

MICROFINANCE

Current and Future Developments

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LSE Microfinance Event, 6 February 2008

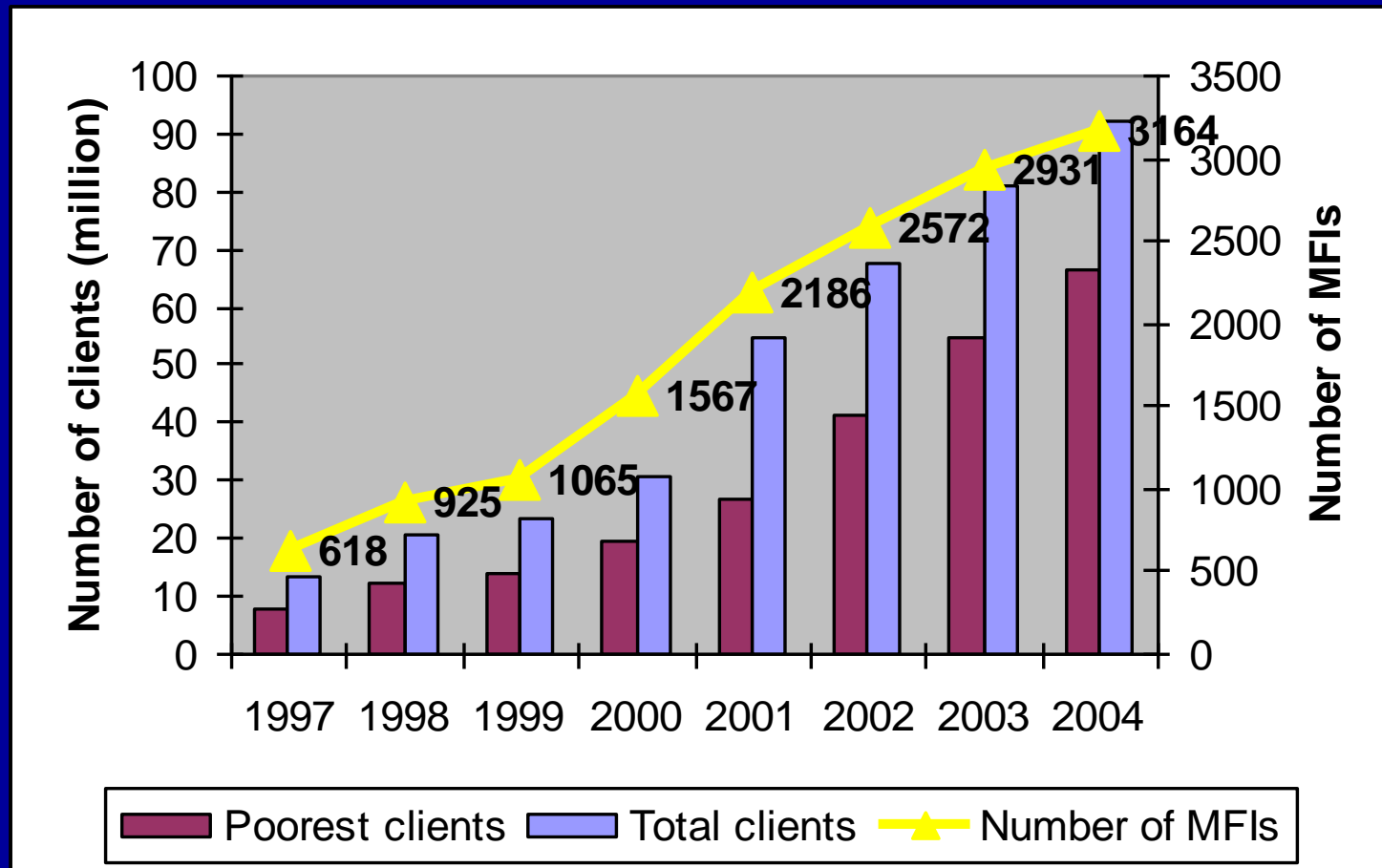
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- What the future holds: Three scenarios for 2015.

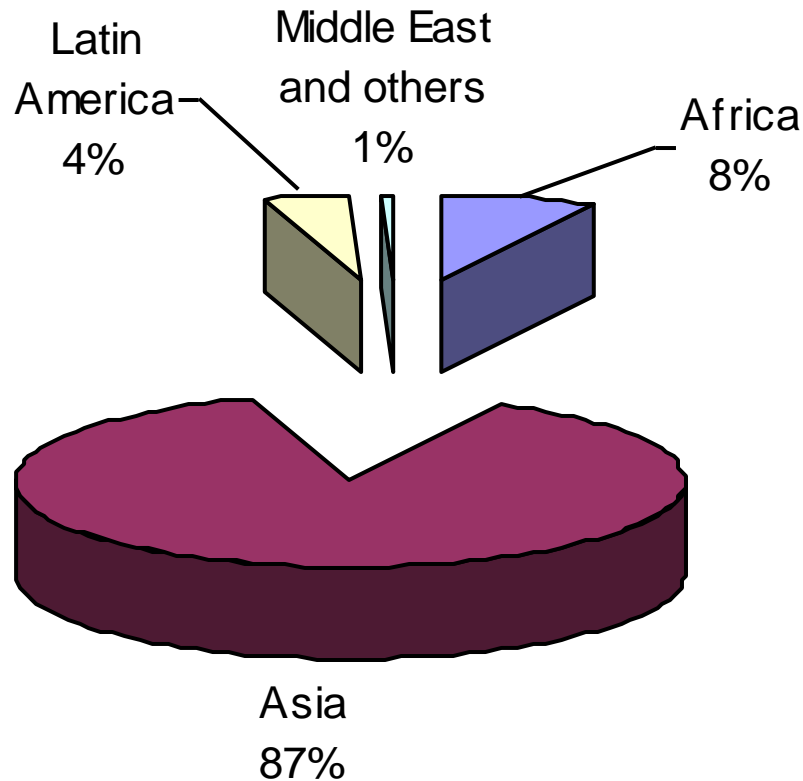
Origins and main microfinance models

- Rotating Savings and Credit Associations (ROSCAs), savings clubs, moneylenders
- European credit co-operatives
- Group-based model: Grameen Bank, ACCION International
- Individual model
- Social and financial objectives

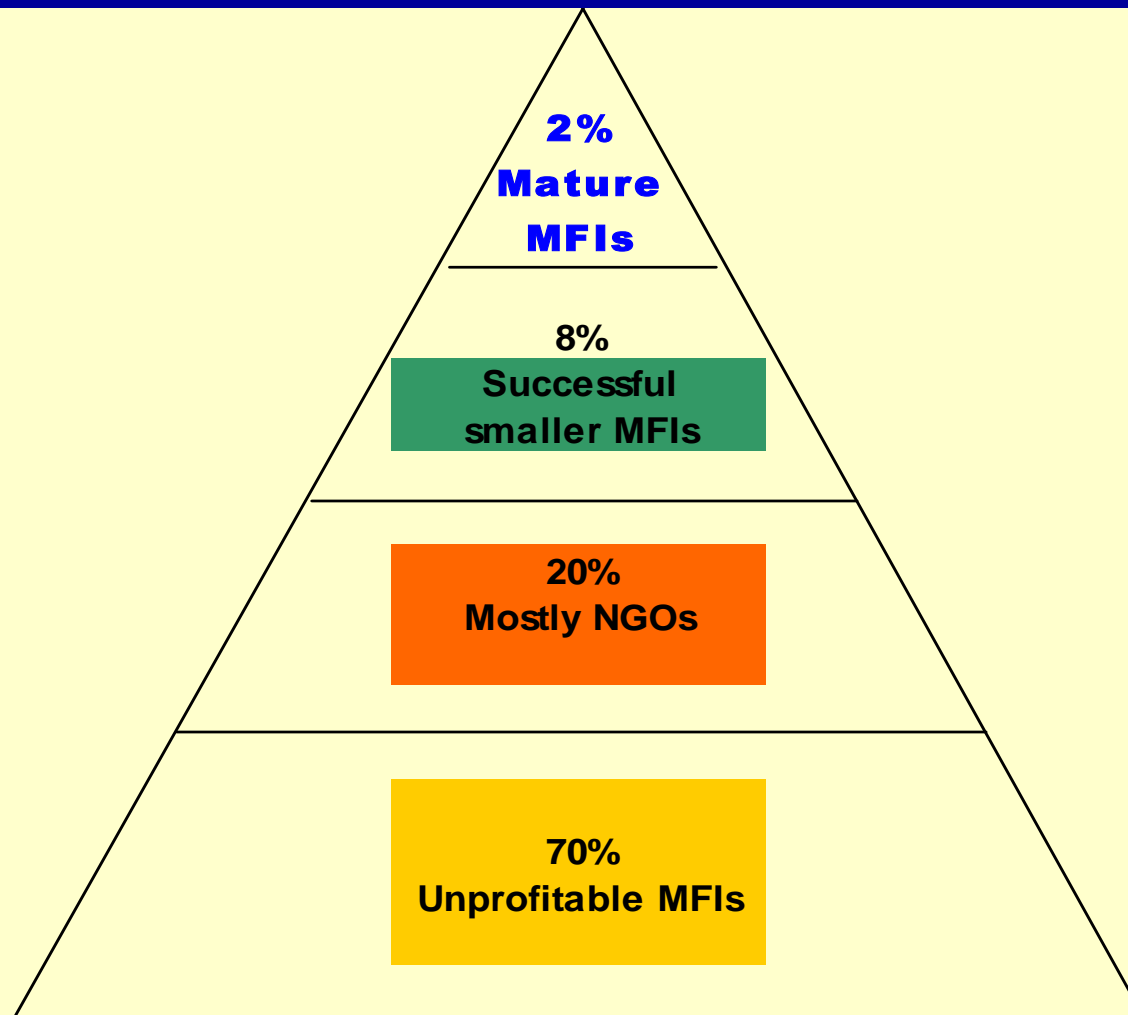
Overview of the microfinance industry's growth



Regional distribution, 2004 (percentage of total clients)



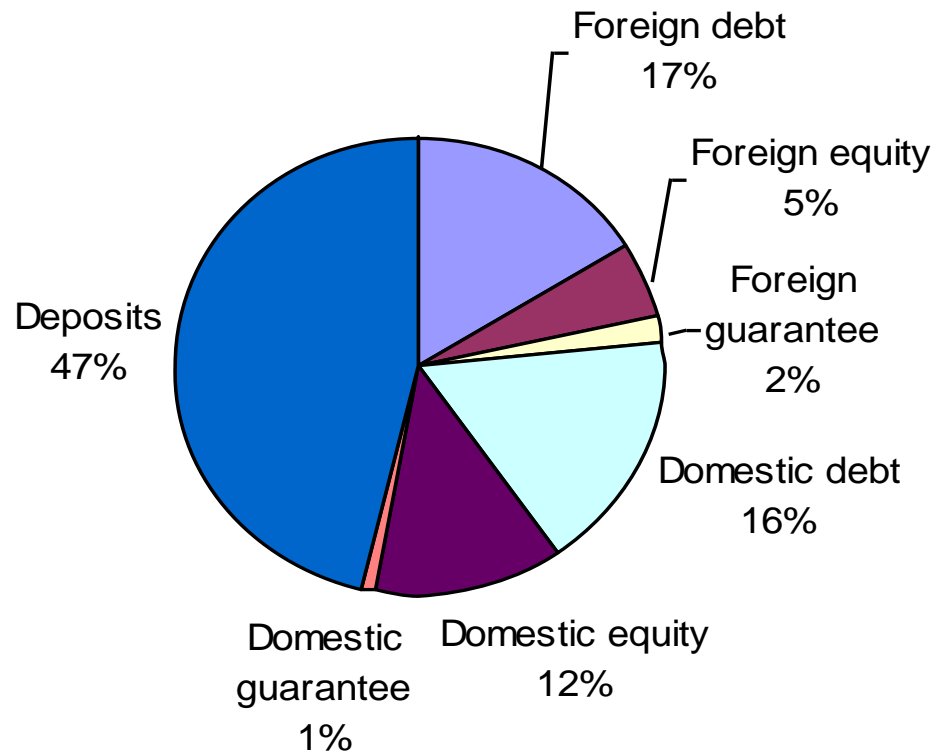
Key players in the microfinance market



Potential demand for microfinance

- Exact size of the microfinance market is difficult to assess
- Estimates of supply range from US\$8bn to US\$30bn
- World Bank estimates a potential demand of US\$300bn.

Current sources of microfinance (total of US\$30 billion)



Targets of the microfinance industry

- Depends on objectives of the microfinance provider and the perceived demand
- Natural clientele: the financially excluded from formal markets or “unbankable”
- The target group ranges from ultra-poor to small but growing businesses
- Clientele selection driven by two long-term aims: Outreach & Financial Sustainability

Target Groups versus Microfinance Objectives

MFI objectives	Potential target group	Funding sources
Poverty reduction	Rural and remote areas Marginalised urban areas Ultra and very poor	International donor funding – prominent
Women empowerment	Poor women Single mothers Female headed households	Donor and charity funding if very poor women are the target
Micro-enterprise development	Start-up business Unstable enterprises Family businesses	Local funds and donor support
Agricultural growth	Small farmers Drought-affected areas Crop-disease infected areas	International donor funding necessary
Life & general insurance	Working population Large households Accident-prone areas	Local and international commercial institutions
Remittances flow	Migrant workers Families receiving remittances from relatives	Partnerships between local and international financial institutions
Business development	Existing enterprises Productive sector Trade and service industry	Private, commercial capital – prominent

Future of microfinance

Three scenarios for the future of microfinance in 2015:

- Commercial Pullback
- Unequal Development
- Systematic Integration

Commercial Pullback

- Loan portfolio grows to US\$ 15 bn
- Involvement of commercial players evaporates
- Donor-supported industry stagnates
- Very few commercially sustainable MFIs
- Very limited product innovation
- Polarised MFIs: big & tiny

Unequal Development

Loan portfolio predicted to grow to US\$ 60bn due to assumptions:

- BRIC countries' economic growth
- Mobile-phone technology widely used by MF industry

BUT

- MF not yet an asset class product
- Weakness in MF market remain

Systematic Integration

Loan portfolio predicted to grow to
US\$ 130 bn

Pre-conditions:

- Enhanced MFI information
- Enabling regulatory frameworks
- Advanced use of technology
- Strong Management Info Systems
- Greater stakeholder collaboration