



## **WORKSHOP ON FINANCIAL INCLUSION:**

# **FINANCIAL INCLUSION: ISSUES & CHALLENGES IN GLOBAL MICROFINANCE PRACTICES**

**Bello Lawal Danbatta**

**Inter-Continental Hotel, Phnom Penh, Cambodia**

**24-25 July 2017**

# Content

- Financial Inclusion: What it means and Why now?
- Global Scenarios and Strategies of Financial Inclusion
- Issues and Challenges
- How IMF can be part of the solution
- New frontiers in IMF
- Shari'ah compliance or constraints
- Operational Mechanisms and Strategies
- Innovation, Impacts and Future Potentials
- Technological Interventions and Crowdfunding
- Conclusion

# The world around us



## Real Poverty

Could this be  
true?  
Can the owner of  
this slippers have  
skills?

**YES**



# Financial Inclusion: What it means!

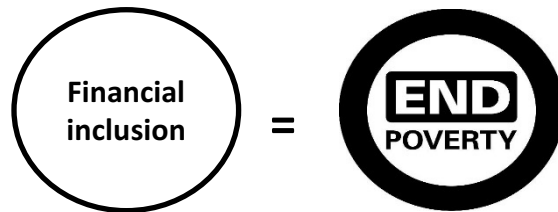


THE WORLD BANK

Financial inclusion means that **individuals and businesses** have access to **useful and affordable financial products and services** that meet their needs – **transactions, payments, savings, credit and insurance** – delivered in a **responsible and sustainable way**.



Financial Inclusion is the process of ensuring access to appropriate financial **products and services needed by vulnerable groups** such as **weaker sections** and **low income groups** at an affordable cost in a **fair and transparent** manner by mainstream Institutional players.



Assumption



Reality

# Financial Inclusion: Why now?

## Key Global Challenges

- 2 billion adults no basic account.
- 59% of 2bn adults lack enough money
- Key Barriers: distance, documentation papers, trust in financial service providers, and religion.
- More than 200 million formal and informal micro, small and medium-sized enterprises (MSMEs) in emerging economies lack adequate financing to thrive and grow.
- MSMEs cite a lack of collateral and credit history, and business informality as main reasons for not having an account.
- Forcibly displaced populations present pressing financial inclusion challenges.

Source: World Bank report April, 2017

## Security vs Economic Development

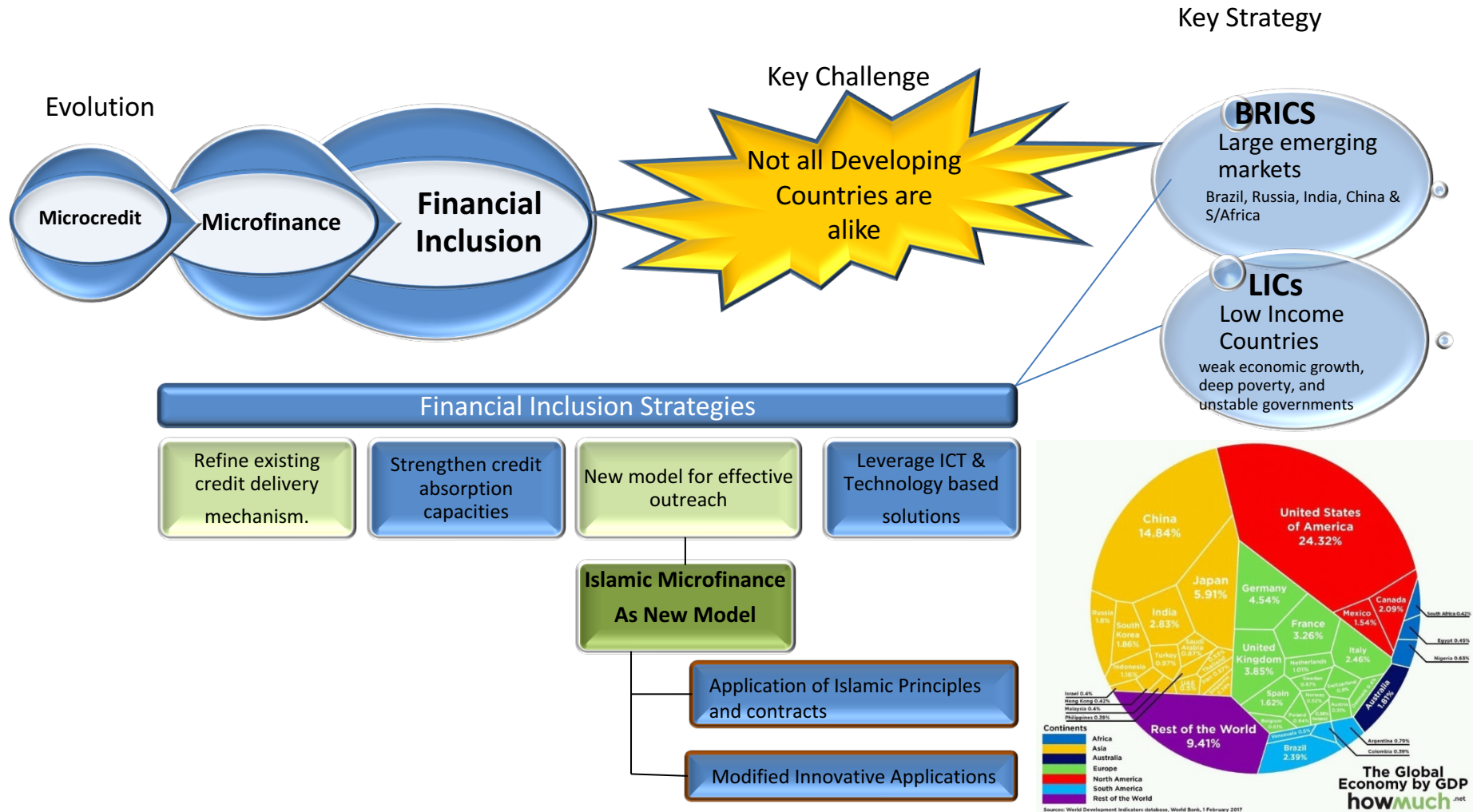
- Increasing global insecurity due to socio-political crises, climate changes and immigration
- Financial inclusion as an enabler for 7 of the 17 Sustainable Development Goals.
- G20 committed to advance & digital financial inclusion worldwide.
- World Bank Group considers financial inclusion a key enabler to reduce extreme poverty and boost shared prosperity.

Source: World Bank report April, 2017

## Leveraging on Technology

- Increasing interest and usage of mobile and internets
- Digital IDs make it easier than ever before to open an account
- Digitization of cash-payments is introducing more people to transaction accounts
- Mobile-based financial services bring convenient access even to remote areas
- Greater availability of customer data allows providers to design digital financial products that better fit the needs of unbanked individuals

# Global Scenarios & Strategies



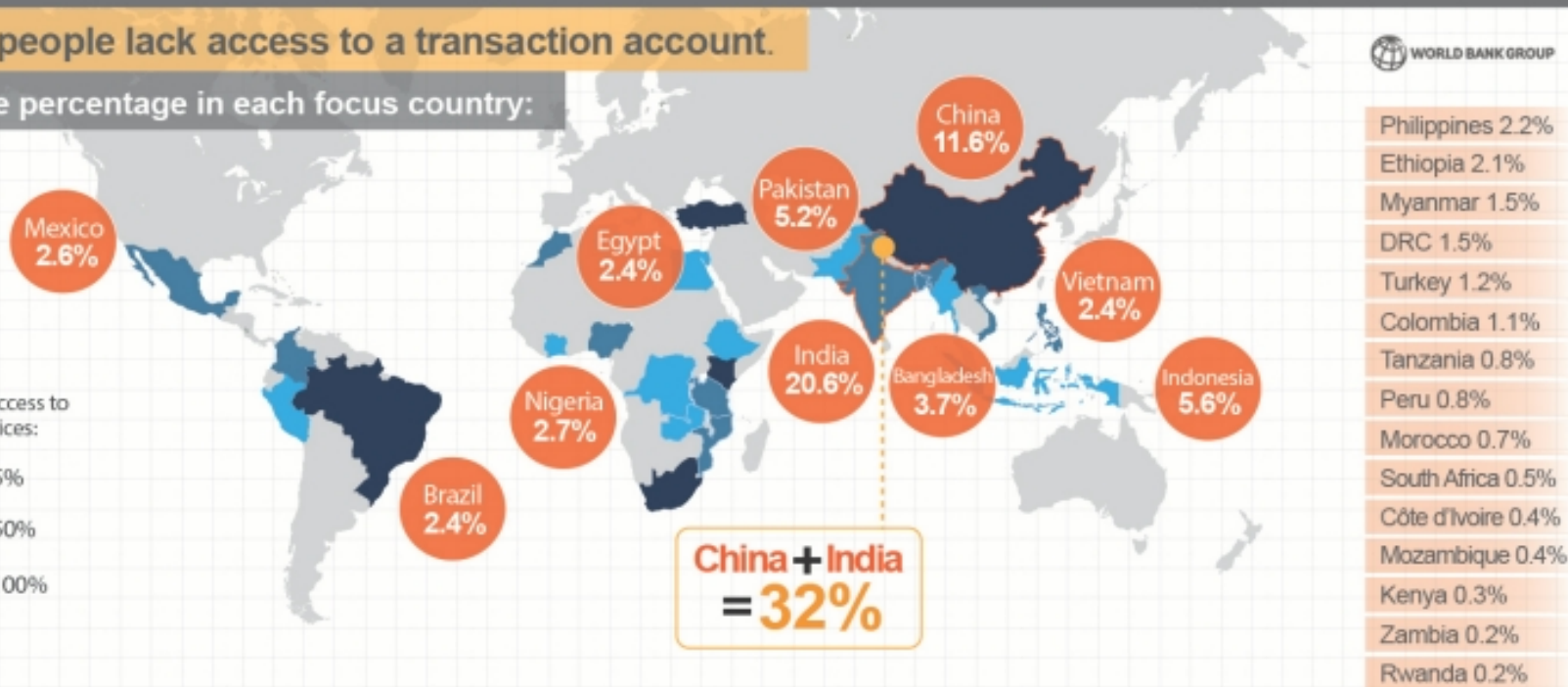
# Key WB's Objective for Financial Inclusion

## Achieving Universal Financial Access by 2020

2 billion people lack access to a transaction account.

Here is the percentage in each focus country:

Percentage access to financial services:

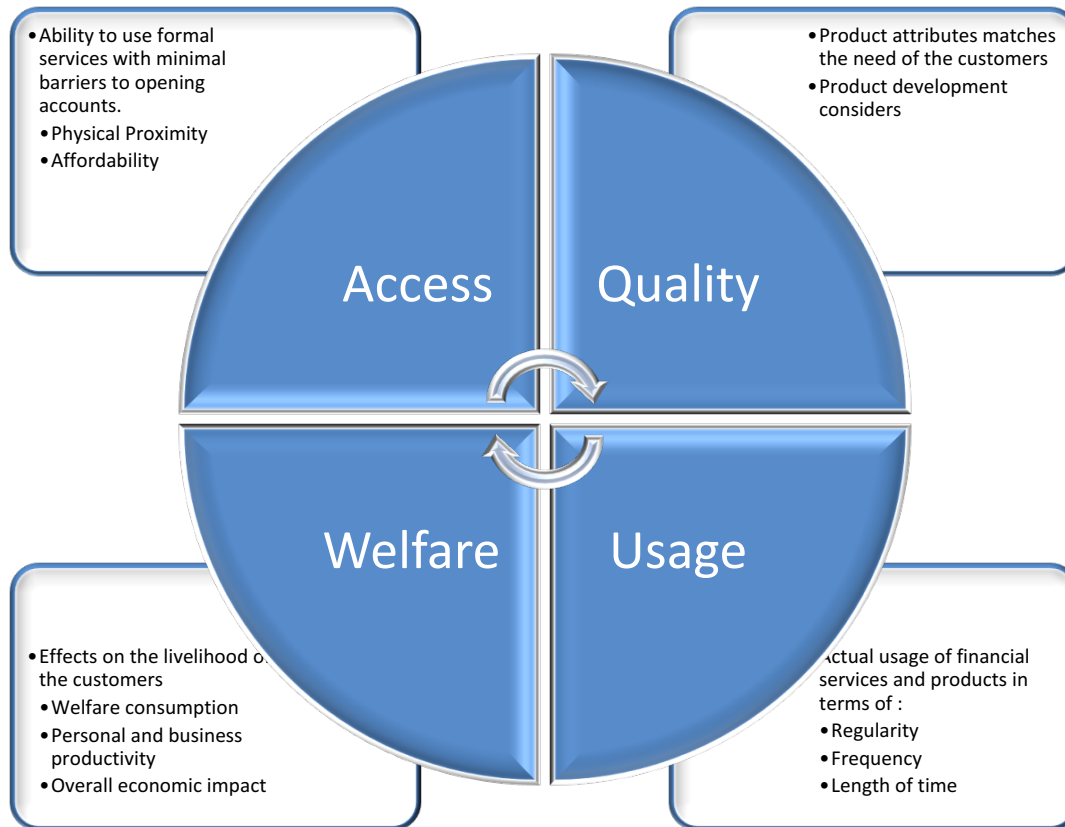


**25** Focus Countries = **73%** of the world's financially excluded

Sources: Global Index 2014, IMF Financial Access Survey

@WBG\_Finance | #FinAccess2020

# WB's Financial Inclusion Dimensions



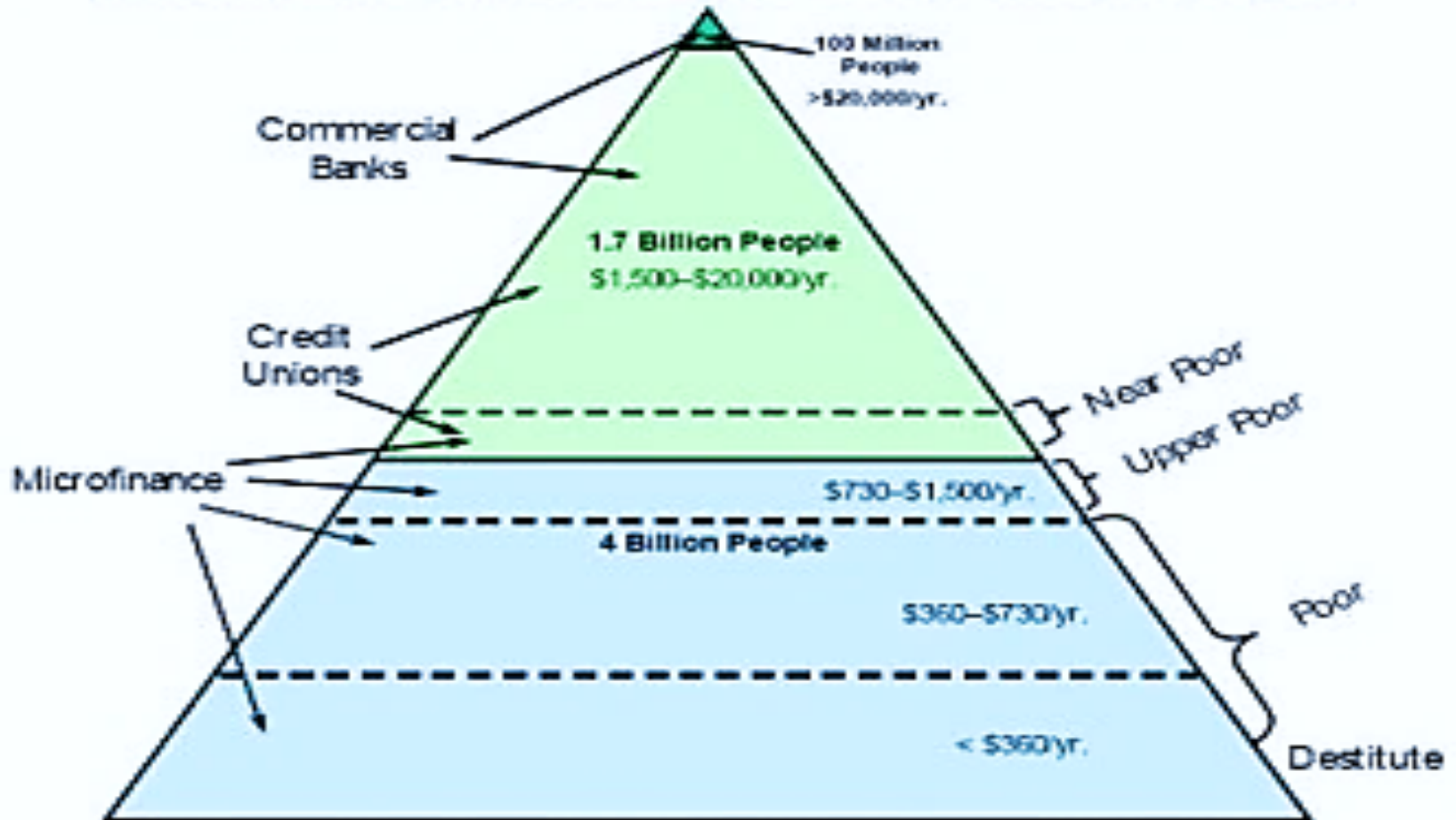
## Focus Areas

1. Credits
2. Savings
3. Payments
4. Insurance

**Can these be achieved with current interest based banking system that is highly regulated?**

# Focus of Microfinance

## Microfinance Can Reach the Lower Income Levels



\*Sources: VISA International, World Bank, C.K. Prahalad

# Who should be included ?

Financial Exclusion



Financial Inclusion



# Issues and Challenges

## Latest Data on Cambodian Microfinance

Figures		Q4/2016	Q1/2017	Variance
N& MFIs	59 MFIs	<b>61 MFIs</b>	<b>+3.39%</b>	
Loan		\$3,065.54	<b>\$3,328.00</b>	<b>+8.56%</b>
Borrowers	LTD=1:2	1,921,956	1:2 <b>1,848,571</b>	<b>-3.82%</b>
Deposits		\$1,490.22	<b>\$1,625.16</b>	<b>+9.05%</b>
Depositors		1,596,863	<b>1,652,227</b>	<b>+3.47%</b>

Source: Cambodia Microfinance Association Website retrieved on 23/07/2017

Updated Wednesday, 3 May 2017

“It may be useful for Cambodia to **examine the viability of deploying** Islamic microfinance,”

*Tun Musa Hitam - Chairman of the WIEF Foundation (September, 2015)*

# Issues and Challenges

- **Policy Related**

- The definition of Financial Inclusion
- The credit model Approach
- Too much focus on women
- SME centric
- Accounts opening focus

- **Government and Regulatory**

- Political will
- High regulation
- Infrastructures
- Capacity and competency
- Liquidity Management instruments
- Consumer protection inefficiencies
- Licencing requirements

- **Management Style in MFIs**

- Governance - Mismanagements
- Insufficient institutional capabilities
- Risk sensitivity
- Bottom line approach

- **Business Model and Operational**

- Limited Products & Services
- High Interest rates
- Selfish utilisation of social funds
- Aggressive monitoring mechanisms
- Technological development e.g. Fintech
- After sales support
- Copy-Modify-Paste Syndrome
- Collaterals
- Documentation
- Debt focused products and services
- Inability to generate profits
- High NPL/NPF

- **Customer**

- Accessibility and Proximity to FIs
- Financial Literacy
- Skills
- Markets
- Funds diversion risk

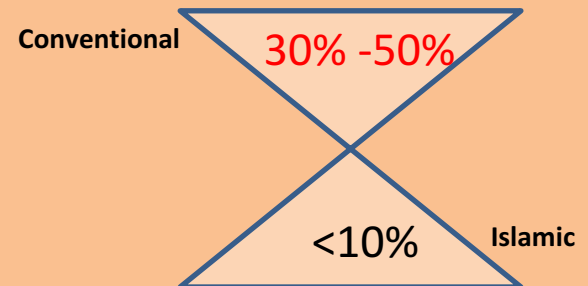
# Why Islamic Microfinance is the Solution?

## Because of its.....

- Philosophy and Shari'ah Objective/Principles
- Minimal cost of funds
- Presence of the principle of *Iwad* (counter value)
- Financing is for real economic activities and sectors
- Many sources of funds
  - Qard Hasan (Benevolent)
  - Shareholders funds
  - Customers Deposit
  - Zakat and Charity funds
  - Cash Waqf
- Business Models and Modus operandi

*"Microcredit itself it has not really proved a panacea," and "If anything, it has trapped a lot of people in a vicious debt cycle. Many borrowers find they need to take extra loans to repay previous debts"*

**Kamal Munir** - UK's Cambridge Judge Business School (an advisor to various international financial institutions)



# Shari'ah Fundamentals for IMF

- **Shari'ah Objectives (*Maqasid al-Shari'ah*)**

- Protection of Faith (*Din*)
- Protection of Lives (*Nafs*)
- Protection of Posterity (*Nasl*)
- Protection of Intellects (*'aql*)
- Protection of Wealth (*Mal*)

- **Key Prohibitions**

- *Riba* (interest/usury)
- *Gharar* (uncertainty or ambiguity)
- *Masir* (gambling)
- *Zulm* (operation & exploitation)

- **Its Philosophy**

- Allah (SWT) has permitted Trade & prohibited Riba
- Money is not a commodity
- Return is unlawful without Iwad

- **Its Principles**

- GP: every thing is permitted except that which is prohibited
- Adherence to all the permissible and the prohibited things

- **Its Concepts**

- Use of profit sharing as against creating debt
- Use of sale contracts as against loans/debt
- Risk sharing as against risk transfer (E.g. use of Murabaha or Ijarah contracts as against giving loan)

- **The Mechanisms/Contracts**

- Sales based contracts
- Leased based contracts
- Fee based contracts
- Partnership based contracts

# Islamic Microfinance as the New Frontier of FI

- Society and Ummah Centric
- Wider Funding Sources
- Equity & Risk Sharing Based Financing using participation contracts
- Financial Technology compliance
- Real Economic Value Based
- Fair Institution-customer relationship

# Modus Operandi of IMF

## Products & Services

- Cost plus Financing – *Murabahah*
- Profit Sharing – *Mudharabah*
- Leasing - *Ijarah*
- Profit and Loss Sharing – *Musharakah*
- Benevolent Loan - *Qard Hassan*
- Agency Fees – *Wakala*

World class example is AIM

## Financing & Disbursements

- Individual Lending – individual Liability
- Individual Lending – Group Liability
- Group Lending – Group Liability (Most effective & less risky)

## Marketing Strategies

- Equity based financing
- Easy and flexible ownership of assets
- Low transactions cost
- Risk sharing
- After sales services
  - Spiritual & Moral Support
- Financial literacy Programs
- Skills Development Schemes
- Saving and Insurance schemes
- Fair & Just relationship

# Impacts and Future Potentials of IMF

- 154 million borrowers reached in 2014.
- There was a nearly 20% decline in India, but a 15% growth in outreach in Africa and Latin America.
- Local funding drives the sector through increasing deposits and borrowings.
- Helps very poor households to meet basic needs
- It provide social security to poor households
- improvements of economic welfare
- Enterprise stability or growth
- women's empowerment, thus promoting gender-equity
- Putting a smile in peoples faces.
- Bringing Joy in their lives



# Innovation, Technological Intervention and Crowdfunding

## Innovation

- Cooperative Model of IMFI's
- Sector Focus Financing
- Development and Migration Model ( $I < MSME < SME < Corp$ )

## Technological Intervention

- Mobile Banking
- Fintech Application – financing, payment system, microtakaful, block chain, etc..

## Crowdfunding

- Waqf Model
- Zakat and Charity fund model
- Cooperative model

# Conclusion

- high interest rates and highly regulated financial system, remains a key issue and challenge for FI.
- The success of Financial Inclusion in alleviating poverty will heavily depend on its strategic approach.
- Islamic Microfinance is the fast track solution in achieving financial inclusion by 2020.
- For Islamic microfinance to deliver results, governments and regulators political-will is the critical success factor.
- The way forward, is for you to contribute to IMF development in what ever ways possible.....**bcos**...../

# Thank you

Dr. Bello Lawal Danbatta

SCHOOL OF PROFESSIONAL STUDIES

GLOBAL ISLAMIC FINANCE UNIVERSITY

LORONG UNIVERSITI A, 59100 KUALA LUMPUR, MALAYSIA.

Mobile: +6017 250 9720

Tel: +60376514185

Email: [bello@inceif.org](mailto:bello@inceif.org) & [bellolawal@yahoo.co.uk](mailto:bellolawal@yahoo.co.uk)