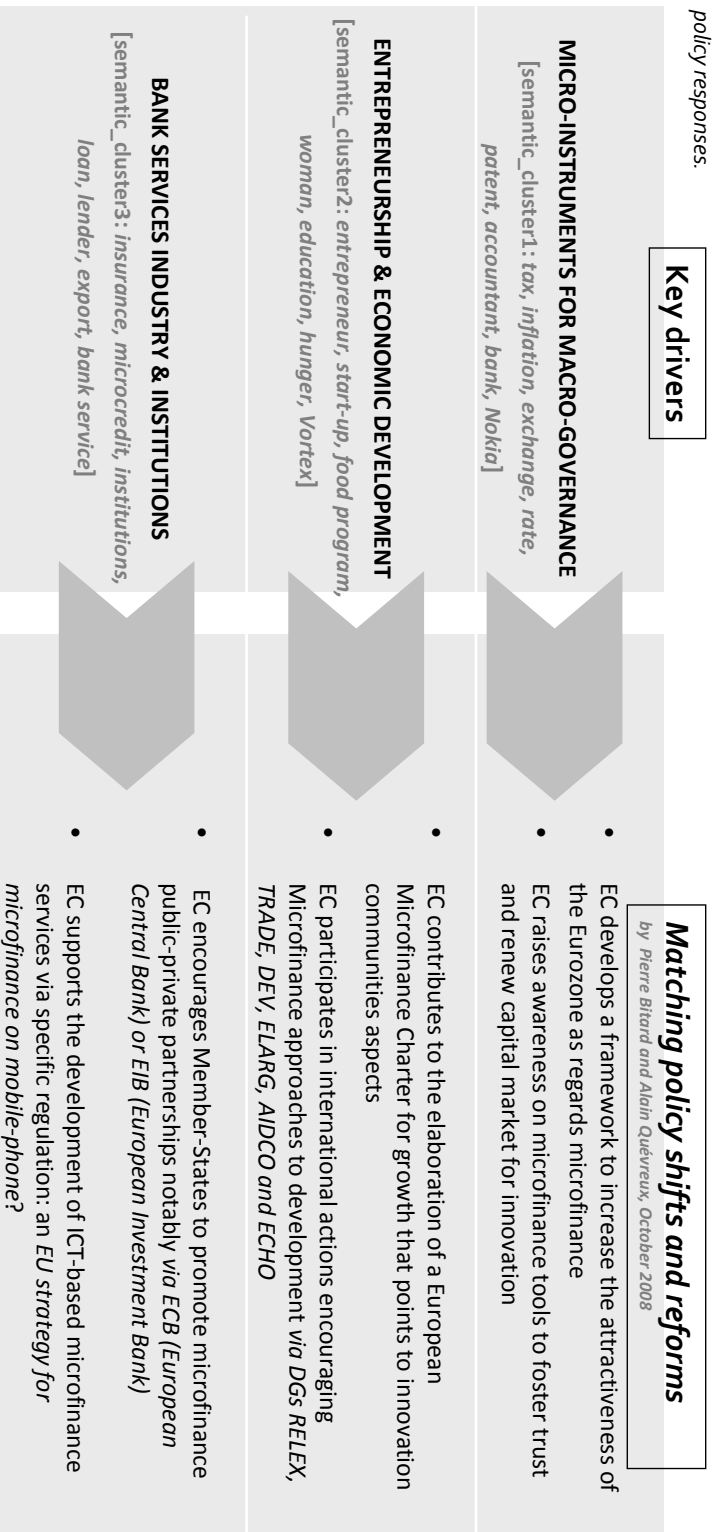


The microfinance universe is expanding: overall financial volumes are ever-growing. At the same time, both the variety of players and the diversity of services are increasing. Its very own purpose is evolving - moving from helping the very poorest in rural areas to sustaining innovative entrepreneurship, and so is its internal mechanics - moving from non-profit to for-profit organisations. Whereas established players were moneylenders and pawnbrokers, member-owned organizations and NGOs, these are now complemented with private saving banks, State banks, non-bank and non-financial institutions i.e. mobile phone and internet providers. Whereas the core service of microfinance is microcredit, many new services are developing: micropayments, via prepaid cards or mobile-phone, micro-venture capital, micro-funds and micro-investments and micro-insurance (especially micro health insurance).

➤ This trend offers new opportunities while it imposes new responsibilities on policy makers. According to GRIPS analytic survey of the world press and journals, current policy challenges related to microfinance are threefold, as shown in the figure below. Pierre Bitard and Alain Quévieux move on to suggest possible policy responses.



CROSS VIEWS

A RESEARCHER'S VIEW

"MICROFINANCE schemes have the advantage of circumventing the financial risk of the borrowers by selecting collateral requirements that are satisfied by nonmonetary accountability based on reputation or small-group enforcement mechanisms. The empirical evidence on the effectiveness of financing support, however, is mixed. While MICROFINANCE schemes are usually assessed positively, other forms of financing have been criticized."

María Minniti, Pr in Economics and Entrepreneurship, Babson College in Wellesley, Massachusetts

A BUSINESSMAN'S VIEW

"India is an "emerged market" and not "emerging anymore", Nokia is now focusing on the rural market, where it wanted to fill the gap of TVs and PCs, by providing, education, entertainment and infotainment. The company's focus on the rural telephony would be underlined by several initiatives in MICROFINANCE, distribution, agricultural services and after sales and support services."

Olli-Pekka Kallasuvo, Nokia Corporation president and CEO

A BANK RESEARCHER'S VIEW

"The microfinance sector currently has an estimated total loan volume of USD 25 bn. Yet, it is unable to serve more than a fraction (circa 100m) of today's total sector demand of roughly 1bn micro-borrowers. This situation translates into an immense funding gap estimated at around USD 250 bn.

Microfinance constitutes an emerging investment opportunity for institutions and individuals alike. Investors have barely started to explore its full potential."

Raimar Dieckmann, Deutsche Bank Research, December 19, 2007

GRIPS Intelligence Corner – Microfinance key figures

Microfinance becoming part of global finance

- \$25 billions at work in microfinance loans (2007)
- Average loan size varies: \$ 149 in Asia, \$235 in Africa, \$678 in Latin America and Caribbean and \$1597 in Eastern Europe and Central Asia
- Average interest rates vary: between 20% and 90%
- Average risks of non performing loans in portfolios, between 1% and 2%
- Share of interest income to profit in self-sufficient organisations: 5.5%

POLICY-MAKING ON THE MOVE

MICROFINANCE POLICY IN CHINA

In recent months, MICROCREDIT LOANS have been directed toward small businesses that have taken a hit under the tightening monetary policy adopted to battle inflation. The projected growth of the MICROCREDIT BUSINESS will have a far reaching impact on China's financial markets by channelling part of the huge deposit base of the BANKING SYSTEM to finance the growth of the vibrant private sector, which, unlike the staid State-owned sector, is made up primarily of MANY HIGHLY COMPETITIVE AND ADAPTABLE ENTERPRISES. Lenders will have to learn to assess the credit worthiness of this class of borrowers by their cash flow and growth potential rather than by asset value and government guarantee.

1. In 2005, the People's Bank of China, the central bank, initiated a pilot scheme to develop MICROCREDIT FIRMS in different provinces, with the original intention of financing agricultural production and supporting the livelihoods of the rural poor rather than the manufacturing industry.

2. On May 4 2008, the central bank and the China Banking Regulatory Commission published a joint statement encouraging MICROCREDIT FIRMS to help finance small businesses - provided the provincial local government could serve as guarantor of the MICROLOANS and supervise the operation of the MICROCREDIT FIRMS.

3. In mid-August 2008, the government introduced new incentives to encourage MICROCREDIT LENDERS to provide more loans to small companies engaging in labor-intensive manufacturing activities and to retrained workers TO FINANCE START-UP BUSINESSES. In a joint statement, the central bank, the Ministry of Finance and the Ministry of Human Resources and Social Security, said MICROCREDIT LENDERS could now raise the lending rate by up to 3 percentage points more than the benchmark rate for loans granted after January 1 to laid-off workers starting new businesses. The new measures also raised the maximum loan to laid-off workers from 20,000 yuan to 50,000 yuan and the maximum loan for qualified small firms from 1 million to 2 million yuan.

China Daily, October 6 2008 (Excerpts rearranged)