Chapter 1
Insights Into Preparing Training Courses on Financial Services for Entrepreneurs in Africa

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ABSTRACT

Access to financing for micro, small, and medium entrepreneurs continues to face obstacles and difficulties. This scenario becomes even more evident when we refer to the situation of the African continent, where the financial system still shows tendencies that do not favor the productive sector. Under the Envolver project, which aims to promote the development of a sustainable and inclusive private sector, based on the diversification and availability of financial services adapted to MSMEs and entrepreneurs, a diagnostic study was developed to map the financial products currently available to micro, small, and medium enterprises. This study allows us to outline a set of recommendations for innovative financial solutions adjusted to this audience, based on examples of success in contexts similar to Angola.

INTRODUCTION

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GENERAL CONDITIONS FOR MSME ACCESS TO FINANCING

Access to financing by MSMEs is a topic that has been studied for several decades. This is because, although these companies always represent a large part of the business context in most countries, due to their characteristics, they usually have difficulties in obtaining financing for their activity, in terms of amounts, maturity and costs, which conditions their development and the evolution of social progress and the growth of world economies.

In 2003, the report of the European Observatory for SMEs (small and medium enterprises) prepared by the European Commission, considered access to finance as one of the main constraints to the development of SMEs, which became more pronounced the smaller the size of the companies. Therefore, bank credit was the main external source of financing, and the only one for many companies. However, most of the time the financing was obtained in insufficient amounts, at high costs and with short maturities.

For the development of financial support measures for SMEs, the report stated that their heterogeneity should be considered. Thus, it defined four types of companies:

- Start-up companies;
- Enterprises in a mature phase;
- Innovative companies;
- Growth companies.

Start-ups had greater difficulties, and as well as bank credit, it was common to get financing through friends and family. They also resorted to business angels who also provided commercial, entrepreneurial, and management know-how.

Maturing companies obtained cheaper financing because they offered more equity and asset guarantees.

Innovative and growing firms were better able to access capital than SMEs in general. However, because of uncertainty about the future, their sources of financing were heavily based on business angels and venture capital. Traditional financial institutions demanded more real guarantees from companies of this type.

In 2006, in a document on the constraints for access to financing by Portuguese SMEs, IAPMEI mentioned that there were aspects to consider both on the supply and demand side.

In the following years, and until today, several international studies (for example, Kamau, 2011; OCDE, 2015; Ogoy, 2016; Magembe, 2017; Pham, 2017; Gião, 2018; SMEFINANCE, 2020; Kong et al., 2021) have been conducted that are aligned with the conclusions of the European Commission and IAPMEI and show that size is a very important variable in defining the financial structure of companies, since, normally, companies with lower turnover or assets have more limited access to credit. This is because smaller companies regularly have lower-quality financial reports, greater fluctuations in the volume of activity and lower-value assets that make it difficult to establish collateral to obtain credit.

However, it appears that even in companies considered as MSMEs, there are other variables that influence their financial structure and access to debt. Thus, several research works have identified a correlation between the types of strategy adopted by the companies and the sources of financing used