



ACCION
INSIGHTS

Bridging the Small Business Credit Gap through Innovative Lending

How Data Flows, Tech Tools
and Niche Marketing Can
Bridge the MSME
Financing Gap

Accion Venture Lab

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Innovative Lenders Tap New Trends to Target Small Business Market

KEY POINTS

- Accion Venture Lab has invested in more than a dozen innovative lenders that are using new business models to make financing available to micro, small and medium enterprises that have long struggled to borrow from traditional institutions.
- These new approaches leverage recent developments that have reduced some of the hurdles to viably lending to small business, specifically the emerging digitization of small business practices – such as government-mandated e-invoicing – as well as the growth of online finance and mobile money platforms.
- Access to alternative data flows from these electronic sources and new analytic tools are smoothing the due diligence process and speeding loan approvals.
- By unbundling the suite of financial services usually found at banks and using niche and affinity marketing approaches, these pioneering lenders have unlocked new ways to identify, assess, serve, and support small business clients.
- Taken together, these trends present a new opening to close the large finance gap facing small businesses and many actors can play a role: investors, regulators, microfinance institutions, entrepreneurs and other startups.

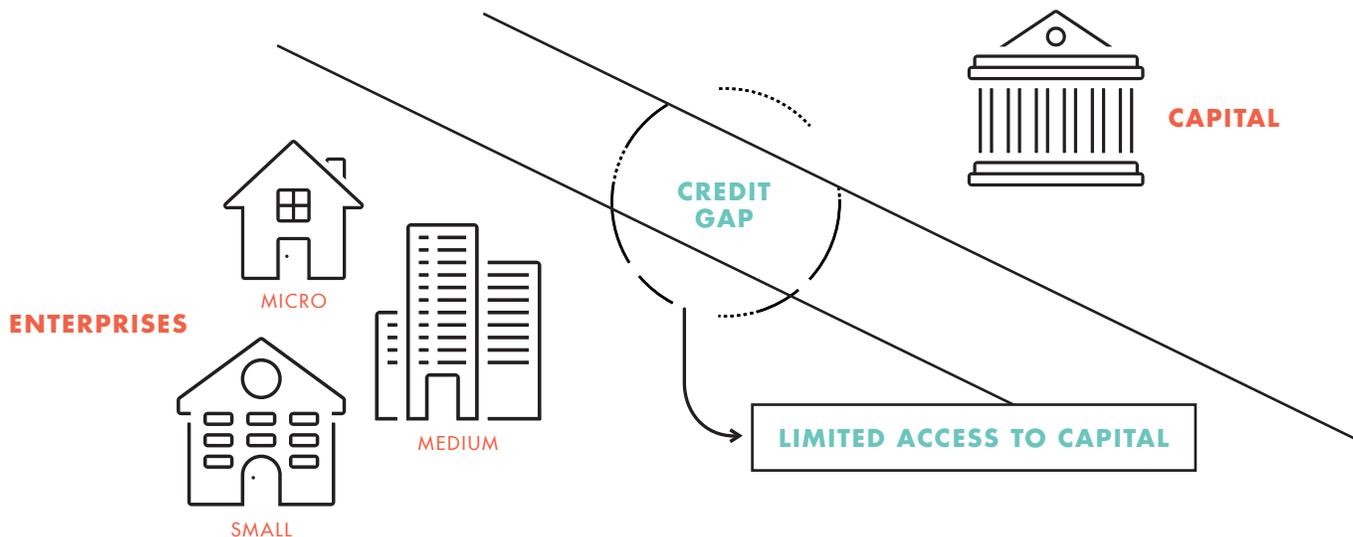


FIGURE 1. BRIDGING THE SMALL BUSINESS CREDIT GAP

A TOUGH LENDING ENVIRONMENT FOR MSMEs, MADE WORSE BY THE FINANCIAL CRISIS

Micro, small, and medium enterprises (MSMEs) constitute the foundation of the global economy - from New York to Lagos to Jakarta. According to the World Bank, formal MSMEs contribute up to 33 percent of national income (GDP) in emerging economies, and the numbers are significantly higher when informal MSMEs are included. In emerging markets, most formal jobs are with MSMEs, which create four out of five new positions.

While the range of their activities spans the spectrum of agriculture, manufacturing, and services, all MSMEs face the same challenge in finding the money they need to hire new employees, purchase inventory, or upgrade their equipment in order to grow. Banks are often reluctant to serve MSMEs given the small loan size and high costs typical of this segment. For other lenders such as microfinance institutions (MFIs), the capacity required to serve MSMEs, particularly in assessing business models and risks, remains a major challenge. These conditions leave an MSME financing gap, estimated by the International Finance Corporation at US\$2.1-US\$2.6 trillion. There are 200 to 245 million formal and informal businesses that either do not have a loan or do have a loan but are still constrained by their access to financing.

This reticence within the broader finance community can, at least in part, be attributed to cumbersome internal processes, scant understanding of the nuances of MSME business models and cash flows, and the high costs of due diligence. The financial crisis that swept the globe in recent years made traditional lenders even more cautious and regulators in many cases have responded to the collapse in consumer confidence with tighter regulations regarding risk management and loan underwriting. In the US, the 2015 Small Business Credit Survey report by the Federal Reserve found that a large

portion of small business borrowers were still barred from access to capital. This was particularly challenging for micro enterprises, as more than 60 percent of companies with revenue of less than US\$100,000 fell short of their funding goals.

MSMEs have had little access to secure growth capital from traditional banks or non-bank finance companies that rely on time-consuming and costly due diligence, underwriting, and loan service procedures; as a result, profit margins are too lean to be attractive to the lenders or loan interest rates are simply too high for the MSME customer.

TECH-ENABLED LENDERS MAKE STRIDES IN CUSTOMER ACQUISITION, UNDERWRITING AND FUNDING

Despite this seemingly bleak environment, a number of innovative MSME lenders are emerging that are using niche marketing, digital or mobile platforms, and enterprising partnerships – and often a combination of all three – to offer a viable solution to the MSME financing opportunity. Through its Venture Lab, Accion’s investments in the ventures showcased in this paper represent local answers to this global dilemma. Their solutions are delivering faster and more convenient finance to MSMEs. These enterprises connect with and understand their MSME clients in ways that allow them to better assess and price risk, manage costs, and provide important non-financial services.

These companies provide examples of the many ways that nimble niche players in MSME finance can make sense of a market deemed too tough by larger brick and mortar banks; some have focused on single sectors – such as education – to gain deep industry knowledge and critical network connections, others have leveraged their existing customer bases or those at partner companies to offer tech-enabled finance solutions. Still others are trying to connect investors or financiers with defined target groups among MSMEs using “affinity” marketing strategies.

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Broadly, these new actors in the MSME finance field are making inroads in this market by innovating across three dimensions deemed to be critical to success: acquiring new customers to ensure scale, tailoring loan underwriting to MSME characteristics and needs, and attracting affordable debt financing or investment to on-lend to MSME borrowers.

CUSTOMER ACQUISITION

To successfully and effectively acquire customers at scale, innovative lenders need to be able to differentiate themselves by offering products and services that are tailored to an MSME's specific needs, delivered quickly and conveniently. Acquiring MSME customers has historically been a resource-intensive process, which could include multiple client visits and frequent engagement with a sales or loan officer, leading to acquisition costs outweighing potential returns. By identifying, understanding, and engaging with their target customers in ways that go beyond traditional sales approaches, lenders not only grow their loan portfolios, but can more readily and effectively assess the potential value and creditworthiness of clients.

Some lenders featured in this brief seek to grow their business by targeting specific market segments (India's Aye Finance in manufacturing, trading, and services clusters and Varthana in affordable private schools) while others have turned to the web (SMEcorner in India, Konfio in Mexico, First Circle* in the Philippines, and Lulalend in South Africa) or mobile platforms (Tienda Pago in Peru and Kopo Kopo in Kenya) to obtain scale, all while managing their overhead.

UNDERWRITING

Properly screening potential borrowers to assess risk and determine loan pricing are the keys to a thriving portfolio, but MSMEs seldom capture and document tangible, reliable and regular data for lenders to generate a loan decision. In many markets, formal and verifiable data that is necessary to assess a business' credit risk, such as income tax records, is almost impossible to acquire. Additionally, the small loan sizes typical of MSME lending effectively rule out resource-intensive due diligence checks into an individual MSME's bona fides and creditworthiness. In many markets, 'know your customer' regulation has grown increasingly stringent in the wake of the financial crisis; this trend can result in an additional burden in verifying customers' identities, whether through third-party investigations or in-house due diligence.

Varthana and Aye Finance have sought to streamline the underwriting process through their depth of knowledge of their target sectors. Umati in Kenya similarly comes to know its client base by engaging across specific agriculture value chains, viewing the entire production process as a guide to the business trends and prospects of potential borrowers. Tienda Pago leverages the relationships of fast moving consumer good distributors with small stores across Peru and Mexico to inform its vetting process, applying its own screening algorithm across transaction and supply data to generate a credit assessment for each MSME retailer. Through its online loan platform, Mexico's Konfio gathers more than 5,000 biographical, social, and financial data points and – thanks to its own assessment algorithm – can swiftly evaluate and process a loan application.

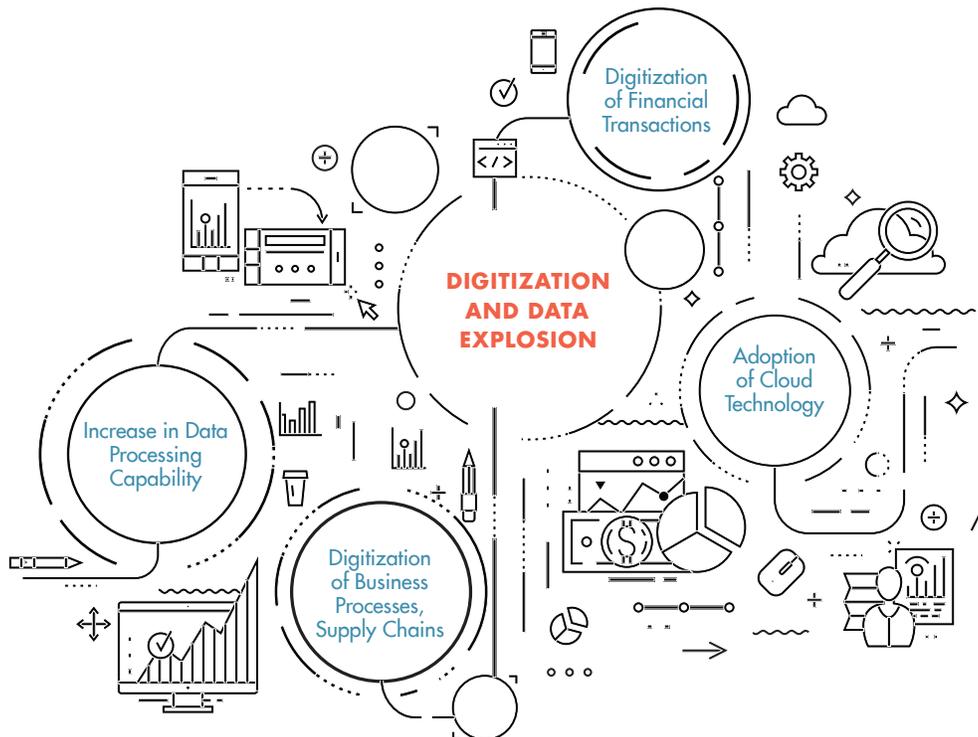
* At the time of publishing this paper, First Circle is not yet an Accion investment.

FUNDING

Innovative, emerging MSME lenders often suffer the same constraints in obtaining finance that hamper their customers; funding for such groundbreaking firms can be scarce and more expensive than for traditional banks. Innovative MSME lenders need to provide non-traditional investors and funding sources with a compelling case that they can manage the higher risks and lower loan volumes associated with small business finance. In the US, StreetShares uses an affinity marketing strategy to connect entrepreneurs and investors to military veteran-owned MSMEs through an online bidding platform that tailors the

cost of funds. Community Investment Management uses a proprietary technology infrastructure to connect investors to technology-driven lenders that provide small business loans in the United States, providing investors with a transparent look into individual loan performance as well as the social impact of the funded loans.

These novel solutions to the MSME financing gap are being driven by a number of developments, but in particular, the revolution in MSME business practices through new technologies, shifts in government regulations that both facilitate digitization and encourage new sources of small business funding, and the unbundling of services that were previously the preserve of traditional banks.



MSMEs can access information technology resources and applications via the cloud using an internet connection and pay-as-you-go or subscription fees, reducing costs and investment demands.

DIGITAL PLATFORMS AND CLOUD COMPUTING ALLOW MSMEs TO EMBRACE NEW TECHNOLOGY

As business owners are becoming increasingly accustomed to technological advances, they are looking for technology-enabled solutions to increase their efficiency and capability. Innovators are responding to such demand with niche solutions to MSMEs's major business and operational pain points. Square in the US and Clip in Mexico are enabling merchants to receive card and digital payments using affordable tools and platforms, providing a pathway for small businesses to transition from cash-based to obtain more efficient digital transactions that were previously too costly to be viable. Similarly, in Kenya Kopo Kopo's platform provides small merchants with tools to accept, view and manage mobile money transactions, as well as use the captured information to help them build business intelligence and access working capital.

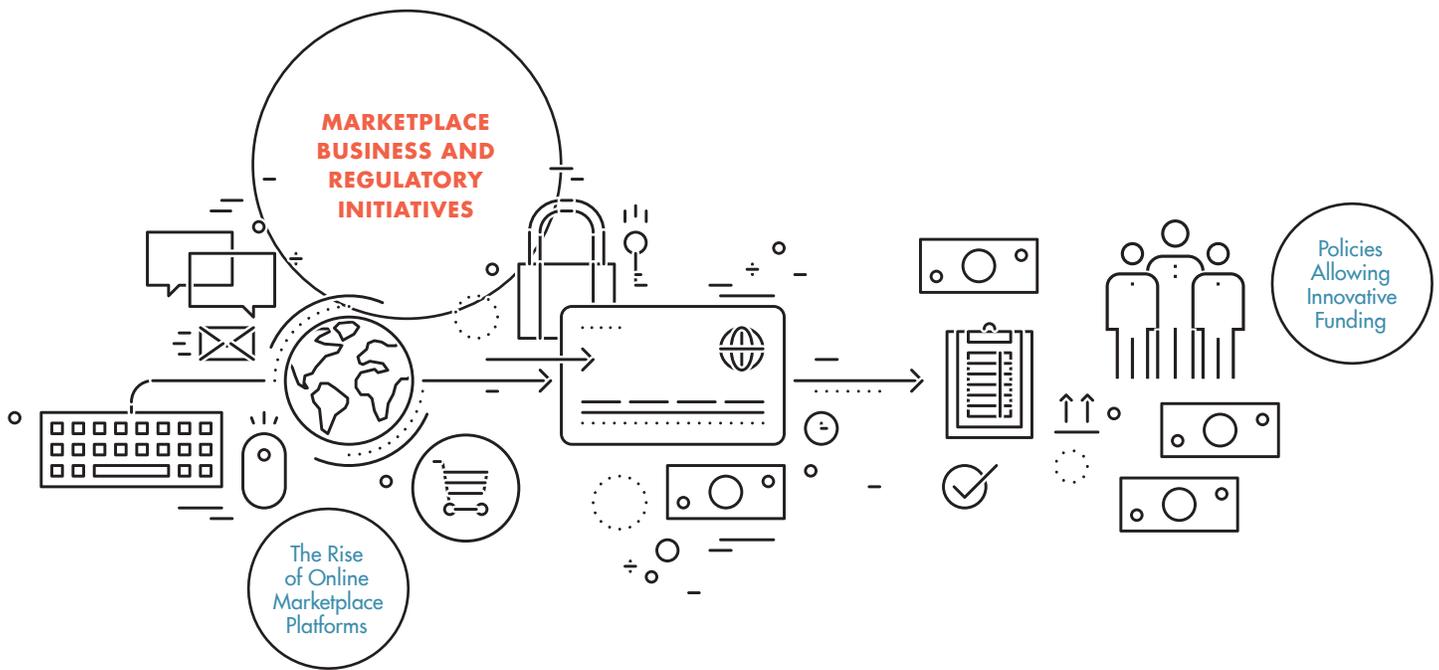
Small businesses, from tech startups in India to small grocery shops in Peru, are enjoying the widespread applications of cloud technology. MSMEs can access information technology resources and applications via the cloud using an internet connection and pay-as-you-go or subscription fees, reducing costs and investment demands. Examples of applications are software-as-a-service, such as Salesforce or Quickbooks, where businesses subscribe to an application accessed over the Internet. The Cloud also promotes collaboration, as employees can access and use files regardless of location.

EMERGING MSME DATA FOOTPRINTS, IMPROVED ANALYTIC TOOLS HELP LENDERS ASSESS CREDIT RISK

This wave of technological advances, like e-commerce platforms and cloud services, not only enhance small business practices and reduce costs, they also generate new data footprints that can facilitate cheaper and easier due diligence for lenders. These new sources of data can also include predictive, non-traditional data sources, such as rental and utilities payments, that were previously omitted from credit assessment. Together, they become a valuable source of information for financial services providers in assessing a potential borrower's creditworthiness, as showcased by Lulalend in South Africa.

The stream of new information from small businesses – part of the larger revolution in Big Data or alternative data sweeping the globe – is accompanied by an improvement in data processing and analytics. Lenders are leveraging data using a combination of software, predictive modeling, and data metrics to assess the health of a business and determine their credit worthiness. Lenders can now assess the business's transactional and performance data that is digitally captured (such as delivery volumes, seller ratings, and purchase behavior) to better assess and underwrite these segments.

Solutions like DemystData help financial institutions better access and analyze data by piecing together a range of scattered data points to yield high-confidence verifications of identity, employment, income, and more. Such verifications can reduce the need for these manual checks and reduce drop-off rates. For many underserved customers, passing this first checkpoint can help give access to financial products and services that would otherwise be inaccessible.



ONLINE MARKETS CONNECT LENDERS TO MSMEs; ELECTRONIC INVOICING ENRICHES DATA FOOTPRINT

The past decade has brought the rise of online marketplace businesses that allow multiple vendors to offer products through the same platform. Within financial services we see the advent of online marketplace lending, an internet-based lending market that is created by connecting borrowers with lenders or investors. On the funding side, online platforms such as StreetShares provide investors the opportunity to back specific types of borrowers, allowing innovative lenders to attract new forms of capital from socially-oriented retail investors to return-seeking hedge funds.

There have also been encouraging signs that government regulation is becoming more accommodating toward these and other new financing approaches for MSMEs, such as the Jumpstart Our Business Startups Act in the US, which eases various securities regulations and permits innovative forms of finance like debt and equity crowdfunding. On May 16, 2016, Title III Crowdfunding went into effect, allowing any small business to borrow money or sell shares for up to US\$1 million a year via crowdfunding platforms. Previously, only accredited investors (those who earn at least US\$200,000 in annual income and have a net

worth of at least US\$1 million) could invest in early stage startups. Title III Crowdfunding was aimed to spur the growth of small businesses by opening up the investor pool to over 300 million potential investors.

In Latin America, governments in Mexico, Chile, Brazil, Argentina, and others have mandated electronic invoicing that requires buyers and sellers to register invoices with the tax authorities electronically when a transaction takes place. These initiatives around e-invoicing reflect the belief that digitization will not only help authorities keep better track of commerce activities, but also increase business efficiency. The digitization of invoices also creates a rich pool of transaction information for MSMEs.

NICHE PROVIDERS EMERGING TO DELIVER UNBUNDLED, SPECIALIZED FINANCIAL SERVICES

Given that the small business lending market is experiencing a rapid technological shift, a large number of startups are emerging to compete with banks across the range of financial services, relying on lean operating structure, niche market focus, and innovative underwriting processes that give them a competitive edge in the small customer segments.

In the past, customers had to rely on large banks to provide a range of financial services: checking and savings accounts, mortgages, consumer loans, and investment products. Today, each function can instead be performed by niche providers and some have already reached scale.

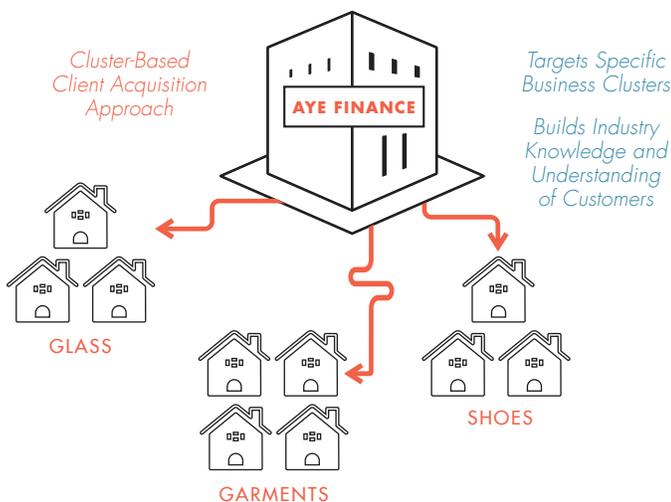
In the past, customers had to rely on large banks to provide a range of financial services: checking and savings accounts, mortgages, consumer loans, and investment products. Today, each function can instead be performed by niche providers and some have already reached scale. Non-bank payments providers, such as PayPal, are familiar and growing in number. In an unbundled world, they could extend their activities to include direct debits, standing orders, and other payments still dominated by banks. Indeed, these same trends may even lead to new solutions for financial services that go beyond banks' traditional purview. Dopay, currently operating in Egypt, enables MSMEs with unbanked employees to pay them electronically. Dopay simplifies payroll management and disbursement for MSMEs, while providing employees with no prior access to account banking with formal services.

The following pages introduce some of the MSME finance providers backed by Venture Lab, detailing their market segments, products, and dimensions of innovation, through which they are serving a broad range of small business borrowers.

Reaching Underserved Clients by Targeting Industry Clusters

AYE FINANCE, INDIA

Aye Finance is a New Delhi-based non-bank financial company focusing on targeted market segments or clusters to identify, engage, and lend to MSME clients. Aye uses an industry cluster enablement (ICE) approach to gain insights and strong connections within specific manufacturing, trading, and service industries (e.g., shoes, brass works, garments), enabling it to efficiently target, acquire, and underwrite small-scale businesses within each cluster.



BACKGROUND

Aye lends to small-scale manufacturing, trading, and services businesses that cannot access capital from mainstream financial institutions in India, as they lack sufficient documentation and credit history. While other lenders also try to serve these types of businesses, they generally do not have a good understanding of the business dynamics and risks. They are unable to provide loans swiftly, particularly in India's northern and eastern regions where non-bank MSME financing is less developed than in the southern states. Additionally, India's MFIs are generally constrained by regulations around loan size and cannot make loans large enough to finance the growth and expansion seen by MSMEs.

INNOVATION

By focusing on specific industries, and by gaining a deep understanding of flows and linkages among suppliers through to retailers, Aye is not only able to build its client base and make appropriate lending decisions, but it can also facilitate market linkages along a cluster's supply chain and provide advisory services to enhance business owners' management skills and financial literacy.

Aye's understanding of each specific market segment allows it to identify creditworthy clients and approve and disburse loans more quickly, and at lower rates, than competing sources of finance.



DIMENSIONS OF INNOVATION

ACQUISITION

UNDERWRITING

Target Customers:

Micro or small businesses with annual turnover of over US\$15,000-\$150,000 and a minimum of three years in the same line of business and operating in the same city.

Products and Services:

For Micro Businesses:

Mortgage loans (secured against property) for a maximum 5 years.

Hypothecation loans (secured against working assets) and add-on short-term loans for 2 months to 3 years.

Livestock loans for a maximum of 5 years.

For Institutions and Small Businesses:

Term loans for a maximum of 7 years. Secured through mortgage on property and working assets.

Receivables financing for no more than 3 months.

Hypothecation of working capital, machinery and fixed assets.

Aye identifies promising industry clusters and learns more about their typical business dynamics and cash flows. It leverages trade associations, supply chain references, and referrals to efficiently market its services to potential borrowers. Aye uses a branch structure with its sales team, structuring its personnel into "hunters" (who seek new customers) and "gatherers" (who focus on financial documentation and renewals from existing customers) working within the defined industry clusters. The insights and networks resulting from the industry cluster approach enable Aye to efficiently acquire customers at scale.

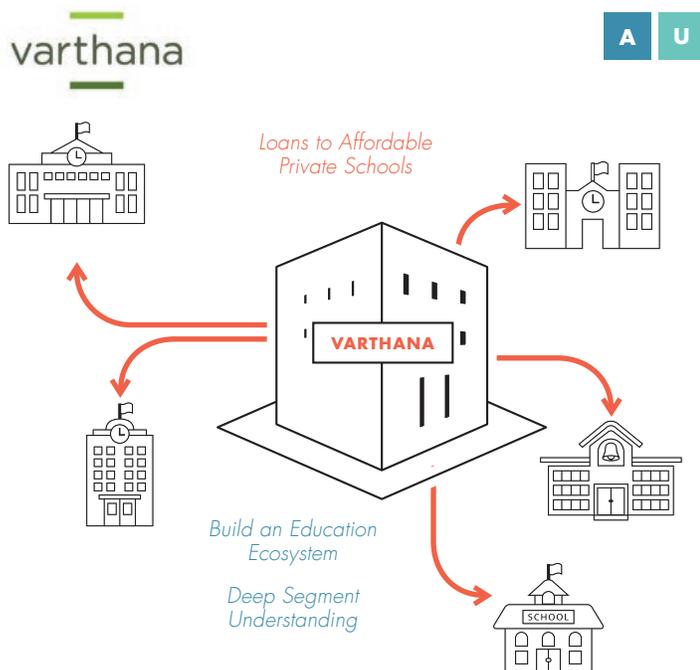
Aye utilizes industry-specific parameters for its credit appraisal process to help identify outliers and develop early warning triggers. It assesses a potential borrower's creditworthiness, knowing what the typical financials of a given business should look like and what reputation the prospective borrower has among peers and partners.

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Singular Focus on Schools Offers a Path to a Multi-Billion Dollar Market

VARTHANA, INDIA

Launched in 2013 in Bangalore, India, Varthana lends to affordable private schools teaching children from low- and middle-income families. Varthana provides infrastructure and project loans and non-financial services to help these schools grow and improve their infrastructure and quality.



BACKGROUND

Only 268 million of India's 400 million student-aged population is currently enrolled in school. Even for those who do attend school, quality continues to vary widely. Around 43 percent of students attend private school and 33 percent attend no school at all, pointing to the need for more and better school options. As families seek alternatives to government schools, local entrepreneurs have responded by creating neighborhood schools that strive to deliver an affordable, quality education. There are estimated to be more than 250,000 private schools in India serving over 100 million students with fees as low as a few dollars per month, part of a growing US\$12 billion industry. Most of these school entrepreneurs have invested their own capital and resources (including the land and buildings to host the school) and continue to reinvest earnings to improve and expand offerings.

However, many affordable private schools need capital and cannot make necessary investments to improve the efficiency or quality of their offerings. These entrepreneurs are typically not able to access loans from traditional finance institutions like banks or MFIs as their schools do not resemble a typical business; often they are structured as a trust. Varthana's sole focus on this particular segment enables the company to develop a strong relationship with school entrepreneurs and provide additional services, such as capacity building and connection to vendors and solution providers.

The company's replicable, niche-focused systems and processes enable Varthana to profitably serve a highly impactful but traditionally underserved segment.



DIMENSIONS OF INNOVATION

ACQUISITION

UNDERWRITING

Target Customers:

Schools with a minimum of 300-500 children, open for at least 2 years.

Products and Services:

Varthana offers loan products to meet affordable private schools' needs. Common projects include construction of additional classrooms, repair or renovation of existing buildings, construction of facilities like toilets, labs, and libraries, the purchase of computers or other equipment, and financing of teacher training programs.

INNOVATION

Varthana is one of only a handful of players worldwide pioneering school finance. Working with this specific field affords Varthana a deeper understanding of its clients and the education context, informing Varthana's design and customization of its products, processes, and services.

The company's replicable, niche-focused systems and processes enable Varthana to profitably serve a highly impactful but traditionally underserved segment. For customer acquisition, Varthana targets schools that have local credibility and a strong track record within their communities. It deploys specially-trained field officers to identify and acquire customers within this specific segment, to process and monitor loans, and to manage ongoing relationships.

Varthana employs a hub-and-spoke model to promote localized relationship management and assessment, but maintains centralized decision-making and back-office functions to keep costs low. The uniformity and similarity of schools enables Varthana to use a replicable cash-flow underwriting model that is customized for this particular segment.

An Online Platform to Connect MSMEs to Tailored, Quick Loan Solutions

SMEcorner, INDIA

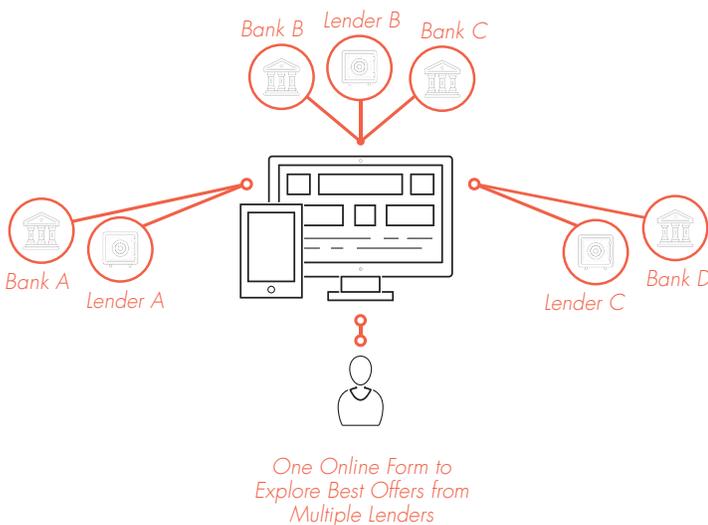
India's first online platform for MSME loans, SMEcorner provides customers with competitive offers for business loans from a variety of banks and non-bank finance companies. The online marketplace provides business owners easier, faster, and more transparent access to financing.



BACKGROUND

Internet growth in India has been increasing at greater than 30 percent a year for the last 5 years. As MSMEs shift online – Google has set a target of creating an online presence for 20 million SMEs by 2017 – there is a growing opportunity for online SME financing solutions. Large players like BankBazaar have emerged in the consumer finance space and achieved considerable scale. At the same time, traditional banks are increasingly looking to partner with online platforms, business correspondents, and other channel providers to acquire previously inaccessible customer segments.

SMEcorner taps into this emerging demand while seeking to provide an efficient and affordable solution for MSME borrowers as it simplifies and speeds the application process. This online approach reduces the time and effort to explore options and provides the optimum product, provider, and price fit for MSME borrowers. At the same time, SMEcorner's platform also serves as a cost-effective customer acquisition channel for loan providers.



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DIMENSIONS OF INNOVATION

ACQUISITION

FUNDING

Target Customers:

Micro and small businesses with turnover from around US\$30,000 to US\$150,000;

Medium-sized businesses with turnover between US\$150,000 and US\$500,000; and

E-commerce merchants with monthly sales of more than US\$3,000

Products and Services:

Provides MSMEs with an online platform to find and compare offers for unsecured business loans, loans against property, and machinery loans from partner banks and non-bank finance companies.

INNOVATION

SMEcorner's digital platform serves as a one-stop-shop for unsecured loans for MSMEs. A prospective borrower only needs to complete one online application that is then verified, qualified, and referred to the relevant lenders for finalization, offers, and loan disbursement. By answering a few simple questions on the platform, prospective borrowers can determine their loan eligibility in 90 seconds. Customers can also apply and track their loan applications on SMEcorner's online dashboard.

SMEcorner's initial strategy has been to offer banks, as well as other financial institutions, a highly cost-effective means for acquiring MSME customers. Its online platform provides partner financial institutions turn-key origination and fulfillment services to extend offers to more prospective MSME borrowers, helping contain customer acquisition costs. SMEcorner also provides light-touch customer prescreening (e.g., data verification) services, providing lenders with leads on customers that have already been verified and validated online.

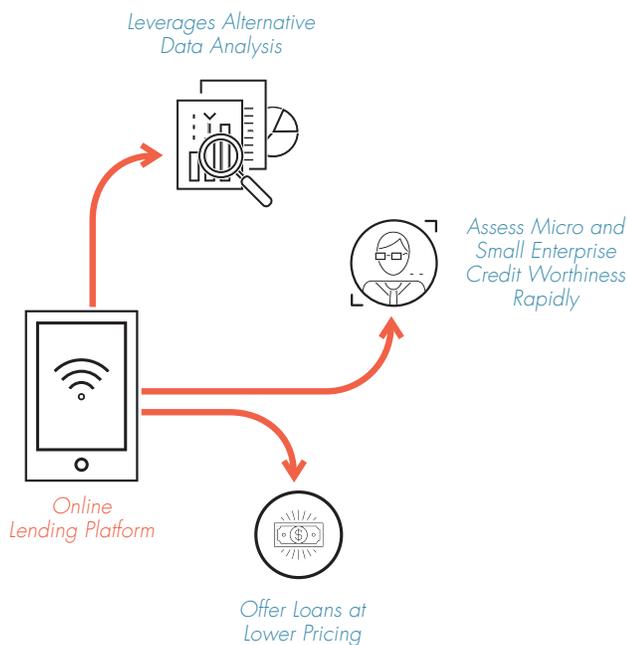
This initial strategy has enabled SMEcorner to gather insights and lessons around key success factors for an online lending business in India. Looking ahead, SMEcorner is exploring the potential to become a balance sheet lender, which will enable them to better serve MSME needs.



Unique Data Profiling, Online Platform Deliver Rapid Lending

KONFIO, MEXICO

Konfio is an online lender that provides micro businesses in Mexico with affordable working capital loans. Konfio's entirely digital platform allows for low customer acquisition costs and technology-enabled credit assessment, enabling it to offer lower rates and faster turnaround time compared to traditional brick-and-mortar lenders.



BACKGROUND



Making up 95 percent of all companies in Mexico, micro businesses account for more than half of the country's workforce, but they still struggle to access finance; nearly 93 percent of them are shut out by commercial banks. The microfinance model has been successful in Mexico, but MFIs have historically followed group lending models and are not adept at extending individual loans to micro and small businesses. As a result, most MSMEs face capital constraints or are presented with highly expensive financing options from informal and alternative lenders

INNOVATION

At the core of Konfio's business model is its proprietary algorithm, which incorporates more than 5,000 data points across five broad domains and is designed to triangulate this information into a single predictive measure of whether a prospective borrower will repay a loan. The five domains of data the algorithm uses include both traditional sources of data, as well as more innovative sources not yet introduced into the underwriting process in Mexico:

1. **Biographical data:** Biographical data includes borrower demographics, location, and educational attainment, among other data points.
2. **Social network data:** A unique addition to the underwriting process, Konfio requires access to a prospective borrower's social network accounts. With this access, Konfio looks for "clues" that are correlated with high spending or "risky" behavior.

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DIMENSIONS OF INNOVATION

ACQUISITION

UNDERWRITING

Target Customers:

Micro and small businesses with revenue of less than US\$2,000 a month. Businesses tend to be informal and do not have established credit histories with the Mexican credit bureau.

Entrepreneurs (typically 25-40 years old) who manage micro and small businesses and come from a relatively low-income segment of the population. Typically, these clients are smartphone owners, connected to the internet, and operate a business that has been in operation for more than 15 months and that has a handful of employees.

Products and Services:

Working capital loans for inventory or equipment purchase, marketing, expansion, rent, repairs, refinancing, and paying of suppliers.

Short-term and mid-term loans, with maturities of up to 2 years (with an average of 9 months).

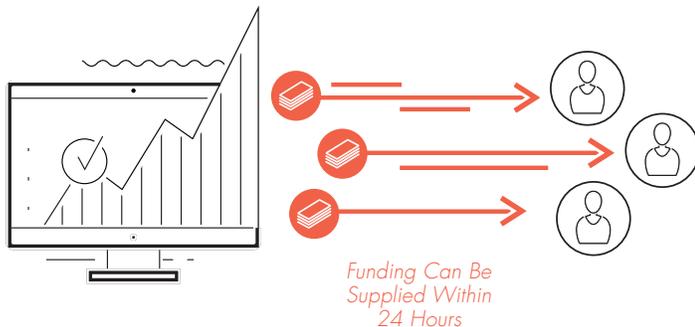
3. Potential: By gathering information about a customer's hobbies and interests, Konfio analyzes their psychological and/or psychometric profile. Other metrics that Konfio collects includes data on how customers interact with its website, the speed with which they move through the site and apply for a loan, keyboard versus mouse usage, and other indicative elements.
4. Transactional data: Since 2011, the Mexican government has required all registered businesses to digitally upload invoices on all transactions. Konfio uses this transaction history (upon receiving approval from prospective borrowers) to predict future cash flows and gain insight into key business indicators such as volume, frequency, and seasonality.
5. Lending history: Konfio collects and analyzes data on a potential borrower's borrowing history, repayment, default rate, and credit score.

Konfio's online platform is designed to be convenient and allows for a rapid decision process for customers; it takes about 10 minutes to fill out a loan application using the online platform. When a prospective borrower finishes applying, he or she will get an immediate response, reducing the uncertainty and time commitment required by traditional loan applications.

Leaning on Automation to Speed Loans in Africa's Second-Largest Economy

LULALEND, SOUTH AFRICA

Lulalend, launched in May 2015 in Cape Town, is South Africa's first online and automated provider of short-term MSME funding. Lulalend's approach leverages technology and a proprietary algorithm to evaluate applicants and provide funding quickly, conveniently, and transparently. Using electronic data, decisions are largely automated and funding can be supplied within 24 hours.



BACKGROUND

South Africa has the second-largest economy in Africa, but economic and social disparities lead to a vastly underserved population in terms of financial services. Despite relatively high bank account penetration rates (at around 70 percent of the adult population), most South Africans remain underserved. Half the banked population is 'thinly served' and does not have access to credit at a formal financial institution.

In this context, MSMEs are disadvantaged in gaining access to basic formal lines of credit. Even formal MSMEs, most of which have a bank account, are usually unable to access credit from their banks, which struggle to properly assess small business risks. In addition, non-bank financial institutions that often target underserved markets are absent in South Africa. MFIs are focused on serving informal businesses and individuals, creating a 'missing middle' – a large gap between these informal clients served by MFIs and the larger corporations that are able to access bank finance.

Lulalend lends exclusively to MSMEs and most funding is used for inventory or equipment purchases, renovations, or marketing.

Lulalend uses a combination of non-traditional data sources and machine learning processes to feed an innovative scoring algorithm. These innovations are enabling Lulalend to offer MSME access to finance quickly and conveniently.



DIMENSIONS OF INNOVATION

ACQUISITION

UNDERWRITING

Target Customers:

Micro and small businesses that have been in business for over 1 year, generating monthly turnover of around US\$3,500, and that are registered as a formal business.

Products and Services:

Six-month unsecured term funding offered through an online platform.

INNOVATION

Lulalend is pioneering an all-digital lending business model in South Africa. Lulalend leverages data from alternative and online sources, such as electronic bank accounts, payment gateways, online accounting companies, e-commerce businesses, and any other partners that could provide additional data to assist in credit rating and affordability analysis. Lulalend has also developed and implemented tools to digitize manual data; for instance, if a potential MSME client uploads copies of paper-based bank statements, Lulalend can automatically 'scrape' the data so that they can move forward with applications as quickly as possible.

Lulalend uses this combination of non-traditional data sources and machine learning processes to feed an innovative scoring algorithm. These innovations are enabling Lulalend to offer MSME access to finance quickly and conveniently.

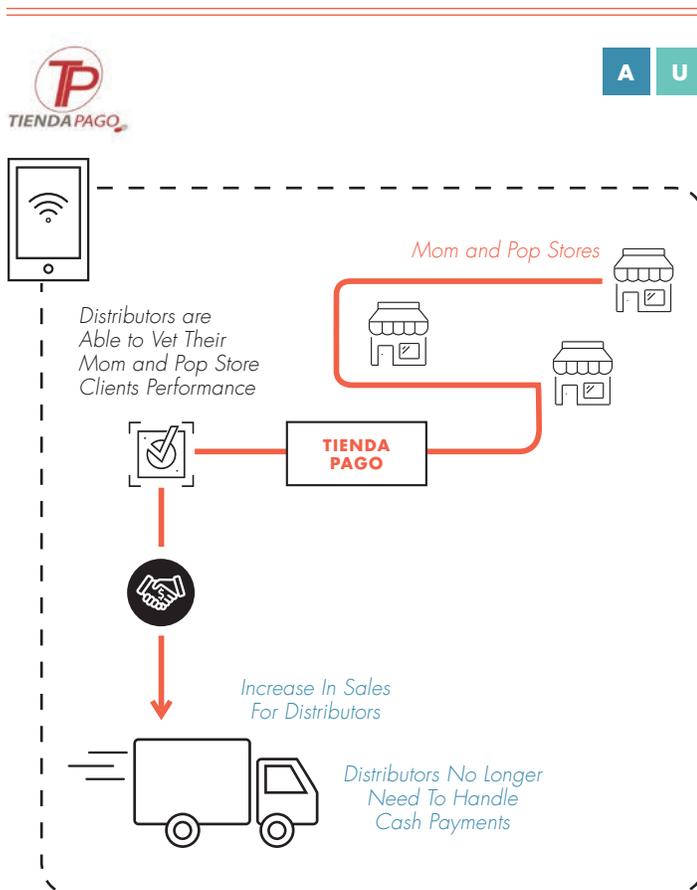
In particular, Lulalend's processes allow for quick decisions and fast loan turnaround. Using a small business's electronic data, decisions are largely automated and funding can be supplied within 24 hours. Application and review is a completely online process. Unlike traditional financial institutions, Lulalend allows small businesses to apply for and receive funding without visiting a bank branch.

Lulalend also strives for transparent pricing based on a flat rate related to the total loan principal, making it easier for clients to understand the total amount due.

Using Distributors and Mobile Wallets to Offer Working Capital to Stores

TIENDA PAGO, PERU AND MEXICO

Tienda Pago uses a mobile-based approach to extend short-term working capital to small stores to finance their inventory purchase through partner distributors. By partnering with major fast moving consumer goods (FMCG) distributors, Tienda Pago finds a way to identify eligible customers and manage its credit risks.



BACKGROUND

Tienda Pago estimates that there are 200,000 independent FMCG stores in Peru, and 800,000 in Mexico. These stores represent more than 70 percent of the market for FMCGs. MSMEs like these across Latin America lack access to financing options through established financial institutions. Bank loans for MSMEs are mostly intended to finance store improvements and typically entail longer maturities, larger minimum amount, and a lengthy approval process. Though some small distributors offer credit to their customers as a way to expand their market share, this is limited to around 10 percent of the clients. Distributors that offer credit must develop both lending and collections practices and they risk souring relationships with their MSME clients in the case of loan collection issues.

Tienda Pago's mobile-based model helps close a funding gap for small stores, while at the same time enabling distributors to increase their operational efficiency.



DIMENSIONS OF INNOVATION

ACQUISITION

UNDERWRITING

Target Customers:

Small stores with an average of 1-2 employees. In Peru, the typical Tienda Pago customer moves US\$2,000 in goods per week, while in Mexico target store sales total around US\$3,500 a week.

Products and Services:

Short-term (1-2 weeks) working capital with average loan size of US\$400.

INNOVATION

Tienda Pago's mobile-based model helps close a funding gap for small stores, while at the same time enabling distributors to increase their operational efficiency. Small store owners gain access to working capital to fund inventory purchases, while distributors that work with Tienda Pago enjoy increased inventory sales as well as lower collection costs and security risks through reduced cash handling.

Tienda Pago leverages its supply chain relationships to lower its customer acquisition cost and improve risk management. Distributors introduce Tienda Pago's sales associates to the stores they supply.

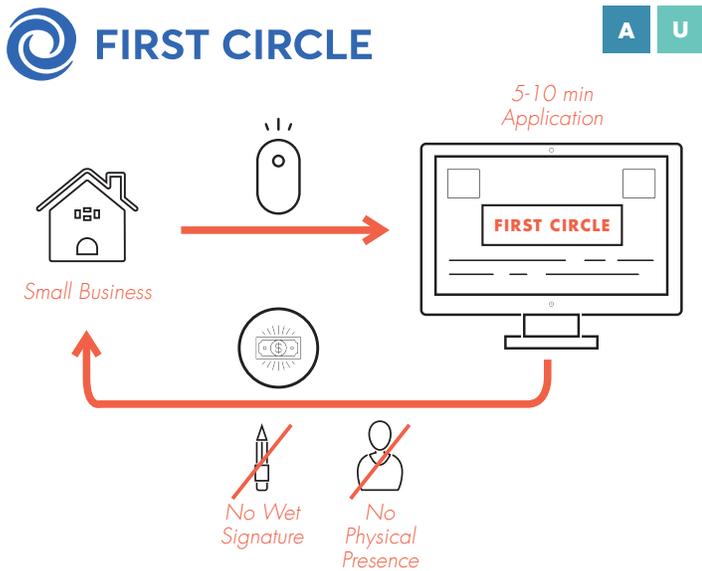
Tienda Pago's relationship with the distributors also allows for better risk mitigation. It uses a proprietary algorithm to generate a credit score for stores based on the data collected from distributors. A weekly credit limit is assigned based on the store's weekly sales, which are verified with the distributors.

Reliance on digital payments increases distributor efficiency and help borrowers build credit history. Tienda Pago uses a mobile platform that both MSMEs and distributors access through text messages, enabling distributors to request direct electronic money transfers from Tienda Pago in exchange for inventory deliveries. Distributors are relieved of the burden of cash collection and reconciliation of invoices, as Tienda Pago pays distributors directly for inventory purchases delivered to their store customers.

New Data Sources, Digital Loan Platform Cut Paperwork, Speed Loan Delivery

FIRST CIRCLE*, THE PHILIPPINES

First Circle enables business owners to access working capital facilities by employing a centralized account management and credit evaluation process that leverages alternative data sources, such as e-commerce and transaction history. The combination of First Circle’s partnerships with e-commerce platforms and other partners and its digital platform enables First Circle to acquire and underwrite its small business clients at scale.



BACKGROUND

MSMEs account for 99.7 percent of enterprises in the Philippines and employ around 65 percent of the labor force. However, as in most markets, MSMEs are greatly underserved by banks and traditional lenders for working and investment capital. While the size of the MSME credit gap in the Philippines varies by source, it is estimated at approximately US\$9 billion. Despite this large market opportunity, few alternative lenders are striving to address this gap. Banks are relatively unfamiliar with uncollateralized, short-term cash flow lending and have low technology adoption. As a result, they do not have the operational ability or cost structures to permit short-term flexible financing to MSMEs. Moreover, many MSMEs are unable to meet the stringent requirements or collateral requirements demanded by banks; even when they do, the funding and evaluation process can take months to complete.

* At the time of publishing this paper, First Circle is not yet an Accion investment.

First Circle is able to make a decision and fund loans within 3 days, and often within 24 hours for e-commerce merchants, compared to 1-4 weeks for traditional lenders.



DIMENSIONS OF INNOVATION

ACQUISITION

UNDERWRITING

Target Customers:

MSMEs operating for at least 2 years and that have a monthly turnover of at least US\$5,000, and trading businesses (such as e-commerce merchants).

Products and Services:

Credit secured against invoices or receivables to customers served through e-commerce partners' channels.

INNOVATION

First Circle's acquisition, application, underwriting, and customer management methods rely on an efficient technology-enabled platform. This leverages new acquisition channels by partnering with e-commerce platforms with a large customer base of merchants. These merchants are often unable to secure working capital despite turning inventory over on a consistent basis. First Circle targets tech-savvy customers, reducing the cost of acquiring and underwriting qualified borrowers at scale. In addition to honing an efficient customer acquisition strategy, First Circle has built automated systems covering the entire customer life cycle, from loan application to data access for underwriting and even loan contracting, enabling quick and affordable disbursements of loans to customers.

These innovations enable First Circle to offer a number of key value propositions for customers:

Quick decisions and fast turnaround: Using a mix of data (including e-commerce sales history, bank statements, and a physical site visit), credit decisions are made much more quickly than they would be at traditional financial institutions. First Circle is able to make a decision and fund loans within 3 days, and often within 24 hours, for e-commerce merchants, compared to 1-4 weeks for traditional lenders.

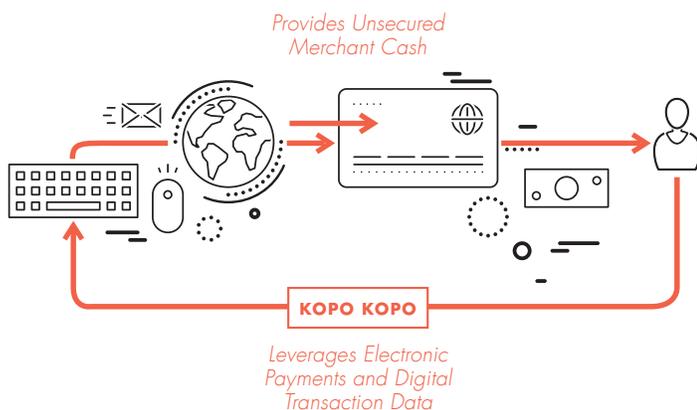
Convenient and efficient processes for customers: First Circle allows small businesses to apply for and receive funding without visiting a physical branch. Its streamlined application process takes only 5-10 minutes to complete. While First Circle will conduct site visits, customers are able to manage the process and their accounts remotely. In addition, First Circle is also the first in the market to waive the need for an actual application signature, saving clients a trip to the bank to sign documents; a chore that can easily take half a day in chaotic Manila traffic.

First Circle's innovations and improvements to traditional lending processes have enabled it to demonstrate clear and immediate value to underserved MSMEs in the Philippines. As it automates more of its processes and continues to innovate, First Circle will be able to serve customers across a variety of sectors and geographies through its efficient tech platform and the networks of its e-commerce and on-the-ground distribution partners.

Leveraging a Mobile Money Platform, Client Data to Lend to Merchants

KOPO KOPO, KENYA

Kopo Kopo was the first to offer Kenyan merchants a way to process payments using popular mobile money plans and it has leveraged its systems and customers' digital transactions data to now offer unsecured merchant cash advances.



BACKGROUND

Kopo Kopo began as a digital platform to enable small merchants to accept digital payments. When Kopo Kopo launched in 2012, the vast majority of mobile money transfers were between individuals. More than 70 percent of Kenyans were already using Safaricom's M-PESA electronic money services, but Kenyan merchants struggled to accept mobile money using their personal accounts, which had value caps. It was also relatively expensive for merchants to get money out of a mobile money account due to withdrawal limits and fees. Overall, less than one percent of businesses accepted electronic payments formally and there were fewer than 20,000 total point-of-sale terminals across Kenya.

Kopo Kopo addresses this challenge by providing a merchant acquisition platform and proprietary application program interface for mobile money systems, enabling merchants to accept M-PESA and other mobile money services. It now leverages its digital footprint and understanding of customers' businesses to provide merchants with unsecured cash advances. Moreover, building out merchant acceptance of electronic payments helps foster financial inclusion.

By factoring customers' electronic receivables, Kopo Kopo can anticipate their repayment capacity and recognize any unusual or suspicious variations. This transforms a customer's transaction history into a pseudo-credit history.



DIMENSIONS OF INNOVATION

ACQUISITION

UNDERWRITING

Target Customers:

For Grow cash advances, merchants that have actively used Kopo Kopo for over 3 months. Kopo Kopo customers range from salons to restaurants to office supply stores. Grow is also being offered to new customers that have accepted Lipa Na M-PESA, credit, or debit card payments for a minimum of 6 months.

Products and Services:

Merchant cash advance. Instead of interest, borrowers pay a fixed fee based on a number of factors, such as their history as a Kopo Kopo customer. As a general rule, the fee declines the more customers use their Kopo Kopo account.

INNOVATION

Kopo Kopo's system integrates with a mobile network operator to facilitate seamless mobile money transactions between consumers and merchants. Kopo Kopo also provides merchants with a range of customer relationship management data tools to help better manage, track, and segment transactions across their business and to launch loyalty campaigns with their clients.

In late 2014 Kopo Kopo expanded to offering its customers an unsecured merchant cash advance product: Grow. This evolution demonstrates that payments can first establish the rails needed to later offer an expanded suite of financial services and products. While Grow is based on successful merchant cash advance models in other markets, Kopo Kopo tailored it to best suit the trend of mobile money adoption in Kenya.

By factoring customers' electronic receivables, Kopo Kopo can anticipate their repayment capacity and recognize any unusual or suspicious variations. This transforms a customer's transaction history into a pseudo-credit history.

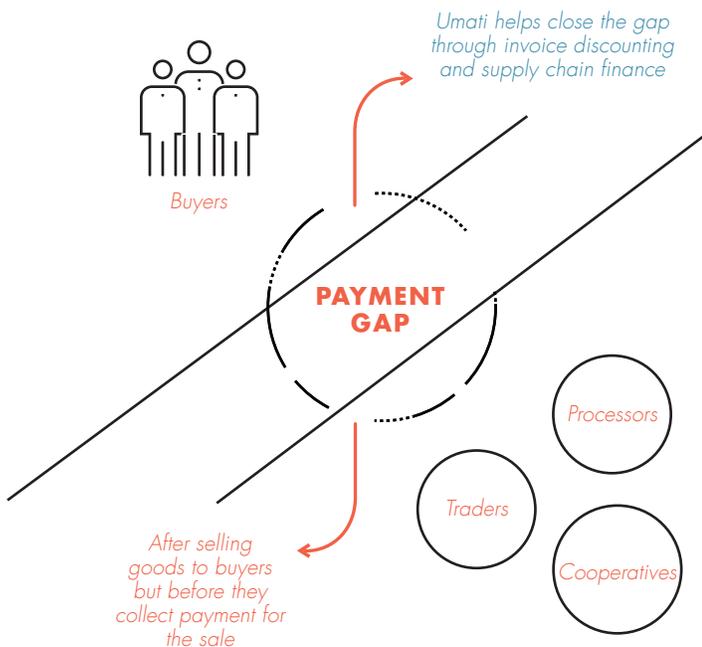
Kopo Kopo's digital approach allows for convenient, business cycle-friendly access to capital for customers. Its Grow cash advances are disbursed in minutes, require no personal guarantee and come with no late fees or penalties. The cash advances are not tied to a fixed term. A customer selects the percentage of daily sales, via the Kopo Kopo platform, to dedicate to repayments and Kopo Kopo automatically deducts that percentage each time the customer receives a payment. Since repayments are based on electronic sales, Grow can align with a business's cash flow: Kopo Kopo deducts a larger amount when sales are high and a smaller amount when they decline.

Digital Platform Offers Access to Agriculture Supply Chain Financing

UMATI CAPITAL, KENYA

Umati Capital is an MSME lender providing working capital to players within agricultural value chains in Kenya. Umati offers invoice discounting and supply chain finance to processors, traders, and cooperatives to enable them to bridge payment gaps that arise after they sell goods to buyers, but before they collect payment for the sale (either in export markets or to local retailers). Payment can often take 60 to 90 days, which in turn delays payment to the client’s suppliers (often smallholder farmers who urgently need to receive payments for their goods).

Umati Capital.



BACKGROUND

There is an estimated US\$2-5 billion funding gap for MSMEs looking for working capital in Kenya, representing one of the largest constraints to the country’s economic development. As in other countries, Kenyan MSMEs struggle to meet stringent bank requirements, such as a proven track record and collateral in hard assets, when seeking working capital loans. Those that do secure lending usually face lengthy approval and disbursement timeframes, as well as costly terms.

Invoice discounting and factoring solutions can provide an affordable and swift solution for businesses to convert unpaid or outstanding invoices into cash, helping them manage their supply chain and ease pressure on an already tight cash flow. These options, however, are extremely limited in most emerging markets, including in Kenya.

Umati targets a gap in the market – the vast majority of the processors, traders and cooperatives are not attractive to banks, either because they are too small or are not entirely ‘formal’.

Umati provides invoice discounting and supply chain financing that serve as an affordable and swift solution for businesses to convert unpaid or outstanding invoices into cash, helping them manage their supply chain and ease pressure on an already tight cash flow.

Umati Capital.

DIMENSIONS OF INNOVATION

ACQUISITION

UNDERWRITING

Target Customers:

Traders – Valid and current supply contracts; minimum invoice size of KES 100,000 (US\$988); suppliers to agri-businesses, supermarkets, and manufacturers.

Processors – Minimum annual revenue of KES 12,000,000 (US\$119,000); business is within the agri-business, supermarket or manufacturing sectors; must have financials.

Products and Services:

Invoice discounting of up to 80 percent of face value, and supplier financing with maturities of up to 120 days per supplier payment.

INNOVATION

Umati provides supply chain financing to MSMEs within the agriculture sector in Kenya. The company serves upstream agricultural processors and traders, providing them with cash advances against receivables for their partner producers. This helps streamline cash flows for the various actors in the value chain.

Umati uses a digital platform to enable customers to utilize an invoice discounting product based on a tripartite agreement between the company, the MSME borrower, and the buyer of the MSME's product. Umati then advances up to 80 percent of the value of any delivery that is confirmed and accepted by the buyer. Umati captures and extracts data regarding each and every transaction within a particular agricultural supply chain, allowing it to assess the performance of each actor in the chain and make better lending decisions.

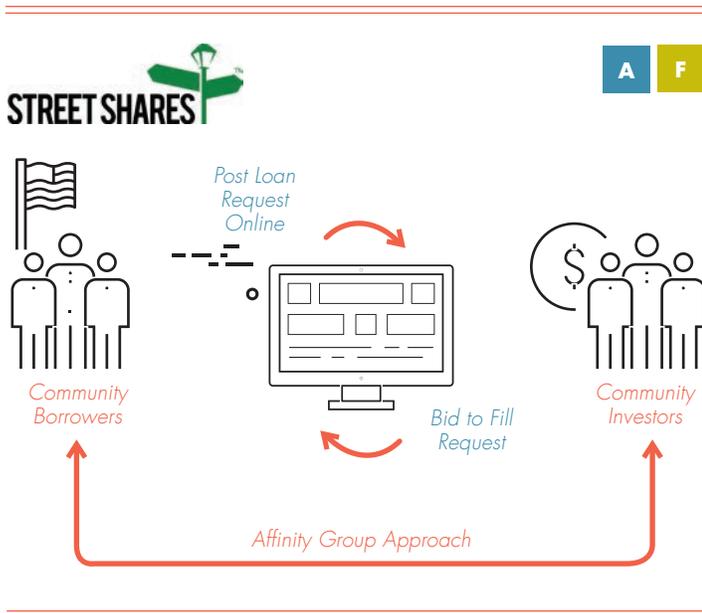
To backstop its portfolio risk, Umati has secured an insurance facility from African Trade Insurance Group (ATI) against potential losses. This facility covers losses that could occur if the buyer defaults on the due date of the invoice or if the buyer becomes insolvent before the due date. Umati also leverages ATI's due diligence database, extending offers to certain reputable produce buyers that ATI has vetted and insured.

Umati also turns to reputable buyers to find and evaluate suitable suppliers seeking liquidity injections into their value chains. The prospect of a more productive and successful supply chain is an incentive for key actors in the value chain to identify good credit risks for Umati loans.

Linking Investors to MSMEs Through An Affinity Approach

STREET SHARES, UNITED STATES

StreetShares is an online peer-to-peer lending platform that builds on a strategy to connect investors to MSMEs looking for funding from the same affinity group, currently focused on US military veterans. This approach spurs customer acquisition and origination, compels repayment and loyalty, and drives investment interest from potential investors, resulting in potentially cheaper debt financing for borrowers.



BACKGROUND

Even in a market as mature and sophisticated as the United States, MSMEs are massively under-financed. Banks remain the main source of credit for small business but loans below US\$100,000 are underserved, with the debt outstanding in this segment falling 2 percent per year since 2007. StreetShares aims to help address this issue by offering an online platform through which investors can invest in a high-yield asset class, while simultaneously providing them with an opportunity to support an entrepreneur with whom the investor shares a particular affinity.

StreetShares' affinity model demonstrates lower customer acquisition cost and better risk management. Its primary marketing approach is to use existing large communities in the US that have natural organizing structures and modes of communication to reach borrowers and retail investors.

INNOVATION

StreetShares' affinity model demonstrates lower customer acquisition cost and better risk management. Its primary marketing approach is to use existing large communities in the US that have natural organizing structures and modes of communication to reach borrowers and retail investors. Using this affinity-based marketing strategy, currently focused on the veteran community, StreetShares is able to acquire large groups of borrowers and lenders at much lower origination costs.

StreetShares secured the US Securities and Exchange Commission's approval under Regulation A+ to use funds from public investors to back loans to small businesses. As a result, unaccredited and non-accredited retail investors can use StreetShares' online platform to invest in unsecured commercial loans to MSMEs.

Investors select the businesses to support and enter a bidding process, proposing the amount of a loan they wish to fund.

As lenders and borrowers from the same affinity group enter into loan agreements, the social pressure on the borrower to meet repayments could serve to reduce overall credit risk. StreetShares' model also enables a deeper lender-borrower relationship that goes beyond a simply financial transaction.



DIMENSIONS OF INNOVATION

ACQUISITION

FUNDING

Target Customers:

Potential borrowers need to have had 1 year in business or at least US\$100,000 in revenue.

Products and Services:

Term loans of 3-36 months and lines of credit up to US\$100,000.

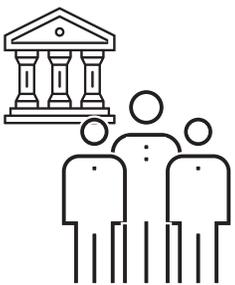
Connecting Investors with US MSMEs Through Tech-Enabled Lenders

COMMUNITY INVESTMENT MANAGEMENT, UNITED STATES

Community Investment Management (CIM) is an impact investment firm focused on financing small businesses in partnership with technology-driven marketplace lenders who are innovating to efficiently acquire, underwrite, and service creditworthy borrowers with responsible and transparent loan terms. CIM’s strategy depends on a deep understanding of small business lenders and alternative lending methodologies.



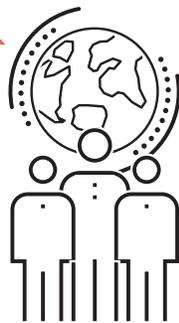
MSME Borrowers



Investors

- High Net-Worth Individuals
- Family Offices
- Institutional Investors
- Foundations

Connects



Tech-Based Lenders

Enabled Lenders that Provide Responsible, Transparent Loans to Small Businesses

BACKGROUND

F

Online lending in the United States spans the spectrum of products, including consumer finance, small business finance, real estate mortgages, and student loans. Lending platforms source funding for loan origination through a variety of channels, including retail and institutional investors. Online lending is best known for consumer finance, given the greater volume of origination in this segment; in the United States, this space is dominated by Lending Club and Prosper. Online lending to US small businesses remains highly fragmented, although it is a growing source of capital for small businesses, given the retreat of community banks and other structural and cyclical factors. While US borrower protection is well-established in consumer finance, it is still being defined for small businesses, allowing disreputable operators with opaque practices and exorbitantly high interest rates to proliferate.

Community Investment Management brings a differentiated investment approach, focused on an alignment of interests among borrowers, lenders, and investors.



DIMENSIONS OF INNOVATION

FUNDING

Target Customers:

MSMEs in the United States, financed through technology-enabled lenders.

Products and Services:

High-yield private debt.

INNOVATION

CIM provides responsible and transparent financing to small businesses in the United States in partnership with a select group of technology-driven lenders. The firm seeks partners with innovative lending platforms that demonstrate strong financial performance and a commitment to responsible, transparent, and borrower-centric lending practices. Through selective investment and advocacy efforts, CIM seeks to guide the marketplace lending industry to responsible practices. CIM brings a differentiated investment approach, focused on an alignment of interests among borrowers, lenders and investors. It advocates against short-term and extractive practices, serving as a best-in-class capital provider to the sector.

The firm has developed a proprietary technology infrastructure that provides its investors with transparency to its underlying small business loan portfolio. CIM has full visibility into each small business loan and actively tracks data and individual loan performance as part of its monitoring efforts. This detailed level of monitoring allows it to actively mitigate risk while also tracking the social impact of its loans. As of August 2016, the CIM portfolio was composed of 28 percent women-owned businesses, 23 percent minority-owned businesses, and 19 percent veteran-owned businesses. Furthermore, 21 percent of all CIM loans were to small businesses engaged in impact-oriented work, including community health and safety, environment sustainability, education and youth development and social justice. These borrowers have been provided with responsible loans that consider their ability to pay and have been designed to address their needs, which vary from working capital to capital expenditures.

CIM's unique approach achieves the necessary diversification and structural and contractual protections needed to fund these types of loans. The firm works with a number of online lenders, each with customized structures that mitigate risk and seek consistency of returns. The firm brings a distinct social lens to the industry and is focused on innovations that serve the needs of US small business borrowers. The firm advocates for an ecosystem where social and financial incentives of borrowers, lenders, and investors are aligned. It is also a member of the Responsible Business Lending Coalition, a self-regulating body that promotes responsible standards for fair small business lending practices in the US, through the advancement of the Small Business Borrowers' Bill of Rights.



Conclusion

Innovative MSME lenders are making strides as viable alternatives to traditional lenders that have long been reluctant to cater to small businesses, given the greater risks, higher costs, and smaller loan sizes. To succeed in this still challenging environment and lend to businesses with little or no previous financial access, today's emerging ranks of MSME lenders must know their market segments, have developed analytics, products, and services tailored to small businesses, and be able to leverage new technologies to restrict overhead. Much like the markets they serve, these lenders are themselves in need of wider and deeper support: advice and mentoring, well-targeted research, more conducive regulatory environments, and capital investment and debt financing.

Actors in this space can play significant roles in addressing these needs:

Investors and funders can support innovative MSME lenders by providing capital, advisory services, and research to strengthen the sector. This support is especially important for new and early-stage lenders. Support for innovative MSME lenders in getting access to onlending capital in local currency and with a reasonable interest rate is crucial in enabling them to be able to serve more businesses, particularly during their early days of building their loan portfolio.

MFIs can harness emerging technologies to increase their own reach and effectiveness in serving MSMEs. While adopting and implementing new technologies is a big challenge, it is crucial in enhancing MFIs' process efficiency, driving down cost, and enabling MFIs to profitably serve more businesses. There are also growing opportunities for MFIs to partner with innovative MSME financiers to "graduate" their borrowers to larger loan sizes.

Governments and regulators can nurture MSME financing innovators by democratizing responsible access to client data through digital formats,

exemplified by India through its India Stack initiative. The stack, the largest application programming interface (API) on the planet, is poised to enable entrepreneurs, citizens, and governments to interact with each other transparently, as well as to allow customers to have control over their personal data. Other policy and regulatory innovations are also emerging, in which governments are proactively adjusting laws and regulations and developing policy initiatives to accommodate emerging technologies and services. In the US, the Consumer Financial Protection Bureau (CFPB) set out an initiative called Project Catalyst that establishes a process for companies to apply for a statement from Bureau staff that would reduce regulatory uncertainty for a new product or service that offers the potential for significant consumer-friendly innovation. The steps taken by the governments of Brazil, Mexico, Argentina, Chile, Ecuador, Peru, Uruguay, and Colombia to mandate electronic invoicing have presented businesses with alternative financing solutions as e-invoicing mandates continue to spread across the region.

Much like the markets they serve, innovative lenders are themselves in need of wider and deeper support: advice and mentoring, well-targeted research, more conducive regulatory environments, and capital investment and debt financing.

Entrepreneurs and startup ventures taking aim at the MSME financing opportunity can succeed by first coming to deeply understand the MSME markets before developing a niche expertise or technological edge over competitors and by identifying and leveraging partnerships with others with a significant customer base, such as banks or consumer goods companies.

Finally, traditional banks and financial institutions can seek to profitably engage (or re-engage) this sector by advocating for smarter regulation around data use and financing for MSME lenders, establishing their own venture funds, and engaging with innovative players. Incumbents don't have to engage startups in this space in a transactional or equity-based manner; instead, they could foster collaborative partnerships or develop a co-innovation relationship. Instead of focusing solely on return on investment, incumbent financial corporations can help smaller companies grow and expand their reach, learn more about emerging technologies, and create a robust ecosystem. This kind of support, exemplified by Mastercard's Start Path program, can help accelerate the positive shift underway from traditional MSME financing to models that foster and promote truly inclusive, innovative financial systems. Moreover, the majority of the innovations that we have seen are mostly in acquisition and underwriting, indicating that these innovative lenders are still reliant on banks to access funding. Banks then need to play a key role in supporting innovative MSME lenders by providing them with much-needed onlending capital.

By combining forces of key actors in the space, the global MSME funding gap could be narrowed faster and in turn spur economies around the world.



About This Paper

This paper was written by Accion Venture Lab, the seed-stage investment initiative of financial inclusion leader Accion.

Venture Lab provides capital and support for innovative startups that leverage technology and innovative processes to offer financial solutions that are cheaper, faster, more accessible, convenient, and of higher quality to the underserved. Launched in 2012, Venture Lab has deployed over \$10 million across 26 startups that work in more than 20 countries. Venture Lab typically invests between USD\$300,000-500,000 in equity or quasi-equity instruments as part of the first institutional round of capital raised by seed-stage startups. The fund welcomes opportunities to co-invest with like-minded investors and often builds syndicates to channel capital into promising opportunities.

Venture Lab's portfolio of companies includes providers of credit, savings, insurance, payments, and remittances, as well as technology that enables and supports these services. They are agile, nimble, and respond to both customers' demands and market realities while pursuing niche markets, products, and strategies. These startups are often first movers, tapping massive opportunities by catering to

underserved markets. Venture Lab addresses a funding gap startups face at the seed stage by providing capital to help these companies reach proof of concept and product-market fit.

Venture Lab also provides strategic and operational support early on across a broad range of areas. Venture Lab does this through governance, often in the form of a board role, as well as through its portfolio engagement function, which consists of an in-house team that works closely with portfolio companies. The support that Venture Lab provides includes operational planning, tools for market expansion, customer acquisition and segmentation strategy, cost optimization, channel strategy, human resource planning, and guidance for fundraising. Venture Lab has also created a set of resources and best practice guides to support early-stage startups; these are available at: <http://www.accion.org/venturelab/resources>.

Beyond directly supporting investees, Venture Lab actively engages a broad set of industry stakeholders to share insights and lessons learned around innovative financial inclusion business models and seed-stage impact investing.

Accion Venture Lab would like to thank Mastercard, the Mastercard Center for Inclusive Growth, and Mastercard Start Path for supporting this paper. Mastercard supports Venture Lab's industry engagement activities: Venture Lab shares its strategic insights with the broader industry to catalyze investment in innovative business models that can spur higher-quality financial products and services for the financially underserved. Mastercard funds a full-time Venture Lab position dedicated to sharing the team's insights with the wider impact investing community.



Mastercard Center
for Inclusive Growth



mastercard.
start path

The mission of the Mastercard Center for Inclusive Growth is to advance equitable and sustainable economic growth and financial inclusion around the world. As an independent subsidiary of Mastercard, the Center combines data, expertise, technology and philanthropic investments to empower a community of thinkers, leaders and innovators working on the front lines of inclusive growth.

The Center is partnering with leading economists and institutions to better understand the drivers of inclusion and growth, and advance actionable insights that guide decision-making. Data initiatives are unlocking "big data" and analytics to inform research efforts and help governments and NGOs deliver more efficient and impactful public services. And through strategic philanthropic investments, the Center is delivering a holistic mix of tools, resources and support to connect microentrepreneurs to the formal economy and help them expand their businesses.

Through these actions and efforts, the Mastercard Center for Inclusive Growth is engaging a global community of influencers with the most promising ideas, insights and innovations for igniting inclusive growth.

Mastercard's startup engagement group was launched in early 2014 as a way for Mastercard to work directly with global startups building innovative solutions in the financial services and retail sectors.

Mastercard Start Path is designed to support startups developing the next generation of innovative and breakthrough commerce solutions. 'Start Path Global' has been designed to put the startup first: specifically, there is no need for a startup to relocate, no equity taken, immediate access to over 60 Mastercard experts, opens the door to pilot opportunities with MasterCard or Mastercard customers, and with full ownership for any intellectual property (IP) developed.

Mastercard helps startups make meaningful connections with prospective partners from some of the largest brands across the banking, retail, technology and telecoms sectors who are hungry for access to promising emerging players and their technology. Start Path is about connecting the right partners with the right startups to build the future of commerce together.

Accion
10 Fawcett Street, Suite 204
Cambridge, MA 02138
Tel: +1 617.625.7080
Toll Free: 800.931.9951
Fax: +1 617.625.7020

accion.org

ACCION

Accion is a global nonprofit dedicated to building a financially inclusive world with economic opportunity for all, by giving people the financial tools they need to improve their lives. We are building the next generation of top-tier microfinance institutions, and over more than 50 years have helped build 65 such institutions in 32 countries on four continents that today reach millions of clients. Our impact investing initiatives are pushing beyond microfinance to catalyze more than

30 innovative start-ups dedicated to improving the efficiency, reach, and scope of financial services for the poor. And our Center for Financial Inclusion is helping to build a stronger industry with high standards and broad engagement. Currently, our work spans nearly two dozen countries, including the U.S., where we are the nation's largest nonprofit microfinance network. For further information, visit <http://www.accion.org>.



Accion Venture Lab, "Bridging the Small Business Credit Gap through Innovative Lending: How Data Flows, Tech Tools and Niche Marketing Can Bridge the MSME Financing Gap," Accion Insights. Cambridge, MA: Accion, November, 2016.

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