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June 2, 2011

# The State of Microfinance and Financial Inclusion: Thoughts from Industry Leaders

Shari Berenbach  
United States Agency for  
International Development



Sam Daley-Harris  
Microcredit Summit Campaign



Tilman Ehrbeck  
Consultative Group to Assist the  
Poor (CGAP)



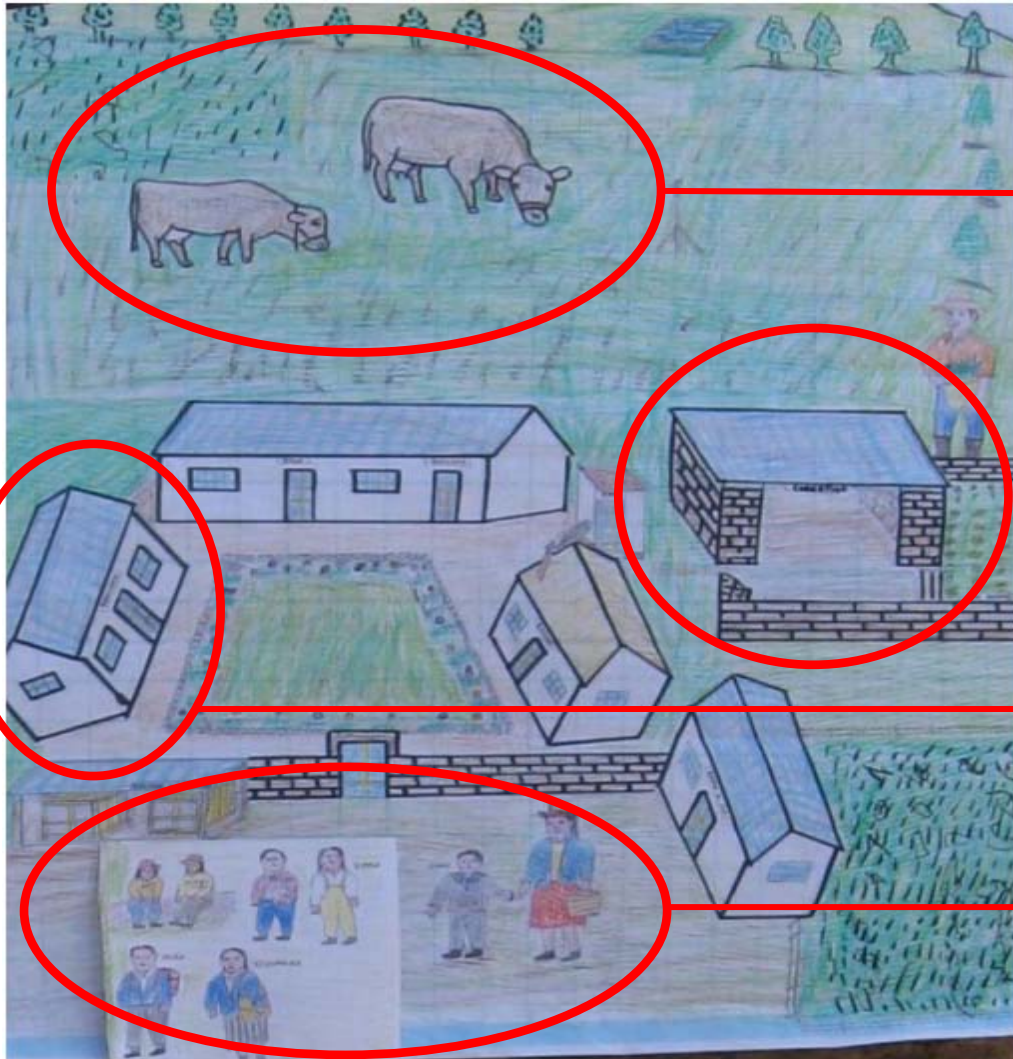
# Overview

- Why access to finance matters for poor people
- Why access to finance matters for development
- Where the opportunities are going forward

# Poor families have very tangible dreams



# Financial services needed to achieve these dreams



Buy and protect productive assets

Invest in fixed assets

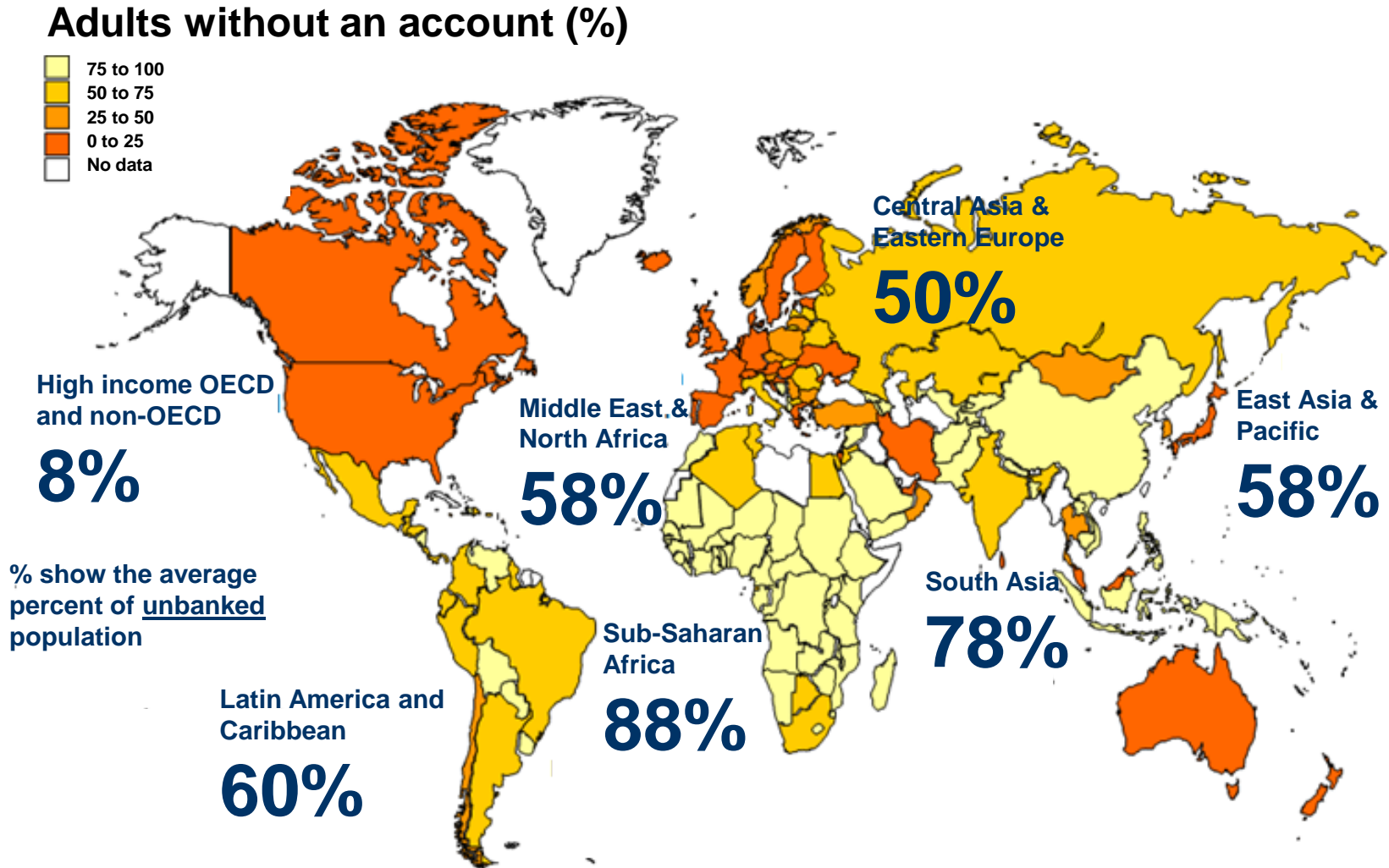
Expand housing

Pay for school fees

# Poor households everywhere have very active financial lives



# 2.7 billion working-age adults without access to formal financial services



# Overview

- Why access to finance matters for poor people
- Why access to finance matters for development
  - Welfare impact on households
  - Effectiveness of other public policy interventions
  - Macroeconomic benefits
- Where the opportunities are going forward

# Need for better understanding of demand

## One estimate of segments based on livelihoods

Million people

World population < USD 2 a day 2,640

All working age 1,635

Low-wage salaried	<b>300</b>
Unemployed	<b>100</b>
Casual laborers	<b>365</b>
Micro-entrepreneurs	<b>160</b>
Pastoralists	<b>40</b>
Fishermen	<b>40</b>
Small holder farmers	<b>610</b>

**Credit**

**Savings**

**Insurance**



Consumption credit ?

Working capital

Agricultural finance ?

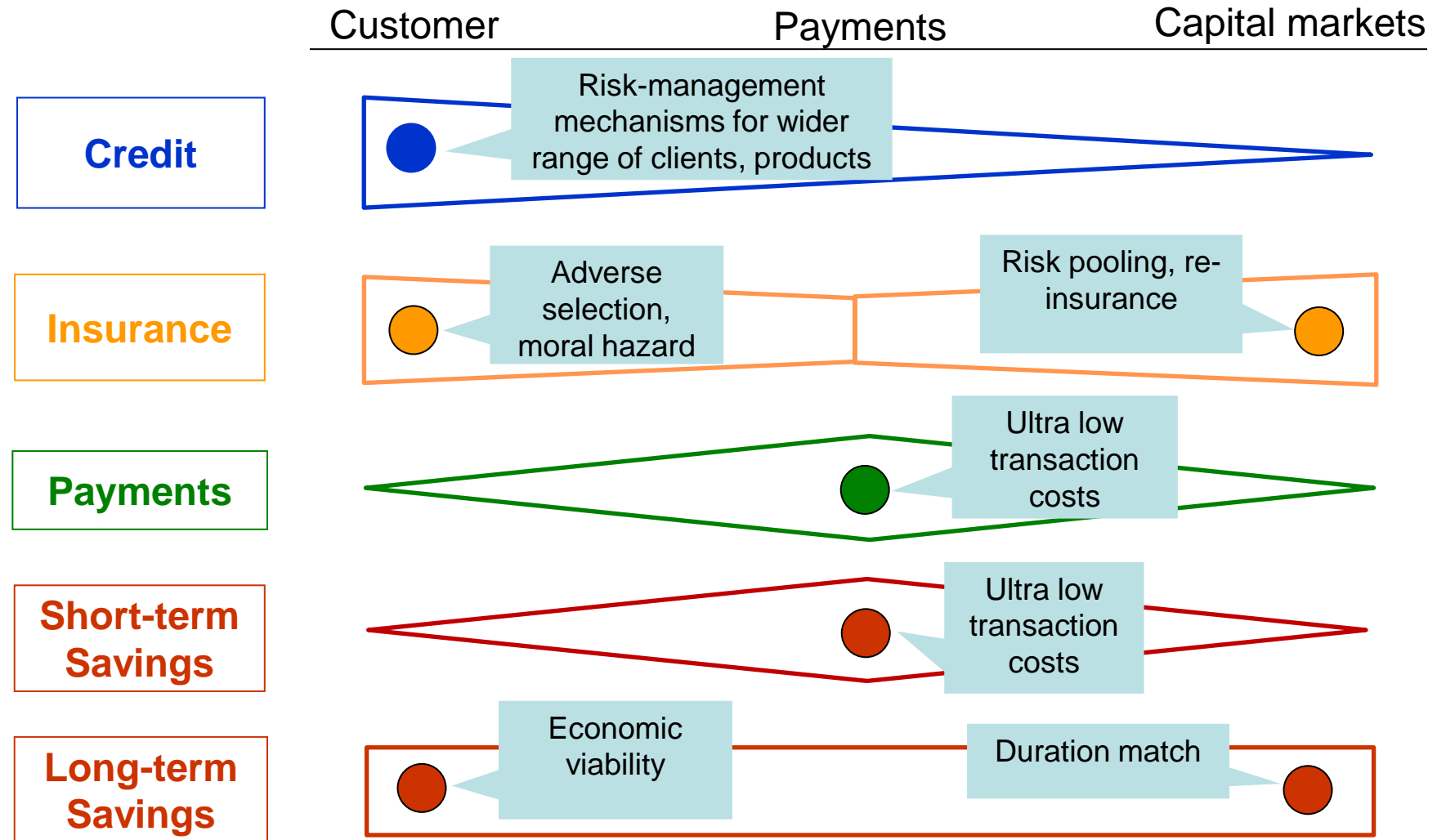




# Need for better understanding of enterprise segmentation

	<b>Self-employed</b>	<b>Microenterprise</b>	<b>Very Small Enterprise</b>	<b>Small Enterprise</b>
<b>Level of formality (registration/ taxes)</b>	Not registered Not taxpayer	Mostly not registered Mostly not taxpayer	Partially registered Partially taxpayer	Fully registered Taxpayer
<b>Type of employees</b>	Self	1-4 employees mainly family members	< 5 employees, also out of family	>5 employees, including technical staff
<b>Business organization</b>	Single person	Integrated in household	Some separation from household	Clear business cycle and staff specialization
<b>Internal rate of return</b>	High	High	Medium	Low
<b>Financial report</b>	No written records,	Weak records Some documentation	Financial records (bills, payments) for up to a year	Financial statements

# Different economic pain points suggest importance of broader array of actors and models



# Ecosystem that works for the base of the pyramid likely to encompass broader array of actors

**PRODUCTS:**  
(Many)

**CHANNELS &  
SOCIAL AGGREGATORS:**  
(Many)

**TRANSACTION  
BACKBONE:**  
(One - or at least fewer)

**FUNDING & RISK  
AGGREGATION:**  
(Few)

Small-value savings  
Payments  
Social Transfers  
Long term savings  
Microcredit  
Insurance

+

Brokers and third-party agents  
MFIs  
SHG and cty based org  
Point-of-sale terminals  
Mobile phones  
Retail stores  
Loan officers

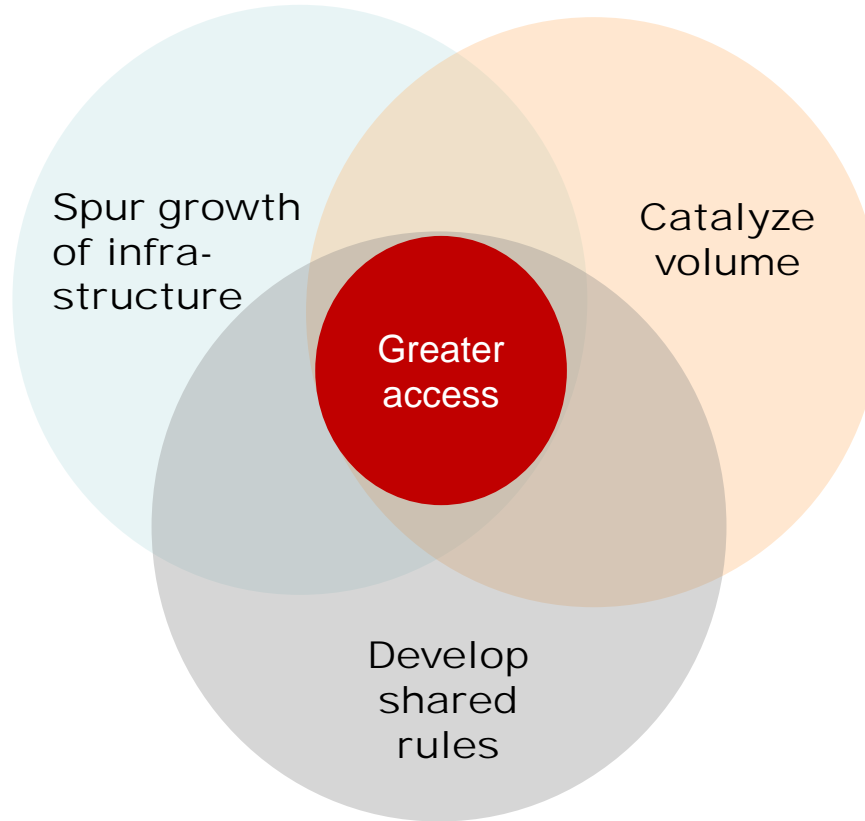
**Payment system & global switch**

Risk aggregators  
Financial intermediation  
Debt and equity markets

# Governments can catalyze development of ecosystem

## Infrastructure

- Ownership of retail points of service (e.g. post offices)
- Promote/own credit bureaus
- National switch



## Volume

- Direct G2P flows into e-channels
- Incentives for users and providers to participate
- Remove consumer barriers to access (e.g. national ID)

## Rules

- Regulation of new services, new players
- Competition policy
- Consumer protection
- Anti-crime standards (e.g. AML/CFT)

# Multiple roles for funders at this stage of industry evolution

## Key roles

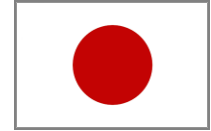
- Advance foundational understanding of demand side
- Support new business model experimentation and expansion to frontier/underserved markets
- Help microfinance evolve under broader umbrella
- Fund building-up of required infrastructure and other public goods



**Our mission is  
critical and far  
from being  
accomplished**



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[www.cgap.org](http://www.cgap.org)

[www.microfinancegateway.org](http://www.microfinancegateway.org)



MINISTRY FOR FOREIGN AFFAIRS OF FINLAND



# **The State of Microfinance and Financial Inclusion: Thoughts from Industry Leaders**



**Sam Daley-Harris, Microcredit Summit Campaign  
USAID After Hours Seminar Series - June 2<sup>nd</sup>, 2011**

## Muhammad Yunus responding to a question asking what his strategy was in forming Grameen Bank:

*“....When I look back my strategy was, whatever banks did I did the opposite. If banks lent to the rich, I lent to the poor. If banks lent to men, I lent to women. If banks made large loans, I made small ones. If banks required collateral, my loans were collateral free. If banks required a lot of paperwork, my loans were illiterate friendly. If you had to go to the bank, my bank went to the village. Yes that was my strategy. Whatever banks did, I did the opposite.”*



## Are we measuring what is most important in microfinance or what is easiest to measure?

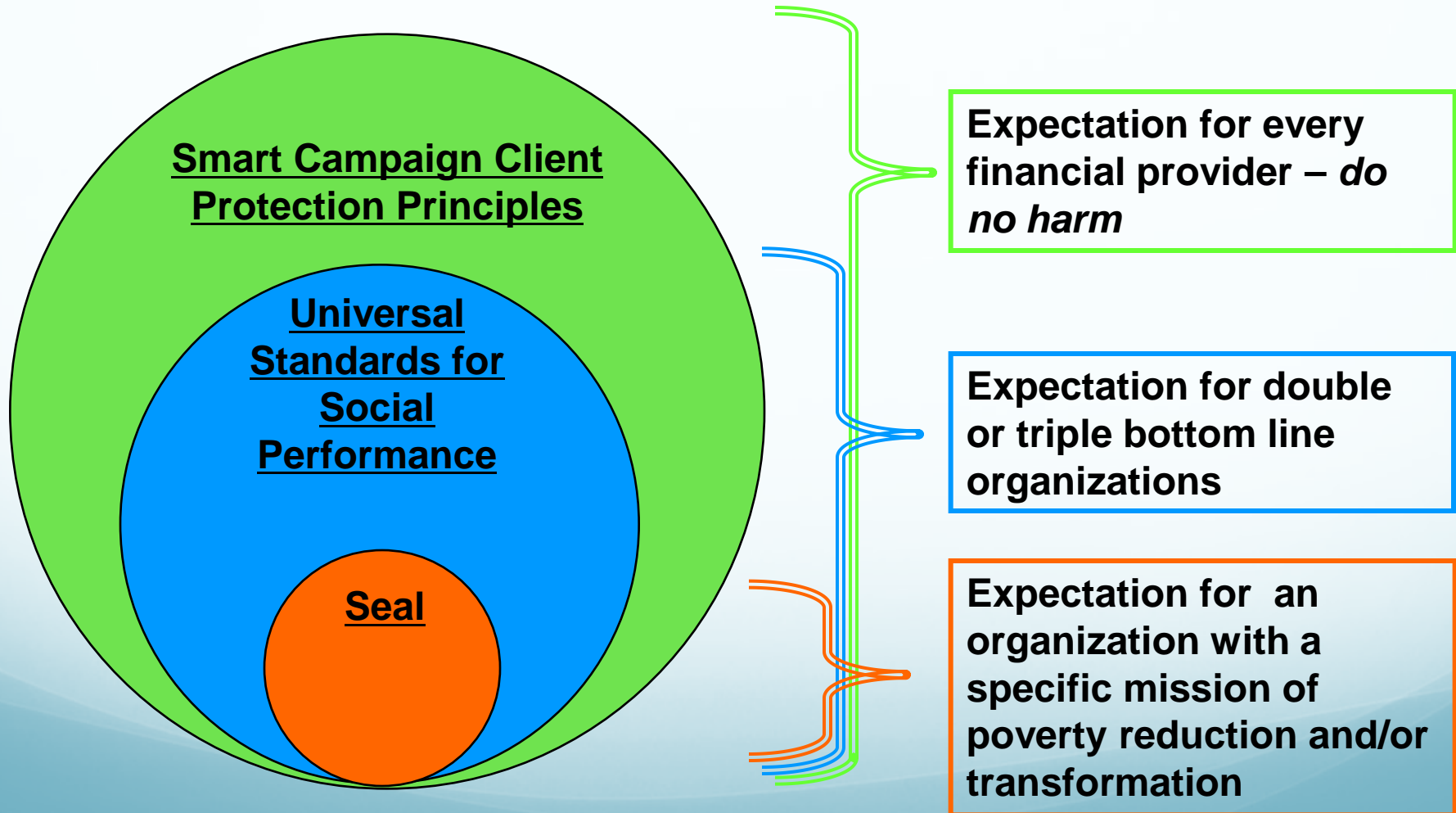
*The passerby helps a man on his hands and knees who is looking under a street lamp for his lost keys. After a while the passerby ask, “Where did you lose your keys?” “Over there,” the man responds pointing to the darkness. “Then why are you looking under this street lamp?” the passerby asks. “Because there’s more light here,” the man responds.*

# Financial Inclusion is Important -but What are the Challenges and Pitfalls?

*We must not* let financial inclusion mean: “What is the least we can provide in services?”

- Unbridled growth in Andhra Pradesh, India was described as an effort to increase financial inclusion.
- Access only (i.e. “everyone has a bank account”), can lead to hollowed out services as exist in other fields (e.g. village schools with no teacher and no books, village health posts with no medicines and no trained health workers).

# Different initiatives apply to different financial service providers



# Excerpts from Annex V

## Standards for double bottom line finance

### **Governance/ Responsible financial guidelines**

1. *Reasonable* level of profitability: [guideline - RoA slightly above the bank sector, to allow for additional risk - may differ by country]; if high, then clear rationale and evidence of allocation that benefits clients.
2. *Reasonable* annual growth rate [guidelines for portfolio growth could be as follows: <50% for Tier 3 MFIs, <40% Tier 2, and <25% Tier 1.
3. Remuneration to CEO is transparently reported and is not more than the equivalent level in the country's private banking sector.
4. Remuneration to CEO in comparison with lowest paid field officer is not more than a ratio of x.

# Excerpts from Annex V (cont'd)

## Seal 1 – Poverty Outreach

- Outreach to less developed areas
- Outreach to poor households
- Client retention
- Gender equity - opportunities for women

## Excerpts from Annex V (cont'd) SEAL 2 - Transformation

- Non-financial services to support clients in their businesses or other improvements in quality of life
- Client ownership
- Evidence for contribution to poverty reduction

*“The microcredit movement, which is built around, and for, and with money, ironically, is at its heart, at its deepest root not about money at all. It is about helping each person to achieve his or her fullest potential. It is not about cash capital, it is about human capital. Money is merely a tool that unlocks human dreams and helps even the poorest and most unfortunate people on this planet achieve dignity, respect, and meaning in their lives.”*

Nobel Laureate Muhammad Yunus

# Thank you!

Join us at the Global Microcredit Summit in Valladolid, Spain from November 14-17, 2011 for critical discussions on the state of the field and our highest visions for moving forward.

Register now at [www.globalmicrocreditsummit2011.org](http://www.globalmicrocreditsummit2011.org).



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A Project of RESULTS Educational Fund





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# Microenterprise Development



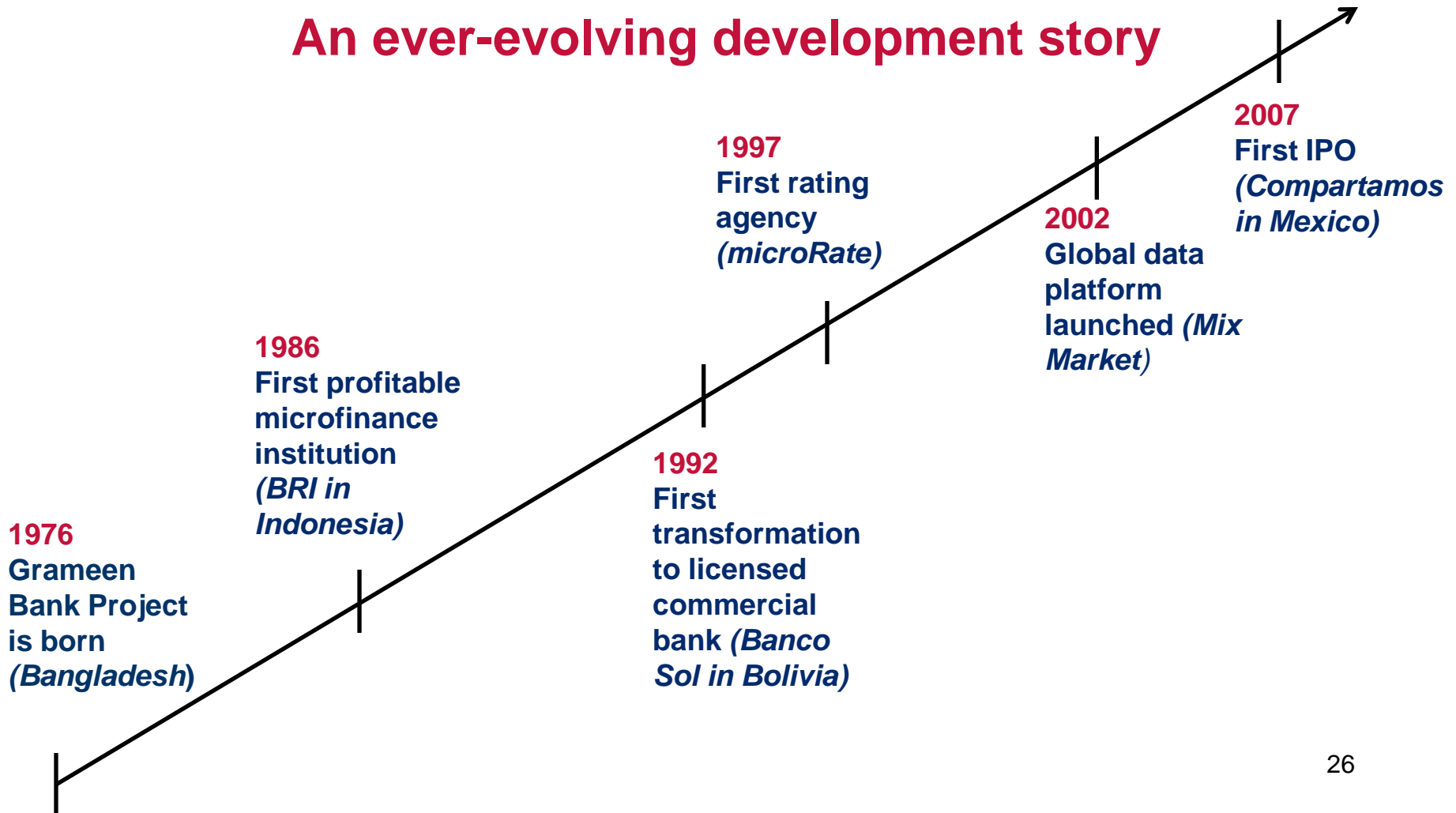
**Shari Berenbach**

**Director, Microenterprise Development Office**



# Microfinance:

## An ever-evolving development story

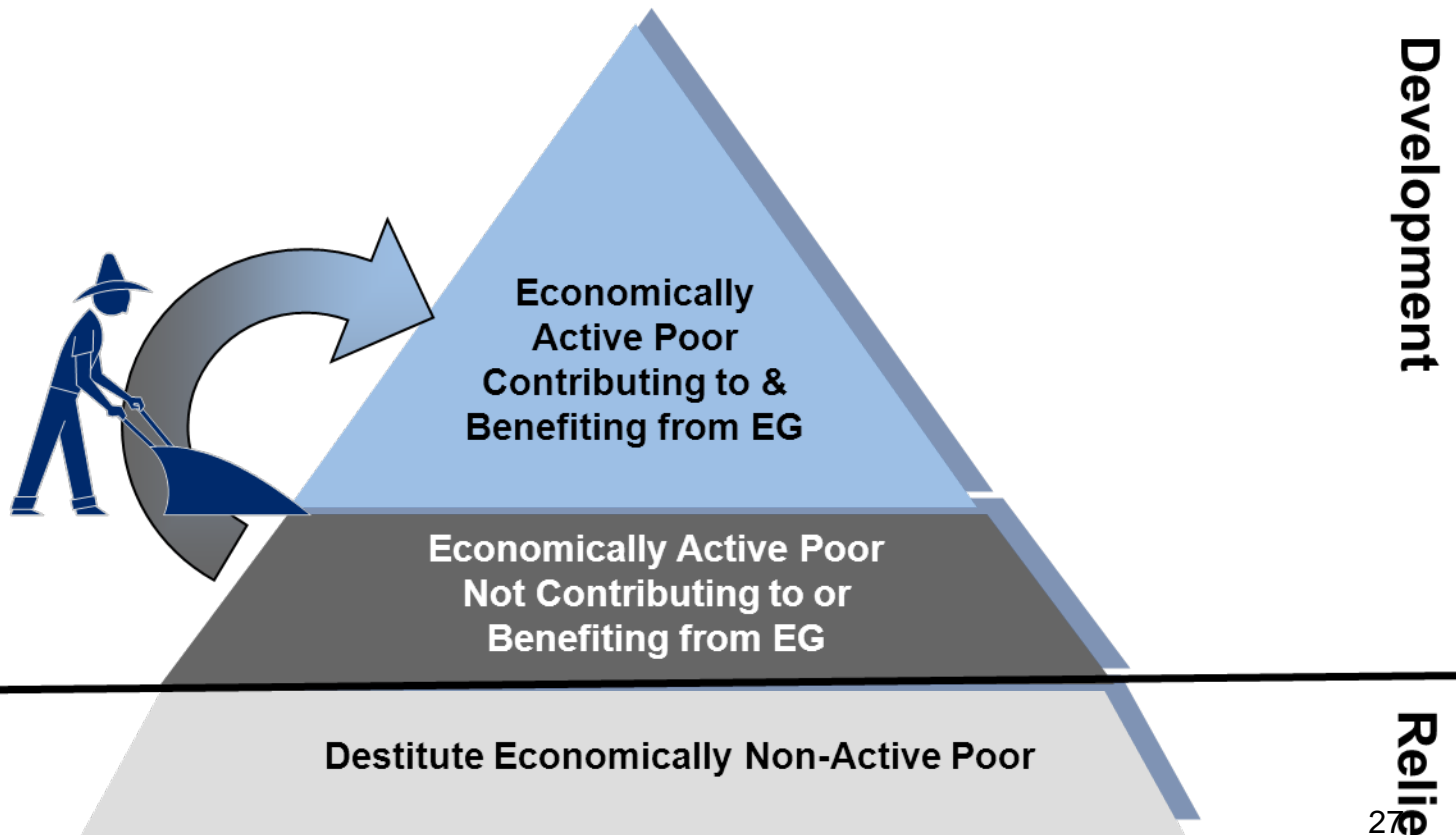




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# Inclusive Markets

**Foster Broad Based Economic Growth**





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# Inclusive Markets

## Breaking down the Stovepipes and Silos

**MARKETS**



**ENTERPRISES**



**HOUSEHOLDS**





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# Frontier I: Do No Harm!



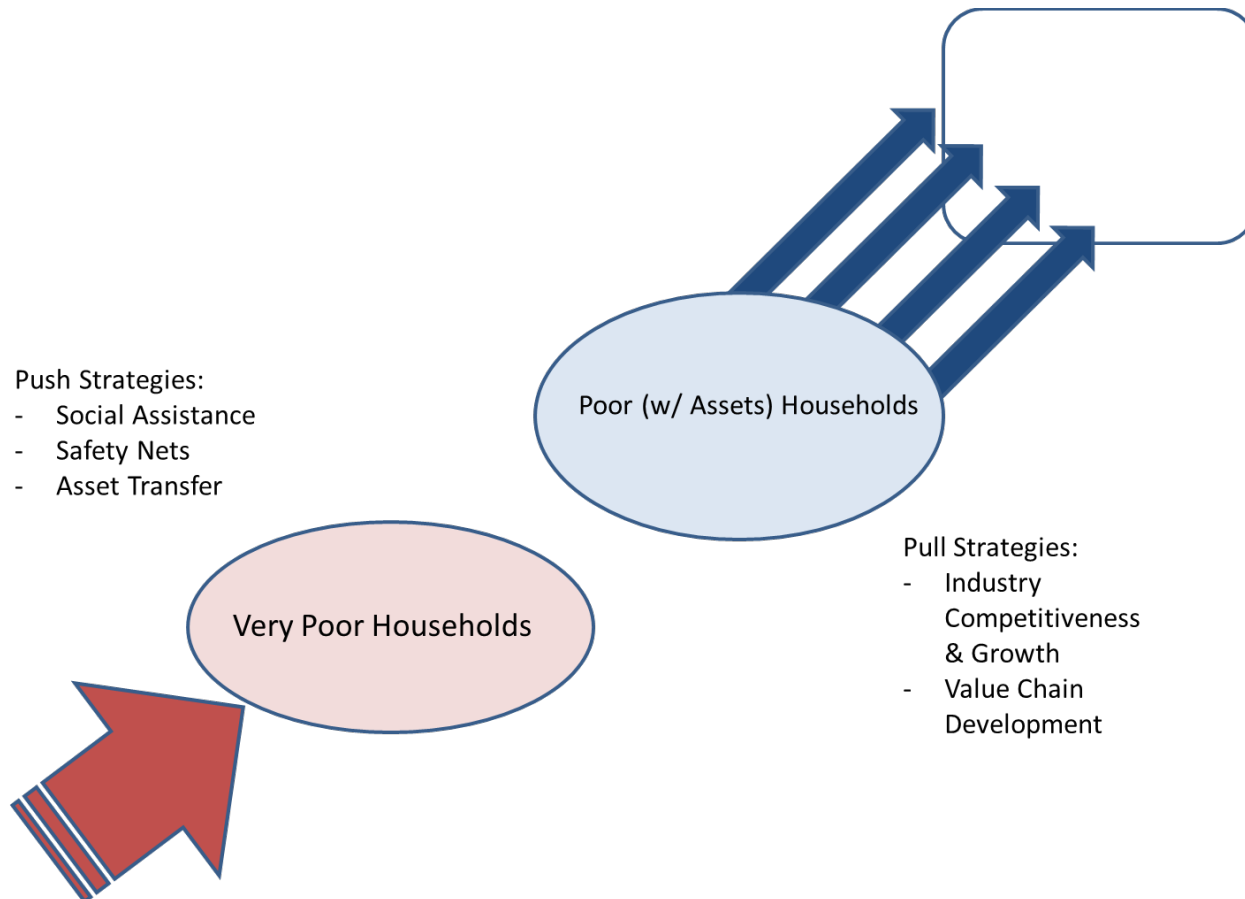
**Consumer Protection**



**Social Performance**



# Frontier II: Pathways Out of Poverty





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# Frontier III: Rural and Agriculture Finance



## Finance Needs:

- Microcredit for Agriculture
- Micro-Savings
- Micro-Insurance





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# Frontier IV: Mobile Money



## M-Pesa in Kenya:\*

- 80% of population
- 50% of poor
- 50% higher saving
- less likely to skip a meal

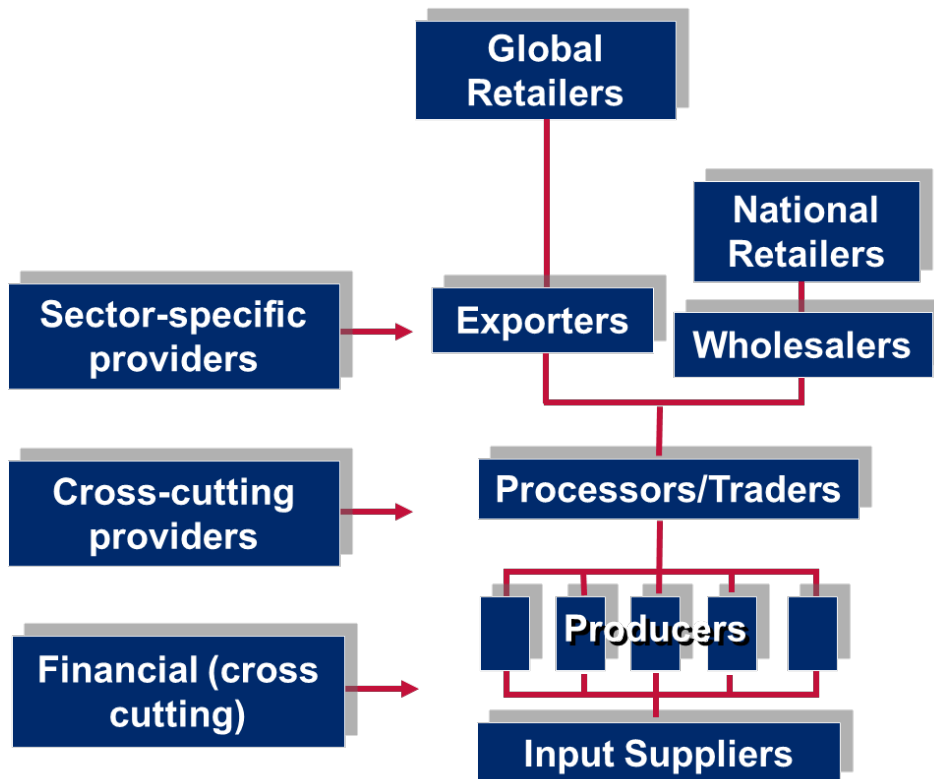






# Frontier V:

## Linking Smallholders with Small and Growing Businesses





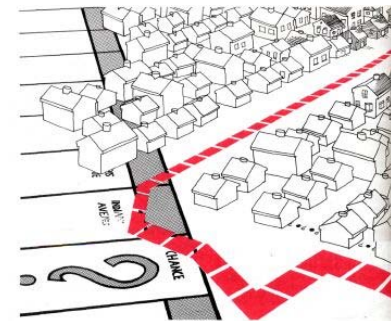
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# Looking Forward:

## Impact Investing



**Social Enterprise &  
Sector Links**



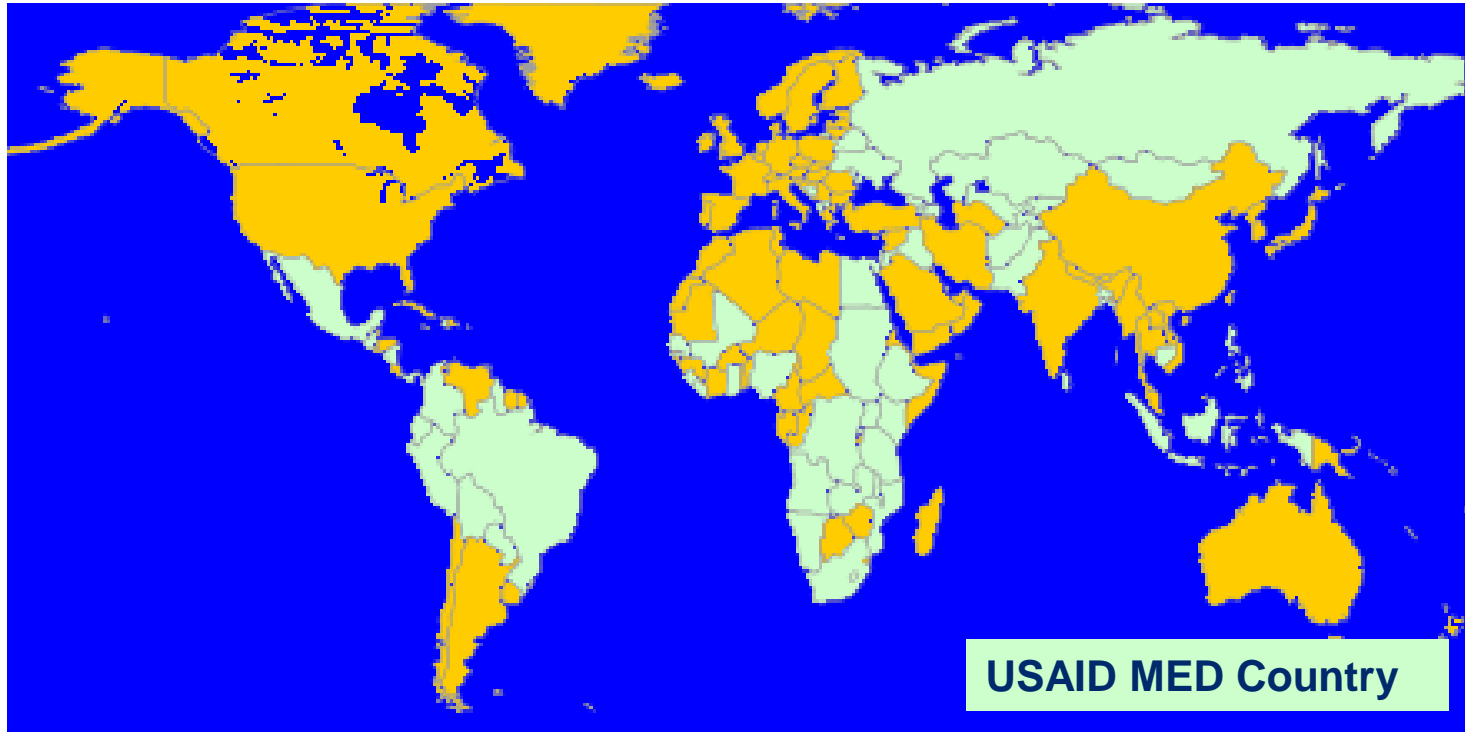
**Reaching New Markets**



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# USAID's Opportunity

## Microenterprise Development in FY 2009



**\$267 million**

**71 countries**

**152 diverse implementing partners**

35

\*FY10 figures not released yet



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FROM THE AMERICAN PEOPLE

**Shari Berenbach**  
sberenbach@usaid.gov

**Sam Daley-Harris**  
samdharris@microcredit  
summit.org

**Tilman Ehrbeck**  
tehrbeck@cgap.org

**June 2, 2011**



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After Hours Seminar

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Microlinks and the After Hours series are products of Knowledge-Driven Microenterprise Development Project (KDMD), funded by USAID's Microenterprise Development office.