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Business Brief

Small and medium enterprises (SMEs) are critical for the growth of emerging economies and increasing employment, but access to finance is one of the biggest obstacles for SMEs to grow.

This SME funding gap is well documented. [The World Bank Group](#) has conducted a number of studies on this, with estimates that globally the gap for formal SMEs is as high as US\$1.2 trillion, with half of formal SMEs having no access to formal credit.

Approximately 70% of all SMEs in emerging markets lack access to credit. The gap is particularly wide in sub-Saharan Africa and this has brought opportunities for alternative non-bank lenders to both lend and have a developmental impact across the continent.

According to the World Bank, formal SMEs contribute up to 60% of total employment and up to 40% of Gross Domestic Product in emerging economies and this is significantly higher when informal SMEs are included. With more access to finance SMEs can play an even bigger role in economic growth and development of the region.

The opportunities for alternative lenders in the SME space have been fuelled by attractive yields, increased bank regulation, more conservative credit risk appetites of banks and (in some instances) loosening of regulations that had restricted direct lending.

This can clearly be seen in trade and commodity finance transactions where there are a broad range of producers and traders looking to access capital quickly and flexibly on a short to medium term basis, fully collateralised, and to pay for this service.

Power and infrastructure

The need and opportunity for power and infrastructure development in Africa is enormous.

In sub-Saharan Africa only approximately a third of people have access to electricity. This need for power across Africa has opened up specific opportunities for SMEs in the energy sector and for alternative lenders to fund power producers, fuel traders and producers and other energy infrastructure and logistic services.

Often, with this initial backing, an SME can feed into large established corporates and global

traders to build a solid credit record.

Funding African SMEs can by its nature have a positive impact – growing businesses and increasing employment, allowing SMEs to step up their business to compete internationally and in accordance with best practice from a social and environmental perspective. There are many great stories, and this is an exciting space to be in.

The right opportunity

There are many opportunities, but there are challenges as well.

The alternative lenders in Africa need to find the gems – the right deals, do their due diligence and build relationships with and through these borrowers. This is a big job with significant risk.

Funders need to understand not only their client's business but each relevant jurisdiction and market, amidst increasing competition with other alternative financiers. But as investors increasingly look to place their money with funds that can bring a return and an impact, the opportunity out there is still great.

Contacts



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