

MICROFINANCE BAROMETER 2015



CONVERGENCES
Towards a fair and sustainable world

6th Edition

Editorial

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Between 2010, the first year the Barometer was published, and 2014, over 700 million people became bank account holders with a financial institution or users of a mobile money account, reducing the number of unbanked adults today to 2 billion. This is the conclusion of the World Bank's new Global Findex survey, published in April 2015.

Even if the challenge remains huge, the progress made over the last 5 years has been substantial and microfinance has played an important role in this, especially amongst the most vulnerable populations, amongst women, in rural areas and in the least advanced countries.

The Global Findex also shows that digital finance and the implementation of new distribution channels using mobile and internet telecommunications are playing an increasingly important role in responding to the challenge of access for all to financial services.

In this light, the 2015 Microfinance Barometer offers you an overview of this ongoing (r)evolution. Mobile banking, mobile money, networks of distribution agents, using digital technologies to improve access to essential services: we are witnessing the dawn of a new age in our way of managing, spending and transferring our money. It seems that the countries of the South and the numerous players of the microfinance sector are amongst the main innovators developing these new approaches.

This "digitalisation" of microfinance presents a formidable potential but is of course not an end in itself.

The United Nations is preparing to approve the new Sustainable Development Goals in September 2015. Universal access to responsible and fair financial services will be a part of these Goals, as a precondition to eradicating extreme poverty by 2030.

In the world of evolving microfinance, Convergences is renewing its call to all players - banks, microfinance institutions, technology operators, investors or regulators - to ensure that values of social performance, responsibility and the fight against poverty, remain at the core of our actions every day.

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Credit: The Mobile Marketing Magazine

Introduction

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

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

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

Digital finance has a major impact

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

This "microfinance 3.0" has also opened a new wealth of possibilities in the countries of the global South. It has created new opportunities for clients: easy management of savings, payment and salary reception and bills and invoice payment. Already adopted in certain countries, its usage still

needs to become more concrete and consistent, and clients need to gain confidence in mastering these new tools. Nevertheless, it is undeniable that a revolution is taking place (see pp. 8, 9 and 12).

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

As in other years, the Barometer once again deals with the subject of social performance management and shows how microfinance is making progress

in this area. The Universal Standards, launched in 2012, are today largely recognised by the profession, even if their effective and full implementation remains a challenge for many institutions (see p. 4).

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

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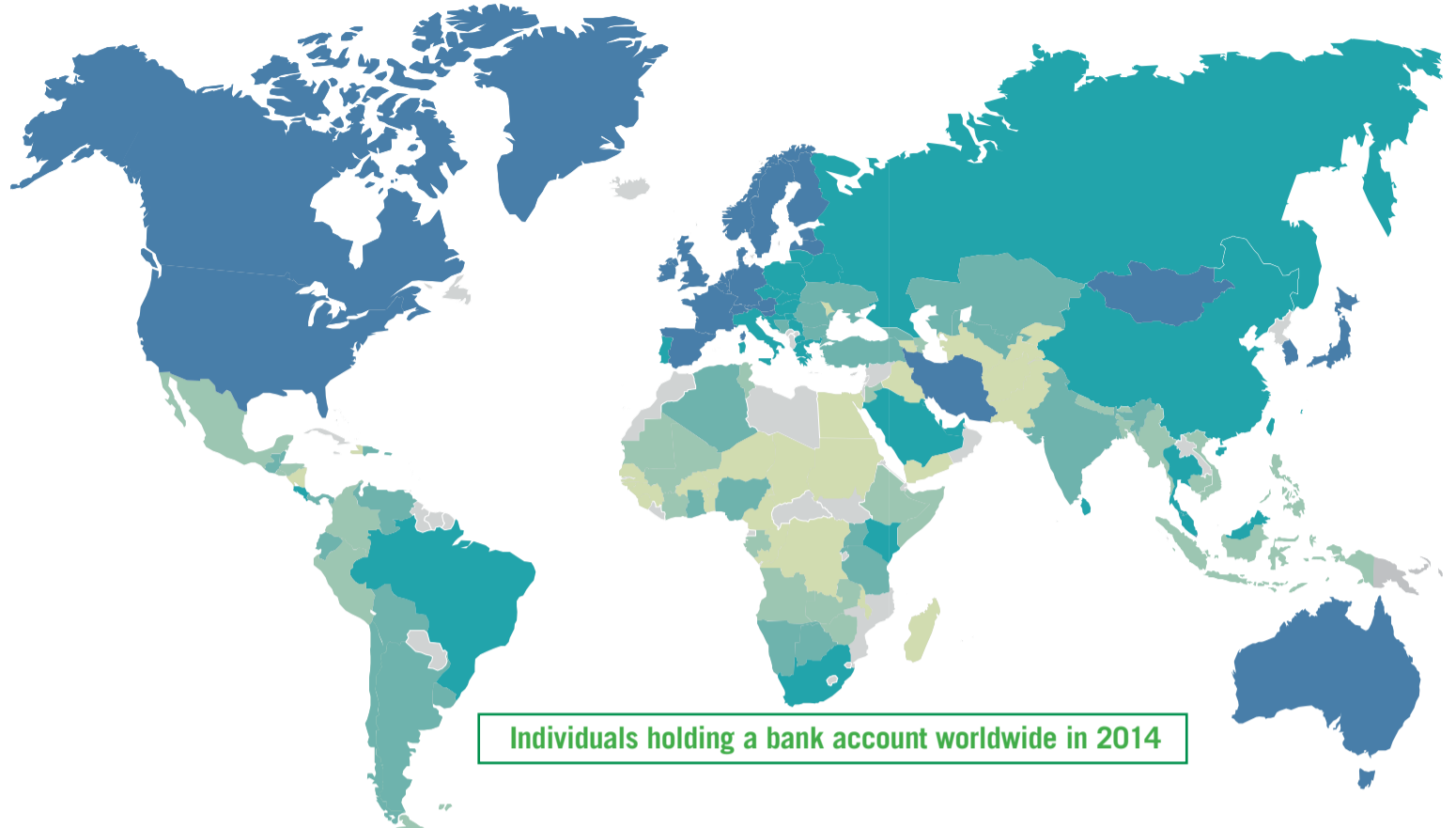
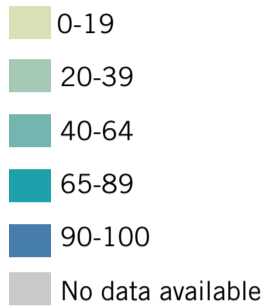
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KEY FIGURES OF FINANCIAL INCLUSION

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

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



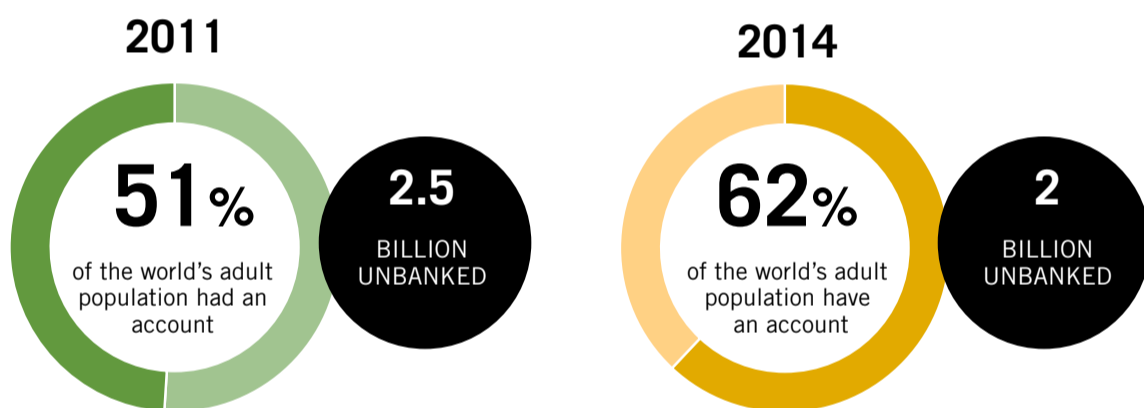
Individuals holding a bank account worldwide in 2014

Source: Global Findex Database
IBRD 41559 | April 2015

The Global Findex, the World Bank's survey on financial inclusion, released its latest report in April 2015. The progress achieved between 2011 and 2014 is impressive. 700 million people opened an account with a financial institution (bank, cooperative or microfinance institution) or with a provider of mobile banking services. The percentage of adults holding a bank account has thus gone from 51% to 62%. This can partly be explained by a 13 point increase

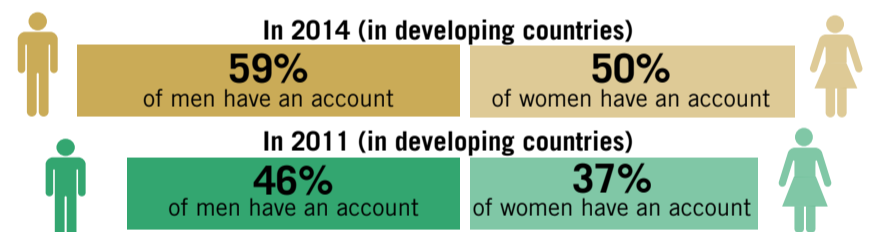
in bank account possession in developing countries. The number of "unbanked" individuals has fallen by 20%, to 2 billion adults.

But 2 billion adults remain unbanked and major inequality still prevails



Source: Global Findex Database

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

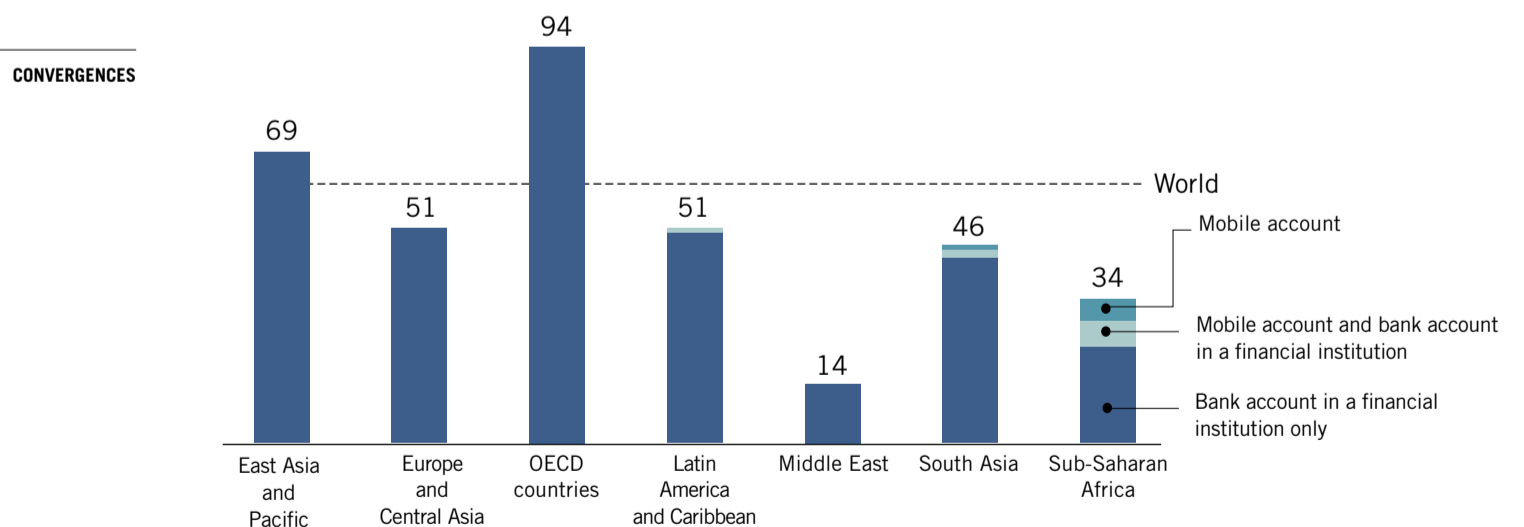


In Sub-Saharan Africa, digital finance is a major contributor to the improvement of financial inclusion

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

only 42% of registered clients use their mobile bank account every 90 days.

Account penetration and share between banking accounts and mobile accounts
Adults with an account (%), 2014



Source: Global Findex Database

Methodology

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

The survey was carried out over the 2014 calendar year by Gallup, Inc. as part of its Gallup World Poll, which has been conducting surveys

since 2005 of approximately 1 thousand people a year in over 160 countries, using randomly selected samples of people, representative of the adult population aged 15 years and above.

Surveys are conducted face to face in economies where telephone coverage represents less than 80 percent of the population. In most economies

the fieldwork is completed in two to four weeks.

Data weighing is used to ensure a nationally representative sample for each economy. Final weights consist of the base sampling weight, which corrects the unequal probability of selection based on household size, and the poststratification weight, which corrects sampling and nonres-

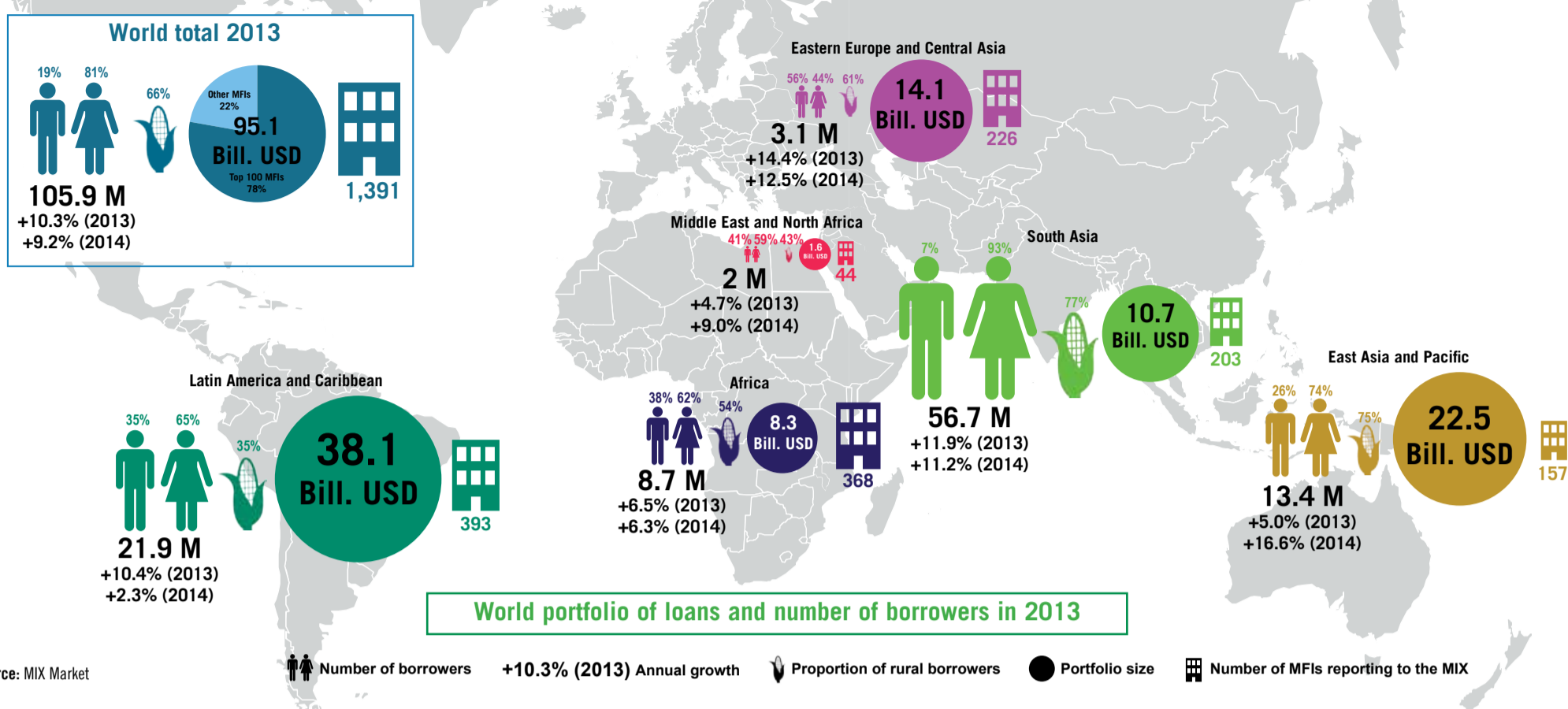
ponse error. Poststratification weights use economy-level population statistics on gender and age and, where reliable data are available, education or socioeconomic status.

Additional information about the Global Findex data, including the complete database, can be found at www.worldbank.org/globalindex

Additional information about the methodology used in the Gallup World Poll can be found at <http://www.gallup.com/178667/gallup-world-poll-work.aspx>

KEY FIGURES OF FINANCIAL INCLUSION

Microfinance continues double-digit growth in 2013 and 2014



At the end of 2013, the 1,391 institutions communicating data to the MIX platform had reached 105.9 million low-income clients and a credit portfolio of 95.1 billion USD, a 12.9% increase in asset terms and 10.3% in terms of borrower numbers over 2012.

The 100 largest institutions by

number of borrowers dominate the market, with 78% of all borrowers.

In 2013, non bank financial institutions (NBFIs) worked with 43% of borrowers worldwide, compared to 27% for NGOs and 26% for banks.

The average loan by client was 1,576 USD for banks, 334 USD for NGOs and 766 USD for NBFIs.

Eastern Europe and Central Asia saw the highest regional growth in 2013 (+27% in outstanding portfolio). South Asia also continued to expand significantly in 2013 (+18% in outstanding portfolio) and Africa also experienced strong development (+19.5% in outstanding portfolio).

South Asia is home to more borrowers than the rest of the world

combined, even though the region only possesses 1/10th of assets.

Worldwide, 81% of borrowers are women and 66% of borrowers live in rural areas.

2014 estimates

Based on a 2014 estimate, banks and NBFIs have increased their respective market shares at the

expense of NGOs, growing twice as fast.

Based on this same estimate for 2014, East Asia and the Pacific, Africa and South Asia experienced the strongest growth, both in terms of borrower numbers and in terms of loan portfolio.

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

Sub-Saharan Africa was the most deposit dependent region (68%) in 2013.

In the Middle East and North Africa, where deposits are not accepted by MFIs, loans and capitals are approximately equivalent.

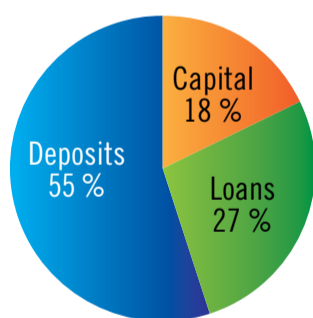
MFIs in South Asia got 48% of their funding from loans. Most of these come from Indian NBFIs, which are prohibited from collecting deposits, and which sell parts of their loan portfolio to retail banks, in line with regulatory provisions in favour of financial inclusion.

Over half of NGO funding took the form of loans (55%).

Banks received the majority of their

funds from deposits (67%).

Source of financing of MFIs in 2013



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

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

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

The operating expense ratio, a measure of the cost of services, was 13.4% worldwide in 2013, a small increase on 2012 (13%). Of all regions, it was highest in Sub-Saharan Africa at 16.7% and lowest in South Asia at 9.4%.

MFIs median performance ratios in 2013

Yield on portfolio	27.4 %
Operating expense ratio	13.4 %
Portfolio at risk 30 days	3.6 %
Return on equity	8.3 %

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

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

Deposit products are progressively prevailing on the global scale with 76% of institutions accepting a form of deposit product. Other products (as

defined by MIX) have not yet received the same attention.

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

NGOs also have the highest percentages amongst institutions offering services through three of the products monitored by the MIX: Education, Health, and Women's Empowerment.

Banks have the highest percentage of institutions offering insurance and

deposit products.

MIX AND CITI INCLUSIVE FINANCE FROM DATA PROVIDED BY MIX

MFIs product offer excluding credit in 2013

Providing deposit services	76 %
Providing voluntary insurance services	17 %
Providing non-financial services	40 %

Methodology

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

The figures pertaining to borrower numbers and loan portfolios in 2013 are based on data provided by 904 ins-

titutions. The 2012 data were extrapolated from figures communicated by an additional 487 institutions, and based on the same type of data.

The growth measures and the figures relating to loan portfolios between 2011 and 2013 are based on data from 940 institutions who communicated on these two areas every year from 2011 to 2013.

The 2014 growth estimates, at world and regional level, are based on all institutions who communicated data to the MIX from the 31 December 2013 to the 30 September 2014 or to the 31 December 2014. The growth was calculated by institutions based on their market share in 2013. This calculation was possible for 345 institutions, which together represented 69% of the market in 2013, in terms

of client numbers.

Data on this type of funding were provided by MFIs. Values were estimated in order to fill any gaps in the data, in cases where sufficient information had been communicated. For example, capital, where the information was not provided, was calculated using communicated values for assets and liabilities. Similarly, deposits and loans

were calculated by assuming that total liabilities were not only formed by deposits and loans and where two of these three values were available. 862 institutions, representing 84% of the borrower market in 2013, were included in the assessment of funding.

Summary of the Universal Standards Implementation Survey 2014

The Universal Standards for Social Performance Management (Universal Standards) are a comprehensive set of best practices created by and for practitioners in microfinance as a resource to help financial institutions achieve their social outcomes. In October 2014, the Social Performance Task Force (SPTF), in partnership with MIX Market and the Global Appeal for Responsible Microfinance, conducted a Universal Standards Implementation Survey. The goal was to measure the level of awareness and progress in implementing the Universal Standards in the microfinance industry after 2 years of existence.

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

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

Other major key findings outlined that 82% were familiar with the Universal Standards Implementation Guide (launched in Spanish & French one month before the survey), and 38% with the new social audit tool

CERISE SPI4. Furthermore, 68% had a clear or quite clear understanding of the diverse responsible finance initiatives and the way they complete each other. MIX Market and the Smart Campaign were the most cited tools whereas CERISE SPI4 and Truelift's Pro-Poor Principles were less known, as they were only recently launched.

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

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

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

implementation of the Universal Standards.

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

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

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

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Source: The Universal Standards for Social Performance Management Implementation Guide, SPTF, Leah Wardle

Going further

Social Performance Task Force (SPTF) website for Universal Standards for Social Performance Management:
sptf.info/spmstandards/universal-standards

SMART Campaign website to access the Client Protection Principles:
www.smartcampaign.org

MIX Market website for social reporting of microfinance institutions:
www.mixmarket.org

CERISE website to access the SPI4 social performance evaluation tool:
www.cerise-spi4.org

Global Appeal for Responsible Microfinance website, launched by Convergences:
www.theglobalappeal.org



Credit: Tom Bamber

A client of Fusion, an MFI supported by Oikocredit in India to improve the collection and analysis of client data

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



The Social Performance Task Force's (SPTF) second annual implementation survey of the Universal Standards for Social Performance Management (USSPM) rightly points out that the Standards "can help finance institutions be as rigorous about social performance as they are about financial returns"¹. Results of this recent SPTF survey seem to indicate that although the microfinance sector is widely aware of the USSPM, it does not implement the USSPM rigorously. In particular when it comes to the first point "Define and monitor social goals" (1.B), particularly the 1.B standard: "The institution collects, reports, and ensures the accuracy of client-level data ... specific to the institution's social goals"².

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

Oikocredit believes that MFIs should monitor and report client outcomes, that investors should require this, and that greater attention regarding this matter would help the microfinance sector being more financially and socially sustainable. Oikocredit has therefore begun to provide capacity

building in client monitoring, management and analysis of longitudinal client data (also known as time-series or panel data). The objective is to better analyse the changes and evolutions of client's lives.

Since 2014, Oikocredit has worked with four MFI partners in India, and with one in each of the following countries: the Philippines, Cambodia and Tajikistan. In practice, the work consisted in field visits, workshops, trainings and online assistance. Core areas of our support include defining indicators, improving client data collection, analysis and reporting, adapting management information systems, and ensuring that client monitoring informs daily operations, risk management and decisions about product development and social mission. The indicators include client

employment income and Progress out of Poverty metrics. Oikocredit plans to submit its partners' clients' data to an econometric analysis in order to better understand whether microfinance clients are improving their lives over time.

¹ Social Performance Task Force, 2014 Universal Standards Implementation Survey: Summary Report, October 2014, page 1

² Social Performance Task Force, The Universal Standards for Social Performance Management, <http://www.sptf.info/spmstandards/universal-standards>, Standard 1.B.

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Credit: Tom Bamber



The challenge of digital finance: Moving from initial take-up to regular usage

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

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

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

We know that the poor lead active financial lives, but mostly in cash. DFS agent networks are designed to convert cash to a digital value and then back to cash, effectively pushing money from point A to point B. This means that, at point B, the person "cashing out" is still using coins and paper money to meet educational, health, food, and other livelihood needs.

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

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

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

There is a growing set of emerging practices among providers that strengthen trust: managing agent networks to ensure adequate customer service and liquidity; offering a seamless registration process; educating customers and promoting financial literacy; building institutional capacity to manage multiple channels; and designing to enhance the customer's experience.

Innovative organizations, such as Juntos Finanzas, have demonstrated that usage can increase through frequent, personalized SMS



Credit: Jennifer Huxta for The MasterCard Foundation

reminders and dialogue that builds trust. CGAP, supported by our Foundation, generates insights into customer behaviour that can guide these operational practices.

Beyond strengthening trust, there are ways to make it more convincing to keep value digital. For example, pushing more value into a digital account in the form of salaries and government social transfers. Making it easier to pay for daily or frequent

expenses using digital value. For a broader, deeper digital system to emerge, banks and mobile network operators must embrace technology and frameworks that allow for integration and collaboration.

Above all, to fulfill the promise of digital finance, financial services providers need to be guided continuously by an understanding of their clients' circumstances, aspirations, and core financial needs.

¹ Global Findex 2014
² http://www.gsma.com/mobilefordevelopment/wp-content/uploads/2015/03/SOTIR_2014.pdf
³ http://www.mckinsey.com/insights/financial_services/sub_saharan_africa_a_major_potential_revenue_opportunity_for_digital_payments

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The ecosystem of new alternative delivery channels

In 2015, Software Group, the IFC and The MasterCard Foundation collaborated to create a reference guide to help microfinance institutions in the implementation

of alternative delivery channels using technology. Many of these new and abstract terms (e-banking, branchless banking, mobile banking...) can often cause for confusion. The graph

and chart below aim at presenting and clarifying the ecosystem of the different innovative and technology-based alternative delivery channels currently being developed.

	Channel name	Type of channel	Who/What customer interacts with to transact	Sample functionality offered by the channel
	ATM	Self-service	ATM	Cash out, balance enquiry, payments, cash deposit
	Internet banking	Self-service	Computer, phone, tablet, kiosk	Enquiries, transfers, payments
	Agent banking	Over the counter	3 rd party agent, merchant, phone, POS, mobile	Cash in, cash out, payments
	Extension services, (field staff, mini branch, branch on wheels)	Over the counter	Bank staff: loan officer, susu collector, other FSP staff, POS, mobile	Account opening, cash in, cash out, loan applications, enquiries
	Mobile banking	Self-service	Phone	Enquiries, transfers, payments
	E-wallet (m-wallets, prepaid cards, store cards)	Self-service + over the counter	Phone, computer, merchant, kiosk, ATM, agent, card	Cash in, cash out, payments, transfers
	Call center	Over the counter	Phone, customer service representative	Enquiries, transfers, payments



Source: Alternative Delivery Channels and Technology Handbook, Software Group, IFC and The MasterCard Foundation, April 2015

**Face the new reality:
The world has changed!**

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

The impact of new technologies are visible in every aspect of the MFIs and banks operations. From the decisions to pursue a cashless and paperless strategy leveraging the mobile industry development (mobile

wallets, mobile phone penetration, device feature enhancements, affordable communication channels), through constructing new fully automated products based on scoring models and data available via real time integrations, to overcoming significant environmental challenges by running systems on the Cloud and having off-line units with adequate security, available features (camera, GPS, Bluetooth, GPRS/3G/4G) and authentication capabilities.

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

One of the main important imperatives remains the fact that all these IT related implementations are

in fact operational projects. They serve business needs and must be led by business (not IT) people to guarantee the systems are implemented to serve the organization and not the other way round.

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

**KALIN RADEV,
CEO,
SOFTWARE GROUP**

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

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

In order to place clients at the heart of the project, we worked with designers using the *Human Centered Design*¹ approach, structured in 3 phases: Learn, Test, Scale.

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

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

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



Credit: microcred - 2015

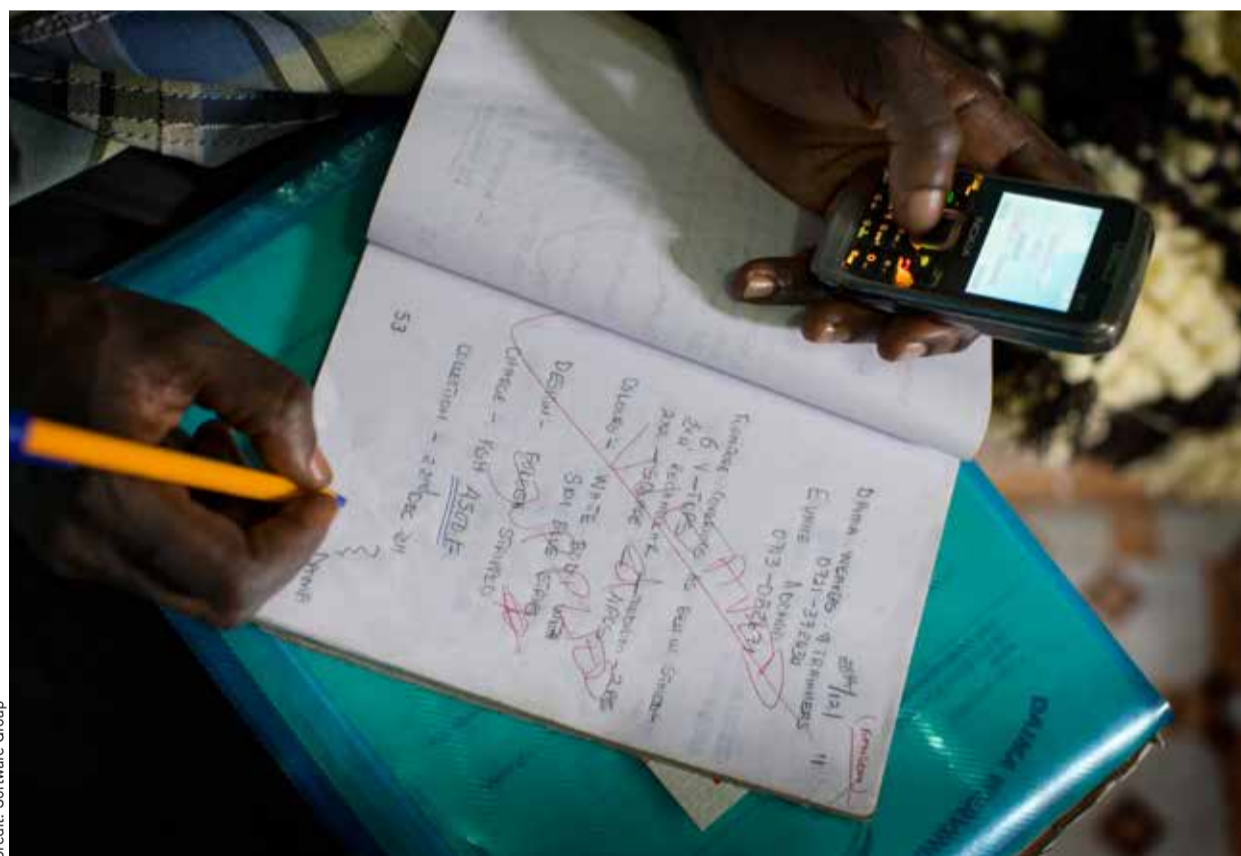
The major change observed with the introduction of this network is the fact that end users, such as agents, are exposed directly to our services without the intermediary of a microcred employee, when a problem arises. It is therefore essential for the services (and the technology behind them) to be reliable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

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

² Agile is a project management approach that involves applicants as far as possible and allows immediate reactivity to their requests. http://fr.wikipedia.org/wiki/Méthode_agile

**YOANN GUIRIMAND,
CHIEF INFORMATION OFFICER,
MICROCRED**

**GUY RATSIMBAZAFY,
DIRECTOR FOR ALTERNATIVE
DISTRIBUTION CHANNELS,
MICROCRED**



Credit: Software Group

Developing digital finance in Cambodia

In the 1990's, after the collapse of the Pol Pot regime, Cambodia's financial sector was rebuilt. It now has one of the best performing microfinance sectors in the world, with high ROE, strong growth, high transparency, and a pro-poor approach¹, reaching more than 2 million clients by the end of 2014, according to the Cambodia Microfinance Association. However, it is only quite recently that the sector has started to move into digital finance.

Whilst mobile phones are developing quickly in Cambodia, there are still approximately only 3 million phone users in a country of 14 million people. Such a challenge has meant that different business models have had to be designed to reach more people, such as designing products that can safely be used by villagers through shared phones.

WING (Cambodia) LTD², now

the largest payment aggregator in Cambodia, understood the need to build an extensive network of agents, particularly in rural areas, and decided to partner with microfinance institutions (MFIs) to provide their cash-in and cash-out operations. For instance, they signed an agreement with Chamroeun Microfinance Limited.

From Chamroeun's perspective, this partnership helps their "partners" (clients) to repay their loans with lower cost transactions, in real-time with multi-currency, and in many WING Posts locations (with more than 2500 commission based agents nationwide). In the long run, Chamroeun expects that it will help them reduce their operating costs. However, there have been quite a few challenges.

Cambodia's economy operates in two currencies, the Cambodian riel and the US dollar (even in Thai baht in some parts of the country), and most MFIs operate with two currencies.

WING had to offer such an option and is now the only mobile banking provider in the world working in two currencies. There was also the need for WING to develop Khmer support materials for customers with low English literacy, which is often the case with Chamroeun's partners.

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

Chamroeun and WING have tried to address these challenges by training Chamroeun's partners on mobile payment and WING's agents on the specificities of Chamroeun's operations. After a pilot phase in four



branches, Chamroeun will extend the use of WING to all of its branches by late 2015, encouraging its partners, like many other MFI clients, to enter the new world of digital finance.

nation's 24 provinces. www.wingmoney.com

³ An MFI created by Entrepreneurs du Monde and with Grameen Credit Agricole Foundation as one of their shareholders, reaching more than 47,000 clients

¹ Mekong Strategic Partners Report

² WING was established by ANZ Bank in 2009, to create a mobile payments capability in an emerging market and have more than 150 points of representation in 16 of the

**SOPHEA SUON,
CEO,
CHAMROEUN MICROFINANCE LIMITED**

Mobile money, a digital service now essential in Africa

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

With a strong presence in Africa and the Middle East, we have identified several areas where our technological innovations benefit populations: m-agriculture, m-health, m-education, and finally financial services. In Sub-Saharan Africa, less than 24% of the population held a bank account in 2011. This low figure can be partly explained by the very high cost of banking services but also by the lack of banking infrastructure (the size of the continent means that the number of cash dispensers per square kilometre is still very low). However, "access to financial services could provide a way out of poverty", maintains Jim Yong Kim, President of the World Bank. In fact, the ability to save, borrow or indeed pay, represents an essential service and source of development, as it allows populations to be actively involved in the growth of their country.

Meanwhile, the African continent is enjoying huge success in terms of mobile phone penetration rate: at the end of 2014, the GSMA² estimated that 41% of the African population had a mobile phone, representing over 467 million users). It is for this reason that the mobile money solutions have been developed: thanks to mobile phone technology, they can provide access to banking services at attractive rates.

Having identified this opportunity, Orange has been developing the Orange Money service since 2008. Orange Money simultaneously allows deposits and money withdrawals, money transfers, payment of electricity bills and purchase of telephone credits with a mobile phone. In 2014, the Orange Money application was launched in a selection of countries for smartphone users. Orange Money also allows access to numerous financial services such as savings or microcredit



solutions (currently being developed in Mali) and insurance services, for students for example, in Senegal, in partnership with Allianz. The success of Orange Money lies in the easy access to the service, through an extensive and dense network of sales points, located close to communities, making it simple to withdraw money and make deposits.

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

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

and Senegal, are exchanged via Orange Money!

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

¹ Global Findex Report, 2014

² The GSM Association, which represents mobile phone operators' interests across the world

ALBAN LUHERNE,
DIRECTOR OF ORANGE MONEY,
ORANGE AMEA

Mobile banking and financial inclusion

The Taysir Microfinance model in Tunisia

Taysir Microfinance, a Tunisian MFI promoted by Adie International, started operations in June 2014. In order to manage its loan operations, Taysir made the fundamental choice of going cashless i.e. 100% mobile banking. This experiment is unique in Tunisia and still very much the exception in the world of microfinance overall.

This option is based on a strategic partnership between Taysir and La Poste Tunisienne on one hand and the Tunisian mobile phone operator Ooredoo on the other hand. These two operators have developed a mobile payment service known as "Mobiflouss", on the basis of which a specific microfinance module, not exclusive to Taysir, has been developed.

Loans are issued by bank transfer on La Poste's banking card, which clients purchase beforehand in a post office. The clients thus pass from being unbanked to being holders of a prepaid MasterCard that allows him/her to manage withdrawals or purchases. This is the first step in financial inclusion and the clients feel good about it.

For the repayment, the clients, having recharged their cards in La Poste's cash in network (1,500 branches with 900 connected), then pay with their mobile phones. They access a simple menu that shows them the total payment due. They can of course choose another amount or settle the amount that they wish to settle, whenever they wish. They receive a text message confirming their repayment. The clients do not therefore have to visit Taysir branches and thus save much time and travel costs. The geographical and cultural proximity of La Poste does not pose our clients any difficulty. This system has proved very effective indeed in rural areas, where 63% of Taysir's 2,000 clients are located, after 10 months of activity.

The "Mobile Microfinance" service developed by Ooredoo and Taysir also allows clients to consult their

credit accounts to find out the total due and payment date, the outstanding balance and the number of outstanding payments, 24/7. In addition, reminders or information text messages are sent to clients regularly.

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

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

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

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

PIERRE GACHES,
CEO,
TAYSIR MICROFINANCE



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The new digital experience of microfinance clients



Technology is currently penetrating the daily life of microfinance clients. Recent developments over the past few years, mainly in East Africa and the Indian subcontinent, have enabled the identification of prospects for improving client experience and promoting financial inclusion.

Client behaviour and needs are increasingly better known thanks to data coming from mobile phone use: number of calls and contacts, purchase of airtime, payment of bills, transfers etc. Loan officers equipped with digital tablets also collect data in the field. Analysis of these data helps to adjust supply thanks to in-depth knowledge of the client's profile¹.

The digitization of the distribution channel and the product is transforming client experience. In the field of credit, digital disbursements and repayments through an agent network enable proximity, speed and flexibility. Similarly, credit scoring², facilitated by access to digital data, provides institutions with the opportunity to follow trends and offer personalised loans, better adapted to client needs³.

In Kenya, M-Shwari, a banking system offered by Commercial Bank of Africa (CBA) to clients of M-Pesa⁴ has over 10 million accounts and 4.5 million active clients. M-Shwari offers short-term loans of \$15 on average and issues approximately 50,000 credits daily, responding to a real need for quick access to cash, whilst providing optimal conditions for the account holders: an account opened in 30 seconds and loan eligibility rapidly determined thanks to credit scoring enabled by access to M-Pesa data⁵.

Adaptation and access to services other than loans is also improving: savings, insurance, money transfers, public service payments etc. A digital savings account on offer in Papua New Guinea clearly illustrates the impact of digital microfinance, especially when local geography and lack of infrastructure complicate access to financial services. When the IMF Nationwide Microbank launched MiCash in 2012, its clientele increased with 70% of accounts opened by new clients. In 2014, 90% of accounts were active thanks to ongoing and targeted client training⁶.

Partnerships between digital microfinance and new public service offers (water, energy, education) have led to the development of particularly innovative finance and service provision models. For example, the M-Kopa micro-leasing system in Kenya allows purchases of solar panels after payment of an initial instalment followed by modest daily payments over a period of one year⁷.

In the future, clients will also benefit from the popularisation of smartphones and biometric authentication, offering a more intuitive interface which is key where illiteracy is common. Smartphones will also allow increased interaction between institutions and clients, for example by encouraging savings: graphics displaying savings objectives, frequent reminders, interface for transferring predetermined amounts, etc⁸.

There are still challenges to overcome to ensure that innovation remains at the service of clients, especially related to the fact that customer relationship management (CRM) is partly transferred to the agent networks. Their level of training, management qualities (liquidity, profitability) and awareness of the client protection principles must

be ensured in order to guarantee that the client is always the final beneficiary of the technological progress.

¹ Nirant Gupta, How Analytics Drive Innovative Financial Services for the Poor, September 2014, <http://www.cgap.org/blog/how-analytics-drive-innovative-financial-services-poor>

² Credit scoring is a set of financial tools to help decision making and automatically assess the creditworthiness of a client and the risk of non-repayment

³ Marcia Parada, Greta Bull, Bringing financial services to 5.3 million people in Sub-Saharan Africa, The MasterCard Foundation and IFC, The Partnership for Financial Inclusion : www.ifc.org/financialinclusionafrica

⁴ M-Pesa is a digital payment service launched in Kenya in 2007, by Vodafone, for Safaricom. M-PESA enjoyed huge success and became the "reference" in the sector. In October 2014, M-PESA had over 12 million active clients and 81,000 agents <http://www.cgap.org/blog/10-myths-about-m-pesa-2014-update>

⁵ Tamara Cook, Claudia McKay, Top 10 Things to Know About M-Shwari, April 2 2015, <http://www.cgap.org/blog/top-10-things-know-about-m-shwari>; Julie Zollmann, Why M-Shwari Works, April 2015, <http://www.cgap.org/blog/why-m-shwari-works>, April 2015

⁶ Claire Sharwatt, Arunjay Katakam, Jennifer Frydrych, Alix Murphy, Nika Naghavi, 2014 State of the Industry: Mobile Financial Services for the Unbanked, GSMA MMU, 2015; http://www.gsma.com/mobilefordevelopment/wp-content/uploads/2015/03/SOTIR_2014.pdf Joep Roest, Unlocking the Potential of Mobile Money in New Guinea, <http://www.cgap.org/blog/unlocking-potential-mobile-money-new-guinea>

⁷ Michael Nique, Firas Arab, Sustainable Energy and Water Access Through M2M Connectivity, GSMA, <http://www.gsma.com/mobilefordevelopment/wp-content/uploads/2013/01/Sustainable-Energy-and-Water-Access-through-M2M-Connectivity.pdf> ; <http://www.cgap.org/topics/digital-finance-plus>

⁸ Wameek Noor, Xavier Faz, Global landscape of innovations in digital finance, March 2015; <http://www.slideshare.net/CGAP/the-global-landscape-of-digital-finance-innovations>

⁹ The European Microfinance Platform Digital Innovations Action Group (e-MFP) brings together microfinance professionals on issues of digital innovations for financial inclusion: <http://www.e-mfp.eu/digital-innovations-financial-empowerment>

PHILIPPE BREUL
HEAD OF E-MFP'S DIGITAL INNOVATIONS ACTION GROUP⁹

MARIE-SOPHIE TAR
PARTNER,
PHB DEVELOPMENT

The impact of product and service innovations on microfinance clients: The case of Buusaa Gonofaa

Abetter understanding of customer needs has helped Buusaa Gonofaa (BG) increase access to finance for underserved populations in Ethiopia. BG is one of the largest MFIs in Ethiopia and a member of the PAMIGA network. BG provides financial products and services that have been designed to meet the needs of the rural population. As an MFI, business is characterized by rural presence due to branches located in the field and loans originated from the customer's business premises.

Being a rural focused MFI, one of the challenges of operations was the collection of information, repayments and savings from remote locations. There were concerns around the costs incurred in the collection and the type of products offered to clients. In an attempt to reduce these costs and increase product diversification, in January 2012, BG decided to invest in point of sale (POS) devices to record transactions and print receipts in place of the hand-written processes thus improving efficiency and giving room to design better products. As of November 2014, 80 POS devices were deployed in 10 branches. Significant improvements in efficiency have been observed, like less transaction time, no errors in amounts, account numbers, customer names, and reduced risk of fraud.

As a result of this innovation, BG realized there was need to provide customer-centric products, leading to the launching of its voluntary savings products. The devices enabled BG to capture small amounts of savings at the clients' doorsteps. The use of this innovation enabled the institution to double its savings balance from EUR 3.2 million at the end of 2012 to more than EUR 6 million at the end

of 2013. The intentions of BG were to provide flexible products and services on a sustainable basis to improve the livelihoods of the poor.

Amongst the challenges experienced for BG was that the POS project was implemented at the same time as an MIS implementation project causing a major strain of human resources. The two projects were not phased out; an important factor when implementing IT projects. In addition, staff and client resistance was experienced where staff wanted to use old ways of data collection, while customers thought that the POS devices would be used to collect taxes causing a lot of panic amongst clients. BG invested time to train both staff and clients.

Important lessons can be drawn from BG's experience in technology innovation. Even though the main goal was to improve customer access to financial services, this project shows that a successful innovation has far-reaching benefits for the MFI as well; for BG it has facilitated optimization of its existing resources to scale up and design better products in a cost effective manner. BG accompanied this technology implementation with client education that has led to high customer confidence and subsequently increased savings deposits by customers. BG's experience makes a compelling case for technology innovation in MFIs' efforts towards increasing access to finance. It demonstrates that it can effectively be administered by adopting a customer-centric approach.

JACINTA MAIYO,
CHIEF INFORMATION TECHNOLOGY
ADVISORY OFFICER,
PAMIGA



Agricultural microinsurance from outer space

The right recipe for insuring the world's 450 million smallholder farmers is often just as elusive as structuring lending operations. Whilst life insurance has boomed, agricultural microinsurance growth has been slower. If many smallholder farmers are underfinanced, most are also under-equipped to deal with the vagaries of a changing climate¹.

The story is familiar, with risks like drought and flooding leaving uninsured farmers at the mercy of the elements, forcing them to sell assets or borrow to cope, and making them unviable clients for MFIs. Recent developments have been encouraging, however, due in no small part to the use of satellite and other meteorological technologies.

Traditional agri-insurance relies on being able to assess crop or livestock damage on site after a risk event. Operational costs and onsite assessment costs need to be absorbed in the premium, which in the case of smallholder policies would be too small for a viable business. Add to this the difficulty of reaching and transacting with clients in remote areas and it stands to reason that traditional insurance struggles at the bottom of the pyramid².

The introduction of satellites, however, is changing this. Indeed, satellites and weather stations can be used to bypass the need for onsite assessment of damage to crops or

livestock. Index insurance works by determining payouts to farmers through the value of a correlated index. Indexes track a climatic variable that has an impact on crop yields, such as rainfall, temperature, plant evapotranspiration or even soil moisture, and set a threshold at which payouts are triggered. Satellites will monitor the index, and satellite operators are now part of a complex value chain of actors bringing insurance to farmers. Their introduction also provides rich and long historical data sets for insurers to accurately price products, overcoming the data scarcity often plaguing countries with poor meteorological infrastructure.

However, despite the accuracy of such technology, there are also risks, often but not always linked to human error. Ill-conceived indexes are responsible for principal risk (the risk that the index correlates poorly with agricultural performance). Principal risk can mean a farmer receives no payout despite experiencing real losses due to weather, or in some cases is even paid a claim despite output being normal. A French response to this challenge has been the creation of a research initiative including the insurer Pacifica, the satellite operator Airbus Defence and Space, the Grameen Credit Agricole Foundation, and leading French universities. The fine-tuning of indexes

based on satellite imagery is currently the subject of a doctoral thesis under this initiative³, analysing differences between images from the satellite and the reality in the field.

Another significant challenge is that of selling index insurance. For many farmers, understanding the mechanism of insurance is complicated enough, let alone comprehending how payouts depend on satellite measurements.

For some, the jury is still out, but satellites are undoubtedly enabling many farmers to benefit from the protection of insurance. Building a successful, client centered index insurance sector will require close collaboration between private sector actors and government, and an active involvement of farmers in explaining their needs and their product experience.

¹ For more information on smallholder finance, see <http://www.globaldevincubator.org/initiative-incubator/current-initiatives/initiative-for-smallholder-finance>

² For a short history of the development of microinsurance, see http://www.grameen-credit-agricole.org/sites/grameen/files/micro_network-brochure_agriculture-def-low_1.pdf

³ For more information see <https://dynafor.toulouse.inra.fr/web/index.php/fre/Collaborateurs/Doctorants/Roumiguie>

YANN GELISTER
MICROINSURANCE
PROGRAMME OFFICER,
GRAMEEN CREDIT AGRICOLE FOUNDATION

Client innovation

Access to electricity in rural areas through "Pay As You Go" finance

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

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

More and more frequently, payments are being made in non-material form (M-Kopa & M-Pesa in Kenya), with clients able to pay via SMS (Lumos and MTN in Nigeria) and even by consumption of communication credit on invoice, or by prepaid card. Some



Credit: Fenix International

items of equipment directly load a SIM card that allows communication with the supplier's computer system.

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

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

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

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

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

CHRISTOPHE POLINE,
SUSTAINABLE INVESTMENTS DIRECTOR,
SCHNEIDER ELECTRIC

"Digital Finance Plus": What is it and if yes - how many?

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

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

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

► **Access to energy** for off-grid customers via a technology platform that allows customers to pay-as-you-go. By using mobile payment systems for solar and other modern sources of energy, low-income people would not have to pay a large lump sum up-front, but can pay every time they want to use the service.

► **Access to water** where clients use their mobile money system to pay for water which has a very positive impact on clients who only need to pay if they need or want to use water and on community water management by increasing transparency and reducing reliance on cash.

► **Access to education** where clients pay a subscription service to core-curriculum text books. People can pay in small increments for only the content they need - likely just a few individual chapters of a book - via mobile money and read the content on their cell phones.

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

in cash. Understanding the financial lives of low-income populations, it is obvious that they often do not have a formal bank account, and often face challenges when savings towards lump sums. Mobile money services help them to overcome both challenges.

It is difficult to already draw conclusions from the few projects that exist in the DF+ theme around the world. However, a few lessons can already be drawn:

► In some sectors **finance is a**

major bottleneck prohibiting growth.

In a sector like energy, the lack of consumer-facing financing presents a real bottleneck in the value chain. However, in health, the lack of financing cannot only be felt at the client level, but also in the production and development of medicines to the delivery of private services.

► **A large number of stakeholders or non-financial challenges can complicate things.** For example, before DF+ innovations can unlock

access to for example the health sector, challenges with regards to quality of care, availability of medical staff, or awareness of illnesses among population will have to be taken care of. There are similar issues in education, such as quality of instruction. The water sector often presents a complex decentralized stakeholder landscape and many different levels of government involved.

► **A regulatory framework and policy**

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

HANNAH SIEDEK,
ACCESS TO FINANCE CONSULTANT



Credit: Asian Development Bank

Changes in savings and payment methods in France: From metallic to virtual money

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

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

of Caisses d'Epargne over the territory facilitated the introduction of the first type of banking relation for the vast majority of people.

Not until the 1960s and the era of mass banking was there another



major change in means of making payment. Kept confidential, the use of cheques, introduced in France in 1865, increased spectacularly at this time. Between 1966 and 1972, the number of cheque account holders increased from 17% to 62%. Bank debits and transfers became the norm, especially with monthly payments of salaries¹. The first payment cards were introduced in 1967. This was therefore a period of introduction of many new means of payment, of which the banks were the operators.

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

Two major characteristics, which are not always immediately compatible, appear to be emerging from current

payment method requirements. Their use must be as intuitive and as fast as possible. The generalisation of electronic transactions (including simplification of transfers and repayments by e-mail or via an application), contact-free payment cards, and, as shown with the recent promotion of Apple Pay, the Google Wallet or equipped smartphone, is a testimony to these changes.

Security remains however another essential requirement for payment methods, the use of which is based on confidence. This is currently a key item in the development of new electronic transactions, especially in a country France where 9 out of 10 persons declare that they make Internet purchases. To meet this requirement, a number of innovations are being introduced together. In this context, in May 2015, BPCE Group announced the launch of a new banking card with a dynamic cryptogram. In this world first, the three-digit security code printed on the back of the banking card is replaced with a "mini-screen" which displays a code that is automatically altered from time to time.

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

¹ In 1969, only 10% of workers own a bank account. Many are still paid in cash. In 1975, they are 72% and salaries are compulsorily paid by money transfer or check

LAURE DE LLAMBY,
HISTORICAL HERITAGE VALUATION UNIT MANAGER,
FEDERATION NATIONALE DES CAISSES D'EPARGNE

Professional and personal microcredit, a constant development

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

Guaranteed personal microloans

Guaranteed personal microcredit is a form of credit adapted to suit the borrower's project and repayment capacity. Its principal aim is to facilitate access to jobs, mobility, training, accommodation and even health. Over 20 banking and financial partners as well as 500 local support network branches make an active contribution to deploying this system.

The borrower is accompanied throughout the process of putting together the application file, until the

loan is granted. Accompanying and banking partners maintain a presence if there are problems with repayment.

In order to optimise the system in each region, the Caisse des Dépôts, in cooperation with its partners, has developed new methods of distribution of loans. To achieve this, some thirty mutualisation platforms are deployed in France.

Personal microcredit in figures in 2014:

- 68,854 personal microcredits since 2006
- EUR 156 million: nominal distributed since 2006
- EUR 2,266: average loan amount

Professional microloans

In the professional microloan sector, the Social Cohesion Fund works to provide contributions in favour of:

- Allocating the existing state funds pooled under Fogefi (Fonds solidaire de garantie pour l'entrepreneuriat féminin et l'insertion) [Guarantee Solidarity Fund for Female Entrepreneurship and Inclusion]
- Supporting guarantees by "Galland law" territorial funds of France Active
- Supporting safety networks for creation of enterprises
- New support for enterprise creation and recovery ('NACRE', Nouvel accompagnement pour la création et la reprise d'entreprise)

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

Professional microcredit in figures in 2014:

- 17,600 loan files, or an increase of

9% compared with 2013

- EUR 58.3 million guaranteed
- EUR 213 million of loans distributed

The FOGEFI includes three types of loan. First is the FGIF, which carried out over 1,860 transactions in favour of businesswomen in 2014. Next is the FGIE, with 13,795 files, consisting principally of guarantees for Adie microcredits, bank loans and loans from the investment company France Active. Finally, the fund FGAP offers guarantees in favour of so-called "adapted" businesses.

The "Galland Law" territorial funds, financed jointly by the State and the local communities, granted very small and joint businesses a total of 3,589 guarantees, representing EUR 57 million, in 2014.

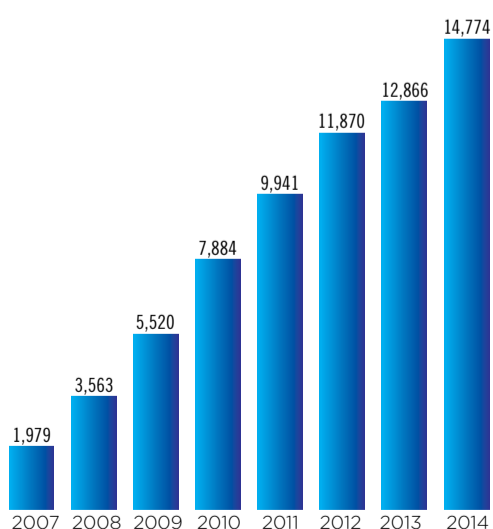
Finally, the FCS guarantees the 10,891 Nacre zero-rated loans, financed by the Savings Funds and granted in 2014 for a total of EUR 53 million.

Over 50,000 jobs were created or consolidated by the actions of the FCS in the field of joint business loans in 2014.

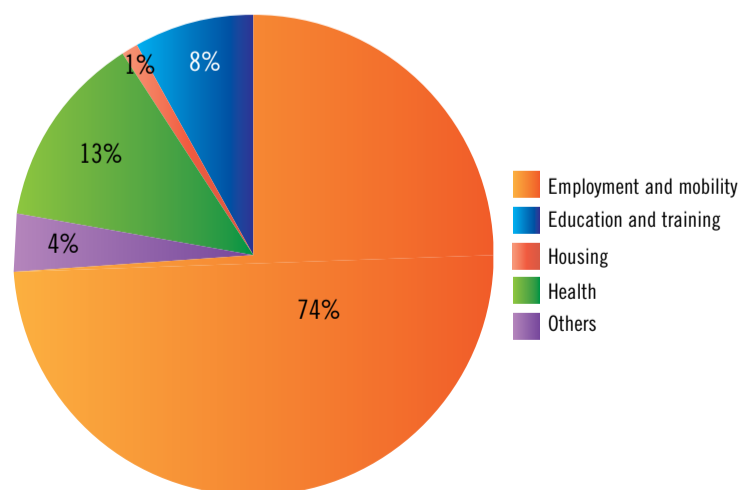
More information on:
www.france-microcredit.org

DOMINIQUE FRANÇOIS,
ECONOMIC DEVELOPMENT & SOLIDARITY-BASED
ECONOMY DEPARTMENT
PERSONAL MICROCREDIT DIVISION,
CAISSE DES DÉPÔTS

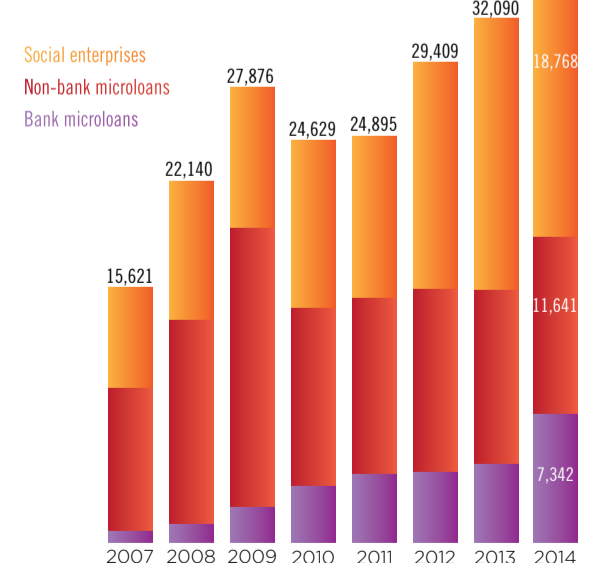
Number of guaranteed personal microloans disbursed in France per year



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



Number of professional microloans disbursed in France per year



Source: Overview of personal and professional microcredit, 4th Quarter 2014, Caisse des Dépôts

In a digital age, what tools for financial education?

Created in 1957 by the Caisses d'Epargne, the Finances & Pédagogie (Finance & Education) Association targets a wide section of the public, providing it with awareness and training services. The themes include managing money and use of banking services, loans and insurance.

Behind the apparent simplicity of these subjects, experience shows that money still remains taboo. So how can these fears be overcome? How can people be persuaded to show an interest in issues in which they could easily consider that there is little or no room for manoeuvre?

In the digital age, the organisation of collective face-to-face sessions remains essential. F&P trainers

therefore meet with some 40,000 trainees each year, 17,000 of these being young people. Their know how helps them adapt to these disparate sections of the public, especially because of participative and pragmatic educational methods. A striking example of tools that work well regardless of the section of public targeted is the snakes and ladders game "Take your budget, get set, go!" The aim of this animated support is to teach the trainees to manage a budget and obtain a balance at the end of a year punctuated by various budget events (both regular and occasional expenses as well as unforeseen charges that could have been done without). The game teaches a few tricks for keeping away from traps, underpinning what has previously been said, and bringing the group together with other interventions in mind. The budget management software "Take Your

Budget", downloadable from the F&P website (www.finances-pedagogie.fr), is another example of these budgeting "method" education tools. As a series of forms to be filled, it offers users an overview of their resources and expenses month by month and helps assess the weight of each one in their budget.

The dawning of the digital age has simply increased the use of interactive and game modes. For capturing and holding the attention and getting messages across, short supports that rely on pictures and video are in particular demand. "Money Quiz", for example, created on the initiative of the European Savings Funds Network, is a good starter for testing one's knowledge and relationship with money.

A more recent example is the European Savings Fund programme "Apprendre la Bourse" (Learn about the Stock Exchange). This competition, developed in France about ten years ago, places the emphasis on challenge and spirit of initiative, and aims to familiarise young people with the operation of financial markets and economic mechanisms. Whether they are college, high school or university students, or indeed teachers, all participants have welcomed this well-tried method of learning in small groups, which turns them, albeit for a short time, into actors who have to progress by themselves. Each team is responsible for managing a (fictitious) portfolio of securities chosen from amongst real securities, which they then have to make bear fruit. The process of learning by doing develops the participants' curiosity, helps them open up to the world, and stimulates

their inventiveness. Participants learn all about team work, the need to listen to others and their hypotheses and arguments, and siding with them or opposing them. Finally, although the programme is mostly used by teachers of economics, it is also used in some interdisciplinary exchanges (involvement of language teachers, for example).

For more information:
www.apprendre-la-bourse.eu

Website for smartphones:
m.apprendre-la-bourse.eu

On Facebook:
facebook.com/stockmarketlearning

MARIE-VÉRONIQUE BRYON,
TRAINING PROJECT MANAGER,
FINANCES & PÉDAGOGIE

Latest trends of the microfinance sector in Europe

The microfinance sector in Europe has been consistently expanding during the past few years of economic crisis. In a context where 24.8% of the EU-28 population is at risk of poverty or social exclusion¹ and nearly 24 million people are unemployed², microfinance has emerged as an essential social policy tool for the promotion of self-employment, microenterprise support and the fight against social and financial exclusion. The European Union has recognized the role of microfinance and will continue to support the sector through the 2014-2020 period with the EU Programme for Employment and Social Innovation (EaSI) with financial instruments, namely guarantees and loans, and technical assistance services. Further, the EU promotes the development of the sector through the European Code of Good Conduct for Microcredit Provision. This Code provides recommendations and standards that should foster best practice in the microcredit sector and compliance with it has become mandatory to receive funding under EaSI.

According to the European Microfinance Network (EMN) Sectorial Overview Survey³, the microfinance sector has been steadily growing over recent years. In 2013, 150 MFIs from 24 European countries disbursed a total of 387,812 microloans with a total volume of EUR 1.53 billion. The average loan size has also increased in 2013, reaching EUR 8,507. During the same year, 79% of the total value of microloans was issued for business purposes while the remaining 21% was used for personal consumption. According to national regulatory frameworks, (with or without the existence of usury laws), interest rates go below 5% for a business loan in Austria, Switzerland, France and Italy and up to 42% for a personal loan in the United Kingdom.

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

The ongoing digital transformation of the economy offers several opportunities to the European

microfinance sector. There has been exceptional growth of online funding mechanisms over the last four years, both in number of platforms and amount raised⁴. In Europe, hundreds of crowdfunding platforms already exist. Innovative funding mechanisms such as crowdfunding and P2P lending, supported by technological innovation, are challenging existing, traditional financial providers. Compared to other types of finance, crowdfunding reduces costs and administrative burdens.

The European market has also observed the development of new providers for mobile payment solutions

and providers offering credit scoring via social media data. M-Pesa, the mobile payment system developed in Africa, acquired an e-money license to operate financial services in Europe entering the Romanian market where a large part of the population don't have formal bank accounts⁵. Additionally, private companies have developed platforms connecting social network data, psychometric principles and mobile phone payment history to create credit identities.

The opportunities that these innovations can bring to the

microfinance sector are substantial. In fact, these new 'competitors' can actually be seen as complementary actors or pioneers for new tools and methods to address the target groups of microfinance.

⁵ <http://www.ft.com/cms/s/0/736dd03e-b688-11e3-b230-00144feabdc0.html#axzz3Wnn187E9>

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POLICY & RESEARCH OFFICER,
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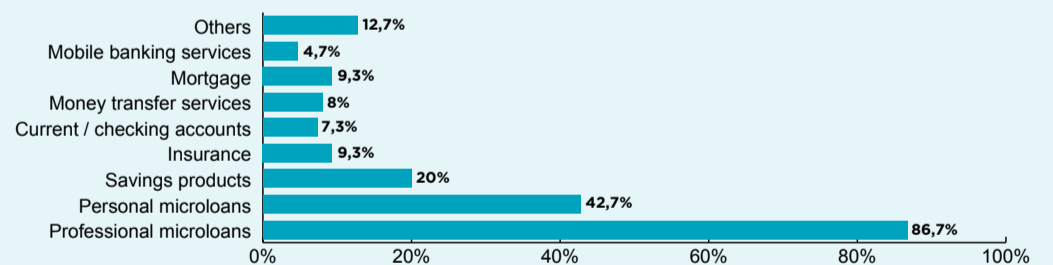
2012-2013 European Microfinance Network survey Focus on products

The European microfinance sector is characterized by the significant diversification of the products on offer. Even though professional microloans continue to prevail in the sector, the offer of other types of products and financial services has considerably increased over the past years. Moreover, most microfinance institutions complete their offer with non-financial services and products to support their clients in the development of their activities.

As shown by graph 1, professional microloans represent the main product offered by the surveyed microfinance institutions (87%), followed by private microloans (43%). Microsaving products - offered by 20% of the surveyed microfinance institutions - come in third place. It should be noted that 47% of the participating microfinance institutions exclusively provide microcredits, which suggests that a significant number of microfinance institutions in Europe are specializing.

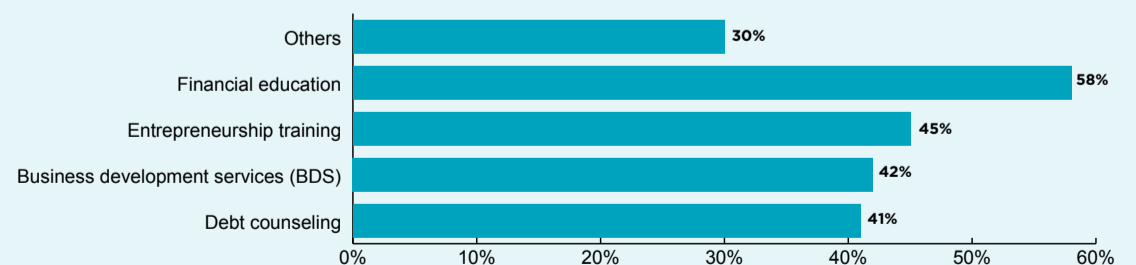
The most widespread offered services among the microfinance institutions offering non-financial services are finance training programmes (58%) and entrepreneurship training programmes (45%), followed by business development services (42%) and advice related to indebtedness (41%). Less than a third of the surveyed microfinance institutions do not offer any non-financial services.

Graph 1 - Share of financial products and services



NB: N = 150. Multiple answers are allowed for this questionnaire; thus the total percentage does not correspond to 100 %.

Graph 2 - Share of non-financial products and services



NB: N = 150. Multiple answers are allowed for this questionnaire; thus the total percentage does not correspond to 100 %.

CONVERGENCES Source: Overview of the Microcredit Sector in the European Union, European Microfinance Network (EMN), 2014

“Digital finance offers new opportunities for financial inclusion in Peru”



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

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

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

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

Microfinance in Peru is a regulated industry, very diverse, competitive and solid, which allows these services to reach very different types of clients and to provide many benefits to them. For example, the competition among microfinance institutions generated a great offer in savings accounts, without a minimum balance required or maintenance fees. This alone has included financially thousands of Peruvians that were able to access the financial sector through this product, and helped the government to use these accounts as a vehicle to promote

financial inclusion, for example for G2P (Government to People) payment system users.

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

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

The cellphone penetration reached in Peru during the last years has favored enormously the development of a massive channel based on cellphones. As a matter of fact, nowadays we have more cellphones than people. As of June 2014, we have more than 30.5 million active cellphone lines in the country¹. There is very high penetration of cellphones in low-income sectors, and more than 78% of rural homes have access to this service.

The recent legislation is another favorable condition for the development of digital finance. In these last years, Peru has produced legislation for the use of electronic money, anticipating the imminent development of this kind of business. Peru has still very few initiatives of

electronic money in the market and, on the opposite of the countries where business came first and legislation later, we have some ground rules prior to the inevitable outbreak of this kind of business.

This particular environment represents a great opportunity for financial inclusion and, trying to make the most of it, more than 30 financial institutions (banks, microfinance institutions, etc.) are working together in building a shared, interoperable and multi-operator infrastructure for the development of digital finance. This will allow to include the unbanked in the financial system through a mobile wallet that works on any mobile phone, easy to use, accessible, safe and convenient.

Whether you see it from the public or the private sector's side, Peru has a strong commitment for achieving greater levels of financial inclusion.

What prospects do digital finance open to increase financial inclusion?

Once the infrastructure for the mobile wallets is created, it is crucial to enrich the channel, to develop an ecosystem around it and to give financial education to guarantee access to the financially excluded. When this is achieved, all stakeholders of the ecosystem can develop and

offer financial products and services tailored to the particular needs of these new clients. The financial institutions behind this initiative will cooperate then compete, offering a new and diverse range of financial products.

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

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

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

¹ OSIPTEL, 2014

CAROLINA TRIVELLI,
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PROJECT MANAGER DIGITAL MONEY,
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INTERVIEW BY CONVERGENCES

ENDORSE THE GLOBAL APPEAL FOR RESPONSIBLE MICROFINANCE CAMPAIGN!

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

It does not replace other initiatives dedicated to the promotion of social performance management in microfinance which are primarily intended to microfinance institutions (see article page 4). The Global Appeal summarizes consistent and coherent actions to be taken by all stakeholders (institutions but also investors, regulators, etc.).

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

Initially launched as the «Paris Appeal for responsible microfinance» during the 4th edition of the Convergences World Forum in 2011, the Global Appeal renewed, reinforced and widened the call for microfinance to serve poverty reduction and the achievement of the Millennium Development Goals at the 5th edition of the World Forum in 2012.

The Global Appeal articulates a vision for a fully responsible and responsive industry, and outlines a path forward for all relevant stakeholders – microfinance institutions, regulators, policy makers, investors, researchers, and financiers, through 7 principles:

1. MFIs Serve Clients in a Responsible Manner
2. MFIs Advance the SPTF Universal

Standards for Social Performance Management

3. MFIs Operate with Sound Governance and Financial Responsibility
4. Regulators and Policy Makers Support a Sound Microfinance Sector
5. Investors in Microfinance Uphold the Principles for Investing in Inclusive Finance
6. Researchers Assist the Microfinance Industry to Learn
7. Donors, International Financial Institutions and Foundations Support the Industry and Push Boundaries

Read the full text, browse the 2,000+ signatories, and endorse the campaign online:

www.theglobalappeal.org

They have already signed the Global Appeal:

Natalie Portman, Michel Rocard, Jean-Michel Severino, Chuck Waterfield, Accion, Babyloan, Buro Bangladesh, CARE, Crédit Coopératif, Crédit Municipal de Paris, e-MFP, FINCA, Finansol, Freedom From Hunger, Grameen Crédit Agricole Microfinance Foundation, Fondation GoodPlanet, I&P Conseil, Macif, Oikocredit, OXUS, Pamiga, EMN, Secours Catholique and more.

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



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