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Microfinance in Africa and Poverty Alleviation Challenges

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Outline

- Brief
- Outreach and Profitability
- African Microfinance
- What do we have to react to?
- What should be the reaction by
  - the government?
  - the regulators?
  - the development partners?
  - the private sector?
- Conclusion

Brief adjusted!

- **Microfinance and the MDGs**
- **Aim is to reduce hunger and poverty, eliminate HIV/AIDS and infectious diseases, empower women and improve their health, educate all children, and lower child mortality**
- **Access to credit and savings services for poor households is a critical contextual factor with strong impact on the achievement of the Goals**
- **The paper* addresses the feasibility of reaching significant numbers of the absolute poor with financial services on a sustainable basis and on a massive scale.**
- **Role of microfinance in achieving these goals is important but it should be implemented with complementary policies**
- **Finally it is recommended that:**
  - access to financial services forms a fundamental basis on which many of the other essential interventions depend
  - some of the poorest require immediate income transfers or relief to survive
  - financial services thus reduce poverty and its effects in multiple concrete ways: improvements in health care, nutritional advice, and education
- **Thus how do we get the volume and quality of access we want?**

***Littlefield, Morduch, and Hashemi, Is Microfinance an Effective Strategy to Reach the Millennium Development Goals? CGAP Focus Note No. 24, 2003**

"Outreach to poor clients and profitability can go together"*

- "No statistical relationship between the proportion of borrowers classified as poor and operational self-sufficiency" (Gonzalez and Rosenburg)
- "Pursuing higher profits and focusing on poor clients can go hand in hand" (Cull, Demirgüç-Kunt and Morduch)
- "Savings banks can service the less well-off part of society without compromising their profitability" (Peachy)
- "Provision of financial services to low-income individuals and small business by commercial banks appears to be a growing trend…" (Nair and Von Pischke)
- "Research is making it increasingly clear that expanded financial access can increase growth, increase incomes of the poor, and reduce income inequality, but the mechanisms by which it creates those effects remains uncertain" (Barr, Kumar and Litan)

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*Barr, Kumar and Litan (2007) Building Inclusive Financial Systems: A Framework for Analysis.

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African Microfinance – Benchmark Report 2007*

- **Growth was disparate across Africa – in 2007 credit activities grew 37%, savings services by 100%**
  - Some institutions lost clients – Benin, Uganda
  - Few large and growing institutions biggest contributors
- **Savings dominated**
  - Covered 90% of loans for full intermediation MFIs
- **Overall average asset base yielded 2.4% in losses, but**
  - Positive returns allowed profitable African institutions to reach double that what their peers achieved
  - Thus, we see a split between large, sustainable and efficient institutions (some use savings as springboard) and MFIS that yet have to reach scale
- **For profit MFIs with scale may have the biggest impact…**

*Microfinance Information Exchange, 2007

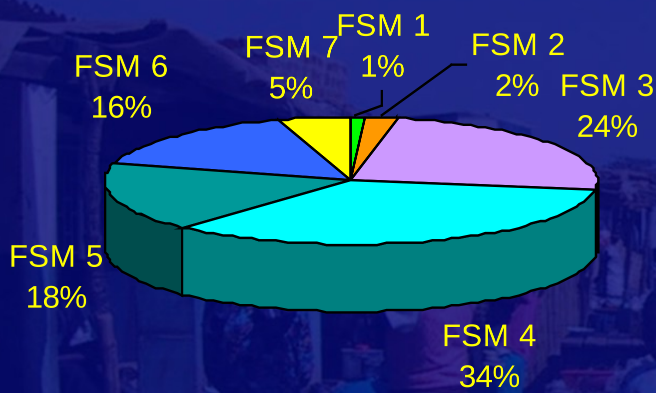
What is happening in Africa?

- **“Private sector” (“for-profit”) enter the market in different ways**
  - Upscaling and transformation of institutions
  - Member based institutions
  - Value chain linked finance in agriculture
  - Investment funds
  - Barclays Bank and the Susu Collectors in Ghana*
  - Hollard and PEP: Cash Based Insurance in South Africa*
  - New index based agricultutal insurance approaches
  - Opportunity International's Micro-Insurance Agency*
  - MISR’s microcredit business in Egypt*
  - Equity Bank in Kenya
  - National Microfinance Bank in Tanzania
  - Telecommunications and banking combinations (M-Pesa and others)
  - ABSA FBS: Taking banking to the people in South Africa*

*Forthcoming FinMark supported publication

Core numbers – ABSA (4.6 of 8.5m clients)*

Percentage of customers by FSM* (4.6m clients)



FSMs	Monthly income <$	% of population	% of ABSA customers
FSM 1 – 3	$100	48%	27%
FSM 1 – 5	$300	78%	79%
FSM 1 – 6	$600	88%	95%

Observations

- FSM 1-3 represents 27% and FSM 4 and 5 represents 52% of Absa's mass market customer base (~80% FSM 1-5)
- Positive financial results require volumes and a broad customer base
- It means profit and being a corporate citizen contributing to economic development, and impacting on the lives of poor people
- Customer Education and Training integral part of the approach
- Success due to good segmentation of the market, and focusing products and delivery
- Success gave confidence to add micro enterprise finance range of products

*ABSA, 2007

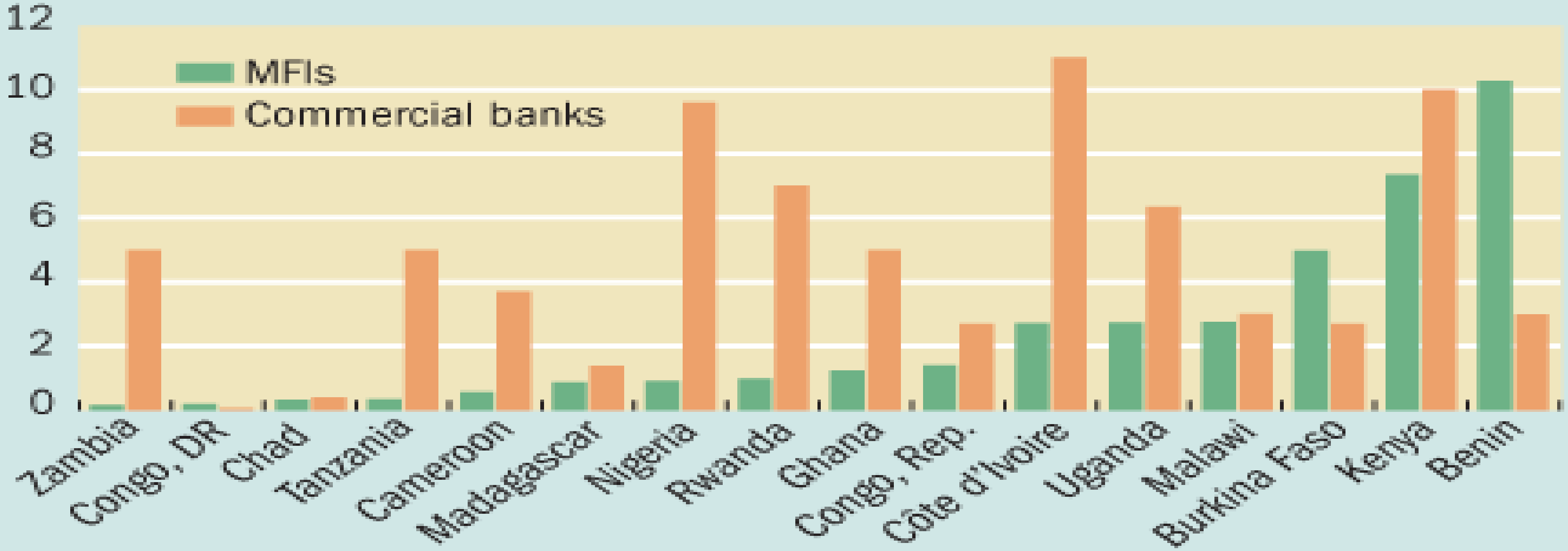
Private sector entry is pervasive…

Chart 2

Modest reach

Despite the growth of microfinance institutions, in most SSA countries commercial banks reach far more people.

(percent of total population)



Sources: Consultative Group to Assist the Poor database; Claessens (2005); and IMF staff calculations.

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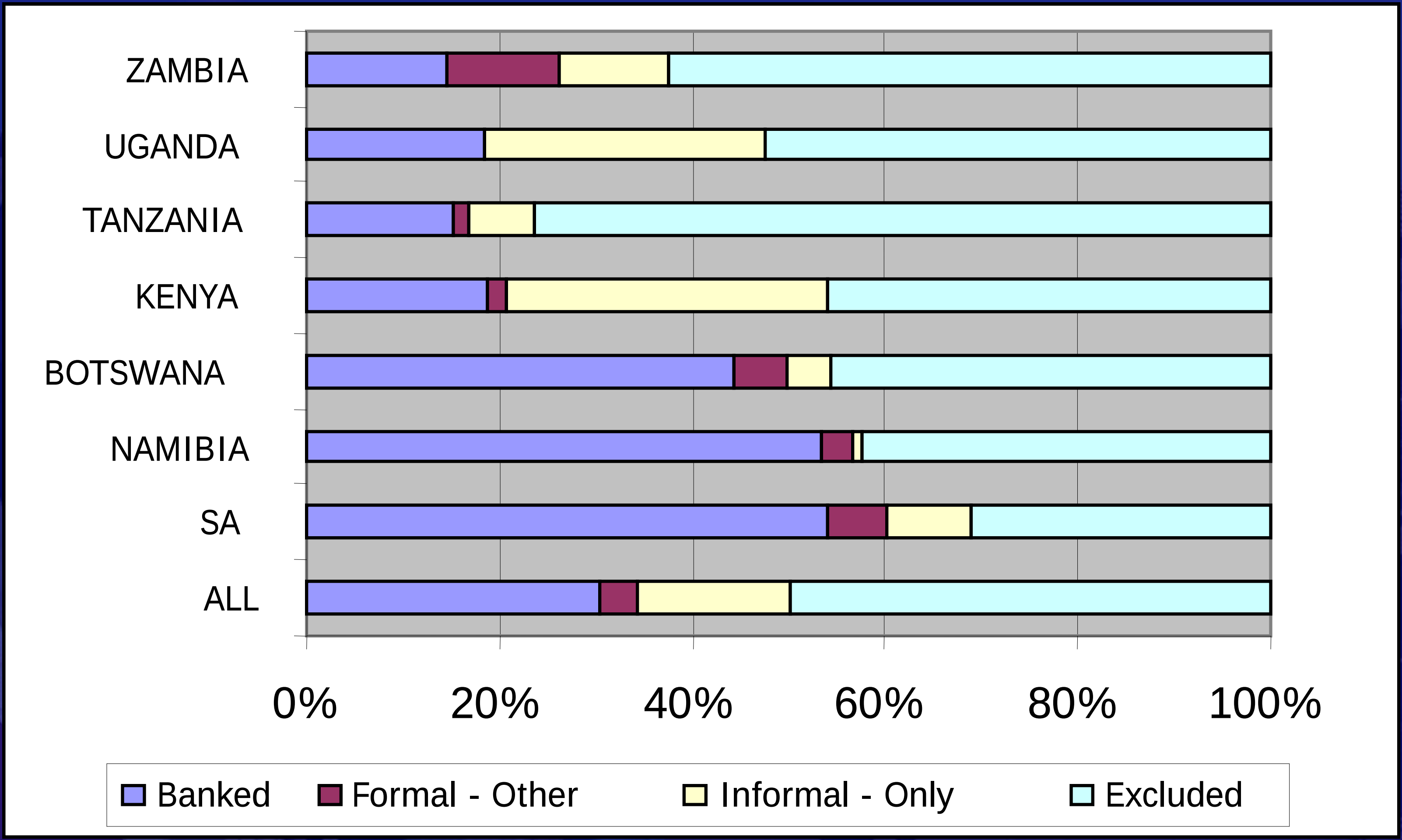
What is the current context?

- Governments make rules impacting on “microfinance”, ranging from prudential to conduct rules (e.g. Uganda, South Africa, Tanzania, Zambia, Kenya)
- Microfinance policies are real or considered in many countries
- Credit registries are slowly considered, slowly spreading
- Capacity building is emphasised but still inadequate in quality and quantity
- Financial literacy is being regarded as important, slow progress with initiatives (e.g. Uganda, SA)
- Market research important and showed good results – also understand segmentation in markets

Access compared*



Banked, plus Formal Other = Formally Served
Formally served, plus Informal Other = Financially Included

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***FinMark Trust and FinScope, 2007**

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Status of financial inclusion by Middle and Low Income Countries*

(millions)	*Total*	*MIC (3)*	*LIC (4)*
Banked	27.4	17.9	9.5
% of total	*30*	*54*	*16*
Formal – Other	3.3	2.0	1.3
"Formally served"	30.7	19.9	10.8
% of total	*34*	*60*	*19*
Informal Only	14.4	2.8	11.6
Excluded	44.5	10.6	33.9
Total adult population	91.3	33.3	57.9

Overall 34% banked, 2 out of 3 people thus "unbanked"

***FinMark Trust, 2007**

Implications of the access analysis*

- Where formal higher - informal lower and vice versa
- Majority of people without access cannot afford access
- If we half the cost of basic bank accounts a considerable number more people could afford it
- Need infrastructure reach, technology use and innovative approaches

*FinMark Trust, 2007

What do we want to react to?

- Still large % excluded
- Best outreach through “private” sector
- What is quality of outreach?
- Poverty pervasive and we have new challenges (e.g. climate change)
- Challenges:
  - To improve inclusion
  - To leverage outreach infrastructure
  - To do it with appropriate products and delivery systems
  - To ensure financially literate clients
  - To impact on development objectives like the MDGs

What should be the reaction – Government?*

- Ensure understanding of the local financial market, the actors and the clients before acting, also think about wider impact on poor clients
- Supporting permanent, local financial institutions rather than direct engagement
- Support technologies, systems that help to provide range of products through relevant delivery systems
- Make sure that rules and regulations are relevant, take more than microfinance in consideration, and test the impact to see whether you get the envisaged results
- Ensure emphasis and implementation of consumer financial literacy, as it is the foundation of a healthy informed market
- Support information flow improvement, financial institution registration and reporting, credit registries and any market improvement effort

*Adapted from UN advisors group on Inclusive Financial Sectors Reports, 2007

What should be the reaction – Regulators?*

- Financial inclusion should be a major objective of regulation
- Regulators must be flexible in their approach within the “regulator’s dilemma”
- Supervision should cover financial institutions and those that they work through, e.g. telecommunications companies
- Ensure enabling environment for all actors working towards improved inclusion
- Allow more flexible legislation especially if proven, e.g. correspondence banking

What should be the reaction – Development Partners?*

- Quality of support as important as quantity
- Focus on the bottleneck – shortage of strong institutions and managers
- Assistance should compliment, not compete or obstruct
- Need better information on development partners' performance, what is not measured cannot be managed
- The old elusive coordination of activities should be a non-negotiable, at country, regional level and continent level
  - **World Bank making financial markets work**
  - **UN focus on financial inclusion strategies at country level**
  - **DFID making financial markets work for the poor**
  - **German led European approach to financial market development in Africa**

What should be the reaction – Private Sector?*

- Providing services to the poor can be profitable while affordable for the client
- Leveraging private sector infrastructure can play an important role in improving outreach and quality of outreach
- Private sector participants should thus be broader than just banks
- Private sector should be engaged in processes towards regulation
- Many roles exist for the private sector: provide capital; building infrastructure; developing new products, services and technologies; improving human and institutional capacity

To conclude

- Evidence suggest that inclusion or expanded reach impacts positively on the poor
- Thus challenge to expand reach, ensure appropriate financial products, demanded by low-income and poor
- In Africa (and elsewhere), it seems that for profit institutions operating at scale can make a difference in terms of reach, and
- by implication in terms of impact on the poor,
- However, destitute poor may not benefit like the rest, and thus a range of strategies and actions needed, thus a comprehensive attack on poverty, of which MFIs in general, and especially for profit MFIs operating at scale, should be an important part of the strategy
- There is a great need for a partnership approach – Government, Regulators, Development Partners and the Private Sector

Thank you, and enjoy the conference

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