

Innovative approach key to increase access to finance for African SMEs



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African small and medium enterprises' (SMEs) financing gap is proportionally much greater than other regions, primarily because it is working from such a low starting point, McKinsey & Company South Africa said this week in Johannesburg, adding that diversified economies have a greater proportion of informal and micro enterprises and greater access to finance than other economies.



Gary Pinshaw, a partner of the International Finance Corporation (IFC), said an increase in access to finance for African SMEs will require a transformative and innovative approach such as follows:

- Improve the enabling environment, for example greater protection for creditors, enabling technology-enabled business models such as mobile banking to make it easier for informal enterprises to register.
- Strengthen the financial infrastructure, for example credit bureaus, collateral registries, well-functioning payments system.
- Establish a global SME Finance Forum and global platform to build capacity, and mitigate risks and promote innovation and foster SME finance sustainably.

Africa's SMEs financing gap is currently sitting at between US\$140 and US\$170 billion, and countries that have significant exports are more likely to have well-served SMEs but not necessarily well-served informal and micro enterprises, according to a McKinsey analysis.

However, while diversified countries like SA and Namibia have a relatively smaller financial gap, it is still a very much large gap to overcome. "Even the highest performing countries in the region such as SA face credit gaps that are larger as a percentage of outstanding credit than those of any other region in the world," Pinshaw said.

Johannesburg-based Pinshaw, who leads the Financial Institutions Groups in sub-Saharan Africa, also said that private sector initiatives and collaboration with policy-makers will help lead to more formal SMEs and transformational scale-up.

Risk-sharing between public, private sector

This includes, he pointed out, risk-sharing between the public and private sector, a more comprehensive approach - owner and employee finance offerings - and a business model innovation that will leverage technology in the aim to better serve informal and micro enterprises.

The three-day Africa SME Banking conference, which ended yesterday, Thursday 5 May 2011, also heard that SME finance is becoming more sophisticated and driven by a diversifying product mix.

Pinshaw said trends in SME finance such as businesses (more formal SMEs in emerging markets), aggressive segmentation, technology-enabled channel innovation, product innovation, offering financial services beyond credit, and public policy will have the following implications for financial institutions:

- There is a large opportunity to offer a full range of services which include credit, payments, serving employees to SMEs with whom you already have deposit-taking or credit relationships.
- Pick your segments, based on macroeconomic trends, competitive landscape and starting point strengths and weaknesses.
- Lever proliferation of mobile phone access and mobile payments platforms to serve SMEs, owners and their employees.
- Proactively engage regulators, who are eager to find ways to increase access to finance.

For micro and informal enterprises, technology-enabled partnership models drive scale and create new opportunities. Pinshaw said this also means that financial institutions will pursue clean sheet business model design, working back from the revenue capacity per customer.

"They will also use partnerships to gain trusted low-cost access to customers, deploy multi-product approaches, and lever and scale existing technologies."

In addition, he said, they will work with regulators to strengthen enabling environments on a country-by-country basis, and lastly enable micro-entrepreneurs to make good decisions through financial education and advice.

ABOUT ISSA SIKITI DA SILVA

Issa Sikiti da Silva is a winner of the 2010 SADC Media Awards (print category). He freelances for various media outlets, local and foreign, and has travelled extensively across Africa. His work has been published both in French and English. He used to contribute to Bizcommunity.com as a senior news writer.

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