

Microfinance: Developments and Future Trends

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•Current Status

Source: MIX Market (the Microfinance Information eXchange)

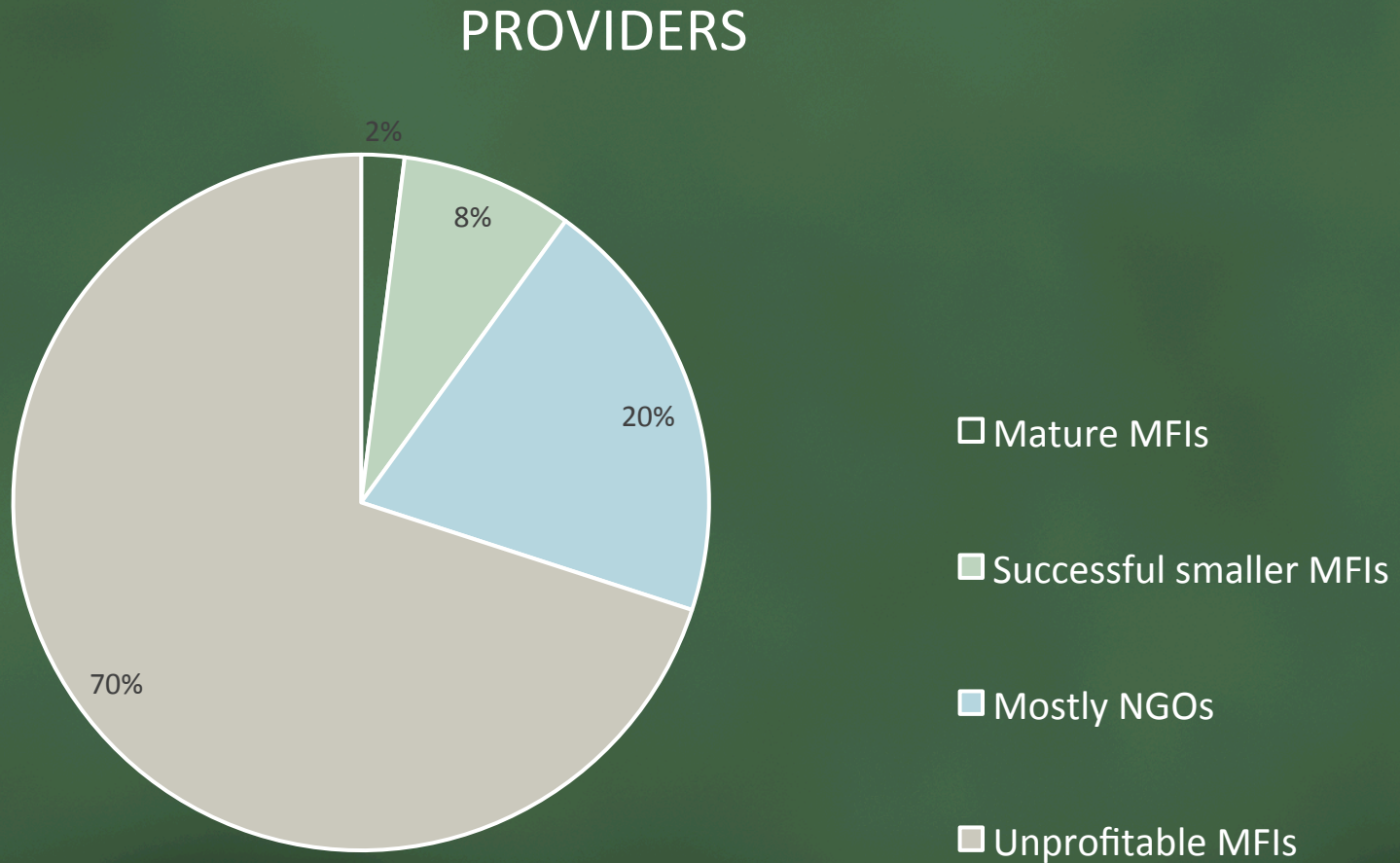
	Worldwide	Philippines
MFIs	1003	118
Borrowers	85 million	4.1 million
Portfolio (in USD)	90.3 B	1.2 B

•Current Status

Source: Mainstreaming Micro, Stakeholders Conference; Stefan Platteau and Hedwig Siewertsen

	Worldwide	Philippines
MFIs	10,000	500
Borrowers	100 million	7 million
Portfolio (in USD)	15 B	300 M

Who are the providers of Microfinance today?



•Target groups vs. Microfinance Objectives and Funding sources

MFI OBJECTIVES	POTENTIAL TARGET GROUP	FUNDING SOURCES
Poverty reduction	-rural and remote areas -marginalized urban areas -ultra and very poor	International funding - prominent
Women empowerment	-poor women -single mothers - Female headed households	Donor and charity funding if very poor women are the target
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
Remittance flow	-Migrant workers - Families receiving remittances from relatives	Partnerships between local and international institutions
Business development	-existing enterprises -productive sector -trade and service industry	Private, commercial capital - prominent

• In 2015: Microfinance will look like this:

PROVIDERS

- Banks
- Finance Companies
- NGOs
- Savings & Credit Coops
- Supermarkets
- Insurance companies
- Property developers
- Money transfer agencies
- Mobile phone companies
- And other new providers

PRODUCTS

- Micro loan
- Small loan
- Educational loan
- Credit card
- Mortgage
- Consumer loan
- Checking account
- Savings account
- Foreign currency account
- Remittances
- Supplier credit
- Leasing
- And other new products

CLIENTS

- (Poor) families
- Micro entrepreneurs
- Small farmers
- Families in their different roles: as consumers, house builders, parents, savers, insurance takers, part of money flow networks

- The QUESTION is:
- HOW ARE WE GOING TO GET THERE?



And in getting there,
we have to take a look
on these key issues
affecting microfinance:

Development of
microfinance
industry and
markets

What will
happen at the
meso level

The supply (the
microfinance
providers and
their products)

The demand
(the clients)

Initiatives to
further cover
the markets,
including rural
markets

Funders and
Funding

Lessons learned from the financial crisis
(e.g. Inflation, prices rise, Liquidity
crunch, food crisis)

KEY ISSUES AFFECTING MICROFINANCE

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Development of
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- Key words here are: growth, scaling up, increased use of technology, and integration in mainstream finance
- These trends have started in the past years and are likely to continue.

KEY ISSUES AFFECTING MICROFINANCE

Key Issue #1.

Development of Microfinance Industry and Markets

GROWTH,
SCALING
UP



• OUTREACH AND SIZE

Scale of MFI	From	After 3 years	Change Increase (decrease)	% of change Increase (decrease)
Small	221	164	(57)	(25%)
Medium	139	138	(1)	
Large	127	185	58	46%
Total	487	487	0	
Average Clientele	63,582	100,978	37,396	58%

- It clearly shows the scaling up of operations and as a result the growing importance of large institutions...
- In relation to this, it can be seen that the average number of clients per institution is growing rapidly

Analysis of a sample of 487 providers reporting to the MIX over just a 3-year period

(Source: Platteau and Siewertsen of Triodos Facet in the Netherlands for MicroNed)

• INSTITUTIONS PER CHARTER TYPE

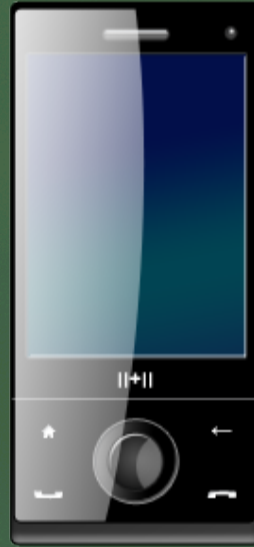
CHARTER TYPE	From	After 3 years	Change Increase (decrease)	% of change Increase (decrease)
Bank	46	50	4	8.7%
Credit Union	35	35	0	
NBFI	143	172	29	20.28%
NGO	222	190	(32)	(14.41%)
Rural Bank	41	40	(1)	(2.44%)
Total	487	487		

- This shows that more MFIs are becoming regulated entities and this trend will continue
- It clearly shows the shift away from the NGO type to banks and most of all to Non-Bank Financial Institutions (NBFI)

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(Source: Platteau and Siewertsens of Triodos Facet in the Netherlands for MicroNed)

• INCREASED USE OF TECHNOLOGY



Mobile banking, loan disbursements and collections

• INTEGRATION IN MAINSTREAM FINANCE

Financial literacy/ education

Broad range of financial products for different segments of the poor

Business development services

The market caters to the broad range of needs of the poor: livelihood, agri loan, housing, insurance, education, health

Efforts to enable micro-entrepreneurs to access the market

Trainings on financial literacy are provided to the poor

Capacity building, values formation, welfare services

Financial services in areas where there are major subsidy programs such as Conditional Cash Transfer and KALAH-CIDSS when the poor are ready for such services

Value Chain development (from financing, production, marketing, business management)

Increased attention for
social and environmental
performance: Social
Performance Management
(SPM)

**Are we reaching our target
clients?**

**Are we meeting the clients'
needs?**

**Are people really using and
benefiting from our services? –
IMPACT or did we see the
desired change in our clients'
lives?**

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KEY ISSUES AFFECTING MICROFINANCE

Key Issue #2.

What will happen at the (meso level) credit bureaus, training centres, consultancy services, microfinance associations, local wholesalers?

These contributed a lot to a sound development of the MF industry as they provide services that make it easier for MFIs to manage risks and allow the MFIs to concentrate on their business.

• Trends at the Meso Level



Key Issue #3: The Supply or the Microfinance providers and their products: Trends

Further blending of different types of providers

Sustained growth of product offer, with increasing technology contents in the products

MFIs facing the organizational and governance challenges of a growing industry

In mature markets, market development led by innovative providers that close the quality gap

Increasing competition brings price and other advantages to the client but also threat of over-lending

More and more specialized and niche products

Key Issue #4: The Demand: (Clients)

Trends

- Increased attention for the demand side of the market
- Financial education
- Empowering the financial products consumer
- Government's protection for the consumer,
- Further deepening of outreach and initiatives

Key Issue #5: Initiatives to Further Cover the Markets, Including Rural Markets

Trends:

- The outreach of microfinance has increased dramatically in the past 10 years.
- Yet there are still unserved areas/clients geographically, sector-wise and socially.
- How will these unserved areas be covered?

Key Issue #5: Initiatives to Further Cover the Markets, Including Rural Markets

Trends:

- Are established MFIs willing to step in as competition in “easier markets” increases?
- Will this remain a market for niche players?
- Is outside support necessary to motivate (new) providers to step in?

Continuation: Key Issue #5: Initiatives to Further Cover the Markets, Including Rural Markets

Trends:

- Financial institutions' continued search for efficiency and growth will continue to increase outreach. The quantity gap will be closing.
- Competition will stimulate financial institutions to tackle “frontier” or the very poor and rural markets.
- Social goals will stimulate less commercial institutions to enter deeper into poorer markets.
- Technology will substantially contribute to reaching remote clients and will reduce transaction costs for providers and clients.

Continuation: Key Issue #5: Initiatives to Further Cover the Markets, Including Rural Markets

Trends:

- Donors will focus on frontier markets.
- Social investments (education, health, life skills) lead to more people that can become financial product clients)
- For frontier markets, riskier markets: there will be increasing demand for knowledge and information.
- Covering the quality gap will be an on-going process.

Key Issue #6: Funders and Funding Trends:

Where will funding come from?

Key Issue #6: Funders and Funding Trends:

- No lack of funding for this profitable and socially rewarding market
- Increased competition between microfinance funds
- Domestic sources of funds will become more important: savings, bank funding,
- Support to improve negotiation and valuation skills of MFIs (in transformation process)
- Money becomes more demanding in terms of social performance and sustainability orientation of the MFIs.

Key Issue #7: Lessons Learned From the Financial Crisis

Trends:

- From the financial crisis, 2 lessons can be learned which should protect the MF sector from a similar crunch:
- Lesson 1: Clients and financial institutions should understand their products.
- Lesson 2: Too much focus on (financial performance of staff and management which is fed by (short-term oriented, greedy) shareholders creates distortions and unacceptable risks in the system that in the end will destroy it.

Key Issue #7: Lessons Learned From the Financial Crisis

Trends Lesson 1:

- Raising client awareness and knowledge about financial products.
- Raise awareness of public institutions, NGOs, financial institutions with regard to the need for increasing financial literacy of low-income households
- Promoting policies and mechanisms that contribute to client protection
- Capacity building of organisations specialised in enhancing financial education and training
- Advocacy for consumer rights
- Support to financial institutions to improve information provision about their products and what they mean for the clients financial household
- Social Performance Measurement as a tool to measure and steer the focus of MFIs on the people side of their business.

Key Issue #7: Lessons Learned From the Financial Crisis

Trends Lesson 2:

- Microfinance Banana Skins reveal strong doubts among MF practitioners, investors and observers about the ability of many MFIs to adopt to new demands while still retaining their social objectives.
- Current levels of management experience and financial skills are seen as a challenge for the industry,
- The fastest rising risk is identified as the growth of competition, driven by the appeal of microfinance to outside investors and commercial banks.
- Competitive pressures are seen to be undermining standards, cutting into profitability and aggravating staffing problems, though they are also spurring innovation and forcing down prices.
- Unless MFIs can manage these pressures, some could fail and damage the reputation of MF more widely.

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many
ideas you have.
It's how many
you
make happen.

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A DIFFERENCE!
MARAMING SALAMAT PO!*