



AFRICA SME PROGRAM

Information Sheet for smaller and medium-sized financial institutions active in the African SME market

The Africa SME Program

The Africa SME Program is an initiative under which the AfDB provides financial support to medium and smaller-sized (Tier 2 and Tier 3) **financial institutions (FIs)**, with a view to increasing these FIs on-lending capacity, on competitive terms, to **SMEs**. The program's objective is to enhance access to finance for small and medium-sized enterprises through local financial institutions. The program currently provides **medium to longer-term standardized lines of credit (LoCs)**, in USD, EUR, or **local currency**, and technical assistance to targeted financial institutions, predominantly in **low-income countries** spread over all five African regions. Other instruments such as guarantees might be applied in future as well to support client FIs. By providing debt funding and technical assistance to local financial institutions, the Program will make important longer-term financial resources available to thousands of SMEs including women and youth, thus contributing to job creation, poverty reduction and inclusive growth on the continent.

Context

The SME sector is crucial to Africa's growth, contributing more than 45% of the employment and 33% of GDP. SMEs continue to face significant challenges however. Studies indicate that more than 70% of SMEs lack access to medium/longer-term finance, creating an SME funding gap exceeding US \$140 billion in Africa alone. Well performing local financial institutions tend to be the 'mainstay' provider of funding to SMEs. Unfortunately, these institutions often lack access to longer term resources from depositors, capital markets or other potential funders, hindering the provision of medium and long-term SME finance. Of the loans available, almost 60% are for

"I will build on the successful operations of the Bank in the SMEs space and expand on what is working, especially by dedicating more resources to provide incentives for financial intermediaries to lend more to SMEs to achieve clear development impacts, especially jobs..."

– Akinwumi Adesina
President, AfDB

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less than one year. Financial institutions could also benefit from improved knowledge and systems to assess and monitor SME projects, avoiding a reliance on high levels of collateral. While collateral is of course important, we believe that adequate credit assessment instruments and systems as well as good loan portfolio management mechanisms, coupled with suitably adapted SME products, may contribute to a good portfolio quality, without having to rely on excessive collateral.

AfDB Offering

In response to the various challenges in the market, the AfDB, through the Africa SME Program, provides the necessary longer-term finance and technical assistance packages to address a number of constraints faced by financial institutions and their SME clients across Africa. The AfDB may assist around 25 FIs under this program.

Whereas the longer-term liquidity may assist the FIs to extend the tenor of loans to SMEs, thus addressing the traditional mismatch between the tenors of the sources of funding versus the loan portfolio, the Technical Assistance (TA) seeks to improve the operational efficiencies of FIs. The TA tackles areas like credit assessment and risk management, thereby contributing to better access to finance for African MSMEs' sustainable growth. The areas of support to be provided through technical assistance are determined based on a detailed external assessment by specialist consultants, but do include the preferred areas of support as indicated by the beneficiary institution. The FI is expected, however, to make modest contributions to the TA to demonstrate the buy-in and importance attached to it. The TA is funded by the Fund for African Private Sector Assistance (FAPA), a multi-donor thematic trust fund, financed by the Government of Japan, the AfDB, the Austrian Development Bank and the Government of Austria.

Eligibility Criteria

In principle, any Financial Institution located in Africa is eligible to partake under the Program. The AfDB reserves the right, however, to exclude requests if high risk ratings preclude the processing of an investment proposal. Furthermore, since the Programme seeks to reach as many countries on the continent as possible, if and once a financial institution has received support under the Program, priority may be given to financial institutions in other countries that have not yet been covered.

A key criterion is financial and commercial viability. Compliance with the local regulator is also essential, as are high standards of corporate governance and management, as well as adherence to best practices in regards to social and environmental protection. Specific criteria apply and can be found on the indicated website.

Facts

LoCs between USD 1 Million
and USD 10 Million or
equivalent in local currencies

USD 125 Million available
for Phase I

USD 5 Million available
for technical assistance

25 targeted financial
institutions in Phase I

Apply

Financial Institutions that are interested to apply for funding or Technical Assistance can register on the website:
<http://sme.finance.afdb.org>

Alternatively, they are invited to approach the AfDB via email:
j.lange@afdb.org
& SMEProgramAdmin@afdb.org



AFRICAN DEVELOPMENT BANK GROUP

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