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# Are digital technologies set to revolutionise SME financing in Africa?

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**According to Aiaze Mitha, an entrepreneur and Fintech expert, the many digital innovations that are emerging and already exist could transform each stage of the financing value chain, opening a new era and new prospects for SMEs.**

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With a financing need estimated at some USD 700bn,[1] access to credit is a vital issue for African SMEs as well as for the communities which host them. Indeed, with agriculture, SMEs are the main engine of economic and social development in many countries.

The financing needs of SMEs vary considerably depending on the segments considered and their level of formalization. While medium-sized SMEs generally target growth, or conquering new markets, most microenterprises are one-person operations with the main objective of generating an additional income for the household. Formal SMEs are therefore a vital component of the economic base: they account for up to 60% of the payroll and 40% of the gross national product (GNP) of developing countries and provide 4 formal jobs in 5[2].

## EMERGENCE OF NEW TOOLS FOR SMES

However, new models are emerging, driven by the digital revolution that has been sweeping across Africa for a few years now, spearheaded by mobile money and fintechs. These models based on

digital innovation have revolutionised the ecosystem of payments in Africa, allowing the development of innovative and inclusive financial services. A question naturally arises: Can this wave of digital innovation resolve the problem of access to financing for SMEs?

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In addition to the barriers already mentioned, the needs of SMEs are often too high for traditional microfinance institutions and too low or risky for banks. Digital innovations, for their part, through the innovative business models they allow, provide breakthrough solutions to these problems.

## COST OF CREDIT FINANCING AND CLIENT ACQUISITION COST

The cost of capital is often a major barrier for institutions wishing to finance SMEs, as public savings are primarily redirected towards less risky clients. A high capital cost on the capital markets will result in making the cost of credit inaccessible to SMEs. New crowdfunding or peer-to-peer lending platforms, such as Kiva.org, which is already active in over 80 countries, mobilize private and institutional capital more effectively, offering SMEs viable financing solutions.

Client acquisition costs are traditionally high due to the relative lack of sophistication of SME clients and the need for a guided personal interview at each credit application. Here again, digital solutions increase efficiency. The digitization tools of sales forces already allow financial institutions to increase the output of their credit officers by automating the collection of information in the field using forms operated with tablets, which reduces the client acquisition cost. This digitization of the collection of client information simplifies data collection, avoids duplication, reduces the risk of error caused by manual entries and allows a more efficient and faster treatment of credit applications.

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For example, the use of such solutions by Musoni in Kenya has increased the productivity of credit officers by almost 68%. Furthermore, the platforms also make new forms of partnership possible, allowing financial institutions to gain or serve new clients. This is the case with M-Shwari, the digital loan platform launched by the mobile payment provider M-Pesa in partnership with the bank CBA, thereby allowing the latter to allocate instant loans to M-Pesa clients with very low acquisition costs. According to estimates by Amarante Consulting, nearly 40% of M-Shwari’s loans are allocated to microenterprises, which could make this type of platform particularly effective for financing VSEs. Finally, other innovative actors also rely on digital solutions to acquire their clients in a more cost-effective manner – Kopo Kopo, via tools used by its staff in the field, and Tala, via its mobile application, which is promoted on social networks and other digital channels.

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## CREDIT ANALYSIS

The data required for credit analysis are usually collected manually in paper form. This collection is often based on the personal relationship between the SME and the credit officer, as well as on the availability of this information, and is particularly costly. New innovative solutions now make it

possible to collect “alternative” data to enter scoring algorithms digitally. Some fintech companies, such as Tiaxa or Jumo, which are specialized in credit scoring using alternative data, collect thousands of data points relating to the mobile payments made by SMEs, their use of social networks,and their profile using mobile services to feed into their algorithms, thereby making the credit analysis possible without traditional information. In the same spirit, the increasing digitization of agricultural value chains (cocoa in Côte d’Ivoire, coffee in Uganda or cotton in Zambia) or FMCG chains (consumer products) makes transactional data visible, allowing an estimate of the financial flows of outlets.

Furthermore, the availability of more complex data sources with the progress of satellite imagery or by drones, or the use of meteorological data, allow companies such as FarmDrive to automate the credit analysis for smallholders, while fintechs such as Lenddo use data from social networks, Facebook in particular, to feed into their decision engine. 4G capital, for its part, uses psychometric questions to assess SMEs in East Africa.

Finally, the development of e-commerce also provides valuable information for the credit decision. For example, Jumia, one of the leaders in e-commerce in Africa, has a range of credit targeting SMEs which have sold more than 25 products online over a period of six months, for a total amount above NGN 100,000 (EUR 290). Lidya, which is based in Nigeria, firstly provides SMEs with digital tools, including an invoice management tool, and subsequently uses this information to take its credit decisions then collect the repayments directly from buyers. Some 120,000 SMEs now use its invoice management solution and will therefore potentially have access to financing from Lydia.

## DISBURSEMENT AND REPAYMENT

Disbursement often poses problems in the case of SMEs located in areas poorly served by financial institutions. Here again, technologies such as mobile money (over 132 deployments throughout Africa and some 400 million accounts registered)[3] add a touch of efficiency by allowing the credits to be directly disbursed onto an electronic account operated using a mobile phone. Certain innovations, in collaboration with suppliers, also make it possible to directly disburse the credit to the supplier in exchange for the products delivered to the SME.

SMEs are increasingly using electronic means of payment – electronic accounts, POS terminals and mobile money. A number of innovations also use these electronic means of payment for automatic collection. For example, DPO group, a payment service provider in Africa, relies on its internal data to provide credit to SMEs in Tanzania and Uganda, and uses automatic debit as the first means to leverage collection. Others, such as Instamojo and Kopo Kopo, also use automatic debit to collect repayments, while Tala relies on voluntary repayment.

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At all levels of the SME financing value chain, companies or innovative technologies provide responses that reduce costs, increase efficiency and make it possible to scale up. While the issue of access to financing for SMEs has not yet been completely resolved, it is undoubtedly experiencing a new era of opportunities.

1 According to the World Bank.

2 BlueOrchard (2017). SMEs and SDGs: Supporting small and medium enterprises to achieve the sustainable development goals.

3 https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2019/02/2018-State-of-the-Industry-Report-on-Mobile-Money.pdf

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