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3 Signs Your Startup Is Financially Excluded And Why It Matters

Entrepreneurs in emerging markets face a number of challenges. From taking ages to set up a bank account (that usually takes minutes in advanced markets), to having to use their personal low-limit credit cards for business payments.

Nearly half of SMEs in developing countries experience poor access to financial products and services, limiting their ability to scale, grow and expand. A 2018 McKinsey report shows that 200 million small businesses and two billion individuals in emerging economies continue to lack access to formal savings and credit.

While the world pins down the importance of financial inclusion, what constitutes financial exclusion?

Difficulties in opening bank accounts
Startup founders go through a daunting process to open bank accounts in emerging markets. This is due to rigid and bureaucratic banking regulations in many emerging countries. A study by the Dubai Chamber says it takes entrepreneurs three months to open a bank account in the U.A.E., which is dubbed the Silicon Valley of the Middle East and North Africa.

Restrictions on online cross-border payments
Entrepreneurs in emerging markets juggle multiple ineffective solutions to make cross-border payments for services like digital subscriptions, advertising, SaaS and international bookings. Some use their personal low-limit cards for multiple expenses, which makes reimbursing work expenses difficult. Others resort to transferring money to connections they have abroad because attempting to issue cards in banks abroad is deemed difficult.

Banking woes
There is at least a $2 trillion gap between what global SMEs need and what financial institutions are willing to provide, according to Matt Gamser, Head of the SME Finance Forum. In countries like Nigeria, SMEs find it hard to access money deposits and microfinance banks due to high administrative costs and collateral requirements. There is contention over whether banks can effectively accommodate SMEs.

Business financial inclusion: Why it matters
SMEs play a key role in socio-economic wellbeing by generating employment and growth in economies—all the more reason to empower their access to finance. In emerging economies, SMEs account for roughly 60% of total employment and up to 40% of GDP. Four out of five jobs are generated by SMEs. Stats from the World Bank show that 600 million jobs will be needed to cover the growing workforce in the next 15 years, mostly in Asia and Sub-Saharan Africa.

In countries like Singapore and Indonesia, SMEs make up 99% of all enterprises, and account for most employment, with 65% of workers in Singapore and 97% in Indonesia. In 2017, the Philippines Statistics Authority (PSA) identified 924,721 business enterprises operating in the country, with micro, small and medium-sized enterprises (MSMEs) accounting for 99.6% (920,677) of them.

Startups and SMEs are gradually contributing to the development of major sectors like transportation and infrastructure. In Egypt for instance, SMEs represent 95% of total industrial enterprises and 75% of the total workforce. Startups like Swvl and Halan are providing tech-enabled daily affordable commutes to passengers and generating employment opportunities sector-wide. Swvl is already planning to expand in Africa.

Access to finance, however, continues to be the main interruption to SMEs' growth. In emerging markets, 70% of all MSMEs lack access to credit. In Asia and Africa, the total credit gap for formal and informal SMEs is over $2.6 trillion.

Business financial inclusion is crucial for promoting economic growth, innovation and a healthy entrepreneurial ecosystem for startups in emerging markets. There are corners of the world brimming with entrepreneurial talent and potential, but they need easier access to capital, payments and banking services in developing economies.

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