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# Access to finance is main obstacle for SMEs in Africa

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Access to finance is a major prerequisite for micro, small and medium-sized enterprises (MSMEs) in developing countries to be able to seize investment and growth opportunities, create employment and thus contribute to economic development and poverty alleviation. Improving access to credit is therefore also set in the United Nations' Sustainable Development Goals.

### Access to finance is main barrier for MSMEs in Africa

Indeed, significant need for action remains in this area, especially on the African continent. Four in ten MSMEs regard access to finance as a major barrier to their business activity. Only three in ten MSMEs share this view in South Asia and Latin America and fewer than two in ten in Europe and Central Asia. MSMEs in some West African states, such as Burkina Faso or Côte d'Ivoire, see themselves as particularly affected (see figure).

More than 21% of African MSMEs even regard access to finance as the main barrier to business activity. This factor is mentioned more often than any other, including electricity supply (14%), political instability (11%), informal competitors (10%) and corruption (8%).[1]

In its most recent report, the International Finance Corporation estimates that one in three MSMEs in North Africa and as many as half of MSMEs in Sub-Saharan Africa cannot or can only partly realise their credit requirements. The IFC has placed the finance gap of SMEs in Africa at more than USD 421 billion.[2]

### Underdeveloped finance sector exacerbates fundamental problems

Access to credit for MSMEs in Africa is hampered by high transaction costs, information asymmetries between enterprises and banks, high risk premiums and stringent collateral requirements. These factors play a particular role for enterprises with a limited credit history or reduced collateral, which are often young or innovative firms.

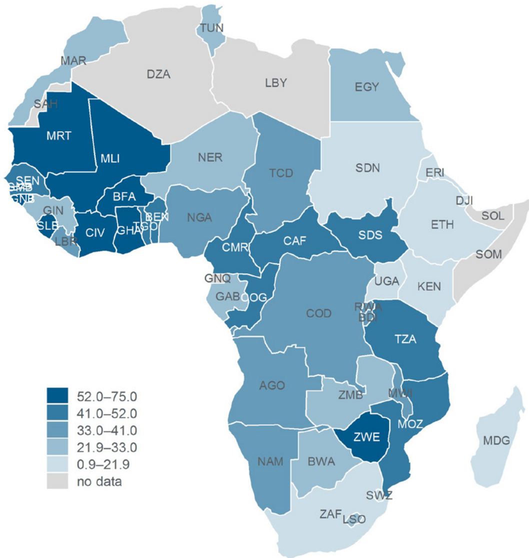
In many African countries, this problematic situation is exacerbated by a relatively inefficient banking sector. Alternative financing sources, such as the bond or stock market, are hardly relevant to MSMEs and still underdeveloped in most African economies.

### Improving access to finance

At the same time, however, it is possible to identify a number of positive developments. Financial sector reforms have already led to improvements in many parts of Africa and are being further implemented. Digital technologies, new financing partners and innovative financing instruments should make it easier for businesses to access finance. International development cooperation also includes a number of promising approaches for strengthening MSME finance and growth. Credit guarantee funds and local currency financing through structured funds are only two such examples.[3] ■

**Figure: Access to finance is a challenge for many African SMEs**

Share of MSMEs for which access to finance is a major obstacle, in per cent.




Source: World Bank Enterprise Surveys, 2006–2018.

[1] The World Bank Enterprise Surveys collect representative data on MSMEs in developing and emerging economies to explore how strongly individual factors affect their business activity and which factor constitutes the biggest obstacle for their establishment. For more on the methodology and content of the survey, see http://www.enterprisesurveys.org/.

[2] See International Finance Corporation (2017): MSME Finance Gap, World Bank Group, Washington D.C.

[3] See Colla, C. and Kühn, C. (2017): SME Financing: Successful Cornerstone of Financial Cooperation