MSMES AND ACCESS TO FINANCING:
Practice Perspectives from the eTrade Readiness Assessments

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eTrade Readiness Assessments in Brief

- To raise awareness of e-commerce opportunities and challenges
- Focus on **seven key policy areas** of *eTrade for all*
- Readiness gaps identified and policy measures proposed – action matrix
- **18 Completed:** Afghanistan, Bangladesh, Bhutan, Burkina Faso, Cambodia, Lao PDR, Lesotho, Liberia, Madagascar, Myanmar, Nepal, Samoa, Senegal, Solomon Islands, Togo, Vanuatu, Zambia
- **8 Ongoing:**
  - Kiribati, Malawi, Tuvalu, Mali and Tanzania – to be launched before end of 2019
  - Benin, Niger, *Iraq* – First quarter 2020
- **12 Requests- increased interest of non LDCs:** Burundi, *Cabo Verde*, Comoros, Democratic Republic of Congo, Djibouti, Guinea, *Ivory Coast*, *Jamaica*, *Niue*, *Tunisia*, Sierra Leone, *Zimbabwe*
- Donors supporting the Programme: Australia, EIF, Germany, ITFC, Sweden
- Contributions from *eTrade for all* partners
eTrade for all partners
10 most common challenges faced by LDCs in e-commerce development

- Limited awareness of e-commerce relevance among policy and law makers, consumers and businesses.
- Limited Internet access in rural/remote areas and costly access to fixed and mobile-broadband Internet.
- Inadequate facilities for physical delivery of online purchases.
- Weak legal and regulatory frameworks, including protection of consumers online.
- Inappropriate education for the digital economy.
- Overreliance on cash-based transactions, and low access to and limited experience with online payments and the use of credit cards.
- Unsuitable financial mechanisms for start-up enterprises to engage in e-commerce.
- Lack of business development skills and adequate e-commerce skills for MSMEs.
- Persistent barriers for women and youth to engage in e-commerce, preventing the leveling of playing fields through increased inclusivity.
- Lack of statistical data on electronic commerce.
MSMEs and Access to Finance in LDCs: Common challenges

- **Unsuitable financial mechanisms** for start-up enterprises to engage in e-commerce.

- **Access to finance remains costly** and constrains the ability of MSMEs to emerge and expand.

- Banks typically lend to big firms in traditional industries, whereas e-commerce and start-up companies are **viewed as risky investments**. As a result, most e-commerce MSMEs have to rely on alternate sources of funding.

- **Low financial literacy** among MSMEs exacerbates challenges to pursuing formal financing channels.
MSMEs and Access to Finance in LDCs:

Key policy options

- **Provide financial literacy and business training** so that MSMEs can develop bankable business plans, in line with the requirements of commercial banks.

- **Increase awareness** of incubators, business accelerators and venture capitalists.

- Develop **tailored lending standards and products**. Commercial banks should be encouraged to provide innovative products and adopt broader terms for evaluating the creditworthiness of e-commerce enterprises.

- Build capacities of businesses and women associations to **increase financial inclusion**.
Case study: Uganda eTrade Readiness Assessment

Access to financing is a major obstacle to e-commerce development in Uganda...

- **Lack of financing options** deter investments in e-commerce solutions
- **Financial exclusion remains high** (22% of the adult population)
- The **urban-rural divide** is significant (76 versus 42 percent respectively in the use of financing mechanisms)
- A **National Financial Inclusion Strategy 2017-2012** is in place, and the National Payment System Bill is about to be adopted.
Best practices: Uganda eTrade Readiness Assessment

- Uganda is a success story in microfinancing money lenders, which are turning into digital platforms (e.g. MoKash)

- Yet, traditional borrowing – through families, friends and saving groups – remains the most common way to raise capital

- Business incubators and accelerators are numerous, but there is a need to attract more venture capital partnerships to respond to the need of financing e-commerce projects.
Enabling factors for e-commerce in Uganda

Figure 13: How important have been the following enabling factors in your decision to invest in e-commerce solutions?

Source: UNCTAD
The Way Forward

- Promote crowdfunding and venture capital as alternative sources of funding for e-commerce firms.
- Establish a network of women in e-commerce and digital business to help women employees and entrepreneurs in this sector.
- Encourage partnerships between start-ups and large companies (banks, businesses, MNOs, etc.) and sensitize them to the unique business model of e-commerce ventures.
- Launch new products related to Fintech and financial-insurance specifically designed to e-commerce.

The success of existing e-commerce ventures in Uganda and the entry of new players will depend on greater access to financing for all segments of the population!
Thank you