STUDY SUMMARY

The Role of Mobile Banking in Expanding Trade Credit and Business Development in Kenya

Trade credit, which is usually provided by up-stream suppliers to down-stream firms, can help small businesses to purchase non-perishable goods for resale and free up resources for other uses. However, provision of trade credit may be limited by high transaction costs, up-stream liquidity constraints, and concerns over repayment. In Kenya, researchers designed an evaluation to measure the impact of a new method of extending trade credit facilitated by mobile banking and inventory management technologies on small business development. However, the evaluation was canceled after a series of challenges in rolling out the credit product.

Policy Issue

Access to finance is a critical constraint for small businesses everywhere. Credit provided by up-stream suppliers to down-stream firms ("trade credit") can relax the constraints on capital. Trade credit can help small businesses, like retail shops and kiosks, to purchase non-perishable goods for resale and free up resources for short- and long-term uses. However,the provision of this type of credit may be limited by high transaction costs, up-stream liquidity constraints, and concerns over repayment. As trade credit agreements in low-income countries usually involve small amounts, judicial systems are unlikely to enforce repayment of loans in court. Without a system to distribute small loans in an economically feasible manner and manage repayment, suppliers have little incentive to extend this service. This project evaluates a new method of extending trade credit facilitated by mobile banking and inventory management technologies and will shed light on its potential to foster small business development in a developing country context.

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COUNTRY
Kenya

PARTNERS
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PROGRAM AREA
Small and Medium Enterprises

TOPICS
Access to Finance, Information & Communications Technology (ICT), Payments

TIMELINE
2011-

Evaluation Context

Access to finance is a critical constraint for small businesses everywhere. Credit provided by up-stream suppliers to down-stream firms ("trade credit") can relax the constraints on capital. Trade credit can help small businesses, like retail shops and kiosks, to purchase non-perishable goods for resale and free up resources for short- and long-term uses. However,the provision of this type of credit may be limited by high transaction costs, up-stream liquidity constraints, and concerns over repayment. As trade credit agreements in low-income countries usually involve small amounts, judicial systems are unlikely to enforce repayment of loans in court. Without a system to distribute small loans in an economically feasible manner and manage repayment, suppliers have little incentive to extend this service. This project evaluates a new method of extending trade credit facilitated by mobile banking and inventory management technologies and will shed light on its potential to foster small business development in a developing country context.

Details of the Intervention

In Kenya, researchers designed an evaluation to measure the impact of a new method of extending trade credit facilitated by mobile banking and inventory management technologies on small business development.

Researchers aimed to work with 1,200 retailer selling Coke products in and around Nairobi, Kenya. Of these, two thirds were going to receive a trade credit product while one third served as a comparison group. The study was going to assess the commercial viability of the product, the role of distributors in administering it, and its impact on business development and employment creation.

CCBC will automate their supply chain, enabling every case of product to be recorded and tracked at the retailer level. A natural next step in the automation process is to integrate financial transactions. This project takes advantage of this advance in supply chain automation to build in a trade credit product. In particular, the tracking system will allow real-time monitoring of both cash and mobile phone-based transactions, and hence enable more efficient administration of credit contracts. Critically, the trade credit will be provided not by the independently owned distributors, but by Equity Bank via its in-house mobile banking platform. This is the feature that makes the trade credit product viable for a larger number of retailers.

The project will involve working with 1,200 retailer selling Coke products in and around Nairobi, Kenya. Of these, two thirds will receive the trade credit while one third will serve as a comparison group. While all credits will be repayable to Equity Bank, the distributors of Coke products will be given explicit incentives to ensure repayment for half the retailers to whom the credit is offered. The study will assess the commercial viability of the product, the role of distributors in administering it, and its impact on business development and employment creation. If the intervention is profitable for lenders and borrowers, the project partners are keen to expand the credit product at a much larger scale and to other suppliers.

Results and Policy Lessons

After a series of problems in rolling out the credit product, this study was canceled. The challenge of implementing this study is mentioned in the book *Failing in the Field* by Dean Karlan and Jacob Appel.

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