

# The Microfinance Revolution

Dave Richards



# Dave Richards

- **My day job ... DigWorks**
  - Distribution, production & financing of original digital media content “shows” for broadband and mobile delivery
- **Off The Map**
  - Co-founder and continued active involvement
- **Passionate about defeating poverty**
  - Blog: <http://defeatpoverty.com>
  - Board member and advisor to Unitus – the microfinance accelerator  
<http://unitus.com>

**Defeating Global Poverty**  
A conversation on global economic issues, ideas & data to help us all become better contributors to defeating the scourge of extreme global poverty

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### Mobile bank accounts

The Economist published a report on how mobile phones are starting to become banking tools for the poor. In South Africa, 76 million people, over half of the adult population, have no bank account. Yet 30% of those people have mobile phones, almost all of which are used on a pay-as-you-go basis.

You might think – why do poor people need bank accounts? The report highlights Andile Mbatia, who owns a hair salon in Soweto. He used to have to travel more than 2 hours by minibus to send money to his father – a personal delivery. He also used to have to keep what ever cash he had on hand either under a mat on the floor or in a tin. He now uses a new mobile banking service called Wizzit which enables him to instantly transfer money to his relatives for a very low fee which enables him to spend more time earning money. He also now receives payments for his salon via mobile phone from more than half of his customers which means that he doesn't have to manage a lot of cash.

The reality is that the poor, with by definition fewer resources, have needs, often more so than wealthier people) to transfer their money to support other dependants, and family members who out of necessity live significant distances from each other. Without bank accounts, the transaction cost of making these payments (the carrying costs are often referred to as remittance) are very high – even higher than what it costs wealthy people to transfer even much larger sums. This is often referred to as the “poverty bar” where the poor need to pay a premium because they are not able to use more economical services due to their economic and/or social status.

I am a big fan of scalable models like this which provide valuable services to the poor at a price point that works for the poor. This enables increased productivity, and therefore enables more earnings capability which is a core element in increasing wealth (another way of saying decreasing poverty levels).

**WIZZIT**  
my bank in my pocket

**Dave Richards**  
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# Poverty Statistics

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1 billion people @ < \$1/day

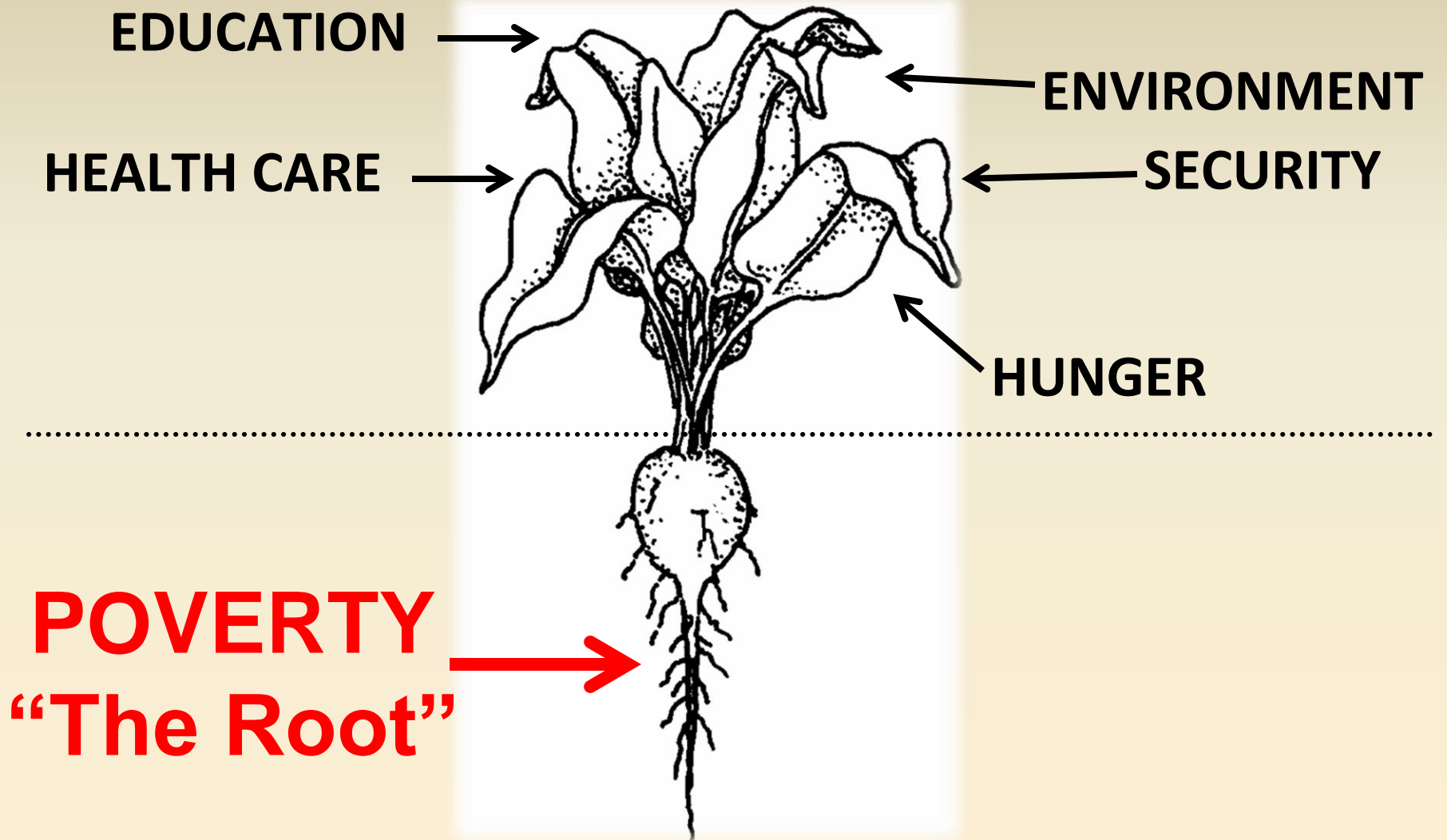
2 billion more people @ \$1-2/day

1 billion more people @ \$2-4/day

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= 4 billion people @ < \$4/day

USA Federal Poverty Level for Family of 3: \$16,000/year =  
\$15/day/person





# Top Down Fails to Trickle Down

**\$3 Trillion**



**Muhammad Yunus**  
**2006 Nobel Peace Prize**  
Founder of Grameen Bank, Bangladesh

# Microfinance Starts with Microcredit



- **Microfinance Institutions (MFIs) are setup as banks for the poor.**
- **MFIs provide small \$50-\$150 loans at reasonable interest rates. Clients use money to improve businesses.**
- **Borrowers (mostly women) often sign up in groups, securing each other's loans.**
- **Clients repay principle and interest with extremely low delinquency – repayment rates exceed 95%.**
- **Proven results/development tool:**
  - Businesses grow => increase family income
  - Results in:
    - improved housing & nutrition
    - children attend school
    - access to health care
    - increased borrower self-esteem
    - Etc.

# Microcredit @ Work



# Microcredit @ Work



# Microfinance Institution (MFI) Business Model

## External Capital

### Inflows

- Loans
- Equity
- Gifts

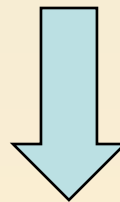


### Outflows

- Interest
- Loan Principle
- Dividends



MFI



### Outflows

- Operating Costs

## Borrowers

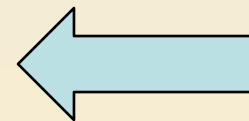
### Outflows

- Microloans



### Inflows

- Interest
- Loan Principle



# Expands to More Financial Services



- **More diverse loan products**
  - Seasonal, emergency, line-of-credit, housing, etc.
- **Insurance**
  - Life, health, theft, disaster, etc.
- **Savings/Retirement**
- **Consumer credit**
- **Investing**
- **etc.**

# The Results

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- **~50% of microcredit borrowers who started below the poverty line move above the poverty line in 2-3 years.**
- **Improves children's nutrition and school enrollment rates.**
- **Female clients are empowered.**
- **Loans provided to women (rather than men) have a significantly greater impact on poverty reduction.**
- **Loans also help to smooth cash flow enabling improvements in quality of life (e.g. year round money to buy food.)**
- **Poverty reduction goes beyond the borrower families to the larger community.**

# Trends

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- **Non-profit => For-profit microfinance**
- **Scale matters**
- **Professional management/leadership**
- **Access to global capital markets**
- **Product innovation**



# Ways to Participate

- **Donate to USA-based microfinance NGOs**
  - To help cover operations overhead and have a very leveraged impact on poverty
- **Invest in USA-based microfinance funds**
  - Lend from your savings
  - Earn between 0%-3% interest
  - Kiva.org starts as low as \$25
- **Educate**
  - Yourself more about microfinance
  - Share what you're learning with others
  - Start at <http://defeatpoverty.com>



# Q&A