
Microfinance Simulcast - 2010

Class Five

Today

Recap of last week

Beyond microcredit

- Savings
- Insurance
- Education
- Health care
- Products and services

Our speaker, Chris Dunford, President, Freedom From Hunger

Next week

Big Questions

Why doesn't money flow to the poor?

What does history tell us about the poor and financial products?

Should MFIs make money or not?

Why group lending?

Why gender bias?

Why are interest rates so high?

What's so hard about managing an MFI?

Big Questions (2)

How is the investor mindset different?

- How do social investors balance profit and outcomes?
- Why invest in one country versus another?
- What work must be done before an investment?

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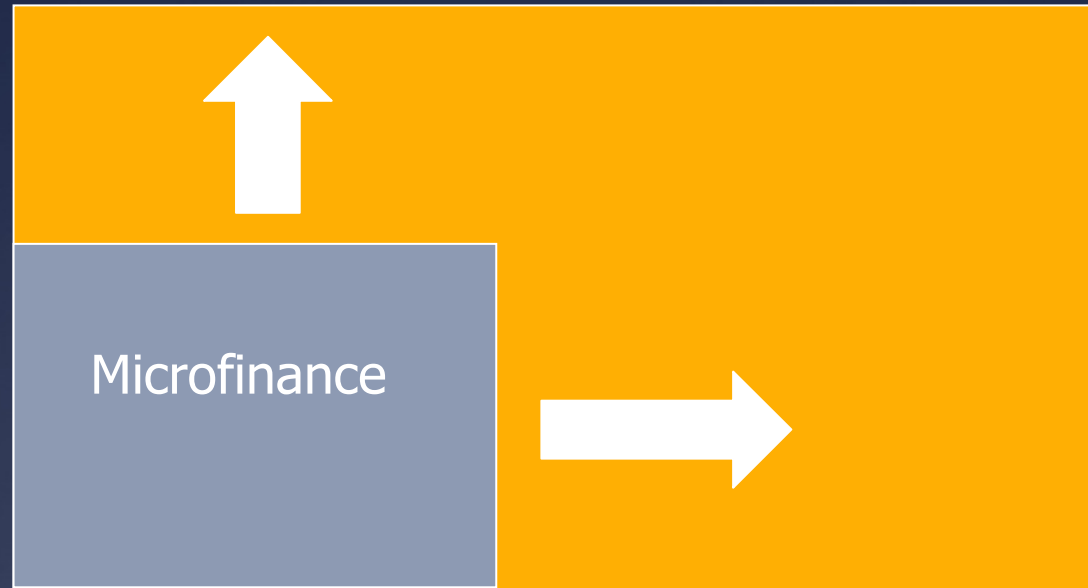
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The Microfinance Channel

New products
for customers



New customers
and segments

How Is Savings Different From Lending?

- . . . what are the alternatives to bank saving in the developing world?
- . . . And why save?

Talk Amongst Yourselves



Savings: Clear Demand

Safe Save, Dhaka

- \$22 saved w/ \$400 average income
 - 5.5% savings rate, better than U.S.

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SE India, Vijawada village

- Daily deposit collector – collects 1100 rupees, returns 1000 in 220 days
- -30% compound interest
- People pay it

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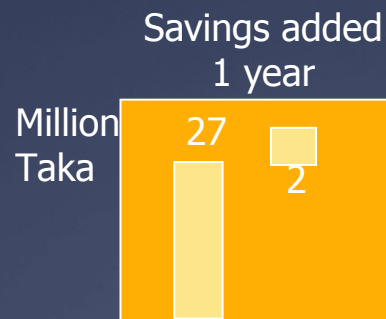
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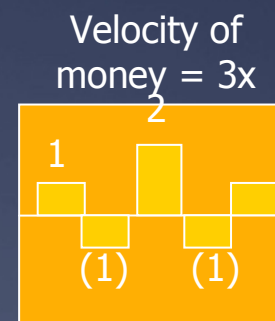
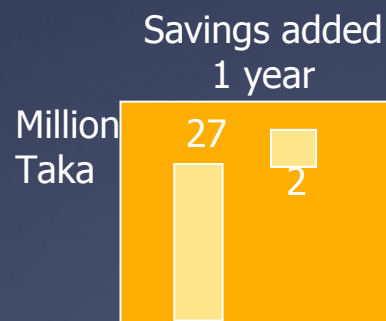
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Savings: Why Save?

Income smoothing

Low frequency
Nuclear household



Source: BRI, 2000

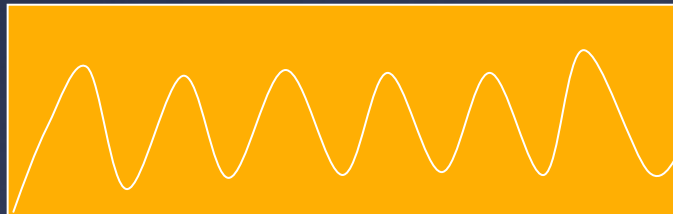
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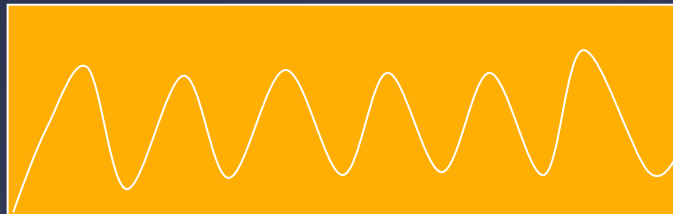
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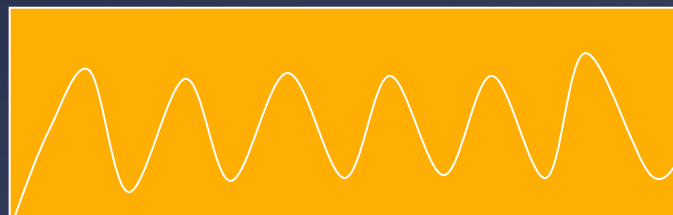
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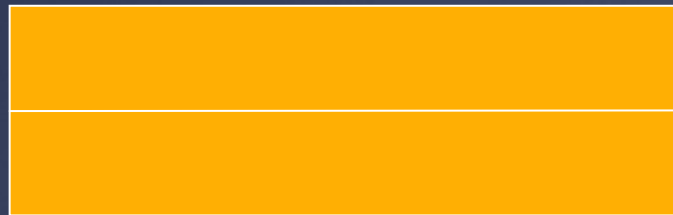
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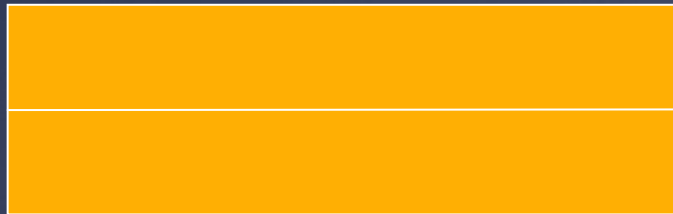
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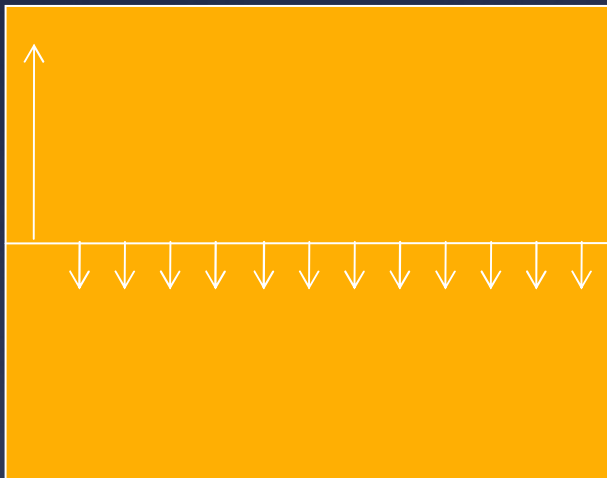
Uses of savings

16%	Business (13% working capital)
35%	Non business
14%	School (13% consumption)
6%	Finance (5% house)
38%	Other (2% weddings) (3% medical)

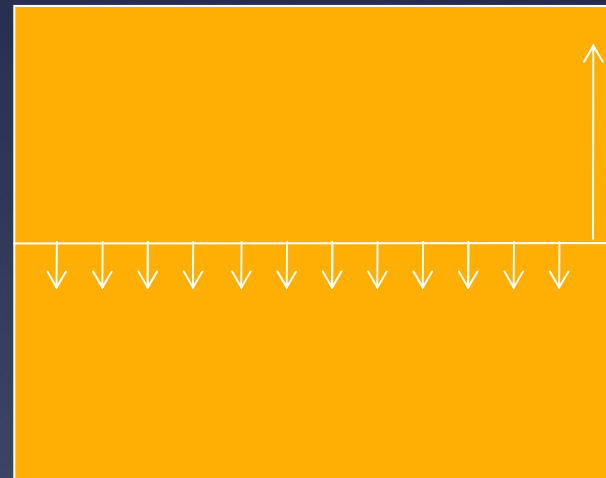
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Savings – Similar to Loan Cash Flow

Loan cash flows



Savings cash flows



Savings: Why Not Save?

Savings: Why Not Save?

Unforeseen shocks

Delayed gratification

Temptation

- Uganda – theft and temptation = -22% interest per year

Limited alternatives

- ROSCAs, friends, hard assets (jewelry, cattle), vendors

Designing Savings Plans is Complex

<i>Compulsory or voluntary</i>	<ul style="list-style-type: none">• Grameen – mandatory savings (creates collateral)
<i>Rigid or flexible</i>	<ul style="list-style-type: none">• Green Bank (Phillipines), restricted access to savings at customer choice, acct. balance up 86%
<i>Cost to serve</i>	<ul style="list-style-type: none">• < \$500 account = no profit (World Council of Credit Unions)
<i>Returns</i>	<ul style="list-style-type: none">• Microloans!
<i>Cost versus convenience</i>	<ul style="list-style-type: none">• Local presence needed to capture bits of income• Safesave, staff recruited from slums = low cost, no travel
<i>Liquidity</i>	<ul style="list-style-type: none">• Mandatory 5 year wait to withdraw (Shakti Foundation for Women)

Insurance

Not as big as savings or loans, but growing

- Costs high, enforcement difficult
- Innovation needed

Major types

- Health
- Life
- Crop
- Property

Design Challenges for Insurance

Health

- Voluntary or mandatory?
- Deductible?
- Disease limits? (x-ray but not blood pressure – Uganda Microcare Health Plan)

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- How to measure?
- Moral hazard?

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Crop

- How to measure?
- Moral hazard?
- A solution, bad weather insurance (Basix, Morocco and India)

Design Challenges for Insurance (2)

Property

- What to cover?
- How big is risk pool?
- Reinsure?

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E.g., SEWA, Ahmenabad, India

- \$10 per wall, \$60 for house
- 2000 – 630 claims – flash flood
- 2001 – 2000 claims – earthquake
- 2002 - bankrupt

Education Through Microfinance

A range of add-on products

- Freedom from Hunger - education modules for 1.5 million women while in microfinance meetings
- Indian School Microfinance Corporation - loans to schools directly rather than to parents of students

Health Care Through Microfinance

Through MFIs –

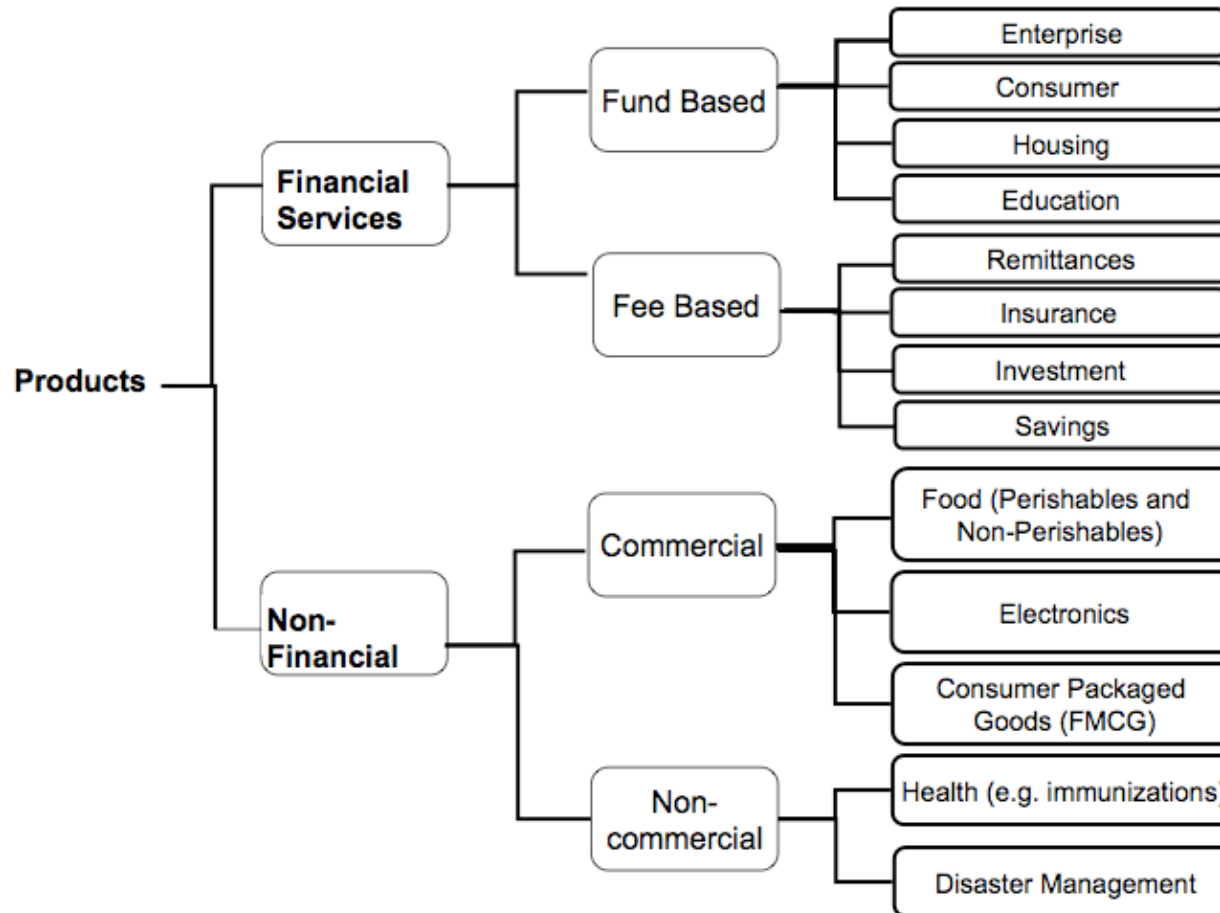
- Skojo
- Microfinance and Health Protection (5 countries)

Through new channels -

- Living Goods – Uganda (with BRAC)
- HealthKeepers - Ghana

Other Products and Services

SKS HAS ALSO CREATED A DISTRIBUTION CHANNEL TO THE BOP



Still More Financial Variations

Small / medium business funding

Business start-ups and franchising

Product finance

Mortgage and housing financing

“Venture Infrastructure”

So You Want to Offer a New Product!

You are breakeven, classically designed MFI with 100,000 poor clients

You want to start selling energy conserving products to your clients

What would you have to change in your business in order to do so?

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Chris Dunford

Mr. Dunford joined Freedom from Hunger in 1984 and became its president in 1991. He holds a Ph.D. in Ecology from the University of Arizona and a Bachelor's degree in Biological Science from Cornell University. He has 30+ years of experience in development planning and management in Africa, Asia, Latin America and the United States. In addition to his work with Freedom from Hunger, Dr. Dunford has also worked with United Nations and USAID. Dr. Dunford was instrumental in the design and implementation of Freedom from Hunger's strategy for combining microfinance services with education on business, health and nutrition issues. He has served on the boards of InterAction; our partner organization, CRECER; and Microcredit Enterprises, Inc. He was a member of the U.S. Agency for International Development's Advisory Committee on Voluntary Foreign Aid from 1997 to 1999 and he received the Warner P. Woodworth Social Entrepreneur of the Year Award given by the Marriott School of Business at Brigham Young University in 2004. He has authored numerous papers, impact studies and two books. Dr. Dunford is a frequent speaker at practitioner events and conferences around the world. He is married and has a son in high school.

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Class 6: Innovation

November 30, 2009

Lecture: New Innovations in Microfinance

Speaker: Tracey Turner, Founder, Microplace (an eBay Company)
Premal Shah, President, Kiva.org

Readings:

- “Kiva Case Study,” Joel Ramirez and Sarah Anderson, UC Berkeley, December 2007. (10 pages) distributed through campus coordinators
- “Microlending for Microbankers,” Jilian Mincer, The Wall Street Journal, March 20, 2008 (2 pages).
http://online.wsj.com/article/SB120597508026550479.html?mod=googlenews_wsj
- “Extra Helping,” Rob Walker, The New York Times, January 27, 2008. (2 pages) <http://www.nytimes.com/2008/01/27/magazine/27wwln-consumed-t.html>

Websites: Kiva, www.kiva.org Microplace, www.microplace.com

Questions

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