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IPA CASE STUDY | LEARNING SERIES

Fingerprinting in Malawi: The Challenges of Scaling Up a Complicated Technological Solution in a Resource-Constrained Setting



Convincing lending institutions to provide credit to the poor can be a challenge given that poorer clients often have limited to no credit histories and are therefore deemed high risk. A pilot study in Malawi showed that using fingerprints as unique IDs to track credit histories increased repayment behavior of microfinance borrowers, holding promise as a way to help more poor borrowers access credit. With support from [USAID's Development Innovation Ventures](#), researchers collaborated with lenders and a centralized credit data repository in Malawi to evaluate the impact of this approach prior to its transition to scale. The implementation of the scale-up faced many challenges and researchers saw relatively low adoption of fingerprint identification by local microfinance institutions. These results highlight the challenge of scaling up a complicated technology in a resource-constrained setting, and the broader importance of evaluating interventions beyond the pilot scale before expanding them to reach larger populations.



The Challenge

Credit enables small-scale farmers and business owners in developing countries to finance critical inputs such as fertilizer, improved seeds, and business assets, but in Sub-Saharan Africa, fewer than a quarter of adults have access to formal financial services¹. Formal lenders may be discouraged from lending to the rural poor due to difficulties in ensuring repayment from borrowers who lack adequate collateral or verifiable credit histories. Obtaining reliable information on individual credit histories can be difficult in countries without unique identification systems, like social security numbers or government-issued photo identification. Borrowers can avoid sanctions for past default by simply applying for new loans under different names

or from different institutions. When lenders are unable to sanction unreliable borrowers or reward reliable borrowers, they respond by limiting the supply of credit, which may hurt poor borrowers.

Malawi is a country facing this challenge, as few rural households have access to credit for business and agriculture. According to the International Monetary Fund only 11.7 percent of the population has access to loans and among those loans only 40.3 percent were from formal lenders². In the [World Bank's Doing Business Report](#), which ranks countries on the ease of starting and operating a local business, Malawi ranked 109 out of 129 countries in terms of the supply of private credit.

¹ Demographic and Economic Indicators: Measuring Financial Inclusion. The Global Findex Database. The World Bank, 2013.

² International Monetary Fund, 2015. "Malawi: Selected Issues." IMF Staff Country Reports 15 (240). <https://doi.org/10.5089/9781470312276.002>.

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SECTOR

Financial Inclusion

TOPICS

Access to Finance

COUNTRY

Malawi

TIMELINE

2014-2016

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Development Innovation Ventures (DIV) at USAID, Malawi
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