International Trade Centre

TRADE IMPACT FOR GOOD

Promoting SME competitiveness in Francophone Africa

Improving access to finance for inclusive growth

In collaboration with:

CPCCAF The Permanent Conference of African and Francophone Consular Chambers

SMEs are the key to inclusive growth

SMEs are the bedrock of the African economy

Small and medium-sized enterprises (SMEs) form the backbone and the driving force of the African economy. SMEs account for more than 90% of businesses and employ approximately 60% of workers, most of whom are women and young people.[1] Furthermore, SMEs contribute to achieving more than 60% of the 169 targets of the Sustainable Development Goals (SDGs), especially SDGs 8 and 9.[2] Because of their ability to create new jobs in most economies, SMEs will play a key role in absorbing the 900 million Africans expected to join the workforce by 2050.[3] Helping more SMEs connect to international markets would also ensure that the gains from trade are more evenly distributed across the workforce.

African SMEs, like their counterparts in other countries, are generally less productive than larger companies and often struggle to survive and grow. However, future growth depends on greater SME productivity, in Africa as elsewhere.

Financing SMEs supports development

SMEs consistently mention limited access to finance as one of the major obstacles to their growth. Furthermore, in developing countries, it is most often considered to be the main obstacle to the growth of SMEs.[4]

Better access to finance can enable SMEs to better penetrate export markets and expand internationally.[5] Empirical studies have shown that the least financially constrained firms are also the most likely to export.[6] Indeed, access to finance can help cover initial export costs, such as the creation of dealer networks, as well as costs related to shipping, logistics and compliance with international trade rules.

Furthermore, because SMEs are more likely than larger firms to employ disadvantaged social groups, better access to finance and increased SME competitiveness may increase the opportunities and incomes of these groups, thereby reducing employment inequalities in the country.

How investing in SMEs can help achieve the SDGs

Source: ITC (2019). SME Competitiveness Outlook 2019 - Big Money for Small Business: Financing the Sustainable Development Goals.

1. Veinung Fjose, Leo A. Grunfeld, and Chris Green (2010). SMEs and Growth in Sub-Saharan Africa: Identifying SME Roles and Obstacles to SME Growth.
2. International Trade Centre (ITC) (2019). SME Competitiveness Outlook 2019 - Big Money for Small Business: Financing the Sustainable Development Goals.
3. World Economic Forum, World Bank, African Development Bank, and OECD (2015).
4. B20 Turkey (2015). B20 Financing Growth Taskforce Policy Paper.
5. Flora Bellone et al. (2008). Financial Constraints and Firm Export Behavior. Nicolas Berman and Jérôme Héricourt (2008). Financial Factors and the Margins of Trade: Evidence from Cross-Country Firm-Level Data.
6. Vlad Manole and Mariana Spatareanu (2010). Exporting, Capital Investment and Financial Constraints. Zhiyuan Li et Miaojie Yu (2009). Exports, Productivity, and Credit Constraints: A Firm-Level Empirical Investigation of China.

Joining forces to collect data in Francophone Africa

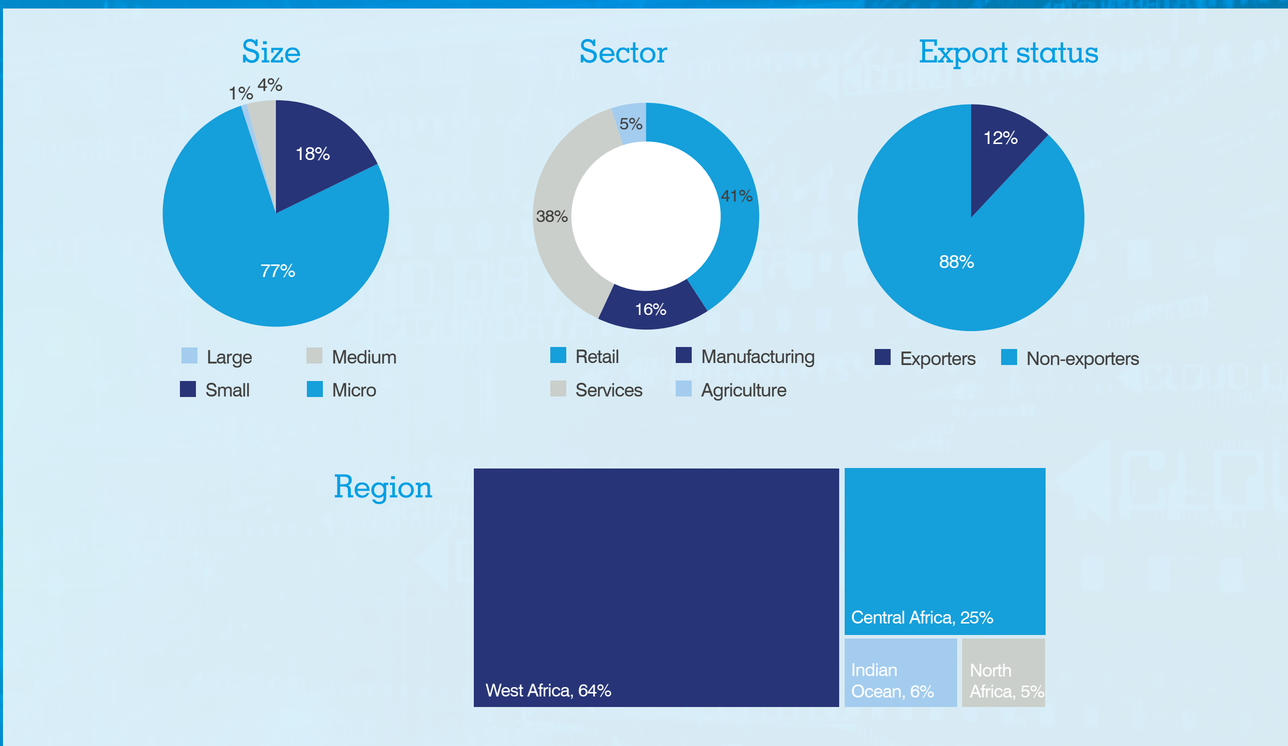
In 2019, the International Trade Centre (ITC) and the Permanent Conference of African and Francophone Consular Chambers (CPCCAF) once again joined forces to promote the competitiveness of SMEs in Francophone Africa. As a result of this new partnership, the CPCCAF collected data on the financing of companies in 17 Francophone African countries. This was based on a selection of questions from ITC's SME Competitiveness Survey, which were added to the CPCCAF's annual Business Barometer Survey of African SMEs. The survey focused on the opinions of micro, small and medium-sized enterprises (MSMEs), although large firms were also interviewed.

More than 9,000 in-depth surveys

In total, 9,511 companies responded to the CPCCAF survey in the following countries: Burkina Faso, Cameroon, the Central African Republic, Chad, Comoros, Côte d'Ivoire, the Democratic Republic of the Congo, Gabon, Guinea, Madagascar, Mali, Mauritania, Morocco, the Republic of the Congo, Senegal, Togo and Tunisia. Each of these countries belongs to one of the four main areas of Francophone Africa: North Africa, Central Africa, East Africa and Indian Ocean and West Africa.

The survey captured information on a wide variety of companies. Seventy-seven percent are micro enterprises, defined here as having 0–9 employees, 18% are small firms (10–49 employees), 4% are medium-sized (50–250 employees) and 1% are large (more than 250 employees). About 41% of the surveyed companies are active in the retail sector, 33% in services, 16% in manufacturing and 5% in agriculture.

The larger the company, the less likely it is to be active in the retail and agricultural sectors. Micro-enterprises are mainly active in the retail sector (43%) compared to 33%, 29% and 23%, respectively, for small, medium and large companies. Small, medium and large companies are mainly active in services (37%, 35% and 41% respectively). However, the larger the company, the greater its level of industrialisation. Only 13% of micro-enterprises are active in the manufacturing sector, compared to 25%, 33% and 36%, respectively, for small, medium and large companies.



Source: ITC analysis based on data from the CPCCAF 2019 survey.

Economic growth and the financial position of companies are linked

In the six months prior to the survey, one third of the companies surveyed recorded a fall in turnover. At the same time, only 16% reported an increase in turnover.

SMEs are more likely to record a fall in turnover

The probability of growth in the turnover of companies increases with their size. Likewise, the larger the company, the less likely it is to record a fall in turnover. The survey shows that the proportion of large companies with falling turnover (15%) is less than half of the proportion of micro enterprises with falling turnover (34%).

Regardless of size or activity sector, analysis of a company involves examination of its financial health, as turnover alone is not sufficient to summarise the situation of a company.

One in three surveyed companies is facing a difficult financial situation

In Francophone Africa, more than one in three surveyed companies say they are in a difficult financial position. Furthermore, the proportion of surveyed companies reporting a difficult financial position is nearly 20% higher than companies in a good financial position.

The financial position of SMEs depends on their capacity to manage and access resources through financial institutions. The commitment of a financial institution is based on growth prospects, supported by ongoing activity producing goods or services.[7]

In the absence of support from financial institutions, SMEs resort to alternative sources of short-term finance, while large companies can prioritise sources of long-term bank financing.[8]

Economic performance goes hand in hand with financial position

The survey shows a clear correlation between the economic performance and financial position of companies. The vast majority (66%) of companies in a difficult financial position are companies with falling turnover. At the same time, nearly half of businesses in a good financial position reported growth in turnover and two-thirds of businesses in a normal financial position are companies with stable turnover.

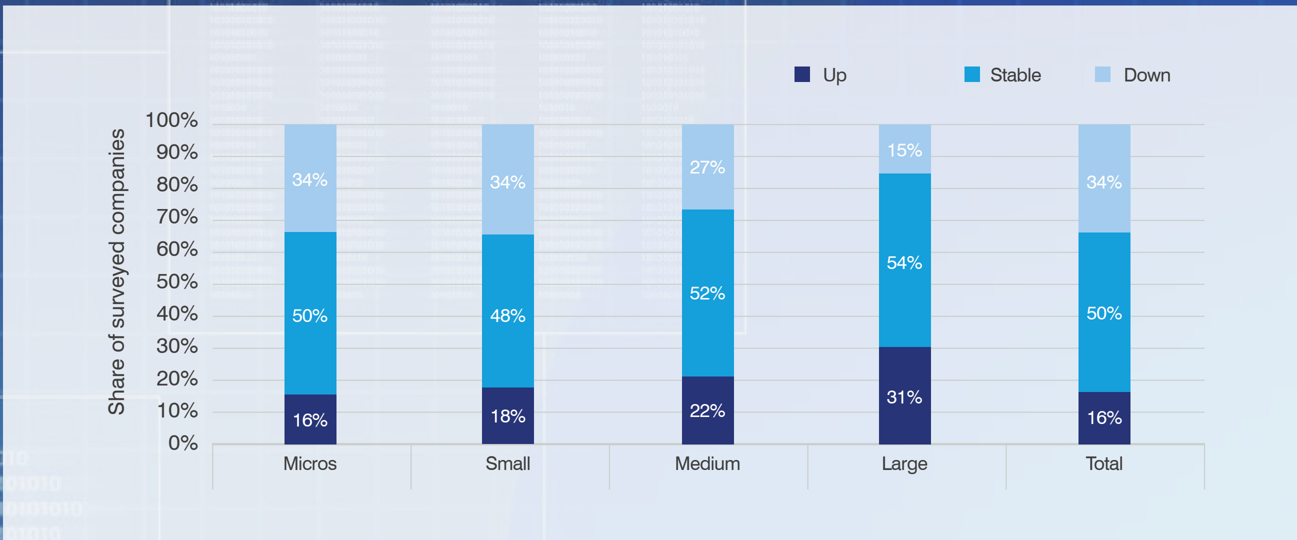
While the financial and economic competitiveness of SMEs are linked, they both revolve around several issues, including limited access to finance and the high cost of credit, leading to short-term over-indebtedness.[9]

7. Robert Beaudoin, Josée St-Pierre and Jacques Bourgeois (2018). La croissance soutenable du chiffre d'affaires des entreprises : stratégies financières et effet de taille.

8. Mahmoudou Bocar Sall (2013). Déterminants de la compétitivité financière des P. M. E. Sénégalaises.

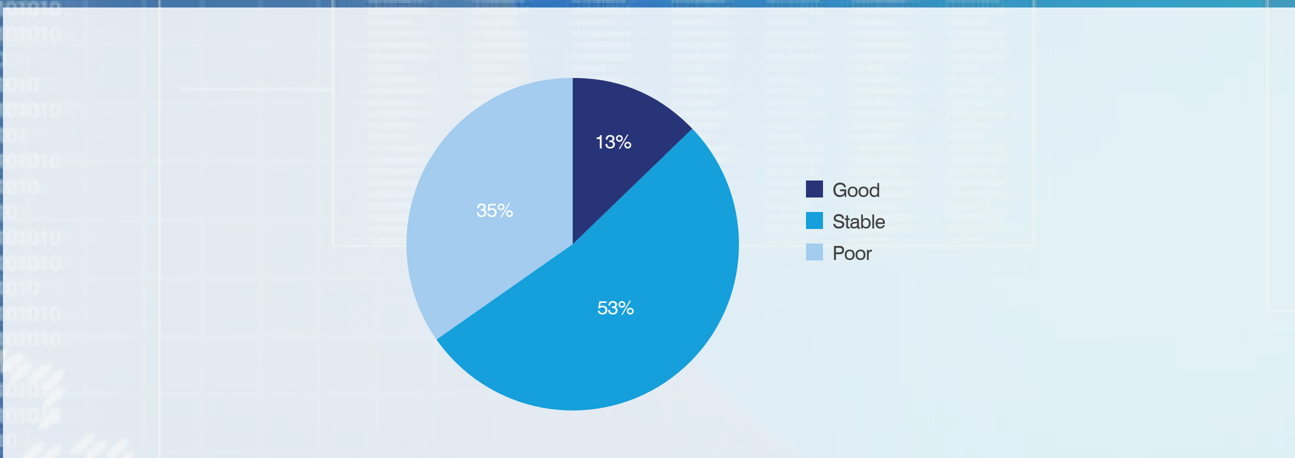
9. Ibid.

SMEs are more likely to record a fall in turnover



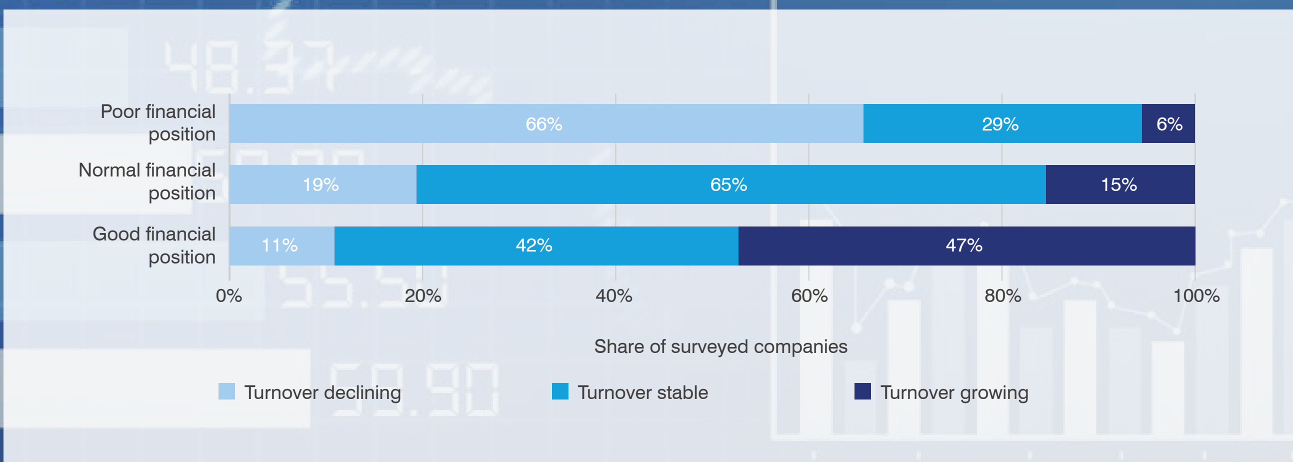
Note: The figure shows the companies' responses to the following question: 'In the last six months, is your turnover up, stable, or down?'
Source: ITC analysis based on data from the CPCCAF 2019 survey.

One in three surveyed companies is facing a difficult financial situation



Note: The figure shows the companies' responses to the following question: 'At present, do you think your company's financial position is good, stable, or poor?'
Source: ITC analysis based on data from the CPCCAF 2019 survey.

The financial position and economic performance of companies are interdependent



Source: ITC analysis based on data from the CPCCAF 2019 survey.

Access of Francophone African companies to finance

Access to finance affects growth

Improved SME access to finance is vital for development and growth. The companies least affected by credit rationing are those that grow the most. Businesses with increasing turnover are proportionally more numerous among those whose loan applications were accepted (55%) and less numerous among those whose loan applications were rejected (19%).

The difficulties of access to finance therefore hinder the growth of African SMEs.[10] They are forced to resort to self-financing and rotating savings and credit associations, better known as *tontines*, which are informal, unreliable, unpredictable and often risky mechanisms.[11] These short-term financing methods also make them more vulnerable to changes in credit conditions and make their strategy unstable.[12]

Insufficient collateral and high risk of default: the main causes of bank refusal

Nearly a quarter of loan applications made by the companies surveyed were refused, mainly because of insufficient collateral (32%) and high risk of default (26%).

SMEs are at considerable risk of default due to their high exposure to risks and their low resistance to economic shocks, compared to large companies. Additionally, the financial statements of SMEs are not very reliable, which makes it difficult for banks to assess their financial soundness and repayment capacity.[13]

Loan applications from service companies are the most frequently rejected

Loan applications from service sector companies are those most frequently rejected (34%), compared to only 19% in the manufacturing sector, 18% in the agriculture sector and 16% in the retail sector. The causes vary based on activity sector. They mainly relate to the risk of default in services (42%) and agriculture (33%), while a majority of loan applications from companies in manufacturing and retail were rejected due to insufficient collateral.

The African services and agriculture sectors are in fact facing several constraints. The continent's services are more often than not non-exportable and the sector's value-added could be further improved.[14] Regarding companies in the agricultural sector, they suffer from low production capacity and often produce poor harvests.[15]

10. Céline Kauffmann (2005). Le financement des PME en Afrique.

11. Grégoire Chertok, Pierre-Alain de Malleray and Philippe Pouletty (2009). Le financement des PME.

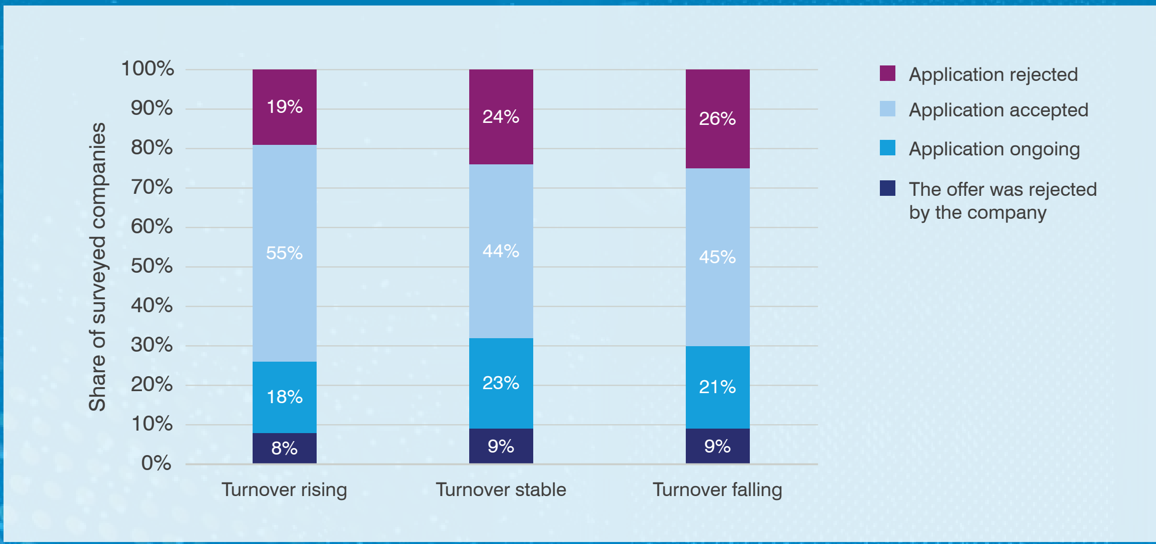
12. Laurent Vassillle (1982). Les PME: fragilité financière, forte rentabilité.

13. Lahcen Achy (2012). La contrainte de financement des PME freine la croissance des pays arabes.

14. International Centre for Trade and Sustainable Development (ICTSD) (2016). Exploiter le potentiel du secteur des services en Afrique.

15. French Development Agency (AFD) (2012). Assurer l'accès à la finance agricole.

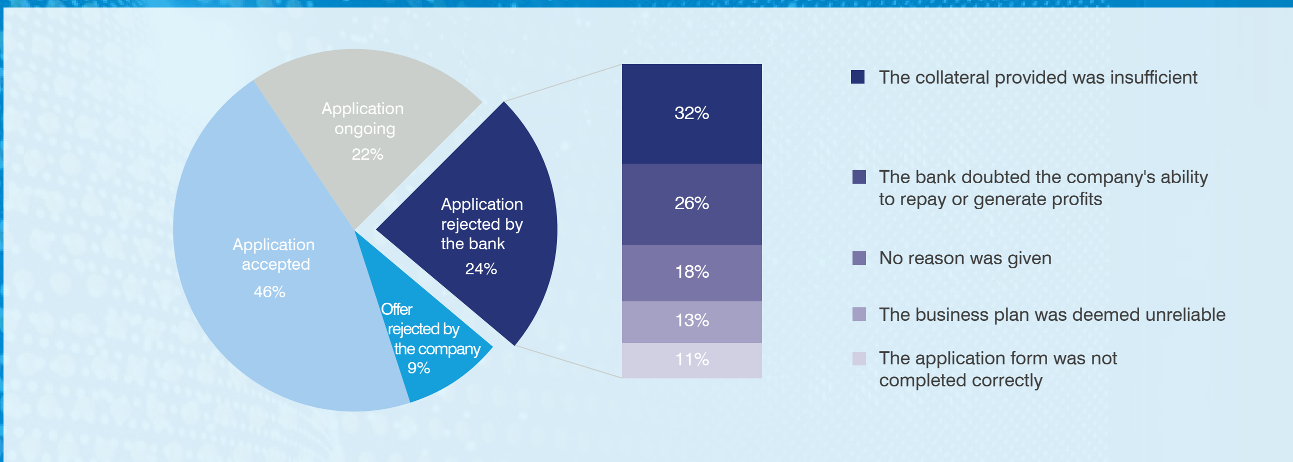
Access to finance promotes growth



Note: The figure shows the companies' responses. The proportions are calculated on the basis of companies whose turnover is rising, stable and falling.

Source: ITC analysis based on data from the CPCCAF 2019 survey.

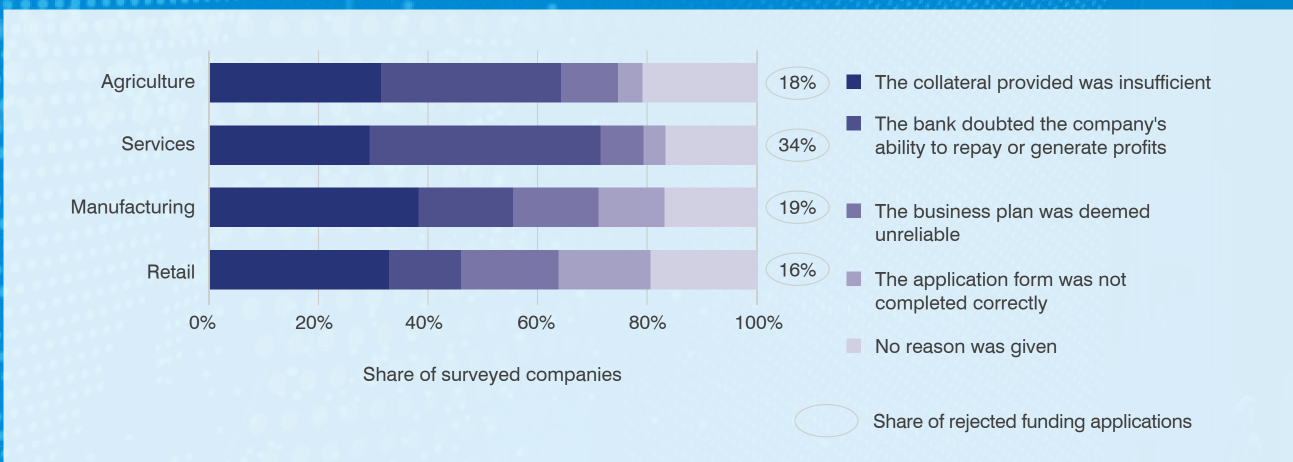
Most loan applications rejected due to lack of collateral or high risk of default



Note: The figure shows the companies' responses to the following question: 'In the last three years, as part of your activity, have you applied for a loan?'

Source: ITC analysis based on data from the CPCCAF 2019 survey.

Access to finance is more limited in the services sector



Note: The figure shows the companies' responses to the following question: 'In the last three years, as part of your activity, have you applied for a loan?', according to activity sector.

Source: ITC analysis based on data from the CPCCAF 2019 survey.

Financial training and information are the keys to improved access to finance for SMEs

The financial and economic performance of SMEs depends both on external factors, such as institutional support or access to information, and internal factors, such as the quality and reliability of their management.[16] Training helps SMEs adapt to the latest management ideas, accounting systems, information technology and production techniques.[17]

Companies whose loan applications for funding were rejected need more training

Nearly four in five business leaders said they needed training in management, business, accounting, human resources, administrative affairs or IT. A comparison of companies' training needs according to their access to finance shows that, except for training in administrative affairs, companies whose loan applications were rejected are more in need of training than those whose applications were accepted. About 61% and 50% of the companies that had been turned down by financial institutions stated that they needed training in, respectively, management and business, compared to 49% and 34% of companies whose loan applications were successful.

It is essential for SMEs to acquire management know-how in order to build a strong reputation

The majority of SMEs are owner-managed. They typically manage all of their business records, including information on finance, marketing, human resources, planning and operations management.[18] Nearly 65% of companies said they needed managerial training. An analysis of the reasons for the refusal of company loan applications shows that the ability of companies to repay or generate profits is linked to the quality of their management. Nearly two-thirds of companies whose loan applications were rejected due to weak repayment or profit generation capacity claim that they need training in management, compared to under half for rejections due to other reasons.

Financial information enables companies to access finance

The search for financial intelligence is not easy in developing countries. It is very often disparate, long and expensive.[19]

The survey shows that companies whose applications were