

WORLD ECONOMICS: MICROFINANCE

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INTRO

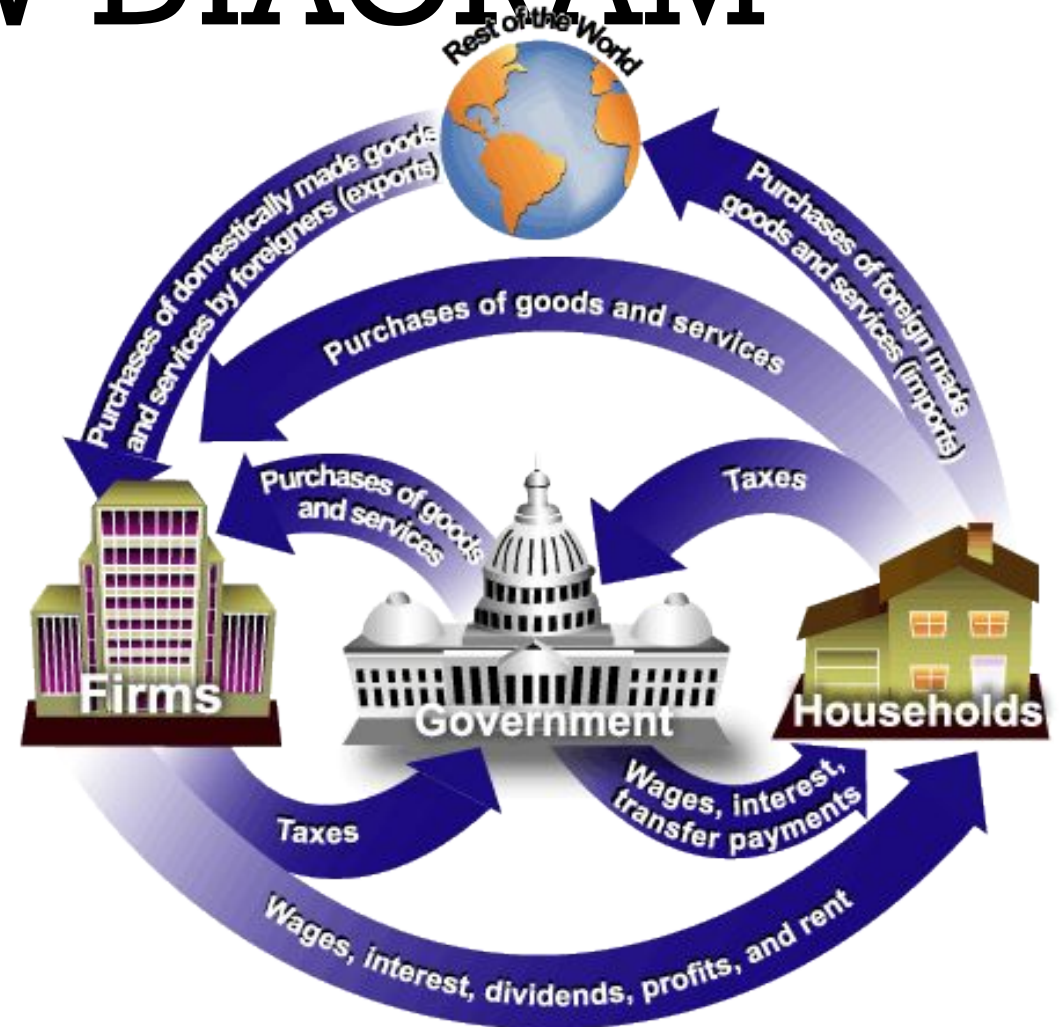
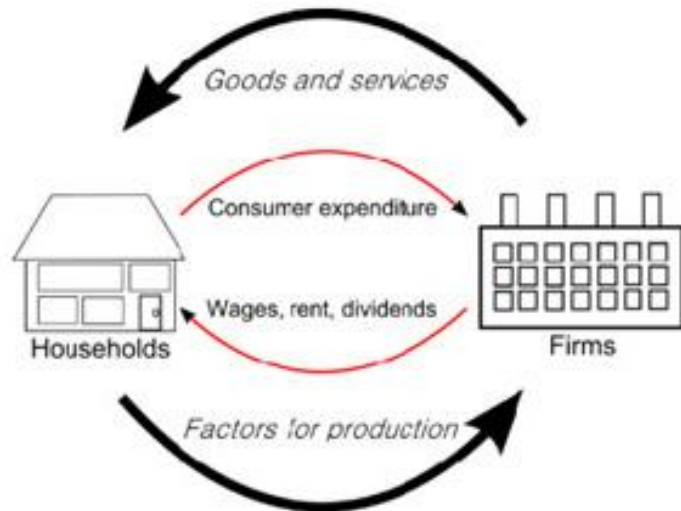
- **MICROFINANCE**

- ❑ Social impact of Banks;
- ❑ basic mechanism of capital accumulation;
- ❑ public and private investments;
- ❑ human development index (HDI);
- ❑ development indicators



CIRCULAR FLOW DIAGRAM

The circular flow of money and goods



MIDDLE CLASS

- Different, partly overlapping concepts of 'class'
 - Statistical partitioning of distribution in discrete, partly arbitrary, groups
 - Sociological perspective (position in division of labour, occupations, education)
 - Political (capacity to forge identities and articulate common demands)

'Middle Class'

Middle class is a description given to individuals and households who fall between the working class and the upper class within a societal hierarchy. In Western cultures, persons in the middle class tend to have a higher proportion of college degrees than those in the working class, have more income available for consumption and may own property. Those in the middle class often are employed as professionals, managers and civil servants.

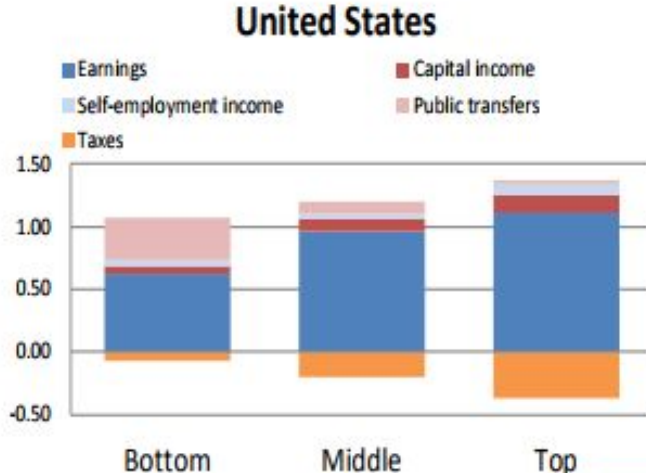
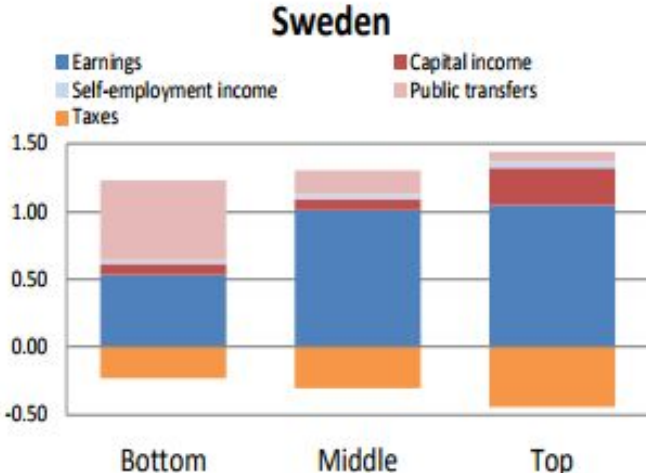
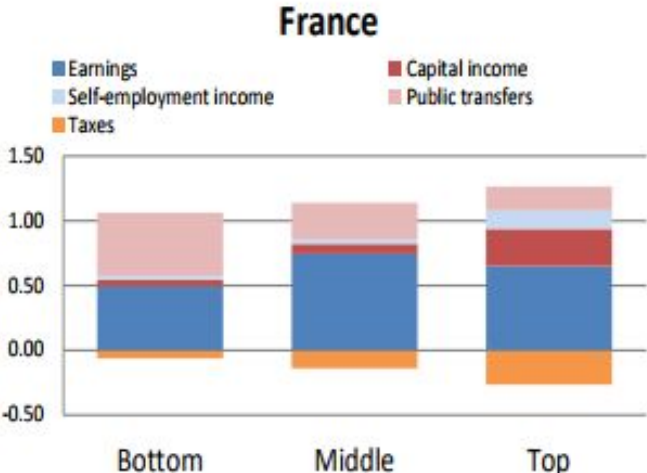
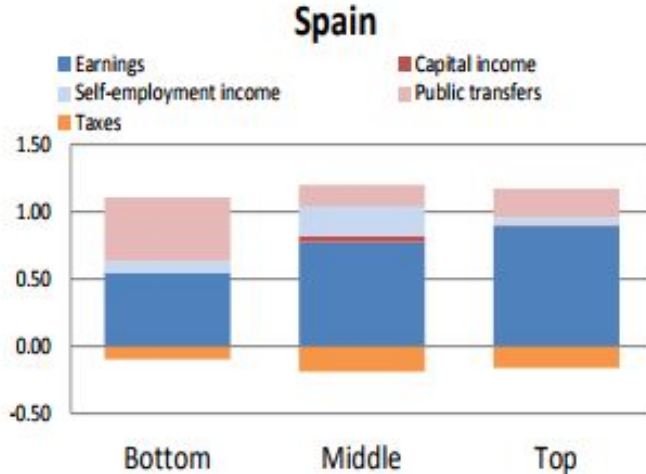
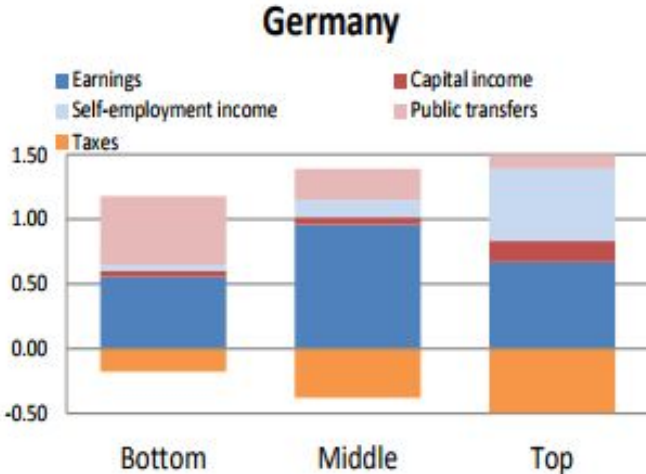
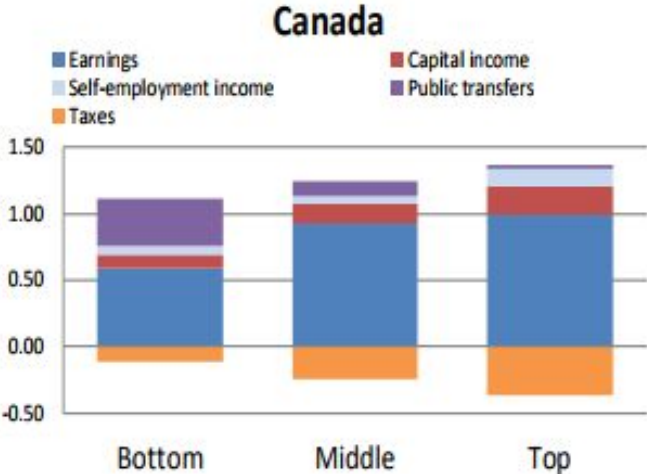


MIDDLE CLASS

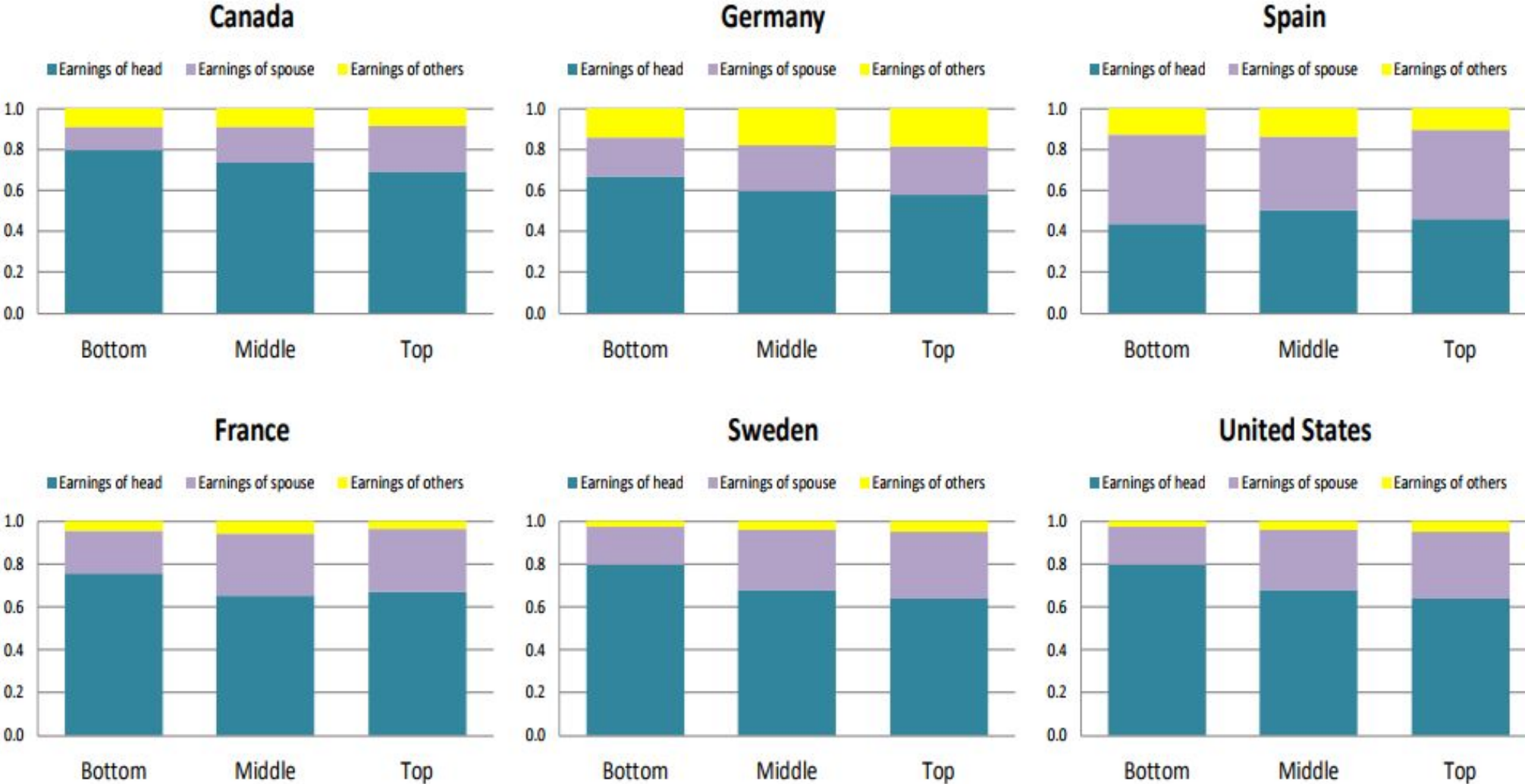
- no single OECD definition of the 'middle-class' analogue that what we use for income poverty (40, 50, 60% of median household disposable income), i.e. various OECD studies used different definitions
- general definition of the middle class used here: people in 5th to 9th decile of the distribution (Palma ratio). At this stage, not much evidence that alternative definitions would lead to similar conclusions



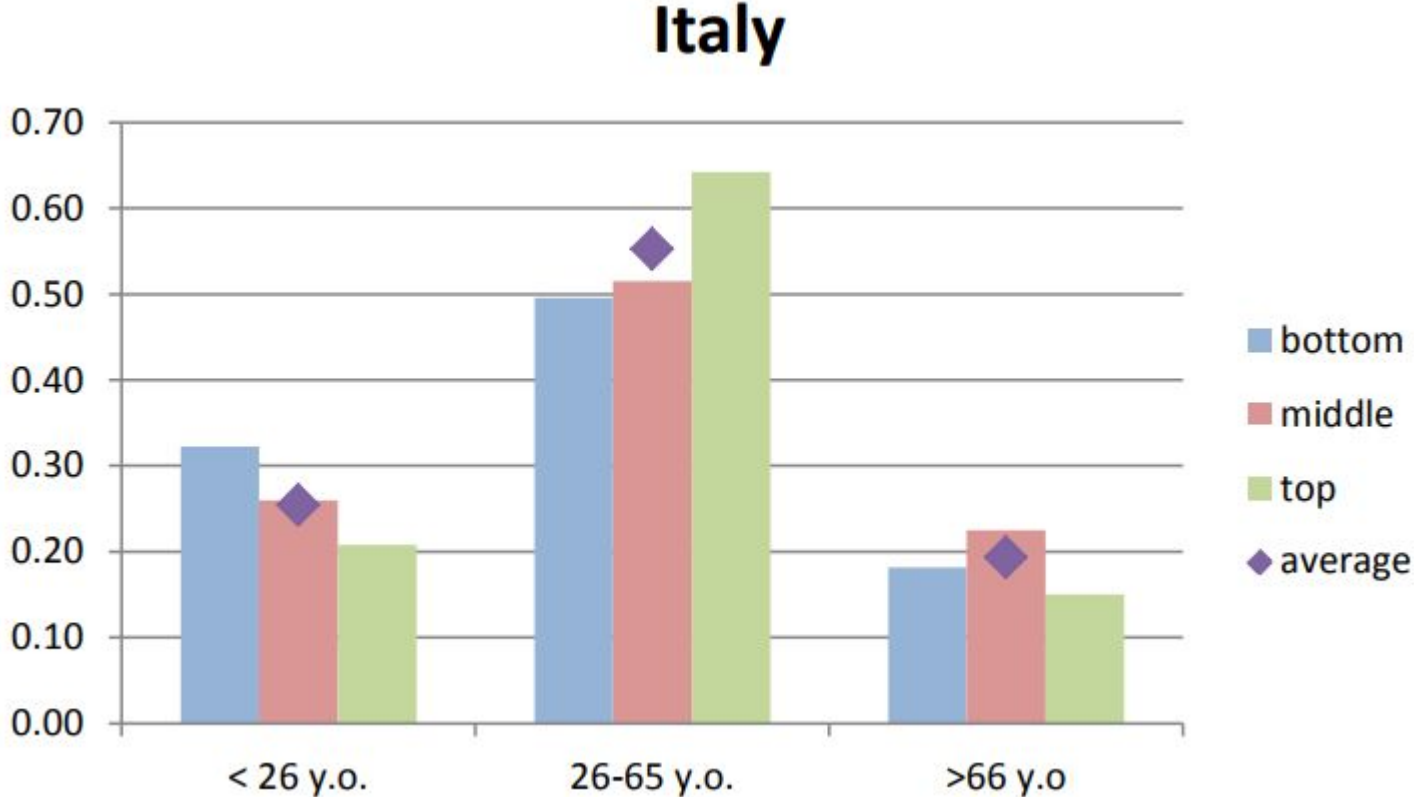
MIDDLE CLASS DEPENDS ON EARNINGS AS MAIN INCOME SOURCE



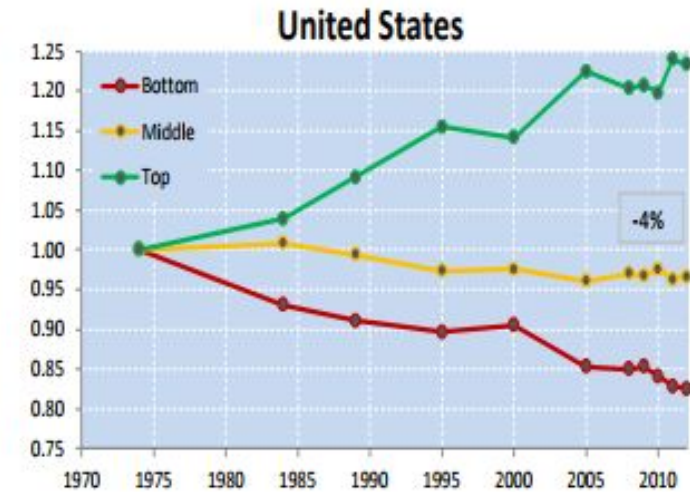
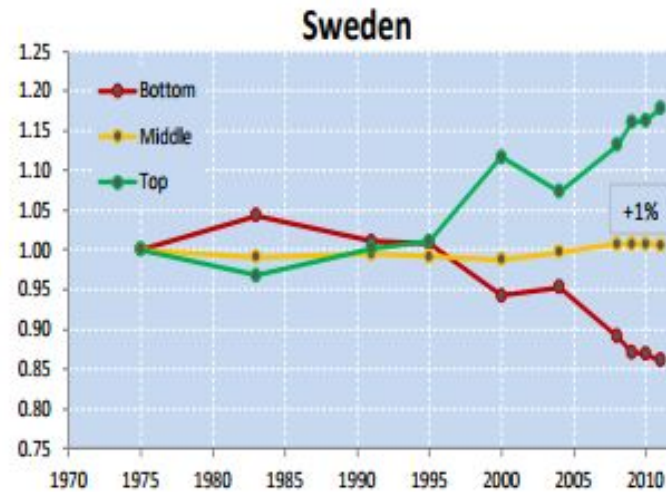
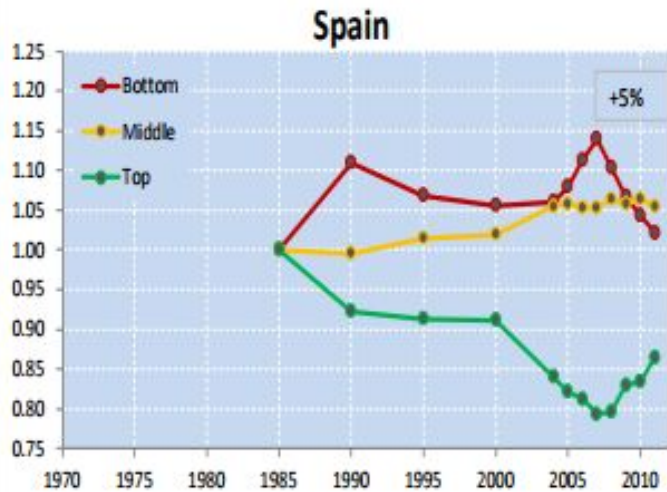
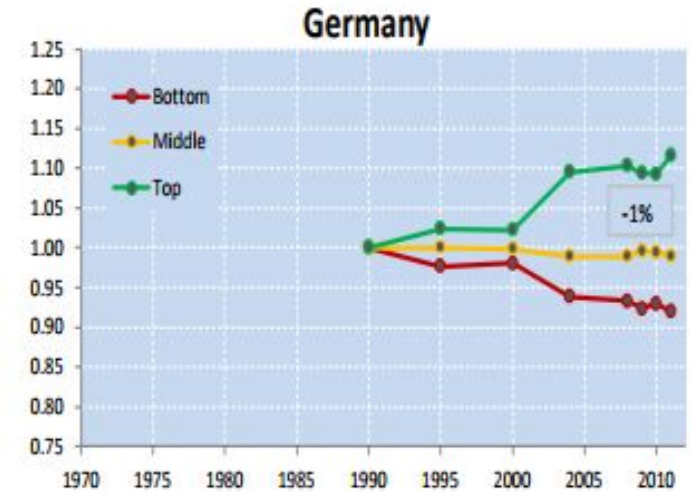
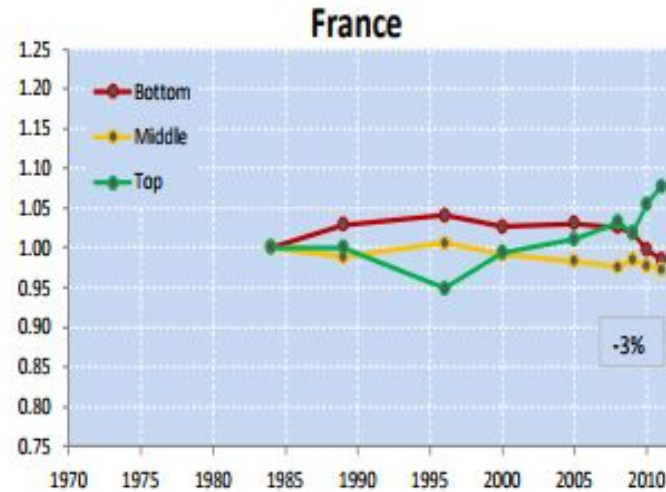
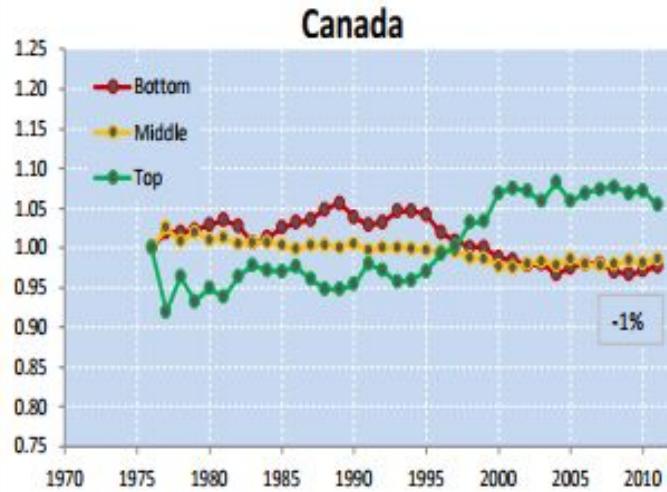
INCREASINGLY DUAL-EARNINGS HOUSEHOLDS



PREDOMINANTLY PRIME-AGED (WITH CHILDREN)

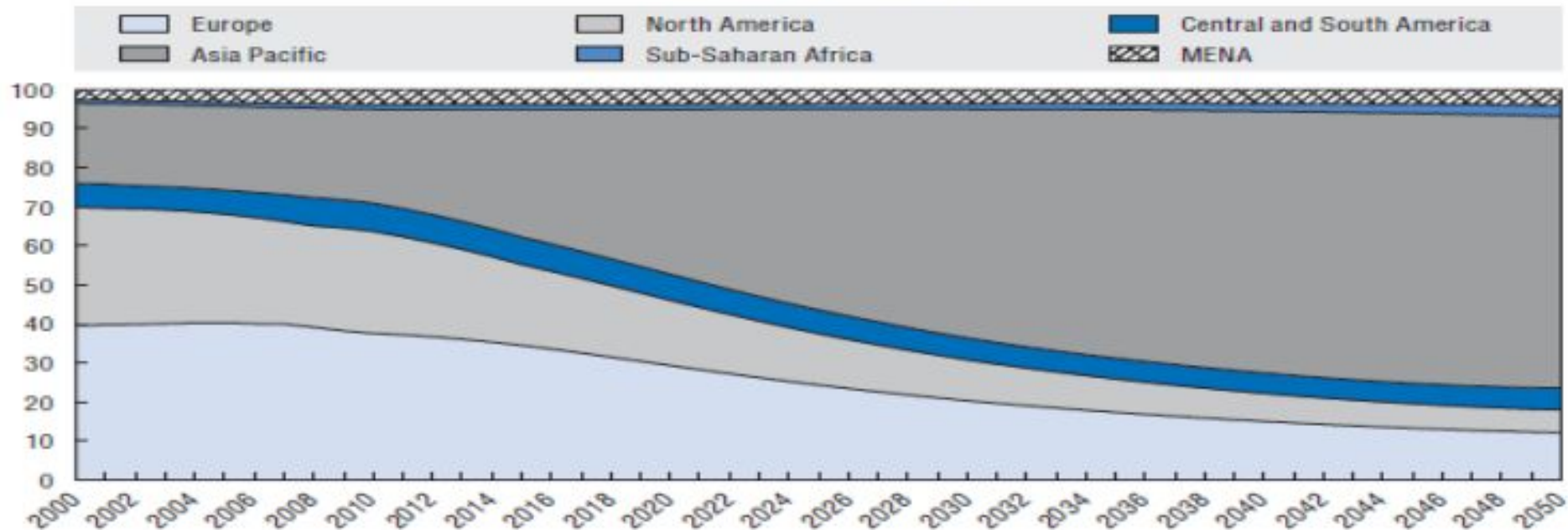


SIGNIFICANTLY CHANGES IN THE US (LOWER) AND SPAIN (HIGHER), SMALLER CHANGES ELSEWHERE



- 'Middle class' is a political construct, used to convey images of greater contiguity with upper classes than with 'working class': statements about the fate of the middle class immediately gain strong political attention (e.g. press debates in US, Canada, Germany, others)
- Growth of middle-classes in emerging countries, bringing with it new demands which political systems are unable to answer (e.g. street protest in Israel, Brazil, Arab Spring, etc.)

Global middle class consumption, 2000-50
Percentage of global total



CAPITAL ACCUMULATION

- Capital accumulation is a product of capital investment. Capital accumulation also increases with return from an investment. An individual or company can accumulate capital in various ways some of which include investment purchases and investment savings. Return from an investment can also lead to capital accumulation, specifically from occurrences such as investment profits, rent, interest, royalties or capital gains. Entities often increase their holdings in profitable assets to provide for greater capital accumulation. Investors can also regularly contribute to a capital base to accumulate capital and generate capital gains.



SOLOW MODEL

- **Robert Solow** developed the **neo-classical theory** of economic growth and Solow won the Nobel Prize in Economics in 1987. He has made a huge contribution to our understanding of the factors that determine the rate of economic growth for different countries.
- Growth comes from adding more **capital** and **labour** inputs and also from **ideas** and **new technology**.



WHAT ARE THE BASIC POINTS ABOUT THE SOLOW ECONOMIC GROWTH MODEL?

- The Solow model believes that a sustained rise in **capital investment** increases the growth rate only *temporarily*: because the **ratio of capital to labour** goes up.
- However, the **marginal product** of additional units of capital may decline (there are diminishing returns) and thus an economy moves back to a **long-term growth path**, with real GDP growing at the same rate as the growth of the workforce plus a factor to reflect improving productivity.
- A '**steady-state growth path**' is reached when output, capital and labour are all growing at the same rate, so output per worker and capital per worker are constant.
- Neo-classical economists believe that to raise the trend rate of growth requires an **increase in the labour supply** + a **higher level of productivity of labour and capital**.
- Differences in the **pace of technological change** between countries are said to explain much of the variation in growth rates that we see.
-



CATCH UP GROWTH / CUTTING EDGE GROWTH

- The Solow Model features the idea of **catch-up growth** when a poorer country is catching up with a richer country – often because a **higher marginal rate of return** on invested capital in faster-growing countries.
- The Solow model predicts some convergence of living standards (measured by per capita incomes) but the extent of catch up in living standards is questioned – not least the existence of the **middle-income trap** when growing economies find it hard to sustain growth and rising per capita incomes beyond a certain level.



MICROFINANCE

- also called **microcredit**, is a type of banking service that is provided to unemployed or low-income individuals or groups who otherwise have no other access to financial services.
- While institutions participating in the area of microfinance are most often associated with lending (microloans can be anywhere from \$100 to \$25,000), many offer additional services, including bank accounts and micro-insurance products, and provide financial and business education.
- ***Ultimately, the goal of microfinance is to give impoverished people an opportunity to become self-sufficient.***

Microfinance services are provided to unemployed or low-income individuals because most of those trapped in poverty or with limited resources do not have enough income to do business with traditional financial institutions. Despite being excluded from banking services, however, those who live off of as little as \$2 a day do attempt to save, borrow, acquire credit or insurance and make payments on their debts. As a result, many look for help from family, friends and even loan sharks, who often charge exorbitant interest rates.

Microfinance allows people to safely take on reasonable small business loans in a manner that is consistent with ethical lending practices. Although they exist all around the world, the majority of microfinancing operations occur in developing nations, such as Uganda, Indonesia, Serbia and Honduras. Many microfinance institutions (MFIs) focus on helping women in particular.



HOW MICROFINANCE WORKS

- Microfinancing organizations support a wide range of activities, ranging from business start-up capital to educational programs that allow people to develop the skills necessary to succeed as an entrepreneur. These programs can focus on such skills as bookkeeping, cash flow management and even technical or professional skills. Unlike typical financing situations, in which the lender is primarily concerned with the borrower having enough collateral to cover the loan, many microfinance organizations focus on helping entrepreneurs succeed.
- In many instances, people looking to join microfinance organizations are first required to take a basic money management class. Lessons focus on understanding interest rates and the concept of cash flow, how financing agreements and savings accounts work, how to budget, and how to manage debt.
- Once educated, customers are then allowed access to loans. Just as one would find at a traditional bank, a loan officer approves and helps borrowers with applications and oversight. The typical loan, sometimes as little as \$100, does not seem like much to many in the developed world. But to many impoverished people, this figure is enough to start a business or engage in other profitable activities



MICROFINANCE LOAN TERMS

- Like conventional lenders, microfinanciers must charge interest on loans, and they institute specific repayment plans with payments due at regular intervals. Some require loan recipients to set aside parts of their income in a savings account used as insurance in case of default; if the borrower repays the loan successfully, he has use of this account, of course.
- Because many applicants cannot offer any collateral, microlenders often pool borrowers together, as a buffer. After receiving loans, recipients repay their debts together. Because the success of the program depends on everyone's contributions, a form of peer pressure helps ensure loan repayment. For example, if an individual is having trouble using his or her money to start a business, that person can seek help from other group members or from the loan officer. Through repayment, loan recipients start to develop a good credit history, allowing them to obtain larger loans down the line.
- Interestingly, even though the borrowers often qualify as very poor, repayment rates on microloans are often higher than the average rate on more conventional forms of financing. For example, the microfinancing institution Opportunity International reported repayment rates of approximately 98.9% in 2016.



HISTORY OF MICROFINANCE

- Microfinance is not a new concept: Small operations have existed since the **18th century**. The first occurrence of microlending is attributed to the Irish Loan Fund system, introduced by Jonathan Swift, which sought to improve conditions for impoverished Irish citizens.
- But in its modern form, microfinancing became popular on a large scale in the **1970s**. The first organization to receive attention was **the Grameen Bank**, which was started in 1976 by Muhammad Yunus in Bangladesh. On top of providing loans to its clients, the Grameen Bank also suggests its customers subscribe to its "**16 Decisions**," a basic list of ways the poor can improve their lives. The "16 Decisions" touch on a wide variety of subjects ranging from a request to stop the practice of issuing dowries upon a couple's marriage to ensuring drinking water is kept sanitary. *In 2006, the Nobel Peace Prize was awarded to both Yunus and the Grameen Bank for their efforts in developing the microfinance system.*



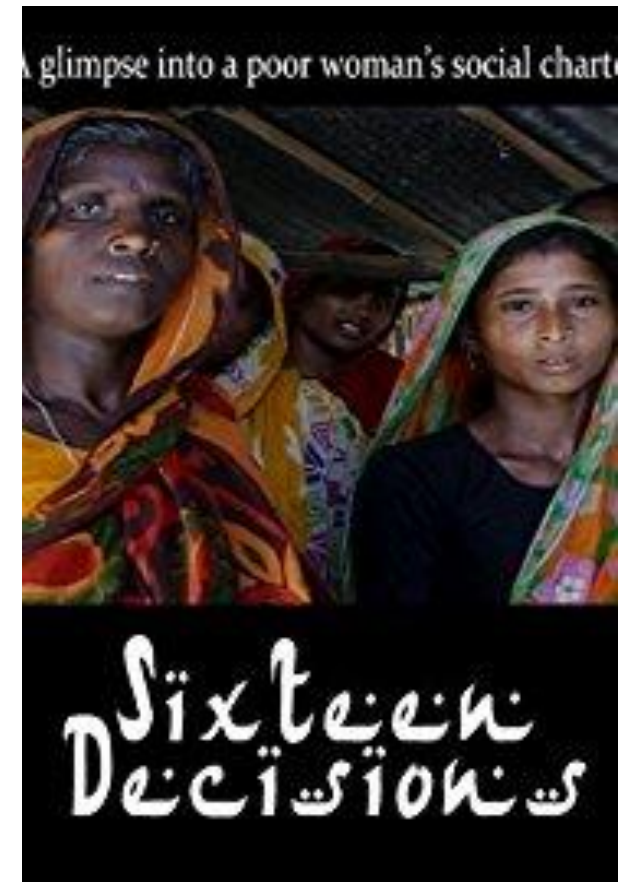


<http://www.grameen.com/16-decisions/>

- 1.0 We shall follow and advance the four principles of Grameen Bank – Discipline, Unity, Courage and Hard work – in all walks of our lives.
- 2.0 Prosperity we shall bring to our families.
- 3.0 We shall not live in dilapidated houses. We shall repair our houses and work towards constructing new houses at the earliest.
- 4.0 We shall grow vegetables all the year round. We shall eat plenty of them and sell the surplus.
- 5.0 During the plantation seasons, we shall plant as many seedlings as possible.
- 6.0 We shall plan to keep our families small. We shall minimize our expenditures. We shall look after our health.
- 7.0 We shall educate our children and ensure that they can earn to pay for their education.
- 8.0 We shall always keep our children and the environment clean.
- 9.0 We shall build and use pit-latrines.
- 10.0 We shall drink water from tubewells. If it is not available, we shall boil water or use alum.
- 11.0 We shall not take any dowry at our sons' weddings, neither shall we give any dowry at our daughters wedding. We shall keep our centre free from the curse of dowry. We shall not practice child marriage.
- 12.0 We shall not inflict any injustice on anyone, neither shall we allow anyone to do so.
- 13.0 We shall collectively undertake bigger investments for higher incomes.
- 14.0 We shall always be ready to help each other. If anyone is in difficulty, we shall all help him or her.
- 15.0 If we come to know of any breach of discipline in any centre, we shall all go there and help restore discipline.
- 16.0 We shall take part in all social activities collectively.,



- documentary film
- directed and produced by Gayle Ferraro,
- exploring the impact of the Grameen Bank on impoverished women in Bangladesh. The bank provides micro loans of about \$60 each to the poor
- loaning \$2.3B to 10 million women



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 GRAMEEN AMERICA

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Over half a billion dollars invested in women entrepreneurs

[see our impact](#)

<http://www.grameenamerica.com/>
<http://www.grameenamerica.org/2016annualreport/>



HISTORY OF MICROFINANCE

- India's **SKS Microfinance** also serves a large number of poor clients. Formed in **1998**, it has grown to become one of the biggest microfinance operations in the world. SKS works in a similar fashion to the Grameen Bank, pooling all borrowers into groups of five members who work together to ensure loan repayment.
- There are other microfinance operations around the world. Some larger organizations work closely with the World Bank, while other smaller groups operate in different nations. Some organizations enable lenders to choose exactly who they want to support, categorizing borrowers on criteria like level of poverty, geographical region and type of small business. Others are very specifically targeted: There are those in Uganda, for example, that focus on providing women with capital required to undertake projects such as growing eggplants and opening small cafés. Some groups tend to focus their efforts only on businesses which are created with the intent of improving the overall community through initiatives like education, job training and clean water.





CURRENT OUTREACH

MEMBERS: 77 LAKHS

BRANCHES: 1452

AMOUNT DISBURSED: INR 74729 CRORE
(USD 1143 MILLION)

Till September 30, 2017

Scaling
Microfinance

Providing
Opportunity

Expanding
Services

Building
Relations

OUR PHILOSOPHY

Mission, Vision and Core Values



Latest

Q3-FY18 Earnings Update
SE-INTIMATION-CCI
APPROVAL
Q2-FY18 Earnings Update
Investor Presentation on
Merger

Videos
on
Company

MEDIA
COVERAGE



Bharat Financial Inclusion Ltd in
Forbes Super 50 list

SKS Microfinance renamed Bharat Financial Inclusion (June 13, 2016)

Earlier in May, the company had said the decision to change the name was taken as its core had undergone a transformation, equipping it to play a major role in fulfilling the national priority of financial inclusion.

The company is among the largest microfinance companies in India. It has presence across 18 states covering 1,00,000 villages, catering to its 63.65 lakh women members.

The company was mired in serious controversy in late 2010 due to rising spate of suicide ..



MICRO FINANCE FIRMS IN INDIA WITH BANKING LICENSE NEED TO BE CAREFUL AS TO NOT SERVICE THE RICH NOW:

MUHAMMAD YUNUS

- Muhammed Yunus , founder and managing director of Grameen Bank said that the youth of today aided with technology should make the social impact that the previous generations could not. Yunus said that unemployment is no longer a worry of the developing nations as countries like large chunk of youth in Italy and Greece too are suffering from joblessness.
- ET asked him on the sidelines of One Young World what are the challenges faced in microfinance where one hand you have banking lice .. ET asked him on the sidelines of One Young World what are the challenges faced in microfinance where one hand you have banking licenses rolled out and on another, ponzy scams are preventing many from investing in them. Yunus said that often there are some who start micro-financing thinking of it as another business where they need to rake in the profits and then get greedy. He said the Reserve Bank of India granting licenses to some of the micro-finance institutes was a step in the right direction, but cautioned that those banks now need to be careful that they should stop lending the poor and go back serving the rich.



BENEFITS OF MICROFINANCE

- The World Bank estimates that more than 500 million people have directly or indirectly benefited from microfinance-related operations. The **International Finance Corporation (IFC)**, part of the larger World Bank Group, estimates that more than 130 million people have directly benefited from microfinance-related operations. However, these operations are only available to approximately 20% of the 3 billion people who qualify as part of the world's poor.
- In addition to providing microfinancing options, the IFC has assisted developing nations in the creation or improvement of **credit reporting bureaus** in 30 nations. It has also advocated for the addition of relevant laws governing financial activities in 33 countries.
- The benefits of microfinance extend beyond the direct effects of giving people a source for capital. Entrepreneurs who create a successful business create jobs, trade and overall economic improvement within the community. Empowering women in particular, as many MFIs do, leads to more stability and prosperity for families.



Financial Institutions

Industries > Financial Institutions > MSME Finance > Microfinance

Financial Institutions

- + What We Do
- + Financial Infrastructure
- **MSME Finance**
 - Leasing
- **Microfinance**
 - Retail Payments

Microfinance



The evolution of the industry has been driven by many factors which include

- the transformation of microfinance providers,
- the sizable supply gap for basic financial services,
- the expansion of funding sources supporting the industry and the use of technology.

As the industry has developed, there has been a shift from specialized NGOs to an increasing number of regulated and licensed MFIs which stress that sustainability and impact go hand in hand. Furthermore, The World Bank Group is working with private microfinance institutions and stakeholders to incorporate responsible finance practices into all aspects of business operations. When done responsibly, private microfinance can have significant development impact and improve people's lives.



THE FOR-PROFIT MICROFINANCE CONTROVERSY

- While there are countless heartwarming success stories ranging from micro-entrepreneurs starting their own water supply business in Tanzania to a \$1,500 loan allowing a family to open a barbecue restaurant in China, to immigrants in the U.S. being able to build their own business, microfinance has sometimes falls under criticism.
- While microfinance **interest rates** are generally lower than conventional banks', critics have charged that these operations are making money off of the poor – especially since the trend in for-profit MFIs, such as BancoSol in Bolivia and the above-mentioned SKS (which actually began as a **nonprofit organization** (NPO), but became for-profit in 2003).
- One of the largest, and most controversial, is Mexico's Compartamos Banco. The bank was started in 1990 as a nonprofit. However, 10 years later, management decided to transform the enterprise into a traditional, for-profit company. In 2007, it went public on the Mexican Stock Exchange, and its **initial public offering** (IPO) raised more than \$400 million. Like most other microfinance companies, Compartamos Banco makes relatively small loans, serves a largely female clientele, and pools borrowers into groups. The main difference comes with its use of the funds it nets in interest and repayments: Like any public company, it distributes them to shareholders. In contrast, nonprofit institutions take a more philanthropic bent with any profits, using them to expand the number of people it helps or create more programs.



THE FOR-PROFIT MICROFINANCE CONTROVERSY (2)

- In addition to Compartamos Banco, many major financial institutions and other large corporations have launched for-profit microfinance projects. CitiGroup (NYSE:C), Barclay's (NYSE:BCS) and General Electric (NYSE:GE) have started microfinance divisions in many countries, for example. Other companies have created mutual funds that invest primarily in microfinance firms.
- Compartamos Banco and its for-profit ilk have been criticized by many, including the grandfather of modern microfinance himself, Muhammad Yunus. The immediate, pragmatic fear is that, out of desire to make money, these MFIs will charge higher interest rates that may create a debt trap for low-income borrowers. But Yunus and others also have a more fundamental concern: that the incentive for microcredit should be poverty alleviation, not profit. By their very nature (and their obligation to stockholders), these publicly traded firms work against the original mission of microfinance – helping the poor above all else.
- In response, Compartamos and other for-profit MFIs counter that commercialization allows them to operate more efficiently, and to attract more capital by appealing to profit-seeking investors. By becoming a profitable business, their argument goes, an MFI is able to extend its reach, providing more money and more loans to low-income applicants.
- For now, charitable and commercialized MFIs co-exist.



THE MICROFINANCE DELUSION: WHO REALLY WINS?

THE ECONOMIC TIMES | Finance

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The microfinance delusion: who really wins?

Jason Hickel

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Microfinance: What's wrong with it



What Went Wrong with Microfinance?

By Knowledge@Wharton | March 14, 2012



CRISES POINTS

- Banks
- Monetary Financial Institutions (**MFIs**)
- Credit Culture
- Labour Slowdown
- Politics

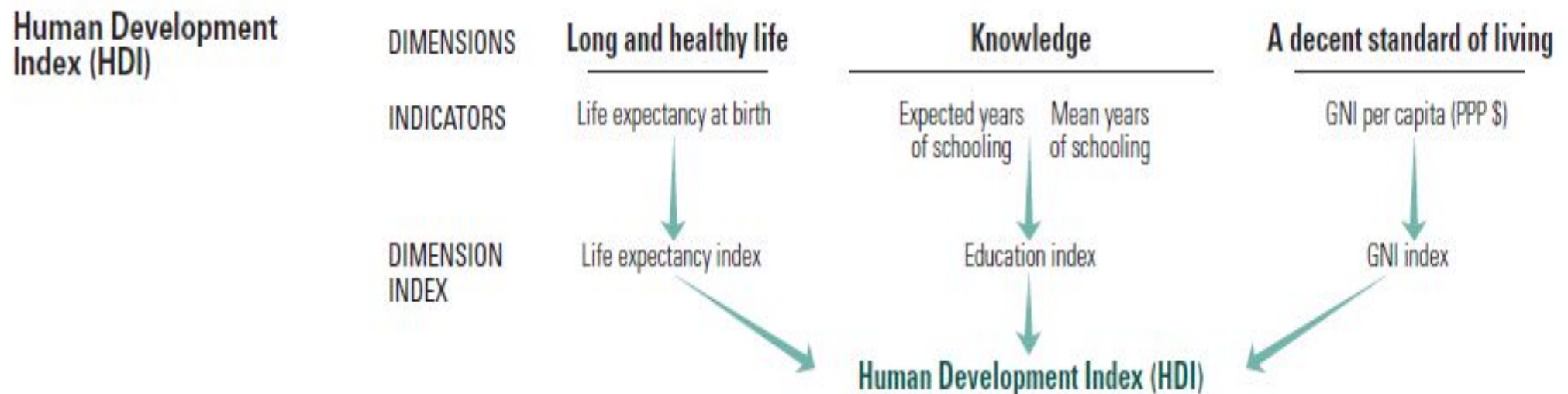


HDI

- The HDI was created to emphasize that people and their capabilities should be the ultimate criteria for assessing the development of a country, not economic growth alone. The HDI can also be used to question national policy choices, asking how two countries with the same level of GNI per capita can end up with different human development outcomes. These contrasts can stimulate debate about government policy priorities.

The Human Development Index (HDI) is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and have a decent standard of living. The HDI is the geometric mean of normalized indices for each of the three dimensions.

- The HDI simplifies and captures only part of what human development entails. It does not reflect on inequalities, poverty, human security, empowerment, etc.





21st century skills

Ways of thinking	Tools for working	Ways of working	Skills for living in the world
Creativity Critical thinking Problemsolving Decisionmaking Learning	Information and communication technology Information literacy	Communication Collaboration	Citizenship Life and career Personal and social responsibility

■ HDI map

HDI rank	Human Development Index	Inequality-adjusted HDI		Gender Development Index		Gender Inequality Index		Va	
	Value	Value	Overall loss (%)	Difference from HDI rank ^b	Value	Group ^c	Value		Rank
	2015	2015	2015	2015	2015	2015	2015		2015
VERY HIGH HUMAN DEVELOPMENT									
1	Norway	0.949	0.898	5.4	0	0.993	1	0.053	6
2	Australia	0.939	0.861	8.2	-1	0.978	1	0.120	24
2	Switzerland	0.939	0.859	8.6	-4	0.974	2	0.040	1
4	Germany	0.926	0.859	7.2	-1	0.964	2	0.066	9
5	Denmark	0.925	0.858	7.2	-2	0.970	2	0.041	2
5	Singapore	0.925	..	..	..	0.985	1	0.068	11
7	Netherlands	0.924	0.861	6.9	2	0.946	3	0.044	3
8	Ireland	0.923	0.850	7.9	-2	0.976	1	0.127	26
9	Iceland	0.921	0.868	5.8	6	0.965	2	0.051	5
10	Canada	0.920	0.839	8.9	-2	0.983	1	0.098	18
10	United States	0.920	0.796	13.5	-10	0.993	1	0.203	43
12	Hong Kong, China (SAR)	0.917	..	..	..	0.964	2	..	..
13	New Zealand	0.915	..	..	..	0.963	2	0.158	34
14	Sweden	0.913	0.851	6.7	3	0.997	1	0.048	4
15	Liechtenstein	0.912	..	..	..	..	..	..	..
16	United Kingdom	0.909	0.836	8.0	-1	0.964	2	0.131	28
17	Japan	0.903	0.791	12.4	-8	0.970	2	0.116	21
18	Korea (Republic of)	0.901	0.753	16.4	-19	0.929	3	0.067	10
19	Israel	0.899	0.778	13.5	-11	0.973	2	0.103	20
20	Luxembourg	0.898	0.827	8.0	1	0.966	2	0.075	13
21	France	0.897	0.813	9.4	-1	0.988	1	0.102	19



177	Liberia	0.427	0.284	33.4	1	0.830	5	0.649	150
178	Guinea-Bissau	0.424	0.257	39.3	-5	..	..	..	..
179	Eritrea	0.420	..	..	..	..	..	..	..
179	Sierra Leone	0.420	0.262	37.8	-3	0.871	5	0.650	151
181	Mozambique	0.418	0.280	33.0	3	0.879	5	0.574	139
181	South Sudan	0.418	..	..	..	..	..	..	..
183	Guinea	0.414	0.270	34.8	2	0.784	5	..	..
184	Burundi	0.404	0.276	31.5	4	0.919	4	0.474	108
185	Burkina Faso	0.402	0.267	33.6	2	0.874	5	0.615	146
186	Chad	0.396	0.238	39.9	-1	0.765	5	0.695	157
187	Niger	0.353	0.253	28.3	1	0.732	5	0.695	157
188	Central African Republic	0.352	0.199	43.5	0	0.776	5	0.648	149

