Inspirational Policy and Practice Shifts in Uncollateralized Digital Lending for Financial Inclusion of Young Entrepreneurs

Ethiopia Finance Sector Case Study

Mezid Nasir[1]

Fetene Bogale[2]

Abule Mehare[3]

Policy Working Paper 28/2025

Ethiopian Economics Association

July 2025

DISCLAIMER

The views and opinions expressed in this publication are those of the authors and do not necessarily reflect the official policy or position of the Ethiopian Economics Association. Readers are encouraged to verify the information independently and seek professional advice where necessary. The authors will not be hold liable for any loss, damage, or inconvenience caused because of the use or reliance on the content of this publication.

---

[1] Senior Researcher, Team Leader, Trade & Industrial Development, Ethiopian Economics Association

[2] Associate Professor, School of Humanities & Social Science, Adama Science and Technology University

[3] Director, Partnership and Communication Division, Ethiopian Economics Association

ACKNOWLEDGMENTS

This case study was authored by a team of researchers and data collectors from the Ethiopian Economics Association, enabled by the Mastercard Foundation as part of its ongoing efforts to support young entrepreneurs through access to finance initiatives across the continent. The research team extends its sincere gratitude to the stakeholders and respondents who provided the data and insights underpinning the case study, and to EEA management for their continuous support and active engagement in closely following this study. The team would like to specifically thank Kifiya Financial Technology and the Cooperative Bank of Oromia (COOP). Their expertise has been invaluable in providing a comprehensive understanding of the evolving financial landscape and uncollateralized digital lending efforts in Ethiopia. We also acknowledge Future Africa Consulting's support in the editing and formatting of the case study.

TABLE OF CONTENTS

LIST OF FIGURES

ACRONYMS

A2F	Access to Finance
COOP	Cooperative Bank of Oromia
CRRP	Covid-19 Resilience and Recovery Program
CSA	Central Statistics Agency
EDBR	Ease of Doing Business Reform Agenda
FSD	Financial Sector Deepening strategy
FSRA	Financial Sector Reform Agenda
GOE	Government of Ethiopia
HGER	Homegrown Economic Reform Agenda
IFC	International Finance Corporation
ILO	International Labor Organization
MESMER	Micro, Small, and Medium Enterprises Resilience
MOA	Ministry of Agriculture
MoLS	Ministry of Labor and Social Affairs
MSMEs	Micro, Small, and Medium Enterprises
NBE	National Bank of Ethiopia
NDPS	National Digital Payments Strategy
NDTS	National Digital Transformation Strategy"
NFES	National Financial Education Strategy
NFIS	National Financial Inclusion Strategy
NGS	National Gender Strategy
PAJC	Plan of Action for Job Creation
PEPE	Private Enterprise Program Ethiopia
RUFIP	Rural Financial Intermediation Program III
SACCOS	Savings and Credit Cooperative Organizations
SAFEE	Sustainable Access to Finance to Enable Entrepreneurship
SMEFP	The Small and Medium Enterprise Financing Program
WEDP	Women's Entrepreneurship Development Program

EXECUTIVE SUMMARY

This case study presents the key policy and practice shifts and innovative lending models arising out of the Kifiya Financial Technology in Ethiopia. Micro, small, and medium-sized enterprises (MSMEs) are the backbone of Ethiopia's economy, driving inclusive growth, reducing poverty, and generating 70% of the nation's employment. However, a critical $6.1 billion funding gap severely restricts their potential. Lending primarily favors large corporations with collateral, leaving MSMEs, particularly those led by young female entrepreneurs, underserved. This disparity stems from complex issues on both the demand side - including young borrowers' lack of collateral and credit histories, and the supply side – including high lending costs, and limited variety of youth-friendly financial products. Traditional lending solutions have proven inaccessible and unsustainable for young entrepreneurs, necessitating innovative approaches to include them in the finance sector.

In response, the Mastercard Foundation's Young Africa Works (Young Africa Works) strategy, launched in 2019, aims to create 10 million jobs in Ethiopia by 2030, leveraging digital technology and fostering entrepreneurship. A key initiative under Young Africa Works in Ethiopia is the Sustainable Access to Finance for Enabling Entrepreneurship (SAFEE) program, launched in 2023. In partnership with Kifiya Financial Technology, SAFEE aims to unlock uncollateralized digital lending for over 2 million young people, addressing financial literacy and credit access barriers.

This case study presents the key policy and practice shifts enabling innovative lending models and highlights sector insights that ecosystem stakeholders can apply to further financial inclusion for young people especially those engaged or seeking to engage in entrepreneurship or business. It includes critical success factors and actionable lessons for developing tools and approaches for inclusive financial services.

A mixed-methods data collection approach was employed consisting of primary research, gathered through key informant interviews and focus group discussions, to provide nuanced insights into perceptions, policy changes, and ecosystem dynamics. This was complemented by secondary research, derived from institutional records and literature reviews, to offer an objective analysis of financial sector trends and measurable outcomes.

Key findings of the case study cover the context, extent and implications of recent shifts in lending policies and practices across Ethiopia's finance sector.

The Ethiopian government has led the way in financial inclusion innovation by developing an enabling policy environment. National transformation policies such as the Homegrown Economic Reform Agenda, Financial Sector Reform Agenda and Digital Ethiopia 2025 provide a strong foundation for sector-specific interventions such as National Digital Payments Strategy and the National Financial Education Strategy as well as the National Financial Inclusion Strategy. Financial institutions have been incentivized, supported and supervised in their introduction of appropriate tools and practices and compliance with directives that broaden access, lower costs and reduce barriers to sustainable and fit-for-purpose lending.

Development partners and supporting actors are galvanizing sector innovation and uptake of inclusive lending models. The Mastercard Foundation is one of several actors providing technical assistance, public-private convening, and other supports such as de-risking mechanisms to help financial institutions transition to new models. Development partner interventions – including the SAFEE program - align with and build on the progress made by previous government actions

The SAFEE program model has contributed to a more positive perception of young entrepreneurs among financial actors and policymakers. These young individuals are now increasingly viewed as creditworthy clients and key drivers of job creation. Similarly, young entrepreneurs' perceptions of banks have also improved, leading to increased openness to explore further financial opportunities.

SAFEE Partner banks' policy and practice changes have contributed to mindset shifts around lending to young entrepreneurs, and non-partner banks report similar shifts in their practices. Partner banks have adapted their internal credit evaluation processes, incorporating alternative data sources like transaction and behavioral history alongside traditional credit scores. These banks are transitioning from purely collateral-based lending to more data-driven approaches, leveraging AI and digital platforms to integrate diverse data sources for credit evaluation[4]. Partner banks are also upgrading credit risk management systems for real-time data analysis, establishing dedicated digital lending departments, and diversifying product offerings. Cooperative Bank of Oromia is leading innovation in these areas with the launch of its *Michu* digital lending products, and development in cooperation with SAFEE of device financing for young women in rural areas and invoice financing to be launched in late 2025. Moreover, more banks are expanding loan portfolios to MSMEs, with COOP Bank demonstrating a notable increase in disbursements.

There have been policy and practice changes in non-partner institutions through a demonstration effect. Following the launch of the Michu product by COOP Bank, Ethio Telecom in partnership with Dashen Bank and Commercial Bank of Ethiopia (CBE), introduced digital microcredit services. This has fueled market competition, with institutions like Dashen Bank (DubePay), Bank of Abyssinia (Apollo), and Anbessa Bank (Alegnta) introduced their own digital lending products. SNV is collaborating with KMD London to launch a digital lending app through Awash Bank, CBE, and Ahadu Bank.

Financial institutions can embrace data-driven, digital lending; foundations to build strong, inclusive partnerships and advocate for regulatory reform. The successful implementation of financial inclusion programs requires policymakers to create enabling environments for diverse financial providers and prioritize financial literacy; financial services providers to capitalize on these reforms with technological innovation and changes in business practices; and development partners to support transitions and scaling of new models. These findings offer a roadmap for expanding inclusive financial services and empowering MSMEs across diverse contexts. Below is a summary of case study insights and applications by stakeholder type.

[4] Credit guarantees provided by the program reduce the burden on borrowers to provide collateral while enabling lenders to pilot innovative credit assessment tools of digital. However, the support from the Mastercard Foundation has been gradually reduced, as banks have gained confidence through practical experience and AI-supported assessments that young and MSME borrowers are indeed creditworthy.

Insights	Applications
Policymakers	
Restricting lending permission only to Banks can stifle growth in widespread inclusive financing	**Develop Inclusive Regulatory Frameworks:** Enable non-bank financial institutions (NBFIs) to provide inclusive digital financial services.
Financial literacy gaps, especially in rural areas, can impede effective digital finance use by segments of the population	**Implement Comprehensive Literacy Programs:** Empower individuals and businesses to understand and utilize digital financial tools effectively. This includes public awareness campaigns, educational resources, and training initiatives for basic financial literacy targeting youth.
Partnerships and knowledge sharing drives innovation tailored towards youth	**Promote collaborative platforms**: Facilitate partnerships between policymakers, financial institutions, FinTechs, and other ecosystem actors. Encourage the open exchange of experiences to accelerate learning and innovation in digital lending.
Development Partners	
Innovation drives lasting change at scale.	**Support Technology-Driven Innovation:** Invest in groundbreaking digital solutions that expand reach and address persistent challenges for youth, particularly young women.
Sustainable, scalable models drive widespread change.	**Fund Systemic Solutions:** Support initiatives that address barriers to financial inclusion, transform sectors and ecosystems beyond program lifecycles.
Partnerships with diverse stakeholders create mutual benefits	**Build Strong Partnerships:** Facilitate communication and collaboration among financial institutions, policymakers, and other stakeholders.
Supportive regulations expand access for underserved groups.	**Advocate for Regulatory Reform:** Engage with policymakers to create enabling environments for inclusive finance.
Financial Institutions	
MSMEs are a profitable and a viable market	**Build a strong digital foundation:** Invest in consumer production, required infrastructure, data science, and robust cybersecurity
Customer-centric innovation is a key driver of growth	**Develop customer-centric solutions:** Create tailored financial products and provide financial literacy programs.
Digital platforms significantly boost efficiency and market reach	**Drive innovation and efficiency:** Establish R&D teams, digitize lending, data collection on borrowers and optimize loan turnover for maximum return

1. INTRODUCTION

1.1. Background and context

Youth unemployment presents a significant challenge across Africa. The ILO-projected youth unemployment rate for Sub Saharan Africa is 8.9 percent in 2025[5]. However, the lack of productive and decent jobs remains the main challenge for young people in Sub-Saharan Africa with the proportion of youth not employment, education, or training was 21.9% in 2023[6]. Annually, over two million young Ethiopians enter the labor market, but the economy struggles to absorb them.

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in addressing unemployment, poverty reduction and driving economic growth. In Africa, MSMEs constitute 90% of businesses and generate over 60% of employment[7]. In Ethiopia, approximately 1.5 million MSMEs support 4.5 million jobs, with an estimated monthly income of 40.7 billion Ethiopian Birr[8].

However, MSMEs face substantial financial constraints that impede their potential. Limited access to finance, inadequate policy support, low trust in formal financial services, and limited financial literacy are key barriers. Small enterprises, often termed the 'missing middle', are particularly disadvantaged, facing greater credit constraints than both micro and medium-sized enterprises. Small, young firms are more likely to be rejected for loans than larger enterprises, and their capital needs are also greater than what is allocated through regular micro-financing arrangements. In Ethiopia, the Jobs Creation Commission Report (2020) revealed that only 1.9% of small enterprises have access to finance, even less than the 6% of micro-enterprises, highlighting the severity of their financial challenges.

Recognizing the significant challenges to youth employment in Africa, the Mastercard Foundation launched the Young Africa Works (Young Africa Works) strategy in 2018. This initiative seeks to enable 30 million young people across the continent (70% of which are young women), to secure dignified work by 2030. In Ethiopia, Young Africa Works was launched in 2019 with the objective to create 10 million job opportunities. This strategy drives inclusive growth by enhancing access to finance, education, and skills; leveraging digital technology; supporting policy reform; fostering entrepreneurship; and building strategic partnerships.

> **Uncollateralized digital lending** refers to a type of lending where loans are granted without requiring collateral *from the borrower*.
>
> This form of lending typically relies on alternative data points, such as credit scores, transaction history, and other digital footprints, to assess the borrower's creditworthiness.
>
> It is facilitated through online platforms, using technology to streamline the process and enable faster decision-making compared to traditional lending methods (Zhang, 2021).
>
> Kifiya Technology, through its decade-long journey, provides real-time solutions to the demand, supply, and environmental challenges that MSMEs face in accessing finance and credit".

1.2. Case study objectives

This case study is designed to achieve three primary objectives. First, it aims to identify the shifts in policies and practices that have enabled new lending approaches, particularly uncollateralized digital lending tailored to the needs of young people. Second, the study explores the usefulness of this lending model, identifying the critical success factors that

[5] Sub-Saharan Africa GET Youth 2024_0.pdf
[6] CSA 2018
[7] ITC 2018
[8] Ababiya, 2018; Kassa, 2021

have contributed to its effectiveness. Lastly, it seeks to deduct actionable lessons and promising practices that could be instructive for other initiatives.

1.3. Data collection methodology

This case study employed a mixed-methods approach combining qualitative insights on policy shifts, lending practices, and ecosystem dynamics with quantitative data on trends and measurable outcomes. Data sources included key informant interviews and focus group discussions, institutional data, program documents, and relevant literature.

1.4. Structure of case study

This case study is divided into seven sections. Section One introduces the study's background, objectives, and methodology. Section Two provides an overview of Ethiopia's financial sector. Section Three examines MSMEs, their challenges, and relevant initiatives. Section Four provides a deep dive into Kifiya's uncollateralized digital lending model. Sections Five and Six analyze policy and practice shifts, enabling factors, and their implications. Finally, Section Seven offers' lessons for adapting and adopting uncollateralized digital lending models, providing Applications for future implementation.

2. ETHIOPIA FINANCE SECTOR CONTEXT

2.1. Macroeconomic overview

Ethiopia's economy has demonstrated strong growth, achieving 7.2% in 2022/2023, surpassing the Sub-Saharan African average[9]. While agriculture remains a key sector, employing a significant portion of the population and contributing substantially to GDP, the government is actively diversifying the economy by prioritizing manufacturing and services. In 2023, these sectors showed robust growth, with agriculture at 6.3%, industry at 6.9%, and services at 7.9%, contributing 32.1%, 28.8%, and 40.3% to the economy, respectively. Despite this growth, Ethiopia faces considerable macroeconomic challenges, including high inflation (26.11%), youth unemployment (23.1%), a fiscal deficit of 2.9% of GDP, a substantial public debt (USD 63.2 billion, 38.7% of GDP), and a significant trade deficit (USD 13.5 billion)[10].

2.2 Financial sector ecosystem actors

Figure 1*: *Financial sector ecosystem actors

Ethiopia's financial ecosystem is a dynamic network of interconnected actors working towards enhancing financial inclusion and stability. The National Bank of Ethiopia (NBE), as the central bank, plays a pivotal regulatory role, setting policy direction, supervising financial institutions, and ensuring the sector's overall

[9] NBE 2022/23
[10] https://nbe.gov.et/files/annual-report-2022-2023-2/

soundness. The NBE collaborates with government bodies like the Ministry of Innovation and Technology (MiNT) to foster the adoption of financial technology (fintech) and promote digital financial services, recognizing their potential to expand access and efficiency. Complementing the NBE's efforts, the Ethiopian Capital Market Authority oversees capital market development, while the Credit Reference Bureau aims to improve credit information access, facilitating more informed lending decisions.

Banks, the dominant players in the sector in terms of capital and loan portfolios, provide traditional banking services and are increasingly embracing digital transformation, partnering with fintech companies to offer innovative solutions and expand their customer base. Microfinance institutions (MFIs) play a critical role in serving low-income individuals and MSMEs, extending financial services to underserved populations. Fintech companies, bridging the gap between traditional and digital finance, collaborate with both banks and MFIs to deliver accessible and efficient digital financial services.

> Banks, MFIs, insurance companies, savings organizations, and credit service providers dominate the financial sector. Currently, 32 banks, alongside numerous microfinance and insurance firms, hold significant sway, with banks controlling 96% of total financial sector assets, which reached ETB 3.4 trillion (29.5% of GDP) as of June 2024.
>
> FinTech companies provide data and technology solutions but not lending services, which are reserved by finance sector regulation for banks and other licensed financial institutions.

Development partners, such as the Mastercard Foundation, provide financial and technical assistance to government institutions and financial institutions, supporting capacity building and funding programs that prioritize financial inclusion.

MSMEs are the end users of these collaborative efforts, as improved access to finance empowers them to contribute significantly to economic growth and job creation. Regulators, government institutions, financial institutions, and development partners work in concert to create an enabling environment that fosters MSME development and financial inclusion, recognizing their critical role in Ethiopia's economic progress.

3. OVERVIEW OF MSMES, CHALLENGES AND OPPORTUNITIES

3.1 Contribution of MSMEs to economic growth

MSME classifications vary worldwide but typically rely on factors like staff size and annual capital. In Ethiopia, the Federal Micro and Small Enterprises Development Agency classifies MSMEs as businesses with up to 100 employees and annual capital of up to 7.5 million Ethiopian Birr. The success of this category of enterprises is important, as MSMEs form the backbone of the Ethiopian economy, playing a pivotal role in driving job creation and stimulating economic growth.

Table 1: MSME Categorization

	Microenterprise		Small enterprises		Medium Enterprises	
Sector	**Services**	**Industry**	**Services**	**Industry**	**Services**	**Industry**
Employees	≤ 10	≤ 10	11-50	11-50	51-100	51-100
Capital (in thousand Birr)	<50	<100	501-500	101-1,500	501-7,500	1,501-7,500

According to the Ministry of Trade and Industry, Ethiopia has an estimated 2 million MSMEs[11]. MSMEs are rapidly growing Given the country's high youth unemployment rate, which reached 24.95% in 2018 (with a disproportionately high 30.9% for females[12]), the employment-generating capacity of MSMEs is critical. Studies indicate that MSMEs contribute approximately 70% of employment opportunities in Ethiopia[13], highlighting their indispensable role in addressing the country's unemployment challenges, supporting poverty reduction efforts and fostering inclusive economic development.

3.2. Challenges faced by MSMEs.

A major challenge for MSMEs is limited access to credit, hindering their growth, and potential contribution to the economy. Bank Lending is primarily concentrated on large corporate borrowers receiving collateralized loans, while MSMEs are primarily serviced by microfinance institutions (MFIs).

Across the continent, formal MSMEs face a finance gap estimated to exceed USD 330 billion. In Ethiopia alone, the funding gap for SMEs reached an estimated $6.1 billion in 2021[14], highlighting the severity of the problem. A 2021 UNDP report on Inclusive and Innovative Finance for Development revealed that only a small fraction of Ethiopian enterprises has access to formal financing: a mere 1.9% of small enterprises accessed loans or lines of credit. Access improves somewhat with business size, reaching 6% for micro-enterprises, 20.5% for medium enterprises, and 35.5% for large enterprises. Smaller businesses are disproportionately underserved. This access to credit constraint is particularly acute for women and young entrepreneurs, who often operate in the informal sector and face even greater barriers to obtaining credit.

[11] UNDP, 2022
[12] CSA, 2018
[13] Abate, et al., 2023
[14] World Bank, 2024

MSME credit access limitations arise from a combination of demand-side factors, such as MSME-specific issues; supply-side factors, including constraints within financial institutions; and broader, cross-cutting challenges related to the overall financial ecosystem.

Figure 2*: *MSME challenges

Demand side	Supply side
Challenge	**Challenge**
Lack of collateral and limited fixed assets in borrower's name	Inadequate risk assessment tools - reliance on collateral to manage risk
Business informality, poor credit history, and lack of financial records	Lack of appropriate, relevant financial products
Low financial literacy and awareness among young entrepreneurs	High cost of acquiring, managing, delivering frequent, small-size loans
Gaps in borrower information for vendor reference, e.g., lack of ID's, especially for young women	Perceived high risk to lend to MSMEs
Potential borrowers deterred by lengthy application process	Liquidity constraints
	Lack of digital infrastructure, limited branch networks in rural areas

Enabling enviroment
Challenge
Lack of credit information infrastructure: Absence of effective credit bureaus and information sharing mechanisms
Constraints on licensing and entry of new Financial Services Providers
Limitations of digital payment infrastructure and ID systems
Lack of gender and age disaggregated financial sector data
Cultural and social norms limiting financial inclusion of young people

When MSMEs lack access to finance, their potential to stimulate economic activity and create jobs is constrained (WB, 2015). Startups, in particular, struggle to scale and sustain operations without necessary capital, increasing their risk of failure. Additionally, limited financing prevents MSMEs from fully engaging in market activities, limiting their growth and hindering the establishment of strong local market and supply chain networks. Consequently, the reduced economic activity and job creation potential within MSMEs can have a ripple effect – contributing to broader economic instability and perpetuating cycles of poverty.

3.3. Overview of SAFEE program

The Mastercard Foundation's Young Africa Works strategy in Ethiopia focuses on addressing the persistent challenges faced by youth-led MSMEs and young women entrepreneurs, particularly concerning access to finance. Recognizing the critical role these entities play in driving economic growth and job creation, the Foundation has funded a range of multi-year Access to Finance initiatives designed to unlock their potential.

Launched in June 2023, the Mastercard Foundation partnered with Kifiya Financial Technology to introduce SAFEE, an uncollateralized lending model aimed at MSMEs, smallholder farmers, and middle-income consumers, with a focus on women (80%). This ongoing program facilitates job creation by providing uncollateralized digital services, enhancing digital skills, financial literacy, and credit access. Supported by a US$75 million liquidity facility and a US$25 million technical assistance fund, SAFEE is designed to expand inclusive access to finance. Collaborating with six partner banks, the program aims to unlock over US$300 million in uncollateralized digital credit for MSMEs.

SAFEE addresses supply and demand-side barriers to MSME finance, with a focus on liquidity. While CRRP and MESMER provide soft loans and grants, they require borrowers to offer collateral in the form of salary or personal guarantees. In contrast, SAFEE introduces an innovative, uncollateralized lending model. Leveraging an AI-driven transitional liquidity framework, SAFEE eliminates the need for borrower collateral, marking a significant shift in MSME financing.

***Figure 3*: Challenges addressed by SAFEE**

Demand side	Supply side
Challenge	**Challenge**
Lack of collateral, limited fixed assets in own name	*Inadequate risk assessment tools, reliance on collateral to manage risk*
Business informality, poor credit history, lack of financial records	*Lack of appropriate, relevant financial products*
Low financial literacy and awareness	*High cost of acquiring, managing delivering frequent, small-size loans*
Information asymmetry, e.g., lack of ID, inability to provide information to lenders	*Perceived high risk to lend to MSMEs*
Lengthy application process	*Liquidity constraints*
	Lack of digital infrastructure, limited branch networks in rural areas

4. GOVERNMENT COMMITMENT TO ACTION AND LEADERSHIP: ENABLING POLICY ENVIRONMENT

The Ethiopian government has led the way in financial inclusion innovation by developing an enabling policy environment. The development and introduction of technical solutions such as those offered by Kifiya are enabled by ongoing finance sector reforms. Officials from the National Bank of Ethiopia (NBE), the Ministry of Labor and Skills (MOLSs), and the Ministry of Innovation and Technology (MiNT report several policy and regulatory shifts in the financial sector that are [15]linked to Home Grown Economic Reform (HGER) and the Ten-Year Perspective Plan. According to an NBE source, the government is proactive in reviewing existing practices and issuing directives to enhance financial digitalization, inclusion, and access, embracing digital payments and mobile banking[16]. The government recognizes the importance of continuous reforms as per the homegrown economic agenda[17] because if macroeconomic imbalances are not addressed, it could jeopardize the goal of Ethiopia becoming a middle-income economy by 2025.

The Mastercard Foundation's focus on financial inclusion for youth-led MSMEs, young women entrepreneurs, and unbanked rural communities has aligned with and supported the NBE's ongoing efforts. For example, the Mastercard Foundation has supported ecosystem actors such as Kifiya and the SAFEE partner banks in the implementation of solutions that leverage national policies related to the financial sector, such as Digital Ethiopia and Financial Inclusion Strategy II.

Digital Ethiopia 2025

In June 2020, the Government of Ethiopia (GOE) launched the national digital transformation strategy "Digital Ethiopia 2025," aiming to digitize the economy by 2025. Digital Ethiopia promotes the deployment and implementation of technologies across all sectors to create technology-based jobs and capital. According to a COOP key informant, government policy shifts related to mobile money, payment systems, and digital banking encouraged banks to focus on platforms like 'Michu' and collaborate with external partners such as Kifiya to remain competitive. Similarly, a MiNT key informant added that the national digital strategy has transformed the financial ecosystem, contributing to Digital Ethiopia 2025 and shaping internal policies.

Financial sector policies and priorities

Financial sector policies impacting inclusion for young people can be broadly grouped into three categories. First, policies directly addressing the financial sector and financial inclusion, which are core components of national inclusion efforts. Second, broader policies that, while not exclusively focused on finance, indirectly support financial inclusion. Lastly, there are policies that create a supportive environment for its growth, as summarized in the table below.

[15] The scope of this case study did include a comparison of the impact of individual policies, nor assess the gendered impact of these policies
[16] www.mofed.gov.et/media/filer_public/38/78/3878265a-1565-4be4-8ac9-dee9ea1f4f1a/ a_homegrown_economic_reform_agenda-_a_pathway_to_prosperity_-_public_version_-_march_2020-.pdf
[17] Ibid

Table 2: Financial sector policies

Direct financial inclusion policy	Indirectly related financial inclusion policies	Supportive macro economic policies
• **National Digital Payments Strategy (NDPS):** Promotes digital payment systems to increase access among low-income and rural communities • **National Financial Education Strategy (NFES):** Aims to enhance financial literacy, targeting 75% adult knowledge of financial products by 2025 • **National Financial Inclusion Strategy II (NFIS II):** Aims to scale and deepen cross-sector programs to include 70% of adults by 2025, with a focus on underserved areas and in alignment with HGER • **Rural Financial Intermediation Program (RUFIP III):** Strengthens rural financial institutions to boost savings and credit flows. • **Financial Consumer Protection Directives**: Ensures consumer rights and market stability to foster trust	• **Homegrown Economic Reform Agenda (HGER):** Addresses finance-related issues including agricultural funding and digitization • **National Digital Transformation Strategy (NDTS), "Digital Ethiopia 2025":** Focuses on expanding digital payments, mobile money, and financial literacy programs • **Plan of Action for Job Creation (PAJC):** Aims to reduce youth unemployment and foster job opportunities, particularly for micro and small enterprises (MSEs) • **Ease of Doing Business Reform Agenda (EDBR):** Enhances electronic payments, movable property collateral, and credit information systems • **Financial Sector Reform Agenda (FSR):** Seeks to improve the efficiency and inclusivity of the financial sector, especially for underserved populations in rural areas	• Small and Medium Enterprise Financing Program • National Electrification Program

Ecommerce Strategy

Ethiopia's e-commerce strategy aims to increase the nation's trade and export revenues by developing a strong digital marketplace. This strategy leverages digital technology to stimulate economic growth, broaden market access, and create new opportunities for businesses and consumers. It centers on three key initiatives: establishing a national Ethiopian e-commerce platform, implementing a regulatory sandbox, and promoting rural e-commerce. The Digital Ethiopia 2025 strategy is a major driving force for the growth of e-commerce in the country.

Financial Inclusion Strategy II

Ethiopia's financial inclusion strategy is a comprehensive plan aimed at expanding access to and usage of formal financial services for all citizens, particularly those in underserved populations. Key strategic priorities include promoting digital financial inclusion, extending financial infrastructure to reach more underserved areas, addressing the gender gap in financial access and empowering women economically, and expanding the availability of Sharia-compliant financial products.

This strategy has played a part in the introduction of a movable collateral registry directive that mandates banks allocate 5% of total loans to small farmers and another 5% to SMEs using movable assets. Key informants from banks stated that these policy shifts promote digital financial services, mobile banking, and outreach to underserved communities. However, a key informant from an MFI said, “There is no enforcement mechanism to oblige them to release this 5% credit for MFIs. As a result, MFIs faced a shortage of financial liquidity and were unable to increase the amount of credit and address the needy group of societies."

Introduction of Interest-Free Banking (IFB)

The National Bank of Ethiopia (NBE) has recently incorporated Islamic Financial Banking (IFB) into its regulatory framework, making Sharia compliance a key consideration. As Zamzam Bank states, "Previously, governance structures specific to IFB were lacking, and NBE initially did not fully address the unique aspects of Islamic banking." Zamzam Bank also notes that the NBE has approved the 'Murabaha' model, where a bank purchases items on behalf of a customer and sells them at a fixed profit margin. Unlike interest-based lending, where rates fluctuate, the Murabaha price remains fixed throughout the contract period. This NBE-endorsed model provides a Sharia-compliant alternative to MSMEs.

Upgrading of MSME Strategy

MoLS has upgraded its strategy for MSMEs with the support of the Mastercard Foundation. This upgrade has been approved by the relevant authorities and communicated for implementation. These strategies focus on promoting MSMEs lending, fostering innovative financing models, and strengthening partnerships with international financial institutions.

Monetary policy adjustments

In 2023, the NBE introduced a 14% credit cap as part of inflation-reduction efforts, which led to liquidity shortages, particularly affecting MSMEs and unbanked groups. However, by late 2024, the Bank raised the annual credit growth ceiling for commercial banks to 18% from 14%, aiming to ease monetary controls and strengthen financial institutions' ability to meet borrower demand while maintaining economic stability.[18] Furthermore, reforms in capital and reserve requirements, particularly changes in minimum capital requirements for banks, necessitate adjustments in capital structure and long-term planning[19]. Additionally, loan portfolio regulations, including NBE directives on sectoral loan allocation (such as limits on real estate or incentives for loans to priority sectors like agriculture and manufacturing), influence banks' credit strategies.

Regulatory hurdles

Ethiopia's current banking model lacks a regulatory framework that would allow non-bank financial service providers to offer loans. This contrasts sharply with markets like Kenya, Uganda, Nigeria, and India, where non-bank institutions play a significant role in lending to MSMEs. In those markets, lending is not restricted to banks. Furthermore, inconsistent policies regarding digital credit operations and the sharing of customer data complicate implementation can hinder the establishment of uniform standards across the financial system. Enat Bank, for instance, has highlighted the challenge posed by inconsistent policies on digital credit and data-sharing frameworks.

Role of External Actors: Mastercard Foundation partnerships

The Mastercard Foundation and its partners have directed their investments and initiatives towards the adoption of digital financial systems in Ethiopia and enabling strategic and operational shifts within banks.

[18] Vision MFI
[19] Nisir MFI

Banks recognize programs like SAFEE, with their liquidity facilities, for enabling them to confidently extend uncollateralized digital loans, especially to young entrepreneurs. These partnerships have also accelerated the adoption of innovative products and AI-driven data analytics for improved credit decisions, alongside valuable technical and capacity-building support. This collaboration with the Mastercard Foundation has been instrumental in designing and implementing uncollateralized loan products, reducing collateral reliance while ensuring sound risk management through data collection.

More specifically:

- The AI-powered data-driven credit scoring system has enabled banks to shift their lending process, evaluating creditworthiness using a broad spectrum of data. Wegagen Bank, for instance, utilizes advanced MIS systems and psychometric tools for real-time evaluations based on borrower behavior, transaction history, and repayment potential, moving away from traditional collateral requirements. This has allowed them to confidently extend credit to previously underserved MSMEs and individuals. Similarly, the COOP reports that alternative credit scoring models, incorporating psychometric testing, financial transaction histories, and behavioral analytics, have lessened their dependence on collateral.
- The introduction of transitional liquidity facilities and temporary credit guarantee schemes has reduced the perceived risk associated with lending to MSMEs, thereby stimulating a rise in loan disbursements.
- Through partnerships with Kifiya, banks have developed innovative financial products, including sector-specific and women-focused loans, designed to meet the diverse needs of MSMEs. This has significantly increased MSME participation, fostering financial inclusion and growing the banks' credit portfolios.
- Banks have gained the necessary capabilities to implement and manage uncollateralized digital lending practices through technical assistance and change management support. A key informant from Bunna Bank emphasized that capacity-building training for top-level management was crucial in facilitating this shift.

5. THE SAFEE UNCOLLATERALIZED DIGITAL LENDING MODEL

5.1. Program overview

Introduction to SAFEE

In 2022, Kifiya, the Mastercard Foundation, and the Cooperative Bank of Oromia launched 'Michu,' Ethiopia's pioneering uncollateralized digital lending product for MSMEs. Cooperative Bank of Oromia (COOP) is a digital-first bank founded in 2005. Kifiya Financial Technology, founded in 2010 and based in Addis Ababa, is a leading fintech company that leverages data-driven digital solutions to expand access to finance and markets in Ethiopia. Specializing in bridging the digital divide, Kifiya provides diverse services, including payments, insurance, and microloans, with a strong focus on empowering underserved communities and driving economic growth. The Mastercard Foundation provides liquidity facilities to COOP through Kifiya, based on the disbursement of loans in accordance with the established ratio. Kifiya's technological infrastructure and technical assistance enabled COOP to offer Michu loans, allowing businesses to apply digitally through the Michu platform and receive data-driven decisions on their loan eligibility. Loan disbursement is also conducted digitally, streamlining the process. In recognition of Michu's success and the continuation of the unmet need for productive credit, Kifiya and Mastercard Foundation co-created the **Sustainable Access to Finance for Enabling Entrepreneurship (SAFEE)** program to scale the uncollateralized digital lending approach.

Program objectives and results

Figure 4*: *SAFEE business model canvas

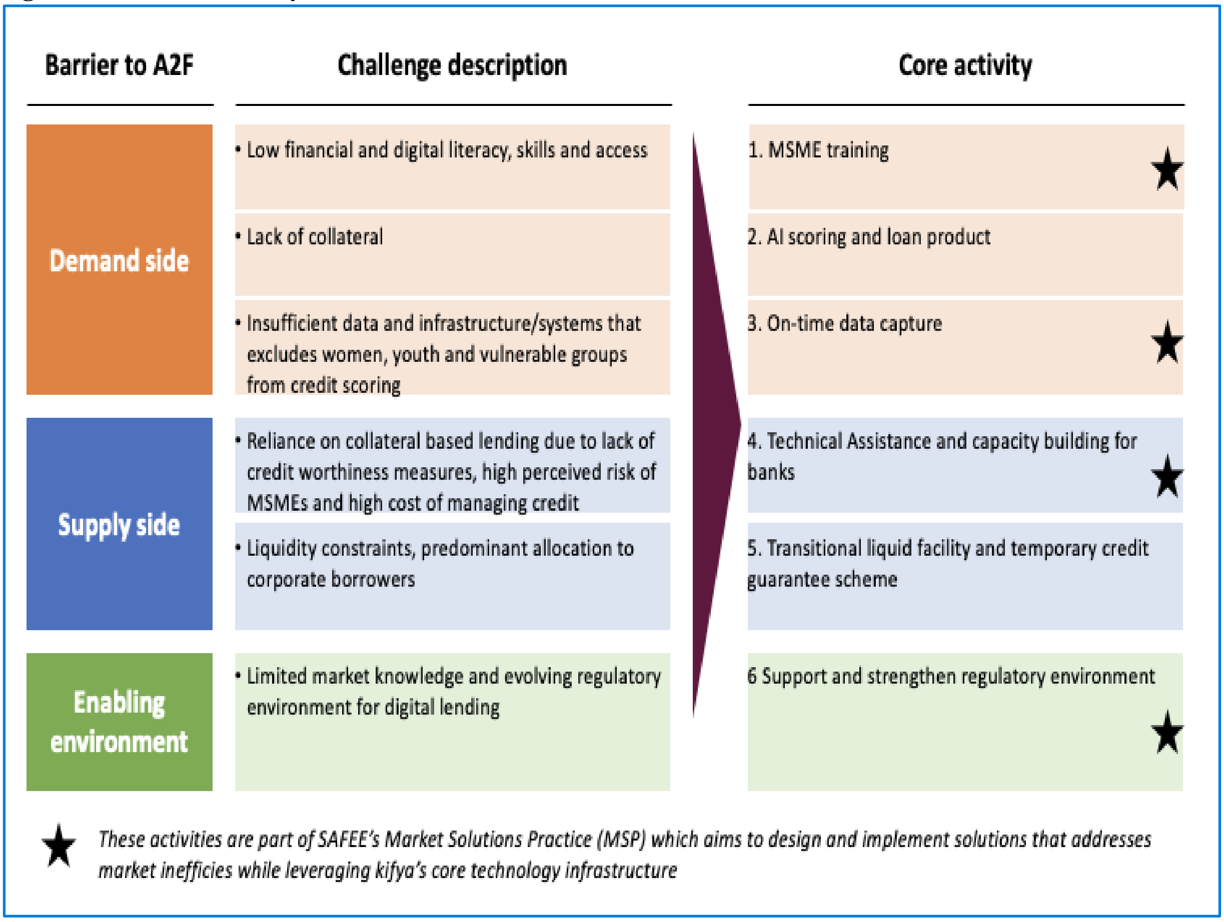
Objective	Activities	Target
Enable MSME growth and resilience by expanding financial inclusion through uncollateralized lending, scaled credit access, and improved financial literacy	1. MSME training 2. On-time data capture 3. AI credit scoring and loan product 4. TA and capacity building for banks 5. Transitional liquid facility and temporary credit guarantee scheme 6. Strengthen regulations	478,000 MSMEs to access uncollateralized digital credit products, facilitate mobile device financing for 425,000 young women and directly create employment opportunities for up to 2.18 million youth.
Program participants	**Partner financial institutions**	**Ecosystem collaborators**
• 80% women owned enterprises • 80% youth • 10% persons living with disability • 10% refugees and IDPs	• Cooperative Bank of Oromia • Amhara Bank • Bunna Bank • Enat Bank • Wegagen Bank • ZamZam Bank	• Academic Institutions (local and international) • NBE • Mobile Network Operators • Financial Sector Stakeholders • Ministry of Labor and Social Affairs (MoLS)

Implemented by Kifiya Financial Technology, in collaboration with six banks and ecosystem partners, SAFEE aims to provide tailored financial solutions to underserved populations (primarily women)[20] in rural, urban, and peri-urban areas, enabling young people to access jobs through uncollateralized digital services.

This ambition is rooted in addressing critical challenges that currently impede MSME access to finance. Secondly, SAFEE aims to resolve supply-side constraints, primarily the limited availability of loanable funds within financial institutions, which restricts the flow of capital to MSMEs. Finally, the program tackles ecosystem barriers related to market knowledge and the regulatory framework governing digital lending (see Annex B, SAFEE Theory of Change).

To effectively address these multifaceted challenges and achieve its growth objectives, SAFEE has designed six core activities. These activities are strategically aligned with three fundamental shifts in the financial landscape: transitioning from collateral-based to uncollateralized lending, scaling credit access for MSMEs, and addressing financial literacy gaps. This holistic approach aims to create a more inclusive and dynamic financial ecosystem, ultimately fostering sustainable growth and resilience within the MSME sector. SAFEE also acts as a shared facility extending access to finance activities across other Mastercard Foundation MSME programs.

Figure 5*: *SAFEE activity overview



[20] Note: While the loans primarily target women, the infrastructure and systems put in place also allow banks to release similar financial products to the general population. Hence, allowing men to also benefit.

The program's 6 core activities include:

1. MSME training: Provide digital, financial, and business skills to vulnerable young people, particularly women, to improve their financial decision-making, credit management, and business acumen. For example, enabling them to assess their financial needs, choose appropriate financial products, negotiate favorable terms etc.

2. On-time data capture: Capture on-time series-based data like education, skills and employment history as a reliable tool to enhance track record and access uncollateralized credit.

3. AI credit scoring and loan products: Provide Banks and FinTechs with AI-powered technology for inclusive credit scoring and digital lending. Traditional credit scoring models rely on formal credit history. Kifiya however uses a system called Intelligent Data and Decisioning (IDD) to determine loan eligibility. This system is an AI-powered credit scoring model that collects a broad spectrum of data that includes transaction histories and behavioral patterns. This AI-based technology helps develop robust credit scores, risk ratings, and detect fraud. The system adapts and refines itself as new data becomes available, ensuring that credit scoring predictions are accurate over time.

   Kifiya's approach promotes fair and inclusive lending. The technology used provides a fair and accurate evaluation of eligibility, expanding the reach of credit to traditionally excluded MSMEs. Moreover, its Gender Intentional Credit Scoring Strategy incorporates international best practices and local data to account for gender differences, preventing unfair disadvantage to women.

   With regards to loan products, the SAFEE program provides financial institutions with technology to offer a variety of appropriate and relevant digital lending products. Using Kifiya's core intelligent financial services (IFS) technology, digital platforms (e.g., banking platform and service, device financing platform, invoice financing platform, B2B eCommerce platform and BMPL and inventory credit platform) are used to design and customize financial products that meet the needs of MSMEs. Kifiya's platforms support a range of innovative uncollateralized digital financial products specifically designed for women- and youth-led MSMEs in priority sectors. These include:

   - Nano and micro working capital loans for informal and formal microenterprises
   - Device financing for women to address the digital gender gap
   - Equipment finance for small enterprises, gig platforms, and gig workers
   - Invoice financing and Capex for medium enterprises
   - Dedicated range of Sharia-compliant interest-free banking products: such as micro formal enterprise (Salihat) IFB/Islamic Finance, Small enterprise (ThriveMaal) IFB/Islamic Finance, Medium enterprise (Wasl) IFB/Islamic Finance.
   - Micro Formal enterprise value chain.
   - Micro Apiculture & Horticulture Enterprise
   - Micro Apiculture & Poultry
   - Micro Apiculture & Shoat Fattening

   For the different product categories, the SAFEE Product Framework specifies loan size limits, duration, and interest rate ceilings. To prioritize reaching women-led MSMEs, Kifiya's bank partners have initially launched women-specific products.

   The technology within SAFEE enables banks to lower operational costs through more efficient and faster loan processes (origination, processing, approval, and management). The credit scoring system also reduces risk assessment expenses, allowing banks to serve a higher volume of borrowers concurrently

4. TA and capacity building for banks: The program provides capacity building and technical assistance to banks and Fintech's through a seven-step framework designed to achieve system-level change. This includes capacity building in credit scoring, product co-creation, business modeling, and support in change management. By improving financial service providers' internal policies, processes, and systems, the technical assistance provided guarantees the effective implementation and expansion of uncollateralized digital lending.

In the planned intervention period (2023-2027), it is estimated that a total of $1.2 billion liquidity will be made available to Micro, Small, and Medium Enterprises (MSMEs). This funding will initially start with a $300 million pool; for every dollar contributed by the foundation, an additional three dollars will be matched by the banks, which is a 1:3 ratio. In the first year of the initiative, the foundation will contribute $75 million towards this pool. In response, participating banks will match this contribution, adding an additional $225 million. This brings the total amount of liquidity available for disbursement to MSMEs in the first year to $300 million.

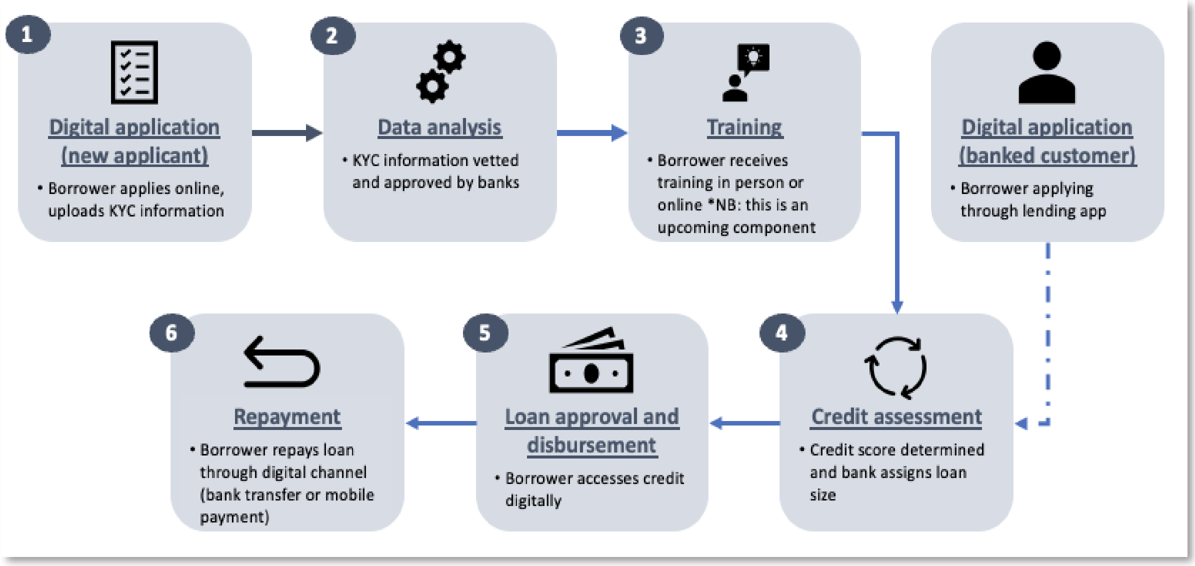
5. Transitional liquid facility and temporary credit guarantee scheme: The program implemented a transitional liquidity facility and temporary credit guarantee scheme that will incentivize banks to redistribute 10% of newly mobilized resources. Through a 1:3 matching principle and a 50% loss guarantee, this mechanism will unlock $300 million, generating over $1 billion in effective liquidity for MSMEs via uncollateralized digital lending.

6. Strengthening regulations: The program works with regulators, sharing best practices in uncollateralized lending, facilitate the rollout of supportive frameworks and remove barriers that hinder progress in the financial inclusion space.

SAFEE borrower journey

For new applicants in the SAFEE program, the process involves six steps. First, applicants upload their KYC information online, which partner banks validate and approve. Following this, borrowers undergo training (an upcoming SAFEE component), after which a credit score is determined based on information supplied in the customer's digital application. Based on this score, banks set the loan size and disburse funds digitally. MSME borrowers with existing accounts at partner banks can often access credit instantly. New applicants may require a few days for account setup, which is cost-free. A smartphone is the only tool needed to upload KYC information.

Figure 6: Borrower journey



5.2. Key success factors

The Kifiya team report that the implementation of the SAFEE program relies on several success factors.

External success factors

1. **Addressable market gap**. A significant market opportunity emerges from the substantial funding gap faced by Ethiopian SMEs, estimated at approximately $6.1 billion USD in 2021 (World Bank, 2024). Ethiopian Banks are thus interested in addressing the access to finance funding gap. While Ethiopian banks possess MSME lending structures and strategies, these are often underutilized, lacking tailored financial models to serve the diverse needs of this sector. The job creation potential of MSMEs incentivizes policy makers to foster their growth through conducive regulations and governing policies.
2. **Competitive banking landscape:** The competitive banking landscape facilitates the adoption of innovative lending models. Kifiya's initial partnership with COOP Bank, resulting in the successful Michu platform, served as a catalyst. Seeing its positive outcomes, other banks were eager to collaborate with Kifiya to implement similar models. As a digital lending pioneer in Ethiopia, COOP's leadership is both challenged and strengthened by the entry of new competitors - driving them to continuously improve their digital lending platforms, adopt alternative credit scoring, and refine uncollateralized loan processes. Dashen Bank also acknowledges the value of observing industry peers, which promotes their ongoing development.

Internal success factors

1. **Access to data**: Kifiya has developed a substantial database of young entrepreneurs over time and is actively enhancing its data quality. For example, they have leveraged psychometric data to better profile borrowers.
2. **Team capabilities:** Kifiya possesses a strong technology team skilled in software development. They effectively combine technology with data analysis to enable informed decision-making

3. **Market research and needs based product design:** Kifiya has conducted extensive market research, including surveys of MSME segments, to design tailored products that meet market needs and ensure high adoption rates.
4. **Relationship management:** Kifiya has cultivated strong bank relationships over several years, including facilitating exposure visits to Kenya for bank representatives.

5.3. Challenges experienced

The SAFEE program provides insights into the challenges faced by uncollateralized digital lending models more broadly, face several challenges in expanding financial inclusion and driving MSME growth:

- Liquidity and Credit Guarantees for Banks: Some banks may need adequate liquidity solutions and credit guarantee mechanisms to confidently allocate more resources to MSME lending at scale. This is crucial for managing the perceived risk associated with the shift from traditional collateral-based lending to uncollateralized digital loans. While these elements can provide effective transition incentives, over-reliance on them as a de-risking measure may undermine the sustainability and transformative nature of the model.
- Data Limitations: Insufficient access to reliable credit data and alternative data sources makes it difficult to accurately assess borrower risk, especially as banks tend to avoid sharing data amongst themselves. As Wegagen Bank has noted, this lack of reliable data complicates the process of determining credit worthiness. Fintech companies such as Kifiya are leveraging technology and introducing AI-supported credit scoring systems that enable banks to assess borrowers' creditworthiness even in the absence of traditional credit or transaction histories. However, the Foundation and Awash Bank have indicated that gaps remain until the national ID system is fully implemented. For example, the Foundation has pointed out the challenge of verifying identities, especially when personal information changes.
- Limited digital literacy: Many MSMEs and potential borrowers lack the knowledge to use digital platforms effectively, making it difficult to scale digital credit solutions. There is also resistance from customers unfamiliar with digital products.
- Inadequate Infrastructure: Limited internet connectivity and digital infrastructure, including smartphone access, in underserved regions hinder the adoption of digital credit. Low smartphone penetration, particularly in rural areas, restricts access to digital lending. Kifiya has emphasized that smartphone penetration remains a challenge, with over 70% of the population lacking access. Wegagen Bank has similarly stated that poor internet connectivity and lack of access to digital devices in rural or underserved areas impede the adoption of digital credit services. According to an IFC report (2020), the lack of investment in digital infrastructure by banks and the central bank in Ethiopia can be attributed to factors such as limited incentives, capacity, and awareness.
- Inflation: The tightening of liquidity in financial institutions due to inflation is a concern. Nisir has noted that the National Bank of Ethiopia's (NBE) response of increasing the credit interest rate makes it more difficult for MFIs to secure low-interest loans from banks, and that rising costs are making funds scarcer.
- Credit Ceiling: Restrictions imposed by the NBE on the amount of credit that banks or suppliers (see *Monetary Policy Adjustments* in section 4) can extend to borrowers or businesses limit credit capacity. Abyssinia Bank and Awash Bank have expressed concerns about this issue, with Awash Bank stating that relaxing these credit caps could ease their credit capacity without increasing their liquidity.

- Capacity Building and Training: Various stakeholders require capacity building and training to foster a robust enabling environment for digital lending. This includes training for MSMEs to improve their financial literacy and business skills. Furthermore, SAFEE is supporting the integration of data science into the curricula of Addis Ababa Science and Technology University (AASTU) and Adama Science and Technology University (ASTU) to develop future data scientists. Training for other ecosystem actors, such as regulators and financial institutions, to promote the responsible and sustainable growth of digital lending is also planned.

6. ECOSYSTEM INFLUENCE OF THE MODEL

The launch of Young Africa Works initiatives in Ethiopia involved additional and deeper interactions between private sector non-financial institutions (fintechs) and NBE and government sector in the course of program implementation and convening. Since the introduction of SAFEE, the technical assistance and change management support provided have enabled the partner banks to shift their practices and policies.

6.1. Observed Sector Practice shifts

Credit Policy Change

Partner banks have adjusted their credit evaluation processes to incorporate alternative data sources, such as transaction history and behavioral data, in addition to traditional credit scores. For instance, COOP developed a separate credit procedure for its 'Michu' digital lending platform to ensure risk mitigation, operational efficiency, and regulatory compliance. Wegagen Bank has also updated its credit policies to include uncollateralized lending for MSMEs, and Zamzam Bank has prepared an interest-free banking policy and regulatory framework in alignment with National Bank of Ethiopia directives.

On the other hand, non- partner banks have adjusted their credit policies to varying degrees to align with NBE directives aimed at enhancing access to finance for MSMEs. For instance, the Bank of Abyssinia revised its credit policy to adopt the Apollo uncollateralized digital platform. Similarly, Commercial Bank of Ethiopia (CBE), Berhan Bank, Oromia Bank and NIB Bank have all made policy adjustments to adhere to NBE guidelines. Notably, CBE is shifting its focus from public to private sector lending, particularly emphasizing MSME loans and targeting underserved populations.

Automated lending process

Lending procedures have evolved to include automation, technology, and data-driven models for loan approval, replacing conventional requirements. Using AI tools and digital platforms, partner banks have shifted from collateral-based lending to data-driven lending. Technology enables banks to evaluate individuals and MSMEs by integrating alternative credit scoring and diverse data sources. For example, Enat Bank has adopted alternative credit assessment models that rely on data and experience instead of collateral and streamlined its digital loan process by integrating digital platforms and automation to enhance efficiency and accessibility. Cooperative Bank of Oromia (COOP) uses transaction history, digital footprint, and customer behavior to gauge creditworthiness.

Similarly, Wegagen Bank's acknowledgement of the profitability and scalability of digital credit programs exemplifies a trend toward digital lending models: Dashen Bank has partnered with EagleLion system technology on 'DubePay' a buy now, pay later mobile application. Bank of Abyssinia is pilot-testing 'Apollo', a digital banking platform that has microloan features. 'Alegnta' is another microloan application developed by Anbessa bank. Moreover, SNV is collaborating with KMD London (a consultancy firm) to launch a digital lending app for MSMEs through three banks – Awash bank, CBE, and Ahadu bank.

This shift, driven by collaborations with partners and the adoption of digital platforms, has allowed for quicker decisions and broader inclusivity, particularly for underserved groups; and the integration of automation and more flexible collateral requirements has enhanced efficiency and accessibility for MSMEs.

Increased volume and value of loans disbursed to MSMEs

Partner banks are increasingly expanding their loan portfolios to include more MSMEs. COOP has significantly increased its loan disbursements to small and medium-sized enterprises, indicating a strategic shift from its previous focus on corporate lending. This change highlights the bank's commitment to supporting the growth of the SME sector. For example, COOP's SME loan disbursements have increased substantially over time, from 13% of their total loans in 2021 to 67% in 2024[21]. This ratio is significantly higher than the national average, where only 1.52% of loans went to MSMEs in 2021/22[22]. Moreover, over a six-month period (July 1, 2024, to December 31, 2024), COOP has disbursed 8.7 billion Birr to 579,494 SMEs and 5.18 billion Birr to 220 corporate companies.[23] This data indicates a notable shift in the bank's lending strategy, indicating a greater emphasis on supporting SMEs.

A comparison of SAFEE partner bank, COOP, with non-partner bank, Berhan, reveals a significant disparity in SME loan disbursement ratios. COOP has consistently demonstrated high and growing SME loan disbursements, reflecting strong support for small and medium-sized enterprises. Conversely, Berhan Bank’s SME loan disbursements remain low and are declining, indicating limited focus or resources allocated to SME. While this gap is notable, it is difficult to conclusively attribute COOP’s growth in disbursements solely to the Foundation project, as other factors may also be influencing the results.

Upgrading of credit risk management

Banks are upgrading their credit risk management systems to integrate real-time data collection and analytics for improved credit risk monitoring and evaluation. For example, Enat Bank stated that this upgrade has allowed them to more effectively assess borrower reliability and repayment potential, particularly for MSMEs and women entrepreneurs lacking traditional credit histories. Wegagen Bank also reported implementing a credit score-based risk management system for their digital lending operations, which enables them to: a) assess creditworthiness using data-driven algorithms, b) reduce exposure to default by identifying high-risk borrowers and tailoring loan terms accordingly, and c) automate credit assessment for quicker decisions and enhanced customer experience.

Establishment of digital lending department or division

Partner banks have undertaken varying degrees of organizational restructuring to support uncollateralized digital lending. COOP, which initially had a small unit for digital lending, has expanded its team to 200 people following the introduction of technical assistance. This expansion has been accompanied by a transformation and reorganization of the bank, with 50% of its loans now dedicated to MSMEs and smallholder farmers. Similarly, Bunna Bank established a 20-person digital lending department, and Enat Bank created a digital lending department overseen at the Vice President level.

In addition to the formation of digital lending departments, staff capabilities have also been enhanced through training and knowledge exchange. For example, a key informant from Buna bank shared that “Kifiya technology has supported human resources of this department by organizing multiple trainings and arranging visit for more than 13 individuals abroad.”

---

[21] KII with COOP
[22] https://www.thereporterethiopia.com/27289/
[23] Kifiya data

Product diversification

The technical assistance provided by Kifiya has directly influenced the launch of products like Michu device financing, and invoice financing. Similarly, Wegagen Bank shared the co creation of products, such as uncollateralized MSME loans and women-focused financing. These products have diversified the bank's offerings and addressed gaps in access to finance for underserved segments.

6.2. Enabling factors for shifts in policy and practice

Several factors have enabled policy, practice and operational shifts within financial sectors. First among these are government policy reforms and interventions. Recent government policies, particularly those promoting financial inclusion, digital finance, and support for MSMEs have spurred banks to adapt their operations to enhance financial access. The Cooperative Bank of Oromia acknowledges the pivotal role of these policies in guiding its strategic direction. Similarly, Wegegen Bank emphasizes that a robust regulatory framework is essential for the sustainability of strategic and operational changes, especially in digital credit. They argue that without government support, such initiatives would struggle to gain legitimacy, scale, or long-term viability. Other banks, including CBE, Berhan Bank, Nib Bank, and Oromia Bank, which are not partners in the SAFEE initiative, also highlight the government's post-2018 drive to transition the financial sector from cash-based to digital systems, exemplified by the National Financial Inclusion Strategy (NFIS) and the National Digitalization Strategy (NDS). The role of external partners, such as Kifiya Financial Technology and the Mastercard Foundation, has also been instrumental in driving market practice changes. They have supported this by providing alternative credit assessment tools, technical assistance, capacity building, innovative product development, digital lending platforms, and risk sharing mechanisms. These contributions have enabled the bank to shift from collateralized to uncollateralized credit access for MSMEs, addressing financial inclusion gaps and reaching underserved populations.

7. ECOSYSTEM IMPLICATIONS

The practices of SAFEE partner banks have provided an example to prompt policy and practice changes in non-partner banks through a demonstration effect. Additionally, the SAFEE program model has contributed to a shift in how financial actors perceive young entrepreneurs, fostering a more positive outlook.

7.1. Positive externalities in the financial sector

Mindset shifts

Supply side shifts

SAFEE's uncollateralized digital lending model has fostered a more positive perception of young entrepreneurs among financial sector actors and policymakers: To magnify this, KII from Awash Bank said,

"Previously, youth was often associated with a lack of experience, but we have seen that investing in young entrepreneurs is profitable. And the change has encouraged the institution to see young entrepreneurs as viable borrowers, even without extensive credit histories or physical assets."

Cooperative Bank of Oromia KII credits the Bank's success with young entrepreneurs over the past 4-6 years to a well-designed digital strategy, which has fundamentally improved the entire ecosystem. Specially, the adoption of data-based credit evaluations is enabling institutions to view young entrepreneurs as creditworthy even without extensive financial histories or assets. Wegagen Bank also said,

"Previously, lending to young entrepreneurs was seen as a high-risk venture. The new sectoral approach, supported by external actors like Mastercard Foundation, has reframed this perception. Young entrepreneurs are now seen as an untapped market opportunity with high growth potential."

Buna Bank KII also stated,

"The major effective lesson from the project is, they aware (sic) our leaderships. Mastercard changes the mind set of our top managers towards the new financial approach." Data-driven credit evaluations are reducing the perceived risk of lending to young entrepreneurs, even those with limited financial histories or assets. Wegagen Bank notes that this represents a significant shift, as these entrepreneurs are now recognized as a promising market with high growth potential, rather than a high-risk venture.

Lending to young entrepreneurs is now recognized as a profitable venture. Awash Bank noted that their experience has proven these individuals to be viable borrowers, even without traditional collateral. Similarly, Wegagen Bank highlights the success of digital credit models, with low non-performing loan (NPL) rates below 1%, as boosting their confidence in young entrepreneurs' creditworthiness. Despite a general shift in banks' perception of young entrepreneurs, the National Bank of Ethiopia (NBE) notes that corporate lending remains many banks' preferred focus.

Demand side shifts

Focus group discussions (FGDs) revealed that uncollateralized digital lending has positively transformed young entrepreneurs' perceptions of banks. Participants reported a greater openness to exploring further financial opportunities. Furthermore, all FGD participants noted a significant shift in financial institutions' attitudes towards young entrepreneurs. Banks now demonstrate trust in MSMEs' repayment potential, proactively reaching out to raise awareness about new credit options with simplified criteria. This indicates a major ecosystem change in Ethiopia, where financial institutions are moving away from a long-standing preference for corporate lending.

7.2. Potential risks and market distortions

Program sustainability, scalability, and replicability are crucial factors that will determine its long-term success. One of the expected potential risks by respondents is sustainability risk. NBE KIIs believe the program can be repeated and expanded to other banks, but NBE KII doubts that the changes made to financial sectors through the MCF program will last after the program ends. One of KII from NBE said,

"I can guess that the existing changes around financial sectors will not sustain without the support of MCF and thinks more research is needed to see about the extent of financial sectors success due to MCF program intervention."

As borrowers accumulate multiple debts from various lenders, the risk of default increases, KIIs from banks stated. This is particularly problematic for uncollateralized loans, where there is no asset backing for the amount borrowed, leaving lenders vulnerable if borrowers cannot repay (Smith, 2020). In such circumstances, borrowers may find themselves in a cycle of debt, taking on new loans to service old ones, which can lead to financial distress and even bankruptcy. For example, Enat Bank said,

> *"Borrowers may access loans from multiple banks, leading to over-indebtedness and relying heavily on external resources, like liquidity facilities, creates short-term gains but may harm long-term sustainability."*

Similarly, KII from banks assert that scalability and replicability are achievable, but the program's sustainability depends on the availability of liquidity funds. For example, Awash Bank stated that there is currently a paradigm shift in providing credit to MSMEs, and banks recognize the potential of these enterprises. However, the KII stated that the sustainability of providing financial access to MSMEs without adequate liquidity funds is questionable. Bank KIIs also stated that stopping risk-sharing would decrease their portfolio and ultimately reduce support for MSMEs. Similarly, Banks have also identified that rapid adoption of financial technology interventions within the financial ecosystem can also potentially result in market distortions and risks.

Interest rate disparities: Interest rates are not currently aligned with risk in the market. Key informants expressed concern that the rapid growth of digital lending could lead to interest rate disparities between traditional and digital credit, potentially disadvantaging underserved groups. Digital lenders use alternative data and algorithms to assess creditworthiness, often charging higher interest rates to riskier borrowers (underserved groups), including those with limited credit histories. Traditional lenders, relying on formal credit histories, may offer lower rates to established borrowers (corporate). This observation aligns with findings by Zhang (2021) and Smith (2020).

Fraud and cyber security threats: The growing reliance on digital platforms increases the risk of data breaches, particularly given existing cybersecurity vulnerabilities. Without robust security measures, digital credit processes are highly susceptible to fraud and misuse (McKinsey, 2020). Enat Bank, for example, warns that this increased digital reliance can destabilize the market through fraud and cyber risks.

Repayment challenges**:** Borrowers obtaining loans from multiple banks face an increased risk of default due to potential over-indebtedness. Borrowers may enter a debt cycle, using new loans to service existing ones, leading to financial distress and bankruptcy. This risk is particularly acute for uncollateralized loans, where lenders lack asset backing and are vulnerable to non-repayment (Smith, 2020). Enat Bank warns that this reliance on multiple loans and external liquidity facilities, while providing short-term gains, jeopardizes long-term sustainability. Moreover, insufficient borrower education increases the risk of default. Enat Bank highlighted that rapid uncollateralized lending growth, without adequate consumer education, could result in repayment problems. Particularly many rural borrowers lack a full understanding of loan terms and debt management, resulting in repayment difficulties.[24]

Urban-rural gaps: Key informants highlighted the urban-centric nature of existing digital services, which restricts rural access in Ethiopia, a finding consistent with Agwu's (2021) research on digital credit in some developing countries where rural technology infrastructure is low For example, sources from Wegagen Bank noted that digital credit access remains skewed towards urban areas, leaving rural populations underserved and creating market distortions

Regulatory gaps**:** Despite ongoing regulatory development for digital lending, the rapid pace of digital growth poses a risk of outpacing regulations, potentially leading to inefficiencies. This risk is supported by studies such as WEF (2022) and IMF (2021).

Uneven competition: While the demonstration effect has driven healthy competition and the development of uncollateralized digital lending across many banks, key informants (KIIs) from banks expressed concern that aggressive lending by larger institutions could negatively impact smaller banks. Furthermore, rapid digital credit growth may lead to market saturation, pricing pressures, and reduced lender profitability (Liu, 2020).

Over-reliance on external support: While liquidity solutions and credit guarantee mechanisms for MSME lending can provide effective transition incentives, over-reliance on them as a de-risking measure may undermine the sustainability and transformative nature of the uncollateralized lending model.

[24] FGD with young rural entrepreneurs

8. LESSONS FOR FURTHERING YOUNG ENTREPENEURS' FINANCIAL INCLUSION

The SAFEE model's value lies in its contribution to inclusive economic growth and empowering underserved populations through targeted interventions. Its uncollateralized digital lending strategy is designed to eliminate traditional lending barriers for young people, bridging the credit gap for youth-led MSMEs. By prioritizing women and young people, the model promotes financial equity and empowers marginalized groups. Furthermore, it fuels MSME growth, creating jobs, improving livelihoods, and stimulating economic activity. The following elements of the model are instructive for sector actors:

8.1. Financial Institutions – Innovating Credit Models

1. **Reassess MSME Risk and Opportunity:**
   - Insight: While often perceived as high-risk, lending to the MSME segment is demonstrably manageable and profitable with the right tools and approaches.
   - Application: Financial institutions should shift their perspective, recognizing MSMEs as a viable market with significant growth potential. They should implement data-driven credit evaluations and tailored lending products to effectively mitigate perceived risks. Recommendation

2. **Optimize Money Velocity and Digital Reach:**
   - Insight: Financial institutions can achieve high loan turnover (maximizing lending capacity by recycling funds across borrowers) with the same amount of capital, leading to increased returns and improved liquidity management. Furthermore, leveraging digital platforms can also expand the reach of borrowers.
   - Application: Embrace the "money velocity" concept (how quickly money circulates in an economy). Digital money, by lowering costs [25] and speeding up transactions, can boost circulation so utilize digital platforms to expand customer reach and accelerate loan turnover, enhancing both profitability and liquidity.

3. **Master Digital Customer Acquisition:**
   - Insight: Digital platforms and open systems can effectively attract and convert MSMEs into bank customers, a novel approach for many traditional institutions.
   - Application: Explore and implement open platform strategies to acquire MSME customers. This approach offers a new customer acquisition method for banks.

4. **Build a robust, data driven digital lending ecosystem**
   - Insight: Digital infrastructure, digital credit scoring, capable staff, and automated lending processes offer scalability and advantages compared to traditional manual methods
   - Application: Financial institutions should strategically invest in a comprehensive digital lending ecosystem that includes:
     - Digital Infrastructure: Prioritize the development of robust digital platforms to support all aspects of lending.

[25] Theoretically, digital lending reduces operational costs by streamlining the loan application, approval, and disbursement processes. Empirically, this is supported by studies such as Francis et al. (2017), Robinson et al. (2022), and Chappell et al. (2018). Given both the theoretical foundation and empirical support, the cost advantage of digital lending is well established, and there is little cause for concern in this regard.

- Digital Credit and Loan Management Systems: Implement automated digital solutions for credit scoring, lending, and loan management to streamline operations and enhance efficiency.
- Data Science Capabilities: Implement ongoing training programs and integrate advanced data analytics for accurate credit assessments, risk management, and personalized product development.
- Localized Solutions: Develop user-friendly interfaces and services in local languages to improve accessibility and customer engagement

5. **Drive Sustainable Growth Through Customer-Centric Innovation.**
   - Insight: Continuous innovation and understanding customer behavior and needs is vital for setting appropriate loan terms and promoting responsible borrowing.
   - Application: Financial institutions should establish a dedicated research and development (R&D) team to continuously explore and integrate innovative technologies, focusing on developing tailored loan products that align with customer behavior and needs. This involves:
     - Customer-Centric R&D: Employing the R&D team to analyze customer behavior and needs, ensuring loan amounts, interest rates, and repayment terms are optimized for responsible borrowing and financial capabilities corresponding to the potential increase in number of young borrowers, particularly opportunities with young women.
     - Technology Integration for Personalization: Using R&D to integrate new technologies that enable personalized loan products and services, enhancing customer experience and promoting long-term growth.
     - Continuous Improvement: Fostering a culture of continuous improvement within the R&D team, ensuring ongoing adaptation to evolving customer needs and technological advancements.

6. **Improve Young Women Digital and Financial Literacy**
   - Vulnerable women and men are supported with demand-based financial and digital literacy and skilling. A course has been designed by Kifiya Technology to equip MSMEs with the knowledge and practical skills needed to navigate the digital world, effectively manage their finances, and make informed decisions to drive them toward sustainable success. The course was customized in local languages and provided through
     - Bank branches
     - Agents
     - Digital means

MSMEs delved into key topics such as understanding the digital landscape, building their digital presence, managing finances, accessing financing options, leveraging e-commerce and online sales, analyzing business data, mitigating risks, and formulating growth strategies. Practical examples, interactive exercises, case studies, and insights from industry experts will enrich the learning experience and provide MSMEs with real-world applications. By the end of this course, MSMEs will have the skills and knowledge to effectively navigate the digital realm, optimize financial management practices, and leverage digital tools and technologies to enhance the growth and profitability of MSMEs. The course was organized into eight modules and what will be learned in each module is also clearly specified.

7. **Prioritize Robust Cybersecurity Measures:**
   - Insight: Strong cybersecurity is essential for protecting sensitive data and building trust in digital lending platforms.
   - Application: Implement robust cybersecurity measures to safeguard data and establish a secure environment for digital transactions.

8.2. Development partners – supporting inclusive lending models

1. **Focus on System-Wide Impact**
   - Insight: Sustainable and scalable models hold the key to achieving system-wide impact
   - Application: Seek out and support initiatives that extend beyond program lifecycles, focusing on models that demonstrate systemic change with potential to transform entire sectors or ecosystems
2. **Strengthen Collaborative Partnerships**
   - Insight: Collaboration between financial institutions (Banks, MFIs, FinTech's as well as wider ecosystem collaborators such as policy makers, Telecoms etc.) ensure mutual benefit through wider adoption, shared innovation, expanded market access, development of sustainable financial solutions and collective risk mitigation.
   - Application: Establish regular communication channels, utilize platforms to raise awareness of program impact and work towards shared objectives to create a strong, supportive ecosystem for digital lending.
3. **Advocate for Regulatory Reform and Youth-Inclusive Strategies**
   - Insight: Developing supportive financial sector policies can promote inclusive policies and expand credit to underserved populations, including young entrepreneurs. Regulatory actions would ideally address any identified gender disparities in credit access.
   - Application: Engage with regulatory bodies, such as the NBE, to advocate for reforms that promote innovation and inclusivity in the financial sector.
4. **Expand reach through technology:**
   - Insight: Innovative solutions that leverage technology can extend reach and drive lasting change.
   - Application: Encourage and support the development of groundbreaking approaches and technologies that can address persistent challenges and create new opportunities at scale.

8.3. Policy makers and advocates – elements of enabling environment

1. **Enable Diverse Digital Financial Service Providers:**
   - Insight: Existing regulations limit lending practices to banks, thereby inhibiting the expansion of financial services by other institutions.
   - Application**:** Develop a regulatory framework that enables non-bank financial institutions (NBFIs) to provide digital financial services, mirroring successful models in markets like Kenya, Uganda, Nigeria, and India. This will foster competition and expand access to credit, particularly for MSMEs.

2. **Prioritize Financial and Digital Literacy Initiatives:**
   - **Insight:** Gaps in financial and digital literacy remain – particularly in rural areas, hindering the effective use of digital financial services.
   - **Application:** Implement comprehensive financial and digital literacy programs to empower individuals and businesses to understand and utilize digital financial tools effectively. This includes public awareness campaigns, educational resources, and training initiatives.

3. **Foster Collaboration and Promote Knowledge Sharing**
   - Insight: Partnerships between policy makers and financial institutions and ecosystem collaborators are essential for driving innovation in the financial sector. Sharing both successes and failures in collaborative platforms is crucial for learning and improvement.
   - Application: Continue to promote and strengthen partnerships between ecosystem actors. Host continuous forums and workshops to facilitate knowledge sharing, promote best practices in digital lending and support the development and adoption of digital financial services.

4. **Open finance and ID of borrowers**
   - The National Bank should develop and implement open banking and open finance standards to ensure secure borrowers' data sharing between financial institutions and third-party providers. Expanding
   - National ID access to all borrowers should be mandatory to build robust, verifiable digital identity systems that authenticate borrowers across multiple platforms.

9. CONCLUSION

This case study demonstrates that the SAFEE program, through its innovative uncollateralized digital lending model, continues to address the critical financing gap faced by Ethiopia's MSMEs, a sector vital for the nation's economic progress. The SAFEE program is working to transition traditional collateral-based lending to innovative uncollateralized lending models, scaling credit access for MSMEs, and addressing the persistent financial literacy gaps that hinder inclusive financial participation.

By leveraging digital technology and fostering strategic partnerships, SAFEE has not only disbursed crucial capital but also catalyzed transformative shifts in policy and operational practices within the financial sector. Key policy changes particularly among banks, such as the adoption of data-driven lending models and enhanced risk management systems, have significantly expanded access to credit for previously excluded populations. Furthermore, the demonstration effect of SAFEE has spurred market competition and innovation, with non-partner institutions adopting similar digital lending strategies. Furthermore, SAFEE has positively influenced perceptions of young entrepreneurs, positioning them as creditworthy clients and key drivers of job creation, while simultaneously improving young entrepreneurs' perceptions of financial institutions.

This case study highlights that the successful replication and scaling of such programs depend on a collaborative effort involving policymakers, funders, and financial institutions. It is recommended that policymakers create enabling regulatory frameworks that support diverse financial providers and prioritize financial literacy. Funders and development organizations should invest in technology-driven innovation and systemic solutions, fostering strong partnerships and advocating for regulatory reform. Financial institutions, in turn, are encouraged to embrace digital transformation, developing customer-centric solutions and building robust digital infrastructures.

In conclusion, the SAFEE model offers relevant lessons and Applications for expanding inclusive financial services and empowering MSMEs. By implementing the lessons and actions outlined in this report, stakeholders can unlock the vast potential of this sector, driving sustainable economic growth and fostering a more equitable financial landscape across diverse contexts.

10. REFERENCES

Ababiya, A. (2018). Financial performance of agricultural enterprises and their determinant factors in Hadiya Zone, Ethiopia. Small, 243(46), 98.

Agwu, M. E. (2021). Can technology bridge the gap between rural development and financial inclusions? Technology Analysis & Strategic Management, 33(2), 123-133.

Ayele, A. W., & Derseh, A. B. (2020). Challenges that hinder the sustainability of small and medium scale enterprises in East Gojjam Zone, Northern Ethiopia. *International Journal of Development Research,* 10(7), 37926-37934.

Baleseng, M. C. (2015). Factors affecting the sustainability of SMEs in the manufacturing sector of Gaborone, Botswana (Doctoral dissertation).

Brixiová, Z., Kangoye, T., & Yogo, T. U. (2020). Access to finance among small and medium-sized enterprises and job creation in Africa. Structural Change and Economic Dynamics, 55, 177-189. Case Studies Stories from Kifiya users.

Central Statistics Agency. (2021). Final 2021 labour force and migration survey key findings report. https://www.statsethiopia.gov.et/wp-content/uploads/2021/08/Final-2021-LABOUR-FORCE-AND-MIGRATION-SURVEY_Key-finding-Report-.17AUG2021.pdf

Cherkos, T., Zegeye, M., Tilahun, S., & Avvari, M. (2018). Examining significant factors in micro and small enterprises performance: case study in Amhara region, Ethiopia. *Journal of Industrial Engineering International,* 14, 227-239.

Ethiopia's MSED Policy and Strategy. (2016). Federal Democratic Republic of Ethiopia (FDRE), Ministry of Urban Development and Housing: Micro and Small Enterprise Development Policy & Strategy.

IFC. (2024). MSME factsheets. https://www.ifc.org/content/dam/ifc/doc/2024/msme-s-factsheet-ifc-financial-institutions-group.pdf

International Labor Organization. (2022a). Young people in African face pressing challenges in the transition from school to work. https://ilostat.ilo.org/blog/african-youth-face-pressing-challenges-in-the-transition-from-schooltowork/#:~:text=More%20than%2072%20million%20youth%20in%20Africa%20are,8%20on%20decent%20work%20for%20all%20by%202030.

International Labor Organization. (2022b). The global employment trends for youth 2022: Investing in transforming futures for young people. https://www.ilo.org/resource/news/recovery-youth-employment-still-lagging-says-ilo-0

International Monetary Fund. (2021). World economic outlook: Recovery during a pandemic. IMF Publications.

Liu, G., & Wang, Y. (2020). Competition in digital lending: The rise of fintech and its impact on traditional banks. Finance Research Letters, 32, 101018.

Mamo, W. B. (2023). Growth determinants of micro and small enterprises (MSEs): Evidence from entrepreneurs in the Eastern Region of Ethiopia. *Journal of the Knowledge Economy*, 14(1), 138-160.

Mastercard Foundation. (2023). Mastercard Foundation – Access to finance programming review assessment report.

Mastercard Foundation-Young Africa Works. Michu second survey findings. https://Mastercardfdn.org/our-strategy/young-africa-works/

McKinsey & Company. (2020). The future of digital lending: A perspective on contending with emerging threats. https://www.mckinsey.com/

Muiruri, S. (2017). African small and medium enterprises (SMEs) contributions, challenges, and solutions. *European Journal of Research and Reflection in Management Sciences*, 5(1), 36-48.

National Bank of Ethiopia. (2024). Financial stability report. https://nbe.gov.et/wp-content/uploads/2024/11/Financial-Stability-Report_NOV2024.pdf

National Bank of Ethiopia. Directives. https://nbe.gov.et/mandates/directives/

National Bank of Ethiopia. NBE holds consultation forum on regional financial inclusion implementation framework. https://nbe.gov.et/nbe_news/nbe-holds-consultation-forum-on-regional-financial-inclusion-implementation-framework/.

National Financial Inclusion Strategy (2021-2025). (2020). https://nbe.gov.et/files/national-financial-inclusion-strategy-ii-2021-2025/

Negash, G., & Sileshi, T. (2019). Determinants of micro and small enterprises growth in selected towns of West Shoa Zone, Oromia Regional State, Ethiopia. *International Journal of Small and Medium Enterprises*, 2(2), 20-32.

Rahel, F. (2018). Factors affecting sustainability of small and medium-scale enterprises: The case of Addis Ababa, Ethiopia. Addis Ababa University.

SAFEE Journey Overview Report. (2024).

SAFEE Quarter III Narrative Report.

Smith, J. A., & Johnson, L. M. (2020). The impact of uncollateralized lending on borrower default rates. *Journal of Financial Economics*, 45(3), 245-267.

SME Finance Forum. (2017). MSME finance gap. https://www.smefinanceforum.org/data-sites/msme-finance-gap Sustainable Access to Finance to Enable Entrepreneurship Scaling Up Uncollateralized Digital Lending in Ethiopia Program Documents.

United Nations. (2024). 2024 theme: MSMEs and the SDGs. https://www.un.org/en/observances/micro-small-medium-businesses-day#:~:text=MSMEs%20account%20for%2090%25%20of%20businesses%2C%2060%20to,poor%2C%20women%2C%20youth%2C%20and%20groups%20in%20vulnerable%20situations.

United Nation Development Program (2024). https://www.undp.org/ethiopia/blog/digital-lending-platforms

World Bank. (2015). SMEs finance in Ethiopia: addressing the missing middle challenge. Retrieved from https://documents.worldbank.org/en/publication/documentsreports/documentdetail/805371468247458154/sme-finance-in-ethiopia-addressing-the-missing-middle-challenge?

World Bank. (2019). Ease of doing business report. https://archive.doingbusiness.org/en/scores

World Economic Forum. (2022). The future of financial services: How technology is reshaping the financial services industry. WEF report. Retrieved from https://www.weforum.org/

Zhang, Z., & Zhan, F. X. (2021). Alternative credit scoring: The impact of digital lending on interest rates. *Journal of Financial Technology*, 19(4), 245-26.

Annex A: Report Data

Data sources and collection procedure

Primary data collection

1 KEY INFORMANT INTERVIEWS

Participant	Target sample size
National bank	2
MoLS	1
MiNT	1
MCF	2
Banks	15
MFIs	4
Kifiya Technology	2
First Consult	1
Ethiopian Youth Entrepreneurs Association	1
Total	**29** (*27 achieved*)

2 FOCUS GROUP DISCUSSION

FGD 1	5 participants
FGD 2	6 participants
FGD 3	4 participants

Secondary data collection

1 **Literature review:** Peer reviewed and grey literature

2 **Document review:** Policies and program reports

This case study employed a mixed-methods approach to comprehensively analyze Ethiopia's evolving financial sector ecosystem and the shifts in policies and practices that have enabled new lending approaches. Primarily, qualitative data was gathered to capture the perceptions, views, and insights of key regulatory actors and stakeholders, providing a nuanced understanding of policy shifts, lending practices, and ecosystem dynamics. Complementing this, quantitative data was collected to offer an objective analysis of trends and measurable outcomes.

Data sources included both primary, conducted through key informant interviews and focus group discussions, and secondary research, which involved reviewing institutional data, program documents, and relevant literature. This blended approach allowed for a well-rounded assessment, combining subjective perspectives with empirical evidence.

Key informant interviews: a total of 29 interviews were planned targeting regulators, government institutions, banks, microfinance institutions, and program partners. Discussions were conducted using a structured KII guide, with key informants selected through referrals and based on their in-depth knowledge of the subject matter. While the initial target was 29 interviews, 27 were successfully completed (see Annex A). Amhara Bank was excluded due to its early stage of program implementation, and two planned interviews with representatives from the National Bank and the Cooperative Bank of Oromia did not materialize.

Focus group discussions: Three focus group discussions (FGDs), involving a total of 16 participants, were conducted to gather firsthand experiences of MSMEs with uncollateralized digital lending. The aim was to document success stories, identify challenges, and understand how changes in financial institution policies and practices have impacted their entrepreneurial perspectives. Participants were selected using a stratified sampling technique to ensure representation across enterprise size (micro) and key sectors, including manufacturing, agro-processing, and the digital economy[26]. Given that over 95% of the program's participants are young women, all FGDs were conducted with female entrepreneurs residing in Addis Ababa, with each group comprising 4-6 participants from the selected sectors and enterprise sizes.

Interview List

	Organization	Name	Role
1	Awash Bank	Mulugeta Kefyalew	Manager, Diaspora and personal
2	Bank of Abyssinia	Tewodros Haile	Manager, Credit Portfolio management
3	Birhan Bank	Alemselassie Mulat	Deputy Manager, MIS and Strategy Follow up.
4	Buna Bank	Robel Alemayehu	Director, Program Management, and Innovation
5	Commercial Bank of Ethiopia	Fisha Tesfaye	Customer Service Proposition
6	Cooperative Bank of Oromia	Abdi Fekede	COO, Cooperative Bank of Oromia
7	Dashen Bank	Biratu Mosisa	Specialist, Micro and Small Business
8	Enat Bank	Gashaw Debele	Director, Credit Management
9	Ethiopian Youth Entrepreneurs Association	Samia Abdulqadir	President, Ethiopian Youth Entrepreneur Association
10	First Consult	Kenno Itana	Programme Lead, MESMER Program
11	Hibret Bank	Alemtsehay Berhanu	Director, MSME & Agricultural Loans
12	Kifiya Technology	1. Munir Duri	CEO, Kifiya Technology
13	Kifiya Technology	2. Hayat Abdulmalik	Chief Impact Office and Program Director
14	Kifiya Technology	3. Hanan Andargachew	Program Manager
15	Meklit MF	Mr. Addis Admas	Manager, MIS
16	Metemamen MF	Mr. Aytenew Wondimagegn	Manager, Credit & Portfolio Management
17	Ministry of Innovation and Technology	Dr Abiyot Bayou	Senior Advisor to Minister, MinT
18	Ministry of Labor and Skills	Teferi Adamu	Program Manager, Enabling Ethiopia
19	National Bank of Ethiopia	Muhdin Shifa	Director, Consumers Protection and Financial Education
20	Nib Bank	Gebeyehu Roba	Director, Business Program
21	Nisir MF	Dagachew Adaraw	Director, Credit management
22	Oromia Bank	Melkamu Asebe	Manager, SME Credit
23	Vision Fund MF	Hailu Leta	Deputy CEO, Vision Fund
24	Wegagen Bank	Surafel Yazachew	Manager, Digital Credit
25	Zamzam Bank	Ousman Mohammed	Chief PMO, Zamzam Bank
26	MasterCard Foundation	Samuel Yalew	Country Director, MCF
27	MasterCard Foundation	Abdillahi Farah	Program lead, Financial Inclusion and Investment

[26] Note that the agriculture sector was excluded due to the logistical challenges of organizing discussions with end users primarily located outside of Addis Ababa

Annex B: Overview of Mastercard Foundation Financial Inclusion Programs in Ethiopia

To meet its 2030 goals, the Mastercard Foundation has launched impactful programs in Ethiopia. In partnership with First Consult, the Mastercard Foundation launched three key programs. BRIDGES (October 2019 - October 2024) focuses on providing young people with skills training, business development support, market linkages, and access to finance. CRRP (June 2020 - June 2023) addressed the liquidity challenges faced by MSMEs during the COVID-19 pandemic by offering grants and soft loans. Building on CRRP's success, MESMER (2022-2027) supports MSMEs with financial assistance, business development, and psychosocial support to enhance resilience and create youth employment. Most recently, the Sustainable Access to Finance for Enabling Entrepreneurship (SAFEE) program (2023-2028) in partnership with Kifiya Financial Technology aims to enable 2.18 million young people to access jobs through uncollateralized digital lending by enhancing digital skills, financial literacy, and credit accessibility. These initiatives are designed to drive systemic change, improve access to finance, training, and markets, and create meaningful employment opportunities for young people.

Young Africa Works Access to Finance Programs

	BRIDGES (Oct 2019-Oct 2024)	CRRP (June 2020– June 2023)	MESMER (2022-2027)	SAFEE (Dec 2023- Nov 2028)
Objective	Support MSMEs and youth through enterprise development, employment linkage, access to finance and enterprise competitiveness	To protect business interests of MSMEs impacted by COVID 19, through financial support in the form of grants and soft loans	Support business's recover from shocks and build resilience through access to finance (grants and soft loans), BDS and psychosocial services	To drive financial inclusion and create jobs by deploying innovative data driven credit scoring technology to enable MSMEs access uncollateralized lending
Partners	First Consult, MOLS, Federal TVET Agency, Banks, MFIs	First Consult, MoLS and Banks	First Consult, MoLS and Financial institutions (banks, MFIs, digital financial service providers), BDS providers, psychosocial support providers	Kifiya financial technology and 6 partner banks (Amhara, Bunna, Cooperative Bank of Oromia, Enat, Wegagen, and Zemzem)
Program participants	Youth 18-35, 70% women present in 7 regions and 2 administrative cities	MSMEs in Addis Ababa and conflict-affected areas (Afar, Amhara, and Tigray regions), 70% female	MSME's nation wide, also includes conflict affected areas, 70% Female	MSMEs, small holder farmers and small and middle-income consumers. 80% young women, 10% people with disability , 10% refugees and displaced persons

The BRIDGES program, implemented by First Consult from October 2019 to October 2024 across seven regions and two administrative cities, aimed to stimulate job creation and employment. Its four key areas of intervention included enterprise development (BDS and employability skills), employment linkage (connecting workers to industrial parks), enterprise competitiveness, and access to finance. In the latter, BRIDGES addressed both demand and supply-side finance gaps. On the demand side, it developed financial literacy materials for MSMEs and young entrepreneurs, submitted to the NBE. On the supply side, it facilitated a wholesale lending facility, supported banks in developing MSME lending criteria, and negotiated flexible loan terms.

The CRRP program, implemented from June 2020 to June 2023 by First Consult, in partnership with MoLS, Awash Bank, and Dashen Bank, aimed to mitigate the economic impact of the COVID-19 pandemic on MSMEs in Addis Ababa. It provided financial assistance through direct grants to informal enterprises, soft loans to small enterprises, and a blend of both for formal micro-enterprises. To address liquidity challenges, the Mastercard Foundation provided a 50% loan guarantee, with borrowers securing the remaining 50% through salary or personal guarantees. These loans helped MSMEs cover rental and salary expenses, preventing business closures.

Building on the success of CRRP, the ongoing MESMER program (2022-2027) aims to enhance business resilience, facilitate COVID-19 recovery, and create jobs nationwide. Implemented by First Consult, with government partnership from the Ministry of Labor and Social Affairs (MOLS) and financial institution partnerships from Awash, Abyssinia, Hibrat, and Dashen Banks, the program provides access to finance, business development, and psychosocial services nationwide. These initiatives promote employment and financial inclusion, particularly for young women entrepreneurs, while responding to Ethiopia's economic needs.

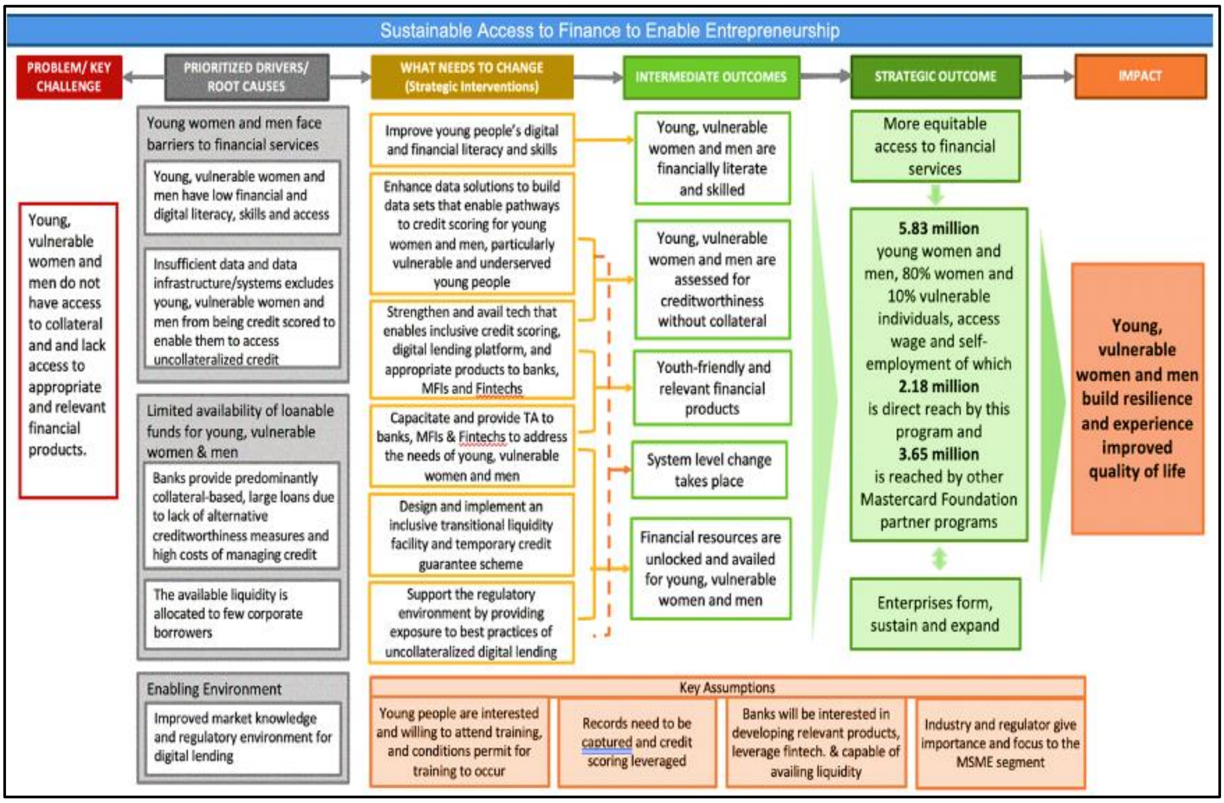
Launched in June 2023, the Mastercard Foundation partnered with Kifiya Financial Technology to introduce SAFEE, an uncollateralized lending model aimed at MSMEs, smallholder farmers, and middle-income consumers, with a focus on women (80%). This ongoing program facilitates job creation by providing uncollateralized digital services, enhancing digital skills, financial literacy, and credit access. Supported by a US$75 million liquidity facility and a US$25 million technical assistance fund, SAFEE is designed to expand inclusive access to finance. Collaborating with six partner banks, the program aims to unlock over US$300 million in uncollateralized digital credit for MSMEs.

BRIDGES, CRRP, MESMER, and SAFEE all address supply and demand-side barriers to MSME finance, with a focus on liquidity. While CRRP and MESMER provide soft loans and grants, they require borrowers to offer collateral in the form of salary or personal guarantees. In contrast, SAFEE introduces an innovative, uncollateralized lending model. Leveraging an AI-driven transitional liquidity framework, SAFEE eliminates the need for borrower collateral, marking a significant shift in MSME financing.

Figure 7*: *Challenges addressed by Young Africa Works Access to Finance programs

Demand side		Supply side	
Challenge	**Addressed by**	**Challenge**	**Addressed by**
Lack of collateral, limited fixed assets in own name	SAFEEE	Inadequate risk assessment tools, reliance on collateral to manage risk	SAFEE
Business informality, Poor credit history, lack of financial records	SAFEE	Lack of appropriate, relevant financial products	SAFEE
Low financial literacy and awareness	BRIDGES	High cost of acquiring, managing, delivering frequent, small-size loans	SAFEE, BRIDGES
Information asymmetry, e.g., lack of ID, inability to provide information to lenders	SAFEE	Percieved high risk to lend to MSMEs	SAFEE, CRRP, MESMER
Lengthy application process	SAFEE	Liquidity constraints	SAFEE, BRIDGES, CRRP, MESMER
		Lack of digital infrastructure, limited branch networks in rural areas	SAFEE

Annex C: SAFEE Theory of Change



Annex D: Success stories from program end users.

Success story from project Wegagen Bank's Efoyta uncollateralized platform end users

Misrak Abebaw Megabiw age 27, runs a micro-business selling children's clothing in Addis Ababa, Ayat Adebabay, surrounded by colorful stacks of children's clothing. Each piece tells a story of her journey as a young entrepreneur determined to solve out a livelihood in a challenging economy. After three years in business, she recalls about her beginnings at age 24, when her inventory barely filled a shelf.

"I remember those early days," she says, smiling softly. "My shop felt empty, and so did my confidence. I wanted to offer my customers more choices, but without the funds, it was impossible."

She vividly remembers learning about Wegagen Bank's Efoyta platform when a Business Development Executive (BDE) visited her neighborhood. Intrigued, she attended an information session and decided to take a leap of faith.

"I was nervous," she admits.

"Borrowing money felt like such a big risk. But the BDE explained everything so clearly, how the process worked, the repayment terms, and how I could use the loan to grow my business. It gave me the courage to apply."

Misrak's first loan of 30,000 birr was quickly approved, and she invested it in stocking up on popular clothing items. For the first time, her shelves were fully stocked, and customers started to take notice. Encouraged by her initial success, Misrak felt more confident to aim higher. Over the next few months, she applied for two more loans, increasing her total borrowing to 90,000 birr. Each loan helped her expand her inventory and add new products, such as jackets and school uniforms.

"Every loan felt like a step forward,"

She explains.

“I was building a reputation. Customers began trusting me to have what they needed, and that loyalty is something I am very proud of.”

The growth of Misrak’s business had a broader impact. As her income grew, she started buying fabrics and clothes from local suppliers, supporting other small businesses. She also began mentoring a few women in her community, encouraging them to explore similar opportunities through Efoyta.

“This loan is more than just money,” she says. “It is about empowerment. I want other women to see what is possible and believe in their potential.”

Misrak’s confidence has grown alongside her business. She has learned important financial skills and now understands her customers’ needs better.

“I’ve become a planner, a negotiator, and someone who can make things happen,” she says proudly.

Today, Misrak is applying for her fourth loan, which she plans to use to expand her shop and hire an assistant to help with her growing number of customers. Her long-term goals include opening a second location and creating a space for tailoring, where customers can have custom-made clothes. Looking back on her journey, Misrak feels grateful: “This program has been a blessing, not just for me but for many women who are finding their strength through business

Success story from Cooperative Bank of Oromia ‘Michu’ uncollateralized digital lending

Woynishet Niguse Mekonen, 33-year-old owner of a micro-business in Bole Lemi-Kura, Addis Ababa, operating for 5 years with two employees. At 33, Woynishet Niguse Mekonen has turned her 5-year-old sleepwear boutique in Bole Lemi-Kura, on the outskirts of Addis Ababa, into a thriving business. Originally from Majete, a small northeastern Ethiopian town, she moved to the capital at 20 after marrying her first husband. Facing the challenges of a new city, Woynishet started by selling injera and traditional coffee to neighbours, laying the foundation for her entrepreneurial journey and eventual success in offering stylish, comfortable sleepwear. She said,

“I am proud of how far I’ve come, and I know the best is yet to come.”

Her years of hard work and attention given to saving led her to the idea of starting a boutique.

“I wanted to create something unique,” she recalls. “I saw a gap in the market for quality, affordable sleepwear, and I knew I could fill it.”

With this vision, Woynishet opened her shop five years ago, sourcing quality sleepwear from Merkato, Addis Ababa’s bustling wholesale market. Though her boutique showed promise, Woynishet quickly realized she needed more working capital to meet rising customer demand. She discovered the Cooperative Bank of Oromia’s Michu digital lending platform, where collateral-free loans seemed almost too good to be true. Encouraged by the bank’s representatives, she took a chance, and her first loan of ETB 5,000 was approved within a day. She said,

“I didn’t believe it at first,” she says with a laugh. “But it was real, and it came just when I needed it.”

Her loan allowed Woynishet to restock and keep her shelves full. She accessed loans through Michu 30 times, increasing her limit to ETB 80,000. Her personal growth has been remarkable, gaining financial skills through managing loans, preparing her for future opportunities.

“I’ve learned so much through this journey,” she reflects. “It’s made me more confident and capable.”

She looks ahead to expand her shop, offer more products, and seeing her boutique become a household name.