



# POLICY CATALOGUE ON MSME FINANCING IN AFRICA

Enabling access to finance for MSMEs in Africa



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# EXECUTIVE SUMMARY

This policy catalogue provides an overview of existing policies across all African countries that are aimed at improving MSMEs’ access to finance. Especially in light of the effects of the current COVID-19 pandemic on MSMEs, fit-for-purpose policies to enhance financing options are crucial for governments to consider. The main aim of the report is to highlight the current landscape of MSMEs financing policies in Africa. The report provides recommendations and best-practice examples and looks at the current practices regarding the design and implementation of MSMEs financing policies in Africa.

The 243 policies across 54 countries that were identified can be divided into four different types, namely overarching frameworks that provide a framework for different activities within the space; roadmaps that set out specific pathways to reach MSMEs financing objectives; interventions are specific measures to improve MSMEs financing; and implementing agencies that are institutions with specific mandates for supporting MSMEs (see Box 1 for the definitions).

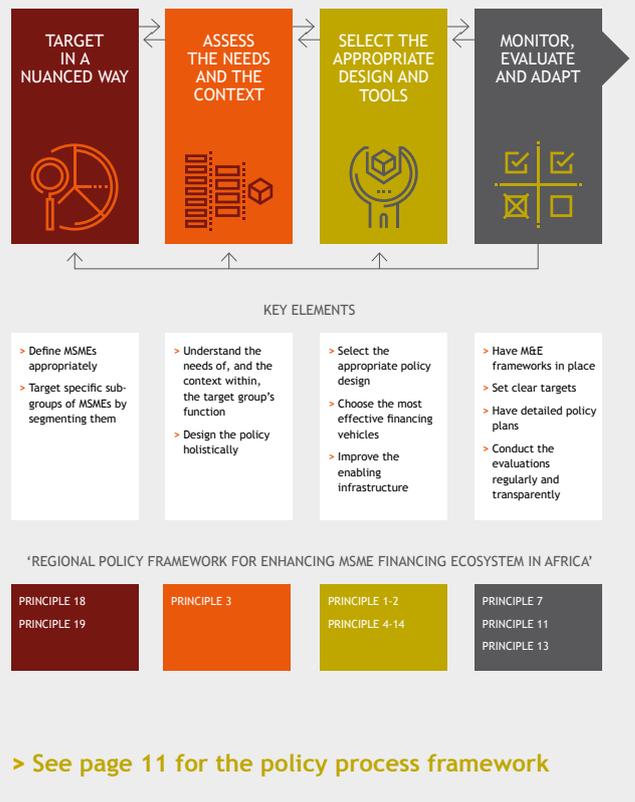
Overarching frameworks and roadmaps have their focus on the strategic level, whereas interventions and implementing agencies are at the programmatic level. Apart from North Africa, where roadmaps dominate slightly, interventions make up the majority of policies found on the continent. Overall, Southern Africa has the highest number of MSMEs financing policies in place. Countries that are members of the Alliance for Financial Inclusion (AFI) have a significantly higher average number of MSMEs financing policies per country, with an average of five compared to countries that are not members of AFI, which have an average of two. There are no considerable differences in the types of policies utilized by AFI-member countries in comparison to countries that are not members of AFI.

Both financing vehicles and enabling infrastructure tools exist to support MSMEs in Africa by addressing their financing constraints. The former involves direct financial assistance for MSMEs through government

intervention, whereas the latter indirectly improves the access of MSMEs to financing by enhancing the enabling environment and financing ecosystem (Alavi, 2019).

The three primary financing vehicles applied are public credit guarantee schemes, direct lending and grants and subsidies. Interventions that aim to increase the capabilities of MSMEs to enhance their access to financing are the most frequently used enabling infrastructure tool.

Based on the findings of the landscaping exercise, a simple but effective framework has emerged to aid African policymakers to design effective MSMEs support mechanisms that enable the access to finance for MSMEs:



# 1. INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) have been cited as one of the strongest drivers of economic development, job creation and innovation globally. One of the biggest constraints stifling MSMEs growth, particularly in Africa, is the difficulty associated with accessing finance (Bruhn, et al., 2017).

Given the multitude of MSMEs policies in Africa (with a total of 243 MSMEs policies reviewed for the study), governments have clearly acknowledged this challenge and are implementing policies aimed at supporting MSME's access to finance and, by extension, growth. There is also a clear recognition that MSMEs development is not only dependent on access to finance, but also the development of business and technical skills, providing access to markets, physical infrastructure, and provision of holistic legal and regulatory frameworks (AFI, 2020).

This is particularly relevant for women-owned and -led MSMEs who face additional structural and sociocultural barriers compared to men who own and run a business.



## MSMEs FORM THE BACKBONE OF AFRICAN ECONOMIES BUT THEIR ACCESS TO FINANCING IS CONSTRAINED

41%

In 2018, the MSMEs financing gap<sup>1</sup> in developing countries was estimated to be approximately USD5 trillion, with 131 million formal MSMEs (equivalent to 41 percent) having unmet financing needs.

In Africa, Mali has the lowest MSMEs finance gap as a percentage of Gross Domestic Product (GDP), estimated at approximately three percent, while the Kingdom of Eswatini has the highest MSMEs finance gap as a percentage of GDP, estimated at approximately 45 percent (SME Finance Forum, 2018). High interest rates, as well as prohibitive collateral, cash flow and turnover requirements, have been cited as the main constraints limiting MSMEs from accessing finance from financial institutions (Avevor, 2016).

### FINANCIAL INSTITUTIONS FACE DIFFICULTIES WHEN PROVIDING ACCESS TO FINANCE MSMEs

Local equity markets in Africa are often underdeveloped, so that SMEs primarily rely on debt-based financing options. However, constraints such as a lack of capacity among African MSMEs regarding aspects such as business plans and financial reporting or a lack of collaterals or credit information make it challenging for financial institutions to meet the financial needs of MSMEs (LSEG Africa Advisory Group, 2018). These constraints are particularly notable for women who face less opportunity to own traditional forms of collateral or use formal financial services and products to build their credit history.

### GOVERNMENTS HAVE AN IMPORTANT ROLE TO PLAY IN MSMEs FINANCING

Governments have the crucial role of establishing and implementing interventions that will ensure the functioning of the MSMEs sector (OECD, 2004). In doing so, the government can play both a direct and indirect role in providing an enabling environment to facilitate MSMEs access to financing. The former involves a direct intervention by governments into the credit market through financial institutions, e.g., by providing capital or guaranteeing bank loans. The latter involves indirect interventions through more market-oriented actions to close the MSMEs finance gap (Bruhn, et al., 2017). The indirect intervention can be, for instance, in the form of:

- > improving credit information systems.
- > supporting collateral registries.
- > strengthening the legal, regulatory, and institutional infrastructure for factoring and leasing.

- > creating an enabling environment for fostering innovation.
- > using a gender lens to update existing policy and regulation.

### NARROWING THE MSMEs FINANCE GAP AND PARTICULARLY THE WOMEN SME FINANCE GAP AND IMPROVING FINANCIAL INCLUSION TO MSMEs HAS BENEFITS

The implementation of such measures plays an instrumental role in narrowing the credit gap for MSMEs and further improving the financial inclusion of MSMEs. It can help increase economic growth, job creation, the effectiveness of fiscal policy through better tax collection and could also contribute to financial stability, provided that strong risk management and financial supervision are in place (Blancher, et al., 2019). MSMEs financing policies are highly relevant in the context of the Sustainable Development Goals (SDGs), especially for SDG 1, 2, 5 and 8, which primarily focus on ending poverty, hunger, gender inequality and the promotion of decent work and economic growth.



### THE COMPREHENSIVE CATALOGUE ON MSMEs FINANCING POLICIES WILL PROVIDE POLICYMAKERS IN AFRICA WITH A PRACTICAL REFERENCE

This policy catalogue provides an overview of existing policies across all African countries that are aimed at improving MSMEs' access to finance. The main aim of the report is to highlight the key findings regarding the current landscape of MSMEs financing policies in Africa and to pair these findings with the Regional Policy Framework for enhancing MSMEs financing ecosystem in Africa, and other AFI knowledge products to support policymakers in developing comprehensive policies for MSMEs financing. The report provides recommendations and best-practice examples and looks at the current practices regarding the design and implementation of MSMEs financing policies in Africa.

1 MSME finance gap is estimated as the difference between current supply and potential demand that can potentially be addressed by financial institutions.

## METHODOLOGY

Information was sourced through desktop research from publicly available, country-specific MSMEs policy documents and programme websites within Africa, all accessed online. The findings were then consolidated into a policy catalogue by categorizing the different policies across a range of different parameters.<sup>2</sup>

## REPORT STRUCTURE

In this report, we focus on the MSMEs financing policy landscape within Africa and present the key findings from the policy catalogue. Based on the conclusions drawn from the key insights, the report further dissects key elements to consider when designing and implementing effective and gender-sensitive

MSMEs financing policies. Building on Regional Policy Framework for enhancing MSMEs financing ecosystem in Africa, we propose a policy process framework that could be used to enhance MSMEs financing ecosystems in Africa.

2 Omitted information from the catalogue included: private sector or development partner-only initiatives - the public sector needs to be explicitly involved in the project development and enforcement; policies that were not directly related to improving MSME access to financing, e.g., policies that only focus on MSME business development; interventions that might support MSMEs' access to finance indirectly but that were not specifically targeting MSMEs; cross-country and regional policies.

### BOX 1: CATEGORIZATION USED IN THE POLICY CATALOGUE

The policy catalogue captures 243 policies. Table 1 gives an overview of the policy categorization.

TYPE OF POLICY	DESCRIPTION	EXAMPLES FOR MALAWI
<b>OVERARCHING FRAMEWORK</b>	Overarching, nationwide action plan for MSMEs development or MSMEs financing plan under which a range of other action plans, interventions and implementing agencies fall.	MSMEs Roadmap for the Republic of Malawi: policy framework to guide the development of profitable, competitive, and sustainable MSMEs in Malawi.
<b>ROADMAP</b>	A document outlining interventions that should be put into action but that is more specific in its nature and does not target the MSMEs sector as a whole.	Malawi National Export Strategy: roadmap on how Malawi can drive export growth on a sufficient scale to maintain the level of imports.
<b>INTERVENTION</b>	Single and specific measures to improve MSMEs financing.	Financial Access for Rural Markets, Smallholders and Enterprise Programme: seven-year development programme supporting household economic development through access to financial services.
<b>IMPLEMENTING AGENCY</b>	An institution that conducts MSMEs finance related interventions.	Small and Medium Enterprise Development Institute: parastatal institution specializing in the capacity building, training, research, and support of MSMEs.

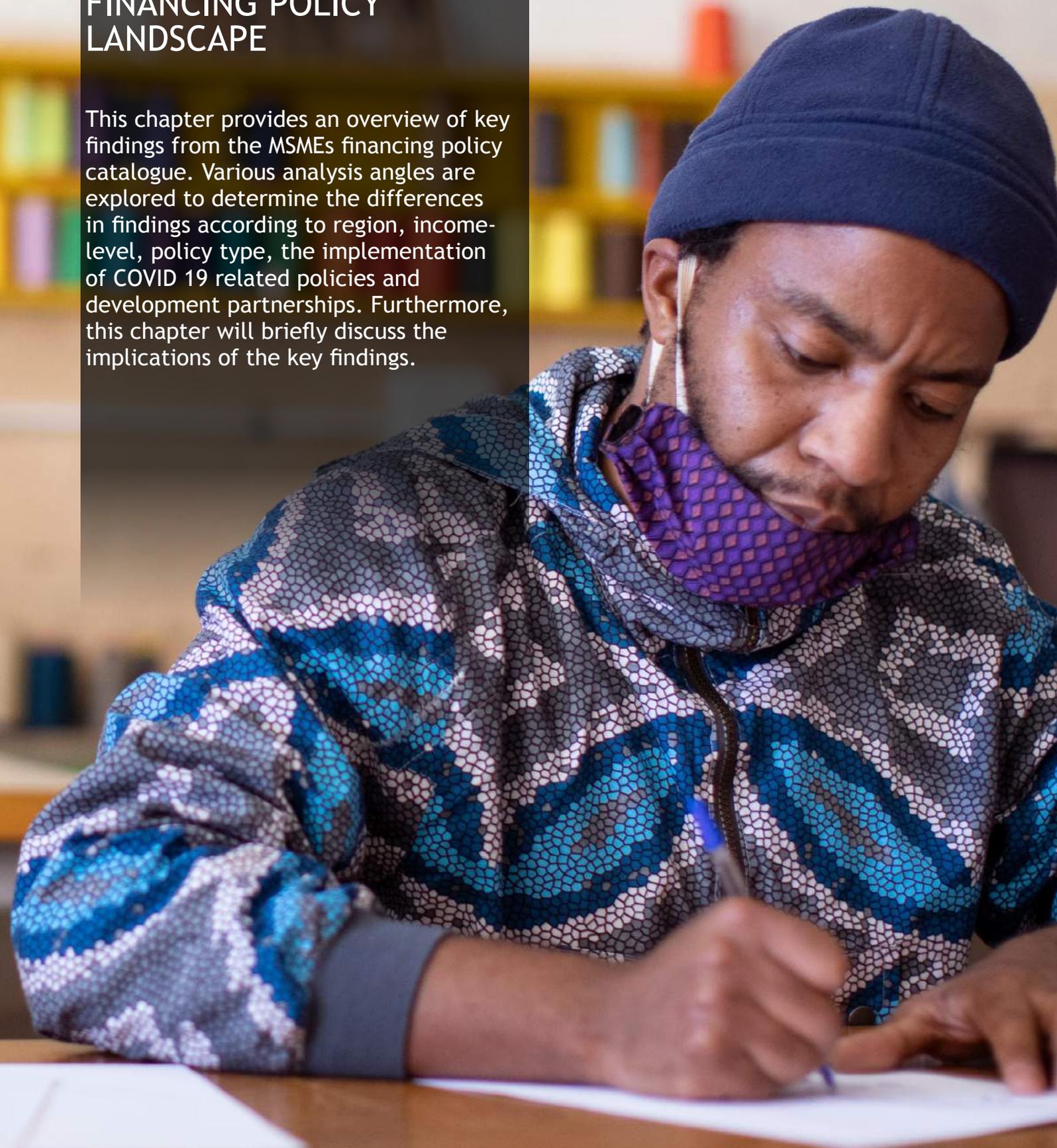
### TABLE 1: DEFINITIONS OF TYPE OF POLICIES

Two other categories that are used throughout the report are:

DEVELOPMENT PARTNER INVOLVEMENT	COVID-19-POLICY
This refers to whether a development partner is supporting the respective policy. This can be through either financial or non-financial support.	This refers to whether the policy was implemented as a response to the effects of COVID-19 pandemic.

## 2. AFRICAN MSMEs FINANCING POLICY LANDSCAPE

This chapter provides an overview of key findings from the MSMEs financing policy catalogue. Various analysis angles are explored to determine the differences in findings according to region, income-level, policy type, the implementation of COVID 19 related policies and development partnerships. Furthermore, this chapter will briefly discuss the implications of the key findings.



An African man sketching a design in his fashion design studio in Kayamandi South Africa. informal settlement near Stellenbosch South Africa. (Photo by Petri Oeschger/iStock).

## SIGNIFICANT VARIATIONS ACROSS COUNTRIES EXIST IN TERMS OF THE IMPLEMENTATION OF MSMEs FINANCING POLICIES

243

A total of 243 MSMEs policies from 54 African countries were captured in the policy catalogue, with an average of approximately five policies per country.

The countries with the highest number of MSMEs policies implemented were South Africa with 16 policies, followed by Nigeria (12), Kenya (11) and Senegal (11). At the other end of the scale were Algeria, Comoros, Eritrea, Guinea-Bissau, Libya, Mozambique, South Sudan and Sudan with only one policy each. The total number and interlinking structure of the policies are a crucial consideration for governments in ensuring the efficacy of the MSMEs interventions across different contexts. The implementation of too many policies runs the risk of encountering coordination challenges between interventions if clear structures and interlinkages are not made explicit. On the other hand, too few MSMEs interventions within a country may run the risk of not offering sufficiently nuanced interventions given the heterogeneity amongst MSMEs.

### POLICYMAKERS NEED TO ENSURE THAT IMPLEMENTED MSMEs POLICIES ENCOMPASS THE RIGHT BALANCE OF ENABLING ELEMENTS TO PROMOTE MSMEs GROWTH

As depicted in Figure 2, Southern Africa has the highest number of policies per country (nine on average), compared to the other regions, which had an average of five policies or less. Excluding South Africa, the overall average in Southern Africa decreases to seven. There is no set optimal number of policies to ensure MSMEs growth, but the considerations described in the previous paragraph apply.

### INTERVENTIONS ARE MORE PROMINENT THAN OTHER POLICY TYPES

As shown in Table 2, Northern Africa, had the highest share of implementing agencies, which mainly focus on the implementation of interventions, compared to the other regions. However, none of the countries within Northern Africa had a nationwide, overarching MSMEs policy to provide an action plan to the government's vision/long-term plan for MSMEs development as a whole. Specific interventions made up the majority of policies in the other African regions.

## MSMEs, PARTICULARLY THOSE OWNED AND LED BY WOMEN, WERE NEGATIVELY IMPACTED BY COVID-19 CRISIS

In the 2020 COVID-19 Business Impact Survey, 66 percent of businesses in Africa conveyed that they were strongly affected by the pandemic and government measures taken to contain it (International Trade Centre, 2020). The survey revealed that nearly two-thirds of micro and small businesses were strongly impacted compared to about 40 percent of large businesses. The impact on businesses was mostly felt through reduced sales and/or difficulty in accessing inputs.

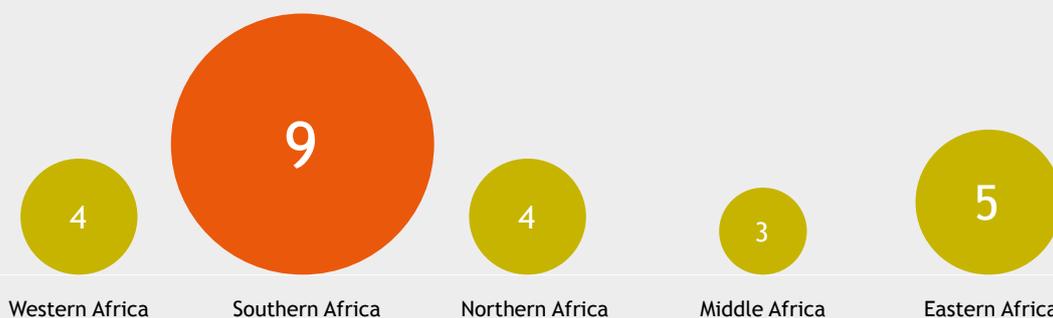
### A HIGH PROPORTION OF POLICIES ARE RELATED TO THE COVID-19 CRISIS

Policy makers within Africa made great attempts in terms of implementing policies aimed at supporting MSMEs through the COVID-19 crisis. COVID-19 related policies represented a significant portion of the policy catalogue, accounting for approximately 17 percent of the total policies. Low-middle income level as well as upper-middle income and high-income countries introduced a higher share of COVID-19 related policies, respectively, accounting for approximately 43 percent, compared to only 15 percent in low income countries. There seems to be a positive correlation between the income level of a country and the extent to which it has the capacity/resources to implement policies to shield MSMEs through economic shocks such as the COVID-19 pandemic.

### DEVELOPMENT PARTNERS PLAY AN IMPORTANT ROLE, ESPECIALLY IN LOW-MIDDLE INCOME COUNTRIES

Out of the total policies that were captured within the catalogue, 42 percent of the MSMEs policies involved development partners. Low-middle income level countries had the highest share of policies with development partner involvements accounting for 55 percent of total policies, followed by low-income level countries at 40 percent, as shown in Figure 2. High levels of development partner involvement may be correlated with better monitoring and evaluation frameworks. However, extensive development partner involvement may also run the risk of projects emphasizing donor interests at the cost of country objectives and run the risk of abandonment if donor funds dry up.

FIGURE 1: AVERAGE NUMBER OF MSMEs FINANCING POLICIES PER COUNTRY BY REGION



Source: MSMEs financing policies catalogue 2020

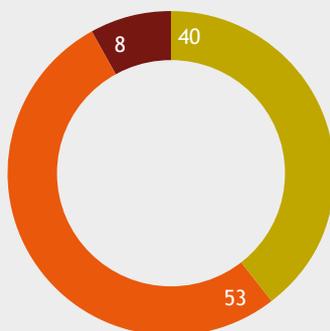
TABLE 2: DISTRIBUTION OF POLICY TYPES BY REGION

TYPE OF POLICY	EASTERN AFRICA	MIDDLE AFRICA	NORTHERN AFRICA	SOUTHERN AFRICA	WESTERN AFRICA
OVERARCHING FRAMEWORK	7%	4%	n/a	9%	6%
IMPLEMENTING AGENCY	20%	22%	31%	18%	27%
INTERVENTION	55%	59%	62%	56%	52%
ROADMAP	18%	15%	8%	18%	14%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: MSMEs financing policies catalogue 2020

FIGURE 2: PROPORTION OF MSMEs FINANCING POLICIES WITH DEVELOPMENT PARTNER INVOLVEMENT FOR THE RESPECTIVE INCOME GROUP (OUT OF TOTAL POLICIES CAPTURED IN THE CATALOGUE), %

■ Low-income ■ Low-middle income ■ Upper-middle and high-income



Source: MSMEs financing policies catalogue 2020

### 3. DESIGNING AND IMPLEMENTING EFFECTIVE MSMEs FINANCING POLICIES

This chapter is based on conclusions drawn from assessing the MSMEs policy catalogue and best-practice considerations building on the principles outlined in the Regional Policy Framework for enhancing MSMEs financing ecosystem in Africa.<sup>3</sup>

Firstly, the policy process framework is introduced and then each of its steps is discussed in greater detail. These discussions set the different steps into context with their current application in Africa. Furthermore, we provide examples to showcase how the best-practice considerations could play out in practice.



Kenyan vegetable farmer carrying a crate of spinach on her head. (Photo by boezie /iStock).

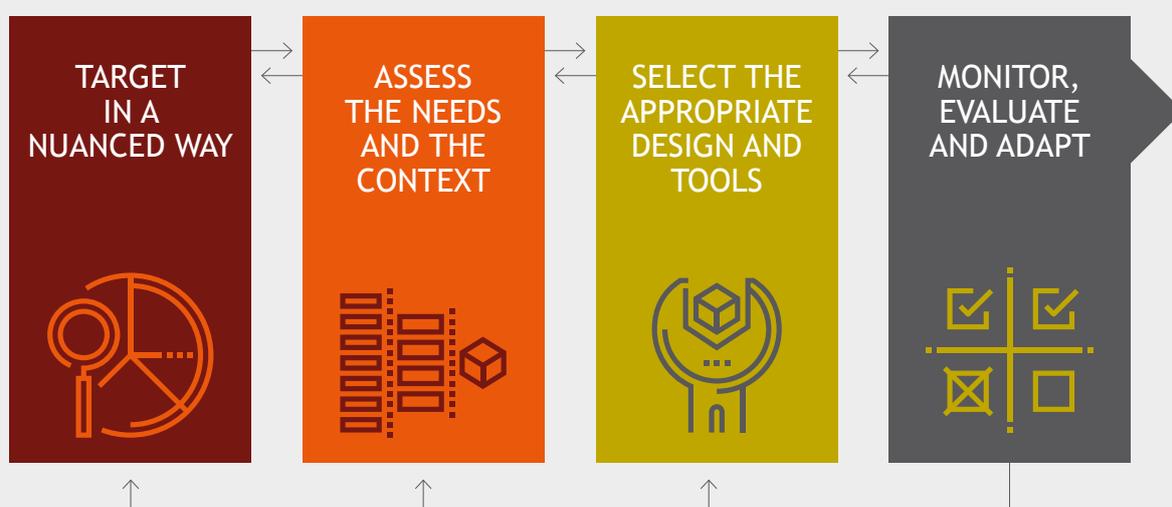
<sup>3</sup> The Expert Group on Financial Inclusion Policy for Africa and the SME Finance Working Group developed this framework. It identifies best practices of MSME financing policy, explores pathways and enabling factors of implementable action plans, and provides policy recommendations to financial sector regulators with regard to access to finance for MSMEs in Africa. The principles on which this framework is based cover the policies to be formulated, the regulatory and legal frameworks, the development of the MSME sector, finance and infrastructure, dealing with informality, debt review and insolvency regimes, and sectors requiring specific focus.

### 3.1. POLICY PROCESS FRAMEWORK OVERVIEW

This policy process framework is based on the different principles outlined in the above-mentioned Regional Policy Framework for enhancing MSMEs financing ecosystem in Africa report and integrates them into the different steps that a policy process could follow.

Insights from additional literature are used to complement the principles of the policy framework. We propose four steps, as displayed in Figure 3. As indicated in Figure 3, the process should be iterative to allow for dynamic adaptation.

FIGURE 3: POLICY PROCESS FRAMEWORK



#### KEY ELEMENTS

- |  |  |  |  |
|--|--|--|--|
| <ul style="list-style-type: none"> <li>&gt; Define MSMEs appropriately</li> <li>&gt; Target specific sub-groups of MSMEs by segmenting them</li> </ul> | <ul style="list-style-type: none"> <li>&gt; Understand the needs of, and the context within, the target group's function</li> <li>&gt; Design the policy holistically</li> </ul> | <ul style="list-style-type: none"> <li>&gt; Select the appropriate policy design</li> <li>&gt; Choose the most effective financing vehicles</li> <li>&gt; Improve the enabling infrastructure</li> </ul> | <ul style="list-style-type: none"> <li>&gt; Have M&amp;E frameworks in place</li> <li>&gt; Set clear targets</li> <li>&gt; Have detailed policy plans</li> <li>&gt; Conduct the evaluations regularly and transparently</li> </ul> |
|--|--|--|--|

#### 'REGIONAL POLICY FRAMEWORK FOR ENHANCING MSME FINANCING ECOSYSTEM IN AFRICA'





### 3.2. TARGET IN A NUANCED WAY

MSMEs are highly heterogenous by nature and different types of MSMEs face different needs and constraints in accessing financing (Beyani, 2020). An efficient channeling of government funds, therefore, requires a nuanced understanding of the different MSMEs segments to enable effective targeting. There are many options on how to define and segment MSMEs. The approaches that are relevant for the African context will be discussed in this section.

#### 3.2.1. ASSESS HOW TO DEFINE MSMEs APPROPRIATELY WITHIN THE SPECIFIC CONTEXT

**A large proportion of policies do not define MSMEs.** Less than half of the MSMEs policies, included in the database, provide definitions for MSMEs. This means that although the policies are aiming at improving access to finance for MSMEs, they do not define what they understand by MSMEs. Defining MSMEs is a good starting point for effective targeting as it differentiates MSMEs from large enterprises and should be considered carefully. For instance, if a definition is only based on the number of employees, then this might not reflect the actual size of the company since this definition does not account for the use of technology instead of employees (Esubalwe & Raghrama, 2017). There are also issues around how to define a women-owned or women-led SME and how these are categorized.

#### **Combining different size parameters is common.**

Those policies that provide MSMEs definitions often rely on a combination of parameters, as shown in Figure 4. The most frequently used parameter combination is number of employees and revenue. Combining different parameters allows one to define MSMEs in a more multi-dimensional way.

**Parameter values are often context specific.** The values applied for the different parameters differ considerably between countries. The Nigerian national MSMEs policy defines micro enterprises as having less than 10 employees and less than N5 million (equivalent to USD 13,000) in assets, whereas in Gambia the national MSMEs policy defines micro enterprises as having one to four employees and 0-25,000 GMD (equivalent to USD 480) in assets. Within countries, the MSMEs definitions of the different policies are usually aligned with each other. This use of nationally accepted MSMEs definitions facilitates statistical and benchmarking exercises (Simbulan, 2017).

#### 3.2.2. TARGET SPECIFIC SUB-GROUPS OF MSMEs BY SEGMENTATION

**MSMEs financing policies in Africa target specific groups of MSMEs.** According to the policy catalogue,

44 percent of MSMEs policies target specific sectors and 56 percent target groups that are non-sector specific. One policy could target both a sector and a non sector specific group. Segmenting the target market of the policy beyond the differentiation between different sizes of MSMEs is crucial. This is because other factors, such as sector, gender, location or age play a significant role in the ability of MSMEs to access financing.

**One common way is targeting certain sectors.** As displayed in Figure 5, the agricultural sector is clearly the sector that is prioritized by the largest share of MSMEs financing policies, followed by manufacturing.

**94%** Ninety-four percent (94 percent) of policies in low-income countries compared to 47 percent of policies in upper-middle-income countries are targeting the agricultural sector.

This matches with the differences in economic dependency on this sector. MSMEs operating in the agricultural sector often struggle to obtain financing due to seasonal income streams and a high degree of informality within the sector. Therefore, they require specific focus of MSMEs financing policies, as further explained under Principle 19 (The Agricultural Sector) of Regional policy framework for enhancing MSMEs financing ecosystem in Africa.

**Apart from specific sectors, women and youth are often targeted.** Figure 6 shows that the three most frequently targeted groups are women, youth and micro-enterprises. As outlined in the Regional policy framework for enhancing MSMEs financing ecosystem in Africa, under Principle 18 (Women and Youth-led MSMEs), women and youth face additional challenges in accessing financing and hence, should be targeted by MSMEs financing policies. Targeting micro-enterprises specifically can be seen as equally crucial due to their specific needs and the different constraints they face in comparison to small or medium enterprises. It would be highly beneficial to integrate gender and youth targets into any national level MSMEs policy development process.

#### **Combine segmentation variables with each other.**

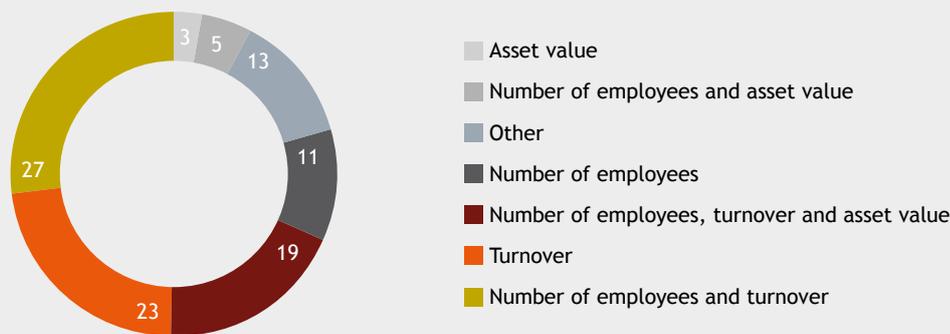
The targeting of MSMEs based on the sector they are operating in and/or other often utilized parameters, such as gender or age, supports a more nuanced approach than targeting MSMEs as one entity. However, the different factors mentioned should not be used in isolation but rather be viewed in

combination, e.g., women-led enterprises operating in the agricultural sector. Such combinations allow for further differentiation in order to capture the actual heterogeneity of MSMEs and to tailor interventions accordingly. This also means that sectoral targeting should go beyond the broad economic sectors and rather focus on specific value-chains. These observations hold for economic shocks as well since they often have a differential impact on different types of MSMEs, particularly women-owned/led MSMEs, which have less opportunity to economic resilience. For instance, the COVID-19 crisis hit agricultural MSMEs that are integrated in global supply-chains much harder than subsistence-based MSMEs.

The Kenya Women Enterprise Fund successfully targets women. The Kenyan Women Enterprise Fund is an example of a policy that specifically addresses the needs of women-led enterprises and helps them overcome the additional challenges women face in the Kenyan economy and financial system. The fund was established in 2007 by the Kenyan government, has a client base of more than 222,000 borrowers across the country and has trained nearly 4,000 female entrepreneurs in business skills. They combine loan disbursement activities with capacity building through young community-based volunteers and gender officers and use group-based mechanisms to overcome traditional collateral requirements (Wainaina, 2011).

FIGURE 4: APPLICATION OF PARAMETERS FOR MSMEs DEFINITIONS, %

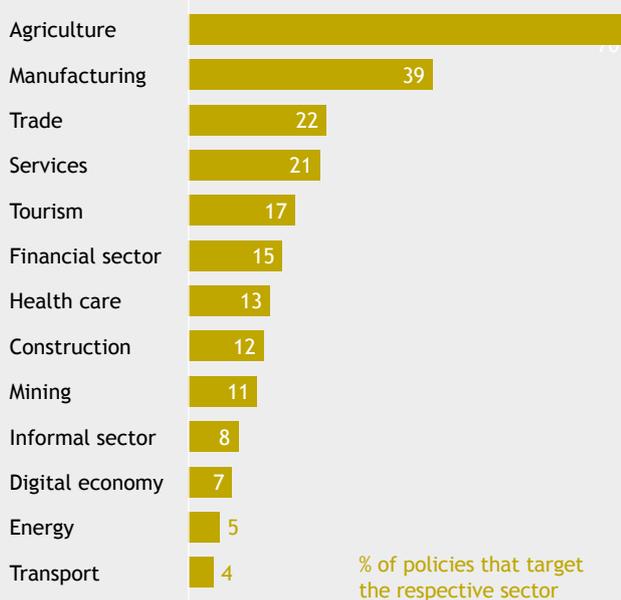
(% of MSMEs financing policies that use the respective parameter(s), out of MSMEs financing policies that have MSMEs definitions in place)



Source: MSMEs financing policies catalogue 2020

FIGURE 5: TARGETING OF SECTORS, %

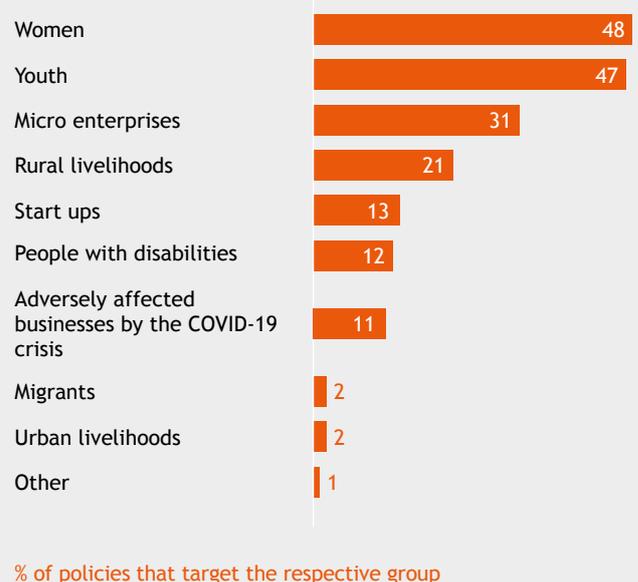
(out of the total MSMEs financing policies targeting specific sectors; multiple-mentions possible)



Source: MSMEs financing policies catalogue 2020

FIGURE 6: TARGETING SPECIFIC GROUPS, %

(out of total MSMEs financing policies targeting specific groups; multiple-mentions possible)



Source: MSMEs financing policies catalogue 2020



### 3.3. ASSESS THE NEEDS AND CONTEXT

#### UNDERSTAND THE NEEDS OF, AND THE CONTEXT WITHIN WHICH THE TARGET GROUPS FUNCTION

7%

Only seven percent of the MSMEs policies incorporate ecosystem assessments as part of their activities.

However, designing and implementing MSMEs finance policies requires a sound and comprehensive understanding of the needs of MSMEs within the respective country. In addition to assessing the needs, understanding the wider context and ecosystem allows for designing policies that have the intended impact addressing the root causes. This is because MSMEs do not operate in isolation but rather as a part of a boarder ecosystem that may involve several different economic actors and linkages. Moreover, mapping the ecosystem is important for identifying key entry and aggregation points in the system and the constraints and gaps experienced by providers and users (AFI, 2020). These kinds of assessment should not only be done before designing the policy but also on an ongoing basis to monitor the effect, impact and outcome of the policy.

The information gained through these assessments could be shared with market players to highlight financing gaps to them. For instance, the Angola Enterprise Program allows banks to request the implementation of a market survey to evaluate the potential of a specific market or client base and the results of market studies are disseminated among the financial sector to allow institutions to pursue the opportunities identified in the studies (UNDP, 2011).

#### DESIGN THE POLICY HOLISTICALLY, TAKING THE EXISTING POLICY CONTEXT INTO ACCOUNT

22%

Only 22 percent of the policies captured in the policy catalogue are integrated with, or refer to, overarching MSMEs frameworks and six percent of the policies are overarching frameworks.

This suggests that the majority of MSMEs financing policies are isolated and not interlinked. When introducing a new policy, the current policy landscape of the respective country should be assessed. This allows policy designers to create interlinkages between policies and enable cross-learning between complementary policies. It also allows them to

apply a gender lens and develop the new policy in a fully gender-sensitive and inclusive way. Designing MSMEs financing policies holistically is essential for improving the MSMEs ecosystem in a coordinated and comprehensive way. Beyond linking up different policies on an ad-hoc basis, an overarching framework allows for creating linkages between different interventions and to delimit responsibilities between different institutions and facilitate coordination. The MSMEs sector policy in Uganda is a good example of a holistically designed MSMEs policy that targets the wider MSMEs ecosystem through interventions such as facilitating the development of new or niche markets but also the financial ecosystem through improving the financial literacy of MSMEs and the capacity of financial institutions. This policy also includes activities related to the Uganda's institutional framework for MSMEs development, e.g., ensuring the harmonization of national MSMEs development programs and policies (Uganda Investment Authority , 2015).



### 3.4. SELECT THE APPROPRIATE DESIGN AND TOOLS

#### 3.4.1. SELECT THE APPROPRIATE POLICY DESIGN

**Choose the appropriate institutional framework for your policy.** Utilizing implementing agencies to conduct MSMEs financing related interventions is common in Africa. Out of the policies in the catalogue, 27 percent are tied to implementing agencies. Such institutions allow for the pooling of different measures in an effective and transparent way. As outlined under Principle 1 (MSMEs Development Policy) in Regional policy framework for enhancing MSMEs financing ecosystem in Africa, having a dedicated unit in place responsible for overall MSMEs sector development can support the implementation of a holistic policy design. This unit or implementing agency can implement the policy and coordinate its implementation across the different areas and stakeholders of the policy (AFI, 2020). Such a unit can either form part of a government department or be a standalone institution. In the case of well-coordinated government departments, the formation of such a unit might not be necessary.

The MSME Development Agency (MSMEDA) in Egypt is an example of a centralized institution that focuses on MSMEs development interventions, including financing related measures. This implementing agency was established in 2017 to foster comprehensive MSME development in Egypt. It coordinates with other entities that deal with MSMEs and conducts a broad range of activities related to MSMEs development. Among these activities are the integration of MSMEs into supply chains, the development of marketing skills inside and outside the country, the establishment of incentive systems to encourage MSMEs and entrepreneurship and the provision of short- and medium-term loans as well as capacity building (MSMEDA, 2020). Another example of a centralized implementing agency is the SME Corporation in Malaysia, which is further explained in Box 2.

**Make the MSMEs financing landscape information easily available for MSMEs.** The MSMEs financing policy landscape in Africa is fragmented and information on the different interventions is often difficult to obtain. MSMEs should be able to access information about available financial and non-financial support through a centralized source of information as there is often limited awareness among them. This is particularly true in the case of micro-enterprises. Hence, as mentioned in Principle 1 of the Regional Policy Framework for enhancing MSMEs financing ecosystem in Africa (MSMEs Development Policy), an overarching

#### BOX 2: SME CORPORATION MALAYSIA

The SME Corporation Malaysia was established in 1996 by the Ministry of International Trade and Industry to develop capable and resilient Malaysian SMEs.

It is the central coordinating agency that coordinates, streamlines, monitors and evaluates the effectiveness of the various SME development programmes in Malaysia. Moreover, it functions as the central information point regarding SME development programs for SMEs nationwide.

This coordinative function of the SME Corporation is essential since the different SME development programmes in Malaysia are implemented by 17 ministries and more than 60 agencies.

The focus areas of the SME Corporation are:

- > **Access to financing**  
(e.g., microfinance, guarantee schemes, venture capital);
- > **Market access**  
(e.g., branding initiatives, value chains, certification);
- > **Human capital development**  
(e.g., workforce development, cultivating entrepreneurship);
- > **Innovation and technology adoptions**  
(e.g., technology transfer product development);
- > **Infrastructure**  
(e.g., incubators, upgrading of business premises and utilities).

Source: SME Corporation Malaysia, 2020

MSMEs policy should include outreach and awareness programmes (AFI, 2020). The Business Development Fund in Rwanda, for example, actively makes use of digital communication channels such as an official, user-friendly website, as well as Facebook, Twitter, Instagram, YouTube and LinkedIn to spread awareness of the offered support for MSMEs (BDF, 2020).

**Work with partners.** Partnerships with market players can be an important element for an effective implementation of MSMEs financing policies, e.g., for increasing the outreach of the policy.

40%

Forty percent (40%) of the identified policies include provisions that enable partnerships in the implementation of the interventions.

As displayed in Figure 7, traditional market players such as commercial banks and Micro-Finance Institutions (MFIs) are the most common partners. Only a fraction of policies allows for collaboration with alternative market players such as Mobile Network Operators (MNOs) and FinTechs. However, these market players have a huge potential to help overcome market constraints by, for instance, using alternative data sources or distribution channels. These pose great opportunities to also support more women. This is especially valid considering the digitization of value chains and sectors, which also has been accelerated by the COVID-19 crisis. The Nkuso program in Ghana used commercial banks, mobile lenders, FinTech, NGOs and business development services to provide financial assistance through loans. This program targeted MSMEs that have been negatively impacted by the COVID-19 crisis (Jeremiah, 2020).

### 3.4.2. CHOOSE THE MOST EFFECTIVE FINANCING VEHICLES

**Both financing vehicles and enabling infrastructure tools exist.** The former directly support the access of MSMEs to finance whereas the latter address constraints in the financing ecosystem. After assessing the needs of the targeted MSMEs and the constraints and opportunities in the existing ecosystem, policy tools that will best meet the specific needs of the targeted MSMEs within the respective context should be chosen. A range of tools are available of which the most popular ones will be discussed in this section. Not all of them, though, will apply to, or be appropriate in every context. Therefore, the country context should determine the specific tools to be used and a flexible and accommodative approach should be applied. The three primary financing vehicles are credit guarantees, direct lending and grants and subsidies, as can be seen in Figure 7.

**Direct lending.** The direct provision of credit to MSMEs, financed through government sources, is the most frequently used intervention. Direct public lending is especially popular in upper-middle-income countries, where 47 percent of policies are applying this financing vehicle. The provision of loans can be channeled either through government agencies, which are often dedicated implementing agencies, or through financial intermediaries, which on-lend the funds provided by the government to MSMEs. State banks that focus on the provision of credit to MSMEs play a significant role for the former. The AFI publication Scoping and Assessment Report - MSME Access to Finance Ecosystem in Africa specifies which principles and abilities should be in place for state-owned banks to play a complementary

role in the provision of credit to MSMEs (Ssettimba, Kamarun, & Azman, 2020). A large proportion of the direct lending interventions (39 percent) are combined with capacity building measures for MSMEs. This could help to ensure that the financial support is used effectively and potentially decreases the likelihood of defaults. Choosing non context-sensitive application or distribution procedures, as well as eligibility criteria, can lead to a low uptake of direct lending products. For instance, collaterals are often required but might be difficult for MSMEs to provide, especially for women as they are still restricted from owning property or land in many jurisdictions. Principle 11 (Direct State Participation) of the Regional Policy Framework for enhancing MSME financing ecosystem in Africa describes key aspects that should be considered when designing direct state interventions.

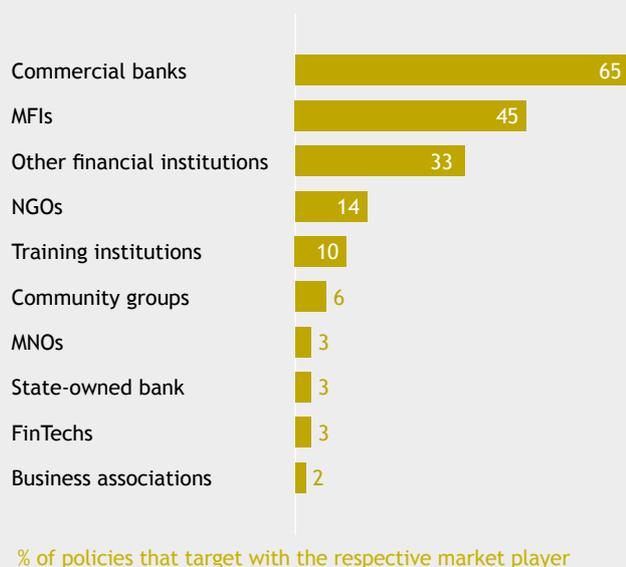
56%

The women entrepreneurship project in Ethiopia, for example, provides both direct lending and capacity building for MSMEs. Since the inception of the project in 2013 more than 12,000 women entrepreneurs took loans and over 16,000 participated in the business training. Impact evaluation data shows that firms participating in this programme have grown their income by 41 percent (relative to a control group) and have also grown employment by 56 percent over the past three years.

**Credit guarantees.** Credit guarantees are especially popular in Northern Africa where 41 percent of policies are using this tool. Credit guarantees provide third-party credit risk through the absorption of a portion of the credit provider's losses on the loans made in case of default (World Bank, 2015). This means that the default risks are shared between the credit guarantee provider and the credit provider. In comparison to direct lending interventions, credit guarantees are viewed as a more market-friendly intervention as they are a combination of a subsidy with a market-based arrangement (AFI, 2020; World Bank, 2015). There are considerable variations regarding the set-up of credit guarantees. Administrative structures, the type of credit provider, the coverage ratio and the guarantee fee structure can all differ, the credit guarantee provider can be public or private and the credit guarantee scheme can be at a local, national, or regional level (KMPG, 2011). Principle 13 (Credit Guarantee Schemes) of the Regional Policy Framework for enhancing MSME financing ecosystem in Africa recommends having legal

**FIGURE 7: PARTNERING WITH MARKET PLAYERS, %**

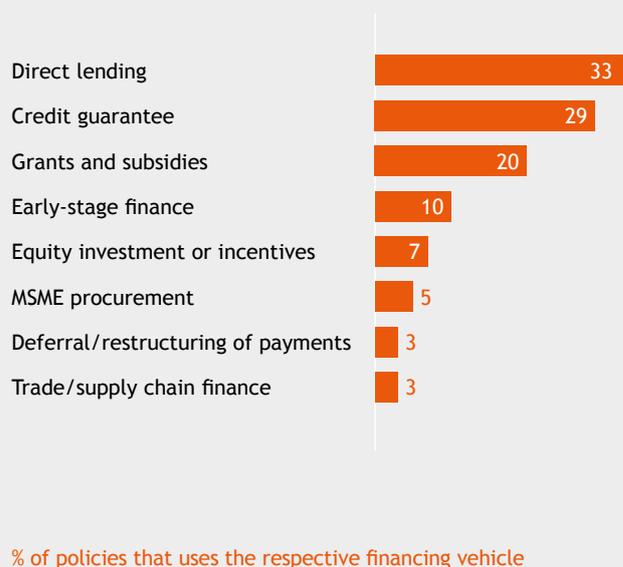
(% of MSMEs financing policies that use market players as a channeling institution for their interventions, out of MSMEs financing policies that use channeling institutions; multiple-mention question)



Source: MSMEs financing policies catalogue 2020

**FIGURE 8: UTILIZATION OF FINANCING VEHICLES, %**

(out of total MSMEs financing policies; multiple-mention question)



Source: MSMEs financing policies catalogue 2020

**TABLE 3: DEFINITIONS OF TYPE OF FINANCING VEHICLES**

TYPE OF FINANCING VEHICLE	DESCRIPTION
<b>CREDIT GUARANTEE</b>	Provision of third-party credit risk mitigation to lenders through the absorption of a portion of the lender's losses on the loans made to SMEs in case of default
<b>DIRECT LENDING</b>	Provision or subsidizing of credit towards MSMEs, which is financed by the government
<b>GRANTS AND SUBSIDIES</b>	Provision of financial assistance that does not have to be repaid and/or granting of subsidies to MSMEs
<b>EARLY-STAGE FINANCE</b>	Provision or facilitation of early-stage financing
<b>TRADE/SUPPLY CHAIN FINANCE</b>	Provision or facilitation of trade/supply chain finance
<b>EQUITY INVESTMENT OR INCENTIVES</b>	Equity investments into MSMEs or provision of incentives to invest into MSMEs by the government
<b>DEFERRAL/RESTRUCTURING OF PAYMENTS</b>	Granting a deferral or restructuring of tax payments or loan repayments, often in the context of the COVID-19 crisis
<b>MSME PROCUREMENT</b>	Restricting certain public procurement opportunities only to MSMEs and/or improving the access of MSMEs to public procurement opportunities

Source: Author's own

and regulatory frameworks, a comprehensive enterprise risk framework, a transparent operational framework, as well as a monitoring and evaluation system in place.<sup>4</sup> Based on the MSMEs financing policy catalogue research, the appropriate selection of eligibility criteria seems to be especially important and should form part of the operational framework. If the criteria are too restrictive, the credit guarantee scheme can result in having a low outreach and being largely ineffective, whereas having an eligibility criteria that is too loose can result in high loan failure rates, making the intervention unsustainable.<sup>5</sup> The sustainability of credit guarantee schemes can be reached through measures that limit the moral hazard of existing borrowers and limit the adverse selection of high-risk borrowers, an appropriate definition of contractual parameters and pricing, and a clear definition of objectives and performance measurement (Ferrari, Gaşiorowski, & Gereben, 2014). The Agricultural Credit Guarantee Scheme Fund (ACGSF) in Nigeria is an example of a successful credit guarantee scheme. More than 30,000 loans were distributed through this scheme in 2018 (Central Bank of Nigeria, 2019) and according to a study conducted by Dare et al. (2017), the supply of credit through this scheme is positively associated with the production of agricultural output. Moreover, the relatively small average loan size indicates that this scheme is successfully targeting MSMEs. It was launched in 1977 and is managed by the Development Finance Department of the Central Bank of Nigeria. Loans for less than N 20,000 [USD 53] do not require collateral and the participating financial institutions can stipulate the collateral required for all loans above this amount<sup>6</sup> (Ketley, Lightfoot, Jakubec, & Little, 2012). Another example is Korea's Credit Guarantee Agency (KODIT), which is the provider of one of the world's largest credit guarantee schemes and is further described in Box 3. The introduction of KODIT significantly contributed to an increase in SME lending of private financial institutions.

**Grants and subsidies.** Although less frequently used than direct lending and public guarantees, policymakers in Africa also utilize non-debt-based instruments such as grants and subsidies to a large extent.

**29%** Grants and subsidies are particularly popular in Eastern Africa, where this financing vehicle forms part of 29 percent of the policies.

The design considerations described in the two previous paragraphs apply in the context of grants and subsidies as well. The provision of grants and subsidies should

especially be utilized to support MSMEs with growth and innovation potential that are active in national priority sectors or the clean energy sector. Another function of grants and subsidies can be to stabilize the economy in cases of an economic crisis. The Export Growth Fund in Rwanda, for instance, provides a matching grant for market entry related costs to firms investing in activities specific to exporting (Development Bank of Rwanda, 2020).

### BOX 3: KOREA'S CREDIT GUARANTEE AGENCY

The Korea Credit Guarantee Fund (KODIT) was established as a public financial institution in 1976 under the Korea Credit Guarantee Fund Act. Its main objective is to enable promising SMEs that lack tangible collateral to obtain financing. To achieve this objective, KODIT extends credit guarantees for liabilities of SMEs. In 2011, it extended credit guarantees for 40,605 new customers and for 16,600 existing customers. The coverage ratio ranges from 70 percent up to 95 percent and the ceiling amount is KRW 3 billion [USD 2.7 million].

KODIT utilizes both checklists and the credit rating system to assess the eligibility of enterprises. This enables KODIT to not only assess the credit risk of enterprises by means of statistics but to also look at more wide-ranging points such as the operating conditions of the enterprise. Most of this information can be checked online by KODIT and KODIT has direct online connections with all banks to enable electronic information sharing. The default rate has been maintained at around five percent since 2007 despite recession factors due to the introduction of a credit rating system and a variety of risk management systems. In the course of KODIT's operations, the proportion of SME lending as a share of total enterprise lending of financial institutions increased by nearly 10 percent.

In times of economic fluctuations, the credit guarantee scheme successfully worked as a counter-cyclical policy by mitigating the impacts of these fluctuations.

Sources: Korea Credit Guarantee Fund, 2019; Yoo, Lee, Jong-Goo, & Kwon, 2012

4 The World Bank published the guidance note Principles for Public Credit Guarantee Schemes for SMEs, which also offers useful advice on how to design credit guarantee schemes.

5 Saadani et al. (2010) reviewed the design of credit guarantee schemes in the Middle East and North Africa and stress that overly restrictive eligibility criteria may result in excluding credit-constrained firms. They recommend that market surveys be utilised to construct the eligibility criteria in a context-sensitive way (Saadani, Zsofia, & Rocha, 2010).

6 Since its inception, the credit guarantee scheme has been adjusted to improve its effectiveness and sustainability. For instance, in 2004, an interest drawback programme that allows borrowers to enjoy a rebate of 40 percent on their interest rate if they repay their loans on time has been implemented and incentivized borrowers to repay on time.

**Applying alternative financing tools can help to overcome key ecosystem constraints.** In addition to the already described more traditional financing tools, alternative instruments also exist. In comparison to equity instruments that are utilized by seven percent of the identified MSMEs financing policies in Africa, asset-based trade financing is rather uncommon with less than four percent of MSMEs financing policies offering trade/supply-chain financing to MSMEs.<sup>7</sup> Trade/supply-chain financing can be a highly effective financing instrument that helps to overcome traditional financing constraints by relying on business linkages and information flows within the value chain instead of traditional collateral or credit worthiness assessments (International Finance Corporation, 2011; Ssettimba, Kamarun, & Azman, 2020). The government can either utilize these alternative financing tools directly or support the financial ecosystem in a way that promotes the development and application of these alternative instruments by private sector providers. The latter can be done through, for instance, providing financing to FinTechs or through creating a regulatory environment that is conducive to innovation in the financial sector. The Citizen Entrepreneurial Development Agency in Botswana is an implementing agency that offers both traditional and alternative financing sources for MSMEs. Among its alternative financing instruments are equity-based financing tools targeting start-ups or green fields, and asset-based financing instruments, such as purchase order financing, invoice discounting and factoring (Citizen Entrepreneurial Development Agency, 2020).

### 3.4.3. IMPROVE THE ENABLING INFRASTRUCTURE

Enabling infrastructure tools address constraints in the broader financial ecosystem, both on the demand- and the supply-side. The effectiveness of the different financing vehicles depends largely on the state of the ecosystem in which they are implemented.

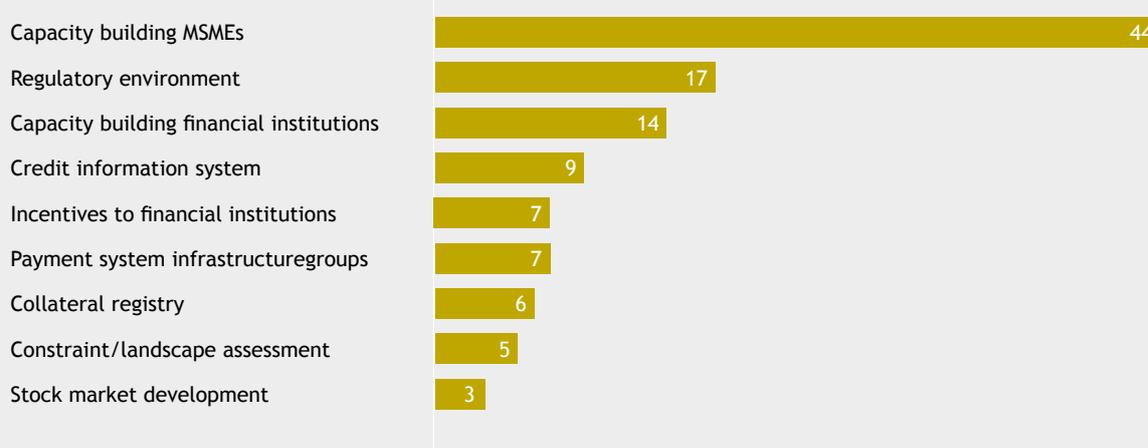
**Combining financing vehicles with measures that target the enabling infrastructure can improve the effectiveness and sustainability of financing vehicles.** Sixty-five percent (65%) of the identified MSME financing policies target the ecosystem by using enabling infrastructure tools. This share is considerably lower for COVID-19 policies, where only one third of the policies contain measures that target the ecosystem. The primary objective of COVID-19 policies is the delivery of relief measures to MSMEs. However, improving the broader financial ecosystem for MSMEs should also be taken into consideration to enable the MSMEs sector to adapt to the stalled operating environment after COVID-19, by overcoming existing financing constraints.

**Capacity building measures are clearly dominating.** Interventions that aim to increase the capabilities of MSMEs to enhance their access to financing are the most frequently used enabling infrastructure tool, as displayed in Figure 9. The remaining tools are

<sup>7</sup> It can be differentiated between asset-based finance (e.g., factoring, leasing, purchase order financing); alternative debt finance (e.g., corporate bonds, covered bonds); and securitized debt and equity instruments (e.g., venture capital, private equity) (OECD, 2015).

**FIGURE 9: UTILIZATION OF ENABLING INFRASTRUCTURE TOOLS, %**

(out of total policies; multiple mentioning possible)



% of policies that use the respective enabling infrastructure tool

applied to a much lower extent, with stock market development being the least utilized one.

**Train both MSMEs and financial institutions.** Nearly half of the identified MSMEs financing policies have MSMEs capacity building measures in place but only 14 percent capacitate financial institutions. This displays a clear gap between demand-side and supply-side capacity building measures. However, building capacity of both MSMEs and financial institutions is key to mitigate the information asymmetries which are inherent in the MSMEs credit market, to improve the information flows and mutual understanding between MSMEs and financial institutions (Ssettimba, Kamarun, & Azman, 2020). Business capabilities of MSMEs are one of the most important factors to develop MSMEs (AFI, 2020). These skills should not only include general business management aspects but also the financial capability necessary to operate and to choose and use appropriate and beneficial finance options (see Regional policy framework for enhancing MSME financing ecosystem in Africa, Principle 7 (Building MSMEs Capabilities). Building this capacity of MSMEs makes existing financing options more accessible to them and ensures a more sustainable and successful use of them. The Amavulandlela Funding Scheme in South Africa, for example, provides both pre-approval and post-approval assistance for its direct lending scheme (Small Enterprise Development Agency, 2020). This capacity development of MSMEs should be matched by capacity development of financial institutions to enable them to offer financial products suitable for MSMEs and their needs. The SME unit of the Egyptian Banking Institute assists financial institutions in setting up SME banking within their operations. This is done through the provision of training programmes related to SME banking and product development for financial institutions (Egyptian Banking Institute, 2020).

**Incentives to financial institutions.** Financial institutions, especially traditional market players, are often reluctant to lend to MSMEs. Through the provision of incentives to them, they could be nudged towards becoming more accommodative towards MSMEs and viewing MSMEs as a key potential target market for their products. The Malawi Innovation Challenge Fund relies on a competition-based mechanism to provide grant money for innovative and inclusive business projects. One of the six competition rounds has been the innovative finance window, which provided matching grant finance to financial sector institutions and businesses. To obtain the grant money, the participants in the competition had to develop innovative delivery channels, products and business models that are able to increase the volume and number of SMEs receiving

formal financing in Malawi (Malawi Innovation Challenge Fund, 2020). This is an innovative approach to motivate market players to better serve the needs of MSMEs.

**Regulatory environment.** An appropriate regulatory environment and a well-regulated MSMEs access to financing is a key element of the enabling environment for MSMEs financing. It ensures a well-functioning system that is both innovative and inclusive in its nature while safeguarding all market players and the system as a whole. Principle 4 (Legal and Regulatory Frameworks) from Regional policy framework for enhancing MSMEs financing ecosystem in Africa recommends a range of aspects that should be considered when trying to make the regulatory environment more conducive to MSMEs, whereas Principle 5 (Institutional Capacity of Regulators) focuses on building capacity of regulators. Creating laws that are specifically addressing MSMEs constraints, as well as a continuous review of existing laws regarding their role in either enabling or constraining MSMEs access to finance is vital. The MSMEs Development Agency in Egypt, for instance, regularly reviews and amends laws and legislation that impact MSMEs. The example provided in Box 4 describes an SME financing-specific regulatory framework that was introduced and then subsequently revised in Pakistan.

#### BOX 4: PAKISTAN'S PRUDENTIAL REGULATION FOR MSMEs

The State Bank of Pakistan introduced Prudential Regulations for SME financing in 2003 and adjusted it in 2013, 2016 and 2017 to reflect changes in market dynamics and in the policy environment. The regulation consists of three chapters: general prudential regulations for small and medium enterprise financing, prudential regulations for small enterprise financing and prudential regulations for medium enterprise financing. Issues such as collateral valuation, reserve requirements and credit information are covered in this regulation. Having an SME-specific regulatory framework in place, enables the government of Pakistan to tailor their regulation specifically to the needs and constraints of SMEs. The most recent amendments to this regulation are in line with the newly launched "Policy for Promotion of SME finance" and aim to allow a rapid promotion of SME finance. The regular updating of the regulatory framework allows the State Bank of Pakistan to adjust its regulation according to changes in SME financing ecosystem (State Bank of Pakistan)

**A variety of other tools to improve the enabling infrastructure exists.** Table 4 describes the rational and best-practice examples for four other key tools that are applied in Africa to improve the enabling infrastructure for MSMEs financing.

TABLE 4. OVERVIEW OF ADDITIONAL TOOLS TO IMPROVE THE ENABLING INFRASTRUCTURE

ENABLING INFRASTRUCTURE TOOL	RATIONALE	BEST-PRACTICE EXAMPLE
<b>PAYMENT INFRASTRUCTURE (PRINCIPLE 8)<sup>8</sup></b>	<ul style="list-style-type: none"> <li>&gt; Increases operational efficiency of MSMEs</li> <li>&gt; Builds a digital profile of MSMEs that is, for instance, important for creditworthiness assessment</li> </ul>	<b>Financial Inclusion and Entrepreneurship Scaling Project in Malawi:</b> Funds are made available to facilitate increasing the volume of MSMEs that would be connected to the DFS technology through the national payments system, to facilitate Participating Financial Intermediaries (PFIs) to innovate and develop financial products that are suitable for MSMEs, and to reduce the cost of borrowing by reducing the perception of risk by the PFIs (World Bank, 2020).
<b>STOCK MARKET DEVELOPMENT (PRINCIPLE 10)<sup>7</sup></b>	Capital markets can play a significant role in bridging the MSMEs financing gap	<b>Nile Stock Exchange (NILX) in Egypt:</b> A dedicated SME stock exchange that enables small-sized companies to list in the hopes of acquiring small funding in the form of stock purchases. The minimum capital of member firms ranges from LE 500,000 to LE 25 million. This provides a market for companies and small enterprises, and the nascent market attracts many small-sized companies who are looking for small funds to complete their expansions or enter new fields (El Madany, 2007).
<b>CREDIT INFORMATION SYSTEM (PRINCIPLE 12)<sup>7</sup></b>	<ul style="list-style-type: none"> <li>&gt; Support lenders in better managing credit risks</li> <li>&gt; Extend access to credit</li> <li>&gt; Identify appropriate pricing</li> </ul>	<b>I-Score Credit Bureau in Egypt:</b> Egypt's first private credit bureau was established in 2007. Information in the credit report is collated from the members of the credit bureau. I-Score provides credit information products and services to help its members assess the creditworthiness of individuals as well as MSMEs (EG 24 News, 2020).
<b>COLLATERAL REGISTRIES (PRINCIPLE 14)<sup>7,9</sup></b>	<ul style="list-style-type: none"> <li>&gt; Lack of acceptable collateral is a major barrier</li> <li>&gt; Effective secured transaction regime facilitates lending by using the available movable assets as collateral</li> </ul>	<b>National Financial Inclusion Strategy in Uganda:</b> This roadmap includes the establishment of a centralized registry for movable collateral as one of the planned activities (The Republic of Uganda, 2017). The implementation of the policy led to the creation of the Security Interest in Movable Property Registry System, which is administered by Uganda's Registration Service Bureau. It was established through the Security Interest in Movable Property Act of 2019 (Ugandan Registration Bureau, 2019).

Source: AFI 2020, MSMEs financing policies catalogue 2020

8 Refers to Regional policy framework for enhancing MSME financing ecosystem in Africa.

9 Other African countries that launched modern collateral registries are Ghana, Gambia, Liberia, Malawi, Nigeria and Zambia (Ssettimba, Kamarun, & Azman, 2020).



### 3.5. MONITOR AND EVALUATE

Monitoring and evaluating MSMEs financing policies should form part of the policy development and implementation process as they allow designers to learn from and positively iterate the policy. Monitoring and evaluation does not only inform the implementation of the specific existing policy and its future design but also the design and implementation of other existing policies or future policies through cross-learning. Beyond the learnings aspects, having an evidence base on the impact and value of a policy is crucial for providing accountability (Centers for Disease Control and Prevention, 2012).

**Three different stages of policy evaluation.** Three main types of policy evaluation exist. Each of them focuses on a different step of the policy process (Centers for Disease Control and Prevention, 2012):

- > **evaluating policy content:** analyze whether the content of the policy fits its purpose and the context.
- > **evaluating policy implementation:** analyze whether the policy has been implemented as planned.
- > **evaluating policy impact:** analyze whether the policy produced the intended outcomes and impact.

The content evaluation is highly applicable in the context of targeting in a nuanced way as well as for assessing the needs of the targeted groups and the context. It is also directly connected with Principle 3 (Monitoring and Evaluation (M&E) MSMEs Access to Finance) of Regional policy framework for enhancing MSMEs financing ecosystem in Africa, which recommends the monitoring and evaluation of MSMEs access to finance (AFI, 2020). As mentioned, evaluating the context is fundamental for designing effective MSMEs financing policies. The other two types of evaluation are relevant for the final step of the policy process framework and will be discussed in this section.

Measuring output, outcome and impact. Along the different time-horizons, it can be differentiated between three elements along the policy chain that should form part of a policy evaluation (The Accountability Framework Initiative, 2020; OECD, 2020):

- > **Output evaluation** (short-term effects): evaluating the existing products, resources and activities that are a direct result of the policy (e.g., change in regulation, establishment of new implementing agency).
- > **Outcome evaluation** (medium-term effects): measuring the effects of the outputs on the

behaviors, policies and systems of the target group (e.g., uptake of MSMEs credit product among target group).

- > **Impact evaluation** (long-term effects): holistic evaluation of the broader direct and indirect effects of a policy among the target group (e.g., improved MSMEs performance).

#### ESTABLISH GENDER-SENSITIVE MONITORING AND EVALUATION FRAMEWORKS

**61%** Currently, 61 percent of the identified MSMEs financing policies in Africa have an evaluation framework in place.

**79%** Out of the policies with development partner involvement, 79 percent have an evaluation framework in place, whereas out of the policies without development partner involvement,

**48%** only 48 percent have an evaluation framework in place.

Even when evaluation systems exist, it is difficult or often impossible to obtain the evaluation reports. Out of the policies with evaluation frameworks in place, for only 38 percent evaluation reports could be found. The policies without evaluation and monitoring systems in place will most likely not be able to systematically assess whether the respective policy is actually addressing the problem it was created to address.

The evaluation and monitoring system should include monitoring of outreach and the extent to which the intervention improves financing access for MSMEs as highlighted under Principle 13 (Credit Guarantee Schemes) the Regional Policy Framework for enhancing MSME financing ecosystem in Africa. The Chile Production Development Corporation conducts annual evaluations through an external agency as further described in Box 5.

#### BOX 5. CHILE PRODUCTION DEVELOPMENT CORPORATION

The Chile Production Development Corporation (CORFO) was established in 1939 to promote economic growth in Chile and it provided subsidies, credits and guarantees to approximately 270,000 beneficiaries in 2013. Over time, it has adapted its tools to the changing needs and challenges of small businesses in Chile and moved from using standardized tools to increasingly more complex and tailored ones. This adaptation has, at least partially, been enabled by its regular monitoring and evaluating activities. Each year, CORFO has to present an annual report to the President of Chile, which contains an evaluation of its deployed resources and its activities. These evaluations are conducted by an independent external party. The regular evaluations allowed CORFO to be dynamic and learn from its past performance to stay relevant for MSMEs and their needs.

Source: CORFO, 2020; Snijders, Van der Horst, Lindeboom, & Lindeboom, 2016

Have detailed action plans in place and evaluate its implementation. Less than half of the MSMEs financing policies for which action plans could be identified were detailed in terms of the activities and corresponding responsibilities. A detailed action plan outlining the various underlying activities with clear responsibilities is crucial for enabling an evaluation as to whether the planned activities have been implemented and integrating gender-specific targets can work towards closing the gender gap in women's access to finance. The National Policy on MSMEs in Nigeria, for example, includes a detailed action plan and institutional framework outlining strategies and measures, actionable steps and tasks, primary and secondary responsibilities, as well as the respective time horizons (Small and Medium Enterprises Development Agency, 2012).

#### ESTABLISH CLEAR AND APPROPRIATE TARGETS

Out of the identified MSMEs financing policies in Africa, 39 percent have numerical targets in place with a significant difference between policies with development partner involvement (61 percent of which have numerical targets) and policies without development partner involvement (17 percent with numerical targets). Setting targets allows systematic assessment of whether the policy had the intended impact. The appropriate type of target depends on the purpose and objectives of the policy, on whether it is realistic to measure within its context and on existing constraints. Numerical targets also allow for aggregation and comparisons across time and locations. Nevertheless, qualitative data is often

crucial as well and should, if possible, augment the numerical targets, as it can help to detect underlying issues that do not show up in the quantitative data.

#### CONDUCT THE EVALUATIONS REGULARLY AND TRANSPARENTLY

17%

Even when numerical targets exist, only 17 percent of these policies had accessible evaluation data regarding their target indicators and even less had this broken down by sex.

This could be either because the policies did not conduct an evaluation or because they did not publish the results of their evaluation. The latter could be due to privacy and security concerns, as well as the unwillingness to publish data that reports an unsuccessful implementation. The publishing of evaluation data is important for both learning and accountability. If stakeholders can access the evaluation data of different policies, they can assess what worked in which context. However, making evaluation data public can also be potentially detrimental for the learning objective. This is usually the case when concerns regarding negative feedback and consequences prevent true reflections about published challenges and failures.

## 4. CONCLUSION

The scoping exercise of 243 policies across 54 African countries that focus on MSMEs financing revealed the following insights.



A Senegalese man takes his cart loaded with bags of salt from Lake Retba along the lakeshore to market. (Photo by Joesboy/iStock).

- 1 A large variety of MSMEs financing policies exist on the continent and can serve as a rich depository for new gender-sensitive policy design. Plenty of best practice examples can be drawn upon to design fit-for-purpose policies, however, the local context and MSMEs needs should form the central focus during the design phase.
  - 2 The MSMEs policy landscape that is related to enabling financing to the backbone of African economies is fragmented. Different types of policies exist within many African countries and at times, these policies are not necessarily aligned. Therefore, when designing policies, it is vital for governments to ensure a holistic understanding of the existing tools that are already available to the market and the policy frameworks within which they operate. Fitting new policies and taking existing plans and progress into account, especially in a COVID-19 recovery context, ensure continuation of reforms that may take longer to take effect, than the lifespan of one single policy may allow.
  - 3 A combination of different financing vehicles can be effective, based on the needs of the MSMEs sector. In addition, how these tools fit within the wider ecosystem should also be considered and whether MSMEs or financing-related infrastructure components should form part of the policy. This can be important in the efficient and equal distribution of the financing support and can also facilitate reforms in other sectors within an economy.
  - 4 A key component across all African MSMEs financing policies should be evaluation and related-specific targets that can be continuously measured. The reiterative evaluation of the success reach and learnings of a policy is crucial to improving interventions over time and to ensure that each country implements the context-appropriate solutions tailored to their market. The evaluation can happen along different parameters but at the minimum should consider:
    - > Evaluation around who to target: which type of MSMEs in which sector(s) requires support; how can these MSMEs be defined to keep track of progress?
    - > Evaluation of the appropriate instrument: which type of financing vehicle and enabling infrastructure intervention is best suited and most likely to meet national objectives, taking the local context into account?
- > Evaluation of the context and ecosystem: has the environment in which these policies are embedded changed over time? How can these changes be measured?
  - > Evaluation to see if the gender gap in access to finance is being decreased at all.
- 5 As MSMEs financing remains a clear gap on the continent, a variety of stakeholders should be involved in the design of policies to ensure a balanced approach that takes demand, as well as supply factors, into account while ensuring practicability of the proposed measures.

## ABBREVIATIONS

<b>ACGSF</b>	Agricultural Credit Guarantee Scheme Fund
<b>AFI</b>	Alliance for Financial Inclusion
<b>BDF</b>	Business Development Fund
<b>CORFO</b>	Chile Production Development Corporation
<b>COVID</b>	Coronavirus Disease
<b>GDP</b>	Gross Domestic Product
<b>GMD</b>	Gambian Dalasi
<b>KODIT</b>	Korea Credit guarantee fund
<b>MFI</b>	Micro-finance Institution
<b>MNO</b>	Mobile Network Operator
<b>MSMEs</b>	Micro, Small and Medium Enterprises
<b>MSMEDA</b>	Micro, Small and Medium Enterprise Development Agency
<b>NGO</b>	Non-Governmental Organization
<b>NILX</b>	Nile Stock Exchange
<b>NGN</b>	Nigerian Naira
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>PFI</b>	Participating Financial Intermediaries
<b>SDG</b>	Sustainable Development Goals
<b>SME</b>	Small, and Medium Enterprises
<b>SMECGS</b>	Small and Medium Enterprises Credit Guarantee Scheme

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