

INTERVENTION BRIEF | MSE SYSTEM

NON-COLLATERALISED LOAN FOR MICRO & SMALL ENTERPRISES

THE PROBLEM

Finance is critical for the start-up and growth of micro and small enterprises (MSEs). However, MSEs are unable to access the finance they need because they don't meet the existing requirements of financial institutions. In Ethiopia, credit scoring systems are limited and do not provide information on the creditworthiness of MSEs. Financial institutions, therefore, rely on typical requirements of eligible collateral, credit history, accounting records, and other documentation, which many MSEs lack. The limited MSE data make the lending decision process more time-consuming and costly, which further disincentivises financial institutions to lend to MSEs. Where financial institutions have been interested in providing credit to MSEs, their lengthy, manual, paper-based lending processes have discouraged MSEs from pursuing applications.



OUR INTERVENTION

To address the various constraints and improve MSE access to credit, LIWAY partnered with three primary organisations to pilot a new business model, which integrates a digital lending system and credit scoring technology to facilitate non-collateralised digital loans for MSEs.

ONE Microfinance Institution S.C. (ONE MFI) is the first digital financial institution in Ethiopia. They register MSEs interested in accessing digital loans and extend short-term working capital loans. Because loanable capital is a key constraint for MFIs, one of the leading private banks in Ethiopia joined to test the model and provided a loanable fund to ONE MFI.

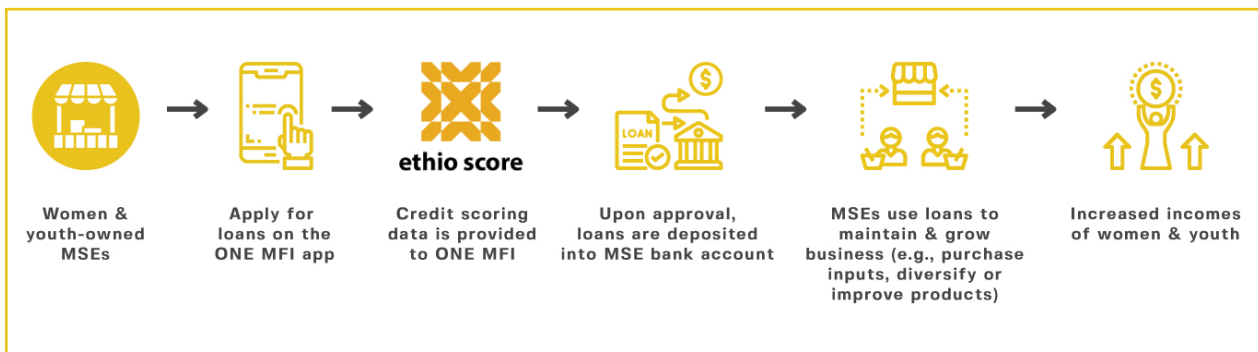
BelCash Technology Solutions PLC (BelCash) is a payment platform provider. They developed a mobile app that enables MSEs to digitally apply for loans from ONE MFI. BelCash's payment transaction platform enables ONE MFI to disburse approved loans to MSE bank accounts at different banks across Ethiopia. MSEs repay loans digitally using ONE Cash, which was also developed by BelCash.

Ethio Score is a private credit scoring company. They have developed a credit scoring system that includes information such as data on borrowers' profiles, type of business, areas of operation, and loan disbursements and repayments, among others. Initial MSE data was pulled from existing sources, such as BelCash's HelloMarket digital marketing platform database, as well as its Hello Solar off-grid energy solutions database. ONE MFI uses the results of the scoring system to make lending decisions, which will become automated once there is sufficient data to accurately predict MSE creditworthiness and eligibility to access loans without collateral.

Partnerships have also been established with additional organisations to support the mobilisation and onboarding of MSEs.

LIWAY co-developed the business model with the implementing partners and allocated budget to test the model and de-risk a portion of the initial loans until the credit scoring system accumulates sufficient data.

The digital lending coupled with the credit scoring system creates a huge opportunity for MSEs, particularly women and youth who are typically not able to access loans due to lack of collateral. The loans provide them with the capital they need to maintain and grow their businesses and therefore increase their incomes.



The intervention aims to serve 10,000 women and youth-owned MSEs with 250,000 loans during the pilot phase.

KEY ACHIEVEMENTS TO DATE

- The business model has been adopted and **150** MSEs have accessed **207** digital non-collateralised loans from ONE MFI to date.
- Ethio Score has begun profiling and encoding data of MSEs from BelCash’s existing databases and other sources. Data of **2,600** MSEs has been recorded in the scoring system to date.



- BelCash developed the ONE MFI mobile loan app and the ONE Cash (payment wallet), and these have been integrated with HelloCash.
- BelCash’s HelloMarket and Hello Solar MSEs have access to the non-collateralised loans. Due to increased access to working capital from the loans, HelloMarket MSEs have improved their product supply and their sales on the platform have increased.
- National Bank of Ethiopia approved the ONE MFI non-collateralised loan product.

For more information about LIWAY and our work in the MSE system, visit: www.liway.org