Behind the Scenes with Inclusive Fintech Investors

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Meet The Speakers

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<table>
<thead>
<tr>
<th>Time</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>09:00 – 09:15</td>
<td>Introductions and housekeeping, CGAP frames discussions</td>
</tr>
<tr>
<td>09:15 – 09:35</td>
<td>Moderated Panel Discussion</td>
</tr>
<tr>
<td>09:35 – 09:45</td>
<td>Q&amp;A</td>
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<tr>
<td>09:45 – 10:05</td>
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<tr>
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The webinar recording will be emailed to all attendees and registrants.
MSEs are pathways to inclusive development 
... but remain severely credit constrained

Estimated Global Micro and Small Enterprise Credit Gap (USD trillions)

Sources: Dalberg (2019), Bridging the credit gap for micro and small enterprises through digitally enabled financing models, IFC (2017), MSME Finance Gap

$4.9T Aggregate unmet credit demand from MSEs in emerging markets

$3.1T Total MSE credit supply

Note: Ayyagari et al (2014) use World Bank Enterprise Survey data which excludes firms < 5 employees and informal sector firms
Technological advances show promise in overcoming traditional barriers to providing MSEs with needed financing

MSEs
- Adopting technologies to run their businesses

DISRUPTORS
- Fintechs pioneering new approaches

INCUMBENTS
- MFIs and others engaging digital transformations

Next Generation MSE Finance Markets:
- Digitally enabled MSE finance providers, responsibly addressing the needs of all MSE segments with efficient, effective and tailored offerings
CGAP identified four archetypes of inclusive fintech models with potential to serve MSEs

<table>
<thead>
<tr>
<th>PURE PLAY FINANCIAL SERVICES</th>
<th>EMBEDDED FINANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>DATA DRIVEN LENDING</td>
<td></td>
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</tbody>
</table>
| Marketplace finance directly connects investors with Borrowers
  - Retail investor focused
  - Institutional or syndicated capital focused | Deposit-taking institutions with a bank license that deliver banking services through digital channels rather than physical branches
  - Neobanks
  - Challenger banks
  - BaaS providers |
| MARKETPLACE LENDING         |                  |
| Merchant cash advance
  - Invoice financing, factoring
  - Input financing
  - Automated unsecured loans | Seamlessly integrates financial services with nonfinancial services
  - Vertically integrated
  - Partnerships based |

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<thead>
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<th>EMBEDDED FINANCE</th>
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**MARKET PROVISIONING:** Facilitate the digitization of other FSP’s products services

**POTENTIAL IMPACT ON MSEs**

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<tr>
<th>COST</th>
<th>ACCESS</th>
<th>FIT</th>
<th>EXPERIENCE</th>
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</thead>
<tbody>
<tr>
<td>Lower credit costs</td>
<td>Easier access to credit</td>
<td>Tailored and personalized products</td>
<td>Improved user experience</td>
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Data-driven Lending

What is it?
• Short to medium term credit, typically for working capital
• Secured or unsecured
• Fully or partially automated loan cycle

How does it work?
• Fintech hosts a digital platform that collects and manages transactional data
• Data collected through multiple methods (e.g., in-person through field agents, automatically uploads from MSE, extracted from a third party)
• Platforms continuously feed data into credit risk models for credit decisioning

How does it make money?
• Interest margins and fees linked to lending products or value of goods and services

What does the model depend on?
• Availability and quality of digital data
• Levels of digital adoption, digital infrastructure, legal and regulatory frameworks

Automation of parts of the lending cycle (e.g., customer acquisition, data collection and analysis, payments collection etc.) lowers operating expenses

Diversified data sources in credit decisioning models (e.g., demographic, household data, transaction data, online behavior etc.) reduces credit risk

AYE [आय]

kaleidofin

SympliFi

CGAP
Embedded Finance

What is it?
• Provision of financial and non-financial services through a single interface

How does it work?
• Modalities:
  • In-house: real sector firms offer on-balance sheet or off-balance sheet financing (e.g., SPV, captive financial institutions etc.)
  • Partnership based: real sector firms partner with one or more financial service providers to offer financing (e.g., with banks, MFIs, fintechs, payments providers etc.)
  • Finance led (e.g., payments or credit + book-keeping, payroll, customer relationships management) or non-financial services led (e.g., stock ordering + working capital, market and price discovery + credit)

How does it make money?
• Interest margins, fees linked to embedded financial or non-financial service

What does the model depend on?
• Analysis of data from primary service to structure embedded offering
• Perceived value add by customers
• Strategic vision of providers informs types of partnerships

Third party partnerships lowers operating expenses by reducing customer acquisition costs, streamlining product offerings, sales and servicing

Increased customer lifetime value from seamless and responsible bundling of services

Improved risk assessment by cross leveraging financial and non-financial data for credit decisioning.
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Thank you

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