EUROPEAN MICROFINANCE WEEK 2012

COMBINING STRENGTHS – DELIVERING RESULTS

14th - 16th November 2012
Abbaye de Neumünster, Luxembourg

Conference report

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FOREWORD







European Microfinance Week is the annual event of the European Microfinance Platform (e-MFP), gathering its diverse membership and other interested professionals from related sectors to debate, exchange and share experiences on issues impacting microfinance in developing countries. It is the unique meeting point for concerned professionals who wish to contribute and improve access to financial services for underserved populations.

The 2012 event gathered 450 registered participants in Luxembourg from 14th - 16th November. Reflecting the importance of fostering cooperation and working together, the theme for the three days was 'Combining strengths – delivering results'. The event focussed on the current state of the sector, reinforcing responsible microfinance as a tool of financial inclusion. A combination of plenary and workshop sessions made for lively exchanges and productive debate. This report summarises the discussions, viewpoints and vitality of the event. We wish you an enjoyable read, active exchanges among members in 2013 and we hope to welcome you to the next European Microfinance Week, 12th-14th November 2013.

Cécile Lapenu
Acting Chairwoman

Christoph Pausch
Executive Secretary

SESSIONS

THURSDAY 15TH NOVEMBER 2012

OPENING PLENARY: MICROFINANCE – DELIVERING RESULTS

Moderator	**Christoph PAUSCH**, Executive Secretary e-MFP
Speakers	**Marc BICHLER**, Executive Secretary UNCDF/Chairman e-MFP
	Bob ANNIBALE, Global Director Citi Microfinance
	Sanjay SINHA, Managing Director M-CRIL
	Ousmane THIONGANE, Chairman AFMIN/U IMCEC Senegal

PRESENTATION

Marc BICHLER, Chairman of the European Microfinance Platform (e-MFP), welcomed the participants to the 8th European Microfinance Week (EMW). He highlighted that EMW has grown into a landmark event for European microfinance stakeholders, now attracting 450 participants to its 24 sessions with 110 speakers. He thanked the organisers for their hard work and the Luxembourg Government for their continued support.

Christoph PAUSCH moderated the formal opening session of European Microfinance Week 2012. He was delighted to welcome so many people and extended a special welcome to the 16 organisations that became e-MFP members in 2012. He indicated how proud he is of e-MFP's increasingly broad membership, with members eager to share with, and learn from each other. He noted especially how the Action Groups are demonstrative of the dynamics of the platform in moving our knowledge of microfinance forward.

He also introduced the 4th European Microfinance Award, this year focusing on 'Microfinance for Food security'.

He explained how the session would address the increased scrutiny of the microfinance sector. It is a young sector, which has experienced strong growth and has difficulties in demonstrating positive results. He asked his fellow panellists to each give their view from their own various perspectives; as a global bank, regional microfinance network and rating agency.

Bob ANNIBALE agreed that recent years have brought increasing challenges, both in terms of media scrutiny, as well as from legislative pressure in some countries. Annibale continued by stressing positive developments in the sector. While the sector continues to expand and commercialise, many practitioners continue to focus on financial inclusion and cater for the financial needs of the underserved. Community-based financial institutions, such as village banks and financial cooperatives, play an important role in outreach to these populations.

As the sector expands, MFIs need to seek new markets in terms of servicing underserved sectors and geographical areas, including rural areas. There is especially an increased interest in servicing the needs of farmers. This is closely related to increased interest for sustainable sourcing, traceability and quality of supply; consumers and corporate buyers want to know where their products come from. These trends are creating markets for smallholders and opportunities for value addition and certification. However, there remains a product development challenge to meet their specific needs, reflecting clients' realities in terms of cash flow, investment needs and timing. At the same time, the ability to meet client needs is expanded due to our increased understanding of different client segments and the improved reflection of this information on product development. Moreover, it is supported by technological and process innovations, such as improved savings mechanisms using mobile technology. Such developments have proven vital in lowering delivery costs and expanding outreach to clients with limited savings or living in more remote areas. An example mentioned was the 'Better than Cash Alliance', which focuses on improving electronic payment systems and platforms. Another vital

innovation has been branchless, or agency banking, which has propelled microfinance and especially mobile banking.

Client segmentation and assessment is also vital in meeting client needs better. The diversity of the poor leads to challenges in impact and impact assessment, in terms of what is appropriate for clients, what institutions and models would serve them best, and where we can expect demand.

Sanjay SINHA agreed that there is public concern that microfinance is not delivering results. He stressed that this is mainly self-induced. We were too successful in presenting microfinance as a panacea for poverty; a promise microfinance could not be expected to deliver on. Based on several malpractices and research outcomes, public perceptions changed dramatically. This requires that we communicate a more balanced picture of microfinance and explain its real utility as a means for financial inclusion. It is in increasing financial inclusion that microfinance can deliver results as, without access to finance, the poor must rely on savings and earnings to pursue promising opportunities, which contributes to persistent income inequality and slower economic growth.

Sinha explained that there is no true alternative to microfinance to achieve financial inclusion. Access to financial services of banks remains low, while alternatives such as ROSCAS, relatives and moneylenders either offer unfavourable conditions, or are limited in the scope and size of the services they offer.

In addition to better communicating the merits of microfinance, we also need to improve results. Firstly, Sinha proposed abandoning the mantra of growth. Rampant growth greatly increases risks, as institutional, human resource and system capacities cannot keep up and remain aligned to the social mission. To moderate growth, it is important to temper the egos of MFI promoters, and to dampen investor expectations on financial returns. The definition of moderate growth depends on the national context. Secondly, the industry needs to design appropriate products. Traditional, credit-focussed, product portfolios of MFIs do not fit the needs of many low-income families. Savings, insurance, remittance products and payment services also need to be promoted and need to be based on priority needs of borrowers, while product improvement needs to be ensured through regular client satisfaction surveys. Moreover, we need to realise and communicate that pushing costs below realistic levels jeopardises institutional sustainability. To conclude, Sinha stressed that European microfinance supporters should practice patience for the sector to improve.

Ousmane THIONGANE presented the Réseau Africain de Microfinance (AFMIN). AFMIN was launched in 2000 as an African association of national MFI networks. Its objectives are to establish shared performance indicators to improve MFI performance and financial inclusion;

to share and disseminate best practices and innovations to strengthen the institutional capacity of members; and to provide a unified voice to advocate for improved policies for financial inclusion.

Thiongane provided examples of AFMIN's achievements within its core activities. Firstly, as regards capacity building of national networks, AFMIN provided trainings to increase awareness of specific African realities and their influence on microfinance, such as HIV/AIDS. Secondly, to establish financial and social performance norms, it provided technical support to 90 MFIs and organised a regional workshop on social indicators. Thirdly, in terms of improving the legal and regulatory framework, it made proposals for national legislation in the region. Fourthly, to establish a knowledge exchange platform, AFMIN conducted thematic conferences and published research on subjects such as rural finance and mobile banking.

For the future, AFMIN will focus on improving synergies and engaging in partnerships with other organisations to diversify its network, for example by

strengthening links between Northern and Southern networks, and on improving outreach in Western and Eastern Africa.

DISCUSSION

The discussion focused on whether reputation damage affected the microfinance sector in the developing world, similarly to Europe. Annibale indicated that in Latin America and the USA, microfinance has received increased media and sector attention, however it has not been to the same extent as in Europe. More attention is given to impact and impact validation, to product and institutional transparency in environments with low supervisory capacities and to the need for meeting client needs.

Sinha stressed that the downturn in microfinance in India was caused by the crisis in Andhra Pradesh. Funding for the sector dried up due to the sudden awareness by banks of political risk in microfinance, reducing business volumes and profitability of the sector. A more client-focused approach by MFIs, with more appropriate products and more concerned interaction with clients, is required for a more sustainable microfinance sector to emerge.

According to Thiongane, there is no perception of a microfinance crisis in Africa. There is some reputation damage due to perceived exorbitant interest levels in the region. This calls for more transparency by MFIs as regards their products and services and an increased focus on meeting the double bottom line.

UNDERSTANDING THE LIVES OF THE POOREST: FINDINGS FROM THE CGAP-FORD FOUNDATION GRADUATION PROGRAMME: QUALITATIVE AND QUANTITATIVE RESEARCH SO FAR

Moderator	**Tilman EHRBECK**, CGAP
Speakers	**Bram THUYSBAERT**, Innovation for Poverty Action (IPA)
	Janet HEISEY, Trickle Up
	Ann MILES, MasterCard Foundation

PRESENTATION

Tilman EHRBECK opened this session by providing an overview of the CGAP-Ford Foundation Graduation Programme, which is based on the premise that poverty is a multi-faceted problem. The programme started with ten pilots in eight different countries, targeting the extremely poor. Its careful graduation sequencing starts with consumption support in the first few months, followed by improving financial literacy to stimulate savings, and finally skills training and a transfer of assets. Based on these steps, participants should have moved out of extreme poverty, gained access to credit and graduated to sustainable livelihoods.

Ten pilots were conducted in Honduras, Haiti, Peru, Ethiopia, Ghana, Yemen, Pakistan and India (three pilots) and are currently at different stages of the programme. Those that started up

between 2006 and 2008 have been up scaled considerably and there are plans to further scale up in the next few years. For example, the Bandhan pilot in West Bengal, India started with 300 participants in 2006 and scaled up to 10,200. It aims to reach 55,000 participants in 2015.

Partnerships on the ground proved critical and can include: livelihoods providers (e.g. NGOs, government agencies), financial service providers (e.g. MFIs, or other financial service providers) and healthcare or other service providers (e.g. NGO, government agency). Another critical factor mentioned is the need for a community of practice.

Bram THUYSBAERT discussed some early results from evaluations that were conducted in eight of the pilots. He started by mentioning several characteristics of the ultra poor. First, although most households could afford at least two meals per day, most faced food shortages for at least some months during the year. Furthermore, the ultra poor spent a large share of their income on food and fuel, are vulnerable to shocks (mainly health shocks) and often live in remote areas.

The preliminary results are very promising, for example in terms of an enlarged asset base (mainly livestock), increased self-employment, improved food security, increased non-food consumption and increased happiness. However, the results vary across the different sites. It is not yet clear what causes these differences.

The main questions that still need to be answered include: Why does the graduation work well at one site but not so well at another; what are the long term effects; and how can we make the graduation programme more cost effective?

Janet HEISEY explained how Trickle Up translated results from monitoring and evaluation into concrete action to improve the results of the graduation programme in West Bengal, India. Firstly, the sequencing of interventions was changed. The formation of Self-Help Groups (SHGs) is critical and must start immediately after participant selection to stimulate savings. Consumption support, on the other hand, is not always necessary at the beginning of the programme and is more effective during months of low food availability or during pregnancy. Secondly, field worker performance was improved by providing them with more training and developing an extensive livelihood planning training. Also, information sharing between field workers and coordinators was improved.

The programme resulted in an increase in household assets from -$1 at the time of the baseline survey to $326 at the end of the programme. Although debts also increased, assets and savings increased much more strongly. Moreover, where initially there was a strong dependence on money lenders for credit, this shifted to SHGs at the end of the programme. Also, where credit was first predominately used for healthcare expenses, these were later used for other livelihood purposes as well. An interesting observation was that the amount of loans from relatives expanded and that loans for social functions increased, probably due to people taking pride in being able to participate in social events. Finally, participation in SHGs has significantly improved women's empowerment.

Next steps for Trickle Up are to expand and adapt the graduation model in all regions, to provide technical assistance to other organisations that target the ultra poor and to better understand the relationship between programme components. Furthermore, a consultation process and more research is needed to increase understanding of how social networks change throughout the programme.

Ann MILES explained that the MasterCard Foundation promotes financial inclusion by advancing microfinance and youth learning, with a focus on Sub-Saharan Africa. The MasterCard Foundation has provided funding for approximately $5 million for three ultra poor programs including the CGAP-Ford Foundation Graduation Pilot. The MasterCard Foundation showed interest because the programme was modelled around the BRAC approach to the ultra poor and BRAC was already a partner of the MasterCard Foundation. In this project, the Foundation provides funding to the BRAC Development Institute for qualitative research to better understand the life trajectories of the participants and to gain a more informed understanding of their lives.

Miles raised several issues connected with the program which need further consideration:

· What is the role of funders? How can we better support impact measurement and scaling up activities?

· We need to better understand the long term impact of the graduation programme. How does this programme compare to other alternatives, especially as regards cost-effectiveness, considering its relatively high costs? How can we bring costs down?

· Where can the pilots be expanded and how can we expand knowledge obtained from these pilots? Can this model help address the cyclical nature of poverty?

Miles concluded by inviting other funders to become engaged in the Graduation Programme. The Foundation is particularly interested in understanding the impact of this model on youth and the implications of scale and its effects on local markets.

DISCUSSION AND CONCLUSIONS

Much of the discussion focused on the costs of the graduation programme. As clients are difficult to reach, the programme is relatively expensive. In this respect, sustainability is a challenge. However, costs per client vary considerably between the pilots (e.g. from US$330–US$650 in India to US$1,900 in Haiti).

In terms of scaling up, there are opportunities to link the graduation program to government programmes. The example of Pakistan was given, where this alignment has resulted in a large outreach. However, we need to consider that every country has a different approach to poverty reduction. Most governments are not used to such intensive support programmes.

The question was raised on how differences in outcome, for example between the two different pilots in India, can be explained. Although there are no complete answers yet, some hypotheses were given. Compared to West Bengal, people in Andra Pradesh are more involved in wage labour. Therefore, it takes more time to see a positive change in income from self-employment. Also, in Andra Pradesh the government is much more involved in social programmes and this means that the differences between participants and non-participants are smaller.

COOPERATIVES IN THE FINANCIAL SECTOR

Moderator	**Hans Dieter SEIBEL**, DGRV/e-MFP
Speakers	**Paul THOMES**, RWTH Aachen
	Michaël de GROOT, Rabobank Foundation
	Paul ARMBRUSTER, DGRV

PRESENTATION

The session was opened by the moderator, Hans Dieter SEIBEL, who stated that it would focus on the European cooperative context and its actors. In addition to providing some history of financial and nonfinancial cooperatives, such as in Germany and The Netherlands, he also stressed the relevance of government intervention through regulation and supervision to prevent, identify and resolve problems with credit cooperatives. Supervision is required, such as demonstrated in the Central Bank of Vietnam case explained by him.

Paul THOMES has studied much of the history of cooperative banking in Europe. In his presentation 'Credit Cooperatives and Savings Banks, a template for SME finance and development?', Thomes aimed to provide a perspective through retrospective, by what he called 'the history lab'. Through quantitative and qualitative analyses, Thomes investigated change management processes, and cycles of invention, innovation and diffusion. When comparing history to current developments in developing countries, he explained that the general problems appear remarkably similar. While cooperative structures in Europe, and in countries such as Canada, gradually evolved into a diversified landscape, depending on national social, political and economic systems, cooperatives in developing countries are more quickly adding savings schemes and other products to their portfolio. According to Thomes, what is needed is more holistic regional change management schemes, that are closer to the historical developments in Europe.

Thomes concluded that cooperative banks are resilient in economic crises, and instrumental in infrastructure development. In short: microfinance works, whether privately or publicly structured, and whether growing from the bottom up, as cooperatives, or top down, as in the case of savings banks. It is more important to

think in integrated regional concepts for savings and credit.

Michaël de GROOT, replacing and presenting a study done by Hans Groeneveld, named 'Cooperatives and Rural Financial Development', points to the remarkable fact that, after 200 years of cooperative movement in Europe, so many new cooperatives are currently being established, especially considering the economic crisis that is affecting the region. In addition, he stressed that Northwest Europe as we know it, would not exist if it was not for the activities of our cooperatives. Reflecting on phases and players, De Groot remarked that cooperatives in the South are not following a similar pattern of network development. This has resulted in a far from level playing field, in which traditional development stages are being skipped, actors jump straight into implementing new tools, and new models are evolving, such as commercial banks with cooperative characteristics. However, he put forward that rather than having an increased number of institutions, more and better services are required. After a quick reflection on determinants of successful and viable cooperatives, a number of Rabobank cases were reviewed, articulating good and bad practices.

The presentation of Paul ARMBRUSTER started off with a brief history of the German Cooperatives and the networks oriented on 'Raiffeisen' with the characteristics of self-help, self-administration, and self-responsibility. He explained that cooperative banks (credit and savings cooperatives) together with the public savings banks ('Sparkassen') were the first microfinance banks, and aimed at supporting self-help and survival. Armbruster confirmed that many new cooperatives have been established in The Netherlands and Germany recently, and stressed the importance of bank laws and supervisory structures for cooperative banks and SACCO's alike. Whether they operate in a centralised, decentralised (such as in France on a regional level) or federalised (such as in Germany) level, the importance lies in building the right structure and networks, in reaching scale, and in appropriate control and legislation; otherwise, individual cooperatives have no future. He advocated for multi-tier cooperative systems or Apex institutions, in which operational structures are separated from governance structures.

Armbruster concluded by saying that external support to individual cooperatives neglecting existing structures may limit the development of required cooperative networks, and lead to a lack of solidarity among cooperatives. Therefore, support must be given to system development and multi-level approaches.

DISCUSSION AND CONCLUSIONS

On the question from Gianluca Pacchiani, Université Libre de Bruxelles on why it makes no difference to structure publicly or privately, Thomes replied that his analyses show that, on average, both approaches are marked by parallel developments and achievements. More importantly, as was also remarked by other participants from the floor, is the aspect of being organised into networks.

A discussion then unfolded on ownership structures and the legal aspects thereof, and several examples were discussed. De Groot referred, for instance, to the State Cooperative Bank of India, which was already established under old British Law in 1904, and to the strong cooperative membership businesses in Brazil. He stressed that it is therefore difficult to generalise regarding ownership, and what works or not.

Mariel Mensink of Terrafina Microfinance asked about functional relationships between finance and producer cooperatives. Armbruster's response was that Raiffeisen originally combined the two functions of providing inputs (e.g. seeds, fertilisers) and marketing with banking activities. Nowadays these functions are mostly separated in finance and production structures, but the synergies can be still highly relevant. De Groot added that a 1968 law forced Rabobank to clearly separate finance and production, leading to the establishment of a successful cooperative bank and producer cooperatives. In contrast, it was also shown that government interference can be counterproductive, as was illustrated by an example of Indonesia's cooperative regulations. In The Netherlands, such regulations fall under private sector regulations. Thomes concluded that, in this respect, going back to some of the roots and original intentions can help to solve some of the current issues affecting cooperative structures.

A South African participant wanted to hear more about the key aspects of establishing Apex bodies. Armbruster responded that this may vary significantly, depending on the country's context and culture, as is exemplified by the fact that in The Netherlands and Germany the systems evolved quite differently, despite having the same roots (Raiffeisen).
As such, we need to understand that cooperatives do not operate in isolation, and are also defined by their respective services, markets and the legislation and customs governing their functions. With respect to establishing Apex structures, this will require trust building, training, and internal and external control systems.

MAKING MICROFINANCE INVESTMENT RESPONSIBLE

CLIENT PROTECTION AND FINANCIAL PERFORMANCE IN MICROFINANCE: WIN WIN OR TRADE OFF?

Moderator	**Emilie GOODALL**, UNPRI
Speakers	**Cecile LAPENU**, Cerise/e-MFP
	Lucia SPAGGIARI, MicroFinanza Rating
	Andreas HOEPNER, St. Andrews University
	Christophe BOCHATAY, Triple Jump
	Robin GRAVESTEIJN, Oikocredit
	Maxime BOUAN, BlueOrchard

PRESENTATION

Emilie GOODALL started the session by highlighting that the theme related closely to that of the European Microfinance Week: Combining strengths - Delivering results. She explained that, in a research project which originated within e-MFP, ten organisations joined forces to organise a large scale analysis of the relationship between social performance (especially client protection principles) and financial performance in microfinance. This session provided the background and process of this project.

Cecile LAPENU introduced the project, explaining that the theme 'responsible practices in microfinance' has been centre stage of e-MFP conferences for four years, creating a strong incentive to make a business case of social performance in the sector. In this respect, e-MFP played an important role in this process by enabling people from different backgrounds to come together and combine forces. She illustrated this by mentioning that different agencies have databases with financial and social data; the research challenge was to combine these databases for a joint analysis.

Before the research project was further discussed, Lucia SPAGGIARI provided an example of previous research done on social and financial performance in a partnership between MicroFinanza Rating and St. Andrew's University. This study used a MicroFinanza Rating dataset of social ratings from 2007 and 2012, mostly of Latin American MFIs, to learn more about the complex relationship between financial and social performance and whether it follows a linear pattern or a non-linear one. According to Spaggiari, the main strength of the database lays on the quality and reliability of the data, involving in depth, field verified social performance indicators. As a main limitation, the sample was fairly small. Overall, results showed that a non-linear relationship exists between client protection and financial performance: although establishing a client protection system represents high costs, a well-functioning system results in improved financial performance.

Andreas HOEPNER shared the methodology and preliminary results of the joint project, whose aim is to 'explain the relationship between financial performance measures and client protection ratings while controlling for MFI characteristics'. The research was based on a sample of more than 100 MFIs, resulting in almost 3,000 observations from 95 countries, which made combining datasets one of the greatest challenges to the research team. After receiving the original datasets, the team matched different data on common client protection themes, followed by interviews with MFIs to gather additional information. The datasets from different MFIs were then aligned to allow for comparison. Regarding results, Hoepner emphasised that these remain preliminary but showed that 'indirectly financial aspects'

of client protection appear to be not negatively related with financial return measures. In phase II, the project will investigate the complete set of social performance indicators in order to clarify the global picture of the social and financial relationship.

Christophe BOCHATAY explained that Triple Jump did similar work on the relationship between social and financial performance in 2010. Their study involved 81 MFIs and consisted of an analysis through score cards and client interviews. Results showed a positive relationship between social and financial performance, but Bochatay cautioned that these conclusions cannot be applied to the sector at large. He acknowledged that the research discussed in this session has a wider reach and scope, and will create a strong business case for client protection.

Robin GRAVESTEIJN brought other examples to the table by sharing Oikocredit research on social performance in India regarding social entrepreneurship and, as part of his PhD research, an investigation into two MFIs dealing with women in Tajikistan, related to entrepreneurship trainings. These studies were conducted in the framework of the social vs. financial performance relationships, and results were reported to be quite mixed. In this respect, Gravesteijn argued it is not appropriate to assume a win-win situation in all cases.

From the perspective of an investor, Maxime BOUAN declared that he appreciated the unity of the sector in conducting this study. BlueOrchard also scores on both social and financial aspects, but statistically significant interpretations can only be achieved based on a large sample size from several contributors. According to Bouan, investors are always looking for proof of social performance. In this respect, the joint project will be very useful. He shared BlueOrchard's efforts in conducting an overindebtedness study in partnership with Oikocredit and Incofin in Cambodia, and initiatives carried out in Peru, Kirgizstan and Cambodia aiming to identify appropriate client protection principles to deal with this issue.

DISCUSSION AND CONCLUSIONS

The discussion started on the use of passive indicators ("do no harm") to address social performance in the research project, rather than more active ones. Goodall explained that the first phase of the study indeed uses more passive indicators, but that phase II will focus on social performance in general and use broader indicators.

The audience also questioned whether the economic crisis has strengthened the focus of institutional investors on financial performance, and whether this affects the industry's social performance focus. Bochatay stated that social performance remains central in the investment process. Bouan added that the financial crisis in general, and its impact on the microfinance sector in particular, have led to more stringent investor requirements, both in terms of risk-adjusted financial returns and social performance management. He added that BlueOrchard's research and investment process takes into account both aspects, and MFIs can be rejected on both financial and social grounds.

On the question to what extent MFIs with a positive social performance are more resilient to crises, Lapenu answered with an example in Bolivia where socially committed MFIs showed more resilience in past crises due to the trust built between institutions and clients. Carmen Velasco (Pro Mujer) added that Pro Mujer Nicaragua did not lose clients, even during the current economic crisis, highlighting that the client is the best judge of an MFI's social performance. Hoepner declared that although intuitively there is a relationship, microfinance data does not allow us to study it statistically. Regarding qualitative data on crisis resilience from investor observations, Gravesteijn referred to Jessica Schicks' work in Ghana, which focused on a broader set of studies covering the specific issue of over-indebtedness.

A comment from the floor subsequently challenged the panellists regarding the limitations of qualitative social performance studies. In response, Bouan agreed that studies would always have limitations regarding the scope of their interpretation, but defended them as a way to detail findings from statistical studies. Bouan also said that results showing trade-off scenarios are as important as those showing win-win relation, since they would allow institutions to take the necessary steps to improve overall performance.

To conclude the session, Goodall made her final remarks, pointing out that this combined project has provided an excellent dataset which was only possible due to the sustainable collaboration developed between all partner organisations. The project's team has been able to deliver an interesting series of tentative findings and final results will emerge through statistical analysis and joint interpretation.

CONSUMER PROTECTION REGULATION FOR LOW ACCESS ENVIRONMENTS

Moderator	**Kate McKEE**, CGAP
Speakers	**Anne MULINDWA**, Uganda Finance Trust
	Isabelle BARRÈS, The Smart Campaign

PRESENTATION

Kate McKEE of CGAP introduced the audience to the subject of the session: consumer protection regulation in low access environments and its current challenges. McKee started by asking the audience for examples of bad practice by their own financial service provider. By doing so, she brought attention to the fact that we also encounter difficulties with our institutions in the North, and that consumer protection regulations and financial literacy of consumers strongly varies in western countries. As financial literacy and regulations are often less institutionalised, the role of self-regulation by financial service providers in the South is even more important. In this context, she introduced the 'three-legged stool principle'. Combined, the three legs, financial literacy, regulation and self-regulation support the seven core principles of client protection.

According to McKee, transparency, fair treatment and effective recourse procedures are the three core principles policy makers need to ensure consumer protection in low access environments. The recent financial crisis has demonstrated that transparency (and disclosure requirements in particular) is, by itself, not sufficient. In order to gain the trust of consumers in low access environments, financial service providers also need to focus on fair treatment (e.g. fair marketing practices, staff ethics and data privacy) and effective recourse (e.g. internal dispute resolutions, complaints registration, workable procedures for low-income/ inexperience consumers).

Whereas regulation was perceived as the principal 'leg' of consumer protection in the past, McKee explained how this is shifting. Based on the strong increase in consumer protection standards and principles and the increasing adherence to them on international and national level, regulators were introducing policies and requirements that actually slowed down financial inclusion. Recently, financial inclusion is increasingly perceived as a trust issue. Low income consumers do not make use of financial providers due to a lack trust and transparency regarding the products. To prove the reliability of the financial service providers, effective complaint and dispute resolution as well as full disclosure should be in place. Self-regulation can play an important role in establishing such measures across the system. However, the reality shows that such transparency is difficult to implement for financial service providers, as cases from Mexico and the Philippines showed. In both cases, improvements in transparency of financial services were differently perceived by low income consumers. As self-regulation becomes more important, McKee sees a growing trend towards:

- Fair treatment as a broad framework
- Product suitability
- Business conduct rules
- Responsible lending rules
- Provider liability (for suitability, for outsourcing)

McKee also advocated for financial education, the third leg of consumer protection, although she questioned whether it is more effective to educate the consumer or the provider.

After the introduction by McKee, Anne MULINDWA, of the MFI Uganda Finance Trust, provided an example of how self-regulation is implemented in practice. In June 2011, the Ugandan Central Bank issued a Consumer Protection Guideline in order to protect Ugandan consumers from exploitation. The Ugandan Finance Trust embraced this guideline and implemented programmes to increase financial literacy of their clients through training and other awareness-raising activities. She explained that, as consumers become more aware of changes in pricing, responsible pricing among financial institutions is enhanced. Responsible pricing is further pushed by increased competition, as more commercial banks have entered the Ugandan microfinance market, leading to increased transparency, fairness and respectful treatment of customers. The benefits of customer protection mentioned by Mulindwa included increased consumer loyalty, a growing customer base and improved financial performance.

The session continued with a short presentation on self-regulation standards by Isabelle BARRÈS of The Smart Campaign. The Smart Campaign has developed a set of standards that can help financial

service providers to go beyond committing to consumer protection, and towards better practices of consumer protection, and is developing a certification program to determine whether MFIs are meeting adequate standards of customer care. This set of standards takes into account the local socio-cultural context and the regulatory requirements to which a financial service provider must adhere. Standards take into account the local regulatory environment. For example, in the case of 'Prevention of over-indebtedness', financial service providers in some countries can rely on credit bureaus for financial information on client debt, in other countries financial service providers are encouraged to share this information with their peers, to the extent possible.

Barrès concluded her presentation with cases of where well-intended regulation could sometimes be harmful (i.e. the case of interest caps imposed to protect clients from irresponsible pricing, that in the end results in inappropriate products, as financial service providers try to cover their costs through other means (e.g. fees, fines)). Barrès concluded that financial institutions should engage with their clients in order to determine what features of a financial product are important to them. Moreover, she highlighted areas where it would be good to have general outlines for all MFIs on a national level, and where common practices will make financial services more clear for consumers as well as for loan officers. This was illustrated by debt collection practices which currently often differ between loan officers.

McKee continued the session by dividing the audience into small groups and asking the groups to determine which two client principles they believed should be and which are better off being self-regulated. Although there were many differences in outcomes between groups, principles mentioned as benefiting from regulation included prevention of over-indebtedness and privacy, while responsible pricing and appropriate product design and delivery could be self-regulated.

Mulindwa stressed the importance of finding a balance between financial goals and consumer protection requirements. Although financial institutions can benefit from consumer protection requirements, they face challenges in practice, such as a high level of illiteracy, limited communication channels, difficulties in tracking client credit history and competition from unregulated institutions.

CONCLUSIONS

McKee concluded that in order to create a level playing field between financial service providers and consumers, self-regulation can play an important role in consumer protection. However, it needs to be backed by a strong legal framework. Having well-designed consumer protection rules through both regulation as well as self-regulation is beneficial for both consumers and financial service providers. Furthermore, financial service providers and their investors can play a role in self-regulation, especially in topics such as recourse and recovery practices.

RISKS IN MICROFINANCE

Moderator	**Thierry LOPEZ**, PwC
Speakers	**Raphael BETTI**, European Investment Fund (EIF)
	Michael KORTENBUSCH, Business & Finance Consulting (BFC)
	Yves MATHIEU, Consultant
	Arvind ASHTA, Burgundy School of Business

PRESENTATION

Thierry LOPEZ set the stage for the panel discussion by introducing the speakers and their respective roles in addressing risk management issues in microfinance. He outlined how the speakers cover a broad range of topics from strategy for setting financial covenants, to operational risk management, risk management frameworks and risk mitigation.

Raphael BETTI delivered his presentation from the perspective of an EIF risk manager, which acts as a fund manager for EU microfinance funds. He explained that setting appropriate level of covenants is important because covenants help to alert investors to deteriorating financial situation of their counterpart; to anticipate corrective actions and to help investors take adequate action before default occurs (e.g. acceleration, restructuring, prepayment). They also mitigate agency risks by increasing discipline, respecting limits and transparency, and improving adherence to defined business plans and risk appetite. Covenants need to be within MFIs' capacities to address, and need to cover liquidity and asset/liability management, capitalisation, portfolio quality and profitability. The number of covenants required depends on the risk and the type of counterpart. As such, it is up to risk managers to identify relevant covenants based on market, institutional realities and to link them to current performance indicators used by institutions.

Betti stressed the difficulty and importance of calibrating covenants at the right level. To be effective, they should not be set below current performance levels and should respect the counterparts' business strategies. They can also evolve over time. Calibration of appropriate levels is done through historical performance analysis, stress testing the business plan and peer benchmarking by using a variety of sources (e.g. MIX market, studies and public files). He explained how close and effective monitoring of covenants helps investors to engage with MFIs in case of non-conformance to discuss and implement mitigating strategies, and contributes to long-term sustainable results for both parties.

Michael KORTENBUSCH explained the different roles credit officers have: sales officer, analyst, administrator, monitoring officer and collection officer. Acquiring, training and retaining officers that combine these qualities is not always optimal, creating operational risks in terms of human errors and process failures. This makes operational risk management highly important, especially considering the current economic crises and explosive growth of some MFIs. However, it remains undervalued by MFI management and investors. Important lessons can be learned from conventional financial service providers.

Operation risk management allows MFIs to detect process defects such as efficiency and service delivery early, and to establish appropriate mechanisms to improve processes in a cost effective manner. For example, lending models where risks assessment, monitoring and training are centralised can help to reduce human error, but can add system needs and risks. In any case, independent, designated risk management staff is needed.

Kortenbusch then explained the steps of the operational risk management process. Firstly, at the planning stage, risks managers identify and assess risks and set mitigating measures according to strategic objectives and processes set by management. Secondly, at the analysis step, he explained the loss registration process and the importance of motivating credit officers and supervisors to report non-compliance, for example through bonus systems, trust building and cultural changes. He also explained risk-self assessment, a bottom-up approach where front-desk staff assess and prioritise risks and establish preventative measures. Thirdly, the decision taking stage includes risk mitigating action approval and risk review by the risks team. Fourthly, in terms of implementation, risk managers cannot implement changes, making appropriate communication vital.

Critical success factors for operational risks management are well-defined processes, tracking systems, staff awareness and management commitment. Moreover, a holistic approach to risk management is needed to see the entire risk picture.

Yves MATHIEU presented the realities of coaching an MFI on risk management. His coaching activities followed up on a Workshop 'Risk Management – Excellence in Microfinance' (supported by ADA, ATTF and PRiM). Coaching of selected MFIs focussed on knowledge transfer and building problem solving capacities.

Mathieu coached Alwatani National Microfinance Bank, a small MFI in Jordan. During a first mission, Mathieu assisted with setting up an effective risk management structure by adapting existing GIZ risk management frameworks to procedures already established by the MFI, according to the specific risks of the MFI. The areas addressed were; establishment of an independent risk management function, and setting authorities and an appropriate notification structure, capacity building of staff and development of a system for measuring, managing and reporting risks timely and accurately. During a second visit, the risk team established by the MFI was guided in setting and applying risk policies, roles and responsibilities and spreading the risk culture. Moreover, awareness was raised of new risk areas such as staff satisfaction and reputation. The main lessons learned were:

- Concepts prove confusing in practice (e.g. risk vs. audit, risk vs. strategy, risk vs. governance), showing the need to 'demystify' risk management.

- 'Real' awareness remains weak if consequences and benefits of risk management are not clearly explained (e.g. as a system to identify and mitigate risks, thus improving efficiency; instead of as a costly new layer in the organisation).
- Concrete risk management is a management decision and requires adequate resource allocation
- Communication is important in terms of objectives and concepts.
- Sustainable risk management systems needs to be simple and focused on priority indicators.

Arvind ASHTA presented his joint research with Saleh Khan on risk management. He explained that a limiting factor in successfully implementing adequate risk management for microfinance operations is the (perceived) high number of risk categories. Therefore, in an academic exercise, Ashta and Saleh Khan clustered risk categories (according to the GIZ model for risk management and Microfinance Banana Skins report), in three main clusters: financial, operational and strategic; with a number of sub-elements within them. This enabled them to broadly classify the number of risks to nine classes, including transaction, credit, liquidity, market, legal, governance and reputation risk. Arvind mentioned that most microfinance research focuses on credit risk, while other risks are infrequently researched, especially on an academic level. The researchers selected ASA (Bangladesh) to assess what lessons can be learned as regards risk mitigation strategies for each risk class, such as group lending practices to mitigate credit risk, or audits to negate legal and compliance risk.

Based on research on the relationship between microfinance and suicide in India, Ashta became interested in borrower stress, related to financial needs of businesses. Firms need both equity and debt financing. As equity financing is hardly available to the poor, he calls for micro-equity. Different micro-equity models exist, including dedicated investment funds and socially-driven individuals.
He also showed the innovative business model of the CIGALES, where investors are organised in investor clubs which jointly attract entrepreneurs, select projects and assist enterprises. Due to various reasons the movement failed to grow,

which brought up questions on how best to provide micro equity to individual entrepreneurs.

DISCUSSION

The first discussion point was on the inclusion of social performance risk, and climate risk. As regards social performance risk, the panel agreed that this is included under governance and reputation risks. As regards climate risk, there is a need for mutualisation of risk at a high level; to make sure that a regional disaster does not destroy regional institutions.

Secondly, the discussion veered to how targeting couples in financial service provision can reduce risks. The panel addressed the pressure that can be put on women to take out loans on behalf of their husbands. Examples of mitigation strategies are co-signing, add-on loans for men and group lending processes, to build in checks and balances. The panel also stressed that being a means to credit also provides women with respect.

EVALUATION (OUTCOMES & IMPACTS) OF BRANCHLESS BANKING **DEVELOPMENTS SO FAR**

Moderator	**Carol CARUSO**, Triple Jump
Speakers	**Philippe BREUL**, PHB Development
	Jatinder HANDOO, Paytech Ltd. India
	Charles ROWLINSON, Wizzit South Africa

PRESENTATION

Carol CARUSO introduced the speakers and informed how each would share their business model. She explained that Triple Jump (TJ) manages and advises investment funds focusing on livelihoods improvement for the bottom of the pyramid. TJ's Advisory Services assists young financial institutions, often MFIs, to 'jump to the next level' by providing capacity building services on a cost-sharing basis. Their services focus on strengthening governance, technology (e.g. mobile banking, management information systems), product development and social performance management. Since 2008, TJ has assisted MFIs to explore and launch mobile banking (M-banking) channels. Caruso pointed how their activities in Kenya resulted in cost reductions and a considerable increase in savings collection.

Philippe BREUL spoke about M-banking as a new champion, presenting the results of a survey that PHB development carried out to understand the success of M-banking by MFIs. The survey looked at the benefits of M-banking to MFIs, the costs, risks and challenges associated with it, and the type of products and services offered through this channel. The survey showed that MFIs benefit significantly from M-banking through outreach to new clients, improvement in branding and the organisation's image, and a reduction in security and fraud risks. Other benefits mentioned included the opportunities for cross selling and savings collection.

As with any new technological solution, M-banking services also bring challenges and risks, including insufficient technical infrastructures due to large investments, the lack of strong management, for example as regards negotiation skills, and the inability to manage high transaction volumes. Specific challenges for MFIs include their difficulties with maintaining sufficient liquidity at agent level to serve rural customers who withdraw money after receiving electronic funds; low financial and technological literacy, which reduces usage; and network failures.

To successfully implement M-banking, it is recommended to put in place performance management which aligns commercial efforts towards clients and distribution at the right time and place. The steps mentioned are: to firstly develop reporting and geographical dashboard; secondly, to create the distribution dashboard; and finally to build marketing analytics.

Jatinder HANDOO shared his experiences with the Business Correspondent (BC) model of 'banking beyond branches' in India. In order to promote financial inclusion amongst the un(der)banked, the Reserve Bank of India developed a set of guidelines to formalize branchless banking in 2006, which they called the BC model. Under this framework, banks can partner with third party agents and/or corporate entities to provide a complete package of financial services such as credit, savings, remittances, payment services and financial literary on their behalf. Since its inception, various banks have partnered with BCs throughout the country. The number of BCs has grown strongly, from 34 thousand to 120 thousand. This resulted in 70 million new basic bank accounts, bringing the total number of accounts to 147 million.

Handoo continued presenting FINO Paytech Ltd., which develops technological services and products that enable financial inclusion. FINO offers solutions for banks, MFIs and insurance companies from both the technical and the human resource perspective. As a BC services provider, FINO has more than 35,000 transaction points to provide the last mile services for banks and financial organizations. FINO also supports banks and insurance companies to use its technology to acquire new clients and service them on their doorstep through a biometric smartcard and PoS architecture. Moreover, FINO has been working on several government schemes for effective service delivery though its agent network. Its services to these public schemes have been appreciated, as is shown by various awards in recognition of its social initiatives.

Charles ROWLINSON introduced Wizzit South Africa, which is a provider of basic banking services to unbanked and underbanked households and businesses. Its services are based on the use of mobile phones for accessing bank accounts and conducting transactions. Wizzit operates in 7 countries and processes an estimated 300 million transactions for 5 million customers of its banking partners. They see a strong opportunity for mobile banking in Sub-Saharan Africa, where 88% of adults do not have a bank account. They see challenges due to regulations, limited education, low customer support capacities and marketing. As regards regulation, they need regulators to provide stable and clear regulatory frameworks, which also facilitate innovation.

The real growth in the use of mobile money as a payment solution will come from emerging markets. Mobile payment revenue will increase from $ 47 billion in 2011 to $1 trillion in 2016. A combination of meeting client needs in terms of accessibility, safety and ease of use, combined with its methodologies, robust platform and serious marketing effort, has allowed it to become successful quickly; for example taking an African bank from No. 6 market position to No. 1 in 4 years.

DISCUSSION AND CONCLUSION

A representative of GIZ asked about client impacts and what the panel considers as negative impacts and risks of M-banking. Rowlinson responded that he sees impact on an individual level; in terms of providing access to a bank account and mobile based payment and transfer services, without having to go to cities. Caruso summarised that the impact on individual life is not to waste time. Breul added that there is no research that can prove the full impact of M-banking on individual life. Organisations such as FINO make it possible to do research; however, a lack of financial resources is holding this up. Caruso referred to analytical field studies by MFO and TJ and concluded that time convenience, effect on economic activities, and cost reduction are a small number of examples of the effects of M-banking.

Another question raised was on the strategy to reach youth populations. Caruso expects that it will actually be youth that push their elders to use mobile phones and mobile banking. As such, involving youth in financial education will offer many opportunities.

Finally, the discussion turned to the willingness of banks to engage with M-banking. According to comments from the floor, although M-banking links more closely to the needs of many clients than traditional banking services, many banks remain hesitant and do not allocate sufficient resources in terms of advertising to truly engage with M-banking.

SOCIAL ENTREPRENEURS AND SOCIAL BUSINESS ENTERPRISES: **COMBINING NEW STRENGTHS TO IMPROVE PEOPLE'S QUALITY OF LIFE IN DEVELOPING COUNTRIES**

Moderator	**Jean-Michel SEVERINO**, I&P/Convergences 2015
Speakers	**Prof. Muhammad YUNUS**, Nobel Peace Prize Laureate 2006 and Founder of Grameen Bank
	François JAQUENOUD, 1001 Fontaines
	Jean-Luc PERRON, Grameen Crédit Agricole Microfinance Foundation
	Ulrich GRABENWARTER, European Investment Fund (EIF)

PRESENTATION

Jean-Michel SEVERINO introduced the topic and the speakers and invited Professor Muhammad YUNUS to take the floor. Prof. Yunus expressed his happiness at being with the members of the European Microfinance Platform and briefly reflected on some of the recent topics of microfinance: whether or not to make profit from microfinance, interest rates, and the greening of microfinance. He also reiterated the original focus of microfinance on the poorest people and on women; with the intention that loans were for income-generation, not for consumption. In addition, ownership of microfinance banks had originally been very much with the people themselves. Grameen model has gone international, including in the United States, with interest rates averaging around 15%.

As for the topic of this session, Prof. Yunus explained that whenever he sees a problem, he creates a company to deal with that problem, in any area of technology, education, trading, health care, etc. In the area of energy, they have been working a long time to bring solar energy to villages on a sound economic basis. He mentioned one type of business still missing in the world: social business, business focused on solving the problems of people and he is now focusing on creating such businesses. For example, he engaged with Danone to set up a business producing yoghurts with basic nutrients to reduce malnutrition. Other examples he mentioned included a company to reduce risks during pregnancies, and a company working with McCain to produce potatoes in Colombia. Profits remain within these companies and cannot be taken out by the partners. More recently, the Social Business Fund with Crédit Agricole was established which is now inviting innovative social business ideas.

François JAQUENOUD was shocked when faced with the water and sanitation situation in Cambodian villages, which motivated him to develop an economic model to treat stagnant water, the 1001 Fontaines initiative. In this model, local entrepreneurs are trained and helped to establish water treatment stations in villages. Some 100,000 people are now benefitting in Cambodia. He still sees great additional potential to be captured, which requires more social entrepreneurs. When asked about the definition of social business, he always refers to business as a way to solve serious health issues. Jaquenoud has made a pact to expand and sustain the business, not only in terms of finance, but also in building capacities; as such, profits are reinvested within the initiative.

Jean-Luc PERRON continued on the presentation of Prof. Yunus, by explaining about the work of the Grameen Crédit Agricole Social Business Fund. Social business can entail goods or services, and can be in developed (creating job opportunities and income for disadvantaged groups) or in developing countries (inclusive value chains for the poor), and he gave several examples in his presentation. In developing countries this can entail basic services (such as nutrition, energy, health, education and financial services), and redistribution mechanisms

(such as fair trading and shareholding/profit sharing). The investors in the Fund will not seek profit for themselves, and must be socially committed: they can be corporate companies (e.g. engaging with social business in line with their CSR policy), NGOs, local entrepreneurs or membership companies. The aim of the fund is to build coalitions and provide 'blended finance'. The investment policy of the fund was explained, as well as its legal structure, governance and management. The presentation concluded with a number of potential business cases such as milk production in Senegal, healthy yoghurts with Danone in Bangladesh, franchising 1001 Fontaines with new innovations, and tropical fruits in Cameroon.

Ulrich GRABENWARTER took a two-year leave from the European Investment Fund (EIF) to study social impact investments and social entrepreneurship. According to Grabenwarter, the objective of the European Investment Fund is to make a difference in the market, bridging the divide between commercial and non-commercial ventures. He considers the Fund as a knowledge centre on how to use finance for social needs, not just as an investment platform. There are three sources of funding, and the objective is to serve as a role model and become redundant in the future. After reviewing the fund's investment targets, Grabenwarter explained that their definition of social business is somewhat different than the one provided by Prof. Yunus. The Fund is expected to generate returns on its investments, integrating some market principles. However, solutions with respect to the social mission are key. Rather than a platform for business, the Fund was created as a platform for social ambitions.

DISCUSSION AND CONCLUSIONS

Severino reflected on the various presentations showing different financing models, some more commercial than others (e.g. when comparing Yunus' business model to that of the EIF). An important challenge is that of ownership: does it rest with shareholders, staff or clients? Another one is how the targets are set: above market rates, below, competitive, commercial? Moreover, who is the funder or investor in social business? Can microfinance finance social business? He concludes by stating that the three examples all challenge the traditional divide of commercial (profit) vs. non-commercial (non-profit) funding in their own way.

On questions by Care on how to move from pilots to upscaling, and by GIZ on how to find investors for social business when incubator funds are needed, Grabenwarter replied that this very much depends on the scale of opportunities. Indeed, funding to conduct feasibility studies for social business is still limited and not very visible; this is why part of EIF's approach is to encourage people to come forward with good ideas or initiatives through social networks.

Mika Vehnämäki of the Finnish Ministry of Foreign Affairs wanted to know how this can help to solve problems in developing countries. In response, Jaquenoud referred to the fact that social business can be a much more direct way to help people solve their own problems, as shown in his case of clean water provision. Prof. Yunus added that microfinance can also be designed as a social business to solve people's problems, inviting Vehnämäki to the Social Business Summit in Kuala Lumpur next year. The most difficult aspect of social business is to create prototypes; piloting and learning by experience in order to eventually solve the problem at hand. Risk-taking and incubation are the foundation to be able to solve problems, and success here will in turn bring additional money. The Social Business Summit was established to present and discuss such prototypes.

PLENARY WITH THE THREE FINALISTS OF THE 4TH EUROPEAN MICROFINANCE AWARD

Moderator	**Michaël DE GROOT**, Rabobank Foundation
Speakers	**Rolando VICTORIA**, ASKI
	Elvira Maria Elizabeth NAVA SALINAS, Banco FIE
	Olesya PAUKOVA, Kompanion

PRESENTATION

Michaël de GROOT opened this session by revealing that many proposals on the issue of food security were received, of which half came from Latin America, 20% from Asia and the rest from other parts of the world. He explained that nine e-MPF members were involved in the pre-selection of the finalists, and the High Jury would make the final decision on the winner. De Groot then provided a brief introduction on this year's nominees, before giving them the floor.

ASKI is a Filipino MFI with over 100,000 clients, of which around 22,000 are involved in the agricultural sector. The organisation provides agricultural loans to farmers and agri-business with attention to the market and commercialisation strategies. In addition, partnerships are established with government entities to support farmers with non-financial services. The innovative aspect of ASKI's initiative is the fact that farmers and buyers are directly linked together, thus enabling farmers to sell their produce. When questioned by De Groot on how ASKI handles the intrinsic risks of the agricultural sector, Rolando VICTORIA explained that ASKI has an insurance structure in place.

Banco FIE is the largest MFI in Bolivia, reaching over 600,000 clients, and was established 26 years ago. During the last 5 years FIE dedicated itself to providing credit to agricultural producers and animal herders, in the framework of the Bolivian government's policy to enhance food security. Banco FIE has 120 branches all over Bolivia, out of which 39 are located in rural areas through which it supports value chain for products such as cocoa, milk and fruits. De Groot asked Elvira Maria Elizabeth NAVA SALINAS how Banco FIE deals with interest rates in microfinance, which are usually out of the reach of the agricultural sector, and she revealed that the interest rate for the bank's agricultural product has a five percent discount compared to other products.

Kompanion is the largest MFI in Kyrgyzstan in terms of number of borrowers. It has more than 120,000 clients, of which 80,000 are working in agriculture or in activities related to agricultural production. The MFI has developed four programmes related to food security: 'Eco-Garden', 'Alpine Greenhouse', 'Garden in a Box' and 'Cellar'. Questioned by De Groot, Olesya PAUKOVA explained the specific approach of Kompanion to these programmes, based on ethno-ecology: this concept relates to how farmers work with the soil and manage natural resources, combining scientific knowledge and local traditions.

DISCUSSION AND CONCLUSIONS

The first question from the audience was directed at Banco FIE, and revolved around the measures adopted by the institution to maintain its mission, in spite of all the external and internal changes in the sector. In response, Nava Salina explained that it was possible to maintain the social purpose of the organisation because FIE has always looked for investors committed to a social goal. She further clarified that the mission was not abandoned by revealing that FIE goes to rural communities with sometimes less than 2,000 inhabitants.

Another related question raised by the audience was addressed by all three finalists, and concerned the organisations' strategic decisions. Victoria explained that, to ASKI, support to the agricultural sector is motivated by the realisation that small farmers needed support, since agricultural production is a very risky

business. As for Kompanion, Paukova explained that, in spite of all transformations in the sector, the organisation will remain a socially-responsible MFI. It will continue investing in qualified staff to provide transformational services and providing discounted loans from its profits. As Nava Salinas explained earlier, Banco FIE looks for (institutional or private) partners which have common social goals. Nava Salinas also revealed that Banco FIE re-invests 80% of its earnings; only 20% is distributed to shareholders and investors.

To conclude the session, the finalists elaborated on how they deal with the risks inherent to the agricultural sector. Victoria stated that ASKI has a monitoring system, whereby the loan officer checks whether the loans are being used in production; in addition, payments are timed so they take place right after the harvesting period. Nava Salinas and Paukova also

revealed that their institutions have a close relationship with clients, which is supported by monitoring systems that provide them with timely and specific knowledge at the client level.

4TH EUROPEAN MICROFINANCE AWARD CEREMONY

Moderator	**Steve KARIER**
Speakers	Welcoming remarks by **Werner HOYER**, President of the European Investment Bank
	Address by **Mrs Marie-Josée JACOBS**, Minister for Development Cooperation & Humanitarian Action
	Video address by **Andris PIEBALGS**, European Commissioner for Development
	Address by Professor **Muhammad YUNUS**, Nobel Peace Prize Laureate 2006
	Acceptance speech by the winner of the 4th European Microfinance Award

ASKI from the Philippines took home the 4th European Microfinance Award at the European Investment Bank in Luxembourg, during the European Microfinance Week. Last time the Award was given – to Harbu of Ethiopia – the award focused on innovative and effective value chain finance and sustainable rural development. This year's award had as its criterion innovations in food security, with a long-list of applicants whittled down to a short-list of three finalists: ASKI, Banco FIE from Bolivia, and Kompanion from Kyrgyzstan. ASKI was a popular winner among the several hundred dignitaries and guests for its agri-initiative for rice farmers.

The announcement of the winner was keenly anticipated but before this were speeches from all directions: from the Luxembourg Minister for Development Cooperation and Humanitarian Action to the European Commissioner for Development, the President of the EIB and Professor Yunus. After video documentaries of the three finalists' food security programmes were shown to the packed audience, the winner was announced and the award presented to ASKI by Muhammad Yunus and the Her Royal Highness The Grand Duchess of Luxembourg.

Awards within development circles are ten a penny, but the European Microfinance Award is something different – evidenced by the grandness of the visiting speakers and the packed nature of the beautiful EIB atrium.

It's only the fourth time the award has been presented since its launch in 2005 and the first award a year later. Recognizing 'innovation in microfinance', each award has looked to a different key area

of that innovation. Volatility in global food prices since the global financial crisis has given this field a special importance, and the award this year - on food security - builds upon the 2010 focus on value chain development – notwithstanding the considerable overlaps.

The selection process is multi-staged. The first selection committee considers all applications and is convened by e-MFP. This committee represents multiple countries and roles, from NGOs and consultants to academics. The top ten applicants are chosen from the initial list – which was 20-strong this year from 15 countries, in Latin America (50%), Africa (30%) and Asia (20%). The second selection committee is convened by the Luxembourg Round Table on Microfinance, which narrows the field to a final three for the High Jury to decide.

Food security is a complex and multi-faceted field within development finance. When successful, it comprises quality, adequacy, and stability, and as such is generally too broad to be achieved through one single financial product. MFIs have had to form strategic alliances to provide not just products but also services. Examples this year of how microfinance can contribute to food security included enhancing agri-production, productivity and diversification; supplying better quality food; supporting food transformation; Supporting commercialisation of food products and food storage; reducing post-harvest losses; and fostering organic farming. All the applicants incorporated some or many of these.

In the end, ASKI won for an initiative that supports the agricultural sector in the Philippines through an agri loan product for – initially – rice farmers and agribusinesses. It demonstrated exceptionally the holistic and partnership-focused model which characterises successful food security outreach.

The product for which ASKI won was conceptualised in 2004 and is now the most popular product in ASKI's portfolio - accounting for 41% of its total. While all three finalists showed innovation in food security (especially fellow finalist Kompanion, the "enthno-ecological" approach of which to educating clients on farming productivity in difficult conditions impressed many) ultimately it was ASKI's holistic credit product for small farmers for crop production, acquisition of farm machinery (water pumps and solar dryers for rice), infrastructure development (bridge building), training provision, and other agri-enterprise solutions, which took the award.

The speakers at the ceremony were keen to outline the problem. Werner Hoyer, President of the EIB, bemoaned that combating hunger remains a big challenge, but one made all the more galling by the fact there is "enough food to go round". 870 million people suffer malnutrition, he noted, with the problem actually worsening in some parts of the subcontinent, sub-Saharan Africa and the Middle East. Even in developed countries, the economic crisis deepened the problem.

Luxembourg's Minister for Development Cooperation & Humanitarian Action, Marie-Josée Jacobs drew inspiration from the venue itself, arguing that the EIB has symbolic meaning as an institution: at the heart of Europe and itself a product of post-war cooperation of social justice. "We agree that microfinance must remain a development tool, and its most important parts are fairness, justice and democracy – the social aspects", she said.

Andris Piebalgs, European Commissioner for Development, spoke by video, saying that the EU had recently adopted its Programme for Change to change funding for development cooperation and effectiveness. "Now we have clear priorities on vulnerable populations, and inclusive finance for growth is at the centre of our approach in achieving the MDGs".

Muhammad Yunus spoke last, and he too drew parallels with the EIB. He is hopeful that by bringing microfinance to the home of 'megafinance' at the EIB – which includes all EU nations – is a symbolic gesture. Amidst the doom and gloom and restructuring in mainstream finance, "our number one objective should be to have an inclusive finance which doesn't exclude anyone". The three finalists, he claimed, are examples which inspire everyone that things can be done with real people and real action. "To negate microfinance would be unacceptable. We must come here to 'recharge out batteries' and continue our mission", he said.

And with that, the winner was announced and the award presented by Yunus and the Grand Duchess to ASKI's Executive Director Rolando Victoria, and a programme that well exemplifies the

move beyond credit alone within the industry.

The prize for the award is €100,000 – but the benefits of the prize go far beyond that. The prestige of the top regional award will attract new donors and investors, and dramatically raise the profile of an organisation that can claim to have demonstrated proof of concept. As food security is one of the most pressing issues on the development agenda – an issue unlikely to go away as global food price volatility persists – there is an emerging zeitgeist for not only value chain solutions that work, but a general emphasis on rural development through inclusive finance after years and decades of relative neglect.

by Sam Mendelson, Consulting Editor, Microfinance Focus

FRIDAY 16TH NOVEMBER

FINANCIAL COOPERATIVES AND FOOD SECURITY

Moderator	**Bernard ORNILLA**, Alterfin
Speakers	**Mugume KAZOOBA**, EBO SACCO
	Mariana ARANA, Unión El Ejido
	Frank FUENTES, Crediflorida

PRESENTATIONS

Bernard ORNILLA welcomed the audience, and introduced the theme of the session through his presentation on past and future activities of the Rural Outreach and Innovation Action Group (ROI). Ornilla reflected on work done by ROI with respect to Value Chain Finance (VCF), which has resulted in various publications such as a policy statement on VCF, and participation in various forums and networks. Members of the ROI Action Group range from NGOs to banks and multilateral organisations such as the World Bank and IFAD. The ROI is a very active group in the European Microfinance Week events and were active in the selection process for the European Microfinance Award. They also took part in this year's e-MFP Panel on Cooperatives & Food Security. For the next two years the main topics to develop within the ROI group will be: financial innovations for the poor, un-served rural areas, and food security.

Mugume Joseph KAZOOBA presented the case of the EBO SACCO in Uganda. With a mission to provide quality financial services to improve rural and peri-urban poor livelihoods, food security is one of their central themes. They apply the UN definition of food security, which they translated to their work as 'aiming to offer financial products and services to promote food and income security at household level'. They have diversified their financial services, offering a variety of activities and products, and their expansion and outreach is aimed at building partnerships locally. Small farmers are being supported to increase investment in their farming business, for example in terms of better farming practices. Moreover, they are enabled to adopt practices to ensure good and balanced nutrition throughout the year. Among the impacts of EBO SACCO's work are: improved relationships and positive response from farmers through sensitisation; care for the environment (e.g. nurseries); reduction in poverty,

diseases and illiteracy; and improved remuneration of the products marketed by the farmers. Through impact studies and joint monitoring they have learned that household incomes have improved, clients are better served and in general there is more food security.

The presentation of Mariana ARANA highlighted the work of Unión El Ejido in Ecuador. Established with 49 members in 1975, they currently have some 8,500 members, with increased geographical coverage and an increasingly diverse service offering. They managed to establish various finance schemes which were usually only provided through banks and very difficult to access for the farmers. Moreover, they are able to keep the profits within the communities for the families to re-invest. Formerly people were moving to the cities, but more are now remaining in rural areas. As bigger rural plots were split up and made available to smaller farmers, Unión El Ejido provided financing to purchase land. Funds were also made available (e.g. through Alterfin) to improve practices and production of products such as maize, wheat, quinoa, amaranth. Among the main results that were achieved are: improved environmental care, increased organic production, community work, working with traditional products, and economic opportunities that prevent migration to the cities. The presentation concluded with some images of El Ejido’s work.

Frank FUENTES explained how Crediflorida (Peru) integrated financial services to improve the socio-economic conditions of their associates located in Junín, Central Peru, an area known for its coffee production. They started out with small credits for cooperatives, and then expanded into larger volumes of finance accompanied by technical services, in particular to surmount the dependence on existing monoculture cultivation in the area. Crediflorida has a specific credit programme for women to work on food security and malnutrition among schoolchildren in the area. To guarantee these credits, Crediflorida received a small donation from a Swiss NGO. The guarantee fund which Crediflorida helped to set up was a major improvement to bridge late payments, which are not uncommon as seasonal production cycles can cause considerable balance and cash flow variations. Assistance packages for the cooperatives are managed by committees, and include product development and marketing assistance. After briefly going through the impacts in 2011, and the indicators showing Crediflorida’s strength, in particular as regards ‘quality of services’, Fuentes concluded with the challenges they are facing, in particular with respect to food security.

DISCUSSION AND CONCLUSIONS

Ornilla thanked the presenters, and pointed out that all of them had participated in the European Microfinance Award, underlining the important

achievements made by their respective organisations. Moreover, the cases all showed examples of how to scale-up initiatives.

Cerise posed a question on the economic model of El Ejido, which Arana responded was based on two schemes. The first scheme focuses on production, first ensuring sufficient production for domestic consumption, and later on expanding to production for markets. This scheme lasts for a period of 24 months. Furthermore, the second, longer term, scheme is designed for financing of land. On a similar question regarding the recovery of the guarantee fund of Crediflorida, Fuentes explained it was covering some 10% of outstanding loans with the guarantee fund. Committees of 25 members have been established to build in group pressure to ensure loan repayments. Further analysis is done to get more insights and improve on results. There are many issues in the coffee production areas, requiring differentiation of the current production systems and products, and also to improve on reimbursement schemes. When asked how Crediflorida connects to different markets, Fuentes responded that in first instance excess products are sold on local/regional markets; coffee and cocoa are exported through a separate company.

Josien Sluijs of the NPM, Platform for Inclusive Finance asked Kazooba about the advantage of becoming an MFI Bank, to which he responded that this is a requirement of the Central Bank when assets have grown to a certain level (US$ 1 million of risk weighted assets). According to Kazooba, the benefits of being regulated include; the ability to take deposits, an improvement in reputation and image, conformity to standards and best practices and liquidity trap management. At the same time, he stressed that it does not mean losing their identity as a cooperative.

EXPERIENCING DONOR COORDINATION:
LESSONS LEARNED FROM THE EC, UNCDF AND AFD

Moderator	**Antonique KONING**, CGAP
Speakers	**Renée CHAO-BEROFF**, PAMIGA
	Michaël KNAUTE, Oxus Development Network
	Philippe SERRES, AFD
	Ivana DAMJANOV, UNCDF
	Emmanuel MOYART, ACP/EU Microfinance

DISCUSSION

Antonique KONING explained that the goal of the session was to exchange and highlight examples and good practices of donor coordination, an issue which can make a difference in sustainable market development and financial inclusion. After a short introduction of the panellists, Koning asked them about their experiences in donor coordination. Renée CHAO-BEROFF started by mentioning that although working with multiple donors brings constraints to projects, the advantages are greater than disadvantages. Firstly, recipients of multi-donors grants are able to do more and work on larger projects. Secondly, proper knowledge management can help to make use of the expertise of different donors, which shows the need for a learning agenda.

Michaël KNAUTE questioned whether the microfinance sector needs donor grants. In his opinion, the past years have taught us that grants can be useful. Knaute mentioned that MFIs can be sustainable for their mainstream operations, but continue to rely on grants in order to reach out to the poorest populations, or those in the most challenging regions. He continued by mentioning that the microfinance sector can gain from consolidation. Providing larger grants to fewer but larger microfinance institutions can improve financial sustainability of MFIs, preventing them from the shortfalls which we have seen with NGOs active in microfinance in the past.

Axel de Ville of ADA shared that his personal experiences with multi-donor coordination showed that leadership needs to be clearly decided between donors. Furthermore, he mentioned that donors tend not to have a high risk appetite: 'first they need to see success then they will follow'. It was added that strong presence on the ground by one of the donors is required in order to ensure leadership. Donors should first establish a shared understanding of the market so that they can establish and work towards a shared goal.

A question from the audience then turned the discussion towards the increasing importance of private donors in the donor landscape and how traditional public donors can cooperate with these new actors. Philippe SERRES of AFD mentioned that a combination of public and private funding can be a good mix, which he illustrated by a recent collaboration with the Gates Foundation. The biggest difference between public and private donors lies in their processing speed of project proposals; whereas most public donors have lead times of 6 months up to a year, private foundations usually expect projects to start in less than 6 months. Panellist Ivana DAMJANOV of UNCDF agreed that a combination of private and public funding can have a positive effect on microfinance projects as funding provided by private foundations can often be used more flexibly.

A participant stressed the importance of knowledge sharing. Henri Dommel of UNCDF added the importance of doing joint diagnostic assessments by sharing market information and datasets in order to determine who is doing what. He introduced the idea of a common reporting platform. Damjanov reacted that, in general, donors can improve their knowledge sharing systems. However, in her opinion, a common reporting platform is difficult in practice as indicators differ per donor. Serres added that financial reporting can be more easily integrated in a common reporting, while narrative reporting is more challenging due to the larger variety in outcome indicators.

Chao-Beroff added that there are two strategic areas where donors can benefit from sharing experiences and knowledge. Firstly, while consolidation of the sector is essential, as too many small institutions are active in microfinance, this has proven difficult in practice and best practices need to be shared. She used the MasterCard Foundation as an example of a donor with experience in supporting consolidation and mergers of financial institutions in Mali and Burkina Faso. The MasterCard Foundation also funded a regional knowledge sharing conference where tools, methodologies, challenges and communication strategies were presented. The second strategic area is best practice for new product development, which was also one of the themes of the above-mentioned conference.

From the audience, Lucia Spaggiari mentioned that MFIs often open many

new branches in a short period of time in order to promote financial inclusion of the poor. However, having the right knowledge and capacities in place within this period of time is very difficult as the right structures to efficiently disseminate knowledge are often not in place. Tillman Bruett from UNCDF stated that the microfinance sector can learn from other sectors, such as the health care sector, which applies sets of standards for reporting and US universities, which have a common application platform in place combining core variables and space for specific information needs.

Emmanuel MOYART focused the discussion on multi-donor funding. While he considers it to be the way forward, donors have to find a way to deal with the growing distance between donor and beneficiary, which makes it harder for donors to measure project results.

Furthermore, he observed that non-disclosure regulation makes it more difficult to exchange information between donors on promising projects. His organisation generally receives more high quality project proposals than can be supported. Under current EU non-disclosure rules, he is not allowed to refer these organisations to other donors. On the other hand, many small MFIs are not aware of funding opportunities of donors, making it hard for donors to find them. He is looking for new ways to identify good projects and go beyond the usual recipients, for example through business speed dating sessions with recipients.

Serres agreed on the difficulties posed by non-disclosure regulation. He stressed the importance of on-the-ground presence to share knowledge on potential new recipients. De Ville proposed that one proposal is shared with all donors through a shared procurement system, which would make selection and reporting more efficient.

CONCLUSIONS

To close the session, Koning summarised the conclusions of the panel. They agreed that grants from large donors are still necessary in order to improve outreach to poor populations, especially in more challenging regions and rural areas. Moreover, consolidation of microfinance institutions is needed in order to secure financial sustainability. In this regard, donors have the responsibility to support and, at the same time, raise the bar of MFIs towards responsible financing and market development.

Koning furthermore concluded that knowledge sharing should take place among all donors, including private ones. This can be done by, for example, installing regional platforms for knowledge sharing which can help with coordination on (potential) recipients amongst donors (in terms of budgeting and monitoring) as well as around exit strategies. Finally, new technologies can be useful instruments for knowledge-sharing amongst donors to coordinate their funding.

IMPLEMENTATION EFFORTS IN RESPONSIBLE FINANCE

Moderator	**Laura FOOSE**, Social Performance Task Force (SPTF)
Speakers	**Emilie GOODALL**, UNPRI
	Carmen VELASCO, Pro Mujer
	Loïc DE CANNIÈRE, Incofin
	Sascha NOÉ, Cordaid
	Isabelle BARRÈS, The Smart Campaign

PRESENTATION

Laura FOOSE opened the session by acknowledging the confusion regarding different responsible finance initiatives for microfinance. Responsible finance initiatives include programs that evaluate client protection as well as social performance. Interest in responsible finance emerged from the need to put the industry back on the right track and to regain client trust and investor credibility. In this respect, this session maps the landscape of such initiatives, providing an overview of tools which can help different organisations (both providers and investors) at different stages of development.

Emilie GOODALL presented evidence that the industry does care about responsible finance, but acknowledged that the steps to be taken are not always clear. In her presentation, she showed a visualisation of initiatives in a map to illustrate an organisation's decision-making process, which begins at the 'self-assessment and reporting' phase[1]. Within this phase, 'stating commitment' is the clear first step, followed by 'tools for assessment', whereby an organisation can benchmark their situation and perform a gap analysis on their responsible practices. Subsequently, the 'tools for implementation' step can help the organisation get acquainted and decide which tools can be most suitable for their situation. The next three steps consist of an 'external scrutiny' phase, whereby the organisation commits to transparency through the following steps: 'demonstrating commitment' (e.g. reporting to MIX; self-reporting); 'ratings' (i.e. third-party assessment); and 'certification' (i.e. is the organisation meeting the needs of the industry?).

Within the different steps the mentioned initiatives, colour-coded into client protection principles and other social performance initiatives, are layered upon each other; all are voluntary, and many are aspirational. Goodall clarified that all steps are applicable to both practitioners and investors, but in different ways, hence the three different slides.

Regarding tools specifically applicable to investors, Goodall addressed the issue of responsible covenants. Different investors are currently using different standards in investment transactions and loan agreements, which creates a very fragmented landscape. In this respect, she mentioned that there have been initial efforts in the industry such as the Working Group 'Defining Reasonable Covenants in Debt and Equity Investments in Microfinance' to come to a universal understanding of responsible covenants among investors.

From the perspective of an MFI, Carmen VELASCO contemplated whether applying these tools ten years ago would have helped to avoid the current bad reputation of microfinance. Regarding implementation of these initiatives, Velasco recommended to divide institutions into two types: those which have gone off track and those which have not. For the former, MFIs should go through the Universal Standards for Social Performance Management[2] to assess their current practices and then prioritize actions and options to refocus their organizations on protecting clients and addressing their needs. The latter should move beyond client protection activities which focus on 'doing no harm' and start bringing about 'sustainable change' to their clients' lives.

1 The map presented is available at http://www.unpri.org/wp-content/uploads/RIinitiativesinmicrofinance.pdf, with an accompanying briefing note http://unpri.org/wp-content/uploads/RIinitiativesinmicrofinancebriefing.pdf.
2 http://www.sptf.info/spmstandards/universal-standards

From an investor's perspective, Loïc DE CANNIÈRE stated that it is important to realise that microfinance is not focused on maximising returns, but on financial inclusion and social impact. He emphasized that Incofin is committed beyond investment and profit. After endorsing the Principles for Investment in Inclusive Finance (PIIFs), Incofin developed an action plan consisting of 41 actions to support the implementation of the PIIFs and to contribute to inclusive finance. For instance, regarding PIIF 4, on Responsible Investment, a tool was developed to screen the social performance of all MFIs and all investment staff were trained on how to properly use the tool; on PIIF 2, on Client Protection, Incofin included the implementation of the Client Protection Principles as a covenant in all its loan agreements and as a clause in all its shareholder agreements. On PIIF1, on "Range of Services", Incofin systematically allocates a budget for technical support in order to be able to support vulnerable Tier II MFIs when needed. The action plan is updated yearly and is frequently discussed within the team.

Furthermore, Incofin has been actively involved in the Social Investors Workgroup of SPTF. Dina Pons, an Incofin IM Investment Manager and SPM Coordinator) explained her coordination work in the Responsible Covenants Workgroup. Around 15 investors worked on the creation of a guideline that social investors recommend to use as a reference guide when defining the financial and social covenants to put in their loan agreements. Such covenants aim to ensure that MFI partners can adopt responsible financing behaviour to ensure their clients are not harmed. The organizations that worked together towards the creation of the Lenders' Guidelines for Setting Covenants in Support of Responsible Microfinance[3] and endorse the basic goal of such Guidelines, are the following:

- Agence Française de Développement (AFD)
- Agencia Española de Cooperación Internacional para el Desarrollo (AECID)
- Agora Microfinance N.V. and its affiliates
- BNP-Paribas
- Cordaid
- Deutsche Bank Global Social Investment Funds
- Grassroots Capital
- Incofin Investment Management
- Oikocredit
- PROPARCO
- SNS Asset Management
- Triple Jump

The organizations that worked together towards the creation of the Guidelines, already expressed positive feedback about the Guidelines, and/or are in the process of endorsing the basic goal of such Guidelines, are the following:

- Grameen Credit Agricole Foundation (GCAF),
- Overseas Private Investment Corporation (OPIC)

Sascha NOÉ brought the perspective of an investment NGO (Cordaid). Being a signatory to PIIF is very important to Cordaid in terms of showing commitment and sharing best practices. Noé clarified that Cordaid is different from other PIFF signatories as it is a development organisation. Being active in this initiative is an important step for Cordaid in benchmarking its own social investor standards. She revealed that Cordaid was, for instance, highly present in the development of the PIIF Reporting Framework criteria, and tried to push the social boundaries as far as possible. She was also involved in the work group around the Reasonable Covenants. She emphasised that the mentioned seven financial and two social covenants are not fixed indicators, but that they give practical guidance when drafting a loan contract for a loan to a MFI. As Noé mentioned; "We decided to discuss these financial covenants in every credit proposal. If we decide not to adhere to the agreed levels, reasoning has to be made explicit in the minutes of the credit commission".

DISCUSSION AND CONCLUSIONS

The discussion first focused on whether initiatives such as the 'Seal of Excellence for Poverty Outreach and Transformation' give the impression that microfinance is 'making money on the back of the poor'. Carmen Velasco countered by stating that these initiatives recognise institutions which have reached tangible results and have focused on the client. She also brought attention to a new generation of clients which are more 'actors in their own development', who are not only being protected, but can protect themselves and take their own decisions. Laura Foose added that the emergence of responsible finance initiatives addressed in this session show that practitioners and investors are taking serious steps to self regulate the sector to avoid such concerns as expressed by the participant. The 'Seal of Excellence' is developing a community of practice for likeminded organizations to work together to advance learning and best practice in how to effectively design programmes that work with poorer clients. Similar learning communities are emerging in the areas of gender, rural outreach and environment. In her opinion, some organisations still have much work to do in ensuring that they do not harm clients before they are ready to show a positive impact, but these efforts demonstrate that the industry is moving in the right direction.

The audience also addressed the costs (e.g. capacity building, technical assistance) MFIs face when adopting different

3 A copy of the Guidelines can be received from Dina Pons (dina.pons@incofin.com).

procedures and tools for responsible finance. Foose recommends that organisations should first do a self-assessment using the Universal Standards for Social Performance Management to determine what it can do by itself and how it can adapt tools available on the SPTF website[4] to its own situation. Isabelle BARRÈS added that in the case of client protection, the MFI can use the client protection self-assessment tool developed by The Smart Campaign to do a diagnostic of their client protection practices. Also, The Smart Campaign will adapt the tool so that it is more flexible and can allow the MFI to do more by itself, depending on the MFI's size and resources. Finding synergies in the delivery of external help, as she explained, can reduce costs, since many procedures require a similar type of work (e.g. The Smart Campaign certification can be combined with social rating procedures). Velasco added that responsible finance should be a point of strategic planning; it is an investment which will pay off.

The discussion then turned to high costs of fund management and how this can be balanced with the mission of socially-driven investment. According to de Cannière, Incofin tries to address this issue by promoting MFIs through equity investments. In addition, he pointed out that investment funds will make their own roles redundant in the long run, since MFIs will be able to access local funding sources.

Foose concluded the session by pointing out that the sector appears to be approaching an agreement that it needs to re-structure with responsible finance practices. There has been continuous coordination at both the retail and investor level, which will translate into more coherence at the sector level.

Nonetheless, she emphasised that one of the hurdles of responsible finance initiatives is that, while many organisations have endorsed responsible finance initiatives and guidelines, few have actually moved on to actual implementation at present. Many of the initiatives presented provide platforms for networking and developing support materials to encourage this.

CALAMITY, AID AND INDIRECT RECIPROCITY: **MEASURING IMPACT IN POST-EMERGENCY MICROFINANCE PROJECTS**

Moderator	**Chiara MENEGHETTI**, Etimos Consorzio
Speakers	**Marco SANTORI**, Etimos Foundation
	Niroshan KURERA, Etimos Lanka
	Pierluigi CONZO, Universitá di Tor Vergata
	Davide LIBRALESSO, Etimos Foundation

PRESENTATION

Chiara MENEGHETTI opened this session by introducing the panellists and explaining how they would consider the main theme from the perspective of experiences from Etimos' post-emergency microfinance programme in Sri Lanka. Marco SANTORI explained that Etimos Foundation is committed to social and financial inclusion of the poor, using an innovative development model which integrates research, technical assistance and project management. The Foundation mostly works in close relationship with small and medium-sized MFIs that focus on social exclusion and reducing poverty.

After the 2004 tsunami in Sri Lanka, the Italian Civil Protection Department provided Etimos Foundation with € 5 million

4 http://www.sptf.info/spmstandards/standards-implementation-resources

to finance MFI's which focus on small formal and informal businesses, in order to ensure the survival of the poorest segments of the populations. Later on, Etimos Lanka was established, which is currently one of the few international investors still operating in Sri Lanka.

Etimos Foundation funded three studies to evaluate what the real social impact of its interventions have been, whether favourable terms offered by donors have positively or negatively affected the financial market, whether the interventions were appropriate in terms of volume, time and costs, and whether they produced positive results. The first study assessed the impact on the beneficiaries of one specific MFI, a second study investigated the entire intervention and a third one analysed the long-term impact (four years) on the beneficiaries of the MFI. Furthermore, throughout the programme Etimos Foundation evaluated social impacts regularly in order to improve programme management, better understand impacts and improve the identification and prioritisation of beneficiaries.

Niroshan KURERA elaborated on how the project was implemented. Sri Lanka was not familiar with natural disasters and the sheer magnitude of the tsunami devastated business and MFIs. Based on the strong needs, Etimos took a risk by implementing a post-tsunami disaster tool, without experience in using microfinance as a recovery tool. In the programme, both staff and clients were trained to reinforce local businesses. Also, MFIs were recapitalised, which enabled them to re-establish credit provision to (new) businesses. Etimos Lanka now reaches 67,000 beneficiaries divided over sixteen MFIs. Its focus has changed from recovery to economic development. Instead of individuals, its clients are now businesses that try to expand.

Pierluigi CONZO discussed the results of the impact evaluation, executed by the University of Rome 'Tor Vergata' and the University of Turin, on microfinance as a recovery tool after natural calamities. He explained that normally impact analysis compares outcomes before and after treatment between the beneficiaries and a control group. The difficulty in this case was that these projects were not randomly selected. Moreover, as the programme had already started, there was no baseline data available and no control group established ex-ante. As such, the analysis was built around two field studies on the impact of MFIs services on objective and subjective wellbeing, reconstructing past socio-demographic and economic information of victimized vs. non victimized individuals. The first study on short term impact analysed the economic recovery of clients (income, productivity etc.) and their psychological wellbeing (happiness, life satisfaction) by using retrospective data (based on memory). The second study, on long term impact, analysed AMF's portfolio and social preferences (altruism).

The short term impact study showed improving wellbeing indicators for the MFI's clients in the period before the tsunami, a strong deterioration right after the tsunami, and a process of recovery and convergence after post-tsunami refinancing. Moreover, the use of microfinance services had a positive effect on real income and indirectly on other material and psychological wellbeing indicators. These positive effects were not found for governmental subsidies, donations and grants.

The study on long term impact, for which experimental games were implemented, showed that the intervention, by improving altruism of heavily victimized borrowers, has increased indirect reciprocity: those who received loans from Etimos (and were more severely damaged by the tsunami) were more willing to help out others than those who received less aid, even eight years after the tsunami. The research also showed a peak in size of the loans extended to high risk populations in the post-tsunami period. Although people were initially not able to repay their pre-tsunami loans, the new loans enabled them to invest in economic activities, which enabled them to pay off old debts. Also, research showed that the tsunami had no significant impact on default rates maybe because of a contagion effect or strategic default.

Davide LIBRALESSO identified several challenges and success factors. Firstly, he argued that microfinance interventions in post-disaster environments cannot stand by themselves and are not effective in an emergency situation (the first weeks after the disaster). Furthermore, it is difficult to identify your beneficiaries; only people that suffered direct damage, or also people that suffered indirect damage (e.g. loss of customers). Thirdly, it is difficult to convince donors that donations for reconstruction are used for credit schemes. Finally, trust between the private sector and public institutions is needed.

Libralesso concluded that in order to move from pilot projects towards long term programmes it is important to establish appropriate procedures, to set up a network including local actors and organisations and to translate the lessons learned from the pilot into appropriate methodologies and financial schemes. Moreover, implementing organisations should be more closely involved in drafting policies, while international organizations and institutional donors could be more involved in the field and cooperate with the private sector.

DISCUSSION

The discussion focussed on specific aspects of the project. The panellists explained that the MFIs that were reinforced would be able to replicate the programme in case of a new emergency situation, thereby reducing the vulnerability of farmers and fishers to new shocks.

Libralesso explained that the model was duplicated in Italy after the 2009 earthquake in Abruzzo and it is now starting in Emilia, as a response to the earthquake in Emilia in May 2012. This case showed that the model needs to be adjusted to local circumstances before being implemented in a new context. Kurera added that although we cannot forecast emergencies, precautions can be taken. Also, insurance companies can provide schemes to minimize risks in the future.

BUILDING BLOCK APPROACH
A TOOL FOR PRIORITISING REGULATORY AND SUPERVISORY REFORMS FOR MICROFINANCE

Speakers	**Florian HENRICH**, GIZ
	Rainer SCHLIWA, GIZ

PRESENTATION

Florian HENRICH explained that the session, in addition to sharing their own experiences, was intended to identify burning issues in supervisory reforms based on experiences from the audience. GIZ's role in the implementation of regulatory and supervisory reforms is especially in improving and/or updating current regulation and in building up supervisory capacity. There are no off-the-shelf solutions; in contrast GIZ supports the implementation of Basel practices (Core Principles) on the ground, based on deep understanding of the local context and building local ownership, and a long-term commitment to the reform process.

It is necessary to understand the local context in order to account for differences in stages of regulation and supervision. For example, draft rules may not be enacted or be contradictory with other rules or regulations by other entities. Regulators also show large differences in terms of how far they have gone in implementing international standards. Moreover, some are risk averse in terms of financial innovation and limit what products are permitted, while others take a more pragmatic approach to innovation. An important point is that some regulators do not view microfinance as their primary responsibility and or may even lack the knowledge to effectively identify, assess and manage microfinance-specific risks. Still regulators remain largely unfamiliar with non-prudential regulation standards and more recent concepts of measuring the sectors development stage (e.g. consumer protection regulation, social performance standards).

To account for this, tailor-made solutions, which should be country specific, are needed to make sure that there is a balance between the development of regulatory standards in a given country and the supervisory capacity. In many low-income countries supervisory capacity is limited, requiring careful planning to effectively use scarce supervisory capacity while at the same time developing supervisory capacity in accordance with evolving and especially diversifying regulatory standards. As SCHLIWA mentioned, the application of Basel principles "too soon", i.e. well below a country's supervisory capacity can actually be counter-productive and lead to financial sector stagnation or instability.

As such, prioritisation, sequencing and adaptation of international standards to the local context is needed, which the presenters dub 'the Building-Block Approach'. This approach consists of two steps. Firstly, thematic blocks of the Basel Core Principles, (or, at a later stage Basel I – III) are identified. These are clustered into four thematic categories; licensing, definitions and preconditions; set up of supervisory institutions; supervisory processes; and risk management. Moreover, some principles need to be adjusted to microfinance.

Secondly, these thematic blocks are sequenced according to the level of financial sector development. The number of principles (actually 29 Basel Core Principles) may exceed most supervisors' capacity and without proper support and facilitation it is often difficult to set priorities. For example, licensing criteria, permissible activities, the division of responsibilities between supervisory institutions and ensuring central bank independence are issues that need to be established as a foundation of the financial sector to develop. In contrast, home-host relations are only required in sophisticated financial systems.

FIRST ROUND DISCUSSION

In the beginning, the discussion focused on necessary resources for the implementation of the different Basel Core Principles and to what extent this process can be funded externally or is within a central bank's capacity. Schliwa indicated that the World Bank frequently provides resources for the implementation of priority principles and provides a roadmap for other principles which other funders can use to determine funding priorities. The World Bank often takes the lead in donor coordination in terms of priority setting for regulatory strengthening and supervisory capacity.

The discussion then turned to whether prudential supervision is extending beyond deposit taking institutions, and whether this can positively influence professionalism of MFIs. Henrich stressed the need for a uniform approach to financial institutions which focuses on the question of business risks, instead of on institution type. This would avoid a supervisory crack down on tiny deposit taking institutions, while very large SACCOs, which do offer systemic risks, are not supervised because of the type of financial institution. Schliwa added that in some cases even credit-only

institutions can be prudentially regulated and supervised due to their size and the potential damage to the sector's reputation (or stability) in the case of a high risk of their loan portfolio or their attitude towards clients. We need to look at financial institutions in terms of risk profiles and link these to risk-proportionate supervisory profiles and scarce supervisory capacity. Another comment from the audience cautioned against over-regulating the microfinance sector, as it can make the sector less attractive to microfinance investors.

The panel was asked whether regulating products (licensing) instead of differentiating supervisory approaches between institutions could offer a solution. According to Schliwa, this depends on how the central bank is structured. Although risks may be similar for a line of industry (e.g. credit, savings, insurance), and would merit a unified approach by the central bank, many supervisory authorities are structured according to an institutional division (e.g. MFIs, banks, insurers). Henrich adds that in addition to regulating financial services and products, appropriate disclosure rules and monitoring can also be needed for effective client protection. As for balancing between client protection principles and financial system stability, Henrich proposed that all deposit-taking institutions, no matter their size, should at least be subject to some form of prudential regulation and supervision. A participant added that prudential supervision is also relevant to client protection, as it reduces risk appetite of banks, thus protecting savings.

Lastly, the discussion turned to the issue of sequencing capacity building and the introduction of new regulation. According to Schliwa, awareness-raising is very important; peer-to-peer learning proved instrumental in providing the right insights. For example, Tajik regulators were taken to Pakistan, to see the merits of a well-functioning branchless banking system, but also to learn about critical success and failure factors, and to determine what fits in the Tajik context. Such awareness-raising efforts can both overcome regulatory reluctance and stagnation to allow new innovations, but can also provide a counter to over-exuberance of regulators to allow the introduction of financial innovations (e.g. under pressure of policy makers). In both cases, facilitators should not only advise regulators, but also build a dialogue between local microfinance industries and the regulator.

CONCLUDING REMARKS BY THE SPEAKERS

The main considerations for prioritisation principles are:

- to balance financial stability and development concerns (e.g. risk averseness vs. broader financial inclusion).
- to consider the regulator's reform capacity, in both regulatory reforms and supervisory capacity.
- to monitor whether changes in the independence of the regulator occur, i.e. to identify the driving forces for regulatory change.

In terms of process, a consultative process including stakeholders such as the regulator, industry associations, government, and donors is needed.

The main success factors identified were a strong commitment of the partner, local presence of the facilitator and reaching a consensus on common interests. Lastly, Henrich explained how supporting financial sector infrastructure can complement effective supervision, including credit reference bureaus and deposit insurance schemes.

BURNING ISSUES

An important burning issue discussed was to ensure sustainability of regulatory and supervisory interventions. This requires a clear exit strategy from the start and can be facilitated by contributions of the counterpart, either in kind or in financial resources. Still, regulatory reform largely remains donor-driven as governments allocate limited funding as technical assistance to central banks remains outside their development agendas. This hampers continuous adjustment of regulation and supervision to sector realities and international standard development and calls for assistance with central bank budgeting, and setting appropriate financial institution contributions for quality supervisory services that benefit the whole sector.

The regulatory agenda in microfinance has been considerably enriched over the past years and new concepts for analysing financial institutions and financial sectors have emerged (for example "social performance" of a financial institution or financial inclusion in a given country). This means that a diversity of new standard setters, especially non-prudential standards, can be observed and specialised organizations or non-formalized bodies (task forces) have emerged. Examples are the *Universal Standards for Social Performance Management* or the ongoing discussion about *measuring financial inclusion.* From the perspective of a single regulator, this might create an additional regulatory burden and the question remains which non-prudential standards should be endorsed in a single country. The aspects thus covered (for example the social dimension of access to finance or consumer protection) is of relevance to both development policy and financial sector policy but may not be considered the job of the regulator or even the supervisor. Consequently, those new standards may remain a theoretical consideration.

Lastly, the importance of building up national capacities to determine relevance of regulation based on national needs and market developments was discussed. This allows the development of a national vision on priorities, to balance the external vision based on donor priorities and Basel requirements.

FINANCIAL TRANSPARENCY: **BEST PRACTICES, IMPLEMENTATION CHALLENGES AND REWARDS**

Moderator	**Eliane AUGAREILS**, PlaNet Finance
Speakers	**Mamadou Lamine GUEYE**, Caurie Microfinance
	Anne BASTIN, LuxDev
	Philippe SERRES, Agence Française de Développement (AFD)
	Blaine STEPHENS, MIX

PRESENTATION

Eliane AUGAREILS started the session by defining that 'Financial Transparency consists of producing, testing, disseminating and using information relative to the financial results of an MFI'. It involves different people at different levels and departments of microfinance institutions, and involves both internal systems (MIS, processes) and external actors (external auditors, exchange platforms, networks, etc.). She introduced the best practices guide on financial transparency, which was developed during an EU-AFD funded project with ten MFIs in Western Africa to develop inclusive finance in the targeted countries. The tool was developed through a participative approach including different stakeholders to gain insights from diverse projects and best practices examples linked to financial transparency. It aims to enable knowledge dissemination to sector stakeholders and to create a

toolkit to help practitioners implementing financial transparency practices. The speakers explained how they work with some of the ten practices included in the guide.

Mamadou Lamine GUEYE presented how CAURIE MFI worked on four practices: transparency as the organisation's core value, human resources as a driver, production of reliable data and optimal use of the MIS. As regards values, CAURIE's organisational culture is geared to promote transparency based on Catholic values such as care for the poor and the common good, respect for human dignity, solidarity and participation. This is reflected in management tools and procedures. He also explained how human resource management can drive financial transparency, by incorporating transparency in selection processes and in staff training. Moreover, adherence to financial transparency practices is used as an input for staff evaluation, bonuses and promotion.

An important recent step to improve financial transparency was the implementation of an MIS that efficiently collects, stores and transforms raw data into useful information for decision making and reporting purposes. After explaining the implementation process, he mentioned the importance of conducting trainings and formalizing procedures manuals in order to ensure staff capacity to use the new MIS. Another key factor of success is to start simple, and add additional modules gradually.

Anne BASTIN provided insights on implementing practices of internal control and internal and external audits, by presenting LuxDev support to the Regional Programme to Strengthen Decentralised Finance (PRAFIDE) of the Central Bank of West African States. LuxDev specifically focussed on internal control aspects. It conducted its activities in the context of changing Central Bank rules, which required the establishment of stronger internal control systems.

Most financial service providers in the region did not have effective systems when the programme started. A practical guide for internal control implementation was established which incorporated subjects such as customer identification, collection practices, role of the Board, etc. The guide was validated through an iterative process with a multi-stakeholder workshop. Bastin then explained how the guide was disseminated through deployment agents and national focus points who trained the financial institutions and supported them in establishing action plans to implement internal control practices. In total, the project reached 240 financial institutions; most of them developed action plans and implemented internal control procedures.

The guide was considered practical and led to the identification of system failures, fraud prevention, improved governance, increased awareness and improved regulatory compliance. The main challenges were to ensure management commitment, the costs of setting up internal control systems, and staff turnover rates.

Philippe SERRES of AFD provided insights in financial transparency from the funder perspective. Views on financial transparency have developed strongly in AFD: from a secondary consideration compared to the development of sustainable institutions in the '80s; to the need for reliable financial data delivery to regulators and later on to funders; and finally to the concept of institutional transparency where reliable information is used for internal decision making and controls and to publish transparent financial information. Institutional transparency is related to responsible finance in terms of transparency of costs to customers. However, he stressed that transparency towards clients should not displace a strategy to collect and use financial information for decision making.

For AFD, the main financial transparency practices are those that help to establish the quality of institutions: reliable data, internal control, internal and external audits, client transparency, and information disclosure. AFD engages with MFIs to improve transparency in several ways. In terms of instruction, AFD helps MFIs identify weaknesses in MIS, internal control and internal audit and analyse current transparency practices. They also take stock of recommendations in external audit reports, studies and evaluations. In terms of covenants, it requests commitment to transparency principles. It can also engage with actors at meso and macro level to strengthen the support infrastructure and regulatory frameworks. The main challenges perceived by Serres are: the need to address the culture of mistrust which hinders transparency; to incorporate values of transparency in the agenda of responsible finance; and to educate regulators and MFIs on the importance financial transparency.

Blaine STEPHENS gave MIX's perspective on international developments in transparency in terms of information systems, quality, scope and use. From an industry development perspective, the development of an information service like MIX Market is proof of the information network that has been established across the microfinance ecosystem; MIX Market currently incorporates 2,300 MFIs, as well as raters, networks, funders and regulators. Based on the diamond system developed by MIX, it is clear that the level of transparency is increasing, both in terms of global coverage as well as in the deepening and reliability of data.

Stephens mentioned several factors to consider when looking at transparency. Firstly, market characteristics are important; for example, financial crises can greatly reduce MFIs' willingness to make information public. Secondly, regulation impacts what institutions in a certain country need to produce to meet the regulator's reporting requirements, determining what is collected and what systems are established. Thirdly, in terms of systems, many MFIs still work with non-automated data transmission systems, which affect their ability to share information. Lastly, the diversity of reporting standards, performance indicators, products and delivery channels makes it important to consider the full ecosystem of actors in a given market. He concluded

by explaining how transparency can support decision making at a regional and national level as data availability supports the identification of systemic risks.

DISCUSSION

The discussion first focused on transparency in interest rates. It was agreed that we need to communicate better about why rates are high in terms of methodologies, funding costs, transaction costs, credit risks, etc. to clients, regulators, policy makers and the media. Although the reputation of microfinance is sensitive to high interest we need to make people conscious that the costs of microfinance service delivery cannot be pushed below reasonable levels.

The discussion then turned to the main challenges faced when implementing financial transparency practices. Establishing an organizational culture supportive of transparency is the key point to focus on first. Then, other important practices were mentioned, like: the need to ensure independence of the internal controller; the use of financial transparency as a tool to improve the organisation, instead of being an additional cost; and staff capacity building. The reluctance to publish less positive information is also a common reaction from the MFIs, but Gueye explained how Caurie showed transparency with its partners to identify and address causes behind inadequate performance, and thus strengthened its long term partnerships.

MICROFINANCE FOR DECENT WORK: HOW TO IMPLEMENT AN INNOVATION TO FOSTER AN INSTITUTION'S SOCIAL PERFORMANCE

Moderators	**Patricia RICHTER** and **Yousra HAMED**, ILO Social Finance Programme
Speakers	**Paul THOMAS**, ESAF Microfinance & Investments
	Sharon NASSALI, Pride Microfinance Limited Uganda
	Tahir WAQAR, NRSP Microfinance Bank Limited (NRSP)

PRESENTATION

Patricia RICHTER explained that the goal of the Action Research Programme on Microfinance for Decent Work was to measure the impact of innovations on the welfare of microfinance clients. The programme ran from 2008 to 2012 and included 16 partner-MFIs worldwide, which were clustered around challenges that MFI clients face: child labour, occupational safety and health, informality, vulnerability to income shocks and over-indebtedness. All of the three speakers in this session represent organisations that took part in the research programme, and would reflect on their innovations, impacts and challenges based on guiding questions posed by Richter.

Yousra HAMED presented the overall approach of the research programme. She explained that the research started with the identification of 'decent work' challenges among MFI clients, which revealed that child labour, occupational safety and health, formalisation, job creation, women empowerment and overindebtedness were serious areas of concern for the social performance of the MFIs. The identification was followed by the development of a strategy, a baseline survey, implementation of innovations, and follow-up surveys every 6 months. Subsequently, an impact analysis for each innovation was conducted (among client groups that received the innovation and client groups that did not have access to it).

Paul THOMAS explained that ESAF identified formalisation as a challenge among clients and hence the aim of participating in the research was to facilitate access to government support services, access to bank loans, membership in business associations and access to markets. This way, it was expected that the performance of ESAF clients would improve, leading to economic and social empowerment. Hamed illustrated the innovations related to occupational safety and health which included client training on good working conditions, agreements on improvement plans, and a specific loan product for work improvements. Job creation and women empowerment related innovations involved client training on women's empowerment, organisational restructuring and the creation of a new SME lending window.

Innovations to target overindebtedness consisted of entrepreneurship trainings for clients and the introduction of insurance products, individual emergency funds and leasing products. Sharon NASSALI exemplified this by Pride's introduction of a micro-leasing product. The diagnostic study in the identification phase showed that 39% of their clients took a loan to pay for other loans, and 61% of the clients had been confronted with a large unforeseen expense.

Innovations to address child labour included awareness raising, client training to improve productivity and the modification of existing health insurance products. Tahir WAQAR explained that NRSP chose to provide microinsurance (health and death) to members of a client's household to prevent child labour. The diagnostic survey reported child labour incidence among 6.5% of the clients, and 12% reported large unforeseen expenses, mainly related to health and death.

In terms of impact, Thomas explained that formalisation has improved the access of their clients to public services (e.g. government schemes and subsidies), improved social security coverage, increased number of employees, better marketing, improved use and management of financial services, improved business management practices, increased business profit and increased household income and assets.

Nassali mentioned an increase in the asset base of Pride clients to enhance business growth, increased business revenues, reduced business failures and an increase in household incomes. In this respect, Richter also pointed out the importance of formalising business, assistance with marketing, separating business and personal accounts (to reveal profit making); some of these services can later become fee-based. At the same time, Pride observed a slight increase in clients experiencing repayment difficulties, showing a need to be careful with vulnerable clients.

Waqar noted that NRSP's microinsurance innovation resulted in a decrease of child labour and a decrease of children working in hazardous circumstances. However, there was no significant change in prevalence of schooling. Hamed added that innovations related to occupational safety and health led to more short breaks at work, an increase in adopting new technologies and practices, decreased work-related illnesses and injuries and more clients able to save.

In general, challenges encountered in implementing innovations had to do with transmitting new concepts to staff and clients, a slow buy-in process from staff to promote other loan products, the time required for new product uptake, and staff turnover (requiring additional training of new staff). Nassali added that Pride had underestimated the budget needed for marketing and sensitisation of their new product. Other challenges were related to external factors hindering the implementation of innovations related to regulations, which for example in the case of Pride hampered clients from purchasing land in Uganda.

The MFIs also encountered some challenges in carrying out the research work. It was quite time-consuming, the questionnaires were extensive and there were a number of follow-up interviews which resulted in staff and clients becoming unmotivated to participate in the research. Again, a high turnover of staff led to an increase in errors made in interviews and data entry, which required more time for data treatment. Waqar also mentioned occasional communication challenges with external ILO researchers who were not familiar with the situation on the ground. Thomas explained that ESAF's research suffered from a drastic reduction in sample size in both control and target group due to the 'Andra Pradesh crisis'. This had an impact on the quality of the data.

DISCUSSION AND CONCLUSIONS

The discussion continued on the quality of data. A member of the audience remarked that there are specialised companies that could be involved for data gathering and analysis. Waqar responded that NRSP has its own M&E unit, capable of doing this (even though some specialised staff might need to be trained for this purpose). Pride added that formerly they had only one staff member assigned, which was insufficient. An alternative might be to recruit university students for this purpose, which may be a cost-effective solution. Recruiting a third-party evaluator was also considered a good option.

Richter concluded that all pilot MFIs intend to scale-up. The ILO will engage in the dissemination of key results and lessons learned, the promotion of effective strategies, and capacity building of micro-finance stakeholders. According to Waqar, it also requires further negotiation with services providers, to allow insurance of non-credit clients in the case of the NRSP. Furthermore, Nassali added that Pride will need additional research in order to modify the programme around market needs. Some remaining questions pertained to the use of clustering issues, the factoring-in of costing of innovations in business models, and the use of qualitative and quantitative methods in the model.

A PUBLIC GOODS APPROACH TO INNOVATION IN FINANCIAL INCLUSION

Moderator	**Edvardas BUMSTEINAS**, European Investment Bank (EIB)
Speakers	**Ann MILES**, Master Card Foundation (MCF)
	Mary Ellen ISKENDERIAN, Women's World Banking (WWB)
	Frederik VAN DEN BOSCH, FMO
	Herman BEYTHAN, Linklaters

PRESENTATION

Edvardas BUMSTEINAS introduced the topic of the session by defining public goods and asking to what extent financial inclusion can be considered a public good. From an economic perspective, it is not a public good, since individuals can be excluded from accessing financial services. However, just as education and healthcare, financial inclusion is increasingly seen as such, in the sense that exclusion is neither desirable nor justified. The four speakers shared their experiences, lessons and results at the different levels (consumer, intermediary, funding, legal) in which they are engaged.

Ann MILES, Microfinance Director at Master Card Foundation (MCF), is engaged at the consumer level, where basic financial literacy is a prerequisite to avoid client overindebtedness and to ensure that clients can take full advantage of financial products offered to them. In reality, private costs of investing in financial literacy are likely to exceed private benefits, which can result in limited and biased financial education. MCF is one of the key players in the area of financial literacy, as it supports financial education through MFIs and NGOs. Its financial education portfolio comprises of 15 partners, with approximately $25 million in commitments, and is aimed at personal development to improve livelihoods. Most projects use group-based delivery models, primarily through train-the-trainer methodologies. Miles concluded that MCF is studying whether its financial education models can be replicated and scaled up, and what factors contribute to sustainable delivery of financial education. In addition, impacts of financial education on clients groups need to be clarified. MCF will continue identifying and developing effective models to promote more donors to become active.

Mary Ellen ISKENDERIAN, President of WWB, is engaged at the level of intermediaries, where financial institutions must balance their social mission of financial inclusion with the need to offer products and services that are financially sustainable. Iskenderian shared her experiences in promoting financial inclusion for women through WWB's network of 39 MFIs who reach 26 million active clients, 80% of which are women. According to WWB, financial inclusion must be addressed using a life-cycle approach, in which products offered meet the needs of women in different stages of their lives. Creation of innovation as public good is relevant. For that reason, in the last few years, WWB has promoted financial inclusion for youth and set up pilots in Mongolia and the Dominican Republic to provide youth with access to a savings account and financial education. Furthermore, WWB has worked with its network to implement savings and microinsurance products to help women build assets and protect against financial emergencies. Due to their sustainability, the policies enjoy much popularity. Maintaining the public good and peer learning are at heart of WWB's approach. Workshops in different parts of the world and exchange visits are organised to share and exchange experiences. Iskenderian emphasised the importance of networks as a solution for market failures as many initiatives (e.g. economic empowerment) are difficult to achieve without them.

On the funding side, there is a need for seed funding for innovative projects, to fund basic research and development, and to encourage entrepreneurship at all levels of society. FMO has strong experience in funding not only established parties in need of appropriate funding, but also less established ventures, based on innovative business plans or having the potential to create social impact. Frederik VAN DEN BOSCH, Manager Micro & Small Enterprise Finance at FMO, shared his experiences in providing funding for some of the smallest businesses in developing countries. Van den Bosch stated that if 'public good' means 'non-exclusion', then 'financial exclusion' would mean 'public bad'. To FMO, financial inclusion is a means to fight against public bad. FMO strives to add value by balancing between social and financial returns and seeking ways in which they reinforce each other. Van den Bosch concluded that because public goods are hard to measure, collaboration with partners in the field is required. He stressed that only jointly we can create more public goods and reduce market failures.

Finally, Hermann BEYTHAN, Partner at Linklaters, gave his perspective on the limitations and possibilities of providing public goods from the legal side. The main emphasis of his presentation was on the role of good governance and contracts in ensuring that the provision of public goods is not neglected. Beythan stated that corporate governance can foster public goods only when they are based on cultural change. In corporate governance, rules do not mean anything without assuring compliance with those rules. Only shareholders can enforce conduct and rules; however, they must take active interest. Ultimately, cultural change is created by peer pressure, which requires a critical mass. Once critical mass is achieved, cultural change will acquire its own momentum.

DISCUSSION AND CONCLUSION

The discussion first focused on the issue of cultural change and whether it happens on its own or needs to be activated. Iskenderian replied that we can show best practices to entice others to follow. In the last few years, WWB has taken different directions, such as engaging in social communications and education of youth to create financial awareness, which in turn created a new (savings) culture and financial discipline.

On the question raised by Bumsteinas on key elements of success for promotion of public goods, Van Den Bosch responded that leadership is important. Practitioners need to create their own vision instead of copying what has been done before. During this process, it important to be aware of the rules, but creativity should stand firm. Beythan added that excessive regulations can inhibit innovation in financial inclusion.

The audience remarked that public goods mean goods that cannot be confined to those who have paid for it. M-Pesa, a mobile money transfer system involving Vodafone, which provides financial services for those without access to formal banking, is taken as an example to clarify this remark. Carol Caruso of Triple Jump noted that Vodafone received seed money from DFID to develop M-Pesa, meaning that Vodafone was not the one paying for public goods at the early stage. Miles also explained that the uptake of mobile phones does not necessarily ensure financial inclusion. Although there has been explosive growth in the number of accounts, many remain unused, which does not show evidence of impact in terms of financial inclusion.

The panel concluded that a public goods model provides a useful framework to analyse market interventions of both public and private actors in promoting financial inclusion. A number of different factors, including financial, legal, as well as cultural, should be taken into account when modelling potential market outcomes. Further research and analysis of the public goods approach would be desirable.

MICROFINANCE INVESTING IN FOOD SECURITY: **CHALLENGES AND OPPORTUNITIES**

Moderator	**Francesco RISPOLI**, IFAD
Speakers	**Philippe GUICHANDUT**, Grameen Credit Agricole Microfinance Foundation
	Nedjma BENNEGOUCH, LRTM/SOS Faim
	Michaël DE GROOT, Rabobank Foundation (repl. Hans GROENEVELD, Rabobank NL)
	Noémie RENIER, Incofin Investment Management (IM)

PRESENTATIONS

Francesco RISPOLI of IFAD opened the panel discussion by stating that it would discuss a holistic approach of investors in microfinance and food security. Philippe GUICHANDUT of Grameen Credit Agricole Microfinance Foundation stated that, in order to understand food security, it is important to know how agricultural markets in the South are organised. Availability, access and utilization are three important elements in analysing food security; access to food being one of the key elements to food security. In general, there is sufficient food available, but the question is how the poor gain access. Microfinance can support production of food in rural areas but, more importantly, microfinance can ensure more income with which the poor can secure food and get access to it.

Nedjma BENNEGOUCH agreed that the main challenge in terms of food security is that many people in developing countries are not able to secure sufficient food due to insufficient and unstable incomes. In rural areas, the income of small scale farmers can positively affect food security. However, microfinance cannot achieve this by itself. It has to be part of a broader and more holistic approach to food security. Financial services, like microfinance, can be useful if they are combined with a package of economic and social services offered to small-scale farmers, such as technical support services or access to information and training.

Michaël DE GROOT of Rabobank Foundation continued by explaining the perspective of investors and medium-sized agricultural companies using the example of the Rabo Development Banks, which transform former government banks into full fledged rural banks. These banks generally do not target the smallest farmers, but the group just above the *emergent farmer* (5 up to 35 hectares). This group has been left out in terms of designated services by both MFIs and traditional commercial banks. As a result,

this group has limited access to appropriate financial services, which is remarkable considering the importance of these farmers in food production in their region and their financial needs to maintain and improve their businesses.

Noémie RENIER of Incofin IM looked into why MFIs should invest in rural areas. Renier agreed that there is an obvious link between microfinance and food security as far as access to finance and food are concerned. However, improving food availability requires a different approach and greater involvement from investors/MFIs through enhancement of the farmer's production capabilities. This also requires awareness of the fact that access and availability can vary over time. MFIs also aim to reduce the farmers' vulnerability to external shocks through provision of adequate financial services and contributing to income diversification. However she highlighted the importance of respecting responsible financing practices, through careful understanding of the farmer's cash flow and repayment capacity in order to prevent overindebtedness.

Rispoli then asked what the needs of different types of farmers are and how MFIs can meet them. Guichandut mentioned that MFIs are important for food security, especially those working with smallholder farmers and women. He stressed that within Grameen Credit Agricole's portfolio only 8 MFIs have over 60% of their loans dedicated to the financing of agricultural activities, even though more than 74% of the clients of all the MFIs they are financing are living in rural areas. MFIs generally have difficulties with financing agricultural activities and sometimes reaching smallholders. However, he does see a profile for successful MFIs in rural areas, when they establish clear objectives and offer appropriate products and services that meet farmer needs.

Bennegouch identified several key issues to improve farmer productivity in order to secure sufficient food for household livelihoods. Firstly, MFIs need to invest in modernisation of farms to improve production. Secondly, only when more MFIs support small-scale farmers can there be a significant impact on regional food security. A key challenge when funding modernisation is that most MFIs only offer short-term loan products, which are not appropriate for such investments. The issue of costs and duration of refinancing for MFIs cannot be left aside: the current cost of refinancing in the banking system and the duration of loans does not allow rural MFIs to finance agriculture activities with conditions that are affordable for farmers and enable a substantial increase in productivity.

Rispoli then asked the panel to address the role of investors in capacity building. De Groot reacted that Rabobank Foundation works along different lines. Its first line supports savings and credit cooperatives. Although these have achieved a strong presence in the South without external investments, they can benefit from technical assistance, such as on organisation management and product development. Secondly, it supports the development of regional markets by encouraging regional value chains, for example through improved postharvest practices. Finally, the Foundation facilitates supply chain integration. The Foundation offers financial solutions to mitigate risks along the supply chain from farm to fork, and thus reducing interest rates.

Renier added that investors can play a key role through technical assistance, for example by enhancing MFI's institutional capabilities, sustainable supply chain development, or innovative product development for rural areas. However, microfinance is not always the most suitable solution and has often failed to reach small-scale farmers, which have typically been too large for MFIs and too small for commercial banks. In order to fulfil this market gap, Incofin IM has recently developed a new fund together with Grameen Foundation and Fair Trade International, which aims to provide long-term finance to Fairtrade certified farmers.

In light of the growing demand for food, Rispoli concluded the panel discussion by asking the panel what they consider to be key opportunities. According to Guichandut, there are opportunities in supporting social businesses that encourage improvements along the whole value chain. He also mentioned agricultural microinsurance as an option to cover farmers' risks, especially as regards new approaches of weather index microinsurance. Bennegouch emphasised the need to improve the knowledge of MFIs on the specific needs of the agricultural sector and also the issue of alliances between MFIs and farmer organisations to build mutual understanding and sustainable and profitable partnerships. Moreover, capacity building can create farmer organisations which are strong enough to partner up with MFIs in order to improve food security.

De Groot added that technology nowadays plays an important role in service provision by MFIs. He provided the example of an MFI funded by the Rabobank Foundation which uses a mobile planning and cost-reduction tool based on icons, allowing illiterate farmers to use it. Renier concluded that the supporting food security and development in rural areas requires investor's commitment beyond providing funding. Technical assistance can support greater impact while reducing investor risks.

DISCUSSION AND CONCLUSIONS

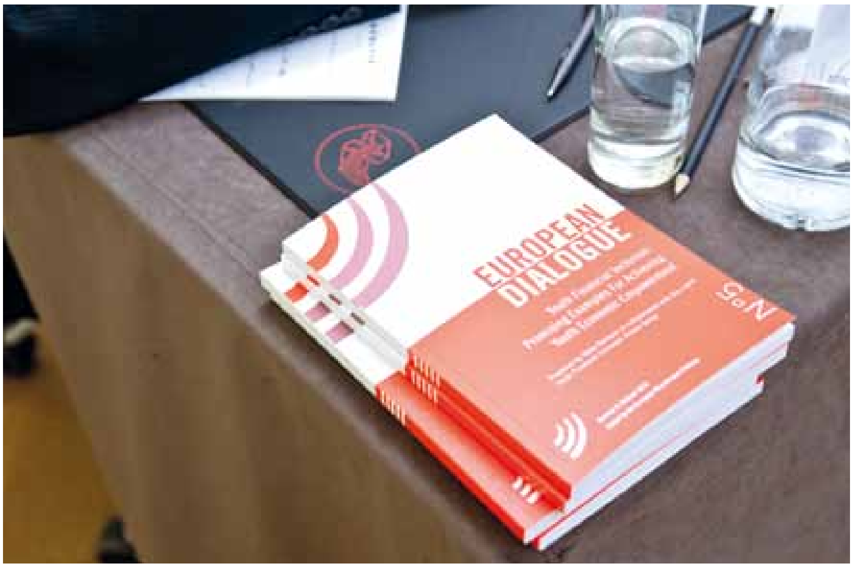
The discussion first focused on social business models. Guichandut answered that a social business is not necessarily better than microfinance to solve the issue of food security. Microfinance is aimed at providing access to financial services for the poor, while social businesses can constitute more aspects of the agricultural sector. The social business model is still in its infancy and will have to prove itself. De Groot emphasised that large, commercial agro-industrial companies will remain the largest rural investors in the South as they have access to low-cost finance.

De Groot provided his insights on how to strengthen less structured value chains of many food crops. Contrary to cash crops, many of these value chains function without clear contractual mechanisms. Rural MFIs should build strategic alliances aiming to support key actors and processes, such as auctions to help farmers get a better price. Guichandut added that government involvement is needed to provide a clear and effective regulatory framework to ensure food security.

Rispoli concluded the session by stating that providing financial services to the poor is a broad and challenging issue which needs a holistic approach. Investors and MFIs can contribute to improved food security, but are not the main solution. By segmenting rural clients we can improve our understanding of the needs of different clients in order to develop adequate products for them.

YOUTH FINANCIAL INCLUSION: PROMISING EXAMPLES FOR ACHIEVING YOUTH ECONOMIC EMPOWERMENT

Moderator	**María PERDOMO**, UNCDF
Speakers	**Flavia NAKAMATTE**, Finance Trust
	Benjamin MACKAY, ADA
	Jared PENNER, CYFI (repl. Selma CILIMKOVIC, Partner)



PRESENTATION

María PERDOMO started the session by introducing youth finance and how demographics are a strong driver for youth finance: young people account for a large share of the population in lower-income countries and are a fast-growing group. As the private sector often fails to generate enough jobs to employ youngsters, there is a need for microfinance services. Perdomo also introduced and shared some of conclusions of the e-MFP publication ‘Youth Financial Inclusion: Promising Examples for Achieving Youth Economic Empowerment’, with contributions from 11 members of the Youth Financial Inclusion Action Group involved in both savings and credit-led projects.

Perdomo stressed that non-financial services remain pivotal in youth microfinance, and that service providers should pay attention to the life cycle of youngsters to provide suitable services. In addition, service providers should actively bring services to where youth are, either physically (e.g. at schools) or through technology (e.g. mobile technology). Perdomo explained that the publication proved the importance of engaging the broader community (parents, teachers, community leaders) in youth finance. She also observed that the regulatory framework can be a great challenge to implement initiatives in many countries (e.g. minors cannot open bank accounts), which requires product adaptations.

Benjamin MACKAY, ADA briefly introduced CRED’ART, a loan programme for young artisans in Burkina Faso. These loans are accompanied by mandatory vocational trainings or a proven record of relevant professional experience. Mackay mentioned that the main goal of the programme is to create jobs, as well as to share and replicate experiences with other partners in the region.

Flavia NAKAMATTE introduced the youth project of Finance Trust (Uganda). She

explained that this project is segmented into two age groups (12-17 Teen Classic; 18-24 Youth Progress) and is adapted to the needs of each group. The project offers three types of products: savings, financial literacy and reproductive health, and uses a unified model to deliver services.

Jared PENNER replaced Selma CILIMKOVIC (from Partner) as a panellist in this session. He presented two cases, both making use of a linked approach in terms of local partnerships. In the Philippines, the NATCCO-Aflatoun programme targets children between 6 and 16 years old, making use of local cooperatives and local schools to collect clients' deposits. In Yemen, the organisation Al-Amal works in partnerships with other organisations to complement its financial services with non-financial ones (i.e. training courses and business consultations).

After these brief introductions, Perdomo posed questions to individual panellists:

Asked about the way CRED'ART encourages re-payment, Mackay explained that the financial component of the programme establishes that five percent of the loan is put on a savings account, which is combined with an additional five percent as a bonus provided that the re-payment is made. Regarding non-financial methods, he highlighted that peer group meetings are used to remind clients of their financial obligations. The organisation has also developed a monitoring system in the field, which supports clients directly and creates mutual trust.

Subsequently, Nakamatte was asked what marketing strategies Finance Trust uses to attract clients. She explained that marketing happens at 3 levels (local government, leaders, and authorities) in order to create trust in the community, but that the parents are always the first ones to be engaged. Nakamatte also mentioned that marketing materials (piggy banks, t-shirts, etc.) are used as rewards for those who are performing well, but that these do not work well if they are given as incentives to join.

In dealing with the question on how to increase outreach in child finance programmes, Penner explained that outreach in the Philippines was supported by the inclusion of a network of cooperatives in the programme. Moreover, the programme provided the cooperatives with an opportunity to train their staff. Through the Ministry of Education, the programme managed to link schools to these cooperatives, and integrate its educational component in school curricula. After establishing this solid structure, banks were ready to go to the schools and collect deposits.

Both Nakamatte and Mackay addressed the question on hurdles faced by their respective programmes in reaching scale. Nakamatte explained that Uganda's regulatory framework poses difficulties, since youngsters under 18 years old cannot open a bank account. In response, Finance Trust created a 'financial mentor system' within the Teen Classic product. This mentor (chosen by the minors themselves with the help of Finance Trust), has an 'account-opening' role and a more limited withdrawing role. At CRED'ART, the main challenge was in the conditions that artisans needed to meet (i.e. having completed the vocational training). After failed partnerships with technical schools, it was decided that young artisans could also demonstrate relevant professional experience alternatively to local officer.

DISCUSSION AND CONCLUSIONS

The first point of discussion was how to use sustainable models for youth financial inclusion in order to reduce costs; i.e. building alliances within larger scale microfinance programmes and then developing products specifically for youth. Perdomo admitted that there are not enough data on these cases for adequate reporting, but mentioned other cost-reduction strategies such as using technology and building partnerships with government in delivering non-financial services. She also mentioned that youth finance is an investment in future clients.

The audience then questioned the self-sufficiency of youth finance programmes and their sustainability without grants. Mackay explained that ADA is the only institution currently subsidising CRED'ART, but that strategies for alternative funding are currently being sought (e.g. collaborating with local governments; using SME financing structures). Penner explained that al-Amal is not dependent on only one donor for this programme and is also a deposit-taking institution. In the case of the Philippines, the programme is funded locally, by cooperatives.

The discussion then turned to how to evaluate the impact of trainings and incentives in encouraging the use of savings accounts, and whether there are major differences between urban and rural clients. Nakamatte reacted on the first question by revealing that Finance Trust has a system of tracing accounts, but that it is not possible to see whether there were improvements by looking at averages only. As for the second question, she explained that she mostly sees differences in the ways of saving; rural clients tend to do this more seasonally.

Perdomo concluded the session stating that there are three main challenges lying ahead of the youth microfinance sector: reaching scale, attaining sustainability and achieving significant impacts. She called for coherent action within the existing platforms, which can be found on the Team works page of Youth Start[1]. Penner also mentioned that a good point of departure to get in touch with organizations engaged in youth microfinance is the Youth Economic Opportunities website.

WHY MICROINSURANCE? **INCENTIVES AND FIRST RESULTS**

Moderator	**Véronique FABER**, Microinsurance Network
Speakers	**Tahir WAQAR**, National Rural Support Programme, NRSP
	Rolando B. VICTORIA, ASKI
	Ivan GUTIERREZ, REDCAMIF

PRESENTATION

This session was hosted by the Luxembourg Round Table on Microfinance, which was established to enhance coherence and share knowledge between microfinance stakeholders in Luxembourg. Véronique FABER stressed the increasing importance of microinsurance with regard to climate change and social developments which lead to the disappearance of traditional risk mitigation strategies. As such, while vulnerability increases, households become less resilient to risk. Microinsurance now covers 500 million clients; however, most are in Asia, with a specifically fast growth in Pakistan and the Philippines. This shows the uneven geographic development of microinsurance.

A recent study shows that MFIs still account for 30% of microinsurance distribution channels. Their continued status as a preferred delivery channel is because MFIs and their networks have a vested interest to provide microinsurance; to provide value to their clients, and increased security to their institutions. She explained that this session would provide insights into microinsurance practices from different perspectives (e.g. MFI, resource centre, regional network) and regions, detailing why the speakers´ organisations became involved, what their challenges were and what results were achieved.

Microinsurance - Why and how?

Tahir WAQAR presented experiences of the National Rural Support Programme (NRSP). NRSP is a non-profit MFI which, from its mission to support people with their development activities, also offers non-financial services such as skills training, health and education. NRSP engaged with microinsurance based on the high vulnerability of the poor to health shocks. Also, health was a priority need identified by female borrowers. As government programmes cannot meet the health needs of the population, NRSP engaged in a partnership with a national insurance company to introduce a mandatory insurance product for its credit clients. Insurance coverage included the borrower and the spouse, and covered hospitalisation, disability and accidental death. Premiums are paid as part of credit-processing fees.

Rolando VICTORIA spoke from both an MFI and a resource centre perspective. ASKI, set up its own insurance services to manage risks, for the MFI in terms of ensuring repayment, and for clients to protect against livelihood shocks. As the regulator did not allow MFIs to engage in insurance, a Mutual Benefit Association (MBA) was established, which allowed both community empowerment and the provision of affordable and comprehensive, micro-insurance products to members. The main products are life and credit-life insurance, covering members, the spouse and up to three children. More recently, a health insurance programme was introduced in partnership with Philhealth, a government agency. Although premiums are higher, clients prefer insuring through MBA due to built-in incentives (50% of contributions are refundable).

A network of MBA partners was established within the Philippines (MI-MBAS), while a technical resource centre was established on the regional level (RIMANSI). The objective of RIMANSI is to promote universal risk protection for socio-economically disadvantaged people in the Asia-Pacific region. It provides assistance by developing customised risk management solutions, and engaging in research and development activities in collaboration with regulators and practitioners.

Ivan GUTIERREZ presented the experiences of REDCAMIF (Red Centroamericana de Microfinanzas). This MFI network was established in 2002 and consists of 7 national MFI networks, representing 30 MFIs with 1.5 million clients. It provides advocacy, product development and capacity building to its members. Its main motivation to develop microinsurance products was to help clients mitigate and

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manage vulnerabilities, in terms of short-term (accidents) and medium-term (safety and health) risks. For MFIs, micro-insurance offered a means for product and income diversification and building client loyalty. REDCAMIF developed and piloted a business model in partnership with regional insurance companies and MFIs. Seven products were developed for low income people, covering life, accidents and health. In the model, MFIs function as insurance agents. The network functions as an intermediary between them and the insurers and integrates and structures information. Gutierrez stressed the importance of scale to make it interesting to clients, MFIs and insurers.

Challenges and lessons learned

Waqar stressed the need for client education and education of loan officers to be able to sell products better. Moreover, products need to be affordable and simple; with straightforward claim processes and a limited number of exclusions. For example, NRSP engaged with the insurance company to include coverage for pregnancy and day care based on information on claim refusals. Lastly, timely and correct payment of claims is needed to build trust and credibility.

Victoria focused on lessons learned in terms of establishing a legal and supervisory framework for microinsurance. As the previous framework did not allow ASKI to offer insurance (e.g. high capital requirements, board requirements), lobbying with MBA partners was needed. Educating and awareness building of regulators proved highly effective, for example by inviting officials on field trips to show client needs and by involving them in member trainings and board discussions.

Gutierrez stressed the need for partnership building and coordination between the microinsurance players to come to effective business models, but with close attention to specific needs and reservations. Clients are suspicious of insurance and need to be made aware of its added value; MFIs can diversify their portfolio, but do not consider microinsurance a core activity; insurers see high risks, but also new clients. Key success factors are clear benefits for all parties, and an MIS capable of showing this. Furthermore, continuous awareness raising and training, both of clients and credit officers, ensures uptake and expansion. Uptake is also supported by appropriate and quick claim payment. Finally, offering a broad product range to satisfy the needs of different clients should be balanced with standard products to ensure sufficient volumes.

Faber added the importance of collecting the right information to reduce exclusion, develop appropriate products and engage with regulators to enable large outreach while safeguarding consumer rights.

Results

Each of the speakers presented strong progress. Waqar explained that growth has become more moderated, as other

MFIs are also providing microinsurance products, now making the MFI consider how to better target farmers. Victoria added that ASKI is now considering retirement products. Gutierrez announced that the REDCAMIF programme will be launched early 2013.

DISCUSSION

Faber concluded with key success factors; rapid claim processing and disbursement, building trust, client and staff education, and developing products that offer real value to clients and good partnerships. Furthermore, microinsurance needs to be taken seriously on the institutional level; both in terms of commitment and resource allocation.

Based on these conclusions, the discussion focused on how to build trust. The panellists mentioned the need for timely claim payments, and transparent products and procedures to avoid disappointment. Furthermore, combining collection with credit repayments can reduce costs and build client loyalty. Premiums need to kept low and therefore operating expenses need to be reduced. One of the main requirements to do so is by building sufficient volume.

A commenter from ILO mentioned how good information systems are vital in supporting communication with insurance companies and to improve products and product delivery. Even so, he stressed that microinsurance remains a high risk proposition for insurance companies, but that risk mitigation, for example in terms of occupational safety awareness raising and training can play a role. The panellists added that some measures, for example malaria control measures, have potential, but that many other risks are more difficult to engage with (e.g. robberies).

SUPPORTING MICROFINANCE IN THE EUROPEAN UNION:
BUSINESS MODELS, IMPACT ASSESSMENT AND LESSONS LEARNED FROM EU INITIATIVES

Moderator	**Jorge RAMÍREZ**, European Microfinance Network (EMN)
Speakers	**Lukáš VESELÝ**, European Commission
	Ricardo AGUGLIA, European Investment Fund (EIF)
	Antoine NAVARRO, Planet Rating
	Aldo MOAURO, Microfinanza Rating
	Georgina FRIEDERICHS, Qredits
	Patrick SAPY, MicroStart
	Marjolaine CHAINTREAU, Citi

PRESENTATION

Jorge RAMÍREZ of the EMN opened the session by introducing all panellists and explaining that the session would focus on comparing Northern and Southern MFIs.

Lukáš VESELÝ explained that the European Commission started the European Progress Microfinance Facility (EPMF) in 2010. € 103 million was allocated by the European Commission from the EU budget and 100 million was made available by the European Investment Bank (EIB). EPMF has a guarantee window and a funded investments window, both of which are managed by the EIF. The fund's objective is to develop a microfinance market in the EU, investing across the 27 EU members. In its strategy and procedures, it takes national differences into account but each of its operations supports financial inclusion, job creation and the EU's overarching objectives of smart, sustainable and inclusive growth. Veselý stressed that the Commission sees large potential for the development of microfinance in the EU and that microfinance is increasingly recognised as a public policy tool for financial inclusion and support to full employment. The main challenge facing the EU is the lack of opportunities for many people's economic and social self-fulfilment due to the economic crisis. At the same time, policy makers need to find best practices to support microfinance using bottom-up approaches. Currently, negotiations are on-going for the EU's budget framework for 2014-2020. Nearly € 280 billion is expected to be allocated to the EU structural funds which can, among other investments, also support further development of microfinance throughout the EU's Member States and regions.

Ricardo AGUGLIA explained that the EIF is Europe`s leading provider of risk finance for entrepreneurship and innovation. Microfinance has become an important pillar in the funds work. In 2008, the EIF started managing the JASMINE programme (Joint Action to Support Microfinance Institutions in Europe) as a pilot initiative. It was launched by the European Commission, the EIB and the European Parliament. The EIF provides Technical Assistance to selected MFIs active in the EU. Services including evaluations (institutional assessments or ratings provided by Microfinanza Rating or Planet Rating) and tailor-made trainings by experts of the Microfinance Centre (MFC).

Antoine NAVARRO explained why and how Planet Rating adapted its microfinance rating methodologies to the Western European context. With a high level of development of financial services, the market potential for microfinance is lower in Europe than in developing countries, and the market potential for small business is also lower since they have to find a market niche among an abundant offer of all kinds of services. The higher costs borne by small businesses also make it difficult for them to afford high interest rates. As a result, European MFI performance must be assessed taking into consideration the following key aspects:

- Efficiency / Profitability: A large part of their work consists of Business Development Services, aiming at helping micro-entrepreneurs building sustainable businesses. The costs and revenues related to these services must be analyzed separately in order to give a precise picture of an MFI's performance.
- Funding and Liquidity: a lot of European MFIs depend on grant funding to

subsidize either their Business Development activities, or provide funding at subsidized rates. MFIs must be able to correctly manage their relationship with donors in order to ensure a stable flow for such funding, which, by its nature can be more volatile than commercial funding.

- Social performance: Monitoring indicators such as job creation becomes crucial for MFIs to be able to prove they are as much, or more, efficient than social welfare programs, and are legitimate recipients of public funding.

Aldo MOAURO shared his experiences based on assessments he did within the JASMINE programme. He stated that for microfinance to correct market failure the hot topic to be solved is sustainability. Currently economic stability of MFIs strongly depends on EU grants. Nevertheless, there is a need for microfinance as the current EU banking system cannot cater for the lowest income consumers. Contrary to Planet Rating, he thinks that sustainability is possible, but while keeping in mind the social objectives of microfinance and focused primarily on financial inclusion; e.g. not sustainability in its most rigid form.

Georgina FRIEDERICHS presented the European instruments used by Qredits in its operations. Qredits was provided with a € 750,000, 5-year EPPA (European Parliament Preparatory Action) loan by EIF at a reduced interest rate, to build capacities and reach more customers. For its credit activities, Qredits does not receive subsidies and it is close to being sustainable. Qredits also used some other European instruments: training for its staff through JASMINE and a guarantee for its microcredit portfolio by the European Progress Microfinance Facility that covers 75% of the loss recovery rate for loans to the target group (unemployed or risk of unemployment, micro enterprises lacking access to finance). Finally, Qredits was involved in the pilot group of the European Code of Good Conduct for Microcredit Provision.

Qredits is financed by the Dutch government and the main Dutch commercial banks. Friederichs explained that the focus of microfinance in Western Europe is indeed different, resulting in different interest rates and cost levels. However, sustainability does seem possible although the maximum loan size may need to be larger (e.g. € 25,000, instead of the € 5,000 currently offered by Qredits. Qredits main challenges are:

- Reaching effective sustainability for credit activities,
- Launching and completing new coaching instruments,
- Attracting necessary additional funding for estimated growth

Patrick SAPY explained that MicroStart consists of a company with a social objective (MicroStart scrl-fs) to provide small loans to micro entrepreneurs and an NGO (MicroStart Support) that provides free business development services. MicroStart scrl-fs finances its activities through debt financing from BNP Paribas and receives a guarantee on its portfolio (75%) from the EIF to lower its capital costs. MicroStart Support is funded by donors, foundations and local governments. The main challenges faced by MicroStart are:

- Coordination between its credit services and business support services.
- Limited availability of funds to finance its activities, such as starting grants for new MFIs.
- Coordination between and complicated procedures of the European Commission and the EIF.

Marjolaine CHAINTREAU presented a new report written by the Nantik Lum Foundation and sponsored by Citi Microfinance "Financial inclusion to foster job creation – A case study on Madrid". The report includes recommendations to create employment in Madrid through supporting the provision of financial and non financial services to SMEs. The reports draws lessons from initiatives developed in New York City and how to adapt them to the Spanish context. These lessons learned can also be applied in other cities. Recommendations include:

- Build alliances between regional and local governments, universities, financial institutions, private companies and specialised MFIs.
- Review private and public financing mechanisms and alliances, for example create a fund to provide loans and guarantees to banks and MFIs.
- Create a strong referral system between banks and MFIs, when possible.
- A good practice is that government works through intermediaries and develops consistent brands for the provision of services to small businesses.
- Include small businesses in policy making, public procurement and urban planning.

DISCUSSION AND CONCLUSIONS

The discussion focused mainly on whether it is possible for retail banks to offer microfinance activities sustainably. Some participants argued that it is better to support MFIs which are specialised in this area of work. Qredits is an example of a non-bank financial institution that provides microfinance services without needing subsidies. The Sparkassenstiftung für internationale Kooperation argued that retail banks also do, so as long they truly commit to offer microfinance services and there is a clear business case in servicing financial needs of low income people.

Another issue addressed was transparency and the need to combine MFI's rating reports to set benchmarks and recognise trends. The rating agencies agreed with this issue and mentioned that we can learn from similar assessments in the South. Ramirez stressed that the EMN publishes a bi-annual Overview Survey about the microfinance sector in Europe. The edition for 2010-11 is currently available on the EMN website.

Ramirez concluded the session by mentioning that the EU has to learn from the experiences in the South, while taking the different context into account. e-MFP can be a bridge between the young EU microfinance sector and the mature microfinance sector in the South. He also emphasised that the main focus of the sector in Europe is to find innovative ways to become sustainable.

MICROFINANCE INVESTMENT, A WAY FORWARD

Moderator	**Daniel DAX**, LuxFLAG
Speakers	**Joerg-Peter HAYN**, Banque du Luxembourg
	Sebastien JUHEN, BlueOrchard
	Sebastian von STAUFFENBERG, MicroRate
	Axelle FEREY, Ernst & Young (repl. Laurent CAPOLAGHI)

PRESENTATION

Daniel DAX introduced the subject and speakers, also referring to MicroRate's recent publication of the microfinance fund market. He posed some basic questions for the presenters and the audience: why do we invest in microfinance, what are the main hurdles, and what are the lessons learned and the trends identified? Explaining about LuxFLAG (the Luxembourg Fund Labelling Agency), he articulated its role in supporting sustainable finance by awarding labels to investment funds.

Joerg-Peter HAYN responded by saying that Banque du Luxembourg offers microfinance investment funds to its clients, because these nowadays offer a real, valid alternative to their traditional investment recommendations of assets and bonds (e.g. Euro & global; increasingly also emerging sovereigns). He explained that the selection process for their investments is fairly conservative; they do not invest in the poorest countries or countries with geopolitical or environmental risks. Currently they do not invest in India either. Selected microfinance partners and advisors are regularly monitored. Hayn explained that costs of microfinance funds are therefore usually higher (1.5-2%) than those of traditional bond funds (0.5-1.5%). The investors require detailed additional reporting and, from time to time, direct contacts. In the bank's future outlook, it is expected that good investment opportunities in Latin and South America will become rare, also as more local financing becomes available at lower costs. Hence, returns on investments will reduce. In response to a question by Dax concerning what clients look

for in microfinance, Hayn replied this to be social investments (on balance just as important as financial returns) and to build up an alternative portfolio.

Sebastien JUHEN continued by explaining that investors are looking for both social and financial returns. Wealth holders put social impact first, while institutional investors often have more stringent criteria focused on investment process, risk control and financial performance. Juhen described BlueOrchard's dual investment process, composed of a top-down (investment committee) and a bottom-up (credit committee) component. The bottom line for both is strict governance and clear responsibilities. Risk management is fully integrated in the investment process in order to identify risk areas and implement mitigation measures. BlueOrchard's second pillar is social performance management and monitoring. When questioned by Dax about how often they report on social impact, Juhen responded that reporting is annual, while they receive relevant information from the microfinance institutions on a quarterly basis.

Sebastian VON STAUFFENBERG began by explaining that, as a rating agency, MicroRate works at the level of providers as well as in the field, where money is invested. They aim to provide clarity and transparency in the market, von Stauffenberg continued, while reflecting on MicroRate's 2012 MIV Survey. On the issue of who is investing, he remarked that public funders are the least transparent and report less rigorously and regularly. He believes it is likely that their share of funds is about 50% of MIV assets. While exemplifying on the opportunities and challenges for investors, von Stauffenberg gathered opinions from the audience on how microfinance investment funds are being analysed. He explained that, when asked publically to prioritize between four key objectives (*Financial Performance* vs. *Risk*, *Social* and *Management & Governance)*, social investors will say social. In anonymous polls the financial performance always comes first by a wide margin, followed by management and governance, risk and lastly social performance. MicroRate offers an independent analysis of the funds through their Luminis platform and methodology. Objective analysis and benchmarks often reveal a different picture of a fund than what is available publically or through the fund itself.

Axelle FEREY of Ernst & Young is specialised in the European Directive on Alternative Investment Fund Managers (AIFM) Directive. In her opinion, the basic three questions to be asked in order to determine whether or not the AIFMD may impact you are: Is my microfinance vehicle an AIF? If yes, who is its manager and am I its manager? And then, as a manager, do I distribute my products to EU professional investors? These are the general rules to which several exemptions are mentioned by Ferey, such as the 'de minimis exemptions' or the grandfathering rules available to closed ended AIFs no longer investing after July 2013.

More transparency, documentation and formalization are required from managers of AIFs, which she explained with a figure on 'key provisions at a glance'. Such transparency is needed and covers both disclosures towards investors as well as enhanced transparency towards regulators. Subsequently, she presented a scheme to identify what one's position is on the compliance map.

As an alternative route to the AIFMD for small and mid-sized managers, Ferey presented the new European Social Entrepreneurship Fund' (EuSEF) label, introduced by the Commission in 2011 and which is available from July 2013. It is a voluntary label, for EU-based managers of EuSEFs which would give them access to a fundraising passport in return for compliance with a standard set of organizational rules (much lighter, however, than those foreseen by the AIFM Directive) as well as rules in relation to the investment target and investing instruments. The regime foresees, for instance, that social impact will need to be measurable. Discussions are still ongoing on this regime, notably in relation to the requirement for such EuSEFs to appoint a full-fledged depositary.

DISCUSSION AND CONCLUSIONS

Dax asked Ferey what are the current challenges and opportunities for MF funds and MF asset managers that result from the current changes in the regulatory regimes, especially with regard to AIFMD and also the draft EU regulation on social impact funds, to which she responded that Luxembourg is in fact now moving in the right direction to take a similar role that it had taken with regard to UCITS.

Based on a question from the floor, Hayn said he advised his clients to diversify in order to reduce risks, also depending on their investment horizon. When asked whether client protection is really of importance to people in the field, he replied that this cannot be answered in a straightforward and unilinear way. Von Stauffenberg and Juhen pointed out that such transparency is of great importance; funds are moving across Europe (Swiss, Luxembourg, The Netherlands each being countries with a tradition of funds and asset managers and Germany) and elsewhere (the USA is still considered far behind: 'do no harm' rather than 'do good').

On the question of attracting retail investors by reducing the threshold, Ferey replied that AIFMD or EuSEF label marketing rules do not cover retail investors. Distribution of such products to retail investors will continue to be governed by each individual member state rules.

When asked by Hayn how MicroRate is financed, Von Stauffenberg responded that most funding is coming from MFIs. However, in a considerable number of situations this may lead to a conflict of interest, in which case the service cannot be paid for by the client in order for the rating to remain independent.

UNIVERSITY MEETS MICROFINANCE (UMM) –
HOW CAN MICROFINANCE CONTRIBUTE TO FIGHT ENERGY POVERTY?

Moderator	**David LEVAI**, PlaNet Finance
Speakers	**Bernd BALKENHOL**, Consultant/University of Geneva
	Sebastian GROH, Technische Universität Berlin, Postgraduate School Microenergy Systems/MicroEnergy International
	Marion ALLET, CERMi
	Francesca RANDAZZO, ADA

PRESENTATION

David LEVAI briefly presented the UMM program supported by the European Union, introduced the role of microfinance in alleviating energy poverty and briefly outlined e-MFP's UMM Action Group which consists of academics, students and practitioners.

Bernd BALKENHOL provided a historical and theoretical perspective on green microfinance. The link of microfinance to environmental issues is not artificial as is occasionally suggested, but rooted in its double bottom line. Microfinance was always and fundamentally oriented towards social impact (Millennium Development Goals, impact investing, "social" performance, microfinance "adjacencies"). Green microfinance is one such "adjacency". Seen as financial products, green micro-loans show specific features in terms of cash flow, term, risk and costs. In relation to cash flow, energy products can positively impact household utilities, as well as its profit-generating activities. Regarding term, he explained that the repayment schedule for renewable energy investments extends beyond usual micro-loans, with substantial variations from technology to technology. Risks remain relatively manageable because the renewable energy device can often be collateralized. On the other hand there was a "third party risk", as after sales service may fail to keep a device functioning, inducing clients to stop paying back. The two most serious challenges to up-scaling green microfinance were market distortions due to fuel subsidies and the affordability of devices to poorer segments of society. Drawing from the experiences of all-in-one business models (Grameen Shjakti) Balkenhol concluded with research questions related to green microfinance and policy issues to be addressed.

Sebastian GROH presented the findings of his PhD research related to energy in the development process. There is no academic consensus on the definition of 'energy poverty'. He used a scientific approach; energy poverty occurs when energy expenditures are higher than ten percent of total income. His hypothesis 'The existence of an energy poverty penalty implies that poorer people tend to spend more on energy relative to their total income than comparatively richer people' was tested with 350 households in Arequipa, Peru. Groh's findings reveal that having no access to grid electricity (being energy poor) compensates or even outweighs the income effect (more income -> more energy expenditure), leading to significantly higher relative expenditure and insignificant higher absolute expenditures resulting in a double penalty (i.e. they are poorer and spend more on energy). The question on whether these people can experience 'energy inclusion' was illustrated with an innovative example of the Biogas Vendor Model in Nepal.

For her PhD research, Marion ALLET investigated the profiles and motivation of MFIs which carry out energy lending projects. The study used a sample of 160 MFIs worldwide and revealed that, in 2011, 24% already offered energy loans. These results may be slightly overestimated due to a self-selection bias in the survey. However, they still show that a significant number of MFIs are interested in energy poverty issues. Allet reported that the involvement of MFIs in energy-lending projects was highest in Asia, but that neither the size nor legal status of the institutions was a statistically significant determinant. Unanswered questions on the motivation for MFIs' involvement in energy lending led to a second study, during which Allet carried out semi-structured interviews with 23 MFIs' directors. She reported that the main driver for MFIs to offer energy lending was competitiveness: not only do they perceive it as a business opportunity, but also as a client need. Finally, Allet emphasized that access to technical assistance and funding play a triggering role in MFIs' involvement in energy lending.

From the practitioner's perspective, Francesca RANDAZZO reported on ADA's experiences together with MicroEnergy International and EnDev/GIZ Peru in the Energy Inclusion Initiative in Peru, with two local MFI partners (Caja Huancayo, Fondesurco). The evaluation conducted after the pilot phase of the FondeEnergía loan product of Fondesurco, showed that a large majority of the FondeEnergía clients were new clients for the MFI. In fact, people became clients exactly because the institution was the only one offering energy products. In terms of impact, she highlighted that green and environment-related products are gradually becoming a strategic priority to the MFI, thus providing an opportunity to develop new products and a better bargaining position towards investors. She also mentioned several lessons to be learned for MFIs and supporting organisations regarding specialisation and capacity building and proper selection of technical partners. Challenges ahead include political factors (e.g. subsidies, regulations) and the issue of shared responsibilities (e.g. contract adaptation, guarantee terms, support services). As a way forward, Randazzo mainly suggested improvements in quality control, use and logistics, as well as comparing and replicating models to capitalise on experiences.

DISCUSSION AND CONCLUSIONS

The debate first addressed the initiative presented by Randazzo, questioning whether energy products should necessarily be associated with microfinance instead of a social business specialised in energy. Randazzo agreed that financial aspects of these projects might not be essential for all clients, but explained that Fondesurco first wants to scale up before developing it into a business. When clients do not seek a loan to acquire energy products, the MFI can direct them to the provider on a commission basis.

The discussion then addressed the methods used to measure client benefits considering the short period the projects have been active. Randazzo explained that the evaluation was based on client perceptions: clients stated that not only are they saving on energy, but also report indirect benefits (e.g. improved health due to the use of hot water). Levai summarised impacts of energy poverty projects into two categories: improving households' livelihoods and decreasing the negative externalities of development on the environment.

The audience also asked whether the MFIs the panellists have worked with adopted green practices themselves. Randazzo revealed that one of two organisations ADA is working had a 'greener mood', whereas the other one could benefit from additional awareness raising. Groh agreed that 'going green' has gained high priority in the agendas of MFIs recently.

A participant agreed that there is an increased interest of development banks in energy and green loans, but asked where there is most need for funding. Based on her experience in Egypt, Allet mentioned strong funding needs for capacity building and technical assistance. Smaller MFIs often need resources to set up basic services such as credit lines. Groh added by pointing out that funding is usually overfocused on the MFIs themselves, calling for greater attention to investments in the infrastructure and distribution systems of energy products.

The final point of discussion was projects involving carbon credits. Groh explained that MicroEnergy International did set up a baseline for such projects, but as carbon credit prices went down the organisation aborted the plan. He emphasised that carbon credit remains a risky issue for MFIs, but admitted that there have been examples of organisations which succeeded nonetheless. Levai added that risk is especially related to the volatility of the carbon market, which is detrimental to the long-term financial sustainability of these projects.

CHALLENGES AND OPPORTUNITIES OF MFIs TRANSFORMATION

Moderator	**Silke MUEFFELMANN**, Frankfurt School of Finance & Management
Speakers	**Valerie HAUSER**, Audisoft Consultants
	Carmen VELASCO, Co-founder Promujer

PRESENTATION

Silke MUEFFELMANN explained that the session aimed at sharing views on why, or why not, transformation should be taking place. According to Mueffelmann, more and more MFIs transform from NGOs into regulated financial institutions. Given the recent global economic and financial crisis, funding difficulties have driven more NGO-led MFIs to become banks or regulated non-bank financial institutions (NBFIs) to be able to attract investments, tap deposit markets and grow further.

Experience has shown that transformations cannot be replicated easily since each process must be specifically tailored to the regulatory, operational and institutional circumstances of the MFI. Furthermore, transformation usually implies structural changes in terms of organisation and ownership. She stressed that the complex, multi-level process of MFI transformations within a changing environment still requires technical advisory support and is not completely market-driven.

Mueffelmann provided several key issues to consider before going into transformation. First, a transformation plan needs to be established including a transformation strategy, a critical analysis of the current status, a formulation of vision and mission, a growth strategy, and an identification of risks and pre-requisites (operational and financial). Most importantly, after the decision to transform has been made, full ownership and clear responsibilities have to be established.

She concluded by stating that transformation is not appropriate for all MFIs. It can be a means to improve efficiency and increase outreach (by offering more products at lower costs), which contributes to profitability and growth. However, thorough research on implications, such as in terms of regulatory requirements and allocation of time and resources must be conducted before getting started.

Valérie HAUSER explained the implementation of anti-money laundering (AML) and combat the financing of terrorism (CFT) as part of risk and compliance management. It is important for MFIs to develop internal controls to protect themselves from exposure and to comply with regulations on AML and CFT. Barriers mentioned by MFIs are that the Financial Action Task Force (FATF) requirements (e.g. the international standards for AML/CFT) are not appropriate for microfinance, increase costs and constitute a disincentive for potential customers. However, AML/CFT rules are considered a necessary framework to contribute to the protection of all actors involved in the financial system. The proportionality principle allows a country to decide on its approach in applying AML/CFT measures. As such, it is recommended to define requirements for the microfinance industry through a co-operative process between policy makers, regulators, financial institutions and FATF. MFIs have to be proactive in putting forward solutions that are appropriate for their circumstances and engage with policy makers, but need to keep aware of the proportionality principle as the law and the country position will not free MFIs from establishing their own risk approach.

Carmen VELASCO questioned whether transformation is the only way to provide services that achieve financial inclusion and whether it is feasible for profit-making institutions to reach the (very) poor and affect changes in their lives. She stated that MFIs with a strong commitment to a social mission will face big challenges in providing services and products without mission drift during transformation. These MFIs will be challenged to maintain their focus on the peri-urban and rural poor, and to assure positive outcomes in the lives of their clients. In her opinion, transformation is a trade-off between microfinance as a means to give access to financial services versus microfinance as a platform to achieve women's empowerment and positive socio-economic outcomes for clients.

Institutions which have been transformed are less flexible in providing additional services to the (very) poor. To break through the circle of poverty, factors that perpetuate poverty such as disease, lack of education, and corruption, need to be acknowledged and integrated in the services provided. Many MFIs with a social mission have generated a social support network through their work that empowers clients and makes outcomes sustainable. This network helps MFIs to support clients to access other institutions of society. As such, clients do not only gain access to financial services, but also to health care and education services. Velasco concluded her presentation by mentioning that profitability is key. MFIs with a social mission also need to become financially sustainable to be able to reinvest in providing a wider range of financial and social development services.

DISCUSSION AND CONCLUSION

The discussion focused on the risks of transformation. It was emphasised by Mueffelmann that in many countries regulation is rigid, making the change from NGO to a commercial bank difficult, also as sometimes there are no intermediate steps that can be considered. However, if transformation takes place according to good governance principles and regulation clarifies who can invest, the chance of successful transformation is substantially enlarged. She added that MFIs in Eastern Europe and Central Asia are facing many challenges in complying with regulation.

On the question whether the mission and vision of an organisation change during transformation, Mueffelmann replied that this depends on the shareholder composition and the board. She mentioned an example of an NGO in Cambodia, which has now become the largest bank in the country without drifting from its mission during transformation.

Other questions raised by the audience related to the average number of years needed for transformation, and the way regulators deal with profits made by MFIs during transformation. On the latter one, Valesco replied that when an NGO transforms, its social mission is optional. While MFIs focus on needs of clients, a commercial bank focuses on generating profits. There is no regulation which binds an NGO to stick to its mission.

CLOSING PLENARY: **PERSPECTIVES FOR MICROFINANCE**

Moderator	**Hans Dieter SEIBEL**, DGRV/e-MFP
Speakers	**David ROODMAN**, Center for Global Development
	Blaine STEPHENS, MIX
	Marc BICHLER, UNCDF/Chairman e-MFP
	Rolando B. VICTORIA, ASKI

PRESENTATION

Hans Dieter SEIBEL explained how this closing session would provide different perspectives on microfinance, by looking at the past, the present and the future. First he asked the panellists to state what they considered was going well in microfinance.

According to David ROODMAN, the main merit of microfinance is not to end poverty, but to build sustainable institutions that serve the poor by providing access to financial services. Blaine STEPHENS added that the evolution of the sector in terms of systems, information, standards, cooperation and communication channels has provided us with the means to adequately and effectively enhance and communicate on (social) performance. Marc BICHLER stated that although microfinance is not a panacea to end poverty, it does provide

important tools to help fight it. To do so, we need to further diversify the tools available and build linkages between the formal and informal, and between private and public sectors. Rolando VICTORIA stressed that microfinance has demonstrated that the poor, and particularly women, can pay. He also welcomed the introduction of common standards and increased interest from private sector social enterprise investors.

As to what went wrong, Roodman stressed the detrimental hype around the poverty reduction potential of microfinance. Although perhaps inevitable from a historical perspective in order to raise funds to develop, it is now the main cause for the backlash affecting the sector. Also, the abundance of funding has allowed bad practices and credit bubbles, destroying institutions and client livelihoods. It also reduced the incentive for MFIs to collect savings, or to lobby for the right to do so. Stephens added that this same hype contributed to the industry focus on tracking growth, without sufficient attention to learning from clients. Moreover, we have not sufficiently looked 'behind the door', regarding who uses these financial services, and for what.

Bichler stressed the lack of appropriate communication and advocacy of the sector (i.e. understandable to a larger public and based on research). Moreover, the abundance of funding has led to over-liquidity compared to the absorption capacities of MFIs. Therefore, he advocated strengthening second and third-tier MFIs to become eligible for funding, and for strengthening the legal and support infrastructure. Victoria added that we should focus less on growth, in terms of funding and clients, and more on building the right capacities and developing the right products.

Seibel then questioned the panellists on their future perspectives and lessons learned. Roodman stated that everyone needs financial services, especially poor people. Although microfinance can help meet this need, we need to be aware that credit markets are inherently unstable. As such, we need to build institutions that protect the public good, practice conservatism in terms of credit provision, build early warning systems to alert of market failure and adhere to the double bottom line. Stephens added that we still have much to learn about clients, their needs and the barriers they face. Behavioural science can teach microfinance stakeholders valuable lessons on how to move financial inclusion forward. Bichler stressed that for sustainable development access to finance is needed, including savings. He also sees increased willingness of investors to accept lower returns in return for fair practices, and an increased focus on client protection. Victoria stressed the continued need to strengthen financial education and client protection, and to develop better products, especially to finance value chains.

Asked to provide a vision for microfinance, Roodman provided a cautionary note on social performance management. On paper, it allows us to identify and monitor practices that hurt clients, but we need to closely look at what happens in practice to guard ourselves against a false sense of security. He also expects a further rise in the importance of digital platforms. Stephens stressed how difficult it is to predict effects of technological developments. Attention needs to be paid to how they meet client needs, empower clients, and relate to client protection and social performance. Seibel added that some developments will require regulatory involvement to ensure client protection.

Bichler called for increased attention to microfinance in post conflict/disaster environments and to consider how to kick-start recovery. Moreover, he encouraged the audience to think about the potential of technologic developments; for example how increased internet connectivity will affect the sector. Victoria agreed that technology can benefit the poor and their communities, especially when we are sensitive to their strengths and vulnerabilities.

As to what needs to be done, Roodman called for sector stakeholders to adapt best practices to local circumstances, but also to remain pragmatic by considering similarities. Working with local partners can facilitate such processes. Stephens added that we should look for best practices beyond microfinance. Bichler agreed that a joint vision from different players is needed to take stock of the complexities of microfinance and set up effective partnerships that benefit all actors. Victoria called for increased efforts of international networks to support standard setting processes and the development of affordable management information systems.

DISCUSSION

Seibel asked whether microfinance is increasingly offered by banks, and whether it is something to be promoted. The panellists agreed that this is taking

place, supported by legislative pressures and digital solutions that make it easier for banks to link with poorer and more remote clients. Although this is blurring the boundaries between MFIs and banks, we need to be aware that financial markets are more complex, including actors such as mobile network operators. This is not necessarily a bad development from the perspective of the client; this depends on the institution. Chao-Beroff, of PAMIGA, cautioned us by stating that some MFIs-turned-banks indicated that in hindsight, they would not have gone through the transformation process, considering the price in terms of mission drift. As such, it is important to find the right balance between supporting professionalism and providing truly transformational services to clients.

Another participant asked international donors to support the development of financial infrastructure and to facilitate cooperation between formal and informal financial services providers. Seibel responded that we need to be aware that many of these informal systems, such as VSLAs, will disappear or decrease in importance once people get access to formal financial services, or once VSLAs become formalised. We should also not overestimate the transformative potential of informal savings groups to realise national economic growth; savings levels in such groups are mostly insufficient for truly transformative investments in productivity. Their main merits are in safeguarding savings and providing increased security to poor households.

After the discussion, Bichler closed the session by thanking all those involved in the organisation of European Microfinance Week and who had contributed to making the event such a success. He gave a special thanks to all the sponsors. He finished by thanking all the participants for attending and encouraged them to use the valuable lessons learned during the conference in their daily practice.

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Pauline	BENSOUSSAN	PlaNet Finance	France
Sven	VOLLAND	PlaNet Finance	Germany
Audrey	NEGUI	PlaNet Finance	Luxembourg
Antoine	NAVARRO	Planet Rating	France
Emmanuelle	JAVOY	Planet Rating	France
Alona	GAIDAMAKA	Planis ResponsAbility	France
Emilie	GOODALL	PRI	United Kingdom
Sharon	NASSALI	Pride Microfinance Ltd	Uganda
Aminata Laye	SECK	Programme d'Appui à la Lettre de Politique Sectorielle (PALPS/MF)	Senegal
Mohammad Shahidur	RAHMAN	Projonma Academy	Bangladesh
Alix	PINEL	Proparco - Groupe AFD	France
Elodie	PARENT	PROPARCO / AFD's GROUP	France
Jean-Gabriel	DAYRE	PROPARCO / AFD's GROUP	France
Valérie	ARNOLD	PwC	Luxembourg
Eliana	DE LA FUENTE	PwC	Luxembourg
Laura	KOOB	PwC	Luxembourg
Thierry	LOPEZ	PwC	Luxembourg
Saleh	KHAN	PwC	Luxembourg
Claire	CHERPION	PwC	Luxembourg
Georgina	FRIEDERICHS	Qredits	The Netherlands
Michaël	DE GROOT	Rabobank Foundation	The Netherlands
Hans	GROENEVELD	Rabobank Nederland	The Netherlands
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Ivan	GUTIÉRREZ	REDCAMIF	Nicaragua
Daniel	RINGLER	responsAbility	Switzerland
Magdalena	GAMPP	responsAbility	Switzerland
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Hans	RAMM	SDC	Switzerland
Bonnie	BRUSKY	SEEP Network	France
Ola	SAHLEN	Sida	Sweden
Dominique	LESAFFRE	SIDI	France
Anne-Sophie	BOUGOUIN	SIDI/FEFISOL	France
Philippe	MESNY	SIDI/FEFISOL	France
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Thomas	OWUSU NTIM	Sinapi Aba Trust	Ghana
Laura	FOOSE	Social Performance Task Force	USA
Christian	SCHMITZ	Solidarité Internationale pour le Développement et l'Investissement, SIDI	France
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Aurélie	MOREAU	Solvay Brussels School Economics & Management	Belgium
Laurent	BIOT	SOS FAIM Belgium	Belgium
Marc	MEES	SOS FAIM Belgium	Belgium
François	LEGAC	SOS Faim Luxembourg	Luxembourg
Nedjma	BENNEGOUCH	SOS Faim Luxembourg	Luxembourg
Maryame	IRANPOUR	Spark News	France
Niclaus	BERGMANN	Sparkassenstiftung fur internationale Kooperation	Germany
André	KOCH	Stachanov	The Netherlands
Bob	BRAGAR	Strategies for Impact Investors	The Netherlands
Irene	ANGOT	Student - EMP	Belgium

FIRST NAME	LAST NAME	COMPANY/INSTITUTION	COUNTRY
Nilsy	DESAINT	Student - EMP	Belgium
Amy	GRIFFIN	Student	Luxembourg
Seyedeh Farzaneh	NADERI	TAK International	Iran
Fransien	WOLTERS	Terrafina Microfinance	The Netherlands
Mariel	MENSINK	Terrafina Microfinance	The Netherlands
Christian	HERING	The First Microcredit Company (FMCC)	Kyrgyz Republic
Ann	MILES	The MasterCard Foundation	Canada
Isabelle	BARRES	The Smart Campaign	USA
Ceu	PEREIRA	The World Bank	USA
Geert	VAN ISTERDAEL	Trias vzw	Belgium
John	BLIEK	Trias vzw / e-MFP	Belgium
Janet	HEISEY	Trickle Up	USA
Natalia	AGATHOU	Triodos Facet BV	The Netherlands
Carol	CARUSO	Triple Jump	The Netherlands
Christophe	BOCHATAY	Triple Jump	The Netherlands
Mark	VAN DOESBURGH	Triple Jump	The Netherlands
Flavia	NAKAMATTE	Uganda Finance Trust	Uganda
Anne	MULINDWA	Uganda Finance Trust	Uganda
Ousmane	THIONGANE	U-IMCEC	Senegal
André	IRABISHOHOJE	ULB	Belgium
Carlos	ESCRIVA GIL	UNCDF	Belgium
Tillman	BRUETT	UNCDF	Belgium
Ivana	DAMJANOV	UNCDF	France
Laura	MUNOZ	UNCDF	Senegal
Henri	DOMMEL	UNCDF	USA
Makarimi	ADECHOUBOU	UNCDF	USA
Maria	PERDOMO	UNCDF	USA
Marc	BICHLER	UNCDF / e-MFP	USA
Monica	CANAFOGLIA	UNCITRAL Secretariat	Austria
Mariana	ARANA	Union El Ejido	Ecuador
Maria	URUENA	Universite Libre de Bruxelles	Belgium
Gianluca	PACCHIANI	Université Libre de Bruxelles - Solvay School of Economics	Belgium
Japhet	AFFO	University Lille3 /UAC /GFDD	France
Simonetta	CHIODI	University of Bergamo	Italy
Bernd	BALKENHOL	University of Geneva	Switzerland
Thea	NIELSEN	University of Hohenheim	Germany
Malika	HAMADI	University of Luxembourg	Luxembourg
Javier	SIERRA PIERNA	University of Salamanca	Spain
Verónica	TRUJILLO	University of Salamanca	Spain
Nikos	ZACHARIOU	University of Salford	Luxembourg
Ane	C. H. JENSEN	University of St. Andrews	United Kingdom
Julian	FREDE	University of Trier	Germany
Marius	WAGNER	University of Trier	Germany
Matthias	NÖCKEL	University of Trier	Germany
Sandra	HANNAPPEL	University of Trier	Germany
Sanja	STOJANOVSKA	University of Trier	Germany
Pierluigi	CONZO	University of Turin - Dept. of Economics "Cognetti de Martiis"	Italy
Zohra	BEROS	University Paris Dauphine	Luxembourg
Alex	POLLOCK	UNRWA Microfinance	Palestinian Territories
Stefano	BATTAGGIA	Veniceside	Italy
Koffi	AGBEGNIGAN OBLASSE	WAGES	Togo
Charles	ROWLINSON	WIZZIT	South Africa
Carola	SABA	Women's World Banking	USA
Mary Ellen	ISKENDERIAN	Women's World Banking	USA
Caroline	VAN DULLEMEN	WorldGranny	The Netherlands
Weselina	ANGELOW	WSBI	Belgium

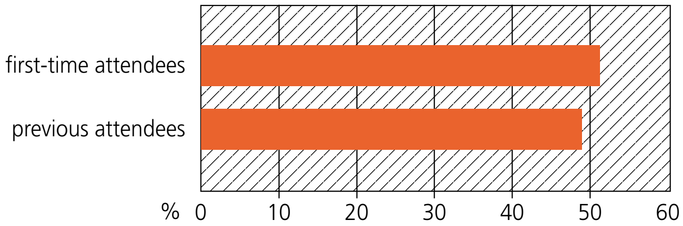
FEEDBACK AND STATISTICS

Following European Microfinance Week 2012, all participants were invited to take part in a satisfaction survey. e-MFP would like to share the feedback received from the 92 respondents.

First-time attendees

51.08 percent of survey respondents were first-time attendees

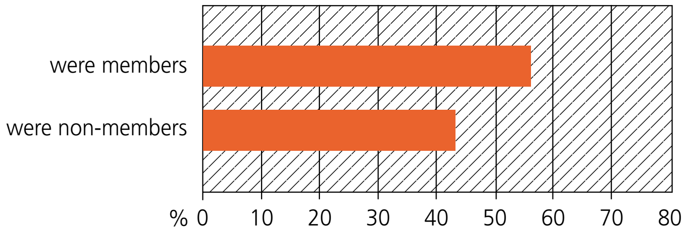
48.91 percent of survey respondents were previous attendees



Members attending

57.60 percent of respondents were members

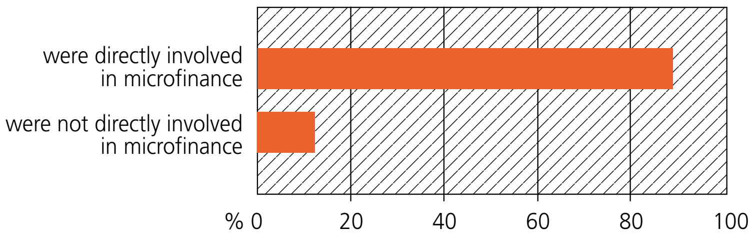
42.39 percent of respondents were non-members



Participants directly involved in microfinance

87 percent were directly involved in microfinance

13 percent were not directly involved in microfinance

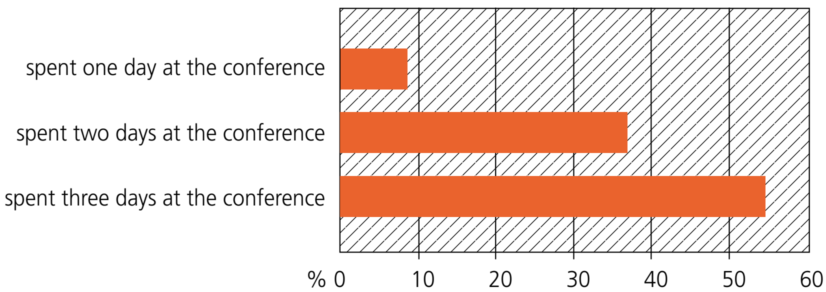


Days spent at the conference

8.70 percent of survey respondents spent one day at the conference

36.95 percent of survey respondents spent two days at the conference

54.34 percent of survey respondents spent three days at the conference



Quality of the conference organisation

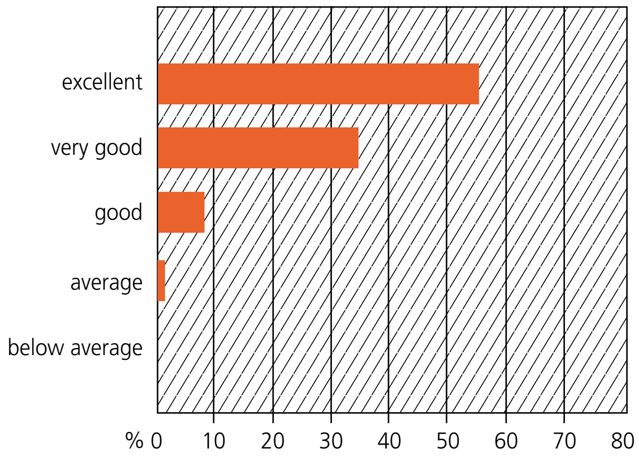
55.43 percent of survey respondents thought the conference organisation was excellent

34.78 percent of survey respondents thought the conference organisation was very good

8.70 percent of survey respondents thought the conference organisation was good

1 percent of survey respondents thought the conference organisation was average

0 percent of survey respondents thought the conference organisation was below average



Satisfaction with registration process

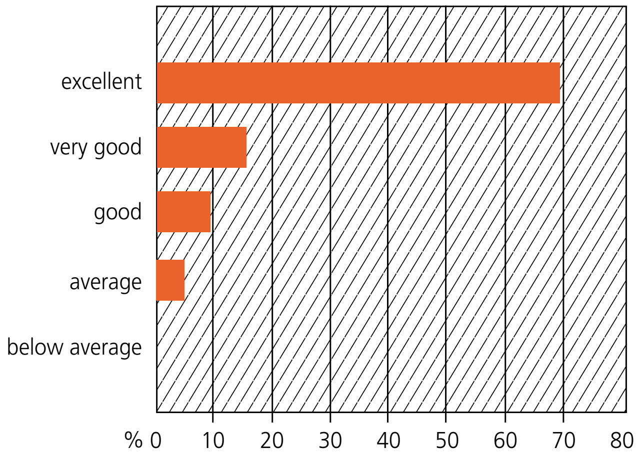
69.56 percent of survey respondents thought the registration process was excellent

15.21 percent of survey respondents thought the registration process was very good

9.78 percent of survey respondents thought the registration process was good

4.35 percent of survey respondents thought the registration process was average

0 percent of survey respondents thought the registration process was below average

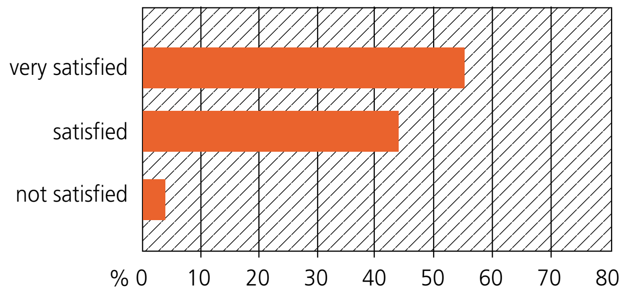


Satisfaction with the conference materials

53.26 percent of survey respondents were very satisfied with the conference materials

43.47 percent of survey respondents were satisfied with the conference materials

3.26 percent of survey respondents were not satisfied with the conference materials

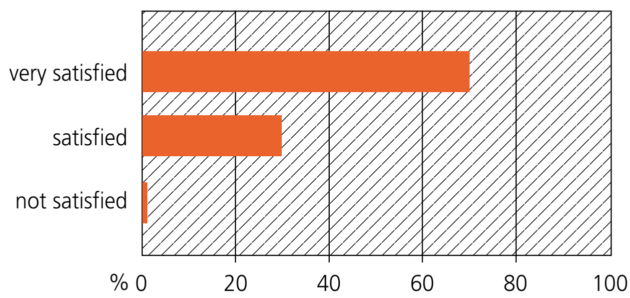


Impression of conference facilities

69.56 percent of survey respondents were very satisfied with the conference facilities

29.34 percent of survey respondents were satisfied with the conference facilities

1.09 percent of survey respondents were not satisfied with the conference facilities



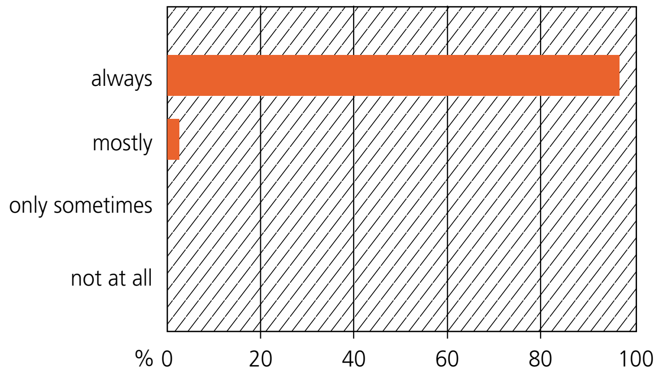
Were the conference staff helpful and courteous?

96.73 percent of survey respondents said the conference staff were ALWAYS helpful and courteous

2.17 percent of survey respondents said the conference staff were MOSTLY helpful and courteous

0 percent of survey respondents were said the conference staff ONLY SOMETIMES were helpful and courteous

0 percent of survey respondents were said the conference staff were NOT AT ALL helpful and courteous



Impression of conference speakers

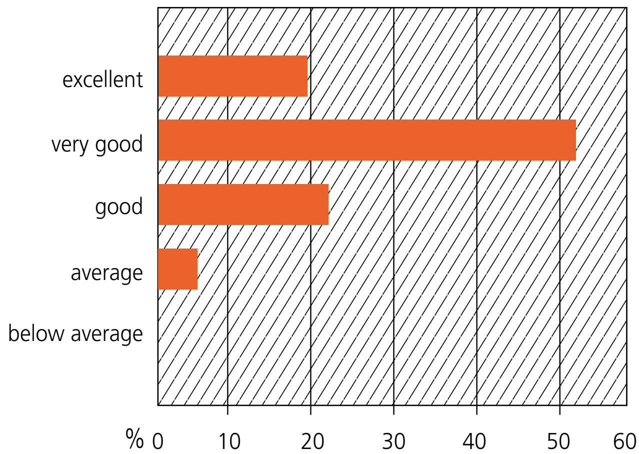
19.56 percent of survey respondents impression of conference speakers was excellent

52.17 percent of survey respondents impression of conference speakers was very good

22.82 percent of survey respondents impression of conference speakers was good

5.43 percent of survey respondents impression of conference speakers was average

0 percent of survey respondents impression of conference speakers was below average



Impression of the moderation of conference sessions

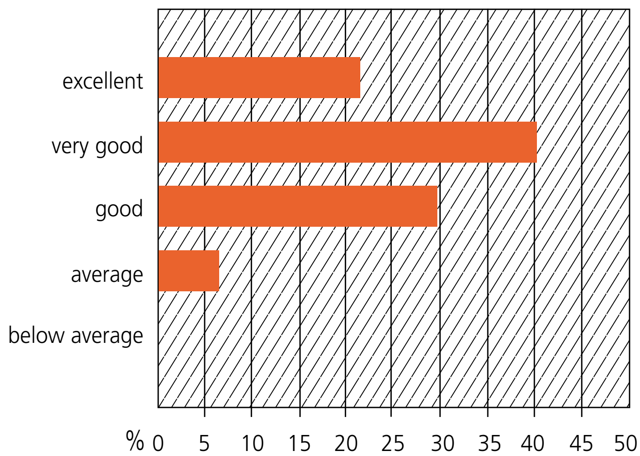
22.82 percent of respondents judged the moderation of the conference sessions as excellent

40.21 percent of respondents judged the moderation of the conference sessions as very good

29.34 percent of respondents judged the moderation of the conference sessions as good

7.61 percent of respondents judged the moderation of the conference sessions as average

0 percent of respondents judged the moderation of the conference sessions as below average

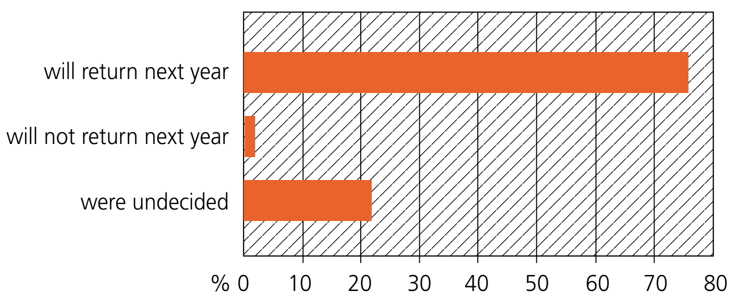


Participation next year

76.08 percent of respondents will return next year

2.17 percent of respondents will not return next year

21.73 percent of respondents were undecided



Below are some comments on what participants appreciated about European Microfinance Week 2012

"The smaller breakout sessions were fascinating"

"Provides the link to the real microfinance"

"The Week has become the number one micro-finance event in Europe, maybe even in the world"

"Opportunity to discuss on what has been done/ can be done together"

"Meeting people from different organisations that we can partner with to deliver better micro-finance solutions to our customers and reach even more people"

"The conference presented a terrific networking opportunity"

"The sessions I attended were excellent"

"I met lots of new interesting people"

"Great way of taking time with stakeholders who are difficult to reach on a daily basis"

"The event is always motivating"

"The friendliness of the Abbaye de Neumünster staff and e-MFP support"

"The speakers were very knowledgeable and experts in their respective fields"

"Great opportunity to meet the leading players in the microfinance sector in one place"

"An excellent conference with a fantastic atmosphere"

"Fantastic organization - congratulations to the e-MFP staff"

(Thank you Martin Kinsella & Associates for sponsoring the survey)

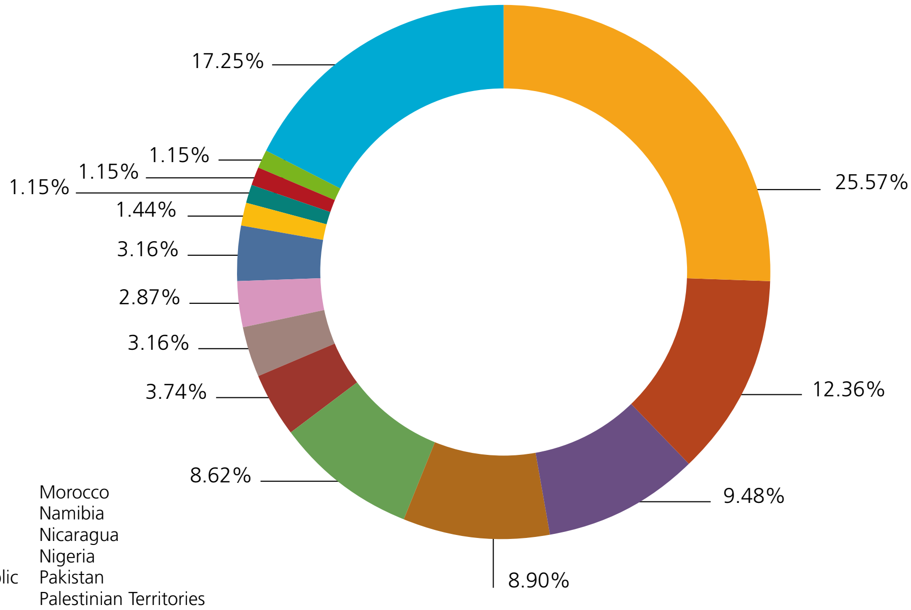
COUNTRIES

Number of registered participants 450

- Luxembourg
- France
- Belgium
- Germany
- The Netherlands
- USA
- Switzerland
- Italy
- United Kingdom
- Kyrgyz Republic
- Bolivia
- India
- Uganda

- Other

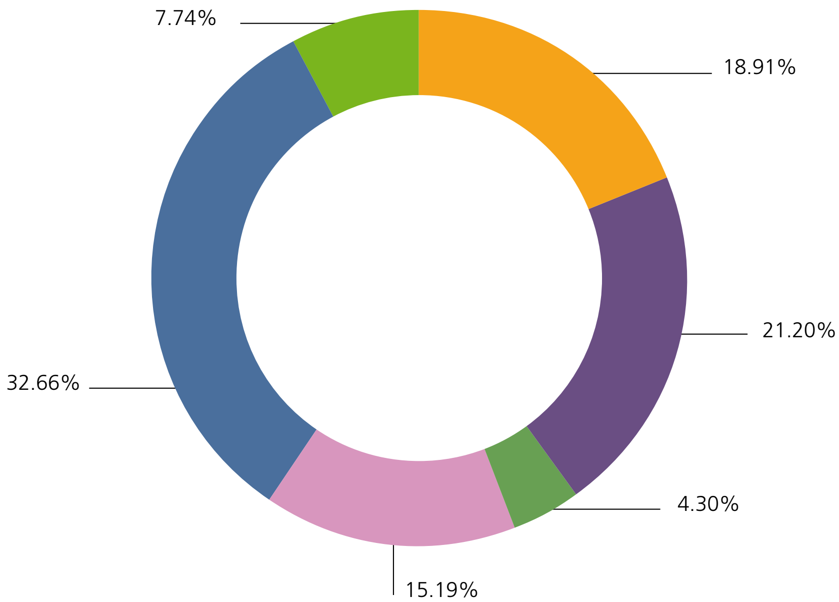
Bosnia & Herzegovina
Philippines
Senegal
Ecuador
Ireland
Liechtenstein
Netherlands
South africa
Spain
Togo
Austria
Cameroon
Canada
Congo RD
Czech Republic
Denmark
Finland
Guatemala
Kenya
Lebanon
Morocco
Namibia
Nicaragua
Nigeria
Pakistan
Palestinian Territories
Peru
Sri Lanka
Sweden
Thailand
Turkey



ORGANISATIONS

Type of organisation

- Bank or financial institution
- Consulting or support services
- Government agency
- NGO
- Other
- Research institution or university



EUROPEAN MICROFINANCE PLATFORM

The European Microfinance Platform [e-MFP] was founded formally in 2006. e-MFP is a growing network of over 140 organisations and individuals active in the area of microfinance. Its principal objective is to promote co-operation amongst European microfinance bodies working in developing countries, by facilitating communication and the exchange of information. It is a multi-stakeholder organisation representative of the European microfinance community. e-MFP members include banks, financial institutions, government agencies, NGOs, 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.

Executive Secretariat

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NEXT EUROPEAN MICROFINANCE WEEK
12 - 14 NOVEMBER 2013

If you are interested in sponsoring this year's event and positioning your organization at the forefront of the microfinance sector, please contact the Secretariat at contact@e-mfp.eu

e-MFP would like to thank Blue Rhino Consult BV for their assistance in preparing this report.

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