Making Access Possible 2021

INVESTOR TOOLKIT

Solving the puzzle together

Global goals, business opportunities, financing gaps and a new social contract

SUSTAINABLE DEVELOPMENT GOALS
17 GOALS TO TRANSFORM OUR WORLD

UNCDF
Unlocking Public and Private Finance for the Poor

THE MAKING ACCESS POSSIBLE PROGRAMME

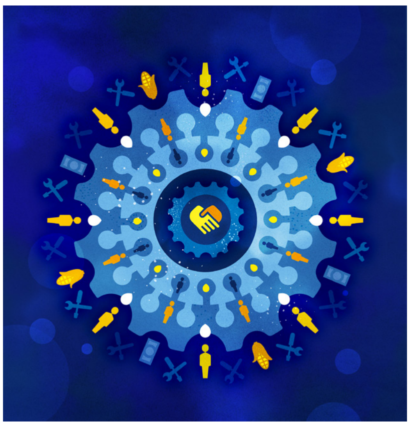
Making Access Possible (MAP) is a multi-country initiative to support financial inclusion through a process of evidence-based country diagnostic and stakeholder dialogue, leading to the development of national financial inclusion roadmaps that identify key drivers of financial inclusion and recommended action. Through its design, MAP seeks to strengthen and focus the domestic development dialogue on financial inclusion. The global project seeks to engage with various other international platforms and entities impacting on financial inclusion, using the evidence gathered at the country level. MAP is a diagnostic and programmatic framework to support expanding access to financial services for individuals and micro and small businesses.

The MAP framework was designed to create the space to convene a wide range of stakeholders around an evidence-based country diagnostic exercise and dialogue, leading to the development of national financial inclusion roadmaps. The roadmap identifies key drivers of financial inclusion and includes specific actions that will contribute to greater financial inclusion in the country.

SME INVESTING FOR HEALTHY, LONG-TERM RETURNS

The UNCDF MAP Investor Series, Note 1 – SME Investor Toolkit provides insights into trends in low-income, emerging markets. It considers what it would take for SMEs to start firing on all cylinders and fulfil their potential as the engines of economic growth they are commonly assumed to be. The note emphasises identifying common ground and mutually beneficial opportunities for investors, policymakers and entrepreneurs to work together to shape a better society for the next generation.

One thing is certain in the post-COVID world: multi-partnering will be key – and between diverse players too. In addition to those of government, business/financial backers and entrepreneurs, there will need to be contributions from the likes of conservationists, scientists, urban and rural planners, NGOs, consumers, producers, and grassroots, indigenous and civil society organisations.



Authors: Kameshnee Naidoo and Christiaan Loots
Series Editor: Jacquie Withers
Layout and Design: www.hybridcreative.co.za

ABOUT THE COVER

The cover design represents the moving cycle of a working system where all parts come together with a common goal. People, data, finances and policy fit together to create business solutions that focus on, and revolve around, the people they are created for.

INVESTORS HELPING TO *shape a new social contract*

Investors play a pivotal role in shaping society, now arguably more than ever – through the choices they make in terms of where they decide to put their money and the returns they are satisfied with. By investing capital and resources in businesses likely to bring significant, sustainable economic gains to low-income communities, investors can positively impact those communities, in the process helping to determine how not just the current generation but future generations will live.

Investors can choose to directly improve our emerging global society and economy.

Increasingly, too, investors, the private sector and governments are working together across borders to agree on and achieve minimum standards of living, which amplifies the potential benefits for all stakeholders, including low-income communities.

At the same time, though, the global economy faces stagnating wages, stuttering growth and job creation, decreasing trade and cross-border capital flows, and increasing environmental impacts. These combine with a world more and more expressing its dissatisfaction with the status quo in the form of protests, riots and immigration – legal and illegal. Thus, the task of creating 600 million new jobs in the next 15 years is not just to absorb a growing global workforce but also to create a future for the vulnerable and the young.

A new kind of globalisation is urgently needed—one that brings billions more people to sup at its table, rather than just the elite few, and ensures future environmental abundance (Malloch-Brown 2017).

Such a metamorphosis is only likely to happen if there is a radical shift in perception by the private sector to view the UN sustainable development goals (SDGs), with their coherent value system, as an unprecedented economic opportunity, rather than a burden and constraint to growth. Taking this responsibility for more inclusive growth and job creation seriously will involve a combination of new financial models and investors who recognise both the risk of social and environmental externalities affecting asset values, and the fact that higher, long-term returns will be generated by strong environmental and social performance.

Furthermore, while SMEs are the engines of growth in developing economies, the necessary breakthrough – quantum leap even – in their contribution to inclusive growth is only likely to be achieved through investors thoroughly engaging with country-specific realities and opportunities on the ground: the engines that are going to drive growth will need more than simply funding.

TOWARDS A HEALTHIER *more stable global society*

What does it mean to live in a world made up of complex, interdependent systems – a globalised world – with a global economy in the form of an intricate, interconnected web? And what does the fact that more than half the world's population are unable to participate in this global economy mean for those who are able to participate – and for a global society?

The global economy as a system of norms, values, rules and, most importantly, economic opportunity for those who function in it, is increasingly relevant for achieving the UN SDGs, which paint a vision of an inclusive, shared future with common goals. In an interdependent world, any changes in one area can either enhance resilience or result in greater instability and uncertainty in another. Thus, the necessity of making our societies and economies less inequitable and more sustainable is not just to stem the tide of global turbulence and instability and avoid disaster, but to promote increased stability and health of the global economy – to build lasting prosperity for more of the globe's population.

While primary responsibility for economic welfare and growth lies with the nation-state, increasingly, in an interdependent world whose economy is also conceptualised as global, the factors of production are beyond the control of any single state. Given both the significant rise and dominance of a private sector that controls the means of production through large, multinational corporations, and the collective imperative of achieving the UN global goals, nation-states acting alone cannot fulfil their social contracts.

At the same time, the private sector is increasingly being held accountable for the larger and indirect impact it has on both society and the environment via financing channels. While the world faces high levels of poverty and rising inequality, globally the private sector thrives – but not through discovering the much-vaunted 'fortune at the bottom of the pyramid'. For, not only do corporates and businesses in least developed countries (LDCs) and low-income markets customarily serve the high end of the market, they also mostly only benefit the high end of the market in terms of economic value transfer; they are not playing a role at the bottom of the pyramid to generate employment opportunities, for instance. And in this sense they are mostly failing in terms of their potential – even obligation – to promote stable, healthy economies and help fund inclusive societies.

THERE IS NO FORTUNE AT THE BOTTOM OF THE PYRAMID. THERE ARE, HOWEVER, OPPORTUNITIES FOR DOING GOOD BUSINESS IN LDCS AND LOW-INCOME MARKETS – BUSINESS THAT BOTH BENEFITS AND SERVES.

The sustainable development agenda is about better government *and better markets*. What seems to be needed then is a radical transformation and rethink of key economic systems. The emphasis on accountability, which is core to sustainable finance and financial inclusion alike, suggests that for businesses to legitimately, appropriately and sustainably participate in the global society, they will need to devise new indicators and metrics for measuring business success, including success in reaching the low-income market to stimulate economic growth in segments that business has traditionally ignored. Business will also need to switch focus to longer-term returns – for society and the environment alike.

Granted, business models for low-income (especially rural) markets are quite unclear using a conventional lens. For a start, though, at country level the private sector and government will need to collaborate to gain the trust of greater sections of the population, which will require relinquishing short-term thinking and the relentless drive for profit for limited numbers of beneficiaries, and engaging with the wider society in entirely new ways. What is being proposed is an exercise in rebuilding the 'connective tissue' between business, government and the wider population: effectively a social contract that reinforces the ability of all parties to thrive. Importantly, it will entail engaging meaningfully with low-income communities, as active partners rather than simply potential customers.

The MAP research increasingly suggests that development finance at the local level should be locally owned and driven, with inclusive growth objectives taking precedence over profit motives in some cases, in order to more effectively incentivise inclusive growth outcomes.

WHAT CONSTITUTES HEALTHY ECONOMIES WILL NEED TO BE RETHOUGHT, TO INCLUDE THE METRICS OF ECONOMIC, FINANCIAL AND SOCIAL INCLUSION AND OPERATION WITHIN PLANETARY BOUNDARIES.

A unique aspect of the SDGs – with their focus on inclusive growth and social cohesion implicitly and explicitly (Goal 8) – is that they are targeted at governments, the private sector and civil society partnering for a shared solution to the intractable problems of poverty and exclusion. How can these partners accelerate the market shifts that are already under way and bring them to scale? They will need to bring their diverse skills, practical experience, perspectives, interests, objectives, risk tolerances, and budgets into play to devise new ways of working together and doing business. The focus will need to be on improving the stability and health of economies for everyone (particularly the most vulnerable), fostering new enterprise and employment opportunities, and doing much more to support existing small businesses, within the boundaries of available resources and with shared objectives as the meeting ground. And, as the lubricant of the economy, the financial sector will have to balance a profit focus with social and environmental objectives. Failure to do so runs the risk of the global goals being remembered as just good intentions in an increasingly unstable and polarised world.

Getting down to work and engaging economic opportunities

Achieving the goal of improved economic security for everyone requires looking beyond traditional roles for government and the private sector (which usually implies large, established corporate businesses) in creating and protecting jobs and incomes. Instead, there is a need to unlock the growth potential of the 90%: the micro, small and medium businesses (MSMEs) that comprise the majority of businesses globally, and that provide as much as 50% of employment worldwide, and as much as 70% of jobs in the formal sector (World Bank n.d.). Unlocking growth in this sector, therefore, can contribute as much as – or even more than – what corporates and big business in these countries can contribute.

Furthermore, MSMEs are typically rooted in local communities; that is to say, not simply serving the high end of the market. Unlocking MSME growth thus not only contributes to economic security at a national level but also contributes value to communities and households, in the process widening access to economic security and making it more inclusive.

Strengthening and boosting the MSME sector is an important focus globally, being anchored on the SDGs, including Goal 9 'Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation' which recognises the need to 'Increase the access of small-scale industrial and other enterprises, to financial services, including affordable credit, and their integration into value chains and markets'. MSMEs can also be a means to achieve Goal 8 (inclusive and sustainable economic growth, employment and decent work for all) and Goal 5 (gender equality).

The MAP countries are no exception in terms of the ubiquity of small enterprises: MSMEs represent a sizeable portion of the real economy and are one of the most common sources of income, particularly for low-income households. With formal employment options in these countries typically being limited, however, the majority of income-earning opportunities are to be found in the informal sector – and so are most MSMEs.

This situation is not ideal, from either a household or macroeconomic perspective. Productivity in the informal sector is much lower than in the formal sector, and typically does not contribute significantly to a country's economic output. Thus, while these enterprises are certainly the engines of economic activity and opportunity for households and communities, they represent hugely untapped potential for countries' economic development: their desperate need for capital signals that the growth engine at a community level has sputtered to a halt.

When it comes to aspirations to grow the business, in developing countries, MSMEs – and particularly SMEs – cite accessing finance as the second biggest obstacle (World Bank n.d.), while in MAP MSME countries accessing finance is cited as the biggest obstacle. In LDCs, though, inclusive growth is not an option but a necessity, and so it becomes crucial to intervene to fill the large financing gap that is especially prevalent in these markets.

SME FINANCING IS THE LUBRICANT THE GROWTH ENGINE NEEDS. THE INVESTMENT CHALLENGE, THOUGH, IS KNOWING WHICH ENTERPRISES TO FINANCE FOR OPTIMAL IMPACT.

THE MAJORITY OF MSMES IN EMERGING MARKETS ARE SURVIVALIST IN NATURE, OWNED BY INDIVIDUALS WHO ARE NOT ENTREPRENEURS BY CHOICE AND WOULD JUMP AT A STABLE INCOME OPPORTUNITY WERE ONE TO ARISE.

Yet, of the masses of informal activity, some individuals and enterprises with aspiration do manage to leverage business opportunities to achieve better scale. Some invest to grow their income-earning opportunities and some, whether by skill or chance, manage to make these opportunities last over time. It is this group – of locally rooted, truly entrepreneurial, high-potential SMEs – that can and should be active partners in growing stable and healthy economies that add value at a community, national and global level.

The MAP MSME methodology therefore is premised on identifying the relatively small group of enterprises that fall into this category of 'transformative' SMEs (high-impact/high-potential): the enterprises, whether formal or informal, that, while possibly not yet demonstrating high impact, indicate both the potential and aspiration to grow over time.

The SMEs in this relatively small pool typically have another crucially important characteristic in common though: when it comes to accessing finance they tend to fall into the 'missing middle': too large for microfinance institutions (MFIs) and too small for regular bank lending.

The SME financing gap is especially the norm in low-income, emerging markets, where SME growth is hampered by intractable market constraints: there are simply very few financing options available to meet small businesses' real needs, and in these information-scarce environments most SMEs are not eligible for business credit as they struggle to meet providers' lending criteria. And despite the large and unmet demand for financial services, there are relatively few opportunities for commercial investment, with opportunities being diverse and dispersed and provider search and screening costs to identify suitable SMEs for funding being very high. Compared to mature markets, nascent markets tend to have a larger investment need yet fewer investable equity/debt opportunities, while maturing markets have more investable opportunities but also more 'competition' in pursuing deals. The relatively high risk profile of credit seekers in LDCs limits the universe of potential investors, especially commercial capital.

It becomes clear that the profit motive to some degree undermines funders' access to the missing middle. With serving these SMEs being considered either too risky or too costly to constitute good business, what are the alternatives?

The MAP MSME methodology, by helping to identify potential market opportunities, curtails provider search costs and plays an important role in limiting provider risk. Beyond that, identifying new investment opportunities that are both good for society and enhance growth means the focus will need to be on investors with strong developmental and impact objectives, often aligned with national objectives where the skills and capacity brought by investors are most likely to succeed.

AS ILLUSTRATED BY THE MAP WORK, SIGNIFICANT PORTIONS OF SMEs IN LDCs ARE INFORMAL, OPERATING IN LOCAL COMMUNITIES.

Financial inclusion, working as it does in the context of the informal sector and the real economy, plays a strong role in helping to piece together the puzzle of how to successfully go downmarket: it guides investors on investing in low-income markets in ways that are mutually profitable, including in terms of increasing social inclusion, a core tenet of sustainable finance.

Moreover, with its overt focus on the low-income market, financial inclusion provides an 'alternative path' to economic and financial success that is credible, viable and most importantly *inclusive*: doing business that serves and benefits low-income populations and investors alike while doing no harm to the natural world.

New partnerships cutting across traditional boundaries will be helpful to bring the various 'pieces', in the form of government, business, financing and society, together to contribute to completing one of the greatest puzzles ever attempted: a better pathway out of poverty for those in danger of being left behind. This is our collective challenge, as a global society, for the next 15 years.

MAPPING A COUNTRY'S *MSME terrain*

The MAP MSME methodology supports country governments, other stakeholders and would-be investors in LDCs and low-income markets to identify investment opportunities with the potential to deliver significant and sustainable economic gains for investors and low-income communities alike.

Through providing comprehensive data and analysis, the methodology shines a light on a country's wider MSME sector, including providers and seekers of MSME funding; it identifies the different needs in the small business market, and the main products and services provided by financial services providers, with the intention of developing interventions aligning providers' products/services and market demand.

In terms of the MAP MSME methodology, entrepreneurial enterprises are segmented into groups with similar profiles and needs that could form discrete target markets for development. With the target markets segmented, the analysis also identifies institutions that serve the various SME groups, and supply-side barriers to SME development.

A distinguishing feature of the methodology is its emphasis on separating out, from a country's millions of MSMEs, the much smaller pool of currently underserved high-potential/high-impact SMEs: those enterprises considered to have the potential to meaningfully contribute to employment creation and inclusive economic growth.

A CRUCIAL PART OF THE METHODOLOGY IS FACILITATING DIALOGUE BETWEEN A COUNTRY'S POLICYMAKERS AND INVESTORS ABOUT SME SECTOR DEVELOPMENT AND CONSTRAINTS, AND HIGHLIGHTING FOR POLICYMAKERS AND REGULATORS THE POLICIES AND REGULATIONS INHIBITING MARKET GROWTH.

Furthermore, facilitating a conversation with investors and funders outlining viable opportunities for growth brings together the policy and funding worlds. The methodology emphasises facilitating multi-party collaborations towards stimulating the market for SME financing, with development partners being included for their valuable experience and expertise in de-risking the market – guidance that the private sector players can then leverage to inform their commercial models.

WHILE THE ENTIRE MSME ROADMAP EXERCISE IS NOT LINEAR, DISCRETE STEPS AND STAGES CAN BE IDENTIFIED, MANY OF THEM RUNNING IN TANDEM OR OVERLAPPING TO SOME EXTENT.

Market data collection

HIGH-LEVEL POSITIONING AND LANDSCAPING: Understand the country's growth aspirations and public policy objectives, the wider, regional context and the 'universe of business activity' in the country: the macroeconomic context (including analysis of economic sectors) and the MSME sectoral breakdown based on current market activity. Also consider regional and national strategies and public policy objectives as well as the enabling environment for MSMEs.

SEGMENT AND UNDERSTAND MSMES: Research and profile the country's MSMEs, including composition, characteristics, behaviour, drivers and needs. Sources to consider:

- FinScope
- Qualitative interviews
- MSME deep dives

ANALYSE AND MAP FINANCING AND SUPPORT: Understand the financing and support environment and providers' capacity, constraints and needs. Components to consider:

- Landscaping of finance and BDS providers
- Capacity of providers to support MSMEs
- Information requirements and asymmetries
- Investment requirements

Market analysis

SYNTHESISE the information to highlight gaps, potential and opportunities. This should include the potential for growth, as well as gaps in support, information, investment and stakeholder collaboration. Product and service gaps and policy gaps should also be considered.

IDENTIFY ENABLERS at the macro, meso and micro levels:

- Macro: policy support, economic policy, ease of doing business
- Meso: infrastructure, business support, financial services
- Micro: skills, resources, access to markets

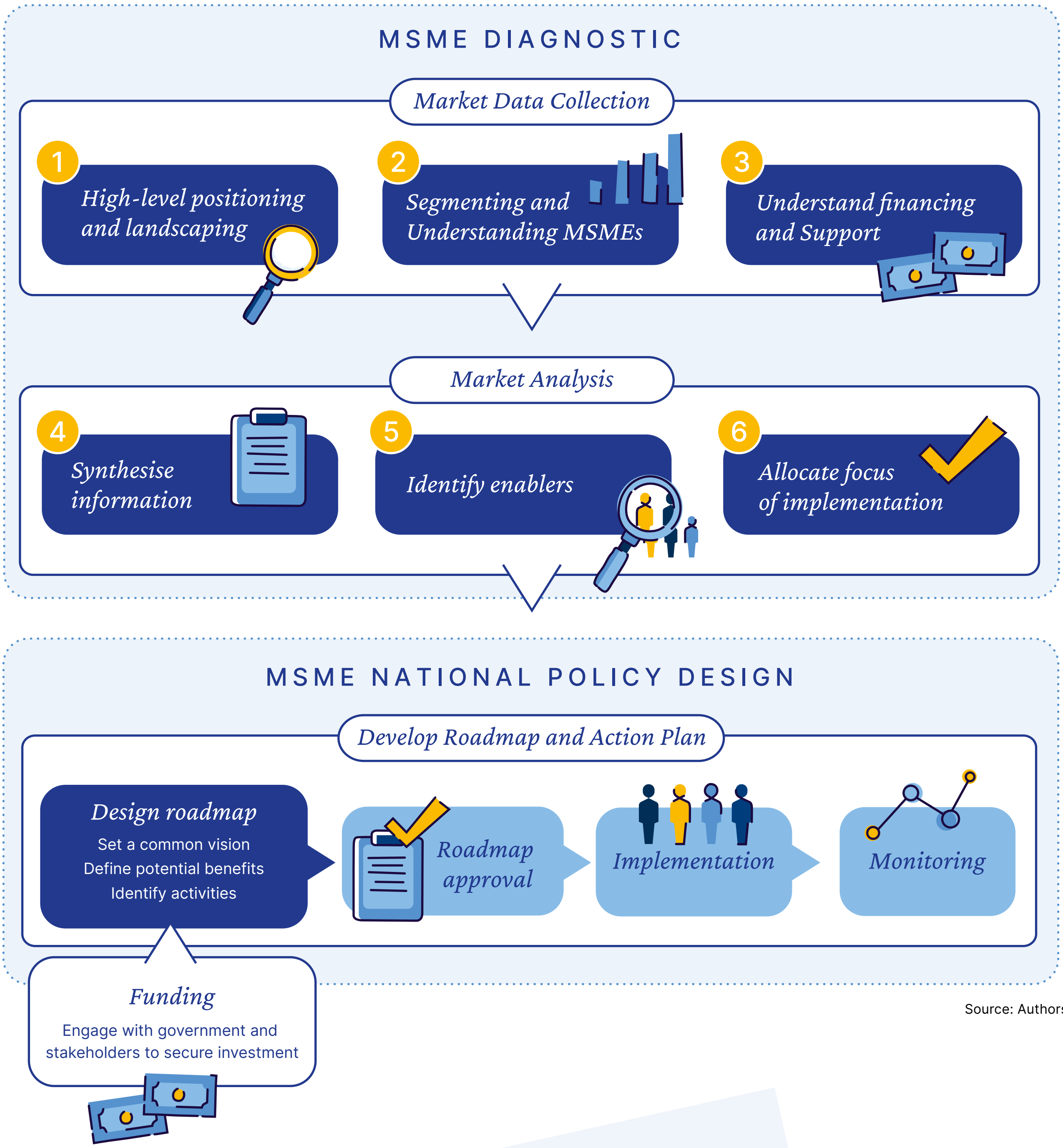
ALLOCATE IMPLEMENTATION FOCUS based on potential and gaps: Who has mandate to implement?

Develop roadmap and action plan

SME ROADMAP AND ACTION PLAN: Given the political economy, a common vision is agreed among stakeholders, which defines potential benefits and identify implementation activities and delivery options, culminating in the approval of the roadmap by stakeholders. Governance structures to oversee implementation is also agreed.

IMPLEMENTATION AND MONITORING: Based on the roadmap and action plan, government and stakeholders are engaged to secure investment to fund implementation activities. Champions are identified or assigned and given responsibilities for implementation and coordination. An M&E framework and indicators is developed, and responsibility for M&E activities is allocated.

FIGURE 1
MAP MSME diagnostic and roadmap analytical and stakeholder process



Source: Authors

OBJECTIVES RELATED TO POVERTY ALLEVIATION AND ECONOMIC GROWTH ARE USUALLY CAPTURED IN NATIONAL, REGIONAL AND GLOBAL DEVELOPMENT STRATEGIES.

They should be taken into account because an MSME growth and funding strategy needs to be positioned and located within the context of national and regional growth objectives; these political and strategic initiatives, with their related activities and momentum, constitute the context for success that will support the MSME growth initiatives, provided there is complementarity.

The degree to which a country's population relies on informal sources of employment and on MSMEs for employment, and the proportion of the population living in poverty, provide the first imperative for ramping up support to the MSME sector. The degree and rate of urbanisation and the population profile in terms of urban/rural breakdown are an additional and crucial piece of the puzzle.

While the goal of MSME development is to support broad-based poverty alleviation in a country through accelerating employment creation and boosting economic growth, the how is very important.

Informal MSMEs that have low turnover and do not employ anyone beyond the small business owner/operator – what are termed 'survivalist' MSMEs – are unlikely to have the potential for economic impact beyond direct livelihoods support to the individual (and their household); although such enterprises are likely significant in number, they can thus be targeted for support and improved access to finance using the same approach otherwise used to support livelihoods improvement for households (because these micro businesses rely on a mix of business and personal income and financial mechanisms).

Furthermore, because a substantial proportion of these micro, non-employment generating businesses operate out of necessity rather than true entrepreneurship, in many cases their owners will tend to migrate to work for larger entrepreneurs if the SME sector can be developed.

Beyond livelihoods protection for MSMEs, however, given that accelerating employment creation and boosting economic growth are key objectives, it is necessary to focus on actively supporting the growth of a more concentrated group of high-impact/high-potential SMEs – what are, from a financing perspective, termed 'the missing middle' because they fall into a funding gap between MFI and bank financing.

For this reason, finance (and investment) needs to be one of the main focus areas addressed to unleash the growth potential of SMEs. Of course, such investing needs to be balanced with policy coordination, policy harmonisation and industry linkages in regions, capacity-building programmes particularly in the area of finance, and improving access to data and information (both for SMEs in terms of awareness of financing options and for providers to reduce information asymmetries).

Properly identifying, defining and serving the financing needs of the missing middle SMEs has the potential to channel funding and investment to the most productive activities and opportunities in the SME sector (and, critically, away from lower-productivity activities), which should impact positively on enterprises' returns over time, thereby supporting growth in the real economy.

BECAUSE FINANCING IS SO CRUCIAL AN ASPECT OF A COMPREHENSIVE SME GROWTH STRATEGY, IT IS IMPORTANT TO UNDERSTAND PROVIDERS' PERSPECTIVES AND TO FACTOR IN THE FOCUS/PRIORITIES OF BANKS, FUNDERS AND DONORS RESPECTIVELY, INCLUDING THEIR FINANCING AND RETURN REQUIREMENTS.

These priorities, commonly serving as constraints on SME growth, have a huge impact on the ability and potential of SMEs in LDCs to contribute to development. Creating a better enabling environment, including information transparency, for banks and other investors could help to unlock available funding that is not being used efficiently or effectively.

As part of mapping a country's MSME terrain, it is also important to understand the scope, range and performance of historical government and donor interventions to support MSMEs: what has worked and what has not, and possible reasons why, based on the particular country, economic and political context.

THE MACROECONOMIC ENVIRONMENT
that shapes sectoral economic activity

To begin gauging the role a country's MSMEs can play in employment generation, economic development and economic growth for national (and potentially regional) impact, it is necessary to get a clear picture both of the macroeconomic context (including sectoral composition) and of MSMEs by sectoral composition therein.

Analysing economic sectors based on their GDP contribution and growth (Nepal)

An analysis of this nature highlights sectors contributing more (or less) to GDP growth than their existing share of GDP: the proportion that each sector currently contributes compared to how this is changing over time. Some sectors are adding more new value to GDP than their current share of GDP; these sectors will have an increasing share of GDP over time. Others are adding less new value; their share of GDP will decline over time.

FIGURE 2

Sectoral contribution to current GDP (2020) and percentage additional value added (2015 to 2020), Nepal

Growing share 36% 48%

Sector	Current value added (GDP 2020)	Additional value added (GDP 2015 to 2020)	Average growth rate 2015 to 2020
Real estate, renting and business activities	12%	17%	15%
Financial intermediation	7%	9%	17%
Education	8%	9%	13%
Community, social and personal services	5%	6%	14%
Public administration and defence	3%	4%	15%
Electricity, gas and water	1%	2%	12%

Stable share 10% 10%

Sector	Current value added (GDP 2020)	Additional value added (GDP 2015 to 2020)	Average growth rate 2015 to 2020
Construction	7%	7%	9%
Health and social work	2%	2%	12%
Fishing	1%	1%	12%

Declining share 54% 42%

Sector	Current value added (GDP 2020)	Additional value added (GDP 2015 to 2020)	Average growth rate 2015 to 2020
Agriculture and forestry	27%	21%	6%
Wholesale and retail trade	14%	13%	6%
Manufacturing	5%	4%	4%
Transport, storage and communications	6%	4%	5%
Mining and quarrying	1%	0%	8%
Hotels and restaurants	1%	0%	4%

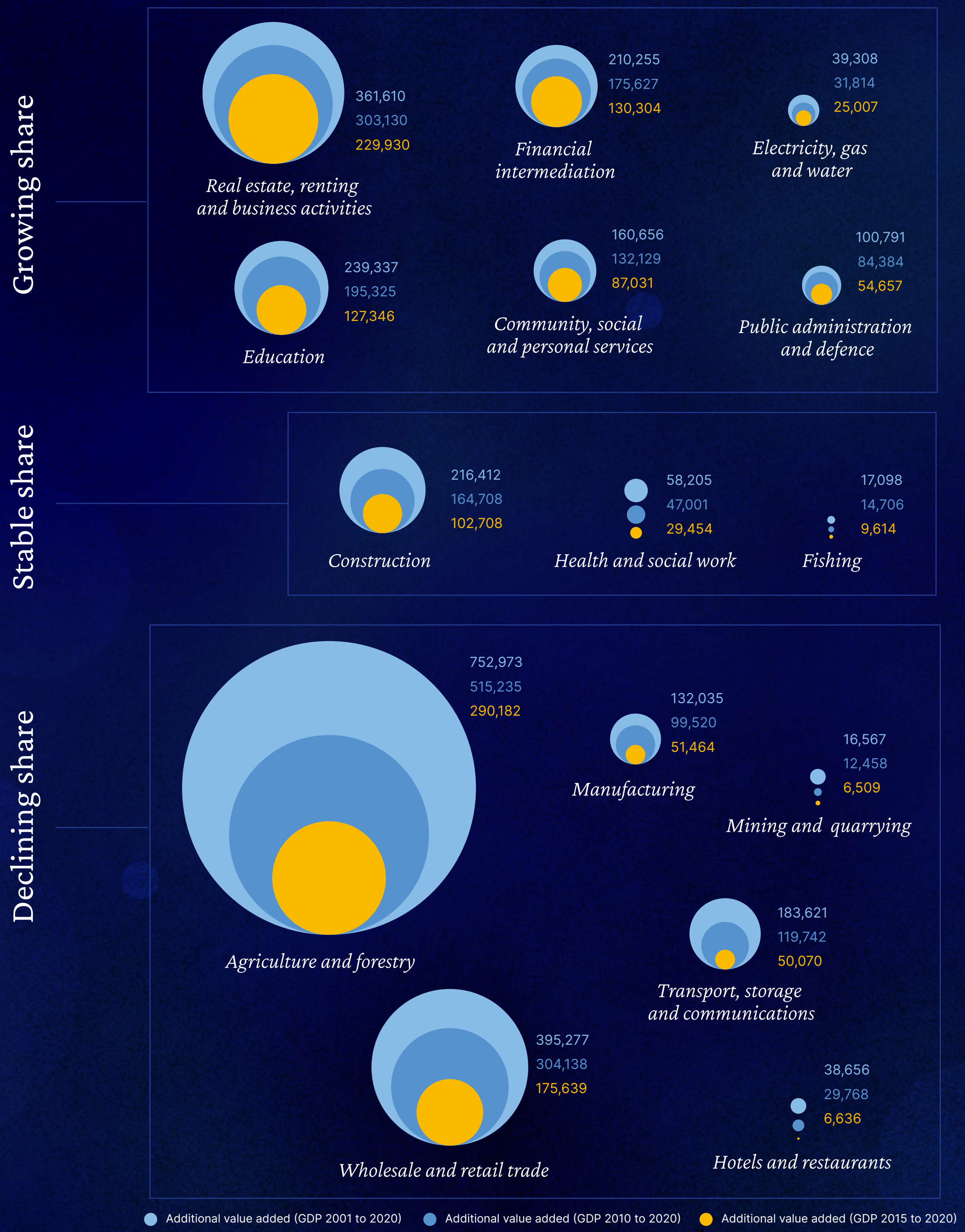
Current value added (GDP 2020) · Additional value added (GDP 2015 to 2020) · Average growth rate 2015 to 2020

Quantifying absolute new value added to GDP, by sector

The current size of each sector dictates its importance in the economic landscape, regardless of whether it is declining or growing as a share of GDP over time. Many people still depend on sectors that are declining, and these sectors can still contribute substantial portions to GDP.

FIGURE 3

Absolute new value added to GDP, by sector (2015 to 2020, Rs million), Nepal

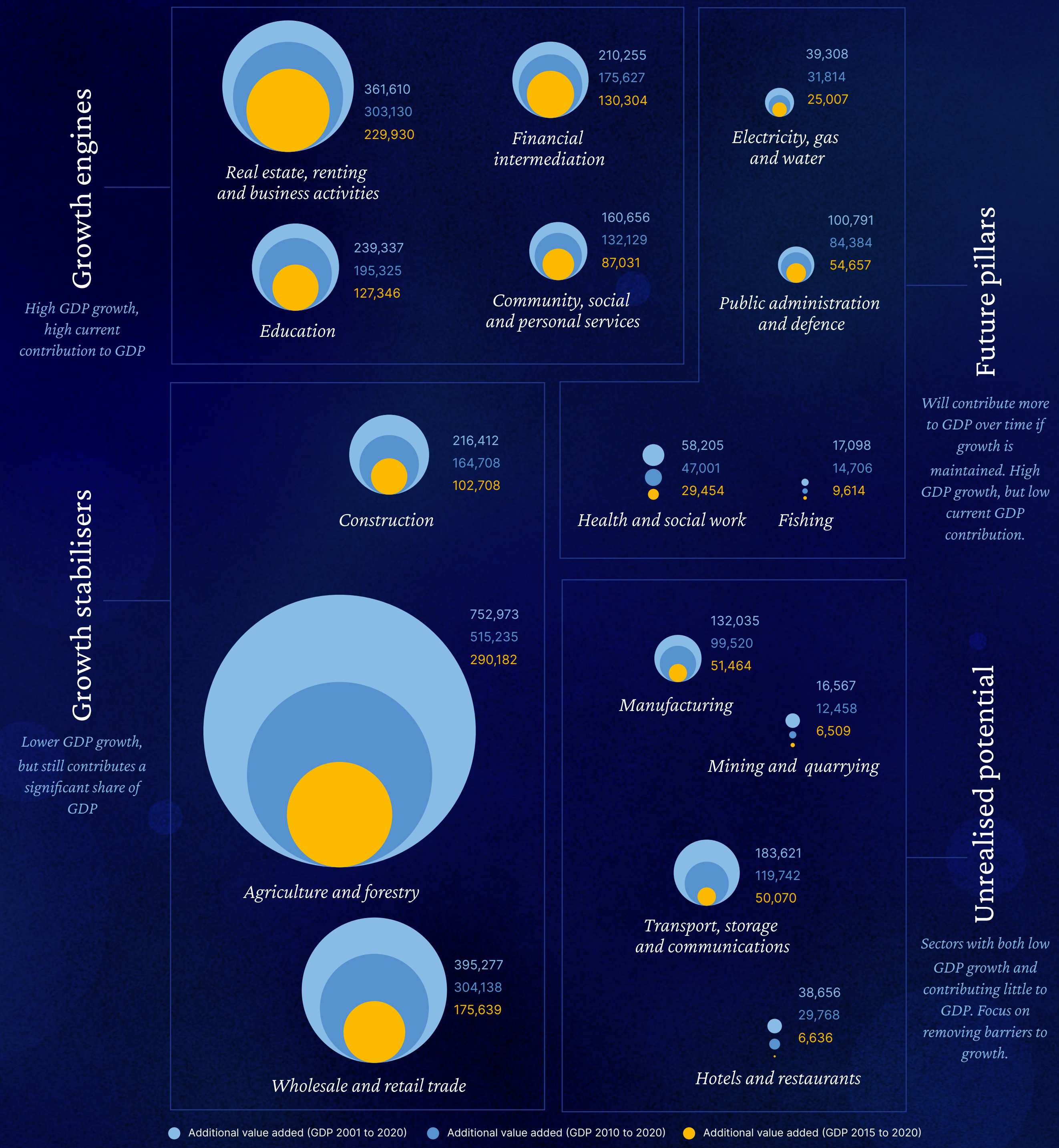


Grouping economic sectors based on strategic importance for growth

Based on their absolute contribution to GDP and livelihoods, as well as the trends in their GDP contribution over time, sectors can be grouped according to their similarities and their relevance in terms of supporting growth.

FIGURE 4

Grouping sectors to inform prioritising support for growth, Nepal

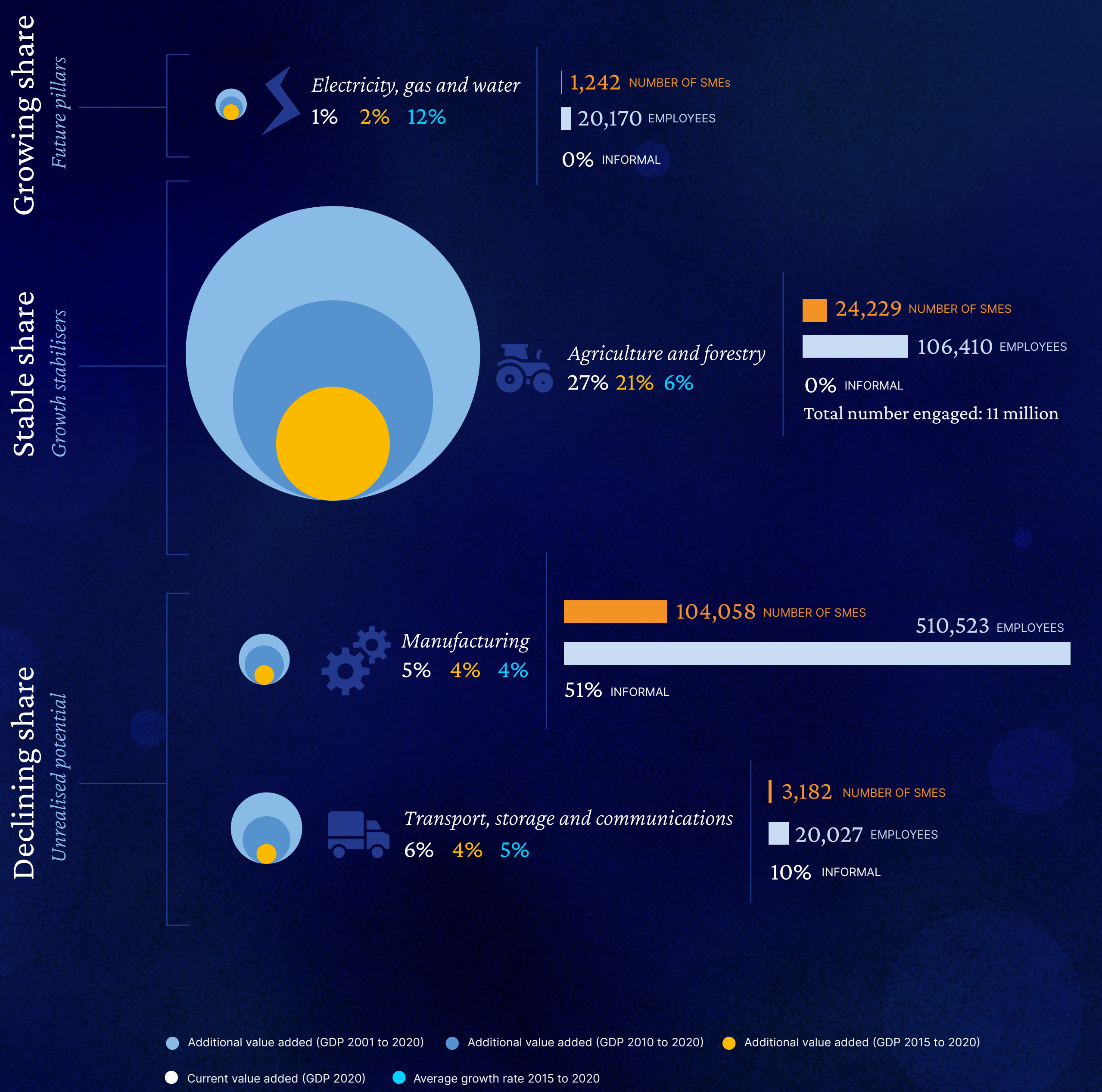


Factoring in MSMEs’ contribution vis-à-vis economic sectors to inform selection of priority sectors

The analysis should be further weighted against an analysis of the sectoral composition of MSME activity (the size, number, nature and proportion of SMES in each economic sector) to inform the selection of priority sectors based on existing contribution to livelihoods and strategic growth potential. In the process, it is important to prioritise the criterion of stimulating economic growth – while being mindful to safeguard household income and livelihoods.

FIGURE 5

Prioritising individual sectors to unlock growth potential while safeguarding livelihoods, Nepal



Source: Author calculations using data from Central Bureau of Statistics (CBS, Government of Nepal 2018; 2020); and Kharel & Dahal (2020)

DETERMINE THE COUNTRY'S LEVEL OF DEVELOPMENT. It is important to determine a country's level of market development, particularly in relation to economic and financial sector development. When it comes to contributing to GDP and driving economic growth, the degree of either diversification or concentration of the economy is a vital indicator of levels of domestic production and trade, which in turn has implications for productivity, employment and poverty. Determining the country's level of development and the complexity of economic (and financial sector) activity provides a baseline on which future initiatives can be anchored and against which they can be measured.

DETERMINE LEVELS OF MSME FORMALITY/ INFORMALITY. In the MAP countries, most people derive their living from the informal sector, either through self-employment or earning a wage. The informal sector is also the most data-deficient sector, however, in terms of allowing estimates of overall magnitudes, gauging individuals' and small businesses' behaviour and needs, and understanding the financial mechanisms used in this part of the real economy. Without a comprehensive overview and in the absence of insight data, the informal sector would remain entirely opaque to policymakers and would-be investors.

IT IS CRUCIAL TO QUANTIFY THE NUMBER OF MSMES BY FORMALITY IN THE FIRST INSTANCE. THEREAFTER IT IS IMPORTANT TO QUANTIFY THE REVENUE AND EMPLOYMENT CONTRIBUTION OF THE FORMAL AND INFORMAL SECTORS, RESPECTIVELY.

UNDERTAKE DETAILED SECTORAL LANDSCAPING. Beyond a breakdown by formal/informal sector, a sectoral view of MSMEs will include type of economic activity. This second important lens through which to view MSMEs includes a quantification of MSMEs' employment and turnover contribution *to particular sectors* (i.e. the value those MSMEs add), in relation to those sectors' size and employment contribution in the overall economy.

In addition, decision-makers need to find out about the relative weight of the following components in the economy, and their potential to contribute towards local development and the achievement of specific policy objectives: the number of businesses, by sector, the size distribution within the sectors, and an indication of growth, by sector; the degree to which a particular sector relies on imports (where less economic impact happens locally); and the degree to which a sector reticulates profits to foreign owners.

SCOPE NATIONAL POLICY, REGULATION, VISION, AND SECTOR SPECIFICS. For identifying sectors, the analysis must take into consideration national policy, regulation and vision combined with the operating specifics of the different sectors, as explored below for agriculture and manufacturing respectively.

EXAMPLE: AGRICULTURE: Agribusiness plays a vital role in economic development, contributing a major portion of GDP, employment, and foreign exchange earnings in many emerging economies. With population growth and rising income levels comes increased demand for food, and food security is increasingly a concern for governments. While agriculture accounts for 25% of Africa's GDP, and 70% of employment (IFC 2022), for instance, the region continues to be ill equipped to meet its food requirements. Furthermore, many of the region's agricultural products, such as maize, rice and palm oil, are not competitive globally or have low profit margins. At the same time, less than 1% of banking credit goes to this crucial sector. Addressing the current challenges by developing an efficient and competitive agribusiness sector requires understanding the food supply chain, including processing, logistics and distribution. And at the level of more granular data, if maize farming is a specific priority market, for instance, it is important to understand the functioning of this market and whether there is sufficient access to markets for the players in this value chain. In addition to lack of market access, value chain costs, trade tariffs and a paucity of information can contribute to market failures.

EXAMPLE: MANUFACTURING: Manufacturing sectors in Africa have struggled. In the 15 years preceding the pandemic, Sub-Saharan Africa experienced rapid economic growth at an average annual rate of 5.5%. In keeping with this economic transformation, manufacturing too experienced a boost. Despite the overall increase in manufacturing, however, its share of GDP has remained subdued, hovering consistently around 10% in the past decade (World Bank Development Indicators 2019). Investment in manufacturing infrastructure, from public, private, domestic and foreign sources, remains too low. There has been a significant effort to bridge the infrastructure gap, but the need for investment in manufacturing infrastructure still amounts to approximately USD 90 billion per year for a decade. Governments are investing in persuading global manufacturers to establish plants in their countries, with some success in setting up manufacturing hubs to create a conducive environment for local manufacturing, of which SMEs form a critical part.

However, the infrastructure requirements of the manufacturing sector are too wide to be met solely through public funding and a single point and identification of access; for this reason, many emerging economy governments have successfully adopted a ‘blended finance’ approach to meeting their infrastructure needs, in terms of which they strategically mobilise commercial capital towards sustainable development. This development finance constitutes value-adding support to boost the development of key infrastructure in the manufacturing sector linked to priority industries.

GET TO GRIPS WITH THE ‘UNIVERSE OF BUSINESS ACTIVITY’ IN THE COUNTRY. The macroeconomic context and the MSME sectoral breakdown together frame the ‘universe of business activity’ in a country. Although MAP does not prescribe focusing on this entire universe when supporting SMEs for growth, a thorough understanding of this universe supports accurate judgments when relatively weighting the segments chosen for focus (bearing in mind the objective of prioritising sectors that currently contribute significantly to the economy and those with the potential to do so). Without an understanding of the universe of business activity, investors might decide to back a promising-looking sector based on its growth, while being unaware this sector currently contributes a minuscule proportion to employment and revenue; despite its fast growth, this sector would likely still be contributing significantly less in future than sectors that, judged only on their current growth, might seem less promising. In other words, when prioritising sectors for investment, both growth of the sector and sector size and significance (generation of employment and revenue) are crucial considerations (see Figures 2 to 5).

ONCE ONE HAS THIS RICH OVERVIEW INFORMATION – MACROECONOMIC PICTURE, MSME SECTORAL BREAKDOWN, AND UNDERSTANDING OF THE FINANCING ENVIRONMENT (PROVIDERS’ PERSPECTIVES, FOCUS AND PRIORITIES) – IT IS IMPORTANT TO DIG INTO THE ACTUAL CHARACTERISTICS AND PERFORMANCE OF PARTICULAR SEGMENTS OF MSMES, AND TO CHECK THIS AGAINST THE REALITIES OF THE POLICY SUPPORT AND BUSINESS ENVIRONMENTS PERTINENT TO PARTICULAR SECTORS.

Segmenting MSMEs: homing in on existing and potential impact

Making sound investment decisions to finance MSME sector growth requires understanding MSMEs from a comprehensive *business development* perspective (of which access to finance is but one aspect). That is to say, outside of MSMEs' access to and usage of finance, a range of characteristics, behaviour and needs impact on businesses' potential development and growth and must be considered. This is where the all-important skill of segmentation comes in. Over time, UNCDF MAP has fine-tuned its methodology for segmenting MSMEs (see Note 1 of Volume 1, and Note 1 of Volume 2 in the MAP Global Insights series).

SEGMENT MSMES INTO IDENTIFIABLE GROUPS WITH SIMILAR CHARACTERISTICS, BEHAVIOUR AND NEEDS. The segmentation methodology builds off the landscaping methodology already mentioned but provides relevant and detailed insight into specific groups' composition, characteristics, behaviour, drivers and needs – all of which serve as valuable clues about their current and potential contribution to economic activity, development and growth in the country. Segmentation is only useful if it yields easily identifiable groups (segments) with similar characteristics, behaviour and needs – and in this case the easily identifiable segments being sought are those currently having a greater impact than others measured according to economic and development indicators, and those with high potential for future impact. These are the segments in which a targeted approach to financing and support will likely make the greatest contribution to the country's economic growth.

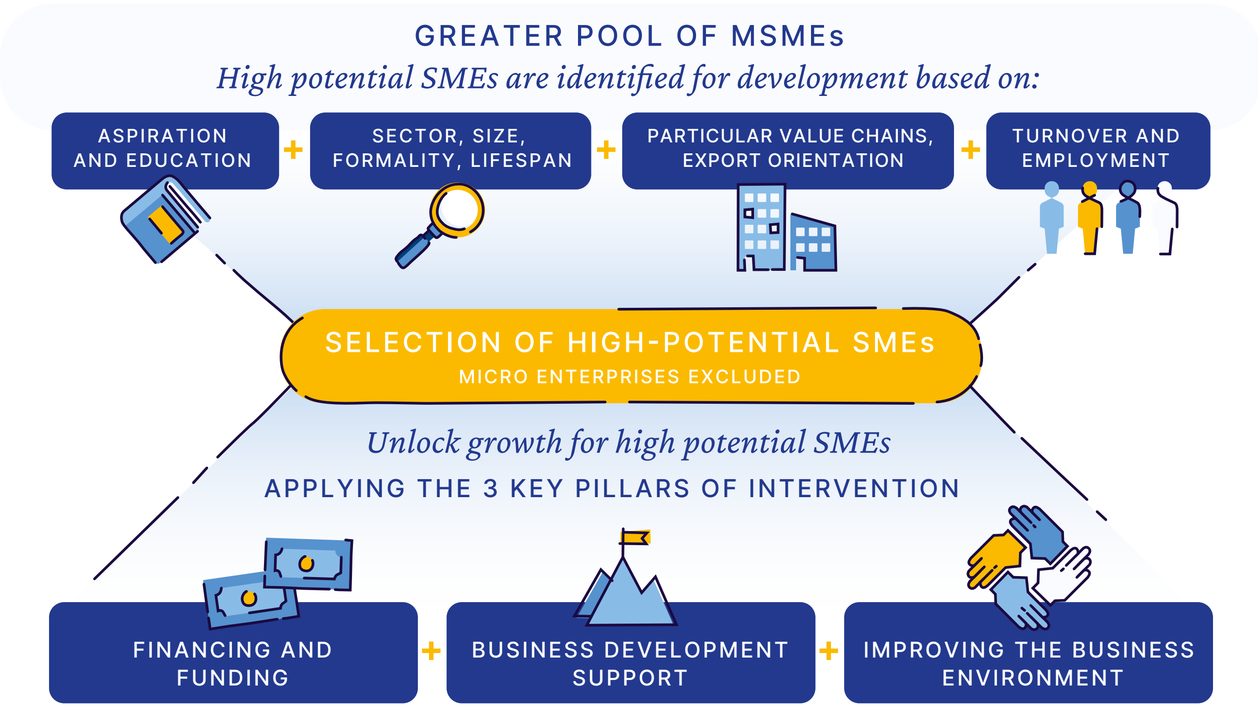
In other words, the segmenting exercise distinguishes those enterprises that are truly entrepreneurial – *aspirational* enterprises – from those that rely on their day-to-day business simply to survive as they have no other option – *survivalist* enterprises. (And for this reason, micro enterprises are excluded at this point in the segmentation.)

In MAP MSME Eswatini (2018) and Malawi (2019), initial segmentation based on orientation (business owner's education and skills level, and whether the business was aspirational or survivalist) was further expanded using the criteria of sector, size, formality and lifespan, which were combined with particular value-chain and export-orientation considerations (see Figure 6). Although micro enterprises were recognised as playing a significant role in supporting livelihoods, these businesses were not considered entrepreneurial and having sufficient growth potential to unlock growth opportunities; only SMEs were included. A sectoral approach was then applied, with the intention of focusing on sectors able to create strategic linkages with other sectors of the economy, promote value-addition to raw materials, achieve industrialisation and create more job opportunities. Based on this logic, SMEs in the wholesale/retail trade sector were *excluded* in the Eswatini research, as the qualitative data highlighted that they focused mostly on reselling goods and were not in line with the country's stated growth objectives. Furthermore, even though the wholesale/retail sector in that country plays a major role in employment creation and linkages with other sectors, it was not believed to achieve much with regard to value-addition and industrialisation. A sectoral approach was also applied in Malawi, resulting in two subsectors of focus.

The high-impact/high-potential SMEs are judged likely to help a country achieve its growth objectives by virtue of the fact that: they are of sufficient size (in terms of turnover and employment) to potentially make a positive impact on the country's economic growth, they are stable, growing or intend to grow (i.e. are in the startup or growth phase), and they operate in sectors deemed productive and/or employment intensive and/or fast growing.

TYPICALLY, SUCH SMES COMPRISE A SMALL – BUT POTENTIALLY POWERFUL – PROPORTION OF AN LDC'S ENTIRE MSME POOL.

FIGURE 6
The MSME segmentation logic employed in Eswatini and Malawi



Eswatini	*Malawi*	
Low-impact SMEs: turnover < E249 thousand per year (± US$13K) **Medium-impact SMEs:** turnover > E249 thousand per year and < 4 employees **High-impact SMEs:** Turnover > E249 thousand per year and > 3 employees	+SME owner's perception of business performance (growing/stagnating/declining) +SME owner's personal monthly income	
Strategic sectors: agriculture manufacturing services (excluding wholesale and retail)	**Sector 1:** agriculture and farming construction business services	**Sector 2:** agriculture and retail community and household natural resources and mining
Areas for intervention: 1. Policy support to stimulate SME growth 2. Sufficient access to funding mechanisms matched to business phase: startup; growth; maturity 3. Business development support	**Areas for intervention:** 1. Access to finance 2. Access to markets 3. SME capacity and formalisation 4. Target governmnt policy	

SIX VALUABLE INDICATORS FOR DISTINGUISHING BUSINESS BY TYPE. There are six main criteria that are easily available in primary data and can be used to distinguish businesses by type in a meaningful way: sector/business activity, degree of formality, turnover, employment creation, age of business, geography/location, and business growth (or *perception* of growth in the case of informal businesses without bookkeeping, for instance). Using a selection of these six indicators, one can locate the segmentation exercise within the landscaping exercise, thus continually locating and framing a particular group within the broader context, even while zooming into the granularity of promising-looking SMEs likely to benefit from coordinated investments to drive growth.

In terms of size of enterprise, sub indicators like turnover and employment are usually used as proxies. However, the definitions for turnover, and even the categories for employment, might differ from country to country based on local definitions of MSMEs; or one could choose to standardise this in a particular country study for comparability, and use MSME definitions only when describing the composition of each segment (in other words, to show the percentage of MSMEs per segment).

> In seeking out SMEs with high growth potential, their relationship with and harnessing of technology will usually be a helpful marker that makes them stand out: while they will not necessarily have technology provision as their core business (as fintechs and software development houses do, for instance) they will be technology intensive (in the broadest sense of technology, whether or not it is digital), such as being prone to importing foreign equipment/technology and applying it to their business to increase productivity.

THE VALUE OF ADDITIONAL INFORMATION POINTS AS DESCRIPTORS IN SEGMENTATION. In addition, there are a number of information points that do not necessarily distinguish businesses in an economic sense but provide more information on the enterprise's characteristics – for example, gender, education and age of owner – and could helpfully be used as descriptors in a segmentation exercise. The selection of descriptive indicators included for each segment allows for further insight into distinguishing features such as geographic location, the business's life-cycle stage, levels of growth, sector in which the business operates, and the levels of capability (education and skills) versus motivation (how they got into the business) of the owners and enterprises in that segment.

WITH REGARD SPECIFICALLY TO IDENTIFYING FORMAL ENTERPRISES TO SUPPORT, THE SECTOR THEY ARE IN IS IMPORTANT: THE CRITERIA OF PRODUCTIVE AND/OR EMPLOYMENT INTENSIVE AND/OR FAST GROWING SHOULD BE KEPT IN MIND, AND ENTERPRISES THAT DO NOT FULFIL THESE CRITERIA LIKELY EXCLUDED.

DETAILING BEHAVIOUR AND NEEDS. Once a selection of segments and sectors has been made, there can be further, detailed analysis of livelihoods patterns in different segments: it would be important to understand current access to and usage of both financial services and business support and development services, and the main challenges as expressed by the SMEs.

Evening out access: factoring in the prevalence of vulnerable groups

MAP identifies four demographic groups as being particularly more vulnerable than other groups in society: women, youth, rural adults and the elderly.

People in these groups are generally poorer, have a higher incidence of unemployment, and have less access to both financial services and basic services and resources (e.g. healthcare, education, energy) or use alternatives (most often informal ones) more than their peers do. LDCs typically have young populations, and the bulk of the population is usually based in rural areas; in other words, the implications of the prevalence of these vulnerable groups (for the most part excluding the elderly) for the purposes of supporting high-impact/high-potential SMEs must be considered when landscaping and segmenting MSMEs.

For one thing, these groups disproportionately rely on non-formal mechanisms to generate an income – including informal enterprises. In other words, the vulnerable groups are highly represented in the large MSME pool. Understanding these groups and the particular barriers they face is, therefore, key to addressing them as sub-groups of MSMEs.

FOR INSTANCE, IN MALAWI, 49% OF ALL MSMES ARE OWNED BY WOMEN. IF THE CATEGORY OF 'YOUNGER YOUTH' (18–24 YEARS) IS INCLUDED, MSME OWNERSHIP IS 70%, AND IF RURAL ADULTS ARE INCLUDED, OWNERSHIP RISES TO 92% (FINSCOPE MSME MALAWI 2019). IN OTHER WORDS, 92% OF MSMES IN MALAWI ARE OWNED BY A WOMAN AND/OR YOUNGER YOUTH AND/OR RURAL ADULT.

The gendered nature of MSME ownership.

Women in general face difficulties not faced to the same degree by men, and this impacts too on the dynamics of women as business owners, including entrepreneurs: challenges in accessing education, skills, resources (including financing), and income-earning opportunities (e.g. the ability to travel, or free time to look for work), as well as challenges thereafter, such as the pay gap, or the tendency to invest business profits into family needs rather than back into the business.

SUPPORTING WOMEN-OWNED MSMES TO PROMOTE BROADER SOCIAL BENEFITS. The challenges that women face as a result of structural inequity significantly impact on their opportunities in life. But while women-owned businesses in MAP countries are generally lower in productivity than those owned by men, they contribute significantly (and disproportionately compared to men-owned business) to household welfare and well-being. Not only do women entrepreneurs channel more of their business profit into funding household and family needs (e.g. healthcare, food, education), they also tend to have more dependents, meaning support to women has a significant impact on their dependents too.

MAP's inclusive data highlights the social good that flows from providing support and welfare benefits to women (see also Notes 4 and 5, Volume 3 of the MAP Global Insights series). By the same logic, as well as from both a sustainable business and a livelihoods protection perspective, increasing support for women-owned MSMEs is indicated for its positive social impact. There is no doubt that women-owned survivalist micro and small businesses are vital to households' well-being.

Women-owned MSMEs

Distinguishing characteristics of women-owned MSMEs. In LDCs, there are marked differences in small businesses owned by men and those owned by women. Women-owned businesses are usually informal, micro enterprises that are not well established and do not employ anyone: survivalist businesses formed out of necessity. In terms of behaviour patterns, such businesses are also less likely than those owned by men to reinvest business profits into the business, instead using profits for household needs.

TYPICALLY OVERREPRESENTED IN LOWER-RISK SECTORS: Wholesale and retail, and community and household business e.g. community-based services such as hairdressing, car washing, garden services (MAP MSME Malawi 2019).

TYPICALLY UNDERREPRESENTED IN HIGHER-PRODUCTIVITY (OR HIGHER-IMPACT) SECTORS: The wider services sectors e.g. business services, manufacturing, agriculture (MAP MSME Eswatini 2018).

Although more women tend to be self-employed than men, there are also important differences in the type and size of businesses that women own versus men.

FEMALE-OWNED MICRO ENTERPRISES	84%	64%	MALE-OWNED MICRO ENTERPRISES
FEMALE-OWNED SMALL ENTERPRISES	15%	30%	MALE-OWNED SMALL ENTERPRISES
FEMALE-OWNED MEDIUM ENTERPRISES	1%	6%	MALE-OWNED MEDIUM ENTERPRISES

See also Note 3, Volume 3 of the MAP Global Insights series. Source: MAP MSME Malawi 2019

Nevertheless, in terms of support for livelihoods and access to finance, such businesses are better dealt with under consumer livelihoods protection than under the type of financing and business support geared to nurturing high-impact/high-potential SMEs.

LEVELLING THE PLAYING FIELD IN TERMS OF HIGH-IMPACT/HIGH-POTENTIAL SMES. With women business owners facing not only the usual obstacles to successful entrepreneurship but also gender-related constraints, not surprisingly most SME owners in the high-potential segments are men.

THUS, SIMPLY APPLYING THE MAP MSME SEGMENTATION APPROACH UNCRITICALLY RUNS THE RISK OF REINFORCING THE STATUS QUO, WHILE MISSING OUT ON THE CONTRIBUTION OF WOMEN-OWNED ENTERPRISES TO A COUNTRY'S INCLUSIVE GROWTH.

Clearly, more needs to be done to ensure women are better targeted; and given the concentrated nature of the SME interventions being advocated (a small number of high-quality interventions), there is scope for ensuring women are more equitably represented in these interventions.

Increasing the proportion of women-owned high-impact/high-potential SMEs requires a multidimensional approach to dismantling barriers to participation: for example, better mechanisms for identifying potential in women-owned MSMEs; targeted educational financing for women; active investment in identifying and supporting female entrepreneurship; and financial products that acknowledge women's realities and their resulting 'unique' business needs (e.g. affordable productive credit that takes into account the tendency to reinvest business profits into the household).

Youth and rural MSMEs

As with women, MAP vulnerability indicators point to youth and rural adults as being particularly vulnerable. In Malawi (2019), 42% of MSME owners are between the ages of 18 and 34 (i.e. youth, including 'older youth'), and 78% of MSMEs are based in rural areas. For the youth and rural adults, MSMEs offer a source of income where formal sources are difficult to obtain (for the former given their lack of experience, and for the latter, given that formal jobs are skewed towards urban areas, and skewed towards better-educated adults).

It is therefore clear that the youth and rural adults are also important groups to consider when looking at MSME activity (particularly in relation to livelihoods support).

BETTER TARGETING AND SUPPORTING YOUTH AND RURAL SME POTENTIAL. In terms of the MAP MSME methodology, however, most of these business owners would likely not fall into the small group of SMEs MAP aims to uncover and support. Nevertheless, it is necessary to consider the degree to which they are represented in the pool of high-impact/high-potential SMEs, and how they might be better targeted and supported.

As the youth in LDCs generally already have higher levels of education than adults do, business development and support services can play a role in equipping youth SMEs that have the aspiration to grow with the necessary business skills to support this aspiration.

WITH LACK OF ACCESS TO THE ELECTRICITY GRID BEING A COMMON PROBLEM IN RURAL AREAS THAT LIMITS WHAT BUSINESS ACTIVITIES CAN BE CONDUCTED, INVESTING IN ENERGY INFRASTRUCTURE AND DISTRIBUTION (INCLUDING OFF-GRID ENERGY) IS AN EFFECTIVE APPROACH TO INCREASING SMES' ACCESS TO OPPORTUNITIES.

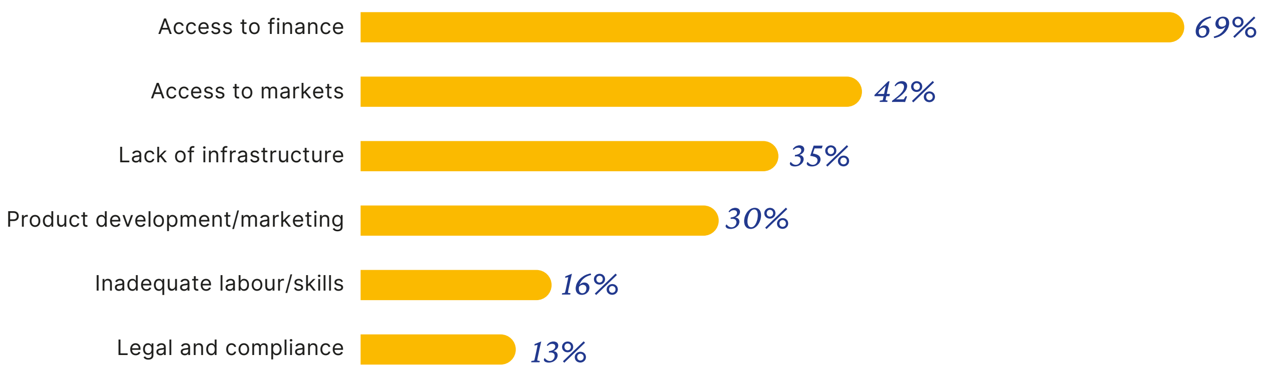
By doing so, investors can tap into new markets, including the otherwise-elusive rural consumer and, beyond that, given urban–rural employment disparities in most LDCs, deliver social benefits.

UNPACKING MSME
investment and financing needs

It is clear that, consistently, a key factor hindering MSME growth is lack of access to finance. In MAP's MSME work in both Malawi (2019) and Eswatini (2018), access to finance was found to be the top obstacle to growth: 69% in the case of Malawi (see Figure 7) and 60% in the case of Eswatini.

FIGURE 7
Obstacles to SME growth, Malawi

Source: MAP MSME Malawi



For this reason, the three focus areas for interventions aiming to unleash the growth potential of SMEs are posited as: finance and investment, improving the business environment, and business development support (BDS).

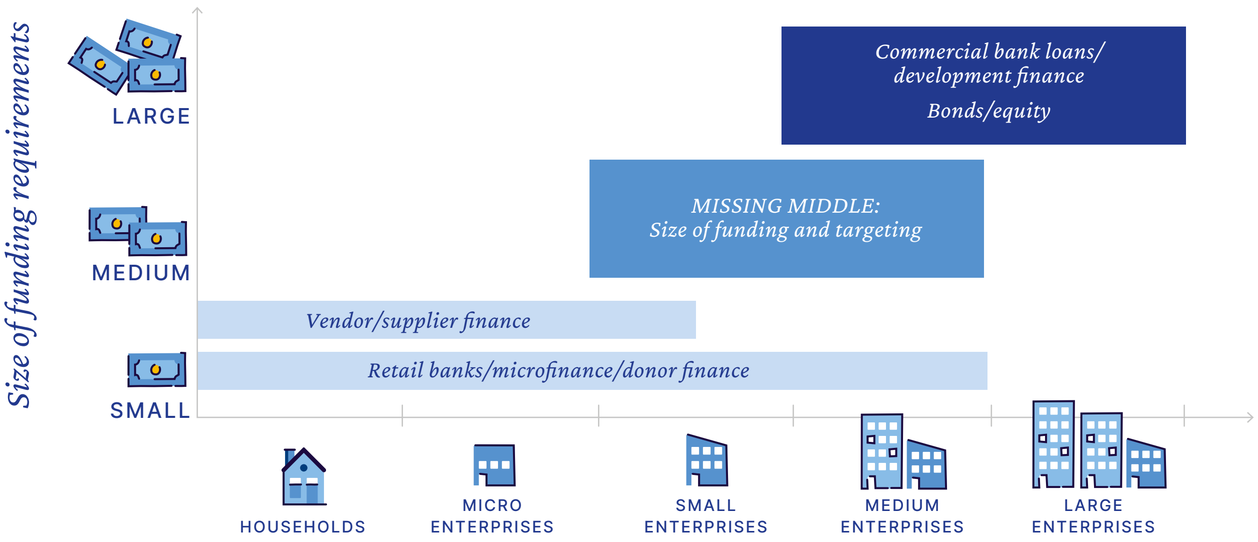
DRAWING ON THE SEGMENTATION FINDINGS TO UNDERSTAND SME FINANCING PROVISION. One way to gauge the effectiveness of SME finance provision in a country is to look at actual data on provision: how big is the client and loan book portfolio of providers that report having SME products, and what proportion of their business does this constitute?

However, this data is usually not easily obtainable. Another way to gain accurate insights is to compare the terms and characteristics of available products or channels for investment in SMEs with the actual known characteristics of the country's MSMEs overall and of the SMEs identified by the segmentation exercise more specifically. This is where the segmentation exercise really begins to pay off, as it will have highlighted similar economic and financial behaviour and needs across identifiable MSME segments – and particularly across the high-impact/high-potential SMEs that become the intervention focus.

FIGURE 8

The funding gap for SME

Source: Adapted from UN (2018: 27)



THERE IS CLEARLY A GAP IN THE MARKET TO SERVE THESE FINANCIAL NEEDS, REGARDLESS OF WHETHER THESE SMES HAVE FINANCIAL ACCESS OR NOT.

As already mentioned, the businesses that fall into this funding gap are referred to as 'the missing middle' because they are something of an anomaly in the traditional financing market: too large to be satisfied by the generally better-served microfinance market but too small to qualify for bank credit or to be an incentive for banks to serve (see Figure 8). By contrast, micro businesses, which constitute the majority of survivalist MSMEs, often use personal loans as finance and are also already well served by MFIs, while large enterprises – mostly commercial companies – can access bank credit plus an array of equity and bond instruments to raise funding.

'MAKING A PLAN' IN THE ABSENCE OF SUITABLE SME FINANCING OPTIONS. MAP's research and data across different LDCs show how low-income people use whatever financial (and sometimes non-financial) mechanisms available to meet a range of financial needs, which they prioritise based on their realities and values. Given that a large proportion of MSMEs in the MAP countries are either startups or have not been going for many years, and that most of these small businesses remain informal, they generally do not qualify for or have the means to access formal financing; in starting up and operating the business and in the absence of suitable SME financing options from formal providers, they too tend to rely on a range of their personal financial mechanisms. In addition to drawing on personal savings and finance from family and friends, SME owners obtain loans in their personal capacity, using their personal collateral, in order to fund sunk costs and operating expenses. In other words, for many SMEs there is a fundamental interconnectedness between their business and their personal finance. Young, informal and small enterprises, in particular, rely more on personal financial services to fund business operations or investment.

Varying financing needs: the business life-cycle model

Probably the biggest influence on small business financing needs is the business's life stage or age, as this often determines other characteristics such as size and formality.

A firm's funding requirements vary significantly over the course of its life cycle, with financing needs for the most part being life-stage specific. The MAP MSME methodology thus assumes a life-cycle model in terms of which enterprises' financing needs are understood to differ substantially according to business life-cycle stage. The typical and common developmental stages of the MSME life cycle are startup, growth, maturity, diversification, and decline.

The business life-cycle approach to financing has been successfully adopted in both MAP MSME Eswatini (2018) and MSME Malawi (2019). Viewing SME financing through a business life-cycle lens offers a number of advantages: it aids in anticipating the most important sources of finance at each stage of a firm's life cycle, facilitates identification of potential funding gaps at various points in a firm's development, and facilitates an examination of changes in sources of financing employed over time. The business life-cycle lens thus provides the financing industry with a clear indication of likely requirements.

Once the high-impact/high-potential SMEs have been identified, they are located within the business life-cycle model, which helps to inform financing decisions. This data is combined with the analysis of the national political economy and of economic sectors, to feed into focused interventions for growth.

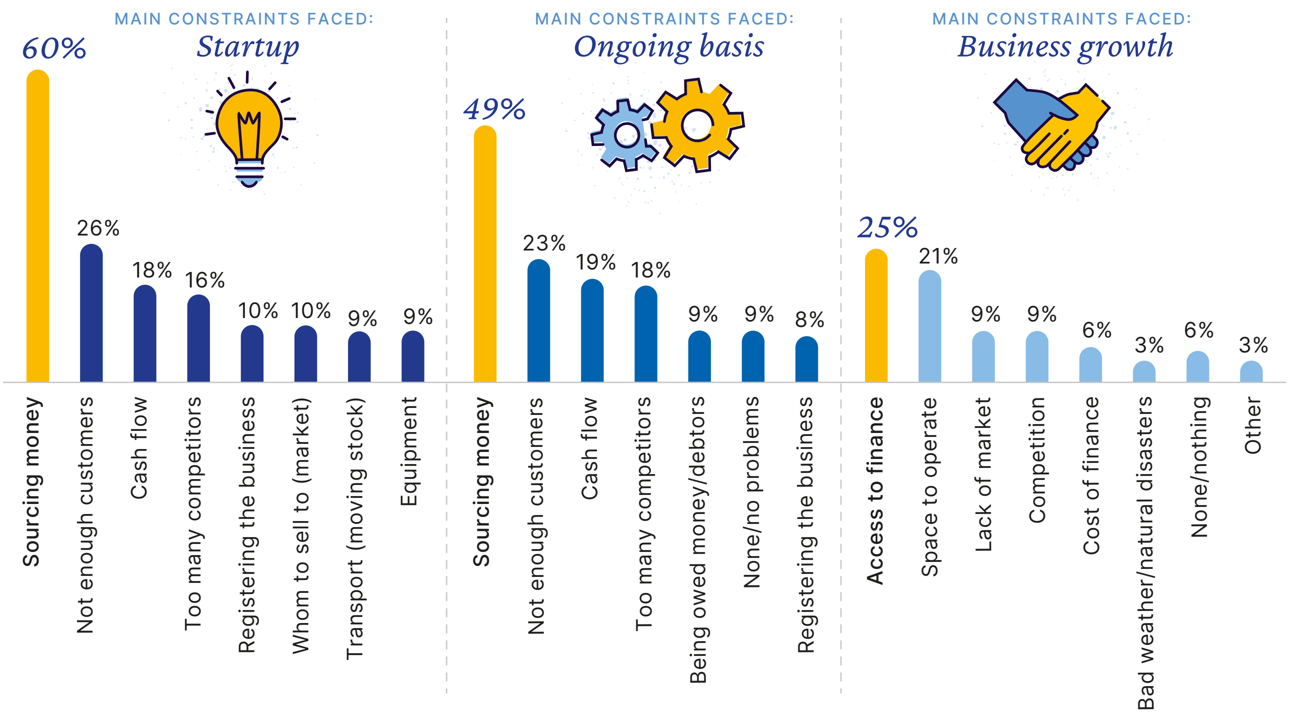
Although SME startups have distinctive funding requirements, as Figure 9 clearly shows for FinScope MSME Eswatini (2017), access to finance remains the top issue throughout the life cycle (though decreasing in relative importance as a business matures and other challenges take precedence).

This suggests not only the primacy of supporting SME startups with improved access to financing, but also the importance of splitting research results across the different life stages of an enterprise to make it possible to adjust support in specific areas (i.e. non-finance/general business support) as the business matures.

FIGURE 9

Main constraints facing Eswatini MSMEs, by life stage

Source: FinScope MSME Eswatini 2017



Although terminology and categorisations can vary, generally businesses go through the following life stages: startup/inception, expansion/growth, and maturity/decline. The life stages, though common in general, vary significantly across economic sectors. In some sectors, for example, maturity can be reached in just a couple of years, whereas in others it may take much longer. (It is therefore not possible to put an age bracket to each stage, unless one looks at very specific sectors or types of businesses.) In general, though, a business less than 2 years old can be considered young, and such businesses tend to be small, fairly informal, and have less access to finance than older businesses do. A business that is 10 years old, on the other hand, would be considered mature, and the finding is that such enterprises do tend to be larger and have more access to finance than is the case for young businesses.

STARTUP/INCEPTION. Whether in the formal or informal sector, new businesses tend to be smaller than those that have existed for a period of time and usually struggle the most to access finance. For instance, while access to finance was a problem for 60% of startup MSMEs in Eswatini, only 25% in the growth stage flagged finance as a challenge. The reasons for this are that young businesses lack a track record, likely lack collateral, and are generally undercapitalised. Furthermore, many new businesses fail – which makes them very risky financing propositions to begin with.

EXPANSION/GROWTH. If a business survives the startup phase, it generally tends to attempt to expand as more money becomes available, although liquidity might become an issue. Businesses in the growth stage tend on average to be larger (even if only slightly) than startups; in MAP countries, this might translate to transitioning to a small- or medium-sized business. Such businesses still have a limited track record and limited collateral, and therefore tend to rely quite heavily on short-term debt where they can access it (which is expensive).

MATURITY/DECLINE. The last life-cycle stage is where a business has already grown and is relatively stable and mature, or even slowly declining. The oldest enterprises tend also to be the largest of the SMEs, and therefore have a stronger track record than smaller and younger SMEs, could have collateral to leverage and generally have easier access to a broader range of financial mechanisms and providers. Nevertheless, in the MAP countries, even these businesses can struggle to access finance.

The life-stage model has typically been developed in the context of the formal sector, whereas most MSMEs in MAP countries are informal. Nevertheless, many of the stated characteristics, needs, sources of finance and providers still apply, whether one is talking informal or formal sector operation. This is despite the fact that the sizes of firms in each are drastically different, and the ability of informal sector MSMEs to access finance is hampered by additional constraints – such as the inability to provide financial records, the absence of a credit record, lack of tax registration or lack of bank statements – meaning that providers struggle to offer suitable products.

AS INFORMAL BUSINESSES ARE ALSO NOT LEGALLY REGISTERED AS ENTITIES, CREDIT PROVIDERS TEND TO BASE THEIR ASSESSMENT OF THE RISK SOLELY ON THE OWNER AS AN INDIVIDUAL, SINCE THIS IS MOSTLY THE ONLY LEGAL AVENUE THAT COULD BE PURSUED SHOULD THE LOAN NEED TO BE RECOVERED.

SME financing options

WHEN STARTING OR OPERATING A BUSINESS, OWNERS CAN TYPICALLY CONSIDER THREE POSSIBLE SOURCES OR CATEGORIES OF FORMAL FINANCE:

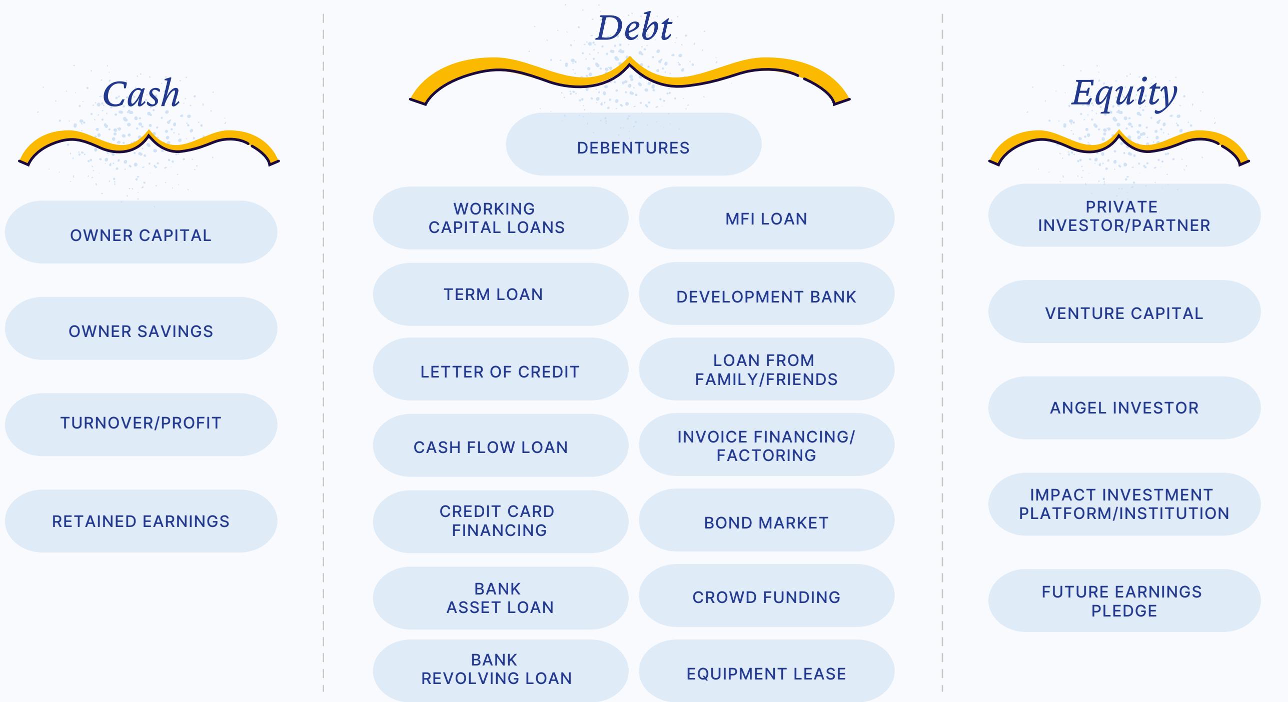
CASH: This includes things like the owner's own savings or cash flow from other sources, or the business turnover or profit itself; these can be used to fund operations or purchase equipment or assets.

DEBT: This is credit from a third party, where the owner or business takes out a loan and must make fixed repayments over a period of time. The loan provider has to estimate the risk of the owner or business in order to decide whether to provide the loan as well as the terms of the loan.

EQUITY: Equity is where a share of the business is sold to a third party in exchange for the finance required. Although equity does not require fixed repayment in the way that debt does, a portion of future earnings will have to be relinquished, along with some control of the business itself.

FIGURE 10

Financing option categories and indicative examples for SMEs



Each of the sources of finance has unique characteristics with different implications for the business. The degree to which specific options in each category are available in a particular country, and to specific businesses – based on their size, age, location, formality and sector – also varies. In order to understand MSME issues around accessing finance, one needs to understand the different options in each of the categories, as well as understanding how varying business characteristics influence access to these options. In addition, the provider landscape will influence the availability of different options at a country level.

FUNDING REQUIREMENTS OF STARTUPS. Even in developed markets, new SMEs are often a lost investment opportunity, given the preference for bankable SMEs and compliance with traditional banking rules and conduct. This is even more the case for startups in LDCs, where formal financing options and requirements are not easily evident to small businesses, while SME needs and constraints in turn are not well understood by formal providers.

The MAP research finds the most important and commonly used sources of finance at this stage are personal savings of the business owner, and (usually informal) borrowing from family members and friends. While owners might take on formal business debt, collateral to secure the debt is commonly in the form of personal assets.

A COMMON HAZARD FOR STARTUPS IS OBTAINING SUFFICIENT CAPITAL TO INITIATE TRADING YET FAILING TO SECURE REALISTIC FINANCING FOR ONGOING OPERATIONS: THAT IS, UNDERCAPITALISATION IN THE EARLIEST STAGES.

FUNDING REQUIREMENTS OF GROWTH-STAGE SMES. As successful businesses mature through growth stages, owner personal funding becomes relatively less important as investment finance is increasingly sourced from retained profits. Accumulation of a trading history facilitates access to increased sources and amounts of external financing, particularly bank financing and trade credit. A hazard that is fairly typical of rapidly expanding businesses is lack of liquidity, in which case businesses often respond by increasing their overdraft facility: short-term debt. The latter, however, is neither sufficient nor appropriate for enterprises requiring large amounts of additional external finance for investment; these requirements are more appropriately fulfilled by long-term debt.

FUNDING REQUIREMENTS OF MATURE SMES. On reaching maturity, firms have acquired a trading history and typically have access to a broad range of financing sources, which are generally determined by the preferences of the firm owner/s, rather than by supply-side restrictions. Figure 11 details the varying properties, needs, sources and providers of finance per life-cycle stage.

In addition to funding requirements differing per life stage, the size and nature of the business have a bearing on type of finance needed. For instance, compared to micro enterprises, SMEs may have more of a need for larger asset purchases (e.g. vehicles and sometimes property) and also need to cover business expenses or expansion of operations from time to time. Banks, however, are generally more amenable to providing asset finance than finance for operating costs, the latter being considered even riskier.

FIGURE 11

Varying finance needs, by MSME life-cycle stage

Source: UNCDF, based on Mac an Bhaird (2010)

SOURCE OF FINANCE	*Owner's equity or savings and debt using owner collateral*	*Retained profits, trade credit and overdraft facility*	*Longer-term finance, private equity investment and market issued debt/equity instruments*	*Choice of financing determined by owner preference*	
STAGE	*Inception* →	*Expansion* →	*Growth* →	*Maturity* →	*Decline*
NEEDS	*MSME needs capital for sunk costs and operating expenses*	*MSME needs management liquidity and longer-term debt or equity investment*	*MSME needs to address finance gap or mismatch and to retain control*	*MSME needs to maintain return on investment*	
PROPERTIES	• Small, young business • Difficulty accessing external finance • No track record • No collateral • Undercapitalisation	• Overtrading and liquidity crisis • Small, but high growth potential • Limited track record • High reliance on inefficient, short-term debt	• Medium sized, older business • Some track record • Collateral available if necessary • Balance sheet mismatch • Loss of control if equity is used	• Large, old business • Known risk and track record • Access to broad range of financial services • Declining marginal return on investment	• Large, old firms, in competitive industry • Established track record • Declining return on investment • Withdrawal of finance • Business liquidation

As the business age increases the information opacity decreases and its size changes

THE PROVIDER–SME SITUATION IN MALAWI.

MAP MSME in Malawi found that, due to providers' lack of credit information and risk management frameworks, poor technical capabilities and low appetite for potentially risky lending, and in the absence of functional financial markets, providers rely mostly on manual processes and traditional collateral when providing credit to SMEs. In identifying the need for providers to offer sector- and life stage-specific financial products, MAP homed in on the need for working capital and revolving credit facilities for younger SMEs to address cash flow challenges and enable expansion, and asset financing for established and mature agricultural SMEs.

The research identified the need to promote alternative funding mechanisms (e.g. grant, equity and concessional debt funding) to startups, as well as from a broader group of providers than have traditionally played in this space in Malawi: impact investors, private equity, venture capital firms and angel investors. Given that these players do not yet operate on any significant scale in the markets MAP works in, such broadening of the provider group would likely require new partnerships to be identified and pursued.

THE PROVIDER–SME SITUATION IN ESWATINI.

The MAP research found that 'financial institutions have a limited appetite for SME funding, particularly high-risk sectors such as agriculture (other than sugar cane) and manufacturing'. Interestingly, the financial sector seems to be doing quite a good job of appropriately distinguishing high-impact SMEs – with 23% of this group accessing bank credit and 20% having insurance (compared to the situation with low- and medium-impact SMEs, where 6% have bank credit and between 1% and 3% insurance). While overall financial access for SMEs in Eswatini is already very high (between 91% and 99%), providers can likely further improve access to and usage of business-appropriate products, particularly given that sourcing finance is cited by the majority of SMEs as their main business constraint.

Mapping out SME financing options: availability plus eligibility criteria

An important factor that impacts on SME access to finance is simply the availability of specific options at a country level because the degree of development of the financial sector has a direct and significant impact on the types and availability of SME-suitable finance. Large variances can exist between MAP countries and even between a MAP country and its neighbour (e.g. Mozambique and South Africa).

For instance, while most cash options and some debt options are widely available in developing countries, generally there are no equity options that are widely available or generally accessible. Furthermore, debt options and equity options might simply not be available on a wide enough scale to be an option, or might be somewhat available but have features (e.g. eligibility requirements) that exclude the majority of SMEs from accessing them. Lastly, an SME's formality, age and size itself may exclude it (for various reasons) from accessing these other sources of finance. Table 1 provides a summary of a theoretical list of financing options, as well as their availability based on general MAP experience across countries.

In general, only cash, MFI loans, informal credit sources and some trade credit (often also informal) are widely available in MAP countries. Some types of bank loans (not all) as well as speciality/niche microfinance loans (e.g. an emergency loan or home improvement loan) are available but not widely accessible, while mechanisms such as bank credit cards, mortgages, invoice factoring, and the bond market largely remain unavailable as options for finance. In terms of equity, crowdfunding, angel investment, impact investment, public investment and the stock market are somewhat but not widely available – and particularly not for smaller and/or informal businesses.

MAPPING OUT THE LANDSCAPE OF FINANCING OPTIONS FOR A PARTICULAR COUNTRY IS AN IMPORTANT ASPECT OF ANALYSING THE STATE OF ITS MSME FINANCING AND SUPPORT. ONCE THIS HAS BEEN DONE, ADDING THE ACCOMPANYING ELIGIBILITY CRITERIA PROVIDES A VIEW OF THE ACTUAL OPTIONS FOR SPECIFIC MSME CATEGORIES.

TABLE 1

Typical availability of specific finance mechanisms for MSMEs in MAP countries

SOURCE AND PRODUCT			MARKET DEVELOPMENT
Cash			
Owner capital		✓	Widespread
Owner savings		✓	Widespread
Business turnover		✓	Widespread
Business profits		✓	Widespread
Retained earnings		✓	Widespread
Debt			
Banks	Mortgage	✗	Largely undeveloped/not available in MAP markets
	Asset finance	~	Available, but not widely accessible
	Revolving loan facility	~	Available, but not widely accessible
	Private credit card	\	Undeveloped/not widely available
	Business credit card	\	Undeveloped/not widely available
	Cash flow loan	~	Available, but not universally accessible
	Title loan	~	Available, but not universally accessible
	Working capital loan	~	Available, but not universally accessible
	Term loan	~	Available, but not universally accessible
	Letter of credit	~	Available, but not universally accessible
	Equipment lease	~	Available, but not universally accessible
Asset financing company		~	Available, but not universally accessible
Asset leasing company		~	Available, but not universally accessible
MFI	Micro loan	✓	Widely available, but not universally accessible
	Group loan	✓	Widely available, but not universally accessible
	Individual business loan	✓	Widely available, but not universally accessible
	Agriculture loan	~	Available, but not universally accessible
	Education loan	~	Available, but not universally accessible
	Energy loan	\	Some use
	Emergency loan	\	Some use
	Home improvement loan	\	Some use
Family or friends loan		✓	Widespread
Informal credit loan		✓	Widespread
Savings group loan		✓	Widespread
Development bank	Asset finance	\	Has presence, but very limited reach (a few dozen loans per country)
	Working capital loan	\	Less available than asset or term loans
	Term loan	\	Has presence, but very limited reach (a few dozen loans per country)
Suppliers	Loan	\	Not very common
	Goods in advance	✓	Widespread
	Contract farming	\	Some use
Buyers	Invoice financing	\	Limited development/some introduction on small scale
	Invoice factoring	\	Limited development/some introduction on small scale
	Warehouse factoring	\	Limited development/some introduction on small scale
Bond market	Debentures	✗	Largely undeveloped/not available in MAP markets
	Bond issue	✗	Largely undeveloped/not available in MAP markets, except for government bonds
Equity			
Partner/s		✗	Largely undeveloped/not available in MAP markets
Private investor		✗	Largely undeveloped/not available in MAP markets
Crowd funding		\	Limited development/some
Angel investment		\	Limited development/some
Venture capital		✗	Largely undeveloped/not available in MAP markets
Impact investment platform		\	Some players, limited footprint/reach
Public investment corporation (PIC)		\	Some presence, in countries like South Africa. Limited elsewhere
Future earnings pledge		✗	Largely undeveloped/not available in MAP markets
Equity market (stock market)		\	Largely undeveloped/not available in MAP markets, except for very large companies
Private equity funds		✗	Largely undeveloped/not available in MAP markets

FOR INSTANCE, BASED ON THE MAP CROSS-COUNTRY IMPRESSIONS, OFTEN THE ONLY FINANCING OPTIONS FOR AN INFORMAL MICRO BUSINESS WOULD BE CASH, MFI LOANS, SUPPLIER CREDIT, INFORMAL LOANS (FAMILY, FRIENDS, SAVINGS GROUPS, MONEYLENDERS) OR CROWDFUNDING (ALTHOUGH THE LATTER HAS VERY LIMITED REACH IN MOST OF THE MAP COUNTRIES AS IT REQUIRES PUBLIC AWARENESS AND SOME TECHNOLOGICAL LITERACY).

Some of these funding sources (e.g. MFIs, suppliers or crowdfunding) might still have attendant barriers, such as being limited to certain sectors, requiring some form of collateral (e.g. savings), requiring an existing track record or relationship, or being averse to extending finance to very young/small businesses. Furthermore, these funding sources, including MFIs, tend to be quite expensive, given the risks involved in lending to small, informal businesses. Finally, as already mentioned, while high-impact/high-potential SMEs would usually technically be eligible for MFI financing, the loans extended would typically be too small to be helpful to these missing middle enterprises.

In general, the following features, characteristics, or eligibility criteria can impact on access to finance and need to be established across the spectrum of financing options available at a country level, in order to determine the landscape of access for specific groups of SMEs:

- SIZE OF FINANCE: While it is not necessary to map exact amounts, certain types of financing will be orders of magnitude too small or too large for certain types of SMEs. General orders of magnitude should be noted, to make it possible to compare these against the needs of enterprises in different segments.
- TERM OF FINANCE: Similarly, it is not necessary to stipulate exact loan terms, but certain types of finance are short term, while others are distinctly long term. It is not sustainable (or sometimes even possible) to use short-term debt to finance larger asset purchases, for instance. The varying needs of different groups of SMEs in this regard would therefore make different types of finance, just based on their terms, viable or not viable.
- COST OF FINANCE: While sometimes being a factor for exclusion, the cost of a loan also just helps to inform the suitability of specific options over others. In some instances, though – such as a large asset purchase – cost can definitely be an exclusionary factor as well.
- ELIGIBILITY CRITERIA: In addition to the above features, it is necessary to establish the eligibility criteria of all providers and product options. These can include:
  - Formality: does the business need to be formally registered?
  - Industry: does the business need to be in a particular sector? Are certain sectors (e.g. agriculture) expressly excluded?
  - Documentation: in addition to formal registration, is documentation such as bank statements, financial records and proof of tax registration required?
  - Size or age of business: can the size or age of a business exclude it from accessing a particular funding mechanism?
  - Credit record or collateral: do some financing options require collateral or a credit record?

Table 2 provides an example for a selection of bank, MFI and other financing options in terms of the above criteria.

TABLE 2

Example characteristics of a sample of different financing options

PRODUCT	SIZE OF FINANCE	LOAN TERM	COST
Asset finance (bank)	Medium/large	Medium	More expensive than mortgage
Cash flow loan (bank)	Medium	Short	More expensive than credit card
Term loan (bank)	Large	Medium/long	Less expensive than cash flow loan
Micro loan (MFI)	Small	Short/medium	More expensive than bank credit
Individual business loan (MFI)	Small/medium	Short/medium	More expensive than bank credit
Agriculture loan (MFI)	Small/medium	Medium	More expensive than bank credit
Goods in advance	Small	Short	Varies/expensive
Contract farming	Small/medium	Medium	Varies/expensive
Invoice factoring	Small/medium	Short/medium	Expensive

Example data and other requirements to access finance

PRODUCT	FORMALITY	SIZE	AGE	FINANCIAL RECORDS	CREDIT RECORD	COLLATERAL
Asset finance (bank)	✔	✔	✖	✔	✔	Purchased asset
Cash flow loan (bank)	✔	✔	Established businesses	✔	✔	Business cash flow
Term loan (bank)	✔	✔	✔	✔	✔	✔
Micro loan (MFI)	✖	✖	✖	✖	~	✖
Individual business loan (MFI)	✖	~	~	✖	~	~
Agriculture loan (MFI)	✖	✖	✖	✖	~	✖
Goods in advance	✖	✖	✖	✖	✖	✖
Contract farming	✖	✖	✖	✖	✖	✖
Invoice factoring	✔	✔	✔	✔	~	Invoice itself

✔ yes ✖ no ~ varies/usually not/not sure

Understanding provider constraints – or why the missing middle is missing

If providers are to support SMEs to move away from reliance on less-than-optimal financing mechanisms and leverage external financing for growth, they need to work with SME realities: to offer broad access to credit mechanisms with longer terms, for larger amounts, with less red tape and bureaucracy and more innovative requirements in terms of SME collateral. Furthermore, providers need to aim such financing mechanisms specifically at productive investment, while allowing for use in covering operating expenses where necessary.

However, while most banks see MSMEs, and especially high-impact/high-potential SMEs, as strategically important to their business, poorly developed business cases and a paucity of available information tend to make these enterprises risky for lending and make profitability in the SME sector very complex.

The market constraints already discussed focus on suitability (whether provider offerings meet SME needs), availability (whether an option exists or is widely available in a market), and eligibility (whether SMEs meet the criteria set by providers). Suitability, availability and eligibility are, in turn, influenced by sustainability considerations on the part of providers.

Providers have several ways of managing this. They can either choose simply not to provide certain products or options, as these are deemed not viable or less viable than alternative business opportunities, or they can try to limit their risk by implementing eligibility criteria to exclude higher-risk groups. Alternatively, they might choose to provide additional management to certain options or products, for example additional monitoring, business support and the like, though this would usually tend to increase the cost of provision and as a result decrease its profitability.

External stakeholders with an interest in market development (or who have other, non-market related objectives like impact investment) could, therefore, attempt to make financing to certain groups either less risky or less costly. Such stakeholders would typically include government or international development organisations that provide grants, guarantees or lowered return investments with specific finance extension criteria attached to them (e.g. SME lending).

However, in order to influence the sustainability of provision, it is worth understanding the perspectives of specific financing stakeholder groups; the constraints they face can increase cost or risk and account for the failures in SME credit markets. High search costs, perception of high risk, and information asymmetries are all cross-cutting issues for most providers; funders report high transactional costs of finding and screening entrepreneurs, particularly for small-scale lending (i.e. quality lead generation is expensive).

DEBT-FINANCING PROVIDERS TYPICALLY INCLUDE BANKS, ASSET FINANCE COMPANIES, NATIONAL DEVELOPMENT FINANCE INSTITUTIONS, MFIS, MOBILE FINANCE PROVIDERS, BUYERS/SUPPLIERS AND INTERNATIONAL DEVELOPMENT FINANCE INSTITUTIONS.

Banks

They struggle to serve SMEs because they treat business lending as a single market, and then apply traditional lending methodology that requires would-be borrowers to provide collateral, bank statements and tax registration documentation, fulfil onerous accounting requirements, and meet the criteria on traditional financing scorecards (which includes having an existing bank credit record). This approach excludes micro, very small and small businesses from accessing finance.

While the majority of banks do not publicly indicate that they require collateral or personal surety, this does not mean these are not mandatory eligibility requirements; a funder's credit scoring process, which is not publicly disclosed for competitive reasons, often includes screening for collateral and surety. MAP MSME findings (from the qualitative research) highlight the requirement for collateral as a major barrier to viable businesses securing funding. Furthermore, a number of case studies were discussed in which very profitable and well-managed businesses with good credit records were denied funding because they did not have the required collateral. It is worth nothing that countries with concentrated banking sectors are less likely to lend to SMEs that do not have collateral.

The way bank business is structured and its underlying assumptions mean there are few incentives to serve SMEs – even high-impact/high-potential ones. In MAP countries, most banks' balance sheets are geared towards government treasury bills (government bonds of less than a year), foreign deposits and loans to government, with the remaining focus being on large infrastructure projects or large commercial loans (and, in some cases, large commercial farming). This portfolio provides a sufficient risk–return package; as a result, very few banks bother with mortgages, personal loans or loans to SMEs. Additional management capacity on the part of the provider would also usually be required, in order to assess and monitor the account and provide additional business support, all of which makes SME loans even less attractive than large personal loans.

Asset finance companies

Although they do exist in many MAP countries, they operate on a commercial basis similar to that of banks, and have similar processes for assessing, disbursing and managing loans. The only real difference is their business is focused on a specific product line (asset finance), which is why for an SME they are often a more viable source of finance for things like vehicle or equipment purchases. For the most part, though, to be eligible for a loan an SME will still require a good track record and documentation (including accounting information).

National development finance institutions

They are nationally established institutions (typically a development bank) with a specific mandate to provide loans for development purposes, and often with a specific SME mandate. Although some of this finance is funnelled to large infrastructure projects, the constraints faced by these institutions are not much different from those of banks. In addition, they often have limited capital relative to market demand. To mitigate the cost of management, and reduce the risk, they therefore tend to provide a small number of large loans to the largest and most established SMEs they can find. This can translate into a dozen – or at most a few dozen – large loans, which is entirely inadequate to serve a broader spectrum of SMEs, even when one applies the MAP segmentation methodology to identify a concentrated group of high-impact/high-potential SMEs.

MFIs

The typically have a mandate to provide finance to the poor, including SMEs, and as such are often one of the only formal sources of finance that young, informal and small businesses can access. MFIs benefit from grants and investments from international finance institutions and governments in an attempt to make their lending business more sustainable or to increase the incentive for them to provide loans to specific groups. However, while they are thus mostly loss-making institutions, increasingly MFIs have sustainability considerations, ranging from a minimum of capital protection to full commercial profitability. Larger MFIs, therefore, increasingly view their loan business through a commercial lens, applying more stringent credit risk management measures (e.g. eligibility criteria, collateral or a credit record). Their interest rates are typically much higher than those of banks, as the size of individual loans is much smaller and thus their management cost per loan is higher. Their clients are often also predominantly in rural areas, making them costlier to reach. Nevertheless, in general MFIs have a far better track record than banks do in reaching SMEs.

Mobile finance providers

These include mobile money providers that offer financing for users of their payment and other services, as well as dedicated providers of finance that use mobile channels (like an app). However, it is not clear to what degree SMEs have access to or are accessing mobile finance for business purposes, and the size of funding provided to SMEs (compared to alternative sources) is also not known. It would be necessary to know, in addition to questions of availability, whether the size of loans, and the terms and costs, would suit the needs of particular SMEs with growth potential (in other words, whether mobile finance speaks to the needs of the missing middle).

The channel of provision provides opportunities for extending additional business services or information to SMEs, making this option attractive as a business development tool. Furthermore, the mobile money data can be used to establish a credit record for SMEs, which can open up additional avenues for finance provision by reducing the risk of lending. (Crowdfunding would also count as a form of mobile or digital finance.)

Buyers/suppliers

They are often one of the only sources of credit available to SME owners. Based on their personal relationship with SME owners, suppliers may be willing to provide goods in advance, which is more likely than their advancing an actual loan to the SME. This activity is largely informal, though, and the terms of these arrangements are not well documented/understood. It is likely to be a short-term and costly type of finance for SMEs. Although contract farming is a type of supplier credit (where inputs like fertiliser are provided in advance), it is also a type of buyer financing, as the goods are provided in advance on condition that the resultant produce is 'sold' to the buyer. Additional forms of buyer/supplier finance are more formal/structured, such as invoice financing, invoice factoring and warehouse factoring. These are instances where a third party either finances or collects the SME's invoice on behalf of the business, or pre-finances the SME's products before the buyer receives them. These formal credit options can be costly, though. While the exact terms and eligibility criteria are not clear, because such options are operated on a commercial basis the eligibility criteria are bound to be as strict as in the case of banks, for instance.

A new development in the buyer/supplier financing space is online e-trade platforms (e.g. Alibaba) that provide financing to their providers (many of which can be SMEs) based on their trading record through the platform. The existence/prevalence of this type of finance in MAP countries is not certain, but is likely to be limited to the larger, more formal, export-oriented SMEs.

International (multilateral/bilateral) development finance institutions

Including donors, development banks and development agencies, they have to varying degrees tried to influence provider incentives through the provision of grants, investments and, more recently, returnable capital. Providers that have benefited from these initiatives include banks and national development finance institutions, although likely the largest beneficiary group (aimed at SME finance) has been MFIs. This type of financing for SMEs would also include programme-related investments (impact investments), where a development institution has specific programmatic outcomes it wishes to achieve through investment in intermediaries such as MFIs.

EQUITY PROVIDERS – CROWDFUNDING, ANGEL INVESTORS, IMPACT INVESTMENT PLATFORMS OR INSTITUTIONS, AND PUBLIC INVESTMENT CORPORATIONS – ALSO FACE CONSTRAINTS IN PROVIDING FUNDING TO SMES.

Crowdfunding

Likely the most broadly accessible financing option for SMEs, crowdfunding is not yet widely accessible in most MAP countries. Crowdfunding includes everything from peer-to-peer lending to equity (crowd ownership), rewards (crowd gets perks), donations, profit sharing (similar to equity) and even debt securities. Combinations of these different types also exist. The exact prevalence of crowdfunding in MAP countries specifically is not known. But, of the different variations of crowdfunding, peer-to-peer lending and donation-based crowdfunding are bound to be the most accessible/prevalent, given that the other forms tend to require greater scale/sophistication from businesses in order to successfully mobilise crowdfunding, or that domestic online markets in MAP countries are probably not large enough to make something like rewards-based crowdfunding universally viable.

Angel investors

Individuals looking to invest their own money into businesses. Although these businesses do not have to be startups, angel investors are among the foremost sources of funding for some categories of startups (usually larger, more formal ones). The investments into businesses are usually in the form of debt or equity. However, given the high degree of risk that startups pose, angel investors usually require a very high return; for instance, a return of five times the investment in the first few years is not unheard of and, in fact, some may say this is too low.

ANGEL INVESTORS ARE INCREASINGLY ALSO FORMING NETWORKS AND INVESTING COLLECTIVELY OR AROUND A COMMON PURPOSE, AND IN REGIONS WHERE MAP OPERATES THERE ARE KNOWN ANGEL INVESTOR NETWORKS.

However, the extent to which they are contributing to finance for SMEs in MAP countries specifically is not yet known. A benefit to the SME of receiving this kind of investment is that the angel investors or their networks can usually be leveraged for expertise, training and market connections (i.e. various forms of business development support); this makes it an attractive option for startups with high growth ambitions. A drawback to this kind of investment, though, is the loss of equity/ownership on the part of the SME owner. Furthermore, investment would likely only be accessible to educated/trained owners with some experience of generating a business plan and keeping financial records, as the latter would usually be required by the investors in the interest of minimising risk. Some angel networks/groups are also leveraging equity crowdfunding platforms for their investments.

Impact investing

Via platforms or institutions this is a fast-growing field, although it is small compared to the private equity market. Increasingly, impact investors include for-profit businesses (although they would typically be mission-driven organisations) seeking social or environmental impact in addition to financial returns. Impact investing can take the form of different types of financial instruments, including debt and equity.

While there are a number of donor-backed impact investment organisations operating in MAP countries, there are few impact investors investing directly in SMEs; for the most part, these institutions invest in banks or insurance companies, with a mandate to then build a portfolio with a specified impact requirement.

It is also unclear to what extent that impact requirement includes financing for SMEs; but if it exists such an arrangement would be similar to those of multilateral or bilateral development finance institutions – where the returns expected may be reduced in order to make it more viable/profitable for banks (for instance) to provide financing to SMEs and so on.

Public investment corporations (PICs)

PICs are investment corporations that are set up and funded by government and operate on a commercial basis while retaining specific development objectives determined by government.

Business incubators and accelerators

Lastly, there are increasingly options for SMEs to source funding from business incubators and accelerators, or to raise funds by winning contests. However, the scale on which this kind of financing is available and the amounts of money involved make it almost negligible in MAP countries. In any case, most of this kind of financing is limited to the fintech industry, where typically the players are well educated/trained and the startups are of the formal kind with high growth aspirations.

MSME debt financing and affordability parameters

To attract investors to opportunities, it is necessary to highlight levels of market demand. This can be achieved by estimating MSME loan demand, given the country's MSME population, and what such loans would cost MSMEs – in other words, through a demand and affordability estimation (based on known supply parameters).

As businesses, MSMEs have turnover and profit just as larger or more formal businesses and corporations do, and this can be used to estimate their market value (based on annual turnover), as well as the estimated equity funding they could hope to receive (assuming such an option is available). The maximum loan size that businesses of different sizes (based on turnover) can sustainably obtain can also be estimated in terms of the affordability of monthly repayments in relation to monthly turnover. For instance, an affordability of 30% of monthly income is an industry norm for consumers. This in turn implies maximum loan sizes for MSMEs of different sizes, and different loan terms (loans with longer terms have lower monthly repayments and can therefore be larger).

In the absence of clear-cut SME financing data in LDCs, the actual income distribution of a country like Malawi (FinScope MSME Malawi 2019), as well as the available provider information (MAP MSME Malawi 2019) – e.g. average loan size, total loan portfolio, interest rate and loan terms – can be used to shed more light on demand for MSME loans and what MSMEs could expect to pay for such finance (see Table 3).

THERE ARE ABOUT 1.14 MILLION MSMES IN MALAWI. MICRO ENTERPRISES ARE CLASSIFIED BY GOVERNMENT AS HAVING A TURNOVER OF LESS THAN USD 6,800 PER YEAR, SMALL ENTERPRISES BETWEEN USD 6,800 AND USD 68,000, AND MEDIUM-SIZED ENTERPRISES BETWEEN USD 68,000 AND USD 680,000.

However, some banks classify enterprises with turnover of less than USD 2 million (National Bank of Malawi, or NBM) or even USD 10 million (Standard Bank) as SMEs. This means that many of the loans that banks consider to be SME loans might, in fact, be going to what the government would consider to be large corporations rather than SMEs.

Based on typical startup investment capital guidance, startup enterprises can expect more or less 50% of their market value in equity investments. If, based on industry standards, one values enterprises at twice their annual turnover, then enterprises should be able to raise equity funding about the same as their annual turnover (assuming the option is available to them).

TABLE 3

Affordability parameters for MSME financing in Malawi

	ANNUAL REVENUE (USD)	NO. OF MSMES	VALUE OF BUSINESS (USD)	EQUITY FUNDING MSME COULD RAISE (USD)	MONTHLY LOAN INSTALMENT AFFORDABILITY)*	MAX IMPLIED LOAN SIZE (USD)				
						1 MONTH	6 MONTHS	12 MONTHS	24 MONTHS	40 MONTHS
Micro 20% | 1%	250	45,887	500	250	7	4	35	71	129	202
	500	70,128	1000	500	14	8	70	142	258	403
	750	109,095	1500	750	21	13	106	213	387	605
Micro 40% | 7%	1,000	49,540	2000	1000	28	17	141	284	516	806
	1,500	122,525	3,000	1,500	42	25	211	425	773	1,209
	2,000	37,267	4,000	2,000	56	33	282	567	1,031	1,613
	2,500	58,201	5,000	2,500	69	42	352	709	1,289	2,016
	3,000	18,476	6,000	3,000	83	50	423	851	1,547	2,419
	3,500	23,165	7,000	3,500	97	59	493	992	1,805	2,822
	4,000	24,962	8,000	4,000	111	67	564	1,134	2,062	3,225
	5,000	65,466	10,000	5,000	139	84	705	1,418	2,578	4,031
	6,000	54,411	12,000	6,000	167	100	846	1,701	3,094	4,838
Small 36% | 33%	7,000	20,263	14,000	7,000	194	117	987	1,985	3,609	5,644
	8,000	140,000	16,000	8,000	222	134	1,128	2,268	4,125	6,450
	9,000	49,891	18,000	9,000	250	151	1,269	2,552	4,640	7,256
	10,000	32,926	20,000	10,000	278	167	1,410	2,835	5,156	8,063
	15,000	79,253	30,000	15,000	417	251	2,115	4,253	7,734	12,094
	20,000	22,201	40,000	20,000	556	335	2,820	5,670	10,312	16,125
	30,000	53,851	60,000	30,000	833	502	4,230	8,505	15,468	24,188
	40,000	5,801	80,000	40,000	1,111	669	5,640	11,340	20,624	32,250
	50,000	5,957	100,000	50,000	1,389	837	7,050	14,175	25,780	40,313
	60,000	3,595	120,000	60,000	1,667	1,004	8,459	17,010	30,936	48,375
Medium 4% | 49%	70,000	4,879	140,000	70,000	1,944	1,171	9,869	19,845	36,092	56,438
	80,000	2,103	160,000	80,000	2,222	1,339	11,279	22,680	41,248	64,501
	90,000	1,631	180,000	90,000	2,500	1,506	12,689	25,515	46,404	72,563
	100,000	4,521	200,000	100,000	2,778	1,673	14,099	28,351	51,560	80,626
	200,000	22,658	400,000	200,000	5,556	3,347	28,198	56,701	103,120	161,251
	300,000	4,741	600,000	300,000	8,333	5,020	42,297	85,052	154,680	241,877
	400,000	3,836	800,000	400,000	11,111	6,693	56,397	113,402	206,240	322,503
	500,000	767	1,000,000	500,000	13,889	8,367	70,496	141,753	257,800	403,128
	600,000	24	1,200,000	600,000	16,667	10,040	84,595	170,103	309,361	483,754
Large 0% | 11%	700,000	310	1,400,000	700,000	19,444	11,714	98,694	198,454	360,921	564,380
	800,000	1,302	1,600,000	800,000	22,222	13,387	112,793	226,804	412,481	645,005
	900,000	115	1,800,000	900,000	25,000	15,060	126,892	255,155	464,041	725,631
	1,000,000	43	2,000,000	1,000,000	27,778	16,734	140,991	283,506	515,601	806,257
	1,500,000	89	3,000,000	1,500,000	41,667	25,100	211,487	425,258	773,401	1,209,385
	3,000,000	73	6,000,000	3,000,000	83,333	50,201	422,974	850,517	1,546,803	2,418,771
	> USD 3m	63	> USD 6m	> USD 3 m	111,111	66,934	563,966	1,134,022	2,062,404	3,225,027

%: Percentage of all MSMEs %: Percentage of MSME revenue

* 30% of turnover

Note: The loan amounts are based on the actual reported terms of loans from different providers, as well as their actual reported interest rates. Where more than one provider provides a loan with the same term, the cheapest interest rates were taken. As a result, loans from moneylenders and VSLAs (village savings and loans associations) – where interest can go to almost 800% per year – are not included in the table for loans longer than a month. The cheapest loan included is from banks, at 20% (40 months), while the most expensive one included is from SACCOs (savings and credit cooperatives), at 60% annualised interest for a 6-month loan

THE ALTERNATIVE IS DEBT FINANCING WHICH CAN BE ASSESSED THROUGH THE MONTHLY AFFORDABILITY OF LOAN INSTALMENT PAYMENTS. BASED ON A 30% AFFORDABILITY BENCHMARK (I.E. LOAN INSTALMENT IS 30% OF MONTHLY TURNOVER), AND THE AVAILABLE LOAN PRODUCT INFORMATION FOR MALAWI, IT BECOMES EVIDENT THAT, EVEN FOR THE MAXIMUM LOAN TERM OF 40 MONTHS, AT THE CHEAPEST MARKET RATE AVAILABLE (20%) ENTERPRISES CAN RAISE AT MOST 80% OF THEIR ANNUAL TURNOVER IN THE FORM OF A LOAN.

However, the amounts stated here are the maximum amount that MSMEs should take as a loan, in a perfect market, and this is far from what would actually be available to them. For instance, MAP MSME Malawi (2019) reports MSME credit provided by different types of institutions as follows: banks (USD 55.6 million), MFIs (USD 14.5 million), SACCOs (USD 6.8 million), VSLAs (USD 2.6 million) and donor providers (USD 2.3 million).

The average loan value (from regulatory returns) for MFIs is reported as USD 272. This would imply MFI loan clients of just over 50,000. The Malawi MSME FinScope (2019) finds there are about 25,000 MSMEs in Malawi that report having some form of bank credit (excluding credit cards). This would put the average bank loan to MSMEs at around USD 2,200. Although the data is not available for the other providers, indications from other countries are that VSLAs can be offering around double the average loan size of MFIs, moneylenders around four times the typical MFI loan size, and SACCOs typically around the same size as or less than MFIs. If one takes the same loan size, though, SACCOs would have around 25,000 loan clients in Malawi, while VSLAs would have around 10,000. If there is no overlap, this would imply about 110,000 loan clients in Malawi (excluding loans through moneylenders).

The average loan sizes reported (and typically seen in other countries) clearly only address the needs of micro businesses, or imply that SMEs can only access funding far below their requirements. The fact that banks would seem to be playing in the micro space is encouraging, but it confirms the notion that SMEs, even if they do have access to finance, are not well served in relation to their business financing needs.

Alternatively, the MSMES that report having bank credit have this in their personal capacity – not as a business – in which case banks' average loans might be much larger in size than appears to be the case. In fact, the high turnover thresholds that banks set, combined with what we know of bank operating models in general, would suggest their SME loan portfolio would be a relatively small pool of large loans to large SMEs. Taking the threshold that NBM uses (USD 2 million), and using the maximum finance requirement calculated above for a business of that size (which would be around USD 1.6 million), the total SME loan portfolio of banks (USD 55.6 million) could easily consist of as few as 35 loans. FinScope (2019) found there should be 136 enterprises that have between USD 1.5 million and USD 5 million turnover – which means that banks only have to identify the top 25% of businesses in this size range to fulfil their entire SME loan portfolio.

The potential of digital technology to reduce barriers to SME finance

While SME lending is risky for providers and profitability difficult to secure, rapid technological developments, continuously evolving client habits and expectations, new provider entrants and changing regulations are dramatically impacting the traditional banking value chain.

As a result, the role of banks is changing substantially and the banking ecosystem is becoming increasingly complex, driven by changes in the ways clients consume financial products and by non-banks (e.g. IT firms, fintechs and retailers) claiming their place in the value chain. In the face of digitalisation – a transformation in work processes by applying digital technologies – banks are being forced to reconsider their role in a future financial services ecosystem.

Digitalisation has the potential to address some of the existing barriers to finance for SME. It is important, though, to distinguish at least four different areas where digitalisation could have an impact on MSMEs: digital financial services (DFS), digitalising business operations, digitalising value chains, and digitalising the business environment. These are discussed in turn below, with examples of digital products/services provided in Table 4.

TABLE 4
Selection of digital services for MSMEs, by business area relevance

Finance	*Operations*	*Value chains*	*Business environment*
SOURCING FINANCE • (Alternative) lending • Crowdfunding/equity crowdfunding • Capital raising **GENERAL FINANCIAL MECHANISMS/ FUNCTIONALITIES** • Digital banking/general banking • Personal finance • Deposits and lending • Payments/value transfer/ remittances • Insurance/insuretech/insurance brokerage **MANAGING FINANCES** • Financial planning • Financial advisory • Financial services software • Investment management • Cryptocurrencies	**SALES** • Point of sale technology • Online store/order placing • Trading **PRODUCTION/SUPPLY** • Productivity software (project management) • Inventory management software • Business process automation software **ADMIN (BACK END)** • Digital signature • AI and analytics • Accounting and invoicing • Personal data protection • HR and payroll • Communication software • Learning management systems **ADMIN (FRONT END/ CUSTOMER FACING)** • Subscription billing software tools • Protecting customer financial data • Customer relations management	**SOURCING/MANAGING INPUTS/SUPPLIERS** • AI and analytics • Digital signature • Online order placing • Distributed ledger technology/ blockchain • Fleet tracking/GIS/Internet of things/sensors **STORAGE** • AI and analytics • Distributed ledger technology/ blockchain • Fleet tracking/GIS/Internet of things/sensors **DISTRIBUTION/TRANSPORT** • AI and analytics • Distributed ledger technology/ blockchain • Fleet tracking/GIS/Internet of things/sensors **ACCESS TO MARKETS** • E-commerce platforms • Market provisioning	**REGULATORY OVERSIGHT AND COMPLIANCE** • RegTech • Digital signature • Audit, risk and regulatory compliance software **EASE OF DOING BUSINESS** • Government platforms for tax submission, business registration etc. • Digital ID (customer identification and verification) • AI and analytics • Market infrastructure **MANAGING RISK** • Data security • AI and analytics

DIGITAL FINANCIAL SERVICES. DFS include financial services offered through phones, the Internet and even ATMS and POS devices: mobile money, mobile banking and Internet banking. With DFS, providers benefit from the fact that automation lowers management costs. DFS can include payments, savings, insurance and credit/loans as well as services to help customers manage their finances, including advisory services. (When coupled with DFS provision, digitally provided business support services offer the advantage of ease of distribution as they can be distributed through the same user interface.)

DIGITALISING OPERATIONS. Businesses can adopt increasing degrees of technology in their operations and business models, which can improve their efficiency, productivity and transparency; this ranges from basic adoption of technology to improve communications, to more advanced tools to improve marketing and sales, to fully integrating technology into most aspects of the business.

DIGITALISING VALUE CHAINS. The main discourse around digitalising value chains has arisen for the most part from the opportunities offered by the Fourth Industrial Revolution and the Internet of things, with ever-increasing potential to monitor every component of production, distribution and use by different actors in a value chain; this leads to improved efficiencies, better management of stock, and just-in-time delivery that matches demand and reduces storage costs.

DIGITALISING THE BUSINESS ENVIRONMENT. There are extensive opportunities to digitalise the business environment for SMEs; this includes things like business registration, taxation, information access and business support services. Since all of these can potentially play substantial roles in reducing barriers to entry and improve or support business operations, business environment digitalisation offers much potential for application in MAP countries to support SME growth and development.

Digital channels offer great potential to overcome some of the most persistent barriers to financial services provision at greater scale and reaching the excluded and the poor, and they do so by offering specific advantages, compared to non-digital products, from both a supply- and demand-side perspective (the demand side comprising users of financial products – in this case, SMEs).

ENABLING MORE EFFICIENT AND EFFECTIVE PROVISION AT LOWER COST. As DFS require less physical infrastructure for distribution (e.g. a branch), and often lower labour costs to process client interactions (due to automation), they can be provided at lower cost than those distributed through traditional brick-and-mortar channels.

Digital distribution also offers the potential to scale more quickly, due to the aggregation of clients that can be reached through digital channels.

REDUCING PROVIDER RISK THROUGH IMPROVED CUSTOMER INFORMATION. Furthermore, digital channels have access to more data on potential customers (e.g. alternative mobile data) than traditional providers do, and often themselves contribute to data generation, which addresses to a degree the issue of information scarcity and opacity of the excluded and small businesses. This increased information availability in turn offers potential for providers to reduce their risk as well as their defaults, by better screening and monitoring potential clients.

INCREASING INCENTIVES FOR NEW MARKET PLAYERS. Reduced costs, increased potential to scale, increased information availability and reduced risk all lead to increased efficiencies of provision, all of which serves as an incentive to new players to enter the market.

THESE BENEFITS OF DIGITALISATION SHOULD NOT BE ASSUMED. THEY CAN, HOWEVER, BE TESTED/CALCULATED FOR SPECIFIC COUNTRIES, PROVIDERS AND PRODUCTS.

REDUCING BOTH FINANCIAL AND NON-FINANCIAL COSTS, AND INCREASING CONVENIENCE FOR SMES. DFS customers (including those taking up digital credit), in turn, derive benefits specific to DFS. Increased efficiency of provision and increased competition mean that transaction costs can be lower for digital products. Yet, it is often in the area of non-financial costs that DFS offer particular benefits for users; for instance, the cost of travel to a distribution point can constitute a large portion of the total cost of access, and this is reduced, or can even fall away, for digital products. A second major benefit is often the convenience of digital products to customers. Given that DFS can be accessed at more flexible hours, sometimes requiring less administrative hassle (e.g. forms to complete), reduced KYC, and reduced travel time and cost, they are often also perceived to be more convenient for customers and with lower opportunity costs. This is particularly important for small (and often informal) businesses with limited managerial capabilities and/or capacity, and can therefore serve as an incentive for SMEs that otherwise might not have considered applying for financial products.

INCREASING SMES' TECHNOLOGY USAGE AND OPENING UP NEW OPTIONS FOR BUSINESS. Increasing adoption of technology in business operations or the value chain can lead to opportunities to provide new or alternative products and services, which can expand the client base, open the SME up to new markets, and/or improve customer satisfaction levels.

DIGITALISATION OFFERS SIGNIFICANT POTENTIAL TO INCREASINGLY INCLUDE SMES IN THE FORMAL ECONOMY, WHILE ALSO LOWERING BARRIERS TO ENTRY SUCH AS THE COST, TIME AND COMPLEXITY OF REGISTRATION AND TAX ADMINISTRATION.

Fintechs: innovation through partnering

The rapid expansion of DFS in the past decade has introduced new providers into the financial services landscape. Particularly, the rise of fintechs ushered in much excitement about drastically transformed financial services provision, and disrupted competition – with banks, especially, positioned as the most affected industry.

PARTNERING AND INTEGRATING – FOR INNOVATION. Fintechs have particularly succeeded in leading the pace and direction of innovation of financial services provision, including how services are conceptualised, delivered and used. However, as a result of both customer inertia in switching from traditional financial services providers and a lack of infrastructure and ecosystem creation by fintechs, rather than replacing banks fintechs have learned to partner with entrenched providers, integrating into the value chain and becoming service providers to large, established financial institutions. This has introduced many benefits for the industry, as innovation that would otherwise have been concentrated in disruptive competitors has now become a function that could be integrated into existing players through outsourcing. What is more, it has become easy for providers to pick from a shopping list of services, innovations and the like, making it difficult for disruptive innovation to be captured by a single or concentrated selection of market players.

These changing dynamics in the financial services landscape have impacted very positively on the financial inclusion agenda, including for MSMEs. In turn, these changes have led to increased investment activity into fintechs over the past 10 years, with areas like financial advisory services, digital payments, alternative lending, crowdfunding and AI/ analytics being the longest established.

AGGREGATION STILL CRITICAL FOR BUSINESS MODELS TO SUCCEED. While DFS offers many advantages to customers in general, and also in the low-income market, the majority of customers in the financial services market in MAP countries still appreciate a human point of interaction, which requires 'feet on the ground' – which in turn requires fintechs to partner with institutions that have existing infrastructure and customer relationships. This fact, coupled with the rise of platforms that consolidate interaction with financial services providers through a single channel, often across countries and regions, makes it less easy for any particular new domestic entrant to both disrupt and reach scale. Aggregation, it seems, is still critical for business models to succeed. The long-term trend regarding aggregation is likely more industry consolidation, with customers interacting with fewer and fewer distributors of financial services (WEF 2017).

A countering effect of this financial globalisation, though, is that regional differences in customer needs and income, as well as different regulatory priorities and technological capabilities, will likely lead to unique development paths for financial services provision in different regions of the world. This divergence in innovation could act as a counter balance to globalisation, which would make it easier for domestic and regional providers to gain market share, but less easy for any one player to gain global dominance.

DOMESTIC FINTECH MARKETS POORLY DEVELOPED IN MAP COUNTRIES. While it is clear that the fintech industry has the potential to not only further disrupt financial services provisions but also be an active participant in local SME markets (in the sense that many fintechs are themselves SMEs), the fintech market, despite being active in Africa in countries like Egypt, Ghana, Kenya, Nigeria, Rwanda, South Africa, Tunisia and Uganda, remains embryonic in the relatively undeveloped economies MAP operates in. Broader/international disruptive forces – e.g. cryptocurrencies and distributed ledger technology (more commonly known as blockchain technology), as well as the dominance of international platforms like Facebook and Google and the winner-takes-all nature of this new economy – make the establishment and growth of domestic fintech ecosystems more difficult than before.

DFS-related challenges

The actual experience to date with both fintechs and DFS provision has shown key challenges remain, thus far inhibiting both the expected disruption in the industry and digital's hoped-for transformative potential. These challenges require market-enabling factors such as efficient and fit-for-purpose payments system infrastructure (e.g. national switches that can handle large volumes of low-value transactions) and functioning national ID systems.

DFS-RELATED CHALLENGES FOR GOVERNMENTS. Governments face the difficult task of balancing financial innovation with financial sector integrity/stability and consumer protection. With the area of DFS experiencing particularly high degrees of innovation and market development, governments are in most cases still trying to catch up in terms of regulatory frameworks and implications (see also Note 3, Volume 2 of the MAP Global Insights series).

NEW FINANCIAL PRODUCTS CAN INTRODUCE NEW AND UNKNOWN RISKS AND WIDESPREAD DEFAULT, AND HAVE IMPLICATIONS FOR THE LIQUIDITY REQUIREMENTS OF PROVIDERS.

Simultaneously, governments have to address illicit financial flows. In terms of consumer protection, digital financial products introduce risks related to data privacy (access collection or inappropriate use of data) and over-indebtedness due to easy access to credit or exploitation of the financially illiterate. As a result, there is often regulatory uncertainty around digital financial products in many markets, as a clear regulatory framework relating to specific digital products or markets has not yet been developed.

DFS-RELATED CHALLENGES FOR PROVIDERS. The lack of regulatory certainty around specific areas of provision tend to serve as a barrier for providers, as they do not wish to invest in physical infrastructure without some degree of certainty. In addition, providers have to invest in physical infrastructure (e.g. agent networks or cash reticulation networks), or often rely on physical infrastructure of other market players (e.g. mobile networks and payment systems infrastructure that allow for interoperability) in order to effectively leverage digital opportunities.

As populations are not evenly distributed, reaching low-density areas, such as rural areas, in particular, might not be sufficiently profitable if disproportionate investments are required for relatively low returns. Digital provision also requires advanced computer and technical capability to build and manage effective delivery systems and manage things like cybersecurity, while the lack of a well-functioning national ID system can also inhibit effective digital provision. Finally, domestic providers might face unbalanced competition due to asymmetric market power and international platform dominance (winner-takes-all provision).

DFS-RELATED CHALLENGES FOR CONSUMERS. Customers too face a number of challenges in accessing DFS. For a start, they must own a digital device like a phone, a smart phone or a computer, in order to obtain access. This is still a persistent issue in most MAP country markets, where even normal mobile phone (i.e. non-smart phone) ownership is not necessarily ubiquitous, while levels of smart phone ownership tend to be much lower still, and levels of computer ownership the lowest. Poor mobile network coverage or Internet access can also be a barrier to access, as can the unreliability and high costs of mobile (or Internet) coverage (data).

Even if people own a digital device, lack of financial and digital literacy can undermine access, or undermine users' security (and thus trust levels). Such customers also face the risk of exposure to online fraud, and exploitative financialisation (overselling or exploitative terms of sale).

Perhaps most importantly, however, the biggest challenge to DFS usage MAP has found is the persistent reliance on cash for local payments, meaning that broad uptake of digital financial products requires they be easily convertible to cash – something that is in most cases not yet universally and effortlessly achievable.

IN ADDITION TO THE CHALLENGES TO UPTAKE AND USAGE OF DIGITAL FINANCE, THERE ARE CHALLENGES TO THE DIGITALISATION OF BUSINESS OPERATIONS, BUSINESS VALUE CHAINS, AND THE BUSINESS ENVIRONMENT GENERALLY.

CHALLENGES TO DIGITALISATION OF BUSINESS OPERATIONS. The digitalisation of business operations can be complex and costly, and requires advanced computer and managerial capacity. Computers and appropriate software may be required, which is costly, and the SME might lack the ability to implement and integrate specific digital solutions into the actual business operations. Unless highly automated and adapted by external/international developers for specific tasks (e.g. accounting software), digitalisation therefore requires in-house capabilities and resources to manage or even develop specific solutions for specific business problems.

CHALLENGES TO DIGITALISATION OF VALUE CHAINS. Other than specific instances involving the manufacturing industry (where digitalisation can, for instance, decrease the cost of and time required for imports and exports – a key barrier to manufacturing sector growth in landlocked countries like Lesotho and Nepal), the digitalisation of value chains has largely not been implemented in the SME space, particularly in MAP countries. Rather, most instances of value chain digitalisation are limited to payments for small businesses, particularly in the agricultural value chain (smallholder farmers and others in that value chain).

CHALLENGES TO DIGITALISATION OF WIDER BUSINESS ENVIRONMENT. Digitalisation of the wider business environment often requires national-level interventions to build the infrastructure and systems and reduce red tape, which requires working with different stakeholders than traditionally needed in the SME finance space. This kind of wider digitalisation could, therefore, be complex to effect when only engaging with financial inclusion stakeholders and government counterparts.

DIGITAL CREDIT AND CROWDFUNDING NOT YET TAKING HOLD IN MAP COUNTRIES. Given the range of challenges to digitalisation, and despite impressive growth of some digital financial instruments, and specific niches, the potential of DFS to unlock funding for SMEs (in MAP countries in particular) has not yet been realised to any significant extent. This becomes evident when comparing outstanding SME finance portfolios of digital channels and banks, or comparing them to comparable digital products in more developed markets.

Perhaps the most successful instance of DFS has been mobile money where, in limited cases, the overall number of digital loans is surpassing that of conventional loans; for this reason, mobile offers more immediate potential for small businesses, especially when business can leverage e-commerce platforms successfully to connect with customers. Yet, even here, the value of digital loans is still only a fraction of traditional loan values. Mobile credit, it turns out, is usually small in size with a very short term, which reduces its usefulness for SME credit.

CROWDFUNDING IS ANOTHER RISING STAR WHICH HAS FOR THE MOST PART TAKEN HOLD IN MORE DEVELOPED MARKETS, BUT IS NOT YET WIDESPREAD IN MAP COUNTRIES. THE CAPITAL RAISED IN AFRICA THROUGH SUCH CHANNELS, FOR INSTANCE, IS STILL VERY LOW.

There is evidence, though, that local provision of such services offers benefits over international platforms, as this may influence the degree to which they are focused on actually supporting local entrepreneurs (rather than broader social projects). Similarly, as already mentioned, credit provided to SMEs as buyers/providers through e-commerce platforms such as Alibaba is not yet a widespread phenomenon in MAP markets.

SME STOCK EXCHANGES ALSO NOT YET HAVING MUCH TRACTION IN MAP COUNTRIES. The one area of provision to SMEs that has shown higher values of raised capital is SME stock exchanges. However, these have largely been limited to more developed markets, and even in those markets these exchanges are serving only a very small fraction of SMEs (e.g. dozens, hundreds or in some case the low thousands) and are therefore not a panacea to SME financing needs – at least not for the missing middle SMEs.

UNDERSTANDING THE COUNTRY'S *enabling environment for MSMEs*

While diversifying financial products to serve SMEs is an important element of the structural transformation of developing economies, equally crucial is incubation and nurturing of such enterprises through government support so as to make them credit and investment worthy.

In most MAP countries, though, the business and institutional environment generally is not conducive to supporting true entrepreneurial activity to unlock entrepreneurship's power and potential for growth, which means that high-impact/high-potential entrepreneurial activity, which should be helping to power inclusive growth, is denied the necessary support.

This is confirmed by the World Bank Ease of Doing Business Index (2019), which ranks 190 countries based on the ease with which a business can be started and operated. MAP countries rank quite poorly on this index. The MAP MSME research in Eswatini and Malawi confirmed that the regulatory and business support environment in each of those countries is relatively weak for encouraging and promoting entrepreneurial activities in general and SMEs in particular.

FOR MSMES TO FLOURISH, A COUNTRY REQUIRES AN EXISTING SET OF FUNCTIONS, RULES AND NORMS – WHAT CAN BE TERMED THE ENABLING ENVIRONMENT FOR MSMES.

For instance, there are requirements in terms of infrastructure, a basic level of financial sector development, a basic level of security, governance, and so on. Understanding this enabling environment in a country makes it possible to identify the gaps in terms of supporting SMEs for development: for example, gaps in support, information, investment, stakeholder collaboration, products and services, and policy. The positioning and landscaping exercises that are carried out at the outset (see Figure 1) are invaluable for highlighting gaps and potential for growth alike.

Researching the country's enabling environment and synthesising the research findings is an ongoing, iterative process that continues to inform action up to the point of development of an SME roadmap and its associated action plan. In terms of specifics, it is important to understand:

- The current level, nature and effectiveness of government and regional support (including donor support) provided to MSMEs, as well as private sector support provided; the latter includes financial services providers (and MSMEs' levels of access to financial services), as well as business support services.
- Per different stakeholder groups: the strategies, priorities, capacity, and required investment for supporting MSMEs.
- The availability of MSME information and the quality of that information.
- The relative degree of importance of MSMEs in relation to the entire business or portfolio of financial services providers.
- Provider-identified barriers to serving MSMEs.

The purpose of government funding support is to stimulate the growth of businesses as set out in any national plans and objectives, and as a result many of these funds are sector specific and have economic inclusion and job creation as a strategic priority. The majority of private sector funders, on the other hand, are profit-making concerns, with their primary mandate being revenue generation and high returns from their funding transactions. Clearly, it is important to map out the landscape of funders in a country and to quantify the funding available, including understanding the drivers of the different funding types, in order to track the overall developments in the market in terms of investment and to better manage investment into priority-sector interventions.

The adoption and implementation of the SME roadmap and action plan will ultimately fall under the purview of the relevant local government stakeholders, particularly the ministry of trade and industry, development or similar. It is therefore imperative to understand relevant initiatives undertaken by these and other government stakeholders towards economic growth and SME development, and the following questions relating to government support to MSMEs in general and SMEs in particular are worth considering:

- What are the historical and current government policies to support MSMEs, trade, industrialisation and economic development?
- What specific factors from these policies were aimed at, or might have supported or undermined, MSME development?
- What has been the impact or effectiveness of previous or current policies? There are many existing evaluations of government development policies, but simple measures such as economic growth, growth in trade and so on can be used to sense-check policies' effectiveness. In addition, using statistics on the number of MSMEs targeted under specific policies and cross-checking this with the overall landscaping figures allows for judgement on the overall effectiveness of policies in facilitating broad-based development in the MSME sector.
- What were the failures, challenges and lessons to be learned that could inform future policy for MSME development – particularly with regard to high-impact/high-potential SMEs?

A HIGH-LEVEL ASSESSMENT OF REGIONAL POLICY AND ITS EFFECT ON LOCAL MSMES CAN ALSO BE CONDUCTED, AS WELL AS AN OVERVIEW OF DONOR SUPPORT AND EFFECTIVENESS IN ANY OTHER PERTINENT AREAS OF ACTIVITY, SUCH AS DONOR-FUNDED BUSINESS DEVELOPMENT SUPPORT (BDS).

Nurturing SMEs to financing through targeted BDS

BDS is an important area of intervention for nurturing and growing SMEs, given that many such enterprises, despite having high potential, have limited business skill levels and capacity.

Along with increasing access to finance and investment, and improving the business environment, in the MAP MSME methodology BDS is posited as a main focus area for interventions aiming to unlock SMEs' potential.

BDS typically covers areas like information provision (e.g. to support SMEs seeking or applying for funding or credit), sales and marketing, HR management, IT, exporting and the like (see also Figure 12).

SMEs need support in business development because one of the main barriers to accessing finance is SMEs' lack of managerial and bookkeeping capabilities. But they also need business support because small businesses fail – a lot. Business support services are, therefore, intended as a mechanism for nurturing and growing the small businesses to the point of sustainability and viability over time, in the process strengthening the entire small business sector.

For this reason, BDS has historically been an important tool in intervening in the SME sector for poverty reduction and to fuel economic growth.

While BDS does not include financial services, it is often provided in conjunction with financial services. In terms of financial inclusion, accounting skills and financial management are usually the key business skills that SMEs lack. From a growth and development perspective, though, BDS can include providing SMEs with skills that support business viability, sustainability, profitability and growth.

FIGURE 12

Categorisation of BDS areas

Source: OECD (2017)

	Sales and Marketing	*Production Operations, ICT*	*HR Management*	*Financial Management*	*Strategic Management*	*Legal Issues and Regulations*	
General Information	• Market overview • Foreign markets • Procurement • Exhibitions and trade fairs	• Suppliers • Warehousing • ICT • Technology	• HR management good practice • Labour regulation • Training options	• Grants • Export financial support • Financing opportunities	• First assesment of business feasibility	• Standards (Certification, quality, regulations) • Legislation (Patents, copyright, IP rights)	BASIC SERVICES
Training	• Sales • Market positioning • Presentation • Networking • Export intelligence	• Process re-engineering • ICT training • Energy efficiency • Resource efficiency	• Leadership training • Career progress • Team building	• Financial planning • Credit orientations • Trading	• Business plans • Business development • Policy advocacy	• Bookkeeping and accounting standards • Quality/safety standards • Export regulations	ADVANCED SERVICES
Mentoring Consulting	• Advertisign and PR • Design and packaging • Pricing and distribution • Access to clusters	• Managing quality • Research and development • Engineering solutions • ICT	• Recruiting techniques • Workforce skills development • Reward plans	• Short-, medium-, long-term finance • Auditing • Loan applications • Investment • Tax advice	• Long-term business strategy • Market entry • Customer relationship management	• Analysis of policy constraints and opportunities	
Physical Infrastructure	*Technology parks and business incubators providing a mix of services*						

Note: Basic services are typically provided by a public business support network. Advanced services are typically provided by private sector and third parties

> Globally, the area of BDS has evolved into highly sophisticated and/or targeted services, with the delivery methods for such services also seeing many changes and improvements, particularly relating to sustainability and cost. For example, the replacement of permanent government (or donor) funding for entrepreneurial enterprises with market-driven funding for startups has contributed to this shift: under the permanent government funding approach, for instance, services were limited and costly to government (to end users, however, they were usually subsidised), whereas market-driven approaches have given end users more power in determining the mix and quality of services available. Furthermore, due to the high cost of service provision, the permanent funding model was able to serve fewer businesses than market-driven approaches, which are delivered on a cost recovery basis. The range of services on offer has also been expanded and there has been a shift from short- to longer-term interventions.

The OECD captures a broad set of business support services, organised into six categories (see Figure 12), and also classifies the type of support that can be provided into three categories: general information, training, and mentoring and consulting. The OECD typology highlights that most publicly provided business support is limited to general information.

By contrast, most training, mentoring and consulting services – the support typically envisaged when the suggestion is made that SMEs need BDS – are only provided by the private sector or third parties.

The range of BDS service providers in MAP MSME countries can typically be fairly broad. For instance, in Malawi there are around 80 BDS providers spanning the private, public and donor sectors, with a similarly large and representative pool in Eswatini. However, usage of BDS services was typically found to be low, although higher among SMEs in the high-impact/high-potential group.

In developing countries, and especially MAP MSME countries, BDS provider operating models tend to be relatively outdated compared to elsewhere in the world, especially in terms of the funding model, sustainability of BDS provision, cost of services, and flexibility. These services tend not to be long-term interventions, and tend not to operate on a cost recovery basis. Importantly, though, in developing countries BDS provision has had a stronger emphasis than elsewhere on poverty reduction and gender.

In planning to intervene via BDS provision, particularly in MAP countries, it is crucial to be cognisant of and assess the following issues that may impact on the effectiveness of BDS provision:

SUSTAINABILITY OF PROVISION: Government can choose to directly provide SMEs with BDS, but this is costly and not sustainable over time due to budgeting changes and pressures. There are several other options for government, donor and market provision, but probably no silver-bullet solution.

Examples include transaction-level interventions (e.g. pay for training), programme-funded initiatives (pay for a programme), institutional sponsorships (co-funding an existing operation), subsidisation of services, matching grants to BDS providers, and voucher programmes. These have all had limited success to date. Cost recovery provision and commercial provision are, therefore, increasingly gaining traction.

OUTREACH: BDS service provider outreach remains a challenge: there are a large number of SMEs, and usually only a small number can be reached through BDS. BDS is also less prevalent in rural areas than in urban. Sustainability/cost factors, lack of research, or accessibility issues (lack of physical footprint in some areas of a country) can mean BDS services are inappropriately targeted: either too broadly or too narrowly. MAP's approach of correctly identifying and targeting a small group of high-impact/high-potential SMEs solves the outreach problem to some degree by limiting the number of SMEs that need to be reached.

COORDINATION/COHESIVE POLICY: In both Eswatini and Malawi, the lack of coherence and coordination among BDS providers has been noted as an issue. Governments might choose to provide BDS services, but if these are not effective or sufficient then other players enter the market (e.g. donors, financial services providers, and commercial providers). In time, there are many players, and the lack of coordination leads to duplication of efforts and dilution of limited resources.

PARTNERSHIP WITH BUSINESS: BDS provided outside of a business relationship with the SME could in some cases be detrimental to the business, as the provider is focused on a single aspect of support and does not take into account the overall impact on or interests of the SME. An example would be where the SME's clientele is not considered when BDS is provided.

MARKET DISTORTIONS: Excessive subsidisation can hamper the development of commercially viable BDS sectors, thereby undermining the competition that would otherwise drive improvement (e.g. in quality).

POOR QUALITY OF SERVICES: Some of the distorting market factors noted, like subsidisation and lack of competition, could lead to distorted incentives for providers, where over time the quality of service provision is neglected in pursuit of subsidies, funding and the like.

EFFECTIVENESS OF GOVERNMENT-SUPPLIED SERVICES: In some cases (as in Eswatini), donor- or private sector-delivered services, or services where government partners with donors or the private sector, are of higher quality/effectiveness than BDS provided solely by government.

AWARENESS: Lack of awareness of specific BDS initiatives is sometimes noted as an obstacle to their uptake. However, in general, FinScope found much higher levels of awareness than usage of BDS services, suggesting other barriers to uptake at play.

DONOR WITHDRAWAL/FICKLE FUNDING: In MAP MSME countries, the exit from the BDS landscape of specific donors or specific technical providers has been noted as a concern. Countries that still rely heavily on donor-funded BDS are vulnerable to those donors' funding cycles and development prioritisation and strategies. This supports the case for the creation of a commercially viable BDS sector with good levels of longevity and sustainability.

Despite the cautions and hazards, it is possible to highlight a number of areas of success:

BDS PLUS FINANCIAL SUPPORT: Instances where BDS is coupled with financial support are often more successful than BDS provided alone, as the financial services provider has a business interest in the viability of the business: e.g. banks providing BDS with a loan, or angel investment.

DIGITAL PROVISION OF BDS: Given the increasing connectivity in MAP markets, BDS provided through digital channels is becoming more common. However, more success has been achieved to date in the provision of information – e.g. FinFind, which provides a platform to link SMEs with sources of finance – than either training or (especially) mentoring/consulting services.

SUPPORT WITH EASE OF DOING BUSINESS: BDS can support specific components of the ease of doing business – e.g. registration, tax compliance – although this is mostly limited to information provision (and could also fall under digital provision of BDS).

IMPROVED TARGETING AND FLEXIBILITY: Where services are based on actual SME demand, the varied services offered better match actual needs, although there is a trade-off between providing sector-specific services/tailored services and the scale at which services can be provided.

SUPPLIER DEVELOPMENT PROGRAMMES: In an effort to create better linkages between market demand (i.e. retailers) and those that produce goods that can be supplied to large retailers (i.e. SMEs), supplier development programmes attempt to upskill SMEs to provide the supplier with inputs or services. Such initiatives have been successful in many sectors and address some of the problems noted with broader, market-wide BDS provision; in supplier development programmes, by virtue of value chain and/or sector similarities the large company develops a sound understanding of the specific requirements of the SMEs, which in turn allows the company to finetune its provision based on the realities and constraints the SMEs face.

GOVERNMENT PARTNERSHIPS: Although governments have enjoyed some success with BDS, in countries like Eswatini more success was found when donors or the private sector partnered with government, or provided services independently of government.

INCUBATORS AND ACCELERATORS: SME incubators and accelerators are starting to take off in MAP regions, although the footprint in MAP countries is smaller than in developed countries. Incubators provide support in the early stages of business (startup and initial operation), while accelerators take businesses that already have some track record and aim to accelerate their growth through providing mentoring and facilitating access to finance.

Supporting SMEs to meet funder requirements.

Ultimately, small businesses cannot grow if the mechanisms for investment in them are not functioning effectively. In order to assess SMEs' eligibility for funding and to confirm statutory compliance, funders customarily require the business to provide supporting documents: the funder needs to examine whether the business is bankable and if it can afford the funding it is applying for, as well as to determine the credit risk.

Would-be funders' documentation requirements are invariably onerous for the applying SMEs in the MAP countries, as few have the requisite skills and experience to properly package and present their funding request. If they are to achieve funding success, therefore, such SMEs require assistance to complete financing applications (including preparing their business plan and supporting documentation) to meet a specific funder's or finance product's needs.

WHILE THIS KIND OF SUPPORT IS NOT A SERVICE TRADITIONALLY OFFERED AS PART OF BDS, CLEARLY IT NEEDS TO BE. WITHOUT SUCH SUPPORT THE MISSING MIDDLE SMES WILL CONTINUE TO STRUGGLE TO ACCESS THE FINANCE THEY NEED IN ORDER TO GROW AND REALISE THEIR TRUE POTENTIAL.

Documentation typically required from SMEs seeking funding

DOCUMENTS TO ASSESS BANKABILITY

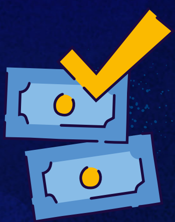
The funder needs to determine the bankability and viability of the business to ensure it will generate future income, and the affordability of the financing to the business. Funders thus examine the SME's:

- Business plan and project plans
- Income and cash flow projections
- Outstanding debtors
- Signed customer contracts
- Most recent annual financial statements
- Latest VAT statements
- Management accounts
- Latest bank statements

SUPPORTING DOCUMENTS

Funders typically request a number of additional, supporting documents to confirm statutory compliance and validate the information on the funding application:

- ID documents of owners
- Marriage certificates of owners
- Company registration documents
- Lease or mortgage agreemen
- Tax clearance certificate
- Existing shareholder agreements
- Share register
- Proof of address
- Relevant licences, accreditations or registrations



CREDIT CHECKS AND RECORDS

To calculate the level of risk entailed in SME financing, funders request credit reports from the credit bureau (assuming the country has one) for both the owner and the SME; the credit record provides a credit history from a number of sources (e.g. banks, credit card companies, collection agencies, government).

COLLATERAL AND PERSONAL SURETY

In addition to credit information, funders typically attempt to mitigate the risk of lending to SMEs through surety and securing collateral.

REFERENCES

CBS (Central Bureau of Statistics), Government of Nepal. (2018). *Nepal in Figures 2018*. Available online at: https://cbs.gov.np/wp-content/upLoads/2019/02/Nepal-in-Figures-2018.pdf (accessed February 2022).

CBS, Government of Nepal. (2020). *Nepal in Figures 2020*. Available online at: https://cbs.gov.np/wp-content/upLoads/2021/01/Nepal-in-Figures-2020.pdf (accessed February 2022).

FinMark Trust. (2017). *FinScope MSME Eswatini 2017*. Available online from: http://www.finmark.org.za/wp-content/uploads/2018/06/FinScope_MSME_Report_Eswatini_2017.pdf (accessed February 2022).

FinMark Trust. (2018). *Eswatini MAP MSME Diagnostic 2018*. Available online from: http://finmark.org.za/eswatini-map-sme-diagnostic-2018-report/ (accessed February 2022).

FinMark Trust. (2019) *FinScope MSME Malawi 2019*. Available online from: https://finmark.org.za/system/documents/files/000/000/138/original/Malawi_Pocketguide-2020-05-22.pdf?1594131792 (accessed February 2022).

FinMark Trust. (2019). *Malawi MAP MSME Diagnostic 2019*. Available online from: http://finmark.org.za/map-msme-malawi-roadmap-2019-report/ (accessed February 2022).

IFC (International Finance Corporation). (2022). *Agribusiness*. Available online from: https://www.ifc.org/wps/wcm/connect/REGION__EXT_Content/IFC_External_Corporate_Site/Sub-Saharan+Africa/Priorities/Agribusiness/ (accessed February 2022).

Kharel, P. & Dahal, K. 2020. *Small and Medium-Sized Enterprises in Nepal: Examining Constraints on Exporting*. ADBI Working Paper 1166. Tokyo: Asian Development Bank Institute. Available online from: https://www.adb.org/publications/sme-nepal-examining-constraints-exporting (accessed February 2022).

Mac an Bhaird, C. (2010). *Resourcing Small and Medium Sized Enterprises*. Contributions to Management Science. Berlin Heidelberg: Springer-Verlag.

Malloch-Brown, M. (2017). *The Opportunity of the Commons*. GEF – Global Environment Facility. Available online from: https://www.thegef.org/sites/default/files/publications/GEF_GlobalCommonArticles_July2018_CRA~.pdf (accessed February 2022).

OECD (Organisation for Economic Co-operation and Development). (2017). *Supporting SME Competitiveness in the Eastern Partner Countries*. Available online from: https://www.oecd.org/eurasia/competitiveness-programme/eastern-partners/Peer_Review_Note_Business_Development_Services_Belarus.pdf (accessed February 2022).

UN (United Nations). (2018). *Financing for Development: Progress and Prospects: 2018*. Report of the Inter-agency Task Force on Financing for Development. New York: UN.

WEF (World Economic Forum). (2017). *Beyond Fintech: A Pragmatic Assessment of Disruptive Potential in Financial Services*. Available online from: https://www3.weforum.org/docs/Beyond_Fintech_-_A_Pragmatic_Assessment_of_Disruptive_Potential_in_Financial_Services.pdf (accessed February 2022).

World Bank. (n.d.). *Small and Medium Enterprises (SMEs) Finance*. Available online from: https://www.worldbank.org/en/topic/smefinance (accessed February 2022).

World Bank. (2019). *World Bank Ease of Doing Business Index (2019)*. Available online from: https://www.doingbusiness.org/en/rankings (accessed February 2022).

Making Access Possible

INVESTOR TOOLKIT