

RCAPS Seminar

Thursday, 19 June 2014

Microfinance and Human Development.
Asia-Pacific in the Light of Global Trends

Heiko Fritz

Linnaeus University Växjö, Sweden

Outline

Introduction and background

Financial inclusion and human development

Characteristics of microfinance

Global and regional trends in microfinance

Conclusions

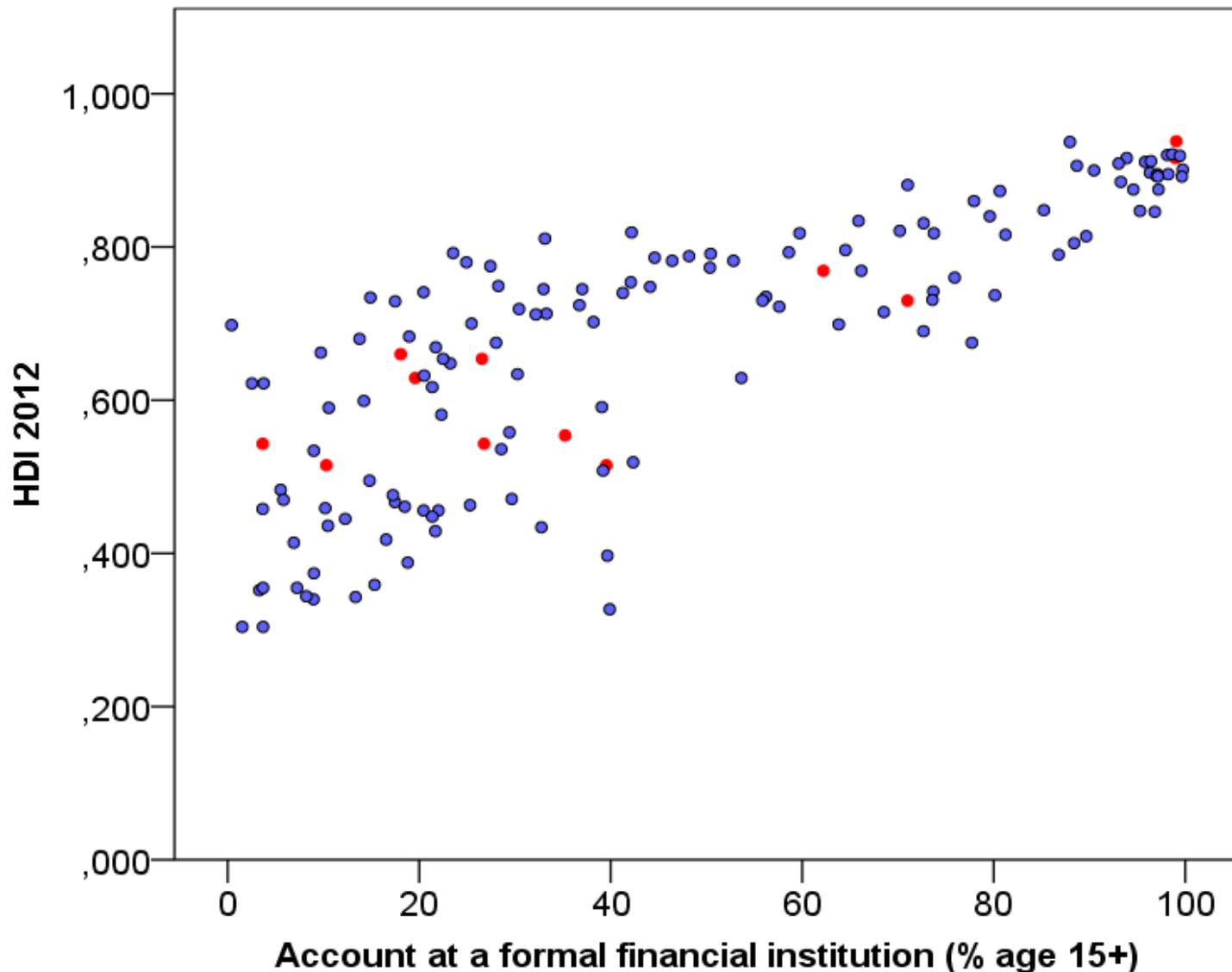
Background

More than half of the world population do not use formal financial services (loans, deposits, insurance provided by financial institutes).

Reasons include

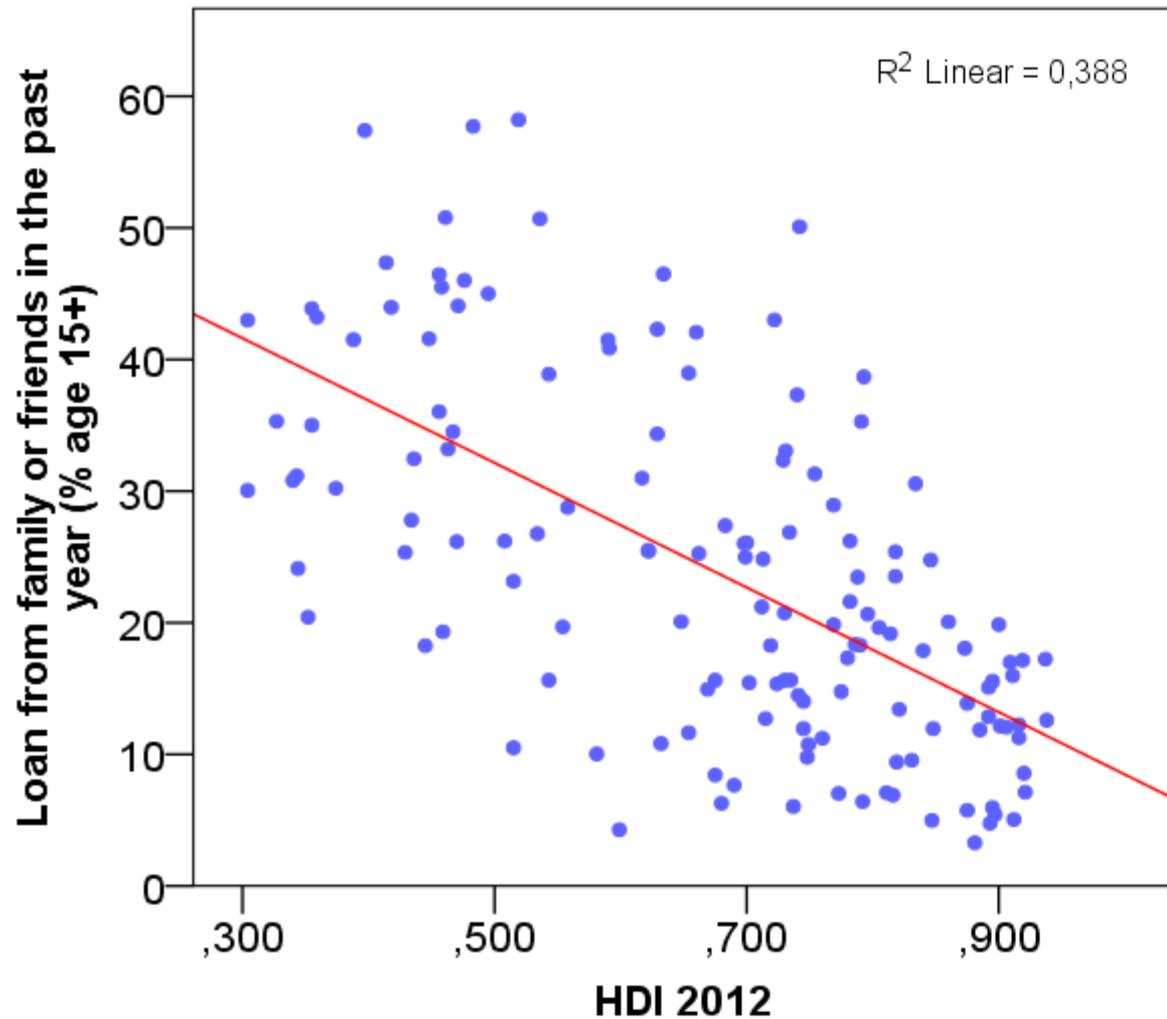
- high fixed cost of financial institutes
 - ⇒ concentration of infrastructure on agglomeration areas;
 - ⇒ minimum transaction volume due to transaction costs;
- quality mismatch between supply and demand.

Financial Inclusion and Development



Source: UNDP – HDR database; World Bank – Financial inclusion database; own calculations.

Financial Inclusion and Development



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Financial inclusion and microfinance

A lack of access to finance involves micro- and macroeconomic costs. Financial inclusion hence is likely to benefit the economy (World Bank, 2014).

Microfinance helps potentially mitigate problems of conventional formal finance to cater to the financially excluded.

Microfinance can be defined as a set of institutions that reduces transaction costs in small-scale financial transactions below the prohibitive level.

Aims of microcredit programs

By improving access to finance microcredit programs pursue a variety of objectives. These include

- ⇒ poverty alleviation;
- ⇒ women empowerment;
- ⇒ enhancement of (self-)employment;
- ⇒ community development and accumulation of social capital;
- ⇒ profitability.

Microfinance – characteristics

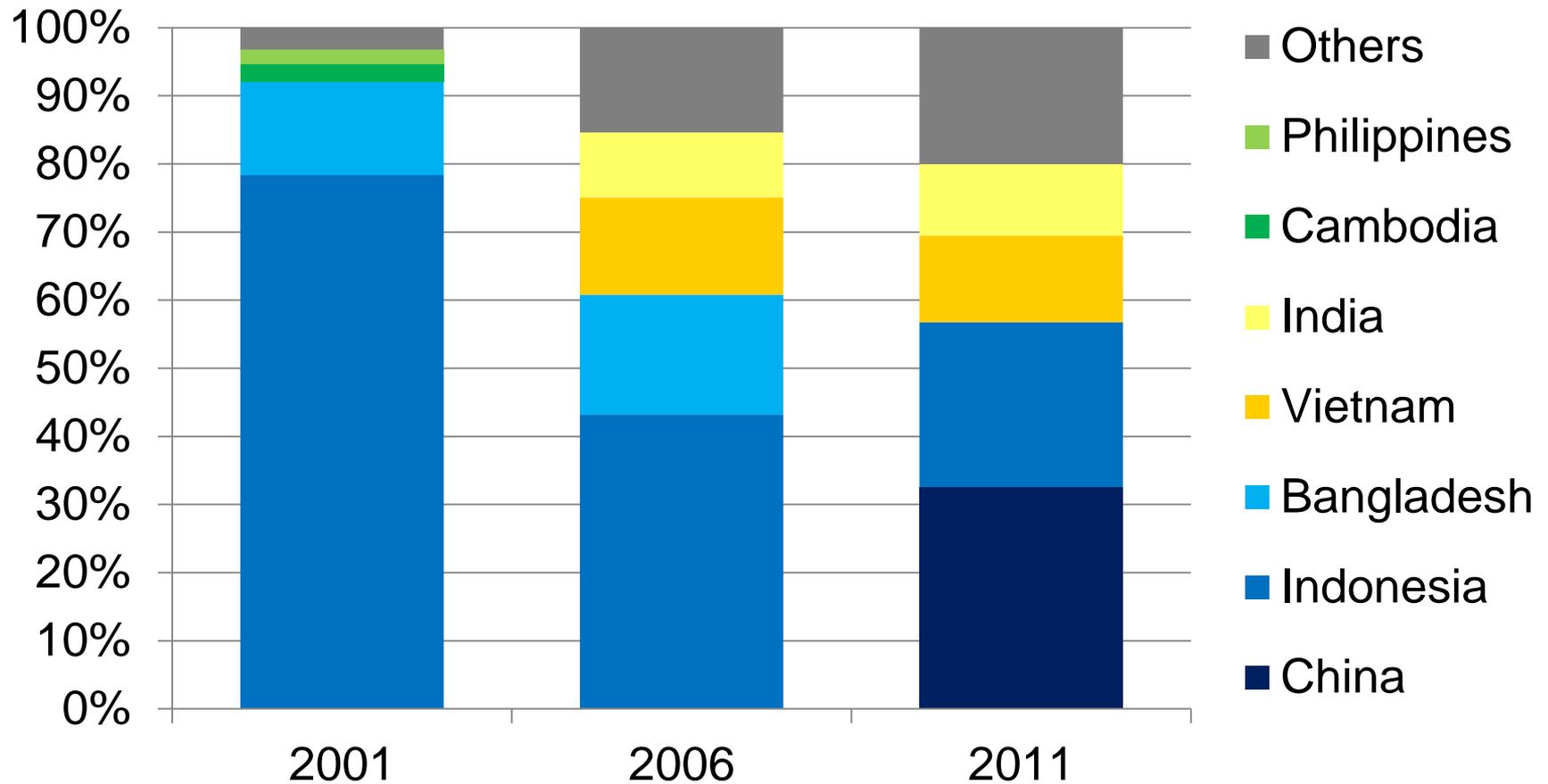
The innovative institutional setting as put forward by microcredit schemes include

- ⇒ joint liability group lending (JLGL);
- ⇒ short duration of loans;
- ⇒ repayment in frequent instalments;
- ⇒ loan escalation.

More recently mobile microbanking offering payments and transfer services emerged as a technological innovation.

Top 4 microcredit systems in the AP region

(Share in AP gross loan portfolio, 2001-11)



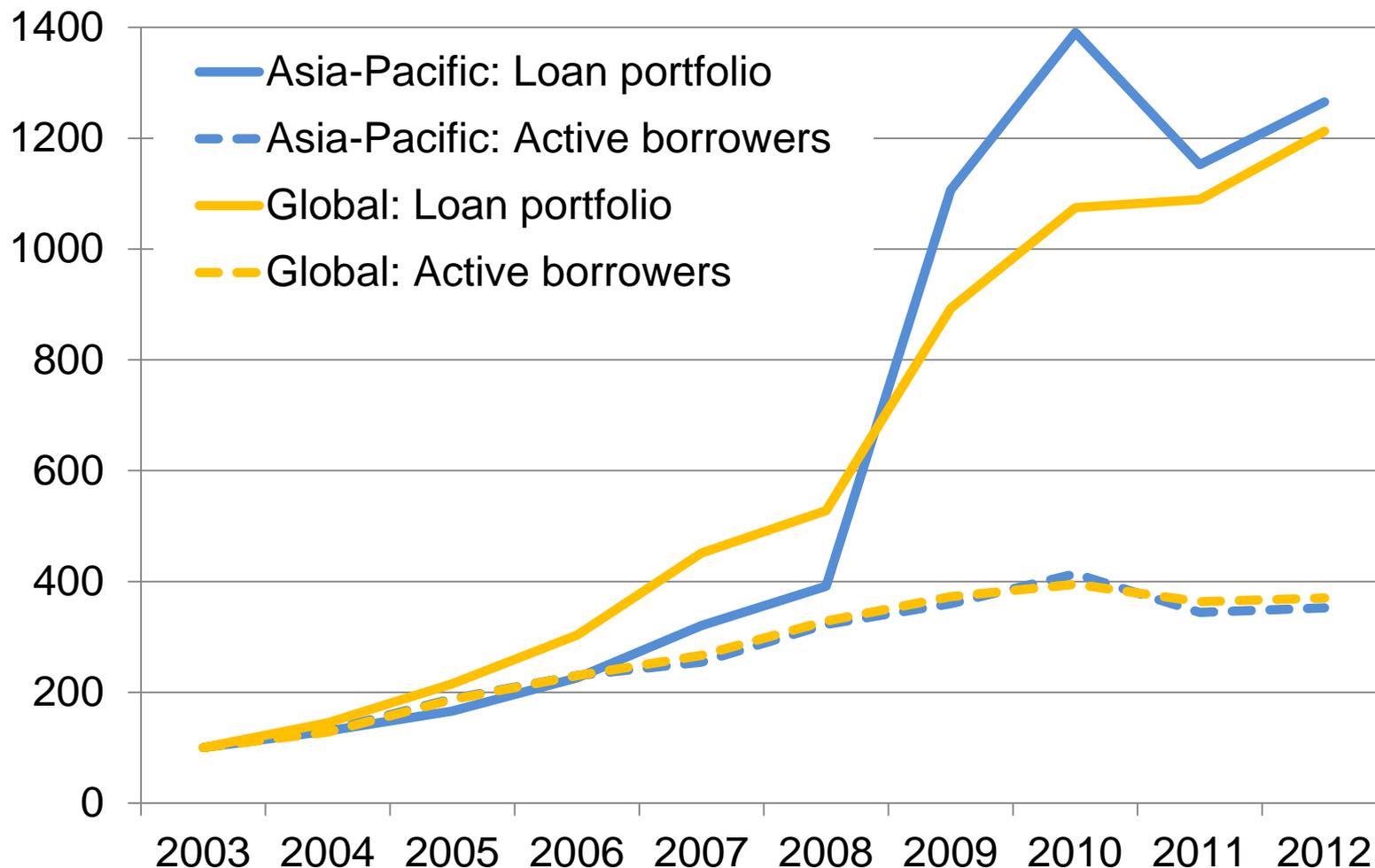
Source: Mixmarket microfinance database; own calculations.

Microfinance – global and regional trends

⇒ Unhampered growth

Loan portfolio and active borrowers

(2003 = 100)



Source: Mixmarket microfinance database; own calculations.

Microfinance – global and regional trends

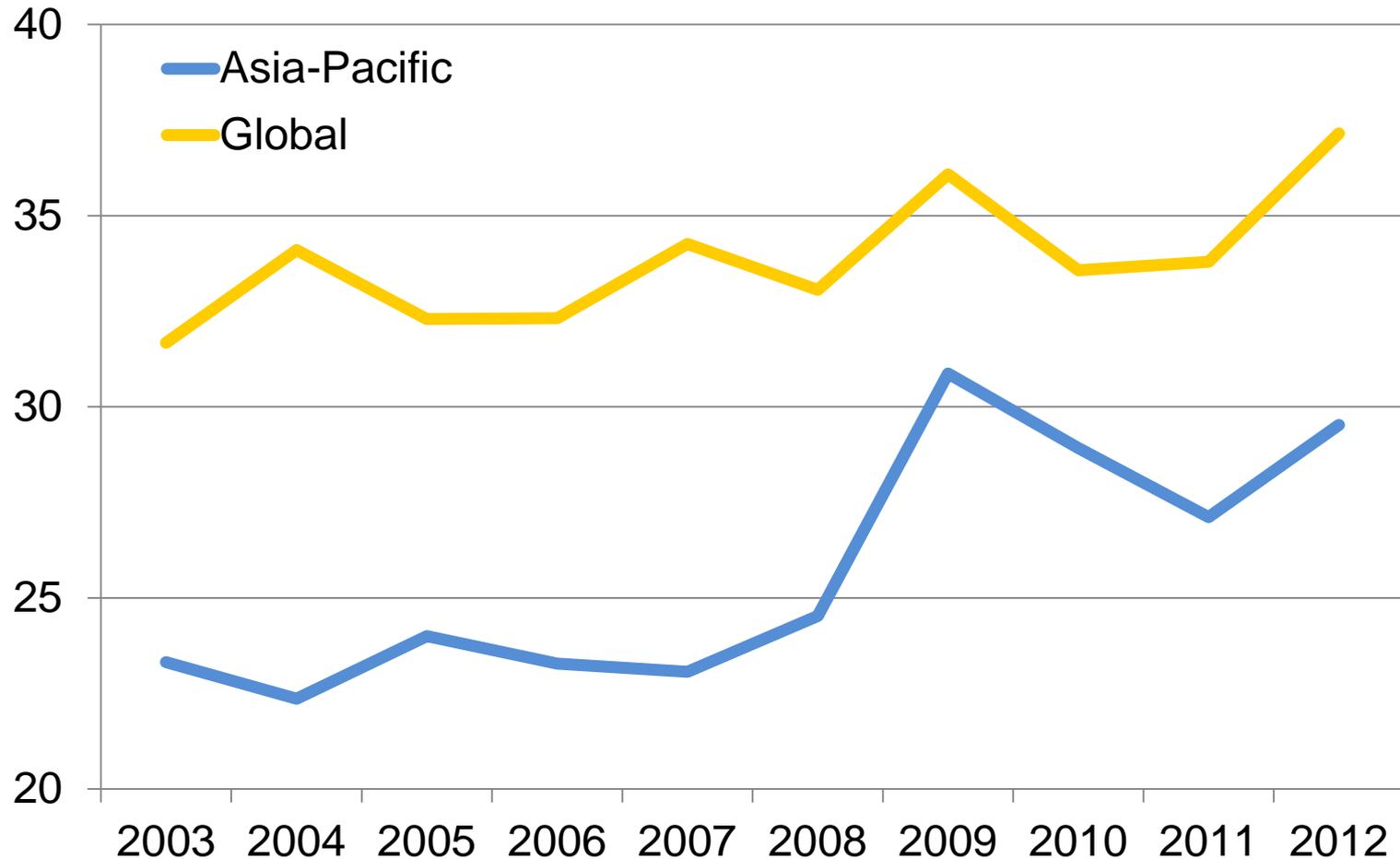
- ⇒ Unhampered growth
- ⇒ Product diversification: move from microcredit to encompassing financial inclusion (insurance, savings, leasing, Islamic finance products, transfer and payments)

Microfinance – global and regional trends

- ⇒ Unhampered growth
- ⇒ Product diversification: move from microcredit to encompassing financial inclusion (insurance, savings, leasing, Islamic finance products, transfer and payments services)
- ⇒ Commercialisation (mission drift versus sustainability; resemblance of lending practices of commercial banks)

Average loan balance per borrower

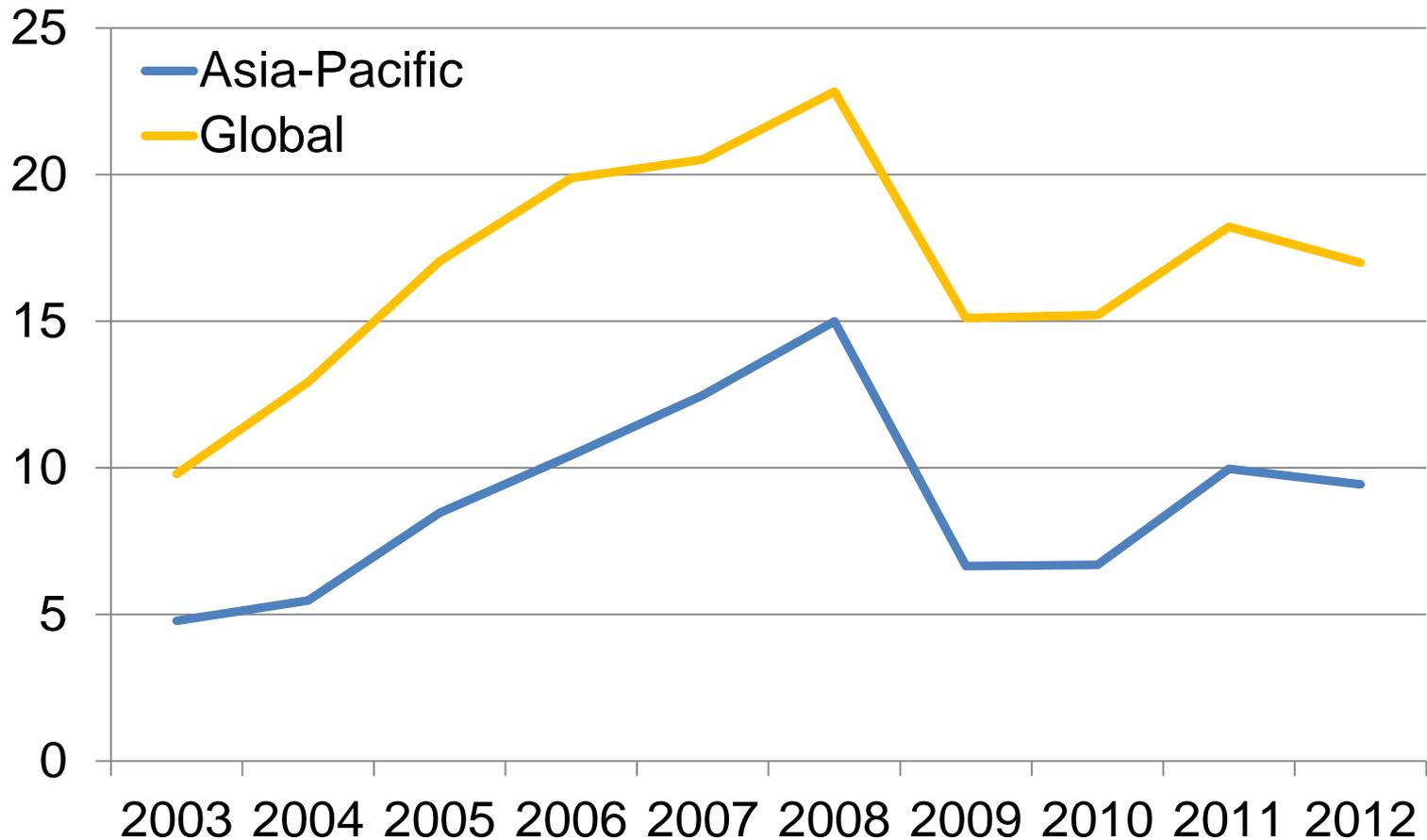
(percent of GNI per capita, 2003-2012)



Source: Mixmarket microfinance database; own calculations.

Yield on gross loan portfolio

(percent, 2003-2012)



Microfinance – global and regional trends

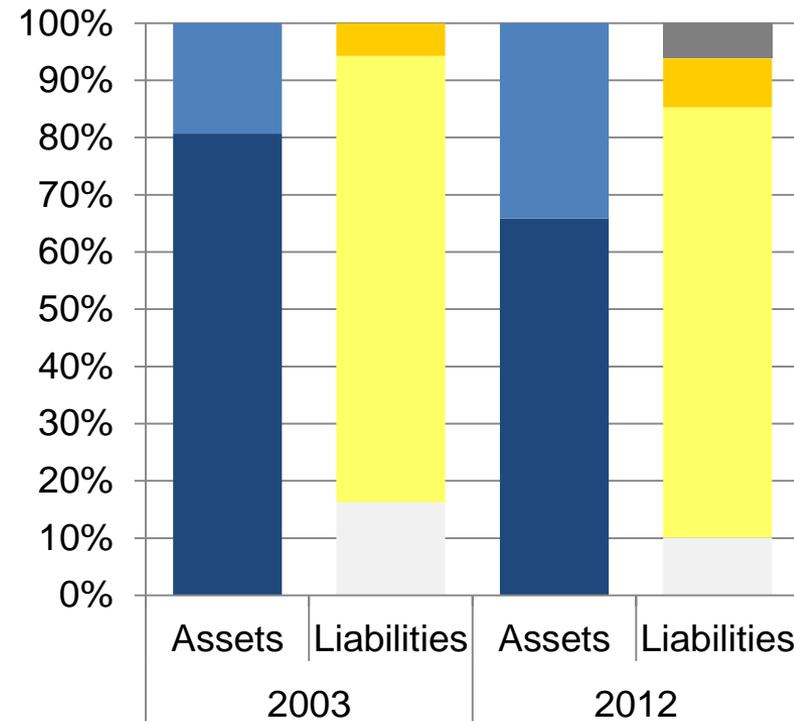
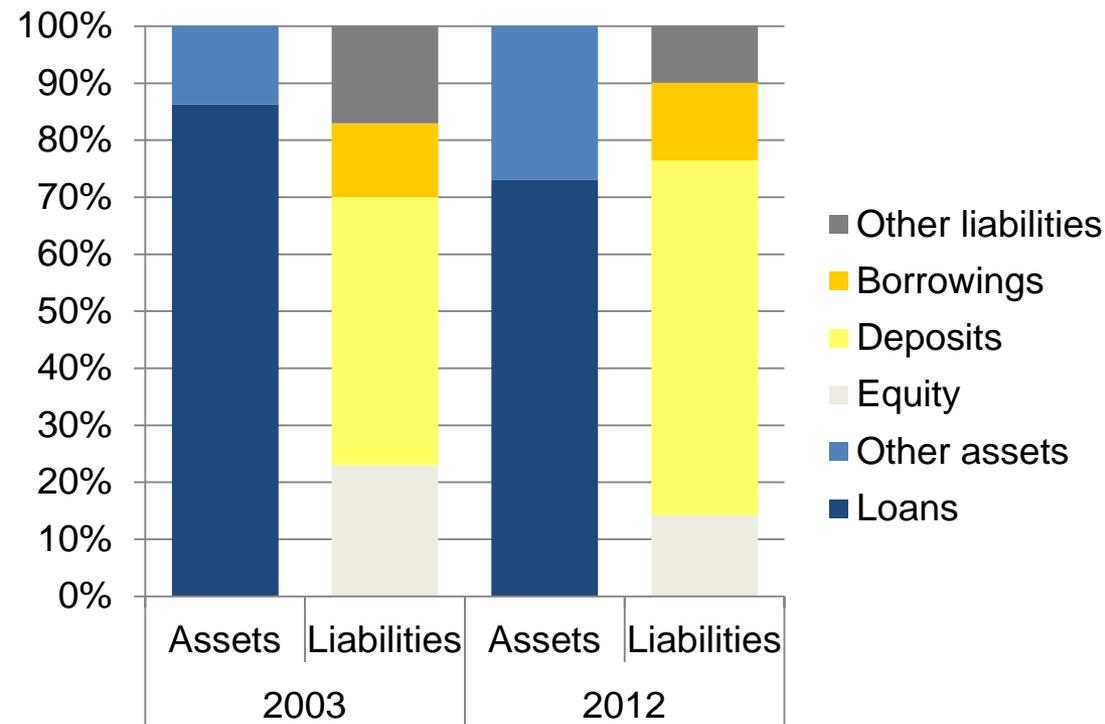
- ⇒ Unhindered growth
- ⇒ Product diversification: move from microcredit to encompassing financial inclusion (insurance, savings, leasing, Islamic finance products, transfer and payments)
- ⇒ Commercialisation (mission drift versus sustainability; resemblance of lending practices of commercial banks)
- ⇒ Technological progress

Global and Asia Pacific regional trends

A balance sheet approach

Global

Asia-Pacific



Source: Mixmarket microfinance database; own calculations.

Conclusions

- ⇒ Financial inclusion and microfinance are associated with progress in the human development as measured by the HDI
- ⇒ Microfinance nowadays encompasses a wide range of products from retail banking
- ⇒ Leveraging and portfolio diversification are global trends that seem to be driven by developments in Asia Pacific
- ⇒ Mission drift appears to be less of a problem in Asia Pacific than in global microfinance