FOCUS NOTE

Innovative Financing for Inclusive Credit Fintechs in Africa

January 2025 • **David Krui ff and Alexander Sotiriou**

CGAP

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Acronyms

AI	Artificial Intelligence
API	Application Program Interface
B2B	Business-to-Business
B2B2C	Business-to-Business-to-Consumer
BNPL	Buy Now, Pay Later
CIM	Community Investment Management
DFI	Development Finance Institution
EMDEs	Emerging Markets and Developing Economies
EUR	European Union Euro
FSP	Financial Service Provider
K Sh	Kenyan Shilling
LLM	Large Language Model
MSE	Micro and Small Enterprise
NGO	Non-Governmental Organization
RBF	Revenue-Based Financing
SaaS	Software-as-a-Service
SAFE	Simple Agreement for Future Equity
SFTP	Secure File Transfer Protocol
SPV	Special Purpose Vehicle
SSA	Sub-Saharan Africa
USD	United States Dollar
VC	Venture Capital

Executive Summary

THIS FOCUS NOTE EXPLORES innovative financing strategies for reaching inclusive credit fintechs in Africa, particularly those targeting underserved micro and small enterprises (MSEs). These fintechs have the potential to address the estimated US$ 4.9 trillion global credit gap for MSEs.[1] However, access to diverse and suitable funding sources remains a critical challenge, especially for early-stage fintechs that are not yet profitable. While venture capital (VC) has traditionally been a primary funding source, it is relatively inefficient and costly, making it unsuitable for growing loan portfolios. Debt, as the most appropriate instrument for scaling a loan book, is increasingly essential for early-stage credit fintechs with positive or improving unit economics that have yet to reach breakeven. The risk aversion of asset managers toward early-stage fintechs is understandable, given the sector's high failure rate and the significant challenges startups face in achieving sustainability. However, this caution can unintentionally hinder the sector's development by limiting funding for both promising and less viable startups. New investment approaches are emerging to address this issue, using advanced screening methods, data-driven insights, and tailored support to identify and nurture high-potential fintechs early in their lifecycle. These approaches balance the justified caution of investors with the need to foster innovation.

A new generation of innovative asset managers is pioneering these alternative financing methods. By leveraging application program interfaces (APIs) and other means of data integration, these managers gain real-time access to fintechs' financial and operational data, enabling advanced risk management and customized loan structures. Instruments like drawdown-on-demand senior debt, revenue-based financing (RBF), and asset-backed lending provide more adaptable alternatives to conventional debt. These tools help fintechs optimize cash flow and access suitable financing mechanisms to scale their loan book. These tools also allow investors to manage risk more effectively while deepening engagement with portfolio companies.

However, adoption of these advanced financing tools is hampered by a significant knowledge gap. Many asset managers and fintechs remain unaware of the benefits of data-driven investing or lack the technical capacity to implement these systems effectively. To address this, the development finance community can support knowledge dissemination, technology improvement, and capacity-building efforts that equip fintechs and impact investors with the skills and technology to use these products. Fostering awareness and creating enabling frameworks—such as inclusive regulations, digital infrastructure, and strong partnerships—will help scale these investment models, enhancing financial inclusion for MSEs and driving sustainable growth for the inclusive fintech sector.

1 All dollar amounts are US dollars unless otherwise indicated.

Introduction

MICRO AND SMALL ENTERPRISES (MSEs) are the backbone of the economy in most emerging markets and developing economies (EMDEs), accounting for nearly all enterprises and jobs available to low-income workers. Despite decades of efforts by the development community and local governments, many MSEs—especially smaller and more vulnerable ones—still struggle to access the credit needed for growth and resilience, leaving a global credit gap of $4.9 trillion (Kruijff, Sawhney, and Wright 2024). Technological progress is enabling a new generation of business models with the potential to significantly advance the frontier of MSE finance. Of course, realizing this promise also depends on complementary efforts, such as supportive policies, capacity building, and targeted strategies for underserved groups.

There is reason to be excited, however, as the number of inclusive fintechs targeting MSEs has increased. This increase in financial service providers (FSPs) is accompanied by a surge of credit providers outside of the financial sector targeting MSEs, including online e-commerce business-to-business (B2B) or business-to-business-to-consumer (B2B2C) platforms and mobility platforms. However, many of the underlying business models need more time to mature. For the most part, the fintech businesses CGAP studied remain nascent, have not scaled, and are still calibrating foundational aspects of their business models.

A significant factor limiting fintechs in their growth is the lack of access to diverse sources of investment capital. Currently, most funding comes from venture capital, which is equity capital with high return expectations. While equity is essential for building teams, developing technology, and entering new markets, it is inefficient and costly for growing loan portfolios. Expanding their loan book is critical for these fintechs to achieve the scale needed to reach breakeven and ensure survival. Financing loans with equity ties up expensive capital, driving up costs

Key Terminology

Early-Stage Inclusive Credit Fintech (sometimes referred to as inclusive fintechs or credit fintechs):

- **Early-stage** refers to pre-profit fintechs, from seed funding up to Series B.
- **Inclusive** refers to actively targeting underserved or excluded MSEs.
- **Credit fintech** in this study includes all fintechs that provide productive credit (such as business loans, overdraft, advances, and Buy Now, Pay Later).

Data-Driven Asset Managers refers to a new type of investor who uses a data-driven approach for investing in early-stage companies, allowing them to identify and manage risk in real time. This next generation will also be referred to as innovative asset managers or asset managers.

and limiting operational sustainability. Additionally, repeatedly raising equity dilutes founder ownership, which can be demoralizing and leaves fewer shares available to attract talent, further hampering growth. The lack of suitable debt financing for early-stage credit fintechs makes it difficult for them to scale their MSE loan book, jeopardizing their ability to survive. Addressing this gap is essential for enabling the inclusive fintech sector to fulfill its potential and sustainably serve the MSE market.

Investing in early-stage inclusive fintechs remains inherently risky, as generally speaking: (1) most early-stage fintechs will have a small capital base with no collateral, (2) the business model has not been fully proven yet, (3) the technology stack used or scoring models are opaque, and (4) there is shallow governance, and the company often falls outside of the financial regulation. This results in significant funding gaps that negatively affect the potential of the emerging inclusive fintech sector. This research has unveiled that 54 percent of the inclusive credit fintechs do not make it past their first funding round, and only 15 percent of these credit fintechs will complete three or more funding rounds. This has a negative impact on financial inclusion as a large share of the inclusive credit fintechs disappear, and those that survive often do so by targeting more upmarket financially included MSEs

This focus note acknowledges the significant risks and high failure rates associated with early-stage inclusive credit fintechs, consistent with global fintech trends. The authors agree that asset managers' cautious approach to investing in early-stage fintechs is justified. Nonetheless, effectively addressing the gap in financing inclusive credit fintechs requires diversifying capital options, particularly through flexible debt products for those fintechs that have achieved or are nearing positive unit economics. Limiting investments to mature, profitable fintechs restricts the overall impact of capital to a small portion of the MSE population.

Study Scope

- This research investigates the demand and supply sides of the market for investing in inclusive credit fintechs.
  - Demand-side research focuses on inclusive credit fintech, which are primarily targeting MSEs with productive credit, tackling the MSE credit gap.
  - Supply-side research focuses on innovative asset managers who are able to finance early-stage MSEs (inclusive credit fintechs and others) due to a data integration play, providing them with advanced, real-time data and analytics. Most, but not all, have an African portfolio.
- Geography: This research focusses on Africa. Inclusive fintech funding gaps can be experienced throughout the developing world but are most notable in Africa, where the MSE finance markets are particularly underdeveloped.
- There are several other important factors that influence the inclusive fintech sector, most notably digital public infrastructure, and regulation. This research is however, narrow in design as it aims to provide insights for the impact investors and investor community to engage with the inclusive credit fintech sector under prevailing market and regulatory conditions.

This study highlights the importance of data-driven strategies for asset managers to mitigate early-stage risks and identify high-potential fintechs, enabling broader and more impactful investments. Data-driven approaches transform fintech investing by enhancing risk management, improving transparency, and unlocking scalable capital for early-stage companies. Unlike traditional models reliant on static metrics and lengthy due diligence, these methods leverage real-time data—such as portfolio performance, cash flows, and borrower behaviors—to provide dynamic

risk assessments. This allows investors to make informed decisions, respond quickly to challenges, and offer tailored financing solutions like flexible senior debt and revenue-based financing.

By fostering trust and efficiency through data integration, automated reporting, and advanced analytics, data-driven investing can support underserved inclusive credit fintechs with strong unit economics yet limited operational histories. This approach not only advances financial inclusion by channeling capital to early-stage credit providers serving the MSE market, but also creates a future pipeline of high-potential investments for traditional investors. Addressing this investment gap benefits the entire ecosystem, ensuring sustainable growth and a more inclusive financial landscape.

This paper provides insights into the most crucial knowledge gaps that hinder effective strategy design for the international donor and impact investment community eager to support the digital innovations that are transforming MSE credit markets.

Section 1. Financing Inclusive Credit Fintechs: Past and Present

This section reviews funding flows over the past decade, offering insights into investor types, instruments used, and target fintechs. It also examines the impact of available funding on inclusive fintechs, concluding with an in-depth look at their drop-off rates.

Section 2. Financing Inclusive Credit Fintechs: The Future

This section explores recent data-driven innovations, where innovative asset managers leverage API integrations with portfolio companies. Real-time data access enables them to offer alternative debt instruments to early-stage fintechs. Case studies illustrate these process and product innovations.

Section 3. Bridging the Gap for Inclusive Credit Fintechs

The final section presents conclusions on the role of data-driven investment in expanding financing options for inclusive fintechs. It highlights areas needing technical assistance and emphasizes the pivotal role of development finance institutions (DFIs) in advancing the sector through innovative investment vehicles.

Definitions and explanations for all technical terminology used throughout the paper can be found in the Appendix.

SECTION 1

Financing of Inclusive Credit Fintechs: Past and Present

This section explores the evolution of financing for inclusive credit fintechs in Africa, highlighting the challenges they face in securing capital to address the MSE credit gap. Despite nearly 270 credit fintechs raising substantial funding over the past decade, most struggle to progress beyond initial rounds due to high risks, limited track records, and investor caution. Early-stage financing is dominated by venture capital, which is costly and limits scalability, while debt funding remains scarce and hard to access. The key takeaway is that there is a segment of promising fintechs that face difficulties scaling and achieving sustainability due to a lack of early-stage debt for funding their loan books.

The growth of funding for inclusive credit fintechs

The inclusive credit fintech sector in Africa has seen exponential growth, both in investment volume and as a share of total fintech funding. According to our studies, CGAP found that nearly 270 inclusive credit fintechs have collectively raised over $4 billion over the past decade (Figure 1),[2] representing one-third of all African fintech funding. This growth accelerated from 2017 onward, with a notable dip in 2020 due to the COVID-19 pandemic, which slowed innovation funding across the continent. Funding rebounded in 2021 and peaked in 2023 (Figure 2), driven partly by the accelerated use of digital financial services post-COVID and the emergence of growth-stage fintechs raising large rounds, such as Halan, Jumo, M-Kopa, and MNT-Moove. While only 16 percent of inclusive credit fintechs raised over $10 million between 2015 and 2023, these companies accounted for 90 percent of the sector's total funding volume, despite representing less than a third of deal flow.

Over one-third of inclusive credit fintech funding is directed toward asset finance, with another third supporting unsecured lending platforms. Major fundraisers include unsecured lending platforms like Branch, MNT-Halan, and Tala, alongside asset finance companies such as M-Kopa, Moove, and Planet 42, which are among the largest funding recipients in the sector (Figure 3). Credit-enabling fintechs like Jumo (banking SaaS) and Stitch (financial API) have also drawn investor interest, reaching twice as many fintechs as other categories but at about half the funding volume.

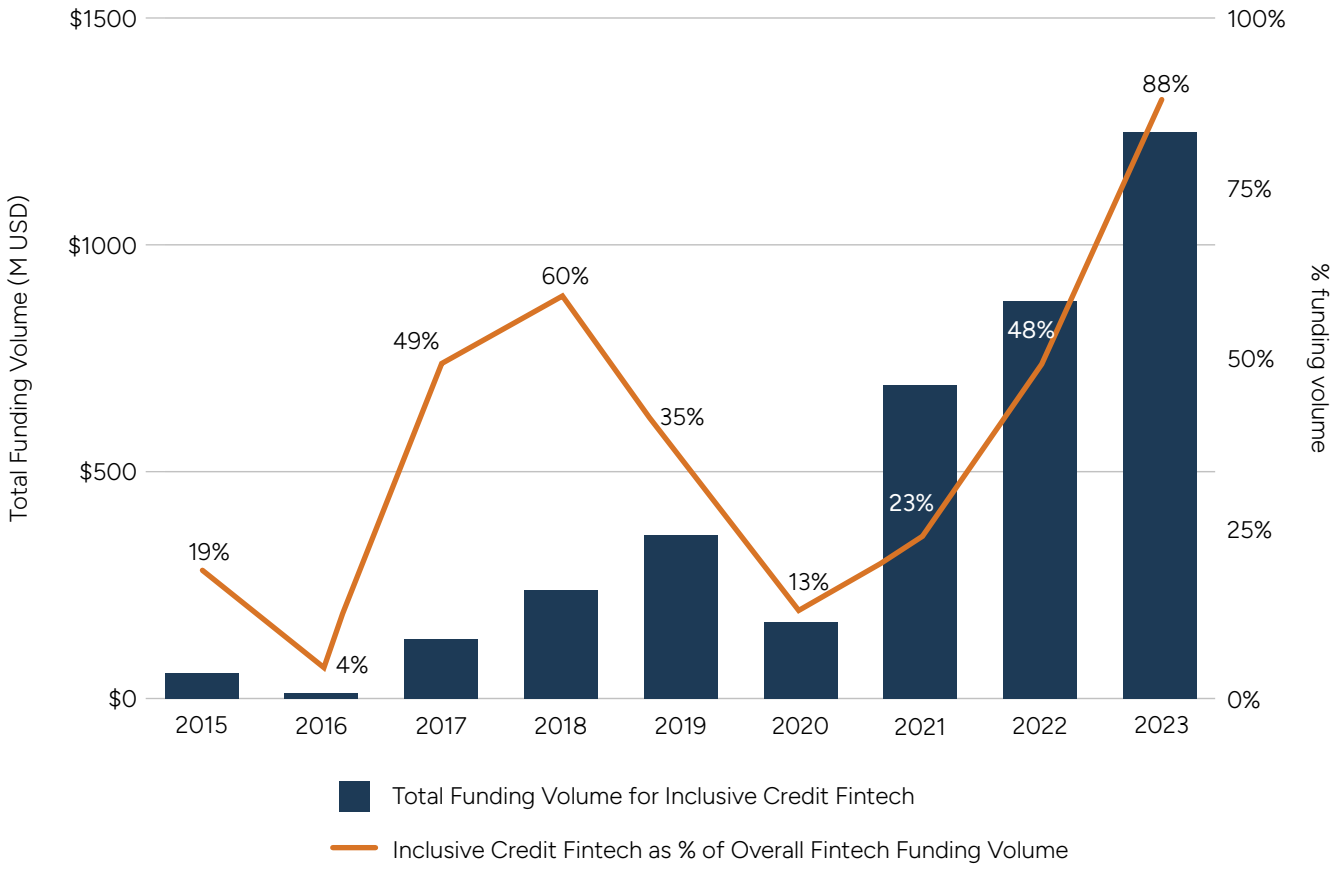
2 Seventy-six percent of deals disclosed funding information.

FIGURE 1. **Key figures: Inclusive credit fintechs funded between 2015 and 2024**

Source: Authors (2024).

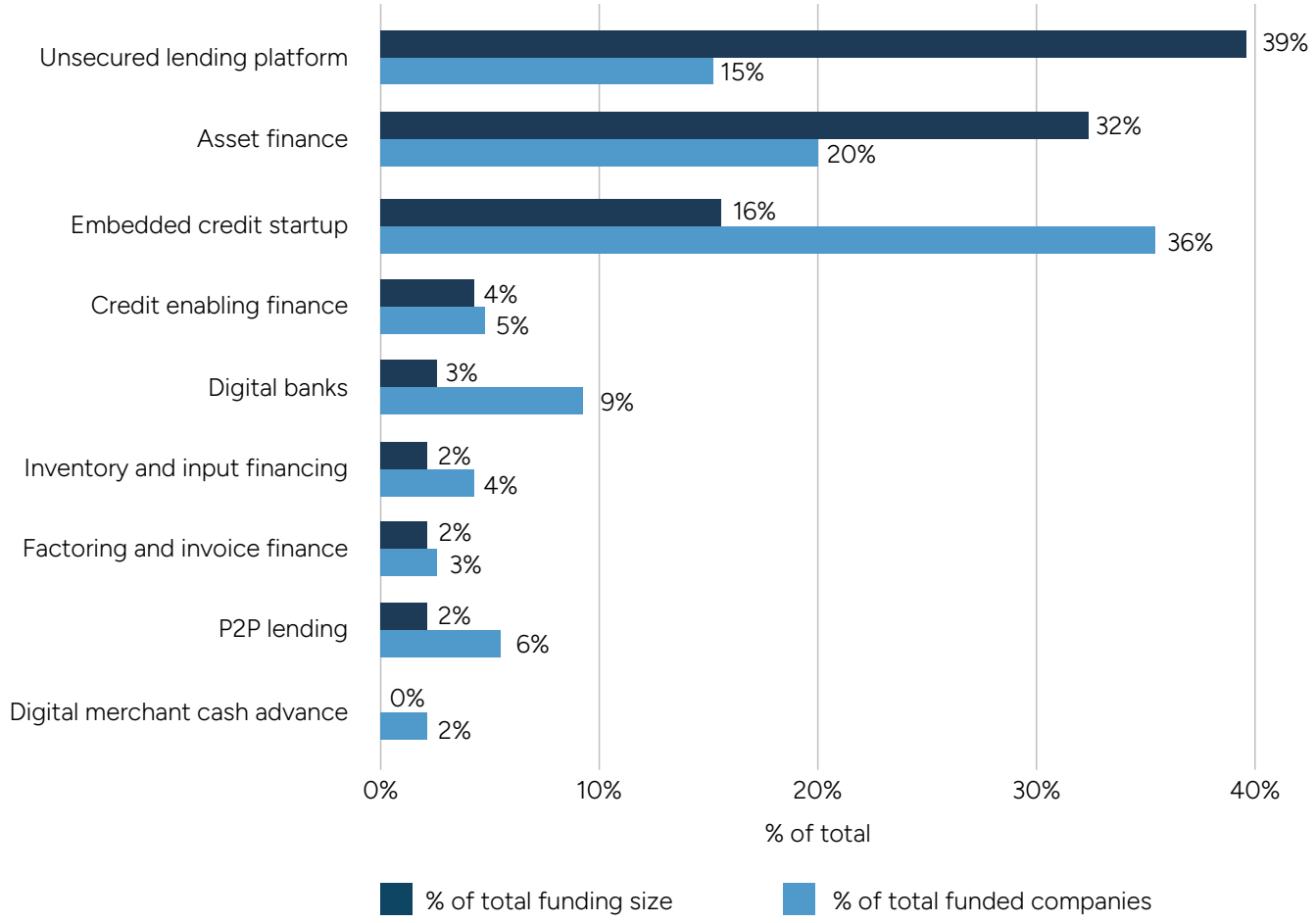
Note: Briter Intelligence data tracks investments between 2011 and 2023, but the scope of analysis covers the last decade, between 2015 and 2024. Funding information prior to 2015 is not included in the data analysis. Between 2011 and 2014, inclusive credit fintechs such as Jududi Kilimo, Kopo Kopo, M-Kopa, Migo, and Tala have raised $24 million of funding.

FIGURE 2. **Growth of inclusive credit fintechs in the last decade**



Source: Authors (2024).

FIGURE 3. **Inclusive credit fintech products by share of deal flow and total volume**



Source: Authors (2024).

However, despite this growth, funding is heavily concentrated among a small number of later-stage deals. Series B to E funding accounts for most of the total volume while representing only 5 percent of funding frequency (Figure 4). Most funding activity occurs at the early stages, with smaller ticket sizes—median amounts of $100,000 at the incubator and accelerator stages and $520,000 at pre-seed (Figure 5). Fintechs typically raise over $1 million at the seed stage, with ticket sizes increasing in later stages. However, many early-stage fintechs are unlikely to progress to advanced rounds, as most remain small-scale. The sector's overall funding growth is primarily driven by a select few fintechs that have successfully scaled.

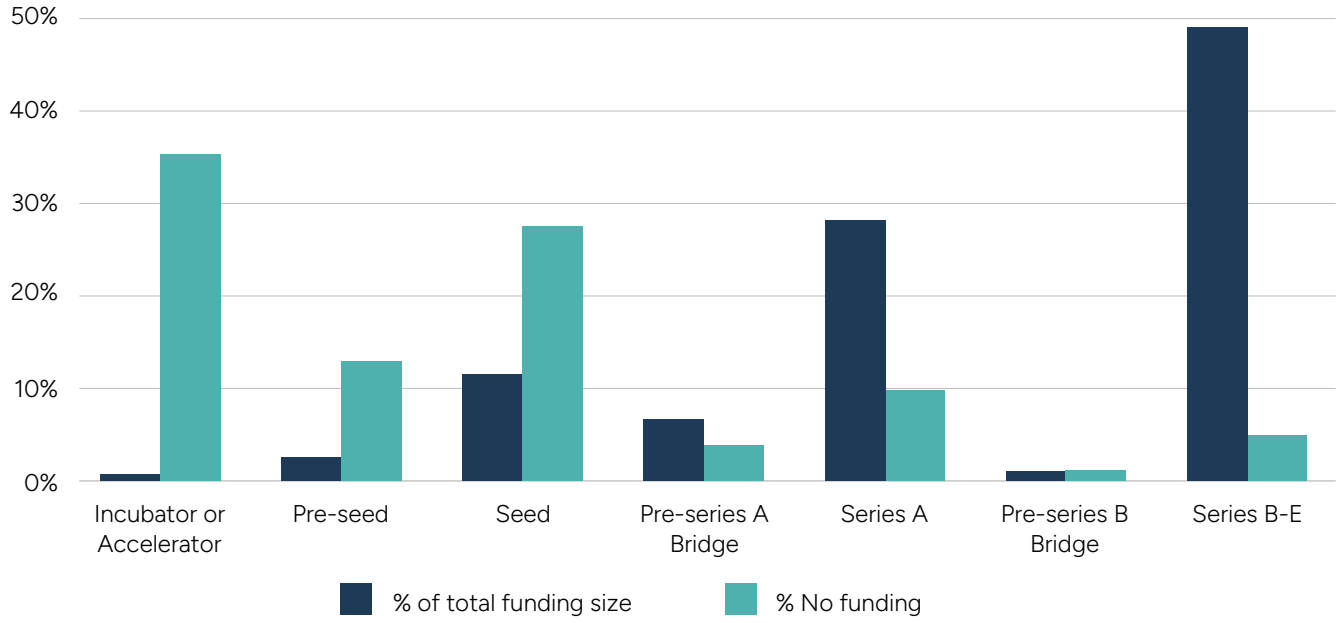
Traditional funding instruments

From pre-seed funding to Series B, equity instruments provide for 65 percent of all funding for inclusive credit fintechs.

EQUITY

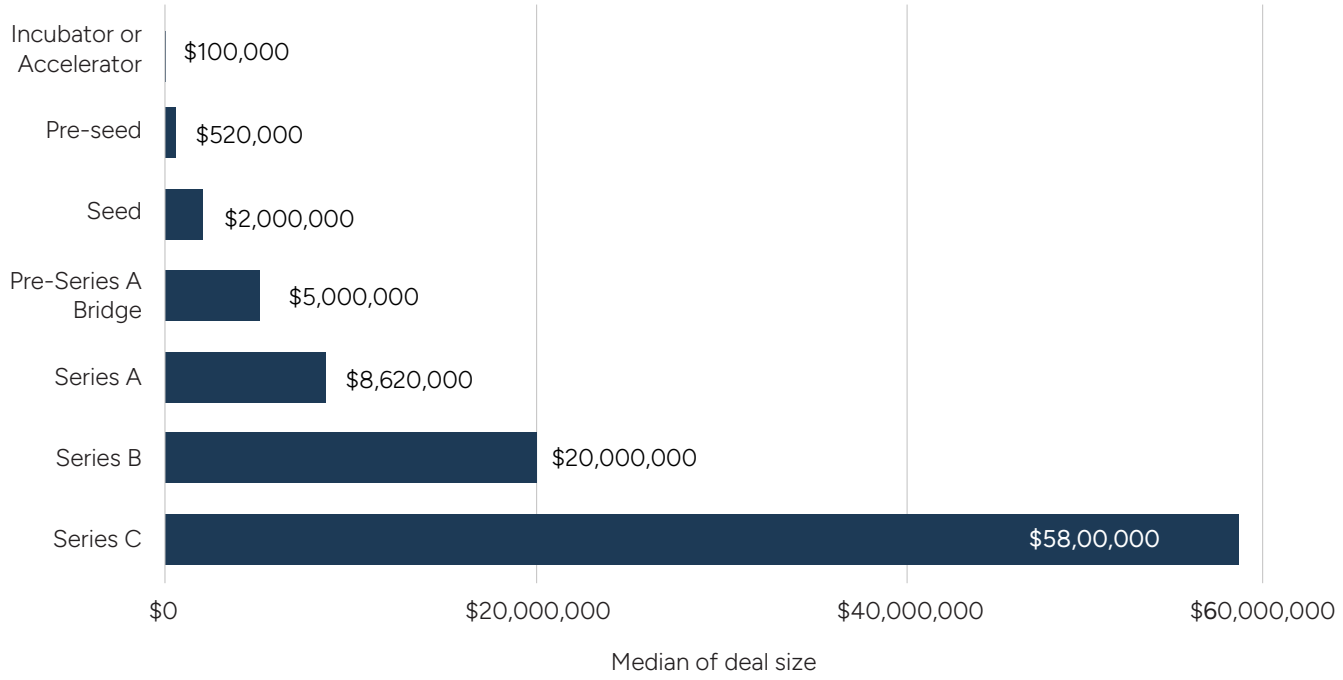
Figure 6 shows that equity funding is the primary financing instrument for inclusive credit fintechs. Equity funding offers flexible capital, enabling early-stage fintechs to build teams, develop products, establish a business case, and acquire customers. This funding is essential for demonstrating the viability of lending products by proving strong unit economics, including favorable risk/return metrics across multiple loan cycles. Additionally, equity often brings with

FIGURE 4. **Proportion of stage deals in overall funding size vs. number of funding deals**



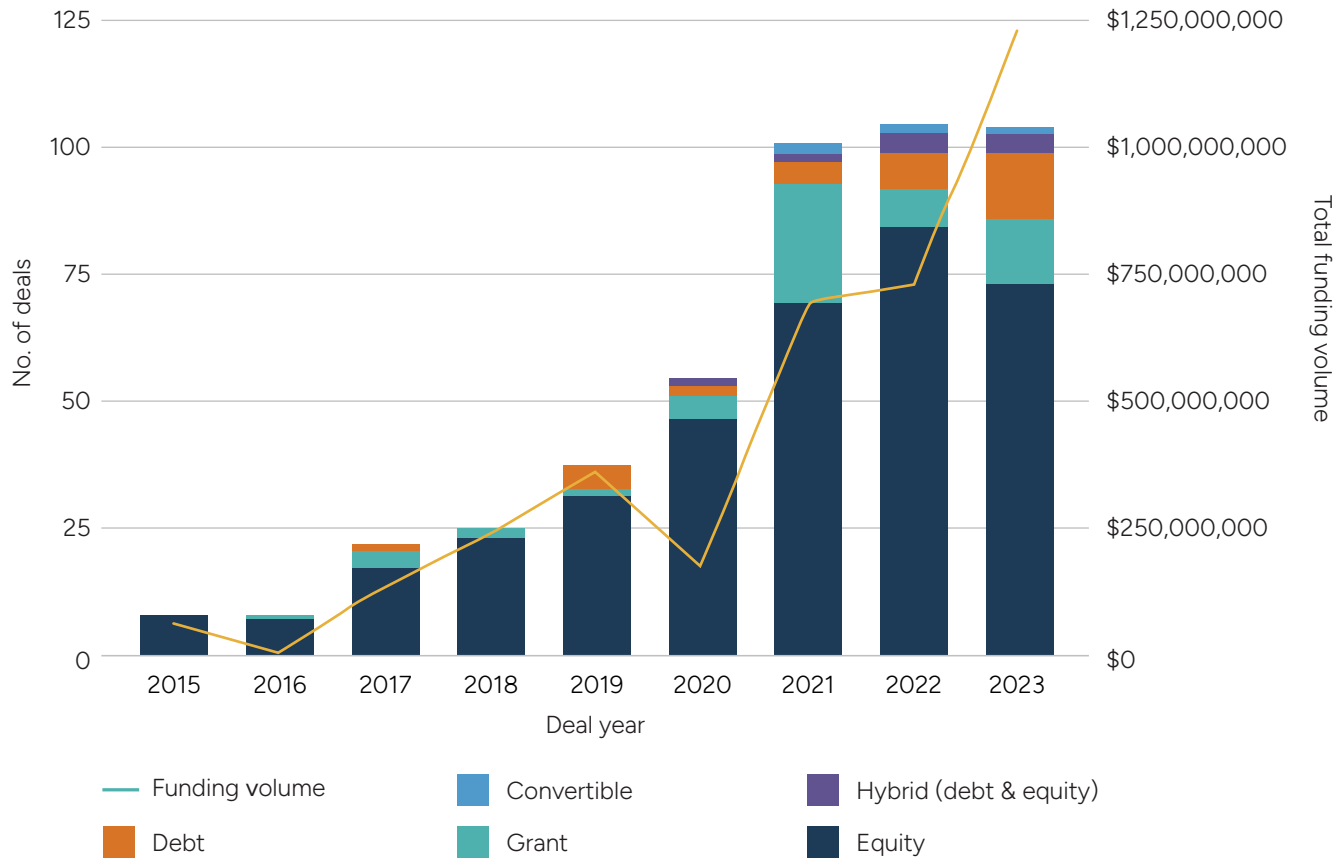
Source: Authors (2024).

FIGURE 5. **Median funding size by funding stage (2015–2024)**



Source: Authors (2024).

FIGURE 6. **Funding instruments over time**



Source: Authors (2024).

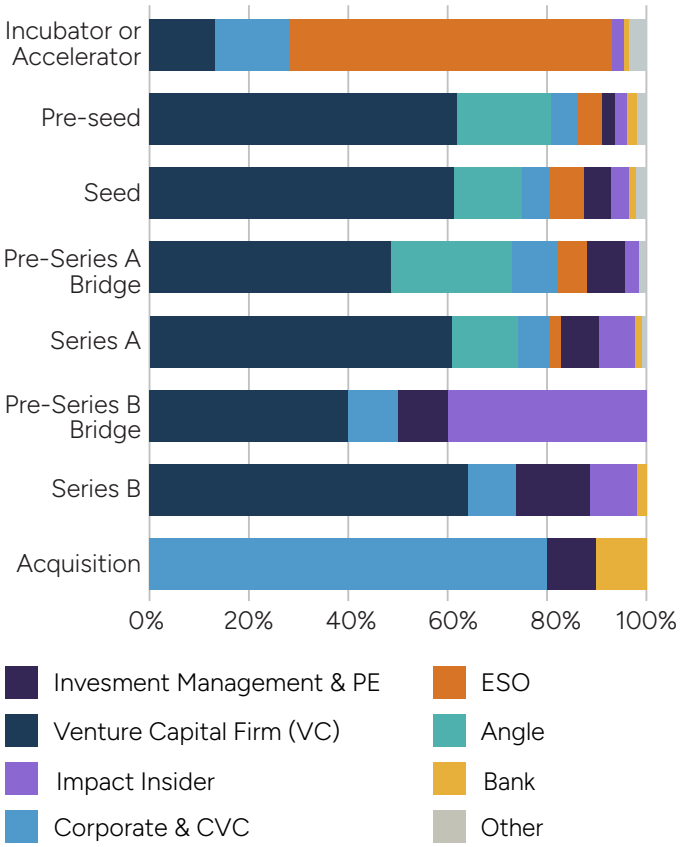
it valuable advisors and networks to help fintechs strengthen operations and strategically grow. Field (a company that improves healthcare access by digitizing and financing pharmaceutical supply chains) reported that some impact-focused VCs and corporate VCs were instrumental in providing resources, guidance, and industry connections.

However, equity financing can be costly, potentially driving fintechs to prioritize more profitable consumer segments based on investor expectations. Unlike early microfinance, which relied heavily on impact investors, today's fintech investors are largely VC firms (Figure 7) with high return expectations, which can limit inclusive credit fintechs' ability to serve harder-to-reach MSEs. Equity funding also comes with dilution of ownership, reducing available shares to attract talent, and often requires significant issuance costs. Additionally, equity investors may expect dividends or board representation, raising the overall cost of equity financing. Field explained that high equity costs, combined with limited access to debt financing, compel them to be more selective in lending, potentially excluding thin-file consumers (with very little or no financial records or transactions), and limiting financial inclusivity.

GRANTS

Grants are the most common investment instrument for early-stage inclusive credit fintechs, both in number of deals and, until 2021, in volume. Nearly 15 percent of these fintechs receive grants, typically awarded before

FIGURE 7. **Investor by company stage**



Source: Authors (2024).

Series A,[3] with a median size of $100,000. Grants enable fintechs to test high-risk products and reach underserved populations, providing crucial runway for inclusive growth. However, grants tend to be small, highly competitive, and they are usually one-time funds. They can also require specialized staff for application and reporting, with lengthy disbursement times. Returnable grants are also available but often require partnerships with non-governmental organizations (NGOs), adding to the timeline.

DEBT

Debt funding for inclusive credit fintechs has been increasing but still represents a small share of total funding. It is generally conventional in structure and focuses on fintechs with a profitable track record. Table A.3 in the Appendix provides a sample of debt funding raised by inclusive credit fintechs at various stages.

Among early-stage, pre-profit fintechs, asset financing companies like Moove (a mobility fintech company that provides revenue-based vehicle financing to

BOX 1. **Innovations in equity offerings.**

Some progressive investors in the angel (individual investor) and VC spaces use equity offerings like Simple Agreements for Future Equity (SAFEs) and buyback schemes. These innovations streamline access to pre-seed capital and provide options to protect founders against dilution.

- **SAFEs** are popular in early-stage equity financing for their efficiency: they allow startups to raise capital quickly without immediate valuation, minimizing dilution and legal costs. Investors benefit from favorable terms like discounts and valuation caps, reducing legal complexities and enabling rapid capital deployment. For instance, Boost (a B2B commerce platform that provides manufacturers and distributors with technology solutions, including WhatsApp ordering, real-time analytics, and stock financing) used Y-Combinator's SAFE clauses, adjusting them as needed to simplify fundraising with angel investors. The ability to adjust valuation at conversion adds to SAFEs' flexibility.
- **Equity buybacks** enable startups to regain control by repurchasing shares, reducing dilution from earlier rounds and enhancing the balance sheet. This can build investor confidence and attract new capital by showing commitment to long-term growth. Kuunda (a fintech that provides liquidity solutions to MSEs in emerging markets, enabling instant access to funds and growth financing) for example, plans to buy back up to $2 million worth of shares from its seed and angel investors following recent pre-series A fundraising.

3 See Table A2 in the Appendix.

mobility entrepreneurs) encounter fewer obstacles in securing debt, as their recoverable collateral is simpler for debt investors to assess. However, this is more challenging for fast-moving consumer goods and inventory-financing fintechs. For example, Field sought a balance of equity to fund tech development and debt to grow its lending portfolio but struggled to secure debt providers. As a result, Field relied on revenue and equity capital to finance inventory for pharmacies on its platform. Wasoko (a B2B e-commerce platform that supplies informal retailers in Africa with essential goods) faced similar hurdles, with debt providers requiring substantial cash collateral or guarantees to fund its Buy Now, Pay Later (BNPL) services.

Additionally, both Field and Wasoko noted that as they scale, wholesalers have tightened payment terms, especially in markets dominated by a few key players. Field also reported that some manufacturers and distributors now require upfront cash due to macroeconomic challenges, impacting its ability to extend 30 to 40-day working capital terms to MSE clients.

Local banks are entering the debt scene but require significant cash collateral.

Platform-based lenders mentioned that some commercial banks are seeing value in reaching micro, small, and medium-sized enterprises through fintech solutions. These banks tend to be local branches of larger pan-African banks and lend local currency. Debt facilities usually carry cash collateral requirements ranging from 30 to 50 percent of the loan. Wasoko experiences a 100 percent cash collateral requirement, placing the revolving credit facility out of reach for them. Kopo Kopo (a Kenyan fintech company that enables MSEs to accept mobile money payments and access short-term business loans) just entered discussions with local banks now that they can showcase a four-year profitable track record. These

BOX 2. **Fintechs' experience with grant funding**

Main Benefits of Grant Funding:

- **Deepening Financial Inclusion:** Grants enable fintechs like Boost and Numida (a Ugandan fintech company providing unsecured working capital loans to MSEs through a mobile application) to pursue initiatives focused on inclusion. Boost, for example, received an innovation grant from Mastercard Strive to develop a digital ordering and credit service for micro and small retailers. Additionally, Boost partnered with CGAP and Unilever TRANSFORM to create tech-enabled products aimed at greater inclusivity, rather than purely growth-driven outcomes.
- **Early Validation of Business Models:** Grants provide early-stage fintechs like Kuunda with funding to validate their business model, test product-market fit, and achieve revenue generation before seeking equity funding. The technical assistance accompanying grants also helped Kuunda establish sound business practices when capital was limited.
- **Investment in Impact Measurement:** Grants allow fintechs like Boost and Kuunda to measure, monitor, and report on their impact, demonstrating their role in advancing financial inclusion to grant providers.

Main Challenges of Grant Funding:

- **Time-Consuming Process:** Preparing grant proposals is resource-intensive and requires substantial upfront time and investment. The approval process is slow, with complex disbursement procedures, which Boost, Kuunda, and Numida identified as a significant challenge.
- **Risk-Averse Grant Providers:** Early-stage fintechs often struggle to secure grants due to the risk-averse nature of funders, who tend to favor established businesses with proven track records. Several fintechs observed that mature fintechs secure grants more easily, even if they aren't necessarily pushing the boundaries of innovation or deepening market inclusion.

banks, however, ask for personal guarantees from their directors, which forces Kopo Kopo to rely on their K Sh-denominated commercial paper placed with high net-worth Kenyans and family offices. As demonstrated in Case Study 1, most mid-sized fintech lenders will still face stringent collateral requirements when seeking debt financing, despite showing a profitable track record. Some innovative banks are beginning to look at the accounts receivable as collaterals, especially if they are attached to returnable assets. M-KOPA (a fintech company that provides affordable asset financing to underbanked customers in Africa) was able to access debt facilities from banks when they could show the track record of their receivables and also link their receivables with lockable phones as collateral.

Most inclusive credit fintechs fail

Fifty-four percent of inclusive credit fintechs do not make it past the first funding round, and another 37 percent drop off after the second round.

CASE STUDY 1. **4G Capital's experience with bank guarantees**

4G CAPITAL
THE NEOBANK FOR AFRICA

2013

Unsecured Lending Platform

Kenya, Uganda

Mauritius

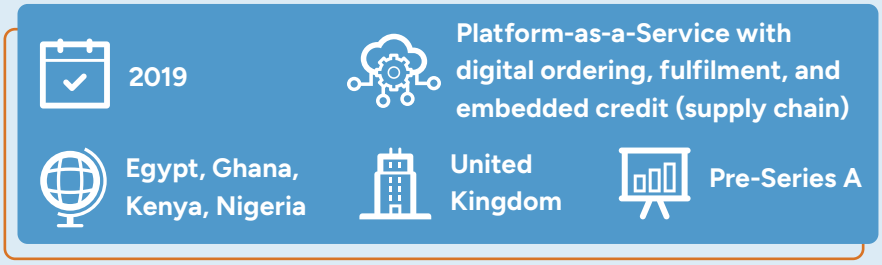
Series C

4G Capital provides small working capital to micro-entrepreneurs through their proprietary credit scoring and lending assessment on micro-entrepreneurs. They are a B Corp–certified lender that is licensed in Kenya and Uganda. 4G Capital has successfully raised to Series C. Their funding journey showcases the challenges experienced by unsecured lending platforms working with thin-filed entrepreneurs.

Traditional banks were initially reluctant to engage with an unsecured lender like 4G Capital. As such, it faced challenges to appropriately price risk and provide a positive customer experience. Without debt funding, it was a difficult path toward profitability. Through building local relationships with cooperative banks in Kenya, it eventually secured local bank funding.

Despite being profitable and having a solid track record managing debt facilities, mid-sized lenders like 4G Capital are still subject to cash collateral or stringent guarantee requirements:

- In September 2020, they secured a significant $3 million revolving facility with Citi Bank. Despite a positive debt track record, the facility was only possible through the backing of a US government guarantee.
- They later acquired a revolving facility with 50 percent cash collateral, indicating an ongoing need for guarantees to secure better terms with banks.
- Later, I&M Bank Kenya Limited provided a K Sh 500 million one-year facility, still requiring cash collateral but with the possibility of easing cash collateral requirements in the future.



Boost is a technology enabler that connects logistics and inventory supply chain actors through inventory financing and end-to-end fulfillment support. Boost onboards and digitizes existing supply chain MSEs. Boost does not own the logistics and supply chain assets but instead provides digital and financing support.

Boost's funding journey has been long. Boost has interacted with over 500 investors to raise funds and has successfully raised over $4 million, mostly from angel investors and pre-seed or seed funding platforms rather than institutional investors.

Boost indicated that fundraising is a challenging, full-time job for growing, inclusive credit fintechs. The main challenges experienced were:

Funding Complexity: A "Rubik's Cube," involving complexities related to stage, geography, sector, competition, and matching with the right investors.

Lengthy Progress: Due diligence processes are lengthy with a highly unpredictable outcome, which creates fatigue for startups. Honest and fast rejections are better than slow or uncommunicative rejections.

VC and Institutional Challenges: Institutional investors in Africa often focus heavily on business models and growth metrics they understand, prioritizing them over team experience and technology.

Debt Challenges: Debt is typically not accessible or affordable until a company is profitable.

Boost's Successful Funding Strategies were:

- **Angel Investors:** Personal angels and smaller investors provided quicker feedback and support. Angels in the United Kingdom benefit from tax incentives, reducing investment risk.
- **Using SAFE Instruments:** Quicker and less complex than convertible notes.
- **Angel Syndicates:** Platforms like "Future Africa" and "Unpopular Ventures" have been effective in connecting with angels and syndicates.
- **Local Debt Strategy:** Source local debt and invoice financing options for Boost–operating entities.

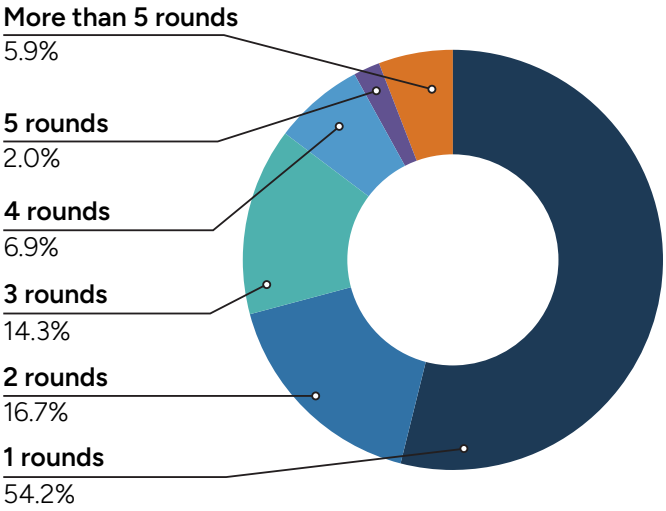
The high failure rate aligns with the global trend in fintech, where around 75 percent of venture capital-backed startups do not succeed, reflecting the industry's intense competition and volatility. Understandably, investors are cautious. This climate makes fundraising a challenging process, as seen in Case Study 2, describing Boost's funding journey.

Disclosed funding analysis shows that inclusive credit fintechs take 24 months on average to raise their first disclosed funding, and then ten months to raise their second round of funding.[4,5] Many of them bootstrapped for the first couple of years until they could build their business model and have enough track record and administrative capacity to apply for funding.

Since most inclusive credit fintechs require a minimum of three years to secure multiple rounds of funding, this focus note focuses on fintechs with at least a three-year operational track record (founded before 2020). As shown in Figure 8, 54 percent of these fintechs secure only one disclosed funding round within their first three years. About one-third of inclusive credit fintechs manage to raise two to three rounds. **However, only a small fraction—around 15 percent—of mature, inclusive credit fintechs successfully raise more than three rounds of funding.**

Research indicates that most funding deals for inclusive credit fintechs occur at the pre-seed and early stages, with ticket sizes typically under $500,000. Half of all-inclusive credit fintech funding is raised at the pre-seed level (Figure 9), where incubator and accelerator equity funding constitute over a third of overall funding, with ticket sizes generally under $100,000. Pre-seed funding remains relatively low at $500,000, typically contributed by VCs and angel investors. About a quarter of funding is raised at the seed stage, where the median ticket size is $2 million. However, only around 21 percent of inclusive fintechs advance beyond early-stage funding to Series A or higher.

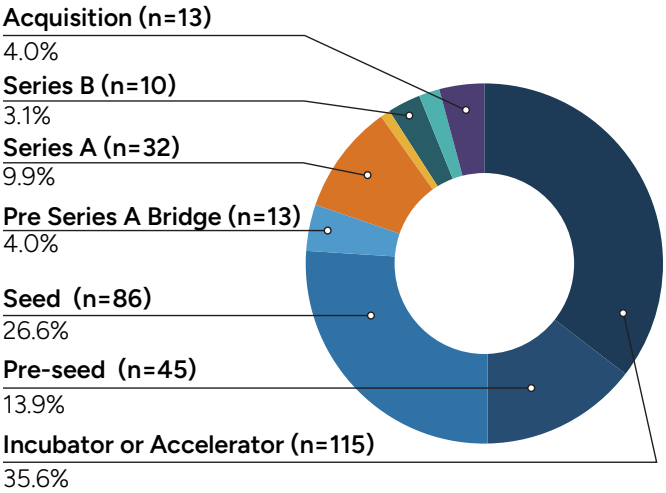
FIGURE 8. **Number of funding rounds that inclusive credit fintechs raise**



Source: Authors (2024).

Note: This analysis only includes fintechs that have had three years of runway since its founding year.

FIGURE 9. **Amount of funding received by growth stages**



Source: Authors (2024).

4 Median years from founding year to first disclosed funding.

5 Median months from first disclosed funding round to second disclosed funding round.

How can traditional investors improve?

Traditional debt investors often face significant barriers when considering early-stage inclusive fintechs, including limited track records, scalability concerns, and regulatory uncertainties. These obstacles stem from real and perceived risks, as well as the limited transparency that early-stage fintechs offer compared to established institutions. Some of these obstacles can be addressed relatively fast, allowing investors to increase their comfort levels when considering debt for early-stage fintechs that have demonstrated strong underwriting quality over multiple loan cycles.

- **Clearer Technology Communication:** Credit fintech must improve in explaining their technology stack in transparent, accessible terms. Many fintechs assess borrower creditworthiness using alternative data, such as payment histories on financed assets or transactions on digital wallets. However, potential lenders often poorly understand these underwriting models, causing hesitation.
- **Adapted Investment Criteria**: Many traditional debt investors require MFIs to have at least three years of profitability, but this requirement can be relaxed for credit fintechs—including "high tech high touch" models serving excluded populations. Credit fintechs leverage alternative data for faster risk assessment, enabling them to demonstrate portfolio quality sooner than MFIs, which rely on slower, conventional methods. Additionally, investors will need to understand why fintechs often charge comparatively higher annual percentage rates. Fintechs offering short-term loans often have higher annual percentage rates to cover frequent turnover, elevated risk, and higher costs, as they operate with smaller loan amounts and must quickly recoup expenses for sustainable growth.
- **Flexible Ticket Sizes:** Lowering the minimum ticket size requirement can reduce barriers for inclusive credit fintechs, allowing investors to grow their support as these companies scale.

If traditional investors gain a deeper understanding of inclusive credit fintech realities, they might consider offering a more diverse product offering to early-stage companies, helping them scale their credit portfolios. This is especially relevant for the 15 percent of fintechs that have secured three or more funding rounds and are (near) profitable. However, while this may help high-performing fintechs continue to grow and access debt, it will not drive significant change. Real transformation of the financing of fintechs will only occur when investors begin to adopt the innovative, agile approaches that fintechs themselves use.

A data-driven investment approach to the early-stage financing gap

As will be detailed in Section 2, data-driven investment approaches are the most promising solution for providing debt to early-stage credit fintechs due to their ability to dynamically assess and manage risks. By leveraging real-time data such as portfolio performance, cash flows, and borrower behaviors, asset managers can offer tailored and scalable financing solutions like flexible senior debt, revenue-based financing, and asset-backed lending. These methods improve transparency and trust, reduce operational inefficiencies, and enable support for fintechs with limited track records yet strong unit economics. By aligning financing with fintech growth trajectories, data-driven investing advances financial inclusion and directs capital to innovative credit providers serving underserved markets.

Traditional asset managers face significant hurdles in adopting data-driven methods due to reliance on legacy systems and risk-averse organizational cultures. Their inability to implement real-time data integration and advanced analytics leaves them dependent on backward-looking metrics and periodic reporting. Innovative asset managers, free from these legacy constraints, are better positioned to leverage modern

tools and agile systems to build a pipeline of de-risked fintechs. As detailed in Box 3, a data-driven approach addresses traditional barriers such as limited track records, scalability concerns, and operational risks by providing dynamic insights and fostering trust between fintechs and investors.

Some alternative approaches, such as blended finance and co-lending, merit attention as well. Blended finance pools from DFIs and donor agencies provide critical funding for early-stage fintechs aligned with financial inclusion goals. Co-lending partnerships with banks offer another path, combining fintech innovation with traditional institutions' infrastructure to scale credit offerings for underserved markets.

The table above shows a simplified schematic of the growth stages of inclusive credit fintech companies and the types of funders and instruments that tend to fuel their growth. The data from CGAP's market study demonstrate that there are investors and donors in the ecosystem that can support the earliest stage of companies as they explore and develop their innovations. At the other end of the spectrum, we know that DFIs and traditional asset managers (including microfinance investment vehicles) have significant capital to deploy to support more mature companies that are already profitable. However, there is a significant financing gap in the market between these two ends of the spectrum. Companies that show positive unit economics yet remain unprofitable at the corporate level struggle to find the right kind of capital to grow their portfolios and make it to the next stage of the company lifecycle.

BOX 3. **Traditional obstacles and their data-driven mitigants**

Limited track record	Near real-time portfolio analytics via data integration show granular loan performance trends.
Scalability concerns	Recurring or automated scalability tests with current data enables investors to assess growth potential under stress scenarios.
Capital adequacy and resilience	Data integration allows for monitoring of liquidity, and capital reserves provides transparency on financial buffers.
Operational and credit risk management	Automated risk scoring and dashboards allow dynamic operational risk monitoring as well as rapid response to any heightened risks.
Transparency and reporting standards	Standardized and automated reporting aligns fintech metrics with traditional investor requirements.

FIGURE 10. **The financing gap for inclusive credit fintechs**

Company Stage	Early Stage	Initial Growth	Mature Growth
Company Profile	• Proof of concept • Discovering unit economics • Uncertain portfolio risk • Very unprofitable	• Demonstrated initial product-market fit • Positive unit economics • More predictable portfolio risk • Still unprofitable	• Established market player • Strong unit economics • Multiple loan cycles with predictable risk profiles • Profitable
Most Common Investors or Donors	• Family and friends • Angel investors • Incubators or accelerators • Grant makers • VCs	• VC or private equity • Venture debt	• DFIs • Traditional asset managers (e.g., microfinance investment vehicles, other impact investors)
Type of Capital Required	• Equity and grants to prove the business model	• Debt to grow lending portfolios	• Debt to grow lending portfolios • Equity to support capital base
Availability of Required Capital	✓	✗	✓

SECTION 2

Financing of Early-Stage Credit Fintechs: The Future

A **NEW GENERATION OF INNOVATIVE** asset managers is redefining investment in inclusive credit fintechs through advanced data integration, enabling more precise risk/return assessments. This approach demands technical sophistication from both the asset managers and the fintechs they support. These asset managers emphasized that deeper integration represents the frontier of investment innovation—particularly for non-equity financing models like debt and revenue-share financing.

The main innovation driving these innovative asset managers involves direct data integration. As shown in Step 1 (Figure 11), data integration with the investee's internal systems, primarily with the loan management system, needs to be established. This is followed by Step 2, where granular data analysis increases the ability to better service the investee company as well as assess risk in real time. Finally, Step 3 allows

As explained in Section 1, data-driven investment approaches offer the best potential for financing early-stage inclusive credit fintechs by enabling tailored, scalable funding solutions like flexible senior debt and revenue-based financing. This section explores how innovative asset managers leverage these methods, with real-time data integration and process innovations, to reduce risk and support fintech growth. This section also includes several case studies showcasing how these asset managers operate and implement their strategies effectively.

FIGURE 11. **The three-step approach for innovative lending**

Source: Authors (2024).

the asset manager to offer more tailored investment products like flexible senior loans, revenue-based finance, or asset-backed lending.

Step 1: Data Integration

These innovative asset managers emphasize that data integration with fintech borrowers' transaction systems is the first and necessary step for gaining real-time risk insights, especially in early-stage credit fintechs. This integration establishes a responsive risk management framework, enabling better-informed decisions and effective loss mitigation. As outlined in Box 4, reliable data integration can be achieved through various methods, largely determined by two key factors: (1) the fintech's technical capacity and the level of integration support provided by the asset manager, and (2) the specific purpose of the data integration.

Untapped Global (Case Study 3) provides flexible capital to digitally enabled fintechs, including credit fintechs, by using API integrations to access live data from borrowers' accounting systems. Untapped actively supports borrowers in establishing these

BOX 4. **Different approaches to data integration**

Establishing a connection between asset managers and fintech borrowers' loan management systems involves three main methods, each varying in sophistication and practicality:

1. **API Integration**
   - **Overview:** Enables real-time access, automation, and customization.
   - **Challenges:** Often impractical due to the technical complexity and fintechs' limited capacity, as APIs are typically user-focused, not investor-specific. Custom scripts are often required.[a]
   - **Best For:** Fintechs seeking real-time data exchange and automation in high-volume use cases, like payments and remittances.
2. **Shared Database Access**
   - **Overview:** Provides direct access to raw data with flexibility for custom queries.
   - **Challenges:** Requires robust security measures and a clear understanding of database structures.
   - **Best For:** Complex data analysis with mutual trust and technical expertise.
3. **File Uploads or Static Uploads Using a Secure File Transfer Protocol (SFTP)**
   - **Overview:** A secure, low-tech option for periodic batch uploads.
   - **Challenges:** Lacks real-time capabilities and may require manual handling.
   - **Best For:** Periodic data needs for fintechs with limited technical resources.

While API integration is the most advanced, shared database access and SFTP uploads are practical alternatives, balancing technical feasibility with data access needs. The choice of data connection often depends on the specific purpose of the connection. While advanced options like API integration offer real-time access and automation, they are only the gold standard if they are necessary for the specific use case. Simpler methods like SFTP uploads or shared database access can often achieve the required goals without unnecessary complexity. That said, collecting and processing more data always comes with significant effort. Cleaning raw data can be time-intensive, involving extensive back-and-forth between the asset manager and the fintech to fully understand the data. However, the additional insights gained from these granular datasets can provide a much deeper understanding of borrower behavior and portfolio performance, offering value that often justifies the effort.

a APIs are typically designed to meet the needs of end users, focusing on functionalities like payments or service integration, rather than providing investor-specific data or insights. As a result, additional customization or scripting is often required to make API outputs relevant for investment analysis or reporting.

UNTAPPED
unlock the potential of the next billion

2021

Initial ticket size $50,000–150,000; futher disbursements up to $5,000,000

Nairobi, Cape Town

San Francisco

Capital-intensive African business

Revenue-based financing

Untapped's business model is revenue-based financing, providing capital in exchange for a share of the company's future revenues. Key Innovation: Their "Smart Asset Financing" model uses a data-driven technology platform that not only improves the underwriting process but also helps them offer more flexible and responsive financing than traditional lenders. Their solution sets automated disbursements that are pegged to a company's operations metrics with effective capital deployment while reducing risks.

By using technology and staged financing, Untapped can support businesses through their critical growth phases, helping them cross over the so-called valley of death that most startups run into. Through their experience, they have learned that the combination of real-time data and a flexible financing model accomplishes better results for the lender as well as the borrower. This has allowed Untapped to support businesses from small-scale lenders to larger fintech companies toward broader financial inclusion and economic development in the regions they serve.

The cost and time related to creating the API integration can be substantial, potentially excluding less tech-savvy fintechs, or those with insufficient resources.

Benefits for inclusive fintech:

- No collateral requirements
- No founder dilution
- Small tickets at early stage
- Automated lending cycle
- Availing capital when needed

Benefits for Untapped:

- Maximizing risk management through ongoing, real-time data analysis
- Minimizing potential capital loss through staged investment approach and frequent repayments
- High-potential upside with good investments

Example portfolio companies

Electric motorcycles Uganda (PayGo)

4G CAPITAL THE NEOBANK FOR AFRICA

Working capital loans that power sustainable MSME growth

Simusolar

Climate-smart agriculture for smallholder farmers (asset financing)

connections during pilot phases, working together to create automated, real-time dashboards for direct transaction monitoring. Due to the technical complexity, asset managers like Untapped prioritize "API-ready" fintechs with existing functional APIs. Timon Capital expressed similar requirements, focusing on credit fintechs with data streams ready to plug into a cloud-based platform for internal analysis. Some asset managers aim to streamline this integration process to accommodate less API-ready companies, reducing setup from weeks to under a day and making API development part of their value-added support.

Step 2: Process Innovation

Data integration enables swift responses to emerging issues and improved risk prediction, keeping asset managers better informed and allowing them to be more agile in supporting their portfolio companies.

Increased insights, speed, and agility—data integration can lead to several process innovations, including:

- **Enhanced Due Diligence:** Asset managers can conduct more thorough and efficient due diligence by accessing real-time operational data, improving risk assessment and decision-making.
- **Real-Time Data Sharing:** Asset managers can access up-to-date performance metrics, financial data, and operational key performance indicators, allowing for timely decision-making and insights.
- **Automated Reporting:** Integration can streamline reporting processes, enabling automated generation of performance reports and tailored dashboards.
- **Automated Disbursements and Repayments:** Performance data can trigger automated loan tranches, and revenue data determines repayment flows.
- **Resource Allocation:** Improved data visibility can help asset managers identify which portfolio companies may need additional resources or support, optimizing capital allocation.

These innovations can lead to improved company performance and subsequently enhance investment outcomes.

(Near) real-time risk management—while data integration can be a costly undertaking, once it's established, it unlocks new opportunities for more effective credit monitoring and controls, including:

- **Real-Time Monitoring:** The real-time and continuous nature of monitoring allows for near-instantaneous reaction to anomalies or heightened risks.
- **Automated Rule Sets:** APIs and other data integration methods are giving asset managers much more control over how to react to risk factors using rule sets they established (for example, when disbursements need to be paused); often this can be automated.
- **Enhanced Data Analytics and Proactive Risk Identification:** Direct access to continuous data allows for advanced analytics and machine learning to identify trends, correlations, and anomalies. This enables early warning systems that alert investors to emerging risks—such as shifts in financial health, operational issues, or market changes—ultimately improving predictive modeling and proactive risk management.
- **Regulatory Compliance:** Automated data collection can streamline compliance processes, ensuring that portfolio companies adhere to relevant regulations, reducing the risk of penalties.

Lendable

2014

Mainly senior secured loans

$5–50 million

Nairobi, London, Singapore

Qualifying sectors encompass micro, small, and medium-sized enterprise lenders, asset lenders, consumer lenders, embedded finance, payment companies, SaaS, and climate finance.

Profitable at gross margin level with unit economics that can support cost of funds; well-capitalized fintechs with comfortable runway.

Lendable targets underserved businesses and individuals with limited access to traditional financial systems in emerging and frontier markets in Africa, Asia, and Latin America. The company provides scalable debt solutions to both early and growth-stage fintechs. Lendable's platform Maestro is also used by third party investors for enhanced risk and impact analysis. The platform provides support for underwriting and monitoring of collateral and impact.

Lendable connects with portfolio companies' loan management systems, gathering real-time transactional data. This data is then subjected to a rigorous verification process, including onsite visits, forensic checks on reported management information, auditing financials, and verifying data against the loan tape and bank statements.

In addition to regular portfolio performance assessments, Lendable verifies the data the company is providing, such as cash, collection, or collateral. Checks are made using third parties such as payment gateways, banks, or mobile network operators.

Lendable manages data on 173 million loans and $9.9 billion in payments, enabling benchmarking and peer analysis. This data supports credit risk management (Risk Team), borrower performance analytics (Data Team), decision-making and monitoring (Investment Team), and portfolio and borrower insights (Impact Team).

Through its innovative approach, Lendable is the first offshore institutional debt financier to 70 percent of its portfolio companies.

Step 3: financing product innovation

The data integration and real-time monitoring innovations above not only allow innovative asset managers to better assess risk in real time, they have also opened the door to more experimentation, implementing tailored financial instruments such as flexible senior debt, revenue-based financing, and securitized lending.

FLEXIBLE SENIOR DEBT

Several of the innovative asset managers offer senior loans containing drawdown-on-demand features to their inclusive credit fintechs in their portfolio, providing several key advantages:

- **Optimized Cash-Flow Management:** Fintechs can draw funds only when needed, reducing idle capital and optimizing cash flow. This helps manage operational costs and minimizes interest expenses on unused portions of the loan.
- **Improved Risk Management:** By controlling when and how much to draw, inclusive fintechs can better manage risk, avoiding over-leveraging and swiftly responding to market changes or economic slowdowns.
- **Enhanced Liquidity for Customer Credit:** With on-demand access to capital, fintechs can support a growing customer base, ensuring they have sufficient liquidity to meet customer credit needs as demand rises without waiting for new funding rounds.

For asset managers, offering a **drawdown-on-demand loan feature** provides strategic benefits, including reduced capital exposure, improved liquidity, and lower operational risk, as funds are only released when needed. It fosters stronger client relationships through flexible terms, potentially yields higher returns on drawn amounts, and allows adaptability in volatile markets.

REVENUE-BASED FINANCING

As asset managers gain the ability to incorporate self-liquidating positions into their portfolios, revenue-based financing (RBF) is increasingly being recognized as a valuable tool. RBF is a flexible funding mechanism in which repayments are tied to a company's revenue, allowing businesses to align loan repayments with their cash flow—an appealing option for companies with variable income. Specific terms, such as interest rates and payment caps, are generally linked to the market cost of capital and the company's projected revenue. Variations of RBF include:

- **Traditional, Revenue-Based Financing:** A fixed percentage of the company's revenue is paid to the asset manager until a predetermined payment cap is reached.
- **Uncapped, Revenue-Based Financing:** Asset managers receive a percentage of the company's revenue for a set period, with no total payment cap.
- **Quasi-Equity, Revenue-Based Financing:** Similar to traditional RBF, but includes an option for the borrower to buy out the asset manager at a fixed multiple of the initial investment.

Some innovative asset managers, such as Timon Capital (see Case Study 6), view RBF as a valuable approach for achieving quick, high returns in African and other emerging markets, especially given its upside potential. With RBF, repayments are tied directly to a company's revenue, allowing asset managers to capture more income during growth periods, often yielding greater returns than fixed repayment structures. This flexibility is appealing in a global environment where capital often gravitates toward the stability of developed markets.

Others, like Cauris, are more cautious about RBF, arguing that while it centers on revenue growth, it may not fully account for a borrower's overall ability to repay, especially in unpredictable emerging markets. Relying solely on revenue projections, they suggest, could overlook critical financial risks, making RBF less reliable in certain scenarios.

2020

Senior secured-term loan

$1–20 million

2020

Unsecured small and secured senior

$2–10 million

Product Offering

ALMA provides creative non-dilutive financing on commercial terms to "inspiring entrepreneurs" and aims to be a long-term source of debt that can scale with business needs. ALMA is typically among a borrower's first institutional capital providers.

Innovation

ALMA offers supportive debt facilities that provide medium to long-term (3–7 year) capital, with interest-only periods and creative structuring options, varied collateral, and security arrangements (including loan portfolios, receivables, and carbon credits), and flexible hedging strategies. ALMA can often find lending solutions where other lenders cannot.

Product Offering

Cauris Finance provides debt to socially impactful African fintechs, helping them bridge the financing gap from early development to scaling. This financing enables partners to offer quality MSE loans to their communities.

Innovation

Cauris pursues a balance of high-tech and high-touch, allowing them to help early-stage companies follow a graduation path.

Graduation Fund: Unsecured facilities that are small and of short duration for early-stage fintechs.

Growth Fund: Used to support these companies and then, ideally, graduate them into senior secured facilities over time.

Benefits for inclusive fintech:

- ✔ Access to early-stage financing
- ✔ Drawdowns as needed. Reduces deployment pressure, enabling them to scale responsibly
- ✔ Data integration facilitates ease of reporting

Benefits for ALMA and Cauris

- ✔ Grow with clients
- ✔ Portfolio early warning system allows proactive risk management by using data integration to identify potential issues before they arise.
- ✔ Granular monitoring of disbursement and repayment trends enhances oversight and timely adjustments.

Example portfolio companies

Microenterprise lender

Supply chain finance for MSEs

MSE lender

Mobility finance for gig entrepreneurs

Despite this debate, improved data access has made RBF far more feasible operationally, opening opportunities to reach borrowers in developing markets who were previously challenging to serve. The ability to monitor high-quality, hard-to-access cash flows may alter risk profiles just enough to enable more financing for fintechs. For asset managers like Unconventional Capital, Untapped, Timon Capital, and Sunu Capital, RBF provides an additional credit option closely aligned with borrowers' revenue streams.

CASE STUDY 6. **Timon Capital and revenue-based financing**

Timon Capital is a VC firm focused on investing in technology-driven companies in emerging markets, especially Africa. They primarily invest at the seed stage in companies with early market traction and engage in global growth-stage funding. Their return model includes a guaranteed minimum, with potential upside based on the efficiency of the company's cash flow management.

Timon Capital's strategy centers on assessing liquidity and cash flow dynamics, favoring businesses with high cash turnover to minimize credit risk. They offer a hybrid, non-dilutive financing product that combines debt and revenue-based features, allowing founders to retain equity while accessing growth capital. This model is ideal for high cash-flow businesses, particularly in payments and remittances, providing faster liquidity access and higher risk-adjusted returns without the long timelines of equity financing. They also use machine learning to assess risk and creditworthiness.

One of Timon Capital's investments is in **Waza**, a Nigerian B2B payment and liquidity provider, to whom they provided a $5 million loan in August 2024 to pilot trade financing.

ASSET-BACKED LENDING

Asset-backed lending, a relatively mainstream product in the capital markets, can also be applied to the inclusive credit fintech sector. The ticket sizes may not be as low as they could be with RBF, as more costs are involved. There are usually two cost layers that investors need to navigate: (1) as with RBF, there are costs related to API-level integration, and (2) there are additional costs related to creating a special purpose vehicle (SPV) and working with a portfolio servicing company.

Due to data integration, asset managers can clearly segment a fintech's portfolio. They can then pool a part of the portfolio that has the desired quality and tenor. An SPV is then established to hold the pooled assets. This legal entity isolates the assets from the originating institution's balance sheet, allowing asset managers to isolate the risk of portfolio assets from the overall risk of the company. The SPV issues securities backed by the cash flows from the underlying loans. These securities are often structured into different tranches, each with varying levels of risk and return. To make the securities more attractive to asset managers, credit enhancement methods may be used, such as overcollateralization (holding more assets than needed to back the securities). A servicer is typically appointed to manage the collection of loan payments from borrowers. The servicer ensures that the cash flows from the loans are directed to the SPV to pay the asset managers.

This structure provides this new generation of asset managers with real-time portfolio information that allows for effective monitoring of the company's revenue and the quality of the collateral. The SPV can be accessed in case the loan repayments stop.

In summary, data-driven investment approaches are critical to addressing the financing challenges faced by inclusive, early-stage credit fintechs. These methods enable innovative solutions, helping fintechs scale sustainably while enhancing transparency and risk management. By fostering financial inclusion and creating long-term investment opportunities, data-driven approaches provide a foundation for bridging the fintech financing gap and building a more resilient and inclusive financial ecosystem.

CASE STUDY 7. **Accial Capital and asset-backed lending**

Accial Capital offers asset-backed lending through special purpose vehicles (SPVs), providing senior secured loans backed by overcollateralized, off-balance sheet assets. This SPV structure isolates loan portfolios and related risks from Accial's balance sheet, enabling robust risk management and customized financing for fintech lenders in emerging markets. Additionally, Accial's SPV setup allows asset pooling and, if needed, switching loan servicers to mitigate loss risk if a fintech originator encounters financial difficulties.

Focused on responsible lending to micro and small enterprises in Latin America and Southeast Asia, Accial uses advanced technology to manage portfolios in real time, reducing default risk in underserved markets. Their ORCA risk management system employs APIs and real-time data for detailed, frequent loan evaluations, providing loan-level performance insights—a significant improvement over traditional summary-level data. ORCA also supports Accial's unique underwriting approach, drawing on alternative data such as supplier and transactional information to extend varied credit products, including those without standard amortization schedules.

2014

Asset-backed securitized financing

$10–150 million

Community Investment Management (CIM) provides asset-backed debt facilities to innovative, responsible fintech lenders in North America and emerging markets. Key innovation: Innovative fintechs providing financing to underserved customers need strategic debt funding to demonstrate and scale their models. However, most mainstream capital providers still believe that underserved customers are too difficult to serve profitably so fintechs struggle to access the capital they need to build volume and track record. CIM's tailored debt facilities provide pioneering startups with the strategic capital and technical guidance they need to scale.

The expertise and portfolio management capabilities needed to execute CIM facilities can be a leap for early-stage fintechs, so startups often need to invest in acquiring new skills. The cost and time related to creating the API integration can be substantial, potentially excluding less tech-savvy fintechs, or those with insufficient resources.

Benefits for inclusive fintech:

- ✔ Access to scalable debt capital due to off-balance sheet investment structure
- ✔ Better funding terms than typical venture debt alternatives
- ✔ Validate with CIM facility to graduate to mainstream capital providers

Benefits for CIM:

- ✔ Off-balance sheet structures isolate risk to venture backed startups
- ✔ Deep, long-term strategic relationships with fintechs with significant growth potential
- ✔ Investment structures enable dynamic responses to changing market conditions

Example portfolio companies

Mobility finance for gig entrepreneurs

Vehicle financing for gig workers in Latin America

SECTION 3

Bridging the Gap for Inclusive Credit Fintechs: Innovation, Knowledge, and Partnerships

Unlocking potential amid challenges

In 2022, CGAP's publication, *The Promise of Fintech for Small and Micro Enterprises*, emphasized the transformative power of data-driven technologies in inclusive finance, helping fintechs overcome traditional barriers to micro and small enterprise (MSE) finance. This focus note extends that vision further, advocating for asset managers and fintechs to equip themselves with the tools, knowledge, and partnerships necessary to implement data-driven investment processes and products.

Despite rapid growth, inclusive credit fintechs face considerable funding challenges. Over half of these enterprises struggle to secure capital beyond their initial round, limiting their ability to meet the significant credit gap for MSEs. Data-driven financing models offer a compelling solution: real-time data sharing allows innovative asset managers to closely monitor fintech performance, reducing risk and enabling adaptive financing structures like drawdown-on-demand senior debt, revenue-based financing, and asset-backed lending. These mechanisms create a sustainable, flexible path for fintechs to address cash flow needs and maintain resilience amid market volatility.

This section emphasizes the need to bridge the financing gap for inclusive credit fintechs, particularly at the early stages where growth capital is scarce. Donors and DFIs are uniquely positioned to address this challenge by enabling innovative financing approaches that catalyze investment and build a sustainable ecosystem. This section highlights how DFIs can leverage both their long-term investment horizons and access to blended finance tools to de-risk investments, and how donors can provide catalytic capital and technical assistance to empower fintechs. Through innovation, knowledge sharing, and strategic partnerships, donors and DFIs can support inclusive credit fintechs in scaling and expanding their impact on underserved MSEs.

Yet a substantial knowledge and technical gap persists, hindering broader adoption of these innovative financing tools. Many asset managers and fintechs remain unaware of the advantages of data-driven investing, while others lack the resources to adopt it effectively. Bridging this gap requires both strategic research and practical support to simplify the adoption of these tools. Technical integration support, including user-friendly API interfaces and accessible documentation, could empower fintechs to onboard new technologies and expand their reach.

Call for collaborative effort

Several innovative asset managers mentioned a desire to collaborate with international development finance and donor institutions. Some made clear that, instead, they have found themselves competing against philanthropic or otherwise subsidized capital when targeting more mature inclusive fintechs. DFIs could play an instrumental role, similar to the role they played in establishing microfinance investment vehicles back in the early 2010s. DFIs typically have a long-term investment horizon enabling them to structure funds that focus on sustainable development rather than immediate returns. They also often have access to diverse capital sources including government grants, multilateral funds, and private capital, which allows for innovative financing structures, including first-loss tranches. This could be further strengthened with technical assistance facilities targeting the fund and its investees to ensure a viable and sustainable portfolio. As such, DFIs should carefully balance their direct inclusive fintech investments with investment support for innovative asset managers targeting the same asset class.

A good example of this is seen through the partnership between the International Finance Corporation (IFC) and Lendable.

DFIs and donors have distinct but complementary roles in addressing the "valley of death" for early-stage, inclusive credit fintechs, where a lack of growth financing prevents many from scaling effectively. To bridge this gap, DFIs and donors must leverage their unique capabilities to create targeted solutions that catalyze investment and support fintech development.

By coordinating efforts to address the financing gap, donors and DFIs can enable inclusive fintechs to scale, unlocking their potential to reduce the MSE credit gap and drive sustainable economic growth. Through enhancing technical capacity, promoting data-driven approaches, and establishing structured finance partnerships, donors and DFIs can create a more inclusive and resilient financing ecosystem. These efforts will empower fintechs to deliver impactful services to underserved MSEs, fostering long-term economic resilience across Africa and beyond.

Additionally, traditional asset managers can benefit from the innovations driven by innovative asset managers, who use advanced data integration to de-risk and support fintechs. By collaborating with these innovative players, traditional firms can access well-vetted, high-potential investments, reducing operational burdens while aligning with financial and impact objectives. Together, these synergies create a sustainable and dynamic ecosystem for fintech financing, amplifying the impact of inclusive credit providers on underserved markets.

CASE STUDY 9. **Lendable and IFC**

Lendable IFC

Although the fintech sector continues to expand rapidly, it risks falling short of its impact potential, partly due to challenges in securing sufficient and diverse capital. While established financial institutions are beginning to engage more seriously with the sector, they require more sophisticated fintechs with longer track records that meet institutional standards. **IFC**, representing a group of participating investors (including BlueOrchard, Finnfund, Norfund, responsAbility, and Symbiotics), appointed **Lendable** to provide initial deal advisory services and collateral monitoring for a €90 million debt financing for Wave Africa, as well as other transactions with companies including M-Kopa and TerraPay. Lendable's platform provided granular, real-time visibility into millions of payments and cross-border transactions, ensuring transparency and trust in the collateral base. This capability gave IFC the confidence to proceed with the deal, as Lendable's analysis and verification of Wave's data provided the trust and transparency necessary for financial institutions—ultimately helping the fintech secure essential funding.

BOX 6. **Call for collaborative effort**

Action Area	Proposed Steps	Stakeholders Responsible
Establish Dedicated Funds	1. Create blended finance facilities with first-loss tranches or concessional debt 2. Scale access to revenue-based financing and flexible debt instruments	DFIs creating and supporting new funds through innovative asset managers Donor agencies through first-loss tranche
Build Technical Assistance Programs	1. Fund API and other data integration infrastructure 2. Provide data-driven risk management training for investors 3. Support fintechs in improving data readiness, reporting, and compliance 4. Create platforms for knowledge exchange on financing best practices	Donors and industry associations in partnership with accelerators.
Facilitate Partnerships	1. Offer guarantees or co-funding mechanisms to de-risk fintech partnerships with local banks (and asset managers) 2. Incentivize fintechs to prioritize underserved MSE markets	DFIs for guarantees Donors (or others) for grants
Support Market Development	1. Fund research and knowledge dissemination on innovations in financing fintechs 2. Advocate for supportive regulatory policies (e.g., for off-balance sheet lending)	Donors, governments, and DFIs
Monitor and Evaluate Impact	1. Develop frameworks to track capital availability, impact on financial inclusion, and sustainability metrics. Be able to answer the question if innovative approaches further MSE inclusion.	Donors and research institutions

Source: Authors (2024).

Appendix

CGAP COMMISSIONED BRITER BRIDGES to collect data on African inclusive credit fintechs and their historical funding records between 2015 and 2023. Briter Bridges collected data on funded inclusive credit fintechs operating across Sub-Saharan Africa and North Africa, where the largest credit need for MSEs is present.

Investment data covers publicly announced funding of inclusive credit fintechs. Funding sources include commercial, impact, and non-profit investors from the pre-seed stage to Series E and acquisition.[6] Undisclosed funding from traditional financial institutions, such as loans, or from individual investors, such as angel or high-net-worth individuals, is not as covered thoroughly in this research.[7]

In addition to the data, this research draws qualitative insights from stakeholder interviews with 11 inclusive credit fintechs and 12 innovative asset managers operating in Africa and beyond. The featured inclusive credit fintechs have gone through at least a series B round of funding and have started and maintained their operations in Africa. The fintechs cover different MSE lending products from asset financing to unsecured loans. The investors included were selected on the basis of demonstrated innovation in their investment process.

Inclusive credit fintechs covered in this research include (1) MSE credit fintechs that offer lending products to MSEs, and (2) credit-enabling fintechs that digitize and create financial infrastructures for MSE credit fintechs as a part of or as a mean to enable their product offering to MSEs. A detailed taxonomy of inclusive credit fintechs and some examples can be found in Table A.1.

6 There are less than 20 deals between Series C to E and acquisitions. Some of the analysis on deal stages will exclude these later stages as the focus of this research is on the earlier stage.

7 There is likely a higher proportion of debt that is not reported compared to equity funding. If debt instruments are used as a part of their fundraising round, the data is more likely to track this than working capital loan from a bank.

TABLE A.1. **Product taxonomy**

Category	Description	Examples
MSE Credit Fintechs		
Asset Finance	Services and platforms that allow MSEs to use their assets and short-term investments as a security to take out loans.	M-Kopa, Moove
Digital Merchant Cash Advance	Merchant cash advance is a form of credit that provides businesses with upfront cash advances. Repayment occurs via automatic sales receipt deduction.	DPO Group, Kopo Kopo
Factoring and Invoice Finance	Factoring and invoice finance is another form of collateralized credit that is backed by a pool of invoices. Factoring transactions typically occur when businesses sell receivables to finance providers at a discount. The latter becomes responsible for managing the debtor's portfolio and collecting payment for underlying receivables.	eFactor Network, Lidya
Inventory and Input Financing	Inventory and input finance usually takes the form of in-kind lending secured against inventory or inputs. A credit assessment is made against digital orders or inventory tracking	&frnds, Boost
P2P Lending	Online platforms that connect lenders and borrowers to enable the buying, selling, and holding of funds, shares, and other investments in one place.	Afluenta, Faircent
Unsecured Lending Platform	Unsecured automated business finance is a credit offering platform that lends to MSEs without a security. This includes platforms with proprietary credit products as well as those that connect them to other lenders. Unsecured automated business finance can be offered through a high-touch model (i.e., digitized paper documents and automated credit scoring conducted by in-field staff) or a low-touch model (i.e., based on partner-provided digital sales and transactions data or alternative data sources).	Aye Finance, Konfio
Digital Banking		
Digital Banking	Licensed digital bank services, banking-as-a-service that offer credit or loan services that can be B2B or B2C facing.	Monzo, Tyme Bank
Credit Embedded Fintechs		
B2B E-Commerce & Logistics	Startups that mainly provide e-commerce and logistics services to MSEs but have developed embedded credit products for MSEs who are a part of their service chain.	Boost, Wasoko
Embedded Finance	Financial products and services that are integrated directly into the products or services of non-financial companies. This integration allows businesses to offer financial services seamlessly within their own platforms, enhancing the customer experience and streamlining financial transactions.	Moove, Oystr Finance

TABLE A.1. **Product taxonomy** (continued)

Category	Description	Examples
Credit Enabling Fintechs		
Bank SaaS	Services that provide software services to financial institutions, investors, or savings and credit cooperative organizations to make their funding and operations more efficient.	Jumo, Vula
Financial API	Pieces of software that interact with financial applications to facilitate information access, transactions, and payments.	Mono, Stitch
Identity & Know Your Customer	Platforms and software designed for use by institutions or businesses in identification and verification of their customers and potential customers, typically to check if the client is real, assess the risk of fraud and gauge the legitimacy of the business relationship.	IdentityPass, VerifyMe
Market Provisioning	Services and products that help digitize the operations and financial management of MSEs that can lead to better digitized access to credit. Examples of services are accounting, financial management software, merchant services, payroll, billing, and invoicing tools.	Accounteer, Expensya

TABLE A.2. **Funding stage taxonomy**

Stage	Definition
Incubator and Accelerator	Incubators provide startups with mentorship, resources, and a collaborative environment to develop their ideas. They often offer office space, networking opportunities, and sometimes seed funding in exchange for equity. Accelerators are short-term programs that support startups with mentorship, training, and funding. Accelerators usually provide those in-kind assistance in exchange of 5–10 percent equity. Unlike incubators, they focus on rapidly growing and scaling startups over a few months, culminating in a "demo day," where startups pitch to investors.
Pre-Seed	Pre-Seed round is usually the earliest stage of funding, often provided by the founders themselves, friends, family, or angel investors. It's used to support the initial development of the startup's idea, covering things like market research, product development, and initial business setup.
Seed	Seed round is first official round of external funding, typically from angel investors, venture capitalists, or seed funds. Seed funding helps startups develop their product, conduct market research, and build a team. This stage is crucial for getting the startup off the ground and preparing for larger funding rounds.
Pre-Series A Bridge	This bridge round is a funding round that occurs between the seed stage and Series A. It provides startups with additional capital to extend their runway and achieve milestones needed to attract Series A investors. It's typically a smaller amount than a full Series A round.
Series A	Series A round is the first significant round of capital funding, usually with venture capital. Startups at this stage usually have a proven product or service and some level of market traction. Series A funding is used to optimize the product, expand the user base, and scale operations. Investors focus on the startup's potential for growth and profitability.
Pre-Series B Bridge	This bridge round is a funding round that occurs between the Series A and Series B rounds. It provides startups with additional capital to extend their runway and achieve milestones needed to attract Series B investors. It's typically a smaller amount than a full Series B round.
Series B	Series B round is for startups that have demonstrated significant growth and have a scalable business model. Series B funding is used to expand the business further, increase market share, and enhance product offerings. This round often involves larger investments from venture capital firms and possibly corporate investors.

TABLE A.3. **Funding instruments raised by inclusive credit fintechs**

Instrument	Definition	Fintech	Investor
Equity			
Equity through Incubator or Accelerator	Equity-based investment to very early-stage startups along with technical assistance and professional services.	Boost, Oystr Finance	Catalyst Fund Inclusive Digital Commerce Accelerator, Last Mile Money, Techstars
Angel Equity	Equity investment from individuals or syndicate angel networks, usually smaller ticket size than equity round from VC	4G Capital, Boost, Oystr Finance	Angels and individuals
VC Equity	Equity funding from VCs, whether commercial, impact, or corporate	4G Capital, Field, Kopo Kopo, M-Kopa, Moove, Numida, Wasoko	Accion, British International Investment, Kepple Africa Ventures, Launch Africa, LGT Group, Mercy Corps, Norrsken, Sumitomo
Private Equity	Equity investment at a growth and later stage by private equity firm	4G Capital	Lightrock
SAFE	Capital that can be converted into equity at a later date	Boost, Moove	Issued to angel investors, investors in pre-seed and seed funds
Equity Buyback	Buying back equity at a premium price after they have been issued	Kuunda	Angel investors
Grant			
Grant	Money awarded to startups without the expectation of monetary return.	Boost, Kuunda, Numida	Cisco Foundation, FSD Africa, Gates Foundation, Mastercard Strive, United Nations Capital Development Fund Grant Funding
Technical Assistance Grant	Grant with added technical assistance on a particular business, operation, or impact area	Boost, Kuunda	Cisco Foundation, Gates Foundation, Mastercard Foundation, Swiss Capacity Building Facility Fund, Unilever TRANSFORM
Returnable Grant	Type of grant that can be returned when startups meet certain milestones.	Numida	FSD Africa

TABLE A.3. **Funding instruments raised by inclusive credit fintechs** (continued)

Instrument	Definition	Fintech	Investor
Debt			
Senior Debt	Senior debt collateralized on assets that MSEs finance through fintechs	Moove, Numida	Emso Asset Management, National Bank of Kuwait
Junior Debt	Junior debt that unsecured loan fintechs raise through angels and private equity	Numida	Family offices, angels, Cauris, Lendable
Local Currency Debt	Local currency-denominated debt, usually issued by local banks	Field, Moove, Numida	Absa, Access Bank, Commercial Bank, National Bank of Kuwait, Stanbic Bank Uganda, Standard Bank, Stride Ventures
Revenue-Based Debt	Debt that is paid off as a percentage of the company's revenue	Kuunda	FINCA International
Commercial Paper	Long-tenor, privately placed commercial paper	Kopo Kopo	High-net-worth Individuals, family offices, treasurers of local companies
Debt with DFI	Debt provided by DFIs, usually start with a minimum ticket size of 20 million and will be in USD	Moove	British International Investment, FMO, IFC
Revolving Cash Facility	Revolving cash facility that is collateralized against cash or AR, usually involves a guarantor	4G Capital	Citi Bank with US government-guarantee backing, I&M Bank Kenya Limited
Venture Debt	Loan provided to companies backed by VC support	4G Capital, Moove	From an individual within a VC group

References

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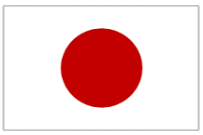
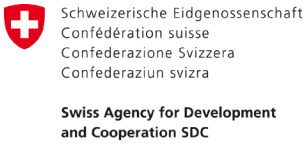
CGAP Members



CGAP members and strategic partners as of June 2024

CGAP Members (continued)



CGAP Strategic Partners

CGAP members and strategic partners as of June 2024

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