



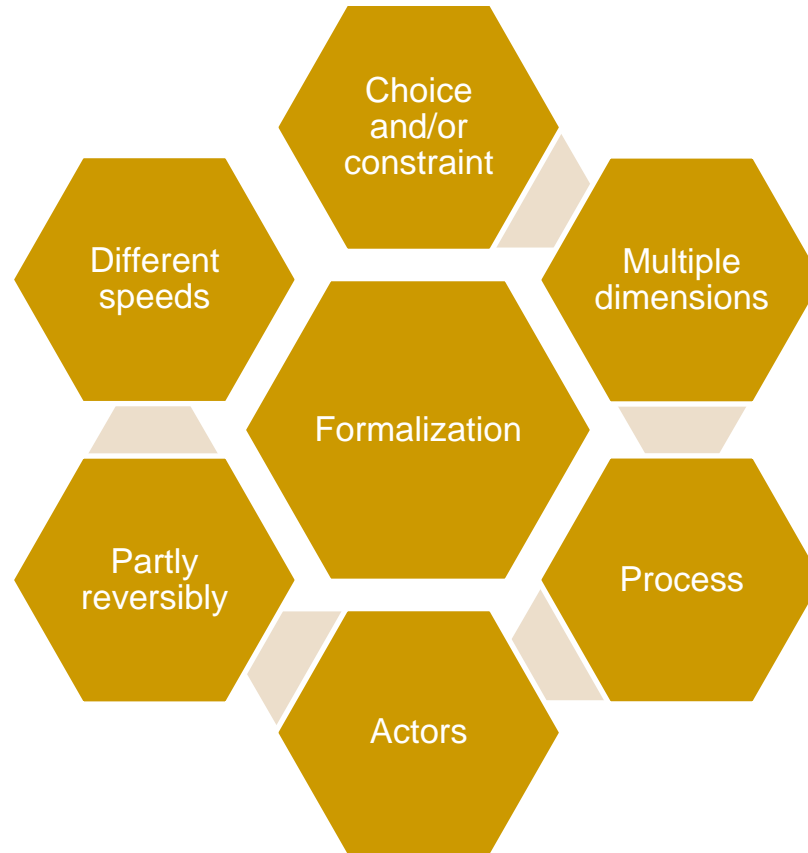
## Microfinance institutions: agents of formalization?

Bernd Balkenhol (University of Geneva)

European Microfinance Week  
(Luxembourg, 12-14 November 2014)

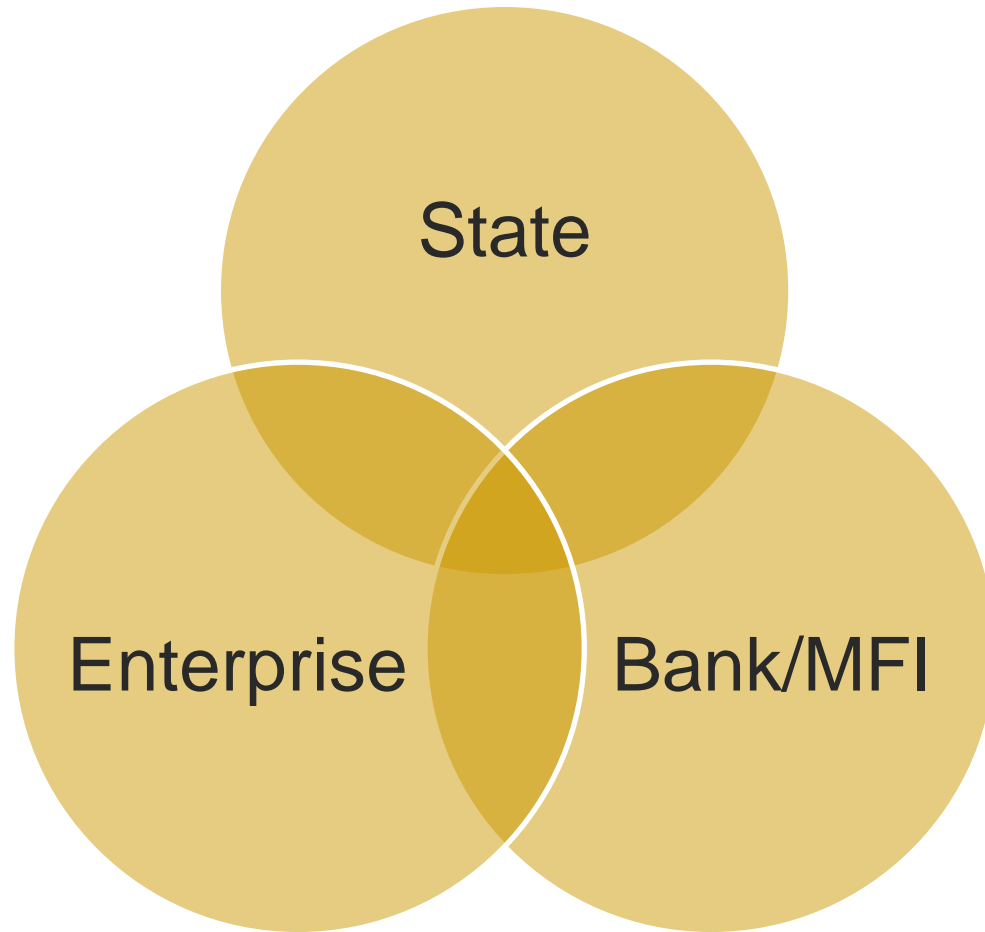


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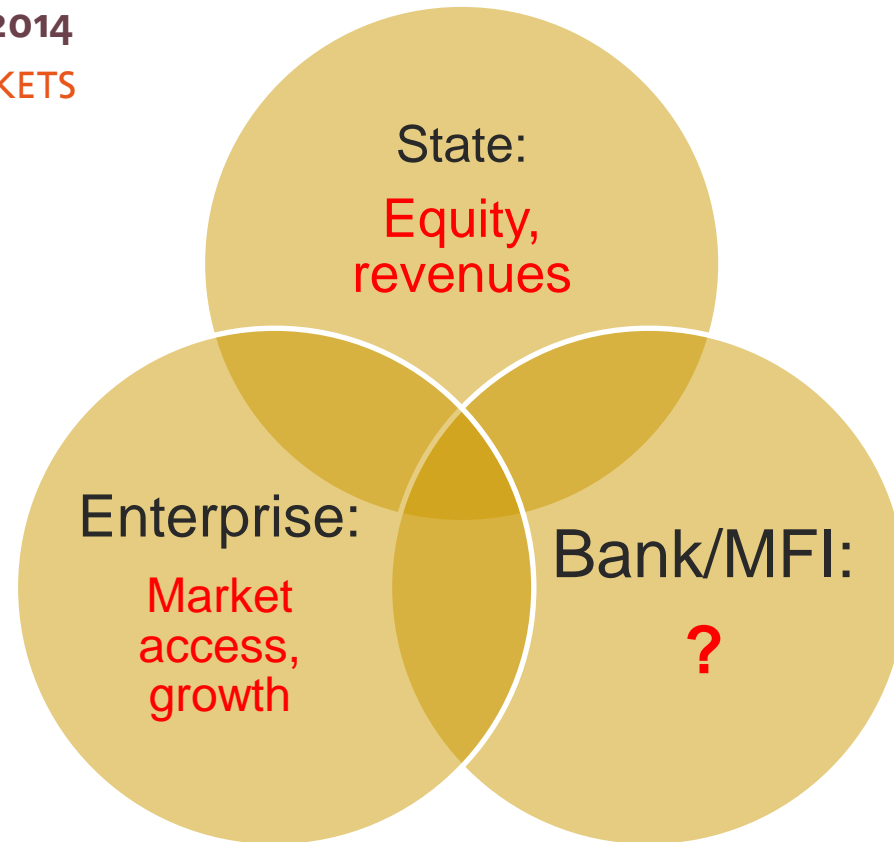


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**Formalization: rationales**



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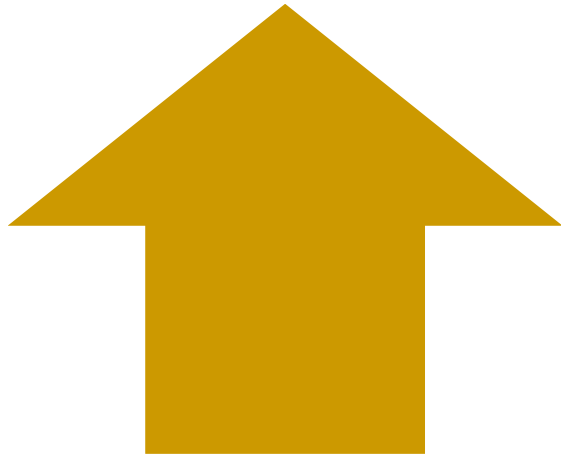
## Are state interventions effective?

- WB Policy research WP 4235 May 2007
- WB Policy research WP 6507 June 2013
- U Warwick July 2013
- IFC, Closing the credit gap 2013
- U Passau/IZA, Do interventions work...? 2014



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## Why would client formalization matter to MFIs?



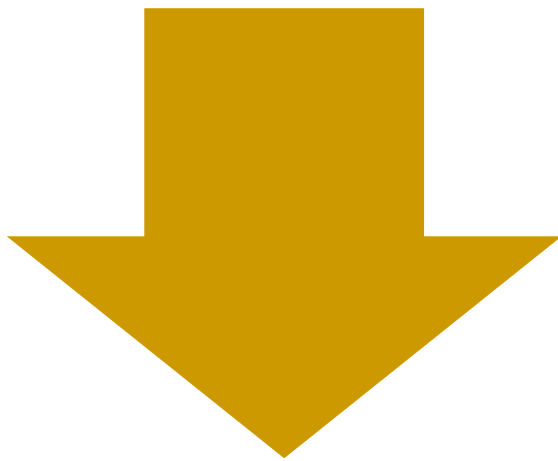
**Separation of personal and firm assets  
and income?**

**Bookkeeping? Audits?**

**Licence, registration?**

**Social security number?**

**Tax number?**



**Labour contracts?**

**Affiliation to a professional  
organization?**



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## Risks

- Reputation
- Default
- Portfolio contagion

## Costs

- Appraisal
- Collection

## Future earnings potential

- Enterprise
- Workers



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## Some MFIs do encourage client formalization

- Link access to loan products to level of formality (ABA, Egypt)
- Raise awareness on advantages and drawbacks (ESAF, India)
- Sensitize, train on enterprise development, give awards (RCPB, Burkina)



## ABA: graded incentives

<b>Eligibility conditions</b>	<b>Loan amount</b>
<b>Personal ID Card</b> <b>A fixed business address</b>	<b>&lt; L.E. 3,000      (US\$ 500)</b>
<b>Ability to read &amp; write</b>	<b>&gt; L.E. 5,000      (US\$ 800)</b>
<b>Social Security Certificate</b>	<b>&gt; L.E. 7,500      (US\$ 1,250)</b>
<b>Tax Card</b>	<b>&gt; L.E. 10,000      (US\$ 1,600)</b>
<b>Bank Checking Account</b>	<b>&gt; L.E. 15,000      (US\$ 2,500)</b>
<b>Financial Statement for the Business + Tax Statement</b>	<b>&gt; L.E. 20,000      (US\$ 3,300)</b>



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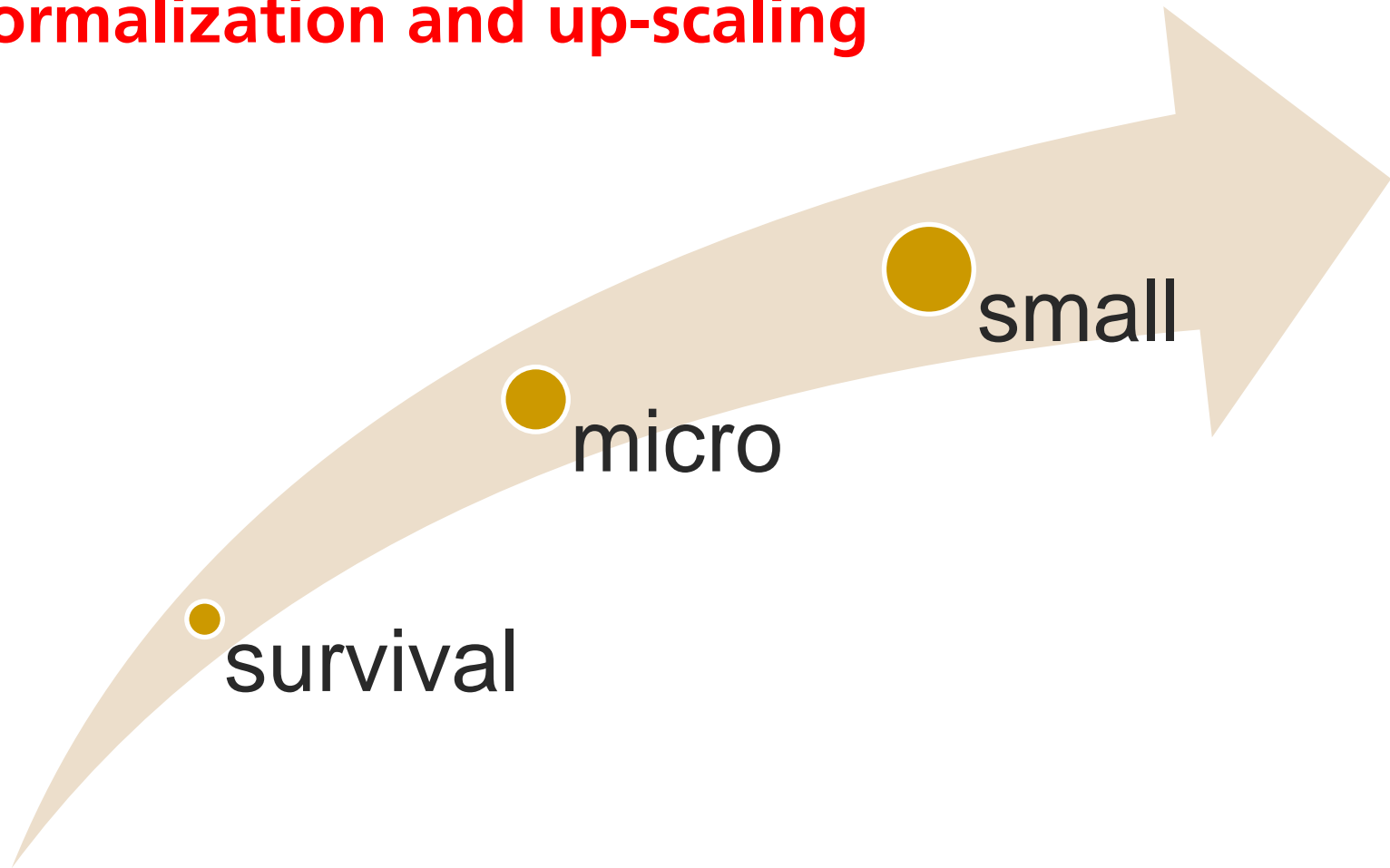
## Does it work?

- Strong effects on knowledge and attitudes, registration, separation of accounts, turnover
- Inconclusive effects on loan size and repayment capacity
- Negative effect on the number of employees



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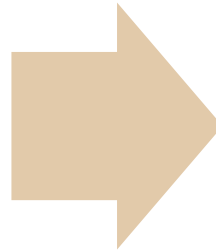
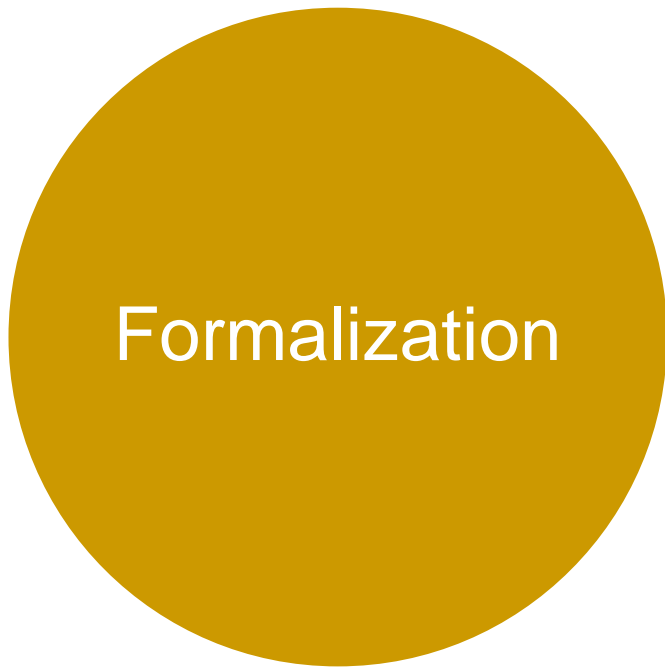
## Formalization and up-scaling





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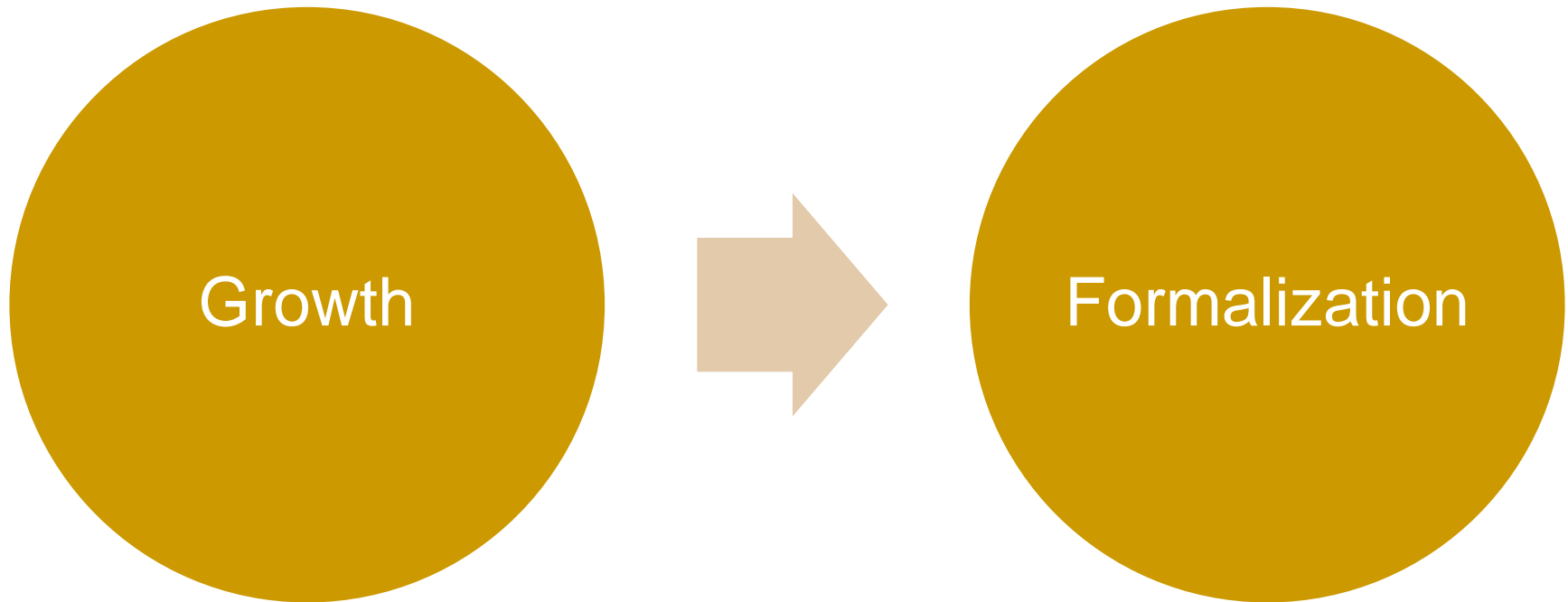
## Firm growth and firm formalization





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## A virtuous circle?





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