

**Microfinance Services for
Agriculture:
Opportunities and
Challenges**

Achievements of Microfinance (2,600 MFIs)

- Outreach - 94 million borrowers (seven out of eight in Asia, penetration rates of zero to 18 percent)
- Concentration - 9 percent of MFIs account for 75 percent of borrowers

Achievements of Microfinance (2,600 MFIs)

- Sustainability - most MFIs are not profitable, 44 percent of all borrowers are served by profitable institutions.
- Profitable MFIs tend to grow faster than unprofitable ones.
- Little conflict between improving sustainability and reaching poorer clients with smaller loans.

Achievements of Microfinance (2,600 MFIs)

- Impact – difficult to measure
- Positive case studies
- Mixed results from quantitative studies
- Negative impacts of overindebtedness

Changes in Financial Paradigm

| | | |
|---------------------------|----------------------------|---------------------------|
| Problem definition | Market imperfections | Reduce risks and costs |
| Role of financial markets | Technology, production | Intermediate resources |
| View of users | Beneficiaries | Clients |
| Subsidies | Subsidy dependence | Create institutions |
| Source of funds | Governments/ donors | More emphasis on deposits |
| Sustainability | Ignored | Major concern |
| Info systems | For governments/ donors | For management |

Challenges of Microfinance

- Large share of women
- Clients largely clustered around poverty line
- Relatively few very poor
- Tend to avoid agriculture and rural areas
- Compete in densely populated urban and peri-urban areas

Innovations to Expand the Financial Frontier - Products

- Loan products
- Savings
- Remittance transfers
- Micro insurance

Innovations to Expand the Financial Frontier - Technologies

- Technologies to reduce costs and risks of supplying services
- Information technology (Palm Pilots, ATMs, point of sale (PoS) devices, debit and credit cards, cell phones)

Innovations to Expand the Financial Frontier - Linkages

- Banks with small MFIs
- Banks/MFIs with insurance companies
- Relatively few Agricultural Development Bank linkages

Emerging Challenge

- 40 nations with interest rate ceilings
- Several countries considering caps
- Compartamos IPO raised concerns
- Seek balance between institutional profits and client affordability

Conclusions

- MF demonstrated feasibility of lending to the poor
- Strong foundation now exists
- Three lessons:
 - Sustainability is still a challenge
 - More systematic analysis and exchange of info about innovations
 - Strengthen public understanding about interest rate controls. Balance profits and affordability.