FINAP

The Software Company

Can Nanofinance Eradicate Poverty?

WHITEPAPER #02

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ABBREVIATIONS

EOD	-	End of Day
ESG	-	Environment, sustainability and Governance
MFIs	-	Microfinance Institutions
MSME	-	Micro, Small, and Medium Enterprises
NBFI	-	Non-Banking Financial Institutions
SDGs	-	Sustainable Development Goals
SME	-	Small and Medium Enterprises
UI	-	User Interface
UN	-	United Nations
UX	-	User Experience

SYNOPSIS

This whitepaper addresses financial exclusion among the poorest populations and the limitations of the traditional financial system and the microfinance industry. It explores economic challenges, lack of access to financial services, and the impact on daily life, education, and SMEs. It introduces nanofinance as a tailored solution and showcases its transformative potential through success stories. It emphasizes the importance of better financial inclusion strategies and the role of nanofinance in achieving the "No Poverty" goal.

1. Introduction

> I learned that the fastest and most certain pathway forward to the future we all want and need, peaceful, prosperous, beautiful, is through economic elevation of the absolutely poor.
>
> *- Prof. Jordan B. Peterson*

1.1 Background on the UN's "No Poverty" Concept

The United Nations Sustainable Development Goals (SDGs) is a global call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity. The first of the 17 SDGs is "No Poverty", which aims to eradicate extreme poverty and reduce the proportion of people living in poverty by half by the year, 2023.

The "No Poverty" goal is based on the recognition that poverty is a complex and multidimensional issue that goes well beyond income levels. A goal that is so critical, it is positively connected to all of the environment, sustainability and governance agenda of the UN. It is not just about lack of money, but also about lack of access to essential services, education, healthcare, employment opportunities, and entrepreneurship. In summary, 'lack of choice'. Millions of people around the world are affected by poverty, with women, children, persons with disabilities, and those living in conflict-affected areas being the most vulnerable.

The UN's "No Poverty" concept is rooted in the idea that poverty is not inevitable and that poverty reduction strategies must address its structural causes. The goal is to create a world where everyone can enjoy a decent standard of living and have the opportunity to thrive, regardless of their background or circumstances. Empower everyone with a 'choice'. Achieving this goal requires a concerted effort from governments, civil society, the private sector, and individuals.

1.2 Overview of Poverty rates worldwide

According to the World Bank's revised global poverty estimates from March 2023, the distribution of poverty remains unequal across regions, with the highest concentration in Sub-Saharan Africa and South Asia.

The international poverty line indicates that the population living off of a daily income lower than $2.15, approximately 8.5% of the world's population, or around 659 million people, live in extreme poverty according to the latest data published by the World Bank. However, the international poverty line is not an exact measure of poverty, and there is a much larger portion of the world living in substandard socio-economic conditions.

It is important to note that poverty is not confined to low-income countries alone. Even in middle- and high-income countries, poverty persists in various forms, including relative poverty and income inequality. For instance, in the United States, an estimated 37.2 million people, accounting for roughly 11% of the population, live in poverty.

Hence, it becomes apparent that, at the beginning of any supply chain or a value chain, finance, delivery of finance and cost of finance become the igniter. Without the proper delivery and sustainability of finance, the supply chain becomes lumpy and tends to skip the segments of the population that lives in relative poverty or within income inequality. Thus, this leads to issues within the environment, sustainability and governance (ESG) areas of communities, countries and regions.

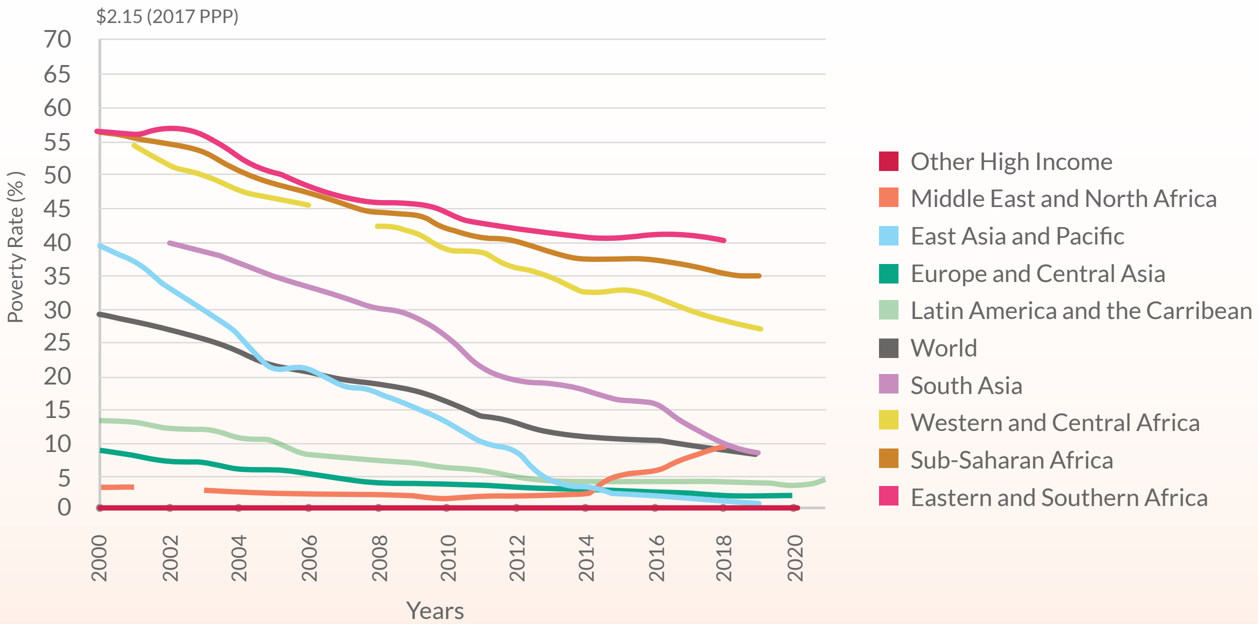

Figure – Global and regional poverty estimates, 2000 - 2020

1.3 Unbanked and Underbanked Populations

Globally, a significant challenge persists in reaching approximately 1.4 billion adults who remain unbanked. These individuals are often the most marginalized and underserved, with characteristics that include being predominantly women, living in poverty, having lower levels of education, and residing in rural areas where financial infrastructure is limited.

The lack of access to formal financial services worsens the economic vulnerability of the unbanked and underbanked, hindering their ability to save, invest, and become active participants in the financial system. The unbanked population faces barriers such as limited financial literacy, inadequate identification documentation, and a lack of proximity to financial institutions, making it challenging for them to engage with formal banking services. Access, choice, cost, and innovation of finance can be considered as the harbinger in addressing financial inclusion and the focal point of a sustainable supply chain of social development.

Furthermore, the unbanked population tends to be concentrated in rural areas. Rural communities face geographic isolation, limited connectivity, and inadequate banking infrastructure, making it difficult for financial institutions to establish a presence and offer accessible services. Hence, we can safely establish that 'financial exclusion' is a global problem.

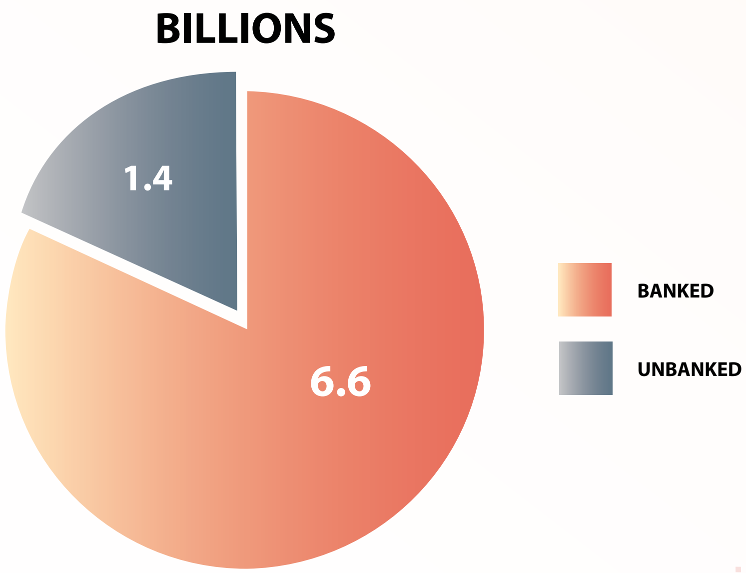

Figure – Global unbanked population

2. The Limitations of Traditional Finance in Poverty Reduction

> The majority of microlending banks now charge higher interest rates and promote larger loans. One reason for this is transaction costs, which can make issuing loans for less than $50 prohibitively expensive. This forces larger loans that many families don't want and can't handle and can burden them for months or years. Larger loans also limit the types of products and product groups accessible with microfinance.
>
> *-World Economic Forum*

2.1 The Socio-Economic Challenges of The Financially Excluded

The poorest of the poor face a range of economic challenges that make it difficult for them to meet their basic needs and improve their lives. Lack of access to education, healthcare, and basic infrastructure often leaves them trapped in a vicious cycle of poverty, with limited prospects.

For these individuals, even the most necessities can be a struggle to afford. Many struggles to feed their families, access clean water and sanitation facilities, and afford adequate housing. They often lack the resources to start or expand small businesses, which can provide a pathway out of poverty.

2.2 Lack of Access to Basic Financial Services

Financial exclusion is a major barrier for the poorest of the poor, who are often excluded from formal financial systems and lack access to basic financial services such as savings accounts, credit, and insurance.

The plight of the poorest of the poor in accessing financial services is marked by multiple challenges. Lack of collateral, credit history, and required documentation further impairs their exclusion from formal financial channels. These complexities are compounded by residing in remote or underserved areas, where financial institutions are scarce and limited operating hours hinder accessibility. These individuals face an uphill battle to access the financial services they desperately need.

So, are banks to blame?

In the meantime, banks and microfinance institutions (MFIs) encounter challenges when serving this market. The cost per customer for lending and utilizing field offices for the collection of paltry nano loans is hardly economically viable. This gap is currently catered to by informal lenders, whilst many argue is unethical, and has become an essential part of the ecosystem of distribution of finance. To address these formidable barriers, innovative financial inclusion solutions must be developed, tailored to the specific needs of the poorest of the poor, empowering them to overcome financial exclusion and transform their lives. Empower the informal lenders with technology so their capital will always be accounted for whilst delivery, record keeping and collections become efficient. Eventually, the efficiency translates to a reduction of costs and loss.

2.3 When Micro isn't Small Enough

Microfinance is an essential financial service model that provides small loans, savings accounts, and other basic financial services to low-income individuals and small businesses. The model is based on the premise that providing access to finance can help lift people out of poverty by enabling them to start businesses, build assets, and increase their income.

While microfinance has been successful in lifting millions of people from poverty around the world, it has limitations in addressing the needs of the poorest of the poor or people and communities that are always overlooked due to commercial viability in doing business. It is important to recognize that institutional-level lending alone cannot be the sole solution for addressing financial inclusion. The complexities of poverty and the multifaceted challenges faced by the most marginalized individuals necessitate a more holistic approach that goes beyond microfinance.

During its inception, microfinance was seen as a viable alternative to traditional banking, with a focus on serving the financially underserved population. However, microfinance has now become increasingly similar to the banking industry, charging high-interest rates, and offering complicated financial products, leaving customers (financially) worse off than they were before.

In other words, the microfinance industry has turned into the very thing it was fighting against; large bureaucratic financial organizations that are trapped in profit maximization and unable to deliver sustainable financial models for the lower levels of the customer tiers.

3. The Promise of Nanofinance

> Never before has man had such capacity to control his environment, to end thirst and hunger, to conquer poverty and disease, to banish illiteracy and massive human misery.
>
> *-John F. Kennedy*

3.1 What is Nanofinance and How is it Different from Microfinance?

Definition: Nanofinance is the practice of informally providing lending for the financially underserved.

Nanofinance is a concept that aims to provide very small loans and financial services to the poorest of the poor who are snubbed even by the microfinance domain. Unlike microfinance, which generally offers an array of financial services, nanofinance is only limited to lending.

Nano financiers are not institutional lenders or business houses as opposed to microfinance which is trying to emulate commercial banks. Nanofinance providers typically operate alone or with 2 or 3 associates. Due to the low operational costs, Nano lenders can offer loans for rates that larger institutional lenders cannot match. Nano lenders are often more flexible with the payment terms and typically do not offer secured loans. However, they possess an intimate knowledge of the customer and their behaviour. Which allows the nano lender to structure a loan based on the real need.

3.2 Success Stories of Nanofinance Initiatives

Nano lenders have empowered many individuals and Nano enterprises in the developing world.

Mr. Perera's Story (Sri Lanka)

Mr. S.D. Perera and his wife embarked on a coconut-based food products business on a very small scale in Kurunegala, Sri Lanka, about five years ago. Initially, business was slow, and they came dangerously close to losing all their money leaving them on the brink of an utter financial disaster.

Mr. Perera reached out to a few NBFIs only to face rejection. He approached a microfinance company that offered him a loan, but the interest rate was very unfavourable, leaving him with the only alternative, to reach out to a Nano financier. Mr Perera approached an informal lender in his community and explained the nature of his business. He obtained several small loans that were sufficient to keep his business alive. Today, the business has grown into a small business that sells coconut-based products to local buyers.

Daniel Oteh's Path to Success (Nigeria)

Daniel J. Oteh, who was formerly employed in the tourism industry in Kano, Nigeria, faced an unexpected setback when the Covid-19 pandemic forced his employer out of business. At the age of 30, he found himself unemployed with little savings and struggled to secure employment in other sectors.

Determined to create his source of income, he took the bold step of starting a small grocery store. He knew that institutional lenders will turn him down, so he obtained a loan of $50 from a Nano lender to start his business. Whenever he needed additional capital, he would go to Nano lenders and pay them back with the profits his business generated. Three years later, he not only maintains the same standard of living he had before, but he also has the satisfaction of being his own boss.

Akara Chan's Story (Cambodia)

Akara Chan's journey in rural Cambodia is nothing short of inspiring. Having previously worked in a textile factory, Akara knew the value of her skills and the potential they held. However, after the birth of her two children, she had to leave her job to focus on raising her family. Realizing the need for an additional income source, she decided to put her sewing skills into use.

Akara first went to the commercial banks in the city, where she was turned down. Even the rural credit institutions offered loans with interest rates much higher than she anticipated. One of her friends introduced her to a small nanofinance society operating in her very own village. Undeterred by her previous experiences, she approached the nanofinance society and secured the loan she needed. With that money, she purchased an affordable sewing machine and launched her business catering for her local community. The business became profitable very soon, and she paid off all of her debts.

3.3 The Challenges Nano lenders Face Daily

Although Nano lending is the go-to financial solution for the financially underserved around the world, the industry has its share of issues. Primarily, two problems persist within the nanofinance domain.

Lack of regulation: The lack of regulation hinders the recognition of nanofinance as a distinct sector from microfinance. Consequently, the industry retains an informal nature, leaving Nano lenders with limited legal protection.

Unstructured operational methodologies: Most Nano financiers use a notebook for record keeping. This is an outdated practice and is prone to errors. Surprisingly, there isn't a digitalized solution for a service that almost a billion people around the world use daily.

4. Endnote

Despite the unprecedented progress in poverty reduction in the 21st century, financial exclusion continues to impede the lives of the impoverished, leaving them without access to fundamental financial services and marginalized within the traditional financial system. While microfinance has been instrumental in addressing financial inclusion, its limitations often hinder reaching the most vulnerable groups effectively.

Nanofinance presents a promising alternative to microfinance and the traditional banking system that can empower the financially underserved segments of the population by providing affordable and accessible lending solutions. Policymakers must seek to harness the transformative potential of nanofinance and create a more equitable and inclusive financial system. By prioritizing the needs of the poorest of the poor, we can take a step closer to achieving the UN's vision of a world without poverty.

Findex is showing us that digitalization of financial services is changing the game.

-Jean Pesme

5. FirstMicro:

FirstMicro

A Revolutionary Nano Lending Solution for Financial Inclusion which promotes the ESG initiatives of the United Nations

FINAP proudly presents a groundbreaking achievement: a universal software application designed to standardize Nano lending practices worldwide. This innovative solution revolutionizes the nanofinance landscape by providing a seamless and unified platform that transcends geographical boundaries. A global best practice solution to unify Nano lending. Promotes access to finance, reduces the cost of finance and ignites the supply chain. A software solution that empowers the ESG initiatives of the UN.

Introducing FirstMicro, Finap's pioneering nonfinance software solution that is set to pave the way to financial inclusion. With FirstMicro, we have developed a groundbreaking platform that standardizes and streamlines Nano lending practices on a global scale. This cutting-edge software revolutionizes the way Nano lenders operate, offering a universal and user-friendly interface for the seamless implementation of nanofinance initiatives. FirstMicro empowers Nano financiers to efficiently deliver small-scale loans, ensuring consistency, reliability, and accessibility for underserved communities. With FirstMicro, we are paving the way towards a more inclusive and prosperous future, where even the poorest of the poor have access to the financial tools they need to thrive and be empowered with social CHOICE.

FirstMicro is the only application in the world built specifically for the 2 million+ nanofinance service providers. It is a cloud-based web application with an affordable subscription model and a simplistic UI/UX.

Features & Functionalities

- Affordable pricing
- The 3-minute customer onboarding process
- The shortest time to grant a loan
- Biometric verification for speed of transactions
- Option to operate as a Shariah-compliant user
- Databases available in multiple zones guaranteeing 99.999% system uptime
- Quick & easy data migration process
- Simple user configuration – register, subscribe, & start using
- Real-time transactional processing (No EOD required)
- Real-time double-entry processing
- Multilingual system
- Access in respective time-zones

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