ACE INSIGHTS

Rethinking Financing for Woman

How Non-Collateral Models Can Empower Women Entrepreneurs in Ethiopia



by ACE Advisors

ACE ADVISORS

Rethinking Financing: How Non-Collateral Models Can Empower Women Entrepreneurs in Ethiopia

For women entrepreneurs around the world, access to capital remains one of the most significant barriers to starting and growing a business. Traditional lending institutions often demand collateral—a requirement that excludes 78% of women-owned SMEs from securing the financing they need. But the financial landscape is evolving, offering innovative solutions that evaluate creditworthiness beyond physical assets.

There exists a spectrum of collateral-free financing options, including ***Revenue-Based Financing (RBF), unsecured business loans, merchant cash advances, and invoice factoring.*** Today, we want to explore these models—both in their universal application and how they can be adapted into Ethiopia—to demonstrate how we can create more inclusive financial systems.

Revenue-Based Financing: Capital That Grows With Your Business

At its core, Revenue-Based Financing is a flexible funding solution where investors provide capital in exchange for a fixed percentage of a company's ongoing gross revenues. Unlike traditional loans with rigid repayment schedules, RBF adjusts to a business's actual performance: **when revenues are higher, repayments increase; during slower months, they decrease proportionally.** This model is particularly valuable for businesses with strong revenue streams but limited physical assets, as it requires no collateral and doesn't dilute ownership. Typically, the total repayment amount is capped at a multiple of the original investment (usually **1.5x** to **3x**), and the process from application to funding can often be completed in just a few days.

According to the World Bank, Cooperative Bank of Oromia's pioneering **"pay-as-you-grow"** RBF program has already disbursed loans to **20 entrepreneurs**, with women comprising the majority of beneficiaries. The program offers two innovative repayment structures: a pure RBF model where borrowers repay 20% of monthly revenue (with no payment required in months with zero revenue), and a hybrid option combining 20% of actual revenue with a small fixed payment (3% of projected revenue). This dual approach accommodates different business models while maintaining flexibility. As the pilot progresses, the project team is actively monitoring performance to refine repayment structures and risk management approaches—a testament to Ethiopia's commitment to developing homegrown financial solutions.

Unsecured Business Loans: Trusting Potential Over Assets

Unsecured business loans represent a paradigm shift in lending, where decisions are based on a company's financial health and future potential rather than physical collateral. Lenders evaluate various factors including **credit history, cash flow statements, business plans,** and increasingly, innovative metrics like **psychometric testing.** These tests assess entrepreneurial traits and behaviors that correlate with business success, creating alternative pathways to credit approval. While interest rates tend to be higher than secured loans (typically ranging from **12-24%**), the accessibility they provide makes them invaluable for asset-light businesses.

Ethiopia's Women Entrepreneurship Development Project (WEDP) stands as a pioneering example of this approach in action. Launched in 2012 with World Bank support, WEDP has become Africa's first women-focused credit line to systematically implement psychometric testing as a collateral alternative. The program's results speak volumes: over **12,000 women entrepreneurs** have accessed loans averaging **$12,000**, with an extraordinary **99.1% repayment rate.** Participating businesses have seen average income growth of **40.77%** and employment growth of **55.73%**, demonstrating how innovative credit assessment can drive both financial inclusion and economic development.

Merchant Cash Advance: Trusting Future Sales

Merchant Cash Advances (MCAs) offer a **quick lump sum** funding to businesses in exchange for a share of future sales. Unlike traditional loans, MCAs are not repaid in fixed instalments. Instead, repayments are automatically deducted as a percentage of daily sales, making them highly adaptable to a business's cash flow. Rather than using a conventional interest rate, MCA providers apply a factor rate, typically ranging from **1.1 to 1.5**, based on the provider's assessment of the business's risk and performance. For example, if a business receives $10,000 in funding at a 1.3 factor rate, it will ultimately repay $13,000. While the total cost can be high, MCAs are valued for their speed and accessibility, especially for businesses with steady income but limited access to traditional credit.

Merchant Cash Advances offer a compelling model for flexible, collateral-free financing, but their integration into Ethiopia's financial ecosystem remains challenging. The core mechanism of MCAs relies heavily on automated deductions from **credit or debit card transactions**, which are still limited in Ethiopia due to the country's largely cash-based economy and the nascent state of digital payment infrastructure. Without widespread adoption of digital point-of-sale systems and real-time transaction tracking, the operational backbone required for MCAs is difficult to establish.

Invoice Financing: Financing Based on Receivable Invoices

Invoice financing helps businesses turn unpaid invoices into working capital, providing immediate cash flow without relying on collateral. There are two main types: ***Invoice Factoring and Invoice Discounting.***

In invoice factoring, a lender purchases outstanding invoices and collects payments directly from the customers. While this arrangement improves liquidity, it also means that customers are aware of the financing agreement, which may affect the business's image.

As a more discreet alternative, invoice discounting allows the business to retain control over customer payments. The lender advances up to 95% of the invoice value, and the business repays the amount (minus fees or interest) once clients settle their invoices. This model offers similar benefits to factoring but with greater confidentiality, ideal for maintaining client relationships while smoothing cash flow.

In Ethiopia, the SAFEE Program, a **$100 million initiative** launched in 2024 by the Mastercard Foundation in partnership with Kifiya Financial Technology, is creating innovative solutions, uncollateralized lending solutions, including invoice financing. Designed to support MSMEs, SAFEE is working with banks and financial institutions to develop new digital financial products that leverage alternative credit scoring and reduce reliance on physical collateral. As part of this broader effort, invoice financing is being explored as a viable model to inject working capital into businesses that operate on credit terms.

The Path Forward for Inclusive Finance

The financing models explored here, Revenue-Based Financing, Unsecured Business Loans, Merchant Cash Advances, and Invoice Financing prove that **financial inclusion isn't about lowering standards; it's about shifting perspectives.** By moving beyond traditional collateral and embracing performance-based and behavior-based assessments, we unlock new pathways for women entrepreneurs and asset-light businesses to thrive.

But beyond awareness, **we need a broader conversation,** one that includes entrepreneurs, financial institutions, policymakers, and development partners. As we imagine a more inclusive financial future for Ethiopia and similar economies, here are some questions worth reflecting on:

- What other innovative, asset-light financing models exist that you think could work in the Ethiopian context?
- What are the key structural or cultural barriers preventing these models from scaling locally?
- How can alternative financing methods drive economic growth, job creation, and resilience—especially for underserved groups?
- Which sectors or business types are best positioned to benefit from these models—and which might be left behind?.
- What adaptations or safeguards should we consider to ensure these financing tools are sustainable and equitable in Ethiopia's evolving economy?

This is more than a policy issue; it's a mindset shift. One that starts with asking the right questions, challenging assumptions, and building financial systems that see potential, not just collateral.

ACE INSIGHTS



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