The microfinance sector must evolve to reaffirm its role as one of the key drivers in tackling this century’s development challenges. Convergences, a group of partners, The Global Appeal for Responsible Microfinance, launched in 2012 by Jean-Michel Severino, Chairman of Convergences, and a 5% increase in the number of customers in 2012 (see data on pp.2-3). However, this is a fast-changing sector. Services, stakeholders, regulation, and technological innovations evolve and transform the landscape of microfinance of tomorrow. The objective: to remain an alternative for more than 2.5 billion people currently excluded from the traditional banking system across the globe.

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

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

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

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

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

The first microcredits were issued 40 years ago. Since then, the microfinance sector has significantly expanded. Currently, a large number of microfinance institutions across the globe provide services to almost one hundred million clients. This accelerated growth demonstrates the importance of microfinance as a major instrument of financial inclusion, even though the sector has been spared from crises, calling for the implementation of more responsible economic models to ensure the viability of the sector and its mission.

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

These are the central issues of the 2014 Microfinance Barometer, which, for its 5th edition, looks at the future of microfinance practices and actors. In this edition, researchers and experts of the sector share their insights on the prospects of responsible microfinance, on the evolution of regulation, and on various stakeholder practices, both in developed and developing countries.

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

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

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

**Microfinance Key Figures**

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

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

- The 1,252 institutions reporting to MIX in 2012 represent the majority of microfinance service providers.
- They cover a great diversity of models and types of institutions and reach out to 91.4 million low income clients for a USD 81.5 billion portfolio.
- The 100 largest institutions, ranked by number of borrowers, dominate the market with 70.6 million of the sector's 91.4 million clients, representing 77% of the global market.
- South Asia leads the market with the largest number of borrowers (52%), and also the highest number of female (92%) and rural (80%) borrowers. Of the top 100 institutions, 43 are in South Asia and account for almost 48% of global borrowers.
- The global loan portfolio is mainly concentrated in Latin America and the Caribbean (40%), which has the lowest proportion of rural borrowers.
- The highest average loan balance is in Eastern Europe and Central Asia (USD 2,544), a region that also has more male than female borrowers.

Growth returns in 2012 and 2013:

- Globally, outreach has increased by roughly 5% throughout 2012 after a 4% decline in 2011. The return to growth is widespread across regions, with most countries (73 out of 95) experiencing growth in numbers of borrowers between 2011 and 2012.
- Africa reported the strongest growth, around 11% in 2012, easily outpacing South Asia at the opposite end, which reported a 3% growth. Using estimates for 2013, preliminary data for South Asia show strong recovery (nearly 10%), as growth is picking up again in India, specifically in states outside of Andhra Pradesh.
- Looking ahead to the end of 2014, all markets surveyed through the MIX Barometer are also expecting growth between 8% (Bosnia Hercegovina) and 29% (Mexico).
- In terms of loan portfolio, growth in 2012 was around 21%.

**Methodology**

1. MIX calculations are based on data provided by microfinance institutions to MIX that is publicly available at www.mixmarket.org. MIX collects data from the dominant actors of each market but does not collect data from every actor in every country.
2. Total figures for borrowers and loan portfolio as of 2012 are based on data provided by 1,252 institutions.
3. Growth figures for borrowers and loan portfolio values from 2010 through 2012 are based on a balanced panel data set of 806 institutions that provided both data fields to MIX for each of the years from 2010 to 2012.
4. Estimate growth values for 2013, globally and regionally, are based on all institutions that provided data to MIX for the periods from December 31, 2011 to either September 30, 2013 or December 31, 2013. Growth was calculated by institutions and then weighted by that institution’s market share using the assumed value for the end of 2013. These institutions number 347 and represent 71% of the 2012 market by borrowers.
5. Funding data is provided by microfinance institutions. To fill in any gaps in the funding data, values were assumed if enough data was initially reported by the institution. For example, equity was calculated if no value was provided by the institution, but the assets and liabilities were available. Similarly, deposits or borrowings were calculated assuming total liabilities were comprised of either deposits or borrowings and that two of the three values were available from the MIX. The number of institutions included in the funding analyses total 815 institutions and comprises 78% of the 2012 market by borrowers.
... however, approximately 2.5 billion people still do not have a formal account in a financial institution.
Global social ratings

Social performance mentoring programme for Oikocredit and its partners

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

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

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

3 Non-bank financial institutions.

4 Sample included 203 institutions, as 3 institutions’ results were not representative.

5 Microfinanza Rating and Planet Rating, on the basis of 206 ratings obtained in 2008-2014. Currently, each agency uses its own system. However, they have evolved under the framework created by the SPTF enabling a retroactive comparison of USSPM scores and a comparison of results obtained by the agencies.

Ugafode's improvements in social performance management

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

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

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

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

As a result of these changes, after two years, client exit declined (from 15% to 5%), staff turnover declined (from 16% to 4%), portfolio at risk <30 days declined (from 12% to 3%), and the MFI experienced significant growth (doubled its loan portfolio and opened almost 28,000 new savings accounts). Ugafode also increased its outreach in rural areas and to women (doubled its number of clients in rural areas; the share of female incomes increased from less than 25% to over 30%), and in a nationwide survey of microfinance clients, it was voted “Most Trusted MFI in Uganda”.

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For more information on UGAFODE at: http://www.ugafode.org

MICROFINANCE BAROMETER 2014

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

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Barometer 2014
Microfinance

Which objectives for microfinance?

Widespread – according to the World Bank, Grameen Bank. Demand is growing since the 1990s, including housing microfinance and commitments to financial inclusion will become a reality in most of the currently excluded geographies.

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

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

Narasimhan Srinivasan: Branchless banking and technology linkages will be ubiquitous. There will be a multiplicity of players functioning as banking agents, financial institutions and insurers. Specialised institutions offering mobile financial services and payment services will emerge, forcing them to enter into alliances. Credit products from banks and financial institutions will be mass marketed using the branchless savings networks. Technology, especially mobile, will be a core feature. However, for the expansion of services and client comfort. Regulation will focus more on ensuring services are consistent across institutions, processes or products. Product innovation and the new digital inclusion will become a reality in most of the currently excluded geographies.

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

Tilman Ehrbeck: Learning from the poor about their financial needs, preferences and behaviors is an important first step. Poor people are very active managers of their financial lives. We know from the study of their books of accounts that they need and use a full range of financial services – the fourth most common reason for borrowing is to pay school fees, offering such complex and diverse products is something our sector is still grappling with. But if done right, such a customer-centric approach can advance financial inclusion by deepening access and usage of appropriate formal financial services. Ultimately, financial services

Addressing evolving financial needs: Can microfinance meet the challenge?

Tilman Ehrbeck

Narasimhan Srinivasan

Over the past few years, broadening financial services to the poor has become a core tenet of full financial inclusion. Influential studies, such as Portfolios of the Poor, have shown financial lives of clients are complex and their financial product needs go well beyond traditional microcredit. For some years now, the microfinance sector has been moving in that direction, broadening financial offerings to include different types of savings, insurance, payment, and a greater diversity of credit products. However, this remains a work in progress. So far, traditional microcredit – short term loans with fixed and frequent payments – remains the bread-and-butter of the industry. Even for forward-looking Microfinance Institutions (MFIs) that have branched out into other products, microcredit remains the dominant source of revenue, often subsidizing other products. To a large extent, this is driven by the underlying economics of microfinance. To understand why, consider two illustrative examples: housing microfinance and commitment savings.

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

The case of commitment savings is similarly instructive. Take school fees as the most common reason for borrowing and another common use of microenterprise loans. School fees are an eminently predictable expense, and motivated MFIs may choose to structure commitment savings products that look very similar to microcredit – with the main difference being that they are for a specific period. Marketing such products can be a challenge, as it runs into client tendencies to procrastinate, but for MFIs there is a more difficult challenge: such savings products are rarely profitable. Indeed, according to a Consultative Group to Assist the Poor (CGAP) study outlining the business case for small savings, such products are only profitable for MFIs whose clients already use loans to pay for school fees, offering such complex products is something our sector is still grappling with. But if done right, such a customer-centric approach can advance financial inclusion by deepening access and usage of appropriate formal financial services. Ultimately, financial services

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

Tilman Ehrbeck is the director of CGAP’s and Narasimhan Srinivasan is an international consultant and independent director.

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

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

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

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

Narasimhan Srinivasan: Branchless banking and technology linkages will be ubiquitous. There will be a multiplicity of players functioning as banking agents, financial institutions and insurers. Specialised institutions offering mobile financial services and payment services will emerge, forcing them to enter into alliances. Credit products from banks and financial institutions will be mass marketed using the branchless savings networks. Technology, especially mobile, will be a core feature. However, for the expansion of services and client comfort. Regulation will focus more on ensuring services are consistent across institutions, processes or products. Product innovation and the new digital inclusion will become a reality in most of the currently excluded geographies.

What is the future of microfinance look like in 10 years?

Narasimhan Srinivasan: Large banks will place emphasis on engagement and the development of good agent networks. Niche players will emerge – small finance institutions and agent network managers – seeking to find a niche market among large banks and small customers. Microfinance institutions will have to turn into banking agents, with both own account business and agency business. Three things will be central: transparency and accounting will be centralised using multiple technologies. More of white-label services (relating to technology, ATMs and agent networks) will be in the offing.

Product development will gain importance within banks. Indeed, they will not be able to train their employees, dispersed across the territory, unless products are simple and easily marketable.

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

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

Consultative Group to Assist the Poor

Mobile money or mobile payment is a form of financial transaction made from a mobile phone linked to a bank card or an electronic wallet.
Community development through innovative microfinance

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

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

As an illustration:

- Only a portion of the savings collected from members is allocated for maturity and loan disbursement. This helps the client build up savings in addition to the increased income and assets from the loan invested in his or her microenterprise.

- Each product (deposits and loans) always comes with multiple term, interest, repayment, etc. options, providing flexibility within a structured framework.

- Credit alone is not enough. There is also a need for services like free insurance, incentives, training, exposure, and marketing delivered as a package so that even impoverished clients can create a habit of regularly depositing savings and repaying loans.

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

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

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

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

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

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

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

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

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

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

Mobile operators now have a mobile banking offer that enables MFIs build technological platforms that allow for money transfer and mobile-banking. Not that these mobile solutions will succeed if they don’t take all local conditions into account, the disappointing replication of M-Pesa in South Africa being an example. MFIs or telcos should therefore never adopt a one size fits all approach when it comes to financial services. A further prediction that seems foreseeable is that there will be continued partnerships between telcos and financial institutions to offer client mobile based micro-credit and money transfer services. In Kenya, Safaricom in partnership with Commercial Bank of Africa (CBA) introduced M-Shawi, a mobile-based micro-credit services product. Tanzania has followed suit, services like Equity Bank in Kenya which was licensed to operate as a Mobile Virtual Network Operator.

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

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

Musoni is expanding its operations into Kenya’s rural areas and preparing to roll-out across the region starting in Uganda by the end of this year. In addition, it started to make the IT solution available to third parties, allowing others to benefit from these efficiencies too.

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

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A special report on the future of mobile banking and technological innovation in Musoni Microfinance

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

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

This model provides a solution to the challenge of sustainably delivering financial services to rural populations. Field offices are low cost and staff can penetrate deep into rural areas visiting clients and processing data using their tablets. Musoni is offering mobile money transfers on financial services to rural populations and is proving successful.

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Credit: Bill & Melinda Gates Foundation
MICROFINANCE BAROMETER 2014
CONVERGENCES Trends for a fair and sustainable world

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**Towards convergences between the banking sector and microfinance?**

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

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

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

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

**Microfinance** is the one topic in the impact investing sector that is no longer in its infancy. Its continuing dynamism – especially over the last ten years – is today paired with the seasoned professionalism of a young adult. This fact is evidenced by the trust that microfinance has gained for encouraging funds’ growth and less risk adverse private investors, who have invested in microfinance for a decade. Pension funds only invest in what already works.

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

To understand tomorrow’s markets, we must consider the past. The microfinance model that emerged from donor-dependent programs to sustainably and retail banking. Microfinance is a winner’s market. Out of thousands of microfinance institutions (MFIs), a few hundred have contributed to most of the growth. Considering 100 institutions that responsibly investments has financed over the last five years, we see that 20 to 30 of them invested over 14 million additional clients, growing from 1,200 to 5,000 between 2008 and 2013, a Compound Annual Growth Rate of 22%. Most institutions have changed their legal form over time. 58 out of 100 are now able to take deposits from clients, with their combined savings volume growing to USD 23 billion.

The formalisation process is set to continue as more MFIs across all regions are currently in the process of applying for banking licenses. The funding needs of these institutions will change; refinancing will now happen locally. This means that the financial sector development has succeeded and such that international financiers are out of business: microfinance banks will continue to seek substantial cross-border financing on their balance sheets for diversification reasons. Despite better overall framework conditions, developing countries remain prone to government interference and political upheaval which can cause local liquidity to dry up quickly.

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

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

**Funding microfinance tomorrow**

**The future of microfinance**

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

**Administrative costs are too high when lending small-scale loans to the poor.** To sustain their self-sustainability, MFIs can have a profitable link, which returns finance into investment activity in the other leg, namely that of poor clients requesting tiny loans. This cross-subscription process makes convergence happen.

However, convergence is inconvertible. The microfinance industry can learn from the traditional commercial banks; and test”. Quarterly Journal of Economics 109(2) (May); Armendáriz – Morduch (2010), Microfinance: A Handbook of International Practice, World Scientific Publishing (London).
Microfinance actors converge on the issue of better regulation for the sector

Microfinance is a key component of the financial landscape, providing crucial financial services to the poor and underserved populations around the world. However, the sector has faced numerous challenges, including regulatory ambiguity and a lack of effective oversight. New initiatives for operators self-regulation are being explored to ensure that the sector can continue to evolve and remain relevant to its members.

Changes in microfinance regulation in West Africa

The regulation of microfinance in West Africa has evolved over time, with a focus on developing local finance and ensuring greater financial inclusion. As a matter of fact, less than 10% of the 63 known MFIs were in operation even after fifty years of ‘conventional’ credit providers operating in the region. For this reason, the early nineties, financial and legislative authorities took steps to implement forms of regulatory frameworks. Over twenty years, microfinance has achieved wider reach than conventional credit providers, with the number of beneficiaries served by alternative finance constituting 5-15% of the entire WAEMU population, depending on the country. The savings mobilized and the financing provided increased the threshold of 700 billion CFA Frans (over one billion euros) compared with less than 20 billion CFA Frans (30 million euros) in the early nineties.

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

The case of Kyrgyzstan

Looking towards the future, MFIs are beginning to broaden their role by playing a critical role in promoting industry performance assessments. In some markets, MFIs are becoming aware of the importance of their role in credit information sharing systems, and are paying attention to the flow of information and the implementation of the rigorous framework of financial community of eight countries.

The future of microfinance

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

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

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

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

There are two main reasons behind this. First, the rise of precarious employment is forcing employees to surrender to adopt divided working hours in places which are poorly accessible by public transports.

Second, public subsidies for mobility deal, but they rarely cover the wide variety of needs.

Mobility is a key societal issue which many are not aware of. In a recent study1, Auxilia, a consultancy firm, pointed out that 6.8 million people in France are affected by mobility difficulties. Furthermore, mobility is a key factor in gaining access to employment. 60% of employers surveyed by Auxilia had to face a situation in which a job applicant turned down an offer of work because of transportation problems. Those living in vulnerable situations are the most affected. Half of those making their way into the workforce have a driving licence, and only a third have a vehicle.

Spurred on by these observations, several companies and associations have come together in order to found the ‘Laboratory for Inclusive Mobility’2. Its aim is to gain a better understanding of the factors that hamper mobility in order to strengthen existing solutions, such as personal microcredits, while also inventing new solutions. In addition to this laboratory, Fédération Nationale des Caisses d’Epargne, Total, Renault and MACIF Group have joined Wimoov3, an association that specialises in providing support for mobility with the goal of designing a package that includes personal microcredit, a second-hand car, fuel, repairs and insurance.

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

Because the amount of loans that can be distributed under this framework is slightly greater than €87 million.

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

The number of microcredit applications has increased by 5% over the last year, reaching 10,337. It is easily obtainable and long-lasting. Microcredits have a key role to play in such an initiative.

The number of personal microloans granted in France in 2013

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

2. Professional microcredit

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

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

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

This enabled implementing 12,530 new Fogefi guarantees amounting to €51.5 million, a similar level to 2012. The leverage effect is significant

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Trends in the microfinance sector in Europe

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

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

European microfinance markets are characterised by a large diversification of the products offered. Most of the European MFIs provide their microloans as individual loans (92%). Second, especially in the Eastern European countries, such as Serbia or Bosnia-Herzegovina, the institutions offer shorter average loan terms. Another key feature is the great divergence between interest rates, which vary from 4% in Austria, France and Italy to 35% in Serbia. The average annual interest rate for all institutions surveyed is around 11%. As a reference point, the average Euribor rate in 2011 was 1.4%. In France and Italy to 35% in Serbia.

As lending practices vary considerably, the design of a “European Code of Good Conduct for Microcredit Provision” was identified by the European Commission (EC) as an important element to encourage the adoption of best practices in the sector. The Code primarily applies to MFIs providing loans up to €25,000 and encompasses a set of standards. The endorsement of the Code is voluntary and is not expected to disrupt any legislative requirements of EU member countries. The implementation of the Code is a priority for many European microfinance providers, since its application will most likely become a requirement to access EU funds.

The EU supporting the sector

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

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

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

As presented in Graph 1, 47% of the institutions surveyed provide no other financial services than microloans for business purposes, which suggest a significant share of specialized microlending institutions. Another prominent product is personal microloans (with 34% of the organisations surveyed), followed by debt counselling (18%) and savings products (13%). More than one out of two MFIs offer BDS on a regular basis (Figure 21). 14% of the MFIs only if asked by client, followed by 12% who refer it to clients. This indicates that the use of BDS is mainly not obligatory for the clients, as 11% of the MFIs report that BDS is mandatory for all their customers and 6% set it as a requirement in some cases.

Graph 1 - Total share of other products / financial services

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

Graph 3 - Total share of BDS approach types

More than one out of two MFIs offer BDS on a regular basis (Figure 21). 14% of the MFIs offer BDS only if asked by client, followed by 12% who refer it to clients. This indicates that the use of BDS is mainly not obligatory for the clients, as 11% of the MFIs report that BDS is mandatory for all their customers and 6% set it as a requirement in some cases.

Convergences

Source: Overview of the Microcredit Sector in the European Union, European Microfinance Network (EMN), 2012
“Microfinance is and will be in the future the center of initiatives for financial inclusion”

Jennifer Riria is the CEO of Kenya Women Microfinance Bank Limited (KWFT) which was established in 1981 to provide access to financial and non-financial services for women entrepreneurs to enable them to improve their economic status, their livelihoods and hence the well-being of their families. It is the largest microfinance institution in Kenya today, with 16 regional offices operating in a total of 236 field offices and reaching over 80,000 women and their families.

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

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


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THE GLOBAL APPEAL FOR RESPONSIBLE MICROFINANCE

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

In 2011, the Global Appeal launched, 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 financiers – through 7 principles:

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

The Appeal has already taken several concrete steps to support the vision of a responsible microfinance sector, mobilising and engaging policy makers, investors, researchers, and financiers. Convergences World Forum in 2012.

How do you see the future of microfinance?

Microfinance, microfinance institutions and foundations, have already moved the financial agenda into the mainstream financial world. The future of growing economics, in particular for women, will be in the hands of women and the women microfinance institutions and foundations that will drive its evolution. Microfinance is becoming the centre of initiatives for financial inclusion.

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 developing and developed countries.

As a truly multidisciplinary background network, Convergences brings together more than 300 contributors to reflect on the challenges of cross-sector partnerships, international cooperation, microfinance, social entrepreneurship, social and solidarity economy, social business, CSR strategies, 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 cooperation towards a fair and sustainable world.

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