

# What's Going on Out There?

## Trends around the World in Microfinance

Paul Luchtenburg

Asia Regional Microfinance Technical Advisor

World Relief/ CREDIT



# Rapid changes

- MF has changed more than any other sector of development
  - No longer romantic images of groups under a tree/ only provider
  - credit only to Micro finance
- MF is the key financial system of country where majority of population is poor
- In addition to traditional models pressures to
  - Be sustainable
  - provide a wide range of services
  - Attract investors

# Trends

- Rapid growth
- Competition
- Client focus
- Donors out Investors in
- Legal/ regulatory frameworks
- Networks
- Changes in thinking

# State of the industry

- Micro credit Summit Campaign was launched in 1997 with 800 organizations reaching out to serve clients previously without access to financial services.
  - Now 2,800 institutions working with the Summit
  - 15 thousand providing financial services
- According to the UN – 1 billion people need financial services

# Rapid growth

- About 100 million currently receiving (only 10% of demand)
- 10 years ago it was only 30 million served
- Much new growth coming from EXISTING institutions (banks and credit unions) opening new product lines/delivery mechanisms.
  - Estimated that Top 10 reaching 60% of total
- Unlikely countries have or will become “models” of the industry” Cambodia, Mongolia

# Competition

- There has been rapid growth and it continues
- As all programs grow
  - Need to find more clients
  - Many organizations doing this = competition
- Bad thing is that it could lead to weak portfolios

# Competition

Competition is good for the poor – increasingly they are being offered a choice.

- MFIs not realizing this and adapting are losing business.
- Moving from provider era to client era
- Innovation required to compete
  - Great efficiency
  - New products
  - Privileges to good clients
  - Value added services

# Clients

- Services will more and more mirror developed financial services preferences
  - Individual loans
  - Complementary services
- Diverse clients with variety of needs will require giving them more choices and a variety of services
  - Credit, savings, insurance, transfers etc.
  - This will require a variety of institutions
    - Banks, postal banks, credit unions, cooperatives etc.

# Donors

- Donors served as upfront investors for developing sound practices and methodologies for how to sustainably serve the poor.
- Now we are building and expanding on that foundation

# Changing role of donors

- Days of direct donor subsidy for lending to unserviced clients are limited.
  - The 90s was the donor era
- Some exceptions exist
  - Challenging environments
  - Conflict and post war countries

# Donor roles

- Supporting industry advances
  - Reaching severely poor clients
  - Reaching remote areas
  - Insurance
  - Innovations in effective agricultural CREDIT
  - Innovations in efficiency
  - Innovations in reducing transaction costs
  - Complementary services based on client needs

# Donor role in financial systems

- Supporting all levels of the financial system
  - Micro – implementer level
  - Meso – support institutions
  - Macro – MF environment

# Where do the funds come from

- There are not enough donor funds for needed expansion

# Investors In

- Now there is a need for past investments to be leveraged
- Attracting Investors is essential – via:
  - Savings Deposits
  - Investors as Shareholders
  - Leveraging

# Institutional situation

- Many Institutions will be unable to thrive in this environment due to an inability to:
  - Professionalize Operations
  - Legalize and qualify under legal regulations in country.
  - Become sustainable
- Institutions may
  - Change focus
  - Close shop
  - merge with another institution.

# Regulatory Frameworks rationale 1

- Government

- Regulation of industry
- Ensure safety of borrowers
- Taxable income

- Industry

- Need to go beyond donors – to attract investors in the form of savers or shareholders, regulation is needed.
- Donors need to be assured of a relatively safe investment environment
- It's now “other people's money”.

# Legal/Regulatory Frameworks 2

## Three levels of considerations

Legislation – Broadly defines the market structure, sets forth basic rights and entitlements of participants, in ways that can be difficult to change/revise.

Regulation/ prakas – Based on public law – defines relationships of government entities to private parties and to each other. Sets more specific rules that may need to be revised based on evolution of the sector.

Supervision – Mechanism by which some disinterested outsider monitors the market, watching to ensure that all players are abiding by the rules or pay consequences when they do not.

# Legal/Regulatory Frameworks 3

- Regulatory requirements for microfinance: a comparison of legal frameworks in 11 countries worldwide
- author: Stefan Staschen
- institution: GTZ
- year: 2003

<http://www.gtz.de/themen/economic-development/deutsch/bibliothek/detail1.asp?number=1689>

# Networks

- Important trend in the MF industry worldwide
  - International and national
- Contributes to the professionalization of a countries service providers.
- Must not be beneficial for all members
- Gives regulators/supervisors a platform to communicate to all participants.
- Widely considered to be a public good, because the service should be beneficial to all.

# Innovations & trends

- Learning from others essential – Governments, Central Banks, MFAs, MFIs at the same table.
- Learning from other countries advantageous.
- The pace of evolution and changes in microfinance is and has been frantic.
- Exciting time as innovations and new ideas abound.
- The future is now

## Innovations/ trends 2

- Innovations in technology
  - Smart cards and ATMs
  - Bolivia, Mexico, India South Africa
- Innovations in methodology
  - ASA reaches 2.5 million clients with franchising model
- MFI bank issues visa card – Paraguay
- New investment vehicles

## Innovations/ trends 3

- 50 countries working on policy frameworks that integrate microfinance
- Unregulated MFIs report to national CREDIT bureaus (Turkey, Peru)
- 12 rating agencies rate MFIs
- Standard definitions
- Mix Market

# Thank you

---

Paul Luchtenburg  
World Relief/ CREDIT