Private Sector & Development

A blog coordinated by Proparco

SME finance and new technologies: An interview with three specialised institutions

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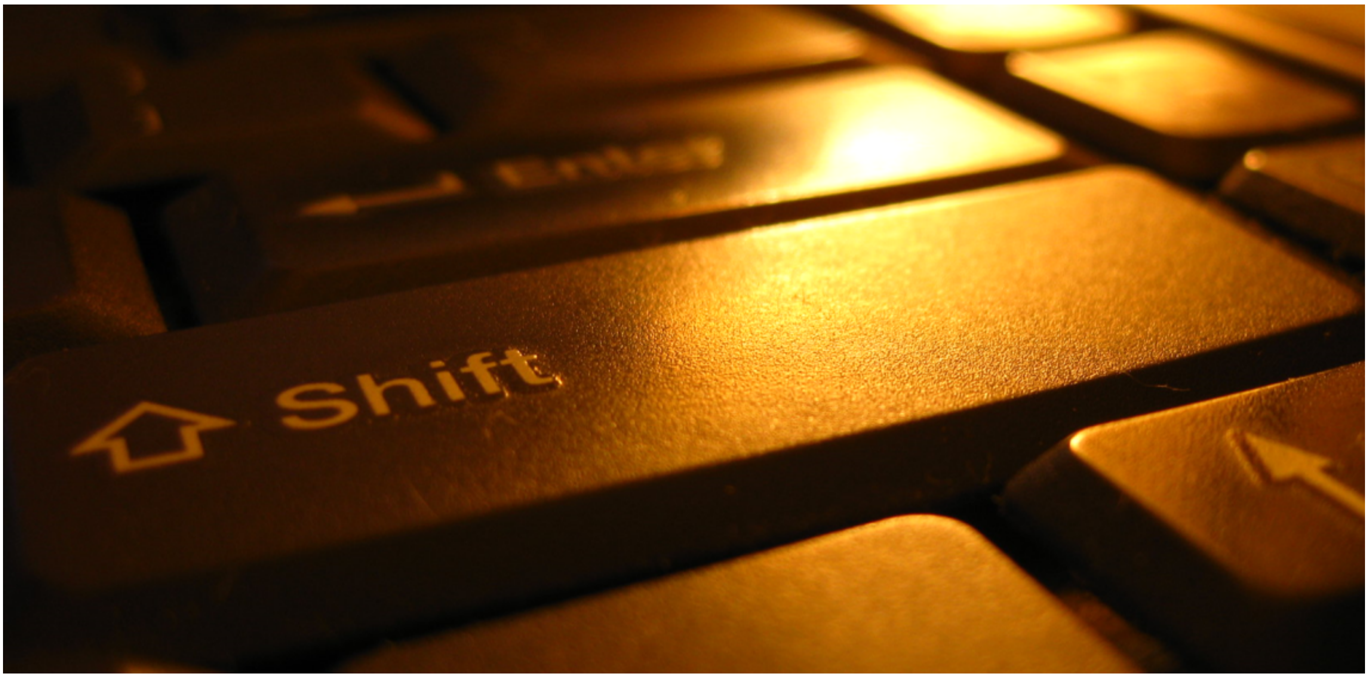

The diversification of financing solutions available to small and medium-sized businesses (SMEs) appears a possibility well worth exploring in the quest to improve relations between banks and SMEs. For example, financial inclusion of SMEs through digital solutions is developing rapidly. Fintechs are also generating digital ecosystems that make it possible to map, develop and monetize customer needs. Nevertheless, the dissemination of these products is being hampered by the fact that they are frequently alien to both the culture of SMEs and to regulatory provisions which are not at all conducive to such specialised instruments. Using two "mirror" interviews, Proparco wanted to get the views of financial institutions and innovative tech players* who are trying to provide SMEs with better access to funding.

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PROPARCO: WHEN DID YOU FIRST START FOCUSING ON SMALL AND MEDIUM-SIZED BUSINESSES (SMES)?

SA Taxi: Since SA Taxi's inception in 2006, we have been focused on achieving the mission which is to provide finance, insurance and other services to entrepreneurs that ensure the sustainability of the minibus taxi community.

Financial Inclusion, SME empowerment, sustainable job creation, public transport infrastructure and environmental sustainability are five key drivers of this mission.

Lidya: SMEs have always been at the core of our business. Lidya's proprietary fintech platform has enabled SMEs in Nigeria to access credit, often for the first time – helping to bridge the country's US$92 billion SME credit gap in Nigeria.

Globally, it is estimated that only 15% of SMEs can access the credit they need to grow, despite contributing as much as 52% to GDP and creating 88% of all jobs. Yet, in emerging markets, traditional lenders are unable to provide credit to SMEs at scale due to the limited reach and high cost-to-serve, which leaves many SMEs underserved.

Tunisie Leasing: When it was first set up, Tunisie Leasing prospected for business among corporate customers due to the lower risk involved, but because the Tunisian economy is dominated by SMEs, growth in the leasing sector is also tied to the growth of SMEs. This is why we had to review our business structure in the early years to be prepared to handle a large demand with a higher risk profile than corporate customers.

WERE YOU SIMPLY DOING THE SAME AS THE COMPETITION OR DID YOUR APPROACH ACTUALLY HELP YOU TO STAND OUT FROM THE COMPETITION?

Tunisie Leasing: We have pioneered the concept of leasing in Tunisia. We have always worked hard to stay ahead of the competition by keeping up with best practices in our industry and seeking out solutions that enhance our approach both from a business and a risk management perspective.

Lidya was a trendsetter in implementing a digital lending model that reaches across Nigeria to scale and ease access to finance for SMEs in Nigeria.

For SMEs who are served by traditional lenders, there is limited customer experience. The loan application can take up to six weeks to process, it can require up to 130% of collateral, and loan sizes under 50,000 USD (18 million nairas) are rarely approved. Lidya approves loans within 24 hours, does not require collateral, and approves loans starting at 150 USD (50,000 nairas).

The high percentage of non-performing loans (NPLs) in Nigeria further penalizes SMEs in getting access to finance. NPLs average 10% amongst traditional lenders and 45% amongst alternative lenders, whereas Lidya's NPL rate is only 0.6%.

SA Taxi: The minibus taxi financing landscape is a niche market with very few participants opting to enter due to the perceived risk of its client base. Micro-lenders are unlikely to finance minibus taxi operators as in South Africa these lenders are typically unable to advance loans of this size or duration. These micro-lenders also require their clients to be formally employed and their loans are priced much higher, further rendering them unlikely to enter the minibus taxi market.

HAS YOUR APPROACH AND THE SOLUTIONS YOU HAVE DEPLOYED HELPED YOU TO MEET THE FINANCING NEEDS OF SMES?

Tunisie Leasing: Since the Company's foundation, we have helped out businesses that were "non-bankable" due to their size, the lack of visibility over their business or because of their inability to provide guarantees. The close ties between our marketing teams and customers, the development of risk assessment methods tailored to all sizes of business and all business sectors, and the use of credit scoring and effective bad debt recovery techniques, have helped us cater effectively to the needs of businesses that are not being served by banks while controlling the risks involved.

SA Taxi Yes! SA Taxi fills a critical funding gap, providing credit to entrepreneurs who would otherwise be excluded from the formal economy given their credit profiles. With approximately 12 million South Africans classified as outside the banking system, this large portion of the population depends on a very limited number of channels in which to access capital from.

Through financing an income producing asset and ensuring that the profits generated by the asset are substantial enough to pay off the loan as well as to yield a living for the owner, we believe that we create a positive impact on both financial inclusion and the building of the clients' net wealth.

Lidya: Indeed! Lidya's service is in high demand from small business owners in a variety of sectors across Nigeria. Lidya has dispersed more than 6,500 loans to 1,500 businesses. In 2017, almost US$2 million of loans were dispersed, growing to about US$10 million in 2018. In 2019, we are poised to disperse nearly US$30 million and become the largest digital SME lender in Nigeria.

* Responses were first obtained via a questionnaire sent to each of the businesses and then collated and formatted.