RESEARCH PAPER

RETHINKING RURAL ASSET FINANCE

and prototyping next-generation business models

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Definitions

Asset Finance	A financing model that enables customers to acquire productive or life-improving assets (e.g., solar home systems, agricultural equipment) through installment payments rather than upfront cash.
Credit Management	The systems, processes, and practices used to assess credit risk, manage collections, and ensure repayment on financed products.
Default Rate	The percentage of customers who fail to repay their loans or installments as agreed. High default rates indicate poor credit performance.
FSP	Financial Service Providers - Organizations whose core business is offering financial services, such as savings and loans, to their clients.
LMD	Last Mile Distributors are companies that sell products to rural households and entrepreneurs in the Global South, typically in the price range of USD 100–5,000.
MFIs	Micro Finance Institution - A type of FSP that focuses on providing small loans to micro-entrepreneurs, often in underserved or rural areas.
PAYGo companies	Pay-As-You-Go companies are LMDs that sell products which only function when the customer makes regular installment payments
Receivables	Outstanding payments owed by customers who have received a product or service on credit.
Repayment rate	The percentage of the financed amount that is successfully repaid by customers, typically tracked over time (e.g., 30, 90, or 180 days).

Executive Summary

This paper explores viable and scalable solutions for rural asset finance to support struggling PAYGo companies and other Last Mile Distributors (LMDs). PAYGo companies and other LMDs, providing asset financing solutions to their customers, are struggling to sustain operations under a broken business model. The pressure to hit short-term sales targets weakens loan repayment quality and undermines investor confidence. As a consequence, many LMDs are shifting away from their core mission. Across the LMD sector, there is an urgent need for more viable and scalable approaches to rural asset finance. This study takes a practical, field-based approach to designing workable solutions to financing rural assets.

Rural asset finance to low income households is key to promoting asset ownership (which has strong developmental impact), but faces systemic challenges. Asset finance refers to loans or leases that allow borrowers to utilize physical assets while they pay for those assets over time. Rural asset finance faces distinct challenges contributing to high credit risk: (1) the client base is informal, dispersed, and suffers from income volatility and external shocks; and (2) the assets that are financed have low value, depreciate quickly and are expensive to repossess. At the same time, rural asset finance has a strong developmental impact as assets help rural households and entrepreneurs improve income from productive use, reduce energy expenses while bringing other important benefits, including improved resilience to climate change, and having better quality of light, access to information and improved air quality in residences.

Current practices in small asset finance

Four different small asset finance models can be distinguished that try to overcome credit risk in different ways: (1) MFIs apply base-practice credit methodologies to asset finance boasting high repayment rates, but asset finance only represents a small part of their business and lacks scalability; (2) micro leasing companies are successful in financing small assets at scale in (more densely populated rural) South Asia but their success is difficult to replicate to Africa; (3) PAYGo providers offer solutions to acquire solar home systems but despite applying lockout technologies, they face high default rates and struggle with sustainability; (4) specialized Fintechs offer asset finance at scale, mostly for mobility purposes. Its model is more 'people dependent' than expected and in reality, most inclusive Fintechs fail due to low repayment rates and lack of funding.

Key lessons for future credit design include the importance of applying a best-practice credit methodology, adequate levels of downpayments and a 'phygital', client-centric approach to asset finance. Application of a best practice credit methodology is a precondition for achieving high repayment rates. This includes sound credit assessment, incentives for clients, and dedicated loan officers that manage credit relationships from beginning to end. Setting the right loan terms also matters, including the level of downpayments required, the type of collateral, guarantors, and the loan tenor. Finally, to ensure cost efficiency, a hybrid, 'phygital' approach between people and tech is called for, which ensures a client-centric approach while leveraging technology where possible.

Perspectives of Last Mile Distributors

A survey among 27 last-mile distributors (LMDs) revealed that 67% offer in-house credit (driven by necessity rather than by design), while 18% do not offer credit at all and 15% outsource credit. The LMDs that offer credit face significant challenges, including operational burden, lack of expertise and high default rates. The LMDs that do not offer credit refrain from doing so out of caution, having similar concerns as their credit counterparts, exacerbated by past negative experiences. Finally, the group that uses external financial partners appreciates the relief on liquidity constraints but reports significant friction between LMDs and financing partners around differences in eligibility criteria, high rejection rates, lengthy turnaround times and overall loss of control over the client relationship.

The LMD survey highlights that the current models are failing to meet LMDs' needs; hence LMDs are interested in exploring alternative models that reduce operational burdens, preserve customer relationships and align incentives. First, such an alternative model should remove the operational drag of credit so that LMDs can focus on sales, service, and growth. Second, the customer relationship should be preserved and credit terms should be fair. Third, incentives should be aligned between LMDs, financiers and customers and systems should be integrated to ensure smooth collaboration. If a new delivery model can incorporate these requirements, the sector can move from a "necessary evil" model of credit to a strategic enabler – driving scale, affordability and impact in equal measure.

Perspectives of Financial Service Providers

Interviews with 15 FSPs revealed that existing partnerships between LMDs and FSPs are mostly client referral mechanisms with very limited scale. Today, there are various pragmatic partnerships in place, mainly consisting of LMDs providing leads and MFIs providing one-on-one financing based on their internal eligibility criteria and terms and conditions. The resulting number of beneficiaries of such partnerships are underwhelming, usually a few hundred per FSP. Some MFI networks also tried to establish their own PAYGo companies, with limited success. Finally, some DFIs and large FSPs are providing blended finance solutions to large-scale PAYGo companies.

15 FSPs, when asked if they would be interested in growing their asset finance portfolio in partnership with a new type of intermediary, gave various responses, from maintaining the status quo to positively considering such partnerships. Several financial institutions prefer the status quo: partnering directly with suppliers, financing end users on a one-on-one basis. Two other FSPs are looking to scale asset finance in-house by leveraging technology. Finally, the FSPs that were interested in partnering with a new type of intermediary had differing motivations to doing so, including buildup of local currency liquidity, increased interest in financing the greening of the economy, and pressure from governments to invest funds in a way that makes a positive contribution to society.

To enter in such partnerships, FSPs highlighted the need for a model that reduces risk and complexity, while making rural asset finance both operationally feasible and commercially attractive. FSPs were unified in their call for a derisking mechanism to accompany the financing partnership in the form of a loan guarantee. Second, FSPs advocated for a smooth, hassle-free process with very limited impact on their operations, also given that FSPs already engage in multiple

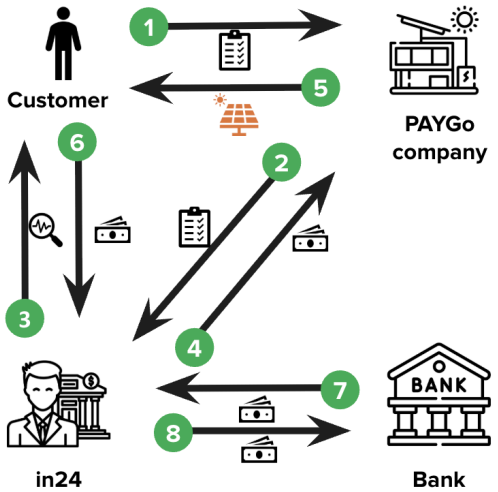
partnerships. FSPs also made it clear that the partnership should be profitable to them, expressing concerns over the ability to generate sufficient revenue to compensate the LMD, the intermediary (AFI) and the FSP fairly. Finally, FSPs requested to be involved in the design of the partnership.

From insights to design

Based on insights from the field, we propose a next-generation Asset Finance Intermediary (AFI), effectively building a bridge between LMDs and FSPs, allowing LMDs to outsource their credit management activities to the AFI while allowing FSPs to invest in rural asset financing through the AFI. This AFI would translate hard-won field insights into practical features for a model that works for LMDs, FSPs, and customers alike. At the core is an unbundling of roles of the LMDs (and especially PAYGo companies). The AFI takes on full responsibility for credit underwriting, disbursement, monitoring and collections, while carefully vetted LMDs continue to focus on sales, after-sales service, and maintaining customer relationships. The AFI regularly sells its de-risked and aggregated loan portfolio to partner FSPs. The pricing structure is set transparently and ensures sustainability for all actors. In summary, the AFI is a field-grounded, tech-enabled, and credit-savvy actor designed from the ground up to unlock scale, sustainability, and inclusion in rural asset finance.

1. Unbundle roles between AFI and LMD	2. Preserve customer proximity	3. Embed strong credit practices	4. De-risk FSP participation
5. Design for seamless integration	6. Ensure commercial viability	7. Incentivize repayment performance	8. Vet and support partners

A prototype of the Asset Finance Intermediary has been built that addresses core challenges and incorporates the design principles. The prototype, with the working name *in24*, is structured to operate at scale with minimal capital requirements, avoids regulatory licensing in most cases, is capable of connecting LMDs and FSPs through a purpose-built credit layer and leverages the infrastructure of LMDs and FSPs. For the sector as a whole, the prototype offers a practical path to scale asset finance for rural households, with sustainability and customer protection built in.



1. PAYGo company sales agent completes customer loan application
2. PAYGo company forwards loan application to in24
3. in24 contacts clients and references to assess creditworthiness
4. Once approved, in24 disburses cash to PAYGo company
5. PAYGo company installs product and provides after-sales
6. in24 ensures timely repayment by the customer
7. Bank transfers funding to in24 (loan / securitization)
8. in24 repays Bank

Pilot project

A specialized credit approach is likely to drive better financial performance. Shifting to a specialized credit model is expected to increase lifecycle costs per customer, due to the need for more credit-related staff as compared to PAYGo 1.0 model. Repayment rates need to improve by about 5 percentage points to make up for the additional costs and reach break even. A well implemented credit policy can deliver 10 to 15 percentage points improvement in repayment rates. Recent PAYGo Lab research shows an almost 7 percent increase in repayment rates in nine months when adopting better credit management in traditional PAYGo models i.e. before unbundling. Aside from improved repayment rates, there are various other financial benefits from unbundling credit from sales such as faster repayment cycles and reduced working capital needs.

Zuwa (Malawi) and Dynamiss (Mozambique) are selected for a pilot project to test the prototype. The selected companies are long-standing PAYGo Lab partners who, despite their above-market credit management performance, have expressed an urgent interest in outsourcing their lending operations to free up capacity for scaling their sales. The pilot project entails a structured transformation process with the selected PAYGo companies, testing the unbundling model in practice. Through close collaboration, the project will co-design and co-develop the necessary methods, systems, manuals and agreements to separate credit and sales functions. A follow-up phase will focus on ensuring full operational readiness for the AFI. The pilot project is expected to begin in August 2025, culminating in the full launch of the AFI in June 2026.

1. Introduction

PAYGo Lab was founded to help PAYGo companies build financially sustainable businesses. Established in 2023 by a group of experienced practitioners, PAYGo Lab emerged from a shared recognition: that combining the sale of essential products with end-user credit is exceptionally difficult. PAYGo companies, which distribute solar products and offer financing to make these products affordable, face a dual challenge of operational and financial complexity.

This paper analyses asset finance in the context of PAYGo companies and other Last Mile Distributors. While our initial work focused on PAYGo companies, it quickly became clear that the underlying need for sustainable rural asset financing extends beyond this segment. This paper therefore broadens the lens to Last Mile Distributors (LMDs) across different sectors that serve low-income rural customers with essential products, and whose impact could be significantly amplified if end-user credit were more accessible.

Across the LMD sector, there is an urgent need for more viable and scalable approaches to rural asset finance. As detailed in the following chapter, many LMDs are under financial pressure, with existing business models proving difficult to sustain and very few successful examples of outsourcing credit to Financial Service Providers (FSPs). Without new solutions, both LMDs and the communities they serve risk being left behind.

This study takes a practical, field-based approach to designing better solutions. We began by reviewing global practices in rural asset finance, identifying principles that could inform more sustainable models (chapter 3). We then conducted in-depth surveys and interviews with 27 LMDs to understand their day-to-day realities and needs (chapter 4), and finally we interviewed 15 FSPs to learn what it would take for them to engage in last-mile asset financing (chapter 5). In Chapter 6, we consolidate findings into clear design criteria, grounded in the challenges and opportunities identified, to inform the prototyping of alternative rural asset finance models. From there, we developed a prototype designed to better meet the needs of both LMDs and FSPs.

2. Problem statement

LMDs are struggling to sustain operations under a broken business model. The dual burden of selling and financing products has led many LMDs to underperform, or shut down entirely. Those still operating face mounting tension between sales targets and credit discipline, often compromising on loan quality to meet short-term goals.

The pressure on meeting short-term sales targets undermines repayment and erodes investor trust. As repayment rates drop, investor confidence fades, severely limiting access to capital that LMDs need to scale. Ironically, this funding gap emerges just when reaching scale is most critical to their survival.

Efforts to partner with FSPs have been largely unsuccessful. Over the past 15 years, numerous attempts by LMDs to outsource credit have faltered. With rare exceptions, mostly in urban, higher-value segments, FSPs have not been able to scale rural asset finance due to its perceived risks and low margins.

Many LMDs are shifting away from their core mission. Unable to grow sustainably, some LMDsare retreating from rural markets, focusing instead on urban customers with formal incomes. This mission drift threatens to leave rural populations behind.

The stakes are high - for both businesses and the communities they serve. Without a viable model for rural asset finance, millions remain excluded from essential tools like solar energy, irrigation systems, clean cooking, and agricultural equipment. A solution is needed - one that delivers both financial sustainability for LMDs and access to life-changing assets for rural entrepreneurs and households.

3. Current practices in Small Asset Finance

3.1 Different models in Small Asset finance

Asset finance refers to loans or leases that allow borrowers to utilize physical assets while they pay for those assets over time. In this type of finance, borrowers usually do not pledge collateral in addition to the asset that is financed, whereby the asset itself can be repossessed in the event of default[1]. However, in practice, banks or MFIs that offer asset finance often require additional collateral. This report focuses on financing small assets (in the range of USD 200 to 5,000) to low income households in rural areas.

Asset ownership has a strong developmental impact. First, productive assets such as irrigation equipment or livestock can help households build financial resources, for example, by allowing them to increase and diversify their incomes. Irrigation equipment also helps improve resilience against the effects of climate change. Second, assets such as smartphones can increase access to information, for instance allowing smallholder farmers and agriculture traders to compare market prices of their crops between different locations. Third, solar home systems, aside from productive use, allow children to study after dark, greatly improves air quality in residences (as compared and kerosene lamps), and, when combined with a solar powered fridge, can reduce food losses[2].

Rural asset finance to low income households is key to promoting asset ownership but it faces a number of challenges which contribute to high credit risk. While grant programs that enable asset ownership have had significant impact, they are very costly and face challenges in targeting the right beneficiaries. Hence, asset financing is the most promising route to bringing asset ownership to scale but it faces a number of challenges. First, rural low income households are often informal and widely dispersed, and the cost of serving them is high. Moreover, low income households face volatility in income and are vulnerable to external shocks. Second, the assets that are financed have low value, depreciate quickly, and the high cost of repossession and lack of secondary markets add to the challenge. Jointly, these challenges entail high risk for lenders.

Four different small asset finance models can be distinguished that try to overcome credit risk in different ways. First, banks and MFIs finance the acquisition of small assets with term loans, either as a stand-alone service or in cooperation with equipment suppliers. Second, specialized leasing companies offer financial or operational leases to acquire assets. Third, providers of Pay-As-You-Go (PAYGo) solutions offer mostly solar home systems and small household appliances. Finally, specialized Fintechs offer asset finance, mostly for mobility purposes. These Fintechs often use a PAYGo methodology.

"Assets as a Service" is disregarded in this research as it does not result in asset ownership. Assets as a Service" (AaaS) refers to a business model where rural users—typically farmers, entrepreneurs,

[1] CGAP (2021) innovations in asset finance. Unlocking the potential for low-income customers
[2] CGAP (2021) innovations in asset finance. Unlocking the potential for low-income customers

or cooperatives—access and pay for the use of productive assets (like tractors, irrigation pumps, or solar dryers) without owning them outright. Instead of buying expensive equipment, users pay per use or per output, often through a digital platform or local service provider. One well-known example is "Hello Tractor", a platform that connects farmers in need of a tractor to tractor owners[3]. While AaaS has certain advantages and makes good sense for higher value assets, it does not lead to ownership of the asset in question and hence it has been disregarded in our research.

3.2 Bank/ MFI lending

MFIs apply a 'traditional' microfinance methodology for fixed asset lending. Asset loans that are granted by MFIs and target group-oriented banks are essentially installment loans to help clients acquire assets. Fixed asset loans usually have longer maturities than working capital loans. Fixed asset loans can be complementary to working capital loans. Sometimes, asset loans are given to loyal repeat borrowers only, after borrowers have repaid one or more working capital loans. Repeat borrowers can also have access to better terms, e.g., more relaxed collateral requirements. This "graduation principle" is a key part of MFIs' lending methodologies. Lead generation can be a challenge for (M)FIs, as loan officers view fixed assets loans as more cumbersome than working capital loans. Credit assessment follows best-practice microfinance methodologies, focusing on the client's willingness and ability to pay through a combination of interview techniques and financial analysis. While the loan process is similar to that of working capital loans, it often required additional steps such as securing a pro-forma invoice and insurance for the asset. Fixed asset loans are secured with the asset to be financed (but not always), complemented by other collateral (i.e., movable collateral and land). Guarantors are often required. A down-payment is usually required of at least 20% of the acquisition cost. Non-performing loan rates are at acceptable levels, usually below 5%.

Fixed asset loans only represent a small portion of MFIs' or banks' loan portfolios. While accurate data are difficult to come by, asset finance as a percentage of most financial institutions' loan books does not exceed 10%. This is in part due to the fact that there is more demand for working capital loans than for fixed asset loans. But interviews with microfinance executives and stakeholders suggest that in many financial institutions, there is a built-in bias against asset finance due to its relative complexity as compared to lending for working capital purposes. Indeed, loan officers may nudge their clients towards accepting working capital loans that are easier to process, even when the purpose is asset acquisition. One microfinance network executive said that most of its subsidiaries do not track data on whether a loan is for working capital purposes or to acquire fixed assets.

There is renewed interest in asset finance as a result of green finance partnerships. Green finance is defined as any structured financial activity created to ensure a better environmental outcome**.** Positive environmental outcomes include both mitigation of climate change, for example, the reduction of greenhouse gas emissions using renewable energy, and adaptation to the effects of climate change, such as using drip irrigation to increase resilience against drought. The majority of green financing involves an asset of some kind. Examples include solar-powered cold storage to reduce food losses, to the application of shade netting or agroforestry against heat stress. Many MFIs and banks have entered into partnerships with donors and DFIs to finance green investments.

[3] https://hellotractor.com/ accessed on 16 June 2025

Existing partnerships between last-mile distributors (LMDs) and financial service providers (FSPs) function mainly as client referral mechanisms. Initially, many microfinance institutions (MFIs) saw the rise of solar PAYGo models as a competitive threat, given the sector's rapid growth and strong capital inflows. Today, more pragmatic partnerships exist: LMDs generate leads while MFIs offer individual financing based on their own criteria. Some FSPs also vet partner-LMDs to ensure product quality and service standards. However, these arrangements have mostly had limited impact, often reaching only a few hundred clients per FSP.

3.3 Micro leasing

Micro leasing is mostly offered by specialized leasing companies and MFIs in South and Southeast Asia. These specialized companies focus on financial leasing for mobility (motorcycles and tuk-tuks), farm equipment, and more recently on e-mobility and renewable energy solutions. Leasing is more common in Asia than in sub-Saharan Africa (SSA) for a variety of reasons, including more developed financial ecosystems, stronger legal and regulatory frameworks, strong partnerships between vendors and financial institutions guaranteeing high quality after-sales service, higher population density and market demand. In SSA, leasing is often limited to vehicles (personal use and company fleets) and large equipment, e.g., for construction purposes, in part because certain tax advantages that may come with leases only benefit the formal sector.

Box 1: Financial and operational lease

Leasing is a means of providing access to a fixed asset and may be defined as a contract between two parties wherein one party (the lessor) provides an asset for use to another party (the lessee) for a specified period of time (lease term) in return for specified payments.

In a **financial lease**, the lessor is the owner of the asset; however, at the end of the lease period ownership is typically transferred to the lessee on the payment of a residual value price of the asset. Thus, a financial lease is essentially a finance transaction.

An **operational lease** is a contract that allows the lessor, as owner, to retain legal ownership of an asset but allows the lessee to enjoy the economic use of the asset for a predetermined period before returning the asset to the lessor. At the end of the lease period, the asset continues to be owned by the lessor.

Financial leasing has several advantages as compared to lending. First, since the ownership of the asset remains with the lessor until full payment, repossession of the asset is considered to be relatively easy as compared to a loan. Second, in part because of the relative ease of repossession, most leases do not require additional physical collateral. Third, there may be tax advantages but they mostly apply to larger firms. Fourth, almost all micro leasing companies have longstanding partnerships based on mutual trust with equipment suppliers (and sometimes even manufacturers) which provide leads, warranties and after-sales service.

Most micro leasing companies apply a 'traditional' microlending methodology. Indeed, many successful micro leasing companies rely on loan officers to perform credit assessments and field visits, and focus on establishing the client's repayment capacity. Their overall approach bears

significant similarities to best-practice MFI lending. However, the main difference is the approach to collateral. Microleasing relies on the asset to be financed, complemented with one or more guarantors.

3.4 PAYGo solutions

Pay-As-You-Go (PAYGo) companies provide essential products, such as solar energy systems, through a deferred payment model that allows customers to pay in small installments over time. These companies manage the entire credit process in-house, from assessing customer creditworthiness to financing. To reduce credit risk, PAYGo products are embedded with technology that can remotely disable the system if a customer falls behind on payments, creating a built-in enforcement mechanism.

PAYGo companies focused on growth at the expense of credit quality. The PAYGo model emerged around 2010, initially focused on bringing solar power to off-grid households in rural Africa. These solutions have delivered significant social impact, improving the quality of life for families and small businesses while contributing to environmental sustainability and, in some cases, food security for example through solar-powered water pumps. This strong impact attracted large amounts of concessionary capital, with early investors prioritizing scale (measured by the number of households reached) over financial sustainability. As a result, many PAYGo companies emphasized sales growth at the expense of sound credit management. In recent years, however, consistently high default rates have prompted a shift in investor sentiment, leading to increased scrutiny of the sector's financial performance.

The PAYGo sector expanded rapidly, reaching millions of low-income households with essential energy solutions. Since its emergence, PAYGo companies have scaled impressively across Africa. According to 2025 GOGLA reports, the industry association, more than 137 million people have been reached till the end of 2024, including 3.6 million small enterprises using their solar product for income generation. This growth reflects rising demand for affordable, off-grid energy solutions that improve health, reduce reliance on kerosene, and support income-generating activities.

PAYGo companies offer a diverse range of products that are tailored to rural customers' needs. While solar home systems remain the core product, many companies now include clean cooking devices, water pumps, and other income-enhancing assets. Typical loan maturities range from 6 to 24 months, with average ticket sizes between $100 and $1,000, small enough to remain accessible but large enough to impact livelihoods.

Most PAYGo firms manage both sales and financing in-house, creating a business model that is both operationally complex and capital intensive. At the heart of the PAYGo model are two demanding functions: product distribution and end-user credit. Each is challenging on its own, but managing both under one roof introduces conflicting incentives. Sales teams are pushed to drive growth, while credit teams must ensure repayment discipline—goals that often clash. This tension is further aggravated by the capital intensity of the model. The constant need to raise funding drives a short-term focus on sales volume, sometimes at the expense of customer quality and repayment

potential. The result is a vicious cycle: poor credit quality leads to weak repayments and cash flow strain, which in turn fuels more pressure to sell[4].

Repayment performance remains a major challenge across the PAYGo sector, with average rates being too low to ensure long-term sustainability. According to PAYGo Lab research, average repayment rates across the industry stands at 71% (measured at 1.5x the loan tenor). For PAYGo companies to achieve financial sustainability without ongoing subsidies, repayment rates of 90% or higher are typically required. Encouragingly, a new wave of companies, sometimes referred to as "PAYGo 2.0", are demonstrating that strong credit discipline, more rigorous processes, and customer-centric engagement can drive repayment rates of new customer cohorts up by, on average, 6.8% within one year after introducing PAYGO 2.0 (see PAYGo Lab paper). These firms show better financial performance and attract more investor interest. However, the fundamental challenges of operational complexity and capital intensity remain. Under cash flow pressure, even well-performing companies can revert to loosening credit policies in pursuit of short-term sales, reigniting the cycle of delinquency and financial stress.

A special form of PAYGo solutions provide irrigation equipment. These solutions are offered by Simusolar in Tanzania, its sister company Tulima in Uganda and Sunculture in Kenya. Both offer sets consisting of solar powered pumps, solar panels and irrigation equipment (e.g. a control system and pipes) and do a complete installation of the systems. Simusolar/ Tulima, which sees itself as an engineering firm, sells about 500 sets per country per year with ticket sizes between USD 1,000 and 2,000. In response to pressure on portfolio quality, it has tightened its credit standards by increasing the down payment from 25% to 40-50%, and reducing the loan maturity from 22 months to 12 months. It applies a PAYGo lockout technology in case of non-payment. The companies each employ a credit underwriter. Sunculture seems to operate on a larger scale and has international partnerships including BII and Shell Foundation.

3.5 Specialized asset fintechs

Inclusive fintechs have several advantages over traditional lenders, but still require boots on the ground and are expensive. Fintech lending, involving the extension of credit by digital platforms and other innovative non-bank financial institutions, has grown rapidly over the past decade and has experienced significant growth in SSA. Fintechs are found to penetrate deeper into the market than for instance MFIs. In addition, Fintechs are less bureaucratic and demanding, and are able to process loans faster than traditional lenders due to algorithm-based lending. However, many Fintechs still have a physical touch, for instance in customer onboarding for not-so-digitally savvy clients, and for monitoring and collections. For instance, M-Kopa, a smartphone lender, employs over 30,000 agents. Watu, a motorcycle lender in 4 African countries employs 2,700 staff. Finally, inclusive Fintechs are more expensive than most MFIs and banks due to high cost of capital and high cost of risk.

Specialized asset finance fintechs mostly finance mobility solutions, often tied to the gig economy. In recent years, a wave of new Fintech companies have sprung up that offer rent-to-own solutions,

[4] https://nextbillion.net/ending-vicious-circle-paygo-solar-how-companies-investors-can-move-sector-toward-paygo-2-0/ Article by PAYGO Lab on nextbillion.net. Accessed on 16 June 2025.

often combined with PAYGo elements such as lockouts in case of non-payment. Fintechs include Mogo, Watu, Moove, and Tugende. These assets, including motorcycles, tuktuks and (second hand) vehicles are typically used for gig economy jobs such as boda-boda riders, Uber or Bolt drivers or for food delivery services. Collateral is usually limited to the asset to be financed. A down payment of around 20% for motorcycle loans is quite common[5] but can go as low as 10% based on model and country. Credit assessment is mostly done based on algorithm-based scoring and loan approval is fast. Tugende, a Ugandan asset lender, has a hybrid approach to credit assessment, which includes home visits of the client and guarantor, and obtaining references at the boda boda stage from where the rider operates. Asset fintechs support their operations with physical infrastructure including branches, sales agents/ account managers, call centers for monitoring and collection, and sometimes repair shops. Moove, a vehicle lender, even offers training in the form of driving lessons to its prospective clients. Interest rates in Kenya can reportedly go as high as 8% per month for motorcycle loans[6] [7].

Aside from mobility-focused fintechs, several fintechs focus on financing mobile phones. M-Kopa, a former solar PAYGo company that operates in Nigeria, Ghana, Kenya, Uganda and South Africa, is one of the leading African fintechs in smartphones. It claims to have 4 million smartphone customers, of which 42% are first-time internet users[8]. Smartphones are financed on a rent to own basis with a downpayment that ranges, depending on model and country, between 18% and 27%. Interestingly, some Fintechs have developed their own version of the MFI "graduation principle", in that they reward on time payments of the phone with a top-up cash loan. The asset (e.g., a smart phone) acts as collateral for the top-up loan, even if paid off.

Data from 10 PAYGo companies shows that short-term smartphone loans perform well. Anonymized historical repayment rates for smartphones across 10 different PAYGo companies/ subsidiaries of PAYGo companies show stark correlation between loan term and repayment performance. Loans with terms of up to 6 months performed significantly better than loans with loan terms of 6 months to 1 year.

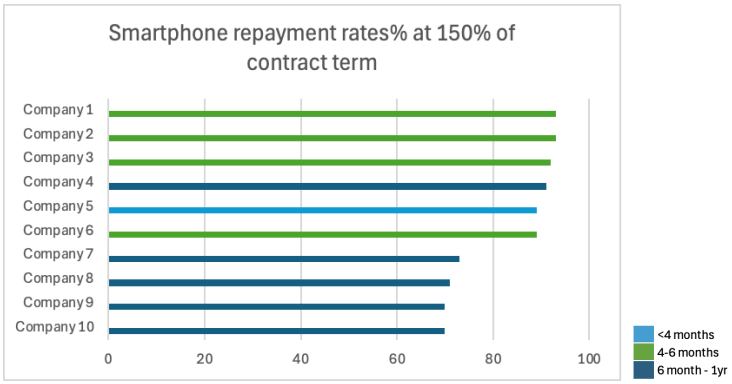
Figure 1: Smartphones - historical repayment rates by maturity

[5] https://www.mogo.co.ke/boda-boda

[6] https://www.the-star.co.ke/news/2023-11-16-senate-wants-watu-credit-probed-over-suspicious-loss-of-motorbikes

[7] https://www.the-star.co.ke/news/2024-05-19-kenya-lack-regulations-to-oversee-asset-financing-firms

[8] Mkopa(2024): Impact report



Inclusive fintechs have not been as disruptive as once hoped and most inclusive fintechs fail. About 10 years ago, fintechs started disrupting traditional banking by providing faster and cheaper loans and services to consumers and companies in SSA. Digitalization seemed the answer to solve the problem of expensive analogue lending processes and could help close the African USD 300 billion credit gap. Many thought that banks were in trouble[9]. However, Africa's banking sector is as profitable as ever while historically, most inclusive fintechs fail due to high burn rates (in part due to credit losses) and the inability to attract sufficient equity and debt capital[10]. Indeed, 54% of inclusive credit fintechs do not make it past the first funding round, and another 37% drop off after the second round.

3.6 Case studies

3.6.1 Micro leasing in Sri Lanka: LOLC

LOLC is the largest NBFI in Sri Lanka and its holding company is expanding into Africa. Following a series of strategic mergers and acquisitions, LOLC now holds a dominant position in the non-bank financial sector, with a market share of over 20%. LOLC operates over 200 branches s serving over 600K customers[11] [12]. LOLC has a strong focus on MSME finance and small ticket leasing, including agriculture. Its gross loan portfolio is Rp 305 billion, just over USD 1 billion. LOLC reported an NPL ratio of 5% (Mach 2024), which is below the industry average; NPLs in Sri Lanka surged following COVID19 and the country's financial crisis. Interestingly, LOLC's parent company LOLC Holdings is expanding into Africa, with subsidiaries in Egypt, Nigeria, Kenya, Tanzania, Zambia, Malawi, Zimbabwe and DR Congo through acquiring existing financial institutions[13].

LOLC Sri Lanka's leasing portfolio represents a quarter of its loan portfolio and makes up for around 60% of its agriculture portfolio. Indeed, LOLC is particularly known for its rural/ agricultural lending and leasing operations. Reportedly, it has the largest portfolio of 2 & 4 wheel tractors and harvesters in the country. Similar to other financial institutions in Sri Lanka, it may also finance assets

[9] https://www.mfw4a.org/blog/fintech-sme-lending-africa
[10] CGAP (2025): Innovative Financing for Inclusive Credit Fintechs in Africa
[11] https://www.lolcfinance.com/newsroom/lolc-finance-delivers-its-highest-pat-of-rs-25-billion/ accessed on 16 June 2025
[12] https://lolcgroup.com/news/sri-lanka-s-largest-nbfi-lolc-finance-poised-to-fuel-economic-resurgence Accessed on 16 June 2025
[13] LOLC Group (2024): Annual report 2023-2024

with straight loans for selected clients, given that the overall cost to the borrower is lower (there is a stamp duty that applies to leasing).

Lease applications are assessed by loan officers that are close to their clients. Leases originate with 4 equipment suppliers that have partnered with LOLC. As a next step, a loan officer will visit the applicant and assess the client within half a day after the application is received through one of the equipment suppliers. Loan officers are recruited from the communities that they work in. While the loan process is largely digitized, LOLC's credit operations maintain a strong focus on customer relationships. Its 1400 loan officers are mostly recruited from the communities that they work in.

Analysis of repayment capacity is a key factor in the assessment process. Repayment capacity is estimated by focusing on disposal income with an emphasis on cash flows. Leases require a 25% down-payment. LOLC also requires guarantors, often a moral guarantor (family member) and a financial guarantor (friend with a good salary). LOLC allows for seasonal repayments (e.g., twice a year) to match farmers' cash flows. Approvals have a staggered approach, depending on the loan amount: the higher the loan amount, the more senior the approving officer/ manager.

Key takeaways:

- Strong partnerships with leading equipment suppliers
- Diligent credit process
- Strong customer relationships
- Loan officers from local communities

3.6.2 Agriculture and small asset finance in Uganda: Centenary Bank

Centenary bank, one of the largest banks in Uganda, continues to service agriculture and micro enterprises. Given its roots as a mission-driven microfinance bank, Centenary Bank has an excellent track record in financing micro and small businesses. Despite being one of the largest banks in the country, Centenary has remained close to its original mission. It is also one of the leading banks in agriculture finance, with UGX 379.2 billion[14] (USD 100 million) outstanding in agriculture loans, of which 80% is dedicated to (50,000) smallholder farmers[16]. The bank's mission critical portfolio (agriculture and microfinance) represents UGX 1,303 billion (USD 345 million), equal to 39% of its loan portfolio.

Centenary offers different types of loans to finance the acquisition of small assets. Loan amounts range from as low as UGX 100,000 (USD 25). The bank requires personal guarantors and typically requires a combination of collateral for its asset finance loans, e.g. a mortgage of chattel items (movables) in addition to the asset to be financed. For farm equipment loans, the bank offers irregular payment plans. For its solar loans and renewable energy loans the bank is supplier-agnostic

[14] FX 31/12/2023: 1 USD = 3780 UGX

but typically requires a downpayment of 20%, which can be lowered depending on the customer's credit history at the bank and income sources. The current uptake of solar and green energy loans has been growing but is still considered low (around 1,000 loans outstanding). The bank is considering offering small ticket, unsecured solar loans through its algorithm-based digital lending platform in the near future.

Table 2: Centenary Bank asset loan products

Loan product	Purpose	Payment mode	Loan amounts (USD)	Tenor (months)
Center Solar Loan	Solar systems	Regular	25 to 5,000	6-24
Farm equipment loan	Farm equipment	Cashflow based	25 to 2 million	<24
Green energy loan	Clean cooking, biogas etc	Regular	25 to 12,000	<24

Centenary bank applies a best-practice lending methodology. Centenary applies a tried and tested micro credit methodology, based on the methodology that Internationale Projekt Consult (IPC) developed in the nineties. The bank deploys loan officers (among which 200 agriculture loan officers) that perform credit assessments and maintain client relationships. The bank typically limits installments to a percentage of disposable income (e..g, 50%). For agricultural loans it does a conservative cash flow projection and has the possibility to offer payment plans that are tailored to agricultural cash flows. Credit sanctioning for small loans is decentralized at branch level. The bank's overall NPL ratio is 3.5%.

Key takeaways:

- Diligent credit methodology
- Cashflow-based, irregular payment mode for farm equipment loans
- Combination of collateral
- Low NPLs
- Considering to digitize small ticket solar loans

3.6.3 Ecosystem approach to green financing in India: Mufin Green

Mufin Green Finance is a listed company that finances the EV ecosystem in India. Mufin is a young company that focuses on financing e-mobility. 57% of its business is business-to-consumer (B2C) while the remaining 43% of its business is business-to-business (B2B). Aside from financing electric vehicles, it also finances EV charging infrastructure and battery swapping stations. Mufin Green has

40,700 active borrowers, an 88% increase as compared to the previous year. Total assets stand at INR 925 crore (USD 111 million)[15].

Mufin Green applies a "phygital" credit process. The phygital process refers to a combination of a physical and digital process. After a potential approach to a dealer-partner, they are contacted by a sales agent. As a next step, clients are onboarded digitally. Field officers perform various credit checks, including viability and personal references[16]. Credit underwriting is centralized to ensure good quality lending. Mufin Green staff remain responsible for the loan throughout the life cycle. The entire credit process is system-supported. Its gross NPL ratio is below 2%[17] (but may be somewhat understated due high loan portfolio growth).

As part of its risk mitigation process, it handpicks its suppliers-partners. Its partners are both original equipment manufacturers (OEMS) and dealers. Prior to onboarding, it performs a thorough due diligence on its partners to ensure that they are financially sound and credible. Its partners offer warranties on the products and strong after-sales service.

Key takeaways:

- Phygital credit process including human touch
- Careful partner selection
- Low NPLs

3.6.4 Baobab+ Nigeria, a shining example in Solar PAYGo

Baobab+ Nigeria outperforms its peers. Baobab+ Nigeria consistently maintains repayment rates above 90%, a remarkable achievement compared to the sector average of around 75%. The repayment rate refers to the percentage of the total invoice amount (excluding a down payment of typically 1-10%) that is ultimately repaid by customers. This performance reflects a disciplined approach by both management and staff, who understand that revenue growth does not automatically lead to profit—especially when a significant portion of that revenue may never be repaid by customers.

What sets Baobab+ Nigeria apart is its strong internal culture, which equally prioritizes credit risk management and sales. The company is deeply committed to protecting customers from over-financing. In 2024, the company took a bold step by transforming its call centre into a fully-fledged Customer Care team, redefining both its purpose and operations. Previously focused on routine follow-up calls and basic KYC checks, Customer Care Officers now manage their own regional customer portfolios. They are directly responsible for conducting credit assessments and ensuring repayments from their assigned customers, collaborating with the sales agents operating in the same regions.

[15] Mufin Green Annual report 2023-2024.
[16] https://mufingreenfinance.com/ Accessed on 16 June 2025
[17] Mufin Green Annual report 2023-2024.

Personal relationships (and accountability!) make the difference. Placing accountability for credit outcomes with individual officers has been a key driver of Baobab+ Nigeria's success. It not only encourages more accurate credit assessments but also fosters continuous learning: officers gain direct feedback from their own decisions and improve over time. Meanwhile, customers benefit from having a consistent point of contact beyond the initial sales agent. A more personal relationship makes clients prioritize their payment to Baobab+.

3.6.5 Asset Fintech Watu reaches scale on the back of increasing financial woes

Watu has disbursed over 2 million asset finance loans since inception in 2015. Founded in 2015, Watu has established itself as an asset-fintech company, providing inclusive asset finance solutions across seven African countries, including Kenya, Uganda, Tanzania, Rwanda, Nigeria, the Democratic Republic of Congo, and Sierra Leone. Since inception, it reports over 2 million loans disbursed[18]. In Uganda, 90% of Watu's clients are young entrepreneurs (aged between 20 and 28 years) and 70% are based in rural areas[19]. Watu employs more than 2,700 employees[20]. As part of its model, it trains new and experienced riders in road safety through its Watu Shule driving school. In 2023, over 20,000 riders were trained. Watu also provides financial literacy training.

Watu's credit methodology is light on eligibility criteria and commits to quick turnaround times. Watu offers a diverse range of financing solutions tailored to the needs of underserved communities, including financing for motorcycles and 3 wheelers, vehicles and smartphones. Its loans require a downpayment. Watu's financing model does not require additional collateral, but it does require a guarantor and 2 references[21]. Other eligibility requirements appear to be minimal. Watu also makes use of GPS tracking devices in its motorcycles. Watu commits to a loan turnaround of 2 hours, making it significantly faster than traditional lenders. Loans are to be paid in weekly installments through mobile money platforms, with interest calculated on a declining basis[22]. Watu works with dedicated officers that maintain client relationships

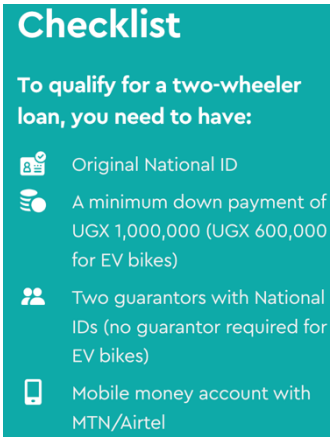


Figure 2: Watu eligibility criteria (Uganda)

Watu Uganda has a diverse funding strategy, including borrowings from local banks. From Watu Uganda's 2023 annual financial statements, we see that 20% of its borrowings is sourced from local banks to the tune of UGX 40 billion (USD 11 million). The remainder of its borrowings come from DFIs and impact funds.

[18] https://watuafrica.com/about-watu/
[19] https://www.fmo.nl/project-detail/64234
[20] Watu (2023): Sustainability report
[21] https://watuafrica.com/country/kenya/
[22] https://watuafrica.com/legal-kenya/general-terms-2/

Watu's 2023 customer survey gives a mixed picture related to ease of payment. Its customer survey of 2023 (covering Kenya, Tanzania and Uganda shows a nuanced picture with 50% of Kenyan customers facing difficulty with loan repayments due to macroeconomic conditions[23]. At the same time, according to a local Kenyan newspaper, Watu reports a hire purchase portfolio with a 96% performance rate (2024Q2) [24]. In Tanzania, 59% of customers reported ease in repaying loans while Ugandan customers laud Watu for empathy in handling outstanding debts (90% score).

Watu Uganda faces portfolio quality challenges. Data from Watu Uganda' 2023 annual report suggest challenging portfolio quality with only 24% of its asset finance classified as performing, 67% classified as past due and not impaired, and the remaining 9% classified as past due and impaired. Against a past due portfolio of UGX 209 billion, provisions of UGX 41 billion were built[25], suggesting a risk coverage of only 20%. Likely, the loan portfolio issues were in part caused by the severe lockdowns during COVID19 which impacted the asset finance sector negatively.

Watu Holdings reported an 84% decline in profits over 2024 but its Tanzania subsidiary reports an increase in profits. Watu Holdings' profits dropped to KES157 million (USD 1.2 million) in 2024, according to disclosures by Car & General, which holds a 29% stake in the business. The decline from (KES 985 million) (USD 7.6 million) in 2023 points to rising loan defaults and deteriorating repayment behaviour in Watu's core markets of Kenya, Uganda, and Sierra Leone . However, Watu Tanzania's arm, which reports separately, reported an increase in profits[26] [27].

Key takeaways

- Reaching scale in asset finance (other than solar) is possible
- Inclusive asset Fintech as practiced by Watu is in fact a hybrid model, employing large numbers of staff and providing additional services such as training
- Portfolio quality is under pressure, suggesting that credit assessment may need strengthening

3.7 Summary and implications for credit design

MFIs and micro leasing companies offer proven, diligent and low-risk asset finance models, with low to moderate scalability, while PAYGo firms and Fintechs offer scalability with significant sustainability concerns. The following table summarizes the key characteristics of various small asset

[23] Watu (2023): Sustainability report
[24] https://thetimes.co.ke/2024/05/17/watu-credit-reaffirms-commitment-to-financial-inclusion-amidst-media-scrutiny/
[25] Watu Credit Uganda (2023): Annual report and financial statements for the year ended 31 December 2023.
[26] https://www.msn.com/en-us/money/taxes/mixed-fortunes-for-watu-holdings-after-84-drop-in-annual-profits/ar-AA1EFMPm
[27] https://techcabal.com/2025/05/22/watu-profits-drop-85-1-2-million/#:~:text=Watu%20Holdings%2C%20a%20Kenyan%20buy,29%25%20stake%20in%20the%20business .

financing models, ranging from the types of assets to be financed and collateral to the sustainability and scalability of the model.

Table 3: Comparison of asset finance models

	MFI/ Bank lending	Micro Leasing	PAYGo	Asset Fintech
Asset types	Small farm equipment Solar for productive use Solar home systems Mobility	Mobility Small farm equipment	Solar home systems Smartphones Irrigation	Mobility Smartphones
Payment modes	Fixed installments	Fixed installments	Flexible	Fixed or flexible
Tenors	<24 month	< 60 months	<24 months	<48 months
Collateral	Combination of asset and other collateral	Asset: lease to own	Asset: lease to own	Asset: lease to own
Guarantor	Yes	Yes	No	Sometimes
Down payment required	20-35%	20-30%	5-10%	10-20%
Credit assessment	Traditional, cashflow based Reference checks	Traditional, cashflow based Reference checks (some lease Cos)	Minimal, phone call to check KYC and compliance	Algorithm Linked to income in gig economy Reference checks (some Fintechs))
Credit risk management	Strong	Strong	Weak to moderate	Moderate
Defaults	Low	Moderate	High	Moderate to high
Sustainability	Proven model	Proven model	Struggling	High fintech failure rate
Scalability for rural asset finance	Low	Moderate	High	High

There are several lessons to be drawn for from current practices for the design of future asset finance programs.

- **One of the key lessons is the application of a best-practice credit methodology to manage credit risk.** Lessons from best-practice micro lenders and leasing companies need to be taken at heart. First of all, these include the use of sound financial analysis for each loan application, combined with savvy interview techniques and reference checks. Second, the

"graduation principle" should be applied by rewarding customers for good behavior with more attractive terms (e.g. a larger loan, top-up loan, or other incentives). Finally, accountability is key in the form of a loan officer or account manager that is responsible for the complete loan cycle of "their" clients.

- **Terms and conditions matter, especially the level of downpayments.** High downpayment requirements are positively correlated with credit quality, but often at the expense of sales. However, without a good quality credit portfolio sustainability is not achievable and downpayment levels should be set realistically. Second, maturities should be limited, especially for first time borrowers. Third, successful lenders typically request a combination of different types of securities, for instance the asset to be financed in combination with one or more guarantors.
- **A hybrid (or phygital) approach is needed to manage cost while engaging with clients.** Given the low ticket sizes in asset finance, especially for solar home systems and smartphones, the best practice MFI/ micro leasing credit methodology cannot be applied one-on-one. Lessons from asset Fintechs need to be taken into account, for instance the deployment of credit scoring algorithms, video calling, GPS location verification etc. When it comes to payments, Mobile Money is the preferred option in many parts of Africa. Finally, another key lesson from both Asset Fintechs and Micro Leasing Companies is the importance of a diligent selection process for partners and suppliers.

4. Perspectives of last-mile distributors

4.1 Introduction

LMDs play a vital role in bridging access gaps for essential products but they struggle with credit provision. LMDs provide solar home systems, clean cooking solutions, communication and mobility devices, irrigation equipment, and more. Product sale prices ranged enormously, from USD 45 to USD 2000, with a majority concentrated in the USD 100–500 range. Credit provision, particularly under the default Pay-As-You-Go (PAYGo) model, often stretches LMDs' capacity, exposes them to risk, and imposes operational burdens. Handing over the credit function to a bank or MFI is an unsatisfactory option too from an LMD perspective, full of different challenges and pain points.

This section presents insights from 27 last-mile distributors (LMDs) gathered through a PAYGo Lab survey conducted in April 2025. The survey explored LMDs' experiences, attitudes, and challenges in providing credit to their customers – whether through in-house financing, third-party partnerships, or not offering credit at all. Respondents included founders, CEOs, and heads of operations or finance from organizations active across East, Southern and West Africa. The survey was also supplemented by interviews with LMDs. This section summarises insights from this survey and accompanying interviews that relate to the perspectives of LMDs on the current models, identifies key pain points, and highlights implications for designing more effective credit models.

4.2 Credit models in use

Two thirds of respondents offer in-house credit. The survey reveals that the majority of LMDs (66.7%) manage credit themselves, often by necessity rather than preference, while a smaller proportion outsource credit (14.8%) or avoid it altogether (18.5%). The characteristics of these LMDs also differ, as is demonstrated in the table below.

Table 4: General characteristics of LMDs by credit model

Credit Model	% Respondents	General Characteristics
In-house credit	66.7%	2–30 month loan tenors, down payments 0–35%, repayment expectations mostly under 70%. Significant operational burden, credit risk exposure, and capital constraints.
No credit offered	18.5%	No financing provided. Reasons include high risk, capital constraints, and operational complexity. Some have tried in-house credit and stopped.
Third-party credit partnerships	14.8%	12–36 month loan tenors, down payments 9–30%. Relief on capital burden, but LMDs express concerns over high costs, customer control loss, and rigid processes.

4.3 Key insights

4.3.1 In-House Credit: A burden, not a strategy…

The respondents that offer inhouse credit (two third of total) face significant challenges, including operational burden, lack of expertise and high defaults. First, respondents mention the high operational burden related to credit, including managing collections, enforcing repayments, and monitoring loans that strain staff capacity. Second, LMDs are struggling to maintain sufficient liquidity for their core operations while providing finance. Third, many acknowledge they lack the systems or expertise to evaluate borrower creditworthiness effectively. Finally, LMDs struggle with high defaults and low recoveries. LMDs report significant exposure to non-performing loans, with some attempting to outsource only parts of the credit process, such as overdue collections. One respondent commented that "*we weren't good at pretending to be a bank"* while another lamented that *"the collections costs and default rates were too high".* Overall, the in-house credit model is marked by strain, complexity, and risk, driven more by necessity than design.

Credit terms vary significantly between LMDs. Loan tenors range from 2 to 30 months, down payments from 0% to 35%, and repayment expectations range from 50% to 100% of the sale price - but more commonly are around 70%.

4.3.2 No Credit Offered: Risk aversion and capacity constraints

The LMDs that do not offer credit (18.5% of total) refrain from doing so out of a mix of caution and hard lessons. The concerns that respondents voiced were similar to those that currently offer credit. Concerns include high default risk, liquidity constraints that limit the ability to finance assets; lack of internal systems, staff capacity or processes to manage credit risk efficiently; and concerns of cost, complexity and past failures. One respondent commented that "*the collections costs and receivables exposure made it unsustainable" while another said that "we stopped because of default rates and lack of capacity in credit management."* In short, this group illustrates that barriers to credit are not just about liquidity: they also reflect operational readiness, risk tolerance, and product fit.

4.3.3 Third-Party Credit: Relief, but not a panacea

The respondents that use external financial partners (14.5% of total) appreciate the relief on liquidity constraints but report significant friction between LMDs and financing partners. Because they had partnered with banks, MFIs or consumer lenders, their liquidity was not locked up in credit provision. At the same time they reported different areas of friction in the partnerships with financial institutions. First, interest rates were considered too high and considered incompatible with their target customers. Second, there were notable differences in eligibility criteria, high rejection rates and lengthy loan turnaround times. Indeed, there was lack of alignment where financing partners were not suited to rural, low ticket lending. As one respondent commented:*"MFIs don't target our target clients, so [we're] not interested."* Finally, there is a loss of control over the customer relationship, which leads to challenges in managing the customer experience. As a consequence, some LMDs had considered switching to in-house credit but found the operational burden prohibitive. One respondent said that *"the monthly collection efforts were high and therefore [it*

would] cost us more expenses/time to collect instead of spending the efforts on product development."

Similar to the LMDs that offer credit, terms vary a lot. Reported terms include loan tenors of 12–36 months, down payments of 9–30%, and repayment expectations ranging from 60% to 100%.

4.3.4 Attitudes toward the current PAYGo model

Responses to five key statements on the state of the PAYGo sector reveal that the sector is under strain. Respondents were asked to rate their agreement on a Likert scale (Strongly Disagree to Strongly Agree) with five key statements about credit delivery in last-mile distribution (see table below). In summary, respondents find that in-house credit is burdensome, yet third-party options are often a poor fit. There is no clear consensus on whether the PAYGo model itself is fundamentally flawed, but most agree that its execution – particularly around credit – is failing to deliver.

Table 5: Five key statements related to the PAYGo sector

Statement	Agree/Strongly Agree
PAYGo companies struggle to assess and manage credit risk effectively	78%
Financial service providers lack operational capacity to serve PAYGo-type clients	74%
Handling both sales and financing leads to inefficiencies	63%
Customers often misunderstand the financial terms of PAYGo contracts	70%
The PAYGo model is fundamentally flawed, and alternatives are needed	40%

Based on the survey results, we can infer key insights about LMDs' perspectives. These highlight that offering credit is driven by necessity rather than by design and the operational burden on the LMDS is significant. Furthermore, there are concerns about giving up control when partnering with an MFI or bank.

Table 6: Key insights from the LMD survey

Insight	Why?
Credit is a "necessary evil," not a differentiator.	78 % agree that PAYGo companies struggle to manage credit risk effectively.
Operational drag is real and costly.	Routine activities (collections visits, handset lockouts, ledger reconciliation) consume disproportionate staff time and squeeze thin working-capital buffers. In-house LMDs cite default-follow-up as among their biggest costs.
Third-party finance may resolve liquidity but can erode control.	74 % agree that conventional FSPs lack capacity to serve PAYGo-type customers. Complaints include high rejection rates, slow decisions and "interest rates incompatible with our impact mission."

Insight	Why?
Customers still misunderstand PAYGo contracts.	A majority acknowledge that clients struggle with "ownership versus rental," misunderstanding that can lead to high customer turnover, low satisfaction and reputational risk.
The PAYGo model is questioned but not abandoned.	Responses to "PAYGo is fundamentally flawed" are split; many see value in flexible payments, *if* credit execution can be fixed.

4.4. Implications for designing a new credit model

The survey and interviews clearly reveal a sector of LMDs hungry for alternatives, but cautious after hard experience. LMDs are clear about what they need – and what they don't.

4.4.1 LMDs' Stated Needs

- **Relief from operational burden**: Credit management – including underwriting, disbursement, collections, and PAR tracking – must be taken off LMDs' plates. They want capacity freed up to focus on sales, (after sales) service, and customer support.
- **Preservation of customer relationships**: LMDs see a close customer relationship as *sine qua non*. They want to keep control over communication, repayment flexibility, and problem resolution. Losing this link is a major barrier to outsourcing credit.
- **Fair, affordable credit**: High interest rates charged by many FSPs erode customer affordability and undermine LMDs' impact missions. Any new model must offer pricing that works for the low-income rural segment.
- **Alignment of incentives**: Previous experiences with third-party credit have shown that misaligned goals – such as risk aversion, rigid processes, or a focus on high-ticket urban clients – can derail partnerships. LMDs want models that reflect their realities.
- **Simple, seamless processes**: LMDs do not have capacity for complex, multi-platform systems. Any new model must integrate easily into existing workflows, with minimal data duplication or manual intervention.

4.4.2 Risks and Red Flags

LMDs also identified clear risks that any new model must address:

- **Loss of customer control**: Handing credit management to an external partner must not mean losing the customer relationship or flexibility.
- **Rigid underwriting**: Credit criteria that do not reflect last-mile customer realities will exclude too many clients and suppress sales.

- **Complexity and friction**: If a new model introduces more steps, approvals, or platforms, it will fail.
- **Hidden costs**: Unexpected fees, FX spreads, or opaque pricing structures can undermine the benefits of outsourcing credit.
- **Inflexible repayment terms**: LMDs value the ability to offer flexibility based on customer needs. Losing this could damage customer relationships and repayment rates.

4.4.3 Requirements for Alternative Models

In summary, LMDs are interested in alternative models that remove the operational burden, preserve customer relationships and align well with financiers and other stakeholders. First, the model should remove the operational burden of credit so that LMDs can focus on sales, service, and growth. Second, the customer relationship should be preserved and credit terms should be fair. Third, incentives should be aligned between LMDs, financiers and customers and systems should be integrated to ensure smooth collaboration. LMDs expect to see commitment from financiers before they scale down their own credit operations.

4.5 Conclusion

This survey and the interviews make clear that while credit is essential for enabling access to small assets, the current models – whether in-house or third-party – are failing to meet LMDs' needs. LMDs are not rejecting PAYGo, but they are rejecting the idea of acting as unlicensed micro-banks. An alternative credit structure that removes operational drag, preserves customer intimacy and shares risk responsibly can unlock the next wave of growth in rural asset finance. The design principles above are drawn directly from what distributors themselves say they need. If they are respected, the sector can move from a "necessary evil" model of credit to a strategic enabler – driving scale, affordability and impact in equal measure.

5. Perspectives of financial service providers

This chapter gives the perspective of 15 interviewed financial service providers (FSPs) on offering asset finance, on existing partnerships and on a potential partnership to finance rural assets in cooperation with an intermediary. All interviewed FSPs are regulated financial institutions, either banks, development finance institutions or microfinance institutions. In addition to the FSP interviews, the team also interviewed sector stakeholders and conducted additional desk research. The interviews were semi-structured. The research focused on four countries: Ghana, Uganda, Malawi and Mozambique.

5.1 Asset finance offering

All interviewed financial institutions offer asset finance, but not at scale. Similar to the findings in chapter one on current market practices, asset finance operations by interviewed FSPs only represent a small portion of their loan portfolios, say up to 10%. According to some bankers, the low percentage is in part due to reporting issues, as the acquisition of fixed assets is at times financed with working capital loans. Some MFIs do not even make a distinction in their reporting between the two. Typically, MFIs would have a few hundred to a thousand loans that were classified as asset loans. By type of asset, mobility (motorcycles and tuk-tuks) and renewable energy solutions were most common.

Common terms and conditions include high downpayments and strict collateral requirements. All lenders require downpayments, ranging between 20 and 35% of the cost of the asset. This type of "own contribution" or "cost share" was highly valued as a risk mitigant, as borrowers would have skin in the game. Most FSPs also require a combination of collateral, typically consisting of the asset to be financed and existing moveable items or even a land title. One or more guarantors were also common. Loan maturities were typically up to 2 years.

5.2 Existing partnerships

Financial institutions maintain partnerships in pursuit of diverse development objectives. All interviewed institutions partner with DFIs and other funders, development partners and government institutions for a diverse set of objectives, including financial inclusion for MSME, Women-led enterprises and refugees, and promotion of greening of the economy, including renewable energy solutions. Asset ownership or asset finance is not a goal in itself that is pursued by DFIs or development partners, but many green solutions involve a type of asset. Hence, indirectly, asset finance is back on the agenda.

Existing partnerships between LMDs and FSPs are mostly client referral mechanisms structured through an MoU. Initially many microfinance institutions viewed the rise of Solar PAYGo models as a threat. The PAYGo industry was expanding rapidly and was able to raise significant capital. Today, there are various pragmatic partnerships in place, mainly consisting of LMDs providing leads and MFIs providing one-on-one financing based on their internal eligibility criteria and terms and conditions. Some FSPs vet their suppliers/ LMDs to ensure that the borrowers acquire good quality

products with warranties and/ or after sales service. The terms and conditions of such partnership are typically laid down in an MoU. The resulting number of beneficiaries of such partnerships are underwhelming, usually a few hundred per FSP.

Some MFI networks started their own PAYGo companies, with limited success. In 2014 FINCA established BrightLife in Uganda. This company adopted the PAYGo business model in 2018, with no significant asset financing partnership established with the FINCA Uganda MFI. BrightLife's PAYGo model repayment rates have been below industry averages and recently, with support from PAYGo Lab, the company managed to significantly improve the quality of its newly generated end customer receivables. At around the same time, Baobab (former Microcred) established a PAYGo subsidiary under the same of Baobab+, which was disposed of in 2025.

Box 1: Baobab's recent disposal of Baobab+[28]

Baobab+ was established in 2015 as an impact-driven subsidiary of Baobab Group, aiming to bridge the digital and energy divides across Africa by providing off-grid solar kits and digital devices to underserved communities. Its founding aligned closely with Baobab Group's stated mission of financial inclusion, combining microfinance tools with essential services to empower low-income households. However, the May 2025 decision to divest Baobab+, selling a majority stake to BioLite, marks a significant pivot away from this broader socio-economic agenda. Moreover, the narrative, centered on "refocusing on core business", may indicate misaligned priorities, potentially signaling that energy-electricity inclusion lacked priority or proved underperforming within Baobab's portfolio. Biolite, a solar manufacturer, has been Baobab+'s primary supplier and partner. It is expected that Baobab+ will continue to operate as a separate company.

Partnerships between FSPs and the Uganda Energy Credit Capitalisation Company (UECCC) promote the financing of end users and solar companies' working capital needs. UECCC is a Ugandan Government institution with the objective to provide financial, technical and other support for Renewable Energy Projects and Programmes. In line with Uganda's National Development Plan (NDPIII) Sustainable Energy Programme objectives, UECCC is implementing various financing programmes. UECCC. Among others, UECCC provides financing to banks and MFIs to lend to end users and solar companies. UECCC partnered with 8 banks and 12 MFIs including several SACCOs. The financing of solar companies is limited to 3 banks which can on-lend to companies that are vetted by UECCC. UECCC funds are on-lent at 15% p.a. In addition, UECCC finances solar systems with subsidies that can add up to 60% of the cost of the asset.

Sun King has access to blended finance through Standard Bank and DFIs. Sun King, in partnership with IFC and Stanbic IBTC Bank, has secured a USD 80 million, fully Naira-denominated loan facility to scale access to off-grid solar energy in Nigeria. IFC's USD 50 million contribution includes a USD 25 million senior concessional loan from the Canada-IFC Africa Renewable Energy Program. By combining public and private capital, the facility allows Sun King to extend local currency loans through its PAYGo model while mitigating foreign exchange risk[29]. Other large bank transactions in

[28] https://www.hsfg.africa/news/baobab-group-sale-majority-stake-baobab-to-biolite/

[29] https://sunking.com/solar-news/sun-king-ifc-and-stanbic-ibtc-bank-close-80-million-debt-facility-to-expand-solar-access-in-nigeria/

the past years include a facility to Sun King Kenya in local currency equivalent to USD 75 million from Standard Bank, Citi, Norfund and CDC Group (2021) and a securitization transaction of USD 130 million (2023)[30].

5.3 Potential partnerships with an Asset Finance Intermediary

As part of the semi structured interviews, bank and MFI representatives were asked if they would be interested in increasing their asset finance portfolio, and if so, in a potential partnership with an Asset Finance Intermediary (AFI). Without going too much into detail, it was explained to the bankers that the intention was to "unbundle" Last Mile Distributors' credit and sales operations (the LMD would focus on sales) and have credit management (including assessment, sanctioning, monitoring and collections) handled by the AFI while the FSP would provide financing. A total of 15 financial institutions in Ghana, Malawi, Mozambique and Uganda were interviewed, complemented by microfinance network executives and sector experts.

Several financial institutions, especially MFIs and mission driven banks prefer the status quo: partnering directly with suppliers, financing end users on a one-on-one basis. These institutions have relationships with suppliers of assets such as solar home systems, solar systems for productive use and mobility. The suppliers typically generate the leads and the FSPs then perform a credit assessment based on their internal criteria. Loans are given out against the FSP's terms and conditions, which often entails a combination of different types of collateral. If the FSP has a funding partnership in place with a development partner, loans can be offered at below-market interest rates. A clear disadvantage of this type of modus operandi is the lack of scale. There is also a general lack of appetite to increase their asset finance portfolios much beyond current levels.

Two FSPs see the potential to scale asset finance inhouse by leveraging technology. Two FSPs mentioned that they expect to be able to scale small-ticket asset finance through digital lending platforms. One FSP has such a platform up and running and is looking to include suppliers of Solar Home Systems as 'merchants' on its platform. Another FSP's technology platform is still under development. Both indicated that, unlike payday loan platforms, their solutions would allow for realistic loan maturities.

Some FSPs are exploring wholesale funding to solar companies. For instance, a government owned commercial bank in Uganda funds multiple solar companies as part of their partnership with Uganda Energy Credit Capitalisation Company (UECCC). Another two private banks have been accredited by UECCC to provide such financing to solar companies. However, the financing is limited to solar companies that have been vetted by UECCC and reportedly excludes Solar PAYGo companies. In Malawi, a local DFI has been in initial talks with solar PAYGo companies to provide wholesale financing. Given their willingness to provide this type of financing, lenders that provide wholesale funding to solar companies may be a good starting point for discussions around partnerships with an AFI.

[30] GOGLA (2024): off-grid solar market trends report 2024

FSPs that are open to explore a partnership with In24 are doing so for various reasons. FSPs that expressed interest were above-mentioned (part) government owned institutions, complemented by several microfinance institutions and banks. This interest is driven by a combination of buildup of local currency liquidity, increased awareness and interest in financing the greening of the economy (in part due to new partnerships and credit lines for green financing), and pressure from governments and other stakeholders to invest funds in a way that contributes positively to the economy. Despite their interest in green finance, many financial institutions were struggling to generate sufficient pipeline. This is a common phenomenon in many parts of sub-Saharan Africa, with a large wave of climate finance beyond deployed by large IFIs and DFIs but due to lack of internal capacity and lack of bankable projects, much of the green finance remains undisbursed to date[31].

First and foremost, interested FSPs indicated that they would need some form of de-risking in order to engage in financing. Given that such a partnership would be a new constellation to most, if not all, and the counterparty AFI would essentially be a startup, FSPs were unified in their call for a derisking mechanism to accompany the financing partnership. Such a de-risking mechanism could come in the form of a pari-passu partial credit guarantee (with a preference for a risk share for the FSP below 50%) or a first loss guarantee. One FSP even called for a funded guarantee on their balance sheet.

Second, interested FSPs stressed that the impact on their operations should be minimal. As FSPs started to realize the potential numbers and volumes that would be associated with this type of partnerships, they realized that potentially the impact on their operations could be huge, for instance if they would have to vet each single loan to end clients as some FSP representatives initially said they preferred. During the discussions, many realized that would not work due to the stark differences in client segments and eligibility criteria between the financial and LMD sectors. Hence, a smooth, hassle-free process with very limited impact on the FSP's operations is essential, even more so as FSPs already have multiple partnerships to keep afloat. This implies that FSPs would have to outsource credit approval to the intermediary.

In conclusion, FSPs made it clear that the partnership should be profitable to them. Some FSPs had trouble envisioning how the proposed partnership could generate sufficient revenue for them. In particular, they had three concerns. First, they were worried that the partnership would not generate sufficient revenue to compensate the LMD, the intermediary (AFI) and the FSP fairly. In other words, the margin would have to be sufficient to be split into three. Second, even with a de-risking instrument in place, the residual risk may still be at a level that it would harm their profitability. Third, as alluded above, operational expenses may also affect the bottom line.

In short, these insights highlight the need for a model that reduces complexity and risk for FSPs while making rural asset finance both operationally feasible and commercially attractive.

[31] For instance in Rwanda, the BRD-managed Ireme Invest Credit Facility has in excess of EUR 100 million committed but only a fraction has been deployed.

5.4 Way forward with FSPs

FSPs advocated for being involved in the design of the partnership. Interested FSPs made it clear that, given that this was a new initiative without a proven track record, that FSPs should be given a say in the design of the partnership. Some preferred full engagement from the start and requested to co-create the partnership from scratch jointly with the LMD and the AFI.

The next round of discussions with FSPs should focus on the financing and operational model. There are basically three types of financing models to be considered. In the first model, loans are packaged and sold to FSPs, enabling access to local currency capital without excessive risk exposure. Second, FSPs would take on loans to end users on a one-on-one basis. Third, an option would be that FSPs finance the AFI or the LMD on a wholesale basis. The second option may be a better fit for MFIs (also given their relatively low maximum ticket sizes) while the first and thirds options may be a better fit for banks. In the latter option, the counterparty would be an LMD (which is often overleveraged) or the AFI, a startup. Perhaps a consortium of the two, in combination with a de-risking instrument, can give sufficient comfort. In both scenarios, FSPs could still get access to customer and end loan statistics for impact reporting purposes.

As a next step, de-risking arrangements need to be worked out in collaboration with entities that provide such instruments. The project sponsors need to identify potential sources of de-risking arrangements (IFIs/ DFIs such as EIB, BII, FMO; or specialized agencies such as AGF or development partners such as Sida) and the type of derisking arrangement that would be feasible (partial credit guarantee vs. first loss), the applicable percentages and the cost.

Finally, agreement needs to be reached on the terms and conditions of the partnerships. As said before, FSPs stress that the partnership must be profitable to them. This implies that they make a sufficient margin on the financing of LMD end users or wholesale loans to cover operational and risk costs (after the application of the de-risking instrument). Hence a partnership agreement needs to tackle multiple aspects and give sufficient comfort and incentive to the FSP to go along.

Going forward, existing partnerships with UECCC in Uganda and the like should be leveraged to the benefit of collaboration. UECCC provides below-market funding to FSPs in Uganda which could be utilized to finance LMDs, the AFI or their end users. It is recommended that such partners are included in the talks early on to come to optimal arrangements without having to reinvent the wheel.

6. From insights to design

6.1 Introduction

Structural and operational barriers prevent rural asset finance from scaling up. The preceding chapters have laid bare the structural and operational barriers facing rural asset finance. From overstretched last-mile distributors (LMDs) to cautious financial service providers (FSPs), the African landscape is marked by fragmented approaches and unsustainable models. Despite the evident social impact of expanding access to life-improving assets, neither the in-house PAYGo model nor credit outsourcing to FSPs has delivered scalable, financially sustainable results.

LMDs are not financial institutions; and FSPs generally lack ability and ambition to provide asset finance at scale. At the core of the challenge is a fundamental misalignment: LMDs are sales and distribution businesses, not financial institutions. Meanwhile, FSPs have adequate resources, but often lack the customer proximity, operational flexibility, and ambition to serve rural low-income clients at scale. Indeed, FSPs that partner with LMDs are quite content with the status quo: a limited number of asset loans resulting from such partnerships, which in turn can be explained by stricter eligibility criteria at the FSPs. Conversely, LMDs that try to manage credit themselves face high default rates and mounting operational complexity.

LMDs want to disengage from financing, but not at all cost; and FSPs have expressed cautious interest in scalable asset finance partnerships. LMDs want relief from credit risk (and the associated high fund raising needs), but not at the expense of losing customer proximity or operational control. Some FSPs, for their part, have expressed cautious interest in exploring partnerships around scalable rural asset finance, but only with appropriate risk-sharing, limited operational burden, and a clear business case. However, the mechanisms to drive scalable and sustainable partnerships are not readily available.

This chapter advocates for a new institutional role: the Asset Finance Intermediary (AFI). This chapter translates these hard-won insights into a blueprint for a different kind of actor: a dedicated Asset Finance Intermediary (AFI) that bridges the two worlds. The AFI takes on credit risk and management while preserving the customer relationship for the LMD and selling its de-risked loan book to FSPs. The AFI is a field-grounded, tech-enabled, and credit-savvy actor designed from the ground up to unlock scale, sustainability, and inclusion in rural asset finance.

6.2 Seven Lessons from the field

Insights from the field—gathered through direct engagement with LMDs, FSPs, and field data—yield seven essential takeaways:

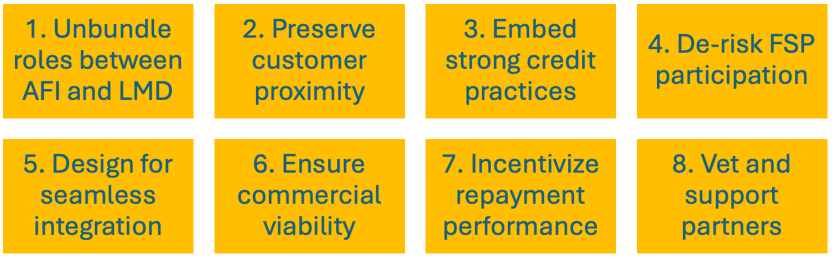
1. **For LMDs, credit is a burden, not a differentiator.** Most LMDs offer credit out of necessity, not strategic intent. The result is operational overload, with credit management diverting resources from sales, service, and growth.

2. **FSPs don't engage in asset finance at scale because it is complex.** Most FSPs avoid last-mile rural asset finance due to high operational costs, perceived risk, and low ticket sizes.
3. **Digital tools help, but people matter.** Lockout tech and digital underwriting can reduce risk, but high repayment rates still rely on human-centric practices: deeper credit assessments, reference checks, home visits, and fixed loan officers having cradle-to-grave responsibility for a customer.
4. **Customer proximity is essential.** LMDs want to maintain the relationship with their customers, particularly for after-sales service and potentially obtain referral sales. But the relationship is also crucial to ensure good credit performance, especially if the credit provider does not have presence in the field.
5. **Unit economics must align across actors.** A scalable model must balance incentives and ensure that LMDs, the intermediary, and FSPs can all operate sustainably, supported where necessary by blended finance or performance-based pricing.
6. **Downpayments and loan securities are ingredients for success.** Downpayment should be set at realistic levels. Most FSPs indicate at least a 15 to 20% downpayment, which is a significant deviation from current practices in solar PAYGo (3-10%). Securities also contribute to loan repayment. Many traditional asset lenders that boast low NPLs require one or more guarantors and additional (movable) collateral.
7. **De-risking is a pre-condition for FSPs to engage in new-style partnerships**. FSPs signaled that they would only consider partnering with an asset finance intermediary if de-risking mechanisms are in place, operational complexity is reduced to a minimum and it contributes to their bottom line.

6.3 Design Principles for an Asset Finance Intermediary

Drawing from the challenges observed and lessons learned across the sector, we propose the following eight core design principles for a next-generation Asset Finance Intermediary (AFI). These principles translate field insights into practical features for a model that works for LMDs, FSPs, and customers alike.

Figure 3 : Design principles for an Asset Finance Intermediary



Next, these principles are unpacked, focusing on the division of roles between AFI and LMD. The relevant roles for the AFI and LMD are summarized per design principle in the table below. In summary, the AFI focuses on credit-related activities while the LMD focuses on sales.

Table 7: Design principles for an AFI and division of roles between AFI and LMD

Design principle for AFI	Role for AFI	Role for LMD
1. Unbundle roles	Manages all credit activities; takes full responsibility for credit underwriting, disbursement, monitoring, and collections.	Focuses on product sales, installation and after sales services. Continues to manage the existing loan book with a small team.
2. Preserve customer proximity	Does not maintain a field presence but cooperates with LMD in case a customer visit is needed.	Remains the customer's primary physical point of contact to provide after-sales support and stimulate referral sales.
3. Embed strong credit practices	Combines data-driven underwriting (credit scoring) with human-centric practices, leveraging digital tools and third-party data alongside references, and loan officers who hold cradle-to-grave responsibility for each customer. Maintains adequate levels of downpayment and loan security, including guarantors. Trains and incentivizes LMD sales agents to prescreen customers.	(Sales agent) conducts home visits to prescreen customers.
4. De-risk FSP participation	Provides granular risk analysis and high level transparency including repayment projections, aggregates loans, applies credit guarantees or concessional capital, and structures risk-sharing arrangements that reduce the risk premium and operational burden for FSPs.	
5. Design for seamless integration	Enables plug-and-play adoption by LMDs via APIs, simple interfaces, and ensures minimal disruption to existing workflows, allowing incremental onboarding and continuous feedback.	Provides after sales and field support as clearly stipulated in detailed SLAs
6. Ensure commercial viability	Creates a transparent pricing structure that ensures sustainability for all actors. Earns via fair service fees or spread margins, with low overhead and limited balance sheet exposure. Works with various LMDs in one market to ensure economies of scale and reduce supplier, product and market risk.	Earns via fair spread margins, including a deferred profit sharing based on repayment performance of LMD portfolio.
7. Incentivize repayment performance	Applies a "graduation principle" to reward reliable customers with access to improved loan terms, top-up cash loans or asset financing - aligning repayment behavior with tangible benefits.	Leverages upselling opportunities to good payers
8. Vet and support partners	Vets LMDs and products; performance is reinforced through robust service-level agreements (SLAs) and deferred payments.	Ensures financed products meet quality standards, including warranties and reliable after-sales service. Has skin in the game through deferred payments as outlined in SLA.

Box 3: Credit scoring

Credit scoring supports loan decisions using data to predict a borrower's likelihood to repay and appears to be a better fit to high volumes of small ticket loans than traditional underwriting methods which are costly and slow**.** Standard statistical credit scoring models rely first and foremost on historical payment data that are linked to social/demographic data (e.g., age, education, marital status, dependents). Recent developments in credit scoring include the use of alternative data such as mobile money history (e.g., transaction volumes, patterns), phone usage (call/SMS frequency, top-up patterns), and GPS and geolocation (e.g., route patterns of a motorbike rider). While various PAYGo companies claim to be using data-driven credit scoring for their underwriting, the evidence is thin.

The AFI intends to develop, in partnership with specialist scoring providers, a credit scoring methodology that leverages AI functionality and fits well with the unique nature of rural asset finance.

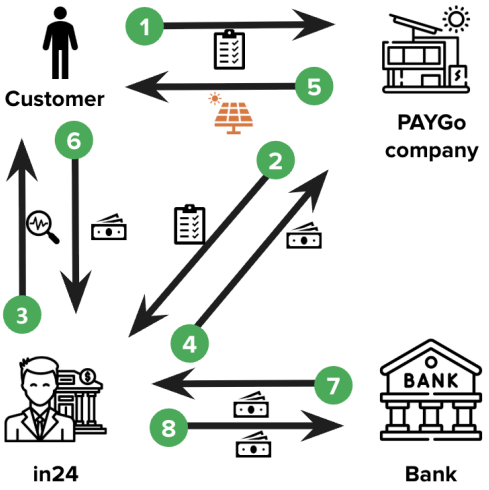
In summary, we envision the AFI not as a lender or product provider, but as a Credit Enabler. A credit enabler implies a lean, tech-enabled, field-informed actor that is purpose-built to handle the complexity of rural asset finance, while enabling growth for LMDs and investment from FSPs or SPVs. Its defining characteristics include full ownership of the credit lifecycle (from credit assessment and disbursement to monitoring and collections) and the fact that it will not rely on its own balance sheet for financing. Rather, it is envisioned that loans are packaged and sold to FSPs or housed in SPVs, enabling access to local currency capital without excessive risk exposure. Alternatively, loans could be financed on a loan-by-loan basis or on a wholesale basis to a syndicate of the AFI and LMD. The AFI's success metrics will be aligned with impact and scale and include repayment rates, customer retention, and growth in LMD sales (due to shortened working capital cycles and operational complexity).

6.4 The prototype in practice

We designed a prototype of the Asset Finance Intermediary that is aligned with the design principles. The prototype (here referred to as "In24") is (1) fully aligned with the eight design principles identified in paragraph 6.3, (2) structured to operate at scale, with minimal capital requirements, (3) avoids regulatory licensing in most cases, (4) capable of connecting LMDs and FSPs through a purpose-built credit layer and (5) leverages the infrastructure of LMDs and FSPs.

The workflow of this model looks as follows:

Figure 4: AFI prototype workflows



1. PAYGo company sales agent completes customer loan application
2. PAYGo company forwards loan application to in24
3. in24 contacts clients and references to assess creditworthiness
4. Once approved, in24 disburses cash to PAYGo company
5. PAYGo company installs product and provides after-sales
6. in24 ensures timely repayment by the customer
7. Bank transfers funding to in24 (loan / securitization)
8. in24 repays Bank

The AFI prototype directly addresses the core structural challenges identified earlier:

- **For LMDs**: It reduces credit risk and capital intensity, simplifies the operations, and improves financial performance without relinquishing the customer relationship.
- **For FSPs and SPVs** (depending on the financing mechanism): It offers access to rural asset finance loan portfolios at scale, without the need to build rural infrastructure or engage in direct lending, which would require significant changes to their credit policies. It also protects FSPs from lending to over-leveraged and loss-making LMDs.
- **For the sector**: It offers a practical path to scale asset finance for rural households, with sustainability and customer protection built in.

6.5 Risks related to the launch of an Asset Finance Intermediary

While the prototype presents a strong solution, it is not without risks:

1. **Execution risk.** The model depends heavily on operational discipline—particularly in credit assessment, SLA enforcement, and repayment follow-up.
2. **Dependency on LMD field capacity.** The AFI relies on LMDs for customer contact, which requires strong alignment and continuous collaboration.
3. **Funding risk.** Probably the largest risk is the inability to identify and access adequate funding mechanisms for In24. This funding risk can be broken down into:
    a. **Inability to attract credit guarantees and other de-risking mechanisms.** Banks made it clear that they expect to run limited risk. Hence de-risking mechanisms in the form of credit guarantees are required to kickstart the pilot.
    b. **Banks lack appetite.** Local banks may lack the appetite to engage, even with de-risking mechanisms in place, for instance due to the still high complexity as compared to alternative investments such as T-bills. Encouraging early adoption may require other out-of-the-box solutions such as concessional funding or other types of incentives.

c. **Other sources of funding do not materialize.** Other sources of funding would include DFIs, other international lenders or the setup of SPVs. Given the startup nature of this initiative, there is a risk that alternative funding sources do not materialize.

4. **Regulatory uncertainty.** Even without disbursing from its own balance sheet, some jurisdictions may still require the AFI to be licensed or supervised.
5. **Customer confusion or distrust.** Introducing a third-party credit intermediary could confuse customers unless messaging and roles are carefully coordinated.
6. **Cost structure and viability.** While capital-light, the AFI must still cover the cost of credit ops, tech, and people. Pricing must be sustainable without overburdening the customer or LMD.

6.6 Feasibility considerations

This study considered the financial feasibility of unbundling LMDs, placing credit under a specialized Asset Finance Intermediary (AFI). The analysis is based on repayment and cost data from 12 PAYGo companies. Due to data confidentiality and reliability constraints, detailed simulations are not included in this report, but core findings are summarized below.

Improved credit management leads to additional costs. Shifting to a specialized credit model is expected to increase lifecycle costs by approximately USD 10–15 per customer. This is mainly due to the need for 40–60% more credit-related staff compared to PAYGo 1.0 model, where credit functions are typically limited to call centers executing scripted payment reminders. For example, a proper credit assessment may take 30 minutes instead of a current KYC call taking typically not more than 5 minutes, and not involving referrals. Similarly, customer follow-up will shift from reactive to proactive. Over time, however, better credit quality will reduce the need for reminder calls.

Repayment rates must improve by 4-6 percentage points to reach break even. For the additional investment in credit management capacity to be justified, repayment rates must increase by 4–6 percentage points (in absolute terms). Given that average repayment rates in the sector currently range from 65–80% (average 71%) at 1.5x the loan term, this target is modest. In practice, a well-implemented credit policy is expected to deliver 10–15 percentage points improvement in repayment performance, well above the break-even threshold.

PAYGo Lab research shows a 6.75% increase in repayment rates when adopting better credit management. Recent PAYGo Lab research[32] shows that companies adopting more robust credit practices within a vertically integrated model saw an average increase in projected repayment rates of 6.75% within nine months, providing strong empirical support for the potential of improved credit management, even before unbundling.

There are some additional, unquantified benefits. Beyond core financial metrics, several additional, but highly material, benefits further strengthen the financial case for unbundling.

[32] PAYGo Lab (2025): PAYGo 2.0 pioneers.

1. **Faster repayment cycles**
   Stronger credit practices not only improve *how much* is repaid, but *how quickly*. Today, the average loan is repaid over 130-170% of its contractual term, increasing both monitoring costs and interest expenses. A disciplined credit approach can significantly compress this cycle.

2. **Reduced working capital needs**
   Liquidity constraints remain the primary constraint to growth for many LMDs, especially PAYGo firms, with some even shrinking due to chronic funding gaps. By offloading credit to the AFI (in24), the working capital cycle shortens from 12–24 months to just 1–3 months, enabling faster and more capital-efficient growth. With reduced risk of stock-outs, LMDs can resume scaling and deliver more sustainable impact.

3. **Improved customer satisfaction and impact**
   There is often a fear that tighter credit policies will reduce sales. However, evidence from 12 PAYGo 2.0 companies suggests otherwise (26% growth after introducing PAYGo 2.0). While stricter screening may initially reduce approvals, it leads to more sustainable sales, fewer customer disputes, and stronger word-of-mouth referrals, resulting in higher loyalty and long-term impact.

4. **Lower financing costs**
   Current PAYGo financing is both limited and expensive, often carrying full FX risk and risk premiums. The AFI (in24) model offers a transparent, off-balance-sheet structure for FSPs and investors, which can materially reduce the cost of capital. Over time, the AFI (in24) is likely to be classified as an *Access to Finance* solution, rather than *Access to Energy*, opening doors to more widely available and affordable pools of capital.

5. **Upselling and cross-selling potential**
   Unlike PAYGo companies that are transaction-centric, in24 is relationship-centric. With an ongoing financial relationship, in24 can offer subsequent loans for additional products (even from other suppliers) or, with the right licensing, even cash loans. This "graduation model" not only boosts retention and profitability but also improves repayment, as customers place high value on maintaining access to future financing.

6. **Economies of scale**
   Because in24 will serve multiple LMDs per country and across several countries, it can achieve significant scale in areas such as credit analytics, scoring model and AI agent development and loan management systems including MNO payment integration. This avoids duplication and fragmentation, allowing in24 to deliver services more efficiently than even larger individual PAYGo companies and other LMDs could on their own.

6.7 Initial market feedback

Initial feedback on the in24 concept was gathered during a GOGLA workshop in Nairobi in June 2025, attended by a diverse group of stakeholders including leading and mid-sized PAYGo companies, investors, and sector experts. The PAYGo Lab team presented preliminary research and facilitated a design workshop to refine the in24 model around key business model criteria for efficient rural asset financing. These discussions, both during the workshop and in follow-up meetings, surfaced several insights:

1. **Strong demand among mid-sized and smaller PAYGo companies targeting rural markets**
   All participating mid-sized and smaller PAYGo players expressed strong interest in joining the *in24 pilot*. Many pointed to their credit function as the primary reason for underperformance or failure. At the same time, they raised valid concerns around two recurring themes:
   a. *Margin sharing*: fears of reduced profitability when credit is outsourced.
   b. *Control over the customer relationship*, hesitation about losing ownership of the end-user experience.

   These concerns echo earlier market sounding efforts.

2. **Large PAYGo companies see less urgency, but recognize unbundling will work for others**
   The three largest global PAYGo players (d.light, Sun King, and EEA) indicated that unbundling credit is not a near-term priority. With comparatively better access to funding, their focus remains on strengthening in-house credit operations. They also expressed skepticism about improving rural repayment rates beyond current levels (typically 70–85%). However, one noted a strategic risk: smaller players that outsource credit could grow faster and more sustainably, threatening their market leadership.

3. **Urban-focused PAYGo companies lean toward bank partnerships**
   Companies operating in (peri-)urban areas, especially in cities like Lagos and Harare with weak, costly grids, already partner with banks or MFIs. With higher-value systems (e.g. solar generators) and a more bankable customer base, these companies are more inclined to deepen their existing financial institution relationships.

4. **Investor response is cautiously optimistic**
   Investors generally welcomed the in24 model, calling it a potential game changer. However, they remain wary of the sector's unresolved legacy: poorly managed existing PAYGo loan books. Encouragingly, two international, company-agnostic SPV platforms expressed interest in buying receivables from in24, rather than sourcing them directly from PAYGo companies, validating the intermediary role in24 seeks to play.

6.8 Looking Ahead

This prototype sets the foundation for a live pilot in partnership with select LMDs and financial institutions. The pilot phase will test real-world performance, refine operational processes, and validate whether the model can truly deliver on its promise: scalable, inclusive, and commercially viable asset finance for rural customers. In the next chapter, we outline how the pilot will be structured—including partner selection, performance indicators, and learning objectives.

7. Pilot project

Based on our country selection criteria (see Annex1), we have chosen Malawi and Mozambique as countries for the pilot. The PAYGo Lab has worked with a total of seven PAYGo companies in Malawi and Mozambique and partnered with multiple microfinance institutions (MFIs) and banks. Uganda, the third market of the country selection will serve as a fallback if insufficient progress is made in one of the other countries. The PAYGo companies that were selected were Zuwa in Malawi and Dynamiss in Mozambique, both long-standing partners of PAYGo Lab. These companies have expressed a clear, urgent interest in outsourcing their lending operations, to free up capacity and focus for scaling their sales and distribution.

Figure 5: Pilot project phases

The pilot project will be divided into two phases: (1) Design & Validation Phase and (2) Preparation Phase. The Design & Validation Phase will involve a structured transformation process with each selected PAYGo company, testing the unbundling model in practice. Through close collaboration, the project will co-design and co-develop the necessary methods, systems, and agreements to separate credit and sales functions. The design and validation phase will directly inform the Preparation Phase, which will focus on ensuring full operational readiness for the AFI. The key activities of both phases are highlighted in the table below. Subject to the availability of co-funding, the Design & Validation Phase is expected to begin in August 2025 and, over the course of six months, transition into the Preparation Phase, culminating in the full launch of the AFI in June 2026.

Activities of the pilot phase are separated into 4 tracks: partnerships, credit, technology and finance. For each track the key actions and deliverables (by phase) are mentioned in the table below. Activities include various diagnostics and needs assessments, drafting of SLAs and manuals, and, importantly, taking ownership of the credit management functions two months into the project. Furthermore, a business plan will be developed, as will fundraising documents in support of actual fundraising activities. Last but not least, credit managers and a finance manager plus back office team will be recruited.

Table 8: Activities of the pilot phase

Track	Design and validation phase (per company) August 2025 to January 2026	Preparation phase February 2026 to June 2026

Partnership	- Company Diagnostic - Transformation plan - Draft Service Level Agreement	- Build pipeline by engaging with other LMDs in the 2 countries
Credit	- Rapid appraisal of credit function - Take over leadership of credit function after 2 months - Credit management service agreement - Credit manual - Credit training programme	- Select and train, in close conjunction with the PAYGo Company in each country, the future credit manager and credit team for the AFI
Technology	- Needs assessment - Technological architecture	- Technology transformation plan - Data & Analytics: Standardized dashboards
Finance	- Financial and operational diagnostic - **For AFI**: 5-year financial model & comprehensive business plan	- Fundraising documents - Country regulatory analysis - Establish legal entity - Fundraising - Finance and operations manual - Appoint finance manager and back office team

ANNEX 1: Country-specific considerations

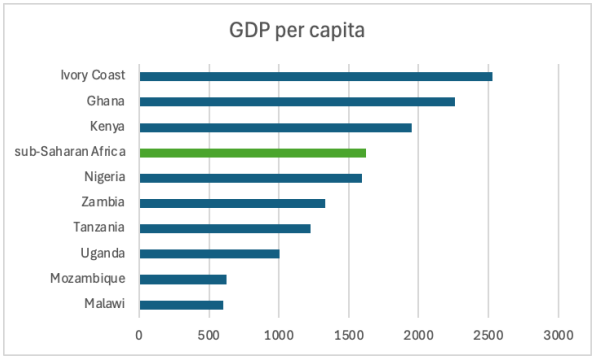
When selecting countries of operation for In24, many different factors need to be considered. First, the operating environment needs to be taken into account. Second, the countries' demography, state of rural electrification, and performance of the solar offgrid sector needs to be analysed. Third, as the unbundling of credit services will likely entail a partnership with a financial service provider, the state of the financial sector will need to be looked into. Fourth, potential showstoppers such as capital controls or a bank on foreign investments will be checked.

A shortlist will be compiled from a longlist. A longlist of 9 eligible countries has been drawn up, a mix of relatively stable countries in West Africa (Ghana, Ivory, Nigeria) and East Africa (Kenya, Uganda, Tanzania, Malawi, Zambia, Mozambique) with a track record of off-grid solar energy and other last mile distributors. These countries will be analysed on different factors, with the aim of coming up with a shortlist of 3 to 4 countries.

A1.1 Operating environment

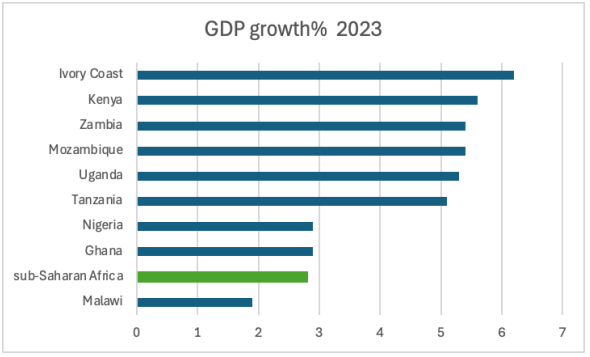
Macro economic indicators: As a first step, macro economic indicators will be looked at. The Gross Domestic Product (GDP) per capita, a measure of average income per person that is used as an indication of living standards, differs markedly between countries, with West-African countries and Kenya reporting higher GDP per capita than East-African countries. Mozambique and Malawi have the lowest GDP per capita. GDP growth in 2023 was positive for all selected countries, with Nigeria, Ghana and Malawi at the bottom of the table.

Figure a1: GDP per capita



Source: data.worldbank.org accessed 28/5/2025

Figure a2: GDP growth in 2023 (%)



Source: data.worldbank.org accessed 28/5/2025

Depreciation: Depreciation of the local currency is a recurring problem for many African populations as it drives inflation by making imports more expensive and generally hinders foreign investments. Below are 10 year and 1 year depreciation rates respectively. Nigeria, Malawi, Zambia and Ghana have had, and continue to have, significant depreciation. The Kenyan Shilling appreciated in 2024.

Figure a3: 10-year depreciation against USD

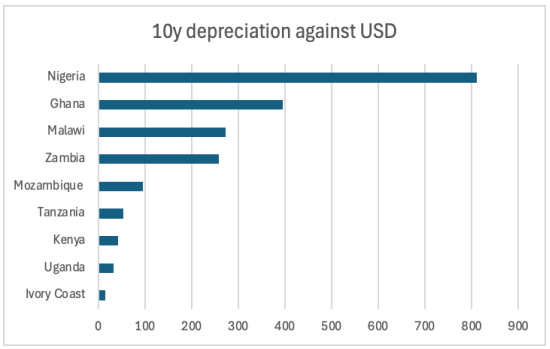


Figure a4: 2024 depreciation against USD

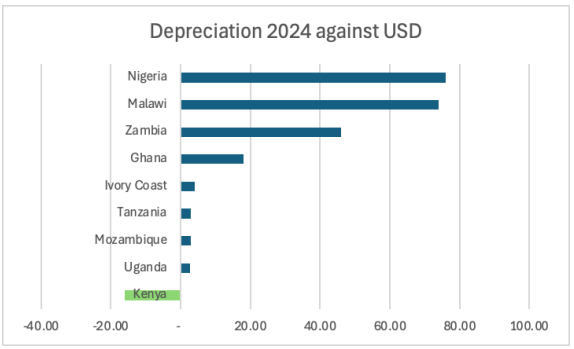
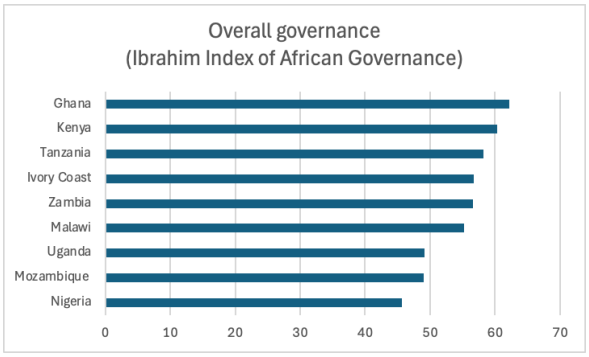


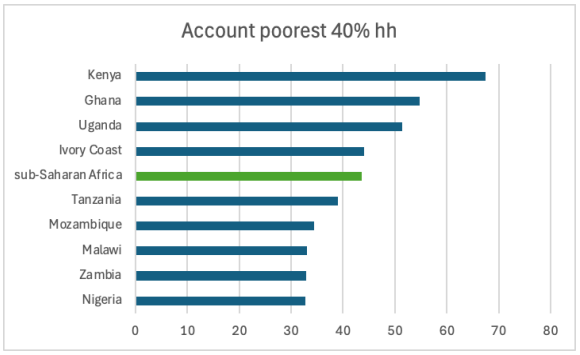
Figure a5: Overall Governance



Overall governance: The status of overall governance of the countries on the long list is assessed using data from the Mo Ibrahim Index of African Governance (IIAG)[33]. This is a compound score that assesses 'security & rule of law', 'participation', 'rights & inclusion', 'foundations for economic opportunity', and 'human development'. Ghana, Kenya and Tanzania have the highest score.

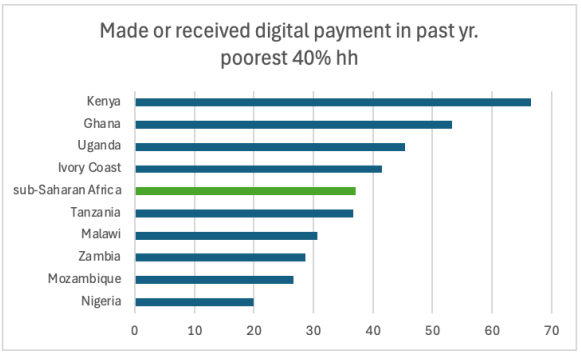
Digital payments: Finally, the ability to make digital payments is an important enabler for rural asset finance. Below graphs indicate the percentage of the poorest 40% of the population that have an account (at a financial institution or a mobile money account) and that have received or made a digital payment in the last year.

Figure a6: Poorest 40% of households with account



Source: data.worldbank.org accessed 28/5/2025

Figure a7: Poorest 40% households - made or received digital payment in yea



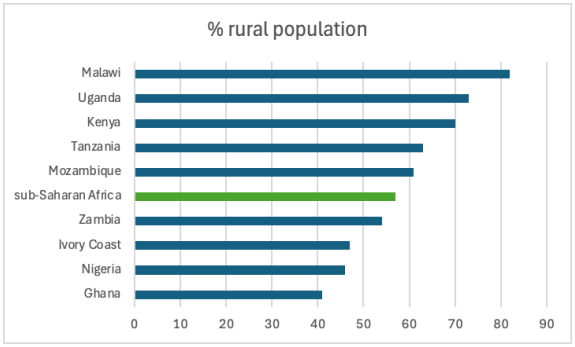
Source: data.worldbank.org accessed 28/5/2025

[33] https://iiag.online/about.html

A1.2 Market potential

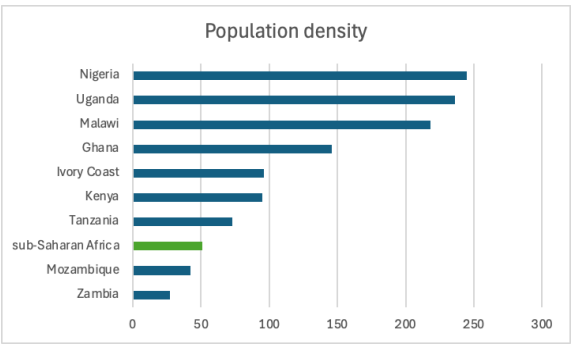
Demography: Given that In24 targets rural asset finance, demography matters. Malawi, Uganda and Kenya have the highest percentage of the population residing in rural areas. Second, population density is important as more densely populated countries may allow for more cost-efficient asset finance operations. Nigeria, Uganda and Malawi are the most densely populated countries.

Figure a7: percentage of population that is rural



Source: data.worldbank.org accessed 28/5/2025

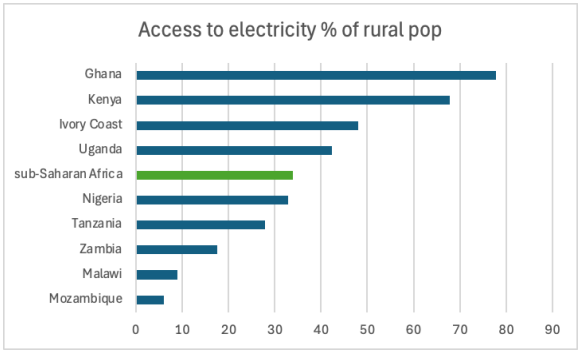
Figure a8: Population density



Source: data.worldbank.org accessed 28/5/2025

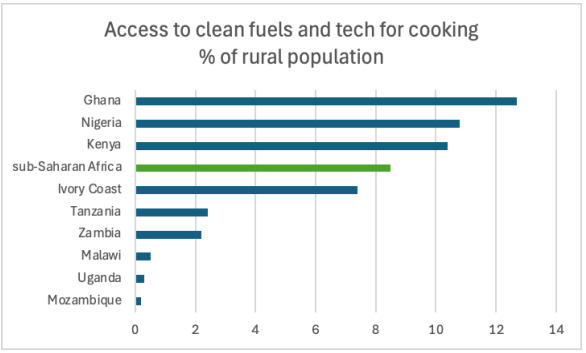
Access to electricity and clean cooking: The percentage of rural population that has access to electricity can give insight into the potential market for offgrid solar solutions. The percentage is lowest in Zambia, Malawi and Mozambique. The picture is somewhat similar for access to clean cooking fuels and technology.

Figure a9: % of rural population with access to electricity



Source: data.worldbank.org accessed 28/5/2025

Figure a10: % of rural population with access to clean cooking

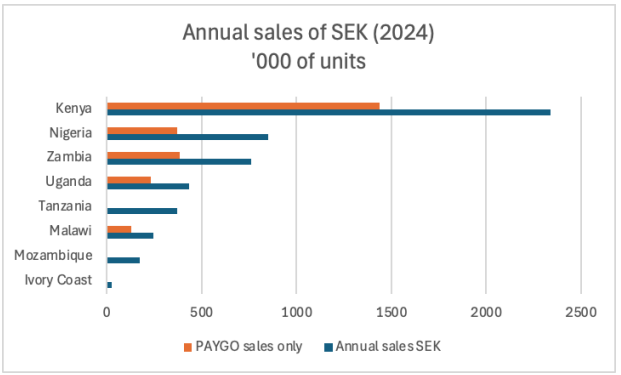


Source: data.worldbank.org accessed 28/5/2025

Solar home systems: The number of SHS installations is estimated as the total of solar home system sales between 2019 and 2024. These show a similar pattern as the annual sales. Where available, the PAYGo sales are highlighted. These account for roughly 50% to 60% of total sales.

Figure a11: Number of SHS installations

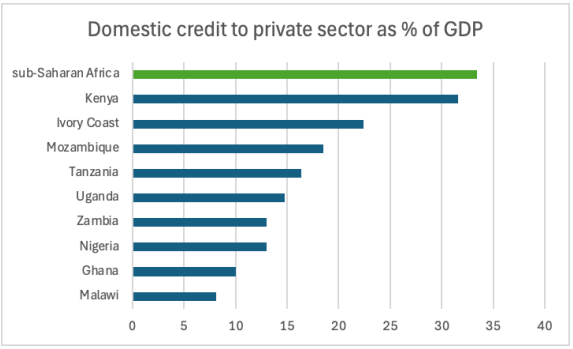
Figure a12: Annual SHS sales (2024)



A1.3 Financial sector strength and borrower resilience

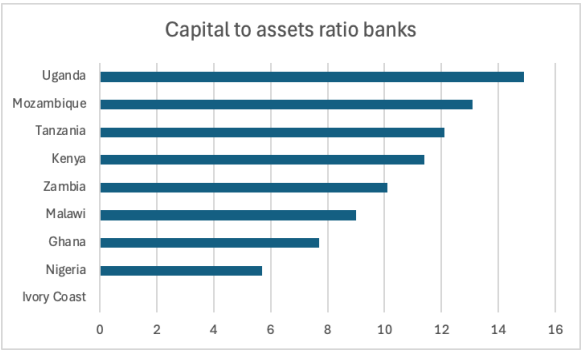
Financial sectors: As In24 will be looking to partner with financial institutions, a first glance at overall performance of the respective financial sectors is in order. Credit to the private sector as a percentage of GDP gives an indication of the depth of the financial sector. The lending rates speak for themselves. Capital to assets ratios are a crude measurement of financial soundness.

Figure a13: Credit to GDP



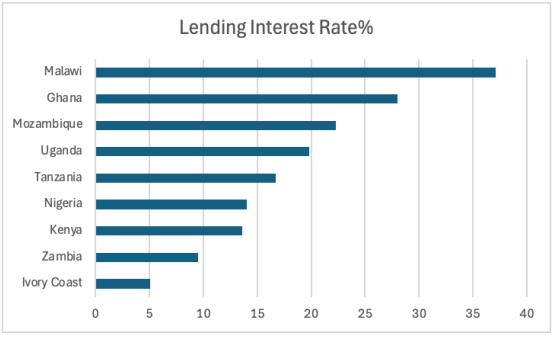
Source: data.worldbank.org accessed 28/5/2025

Figure a14: Capital to assets ratio - Ban ks



Source: data.worldbank.org accessed 28/5/2025

Figure a15: Lending interest rate



Interest rates: The lending rate is also considered as it gives an indication of what banks may be charging when lending in a partnership setting. As can be seen, lending rates differ significantly with Malawi, Ghana and Mozambique topping the chart. Lending rates are lowest in Ivory Coast.

Source: data.worldbank.org accessed 28/5/2025

Borrowing: Since PAYGo is a form of lending, an understanding of how common borrowing is in a certain country helps in the overall country assessment. Second, it is interesting to see if people are able to access emergency money within a month. This could be interpreted as a proxy for resilience.

Figure a16: % of adults that borrowed

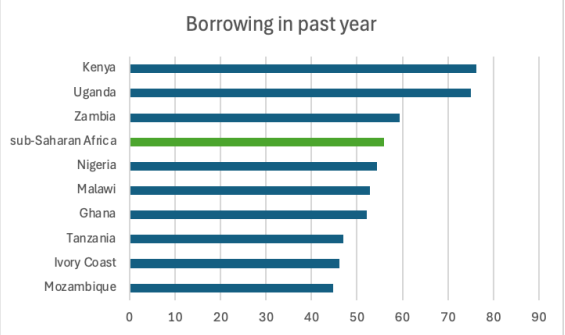
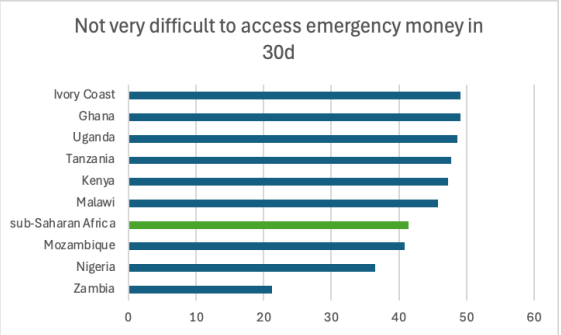


Figure a17: % of adults with access to emergency money



Source: data.worldbank.org accessed 28/5/202 *Source: data.worldbank.org accessed 28/5/2025*

Potential partners: another consideration is that PAYGo lab has identified potential partner financial institutions in Malawi and Mozambique, and potentially in Uganda.

A1.4 Potential showstoppers

A quick scan revealed that there are no show-stoppers identified as yet for an AFI in operations. The quick scan considered accounting rules, capital controls and rules on foreign ownership among others. A more detailed analysis will be done once the business model of the AFI has been decided on.

A1.5 From longlist to shortlist

Ivory coast, Kenya and Uganda score best overall, while Malawi and Mozambique score highest on market potential. Also, potential partner financial institutions have been identified in Malawi and Mozambique. Based on these considerations, the shortlist of countries to launch In24 is Malawi, Mozambique and Uganda.

Table a1: Country selection

	Operating environment	Market potential	Financial sector/ pot. partner	No show stoppers	Overall rating
Ivory Coast	◕	◑	◕	✓	◕
Ghana	◑	◔	◔	✓	◔

Kenya					
Malawi					
Mozambique					
Nigeria					
Tanzania					
Uganda					
Zambia