

Mind The Gap in Financial Inclusion!

Microcredit Institutions fieldwork in Peru

Pilar López Sánchez
Universidad Francisco de Vitoria
Junio 2019



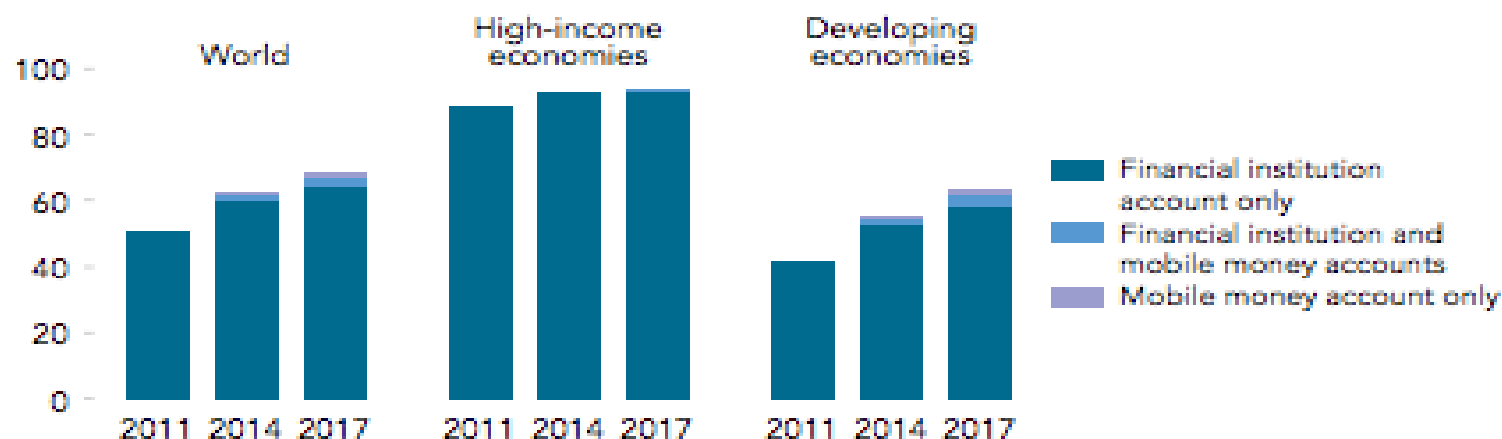
Motivation

- Situation of poverty and financial exclusion that still exists in the world.
- 900 million people (12.7% of total world population) subsist with less than 1.90 dollars a day, of which 75 million are in Latin America.
- Financial inclusion has been broadly recognized as critical in reducing poverty
- In terms of financial inclusion, currently only 69% of the world's adult population has an account.
- In Latina America 54,4% of adult population has an account and only the 41% of the poorest population

Account ownership evolution (2011-2017)

Financial institution accounts have fueled the growth in account ownership since 2011

Adults with an account (%)



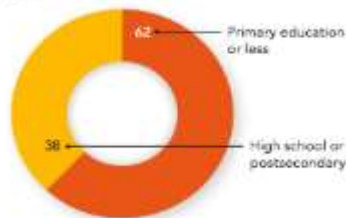
Source: Global Findex database.

Note: No data are available for the share of adults with a mobile money account for 2011.

Profile of the unbanked

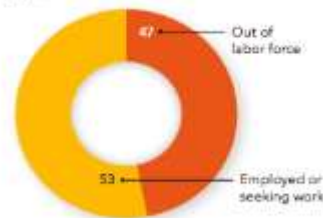


Most unbanked adults have a primary education or less
Adults without an account by educational attainment (%), 2017



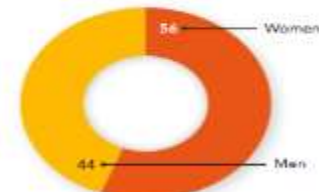
Source: Global Findex database.

Almost half of unbanked adults are out of the labor force
Adults without an account by labor force participation (%), 2017



Sources: Global Findex database; Gallup World Poll 2017.

Worldwide, most unbanked adults are women
Adults without an account by gender (%), 2017



Source: Global Findex database.

Unbanked population is young, 30% of adults not having an account are in the range of 15 to 24 years old, 62% of them have low education and 47% are out of the labor force. In addition most unbanked adults are women (56%)

Microfinance Industry

Number of borrowers and loan portfolio

Microfinance had grown rapidly in the past 20 years all around the world. MFIs reached in 2017 139 million low-income beneficiaries with loan totaling 114 billion dollars (Microfinance Barometer 2018)

	<u>Number of beneficiaries (Million)</u>	<u>Total credit Volume (\$ bn)</u>	
India	47,0	14,7 bn	
Vietnam	7,6	7,4 bn	
Bangladesh	25,2	6,9 bn	
Perú	4,6	10,8 bn	
Méjico	7,0	6,4 bn	
Colombia	2,8	6,0 bn	
Camboya	2,3	6,4 bn	
Bolivia	1,3	7,4 bn	
Brasil	3,2	1,9 bn	
Ecuador	1,3	5,1 bn	

Source: Own elaboration Microfinances Barometer 2017

Microfinance impact assessment. Literature review

- Real impact of microfinance in alleviating or reducing poverty is questioned.
- Making credit accessible to poor people is a laudable aim. But as a tool to fighting global poverty, microcredit should be judged by its effectiveness, not good intentions. (Pollen and Feffer 2007)
- Recent microfinance impact assessment researches using randomised control trials (RCT) have not find a clear evidence that microcredit increases household income, they can only say that microfinance is helping the beneficiaries to deal with their circumstances. (Angelucci, Karlan and Zinma, 2013; Banerjee et al. 2013; Crépon et al., 2011; Tarozzi, Desai and Johnson, 2014)
- *Microfinance misses its mark.* Karnani (2007) argues, that microfinance has proven to be ineffective in its stated goal of eradicating poverty and that the only proven method of poverty eradication is jobs.

Microfinance impact assessment. Literature review

- Researchers agree that the impact of training programmes improves when tuition is adapted to the needs of micro-entrepreneurs; Bali and Varghese (2013) examined several variables to discover which of them had the greatest influence on training success.
 - Infrastructure variables
 - Business-training courses in conjunction with different types of financial lending (De Mel et al., (2014))
- The lack of financial skills is one of the main problems for micro-entrepreneurs when managing a micro-business.
- Basic accounting is essential, as it provides information on which to base decisions, and to plan, forecast and control.

Financial Capability GAP

- MFIs providing access to microcredit is only part of the challenge of financial inclusion; financial capability place an important role
- It is clear that most micro borrowers do not have the necessary skills to use their loan proceeds to improve their business and many of them just spend the microcredit for their basic consumption needs.
- Also remember that most MFIs customers' are not micro entrepreneurs by choice and would happily take a good factory job if they have the opportunity.
- The cost of **providing individual financial education is be too high.**

Financial inclusion and Digital Revolution

- The future of microfinance will be driven by technology.
- New technologies could make it possible to improve financial inclusion. Internet and the cells phones are at the center of these innovations.
- Digital revolution will allow the development of less expensive and innovative financial services models.
 - ✓ Branch-less banking models
 - ✓ Digital payments (billtera movil)
 - ✓ Financial and accounting education models

Financial inclusion and Digital Revolution

More than 40% of the world's population has access to the Internet, and nearly seven of every 10 homes, of the 20% poorest, have a cell phone.



Why Peru for the fieldwork?

- Peru has a dynamic and well-regulated micro-finance sector
- There are over 70 entities specialised in micro-finance.
- Collectively they have an outstanding loan portfolio of US\$ 11 billion and more than 5 million borrowers.

MFI-Interviews in Peru

- MIBANCO- more than 700.000 customers and 328 Branches. (Banco de la Nacion)
- Financiera Confianza- more than 500.000 customers and 149 Branches
- ADRA. 18.000 female Customers
- Other MF associations: CEFI, ASBANC, COPEME

Results: MFI Challenges

- The MFI relational model is very expensive
- Key figure are frontline officers or banking agents
- Intense competition in Peru - over indebtedness and banking agents rotation
- Low customer retention
- Low customer education
- Weak Corporate governance

Paper I.

Mind The Gap in Financial Inclusion!

Microcredit Institutions fieldwork in Peru

2018-2019

- This article aims to highlight the microfinance industry current challenges to improve impact on microcredit beneficiaries.
- This paper is a descriptive analysis of the microcredit state of the art and the fieldwork done in Peru with some Microfinance Institutions and stakeholders
- Microfinance Institutions challenges are, among others, the intensive relational model, the importance of the banking agents, strong competition, low customer retention and finally low financial education level.

Paper I.

Mind The Gap in Financial Inclusion!

Microcredit Institutions fieldwork in Peru

Conclusions

- If we really want to increase the impact of microfinance and generate economic growth, government, NPO and MFIs should work together to improve financial education. Financial education should be different depending the level of poverty and education of the targeted population
- Adapt the financial education and the delivering model to the different customers profile.
- Promote the use of new technologies
- Use the banking agents for financial education

Education programs



Paper II

An innovative financial education approach to micro-credit beneficiaries: A classroom experiment in Spanish universities

- This paper is an attempt to design a compressive new financial education model that includes the content and the pedagogic choices.
- Financial education should be simple, concrete, continuous and if possible customized to the specific needs of customers
- Financial training should be done at the same time of the granting of the microcredit or at the time of relevant decision making
- It must be accessible and entertaining
- Customized training is very expensive. Can technology improve the level of customization without incurring high costs?

Paper II

An innovative financial education approach to micro-credit beneficiaries: A classroom experiment in Spanish universities

Learning by doing

1. Develop the content material: case Study and the excel templates
2. Realize an experiment in the classrooms (IG & CG) to validate the teaching material
3. Develop an accounting APP focused on Cash Flows
4. Develop educational videos.

Education programs. Learning by doing

- Simple and actionable- Use new digital technologies
- Personalized- Tailoring individuals particulars needs
- Timely- To coincide with financial decisions
- Convenient and Entertaining- Demand is low so it has to be very attractive
- Targeted to youth and young adults

Paper II

A classroom experiment in Spanish universities: Results

- The authors have designed a basic accounting (cash flow) tool that will lead to a development of an APP.
- In order to tests the effectiveness of the accounting tool a controlled experiment took place in the classrooms of business students belonging to three different universities in Madrid.
- The authors developed a case study of a women entrepreneur in a rural area of Peru that has started a new micro business. We describe the regular family and business transactions for 3 months. The purpose of the case study were multiple: first, to record the transactions separating business and family accounts, understand how financial resources work, and finally to produce useful information to make right decisions and make the business grow in a sustainable way

Paper II

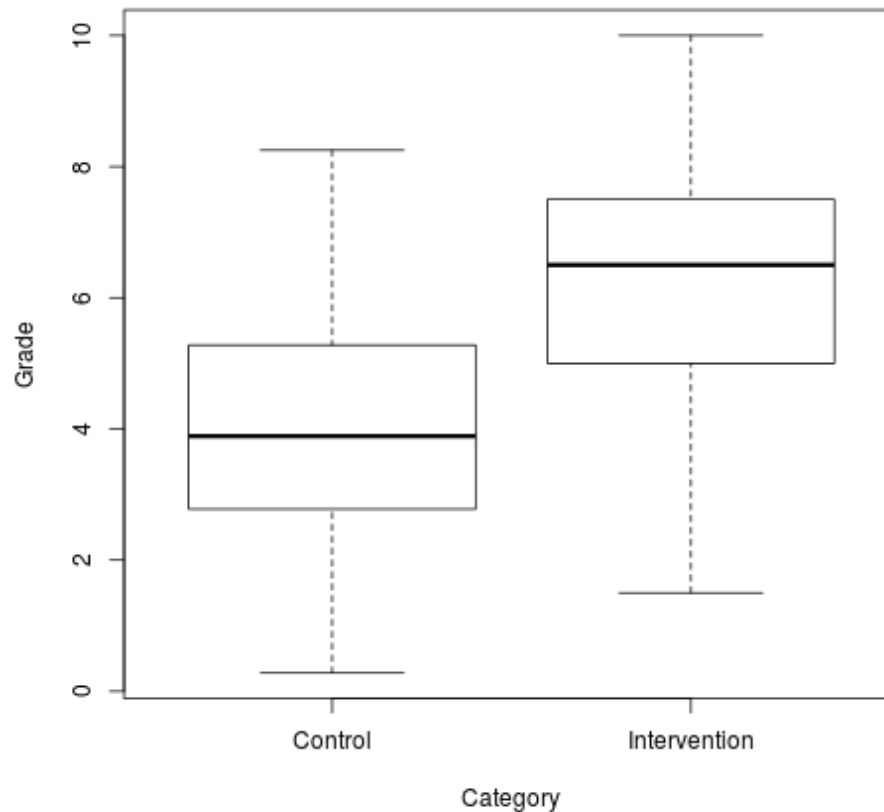
A classroom experiment in Spanish universities: Results

- Statistical methods were used to help answer our research questions. We started with variance analysis (ANOVA) to study the differences between groups. Finally, a regression analysis was carried out to analyze the factors that could influence student's performance. Additionally motivation towards entrepreneurship was analyze
- Our findings showed that students in general were very motivated towards the experiment, given that its final social purpose was to improve financial capabilities in developing countries. They enjoyed working on the case that helped them to better understand the role of accounting. The students performed better in the intervention group, showing that the cash-template helped them recording transactions and enhance the usefulness of financial and accounting information.

Paper II

A classroom experiment in Spanish universities:

Results: The chart shows that students of the intervention group got a better grade than those of the control group



Paper II

A classroom experiment in Spanish universities: Limitations

- The classroom experiment was tested with students with some business studies background therefore the understanding of the template and the concepts might be somehow distorted. Despite this, we believe that our results legitimize us to continue exploring on this area. Future research lines include the App development based on the results of this experiment and to contrast these results with MFI beneficiaries in developing countries

Our customers



Educational Pils

Example 1



Video designed by: Claudia Romero Perote