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SAMagazine

All the news on African Microfinance Week from the 9th to the 13th of October 2017

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Edited by ada

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Romain Schneider at the SAM

Romain Schneider, Luxembourg Minister for Development Cooperation and Humanitarian Affairs

The Luxembourg Ministry of Foreign and European Affairs actively supports ADA in its mission to develop inclusive finance. The Ministry is the main contributor to the African Microfinance Week – Semaine Africaine de la Microfinance (SAM). Minister Romain Schneider answers our questions on Luxembourg´s action in the field of microfinance, and its involvement in the SAM.

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Your Ministry has endorsed ADA for over 20 years. What explains the major role Luxembourg plays in microfinance development?

The Luxembourg government has been active in supporting the development of microfinance and inclusive finance during the past two decades because these are efficient means of promoting economic development and eradicating poverty – which are our ultimate goals. In order to reach those goals, Luxembourg aims to facilitate the access of poorer persons, otherwise excluded from formal financial services, have to basic financial services: credit, savings, money transfers and microinsurance. Since its beginnings as an NGO, ADA (*Appui au Développement Autonome – Supporting Autonomous Development)* has played a vital role in establishing the foundations of the Luxembourg microfinance sector, and our collaboration has deepened continuously since.

Luxembourg's Development Cooperation has given ADA a mandate to act in the field of microfinance with the multiple aims of innovating, improving management tools, facilitating exchanges, and supporting microfinance-institutional pilot projects in Central America, Asia and Africa. ADA furthermore played an essential role in the training of inclusive-finance experts in Luxembourg. One may, at this point, also note the endeavours of the *Luxembourg Microfinance and Development Fund* (LMDF), the *Microinsurance Network* and the *University of Luxembourg´s Chair in Financial Law (Inclusive Finance)*.

Our government has actively contributed to the sector´s development since the beginning of the 1990s, in particular through its political action in a large number of national and international fora, and through its collaborative work with its bilateral, multilateral, public, private, and civil-society partners. Luxembourg has grown to become a key center of excellence for inclusive finance. In extension, microfinance represents a niche market within our financial marketplace, and over a third of microfinance investment vehicles worldwide are domiciled in Luxembourg. The strong leverage public investments have had can clearly be seen.

Through our action, we aim to have a particular positive impact on poverty eradication, as well as contribute to implementing the Sustainable Development Goals. The role the public actors carry, and thus also the Luxembourg's Development Cooperation, includes establishing a climate of confidence as well as an environment propitious to the development of inclusive finance. We make technical assistance available, for example in what concerns legislating, regulating and supervising microfinance activity, as well as to reinforce the institutional and human-resource capacities of stakeholders. More recently, Luxembourg also began using microfinance and inclusive-finance instruments that contribute to environmental protection and promote the use of renewable energies.

Following on from the European Microfinance Week, ADA created the African Microfinance Week (SAM). In which ways does such a conference benefit the sector´s actors?

The success of the European Microfinance Week has been undeniable. Its tenth edition was held in Luxembourg in November 2016, for which a record 470 experts registered. This format aims to facilitate dialogue, exchanges and coordination between actors with different sectorial backgrounds from across Europe: civil-society, public and private. Organising a similar forum with our African partners became a necessity, and it appeared the best way to include them in this exchange of good practice.

The Minister Romain Schneider will attend the Opening Ceremony of the SAM on the 10/10/12 from 11am to 12 :30 am.

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Since 2013, ADA has organised two African Microfinance Weeks on the African continent, the first being held in Tanzania and the second in Senegal. The third will now be held in October 2017, in the Ethiopian capital Addis Ababa. SAM is organised by ADA, in close collaboration with Africa´s main microfinance networks. The event brings networks and practitioners in the field, on one hand, together with managing figures from central banks and the African Development Bank, on the other. This opens the possibility of covering the entire microfinance spectrum, reaching from the regulator to the final consumer. By allowing experts to meet and by enabling a particularly fruitful exchange to take place between all participants, SAM yields concrete results.

SAM is the ideal place to compare working methods and to work at improving one´s own expected results. While also allowing its participants´ sentiment to be sounded, the conference represents a forum for the discussion of current issues and new trends, enabling the exchange of good and best practices, as well as eventual news of failure. Above all, SAM is a venue that allows microfinance experts to meet and gain insights. Each African Microfinance week is given a specific topic: the SAM 2013, in Arusha, concerned "Regulation of the African Microfinance Sector: 20 years on" and gathered 250 participants from 44 countries, of which 38 were African states. 20 institutional investors attended together with over one hundred microfinance institutions. Attracting over 540 participants from 40 countries, SAM 2015 was held in Dakar under the title "Accelerating Innovative Rural Finance in Africa". It aimed to promote inclusive finance as a vector for agricultural sector development in Africa. The success of these events confirmed the dedication of the actors involved and the high quality of the work they provided.

How does Addis Ababa, selected as the venue for the third SAM, inspire you?

Over the years, Addis Ababa has grown into becoming one of the African Continent's major hubs in a number of respects. Not only has Addis Ababa become Africa´s diplomatic capital, with the African Union and the United Nations Economic Commission for Africa being seated there, but the Ethiopian capital has also witnessed remarkable development and high economic growth rates. Luxembourg moreover holds a diplomatic mission in Addis Ababa. Ethiopia holds rich experience in the field of microfinance, and particular mention should be made of the two Ethiopian institutions that have already won the European Microfinance Award: Buusaa Gonofaa, in 2008, and Harbu in 2010. Microfinance is therefore well understood as an instrument, in the Horn of Africa, and a number of structures have already been put in place. The subject chosen for the next African Microfinance week - SAM is on developing SMEs in Africa, also in line with Ethiopian national priorities.

The new SAM is dedicated to SME development in Africa. Why is that subject awakening such interest today?

In Europe as in Africa, small and medium enterprises form the backbone of local and national economies. Yet unfortunately, one must witness that only very few financing structures cater for SMEs. Their loan requirements are often situated between the upper limit microfinance allows and the lower limit required by banks. SMEs therefore face a so-called financing gap, which negatively impacts their development. Given that the thrift of the SME sector is key to resolving the major challenges Africa faces, such as youth employment for example, it is essential to better the condition of their financing. Improved access to financing will also enable SMEs to move away from the informal economy, into the formal economy, with all the benefits that bears, such as strengthened social security systems for example.

What support can Luxembourg offer to banks and MFIs who, themselves, finance and strengthen SMEs?

As we have seen, Luxembourg has been dedicated to the cause of inclusive finance and microfinance for many years. One of the foundations of Luxembourgish development cooperation policy is its continuous and on-going commitment, which provides the MFIs concerned with a greater degree of foreseeability in their planning.

Added to our continuous commitment, the know-how and the technical assistance our local implementing partners provide on the ground, including ADA of course, reinforces our drive in supporting MFIs. Traditional microfinance has granted its customers a series of short-term credits and charged relatively high interest rates on these, in order to cover related risks and costs. That type of support however tends to encourage the replication of existing economic activity rather than fostering the development of promising new value-adding activity. That is why, in addition, high-growth-potential small and medium enterprises should be targeted, whose main objective is that of making an impact through job creation, whose products and services are dedicated to the needs of poorer customers, or which are otherwise driven by a social or environmental mission. Luxembourg, together with ADA, aims to work in that direction, and several projects are being planned to that avail. Choosing the topic of SMEs for the SAM 2017 will enable these arguments to be spread further, and the awareness of donators and stakeholders to be heightened. Funds invested in Luxembourg represent a huge potential to developing SMEs as they do to reach the Sustainable Development Goals ■

THE GOVERNMENT
OF THE GRAND DUCHY OF LUXEMBOURG
Ministry of Foreign and European Affairs

Directorate for Development Cooperation
and Humanitarian Affairs

Would you like to know more on financial inclusion in Africa? Join the following sessions of the African Microfinance Week on the 10th of October:

Plenary 1: Financial inclusion and job creation in Africa

Plenary 2: Doing business in Africa: voices from the field

Plenary 3: Filling the gap: approaches and solutions to boost SMEs

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Financial Inclusion in Africa, focus on SME finance

In African countries, small- and medium-sized enterprises are the leading source of employment. From three country cases, Côte d'Ivoire, Kenya and Morocco, this article draws a picture of SMEs' environment, the emergence of innovation, regulation and growth, but also their limits regarding access to finance and services and the solutions provided by technical assistances.

Small-and medium-sized (SMEs) represent the main source of employment in most African countries. Although the continual growth of the SME sector and the emergence of more favourable regulatory frameworks signals a shift from labour-intensive to more productive activities, the growth of these enterprises is still restricted by several barriers, particularly access to finance.

Reviewing evidence from three country studies – Cote d'Ivoire, Kenya and Morocco - that represent different sub-regions within Africa, the contribution of SMEs to the economy was found to be significant.

In both Cote d'Ivoire and Morocco, over 90% of enterprises are SMEs. However, as Table 1 demonstrates, their contribution to GDP is low, especially in the case of Morocco where the definition of SMEs by annual turnover is more generous than in the other countries under review (see table 2).

SMEs are engaged in a wide number and variety of sectors. In Kenya, most SMEs (62.9%) are concentrated in retail and trade, followed by manufacturing, tourism and agriculture. Only 4% of SMEs represent the agriculture sector in Kenya, suggesting a high level of subsistence farming. In Morocco, SMEs contribute mostly to agriculture (78%) and the hotel industry (70%), followed by services, trade and fishery. For Côte d'Ivoire, the breakdown per sector is not available, however between 2014 and 2015 the number of start-ups grew by 47%, which occurred at the back of a decrease in employment in agriculture, suggesting that workers are moving away from labour-intensive to more productive activities.

Regulation specific to SMEs is limited. In Kenya for instance, the Micro and Small Enterprise (MSE) Act 2012 was set up to provide the legal and institutional framework for the promotion, development and regulation of micro and small enterprises (MSEs). The Registry of MSEs was established under this Act but a number of other critical functions have yet to be implemented, thereby undermining its effectiveness. In part, this lack of an effective regulatory framework can be detected in the Ease of Doing Business ranking provided by the World Bank (see Table 3) which highlights the regulatory gap between countries. In the case of Côte d'Ivoire, although there is a slight drop off in the ranking between 2015 and 2016, the country has been on an upwards trend since 2013 when it used to be

Table 1: Contribution of SMEs in the economy

	Côte d'Ivoire	Kenya	Morocco
Share of GDP	20%	28,50%	20%
Share of enterprises	90%	NA	95%
Share of employment	23%	NA	50%

Table 3: Ease of Doing Business ranking

	Côte d'Ivoire	Kenya	Morocco
2016	142	92	68
2015	139	113	68

Table 2: Classification of SMEs

	Côte d'Ivoire		Kenya		Morocco	
	No. of employees	Annual turnover	No. of employees	Annual turnover	No. of employees	Annual turnover
Microenterprise	<10	<USD 50k	<10	<500k KES	<10	<USD 290k
Small enterprise	10-50	>USD 50k	10-49	USD 5k-50k	>10	USD 290k-19M
Medium enterprise	51-200	USD 250k-1,7M	50-99	NA		

Source: Microfinanza 2015, 2016

ranked 177th out of 190 countries but has now proven to be one of the ten fastest-moving countries in terms of reform.

There is a strong correlation between the Ease of Doing Business ranking and the informal economy. In 2012, 90% of Ivorian enterprises were considered informal whereas 83% of the Kenyan workforce reportedly worked in the informal sector in 2014. Furthermore, 42% of Moroccan GDP in 2015 was associated with the informal economy. The main reasons behind this persistently large informal sector across countries are heavy tax burdens and other administrative demands that small businesses cannot afford, followed by corruption and rapid urbanisation. Nevertheless, as the 4% unemployment rate reported in Côte d'Ivoire would suggest, the relationship between this rate and the SME sector is ambiguous and perhaps the main challenge of the labour market is linked to (under) employment in low-productivity activities, particularly among self-employed women and rural populations.

Significant opportunities lie in the potential for SMEs to integrate technological solutions in their business operations and to leverage the existing infrastructure. In Kenya and Côte d'Ivoire, the network of mobile operators is well distributed across the country and familiarity with mobile payment services is high. This increased awareness of digital financial services has the potential to be exploited for growing business activities and attracting new sources of funding.

The main challenges faced by the SME sector in all three countries are limited access to finance and lack of adequate technical and management skills. Marketing and accounting skills are required in order to establish linkages with potential investors but few employees in the SME sector have the necessary qualifications.

Technical skills development would also be necessary to increase efficiencies and move away from labour intensive activities. In Kenya and Côte d'Ivoire, excessive government intervention in the economy has also led to the creation of a non-competitive environment and relatively high levels of corruption.

Technical assistance providers that are currently active in the three countries are specifically focused on the two main challenges SMEs face. In Kenya, the most active technical assistance providers are private business institutions and development agencies whilst in Cote d'Ivoire and Morocco, there is a legacy of state-led economic development - hence a significant number of government agencies and programmes specifically catered to SMEs have been established.

For instance, the Kenya-based *SME Resource Centre* (IFC project) is active in enterprise development, offering various SME training courses to over 6,000 SMEs as well as establishing linkages with financial institutions and insurance providers to address financial needs. In Côte d'Ivoire, the Ministry of Entrepreneurs, Craftsmen and SMEs (MCAPPME) was recently set up as part of the development strategy for the agribusiness, construction and the mining sector. The Ministry seeks to accelerate the development of SMEs outside of the business capital Abidjan by facilitating access to microcredit and providing job-specific training. Cooperatives (e.g. Ecookim, COPABO) also actively support cocoa and cashew nut growers to coordinate commercial activities or promote organic products.

The issues tied to funding include high cost of credit, stringent collateral requirements, lack of formal financial statements and undercapitalisation. A survey conducted in Côte d'Ivoire in 2016 revealed that SME financing needs amounted to USD 2.3 BN. In Kenya, the main source of capital for business enterprises comes from the owners and family members, which accounts for 71.9% of formal and 80.6% of informal funds and highlights the "*missing middle*" to be filled by financial institutions. In Morocco, the supply is stronger and the main financial providers of SMEs are local banks and other financial institutions.

The main reasons for the low uptake of loans by SMEs are closely related to the low level of formality in maintaining business records. Loans are expensive because funds for SMEs are commonly associated with non-performing portfolios. In addition, information asymmetry persists due to the lack of reliable credit bureaus in Côte d'Ivoire and Kenya and the inability of SMEs to provide audited financial statements. In the Moroccan context, requested loan amounts are either too small for banks or too large for microfinance institutions - who in any case would require regulatory changes to upscale their services to SMEs.

It's undeniable that African SMEs are operating in a more conducive business environment than a decade ago. The SME sector is growing alongside an increased level of interest and support on behalf of regulators and investors. In order to help these enterprises join the mainstream economy, it is recommended to provide SMEs with technical assistance focused on managerial and technical skills combined with increased access to adapted and appropriate financial services.

The main types of funding on offer to SMEs are short-term loans, guarantees and private equity. Kenyan banks have designed various trade and asset finance products, including factoring and financial leasing products, but SMEs continue to rely heavily on overdraft facilities (they currently constitute 43.4% of loans) to finance their working capital needs. In the Ivorian context, foreign investments are dominant: development finance institutions (DFI) tend to offer larger ticket sizes (worth USD 1 M), whilst non-DFIs and foundations focus on smaller loans that have a tenure of one to two years.

Guarantee schemes funded by government and DFIs also exist in Kenya and Morocco where enterprises can rely on these instruments in order to access finance from formal financial institutions. The Caisse Centrale de Garantie in Morocco can guarantee 50-80% of loans granted to SMEs by banks, leasing companies or venture capital investors; however, the uptake has been limited. The African Guarantee Fund for SMEs launched by the African Development Bank is a pan-African example that stimulated SME lending through banks.

On the other hand, the MCAPPME in Cote d'Ivoire is developing a unit named *Business Angels*, which will conduct SME scoring, develop a credit bureau, and create a SME guarantee fund by 2020.

According to the sector's strategic development plan, microfinance is deemed appropriate to cover loans with maximum 12-month terms for the smallest enterprises that have turnovers less than USD 30K. The funding needs of medium-sized enterprises are expected to be covered by commercial banks and private equity firms, which leaves this *Business Angels* unit to fill in the gap for equity and long-term funding for micro and small enterprises.

Digital solutions are also helping to improve SME access to finance. Kopo Kopo in Kenya enables SMEs to accept and make M-PESA payments for the immediate purchase of goods and services. This digital platform helps SMEs reduce cash handling and introduced an unsecured cash advance service called *Grow*. In Cote d'Ivoire, the mobile operator Orange launched *Orange Collecte*, a crowdfunding platform that aims to facilitate the expansion of start-ups. In that sense, leveraging on the wide use of mobiles and the regulator's willingness to facilitate electronic money transactions can help cover the funding gap as well ■

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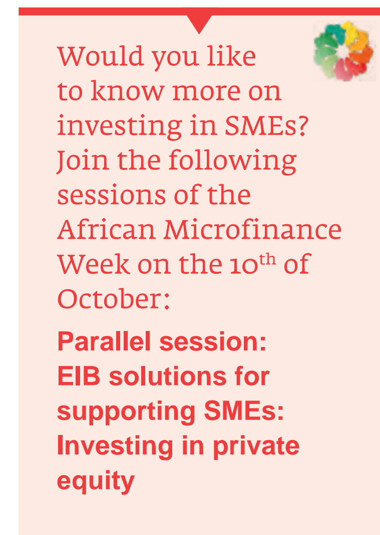


Have you met Bagoré Bathily?

founder of the Laiterie du Berger dairy in Senegal

The Laiterie du Berger in Senegal relies upon a local sourcing model for is dairy product distribution. The dairy aims to provide distribution channels to nomadic herders, in a country in which milk consumption is mainly accounted for by imported milk powder. Based in Dakar, the social enterprise today employs 108 workers. These are spread over the Richard Toll region, where the raw material is collected.

Bagoré Bathily

Could you please briefly introduce your institution and its mission?

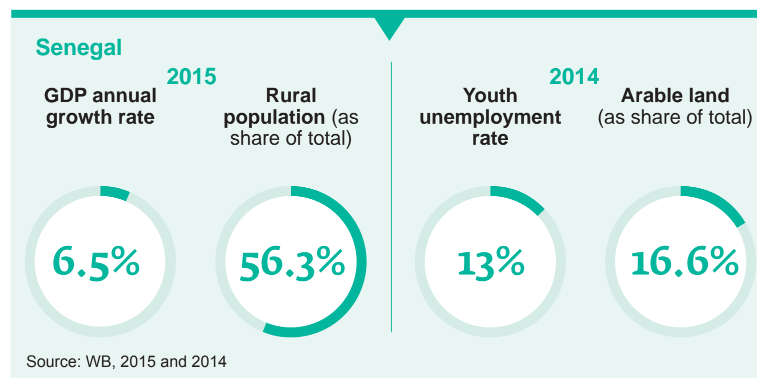
The Laiterie Du Berger (LDB) began production in 2007 with the mission of building up the Senegalese milk market. Local producers lack access to distribution channels for their milk, while urban dairy consumption is seeing strong growth and demand is essentially being met by powdered milk imports. Thanks in particular to its Dolima brand, which today is well known and highly appreciated, LDB grew during its first ten years of business to become the second-largest actor in Senegal´s market for fresh dairy produce. Amongst its commercial success stories is the one, in which it was able to put in place an industrial-scale product while returning to an old traditional recipe combining soured milk and local cereals (Thiakry).

LDB achieved turnover of around EUR 5 million in 2016 with 250 employees. The dairy has built up a collection network that brings together around 800 dairy producers, to whom it also provides a number of services that aim to improve production (feed, veterinary services, training, etc.). Seeking both economic and social performance in order to fulfil its mission, the business brought its board and its network of local partners together around a table. The latter dispose of structural capacities, which enable them to provide on-going support in career building, in particular in the fields of: livestock development, industry, sales, marketing, administration, etc... The dairy won several awards including the African Award for Entrepreneurship in 2012, and a Groupe Danone internal award, for its innovation with Thiakry in 2015. Furthermore, the visible impact LDB has in Senegal has contributed to its being nominated to the vice-presidency of the national dairy interprofessional association.

Could you tell us about the investors´ role in relation to your activity? What do you expect from them?

LDB was set up thanks to our association, which brings together our family group and our investment fund named Investisseur et Partenaire pour le Développement. Having an investor at the round table and paying attention to governance have both clearly proven to be success factors. Amongst others, they have enabled the company to anticipate financing requirements, in the midst of what is a complex project, and given that on-going growth has constantly imposed new investments, and that break-even was only reached towards the end of the ten-year period. The dairy built up its round table during that time, helping it to satisfy both its capital requirements and its long-term strategic demand for professional accompanying services, particularly in the area of developing industrial careers.

Thanks to LDB´s disciplined financial management, and in spite of the length of its path to profitability, it was able to keep its balance sheet in check throughout. That in fact not only involved the company developing its capital base, but also its setting up and maintaining debts that neither weigh down on the company´s growth nor on its financial balance. Given a context in which SMEs often find it difficult to maintain a constructive dialogue with their banks, in Senegal, the quality of the dairy´s relationships with its domestic banks as well as with the development banks have proven to be a great asset.



What can you tell us about the problems encountered during the course of the project?

The first difficulty LDB encountered during the course of the project was its operational complexity, given that the project´s aims included putting in place three different career paths simultaneously: 1). Dairy collection, 2). Dairy processing, and 3). Fresh-product sales. Faced with that task, right from the start, it sought highly qualified managers in those professions, and that was a challenge in itself, given the high associated fixed costs and the downward pressure on profits such a recruitment drive represents. Throughout the development phase, obtaining adequate financing was therefore definitely a challenge to LDB.

In high economic and social-impact projects that have a long path to profitability, the relative absence of adapted financing is the main impediment to take-off and the main cause for discontinued projects when they could be profitable (from a broader perspective, in developing countries, one observes the lack of an adequate regulatory framework for those enterprises that aim to have a strong social impact).

In what ways can your model be reproduced?

Despite several attempts made in the Sahel region since the independence period, no dairy had so far succeeded in building up according to a catchment model, in which the collection network consists of smallholders, yet which feeds milk into production at a truly industrial scale. LDB´s success suggests a model in which economic sustainability and social impact are balanced, relying upon a network of local subsidiaries. The model can be reproduced anywhere in the Sahel strip, or wherever a large pastoral population´s production is under-valued while urban dairy markets are thriving. LDB could in fact have acted as a pilot and it will be easier to put in place the remaining structures, given that the business model has been established and that the company has gained control over relevant reference points, thus helping it to improve its decision-making ■

Grameen Fondation Crédit Agricole

Have you met Jane Maina?

founder of Vert Limited

Created in 2000, Vert Limited is a Kenyan business exporting fruits and vegetables to Europe. Its innovative and sustainable model ensures a fair trade of the products and a trusting relationship with the producers. They work directly with the local farmers, providing them with technical assistance in order to improve the quality of their products. Vert also ensures the certification of "fair trade" and "global gap" that are necessary for exportation to Europe.

Jane Maina

Could you please briefly introduce your institution and its mission?

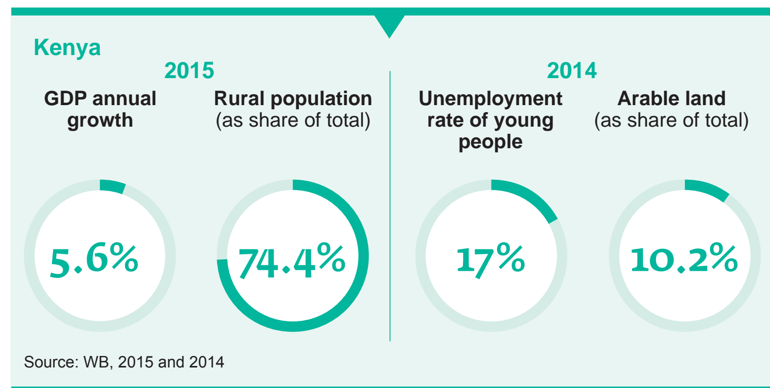
Vert Limited is a Private Limited Liability company located in Kenya whose core business is the production, grading, packing and export of fresh fruits and vegetables mainly to the European market. Vert is currently working with 1,700 smallholder farmers organized in 22 community based organizations (CBOs) in 10 out of 47 counties. The groups are registered with the Ministry of gender and social services as self-help groups or Community Based Organizations. Vert's business model is based on the sourcing of fresh produce from small scale farmers spread across the country, taking a value chain integrated approach to increase efficiencies right from farm-level production, aggregation, transportation, processing, and marketing. It is precisely its long-term relationship with the smallholder farmers and the accompanying support which constitutes VERT's unique selling proposition.

This business model has enabled VERT to develop strong relationships with all value chain stakeholders including farmers, input suppliers, financiers, NGOs, Government, etc. This has also enabled the company to identify other complementary and profitable activities that increase the social impact for smallholder farmers.

Concretely, using the same sourcing methodology that has proven so successful for the fresh vegetables business line, VERT decided to venture into fresh fruit pulping, with the following key objectives: diversify the market risk associated with over-exposure to the EU market linked with the current fresh produce business; diversify and improve household incomes for the existing suppliers of fresh produce, and smallholder farmers; foray into value addition through processing and establish a firm foundation for further diversification.

Could you tell us about the investors´ role in relation to your activity? What do you expect from them?

Maintaining steady growth in the fresh vegetable business as well as diversifying into fruit pulping, required significant additional investment. Securing funding from local financial institutions as an SME is very difficult and where availed, not always affordable. With this is mind, the founding directors approached foreign social impact investors as there really needed to be an alignment of purpose between the business model and the approaches of the new shareholders. We were then able to close deals with mixed equity and debt funding instruments, all with social impact investors. This has allowed us the opportunity to invest in the new line as well as retain a capacity to keep the fresh vegetable business on a steady growth path. Additionally, having foreign social investors has helped us access support through their technical support setups as well be included in their investee networks. This allows for shared experience and the avoidance of loopholes and gains from lessons learned by other companies with similar economic and social settings. We are, for our part, committed to increasing the shareholder value for our company, so that all investors will get good returns.



What can you tell us about the problems encountered during the course of the project?

Having run Vert Ltd as a family business since inception, adjustment to the new governance structure is necessary. Ours has been more a question of taking in many lessons at the same time while also keeping the business going. More so because we are at the initial stages of implementation. Once the business has completely taken off and the company has a sound management structure, the current pressure being experienced by the management will ease.

In what ways can your model be reproduced?

This model can easily be replicated across Africa and other developing economies. Most SMEs will have good and sound business ideas with a potential for huge positive social impact but luck of funding and alignment of purpose with investment partners makes them remain just that... "good business ideas." ■

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Would you like to know more about entrepreneurs in Africa ? Join the following sessions of the African Microfinance Week:

Research Meets Africa on 09/10/17

Parallel session: Challenges of social business financing in Sub-Saharan Africa by the Grameen Credit Agricole Foundation on 11/10/17

Parallel session: Envisioning agriculture as a business for youth in Africa: the keys to success by the Mastercard Foundation on 11/10/17

Financing intermediary SMEs excluded from classical banking: adapting the microfinance model to mesofinance based on ACEP feedback

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Today, the financing needs of very small enterprises (VSE) in Africa are met by several competitive Micro-Finance Institutions (MFIs) including those in the ACEP network. Too large and risky for classical MFIs and too small for banks, in recent years, SMEs requiring loans have not been made an adequate offer. In the last five to seven years, the market segment has received growing attention from structured MFIs or institutions developing specific offers.

Within the ACEP network, ACEP Madagascar and ACEP Senegal have been interested in mesofinance from early on. In the past 15 years, the institutions have been developing products that are distributed using specific mechanisms. They have acquired much experience and obtained some good results in this market.

Which are the SMEs concerned?

This article concerns small SMEs with financing requirements of between €10 and €75,000 generally not qualifying for credit from the traditional banking sector.

Competition (Bank and VSE) makes VSEs into a target of growing interest

Following the banks´ failure with this target, the market was close to untouched, when ACEP-Madagascar began its operations. Over the past 15 years, one has witnessed drives to dominate the market. Banks have begun adapting their practices and are ever more present. Several large microfinance networks that cater for VSEs have been offering these market products from the start, and mutual benefit networks have been setting up market-specific mechanisms, while a number of other private actors also supply specialised services.

1. ACEP Madagascar, over 15 years of engagement to SMEs

After starting business in 1995, ACEP-Madagascar soon discovered an interest in evolving its product so that it could be adapted to the mesofinance market. A pilot financing project was carried out with the support of the Agence Française de Développement (AFD) in 2002.

Beginnings of the ACEP-Madagascar SME project

At the time when the SME project was launched, in the early 2000s, the hope was to find means of accompanying the VSE clients that had demonstrated real growth and savings potential over the span of several credit cycles and which, in spite of the lending maxima imposed, refused to change to the banks. The aim was to rationalise the investment being made and the risks being taken with these promising VSE clients, while rewarding proven client relationships with higher loan volumes, itself representing a prospective profit increase. In a more general sense, the aim was also that of being able to keep VSE clients and of increasing their credit reimbursement rates by boosting their perspectives of long-term growth through their remaining with the institution.

Applying a specific approach to financing SMEs justified

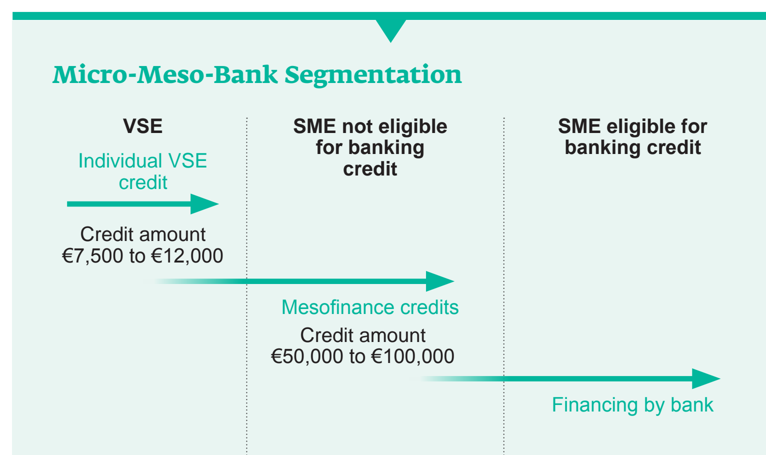
From VSE to SME, the necessity of adapting the offer made and the microfinance methodology applied

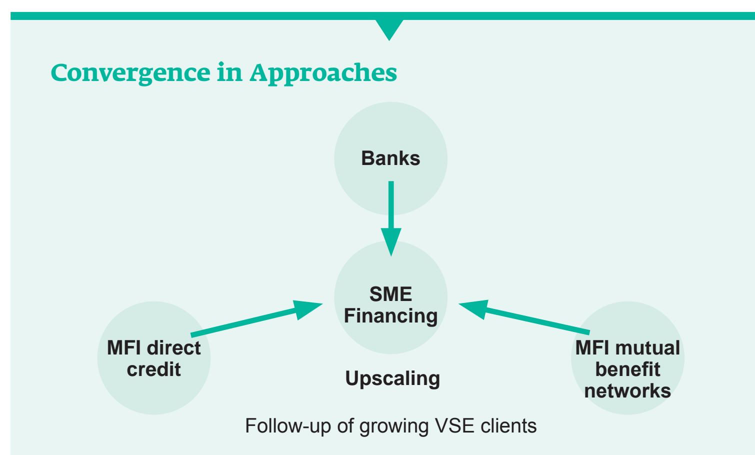
In many ways, the studies carried out before the product launch showed that it was not sufficient simply to increase ceilings on lending, without revising VSE methodology, and that this could even be dangerous, considering that:

- The profile of SME-specific marketers is different. They are generally better educated, more demanding, more agile, and they often have a better contact network.
- Their requirements differ from those of VSEs as they are more specific and often focus more closely on longer repayment periods.

Applying the same simplified analyses to SME as to VSE financing requests was deemed insufficient given that that the amounts requesting approval were 10 to 15 times higher. As credit amounts grow, amicable debt recovery practices soon become inefficient, and the only remaining lever, that of granting further credits, is insufficient to ensure proper reimbursement.

Concerning risk levels, it became clear that more thorough credit analysis is required; a more personalised approach is needed. The analy-





sis should also be carried out by more experienced teams than those in charge of VSEs. Guarantees of a psychological nature no longer seemed sufficient to keep risk under control on the reimbursement of what are higher sums, granted over longer periods.

Based on these findings, it became imperative to develop a new product offer and to define a methodology that is specific to SMEs, in order especially to enable a more thorough analysis and better risk management, and to help the institution adapt its distribution of that product.

Product and methodology: taking the best practices from microfinance and from banking

The task, with the mesofinance market, thus became one of efficiently mixing advantages from classical microfinance (market proximity, knowing the promoter, approach to fieldwork, follow-up) with banking techniques, especially in the fields of analysis, guarantees and collection methods.

2. A tailored product for SMEs' needs

Unlike with VSEs, the amounts involved in the case of SMEs are naturally greater and loan durations longer, although they rarely exceed 24-30 months, so as to remain in a progressive-investment framework and to limit risk over time. Given lower administrative costs and the fact that sales representatives pay closer attention to credit costs, the decision was taken to bring down the interest rate by two to three percentage points below the VSE rate.

Loan terms and grace periods were customised and made more flexible, so that credit granted could better fulfil practical marketing constraints and risk could be kept under better control.

With given types of investments, notably construction, disbursement in successive tranches was introduced, providing better control over the investment in its entirety, and enabling pressure to be applied in order for credit to go to its intended use.

As needs are often mixed (investment and working capital), an effective coupling of medium-term and short-term credit is performed. The requirement for formal guarantees, and the establishment of rules concerning those guarantees, is therefore also naturally stronger.

It is useful to put in place very-short-term flash credits so as to be able to effectively solve specific problems or to seize good opportunities. Further specific needs for services can be discerned (transfers, checks, etc.).

3. SMEs advisors able to manage risks and client's requirements

Promoters of SMEs are better educated, more demanding in terms of service quality, and more experienced in negotiating. They require personalised treatment (VIP desk ...). ACEP has chosen to promote certain SME advisors (lending agents) to a higher level than VSE loan officers, who are better able to study more important issues, to evaluate risks more thoroughly, to develop a tailored offer answering specific needs, and to discuss with promoters on an equal footing. These positions were staffed internally, among the best credit officers but external recruitment was occasionally required.

The ACEP network

- 5 microfinance institutions: ACEP-Senegal, ACEP-Madagascar, ACEP-Cameroon, ACEP-Burkina and ACEP-Niger
- 25 years' experience in microfinance
- 100,000 VSEs financed
- Outstanding credit to VSEs-SMEs: €130 M
- Average annual growth rate: 5 to 40%

ACEP and SMEs

- ACEP-Madagascar: setting up of first structures distributing to SMEs in 2002
- ACEP-Senegal: extension from 2005 onwards
- ACEP-Cameroon and ACEP-Burkina: following the outcome of several studies, SME products are currently in their implementation phase.

4. An application following strengthened procedures

SME financing requests are made based on a more complete application file, which details certain analytical elements (e.g. the entrepreneur's history and career path, environment and projections, profitability analysis) so as better to assess the risks weighing both on the entrepreneur and on his or her project. These analytical elements make it possible to better understand needs and to offer credits and services that are adapted (in terms of: duration, grace period …). Where higher risks are suspected, each request systematically receives the on-site visit of a delegation consisting of members of the credit committee. The visit focuses on specific individual suspected risks. The credit committee is composed of members of management who are directly involved and granting decisions are subject to very limited and controlled delegations.

5. Higher guarantee standards and formal recovery methods

Amicable recovery techniques are no longer efficient, as they face a more seasoned entrepreneurship and with, moreover, better quality guarantees. It has become necessary to obtain stronger guarantees, that are backed by physical assets (e.g. land, buildings, vehicles, professional equipment), and that are legally registered. Certain agility is required in the area of defining new rules, in order to ensure maximum legality without incurring often-prohibitive registration costs. Today, ACEP-Madagascar requests a mortgage guarantee from 60% of the SMEs in its portfolio, half of which are notarized mortgage bonds. Pledges and surety bonds account for one third of guarantees. The SME desk accounts for 99% of judicial recoveries, with an average recovery period of 670 days.

Due to conditions of the Malagasy economy, average loan sizes are proportionally lower than those one can observe in West Africa, in particular, where the average size of loans to equivalent SMEs is between €30 and €40,000.

Holding a portfolio quality close to that obtained by the VSE desk, the SME desk ensures strong contribution to the institution´s growth, enabling it to significantly increase its overall profitability, by providing VSEs with development perspectives and by building on the already developed relationship with the client.

6. Learnings from these experiences

Examples of risk factors for SMEs

- Some SMEs tend toward an uncontrolled diversification of their activity by launching themselves into new sectors, lacking experience and not having given the sector sufficient prior reflection. Often, they are driven by an imitation reflex. Vigilance is therefore called for, as is the subtle discernment of entrepreneurs´ hidden envisaged use of loan proceeds. A number of efficient techniques could be developed in this sense.
- Over-indebtedness represents a significant risk, which remains difficult to assess, and which requires SME consultants´ use of refined techniques enabling them to calculate it directly for the entrepreneur but also, often informally, for other market participants.
- The risk of credit object misappropriation accounts for a high proportion of unpaid debts. The needs of entrepreneurs including their personal needs are generally numerous (e.g. personal house building, land purchase), and credits are frequently diverted from their purpose. Here too, agile techniques need to be applied in order to get the entrepreneur to reveal his or her real needs.

Several key success factors

Beyond the general factors contributing to microfinance´s success (proximity, etc.), our experience has shown up a certain number of specific factors that are important to success in financing SME operations:

- The quality of recruitment and the management of SME consultants is a critical point as these employees require a very complete profile: being purposeful in assessing personal risks, being able to carry out simple but relevant technical and financial analyses, while also

ACEP-Madagascar - SME Desk Results

Make up of the SME portfolio	
Weight of the SME Desk in Total	30% of investments
Number of companies in the portfolio	900-1,000
Percentage of SMEs coming from the VSE window	65%
Percentage of enterprises financed "ex nihilo"	35%
Credit sizes (*)	
Average size of VSE credits	€900 - 1,000
Average size of SME credits (*)	€10,000
Lending limit SMEs	€60,000
Productivity and management standards	
Size of the portfolio managed by an SME Consultant	70 to 90 SMEs
Production capacity of an SME Consultant	
in start-up phase	5 to 6 cases per month
in cruising mode	9 to 11 cases per month
SME Portfolio Quality	
30-day risk portfolio	4 to 5%
Risk cost as share of loans total	1.2 to 1.4%

(*) Due to conditions of the Malagasy economy, average loan sizes are proportionally lower than those one can observe in West Africa, in particular, where the average size of loans to equivalent SMEs is between €30 and €40,000.

Holding a portfolio quality close to the one obtained by the VSE desk, the SME desk ensures a strong contribution to the institution´s growth, enabling it to increase its overall profitability by providing VSEs with development perspectives and building on the existing relationships with the client.

having a sharp commercial flair and being highly reactive, when a problem is detected.

- In order to circumvent the lack of financial control SMEs may suffer from, it is necessary to monitor the use of financing closely and to set up a system regularly monitoring credited entrepreneurs.

- A certain degree of creativity and agility are required in view of defining a flexible yet rigorous guarantee system that is more personalised and less costly than that of banks.

- Service quality appears to be a factor discriminating what is a more demanding target, in particular in a competitive context: differentiated reception, privileged treatment, and speed of disbursements (its main competitive advantage compared to competing banks).

Current questions on SME financing

Financing SMEs remains subject to uncertainties and the methodologies employed require constant refinement. Research into improving risk control and methodological efficiency center around the following questions:

- How can the uncertainty concerning entrepreneurs be factored into better risk control methods?

- How can the procedures be lightened without further increasing risks (e.g. financial analysis, monitoring system)?

- Given that SMEs are gradually becoming an attractive target for many financial institutions, how can their over-indebtedness be prevented, measured and managed?

- How should practical value-added services be developed effectively, for which banks are often better equipped? ■

Thierry Perreau, President of ACEP International and at the roots of the creation of ACEP institutions.

Mahefa Randriamiarisoa, Director general, ACEP-Madagascar.

Philbert Ratovonirina Mandimbison Nirina, Operations and Development Manager.

Would you like to know more about mesofinance by MFIs? Join the following sessions of the African Microfinance Week:

Training on Institution Assessment for Internal Staff (3 days training) by RIM Initiative on 9/10/17

Parallel session: Challenges facing actors financing SMEs by ADA on 11/10/17

Triple Jump
Responsible Investment Management & Advisory

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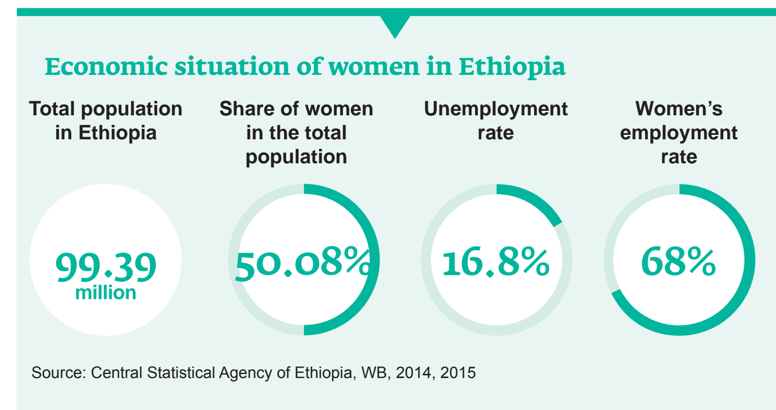
Opportunities for women entrepreneurs in Ethiopia lag far behind those of men. In The World Economic Forum's 2016 Global Gender Gap index Ethiopia occupies the 106th rank out of 144 countries.

Access to finance for women entrepreneurs in Africa: the Women Entrepreneurship Development Project in Ethiopia

Access to finance is the leading constraint faced by entrepreneurs, in particular if we are speaking about women. Indeed, their challenges are amplified compared to men entrepreneurs. The Ethiopian Women Entrepreneurship Development Project (WEDP) aims to facilitate women-owned enterprises and reduce their difficulties.



Across countries and contexts, access to finance is continuously identified as the leading constraint faced by entrepreneurs. While finance is a challenge for male and female-owned enterprises alike, the difficulties are amplified for women, who are less likely to own assets which can serve as collateral and are more likely to suffer exclusion based on unequal property rights or discriminatory regulations, laws and customs.

Ethiopia is no exception: despite being among the fastest growing economies in Africa over the past decade, Ethiopia is falling behind its peers in the area of credit to the private sector.

Opportunities for women entrepreneurs in Ethiopia lag far behind those of men. In the World Economic Forum's 2016 Global Gender Gap index Ethiopia occupies the 106th rank out of 144 countries. Most growth-oriented women entrepreneurs fall into a 'missing middle' trap, in which they are served neither by commercial banks, due to high minimum loan sizes and excessive collateral requirements, nor by microfinance institutions that primarily cater to micro-firms with group lending schemes that provide very small loans. Growth-oriented women-owned enterprises are therefore starved of the investment they need to thrive.

The Ethiopia Women Entrepreneurship Development Project (WEDP) has established a successful model for increasing access to finance for women entrepreneurs. WEDP started in 2012 with a $50 million loan from the World Bank to the Government of Ethiopia. The Governments of Canada, United Kingdom, Italy and Japan have become key partners over time funding part of the project's activities with an additional $80 million.

WEDP's main objective is to increase earnings and employment for women-owned enterprises in Ethiopia. It created the first ever women-entrepreneur focused line of credit in Ethiopia coupled with cutting-edge entrepreneurship training. As of February 2017, the project has provided loans to over 5,800 women entrepreneurs and entrepreneurship training to over 9,500. The project is amongst the highest-rated World Bank Group projects in the region.

WEDP is changing the way the microfinance sector caters for micro and small entrepreneurs and is reaching previously underserved segments of the population. The line of credit involves a market "up-scaling" operation where the Development Bank of Ethiopia (DBE) acts as a wholesaler and microfinance institutions act as retailers.

Some key achievements are as follows:

- Reaching the underserved: 61% of WEDP clients have never taken a loan before.

- Unlocking needed capital: for repeat borrowers, loan sizes have increased on average by 870%.

- Sustainable business line: When WEDP began, only 1% of the participating MFIs' portfolios consisted of individual loans to women entrepreneurs. Today, individual loans to women entrepreneurs make up 18% of their portfolios.

- Catalyzing growth: Enterprises that took out WEDP loans grew incomes by 78.8% and employment in their firms by 67.9%, between 2013 and 2016.

- High repayment: Repayment of loans stands at 99.4%. Across MFIs, the WEDP portfolio is performing better and has a lower PAR than their overall portfolio.

- Improving capacity of lenders: Through a technical assistance component, MFIs participating in WEDP improved ability to appraise, resulting in a reduction of collateral requirements from an average of 200% of the value of the loan to 125%. At the same time, WEDP MFIs are recognizing new forms of collateral -vehicles, personal guarantees, and even business inventory - to secure loans.

- Underwriting innovations: WEDP is introducing innovative credit technologies to lenders, such as psychometric tests which can predict the ability of a borrower to repay a loan. This technology allows entrepreneurs who do not have collateral to take an interactive test on a tablet computer which predicts their likelihood to repay.

- Cutting edge business development services: WEDP is introducing innovative entrepreneurship training, designed in collaboration with leading cognitive psychologists, which moves away from imparting traditional business skills such as book-keeping and marketing, and focuses instead on developing the ability to 'think like an entrepreneur', enhancing psychological attributes such as personal initiative, self-starting, and grit. A rigorous RCT showed that WEDP's psychologically oriented entrepreneurship training increased women's confidence and motivation and led to profit gains of 30%, compared to a control group.

Over 14,000 women entrepreneurs have participated in WEDP. But the true impact is in knowledge, not just numbers. The project's success is driven by the simple mantra that supporting growth-oriented women entrepreneurs is smart economics. By equipping financial institutions with the tools and knowledge they needed to reach female borrowers with larger loans, WEDP has introduced a sustainable, replicable model for increasing access to finance and catalyzing growth for women-owned enterprises ■

Francesco Strobbe, Senior Financial Sector Economist at the World Bank and team leader of the Women Entrepreneurship Development Project.

Salman Alibhai, Operations Officer at the World Bank.

Would you like to know more about Women and Entrepreneurship? Join the following sessions of the African Microfinance Week:

Parallel session: Promoting the capacity of financial institutions to unlock the potential of MSMEs on 10/10/17

Apply to the Responsible Microfinance Facility

Funding available for SPM training, audits, and upgrade projects in Africa

The Responsible Microfinance Facility (RMF) is an initiative providing training and co-financing projects that strengthen the capacity and social performance management (SPM) practices of financial service providers in Africa and the Middle East. The RMF is funded by the AFD and managed by the Social Performance Task Force (SPTF), in collaboration with the Smart Campaign.

Training opportunities

Since 2015, RMF has funded 25 courses introducing SPM and building the capacity of local consultants and networks to assess and improve SPM practices.

The Responsible Inclusive Finance (RIF) Introductory Training is a three-day course providing an overview of the Universal Standards for SPM, a comprehensive manual of best practices to help financial service providers (FSPs) achieve their social goals, and the SPI4 social audit, which allows FSPs to assess their practices against the Universal Standards.

The RMF also provides **Smart Assessor training and SPI4 Auditor training**, which helps prepare consultants to conduct Smart Assessments and SPI4 audits. RMF seeks to build local capacity by offering **training for technical assistance (TA) providers on specific aspects of SPM**.

Co-financing opportunities

RMF provides co-financing of up to half the project. It already co-financed almost 30 projects designed to help FSPs begin to assess their SPM practices and implement improvements.

The RMF offers the following type of co-financing grants:

- Accompanied SPI4 audit "plus." This allows FSPs to evaluate their practices against the full set of Universal Standards to understand their SPM strengths and weaknesses.
- Smart Assessment. This allows FSPs to evaluate themselves against Smart Campaign's client protection standards.
- Upgrade project. This allows FSPs to address weaknesses identified in an SPI4 audit or a Smart Assessment.
- Specialized training for FSPs on an aspect of SPM.
- Smart certification and/or Social Rating.

APPLY NOW!

You may submit an application at any time to rmf@sptf.info.

The RMF steering committee reviews applications on a quarterly basis. **To have your application considered in the fourth quarter 2017 steering committee meeting, please submit it by November 24 2017**. More information: http://sptf.info/resources/responsible-microfinance-facility.

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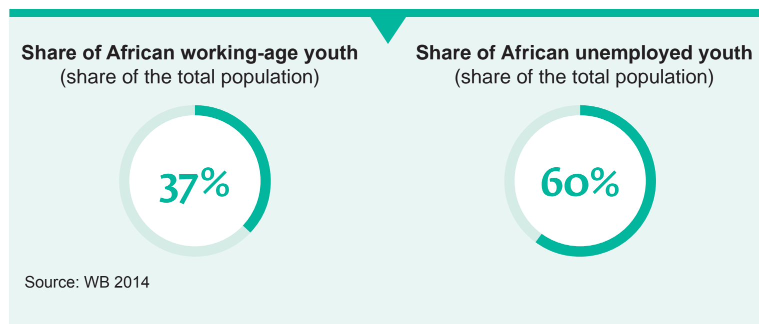
Which roles can support structures to SMEs play in Africa?



Support structures are essential to providing solid support to African entrepreneurs. Adapted capacity building should not be overlooked as contributing to the success and economic growth of innovative enterprises.

According to the World Bank, African youth account for 37% of the working age population, yet 60% of the unemployed. In the light of this observation, more and more voices are being raised, putting forward entrepreneurship as a solution to unemployment and as the path to the continents rapid economic development.

However, while it is true that the current digital revolution offers real opportunities for enterprise-creation and, in extension, for job creation for African youths, one must not lose from sight the fact that the conditions enabling the potential for economic growth to unfold are far from having been met yet.

Among those conditions, one must mention the low number of qualified structures dedicated to accompanying project entrepreneurs. They include incubators, who are major actors of innovation, and who play an essential role in maturing innovative projects. Present both at the start of the project´s inception, as well as over the company´s entire lifespan, they make available a multitude of services to entrepreneurs and enable them to launch under the best possible conditions. Incubators thus contribute to the availability of an ecosystem that is auspicious to the emergence and development of start-ups.

In a number of African countries, one can observe a trend in incubator creation, which has been on-going since 2010. However, few incubators fully play the role assigned to them, namely:

- Providing logistic services at prices that are below market prices: offices, meeting rooms, provision of computer and office equipment, etc.
- Providing services ranging from coaching and consulting to practical workshops, mentoring, the involvement of technical and business experts, tailored support, helping partners to connect, clients, beta testers, etc.
- Providing a network and fostering experience-sharing between peers: creating a community, with an “incubator” and a “start-up” atmosphere, within which exchanges are held between younger and older entrepreneurs (successes, hints, difficulties, questions, etc.)
- Providing support to the raising of public / private funds and / or facilitating contact with investors.

In addition to their accompanying role, incubators must actively take part in setting up an environment that is conducive to the inception, development and success of innovative enterprises in their respective ecosystems. In order to play their role fully, incubators must, in turn, be supported, trained and accompanied. They should have the possibility of discussing best incubation practices between themselves. To be stronger together, they must be better structured, more professional, and be networked. It is the Africa Innovation Program´s (PAI) aim to install such a logic of professionalization and sharing.

The PAI is a multi-country program, born of a consortium of African incubators (CTIC Dakar, CIPMEN Niamey, Bondy Innovation) and of French structures supporting innovative entrepreneurship. Funded to the tune of €1.7 million by the Agence Française de Développement (AFD), it aims to help professionalise the structures accompanying entrepreneurship in French-speaking Africa by strengthening capacities and networking. During the coming three years, it will be enabling the testing of incubator support services and of new seed funding mechanisms ■

Christian Jekinnou, Coordinator of the African Innovation Programme.

Would you like to know more about supporting structures for entrepreneurs? Join the following sessions of the African Microfinance Week:

Parallel session: The key players of SME growth - Incubators, Accelerators, Business Angels by ADA on 11/10/17

Investor’s fair on 12/10/17

1 http://siteresources.worldbank.org/INTAFRICAINFRENCH/Resources/ADI_Youth_Employment_summary_FR.pdf
2 https://www.afecreation.fr/pid6246/les-incubateurs.html
3 www.programme.africinnov.com (lien valide à partir de mi-mai)

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USD $2.6 trillion funding gap for SMEs, particularly in Africa and Asia (WB)

According to the 2015 annual Universal Standards Implementation Survey

74% of the Financial Service Provider (FSP) respondents stated the Universal Standards influenced the implementation of their Social Performance Management practices

and 100% of Social Investors respondents resulted being "very familiar, familiar, or aware" of the Universal Standard (source: Summary of the 2015 Universal Standards Implementation Survey)

Applying SPM (Social Performance Management) standards to SME lenders

Social performance management practices can be considered as ensuring financial institutions a more efficient client relationship. Developing a better understanding of the needs of SMEs regarding services and loan products should allow clients to increase the repayment capacity and develop the market potential.

Small- and medium-sized enterprises (SMEs) are often aptly described as the backbone of economies. According to the World Bank, they create more than 45% of total employment and up to one-third of GDP in emerging markets.

Yet, despite their economic importance, more than half of SMEs in emerging markets lack access to finance, stunting their growth. They're caught in the middle: banks often view moving down market as too risky, and traditional microfinance providers often do not have the capacity to analyze SMEs. According to the World Bank, there is a USD $2.6 trillion funding gap for SMEs, and the gap is particularly high in Africa and Asia.

That leaves a significant opportunity for financial institutions, should they be able to overcome these obstacles and finance this missing middle. Strong social performance management (SPM) practices – such as designing products that match clients' needs and preferences, ensuring staff incentives are aligned with goals, and bolstering repayment capacity analysis – could help financial institutions more effectively seize this opportunity.

However, it is unclear how current SPM standards apply to financial service providers lending to SMEs. The Social Performance Task Force (SPTF) worked with industry stakeholders to create the Universal Standards for SPM, which serve as a manual for providers to achieve their social goals. But, while the Universal Standards are increasingly being implemented by "traditional microfinance" players and used by investors to evaluate the SPM of their investees, these standards were written for providers lending to micro-entrepreneurs.

To that end, SPTF is exploring how current SPM standards apply to institutions lending to SMEs, with an eye toward adapting current standards and tools as necessary. It will share its initial findings at conferences later this year, starting with African Microfinance Week in October.

SPTF and e-MFP Action Group

At last year's European Microfinance Week, investors expressed interest in exploring how they can evaluate the social performance of SME lenders. SPTF and e-MFP have joined efforts to create an Action Group to address this.

The group will start by creating a baseline paper that analyzes the differences in assessing SPM for providers that finance micro-entrepreneurs vs. those that finance SMEs. Rather than building a tool from scratch, the group wants to first survey existing standards and tools to see what is applicable. MicroFinanza Rating, which has been commissioned to conduct the research, will map the tools used by MIVs investing in financial institutions that have part of their portfolio in SMEs. It will categorize the indicators used by applicability, highlight potential gaps and suggest potential directions to explore to fix the gaps.

While there will be overlap, initial research shows that there are differences between lending to the two entities. For example, FSPs lending to SMEs need to:

- Better understand the needs and preferences of SMEs. In an IFC survey, most financial service providers thought they were meeting their very-small enterprise (VSE) clients' needs through loans. However, survey results showed VSEs needed additional services, such as insurance, transfer and payments, and business development services.

- Improve staff capacity to analyze repayment capacity. Analyzing SMEs requires more business analysis than is typical of assessing loans for micro-entrepreneurs, such as supply chain analysis, cash flow projections and market potential assessment.

Building on this, the baseline paper will serve as a conversation starter with investors in the Action Group. Given MicroFinanza's analysis, the group will work to identify the best indicators for evaluating the SPM of SME lenders, with the goal of eventually creating a unified, comprehensive assessment tool.
SPTF will present this work at various conferences later this year, including at African Microfinance Week with a session entitled, "How SPM Can Increase the Effectiveness of Lending to SMEs." This panel will share the findings from the baseline paper, as well as provide examples of financial institutions using strong SPM to more effectively finance SMEs and discuss next

steps for moving this work forward. The findings will be further discussed at European Microfinance Week in November ■

Katie Hoffmann, Social Performance Task Force (SPTF).

Would you like to know more about the SPTF? Join the following sessions of the African Microfinance Week:

Parallel session: How Social Performance Management can increase the effectiveness of lending to MSMEs by SPTF-CERISE on 11/10/17

Social performance challenges for financial institutions supporting SMEs: An analysis of the CERISE SPI4 database

Data collected during SPI4 audits enable highlighting of the common traits and practices of SMEs in sub-Saharan Africa. This rich database consists of 200 SPI4 audits, 76 of which are in Africa, and which provide a first insight into the needs and limitations, where enterprises´ social performance and responsibility are concerned.

This year, the focus of the African Microfinance Week (SAM) is on the development of SMEs (small- and medium-sized enterprises) in Africa, their needs, their impact on the continent´s economic growth, and the role the microfinance sector can play in this development.

One observes that some financial institutions are focusing their interventions on the financing of SMEs (small- and medium-sized enterprises) and VSEs (very small enterprises), in order to respond to gaps that can be identified in their access to finance. In this context, as discussed in the work of the Social Performance Task Force (see: article by Katie Hoffman), it is interesting to analyse these organisations´ position in the sector and, in particular, to ascertain, to which extent the Universal Social Performance Management Standards can guide their practices, and what focus on the Universal Standards could nurture better support to African SMEs.

For that purpose, we have put forward a rapid analysis of the CERISE database on SPI4[1], which already allows a number of financial providers claiming to serve SMEs and VSEs to be identified.

The database includes 200 SPI4 audits, 73 of which were carried out in sub-Saharan Africa. The entire analysis in this article focuses only on quality audits[2] (61 in sub-Saharan Africa). In preparation for the SAM, we focused on the African Continent.

Profile of financial service providers focusing on SMEs / VSEs

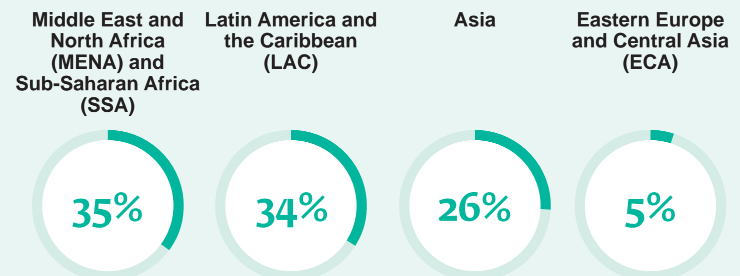
In the CERISE database, we sorted the organisations according to the information they provided in the "Organisational Information" section:

- Those declaring they lend to SMEs
- Those declaring their social objectives under "Existing business growth"
- Those reporting a significant amount under the "SME" category concerning the make up of their loan portfolios

In the subset resulting from this first sort, we looked at Average loan sizes, retaining those organisations for which the average loan amount exceeded USD 500.

That analysis enabled us to isolate 12 organisations with quality SPI4 audits in the CERISE database, that cater for SMEs in sub-Saharan Africa: ACEP Cameroon and ACEP Niger, Advans Bank in the DRC, Coopec Coodefi in the DRC, EFC Tanzania, Finadev Benin, Finca DRC, i-Finance in the DRC, Letshego Rwanda and Uganda, M-Finance in Zambia, and Ugafode in Uganda.

Audits SPI4 by region



Source: Cerise, 2017

Nature of the organisations in the sample

Organisations focusing on SMEs and VSEs rather tend to be concentrated in English-speaking African countries. Their maturity is variable and new institutions continue to emerge in favour of SMEs.

Overall, these organisations´ portfolios are significant in size. But their reach out to customers is sometimes proportionally smaller. In large part, borrowers consist of smaller institutions (in terms of their numbers of borrowers).

How are organisations focusing on SMEs and VSEs in Sub-Saharan Africa implementing Universal Standards?

So as to better understand how the Universal Standards are being taken into account by those organisations that focus on SMEs in sub-Saharan Africa, we compared our sample´s results to those of the sample of quality audits from Sub-Saharan Africa, in the CERISE database.

Overall, one observes that organisations focusing on SMEs are less successful on Dimension 1 (Define and follow social objectives) with a 16-point difference, and Dimension 2 (Commitment of the board of directors, management, and staff to social objectives), with an 8-point gap.

In particular, in what concerns the Universal Standards, the most pronounced gap relates to norm 1a (The institution has a strategy to achieve its social objectives), where it becomes clear that those organisations do not explicitly focus on social objectives.

As a result, the indicator for Standard 1b (The institution collects, pub-

1 NB: This analysis relates to Version 1 of SPI4, before the promulgation of the Smart Campaign 2.0 and SPTF 2.0 standards, and the development of SPI4 2.0 in July 2016.

2 CERISE assesses the audits it receives and attributes each a quality ranking according to the level of completion, the comments ´consistency, and the auditor´s experience. The audits taken into account are therefore those performed by qualified auditors, which are 100% complete, and the for which are substantiated by comments.

lishes, and verifies the accuracy of client data specifically related to its social objectives) also lies below the sub-Saharan African average.

In Dimension 2 again, in conjunction with the absence of a formalised social strategy, the “social” involvement the organisation´s various levels have is limited, especially for management - Standard 2b (Management supervises the implementation of the institution’s strategy to achieve its social objectives), a 15-point gap being measured on this standard.

The gap on Dimension 3 (Designing products, services, delivery models and distribution channels that respond to clients´ needs and preferences) remains fairly large. This is undoubtedly a dimension, in which those organisations´ partners can provide their technical support, the challenges being: ensuring that the organisations in question are able to conduct market studies, satisfaction surveys, and CRM, as well as to become able to develop a diverse range of products best meeting the needs of African SMEs. This point can be found in the IFC study by Katie Hoffman cited, in which she highlights the misunderstanding there is of small businesses´ diverse needs.

Dimension 4 (Treating clients responsibly) is less clear-cut. One observes how strongly committed these organisations are to tackling over-indebtedness as, along with Standard 4a (Preventing over-indebtedness) Principle 2 (Client Protection), they clearly lead the continent’s organisations’ average by 8 points. That goes hand in hand with the idea of it being necessary for SMEs and VSEs to deepen the analysis of repayment capacity by focusing on the issues of sectoral analysis, cash management and potential market. This set of analyses together, which is performed for loans to SMEs, helps limit the risk of over-indebtedness.

However, Transparency standards (4b / Principle 3: Client protection) and Responsible client treatment (4c / Principle 5: Client protection) remain less advanced and could be a point for these organisations and their partners to focus.

In Dimension 5 (Treating employees in a responsible way), the standards formalising HR policy seem still to require consolidation (Standard 5a: HR Policy, and Standard 5b: Communicating terms and conditions of employment), but the organisations under scrutiny stand out under Standard 5c (Employee satisfaction), with careful monitoring of the level of satisfaction and attention to the working conditions of their teams.

In the case of Dimension 6 (Balancing financial and social performance), reflection on compensation levels is more advanced (Standard 6d - Remuneration), but other standards, notably the management of balanced growth (Standard 6a - Maintaining quality of service and value for customers) remains below the African average.

Loan size (USD)	Number of IMFs
Between 500 and 1000 USD	3
Between 1000 and 5000 USD	6
> 5000 USD	3
Total	**12**

> 5000 USD	N	Maturity[3]	N
West Africa	2	New	2
East Africa	5	Young	5
Central Africa	5	Mature	5
Total	**12**	**Total**	**12**

Scale[4] (USD)	N	Reach[5] (borrowers)	N
		XL	1
Large	9	Large	1
Medium	3	Medium	3
Small	0	Small	7
Total	**12**	**Total**	**12**

Source: Cerise, 2017

Dimension	MFI SME/VSE (N=12)	Base CERISE Sub-Saharan Africa (N=49)*	Difference MFI SME vs. BDD CERISE ASS
Dim 1 Define and monitor social goals	**35**	**51**	**-16**
1 a - Social Strategy	29	55	-26
1 b – Reporting client level data	41	48	-7
Dim 2 Commitment to social goals	**38**	**45**	**-8**
2 a – Board accountability	27	34	-7
2 b – Senior management accountability	29	44	-15
2 c – Staff accountability	57	59	-1
Dim 3 Design products that meet clients’ needs	**49**	**54**	**-5**
3 a – Clients needs and preferences	39	42	-4
3 b – Benefits to clients	59	65	-6
Dim 4 Treat clients responsibly	**58**	**59**	**-1**
4 a – Prevention of over-indebtedness	67	59	8
4 b – Transparency	69	78	-9
4 c – Fair treatment of clients	53	62	-8
4 d – Privacy of client data	54	50	3
4 e – Mechanisms for complaints	48	45	3
Dim 5 Treat employees responsibly	**58**	**57**	**1**
5 a – HR policy	56	61	-5
5 b – Communication of terms of employment	69	72	-3
5 c – Staff satisfaction	49	37	11
Dim 6 Balance financial and social performance	**62**	**62**	**0**
6 a – Growth rate	64	69	-5
6 b – Alignment of objectives	70	73	-3
6 c – Profit and Pricing	62	63	-1
6 d – Compensation	51	44	7
Total Score	**50**	**55**	**-5**

3 Maturity: New 1 to 4 years; Young 5 to 8 years; Mature over 8 years
4 Scale (Gross Loan Portofolio, in USD): Super Giant: GLP > 25M; Giant: GLP > 10M to 25M; Large: GLP > 4M to 10M; Medium: GLP > 2M to 4M; Small: GLP < 2M
5 Outreach: Giant = Number of Borrowers ≥ 100,000 and ≤ 250,000; Large = Number of Borrowers ≥ 30,000 and ≤ 100,000; Medium = Number of Borrowers ≥ 10,000 and ≤ 30,000; Small = Number of Borrowers < 10,000

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Finally, in the green dimension ("Green Index"), which does not form part of the Universal Standards, yet corresponds to an optional analysis in SPI4, one observes that only three organisations in the sample use it, making for very low scores and revealing that concerns about those themes are still marginal and that practices have not been formalised.

Conclusion

Dimension 1 is not considered a priority by organisations focusing on SMEs and VSEs. Dimension 2 therefore remains weak. Achieving social objectives is not necessarily linked to a strong affirmation these organisations make, their focus being on financing SMEs with the aim of filling a gap in the funding chain, rather than on the social objectives covering: excluded households, rural areas, education, health, etc. Consideration may however also be given to reviewing the wording of Dimensions 1 and 2 in order to ensure that they are more in line with those organisations´ concerns: supporting job creation and growth of SMEs excluded from traditional financing. While they provide organisations with strong values to refer to, these remain major social objectives and require monitoring, measurement and reporting.

Along the service-improvement dimension, it is important to better understand these organisations´ practices and to disseminate analytical methods applying to the needs and preferences of SMEs, in particular in view of enabling those financial service providers to respond with a diversified range of services: long-term loans, insurance, transfers, payment, and business support services (BDS).

In terms of customer protection, beyond improving the SME-specific analysis made of repayment capacities, it also becomes necessary to help those organisations work around other Smart Campaign key principles related to transparency and the respectful treatment of customers.

Finally, it is crucial to increase awareness of environmentally-friendly financing, especially as the environmental risks relating to financing SMEs (pollutants and waste management, resource predation, etc.) have been identified as being important.

To summarise, in terms of working with SMEs, essential issues remain: transparency, working conditions, management of social, environmental and health risks become. The framework offered by the Universal Standards already provides references to preparing oneself to facing those challenges ■

Cécile Lapenu, Cerise.

Would you like to know more about the SPI4 database? Join the following sessions of the African Microfinance Week:

Training: An introduction to the CERISE social audit tool SPI4 on 13/10/17

Interactive training: introduction to social performance and lessons from the field on client outcomes and action plan implementation by SPTF on 9/10/17

6 For example, cf. presentation by ResponsAbility, Investors Working Group, Zurich, March 2017: https://sptf.info/images/SIWG-Zurich-2017-investor-meeting-presentation.pdf

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Solutions for the development of SMEs: protection against climate change risks

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Sub-Saharan Africa's situation (IFAD, 2014)

Number of rural poor	Number of urban poor	Total population
402,637	66,705	789,187

Ethiopia's situation: (IFAD, 2014)

Number of rural poor	Number of urban poor	Total population
96,506	78,142	23,755

Climate risk in Ethiopia

- Ethiopia is highly vulnerable to climate related natural hazards due to a significant land degradation over time. Those natural hazards include droughts, wildfires, floods and epidemics.
- Drought is the most recurring risk in Ethiopia, in particular for pastoral and agropastoral communities living in drought prone areas. Drought impacts include: pasture shortages, overgazing land, decreased water availability and livestock diseases. All these impacts lead decreased livestock productivity, food insecurity and increased conflicts over scarce resources.
- Large scale floods are also another risk, mostly occuring in lowland areas, as a resut of intense rainfall events.
- Addis Ababa experiences annual flood events that destroy property and represent a significant threat to urban inhabitants.

Individuals, households and businesses are increasingly exposed to climate risk. Unexpected meteorological phenomena are now common in many countries. Readiness to face such changes is nascent, since awareness about the persistency of sudden climate modifications is still relatively recent.

Consequences may be devastating, but even non-catastrophic adverse conditions challenge the population and the productive capacity of a country. Rainfall variability is a major problem in agriculture, especially in poor countries lacking adequate technology, but other sectors, such as entrepreneurs in the agricultural value chain or in the tourist sector, are also severely exposed to weather risks. Disastrous effects may also have spillovers on new entrepreneurs taking their first tentative steps in starting a company, particularly within economic environments lacking basic infrastructure and services. In addition to the direct, negative physical consequences of bad weather, a reduction in product demand occurs when purchase preferences are affected by the climate (e.g. beverage or clothes production).

Micro (rural) enterprises follow traditional strategies to adapt to this vulnerability: reducing exposure, cumulating money buffers, or participating in informal insurance mechanisms. Benefits of such practices are weakened as the firm grows and the social bonds of the more traditional strategies loosen, as can be seen in the case of urban or peri-urban entrepreneurs. Formal insurance is often a challenge. The potential customers' ability and willingness to pay (WTP) for it depend on contract suitability. However, designing effective contracts is difficult due to the lack of a large number of potential customers, the difficulties of estimating price and diversifying risk and limited information. In crop insurance, for instance, failures are often reported due to moral hazard, i.e. limited commitment from farmers to maximize production given the presence of a protection mechanism which compensates for production losses.

To overcome these limitations, more recent products base the insurance compensation on the value established by standardized, verifiable climatic indexes (precipitation, windspeed, temperature or solar radiation) which have statistical correlation with crop yields and cannot be influenced by the customer's behaviour. Current contracts are based on area yield, livestock, weather indexes. In area yield and livestock insurance, payment is due if area losses exceed a given threshold estimated on the basis of the average size of the area or of the group to be protected. Weather index insurance is based on the correlation between natural phenomena and agricultural yields and guarantees compensations if the index exceeds or falls short (depending on the type of risk to be covered) of a certain threshold. Computing correlation and estimating the payment due for each point gap are crucial and complex processes; appropriateness depends on the accurate choice of the period of observation, the quality of data collected at meteorological stations and data on farmers' historical production.

These contracts are expected to reduce farmers' revenue volatility. Several studies conducted in the last fifteen years show potentialities but also limits, such as basis risk (the risk to receive a compensation disproportionate to the actual loss) or the low WTP due to high prices, education levels, culture, distribution channels and other contributing factors. Nevertheless, successful examples of

index-based insurance are increasing. Interest in rural cases relates to the great impact of climate change on the agricultural sector. However, the extension of these types of contracts to other micro enterprises and SMEs (see, among others, the cases promoted through the IFC-Global Index Insurance Facility) could be of interest to these entrepreneurs and from the perspective of an insurance provider, may increase the potential market. This should incentivize insurers in developing adapted, suitable products despite the demanding task of estimating the relation between the weather index and the compensation for a wide and diverse range of entrepreneurs. The ultimate outcome is to offer cost-effective products, minimizing basis risk and moral hazard at attractive prices for the potential clientele ■

Laura Viganò, Director of the Master in Microfinance at the University of Bergamo (Italy).

Would you like to know more about agri microinsurance? Join the following sessions of the African Microfinance Week:

Training: Challenges of implementing agri microinsurance programme for MFIs by the Grameen Credit Agricole Foundation on 09/10/17

Training: Agricultural value chain development and finance by Connexus on 12/10/17

1 Chantarat, S., Mude, A.G., Barrett, C.B. & Carter, M.R. (2013), "Designing index-based livestock insurance for managing asset risk in Northern Kenya", Journal of Risk and Insurance, Vol. 80, pp. 205–237. Fafchamps, M. (1999), Rural Poverty, Risk and Development, FAO, Rome. Greatrex, H., Hansen, J., Garvin, S., Diro, R., Blakeley, S., Le Guen, M., Rao, K. & Osgood, D. (2015), "Scaling up index insurance for smallholder farmers: Recent evidence and insights", CGIAR Research Program on Climate Change, Agriculture and Food Security (CCAFS), rapport n° 14. Sandmark, T., Debar, J.-C. & Tatin-Jaleran, C. (2013), "The emergence and development of agriculture microinsurance", document de discussion, Microinsurance Network.

2 IFC – Global Index Insurance Facility: http://bit.ly/2uCrTFv

Financing agricultural SMEs in Africa

The increasing population combined with the increasing demand for food has opened opportunities in the agribusiness sector in Africa. Small- and medium-sized enterprises can benefit from this growing sector by fostering innovative practices and services to boost local markets and reduce the challenges regarding food sustainability.

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The agribusiness industry in Africa has been undergoing significant transformations over the past few years, and even more important changes are expected to occur in the following decades. The transformation of food value chains has mainly been driven by population growth (the region's population is expected to quadruple to 4 billion people by 2050)[1] and the dramatic expansion of urban areas (projected to double by 2030). These factors combined with a per capita increase of 4% per year has translated into an increased demand for food and has opened opportunities to serve a larger number and variety of markets with a greater range of food products. For instance, the demand for meat and cereals has increased by 50% over the past 15-20 years and is expected to continue growing alongside the urbanization process[2]. This shift is clearly leading to new opportunities in farming and processing. Agribusinesses, especially small and medium enterprises (SMEs), which represent the largest share of the industry in the continent, need to adapt to these structural changes but in order for this to happen, investments need to follow.

The increases in processing and exports which have taken place in recent years are well below requirements. Processed food is unable to keep up with the rapidly increasing demand for food. The slow transformation of the agribusiness sector is mainly due to the fact that a large portion of domestic food products (especially those based on domestic staples) are produced by SMEs and largely informal-sector operators, whose activities often generate outputs of variable quality thereby limiting their penetration into emerging urban food distribution. Food value chains have to shift from informal and fragmented models, to more coordinated and aggregated rural-urban chains, which are critical to ensure an adequate supply of products

1 World Bank, "Growing Africa. Unlocking the Potential for Agribusiness", March 2013

2 FAOSTAT

to larger processors and buyers and facilitate corresponding job growth.

Market linkages can be reinforced by linking commodity-dependent smallholders and small enterprises to markets and by mainstreaming business tools and private sector methods into agricultural development, notably under the Inclusive Business Models (IBMs)[3] approach.

Developed and pilot tested by the FAO in recent years, this approach makes it easier for smallholders to supply a buyer through interventions that seek, on the one hand, to establish a stronger negotiating position for farmers and small enterprises and on the other, to secure profits for buyers. Through skills development, collective bargaining, access to market information and finance, such models facilitate poverty reduction by providing a living wage for vulnerable groups, including smallholders, small enterprises, women-and youth-run enterprises. The sustainability of the model lies in the fact that it allows for diversified income streams in the long term, enabling the dissemination of upgraded skills to the rest of the sector and avoiding overdependence on any single buyer or market outlet.

Facilitating and increasing access to financial services is one of the pivotal aspects of the model. The agribusiness sector continues to struggle to access funding and investments from financial institutions. Among the barriers that are inherent to agriculture and that hinder investments (high risks and weak mitigation strategies; limited availability of collateral; high transaction costs; lack of business skills among small entrepreneurs), there is also the lack of capacity of financial institutions to assess profitable business opportunities within agribusiness markets.

A rising number of innovative experiments are currently emerging in developing countries, notably with regard to the delivery of a wide set of more inclusive agricultural financial products[4]. Institutions such as the National Microfinance Bank in Tanzania, Crédit Agricole in Morocco, Centenary Bank in Uganda or Equity Bank in Kenya have developed a wide variety of innovative agri finance products (inventory credit, credit scoring systems, savings schemes, working capital credit lines etc.) which are based on an improved and more thorough assessment of agricultural financial markets.

Nevertheless, achieving this higher level of inclusion is greatly dependent on a set of pre-existing conditions. These include the presence of enabling financial and agricultural environments, as well as the ability of a diverse set of stakeholders (e.g. formal financial institutions, producer groups, domestic and foreign agribusiness firms, and public agencies) to develop win-win collaboration models which can pool and channel the individual strengths of these actors in order to deliver flexible financial services and adequately manage investment risk.

By fostering exchanges and highlighting innovative best practices that employ a coordinated and balanced investment approach, more effective and less restrictive collaborations between these different categories of actors may be sought and developed. In this sense, a number of approaches (such as value-chain financing, IBMs, and coordination among public interventions to reduce private sector constraints) have shown great potential in promoting more sustainable private investments in agriculture, enabling SMEs to take advantage of the great opportunities the food markets will offer in the forthcoming years. ■

Massimo Pera, Manager of Rural Finance at the Food and Agriculture Organization for the United Nations.

The region's population:
4 billion
people by 2050
Source: WB, 2013

The demand for meat and cereals has increased by
+ than 50%
over the past 15-20 years

Would you like to know more about green finance?
Join the following sessions of the African Microfinance Week:

Applying a holistic approach to agricultural SMEs development and finance by Connexus on 10/10/17

Risk assessment and investment strategies to deliver financial services to agricultural SMEs by the FAO on 09/10/17

Parallel session: How to unlock investments in agricultural sectors with potential for growth by the FAO on 11/10/17

Training: The opportunity of Clean, Resilient business on green inclusive finance for MFIs by the e-MFP on 09/10/17

3 For further information, see: FAO, "Inclusive Business Models. Guidelines for improving linkages between producer groups and buyers of agricultural produce", Rome, 2015 http://www.fao.org/3/a-i5068e.pdf

4 For further information, the following FAO publications can be consulted: FAO, "Innovative risk management strategies in rural and agriculture finance. The Asian Experience", Rome 2017 http://www.fao.org/3/a-i6940e.pdf; "Innovations for inclusive agricultural finance and risk mitigation mechanisms. The case of Tamwil El Fellah in Morocco", Rome 2016 http://www.fao.org/3/a-i6166e.pdf; and FAO, "Estrategias innovadoras de gestión de riesgos en mercados financieros rurales y agropecuarios. Experiencias en América Latina", Rome http://www.fao.org/3/a-i5503s.pdf.

SAM
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We are pleased to invite you to the FinTech for Microfinance Prize!

Come and discover the finalists who will be presenting their innovative solutions for the African MF sector in a bid to win a 10 000EUR prize!

The Gala will be on the 12th of October at 6:30 pm

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Partnerships in the FinTech Era

Fintechs are the new and growing businesses that should partner with financial institutions to face challenges in inclusive finance. Focusing to support MSMEs' growth with digital services is booming in several African regions.

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The cost of serving a customer using mobile-money accounts can be up to 80-90% lower than using physical branches
McKinsey Global Institute (2016)

Financial institutions find themselves in a rapidly changing and increasingly digital environment. In Africa, mobile technology brought financial services to underserved customers, often through Mobile Network Operators or so-called FinTech companies.

What's more, data analytics, biometric authentication and digital field applications are just a few of the innovations that the current digital environment has to offer. These tech-enabled solutions, frequently grouped under the term of FinTech, allow for significant cost saving and increased outreach to MSMEs.

Technology can reduce operating costs dramatically. McKinsey finds that the cost of serving a customer using mobile-money accounts can be up to 80-90% lower than using physical branches.[1] This provides opportunities for financial institutions to more profitably serve MSMEs who make smaller-scale transactions. Furthermore, branchless delivery channels and digital field applications allow financial institutions to expand their reach and service customers further afield. Finally, technology can help assess the creditworthiness of MSMEs who lack a financial track record. Alternative credit scoring methods use alternate data footprints such as information from smartphone use, social networks and psychometric tests as proxies for the ability and willingness to repay loans, thereby offering improved solutions to assess and manage MSME credit risk. How best to reap these benefits? At FMO we believe in **partnerships** between innovative FinTech companies and financial institutions.

The integration of tech-enabled solutions may best be achieved through collaborative partnerships with FinTech companies. Based on the principle of externalization – meaning that certain processes, services or products can be performed more effectively by a dedicated external third party, because of lower costs, higher quality, greater speed, lower risks, or a combination of the above – financial institutions can outsource innovation while still leveraging on what FinTechs have to offer. Increasingly, the financial services industry is opening up for API[2]-enabled collaboration, in which a financial institution is able to prototype a range of new FinTech products and services by making its data available to third parties. This reduces the cost of innovation for the financial institution, allows them to internalize technology solutions and provide additional or new services to their customers.

While API-enabled partnerships seem a no-brainer on paper, there are some barriers that have to be overcome. One particular barrier concerns the legacy system of individual financial institutions. For a FinTech company to integrate its solutions directly, it needs to speak the same 'language' as that particular institution. This often makes it economically unfeasible for FinTechs and financial institutions to manage isolated and direct integrations. Going forward, active steps can be taken to overcome this barrier and facilitate partnerships. One potentially transformative solution is to develop independent middleware that allows multiple FinTechs and financial institutions to interact at the same time. This occurs in a controlled and secure environment, also known as a sandbox, and enables financial institutions to evaluate numerous customizable technology solutions rather than fully integrating solutions one by one. The interactions between financial institutions and FinTech companies can lead to a set of diverse partnerships and a flourishing ecosystem where tech-enabled solutions drive financial inclusion. MSMEs may very well be the most important benefactors of such partnerships in the current FinTech era. ■

FMO, Dutch Entrepreneurial Development Bank

Would you like to know more about digital finance? Join the following sessions of the African Microfinance Week:

Parallel session: Partnerships in the FinTech Era by FMO on 11/10/17

1 McKinsey Global Institute (2016). Digital Finance for All: Powering Inclusive Growth in Emerging Economies.
2 Application Programming Interface. This refers to the process that gives programs access to connect and essentially, communicate with other programs.

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