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

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

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

In that respect, the Global Appeal for Responsible Microfinance – initiated in 2012 by Convergences and the CEO Working Group, outlines the steps that each stakeholder should take for microfinance to be a responsible and innovative tool to counteract on the social, economic and financial inclusion of the worse-off populations.

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

The publication, which aims at providing an overview of microfinance in the context of the global challenges of financial inclusion and poverty reduction, includes the Post 2015 development agenda, the global challenge of financial inclusion and poverty reduction.

As reflected in discussions on the current and future development agenda, the global challenge of sustainable and inclusive development concerns, and therefore requires the participation of all countries and all actors. The 4th edition of the Microfinance Barometer sheds new light on the sector’s challenges and opportunities, highlights best practices, and shows the potential of innovation and collaboration. To respond to the social and economic challenges of the 21st century, a truly global partnership for development is called for, and microfinance has a key role to play.

RESPONSIBILITY, INNOVATION, IMPACT: ADVANCING FINANCIAL INCLUSION

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

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

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

To increase access to financial services worldwide, microfinance is using innovative products and delivery channels, such as mobile banking, and working to increase the capacities of service providers (see articles on page 3). The sector is also striving to broaden the range of products and services offered, be they financial or non-financial (see articles on page 7).

In developed countries as well, microfinance is increasingly being perceived as a potentially effective tool to counteract on the effects of the social and economic crisis. Supported by a favourable institutional environment, the sector is developing in Europe and in the U.S. Some preliminary results on the impact of personal and professional microcredit on social and economic inclusion are promising (see articles on pages 9 to 11).

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

Table of Contents

- Pages 2-3 Sector Overview in Developing Countries
- Pages 4-7 Responsible Practices
- Page 8 The Impact of Microfinance
- Pages 9-11 Microfinance in Developed Countries
- Page 12 Interview with David Roodman // Global Appeal // Convergences World Forum

Exclusive Data and Insights

- Pages 2-3 2011 Overview
- Page 5 Social Rating Scores Worldwide
- Page 9 Microfinance in Europe

Endorse the Global Appeal for Responsible Microfinance

Save the Date
Convergences World Forum – September 17, 18 and 19, 2013
Global portfolio growth has continued to slow down since the 2009 crisis, growing by 15% in 2011 against 25% in 2009. But this growth is not evenly distributed. Africa and Latin America are showing the strongest recovery since the crisis at nearly 25% annual growth since 2009, with the former also benefiting from new market entrants and an increased focus from funders on Sub-Saharan Africa.

While tens of thousands of providers serve microfinance clients, the leading 100 institutions still represent 80% of the total lending portfolio and 75% of the borrowers served at a global level in 2011. The global top 100 microfinance institutions (MFIs) are increasingly concentrated in Latin America and the Caribbean, Sub-Saharan Africa, and South and East Asia.

Institutions serving microfinance clients have diversified portfolios. Microenterprise lending represents 60% of total lending, and 80% of active borrowers, but those institutions also serve other client segments and lending purposes, such as larger businesses (15% of lending) and household consumption needs (12% of lending).

Client Outreach: 94 million borrowers reached in 2011

The slower growth in total loan portfolio masks a 3% shrinkage in client outreach at a global level over 2011. Lending in South Asia, dominated by India, is still impacted by the 2010 Andhra Pradesh crisis and subsequent shutdown of activity. This resulted in a decline in outreach of 10% in the region and nearly 20% in India in 2011, strongly impacting the total global portfolio outgrowth. In contrast, Africa and Latin America show increased growth in outreach over the same period, posting 15% more borrowers each over 2011.

The size of enterprise lending is very closely linked to local income levels in the different regions of the world. As a result, the average loan size varies greatly across the regions, from nearly USD 2,500 in Eastern Europe and Central Asia to less than one-tenth that amount in South Asia.

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

Deposits dominate the global balance sheet of MFIs, but they are highly concentrated in a few large banks. Borrowings are particularly important to NGO and non-bank financial institution (NBFI) funding, but as the scope of deposit taking non-bank licenses has increased, deposits have become a more important source for the latter.

The debt funding, particularly for NBFI and NGOs, comes from a variety of local and foreign sources (57% and 43% of total MFI deposits, respectively). Banks and other financial institutions provide over one third of total debt funding and are primarily local funding sources. Structured funds (or microfinance investment vehicles – MIVs) and development finance institutions provide an additional 20% each and represent the most important foreign sources of funding. According to “The State of Microfinance Investment 2012” study by MicroRate, total MIV assets are estimated at around USD 7.5 billion in 2012, having grown by an estimated 14% over the prior year.

Each provider has its own funding structure

Foreign funding flows have also changed over the last several years. 2011 results from CGAP 2012 “Current Trends in Cross-Border Funding in Microfinance” survey shows that, as the growth in committed funds has slowed to 6% in 2011, funders have increased their presence in a number of regions. Notably, commitments to Sub-Saharan Africa have increased by 12%. Funding remains largely targeted at refinancing MFI loan portfolios (77%), with the rest of these funding flows supporting capacity building at the retail, market infrastructure and policy level.
Understanding microfinance providers and their clients

<table>
<thead>
<tr>
<th>Diversity of institutions serving the sector</th>
<th>Number of MFIs reporting to MIX in 2011</th>
<th>Percent of borrowers served by a non-profit institution</th>
<th>Percent of borrowers served by a financial institution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diversity of services provided by the institutions</td>
<td>Number of institutions proposing both credit and savings</td>
<td>Percent of institutions proposing insurance products</td>
<td>Percent of institutions proposing non-financial services</td>
</tr>
<tr>
<td>Percent of microfinance clients</td>
<td>Percent of rural borrowers</td>
<td>Percent of women borrowers</td>
<td>Percent of clients with microenterprise loans</td>
</tr>
<tr>
<td>Countries with more mobile money agent outlets than bank branches</td>
<td>Countries with more mobile money agent outlets than bank branches and more mobile money accounts than bank accounts</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

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

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

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

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

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

In many markets, mobile money providers are still building their foundational capability on operational challenges including how to build and manage their agent network, or how to drive mobile money usage. Developing enabling regulatory frameworks will also be crucial for the growth of this industry and more dialogue is needed between financial regulators and non-banks, to ensure that regulation adequately controls risks but does not hamper financial inclusion.

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

Methodology

Unless otherwise noted, all data comes from financial year 2011 and is presented by microfinance institutions (MFIs) and other microfinance providers to MIX and published on MIX Market as of March 31, 2013. For trend data, only observations with data for all years in the time series are included. MFIs provide data to MIX on a voluntary basis, and that data is fact-checked against validation of statements by all MFIs. In achieving representative coverage of microfinance, MIX seeks out the leading providers of microfinance services, regardless of their institution type, including microfinance providers, banks with dedicated microenterprise portfolios, credit unions and other community based providers that reach low income clients and others. As a result, institutions presented in this data have a range of services and lending products beyond microenterprise lending. This article also draws on the experiences and local relationships of Citi Microfinance, serving 150 MFIs, networks and investors as clients and partners in nearly 50 countries.

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

the parallel stories of microfinance

The story of microfinance in the south has numerous genealogies. First, there is the story widely reported in the media of an invention by Muhammad Yunus at Grameen Bank in 1976, when this professor of economics experimented with a group lending mechanism that defined the basis for the creation of the Grameen Bank and inspired many replications in the world. There are also many previous experiences that had an equally important influence on the sector. For instance, the experience of the savings and credit cooperatives, founded in West Africa in the 1960s, and that are currently the main sources of microfinance on this continent (see article on page 5).

Further experiences are derived from the evolution of public development banks, deeply restructured in the 1990s, like BRI in Indonesia or the IDA in the United Kingdom. These different origins have resulted in various trajectories. NGOs have been focusing on targeting excluded groups and supplying loans, while cooperatives have focused on savings and participatory governance. The transformation of development banks into a system of local units providing a diverse range of services, and modelling savings successfully. Besides, the 1990s witnessed a new phenomenon of NGO commercialisation, initiated in Bolivia in 1999 by the transformation of PRODEMI into a bank. In the 2000s, the main focus was on the professionalisation of the sector, its financial sustainability and transparency, especially under the leadership of CGAP.

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

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

Overview of Initiatives for Responsible Practices in Microfinance

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

Definitions

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

Source: Smart Campaign.

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

Source: Social Performance Task Force.

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

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

On the social performance side, the Universal Standards for Social Performance Management (USSPM) were launched by the Social Performance Task Force (SPTF). They are a set of management standards and practices that apply to all MFIs pursuing a double bottom line (see article on page 5). The Smart Campaign and USSPM focus primarily on retail providers, but other actors in the investment chain have considerable influence. In recognition of this, the Principles for Investors in Inclusive Finance (PIIF) were developed by and for investors. They build on (and make direct reference to) the work of retail provider-focused initiatives such as the Smart Campaign, USSPM and MF Transparency. They include other initiatives by way of guidance, such as the Responsible Covenants Guidelines, recently devised by a group of direct investors in a bid to harmonise approaches. Finally, the PIIF are accompanied by a public Reporting Framework (see article on page 6). There exist many resources to help support MFIs and providers and investors in developing their responsible investment policies and practices. Many are freely available, and more are in development. There remain questions and challenges. How embedded are these practices across the industry? How can practitioners find the time and resource to keep up-to-speed with such principles and standards? What actually constitutes good practice in areas like pricing, profitability and

the issue of “balanced returns”? To move forward with these discussions, we need a greater understanding of current practice. Most of the initiatives are therefore focused on encouraging transparency, and facilitating an ensuing debate. We look forward to updating the map regularly, in line with the evolution of the industry.

emiL LeepGall
project manager
principles for investors in inclusive finance
Survey Results: Establishing a Baseline for the World on Social Performance Management Implementation

I n the spring of 2013, the Social Performance Task Force (SPTF) was established, in collaboration with MIF and the Global Appeal for Responsible Microfinance (GARM), to design a survey that would help understand the state of social performance management (SPM) practices in the microfinance industry today: what social performance management (SPM) practices are being implemented, what are the key challenges to implementation, and what kind of resources could empower institutions to pursue their social goals more effectively.

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

90% of respondents consider SPM an important aspect of their cooperative's mission. The respondents are aware of the Universal Standards for Social Performance Management ("Universal Standards"), and all of the respondents have sought information on SPM from at least one source. Most encouragingly, we see evidence of action: after learning about the Universal Standards, approximately one quarter of MFIs have already begun to change practices.

Survey respondents tended to list their cooperative's most challenging social and financial performance management, defining aspects such as "identifying and designing products, services, and delivery methods and channels that meet clients’ preferences. Respondents also consistently named three areas of resources that would be most helpful to help them address those challenges: indicators, a method to ensure organisational commitment to SPM, and training for loan officers.

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

In addition, one workshop at this year’s SPTF annual meeting brings together CEOs and Board members of microfinance institutions from all parts of the world to discuss social performance management. With what data the board should analyse and how the board can contribute to the institution's social performance.

An output of this workshop will be a guidance document on “How to Develop a Board Report on Social Performance”, which will list the practical steps that an MFI can take to get its board to manage social performance.

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

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

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

T he Confederation of Financial Institutions in West Africa (CIF) is a unique institution for the region. CIF has six of the largest credit unions (cooperative microfinance institutions, MFIs) in the region: FOPPAN Benin, FECECAM-Benin, FUCEC-Togo, Kafo Jiginew-Mali, Nyèsigiso-Mali, and PAMECAS-Senegal. Together these cooperatives have 7.9 million, or roughly one household out of five in the region, saving and borrowing from the CIF. The CIF aims to pool resources and share knowledge and sharing costs to build common expertise, offer mutual assistance to its members, and support the development of innovative products, services, and delivery methods that can improve the operations of its members. The CIF was founded in 1998 and has since then been a powerful partner in supporting the cooperative movement in the region.

In late 2008, the CIF initiated a project to support the social performance of its cooperative members. This initiative was born out of a shared concern about the risk of mission drift. At the sector level, an increased competition, the emergence of commercial banks in microfinance, and MFIs' trend to turn away from the most vulnerable clients, have led the networks to rework their position.

The Social Performance Reference Group was comprised of a dozen members was set up, with the support of CERISE, a series of peer reviews was conducted using the CERISE SPI (Social Performance Indicators) audit tool.

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

In addition, the SPI results led to the definition of a common assessment methodology and dashboard used for regular monitoring. The results were soon prioritised against cooperatives' mission, strategies, and constraints. The cooperatives that have used these indicators since 2009 as the basis for annual reports presented during general assemblies. The CIF has facilitated exchanges on social performance between the cooperative members of the CIF, and enriched strategic discussions.

In 2011, the Reference Group and CIF management decided to focus on client protection. A full-blown assessment of members' practices then started in late 2012 through peer reviews coordinated by CERISE. Two representatives of Nyèsigiso-Mali, FECECAM-Benin and FUCEC-Togo, also recommended to come to FECECAM-Benin to conduct an assessment based on the Smart Campaign methodology.

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

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

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

Social Ratings Scores Worldwide

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

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

Worldwide Social Ratings Results

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

Different levels of social performance implementation can also be observed depending on the legal status of MFIs; while banks have the highest median score in 4 areas, and the overall median score of 66%, NGOs have the highest median score in the area of Social Performance Management and Client Protection, at 53% and 49%, respectively. Different levels of social performance implementation can also be observed depending on the legal status of MFIs; while banks have the highest median score in 4 areas, and the overall median score of 66%, NGOs have the highest median score in the area of Social Performance Management and Client Protection, at 53% and 49%, respectively. Different levels of social performance implementation can also be observed depending on the legal status of MFIs; while banks have the highest median score in 4 areas, and the overall median score of 66%, NGOs have the highest median score in the area of Social Performance Management and Client Protection, at 53% and 49%, respectively.

Achievements of Social Performance Areas per Region

Different levels of social performance implementation can also be observed depending on the legal status of MFIs; while banks have the highest median score in 4 areas, and the overall median score of 66%, NGOs have the highest median score in the area of Social Performance Management and Client Protection, at 53% and 49%, respectively.
Microfinance and Ethics: Three Pivotal Questions

What are the key ethical questions in microfinance? Three pivotal questions are: How do you do business with the poor or earn profit from poor people? Is it ethical to maximise profit when doing business with the poor? Is there an ethical responsibility to avoid harming poor people in the process?

My answer would be that, although you can probably earn a fair profit while earning a fair profit, you cannot just focus on maximising profit for the sake of profit. You do have an obligation to your clients.

Human beings are economic beings. Self-employment or business is not a choice; it is the majority of people to do to feed themselves. For hundreds of years, good work was mostly about charity. Societies saw the poor as worthy of our pity but not as people who worked. We are now experiencing an entrepreneurial. The new paradigm of social responsibility is based on a combination of business and philanthropic ideas to re-shape our world. Mindfulness and our development means stability, and economic stability means that people have a greater freedom to pursue their needs and desires; this means business is part of progress, which circles back to more economic development. So doing business with the poor is a good thing.

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

But how much is enough to attract investors and to maintain microfinance institutions in good health? Deutsche Bank research shows that profitability, operating costs, and interest rates can vary widely depending on the microfinance institution’s location, size, growth potential, assets, location, and target market. While the issues are complex, they are not insurmountable. We can use our expertise and tools to define what is acceptable for us as social investors, and to be transparent about our decisions, so that others may benefit. Although we will certainly influence the way the process evolve, our example may encourage others towards greater access and stability.

While Deutsche Bank recognises the importance of robust, profitable, well capitalised and customer-centric MFIs, it is important to note that profitability is not necessarily for the continued success of the sector, it also becomes a reality when MFIs are able to gradually and proactively work towards improving their financial and social performance. This is necessary for the healthy operation of MFIs and for the continued success of the sector.

S

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

In 2007 as an initiative of Crédit Agricole and Grameen Trust, the Global Social Investment Fund (GSIF) was established to provide an efficient and useful contribution to the fight against poverty, in a sustainable way. Achieving this mandate of responsibility requires the implementation of a globally responsible investment concept that stretches across all areas of operations, processes and partnerships.

ICM (Implementing Responsible Investment for Global Social Investment Fund) was launched in 2007 with the objective of implementing a global standard that would enable investors to assess the performance of microfinance institutions (MFIs) and to align their investment practices with the best practices in the industry. The framework aims to provide a tool that can be used by investors to assess the performance of MFIs and to identify areas for improvement.

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

The principles are the key ethical questions in microfinance. Three pivotal questions are: How do you do business with the poor or earn profit from poor people? Is it ethical to maximise profit when doing business with the poor? Is there an ethical responsibility to avoid harming poor people in the process?

The results seem to indicate a strong engagement among participants with the Client Protection Principles (CPP). A large majority indicated that they reported on their actions in relation to CPP to their investors, and incorporated CPP into their investment policies, due diligence processes and financing or screening agreements. Those participating also reported a high commitment to investing in microfinance institutions that offer a range of financial services, and nearly 90% reported a procedure to integrate environmental issues into their investment decision-making.

While the issues are complex, they are not insurmountable. We can use our expertise and tools to define what is acceptable for us as social investors, and to be transparent about our decisions, so that others may benefit. Although we will certainly influence the way the process evolve, our example may encourage others towards greater access and stability.

Implementing responsible investment (RI) for GCAMF starts with a new mandatory due diligence phase that is to complete the sector where other funders are not, or insufficiently present. This phase aims to provide a systematic and comprehensive assessment of the social performance of the Grameen Crédit Agricole Microfinance Foundation (GCAMF) and its partners, and to identify areas for improvement.

The process involves a multi-stakeholder approach that involves various actors, including local microfinance institutions, investors, civil society organisations, and government agencies. The aim is to ensure that the methodology is feasible, reliable, and comparable across different countries and regions.

The principles are the key ethical questions in microfinance. Three pivotal questions are: How do you do business with the poor or earn profit from poor people? Is it ethical to maximise profit when doing business with the poor? Is there an ethical responsibility to avoid harming poor people in the process?

The results seem to indicate a strong engagement among participants with the Client Protection Principles (CPP). A large majority indicated that they reported on their actions in relation to CPP to their investors, and incorporated CPP into their investment policies, due diligence processes and financing or screening agreements. Those participating also reported a high commitment to investing in microfinance institutions that offer a range of financial services, and nearly 90% reported a procedure to integrate environmental issues into their investment decision-making.

While the issues are complex, they are not insurmountable. We can use our expertise and tools to define what is acceptable for us as social investors, and to be transparent about our decisions, so that others may benefit. Although we will certainly influence the way the process evolve, our example may encourage others towards greater access and stability.
MICROFINANCE BAROMETER 2013

Enhancing Financial Inclusion: The Role of Policy Makers

While progress has been made in increasing financial inclusion within many developing countries, meaningful scale has not yet been achieved. An estimated 2.5 billion adults worldwide1 still lack access to formal financial services, 90% of which are living in developing and emerging countries. The need for greater financial inclusion – in terms of ensuring that all segments of society access many financial services – remains significant.

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

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

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

AFI’s approach is based on the understanding that sustainable and effective policy changes reduce barriers and incentivise the private sector to innovate and provide new financial services. Indeed, many studies show that effective policy solutions are grounded in empirical evidence.

In September 2011, AFI members publicly committed to measurable progress within the four pillars of financial inclusion, namely: creating an enabling environment to harness new technology that increases access to financial services; implementing a proportional regulatory framework that advances financial inclusion, stability, and integrity; integrating financial infrastructure. Evidence shows that savings to credit ratio; and minimise the use of savings as collateral. If the vast scale of financial education interventions that address these challenges.

The commitments vary in scale and have been established with Barclays Bank, and Barclays. For example, over 500 new group savings accounts have been established with Barclays banks in Kenya, Uganda, Ghana and Tanzania.4

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

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

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

Definitions

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

Financial Education: All educational messages communicated to individuals about using financial services: lessons, plans, posters, and other learning devices.

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

Source: Center for Financial Services Innovation.

Notes

1. Microfinance entrepreneurs in emerging markets face very complex financial environments created by the uncertainty of their environment and the lack of financial infrastructure. Evidence suggests that the majority of these entrepreneurs do not possess the skills to address these challenges.

2. The traditional response to the lack of financial capabilities has been to use in-depth training programmes to teach budgeting, business planning, accounting, and savings.

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

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

5. Recent evidence from field tests has indicated that there may be alternative approaches to financial literacy training that may help realign microentrepreneurs’ financial behaviour for the better. One example is a financial education intervention that taught a simple rule of thumb, rather than in-depth training and accounting training. For example, teaching microentrepreneurs to physically separate their household finances from their business finances had positive effects on financial management in a low-income country.

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

7. Beyond Financial Services: The Importance of Financial Education

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

Financial Education: All educational messages communicated to individuals about using financial services: lessons, plans, posters, and other learning devices.

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

Source: Center for Financial Services Innovation.

Notes

1. Microfinance entrepreneurs in emerging markets face very complex financial environments created by the uncertainty of their environment and the lack of financial infrastructure. Evidence suggests that the majority of these entrepreneurs do not possess the skills to address these challenges.

2. The traditional response to the lack of financial capabilities has been to use in-depth training programmes to teach budgeting, business planning, accounting, and savings.

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

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

5. Recent evidence from field tests has indicated that there may be alternative approaches to financial literacy training that may help realign microentrepreneurs’ financial behaviour for the better. One example is a financial education intervention that taught a simple rule of thumb, rather than in-depth training and accounting training. For example, teaching microentrepreneurs to physically separate their household finances from their business finances had positive effects on financial management in a low-income country.

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

7. Beyond Financial Services: The Importance of Financial Education
The Impact of Microfinance: What Do We Know?

The renewed attention of the question of the impact of microfinance since 2009 – echoing with the so-called microfinance crisis in Andhra Pradesh, India, that hit negative headlines – carried with it the impression that this issue has only started to be debated recently. However, analysis of a corpus of 154 impact studies conducted between 1980 and 2010 has shown that, since the inception of microfinance, donors have wanted to assess its impact. As they gradually increased their support since the mid-1990s, the number of studies also grew steadily, with 10 studies per year on average in the first decade of the 2000s.

What were the results of these analyses? Although 123 found an evidence of impact, the results were mixed, and 33 showed no significant impact, and 3 highlighted a negative impact in their clients – often the better-off. A macro analysis of the results has shown that there is no such thing as the “impact of microfinance”.

Secondly, impact also varies depending on the context of operation: microfinance tends to have positive effects in areas with financial access shortages, whereas, in areas crowded of formal and informal lenders, the risks of over indebtedness and market saturation are high; cultural determinants also significantly affect the results.

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

Still, the impact of combinations of products remains a challenge to assess rigorously.

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

So does microfinance work? On the one hand, many concur with Banerjee and Duflo who found that “microfinance is not a ‘miracle’, (...) but does allow households to borrow, invest, and accumulate assets”. On the other hand, some studies have shown that microfinance does not have such thing as the impact of microfinance. Instead, various impacts have been observed, depending on a number of factors.

Firstly, the impact of microfinance may not reach the entire population. For instance, research conducted in Peru showed that a group of households in rural areas do not have access to microfinance. A study in Bangladesh showed that microfinance institutions were not concerned about the social mission. So far, no international comparison list has been proposed to provide a fair comparison of results. For instance, Morvant-Roux, S. et al., 2012, “Explaining the Rural Microfinance and Employment research project, 1996, “Who Takes the Credit? Gender, Power, and Control over Loan Use in Rural Credit Programs in Bangladesh”, World Development, 24(1), pp. 45-64.

The Impact of Microfinance

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

The case of PRIDE RFW, in Tanzania, who is developing, with the support of PAMIGA, a new loan to facilitate access to solar energy. Finally, some MFIs also decide to raise clients’ awareness of environmental mitigation solutions: in El Salvador, Fundación Campo trains its farmer clients, while in Mali, CAMİDE asks clients to sign a contract where they commit to stop using plastic bags and plant trees.

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

However, such initiatives are still at an early stage. A study conducted in 2011 with 160 MFIs worldwide shows that MFIs’ environmental performance is still rather scarce. Indeed, only 7% of MFIs report more than 4.14 out of 20 on the Microfinance Environmental Performance Index (MEPI) of CGAP. Moreover, MFIs promote the use of exclusion lists (where MFIs prefer to finance environmentally-risky activities), although such lists are often not adapted and may go against MFIs’ social mission. So far, no international comparison list has been proposed to provide a fair comparison of results. Microfinance also seems to depend on the particular context and social mission. So far, no international comparison list has been proposed to provide a fair comparison of results.
Microfinance in Europe: Main Characteristics and Trends

Microfinance is a young and heterogeneous sector in Europe, especially with regards to the diversity of institutional models, lending approaches and regulatory frameworks. The European microfinance sector is characterised by a wide range of institutions active in the market; the most prevalent kind of organisations are NGOs or foundations, as well as non-bank financial institutions (NBFI) and microfinance associations.

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

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

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

The key terms of the loans differ between Western and Eastern Europe. While microcredit is still needed to evaluate the impact of microcredit on employment. This is partly due to the fact that the average interest rate is 11%, ranging from 4% to more than 30% in some Eastern European member states. The loan term is 35 months, ranging from 14 to 60 months. The general political attention on European microfinance has been high during the past two years, especially in Western Europe, where microfinance was positioned as an important instrument to counteract on the effects of the ongoing crisis on job creation and access to finance. At EU level, key initiatives to support microfinance providers from a technical and financial viewpoint have been implemented (see box); moreover, the European Commission proposed the Code of Conduct as a tool to harmonise the quality of microcredit provision throughout Europe. At national level, the development of legal frameworks for microfinance provision continues to be one of the main issues for further influencing the development of the sector.

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

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

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

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

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

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

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

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

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

While recent efforts are positive and laudable, more robust and comparable data is still needed to evaluate the impact of microcredit on employment. The microcredit sector has one of the best databases expected with the MFIs involved so as to work on a homogenous definition of microcredit. However, results, besides discussion about the impact of microcredit, will remain independent from a wider reflection on future developments for the microfinance sector in France and Europe. How will the demand for microcredit grow? What role will microcredit operators respond to this demand? What role can and should banks play in this respect?

Key EU Initiatives for Microfinance Development

Microfinance Facility (EPMF) is a study on the impact of microfinance in Europe. The European microfinance industry has continued to have impact on employment. The European microfinance sector is characterised by a wide range of institutions active in the market; the most prevalent kind of organisations are NGOs or foundations, as well as non-bank financial institutions (NBFI) and microfinance associations. Every two years, the European Microfinance Network’s (EMN) Overview Survey attempts to provide the main trends of the sector. The 5th edition of the Survey has widely covered EU-27 countries as well as non-EU member states in Eastern Europe, including all potential EU candidate states for the period 2010-2011.

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

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

The key terms of the loans differ between Western and Eastern Europe. Thus, microcredit is still needed to evaluate the impact of microcredit on employment. This is partly due to the fact that the average interest rate is 11%, ranging from 4% to more than 30% in some Eastern European member states. The loan term is 35 months, ranging from 14 to 60 months. The general political attention on European microfinance has been high during the past two years, especially in Western Europe, where microfinance was positioned as an important instrument to counteract on the effects of the ongoing crisis on job creation and access to finance. At EU level, key initiatives to support microfinance providers from a technical and financial viewpoint have been implemented (see box); moreover, the European Commission proposed the Code of Conduct as a tool to harmonise the quality of microcredit provision throughout Europe. At national level, the development of legal frameworks for microfinance provision continues to be one of the main issues for further influencing the development of the sector.

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

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

The future EU strategy with regards to financing, development and microfinance could be based on three basic principles: (1) a limited number of instruments with critical mass, (2) demand-driven implementation of financial packages to all kinds of SMEs through the whole funding cycle, and (3) national financial instruments for SME finance and microfinance, namely that the ESMF is to be replaced in the 2014-2020 period by an even more advanced model with a similar approach and purpose, including the Programme for the Competitiveness of Enterprises and SMEs (COSME), Horizon 2020, Creative Europe, and the Programme for the Social Change and Innovation (PSCI).
Starting a Business with a Microcredit: The Journey of Zineb

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

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

Zineb is a very busy and dynamic young woman. After graduating in business, she took a degree in management, and had to cope with a long search for a proper job. Because she needed to support herself and her family, she decided to access all sorts of small jobs – barmaid, saleswoman – before her friend hired her as an assistant in his shoe shop. Within two years, she became the shop’s manager. But business was not good enough, and the shop had to close at the end of 2010. She wanted to start a two-year unemployment allowance, so I decided I would dedicate myself to building my own project for one year. Ten months later, her project was completed, and she started her business in October 2011. “Meeting Adie and having a microcredit was a major breakthrough: no banks wanted to lend me any money to get started,” she said. “Moore’s microcredit obtained from Adie (EUR 4,700) and the additional free loan from the social housing microcredit (EUR 1,000) gave me the opportunity to sell my professional equipment and secure some cash flow.” Moreover, she also could subscribe to a car-micro-insurance at a preferential rate. “As a young driver I should have paid EUR 1,200 per year, but I had a free loan to Adie I only had to pay EUR 500.”

Today, she works in open markets and sells fresh fruit smoothies as well as seasonal soups, for immediate consumption or take-away. She only uses organic products that she grows herself or buys from local producers. “The first winter was a bit difficult; daily turnover was very uneven, but after a while I could secure some very nice contracts with the local administration in Lille for special events, which helped me to nicely develop my business.” The 50% grant of the microcredit now joined her in the business. He has some management background and also helps her accounting. Together they are very proactive; he does the selling in a reserved spot in a major open market, while she is still a street vendor. As a major improvement, she now has a EUR 10,000 2-year loan that includes a self-contained trailer which unfolds easily with the necessary equipment to make smoothies and soups. Zineb and her companion still make plans for the future, like getting settled at one stage in their life, having a family, being, they can live on what they earn and manage to cover their operating expenses. “As for what’s left, we devote it all to improving our business through new ideas,” says Zineb.

MICROFINANCE AND FINANCIAL INCLUSION

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

The Orteoin-Durenne Commission of the Use of Funds (COSIEF) of the Social Cohesion Fund (Caisse des Dépôts) was in charge of implementing personal microcredits at end-December 2011. The distribution modalities were outlined by the Ministry of Sustainable Development, Housing and the Caisse des Dépôts and the Social Cohesion Fund”. The former is intended to fund social inclusion and the latter is based on the combined involvement of the Ministries and the social partners and represents one of the fundamental ingredients of European social cohesion policies. In December 2011, the Caisse des Dépôts and the Social Cohesion Fund launched an impact study that would be completed in 2013 with a view to assessing the functioning of the social housing microcredit (50% grant) and the guaranteed personal microcredit (50% grant). The PM distribution modalities put in place by the Ministry of Sustainable Development and the Ministry of Housing and the Caisse des Dépôts will be taking place to try to shift up a gear.

The analysis covered:

- The PM distribution modalities and the repayment proceedings.
- The aim was to analyse the PM prescription modalities beforehand, the application, and the decisions to lend or not to lend, focusing notably on the outcome for the people who had been denied a loan or who had given up obtaining one. Down the line, the analysis covered the follow-up and management modalities put in place by assistance providers and lenders of potential outstanding debt.
- The PM impacts on people and actors (assistance providers and lenders). The analysis focused on the satisfaction outcome of the need which had been financed by the borrower and the achievement of the desired project. It integrated the diversity of impacts, positive or negative, observed even when not directly expected (like those on the borrowers’ budgetary or banking situation, their self-esteem, etc.).
- The impacts on actors (assistance providers and lenders) were also integrated into the analysis.

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

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

In Spain, microcredit first appeared in the 1980s as a result of isolated projects of various NGOs. It received its biggest boost from 2001 onwards, with the support of public sector and financial entities, especially savings banks. Since the beginning of the Great Recession, the microfinance system has experienced exponential growth until the abrupt slowdown in 2008-2009, with the arrival of the banking crisis and the crisis caused by the housing bubble in Spain. This system, mainly promoted by the savings banks in collaboration with social organisations, were active in 2008 at the peak of the expansion of the sector. By 2010, only a handful of financial institutions and NGOs continued to provide microcredit in Spain. Microbank – the social bank of the financial institution La Caixa – emerged as the main player of the sector.

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

In 2012, a study conducted by Fundación Nantik Lumi with Citibank Microfinance, “Financial inclusion to foster job creation – A case study on Madrid”, analysed how the successful elements of the microfinance model, where innovative partnerships between the public sector, private banking and non-profit entities have been implemented, could be adapted to Madrid – and by extension to the rest of Spain – to consolidate a financial system which creates employment opportunities through the financial and business development of microentrepreneurs and small businesses. 11 recommendations were made. They included supporting the creation of specialised microfinance institutions, creating a solid institutional framework to support entrepreneurship and microfinance, promoting entrepreneurship in the financial education system, and exploring government risk sharing mechanisms for small business loans and new business development. These recommendations were promoted by government, public-private alliances alongside new projects launched by social organisations, such as the recent agreement between Microbank and the regional government of Madrid to provide up to EUR 100 million in microloans to foster job creation in the region, the creation of the Spanish Association of Microfinance as a network to provide services to all microfinance institutions in Spain, and the launch of the Plataforma Emprendimiento y Microfinanzas (PEM), a pioneering online platform that centralises all the resources and information available on the Spanish microfinance and entrepreneurial sector and serves to connect entrepreneurs with more than 70 microfinance institutions.

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

1. Lucía, M. and Rico, S., 2012, “Microfinanzas en España: Impacto y and a network to provide services to business development, microentrepreneurs and small businesses. 11 recommendations were made. They included supporting the creation

Microfinance in Eastern Europe: A Look at Montenegro

Microfinance started in Montenegro in 1999, after a 61% decrease in gross domestic product (GDP) since 1989. This was due to the regional instability caused by the end of the war in Yugoslavia and economic sanctions applied to Serbia and Montenegro. Montenegro’s banking system was in low production and high unemployment. Microfinance was then perceived as an effective counter-cyclical tool for fighting poverty and providing access to financial services to low-income households.

Until 2003, when the Central Bank of Montenegro established a regulatory framework for microfinance institutions (MFIs), MFIs operated exclusively as NGOs. After this date, MFIs became registered companies with a minimum capital deposit of EUR 100,000. The law includes credit-only products, with the Central Bank 2009 Decision on Minimum Standards for the Risk Management in MFIs, microcredits are considered loans up to EUR 5,000 for physical persons and EUR 10,000 for entrepreneurs and businesses in the first cycle, and for all categories up to EUR 30,000 in a repeated one.

During the 2000s, Montenegro’s GDP annual growth rate steadily increased from 1.9% in 2002 to 4.2% in 2005. During this period, the microfinance sector grew rapidly from a portfolio of EUR 30.5 million in 2005 to over EUR 79.2 million in 2010.

Microfinance in Montenegro became a bubble, and many factors – which came to light during the 2009 recession, contributed to its subsequent downturn and shrinking. These factors include the absence of proper systems, policies, or procedures, high tolerance for multiple loans, lack of proper risk management, lack of access to governance, and pressure from investors and third parties to lend and grow aggressively.

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

In the wake of the Great Recession, traditional lenders in the U.S. have tightened credit for small and micro-businesses – and microentrepreneurs in particular have found it especially hard. Since 2007, small business lending through the most popular government-backed small business lending program, the Small Business Administration’s 7(a) programme, has moved further out of reach for microentrepreneurs. This has created a void that has sparked creation of CDFIs, which connect microentrepreneurs and small businesses employ more than half of all private sector workers.

As a result, Community Development Financial Institutions (CDFIs) are providing solutions to entrepreneurs facing the same issues as microfinance institutions (MFIs), are playing an expanded role. CDFIs are private financial intermediaries serving low-income, low-wealth, and other disadvantaged communities by providing flexible and responsible financing and financial services to those outside the financial mainstream. In the U.S., they include CDFIs that provide loans, grants, and microenterprises and small businesses employ more than half of all private sector workers.

For more than 30 years, CDFIs have made tremendous strides in closing the credit gap for the most of all small businesses have never been more important, and the CDFI industry is responding.

Out of a thousand, more than 100 CDFIs identify their primary function as financing microentrepreneurs. In 2010, these CDFIs and other microfinance programs provided loans totaling more than 17.000 loans, with an average loan size of approximately USD 14,000.1

While these benefits are real, the need for microfinance remains. According to the Microfinance Barometer 2013, only 10% of microfinance CDFIs to meet the demand. To help respond to the increasing difficulty small businesses have getting access to responsible credit, Opportunity Finance Network (OFN), the national network for performance-oriented CDFIs in the U.S., is providing a “Scaling Up Microfinance” training series for the U.S. Department of Treasury’s CDFI Fund.

Through this initiative, OFN and experts provide training and technical assistance to microfinance providers on topics essential to increasing their scale. In 2013, almost 100 CDFI practitioners have participated in the first phase of training, and an additional 500 are expected to participate in technical assistance offered throughout the year.

As microenterprise and small business growth has a direct effect on the job market. OFN is also committed to increasing the number of 10,000 jobs created and retained via “Create Jobs for USA.” Since 2011, the initiative has pooled donations from Starbucks, other large companies like Citi, and more than 800,000 individual donors, and provided it as capital grants to OFN Member CDFIs to use these grants to support loans to underserved communities, including those owned by microentrepreneurs.

In its first year, Create Jobs produced more than USD 15 million in donations supporting more than 10,000 new jobs. The initiative added a job net impact of more than 5,000 jobs. CDFI financing for microenterprises and small businesses has never been more important, and the CDFI industry is responding.


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

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

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

In the first study of its kind, researchers from the University of Texas at Austin, the Anderson School of Management at the University of California–Los Angeles and the York University Stern School of Business confirmed lending to start-ups greatly increases successful outcomes. The researchers, who reviewed 5,400 Accion Texas loan applications between 2006 and 2009, found that providing credit to start-ups increases the probability of survival by 44% and also increases firm revenues and employment.

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

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

Accion Texas recognises that no organisation can work alone, because of our commitment to deploy, we have been provided an amazing opportunity to lead with innovation and strategic partnerships. Two examples clearly articulate the importance of innovation and partner-ship. First,
Interview with David Roodman
Senior Fellow, Center for Global Development

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

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

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

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

What is your take on interest rates?

I have never been able to take a strong position on interest rates. Transparency makes more sense. The important thing is to describe costs to clients in a way that makes sense to them, so it helps them make a good decision. Avoiding hidden costs, and making costs easy and clear to understand, is an inarguable step forward.

Can financial education help improve microfinance social performance?

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

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

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

So what will microfinance look like in the future?

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