MICROFINANCE BAROMETER 2019

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10th Edition

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A LOOK BACK AT THE TRENDS IN MICROFINANCE

Content

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EDITORIAL

Despite positive transformations in recent years, microfinance is sometimes misunderstood or poorly perceived by the public opinion and by economists. Today, for its 10th anniversary, the Microfinance Barometer proposes to consider microfinance as an entire segment of development policies and as a pioneering sector of responsible finance. In order to understand the stakes of microfinance, let us shed light on its history.

While the emergence of microfinance in the mid-2000s, led by Nobel Peace Prize winner Muhammad Yunus, generated a wave of optimism in the world, the early 2010 marked a turning point. Over-indebtedness of some of microfinance's beneficiaries and the excessive profits generated by microfinance institutions (MFIs) paved the way to waves of criticisms against the sector. These episodes have revealed the dangers of an unchecked microfinance and the impact it can have on its beneficiaries when it is not managed responsibly. Self-regulatory measures have since then been developed and ameliorated, demonstrating a willingness to professionalise this sector from within.

Following these years, microfinance then entered a phase of professionalisation and of institutional strengthening. This transformation can be broken down in three parts: the diversification of investments, the increasing and innovative use of new technologies and the development of a number of financial and non-financial services. In 2016, one year after the adoption of the Sustainable Development Goals (SDGs), the Barometer points out that microfinance promotes access to credit, but also to health, agriculture, education, energy and housing services.

For 10 years, these Barometers have focused on honestly analysing the transformation of microfinance. If the rise of impact investing has seemed to overshadow microfinance, recent editions instead present it as a pioneer of impact investing, with a variety of crucial lessons to teach new players of the responsible finance sector. The fact that microfinance no longer has a monopoly on impact investment is not bad news, on the contrary. The efforts to achieve the SDGs by 2030, estimated at $5 trillion by the UN, requires all investors to mobilise to build a more sustainable world.

This new Barometer thus looks back at the developments in microfinance over the past ten years to highlight the evolutions of the sector. Expertise in creating tools and indicators to measure social performance, the responsible use of new technologies, the diversification of services (financial and non-financial) to include the most vulnerable populations: there are many lessons to be learned from the changes in microfinance.

May they be useful in the growing field of impact investing.

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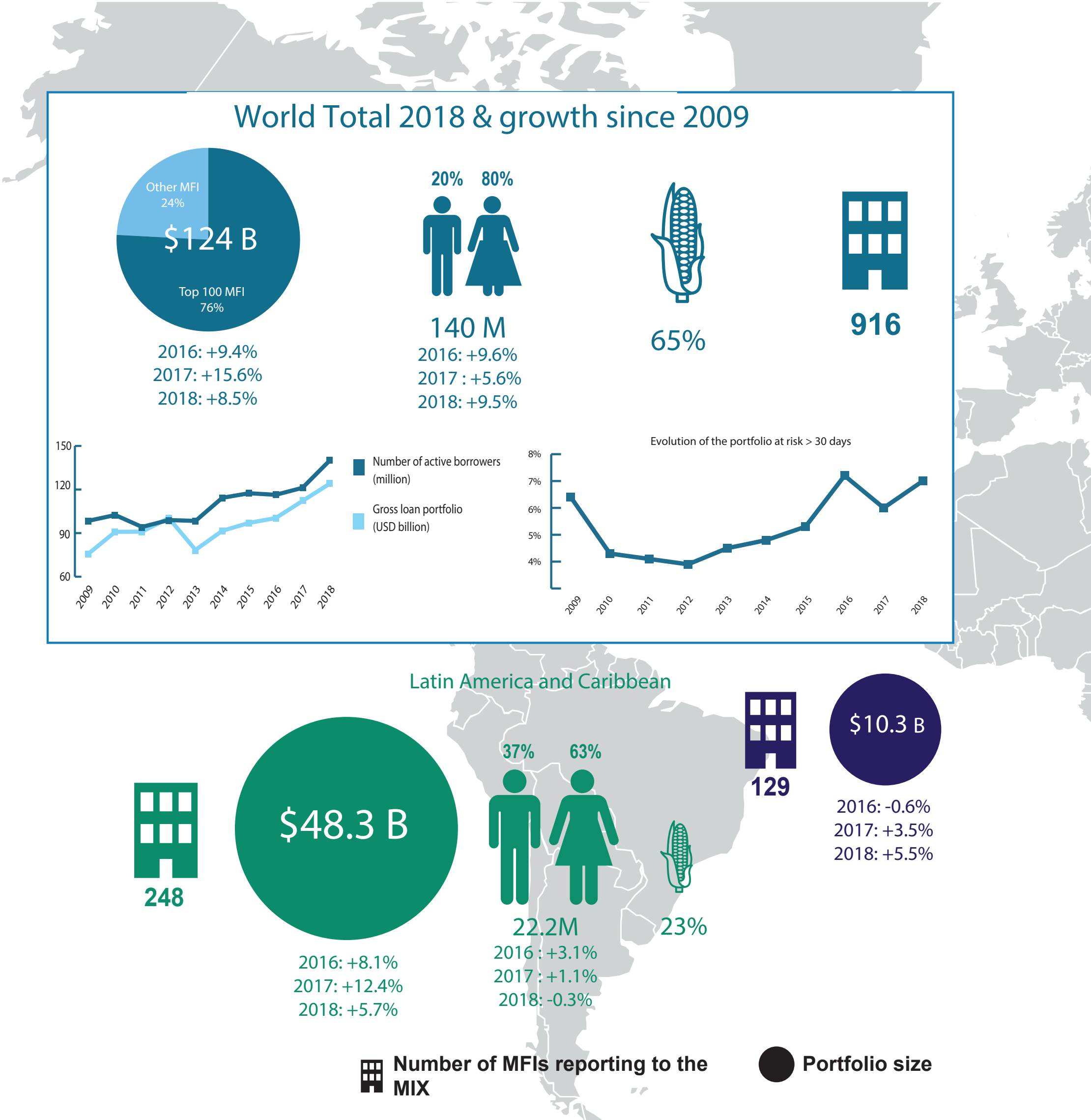
Global microfinance figures What are the trends?

Since 2010, the Microfinance Barometer analyses key figures on financial inclusion worldwide, using MIX Market figures on the global microfinance market. Here is a look back at the main trends in the sector.



In 2018, 139.9 million borrowers benefited from the services of MFIs, compared to only 98 million in 2009. Of these 139.9 million borrowers, 80% are women and 65% are rural borrowers, proportions that have remained stable over the past ten years, despite the increase in the number of borrowers.

Focus on institutions and clients

In ten years, microfinance institutions (MFIs) have lent hundreds of billions of dollars, with an average annual growth rate of 11.5% over the past five years. At the same time, the number of borrowers worldwide continued to increase - albeit at a slower pace than in the 2000 to 2010 period - recording an average annual growth rate of 7% since 2012, compared to a rate of nearly 20% in the previous decade.

In 2018, 139.9 million borrowers benefited from the services of MFIs, compared to just 98 million in 2009. Of these 139.9 million borrowers, 80% are women and 65% are rural borrowers, proportions that have remained stable over the past ten years, despite the increase in the number of borrowers. With an estimated credit portfolio of $124.1 billion, MFIs recorded another year of growth in 2018 (+8.5% compared to 2017).

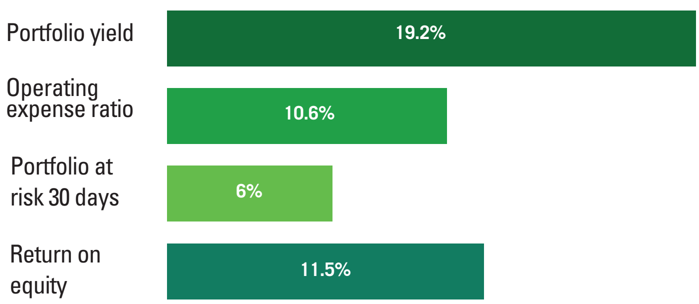
Over the past decade, MFIs have also improved their efficiency. Despite a decade marked by a sharp increase in the cost per borrower, from an average of $68.4 in 2009 to $106.7 in 2018 (+56%), the operating expense ratio decreased by 2.7 points over the period. Between 2009 and 2018, MFIs also recorded an increase in their returns on assets (+1.3 points) and equity (+2.9 points).

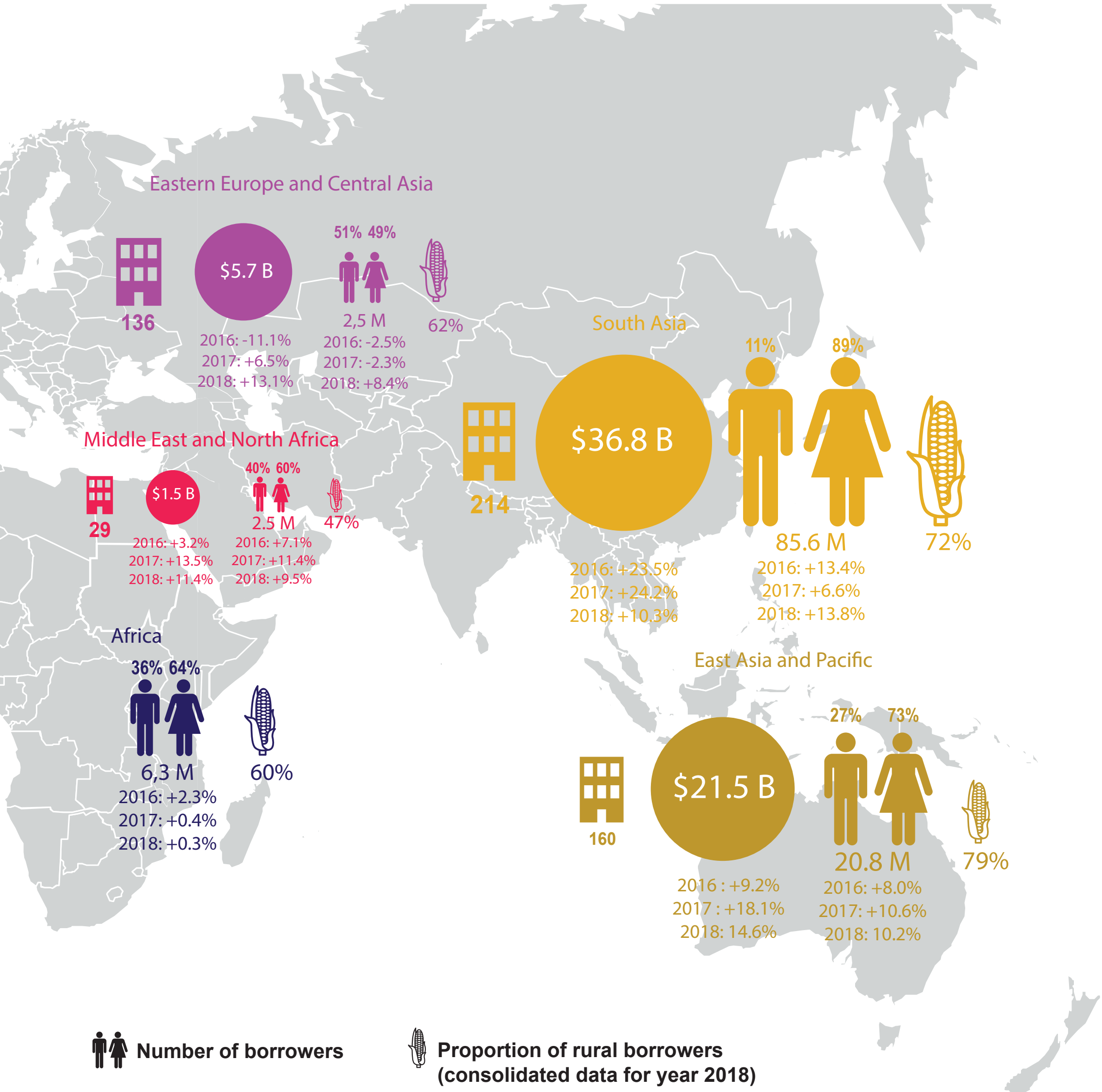
Nevertheless, there was a slight deterioration in the quality of the portfolio over the entire period, with the portfolio at risk (PAR) over 30 days having risen from 6.4% in 2009 to 7% in 2018. After a decline in the PAR > 30 days between 2010 and 2012, it rose again and stabilised between 2016 and 2018 at around 7%.

Focus on the regions

South Asia continues to dominate global microfinance: it is the region with the largest amount of borrowers (85.6 million in 2018), with this number growing faster than in other regions (+13.8% between 2017 and 2018). It also has the top three markets in terms of borrowers, India, Bangladesh and Vietnam.

MFIs average performance ratios in 2017 (consolidated)





A notable feature of the region, almost all borrowers are in fact female borrowers (89% in 2018). Although it represents almost two-thirds of global borrowers, South Asia is only second in terms of credit portfolio, with an estimated outstanding amount of $36.8 billion in 2018.

In contrast, Latin America and the Caribbean alone account for 44% of the total microfinance sector portfolio, with $48.3 billion in outstanding loans (+5% per year on average since 2012). This region is the second largest in terms of number of borrowers, with 22.2 million customers in 2018, a slightly lower figure (-0.3%) after years of growth. The Latin America and Caribbean region also continues to be characterised by a low penetration rate in rural areas. MFIs in the region are the least rural-oriented, accounting for only 23% of their clients.

In contrast to these leading regions, countries of Eastern Europe and Central Asia as well as those of the MENA region are smaller markets. However, they are growing both in terms of number of customers and credit portfolio. In Eastern Europe and Central Asia, the number of borrowers has increased by more than 30% since 2012, reaching 2.5 million in 2018. The MENA region has the same number of borrowers. MFIs in these two regions also have the lowest proportion of women borrowers, with 49% of female borrowers in Eastern Europe and Central Asia and 60% in the MENA region in 2018. Credit portfolios in these two regions also increased during the period. While the MENA region only experienced weak growth between 2017 and 2018 (+1%), Eastern Europe and Central Asia recorded an increase of 5%, an improvement after the decline in 2015 and 2016.

The total outstanding amount of African MFIs has increased by 56% since 2012, while the number of borrowers increased by 46% over the same period to reach 6.3 million people in 2018. Despite a low quality portfolio (13.6% PAR > 30 days in 2017) and high costs per borrower, the portfolio continues to show a strong yield - 20% - but down 6.6 points. The return on assets also remained positive - 1.9% - but down (-1.4 points).

Finally, with 73% female clients and 79% rural borrowers, MFIs in East Asia and the Pacific continue to grow with a portfolio of $21.5 billion in 2018, up 13.1%. The same year, 20.8 million beneficiaries borrowed from MFIs in this region (+10.2%). Since 2012, the total outstanding amount of MFIs in the region will has increased by an average of 16% per year, accompanied by a continuous but more moderate growth in the number of clients (+6%/year).

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CHIEF OPERATING OFFICER &
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MIX

Methodology

Calculations are based on data provided by financial service providers through MIX Market (http://www.themix.org/mixmarket). MIX makes every effort to collect the data from the dominant actors of each market to ensure visibility into each market but does not collect data on every actor in every country.

Total figures for borrowers and loan portfolio as of FY2018 are based on data provided by 916 institutions. For FY2018 data, we have considered data for all institutions that have reported through MIX Market for any period in 2018. Where institutions reported annual figures for FY2017 but not for a date in 2018, those FY2019 figures were used to calculate the estimated total outreach for 2018.

Growth figures for borrower and loan portfolio values for FY2017 and FY2018 are based on a balanced panel data from the set of institutions that have provided both data fields through MIX Market for each of the fiscal years from FY2016 and FY2017.

Client segment, funding data, and institutional performance data come from MIX's *Global Outreach and Financial Performance Benchmark Report*.

Unlocking the potential of microcredit for a more inclusive and dynamic Europe

Thirty years ago, when setting up the Association for the Right to Economic Initiative (ADIE) in France, Maria Nowak introduced in Europe an innovation that had already been successfully developed in Bangladesh by Professor Yunus: microcredit. ADIE's goal is to grant a genuine right to people whom the laws of the market or personal misfortune prevent from developing their projects or creating their businesses due to a lack of access to conventional bank credit. Implementing this right requires the granting of tailored loans, with personalised support to project leaders.

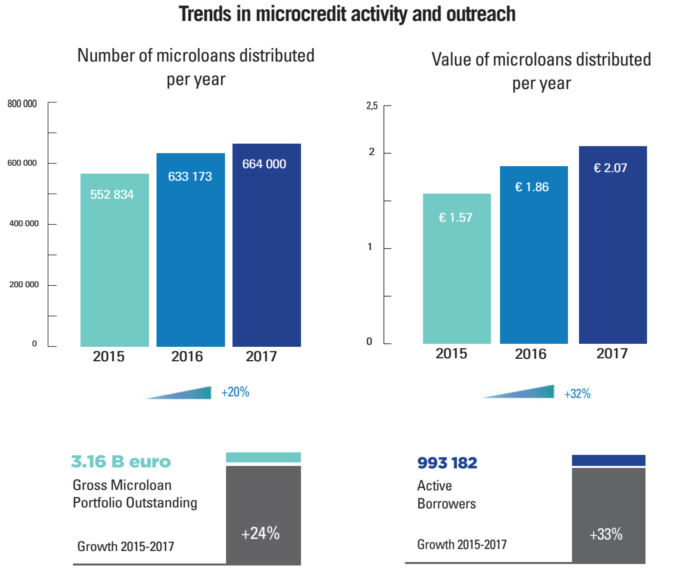
This initiative quickly spread throughout Europe, in shapes and forms adjusted to the specific context of each country. The Microfinance Centre (MFC) was created in Warsaw in 1999, followed by the European Microfinance Network (EMN) in 2003. There are now some 450 microfinance institutions in Europe. According to the latest survey carried out by EMN and MFC, there were nearly one million active borrowers in 2017, for a total outstanding amount of €3.2 billion.

Experience in Europe over the last 30 years shows that the development of self-employment and micro-enterprises makes it possible to transform vulnerable people into wealth creators. Likewise, it can reduce poverty and social divides, while contributing to the achievement of the Sustainable Development Goals

The number of microcredit beneficiaries and outstanding loans are increasing steadily. However, this growth may still be considered too slow given the microcredit "market"'s potential, as estimated by the EMN/MFC study (two million borrowers, representing a potential annual demand of €17 billion). Unfortunately, in most countries, such development potential reveals the ongoing difficulties that many people encounter in accessing bank credit to set up or develop their micro-enterprise; to the worsening of inequalities and social, regional and digital divisions; and to the development of a social model that favours integration via wage labour rather than self-employment and entrepreneurship.

Experience in Europe over the last 30 years shows that the development of self-employment and micro-enterprises, with the combined support of microcredit and assistance to project leaders, makes it possible to transform vulnerable people into wealth creators. Likewise, it can reduce poverty and social divides, while contributing to the achievement of the Sustainable Development Goals. It has also shown microcredit institutions' long-term economic viability.

European institutions have understood and supported the development of microcredit across the continent, particularly with the creation of the EU Programme for Employment and Social Innovation (EaSI) in 2014. As part of this programme, the European Commission has provided a guarantee instrument with a budget of approximately €300 million for the 2014-2020 period. Its aim is to improve access to financing for social enterprises, micro-enterprises and vulnerable groups. The Commission has also used this programme to set up a grant instrument with a budget of €16 million over the same period of time to strengthen the institutional capacities of microcredit and social financing providers.



What is the future of microfinance in Europe?

A new European Parliament has just been elected and a new Commission is being set up. At the same time, the Yellow Vests movement in France has shown the depth of social divides and the feelings of abandonment currently experienced by many of our fellow citizens. It is therefore a particularly opportune moment to recall the social impact and economic efficiency of microcredit, and to put proposals forward to remove obstacles or barriers to its development.

This is the goal of the Working Group chaired by Maria Nowak under the umbrella of Paris Europlace. This Working Group, made of experts from ADIE and French banking groups, as well as representatives from Banque de France and the European Microfinance Network, has drawn up a White Paper on Microcredit in France and in Europe[1]. This White Paper reviews the current state of microcredit and analyses the factors that led to the development of microcredit in France. It also gives an overview of studies demonstrating the economic and social utility of microcredit, and sets out proposals to encourage accelerated microcredit development both in France and in the European Union.

Microcredit's social and economic utility owes everything to microcredit institutions' stated desire to make it their primary business purpose; to translate it into their policies, internal procedures and products and services; and to periodically gauge the real-world impact of their actions using recognised methods for measuring social impact. Social performance, social impact and long-term economic equilibrium are the three pillars of what could be called the "European model" for microcredit institutions.

It is up to each of us to develop it for a more inclusive and dynamic Europe.

1 The White Paper is available on the Paris Europlace website: https://www.paris-europlace.com/fr/publications

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From banking inclusion to financial education: trends in microfinance in France

Since the start of its monitoring in 2013, microcredit has grown at a fairly steady rate in France. Yet, the amounts are still modest given the role microcredit could play in terms of financial inclusion.

With 244,000 microloans outstanding at the end of 2018, representing an amount of €1.359 billion, compared with nearly €1 billion in 2013, microcredit continues to grow steadily in France. Most loans are professional in nature (55% of the outstanding amount) or used to finance equity capital (40% of the outstanding amount). Only 5% of the outstanding amount is used to finance personal projects (e.g. the purchase of a vehicle), but the personal microcredit still makes up to 19% of the total number of loans.

In France, microcredit is supported by the state: it is used to pursue personal and professional projects with the help of specialised social workers and organisations that support business creation. This enables borrowers to access finances that would not otherwise be available to them. In this respect, assisted microcredit constitutes an excellent method for improving banking and financial inclusion. Though it is already promoted by public authorities, the development of microcredit requires raising awareness among potential borrowers.

By making microcredit more visible and more accessible, and by bringing social stakeholders, associations, public institutions and bankers together with microcredit institutions, these types of products can be more effectively marketed. Banque de France and its branches already manage over-indebtedness and basic account rights, but also actively promote microcredit by supporting discussions between stakeholders at the regional and national levels through the Banking Inclusion Observatory, chaired by the Governor. Since 2016, the bank has implemented a new tool: the national strategy for financial, budgetary and economic education.

Communication and financial education, driver of microcredit growth

The aim of this strategy is to provide everyone with practical knowledge and good financial behaviours to help them make more informed choices about repayments, loans, savings and insurance. The objective is to ensure that everyone can make decisions towards financial well-being, that they do not miss economic opportunities, and that they avoid inappropriate choices given their needs and situation and avoid scams.

In this respect, improving French citizens' awareness of microcredit increases the use of this tool, which is useful both economically and socially, while at the same time reinforcing borrowers' ability to repay loans, as microcredit represents a binding commitment. The online platform of Budgetary and Financial Education, "Questions about Money" (www.mesquestionsdargent.fr) offers simple, neutral and educational content from national strategic partners, supported by the Banque of France. An entire section is dedicated to microcredit.

In every French department, branches of the Banque de France offer social workers, employees and voluntary associations training sessions on microcredit, as well as on other subjects: prevention of over-indebtedness, payment methods, accounts and banking services, etc.

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Solidarity finance, a tool benefiting microfinance

In early 2019, nearly €13 billion[1] were placed in socially responsible investments, enabling activities with high social and environmental value to be funded. Social savings deposits increased 8 times in 10 years and witnessed double-digit annual growth rates on average.

This rapid growth is primarily explained by French regulations promoting employee savings, which require all companies, since January 1st 2010, to offer at least one social fund in all company savings schemes. Other elements contributed to the development of social resources, such as the growing commitment of financial institutions in promoting their ranges of social products. The number of these funds is growing. In 2018, the Finansol label, based on solidarity and transparency criteria, was awarded to 19 new, highly varied savings vehicles, bringing the total to 161. On the demand side, savers use investments to give greater meaning to their savings. Last year, 423,000 new socially responsible investment subscriptions brought the total to €2.8 million on 31 December 2018[2].

Microfinance in France, Europe and around the world has a long-standing and preponderant place in the social funding ecosystem. Social investments are often used to finance microfinance institutions and, ultimately, microcredits. The microfinance component has been present since the creation of the first investments, first offered by pioneers such as CCFD-Terre Solidaire, Adie and Oikocredit, and then gradually included by other organisations such as Entrepreneurs du Monde and Fadev.

Over the years, these stakeholders have diversified their resources by developing new socially supportive savings products, whether directly using their own schemes to collect equity or debt (issuance of equity shares, bonds, associative securities, etc.), but also through bank investments, life insurance policies and, more recently, via crowdfunding platforms. The first one created in Europe was Babyloan. Adie is the leading microfinance organisation in France.

Microfinance has always been a vector for high-impact innovation in the fight against poverty and for social and professional inclusion. It must now continue to grow while adapting to a rapidly changing market (development of institutional investment, digitisation, impact finance, etc.). No doubt it will be a success.

1 Baromètre de la finance solidaire 2019 – Finansol/La Croix.
2 Ibidem.

FRÉDÉRIC FOURRIER
HEAD OF THE SOLIDARITY
FINANCE OBSERVATORY
FINANSOL

KEY FIGURES OF MICROFINANCE IN FRANCE

244,000
microcredits have been distributed at the end of 2018

1.359
billion euros outstanding in 2018

+ 35.9%
the evolution of outstanding microcredits between 2013 et 2018

55%
the percentage of professional microcredit out of the total outstanding amount

19%
the percentage that personal microcredit represents out of all loans

Overview of the flagship articles of 10 years of Microfinance Barometer


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In a context of renewed economic and social policies aimed at combatting poverty, the emergence of microcredit in the 1980s quickly sparked a lot of interest. Development stakeholders saw in this tool a means of reducing poverty by financially empowering the poorest members of society, and invested heavily in the development of microfinance. The sector has significantly changed since then, with the emergence of new services and new stakeholders.

Microfinance is not a universal solution to the development sector, but it can usefully link up with other development policies and further increase its contribution to the fight against poverty.

The Microfinance Barometer has consistently reflected these changes. The Barometer presents microfinance as an effective system when combined with responsible practices. As such, the articles of this publication are both enthusiastic about the development of an essential development policy tool, and aware of the limits and possible risks of microfinance. This stance was reflected as early as 2010 by Alix Pinel, journalist at Mediapart: "Microfinance is not a universal solution for the development sector, it is not on its own a miracle answer. [That said, it] can usefully link up with other development policies and further increase its contribution to the fight against poverty." Financial inclusion, social performance management, economic profitability: what have been the flagship themes of the Microfinance Barometer since its first release in 2009?

2010 to 2013: from criticism to improvement.

"Microcredit, miracle or disaster?", "microfinance in crisis", "microcredit turns to tragedy". In the early 2010s, following the numerous crises that damaged the sector, the international press painted a bleak picture of microfinance. These criticisms contrasted with the prevailing optimism in the sector, where microcredit was seen as a miraculous solution to poverty for which its creator, Professor Muhammad Yunus, received the 2006 Nobel Peace Prize. Then, after years of hope and enthusiasm, over-indebtedness of beneficiaries and excessive profits of unscrupulous microfinance institutions (MFIs) showed microfinance in a whole new light.

The huge profits earned by Compartamos in Mexico, as well as the crises in southern India, Pakistan, Morocco, and Nicaragua, highlighted the dangers microfinance could pose to its customers in the absence of responsible management. These crises were the result of a three-fold problem, as summarised in the 2011 Barometer by Xavier Reille, Microfinance Manager at the Consultative Group to Assist the Poor (CGAP), for whom "the microfinance crisis is due to an excessive search for profit, the uncontrolled growth of MFIs, and the lack of regulation."

The sector then entered a phase of profound reform. The second edition of the Microfinance Barometer, in 2011, with the title "For a Return to More Social Microfinance", reflects well this process of self-criticism that resulted from the crisis of the 2010s. From then on, the Barometer dedicated a section on questions of measuring social impact and the dissemination of good practices in this area.

New self-regulation initiatives were gradually developed, demonstrating a genuine desire to empower and professionalise the sector.

This process marked a turning point that gave rise to the development of new tools. New self-regulation initiatives were gradually developed, demonstrating a genuine desire to empower and professionalise the sector. According to Cecile Lapenu, the current director of Cerise, it was in the early 2010s that "the sector entered a period of maturity. The lessons learned in recent years [contributed] to the establishment of responsible, ethical and inclusive microfinance." (2013 Barometer).

These years of introspection saw microfinance stakeholders come together under the banner of the "Social Performance Task Force", which now repre-

What have been the trends and evolutions of microfinance ?

sents over 3,000 organisations working to promote responsible practices. They also gave rise to the development of the Universal Standards of Social Performance Management, published in 2012.

This period led to the creation of the Smart Campaign - a global campaign aimed at integrating customer protection practices into the activities of microfinance institutions.

From then on, industry practices have generally stabilised. These widely shared tools brought greater transparency to the measurement of social performance, allowed for the development of more responsible practices, and offered a better customer protection. These practices became widespread in the sector.

2014 to 2016: professionalisation and digitisation of microfinance

After the wake-up call of the early 2010s, the years 2014 to 2016 saw the continuous professionalisation and improved efficiency of microfinance.

The period was first characterised by a diversification of investors in the sector. In 2014, Christian Etzensperger, analyst at ResponsAbility, noted that the arrival of pension funds marked a turning point for the sector. Pension funds are generally risk-averse, and only get involved in sectors with proven profitability. Their presence thus demonstrated that "the microfinance sector has moved from the initial stage of subsidised programmes to that of profitable retail banking."

The professionalisation of the sector was also reflected in the growing and innovative use of new technologies. The 2015 Barometer made this its central theme, depicting an innovative microfinance ambitiously entering into the digital revolution.

New technologies' contribution to the sector was a source of great expectations, as Kalin Radev, General Manager of Software Group, summed up in 2015: "technological innovations now provide numerous solutions for most of the sector's operational challenges, including accessibility [services], efficiency, process automation, security and cashless operations."

But traditional microfinance stakeholders were not the only ones to identify the potential of new banking technologies. The arrival of new players (in particular telephone operators and fintechs) offering mobile money services shook up the market.
As of 2015, 34% of people living in Sub-Saharan Africa had access to a banking service thanks to mobile money.

Developments in mobile technology blurred the boundaries between phone companies, new digital stakeholders and traditional financial institutions. Partnerships between fintechs, MFIs, phone companies, and public institutions became a new formula for increasing both the impact of microfinance and its scope.

In 2016, one year after the adoption of the Sustainable Development Goals (SDGs), the Barometer addressed the issue of diversification of the microfinance offer. Beyond simple access to credit, the Barometer showed that microfinance also promotes access to essential services and opens up new opportunities for its customers in the areas of agriculture, energy and housing.

> Arrival of new investors, digitisation of microfinance, diversification of the offer: the sector underwent rapid changes between 2014-2016.

For example, Sam Mendelson, a consultant for the European Microfinance Platform, reflected on the links between microfinance and education. In addition to financial products to fund studies, MFIs also finance the construction of schools and infrastructures facilitating access to educational centres. They also offer non-financial services (teacher training, support for developing curricula, improvement of safety standards in schools etc.), and provide employment training services.
Arrival of new investors, digitisation of microfinance, diversification of the offer: the sector underwent rapid change sbetween 2014-2016.

From 2017 onwards: a sector whose influence extends beyond its initial borders

Beyond microfinance, an entire responsible finance sector is taking shape. The strong development of impact investing over the past few years may give the impression that microfinance is no longer fashionable, that it has been outdated by more efficient and ambitious players.

Yet, recent editions of the Barometer present a rather different image, with microfinance depicted as a pioneer in impact investing.

Creation of business models combining social impact with financial stability, diversification of stakeholders' resources, tools and indicators for measuring social performance: microfinance actors have a unique expertise. Bonnie Brusky, Deputy Director of Cerise, commented on this last point in the present edition of the Barometer: "Unlike the traditional development actors that paved the way in microfinance, impact investors rarely have strong monitoring and evaluation habits and know little of the academic concepts of impact assessment."

As a result, microfinance, as the only mature impact investing sector, has a lot to teach to these newcomers, particularly when it comes to impact assessment. In a 2017 article, Michael Knaute, Regional Director for Africa and MENA for Triodos IM, stated: "applying the lessons learned in microfinance over the past three decades to the impact investing sector will help to pave the way towards achieving the SDGs."

> While microfinance no longer has a monopoly on impact investing, the lessons it has learned can be useful to other responsible finance stakeholders. These are welcome news given the financial efforts required to achieve the SDGs by 2030.

Microfinance and SDGs

Microfinance continues to grow, with $124 billion in worldwide lending and 9.5% customer growth in 2018. These positive results are signs of an industry that has successfully grown from its mistakes and that will continue to develop and foster financial inclusion around the world.

While microfinance no longer has a monopoly on impact investing, the lessons it has learned can be useful to other responsible finance stakeholders. These are welcome news given the financial efforts required to achieve the SDGs.

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Social Performance Management is becoming mainstream: An opportunity - or a threat - for the impact investment sector?

As a niche initially confined to distant geographies and populations unattended by the mainstream financial industry, the microfinance sector has since long embraced the issue of social performance. Promising the responsible inclusion of the excluded, and often vulnerable, populations into the financial services space in order to develop and/or grow their economic activities and eventually lift them out of poverty, the industry long ago realised that it had to demonstrate the achievement of its initial promise.

But how to evaluate the achievement of social and environmental goals behind microfinance transparently and coherently? How to ensure the delivery of both responsible financial services and the financial objectives necessary for a sustainable industry?

Over the initial years, the most voluntary organisations (investors and financial service providers – FSPs) developed in-house approaches. Their learnings were important, but these individual approaches resulted in a confusing landscape with about as many methodologies as there were actors developing them. In 2005, the need for greater cooperation between these actors became obvious. That year, SPTF in coordination with the Smart Campaign (Client Protection Principles) and other initiatives launched a sector wide cooperation to create a common language for social performance evaluation. With great success.

Since 2012, the industry disposes of a truly global standard proposal – the Universal Standards. Completed by and fully aligned with CERISE's social performance audit tool (SPI4) in 2015, inclusive finance investors and FSPs have since then the capacity to evaluate how well they perform both financially and socially based on the agreed upon Universal Standards. Today, over 600 FSPs use the SPI4, representing over 50% of MFIs, over 30% of clients and close to 20% of total portfolio of MFIs reporting to the Mix Market[1], and a larger number not only evaluate and assess but also benchmark, and improve their social performance based on these Standards.

Several years after this exciting period that witnessed the development and improvement of the first social audit tools, SPTF now works to link social performance and outcomes management in inclusive finance to the Sustainable Development Goals. The Standards initially developed for microfinance are tested and applied to a larger section of the financial services industry such as SME financing organisations, banks and fintechs. In addition, a 7th dimension will be added to the Universal Standards to encompass environmental performance. This addition reflects growing demand from the sector to evaluate financial, social and environmental performances simultaneously and in an equally thorough way.

Our experience comes right in time…

Something is changing since the 2008/10 financial markets crisis. During its initial years, these social and environmental measurement tools were being used exclusively by microfinance actors and a few responsible institutions. More recently, we have witnessed a new, promising change: under the pressure of clients, staff, shareholders, directors, and the public at large who are all more concerned about the social and environmental consequences of a single (financial) bottom line, the financial sector has begun to systematically adopt social and environmental language in its business models. To go even further: financial-only, short-term focused result management is increasingly being considered as non-optimal and not responding to real fiduciary responsibilities.

A rapidly increasing number of mainstream financial organisations or corporates are completing communication in their annual reports, websites or newsletters praising their social and environmental responsibilities. Many of these actions are serious, committed to the highest value of such a change to a global performance evaluation. Social and environmental performance measurement has indeed begun to penetrate the mainstream corporate and financial world.

These positive changes should however not blind us to the real risks the sector faces. If these changes are not properly implemented by all actors not only will free riders bring substantial reputational risk to the many who are implementing change, but also investors, asset owners and other actors could risk investing into markets that do not deliver on the announced promise. This is yet another lesson learned from the experience of the microfinance sector: regulations are necessary to ensure transparent measurement by all actors.

…to push for further harmonisation regarding social performance measurement

With the 1929 Big Crash, economic actors became aware of the necessity of harmonisation of language on financial reporting. Today, IAS/IFRS and GAAP help to understand financial reporting and analysis and determine the reliability of a project's financial health.

We now need to develop the equivalent of IFRS for social and environmental performance. The sector also needs to share its initial learnings with the global economy: that putting customer value in the center of its activities, focusing on happy clients, satisfied staff, efficient and well aligned governance and useful products are the real long-term performance guarantors of any economic endeavor.

Inclusive finance appears today like the laboratory that over some decades has allowed to test how to cooperate in a competitive market environment, to learn how to share knowledge and see this as an added value gain rather than a risk of losing a competitive advantage. We need to increase our joint efforts to promote highest clarity of concepts, methodologies, tools and evaluations and demonstrate to the global financial markets that responsible investment practices are the only guarantee for long-term financial success. We are moving into the right direction – but this change is now more urgent than ever.

1 Study on Social Performance Management in Microfinance, Cerise et ADA, 2019

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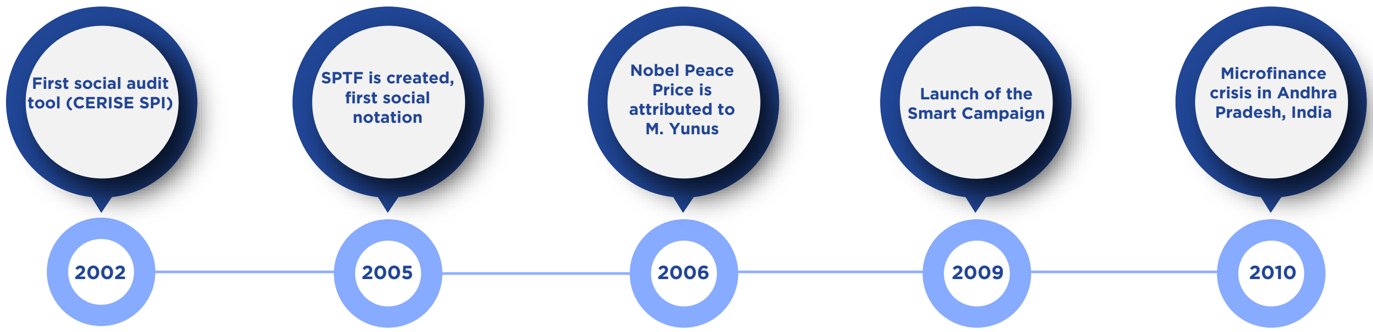
SPTF EUROPE

KEY STEPS



Reusing the (Social Performance Management) wheel: what can impact investing learn from microfinance

The Microfinance Barometer is celebrating its 10 year anniversary. A look back at the publication's key themes over the last decade reveals an interesting dynamic. Many of the "hot topics" of the 2010's, with the exception of digitalisation, could easily be placed in the 2000s, the 1990s and even the 1980s.

Maybe I'm just getting old, but it feels like hot topics are often just the rehashing of an old topic. Truly fresh ideas are hard to come by and often, a big new thing is just the repackaging of some old thing. It's not reinventing the wheel, exactly. More like redesigning it.

It could be argued that impact investing is one of those big new things that is really just a redesign. The Global Impact Investing Network (GIIN) 2018 annual Impact Investor survey estimates fund managers will invest $225 billion during 2018, a 20% increase from 2017[1]. Clearly, impact investing is gaining ground, or at least the number of actors calling themselves impact investors is increasing, despite the lack of clarity around what exactly constitutes an impact investor.

Indeed, the lack of a "common understanding of definition and segmentation of the impact investor market" is considered a significant challenge by 40% of the 200+ respondents to the GIIN's 2018 survey. It is no wonder. So many of the new players, corporate foundations, family offices, and commercial banks, are altogether new to the social investment sphere. The risk is that anyone and everyone can be an impact investor and that "impact-washing" undermines the credibility and integrity of what is a potentially transformative form of finance.

Unlike the traditional development actors that paved the way in microfinance, impact investors rarely have strong monitoring and evaluation habits and know little of the academic concepts of impact assessment. They know they want to show "impact", but do not want to bother with the complexities of additionality, attribution, and the associated costs. And frankly, they are right.

"A great deal of money and time has been wasted on poorly designed, poorly implemented, and poorly conceived impact evaluations," point out impact experts Mary Kay Gugerty and Dean Karlan. But if not impact proof, then what?

The microfinance sector offers an answer. Once a "hot topic" itself in the world of development finance, microfinance attracted troves of donors in the early days, all looking to prove that this market-based tool could reduce poverty. Millions were spent, but demonstration of results was mostly tepid (and almost always hotly debated due to methodological issues).

Impact assessment hit an impasse in microfinance. Eventually, thanks to the vocal efforts of practitioners (like CERISE's founding partners) and sector-level coordination (spearheaded by the Social Performance Task Force), the sector shifted its focus from impact measurement to performance management. This is no slight change.

Today, rather than collect data to prove impact, stakeholders are more likely to collect data aimed at holding microfinance institutions (MFIs) accountable to their social mission. In practice, this means encouraging financial providers to integrate social intentions into their strategy and management systems, and to monitor them with key performance indicators.

This is social performance management, and it has become mainstream in microfinance in the last 10 years, underpinned by the Universal Standards for Social Performance Management (SPM), a set of collectively-defined, practitioner-driven management practices considered essential to fulfilling one's mission. The SPM approach (commonly represented by the SPM Arrow) should be leveraged by the impact investing world. It is pragmatic and unifying without being normative—the Universal Standards do not tell you what your social mission should be, just how to best achieve it.

Applying a SPM approach is not difficult, but it does require systematically looking at one's activities through the lens of one's mission (or impact thesis, or theory of change… pick your term). CERISE, in collaboration with impact investor partners, has developed the Impact-Driven Investor Assessment (IDIA) to make this easier. IDIA is a rapid appraisal tool for investors or funds to see if governance and internal systems are aligned with strategic intent.

But it would seem that CERISE is not alone in promoting SPM among investors. In April this year, International Finance Corporation (IFC) launched the Operating Principles for Impact Management[2] that largely follow a SPM approach: define intent, set up internal systems to support that intent, monitor progress and reflect on how to sustain impact. The Operating Principles show what it means to be an impact investor, that is, the common elements that impact investors should commit to if they want to incarnate their label.

So far, they have garnered 60+ signatories. What exactly this entails is not yet clear, although in theory, signatories commit to public disclosure and independent verification of their practices, to demonstrate alignment with the principles. IDIA offers a method to do so. It draws microfinance's lessons on what it takes to achieve one's mission. Because there is no need to reinvent the wheel.

1 https://thegiin.org/assets/2018_GIIN_AnnualSurvey_Executive-Summary_webfile.pdf
2 https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Impact-Investing

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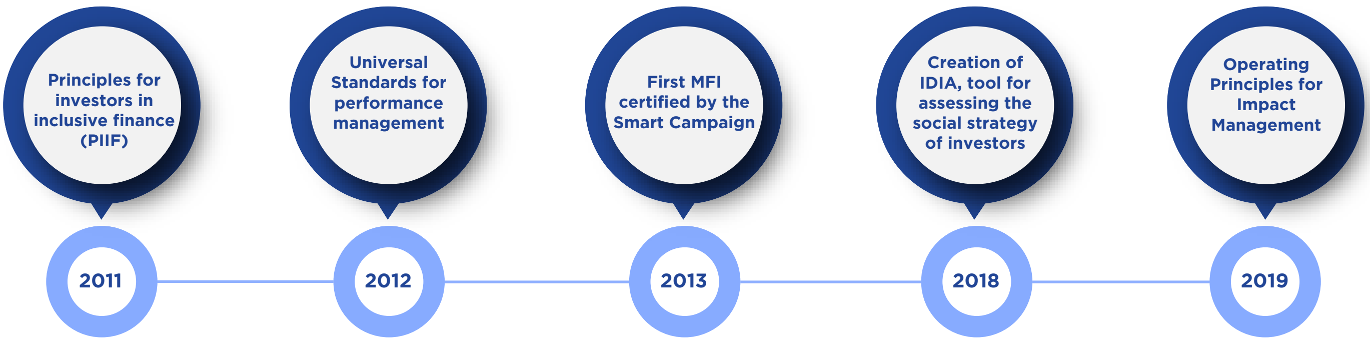

Do private microfinance stakeholders really care about Social Performance?

More than 10 years ago, Nobel Peace Prize Laureate Muhammad Yunus said "I firmly believe that we can create a poverty-free world if we collectively believe in it. In a poverty-free world, the only place you would be able to see poverty is in the poverty museums." Unfortunately, poverty still exists.

Part of the reason for the survival of poverty is that a large number of people remain unbanked. Globally, about 1.7 billion adults are financially excluded in 2017 compared to 2 billion in 2014. China has the world's largest unbanked population, followed by India (190 million), Pakistan (100 million), and Indonesia (95 million). These four economies, together with three others — Nigeria, Mexico, and Bangladesh — are home to nearly half the world's unbanked population.

These figures show that the way towards a world where everyone has access to financial services is still long. Microfinance sector's stakeholders therefore have room for growth. Large private microfinance institutions and microfinance investment vehicles (MIVs) can be instrumental in the fight against these inequalities.

But in a market as profitable as microfinance[1], can their actions really be trusted to be socially oriented? The microfinance sector was heavily delegitimised during the 2000s because of the crisis of over-indebtedness impacting poor people, casting doubts on the social aspect of microfinance. Is the current context better now? Did private stakeholders find the right balance between financial return and social performance?

Today's investors generally care about their social impact

Efforts have been made over the last years for greater transparency and qualitative social assessment. Reports tend to show that this concern is now well understood by the sector. For instance, the 2018 Financial Inclusion Compass[2] produced by the European Microfinance Platform (e-MFP) demonstrates that client protection is recognised by microfinance stakeholders as the most important criterion in achieving the objectives of financial inclusion whereas governance is ranked at the third position.

This concern is also true for investors. The 2018 MIV survey by Symbiotics[3] shows that most microfinance investors and fund managers are taking various aspects of social performance into account[4]. Most of the surveyed funds (77 out of 83 respondents) mentioned that they target both financial and social returns. What could only be a statement turns into a stronger commitment when an assessment is performed.

And as a matter of fact, the majority of MIVs measured both financial and social returns (64 out of 83), while a minority (6 out of 83) focused exclusively on measuring financial returns.

The survey also shows that MIV's measurements mainly come from collecting and analysing outreach indicators on their investees. Besides, 67% of them used in-house developed tools to assess their investees' social performance management. Finally, 67% of MIVs conduct internal social ratings on the MFIs of their portfolios.

BNP Paribas, like other funds, also assesses the social performance of investees as part of its Corporate Social Responsibility. Pro bono social due diligence missions are offered to the MFI we are working with. During one week, a couple of high potential executives perform an SPI4 audit after they have been trained by the NGO Cerise. We benchmarked our microfinance portfolio with 286 other MFIs in the world assessed with the SPI4 methodology and the results are conclusive: the MFIs financed by BNP Paribas have a score significantly higher than the average. Indeed, the 26 MFIs audited (out of 34 MFIs financed) reach the score of 79/100, whereas the global score is 64/100 showing that a large investor can truly make an impact with their investments in microfinance.

The triple bottom line

Social performance is a key element of microfinance's DNA. A large part of the main stakeholders knows it and cares about displaying it to show their effective commitment to achieving their social mission.

Yet, another challenge arises for the microfinance market. The issue of environmental performance (see also p.14-15) is gaining significant importance as 25% of MIVs' investees are offering green loans specifically designed to finance the purchase of environmentally friendly products, such as solar panels, biodigesters, or clean cookstoves. BNP Paribas itself partnered with the UN environment and Yapu, a Berlin based start-up which develops a digital solution for sustainable agriculture to allow two MFIs in Senegal and Colombia to test a pilot for sustainable agriculture microloans.

Together with financial and social dimensions, environmental performance is on track to become a new standard for the microfinance sector. And that triple bottom line could just be the new opportunity for the sector to show its relevance and impact.

1 MFIs portfolio yield was assessed at 20.9% in 2016 according to the 2018 Microfinance Barometer

2 www.e-mfp.eu/sites/default/files/resources/2018/11/e-mfp_Financial%20Inclusion%20Compass_A4_def3-web.pdf an account, 56 percent of all unbanked adults globally (figure 2.2).

3 https://symbioticsgroup.com/wp-content/uploads/2018/10/Symbiotics-2018-MIV-Survey.pdf

3 According to Symbiotics, the average number of active borrowers financed by MIV was around 494 K by MIV for 91 MIVs.

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HEAD OF MICROFINANCE & SOCIAL ENTREPRENEURSHIP FOR ASIA AND AMERICAS
BNP PARIBAS

PRIVATE ACTORS AND SOCIAL PERFORMANCE

In 2018, client protection is considered the most important criterion for MFIs, according to the Financial Inclusion Compass produced by e-MFP. How does this translate into concrete action?

93%
of MIVs studied by Symbiotics[1] target both social and financial return

67%
of these MIVs have developped tools of social performance management

67%
of them attribute a social rating to MFIs in their portfolio

25%
of these MIVs offer green credits to reinforce the resilience of MFIs

1 MIV survey, Symbiotics, 2018

Microfinance and financial inclusion: terminology aside, is there a real difference between the two?

Over the past decade, microfinance has gradually evolved into the broader field of financial inclusion. But are these two terms interchangeable? Renée Chao-Beroff, Director of Pamiga, and Isabelle Guerin, a researcher at the Institute of Research for Development (IRD), share their thoughts.

In recent years, major international organisations have increasingly referred to financial inclusion rather than microfinance. Why this change in terminology?

Isabelle Guérin (IG): First of all, this change has a rhetorical justification. The microcredit crises of the late 90s affected the sector's reputation. This required a change of terminology to restore confidence and strengthen the credibility of microfinance. Using an adjective in the new expression itself emphasises the positive dimension of finance.

Renée Chao-Beroff (RCB): Faced with a negative and controversial discourse, the change in terminology was seen as a way of restoring a more universal dimension to microfinance.

This semantic change also reflects microfinance stakeholders' desire, in particular that of the Consultative Group to Assist the Poor (CGAP) – a think tank of the world's 32 largest microfinance donors – to bring the central banks on board. However, the terms had to be adapted to the central banks' priorities if they were to be attracted to microfinance. From the year 2010s on, it was the potential for financial inclusion (i.e. quantifying the number of people with bank accounts) that drew them to microfinance.

In your opinion, what are the main differences between microfinance and financial inclusion?

RCB: The main difference is in the implicit goals underlying each of the terms. Financial inclusion pursues a purely quantitative goal, which points towards 100% banking inclusion. But that tells us nothing about the use of bank accounts. For microfinance's pioneers, it is not so much the access – of course you need access – but the impact that matters. That is, the ability to change people's lives through finance.

IG: Financial inclusion involves a greater number of stakeholders and services, including fintechs, and also incorporates the traditional banking system.

In a number of countries, the last few years have seen a considerable increase in banking inclusion. This has been achieved mainly through social transfer policies, whether they were conditional or not. Microfinance therefore no longer has a monopoly on financial inclusion. In a general sense, however, microfinance pays greater attention to the social issues linked to financial inclusion.

Does the arrival of new actors in the financial inclusion sector, such as fintechs and mobile banking operators, make a difference for microfinance?

IG: In theory, fintechs enable highly isolated populations and regions to benefit from potentially cheaper financial services. When backed by social policies, such as social transfer payments, this can be a way of facilitating transparency and limiting the risk of corruption.

RCB: Fintechs represent a real problem for traditional MFIs, and thus for microfinance. Until the arrival of these new players, MFIs were the only ones operating in isolated regions. They set up local banks, trained local cashiers, etc. This costs a lot of money and for several years justified the fact that MFIs were subsidised. Today, however, thanks to digitisation, fintechs and banks can reach these customers without the need for physical buildings. They can also collect savings in villages where there have never been any banks.

Are there risks to replacing traditional microfinance actors with fintechs?

RCB: I would say that the main risk is the loss of meaning for financial inclusion. Technology makes it possible to enroll people and give them access to services without the need to reach them individually and spend time with them. For example, the use of credit scoring allows fintechs to create beneficiaries' profile without ever meeting them in person. However, there is no guarantee that the customer's needs will actually be identified, and this is why MFIs remain relevant in this increasingly digitised world.

> The "high-tech/high-touch" approach allows people to benefit from the advantages of technologies ("high-tech") while gaining from the on-the-ground experience ("high-touch") acquired by MFIs over the years.

Personally, I am in favour of a "high-tech/high-touch" approach, which allows people to benefit from the advantages of technologies ("high-tech") while gaining from the hands on experience ("high-touch") acquired by MFIs over the years that can ensure more impact for the clients.

IG: I see three other major risks: the promise to reduce costs for customers is still illusory, while the fintechs' profits are relatively high; the capture of personal data, with the prospect of including "poor" people in consumer society while basic services remain inaccessible to them; and, finally, privacy control, which is still very badly regulated. Microfinance was already struggling to keep its promises, and this is even more true of financial inclusion. We should not forget that for poor people, the main problem – more so than financial exclusion – is still monetary exclusion.

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Microfinance digitalisation: risk or opportunity?

The digital revolution is profoundly transforming the world of finance and forcing financial service providers to adapt. In this interview, Graham Wright, Executive Director of Microsave, discusses the challenges and risks of this necessary transition for microfinance.

For many experts, the digitalisation of microfinance is essential to the survival of the sector. According to you, what are the benefits of digitalisation to microfinance?

There are at least 4 main benefits to digitalisation.

First, it allows MFIs to increase revenues and reduce costs. McKinsey estimate that financial institutions' digital transformation could add 45% to their annual net revenues: 15% from enhanced product uptake and 30% from reduced operational costs. The International Finance Corporation calculates that it reduces the annual cost to serve a customer by 80%, and an 18% reduction in the cost-to-income ratio (a classic efficiency measure).

Second, it brings the opportunity to leverage relationship banking. Traditional MFIs and banks have important competitive advantages over fintech. They have valued, historical relationships with millions of customers, they have data on those customers' financial behaviour, they have the infrastructure to provide the human touch that low-income customers crave. Furthermore, traditional financial institutions have the right regulatory clearances and compliance to offer financial services – something that fintechs often lack.

Third, it allows MFIs to provide personalized customer experience. Traditional financial institutions need to be cognizant of the changing demographic and cultural context, namely the rise of millennials and mobile-first generation, to develop and deliver first-class personalized user-experience. A great user experience involves solutions adapted to the customers' behaviours and attitudes.

Finally, it provides the opportunity to deliver services with a stronger social purpose. Looking into the medium term, the tech revolution allows us to answer the "elephant in the room": financial inclusion, but to what end? Tech allows us to link pure financial services to the real-world economy.

For example, MSC is working to develop "precision agriculture" in India. Under this project, data is collected on a farmer's land holding and soil quality, as well as the seeds, fertilizers and pesticides he or she has purchased. This allows AI-powered chat bots to provide tailored coaching to optimize both yields and the prices the farmer gets in the market.

… And what are the main risks?

I would first like to dispel some of the myth around digital transformation. It does not solve all organisational problems and does not suit all organisations. It is crucial for ab organisation to truly assess its needs and how technology can best respond to those.

Then there are obviously many risks associated with digital transformation, the main one being that in the transformation process, MFIs loose focus on the social reason for such transformation: improving the social role of microfinance (by reducing borrowing costs, improving user experience etc.).

Other risks include the unnecessary proliferation of products and services, as well as the total digitalisation of borrowing services without maintaining some human interactions.

Given the importance of digitalisation, is there a strategy to adopt to integrate more digital tools in a relevant and effective way in the microfinance sector?

Ultimately, a financial institution needs a comprehensive, integrated strategy for digitalisation – and then to break it down into manageable pieces – so that digital transformation is a journey. Just focusing on processes or channels will not be enough.

Once the overall strategy has been defined, there are many sub-strategies. The first might be to digitalise processes – after all digital processes are quicker, more efficient and cheaper than manual ones. A digital transformation of processes reduces the cost and friction points of delivering services. It provides the data needed to supply a better service offering to end-users and increasingly to businesses.

A second sub-strategy lies in the digitisation of the products and services themselves. The rise (and flexibility) of mobile banking for instance necessarily requires that MFIs adapt their product to meet this new demand. That being said, new digital products should be developed in a flexible manner so as to respond to client's preferences.

A third sub-strategy consists of digitalizing channels which involves using technology platforms to improve customer acquisition and user experience. The emergence of digital platforms and alternative channels has profoundly changed the way customers do their banking. Customers now prefer self-service technology platforms that give them freedom, choice, and control. In 2018, the Equity Bank Kenya customers carried out 97% of their transactions outside the bank branches.

Key steps of digital transformation

Source : Winter is coming: key lessons on digital transformation for financial institution, Microsave, 2018.

In your opinion, do MFIs necessarily have to digitalize in order not to disappear?

MFIs face an existential threat from digital technology. This is because fintechs are disrupting traditional financial services markets by creating new financial services that are more efficient and able to reach populations generally served by MFIs.

So MFIs must embrace digital transformation. They must harness the potential of their legacy of experience and relationships. They must work with fintechs to deliver personalised, digitally-enabled services. And MFIs must work through staff and agents to provide the human touch and assistance that so many still seek.

The digital revolution offers the chance to deliver rapid, responsive and differentiated financial and social services to low-income people in a way that we have never been able to do in the past. In this context, MFIs really have an added-value, since they know very well their clients and the regions where they operate. Their future will now depend on their ability to bank on their expertise, so that the digital revolution is both high tech and high touch.

**INTERVIEW BY
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Digitalisation: what's at stake for microfinance? Advans point of view

The booming digitalisation in developing countries, especially on the African continent, is one of the main factors behind the increase in financial inclusion witnessed in the past ten years. In Sub-Saharan Africa for example, 42.6% of the adult population had an account in 2017 compared to just 23.2% in 2011 with almost 21% of adults having a mobile money account, based on data from the Global Findex.

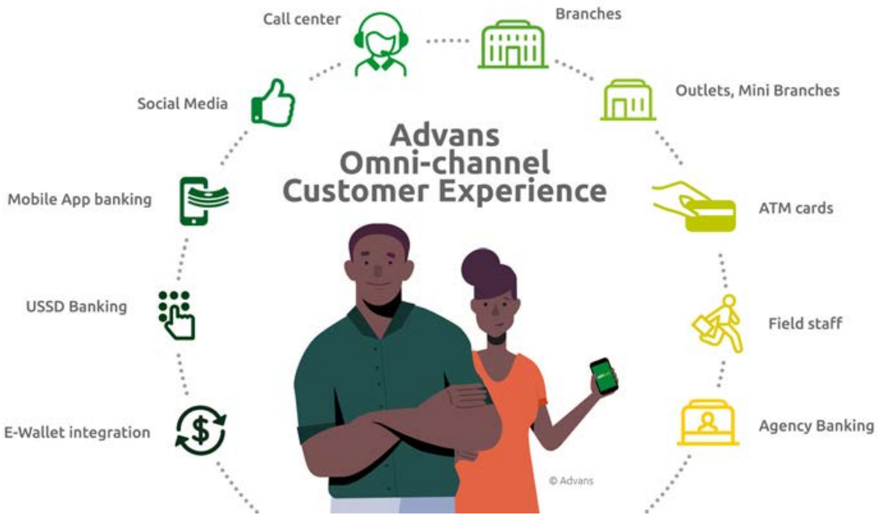
This trend represents a unique opportunity for financial service providers (FSPs) to better achieve their mission and reach out to more clients. Technology can help traditional microfinance institutions to overcome challenges such as high operating costs (forcing MFIs to focus on high-density urban centres) or high operational risks (due to manual and paper-based processes).

There is no doubt that digitalisation in today's financial inclusion market is not a choice but a necessity. One question remains though: how can microfinance providers digitalise intelligently and, above all responsibly?

Over the past ten years Advans has had the chance to implement and test multiple digital technologies to improve the financial inclusion journey for its clients. In Côte d'Ivoire for example, a USSD mobile banking solution has enabled access to saving accounts to over 19,000 cocoa farmers in remote areas with 1,120 of these clients also benefitting from digital school loans in 2018 for an amount of €180,000.

In neighbouring Ghana, digital channels have especially increased account usage, with 33% of client interactions being made through the Advans USSD[1] mobile banking service and an average of 4.3 transactions per month per active client.

Meanwhile, in Cameroon, the implementation of an agent network across the country has enabled Advans to offer to its clients more proximity and reduce congestion in branches. Finally, this year in Nigeria and Cambodia, Advans subsidiaries are launching mobile applications allowing clients to manage all of their transactions instantly online. In Nigeria, mobile banking services will help grow the portfolio by an estimated 5% in 2020 to 10% per year from 2021.



> Client research and feedback are key at all stages, from thinking about developing a new service to rolling it out, and constant performance monitoring of any service is essential to identify areas for improvement.

These experiences have not been without challenges and have taught Advans a number of valuable lessons in terms of digital transformation.

Firstly, a one size fits all model is not viable: each of our markets and all our clients are evolving at a different pace. Even though Advans shares experiences between subsidiaries, it always follows a model of piloting, testing then scaling products or channels, ensuring that digital services take into account clients' evolving needs and expectations. Client research and feedback are therefore key at all stages, from thinking about developing a new service to roll it out, and constant performance monitoring of any service is essential to identify areas for improvement.

> The path to success for FSPs relies on the ability to remain agile: listen to the market, listen to customers, react timely and grab opportunities when they arise.

Secondly, microfinance clients remain a specific target with often lower use of technology, lower financial literacy and trust issues to be considered. In light of this, digital tools alone are not enough to create a meaningful and sustainable relationship with clients. Instead, it is crucial to take a high-tech and high-touch approach, with first and foremost an omni-channel offer for clients, and additional services such as financial education, customer care (for example through call centres) and on field agents as solutions to ensure that clients fully benefit from financial services.

In short, any FSP that wants to digitalise responsibly has to start with understanding customers' needs in order to design and offer services which are in line with their everyday reality.

Advans digital transformation is in motion. Now that the group has developed a set of channels and business models it can scale the activities that work best. In all subsidiaries where the business case stacks up, Advans aims to launch or scale in priority a combination of digital channels for client interaction. This will help Advans to increase its outreach in a more sustainable manner, driving efficiency and encouraging client usage based on convenience and low transaction costs. As well as mixing physical and digital touch points, Advans will create new digital propositions and partner with digital players to seize upcoming opportunities in its markets.

Given the pace of change around us, the path to success for FSPs relies on the ability to remain agile: listen to the market, listen to customers, react timely and grab opportunities when they arise.

1 Unstructured Supplementary Service Data

FANNY SERRE
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ADVANS
Growing together

(Micro)finance for Resilience: Helping Clients Adapt to Climate Change

The challenge of climate change

New data on climate change continues to emerge, and it is seldom good. CO_2 levels are at historic highs. Arctic ice continues to shrink. Climate-related natural disasters such as hurricanes and drought increase in both frequency and severity.

Humanity, however, has always faced enormous challenges, from disease pandemics to global conflicts. Climate change – while posing an existential threat to our species and our environment – is slightly different: it's a slow-moving crisis that we can address through innovations in science, technology and education.

Governments and companies are taking the first, very slow steps towards climate change *mitigation* – most notably by switching to cleaner and renewable fuels. But though this is necessary, it is not sufficient. We must also focus resources on *adaptation*[1] leading to *resilience*[2] – which is particularly crucial for those populations most susceptible to climate change's effects: vulnerable (and particularly rural), financially excluded communities living in low-income countries.

The problem is at least fourfold. First, these communities earn their livelihoods from activities most affected by climate change (such as agriculture, forestry and fisheries). Second, their countries and regions will be the most affected by climate stressors, such as flooding, sea level rise, drought, extreme storms, erosion and pestilence. Third, this direct vulnerability is often exacerbated by the low economic and institutional capacities of the most affected countries. And fourth, all these consequences are further multiplied by the growing risk of climate change induced migration, displacing people to urban areas and across borders as refugees.

Within the agricultural, livestock, forestry and fisheries sectors, there is a broad range of emerging solutions to help vulnerable groups strengthen their resilience to climate change via adaptation to permanently changed environments, for example a reduction in rainwater, a shift in the seasons, or higher temperature extremes.

This can be achieved by promoting various activities and techniques (such as innovative agricultural and husbandry techniques) that increase productivity in challenging contexts. It can also include increasing preparedness for future shocks, such as use of resilient materials to protect homes, businesses and land, without resorting to costly coping strategies, such as taking on unsustainable levels of debt, or selling productive assets.

In both cases, access to financial and associated non-financial services can help households to adapt.

Microfinance and climate change resilience

The microfinance sector's role in increasing this resilience is broad. It can include providing loans for investments in irrigation, drought resistant seeds or other adaptive solutions; writing insurance policies to support greater resilience to shocks; using remittance and transfer services to funnel aid in the aftermath of climate-related natural disasters; or facilitating clients' long-term financial planning, including via savings products, to help them build more adaptable economic activities.

Moreover, the institutions that serve these clients are also often vulnerable to the effects of climate change. To build resilience among them, these institutions must also become resilient *themselves*. That means adapting to the changing economic situations of their clients (including their debt-repayment capacity), as well as building systems that allow for rapid and effective responses following weather disasters, such as floods or hurricanes.

Finally, financial services may be complemented by non-financial products and services that fill capacity gaps, including awareness-raising and understanding of climate risks through technical assistance and training; promoting construction standards that increase resilience to flooding and high winds; and incorporating climate risk assessments and forecasts of extreme weather into institutional planning – then helping clients use the data in their economic activities.

All of these activities can be further leveraged through partnerships, such as with insurance companies, researchers, fintechs or other technical services providers that specialise in the causes and consequences of climate change among vulnerable populations, and the solutions to mitigate its effects. The European Microfinance Award 2019 on *Strengthening Resilience to Climate Change*, co-organised by European Microfinance Platform (e-MFP), has invited applications from organisations working on this problem, and received them from 42 organisations from 27 countries, including 18 non-bank financial institutions, 5 banks, 4 NGOs, and 15 from various other categories.

Among them, there have been innovations in index insurance, improved agricultural practices, value chain development, enhanced nutrition, education, clean energy, use of technology such as geo data, and disaster preparedness etc.

Seeing the scope and depth of responses that these applications represent highlights the broad and deep role the sector can play in helping the financially excluded adapt to a changing climate. This is just the beginning.

1 The Intergovernmental Panel on Climate Change (IPPC) defines 'adaptation' as "any adjustment in natural or human systems in response to actual or expected climatic stimuli or their effects which moderates harm or exploits beneficial opportunities".

2 'Resilience' refers to systems being climate-proofed for the future. It is the capacity of ecological, social, or economic systems to adjust in response to actual or expected climatic stimuli and their effects or impacts and "*...refers to changes in processes, practices, and structures to moderate potential damages or to benefit from opportunities associated with climate change*". (UNFCCC - United Nations Framework Convention on Climate Change.

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CONVERGENCES ZERO EXCLUSION CARBON POVERTY

How can microfinance adapt to climate risk?

Before climate change even reached top-priority level on the global agenda, microfinance institutions have started to take local action against natural disasters.

As the 3rd highest risk area in the world, with more than 60% of its land area exposed to multiple hazards and 74% of its population considered vulnerable, the Philippines is one of the countries where early attempts emerged to enhance the readiness of people and institutions to natural disasters.

For local microfinance institutions, helping strengthen their clients' resilience while maintaining their own operational continuity was a natural move towards a more proactive response to repeated calamities.


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Oikocredit chose the Philippines as its pilot area for natural disaster management in 2014, after years of supporting its affected local partners through a solidarity fund. In partnership with Corporate Network for Disaster Response, a training on Disaster Risk reduction and Management (DRRM) was offered to volunteer microfinance institutions in the Philippines.

The pilot project was comprised of 2 capacity building initiatives, the first part aiming at enhancing basic knowledge of DRRM concepts, and the second part consisting in a training-workshop on basic continuity management, to equip partner MFIs with tools they could use to craft their own Business Continuity Plan (BCP).

That dual capacity building pilot was rolled-out to other countries in South-East Asia and led to the creation of a Roadmap for Disaster Resiliency.

Several local MFIs and clients using this roadmap already reported reduced losses, faster assistance, and enhanced business continuity in situations of disaster over the last years, as a result of the proposed risk reduction approach.

Late 2018 this work was made available to all through the joint-publication with Philippine MFI ASKI of A Guidebook on Disaster Risk Reduction and Business Continuity Planning for Microfinance institutions. The guidebook sketches 12 key steps towards DRRM and BCP, synthesized in a 5-phased Roadmap, from understanding risks (1) to disaster contingency (2) and business continuity (3), to testing (4) and reviewing (5).

The more institutions make that and other disaster risk management tools their own, the more data will be available in the future to accurately measure the positive outcome on the lives of exposed microfinance clients.

GAEL MARTEAU
DIRECTOR FRANCE
OIKOCREDIT

Financiera FDL contributes to the spread of agroecology in Nicaragua

Faced with climate change that is already underway, Nicaragua, especially in its rural areas, is having to adapt rapidly. Local temperature rises, for example, are disrupting low-level coffee production and having a direct impact on coffee farmers' incomes. In this context, Financiera FDL is the leading financial microfinance institution addressing these issues. Nearly 80% of its customers live in rural areas, and 37% of its loan portfolio is dedicated to agriculture. It decided to become involved in green microfinance 20 years ago.

The MFI has gradually developed a series of products to support producers to adopt more resilient cultivation practices. For instance, it promotes the planting of fuel wood around plots and provides loans for solar photovoltaic equipment. Financiera FDL also offers innovative products such as the "credito ambiental" (environmental loan). This long-term credit, which also comes with technical support, has an interest rate which decreases after one year if the producer adopts sustainable agricultural practices. The MFI considers this an incentive for the "environmental services provided".

The most recent credit product launched by Financiera FDL, Ecomicro, specifically concerns customer climate risk mitigation measures. Such measures include the financing of water tanks, wells, micro-irrigation systems or the planting of trees in pastures, known as silvopastoralism.

Moreover, the MFI has adopted responsible practices: it excludes the financing of projects in protected areas, the acquisition of polluting equipment, as well as the purchase of land, in a context where many producers aim to increase their income by purchasing plots rather than by improving yields. The MFI noticed that extensive production requires deforestation at the local level. Conversely, intensive models, such as agroforestry, are particularly productive and ecologically sustainable.

Since support for changing cultural practices is costly, one of the MFI's main difficulties is finding external financing. Despite these challenges, Financiera FDL has resolutely turned towards green finance in order to tackle the causes of climate change, trying to influence its customers' environmental impact as well as the consequences, with measures to adapt to climate risk.

In this case, Financiera FDL's goal is to offer "win-win" solutions, since reducing climate risk for producers leads to a reduction in risks for the MFI. It even goes so far as to consider that the ecological transition is necessary to ensure the sustainability of its services, and therefore its survival.

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Serving refugees: 5 key recommendations for financial service providers*

The number of forcibly displaced people worldwide has hit a record high of 70.8 million in 2018, as showed by the data recently released by UNHCR's annual Global Trends report. Within this group, the number of refugees in the world — defined as people displaced outside of their home country due to war, persecution and conflict — reached 25.9 million, 500,000 more than in 2017.

In this context, promoting positive interventions that enable socioeconomic integration of refugees represents one of the main sustainable solution to the refugee crisis. The financial industry has a fundamental role to play to ensure that refugees have access to a range of financial and non-financial services. That said, very few financial service providers (FSPs) have so far been extending their services to this underserved population, often perceiving them as a "too risky"market segment.

To deepen the understanding of refugees' financial needs, the Grameen Credit Agricole Foundation commissioned a market study in Jordan and Uganda, conducted by the consulting firm Microfinanza. These studies constitute the first step in the implementation of a joint program between the Swedish International Development Cooperation Agency, UNHCR and Grameen Crédit Agricole Foundation, designed to expand access to financial and non-financial services for refugees and host communities in Jordan and Uganda.

The findings from these studies shed light on five main recommendations for financial service providers (FSPs) willing to contribute to the financial inclusion of refugees.

1. Do not develop specific financial products for refugees.

This recommendation may seem surprising, as refugees are often seen as a separate social category with specific needs. Yet, the study demonstrates that many financial products on the market already meet the demands identified among refugee clients. FSPs may need to adjust their internal policies and procedures for identity and collateral requirements but there is no need for exclusive "refugee products" to match demand.

2. Find out what type of credit refugees in a given area need, and how much.

In Uganda and Jordan, we found that while refugees were borrowing regularly from savings groups, friends and family, they were not able to borrow enough to cover their business needs. Many wanted access to formal credit, would prefer individual loans, and most were willing to pay interest. The survey also revealed a need for financing green energy products in settlements, and highlighted the potential of digital financial services, which are already used by refugees in both countries. In Uganda, where land is reasonably available for refugees, there is also a demand for agricultural products, both for individuals and for companies looking for raw agricultural products. Much like with regular clients, it is essential that FSPs closely interact with refugees to better understand their needs and preferences.

3. Screen refugees' business ideas.

In Uganda, 78% of refugee respondents have plans to start or develop their own businesses, and 60% have already taken the first steps - using savings, borrowing informally and enrolling in vocational trainings. In Jordan, most refugees prefer to start their own business over seeking employment in the limited available sectors for non-Jordanians. In terms of gender segmentation, about one out of every four women interviewed in Jordan have strong plans to start or develop her own, mostly home-based, business, a proportion which increases to one in every three women in Uganda.

4. Overcome the fear of flight risk, as data shows that refugees rarely resettle.

Flight risk is an oft-mentioned concern for FSPs when it comes to considering refugees as a potential target market. However, our studies found that the vast majority of respondents do not have plans to return to their countries or to relocate to another country. Resettlements are also rare within countries. Refugees' aspirations were much more related to gaining economic independency than to moving on to a new location. Between 2014 and the end of April 2018, only 5% of the registered refugee population in Jordan and 1% in Uganda resettled[1].

5. Consider adding non-financial services to complement the credit offer.

In both countries, non-financial services – primarily financial education and business management support – are particularly relevant for refugees with limited or no prior experience with credit or running a business. FSPs should apply their client segmentation procedures to assess which refugees may need non-financial service provision. In order to better comprehend refugees' needs, it is highly valuable for FSPs to partner with existing specialized NGOs which offer these services.

The studies clearly demonstrate that the growing number of refugees should be considered by all microfinance stakeholders as a new market and a real opportunity to promote financial inclusion. For the refugees themselves it could be the insurance to be fully integrated in the mainstream economy of their host country.

1 UNHCR resettlement data, http://www.unhcr.org/resettlement-data.html#_ga=2.19545528.1017050701.1540310607-1116228831.1539297281

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