



**USAID**  
FROM THE AMERICAN PEOPLE

# Responsible Microfinance

**Bill Tucker**  
**Executive Director**  
**The SEEP Network**

*June 23, 2010*

# Responsible Microfinance

## *Present Framework*

- I. **Issues**
- II. **Opportunities**
- III. **Conclusions**

*Develop  
Definition*



## Responsible Microfinance is ...

- **The best product**
- **At the lowest price**
- **To as many people**
- **As fast as possible**

*Source: Michael Chu – Harvard University*

ISSUES:

**1. Multiplicity of Business Models**

*Donors*

*Missions*

*Investors*

*Nobel Laureates*

*IPOs*

Microfinance  
Millionaires

*Buyer  
Beware*

*Fees on  
Loans*

*Savings*

*Social Performance  
Management*

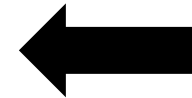
*Regulators*

*Client  
Protection*

## ISSUES:

1. Multiplicity of Business Models
2. **What does “lowest price” mean?**

- The best product
- **At the lowest price**
- To as many people
- As fast as possible



## ISSUES:

1. Multiplicity of Business Models
2. What does “lowest price” mean?
3. **We are not all angels**

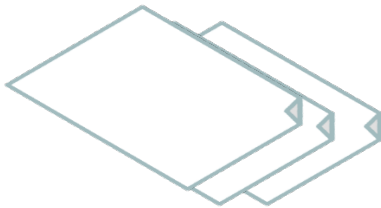
**“Doing Bad by Doing Good?”**

**Theft and Abuse by Lenders**

**in Inadequately Regulated Microfinance Markets”**

*Catherine Duggan*

*Harvard Business School*



## ISSUES:

1. Multiplicity of Business Models
2. What does “lowest price” mean?
3. We are not all angels
4. **Uncertainty about appropriate legislation**

Bolivia

Peru

Mongolia

Middle East

Kyrgyzstan

## ISSUES:



1. Multiplicity of Business Models
2. What does “lowest price” mean?
3. We are not all angels
4. Uncertainty about appropriate legislation
5. **We are all in this together**

What happens in South America or India  
can affect you in the Middle East.

Unless .....

## Responsible Microfinance is ...

1. Growth Oriented
2. An Exclusive Club?

- The best product
- At the lowest price
- **To as many people** 
- **As fast as possible** 

## OPPORTUNITIES

1. Positive Branding
2. Expanded Product Lines
3. Legislative and Regulatory Partnerships
4. Greater Pricing Transparency

## OPPORTUNITIES

1. **Positive Branding**
2. Expanded Product Lines
3. Legislative and Regulatory Partnerships
4. Greater Pricing Transparency

### ***SMART*** Campaign:

1. Avoidance of Over-Indebtedness
2. Transparent and Responsible Pricing
3. Appropriate Collections Practices
4. Ethical Staff Behavior
5. Mechanisms for Redress of Grievances
6. Privacy of Client Data

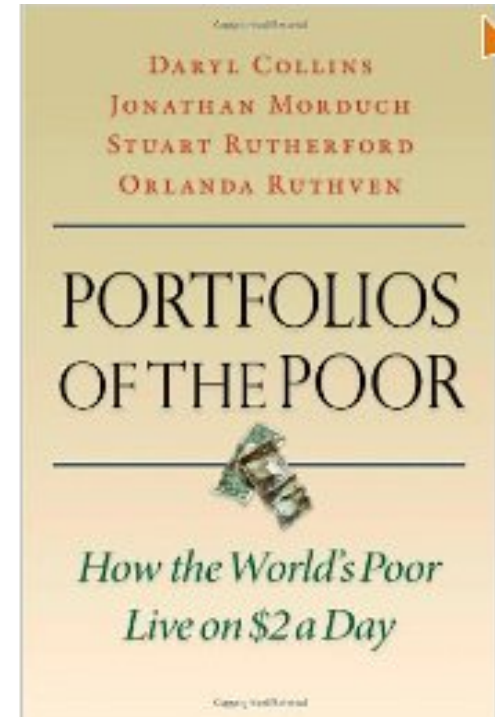
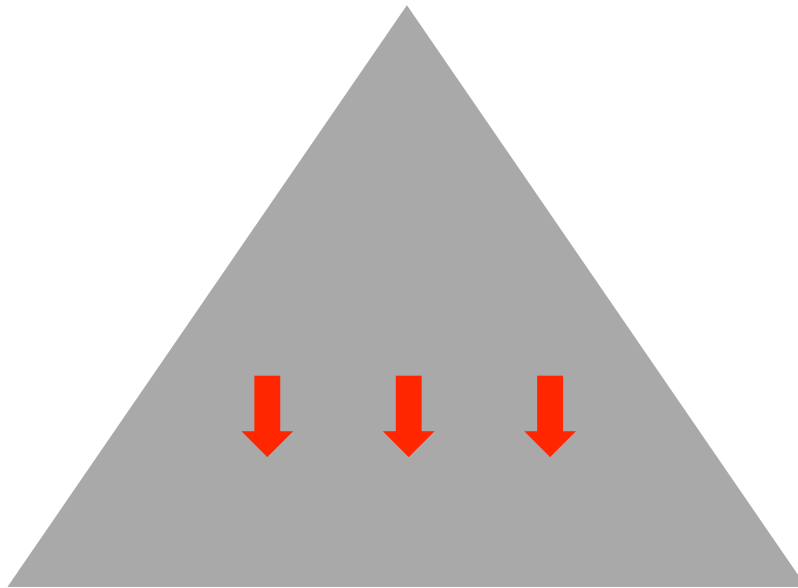
## *1. Positive Branding*

**Responsible Microfinance is: ...**

- 1. Growth Oriented*
- 2. An Exclusive Club?*
- 3. VERY Service Oriented**

# Opportunities

## *2. Expanded Product Lines*



# Opportunities

## *2. Expanded Product Lines*

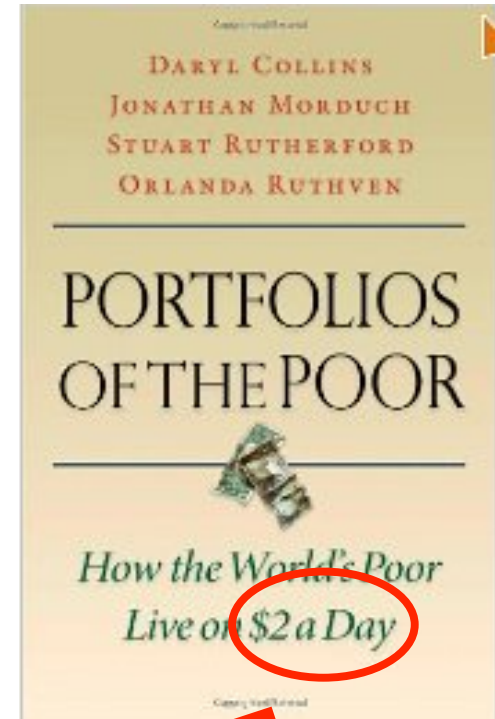
“\$2 a day”

Emphasis: incomes are low

Findings: incomes are low

incomes are irregular

incomes are unpredictable



# Opportunities

## *2. Expanded Product Lines*

Survey of 250 Poor Households

Bangladesh  $\approx$  10 financial products used  
India  $\approx$  8 products  
South Africa  $\approx$  10 products

<b>Rural</b>
<b>Urban</b>

<b>Bangladesh</b>	
Year-end Assets	Annual Turnover
57	568
74	547

<b>India</b>	
Year-end Assets	Annual Turnover
18	590
169	810

<b>South Africa</b>	
Year-end Assets	Annual Turnover
220	3,447
792	6,264

# Opportunities

## *2. Expanded Product Lines*

Bangladesh

Sources of Loans		
<b>MFIs</b>		<b>56%</b>
<b>Family &amp; neighbors</b>	Interest Free	<b>23%</b>
	With Interest	<b>13%</b>
<b>Credit advanced by shop keepers</b>		<b>2%</b>
<b>Loans from savings clubs</b>		<b>3%</b>
<b>Loans from formal banks</b>		<b>3%</b>

# Opportunities

## *2. Expanded Product Lines*

Uses of Loans (by value)	
Business	39%
Buying or maintaining assets	14%
On-lending to others	14%
Paying down other debt	9%
Consumption	4%
Mixed Uses	29%

# Opportunities

## *2. Expanded Product Lines*

**Long-term Savings: Creating Usefully Large Sums**

### **Uses**

	Bangladesh	India	South Africa
Life cycle	23%	30%	26%
Emergency	7%	4%	17%
Opportunity	70%	66%	57%

# Opportunities

## *2. Expanded Product Lines*

1. Helping poor households with day-to-day cash flow management
  2. Helping them borrow for all uses
  3. Helping them build savings over the long term
  4. Helping them manage risks
- Savings of any value at any time with ready access
  - Tiny loans quickly, when needed and repaid in small, possibly irregular installments
  - Structured opportunities for long term savings
  - Insurance products

# Opportunities

## *2. Expanded Product Lines*

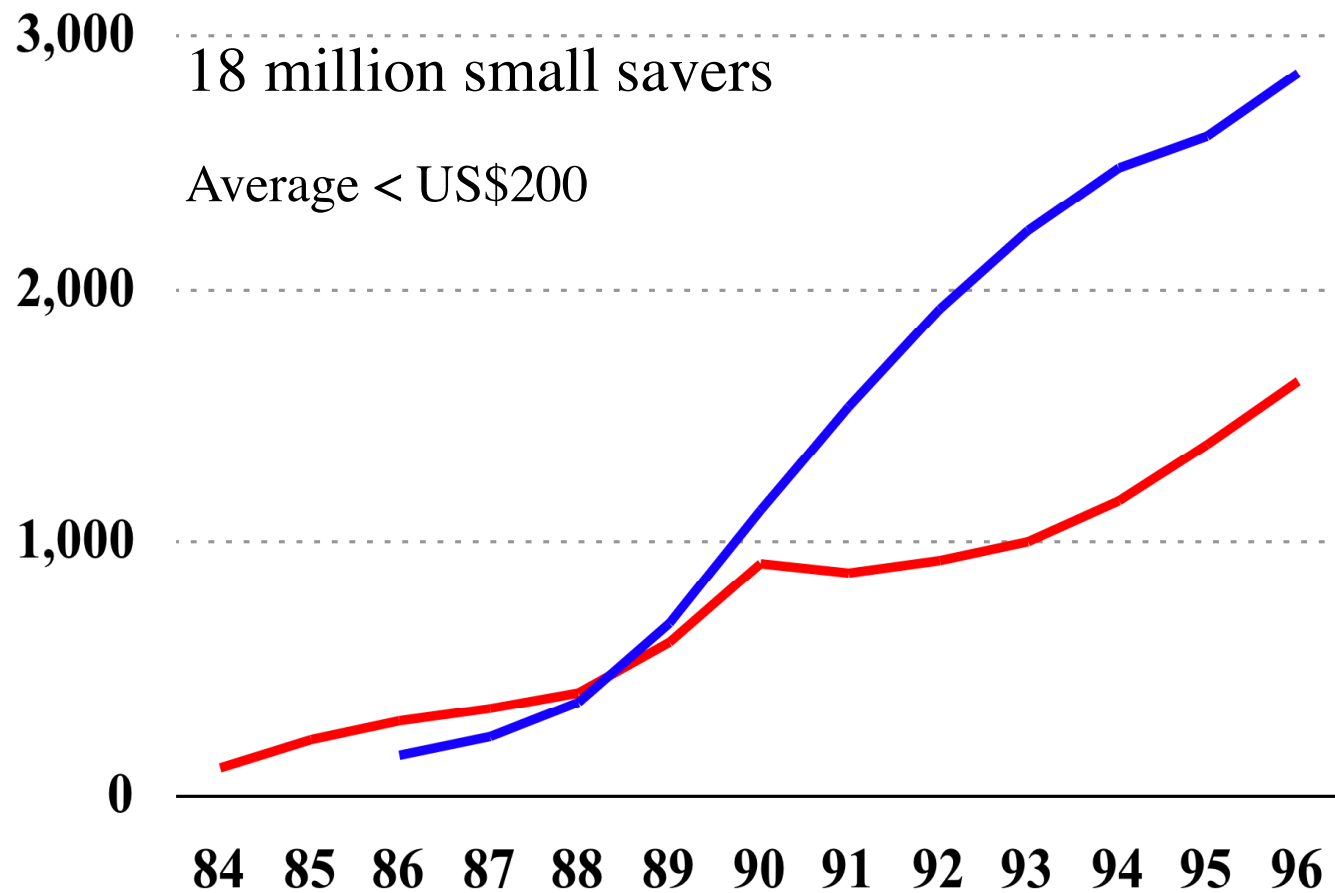
### Conclusion

Poorer Households require MORE rather than less active financial management.

Poor households welcome safe, local, convenient, open-access savings and use them intensively.

With the right product, savings soar.

## *Bank Rakyat Indonesia*



## **Responsible Microfinance is: ...**

- 1. Growth Oriented*
- 2. An Exclusive Club?*
- 3. Service Oriented*
- 4. Demand Driven**

# Opportunities

- 1. Positive Branding*
- 2. Expanded Product Lines*
- 3. Legislative and Regulatory Partnerships*
- 4. Greater Pricing Transparency*

# Opportunities

## *3. Legislative and Regulatory Partnerships*

### **SAVINGS**

- i. The best product*
- ii. At the lowest price*
- iii. To as many people*
- iv. As fast as possible*

# Opportunities

## *3. Legislative and Regulatory Partnerships*

### **SAVINGS**

1. Superior Governance Required
2. Strong and Expanding Capital Base
3. Disciplined Financial Management
4. Operating Efficiencies
5. Track Record of Prudence

# Opportunities

## *3. Legislative and Regulatory Partnerships*

### SAVINGS

- i. The best product*
- ii. At the lowest price*
- iii. To as many people*
- iv. As fast as possible*

# Opportunities

## *3. Legislative and Regulatory Partnerships*

- If you want to help the lives of the poor, let us capture savings
- If you want to build a safer, more robust, inclusive financial system, let us capture savings
- If you want lower interest rates, let us capture savings.

## Responsible Microfinance is: ...

1. *Growth Oriented*
2. *An Exclusive Club?*
3. *Service Oriented*
4. *Demand Driven*
5. **Competent and Prudent**
6. **Allied with the**
7. **Regulatory Efficient**

# Opportunities

- 1. Positive Branding*
- 2. Expanded Product Lines*
- 3. Legislative and Regulatory Partnerships*
- 4. Greater Pricing Transparency*
  - i. The best product*
  - ii. At the lowest price*
  - iii. To as many people*
  - iv. As fast as possible*

# Opportunities

## *SMART* Campaign

1. Avoidance of Over-Indebtedness
2. Transparent and Responsible Pricing
3. Appropriate Collections Practices
4. Ethical Staff Behavior
5. Mechanisms for Redress of Grievances
6. Privacy of Client Data

# Opportunities

**Focal Point**



Interest Revenues

***Management decision***

***Must cover all costs***

***Clients are ok with the interest rates***

***Transparency is good***

***Financial literacy is good***

***Let the market work***

# Opportunities

*Board decision*

*Must cover inflation*

*Must attract investors*

*How much is appropriate?*

*Is the market functioning?*

*Are our reputations at risk?*

**Emerging  
Discussion**



Less: **Cost of Capital**

//

*Desired Return on  
Equity (ROE)*

*MFIs are already managing ROE*  
*There is no one right answer*  
*Regulators will help*  
*Competition is healthy*  
*Competition is still very low*  
*Informal lending rates are very high*

**Emerging  
Discussion**



Less: **Cost of Capital**



## **Boards of Directors**

***What is your ROE Policy?***

***Why?***

## *Responsible Microfinance*

### **Good News**

**We have grown large enough  
to attract attention**

### **Concerns**

**Reputational Risk  
Political Risk**

### **Challenge**

**Future Appropriate Growth  
of our Industry**

Thank you!

