



Inclusive Fintech: How Startups are Bridging the Finance Gap for Microenterprises

October 2024 • Malika Anand, Alexander Sotiriou, David Kruijff, Swati Sawhney



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This Focus Note shares several case studies based on CGAP’s work with fintechs around the world, including: &frnds in the Philippines, Kaleidofin, and Aye Finance in India; SympliFi in Kenya and Rwanda; and Boost in Nigeria. In addition, CGAP conducted primary and secondary research with other fintech partners: Tyme Bank in South Africa, Konfio in Mexico, Kopo Kopo in Kenya, and Mercado Credito in Brazil. CGAP is grateful to all these fintech partners for their efforts as well as their openness in sharing information about their models and challenges.

CGAP

1818 H Street, NW, MSN F3K-306
Washington, DC 20433
Website: www.cgap.org
Email: cgap@worldbank.org
Telephone: +1 202 473 9594

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Executive Summary

INCLUSIVE FINTECH STARTUPS ARE EARLY- stage, venture-backed enterprises that use technology to provide innovative financial services to underserved users. These users are typically low-income individuals, micro and small businesses, women, remote communities, and minority groups.

Fintech startups are pioneering innovative credit products for microenterprises in emerging markets. They are developing credit-scoring approaches, channel partnerships, and product terms that better meet the conditions and preferences of micro and small businesses. Together, these innovations are allowing fintech startups to reach micro and small businesses with better, more reliable credit that can enable resilience and lower the risk of over-indebtedness. This note shares a range of examples, based in CGAP's own pilot work and secondary research, to provide an illustrative view into the potential and realized impacts of inclusive microenterprise fintech models.

Introduction

INNOVATIVE FINTECH STARTUPS ARE delivering credit to excluded and underserved micro and small enterprises (MSEs) through innovations in how users are assessed, how they are being reached, and what products are being provided. In this note, we explore how each of these innovations are delivering specific benefits to excluded micro and small enterprises. This note serves as complement to a [2022 publication](#) in which CGAP detailed the mechanics of how MSEs overcome business model barriers to providing responsible credit to microenterprises, with a focus on resolving uncertainties about credit risk inherent in lending to micro/small and often informal businesses.

We find that innovations in data collection and analysis are driving credit-scoring that includes underserved users; channel partnerships are extending distribution and reach; and tailored product terms are decreasing the risk of over-indebtedness. Together, these innovations are allowing fintech startups to reach smaller businesses with better, more reliable credit. Moreover, some models are showing tentative signs that they can support growth of microenterprise revenue, profitability, and team size in the long-run as fintechs scale and mature. However, it is increasingly clear that finance alone is unlikely to unleash MSE growth.

In this note, we highlight examples of fintech startups that are creating benefits for MSEs via three core innovations: 1) Improved use of data and credit scoring to include smaller, excluded MSEs; 2) Channel partnerships for reach and distribution that increase convenience for MSEs; and 3) Tailored product terms and structure that better match loans to MSE cash

flows so as to limit repayment pressure and risk of over-indebtedness. These examples are based on CGAP's own work piloting microenterprise finance products as well as primary and secondary research and provide an instructive view into the potential and realized impacts of MSE fintech models.

Inclusive fintech has enabled access to finance among underserved consumers

While many MSEs remain underserved, inclusive fintech startups have made impressive strides in reaching and serving excluded individuals and households. The success fintech models have had in reaching underserved users takes place within the context of traditional providers of formal financial services struggling to reach low-income, remote users. This can be due to weak infrastructure, high costs, and low margins. Those circumstances make the unit economics for low balance accounts and small ticket loans unfavorable for most financial service providers (Hommes 2022).

Fortunately, technology has changed those circumstances in many markets and enabled viable ways to reach underserved users. While not all fintech models are geared towards inclusion, many are taking advantage of telecom connectivity, smart devices and, more recently, artificial intelligence (AI) to reach and track remote, low-income users more easily, thereby improving unit economics for financial services. Furthermore, these fintechs leverage other aspects of digital financial infrastructure such as digital

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payments, digital identification, transaction data, alternative data, and online marketplaces, all of which are being harnessed to craft and deliver meaningful financial services. Such services include microsavings, embedded insurance, and Buy-Now, Pay-Later (BNPL) services for underserved users.

Those technologies and fintech innovations have already driven meaningful financial inclusion among consumers in markets like Kenya and India. In Kenya, this combination of digital rails and fintech capabilities has extended the financial sector to include 84 percent of the population, nearly half of whom have exclusively a mobile money account (FSD Kenya 2024). The inclusive power of fintech was evident within a few short years of M-PESA's launch. Within just five years, 62 percent of the adult population was registered (Johnson 2014). Similarly, in India, smartphone penetration combined with government-led fintech efforts have led financial inclusion rates to reach over 65 percent in 2024 (The Hindu 2024).

Access to bank accounts is also driving access to credit for many individuals in these markets. Evidence in Kenya suggests digital credit is becoming pervasive: one study found that 71 percent of respondents had taken out a mobile loan in the past six months (Geopoll 2021). These high-level figures illustrate the power of fintech in driving inclusion in markets where such capabilities are more mature.

Though fintech has achieved inclusion milestones, that momentum also creates concerns. To start, risk of over-indebtedness among users is increasing as has participation in online gambling (GSMA 2023, Rosen 2022). One study found that: "84 percent of Kenyan youth polled had tried betting, and one-third of those reported betting on at least a daily basis" (Rosen 2022). Furthermore, CGAP has highlighted (and provided suggestions for how to address) consumer protection issues raised by digital credit (CGAP 2021). One of those suggestions is to focus credit on productive use, rather than consumption (Izaguirre 2018). However, productive-use credit to MSEs has yet to scale in the same way as digital consumer credit.

Some fintech models are now extending access to excluded MSEs

While consumers' access to finance has been achieved by fintech-enabled models at scale, similar results are only starting to appear for productive use among MSEs. In 2020, an IMF paper concluded: "Low-income countries take advantage of the fintech credit opportunity in the consumer segment but face important challenges in the business segment" (Bazarbash 2020). Even as fintech expands reach to remote users, at least 40 percent of micro, small and medium enterprises (which make up 90 percent of the world's businesses) have unmet financing needs (World Bank 2019).

The proportion of excluded microenterprises is likely much higher for informal microenterprises which tend to be owner-operated from the home, can have seasonal cycles, and are characterized by low incomes, few opportunities for growth, and high volatility in earnings. They tend to be volatile and risky (nearly 80 percent have a lifespan shorter than five years in developing countries and only about half reach

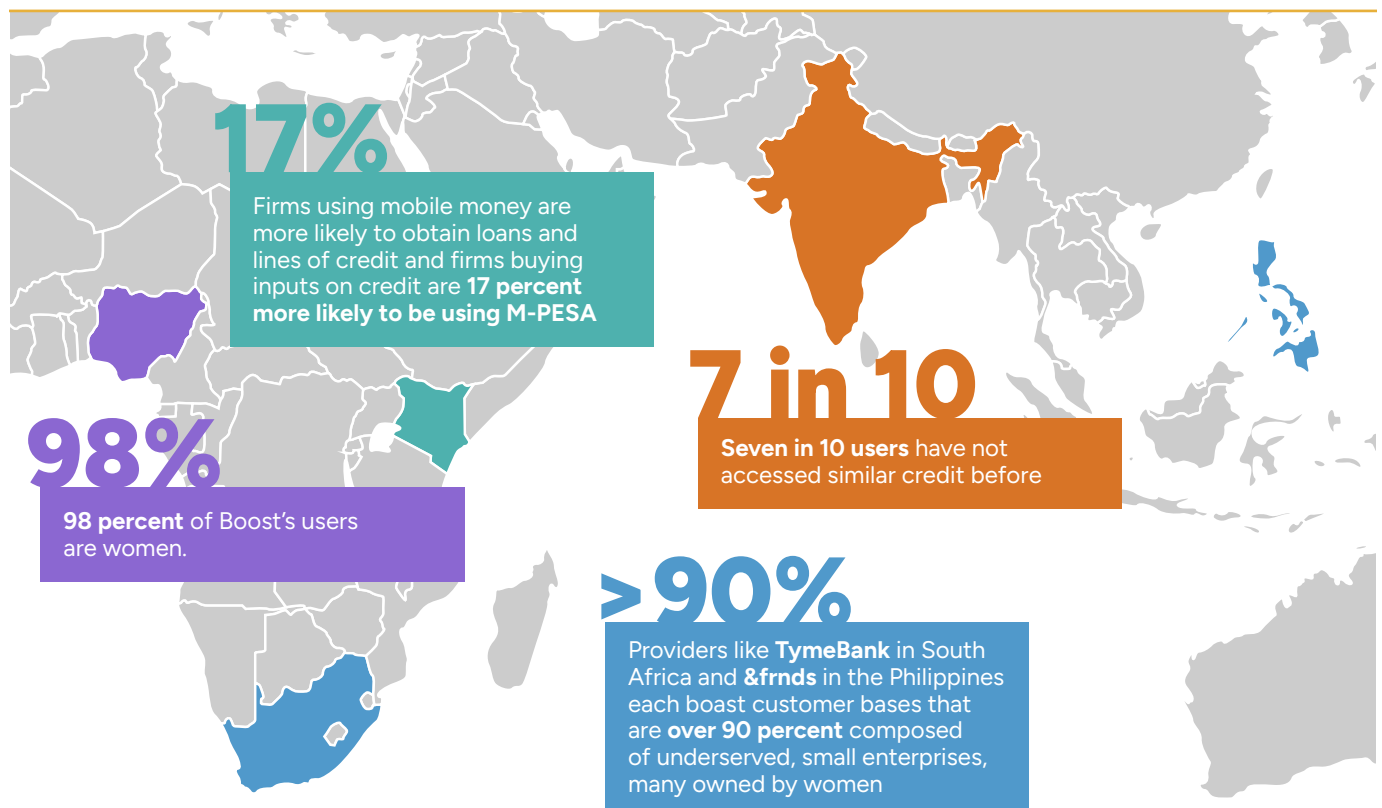
five years in developed countries) (Obaje 2020, Otar 2022). In addition, they tend to be difficult to access since they tend to be in remote rural areas or in urban settlements, with poor infrastructure and low access to service providers, so reaching them is expensive even as margins on small loans are low.

Even with these difficult prospects, some microentrepreneurs are good candidates for credit. Those good candidates are hard to identify due to information asymmetries. Our pilots and the research shared here suggests that inclusive fintechs are solving for some of those challenges, taking advantage of digital rails to drive inclusion and access to credit among microenterprises, much as they have for low-income households. For example, providers like TymeBank in South Africa and &frnds in the Philippines (both featured below) each boast customer bases that are over 90 percent composed of underserved, small enterprises, many owned by women.

In Kenya, macro data suggests that digital payment rails are unlocking access to credit for MSEs. Firms using mobile money are more likely to obtain loans and lines of credit and firms buying inputs on credit are 17 percent more likely to be using M-PESA (Gosavi 2017, Beck 2018).

Furthermore, research we commissioned from impact measurement firm 60 Decibels among Kaleidofin users in India found that seven in 10 users have not accessed similar credit before, suggesting that the inclusive fintech startup is reaching underserved users. In Nigeria, 74 percent of Boost users also report having no prior access to the services provided by the fintech startup. In particular, the startups we worked with are reaching women entrepreneurs in high proportions. For example, in Nigeria where only 25 percent of women have a bank account (Bailey 2023), 98 percent of Boost's users are women.

FIGURE 1. **Fintech is powering financial inclusion**



Fintech for MSE resilience

ALTROUGH SOME FINTECH STARTUPS are delivering inclusion among small and underserved businesses, there are still questions about what benefits they can provide to those businesses. Many have hoped that access to digital credit would unleash growth in profitability, revenue, and jobs among waves of credit-constrained MSEs. However, research from traditional microcredit providers shows that the average enterprise does not grow with access to financing, even though those demonstrating a growth mindset can double their incomes and grow their assets by 35 percent when provided credit (Banerjee 2019).

Even though the average enterprise may not grow, our work suggests that most MSEs still benefit from credit to smooth income, finance inventory, and respond to emergencies (Hommes 2022). Similar work from Dalberg noted that many MSE financing products are geared towards working capital, cash advances, and overdrafts, not business growth (Dalberg 2019). [The Small Firm Diaries](#) also concluded that small firms rely on supply chain and informal finance, rather than formal business loans (Global Findings Overview 2024). In these investigations, access to finance for small enterprises contributed to resilience, suggesting that these models have substantive benefits concentrated around enabling greater financial stability and consistency for MSEs.

Income stability may seem like only a moderate outcome relative to growth, but many microentrepreneurs report that greater resilience is their most pressing need. In fact, resilience directly corresponds to the original goal that many microentrepreneurs report they had in establishing their businesses. [CGAP's research](#) of hundreds of MSEs in India, Kenya and Peru uncovered two distinct entrepreneurial mindsets – cautious entrepreneurs and determined aspirants – that progress (or stagnate) along a three-stage life cycle: startup stage, stable operation stage, and growth stage. The research found that most entrepreneurs have a cautious mindset and start businesses because they cannot find jobs with adequate wages, or are looking for wage jobs, or want to supplement their income from agriculture. Research from the Small Firm Diaries¹ found that only 32 percent (Global Findings Overview 2024) of small firms are seeking growth, rather than stability. Resilience goals may also reflect the priorities of women who have household and family obligations, and may shy away from business risk and responsibilities. The fact that many entrepreneurs are cautious, rather than ambitious, suggests that they value resilience outcomes.

Income stability may seem like only a moderate outcome relative to growth, but many microentrepreneurs report that greater resilience is their most pressing need.

¹ A global research initiative providing insight into the financial lives of small firms led by the Financial Access Initiative (FAI), a research center housed at NYU Wagner, focused on how financial services can better meet the needs and improve the lives of poor households around the world.

This orientation toward caution may partially explain why micro enterprises are concentrated in the retail sector: 49.7 percent in the Philippines as of 2012 and 60 percent in Kenya as of 2013 (Senate Economic Planning Office 2012, Wairumi 2015). The retail sector has low set up costs and regular income, but also has low opportunity for growth. In contrast, the transport and manufacturing sectors, which have high setup costs and earn through lumpy, occasional contracts, are more attractive for those seeking growth and expansion according to [CGAP's research](#) (Sawhney 2022). Although much of the available data is limited, it suggests that at least half of MSEs may be seeking stable income, not growth opportunities.

That MSEs are seeking stability rather than growth has important implications for how structure the finance so that it helps them meet their goals. The Kenya Small Firm Diaries found that the vast majority of small businesses want credit for stock, not for assets or investments (43 percent to expand stock and 26 percent to buy inputs in advance) (Global Findings Overview 2023). Although those shopkeepers may not be looking to grow their businesses, they still depend on finance for purchasing inventory, paying workers, and managing volatility. Those needs imply financing that may not look like a typical loan but instead takes the form of vendor financing, supplier credit, or informal advances. As the British International Investment recently noted: “Many firms would prefer something more like an agreed overdraft facility, that can be drawn down as needed, and repaid when cash flows allow, with interest paid on the outstanding balance” (Ayres 2024). For now, such products are rarely reported to credit bureaus so even

though MSEs find them valuable, they do not help microentrepreneurs build their credit histories, which can limit future access to finance.

Taken with this view, products like those provided by the fintech startups featured here, which help excluded MSEs access liquidity conveniently and avoid downside risk, are likely to be highly valued. **In fact, a deeper look at the cases we identified, reveals three strategies by which innovators are delivering benefits to MSEs:**

Three strategies by which innovators are delivering benefits to MSEs:

- **Strategy 1: Who: Developing data collection and analysis innovations to unlock access to credit for excluded enterprises**
- **Strategy 2: How: Partnering with channel players for distribution to ease the operational burden of accessing credit**
- **Strategy 3: What: Tailoring pricing and loan terms to match enterprise cash flows to decrease risk of over-indebtedness**

While the bulk of this paper focuses on the benefits that fintechs are providing to MSEs, it is worth noting that taking out credit can also expose businesses to new risks. The fintechs we showcase below largely address these risks by designing loans that meet the particular needs of MSEs. Rather than disbursing generic loans, the financing we highlight is tightly linked to the businesses they are funding. In many models, disbursements are timed to inventory purchases and even paid directly to suppliers, while repayment is often

FIGURE 2. **Three strategies by which innovators are delivering benefits to MSEs**



tied to revenue streams. Furthermore, many fintechs assess the economics of the businesses they support and may even specialize in certain business types to structure specific kinds of credit. For example, a fintech like Boost (featured below) specializes in lending to small retail shops dominated by fast-moving consumer goods. By linking the credit to the productive purpose of enterprises, these structures mediate the risk that capital is spent on leisure or consumption, and can hence deliver benefits to the enterprise.

Furthermore, since MSEs that are targeted by these fintech are often not as digitally savvy, many of them are compelled to employ field forces using a “feet on the street” approach. Although this approach implies higher operating costs for the startup, it does allow the fintech to meet the customers where they are in their digital journey, allowing them to get closer to their borrowers’ day-to-day life with greater awareness of the challenges they face. That proximity also means that fintechs are able to spend more time in person ensuring that users understand the terms of the loans and the implications of taking on the credit. In this way, consumer protection measures are inherently built into the examples we share below.



Who: Developing data collection and analysis innovations to unlock access to credit for excluded enterprises

Many fintech innovators are utilizing new data and innovating new types of analysis to extend the frontier of credit to include excluded and underserved microenterprises, particularly those owned by women. These models provide credit to those who would otherwise be excluded or underserved by creating credit scores that leverage new sources of data in a more considered way. Many also leverage artificial intelligence (AI) and machine learning (ML) to allow MSEs to continuously improve their scores and increase the amount of credit they can access over time.

Conventional credit-scoring approaches disadvantage low-income people and informal businesses because they don't produce financial data like transaction records, tax receipts, and bank statements. Without such inputs, traditional credit-scoring algorithms lack reliable and consistent digital data sets on which to make decisions, so marginalized users lack credit scores or have "thin files" (indicating that they have limited credit history), preventing them from integrating into the formal financial system.

The inclusive credit-scoring models featured here use a mix of traditional financial transaction data in conjunction with alternative data like e-commerce transactions, personal purchases, mobile wallet data, geo-location, bill payment histories, and social media usage. Such data trails serve as a replacement for traditional repayment data used to assess a person's creditworthiness. CGAP's research into transactional data for credit scoring found that it can accurately predict repayment behavior, much like a credit history, and that such approaches can power inclusion

(Fernandez Vidal 2024, Fernandez Vidal 2023). The scoring methodologies for alternative data vary in complexity, ranging from basic scorecard models to complex AI-powered models. In many cases, providers incorporate AI and ML after several loan cycles while in others, AI and ML are used from the outset.

Fintechs have developed this approach to data alongside a number of other strategies, which together extend the frontier of credit access. These strategies allow fintech startups to extend access to finance to excluded populations without credit histories while still managing risk. They include measures such as alternative data, cluster-based financing, and other approaches that are explored in two additional Focus Notes: "[No Small Business](#)" and "[Empowering Small Giants](#)".

While alternative data can help overcome weak financial information (at least for small-ticket loans), it still depends on the existence of a broad and inclusive digital payments environment. In countries where digital identity is well established and where digital payments are ubiquitous, there is more plentiful alternative data to serve as inputs for inclusive credit-scoring. Individuals in urban areas, for example, that make greater use of such digital services create richer data trails and can be assessed by alternative scoring mechanisms more thoroughly. Similarly, MSEs that order digitally and accept digital payments are more likely to be eligible for digital credit products. While open data regimes are relatively new, they also promise to increase the quantity and types of alternative data and can potentially drive further inclusion.

KALEIDOFIN



Country
India



Women customers
98%



Year of founding
2017

KALEIDOFIN

Kaleidofin is a fintech startup in India that provides access to credit and suitable financial products for businesses in the informal sector, 98 percent of which are owned by women. These products are enabled by the startup's 'ki credit' platform and 'ki cash' app, both powered by their 'ki score' credit-scoring algorithm, which is also offered as a software solution to other financial service providers. The team has also developed additional features to serve women, for example, a local language chatbot called Vidya, and video content on responsible loan use featuring women.

The women who Kaleidofin serves own businesses like corner and cosmetic shops, agricultural and agri-allied activities, and also operate tailoring or catering businesses. Prior to accessing formal credit, these women typically depend on informal sources of credit to finance inventory purchases and business expenses. Those sources of credit are likely unreliable and usurious, locking them into inflexible arrangements with suppliers, and can lead to increasingly vicious debt cycles.

Kaleidofin is able to include these women via their 'ki score' product, a unique credit-score algorithm that is inclusive not only in its construction, but also in how Kaleidofin collects the data that powers it. To start, the score makes use of more data sources than traditional credit scores, which depend on credit bureau scores and rules of thumb like: "exclude those with previous default". Ki score uses not only credit bureau data, but also demographic data, savings data, and more granular

repayment data to create a large set of variables to assess this segment appropriately. For example, rather than bluntly exclude those who have repaid late in the past, ki score distinguishes between those who repaid a few days late versus those who repaid months late, especially in the context of income shocks like the pandemic. The team reasons that short delays in repayment reflect irregular cashflows, not unwillingness or inability to pay. The team also makes use of data particular to each financial institution like the number of reminders sent, how payments were made (in cash or digitally), and more. This data-centric approach to credit scoring allows them to unlock value in whatever data financial services providers have, and enables women to graduate out of group-liability constructs into affordable individual loans, and thus take control of their credit decisions.

Expanding the type of data that the model ingests and interpreting it with a sharper view to who the borrowers are, has allowed Kaleidofin to craft a credit score that is more inclusive, particularly of women. CGAP contracted 60 Decibels to conduct a lean impact assessment with Kaleidofin users in 2023 and found that a typical user is a 35-year-old female, living in rural areas, in a household of six. Seven of 10 clients reported they were new to services like Kaleidofin's and half said they could not easily find an alternative. The study also confirmed that ki score is correctly identifying enterprises that are credit constrained, since nearly nine in 10 respondents reported an increase in business revenue because of a loan from Kaleidofin.

AYE FINANCE



Country
India



Women customers
5.8%



Year of founding
2014

AYE FINANCE

Aye Finance, in India, has developed a credit-scoring model that includes women in meaningful ways. The company effectively addresses roadblocks within traditional financial systems that impede microenterprise access to business loans by leveraging an innovative underwriting system, cutting-edge technologies, and data science.

Aye's pioneering cluster-based² underwriting system utilizes distinctive markers and on-the-ground insights of specific industries to enrich limited financial data for accurate risk assessment and informed rate decisions. Aye Finance has achieved this by segmenting scores by microenterprise type: corner shops, tailors, beauty parlors, wage work, manufacturers, traders, and others. By studying each of these enterprise types carefully, the Aye Finance team has created thresholds that distinguish good credit candidates in each sector based on business age, ownership, residence, and other factors. Cluster-based financing allows Aye to compare like-to-like, allowing the team to better distinguish strong businesses (and good credit risks) from weak ones.

Importantly, that means that businesses owned by women, who face social barriers, household obligations, and other limitations, are not compared unfavorably to those owned by men, who are less constrained. This approach addresses the challenge of the limited credit history of microenterprise owners, facilitating semi-secured loans.

Data science is crucial in automating Aye's pioneering cluster-based underwriting system, which utilizes distinctive markers and on-the-ground insights of specific industries to enrich limited financial data for accurate risk assessment and informed rate decisions. The company is an early-adopter of data science and AI, leveraging it to maintain agility and adaptability to respond effectively to evolving challenges and changing circumstances. This approach addresses the challenge of the limited credit history of microenterprise owners, facilitating semi-secured loans and ensuring profitability. Leveraging its extensive data, Aye has transitioned from manual to ML-based underwriting. Today, 50 percent of its underwriting utilizes ML. As clusters expand, the extensive data collected trains its data science engine. Its ML model can accurately predict risks and determine optimal lending approvals and the lending amounts.

Besides underwriting, Aye's call center employs a data science rule engine to generate an ML model, predicting customers likely to default, reducing overall defaults by 10 percent. Additionally, AI and ML aids the company in customer communication. Aye utilizes bots to send reminders digitally, reaching customers via short messaging service (SMS) or phone calls. This feature is particularly beneficial as its customers are dispersed across India and speak various regional languages.

Beyond financing, Aye leverages its technological strengths to assist microenterprises in overcoming business challenges for example, by encouraging formal financial records and providing advisory services, thus helping them increase efficiency and promote growth.

² Cluster-based approaches recognize distinct types of MSEs and group them together based on shared characteristics.

KONFIO

Konfio



Country
Mexico



Women customers
33%



Year of founding
2013

KONFIO

In Mexico, the digital payments environment is not as deep as it is in East Africa or India. That limits the ability of inclusive fintech startups to reach small, low-income, informal businesses. Still, the growth of digital payments among urban populations is driving more inclusive credit scoring. Many small businesses that have long lacked access to formal finance services are now being served by fintech startups.

Konfio is using careful credit-scoring to include underserved Mexican enterprises by taking a close look at digital sales records generated by point-of-sale terminals and bank transfers. The team has spent the past ten years refining an AI credit score that approves small and medium businesses more regularly than mainstream approaches. These businesses are too small to be attractive to traditional banks given their low incomes (between US\$200,000 and US\$1 million a year in revenue) so the vast majority of Konfio's user base (85 percent) is accessing business credit for the first time. The algorithm is also inclusive of women. In fact, women are approved at slightly higher rates than men (11.6 percent vs 11 percent) (Arraiz 2023).

A study conducted by the Inter-American Development Bank confirms that Konfio's algorithm is correctly identifying entrepreneurs with growth ambitions. That study tracked businesses for two years and found that growth among those that received loans was almost 20 percent more than among firms rejected for a loan, although both groups showed nearly no growth in the months before the loans were disbursed (Arraiz 2023). The difference before and after receiving the loan, and when compared to rejected applicants,

suggests that Konfio is identifying ambitious entrepreneurs and powering their growth. The effect was even more marked for women, who experienced growth 41.9 percent higher than women whose loan applications were rejected.

Although Konfio has successfully included women, the model's dependency on sales data limits the startup's ability to reach the smallest and more informal microenterprises, many of which do not participate in the Mexican tax regime. It may be that as digital financial services expand in Mexico and as Konfio itself grows (it reached unicorn status in late 2023), the startup will be able to reach smaller businesses.

These models suggest that fintech is powering more inclusive credit scoring approaches – a trend that will likely continue as the models evolve and as new sources of data become available. Most start with small loan sizes so that MSEs can “build” their score as they repay, and inclusion grows over time. In addition, in an increasingly digitized world, new sources of data can be used to power more inclusive credit scoring algorithms, if deployed carefully and with adequate consumer protection.



How: Partnering with channel players for distribution to ease the operational burden of accessing credit

Fintech startups are finding ways to collaborate with channel partners to make financing more convenient and accessible to merchants. Typical partners include retail distributors and suppliers, payment providers, ride hailing platforms, and other service providers that have reach among small, underserved merchants. These partnerships bring down acquisition and operational costs for fintechs since they can piggyback on their established channels, while also increasing overall customer satisfaction since merchants gain access to seamless credit offerings. Lowering high acquisition costs driven by costly last-mile logistics, large field forces, and more is critical to viable fintech models. Research shows that some fintechs can spend up to US\$20 for every customer acquired, putting pressure on overall profitability (McKinsey 2022).

Channel partnerships for MSE finance take a range of forms and types. Most channel partnerships take place between fintechs and distributors in the fast-moving consumer goods (FMCG) sector. We are also seeing similar models in the fishery, poultry, and pharmaceutical industries. There are also channel partnerships between startups and traditional financial institutions to offer merchants specific credit products outside of their expertise (as is the case of Kaleidofin). In some of these partnerships, fintech startups provide white-label products that are fully integrated into partner offerings, as is the case with TymeBank and Mercado Credito. In these examples, the user experiences the financial services as an integrated part of their relationship with suppliers and may not even

realize that a fintech is involved. In other instances, fintechs merely use the supplier for introductions but build their own relationships with users. In a few cases, we are seeing that fintech themselves can provide the critical link between merchants and their suppliers, and actively manage relationships between the two (as with SympliciFi and &frnds).

Though channel partnerships can provide value for both parties, they are not easy to execute. There are complications around data sharing and protection, the potential for unclear recourse mechanisms, and potential ambiguities related to credit rules, procedures, and fee structures. Some of those complications are explored in another CGAP paper on financial services for gig workers: [“The Setup: Partnerships and Conditions for Offering Financial Services to Gig Workers”](#).

Even in robust digital environments, most models reaching microenterprises are neither digital-first nor digital-only; they include significant in-person or “touch” aspects. Primarily digital models like digital banks, marketplace finance, and e-factoring are still only feasible for higher-end MSEs that are wholly digitized. Data-driven lending models that target the smaller MSEs still integrate a high-touch approach that often includes agents, field forces, and call centers, and the associated costs. Channel partnerships, featured in this section, can help ease the costs and logistics of the need for in-person outreach.

SYMPLIFI

SympliFi



Continent
Africa



Year of founding
2017

SYMPLIFI

SympliFi is a software platform that digitizes the ordering process between micro retailers and their suppliers, and utilizes data to automate affordable inventory financing. This model empowers retailers, who are traditionally underserved by banks, to pay suppliers on terms that are tailored to their business needs.

The fintech starts by partnering with traditional, mid-size suppliers who dominate the market and have strong, established relationships with merchants to digitize the ordering workflows with their established network of buyers (typically ranging from 50 to 500 merchants). This allows SympliFi to reach a significant number of clients efficiently. SympliFi analyzes the order and transaction history of these clients to qualify those with robust profiles for credit, employing a data-driven approach that is both gender- and age-blind.

SympliFi agents play a crucial role in the onboarding process by visiting merchants to introduce the digital ordering platform and assist with account opening. This method results in a high conversion rate of nearly 90 percent. Merchants benefit from a seamless and simple process that requires no loan applications or additional paperwork. They can simply log into their account and immediately start ordering using their credit line with SympliFi's distributor partners.

The speed of receiving credit is highly valued by the merchants, who face no waiting or approval times in getting loans from SympliFi. A study in Ghana found that lengthy processing times dissuaded a third of businesses from accessing bank loans (Ayres 2024).

This suggests that the speed of approval and utilization provided by SympliFi is highly valued by retailers.

The process of using the credit to purchase inventory is extremely convenient, thanks to the supplier partnerships. Merchants can use their credit directly when placing orders, pay for the order themselves via mobile money integrated on the platform, or do a combination of both, reducing the need for cash transactions.

While transitioning merchants to ordering digitally can be a hurdle, the team notes that merchants are motivated by access to credit and also appreciate the convenience of digital ordering. They note that merchants tend to place orders at the end of the working day as they are restocking and preparing for the next day. Shopkeepers appreciate being able to do that work during off-hours, at their own convenience, rather than trying to reach busy suppliers during their own busy times. Digitizing this behavior saves costs for suppliers, who no longer need to take orders manually, and for SympliFi, which can disburse credit automatically at nearly zero cost.

Merchants tell SympliFi that the credit allows them to buy more inventory to meet demand, thereby selling and earning more. Moreover, merchants can grow their credit lines as they use SympliFi over time. The product also allows merchants who are not initially deemed eligible, to start out with a much lower credit line that grows over time as they order on the platform. This ensures SympliFi's solution can address a broader range of merchants in the market over time.

TYMEBANK



Country
South Africa



Women customers
42%



Year of founding
2012

TYMEBANK

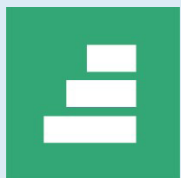
In South Africa, TymeBank partners with payment providers (rather than suppliers and distributors) to reach microenterprises conveniently. The payment providers have total visibility into transactions and assess those records to identify merchants who meet Tyme's credit scoring criteria to offer them credit. The model was developed by Retail Capital, which Tyme acquired in 2022.

The first part of Retail Capital's partnership with payment providers is to analyze not just sales data, but all transactions undertaken by a potential client. That analysis allows them to prequalify nearly 80 percent of users for pre-qualified credit offers, which are extended via the payment provider. That means that clients do not need to apply for loans via a separate banking application or even interact with Tyme directly to qualify for a loan.

The second part of the partnership is to leverage the payment company's reach with merchants to make the credit offer. Merchants receive that offer directly from their payment provider as a white-labeled financial service, as they are navigating their payments application. Tyme only onboards the merchant to their system once they accept the offer, thereby minimizing the effort needed to access credit.

This approach has allowed TymeBank to serve underserved microenterprises, which constitute over 90 percent of their user base, without requiring them to adopt a range of new behaviors and services. That ease of use also explains their success with women, who constitute 42 percent of their user base. In all, merchants served by TymeBank appreciate the convenience of the product; nearly 70 percent of them use the product again.

BOOST



Country
Nigeria



Women customers
??%



Year of founding
2021

BOOST

In Nigeria, Unilever has partnered with a non-profit organization to empower women in rural areas while extending their reach and value with underserved communities. The partnership is a unique approach to MSE finance because it includes grant funding to offset the higher costs of reaching remote areas and training first-time entrepreneurs.

Boost serves as a digital operating partner bridging women microentrepreneurs and Unilever's distributors. The fintech allows larger distributors to reach microenterprises efficiently by digitizing orders, payments, and operations. Boost collects orders via the Boost app and makes them visible to Unilever's distributors and field team. This eases acquisition, onboarding, and servicing costs while providing insight into the movement of Unilever products and the ability to source further financing for these retailers.

In addition, the digital ordering process gives Boost visibility across merchants' baskets over time and enables them to offer women access to credit and promotions. Once a merchant has ordered a few

times, they become eligible for a credit product called "Stock Boost", a BNPL product that allows merchants to purchase more than the cash they have on hand. Merchants who have access to Stock Boost order 40 percent more inventory on average relative to those without the service, suggesting that the credit is allowing them to purchase and therefore, sell more.

Starting with just a hundred women in Ibadan, the program has provided capacity building, trade finance and digital payment support to 13,000 women-owned businesses. The tripartite partnership between Unilever, the NGO, and Boost enhances female entrepreneurship in rural areas, providing them with training, digital tools, inventory and credit, so that they can successfully grow a micro business and provide more resilience and prospects for their families.

According to 60 Decibels research, 66 percent of Boost users report having no prior access to a service like Stock Boost. Moreover, 92 percent of users report an increase in revenue thanks to Stock Boost.

Partnerships with channel players like distributors, suppliers, payment providers and more allow fintechs to offer convenient distribution of finance. Channel partners power delivery models that are operationally lean without creating the need for merchants to adopt new digital behaviors, which many may resist. In all, channel partnerships allow fintechs to reach small, underserved businesses while also providing those MSEs with greater value.



What: Tailoring pricing and loan terms to match enterprise cash flows and decrease risk of over-indebtedness

Finally, fintech startups are tailoring loan size, tenure, and repayment frequency to match MSE cash flows and inventory turnover, thereby decreasing risk of over-indebtedness. They are moving away from long tenure loans, vanilla interest rates, and steep late fees to create loan structures that better match the rhythms of MSE revenues, costs, credit needs, and repayment preferences. These innovations decrease risk of over-indebtedness for entrepreneurs since they time loan disbursement with MSEs needs for liquidity, and repayments with revenue flows.

Fintech startups can afford to tailor loan terms thanks to the savings provided by their technology. Traditional financial service providers have to offer “one size fits all” loans because that simplicity offsets the high costs of acquiring, assessing, and servicing loans manually. By contrast, digital data and tech-enabled operations bring down costs of onboarding, scoring, and extending credit. Moreover, tech brings down the cost of tailoring by digitally segmenting clients, automatically adjusting loan terms, and more.

Many loan tailoring examples are found in [FMCG \(fast moving consumer goods\) value chains](#) where merchants gain access to digital, rotating working capital advances in the form of inventory credit or BNPL services. These products are not usually referred to as loans and can sometimes feature short interest-free repayment periods or bullet repayments, offered in-kind (not cash) as part of an FMCG product offering. They allow MSEs to take on additional inventory without the upfront cost. offered in-kind (not cash) as part of an FMCG product offering. They allow MSEs to take on additional inventory without the upfront cost.

Other examples are connected to e-commerce or digital payment models in which repayments are linked to earnings, allowing for variable structures. For example, by deducting repayments as a percentage of a merchant’s daily sales, so that repayments are seamless and painless.

&FRNDS



Countries
Indonesia
and the Philippines



**Potential revenue
growth**
6x



Year of founding
2014

&FRNDS

In Indonesia and the Philippines, &frnds partners with FMCG wholesalers to digitize their operations and offer de-risked credit to local merchants and micro retailers. The startup begins by digitizing operations for wholesalers, allowing them to track inventory and orders via a free software solution. Those orders give &frnds visibility into the merchant's behaviors and sales patterns, allowing them to offer inventory on consignment: effectively a risk- and interest-free loan.

The startup employs a sales team of canvassers to deliver a comfortable balance of tech and touch to both wholesalers and merchants. Those canvassers not only take operational responsibility for digitizing wholesalers, they also help merchants make their orders via the digital interface. That helps wholesalers achieve a significant boost in profits by lowering costs and increasing sales, while also providing merchants with reliable 24-hour delivery services.

Through the digital ordering data, merchants build a digital profile which is used to create a credit score that allows &frnds to offer merchants selected products on consignment. Consignment means that merchants only pay for goods once they sell, and if they don't sell, they can be returned. This structure de-risks additional inventory for merchants at no cost.

&frnds monetizes its work with the upstream players like FMCG brand companies so services are costless for merchants. &frnds offers them insights on what products are moving and where, and offers a convenient way to promote or introduce new products to last-mile micro retailers. FMCG companies see this as a convenient way to strengthen their insights into the last mile, introduce slower-moving and higher-margin products and increasing overall sales through promotions, which reach last-mile retailers via the fintech. These companies can also select products that are offered to the merchants on consignment to account for their own supply – a service for which &frnds receives a commission.

Wholesalers are also able to boost their sales through the &frnds team of canvassers, with a profit-sharing agreement in place. &frnds' own data suggests that gross merchandise value for wholesalers can grow from just over US\$8,000 to almost US\$50,000 over a 12-month period.

Overall, &frnds provides tangible benefits for last mile retailers, community-based wholesalers and participating FMCG brand companies. Their model provides a clear example of how digitization can improve supply chain efficiency and deliver credit to micro retailers free from financial risks or burdens.

KOPO KOPO



Country
Kenya



Time it takes for repeat
users to receive loan
30 mins



Year of founding
2011

KOPO KOPO

Kopo Kopo is similarly able to offer merchants tailored credits that lower their risk by taking advantage of visibility into sales and transactions. The startup offers merchants of all sizes a virtual till software (a point-of-sale solution that is linked to employee IDs and has additional bookkeeping features) so that merchants can accept digital payments (e.g., M-PESA) and more easily pay suppliers, employees, and others. Sophisticated merchants can use Kopo Kopo's Application Programming Interface (API) to plug payments directly into their accounting solutions, while microenterprises might prefer their Unstructured Supplementary Service Data (USSD) protocol. That software gives Kopo Kopo privileged insight into a business' sales (size, frequency, number of repeat customers, etc.), and provides an efficient means to collect loan repayments.

After using the bookkeeping solution for at least two months, merchants with sufficient earnings qualify for a loan. While the size and structure of those loans are in line with industry standards (approximately US\$500 and 90 days on average), the repayment structure is unique. Rather than repay in regular, bullet installments, merchants repay as a percentage of revenue (between 10-50 percent) that is automatically deducted from their earnings. That means that merchants pay more when they earn more, and less when they earn less. Moreover, the loans have a fixed cost, which is easy for merchants to understand.

After several loan cycles, merchants automatically qualify for their next credit. The team is also working on a risk-based pricing structure to decrease loan costs

for those who have proven to be lower-risk borrowers. This is because the Kopo Kopo's repayment structure brings down the risk of default, especially after several loan cycles.

The credit products that inclusive fintech startups are developing are structured and delivered in innovative ways that decrease the risk of over-indebtedness by offering tailored loans that better match the cashflows of MSEs. They collect repayments in line with how merchants earn, often in shorter, more flexible ways, so that volatility in earnings does not result in default.

Many of these loans tend to be small, which lowers the risk of over-indebtedness but may also limit their potential benefit. These amounts are very useful for smoothing daily/weekly bumps but may not be large enough for making bigger investments in equipment or storefronts thus limiting growth potential. Furthermore, the pricing of these models can be hard to decipher for MSEs and can be difficult to assess for fairness. Another potential drawback is that the amounts keep MSEs locked into existing supply chain relationships, potentially limiting gains and not fundamentally changing the size or shape of the "pie" shared between FMCG producers and retailers in general. This last risk may be less worrisome (at least in the short-term) as we have observed many shopkeepers using multiple sourcing apps and channels to secure the best practices.

Bringing strategies together: Delivering inclusion, convenience and risk management

The strategies and products featured here are each delivering benefits to MSEs in terms of inclusion, convenience, and risk management. When they come together, they offer a powerful recipe for MSEs, as is the case with Mercado Libre in Brazil. The company includes a digital bank Mercado Pago, and an e-commerce platform Mercado Libre. Mercado Pago leverages Brazil's unique open finance regime as well as its privileged position within the Mercado Libre group to offer excluded MSEs convenient credit products.

To start, Mercado Pago uses payment and transaction data from merchant sales activity on Mercado Libre. Since the fintech can access both e-commerce activity and payment data, they can consider basic transaction data of revenue and sales frequency, but also quality indicators such as speed of fulfillment, ratings, order returns, cancellations, and how many customers are repeat customers.

Moreover, that marketplace data is assessed alongside external sources of data from the credit bureau and open finance data, which gives Mercado Credito visibility into how well a merchant is connected to other companies and financial service providers. Unlike traditional credit bureau data, which highlights bad risks, open finance data also reveals creditworthy clients by making data about good payers –that was previously private to individual banks– open to other financial service providers.

This unique data together with the privileged access allows Mercado Credito to offer credit to small entrepreneurs who would otherwise struggle to

secure loans. Together, the combination of these novel sources of data has allowed Mercado Credito to unlock credit for underserved enterprises, 46 percent of them women according to research conducted by 60 Decibels.

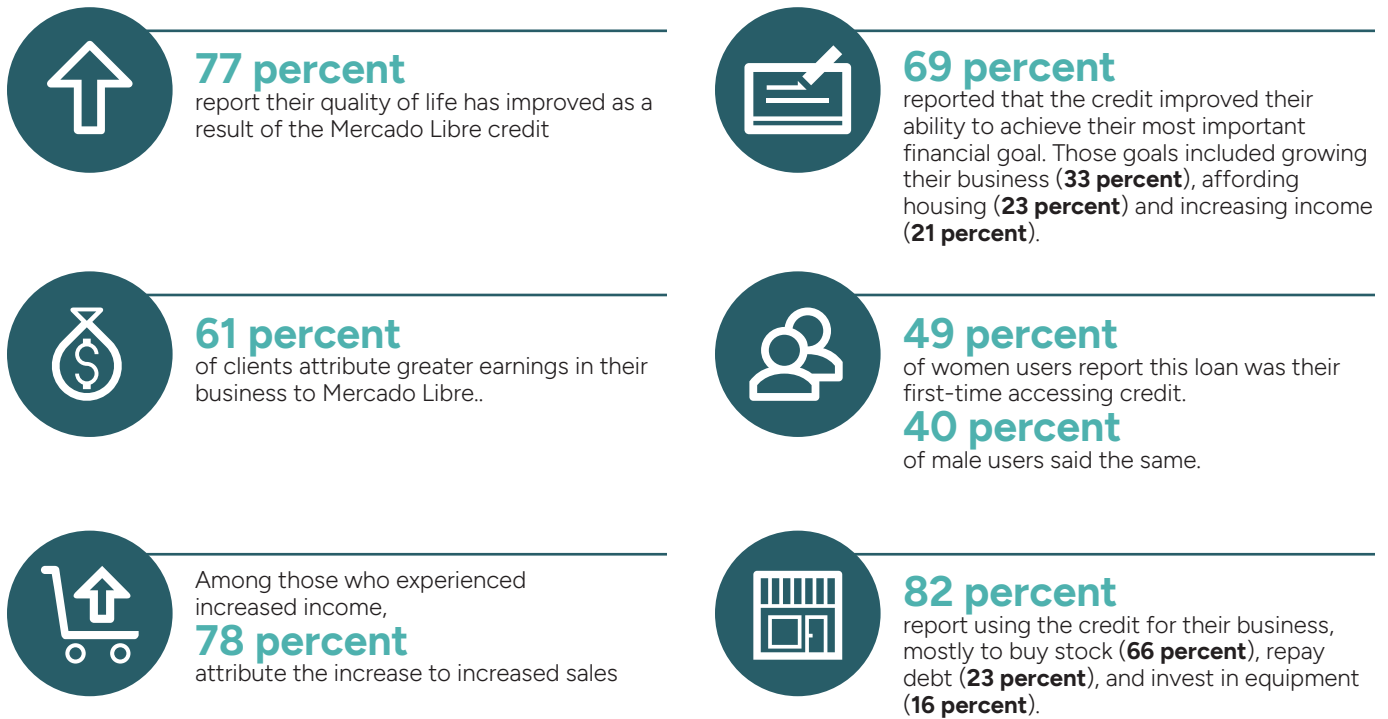
Even as novel uses of new data allow Mercado Credito to extend credit to underserved MSEs, the partnership with MercadoPago also creates an easy and convenient user journey for merchants similar to the channel partnerships described in the second section above. For example, like TymeBank above, Mercado Credito's integration with Mercado Libre allows the fintech to make pre-approved credit offers to merchants directly within the payment portal. After identifying eligible merchants, Mercado Credito pushes a credit offer directly within the Mercado Libre environment, thereby saving merchants the effort of applying for credit. Merchants need only a couple of months of regular sales to be eligible for credit. Once they accept the offer, merchants receive the money almost immediately, since the loan is disbursed via Mercado Pago.

The convenience is also extended via repayment modalities, since deductions are made either in fixed installments or as a percentage of their earnings (automatically debited). That decreases effort since merchants do not have to worry about timing or pushing the installments. If merchants pick flexible payments, repayment amounts are tied to earnings: merchants pay more as they earn more, and pay less when they are earning less (between 5-25 percent depending on the amount and risk profile of the user). In this way, their income is smoothed by varying the size of payments. The Mercado Credito team notes that although variable payment can be slightly harder to predict, that predictability does not imply higher risk.

Taken together - improved credit scoring, convenient access, and tailored payment structure - allows Mercado Credit to offer an inclusive, valued credit services to users. A study conducted by 60 Decibels revealed the extent to which MSE users are benefitting from the credit.

Mercado Libre’s strong positioning allows Mercado Credito to leverage transaction and behavioral data from marketplace sales, and offers ease and convenience for merchants as they access and repay credits.

FIGURE 3. Users attribute significant benefits to accessing credit via Mercado Libre



The way forward

Credit for MSEs is still nascent

Overall, the startups highlighted above are delivering a range of benefits by facilitating more convenient credit that is fit for purpose. They do so by using data in new ways, facilitating channel partnerships for reach, and tailoring product terms. These three strategies are delivering inclusion, convenience, and lower risks for underserved MSEs, particularly in markets with mature digital payments ecosystems.

Although the examples explored above are delivering substantial benefits, few fintechs have truly scaled in size, and most have yet to unleash substantial MSE growth. In general, the largest fintechs are focused on payments while a few are offering small consumer loans.

Productive-use credit for MSEs is a nascent product area. Although MSE models are having some success, most are focused on small amounts of working capital. A few fintech innovators are deploying larger loans to help MSEs grow their businesses and move beyond business resilience to businesses growth. Moove, for example ([featured here](#)), helps ride-hailing drivers purchase their own cars, thereby building assets and increasing earnings. While such growth-oriented examples are few, we remain hopeful that, over time, fintech startups will also start to support MSE growth more reliably as they mature and grow.

One reason for this hope is that, in providing resilience-oriented credit, these models are creating new streams

As these fintech startups make creative use of new data, they are also producing reams of financial data about creditworthiness and business activities.

of data that can eventually be used for other credit products. As these fintech startups make creative use of new data, they are also producing reams of financial data about creditworthiness and business activities. Those digital footprints can open doors to additional services, financial and otherwise. In that sense, these models open MSEs to other linkages by putting them “on the map” of other financial service providers.

Another reason for hope is the growth of digital payments ecosystems around the world. Those fundamentals have unleashed a range of innovations in more developed digital markets like Kenya, India, and Brazil. As similar digital payment ecosystems develop in more emerging markets, local innovators will be able to build on established product insights and models such as those shared here. They will also uncover a range of new insights and product designs, some of which will undoubtedly be geared toward MSE growth. These markets – Kenya, India, Brazil, Indonesia – can serve as examples of how to reach smaller businesses and rural households and then, how to build on that inclusion to create financial health and improved livelihoods for underserved people.

Developing models for MSE growth will require more donor support

While there are reasons to be hopeful that MSE finance models will deliver greater and more profound benefits, their business models will need more to support to become established and continue innovating, particularly in difficult capital environments. For example, one of the most established MSE financing players in Africa, Copia Global, went into administration in May of 2024 after raising more than US\$120 million and a series C round. Only weeks earlier, investors forced out the founder and Chief Executive Officer of Copia's competitor Twiga Foods, citing operational problems (Ndege 2024). This volatility illustrates the extent to which these models are far from resolved, despite having raised significant amounts of venture capital.

Observing these challenges, many donors are recognizing that financial services for MSEs require progress on product design, infrastructure, market linkages, and more to deliver microenterprise growth and job creation. These ambitions remain the holy grail for many in the financial inclusion and development sectors. But more is needed to enable growth in revenue and to improve livelihoods for microentrepreneurs.

With the right support and commitment, fintechs are well-positioned to include the smallest MSEs as well as offer a broader range of products, including fixed asset loans and overdrafts. However, to play their part inclusive fintech startups will need soft capital to design, test, and launch loans for asset-building, expansion, and other products, particularly for the smallest, most vulnerable businesses and particularly in early days. Fintechs are unlikely to take on the risks or fund the experimentation needed to get to such products without philanthropic support, since many already face high costs and difficult operating environments. Particularly when fintechs are starting out, they face substantial development and setup

costs, and also high costs of capital (usually foreign denominated, with high return expectations).

In all, these conditions highlight the need for more donor support, as most fintech startups struggle to access capital themselves. Most are dependent on venture capital, which means that startups must prove and scale their core products, rather than experiment with new ones. Donor funding is needed to incentivize these providers to test ways to deliver more growth opportunities and capabilities to MSEs.



Upcoming CGAP research will investigate how financing for fintechs can support the transformation of more inclusive MSE credit markets. Further research and support is also required to understand how different segments of MSEs use and benefit from access to finance. CGAP has embarked on such research, including [this Focus Note](#), and has additional work underway.

While there is still a lot of work to be done, the innovators featured above demonstrate that fintech innovations in MSE finance are: reaching unserved enterprises, particularly women; creating more convenient, more accessible products; and lowering risk of over-indebtedness via tailored loan terms. Inclusion, convenience, and lower risk are all high-valued outcomes, building the resilience of small businesses to provide stable, durable incomes for entrepreneurs. These resilience outcomes are particularly important because they match what many entrepreneurs claim is their primary goal in starting a business.

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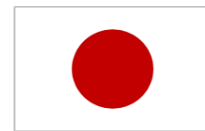
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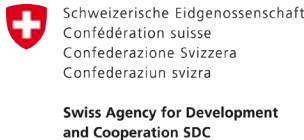
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