About one fifth of the world’s population lives in poverty. The countdown to the Millennium Development Goals (MDGs) deadline has started, and worldwide consultations on what the Post 2015 development framework should look like are being conducted. In this context, reflecting on the potential of microfinance seems particularly opportune.

In less than a decade, microfinance has generated two opposite reactions: hope and enthusiasm, following Muhammad Yunus and the Grameen Bank’s Nobel Peace Prize; doubt and mistrust, in the wake of repeated crises worldwide. So, is there still a case for microfinance?

In this 4th edition of the Microfinance Barometer, researchers and practitioners worldwide answer positively: not only does microfinance have the potential to contribute to the social, economic and financial inclusion of the worse-off populations, it is also ready to take the necessary steps to ensure that its practices are more responsible, innovative, and impactful.

In that respect, the Global Appeal for Responsible Microfinance – initiated in 2012 by Convergences and the CEO Working Group, outlines the steps that each stakeholder should take for microfinance to serve poverty reduction responsibly and sustainably to the global challenge of current and future development.

To increase access to financial services worldwide, microfinance is using innovative products and delivery channels, such as mobile banking, and working to increase the capacities of service providers. The sector is also striving to broaden the range of products and services offered, be they financial or non-financial.

In developed countries as well, microfinance is increasingly being perceived as a potentially effective tool to counteract the effects of the social and economic crisis. Supported by a favourable institutional environment, the sector is developing in Europe and in the U.S. Some preliminary results on the impact of personal and professional microcredit on social and economic inclusion are promising.

Microfinance is not losing momentum. It continues to improve and adapt its practices to respond responsibly and sustainably to the global challenges of financial inclusion and poverty reduction.

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Microfinance Barometer 2013

Scaling Financial Inclusion: Continued Growth and Diversity

2011 Overview of Institutions Providing Microfinance Services

Global Loan Portfolio: Slower growth with continued concentration among top 100 providers

- Global portfolio growth has continued to slow down since the 2009 crisis, growing by 15% in 2011 against 25% in 2009. But this growth is not evenly distributed. Africa and Latin America are showing the strongest recovery since the crisis at nearly 25% annual growth since 2009, with the former also benefiting from new market entrants and an increased focus from funders on Sub-Saharan Africa.
- While tens of thousands of providers serve microfinance clients, the leading 100 institutions still represent 80% of the total lending portfolio and 75% of the borrowers served at a global level in 2011. The global top 100 microfinance institutions (MFIs) are increasingly concentrated in Latin America and the Caribbean, Sub-Saharan Africa, and South and East Asia.
- Institutions serving microfinance clients have diversified portfolios. Microenterprise lending represents 60% of total lending, and 80% of active borrowers, but those institutions also serve other client segments and lending purposes, such as larger businesses (15% of lending) and household consumption needs (12% of lending).

Client Outreach: 94 million borrowers reached in 2011

- The slower growth in total loan portfolio masks a 3% shrinkage in client outreach at a global level over 2011. Lending in South Asia, dominated by India, is still impacted by the 2010 Andhra Pradesh crisis and subsequent shutdown of activity. This resulted in a decline in outreach of 10% in the region and nearly 20% in India in 2011, strongly impacting the total global outreach data. In contrast, Africa and Latin America show increased growth in outreach over the same period, posting 15% more borrowers each over 2011.
- The size of enterprise lending is very closely linked to local income levels in the different regions of the world. As a result, the average loan size varies greatly across the regions, from nearly USD 2,500 in Eastern Europe and Central Asia to less than one-tenth that amount in South Asia.

Continued Transformations: Local funding drives the sector through increasing deposits and borrowings

- Deposits dominate the global balance sheet of MFIs, but they are highly concentrated in a few large banks. Borrowings are particularly important to NGO and non-bank financial institution (NBFI) funding, but as the scope of deposit taking non-bank licences has increased, deposits have become a more important source for the latter.
- The debt funding, particularly for NBFIs and NGOs, comes from a variety of local and foreign sources (57% and 43% of total MFI borrowing, respectively). Banks and other financial institutions provide over one third of total debt funding and are primarily local funding sources. Structured funds (or microfinance investment vehicles – MIVs) and development finance institutions provide an additional 20% each and represent the most important foreign sources of funding. According to “The State of Microfinance Investment 2012” study by MicroRate, total MIV assets are estimated at around USD 7.5 billion in 2012, having grown by an estimated 14% over the prior year.
- Foreign funding flows have also changed over the last several years. 2011 results from CGAP 2012 “Current Trends in Cross-Border Funding in Microfinance” survey shows that, as the growth in committed funds has slowed to 6% in 2011, funders have increased their presence in a number of regions. Notably, commitments to Sub-Saharan Africa have increased by 12%. Funding remains largely targeted at refinancing MFI loan portfolios (77%), with the rest of these funding flows supporting capacity building at the retail, market infrastructure and policy level.
State of the Mobile Money Industry

More than 1 billion customers in developing markets have access to a mobile phone but do not have a bank account. Financially excluded people are forced to rely on informal financial services which are often unreliable, insecure and expensive. Today, mobile money or the use of mobile platforms is one of the most effective and efficiently distributed financial services the unbanked can access.

In Kenya, Madagascar, Tanzania, and Uganda, there are already more mobile money accounts than bank accounts. In these countries, mobile money is allowing more people to access financial services than the banking industry has ever managed to. There are also 28 countries where there are more mobile money outlets than bank branches, meaning that mobile money agents rather than banks are becoming the face of the financial service industry.

In 2012, the global network of mobile operators GSMA counted 80 million active mobile money customers, who undertook 224 million transactions totalling USD 4.6 billion in transaction value during the month of June 2012.

The mobile money industry is growing fast, especially in Sub-Saharan Africa. In terms of geographical distribution, most deployments (56%) are in Sub-Saharan Africa, where mobile money services are available in 34 of 47 countries. In June 2012, there were twice as many mobile money users as Facebook users in Sub-Saharan Africa.

At the end of 2012, there were 150 mobile money services for the unbanked in 72 countries.1 This growth has been driven by mobile network operators (MNOs), which operationally run 72% of these deployments.

Indeed, MNOs are uniquely positioned to offer mobile money services to the unbanked: they have extensive distribution networks which they can leverage to offer cash-in and cash-out services; they have trusted brands even in the most remote areas; and they own the mobile channel.

So far, the most popular use case for mobile money has been domestic person-to-person money transfers, which represent 82% of the value transacted on mobile money platforms globally.

Bill payments, salary payments or micro-insurance products are other examples of much-needed financial services that can be delivered more effectively via mobile. Some mobile money providers and microfinance institutions (MFIs) are exploring collaboration, considering mobile money as an affordable and convenient channel that can be used for loan disbursement and repayment.

In many markets, mobile money providers are still building their foundations, focusing on operational controls risks but does not hamper financial inclusion.

GSMA’s 2012 Global Mobile Money Adoption Survey highlighted a rapidly growing sector with signs of increasing maturity. MMU will continue its support to help the industry achieve greater scale and fulfill the potential of mobile technology for financial inclusion.

Demand and Supply of Capacity Building Services for Financial Service Providers

Recent survey1 of retail financial service providers (FSPs) confirmed that the lack of capacity remains a major bottleneck for scaling up and diversifying services to low income people. More than 40% of responding FSPs said that their main challenge is improving the capacity of their business.

Capacity building needed includes not only advisory services, training and skills building, but also IT services, human resource functions and market research. Services most in demand according to FSP respondents relate to risk management, strategic planning, innovation and microfinance product development.

The survey is to keep up with the fast changing financial inclusion landscape; this was identified as the main challenge for 52% of surveyed capacity building providers (CBPs).

CBPs generally lack resources to invest in knowledge and specialised skills, particularly in small and fragmented markets, for instance in Sub-Saharan Africa (SSA), where 45% of surveyed respondents were located. Many have difficulties finding – and keeping – qualified staff, this was identified as the main challenge for 50% of surveyed providers. They need to invest sufficiently in identifying market needs, building long-term relationships with FSPs, and demonstrating the value of the service.

Despite years of donor programmes whose explicit goal is to help build capacity of both FSPs and CBPs, the market for capacity building is still highly subsidised with few viable providers able to adapt to an evolving landscape. The design of the subsidies contributes to this dependency. Donors often fail to look at capacity building in a market building way. They need to think about capacity building as an interconnected set of submarkets in which incentives have to be right for both the demand and the supply side, which adapt as markets change. Only then will we be able to build the capacity the sector needs to grow and respond to the many challenges still ahead of us.

1. GSMA, February 2010. "Capacity Building Survey Results", GSMA. The survey was conducted with 756 FSPs and 221 capacity building providers (CBPs). 63% of FSPs were non-bank financial institutions, while 37% were independent consultants.

2. GSMA Mobile Money Deployment Tracker.

Methodology

Unless otherwise noted, all data comes from fiscal year 2011 and is presented by microfinance institutions (MFIs) and other microfinance providers to MIX and published on MIX Market as of March 31, 2013. For trend data, only institutions with data for all years in the time series are included. MFIs provide data to MIX on a voluntary basis, and that data is fact-checked against audited financial statements of all MFIs. Achieving representative coverage of microfinance, MIX seeks out the leading providers of microfinance services, regardless of their institution type, including microfinance providers, banks with dedicated microenterprise portfolios, credit unions and other community based providers that reach low income clients and others.

A range of services are provided by the institutions surveyed, indicating the diverse range of products and services that MFIs and MIX Microfinance Portfolio (MFP) providers offer. Use cases are included as a way to group services into categories, such as remittance, savings or microinsurance.
The Parallel Stories of Microfinance

The story of microfinance in the South has numerous genealogies. First, there is the story widely reported in the media of an invention by Muhammad Yunus and the Grameen Bank in Bangladesh in 1976, when this professor of economics experimented a group lending mechanism that defined the basis for the creation of the Grameen Bank that inspired many replications in the world. There are also many previous experiences that had an equally important influence on the sector. For instance, the experience of the savings and credit cooperatives, founded in West Africa in the 1960s, and that are currently the main sources of microfinance on this continent (see article on page 5). Further experiences are derived from the evolution of public development banks, deeply restructured in the 1990s, like BRI in Indonesia or INDECO in Angola. These different origins have resulted in various trajectories. NGOs have been focusing on targeting excluded groups and providing loans, while cooperatives have been focusing on savings and participatory governance. The transformation of development banks into a large number of local units providing a diverse range of services, and mobilising savings successfully. Besides, the 1990s witnessed a new phenomenon of NGO commercialisation, initiated in Bolivia in 1999 by the transformation of PRODEM into a bank. In the 2000s, the main focus was on the professionalisation of the sector, its financial sustainability and transparency, especially under the leadership of CGAP.

However, recent evolutions have raised many issues: the huge profits generated by Compartamos’ initial public offering in Mexico and the crises witnessed in South India, Pakistan, Morocco, or Nicaragua have drawn attention to the dangers that microfinance could cause on clients when not handled properly. There has been a large movement lately to better regulate the microfinance sector, and to ensure a greater focus on vulnerable populations. This means working on the quality and diversity of services, particularly through capacity building for clients and introduction of new technologies and models tailored for the poorest. In addition, various social assessment tools have emerged since the early 2000s, which microfinance has been promoting new approaches in order to favour a positive impact on clients. The Social Performance Task Force, which brings together organisations working to promote social performance, has defined, in collaboration with the Smart Campaign for Client Protection, Universal Standards to guide microfinance institutions to integrate client focus in their daily management.

This sector is entering a maturity phase where the lessons of recent years can help build an inclusive, ethical and responsible microfinance.

Overview of Initiatives for Responsible Practices in Microfinance

In recent years, a number of initiatives that aim to encourage and support responsible practice in microfinance have emerged. Most have arisen from collaboration and consultation within the industry, resulting in aspirational standards and principles. These tend to focus on one or both of two central tenets of responsible investment in microfinance: client protection and social performance.

Definitions

Client Protection: The effort to ensure fair, responsible and transparent services for clients, it includes avoiding overindebtedness, providing transparent and fair pricing, having appropriate collections practices, ethical staff behaviour, mechanisms for redress of grievances and keeping client data private.

Source: Smart Campaign.

Social Performance: The effective translation of an institution’s mission into practice in line with access to financial services for the unbanked and underbanked. This may include: serving larger numbers of poor and excluded people, improving the quality and appropriateness of financial services, creating incentives for clients, and improving social responsibility of an MFI.

Source: Social Performance Task Force.

Although these initiatives are in different stages of development, together they form a voluntary self-regulatory framework. In the past year, these initiatives have worked together to establish a map intended to help explain the connections between them. A condensed version accompanies this article. A more detailed version, as well as a description of each of the initiatives, is available on the United Nations-supported Principles for Responsible Investment (PRI) website.

The map reflects the steps that practitioners can take. These move from self-assessment and implementation of a rating and external scrutiny. The development of the Smart Campaign – a global campaign committed to embedding client protection practices in the microfinance sector – provides a good illustration of this journey. In addition to receiving many endorsements, the initiative has also developed accompanying tools to support practitioners. There is a Smart Getting Started Questionnaire specifically for microfinance institutions (MFIs) and dozens of toolkits to help them turn principles into practice. In the past year, specialist rating agencies have worked together to incorporate client protection factors into their financial ratings of MFIs, referred to as the microfinance institutional rating. Earlier this year, Smart launched the Client Protection Certification, an independent evaluation intended to publicly recognise MFIs that meet and exceed standards of care in how they treat clients.

On the social performance side, the Universal Standards for Social Performance Management (USSPM) were launched in 2009 by the Social Performance Task Force (SPTF). They are a set of management standards and practices that apply to all MFIs pursuing a double bottom line (see article on page 5). The Smart Campaign and USSPM focus primarily on retail providers, but other actors in the investment chain have considerable influence. In recognition of this, the Principles for Investors in Inclusive Finance (PIIF) were designed by and for investors. They build on (and make direct reference to) the work of retail provider-focused initiatives such as the Smart Campaign, USSPM and MF Transparency. They include other initiatives by way of guidance, such as the Responsible Covenants Guidelines, recently devised by a group of direct investors in a bid to harmonise approaches. Finally, the PIIF are accompanied by a public Reporting Framework (see article on page 6).

There exist many resources to support responsible practice for providers and investors in developing their responsible investment policies and practices. Many are freely available, and more are available in development. There remain questions and challenges. How embedded are these practices across the industry? How can practitioners find the time and resource to keep up-to-speed with such principles and standards? What actually constitutes good practice in areas like pricing, profitability and the issue of “balanced returns”? To move forward with these discussions, we need a greater understanding of current practice. Most of the initiatives are therefore focused on encouraging transparency, and facilitating an ensuing debate. We look forward to updating the map regularly, in line with the evolution of the industry.
Survey Results: Establishing a Baseline for the World on Social Performance Management Implementation

I n the spring of 2013, the Social Performance Task Force, working closely with MIX and the Global Appeal for Responsible Microfinance to design a survey that would help understand the state of social performance management (SPM) practices within microfinance institutions (MFIs) today, what social performance management (SPM) practices are being implemented, what are the key challenges to implementation, and what kind of resources could empower institutions to pursue their social goals more effectively.

640 people answered the survey. Every region of the world is represented, with particularly large representation from microfinance institutions (MFIs). The results are encouraging, but also demand further action.

90% of respondents consider SPM important for their MFI’s success, and 80% agree that measuring social performance is an important task for the MFI. Over 70% of respondents are aware of the Universal Standards for Social Performance Management (SPTF Universal Standards), and all of the respondents have sought information on SPM from at least one source. Most encouragingly, we see evidence of action: after learning about the Universal Standards, approximately one quarter of MFIs have already begun to change practices.

Survey respondents tended to list the following as the most challenging: balancing social and financial performance, determining what to measure against, designing products, services, and processes that meet clients’ needs and preferences. Respondents also consistently named three types of resources that would be most helpful to help them address these challenges: indicators, data on how to ensure organisational commitment to achieve the SPM objectives, case studies and technical assistance.

SPM has already begun to build these local resources. For the past 12 months, the SPTF Indicators Working Group has been working in conjunction with the investor working group ALINUS (Aligning Investor due Diligence to the Universal Standards) to create indicators that an MFI can use to self-assess its performance against each of the essential practices listed in the Universal Standards document. The working group then held a public comment period for any organisation to review, and will be incorporating that feedback into the finalised indicator.

In addition, one workshop at this year’s SPTF annual meeting brings together CEOs and Board members of microfinance institutions from all over the world to discuss what performance management, including what data the board should analyze and how the board can contribute to the institution’s social performance. An output of this workshop will be a guidance document on “How to Develop a Board Report on Social Performance”, which will list the practical steps that an MFI can take to get its board to manage social performance.

In the past year, SPTF offered free, online trainings in English, French, and Spanish, covering both the fundamentals of SPM and detailed explanations of how practitioners are implementing the essential practices today. SPM is also building a library of resources designed around each section of the Universal Standards – resources which include case studies. Last, SPTF has built and regularly updates a database of technical assistance providers in responsible finance.

More information on the different aspects of SPM to discuss what may be found on the SPTF website.

Managing Social Performance: The Example of the Confederation of Financial Institutions in West Africa

T he Confederation of Financial Institutions (Confédération des Institutions Financières du Monde, CIF) of West Africa gathers six of the largest credit unions (cooperative microfinance institutions, MFIs) in the region: Cooperativas Unidas de Cifar-Beinn, FUCED-Cogo, Kogo Jinfew-Mali, Nyésgis-Mali, and PAMECAS-Senegal. Together these institutions serve over 2.95 million people, or roughly one household out of five in the region in terms of the number of accounts. The CIF aims at pooling resources and sharing efforts to build common tools, exchange innovations and best practices, and strengthen internal expertise.

In late 2008, the CIF initiated a process to assess social performance of its cooperative members. The CIF’s motivation was shared concern about the risk of mission drift. At the sector level, an increased competition, the emergence of commercial banks in microfinance, and MFIs’ trend to turn away from the most vulnerable clients, have led the networks to review their position.

The Social Performance Reference Group (Groupe de Référence sur la Performance Sociale, GREF), composed of a dozen managers was set up, with the support of CERISE, a series of peer reviews was conducted using the CERISE SPI (Social Performance indicators) audit tool.

The process involved all levels of the six organisations. Despite the specificities of each cooperative, the challenge of the process was to identify areas of improvement around which cooperatives’ initiatives could be shared and a transversal support organised at the CIF level, e.g. on rural and agricultural finance, women inclusion, and client protection.

In addition, the SPI results led to the construction of a dashboard used for regular monitoring purposes, to be transposed to the Universe Standards’ mission, strategies and constraints. In this context, the活得 in 2009 as the basis for annual reports presented during general assemblies. The CIF has also facilitated exchanges on social performance between the cooperative members of the CIF, and enriched strategic discussions.

In 2011, the Reference Group and CIF management decided to focus on client protection. A full-blown assessment of members’ practices then started in late 2012 through peer reviews coordinated by CERISE. Two representatives of Nyésgis-Mali, Malian member of the Reference Group, came to FUCED-Cogo-Benin to conduct an assessment based on the Smart Campaign methodology.

Despite some positive results, especially with regard to prevention of over-indebtedness, some gaps were identified in the policies and services. An action plan itemising short, medium and long term recommendations was set to fill the gaps identified, and shared at the CIF level. In addition, an accountable staff for each action was identified. Strong measures have already been taken, such as revising training for loan officers to better handle clients’ complaints, and introducing a code of ethics to prevent inappropriate collection practices.

Different levels of social performance implementation can be observed depending on the legal status of MFIs; while banks have the highest median score in 4 areas, and the overall median score of 66%, NGOs have the highest median score in the area of Social Performance Management and Client Protection, at 53% and 49%, respectively. Yet, large differences are also observed within regions – in Africa for instance, overall scores range between 22% and 70%.

Social Rating Scores Worldwide

Microfinance service providers aim at a double bottom line, which is both financial and social. Over the years, in addition to institutional or financial ratings, social ratings have become a common tool among practitioners. Social rating agencies verify how successful a microfinance institution is at translating its mission into practice and translate the results into a score.

The following graphs provide an overview of social rating scores worldwide.

Worldwide social rating results show that while some organisations perform extremely well, others perform significantly worse. The maximum overall score is 93%, the minimum at 22%, at the median at 61%. Median scores also show that some social performance areas are more frequently achieved than others – this is the case of Human Resources and Outreach, Services and Change, which both have median scores over 60%. Client Protection is the area with most discrepancies between institutions: the minimum score is 6%, whereas the maximum is 90%.

Achievements of Social Performance Areas per Region

A look at scores by regions shows that MFIs in Africa and Asia do not perform as well as MFIs in Europe and Central Asia, the Middle East and North Africa, and Latin America and the Caribbean. The median overall score in Asia and Asia is 54% and 60%, respectively. MFIs in Africa have particularly relatively low median scores in the areas of Social Performance Management and Client Protection, at 53% and 49%, respectively. Yet, large differences are also observed within regions – in Africa for instance, overall scores range between 22% and 70%.

Achievements of Social Performance Areas per Legal Status

Different levels of social performance implementation can also be observed depending on the legal status of MFIs; while banks have the highest median score in 4 areas, and the overall median score of 66%, NGOs have the highest median score in the area of Social Performance Management and Client Protection, at 53% and 49%, respectively. Yet, large differences are also observed within institutional types – for instance, banks’ overall scores range between 22% and 93%.
Microfinance and Ethics: Three Pivotal Questions

W hat are the key ethical questions in microfinance? Three important ethical questions need to be debated: Is it ethical to do business with the poor or earn profit from poor people? Is it ethical to maximise profit when doing business with the poor? Is there an ethical responsibility to avoid harming poor people in the process?

My answer would be that, although you can do business with the poor while earning a fair profit, you cannot just focus on maximising profit, doing what you do without having an obligation to your clients.

Human beings are economic beings. Self-employment or business owners, where income volatility is a prominent feature of their financial lives, we have to leave as much as possible of their hand-picked profit with them, so they can build assets and create stability.

But how much is enough to attract investments into the microfinance institutions in good health? Deutsche Bank recognises that profitability, operating costs, and interest rates can vary depending on the microfinance institution’s location, size, growth potential, sector, and target client. By signifying mistakes, the issues are complex, they are not insurmountable. We can use our own experiences to define what is acceptable for us as social investors, and to be transparent about our decisions, so that others may benefit. Although we will certainly be formulating framework in the process, our example may encourage others towards greater accountability.

While Deutsche Bank recognises the importance of robust, profitable, well capitalised and customer-focused MFIs in supporting MDGs and poverty reduction, it also recognises that profitability, operating costs, and interest rates can vary depending on the microfinance institution’s location, size, growth potential, sector, and target client. By signifying mistakes, the issues are complex, they are not insurmountable. We can use our own experiences to define what is acceptable for us as social investors, and to be transparent about our decisions, so that others may benefit. Although we will certainly be formulating framework in the process, our example may encourage others towards greater accountability.

The Principles for Investors in Inclusive Finance: Progress Two Years On

The results seem to indicate a strong engagement among participants with the Client Protection Principles (CPP): the large majority indicated that they reported on their actions in relation to CPP to their investors, and incorporated CPP into their investment policies, due diligence processes and financial risk management agreements. Those participating also reported a high commitment to investing in microfinance institutions that offer a range of financial services, and nearly 90% reported a procedure to integrate environmental issues into their investment decision making. All participants reported that they would disqualify a potential investee if they had poor social performance, and almost all would require social performance measurement into their due diligence and investment processes.

Despite this strong commitment to social performance, investors’ internal staff incentives are not always aligned – just 15% of senior staff incentives linked to social performance. Social performance in corporate governance is mixed: on average, equity investors report having strong governance structures for their investees. Finally, over 80% reported tracking their investment’s financial and social performance data of investees for learning purposes, but only 35% are seeking to gather data on social outcomes through, for example, encouraging investees to utilise the Out of Poverty Index studies or independent impact studies.

These results are a first step. The final Framework will be launched in October 2013 for all signatories. Individual investors’ responses will be published. Those organisations that receive an individual assessment, enabling them to compare their strength and weakness compared to peers. These new sources of information should prove useful for investors and for their clients, helping them assess trends, drive adoption and improve practices.

Defining Dimensions and Implementing Responsible Investment: The Example of Gramène Crédit Agricole Microfinance Foundation (GCAMF)

S tarted in 2007 as an initiative of Crédit Agricole and Gramene Trust, the GCAMF provides an efficient and useful contribution to the fight against poverty, in a sustainable way. Achieving this mandate of responsibility requests the implementation of a globally responsible investment concept that stretches across all areas of operations, processes and partnerships.

Implementing responsible investment for GCAMF starts with integrating in its policies the need to complete the sector where other funders are not, or insufficiently present. This determines geographic prioritisation (Sub-Saharan Africa), specific microfinance institution (MFIs) targeting and sector specialisation (rural / agricultural MFIs). Responsible investment practices also contribute to shaping GCAMF’s product offer: loan cycles reflecting the specificities of agricultural microfinance, but above all local currency funding. Today, 95% of our loan portfolio is provided locally to our partners while (largely thanks to the cooperation with the Currency Exchange Fund (FXO) only 20% of the Foundation assumes the currency risk. A specific Facility for microfinance in Africa, focusing on weaker but promising, socially oriented MFIs, constitutes an additional step in translating responsibility into tangible results.

On the operational level, standard due diligence missions include a half-day social performance evaluation followed by a social performance review with senior management. This step is supported by an in-depth evaluation and auditing report of CERISE-developed Social Performance Indicators questionnaire. To be sure that social performance analysis adds value to our partners, special attention is given at all times to provide feedback and exchange with management and staff.

Furthermore, responsible investment requires, even more than traditional business, coordination, continued sharing of experiences and lessons learned and strong support of industry initiatives. As illustrated in GCAMF’s cooperation with CERISE, analysis of the Foundation’s self-assessment by CERISE the Foundation is certified to validate GCAMF self-assessments performed by MFIs. GCAMF is also a supporter of the Client Protection Principles: their comprehensive evaluation during due diligence contributes to support MFIs in good standing and smart business. In addition, the Foundation is very active within the Social Performance Task Force, supporting, signing and implementing the guidelines on Reasonable Covenants and – by leading the action group ALINI – developing indicators for measurement and – by providing a platform for investors to share their experience and knowledge in defining indicators for measurement and monitoring of social performance, along the Universal Standards for Social Performance Management. The Foundation is also a signatory to the Principles for Investors in Inclusive Finance.

Moreover, responsible investment implies promoting active and sound governance practices, both within the Foundation’s management committee, and through mandates held in other organisations’ boards and committees, as a shareholder, or through direct nominations. Responsible Boards always serve as platforms to further promote responsible finance.

Eventually, the efficiency of implementing the responsible investment principles needs to be validated and confirmed, which requires transparency and accountability. A bi-annual presentation to the Ethics Committee serves as a first step towards verification. To allow for transparency and further improvements, GCAMF went for an external evaluation carried out by CERISE. It started in September 2012 and concluded with a presentation of the results to the partners. The final report of this social performance audit will be posted on the Foundation’s website.
Enlarging Financial Inclusion: The Role of Policy Makers

While progress has been made in increasing financial inclusion within the last decade, the meaningful scale has not yet been achieved. An estimated 2.5 billion adults worldwide still lack access to formal financial services, 90% of which are in developing and emerging countries. The need for greater financial inclusion—in terms of ensuring the availability of quality services—remains significant.

In recent years, technological and infrastructural innovations have brought significant opportunities to expand financial inclusion, particularly in developing and emerging countries. The use of mobile financial services and the adoption of mobile financial services and the use of mobile agents have lowered the costs of providing financial services on a large scale in many countries.

This new trend has not only brought financial inclusion within closer reach, it also paved the way for a broadened approach for policymakers and regulators, particularly in leading the development of appropriate regulatory frameworks and understanding the potential risks that come with these innovations.

To support the development of these appropriate regulatory responses, policymakers and regulators must have a thorough understanding of the experiences of their peers from developing and emerging countries. Thus in 2008, the Alliance for Financial Inclusion (AFI) established itself as the world’s first peer-to-peer learning and knowledge sharing platform for financial inclusion.

AFI’s approach is based on the understanding that sustainable and effective policy changes reduce financial barriers and incentivize the private sector to innovate and provide new financial services, and that effective policy solutions are grounded in empirical evidence. In September 2011, AFI members publicly committed to measurable progress within the four pillars of financial inclusion, namely: creating enabling environments to harness new technology that increases access to financial services; implementing a proportional regulatory framework that advances microfinance’s potential; enhancing integrity, stability; and integrating consumer protection and empowerment as a key pillar of financial inclusion.

The Maya Declaration capitalizes on the collective strengths of its signatories in two ways: first, it commits countries to sharing their financial inclusion insights through AFI’s peer-to-peer platform; second, it fosters and promotes new forms of cooperation and coordination led by country ownership.

The commitments vary in scale and are based on the choice of policy solutions, but they are all owned and created by the policy makers themselves, providing a unique opportunity to each institution to meet their goals and measure progress over time.

For financial inclusion to meet its full potential, it must be truly inclusive, bringing together the expertise of a broad cross-section of partners beyond AFI. This effort to expand knowledge exchanges among all financial inclusion stakeholders will be an important focus in the coming months.

Through the Maya Declaration, policy makers are providing a clear tipping point for financial inclusion, enabling us to push to unlock its full potential.

The Role of Savings and How to Connect Informal Groups to Formal Financial Services

Savings have too often been ignored or not even considered important in financial services poor people could have had an influence in. The primary reason was that they did not provide capital to poor people, rather than trying to build growth with their own savings. However, savings are an essential part of the financial ecosystem. People need to have a huge number of reasons—be it accumulation of assets, family household goods, and education investment in their own small business, or to protect themselves from any number of possible shocks and hazards, to be ill or a failed harvest.

Today, 2.5 billion people do not have an account with a bank or other financial entity. This severely limits their ability to save, invest and plan for their future.

Based on the belief that savings should not be taken for granted as evidence of financial assets, CARE started developing the VSLA (Village Savings and Loans Associations) methodology in Niger in 1991. VSLAs are now being implemented by many other organisations across the globe, mainly in Sub-Saharan Africa. They build on traditional indigenous savings schemes and are a simple, sustainable, and low cost way to enhance economic and social development without distorting the local fabric in the communities. Over twenty years of implementation, the impact of VSLAs has been seen at different levels including income and business growth, increased accumulation of assets—in Rwanda, for example, household savings increased by 300% on average; in a VSLA, increased spending education, better food security, improved health and overall women’s empowerment.

Today, there are over 7 million VSLA members around the globe. VSLAs are the first step towards financial inclusion on the “graduation” ladder, but those savings groups have their own limitations.

As groups mature, they require more sophisticated products and services. They may need to deposit their excess liquidity in a safe place as well as getting access to a higher amount of capital. CARE has pioneered innovative ways to meet these demands by facilitating linkages with formal financial institutions and savings groups with mobile operators, banks (global and local), MFIs and insurance providers including Orange, Vodacom, Equity Bank, and Barclays. For example, over 500 new group savings accounts have been established with Barclays Bank in Kenya, Uganda, Ghana and Tanzania.

Preliminary findings show that financial education is key to ensuring clients are well prepared to understand the financial sector but formal financial institutions also need help to understand how the population in this new market segment is importing to the future of their core business.

For linkage to be conducted in a responsible way to preserve customer protection and group identity, CARE has developed linkages principles that should be followed by anyone engaging in linkages. These principles include: link groups, not individuals; only link mature groups; focus on demand rather than supply; prepare groups before linking them; protect core savings group principles; start with savings; maintain a conservative savings to credit ratio, and minimise the use of savings as collateral.

If the vast scale of financial exclusion is to be tackled globally, governments, civil society and the private sector must step up their efforts to test new, responsible ways to connect poor and marginalised people with the financial services they so desperately need.

Beyond Financial Services: The Importance of Financial Education

Microentrepreneurs in emerging markets face very complex financial management challenges and have given the uncertainty of their environment and the lack of financial structure. Evidence suggests that the majority of these entrepreneurs lack the basic financial skills to address these challenges. The traditional response to the lack of financial capabilities has been to use in-depth training programmes to teach budgeting, business planning, accounting basics.

Financial education has been a central pillar of technical assistance to microentrepreneurs and small businesses in developing countries for decades. To date, the microfinance industry has focused on the idea that financial education programmes may improve knowledge and attitudes about financial management when rigorous research methods are used to develop content and delivery channels, but evidence about their effectiveness in changing financial behaviour has proven elusive.

Behavioural science may help design and scale financial education programmes that are appropriate and complement client environments and contexts. An important insight from behavioural economics is that attention is a scarce psychic commodity: using up some of your supply to perform one task reduces your ability to perform other tasks that require attention. In addition, as the stakes rise and problems get harder, our cognitive resources become more limited. Developing a financial education approach that only makes small demands on attention is therefore likely to be helpful.

Recent evidence from field tests has indicated that there may be alternative approaches to financial literacy training that may help in changing microentrepreneurs’ financial behaviours for the better.

One example is a financial education programme using simple rules of thumb, rather than in-depth budgeting and accounting training. For example, teaching microentrepreneurs to physically separate their household finances from their business finances had positive effects on financial management in a developing country.

Overall, financial tools that are easy to learn and simple to implement have proven successful in changing financial behaviour of microentrepreneurs.

An additional challenge for the microfinance industry has been to develop cost-effective financial education programmes that financial institutions, policy makers and other stakeholders will take up and use. To date, we have not successfully proven the “business case” for financial education. Our goal as an industry for the next several years should be to focus on developing financial education interventions that address client behaviour change, and to provide evidence of how financially literate and capable clients strengthen financial institutions and financial markets.

Definitions

Financial Capability: A comprehensive term that refers to the state in which individuals effectively apply their knowledge and use available services to meet their benefit.

Financial Education: All educational messages communicated to individuals about using financial services: classroom, web, book, audio-visual to public service announcement.

Financial Literacy: Knowledge, skills, and attitudes resulting from financial education.

Source: Center for Financial Services Innovation.
The Impact of Microfinance: What Do We Know?

T he renewed attention of the last decade to the impact of microfinance since 2009 – echoing with the recent interest in microfinance crisis in Andhra Pradesh, India, that hit newspaper headlines and raised the impression that this issue has only started to be debated recently.

However, analysis of a corpus of 154 impact studies conducted between 1980 and 2010 has shown that, since the inception of microfinance, donors have wanted to assess its impact. As they gradually increased their support since the mid-1990s, the number of studies also grew steadily, with 10 studies per year on average in the first decade of the 2000s.

What were the results of these publications? Although 123 found an average positive impact, the impact proved difficult to generalise beyond the context of operations: microfinance tends to have positive effects in areas with a financial gap, whereas, in areas crowded of formal and informal lenders, the risks of over-indebtedness and market saturation are high; cultural determinants also seem to matter.

Eventually, the impact of microfinance also seems to depend on the type of services offered. For instance, the impact of savings, insurance or training – albeit difficult to measure – has been found to be high, in particular to reduce vulnerability, by several surveys.

Still, the impact of combinations of products remains a challenge to assess rigorously. All in all, knowing under which conditions microfinance services can have an impact remains a major challenge. This will require complementing the quantitative, proof-oriented academic studies with interdisciplinary, practitioner-oriented approaches.

So does microfinance work? On the one hand, many studies concur with Banerjee and Duflo, who argue that microfinance cannot be a miracle, but does allow households to borrow, invest, and save. On the other hand, scientists have highlighted the need for such things as the impact of microfinance. Instead, various impacts have been observed, depending on a number of factors.

Firstly, the impact of microfinance proves different for different target groups. The positive effects are higher for the poor than for the non-poor. They mainly take advantage of increasing access to market; however drawing increasing attention for small-scale activities, are not concerned with or affected by environmental issues. Yet, their stories prove just the opposite: Armando, a Salvadorian farmer, was intoxicated with the chemicals he uses to grow his crops, while in Mali, CAMIDE asks clients to sign an environmental contract requiring them to stop using plastic bags and plant trees.

Secondly, impact also varies depending on the design and context of operations: microfinance tends to have positive effects in areas with a financial gap, whereas, in areas crowded of formal and informal lenders, the risks of over-indebtedness and market saturation are high; cultural determinants also seem to matter.

Part from a few notable exceptions, microfinance has not typically reached extremely poor people, robots which they often overlook, by other development interventions. The Graduation Foundation Graduation Program is a global effort to understand how mix of interventions spanning livelihoods development, social protection and financial services, can create sustainable pathways for the poorest. Dufo in July 2012.

The women targeted were among the poorest 10 households in their community who have been hit by either informal labour or begging, owing less than 0.2 acres of land, with few or no productive assets and often aged children working rather than attending school. Soon after they were selected in the programme, they started receiving a consumption support of approximately USD 1 in cash and were encouraged to save 10% of the amount each week. An asset was given to each woman to jump-start an economic activity, which was crucial to boost participants’ self-confidence and social capital. At the end of the pilot phase, 98% of participants reached “graduation” – meeting a series of criteria such as having at least two sources of income, eating at least two meals a day, and accessing schools.

Over a year after the end of the 18-month programme, the RCT impact assessment indicated that households were able to sustain their progress over time; women were earning on average 10% more food than a control group, and skipping fewer meals. These effects were larger than the magnitude of the underlying intervention could possibly explain. Reported “happiness” also increased, suggesting that hope, self-confidence and orientation toward the future may be one of the keys to unlocking poverty traps.

Encouraged by these results, Bandhan has partnered with Aspen to Bank to expand the programme with the goal of reaching 55,000 new extreme poor households by 2015. Other early evaluation results assessing the impact of the graduation pilots in India, Honduras and Pakistan also show improvements in the lives of the extremely poor, in all but one site.

Donors have expressed interest in rolling out the Graduation Approach as a new way of working with the extreme poor, while several governments want to explore how it can be integrated into social protection, programme delivery and microfinance. CGAP will continue facilitating knowledge sharing to scale up solutions that help end extreme poverty.

Microfinance and the Environment: Going Green

The case of PRIDE RW, in Tanzania, who is developing, with the support of PAMEGA, a new loan to facilitate accessing safe drinking water.

PAMEGA

Graduation Approach, the programme is built on four core elements: careful targeting of the poorest, a smallest livestock farmer from Mali, lost two of her goats after they swallowed plastic bags abandoned in the nature. The women targeted were among the poorest 10 households in their community who have been hit by either informal labour or begging, owing less than 0.2 acres of land, with few or no productive assets and often aged children working rather than attending school. Soon after they were selected in the programme, they started receiving a consumption support of approximately USD 1 in cash and were encouraged to save 10% of the amount each week. An asset was given to each woman to jump-start an economic activity, which was crucial to boost participants’ self-confidence and social capital. At the end of the pilot phase, 98% of participants reached “graduation” – meeting a series of criteria such as having at least two sources of income, eating at least two meals a day, and accessing schools.

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The Impact of Microcredit on Employment in Europe: What Do We Know?

W hile microcredit is increasingly advocated as an instrument of active labour market policies in the European Union, little is actually known of its impact on employment. This is partly because of the lack of homogeneous and legal definition of microcredit.1 Yet, the past decade has seen a growing interest in social impact (see article on page 4) and European microfinance institutions (MFIs) are dedicating increasing financial and human resources to measuring their social performance and impact.

The relationship between microcredit and employment is usually studied through the lens of three questions: Does microcredit create jobs? Is it efficient? What is the quality of the jobs created?

In Europe, most studies show that microcredit significantly contributes to self-employment and job creation; the fiscal cost per job created is usually below that of alternative labor market instruments and jobs created through microcredit positively contribute to entrepreneurs’ income and self-esteem.2 Yet, definitive conclusions can hardly be drawn: most studies have been carried out by the MFIs themselves and for their own use; indicators differ from MFI to MFI and cannot be aggregated; and methodologies are not all equally rigorous and vary from impact evaluation to surveys or exploitation of credit monitoring data.

In France, significant efforts have been made in the past few years, from both microcredit operators and public authorities, to improve knowledge of the microfinance sector, its volume and social impact.

The latest national survey on business start-ups and creators suggests that microcredit does promote social inclusion and professional integration for vulnerable groups. Compared to creators who started their business with alternative financing, microcredit recipients count a higher proportion of social inclusion beneficiaries and unemployed individuals. Women and people holding a diploma equal to or below A-Level are also over-represented. According to the data reported by microcredit operators, microcredit in France helps create about 50,000 jobs each year, mainly for previously unemployed people, who consistently represent about 70% of beneficiaries. The jobs created also appear to be sustainable: the reported survival rate of businesses financed through microcredit after 3 years is 75%.

While recent efforts are positive and laudable, more robust and comparable data are still needed to evaluate the impact of microcredit on employment. This is particularly true when dealing with the MFI surveys involved so as to work on a homogeneous definition of microcredit. Besides, discussion about the impact of microcredit should not be replaced in the 2014-2020 period by the future EU strategy with a similar approach and purpose, including the Programme for the Competitiveness of Small and Medium-sized Enterprises (COSME), Horizon 2020, Creative Europe, and the Programme for the Social Change and Innovation (PSCI).

Methodology

Within the 32 countries covered by the 2010-2011 survey, 154 out of the 376 contacted microcredit providers have delivered data. The survey focused on organisations providing loans on a medium to large scale: in 2011, 69% of the participants distributed more than 50 loans and 54% more than 100 loans. The total number of microcredit providers in Europe is estimated to range between 500 and 700 entities. Therefore, data in the EMN Survey can be considered a sample of approximately 25% of the average number of estimated institutions. Due to the differing data basis of the five Overview Survey editions, it is not possible to conduct any comparable analysis with consistent data on the evolution of the European microfinance sector. For the exhaustive list of countries and institutions participating in the survey, see Tables 1 and 19 of the full document.


**Key EU Initiatives for Microfinance Development**

1. The European Progress Microfinance Facility (EPMF) is a 2010-2014 EU initiative which began in March 2010 with a EUR 100 million contribution from the European Financial Instruments Fund (EFSF) and EUR 100 million from the European Investment Bank (EIB). The EPMF aims to provide grants to finance for individuals who have lost or are at risk of losing their job or have difficulties entering or re-entering the labour market. The fund is managed by the European Investment Fund (EIF), which provides selected financial intermediaries with equity, debt and guarantee products for the development of microfinance, or guarantee funds for microfinance lenders.

2. In addition, the Competitiveness and Innovation Programme (CIP) is managed by the EIB on behalf of the EC. The overall objective of the CIP is to improve access to financial services, promote SME growth and investments in innovation. The CIP provides financial and technical assistance with capped guarantees partially covering their financial risks. Such guarantees are provided under the SME Guarantee Facility (SMEG), which is funded by the European Union (EU).

3. Besides the fundamental role of financial instruments, the EU also provides MFIs with technical assistance. In that respect, the pilot initiative JASMIN (Joint Action to Support Microfinance Institutions), launched in 2008 by the EC, the EIB Group and the European Parliament, provides services such as institutional assessment/rating, tailor-made trainings, and exchange of information and best practices.

4. The future EU strategy with regards to microfinance, SMEs and microcredit could be based on three basic principles: (1) a limited number of instruments with critical mass, (2) demand-driven instruments targeting different kinds of SMEs through the whole funding cycle. The present financial instruments for SME finance and microfinance, namely the EPMF and CIP, should be replaced in the 2014-2020 period by the future EU strategy with a similar approach and purpose, including the Programme for the Competitiveness of Small and Medium-sized Enterprises (COSME), Horizon 2020, Creative Europe, and the Programme for the Social Change and Innovation (PSCI).
An Overview of Microcredit in France

The microcredit sector in France is usually divided into individual and professional microcredit. The former is intended to meet the financial needs of small businesses and similar programs, and the latter to finance the development of credit institutions or consolidation of small enterprises or family businesses, enabling owners to create an enterprise or buy a business.

Aside from this purpose-based distinction, the two types of microcredit have common features. Both are aimed at people who have difficulty accessing conventional financing, and both include assistance for borrowers, which provides strong safeguards for the projects put in place.

The sector, which goes a long way to improve the economic, social, and financial inclusion of the populations concerned, benefits from a system of nearly EUR 602 million, ordered by the Social Cohesion Fund (Fonds de cohésion sociale – FCS), established in 2003 and managed by the Caisse des Dépôts.

In all, in the French microcredit model is based on the combined involvement of a wide range of actors, including associations, credit institutions, local authorities, social actors, and assistance networks, thereby illustrating both the financial and the social aspects of a credit system understood as one to be given to the poor. The regulation and statistical monitoring of the microcredit sector have changed recently.

Responsibility for authorising microfinance institutions (MFIs): these can be associations, foundations, or companies. On paper, with the Autorité de Prudentiel, previously responsible for the regulation of MFIs’ financial situation and operating conditions. The authorisation criteria, set out in the French Monetary and Financial Code, includes: at least 18 months of experience in assistance projects financed by MFIs either from their own funds or from bank loans, the processing of a minimum of 75 loans per year, the ability to manage these loans, the ability to monitor risks and management, appropriate guarantees for the microcredit institution, and managers with the required qualifications and integrity, skills and experience.

Furthermore, the work carried out by the National Council for Statistical Information (Conseil national de l’information statistique – CNIS) to define and measure microcredit, the Banque de France has implemented a biyearly statistical and monitoring of assisted professional and personal microcredit financing starting from December 2011.

This first set of data shows that the vast majority of personal microloans, equivalent to 77% of outstanding microloans, were used to finance projects intended to make the borrowers more easily employable. The goal was notably in enhancing their mobility by allowing them to buy a vehicle or obtain a driving licence in order to find or keep a job. The average loan amount was EUR 1,200, and the maximum loan in personal microcredit was measured at EUR 4,500. The average amount in professional microcredit at end-December 2011 was nearly EUR 602 million, with 95% of the loans granted. The beneficiaries are generally business start-ups or sole traders working in the sectors of information technology, services to businesses and individuals, and the hotel and restaurant sector.

Housing Microcredit: Time to Shift Up a Gear

In 2012, more than 11,000 personal microcredits were granted in France, of which around 70% were aimed at enhancing mobility, according to data from the Caisse des Dépôts. Although mobility is key to finding a job, it is only one element of improved living conditions: a growing number of French home-owners or tenants are living in inadequate housing. In addition, according to statistics from the National Housing Agency (ANAH), 2.1 million home-owners spend more than 10% of their income on energy bills.

In France, subsidies are granted to improve precarious housing or to help poor or disabled home-owners build or buy a home. However, often, this is not enough for poor home-owners: they are left, on average, with an additional EUR 3,000 to pay for energy efficiency works, and EUR 15,000 for the rehabilitation of unhealthy housing, in the event of a lack of personal savings, conducting that kind of works can be jeopardised.

Personal microcredit could be a solution. In its current form however, it could not cover all the required expenses. First, the Social Cohesion Fund – a public guarantee fund created in January 2005 to “guarantee social loans” at 50%, excludes housing microcredits; second, the microcredit is often not sufficient to finance the required expenses.

That is why the Social Cohesion Fund accepted, 3 years ago, to conduct experiments consisting in guaranteeing the first housing microcredits, in partnership with voluntary banks. The French Savings Banks (Caisses d’Epargne) are one of them.

Together with organisations’ experts, they detect and support disadvantaged home-owners, and mainly finance new heating systems, better insulation or better adaptation of housing for the elderly. While the borrower’s income is often close to the poverty line (less than EUR 1,000), the repayment rate is close to 100%. In the case of fuel poverty, microcredit helps people reduce the margin of their household by 20%, and therefore to reimburse their credit more easily.

Nevertheless, experiments are limited by the low amount of guarantee provided by the Social Cohesion Fund. As a result, the French Savings Banks will only be able to grant about 130 microcredits in 2013; this is very low in comparison with the needs, which can be estimated at about 2,000 microcredits. One way to develop housing microcredits would be for the Ministry of Housing and the Ministry of Sustainable Development to take part in the funding of the Social Cohesion Fund. Meetings between the Ministries and the Caisse des Dépôts will be taking place to try to shift up a gear.

Starting a Business with a Microcredit: The Journey of Zineb

Age 27, sells fruit smoothies and soups in open markets, Lille (North of France)

Zineb is a very brave and dynamic young woman. After graduating in business, she took a degree in management, and had to cope with a long search for a proper job. Because she needed to support herself, she decided to accept all sorts of small jobs — hairdressing, waitressing, cleaning hair — before a friend hired her as an assistant in his shoe shop. Within two years, she became the shop’s manager.

But business was not good enough, and she had to put in place, targeting assistance providers and lenders. The analysis focused on

- The PM impacts on people and actors (assistance providers and lenders). The analysis focused on the satisfaction outcome of the need which had been financed by the borrower and the achievement of the desired project. It integrated the diversity of impacts, positive or negative, observed even when not directly expected (like those on the borrowers’ budgetary or banking situation, their self-esteem, etc.). The impacts on actors (assistance providers and lenders) were also integrated into the analysis.

From this assessment one can note that, thanks to the PM, 53.1% of surveyed people estimate that their social insertion has improved, 51.3% that their professional situation has improved, and 44.8% have a higher self-esteem.

A publication (éditions de l’Atelier) featuring the study’s complete results will be released in September 2013.
Microfinance to Foster Job Creation in Spain

In Spain, microcredit first appeared in the 1970s as a result of isolated projects of various NGOs. It received its biggest boost from 2001 onwards, with the support of public sector and financial entities, especially savings banks. Since the beginning of the 2000s, the microcredit market has experienced exponential growth until the abrupt slowdown in 2008-2009, with the arrival of the sub-prime crisis and the crisis caused by the housing bubble in Spain. Most of the growth was mostly promoted by the savings banks in collaboration with social organisations, which were active in 2008 at the peak of the expansion of the sector. By 2010, only a handful of financial institutions and NGOs continued to provide microcredit in Spain. Microbank – the social bank of the financial institution La Caixa – emerged as the main player of the sector.

According to the latest figures of the European Microfinance Network report (see article on page 9), by the end of 2011 there were 75,191 active microcredit clients in Spain and the value of loans disbursed amounted to EUR 252 million.

In 2012, a study conducted by Fundación Nantik Lom with CAF Microfinanzas, “Financial inclusion to foster job creation - A case study on Madrid”, analysed how the successful elements of the CDFI model were transferred to the Madrid region, where innovative partnerships between the public sector, private banking and non-profit institutions could be adapted to Madrid – and by extension to the rest of Spain. In order to consolidate the financial system which creates employment opportunities through the financial and business services of microfinance institutions in small businesses, 11 recommendations were made. They included supporting the creation of specialised microfinance institutions, creating a solid institutional framework to support entrepreneurship and microfinance, promoting entrepreneurship in the financial education system, and ensuring government risk sharing mechanisms for small business loans and new start-ups – especially in areas where these are not traditionally covered.

Following some of the report’s guidelines, a series of innovative initiatives have re-surfaced in the Spanish microfinance ecosystem. Several public-private alliances along with new projects launched by social organisations, such as the recent agreement between Microbank and the regional government of Madrid to provide up to EUR 100 million in microloans to foster job creation in the region, the creation of the Spanish Association of Microfinance as a network to provide services to microfinance institutions in Spain, and the launch of Plataforma Emprendimiento y Microfinanzas (PEM), a pioneering online platform that centralises all the resources and information available on the Spanish microfinance and entrepreneurial sector and serves to connect entrepreneurs with more than 70 microfinance institutions.

The development and consolidation of a sustainable financial inclusion model for micro and small businesses is a key driver for the Microfinance sector in Spain, but also for many other European countries.


Microfinance in Eastern Europe: A Look at Montenegro

Microfinance started in Montenegro in 1999, after a 61% decrease in gross domestic product (GDP) since 1989. This was due to the regional instability caused by the end of the war in Yugoslavia and economic sanctions against Serbia and Montenegro, leading to a decrease in production, low productivity, and low and high unemployment. Microfinance was then perceived as an effective tool in terms of backwardness and poverty reduction in low-income communities.

Until 2003, when the Central Bank of Montenegro established a regulatory framework for microfinance institutions (MFIs), MFIs operated exclusively as NGOs. After this date, MFIs became registered with the Central Bank and started operating companies with a minimum capital deposit of EUR 100,000. The new law includes credit-only loans, non-loan financial services, and enables MFIs to operate and provide access to financial services to low-income households.

Until the 2009s, Montenegro’s GDP annual growth rate steadily increased from 1.9% in 2002 to 4.2% in 2005. During this period, the microfinance sector grew rapidly from a portfolio of EUR 30.5 million in 2005 to over EUR 79.2 million in 2008. Microfinance in Montenegro became a bubble, and many factors – which came to light during the 2009 recession, contributed to its subsequent downward and shrinking. The lack of regulatory capacity, absence of proper systems, policies, or procedures; high tolerance for multiple loans; lack of proper credit and risk management; failure of authorities to define the sector and its mission; and greater care placed on protecting clients.

The sector has experienced exponential growth until the end of this century, the number of loans disbursed has grown from 3,000 in 2004 to 63,000 in 2009, the number of active MFIs has increased from 20 in 2004 to 59 in 2009, results have significantly improved in the risk area. Lending remains timid as a response to past excesses – the current portfolio is estimated at EUR 27 million – but a higher focus is now placed on client protection and social performance.

This can be interpreted as a result of much more conservative and careful policies towards lending, and greater care placed on protecting clients.

In June 2012, the Central Bank asked financial institutions to lower their interest rates, warning that a failure to do so would result in an interest rate ceiling. This was followed by other hostile notifications until December 2012, when the Central Bank imposed an interest rate cap at 14% for corporate loans and 15% for loans on a probationary period of 6 months but, importantly enough, excluded us from this decision.

The past decade has been full of ups and downs for the microfinance sector in Montenegro. The goal now is to find a proper balance and use the lessons learned to focus on more clients and less on institutions.

1. Global Finance / Country Economic Reports (Montenegro)
2. MCI
3. Central Bank of Montenegro

Microfinance in the U.S.: The Example of Accion Texas Inc.

Accion Texas Inc. manages the largest microloan portfolio of any microfinance institution in the United States. Since opening in San Antonio in 1994, Accion Texas has made more than 13,000 loans totalling USD 140 million.

We have always known that providing credit for start-ups significantly contributes to their success and long-term survival. But a recent study just published is particularly relevant to what we have witnessed in nearly 20 years of lending.

In the first study of its kind, researchers from the University of Texas at Austin, the Anderson Graduate School of Management at the University of California–Los Angeles and the New York University Stern School of Business confirmed lending to start-ups greatly increases successful outcomes. The researchers, who reviewed 5,400 Accion Texas loan applications between 2006 and 2011, found credit contributed to the probability of survival by 44% and also increases firm revenues and employment.

Our clients illustrate the researchers’ findings. One is Bernard McGraw, who survived Hurricane Katrina in New Orleans in 2005. He lost his home and job, and he and his family ended up homeless in San Antonio. Mr. McGraw founded Creole Kitchen in an abandoned shack in 2006, struggling valiantly to keep it open. In 2010, a USD 26,000 loan from Accion helped him purchase the necessary facility. After paying off that loan, Bernard borrowed another USD 5,206 to purchase new equipment and open at a major airport. Today, he is thriving.

Access to affordable, ethical credit leads to success. We know it in our hearts. We see it with our eyes. And now we know it through objective research.

Accion Texas recognises that no organisation can work alone; because of our commitment to deploy, we have been provided the opportunity to lead with innovation and strategic partnerships. Two examples clearly articulate the importance of innovation and partner-up. First, with the creation of our web-based underwriting and tracking system, Microloan Management System™ – we provide microenterprise lending to multiple microlenders in the United States. Second, in 2008 Accion sold USD 30 million of its debt to Citi to continue deploying funds to its customers.

Through dedication to service, drive to meet the needs of the marginalised, commitment to innovation, and partnerships, we remain true to our mission: to support entrepreneurs with every financial tool available so that they can build credit and assets, while living their dreams.

Our story is a snapshot of the dedication and commitment of microlending in the United States. We are proud of our work, yet we know there is much more to do. 

Interview with David Roodman
Senior Fellow, Center for Global Development

What is your overall assessment of microfinance? Does it work?

Whether or not microfinance works depends on the meaning of “work.” For the general public, “working” means lifting people out of poverty. From that perspective, microfinance does not work. Randomised evaluations have not demonstrated impact on a 1 to 2 year horizon, and the longer term impact of microfinance remains to be seen. One of the main limitations of microfinance is that the capital is used to start businesses that are not necessarily self-sustaining, which limits the extent to which microfinance can help reduce poverty. Still, microfinance brings financial services to poor people in a self-sustaining way — it is fundamentally a good thing. Building self-sustainable financial services is the strength of microfinance.

What would your recommendations be to improve the impact of microfinance?

Credit should be de-emphasized, and there should be more savings and insurance. This is challenging business-wise, though. Although lives of poor people are full of risk and uncertainty, there are many business barriers to selling insurance, which include the usual moral hazard and self-selection biases. Even in rich countries, people don’t buy insurance unless they have to. The only type of insurance people are ready to voluntarily is life insurance. When it comes to savings, the regulatory environment becomes more important, as there is more responsibility on microfinance insurers to protect clients. In parallel, savings involves high transaction costs. Technology can help reduce the costs and foster the development of domestic insurance schemes.

What is your take on interest rates?

I have never been able to take a strong position on interest rates.

Interview conducted by Emilia Chassanon

Save the Date: 6th edition

LAUNCHED IN 2008, CONVERGENCES IS THE FIRST PLATFORM FOR THOUGHT IN EUROPE AIMED AT BUILDING NEW CONVERGENCES BETWEEN PUBLIC, PRIVATE AND SOLIDARITY-BASED ACTORS TO PROMOTE THE MILLENNIUM DEVELOPMENT GOALS (MDGs) AND THE POST-2015 DEVELOPMENT FRAMEWORK.

Launched in 2008, Convergences is the first platform for thought in Europe aimed at building new convergences between public, private and solidarity-based actors to promote the Millennium Development Goals (MDGs) and the Post-2015 development framework. It will look at these main stakes, and at the ways public, private, and solidarity actors address them, both individually and through innovative alliances. The Forum will also provide a large place for learning, debate, and co-construction.

Find the Provisional Programme and Register online:
www.convergences2015.org

Endorse the Global Appeal for Responsible Microfinance!

The Global Appeal is a worldwide effort to build momentum and commitment to responsible microfinance. It was developed by Convergences and 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, policymakers, investors, researchers, and financiers, through 7 principles:

1. MFIs Serve Clients in a Responsible Manner
2. MFIs Advance the SPF’s 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 Investors in Inclusive Finance
6. Researchers Assist the Microfinance Industry to Learn

Read the full text, Browse the 2,000+ signatories, and Endorse the campaign online: www.theglobalappeal.org

They have already signed the Global Appeal:

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Towards a fair and sustainable world

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