

How to finance SMEs in Africa? The experience of five financial institutions

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In recent years, there has been a general trend to set up specialized departments in banks. Indeed, SMEs are a growth driver for banks. A team dedicated entirely to SMEs is generally set up and assessment criteria specifically adapted to the case of SMEs is defined for applications for financing and its monitoring. PROPARGO wished to give a voice, in the form of two “mirror” interviews, to financial institutions and innovative players on the new technologies market* who work to promote access to financing for SMEs.

PS&D

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SME finance in Africa

PROPARGO: HOW LONG HAS THE SME SEGMENT BEEN CONSIDERED AS STRATEGIC FOR YOUR INSTITUTION?

Société Générale : Companies as a whole – regardless of their size – are a major focus for development for Société Générale Group in Africa, and this has always been the case. The specific focus on the SME market is, however, more recent, even if we have been supporting them for many years in all our countries.

Sonibank : Since 2003, we have made SME/ SMI financing central to our strategy, given the

importance of this sector in the country's economic fabric. Indeed, it is considered as the engine for private sector development and generates added value.

MANY BANKING INSTITUTIONS HAVE NOW IMPLEMENTED AN “SME STRATEGY”. WHAT IS YOUR INSTITUTION’S APPROACH?

Advans : We have developed a credit analysis approach more suited to the business model of an SME than of a microentrepreneur. This is to take better account of the complexity and diversity of supply chains, as well as sometimes rapidly-growing activities. This SME methodology is shared by all the Group's subsidiaries, with a flexibility given to everyone to adapt it and make the credit analysis process even more effective. The objective is to protect our clients from the risk of overindebtedness or default, whatever the complexity of their activity.

We have also developed an additional range of short-term loans which provide a relevant response to the diversity of SME financing needs: advances on invoices, purchase order financing, discounts. We support the growth of entrepreneurs by allowing them to be responsive on their markets. For example, in Cameroon, we have developed a supplementary range of loans which allow entrepreneurs to release additional funds to their outstanding productive credit, so that they can respond quickly to an increase in activity or seize a commercial opportunity.

More generally, we have adapted the entire client path. For example, in Nigeria, we have developed a “VIP mobile collection” service organized so that our SME clients no longer need to come to the branch to pay their monthly instalment and can focus on their activity. We have also launched an application¹ that allows clients to carry out all their transactions remotely.

Baobab Mali : For our part, several strategies have been implemented: an SME path allowing a swift and personalized response depending on the client's real needs; the creation of an intermediate tranche of SMEs to adapt to Mali's socioeconomic situation; the reduction of interest rates compared to the prevailing rates for microenterprises; more flexibility in disbursement conditions; and the creation of a flexible guarantee.

Sonibank : As SME financing is central to SONIBANK's strategy, its organization and procedures are entirely structured to meet the needs of this client segment. The financing of SME/SMI investments requires stable resources to meet their needs more effectively. We have negotiated and obtained refinancing lines from regional and international financial institutions to offset the lack of long-term resources which can affect our mandate to support Niger's private sector.

A mechanism has also been set up via a partnership with a financial institution responsible for assisting SME/SMI promoters with studies, the preparation of the application, and for providing support, including monitoring investments and how they are used during the loan repayment period.

HAS THIS STRATEGY ALLOWED YOU TO MEET SME FINANCING NEEDS THAT WERE NOT MET UP UNTIL NOW?

Baobab Mali : Yes it has! Our mandate is to make our services accessible to people excluded from the traditional financial system. Consequently, in a difficult context for financing in Mali, the adjustments made have allowed us to meet the needs of SMEs in Bamako and out in the regions more effectively.

UDB : Uganda Development Bank has been able to meet the needs of SMEs to a significant extent especially in terms of tenor, structuring and interest rates. We customize our intervention depending on the client's needs as we do not adopt a one-size-fits-all approach common with commercial banks.

Regarding loan tenor, it stretches up to 15 years depending on the nature of the project and the estimated implementation completion time and related cash flows. Loan repayments are structured

in line with the project implementation schedule, cashflow pattern and other unique project circumstances that may apply. A grace period of up to 36 months may be given. Agro-based enterprises appropriately structured either as limited companies or registered co-operative societies benefit from either group or apex lending models that are particularly useful for supporting primary agriculture and securing sources of supply for processors. Our interest rates are very friendly. While commercial banks offer interest rates at 22% and above, UDB's UGX interest rate per annum for long-term loans ranges from 12% - 15%. The Bank funds both existing enterprises and greenfield investments. Thus, these measures have seen the loan book grow by 79% over the last three years, from UGX 169 billion in 2016 to UGX 302 billion in 2018.

* The answers were obtained through a questionnaire sent to each of the banking institutions. Their answers were subsequently consulted then edited.

1 Advans Mobile.

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