



**ROLE OF DEVELOPMENT
MICROFINANCE SECTOR**

DAY 3 - 11 SEPTEMBER 2020

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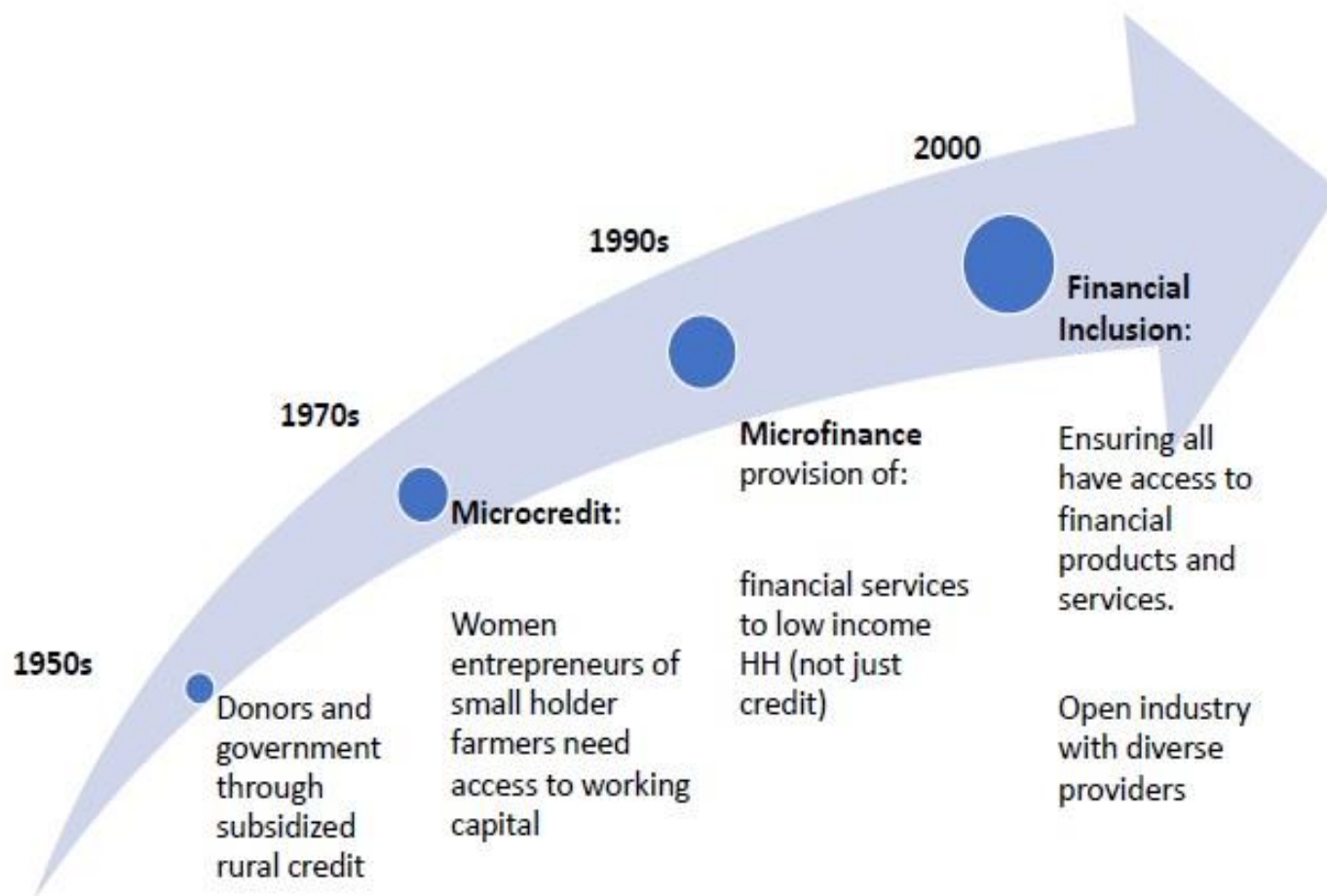
Topic

The role of **Development Microfinance** in addressing the challenges relating to **poverty**, **employment creation** and potential contributions to **economic growth** of countries.

Outline

1. The microfinance evolution
2. Theory of change – the current narrative
3. Global evidence of impact
4. Criticisms of microfinance
5. Development Finance Sector response

Microfinance Evolution



Microfinance means building financial systems that serve the poor



**Insurance
and
Transfers**



Savings



Credit

- WC
- Capital
- Agric
- Leasing
- Housing



Theory of Change

Poor People's Well-Being Improves



RESILIENCE
Poor people are able to smooth consumption

<p>Prepared Against Risks</p>	<p>Able to Manage Risks</p>	<p>Able to Recover After Shocks</p>
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OPPORTUNITY
Poor people are able to capture opportunities

<p>Ability to Invest</p>	<p>Political Agency & Engagement</p>	<p>Access to Markets</p>
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Financial Resources

Assets & Liabilities

Income Stability & Growth	Management of Household Expenses
Enterprise Growth	Wages
	Other Transfers

Norms Around Roles & Asset Ownership

Human Capital

Skills & Ability

Positive Self Perception, Autonomy & Self Efficacy	Emotional Well-Being / Expectations for the Future
Access to Information	Knowledge
Access to Education & Training	Social Networks

Norms Around Decision-Making, Roles & Bargaining Power

Physical Capability

Physical Mobility & Health

Personal/Physical Access to Transport, Markets	Access to Basic Services (WASH, Health, Energy)
Safety & Shelter	Nutrition

Norms Around Autonomy (Mobility, Time Use) & Responsibility for Others

Outcomes

At household level:

- Resilience building & Capturing opportunities
 - ▣ Pathways and outcomes may differ
 - ▣ Not as linear as providing clean water or mosquito nets
 - ▣ But improvements/positive changes witnessed worldwide
- Institutional and national (Microfinance Barometer 2019)
 - ▣ Globally 124bln USD in lending
 - ▣ Growth between 2018 – 2019 of more than 9%
 - ▣ Bolivia MF more attractive for commercial banks

Examples of Global evidence

CGAP has documented evidence over the years:

- Ghana micro-insurance -
- Malawi on savings – effect of savings on working capital and agricultural productivity
- Morocco on Ag credit – diversification of livestock and increase in crop output
- Philippines -
- Zimbabwe FAO study (unpublished but 2020) – effect of rural finance on WE and agricultural productivity

Criticisms

Microcredit is not effective in reducing poverty

Prohibitive costs trapping the poorest consumers in an endless spiral of debt..

Finance not reaching the SMMEs

Loans are mostly short-term



Sectoral Response

Responding to the criticisms

- Microcredit not reducing poverty
 - Not microcredit – much more than just credit
 - When poor do not slide back to social safety nets
 - SMEs growing their businesses and employing others

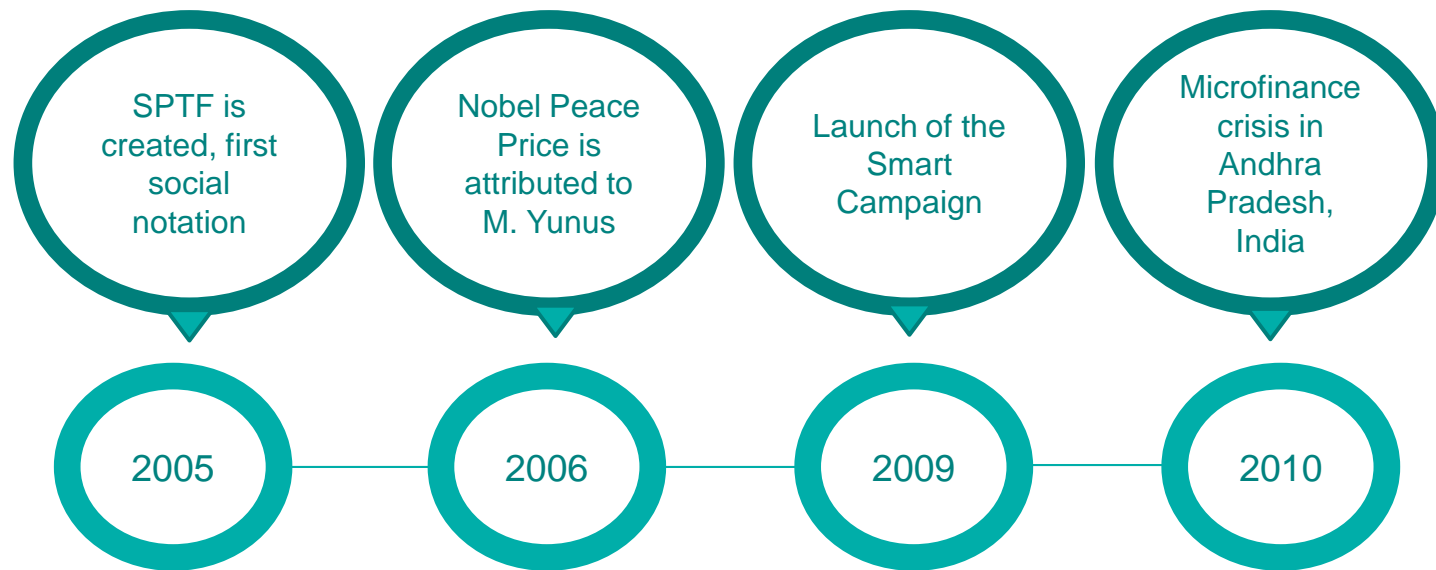
- Prohibitive costs
 - Bolivia interest rates decline – evidence of mature DMFI markets
 - Counter factual – what would have happened to these SMME
 - Smart Campaign with CPP & SPM now globally recognized
 - Responsible finance and Impact investors

Sectoral response

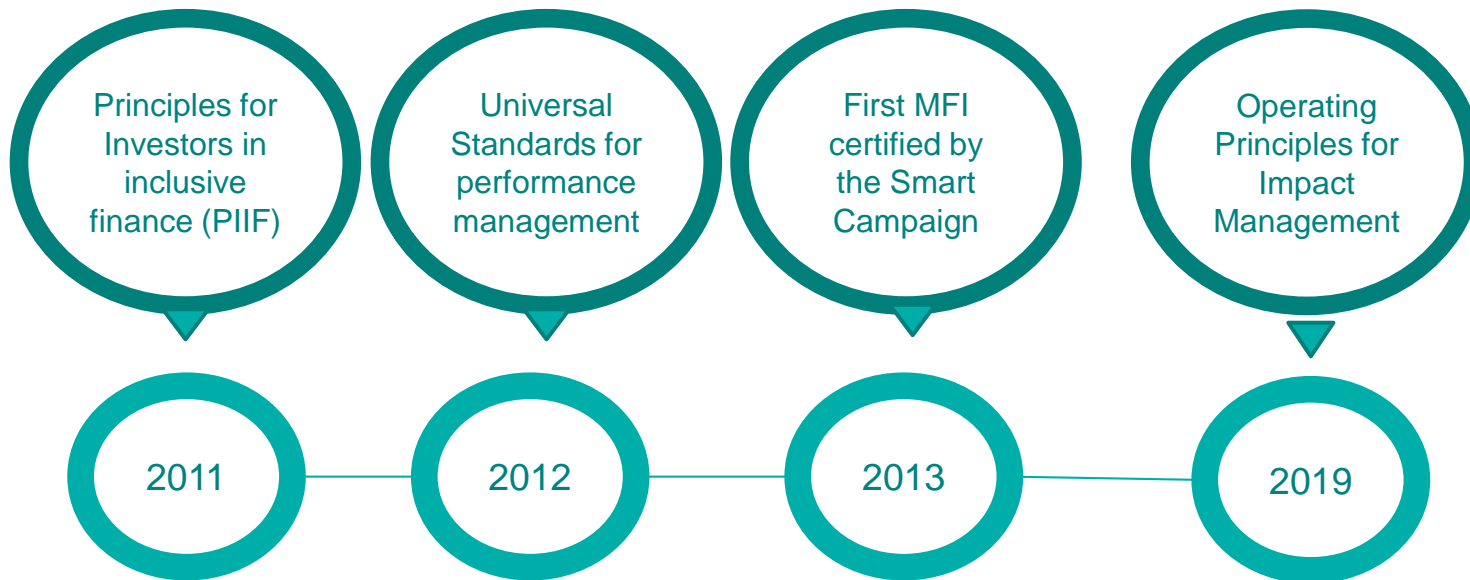
Responding to the criticisms

- Microcredit not reaching SMMEs
 - Abuse of services by a few
 - Evidence of graduation models especially in Commercial Banks
- Loans are mostly short term
 - Client centricity driving business models – competition forcing MFIs to be even more client centric
 - Smart Campaign efforts – appropriate loan product design
 - Consumer protection issues

Trends in the past 10 years



Trends in the past 10 years



Source: Adapted from Microfinance Barometer 2019

Current status

Innovations and initiatives

- Mainly technologically driven
 - Products electronically delivered – disbursements and repayments over the phone
 - Assessments need not necessarily be in person
 - Credit Factory in Ecuador – successful CB in microfinance
 - High touch via digital experiments
- Rural Finance and Agricultural Finance center stage
 - Over 70% of developing populations in rural
 - IFAD, FAO, CABFIN investing
 - Boulder microfinance has created a full RAFP department to upskill MFIs

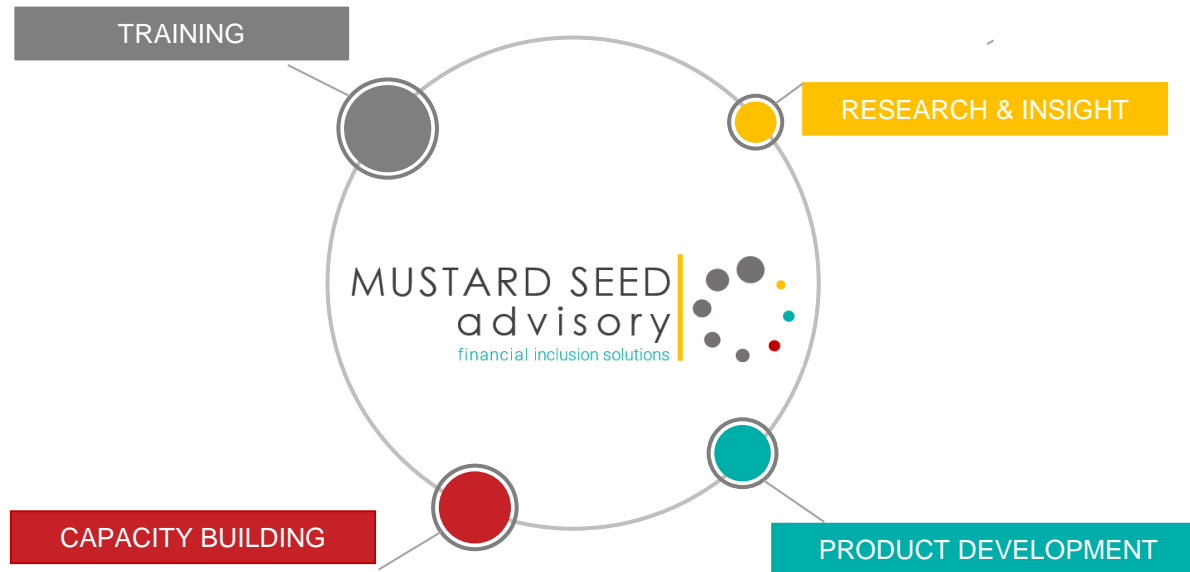
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Current status

From small projects of DMFI in different countries to a key pillar in most National Financial Inclusion Strategies!



THANK YOU

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