

Microfinance Industry: Experiences, Challenges, and Opportunities

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The views expressed in this presentation are those of the speaker and do not in any manner reflect the views of the Asian Development Bank.

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The logo for the Asian Development Bank (ADB), consisting of the letters 'ADB' in a white, serif font on a dark blue background.

Outline

- Introduction
- Overview of Industry Experiences
- Challenges
- Opportunities
- Conclusions

Introduction

- Microfinance industry has been changing.
- Changes in concept, vision, practice and opportunities.
- Concept changed from microcredit to microfinance.
- Vision: from “provision of credit” to “permanent access to financial services” for the majority.
- Practice: from program microcredit to institutional microfinance.
- Opportunities have expanded (learning from experience; recognition of potential)

Experiences

- Industry expanding; being commercialized.
- Dominant position of NGOs is declining.
- Greater recognition of the potential role of other institutions than NGOs.
 - co-ops
 - commercial banks
 - insurance companies
 - rural banks

Experiences continued...

- Different modalities have emerged.
 - Merged NGOs with small commercial banks
 - Merged NGOs [OMB in Philippines]
 - Small commercial banks specialize in microfinance
 - Large commercial banks set up MF subsidiaries
 - Development banks expand microfinance
 - Transformation of NGOs into regulated MFIs.
 - Brand new microfinance banks, with social capital

Experiences continued....

- Institutional proliferation and weaknesses.
- Expansion of microcredit outreach.
- Limited expansion of microsavings services.
- Outreach of other services, still very limited.
- Increasing recognition of the need to deepen the outreach.
- Mono-product approach seems dominant.
- Innovations are lacking.

Experiences continued....

- In most countries, microfinance has so far failed to reach massive scale.
- Inappropriate government interventions continue.
- Minimal involvement of private risk-capital.
- Transaction costs remain high.
- Weak link between MF and formal financial sector.
- Link between development and finance also remains weak.

Challenges

A hierarchy of challenges:

- At the industry level
- At the institutional level

CHALLENGES at the Industry Level

Fundamental challenges include:

1. Building permanent, sustainable institutions that provide financial services to the poor on a mass scale.
2. Getting established large-scale financial institutions to enter the industry.
3. Inducing innovations to push the frontier.
4. Striking a right balance between development and finance.

Challenges continued....

5. Reducing institutional proliferation and consolidating suppliers while preserving the needed diversity.
6. Developing and strengthening appropriate supervision and regulation.
7. Increasing capacity of NGO MFIs and co-operatives, among others.

What do we need to face the challenges ?

1. Refuse to accept the “status quo” in which majority has no access to formal financial services.
 - Stretch our imagination far beyond what we can normally see and what we have.
 - More innovations and increased receptivity to innovations.
 - Need stakeholders with a firm commitment and determination.
 - Intensify efforts to learn from experience.

Continued....

- Be impatient of the industry status and be patient about what can be achieved.
 - Remove the walls between the microfinance community and the broader world of financial systems.
2. Change our mind-set to think of microfinance as a business proposition with high social impact.
 3. Bring business approaches to microfinance.

Challenges at the Institutional Level

- Improving governance.
 - ◀ Most Board members do not provide strategic vision and guidance for their institutions.
- Changing institutional culture
 - ◀ Shed unrealistic assumptions
- Improving institutional capacity
 - ◀ Getting quality and relevant technical assistance is an issue.
 - ◀ Difficult to secure resources to finance TAs.

Challenges continued....

- Developing high quality growing cadre of managers and professionals.
- Improving financial transparency.
- Getting equity capital for NGOs to enable transformation.

Opportunities

- Opportunities are a function of your approach; the way you look at markets.
- Different lenses will show different opportunities.
- Remove the managerial blinders; relinquish old assumptions; use new lenses to look at markets.

Opportunities continued....

- Vast potential markets exist.
 - Because outreach has been small.
 - The poorer households are not reached.
 - Menu of products and services has been limited.
- Recognize this vast market.

Opportunities continued....

- Ask not how you can shun serving the poorest
- But how you can serve the poorest profitably
 - ⚡ then you will see a potentially profitable market.

Opportunities continued....

- There are opportunities to use existing infrastructure.
 - Delivery of grant money in South Africa through a fleet of more than 8,000 armored trucks
 - Can we adapt this infrastructure to deliver microfinance services ?
 - Can we use the network of 800,000 long-distance telephone booths in rural and urban India to deliver microfinance services ?

Opportunities continued....

- Can we use pawnshops to provide MF services on a large scale ?
- Can we use branch networks of existing banks and post offices?
- CGAP is looking at some of these possibilities.

Opportunities continued....

Services can be provided profitably.

- Provided you have the right business model
- Often conventional models do not work.

Opportunities continued....

- Big opportunities exist for improving efficiency
 - ✓ Costs can be lowered and managed better
 - ▶ Emphasis on cost has been less than adequate.
 - ▶ Higher sunk costs prevent adoption of new approaches
[like hub-and-spoke model of large airlines]

Opportunities continued....

- ✓ Marketing costs at minimal levels
 - ▶ Difficult to make money from microfinance if you have high marketing expenses.
 - ▶ Word-of-mouth advertising can be very effective.

Opportunities continued....

- Big opportunities exist for improving effectiveness [effectiveness improvements increase the social benefits per unit of money spent]
 - ✓ Difficult to measure effectiveness
 - ✓ But this does not mean lack of opportunities
 - ✓ Linking microfinance with complementary services
 - ▶ For the poorer and more disadvantaged

Opportunities continued....

- ICT is important for efficiency and effectiveness:
 - ▶ Information quality and availability.
 - ▶ Reduction of transaction costs.
 - ▶ Deepening outreach.

But choose technology carefully.

- ⚡ Do not unquestionably assume that sophisticated ICT is always the best way to solve any problem.

Opportunities continued....

- Give priority to innovations.
- Pay more attention to innovative ways of delivering products.
- Providing the same services and products in the same ways as your competitors is a recipe for stagnation and demise.

Opportunities continued....

- Take cognizance of increasing competition.
- There will be imitators of your successful models.
- Need to improve your business models to stay ahead of others.
- Institutions cannot continue to live on past laurels.
- Take a fresh look at how you operate.
 - ▶ Learn of, and adopt good practices

Scaling and Consolidation

- Scaling and consolidation of institutional operations require special attention.
- Most institutions fail to scale/consolidate.
 - Reluctance to bring-in “outsiders” to the team.
 - Tunnel vision of the pioneer/s.
 - Reluctance to seek new knowledge and inputs from others.
 - Lack of a well-formulated long-term strategy.

Conclusions

- The industry has evolved.
- Achievements are significant when compared with the initial situation.
- But the industry has barely scratched the surface of the market potential.
- Mass outreach can be achieved only if we approach this as a business proposition with high social impact.

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FOR LISTENING**