

How digital platforms can widen MSME services through integrating financial services

An African perspective

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Digital platforms are on the rise in Africa. Research by Cenfri shows that the number of [digital platforms](#) across eight African countries increased by [more than 35% between 2018 and 2019](#). Apart from gaining traction among individual consumers, **digital platforms are becoming increasingly popular among micro, small, and medium enterprises (MSMEs) in emerging economies.** For example, [Wasoko](#), a Kenyan based B2B marketplace for retailers founded in 2013 currently serves over 50 000 MSMEs across Africa. The COVID-19 pandemic has further accelerated the rise of the platform economy, with MSMEs embracing [digital transition and shifting to new technologies](#) amidst mobility restrictions.

When looking at the value offered by digital platforms for MSMEs, it becomes clear why these platforms are gaining traction among MSMEs – **digital platforms enable MSMEs to:**

- broaden their customer reach and to access new markets both locally and internationally;
- digitalise their operations; and
- to improve their inventory and supply management, amongst others.

Yet, **there are opportunities for platforms to serve the MSME segment and strengthen MSME resilience beyond the existing offerings.** MSMEs have a strong need for financial services but they often struggle or are reluctant to access these services. Digital platforms already acting as MSME aggregators have a role to play and can become the gateway to financial services. For example, lack of cashflow is a leading challenge among MSMEs resulting in MSMEs not being able to cover their operational costs - an [estimated 40%](#) of MSMEs in developing economies are found to have unmet financing needs. Kenya's [Twiga Foods](#) has partnered with financial institutions to offer loans for MSMEs registered with the platform. Through this offering, MSMEs are able to have access to crucial financing for their operations at reduced costs with less paperwork and reduced efforts of having to visit an institution to apply for a loan. Thus, through the integration of financial services more value for MSMEs can be created.

In Africa, **digital platforms are increasingly showcasing the possibilities of offering financial services to MSMEs.** For instance, a [study](#) conducted by Cenfri in 2019 reveals that about 15% of digital platforms analysed offered financial services with insurance being the most common product in the range of financial services. This is not surprising given the advantages arising from grasping this opportunity. **The following shows how integrating financial services supports the development and expansion of digital platforms:**

- **Retention and widening of existing customer base.** Offering a financial service as an addition to a digital platform signal to users that their needs are considered and that they cared for. For example, [iBUILD](#) a Kenyan digital platform connecting contractors, homeowners, suppliers, workers and banks in the construction sector started offering insurance in its platform. Since the construction sector is a highly fragmented value

chain with many risks, offering accident cover for construction workers as an addition enables iBUILD to cater for users' pressing needs which builds customer loyalty and thus supports the retention of existing customers. Offering services will not only enhance engagements with the digital platform's existing customer base but will also attract new users who have an interest in financial services, further broadening the revenue base for platforms.

- **Stable demand for digital platform:** Adding financial services put digital platforms in a position to secure future demands and ensure the sustainability of their business. The business continuity of any digital B2B marketplace to a great extent, depends on users making purchases on the platform. Integrating financial services like a business interruption insurance coverage or working capital into the platform enables MSMEs to better manage risks, making them more resilient which in turn increases their ability to continue purchasing products or services via the platforms. A good example, is [TradeDepot](#), a Nigerian B2B marketplace that connects manufacturers and retailers. In cases of cashflow challenges as experienced by retail MSMEs, TradeDepot makes it possible for retailers to continue making purchases on the platform through the provision of working capital on the platform.
- **Improved consistency of supply:** Digital platforms that source their products from MSMEs need to ensure that they receive the correct volume and quality of products. Through access to credit, MSMEs can be enabled to improve their ability, efficiency and reliability to supply lead companies. A practical example is [Jumia](#), a Nigerian e-commerce platform connecting buyers and sellers. Jumia offers Jumia one - a product enabling access credit for users of its platform. Through this addition to the platform, users are made resilient and enabled to support their production capacities.

The integration of financial services into digital platforms unlocks benefits for both MSMEs and digital platforms. **Yet, to ensure successful transition of digital platforms, the following steps are to be taken into consideration:**

1. Understand needs of users in terms of financial services: MSMEs are heterogeneous in their nature differing in terms of size, sector and geography amongst other factors which means their financial needs are likely to differ. For instance, MSMEs in the agricultural sector may have a strong desire for insurance products designed to mitigate climate related risks while those in the retail sector may desire solutions to support inventory management or theft risks. It is therefore essential for digital platform providers to understand current MSMEs making use of their platforms and their risks prior to integrating financial services onto their platforms.

2. Find partners if needed or obtain a license: The next step will be for digital platforms to find appropriate financial service providers (FSPs) to partner with whom to take forward the product opportunities or to obtain a license to offer the financial services themselves. There are strong incentives for FSPs to partner with platforms - by partnering with platforms for distribution, FSPs can have access to (i) an established customer base, (ii) payments channel, (iii) and a communications channel and thus better enabled to distribute financial services to a greater audience and at potentially reduced costs.

3. Pilot stage: The final stage would be iterative testing the potential financial service among a sample of MSMEs within the platform. By doing so, platforms and potential partners will have an indication of whether the financial service is desirable or not to

MSMEs. In addition, behavioural science techniques such as framing or reminders can be employed to test whether solutions have positive effects on the willingness of MSMEs to use and continue using the solution.

The **platformisation of value chains across the economy is only expected to grow** as societies further access and use digital tools and marketplaces to access goods and services. **For digital platforms, integrating financial services offers clear opportunities to strengthen their value proposition to MSME users** if products and the associated customer journey and engagement are well designed.