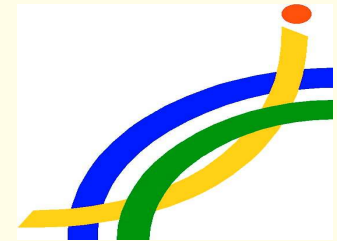


# Joint Consultative Council *“Empowering the Future”*



Promoting Small, Medium and Micro Enterprises

JCC Microfinance Workshop  
Friday, 15<sup>th</sup> Sept. 2006, Hardap Regional Council, Mariental

**Microfinance for Enterprise Development  
International Perspective**  
by  
**Marielle Zeidler**

# Agenda

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- What is Microfinance
- (Micro)Financial Sector Development
- The Stakeholders and their Roles
- Key Factors: International Best Practices
- Where stands Africa?

# The Context

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Microfinance rather to be seen as financial system development, which drives growth and innovation rather than enterprise development.



# Enterprise development

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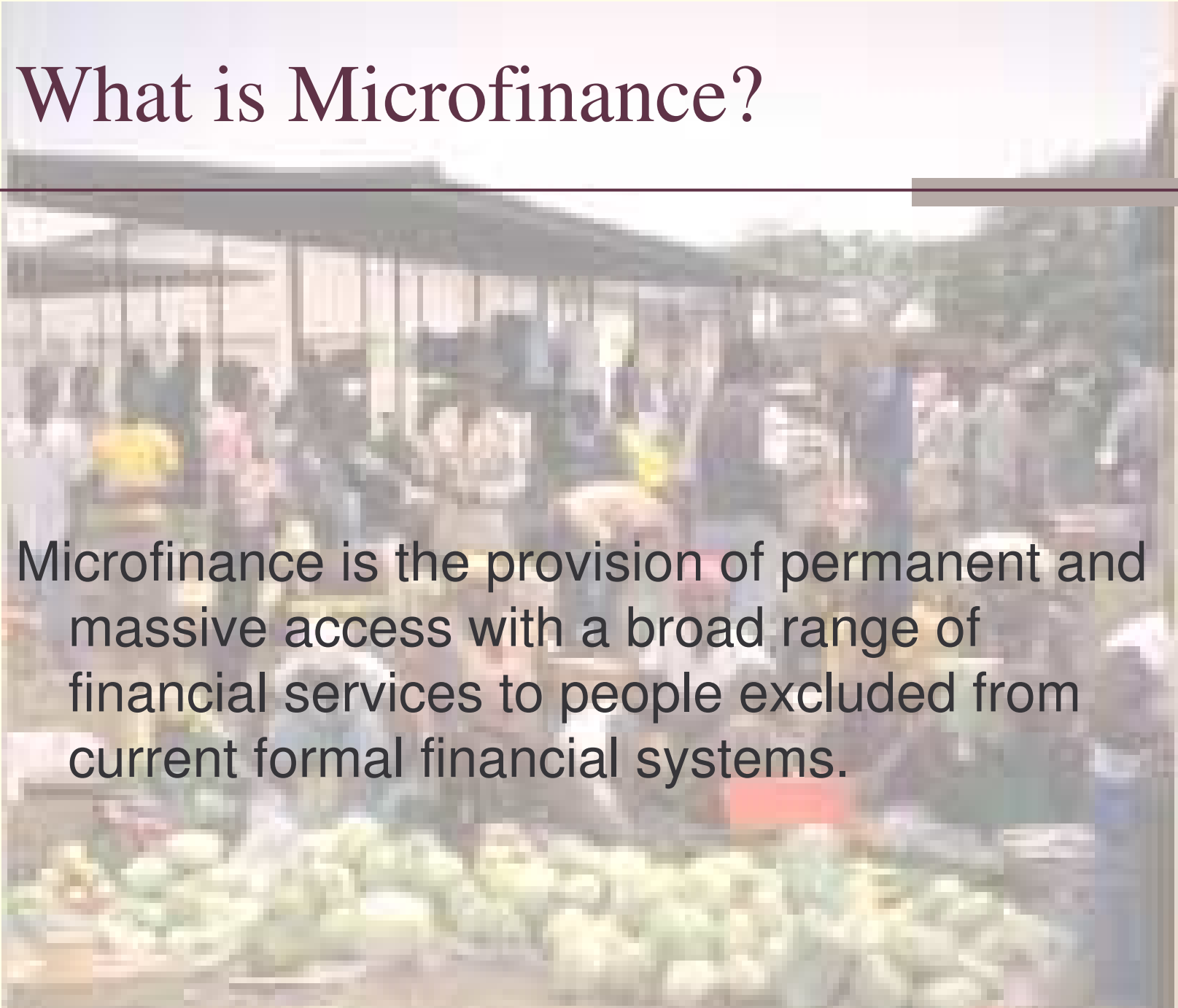
- Access to financial services
- Vocational training
- Business development services
- Enabling environment
- Infrastructure
- Markets
- Etc.



# What is Microfinance?


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Microfinance is the provision of permanent and massive access with a broad range of financial services to people excluded from current formal financial systems.



# Microfinance Products

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- Working capital loans
  - Fixed assets loan
  - Savings (term and sight)
  - Consumer loans
  - Housing loans
  - Agricultural loans
  - Others: transmission services, foreign exchange, insurance
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# Microfinance Clients

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- Small and microentrepreneurs
- Female Household Heads
- Small farmers
- Pensioners
- Low income salaried workers
- Short everyone, who is excluded from the formal financial system

# Small and microentrepreneurs the main clients?

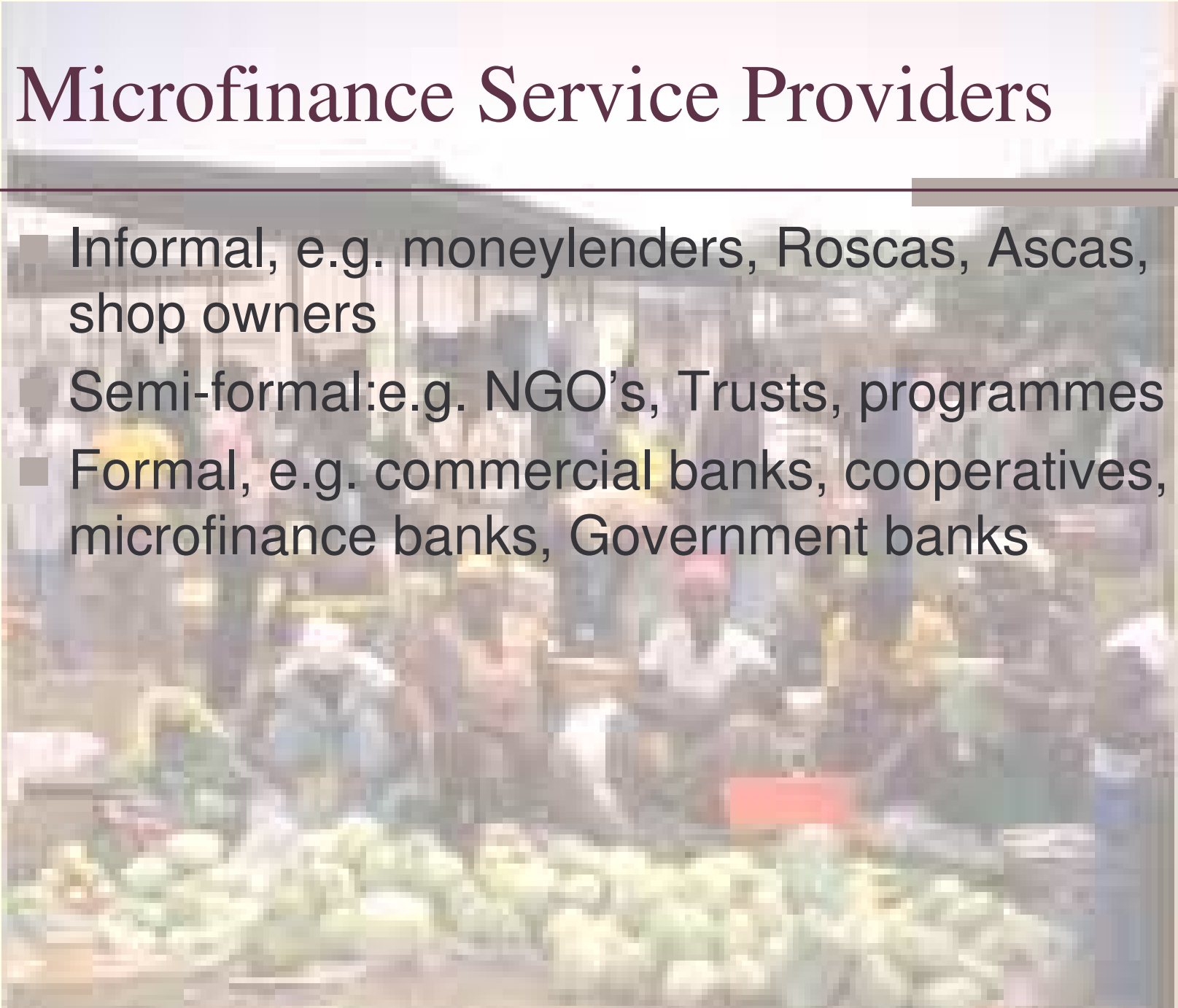
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- 40-80% of households are dependent on self-employment as few formal employment opportunities and safety nets do not exist
- Household and business accounts one entity
- Use money fungible
- No bankable collateral and credit history
- Entrepreneurial activities create cash-flows, which can be used as repayment

# Microfinance Service Providers

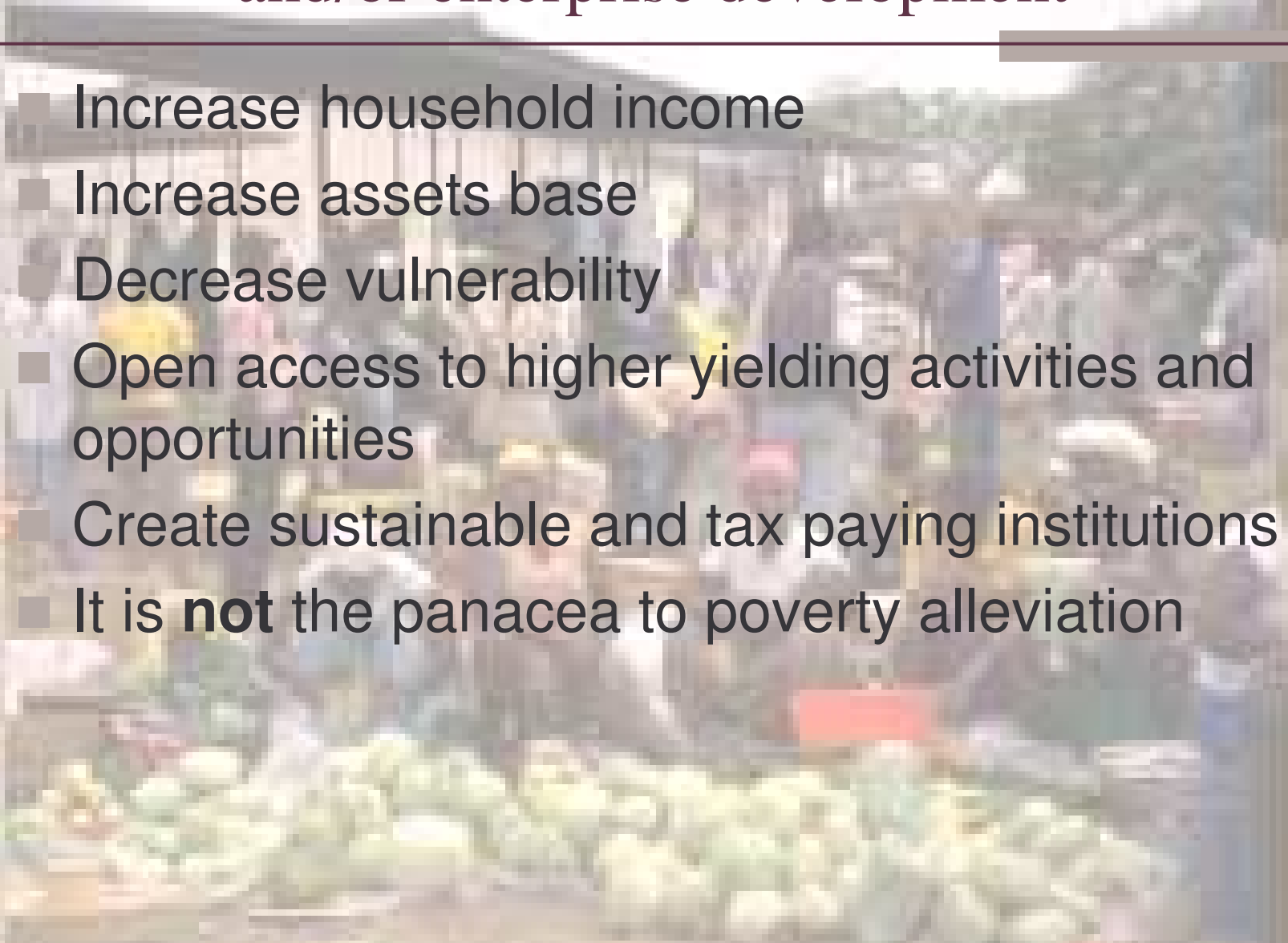
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- Informal, e.g. moneylenders, Roscas, Ascas, shop owners
- Semi-formal: e.g. NGO's, Trusts, programmes
- Formal, e.g. commercial banks, cooperatives, microfinance banks, Government banks

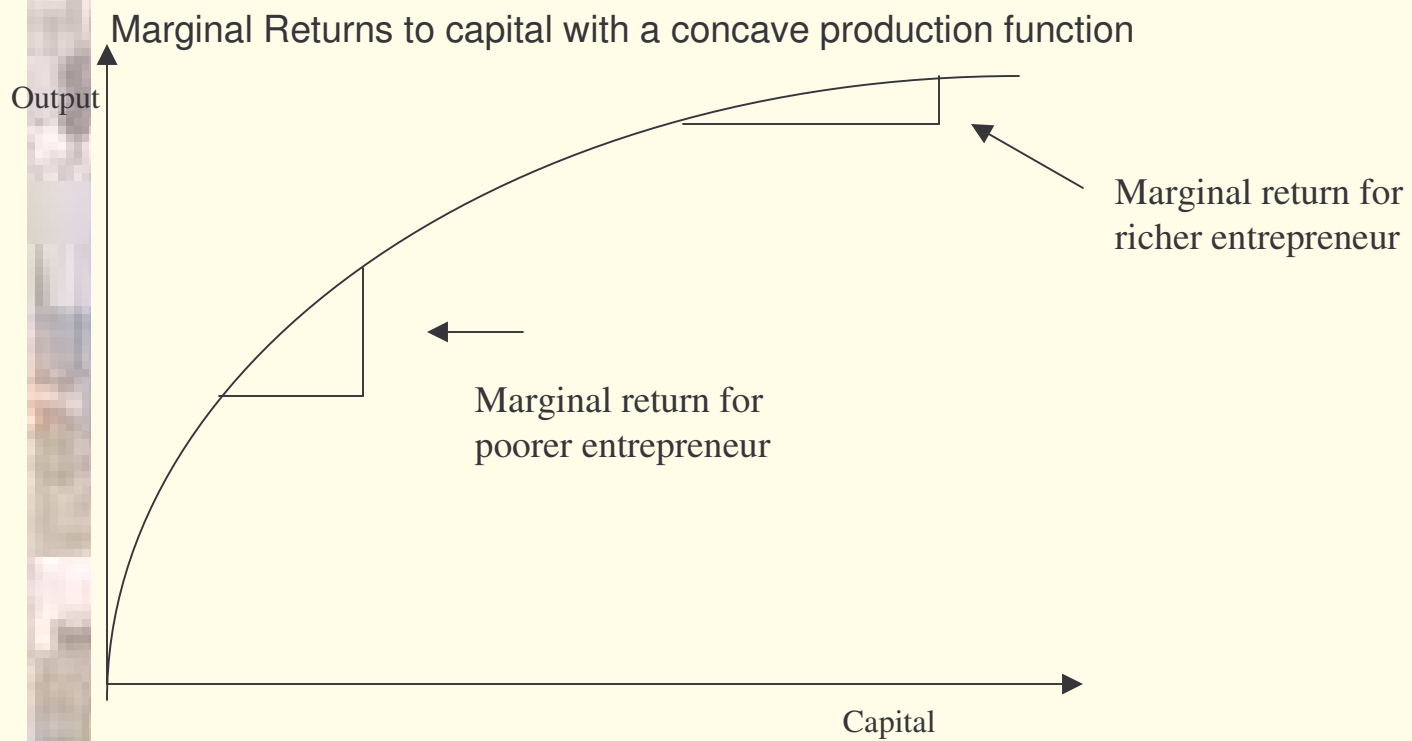


# The role of microfinance in poverty reduction and/or enterprise development

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- Increase household income
  - Increase assets base
  - Decrease vulnerability
  - Open access to higher yielding activities and opportunities
  - Create sustainable and tax paying institutions
  - It is **not** the panacea to poverty alleviation
- 

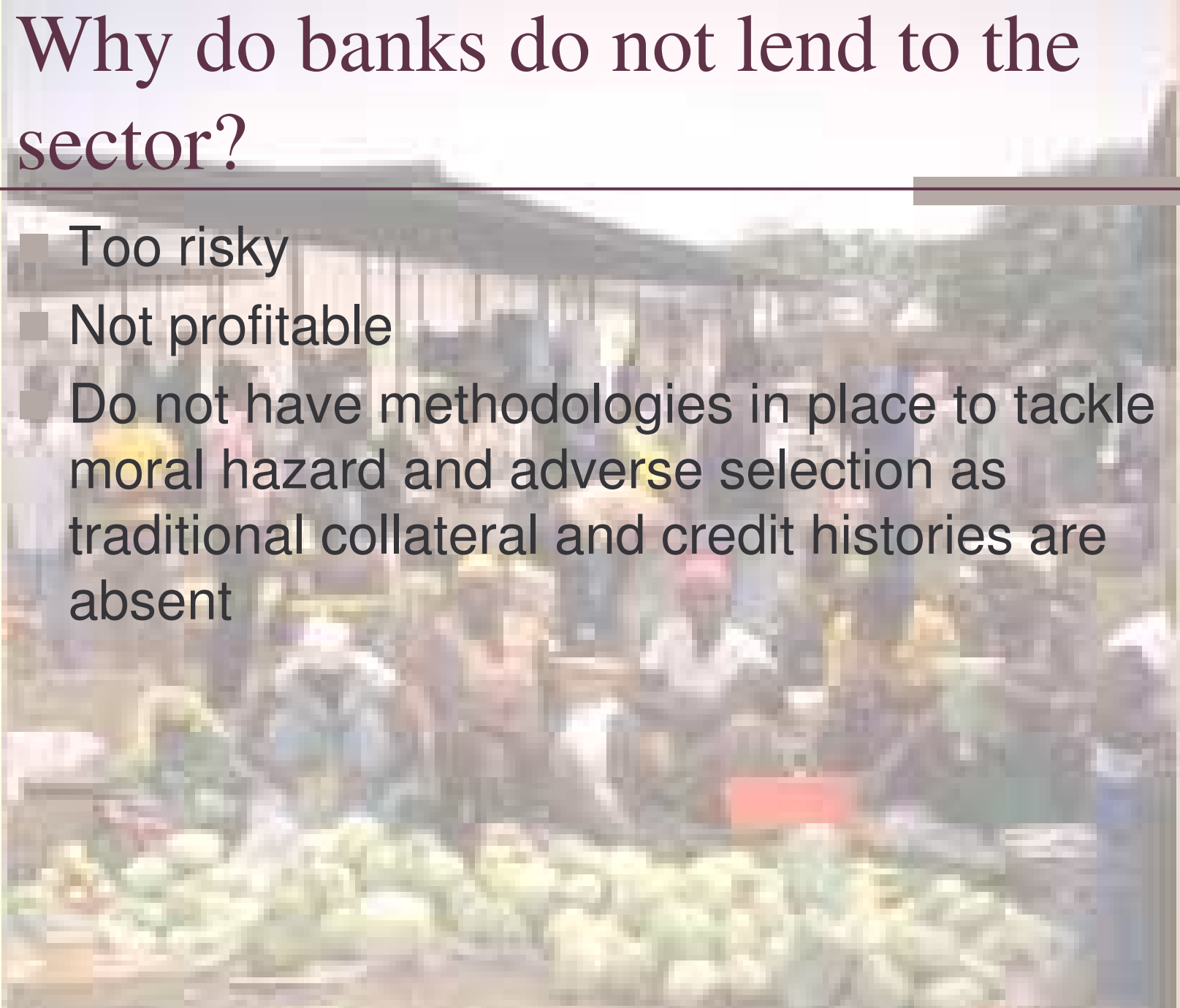
# Microeconomic Rational



# Why do banks do not lend to the sector?

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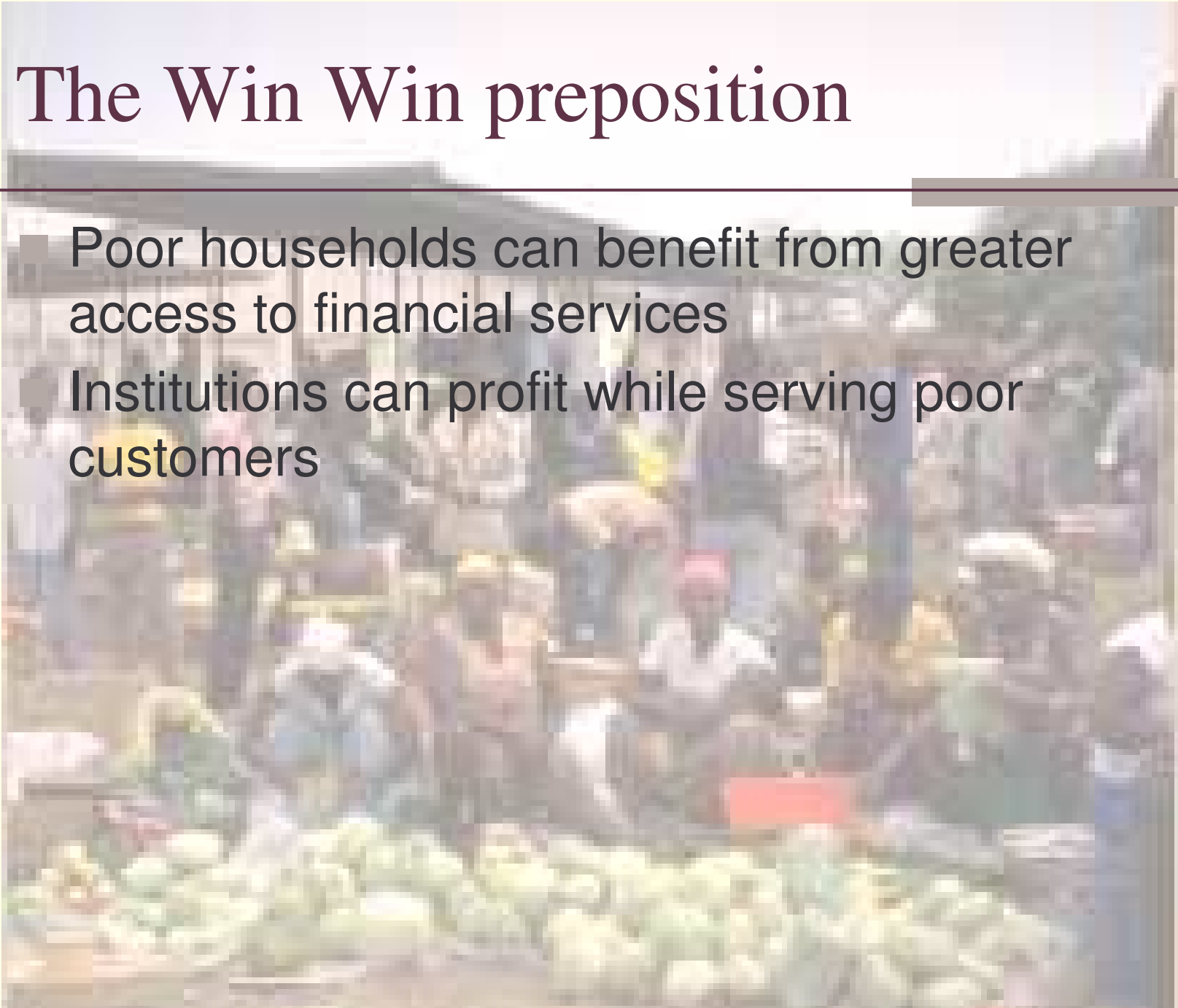
- Too risky
- Not profitable
- Do not have methodologies in place to tackle moral hazard and adverse selection as traditional collateral and credit histories are absent



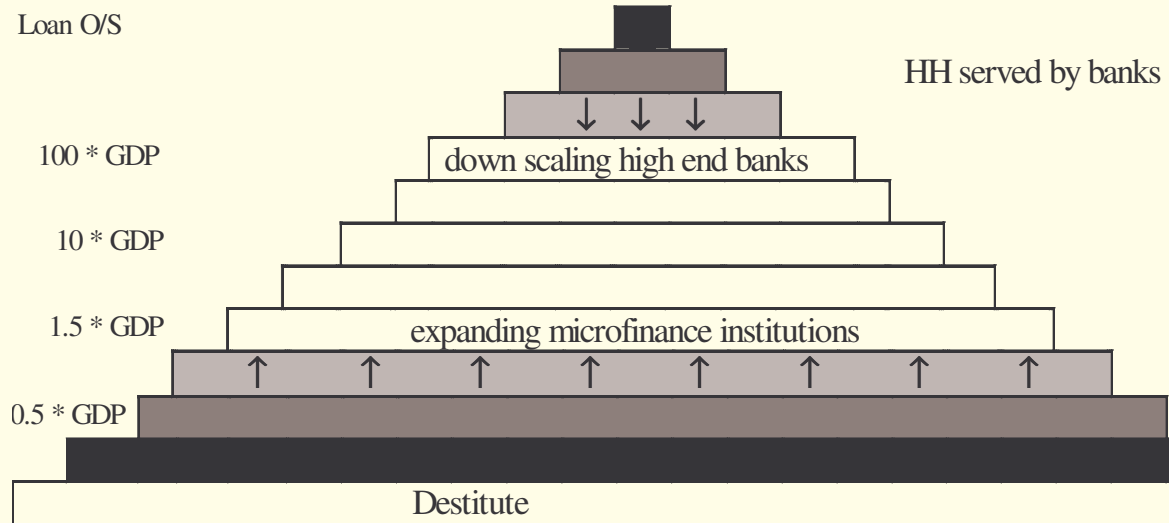
# The Win Win preposition

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- Poor households can benefit from greater access to financial services
- Institutions can profit while serving poor customers

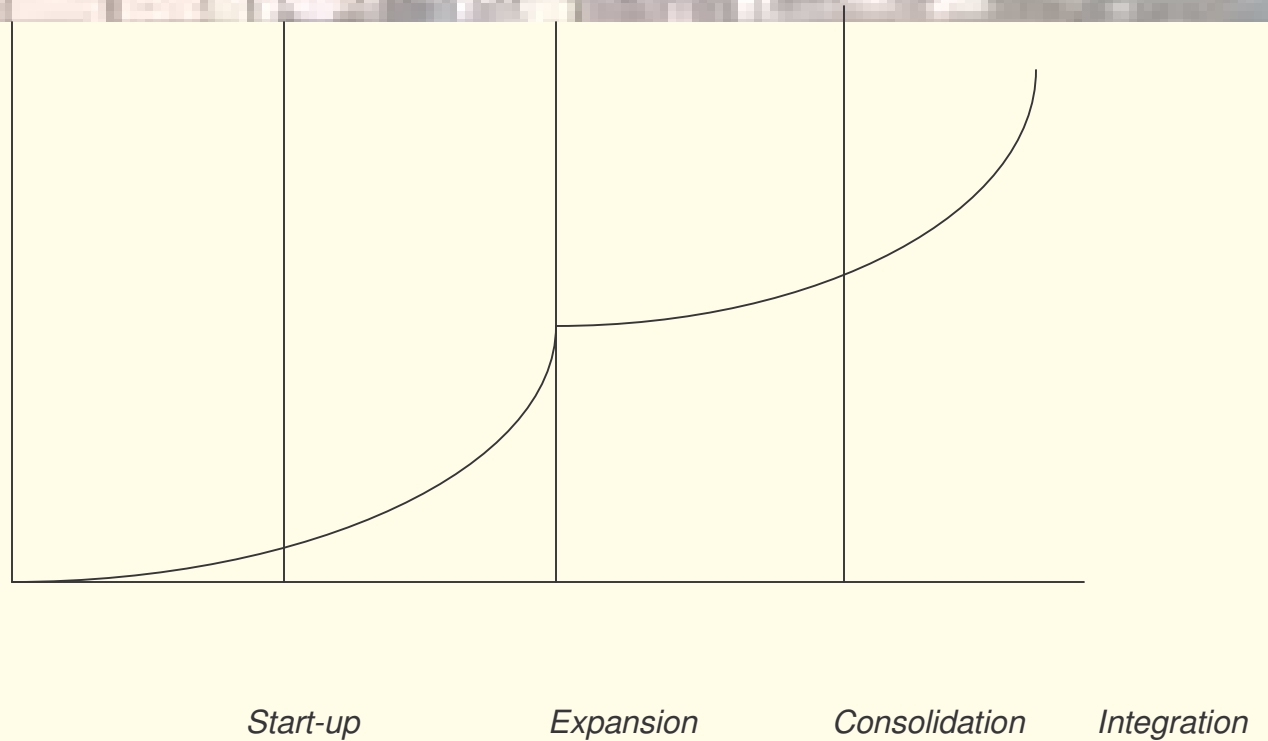


# The Potential Market



# Sector Development Stages

OUTREACH  
(No of Clients  
with access  
to financial  
services.)



# 1<sup>st</sup> Phase: Start-up

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- Experimental pilot projects (some may fail)
- Adaptation of techniques and methodologies to local context
- Semi-formal Institutions with subsidies
- New products developed and tested
- Building human capital
- Awareness raising in private sector and Government that SME's are creditworthy

## 2<sup>nd</sup> Phase: Expansion

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- Institutionalisation
- Expand Scale and efficiency
- Increase resource mobilisation
- Increasing sustainability but still dependent on subsidies for expansion
- New copy cats enter the market



# 3<sup>rd</sup> Phase: Consolidation

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- Focus on sustainability
- Management, policies, procedures and systems more formalised
- Start of Development of a National Strategic Framework and microfinance policy
- Donor subsidies diminish
- High penetration of original market
- Expansion into new markets
- Launch new more flexible and demand driven products
- Start of development of regulatory Framework

## 4<sup>th</sup> Phase: Integration

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- Leading MFIs become integral part of the formal financial system
- Regulated by the Central Bank or other
- Offer a range of demand oriented products for lower segment of market
- Access commercial capital
- Transformation into regulated institution
- Banks downscale
- Subsidy independent

# Stakeholders

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- Government, Central Banks
- Donors
- Microfinance Institutions
- (Clients)



# Best Practices: Governments

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- Maintain macroeconomic stability
- Remove bottlenecks of legal system
- Guarantee a conducive regulatory environment
- Liberalise interest rates
- Invest in supervisory capacity
- Eliminate direct government credit programmes

# Best Practices: Donors

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- Focus support on institutions with potential for scale and sustainability
- Harmonise process and procedures to enhance efficiency of the sector
- Clarify the role of subsidies
- Promote innovation in the sector
- Ensure donor collaboration
- Select MFIs with strong management and a dedicated board of directors

# Best Practices: Clients

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Pay for your services received by MFIs



# Best Practices: MFIs

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- Minimalist
- Product Development
- Cost Management
- Stringent Repayment Enforcement
- Interest Rate Setting
- Governance: Commercial and social mission
- Savings
- Staff incentives

# Two Principles of Microfinance

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- Outreach
  - Breadth
  - Depth
- Sustainability
  - Operational
  - Financial



# Drivers of Sustainability

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- Real Yield on loan portfolio
- Efficiency (admin expenses I.r.t. loan portfolio)
  - Average wages paid to staff
  - Average loan balance
  - Number of clients per staff member (productivity: client and staff retention, staff remuneration and training)

# Microfinance Institutions in Africa (CGAP Mix 2005)

MFI Type	Central Africa	East Africa	Indian Ocean	Southern Africa	West Africa	Total
Cooperative	10	4	8	2	32	56
Regulated	3	23	1	18	26	71
Unregulated	5	15	0	8	8	36
Total	18	42	9	28	66	163

# Outreach: Breadth

MFI Type	Central Africa	East Africa	Indian Ocean	Southern Africa	West Africa	Total
Volume						
No. of MFIs	18	42	9	28	66	163
Total Assets (in Mio US\$)	45	484	36	256	489	1,312
GLP (in Mio US\$)	24	191	17	211	297	742
Total Savings (in Mio US\$)	25	281	15	127	264	713
Outreach						
No. of borrowers ('000)	60	1090	37	494	730	2,412
No. of Savers ('000)	116	3,314	146	578	2,166	6,323
Total Population (in Mio)	85	162	17	97	226	589

# Outreach: Depth

Indicator	Central Africa	East Africa	Indian Ocean	Southern Africa	West Africa	Total
Av. Loan balance	400	175	468	427	406	307
Av. Loan bal./GNI pc	67.8%	105.8%	161.4%	38.9%	96.4%	89.2%
Av. Savings balance	214	123	104	220	121	137
Av. Savings balance/GNI pc	34.2%	57.6%	35.7%	9.7%	27%	28.2%

# Profitability

Indicator	Central Africa	East Africa	Indian Ocean	Southern Africa	West Africa	Total
ROA	-0.6%	3.4%	-3.3%	-9.7%	1.7%	1.6%
OSS	107.3%	131.9%	96.6%	90.3%	118%	122%

Indicator	Cooperative	Regulated	Unregulated	Total
ROA	0.4%	2.6%	1.9%	1.6%
OSS	109%	131%	117%	122%

# Efficiency

Indicator	Central Africa	East Africa	Indian Ocean	Southern Africa	West Africa	Total
Cost per borrower	84	58	240	83	77	72
Cpb/GNI	17%	24%	83%	14%	19%	21%
Cost per saver	29	27	50	56	21	29
Cps/GNI	6%	13%	17%	7%	5%	8%

# Productivity

Indicator	Central Africa	East Africa	Indian Ocean	Southern Africa	West Africa	Total
Borrowers per staff member	85	132	29	150	177	143
Savers per staff member	168	204	154	72	300	213

# Conclusions

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- MFIs perform favorably worldwide
- Leaders in savings mobilisation
- Financial performance lags behind globally
- A variety of institutional models work

Nevertheless, challenges:

- High operating costs (rural, low pop. Density, no infrastructure)
- Need for increased efficiency (improved products, new technology etc.)

# Conclusions continue:

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- Small operations: Scale up, transform or merge
- Coops good in savings, weaker in lending
- Trend more commercial banks start to enter the sector



# The way forward!

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**650,000** (2/3) of the economically active people are not served by banks in Namibia. They are waiting and this should give you a huge potential market despite a low population density to do it profitable!

