CONVERGENCES

SOLIDARITY AND RESPONSIBILITY:
INVESTING AND WORKING TOWARDS THE MILLENNIUM DEVELOPMENT GOALS 2015

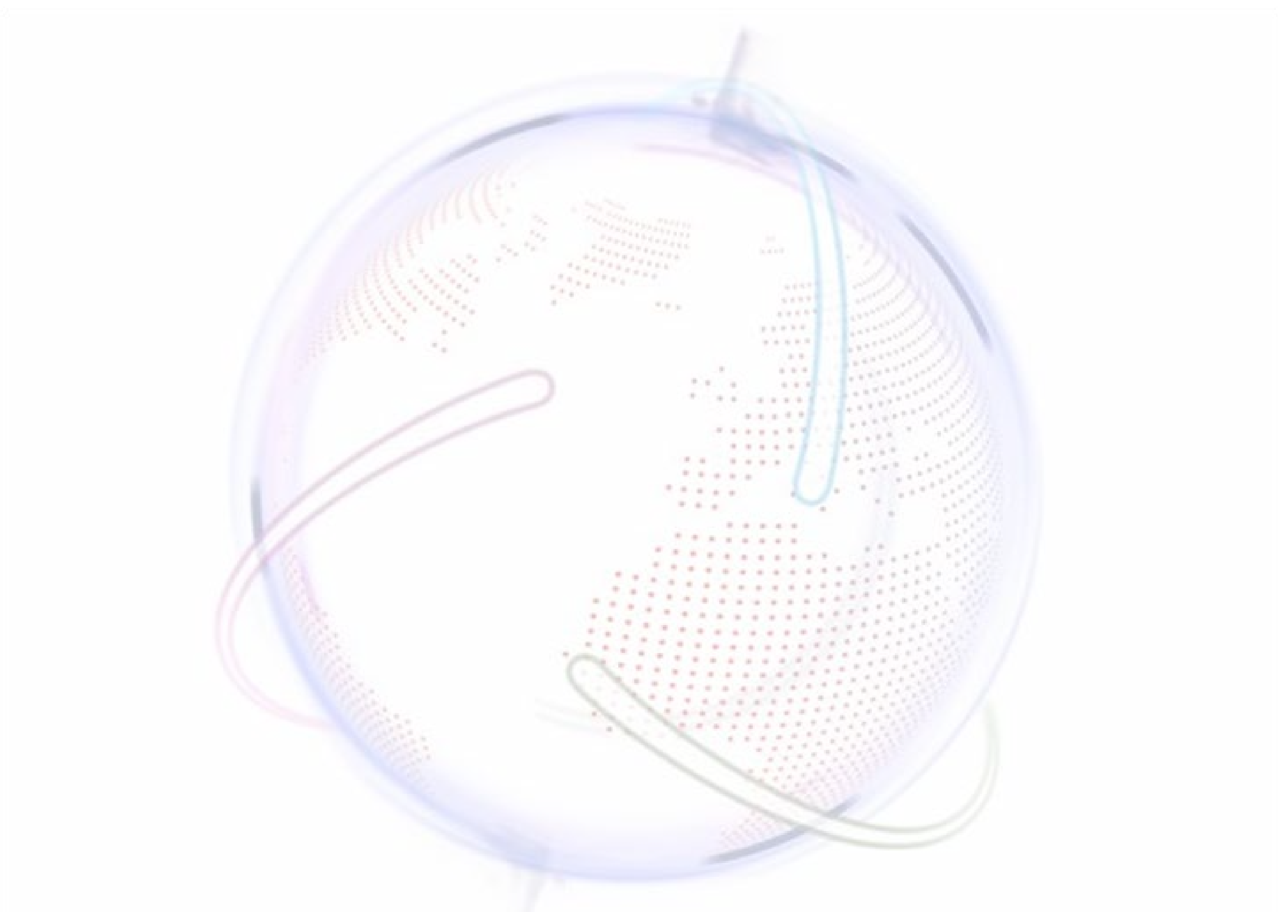
Convergences 2015 4th annual Forum

Paris City Hall

May, 3, 4, and 5th, 2011

Conclusion

Closing session



improving practices improving impact improving investment

Closing session of the 4th Convergences 2015 Forum

Plenary // General

Moderator

François de Witt
President, Finansol

Speakers

Claude Alphandéry
Honorary President, France Active

Jean-Marc Borello
General Delegate, SOS Group

Olivier Guersent
Head of staff for Michel Barnier, European Commission

Anne Hidalgo
1st Deputy Mayor of Paris, responsible for urban development and architecture

Jean-Luc Perron
General Delegate, Grameen Crédit Agricole Microfinance Foundation

Frédéric Roussel
Co-founder, ACTED

Jean-Louis Vielajus
President, Coordination SUD

Executive summary

The Convergences 2015 closing session started with a standing ovation for Anne Hidalgo, 1st Deputy Mayor of Paris. The passion that arouse during three days of reflection on bringing together public, private, and solidarity actors on the theme of poverty reduction through the achievement of the Millennium Development Goals (MDGs) did not wane on that May 5 evening.

One after another, participants supported the Convergences 2015 initiative and affirmed their commitment – and that of their organizations – to the noble goal of rethinking the economy, developing a people-centered economy, acting to improve the distribution of wealth, and facing climate change in a more responsible way.

The closing session was marked by a solemn call to the world, the "Paris Appeal for responsible microfinance".

Synthesis

Anne Hidalgo praised the success of the Convergences 2015 Forum and branded it as daring considering the plurality and variety of the actors who reached consensus on the "end" of modern capitalism. She thanked the organizers for choosing Paris for the event. Paris, as a "world city", is committed to globalization and to the responsibilities that go with it.

Social, economic and environmental justice are the 3 principles set out by **Jean-Louis Vielajus**. The central issue raised by the president of **Coordination Sud** was that of access to financing for least developed nations. He appealed to public authorities to recognize that a reduction in public expenditures on unproductive activities, in economic and social terms, could be one of the means for the Northern States to keep their promises on development aid. **Jean-Louis Vielajus** also challenged the banking and financial sector. He congratulated Crédit Coopératif on its support to the "Robin Hood tax" on financial transactions, an initiative which could generate approximately 100 billion dollars a year for MDGs, with an emphasis on climate change, which requires major financing. The question of the implementation of innovative financing mechanisms being on the agenda of the next G20 Summit, **Jean-Louis Vielajus** hoped that positive resolutions would emerge from that meeting. He finished with a challenge to developed nations to assist in calming the Arab Spring revolution through their own responsible governance and participation in a more equitable global economy.

The Paris Appeal for responsible microfinance was launched during the session by the General Delegate of **Grameen Crédit Agricole Microfinance Foundation**. **Jean-Luc Perron** did not deny the current microfinance crisis, particularly with respect to one of its champions, Professor Muhammad Yunus. He also recalled that close to 190 million people throughout the world benefit from microcredit and that 80% of them are women. These figures clearly demonstrate the importance of microfinance in combating global poverty. For this reason, this sector is committed to rehabilitating its image and its objectives, by introducing social performance and transparency criteria into its approach. **Jean-Luc Perron** therefore appealed for more responsible microfinance.

Jean Marc Borello, General Delegate of **SOS Group**, approached the closing session of the Convergences 2015 Forum from an economic perspective. Referring to the image of market regulation as Adam Smith's "invisible hand", he demonstrated that growth does not necessarily correlate with development. The failure of the public and private sectors to justly distribute wealth has led to the emergence of a new form of economy – social and solidarity economy – which has admittedly not deflected the current socio-economic and environmental crises.

Frédéric Roussel, co-founder of ACTED, agreed that it was necessary to find different and better forms of entrepreneurship and improve the management of social enterprises to compete with private capitalist companies or even outperform them in the market. The social and solidarity economy must then not be considered as an economy for the poor or one that fixes the damages brought about by capitalism. He said that, "*without being necessarily radical about the notion of growth*", the social and solidarity economy would "*tear down the wall of poverty that rose after the Berlin wall*". For this to happen, the different areas of the economy must work together. **Jean-Marc Borello** stated that "*the time for convergences has come*".

In line with these analyses, **Olivier Guersent** emphasized the need for durable and appropriate financing of the social economy at each development stage. He said that the most developed social enterprises could partner with smaller companies and that dormant savings could also be better captured. In addition, the State must play a role in developing a legal and fiscal framework with fewer constraints, to allow for the development of social enterprises.

Claude Alphandery, Honorary President of **France Active**, closed the session by summarizing the statements of previous speakers through a quote from Michel Barnier – "*Put finance back to the service of the economy and the economy to the service of mankind*" – and stated that the Convergences 2015 Forum had certainly been a good start in that direction!

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The Paris Appeal for responsible microfinance

In association with a collective of partners, Convergences 2015 has written the "Paris Appeal for responsible microfinance". To answer the excessive commercialization of microfinance and other drifts brought about by such commercialization, the Paris Appeal brings back fundamental values to the sector and offers a series of actions aimed at improving practices and impact.

Officially launched during the 4th annual Convergences 2015 Forum in May 2011, the "Paris Appeal for responsible microfinance" is part of a campaign of advocacy and action among all concerned actors: the general public, microfinance professionals and decision makers.

If like us, you support the Millennium Development Goals and microfinance as powerful tools for economic development and poverty reduction, sign the "Paris Appeal for responsible microfinance" on www.appeldeparis.org

Whether you come as a private individual, a beneficiary, a regulator, an investor or an operator, be one of the many who support the following Appeal:

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Microcredit has been a tool in the service of development and the fight against poverty for 30 years. In 2009, according to most recent figures from the Microcredit Summit Campaign[1], 190 million poor in more than 80 developing countries, more than 80% of whom are women, have received a loan to create or develop an income-generating activity. The amounts involved are small and increase gradually as the borrower has gone through various borrowing cycles without any repayment incidents. The interest rates are still relatively high to cover the operating costs and not to have to depend on external subsidies. But they have been falling constantly for 5 years thanks to the increased productivity of microfinance institutions[2]. The distribution methods, payment schedules, and guarantee policies are adapted to the reimbursement capacities of the borrowers and to their very low level of financial education. In spite of its rapid development, micro-credit still reaches only a feeble fraction of potential beneficiaries: 2.5 million in Ethiopia, a country of 80 million inhabitants.

Other financial services, in particular savings, payment and insurance services, have been added to microcredit to offer a full range of simple and accessible financial micro-services to populations where the overwhelming majority has no contact with the formal financial system[3]. These services thus meet two basic needs of all human beings: the need of advice and support in their economic risks, which is the role of credit; and the need to be protected against the vagaries of existence, which is the role of savings and familles insurance. This second function is seriously underdeveloped at this time: some dozen million families only benefit from micro-insurance against health or harvest-loss risks in developing countries at this time.

Microfinance activities have been expanded by several thousand specialised institutions of highly varying size and status. These institutions often play a social role which goes beyond their financial function. They contribute to the construction of a civil society more aware of its rights and more confident in its own strengths, to the promotion of women in economic life, and to the implementation of health and education programmes. Some institutions develop a social kind of microfinance for very precarious populations. Their primary objective is the fight against poverty, with support to borrowers as an approach using non financial services such as counselling, training and social support.

The impact of microfinance has been the subject of numerous academic studies which have brought forward the importance of financial services in reducing the vulnerability of low-income populations. The impact on the reduction of poverty varies depending on the regions and types of financial products on offer. Research studies are still in progress to get a better understanding of these phenomena.

These direct or induced benefits explain the success of microfinance, its rapid dissemination in more than 80 developing countries and the international recognition it has received, particularly with the International Year of Microcredit in 2005 and the awarding of the Nobel Peace Prize to Professor M. Yunus and the Grameen Bank in 2006. Widely spread within the countries of the South, the microcredit model was then introduced in more developed countries as a response to bank exclusion that affects the populations in greatest need or marginalized groups. The crisis hitting these countries can only enhance the role of microcredit organisations in providing guidance and support to those left out of the economic and financial system.

Because of this success, microfinance has been wrongly presented as a miracle solution to the problems relating to reducing poverty and underdevelopment. A simple reconciliation of outstanding microcredit sums in the world which run to about $65 billion, and the amounts of public aid for development ($100 billion), and remittances by migrant workers to their countries of origin ($300 billion), is apt to put microcredit in the proper perspective. Microcredit makes a fundamental and original contribution to development issues. It is well suited to encouraging commercial, craft and, to a lesser extent, agricultural micro-activities. It is a source

[1] http://www.microcreditsummit.org/state_of_the_campaign_report/
[2] If they are not to depend on subsidies or donations, micro-credit institutions must amortise their operating costs and the cost of the risk on interest margins of a very low unit amount.
[3] 2.7 billion of the planet's inhabitants are not integrated in the formal financial system.

of financial, economic and social innovation. But it cannot claim to replace public social security policies nor the development of the necessary facilities for health and education. On the other hand, it can improve the efficiency of such policies and programmes thanks to its extensive network in the most underprivileged quarters and most remote rural areas.

Against the very promising background outlined above, microfinance institutions have seen their clientele grow very rapidly, at the risk of weakening the relation of proximity and trust which lies at the heart of their economic model. They have increased their credit portfolio at a very fast rate, at the risk of weakening the progressive implementation of financing cycles, reimbursement discipline, and the attention paid to the nature of the activities financed. To refinance their booming credit portfolio, some institutions have incurred excessive debts and, in certain cases, have exposed themselves to an exchange risk beyond their control. Institutions have defaulted in certain countries, and such defaults have at times been aggravated by political interference as in India or Nicaragua. These real excesses have nonetheless been contained. They have neither the scope nor the systemic character of hazardous financial innovations which unleashed the most serious crisis of the Western financial system since 1929, first in the United States, then in Europe. Furthermore, actions that could stop such excesses are relatively well defined:

- strengthening the capacities of institutions, in particular in terms of governance, training of credit agents and improving risk management;
- pursuing more sustainable and geographically better distributed growth, accompanied by over-indebtedness control mechanisms like risk assessment centres;
- improving the regulatory framework, in particular prudential rules, and reinforcing supervision.

A far more difficult task is correcting the excesses reported by the media in certain regions of the world which seriously undermine not only the reputation of microfinance as a whole but also its very essence. Microfinance has from the outset aimed to reconcile an economic model with a social mission in the service of the poor. When in the name of profitability, some institutions adopt aggressive development policies, charge usurious interest rates, and implement tough recovery policies; they discredit the very model of microfinance and must no longer avail itself thereof. Reports – at times over-simplified – have focused on these excesses, not to mention the disinterestedness of thousands of managers and employees of institutions who remain faithful to the social mission of microfinance and are devoted to their community. There is a risk that the patient effort of building responsible microfinance institutions, which play an irreplaceable role in financial and non-financial services for the most underprivileged segments of the population, will be ruined by a few institutions that are only after profits.

Significant efforts have been made in the face of such risks on four fronts:

- On the customer information and protection front, a worldwide smart campaign is being pursued to improve products and practices.
- Standardised social performance indicators have been developed and more than 350 microfinance institutions[4] have integrated them in their reporting. Social rating agencies have been set up with the support of the public authorities[5] and they finance more than 200 social ratings each year. Specific tools have been developed that measure the poverty outreach of a microfinance institution (PPI[6] et PAT[7]) and to track changes in their clients' lives. The Social Performance Task Force is now working on a set of universal standards for social performance.
- Beyond "minimum" standards, the Microcredit Summit is developing a Seal of Excellence for Poverty Outreach and Transformation in microfinance intended to serve as an inspiration and recognition of what microfinance can achieve.
- Finally, on the sector regulation front, the Basel Committee on Banking Supervision has for the first time published a series of recommendations on the supervision of microfinance institutions that mobilize savings.

These initiatives for responsible microfinance do not, however, suffice to prevent excesses and blunt criticism. Political impetus and a global initiative are needed to restore trust and confidence in microfinance and to embark on new paths for development.

The G20 has already decided to give fresh impetus to the development of inclusive financial systems. The Alliance for Financial Inclusion that brings together representatives of the central banks of more than 40 States in the South has been launched; and a work group that brings together the international organisations and supervisory authorities such as the Basel committee or the Financial Action Task Force has been set up to accelerate the necessary regulatory reforms.

Nevertheless, to meet its objective fully, such a global initiative must, whilst availing itself of the policy impetus of the G20, involve all microfinance stakeholders, whether field institutions and their national or regional associations, providers of capital and of specialised services, international institutions and regulatory and supervisory authorities.

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[4] The social performance standards were developed by the Social Performance Task Force (SPTF).
[5] The Rating Fund is an initiative financed by public donors and managed by the Luxembourg-based association ADA.
[6] The Progress out of Poverty Index is a practical tool to assess the likelihood that a household is living below a poverty line. The PPI is now available for 34 countries.
[7] The « Poverty Assessment Tool » is a variant of the PPI as it considers evolution over time within a target group by comparing the score obtained over the years without the poverty level notion.

Microfinance has not in fact followed a single model during the course of its very rapid development, but has adapted to the conditions of each country. According to countries and institutions, an unequal emphasis is made on poverty reduction or financial inclusion. Some institutions define themselves as social businesses by the fact that they redistribute profit to private stakeholders. Others consider that pursuing a social mission is compatible with remunerating capital, however limited. The diversity of legal statuses remains considerable in any way. This diversity is a valuable asset which must be preserved, but in a globalised and interconnected world, it must not stand in the way to **a basic set of principles and rules** – which is required in order to maintain the trust of the public and to usher in a new phase of sustainable and responsible growth.

Experience has shown that this base should comprise principles and rules along the following lines:

1. The economic model of microfinance meets a double objective of social impact and financial balance. The search for an effective social impact is rooted in the ongoing concern to reach the poorest populations by developing appropriate distribution networks, including in rural areas, by offering a complete range of products of financial and non-financial services adapted to their needs, and by showing moderation in interest rate and pricing policies for such services. **Social performance indicators** that meet standardised definitions must be used to certify compliance with these guidelines.

2. Microfinance institutions can develop in a sustainable manner only if they inspire trust and confidence through sound governance, robust prudential rules and efficient report, control, and audit systems. These rules must be subject to **supervision** and these systems must be **rated** according to transparent and objective methods.

3. Customer information and protection, the prevention of over-indebtedness, transparency in interest rates and prices, guarantee and recovery procedures, and agents who encourage promotion policies must comply fully with the prime vocation of microfinance, based on a relation of trust and respect for the customer. They must follow precise and verifiable rules, such as those which are developed by the Smart Campaign[8] or the NGO Microfinance Transparency[9], and are enshrined in the **institution's ethical charter**.

4. Public and private international investors specialised in microfinance have a duty to act with due respect for the long-term interests of the institutions they support and to make financial independence their objective. This vision is based on compliance with an **investors' code of conduct** for, such as the Principles for Inclusive Finance developed with the support of the UN PRI, intended to guarantee that the conditions, in particular of duration and guarantee, of their financial contributions meet quality standards, that the rates and commissions charged are moderate, and that the assistance offered does not expose the financed institutions to an unreasonable exchange risk.

5. Researchers and academics are encouraged to intensify dialogue with the microfinance sector to make objective impact studies, taking into account the diversity of local contexts. They are also encouraged to widely disseminate conclusions.

6. Donors and large private foundations have an essential role to play in promoting good practices, encouraging innovation in microfinance and supporting the diversification of microfinance activities. Considering that the vast majority of people affected by poverty and malnutrition lives in rural areas and depends on agriculture and livestock for its survival, microfinance institutions should be encouraged to look at rural areas and the possibility of funding small family farms. Donors are also encouraged to expand their efforts to encourage the development and dissemination of health micro-insurance, tailored especially in the areas of health and agriculture. Apart from the benefit that can remove the borrowers themselves and their families, these devices are likely to reduce the risk of microfinance institutions and to encourage them to expand their lending activity. Particular attention should be paid to non-financial services, including counseling and education offered by microfinance institutions. Aid programmes must, as a matter of priority, be aimed at the most underprivileged countries, population segments and economic sectors where microfinance can make an essential contribution to economic and social development, in particular: sub-Saharan Africa, the farming sector and marginalized groups. These action priorities could be set out in **a framework document on medium-term orientation**, to be adhered to by the major international financial institutions, UN agencies, development banks, and cooperation agencies.

To give substance to this minimum set of principles and rules, with due respect to the diversity of microfinance, the signatories call for

[8] http://www.smartcampaign.org/
[9] http://www.mftransparency.org/

Microfinance "States General", held per major region of the world and per major category of players, under the aegis of an organising committee designated by the G20.

Convergences 2015

Paris, May 3rd, 2011