WORKSHOP ON FINANCIAL INCLUSION:

FINANCIAL INCLUSION: ISSUES & CHALLENGES IN GLOBAL MICROFINANCE PRACTICES

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• Financial Inclusion: What it means and Why now?
• Global Scenarios and Strategies of Financial Inclusion
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• Operational Mechanisms and Strategies
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The world around us
Real Poverty

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

YES
Financial Inclusion: What it means!

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 = Poverty

WE WILL NEVER END POVERTY IF WE DON’T TACKLE CLIMATE CHANGE

- JIM YONG KIM, PRESIDENT OF WORLD BANK GROUP
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.

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.

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

Source: World Bank report April, 2017
Global Scenarios & Strategies

Evolution

- Microcredit
- Microfinance
- Financial Inclusion

Financial Inclusion Strategies

- Refine existing credit delivery mechanism.
- Strengthen credit absorption capacities.
- New model for effective outreach.
- Leverage ICT & Technology based solutions.

Islamic Microfinance As New Model

- Application of Islamic Principles and contracts.
- Modified Innovative Applications.

Key Challenge:
Not all Developing Countries are alike

Key Strategy:

BRICS
Large emerging markets
Brazil, Russia, India, China & S/Africa

LICs
Low Income Countries
weak economic growth, deep poverty, and unstable governments
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:

- Philippines 2.2%
- Ethiopia 2.1%
- Myanmar 1.5%
- DRC 1.5%
- Turkey 1.2%
- Colombia 1.1%
- Tanzania 0.8%
- Peru 0.8%
- Morocco 0.7%
- South Africa 0.5%
- Côte d’Ivoire 0.4%
- Mozambique 0.4%
- Kenya 0.3%
- Zambia 0.2%
- Rwanda 0.2%

**Key Points**

- **Focus Countries**: 25 countries account for 73% of the world's financially excluded population.

**Sources**

- @WBG_Finance | #FinAccess2020
WB’s Financial Inclusion Dimensions

- Access:
  - Ability to use formal services with minimal barriers to opening accounts.
    - Physical Proximity
    - Affordability

- Quality:
  - Product attributes match the need of the customers.
  - Product development considers:
    - Ability to use formal services with minimal barriers to opening accounts.
    - Physical Proximity
    - Affordability

- Usage:
  - Actual usage of financial services and products in terms of:
    - Regularity
    - Frequency
    - Length of time

- Welfare:
  - Effects on the livelihood of the customers:
    - Welfare consumption
    - Personal and business productivity
    - Overall economic impact

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.

- 1.7 Billion People: $1,500–$20,000/yr.
- 4 Billion People: $730–$1,500/yr.
- 100 Million People: >$20,000/yr.

*Sources: VISA International, World Bank, C.K. Pratihad
Who should be included?

Financial Exclusion

Financial Inclusion
## Issues and Challenges

### Latest Data on Cambodian Microfinance

<table>
<thead>
<tr>
<th>Figures</th>
<th>Q4/2016</th>
<th>Q1/2017</th>
<th>Variance</th>
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<tbody>
<tr>
<td>N&amp; MFIs</td>
<td>59 MFIs</td>
<td>61 MFIs</td>
<td>+3.39%</td>
</tr>
<tr>
<td>Loan</td>
<td>$3,065.54</td>
<td>$3,328.00</td>
<td>+8.56%</td>
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<tr>
<td>Borrowers</td>
<td>1,921,956</td>
<td>1,848,571</td>
<td>-3.82%</td>
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<tr>
<td>Deposits</td>
<td>$1,490.22</td>
<td>$1,625.16</td>
<td>+9.05%</td>
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<tr>
<td>Depositors</td>
<td>1,596,863</td>
<td>1,652,227</td>
<td>+3.47%</td>
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</table>

**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)

<table>
<thead>
<tr>
<th>Conventional</th>
<th>30% -50%</th>
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<tbody>
<tr>
<td>Islamic</td>
<td>&lt;10%</td>
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</tbody>
</table>
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 provides social security to poor households
• Improvements of economic welfare
• Enterprise stability or growth
• Women's empowerment, thus promoting gender-equality
• Putting a smile in people's 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

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