

Exploring the Role of Subsidy Through Three Lenses – English Transcript

(Note: This transcript was AI-generated using [NoteGPT](#). Transcripts may include inconsistencies or errors and some sentences have been condensed.)

00:15

Hey everyone! Thanks to all of you for being here today. We're really excited to be a part of this year's Financial Inclusion Week discussions and to take part in this awesome event that brings so many people together to share ideas and find a better way forward. I'm Andree Simon, the president and CEO of Think International, and I'm super happy to have Greta Bull with me today. She's the director of Women's Economic Empowerment at the Bill and Melinda Gates Foundation. Thanks for joining us!

00:44

Thanks, Greta, for having me. I'm really looking forward to our chat. So, we've only got 30 minutes, and since we both talk fast, let's dive in. There's been a lot of talk lately about subsidies for microfinance, and I've been part of quite a few of those conversations. There were actually two discussions hosted by FinDef Gateway and the Financial Access Initiative (FAI) that focused on what we need to do to make microfinance more impactful. I want to touch on some of that.

01:17

Let's dive deeper into the questions we discussed earlier. We want to keep this conversation relevant and meaningful, especially to help drive change in how we serve marginalized women entrepreneurs. In our earlier talks, we all agreed that subsidies play a crucial role in creating better solutions.

01:47

At the same time, there are certain focus areas we really need to consider. So, today I want to talk about three main points: first, the cost of funds, which comes up a lot; second, technology and how subsidies play into that; and third, targeting specific client groups. To kick things off, I'll start with the cost of funds since it's a topic we discuss often.

02:26

You know that it's really pricey for microfinance institutions to borrow money in the countries where they work. For example, in Zambia, it costs us 28% to borrow in local currency, and in Uganda, it's about 18%. That's the starting point for these institutions

before they've even rolled out any services for their customers. As you've mentioned before, there are a lot of different factors that play into this.

03:03

"That high cost, um, how do you think subsidies could help? Well, let me start by clarifying a couple of things. First, what do we mean by 'more impactful'? To me, being more impactful involves a few key points. One is having products that really fit clients' needs—things that align with their cash flow, help them purchase assets, and are affordable. Plus, products that can grow alongside them as they develop. I think those are all important."

03:35

The evidence is pretty clear on this, so we need to be careful about what we mean by impact. I want to break down your three dimensions a bit differently. The cost of financial services comes from three main things: the cost of funds, the operating costs for delivery, and the cost of risk. You really can't tell how likely those customers are to pay back since they're probably zero data customers.

04:03

So, if you break it down into cost of funds, cost of risk, and operating expenses, you really need to consider each of those pieces separately, right? I know we'll cover all of them, but let's start with cost of funds because I think it's crucial. And by the way, those three factors are all connected. For instance, tech plays a role in cost of funds and in targeting clients. But focusing on cost of funds, I think the big issue is that, especially because of...

04:29

Right now in Africa, the overall situation is really misjudging the risks for low-income women specifically, but low-income folks in general. So, when the Kenyan government has to borrow money at 20% interest because their economic situation isn't great, that affects everyone else in the market too. People end up facing crazy high interest rates, like over 70%, if they can even get a loan at all. We need to figure out how to bring those costs down and price things correctly.

05:03

One major part of the cost of funds is the Forex cost. Right now, financial institutions in most African countries aren't lending to microfinance institutions or non-bank financial institutions. You all have to go outside the country to get that money, and the hedging costs in today's market are ridiculously high. So, first off, why are we so reliant on external

financing? That seems like a problem from the start and could help explain some of the debt issues we're facing. But seriously, why are we paying such high premiums to borrow?

05:38

So, you know how there are different development finance institutions? One thing we're trying to figure out is how to link smaller financial institutions, like FAO, BRAC, and MOPA, with local funding sources. We're looking at a few ways to make that happen. For instance, can we use first loss guarantees to lower the cost of funds? We're actually exploring this in Uganda with another banking partner—can't reveal who just yet—but if we put in those first loss guarantees, can we use that to bring costs down?

06:08

The cost is lower since they don't have to keep capital at the same level. Plus, it's all in local currency. You see, big banks in Africa have a lot of cash, but they're mainly lending it to the government right now. First loss guarantees could help, but we're also looking into whether securitization might attract those local currency lenders. What about pension funds and insurance companies? They're not really involved in the local market. Can we get them in?

06:36

We need to make some choices that would encourage this. Can we help lower the cost of securitization? The first person to do it usually faces really high expenses. So, it makes sense to set up some kind of infrastructure that supports securitization. Patient capital or donor money could come in to help standardize things, so everyone can use that setup to securitize. This way, you can package it into whatever rated security you want, like AAA or AA.

07:05

Local markets are attracting not just banks but also pension funds and insurance companies that aren't really making an impact in these areas. There's a lot of untapped capital that could be released with smart policy decisions, some donor funding, and shared risk. We're looking into that because, honestly, the cost of capital right now is just outrageous. And, of course, it's the customers who are feeling the pinch.

07:31

In the end, they're the ones really dealing with the fallout from that. And that actually leads me to the next thing I wanted to ask you about. In a previous chat we had, you mentioned how awesome it is that the VSLAs and SACCOs are still around. They really save people a

lot of money since they're using their own cash and paying each other back. So, the question is, what are those?

08:04

That's awesome! They have way lower funding costs. Does that mean we don't need microfinance anymore and should just call it quits? Actually, you might be surprised to hear that I think that's not the case. In the three years I've been at the foundation, I've really dived into self-help groups and VSLAs, and it's been super eye-opening. I spent my whole career in commercial microfinance and digital financial services before this. What's fascinating about VSLAs and Stakos is that's where a lot of women are involved.

08:36

Women are less likely to be involved in microfinance and definitely less likely to be in banks, so they tend to stick to these informal credit systems. You're right, there are some perks to these informal setups – they're usually cheaper, you have more control, and it's all managed through social connections. But there are downsides too; you have to wait your turn, and there's a limit to how much money the group can save. So, there are definitely some restrictions.

09:02

Resilience tools are super helpful, especially for entrepreneurs who need cash on their own terms. They can be a bit restrictive, though. SOS options are somewhat different but similar; they tend to be more flexible based on the situation. You might be able to borrow larger sums, but some of these options have limited membership or are pretty picky about who they let in. Overall, I think they're important! By the way, I should mention...

09:35

Just to be clear, I believe everything matters – banks, non-bank financial institutions, microfinance institutions, VSLAs, and even digital consumer lenders. It might sound surprising, but we have high-cost consumer credit here, like credit cards, and they play a crucial role in maintaining resilience. So, I think we need all these elements, but they should be connected in a more integrated ecosystem that works well together.

10:05

People need what they need, where they need it, and when they need it. So basically, I don't want to put words in your mouth—though I wouldn't be able to anyway—but you're saying that we really need to make a bigger effort to unite our sector around some real

changes and financial support that can help lower costs for the people we aim to help. And also, microfinance institutions need to...

10:37

We need to create a way for small borrowers and entrepreneurs from informal groups to connect with the commercial sector. That's really the main role of microfinance institutions (MFIs). By the way, I want to mention a paper we published last spring before the spring meetings. You knew I was going to bring it up, but it really aligns with our thinking. We have this step model for capital where banks are at the top.

11:12

"That's where all the money is, right? A rough graduation, and um, VSSL is kind of just sitting here, where all the women gather. Our whole strategy is about figuring out how to help women climb that ladder and get money flowing down. We see it as an ecosystem issue. You can't just digitize your way out of this. Like I said the other day, sure, digitization matters for everything, but we also need better policies in place."

11:38

"We'll need access to local currency and low-cost funding, and we really need better institutions. So, the ball's in your court. One thing that could really help lower borrowing costs, besides just reducing fund costs, is for you all to scale up significantly. We talk about that in our white paper, so definitely take a look. I support your efforts, and I think it's important to emphasize how urgent this all is and how quickly we need to move."

12:09

We really need to tackle this issue because a lot of people are at risk of slipping back into poverty. Honestly, we haven't made much progress, especially in sub-Saharan Africa. On the flip side, places like China and India have seen some improvements. We're also witnessing a lot of unrest, migration, and problems related to climate change and food security, which are just making everything worse. One way to address this is by getting that flow of capital moving down.

12:41

"Alright, let's get back to what we need to improve on the delivery side. I think that's a really valid point. So, let's chat a bit about technology. As you know, and we definitely see eye to eye on this, technology isn't a cure-all. Just like microfinance wasn't the magic solution, technology isn't the magic solution either. But we really have to recognize that digitization and automation are important."

13:12

It's really important for us to not only cut costs but also to be flexible and customize things to make a real impact, like you mentioned earlier. Plus, we won't be able to track how well we're doing without digitization and automation, so we need to focus on that. But, hey, not everything about digitization and automation is great. Can you share your thoughts on that for a moment?

13:44

What do you think is beneficial for both institutions and customers, and what might not be so great? That's a big question. Digitization can really impact all three areas you mentioned, right? I mean, when it comes to operational expenses, if you can digitize and reduce some of those high personnel costs, that's a big deal—especially since labor is pretty expensive in Africa compared to Latin America or Asia. Digitizing back office functions and being smarter about data storage and capture can really help.

14:17

"Look, when it comes to customer data, it really shapes how you target clients and figure out your risk costs. For years now, I've been telling microfinance institutions (MFIs) that they need to get their data digitized. I used to visit these MFIs, and they had piles of paper everywhere. It's like they had a gold mine, but they were sitting on it. You don't have to digitize every single old document right away; just start understanding what your customers need. MFIs often lose clients because they keep offering the same boring, one-size-fits-all products."

14:46

If I've paid you back several times, why am I still stuck with these really pricey and rigid terms? Having better tech and better data will let you price based on risk, create better products, and keep your clients happy, which will help you grow and ultimately lower interest rates. I really think tech is going to be key in both of these areas, and it's also going to play a big role in how much it costs to borrow money as we move forward.

15:15

We're working on securitization and have learned a lot from Northern Arc in India and a partner of ours called Kidin, whose founders were also part of Northern Arc's original team. What they do is link data from the originator side with structured finance, which helps them securitize into a vehicle and remove items from their balance sheet. This way, they can keep growing. Plus, you can rate those securities because the data is clear.

15:43

"Exactly what's in that portfolio, and then you can sell it in the market. We don't have that in Africa, so we need to build it. Even when it comes to funding costs, I think technology is going to be a big deal because there's a lot we can do if we digitize things properly. But where can it go wrong? Let me count the ways. I've been in this business a long time, and honestly, I've seen microfinance institutions mess this up time and time again. So how do they mess it up? They just do."

16:13

It's a mistake when some donor waves money in front of them and says, "Oh, go digital," and they just chase after it without thinking if it even makes sense. That's one common pitfall. Another issue is that they don't have the right people to actually execute it; you need skilled folks for that. Then, they want to act like they're something they're not, and you have to ask why they're even doing that. Lastly, there's no solid agreement throughout the organization; you need buy-in from the board all the way down because tech upgrades are huge.

16:40

Change management stuff, yeah, so things have flopped because people freaked out like, "Oh no, I might lose my job." So I think it's really important to be smart about tech investments, knowing you're a microfinance institution and not a bank, and using that to cut your costs. Remember when we met at Act? We were working on that project in the DRC where you set up agency banking? It was awesome because you got that you were an MFI, not a bank.

17:08

Yeah, I totally get what you're saying. I think a lot of us mess up when it comes to MFI, and we really need to figure out how to fund these changes and make sure everyone's on the same page. Also, to build on what you mentioned, one of the big mistakes we made when starting our digitization journey was not focusing enough. It felt more like we were treating technology as a product instead of thinking about what capabilities we actually wanted to develop.

17:44

To make this investment worthwhile, we really need to consider the actual impact it's going to have. That kind of ties into the next question I wanted to discuss with you. We've talked about this before, but one of the big challenges for microfinance institutions and smaller

organizations is that investing in technology is super expensive and often just out of reach financially.

18:14

When you're just starting out, there have been a lot of attempts to create open-source tools that organizations can use. Some of these include open-source banking systems or CRM software, along with other shared platforms. The outcomes have been hit or miss. Right now at the FAA, we're kicking off a big initiative to figure out how we can use technology to significantly reduce costs while also providing our clients with products that fit their needs.

18:53

It's better to align with their needs, and that really depends on how well we can do the data analysis you mentioned earlier. To be honest, even within our own organization, there's a fair amount of skepticism about our ability to actually pursue this opportunity. And honestly, I think that's justified, considering the bad investments we've seen in the sector. But we also realize that if we don't take those steps...

19:27

If we don't invest, we won't be able to make the operational improvements our customers need. So, just to elaborate on that for a moment, there are some things that organizations have to handle by themselves, but there are also things that organizations like the FAA should probably get help with from partners. What do you think we should focus on as an organization? What do we need to do, and how should we approach it?

20:00

When it comes to those investments and the value they'll bring us and maybe other customers, that's a really good question. First off, you need to understand why you're doing it. You have to invest wisely, and the priority should be on FAA. You can't design things for someone else. I see the work you're doing with digitization, and I think it's crucial, but it's going to be challenging.

20:30

It's always about investing in technology, and I think donors can play a role in supporting microfinance institutions (MFIs) to get past certain challenges. But you can't support every single MFI, right? Interestingly, the foundation is really focused on the idea of digital public infrastructure, and there's a whole collection of it out there. You'd be surprised to learn that some of the original core banking systems are included in that collection. We were just ahead of our time, clearly. But I think there's more to it.

20:57

These are systems that naturally promote teamwork or public resources, so an ID is definitely something for the public. A payment system, on the other hand, needs collaboration; you really need a middleman to make it happen. Then it gets tricky because you have competitors working together, and figuring out the rules and the business model can be confusing. But it can work, and it is working in many places. India is the most famous example, but Brazil has also built one.

21:24

We're working on this system in several countries. When it comes to core banking, it might be a good idea to take another look at it. Core banking is really complicated, and managing it can be tricky. We need to be careful about what we wish for. Data sharing infrastructure seems like a no-brainer, but it requires people to work together, which is tough since they usually compete. That's why we're teaming up with partners like Kid Ofin to create a data infrastructure that connects everyone.

21:54

There are a bunch of microfinance institutions that offer this service, so they basically act as data aggregators and provide dashboards. They also coordinate with the credit bureau. We really need to improve how credit bureaus work and ensure that everyone is reporting to them. So, I think the next big focus should be on data. The foundation is really keen on building a solid data infrastructure because you can't do proper credit underwriting without good data. Also, we might want to address core banking next.

22:21

"We'll get to that again someday, but I think the key is who's doing the work, you know? So, if it's public infrastructure, donors really have a crucial role to play, and that's totally a fitting role for subsidies. It's tough for you to build that infrastructure for everyone else because, first, why would they share their data with you? And second, they're not convinced you're the right ones to develop the system and all that. So, I think you really need to..."

22:45

"First, we need to build for the FAA, and then we'll sort out everyone else later. There's a lot happening with data sharing infrastructure, payment systems, and all that stuff. Plus, there are some serious competition policy issues since a lot of that data is stuck in silos, especially in MOS Africa. Figuring out how to break that down is a big challenge. I believe it

will happen eventually, and there are donors really focused on this, but it's going to take some time."

23:12

"Look, the quicker we get to that, the sooner we can start doing things like risk-based pricing for the industry. You're basically digitizing your own data because you know your customers really well—you probably have better info on them than anyone else. I used to go nuts visiting MFI offices and seeing all those paper folders with incredible poverty data, it felt like I was sitting in a dusty old file room. So, I think it's important to get your own house in order first."

23:44

So, basically, make sure to do it in a way that gives you that flexibility you get with middleware, so you can connect to something like a Kaleid open solution, right? That's where the real advantage comes in—having APIs that let you connect to a more agile solution that sits at the center and allows you to share data with others. Yeah, I mean, we actually did start with that, and you know this, but we really did kick things off with exactly that. We took all of the...

24:09

We took the customer data we had and added all the impact data on top of it. Now, for our existing clients, we can serve them faster and better, and we also have insights into how the credit they have access to is affecting them. By the way, I often hear from DFIs that getting information from MFIs takes forever—it's like pulling teeth. So, if you could just provide the financial data for them, that would help a lot.

24:38

"Pretty quickly and in a timely manner, which would also be good for funding. Yeah, it definitely helps. I've heard that same complaint before, and I have to admit it's probably true, probably from the same folks. Alright, since we're running out of time, I really want to ask you this last question, which I think is the third part of what we were discussing earlier: how does the subsidy help?"

25:05

We're really working hard to reach the poorest communities. Right now, we're helping customers who earn less than a thousand dollars, which honestly surprises a lot of folks. We also have partners like BRAC, who provide significant support to very low-income

customers. This is all part of our mission to serve those who often get overlooked, especially women and small-scale farmers.

25:35

Those are the folks borrowing tiny amounts of money. So, one part of the discussion is how you think subsidies help us connect with these specific groups and what the advantages are. But on the other hand, there are some subsidy sources from different players who are mostly focused on these small, tough-to-reach populations. For organizations like the FAA, which are all about the bottom line, there's definitely a challenge that comes up because of the distraction it creates.

26:10

It looks at things from a management, systems, and reporting angle to focus on those small groups. But ironically, those are the exact groups we want to help. So, what do you think the role of subsidies is in this? This is my favorite topic, so I'll go ahead and mention my white paper again. The model I discuss is all about addressing the issue of targeting and matching the right tools with the right populations, especially the ultra-poor.

26:40

Graduation is a big deal. BRAC ties it to their microfinance operations, and they manage to help about 50 to 65% of those struggling folks get back on their feet. Once they do, they start taking loans from BRAC Microfinance, which are cheaper than what you'd find elsewhere. So, the key takeaway is you really need to scale up. Plus, BRAC covers about 85% of its work in Bangladesh using the profits from BRAC Bank and BRAC Microfinance.

27:11

I think there are tons of benefits to getting big, if you haven't noticed that already. But what I find really interesting is the work India is doing, which is outlined in the white paper about the SHG ecosystem—basically their version of VSLAs. They operate a bit differently, but I think it's a smart use of subsidies. Let me try to explain how they do it, though it's a bit tricky to cover in just two minutes. It's a platform that organizes 100 million women—yeah, you heard that right, 100 million!

27:43

They set up self-help groups and send money their way, so there's some personal savings involved. Then, there are these things called capitalization grants. A group forms, saves up for about three to six months, proves they can handle it, and if they do things right, they can

get a capitalization grant. It's like \$380 that gets sent to the group for free, and you all manage it because you can't really take on the risks of super low income.

28:12

"Borrowers can handle their own loans, so if you're giving out grants, the money is already flowing out. A capitalization grant builds up interest over time, and if it's managed well, it works almost like a tiny credit union. Then, thanks to the bank linkages program, these initiatives get grouped into what they call cluster level federations. They use this to funnel money from banks into the self-help group ecosystem, and they do it effectively."

28:40

It offers loans at rates between 7 and 12%. There's a whole complicated system behind it, but basically, commercial banks are funneling money into this network through local federations, which then trickles down to self-help groups. The government helps out by covering the gap between the commercial interest rates and the lower rates set for these groups, so they're able to get loans on pretty friendly terms.

29:11

"It's not the most flexible or friendly credit, but it's way better than what you'd get from a microfinance institution. It's like training wheels for me; I'm figuring out how to handle credit, save money, and learn all that stuff through this system. Then I can start using credit. Speaking of digital systems, we've helped the Indian government digitize things."

29:39

The Indian government has digitized the credit and administrative histories of 100 million women. Thanks to Aadhaar, the ID system, we can monitor repayment behavior both individually and in groups. The goal is for these women to access this data through India's existing infrastructure and secure personal loans from commercial lenders. It's all about helping women advance financially while making capital more accessible. India is really innovating in this area.

30:06

I think that's a pretty good way to use subsidies. It's tough to game the system, you know? Everyone's always complaining about distortion. But to really benefit, you've got to be part of a group, and that takes time. It's not like someone can just swoop in and take the money; you actually have to put in the effort. So, it's a solid way to bring women into the fold. We're setting up something similar in Nigeria called Nigeria for Women, in partnership with the World Bank. You've got VSLAs in Uganda and Chamas in Kenya, so it's all connected.

30:33

There are a ton of chances to make this happen, but you need to be able to digitize and demonstrate that repayment history. Yeah, shift from group products to individual ones. You guys are like the bridge, working on creating starter products and then leveling up to better ones. So, if I've paid back six loan cycles with you, I should qualify for a better product because I'm a reliable borrower. It's all about helping women climb up while making capital more accessible. The subsidy is just inching along through that.

31:02

"I don't see anything getting distorted, so that's good. Thanks a lot, Greta! So, I'm frozen on the screen, as you can tell. It's a pretty funny pose, right? At least you can hear me! Unfortunately, I've just been told we're out of time. I really want to recap because this was such a great 30-minute chat. I think it's a solid starting point for the financial inclusion week discussions. So, here's the main takeaway.."

31:41

To bring down the cost of funding, funders and donors have a key role to play. They need to set up financial tools that make it easier for pro-poor institutions to access money at lower costs in local currency. They can also help reduce those costs indirectly by acting as a first loss guarantor or offering capital at a lower rate to boost the flow of funds. We really want to speed this up for two reasons: one, there's a sense of urgency.

32:25

We're talking about tackling the issue of rising poverty, and we really need to show that we can make a bigger difference. You pointed out earlier that it's really about getting more cash into people's hands so they can use it wisely. Plus, we want to expand these organizations to keep costs down while still creating that positive cycle. It seems like we might not have fully understood some of the lessons from Global Microfinance just yet.

33:00

Well-funded organizations are way more likely to run efficiently and cut service costs, while underfunded smaller groups might get stuck in a never-ending cycle that doesn't really make a big difference or promote sustainability. When we discussed technology, I thought your points were spot on—it's all about having the right people, a solid plan, and clear goals.

33:33

They're putting money into tech, but it's clear that microfinance needs some help to use it effectively. We really need to stick to the basics that will actually benefit customers, rather than getting distracted by flashy stuff that doesn't add much value. Finally, we should discuss how subsidies can be used wisely to better target those who are more marginalized.

34:12

I think the example you brought up about India is really useful for our industry as a whole. It shows that we need everyone involved—businesses, social impact organizations, the government, and the community. That's something we should all aim for everywhere. You've been such a fantastic conversation partner, and I really appreciate you. Before we wrap up, can I just add one more thing?

34:44

What I want to point out about the India situation is that the real value here is how much donors can stretch their investment. For example, if you invest \$1.15 billion in administrative infrastructure, some grants, and a bit of interest rate support, it can lead to \$6 billion in savings from the women involved. Plus, it attracted \$120 billion from the banking system. That's huge leverage, especially when governments are low on cash—it's super important.

35:16

"Trying really hard to show my face for one last goodbye, but it seems like I'm stuck on freeze. Let's hope that's not a bad omen for what's ahead. Thanks again, Greta, I really appreciate it. I'm looking forward to hearing all the follow-up discussions from this chat. Sounds good, thanks for having me!"