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BEYOND SAVINGS: TOWARDS INCLUSIVE GROWTH

A seminar at the LSE on December 5 hosted by Hand in Hand

Key Takeaways

- **We now understand microfinance quite well, and we understand the path from savings groups to microfinance, but we do not understand how to go beyond microfinance and scale up further.**
  Lack of infrastructure (energy, access to markets, etc.) severely constrains this scaling up. Meanwhile, many of the poor live in rural areas, where intervention of any sort has enormous costs.
  At a certain level of development microfinance is no longer the answer for MSMEs. Here, the challenge becomes, will banks reach down the pyramid or do they need to be replaced by other institutions?
- **The Sparkassen model looks attractive but doesn't really exist to any great scale in developing countries.**
- **Partnerships are key (e.g. Hand in Hand and MFIs), but must be embraced across a much broader range of players (e.g. to provide access to markets).**
  Training and broad capacity building are essential, but how can they be sustained? Attempts to leverage scale in training suffer from a loss of quality.
- **Sustainability of the model, from MFIs' perspective, is completely dependent on financial training of borrowers. Effective financial training is the best way to limit bad loans (one of the major costs faced by the MFI).**
- **However, this is very resource-intensive and MFIs cannot afford to do it. Financial training is the role of the NGOs.**
- **There are some efficiency savings to be made through technology but these are minimal. Another way to limit bad loans is to charge borrowers for financial services (an example already in place), making them much more committed to repayment.**

Messages to stakeholders outside the room

- **Donors**: invest in capacity-building in the widest sense (financial literacy, lenders' abilities, etc.); develop broad partnerships; develop "tolerance for learners" to ensure more players operate in more difficult spaces.
- **Banks**: need to take a long-term view of the development of the SME sector and reach further down the pyramid; need gender disaggregated data and better analysis of why women shrink as proportion of borrowers as we go further up the loan pyramid.
- **Banks and MFIs**: think long-term and support people as they move from micro-enterprises to SMEs; there are many benefits to group collateral but it can be disempowering if one person in the group does not repay his or her debt (the rest of the group, liable for repayment, can turn against that one individual); remember that microfinance is so much more than small loans but, in fact the full range of financial services. It will depend what stage a client is as to what service they need (a small business loan or an education loan, etc.)
- **Governments**: introduce business skills into the curriculum.

- **All: data is king (e.g. donors collecting more detailed baseline data on all aspects of economic development); technology is an enabler, but only that – too many issues arise due to social norms, etc., that technology cannot solve on its own.**