



MSME Credit Information Platform Review

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For more information:

Visit our website at www.finmark.org.za

Email info@finmark.org.za

Call us on +27 11 315 9197



ACKNOWLEDGEMENTS

This report was authored jointly by FinMark Trust and the Centre for Financial Regulation and Inclusion (CENFRI). The authors would like to extend their gratitude to all of those who assisted in the compilation of the MSME Credit Information Platform Review. The authors would further like to thank the range of stakeholders that were engaged to provide insights on their respective markets. We would like to thank all individuals who participated in this project in their personal and institutional capacity, without which the project would not have been successful.

TABLE OF CONTENTS

LIST OF FIGURES	2
LIST OF TABLES	2
LIST OF BOXES	2
EXECUTIVE SUMMARY	3
1. Introduction	5
1.1 Problem statement	5
1.2 Methodology	5
1.3 Structure	6
2. Defining and understanding MSMEs	7
3. MSME credit approaches and information systems	10
4. Formal credit information systems	12
4.1 The generic formal credit reporting system	12
4.2 Formal players in SADC	13
5. Informal information sharing	15
6. Digitalisation and the changing credit landscape	17
6.1 Digitalisation and credit reporting	20
6.2 Aggregators and alternative data	21
6.3 Innovative methodologies and new partnerships	23
6.4 Innovation in the agricultural MSME sector	25
7. MSME data and incentives framework	23
8. Conclusion and recommendations	25
9. References	30
Appendix A: Key Informant Interview list	32
Appendix B: Additional detail on the formal system	33
Appendix C: Case studies	36
Appendix D: Examples of innovative lenders making use of alternative data	37

LIST OF FIGURES

Figure 1: Number of common MSME definitions, globally	7
Figure 2: Entrepreneurs' ability and motivation	8
Figure 3: MSME credit approach and information type segmentation.....	10
Figure 4: The Formal Credit Information-sharing System	12
Figure 5: SADC credit information system	13
Figure 6: ABSA-Khula partnership	20
Figure 7: Data and Incentives Sharing Framework	23

LIST OF BOXES

Box 1: Value chain credit information – Musika	16
Box 2: The Small Enterprise Foundation (SEF).....	34
Box 3: Spoonmoney.....	35
Box 4: YOCO.....	36

LIST OF TABLES

Table 1: Lending technology and information source overview.....	11
Table 2: Types of potential credit information aggregators – examples from SADC	20
Table 3: Examples of agricultural financing models by main secondary source of repayment – SADC and beyond.....	22
Table 4: Different types of creditor	36

EXECUTIVE SUMMARY

MSMEs are vital to economic growth and livelihoods in the SADC region, making MSME market development an important policy objective for governments and development partners alike. Yet business conditions for MSMEs are often challenging. A lack of access to credit is widely accepted as one factor that inhibits MSMEs' ability to thrive and grow. Across SADC, accessing bank credit entails a number of business and documentation requirements – much of which MSMEs may not have. This classifies them as so-called “thin file” clients. A lack of information also contributes to MSMEs being regarded as risky clients, thereby lowering incentives to lend to them.

Improving the credit information available on MSMEs and increasing access to this information will assist credit providers in granting more credit to the MSME sector. Against this background, the main question that this report seeks to answer is: *How can the MSME credit information ecosystem in SADC be improved to support MSME access to finance?*

Answering this question requires an understanding of the tools, innovations, and institutional structures to support the development of an effective MSME credit information ecosystem in the SADC region.

Credit information ecosystem differs by type of MSME

A range of lending technologies² are used to serve MSMEs, drawing on different information sources, from small business credit scoring based on hard information, to financial statement lending, to asset-based lending, leasing or fixed-asset lending. All of the above require hard information in the form of accounts and asset registries, etc. This information is typically only available for larger, more formal “SMEs”, whereas the bulk of the micro “M” market operates informally, with little traditional information to draw on to enhance access to credit. Where these businesses are able to borrow, they do so based on relationship lending, where soft information on the MSME, its owner and the community is gathered over time to inform the assessment of risk.

Thus, the broad MSME category that an enterprise falls in determines the lending approaches available to the enterprise and the information systems within which it will be captured. In this report, the spotlight falls largely on the “SME” side of the spectrum, but it is noted that the full spectrum needs to be considered to understand the scope and reach of ruling and potential alternative credit information sources.

State of the credit information ecosystem in SADC

The major players in the SADC credit information system are Trans Union, Experian and Dun and Bradstreet. Trans Union is the most active in the SADC region, with a presence in five SADC countries. There are also several SADC countries with movable asset registries. On the whole, however, systematic credit information sharing is limited in SADC, especially as it pertains to MSMEs.

The formal credit information-sharing ecosystem ideally involves a well-functioning regulator, clear regulation on information-sharing requirements by creditors, several cooperating credit bureaus, well-administered credit registries and an Ombud's function that protects customers.

However, in practice, the formal ecosystems in SADC fall far short of the ideal. Enforcement is weak, cooperation among participants is poor, and the ombudsman fails to adequately protect customers. On the informal side, there is no information ecosystem as such that could be compared to the coordinated formal system. Information is siloed within individual lenders

*The main question that this report seeks to answer is: **How can the MSME credit information ecosystem in SADC be improved to support MSME access to finance?***

or within bilateral partnerships, sharing of information is not mandated by regulation, and regulators do not have adequate oversight of the sector. The information that exists may not be accurate or up to date, because lenders face numerous challenges in verifying and tracking information. They also do not have sophisticated information collection and warehousing, or data analytics capabilities, meaning that the information that is collected is underutilised.

Digitalisation and the changing credit landscape

Digitalisation is changing the MSME credit landscape. Around the world, many innovative companies are utilising the alternative data generated by MSMEs in the digital age to extend credit to MSMEs. However, these providers do not necessarily share their information with other credit providers, regulators or industry bodies.

The changing credit information landscape also applies at the value chain level. Enterprises exist within value chains; and often, other players in the value chain gather information on the enterprises they deal with that could potentially be useful from a credit risk assessment point of view. MSMEs may also work with or belong to agent networks, or they may belong to business associations, such as industry-specific bodies. All of these serve as “aggregators” of MSMEs that collect tangible and intangible data on MSMEs, which mostly does not enter the formal credit information ecosystem.

Much scope remains in SADC to unlock the data housed in digital platforms and value chains for credit access.

Role of incentives

The discrepancy between the ideal credit information-sharing system and the reality in SADC is largely due to the incentives in place for information-sharing. Players compete for finite resources – the pool of clients’ total ability to repay credit – and therefore must balance their need for information on clients with their incentive to withhold information on their own clients from other players.

What can be done?

Advocacy and dialogue are needed to gradually build the formal credit information sharing ecosystem in SADC. This will be a long-term game, requiring coordination to build the enabling environment and incentive frameworks for more optimal information sharing via credit bureaus. Even then, this will only reach the formal segment of the MSME market.

- In the interim, a few alternatives provide scope for making better use of credit information to unlock MSME credit:
- A credit risk database can provide creditors in the system with additional information that they can use to improve their credit scoring methodologies, which can allow for the approval of credit disbursement to MSMEs that would not otherwise qualify due to information asymmetries. A credit risk database could be implemented at a country level, or within a subsector or industry.
- There is also the potential of building digital information sharing platforms that circumvent credit bureaus, allowing for direct information sharing between institutions.

Lastly, an indirect route to improving information availability on MSMEs in the market is to build a platform that houses information on MSMEs in a sector, by connecting producers and buyers in one place and building a track record for MSMEs while remaining agnostic to the potential uses for that information.

1. INTRODUCTION

1.1 Problem statement

MSMEs are a major contributor to the African economy. MSMEs play a significant role in Africa, making up 90% of companies in Africa and employ almost 80% of the African workforce (London Stock Exchange Group, 2018). In South Africa, 91% of formal entities are MSMEs, which provide around 51% of GDP and around 60% of employment. The same can be found in Ghana; 70% of Ghana's GDP originates from MSMEs, which make up 92% of the country's businesses (Ama & Okurut, 2017). Similarly, the bulk of the informal economy in the Southern African Development Community (SADC) is likely to be made up of MSMEs. MSME market development is hence an important policy objective for governments and development partners alike.

MSMEs are constrained from accessing credit. Access to credit is widely documented as a key contributor to MSME growth. Yet, MSME credit access is often constrained. Forty percent (40%) of African SMEs reported that access to finance is the primary constraint on their growth (London Stock Exchange Group, 2018). The IFC (2010) reports that more than 60% of the revenue that leading banks generate from SMEs comes from non-credit products. While banks do extend credit to MSMEs, the requirements often exclude smaller, more informal enterprises. Across SADC, banks' requirements when extending credit to MSMEs include that the company be registered with the relevant national authority, that the company has been active for a set amount of time, that it has proof of residence for the business and that it has relatively high annual turnovers, tax documents, and a business bank account or a deposit account or another means to showcase repayment capacity². In this way, while credit drives MSME growth, there are barriers to MSMEs accessing credit to develop their businesses.

MSMEs regarded as high-risk borrowers. Another reason for MSMEs largely being constrained from accessing credit is that credit providers consider them high-risk borrowers and are therefore hesitant to extend credit. MSMEs are considered high-risk for reasons that include a lack of collateral or suitable collateral, insufficient management capabilities, inadequate business proposals, difficulty pricing MSME credit risk, unsuitable working capital and the "high mortality rates of MSMEs" (Ama & Okurut, 2017). To extend a larger amount of capital to MSMEs, the de-risking of MSME credit will need to be investigated. Improving the credit information of MSMEs and increasing access to this information will assist credit providers in granting more credit to these thin-file borrowers.

Against this background, the main question that this report seeks to answer is: *How can the MSME credit information ecosystem in SADC be improved to support MSME access to finance?* Answering this question requires an understanding of the tools, innovations, and institutional structures to support the development of an effective MSME credit information ecosystem in the SADC region.

1.2 Methodology

Two research approaches were used to answer the key research question. The first was a desktop scan of existing literature that focused on identifying and addressing the MSME credit problem – specifically, literature that spoke to the information asymmetry that credit information aggregators experience when attempting to extend credit to MSMEs. The desktop scan was also used to identify key players in the credit information ecosystem. This included engaging with research on the credit information ecosystem in SADC countries as well as the websites of relevant credit aggregators.

In South Africa, 91% of formal entities are MSMEs, which provide around 51% of GDP and around 60% of employment.

The second phase of the research was to conduct interviews with key informants spanning the credit ecosystem (refer to the Appendix for an overview).

1.3 Structure

The rest of this document is structured as follows:

- Section 2 discusses the importance of understanding what is meant by the term “MSME” in the quest to integrate MSMEs into the credit information ecosystem.
- Section 3 outlines different sources of credit and different information systems applying to different types of MSMEs. It shows that, while there is much information available on MSMEs operating in the formal sector, there is no coherent credit information ecosystem for smaller/micro-businesses operating in the informal sector, prompting one to look at alternative data sources.
- Section 4 outlines the formal credit information system and assesses the extent to which it applies in SADC, while Section 5 considers informal credit information sharing.
- Section 6 discusses digitalisation of information and how it is changing the MSME credit information landscape, by considering aggregators of MSMEs and alternative data generated that could be used in informing the credit decision, innovative methodologies and partnerships aiming at unlocking new types of credit information, as well as by taking a look at innovation specifically in the agricultural MSME sector.
- Section 7 completes the picture by considering the incentives that prevent effective data sharing and that would need to be considered in designing interventions to improve the credit information ecosystem in SADC.

Section 8 concludes and outlines recommendations for development partners seeking to enhance the credit information ecosystem in SADC.

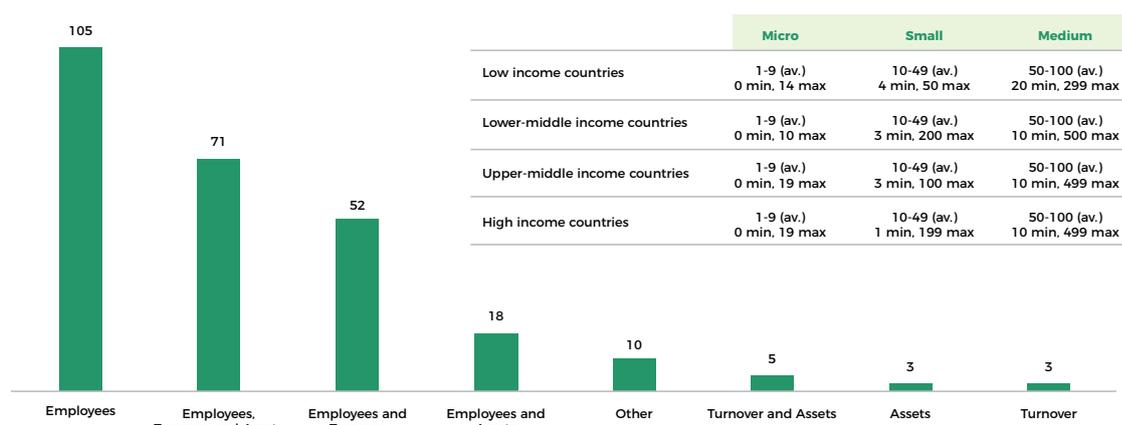
2. DEFINING AND UNDERSTANDING MSMES

MSME definitions typically linked to employment and/or turnover, but this hides nuance.

There is no international, standard definition for “MSMEs”. Across 155 economies, 267 definitions are used by different institutions. These definitions of MSMEs can include more than one variable to measure where the enterprise falls in the MSME categories. As illustrated in Figure 1, three common variables are used to define MSMEs: number of employees, annual turnover, and the value of total assets. Number of employees is the most common variable, with 92% of the 267 definitions including it. On average, across all markets, micro-enterprises are made up of one to nine employees and small enterprises of 10 to 49 employees. In low-income and lower-middle-income countries, medium enterprises have, on average, 50 to 100 employees while upper-middle-income and high-income countries have medium enterprises at 50 to 249 employees, on average (Gonzales, et al., 2014). In some countries, regulation will outline a definition for MSMEs, but stakeholders will still use their own definition (Tewari, et al., 2013). Further, not all countries include a definition of micro-enterprises in their legal definitions of SMEs, but instead micro-enterprises fall under the definition of small enterprises (International Committee on Credit Reporting, 2014).

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Figure 1: Number of common MSME definitions, globally

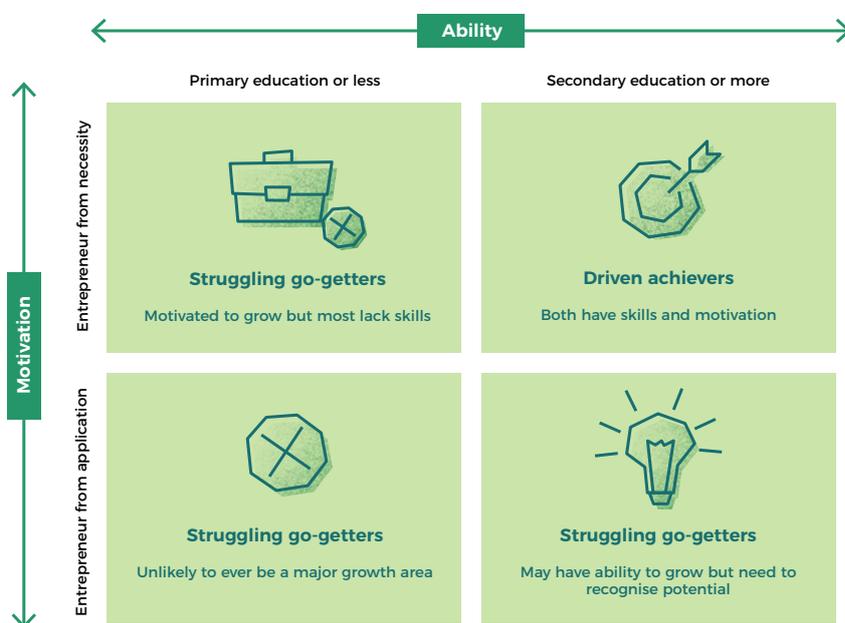


Source: adapted from Gonzales, et al., 2014

Overall, we see that the nature of the definition is typically linked to the number of employees and/or the turnover or revenue of the MSME. However, both variables are blunt measures that do not provide sufficient context to the MSMEs and may be inappropriate in distinguishing between the different needs of different types of MSMEs. For example: A specialised professional services firm may have only a few employees and thus would be regarded as micro, but it may nevertheless have niche financial needs, while a business with several employees may still be struggling to survive. Thus, more nuanced approaches are needed to segment, and hence understanding, the financial needs of MSMEs and how best to effectively serve them.

Alternative parameters for segmenting MSMEs. An important alternative parameter for segmenting MSMEs would be the type of economic activity or sector in which they operate. Furthermore, the nature of the entrepreneurs who found and run MSMEs are also relevant for the expected trajectory of the business. One framework developed under FinMark Trust, UNCDF and Cenfri’s MAP diagnostic framework, as shown in Figure 2, argues that if the entrepreneur starts the MSME out of aspiration but only has a primary education or less, they can be classified as a “struggling go-getter”. In this case, the entrepreneur has the motivation to grow the business but lacks most of the necessary skills. If the aspirational entrepreneur has secondary education or more, they are classified as a “driven achiever” who has both the skills and the motivation to make a success of the venture. If the entrepreneur begins the business out of necessity and not aspiration, but the entrepreneur only has primary education or less, then they are classified as a “survivalist”. Here, the entrepreneur is unlikely to ever achieve major growth in their business. If the entrepreneur-out-of-necessity has a secondary education or more, they are a “reluctant entrepreneur”. A reluctant entrepreneur has the potential to grow their business but not the desire to do so, which hampers the growth of the business (Thom, et al., 2015).

Figure 2: Entrepreneurs’ ability and motivation



Source: adapted from (Thom, et al., 2015)

Formality is key in determining access to credit. When it comes to the provision of credit, formality is a critical MSME segmentation factor, as it determines the extent of MSMEs’ integration into the credit information system. The size of the MSME is related to the formality of the enterprise. Larger enterprises are more likely to be registered in the country in which they operate, to have higher annual turnovers as well as to have a business bank account, a tax number, a set business premise and a permit or licence to operate. These are the criteria that are often required by banks to extend credit to MSMEs. Therefore, formal enterprises are mostly included in the formal credit information system. Small enterprises can be either formal or informal. If the small enterprise is informal, there is no distinction between the business finances and the personal finances of the owner of the business. When credit is extended to these small enterprises, credit providers often treat the credit as individual loans and examine the creditworthiness of the individual. Micro-enterprises fall even further into this category, with most being informal.

Extent of digital connection is another key parameter. A digital footprint such as invoices can be used by financial institutions to assess creditworthiness. However, while some informal micro- and small enterprises engage with digital channels, not all do. For example, one credit provider interviewed for this study found that only 5% of SMEs they deal with in South Africa can accept card payments. This limits the available alternative data that credit providers can draw on. Where MSMEs are not digitally enabled, credit providers have to use other means to gauge these enterprises' creditworthiness.

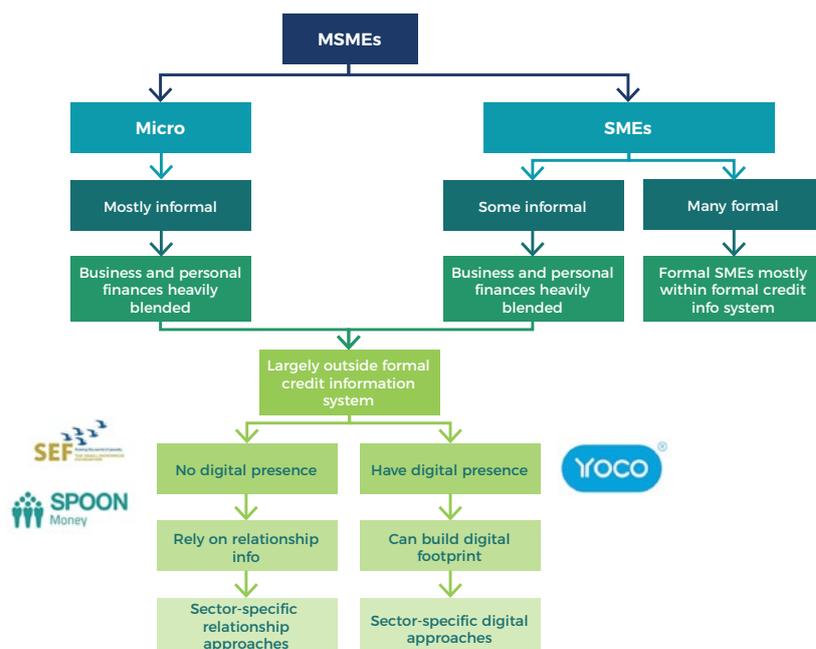
"Softer" definition parameters. Finally, there are softer aspects to MSMEs that are linked to their chances of success as well as their ability or likelihood to repay debt. These aspects are important in assessing an MSME for creditworthiness but normally not factored into modelling of credit risk, as they are harder to assess, measure or obtain. The personality of the head of the organisation is an example of a softer aspect. Attempts have been made to measure these characteristics through various types of testing, such as psychometric testing, but these methods have many complexities that need to be managed. The information gathered for these methods are not typically made available through formal channels, making softer aspects less influential on the formal credit ecosystem.

3. MSME CREDIT APPROACHES AND INFORMATION SYSTEMS

MSME type drives credit approach and information availability. As shown above, the informal and formal spaces are very different. While there are blurred lines where the two categories meet each other (as is inevitable when drawing lines in the sand based on number of employees and in some cases turnover), micro-enterprises and SMEs³ typically access credit from different sources and therefore participate in different credit ecosystems. There is also very little valuable information-sharing between the informal, relationship-based world of micro-lending and the formal world of bank and other formal credit. Therefore, enterprises often operate entirely in one of the two and only straddle these worlds temporarily before moving on to formal credit as they grow. These differences also have implications for the way in which the informal and formal credit information ecosystems can be improved.

The type of broad MSME category that an enterprise falls in determines the lending approaches available to the enterprise and the information systems within which it will be captured. Figure 3 outlines some of these differences.

Figure 3: MSME credit approach and information type segmentation.



Source: Authors' own.

A range of lending technologies⁴ are used to serve MSMEs, drawing on different information sources. Table 1 sets out some of the common types of lending technologies available to MSMEs, along with the type of information that is required per lending technology, how that information is generated, how the transaction is monitored, and the ease with which that information can be made available to the credit ecosystem.

The first three lending technologies are significantly easier to access for formal and larger enterprises, while the latter part of Table 1 covers lending technologies that cater to enterprises that cannot access the former, or lending technologies that can be used in conjunction with

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the former technologies to improve risk mitigation by the creditor. Many credit providers, serving formal and informal clients, rely on credit-scoring models to assess a potential client's creditworthiness. They draw on hard information, or data points, that can be confirmed by other credit providers or parties. As they monitor repayments, credit scores can be updated in real time and, where databases are set up correctly, are easy to share externally. Closely related is financial statement lending, as data contained in typical financial statements are often used in credit-scoring models. The information drawn on for this lending technology can also be monitored on an ongoing basis, as financial statements are drawn up and audited per reporting requirements. Many credit providers lend against the value of fixed assets, called fixed-asset lending. Fixed assets offer a valuable form of collateral that significantly reduces risk for the creditor. If it is easy to evaluate the value of the collateral and the ability of the creditor to claim collateral in the event of default, this technology works well and generates data that is relatively easy to store and share externally.

However, many enterprises do not have fixed assets and/or may not be eligible for credit based only on credit-scoring models or their audited statements. Several lending technologies exist to cater for these enterprises. Factoring, asset-based lending and leasing offer alternatives to fixed asset lending, where the enterprise possesses a movable or abstract asset, such as a piece of equipment, inventory or accounts receivable, which can be offered as collateral. Factoring and leasing are easier to monitor, as it is relatively easy for the creditor to verify the value of the collateral. Consequently, the data generated and stored on the use of these forms of collateral is easier to share externally in the ecosystem. Asset-based lending, on the other hand, may be problematic where the verification of the collateral value is not a straightforward process or needs to be updated frequently to account for changes in value.

Table 1: Lending technology and information source overview

Technology	Information source	Monitoring mechanism (information generated)	Ease of sharing info
Small business credit scoring	Hard information (data points)	Observation of timely repayments	Easy. Database can be accessed by external parties.
Financial statement lending	Audited financial statements	Ongoing review of financial statements/ratios calculated	Easy. Database can be accessed by external parties.
Relationship lending	Soft information on the MSME, owner and community, gathered over time	Continued observation of enterprise's performance on all dimensions of relationship	Difficult. Reliance on external party's observation. However, can share previous successes/failures
Factoring	Value of collateral: accounts receivable	Lender owns accounts receivable/ verification of value of accounts	Easy. Database can be accessed by external parties.
Asset-based lending	Value of collateral: accounts receivable or inventory (see full list)	Problematic, as value of the assets must be regularly updated	Difficult. Cost of collecting data may mean data is outdated.
Leasing	Value of the asset	Observation of timely repayments	Easy. Database can be accessed by external parties.
Fixed-asset lending	Value of collateral: real estate, equipment	Observation of timely repayments	Easy. Database can be accessed by external parties.

Source: IFC (2010)

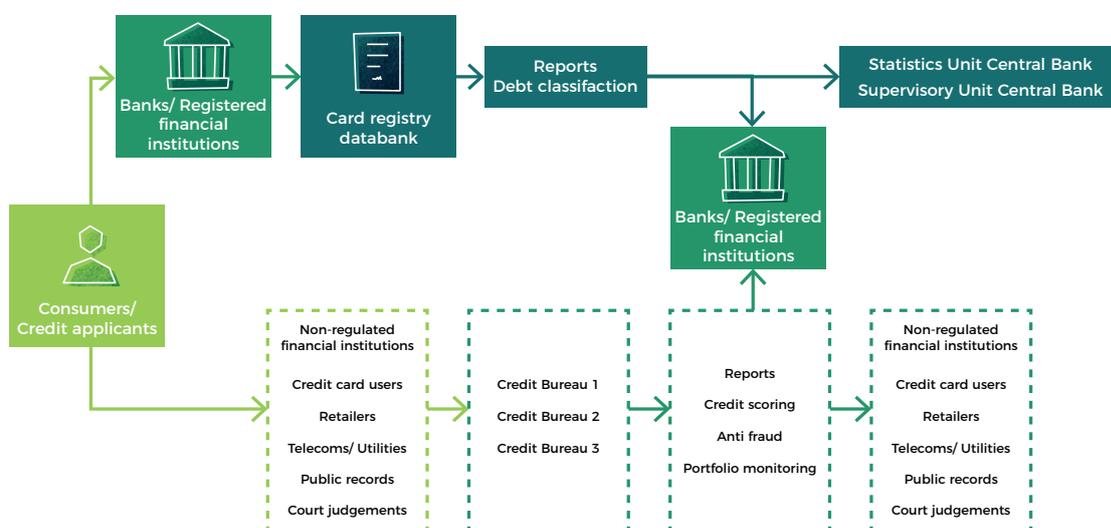
Ease of information-sharing reduces outside of formal sector. An overall take-away from considering these lending technologies and the information they generate is that the information that is typically used in the formal credit world is also easier to monitor, update and share than would be the case in a comparative informal setting. Therefore, facilitating ecosystem-wide improvements may be easier and less costly in the formal credit ecosystem.

4. FORMAL CREDIT INFORMATION SYSTEMS

4.1 The generic formal credit reporting system

A formal credit reporting system is a circular system. Credit reporting service providers (CRSPs) collect information on borrowers from lenders. CRSPs then process this information and combine it with information from other lenders when applicable. This process produces reports and debt classification, which can then be drawn on again by lenders.

Figure 4: The Formal Credit Information-sharing System



A credit reporting system must be comprehensive. A segmented credit reporting system relies on a limited number of sources from which information can be collected, or be distributed to, while a comprehensive reporting system utilises a variety of sources across sectors to collect and distribute information. Comprehensive credit reporting could include, for example, insurance, retail companies, telecoms, utility companies and small businesses. This variety of sources leads to a higher coverage rate and more information on “thin-file” clients (i.e. people with little to no credit history) (Doing Business, 2017).

Credit bureaus remain important. Most credit is still extended within the formal credit space, and credit bureaus remain important here. Credit bureaus continue to have capabilities that are backed by regulation, such as allowances for data sharing, as well as credit bureau licensing. According to Trans Union, large institutions that want to enter the credit space still prefer to partner with credit bureaus, as the institutions do not want to get a credit bureau licence. Further, credit bureaus bring size and scale for finance institutions that target MSMEs as the credit bureaus already have a vast network of financial institutions they can leverage. By sharing data with credit bureaus, these credit providers can receive capabilities, such as for verification, that cost them nothing.

Movable asset registries are a useful alternative to increase access to credit for MSMEs.

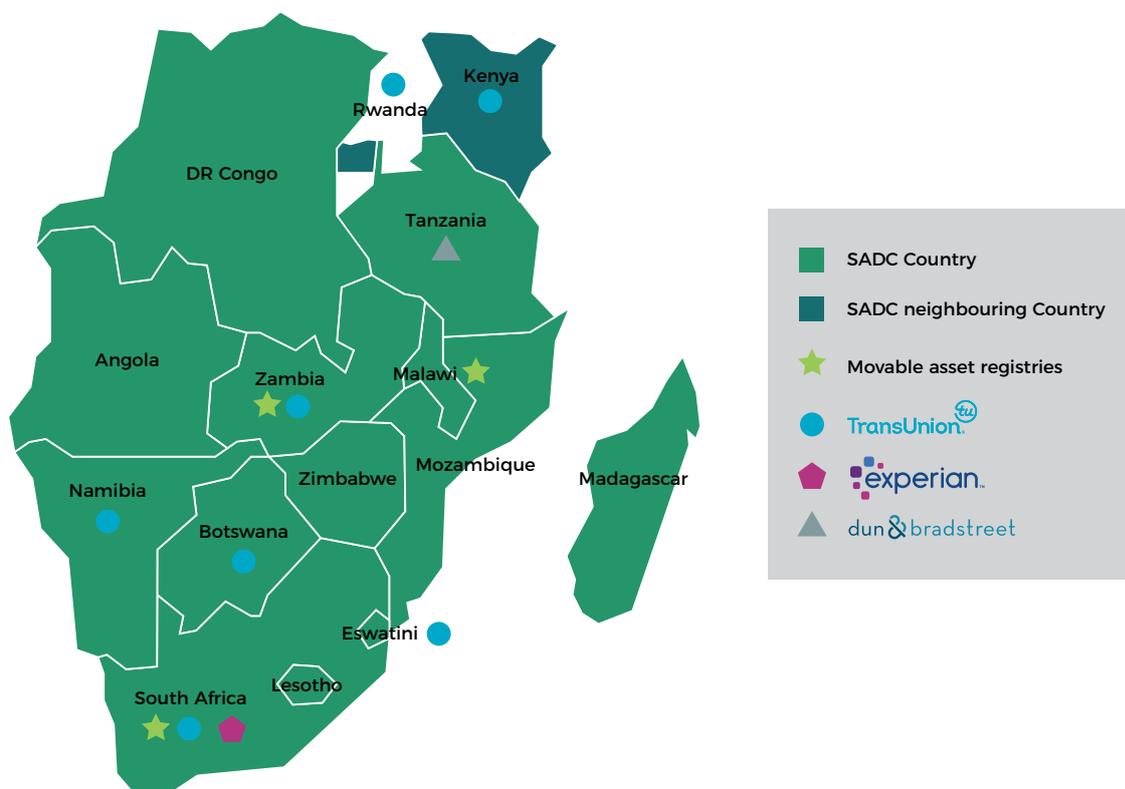
Movable asset registries allow MSMEs to register movable assets to access credit when they do not have adequate immovable property to use as collateral. In a survey by the World Bank in lower-income markets, firms reported that their loan applications were rejected due to the collateral of the firm being inadequate. Other firms stated that they had not even applied for loans, as they assumed their collateral was insufficient. Immovable assets are preferred both by financial institutions and by the capital requirements stipulated in regulation in lower-income markets. However, when looking at general enterprises in these markets, immovable assets make up only 22% of their assets, while movable assets make up about 78% (Knowledge Guide, 2019). Movable assets range from equipment and machinery to raw materials and livestock, and even intellectual property rights. Numerous countries have created collateral registries for movable assets to increase access to credit for individuals and businesses who were previously locked out of credit.

The major players in the SADC credit information system are Trans Union, Experian and Dun and Bradstreet.

4.2 Formal players in SADC

The major players in the SADC credit information system are Trans Union, Experian and Dun and Bradstreet. Trans Union is the most active in the SADC region, as it has a presence in five SADC countries, Experian is only active in South Africa, while Dun and Bradstreet is only found in Tanzania. There are also several SADC countries with movable asset registries: Botswana, South Africa, Zambia and Malawi. In Africa as a whole, movable asset registries can also be found in Ghana, Liberia, Nigeria and Sierra Leone (Nkani, 2018; Ministry of Finance, 2013; Doing Business, 2017), see Figure 4.

Figure 5: SADC credit information system



Source: authors' own, based on desktop research

In South Africa, the information system, and the roles and players within, make the coordination of a formal credit information system difficult. The South African Credit and Risk Reporting Association (SACCRA) was established as a regulatory body that aims to assist members in controlling their data while complying with legislation. SACCRA also facilitates the sharing and credit and risk data at the associate member credit bureaus, thereby enabling members to comply with credit information-sharing provisions of the National Credit Act (NCA) as well as the provisions for performing credit and risk assessments and affordability calculations (SACRRA, 2020). The SACCRA is planning to extend its function into the SADC region in its *SADC Credit Reporting Alliance Project*; however, the current lack of bodies to regulate and facilitate the sharing of good-quality credit information means that it will be challenging to foster these systems.

5. INFORMAL INFORMATION SHARING

There is no comparable informal information ecosystem that could be treated as an analogous counterpart to the formal credit information ecosystem. Information on informal micro-enterprises is mostly siloed within the credit providers that extend credit to these enterprises. In this section, the nature of informal information collection is set out using examples from the interviews conducted with SEF, Spoonmoney and YOCO. SEF and YOCO both have a small number of enterprises that would fall more naturally under the SME definition as it has been employed in this report, but all three providers deal largely with micro-enterprises⁵.

MSMEs use a variety of information to assess creditworthiness. Credit providers targeting thin-file clients often must rely on alternative information. For example: the SEF business model of engaging rural communities (see Appendix C) allows it to cultivate information on clients from community members. For existing businesses that SEF extends a loan to, the agent examines the business by looking at its stock, cash on hand, any other outstanding loans and so forth. Spoonmoney collects self-proposed information from its clients. Spoonmoney begins by asking members whether they are a maker, a seller or both. In this way, Spoonmoney can record the different activities one client could be engaging in. Then, Spoonmoney obtains further details of what is made or sold, how often it is done, how much profit is made and how long it takes to sell out of these items. Spoonmoney has developed norms around the different streams of income, providing it with a baseline from which they can determine irregularities in reporting income. Spoonmoney also utilises a credit bureau. The data it obtains tends to be a mixture of information on the individual and the member's business, reflecting again how integrated personal finance can be with the enterprise.

How information is gathered depends on the business model of the creditor. The various credit providers interviewed collect information on the enterprises in different ways. SEF gathers its information through its engagement with the community. Spoonmoney collects information from the members themselves and from credit bureaus. YOCO leverages the transaction history it holds from the YOCO devices and platform that the merchant uses. Merchants with YOCO are only eligible for cash in advance if they have five or more transactions from one to three months. iKhokha follows the same business model as YOCO, also using the transaction history from the card machines it sells to merchants to extend credit to the same merchants (iKhokha, n.d.). YOCO gathers information on its merchants when they are onboarded for the payment system. To onboard these merchants, YOCO collects the merchant's South African ID, which will link YOCO to other information on the business, such as the company registration number if the company is registered. Alternatively, merchants can sign up as a sole proprietor on the YOCO platform, although this does come with additional restrictions.

Verification is important but difficult for credit providers. Spoonmoney voiced that it is important for it to verify the member's income, as it is used to determine the affordability of the loan. It is difficult for Spoonmoney to verify the self-reported information from the members, but they do verify that the member has a business. Further, Spoonmoney makes use of a credit bureau. SEF verifies information through the community interview process and reports that it does not need to check whether its clients had loans elsewhere, including retail loans such as clothing loans. This is because, firstly, most of its clients are unable to obtain loans elsewhere; and secondly, SEF is normally informed of loans held by clients during the community interviews, proving that there are alternative ways of verifying information. YOCO circumvents these issues, as it already has an existing relationship with the merchants before extending credit.

Information on informal micro-enterprises is mostly siloed within the credit providers that extend credit to these enterprises. In this section, the nature of informal information collection is set out using examples from the interviews conducted with SEF, Spoonmoney and YOCO.

Credit providers interviewed do not report information gathered, and their appetite to share varies. Spoonmoney and SEF both stated that they are not required to report the information they collect. Spoonmoney is aware that the information it holds on these enterprises is very valuable and does not want to share this information until it is sure that the information is completely accurate. Spoonmoney also does not want retailers to leverage the good credit report of Spoonmoney's clients to offer additional loans to the clients. SEF, on the other hand, is open to sharing information and insights, but it is not doing so now. SEF's information-sharing is also hampered by the fact that it only recently digitalised and still relies on paper-based documents to an extent. During the height of the COVID-19 lockdown in South Africa, SEF did share information with the South African Government on the struggles its members were facing to inform government intervention in this section.

Value chains house enormous amounts of valuable credit risk information. While the informal providers discussed often focus on enterprises from many industries and across value chains, there are players who collect much data within value chains, both upstream and downstream of the potential credit applicants. This information is seldom shared within the formal credit ecosystem. For example, within agricultural value chains, suppliers of equipment may offer equipment on credit and collect information on repayment, or buyers within the value chain may purchase produce from many enterprises and collect information on yields and income generated by the enterprise. Opportunities exist to improve information-sharing within value chains and to bring information captured by aggregators within value chains into the formal credit information-sharing ecosystem.

Box 1: Value chain credit information – Musika

Musika is a non-profit in Zambia that works to improve the functionality of the agriculture supply chain as well as access to financial services by actors in this supply chain. The business and finance division in particular focuses on supporting effective financial service solutions for the smallholder market, accessible financial digital platforms, private initiatives for transparent trade that support all players in the market, improved land rights and resource management for the rural poor, as well as supporting enhanced technical skills and knowledge in human capital to drive forward the agricultural market. In terms of credit, Musika focuses on asset finance or lease finance and partners with firms that work in this space.

Musika partnered with the parent company of Zambian Breweries, AB InBev, and the blockchain platform BanQu to create a platform for agribusinesses to pay farmers. In Zambia, many smallholder farmers sell produce in cash, meaning that these farmers do not have an electronic payment history to access formal credit services (The World Bank, 2019). Therefore, this platform was created for Zambian Breweries to enhance the visibility of farmers supplying the brewery with cassava, which is an ingredient in the beer. The goal is to enhance the visibility of these farmers in the supply chain by understanding where the farmers are located, and which portion of the payment made by Zambian Breweries go towards the farmers. The platform can track the volume of goods delivered, the quality of these goods, the prices and so forth. The purpose of the platform is also to increase the access to financial services, including credit, for these smallholder cassava farmers. Zambian Breweries are now introducing this model into the sorghum agriculture value chain.

6. DIGITALISATION AND THE CHANGING CREDIT LANDSCAPE

Digitalisation is changing the MSME landscape in important ways. It impacts MSME access to credit and helps reduce the so-called MSME finance gap in three different ways. The first is through the design of digital financial products for MSMEs, which has spawned new business models and rejuvenated old business models, serving as alternative sources of finance for MSMEs. Secondly, e-commerce, the sharing economy and digital banking have enabled the emergence and evolution of digital financial products that have played a role in the digital transformation of MSMEs. Thirdly, MSMEs themselves are digitalising by digitally transforming their operations through a variety of software solutions, which has benefits for their business such as lower costs and higher revenues, but also generates alternative data that can be used to evaluate their credit risk. Around the world, many innovative companies are utilising the alternative data generated by MSMEs in the digital age to extend credit to MSMEs (GPFI, 2020).

Using alternative data. The bulk of digital lending products to MSMEs is based on digital payments and credit scoring that draws on alternative data. Digital payments, as mentioned earlier, allow MSMEs to create a digital presence, as their activities leave a digital footprint of their financial activity. This footprint can be used to develop novel credit risk models and algorithms, along with other sources of alternative data, such as mobile phone records, utility bill payments, purchase data, and even social media data.

The sub-sections to follow consider the relationship between digitalisation and credit reporting, the use of aggregators (including in specific value chains) as source of alternative data, as well as the use of innovative methodologies and new types of partnerships to unlock MSME credit information. Finally, it considers innovations specifically in the agricultural SME sector.

6.1 Digitalisation and credit reporting

Large volumes of data, but siloed in individual providers. Traditional formal credit regulation and reporting structures have not entirely caught up to digitalisation trends in MSME finance. For example, digital lenders are mostly not compelled to report on their clients to a centralised data capturing and sharing facility. Consequently, large volumes of data on MSMEs are being captured and analysed, but these remain siloed within these and partner organisations.

Two potential ways of unlocking information sharing

Digital identity for MSMEs. One example found in the global literature of an innovation that may play an important role in allowing for regulation of alternative credit providers and in aggregating information on MSMEs on a centralised industry or sector-wide platform, is technology that makes it possible to track MSMEs across different providers and information sources. Therefore, a type of digital identity for the MSME that is consistently used across providers.

A credit risk database to inform lending decision based on generalised MSME characteristics.

Another innovation that could add value to the MSME credit landscape and generalise the value of information aggregated on MSMEs beyond the institutions that collect the data, is the formation of a type of credit risk database (CRD), either in SADC or within a SADC country. Very few credit risk databases exist in the world. Japan has maintained a successful CRD since 2005, which grew from a small number of initial members to 167 members at present. A CRD was also launched in the Philippines in December 2020 by the Bangko Sentral ng Philipinas (BSP), with the aid of the Japan International Cooperation Agency.

Digitalisation is changing the MSME landscape in important ways.

A credit risk database differs from the other type of credit information centre – a credit bureau – in a few important respects. Whereas credit bureaus collect individual information and offer an individual information reference function, a CRD, as defined by the Asian Development Bank Institute, is a public or private credit information centre that collects anonymous financial and other information, which offers no individual information reference function. The former exists to share information on individual borrowers, emphasizing their past loan performance as opposed to their ongoing business performance. The latter shares information on the creditworthiness of a typical borrower with a given set of characteristics, which allows creditors to bolster their own credit scoring methodology by incorporating predictions of a potential borrowers' future behaviour based on their ongoing business and the average creditworthiness of borrowers in the database with similar attributes. Therefore, credit bureaus and credit risk databases both reduce information asymmetry, but in distinct ways. One of the advantages of a CRD, compared to a credit bureau, is that it does not have to be entirely comprehensive or even up to date on individual MSMEs, as long as the data it contains allows for accurate modelling of creditworthiness across the group of MSMEs. This significantly reduces the aggregation and reporting burden on individual members.

These developments in Japan and the Philippines⁶ provide a template for a model that could feasibly be replicated or adapted for the SADC context. Novel credit scoring methods and the development of common databases are still emerging in the developing world. However, a credit risk database could help existing and prospective creditors in SADC improve their credit scoring, which can have dramatic implications for their financials. A credit risk database does not have to cover the entire MSME sector to be useful. It could be sector specific, for example covering only agriculture production or agri-processing, as that would still offer value to creditors focused on that area. Once the value of the approach has been demonstrated in one sector, the CRD could be extended to cover more sectors and to sign up new members. It could also serve as support in advocating for regulatory changes that allow for easier sharing of data and or even to compel Fintech companies to share their data with the CRD or with credit bureaus⁷.

Implications for regulation. The digitalisation trends in the MSME sector will have consequences that are not covered in existing regulation. SADC countries do update their regulation periodically – for example, Botswana is in the process of introducing two new bills on movable property and credit information sharing – but innovation, particularly in the digital space, will always precede regulation. Around the world and within many SADC countries, regulatory sandboxes have been developed to allow for new MSME credit approaches, but additional work will be required in coming years to ensure regulation keeps track with innovation in the space.

6.2 Aggregators and alternative data

MSME aggregators a rich source of data. In addition to the data housed by the creditors discussed above, a range of other aggregators and touchpoints for MSMEs also collect information that may be relevant to the credit scoring process, but which is currently not made available to creditors through dedicated channels. Systems for collecting these information are few and far between in emerging economies and will have to be built. The table below provides some examples of potential sources of under- and unutilised data.

Table 2: Types of potential credit information aggregators – examples from SADC

Potential sources	Examples
Suppliers	Wholesalers (e.g. fertilizer companies such as the Tanzania Fertilizer Company or Mozambique Fertilizer Company. Multinationals such as Syngenta, Monsanto, BASF, Hoechst, and Bayer dominate the supply of inputs in some markets and often work with smaller intermediaries)
	Fast-moving consumer goods companies (e.g. Tiger Brands and RCL Foods, Distell Group, Pioneer Foods, Astral Foods, Illovo Sugar, Brands Consumer Group)
Buyers	Export companies that buy finished goods (LSG in Zambia)
	Buyer in contract farming (ShareAfrica Zambia, Magobbo, Amatheon Agri)
Business associations	Industry-specific associations (e.g. Association of Cotton Value Adders in Zimbabwe, Zimbabwe National Farmers Union)
Cooperatives	Cooperatives along specific agricultural crops (e.g. Mumbwa Ginning and Pressing Company, Kibinge Coffee Farmers' Co-operative Society)
	Cooperatives along transportation services (e.g. taxis or minibuses)
Government	Existing government programmes (e.g. Agro-processing Support Scheme, Sector Specific Assistance Scheme)
Digital platforms	Digital lenders (e.g. Lulalend, Zande Africa, Merchant Capital, Fundrr) and crowdfunders (Thundafund's BackaBusiness)
	Alternative credit scoring platforms (CARMA, Pezesha, Plendify, Superfluid Labs)

Source: Authors' own, based on broad literature search

Technologies exist to capture information. Another potential avenue for increasing the data that is available to creditors is through improved capturing and digitisation of data. For example, supply chain and other transactional data can be recorded with relative ease through handheld devices. The BanQu app described in the Musika box in Section 5 also offers an example of the digitisation of information. Initiatives to improve capturing can create a digital presence for MSMEs that previously had none, potentially making them eligible for new sources of credit.

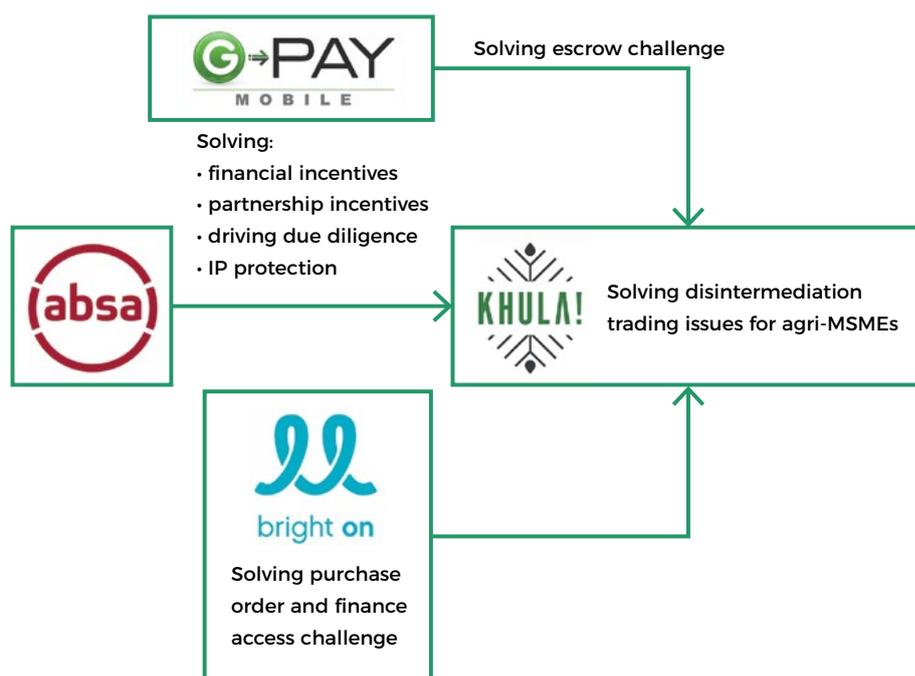
Value chain lens. Several of the fields outlined above relate to value chains. Enterprises exist within value chains; and often, other players in the value chain by necessity gather information on the enterprises they deal with. These include upstream players such as suppliers (for example wholesalers) and downstream players, such as buyers, both of which sometimes serve and work with large numbers of MSMEs. MSMEs may also work with or belong to agent networks, or they may belong to business associations, such as industry-specific bodies. These aggregators collect tangible and intangible data on MSMEs, which mostly does not enter the formal credit information ecosystem and therefore does not currently help MSMEs to access credit or help credit providers to mitigate their risks.

6.3 Innovative methodologies and new partnerships

Various examples. Appendix D provides a long list of examples of innovative companies, globally, that offer credit based on alternative data. This list is not exhaustive but illustrates that this is a fast-growing credit segment. None of the examples found in the literature are currently in SADC.

New bilateral and multilateral partnerships. New partnerships are arising between large financial institutions and start-ups that benefit both. Start-up creditors such as those in the table in Appendix D reach new MSME segments that are often not reachable by banks. By partnering, the bank gains access to a new group of potential clients and a new information pool. The start-up, on the other hand, gains access to finance and large, capable technical departments that could improve its processes. An example of this type of arrangement is the relationship between ABSA and Khula, an e-commerce platform that offers an online input marketplace for agro-chemicals, fertilisers and seeds and a trading platform for fresh produce between farmers and buyers/processors in South Africa. This relationship was extended through additional partnerships with Bright On, an online lender that is solving purchase order and finance access challenges for Khula, and with G-Pay, a technology company that develops and configures unique payment solutions and offers an escrow service for Khula. ABSA has taken a stake in Khula and drives due diligence processes and protects IP for Khula, in turn gaining access to a new market.

Figure 6: ABSA-Khula partnership



6.4 Innovation in the agricultural MSME sector

Credit information one element of shortage of agricultural MSME lending. The agricultural MSME sector serves as an example of the general trends described above. There is evidence that there continues to be a large, underserved segment between agro-enterprises served by MFIs and those served by commercial banks. However, there are often good reasons for the shortage of credit: the economics of lending to agricultural MSMEs in developing markets are fundamentally challenging. A USAID-funded study executed by Dalberg in 2018 using data provided by members of the Council on Smallholder Agriculture Finance (CSAF) found that, while more than half of the members' loans were profitable, an average loan valued at USD 665,000 lost about USD 1,000 excluding cost of funds. The study also found that the economics of agricultural loans offered by members varied by loan size, value chain and area: for example, loans in Latin America outperformed those in Africa, larger loans performed better than smaller loans, loans to existing borrowers were significantly more profitable than to new borrowers, loans in coffee and cocoa value chains outperformed other value chains, and short-term loan performed better than long-term loans. Therefore, for many MSMEs, particularly those requiring smaller loan sizes and those operating in less profitable and developed value chains, a lack of information is not the only or even the key constraint preventing access to credit. Many of these enterprises are simply not creditworthy.

Agricultural expertise required to enable lending. These examples also illustrate that agriculture is heterogenous and therefore that agricultural expertise is required by creditors to assess individual applicants and to develop relevant products, even where information on applicants is available. Agricultural MSMEs are often vulnerable to systemic risks, lack the collateral required by certain lending institutions and serving these MSMEs with small transactions may be too costly. Value chain finance models are promising but cannot be applied across the board and require extensive engagement from the creditor. The success of these and other innovative models depends on implementation and on local conditions (GPFI, 2012).

Numerous sector-specific examples. Many agricultural financing models have been developed in the past decade. A 2012 joint study by GPFI and the IFC analysed agricultural financing models around the world at that time, categorising these by the main source of repayment (the farmer, movable collateral, or the buyer). An updated version of their original table is included below, but the available models that have been developed in the intervening years far outstrip what is possible to cover here.

Table 3: Examples of agricultural financing models by main secondary source of repayment – SADC and beyond

Farmer	Movable Collateral	Buyer
Direct Smallholder lending	Equipment finance	Value Chain Finance
Kilimo Biashara, Family Bank & Equity Bank, Kenya	Banco de Lage Landen, Brazil	TruTrade, Uganda & Kenya
Opportunity International Agricultural Finance	Mahindra Vehicle and Equipment Finance, India	NWK Agri-services, Zambia
Indirect lending via coops	Leasing	ECOM Trading coffee farmer financing, Africa-Asia
Zanaco Emergent Farmer Credit Facility, Zambia	IMON Agricultural Leasing, Tajikistan	Value Chain Finance with Input Suppliers
Emerging Farmers Finance	DFCU Bank, Uganda	NMB agro-dealer financing
Banco Finterra, Mexico	Infrastructure Finance	ITC Ltd & State Bank of India Smallholder input finance
Savings account linked input finance	Jain irrigation systems limited, India	Factoring
NMB Kilimo Account, Tanzania	Warehouse Receipt Financing	African Export-Import Bank
Digital lending	ECX, Ethiopian Commodity Exchange	Kenya Gatsby Trust, Kenya
myAgro	Ghana Grains Council	Trade Finance
FarmDrive		Root Capital

Source: GPFI, 2012

Various initiatives could support agri-MSME finance. Initiatives that could support agri-MSME finance include the promotion or creation of forums of large agribusinesses that can draw on their networks and attract financial institutions to invest in parts of their value chain, including small traders, processors and farmers. Financing of these value chains can catalyse technology improvements, which in turn lead to improved information collection and further financing opportunities. Producer organisations can also be strengthened to act as aggregators for financial and other services to agribusinesses. These organisations can build capacity and offer strong corporate governance principles to their members. They can also promote the integration of new technologies that help agribusinesses create a digital presence. Where the data exists, the creditors can follow (GPFI, 2012).

Innovative agricultural banks and industry alliances. Agricultural and rural banks in Africa are often run by government and consequently become ineffective bureaucracies. Such institutions would ideally act as a source of credit for MSMEs that could not be served profitably or within the rules and procedures followed by commercial banks and MFIs, allowing them to build a documented track record that might allow them to progress to eligibility for traditional and larger credit. For example: Banrural SA⁸, a rural, agrarian bank in Guatemala, offers a workable model of how a public agricultural bank can be transformed into an innovative, profitable PPP, which can be replicated in the SADC context. Another example of an institution that can be leveraged to promote improved MSME information gathering is the Council on Smallholder Agriculture Finance (CSAF), a global alliance of financial institutions that aim to expand the market and develop industry standards for lending to SMEs in the agricultural sector. CSAF could act as a sounding board or partner in the formation of a credit risk database in the agricultural industry in SADC or within a SADC country and could assist in recruiting members for the CRD.

7. MSME DATA AND INCENTIVES FRAMEWORK

The sections above provided an overview of the credit information system and how digitalisation is impacting on credit information availability. To understand when the formal system works efficiently and when it does not, it is necessary to understand the incentives that determine sharing behaviour by the players in the formal system.

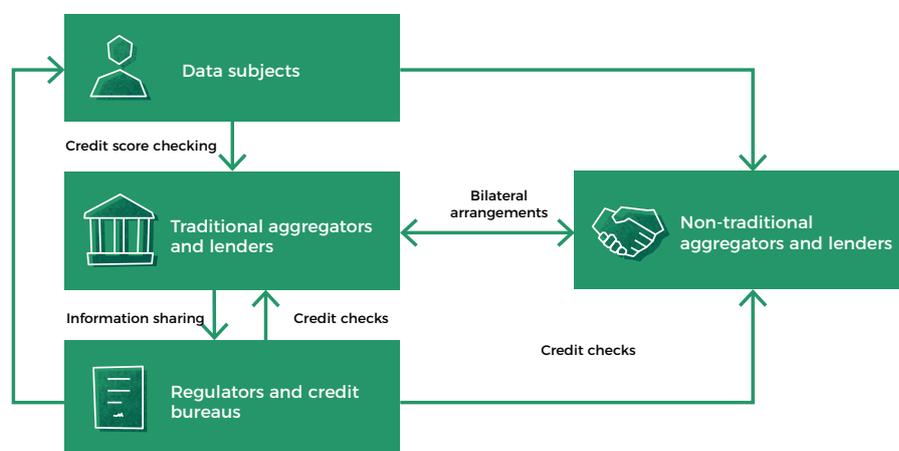
Large data gaps in lending sometimes exist due to market and policy failures, stemming from incentive structures, rather than from technical limitations in gathering data. The traditional credit bureau business model may not support the acquisition of non-financial data: for example, credit bureaus try to avoid paying for data, but in the absence of immediate quid pro quo arrangements with non-financial data sources cannot obtain these data. Misaligned incentives therefore exacerbate data sharing problems that are already problematic due to poor individual tracking of MSMEs and individuals (that is, a lack of identification) and poorly constructed privacy/data protection laws.

Credit information ecosystem a dynamic system wherein information continuously cycles between players. The first part of the process involves the sharing of information on individuals and businesses with regulators and distributors of information, of which the most important formal player is the credit bureau. Clients, including individuals and businesses, as the data subjects are required to share with credit providers, either through account sign-up or through their transaction history. Much of the information shared in this manner is involuntary. Although they have no choice, studies show that borrowers also become incentivised to repay loans to maintain or improve good credit scores (Doing Business, 2017). Therefore, clients are incentivised to cooperate with creditors and credit bureaus to improve their credit scores.

Credit providers then share the information they have on their clients with credit bureaus and the credit reporting service providers (CRSPs). They are required to share certain information with CRSPs by law, to reduce information asymmetries between borrowers and lenders, as this assists with assessing the creditworthiness of borrowers, which lowers default rates (Doing Business, 2017). However, creditors can also leverage information from the credit reporting system. Therefore, the credit reporting system is mutually beneficial from the provider's perspective as providers draw information from the same pool to which they contribute.

Credit information ecosystem a dynamic system wherein information continuously cycles between players.

Figure 7: Data and Incentives Sharing Framework



Compliance with regulation on reporting in most SADC countries is low. Many players share to receive or to reduce the cost of purchasing data from data suppliers such as credit bureaus. However, both creditors and credit bureaus need to balance their need for information with their incentive not to share and the costs of non-compliance. More and better-quality information improves their credit scoring and lowers their risk, but competition among credit providers and among credit bureaus is strong and leads to uncooperative behaviour. Credit bureaus are incentivised by their business model to share as little information with other credit providers as they can, given regulation. Formal credit providers may not be willing to share certain information with credit bureaus, to prevent other credit providers from targeting their customers. In most SADC markets, the incentive to protect their customer base and withhold customer information from other creditors prevails, resulting in inefficient information-sharing in the formal ecosystem. Regulators in SADC do not typically have the capacity to enforce regulation through penalties or to assess the quality of information sharing by players in the ecosystem.

Informal credit market incentives' broad trends. In the informal credit market, incentives to share information ideally should be assessed on a case-by-case basis, as the situation will be different for each information aggregator. However, there are some broad trends. All creditors need to manage information asymmetry. Those targeting informal enterprises and enterprises with thin files attempt to replicate the process of building a credit record. Players in the informal space invest significant time and money into getting to know their customers and building relationships with their customers, as they mostly cannot rely on formal credit information. However, this method is hard to scale, due to the individual effort invested in understanding each enterprise. Many players focus on niches, which further reduces the likelihood that any other player would have information that is valuable to them; and where information is purely relationship-based, it is likely not practically possible to share that information with other providers. Therefore, there are few reasons for these players to share information with each other. They may also be unwilling to share information with the formal system, as the incentive of sharing to receive does not hold, and they may be hesitant to share information that allows other creditors, particularly formal players such as retailers, to target their customers. As all customers have a finite ability to lend, credit providers in the informal/micro-space might view other credit providers as competition for the limited capacity of their clients and potentially as an unknown risk factor. For example, if an MSME that previously only received productive, working capital or loans based on its repayment track record, opens a clothing account at a formal retailer – which is possible because personal and enterprise finances often blend – the MSME would be vulnerable to new risks that were not accounted for by the working capital microlender.

Like credit providers focused largely on the informal MSME sector, digital players often invest heavily in understanding their clients and in building profiles of their clients through their behaviour and digital footprint. Many of these players have a narrow focus and do not compete directly with most formal and informal credit providers. They may therefore be hesitant to share information with the credit ecosystem, as they do not stand to benefit from a quid pro quo arrangement, are not compelled to share by regulation, and would not like to share their clients' finite ability to repay with other credit providers. As with microlenders, when their customers obtain credit from other parties, their ability to assess and mitigate the risk of lending to their clients is reduced. However, some digital players have entered bilateral partnerships with financial institutions, to increase their capital base or offer value-added services to their clients, such as insurance. They may share information on their clients within these relationships, as part of the agreement or to make cooperation possible. Whether further filtering of that information into the broader credit ecosystem exists depends on the nature of the bilateral relationship.

8. CONCLUSION AND RECOMMENDATIONS

This report has shown that, despite the numerous MSME definitions in use and the drawbacks of those definitions, it is possible to define two important groups of MSMEs as pertains to the functioning of credit information ecosystems in SADC. The first, referred to in this report as micro-enterprises, is the large, mostly informal group of very small enterprises whose information is mostly not available in the formal credit information-sharing ecosystem. Their counterparts, for the purposes of this report, are the significant group of mostly formal, larger SMEs whose information is available in the formal credit information-sharing ecosystem. Situated between these two ends of the spectrum is an intermediate group of enterprises whose credit and information profiles may vary significantly. However, the juxtaposition of an informal credit system (where information is siloed) with a formal credit information-sharing system (where information is centralised and shared) provides a useful simplification of the broader MSME industry that allows us to draw some conclusions and inferences.

These two groups of enterprises typically access credit within different ecosystems. Many SMEs have access to formal credit from banks, MFIs and other regulated credit providers. Micro-enterprises are significantly more likely to obtain credit from microlenders. This general relationship between size, formality and source of credit has implications for the information available on these enterprises, as the source of the bulk of information that is available on enterprises is the credit providers who lend to them.

The formal credit information-sharing ecosystem ideally involves a well-functioning regulator, clear regulation on information-sharing requirements by creditors, several cooperating credit bureaus, well-administered credit registries and an Ombud's function that protects customers. However, in practice, the formal ecosystems in SADC fall far short of the ideal. Enforcement is weak, cooperation among participants is poor, and the ombudsman fails to adequately protect customers. On the informal side, there is no information ecosystem as such that could be compared to the coordinated formal system. Information is siloed within individual lenders or within bilateral partnerships, sharing of information is not mandated by regulation, and regulators do not have adequate oversight of the sector. The information that exists may not be accurate or up to date, because lenders face numerous challenges in verifying and tracking information. They also do not have sophisticated information collection and warehousing, or data analytics capabilities, meaning that the information that is collected is underutilised.

The discrepancy between the ideal credit information-sharing system and the reality in SADC is largely due to the incentives in place for information-sharing, by design or otherwise. Within the formal system, players compete for finite resources – the pool of clients' total ability to repay credit – and therefore must balance their need for information on clients with their incentive to withhold information on their own clients from other players. Credit providers also need to consider the costs and benefits of meeting regulatory requirements; and in practice, many do not appear to consider the benefits of strict adherence to outweigh the costs.

In the absence of well-functioning credit bureaus, a few alternatives provide scope for making better use of credit information to unlock SME credit. A credit risk database can provide creditors in the system with additional information that they can use to improve their credit scoring methodologies, which can allow for the approval of credit disbursement to MSMEs that would not otherwise qualify due to information asymmetries. A credit risk database could be implemented at a country level, or within a subsector or industry. There is also the potential of building digital information sharing platforms that circumvent credit bureaus, such as the CARMA example quoted in Table 2, allowing for direct information sharing between institutions.

This report has shown that, despite the numerous MSME definitions in use and the drawbacks of those definitions, it is possible to define two important groups of MSMEs as pertains to the functioning of credit information ecosystems in SADC.

Lastly, an indirect route to improving information availability on MSMEs in the market is to build a platform that houses information on MSMEs in a sector, by connecting producers and buyers in one place and building a track record for MSMEs but remaining agnostic to the potential uses for that information. This is a function that industry bodies or associations could ideally play, to a degree digitising information that already exists offline and broadening that store of information deliberately.

Recommendations

What does this mean for a development organisation – like FinMark Trust – that seeks to enhance the credit information ecosystem in SADC?

The first step is to choose a focus – micro- or SME, as these are so different in nature because they largely operate in distinct credit markets and because the types of interventions and efforts that would improve the formal system would not necessarily affect the informal system. Therefore, a single intervention would not easily cover both groups (as defined in Section 2).

Advocacy and coordination to build the formal credit information sharing ecosystem. Industry experts interviewed argue that the formal system targeting SMEs should be targeted before the informal system that targets micro- and some small enterprises. In SADC, as is the case in much of the rest of the world, there is no informal credit information-sharing ecosystem. Players in this space sometimes draw information from the formal credit information ecosystem, but also mostly do their own research on their clients. The regulations already exist to regulate the formal credit information ecosystem, but enforcement and compliance are low. These systems could be much improved by only ensuring that existing rules are followed. On the informal side, new rules and mechanisms would have to be developed and tested, with no guarantee of success.

If FinMark Trust is interested in targeting SMEs, interventions outside South Africa are more likely to add value, as South Africa already has a very well developed and complex financial sector where the remaining challenges involve complex trade-offs between the incentives to share and the ability of the regulator to enforce and monitor behaviour. FinMark Trust has already worked in South Africa on the BusCRE project with SACRRA. Several interviewees mentioned that this is an example of the type of work that would be valuable in other SADC countries, despite the challenges the project faced in South Africa. It is important that the basic information-sharing mechanisms in the formal sector function well. FinMark Trust could learn from this experience and try to create a similar body to SACRRA in another, small SADC country and work with the ministry to ensure that this body can enforce reporting regulation and has the capacity to facilitate sharing of correct and clean data in a timely manner.

FinMark Trust can also work with credit bureaus to ensure that they share data with one another as is required by regulation, or help the regulator to develop enforcement and detection mechanisms that can detect when poor-quality data is shared. In the medium-term future, digitisation and data may redefine the way in which credit information is gathered, stored and shared among providers. Previously, credit bureaus provided an essential service that had no equal. In the medium-term future, however, growing numbers of credit providers and aggregators will house increasing amounts of data on enterprises and individuals, raising questions about the long-term role of credit bureaus. Additional research is required to understand and predict the evolving role of credit bureaus in this landscape. The most successful credit bureaus are likely to be those that continue to play an aggregation, quality control and dissemination function while extending their purview from the current set of traditional formal creditors to emerging digital players.

The above recommendations pertain to the “traditional” credit information ecosystem. It is noted, however, that building this ecosystem is a long-term and onerous undertaking. What could be alternative approaches to harness information to unlock credit to SMEs in general, and within agricultural value chains in particular?

Creating a credit risk database. Firstly, FinMark Trust could facilitate the creation of a credit risk database such as that recently launched in the Philippines, possibly with the aid of the Japan International Cooperation Agency. The CRD approach taken in Japan and the Philippines could be tailored to the African context and to MSMEs within a specific industry. For example, the numerous information asymmetries and complex risks in the agricultural MSME industry may lend itself well to an initiative that can provide general guidelines on the creditworthiness of agricultural MSMEs based on their characteristics.

Supporting the roll-out of a digital credit data marketplace in SADC. An alternative solution in SADC markets with limited credit reference services is to facilitate the development of digital credit data marketplaces such as the peer-to-peer model offered by CARMA, a Kenya-based data marketplace start-up. CARMA is targeting rollouts across Sub-Saharan Africa but may benefit from local country partners to navigate the regulation and context in each country. There may be other similar companies or initiatives worth considering, although CARMA claims to be the first. CARMA launched its first marketplace mid-2020, so there remains much scope for expansion. The approach taken by CARMA may not cover all the available information sources. There may be value in facilitating conversations between aggregators and CARMA to create links between tacit, paper-based and digital stores of data on MSMEs that CARMA is not currently considering, to add more depth and nuance to their model. The assistance of the country coordinators in this regards would be valuable, to provide a link between aggregators and CARMA.

Advocacy. Furthermore, while central banks in SADC often include SME growth and finance in their mandates and targets, the lack of progress that has been made is indicative of a lower priority being placed on these targets vis-à-vis macroeconomic targets such as controlled inflation. Even within South Africa, SMEs receive very little formal credit compared to consumers, but this discrepancy is largely ignored. FinMark Trust can advocate for a larger SME focus within central bank mandates, by using data on access to credit by SMEs to convince the regulator and government that SMEs are underserved and that information-sharing on them is weak.

However, poor information-sharing is only one facet of insufficient and ineffective credit allocation in the SME sector. Therefore, FinMark Trust can consider advocating for other de-risking strategies. While these are not directly related to the information-sharing ecosystem, de-risking strategies can be used in conjunction with data on SMEs to improve, monitor and mitigate credit risk assessment, so that the capital available in the SME credit market is allocated in an efficient manner to those SMEs who are most deserving. A holistic approach in which data collection, cleaning and sharing are improved alongside development of other de-risking strategies can improve multiple parts of the credit allocation process.

Another indirectly related challenge is the inefficiency of many rural and agricultural banks and cooperatives. FinMark Trust could identify inefficient government-controlled agricultural banks or programmes and advocate for the transformation of these institutions into PPPs, similar to the transformation of Banrural SA in Guatemala.

Targeting specific value chain aggregators. Should FinMark Trust decide not to take a systemic approach, they can also focus on working within value chains where SMEs obtain credit or have the potential to obtain credit. There are multiple points within value chains where SMEs could gain access to credit. The broader ecosystem impact of doing this would be limited, but FinMark Trust could add value within one or two value chains. The ideal approach would be multi-faceted, focusing not only on information-sharing and flows within those value chains, but also on other strategies that could be used to improve credit allocation. For example, FinMark Trust could work on de-risking strategies for the credit providers, including training, insurance, other financial products, improving SMEs' access to networking or education, for example, to ensure that non-performing loan ratios remain low and that credit is allocated to those MSMEs that are

likely to have the largest impact. An example of an initiative that has been successful in Zambia is a partnership between BOZ and BanQu on capturing data from farmers. This system can theoretically be applied to any value chain.

Several informal ecosystem options. If FinMark Trust would like to target information-sharing in the largely informal ecosystem, there are several options for interventions that could improve the use of information but that are unlikely to have the systemic impacts that formal system interventions may have.

Firstly, FinMark Trust could advocate for information-sharing, where applicable, by micro-lenders who store information on their clients that is not available elsewhere. Many micro-lenders do their own research and capture data on their clients that only they have access to. However, any attempts to digitise (where needed) and share their data with other providers would need to be well motivated. Currently, there is no guidance on the principles for sharing information on informal micro-enterprises. FinMark Trust could therefore also invest in research on best practice for establishing an industry-wide information system for informal enterprises, including the regulation that would be required and principles for enforcing the regulation in the SADC context.

Secondly, FinMark Trust could convince micro-credit providers to partner with single, large financial institutions, such as banks, to improve their chances of achieving scale. Banks bring funding and additional data to the partnership, which can help smaller players to scale. The ABSA-Khula example is illustrative of a successful multilateral partnership that can be imitated. FinMark Trust can also advocate for these types of partnerships amongst commercial banks, which may be hesitant to enter an unfamiliar space.

Thirdly, FinMark Trust could help providers to find ways to verify information. Many micro-lenders struggle to verify information on their clients. For example, SEF relies on bank statements provided by clients to track bank account activity: They cannot monitor their clients' bank accounts directly. They also rely on footwork to verify other information on an enterprise's activity. There may be opportunities to digitise and formalise aspects of the data collection process to ensure that clients cannot manipulate the system. However, these types of interventions run the risk of triggering negative externalities for the micro-lender that are hard to predict.

Related to verification of data is assistance to providers with technical analysis. Many micro-lenders cannot afford a data analytics team or services to extract value from their data. FinMark Trust could fund exploration of their data, or improved data warehousing, collection and even application programming interfaces (APIs) to allow for sharing with third parties. FinMark Trust could also help lenders to digitise data that is still in paper form. Many microlenders still rely on paper-based systems, which prevents them from analysing or sharing their data and creates inefficiencies in the credit allocation process.

Lastly, there is scope to investigate other avenues, such as psychometric testing, as a potential method to inform the credit decision. One micro-lender indicated they are interested in conducting psychometric testing, but that this is too expensive. However, the literature on the value of psychometric testing is young, and there are known problems with many psychometric models. Therefore, more work is required to understand the value of this approach.

In summary, there are many potential interventions available for FinMark Trust, depending on the area of focus that it is most interested in. It is crucial that the area of focus be considered carefully before choosing an intervention, as no single intervention could improve information-sharing in the entire MSME sector.

Notes from sections

- ¹ Berger and Udell (2005) propose that lending technology refers to the combination of loan information sources, screening mechanisms, lending processes, contract structures and monitoring mechanisms.
- ² Information gleaned from a scan of bank websites across SADC
- ³ As discussed in Section 2, the terms “micro-”, “small” and “medium” are defined differently in many contexts. However, when considering number of employees, assets, turnover and formality together, there are broad trends. From here onwards, we use “micro” to refer to the broad group of enterprises that consist of very few individuals (mostly one), that have few assets, low turnover and are mostly informal, and we use “SMEs” to refer to enterprises with at least a few employees and which may or may not be formal. This language is imperfect to accurately describe all MSMEs but is sufficient for the purposes of this report, as it distinguishes between two different information ecosystems: that of the formal world of credit bureaus and mostly regulated financial institutions, and the informal world dominated by relationship lending.
- ⁴ Berger and Udell (2005) propose that lending technology refers to the combination of loan information sources, screening mechanisms, lending processes, contract structures and monitoring mechanisms.
- ⁵ For more information on these organizations, please see the Appendix.
- ⁶ [Along with the FIBEN database in France.](#)
- ⁷ However, more research is required to understand the risks and benefits of compelling smaller organizations to share their data.
For more information, see: <https://www.findevgateway.org/sites/default/files/publications/files/mfg-en-case-study-reverting-the-tendency-in-developing-finance-the-case-of-banrural-sa-in-guatemala-2003.pdf> and https://www.cabri-sbo.org/uploads/files/Documents/seminar_presentation_2014_cabri_value_for_money_agriculture_3rd_dialogue_english_4_keynote_2_innovative_financing_engl.pdf

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APPENDIX A: KEY INFORMANT INTERVIEW LIST

Institution/name	Institution type
Absa	Bank
FSD Zambia	Financial sector development agency supporting regulators with credit market monitoring project
Gabriel Davel	Regional credit expert
Musika	Non-profit organisation supporting agricultural value chain development
SACCRA	Voluntary industry body
SEF	Non-bank financial service provider
Spoonmoney	Non-bank financial service provider
Trans Union	Credit bureau
YOCO	Non-bank financial service provider

APPENDIX B: ADDITIONAL DETAIL ON THE FORMAL SYSTEM

Roles in a credit information system. There are six roles in a credit information system. They are:

- **Data subjects:** This would be the MSME or any other client. They give their information to data providers or other data sources.
- **Data providers:** These are the entities that collect the information from the data subjects. In this case, the credit provider.
- **Alternative data providers:** These entities provide data processors access to their databases. In the credit information system, an example is public records agencies.
- **Data processors:** In this system, these would be the credit-reporting service providers. These entities process the data to create comprehensive credit reports. The reports are available to credit providers or supervisors.
- **Data users:** These are the entities that request the processed data (i.e. credit reports) from credit-reporting service providers. Users can also be the same entities who provide data. For example, a creditor supplies data on its clients to credit-reporting service providers and requests data on its clients from the credit-reporting service providers.
- **Authorities:** These are the supervisors and policymakers that oversee the credit reporting system. The authority oversees the competition in the credit market and ensures the consumer rights of the data subjects (The World Bank, 2011).

Other systemic influences. In addition to these roles and the players that fill them, there are systematic factors that influence the way information systems work. For example, regulation that compels MSMEs to report on certain behaviour, and regulation that compels institutions to share info with credit bureaus. Some of the most important systematic factors that should be considered are the regulation of data and customer protection. Consumer protection and privacy laws normally limit the collection of data from data subjects and the sharing of such data. In terms of reporting to credit-reporting service providers, regulation either stipulates that data can be collected and shared for credit-reporting purposes or that data providers must obtain consent from data subjects for their data to be collected and shared.

Control of data subjects over their own information. Certain regulation has data disclosure requirements. Normally this means that the data subject's data may only be used for a set type of purposes, such as the verification process to extend credit. In some countries, data subjects must be notified when information that they did not directly provide is collected and shared, as well as notifications when data is used in a manner that they did not consent to. This is to provide the data subject a measure of control over the collection and processing of their data.

Consent is required, but there are exceptions. Consumers normally have rights to access and challenge the information held on them. In certain countries, this access must be at no cost to the data subject. Data subjects can dispute information held on them if they believe it to be inaccurate, and the data provider or credit reporting service provider must correct this if it is proven to be inaccurate (The World Bank, 2011). Data processors and users are aware of these restrictions and often ensure that data subjects provide consent. Trans Union, for example, stated that consent is worked into the terms and conditions in the contracts that clients sign. There are ways that organisations can access data without the data subject's consent, for example regulation often stipulates that credit providers can access information from credit bureaus for fraud prevention without obtaining the data subject's consent. Further, there are other use cases for credit bureaus that they do not need permission for.

Different types of credit for MSMEs. Table 2 summarises the types of credit providers in a credit information system, the types of products they offer to MSMEs as well as the general time over which the financing is offered. There are two classifications of credit providers: financial and non-financial institutions.

Table 4: Different types of creditor

	Direct providers of financing facilities to SMEs		Other institutions providing services that support financing to SMEs
	Financial institutions	Non-financial institutions	
Main players	Banks, leasing companies	Business suppliers, some governments	Credit insurers, credit-rating agencies, banks and some governments acting as guarantors, CRSPs
Main products	Outright loans, cash advance-type products, leasing, account overdrafts, credit cards for small expense financing	Trade credit in the case of business suppliers. Outright loans in the case of governments.	Credit insurance, credit ratings, credit guarantees, credit reports and credit scores
Typical length of financing	Short-term, except for some loans or leases for capital expenditures	Short-term (usually less than 90 days) for trade credit. Variable in the case of government loans.	Not applicable

Source: (International Committee on Credit Reporting, 2014)

The dominance of banks in extending credit. The most familiar financial institutions that offer credit are banks. Traditionally, domestic banks have been the lenders to SMEs across the world. Recently, other types of banks, such as universal banks, have also been entering into the space. Generally, the type of products offered by banks include medium-term and long-term loans (usually backed by collateral), corporate credit cards and different types of cash advance products, like invoice discounting. Banks can also offer credit guarantees for SMEs to access finance elsewhere (International Committee on Credit Reporting, 2014).

Other means of accessing credit for MSMEs. Another important type of financial institution that MSMEs deal with are finance and leasing companies. Leasing companies extend credit to MSMEs by leasing equipment for a down payment or deposit and monthly or regular payments, giving MSMEs the use of specialised equipment without the need to make a large lump-sum purchase. After a predetermined period, the client can buy the equipment by making a buyout payment. MSMEs can also sell their accounts receivables to third-party finance companies, a practice known as “factoring”, as a way to raise funds. Factoring allows the businesses to outsource the collection of outstanding credit while receiving a much-needed credit injection. The data generated by both of these types of companies can also be used by other institutions to extend credit to SMEs.

Microfinance institutions also play a role. MSMEs can also access small loans through microfinance institutions. The institutions usually offer credit to low-income clients, often with collateral substitutes like group guarantees (Doing Business, 2017).

MSMEs also make use of trade credit. One way that non-financial institutions can offer credit to MSMEs is through trade credit. This is when suppliers are willing to provide the MSME with goods or services before the payment is received and is typically made up of “an open, unsecured line of credit” (Doing Business, 2017). The credit data in these situations is created by the trade companies that extend the trade credit and can be leveraged by other institutions.

Alternative aggregators hold MSME data. For “thin-file” clients, or clients with little to no credit information from financial institutions, data can be collected from alternative providers such as electricity providers or mobile phone operators. Utility companies as an alternative data source is used by the credit bureau in DataCrédito in Colombia.

APPENDIX C: CASE STUDIES

Box 2: The Small Enterprise Foundation (SEF)

This non-profit was founded in 1992 in the Limpopo province, South Africa. SEF's initial focus was people living in rural areas, but they quickly narrowed that focus to rural women. Today they have over 218,000 clients, the vast majority of whom are women. This focus on female customers is because women are more likely to invest in the household and education, which creates long-term socioeconomic change as well as lessening the gender divide.

How it works

SEF sends its agents into a chosen village to engage with the community and explain the service. From there, they ask people to rank the participating households from the poorest to the wealthiest. Initially, SEF will only offer loans to those who fall under the poorest group, but after a set period anyone in the community can apply.

SEF lends to groups of five, who guarantee one another's loans. In other words, if one member of the five cannot pay their loan, the other four are expected to pay it. The rules for setting up these groups are simple: Members cannot be family, they must live in the same area, and they must have some sort of social connection. There are no penalties if a person cannot pay for a loan; however, they will not be able to take out a loan in the future.

SEF also takes on the role of educator by holding meetings on financial education, of which borrowers are only allowed to miss two meetings. SEF also encourages its clients to save money in case of an emergency: It asks its clients to save 2% of their loan every fortnight. In November 2020, the total savings held by SEF clients was ZAR184.3 million.

Digitalisation and data

SEF was entirely paper based until 2019 and only recently digitalised its processes. For verifying payments and savings in the new system, staff take pictures of balance statement slips presented by clients. These pictures are then sent to the branch manager who verifies them manually. SEF does not yet process its own data for analysis; and while open to sharing, it does not report consistently sharing its data.

Box 3: Spoonmoney

Spoonmoney provides a saving and credit solution to women who work and live in an urban township environment. Made up of 325 stokvels, Spoonmoney was incorporated in 2017 and started trading in 2018.

How it works

The minimum number of people needed to join a Spoonmoney stokvel is five. Because the total amount of credit is given to the group (rather than individuals), larger stokvels tend to divide themselves in groups of five under Spoonmoney. Loans are short term, from ZAR1,500 to ZAR8,500 and are intended to be working capital. The loan terms are typically one month, although three-month loans are available. Each member must also make a monthly savings contribution of a minimum of ZAR100. Most people contribute this minimum and no more. Spoonmoney then invests all these contributions through an asset manager. Half goes into a money market fund. As this is a short-term investment, Spoonmoney presents this as an emergency fund for members, which they can access at any time. The other half goes into a balance equity fund for long-term growth. Members cannot access this fund. Members also set personal savings goals, which Spoonmoney tracks. Individual goals are mostly saving for education and housing.

Digitalisation and data

Information on savings, repayments and goals is stored digitally, and Spoonmoney believes that its value lies in the information it holds to assess its members' risk, and it wants to ensure that this score is reliable. Spoonmoney is not interested in sharing the information it holds on its members at this point in time. It is hesitant to report that its members are good borrowers and then be the reason why other credit providers, like retail stores, solicit its members to take out further credit. Spoonmoney does, however, have a relationship with a credit bureau. The credit bureau data tends to be a mixture of information on the individual and the member's business.

Spoonmoney is beginning to analyse the data it has for further internal use, for example determining where synergies can be made. For example, if members sell similar items in the same area, Spoonmoney can identify the opportunity to sell in bulk to suppliers. Bulk buying of supplies is also possible, and Spoonmoney can try to obtain a discount for its members. The last-mile delivery is very important, especially into informal spaces, so Spoonmoney questions how it can aid in people buying from its members.

APPENDIX D: EXAMPLES OF INNOVATIVE LENDERS MAKING USE OF ALTERNATIVE DATA

Company	Description
Alternative Circle	Began as a digital lending company. Since COVID-19 offers comprehensive solutions to entrepreneurs and businesses looking to scale in agriculture, insurance and lending, and sustainable energy, amongst others.
Aprila	Aprila is an SME bank that has overdraft, invoice sales and savings products.
Auxmoney	Auxmoney is a peer-to-peer lending marketplace which also includes loans for SMEs. The platform does use credit ratings and requests accounts and lists of outstanding debts, but not a director's guarantee.
Capital On Tap	Online direct lender that provides same-day decisions
Clearbanc	Clearbanc assess an SME's risk by analysing their financial accounts, so the SME would have to connect their accounts to Clearbanc. From here, Clearbanc is able to assess the future cash flow and performance of the SME.
Collector Bank	Collector is a digital bank which services include "factoring and company credits directed mainly at small and medium-sized enterprises".
Creci	Creci is a lending platform that provides credit facilities to SMEs. It also measures social impact and provides a report on this, with social impact being measured in line with the United Nations Sustainable Development goals.
CreditEnable	Global credit insights and technology solutions company. Applies proprietary data analytics, deep learning and AI to build innovative solutions for borrowers and lenders
Enisa	Enisa is an alternative source for providing financial support to SMEs. Traditional requirements such as the age of the business are still used here.
Foundation	Foundation provides digital financial solutions including a product catalogue to enable business-to-business sales, an API to host Foundation products on other platforms and a "comprehensive 'point of sale' financing program that will allow you to offer a monthly payment option to your business clients".
Funding Circle	Funding Circle offers a person-to-person platforms for loans that can provide feedback on a loan application within seconds.
Funding Options	Funding Options' online tool allows customer to find relevant funding options within minutes.
Funding Societies	Funding Societies is a platform for peer-to-peer lending, using investors to crowdfund the short-term credit for SMEs.
Funding Xchange	Funding Xchange "is an SME lending marketplace that serves over 10,000 customers a month. Applicants can compare personalised quotes in under four minutes and receive funds in as little as 10 minutes."
Holvi	Holvi is a financial payment institution for small businesses. Through its dashboard and Holvi Business Mastercard®, all expenses, invoices and tax preparation can be managed in one place.
Iqoca	Online direct lender that provides same-day decisions
iZettle	iZettle Advance is "an off-shoot of iZettle's payment processing business" that uses the transaction history of its customers to qualify them for a loan with iZettle.

Company	Description
Judo Bank	Judo Bank lends only to SMEs. It is completely cloud-based and connects the SMEs bank accounts to its Judo Bank platform.
Klarna	Klarna is a payments and shopping service that allow for “direct payments, pay after delivery options and instalment plans”
Lendable	A lending platform that provides debt to fintechs in emerging markets
Minterest	Minterest provides digital financial solutions and has a division called Minterest Money through which it lends money by using its credit scoring algorithm.
Multiply	Multiply is an online lender for SMEs that owns the capital it lends as it is a subsidiary of IFS Capital Limited.
MyTripleA	Offers a funding platform that connects businesses and freelances directly with private lenders
N-Frdns	Provides comprehensive solutions in banking, agriculture, health, FMCG, government services, MSME digital accounting and business services, and retail analytics
Novicap	Digital factoring and supply chain finance
OakNorth	Online direct lender that provides same-day decisions
October	October is a lending marketplace for SMEs. Applicants submit their projects, which is studied by October. Retail and institutional investors can then invest in the applicants projects.
OnDeck	OnDeck is an online lender that uses “data analytics and digital technology to aggregate and analyze thousands of data points to assess the creditworthiness of small businesses rapidly and accurately”.
Pneta	Pneta customers can apply for an instant loan on their account as well as factoring, finetrading and commercial funding.
Q-Lana	Offers a comprehensive credit management platform
Raize	Offers a reference platform for people and companies in Portugal
Revolut for Business	Online direct lender that provides same-day decisions
SME Credit Pro	Credit scoring using alternative data
Spotcap	Online direct lender that provides same-day decisions
Starling Bank	Starling Bank has announced that it will have a GBP1 billion balance sheet to lend to SMEs 2023
TagPay	TagPay’s Core Banking System is a cloud-native based solution that allows Fis to configure and integrate new products
Thinking Capital	Thinking Capital increases access to products and services to SME by bringing in partnerships that Thinking Capital has in place.
Toborrow	Toborrow is a Swedish online marketplace that aggregate consumer savings, connecting these funds to SMEs that required funding
Trine	Trine is a platform for peer-to-business lending “for people to invest in solar energy in growing markets”. Investors chose a loan and dedicate at least 25 euros to the loan.
Validus	Validus is a marketplace for peer-to-business lending, acting as “an online aggregator platform for SMEs to secure short term and medium term financing”.

Source: authors’ compilation based on broad literature review



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Sanofi House, Second Floor,
44 on Grand Central Office Park,
2 Bond Street, Grand Central
Ext 1, Midrand

Tel: +27 11 315 9197
Fax: +27 86 518 3579
info@finmark.org.za
www.finmark.org.za