

SESSION

Frontiers of Microfinance Innovation:
Promising Paths Toward Increasing Impact

Frontiers
of social innovation

INCLUSIVE MARKETS—INCLUSIVE SOCIETIES



Timothy Ogden
Managing Director,
Financial Access
Initiative, NYU
Wagner;
Executive Partner,
Sona Partners



Bruce Wydick
Professor,
University of
San Francisco



Caitlin Sanford
Senior Associate,
Bankable Frontier
Associates



Maria May
Senior Program
Manager,
BRAC



How Microcredit Works

- Not how we thought
 - It's not selection
 - It's not group liability
 - It's not entrepreneurship
 - It's not credit constraints

SESSION

Frontiers of
Microfinance
Innovation





Microfinance loan

Microfinance savings account

Life insurance

Interest free loan from neighbor

Remittance to home village

Savings held for neighbors

Home savings

Rent arrears

Cash in hand

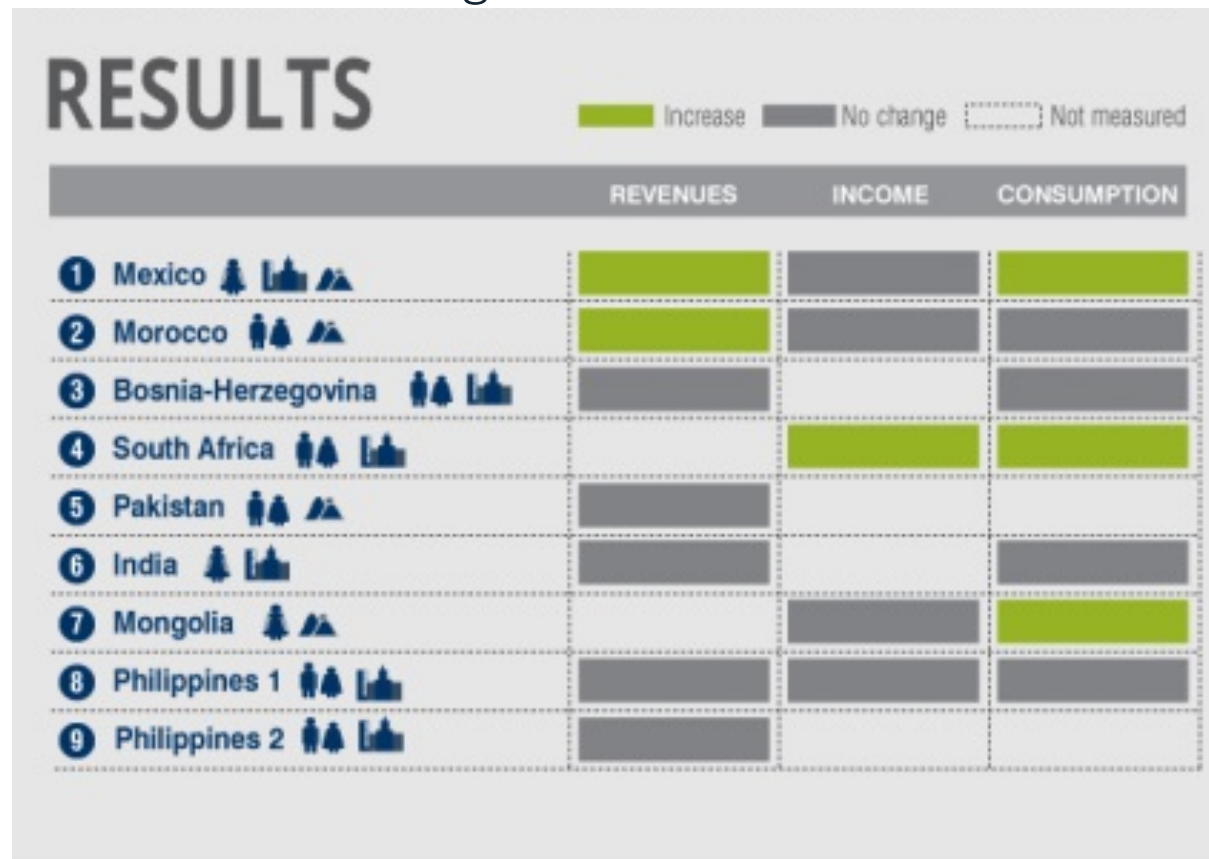
Wage advance

Saving with a moneyguard

Loans to others

At Scale, What Does Microcredit Deliver?

- Not what we thought



SESSION

Frontiers of Microfinance Innovation



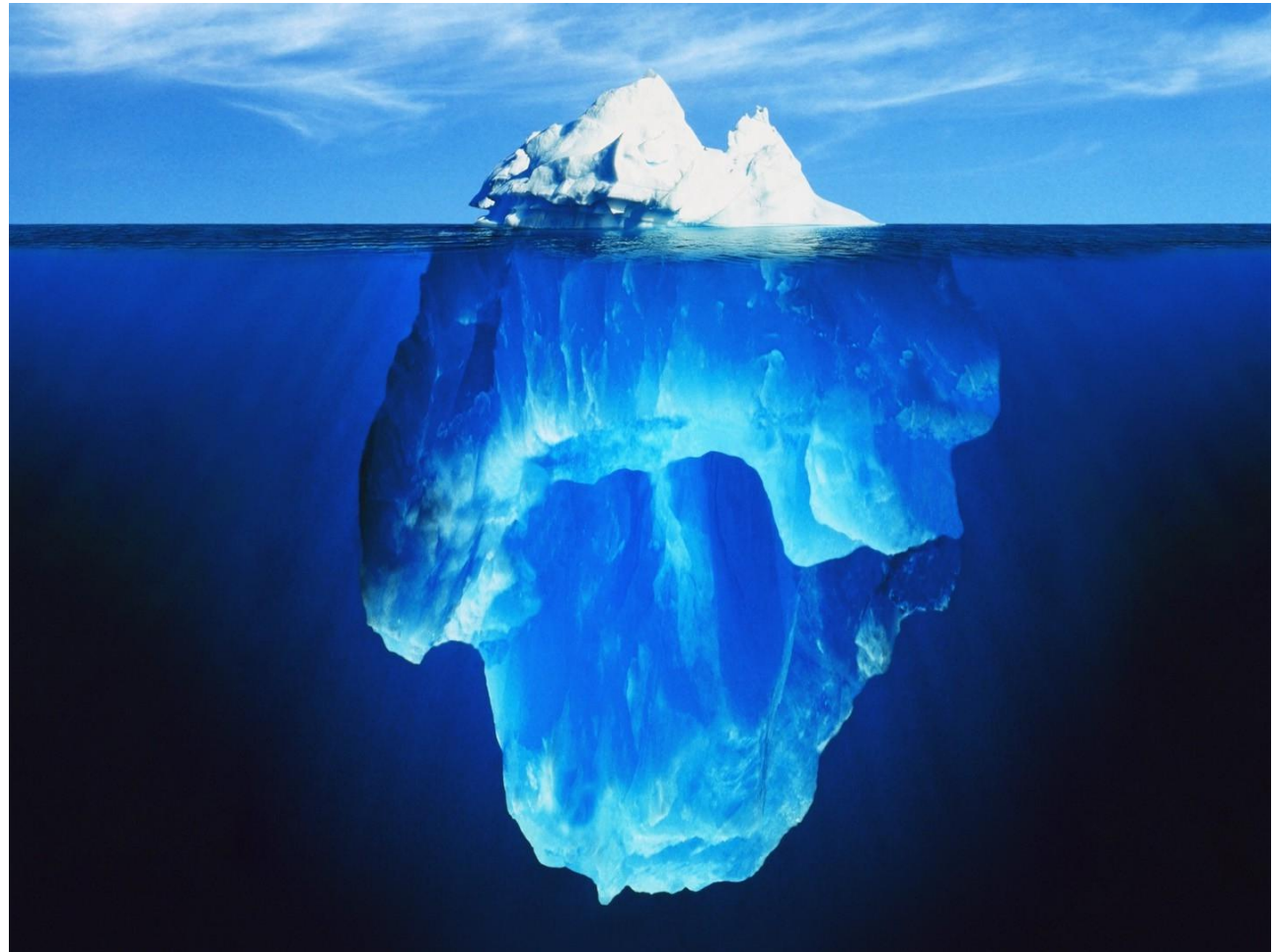
SESSION
Frontiers of
Microfinance
Innovation



Five Promising Paths

- Client selection
- Flexible repayment
- Lines of credit
- Business services
- Hybrid products

Subsidy



SESSION
Frontiers of
Microfinance
Innovation



SESSION

Frontiers of Microfinance Innovation

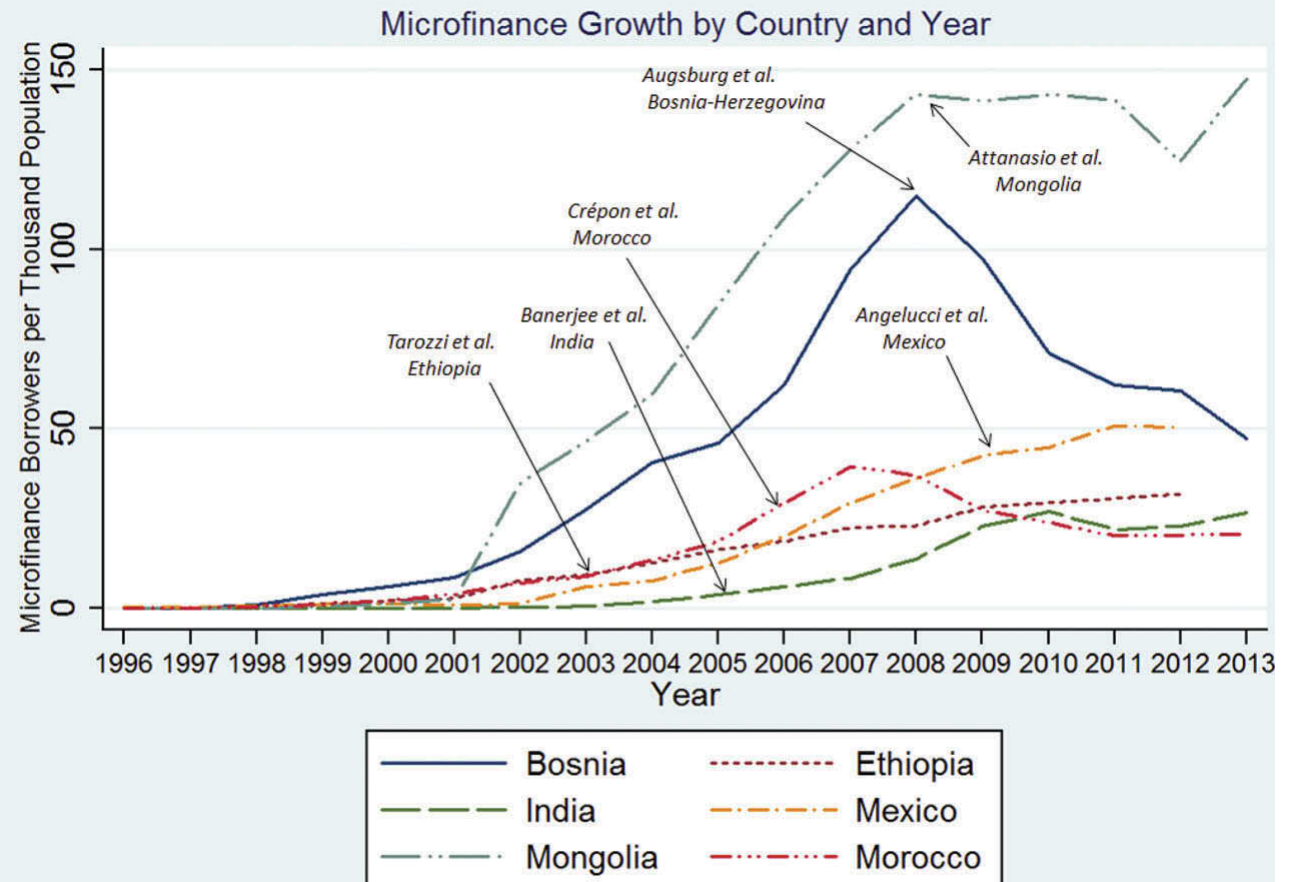


Investing in Innovation

- Drop the “no tradeoffs” myth
- Drop the “no subsidy” myth
- Adopt a new theory of change
- Explicitly fund innovation
 - A learning agenda
 - Risk capital
 - Tracking metrics

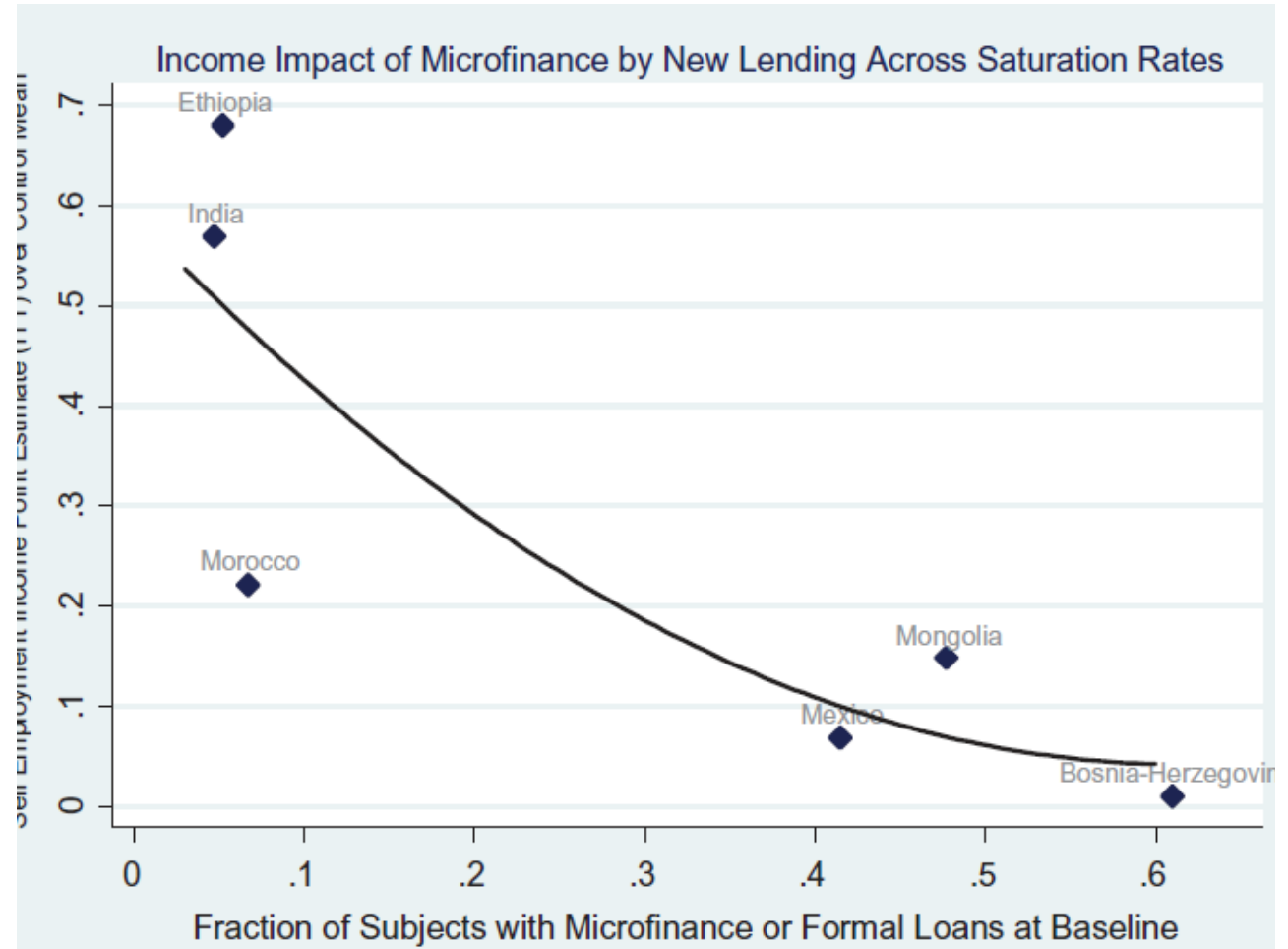
Possible Underestimation?

SESSION Frontiers of Microfinance Innovation



Possible Underestimation?

SESSION Frontiers of Microfinance Innovation



Lack of Diagnostics

- Wrong diagnosis leads to ineffective treatment
- How many borrowers in the subject pool were clearly diagnosed with a binding credit constraint?
- Could it be that it is “internal” constraints that are binding in many cases rather than “external” constraints?

SESSION

Frontiers of Microfinance Innovation



SESSION

Frontiers of Microfinance Innovation



Aspirations and Hope

1. (Noun) Desire accompanied by expectation of or belief in fulfillment, e.g.

“When they started their life together, they were young and full of *hope*.”

“He had little *hope* of attending college.”

2a. (Verb) to cherish a desire with anticipation

David hopes that good weather will bring customers tomorrow.”

2b. (Verb) to desire with expectation of attainment

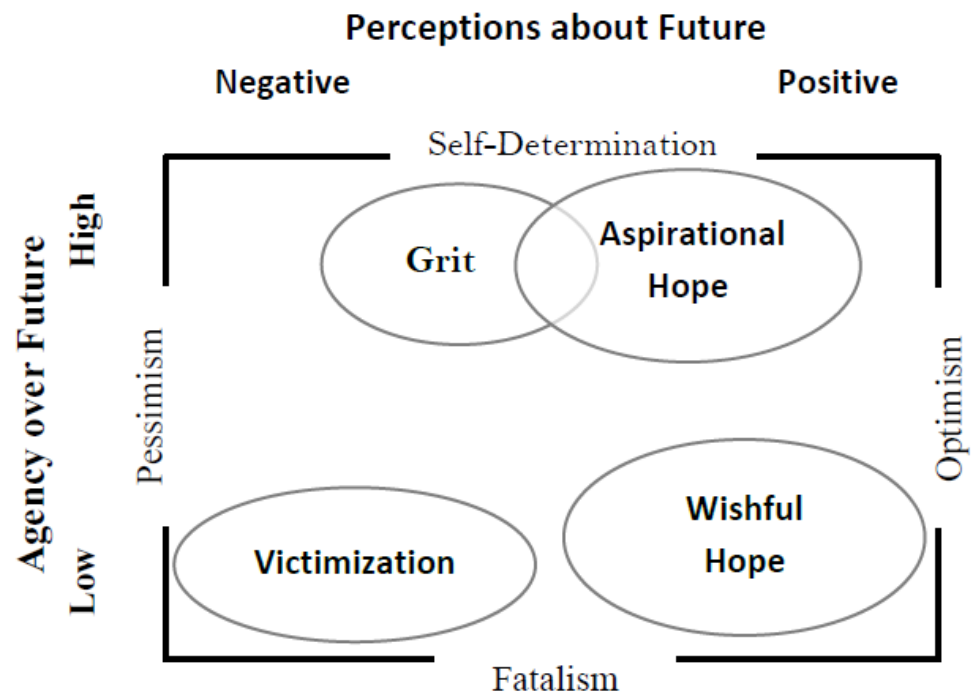
“David hopes to fix the leak in the tent over his diner tomorrow.”

Aspirations and Hope

Wishful hope which may motivate **fatalism**

VS.

Aspirational hope which may motivate **proactivity**



SESSION
Frontiers of
Microfinance
Innovation



Oaxaca Hope Project



31 Community Banks
in Oaxaca Isthmus



21 Community Banks
in Oaxaca Valley

SESSION
Frontiers of
Microfinance
Innovation

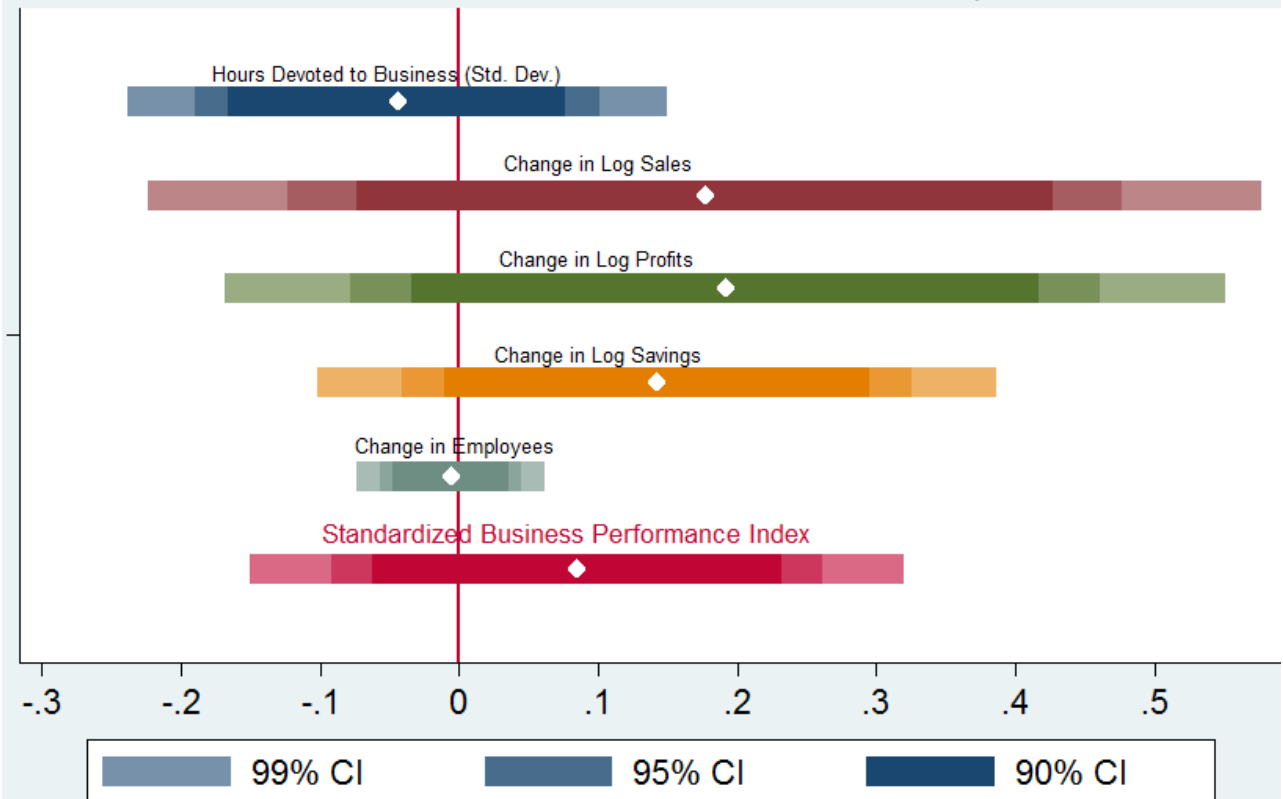


Researchers: Travis Lybbert, Irvin Rojas,
Bob Dowd, Bruce Wydick
NGO: Fuentes Libres

#SSIRFrontiers

Hope in Oaxaca

Impact Estimates from Hope Intervention ANCOVA Estimations, 1-month follow-up

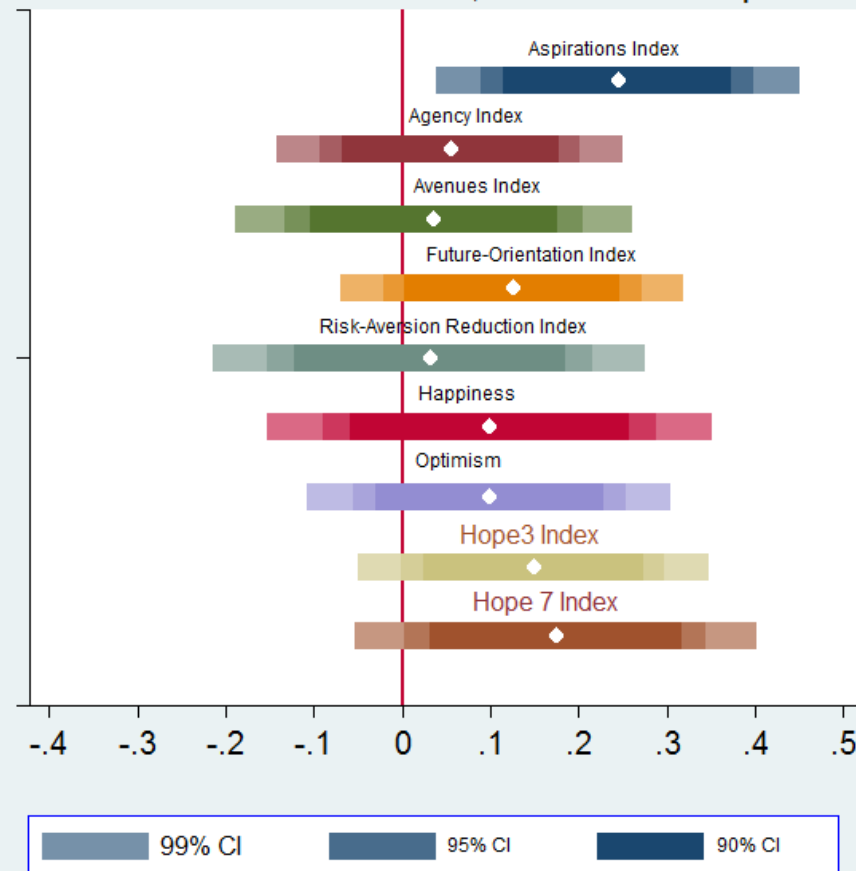


SESSION Frontiers of Microfinance Innovation



Hope in Oaxaca

Impact Estimates from Hope Intervention ANCOVA Estimations, 1-month follow-up



SESSION Frontiers of Microfinance Innovation



Hope in Oaxaca: Key Questions

- Is less microfinance actually more?
- Can we implement strategies where we diagnose potential borrowers and target loans more effectively?
- Could it be that internal factors are just as important as external factors for LDC entrepreneurs?
- If so, are there interventions to address these?

SESSION

Frontiers of Microfinance Innovation



The Financial Lives of Low-Income People Globally



SESSION

Frontiers of Microfinance Innovation



Average number of financial instruments per household



Client Voices- Consumer Protection Problems in Microfinance

Poor understanding of basic loan features

Low levels of understanding of credit bureaus

Not informed where to complain, only recourse with loan officer

Benin: compulsory savings not returned

Georgia: US dollar loans

Georgia and Peru: aggressive sales

SESSION Frontiers of Microfinance Innovation



A Darker Side of the Group Lending Model?

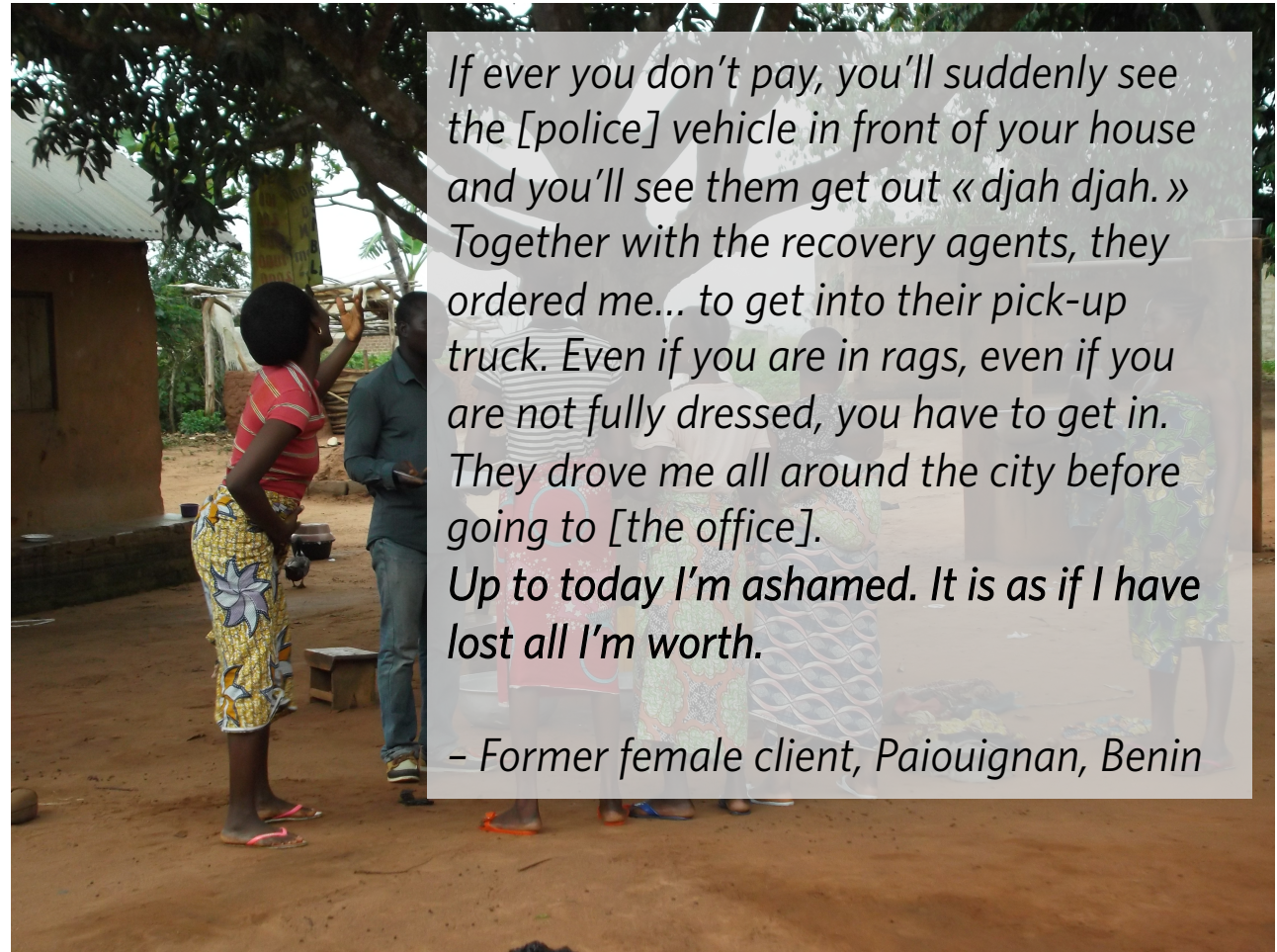


SESSION
Frontiers of
Microfinance
Innovation



A Darker Side of the Group Lending Model?

SESSION Frontiers of Microfinance Innovation



If ever you don't pay, you'll suddenly see the [police] vehicle in front of your house and you'll see them get out « djah djah. » Together with the recovery agents, they ordered me... to get into their pick-up truck. Even if you are in rags, even if you are not fully dressed, you have to get in. They drove me all around the city before going to [the office]. Up to today I'm ashamed. It is as if I have lost all I'm worth.

- Former female client, Paouignan, Benin

Passing Currency Risk to Clients

“One risk that made my situation harder is the exchange rate change; all the MFIs issue loans in USD. I feel negative emotions when I recall how much I have to pay. Mainly, I feel so badly after the change of the [exchange] rate. My payment has increased to nearly half of my salary!”

- Woman, Rural Telavi, Georgia



SESSION
Frontiers of
Microfinance
Innovation



Combining Formal and Informal Finance

SESSION Frontiers of Microfinance Innovation



10%

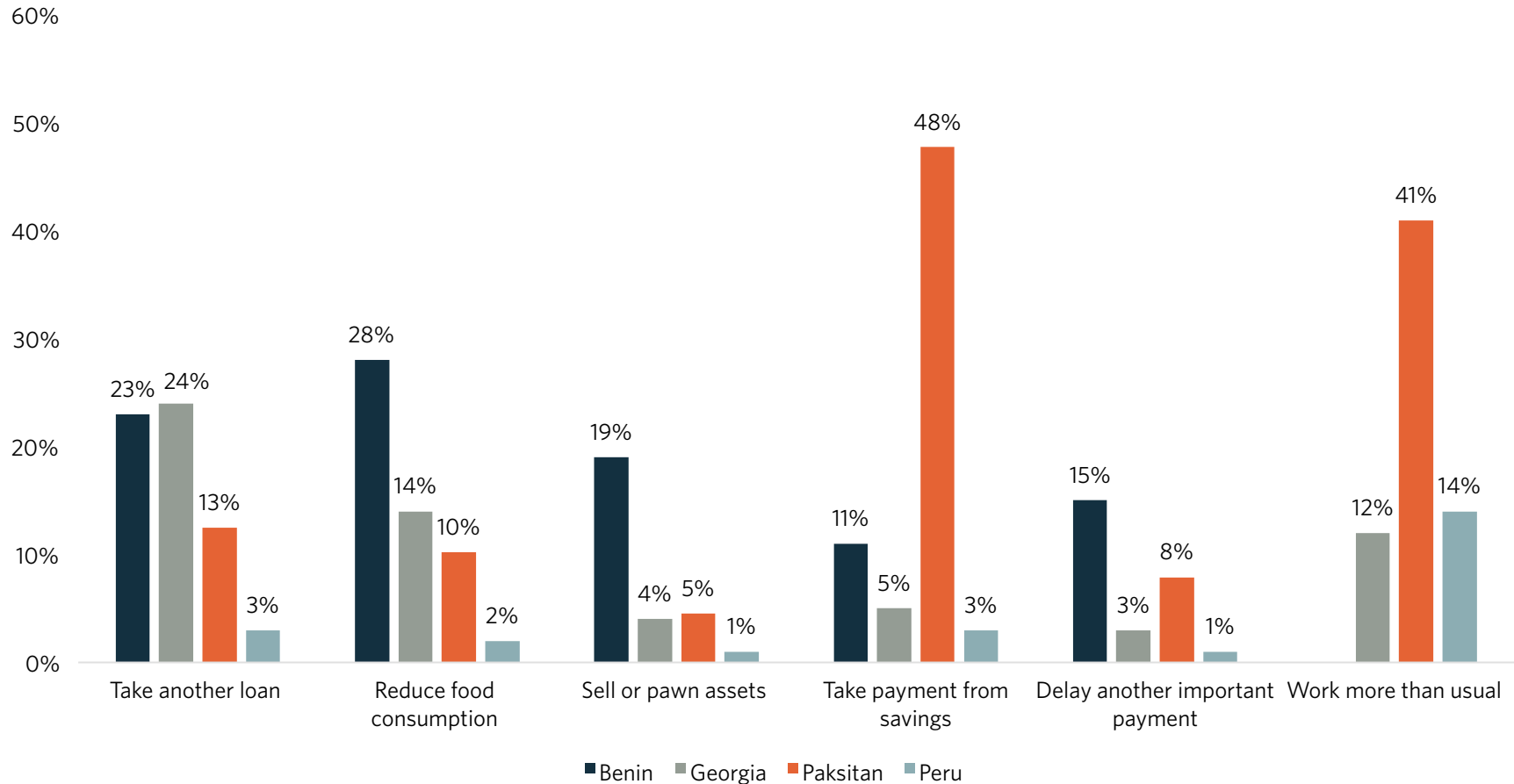
of Georgian clients took out a loan in another person's name.

8%

of Peruvian clients took out a loan in another person's name.

Innovation Needed in Structuring Payments

Clients taking the following actions to make a microfinance payment



SESSION
Frontiers of
Microfinance
Innovation




Benin: Illiterate clients and the poor are less likely to report that they have ever wanted to complain.

Probit regression: Ever wanting to complain

Male	-0.0322 (0.102)
Illiterate	-0.221** (0.0930)
Know how much they will pay	0.451*** (0.0906)
Ever paid late	0.343*** (0.112)
Paid for group member	0.370*** (0.140)
Told where to complain	0.123 (0.119)
Correct math	-0.134 (0.0877)
Poor	-0.170** (0.0853)
Group borrower	0.0184 (0.0940)
Experienced any harm	0.832*** (0.105)
Observations	1,733

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1



Raising the bar for impact investing in the microfinance space.

What are Major Barriers to Introducing Flexibility and Convenience into Microfinance?

- Efficiency
- Discipline
- Staff beliefs and practices
- Product simplicity and familiarity

SESSION

Frontiers of Microfinance Innovation



BRAC Microfinance at a Glance

Microfinance - Bangladesh	March '16
Total members	5.4M
Total borrowers	5.05M
Outstanding loans (USD)	1.55 billion
Savings deposits (USD)	533M

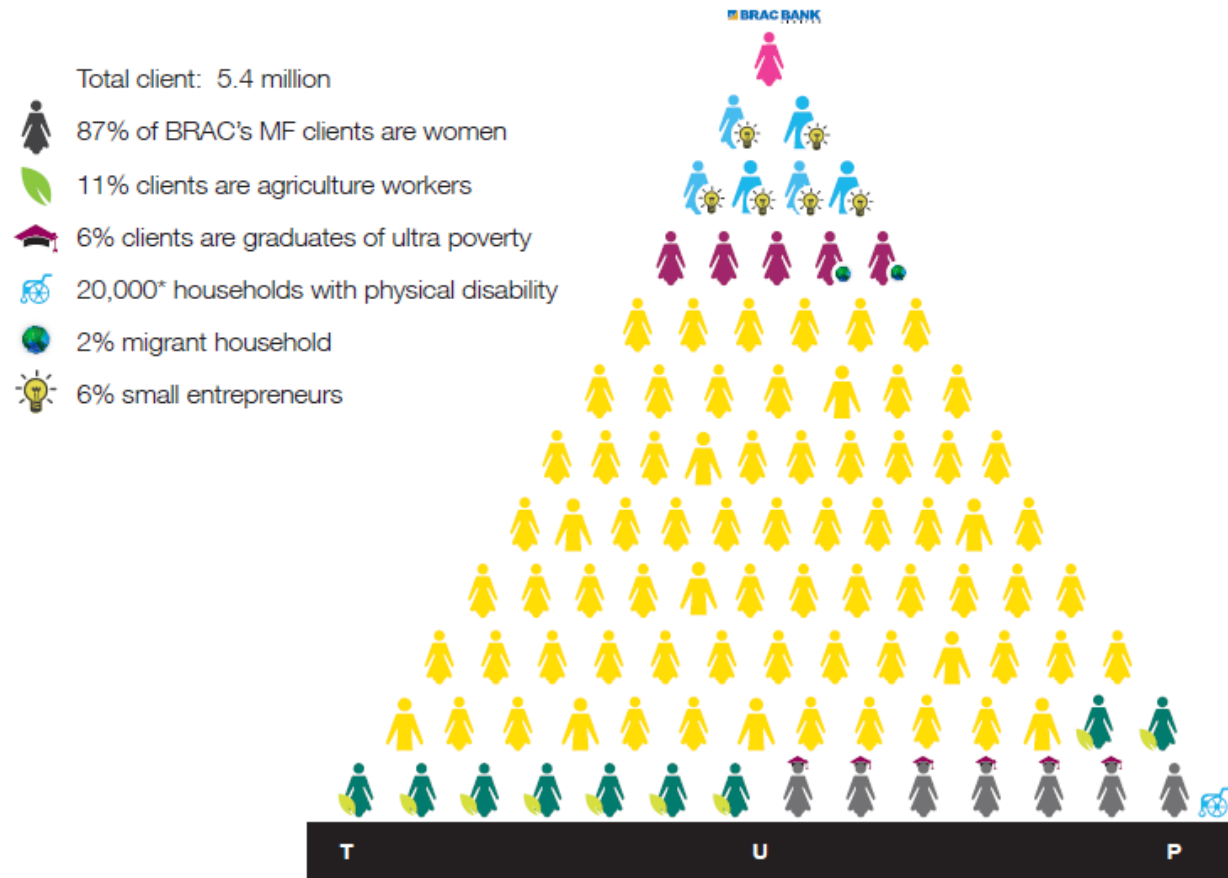
Also providing inclusive financial services in Myanmar, Pakistan, Uganda, Tanzania, Sierra Leone, and Liberia.

SESSION

Frontiers of
Microfinance
Innovation



BRAC Microfinance at a Glance



SESSION Frontiers of Microfinance Innovation



Introducing Mobile Money as a Channel for Savings Deposits



SESSION
Frontiers of
Microfinance
Innovation



Implementation Challenges

SESSION Frontiers of Microfinance Innovation



- Staff and client knowledge of mobile money
- Basic numeracy and technology literacy
- Attachment to paper record
- Time required to build up trust and confidence in system
- Inadequacies of registration and customer care service

Pilot Results: December 2015

- Offered at 112 branches
- Out of 17,000 DPS deposits, 50% used mobile money
- Average time between deposits reduced by 4 days (37 vs. 41)
- Early withdrawal rate decreased (27% to 9%)
- Clients' general utilization of mobile money increased (anecdotal)

Currently scaling up mobile money deposit option to all 2,200 branches nationally and experimenting with loan repayment.

Biggest Problem: "Satisficing"



SESSION
Frontiers of
Microfinance
Innovation

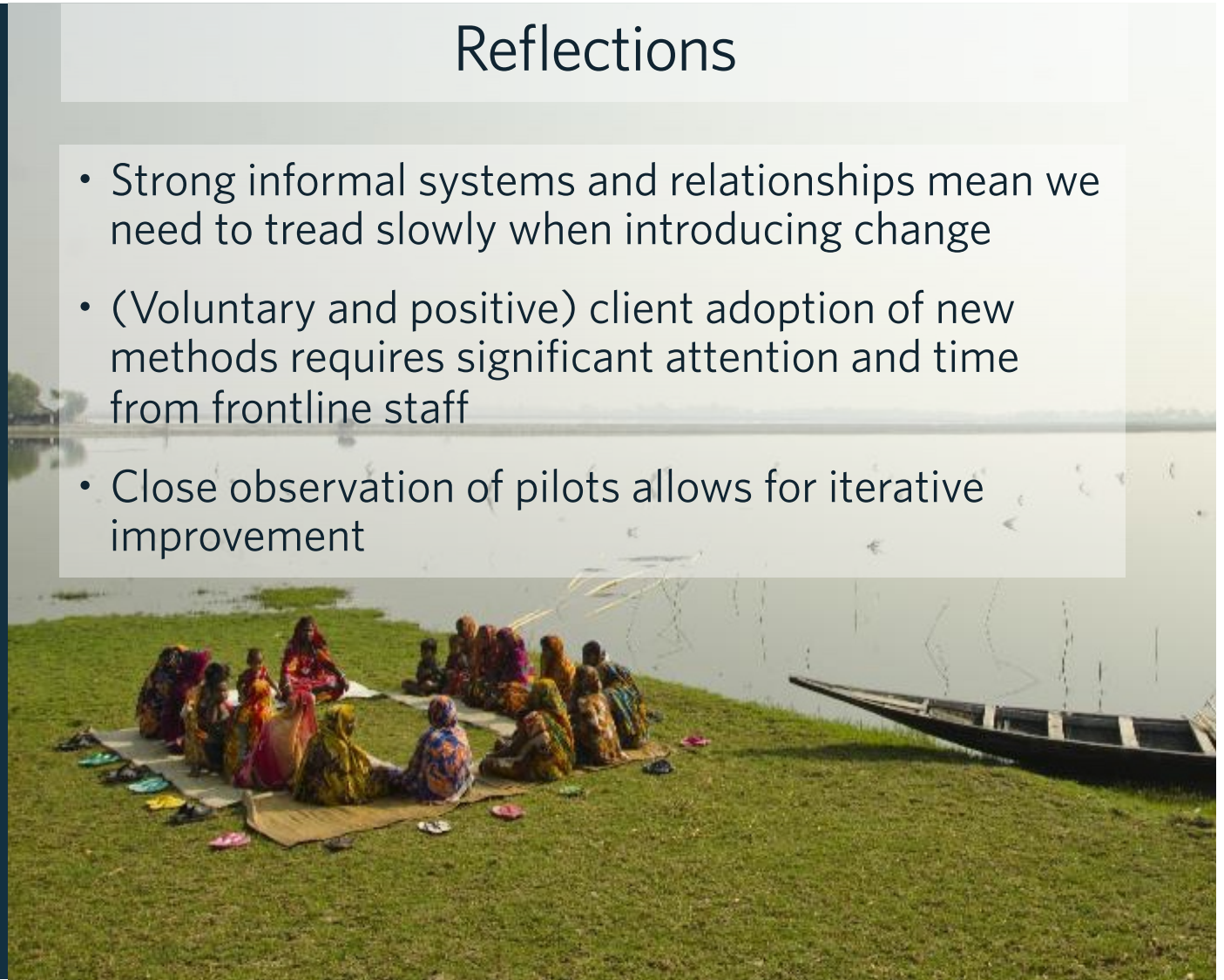


Reflections

- Strong informal systems and relationships mean we need to tread slowly when introducing change
- (Voluntary and positive) client adoption of new methods requires significant attention and time from frontline staff
- Close observation of pilots allows for iterative improvement

SESSION

Frontiers of Microfinance Innovation



Panel Discussion



Timothy Ogden
Managing Director,
Financial Access
Initiative, NYU
Wagner;
Executive Partner,
Sona Partners

@timothyogden



Bruce Wydick
Professor,
University of San
Francisco

@BruceWydick



Caitlin Sanford
Senior Associate,
Bankable Frontier
Associates

@caitlinsanford



Maria May
Senior Program
Manager,
BRAC

@BRACworld

SESSION Frontiers of Microfinance Innovation

