Responsible Inclusive Finance and Customer Empowerment

UMM Thematic Paper

by the e-MFP University Meets Microfinance Action Group

14th University Meets Microfinance Workshop
Frankfurt School of Finance & Management

September 14th & 15th 2015

ABOUT UNIVERSITY MEETS MICROFINANCE

University Meets Microfinance (UMM) is a European initiative implemented by Positive Planet, the new name of PlaNet Finance. Positive Planet, is an international non-profit organization with a mission to create a better world for future generations, by giving the poorest populations access to financial services, as well as to key essential services.

The growing interest by students and academics as well as the increasing need for knowledge creation and dissemination in the microfinance sector, led to the launch of UMM by Positive Planet and Freie Universität Berlin in 2009. UMM is a European initiative which fosters cooperation between universities, students in Europe and microfinance practitioners to contribute to microfinance innovation and education for development.

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ABOUT THE EUROPEAN MICROFINANCE PLATFORM

The European Microfinance Platform (e-MFP) was founded formally in 2006. e-MFP is a growing network of over 120 organizations and individuals active in the area of microfinance. Its principal objective is to promote cooperation amongst European microfinance bodies working in developing countries, by facilitating communication and the exchange of information. e-MFP members include banks, financial institutions, government agencies, NGO's, consultancy firms, researchers and universities. e-MFP's vision is to become the microfinance focal point in Europe linking with the South through its members. www.e-mfp.eu

The 14th University Meets Microfinance workshop on "Responsible Inclusive Finance and Customer Empowerment" took place at the Frankfurt School of Finance & Management" on September 14th & 15th, 2015. This Workshop was organized in close cooperation with the Frankfurt School of Finance & Management and International Advisory Services.

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Foreword from the European Microfinance Platform

The European Microfinance Platform (e-MFP) is pleased to present the latest workshop report in the "University Meets Microfinance (UMM) Action Group Series". This issue focuses on the output of the 14th University Meets Microfinance Workshop "Responsible Inclusive Finance and Customer Empowerment," which took place in Frankfurt on 14-15 September 2015.

The topic is of special significance to e-MFP, for it looks forward to one of the core issues in financial inclusion. This is not solely a matter of reputation or public perception. When financial inclusion is not pursued responsibly, it not only hurts its customers, it also undermines the very goals of financial inclusion itself. And empowered customers is a critical part of this, for with appropriate channels for communication, customers aware of their rights can be the "regulators in the field" raising warning flags when they see institutions breaking rules. Moreover, empowered customers are the ultimate success metric for financial inclusion – after all, a truly empowered customer is one who has access to a full suite of financial services she needs.

This year's workshop received a lot of interest. More than 70 participants came to learn from 28 presentations by Master and PhD students, professors, researchers and representatives of Donors, Investors, MFIs and non-profit organizations. And 19 students participated in the introductory microfinance seminar prior to the workshop conducted in collaboration by UMM and Frankfurt School, with 7 students taking part in a mentorship session with speakers following the workshop.

Since its inception, the European Microfinance Platform, a growing network of over 120 organisations and individuals active in the area of microfinance, has prioritized the role of research as an essential component for the development of good and sustainable microfinance practices. Therefore, in 2010, the e-MFP University Meets Microfinance Action Group was set up as a result of the interest of several e-MFP members to further enhance exchange and cooperation between microfinance practitioners, researchers, academics and talented students from universities across Europe. Its main purpose is to perform as an innovative task force active at the different levels of education, knowledge creation, capitalization and dissemination in the fields of microfinance and inclusive finance contributing to the development of the microfinance sector.

For e-MFP, it is a pleasure to support excellent and value added initiatives such as the UMM workshops not only because they provide students and academics with the opportunity to present and discuss the outcome of their research with practitioners and contribute to current debates, but also because practitioners get exposure to cutting-edge research and meet talented, future young professionals, academics and other microfinance experts. We thank all the experts involved in this project for their valuable contributions to the publication and invite you to explore the latest findings to stimulate further reflection and encourage additional research in microfinance.

Best wishes,

Christoph Pausch, e-MFP Executive Secretary

Foreword from the Frankfurt School of Finance & Management

Preface

Responsible Inclusive Finance and Customer Empowerment were the key themes of the 14th „University Meets Microfinance"(UMM) workshop at the Frankfurt School of Finance & Management. More than 70 participants from academia, international financial institutions, investment funds and microfinance institutions met to discuss issues reaching from crisis prevention to consumer protection, from disaster insurance for MFIs to the European code of conduct for microfinance providers.

Frankfurt School of Finance & Management has been hosting a UMM workshop annually since 2011. It is a perfect place for an exchange between academia, i.e. faculty and students, and the industry, i.e. representatives of microfinance institutions, donors, investors and NGOs. At Frankfurt School, development finance and microfinance courses are well established parts of the teaching curricula. The Centre for Development Finance has been disseminating and publishing research on microfinance, such as on the impact of the financial crisis on microfinance institutions or the challenges of microlending in rural areas. Frankfurt School's International Advisory Services (IAS) provide consultancy on microbanking worldwide, with products offered ranging from feasibility studies, project evaluation as well as assistance in managing transformation of microcredit NGOs into deposit-taking institutions, to name just a few areas. In addition, IAS organizes the annual summer academies for practitioners, focusing on microbanking, housing and renewable energy finance. Finally, the FS Financial Services connects international investors with emerging financial markets in developing countries.

This unique combination of teaching, research, consultancy and investment allows us to stay in close touch with the microfinance industry. Moreover, it makes us sensitive to the various issues the community is discussing. This also holds for most recent developments, like efforts to provide better frameworks for microfinance regulation and supervision, and the numerous initiatives that have been launched to increase client protection and to raise financial literacy. They reflect the industry' response to several forms of crises it has been subject to over the last years. Examples are the over-indebtedness crises in some mature and fast growing microfinance markets and the "impact crisis". The latter has typically being associated with results of state-of the art impact studies (i.e. randomized control trials, RCTs) suggesting that the impact of microfinance on income, profits and welfare of clients is less transformative than it has been claimed by some microfinance providers and investors.

Against this background, the discussions on Responsible Inclusive Finance and Customer Empowerment, the key themes of the 14th UMM workshop, were again of high relevance when entering the debate about what microfinance can achieve and how some of the shortcomings and challenges the industry has been exposed to can be addressed in the future.

Prof. Dr. Adalbert Winkler

Centre for Development Finance

Frankfurt School of Finance & Management

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Edited by Karla Henning, Excerpts from "Microfinance - a critical literature survey" by Thorsten Beck

An Executive Summary

The workshop opened with Thorsten Beck's presentation titled "Financial Inclusion – What have we learned? What do we still have to learn?" providing a highly valuable frame and context for the following contributions and discussion. Professor Beck based his presentation on a critical survey of the microfinance literature of the past ten years, which he recently conducted for the Independent Evaluation Group of the World Bank Group[1]. The following introduction is a synopsis of this paper and the workshop presentation using direct excerpts.

Inclusion vs Stability – Is there a trade-off?

While the evidence on the impact of microcredit on households and microenterprises is ambiguous, the experience in recent years has also shown the pitfalls of too rapid expansion of microfinance. While MFI loan portfolios have typically shown better performance than bank loan portfolios from the same countries, there are several examples of banks and countries with rapid deterioration of MFI loan performance. Chen, Rasmussen and Reille (2010) report nonperforming loan (NPL) ratios in 2009 reaching 7% in Bosnia-Herzegovina, 10% in Morocco, 12% in Nicaragua and 13% in Pakistan. Most prominently, following a rapid expansion of the microcredit industry, India's Andhra Pradesh saw a major crisis in the sector in 2010. Some of the characteristics resemble those of a classical banking boom and bust cycle. The high growth and profitability of Indian MFIs in many cases led to multiple borrowing and excessive indebtedness among low-income clients. The crisis showed the inadequacy of the regulatory and institutional frameworks (including lack of a credit registry and consumer protection), but was exacerbated by political interventions. On the one hand, microcredit institutions had to compete against subsidized government credit programs; on the other hand, state governments encouraged MFI clients to stop repaying their loans ahead of elections. Schicks and Rosenberg (2011) offer a more general analysis of over-indebtedness in microfinance. They explain the increasing concerns with an increase in competition (more on this below in section 3.5) and saturation in microfinance markets and uninformed or irrational borrower behavior (as already discussed above) that results in over-borrowing. However, there might also be supply-side factors including dynamic lending with ever increasing loan sizes that contribute to the problem. Surveying six studies of microfinance over-indebtedness, they find that it is not always easy to signal problems using quantitative indicators since borrowers might feel compelled to repay, even if it is detrimental to their financial situation and potentially pushes them further into poverty.

Following a crisis like the one in Andhra Pradesh, governments often implement debt relief programs. What effect do these programs have on borrowers and the economy at large? Several papers explore the Agricultural Debt Waiver and Debt Relief Scheme (ADWDRS) for Small and Marginal Farmers announced by the Indian government in February 2008, which cancelled the outstanding debt of more than 40 million rural households across the country, amounting to approximately 1.7 percent of India's GDP. Proponents of debt relief argue that extreme levels of household debt are likely to distort investment and production decisions, and thus debt relief holds the promise of improving the productivity of beneficiary households. Critics of debt relief, on the other hand, worry that writing off loans also implies writing off a culture of prudent borrowing and repayment. Using household survey data Kanz (2012) shows that although this debt relief program reduces over-indebtedness substantially, the program did not manage to reintegrate the recipient households into formal lending relationships, with negative repercussions for their enterprises: beneficiary households reduce their investment in agricultural inputs (which tend to be largely credit financed) and suffer a corresponding decline in agricultural productivity. Gine and Kanz (2013) show that in the wake of the debt relief program, new credit was reallocated from districts where many farmers were being bailed out towards districts with a lower incidence of bailout. In summary, debt relief programs provide short-term relief at the expense of long-term negative repercussions for access to formal finance.

In addition to the risk that over-indebtedness poses for clients and financial institutions alike, financial diaries - documentation of financial transactions of the poor over longer time periods – show that poor households see credit and savings as substitutes, where the former has a large pay-out at the beginning of the contract, while the latter has the payout at the end, and focus more on the cash flow (Collins et al., 2009). These studies confirm that access to formal savings can result in a better protection of resources from other household members especially if the alternative is saving within the household rather than other informal means of saving outside the household (Beck, Pumak and Uras, 2014). Compared to the impact studies on microcredit, the studies assessing the impact of providing access to savings products are, on average, more positive than the literature on the impact of microcredit. However, they also show the need for very specific products and techniques to overcome constraints of low-income households and micro-entrepreneurs.

Two concepts of finance and the poor

Taken together, the empirical evidence so far suggests an important difference between two concepts – *Finance and Poverty Alleviation and Finance for the Poor.* By changing the structure of the economy and

1. "Microfinance – a critical literature survey"(draft 2015).

allowing more entry into the labor market by previously unemployed or underemployed segments of the population, financial deepening (more efficient financial institutions and markets) helps reduce income inequality and poverty, as discussed above. By doing so, financial deepening can help achieve more inclusive growth and also help overcome spatial inequality in growth benefits. It is thus important to understand that the effects of financial deepening on employment and poverty alleviation do not necessarily come through the "democratization of credit" but rather a more effective credit allocation. This also implies that microcredit is not necessarily the most important policy area to reap the benefits of financial deepening for poverty alleviation.

For the poor to benefit directly from financial sector deepening and broadening (*Finance for the Poor concept*) it is important to look beyond credit to other financial services that are needed by the poor, such as transaction or savings services. While it should be a goal to achieve access to basic transaction and savings services for as large a share of the population as possible to thus enable them to participate in the modern market economy, the agenda in boosting access to credit should focus on improving the efficiency of this process, replacing access through political connection and wealth, as it still happens in many developing countries, with access through competition. By channeling society's resources to the most credit-worthy enterprises and projects, the financial system can enhance inclusive growth.

The evidence so far also suggests that even when talking about outreach to the poor (*Finance for the Poor concept*), we should look beyond microfinance institutions to a broader set of financial institutions, including banks. Technology has revolutionized the economics of retail banking, which suggests looking beyond traditional financial institutions to new delivery channels for financial services.

Conclusions

The literature review shows that the effect of microcredit seems limited, with efforts to increase take-up of savings products somewhat more promising. Micro-insurance services also seem helpful with take-up being the main challenge. Digital payment services seem to have the largest immediate success, but research in this area is just starting. As the microfinance industry keeps expanding in institutions, outreach, and products, questions on how to regulate and supervise it properly will become more and more important.

In his paper and presentation Beck points to some important research questions going forward. The challenge in assessing the impact of financial inclusion will be to reconcile micro-interventions and macro-impact. The first macro-level assessments of microfinance expansion have already been undertaken. This "upward trend" in microfinance evaluation mirrors a "downward trend" in the finance-growth literature, which started out with aggregate regressions, towards country-level, industry level and ultimately firm-level studies, with identification strategies getting more refined. The micro- and macro-literature on finance and development have developed relatively separately (also seen by separate chapters in the 2005 Handbook of Economic Growth and with papers in either literature only quoting one of them), bringing them closer together will be a challenge for the future. Another important area is that of the government role. Microfinance addresses very specific market failures; to which extent can we rely exclusively on NGOs and donors to overcome it? There has been a trend towards the visible hand of government through market-friendly interventions (De la Torre, Gozzi and Schmukler, 2007) that try to address market failure without creating government failures due to rent seeking and inefficiencies, including providing infrastructure platforms and covering fixed costs to avoid first-mover and coordination problems.

Over-Indebtedness, Overheating Markets and MIMOSA

Daniel Rozas

About the author

Daniel Rozas is a microfinance consultant and co-founder of the MIMOSA Project and Senior Microfinance Expert at e-MFP. Daniel developed one of the first models to estimate microfinance market capacity, which he used to show that Andhra Pradesh had already developed a severe microfinance bubble a year prior to the 2010 crisis, and has studied numerous markets and institutions that have faced crisis and over-indebtedness, including Morocco, Mexico, and many others. Prior to his microfinance career, Daniel worked for the US mortgage investment company Fannie Mae during 2001-08. This first-hand experience with the extraordinary boom-and-bust cycle that took place in the US mortgage market during this period has been instrumental in shaping his perspective on how credit markets behave during bubble periods. Daniel resides in Brussels, Belgium, and holds an MBA from the University of Maryland and an undergraduate degree in music from the Peabody Conservatory.

Abstract

MIMOSA, the Microfinance Index of Market Outreach and Saturation aims at developing metrics that can serve as benchmarks to which markets can be compared. Markets that substantially exceed levels deemed appropriate can be flagged as at-risk of saturation. MIMOSA introduces a number of innovations, both to microfinance and to credit capacity analysis. The project is the first in the sector to rely on broad macro measures available for most countries in the world to assess capacity. In 2016, MIMOSA will be rolled out to a total of 20 countries, providing timely coverage of the most critical microfinance markets. This will enable investors, regulators, and MFIs to accurately assess where they stand on the credit cycle, and take steps to avoid overheating markets and over-indebting clients.

Article

In the 1970s, the American economist Hyman Minsky developed the Financial Instability Hypothesis – that financial markets, and debt in particular, is the major factor behind the never-ending alternation between boom to bust. Minsky termed this the Credit Cycle: success leading to excess leading to crisis leading to recovery. For much of his life, the theory remained on the fringes of economics, that is, until the financial crisis of 2008 brought his work back from the dusty shelves of university archives.

Like all debt markets, microfinance is susceptible to the credit cycle. During 2008-10, repayment crises in Bosnia, Nicaragua, Morocco and Andhra Pradesh underscored the point. But it's not enough to know that the sector follows the credit cycle. The bigger question is how to identify markets approaching crisis.

In the past few years, much work has been devoted to identify the warning signs: rapid growth, bonus-oriented compensation, high staff turnover, multiple borrowing, and many others. The signs are indeed plentiful, and the industry is getting better at recognizing them. But in the end, these are all fundamentally proxies for the issue itself – too many people borrowing too much. And that is where our knowledge gets murky. What is too much? How many is too many?

Answering those questions is the primary objective of MIMOSA, the Microfinance Index of Market Outreach and Saturation. From the beginning, the project set out to develop metrics that can serve as benchmarks to which markets can be compared. Markets that substantially exceed levels deemed appropriate can be flagged as at-risk of saturation. In doing so, MIMOSA introduces a number of innovations, both to microfinance and to credit capacity analysis more broadly.

The project is the first in the sector to rely on broad macro measures available for most countries in the world to assess capacity. To do so, it dispensed with traditional financial sector metrics, such as credit-to-GDP ratios, and focused on the number of borrowers. The result is a robust, yet simple-to-use framework for assessing market capacity and flagging saturated markets – before they fall into crisis.

What is MIMOSA?

The core of MIMOSA consists of three components: credit penetration, credit capacity, and a battery of supplemental indicators for each market.

• Penetration is simply a measure of credit available in the market, expressed as the number of individual borrowers as a share of the adult population.

• Capacity is a model estimate of how many people can be expected to be active borrowers in a given market. The model is built on data from 191 observations in over 100 different markets.

• A set of risk/mitigant flags that help describe the degree to which a given market is able to support a given level of penetration.

Figure 1: MIMOSA Score Diagram

MIMOSA Score	Penetration over/ under capacity		Num/Pct countries (2014)
	% points	Std Dev	
6	>11.1%	3+	4 / 4%
5	7.4-11.1%	2 to 3	6 / 7%
4	3.7-7.4%	1 to 2	10 / 11%
3	0-3.7%	0 to 1	21 / 23%
2	-3.7 - 0%	-1 to 0	33 / 36%
1	< -3.7%	< -1	18 / 20%

Saturated markets (scores 6–4)

Normal markets (scores 3–2)

Underserved markets (score 1)

A MIMOSA score is a basic function of the degree to which penetration is above/below estimated capacity. This is presented on a 6-point scale, grading markets from "underserved" to "highly saturated." The additional risks/mitigants provide context and meaning to the score.

All of these components are guided by the following rules: keep it simple without being simplistic, rely on data that is meaningful and accessible in most markets, and keep the output both understandable and actionable. If we can't explain it, we won't use it.

What's new in MIMOSA 2.0?

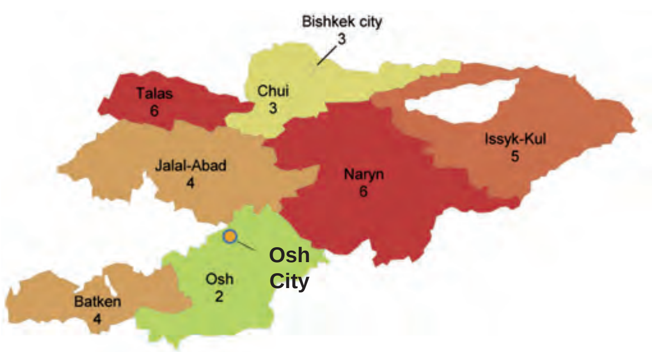
Whereas the original MIMOSA tool showed the potential of the methodology, it had a number of gaps that nevertheless limited the ultimate value of the framework. The current version goes much further. Not only has the model itself been strengthened, it also has greatly increased the depth of the data on which it is built, providing a much more robust and also more detailed view of market saturation.

Surprisingly, even the most basic measure – level of credit penetration – can be difficult to measure. To provide the most accurate measure, MIMOSA 2.0 relies on three tiers of data: macro-level figures from multilateral institutions; supply-side data from regulators and microfinance associations; and demand-side data from credit bureaus and field surveys of potential clients. We look for alignment among the three, and when one or more sources disagree, we dig further until we understand the actual situation.

This process allows us to provide scores not just for a given country, but also for its administrative regions. We now have scores for each of the 25 regions in Peru, 7 oblasts and shaars in Kyrgyzstan, and so on. These are provided in detailed country reports, accompanied by a battery of indicators that highlight the risks and mitigants that support a given level of credit penetration, as well as an analysis of the unique issues facing each market.

This is just the beginning. In 2016, we plan to roll out MIMOSA to a total of 20 countries, providing timely coverage of the most critical microfinance markets. This will enable investors, regulators, and MFIs to accurately assess where they stand on the credit cycle, and take steps to avoid overheating markets and over-indebting clients.

Figure 2: MIMOSA scores for Kyrgyzstan, 2014



Global Microfinance Leaders Launch Initiatives to Prevent Over-Indebtedness and Translate Client Protection Principles into a Model Legal Framework

Anne H. Hastings

About the author

Anne H. Hastings has been the Executive Director of the Microfinance CEO Working Group, a collaborative effort of the CEOs of ten global microfinance networks, since August 2013. Prior to assuming this position she spent 17 years in the leadership of Fonkoze – Haiti's largest microfinance institution, first as Director of Fonkoze and then as CEO of Fonkoze Financial Services, S.A., which she helped to found in July 2004.

Abstract

The Microfinance CEO Working Group is growing into an effective and unique collaboration among CEOs, who used to consider themselves competitors of one another. The members believe that it is possible to build a world in which microfinance has a maximum beneficial impact on the lives of the poor and underserved and is recognized for its contributions to society. They are committed to making this vision a reality.

The microfinance CEO working group: who we are and what we do

The Microfinance CEO Working Group is a collaborative effort by leaders from ten international organizations that promote microfinance around the world: Accion, BRAC, CARE, FINCA International, Freedom from Hunger, Grameen Foundation, Opportunity International, Pro Mujer, VisionFund International and Women's World Banking.

In early 2011, an informal group of industry leaders began to meet to discuss the state of the microfinance sector as it matures and encounters new challenges. Participants quickly discovered a shared perspective on the future of the microfinance industry – one rooted in high standards, client orientation, and collective action. The mission of the Working Group is to support the positive development of its affiliates and the microfinance industry at large so the sector can reach its full potential of bringing financial and related services to those who have traditionally been excluded. Its members advocate in favor of responsible microfinance practices and commit to upholding their organizations to the highest standards.

Today, these 10 CEOs together represent 249 microfinance institutions and 94 savings groups operating in 89 countries and serving 76 million clients. Thus, its global footprint is vast.

To implement its strategy of influencing both its own affiliates and the industry as a whole, the Working Group engages in five principal activities. It

1. Advocates collectively in support of Responsible Microfinance;

2. Strengthens the industry by encouraging the adoption of industry standards;

3. Reinforces the institutions in its networks by ensuring the implementation of best practices;

4. Builds relationships that encourage collaboration among key stakeholders in the industry; and

5. Increases sharing across its networks

Two major initiatives in support of responsible microfinance

One of the most important objectives of the CEOs is to promote and practice what they term Responsible Microfinance. A responsible microfinance institution is, in their definition, one that at a minimum:

• Does everything in its power to protect its clients against harm;

• Is transparent about the fees and interest rates it charges (or pays, in the case of deposits);

• Monitors its effectiveness in achieving desired client-level outcomes; and

• Implements the Universal Standards for Social Performance Management.

An MFI can achieve this by complying with the industry-developed standards of the Smart Campaign, Microfinance Transparency and the Social Performance Task Force.

Over-indebtedness:

There are two initiatives that the Working Group has undertaken to specifically promote Responsible Microfinance. The first was the publication of two companion pieces on the topic of over-indebtedness:

1. Over-Indebtedness in Mexico: Its Effect on Borrowers (In Spanish, El Sobreendeudamiento en México: Sus Efectos en los Prestatarios

2. Over-Indebtedness: A Risk Management Approach (In Spanish, El Sobreendeudamiento: Abordando la Gestion de Riesgos)

Understanding the causes and potential remedies for over-indebtedness is critical to socially responsible lending. The fallout from over-indebtedness can be extensive, not only to the clients whose inability to repay loans can lead to social, economic, and personal problems with long-lasting repercussions, but if over-indebtedness is widespread, it can create adverse economic impact on the community and ultimately cause a significant economic crisis in that region. We have seen tragic examples of this in Bolivia and India just in the last 15 years.

The Working Group and their colleagues in the socially responsible lending community are anxious to avoid a debt crisis in Mexico similar to those that have caused major upheavals in other countries. The Working Group commissioned *Over-Indebtedness in Mexico*: Its Effect on Borrowers to learn about the causes of over-indebtedness in Mexico directly from borrowers and those who are on the frontlines of the loan application and approval process.

The major findings on the situation in Mexico included:

1. In Mexico, 74% of new FINCA applicants had existing loans.

2. Of those with 2 loans, 60% were in arrears. Of those with 4 loans, 80% were in arrears.

3. Borrowers were making efforts to settle their accounts.

4. Lenders were at fault – making loans without regard to borrower's capacity to repay and pushing the costs of reckless loans onto borrowers.

5. To avoid a crisis, lenders should act voluntarily.

Over-Indebtedness: A Risk Management Approach is designed to help other microfinance institutions (MFIs) identify the leading indicators of the trend toward over-indebtedness and mitigate the risks—and ultimately reduce the likelihood that over-indebtedness will happen. The study examines the leading indicators of over-indebtedness and suggests steps MFIs can take to avoid over-indebting their clients. It also identifies the risk mitigants and controls that will reduce the likelihood of MFIs being affected should over-indebtedness hit the wider market.

The major findings on preventing over-indebtedness included:

1. Use credit bureaus; if you have none share information with competitors.

2. Strengthen the process of borrower screening.

3. Assess market-competitive hotspots, and reduce borrowing or withdraw if necessary.

4. Adopt a provisioning policy that takes into account the number of client loans.

5. Provide financial education with loans, and discuss the risk of over-indebtedness.

The Working Group hopes these two papers will be the catalyst for an open dialogue among practitioners and thought leaders in the microfinance sector so that we might collaborate to develop preventive solutions. As these initiatives become established, the Working Group will share these resources with other MFIs and the microfinance sector. We also plan to provide additional platforms to continue the fruitful discussion of over-indebtedness remedies.

In addition to the analysis and recommendations in the papers, our findings have already spurred some of the Microfinance CEO Working Group's MFI members to create additional resources to help the entire sector mitigate and prevent the causes of over-indebtedness. For example:

• One MFI outlined 24 ways to mitigate over-indebtedness and has implemented those methods throughout its networks.

• Another MFI recalibrated relevant internal policies and loan handling procedures to ensure that processes and incentives are in place at every level to detect the early warning signs of over-indebtedness, prevent situations of over-indebtedness, and promote responsible microfinance.

• Other MFIs are engaged in developing client education initiatives, including financial literacy programs, to communicate the consequences of over-indebtedness and methods to prevent them from falling into the same trap.

• Other MFIs are working with regulators to develop client protection programs in those countries.

Model legal framework

That brings us to the second major initiative the Working Group has undertaken in its efforts to promote Responsible Microfinance: the publication and dissemination in April 2015 of *Client Protection Principles: Model Law and Commentary for Financial Consumer Protection* (the Model Legal Framework). This document, which is available in English, French, Spanish, and Russian, creates a legal framework for financial consumer protection based on the seven Smart Campaign's Client Protection Principles:

1.Appropriate product design and delivery

Providers will take adequate care to design products and delivery channels in such a way that they do not cause clients harm. Products and delivery channels will be designed with client characteristics taken into account.

2. Prevention of over-indebtedness

Providers will take adequate care in all phases of their credit process to determine that clients have the capacity to repay without becoming over-indebted. In addition, providers will implement and monitor internal systems that support prevention of over-indebtedness and will foster efforts to improve market level credit risk management (such as credit information sharing).

3.Transparency

Providers will communicate clear, sufficient and timely information in a manner and language clients can understand so that clients can make informed decisions. The need for transparent information on pricing, terms and conditions of products is highlighted.

4. Responsible pricing

Pricing, terms and conditions will be set in a way that is affordable to clients while allowing for financial institutions to be sustainable. Providers will strive to provide positive real returns on deposits.

5. Fair and respectful treatment of clients

Financial service providers and their agents will treat their clients fairly and respectfully. They will not discriminate. Providers will ensure adequate safeguards to detect and correct corruption as well as aggressive or abusive treatment by their staff and agents, particularly during the loan sales and debt collection processes.

6. Privacy of client data

The privacy of individual client data will be respected in accordance with the laws and regulations of individual jurisdictions. Such data will only be used for the purposes specified at the time the information is collected or as permitted by law, unless otherwise agreed with the client.

7. Mechanisms for complaint resolution

Providers will have in place timely and responsive mechanisms for complaints and problem resolution for their clients and will use these mechanisms both to resolve individual problems and to improve their products and services.

The model legal framework is intended to have three main uses:

1. Policy makers can use it as a tool in developing actual legislation to be enacted. Although changes to fit the legal context of a jurisdiction are inevitable, the Model Law is intended to form a complete legal regime for client protection in line with the Client Protection Principles. However, the Model Law is also designed to facilitate adoption in parts, where individual sections or provisions may be adopted to fill in legal or regulatory gaps.

2. It can also be used to assess a given jurisdiction's client protection regulatory regime. By setting the Model Law side-by-side with a jurisdiction's current legislation and regulation, policy makers and commentators can easily assess how that jurisdiction's legal framework compares with a model approach.

3. It may serve as a resource for the development of codes of conduct and guidelines, either for a single financial service provider or for any group or industry association. While the document is in the format of legislation, the systems and approaches described in the Model Law may provide guidance on effective ways to ensure Client Protection through the internal operation of institutions.

The lead author of the Model Legal Framework is DLA Piper/New Perimeter. DLA Piper is a global law firm with 4,200 lawyers located in more than 30 countries throughout the Americas, Asia Pacific, Europe and the Middle East, positioning it to help companies with their legal needs anywhere in the world. New Perimeter is a nonprofit organization establish by DLA Piper to provide pro bono legal assistant in under-served regions around the world to support access to justice, social and economic development and sound legal institutions.

The response to the release of the Model Legal Framework has been extraordinarily positive. Many central banks and associations of regulators and even microfinance country associations have reached out to request presentations, trainings or workshops about the Model Legal Framework. Regulators seem thirsty to address the challenges presented by client protection.

It is not surprising that the Model Legal Framework has received such a warm welcome by regulators. Financial consumer protection regulation is becoming increasingly important whether one is talking about microfinance or the commercial banking sector or mobile money providers. Well-designed and effectively implemented regulation can:

• Reduce the level of risk to which clients are exposed;

• Protect clients and provide a mechanism for documenting and investigating complaints;

• Reduce systemic risk and promote client confidence in the financial system;

• Avoid the misuse of financial institutions for criminal purposes (e.g., money laundering);

• Prosecute cases of market misconduct;

• License providers of financial products and services;

• Protect banking and client data; and

• Promote the development of the sector and access to finance.

Over-Indebtedness of Mineworkers in South Africa

Magauta Mphahlele

About the author

Magauta Mphahlele holds a BA in Psychology and Applied Linguistics, an Honors Degree in Applied Linguistics, and a Postgraduate Diploma in English Education, from Wits University. She is a registered debt counselor and accredited court mediator. Her extensive experience in credit and general consumer protection spans more than 15 years. The Consumer Protection Act and National Credit Act were conceptualized, consulted on and passed into law under her leadership as the Consumer Law Reform Project Manager at the Department of Trade and Industry. She is currently the CEO of Ithuseng Credit Solutions t/a the National Debt Mediation Association. A company, that provides debt management assistance to consumers and corporates.

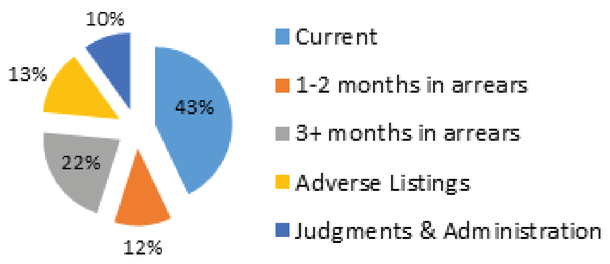
Abstract

The article describes the trends identified by the National Debt Mediation Association in its work of assisting consumers who are struggling with debts in South Africa. The trends relate to work done in one of the largest South African Mines. The mine intended to provide access to housing through providing a portion of the cost of the house through a subsidy and letting the consumer apply for a mortgage bond for the remaining portion. An assessment of the credit health and affordability of the mineworkers showed that from an 8% sample of 8000 mineworkers 64% of the mineworkers had excessive debts and would not qualify for a mortgage bond. This is a serious problem as it prevents mineworkers from accessing much needed housing unless the mine implements a sustainable debt rehabilitation program or provides fully subsidized housing.

Levels of debt in South Africa

South Africa has a population of close to 55 million. Statistics issued by the National Credit Regulator for the quarter ending June 2015 showed that the number of credit active consumers was 23.3 million and of these, 10.5 million have impaired records. The table below illustrates the indebtedness picture in South Africa:

Figure 1: Credit Status of South African consumers Q2 2015



Credit health assessment of Mineworkers

Between May and September 2014, the NDMA completed an assessment of the credit health of a sample of mining employees in the Rustenburg, Brits, Lydenburg, and Steelpoort areas. This exercise was done through face to face interviews with each miner on site based on their credit bureau report, payslip, bank statements and an analysis of their household expenditure. A total of 658 assessments were completed which represents nearly 8 % of the lower level staff of the mine concerned. The mineworkers were placed into five categories with 1-2 being a healthy status and 3-5 being an unhealthy status in varying degrees.

Figure 2: Credit health assessment outcomes

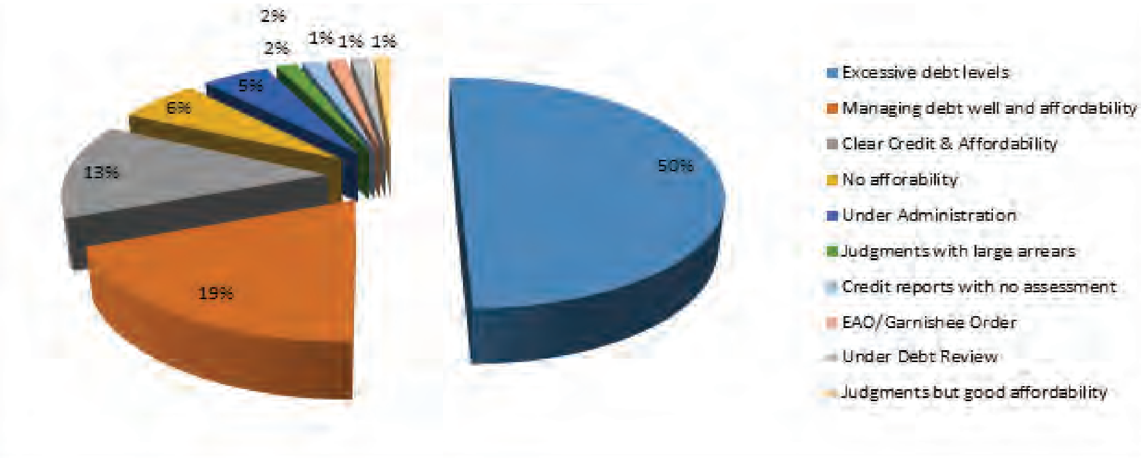
Of the 658 completed assessments, 422 (64%) fell into categories 3 – 5 where employees require some form of debt rehabilitation intervention due to excessive debt levels, negative credit status (judgments, administration, debt review, arrears) or a combination of the two. Many in this category were struggling to meet their monthly living expenses, let alone pay their debts. The remaining 36% fell into categories 1 – 2 where employees require minimal preventative interventions as they have manageable debt levels and a clean credit record.

Levels of debt of mineworkers

The graph below indicates that 50% of the mineworkers had excessive debt levels that leave them with no surplus at the end of the month to adequately cater for their essential living expenses and debt repayments. Employees in this category are highly stressed and could have job performance problems. Only 32% have manageable debt levels and affordability, while the remainder have taken up a debt management remedy and are legally prevented from accessing credit as they are under administration, debt counselling, or have judgments against their name.

Many mineworkers also took out short term credit, which are loans averaging R8000, payable over six months at 5% per month. Most payday lenders offer similar credit, often the most expensive and creating the most hardship as the full amount borrowed has to be repaid the next month. Mineworkers use this as revolving credit that keeps them in a never ending debt spiral.

Figure 3: Consolidated credit shape of mineworkers 658 assessments



Workshop discussions

The workshop participants were alarmed by these statistics and there was a long discussion of why and how this problem can be resolved. What was further noted was how traditional microfinance loans only make up less than 2% of the total debtors book amounting to 1.6 Trillion Rands. Just above of 80% of the credit is accessed from Banks and the remainder from retailors, non-bank vehicle financiers and other credit providers. It was apparent that a long term study was required to track the success of the credit health coaching and debt rehabilitation programs implemented by the NDMA.

Observations and recommendations

The cases revealed that mineworkers had a limited understanding of types of credit and the cost of credit, resulting in the uptake of expensive or unsuitable credit products. Some mineworkers took out large unsecured loans (e.g., R150 000) with the intention to use the money to build a house or buy a car but the money ended up being used for general consumption. Currently the interest rate for personal unsecured loans is 33.3% while for mortgages the maximum is 18.2% although banks charge the repo rate (9.5%) and an additional percentage depending on one's risk profile. Although it would have been more affordable to obtain secured vehicle finance or mortgage at a lower interest rate, some mineworkers said they preferred unsecured loans as banks were "notorious for repossessing cars and homes". So for them an unsecured loan is considered "secure" as the risk of repossession is eliminated.

The mine workers earn a basic salary that is supplemented by regular bonuses or overtime pay. Usually this extra income is included in the affordability assessment by the credit provider, which creates major problems should the extra pay not be realized due to a work stoppage, strike or if production targets are not met.

Hot issues

- Why microfinance or developmental credit is not taking off in South Africa;
- What programs can regulators and other stakeholders implement to effectively prevent and combat high levels of over indebtedness;
- What drives the high levels of over indebtedness?

KfW Development Bank‘s Approach to Promoting Responsible Finance in Financial System Development

Irina Eichenauer

About the author

Irina Eichenauer has been working for KfW Development Bank since end 2007 and currently holds a position as Senior Sector Economist in the Financial Sector Policy Unit where she is responsible among others for Agricultural, Education and Responsible Finance. Prior to her appointment as a Senior Sector Economist, she worked as a Project Manager in Financial System Development in Kyrgyzstan and Tajikistan. She graduated with a Master's degree in Development Economics, Finance and Banking at Justus-Liebig-University of Giessen (Germany).

KfW is one of the world's leading and most experienced promotional banks. As an integral part of the KfW Group, KfW Development Bank carries out Germany's Financial Cooperation with developing and emerging countries on behalf of the Federal Government. The staff at its head office in Germany and in about 70 local offices cooperates with partners all over the world. Its goal is to combat poverty, secure the peace, protect the environment and the climate and make globalization fair. For more information please visit www.kfw.de

Abstract

This article describes the approach of KfW Development Bank to Responsible Finance. Responsible Finance is the guiding principle of KfW Development Bank in general and in particular for projects aiming at promoting financial system development in transition and developing countries. KfW Development Bank takes a holistic approach to Responsible Finance with activities at three different levels of intervention, which are described in detail in this article: the policy level, sector level and the institutional/project level.

The rationale

Financial system development is an important area of intervention for many Development Finance Institutions (DFIs) and donors, and constitutes one of the focal sectors of KfW Development Bank. A sound and stable financial system is a prerequisite for economic development and growth of any country. Supporting financial intermediaries in offering their clients a wide array of financial services – from loans and savings products for MSMEs (micro, small and medium-sized enterprises) and private households to affordable insurance products for the poor – contributes to creating employment, establishing a savings culture and protecting poor people and their families against personal shocks and natural disasters. Responsible Finance is key for these positive effects to happen. Regulatory authorities need to adjust their legal and regulatory framework by setting and enforcing rules that ensure a certain level of consumer protection[1]. Financial intermediaries need to adhere to the regulation on Responsible Finance and foster the establishment of industry codes of conduct committing themselves to a fair and responsible business conduct.

The customers themselves need to increase their understanding of basic financial products – taking advantage of financial literacy projects in their country – and to adjust their behavior in order to protect themselves against irresponsible lending practices and overstretching their capacity to repay. Donors and DFIs supporting financial system development in transition and developing countries also have an important role to play. Their activities at different levels of intervention can advance Responsible Finance. This article describes the approach of KfW Development Bank to Responsible Finance.

Responsible finance – a guiding principle

Responsible Finance is the guiding principle of KfW Development Bank in general and in particular for projects aiming at promoting financial system development in transition and developing countries. KfW Development Bank takes a holistic approach to Responsible Finance with activities at three different levels of intervention – the policy level, sector level and the institutional / project level.

Fostering policy dialogue

As an implementing agency of the German Ministry for Economic Cooperation and Development and as an important player in financial system development, KfW Development Bank's role at the policy level is to address all issues related to Responsible Finance in the dialogue with regulatory bodies, ministries or any other public institution in its country of cooperation. In most of its partner countries, KfW Development Bank is an active member in or even chair of donor consultation groups on financial system development. Putting client protection principles and all issues related to Responsible Finance on the agenda of these consultation groups, facilitating cooperation of the donor community, regulators and the industry on making progress in establishing Responsible Finance practices in the country are important contributions to spreading the concept of Responsible Finance.

1. Dorasil, Susanne et al., 2011. Responsible Finance Forum „Advancing Responsible Finance for Greater Development Impact“. Washington DC, World Bank.

Supporting responsible finance at sector level

At the sector level, KfW Development Bank initiates or actively supports a broad range of initiatives aimed at advancing Responsible Finance. In some countries, as for example in Ghana[2], KfW Development Bank initiates and co-finances over-indebtedness studies. The purpose of these studies is to understand whether over-indebtedness of certain client segments or in certain areas is observed and to adapt the set of instruments and measures offered to financial intermediaries in order to prevent overheating and over-indebtedness.

Another type of intervention is the active promotion of savings as a counterbalance to credit. From the Responsible Finance perspective, savings are important as they can serve as a cushion in times of struggle and help clients to cope with adverse events such as death, illness or natural disasters without being forced to sell off assets, compromise on food, health care or schooling of children or take expensive emergency loans. In the Democratic Republic of Congo (DRC), KfW Development Bank initiated the World Savings Day with the support of Sparkassenstiftung which was supported by all large players in the financial sector. The initiative aims at creating awareness for the importance of savings, especially among the young population, and also at facilitating financial literacy of clients.

Setting up or capitalizing Deposit Insurance Funds such as in Montenegro, Serbia or Azerbaijan is another example of KfW Development Bank activities in the area of Responsible Finance at the sector level. Deposit Insurance Funds can significantly contribute to the stability of and to increasing clients' confidence into the financial sector, thus encouraging savings in a country.

Credit information sharing systems - also referred to as Credit Bureaus - are an important pillar of a country's financial sector infrastructure and crucial for preventing over-indebtedness. Sharing clients' credit information between financial intermediaries enhances credit analysis, especially the assessment of the client's capacity to repay which can reduce the risk of default that is usually correlated with multiple lending. Empirical studies confirm the positive contribution of these systems to increased lending and lower credit risk[3] and to reduced credit rationing that is commonly used by banks as a means of managing risk of default[4].

2. Schicks, Jessica, 2011. "Over-Indebtedness of Microborrowers in Ghana". Center for Financial Inclusion Publication No. 15. The study was financed by KfW, SMART Campaign, Marie Christina Adam Foundation and the German National Merit Foundation.

3. Brown, M., Jappelli, T. and Pagano, M., 2009. Information Sharing and Credit: Firm - level evidence from transition countries. Journal of Financial Intermediation 18 (2009).

4. Bennardo, A., Pagano, M., Piccolo, S., 2007. Multiple-bank lending, creditor rights and information sharing, University of Salerno.

KfW Development Bank has supported setting up Credit Bureaus in a number of partner countries, for example in DRC and Uganda.

Range of activities at institutional and project level

Although the above mentioned measures at the policy and sector level are crucial for establishing Responsible Finance in the financial system of transition and developing countries, the general mandate of KfW Development Bank[5] implies a focus on the institutional or project level. These activities and approaches can be described along the project cycle.

In the phase of project preparation and appraisal, Responsible Finance aspects are included as an essential part of the financial sector analysis. When analyzing the demand for a certain product at the client level and the instruments to be deployed to enable a financial intermediary to address this demand, the overall competitive situation in the market is analyzed very thoroughly. Questions such as 'Are there signs of overheating and over-indebtedness in the country, and if yes, in which specific client segment or region?', 'How aggressive is the growth of the industry and how good is the overall portfolio quality?', 'Is there a well-functioning credit information sharing system in place and is it used by the major players in the market in order to avoid excessive multiple lending?' or 'Is a sound Client Protection Regulation that protects clients rights in place and is it implemented and monitored accordingly? Does the industry adhere to it?' need to be answered.

The selection of partner financial institutions is another important step at which Responsible Finance aspects are addressed. Selecting the "right" partners is the approach that is taken by KfW Development Bank. Funding is provided only to those financial intermediaries that regard Responsible Finance as a core element of their business model and have appropriate strategies to achieve this. The analysis of the Responsible Finance performance of an institution is an integral part of KfW Development Bank's due diligence process. Adherence to Responsible Finance principles is also included in formal agreements between KfW Development Bank and partner financial institutions.

In the project design process, the identified needs of clients and financial intermediaries are put at the center and approaches that respond best to these needs are chosen. In some countries, rural outreach is in a nascent stage or agricultural clients are severely constrained in their access to adequate financing.

5. In the Framework of German Development Cooperation KfW's mandate as an implementing institution of the German Ministry for Economic Cooperation and Development is to finance investments in transition and developing countries. These investment projects are usually accompanied by technical assistance measures aiming at ensuring a successful project implementation. Policy and sector advice is the focus of GIZ.

Responding to these needs by providing partners with adequate instruments such as long-term local currency funding and equipping them with the required knowledge and skills to serve their clients is regarded as an important facet of Responsible Finance at KfW Development Bank.

Most of KfW Development Bank's projects usually deploy two instruments provided to partner financial institutions: refinancing funds / credit lines and accompanying technical assistance in order to enable the partner financial institution to effectively and sustainably provide financial services to clients that were selected as the target group of the project. This technical assistance can be partly utilized for providing support in specific areas related to the Responsible Finance performance of a partner institution. Measures that can be considered range from revising loan contract forms or advertisement material to increase transparency and the level of understanding of the client to providing specific targeted assistance to prepare an institution for a SMART Campaign Certification. Obliging partners to submit and request credit information from Credit Bureaus (where existent and well-functioning) in formal agreements is another example of effective measures that can be taken to improve transparency in the sector and avoid overindebtedness.

When providing equity to financial intermediaries or funds, KfW Development Bank commits itself to the “buy and hold” strategy, taking a long term investment perspective and an active role in the development of the investee. This strategy translates into balancing social and financial returns as a shareholder, promoting the additionality of the investee in the market by serving underserved client segments, supporting the investee in enhancing its Responsible Finance performance and in acting as a role model for other financial intermediaries in the country or region.

KfW Development Bank also accepts responsibility beyond the promotion of Responsible Finance in financial system development. Environmental and social impacts as well as sustainability are key principles for all projects implemented by KfW Development Bank. The sustainability guidelines are embedded into the processes of the entire business area and form the basis for the integrated environmental, climate and social impact assessment (ESIA) that every project has to pass in order to be eligible for funding.

Responsible Finance is the guiding principle for KfW Development Bank's activities in financial system development. KfW Development Bank can draw on a long history of cooperation with financial intermediaries in developing and transition countries in which it has gathered vast experience with regard to Responsible Finance. It feeds in this experience into the policy and sector dialogue. KfW Development Bank's approach at institutional and project level contributes to enhancing its partner financial institutions' Responsible Finance performance and beyond.

The Rationale and Concept of the European Code of Conduct for Microcredit Providers

Karl Dayson

About the author

Professor Karl Dayson is Associate Dean (Research and innovation) and Director of Salford Institute of Public Policy. He was elected a Royal Society of Arts Fellow in 2009. He is also the co-founder of Community Finance Solutions (CFS), a research and development unit within the University of Salford. CFS specializes in researching and developing alternative financial providers and services based on the needs of citizens. Under Karl's leadership CFS won the Times Higher Award for Outstanding Contribution to the Local Community in 2005 and they have been involved in the creation of 13 microfinance institutions across England. In 2008, with Pål Vik, he won the European Microfinance Network's 'Research Paper of the Year' for their work on sustainability of microfinance institutions. This led to work for the European Commission on the future of microcredit across the continent and the production of the 'European Code of Conduct for Microcredit Providers in Europe' in 2011. He is now working for the European Commission on developing the methodology for the implementation of the code. He's current research includes the future of community finance, using technology to deliver personalized financial services and using Big Data to develop public policy databases. Alongside this Karl has work on the development of Community Land Trusts in England and Wales. Karl is a member of the University's Research Committee and is the Chair of Monyline's Social Impact Board (Moneyline are the largest social enterprise in the country delivering personal financial services in low-income communities).

Abstract

The article draws on the rationale and concept of the European Code of good Conduct for Microcredit Providers which was intended to set out good practice guidelines that will better enable the sector to face the challenges of accessing long-term finance, maintaining and raising the quality of services and moving towards sustainability. The author argues that there are a number of issues that should be resolved before any work begins on the clauses. Among those as described in the article is a process to manage non-compliance, standards to drive up performance, avoidance of working at the speed of the poorest performer and the need of transparent and standardized measures of performance

Introduction

On 13 November 2007, the European Commission adopted a communication entitled "*A European initiative for the development of micro-credit*"[1] . The communication recognized that a code of good conduct would be a good way to spread customer-friendly good practice among MFIs. It further stated that making available consistent guidelines for MFIs should help establish business standards, streamline practices, provide lending security and last but not least, reinforce the operational efficiency of the technical assistance of the JASMINE facility[2] managed by the European Investment Fund (EIF).

It was against this backdrop that the European Commission organized a series of workshops with stakeholders in early 2010 to explore the development of a Code of Good Conduct for the sector. Subsequently following a competitive tendering Community Finance Solutions, a research center at University of Salford, was funded to coordinate and draft a European Code of Good Conduct for Microcredit Provision.

The development of the Code was based on the recognition that in light of the disparate regulatory frameworks in which microcredit providers in the EU operate there was a need for a unifying set of expectations and standards that was common to the sector for the benefit of the sector itself as well as its funders, investors, customers, owners, regulators and partner organizations. The Code sets out good practice guidelines that will better enable the sector to face the challenges of accessing long-term finance, maintaining and raising the quality of services and moving towards sustainability. The purpose of the Code was not to introduce nor replace existing regulation of microcredit providers. Rather it was intended to detail a set of common standards in terms of the operation of and reporting by providers.

Part of the justification for the creation of the Code were a series of global challenges facing the microcredit sector. These included: questions about loan book of Grameen Bank and the entire approach of efficiency by growth strategy; doubts about whether they actually help the poor, especially regarding the pricing policies; with the mission is appropriate or should the focus be on encouraging savings; whether the financial performance is less impressive than the sector advertises, with a reliance on hidden subsidies; and whether microfinance crowds out other anti-poverty initiatives. Consequently as sector has grown, there

1. Accessed on 18th December 2013 at http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2007:0708:FIN:en:PDF
2. JASMINE is a joint initiative from the European Commission and the European Investment Bank group to support the development of non-bank microcredit providers/ micro-finance institutions in the European Union.

has been greater pressure for regulatory oversight. This can been viewed as the microfinance industry's '*governance turn*'[3].

Internationally, there are many frameworks, benchmarking tools, guidelines and codes of conduct and practice to guide the operation, management and governance of MFIs. As part of the work for the European Commission we conducted a review of over 60 existing frameworks for MFIs and highlight four key areas that drafters of any future codes should take into account:

1. Peer-group differentiation

The microfinance sector is diverse in many respects, including institutional and legal form, target market and services provided. This means that direct comparisons and identical standards may be neither fair nor purposeful and it may be meaningless to exert identical standards and procedures on very different institutions. Frameworks can facilitate purposeful comparisons and recommend meaningful standards by allowing for differentiation in two ways. First, they can create peer groups based on one or several characteristics of the MFI or of the environment in which it operates (e.g. size, region, etc.). MFIs in the same peer group can then be compared with each other. These though still need to be broad enough for a comparable sample. Second, they can define and specify the type of institutions to which the standards or procedures in question apply (or do not apply). This can be based on the notion that some standards have no relevance for certain institutions (e.g. prudential regulation may not be appropriate for MFIs not taking deposits, while it may have obligations to investors) or that the standard is unsuitable (e.g. that it is too extensive for smaller MFIs etc.). Generally few of the frameworks reviewed operate with explicit differentiation, that is consciously allocate organizations to groups of MFIs with which they are comparable or single out MFIs for which certain standards and procedures do not apply (or vice versa).

2. Data validation

Generally explicit external validation tends to be limited to ratings. Ratings cater to investors, forming key basis of their investment decision, and as such tend to come with demand that the information provided is externally verified. Rating agencies also tend to be paid through subscription fees or assessment fees which help fund external validation in the form of site visits or other forms of external validation. It was identified early in the development of the Code that external validation of compliance would be essential to ensure that it was seen as robust and meaningful.

3. Rating/scoring

There are investment and credit ratings which measure riskiness of investing in and lending to certain institutions based on liquidity, asset quality and earnings or a similar combination of measures. They tend to rate institutions on a scale from AAA (excellent) to D (poor) and they cater investors as opposed to serving managers as an internal management tool. A few frameworks provide a rating associated with investment and lending risk. These included GIRAFE, ACCION CAMEL and CARS. They are to varying degrees based on mainstream rating methodologies. GIRAFE and CARS also measure social performance. The fact that there are relatively few frameworks producing ratings is most likely a reflection not only of the difficulty of the process but, also, of their currently being relatively few investors and investment-ready MFIs.

4. Penalties for non-compliance

The issue of non-compliance is of crucial importance. If signing up to a code is to give customers, owners, investors, funders and regulators some level of assurance then non-compliance must have some repercussions. Generally this is the weakest area for all of the frameworks. Very few have any explicit mechanisms for discovering let alone dealing with non-compliance. The issue of how to deal with non-compliance was identified as a key issue early on in the process. Compliance is assessed by an external evaluator after MFIs express an interest in signing up to the Code. If the MFI fails to reach the threshold for compliance, it will not be recognized and listed as having signed up to the Code. This process will be repeated every two years. Furthermore, investors, customers and stakeholders can report non-compliance to the steering group which will investigate such cases. The clauses were designed to be specific and contained clear guidance on what would constitute compliance. This will make it easier for the evaluators, investors, customers and stakeholders to identify and report non-compliance.

Conclusion

Having developed the European Code of good Conduct for Microcredit Providers there are a number of issues that should be resolved before any work begins on the clauses. Specifically, without process to manage non-compliance there will be a dilution of the effectiveness of a code in setting standards and gaining external credibility. The standards within the code should be exacting standards to drive up performance. Avoid working at the speed of the poorest performer, but give participants time to comply. There needs be transparency and standardized ways to measure performance, so external comparison is possible.

A code of good practice is also only meaningful and appropriate in certain circumstances, especially where regulation of MFIs is inappropriate, due to scale, where the sector poses limited systemic risk, or there are no prudential risk factors. A code is beneficial where there is an absence of effective self-regulation and yet there is a commitment need to raise standards.

3. Dayson, K & Vik, P. (2014) 'Towards an Architecture of Microcredit Regulation: The Case of the European Code of Good conduct' Cost Management, March/April

Contribution of Fi-Compass EaSI TA Services to Responsible Finance and Customer Empowerment

Silke Müffelmann

About the author

Silke Müffelmann has gained sound specialist knowledge and management experience in the field of microfinance and banking during the last 23 years, thereof 20 years equally distributed between team leading and general management roles in more than 40 countries including conflict countries. She is an internationally recognized Microfinance, SME and technical assistance expert covering most of the topics including MSME finance, social performance, governance, risk management, marketing, greenfielding and crowdfunding. She has organized and conducted capacity building activities for regulators, university students, greenfield MFIs, non-bank institutions and banks. Currently, Silke Müffelmann is the Head of Frankfurt School´s Microbanking Competence Centre, and develops Team Leading and Senior Project Management roles for a variety of advisory and training projects, including the recently launched EaSI TA Project for microfinance on behalf of fi-compass/EIB and EC/DG EMPL. She has participated in various international networking events & conferences as speaker and panelist. Silke holds a university degree in Business Administration. Her native language is German and she is fluent in Spanish, Romanian and English.

Abstract

Remarkable differences between European markets and developing and transition countries explain the characteristics of the microfinance industry in Europe. A recently launched technical assistance programme to support the European Microfinance sector aims to strengthen a currently small microfinance sector that primarily targets vulnerable groups and very small micro companies. As lending practices, type of institutions, missions and regulatory frameworks vary considerably in Europe, the European Commission introduced the "European Code of Good Conduct for Microcredit Provision" which provides guidelines and standards which allow for better market conduct in the European microfinance sector as a whole. The Code positions itself between global initiatives, such as the SMART Campaign or the Universal Standards of the SPTF and provides even more rigid guidelines in order to support responsible finance practices and customer empowerment within European microfinance.

Context

Because of developed factor markets, access to finance is a concern for smaller companies in Europe when it comes to providing financial solutions for marginalized groups. This situation has become even more critical in view of the current socio-economic context on the European continent. In Europe, the importance of microfinance for employment creation in form of contractual employment and social inclusion prevails. Microfinance that is supporting self-employment and financial inclusion, driven by less developed factor markets, is likely to be found in developing and transition countries.

Against this background it is not astonishing that the European microfinance sector in general can be characterized as relatively small compared to its international peers.

In 2013 a survey in 24 European countries estimated the microfinance market to have a total volume of EUR 1.5 billion distributed in 450,000 loans[1]. As a comparison in the MixMarket database[2], the largest microfinance markets in the world can be found in developing countries. For the same year, the leaders in terms of numbers is India (32 million loans) and in terms of loan volume is Peru (USD 9 billion).

Another important characteristic is the diversified regulatory framework in the EU. This leads to a variety of institutional forms of Microfinance institutions which are called 'Microcredit Providers'-MCPs in the case of Europe. We are talking here about commercial and cooperative banks, non-banking financial institutions, NGOs, credit unions, community development finance institutions and local enterprise agencies.

In order to streamline market conduct and introduce customer-friendly good practices for the microfinance sector in Europe, in 2011 the European Commission (EC) released a European Code of Good Conduct for Microcredit Provision (Code). This Code provides standards for governance, strategic planning and risk management on one hand and addresses typical issues of consumer protection and responsible finance on the other hand.

EaSI TA - A unique programme to support European microfinance

Against this background, a technical assistance (TA) project to support the European MCPs was launched mid-2015. It is funded by the EC in partnership with the European Investment Bank (EIB). EIB has set-up fi-compass, a unique advisory platform for a) financial instruments under the European Structural and Investment Funds (ESIF) and b) microfinance under the Program for Employment and Social Inclusion (EaSI).

1. I EMN 2012-13 Overview Survey of the Microcredit sector in the EU. http://www.european-microfinance.org/
2. www.mixmarket.org

The related TA Program has two components which are intended to enhance best-practices for European MCPs that will lead to increase access to finance for vulnerable groups and micro finance. The first one is related to the offer of a rating or institutional assessment for more mature (in case of rating) or less mature (in the case of institutional assessment) MCPs. Further on, the package also includes the evaluation of the implementation of the Code by MCPs and the creation of a European database for microfinance, similar to MixMarket but including more social and customer related indicators (database is named MicPro). The second component covers direct technical assistance and training services to support MCPs on that cross-road. In addition, this component also makes microfinance market development services publicly available, such as workshops and seminars on microfinance related topics, and a helpdesk to lodge information requests on microfinance in Europe, in order to promote the spread of best practices and improve the visibility of microfinance in Europe.

Via social mission - more responsible finance and customer empowerment?

The stated missions of the European MCPs show a high diversity with regard to economic and societal policy goals. Microenterprise promotion is the most widespread goal, with more than two thirds of all surveyed organizations by the European Microfinance Network (EMN) 2013 survey including it as part of their mission, followed by job creation (58%), social (56%) and financial inclusion (50%). Organizations with a specific focus on women and migrant empowerment form a smaller part of the surveyed organizations (29% and 20% respectively). The vast majority of the European MFIs (85%) include at least one dedicated employment goal in their mission (microenterprise/SME promotion and/or job creation).

Do these social-focussed missions translate into more responsible finance practices and empowerment of clients in Europe? As a matter of fact, the countries in the EU have a rather strong consumer protection system which is also complemented by respective directives of the European Commission. In general, the position of European microcredit customers is likely to be expected stronger than for those in developing and transitioning countries. Reflecting international best-practice and for guaranteeing a unified and adequate treatment, the Code contains important elements that, when implemented, provides a reasonable framework for providing responsible finance and empower customers of European MCPs.

European code of good conduct within global initiatives

As lending practices, type of institutions, missions and regulatory frameworks vary considerably in Europe, the "European Code of Good Conduct for Microcredit Provision" was identified by the EC as an important element to promote harmonized best practice in the sector. The acceptance of the Code is purely voluntary and is not expected to disrupt any legislative requirements in any of the EU member countries. The Code primarily applies to non-bank MFIs providing loans of up to EUR 25,000, and encompasses a set of unifying standards for the sector. The main goal is to benefit the microfinance sector at large, including its funders, investors, customers, owners, regulators and partner organizations. It is mandatory for the recipients of the components of the EaSI TA and funding as well as for other EU funding for microfinance.

The Code is divided into five indexed sections: 1) Customer and Investor Relations; 2) Governance; 3) Risk Management; 4) Reporting Standards and 5) Management Information Systems. The sections 1) and 4) especially implement a set of standards that accounts to ensure responsible finance practices and empower customers of MCPs, as stated below:

Figure 1: Responsible finance and customer empowerment in the code

Source: http://ec.europa.eu/employment_social/employment_strategy/new skills for new jobs/microfinance/Microcredit_self_assessment_tool.xlsm

Customer and Investor Relations:

• Public and contractual disclosure of APR (in marketing material and contractual documents)

• Right to early withdrawal of customer or repayment of up to 14 days from credit agreement without incurring in extra-costs

• Provision of annual loan statement to customers in case of loans with more than 12 months period

• Regularly assess customer satisfaction

• Sophisticated customer complaints mechanism

• Undertake responsibility not to mislead investors and endeavor to explain risk

Reporting Standards:

• Public disclosure of a variety of financial and social indicators on the European Commission online database, Mic Pro online (more wide than MixMarket); a European reporting tool attached to the EC/DG Employment, xxxxx.

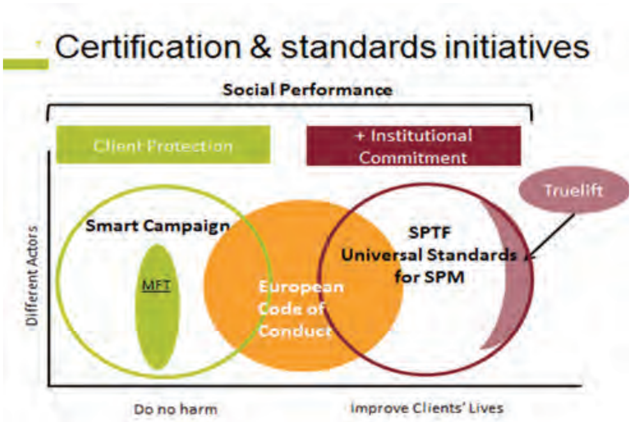
• Disclosure and adherence to social mission

• Median loan size as percentage of gross national income

• Disclosure of customer complaints (Number and percentage of past and current complaints)

This also means that the Code positions itself in between a variety of global initiatives that promote and provide certification for responsible finance[1] and customer protection.

Figure 2: Certification and standards initiatives



Source: MFC (2014; Code training in Bulgaria)

1. Responsible Finance can be summarised as a banking practice that pursues a fair balance between a finance institution, its customers, employees and business partners on the one hand and their shareholders and re-financiers on the other hand. Responsible Finance is ultimately a precondition for increasing the well-being of all stakeholders involved.

There are four current large initiatives for promoting responsible finance and customer protection that can be briefly mentioned. The Smart Campaign has identified seven principles of client protection that are important to regulate customer treatment and client risk management standards. The MFT (microfinance transparency) was recently wound down by Chuck Waterfield and sought to map prices by country, revealing how the prices are calculated, what are the APRs and transparency level in informing the clients about the loans. The Universal Standards of Social Performance Management (USSPM) promoted by the globally recognized Social Performance Task Force Group (SPTF) which regulate MFIs that have commitment to social goals. Finally, True Lift, promoted by the Microcredit Campaign, focused on those MFIs which specifically target poverty eradication. Only the Smart Campaign and True Lift have also included certification processes.

Conclusion

The recently launched technical assistance program to support the European Microfinance sector is addressing responsible finance practices, including measures to empower customers. The central piece of ensuring that prudent practices are in place is the "European Code of Good Conduct for Microcredit Provision" which provides guidelines and standards that allows for better market conduct of the European microfinance sector as a whole. The Code positions itself between global initiatives, such as the SMART Campaign or the Universal Standards of SPTF and provides even more rigid guidelines in order to support responsible finance practices and customer empowerment for microfinance clients in Europe.

Disclaimer:

The before mentioned project has received financial support from the European Union Programme for Employment and Social Innovation "EaSI" (2014-2020). For further information please consult: http://ec.europa.eu/social/easi

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Financial Education: Does it Make a Difference in Microfinance?

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About the author

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Abstract

The article examines the general importance and impact of financial education. It argues if financial education is to make a difference, then it must show in changes at the client level: improved knowledge (= financial literacy) and modified financial attitudes and behavior are essential components. The author draws on a quasi experimental survey of innovating MFIs conducted by the ILO between 2007 and 2010 that showed that MFIs that engage in some form of financial education do so also because of some benefits to themselves. A further result highlighted by the article is that all involved MFIs continued their financial education even though ILO subsidies had stopped and even if there had not been any spectacular changes in client attitudes two years after the first education sessions.

Introduction

The term "financial education" is misleading. It conjures images of class room type of knowledge sharing. Actually it is fairly sophisticated. Even individuals with a university degree are at pains to understand basic financial concepts: "keeping track of one's finances, making ends meet, avoiding over-indebtedness, when and when not to purchase insurance, how best to provide for retirement, choosing the right product, understanding the small print in insurances"[1].

Given these vital stakes one should think that financial education would be broadly encouraged and promoted. Far from it, it is being contested. The main criticism is that it has little effect. If financial education is to make a difference, then it must show in changes at the client level: improved knowledge (= financial literacy) and modified financial attitudes and behavior. These changes do not happen overnight, just as a result of a single session. Attitudes and behavior change slowly. Impact evaluations with a time horizon of two years or less - not surprisingly - fail to detect any significant changes in attitudes towards debt, savings and risk protection.

Impact evaluations with a longer term horizon could capture gradual changes, but are in turn liable to overlook a host of other factors that also influence financial attitudes and behavior of clients[2].

Who should provide financial education?

If the impact of financial education takes time to materialize, then it must be provided, again and again, over a long period of time. This has implications for the funding of such courses. In the microfinance field it is provided on an ad hoc basis, mostly funded by donors. If the donor funding runs out, the courses on financial education stop. To have an effect financial education should ideally be available on a recurrent basis ready to respond to client demand. Since MFIs regularly interact with clients, thus have the opportunity to give advice, train and educate, they are better placed to provide financial education on an ongoing basis than, for example, education-focused NGOs, chambers of commerce or government. MFIs can only be motivated to offer financial education on an ongoing basis if there is a business base or some other tangible benefit.

So, is there a business in financial education for MFIs ?

MFIs could conceivably reap monetary benefits if the loan portfolio quality improves, or if financial education leads clients to demand other, more lucrative products (cross selling), of if it informs the redesign of products and services. Generally, financial education rectifies somewhat the information asymmetry between MFI and client, as loan officers learn about the insides of a household-enterprise. Financial education should also boost the MFI's reputation, since it projects the image of a caring financial service provider.

A quasi experimental survey of innovating MFIs organized by the ILO between 2007 and 2010 showed that MFIs that engage in some form of financial education

1. Elaine Kempson (2009)

2. Drexler et al (2010) find that it makes a difference what kind of financial education is offered. Textbook type courses seem to make no difference on client's fin behavior, whilst "simplified, rule of the thumb training produces significant improvements in business practices".
Non-experimental evaluations suffer from several methodological weaknesses (Lusardi May 2009 for OECD/INFE): absence of benchmark data, self-selection bias, attrition bias, disparity of indicators, confusion between impact levels (understanding, attitude, application), publication bias.

do so also because of some benefits to themselves[3]. To address the vulnerability of clients, some MFIs had opted for financial education as an innovation: AMK and VFC in Cambodia and TYM in Vietnam. The approaches varied: AMK gave financial education courses to the loan officers interacting with clients, while TYM and VFC focused on their clients. AMK and VFC used financial education as a stand-alone service, while TYM combined it with a new micro-insurance product. The topics dealt with ranged from managing money for family and business, setting financial goals and priorities, preparing and sticking to a budget, appraising different savings products, comparing debt versus self-financing and coping with the risks of over-indebtedness.

Obviously there were some costs involved in offering financial education. During the project phase these were in initially borne by the ILO[4]. Costs vary obviously from MFI to MFI, depending on the frequency of delivery, the scope and depth of delivery (select client profiles), the organization of courses (stand-alone vs packaged), tailor made versus standard packages and the use of technology.

The interesting result of this experiment was, however, that all three MFIs continued their financial education even though ILO subsidies had stopped and even if there had not been any spectacular changes in client attitudes two years after the first education sessions. AMK, TYM and VFC just carried on educating their clients regardless, in one way or another.

Figure 1: The impact of financial education; results

	AMK	TYM	VFC
Multiple borrowing		- 12% taking loan to repay another	Increased borrowing from informal sources (+18 to 22%) +9% loans to repay another loan
Repayment	-3,4% late payments		
Asset building	+10% uptake insurance	+22% of those who put money aside for emergency expenses +5% uptake motorbike liability insurance	+9% of those who put money aside for emergency expenses
Financial attitude	+8% clients who believe it is impossible to save	-15% who believe records of expenses are not necessary + 10 to 17% positive attitude to savings	-10% in negative perception on insurance

3. ILO Social Finance Program, Microfinance for Decent Work – enhancing the impact of microfinance : evidence from an action-research programme, Geneva, 2015

4. Freedom from Hunger estimates that depending on the FE program 5 to 10% extra costs must be expected per financial transaction with individual clients (FFH Research Paper no.6).

Non-Financial services - Results from the YouthStart Business Case Analysis

Silke Müffelmann

About the author

Silke Müffelmann has gained sound specialist knowledge and management experience in the field of microfinance and banking during the last 23 years, thereof 20 years equally distributed between team leading and general management roles in more than 40 countries including conflict countries. She is an internationally recognized Microfinance, SME and technical assistance expert covering most of the topics including MSME finance, social performance, governance, risk management, marketing, greenfielding and crowdfunding. She has organized and conducted capacity building activities for regulators, university students, greenfield MFIs, non-bank institutions and banks. Currently, Silke Müffelmann is the Head of Frankfurt School´s Microbanking Competence Centre, and develops Team Leading and Senior Project Management roles for a variety of advisory and training projects, including the recently launched EaSI TA Project for microfinance on behalf of fi-compass/EIB and EC/DG EMPL. She has participated in various international networking events & conferences as speaker and panelist. Silke holds a university degree in Business Administration. Her native language is German and she is fluent in Spanish, Romanian and English.

Abstract

Successful youth financial services are closely linked with the provision of non-financial services. From a cost-benefit perspective, the provision of non-financial services can have very different outcomes depending on the size of institution and whether this is linked to credit or savings products. Based on the results of the business case evaluation of the YouthStart program recently carried out by Frankfurt School, non-financial services for credit clients should be taken into account during break-even analysis, while the provision of non-financial services for savings clients should be considered as an investment in the future client base, achieving positive returns in the long run.

Introduction

Non-financial services constitute an essential part when providing youth financial services. Best practices suggest that youth receive the highest benefit from savings accounts and loans when they are offered together with non-financial services, such as mentoring, or training in financial education entrepreneurship and or leadership, amongst others, to increase savings (Harlery et.al, 2010).

However, it is also important to analyze the role of non-financial services from a cost-benefit perspective and examine to what extent these services can influence the profitability and break-even horizon of youth accounts (loans and savings).

This topic has been analyzed within the framework of a business case analysis that Frankfurt School of Finance and Management has been assigned to by the Master Card Foundation (MCF) for the YouthStart program (Frankfurt School of Finance & Management: 2015[1]) . The in-depth profitability analysis was conducted for three of ten Financial Service Providers (FSP) of the program, all having different characteristics. *Faitière des Caisses Populaires* (FCPB) in Burkina Faso was founded in 1972 and is organized as a financial cooperative with a network of 185 caisses (branches) and 1,058 staff. Umutanguha Finance Company (UFC) was founded in 2004 in Rwanda, after the civil war, and first operated as a credit union. In 2013 it was transformed into a Finance Company with seven branches and 43 staff. Finally, Opportunity International Bank Malawi (OIBM) started operations in 2002 and develops its banking operations through a country-wide network of 55 branches and 242 mini-branches, in addition to other channels. Its staff base comprises 763 professionals.

Project background: YouthStart

In 2010, MCF launched YouthStart, a 4.5-year and USD 12 million project in partnership with the United Nations Capital Development Fund (UNCDF), to increase access to financial services for low-income youth in Sub-Saharan Africa. In order to achieve this result, ten FSPs in eight countries have been supported with grants and technical assistance. Overall, the program has been largely successful and surpassed original goals. As of December 2014, YouthStart has reached close to 515,000 youth clients, with over 497,000 saving accounts opened(accumulating USD 14.2 million) and 72,000 loans (USD 7.3 million) granted (Microfinanza, 2015).

In tandem with the provision of financial services, non-financial services constituted an essential part within the program. More than 500,000 youth (among which 52% were women) have received such services, notably receiving training in financial literacy, entrepreneurship or reproductive health.

Models for non-financial services

There are various ways of how non-financial services can be integrated into the business model and delivered to the client. One can differentiate between

1. All information is taken out from the Frankfurt School report unless indicated differently.

three typical models for integrating financial services with non-financial services (Dunford, 2002):

• Within a unified model, an FSP uses the same staff to offer both financial and non-financial services to its clients.

• Under a parallel model, the service provider has a separate education department for providing non-financial services.

• Within a linked model, an FSP partners with another independent organization, which is often a youth service organization providing training, non-formal education or mentoring programs, while the FSP focuses on providing financial services.

The model selected by each FSP and the content of the training depends on their capacity. The two larger FSPs have internalized its non-financial services: OIBM applies a hybrid approach and offers its non-financial services under a unified model but also has outsourced some services with partners (linked model), while FCPB provides them through a separate department (parallel model). UFC, the smallest FSP, offers youth clients business and financial literacy trainings through a hybrid model using both the parallel and linked approaches. Through their parallel model, UFC loan officers are trained by UNCDF and in turn train young account holders and leaders in their communities. Under the linked model, UFC partners with international NGOs and youth service organizations that provide capacity building and trainings in life skills, entrepreneurship, business skills and financial literacy among others.

Using a hybrid model enables the FSP to be more hands on with their clients and therefore more aware of their needs while at the same time increasing its outreach through partnerships.

Design of non-financial services

Non-financial services for youth clients need to go beyond a pure explanation of product features. Ideally, they include aspects of managing a business, debt management or other necessary skills over the life of the loan. Furthermore, training for lending products should not only focus on the time before the loan request but should target the full lending cycle. Especially when youth client face problems with servicing loans, they require coaching and training. Currently, both FCPB and OIBM trainings focus mostly on informing the youth about their products and group formation before the disbursement. UFC meanwhile offers a wide range of NFS at different stages in time, such as business skill and entrepreneurship training or financial literacy classes.

To what extent do non-financial services influence the break-even horizon of youth loans?

A break-even calculation of non-financial services needs to take the cost of training and coaching of youth clients into consideration. These costs for NFS can be expressed as a percentage of the total cost for providing the loans, as shown in Table 1.

Table 1: Costs for non-financial service in the case of youth loans

Youth Loans			
	FCPB	UFC	OIBM
% of NFS	2.5	5.7	22.1
Average process time (min.)	4	26	242
% of delinquency mgmt.	2.7	4.7	15.4
PAR30	0%	3.0%	11.6%

In the case of FCPB and UFC, non-financial services represents only a relatively low share of 2.5% and 5.7% of the total cost for providing youth loans, respectively. In the case of OIBM, the average process time for providing non-financial services for youth loans is significantly higher, amounting to 242 minutes. Accordingly, the share of cost of non-financial service of youth loans represents almost one quarter (22.1%) of total cost for youth loans. This seems to be explained by the correlation with the high risk the youth portfolio is bearing and where coaching of youth clients is required. For it be confirmed, this trend would need to be observed over a longer period and compare first cycle loans to traditional products.

This also means that a well-structured financial education program may improve the credit quality and thus translate into lower cost of risk and collection. In this specific case the results differed: in 1 FSP lower risk, in 1 FSP higher risk despite training efforts for youth clients before opening the account. One may deduct that if loans do outperform over a longer period of time, cost of training and financial education is quickly marginalized.

Related to the break-even calculation, in the case of UFC, the cost for training would be recuperated if credit quality increases by only 0.3%. For OIBM which is the outlier, adding 30 minutes of time for improving the analysis of the loan application will add USD 1.46 to the total cost. This effort would pay off if credit quality would increase by only 0.5%, which is marginal given the high PAR30 ratio.

Overall, cost for non-financial services can be compensated, if the loan amount is relatively high. Furthermore, one has to consider the potential that the client becomes a repeat borrower and that the costs related to financial education are eliminated and other operating expenses reduced.

To what extent do non-financial services influence the break-even horizon of savings accounts?

Training time for saving accounts was shorter than for youth loans. Yet, given the significantly lower overall cost structure for this product, the share of non-financial services within the total cost was higher, as depicted in Table 2.

Table 2: Costs for non-financial service in the case of savings accounts

	Youth savings		
	FCPB	UFC	OIBM
% of NFS	16.6	35.4	3.1
Average process time (min.)	3	10	2

Although the costs of training in savings at UFC is the highest of the three institutions, it also has the highest proportion of youth savings accounts compared to the overall number of savings accounts (24%). At FCBP and OIBM, 12% and 4% of savings accounts, respectively, are youth saving accounts.

At OIBM 2 minutes of training were spent per account (compared to 242 minutes for loans). This could certainly be explained by the channel diversity OIBM has in place and which benefits savings mobilization. Furthermore, it is assumed that youth saving clients undergo the same process as other clients.

A marginally higher deposit balance can generate sufficient revenues to compensate for the training effort. The initial expense of non-financial services with regards to saving accounts could be compensated with only a low balance. At FCBP, an account balance of USD 43 would generate enough net profit to compensate for the opening cost within one year. At UFC, the account balance is USD 28. The rather high amount of USD 212 in Malawi is a consequence of the high interest of 5% paid for even small balances.

Yet, for saving products, cost for non-financial services should be rather seen as an investment in the future client base. Financial education can create financially responsible clients that will increase their balance over time and utilize other financial products and services. For the smallest institution – UFC – this fact has potential to form part of its growth strategy.

Conclusion

High operating expenses and the overall cost structure require a long-term perspective to amortize the cost of offering non-financial services, such as training and education. The rationale for providing non-financial services to youth is that institutions are investing in their future client base, and will achieve positive returns in the long-run.

In addition, if training services are well designed and integrated into the business model, they can have a positive impact on the credit quality and increase the savings of the clients.

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An Application of Behavioral Economics Approaches in Financial Education

Hanna Laufer

About the author

Hanna Laufer has worked in various financial capability programmes in Namibia, as well as South Africa. Her key areas of interest are behavioural economics applications in policy making and financial systems development. Currently, Hanna Laufer works for Positive Planet Southern Africa as a research associate. She holds a Master's degree in developmental and institutional economics. Hanna received a UMM scholarship in 2014 for field research in Namibia and South Africa on financial education.

Abstract

The consideration of behavioral economics concepts in policy development and design has gained momentum throughout the past decade. While literature on the integration of behavioral economics insights in financial product design grows steadily, applications in the design of financial education programs are rare. This paper attempts a summary of practical applications of the concept of present-biased preferences in financial education. The selected examples are based on desktop research, as well as qualitative interviews with financial education practitioners in Southern Africa.

The financial education puzzle: plenty funds for ambiguous effects

Currently 110 countries are members of the International Network on Financial Education (INFE), led by the Organization for Economic Co-operation and Development (OECD). (OECD (2013)) Substantial amounts of public and private funds are directed at financial capability building programs both in developed, as well as emerging markets. Financial education is suggested to drive financial integration, enhance consumer protection and counteract increasing rates of over-indebtedness, especially among low-income households.

There is however, a substantial lack of robust evidence for the effectiveness of conventional financial education. (E.g. Willis (2008), Cole et al. (2009), Messy and Monticone (2012)) Effectiveness commonly means that the intervention measurably increases desired financial behavior, e.g. saving, reduces undesired financial behaviors, e.g. overspending, or positively affects financial attitudes of participants. Due to a multitude of studies finding either ambiguous or insignificant effects of the programs, researchers assume the ongoing public and private initiatives to be motivated by ideology rather than evidence.

The paper at hand summarizes a fraction of the findings of a literature review focused on applications of behavioral economics concepts in the development and design of financial education programs, as well as qualitative research based on interviews with financial education practitioners in Southern Africa.

Observed bias in financial decision-making

Anomalies have been described both with respect to training programs and financial decision-making. Participation rates for voluntary financial education programs are relatively low, even if they are free of participation fees. Throughout the program, the number of participants often diminishes. (Yoong (2011), Bruhn et al. (2013)) Not all participants take advantage of mentoring opportunities, even when free of charge and often fail to complete exercises at home.

Interviewed practitioners report that follow-up visits after financial education interventions reveal that most training participants do not pursue the changes they were enthusiastic to make during the training. Participants seem to be aware of welfare increasing financial behaviors, but hardly seem to act on that knowledge.

Behavioral bias can also be observed in the regional context of the study, with respect to household financial planning and financial decision-taking. Even though 56.8% of Namibians claim to use budgets (and are thus aware of its function and benefits), only 32% claim to stick to it. (FLI (2013)) The FinScope survey of 2012 suggests 67% of the interviewed South Africans (16 years and older) not to save money at all, neither at formal, nor informal institutions. The study further revealed that 83% of the surveyed individuals did not have any retirement, pension or provident product. Nearly half of the survey participants were worried about not having enough money for old age or retirement (48%).

Over-spending is related to under-saving and over-borrowing. These behaviors can ultimately lead to over-indebtedness. According to the latest credit bureau monitor of December 2014 44.9% of South African consumers have impaired credit records. (NRC (2014)).

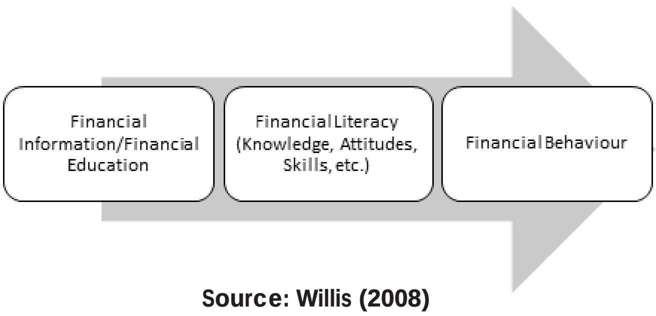
Interviewed practitioners describe general financial practices such as the tendency of individuals to borrow at high interest rates, even if liquid savings are available to make a purchase, as well as the use of commitment savings products, such as the purchase of stocks in savings groups, that are sufficiently illiquid, to be released and use peer pressure to make contribution.

Standard neo-classical assumption: unfit to describe our financial behavior

Various explanations for the observed anomalies can be found in recent publications. External constraints, such as the distance to the nearest bank branch, a lack of ID documents, mal-practice and fraud in emerging financial markets, affordability of financial services and cultural barriers have been cited to account for a reluctance to use financial services. (…) These constraints impose substantial costs, which can outweigh the benefits of desired financial behavior, e.g. using formal savings products. (Messy and Monticone (2012), Brune et al. (2011), Bertrand et al. (2004))

Another explanation could be that the true underlying preferences of the individuals are to spend money instead of saving it. Individuals claim to use a household budget, or that they want to save money for their retirement, because of accepted social norms, despite for their taste for spending.

Both of these attempts to explain financial behavioral bias would deem financial education programs redundant. The perception of financial education to be an effective policy tool is based on the assumption of a value chain. Causality runs from financial information to financial knowledge that is manifested ultimately in the desired financial behavior.



Source: Willis (2008)

This policy recommendation to abandon financial education might be flawed, if the underlying assumption of standard neoclassical microeconomics are false. There might be psychological or behavioral bottlenecks along this value chain that do not allow participants of training programmes to fully transfer information into applicable knowledge, or to act upon their knowledge. One of the latter being procrastination.

If procrastination is the main reason why a participant does not open a savings account upon completion of the training program, financial education programs need to account for these bottlenecks rather than be eliminated. One school of economics that relaxes standard microeconomic assumptions, such as full rationality, fungibility of money and time-consistent preferences is the school of behavioral economics.

The underlying research is concerned with the question whether behavioral economics methods can accurately describe the observed ex-post behavioral biases of financial education training participants. An accurate description of the potential underlying psychological bottlenecks can support the identification of remedies for this behavior. The paper thus attempts a practical approach to integrating behavioral economics concepts in financial education.

Nudge them: potential applications of present-biased preferences

Procrastination is a cognitive structure that leads individuals to prefer immediate benefits, even when paired with high future costs and to delay immediate costs, even when paired with high future benefits. It is suggested that immediate costs or benefits are represented in a more salient way than future costs or benefits and thus the discount rates are steeper for the near future.

While individuals are commonly aware of the tendency to procrastinate, they might not be fully aware of this underlying cognitive structure or the magnitude of their constraint. Further, people struggle to predict procrastination and thus to find strategies to overcome it.

The interviewed practitioners and researchers have identified numerous ways to integrate procrastination into the development and design of financial education programs. Financial education programs that consider present-biased preferences need to integrate the concept in two ways: Firstly, in designing and structuring the program in order to offer incentives and motivational elements for participants to attend and complete the course. Secondly, in offering tools and mechanisms to overcome tendencies to delay or put-off sound financial decisions and healthy financial behaviors.

1. Awareness Creation for Procrastination

Yoong (2011) argues awareness creation to lead to de-biasing of their decision-making progress. The author proposes the integration of a diagnostic tool, such as a self-test to estimate the degree of the individual's taste for immediate gratification, so it can be considered in future financial decisions. It is argued that individuals who are not aware of their tendency and magnitude to procrastinate cannot take measure to counteract it. Contrary, partially or fully aware individuals try to find mechanisms to overcome the constraint. (O'Donoghue and Rabin (1999))

Openly addressing procrastination can also lead to reliving the participants of guilt or stress. Andreou (2007) argues that in order to avoid cognitive dissonance, people adjust their preferences to their behavior. If a training participant procrastinates financial planning repeatedly, she will ultimately think of herself as not the type to plan or budget to match her self-concept with her conduct.

Other interviewees argued in line with de Meza et al. (2008), who suggest awareness creation for behavioral bottlenecks in financial education program, to lead to information overload and derail participants' attention rather than mitigate procrastination tendencies.

2. Commitment Tools

Individuals who are sophisticated about anticipating their future self-control problems might take steps to reduce any options of future temptation. In Southern Africa evidence for commitment remedies can be found in the existence and success of Savings and Credit Groups (SCGs). These informal organizations allow individuals to avoid future temptation of consumption through regular mandatory minimum deposits over defined savings cycles. Social capital is a lever for commitment in these groups as the members are usually friends, neighbors, relatives or belong to the same community or church.

Brune et al. (2011) as well as Ashraf et al. (2006) test commitment savings accounts in randomized field studies. Both studies find significant effects on savings rates, crop sales and agricultural inputs. The authors suggest these positive effects to be based on the improved management of self-control and the option to safeguard funds from demands of relatives and community members.

Even though the field experiment is a supply-side intervention, financial education programs might be able to replicate the success of this field experiment, at least partly, by facilitating the design of self-made commitment tools. Especially programs for unbanked individuals can promote commitment tools, such as locked boxes, involving spouses, family members, or trusted community members to look after the funds.

Apart from the content of the financial education program, the design of the training material can consider self-commitment elements. This can be in form of a simple signature line at the bottom of a budget sheet. Encouraging the participant to sign the budget sheet in the presence of business partners, spouses or other family members, in order to commit to it, may have beneficial effects.

3. Reducing Costs

Another potential lever to counteract procrastination tendencies can be the reduction of costs of financial decision-taking and financial education programs.

Search and information costs

A key component of the total anticipated costs of an interaction with financial institutions is the complexity of financial services in emerging markets. Identifying adequate affordable financial services can be difficult, even for well-capacitated individuals. Financial education programs are thus required to simplify the process for consumers. This can be attempted through proven heuristics, rules-of-thumb that are easily remembered, or tables that facilitate the comparison of financial services.

Emotional distress

A considerable cost when visiting a financial institution can be what Bertrand et al. (2006) describe as an "unfamiliar, threatening or stigmatizing" (Bertrand et al. 2006, p.12) situation. Financial education programs can encourage participants to overcome feelings of inferiority, by taking participants to visit banks, providing original templates, or asking a bank teller to join the course.

Planning costs and mapping of actions

A concrete plan broken down into small steps can turn abstract goals into discrete actions. Outlining larger activities in a number of intermediate steps supports individuals to overcome procrastination. Desired financial outcomes might be intimidating when framed as an ultimate result. A more approachable framing might be the listing of subsequent steps, in order to "visualize individual progress". (Yoong (2011), p.20) If this structure of small steps is complemented by regular reminders of upcoming tasks, individuals might find it easier to follow through. These findings have been confirmed in the context of voting and vaccination.

This approach can be extended by offering options for immediate actions within the training program. Bertrand et al. (2006) suggests support in completing the first steps to be a sufficient driver for many to complete the whole process. The authors find an increase of 20% in the uptake of a savings account when having a bank representative assisting with opening accounts during the training. (Also: Schoar and Tantia (2014))

Attendance costs

The reduction of costs also plays a role in the uptake and completion of financial education programs. As discusses, participation rates are low and decrease further throughout the program. Thus, it is key to highlight the short-term benefits of the program, when marketing the program.

Another possible option to reduce the anticipated costs of a financial education program is the delivery. Providing the training at an easily accessible venue, in the local language of the participant might reduce the costs.

Increasing imminent benefits

By providing incentives to complete a financial education course, or likewise to take a desired financial decision, the program costs can be outweighed. This can be done by either pairing the immediate costs with an immediate gain or by increasing the salience of the future benefits of financial education. Most interviewed practitioners perceive the use of role models to be an effective tool to emphasize the consequences of positive financial behavior. Community-based examples can transform abstract messages into concrete actions.

Business Skills Development programs can incentivizes participation by offering follow up mentoring sessions for successful training participants.

The way forward

There are numerous other psychological and cognitive limitations, which – once considered in the development of an intervention – could improve the effectiveness of financial education programs. Information overload, mental accounting, overconfidence and multiple other concepts could be relevant levers to change consumer financial behavior.

The assumption that the integration of behavioral economics concepts allows individuals to partially overcome cognitive and psychological constraints will have to be validated in local field experiments. Even though this approach does not allow to identify best-practices and generic solutions, suggested changes to financial education programs are not difficult to realize and do not pose outstanding costs.

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A Study on the Effects of Business Development Services on Women in Cameroon

Marie-Sophie Hou and Aymeric Fuseau

About the authors

Marie-Sophie Hou holds a bachelor in econometrics from Paris I Panthéon-Sorbonne and is currently pursuing a Master degree in Empirical and Theoretical Economics at Paris I Panthéon Sorbonne, in partnership with the Paris School of Economics. She was previously a research intern with Positive Planet in the summer 2015, working on the evaluation of business development services in Cameroon.

Aymeric Fuseau is head of Positive Planet's Studies and Evaluations Department with a range of experiences in the monitoring and evaluation of financial inclusion projects, market studies, and statistical analysis for project evaluation throughout Africa and the Middle East. Aymeric holds a diploma in statistics and econometrics, and a master's degree in Corporate Management at the University Paris 1 Panthéon Sorbonne and a master's degree AGPS in spatial planning and governance in southern countries.

Abstract

For approximatively ten years microfinance, services aiming at improving the performances of enterprises called Business Development Services are used to develop financial inclusion. This study shows the additional effects of BDS on microfinance. BDS allow to improve business performance, markets access and competitive position. Knowing that, Positive Planet led a project to Cameroon based on income-generating activity training and coaching. This study allows us to see the effects of the BDS on beneficiaries like on the MFI. The beneficiaries acquire knowledge in management, assign more importance to saving than the average client and are confronted with less issues to pay their loans.

Introduction

According to the African Development Bank1, entrepreneurial women in Cameroon can have a major impact on the development of the private sector, resulting in a reduction in the rate of poverty. However, there are numerous obstacles to this progress, not least human capital development. The majority of entrepreneurial women have no professional qualifications. To date, most studies have found human capital to be a fixed factor with constant stock and no additional progression possible. A new approach has developed over the past ten years whereby concentration is given to Business Development Services (BDS), non-financial support of human capital development.

The aim of BDS is to encourage the creation of businesses and to help improve performance amongst small and micro businesses in developing nations. There are numerous forms of BDS including education, consulting and / or coaching.

What are the impacts according to previous research?

Though there is a theory that combining non-financial support (education, coaching, etc.) with financial assistance (access to credit) achieves better results than only financial assistance, there are few studies which prove this theory. Previous research on the subject focuses on the impact on companies, families and social networks as well as the impact on microfinance institutions.

Impact on companies, families and social networks

D. Karlan and M.Valdivia led a study in Peru based largely on women. They used a randomized control trial with one group of women receiving obligatory coaching whilst the other group received voluntary coaching. The trial proved that BDS helped the women to increase their business skills, innovate and diversify and ultimately increase sales by approximately 28% (compared to the control group) and benefited from a greater profit share.

BDS also have an important social impact. The Council's project in Uganda demonstrated that non-financial support improved not only better financial inclusion but also social issues, hygiene and sexual health.

Impact on microfinance institutions

The impact is more ambiguous. It is true that businesses with less debt can save more and are therefore less dependent on microfinance institutions. Better management skills allow business owners to ask their microfinance institutions for additional credit. However, there are some undeniable positive effects such as improved retention and default rates.

Results of the study

Presentation of the project: In 2013, Positive Planet established a project giving access to both credit and BDS (including initial group training followed by individual coaching). Four hundred Cameroonian female entrepreneurs were the beneficiaries of the project. The training included basic accounting, communication, marketing and skills as well as explanations on the benefits of geographic and product diversification.

Four hundred women began the program but only 354 had regular follow up (some women gave up their businesses and thus left the program). Most of the women had little management knowledge and difficulty finding access to financial assistance. On average, each woman had four follow up sessions with 1,426 visits carried out in total.

Methodology

We used six dependent variables (including profit margin and benefit calculations) in an ordinal logistic regression model. We chose this model because the responses given ("not applicable", "being improvement" and "applied") are qualitative elements.

Selection was made randomly with the premise that the women had no basic knowledge. During visits, coaches used a mobile application to input results. This allowed the IMF to follow the coaches and the submitted results in real time.

Econometric results

The model led to multiple conclusions, of which we will share the two we found most surprising. Initial wealth plays no role in the various areas of improvement. This has no influence on the motivation levels or on results as the decision to integrate the learning of the program is personal and voluntary. We also learned that external challenges linked to entrepreneurial activities such as difficulty in finding a sales location, had a positive impact. The project members used their newly gained knowledge to find solutions to such challenges.

Conclusion

As prior research suggested, the project improves women's' business skills. Additionally, participants generally had more savings and less difficulty in meeting their credit repayments. Women with a second task were generally more successful, most likely because the two activities were in the same sector, leading to deeper subject matter expertise. It is undeniable that the project has a positive impact despite the fact that it can be improved further.

Recommendations

For clients not able to implement accounting skills, focused support on such skills would help to apply their training more efficiently. Additionally, the more children women have, the less likely they are to apply their training, so it is important to provide additional follow up to those women with several children. Developing a second entrepreneurial activity has a positive impact on several factors. It would therefore be advisable to encourage successful women to develop additional entrepreneurial activities.

As education levels are varied, it is important to adapt training to relevant levels. For example, it would be advisable to concentrate on basic mathematic skills (accounting) for those women with little or no secondary education whilst focusing on diversification for those women with some secondary education. Follow up should therefore be adapted to filling knowledge gaps accordingly.

A less subjective and complex metric than motivation needs to be determined in order to understand women's personal engagement to the project.

Lessons learned from follow up and evaluation

As a result of the evaluation, some modifications should be made to the project in order to improve future studies and to gain a better understanding of the impact of BDS. Examples of such modifications include initial visits to create a point of reference for each woman as well as randomized control trials. Training can be improved by accounting for seasonal duties and activities. New variables such as the size of a business and motivation levels also need to be factored.

Closing Remarks

Karla Henning

The 14th UMM Workshop on responsible inclusive finance and customer empowerment responded with a broad range of topics to the most recent debates and findings around the status quo and condition of the microfinance sector, lessons learnt and challenges ahead. Key questions addressed were how to prevent crisis and over-indebtedness? How to assess the microfinance sector and improve social performance and customer protection? How can responsible finance be promoted? What is the role of the European Union in fostering responsible finance in regulation and customer protection? What can business development services and financial education offer? What does evidence from the field teach us? In the welcome plenary Thorsten Beck from Cass Business School and Wolfgang Bücker from GIZ set the framework for the workshop by highlighting the importance of responsible financial inclusion and the major obstacles to overcome. They stressed in their presentations that the moderate but not transforming impact of microcredit found in most recent research needs to be confronted with more innovative and tailored products for the aim of poverty alleviation. To meet this demand practitioners working in the microfinance sector need to employ more rigorous research and an open mind.

Preventing crisis and over-indebtedness

The workshop addressed numerous tools and initiatives designed for the prevention of crisis and over-indebtedness: the "Microfinance in Crisis" project plays a crucial role in creating sound research and resources to answer to these challenges. As a unique project it aims to offer a global analysis of the main microcredit delinquency factors (such as governance, regulation, market saturation and political influence), from the perspective of supply, demand and environment. The main operational outcome of the study will be the design of a "delinquency crisis prevention dashboard" which aims to identify the combination of factors and contexts that are likely to lead to a crisis. Coming to concrete tools and initiatives, the Smart Campaign and the Social Performance Task Force promote the dual goal of social and financial performance. Similarly, the Microfinance Index of Market Outreach and Saturation (MIMOSA) sets out to develop metrics that can serve as benchmarks to which markets can be compared in order to avoid overheating.

Progress in Client Protection and Customer Empowerment

Despite numerous remaining challenges, progress in client protection and customer empowerment was demonstrated by numerous speakers at the workshop. Discussions and presentations showed the importance of the leading role donors, regulators, associations and microfinance practitioners should take in fostering client protection. Initiatives like the Microfinance CEO Working Group constitute a leading example. Dedicated to the prevention of over-indebtedness it has translated client protection principles into a model policy framework for regulators. Donor institutions such as the KfW are also aware of their steering role in promoting these principles and code of conduct among their partner organizations and MFIs. Regulatory interventions as offered by Ithuseng Credit Solutions in South Africa play a similarly important role. It became evident that common and concerted efforts by all involved levels and institutions is essential to make further progress in client protection and customer empowerment and ensure sustainability.

The European Code of Conduct for Responsible Microfinance

Also the European microcredit market is a growing sector bearing considerable potential. However, this market is still quite heterogeneous due to the disparity of the legal and institutional frameworks in the Member States and the high level of diversity of microcredit providers.

As a consequence, lending practices in microcredit vary considerably depending on the type of institution providing micro loans, its legal setup, the environment in which it operates and its own ability to apply sound and efficient management procedures. In this context, the European Code of Good Conduct for Microcredit Providers has been developed in order to set best practices for microcredit providers. Despite these efforts numerous challenges remain that have been debated during the workshop such as the need of transparency and standardized ways to measure performance in order to enable external comparisons and clear incentives driving compliance with the code.

Financial Education and Business Development Services

Financial education and business development services bear an important potential to support responsible finance initiatives and strengthen customers in their ability to benefit from financial services. The workshop shed light on numerous initiatives in this context both for the European microfinance landscape and in a context of developing countries such as the YouthStart program offering both financial and non-financial services.

Insights into financial education and business development initiatives offered food for thought and inspiration how to further improve these interventions and offer skills and knowledge to customers with the potential for further empowerment. To conclude, the workshop offered a very rich picture of strategies, concrete tools and visions aiming at a deeper understanding and implementation of responsible finance and customer protection. Fruitful and lively discussions underpinned the topicality and importance of change, innovations and the establishment of higher and more concerted standards in all levels of the microfinance sector. The workshop demonstrated an optimistic perspective for a more responsible approach to financial inclusion based on the changes and efforts that have already been realized or clearly envisioned for the future. In congruence with the vision of UMM, the workshop has demonstrated once more that dialogue between different actors of practice and research is a crucial step towards critical reflection and triggers for change.

Acknowledgements

We would like to express our special gratitude to the Frankfurt School of Finance & Management and International Advisory Services for their cooperation and for hosting the 14th UMM Workshop. We also would like to extend a special thanks to the funders of University Meets Microfinance. Without their support the organization of the workshop and the publication of this thematic paper would not have been possible: Thank you to the European Microfinance Platform (e-MFP), European Union, the GIZ on behalf of the BMZ, the Agence Française de Developpement, the European Investment Bank Institute, Freie Universität Berlin and the Frankfurt School of Finance and Management. Finally, the success of UMM events and activities would not be possible without the support of the e-MFP "University Meets Microfinance" Action Group members. We thank the over 70 participants who attended the workshop from 19 leading European universities and practitioners from 32 organizations. The workshop presentations are available on the UMM website here: http://www.universitymeetsmicrofinance.eu/14th-umm-workshop.html.

We look forward to seeing you at future UMM events.

Annex I: Photo Gallery

Annex I: Photo Gallery

Annex II: Workshop Program (1/3)

POSITIVE PLANET

Frankfurt School of Finance & Management Bankakademie | HfB

14th University Meets Microfinance Workshop
of the e-MFP Action Group "University Meets Microfinance"

Responsible Inclusive Finance and Customer Empowerment

Organized in partnership with the Frankfurt School of Finance & Management and International Advisory Services
September 14 & 15, 2015

Monday, September 14th 2015

Time	Program	Room
13:30 – 14:00	Registration	
14:00 – 15:30	**Welcome and Plenary** Adalbert Winkler, Frankfurt School of Finance & Management Azalea Carisch, University Meets Microfinance and Positive Planet Introduction to Inclusive Financial Systems ▪ **Thorsten Beck, Cass Business School** Responsible Finance on the International Stage ▪ **Wolfgang Bücker, Gesellschaft für Internationale Zusammenarbeit GmbH** **Moderation: Adalbert Winkler, Frankfurt School of Finance & Management**	***Audimax***
15:30 – 15:45	Coffee break	
15:45 – 17:15	**Panel and Open Discussion** Preventing crises and addressing over-indebtedness through responsible finance Moderator: **Bernd Balkenhol, University of Geneva** ▪ **Davide Forcella, Microfinance in Crisis Project** *Research on microcredit delinquency factors and crisis prevention* ▪ **Sneha Stephen, Innovations for Poverty Action Financial Inclusion Program** *Studies on crisis impact and prevention mechanisms*	***Audimax***
17:15 – 18:45	**Panel and Open Discussion** Assessing the microfinance sector and improving social performance and consumer protection Moderator: **Barbara Drexler, Frankfurt School of Finance & Management** ▪ **Leah Wardle, Social Performance Task Force and Smart Campaign** *Social performance management and client protection* ▪ **Ewa Bankowska, Microfinance Centre** *Social performance in the context of the European microcredit sector* ▪ **Daniel Rozas, MIMOSA and European Microfinance Platform (e-MFP)** *Evaluating credit markets and saturation*	***Audimax***
18:45	Cocktail	

Annex II: Workshop Program (2/3)

POSITIVE PLANET

Frankfurt School of Finance & Management Bankakademie | HfB

Tuesday, September 15th 2015

Time	Program	Room
08:00 – 08:30	Registration	
08:30 – 10:00	**Panel and Open Discussion** Progress in client protection Moderator: **Piotr Korynski, Microfinance Centre** ▪ **Bezant Chongo, Positive Planet Southern Africa** *The evolving credit markets in SADC and the regulatory implications for consumer protection – case studies from Namibia, Tanzania and Zambia* ▪ **Dominique Brouwers, SEEP Network RFLL program (funded by the MasterCard Foundation)** *Role of microfinance associations in responsible finance and consumer protection* ▪ **Anne Hastings, Microfinance CEO Working Group** *Global microfinance leaders launch initiatives to prevent over-indebtedness and translate client protection principles into a model legal framework for regulators*	*Audimax*
10:00 – 10:15	Coffee break	
10:15 – 11:45	**Parallel Presentations and Open Discussion**	
Panel A	How can we promote "responsible" inclusive finance in the microfinance sector and MFIs? Moderator: **Adalbert Winkler, Frankfurt School of Finance & Management** ▪ **Irina Eichenauer, KfW** *The role of donors and DFIs in promoting responsible finance* ▪ **Robin Gravesteijn and Mayank K. Jain, Oikocredit International** *Use of data for responsible microcredit* ▪ **Johanna Ryan, World Vision / Vision Fund International** *Disaster insurance for MFIs and clients to mitigate losses*	*Audimax*
Panel B	Lessons from consumer credit and mechanisms for client protection Moderator: **Daniel Rozas, European Microfinance Platform (e-MFP)** ▪ **Johanna Schauer, Toulouse School of Economics** *Use of consumer loans in the South African microfinance market* ▪ **Magauta Mphahlele, Ithuseng Credit Solutions in South Africa** *Is regulatory intervention sufficient to combat over indebtedness? Lessons from South Africa* ▪ **Anna Custers, Saïd Business School, University of Oxford** *The role of emotions and information avoidance in debt management*	*Room 11*
11:45 – 13:15	**Panel and Open Discussion** Responsible microfinance in the European Union via (stronger) regulation and customer protection? Moderator: **Silke Müffelmann, Frankfurt School/International Advisory Services** ▪ **Christos Pouris, EIB/fi compass and Cornelia Andrei, European Commission/DG Employment** *Overview of the programme on Operational and Horizontal Assistance to the European Microcredit Sector in the framework of JASMINE/EaSI* ▪ **Karl Dayson, University of Salford** *The rationale and concept of the European code of conduct for microcredit providers* ▪ **Stefanie Lämmermann, Deutsches Mikrofinanzinstitut (DMI)** *Implementation the code of conduct for European for microcredit providers*	*Audimax*

Annex II: Workshop Program (3/3)

POSITIVE PLANET

Frankfurt School of Finance & Management Bankakademie | HfB

Tuesday, September 15th 2015

Time	Program	Room
13:15 – 14:15	Lunch	*Mensa*
14:15 – 15:30	**Presentations of Research from the Field**	
Group A	Moderator: **Susann Seifert, Positive Planet Germany** ▪ **Yasmin Olteanu, Freie Universität Berlin** *Factors affecting clients' propensity to voice their complaints* ○ **Comment by Bernd Balkenhol, University of Geneva** ▪ **Joana Silva Afonso, University of Portsmouth** *The role of loan officers in the prevention of over-indebtedness – the case of Banco ADOPEM* ○ **Comment by Davide Forcella, ULB/CERMi**	*Audimax*
Group B	Moderator: **Karla Henning, Freie Universität Berlin** ▪ **Hanna Laufer, Philipps University Marburg** *Does financial knowledge lead to financial capability? – cases from Namibia and South Africa* ○ **Comment by Adalbert Winkler, Frankfurt School of Finance & Management** ▪ **Marie-Sophie Hou, Pantheon-Sorbonne University** *The impact of business development services on female borrowers and MFIs* ○ **Comment by Davide Castellani, University of Bergamo**	*Room 11*
15:30 – 17:00	**Parallel Presentations and Open Discussion**	
Panel A	Responsible microfinance – how important is financial education? Moderator: **Barbara Drexler, Frankfurt School of Finance & Management** ▪ **Frances Fraser, Positive Planet Southern Africa** *Embedded financial education approach* ▪ **Jules Théoneste Ndahayo, UMUTANGUHA Finance Ltd** *Youth financial education strategies* ▪ **Piotr Korynski, Microfinance Centre** *Financial education approach for the European microfinance landscape* ▪ **Bernd Balkenhol, University of Geneva** *The impact of financial education and sustainable strategies*	*Audimax*
Panel B	Responsible microfinance – what is the impact of business development services? Moderator: **Aymeric Fuseau, Positive Planet** ▪ **Alia Farhat, Al Majmoua** *Experiences from the MENA region in developing a BDS approach* ▪ **Silke Müffelmann, Frankfurt School/International Advisory Services** *Results from the YouthStart business case analysis*	*Room 11*
17:00 – 17:30	**Closing Remarks** Adalbert Winkler, Frankfurt School of Finance & Management	*Audimax*
17:30	Cocktail UMM Mentorship Sessions	

Annex III : List of Participants (1/2)

Abrar Afsheen; University of Twente
Adalbert Winkler; Frankfurt School of Finance & Management
Alia Farhat; Al Majmoua
Alicja Szyszko; Jagiellonian University
Amee Yostrakul; University of Leicester, School of Management
Ana Bublatzky; Goethe Universität
Andrew Crawford; Department of Banking and Finance, Monash University
Anna Custers; Saïd Business School, University of Oxford
Anne Hastings; Microfinance CEO Working Group
Arthur Alfred Nomafo; 72 Hours Microfinance Co Ltd
Aymeric Fuseau; Positive Planet
Azalea Carisch; Positive Planet
Barbara Drexler; Frankfurt School of Finance & Management
Bernd Balkenhol; University of Geneva
Berrin Gökkaya; Frankfurt School of Finance & Management
Bezant Chongo; Positive Planet Southern Africa
Bob Kambale; Kighoma Hekima
Christina Tuemmers; Frankfurt School of Business, MIB
Cristos Pouris; fi compass-EIB & European Commission/ DG Employement
Daniel Rozas; MIMOSA / e-MFP
Davide Castellani; University of Bergamo & Positive Planet Italy
Davide Forcella; Microfinance in Crisis Project/ ULB/ CERMi
Dominique Brouwers; SEEP Network RFLL program
Ethiraj Sudhir Kumar Raj; Frankfurt School of Finance & Management
Ewa Bankowska; Microfinance Centre
Ezechimere Uchegbulam; Philipps University Maburg. Msc Economics and Instituitions
Fabien Risterucci; FR Prospektiv
Fatma Dirkes; Frankfurt School of Finance & Management/ International Advisory Services
Frances Fraser; Positive Planet Southern Africa
Franziskus Bayer ; Goethe-University, Social Science
Gloria Bernascovi;
Hanna Laufer; Philipps University Marburg
Irina Eichenauer; KfW
Irina Zemskova; Frankfurt School of Finance & Management
Jasper Schulz; Institut für Ethnologie
Joana Silva Afonso; University of Portsmouth
Johanna Ryan; World Vision/ Vision Fund International
Johanna Schauer; Toulouse School of Economics
Jonathan Ayisi; European Microfiance Program, ULB
Jules Théoneste Ndahayo; UMUTANGUHA Finance Ltd
Julia Erdelmann ; Goethe-University, Didactics of Social Science
Kaisi Sun; Frankfurt School of Finance & Management
Karl Dayson; University of Salford
Karla Henning; Freie Universität Berlin
Laura De Matteis; Catholic University of the Sacred Heart
Leah Wardle; Social Performance Task Force & Smart Campaign
Lingda Kong; Frankfurt School of Finance & Management
Magauta Mphahlele; Ithuseng Credit Solutions in South Africa

Annex III : List of Participants (2/2)

Mariam Abdelhady; Frankfurt School of Finance & Management
Mariami Zewdie Adane; Giessen University
Marie-Sophie Hou; Pantheon-Sorbonne University
Mayank K. Jain; Oikocredit International
Menjour Saad; Frankfurt School FS
Minh Nguyen; FH Frankfurt
Mohammed Zekiyu Jemal; University Libre de Bruxelles
Moran Sean;
Odette Nseir; Malmo University
Olukayode Osunremi; Federal University of Agriculture Abeokuta
Piotr Korynski; Microfinance Centre
Robin Gravesteijn; Oikocredit International
Sean Omar Klein; Freie Universität Berlin
Silke Müffelmann; Frankfurt School/ International Advisory Services
Silvia Grimaldi; Bocconi University
Sneha Stephen; Innovations for Poverty Action
Song Zhang; Frankfurt School of Finance & Management
Stefanie Lämmermann; Deutsches Mikrofinanzinstitut (DMI)
Susann Seifert; Positive Planet Germany
Thorsten Beck; Cass Business School
Wolfgang Bucker; Gesellschaft für Internationale Zusammenarbeit GmbH
Yasmin Olteanu ; Freie Universität Berlin
Yin Shun Pern; Frankfurt School of Finance & Management
Zewde Yidnekachew; Humboldt University of Berlin

Annex IV : Notes

Annex IV : Notes

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