MCBTalk S3E5

Bridging the gap between the formal and the informal sector

Ten years ago, MCB Microfinance was established to provide financing to entrepreneurs and small business owners who lacked access to traditional banking, serving as a critical tool for economic development and social change. Today, as MCB Microfinance celebrates its 10th anniversary, we talk to its CEO, Aurélie Leclezio, about the impact this social business has had on its clients and on the country.
I am Deepa and this is MCB Talk.

Deepa: Aurélie, very glad you could join us today. Thank you so much for being here.

Aurelie: Thank you, Deepa.

Thank you so much for inviting me. I am very pleased to be here today and to have the opportunity to speak about MCB Microfinance. Especially as we celebrate this year our 10th anniversary.

Deepa: It's a milestone, right?

Aurelie: Great milestone.

Deepa: So, often when we think of poverty and exclusion, we think of social aid, we think of handouts.

But as we know, handouts do not take people out of poverty; they merely relieve the pressure temporarily. So today, Aurélie, as we mark MCB Microfinance's 10th anniversary, and I think it's safe to say that empowerment and financial inclusion can truly open the door to advancement, opportunities often denied, too often denied, to those living in poverty.

And in the second part of this interview, we will talk to one of your former clients who started out with a loan from MCB Microfinance because, well, he wasn't qualified for a loan from the bank proper, right, and who has today done so well that he's one of MCB Business Banking's clients.

Aurelie: That's great.

Deepa: It's amazing, and that's the proof of the pudding, right? This is what we're going to be talking about in this interview. And because you are ideally placed also to bear testimony to this, and that journey, Aurélie, must have been pretty emotional, right?

Aurelie: Definitely.

Deepa: But for now, please solve this conundrum for me. How come those who need money the most are the ones who don't have access to it?

Aurelie: Yeah, well, the issue is that people who need financing the most are often also those who cannot meet the standard requirements of traditional banking. For instance, they would not have formal financial statements, they would sometimes do not, they won't have accounting at all, and also no regular income, sufficient collateral.

Deepa: And this matters why? Why is it important for someone to have, like, regular bank statements, for instance?

Aurelie: Those are the requirements for a credit at a bank; for example, the banker would require that you provide your financial statements and collateral, most of the time, etc.

Deepa: So it's the banking system that actually excludes them.

Aurelie: Exactly, exactly. And most of our clients would not work on their bank accounts. For example, the banker would not be able to see bank inflows, or sometimes no inflows at all, or irregular inflows, and so the banker would not be able to assess the business based on the transactions on the bank account.

Deepa: So they're basically there to assess their capacity to repay their loan.

Aurelie: Exactly, so our clients do not fit the criteria for traditional banking, and most of the time they work with cash in hand, they do not bank, or they don't bank too much or enough, so their profiles would thus not fit the banking criteria, and appear much too risky for a traditional banker, even if the loan amount requested, we agree, is micro, very small, but it would appear too risky.

So while on the other side, these micro entrepreneurs, many of whom have viable activities, many skills, resilience, and a strong willingness to work. So what they lack is definitely not ambition, most of the time, but access to a financial partner willing to be flexible enough, willing to understand their reality and support them differently.

Deepa: Okay, but so we get a clearer picture, what kind of activities are we talking about here?

Aurelie: Well, we are talking about any income generating activity, which is for sure not illegal, but it can be like retail shops, like general stores, like well, any income generating activities, some of them are bigger, some of them very micro, most of the time we are talking about self-employed individuals, but it can be also like more organised businesses, sometimes they do have one employee, two employees, sometimes they don't have any employee.

Deepa: Mainly family members, I imagine?

Aurelie: Exactly.

Deepa: Would you say this is part of the formal or informal economy? How would you classify it?

Aurelie: Both.

Deepa: Right, so you were talking about how hard it is, how important it is for them to have a flexible partner, right? So, if I get your point, risk is the main issue. So then does it follow that MCB microfinance is basically taking risks that banks can't take?

Aurelie: Well, in a way, yes, but I would not describe it simply as taking risks the bank cannot take.

We operate under a different model at MCB microfinance; we have a different purpose and thus a specific, distinct microfinance methodology based on strong proximity to the client. So our role is to look beyond the conventional criteria and assess each loan request on a case-by-case basis. That's what I was saying: we are very flexible, and if we are good at doing our job, we take only a few calculated risks.

Deepa: Oh, okay. So how do you manage those risks?

Aurelie: Well, so you get it, risk management is the main thing for us. So as I said, we use a specific microfinance methodology which consists of a strong proximity to the client, and there's a lot of fieldwork.

So it means that we will spend a lot of time visiting our clients to get to know them, to get to know them as entrepreneurs, but also as people. We will take time to observe and understand their business activities, discuss with them their cash flows, sometimes even reconstitute their cash flows and assess whether the loan they are asking for will genuinely help rather than create additional pressure on them.

Deepa: Right, okay. So, basically, you guys are very involved in those clients' lives?

Aurelie: Exactly and even after disbursement we will maintain regular contact with the client. At the end of the day, our proximity to the client is what will allow us to mitigate the risk.

Deepa: Right, and sometimes I suppose if they come to you and say, well, I would like 200,000 rupees for this, for whatever it is, and your people, the Relationship Officers, will ask the right questions and then eventually determine whether they believe that money will achieve this objective and if they believe the answer is no, then they don't get that money?

Aurelie: Yeah, they can not get the money or maybe they will be proposed a reduced amount, maybe we will not begin to finance the whole project but part of it or maybe in a phased approach, like maybe we will first finance this and then if everything is okay, if we see that it helps the business and the entrepreneur is genuine and managing well the

money as well because they have to be able to manage it and then we can finance more and more. Up to our limit for sure.

Deepa: What is the limit?

Aurelie: So our limit is Rs 800,000. And we start at Rs 15,000.

Deepa: Okay, and listening to you, I now understand why we actually call it a social business.

It's not banking at all, is it what you're doing?

Aurelie: It is not banking at all.
Deepa: Right, which can be a huge risk, actually.

Aurelie: Exactly. We have to be very responsible when granting a loan.

Deepa: And again, I'm listening to you, and I'm thinking, but why? So let's go back for some context. Why? Because it's such a great thing, right? So why was it important for MCB to engage in a social business? How important is it for the local economy?

Aurelie: Yeah, so definitely MCB microfinance was created as a social responsibility initiative of the MCB group. For MCB, it was very important because financial inclusion is part of the role a bank can play in society. So, as I said, not everyone is immediately bankable in the traditional sense, but that does not mean that they should be excluded from economic opportunity.

Micro and small entrepreneurs do contribute to employment, local production, services and community life in general. So by supporting them as a group, we are supporting livelihoods, families, and, more broadly, a more inclusive local economy.

Deepa: In the most direct way, in fact, huh?

Aurelie: Yeah.

Deepa: Okay, so 10 years down the line, what would the situation be if MCB microfinance had not existed over the past 10 years? What other organisations or institutions provide support and empowerment to people who live in poverty and who don't have access to finance?

Aurelie: Yeah, there are, of course, several organisations doing meaningful work to support vulnerable groups and entrepreneurs, including NGOs, public institutions and development programmes. But without MCB Microfinance, there would have been one less bridge between informal or very small economic activities and the formal financial sector. So, I guess that over the past 10 years, we have helped give financial access to many entrepreneurs who might otherwise have remained unsupported or remained dependent on informal financing.

Deepa: Yeah, okay, and you don't want to open that door of informal financing, right?

Aurelie: Well, I think that it is not convenient for these people who would use informal aid, financial assistance. They are not sure when they will get their money back. Sometimes it's not...

Deepa: And they fall prey to loan sharks as well I imagine, right?

Aurelie: Yeah, sometimes they find themselves in really uncomfortable situations. They feel a lot of pressure.

Deepa: Yeah, it must be awful not to know which doors to knock on when you have an idea but can't finance it. Does Microfinance also finance startups? Do you do that a lot?

Aurelie: At the beginning, when we created the company in 2016, we were not financing startups. We were financing only businesses with at least one year of existence. But after the first lockdown in 2020, specifically in October 2020, we realised we had to do it because many people had lost their jobs in the tourism sector, and many wanted to start something to manage their lives.

So in October 2020, we decided to create a startup to launch a startup loan. So we have a limited amount. We will finance the startup only up to 200,000 rupees, but if you want to start, for example, a “boulettes” business, you know, “saw mai”, you can do it.

And for many businesses you don't need to invest that much but you need to invest in a minimum of raw materials or a minimum of equipment, a minimum of stock and with our startup loan you can do that if your project, your idea is genuine and if you are yourself genuine as an entrepreneur with the willingness to do the necessary efforts and sometimes the necessary sacrifices because when you are an entrepreneur you have to do it.

Deepa: Yeah, it's true now that you're saying it. After Covid, we saw, driving past, lots of people out of their kitchens, like starting to cook food to sell to other people, and I imagine that must be quite common in terms of requests for microfinance.

Aurelie: Exactly, I think you may have seen some of our clients, maybe.

Deepa: Probably, and, well, in an ideal world, micro-entrepreneurs who start with you move up the ladder and, eventually, if everything goes well, they become clients of the bank because they now have formal statements, etc. They've been well trained by your people, but does that happen a lot?

Aurelie: Well, it does happen, and we can only be proud of that. This would mean that their businesses have grown sufficiently that they have been able to formalise strengthen their records and eventually they have become big and well organised enough to have access to mainstream banking solutions but I would say that not every client will follow that path obviously because each situation is different but when it happens it only confirms that microfinance can be a genuine stepping stone right however when it does not happen we may witness different kinds of successes for instance sometimes our financing might have helped the business to survive or it can be that now an extended family is able to live off the business compared to before right we witness different types of successes but what is the most important to us is that at the end of the day by facilitating the access to credit we allowed the micro entrepreneur to make certain decisions and investments that hopefully impacted positively on his business and eventually on his family's.

Deepa: I love that you say that and thank you for pointing out that success has many forms, it's not just like about getting bigger and bigger.

Aurelie: Absolutely.

Deepa: But what is the biggest obstacle to those clients not going up that ladder?

Aurelie: Well, I would say that the biggest obstacle is often formalisation many micro entrepreneurs are very good at what they do but they may not be well organised enough they may not keep proper records they may not separate their business and personal finances they may not plan their cash flow sufficiently so and also it's good to note that growth also brings new challenges you will have to be able to manage your stock maybe manage your employees tax obligations administrative requirements so our role as we understand it is therefore not only to finance but also to encourage better financial discipline.

Deepa: Okay, okay, that's very clear, and we will be speaking to one of those success stories, a former client of yours, next, so that he can talk to us about his journey from microfinance to business banking, but before we go, Aurelie, what is the story that has touched you the most in those past ten years?

Aurelie: Well there are too many stories that stay with us because every behind every loan there is a person there is a family and often there is a lot of courage so what touches me most is when clients start with very little confidence, often women entrepreneurs they come to us with very little confidence sometimes after repeated refusals elsewhere and they gradually realise that their activities have value and seeing someone move from survival mode as we can say to planning ahead investing employing sometimes others or upgrading the quality of life of their families that is what gives meaning to our work.

Deepa: Well, that's beautiful, Aurelie. Thank you so much for taking the time to talk to us.

Aurelie: Thank you so much.

Part 2

Deepa: Sellers of boulettes and other informal eateries may well seem to be the typical customers of MCV Microfinance by the nature of their business. But make no mistake, these are certainly not the only kinds of activities that MCV Microfinance supports. Ulric François' story is a case in point.

So, a self-employed photographer and videographer, he relies on the right equipment for his trade. But what do you do when you don't have the funds to finance your state-of-the-art tool?

Ulric: I started with Microfinance in 2021.

We were in the midst of COVID, and there was no funding to buy any more equipment. And I contacted Microfinance to buy my drone because there were a lot of contracts coming, so I needed my drone to cover all those events. So I decided to go to Microfinance because I needed more funds to buy more equipment.

Deepa: And so how does it work? So you go and you explain what you want to do and what's their reaction? How do they process your request?

Ulric: I was shocked because compared to other banks, they were flexible. Okay. Because when you tell them you want to do that, they say, okay, we can finance you.
It was very easy compared to another bank. So then I was, oh, wow. It's that easy with Microfinance? Okay. And, normally they give no guarantee or something like that.

Deepa: They don't require a guarantee?

Ulric: No requirement like this. And they go straight, and I get my funds like one week after, and it was so easy, so flexible. Okay.

Deepa: And then after this, obviously, so you buy your equipment, you manage to repay the loan. And then how long afterwards do you open a business account with a bank?

Ulric: After one, two months, I opened my business banking account. And then things went very easily.

Deepa: So you did very well because that's very fast.

Ulric: Okay. Yeah.

Deepa: But would you say that without that initial capital from Microfinance, you wouldn't be where you are today? How and to what extent did that really help you in your career?

Ulric: It was like a startup. They really helped me to grow because Microfinance really helped me to start up my business.
And without that, I don't think that I will go that far without this fund. Yeah. So it really starts with that fund and now I'm here. I created my business banking. I invest in more equipment because it's not my first. I took like three loans with them.

Deepa: So just to understand, so does that happen like, have you been back and forth or those were what you asked for the first time you contacted Microfinance? My question is, can you be a client of MCB Business Banking and then go back to Microfinance to...

Ulric: Yes, you can.

Deepa: Oh, you can. Okay.

That's amazing. So tell us now what it is that you do. So now, so you can have a successful career as an entrepreneur, business owner, doing what you're doing, creating content.

This is the new generation of professionals. So tell us a bit about your job.

Ulric: So my job is to promote, to capture. It depends on what I'm doing, like at weddings, I capture the moment, capture the feeling, capture the emotion. For corporates to promote the company and create content for leisure. It's like promoting Mauritius, showing the beauty of Mauritius.
And that's what I love, what I do. It's just giving another picture of the company, the landscape or whatever.

Deepa: Wonderful. Ulric, thank you very much for taking the time to talk to us. And we wish you the very best. T

Ulric: Thank you very much.