management team tend to be local. To a certain extent this local profile among Global MNB top management is due to the fact that banks have to demonstrate to the Central Bank that they could not find the appropriate skills in the market, which, as a result, tends to favour local staff. The top managers interviewed also felt that there were enough qualified local senior bankers to fulfil their needs. In addition, expatriate packages are expensive for banks. As a consequence, there is a general trend among Global MNB to reduce the number of expatriates and rely on the local workforce as much as possible (see Table 12 in Appendix). The comparatively high percentage of expatriates in the top management of Emerging MNB is related to the fact that many Asian banks rely on expatriates from their home country for their key managerial functions.

Rapid diffusion of mobile banking and internet banking

Finally, mobile banking is an operational innovation that has rapidly transformed the banking landscape over the last five years, especially in East Africa. Banks are now working in partnerships with telecoms, and very few of the banks interviewed perceive mobile banking as a direct threat to their business, while a large majority of them considered that it brings innovation and new services. 48% of the banks surveyed offer mobile banking services. The proportion is highest for African MNB (57%), while it is lowest for emerging MNB (25%).

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Appendix

Table 1 - Sectors among the top 3 financed by banks (% of responses)

Sector	%
Trade	71.43
Manufacturing	62.34
Construction, real estate	50.65
Transport and communication	35.06
Extractive industries	20.78
Agriculture	18.18
Finance, insurance	6.49
Public Utilities	5.2
Government, parastatals	3.9
Social and Education	3.9
Infrastructure	3.9

Table 2 - Portfolio allocation (% of total loans) by group of banks

	Domestic banks (33)	African MNB (14)	Global MNB (12)	Emerging MNB (19)
Microfinance	3%	2%	4%	0%
SME	34%	31%	19%	20%
Corporates	38%	53%	51%	60%
Retail	23%	13%	24%	5%
Other	2%	2%	2%	5%

Note: The number in parenthesis for each group of banks is the number of banks in the sample with non-missing information on portfolio allocation.

Table 3 - Hierarchical level at which SME loan functions are most often performed

Managers were asked the following question: Please indicate at which organisational level the following functions are most often performed:

	Final approval		Credit risk management		Targets for credit growth		Loan recovery	
	Freq.	*%*	*Freq.*	*%*	*Freq.*	*%*	*Freq.*	*%*
1	3	4%	6	8%	3	4%	13	18%
1 or 2	7	10%	7	10%	2	3%	10	14%
2	52	72%	57	79%	53	76%	45	63%
2 or 3	2	3%	1	1%	3	4%	1	1%
2 or 4	4	6%	1	1%	5	7%	1	1%
3	3	4%	0	0%	1	1%	2	3%
4	1	1%	0	0%	3	4%	0	0%

Note: Organisational Level: 1=Branch; 2=local headquarters; 3=regional headquarters (for foreign banks); 4=global headquarters (for foreign banks). When two levels are reported (for instance 2, local HQ and 3, regional HQ), it means that the hierarchical level of decision depends on loans' characteristics (generally their size).

Table 4 - Loan turnaround time by business segment

How long does it take, on average, to reach a decision on a loan application?

	Domestic banks		African MNB		Global MNB		Emerging MNB		All banks	
	Freq.	*%*	*Freq.*	*%*	*Freq.*	*%*	*Freq.*	*%*	*Freq.*	*%*
Personal loans										
1 or 2 days	19	**61%**	10	**71%**	3	**19%**	3	**50%**	35	**52%**
A week or less	12	**39%**	4	**29%**	10	**63%**	2	**33%**	28	**42%**
A month or less	0	**0%**	0	**0%**	3	**19%**	1	**17%**	4	**6%**
SME loans										
1 or 2 days	5	**16%**	2	**14%**	0	**0%**	1	**17%**	8	**12%**
A week or less	16	**50%**	11	**79%**	4	**25%**	0	**0%**	31	**46%**
A month or less	10	**31%**	1	**7%**	7	**44%**	5	**83%**	23	**34%**
Between 1 or 2 months	1	**3%**	0	**0%**	5	**31%**	0	**0%**	6	**9%**
Corporate loans										
1 or 2 days	1	**3%**	0	**0%**	0	**0%**	0	**0%**	1	**1%**
A week or less	12	**39%**	7	**50%**	8	**50%**	3	**50%**	30	**45%**
A month or less	11	**35%**	5	**36%**	3	**19%**	1	**17%**	20	**30%**
Between 1 or 2 months	6	**19%**	1	**7%**	5	**31%**	2	**33%**	14	**21%**

Note: Percentage of responses by group of banks and business segment.

Table 5 - Sources of information on loan applicants

	Domestic banks (35)	African MNB (13)	Global MNB (16)	Emerging MNB (7)
Small and Medium Enterprises				
Other Banks	80%	92%	69%	67%
Personal Network	60%	69%	69%	83%
Parent Bank	n/a	17%	13%	0%
Corporates				
Other Banks	82%	92%	50%	63%
Personal Network	64%	71%	72%	75%
Parent Bank	n/a	54%	71%	38%

Note: Percentage of respondents indicating that they use a particular source of information on loan applicants, by group of bank. Number of banks with non-missing data in parenthesis for each group.

Table 6 - Use of credit scores by group of banks and type of customers

	Domestic banks (36)	African MNB (14)	Global MNB (19)	Emerging MNB (8)
SME	40%	77%	23%	86%
Corporates	42%	64%	21%	88%
Personal Loans	39%	57%	42%	66%

Note: Percentage of banks using credit scores by business segment. Number of banks surveyed in parenthesis for each group.

Table 7 - Ease of access to customers' deposits, by group of banks

	Number of banks	Index of ease of access to customers' deposit (from -3 "Very Difficult" to +3 "Very Easy")
Domestic banks	36	0.25
African MNB	14	0.14
Global MNB	19	1.89
Emerging MNB	8	1.38

Note: Index averages for each group of banks. A higher index indicates higher ease of access to customers' deposits.

Table 8 - Decentralization index by group of foreign banks

	Obs.	Mean	Std. Dev.	Min	Max
African MNB	12	3.27	0.98	1.00	5.00
Global MNB	18	3.15	0.76	1.00	4.43
Emerging MNB	7	3.20	0.89	1.57	4.14
All banks	37	3.20	0.84	1.00	5.00

Note: The decentralization index ranges from 1=decision exclusively taken by HQ to 5=decision exclusively by the foreign affiliate. A higher index means higher decentralization of authority to the foreign subsidiary. The decentralization index is calculated as the unweighted average across scores for all 7 key decisions: Hiring of senior managers (level just below CEO), Introduction of a new banking products, Local expansion (opening of new branches), Portfolio allocation, Operational Risk management, Asset-Liability management, Capital management.

Table 9 - Index of dependence of foreign affiliates on their global HQ for key operational processes

Managers were asked the following question: To what extent does your branch/subsidiary depend on the global headquarters for information and technical support in the following domains?

Dependence index goes from 0 "none" to 3 "a lot"	Obs.	Mean	Std. Dev.	Min	Max
African MNB	13	1.74	0.88	0.20	3.00
Global MNB	18	2.33	0.47	1.00	3.00
Emerging MNB	7	1.69	0.50	1.00	2.40
All banks	38	2.01	0.70	0.20	3.00

The 5 areas of business operations covered are the following: Marketing knowhow, IT and technological know-how, Operational Risk management techniques (Fraud and corruption and process management), Credit Risk management techniques, and Lending Technology. Managers' answers regarding the 5 domains of headquarters' influence are converted into four scores, from 0 "none" to 3 "a lot". The index of dependence is calculated as the unweighted average across all 5 scores. A higher score indicates higher dependence of foreign affiliates on their group for operational processes.

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Table 10 - Perception of the intensity of competition in the banking market by business segment

Business segment	Obs.	*Perceived* intensity of competition (average by segment) [0 "none", 1 "light", 2 "moderate", 3 "strong", 4 "intense"]
	All banks	
Deposit	75	3.37
Microfinance loans	27	2.30
SME loans	70	2.86
Corporate loans	73	3.34
	Domestic banks	
Deposit	35	3.40
Microfinance loans	16	2.31
SME loans	35	2.83
Corporate loans	34	3.32
	African MNB	
Deposit	14	3.71
Microfinance loans	5	2.60
SME loans	13	3.00
Corporate loans	14	3.43
	Global MNB	
Deposit	18	3.06
Microfinance loans	5	2.00
SME loans	16	2.81
Corporate loans	17	3.41
	Emerging MNB	
Deposit	8	3.38
Microfinance loans	1	2.00
SME loans	6	2.83
Corporate loans	8	3.13
	Kenya average	
Deposit	26	3.27
Microfinance loans	6	2.50
SME loans	24	3.08
Corporate loans	27	3.30
	Tanzania average	
Deposit	18	3.22
Microfinance loans	9	2.22
SME loans	16	2.63
Corporate loans	17	3.06
	Ghana average	
Deposit	16	3.75
Microfinance loans	5	2.60
SME loans	16	2.75
Corporate loans	15	3.40

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Note: The number of observation (banks surveyed) varies by business segment given that most banks do not lend to all the three business segments (Microfinance/SME/Corporates). The survey question asked respondents to only report their perception of the intensity of competition in the segments in which their bank participates.

Table 11 - Managers' perception of the business environment

Managers were asked the following question: What do you think might constrain improving the performance of operations in your bank? Looking at the few options below, could you tell me if these constitute an obstacle?

	Domestic banks (36)	African MNB (13)	Global MNB (19)	Emerging MNB (8)	Total banks	
	Freq.	*Freq.*	*Freq.*	*Freq.*	*Freq.*	*percent*
			Obstacle: Hiring Managers with the right skills			
Important	7	5	4	1	17	22%
Moderate	10	3	3	3	19	25%
Minor	1	1	5	0	7	9%
Not an obstacle	15	4	3	1	23	30%
			Obstacle: Employment Laws			
Extreme	0	0	1	0	1	1%
Important	2	1	2	0	5	7%
Moderate	4	1	3	2	10	13%
Minor	10	3	6	1	20	26%
Not an obstacle	20	8	7	5	40	53%
			Obstacle: Banking regulations			
Extreme	1	0	0	0	1	1%
Important	6	0	1	1	8	11%
Moderate	8	3	9	0	20	26%
Minor	6	2	5	2	15	20%
Not an obstacle	15	8	4	5	32	42%
			Court system			
Extreme	7	2	9	1	19	25%
Important	17	3	4	4	28	37%
Moderate	4	3	3	1	11	14%
Minor	3	3	2	2	10	13%
Not an obstacle	5	2	1	0	8	11%

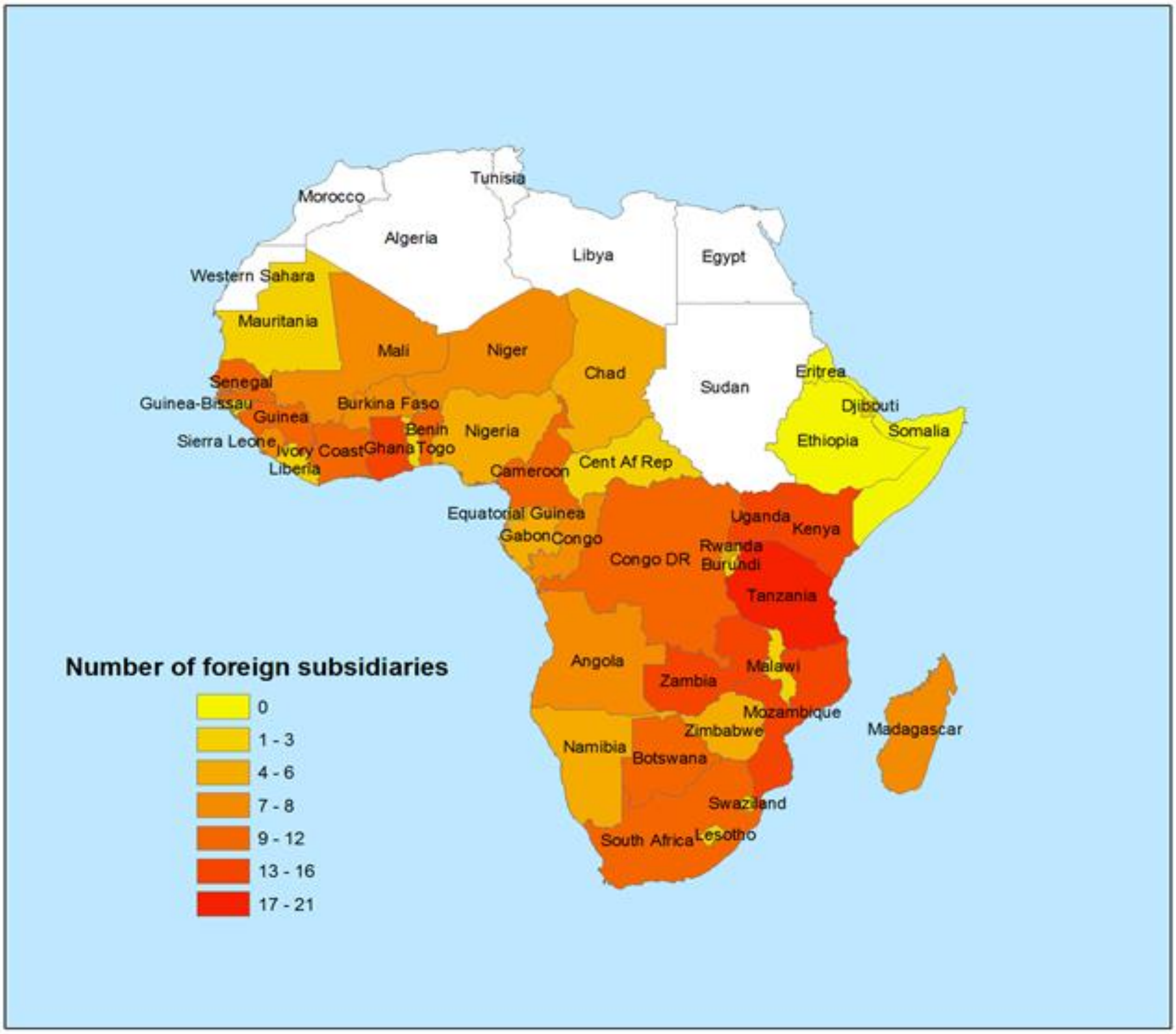
Note: The numbers in the table are frequencies (i.e. number of bank managers reporting perception, one bank manager interviewed per bank), unless specified otherwise (i.e. percentage). The number in parenthesis for each group of bank in the top row corresponds to the number of surveyed banks with non-missing information.

Table 12 - Expatriate composition of top management

Variable	Obs.	Mean	Std. Dev.	Min	Max
		Domestic banks			
CEO is an expat	36	19%	40%	0%	100%
CEO is a local national	36	81%	40%	0%	100%
Expat in top management (%)	36	13%	24%	0%	75%
		African MNB			
CEO is an expat from the home country	14	29%	47%	0%	100%
CEO is an expat from a third country	14	57%	51%	0%	100%
CEO is a local national	14	14%	36%	0%	100%
Expat in top management (%)	14	38%	19%	0%	75%
		Global MNB			
CEO is an expat from the home country	19	47%	51%	0%	100%
CEO is an expat from a third country	19	32%	48%	0%	100%
CEO is a local national	19	21%	42%	0%	100%
Expat in top management (%)	19	43%	30%	0%	100%
		Emerging MNB			
CEO is an expat from the home country	7	57%	53%	0%	100%
CEO is an expat from a third country	7	29%	49%	0%	100%
CEO is a local national	7	14%	38%	0%	100%
Expat in top management (%)	7	54%	30%	25%	100%

Note: Percentage of banks with expatriate CEO ("CEO is an expat"), local national CEO ("CEO is a local national"), or expatriate CEO from a third country, i.e. neither from the host nor from the home country of the parent group ("CEO is an expat from a third country"). "Expat in top management" is the percentage of expatriates among top management (CEO, Head of Finance/CFO, Head of Operations/COO, Head of credit/risk).
For instance, on average 38% of the top management team of foreign affiliates of African MNB is composed of expatriates. 29% of foreign affiliates of African MNB have a CEO who is an expatriate from the parent group's home country, and 57% have a CEO who is an expatriate from a third country.

Figure 1 - Foreign subsidiaries in sub-Saharan African



Note: This figure represents the number of subsidiaries of foreign banks in each of the sub-Saharan countries in 2013, based on Bureau van Dijk's Bankscope database.

Figure 2 - Repartition of surveyed banks by host country

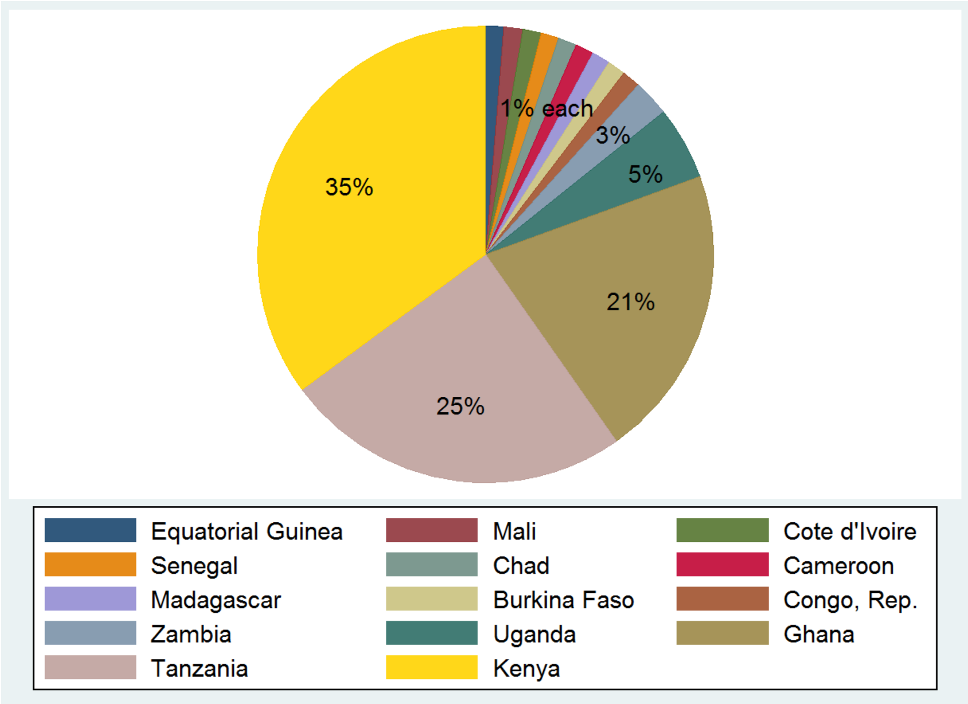


Figure 3- Repartition of survey respondents by position

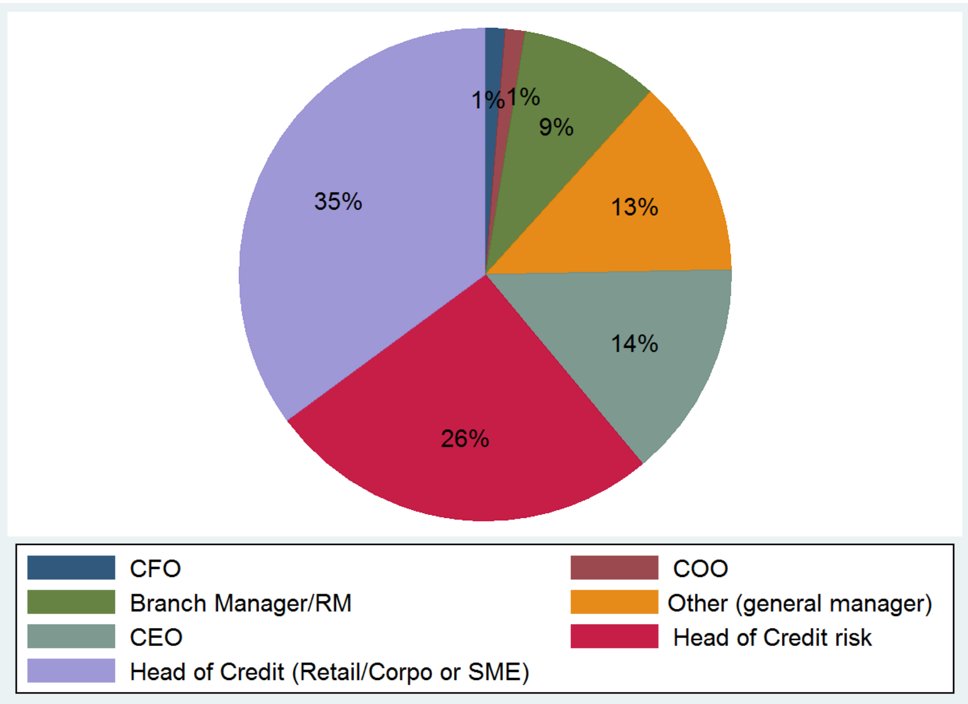


Figure 4 - Repartition of banks by country of origin

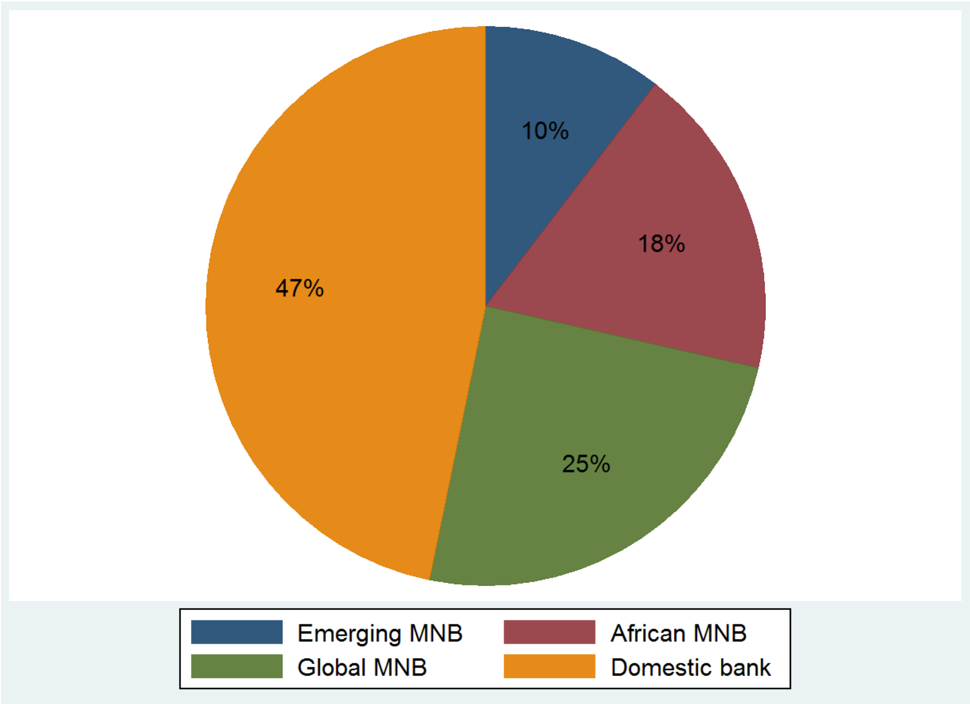
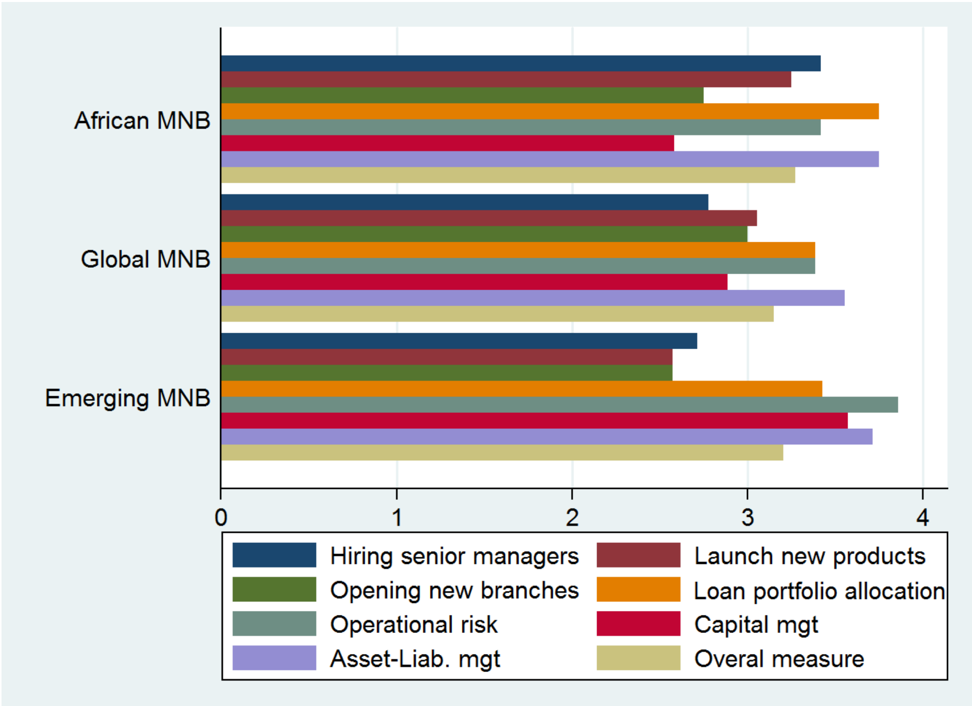
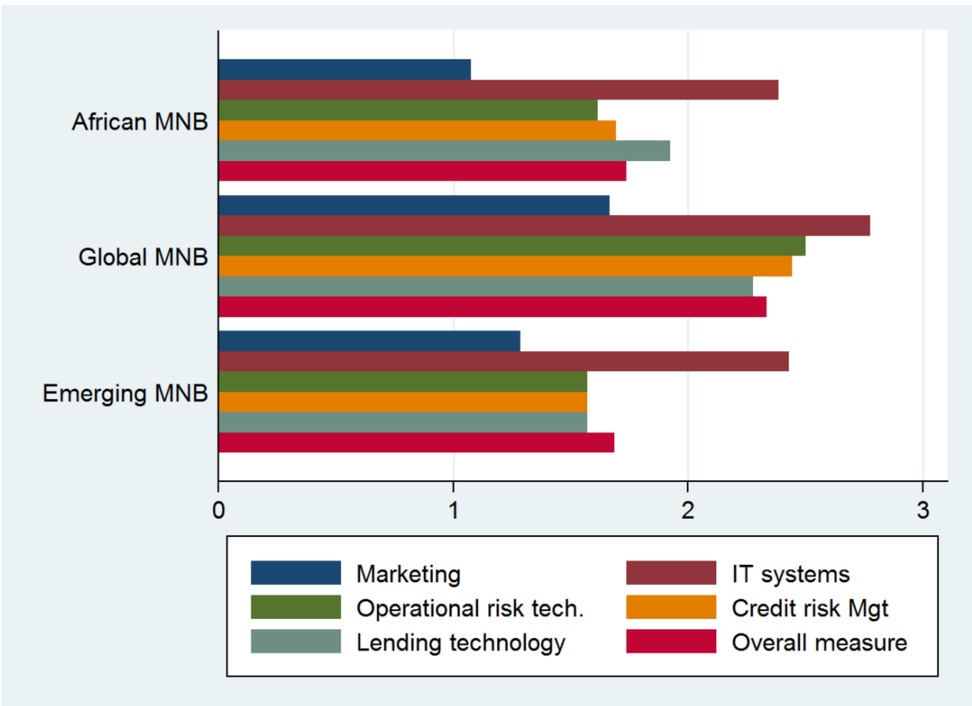


Figure 5 - Sub-components of the decentralization index



Note: The scores range from 1=decision exclusively taken by HQ to 5=decision exclusively by the foreign affiliate.

Figure 6 - Sub-Components of the dependence index



Note: the scores range from 0 "none" (the foreign affiliate does not depend on its headquarters in this domain) to 3 "a lot".

Thank you for your collaboration

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