



25th MFC Annual Conference Thriving Together

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MFIs play an important role in providing financial services to people living in poverty, especially during challenging times

Social Mission

- Recent crises have shown MFIs at the forefront of efforts to help clients cope and recover. Their social mission has made them relevant to resilience in ways that fintech, platforms, digital banks, and much of DFS just haven't proven to be.

Support in Crises

- During **COVID-19**, MFIs played a central role enabling governments to channel support to broad number of MSEs through loans that supported their continued operation.

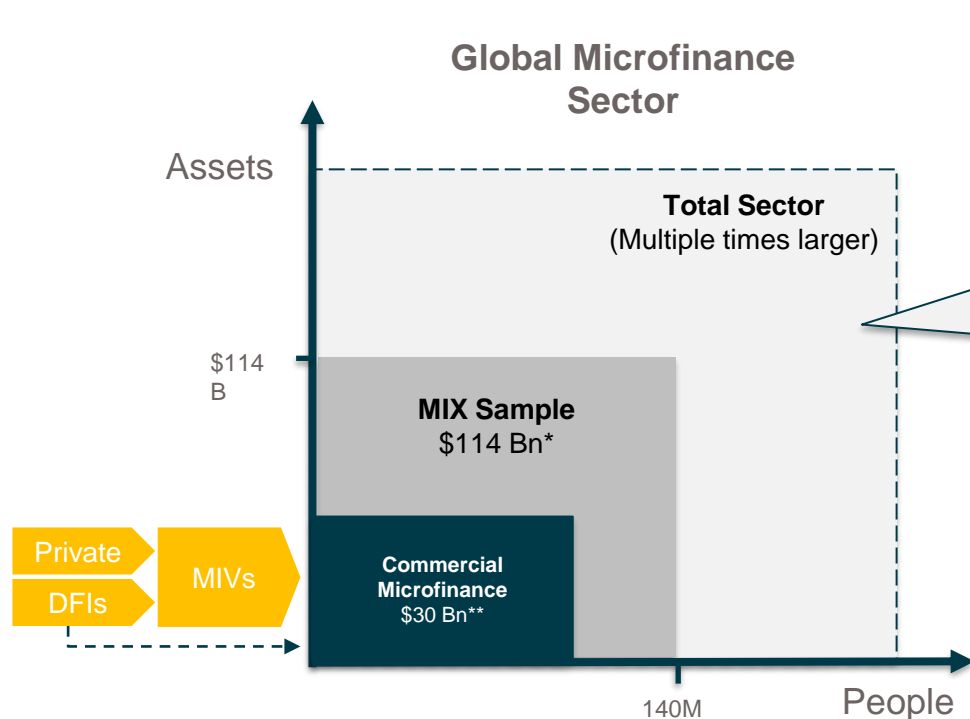
Proximity to clients

- In our research on the **climate** efforts of various types of financial service providers, socially oriented MFIs were noticeably more actively thinking about and working on the resilience and adaptation needs of clients.

Gender

- MFIs are in many contexts well particularly important for serving **women**, including those in rural and agricultural livelihoods, with financial services.

International Funders focus on commercial Microfinance, but the sector is much broader

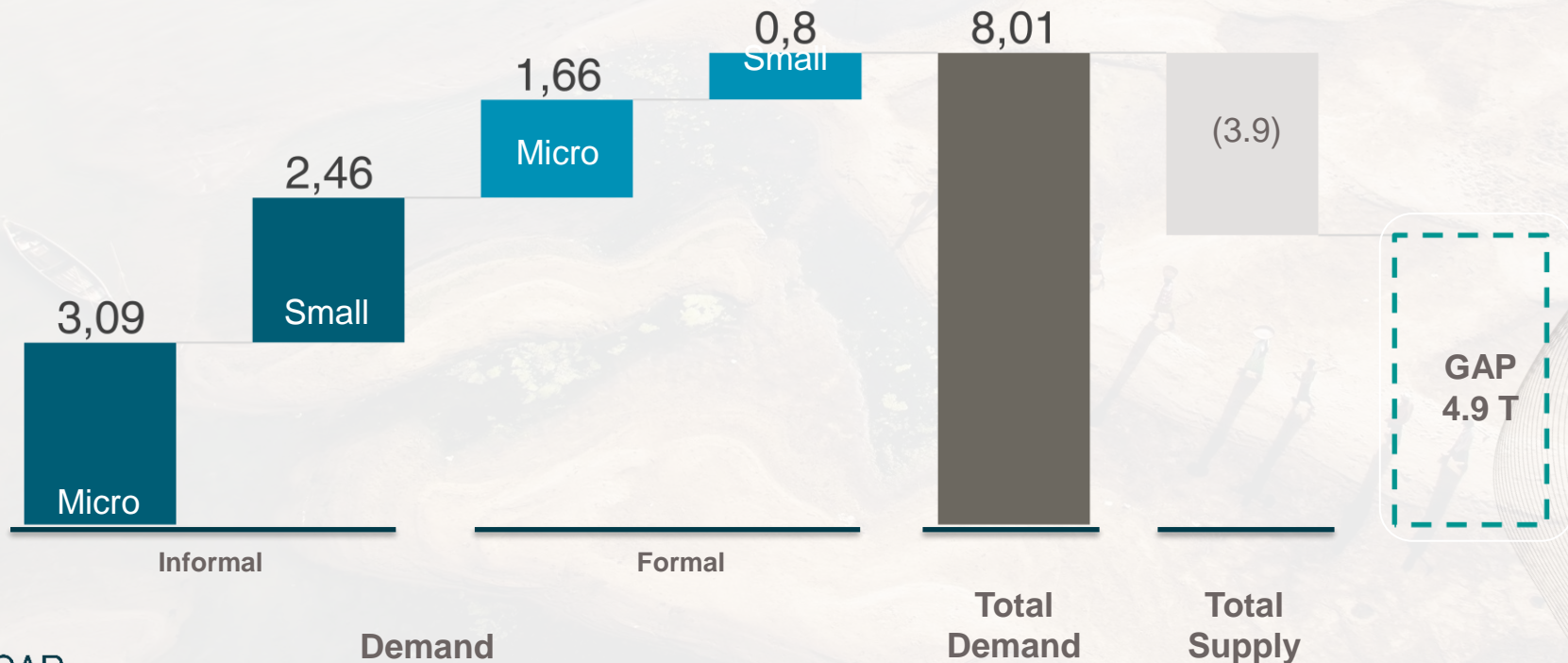


Broader Microfinance sector

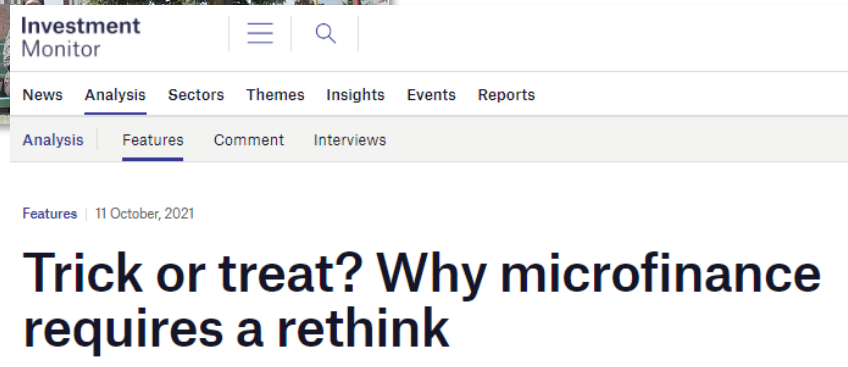
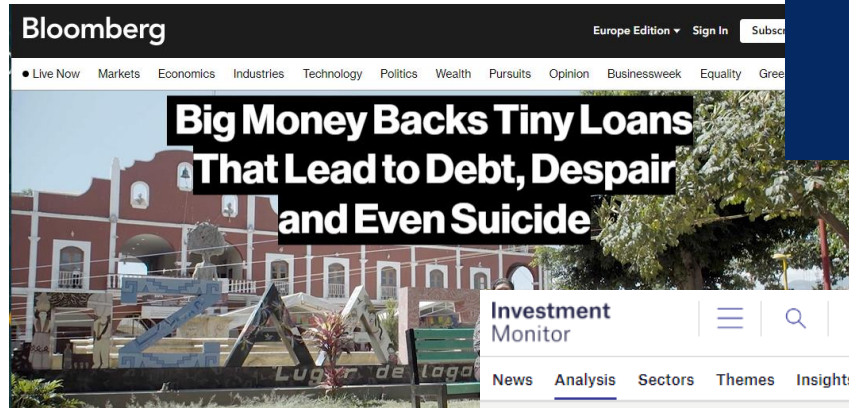
- **Multiple times** larger, no aggregate figures exist – likely **100's of Millions** of people served
- Range of actors **funded locally**, local funders or through deposit taking
- Includes **diverse figures**: locally-funded lenders, deposit-taking institutions, NBFCs, financial cooperatives, etc.
- Different **sizes and performance** (Tier 1 – 4)

Despite the scale of MF sector, a credit gap of ~USD \$4.9 T persists among micro and small enterprises (MSEs)

Estimated Global Micro and Small Enterprise Credit Gap
USD trillions



...And the impact of Microfinance in its clients continues to be subject of debate





Looking to the future, the Microfinance sector faces three challenges:

1. Settling the Microfinance Impact debate
2. Accelerating the development of new business models for MSE finance
3. Creating value through Digitalization

A group of women are gathered in a community meeting, some wearing colorful headwraps. The scene is outdoors with trees in the background. A dark blue semi-transparent overlay covers the middle of the image, containing white and orange text.

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CGAP's analysis has identified key knowledge gaps in microfinance, including impact measurement and customer protection issues

Impact of microfinance on customers

- **Inconclusive Evidence:** same set of financial services can have different impact on customers.
 - Savings, payments, and insurance: impacts vary from positive to neutral.
 - Credit: wide impact variance, going all the way from positive to negative.
- RCT studies **do not explain when, how and for whom**, various financial services can provide benefits.
- Need framework to interpret evidence and build a more **accurate narrative** of what MF can do for people.

Customer protection issues

- **Abusive lending practices** return to the spotlight often
- Many **countries do not apply consumer protection frameworks** or at best leave them to be self-enforced by industry groups.
- Multiple **regulatory bodies regulate MFIs with different objectives**: cooperatives, fintechs and other non-bank financial companies.
- Results in **uneven adoption and enforcement** of customer protection frameworks across markets

Effort needed to build evidence base for impact of MF, and improve regulation and supervision of consumer protection

1

Consumer protection should be more effectively enforced

- More countries need to adopt and enforce **customer protection frameworks**
- These frameworks should seek **improved financial health and customer outcomes** within their financial regulation and market conduct supervision models.

2

Regulation frameworks should be rethought

- Follow **activity-based approach**
- Emphasize **proportionality**.
- At national level, enforce **common set of regulatory and supervisory principles and practices** across regulatory bodies
- **Decouple social/economic policy objectives** from microfinance.

3

Impact narrative needs to be reformulated

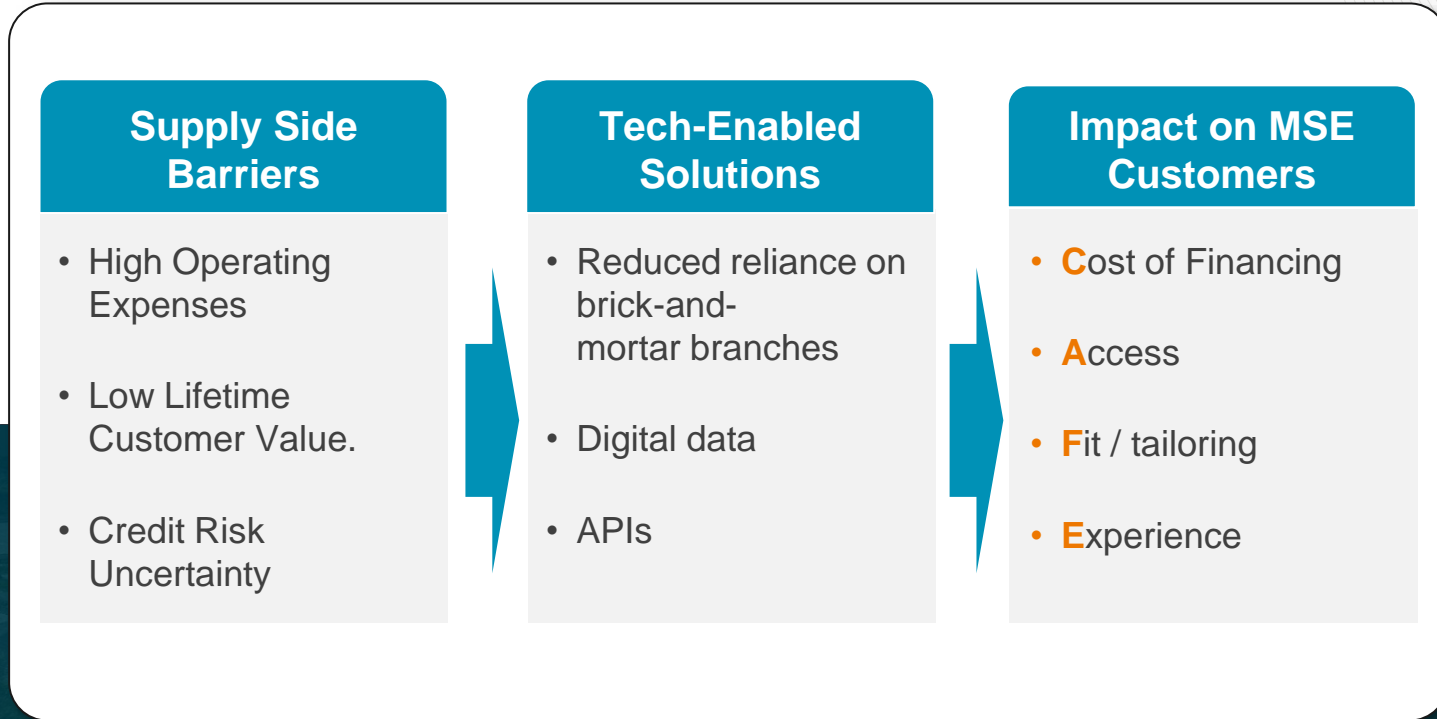
- New studies needed to develop **more accurate narrative** of what microfinance can do for people.
- New types of mixed-methods techniques **across countries and customer segments** to distinguish generalizable circumstances of impact



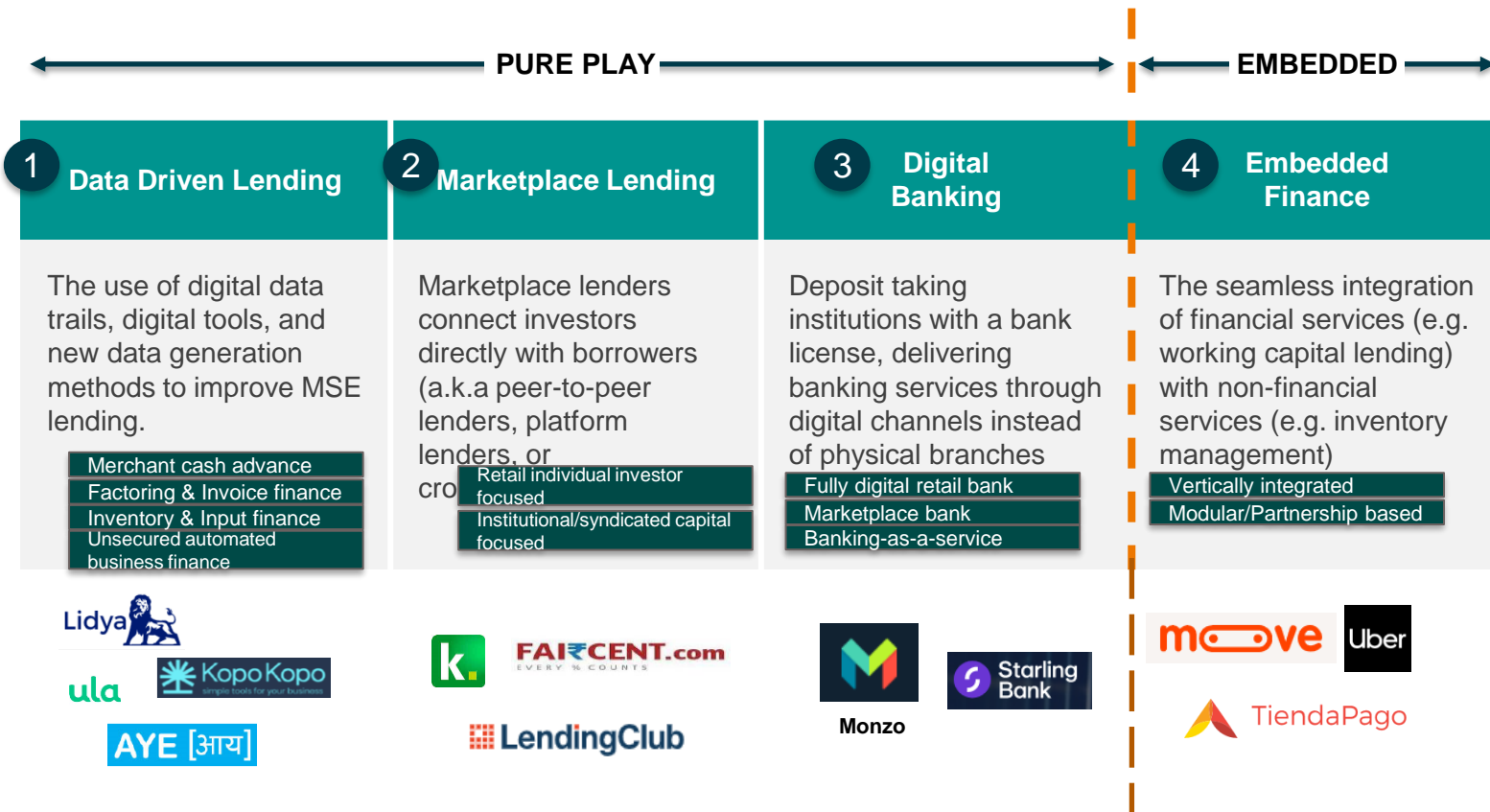
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Emerging technologies show promise in overcoming traditional barriers to providing MSEs with needed financing



Fintechs driving new business models along four typologies – all with high potential to reach underserved MSEs



However, the emerging Fintech sector for MSE finance has yet to mature

Business models are still nascent

- Despite their promise and early evidence of potential for impact, the innovative business models highlighted previously are still nascent, have not proven sustainability, and are still calibrating foundational aspects of their business models.

Challenge to achieve balance with “tech” and “touch”

- Fintechs lack the contact and proximity to clients that MFIs have. This proximity is needed to onboard new customers to digital channels, build trust, drive usage. Adding the touch part needs to be done in a cost-efficient way, otherwise the cost can make model unsustainable. Ultimately, a high-tech and high-touch model is needed.

Venture Capital brings a dynamic that exacerbates risks

- The start-up environment and VC funding brings dynamism to a stagnant sector, but it also brings risks that come from chasing growth and profitability above all else. The pressure to quickly turn a profit could lead these innovators to deprioritize the most excluded and vulnerable MSE segments and risks deprioritizing consumer protection practices, exacerbating the risks inherent in low-income credit markets.

A group of women are gathered in a community meeting, some sitting on the ground and others standing. They are wearing colorful headwraps and traditional clothing. The background shows lush green trees. The image is overlaid with a dark blue semi-transparent rectangle containing text.

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Among MFIs, digitalization has proven potential to create value for customers and for the business



Amret (Cambodia) Business strategy transformed a group-loan MFI into a full-service financial institution with 500,000 customers and US\$1.4 billion assets.



Bancamía (Colombia) improved efficiency by digitizing workflows, creating a mini-branch model and a mobility strategy, digitalizing credit officer operations, and customer interactions through app.



MFW (Jordan) digitized the loan application process and integrated with popular payments solutions (36% of customers receive loans to their e-wallets).



AL-KURAIMI ISLAMIC MICROFINANCE BANK (Yemen) adopted omnichannel strategy to achieve greater scale and to operate in a difficult environment.



FINCA group developed behavioral score based on customer repayment history to automate credit decisioning.

- **27% increase** in loan officers' productivity (*Bancamía mobile app*)
- **50% decrease** in loan processing time (*Bancamía mobile app*)
- **176% annual increase** in use of digital channels by women (*Bancamía*)
- **227% annual increase** in transactions made by women (*Bancamía*)
- **30-50% of renewals** streamlined (*FINCA Impact Finance score*)
- **US\$22 million in savings** mobilized (*Amret mobile savings officers*)
- **45% of transactions** performed through alternative channels (*Al Kuraimi Islamic Microfinance Bank*)

A key lesson on Digitalization is to shift the focus from tech to value creation, and to design process around improvements to business model

MFIs who can show value for their investments follow in general these principles:

- ➡ 1. Resource and empower the product development team
- ➡ 2. Define and measure the value you aspire to create
- ➡ 3. Prioritize product features that create value
- ➡ 4. Test prototypes with simple technology
- ➡ 5. Create a good user experience for everyone

What CGAP was testing

How to implement value-based approach?

First cohort: Digitizing credit renewals

- 5 MFIs already with digital customer relationships
- High TA provided by CGAP

Can MFIs digitalize on their own, following guide?

2nd cohort: Implementing Business Intelligence Dashboards

- 23 MFIs without previous digitization
- Document-based Guidance
- Low-touch TA provided by CGAP

Product roadmap to test CGAP approach



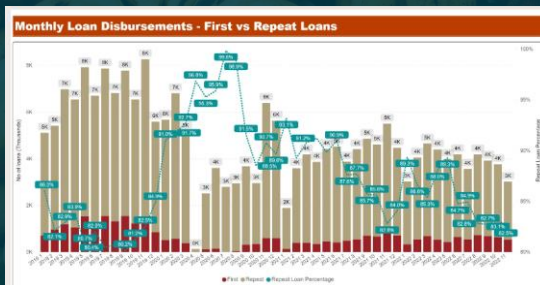
Tony Karumba, 2020 C4D

Project Set-Up

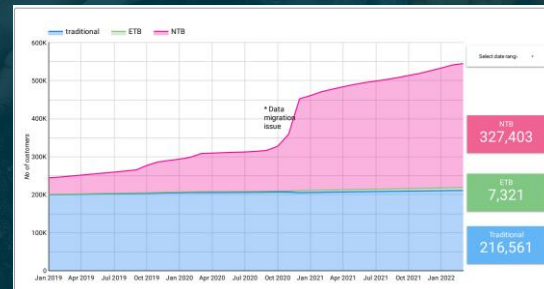
- Strategic vision in place
- Product team appointed
- Resources allocated
- Timeline, milestones, KPIs defined

Hypothesis

- A problem to be solved defined (HCD + other tools)
- A strategy to create the value defined
- Feasibility assessment conducted



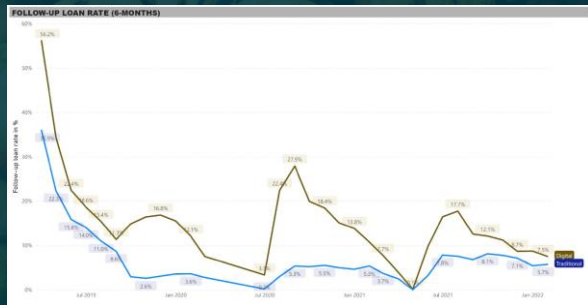
Growing customer base by freeing loan offices' time



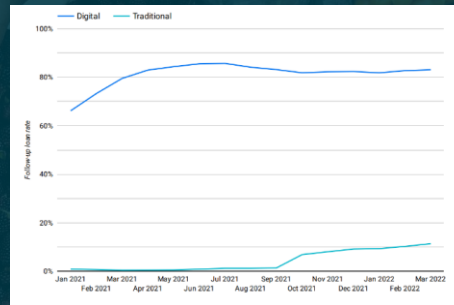
Using automation to activate dormant customers

Business Intelligence Build-Out

- Business intelligence is a bedrock of successful digitization
- BI supports product development, implementation and scale (data analytics journey)
- Customer behavior analysis is a core function of BI



Renewal rate falls suggesting issues with product features



Renewal rate differs between digital and traditional segments

Product Design

- Key product features defined
- Features to generate value prioritized
- Release plans in place

| | Traditional Scenario | Loan Automation | Loan Automation + Growth |
|-----------------------------|----------------------|-----------------|--------------------------|
| First loans | 5 | 5 | 5 |
| Traditional follow up loans | 10 | 5 | 5 |
| Automated follow up loans | | 5 | 25 |
| Total loans | 15 | 15 | 35 |
| Loan officer FTE/Mo | 86% | 64% | 86% |
| % follow up loan automation | | 50% | 83% |
| Loan disbursement increase | | 0% | 133% |

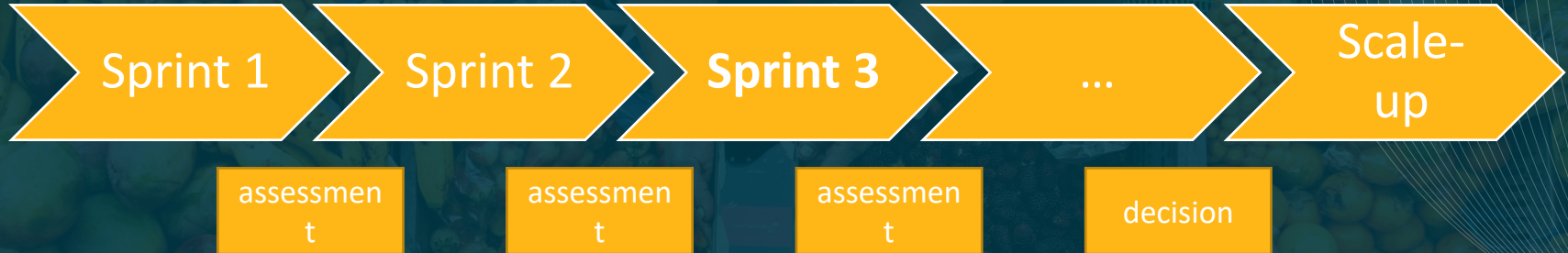
The business case modelling to inform the product design and its key value-driving features

MVP Build-Out

- MVP designed
- Prototype for the sprint(s) ready
- Tech solution identified
- Processes modified

Sprint 1

- Definition of Done + KPIs
- Results collected and evaluated
- Decision about next steps



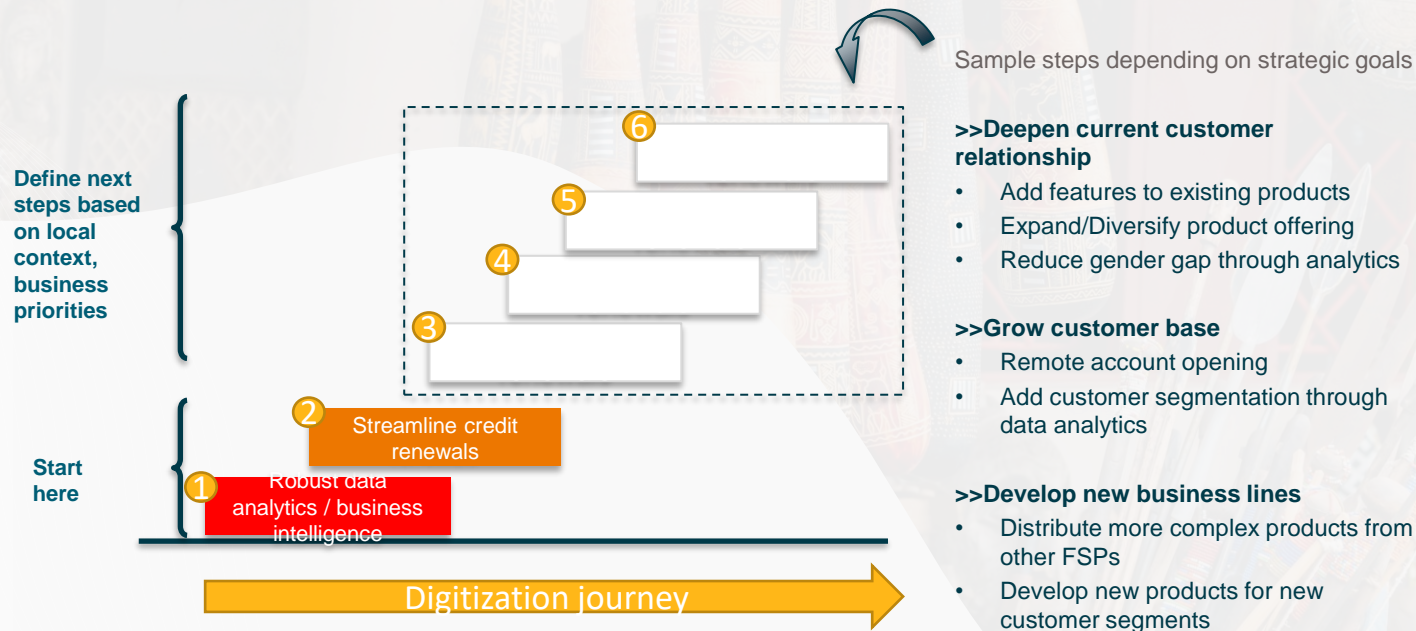
(This is an agile, iterative process where Sprint 1 is followed by other sprints testing other MVP aspects before the final decision about scale-up is made.)

A Word on Regulation

- *Data localization*: Implementation of both the credit scoring solution and the business intelligence analytics easier with a cloud-based data warehouse. Data localization rules limit (rule out) that option.
- *Creditworthiness test*: Performed through onsite visits, the test represents a significant slowdown in otherwise streamlined renewal process and additional cost.
- *Prohibition on deposit taking*: Regulation that prohibits MFIs from offering deposit (and savings) products limits opportunities for value creation.

Tony Karumba, 2020 C4D

Building blocks of value-driven digitization



Longer-Term Strategic Choices

Incremental digitization of the existing operation: Continued improvements (e.g., expanding the dashboard library, introducing dynamic pricing) and expanding digitization

Shift to a new business model: Focus exclusively on a certain segment of customers (e.g., embedded finance focused on customers with strong digital data trails)

Exploration of new partnerships in modularized financial markets: Using the newly acquired digital capabilities to form new partnerships (e.g., with finetchs, e-commerce platforms)

Effort is needed to scale

- What are the **effects of digitization** in the MFI business?
- What is the **strategic roadmap (other building blocks)** that is essential to scale and diversification of offering?
- **Can this process work down-market?** MFIs (especially smaller ones) keep struggling with basics, how can we help (at scale)?
- How can this **process be led at scale?**

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Thank you

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