

Alternative Collateral for Women

January 2023



SUMMARY

Challenge: Women face barriers to accessing larger loans because of their low access to acceptable forms of collateral.

Opportunity's Solution: In Ghana, Sinapi Aba Savings and Loans (SASL) piloted an alternative collateral program in which women leveraged their assets to access larger loans.

Evidence of Success: Women used new types of collateral to receive the loan amount requested; only one client out of 105 defaulted on her loan (due to illness); the risk was lower than mainstream portfolio.

Next Steps: Dialogue with regulators to mainstream "alternative" collateral, and streamlining processes such as collateral valuation.

THE CHALLENGE: REMOVING COLLATERAL BARRIERS FOR WOMEN SEEKING LARGER LOANS

In many countries where Opportunity works, in the market of micro, small, and medium sized loans, women are concentrated in micro-loans, and their businesses are similarly concentrated at the informal, micro level. Yet, many women's businesses are poised for growth and can handle larger loans. At the micro-level, women typically use a "group-loan" product in which member co-guarantee one another's loans. However, above a certain amount – often set by regulators – group guarantees may not be used, and other collateral is required. This collateral usually takes the form of an individual guarantor, or titled, physical property – primarily land or vehicles. Because of gender norms prevailing over property rights, women have lower access to titled property. The above dynamic results in women being "stuck" at the micro-loan level, unable to access the capital they need to grow their businesses. However, despite not have access to titled property, many women do have unregistered assets that could be leveraged to access larger loans.

OPPORTUNITY'S INNOVATION: ALTERNATIVE COLLATERAL FOR WOMEN – A PILOT PROGRAM

As part of a larger program that increased access to credit for women-owned enterprises, Opportunity partner in Ghana, Sinapi Aba Savings and Loans (SASL), ran a pilot program to leverage women's alternative collateral to access loans beyond the group-loan level. The program–

- ▶ Leveraged new types of collateral including insured inventory, appliances, and household items;
- ▶ Reduced level of collateral (from 200% to 150% of the value of the loan) and required cash deposit (from 10% to 5%-10%);
- ▶ Trained staff, clients and spouses in business practices and gender issues;
- ▶ Appraised applicants' whole financial picture as well as business cash flow;
- ▶ Involved a guarantee from Global Affairs Canada, the program's funder;
- ▶ Evaluated to capture data and lessons learned.

The program set out to test whether expanding the range of acceptable collateral makes it possible for women entrepreneurs to access much needed capital to help them grow their businesses without increasing the risk of default. The program ran for 16 months in 2021 and 2022 with 105 participants comprising both existing and new clients of SASL. The clients had been in business 7-15 years and were, on average, in their forties. The vast majority (90%) were in retail trade and service businesses. Ten branches were involved in the Ashanti, Western, and Central regions of Ghana.

RESULTS: ALTERNATIVE COLLATERAL IMPROVES ACCESS TO LARGER LOANS WITHOUT INCREASING RISK

The pilot program effectively demonstrated that women's assets can be leveraged in new ways to help women access increased capital without increased risk to the financial institution. The following evidence supports this conclusion:

- ▶ **Larger Loans:** Women borrowed on average, 22,800 GHS (~USD 3,800 during the project period), which was above the group-loan limit of 10,000 GHS.
- ▶ **Sufficient loans:** Women received the exact loan amounts they requested, whereas a typical client complaint is that SASL's loan sizes are too small.
- ▶ **Alternative collateral used:** Women often combined types of collateral to reach the 150% requirement, for example personal guarantees, inventory, and appliances.
- ▶ **Low default:** Only one woman defaulted on her loans, due to illness.
- ▶ **Low risk:** The portfolio at risk over 30 days was slightly better than that of the mainstream portfolio.



Other complementary (subsidized) aspects of the program supported women's ability to leverage alternative collateral. For example –

- ▶ **Record Keeping:** At the beginning of the program, only 40% of the clients were keeping records, but by the end, 100% kept business records.
- ▶ **Gender awareness at SASL:** SASL staff report having increased confidence in lending larger amounts to women.
- ▶ **Gender awareness in the home:** The gender training with spouses resulted in increased support from husbands for their wives to pursue business and use household items as collateral.

Clients used the loans primarily to increase inventory, thus increasing sales, profits, and employment.

LESSONS AND SUCCESS FACTORS: RIGHT POLICY, BUY-IN, AND CLIENT SELECTION

The pilot program produced several key lessons based on what worked well, including –

- ▶ **Adjusted appraisal focus:** Place greater weight on character and capacity to repay while relaxing collateral requirements.
- ▶ **Right-sizing of loans:** Give the right loan size as requested by the client to generate loyalty and avoid multiple borrowing, enhancing loan repayment.
- ▶ **Buy-in to a clear policy:** Obtain board and management buy-in, integrate good product development into a clear policy, communicate the policy through training to ensure staff buy-in.
- ▶ **Appropriate client selection:** Select clients with business growth potential and some banking experience.

ONGOING CHALLENGES: STREAMLINING PROCESSES, SUSTAINING TRAINING, and GUARANTEE FUND

- ▶ **Concentration of women in trade:** SASL clients struggle in lower profit, less asset-rich businesses.
- ▶ **Collateral valuation process:** SASL needs a standard method for valuation of collateral to streamline the process.
- ▶ **Digitization:** SASL is working to help more women use digital finance for loan distribution and payments.
- ▶ **Sustainability of training:** SASL seeks to continue to offer business skills and gender training, but needs external subsidy to support it.
- ▶ **Availability of the loan guarantee fund:** With the parent project ending and the pilot program expanding, SASL needs additional guarantee funds to cover the additional borrowers in the larger pilot program.

NEXT STEPS to SUSTAINABILITY and SCALE: ADDITIONAL TESTING and ADVOCATING WITH REGULATORS

SASL is expanding the pilot program to cover 300 women in 20 branches, and adding 2 new regions. Looking forward to mainstreaming the use of what is now “alternative” collateral, SASL looks forward to dialogue with the Central Bank to determine the kind of data that they would require in order to adopt regulations to allow for the kinds of collateral used under the pilot program. In addition, SASL is looking forward to further adapting and testing the alternative collateral model to address the above challenges that arose during the pilot program.

For more information or to suggest a topic: Contact Knowledge Management at km@opportunity.org.

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