POLICY RESEARCH DISCUSSION ON MICROFINANCE

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Why Financial Inclusion Matters
Globally, half of all working-age adults are unbanked

Adults with account at formal financial institution (average in %)

Source: Global Findex Database, World Bank 2012
In emerging markets, roughly 50-60% of Micro, Small, and Medium Enterprises (MSMEs) remain unbanked & underserved.

Formal and informal MSMEs sector - Total credit gap

Source: IFC Enterprise Finance Gap Database (2011)
World Bank Group Operational Approach
WBG’s path…

Achieving Universal Financial Access by 2020

China 16.2%
Pakistan 4.2%
India 22.8%
Bangladesh 2.6%
Myanmar 1.3%
Vietnam 2.1%
Philippines 1.6%
Indonesia 5.9%

Mexico 2.3%
Colombia 0.9%
Peru 0.7%
Turkey 0.9%
Morocco 0.6%
Egypt 2.1%
Nigeria 2.5%
Rwanda 0.2%
DCR 1.4%
Zambia 0.2%
Brazil 2.6%
Yemen 0.5%
Ethiopia 1.8%
Kenya 0.3%
Tanzania 0.7%
Mozambique 0.3%

25 Focus Countries = 76% of the world's unbanked

2.5 Billion


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Strategic Alignment and Theory of Change

- Eliminate Extreme Poverty
- Boost Shared Prosperity

Full Financial Inclusion

- Enables
- Facilitates
- Leads to

- Universal Financial Access

Private Sector Innovation & Government-led Initiatives
Innovation in and expansion of financial products, diversification of access points, scale-up and network effects leveraging digital financial services

Country Commitments
Financial Inclusion Strategies including targets, coordination structures, Actions Plans

Policy and Regulatory Reforms
Reforms to improve legal, regulatory frameworks and payments/ICT infrastructure

Convening
G20, AFI, SSBs, stakeholder workshops / conferences

Advisory
FIF, Strategy Development

Knowledge
Diagnostics, Data, Good Practices

Financial
Policy-based lending, FIF, P4R, Risk-sharing

- Encourages
- Informs
- Informs
- Accelerates
Action Framework for Universal Financial Access

Ramp up Payments/ICT Infrastructure

Build Regulatory Environment

Strengthen Political Commitment

Expand Digital Financial Instruments

Diversify Access Points

Achieve Scale (i.e. through Social Transfers)

Reaching 2.5 billion unbanked adults
Financial Inclusion Support Framework (FISF)
Scaling-up advisory and knowledge solutions through FISF, as part of FMGP country programs

Objective
To support countries in their implementation of national financial inclusion strategies and achievement of national financial inclusion targets.

Scope
- Launched in April 2013, FISF is a multi-country trust fund that builds on and leverages WBG capacity and offers national counterparts scaled-up support to achieve their financial inclusion targets and commitments
- 2 components: Country Support Programs, Knowledge Agenda
- $26.5m funding to date, from Netherlands and Gates Foundation – projected size of $60m.
- Country Support Programs in Rwanda, Indonesia, Mozambique, Zambia (preparation), Ethiopia (preparation), Pakistan (preparation), Vietnam (preparation); strong country demand.

Results
- Outcomes will be tracked at the component, PDO, and impact-level, consistent with national financial inclusion targets, Universal Financial Access, and G20/AFI indicators

Cross WBG Approach
- FISF programs joint with PSDG/Financial Infrastructure team
- Close coordination with IFC FIG, Social Protection & Labor GP, Agriculture GP, CGAP.
- Complements and leverages financial solutions eg DPLs in Indonesia and Mozambique
Microfinance at a Glance & WBG Intervention

- The global value of MFI industry: ~$60-100 billion
- The reach of MFI institutions: ~200 million clients
- Major players in the industry: IFC, KfW, etc.
- Modest impact on poverty, But
- An essential tool for improving livelihoods at the base of pyramid
Key Takeaways from The Talk & Way Forward
Key takeaways:

- Relativity of microcredit
- Reaching the bottom of the pyramid
- Broader concept of financial inclusion
Potential ways to strengthening Microfinance

Few tools that could help expand reach, lower the cost and offer a sustainable financial services:

- "Intelligent" subsidies ("crowd-in" funds)
- Technology & innovation (digital finance)
- Responsible finance (consumer protection & financial literacy)
- Financial infrastructure (credit reporting systems & secured transactions)
Technology & Innovation:

- Designing alternative models and delivery channels through digital finance

**New financial products**
e.g. e-money, micro insurance and bundled life insurance / credit products

**New distribution channels**
there are many new ways of delivering financial services e.g. electronically through mobile phones, smart cards and PCs and through agent networks

**New service providers**
e.g. telecommunications companies are providing financial services
Responsible finance

Bringing focus on the needs of and protection/education of end-beneficiaries/clients across three areas:
Financial Infrastructure

- Credit Reporting Systems, i.e. Credit Bureau/Registry
- Secured transactions, i.e. Collateral Registry

- Increases access to credit and enables better risk management
  - Individuals
  - Microfinance
  - Small and medium enterprises (MSMEs)

- Better interest rates; move from informal to formal financing; Cost savings for businesses

- Development of industries (factoring and leasing); non-bank financial institutions

- Credit risk diversification: immovable and movable; improves quality of the portfolio

- Promotes credit diversification and profitability

- Reduces the cost of credit and business operations

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The Future of Research

• Role of financial services, including microfinance, and their overall impact on jobs, income, lives of the poor etc.

• The impact of digital financial services on several fronts, i.e. users, trust, inclusion, policy, traditional research etc.

• Develop new models to understand impact

• Explore synergies for research collaboration within WBG