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

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

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

In that respect, the Global Appeal for Responsible Microfinance – initiated in 2012 by Convergences and the CEO Working Group, outlines the steps that each stakeholder should take for microfinance to serve poverty reduction responsibly and sustainably to increase access to financial services worldwide, microfinance is using innovative products and delivery channels, such as mobile banking, and working to increase the capacities of service providers (see articles on page 3). The sector is also striving to broaden the range of products and services offered, be they financial or non-financial (see articles on page 7).

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

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

RESPONSIBILITY, INNOVATION, IMPACT: ADVANCING FINANCIAL INCLUSION

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

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

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

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

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Scaling Financial Inclusion: Continued Growth and Diversity
2011 Overview of Institutions Providing Microfinance Services

Global Loan Portfolio: Slower growth with continued concentration among top 100 providers

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

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

Client Outreach: 94 million borrowers reached in 2011

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

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

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

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

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

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

### Understanding microfinance providers and their clients

| Diversity of institutions serving the sector | Number of MFIs reporting to MIX in 2011 | 1,400 |
| Diversification of services provided by the institutions | Percent of borrowers served by a non-profit institution | 33% |
| | Percent of borrowers served by a financial institution | 67% |
| | Percent of institutions proposing both credit and savings services | 54% |
| | Percent of institutions proposing insurance products | 54% |
| | Percent of institutions proposing non-financial services | 54% |
| | Percent of rural borrowers | 38% |
| | Percent of woman borrowers | 73% |
| | Percent of clients with microenterprise loans | 81% |

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

### Diversity of microfinance clients

- Countries with more mobile money agent outlets than bank branches
- Countries with more mobile money agent outlets than bank branches and more mobile money accounts than bank accounts
- Mobile money agents account for 72% of the mobile money network
- Mobile money agents account for 72% of the mobile money network

More than 1 billion customers in developing markets have access to a mobile phone but do not have a bank account. Financially excluded people are forced to rely on informal financial services which are often unreliable, insecure and expensive. Mobile money or the use of mobile phones to access financial services is becoming more widespread, especially in Sub-Saharan Africa.

In Kenya, Madagascar, Tanzania, and Uganda, there are already more mobile money accounts than bank accounts. In these countries, mobile money is allowing more people to access financial services than the banking industry has ever managed to. There are also 28 countries where there are more mobile money outlets than bank branches, meaning that mobile money agents rather than banks are becoming the face of the financial service industry.

In 2012, the global network of mobile operators GSMA counted 80 million active mobile money customers, who undertook 224 million transactions totaling USD 4.6 billion in transaction value during the month of June 2012.

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

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

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

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

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

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

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

CBPs generally lack resources to invest in knowledge and specialised skills, particularly in small and fragmented markets, for instance in Sub-Saharan Africa (SSA), where 45% of surveyed CBPs were located. Many have difficulties finding – and keeping – qualified staff, this was identified as the main challenge for 52% of surveyed capacity building providers.

They need to invest sufficiently in identifying market needs, building longer-term relationships with FSPs, and demonstrating the value of the service.

Despite years of donor programmes whose explicit goal is to help build capacity of both FSPs and CBPs, the market for capacity building is still highly subsidised with few viable providers able to adapt to an evolving landscape. The design of the subsidies contributes to this dependency. Donors often fail to look at capacity building in a market building way. They need to think about capacity building as an interconnected set of submarkets in which incentives have to be right for both the market and the supply side, which adapt as markets change. Only then will we be able to build the capacity the sector needs to grow and respond to the many challenges still ahead of us.

### Methodology

Unless otherwise noted, all data comes from fiscal year 2011 or 2012, presented by microfinance institutions (MFIs) and other microfinance providers to MIX and published on MIX Market as of March 31, 2013. For trend data only, only institutions with at least five years of data in the time series are included. MFIs provide data to MIX on a voluntary basis, and that data is fact-checked against audited financial statements of all MFIs. In achieving representative coverage of microfinance, MIX seeks out the leading providers of microfinance services, regardless of their institution type, including microfinance providers, banks with dedicated microenterprise portfolios, credit unions and other community based providers that reach low income clients and others. As a result, institutions presented in this data have a range of services and lending products beyond microenterprise lending. This article also draws on the experience and local relationships of Citi Microfinance, serving 150 MFIs, networks and investors as clients and partners in nearly 50 countries.

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

### State of the Mobile Money Industry

A recent survey of retail financial service providers (FSPs) confirmed that the mobile money sector remains a major bottleneck for scaling up and diversifying services for low income people. More than 40% of responding FSPs said that their main challenge is improving the capacity of their business.

Capacity building needed includes not only advisory services, training and skills building, but also IT services, human resource functions and market research. Services most in demand according to FSP respondents relate to risk management, strategic planning, innovation and mid-tier management. A diversified set of institutions moving beyond credit and diversity of services which are often unreliable, insecure and expensive. Mobile money or the use of mobile phones to access financial services are available in 34 of 47 countries. In June 2012, there were twice as many mobile money users as Facebook users in Sub-Saharan Africa.

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[1] Koning, A., February 20 2013, “Capacity Building Survey Results”, CGAP. The survey was conducted in a sample of more than 1,200 FSPs from 142 countries and 225 capacity building providers (CBPs). 63% of FSPs used some form of capacity building, 51% of CBPs were providing capacity building services. CBPs were being consulted by independent consultants.


[3] Regardless of whether or not a bank account exists.
The Parallel Stories of Microfinance

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

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

However, recent evolutions have raised many issues: the huge profits generated by Compartamos’ initial public offering in Mexico and the crises witnessed in South India, Pakistan, Morocco, or Nicaragua have drawn attention to the dangers that microfinance could cause on clients when not handled properly. There has been a large movement lately to better regulate the microfinance sector, and to ensure a greater focus on vulnerable populations. This means working on the quality and diversity of services, particularly through capacity building for clients and introduction of new technologies and models tailored for the poorest. In addition, various social assessment tools have emerged since the early 2000s, microfinance has been promoting new approaches in order to favour a positive impact on clients. The Social Performance Task Force, which brings together organisations working to promote social performance, has defined, in collaboration with the Smart Campaign for Client Protection, a number of initiatives that aim to encourage and support responsible practice in microfinance have emerged. Most have arisen from collaboration and consultation within the industry, resulting in aspirational standards and principles. These tend to focus on one or both facets of the two central tenets of responsible investment in microfinance: client protection and social performance.

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

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

On the social performance side, the Universal Standards for Social Performance Management (USSPM) were launched in January 2013 by the Universal Standards for Social Performance Management (USSPM) task force. They are a set of management standards and practices that apply to all MFIs pursuing a double bottom line (see article on page 5). The Smart Campaign and USSPM focus primarily on retail providers, but other actors in the investment chain have considerable influence in this regard. In recognition of this, The Principles for Investors in Inclusive Finance (PIIF) were designed and for investors. They build on (and make direct reference to) the work of the retail provider-focused initiatives such as the Smart Campaign, USSPM and MF Transparency. They include other initiatives by way of guidance, such as the Responsible Sovereign Guidelines, recently devised by a group of direct investors in a bid to harmonise approaches. Finally, the PIIF are accompanied by a public Reporting Framework (see article on page 6).

There exist many resources to support investors and providers and investors in developing their responsible investment policies and practices. Many are freely available, and more are in development. These remain questions and challenges. How embedded are these practices across the industry? How can investors find the time and the resources to keep up-to-speed with such principles and standards? What actually constitutes good practice in areas like pricing, profitability and the issue of “balanced returns”? To move forward with these discussions, we need a greater understanding of current practice. Most of the initiatives are therefore focused on encouraging transparency, and facilitating ensuing debate. We look forward to updating the map regularly, in line with the evolution of the industry.
Survey Results: Establishing a Baseline for the World on Social Performance Management Implementation

Social Rating Scores Worldwide

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

The following graph provides an overview of social rating scores worldwide. Scores can be considered “Excellent” when equal to or above 70%, “Good” when between 50% and 69%, “Fair” when between 30% and 49%, and “Weak” when below 30%. Social performance can be looked at from 4 angles: Social Performance Management, which includes management and staff alignment to the mission; Client Protection; Human Resources, which can also be referred to as social responsibility towards the staff; and Outreach, Services and Change, which refers to outreach to the vulnerable and underserved, and adaptation and quality of services, inter alia.

Worldwide Social Rating Results

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

Achievements of Social Performance Areas per Region

Different levels of social performance implementation can also be observed depending on the legal status of MFIs; while banks have the highest median score in 4 areas, and an overall median score of 68%, NGOs have the highest median score in the area of Social Performance Management, and Client Protection, at 53% and 49%, respectively. Different levels of social performance implementation can also be observed depending on the legal status of MFIs: while banks have the highest median score in 4 areas, and an overall median score of 68%, NGOs have the highest median score in the area of Social Performance Management, and Client Protection, at 53% and 49%, respectively. Different levels of social performance implementation can also be observed depending on the legal status of MFIs: while banks have the highest median score in 4 areas, and an overall median score of 68%, NGOs have the highest median score in the area of Social Performance Management, and Client Protection, at 53% and 49%, respectively. Different levels of social performance implementation can also be observed depending on the legal status of MFIs: while banks have the highest median score in 4 areas, and an overall median score of 68%, NGOs have the highest median score in the area of Social Performance Management, and Client Protection, at 53% and 49%, respectively. Different levels of social performance implementation can also be observed depending on the legal status of MFIs: while banks have the highest median score in 4 areas, and an overall median score of 68%, NGOs have the highest median score in the area of Social Performance Management, and Client Protection, at 53% and 49%, respectively.

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

The Confederation of Financial Institutions (Confédération des Institutions Financières d’(Confédération des Institutions Financières) of West Africa (CIF) is made up of six of the largest credit cooperatives (cooperative microfinance institutions, MFIs) in the region: CFCMG-Mali, FUCCEC-Benin, FUCCEC-Togo, Kogo Jinping-Mali, Nyésgis-Mali, and PAMECAS-Sénégal. Together, these cooperatives represent over 2.9 million people, or roughly one household out of five in the region. The CIF aims at pooling and sharing resources, building up collaborative and open frameworks, and standards, in order to make microfinance services providers aims at a double bottom line, which is both financial and social. Over the years, in addition to institutional or financial ratings, social ratings have become a common tool among practitioners. Social rating agencies verify how successful a microfinance institution (MFI) is at translating its mission into practice and translate the results into a score.

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Microfinance and Ethics: Three Pivotal Questions

What are the key ethical questions in microfinance? Three questions may form a basis for discussion and debate. Is it ethical to do business with, and earn profit from poor people? Is it ethical to maximise profit when doing business with poor people? How should one address an ethical responsibility to avoid harming poor people in the process?

My answer would be that, although you may not be able to work with poor people while earning a fair profit, you cannot just focus on maximising profits. Instead, you have to engage with these clients and do an obligation to your clients.

Human beings are economic beings. Self-employment or business is a way to provide an income to the majority of people to feed themselves. For hundreds of years, good work was mostly about charity. Societies saw the poor as worthy of our pity but not as people who worked. As a result, the poor became entrepreneurial. The new paradigm of socially oriented MFIs is using a combination of business and philanthropic ideas to re-shape our view of how business and development means stability, and economic growth. MFIs give people a greater freedom to pursue their needs and desires; this will lead to development and progress, which circles back to stability. In this way, economic stability also means that political stability is achieved, and our system of thinking. Economic development means stability, and poverty, in a sustainable way. Achieving poverty, in a sustainable manner. The Principles for Investors in Inclusive Finance.

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

The principles seem to indicate a strong engagement among participants with the Client Protection Principles (CPP). A large majority indicates that they reported on their actions in relation to the CPP to their investors, and incorporated CPP into their investment policies, due diligence processes and financial analysis of their investments. Those participating also reported a high commitment to investing in microfinance institutions that offer a range of financial services, and nearly 90% reported a procedure to integrate environmental issues into their investment decision making. All participants reported that they would disqualify a potential investee if they had poor social performance, and all reported that social performance measurement performance into their due diligence processes and reporting processes.

Strategic commitment to social performance, investors’ internal staff incentives are not always aligned. Investors are increasingly making staff incentives linked to social performance. This year’s report shows that, in comparison to corporate governance, is mixed; on average, equity investors report having the lowest expectations. Equities represent a larger portion of total financial and social performance data of investees for learning purposes, but only 80% reported tracking and seeking to gather data on social outcomes through, for example, encouraging investees to Progress into the PIIF, investors signal their intent of investing in socially motivated MFIs. The majority of investors involved, who among them manage a reported USD 6.5 billion, have agreed to share the data contained within the PIIF Signatories’ Report. This enables interested parties to see the progress being made, and indicates examples of emerging good practice and areas for improvement.

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

In 2007 as an initiative of Crédit Agricole and Grameen Trust, the Grameen Crédit Agricole Microfinance Foundation (GCAMF) was launched with the purpose of responding to the social mission of the collaborating banks. This mission is to help achieve the United Nations’ Millennium Development Goals (MDGs) through the delivery of microcredit services, with a particular focus on access to microfinance for women entrepreneurs. The Foundation’s mission is to provide an efficient and useful contribution to the fight against poverty, in a sustainable way. Achieving this mandate of responsibility requests the implementation of a globally responsible investment concept that stretches across all areas of operations, processes and partnerships.

Implementing responsible investment for GCAMF starts with a number of initiatives that are necessary for the continued success of the sector, it also believes in active ownership. We were not ready to gradually and proactively work towards the implementation of these initiatives. We are very interested rates charged to the clients. This would allow clients to maintain a greater equity in generated profits to help build assets.

As far as the ethical responsibility to avoid doing harm to customers is concerned, we need to think that customer care and ethical responsibility to the customer are intrinsically linked. In social finance, profit and social outcomes are directly linked. This means that a business recognises that, in order to be successful, the customer has to be satisfied. At the same time, customer care is crucial to ethics and vice versa. As social investors are not only interested in maximisation of profit but also in fulfilling the ultimate customer, service to the customer continues to gain importance. Therefore, genuine customer care limits the unintended harm that may occur as a result of a poor investment. This adds another layer of responsibility to investors, to sincerely work towards no harm to the poor.

Mistakes will be made, but ethical responsibility to avoid harm is an important beacon as we increasingly integrate business with the poor with dignity.

But how much is enough to attract investors and do business with microfinance institutions in good health? Deutsche Bank recognises that profitability, operating costs, and interest rates can vary greatly depending on the microfinance institution’s location, size, growth potential, socio-economic environment, etc. While the issues are complex, they are not incommensurate. We can use our expertise in microfinance to define what is acceptable for us as social investors, and to be transparent about our decisions, so that others may benefit. Although we will certainly not have a golden rule that benefits the in the process, our example may encourage others towards greater acceptance of socially responsible practices.

While Deutsche Bank recognises the importance of robust, profitable, well capitalised and customer-centric, socially oriented MFIs, constitutes an additional step in translating responsibility into tangible results.

On the operational level, standard due diligence missions include a half-day social performance evaluation followed by a social performance review with senior management. This step is supported by an in-depth evaluation and audit report: the CERISE-developed Social Performance Indicators questionnaire. To make sure that social performance analysis adds value to our partners, special attention is given at all times to provide feedback and exchange with management and staff.

Furthermore, responsible investment requires, even more than traditional business, coordination, continued sharing of experiences and lessons learned and strong support of industry stakeholders. This is illustrated in GCAMF’s cooperation with CERISE. analysts of the Foundation conducted a study on the CERISE. The Foundation is certified to validate ISM self-assessments performed by MFIs. GCAMF is also a supporter of the Client Protection Principles: their comprehensive evaluation during due diligence contributes to support MFIs’ practice good social performance. In business, additional Foundation is very active within the Social Performance Task Force, supporting, signing and implementing the guidelines on Reasonable Covenants and – by leading the action group ALINUS (ALigning INvestor due to adhering to and promoting the principles).

The Principles for Investors in Inclusive Finance

The Principles for Investors in Inclusive Finance (PIIF) are a shared commitment to adhering to and promoting the following Principles:

1. Expanding the range of financial services available to low-income people;
2. Integrating client protection into all policies and practices;
3. Treating investees fairly, with clear and balanced contract and dispute resolution procedures;
4. Integrating Environmental, Social and corporate Governance (ESG) factors into policies and reporting;
5. Promoting transparency in all operations;
6. Pursuing balanced long term returns that reflect the interests of clients, retail providers and end investors;
7. Working together to develop common industry standards on inclusive finance.

Investors and fund managers are encouraged to sign up to the Principles to call to all to foster an ethical culture in the sector. The final Framework will be launched in October 2013 for all signatories. Individual investors’ responses will be published. Those that have not will receive an individual assessment, enabling them to see their strength and weakness compared to peers. These new sources of information should prove useful for fund managers and to their clients, helping them assess trends, drive adoption and improve practices.

Based on unpublished CGAP data of cross-border and equity investors, debt and equity investors
The Role of Savings and How to Connect Informal Groups to Formal Financial Services

Savings have often been ignored or not even considered important in the provision of financial services poor people could have had an interest in. The primary reason for this is that many Lending Institutions do not provide capital to poor people, rather than trying to build growth with their own economic resources. The challenge is to change this. Savings are an essential part of the financial ecosystem. People need to have a huge number of reasons be it accumulation of assets, family household goods, and education for income reinvestment in their own small business, or to protect themselves from any number of social or economic risks, be it illness or a failed harvest.

Today, 2.5 billion people do not have an account with a bank or other financial entity. This severely limits their ability to save, invest and plan for their future. Based on the belief that savings should be the first step towards financial inclusion on the “financial graduation” ladder, but those savings groups have their own limitations. As groups mature, they require more sophisticated products and services. They may need to deposit their excess liquidity in a safe place as well as get access to a higher amount of capital. CARE has pioneered innovative ways to meet these demands by facilitating the creation of formal financial institutions and savings groups with mobile operators, banks (global and local), MFIs and insurance providers including Orange, Vodacom, Equity Bank, and Barclays. For example, over 500 new group savings accounts have been established with Barclays banks in Kenya, Uganda, Ghana and Tanzania.

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

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

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

Microentrepreneurs in emerging markets face very complex financial environments that have given the uncertainty of their environment and the lack of financial capability. Evidence suggests that the majority of these entrepreneurs lack the skills and knowledge to address these challenges. The traditional response to the lack of financial capabilities has been to use in-depth training programmes to teach budgeting, business planning, accounting and savings.

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

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

Recently, evidence from field tests has indicated that there may be alternative approaches to financial literacy training that may help microentrepreneurs change their financial behaviours for the better. One example is a financial education intervention that teaches simple rules of thumb, rather than in-depth education and accounting training. For example, teaching microentrepreneurs to physically separate their household finances from their business finances had positive effects on financial management in a large-scale intervention across the Indian sub-continent. Overall, financial tools that are easy to learn and simple to implement have proven successful in changing financial behaviour of microentrepreneurs.

An additional challenge for the microfinance industry has been to develop cost-effective financial education programmes that financial institutions, policy makers and other stakeholders will take up and use. To date, we have not successfully proven the “business case” for financial education. Our goal as an industry for the next several years should be to focus on developing financial education interventions that address client behaviour change, and to provide evidence of how financially literate and capable clients strengthen financial institutions and financial markets.

Definitions

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

Financial Education: All educational messages communicated to individuals about using financial services: lessons, plans, posters, public service announcements...

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

Source: Center for Financial Services Innovation.

Beyond Financial Services: The Importance of Financial Education

Enhancing Financial Inclusion: The Role of Policy Makers

While progress has been made in increasing financial inclusion over the years, meaningful scale has not yet been achieved. An estimated 2.5 billion adults worldwide still lack access to formal financial services, 90% of whom live in developing and emerging countries. The need for greater financial inclusion – in terms of both access to and use of quality financial services – remains significant.

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

This new trend has not only brought financial inclusion within closer reach, it also paved the way for a broadened mandate that goes beyond financial products and services, and it has expanded the focus of mobile financial services on a large scale to provide a higher amount of capital. CARE, World Bank, and Graduation,

the VSLA (Village Savings and Loan Associations) methodology in Niger in 1991. VSLAs are now being implemented by many other organisations across the globe, mainly in Sub-Saharan Africa. They build on traditional indigenous savings schemes and are a simple, sustainable and low cost way to enhance economic activity and social development without distorting the local fabric in the communities. Over twenty years of implementation, the impact of VSLAs has been seen at different levels including income and business growth, increased accumulation of assets – in Rwanda for example by 300% for household assets increased by 300% in three years at a VSLA, increased education spending, better food security, improved health and overall women’s empowerment.

Today, there are over 7 million VSLA members around the globe. VSLAs are the first step towards financial inclusion on the “financial graduation” ladder, but those savings groups have their own limitations.

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The Impact of Microfinance: What Do We Know?

The renewed attention of the last three decades for microfinance since 2009 – echoing with the emerging microfinance crisis in Andhra Pradesh, India, that hit news headlines worldwide – gave the impression that this issue has only started to be debated recently.

However, analysis of a corpus of 154 impact studies conducted between 1980 and 2010 has shown that, since the inception of microfinance, donors have wanted to assess its impact. As they gradually increased their support since the mid-1980s, the number of studies also grew steadily, with 10 studies per year on average in the first decade of the 2000s.

What were the results of these first publications? Although 123 found an overall positive impact, the studies highlighted significant impact, and 3 identified a negative impact. In addition, while 91 impact studies, academic and official publications. The impact may have been more broadly assessed. A total of 28 found no overall positive impact, 28 found no impact, 28 found a positive impact, and 28 found a negative impact. The overall impact was found to be positive in 28 of the studies identified.

Impact studies rely on different types of methods

Qualitative Methods:
They emphasise socio-anthropological investigation relying on comprehensive approaches, interviews, observations and triangulation of information to ensure coherence. They analyse life paths, gaps, advantages and disadvantages of socioeconomic systems to explain, rather than measure, the interrelations between financial services and the living conditions of users. They remain relatively rare in the field of microfinance.

Quantitative Experimental Methods:
They randomly select a treatment group of persons who will be receiving services, and a control group who won’t. Thanks to this random selection, the only difference between both groups lies in the treatment provided by a microfinance institution. These methods are now generally preferred to rationalise programmes and to prove the benefits of a microfinance approach.

Quantitative Quasi-Experimental Methods:
They compare current clients with non-microfinance clients, or seem to have a strong influence.

Impact studies rely on different types of methods

The Impact of Microfinance

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

The case of PRIDE RFW in Tanzania, who is developing, with the support of PMMA and PRIDE, a comprehensive platform to help poor farmers gain access to solar energy. Finally, some MFIs also decide to raise awareness of environmental mitigation programs: in El Salvador, Fundación Campúa trains its farmers on their local environment, including how to properly dispose of plastic waste, while in Mali, CamûIDE asks clients to sign a chart where they commit to stop using plastic bags and plant trees. These pioneer MFIs all mention that engaging in environmental management brings clear benefits, responding to the economic and social needs of microfinance clients, promoting social performance, differentiating from competitors, attracting new clients, diversifying their portfolio, improving their image, and even raising new funding.

However, such initiatives are still rare. A study conducted in 2011 with 160 MFIs worldwide shows that MFIs’ environmental performance is still low: only 11% are already integrated into strategy and 19% plan to integrate environmental considerations into their strategy. MFIs should therefore consider how to promote a more environmentally responsible approach to microfinance and reduce the negative impact of microfinance on the environment. The topic is however drawing increasing attention and CERISE is planning to integrate more specific environmental indicators into the Social Performance Indicators (SPI4) tool.

Today, MFIs wish to “go green” still face clear challenges, in particular in acquiring the required expertise and knowledge. Donors and technical assistance providers can play a key role by facilitating access to technical expertise. Investors can also contribute by providing the funding needed to offer green microcredit. Finally, the whole sector has a lot to gain in so far as lessons learned from past and current experiences can help to promote a truly responsible and sustainable microfinance.

Source: The author.

Impact studies rely on different types of methods

Quantitative Quasi-Experimental Methods:
They compare current clients with non-microfinance clients, or seem to have a strong influence.
Microfinance in Europe: Main Characteristics and Trends

Microfinance is a young and heterogeneous sector in Europe, especially with regards to the diversity of institutional models, lending approaches and regulatory frameworks.

The European microfinance sector is characterised by a wide range of diversity in institutions active in the market: the most prevalent kind of organisations are NGOs or foundations, as well as non-bank financial institutions (NBFi) and microfinance associations.

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

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

Data related to outreach and social performance remains limited among the MFIs covered by the survey. MFIs mission statements emphasise job creation and microentreprise promotion, while the empowerment of specific target groups follows on a medium to large scale: in 2011, 69% of the participants distributed more than 50 loans and 54% more than 100 loans. The total number of microcredit providers in Europe is estimated to range between 500 and 700 entities. Therefore, data in the EMN Survey can be considered a sample of approximately 25% of the average number of estimated institutions. Due to the differing data basis of the five Overview Survey editions, it is not possible to produce consistent data on the evolution of the European microfinance sector. For the exhaustive list of countries and institutions participating in the survey see Tables I and 19 of the full document.

The European Progress Microfinance Facility (EPMF) is a programme that started in March 2010 with a EUR 100 million contribution from the European Financial Promotion and Investment Facility (EFIE) and EUR 100 million from the European Investment Bank (EIB). The EPMF aims to provide credit to finance for individuals who have lost or are at risk of losing their job or have difficulties entering or re-entering the labour market. The fund is managed by the European Investment Bank (EIF), which provides selected financial intermediaries with equity, debt and guarantee products for existing microloans or guarantee funds for microloans targeted to microenterprises.

An Overview of Microcredit in France

The microcredit sector in France is used by a very large and diversified clientele and similar programs, and the latter to finance the development of small businesses or small family businesses, enabling owners to create or maintain employment. Aside from this purpose-based distinction, the two types of microcredit have common features. Both are available to people who have difficulty accessing conventional financing, and both include assistance for borrowers, which provides strong safeguards for the projects put in place.

The sector, which goes a long way toward the aims of economic, social, and financial inclusion of the populations concerned, benefits from a system of government guarantees set up by the various administrations, underpinned by government guarantees. Furthermore, building on the work of the French Savings Banks and the Credit du Nord, the Caisse des Dépôts has implemented a half-yearly statistical assessment of the measures implemented since 2005. Therefore, two researchers — Georges Gloukovitchoff (CG Recherche Lyon) and Nicole Rebière (Comptes-Bancs Ivoire Université) — have begun a study to evaluate the impacts of microcredit.

This study was carried out in three stages; first, a literature review was undertaken in 2011 in order to take advantage of the knowledge already gained and to define relevant analysis grids. Then, a quantitative survey compiling data from phone interviews involved 2,000 people, among whom 1,018 were borrowers without outstanding debt, 447 had at least one outstanding debt, and 507 had been denied a loan or had given up obtaining one. This quantitative dimension was completed in 2013 with a qualitative study including 6 focus groups, gathering borrowers with or without outstanding debt. Finally, two online questionnaires were put in place, targeting assistance providers and lenders.

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

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

A publication (éditions de l’Atelier) featuring the study’s complete results will be released in September 2013.

Microcredit

Starting a Business with a Microcredit: The Journey of Zineb

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

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

Zineb is a very brave and dynamic young woman. After graduating in business, she took a degree in management, and had to cope with a long search for a proper job. Because she needed to support herself, she decided to accept all sorts of small jobs — barmaid, restaurant, dishwashing — before a friend hired her as an assistant in his shoe shop. Within two years, she became the shop’s manager. But business was not good enough, and she had to close the store in 2010. Managed to get a two-year unemployment allowance, so I decided I would dedicate myself to building my own project for one year. Ten months later, her project was completed, and she started her business in October 2011.

Meeting Adie (Comite Adie) was a major breakthrough: no banks wanted to lend me any money to get professional equipment — the microcredit obtained from Adie (EUR 4,700) and the additional free loan from the Ministry of Social Cohesion (EUR 700) were enough to cover my startup expenses.

Today, she works in open markets and sells fresh fruit smoothies as well as seasonal soups, for immediate consumption or take-away. She only uses organic products that she herself or her suppliers produce. "The first winter was a bit difficult; daily turnover was very uneven, but after a while I could secure some very nice contracts with the local administration in Lille for special events, which helped me to reinvest and develop my business. Adie then joined her in the business. He has some management background and also handles her accounting. Together they are very proactive; he does not sell in a reserved spot in a major open market, while she is still a street vendor. As a major improvement, he got a EUR 2000 (4,600 FCFA) entitled to a self-contained trailer which unfolds easily with the necessary equipment to make smoothies and soups. Zineb and her companion still make plans for the future, like getting settled at one stage in a former shop in Lille, being, they can live on what they earn and manage to cover their operating expenses. "As for what’s left, we devote it all to improving our business through new ideas," says Zineb.

Housing Microcredit: Time to Shift Up a Gear

In 2012, more than 11,000 personal microcredits were provided in France, of which around 70% were aimed at enhancing mobility, according to data from the Caisse des Dépôts. Although mobility is key to finding a job, it is only one element of improved living conditions: a growing number of families live in overcrowded or inadequate housing; in addition, according to statistics from the National Housing Agency (ANAH), 2.1 million home owners spend more than 10% of their income on energy bills.

In France, subsidies are granted to improve precarious housing or to help poor or disabled home-owners buy or rent a home. Of course, often, this is not enough for poor home-owners: they are left, on average, with an additional EUR 3,000 to pay for energy efficiency works, and EUR 15,000 for the rehabilitation of unhealthy housing; in the event of a lack of personal savings, conducting that kind of works can be jeopardised.

Personal microcredit could be a solution. In its current form however, of are two main obstacles. First, the Social Cohesion Fund – a public guarantee fund created in January 2005 to “guarantee social loans” at 50%, excludes housing microcredits; secondly, builders or housing equipment (fridge, bed...) are accepted. Secondly, the maximum amount granted – EUR 5,000, is often not sufficient to finance the required expenses.

That is why the Social Cohesion Fund accepted, 3 years ago, to conduct experiments consisting in guaranteeing the first housing microcredits, in partnership with voluntary banks. The French Savings Banks (Caisses d’Epargne) are one of them.

Together with organisations’ experts, they detect and support disadvantaged home-owners, and mainly finance new heating systems, better insulation or better adaptation of housing for the elderly.

While the borrower’s income is often close to the poverty line (less than EUR 1,000), the repayment rate is close to 100%. In the case of fuel poverty, microcredit helps people reduce the credit limit of their bank to 20%, and therefore to reimburse their credit more easily.

Nevertheless, experiments are limited by the low amount of guarantee granted by the Social Cohesion Fund. As a result, the French Savings Banks will only be able to grant about 130 microcredits in 2013; this is very low in comparison with the needs, which can be estimated at about 2,000 microcredits. One way to develop housing microcredits would be for the Ministry of Housing and the Ministry of Sustainable Development to take part in the funding of the Social Cohesion Fund. Meetings between the Ministries and the Caisse des Dépôts will be taking place to try to shift up a gear.

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

The orientation and the main objective of the Use of Funds (COSEF) of the Social Cohesion Fund are to evaluate the impacts of microcredit. The personal microcredits are loans, granted to those in need which had been financed by the borrower and the achievement of the desired project. It also integrated the diversity of impacts, positive or negative, observed even when not directly expected (like those on the borrowers’ budgetary or banking situation, their self-esteem, etc.).

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

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

In Spain, microcredit first appeared in the 1970s as a result of isolated projects of various NGOs. It received its biggest boost from 2001 onwards, with the support of public sector and financial entities, especially savings banks. Since the beginning of the global financial crisis, microcredit has experienced exponential growth until the abrupt slowdown in 2008-2009, with the arrival of the subprime crisis and the crisis caused by the housing bubble in Spain. Microfinance institutions (MFIs) are mostly promoted by the savings banks in collaboration with social organisations, which were active in 2008 at the peak of the expansion of the sector. By 2010, only a handful of financial institutions and NGOs continued to provide microcredit in Spain. Microbank – the social bank of the financial institution La Caixa – emerged as the main player of the sector.

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

In 2012, a study conducted by Fundación Nantik Lum with Citi, Microfinanzas, “Financial inclusion to foster job creation - A case study on Madrid”, analysed how the successful elements of the experiences and lessons derived, where innovative partnerships between the public sector, private banking and non-profit institutions have been implemented, could be adapted to Madrid – and by extension to the rest of Spain – in order to consolidate a more sustainable financial system which creates employment opportunities through the financial and business services of microentrepreneurs and small businesses. 11 recommendations were made. They included supporting the creation of specialised microfinance institutions, creating a solid institutional framework to support entrepreneurship and microfinance, promoting entrepreneurship in the financial education system, and exploring government risk sharing mechanisms for small business loans and new business creation. In Spain, microfinance far exceeds the ability of microentrepreneurs. In 2010, these CDFIs and microenterprise lending to start-ups greatly increases successful entrepreneurship and microfinance, promoting entrepreneurship in the financial education system, and exploring government risk sharing mechanisms for small business loans and new business creation.

Following some of the report’s guidelines, a series of innovative initiatives have re-surfaced in the Spanish microfinance sector, mainly public-private alliances alongside new projects launched by social organisations, such as the recent agreement between Microbank and the regional government of Madrid to provide up to EUR 100 million in microloans to foster job creation in the region, the creation of the Spanish Association of Microfinance as a network to provide services to microfinance institutions in Spain, and the launch of Plataforma Emprendimiento y Microfinanzas (PEM), a pioneering online platform that centralises all the resources and information available on the Spanish microfinance and entrepreneurial sector and serves to connect entrepreneurs with more than 70 microfinance institutions.

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

Microfinance to Foster Job Creation in Spain: A Look at Montenegro

M

icrofinance started in Montenegro in 1999, after a 61% decrease in gross domestic product (GDP) since 1989. This was due to the regional instability caused by the end of the war in Yugoslavia and economic sanctions imposed on Serbia and Montenegro. The economy was severely hit by the war in low production and high unemployment. Microfinance was then perceived as an effective tool for financial inclusion and allowing access to financial services to low-income households.

Until 2003, when the Central Bank of Montenegro established a regulatory framework for financial institutions (MFIs), MFIs operated exclusively as NGOs. After this date, 17 MFIs became registered as commercial companies with a minimum capital deposit of EUR 100,000. The law includes credit-only and microfinance institutions (MFIs). The Law of 2009 Decision on Minimum Standards for the Risk Management in MFIs, microcredits are only available to entrepreneurs and persons and EUR 10,000 for entrepreneurs and businesses in the first cycle, and for all categories up to EUR 30,000 in a repeated one.

During the 2000s, Montenegro’s GDP annual growth rate steadily increased from 1.9% in 2002 to 4.2% in 2005. During this period, the microfinance sector grew rapidly from a portfolio of EUR 30.5 million in 2005 to over EUR 79.2 million in 2013.

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

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

I

n the wake of the Great Recession, traditional lenders in the U.S. have tightened credit for small and micro-businesses – and microbusinesses are often hard hit. Since 2007, small business lending through the most popular government-backed small business loans, the U.S. Small Business Administration’s (SBA) programme, has moved further out of reach for microenterprises. This has made it more difficult for microenterprises and small businesses to obtain loans.

As a result, Community Development Financial Institutions (CDFIs) and specialized microfinance institutions (MFIs), are playing an expanded role. CDFIs are private financial institutions and NGOs that provide credit, microcredit, and other services to underserved communities serving low income, low-income, and other disadvantaged communities by providing flexible and responsible financing and financial services to those outside the financial mainstream. In the U.S., they include many Federal Credit Unions, community development credit unions, community development bank, and community development equity funds. Together, they manage just under USD 50 billion in assets.

For more than 30 years, CDFIs have made direct investments in the most underserved communities. CDFIs are profitable, but not profit maximising. They invest significant time assessing the creditworthiness of borrowers, which helps to increase the odds for success for the business owners and reduce the credit risk for the CDFI. CDFIs are also more likely to forgive a loan than a commercial lender.

Out of a thousand, more than 100 CDFIs identify their primary function as financing microentrepreneurs. In 2010, these CDFIs and other CDFI funds provided a total of more than 17,000 loans, with an average loan size of approximately USD 14,000.

While these benefits are real, the need for microfinance has grown. Many microfinance CDFIs to meet the demand. To help respond to the increasing difficulty small businesses have getting access to responsible credit, Opportunity Finance Network (OFN), the national network for performance-oriented CDFIs in the U.S., is providing a “Scaling Success” CDFI Finance Fund (CDFI Fund). Through this initiative, OFN and experts provide training and support to CDFIs to grow as an institution to provide capital to microenterprises.

As microenterprise and small business growth has a direct effect on the job market. OFN is also committed to increasing the number of job-related jobs created and retained via “Create Jobs for USA”.

Since the beginning of the program, OFN has provided nearly USD 73 million in funds to CDFIs. More than 90,000 jobs are expected to be created. In addition, more than 500,000 are expected to be supported. OFN is also committed to increasing the number of U.S. jobs created by providing capital just USD 140 million.

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

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

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

We provide microcredit to low-income, economically disadvantaged, underserved entrepreneurs. We provide microcredit to low-income, economically disadvantaged, underserved entrepreneurs. We provide microcredit to low-income, economically disadvantaged, underserved entrepreneurs. We provide microcredit to low-income, economically disadvantaged, underserved entrepreneurs.

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

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

Accion Texas recognises that no organisation can work alone; because of our commitment to deploy, we have been providing microcredit to low-income, economically disadvantaged, underserved entrepreneurs. We provide microcredit to low-income, economically disadvantaged, underserved entrepreneurs. We provide microcredit to low-income, economically disadvantaged, underserved entrepreneurs.

We're a network to provide services to microfinance institutions in Spain, and the launch of Plataforma Emprendimiento y Microfinanzas (PEM), a pioneering online platform that centralises all the resources and information available on the Spanish microfinance and entrepreneurial sector and serves to connect entrepreneurs with more than 70 microfinance institutions.
Interview with David Roodman
Senior Fellow, Center for Global Development

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

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

What would you recommend to improve the impact of microfinance?

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

What is your take on interest rates?

I have never been able to take a strong position on interest rates.

Transparency makes more sense. The important thing is to describe costs to clients in a way that makes sense to them, so it helps them make a good decision. Avoiding hidden costs, and making costs easy and clear to understand, is an inarguable step forward.

Can financial education help improve microfinance social performance?

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

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

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

So what will microfinance look like in the future?

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

Endorse the Global Appeal for Responsible Microfinance!

The Global Appeal is a worldwide effort to build momentum and commitment to financial inclusion and to responsible finance. It was developed by Convergences and 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 SPF/ 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 Investors in Inclusive Finance
6. Researchers Assist the Microfinance Industry to Learn

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