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Expanding access to finance for small and medium businesses in Africa

Rwanda's national economy relies heavily on coffee, which accounts for 30% of the country's exports. Coffee washing businesses that dry the farmers' coffee beans before export are an important part of the supply chain behind those exports. Each year, these stations require large loans over a short period of time to purchase beans. However, the volatility of coffee prices makes the sector risky for lenders, which means that coffee washing firms find it difficult to secure the loans they need to grow. Alternative approaches to small and medium enterprise (SME) financing could reduce the risk of lending to SMEs. Indeed, the SME sector offers a new frontier for banks' market expansion, and many are eager to develop products that cater to the needs of SMEs.

A new partnership between IPA's SME Initiative and the African Development Bank will design and test innovative approaches to improve SME financing across the region. This exciting collaboration connects top researchers interested in SME growth with banks across Africa that seek new ways to address constraints to SME lending. A [roundtable discussion](#) recently hosted by the African Development Bank in Paris brought together executives from leading African banks, SME Initiative [researchers](#), and African Development Bank senior staff for an open dialogue about the barriers to SME financing. Conference participants discussed the challenges that banks face in lending to SMEs, identified potential solutions to those problems, and developed an action plan for testing these innovative ideas to help expand access to finance for SMEs across Africa.

✘ In breakout sessions, bank executives were matched with researchers to discuss specific ideas and how they might be rigorously tested. One SME Initiative Research Affiliate spoke with a major African bank about ways to incorporate the price fluctuations inherent to the coffee sector into loan contracts, which would in turn allow the bank to increase its lending to this sector. Other topics discussed included how to improve screening of SME loan applicants, lowering default rates through client loyalty building, and training for account officers so that they can better serve their SME clients. In the next stage of this multi-year collaboration, banks will receive technical assistance to design and test new SME credit products and lending approaches. Successful pilots will lead to large-scale evaluations that rigorously measure the impact of the new lending models on business growth, as well as their profit

potential for banks.

The research emerging from this partnership will offer much needed insight into how lenders can profitably expand financial access for SMEs. This collaboration also demonstrates how private banks, researchers, and donors can put their heads together to tackle a widespread challenge. Overcoming the multiple barriers to SME financing will require engagement by all stakeholders, and this partnership is a promising first step towards that goal.

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