

Patrick O'Heffernan on funding, networking and other important issues.

Sunday, November 04, 2007

NET IMPACT. Saturday morning. Microfinance. What's Next?

11:15 Owen Auditorium

We are in a gleaming white auditorium-style classroom. Ranks of curved tables rise from the bottom of the room, marching up 7 rows to the top of the room. The tables are beginning to fill up with chattering students in business suites. A few plug laptops into the power boxes mounted in front of each station on the table. The two women front of me, both in their early 20's, are discussing their travel to India and what they learned in terms of running MFI's on the ground in rural areas. The session speakers are congregating below an enormous movie screen at the bottom of the room, planning their attack while they wait for the room to fill.

The speakers line up under the screen – 5 men in suits. The panel manager thanks Microsoft for sponsoring this session.

The moderator, Matt Daggett, is a youngish looking tall blond American. He works with Dalberg Global development advising corporations, NGOs and IGO's on strategy. He says we are going to talk about scalability in micro finance. We will cover what's working well, what are the challenges, and what is next. He introduces himself and the Dalberg company.

The panelists:

Chris Laurent, an investment officer at MicroVest responsible for Central America. He has worked for 15 years in the field. The biggest struggle in his job is to educate the investors and mfi management teams about capital flows and investment strategies.

Amitabn Saxena, works for ACCION, leading strategy for alternative channels. ACCION has recently shifted from its micro credit origins in Brazil to microfinance. He is looking at new distribution channels now, such as cell phones. He says that from his view microfinance is working well, competition is emerging, lowering interest rates and creating efficiency. As commercial banks enter the marketplace, his clients are seeing more pressure and are being forced to innovate. He sees alliances coming up next, including alliances with distribution channels,

Nathaniel Bourne. XXXXX. He feels a lot of things are working: products are getting more adjusted to client needs, you see mfi's trying to meet price points, new ifo technology is bringing down costs. He sees as a challenge the fact that this is a high touch sector and integrating high tech without losing contact with the lenders will be critical. He introduces a member of the audience who represents an mfi supporting bakeries throughout Mexico, as an example of that challenge. He says that other challenges are reducing transaction costs, getting prices down, understanding risks, and getting information to clients. He sees the greatest challenge in agriculture finance; much will depend on market forces and on factors the mfi's can't control, like weather.

Matt Pinsky, with Opportunity Finance Network (OFN, a domestic network of cfi's - community

finance institutions). OFN works with all 50 states and is involved in housing , non profit finance, and other sectors. He got into this when he was advising a presidential candidate that lost, so he need to find something else to do and a family network introduced him to the opportunity. Microfinance has a great reputation and performance; the challenge is to maintain that reputation and performance; what is next – maximize efficiency because the current model is inefficient. He calls this “scaleable customization” – how do you keep high touch as you add technology for efficiency.

Daggett asks the first question: who are the new entrants and who are the biggest players and what is the impact from big new players?

Chris Laurent of MicroVest.. What is working is scale through partnerships. When we work around the world with socially responsible funds we now see a huge sum of funds from the commercial finance. We think that the solution to poverty will come through micro finance. This will require scale and efficiency at all levels. We work with foundations and finance institutions by managing their money so we can place money into organizations that are innovative and touch their hearts. With our partnerships we will be able to expand from micro credit to micro finances. There are billions available from Wall Street, but they do not know how to do this. We can work with them to finance mfi's and form relationships like with the UN, allowing us to place their money in even rural areas.

With partnerships we can draw from any sources of funds and lower our cost of funds. As micro finance becomes more educated, we will be able to scale this.

Amitabh. The larger commercial banks are now getting involved and ACCION is building relationships with them. This is the first of 3 new channels. We are also seeing a second channel of alliances between banks and mfi's and retailers, i.e., Wal-Mart. The third new channel is mobile phones as a distribution systems. Africa and Latin America are ahead of everybody on this. This is a transformational channel in Africa - it is the only way to distribute loans. The value chain has a number of new entrants like foundations and credit card companies.

He understands that the entry of a Visa or MasterCard into the mfi network raises eyebrows but he sees it as a positive. For ACCION these lower transaction costs and enable them to reach people they could otherwise reach.

Nathan. Every bank in Mexico is going into micro finance and it is a for profit endeavor- no CSR involved. Two previous profitable endeavors, including Compartamos, is driving it. Our challenge is to build the credit bureaus. We need to keep track of the repayment capability, this is where credit bureaus can help. This will lower costs and help clients diversify their debt and not take on more than they can repay. He notes that credit scoring haws been tried but it is not widespread. More robust scoring models and data is needed for this.

Matt is asked what lessons can be drawn from the US experience – what do you see looking forward? He says that 10 years ago the idea was that we would import the model, but that has changed. Imported models did not work well, especially the pure lending model. The question for us is how do you capture the wealth of America. A challenge is that the perception of risk in micro lending is much greater than the actual risk. We need better market transparency. There is also a cultural issue - Americans have a donation mentality, not a lending mentality. We need to convince them that this is a business opportunity, not another charity.