Introduction

FINANCIAL INCLUSION 3.0
WHAT’S AT STAKE FOR DIGITAL FINANCE?

The new Global Findex survey recently brought to light the significant progress made towards financial inclusion worldwide, with 700 million adults newly “banked” in the last 5 years. Microfinance has played an important role in this change and data from the MIX Market confirm the continued growth of the sector, with an annual increase in borrowers of nearly 10% in 2014 (see pp. 2 and 3).

The progress of financial inclusion is also a result of the surge of digital finance. This phenomenon is the focus of the special report of this 2015 edition.

Digital finance has a major impact on financial institutions. The arrival of new players (telecommunications operators), the creation of new distribution models (networks of external agents, banks without branches...), the appearance of new opportunities in relation to client access and back-office management, are just some of the challenges that microfinance has overcome by innovating and adapting (see pp. 5 and 7).

This “microfinance 3.0” has also opened a new wealth of possibilities in the countries of the global South. It has created new opportunities for clients: easy management of savings, payment and salary reception and bills and invoice payment. Already adopted in certain countries, its usage still needs to become more concrete and consistent, and clients need to gain confidence in mastering these new tools. Nevertheless, it is undeniable that a revolution is taking place (see pp. 8, 9 and 12).

In France and in Europe, in a context of economic crisis, microfinance continues to develop, but on a smaller scale. Here too, digital finance has opened up new possibilities, be it in terms of access to new clients or of help and services offered to beneficiaries (see pp. 10 and 11).

As in other years, the Barometer once again deals with the subject of social performance management and shows how microfinance is making progress in this area. The Universal Standards, launched in 2012, are today largely recognised by the profession, even if their effective and full implementation remains a challenge for many institutions (see p. 4).

Throughout this 6th edition of the Microfinance Barometer, the new face of microfinance becomes apparent, ever more innovative and ambitiously committed to the path of digital revolution.

MICHAEL KRAUDE, CEO, GRUPO MICROFINANCE WORKING GROUP COORDINATOR, CONVERGENCES

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Exclusive!

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Between 2011 and 2014, 700 million people opened an account with a financial institution or a mobile account

Account penetration in the world
People aged above 15 years with a bank account (%), in 2014

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Account Penetration</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-19</td>
<td>58%</td>
</tr>
<tr>
<td>20-39</td>
<td>67%</td>
</tr>
<tr>
<td>40-64</td>
<td>75%</td>
</tr>
<tr>
<td>65-89</td>
<td>81%</td>
</tr>
<tr>
<td>90-100</td>
<td>86%</td>
</tr>
<tr>
<td>No data available</td>
<td></td>
</tr>
</tbody>
</table>

Source: Global Findex Database

But 2 billion adults remain unbanked and major inequality still prevails

In Sub-Saharan Africa, digital finance is a major contributor to the improvement of financial inclusion

The Global Findex survey clearly shows, and in great detail, the development of digital finance in Sub-Saharan Africa. Worldwide, only 2% of adults have mobile money accounts, but this percentage reaches 12% in Sub-Saharan Africa, which represents 64 million users (30 million in East Asia and the Pacific). 45% of mobile account holders only possess a mobile account. Nevertheless, the regularity of use remains relatively low since only 42% of registered clients use their mobile bank account every 90 days.

Despite this progress, the poorest remain under-banked compared to the rest of the population. 54% of the 40% of poor adults are un-banked as opposed to 40% of the 60% of richest adults. The gender gap in developing countries, albeit decreasing, is still at the disadvantage of women, with only 50% of whom are banked as opposed to 59% of men. There is also an important difference between countries, with a rate of use of the banking system below 20% for most of the least developed countries in Sub-Saharan Africa, the Middle East and South Asia, as opposed to a rate of almost 100% in the OECD economies.

Methodology

The indicators in the 2014 Global Financial Inclusion (Global Findex) database are drawn from survey data covering almost 150,000 people in 143 countries - representing more than 97% of the world’s population.

The survey was carried out over the 2013-2014 calendar year by Gallup, Inc. as part of its Gallup World Poll, which has been conducting surveys since 2005 of approximately 1 million people a year in over 160 countries, using randomly selected samples of people, representative of the adult population aged 15 years and above.

Surveys are conducted face to face in economies where telephone coverage represents less than 80 percent of the population. In most economies the fieldwork is completed in two to four weeks.

Data weighting is used to ensure a nationally representative sample for each economy. Final weights consist of the base sampling weight, which corrects the unequal probability of selection based on household size, and the poststratification weight, which corrects sampling and nonresponse error. Poststratification weights use economy-level population statistics on gender and age and, where reliable data are available, education or socioeconomic status.

Additional information about the Global Findex data, including the complete database, can be found at www.worldbank.org/globalfindex
**Microfinance continues double-digit growth in 2013 and 2014**

In 2013, non-bank financial institutions (NBIs) saw the highest regional growth in 2013 (+27% in outstanding portfolio). South Asia also continued to expand significantly (+11.2% in outstanding portfolio) and Africa also experienced strong development (+19.5% in outstanding portfolio). South Asia is home to more borrowers than the rest of the world combined, even though the region only possesses 1/10th of assets. Worldwide, 81% of borrowers are women and 66% of borrowers live in rural areas.

**Institution funding profiles remained stable over the last three years, with over half of all available funding coming from deposits**

Sub-Saharan Africa was the most deposit-dependent region (68%) in 2013. In the Middle East and North Africa, where deposits are not accepted by MFIs, loans and capitals are approximately equivalent. MFIs in South Asia got 48% of their funding from loans. Most of these come from Indian NbFIs, which are prohibited from collecting deposits, and which sell parts of their loan portfolio to retail banks, in line with regulatory provisions in favour of financial inclusion.

Over half of NGO funding took the form of loans (55%). Banks received the majority of their funds from deposits (67%).

**Financial performance and risks of institutions vary from legal status and regions**

In 2013, the return on equity of institutions reporting to the MIX worldwide was 8.3%. Africa and Latin America had lower rates, with 4.2% and 7.5% respectively. The MENA region had the highest returns at 12.6%. The average portfolio at risk 30 days was 3.6%. Two regions had rates below 1%: East and the Pacific, and Central Asia.

According to their legal status, the institutions with the best performance values also had the lowest rates of portfolio quality measures. Rural banks had the lowest ratios of operating expense ratio (9%) and the highest RoS (13.3%), but the highest rate for portfolio at risk 30 days at 5.6%.

**Institutions are increasing their deposit product offer for microfinance clients, but other products still need to expand**

Institutions are increasing their deposit product offer for microfinance clients, but other products still need to expand. Deposit products are progressively prevailing on the global scale with 76% of institutions accepting a form of deposit product. Other products (as defined by MIX) have not yet received the same attention.

Education-related services are the most available products following deposit products. 30% of institutions report offering a form of support to their borrowing clients.

**Methodology**

Calculations are based on data communicated by MFIs (available at www.mixmarket.org). MIX collects data for the main players in each market in order to provide visibility for each market, but does not possess data for every player in every country.

The figures pertaining to borrower numbers and loan portfolios in 2013 are based on data provided by 904 institutions communicating to the MIX platform. The 2012 data were extrapolated from figures communicated by an additional 487 institutions, and based on the same type of data. The 2014 growth estimates, at world and regional level, are based on all institutions who communicated data to the MIX from the 31 December 2013 to the 30 September 2014 or to the 31 December 2014. The growth was calculated by institutions based on their market share in 2013. This calculation was possible for 345 institutions, which together represented 69% of the market in 2013, in terms of client numbers.

Data on this type of funding were provided by MFIs. Values were estimated in order to fill any gaps in the data, in cases where sufficient information had been communicated. For example, capital, where the information was not provided, was calculated using communicated values for assets and liabilities. Similarly, deposits and loans were calculated by assuming that total liabilities were not only formed by deposits and loans and where two of these three values were available. 862 institutions, representing 84% of the market in 2013, were included in the assessment of funding.
The Universal Standards for Social Performance Management (Universal Standards) are a comprehensive set of best practices created by and for practitioners in microfinance as a resource to help financial institutions achieve their social outcomes. In October 2014, the Social Performance Task Force (SPTF), in partnership with MIX Market and the Global Appeal for Responsible Microfinance, conducted a Universal Standards Implementation Survey. The goal was to measure the level of awareness and progress in implementing the Universal Standards in the microfinance industry after 2 years of existence.

Conducted for 2 weeks online, the invitations were sent to more than 9,000 members of the microfinance community. Of the 1,010 respondents, 71% were direct microfinance providers (including NGOs, banks, and non-bank financial institutions).

The results highlighted a strong interest of the audience in the Universal Standards, as 89% of MFIs, 91% of networks/associations as well as 91% of investors knew them.

Other major key findings outlined that 82% were familiar with the Universal Standards Implementation Guide (launched in Spanish & French one month before the survey), and 38% with the new social audit tool CERISE SPI4. Furthermore, 68% had a clear or quite clear understanding of the diverse responsible finance initiatives and the way they complete each other. MIX Market and the Smart Campaign were the most cited tools whereas CERISE SPI4 and Truelift’s Pro-Poor Principles were less known, as they were only recently launched.

Most of the institutions considered the Universal Standards to be helpful (92%) and 20% implemented social SPM practices after hearing about the Universal Standards. Most of them started with stakeholders’ commitments to social goals (Dimension 2) while balancing social and financial performance withstands as being the most challenging (Dimension 6). This dimension along with products, services, delivery model designs (Dimension 3) appeared to be the highest priority for MFIs.

It is to be noted that, whatever their level of awareness, microfinance providers reported having a rather good implementation of SPM practices for clients and employees responsible treatment (Dimensions 4 & 5).

Networks and associations also expressed a strong belief in the importance of social performance activities (68%), 78% were familiar with the Universal Standards; and three quarters believed that it is essential for the financial institutions of their regions to commit to the implementation of the Universal Standards.

Moreover, main resources are the SPTF and other websites (CGAP, Smart Campaign, MIX, IFI Transparency, etc.), SPI4, tools/technical assistance provided by networks/associations, and trainings provided by the SPTF for microfinance providers. While networks/associations prefer in-person training on SPM or refer to case studies about financial institutions implementing practices in their regions.

Finally, investors strongly believe in the importance for institutions to invest in SPM (95%), and one-third reported offering preferential terms to financial institutions with a strong commitment to SPM, one fourth reporting having plans to start offering such incentives soon.

Despite the bias inherent to this type of survey, these results show a very encouraging trend from institutions, networks and investors to implement the Universal Standards and put social outcomes at the center of their strategy and operations.

Going further

SMARTCampaign website to access the Client Protection Principles: www.smartcampaign.org
MIX Market website for social reporting of microfinance institutions: www.mistat.org
CERISE website to access the SPI4 social performance evaluation tool: www.cerise.spir4.org
Global Appeal for Responsible Microfinance website, launched by Convergences: www.theglobalappeal.org

Measuring and monitoring client outcomes: holding ourselves accountable for social performance

The Social Performance Task Force’s (SPTF) second annual implementation survey of the Universal Standards for Social Performance Management (USSPM) rightly points out that the Standards “can help finance institutions be as rigorous about social performance as they are about financial returns”1. Results of this recent SPTF survey seem to indicate that although the microfinance sector is widely aware of the USSPM, it does not implement the USSPM rigorously. In particular when it comes to the first point: “Define and monitor social goals” (1.B), particularly the 1.B.1 standard: “The institution collects, reports, and ensures the accuracy of client-level data, specific to the institution’s social goals”1.

Oikocredit argues that social investors and microfinance institutions (MFIs) should strive to be as transparent and accountable about their client-focused objectives as about their financial goals. “What is happening to the lives of microfinance clients?”, and “does microfinance make a lasting difference to their lives?” are the key questions. The microfinance sector has far better systems for measuring, auditing and reporting financial progress than for social outcomes. Although the adage “know your client” is widely used by MFIs, few of them collect and report on their results or the social outcomes for their clients.

Oikocredit believes that MFIs should monitor and report client outcomes, that investors should require this, and that greater attention regarding this matter would help the microfinance sector be more financially and socially sustainable. Oikocredit has therefore begun to provide capacity building in client monitoring, management and analysis of longitudinal client data (also known as time-series or panel data). The objective is to better analyse the changes and evolutions of clients’ lives.

Since 2014, Oikocredit has worked with four MFI partners in India, and with one in each of the following countries: the Philippines, Cambodia and Tajikistan. In practice, the work consisted in field visits, workshops, trainings and online assistance. Core areas of our support include defining indicators, improving client data collection, analysis and reporting, adapting management information systems, and ensuring that client monitoring informs daily operations, risk management and decisions about product development and social mission. The indicators include client employment income and Progress out of Poverty metrics. Oikocredit plans to submit its partners’ clients’ data to an econometric analysis in order to better understand whether microfinance clients are improving their lives over time.

Seyfedeh Gini
Investment Director
SOCIAL PERFORMANCE
OIKOCREDIT INTERNATIONAL

1 The Universal Standards for Social Performance Management Implementation Guide, SPTF, Leah Wolfe
The challenge of digital finance: Moving from initial take-up to regular usage

The promise of digital finance to advance financial inclusion is compelling. Digital channels empower disadvantaged people to save, borrow, and transfer money with relative ease. Those previously unable to open bank accounts can access their financial information and manage transactions while authorized agents make banking services available closer to where people live and work.

Yet if digital finance has such appeal, why is its use so limited? Moreover, what challenges must be overcome so that more underprivileged people can benefit from the multiple advantages of digital finance?

A case in point is Sub-Saharan Africa, where many have registered for digital financial services (DFS). Some 64 million people (12% of adults) actively use mobile accounts. About half of these adults have no other formal account1. DFS use, however, is characterized by infrequency (only 42% of registered clients use their mobile money account every 90 days2) and a tendency by clients to take their cash out immediately. Digital financial services are often used for limited purposes (mostly person-to-person transfers). Even in Kenya, a leader in DFS, more than 90% of all financial transactions are made in cash3.

We know that the poor lead active financial lives, but mostly in cash. DFS agent networks are designed to convert cash to a digital value and then back to cash, effectively pushing value out of the system. This undermines trust in the service and raises the question: “If I don’t get my cash out now, can I get it later when I have an immediate obligation?”

There is a growing set of emerging practices among providers that strengthen trust: managing agent networks to ensure adequate customer service and liquidity; offering a seamless registration process; educating customers and promoting financial literacy; building institutional capacity to manage multiple channels; and designing to enhance the customer’s experience. Innovative organizations, such as Juntos Finanzas, have demonstrated that usage can increase through frequent, personalized SMS reminders and dialogue that builds trust. CGAP, supported by our Foundation, generates insights into what is required to increase digital finance, financial services penetration, and financial inclusion.

The critical challenge, therefore, is to keep value digital, the key to doing that is to first ensure trust in digital financial services. Then the sector can expand what people do with digital value.

Consider what disincentives can occur when people disenfranchised from the financial system start to use digital services:

- Clients may lack confidence to use a mobile phone to send money. They may hand over their phone and Personal Identification Number (PIN) to an agent. Fraud is a common concern. Clients think twice about leaving value in a digital form or even putting value on a phone to begin with.
- Clients may face system downtime and a lack of cash when they need it. This undermines trust in the service and raises the question: “If I don’t get my cash out now, can I get it later when I have an immediate obligation?”
- First impressions matter. We hear from clients frustrated with the registration process due to lost paper work or difficulty with ID. PINs are often forgotten and their reset complicated.

The ecosystem of new alternative delivery channels

In 2015, Software Group, the IFC and The MasterCard Foundation collaborated to create a reference guide to help microfinance institutions in the implementation of alternative delivery channels using technology. Many of these new and abstract terms (e-banking, branchless banking, mobile banking...) can often cause for confusion. The graph and chart below aim at presenting and clarifying the ecosystem of the different innovative and technology-based alternative delivery channels currently being developed.

<table>
<thead>
<tr>
<th>Channel name</th>
<th>Type of channel</th>
<th>Who/What customer interacts with to transact</th>
<th>Sample functionality offered by the channel</th>
</tr>
</thead>
<tbody>
<tr>
<td>ATM</td>
<td>Self-service</td>
<td>ATM</td>
<td>Cash out, balance enquiry, payments, cash deposit</td>
</tr>
<tr>
<td>Internet banking</td>
<td>Self-service</td>
<td>Internet</td>
<td>Enquiries, transfers, payments</td>
</tr>
<tr>
<td>Agent banking</td>
<td>Over the counter</td>
<td>3rd party agent, merchant,</td>
<td>Cash in, cash out, payments</td>
</tr>
<tr>
<td>Extension services, (field staff, mini branch, branch on wheels)</td>
<td>Over the counter</td>
<td>Bank staff: loan officer,</td>
<td>Account opening, cash in, cash out, loan applications, enquiries</td>
</tr>
<tr>
<td>Mobile banking</td>
<td>Self-service</td>
<td>Phone</td>
<td>Enquiries, transfers, payments</td>
</tr>
<tr>
<td>E-wallet (m-wallets, prepaid cards, store cards)</td>
<td>Self-service</td>
<td>Wide variety of merchants,</td>
<td>Cash in, cash out, payments, transfers</td>
</tr>
<tr>
<td>Call center</td>
<td>Over the counter</td>
<td>Phone, customer service representative</td>
<td>Enquiries, transfers, payments</td>
</tr>
</tbody>
</table>

1 Global Findex 2014
2 1/5
3 1/2

Credit: Jennifer Huxta for The MasterCard Foundation

MARK IRWIN
PROGRAM MANAGER FINANCIAL INCLUSION, THE MASTERCARD FOUNDATION

Above all, to fulfill the promise of digital finance, financial services providers need to be guided continuously by an understanding of their clients’ circumstances, aspirations, and core financial needs.
Face the new reality: The world has changed!

Have you noticed? The types of technological challenges facing MFIs and banks have changed dramatically. Five to ten years ago the financial institutions were looking at what technologies were available in the market and trying to fit them to specific operational problems to gain a competitive advantage. Today, these same institutions are spoilt for choices, with the decision inverted such that financial institutions need to pick the technology that best suits their needs, rather than taking what is readily available and making it work for them. For one of the most common business challenges including outreach, efficiency, automation, security, cashless, paperless, offline operations and others, institutions finally have access to multiple technological answers. With this shift in the market, what matters more today is what choices are made and how the technologies are used to further an organisation’s strategy and business goals.

The impact of new technologies is visible in every aspect of the MFIs and banks operations. From the decisions to pursue a completely paperless strategy leveraging the mobile industry development (mobile wallets, mobile phone penetration, device feature enhancements, application construction, networks), through constructing new fully automated products based on scoring models and data available via real-time integrations, to overcoming significant environmental challenges by running systems on the Cloud and having off-line units with adequate security, available features (camera, GPS, Bluetooth, GPRS/3G/4G) and authentication capabilities.

We are witnessing more and more startups with fully automated operational models who are customers and technology equipped staff are participating together in various processes, and contributing equally to data collection, monitoring and enforcement of controls. We are seeing Cloud based operations taking over, not only with delivery channels and front office, but also more and more on the back office systems like cross-border operations and even accounting. This brings new challenges such as how to construct operations, audits, controls, manage resources and of course how the transformation should be handled.

One of the main important imperatives remains the fact that all these IT related implementations are in fact operational projects. They serve business needs and must be led by business (not IT) people to guarantee the systems are implemented to serve the organization and not the other way round.

New technologies are the key for achieving financial inclusion goals and a main enabler of the digital finance revolution. The challenges of outreach, customer and user authentication, data capture and analytics, efficient operations and effective management are all solvable by technology. The main challenges are now moving into choosing the right solution, ensuring successful implementation, proper monitoring and maintenance and smooth integration into the overall IT ecosystem of the organisation. In many cases, the correct starting point is not the development of the right IT strategy to reflect the business one, but the development of a business strategy that embeds technology as a pillar of the business.

KALIN RADOV, CEO, SOFTWARE GROUP

Developing digital finance in Cambodia

In the 1990’s, after the collapse of the Pol Pot regime, Cambodia’s financial sector was rebuilt. It now has one of the best performing microfinance sectors in the world, with high ROE, strong growth, high transparency, and a pro-poor approach to technology. Whilst mobile phones are developing quickly in Cambodia, there are still approximately only 3 million mobile users in a country of 14 million people. Such a challenge has meant that different business models have had to be designed to reach more people, such as designing products that can safely be taken to villages through shared phones.

WING (Cambodia) LTD1, now the largest payment aggregator in Cambodia, understood the need to build an extensive network of agents, particularly in rural areas, and decided to partner with microfinance institutions (MFIs) to provide their cash-in and cash-out operations. For instance, they signed an agreement with Chamroeun Microfinance Limited. From Chamroeun’s perspective, this partnership helps their “partners” (clients) to repay their loans with lower cost transactions, in real-time with multi-currency, and in many WING points locations (with more than 2,500 convenience stores partners nationwide). In the long run, Chamroeun expects that it will help them reduce their operating costs. However, there have been quite a few challenges.

Cambodia’s economy operates in two currencies, the Cambodian riel and the US dollar (and even more so in some parts of the country), and most MFIs operate with two currencies. WING had to offer such an option and is now the only mobile banking provider in the world working in two currencies. There was also the need for WING to develop Khmer support materials for customers with low English literacy, which is often the case with Chamroeun’s partners.

For Chamroeun, the main challenge was to deal with errors of branch code/client ID, and the use of savings accounts to repay loans. Despite the absence of regulation for mobile payments in Cambodia, the National Bank of Cambodia has been proactive and very open with the various stakeholders, providing the necessary data to allow mobile money to evolve as the digital finance sector to emerge.

Chamroeun and WING have tried to address these challenges by training Chamroeun’s partners on mobile payment and WING’s agents on the specificities of Chamroeun’s operations. After a pilot phase in four branches, Chamroeun will extend the use of WING to all of its branches by late 2015. It has since engaged on a similar partnership like many other MFI clients, to enter the new mobile finance.

SOPHIE SUH, CEO, CHAMROEUN MICROFINANCE LIMITED

The role of agent networks in financial inclusion: A case study by microcred

Over 12 months, microcred has set up a network of 300 agents in Senegal and Madagascar. These agents are traders who supply, on behalf of an MFI, financial services including savings, withdrawal, money transfer or invoice payment and this payment is to obtain a greater number of clients, often in remote areas, at a lesser cost than with traditional partners setting new branches. This article sets out the principal lessons learnt from the project led by microcred.

In order to place clients at the heart of the transformation, designers using the Human Centered Design1 approach, structured in 3 phases: Learn, Test, Scale.

Learn, the first phase, consisted of 3 months of research and interviews with clients, prospects and potential agents. It has confirmed certain hypotheses regarding client needs and the technological solutions needed to meet them. One of the main conclusions was that the transaction method must be both simple and safe. We therefore opted for a biometric confirmation process.

Test, the second phase, was conducted by the microcred designers and technology teams, using the Agile2 methodology. Rather than purchasing a software package, we searched for partners with whom to build a transactional ecosystem which was then managed by an internal team. In contrast to the classical fixed software, this approach allowed us to take out new software functionalities each week, thus allowing new ideas to be continually tested in full transparency for the user.

A key point in the scale (deployment) phase is the introduction of new teams dedicated to the project. Managing an agent network is a new business line for MFIs and the processes differ radically from microfinance operations. We have therefore created partner and network leaders whose job is to coordinate training and support. Recruitment of agents has been an important step in the project, and we have given great importance to agents having a good reputation, and to activities that are already leading them to manage substantial amounts of cash.

The major change observed with the introduction of this network is the fact that end users, such as agents, are exposed directly to our services without the intermediacy of a microcred employee, when a problem arises. It is therefore essential for the services (and the technology behind them) to be reliable and available 24 hours out of 24, without technical faults, in order to ensure client satisfaction and to favour adoption of the service. During the scale phase it is essential to have a progressive technical solution in order to allow the network to spread operationally without having to think about technical limitations.

YANN QUIRINARD, CHIEF INFORMATION OFFICER, MICRORED

GUIVAT RATHOMBANZAFY, DIRECTOR FOR ALTERNATIVE DISTRIBUTION CHANNELS, MICRORED

1 The HCD approach is a method that allows businesses to be assisted during innovation processes. For more information see http://www.ideo.com/

2 Agile is a project management approach that involves applicants for as far as possible and allows immediate feedback to their requests. http://www.wikipedia.org/wiki/Agile_software_development

Organizational innovation

Developing digital finance in Cambodia

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GUIVAT RATHOMBANZAFY, DIRECTOR FOR ALTERNATIVE DISTRIBUTION CHANNELS, MICRORED
Mobile money, a digital service now essential in Africa

Information and communication technology is currently a major lever in economic and social development, especially in developing countries. At Orange, we’re convinced that this technology must be put at the service of populations in order to meet their needs and provide a response to socioeconomic development problems in these countries. To do this, we are developing innovative solutions that address local problems, while at the same time contributing to the emergence of digital ecosystems that are sources of social progress and economic development.

With a strong presence in Africa and the Middle East, we have identified several areas where our technological innovations benefit populations: m-agriculture, m-health, m-education, and finally financial services. In Sub-Saharan Africa, less than 24% of the population held a bank account in 2011. This low figure can partly be explained by the very high cost of banking services but also by the lack of banking infrastructure (the size of the continent means that the number of cash dispensers per square kilometre is still very low). However, “access to financial services could provide a way out of poverty”, maintains Jim Yong Kim, President of the World Bank.

In fact, the ability to save, borrow or indeed pay, represents an essential service and source of development, as it allows populations to be actively involved in the growth of their country.

Meanwhile, the African continent is enjoying huge success in terms of mobile phone penetration rate; at the end of 2014, it was estimated that 41% of the African population had a mobile phone, representing over 467 million users. It is for this reason that the mobile money solutions have been developed: thanks to mobile phone technology, they can provide access to banking services at attractive rates.

Having identified this opportunity, Orange has been developing the Orange Money service since 2011. Orange Money simultaneously allows deposits and money withdrawals, money transfers, payment of electricity bills and purchase of telephone credits with a mobile phone. In 2014, the Orange Money application was launched in a selection of countries for smartphone users. Orange Money also allows access to numerous financial services such as savings or microcredit solutions (currently being developed in Mali) and insurance services, for students for example, in Senegal, in partnership with Allianz. The success of Orange Money lies in the easy access to the service, through an extensive and dense network of sales points, located close to communities, making it simple to withdraw money and make deposits.

Although the Orange Money offer was originally designed for people without bank accounts, it is currently being extended to bank account holders, allowing transactions between mobile accounts and bank accounts. In Burkina Faso, Orange also offers opportunities to transfer money to and from several countries.

Orange Money now has over 13 million clients, in 13 African and Middle Eastern countries, who have exchanged over 4,500 million euros in 2014 using the service. 30 million euros of the 200 million circulating each year between Mali, Ivory Coast and Senegal, are exchanged via Orange Money.

Thanks to mobile money, over 34% of the population of Sub-Saharan Africa now has access to banking services. The tool is also acclaimed for the safety it offers when making transactions.

For the repayment, the clients, having recharged their cards in La Poste’s cash in network (1,500 branches with 900 connected), then pay with their mobile phones. They still use a simple menu that shows them the total payment due. They can of course choose another amount or settle the amount that they wish to settle, whenever they wish. They receive a text message confirming their repayment. The clients do not therefore have to visit Taysir branches and thus save much time and travel costs. The geographical and cultural proximity of La Poste does not pose our clients any difficulty. This system has proved very effective indeed in rural areas, where 73% of Taysir’s 2,000 clients are located, after 10 months of activity.

The “Mobile Microfinance” service developed by Ooredoo and Taysir allow clients to consult their credit accounts to find out the total due and payment date, the outstanding balance and the number of outstanding payments, 24/7. In addition, reminders or information text messages are sent to clients regularly.

A recent survey showed that 90% of clients found the principle straightforward and easily understandable. 80% of them are now independent in settling the amounts due and consult the menu after the third repayment. The gamble taken in allowing financial inclusion and access to the new technologies has partly succeeded.

The cashless gamble, initially risky, is now proving a winner. Acceptance by clients is no longer an issue, the competitive advantage is obvious and the impact on the efficiency of Taysir is significant.

A sectorial study of digital finance in Tunisia has shown potential for diversification of services (merchant payments, e-commerce, micro-insurance, micro-savings and payment of salaries and social benefits) and for universalization (phone and interbank multi-operators) of this type of transaction in the coming years. The potential for a new system of digital finance, organised at national level in a country like Tunisia, is now quite real. Obviously it will require changes in regulations as well as a change in the perception of financial circuits and financial inclusion.

In a globally favourable technological context, and in a country where 60-80% of the economy, depending on sectors, is informal and mostly managed in terms of ready cash, these systems help “reintroduce” financial flows into formal, organised and secure channels. At this level we are addressing macroeconomic stakes that could be important for the country.
The new digital experience of microfinance clients

In Kenya, M-Shwari, a banking system offered by Commercial Bank of Africa (CBA) to clients of M-Pesa has over 10 million accounts and 4.5 million active clients. M-Shwari offers short-term loans of $15 on average and is appropriately designed to be easy to access. M-Shwari, responding to a real need for quick access to cash, whilst providing optimal conditions for the access holders: an account opened in 30 seconds and loan eligibility rapidly determined thanks to credit scoring enabled by access to M-Pesa data.

Access and adaptation to services other than loans is also improving: savings, insurance, money transfers, public service payments, etc. A digital savings account on offer in Papua New Guinea clearly illustrates the impact of digital microfinance, especially when local geography and lack of infrastructure complicates access to financial services. When the IMF Worldwide Microbank launched MiCash in 2012, its clientele increased with 70% of accounts opened by new clients. In 2016, 90% of accounts were active thanks to ongoing and targeted client training.

There are still challenges to overcome to ensure that innovation remains at the service of clients, especially related to the fact that customer relationship management (CRM) is partly transferred to the agent networks. Level of training, management qualities (profitability, performance and awareness of the client protection principles) must be ensured in order to guarantee that the data always respect the confidentiality of the technological progress.

4 M-Pesa is a digital payment service launched in Kenya in 2007 by Vodafone, for Safaricom. M-PESA enjoyed the first success in October 2010. M-PESA has now 12 million active clients and 83,000 agents, with M-PESA being used about 6.8 million times per day in 2014 update.
5 Tamara Cook, Claudia McKay, Top 10 Things to Know About M-Shwari, April 2015, http://www.cgap.org/blog/ top-10-things-know-about-m-shwari
7 IMF Nationwide Microbank launched MiCash in 2012, its clientele increased with 70% of accounts opened by new clients. In 2016, 90% of accounts were active thanks to ongoing and targeted client training.
8 The number of active clients is currently waiting for the也就是说，一个成功的指数保险产品已经与众多利益相关方建立了联系，包括保险公司、小农户和政府。这表明，通过采用客户为中心的方法，可以有效地利用卫星数据和气象技术来提高小农户的保险覆盖率。
Access to electricity in rural areas through “Pay As You Go” finance

At present, access to electricity in rural locations is mainly through the means of solar kits, which allow 2-3 light points to be supplied and mobile phones and small appliances to be charged. Unfortunately their price (about USD 200) is a real barrier for many potential clients. In addition, microfinance institutions (MFI) are reluctant to finance this type of equipment as they have not mastered its technical risks, and clients cease to repay if the apparatus breaks down. This has led the businesses developing these products to introduce a new finance system known as “Pay As You Go” or PAYG.

PAYG can be defined as a kind of installment sale, for which payment dates are flexible in terms of frequency and total: users reimburse their solar system by purchasing “energy credits”, which allow the system to be used for a given length of time. If payment is not made, the equipment stops. Once payment is made again, the system unlocks.

More and more frequently, payments are being made in non-material form (M-Kopa & M-Pesa in Kenya), with clients able to pay via SMS (Lumos and MTN in Nigeria) and even by consumption of communication credit on invoice, or by prepaid card. Some items of equipment directly load a SIM card that allows communication with the supplier’s computer system.

Operators have developed databases that combine items of equipment with clients, their geographical location and payment history, and, if the appliances are connected, technical data on the equipment. These databases allow both management of payments and preventive maintenance. Monitoring of payments is entirely automated. However, after a certain period of non-use, direct contact with the client becomes essential.

Financing of energy equipment by PAYG remains first and foremost a loan operation, and client risk assessment, monitoring of payments and dealing with default is of fundamental importance. On this point also, digital technologies allow gain in productivity by the means of suitably adapted “scoring” systems that may benefit from information issued from the equipment supplier’s database, which can be combined with payment data from mobile phone operators.

Some banks in Kenya and Uganda have expressed a desire to study the use of paid solar equipment as collateral for a microcredit repaid using the PAYG system loaded in the equipment.

“Digital Finance Plus”: What is it and if yes – how many?

Digital finance seems to be the new term of the year, for the financial inclusion industry. Recently a new refitting of this term has taken place: Digital Finance Plus (DF+).

It is not quite certain what organization has coined this new term, but CGAP recently launched a new Digital Finance Plus initiative under which they study projects which broaden access to a range of services for low-income people via the use of mobile or other digital payment systems. The concerned sectors are primarily water, electricity, education, health, agriculture, or education.

In these kinds of projects, finance is not the end itself, but more the means to help solve significant challenges the poor in many markets face. Examples could include:

- Access to energy for off-grid customers via a technology platform that allows customers to pay-as-you-go. By using mobile payment systems for solar and other modern sources of energy, low-income people would not have to pay a large lump sum up-front, but can pay every time they want to use the service.
- Access to water where clients use their mobile money system to pay for water which has a very positive impact on clients who only need to pay if they need or want to use water and on community water management by increasing transparency and reducing reliance on cash.
- Access to education where clients pay a subscription service to core-curriculum text books. People can pay in small increments for only the content they need – likely just a few individual chapters of a book – via mobile money and read the content on their cell phones.

From these examples it becomes clear that for the client the payment for access was a major bottleneck which now could be overcome by mobile technology. Initially, it was required to own a bank account to pay for water or electricity bills, or for the child’s school fees in one lump sum.

Environment conducive to private sector investment can help the development of DF+ services. For example, where the government is creating incentives and investments in off-grid infrastructure, private enterprises benefit, as developers with less than 100 KW equipment.

Some companies are planning to open PAYG systems to international transfers, to allow members of the diaspora to finance their family members’ energy credits. These projects are conducted in liaison with banks active in Africa and Europe and with companies specialising in transfers.

The PAYG systems propose a solution to the problems connected with the limited investment capacity and highly variable incomes of rural populations. This does however beg the question of whether these solutions for financing essential products really show respect for clients. Can one imagine a European car maker marketing a vehicle that does not start unless the monthly installment is paid? In the same way, the data collected should be kept in a rigid framework to prevent misuse and to guarantee that the client effectively agrees to it being used.

MICROFINANCE BAROMETER 2015

SPECIAL REPORT
What’s at stake for digital finance?

CHRISTOPHE POLIN, SUSTAINABLE INVESTMENTS DIRECTOR, SCHNEIDER ELECTRIC

HANNAH SIEDE, ACCESS TO FINANCE CONSULTANT

Credit: Fenix International

Credit: Asian Development Bank
Changes in savings and payment methods in France: From metallic to virtual money

Along with the letter of credit for commercial transactions, metallic money has long been the only means of payment used on a wide scale. Having been traumatised by the disastrous venture of the assignats during the French Revolution, popular memory retains a fear of paper. The transition from metallic money to paper money during the 19th century marked a slow and irreversible change in both practices and mindsets.

On the one hand, the use of the bank note convertible into gold, before being demonetised in 1914, ensured the spread of paper money. On the other hand, the creation in 1818 of the Caisse d’Épargne and its savings account “Livret A”, used as much as a savings instrument as a current account, opened the way to learning about the so-called “book money”. Accessible to all, this major innovation, which owes its success both to ease of use and to the security that it guarantees, is the tool of the first democratisation of finance. It helps households adapt to making book entries. The increase in numbers of Caisse d’Épargne over the territory facilitated the introduction of the first type of banking relation for the vast majority of people.

Not until the 1960s and the era of mass banking was there another major change in means of making payment. Kept confidential, the use of cheques, introduced in France in 1865, increased spectacularly at this time. Between 1966 and 1972, the number of cheque account holders increased from 17% to 62%. Bank debits and transfers became the norm, especially with monthly payments of salaries. The first payment cards were introduced in 1967. This was therefore a period of introduction of many new means of paying, of which the banks were the operators.

Today, the coming of the Internet and of mobile phones has transformed our lives beyond recognition. They have called the payment models to which we have become used to into question, and speed up their development. They have brought the banks into competition with new, non-banking actors who have essentially come from the Internet. They are opening the way to a third revolution.

Two major characteristics, which are not always immediately compatible, appear to be emerging from current payment method requirements. Their use must be as intuitive and as fast as possible. The generalisation of electronic transactions (including simplification of transfers and repayments by e-mail or via an application), contact-free payment cards, and, as shown with the recent promotion of Apple Pay, the Google Wallet or equipped smartphone, is a testimony to these changes.

Security remains however another essential requirement for payment methods, the use of which is based on confidence. This is currently a key item in the development of new electronic transactions, especially in a country where 8 out of 10 persons declare that they make Internet purchases. To meet this requirement, a number of innovations are being introduced together. In this context, in May 2015, BPCI Group announced the launch of a new banking card with a dynamic cryptogram. In this world first, the three-digit security code printed on the back of the banking card is replaced with a “mini-screen” which displays a code that is automatically altered from time to time.

The payments sector has not yet completed its evolution and should continue to change rapidly in the next few years. It bears witness to a new era – that of virtualisation of money. Its huge and rapid changes pose a challenge to operators, who must at the same time ensure that exchanges are made secure in order to guarantee confidence, and invent educational and awareness tools for domestic users, without these, the relationship with money is in danger of being wrecked. This challenge, which the inventors of “Livret A” made clear during the 19th Century, is the challenge of inventiveness and reactivity.

In 1969, only 10% of workers own a bank account. Today, they are 72% and salaries are compulsorily paid by money transfer or check.

The Caisse d’Épargne Foundation in France

From metallic to virtual money

Changes in savings and payment methods in France:

- Metallic money
- Paper money
-cheques
- bank debits and transfers
- Monthly payments of salaries
- Payment cards
- Internet
- Mobile phones
- Electronic transactions
- Contact-free payment cards
- Apple Pay
- Google Wallet
- Smartphone
- Security
- Confidence
- Innovations
- Dynamic cryptogram
- Mini-screen
- Altered code
- Virtualisation of money
- Challenge to operators
- Educational and awareness tools
- Relationship with money
- 1969: 10% of workers own a bank account
- 2019: 72% of workers own a bank account

Professional and personal microcredit, a constant development

The creation of the Social Cohesion Fund (FCS) in 2005 has, by means of finance and especially guarantees, largely favoured the development of FCS, or what is called personal microcredit in France. The Caisse des Dépôts ensures its management, in accordance with the Convention of 5 April 2005 signed together with the State.

Guaranteed personal microloans

Guaranteed personal microcredit is a form of credit adapted to suit the borrower’s project and repayment capacity. Its principal aim is to facilitate access to jobs, mobility, training, accommodation and even health. Over 20 banking and financial partners as well as 500 local support network branches make an active contribution to deploying this system. The borrower is accompanied throughout the process of putting together the application file, until the loan is granted. Accompanying and banking partners maintain a presence if there are problems with repayment. In order to optimise the system in each region, the Caisse des Dépôts, in cooperation with its partners, has developed new methods of distribution of loans. To achieve this, some thirty mutualisation platforms are deployed in France.

Personal microcredit in figures in 2014:
- 68,854 personal microcredits since 2006
- EUR 156 million: nominal distributed since 2006
- EUR 2,266: average loan amount

Guaranteed personal microcredit

In the professional microloan sector, the Social Cohesion Fund works to provide contributions in favour of:
- 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
- Supporting safety networks for creation of enterprises
- New support for enterprise creation and recovery (“NACRE”, Nouvel accompagnement pour la création et la reprise d’entreprise)

The FCS contributed EUR 21.5 million to these fields in 2014, including EUR 9 million for classic guarantee systems and EUR 12.4 million for Nacre loan resource guarantees. The balance was used to finance the accompanying networks.

Professional microcredit in figures in 2014:
- 17,600 loan files, or an increase of 9% compared with 2013
- EUR 58.3 million guaranteed
- EUR 213 million of loans distributed

The FOGEFI includes three types of loan. First is the FGEI, which carried out over 1,860 transactions in favour of women in 2014. Next is the FGIE, with 13,795 files, consisting principally of guarantees for microcredit, loans and loans from the investment company France Active. Finally, the Fund offers guarantees in favour of so-called “adapted” businesses.

The “Galland law” territorial funds, financed jointly by the State and the local communities, granted very small and joint businesses a total of EUR 57 million in 2014. Finally, the FCS guarantees the 10,891 Nacre zero-rated loans, financed by the Savings Funds and granted in 2014 for a total of EUR 53 million.

Number of guaranteed personal microloans disbursed in France per year

Breakdown of personal microloans by sector of activity in France in 2014

A

Source: Overview of personal and professional microcredit, 4th Quarter 2014, Caisse des Dépôts
In a digital age, what tools for financial education?

The microfinance sector in Europe has been characterised by strong growth during the past few years. Economic crisis. In a context of poverty or social exclusion, people are unemployed, microfinance has emerged as an essential social tool for the promotion of self-employment, microenterprise support and the fight against social and financial exclusion. The European Union has recognized the role of microfinance and will continue to support the sector through the 2014-2020 period with the EU Programme for Employment and Social Innovation (EaSI) with financial instruments, namely guarantees and loans, and technical assistance services. Further, the EU promotes the development of the European Code of Good Conduct for Microcredit Provision. This Code provides recommendations and standards that should foster best practice in the microcredit sector and compliance with it has become mandatory to receive funding under EaSI.

According to the European Microfinance Network (EMN) Sectoral Overview Survey, the microfinance sector has been steadily growing over recent years. In 2013, 152 out of 24 European countries disbursed a total of 387,812 microloans with a total volume of EUR 1.53 billion. The average loan size has also increased in 2013, reaching EUR 6,507. During the same year, 79% of the total value of microloans was issued for business purposes while the remaining 21% was used for personal consumption. According to national regulatory frameworks, (with or without the existence of usury laws), interest rates go below 5% for a business loan in Austria, Switzerland, France and Italy and up to 42% for a personal loan in the United Kingdom.

The European microfinance sector remains very heterogeneous in terms of institutional models with NGOs, foundations and non-bank financial institutions representing more than half of all surveyed MFIs. Although MFIs primarily disburse business/entrepreneurial loans, they now offer a wide range of financial products. On the other hand financial education and entrepreneurial training represent the most widespread non-financial services provided.

The ongoing digital transformation of the economy offers several opportunities to the European microfinance sector. There has been exceptional growth of online microfinance institutions over recent years, both in number of platforms and amount raised. In Europe, hundreds of crowdfunding platforms already exist. Innovative funding mechanisms such as microfinance bonds and P2P lending, supported by technological innovation, are challenging existing, traditional financial providers. Crowdfunding reduces costs and administrative burdens.

The European market has also observed the development of new providers for mobile payment solutions and providers offering credit scoring via social media data. M-Pesa, the mobile payment system developed in Africa, acquired an e-money licence to operate financial services in Europe entering the market targeted when a large part of the population doesn’t have formal bank accounts. Additionally, private companies have developed platforms connecting social network data, psychometric principles and mobile phone payment history to create credit identities.

The opportunities that these innovations bring to the microfinance sector are substantial. In fact, these new ‘competitors’ can actually be seen as complementary actors for new providers and methods to address the target groups.

As shown by graph 1, professional microloans represent the main product offered by the surveyed microfinance institutions (87%), followed by private microloans (43%) from Microsaving products - offered by 28% of the surveyed microfinance institutions - come in third place. It should be noted that 47% of the participating microfinance institutions exclusively provide microcredits, which suggests that a significant number of microfinance institutions in Europe are specializing in the microfinance sector. In fact, these new ‘competitors’ can actually be seen as complementary actors for new providers and methods to address the target groups.

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Do you believe in universal financial access to all working-age adults by 2020?

I surely hope so! And if we don’t get there by 2020, I hope we reach it by 2030. We should move towards this goal as fast as we can. To get there, it is crucial that we develop products accessible to everyone, followed by efforts to promote them. We have to meet real demands and give stakeholders all the tools to promote the use of new delivery channels, and develop a bundle of transparent and convenient financial products and services. Technology is here to help, and we need to use it also to develop demand and improve the quality and diversity of financial products.

What did microfinance bring to economic development and social inclusion in Peru?

Microfinance in Peru is a regulated industry, very diverse, competitive and solid, which allows these services to reach very different types of clients and to provide many benefits to them. For example, the competition among microfinance institutions generated a great offer in savings accounts, without a minimum balance required or maintenance fees. This alone has included financially thousands of Peruvians that were able to access the financial sector through this product, and helped the government to use these accounts as a vehicle to promote electronic money in the market and, on the opposite of the countries were business came first and legislation later, we have some ground rules prior to the inevitable outbreak of this kind of business.

Do you see a development of digital finance in Peru? In what extent.

Due to its geographical and environmental features, Peru has difficulties expanding the financial system through physical infrastructure. The presence of financial institutions is very limited in peri-urban areas, not to mention in rural areas, and trying to increase financial inclusion through this course is very problematic.

The cell phone penetration reached in Peru during the last years has favored enormously the development of a massive channel based on cellphones. As a matter of fact, nowadays we have more cellphones than people. As of June 2011, we have more than 30.5 million active cellphone lines in the country. There is very high penetration of cellphones in low-income and more than 78% of rural homes have access to this service.

The recent legislation is another favorable condition for the development of digital finance. In these last years, Peru has produced legislation for the use of electronic money, anticipating the imminent development of this kind of business. Peru has still very few initiatives to offer financial products and services tailored to the particular needs of these new customers, not only with e-money products, but also with complementary products, according to their requirements.

What prospects do digital finance open to Peru?

Once the infrastructure for the mobile wallets is created, it is crucial to fertilize the market, to develop an ecosystem around it and to give financial education to guarantee the access to the financial exclusion. When this is achieved, all stakeholders of the ecosystem can develop and offer financial products and services tailored to the particular needs of these new customers. Financial institutions that become part of this initiative will be able to cooperate then, competing and offering a new and diverse range of financial products.

The success of this new channel will depend on the joint capability of financial institutions to meet the needs of these new customers, not only with e-money products, but also with supplementary products, according to their requirements.

Any advice to give to the microfinance professionals who read the Microfinance Barometer?

Move to digital finance and help building the digital payments ecosystem, contributing to new and offer more suitable products to meet the needs of a wider and more representative range of clients.

**THE INTERVIEW**

Carolina Trivelli is a former Peruvian Minister of Development and Social Inclusion, Project Manager Digital Money at ASBANC (The Association of Peruvian Banks)

**ENDORSE THE GLOBAL APPEAL FOR RESPONSIBLE MICROFINANCE CAMPAIGN!**

The Global Appeal is a worldwide effort to build momentum and commitment to financial inclusion and to responsible finance.

It does not replace other initiatives dedicated to the promotion of social performance management in microfinance which are primarily intended to microfinance institutions (see article page 4).

The Global Appeal summarizes and coherently actions to be taken by all stakeholders (institutions but also investors, regulators, etc.).

It was developed with a collective of partners, including the members of the Microfinance CEO Working Group – (Accion, FINCA, Freedom from Hunger, Grammee Foundation USA, Opportunity International, Pro Mujer, VisionFund International, and Women’s World Banking).


The Global Appeal articulates a vision for a fully responsible microfinance, and it is the call to the microfinance world to combine action, innovation, and leadership in order to meet the needs of the most vulnerable populations.

MFIs serve clients in a responsible manner – MFIs operate with sound governance and financial responsibility – MFIs advance the SPTF universal financial inclusion agenda – MFIs support the development of financial institutions and regulators who support responsible microfinance.

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


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Launched in 2008, Convergences is the first platform for reflection in Europe with the objective to contribute to fighting poverty, precariousness and exclusion in the North and in the South, and to promote sustainable development. Its mission is to organise debates, to provoke and foster reflection and action, to share best practice and to encourage co-construction of partnerships and innovative solutions.

Convergences is supported by 200 partner organisations represented within its working groups dedicated to developing the Convergences World Forum which gathers around 10,000 participants around sustainable development challenges, studies and publications, as well as debates, conferences and meetings. www.convergences.org

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