MICROFINANCE BAROMETER 2013

CONVERGENCES
Towards a fair and sustainable world

4th Edition

IN PARTNERSHIP WITH CAISSE D'EPARGNE FEDERATION NATIONALE · Caisse des Dépôts · citi · MAIRIE DE PARIS

Editorial

Jean-Michel Severino
Chairman of Convergences

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 and the achievement of the MDGs.

Against this background, the Microfinance Barometer 2013 offers an overview of actions taken by all actors to make the industry more responsible, responsive, and effective.

The publication, which aims at becoming a reference publication to monitor the main trends of the sector, also provides updated figures on the sector's global portfolio and outreach, and – in line with the new social and economic environment – takes a closer look at microfinance's potential in industrialised economies.

As reflected in discussions on the current and future development agenda, the global challenge of sustainable and inclusive development concerns, and therefore requires the participation of, all countries and all actors.

The 4th edition of the Microfinance Barometer sheds new light on the sector's challenges and opportunities, highlights best practices, and shows the potential of innovation and collaboration. To respond to the social and economic challenges of the 21st century, a truly global partnership for development is called for, and microfinance has a key role to play.

© Gwenn Dubourthoumieu / ACTED

Introduction

RESPONSIBILITY, INNOVATION, IMPACT: ADVANCING FINANCIAL INCLUSION

With approximately 2.5 billion adults lacking a formal bank account, there is a long way to go to achieve financial inclusion. Microfinance can play a significant role, through responsible and innovative practices that have a positive and sustainable socioeconomic impact on clients.

After the repayment crises on all continents in 2008/2010, sector growth has been slowing down, and global outreach has slightly declined. However, over 90 million borrowers were still reached globally in 2011, most of whom being women, and important growth rates were observed in some regions (see data on pages 2 and 3).

At the same time, the microfinance industry has grown aware of its responsibility to ensure that the access to financial services it provides does not harm clients. To that aim, worldwide initiatives involving operators, investors, regulators and service providers have led to the creation of new standards and frameworks, and a number of actors have already made commitments and started to act upon them (see articles on pages 4 to 7).

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 (see articles on page 3). The sector is also striving to broaden the range of products and services offered, be they financial or non-financial (see articles on page 7).

In developed countries as well, microfinance is increasingly being perceived as a potentially effective tool to counteract on 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 (see articles on pages 9 to 11).

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.

CONVERGENCES

Table of Contents

Exclusive Data and Insights

Endorse the Global Appeal for Responsible Microfinance

Page 12

Save the Date Convergences World Forum - September 17, 18 and 19, 2013

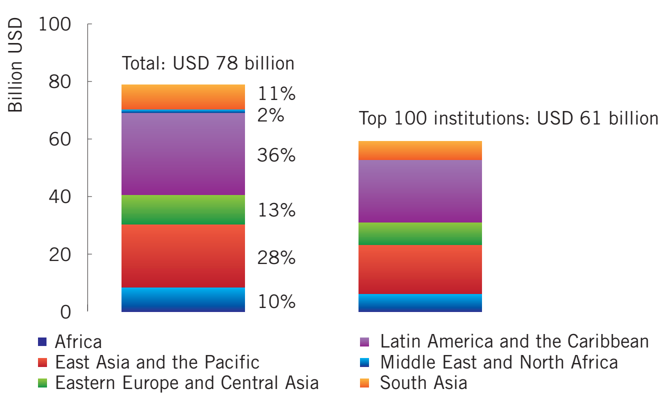
Page 12

SECTOR OVERVIEW IN DEVELOPING COUNTRIES

Scaling Financial Inclusion: Continued Growth and Diversity
2011 Overview of Institutions Providing Microfinance Services

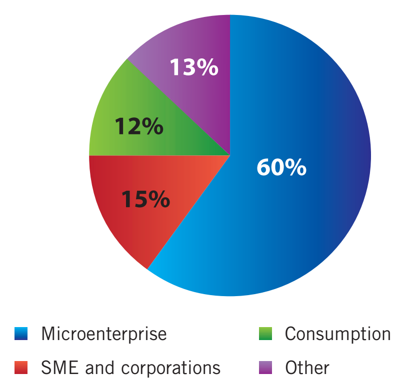
Global Loan Portfolio: Slower growth with continued concentration among top 100 providers

Global loan portfolio amounted to USD 78 billion in 2011



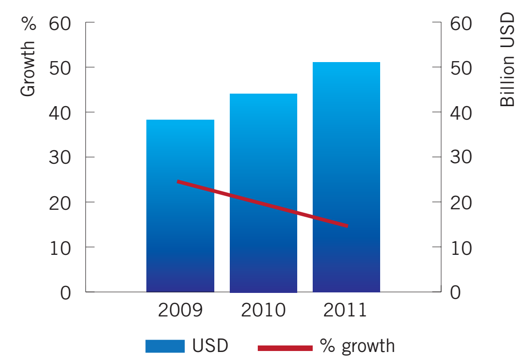
Source: MIX Market, 1,400 institutions reporting 2011 results

60% of loan portfolio finances microenterprise in 2011



Source: MIX Market, 1,400 institutions reporting 2011 results

Reduced portfolio growth to 15% in 2011

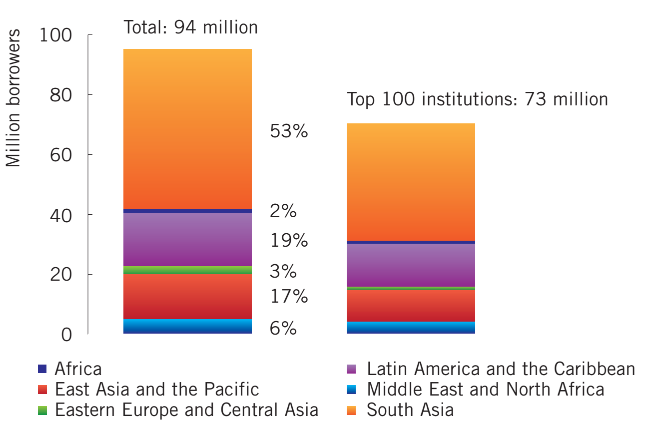


Source: MIX Market, 800 institutions reporting 2009-2011 results, representing 80% of 2011 loan portfolio

- 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).

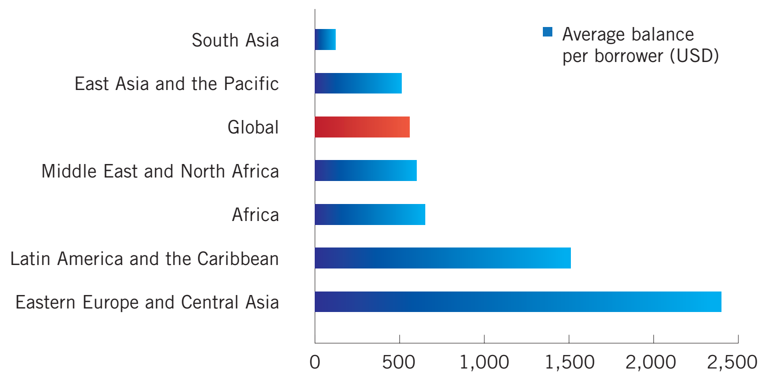
Client Outreach: 94 million borrowers reached in 2011

Total borrowers reached in 2011



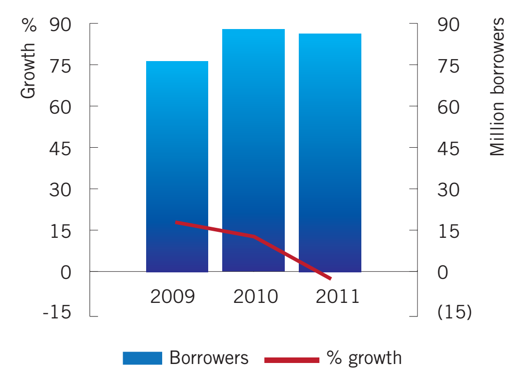
Source: MIX Market, 1,400 institutions reporting 2011 results

Microenterprise loan size varies across regions



Source: MIX Market, 1,400 institutions reporting 2011 results

3% decline in active number of borrowers in 2011

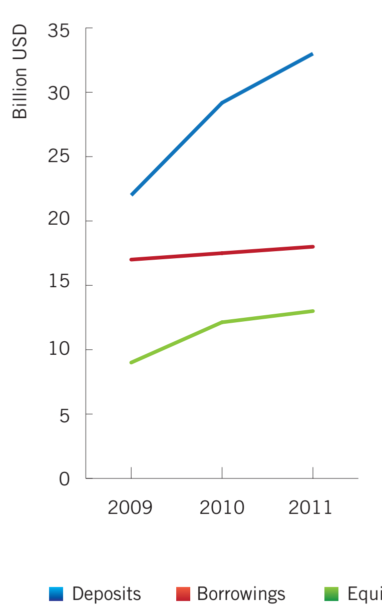


Source: MIX Market, 800 institutions reporting 2009-2011 results, representing 90% of 2011 borrowers

- 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.

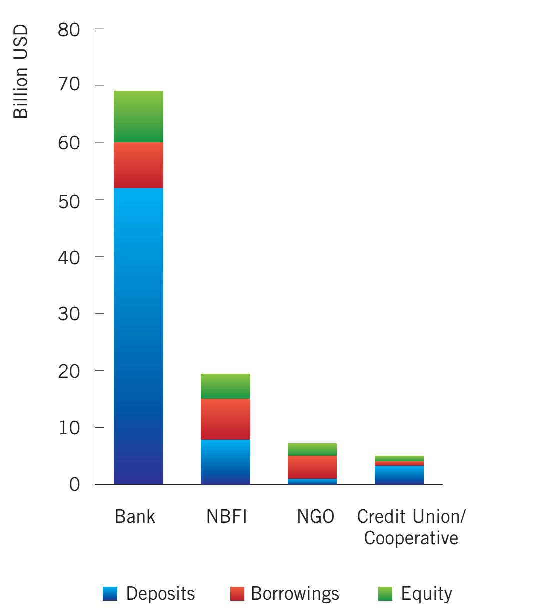
Continued Transformations: Local funding drives the sector through increasing deposits and borrowings

Deposit growth outshines other sources of funding in 2011



Source: MIX Market, 800 institutions reporting 2009-2011 results

Each provider has its own funding structure



Source: MIX Market, 1,400 institutions reporting 2011 results

- 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 borrowings, 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.

Serving Microfinance Clients: A diversified set of institutions moving beyond credit

Understanding microfinance providers and their clients

Diversity of institutions serving the sector	
Number of MFIs reporting to MIX in 2011	1,400
Percent of borrowers served by a non-profit institution	33%
Percent of borrowers served by a financial institution	67%
Diversity of services provided by the institutions	
Percent of institutions proposing both credit and savings	54%
Percent of institutions proposing insurance products	26%
Percent of institutions proposing non-financial services	54%
Diversity of microfinance clients	
Percent of rural borrowers	38%
Percent of women borrowers	73%
Percent of clients with microenterprise loans	81%

Source: MIX Market, 1,400 institutions reporting 2011 results

- MFI outreach is still largely concentrated in urban areas, with just under 40% of loans made for clients living in rural areas, representing only 20% of the loan portfolio, versus 80% in urban areas.
- While all MFIs provide lending services, most also provide a range of other financial and non-financial services. Deposit-taking is prevalent in most regions, except MENA, where there are few licensing options for deposit-taking MFIs. Insurance and other services such as transfer, bill payments and credit cards are also on the rise, particularly in Africa.
- MFIs also offer services to support entrepreneurs and their businesses: the most frequently offered services include education support to borrowers, whether as health education or financial literacy.

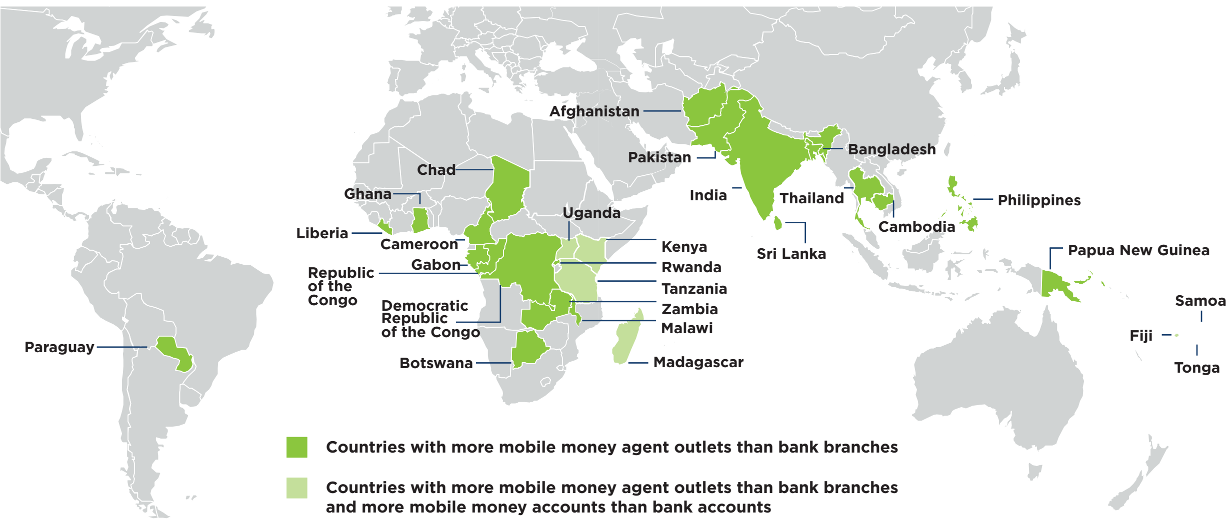
MIX AND CITI MICROFINANCE
BASED ON DATA PROVIDED BY MIX

Methodology

Unless otherwise noted, all data comes from fiscal year 2011 information 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 presented 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 for nearly 75% of all MFIs. In 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. As a result, institutions presented in this data have a range of services and lending products beyond microenterprise lending. This article also draws on the experience and local relationships of Citi Microfinance, serving 150 MFIs, networks and investors as clients and partners in nearly 50 countries.

Different methodologies and samples of institutions providing microfinance services exist across the industry to measure the outreach of microfinance worldwide, like the MIX or the Microcredit Summit Campaign for example. The Microfinance Barometer has chosen the MIX Market database as a primary and reliable source of information.

State of the Mobile Money Industry[1]



Source: "State of the Industry: Results from the 2012 Global Mobile Money Adoption Survey", Pénicaud, C., 2013, GSMA Mobile Money for the Unbanked

More than 1 billion customers in developing markets have access to a mobile phone but do not have a bank account.[2] 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 phones to access financial services represents the biggest opportunity to increase financial inclusion in emerging markets.

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 30 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 than Facebook users in Sub-Saharan Africa.

At the end of 2012, there were 150 mobile money services for the unbanked in 72 countries.[3] 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 challenges including how to build and manage their agent network, or how to drive mobile money usage. Developing enabling regulatory frameworks will also be crucial for the growth of this industry and more dialogue is needed between financial regulators and non-banks, to ensure that regulation adequately 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 fulfil the potential of mobile technology for financial inclusion.

[1] Unless otherwise stated, facts and figures presented in this article come from "State of the Industry: Results from the 2012 Global Mobile Money Adoption Survey", Pénicaud, C., 2013, GSMA Mobile Money for the Unbanked.
[2] "Mobile Money for the Unbanked: Unlocking the Potential in Emerging Markets", McKinsey, 2009, study commissioned by the CGAP and GSMA.
[3] GSMA Mobile Money Deployment Tracker.

CLAIRE PÉNICAUD
MARKET INTELLIGENCE ANALYST
GSMA MOBILE MONEY FOR THE UNBANKED
(MMU) PROGRAMME

Demand and Supply of Capacity Building Services for Financial Service Providers

A recent survey[1] of retail financial service providers (FSPs) confirmed that the lack of capacity remains a major bottleneck for scaling up and diversifying services for 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 resources functions and market research. Services most in demand according to FSP respondents relate to risk management, strategic planning, innovation and mid-level management skills. A range of providers deliver these capacity building services, including consulting firms, individual experts, training institutions, universities, NGOs and peer networks. Many of them aim to operate as a business, but have a hard time making a profit. However, their biggest challenge according to responses to 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).

The global survey revealed a mismatch between the demand for capacity building services and the supply in terms of content prioritisation. There is increased diversity and sophistication of demand from FSPs including new entrants in the sector, like payment or micro-insurance providers. CBPs need to better understand the demand and respond with more tailored and locally available solutions. In some cases, demand for technical assistance and other capacity building services needs to be generated because many retail providers have a hard time articulating their actual needs. And too often, the driver of demand is the availability of donor support.

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 survey respondents were located. Many have difficulties finding – and keeping – qualified staff: this was identified as the main challenge by 51% of surveyed CBPs in SSA. They need to invest sufficiently in identifying market needs, building longer 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] Koning, A., February 20 2013, "Capacity Building Survey Results", CGAP. The survey was conducted with 413 retail financial service providers (FSPs) and 221 capacity building providers (CBPs). 63% of FSPs surveyed were non-bank financial institutions, and 51% of CBPs surveyed were consulting companies or independent consultants.

ANTONIQUE KONING
MICROFINANCE SPECIALIST
CGAP

RESPONSIBLE PRACTICES

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 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 and 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 Banrural in Guatemala.

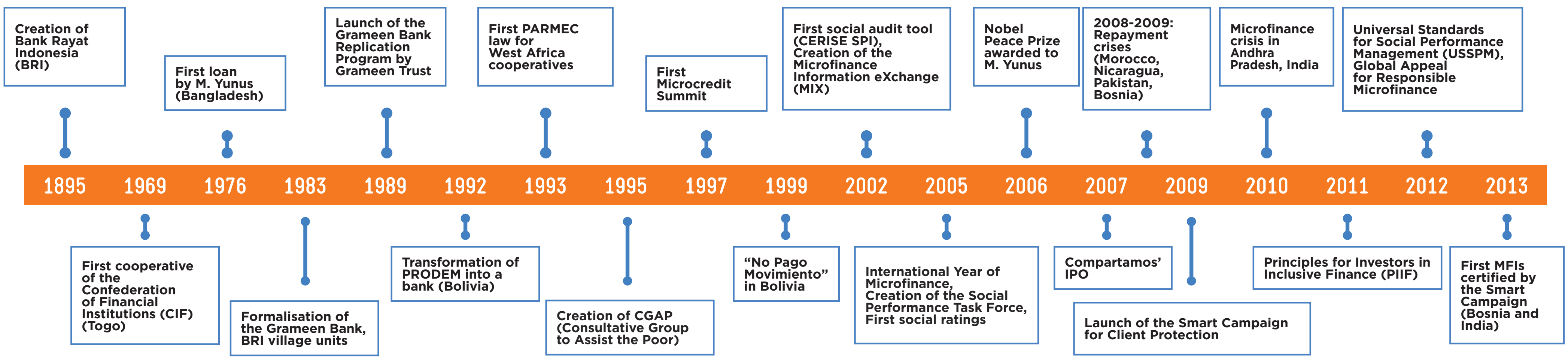
These different origins have resulted in various trajectories. NGOs have been focusing on targeting excluded populations and supplying loans, while cooperatives have often favoured savings and participatory governance. The transformation of development banks has led to the empowerment of local units providing a diverse range of services, and mobilising savings successfully. Besides, the 1990s witnessed a new phenomenon of NGO commercialisation, initiated in Bolivia in 1992 by the transformation of PRODEM into a bank. In the 2000s, the main focus was put 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, the introduction of new technologies and models tailored for the poorest. In addition, various social assessment tools have emerged since the early 2000s, and 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.

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

CÉCILE LAPENU
BOARD MEMBER
SOCIAL PERFORMANCE TASK FORCE
CHAIRWOMAN
EUROPEAN MICROFINANCE PLATFORM



Source: The author

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 over-indebtedness, providing transparent and responsible pricing, having appropriate collections practices, ethical staff behaviour, mechanisms for redress of grievances and keeping client data private.

Source: Smart Campaign.

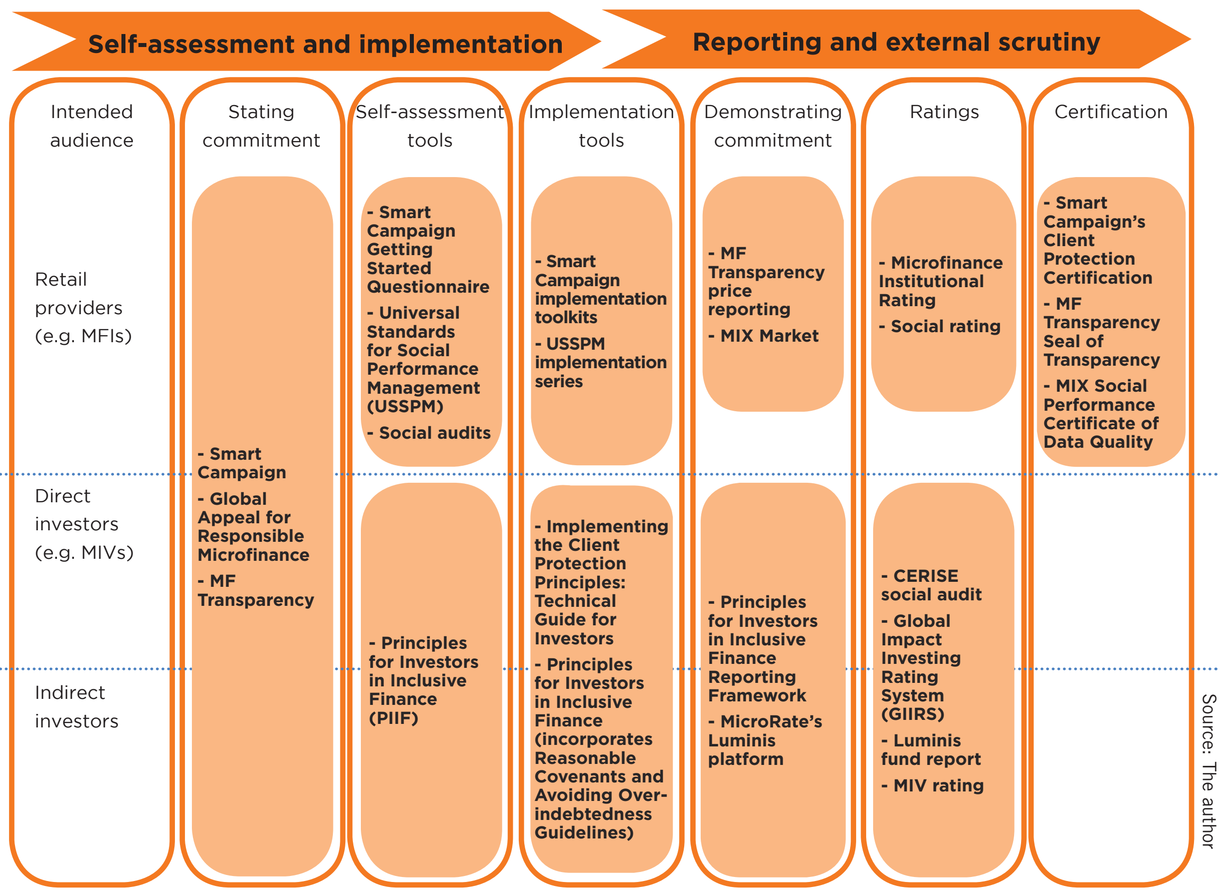
Social Performance:

The effective translation of an institution's mission into practice in line with accepted social values. This may include: serving larger numbers of poor and excluded people; improving the quality and appropriateness of financial services; creating benefits for clients; and improving social responsibility of an MFI.

Source: Social Performance Task Force.

Although these initiatives are in different stages of development, taken 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 to reporting and external scrutiny. The development of the Smart Campaign – a global campaign committed to embedding client protection practices in the microfinance industry – 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 adequate standards of care in how they treat clients.



On the social performance side, the Universal Standards for Social Performance Management (USSPM) were launched last year 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 Reasonable 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 both retail providers and investors in developing their responsible investment policies and practices. Many are freely available, and more are 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 practices. Most of the initiatives are therefore focused on encouraging transparency, and facilitating ensuing debate. We look forward to updating the map regularly, in line with the evolution of the industry.

EMILIE GOODALL
PROJECT MANAGER
PRINCIPLES FOR INVESTORS
IN INCLUSIVE FINANCE
HOUSED WITHIN THE PRI INITIATIVE

Survey Results: Establishing a Baseline for the World on Social Performance Management Implementation

In the spring of 2013, the Social Performance Task Force (SPTF) collaborated with MIX and the Global Appeal for Responsible Microfinance to design a survey that would help understand the state of social performance implementation in the microfinance industry 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. Every major stakeholder group contributed, with particularly large representation from microfinance institutions (MFIs). The results are encouraging, but also demand further action.

90% of respondents consider SPM to be important. Over 70% of respondents are aware of the Universal Standards for Social Performance Management ("Universal Standards"), and all of the respondents have sought information on SPM from at least some outside source. Most encouragingly, we see evidence of action: after learning about the Universal Standards, approximately one quarter of MFIs have already begun to change practice.

Survey respondents tended to list three areas of practice as most challenging: balancing social and financial performance; defining and monitoring social goals; and designing products, services, delivery methods and channels that meet clients' needs and preferences. Respondents also consistently named three types of resources that would be most helpful to help them address those challenges: indicators; guidance on how to ensure organisational commitment to social goals; and trainings, case studies and technical assistance.

SPTF has already begun to build these crucial 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 input on the draft indicators, and will be incorporating that feedback into the finalised indicators.

In addition, one workshop at this year's SPTF annual meeting brings together CEOs and Board members of microfinance institutions from around the world to discuss social performance management, including what data the board should analyse 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 initiatives, products and services may be found on the SPTF website.

AMELIA GREENBERG
DIRECTOR OF SPECIAL PROJECTS
SOCIAL PERFORMANCE TASK FORCE

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

The Confederation of Financial Institutions (Confédération des Institutions Financières, CIF) of West Africa gathers six of the largest credit unions (cooperative microfinance institutions, MFIs) in the region: FCPB-Burkina Faso, FECECAM-Benin, FUCEC-Togo, Kafo Jiginew-Mali, Nyèsigiso-Mali, and PAMECAS-Senegal. Together, these cooperatives serve over 2.95 million people,[1] or roughly one household out of five in the concerned countries. 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 the social performance of its cooperative affiliates. This initiative came from a 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 composed of a dozen managers was set up, and with the support of CERISE, a series of peer reviews was conducted using the CERISE SPI (Social Performance Indicators) audit tool.[2]

The process involved all levels of the six organisations. Despite the specificities of each cooperative, the SPI results revealed common 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 design of social performance dashboards used for regular monitoring of indicators, which were prioritised according to cooperatives' mission, strategies and constraints. These have been used since 2009 as the basis for annual reports presented during general assemblies. By creating a common language, this has 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. In early 2012, the six cooperatives applied the Smart Campaign's self-assessment tool to identify strengths and weaknesses in terms of client protection. A full-blown assessment of members' practices then started in late 2012 through peer reviews coordinated by CERISE. Two representatives of Nyèsigiso-Mali, a manager and an elected member, came to FECECAM-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 must still be addressed to strengthen and formalise practices. 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, 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 clarifying collateral procedures and code of ethics to prevent inappropriate collection practices.

This experience will be replicated with the remaining cooperatives in the course of 2013. Importantly, this methodology brought a critical thinking of the evaluated network's practices, and a good understanding of client protection issues by the participants.

Social performance must keep working as a lever to further mobilise elected members on refunding the cooperative identity around a stirring project, to professionalise this crucial aspect of cooperatives' activities, and to create a common basis for the governance of this cooperative movement, of an unprecedented scope and international scale.

[1] CIF 2011 Activity Reports.
[2] Designed in 2002 using a collaborative approach, the CERISE SPI tool is now used by more than 500 MFIs worldwide.

MARIE ANNA BÉNARD
PROJECT OFFICER
CERISE

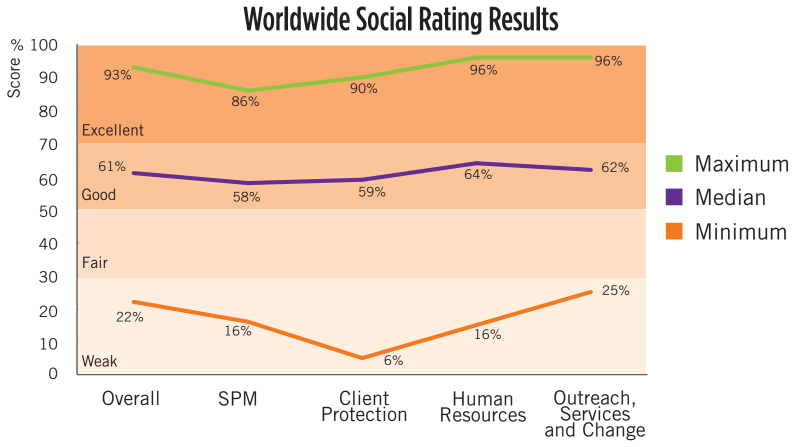
ABDOULAYE SANGARÉ
SOCIAL PERFORMANCE REFERENCE GROUP
COORDINATOR
CIF

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 (MFI) is at translating its mission into practice and translate the results into a score.

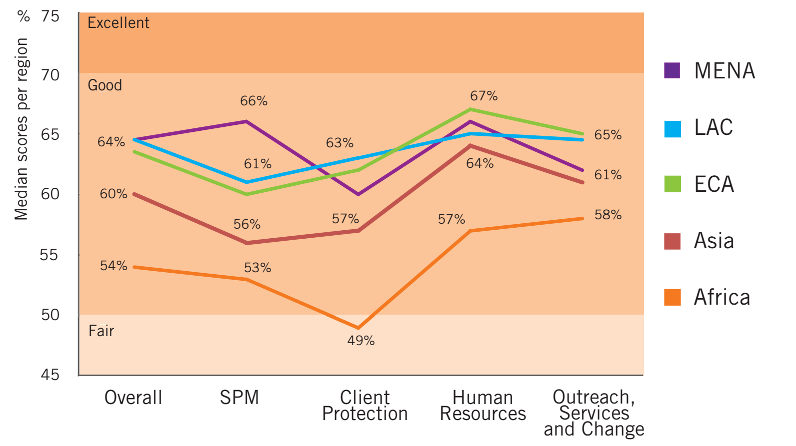
The following graphs provide an overview of social rating scores worldwide.[1] Scores can be considered "Excellent" when equal to or above 70%, "Good" when between 50% and 69%, "Fair" when between 30% and 49%, and "Weak" when below 30%. Social performance can be looked at from 4 angles: Social Performance Management, which includes management and staff alignment to the mission; Client Protection; Human Resources, which can also be referred to as social responsibility towards the staff; and Outreach, Services and Change, which refers to outreach to the vulnerable and underserved, and adaptation and quality of services, inter alia.

Worldwide Social Rating Results



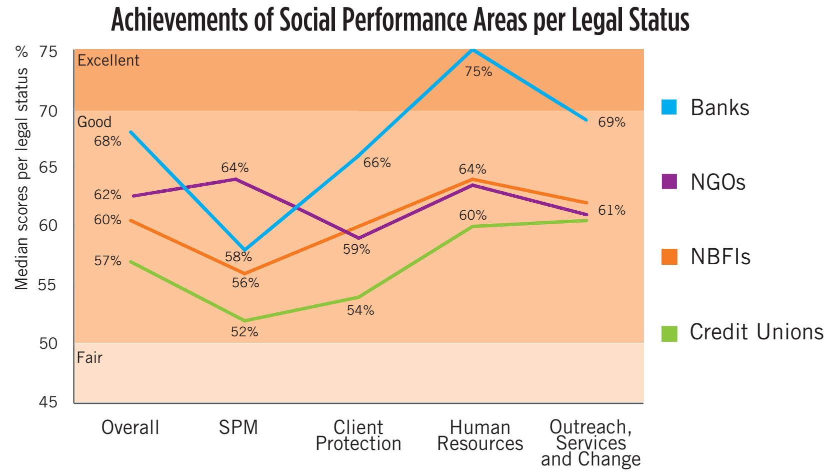
Worldwide social rating results show that while some organisations perform extremely well, others perform poorly: the maximum overall score is at 93%, the minimum at 22%, at the median at 61%. Median scores also show that some social performance areas are more frequently achieved than others – this is 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 Africa 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 an overall median score of 68%, NGOs have the highest median score in the area of Social Performance Management, at 64%. In contrast, credit unions and non-bank financial institutions (NBFIs) have relatively lower scores, with median overall scores of 57% and 60%, respectively. Large differences can also be observed within institutional types – for instance, banks' overall scores range between 22% and 93%.

[1] Median, minimum and maximum scores were calculated based on aggregated data, converted to a 0-100 scale, provided by the rating agencies MicroFinanza Rating and Planet Rating, based on a total of 232 ratings conducted between 2007 and 2013. Currently, each microfinance rating agency is using its own rating system. Yet, social rating systems have evolved within the common framework set by the SPTF, and specialised rating agencies are willing to provide more clarity on what social ratings are and how social rating grades can be compared across agencies. This may lead in the future to more structured and coordinated efforts from microfinance rating agencies to disclose common social rating criteria and a more immediate understanding of social ratings.

CONVERGENCES
BASED ON DATA PROVIDED BY MICROFINANZA RATING AND PLANET RATING

Microfinance and Ethics: Three Pivotal Questions

What are the key ethical questions in microfinance? Three are central to the debate: 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 when so doing, and you do have an obligation to your clients.

Human beings are economic beings. Self-employment or business activity is what the majority of people do to feed themselves. For hundreds of years, good work was mostly about charity. Societies saw the poor as worthy of our pity but not as people who worked hard, were intelligent and entrepreneurial. The new paradigm of socially motivated business is using a combination of business and philanthropic ideas to re-shape our system of thinking. Economic development means stability, and economic stability also means that people have a greater freedom to pursue their needs and desires; this builds ground for political progress, which circles back to more economic development. So doing business with the poor is a good thing.

The question of profit maximisation is a more complex one. To some extent, it is very simple as well. Every dollar in profit that is made from poor people comes from the pocket of poor people. If we are to stabilise the lives of poor people, where income volatility is a prominent feature of their financial lives, we have to leave as much as possible of their hard-earned profit with them, so they can build assets and create stability.

But how much is enough to attract investors and keep the microfinance institutions in good health? Deutsche Bank recognises that profitability, operating costs, and interest rates can vary greatly depending on the microfinance institution's location, size, growth potential, asset quality, and target market. While the issues are complex, they are not insurmountable. We can use logic and judgment 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 make wrong decisions in the process, our example may encourage others towards greater accountability.

While Deutsche Bank recognises the importance of robust, profitable, well capitalised and customer-centric microfinance institutions as necessary for the continued success of the sector, it also believes in actively advocating for the industry to gradually and proactively work towards an overall decline in interest rates charged to the clients. This would allow clients to maintain a greater share of the generated profits to help build assets.

As far as the ethical responsibility to avoid doing harm to customers is concerned, it must be stressed that customer care and ethical responsibility to the customer are intrinsically linked. In social finance, profit and social outcomes are directly linked. Every good business recognises that, in order to be successful, the customer has to be satisfied. At the same

time, customer care is crucial to ethics and vice versa. As social investors are not only interested in maximisation of profit but also in helping the ultimate customer, service to the customer continues to gain importance. Therefore, genuine customer care limits the unintended harm that may occur as a new course is charted in fulfilling our ethical responsibility to sincerely work towards no harm to the poor.

Mistakes will be made, but ethical responsibility to avoid harm is an important beacon as we increasingly engage in business with the poor with dignity.

ASAD MAHMOOD
MANAGING DIRECTOR
GLOBAL SOCIAL INVESTMENT FUNDS
DEUTSCHE BANK

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

Debt and equity investors are playing an increasing role in expanding access to finance around the world. With investment comes a responsibility to ensure that growth is delivered in a responsible and sustainable manner. The Principles for Investors in Inclusive Finance (PIIF) were launched in recognition of this, in January 2011 (see article on page 4). They are housed within the UN-supported Principles for Responsible Investment (PRI) Initiative, a global network of 1,200 institutional investors committed to responsible investment. By signing the PIIF, investors signal their intent to uphold the Principles (see box) in their own investments, and to support the actions taken by others in the investment chain.

As of April 2013, 51 investors had signed the PIIF. Between them, they manage nearly two thirds of the estimated USD 14 billion of foreign capital investment in inclusive finance.[1] To date, signatories have been discussing what constitutes good practice, mainly by sharing their own policies and practices in the form of action plans, case studies and webinars.

To encourage transparency and accountability, a Reporting Framework has been developed. A draft version of the Framework was tested in July 2012, by 15 direct investors and 13 indirect investors. The aim was to test the Framework, but the exercise offered insights into investors' collective responsible investment practices in inclusive finance for the first time. The direct investors involved, who between them manage a reported USD 6.5 billion, agreed to share the data in a summary report, the PIIF Signatories' Report on Progress. This enables investors to see the progress being made, and indicates examples of emerging good practice and areas for improvement.

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 financing or shareholder 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 all reported integrating social performance measurement into their due diligence and monitoring and reporting processes.

Despite this strong commitment to social performance, investors' internal staff incentives are not always aligned – just over half reported having staff incentives linked to social performance. Active involvement in corporate governance is mixed; on average, equity investors report having board seats with half of their investees. Finally, over 80% reported tracking and analysing both the financial and social performance data of investees for learning purposes, but only a handful reported seeking to gather data on social outcomes through, for example, encouraging investees to participate in Progress 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 taking part will also receive an individual assessment, enabling them to identify areas of 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.

The Principles for Investors in Inclusive Finance

Investors and fund managers who sign the Principles commit to adhering to and promoting the following Principles:

1. Expanding the range of financial services available to low-income people;
2. Integrating client protection into all policies and practices;
3. Treating investees fairly, with clear and balanced contracts, and dispute resolution procedures;
4. Integrating Environmental, Social and corporate Governance (ESG) factors into policies and reporting;
5. Promoting transparency in all operations;
6. Pursuing balanced long term returns that reflect the interests of clients, retail providers and end investors;
7. Working together to develop common investor standards on inclusive finance.

[1] Based on unpublished CGAP data of cross-border guarantees, debt and equity investments.

EMILIE GOODALL
PROJECT MANAGER
PRINCIPLES FOR INVESTORS
IN INCLUSIVE FINANCE
HOUSED WITHIN THE PRI INITIATIVE

Defining Dimensions and Implementing Responsible Investment: The Example of Grameen Crédit Agricole Microfinance Foundation

Started in 2007 as an initiative of Crédit Agricole and Grameen Trust, the Foundation's mission is to provide 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 positioning: the choice is to complete the sector where other funders are not, or insufficiently present. This determines geographic prioritisations (Sub-Saharan Africa), specific microfinance institution (MFI) 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 provides local currency to our partners while (largely thanks to the cooperation with the Currency Exchange Fund TCX) only for 20% 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 3-day 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 tool: the CERISE-developed Social Performance Indicators questionnaire. To make 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 that show the right direction, as illustrated in GCAMF's cooperation with CERISE: analysts of the Foundation received training by CERISE, and the Foundation is certified to validate SPI 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 practicing good ethics 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 ALINUS (ALigning INvestor due diligence and monitoring practices with the Universal Standards) – 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 own board and committees, and through mandates held in other organisations' boards and committees, either as a shareholder, or through direct nomination of its management. Boards always serve as platforms to further promote responsible finance.

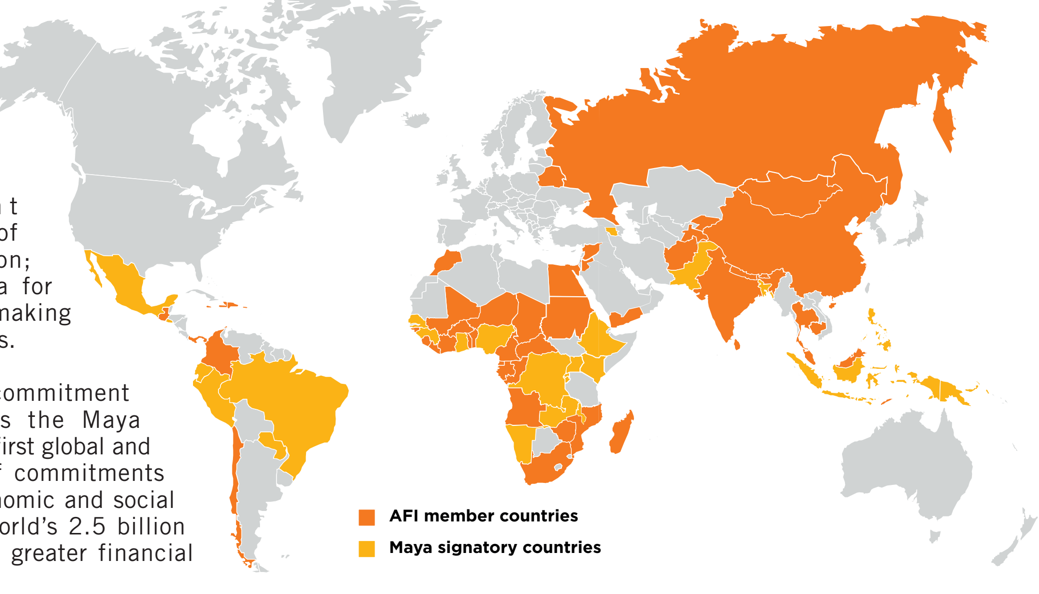
Eventually, the efficiency of implementing responsible investment principles needs to be validated and confirmed, which requires transparency and accountability. A bi-annual presentation to the Ethics Committee serves as a first level of verification. To allow for transparency and further improvements, GCAMF went for an external evaluation

carried out by CERISE. It started in September 2012 and concluded by a presentation of the results to the board in March 2013. The final report of this social performance audit will be posted on the Foundation's website.

JÜRGEN HAMMER
CIO AND SOCIAL PERFORMANCE MANAGER
GRAMEEN CRÉDIT AGRICOLE MICROFINANCE
FOUNDATION (GCAMF)

Enhancing Financial Inclusion: The Role of Policy Makers

Source: Alliance for Financial Inclusion



While progress has been made in increasing financial inclusion in some countries, meaningful scale has not yet been achieved. An estimated 2.5 billion adults worldwide[1] still lack access to formal financial services, 90% of whom live in developing and emerging countries. The need for greater financial inclusion – in terms of access, usage and quality of services – remains significant.

In recent years, technological and infrastructural innovations brought significant opportunities to expand financial inclusion, particularly in developing and emerging countries. For example, the explosive growth of mobile financial services and the use of non-bank 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 mandate for policy makers and regulators, particularly in leading the development of appropriate regulatory responses based on a solid understanding of the potential risks that come with these innovations.

To support the development of these appropriate regulatory responses, policy makers and regulators expressed a willingness to learn from 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 barriers and incentivise the private sector to innovate and provide more services to the unbanked, 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 an enabling environment to harness new technology that increases access to and lowers the costs of financial services; implementing a proportional regulatory framework that advances synergies in financial inclusion, integrity, and stability; integrating consumer protection and empowerment as a key pillar of financial inclusion; and utilising data for informed policy making and tracking results.

This collective commitment is also known as the Maya Declaration[2] – the first global and measurable set of commitments to unlock the economic and social potential of the world's 2.5 billion unbanked through greater financial inclusion.

The Maya Declaration capitalises 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 the choice of policy solutions, but they are all owned and created by the policy makers themselves, providing a unique and powerful incentive for 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, but everyone needs to push to unlock its full potential.

[1] Demirguc-Kunt, A. and Klapper, L., April 2012, "Measuring Financial Inclusion: The Global Findex Database", The World Bank, Policy Research Working Paper 6025.
[2] 17 pioneering AFI member institutions stepped forward with their institutional commitments to the Maya Declaration in Riviera Maya, Mexico, in September 2011. A year later at the 2012 Global Policy Forum (GPF) in Cape Town, South Africa, 18 institutional commitments were added to this growing movement. New commitments from El Salvador, Papua New Guinea, and Samoa have been received earlier this year, and more are expected to be announced at the 2013 GPF to be held from 10 to 12 September, in Kuala Lumpur, Malaysia.

SUNG-AH LEE
DIRECTOR, STRATEGY, EVALUATION, AND PARTNERSHIPS
ALLIANCE FOR FINANCIAL INCLUSION

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


Women attend a VSLA meeting in Katine, Uganda © Martin Godwin / CARE

Savings have too often been ignored or not even considered as one of the financial services poor people could have an interest in. The primary focus has often been to provide capital to poor people, rather than trying to build growth with their own assets. But the reality is that savings are an essential part of the financial ecosystem. People need to save for 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, be it illness or a failed harvest.

Today, 2.5 billion people[1] 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 be the driver to build people's 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, members' spending on household assets increased by 300% after three years in a VSLA, increased education spending, 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 "financial 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 the link between 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 branches in Kenya, Uganda, Ghana and Tanzania.[2]

Preliminary learnings 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 important 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 linkage 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.

[1] Demirguc-Kunt, A. and Klapper, L., April 2012, "Measuring Financial Inclusion: The Global Findex Database", The World Bank, Policy Research Working Paper 6025.
[2] See CARE February 2013 publication "Connecting the World's Poorest People to the Global Economy" for more details about the different initiatives piloted.

MAUDE MASSU
SENIOR MICROFINANCE ADVISOR
CARE INTERNATIONAL UK

Beyond Financial Services: The Importance of Financial Education

Microentrepreneurs in emerging markets face very complex financial management challenges given the uncertainty of their environment and the lack of financial infrastructure. Evidence suggests that the majority of these entrepreneurs do not have the 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, and so on.

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 produced some evidence 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 on changing financial behaviour has proven elusive.

Behavioural science may help design and scale financial education programmes that address client needs 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.

Recently, evidence from field tests has indicated that there may be alternative approaches to financial literacy training that may help microfinance clients change their financial behaviours for the better. One example is a financial education approach that relies on simple rules of thumb, rather than in-depth financial management 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 field test conducted in the Dominican Republic. Overall, financial tools that are easy to learn and simple to implement have proven successful in changing financial behaviour of microentrepreneurs.[1]

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.

[1] Drexler, A., Fischer, G. and Schoar, A., 2011, "Keeping it Simple: Financial Literacy and Rules of Thumb".

ALEXANDRA FIORILLO
VICE PRESIDENT
IDEAS42

Definitions

Financial Capability:

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

Financial Education:

All educational messages communicated to individuals about using financial services: lessons, plans, posters, public service announcements...

Financial Literacy:

Knowledge, skills, and attitudes resulting from financial education.

Source: Center for Financial Services Innovation.

THE IMPACT OF MICROFINANCE

The Impact of Microfinance: What Do We Know?

The renewed attention of the media on the impact of microfinance since 2009 – echoing with the over-indebtedness crisis in Andhra Pradesh, India, that hit newspaper headlines worldwide – gave 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[1] 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 overall positive impact, 28 found no significant impact, and 3 highlighted a negative impact. In addition, given the enthusiasm generated by Muhammad Yunus's Nobel Prize in 2006, affirmative answers on impact may have been more broadly commented. Still, several studies showing adverse results have been commented on in hundreds of academic and official publications.[2]

So does microfinance work? On the one hand, many studies concur with Banerjee and Duflo, who found out that microcredit may not be a "miracle (...), but does allow households to borrow, invest, and create and expand businesses".[3] On the other hand, what studies have shown is that there is no such thing as the impact of microfinance. Instead, various impacts have been observed, depending on a number of factors.

Firstly, the impact of microfinance may differ depending on the target population. For instance, research conducted in Peru showed that a group of microfinance institutions had a positive impact on half of their clients – often the better-offs, but a negative impact on one fifth of the clients – often the more marginalised, and no significant effect on the others.[4]

Secondly, impact also varies depending on the particular context of operations: microfinance tends to have positive effects in areas with financial access shortage, whereas, in areas crowded of formal and informal lenders, the risks of over-indebtedness and market saturation are high; cultural determinants also seem to have a strong influence.[5]

Eventually, the impact of microfinance also seems to depend on the type of services offered. For example, 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.[6] 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.

[1] For more detailed information, see Bédécarrats, F., 2012, "L'impact de la microfinance : un enjeu politique au prisme de ses controverses scientifiques", Mondes en développement (158), pp. 127-142.
[2] For example, a qualitative study showing that female borrowers in Bangladesh where often manipulated by male representatives and loans used in an un-productive way has been cited by 966 different publications (according to Google Scholar index): Goetz, A.M., and Gupta, R.S., 1996, "Who Takes the Credit? Gender, Power, and Control over Loan Use in Rural Credit Programs in Bangladesh", World Development, 24(1), pp. 45-64.
[3] Banerjee, A., Duflo, E., 2009, "The miracle of microfinance? Evidence from a randomized evaluation", Boston, MIT Working Paper, p. 21.
[4] Copestake, J. et al., 2005, "Monitoring the Diversity of the Poverty Outreach and Impact of Microfinance: a Comparison of Methods Using Data from Peru", Development Policy Review, 23(6), pp. 703-723.
[5] On these issues, see in particular the publications of the Rural Microfinance and Employment research project, for instance: Morvant-Roux, S. et al., 2012, "Explaining participation and repayment in microcredit schemes in rural Morocco: the role of social norms and actors", RUME.
[6] Dupas, P., Robinson, J., 2009, "Savings Constraints and Microenterprise Development: Evidence from a Field Experiment in Kenya", Santa Cruz, UCSC.

FLORENT BÉDÉCARRATS
PROGRAMME MANAGER
CERISE

Impact studies rely on different types of methods

Qualitative Methods:

They emphasise socio-anthropological investigation relying on comprehensive approaches, interviews, observations and triangulation of information to ensure coherence. They analyse life paths, games of players or complex socioeconomic systems to explain, rather than measure the relationship between financial services and the living conditions of users. They remain relatively rare in the field of microfinance.

Quantitative Experimental Methods:

They randomly select a treatment group of persons who will be receiving services, and a control group who won't. Thanks to this random selection, the only difference on average between those two groups will be to have been exposed to a microfinance institution. These methods are now generally presented as the "gold standard". Randomised Control Trial evaluations (RCTs) are the most frequent quantitative experimental method.

Quantitative Quasi-Experimental Methods:

They compare current clients with non-microfinance clients, or old microfinance clients with new microfinance clients. They had long been predominant but tend to be discredited because they rely on the disputable hypothesis of groups' comparability.

Source: The author.

Graduating the Poorest out of Extreme Poverty: Early Research Results from Bandhan in West Bengal

Apart from a few notable exceptions, microfinance has not typically reached extremely poor people, who are also often overlooked by other development interventions. The CGAP-Ford Foundation Graduation Program is a global effort to understand how a mix of interventions spanning livelihoods development, social protection and financial services, can be sequenced to create sustainable pathways for the poorest out of extreme poverty, adapting a method originally developed by the NGO BRAC in Bangladesh.

Since 2006, the Graduation Program has partnered with local organisations and governments to adapt the approach in 10 pilot projects in 8 countries.[1] A unique element of the Program is that a robust learning agenda, with qualitative research and randomised control trial (RCT) evaluations, is embedded in all the pilot sites. The initial results from the RCT impact assessment conducted by the Abdul Latif Jameel Poverty Action Lab (J-PAL) and the Institute for Financial Management and Research (IFMR) at the Indian microfinance institution Bandhan were presented by Esther Duflo in Paris in July 2012.[2]

As part of the Graduation Program, Bandhan launched Targeting the Hard-Core Poor (THP) in 2007 to reach those below the scope of its regular microfinance services. The pilot covered 300 women in 45 villages in Murshidabad, a particularly deprived region of West Bengal, India. Based on the Graduation Approach, the programme is built on five core elements: careful targeting of the poorest, a small consumption support to help the poorest cover their immediate food needs, access to savings services, skills training and regular coaching, and an asset transfer.

The women targeted were among the poorest 10 households in their communities, usually living on informal labour or begging, owning less than 0.2 acres of land, with few to no productive assets, and school-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 then transferred to each woman to jump-start an economic activity. Monitoring and coaching 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 safe drinking water.

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 more each month, consuming 10% more food than a control group, and skipping fewer meals. These effects were significantly greater 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 Axis 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 extreme 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 programming. The Graduation Program and CGAP will continue facilitating knowledge sharing to scale up solutions that help end extreme poverty.

[1] Hashemi, S.M. and de Montesquiou, A., March 2011, CGAP Focus Note "Reaching the Poorest: Lessons from the Graduation Model".
[2] Banerjee, A., Duflo, E., Chattopadhyay, R. and Shapiro, J., November 2011, "Targeting the Hard-Core Poor: An Impact Assessment".

AUDE DE MONTESQUIOU
MICROFINANCE SPECIALIST
CLIENTS AND PRODUCTS TEAM
CGAP

Microfinance and the Environmental Bottom Line

One could believe that microfinance clients, because they are poor and engaged in small-scale activities, are not concerned with or affected by environmental issues. Yet, their stories prove just the opposite: Armando, a Salvadorian farmer, almost died after getting intoxicated with the chemicals he spreads on his field;[1] Aminata, a small livestock farmer from Mali, lost two of her goats after they swallowed plastic bags abandoned in the nature; and Edward, a Tanzanian miller, is not making a profit anymore because of the increasing price of kerosene.[2] Chemical use, waste management, energy consumption, or even climate change can indeed directly affect the health and livelihoods of microentrepreneurs, their families, and surrounding communities.

Over the last decade, various microfinance institutions (MFIs) have started to consider that, if they want to achieve a double bottom line of financial sustainability and social impact, they cannot dismiss such environmental issues. They then decide to "go green" through various strategies. Some MFIs opt for assessing and managing the environmental risks of their clients' activities: for instance, Partner, in Bosnia & Herzegovina, identifies clients who use illegal chemicals and includes a clause in the loan contract requiring them to comply with regulations. Other MFIs choose to design financial products to promote environmentally-friendly activities and technologies: this is the case of PRIDE RFW, in Tanzania, who is developing, with the support of PAMIGA, a new loan to facilitate access to solar energy. Finally, some MFIs also decide to raise clients' awareness of environmental issues and mitigation solutions: in El Salvador, Fundación Campo trains its farmer clients on agro-ecological practices, while in Mali, CAMIDE asks clients to sign an environmental chart where they commit to stop using plastic bags and plant trees.

These pioneer MFIs all mention that engaging in environmental management brings clear benefits: responding to the economic and social needs of their clients, improving their social performance, differentiating from competitors, attracting new clients, diversifying their portfolio, improving their image, and even raising new funding.[3]

However, such initiatives are still rather scarce. A study conducted in 2011 with 160 MFIs worldwide shows that MFIs' environmental performance is still very low, with an average score of 4.14 out of 20 on the Microfinance Environmental Performance Index (MEPI).[4] Some investors now promote the use of exclusion lists (whereby the MFI refuses to finance environmentally-risky activities), although such lists are often not adapted and may go against MFIs' social mission. So far, no international initiative has really been pushing the issue of microfinance environmental performance forward. The topic is however drawing increasing attention and CERISE is planning to integrate more specific environmental indicators into the new version of the Social Performance Indicators (SPI4) tool.

Today, MFIs willing to "go green" still face clear challenges, in particular in acquiring the required skills and knowledge. Donors, investors and technical assistance providers can play a key role by facilitating access to technical expertise. Investors can also contribute by providing the funding needed to offer green microcredit. Finally, the whole sector has a lot to gain in sharing experiences and lessons learned from past and current experiences, in order to promote a truly responsible and sustainable microfinance.

[1] Allet, M., 2012, "Mitigating environmental risks in small-scale activities: what role for microfinance? A case study from El Salvador", CEB Working Paper N°12/021.
[2] PAMIGA, 2013, Energy & Microfinance Programme – Tanzania mission report.
[3] Allet, M., 2012, "Why do microfinance institutions go green?". CEB Working Paper N° 12/015.
[4] Allet, M., 2012, "Measuring the environmental performance of microfinance: a new tool", Cost Management 26(2): 6-17; Allet, M. & Hudon, M., 2013, "Green Microfinance. Characteristics of MFIs involved in environmental management", CEB Working Paper N°13/005.

MARION ALLET, PHD
ENVIRONMENT & MICROFINANCE SENIOR
PROGRAMME OFFICER
PAMIGA

MICROFINANCE IN DEVELOPED COUNTRIES

Microfinance in Europe: Main Characteristics and Trends

Microfinance is a young and heterogeneous sector in Europe, especially with regards to the diversity of institutional models, lending approaches and regulatory frameworks.

The European microfinance sector is characterised by a wide range and diversity of institutions active in the market: the most prevalent kind of organisations are NGOs or foundations, as well as non-bank financial institutions (NBFIs) and microfinance associations.

Every two years, the European Microfinance Network's (EMN) Overview Survey attempts to provide the main trends of the sector. The 5th edition of the Survey has widely covered EU-27 countries as well as non-EU member states in Eastern Europe, including all potential EU candidate states for the period 2010-2011.

In the European Union, microcredit is defined as a loan of up to EUR 25,000 to support the development of self-employment or microenterprises. In 2011, all MFIs covered by the survey disbursed a total of 204,080 microloans (including personal loans) amounting to a total volume of around EUR 1,047 million. The EU-based surveyed organisations alone reported 122,370 loans with a total volume of EUR 872 million. This shows that the scale of microcredit provision in the EU continues to grow, mainly as a result of various enhancing measures in some national contexts (e.g. favourable regulatory frameworks, improved funding through EU initiatives, banks downscaling into microfinance). The average loan size in 2011 adds up to EUR 5,135, and EUR 7,129 for EU member states.

Data related to outreach and social performance remains limited among the MFIs covered by the survey. MFI mission statements emphasise job creation and microenterprise promotion, while the empowerment of specific target groups follows to a lesser extent. The survey showed that the most prevalent lending model in Europe is social inclusion lending (62%). The standard product in the sector is the loan for entrepreneurial needs, while non-financial services remain important for organisations targeting start-up and microenterprises.

The key terms of the loans differ between Western and Eastern Europe: the average interest rate is 11%, ranging from 4% to more than 30% in some Balkan countries, and the average loan term is 35 months, ranging from 14 to 60 months.

The general political attention on European microfinance has been high during the past two years, especially in Western Europe, where microfinance was positioned as an important instrument to counteract on the effects of the ongoing crisis on job creation and access to finance. At EU level, key initiatives to support microfinance providers from a technical and financial point of view have been implemented (see box); moreover, the European Commission proposed the Code of Good Conduct as a tool to harmonise the quality of microcredit provision throughout Europe. At national level, the development of legal frameworks for microfinance provision continues to be one of the main issues for further influencing the development of the sector.

FRANCESCO GRIECO
PROGRAMME MANAGER
EUROPEAN MICROFINANCE NETWORK (EMN)

Figure 1: Total share by institutional type 148 institutions taking part in the survey, 147 providing this information.

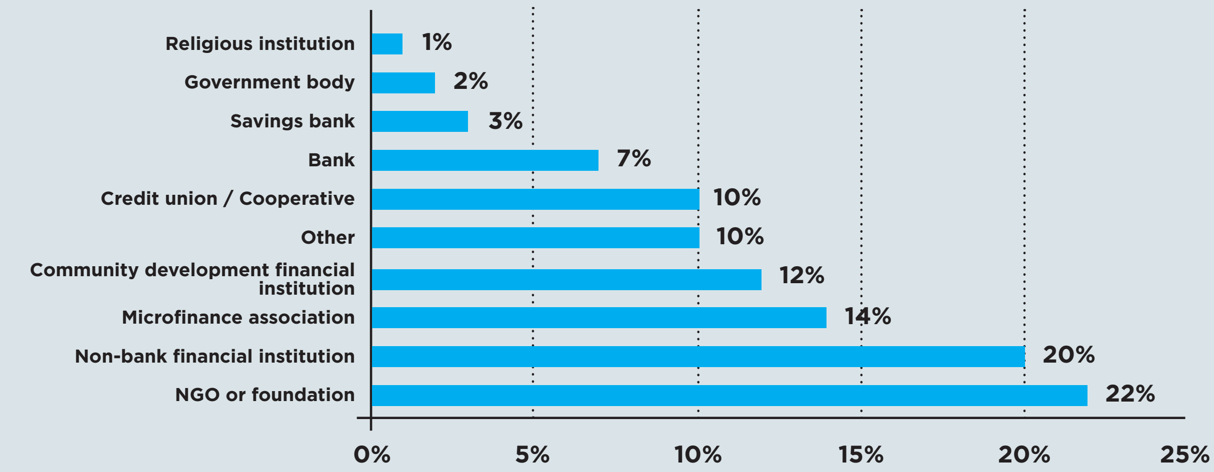


Figure 2: Total share of different missions 148 institutions taking part in the survey, 137 providing this information. Multiple answers were allowed.

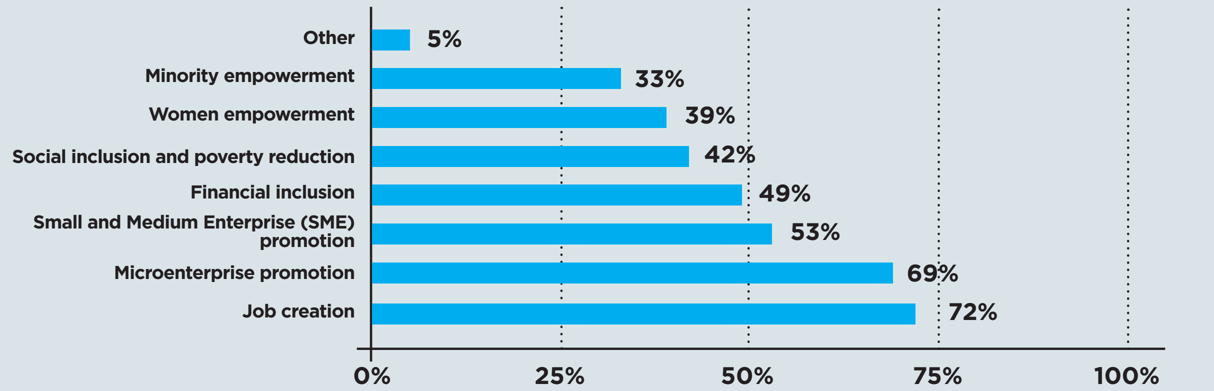


Figure 3: Clients outreach per lending model* 148 institutions taking part in the survey, 105 providing this information.

	Women	Rural clients	Clients below the poverty line	Start-up enterprises	Ethnic minorities or immigrants
Microenterprise lending	39%	21%	27%	36%	36%
Social inclusion lending	56%	26%	22%	51%	31%

* Social inclusion lending focuses on lending to clients at the bottom of the pyramid through (relatively) small loans, and is aimed at supporting basic income-generating activities. Microenterprise lending tends to focus on the upper end microfinance market, providing loans to microenterprises that have difficulties accessing loans from commercial banks due to risk aversion or lacking liabilities. Professional loans are included in both categories.

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% out of the average number of estimated institutions. Due to the differing data basis of the five Overview Survey editions, it is not possible to present consistent data on the evolution of the European microfinance market. 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

The European Progress Microfinance Facility (EPMF) is a microfinance fund established in March 2010 with a EUR 100 million contribution from the European Commission (EC), and EUR 100 million from the European Investment Bank (EIB). The EPMF aims at increasing access 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 existing portfolios of microloans or guarantee funds for microloans granted to microenterprises.

In addition, the Competitiveness and Innovation Programme (CIP) is managed by the EIF on behalf of the EC. The overall objective of the CIP is to improve access to finance for start-ups and promote SME growth and investments in innovation. The CIP provides financial intermediaries with capped guarantees partially covering their SME finance portfolios. Such guarantees are provided under the SME Guarantee Facility (SMEG), which is funded by the European Union (EU).

Besides the fundamental role of financial support to MFIs, the EU also provides MFIs with technical assistance. In that respect, the pilot initiative JASMINE (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.

The future EU strategy with regards to financing SMEs and microfinance could be based on three basic principles: (1) a limited number of instruments with critical mass, (2) demand-driven implementation, and (3) coverage of all kinds of SMEs through the whole funding cycle. The current financial instruments for SME finance and microfinance, namely the CIP and the EPMF, will be replaced in the 2014-2020 period by new financial instruments with a similar approach and purpose, including the Programme for the Competitiveness of Enterprises and SMEs (COSME), Horizon 2020, Creative Europe, and the Programme for Social Change and Innovation (PSCI).

The Impact of Microcredit on Employment in Europe: What Do We Know?[1]

While 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.[2]

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 labour market instruments; and jobs created through microcredit positively contribute to entrepreneurs' income and self-esteem.[3] Yet, definitive conclusions can hardly be drawn: most studies have been carried out by the MFIs themselves and vary in quality and rigour; indicators differ from MFI to MFI and can hardly 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 its social impact.[4]

The latest national survey on business start-ups and creators[5] suggests that microcredit does promote social inclusion and professional insertion for vulnerable groups. Compared to creators who started their business with alternative financing, microcredit recipients count a higher proportion of social assistance 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 60,000 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 indicators and data are still needed to evaluate the impact of microcredit on employment. This can only be done in consultation with the MFIs involved so as to work on a homogeneous definition of microcredit, its goals and expected results. Besides, discussion about the impact of microcredit cannot remain independent from a wider reflection on future developments for the microfinance sector in France and Europe: How will the demand for microcredit evolve? How can operators respond to this demand? What role can and should banks play in this respect?

[1] This article is based on Balkenhol, B. and Guézennec, C., 2013, "Le microcrédit professionnel en France : quels effets sur l'emploi ?", Document de travail, Centre d'Analyse Stratégique.
[2] European Commission (2012), Report from the Commission to the European Parliament and the Council on the application of directive 2006/48/EC to microcredit.
[3] For detailed data, see the annex in Balkenhol, B., and Guézennec, C., 2013, op. cit.
[4] For the purpose of this article, we adopted an inclusive definition of microcredit, i.e. loans with or without interests, under EUR 25,000, whether they are disbursed by a bank or a non-banking institution, as long as the loans are provided along with business development service (BDS) or some other form of technical assistance for the starter.
[5] Système d'Information sur les Nouvelles Entreprises – SINE, INSEE.

BERND BALKENHOL
PROFESSOR, UNIVERSITY OF GENEVA
MICROFINANCE CONSULTANT, ILO

CAMILLE GUÉZENNEC
POLICY ANALYST
COMMISSARIAT GÉNÉRAL À LA STRATÉGIE
ET À LA PROSPECTIVE

An Overview of Microcredit in France

The microcredit sector in France is usually divided into personal and professional microcredit. The former is intended to fund social inclusion and similar programmes, and the latter to finance the creation, take-over or consolidation of small enterprises or family businesses, enabling owners to create or secure their jobs.

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 meeting the aims of economic, social and financial inclusion of the populations concerned, benefits from a system of government guarantees set up through the Social Cohesion Fund (Fonds de cohésion sociale – FCS), established in January 2005 and managed by the Caisse des Dépôts.

All in all, the French microcredit model is based on the combined involvement of a wide range of actors, including associations, credit institutions, local authorities and assistance networks, thereby illustrating both the financial and the social aspects of a credit system underpinned by government guarantees.

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) now lies with the Autorité de Contrôle Prudentiel, previously responsible for the ongoing supervision 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 assisting projects financed by MFIs either from their own funds or from bank loans, the processing of a minimum number of funding applications annually, the ability to monitor risks and management, appropriate guarantees for the loans taken out by the MFI, and managers with the required qualifications and integrity, skills and experience.

Furthermore, building on 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 half-yearly statistical monitoring of assisted professional and personal microcredit starting from December 2011.

This first set of data shows that the vast majority of personal microloans, equivalent to 77% of outstanding loans, were used to finance projects intended to make the borrowers more easily employable. This consists 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 2,200. The amount outstanding in personal microcredit was measured at EUR 45.9 million. The total outstanding in professional microcredit at end-December 2011 was nearly EUR 602 million, with some 130,000 loans granted. The beneficiaries are generally business start-ups or sole traders working in tertiary activities such as trade, services to businesses and individuals, and the hotel and restaurant sector.

BÉATRICE RAOULT-TEXIER
GENERAL SECRETARY
BANQUE DE FRANCE
MICROFINANCE OBSERVATORY

Starting a Business with a Microcredit: The Journey of Zineb

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

"Since I could not find any opportunities in my branch, I did all sorts of small jobs just to earn a living.
Now I'm happy in my own business, thanks to Adie."

©Shannon Sibayan

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 then had to accept all sorts of small jobs – barmaid, waitress, dishwashing – 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 the shop had to close at the end of 2010. "I was entitled to a two-year unemployment allowance, so I decided I would dedicate myself to building my own project for one year." Ten months later, her project was completed, and she started business in October 2011. "Meeting Adie and getting a microcredit was a major breakthrough: no banks wanted to lend me any money to get started." With the money she obtained from Adie (EUR 4,700) and the additional free loan from the government (EUR 2,300), she bought professional equipment and could secure some cash flow. Moreover, she also could subscribe to a car micro-insurance at a preferential rate. "As a young driver I should have paid EUR 1,200 per year, but thanks to Adie I only had to pay EUR 500."

Today, she works in open markets and sells fresh fruit smoothies as well as seasonal soups, for immediate consumption or take-away. She only uses organic products that she buys from local producers. "The first winter was a bit difficult; daily turnover was very uneven, but after a while I could secure some very nice contracts with the local administration in Lille for special events, which helped me to really develop." Her boyfriend has now joined her in the business. He has some management background and also handles her accounting. Together they are very proactive: he does the selling in a reserved spot in a major open market, while she is still a street vendor. As a major improvement, she recently acquired a self-contained trailer which unfolds easily with the necessary equipment to make smoothies and soups. Zineb and her companion still make plans for the future, like getting settled at one stage in a proper fixed shop. For the time being, they can live on what they earn and manage to cover their operating expenses. "As for what's left, we devote it all to improving our business through new ideas," says Zineb.

DANIÈLE DEFERT
VOLUNTEER
ADIE

Housing Microcredit: Time to Shift Up a Gear

In 2012, more than 11,000 personal microcredits were provided 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 people live in poor or 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 better equip their homes. Too often, however, 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, there are two main obstacles. First, the Social Cohesion Fund – a public guarantee fund created in January 2005 to "guarantee social loans" at 50%, excludes housing microcredits; only microcredits for housing equipment (fridge, bed...) are accepted. Secondly, the maximum amount granted – EUR 5,000, 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 amount of their bill by 20%, and therefore to reimburse their credit more easily.

Nevertheless, experiments are limited by the low amount of guarantee granted 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.

CÉDRIC TURINI
MICROFINANCE AND FINANCIAL INCLUSION
PROJECT MANAGER
NATIONAL FEDERATION
OF FRENCH SAVINGS BANKS

Results of the guaranteed personal microcredit impact study ordered by the Social Cohesion Fund to the Caisse des Dépôts

The Orientation and Surveillance Committee of the Use of Funds (COSEF) of the Social Cohesion Fund (FCS), which guarantees 50% of the personal microcredit loans (PM), wanted to make an assessment of the measures implemented since 2005.

Therefore, two researchers – Georges Gloukoviezoff (2G Recherche, Lyon) and Nicolas Rebière (Comptrasec-Bordeaux IV University), conducted a study to evaluate the impacts of microcredit.

This study was carried out in three stages: first, a literature review was undertaken in 2011 in order to take advantage of the knowledge already gained and to define relevant analysis grids. Then, a quantitative survey compiling data from phone interviews involved 2,000 people, among whom 1,018 were borrowers without outstanding debt, 447 had at least one outstanding debt, and 507 had been denied a loan or had given up obtaining one. This quantitative dimension was completed in 2013 with a qualitative study including 6 focus groups, gathering borrowers with or without outstanding debt. Finally, two online questionnaires were put in place, targeting assistance providers and lenders.

The analysis covered:

- The PM distribution modalities and the repayment proceedings. The aim was to analyse the PM prescription modalities beforehand, the applications and the decisions to lend or not to lend, focusing notably on the outcome for the people who had been denied a loan or who had given up obtaining one. Down the line, the analysis covered the follow-up and management modalities put in place by assistance providers and lenders of potential outstanding debt.
- 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.

CAISSE DES DÉPÔTS

Microfinance to Foster Job Creation in Spain

In Spain, microcredit first appeared in the 1990s 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 this century, the number of loans disbursed has experienced exponential growth until the abrupt slowdown in 2008-2009, with the arrival of the international financial crisis and the crisis caused by the housing bubble in Spain. Nearly 20 microcredit programmes, mostly promoted by the savings banks in collaboration with social organisations, 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 – emerging as the main player of the sector.[1]

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 232 million.

In 2012, a study conducted by Fundación Nantik Lum with Citi Microfinance, "Financial inclusion to foster job creation - A case study on Madrid", analysed how the successful elements of the New York microfinance model, where innovative partnerships between the public sector, private banking and non-profit institutions have been implemented, could be adapted to Madrid – and by extension to the rest of Spain, in order to consolidate a financial system which creates employment opportunities through the financial and business support of entrepreneurs and 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 exploring government risk sharing mechanisms for small business loans and new partnerships between banks and microfinance institutions to reach small businesses.

Following some of the report's guidelines, a series of innovative initiatives have re-surfaced in the Spanish microfinance arena, driven by public-private alliances alongside 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 job creation and economic growth; not just for Spain, but also for many other European countries.

[1] Lacalle, M. and Rico, S., 2012, "Microfinanzas en España: Impacto y recomendaciones a futuro", Cuadernos Monográficos nº 18, Foro de Microfinanzas, Madrid.

SILVIA RICO
DEPUTY DIRECTOR AND HEAD OF RESEARCH
FUNDACIÓN NANTIK LUM

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.[1] This was due to the regional instability caused by the end of the war in Yugoslavia and economic sanctions against Serbia and Montenegro, and resulted in low production and high unemployment. Microfinance was then perceived as an effective tool for fighting poverty and providing access to financial services to low-income households.

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 as limited liability companies with a minimum capital deposit of EUR 100,000. The law includes credit-only services. Pursuant to the Central Bank's February 2009 Decision on Minimum Standards for the Risk Management in MFIs, microcredits are considered loans up to EUR 5,000 for physical persons and EUR 10,000 for entrepreneurs and businesses in the first cycle, and for all categories up to EUR 30,000 in a repeated one.

During the 2000s, Montenegro's GDP annual growth rate steadily increased from 1.9% in 2002 to 4.2% in 2005.[2] During this period, the microfinance sector grew rapidly from a portfolio of EUR 30.5 million in 2005 to over EUR 79.2 million by the end of 2008.[3]

Microfinance in Montenegro became a bubble, and many factors – which came to light during the 2009 recession, contributed to its subsequent downfall and shrinking. These included: the absence of proper systems, policies, or procedures; high tolerance for multiple loans; lack of proper audit function; lack of appropriate institutional governance; and pressure from investors and third parties to lend and grow aggressively. In a nutshell, Montenegro suffered from what was experienced in many other parts of the world at the time. Such practices also contributed to increased debt levels in the population.

Consequently, actions have been taken by the sector to improve credit risk analysis, form professional collection teams, and establish stricter and more transparent lending policies. Since 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 at 15% for retail loans on a probationary period of 6 months but, importantly enough, excluded MFIs 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 more on clients and less on institutions.

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

CAROLINE TSILIKOUNAS
CEO
TATJANA ANTIĆ DRČA
COMMUNICATIONS MANAGER
AGROINVEST HOLDING, SERBIA AND MONTENEGRO

CDFIs: Providing Financial Solutions for Microentrepreneurs in the U.S.

In the wake of the Great Recession, traditional lenders in the U.S. have tightened credit for small and micro-businesses – and microentrepreneurs have been hit especially hard.[1] Since 2007, small business lending through the most popular government-backed small business lending programme, the Small Business Administration's 7(a) programme, has moved further out of reach for microenterprises. This has taken a toll on the job market, as microenterprises and small businesses employ more than half of all private sector workers.[2]

As a result, Community Development Financial Institutions (CDFIs), which include some microfinance institutions (MFIs), are playing an expanded role. CDFIs are private financial intermediaries serving low-income, low-wealth, and other disadvantaged communities by providing flexible and responsible financing and financial services to those outside the financial mainstream. In the U.S., they include community development loan funds, community development credit unions, community development banks, and community development equity funds. Together, they manage just under USD 50 billion in assets.[3]

For more than 30 years, CDFIs have made tremendous impact in communities that need it most. CDFIs are profitable, but not profit maximising. They invest significant time assisting their borrowers, and that investment helps to increase the odds for success for the business owners and reduce the credit risk for the CDFIs and other lenders.

Out of a thousand, more than 100 CDFIs identify their primary function as financing microentrepreneurs. In 2010, these CDFIs and other microenterprise organisations disbursed more than 17,000 loans, with an average loan size of approximately USD 14,000.[4]

While these benefits are real, the need for microfinance far exceeds the ability of microfinance CDFIs to meet the demand. To help respond to the increasing difficulty small businesses have getting access to responsible credit, Opportunity Finance Network (OFN), the national network for performance-oriented CDFIs in the U.S., is providing a "Scaling Up Microfinance" training series for the U.S. Department of Treasury's CDFI Fund. Through this initiative, OFN and experts provide training and business coaching to microfinance CDFIs on topics essential to increasing their scale. In 2013, almost 100 CDFI practitioners have already participated in the first phase of training, and an additional 500 are expected to participate in technical assistance offered throughout the year.

As microenterprise and small business growth has a direct effect on the job market, OFN is also committed to increasing the number of U.S. jobs created and retained via "Create Jobs for USA". Since 2011, the initiative has pooled donations from Starbucks, other large companies like Citi, and more than 800,000 individual donors, and provided it as capital grants to OFN Member CDFIs. The CDFIs use these grants to support loans to underserved community businesses, including those owned by microentrepreneurs. In its first year, Create Jobs produced more than USD 15 million in donations supporting more than USD 100 million in financing that will have a net job impact of more than 5,000 jobs.

CDFI financing for microenterprises and small businesses has never been more important, and the CDFI industry is responding.

[1] New York Federal Reserve, August 2012, FRBNY Small Business Borrowers Poll.
[2] US Small Business Administration and National Small Business Association July 2011 report.
[3] Department of the Treasury Federal Register, Vol. 78 No. 24, February 5, 2013, page 8303.
[4] The Aspen Institute/FIELD March 2012, 2011 US Microenterprise Census Highlights: FY2010 Data.

MARK PINSKY
PRESIDENT & CEO
OPPORTUNITY FINANCE NETWORK

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

Accion Texas Inc. manages the largest microloan portfolio in the United States. Since opening in San Antonio in 1994, it 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 academic study proves quantitatively what we have witnessed in nearly 20 years of lending.

In the first study of its kind[1], researchers from the University of Texas at Austin, the Anderson 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 that receiving a loan increases 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. He opened Bernard's Creole Kitchen in an abandoned shack in 2006, struggling valiantly to keep it open. In 2010, a USD 4,265 loan helped him relocate to a better facility. After paying off that loan, Bernard borrowed another USD 5,000 in 2013 to buy 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 amazing opportunity to lead with innovation and strategic partnerships. Two examples clearly articulate the importance of innovation and partnership. First,

Bernard McGraw, owner, Bernard's Creole Kitchen, San Antonio

with the creation of our web-based underwriting and tracking system, Microloan Management System™ – we provide microlending expertise 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 enter a healthy financial relationship so that they may build credit and assets, while living their dream.

Our story is a snapshot of the dedication and commitment of microlending in the U.S. We are proud of our work, yet we know there is much more to be done.

[1] "How Much does Credit Matter for Entrepreneurial Success in the United States?", October 2012.

JANIE BARRERA
PRESIDENT & CEO
ACCION TEXAS INC.

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 transformative, which limits the extent to which microfinance can help reduce poverty. Still, microfinance brings financial services to poor people in a self-sustaining way – that is fundamentally a good thing. Building self-sustainable financial services is the strength of microfinance.

What would be your recommendations 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 get voluntarily is life insurance. When it comes to savings, the regulatory environment becomes more important, as there is more responsibility on microfinance investors 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.

Transparency makes more sense. The important thing is to describe costs to clients in a way that makes sense to them, so it helps them make a good decision. Avoiding hidden costs, and making costs easy and clear to understand, is an inarguable step forward.

Can financial education help improve microfinance social performance?

There is little evidence financial education programmes for poor people work – at least not at reasonable cost. No matter how much you try to teach them, people seem to keep making the same irrational economic decisions. I am pessimistic about the possibility this can be changed at little cost. We need to understand people, and design products that are both responsible and matching with the way they think. We'll do more good if we take clients the way they are, rather than trying to change them.

What do you think of the current self-regulation initiatives? Are they going in the right direction?

The impulse behind such campaigns is great, but their ultimate impact remains to be seen. Such initiatives could even do harm, by giving the appearance of something that is not there yet: making people think that everything has been taken care of could lead to more money being injected into the system, and the creation of another bubble. What is needed is a microfinance sector that is regulated domestically, like conventional finance is.

So what will microfinance look like in the future?

Microfinance is likely to develop in three ways: an increasing use of technologies; lower costs; and an alignment with conventional finance, as mainstream financial institutions are starting to do microfinance, or microfinance institutions are rising and merging with conventional finance.

INTERVIEW CONDUCTED BY
EMILIE CHASSAGNARD
STUDIES OFFICER
CONVERGENCES

Endorse 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 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, 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 Investors in Inclusive Finance
6. Researchers Assist the Microfinance Industry to Learn
7. Donors, International Financial Institutions and Foundations Support the Industry and Push Boundaries

They have already signed the Global Appeal:

Accion
Babyloan
BURO Bangladesh
CARE
Crédit Coopératif
Crédit Municipal de Paris
e-MFP
Enda inter-arabe
Fédération des Caisses Populaires du Burkina
FINCA
Freedom from Hunger
Grameen Crédit Agricole Microfinance Foundation
Grameen Foundation USA
Macif
Opportunity International
OXUS Group
Pro Mujer
SIDI
VisionFund International
Women's World Banking
And more...

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

Save the Date: 6th edition

CONVERGENCES World Forum

Every year, the Convergences World Forum brings together 5,000 participants from over 100 countries to build together, during 3 days and 3 nights, tomorrow's solutions for a fair and sustainable world.

On September 17, 18 and 19, 2013, in Paris, the 6th World Forum will have for overarching theme 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.

They have confirmed their attendance to the World Forum:

Michel Aglietta,
Bertrand Badré,
Christophe de Margerie,
Laurent Fabius,
Kristalina Georgieva,
Donald Kaberuka,
Andris Piebalgs,
Khalifa Sall,
Jean-Pascal Tricoire,
And many others!

Find the Provisional Programme and Register online:
www.c2015.org

A PUBLICATION BY

CONVERGENCES
Towards a fair and sustainable world

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 alleviate poverty and privation in developed and developing countries.
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.convergences2015.org

IN PARTNERSHIP WITH

CAISSE D'EPARGNE FEDERATION NATIONALE · Caisse desDépôts · citi · MAIRIE DE PARIS

WITH THE TECHNICAL SUPPORT OF

ACTED · OXUS

THANK YOU

Thank you to the members of the Steering Committee of the Microfinance Barometer and to the contributors: Marion Allet, Bob Annibale, Tatjana Antić Drča, Stefanie Arck, Bernd Balkenhol, Janie Barrera, Florent Bédécarrats, Marie Anna Bénard, Pauline Bensoussan, Gérard Brasquet, Sandra Bythell, Marjolaine Chaintreau, Laurent Chéreau, Eugénie Constancias, Danièle Defert, Aurélie de Fonvielle, Anthony Degouve, Agathe Delouvrier, Florence de Maupéou, Aude de Montesquiou, Priscilla de Moustier, Alexandra Fiorillo, Peter Foster, Dominique François, Emilie Goodall, Amelia Greenberg, Francesco Grieco, Camille Guézennec, Philippe Guichandut, Yoann Guirimand, Jürgen Hammer, Yasmine Hamraoui, Kani Hérault, Emmanuelle Javoy, Snezana Jovic, Maha Keramane, Antonique Koning, Minh Lai, Cécile Lapenu, Sung-Ah Lee, Marten Leijon, Caroline Lentz, Antoine Leroy, Marie-Geneviève Loys, Asad Mahmood, Gaël Marteau, Maude Massu, Claire-Marie Messier, Aldo Moauro, David Munnich, Katarzyna Pawlak, Claire Pénicaud, Mark Pinsky, Béatrice Raoult-Texier, Silvia Rico, David Roodman, Abdoulaye Sangaré, Philippe Serres, Edouard Sers, Jean-Michel Severino, Ken Slavin, Lucia Spaggiari, Blaine Stephens, Marc-Henri Stroh, Caroline Tsilikounas, Cédric Turini, Marylène Viala-Claude, Bernadette Victorio.

Special thanks to: Emilie Chassagnard, Antoine Chignier, Judith Jakubowicz and Lucie Venard from Convergences, Michaël Knaute and Caroline Thieulin from OXUS, Paul Duke, Adrien Tomarchio and Hugo Wesley from ACTED.

For more information: contact@convergences2015.org or www.convergences2015.org
Suggested reference for this document: Microfinance Barometer 2013 / Convergences. **Lay out:** Convergences. **Printing:** Chevillon Imprimeur.