

## CONCEPTUAL PAPER ON LEVERAGING MICROFINANCE

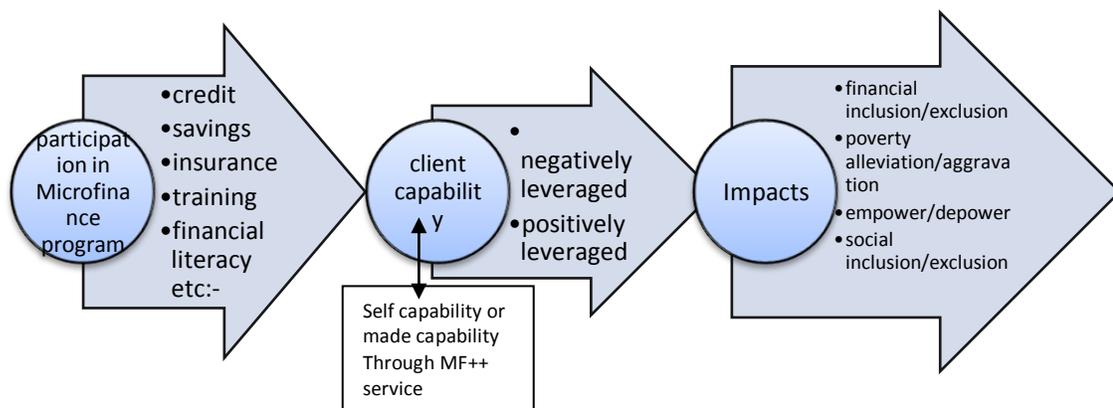
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### Abstract

MF is to reach financial exclude, unbanked population. This paper deals with the conceptualization of Leveraging MF concept. MF is leveraged for sustainable financial inclusion, for poverty alleviation and for bringing social inclusion among MF clients. The paper delineates the concept of leveraging Microfinance, transformation in concept of Microfinance, and it also state the empirical link between MF leverage and financial inclusion. The motivation to conceptualize the concept is due to research gap observed in the area of leverage. There is possibility of mis<sup>1</sup>-conceptualizing the concept as synonymous of impact assessments Leveraging is a strategy or its action based (action taken or service provide to more inclusiveness, for increasing clients capability to use microfinance) and impact is the result of leveraging. Leveraging MF positively liberates the clients from all exclusions and in-capabilities associated with poorest MF Clients, to enable maximum and intended use of MF resource leading to sustainable inclusion.

Exhibit No.1 Leveraging microfinance based on client's capability



<sup>1</sup>Meaning as per illustrated oxford dictionary Mislead, badly, wrongly

## 1.1 INTRODUCTION

Initiation of Microfinance was simply by way of credit inclusion termed micro credit in 1970, latter on in 1990, micro credit was transformed to microfinance, with multiple model [SHGs model, NBFC model, mutually aided cooperative society [MACS], trust, co operative society & Garmeen bank model ect:-] proved successful in its own ambit. On eruption of microfinance crises in Andhra Pradesh promulgate Andhra Pradesh Microfinance Ordinance 2010 which was a turning point to spiral Client protection initiatives such as client protection principles, Social performance management (SPM) and Universal Standards on Social Performance Management (USSPM) which provide universal standard to measure social performance. From the social waves it's clear that social aspect of MF clientele need a special focus for leveraging microfinance. So that MF maximizes the gains for its stakeholders and ensures the sustainability of financial inclusion.

## 1.2 OBJECTIVE

To delineate the concept of leveraging Microfinance

To delineate the transformation in concept of Microfinance

To delineate the empirical link between MF leverage and inclusion

## 1.3 SCOPE OF THE STUDY

An extensive literature scan shows typical research on microfinance (MF) are MF & poverty alleviation, MF & women empowerment, MF & financial inclusion, MF & social exclusion, MF impact assessment, MF & social impact or it may be a study on SHGs function/impact/empowerment so on. There is immense scope for MF leverage study as it's almost near zero and there is huge importance for MF leverage as the current [2014] unbanked adult population is two billion<sup>2</sup> and the Extreme poverty rate in developing countries in 2015 is 14%<sup>3</sup> Microfinance continues double-digit growth in 2013 and 2014<sup>4</sup> but still it serves only 4% of the potential market<sup>5</sup>. Financial inclusion created

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<sup>2</sup> Source: Global Findex Database

<sup>3</sup> The Millennium Development Goals Report 2015 UNITED NATIONS

<sup>4</sup> Microfinance barometer 2015

<sup>5</sup> According to the UNCDF (2004)

through leveraged MF will assist in achieving Millennium development goals, World Bank goals and more inclusive growth worldwide.

#### 1.4 CONCEPT OF LEVERAGING MICROFINANCE

In **Finance**, **leverage** is a general term for any technique to multiply gains and losses. Common ways to attain leverage are borrowing money, buying fixed assets and using derivatives.

As per the **Oxford Dictionary**, the term **Leverage** is a means of accomplishing a purpose; power, influence. It states lever has the effort applied between load and fulcrum (fixed point), lever reduces the force on the load while increasing the distance it moves.

Exhibit No.2 Leveraging micro finance is to consider THE socio-economical and political as well as business, ethical and other factors Influence on micro fiancé to multiply the gain for the beneficiaries, using the micro finance resources provided by the MFIs, so that it brings out holistic economic development. **LMF** by considering the **Interdependency Aspect** is connection of or joining of social inclusion-economical or financial inclusion- ethical inclusion-literacy inclusion and health/Fitness inclusion (SE\*LF -inclusion) to sustain & magnify the effect of financial inclusion [MF], as financial inclusion is not a standalone phenomenon, all this inclusions are interdependent and boost each other. IA may influence consumers / customers to use the Micro finance for intend and productive purpose. (Author)<sup>6</sup>

*Simple example: Two wheeler with high engine capacity gives high mileage/leverage same way human with good capacity or capability gives high positive leverage from given resources.<sup>7</sup>*

*The Eleventh Five Year Plan aims at inclusive growth and faster reduction of poverty. Micro Finance can contribute immensely to the financial inclusion of the poor without*

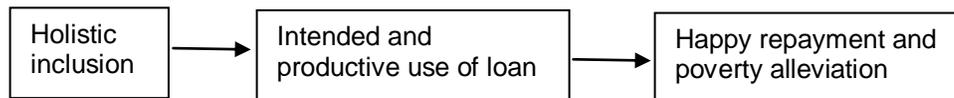
<sup>6</sup> Author: Leveraging Microfinance is it a convergence and or divergence? Proceedings of national conference on emerging new trends in managerial excellence –by Asha antony.P etal sathyabama university 2011

<sup>7</sup>From the perspective of poor MF clients Human capacity is increased by providing financial and social inclusion which is consider as a base to grow. They have potential but need resource..

which it will be difficult for them to come out of the vicious cycle of poverty. (Planning commission<sup>8</sup>)

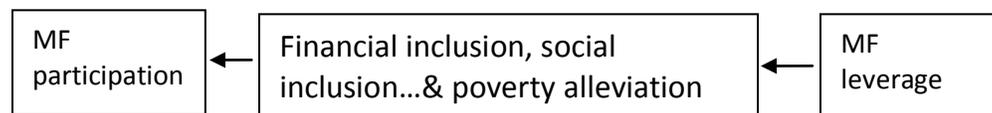
There is no conflict in having microcredit, education, health, empowerment, [and] training together; they support each other. If you laid out the foundation of the financial system, it makes other interventions so much more powerful. If you come with education, health, and training, everything will make much more sense, and you get much more mileage out of it, provided you have the microcredit framework already built into it.”(Dr. Muhammad Yunus<sup>9</sup>)

Exhibit No.3 Holistic inclusion increase MFC’s capacity



Holistic inclusion increases the MFC’s (microfinance clients) capacity to use loan for intended purpose. Thus being leveraged positively leading to poverty alleviation. Micro finance is leverage through holistic inclusion the pivotal of holistic inclusion is *financial and social inclusion*. Social exclusion is caused by failure of any of the social systems, education is one of the social systems. For productive use of loan education<sup>10</sup> can improve the quality of human.

Exhibit No.4 link between MF program participation and MF leverage



MF labeled tool for financial inclusion, poverty alleviation and MF has the potential to parallel social inclusion. These phenomenons are interconnected and have over lapping

<sup>8</sup> Report of the steering committee on micro-finance and poverty alleviation the eleventh five year plan (2007-08 - 2011-12) development policy division planning commission New Delhi may - 2007

<sup>9</sup> Interview with Dr. Muhammad Yunus (September 2006)

<sup>10</sup> Education mean to educate /to train even adult education, financial education, its main weapon to fight social exclusion and exploitations

components. The MF clientele may be MF- ready clientele<sup>11</sup> or may be MF-not- ready clientele, MF-not-ready clientele must be provided all needed allied services and they must be modified to MF – ready clientele by increasing the capacity through allied services<sup>12</sup> which will ensure inclusiveness

### 1.5 PROGRESS IN CONCEPT OF MICROFINANCE

- The concept of Microcredit evolved in 1976 by Prof. Yunus in Bangladesh. By 1990's the pioneer MFIs (GB, ASA, BRAC etc) realized that only microcredit cannot change the people's life. It has to be complemented by the other financial services like savings and insurance etc. Thus Microcredit transformed into Microfinance.<sup>13</sup>
- The highest priority in getting loan was not based on the material possession but on the potential of a person.... They were poor because society had denied them the real social and economic base to grow on. Grameen Bank's effort was to move them from the flowerpot to the real soil of the society<sup>14</sup>
- The Grameen Bank [GB] introduced a more flexible credit system Grameen-II for customizing loans to individual needs. G-II had flexible loan duration, flexible weekly installments, pay less during the lean season and more during the demanding season. The borrowers with a basic loan were simultaneously given a housing loan and a higher education loan. Grameen-II the flexible loan, never see non-payers as defaulters, rather they had a legitimate way to remain within the folds of the organization and continue to receive loans. The Grameen Bank had a pension fund (with minimum contribution) and insurance scheme (pay off a

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<sup>11</sup> Clientele who is position to use micro credit for the intended purpose [capacity / capability /resource permit intended use of micro credit] – Terminology is adopted from Microfinance:

A Platform for Social Change by Marge Magner March 2007 Grameen Foundation Publication Series

<sup>12</sup> Allied services :- education, health service, training, marketing other need based services “Microfinance perspectives and operations”-Indian institute of banking and finance published by MacMillan

<sup>13</sup>Does Microfinance fight social exclusion? Dr. Mohshin Habib Swinburne University of Technology, Lilydale mhabib@swin.edu.au

<sup>14</sup> Yunus, Muhammad (2006), “Is Grameen Bank Different from Conventional Banks?”, Available at: [http://www.grameen-info.org/index.php?option=com\\_content&task=view&id=27&Itemid=176](http://www.grameen-info.org/index.php?option=com_content&task=view&id=27&Itemid=176)

member's debt in case of death) The SHGbank linkage model of India lacks such customization. (Sarkar, Debnarayan 2008)<sup>15</sup>

- Imp- Act (2004a) states it when assessing the performance of an MFI, both its financial and social performance must be assessed, as both are needed for the successful running of an MFI. Simanowitz, quoted in Imp-Act (2004a) refers to this as an MFI's "double bottom line". As stated by Morduch "achieving profitability and strong social performance is the ultimate promise of microfinance. It is not impossible but neither is it easy" (2004a, p.3) and this is the challenge facing all MFIs.
- The industry has definitely entered into a stage of commercialization although at the same time there is increasing interest in running operations respecting the triple bottom line<sup>16</sup>

Sustainable financial inclusion means, financial inclusion should sustain to future period, for that interdependency of SE\*LF -inclusion<sup>17</sup> PLUS psychological inclusion should be considered to leverage MF. SE\*LF plus psychological inclusion increase the capability of the client to use MF for intended purpose, reducing the misuse and unintended use of MF resource. Leveraging MF liberates the clients from all exclusions and in-capabilities associated with poorest MF Clients.

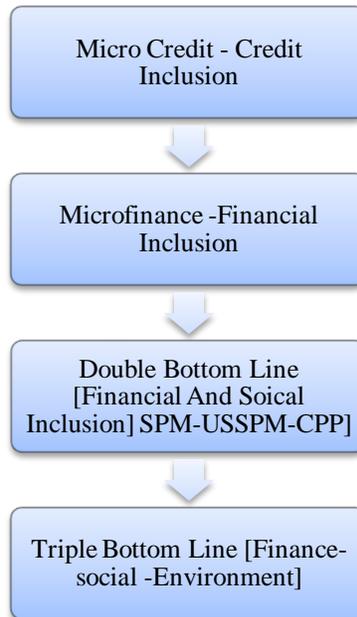
Exhibit No.5 Increase in bottom lines and inclusions level to leverage MF for sustainable financial inclusion

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<sup>15</sup> Indian Microfinance: Lessons from Bangladesh, Sarkar, Debnarayan 2008 *Economic and Political Weekly*, Vol. 43, No. 1, pp.18-20.

<sup>16</sup> Actualized from: Elisabeth Rhyne and María Otero: Microfinance through the Next Decade: Visioning the Who, What, Where, and how. 2006.

<sup>17</sup> **social inclusion-economical or financial inclusion- ethical inclusion-literacy inclusion and health/Fitness inclusion [E \* represent economical and ethical inclusion]**



## 1.6 EMPIRICAL LINK BETWEEN MF LEVERAGE AND FINANCIAL INCLUSION

1. The paper states MF and other forms of Social entrepreneurship play an important role in development by facilitating the creation of organic, productive, community-centered organizations that build on local culture and institutions. (Berhanu Nega and Geoff Schneider 2013)<sup>18</sup>
2. Only 20.3 percent of members used loan for productive purpose and their repayment rates were pleasing. The SHG movement had increased the degree of financial inclusion. (Sahu etal 2010<sup>19</sup>)
3. Only a scanty percentage used loan for productive purpose and members were lack skills on non-traditional profitable activities. The perceived benefits of SHGs –members were increased self-confidence, promotion of saving habits, increased social interaction and freedom from old debts. (Sahu etal 2007)<sup>20</sup>

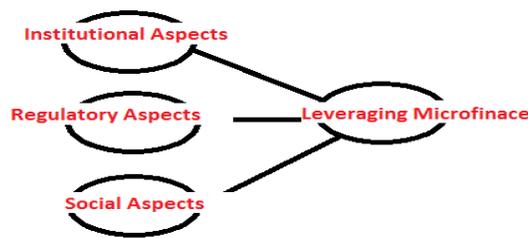
<sup>18</sup> Berhanu Nega is an associate professor and Geoff Schneider is a professor in the Department of Economics at Bucknell University. This paper was presented at the annual meeting of the Association for Evolutionary Economics, January 3-5, 2013 in Philadelphia.

<sup>19</sup> SHG-Bank Linkage in North West India: Experiences and Challenges in Financial Access and Poverty Alleviation by Sahu, Gagan Bihari- Center for Micro-Finance (sub-center) Institute of Development Studies, Jaipur

<sup>20</sup>Sahu, Ananta Basudev; and Das, Sandhya Rani (2007), “Women Empowerment Through Selfhelp Groups: A Case Study”, Paper Presented at a Seminar on Gender Issues and Empowerment of Women, Indian Statistical Institute, Kolkata, 1-2 February.

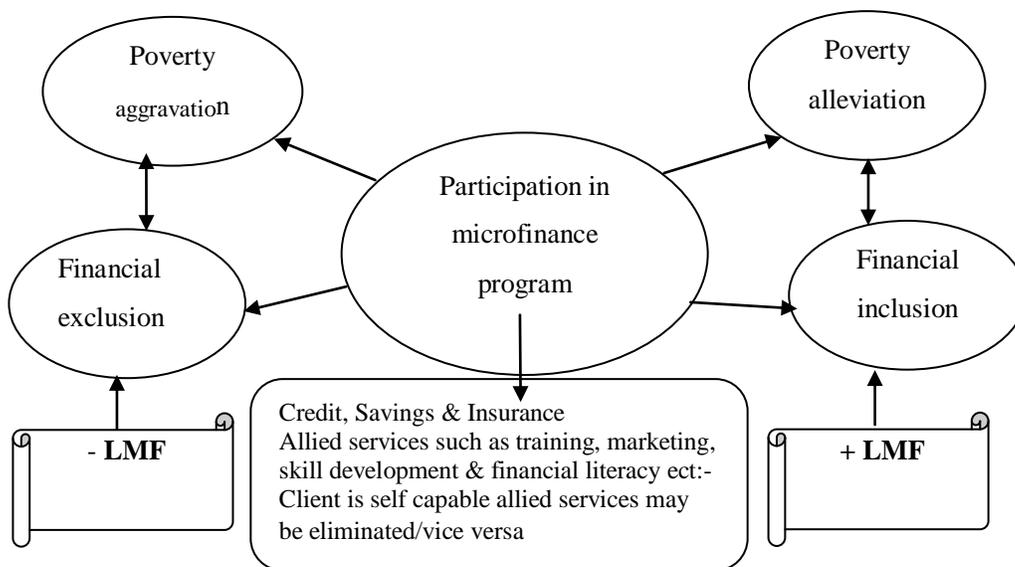
4. According to the IMF (2005) the MFIs that have become self-sustainable tend to be larger and more efficient. They also tend not to target the very poor, as targeting the less poor leads to increases in loan size and improved efficiency indicators, whereas MFIs focusing on the poorest tend to remain dependent on donor funds (IMF, 2005).
5. Africa: - Brownstein, Fleck, Shetty, Sorensen, and Vadgama (2007) In Sub-Saharan Africa micro finance is performing well but cannot solve the problem of poverty because the problem is big and the weapon is very simple and drop. Micro finance should be given more support to yield some fruitful results.
6. Nigeria: - Abiola, I., & Salami, (2011) there exists a mismatch between profit generation time duration taken by micro enterprises and repayment time given by MFIs. At the repayment time the MFCs is not in the position to repay the loan, he as to use the micro income generated from the business for working capital needs of the business

The above mentioned six empirical analysis exhibits lack of skills among MF clients, unproductive usage of loan, if productively used satisfactory repayment, MF targeting less poor clients to increase loan size, poverty problem is big and multi dimension but MF tool is simple & mismatch between income generation period and repayment period. It's observed MF is not leveraged considering the capability or the inclusion level of the clients. The financial inclusion to be sustainable MF is to be leveraged. It better reflected in *Dr. Muhammad Yunus words "There is no conflict in having microcredit, education, health, empowerment, [and] training together; they support each other. If you laid out the foundation of the financial system, it makes other interventions so much more powerful."* No doubt MF is a financial inclusion wave but to ensure its sustainability and to get it leverage, allied services should be put together – more inclusive approach.

Exhibit No.6 LEVERAGING MODEL OF MICRO FINANCE<sup>21</sup>

This model was constructed by author in 2011 based on prominent factors identified by processing the data collected from Microfinance practitioners, MF executives, MF coordinators etc:- based on their perception and further the collected data was processed using factor analysis tool and ultimately using structural equation model the above leveraging model was constructed

Exhibit No. 7 Leveraged microfinance and its impact



The Exhibit No.7 exhibits only the two extreme levels of Positive and negative impact of MF participation other variations are position in between such as varying degree of poverty level, varying degree of exclusions, varying pattern of poverty and exclusion.

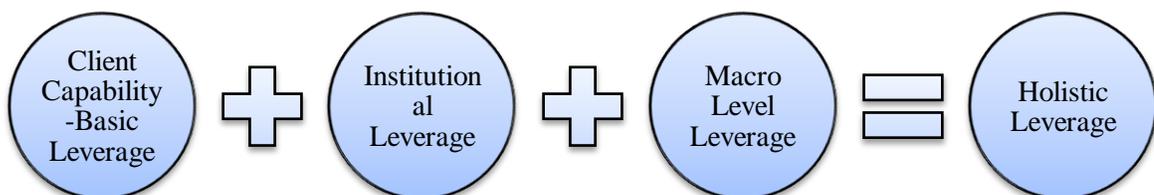
<sup>21</sup> Author: Leveraging Microfinance is it a convergence and or divergence? Proceedings of national conference on emerging new trends in managerial excellence –by Asha antony.P etal sathyabama university 2011

Financial inclusion and poverty alleviation, two positive outcomes are used for illustrative purpose. Positive leverage may result social inclusion, skill development and vice versa

## 1.7 CONCLUSION

The impact assessments deal with the outcome of MF intervention, but leveraging deals with strategy or action taken to increase inclusiveness of clientele. Thereby increase the capability of the MF client to maximize the gains using MF resource. No single model or leveraging strategy will suit the entire MF clientele. As according to the crop the soil, fertilizer usage and irrigation pattern differ the same way according to the MF clientele the MF model, MF Approach and pattern of leverage differ. Considering the multidimensional problems of poor [financial exclusion, social exclusion –health-education-morale-psychological, etc:-] MF plus plus<sup>22</sup> service should be provided to modify the poorest-Excluded clientele to MF ready-inclusive- clientele. As mentioned in initial sections of the paper Leveraging MF liberates the clients from all exclusions and in-capabilities associated with poorest MF Clients, to enable maximum and intended use of MF resource leading to sustainable financial inclusion.

### SCOPE FOR FURTHER CONCEPTUALIZATION (Exhibit No.8 Holistic Leverage)



\* **Basic leverage** is by increasing the capability of the client to use microfinance for intended usage and ensure maximum participation in microfinance program through SE\*LF<sup>23</sup> plus psychological inclusion. \* **Institutional leverage** is based on institutional aspect such as reduction in operating cost, reduction in interest rate, elimination of

<sup>22</sup> Is one of the 3 approaches of MF, minimalist Approach, MF-PLUS APPROACH and MF PLUS PLUS - Microfinance perspectives and operations"-Indian institute of banking and finance published by MacMillan  
<sup>23</sup> **social inclusion-economical or financial inclusion- ethical inclusion-literacy inclusion and health/Fitness inclusion [E \* represent economical and ethical inclusion]**

mission drift, low cost funding, SPM, adherence to client protection principles, monitoring client retention, digitalization of services and providing MF + + services if client is not self capable or MF ready clients ect:- \* **Macro level leverage** is attained through stabilizing macroeconomic variable and through other interventions for social uplifting such as official development assistance (ODA), social safety nets, efforts of world organizations, national efforts and promulgation of conducive policy cum regulations. The author in this paper is concentrating only on basic leverage.

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