Alternative (to) Collateral for Development Finance Institutions (DFIs)

Session 5 of DFI Exchange Group

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More information: www.icr-facility.eu

Agenda of the session – 1h30

- Welcome and introduction
- Presentation of the study
- Interview of TADB
- Interview of LBA
- Q&A and Closing

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Round of introductions

- **Update your name and organisation on your Zoom profile**
- **Respond to Mentimeter questions:**
  - *Region you are from*
  - *Key questions you have on alternative collateral*

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Context, objectives and approach

Context:

- Access to finance is a major barrier for WSMEs, including in ACP countries. Many SMEs, especially those led by women, struggle to secure loans due to a lack of assets traditionally accepted as collateral.
- DFIs are **well positioned** to help address these obstacles and improve access to finance for WSMEs.

Objective:

- This study draws on the experience of DFIs to **present best practices** and **provide practical guidance** on designing and implementing alternative forms of collateral.
- The objective is to encourage other DFIs to adopt similar approaches and maximise the use of alternative collateral mechanisms and their impact for women and women-owned SMEs.

Approach:

- This research was conducted in three phases:
  - Literature review,
  - Interviews with industry stakeholders,
  - Interviews with around ten financial institutions (including national development banks, microfinance institutions, commercial banks and one development project)

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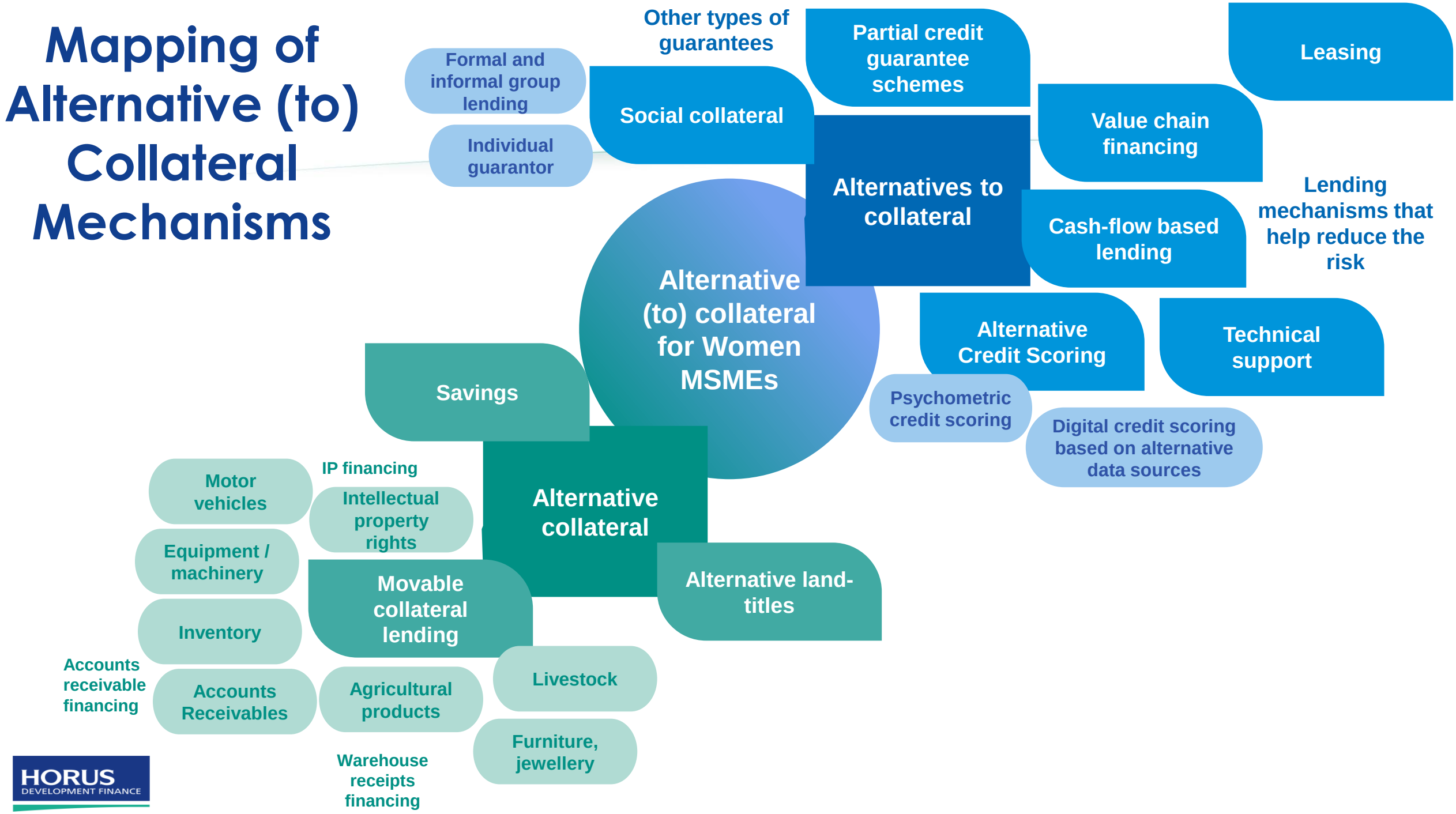
Mapping of Alternative (to) Collateral Mechanisms



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Emerging DFI approaches to the collateral constraints facing women-owned SMEs

DFIs recognise the lack of collateral as a key barrier for women-owned SMEs seeking access to finance.	However, collateral constraints are rarely addressed as a key lever in their gender strategies.
In most cases, DFIs address WSMEs' lack of collateral by adopting greater risk tolerance, reflecting their willingness to serve WSMEs, aligning with their mandate to address market gaps.	However, this approach carries specific limitations and risks.
The lack of collateral is a barrier for all types of MSMEs, regardless of gender. DFIs have developed alternative collateral mechanisms to serve the MSME sector in general.	When developing alternative collateral approaches, DFIs rarely adopt targeted strategies to ensure that WSMEs can effectively access and benefit from these mechanisms.

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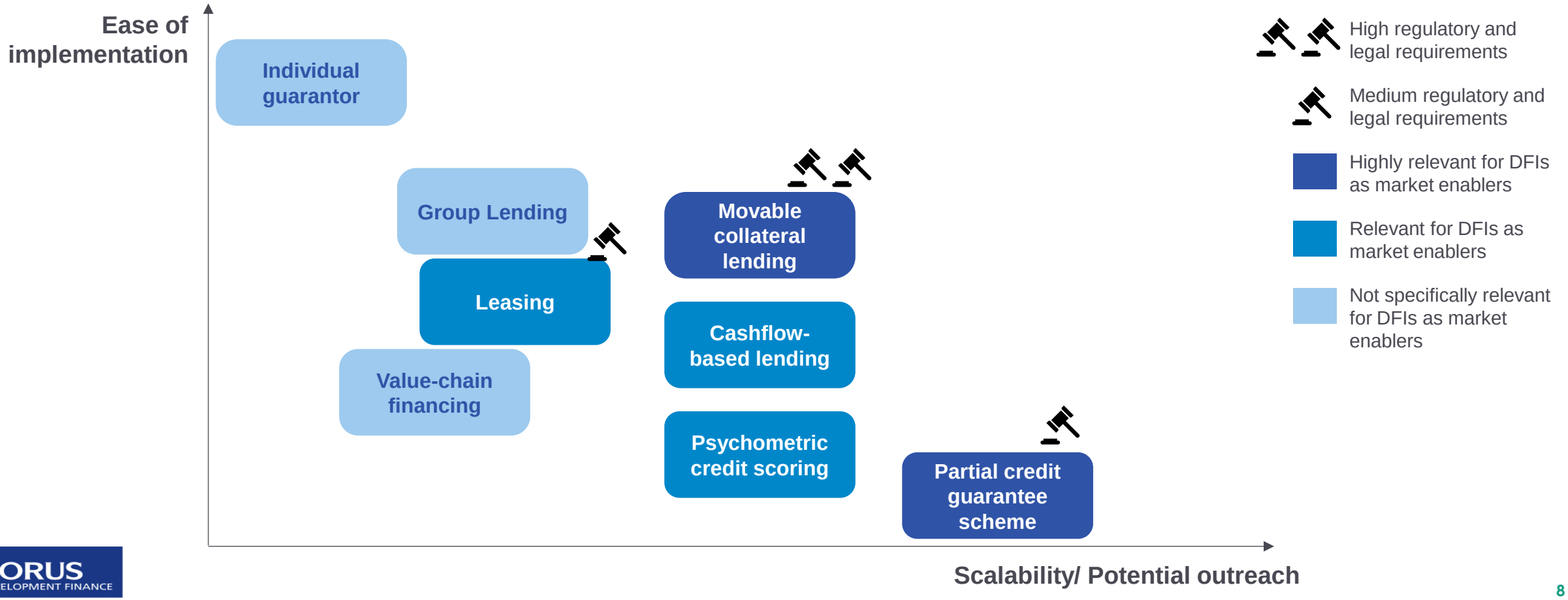
Comparative analysis of alternative (to) collateral mechanisms

The choice of which mechanisms to adopt will depend on each DFI's mandate, strategy, target clients, available resources and the prevailing regulatory environment.



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The role of DFIs in promoting alternatives to collateral and acting as market enablers

Addressing collateral constraints through partial credit guarantee (PCG) schemes for local financial institutions

Leading by example, communicating and incentivizing partner financial institutions

Engaging in policy dialogue to create an enabling environment

Recommendations to leverage DFIs role

- ✓ Leverage relationships with PFIs by **initiating discussions to better understand what constraints they face** in implementing alternative collateral mechanisms and to jointly identify potential solutions.
- ✓ **Set an example** by using alternative mechanisms and communicating proactively about their benefits.
- ✓ Integrate the use of alternative collateral with a specific gender-lens into technical assistance and training programmes for both PFIs and women-owned SMEs.
- ✓ **Consider including incentives in agreements with PFIs** to encourage adoption of alternative collateral mechanisms (e.g. interest rate rebates, access to additional services).
- ✓ Engage in **policy dialogue** to support the development of an enabling regulatory environment if constraints exist.

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Recommendations regarding existing schemes

Review any existing alternative collateral scheme(s) and assess and enhance their suitability for the needs of WSMES:

- Identify and review alternative (to) collateral mechanisms used within your institution.
- Measure the proportion of women among users of each mechanism.
- Conduct a quick staff survey to identify barriers to applying existing collateral mechanisms when lending to WSMEs:
  - Determine which mechanisms are considered most appropriate
  - Assess what support staff would need to better serve WSMEs
- Conduct a short client survey to understand what is hindering WSMEs from using existing schemes.
- Adjust the approach as needed and provide clear communication and training to staff.
- Integrate a gender lens into marketing and communication campaigns (e.g. a leasing product campaign could feature a woman entrepreneur and equipment commonly used by WSMEs).

Recommendations regarding new schemes

Assess potential additional alternative solutions

- Begin with a client survey to identify which mechanisms are the most suitable for WSMEs, taking into account their needs, capacities and market segment:
  - Identify **types of assets commonly held** by women in the market segment. (e.g. inventory, receivables, or production machinery), analyse the level of formalisation and explore ways to use these assets as collateral.
  - Analyse their **social and business relationships** to determine the relevance of value chain finance or group-lending schemes.
  - Review their **financing needs** to identify the most appropriate solutions.
- If there is any issue or uncertainty about legal or regulatory feasibility, **initiate policy dialogue** with the relevant authorities to clarify what is possible under the current framework or explore potential “sandbox” approaches if relevant.

A successful strategy should always consider **combining different approaches** to ensure that all critical constraints are addressed.

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Material and support at your disposal

10 case studies

- Cash flow-based lending:
  - ✓ by Kenya Commercial Bank (KCB)
  - ✓ by Advans Tunisie
- **Movable collateral lending and registry use:**
  - ✓ **by DBN, Nigeria**
  - ✓ by FSMDB, Micronesia
- **Credit Guarantee Scheme**
  - ✓ **by TADB, Tanzania**
  - ✓ by the Development Bank of Rwanda
- **Leasing by La Banque Agricole (LBA), Senegal**
- Psychometric Credit Scoring by Wasasa, Ethiopia
- Value Chain Financing by Advans Ghana
- IP financing in Jamaica

4 factsheets

- **Movable Collateral Lending with use of a National Registry**
- **Cashflow Based Lending**
- **Psychometric Credit Scoring**
- **Partial Credit Guarantee (PCG) Scheme**

Clinics

Coaching sessions for DFIs on the topic of alternative collateral

- **Purpose:** depending on DFI's specific needs, provide more technical details on 1-2 specific topics of interest for your institution, discuss practical steps, design an action plan.
- **Format:** up to 2, one-hour calls with the HORUS team
- 10 slots available (first-come/first-served basis)
- **When:** in July 2025

Contact us before July 8th to book a slot !

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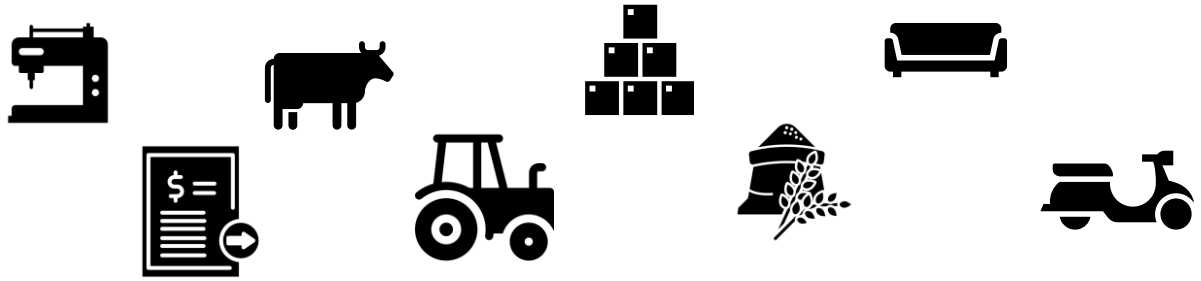
Focus: movable collateral lending using a national collateral registry

What assets can be used in movable collateral lending ?



What is a collateral registry ?

- A **collateral registry** is a record of legal claims to personal property used as collateral for a loan.

How does it work ?

Loan security documentation
(photos, description, valuation of the asset)

Signature of the loan agreement
The asset pledge is included in the loan contract

Registration by the lender in the national Registry

Borrower maintains possession of the collateralised asset

Loan resolution: cancellation of the securities linked to the loan or repossession of the pledged asset by lender

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Value addition for WSMEs

Movable collateral lending tend to be positive for gender issues because women are disproportionately likely to have movable assets but no immovable assets to pledge.

Key steps for supporting women's access to finance through movable collateral lending:

1. Conduct **client surveys** to assess the types of assets commonly held by WSMEs,
2. Organise internal workshops with staff to **adapt rules and procedures** to enable the use of WSMEs' assets as collateral.
3. Seek legal advisory support as needed, etc.
4. **Train staff on the types of movable assets** that can be used as collateral by WSMEs and communicate any related updates.
5. **Launch targeted communication campaigns** on opportunities for WSMEs to access loans using movable asset collateral.
6. Monitor the use and performance of MABL for women in the portfolio.

CASE STUDY:
MOVABLE COLLATERAL LENDING AND REGISTRY USE BY THE DEVELOPMENT BANK OF NIGERIA

Name: Development Bank of Nigeria (DBN)

Country: Nigeria

Type of institution: National development bank

Presented mechanism: Movable collateral lending

DBN decided to accept movable assets and loan receivables as collateral to secure its loans to PFIs.

- This approach serves as an **example to incentivise PFIs to use the collateral registry** and to accept movable assets as a form of collateral that MSME clients can provide.
- DBN has championed the use of the NCR and broader adoption of movable assets as collateral, a **practice now used by most of its PFIs**.
- By accepting movable assets to secure its own loans to PFIs, **it demonstrates confidence in the mechanism and encourages PFIs to apply the same approach with their SME clients**.
- The movable assets pledged by SMEs as collateral help secure the PFIs' portfolios, thereby increasing the value of the receivables DBN accepts as collateral.

Interview of TADB

CASE STUDY:
CREDIT GUARANTEE SCHEME BY THE TANZANIA AGRICULTURAL DEVELOPMENT BANK

Name: Tanzania Agricultural Development Bank (TADB)

Country: Tanzania

Type of institution: National agricultural development bank

Presented mechanism: Partial credit guarantee scheme

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Interview of LBA

CASE STUDY:
LEASING BY LA BANQUE AGRICOLE, SENEGAL

Name: La Banque Agricole (LBA)

Country: Senegal

Type of institution: National agricultural development bank

Presented mechanism: Leasing

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ANNEXES

Mechanisms implemented by LBA

Leasing

In 2019, LBA launched a leasing product to support the acquisition of heavy equipment by agricultural cooperatives and farmers.
Through this mechanism, women's groups can acquire equipment for post-harvest activities, such as vans for transporting perishable products or rice huskers for processing.

Social collateral

LBA carries out many group financing operations, primarily through formalised and structured farmers' organisations. These loans are used to finance agricultural inputs, which are sub-distributed to members, or to finance agricultural equipment.
LBA lends to both men's and women's groups.

Value Chain financing

LBA's financing of the rice value chain in the Senegal River Valley involves several interlocking mechanisms that help secure the repayment of input credit, eliminating the need for producers to provide collateral.

- First, a purchase contract must be signed between the producers and a buyer before input credit can be disbursed to the producers.
- The input loan is then paid in the form of Delivery and Payment Orders (DPOs). The DPO system ensures that the input credit is used for its intended purpose by confirming that each input or service required for production has been received by the producer. By disbursing the loan 'in kind,' the DPO system reduces the risk of misuse.

Mechanisms implemented by TADB

Credit guarantee scheme

The Smallholder Farmers' Credit Guarantee Scheme (SCGS) was officially launched in February 2018. The scheme provides guarantees to partner banks to support lending to the agriculture sector. Under the scheme, the SCGS offers up to 70% cash cover to partner banks for agricultural loans extended to women entrepreneurs.

Movable asset-based lending (MABL)

A movable assets registry is in place.
TADB uses the registry to record various types of collateral.
Livestock may be accepted as collateral, but only if covered by insurance.

Warehouse receipts

TADB offers warehouse receipt financing for selected crops approved by the Warehouse Receipt Regulatory Authority, with a particular focus on raw cashew nuts.
The Warehouse Receipts Act, 2005 (Act No. 10 of 2005) established the Tanzania Warehouse Licensing Board as a corporate body and provides the regulatory framework for the warehousing of goods in Tanzania. It governs the use of warehouse receipts for trading, credit and the negotiation and transfer of ownership. Crops covered by the Act include coffee, raw cashew nuts, maize, paddy, sesame, sunflower, pigeon peas and cotton.

Leasing

For heavy equipment, a leasing product is available in which the machinery is purchased in TADB's name and transferred to the borrower once repayment is complete.

Social collateral

The loan amounts requested by women are often too small to be served through individual lending. As a result, TADB is considering promoting group lending as an alternative approach.