MICROFINANCE BAROMETER 2014

CONVERGENCES Barometers

5th edition

IN PARTNERSHIP WITH

GROUPE Caisse des Dépôts — CAISSE D'EPARGNE FEDERATION NATIONALE — MAIRIE DE PARIS — EUROPEAN MICROFINANCE PLATFORM — OIKOCREDIT

Credit: Grameen Crédit Agricole Microfinance Foundation - Philippe Lissac

Editorial

Jean-Michel Severino
Chairman of Convergences

The first microcredits were issued 40 years ago. Since then, the microfinance sector has significantly expanded. Currently, a large number of microfinance institutions across the globe provide services to almost one hundred million clients. This accelerated growth demonstrates the importance of microfinance as a major instrument of financial inclusion, even though the sector has not been spared from crises, calling for the implementation of more responsible economic models to ensure the viability of the sector and its mission.

With less than a year before the Millennium Development Goals deadline, it is essential to enquire about the future of microfinance. How will it contribute to the post-2015 development agenda? What challenges does microfinance face to maximise its social impact?

These are the central issues of the 2014 Microfinance Barometer, which, for its 5th edition, looks at the future of microfinance practices and actors.

In this edition, researchers and experts of the sector share their insights on the prospects of responsible microfinance, on the evolution of regulation, and on various stakeholder practices, both in developed and developing countries.

It is clear that technological innovation, improved offer, client outreach, and increased stakeholder responsibility are crucial for the sector. By activating these levers, the legitimacy of microfinance and its potential for driving development that reaches out to even the most vulnerable populations, will be confirmed.

Moreover, in parallel to the willingness of authorities to provide better regulation for this sector, a number of self-regulated initiatives have emerged, which are aimed at promoting healthier and more robust microfinance. The Global Appeal for Responsible Microfinance, launched in 2012 by Convergences and a group of partners, is an example of strong engagement in the sector towards more inclusive and responsible financial services.

The microfinance sector must evolve to reaffirm its role as one of the key drivers in tackling this century's development challenges. Convergences will continue promoting initiatives and supporting stakeholders that contribute to ensuring the sector's viability and maximising its impact for the sustainable alleviation of poverty.

Introduction

THE FUTURE OF MICROFINANCE: TOWARDS A NEW DEAL?

Microfinance continues to develop with USD 81.5 billion in loans granted worldwide and a 5% increase in the number of customers in 2012[1] (see data on pp.2-3). However, this is a fast-changing sector. Services, stakeholders, regulation, and technological innovations evolve and transform the landscape of the microfinance of tomorrow. The objective: to remain an alternative for more than 2.5 billion people currently excluded from the traditional banking system across the globe.

The sector provides a greater diversity of banking, financial, and insurance products, offered by a greater range of actors. Thus, conventional banks, mobile operators, and distribution chains complement the services made available by microfinance institutions. Technological innovation is also a key tool for the development of microfinance (see articles on pp.5-8). This evolution process is accompanied by a convergence of practices and prudential regulations, which are better adapted to the increasing maturity of the sector (see articles on p.9).

Social performance management remains a major concern for stakeholders, investors and operators alike, at a time when tools to ensure transparency and self-regulation are being implemented (see articles on p.4).

In Europe, microfinance is still a young sector, seeking to develop and to innovate in a context of economic crisis. The use of personal microcredits for improving inclusive mobility in France (see articles on pp.10-11) is an example of this quest for innovation.

The future of microfinance is beginning to take shape through these innovations. The bancarisation of the sector, the greater role of new players, the expansion of services offered to clients as well as the importance of regulation in this maturing sector will undoubtedly be some of the key issues for microfinance throughout the coming decade.

[1] MIX Market figures.

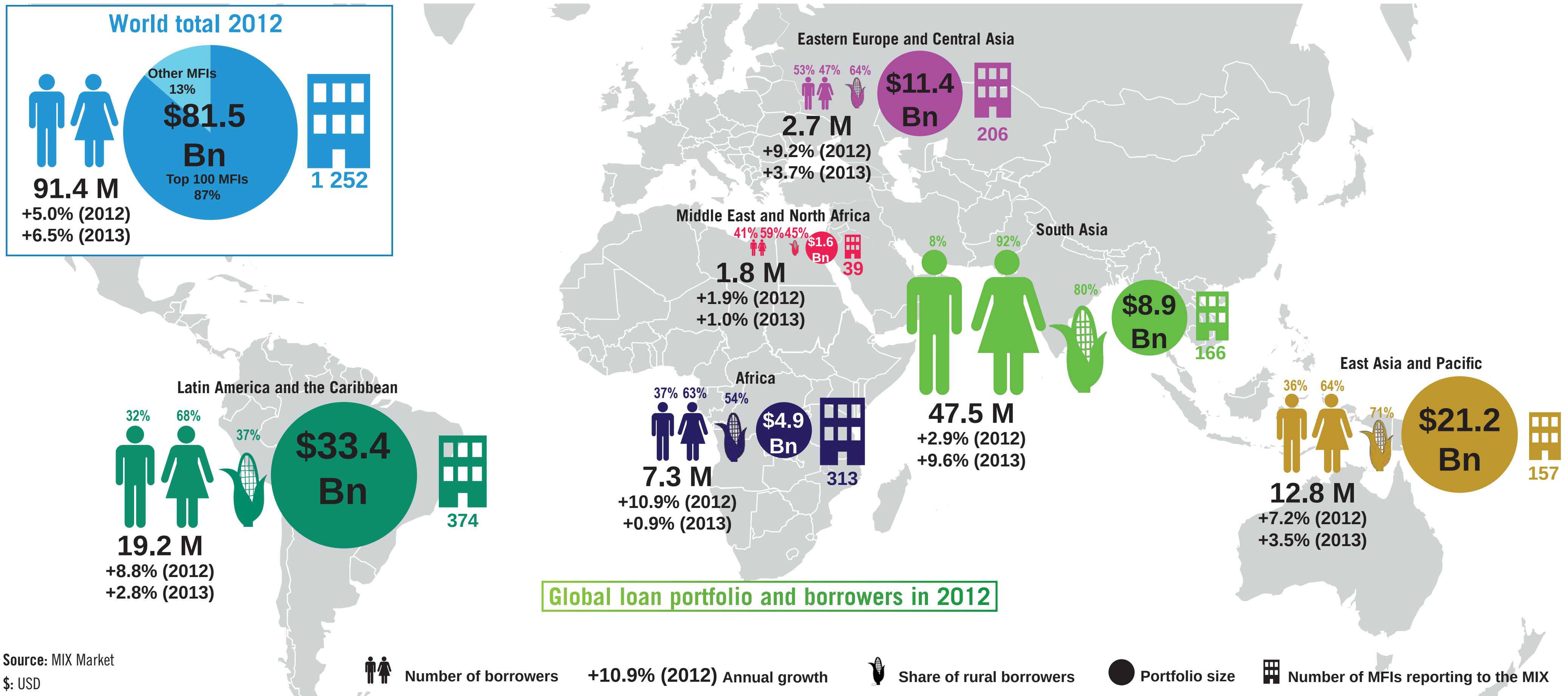
JUDITH JAKUBOWICZ
EXECUTIVE DIRECTOR
CONVERGENCES

Summary

Exclusive!

MICROFINANCE KEY FIGURES

A growing sector: microfinance opens the way towards financial inclusion



Source: MIX Market
$: USD

A pillar of financial inclusion, microfinance continues to serve more and more clients worldwide.

A growing and solid base of microfinance providers, with a global loan portfolio amounting to USD 81.5 billion in 2012:

▸ The 1,252 institutions reporting to MIX in 2012 represent the majority of leading microfinance service providers. They cover a great diversity of models and types of institutions and reach out to 91.4 million low income clients for a USD 81.5 billion portfolio.

▸ The 100 largest institutions, ranked by number of borrowers, dominate the market with 70.6 million of the sector's 91.4 million clients, representing 77% of the global market.

▸ South Asia leads the market with the largest number of borrowers (52%), and also the highest number of female (92%) and rural (80%) borrowers. Of the top 100 institutions, 43 are in South Asia and account for almost 48% of global borrowers.

▸ The global loan portfolio is mainly concentrated in Latin America and the Caribbean (40%), which has the lowest proportion of rural borrowers.

▸ The highest average loan balance is in Eastern Europe and Central Asia (USD 2,544), a region that also has more male than female borrowers.

Growth returns in 2012 and 2013:

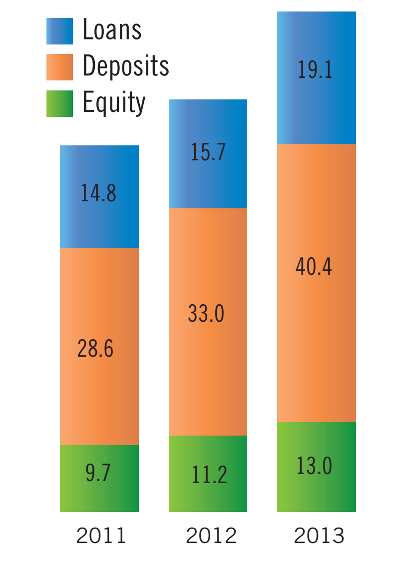
▸ Globally, outreach has increased by roughly 5% throughout 2012 after a 4% decline in 2011. The return to growth is widespread across regions, with most countries (73 out of 95) experiencing growth in numbers of borrowers between 2011 and 2012.

▸ Africa reported the strongest regional growth, around 11% in 2012, easily outpacing South Asia at the opposite end, which reported a 3% growth. Using estimates for 2013, preliminary data for South Asia show strong recovery (nearly 10%), as growth is picking up again in India, specifically in states outside of Andhra Pradesh.

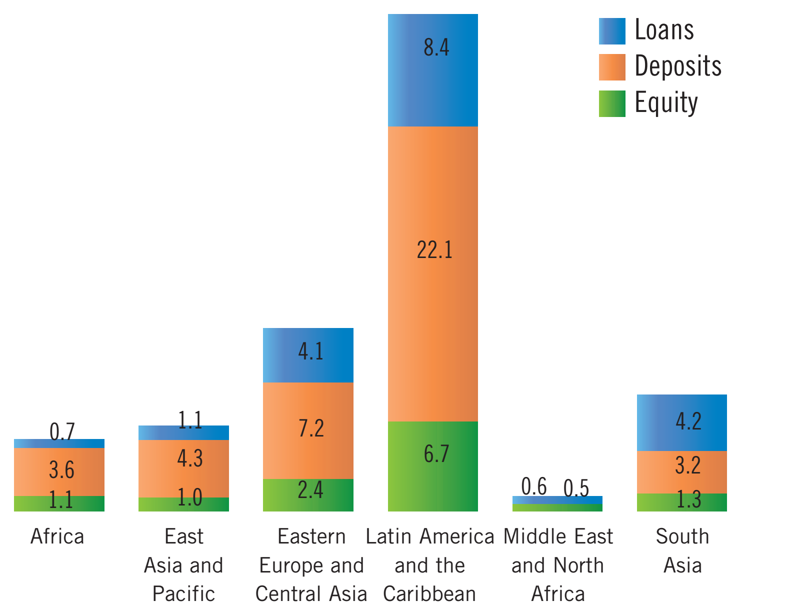
▸ Looking ahead to the end of 2014, all markets surveyed through the MIX Barometer are also expecting growth between 8% (Bosnia Herzegovina) and 29% (Mexico).

▸ In terms of loan portfolio, growth in 2012 was around 21%.

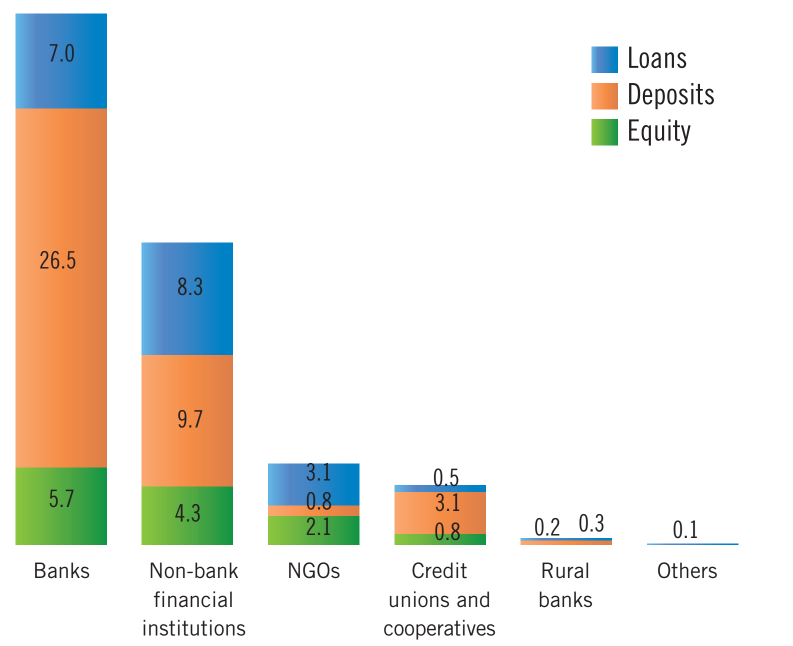
Funding sources per year in 2011, 2012 and 2013 (in USD billion)



Funding sources per region in 2012 (in USD billion)



Funding sources per legal status in 2012 (in USD billion)



Source: MIX Market

Local sources of funding to MFIs on the rise through deposits and debt:

▸ Local deposits remain the dominant source of funding for MFIs globally, mostly driven by Latin American and Caribbean institutions and specifically by banks in the region, which account for 53% of global deposits.

▸ In Africa, the Equity Bank of Kenya alone accounts for 40% of that region's deposits. Limiting the data to only Non-Bank Financial Institutions (NBFIs) and NGOs, borrowings (USD 11.4 billion) surpass deposits (USD 10.5 billion) as the leading funding source.

▸ NGOs in Africa, East Asia and Pacific, and Eastern Europe and Central Asia, get more funding from "equity" (retained earnings or donations) whereas in Latin America, Middle East and North Africa, and South Asia, borrowings are the dominant funding source for NGOs. Although the share of borrowings as a percentage of total funding declined, the level of borrowings by NGOs in South Asia was marked by a rise in 2012, after a decline in 2011.

MIX AND CITI MICROFINANCE BASED ON MIX DATA

Methodology

1. MIX calculations are based on data provided by microfinance institutions to MIX that is publicly available at www.mixmarket.org. MIX collects data from the dominant actors of each market but does not collect data from every actor in every country.

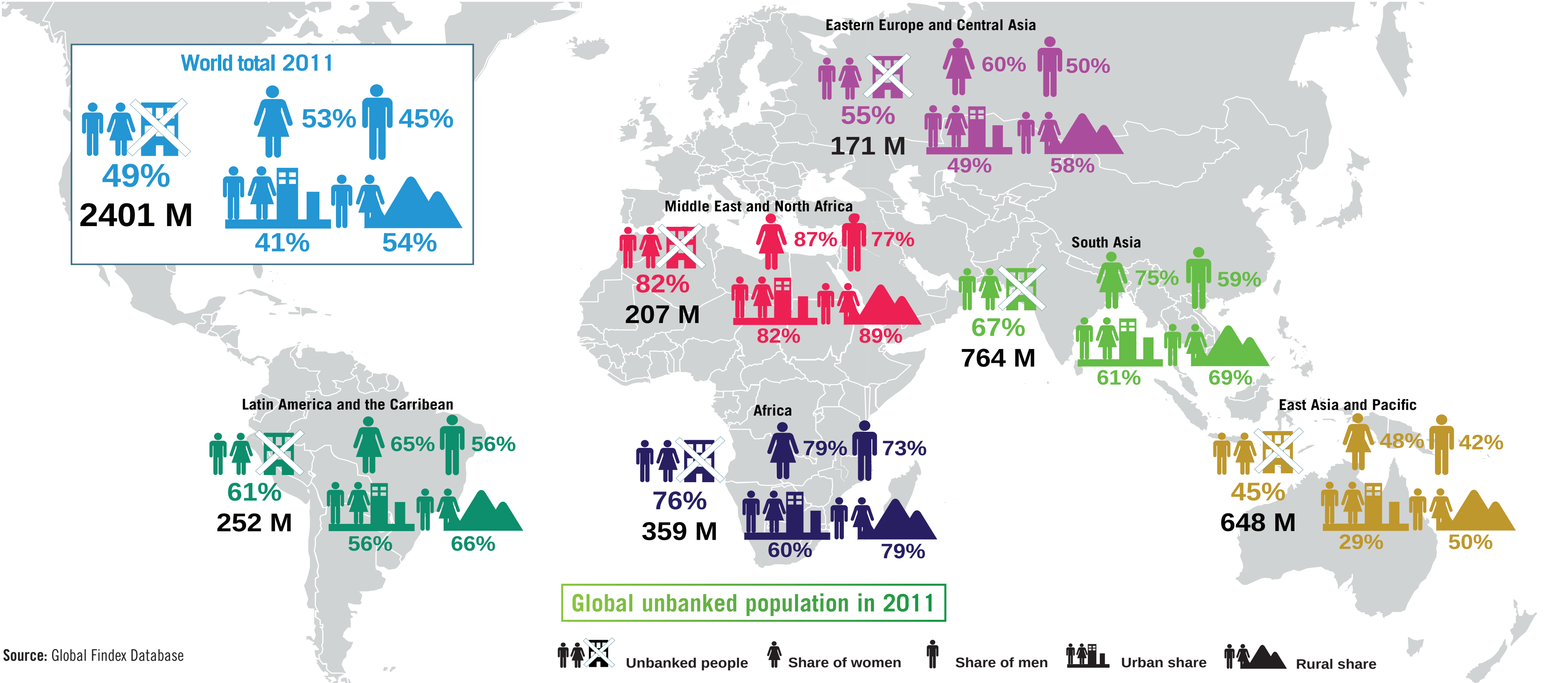
2. Total figures for borrowers and loan portfolio as of 2012 are based on data provided by 1,252 institutions.

3. Growth figures for borrowers and loan portfolio values from 2010 through 2012 are based on a balanced panel data set of 806 institutions that provided both data fields to MIX for each of the years from 2010 to 2012.

4. Estimate growth values for 2013, globally and regionally, are based on all institutions that provided data to MIX for the periods from December 31, 2012 to either September 30, 2013 or December 31, 2013. Growth was calculated by institutions and then weighted by that institution's market share using the assumed value for the end of 2013. These institutions number 347 and represent 71% of the 2012 market by borrowers.

5. Funding data is provided by microfinance institutions. To fill in any gaps in the funding data, values were assumed if enough data was initially reported by the institution. For example, equity was calculated if no value was provided by the institution, but the assets and liabilities were available. Similarly, deposits or borrowings were calculated assuming total liabilities were comprised of either deposits or borrowings and that two of the three values were available from the MFI. The number of institutions included in the funding analyses total 815 institutions and comprises 78% of the 2012 market by borrowers.

.... however, approximately 2.5 billion people still do not have a formal account in a financial institution



Source: Global Findex Database

The Global Findex, the financial inclusion survey run by the World Bank every 3 years, demonstrates that in 2011, half of the world's adults still did not have accounts in financial institutions and 76% of the poor were unbanked.

▸ Globally, there is a significant gap between rich countries (where 11% of adults are unbanked) and developing countries (where 59% of adults are unbanked); between age groups (15-24 year olds are 33% less likely to have a bank account than 25-64 year olds); between people with different levels of education (people with higher education are twice more likely to have a bank account); between gender (53% of women are unbanked as opposed to 45% of men); and between urban and rural areas (41% and 54% respectively).

▸ Over the past 12 months, 22% of people in developing countries have been saving money in a financial institution, and 5% in credit clubs.

▸ In developing countries, 23% of people have borrowed from family or friends, 9% from a financial institution (a bank or a microfinance institution), 8% from a shop, 3% from a private lender, and 3% from their employers.

MICHAËL KNAUTE
SPECIAL ADVISOR, CONVERGENCES
CEO, OXUS

The Maya Declaration

Putting financial inclusion on the world map

Launched in September 2011 by the Alliance for Financial Inclusion (AFI), the Maya Declaration represents the first global and measurable set of commitments by governments of developing and emerging countries to unlock the economic and social potential of the 2.5 billion 'unbanked' people through greater financial inclusion. More than 90 countries – representing more than 75% of the world's unbanked population – have supported the Declaration.

Each country makes measurable commitments in four broad areas that have been proven to increase financial inclusion. These include: the creation of an enabling environment to harness new technology that increases access to and lowers the costs of financial services; the implementation of a stable and adapted framework that advances synergies in financial inclusion, integrity, and stability; the integration of consumer protection and empowerment as a key pillar of financial inclusion; the use of data for informed policymaking and tracking results.

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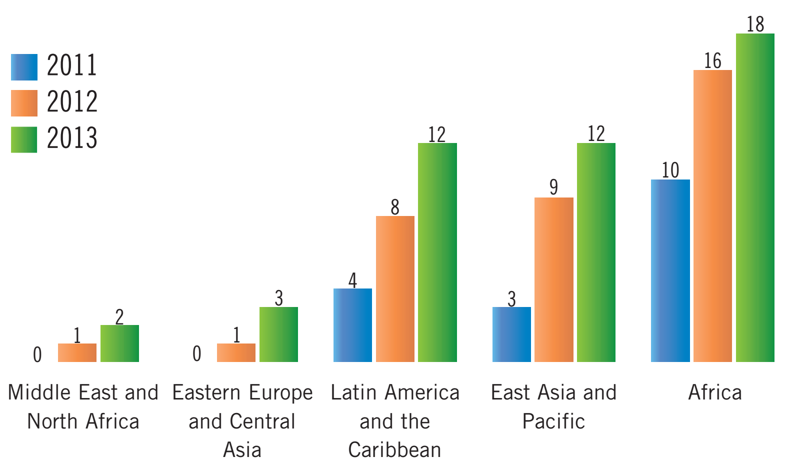
Number of new commitments per region per year



Source: Maya Declaration / www.afi-global.org/maya-declaration

Mobile Money

State of the industry

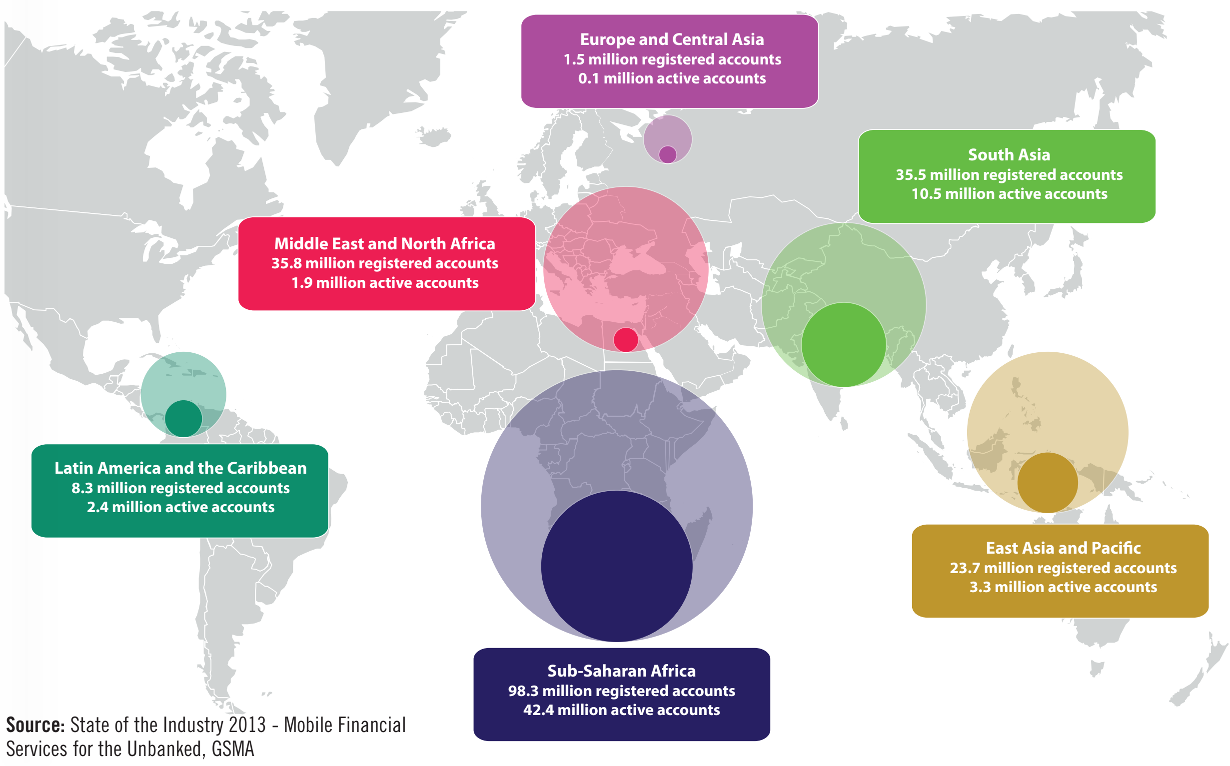
Mobile money is a fast-growing sector. In June 2013, there were over 203 million mobile money accounts worldwide[1]. In 9 Sub-Saharan African countries (Cameroon, the Democratic Republic of Congo, Gabon, Kenya, Madagascar, Tanzania, Uganda, Zambia and Zimbabwe), there are more mobile money accounts than bank accounts. This is a sign of the transformational power of mobile money in a region where banking penetration remains very low. With 98 million accounts, Sub-Saharan Africa has more than twice as many mobile money users as Facebook users.

One of the key trends is bulk payments. Using mobile money to deliver social protection schemes, in particular government-to-person payments, represents an attractive opportunity for both mobile money providers and the social protection community. Indeed, it has the potential to lower delivery costs, yield operational efficiency and enhance developmental impact. In 2013, bulk payment was adopted faster than any other product, at an annualized growth rate of 617%.

[1] "State of the Industry 2013 – Mobile Financial Services for the Unbanked", Claire Pénicaud and Arunjay Katakam (2014)

CLAIRE PÉNICAUD
MARKET INTELLIGENCE MANAGER
GSMA MOBILE MONEY FOR THE UNBANKED PROGRAMME

Number of registered and active customer accounts (at least one transaction in the past 90 days) by region (June 2013)



Source: State of the Industry 2013 - Mobile Financial Services for the Unbanked, GSMA

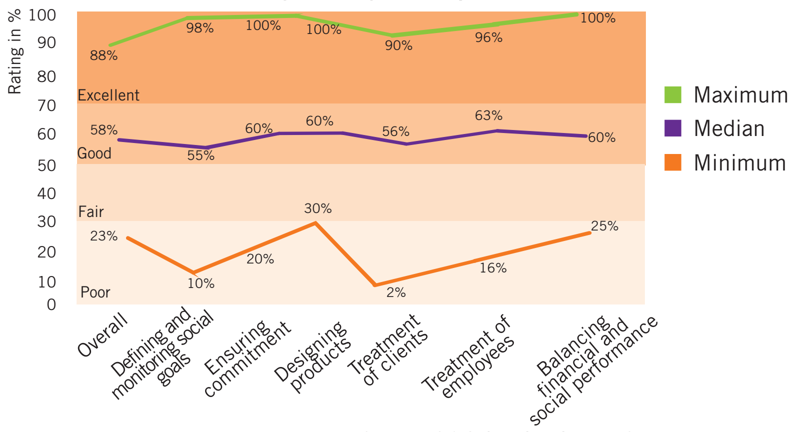
SOCIAL PERFORMANCE

Global social ratings

Six Universal Standards for Social Performance Management (USSPM) were published in 2012 by the SPTF[1]: define and monitor social goals (USSPM 1), ensure board, management and employee commitment to social goals (USSPM 2), design products, services, delivery models and channels that meet clients' needs and preferences (USSPM 3), treat clients responsibly (USSPM 4), treat employees responsibly (USSPM 5), and balance financial and social performance (USSPM 6).

The charts below provide an overview of social ratings by two major rating agencies (MicroFinanza Rating and PlaNet Rating) for 2008-2014 in relation to these six criteria[2].

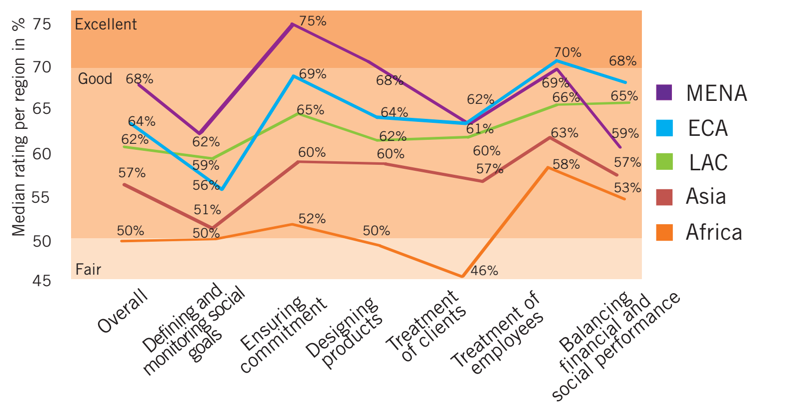
Worldwide Social Rating Results (global and per universal standard)



The chart above shows the results for all 206 institutions of the study. The gap in research findings between the different institutions is high and varies from 23% to 88%. The largest gaps are related to commitment (10% - 98%) and client treatment (2% - 90%). The overall median for the institutions is 58%, varying from 55% (defining goals) to 63% (social and financial balance).

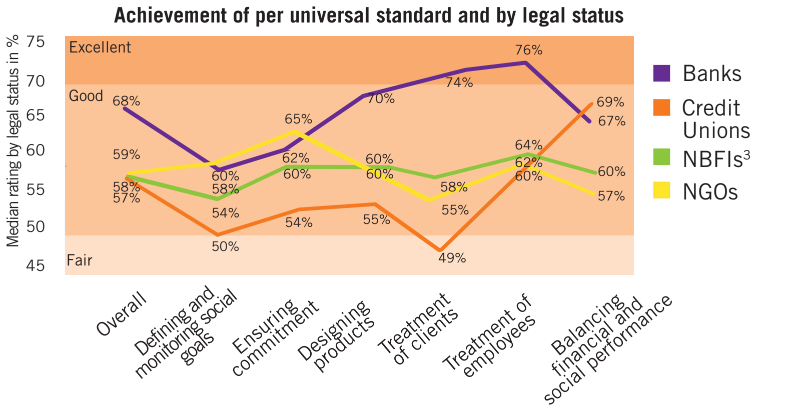
Taking only the institutions rated twice over the reporting period results are mitigated as 5 out of 14 institutions have seen their ratings decreased, 2 reported the same results and 7 demonstrated overall performance improvement.

Achievement per universal standard and per region



Let us turn to the regional differences. The most significant differences exist between Sub-Saharan Africa and other regions, with African MFIs scoring weakest on all standards. The South-Asian region (57%) is slightly below Latin America and the Caribbean (LAC) as well as Europe and Central Asia (ECA) (62% and 64% respectively), the ECA region showing the best results on client treatment (USSPM 4) and treatment of employees (USSPM 5). MFIs in Middle East and North Africa (MENA) score highest globally (68%), at the level of commitment (USSPM 2) and at products, services and distribution channels design (USSPM 3).

Achievement of per universal standard and by legal status



An analysis by legal status[4] demonstrates that banks have the highest overall performance (68%). They also have the highest scores on product design (USSPM 3), client treatment (USSPM 4) and treatment of employees (USSPM 5). Cooperatives, non-bank financial institutions (NBFIs), and non-governmental organizations (NGOs) have a similar overall rating (57%, 58%, and 59%, respectively) but demonstrate significant disparities by criteria. Cooperatives have the lowest score on USSPM 1, 2, 3, and 4, while NGOs demonstrate greater commitment to social goals (USSPM 2).

[1] Social Performance Task Force (SPTF). More information can be found on www.sptf.info

[2] The two scores were obtained through aggregating the available data and presenting it on the 0-100 scale, provided by MicroFinanza Rating and Planet Rating, on the basis of 206 ratings obtained in 2008-2014. Currently, each agency uses its own system. However, they have evolved under the framework created by the SPTF enabling a retroactive approximation of the USSPM scores and a comparison of results obtained by the agencies.

[3] Non-bank financial institutions.

[4] Sample included 203 institutions, as 3 institutions' results were not representative.

MICHAËL KNAUTE
SPECIAL ADVISOR, CONVERGENCES
CEO, OXUS

Social performance mentoring
A dedicated programme for Oikocredit and its partners

OIKO CREDIT investing in people

Oikocredit's Social Performance Management (SPM) mentoring programme involves microfinance partners, local consultants and Oikocredit's social performance experts. In 2011, the programme grew in East Africa and has since expanded into West Africa, Southeast Asia and Latin America.

The mentoring programme helps microfinance institutions (MFIs) gain a clearer understanding of clients' needs, the products and services offered, as well as the benefits and risks involved. Mentoring began with a training workshop for consultants and senior staff of microfinance partners on how to assess client risks and opportunities. The representatives then went back and implemented new action plans into their practices, with regular review and guidance from consultants.

Tanzanian rural savings and credit cooperatives, KAWOSA and Musoma, both recognized that membership fees were a barrier in reaching the most disadvantaged groups. Both MFIs decided to offer lower-income people group membership, enabling them to share the fees.

Still in Tanzania, Tujijenge, focused on providing more flexible loan products along with improving client appraisal, preventing over-indebtedness, training its staff on client protection principles and integrating SPM into its strategic planning. Tujijenge also developed a new health insurance product and other ways to help clients be better protected against risk.

In Uganda, the programme led Remode, a small MFI focusing on urban youth, to address the financial exclusion of a nearby impoverished community. Its group-based approach to lending enabled it to attract new clients.

In Uganda, UGAFODE[1] Microfinance Limited harnessed a focus on delivering real benefits to clients in order to generate clear commercial and social returns, and a solid foundation for future growth. They thus decided to increase the number of low income, economically-active clients and provide high-quality, customer focused financial services, enabling clients to improve household incomes and livelihoods through the provision of inclusive financial services. The SPM mentoring programme's biggest challenge is meeting participants' needs. Social performance is ultimately about building organisational awareness and protecting clients from unexpected hardships.

We hope that current partners will benefit as much as our Ugandan partner UGAFODE did, which achieved better outreach to target groups, significant growth in its client base and improvements in financial and social performance from its participation in the programme in 2011.

[1] More information on UGAFODE at: http://www.oikocredit.coop/k/news/view/60407/60406, *Turning client focus into commercial success*

GING LEDESMA
SOCIAL PERFORMANCE AND CREDIT ANALYSIS
OIKOCREDIT

Credit: Tom Bamber

UGAFODE's improvements
through social performance management

A major lesson learned from the recent crises in microfinance is that, in order to achieve strong social results, an institution must manage its social performance. There is also increasing evidence that strong Social Performance Management (SPM) not only contributes to the well-being of clients, but also supports financial sustainability. However, with rare exceptions, financial institutions are not managing their social performance with the same precision that they devote to financial performance. To address this gap, industry members have worked together to develop and promote the implementation of the Universal Standards for Social Performance Management.

One fantastic success story is the Ugandan MFI UGAFODE. In 2010, UGAFODE was on the verge of bankruptcy and drifting from its mission. By 2012, it had become financially sustainable and was reaching its target clients. It accomplished this transformation by strengthening its SPM.

Firstly, UGAFODE had to precisely define its target clients: economically active low-income people in rural areas, especially women. Next, it asked client-centred questions: 1) How can we increase access for these clients? 2) How can we increase clients' benefits from our products and services? 3) How can we ensure we do not harm clients?

To increase access, UGAFODE moved its headquarters out of the capital city, opened two branches in remote rural areas, and changed the staff incentive structure to promote outreach to target clients. To increase benefits, UGAFODE better adapted products to client needs, including revising the group's lending methodology, replacing collateral requirements, introducing flexible repayment terms, and introducing a group training. It also created two new loan products for small mortgages and educational development and began offering voluntary savings products. To ensure no harm to clients, UGAFODE introduced a code of conduct for staff in each branch, strengthened its mechanism for responding to client complaints, and ended its 'zero-tolerance' approach to debt collection.

As a result of these changes, after two years, client exit declined (from 15% to 5%), staff turnover declined (from 10% to 4%), portfolio at risk <30 days declined (from 12% to 3%), and the MFI experienced significant growth (doubled its loan portfolio and opened almost 28,000 new savings accounts). UGAFODE also increased its outreach in rural areas and to women (doubled its number of clients in rural areas; the share of female increased from less than 25% to over 30%), and in a nationwide survey of microfinance clients, it was voted "Most Trusted MFI in Uganda".

AMELIA GREENBERG
DEPUTY DIRECTOR
SOCIAL PERFORMANCE TASK FORCE

The future of microfinance

SPECIAL REPORT
The future of microfinance

Joint interview
Which objectives for microfinance?


Tilman Ehrbeck


Narasimhan Srinivasan

Tilman Ehrbeck is the director of CGAP[1]'s and Narasimhan Srinivasan is an international consultant and independent director.

What will the inclusive finance sector look like in 10 years from now?

Tilman Ehrbeck: The inclusive finance sector will continue to expand beyond traditional banks and microfinance institutions. There will be new partnerships between a more diverse set of actors – including mobile network operators and organised retailers – offering a wider range of financial products and services at a lower cost to more people. We are already seeing "new champions" of financial inclusion emerging, who often use technology to expand financial services to the poor.

Another set of important champions includes former NGOs and Microfinance Institutions (MFIs) which are transforming into fully regulated banks and introducing modern retail banking to the low-income populations in their domestic markets for the first time.

These developments will continue to shape the inclusive finance sector for years to come.

Narasimhan Srinivasan: Branchless banking using agents and technology linkages will be ubiquitous. There will be a multiplicity of players functioning as banking agents, financial institutions and insurers. Specialised institutions offering mobile financial services and payment services will offer stiff competition to banks, forcing them to enter into alliances. Credit products from banks and financial institutions will be mass marketed using the branchless banking networks. Technology, especially mobile, will be a major driver towards the expansion of services and client comfort. Regulation will focus more on the customer protection aspects than on institutions, processes or products. Barring very remote locations, financial inclusion will become a reality in most of the currently excluded geographies.

What are the structural changes likely to affect the sector in the coming years?

Tilman Ehrbeck: Advances in technology will be the biggest driver of structural change. Digital finance and mobile money2 are already making financial products and services accessible to a greater number of people than ever before. Not only can delivery through technological innovations be a catalyst for the provision of a more diverse set of financial services – including credits, insurances or savings – but the new, low-cost payment infrastructure is making other essential services and utilities more accessible to the poor too. Businesses are using this infrastructure to make solar lanterns or water pumps, for example, available through pay-as-you-go models that require a large number of small, incremental payments. As mobile money services spread in developing countries, so will these types of innovations.

Narasimhan Srinivasan: Large banks will place emphasis on engagement and the development of good agent networks. Niche players will emerge – small finance institutions and agent network managers – seeking to find a space between large banks and small customers. Microfinance institutions are likely to turn into banking agents, with both own account business and agency business. Transaction processing and accounting will be centralized using multiple technologies. More of white-label services (relating to technology, ATMs and agent networks) will be in fashion enabling banks to drive down costs. Bank branches will concentrate more on managing agent networks than on customer services. Product development will gain importance within banks. Indeed, they will not be able to train their employees, dispersed across the territory, unless products are simple and easily marketable.

What are your main recommendations to increase the impact of microfinance, especially with regard to the poor?

Tilman Ehrbeck: Learning from the poor about their financial needs, preferences and behaviors is an important first step. Poor people are very active managers of their financial lives. We know from the study of their books of accounts that they need and use a full range of financial services. While gaining deeper understanding of their financial lives is important, translating this knowledge into better products, delivery options, and enabling policies is something our sector is still grappling with. But if done right, such a customer-centric approach can advance financial inclusion by deepening access and usage of appropriate formal financial services. Ultimately, financial services are a mean to an end. The sector needs to make sure that the services offered help poor people improve their lives. Otherwise, we will miss the bigger point.

Narasimhan Srinivasan: Microfinance has to achieve three objectives to make a difference to the poor: 1. Provide risk mitigation through a combination of insurances, savings and pension products; 2. Improve the affordability of credits and make credit products suitable for the different purposes of the poor; 3. Invest in improved governance so that customer protection is an intra-institutional issue rather than a sector-wide concern. Product development, optimization of processes for cost efficiency, engagement with customers to improve financial literacy levels and credit discipline and commitment to customer protection are key areas of continuing work for the microfinance sector.

[1] Consultative Group to Assist the Poor

[2] Mobile money or mobile payment is a form of financial transaction made from a mobile phone linked to a bank card or an electronic wallet.

WORDS COLLECTED BY CONVERGENCES

Addressing evolving financial needs:
Can microfinance meet the challenge?

EUROPEAN
MICROFINANCE
PLATFORM

NETWORKING WITH THE SOUTH


Credit: Sudipto Das 2012 CGAP

Over the past few years, broadening financial services to the poor has become a core tenet of full financial inclusion. Influential studies, such as *Portfolios of the Poor*, have shown financial lives of clients are complex and their financial product needs go well beyond traditional microcredit. For some years now, the microfinance sector has been moving in that direction, broadening financial offerings to include different types of savings, insurance, payment, and a greater diversity of credit products.

However, this remains a work in progress. So far, traditional microcredit – short term loans with fixed and frequent payments – remains the bread-and-butter of the industry. Even for forward-looking Microfinance Institutions (MFIs) that have branched out into other products, microcredit remains the dominant source of revenue, often subsidizing other products. To a large extent, this is driven by the underlying economics of microfinance. To understand why, consider two illustrative examples: housing microfinance and commitment savings.

Housing microfinance has been around since the 1990s, including at Grameen Bank. Demand is widespread – according to the World Bank's Global Findex database, home construction is the third most common reason for borrowing (after health and emergencies) among the poor in low and middle income countries. Indeed, it is common for MFIs' clients to use microenterprise loans for home improvement. The challenge for MFIs is that most home improvements require loan amounts 2-3 times larger than traditional microcredit, which entails maturities that are similarly 2-3 times longer. The mathematics of how interest rates and loan maturities interact mean that such loans must have substantially lower interest rates to remain affordable, meaning a less profitable product for MFIs. As a consequence, housing microfinance remains a niche offering.

The case of commitment savings is similarly instructive. Take school fees – the fourth most common reason for borrowing and another common use of microenterprise loans. School fees are an eminently predictable expense, and motivated MFIs may choose to structure commitment savings products that look very similar to microcredit – weekly payments of similar amount, for similar period. Marketing such products can be a challenge, as it runs into client tendencies to procrastinate, but for MFIs there is a more difficult challenge: such savings products are rarely profitable. Indeed, according to a Consultative Group to Assist the Poor (CGAP) study outlining the business case for small savings, such products are only profitable through cross-selling. However, for MFIs whose clients already use loans to pay for school fees, offering such savings products essentially means cannibalising an existing high-margin product with a new zero-margin one. Perhaps unsurprisingly, this is rarely done.

The case, then, for broadening product offerings is not a simple one. Certainly, MFIs may diversify into other areas, but only to the extent that they don't cannibalise too much into their primary revenue source – the microenterprise loan. But if one accepts that microenterprises represent a relatively small part of a far broader demand for financial services, can one expect traditional MFIs to pivot successfully into these new areas? Based on business experience, probably not. It is extremely rare for companies to adopt strategies that lower revenues in the short-term, particularly when long-term prospects remain uncertain.

The most likely scenario is disruption from new entrants or emerging organisations that specifically target clients outside the microenterprise sector. Quite possibly, such organisations will mean a broader range of clients, including the poor and also the less poor but still financially excluded. These organisations may operate with narrower margins than many MFIs, but should be able to make this up through higher volumes. This process will take time, but by 2020, we should see some of these new financial providers pushing MFIs to either compete or to further specialise on the niche microenterprise lending model that they have perfected. The result will be a healthier, more diverse market and – most importantly – greater financial inclusion.

DANIEL ROZAS
SENIOR MICROFINANCE EXPERT
EUROPEAN MICROFINANCE PLATFORM (e-MFP)

Community development through innovative microfinance

Credit: VSSU

Since its foundation in 1986, VSSU has had as the core of its model the holistic development of local communities using local resources. Its financial inclusion services are currently linked to a number of social initiatives in more than 510 villages of the Sundarbans, India, with a cumulative membership of 116,000.

VSSU's innovative initiatives focus on delivering client-oriented products and services. While most MFIs work with bank loans, VSSU has chosen to focus on 'savings-based credit'. Experience shows that a savings-based model can lead to a win-win situation for both the client and the institution in the long run. Indeed, this model helps foster a mutual relationship between the institution and its clients for multiple reasons: 1) impact surveys show that all people living in poverty can save, and the demand for savings services is much higher than for any other financial service; 2) savings help clients build assets, confidence and financial management skills, reducing vulnerability for families; 3) savings are a low-cost source of funds for the institution and have helped the organisation operate without any grant support to date. Personal savings also allow clients to obtain loans at lower interest rates.

As an illustration:

- Only a portion of the savings collected from members is allocated for maturity and loan disbursement. This helps the client build up savings in addition to the increased income and assets from the loan invested in his or her microenterprise.
- Each product (deposits and loans) always comes with multiple term, interest, repayment, etc. options, providing flexibility within a structured framework.
- Credit alone is not enough. There is also a need for services like free insurance, incentives, training, exposure, and marketing delivered as a package so that even impoverished clients can create a habit of regularly depositing savings and repaying loans.

The microfinance sector in India has recently witnessed the catastrophic impact of excessive focus on numerical achievements. Development does not follow any scientific formulae of progress; it needs to be client-focused, process-oriented, and have a holistic approach with sustainable impact as its goal.

KAPILANANDA MONDAL
FOUNDER & CEO
VSSU

An innovative MFI in Bolivia: Planting the seeds in agriculture microfinance

Credit: Triodos Bank

The best way to predict the future is to invent it. Innovation in microfinance requires a strong commitment to recovering the original spirit of service to those excluded from capital and economic opportunities. In Bolivia, 66% of rural inhabitants are poor; even though the country is recognized as a pioneer in microfinance, no more than 5% of the total portfolio of loans is committed to agriculture and an even lower percentage to small-holder farmers. SembrarSartawi (Development Finance Institution - DFI) is changing this by leading a renewed social pledge and working where others are cautious to engage.

The DFI is committed to reaching rural producers and managing risks related to small-scale agriculture: climate impacts, diseases and pests, as well as volatile agricultural markets.

It combines Technical Assistance (TA) to transfer best practices with credit and support for market access. TA is provided to increase yields and reduce risks; financial services create access to capital while market access contributes to better returns, making agriculture more profitable and qualifying small-holder farmers for further loans. These components work together to create a virtuous circle. TA improves access to financial services, helps farmers invest more productively in their livelihoods, maximises investments and increases productivity; market information as well as purchase partnerships that SembrarSartawi promotes between local companies and small-holder farmers enhance opportunities to reach more profitable markets. Two private institutions implement the model: TA and market access are delivered through an independent institution, which coordinates services with a separate institution that provides credit.

Serving 15,000 small farmers, the portfolio has reached USD 30 million, 60% of which is in agriculture. 1,600 clients have received specific assistance improving yields by 20% on average. Non-performing loans make up less than 2%, and financially, the DFI has achieved positive and attractive results for social impact investors.

Furthermore, social metrics are one of the DFI's top priorities. SembrarSartawi has developed specific systems to measure changes in the productivity of small-holders in order to monitor progress and measure the final impact, all in view of a triple bottom line: social, financial and environmental.

The future is challenging. At the local level, there are still vast rural areas to cover; internationally, SembrarSartawi is being solicited to transfer and replicate these results. This innovative model has proved itself to be an effective tool to serve small-holders in agriculture, and is being closely watched by policy makers and international organisations. In sum, SembrarSartawi is planting the seeds of the future in rural agriculture microfinance.

MARÍA ELENA QUEREJAZU
GENERAL DIRECTOR
SEMBRAR FOUNDATION

How would technological innovations influence microfinance?

According to the latest Mobile Money for the Unbanked (MMU) annual report, 'State of the Industry 2013: Mobile Financial Services for the Unbanked', it is estimated that 2.5 billion people in lower income countries are unbanked. Yet more than 1 billion underserved people in these markets already have access to a mobile phone. The phone and the infrastructures coming with it can be used to offer sustainable financial services. The question is no longer whether technological innovations are available for the poor, but how to ensure that the right innovation is developped and successfully implemented.

Two of the most critical barriers to serve the poor are high operational costs associated with the staff-heavy outreach approach, and operational inefficiencies associated with managing cash and information flows. The use of technology is a critical opportunity to lower these costs, reduce risks, improve product outreach and development.

Mobile operators now have a mobile banking offer that enables MFIs build technological platforms that allow for money transfer and mobile-banking. Not that these mobile solutions will succeed if they don't take all local conditions into account, the disappointing replication of M-Pesa in South Africa being an example. MFIs or telcos should therefore never adopt a one size fits all approach when it comes to financial services. A further prediction that seems foreseeable is that there will be continued partnerships between telcos and financial institutions to offer client mobile based micro-credit and money transfer services. In Kenya, Safaricom in partnership with Commercial Bank of Africa (CBA) introduced M-Shawari, a mobile-based micro-credit services product. Tanzania has followed suit, Vodacom in partnership with CBA has launched a banking service named M-Pawa allowing Tanzanians to save and borrow money on their mobile phones. BNP Paribas is a partner to Orange Money service in West Africa. This wave of services raises the possibility of potential mergers between telcos and financial institutions. There could soon be a next wave of more advanced mobile banking services: mobile-only micro-finance, m-insurance or financial institutions offering mobile operations services like Equity Bank in Kenya which was licensed to operate as a Mobile Virtual Network Operator.

Therefore, there is a need for MFIs to engage into technology and grow a wider range of mobile banking and insurance services on mobile phones, beyond simple payments. To achieve this, different models may need to be put in place. Some MFIs will develop new range of services, products or delivery channels, in parallel to their brick and mortar approach. Others could take a new shape with mobile-only MFIs such as Musoni in Kenya. Partnerships with banks, telcos, and technology firms will be more and more common. The role of MFIs as business correspondents and super agents of distributors will be a new development for the sector. However, cost benefit analysis must be considered. MFIs should examine systems and operations to determine which technologies work, and develop partnerships with technology service providers so as to mobilise sufficient skills-sets required.

In the future, the evolution of mobile technology will blur the lines that separate telecoms from financial institutions. The current challenges of the underdeveloped distribution networks and partnerships regulatory challenges and expensive compliance, and resistance by telcos in opening up their platforms to offering MFIs who can plug into their existing distribution platforms and fraud cases will be history in the future. Studies show a positive trend, as mobile phone penetration for 2012 surpassed the 16 million subscribers mark and is currently estimated at 17 million, a trend expected to continue. The telco industry continues to grow and is expanding across more regions. With 219 services in 84 countries at the end of 2013, mobile money transfer for instance is now available in most developing and emerging markets.

JACINTA MAIYO
CHIEF INFORMATION TECHNOLOGY ADVISORY OFFICER
PAMIGA

Mobile-banking and technological innovation in Musoni Microfinance


Bart Van Eyk

There is a lot being spoken about improving efficiencies in microfinance through the use of technology, about delivering financial services to rural populations and about the growing positive impact of mobile money transfers on financial inclusion. And rightfully so. Indeed, financial service providers struggle to make their traditional bricks and mortar models financially sustainable in rural areas. According to a recent GSMA[1] industry report, there are more than 200 mobile payment solutions being offered in over 80 developing countries worldwide and the number of active users has doubled in 2013.

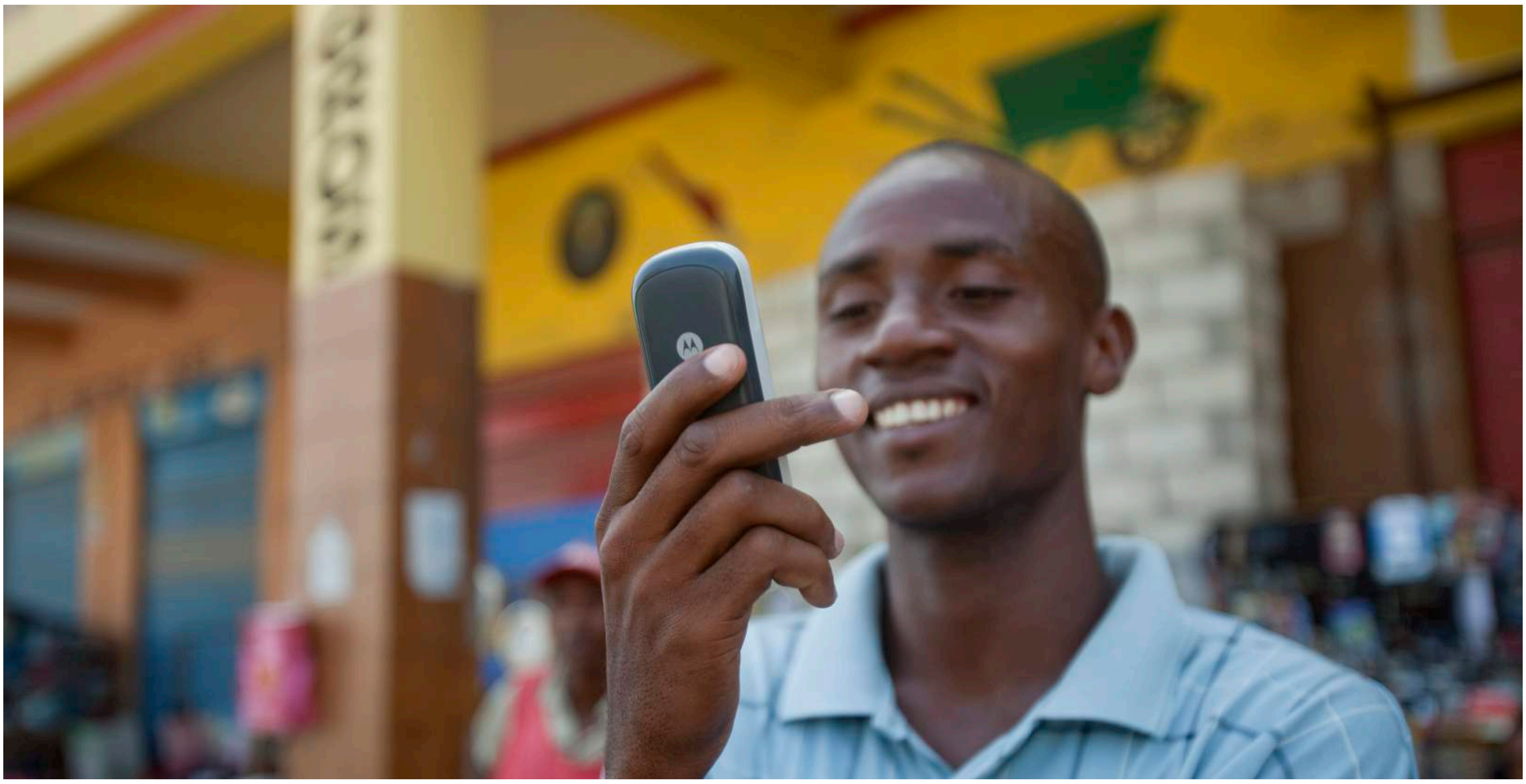
Musoni started its first 100% cashless microfinance institution in Kenya in 2010 and since its start, it disbursed over 50,000 microloans and seamlessly processed over 1 million transactions with a 99% automatic allocation. The model is hybrid as there are still field offices with loan officers responsible for marketing, training and credit assessments, however using mobile money transfers for all loan disbursements, deposits and loan repayments. This set-up initially realised efficiencies for the institution mostly in the back-office, removing the need of cash handling and its associate risks, and saving significantly on branch costs as a consequence. Among other advantages is the availability of accurate and near real time data resulting in an improved monitoring and quality of portfolio and an electronic audit trail. For clients, it means no need to carry cash around, having the comfort of transacting whenever and wherever is convenient, less traveling, no queuing, and efficient meetings and loan disbursements that take place on the same day as applying. A SMS module has been added to facilitate client communication and efficiencies in the front and mid-office, as well as an improved customer experience was achieved by digitising key documentation through the use of tablet computers. There is now no need to carry or file paperwork and credit committees are more efficient.

This model provides a solution to the challenge of sustainably delivering financial services to rural populations. Field offices are low cost and staff can penetrate deep into rural areas visiting clients and processing data using their tablets. Musoni is expanding its operations into Kenya's rural areas and preparing to roll-out across the region starting in Uganda by the end of this year. In addition, it started to make the IT solution available to third parties, allowing others to benefit from these efficiencies too.

Where is this road taking us? In the coming years I expect to see further development of automated credit scoring and internet based solutions for financial service delivery, as smart phones are becoming an affordable commodity.

[1] Spanning 218 countries, the GSM Association unites 850 of the world's mobile operators.

BART VAN EYK
CHAIRMAN AND CEO
MUSONI BV


Credit: Bill & Melinda Gates Foundation

SPECIAL REPORT
The future of microfinance

Towards convergences between the banking sector and microfinance?

Interactions between the banking sector and microfinance are not new. 19th century Europe witnessed a cooperative banking movement in Germany and France, respectively. The movement had the objective of fighting financial exclusion. Both initiatives benefited from government support, and are now part of the regulated banking sector[1]. Microfinance institutions (MFIs) share the same objective. Unlike their 19th century European counterparts, however, MFIs' convergence process risks losing its social goal.

MFIs are either becoming commercial banks or are increasingly linked to the financial sector for funding. Moreover, traditional commercial banks are downscaling[2]. Commercialisation and downscaling are a venue for convergence via widening financial inclusion. However, promoting MFIs engagement in cross-subsidisation and innovation with the support of governments and foundations instead, should help convergence via deepening financial inclusion.

Commercialisation is controversial. Mexico's Banco Compartamos, is a case in point. Since its Initial Public Offer (IPO) the number of active borrowers has quadrupled.[3] It now offers a larger number of products ranging from group and individual loans to deposits and insurance. This is a step towards convergence. However, the perils of commercialisation are twofold.[4]

Relative to NGOs, commercial MFIs serve clients who are less poor, and have a larger number of men clients.[5] Crowding out women and serving wealthier men clients support financial widening at the expense of financial deepening, which in turn deviates from microfinance social objectives.

Downscaling is also a stepping-stone towards convergence. However, downscalers' operations in microfinance remain marginal because staff training costs are high; reluctance to expand in microfinance where regulatory environments are weak; government intervention fears; and uncooperative behaviour by MFIs, which fear losing staff and best clients to the banking sector.

Nonetheless, ongoing connections between the formal sector and MFIs involve synergies, which could resolve excessive widening over deepening. The microfinance industry can learn from the banking sector, especially with regards to risk management, productivity, and cost reduction.

Administrative costs are too high when lending small-scale loans to the poor. To keep their strong social mission and attain self-sustainability, MFIs can have a profitable leg, which returns can finance investment activity in the other leg, namely that of poor clients requesting tiny loans. This cross-subsidisation process can make convergence happen.

However, convergence is inconceivable without lowering the current interest rates charged by MFIs. The introduction of innovative technology can play an important role here. A wider and more effective use of the M-Pesa transfer platform in Kenya, for example, opens the scope for MFIs' adoption of technological innovations. These can lower costs, and, therefore, prices.

Cross-subsidisation and technology adoption, working in tandem, is an innovation in its own right. Government support and subsidies are therefore required. Current subsidies towards financing traditional MFIs' practices must target research and development (R&D) and technical assistance in order to foster convergence.

Convergence will make wider financial products within reach of poor clients at lower prices. And like the 19th century institutions have demonstrated, convergence is possible, albeit with government support and subsidies – just like any other R&D activity involving a social benefit not fully internalized by the private sector.

[1] See, Banerjee-Besley-Guinnane (1994), "Thy neighbour's keeper: The design of a credit cooperative with theory and test". Quarterly Journal of Economics 109(2) (May); Armendáriz – Morduch (2010), *The Economics of Microfinance*, MIT Press; and http://www.credit-agricole.com/Le-Groupe/Histoire-du-groupe-Credit-Agricole on the origins of the Crédit Agricole.

[2] See, Delphine-Perón (2007), "Commercial Banks and Microfinance" in www.researchgate.net

[3] Mix report http://www.mixmarket.org/mfi/compartamos-banco

[4] See, Cull et al (2009), "Microfinance Meets the Market", Journal of Economic Perspectives 23(1) (Winter).

[5] This phenomenon is often referred as mission drift. See, Armendáriz – Szafarz (2011), "On Mission Drift in Microfinance Institutions", in The Handbook of Microfinance, World Scientific Publishing (London).

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Funding microfinance tomorrow

Credit: responsAbility 2013

Microfinance is the one topic in the impact investing sector that is no longer in its infancy. Its continuing dynamism – evident since its teenage years – is today paired with the seasoned professionalism of a young adult. This fact is evidenced by the trust that microfinance has gained from pension funds. Unlike less risk-adverse private investors, who have invested in microfinance for a decade, pension funds only invest in what already works.

Still, private capital microfinance amounts to only USD 8 billion[1] of assets invested, a negligible amount compared to the overall trillion dollar socially responsible investing industry. It is even modest compared to the USD 21 billion deployed into microfinance by public actors. Regardless, with institutional investors now providing financing, the focus on where and how to place the funds will sharpen. Asset owners will prime the investment managers who provide the best strategy and execution.

To understand tomorrow's markets, we must consider the past. The microfinance industry has evolved from donor-dependent programs to sustainable retail banking. Microfinance is a winners' market. Out of thousands of microfinance institutions (MFIs), a few hundred have contributed to most of the growth. Considering 100 institutions that responsAbility Investments has financed over the last five years, we see that they reached out to more than 14 million additional clients, growing from 8 to 22 million between 2008 and 2013, a Compound Annual Growth Rate of 22%. Most institutions have changed their legal form over time. 58 out of 100 are now able to take deposits from clients, with their combined savings volume growing to USD 23 billion.

The formalisation process is set to continue as more MFIs across all regions are currently in the process of applying for banking licenses. The funding needs of these institutions will change: refinancing will increasingly happen locally. This means that the financial sector development has succeeded but not that international financiers are out of business: microfinance banks will continue to seek substantial cross border financing on their balance sheets for diversification reasons. Despite better overall framework conditions, developing countries remain prone to government interference and political upheaval which can cause local liquidity to dry up quickly.

While demand for refinancing will be less than proportional to portfolio growth in mature markets, demand for equity financing will soar. MFIs outstrip their founding owners – NGOs, donors, local businessmen and entrepreneurs – in terms of the growth and complexity of their operations. This requires significantly more capital and owners who understand the business. MFIs must consolidate their ownership structures with long-term institutional investors who can commit sizeable amounts of capital, provide active governance support, and enable further growth.

While the above concerns mature markets, opportunities arising from vast, largely untapped markets like China, Pakistan, Burma, Congo DRC, Ethiopia or Iran, should not be underestimated. These 'last frontier' markets complement those like India and Nigeria, where MFIs have attracted foreign investment for many years, but still struggle to meet consumer demand. Microfinance's best years are yet to come.

[1] http://www.cgap.org/sites/default/files/Brief-Trends-in-International-Funding-for-Financial-Inclusion-Dec-2013.pdf

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Challenges and opportunities for microfinance cooperatives in West Africa: the case of the Confédération des Institutions Financières

Given the strong growth seen in the sector, credit cooperatives working in microfinance in West Africa face three main challenges: there is an increasing demand among target customers and populations for more financial services (both in terms of banking and insurance); the development of new technologies is revolutionising the way in which operations are carried out (both on an internal level for organisations as well as for their sales methods and relationships with their clients and members); and finally, the sector is being increasingly regulated (a direct result of growth in the sector, meaning that authorities are increasingly interested in monitoring it).

The Confédération des Institutions Financières (CIF) is a group of six large federations which bring together savings and credit cooperatives in five UEMOA[1] countries (Benin, Burkina Faso, Mali, Senegal and Togo). In late 2013, one out of seven families in West Africa benefitted from CIF's work, an organisation that has over 3 million members, 700 local sales points and total assets worth € 658 million. In order to respond to these challenges, CIF aims to strengthen its networks, structure them, increase their capitalisation, update their operating methods, adapt their forms of governance, etc. For these reasons, CIF has taken significant strategic measures.

The first of these has been the decision to build financial solidarity among its members and to foster suitable forms of governance, similar to what can be observed in large cooperative banking groups around the world. At the upper levels, networks must therefore centralise reporting, oversight and training; carry out further exchanges on best practices; and progressively synchronise their information systems.

Thanks to increased cooperation with partners (banks, insurance companies, international institutions), CIF aims to develop and distribute a wider range of products for investment, cash flow and insurance, while also raising capital from external sources. In order to achieve this, it aims to create business units as well as a centralised financial body to support regional insurance companies.

Finally, CIF will also work cooperatively to develop new ways of applying technology, such as mobile banking. By 2020, CIF aims to have a unified information system at its disposal, a true platform of expertise and technological innovation, and a full set of tools allowing cooperative networks and local savings banks to improve financial inclusion by uniting elements such as proximity, effectiveness and reinforced financial solidity.

In order to actively participate in the development of microfinance, the future of microfinance credit cooperatives will necessarily involve strengthening cooperation among themselves and structuring networks on a sub-regional, regional, and national basis, as is the case for CIF. This will allow them to reach a critical size and while allowing partnerships to be built that will be vital in responding to future challenges, whether they are in the area of technology, regulation, finance or in the development of new services. They will therefore need to adopt forms of governance that are suitably adapted, that respect the local conditions that have been jointly established with members and that also respect a participatory governance model, which is the true strength of such organisations in today's world.

[1] West African Economic and Monetary Union

ALOU SIDIBÉ
GENERAL DIRECTOR
CONFÉDÉRATION DES INSTITUTIONS FINANCIÈRES

Regulation

SPECIAL REPORT
The future of microfinance

Microfinance actors converge on the issue of better regulation for the sector

Regulating microfinance is still in its early days. Mohamed Yunus was forced to find ways around conventional banking laws when he set up Grameen Bank. Since then, the legal framework of the sector has evolved a great deal, and although vast differences exist from one jurisdiction to the next, the actors in the field agree on the fact that, in the medium term, regulation will converge.

New initiatives for operators self-regulation are fairly developed and are proof of a true desire to bestow the sector with greater professionalism and accountability. Awareness campaigns such as the Smart Campaign or the Universal Standards for Social Performance Management bring together most actors regarding main principles and best practices. It is interesting to observe that microfinance investors increasingly insist upon these 'codes of good practices' being respected with regard to their investments. These self-regulation initiatives are part of the future of microfinance. However, these initiatives are not sufficient to regulate the sometimes excessively swift growth in the sector. External pressures such as competition, growing market expectations and, on a broader level, existing risks seem too acute to be self-regulated in the long-term.

As a result, more should be expected from regulatory bodies. Nowadays, resources set aside for central banks' oversight of microfinance are often very limited. Therefore, laws may well be passed, but implementing them is not necessarily a priority. It is important that national institutions become aware of the economic but also political importance of the microfinance sector. The lack of regulation has already caused serious crises to occur, leaving vulnerable clients in their wake. Microfinance has first and foremost a social aim and must ensure the protection of its clients. For instance, the problem of excessive debt can be avoided through greater recourse to credit bureaus. Furthermore, client savings can be protected through strict monitoring of MFI refinancing capacity, as well as by setting up guarantee funds.

Regulating microfinance will become increasingly similar to regulating conventional banks through prudent regulation, independent supervisors, minimum levels of capital, imposed equity ratios, a functional system for sharing information in order to ensure effective internal checks, rigorous reporting and transparent finances. However, it is important for regulatory bodies to take into account the recommendations provided by the different actors involved, who may fear that the unique aspects of the sector have not yet been fully thought through by regulators, particularly with regards to interest rates. If all actors are allowed to participate in developing microfinance, the terms of regulation would be better defined and changes could be better anticipated, thus steering clear of reforms that are too sudden, which could destabilise the sector. Regulating the sector in this way would ensure growth which is slower, more controlled and more transparent, allowing microfinance to look forward to a healthier future.

There are still some areas which are hazy and unclear, such as how to regulate mobile banking - a true challenge for the future of microfinance. Other questions which have been left open are the need to develop digital databases of lenders and the question of intellectual property.

MICHAËL KNAUTE, CEO
& MARIE-ALPHIE DALLEST, INVESTMENT OFFICER
OXUS

Changes in microfinance regulation in West Africa

The regulation of microfinance in West Africa has proven to be means of developing local finance and ensuring greater financial inclusion. As a matter of fact, less than 10% of the population has a bank account even after fifty years of 'conventional' credit providers operating in the region.

For this reason, since the early nineties, financial and legislative authorities have favoured the creation of formal alternative finance structures through the implementation of specific regulations. Over twenty years, microfinance has achieved a wider reach than conventional credit providers. The number of beneficiaries served by alternative finance constitutes 15% to 20% of the entire WAEMU population[1]. By the end of 2013[2], the savings mobilised and the financing provided through microfinance crossed the threshold of 700 billion CFA Francs (over one billion euros), compared with less than 20 billion CFA Francs (30 million euros) in the early nineties.

Credit : iStockphoto Peeterv

The local population gives priority to setting aside savings when requesting financial services. This places a greater focus on the need to guarantee that the resources that have been mobilised for this purpose are protected. The changes introduced through the regulations currently in force serve this purpose both in terms of the prudent framework put in place and the mechanisms set up to prevent future crises (security funds and deposit guarantee funds). These measures also place an emphasis on reinforcing internal oversight, supplemented by direct intervention from regional monitoring bodies and a more risk-focused approach. Finally, demands on the reliability, quality and rigour of financial information have been strengthened in order to establish alert mechanisms.

Nevertheless, further changes are still needed. The most significant of these should focus on developing a prudential framework in order to improve the contribution made to drive the economy (by reducing capitalisation criteria and the coverage ratio for long-term jobs through stable resources and by raising the standards for limits placed on activities other than savings and credit). The justice system should function efficiently to ensure that sanctions are correctly implemented and debts are repaid in a timely manner. It is a priority to reinforce microfinance's contribution to providing funding for economic agents in the WAEMU sub-region.

[1] WAEMU: West African Economic and Monetary Union (A financial community of eight countries)

[2] Statistics published by the Central Bank of West African States

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The consequences of regulating microfinance: The case of Kyrgyzstan

The situation in Kyrgyzstan regarding regulation is of interest given that it provides insight into the positive and negative effects that regulation, and the lack thereof, can have on the microfinance sector.

Microfinance developed very swiftly in Kyrgyzstan after the 2000s. Rather lax regulation meant that the sector grew rapidly and many small institutions that did not provide oversight on the debt levels of their clients or on interest rates were created. No use was made of the tools for transparency such as the Central Risk Division, and client protection was scant. This situation damaged the image of the sector among its clients and the public at large.

The first main law for the sector was passed in 2012 and addressed parallel loans. The Kyrgyz Central Bank did not go as far as banning them, but it did manage to limit them in a very intelligent manner. The new law obliged MFIs that provided parallel loans to make clients aware of the possible negative effects. This meant that MFIs naturally and gradually began to report to the Credit Bureau on a regular basis. This law led to an 8% reduction in the number of parallel loans without disrupting MFI operations. Furthermore, it ended up strengthening the Credit Bureau, which is now a reliable, and well-known institution.

The final law, a more controversial one, deals with minimum interest rates. The 37% rate is rather low for the sector and can cause MFIs considerable difficulties. As in the previous case, the implementation of this law was not excessively brutal. MFIs can continue to apply rates over 37% but are strongly encouraged to respect this limit, since if a client decides to take an MFI to court for usury, the justice system will rule in the client's favour. This measure gives MFIs time to adapt while improving client lending conditions. It nevertheless brings up the question of the extent to which regulators understand the problems of microfinance institutions, which are organisations that cannot survive without interest rates high enough to allow them to cover their substantial operating costs.

The legal context in Kyrgyzstan is evolving, and the efforts made have allowed for the creation of a stable and controlled environment that attracts investors.

MICHAËL KNAUTE, CEO
& MARIE-ALPHIE DALLEST, INVESTMENT OFFICER
OXUS

What is the role of microfinance national networks and how will they evolve?

Microfinance associations (MFAs), member based organisations representing financial institutions serving poor and low-income segments, are critical financial sector actors that have an important role to play in promoting market development. Key market functions associated with standards promotion, knowledge sharing, and the development of transparent business environments rely on strong representative organisations to ensure local demand-driven approaches and scaling of innovations. Their ability to stay relevant to their members, and the broader industry, will depend on their ability to adapt to a rapidly evolving financial landscape.

Currently, there are 63 known national and regional level microfinance associations that have been in operation for over 2 years. Together, they represent 4,260 MFIs serving close to 100 million clients with an outstanding loan portfolio of slightly over USD 31 billion. The vast majority of MFAs are still relatively young institutions, the average age being only 12 years, with the majority having experienced the most significant development in the last 5 to 6 years only.

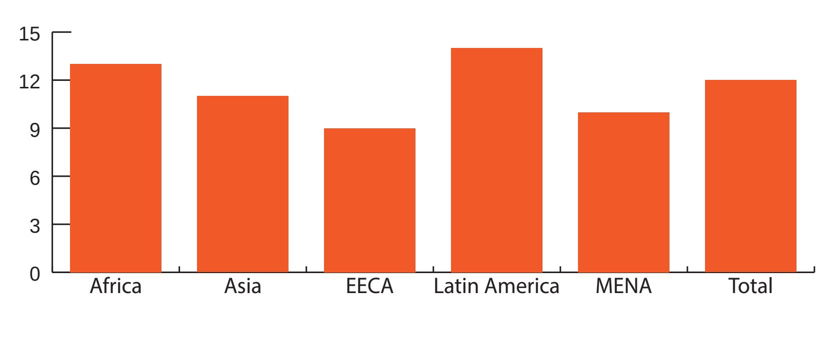
The traditional role of MFAs has been to support retail microfinance institutions (MFIs) with services improving their institutional performance and increasing the supply of services. However, as markets mature, associations have begun to broaden their role by playing a critical role in promoting industry standards in financial and social reporting as well as market conduct associated with consumer protection practices. Likewise, they are extremely important in influencing the local policy environment. In all markets, advocacy is needed, the exact nature of which evolves based on the needs of the sector, ranging from basic "awareness building" around inclusive finance and the role of microfinance in meeting these goals, to more concrete and sophisticated actions like policy reform, engaging regulators around consumer protection, lobbying for the formation of credit bureaus and the promotion of banking agent.

Local associations have a critical role in promoting transparent business environments. The flow of information supported by MFAs serves to improve the performance of financial service providers by informing sound management decisions, and helps to attract needed commercial capital to fuel growth, as well as inform policy makers promoting financial inclusion initiatives. This generally consists of supply side data in the form of financial performance reports, benchmarking against industry standards, and social performance assessments. In some markets associations have expanded this role to include demand studies, credit information sharing systems, participation of their members in local credit bureaus and promotion of financial literacy initiatives.

Looking towards the future, MFAs are confronted with some very important opportunities and challenges. First and foremost, their role as industry representatives will be dependent upon their ability to engage a much broader spectrum of service providers in financial inclusion. This may include broadening their base to encompass new entrants into the sector including commercial banks, banking agent networks, and mobile service operators. For some MFAs, this will be a natural evolution, for others it may require a significant change in focus and mission. Likewise, they will need to find better means to promote greater responsiveness to client needs and demands of service providers. They may consider strengthening and expanding their data collection and knowledge, sharing functions to include a greater emphasis on performance analysis of new products and services (i.e. savings, insurance, agricultural finance) and key market segments (i.e. youth, women) to help influence stakeholders of potential opportunities and provide useful criticism of the sector when necessary. This may require access to new data sets, increased analytical capacities, and the development of new research functions.

SHARON D'ONOFRIO
EXECUTIVE DIRECTOR
SEEP

Average year of MFAs by region



MICROFINANCE IN FRANCE

On the road towards 'inclusive mobility'

CAISSE D'EPARGNE
FEDERATION NATIONALE

In France, personal microcredits are tailored towards private individuals in hardship, with the objective of helping them to integrate the professional world and society. Funding can be provided for a long list of things: household items, training, healthcare, etc. Mobility features at the top of the list of needs. Each year, almost 74% of personal microcredit loans go towards purchasing or repairing a vehicle or obtaining a driving licence.

There are two main reasons behind this. First, the rise of precarious employment is forcing employees to surrender to adopt divided working hours in places which are poorly accessible by public transports. Second, public subsidies for mobility exist, but they rarely cover the wide variety of needs.

Mobility is a key societal issue which many are not aware of. In a recent study[1], Auxilia, a consultancy firm, pointed out that 6-8 million people in France are affected by mobility difficulties. Furthermore, mobility is a key factor in gaining access to employment. 60% of employers surveyed by Auxilia had to face a situation in which a job applicant turned down an offer of work because of transportation problems. Those living in vulnerable situations are the most affected. Half of those making their way into the workforce have a driving licence, and only a third have a vehicle.

Spurred on by these observations, several companies and associations have come together in order to found the 'Laboratory for Inclusive Mobility'[2]. Its aim is to gain a better understanding of the factors that hamper mobility in order to strengthen existing solutions, such as personal microcredits, while also inventing new solutions. In addition to this laboratory, Fédération Nationale des Caisses d'Epargne, Total, Renault and MACIF Group have joined Wimoov[3], an association that specialises in providing support for mobility with the goal of designing a package that includes personal microcredit, a second-hand car, fuel, repairs and insurance.

The aim is to promote a comprehensive mobility package which is easily obtainable and long-lasting. Microcredits have a key role to play in such an initiative.

[1] Auxilia (2013): White Paper on Inclusive Mobility (www.mobiliteinclusive.com/pdf/MI_livre_blanc.pdf)

[2] More information at www.mobiliteinclusive.com

[3] www.wimoov.org

CÉDRIC TURINI
MICROFINANCE & FINANCIAL INCLUSION PROJECT MANAGER
FÉDÉRATION NATIONALE DES CAISSES D'ÉPARGNE

First meeting on inclusive mobility
13th december 2013

Microcredit in France 2013 results

GROUPE
Caisse desDépôts

Fonds de Cohésion Sociale (FCS) [Social Cohesion Fund] is managed by Caisse des Dépôts Group and mandated by the French government. It has two main objectives: developing microloans for new micro and solidarity enterprises (professional microloans) as well as promoting personal microloans by funding projects aimed at individuals excluded from the traditional banking system but possessing a repayment capacity and participating in an individual inclusion scheme.

1. Personal microloans

Personal microloans, guaranteed at 50% by the FCS, is a financial instrument to combat exclusion from the banking sector. Upon request of FCS management, Caisse des Dépôts commissioned an impact study on personal microcredit to evaluate this mechanism over a period of eight years. The 2013 results are available here: http://www.caissedesdepots.fr/mediatheque/rapports-et-etudes/developpement-economique-et-economie-sociale-et-solidaire.html

In addition to this, in 2013 Caisse des Dépôts set up the website www.france-microcredit.org, that outlines all the major characteristics of the key support mechanisms associated with personal microcredits. Quarterly reporting with financial institutions is available on the extranet portal.

In 2013, 12,886 loans were approved, 996 more than during the preceeding year. FCS provided €5.9 million in solidarity guarantees or allocations to guarantee funds. The average national loss ratio is 6.46%. Nine national networks of social actors support recipients of microcredits. The distribution of loans is ensured by 26 banking and financial partners.

Personal microloan still focus on primarily employment and mobility (74% as of 31 December 2013). However, projects of beneficiaries vary. Since the adoption of the Act of the 1st of July, 2010, they can include social and professional integration alike. It needs to be mentioned that loans for buyout of debts or of credits are excluded.

2. Professional microcredit

FCS supports professional solidarity crediting through the implementation of the following five types of mechanisms:

- Allocating the existing state funds pooled under Fogefi (Fonds solidaire de garantie pour l'entreprenariat féminin et l'insertion) [Guarantee Solidarity Fund for Female Entrepreneurship and Inclusion]
- Supporting guarantees by «Galland law» territorial funds of France Active,
- Developing new guarantee mechanisms for inclusion and job creation,
- Supporting safety networks for creation of enterprises,
- New support for enterprise creation and recovery ('NACRE', Nouvel accompagnement pour la création et la reprise d'entreprise).

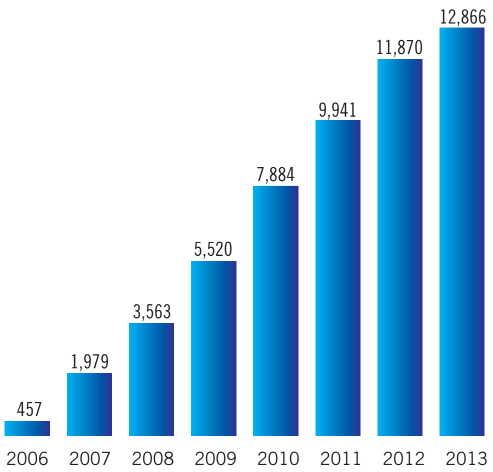
In 2013, FCS allocated €21 million towards these goals, including €10 million for conventional guarantee mechanisms and €10 million to guarantee 'NACRE' loans, the remaining balance going towards the funding of auxiliary networks.

This enabled implementing 12,530 new Fogefi guarantees amounting to €51.5 million, a similar level to 2012. The leverage effect is significant because the amount of loans that can be distributed under this framework is slightly greater than €87 million.

In turn, 'Galland law' territorial funds, co-funded by local authorities, achieved significant progress: 3,259 guarantees equal to €52.7 million, which is +20% higher as compared to 2012.

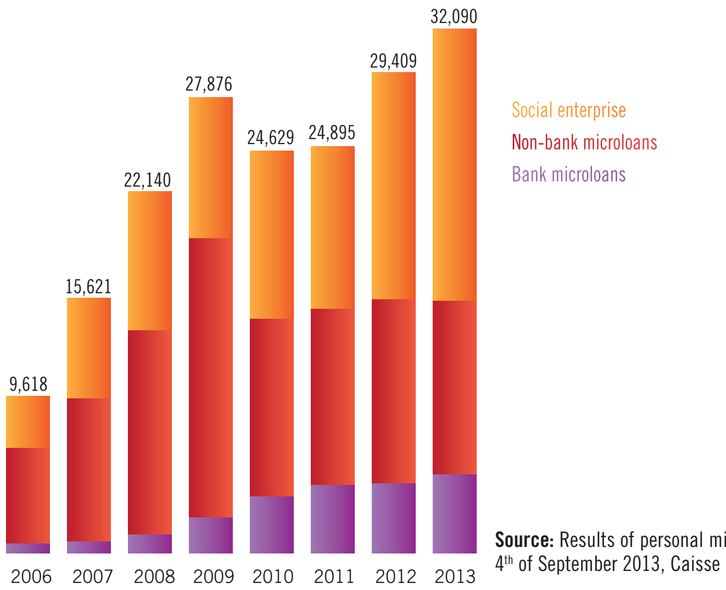
DOMINIQUE FRANÇOIS
ECONOMIC DEVELOPMENT & SOLIDARITY-BASED ECONOMY DEPARTMENT
PERSONAL MICROCREDIT DIVISION
CAISSE DES DÉPÔTS ET DES CONSIGNATIONS

Number of personal microloans granted in France in 2013



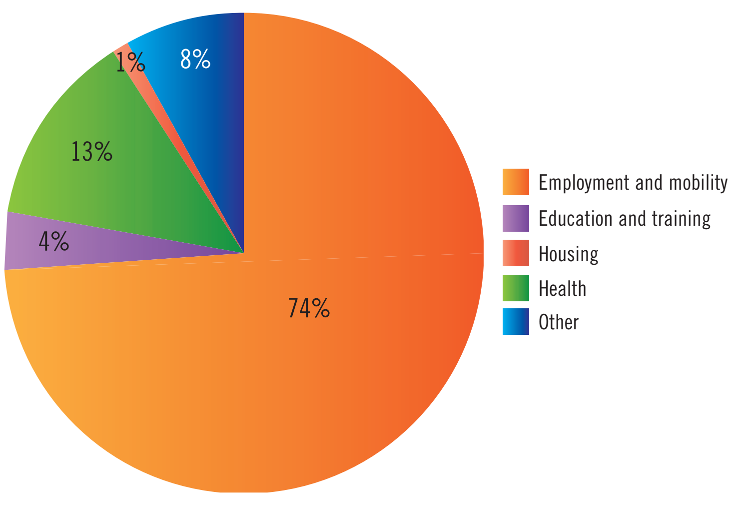
Source: Results of personal microloans, 4th of September 2013, Caisse des Dépôts

Number of professional microloans granted in France in 2013



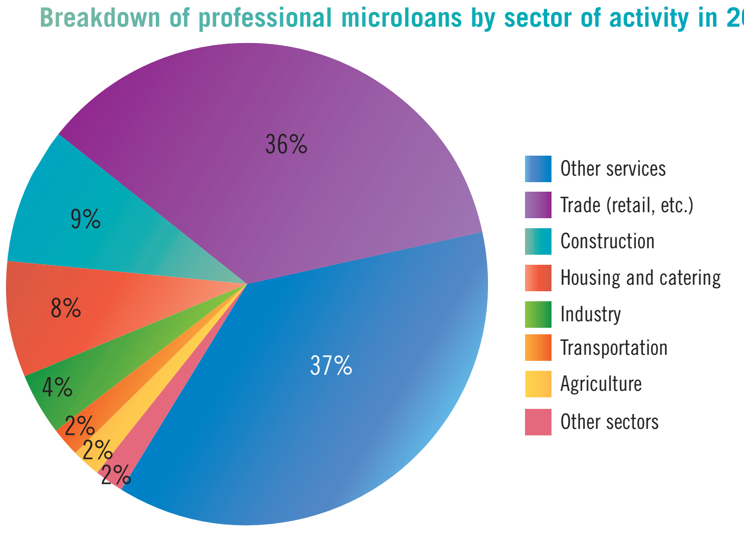
Source: Results of personal microloans, 4th of September 2013, Caisse des Dépôts

Breakdown of personal microloans by sector of activity in 2013



Source: Results of personal microloans, 4th quarter 2013, Caisse des Dépôts.
Sample: 54,080 guaranteed personal microloans granted in 2013.

Breakdown of professional microloans by sector of activity in 2013



Source: Survey by CSA entitled 'Professional microcredit and support for business creation in France: what future on the labor market for creators after three years?' BIT, CGSP and CDC, May 2014.

Credit: Mehdi Nédellec

MICROFINANCE IN EUROPE

Trends in the microfinance sector in Europe

Microfinance is a young and heterogeneous sector in Europe, especially with regards to the diversity of institutional models, lending approaches and regulatory frameworks. Microfinance mostly targets micro-enterprises, which represent 91% of all European businesses. Moreover, 99% of start-ups in Europe are micro or small enterprises and one third of those were launched by people that were unemployed[1].

According to the European Microfinance Network (EMN) Sectorial Overview Survey published in 2012[2], 154 MFIs among 32 European countries provided 204,080 microloans for a total volume of over €1 billion. The average loan size for 2011 was €5,135. 59% of all loans reported in the EMN Overview Survey were disbursed in Eastern Europe, which represent 35% of the total volume reported.

European microfinance markets are characterised by a large diversification of the products offered. Most of the European MFIs provide their microloans as individual loans (92%). Second, especially in the Eastern European countries such as Romania, Serbia or Bosnia-Herzegovina, the institutions offer shorter average loan terms. Another key feature is the great divergence between interest rates, which varies from 4% in Austria, France and Italy to 35% in Serbia. The average annual interest rate for all institutions surveyed is around 11%. As a reference point, the average Euribor rate in 2011 was 1.4%. In some countries, such as the UK or Romania, where there are no usury laws, MFIs charge higher interest rates than the ones operating in countries where interest rates are capped, such as Germany or the Netherlands.

Regulation trends

As lending practices vary considerably, the design of a "European Code of Good Conduct for Microcredit Provision"[3] was identified by the European Commission (EC) as an important element to encourage the adoption of best practices in the sector. The Code primarily applies to MFIs providing loans up to €25,000 and encompasses a set of standards. The endorsement of the Code is voluntary and is not expected to disrupt any legislative requirements of EU member countries.

The implementation of the Code is a priority for many European microfinance providers, since its application will most likely become a requirement to access EU funds.

The EU supporting the sector

The EC supported 29 microcredit providers based in 16 member states through the European Progress Microfinance Facility (EPMF)[4], launched in 2010. So far, this programme reached 9,000 final beneficiaries who benefited of €80 million of microcredits. Another key program is JASMINE (Joint Action to Support Microfinance Institutions), a pilot initiative launched in 2008 and aiming at helping MFIs scale up their operations within the European Union[5]. 30 microcredit providers benefited from this programme in 2013.

In the framework of the multiannual financial framework for 2014-2015, the European Council adopted the new EU programme for Employment and Social Innovation (EaSI), that will make €920 million available for the 2014-2020 period[6]. EaSI is the new EU umbrella programme for employment and social inclusion and is managed directly by the EC. It integrates and extends the coverage of three existing programmes: Progress, EURES and the EPMF. Under this programme the EC will provide not only guarantees and funded instruments to the microfinance providers in Europe, but also funding for capacity building and technical assistance.

[1] http://ec.europa.eu/regional_policy/thefunds/instruments/jasmine_cgc_en.cfm#10
[2] http://www.european-microfinance.org/docs/emn_publications/emn_overview/1.overview2010-2011-final.pdf
[3] http://ec.europa.eu/regional_policy/thefunds/instruments/jasmine_cgc_en.cfm
[4] http://ec.europa.eu/social/main.jsp?catId=836&langId=en
[5] http://www.eif.org/what_we_do/microfinance/JASMINE/
[6] http://ec.europa.eu/social/main.jsp?catId=1081&langId=en

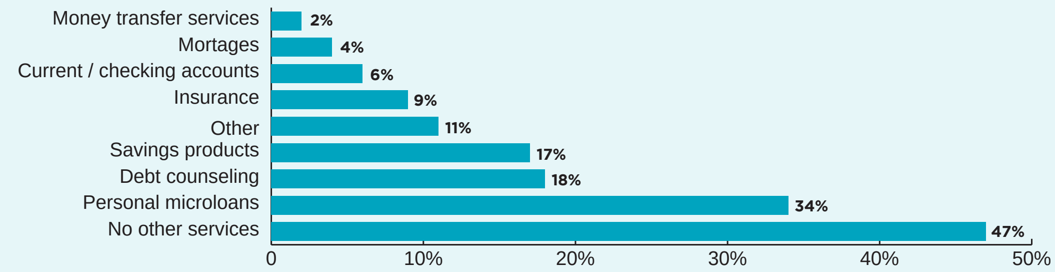
CAROLINE LENTZ
OPERATIONS MANAGER
EUROPEAN MICROFINANCE NETWORK (EMN)

2010-2011 European Microfinance Network survey Focus on products

Even though the European microfinance sector is still dominated by business loans, the supply of other products and services has increased over the recent years. Indeed, some national legal frameworks restrict MFIs' ability to offer a wider range of financial products and services. Furthermore, the European Commission (EC) and all existing support instruments funded by the European Union (EU) focus on business microlending.

As presented in Graph 1, 47% of the institutions surveyed provide no other financial service than microloans for business purposes, which suggest a significant share of specialized microlending institutions. Another prominent product is personal microloans (with 34% of the organisations surveyed), followed by debt counselling (18%) and savings products (17%).

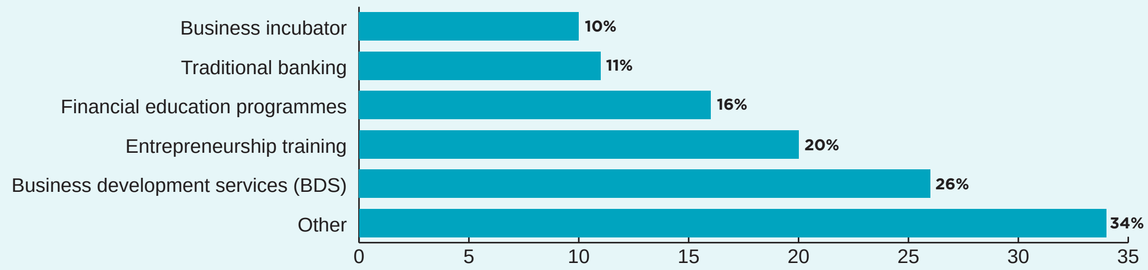
Graph 1 - Total share of other products / financial services



Note : N = 148 ; n = 99. The respective question allows multiple answers; the percentage above will not add up to 100%.

Around one third of MFIs covered in the survey do not provide non-financial services. Among the remaining two thirds, the categories "Other" with 34% and "Business Development Services (BDS)" with 26% are the most popular non-financial services supplied by MFIs.

Graph 2 - Total share of main activities other than micro-lending

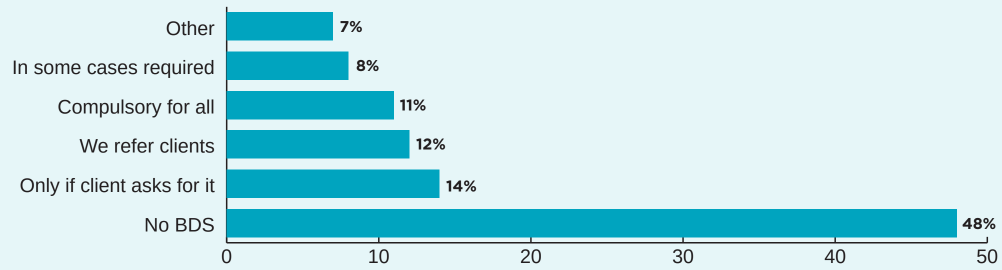


Note : N = 148 ; n = 145 : 49 out of 145 institutions active in micro-lending only. The respective question allows multiple answers; the percentages above will not add up to 100%.

More than one out of two MFIs offer BDS on a regular basis (Figure 21). 14% of the MFIs offer BDS only if asked by client, followed by 12% who refer it to clients. This indicates that the use of BDS is mainly not obligatory for the clients, as 11% of the MFIs report that BDS is mandatory for all their customers and 8% set it as a requirement in some cases.

CONVERGENCES

Graph 3 - Total share of BDS approach types



N = 148 ; n = 122 : 58 out of 122 institutions do not offer BDS.

Source: Overview of the Microcredit Sector in the European Union, European Microfinance Network (EMN), 2012

Credit: Mehdi Nédellec

INTERVIEW

"Microfinance is and will be in the future the center of initiatives for financial inclusion"

Jennifer Riria is the CEO of Kenya Women

It has been more than 30 years since KWFT started. What is the shape of KWFT operations today?

Kenya Women Microfinance Bank Limited (KWFT) was established in 1981 to provide access to financial and non-financial services for women entrepreneurs to enable them to improve their economic status, their livelihoods and hence the well-being of their families. It is the largest microfinance institution in Kenya today, with 16 regional offices comprising in a total of 236 field offices and reaching over 800,000 women and their families.

Following the successful transformation of KWFT, two institutions emerged in 2010: a regulated deposit-taking microfinance institution (KWFT-Microfinance), that mobilises and manages savings deposits in addition to other existing financial services; and Kenya Women Holding (KWH), that initially wholly owned KWFT. KWH remains not-for-profit and engages in activities that empower, position and advocate for women.

Most women in Kenya are disenfranchised with limited control over productive assets. They neither own the land that they till, nor the animals they rear. They have little or no say on how the financial gains from their toils are utilised, yet they are expected to take care of their family, the clan and society in general. The cultural practices of many African communities disempower girls and women across many aspects of their lives with uneven allocation of opportunities and resources starting at birth. This is why Kenya Women focuses on financial as well as non-financial services for women and their families, achieving amazing results.

How have you seen microfinance evolve in Kenya and worldwide over this period?

I have worked as a microfinance banker for the last 14 years. During this time, microfinance has evolved and strengthened its role in the financial sector. In the early 80s and 90s, microfinance was dismissed as small time women's involvement. Only tiny loans were offered to poor women, mostly in groups. Today, banks have turned to small and medium enterprises. The role of microfinance is poverty eradication and it has been also accepted by governments as a means for financial inclusion. As a result, regulation of the microfinance sector shows the financial authorities' desire to streamline the microfinance industry as part of the mainstream financial sector. Institutions like KWFT have developed countrywide networks that penetrate deep into rural areas enhancing financial inclusion and ensuring major outreach. Microfinance is the future of growing economics. It puts development resources at poor people's reach and empowers them to change their own situation. Major financial investment companies have found safe investment awareness in microfinance institutions. This was unheard of 10 years ago.

What are KWFT commitments and actions for responsible and impact microfinance?

Kenya Women focuses on women's and their families' needs, - all products are developed with this in mind. In addition, Kenya Women strictly

observes the double bottom line. This is why in Kenya Women social performance reporting is considered as crucial as financial reporting. More importantly, the Kenya Women approach involves operating deep into rural areas to ensure outreach and financial inclusion and to provide ready access in rural areas as a means of discouraging rural/urban migration: when people migrate into towns seeking better opportunities which are more often than not elusive, the majority ends up in slum areas where living conditions are deplorable.

Do you assess the impact of your work?

Assessment of the impact of our work is not done by our institution alone, but also by the communities whom we serve. Adoption of our products is one measure to use, especially because not only are they financial products, but they are also life enhancing interventions. Evaluation by rating institutions, such as MicroRate and others is also carried out. These rating institutions assess both the financial and the social performance. Staff satisfaction surveys reveal staff perception of the value of their work. The institution has received over the last three years the "Best Employer Award". This shows that thanks to evaluation, our institution's values are recgnised. at the national level, evaluation has shown the institutional worth.

How do you see the future of microfinance?

Microfinance is the centre now and in the future in the attempts to achieve financial inclusion. With increased use of new technology, microfinance will drive achievement of the Millennium Development Goals and the future Sustainable Development Goals. It is microfinance that will help poor people change the way the financial world works for them. Technology will be key in this.

WORDS COLLECTED BY CONVERGENCES

THE GLOBAL APPEAL FOR RESPONSIBLE MICROFINANCE

The Global Appeal is a worldwide effort to build momentum and commitment to financial inclusion and to responsible finance. It was developed with a collective of partners, including the members of the Microfinance CEO Working Group – Accion, FINCA, Freedom from Hunger, Grameen Foundation USA, Opportunity International, Pro Mujer, VisionFund International, and Women's World Banking.

Initially launched as the «Paris Appeal for responsible microfinance» during the 4th edition of the Convergences World Forum in 2011, the Global Appeal renewed, reinforced and widened the call for microfinance to serve poverty reduction and the achievement of the Millennium Development Goals at the 5th edition of the World Forum in 2012.

The Global Appeal articulates a vision for a fully responsible and responsive industry, and outlines a path forward for all relevant stakeholders – microfinance institutions, regulators, policy makers, investors, researchers, and financers, through 7 principles:

1. MFIs Serve Clients in a Responsible Manner
2. MFIs Advance the SPTF Universal Standards for Social Performance Management
3. MFIs Operate with Sound Governance and Financial Responsibility
4. Regulators and Policy Makers Support a Sound Microfinance Sector
5. Investors in Microfinance Uphold the Principles for Investing in Inclusive Finance
6. Researchers Assist the Microfinance Industry to Learn
7. Donors, International Financial Institutions and Foundations Support the Industry and Push Boundaries

Read the full text, browse the 2,000+ signatories, and endorse the campaign online at:

www.theglobalappeal.org

They have already signed the Global Appeal:

Natalie Portman, Michel Rocard, Jean-Michel Severino, Chuck Waterfield, Accion, Babyloan, Buro Bangladesh, CARE, Crédit Coopératif, Crédit Municipal de Paris, e-MFP, FINCA, Finansol, Freedom From Hunger, Grameen Crédit Agricole Microfinance Foundation, Fondation GoodPlanet, I&P Conseil, Macif, Oikocredit, OXUS, Pamiga, REM, Secours Catholique, …

Thanks to the members of the 'Microfinance and responsible finance' Convergences working group and to the contributors: Beatriz Armendáriz, Bernd Balkenhol, Sandrine Bonamy, Kai Bucher, Marjolaine Chaintreau, Renée Chao-Béroff, Laurent Chéreau, Ibrahima Cissé, Violette Cubier, Anthony Degouve, Sharon D'Onofrio, Tilman Ehrbeck, Eric Ekué, Gabriela Erice García, Sophie Esnault, Christian Etzensperger, Laurent Faullimmel, Sally Field, Jean-Hugues de Font-Réaulx, William Ford, Dominique François, Agathe Gouot, Amelia Greenberg, Camille Guezennec, Philippe Guichandut, Maura Hart, Snezana Jovic, Perrine Lantoine-Rejas, Ging Ledesma, Sung-Ah Lee, Samuel Lefèvre, Sarah Lenoble, Caroline Lentz, Jacinta Maiyo, Gaël Marteau, Kapilananda Mondal, Priscilla de Moustier, David Munnich, Claire Ozanne, Christoph Pausch, Claire Pénicaud, María Elena Querejazu, Raphaël Reynaudi, Jennifer Riria, Daniel Rozas, Gilles Salesse-Villanova, Edouard Sers, Jean-Michel Severino, Alou Sidibé, Lucia Spaggiari, Narasimhan Srinivasan, Blaine Stephens, Marc-Henri Stroh, Cédric Turini, Bart Van Eyk, Marylène Viala-Claude.

Special thanks to: Perrine Dachicourt, Manon Drechou, Louise Duquesne, Lucille Hamalian, Carolina Herrera, Judith Jakubowicz, Karina Jougla, Olga Krylova, Jacques de Laboulaye, Louise Pasin, Lucie Robin, Manon Rolland, Céline Rotcajg, Camille Succimarra, Nathalie Touzé and Alice Wagner from Convergences, Nuno Coelho, Marie-Alphie Dallest, Léo Eugène and Michaël Knaute from OXUS, Marie Reverchon and Adrien Tomarchio from ACTED.

Suggested reference for this document: Microfinance Barometer 2014 / Convergences. **Layout:** Convergences. **Printing:** Chevillon Imprimeur

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As a truly multidisciplinary backbone network, Convergences brings together more than 200 organisations to reflect on the challenges of cross-sector partnerships, international cooperation, microfinance, social entrepreneurship, social and solidarity economy, social business, BoP strategies, CSR, and environment and development.
Convergences is a wide-scale gathering project aimed at a common goal: connecting public, private, and solidarity-based actors committed to poverty reduction and sustainable development, and allowing dialogue and co-construction towards a fair and sustainable world. **www.convergences.org**