

FUTURE DIRECTIONS IN MICROFINANCE



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December 18, 2000

Washington, D.C.

THE OLD AND NEW MICROFINANCE PARADIGMS - Credit

OLD:

- The poor cannot afford and will not be able to repay credit at commercial interest rates. Therefore, subsidized credit programs are needed.



NEW:

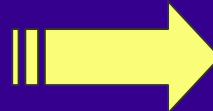
- ✓ The economically active poor are capable of repaying loans at commercial interest rates when loan terms are appropriate for their needs.

THE OLD AND NEW MICROFINANCE PARADIGMS

- Savings

OLD:

- Most of the poor cannot afford to save.
- Those who can save do not trust financial institutions and prefer to put voluntary savings in non-financial forms.



NEW:

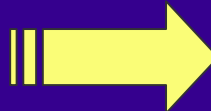
- ✓ Massive demand exists for institutional voluntary savings among the poor.
- ✓ They do not need to be taught to save;
- ✓ they are already experts in saving under the conditions available to them.

THE OLD AND NEW MICROFINANCE PARADIGMS

- Financial Self-sufficiency

OLD:

- MFIs are not financially self-sufficient and require continuing donor and government subsidies.



NEW:

- ✓ Commercial MFIs can be financially self-sufficient over the long term and can meet large demand for savings facilities.
- ✓ The savings provide substantial funds for increased microloans

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Finance is not a Constraint

✓ **Access capital markets**

✓ **Mobilize public savings**

✓ **Commercial investors**

✚ (Donors and governments provide funds only for institutional capacity building, industry development, and very exceptional cases)

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Major Players

- **REGULATED MFIs WITH EFFECTIVE AND ACCOUNTABLE GOVERNANCE AND MANAGEMENT, AND WITH A TRACK RECORD OF EFFICIENCY, HIGH PORTFOLIO QUALITY, LARGE-SCALE OUTREACH , AND PROFITABILITY.**
 - **Banks**
 - **Regulated, competitive nonbank financial Institutions**
 - **Other formal sector institutions with large infrastructure (such as retail stores).**

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WHAT WILL HAVE HAPPENED TO OTHER MICROLENDERS?

- **Credit unions/cooperatives**
- **NGOs**
- **Village banks**
- **Informal moneylenders**

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RISKS

- **Macroeconomic failure/ severe political instability**
- **Inappropriate regulation, inadequate capacity for public supervision**
- **Some MFIs will fail because they cannot compete successfully**
- **Mission drift**

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WHO ARE THE CLIENTS?

- **Borrowers: economically active poor and lower-middle-income people**
- **Savers: all kinds of individuals, associations, and institutions that are located near the sub-branches.**
- **Others (examples):**
 - **People receiving salary or pension payments through the institution**
 - **People using transfer facilities**

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WHAT'S THE ROLE OF GOVERNMENT?

- **Maintaining macroeconomic and political stability**
- **Appropriate regulation and supervision of regulated MFIs**
- **Discouraging political manipulation**
- **Spreading information about the importance to the country of sustainable microfinance institutions and best practices.**

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WHAT IS THE VISION?

🌀 “The millions reached today will increase a hundredfold. This is nothing short of changing the very nature of banking, from servicing the top 25 or 30 percent (at the most) of the population of the developing world to meeting the demand of the rest. It is the reclaiming of finance for society at large – the true democratization of capital.”

🌀 — Michael Chu