

## How does the microfinance experience shed light on the key issues and challenges at stake in social impact investing?

Co-organised with Proparco

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### INTERVENANTS

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Katherine E. Knotts, Consultant & Co-author of The Business of Doing Good.

#### **Modérateur**

Jean-Gabriel Dayre, Senior Investment Officer, Proparco (Groupe Agence Française de Développement)

### MAIN LESSONS

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- Microfinance is the most mature sub-sector in the Impact Investing space
- It is very important that MFIs do not only take 'client wants' but also 'clients needs' into consideration
- MFIs need to find the right balance between social and financial performances, but this also requires the evolution of investors' mentalities so that they accept having a reasonable return expectation
- Evaluating social performances requires effective indicators, tools and methodology. Yet, the question is not so much about having the right indicators but the right processes

## SPEECHES' SUMMARY

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### Introduction - Microfinance: historical perspectives and current challenges

Jean-Gabriel Dayre

Microfinance is the most mature sub-sector in the Impact Investing space. It started some 40 years ago and is now a well-known sector.

*Microfinance: an industry with more than 200 million customers and at least 800 microfinance institutions of some scale*

Over the last 15 years, we've seen the creation of rating agencies in microfinance, of many national microfinance associations, international initiatives and standard setting bodies such as the Smart Campaign on Client Protection, the Universal Standards for Social Performance Management of the SPTF, not to mention other market infrastructures like private credit bureaus or the mixmarket.org website that provides free accessible information on the microfinance domestic markets...

*Microfinance and impact investing have dealt with similar challenges*

Microfinance itself has been facing some of the challenges that the impact investing space is now facing. To state a few: How to avoid mission drift and still serve the poor? How to measure impact? How to strike a balance between financial return and social impact? How to scale up and reach economies of scale while delivering quality products and keeping loyal to our mission? Etc.

Microfinance also has had its moment of crisis (India, Morocco, Bosnia, Nicaragua) and is still facing many risks and criticisms. Though it has learnt from these crises, and managed to launch initiatives to mitigate these risks and crises. This debate aims to highlight the lessons from 40 years of microfinance experience and of the recent past crises and sector initiatives and

innovation to try to see how it can shed light on key issues and challenges at stake in the social impact investment space."

### Challenges and lessons learnt: how can the problems faced by microfinance enlighten the development of social impact investment?

Jürgen Hammer

Starting in the 2000s, microfinance emerged as a popular theme and started to benefit recognition from financial institutions and international organizations. Money started to flow.

*Face to funding concentration, the major challenge was to secure the market to prevent overheating risks*

Jean Philippe de Schrevel

We have to be careful about microfinance becoming "fashionable". We have to give time to these businesses to develop and to become mature. Investors need to be patient. Our aim today is to transform MFI into deposit institutions.

Catherine Knotts

In order to be successful, microfinance needs to address clients' wants and clients' needs. This implies to understand the complexity of poor people life. To do so, AMK made serious quantitative research, in particular on the seasonality and the diversity of people incomes, on their economic vulnerability: what works and for whom?

*Too many MFIs keep on ignoring the needs of their clients*

MFIs need to understand how people invest their money. For example, the purchase of a washing machine might be seen as consumption when, in fact, people are investing in a machine that will prevent them from 3 hours of hand washing that can be reallocated to paid work for instance.

Such an approach helped AMK to build a picture of people real needs and to develop the right products. It requires close links between the departments of research and the board levels. Too many MFIs keep on ignoring the needs of their clients. If debt can be a useful product, it can also be harmful. Microfinance players need to understand who their clients are and what their needs are, which is different from taking decision for them.

Jean Philippe de Schrevel

This statement is especially true that “meeting your clients” needs on a long term basis is the best business model and the best way for an impact-driven organization to avoid mission drift.

Jen Gabriel Dayre

Social performance assessment and impact studies are not new in microfinance. There are social rating, RCT studies, tools like the SPI 4, etc. What have we learned about impact assessment in microfinance?

Jürgen Hammer

To evaluate social performances, we first had to get together to define effective indicators, tools and methodology that make sense and have value for entrepreneurs but also investors. The aim is to avoid confusion of concepts by speaking the same language. The work conducted by the Comité d'échange de réflexion et d'information sur les systèmes d'épargne-crédit (CERISE) has helped to collect data, to connect the actors of microfinance and allowed them learn from each other. Such initiatives contributed to the spreading of goods practices and the development of standards on how to evaluate financially an institution.

Jean-Philippe de Schrevel

Maximizing total return would be an ideal. But we have to be realistic: if one wants to be sustainable, one must cover the cost and if one wants to attract investors, one have to deliver financial return, not only on environmental or

social levels. Therefore, MFI need to find the right balance between social and financial performances. What is at stake is to make evolve investors' mentalities in order that they to come to a reasonable return expectation. The short term orientation of the capital market has shown its inefficiency, we have to make them understand that MFIs are working on social issue on a long term basis.

#### Microfinance successes

*“Which mechanisms have led to the success of microfinance? Can they be applied to social impact investment and social business?”*

Tanmay Chetan

The success of AMK is linked to a good understanding of the market. In terms of social impacts, the results of microfinance could be discussed and criticized. But still, microfinance is today a major industry in the country with more than 2 billion dollars of outstanding amounts and huge impact at national level.

One of the great strength of this industry was to be supported by various actors, from donors to NGOs which contributed to create standards and to develop processes. Now 40 years later, microfinance prove its value and efficiency to develop the market, and its contribution to the fight against povert

#### Conclusion

Even though, much is still “work in progress”, one can argue that microfinance has done quite some work in building market infrastructures such as rating agencies, private credit bureaus, certification bodies, the mixmarket.org platform, etc.

Therefore, one could also wonder what have been the most instrumental or catalytic pieces of market infrastructures in microfinance? Or, what should be replicated first in the impact investing space?

*Reporter: Karim Bourtel, Redactor editorial print & web, PROPARCO*



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