EUROPEAN MICROFINANCE WEEK 2008

"FRONTIER ISSUES IN MICROFINANCE - OPPORTUNITIES AND CHALLENGES FOR EUROPEAN ACTORS"

12th-14th November 2008
Luxembourg, "Abbaye de Neumünster"

Conference report

EUROPEAN
MICROFINANCE
PLATFORM

NETWORKING WITH THE SOUTH

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FOREWORD

The European Microfinance Platform [e-MFP] with the generous support of the Luxembourg Ministry of Foreign Affairs – Development Cooperation, hosted its annual European Microfinance Week 12th – 14th November 2008 and attracted more than 250 participants from 37 countries.

The 2nd European Microfinance Award was presented during this year's European Microfinance Week. The focus of the award was '**Social Responsibility in Microfinance**' and the prize was awarded to the Microfinance Institution (MFI) Buusaa Gonofaa represented by its Director, Mr. Teshome Y. Dayesso for the development of an innovative system for determining customer needs and evaluating changes in their social well-being.

European Microfinance Week is the annual opportunity for networking with European microfinance actors working in developing countries. With a quality program, specialist speakers, professional moderators and focused participation, the event promotes good practice and facilitates synergy amongst e-MFP members.

The theme for the 2008 meeting was '**Frontier Issues in Microfinance – opportunities and challenges for European actors**'. The stimulating three day event focused on the current 'hot topics' in microfinance and included issues relevant to each peer group active in the industry.

The enthusiastic and animated discussions of European Microfinance Week reinforced the position of e-MFP as a European platform in which microfinance actors can come together, exchange and share their experience. We are very pleased that our membership has now grown to over 100 organisations and individuals. European Microfinance Week demonstrated the benefits of collaboration between members and increasing efficiency when members communicate and work together in their united goal of alleviating poverty through microfinance.

We are very happy to present in this conference report a summary of the sessions and discussions which took place during European Microfinance Week 2008 and hope it will make a valuable contribution to the dissemination of current key issues in the microfinance sector

e-MFP received very positive feedback from European Microfinance Week 2008, with 97% of participants surveyed saying they will return next year. This confirms the success of e-MFP's annual event and we look forward to meeting you at an equally stimulating European Microfinance Week 2009.

Axel de Ville
Chairman

Christoph Pausch
Executive Secretary

2nd EUROPEAN MICROFINANCE AWARD

STIMULATING
THE SPIRIT OF HOPE

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The imposing new premises of the European Investment Bank [EIB], in Luxembourg, provided the backdrop for the 2nd European Microfinance Award, presented on the 12th November 2008 last. The event was held in the presence of Her Royal Highness The Grand Duchess of Luxembourg with Mr. Louis Michel, European Commissioner for Development and Humanitarian Aid; Mr. Jean-Louis Schiltz, Minister for Development Cooperation and Humanitarian Affairs and Mr. Philippe Maystadt, President of the European Investment Bank.

Established by the Grand Duchy of Luxembourg as an instrument for promoting microfinance to aid poverty alleviation, the European Microfinance Award was first presented in 2006 to the Moroccan Zakoura Foundation, for an innovative programme on rural tourism. This programme was judged most closely aligned to the "Innovation for Rural Outreach" objectives of the first award and represented a breakthrough in broadening rural outreach.

"Socially Responsible Microfinance", a subject identified by members of the European Microfinance Platform [e-MFP] in 2007, as a major issue for the sector, was the theme for the 2008 Award. 45 applications were received from all over the developing world, involving initiatives such as: product diversification; increasing outreach to the excluded; protecting the environment; improving the economic and social impact; social performance management systems, and the linkage of microfinance to other social sectors.

After a welcome by Mr. Philippe Maystadt, President of the European Investment Bank, Her Royal Highness The Grand Duchess spoke and reiterated her commitment to work to make micro loans accessible to the poorest inhabitants of our world. Minister for Development Cooperation and Humanitarian Affairs, Mr. Jean-Louis Schiltz thanked the Grand Duchess for her contribution to recognising microfinance as an aid to alleviating poverty and he made a commitment to continue the process with a 3rd European Microfinance Award in 2010. A short film about the activities of the Zakoura Foundation was shown after which the European Commissioner Louis Michel, spoke and underscored the film's dual message of shared community spirit and humanity.

The 2nd European Microfinance Award of €100,000 was given to the microfinance institution [MFI], Buusaa Gonofaa, represented by its Director, Mr. Teshome Y. Dayesso for the development of an innovative system for determining customer needs and evaluating changes in their social well-being. The judging panel[1] chaired by Ms. Carmen Velasco, founder of the Bolivian microfinance institute Pro Mujer, also presented certificates to the two other finalists; AMK-Angkor Microfinance Kampuchea of Cambodia and RFR- Red Financiera Rural of Ecuador. Mr Dayesso was enthusiastic in his acceptance and he later referred to his award as the "Hope Award".

As confirmed by Minister Schiltz, the next European Microfinance Award will be presented in 2010 during the European Microfinance Platform's annual event, European Microfinance Week.

1 The members of the Jury for the 2nd European Microfinance Award were: Carmen Velasco (Pro Mujer, Bolivia), President of the Jury; Louis Michel (European Commission); Cyrille Arnould (European Investment Bank); Mamadou Toure (UM Pamecas, Senegal); Frank Wagener (Dexia-BIL); Claude Kremer (Luxembourg Investment Funds Association (ALFI)); Kenneth Hay (LuxFLAG)

EUROPEAN MICROFINANCE WEEK 2008

OVERVIEW OF PRESENTATIONS AND DISCUSSIONS

PART 1
e-MFP WORKING GROUP DAY - 12 NOVEMBER 2008

1.1. INNOVATIONS FOR RURAL OUTREACH WORKING GROUP
Value Chain Financing for Producers and SMEs

Moderator	**M. Mensink, Terrafina**
Speakers	**S. Habyalimana, SNV Rwanda** Capacity Building for Value Chain Financing
	B. Wampfler, IRC/CIRAD Guide on Facilitating Linkages between MFIs and Producer Organizations
	M. Mees, SOS Faim Voicing the Financial Needs of Producer Groups
	R. Jessop, GTZ Thailand/Icon Institute GmbH Strategic and Practical Value-chain Financing Project Approach – Thailand Case
	M. Valdés, CIDR CIDR's Experience in Value Chain Financing
	M. Mensink, Terrafina Terrafina and ICCO's Experience with Value-chain Financing

The Innovation for Rural Outreach Working Group decided to focus on value chain financing in 2008 since, many members of the group are establishing working modalities in this area. The session of the group centered on relationships between chain actors, especially producer organizations, and financial service providers.

STRATON HABYALIMANA discussed the lessons learned by SNV in Rwanda by means of two cases in which SNV played a role mainly as a facilitator and advisor. SNV advised the financial institutions involved with product development, coached managers of MFIs in the piloting phase, raised awareness among stakeholders on collateral issues, facilitated negotiations between MFIs and farmer organizations (FOs) and built the capacity of FOs.

The first case concerned the financing of beekeeping equipment. An important consideration in this project was how to ensure that loans are used to purchase this equipment. Therefore an equipment producer joined in a tripartite contract with the FO and the finance provider. The second focused on rice producers and established a relationship between their FO, a local financial institution and a rice processor. Here, rice in storage at a rice processing facility served as a guarantee that farmers repay their loans.

The projects resulted in higher farm-gate prices by bulking production and the establishment of firm relationships between the actors involved. Challenges encountered were related to the balance between visibility and neutrality of the facilitator; the question when critical production quantities are reached (related to loan terms); whether to engage in further added value locally; the duration of and future assumption of support; the organization responsible for monitoring and how to cope with risks.

The main lessons learned by SNV include that need assessments are of paramount importance; that improving FO capacity to negotiate with MFIs is a critical success factor and that there is a need to prevent or mitigate production risks.

B. WAMPFLER explained that access to appropriate financial services remains one of the major constraints for the development of agricultural value chains. Importantly, there is now a consensus that FOs have a key role to play in agricultural development and in facilitating access to financial services. However, their access to credit for internal and members' needs is limited. The major strategies for FOs to obtain credit are internal credit services, creating a sister FO specialized in finance or building partnerships with existing MFIs.

IRC/CIRAD focuses on the capacity of FOs in building partnerships with financial institutions (FIs) through a knowledge building process. An operational guide to enhance capacities of FOs to build partnerships with FIs was developed to enhance their capacities, to analyze financial needs and constraints of the FO and its members, to enhance FOs capacities to choose appropriate, sustainable ways of accessing financial services and providing FOs and FIs appropriate partnership tools.

A forum of NGOs, FOs, MFIs and donors was consulted on this guide. They found such partnerships a highly relevant topic as most practitioners encountered difficulties. The quality of partnership depends on good knowledge of the financial needs and constraints of the FO, a good balance between the FO and the FI and the capacity and will of the FI to adapt its services. The operational guide was fur-

ther tested and amended during a partnership project in Niger. The consultative forum and training will result in the finalization of the guide in 2008.

MARC MEES discussed solutions to problems encountered by Producer Organizations (POs) to finance their own and their members´ activities, through two cases. The first, FOGAL, is a Latin American guarantee fund which brings POs in association with local banks or European social investors by providing guarantees. Through increasing the financing possibilities of POs, these organizations have the financial means to collect and/or sell agricultural products at higher prices.

SOS Faim initiated and operates the fund and created South-South relations between POs and local banks and South-North relationships between POs and social investors. Through the long term relationship with local banks, FOGAL could negotiate favourable interest rates. It also improved the negotiation ability of local POs and was able to combine international guarantees with other guarantees (such as mortgages). Limits to this approach are that it appears easiest for export products, that building confidence between local banks and POs takes years, that it does not answer the capital needs of the PO and that guarantees pose additional costs.

The second case, FAIR, is a fund supporting rural initiatives in Mali. FAIR facilitates cooperation between POs and MFIs to answer to the financial needs of rice producers. In this case the MFI and PO entered into a partnership under which loans are provided directly to producers. SOS Faim worked towards establishing the partnership, financed the project and was a member of the steering committee. While succeeding in offering a good practice for tackling food insecurity, and responding to the needs of both the MFI (diversification) and the PO (financial services), the project showed the importance of paying attention to the balance of power between MFI and PO and to the local credit culture.

R. JESSOP looked at value chain financing from a banker's perspective. The discussed Thai-German Program for Enterprise Competitiveness works with products which are partly chosen based on the number of SMEs/Farmers. The program uses a value chain approach, focusing on five products. The program's SIFA project strengthens the SME Financial Services market by focusing on new product development, strengthening lenders' capacities, and on framework conditions. One of the program's main and interesting focus areas is the attention to innovative collateral possibilities.

An important, often overlooked consideration is whether external finance is actually required. In some cases value chain transactions can be dealt with by value chain actors themselves. Next to this, Jessop discussed several collateral types within value chains. An interesting approach used is value chain group borrowing. In such cases transactional information can serve as collateral. Loans are repaid by a loan of the next actor in the value chain. Another case, focusing on palm oil, took the approach of leasing palm trees to farmers. In this case the bank remained the owner of the productive asset. As the asset can be sold with relative ease as bio fuel repayment is assured, growers have an extra incentive to repay. A third example, focusing on tapioca, limits transactions for the bank to one lending point, an ethanol refinery. The refinery then on-lends to cooperatives which are contracted and on-lend in kind and cash to growers. This greatly reduces the risks and transaction costs for the bank, while the project is also ensured a strong market player by including the refinery.

A. M. VALDÉS maintained that agriculture financing is often considered costly and risky for commercial FIs. They see the investments needed without grasping the opportunities involved. Moreover they consider the poor repayment records of rural development banks without analyzing its causes. By first exploring the opportunities in terms of market potential of a certain crop, defining risk mitigating mechanisms for each client segment, and by developing appropriate products, delivery methodologies and diversification strategies, CIDR strives to improve the impact of agricultural finance programs. It did so through a program in Tanzania. CIDR partnered with a leading MFI to develop a rural finance window that is integrated into the MFI's branch operations.

This window provides two services; a community-based range of loans focusing on farming, small business and irrigation

using solidarity as collateral, and agribusiness loans to finance more entrepreneurial farmers. Value chain finance is focused on a paprika agri firm with access to the EU market and provides technical assistance to farmers. The rural finance window financed farmers through an annually adjusted tripartite contract involving producer groups and the firm.

This pilot proved to be an efficient way to expand financial services in the rural areas and the program was enlarged to cover other value chains across the country. It showed that an analysis involving all actors involved in a value chain is necessary, allowing for the development of appropriate and customized products, adequate delivery mechanisms and adapted risk mitigating measures. Furthermore, in view of the evolving food crisis, increase of agricultural prices constitutes an opportunity for farmers instead of a threat. CIDR is now disseminating this approach in Kenya, Ethiopia, Burkina Faso, Togo, Mali and Cameroon.

M. MENSINK presented research of MicroNed, the microfinance network of the Dutch development finance organizations, into rural finance. She distinguished three donor intervention areas: rural finance through MFIs, community managed financial systems and self-help groups, and financial services in value chains. Focusing on the third, she showed synergies between chain developers and financial service providers. Chain actors need financial services for their businesses, while value chain improvers enforce loan repayments. However, their interests and focus areas are different. Chain developers focus on vertical integration and addressing financial needs throughout the chain, using a business development focus. In contrast, MFIs want to reduce risks.

The research project found three models for financial services in value chains; a first with one organization taking up both the role of chain actor and financial service provider; a second where they are separate but closely connected entities; and a third where the chain actor links up with an independent MFI. While the first offers possibilities for coordination and streamlining, with assured access to finance, it reduces possibilities for specialization and reduces opportunities for scaling up. The second allows risks to be spread over two organizations but requires clear roles and raises questions of sustainability. The thirds allows for specialization and access

to a broader range of financial services but needs strong mediation and support of the MFI.

A clear information gap on value chain interventions remains at donor level. A lesson learned was the importance of synergies between donors' departments for market development and financial services. Success of value chain financing is more likely if MFIs are familiar with the chain and know its timing. Moreover, the focus now lies on cash flow finance, but there is limited access to more complex, flexible finance facilities. What is further needed is the development of assessment and monitoring criteria, coalitions in the north and determining clear exit strategies.

DISCUSSION: the participants discussed typical learning issues for value chain financing after the first three presentations:

1. The importance of networking between VC promoters in financial institutions and also among financial institutions to avoid stand alone solutions.
2. The observation that farmer organizations and financial institutions often need a facilitators role to connect and this could be a role for supporters such as us. Facilitators could also reduce the perceived risks of VC financing by the financial institutions

After the second sessions which presented innovative approaches the following remarks were made:

1. Close consideration also needs to be paid to the actual need for external finance provision within value chains, sometimes financial needs are already met by chain actors internally.
2. Furthermore, the presentations show that linking POs with MFIs requires a long-term commitment. What is important is what happens to projects after donors exit. Are rural outreach programs sustainable?
3. There is a need for new types of financial products e.g. leasing but also flexible finance such as overdrafts.

On the side of financial institutions, European donors and social investors should strive to work with chains between MFI's and banks. Often, individual MFIs lack the institutional and financial capacity to continue financing rural enterprises when operations are increasing in size. Therefore, stand alone solutions can become problematic once the need for credit increases. What seems vital as well is a strong window to the market at the end of the chain and a clear business proposition.

1.2. SOCIAL PERFORMANCE WORKING GROUP
Assessment of Responsible Investment in Microfinance

First session: Involvement of Social investors in Promoting SPM

Moderator	**C. Lapenu, CERISE/e-MFP**
Speakers	**M. Berger, Sidi** SPM: the Role of the Social investors – Case Study in Madagascar
	N. Blondeau, Incofin SPM: the Role of the Social investors
	E. Sers, Planet Rating Social Ratings and the Investors: Why, Who to ask, What for?
	S. Brown, Grameen Foundation Summary of the Discussion with the North American Investors – Nov 4 Meeting in Washington DC

MARC BERGER presented Sidi's SPM work by way of elaborating their collaboration with the MFI SIPIM, based in Madagascar. The aim of SIPIM is to reduce the vulnerability of small and medium sized enterprises. To measure the degree of vulnerability of clients SIPIM uses the SPI2 tool. This tool manages to create a profile of each customer through four different kinds of capital: social capital, human capital, physical capital and financial capital. On the basis of this typology it can be decided which (non) financial services fits the customer. Three aspects are key to decrease vulnerability: savings, heritage and education.

NICOLAS BLONDEAU presented the social development tool from Incofin. 36 indicators are divided into five dimensions: mission/vision, scale & outreach, customer service quality, human resources and environment & support to community. Each dimension can be weighed differently, together they define social performance. This (together with a financial and a social analysis) is a part of investment decision processes. It can also help to monitor progress and write reports to the investor and community. This tool is also discussed in the frontier workshop Social Responsibility in Microfinance Practice.

E. SERS from Planet Rating presented a tool that four rating agencies have developed together. Rating agencies have two objectives: to facilitate the relationship between MFIs and their partners and to increase transparency of the sector.

Investors give assignments to rating agencies to improve the social performance of MFIs. The information chain is as follows: collect institutional data that are available, collect external data, compare these two sets of data, evaluate and rate. MFIs have to be rated on their capacity to implement their own social mission. The process has six phases: definition of objectives, indicators, set target, track targets, analyze results and take action. In this process it is very important to set clear indicators. However, these are difficult for MFIs to develop. Rating agencies can help in this process. Eventually Planet Rating positions the MFI in a diagram, according to the degree of social performance and the degree of what they call 'giraffe rating' (institutional environment). This combination can be helpful in the decision making processes of the investor.

S. BROWN from the Grameen Foundation presented the trends in social performance according to a microfinance conference in the United States that she had just attended. Social performance is rated as very important. There were debates between commercial and social investors.

The commercial investors are of the opinion that you are already social responsible when you invest in microfinance whereas social investors say that more is needed to be socially responsible.

European investors are further advanced on the issue of SPM than their American peers. The USA is not focused on environmental issues. There were also debates on equity versus debt. It is difficult to impose standards when you just provide loans.

DISCUSSION centered on the question: should investors be involved in SPM? Why; all; how? A first point raised was at what operational level social performance was to be measured. Investments are made at the level of funds. Brown replied that this is a key point. There is a social balance sheet designed on the level of funds; Cerise has also developed a tool for this. In the next session this point will also be elaborated.

A distinction should be made between social tools and ratings. Sers and Lapenu explained that a rating gives a grade of social performance, it is an external view. Social tools are there for self-assessment of an MFI, to improve the performance of the MFI and to decide upon its strategy and processes. The issue of the final social impact was raised. In the end it should be all about the customer. Aren't we too focused on the social performance? Response was that impact analyses are certainly made. Impact is also the starting point for the social performance measurement.

A representative from Microfinanza Rating informs that they use a tool that also includes a socio-economic profile of the client, since they think the data of the MFIs are too poor to solely rely on. This profile is not a standard list of questions but tailor-made on the spot. Involving the MFI in the assessments improves its monitoring capacity. More than 80% of funders are social investors; this shows the key role they play in the promotion of social performance.

Second session: How to value the work of the investors in promoting SPM and Responsible investment?

Speakers	**C. Koller, responsAbility** The Principles for Responsible Investing
	J. Glisovic-Mezieres, CGAP MIV Disclosure Guidelines: Towards Assessment of Responsible Investing
	C. Lapenu and A. Ambert, CERISE SPI for the Investors – Criteria for Assessment with a Perspective from the Field
	K. Verhagen, Anthos Bank A Framework for Assessing/Rating the Private Investors

CECILE KOLLER elaborated that responsAbility is currently taking up social responsibility in its methodology. It wants to integrate the social dimension into their reporting frame because investors are asking about social performance. They partner in the UN Principles for Responsible Investments. This is a framework for the SRI world. It is based on the ESG (Environment, Social and Governance) principles and aims to share knowledge. It is not a blueprint which tells you what to do. Although the principles seem to be general and voluntarily chosen, the framework offers credibility and recognition and brings the issue of social investments to a broader investment audience.

J. GLISOVIC-MEZIERES focused on Microfinance Investment Vehicles (MIVs) and especially Socially Responsible Investors (SRIs), explaining that they need proof of social performance of their investments and investees in microfinance. In the next edition of the MIV Disclosure Guidelines there will be basic indicators to measure social performance. The indicators are currently being tested on MFIs by the guidelines working group. In 2011 the guidelines should be based on the ESG (Environment, Social and Governance) framework.

CECILE LAPENU reiterated how five years ago social performance started becoming a trend, since then little by little more tools have become available. In short, we are working more towards a common framework and we are willing to standardize and commit to key indicators; this holds true at the level of MFIs as well as at the level of funders.

ANTOINE AMBERT explained that MIVs have grown rapidly during the last years, generating a need for diversification in order to reach more people. The social trend now has also reached the investment funds. They want to adopt the ESG criteria and unify their criteria.

In evaluating SRIs three components are of importance: whether the funds have a social strategy as starting point, whether they aggregate the data of the different partners, and assessing of the social responsible investments. There are four key dimensions; portfolio target, matching the needs of the MFIs, strengthening of the MFIs and the funds' social responsibility. This framework can be mixed with the ESG framework. Together they can meet the challenges in microfinance. The four dimensions of targeting, adaptation, reinforcement and social responsibilities can be addressed within each area of the ESG framework: environment, social and governance. When we define this framework and indicators are recognised in the whole sector this will increase the transparency of MIVs.

KOENRAAD VERHAGEN explained how Anthos Bank had created a framework for assessing and rating private investors. Investors want their money to be in good hands and MIVs manage their funds. Therefore rating agencies will be very important in the future. The framework is based on four different dimensions: finance, investments, organization and social impact. These dimensions can be weighed differently, adjusted to the wishes of the investor. Mr. Verhagen asked whether this framework could be useful to assess and monitor MIVs. Another question for discussion is how we can make the triple bottom aspect less subjective.

DISCUSSION focused on the question if there is a need to value the work of investors in promoting SPM? There now appears to be consensus in the making that a rapidly growing number of investors have come to play allegiance to the importance of social performance and are introducing various methodologies to measure it.

At the same time there is discussion on the breath and width of social performance measurement. Can performance data be used to coerce investors to penetrate in under-served niche markets; should measurement also include performance of savings and insurance portfolios; should rating agencies themselves not be subject to performance measurement; are sufficient practical measurement tools available already; does social performance include a responsibility to develop local capital markets instead of injecting external capital only; should performance measurement in microfinance be aligned with procedures in the overall financial sector?

As one participant observed, these questions clearly indicate that we are just at the brink of developing and installing social performance indicators at scale. The good thing at this point in time is that investors are increasingly willing to become subjected to external performance verification.

1.3. RESEARCH WORKING GROUP
Frontier Issues in Microfinance Research

Moderator	**M. Hudon, CERMI**
Speakers	**R. Øystein Strøm, Østold University College** Microfinance Mission Drift?
	A. Ashta, Burgundy School of Business Usury Legislation and Microfinance Outreach
	A.Vanroose, CERMI, Solvay Business School, Université Libre de Bruxelles What Macro Factors Make Microfinance Institutions Reach Out?
	A. Armendariz, Harvard University Microfinance in the Midst of a Financial Crisis: Where Do We Stand?
	R. Mersland, University of Agder The MFI's Choice of Loan Methodology, Repayment and Business Model
	S. Morvant, FARM Foundation Lending Groups' Strategies to Make Microfinance More Flexible: Evidence from Mexico and India
	R. B. Swain, Uppsala University Does Microfinance Lead to Asset Creation?
	T. Randøy, University of Agder The Impact of Internationalization on Microfinance Institutions' Performance

ROY MERSLAND explained that group lending (solidarity groups or village banking) strategies are considered the major microfinance innovation, as they serve as a method for improving repayment rates. A major microfinance research area has been the study and modeling of the advantages of group lending. In the meantime, MFIs have partly shifted from group lending to individual lending.

MFIs determine their choice of lending methodology on aspects such as repayment risks, market outreach, the poverty level of customers, the type of market (rural vs. urban market, female customers), and on their own efficiency and sustainability. Based on 290 rating reports, the following conclusions can be drawn on MFI choices of loan methodology. Firstly, group lending is associated with rural markets, female customers and smaller loans (to poorer customers). Secondly, it appears that repayment risk is a poor predictor of loan methodology choice and that lending methodology influences MFI efficiency levels.

R. B. SWAIN'S main research aim is to investigate whether assets have increased for Self-Help Group (SHG) borrowers, which would mean SHGs can serve as a potential exit out of chronic poverty. Next to this Swain also explores short-term impact parameters such as income.[1] The main conclusion is that the type of SHG linkage influences asset creation particularly in relation to the duration of participation. This especially concerns the choice between an institutional mode of credit delivery of SHGs versus an MFI mode of delivery. Important when assessing the impact of SHGs is that impacts are tainted by a selection bias, due to unmeasured attributes and due to the fact that often the decision to participate in SHGs de-

[1] The study is available at: www.nek.uu.se/Pdf/wp2008_5.pdf.

pends on the same attributes that determine the impact variable.

Methodologically it turns out that randomization in selection of participants is difficult to implement in a well-established program as it would upset certain constituencies. Furthermore, holding a control group for long term impact is problematic. Swain adapted Coleman's approach (to compare current members to future members who have not yet received loans) to the SHG framework. By design, members have to wait to receive a loan. This design feature is exploited to identify the self-selected members who have not yet received a loan.

As regards assets, it appears that members are poorer than non-members of SHGs and need about six years of membership to catch up. Education is highly relevant in this relation. The assets distinguished include dwelling, livestock, savings and other borrowings. As regards income, it appears that auxiliary training incorporated in the program increases income. Moreover, it appears that SHG programs are moving away from field cropping to livestock and fisheries.

A. VANROOSE discussed outreach of MFIs and especially the factors that determine outreach of microfinance institutions. This provides insight into the uneven development of microfinance and the macro environments most conducive to developing successful MFIs.

Using existing literature, a comprehensive database and an econometric model, several hypothesis were tested relating to the size GNP, inflation, international aid, literacy, population density and level of industrialization.

It appears that microfinance is reaching more clients in richer developing countries, signifying that a country must have reached a certain level of development before microfinance can take off. Furthermore, microfinance is reaching more clients in countries that receive a higher proportion of international aid showing the important role of NGOs and international donor organizations. Thirdly, microfinance is reaching more clients in densely populated areas, which is clearly related to the cost structure of microfinance institutions. Other regional variables also play a role.

Future research should address econometric issues related to cross-country studies, make a formal link between microfinance and development of financial sector and include other measures of development.

B. ARMENDÁRIZ provided an introduction to the world food crisis currently affecting communities worldwide, but especially the poorest countries and population groups. After discussing the supply and demand considerations behind this crises Armendáriz looked at the consequences prolongation of high price levels would have, both in the developed as developing countries.

In some of the poorest countries up to 80% of incomes is spent on food and food preparation so the situation is expected to be worse there. Long-term remedies should also focus more on these countries. Next to reduced agricultural subsidies in the USA and the EU a great leap forward can still be made in agricultural productivity in developing countries through investments in R&D.

Microfinance could contribute to this solution as well. Next to alleviating acute financial problems with consumer credit to help poor households smooth consumption over time it could focus increasingly on credit for agricultural activities.

MERSLAND, RANDØY and **ØYSTEIN STRØM** presented a collaborative research project on the impact of internationalization on the performance of MFIs. MFIs in developing countries are increasingly exposed to internationalization: a

good part of their capital and subsidies come from international parties, quite a few MFIs are actually driven and operated by international agencies, many MFIs have representatives of international agencies in their board and many are part of an international network, often driven by international agencies. At face value this may appear to contradict with CGAP's overall guideline to accelerate domestic market solutions.

Where as foreign dominated MFIs have certain advantages, such as economics of scale, lower cost of and easier access to international capital and better corporate governance, there are disadvantages as well: lack of local market knowledge, need to transfer technology and systems and costs of transfer of personnel. A major question here is if locally owned MFIs could or should not have access to the same advantages.

Another intriguing question is if internationalization effects MFIs' social and financial performance. A sample of 290 MFIs from 61 countries over four years shows significant tentative findings: internationalization appears to enhance social performance but has no positive effect on financial performance.

A. ASHTA of the Burgundy School of Business discussed the correlation between microcredit and usury on the basis of recent developments in France, questioning if similar patterns might be observed in microfinance as well. In 2003 France removed usury ceilings for loans to enterprises and in 2005 for loans to individuals as well. One would have expected that interest rates for loans to the SME sector would have boomed, but that did not really happen.

First, global interest levels decreased expanding the supply of capital in the market as well as increasing competition among capital providers. Second, other factors appear to keep interest rates in check such as the effects of Basel 2, making bankers more risk-averse, and protection mechanism against over-indebtedness. Third, religious factors also exercise a certain usury check on usury levels, as do behavioral factors: French bankers are fairly risk-averse and would rather not lend than lend to high-risk enterprises, not even at very high interest rates.

S. MORVANT-ROUX of FARM and other actors presented case studies from Mexico and India on group lending strategies and their functionality as regards adaptability to diverse and changing demands. This comparative research project concerned a SHG in India and a Grameen replication type of group in Mexico. Overall, group members show to be highly creative. In both countries it is not uncommon to see that individual members share their own loans with other members by on-lending part of their own loan to them. Another pattern, though significantly stronger in India, is that group members pool their individual loans into a common one until repayment time when the collectivized loan is individualized once more.

This level of flexibility has pros and cons. For clients it allows for more leverage to engage in larger activities but also incurs risk of over-indebtedness and strengthening economic inequalities and power asymmetries within groups. For MFIs flexibility leads to lower drop-out levels but also higher risks of loan default.

1.4. LINKING BANKS AND MFIs WORKING GROUP
Hurdles in a Dynamic Market

Moderator	**H. Kamewe, WSBI-ESBG**
Speakers	**J. Glisovic-Mezieres, CGAP** MIV Survey 2008
	P. Goodman, Symbiotics MIV Benchmark 2008 Survey
	K. Werner, responsAbility Working with the UN Principles for Responsible Investments
	M. Schneider, Deutsche Bank Deutsche Bank and Microfinance: Uniting Social and Financial Returns
	E. de Lutzel, BNP Paribas Microfinance Funds, A Challenge for Europe
	R. Dominicé, Symbiotics Regulatory Frameworks on Foreign Direct Investments in Microfinance

Theme 1: Challenges in the Distribution of Microfinance Investment Vehicles

JASMINA GLISOVIC-MEZIERES and **PATRICK GOODMAN** presented the key findings of two recent and related studies on international capital markets in microfinance, particularly the distribution and destination of investment capital accumulated in the many Microfinance Investment Vehicles (MIVs). The survey covered 91 MIVs and was nearing completion at the time of the presentation. By far the most important finding was the continued increase of capital committed to the MVIs: roughly 40% in 2007. In practice this means that for a rapidly increasing number of MFIs, MIV investments represent their major source of capital intake. Although the growth figures for 2008 are not known yet, an initial indication has it that growth has slowed down to approximately 17% in the second half of the year, likely attributed to the global credit crunch. A zero-growth option is a possibility for the first half of 2009.

Yet, currently USD 5.4 billion has been accumulated in the 91 MIVs surveyed; 52% of total capital is managed by five MIVs only: ProCredit Holding, BlueOrchard, Credit Suisse/responsAbility, Oikocredit and Oppenheim. Reason for concern is that there appears to be a disproportional over-concentration of MIV investments in the LAC and ECA regions (Latin America and the Caribbean and Central and Eastern Europe and Central Asia respectively). A third pattern of concentration emerges from the finding that MIV primarily focus on investing in so-called Tier 1 MFIs: the Top 100 MFIs in the Microfinance Mix listing.

Given the growth of capital placements in MIVs, investors in MIVs increasingly push for further professionalization of fund managers. In addition they demand for more transparency in financial performance whereas a trend has been set in motion to ask for social performance reporting as well.

Theme 2: Regulatory Frameworks on Foreign Direct Investments in Microfinance

The other panelists provided most interesting overviews of the way their respective MIVs were motivated, structured and challenged. **KEVIN WERNER** of responsAbility explained how 30 staff members were handling the USD 650 million under management in five funds, all incorporated in Luxembourg. From their experience it could be learned that there is an increased demand for augmenting capital provision with educational services and that there is an ongoing effort to design the most appropriate product, both at wholesale and retail level. **MICHAEL SCHNEIDER** of Deutsche Bank and **EMMANUEL de LUTZEL** of Paribas subscribed to the same challenges. Apart from more commonly experienced marketing and asset challenges, European MIVs face certain regulatory obstacles in at least three major domestic home markets: France, Germany and Switzerland.

ROLAND DOMINICÉ of Symbiotics explained these regulatory challenges in greater detail and also made clear why so many of the MIVs that are operational in

these home markets were legally incorporated in Luxembourg, which also accounts for the prominent position of Luxembourg as a major hub for capital provision in the microfinance industry. At the same time the favorable domicile status of the country poses challenges in its own right. Increasingly, South American regulators consider Luxembourg as a tax heaven with the implication that MFIs in the region borrowing from MIVs formally established in Luxembourg are being charged stiff withholding taxes on top of the interest they have to pay over borrowed capital.

This calls for the creation of a so-called European Investor Passport; a uniform regulatory framework for all European MIVs, perhaps as first step towards a global passport. At the level of the European Union meanwhile a working group actively discusses the regulatory issues.

PART 2
FRONTIER DAY - 13 NOVEMBER 2008

2.1. OPENING THE FRONTIER WITH TECHNOLOGY

Moderator	**E. Duflos, CGAP** **Opening remark J-L. Schiltz, Minister for Development Cooperation and Humanitarian Affairs**
Speakers	**R. Caplehorn, PayPal Europe** **B. Hap, Technologies sans Frontières** **S. Juergens, Millicom International Cellular s.a.** **A. Bajaj, DFID**

Through his opening remark, **J-L. SCHILTZ**, Minister for Development Cooperation and Humanitarian Affairs, stressed the important potential offered by linking technologies and microfinance. Based on the example of Luxembourg where there has been a combining of the microfinance sector and the investment fund industry, he encouraged e-MFP members to strengthen the role of technology companies in microfinance. Mr. Schiltz also referred to the importance of public-private partnerships which could impact positively on poverty reduction.

R. CAPLEHORN remarked that online solutions for microfinance are in swift development. For example, eBay enables individuals in any country to sell products to a global buyer base. PayPal is a payment method between counterparties worldwide and often used for low-cost transfers to small businesses and individuals. While e-Bay allows small businesses in developing countries to reach a larger audience, and can be specifically tailored to developing countries, its concepts can also be extended to microfinance itself. An example is Microplace.com, a microfinance lending service which matches individual lender/investors with microfinance institutions who can select projects to invest in and earn a portion of the return paid by the microfinance borrowers. Another is Kiva.org, the world's first person-to-person micro-lending website. PayPal is the main payment method. It does not charge its normal fees. A third is Worldofgood.com, an eBay company. It is a marketplace dedicated to artisanal products and global producers who meet a core set of ethical and environmental standards. Many of the products sold come from entrepreneurs and manufacturers in developing countries operating under fair trade conditions.

S. JUERGENS explained that Millicom International is active in the world of remittances, mobile to mobile, online (or through outlets) to mobile and through debit card systems for small payments. It does so nationally and internationally. It plays a large role in this sector through its Tigo Cash programme. For microfinance institutions chipping into this system it could mean less administration costs, instant loan receipts and the avoidance of transport risks. For microfinance customers it means avoiding costs and risks associated with picking up money, easy access to financial status and avoidance of risks and costs of paying back loans.

Through a pilot in Paraguay, Millicom discovered that the key success factors for such payment systems within microfinance are mostly in the field of good cooperation with local banks as well as regulators. The same holds true for clear agreements with distribution channels for commission schemes. Furthermore, education and training of agents and internal support is required.

A. BAJAJ of DFID maintained that regulation plays an important role in the development of branchless banking as it determines whether it is legally permitted and which models of service delivery are feasible. There exists a risk of coordination failure in this respect due to the often autonomous operations of the policy making and regulatory authority. A clear conducive regulatory environment is necessary for the development of transformational branchless banking. For example, risk-based approaches for combating money-laundering and terrorist financing or authorization to use retail agents as customer interface need to be adapted to realities of remote transactions.

A distinction in branchless banking can be made between bank-based and non-bank-based systems. In the latter, mobile network operators could for example be the financial service provider. Existing regulation is not drafted with convergence of banking, payments and telecommunications in mind. However, it has been shown that the pace of change can be rapid. In contrast, proportionate regulation balances these aspects in costs and risks, although policy goals are not always well aligned. Next generation topics to think about are beyond preconditions, towards regulation to mitigate risk of catastrophic failure and issues that will affect scaling-up and sustainability of branchless banking.

Some issues that Bajaj discussed are the need for appropriate regulatory space for the issuing of e-money and other stored-value instruments, the need for effective consumer protection, the need for inclusive payment system regulation and oversight as the system scales up and lastly the need for rules governing competition among providers. DFID is working on these issues through its own programs and pilots as well as in global forums.

2.2. SOCIAL RESPONSIBILITY IN MICROFINANCE PRACTICE

Moderator	**R. Janssen, Micro-Ned**
Speakers	**L. de Cannière, Incofin** The Role of Private Investors on Social Responsibility and Social Performance; The Case of Incofin
	M. Adler, KfW Dimensions of Responsible Finance in Microfinance Practice
	Minh Huy Lai, Planet Finance Social Responsibility – The MFI Inside Perspective
	A. Koning, EU/ACP MF Programe/CGAP Responsible Finance – the 'What', 'Why' and the 'How'

A. KONING suggested that according to CGAP, responsible finance encompasses practices ranging from consumer protection (do no harm), to endorsement of CSR and ethical practices, to social performance (do good). Responsible finance is practiced or strived for because of a sense of righteousness, because it is 'smart', considering possible backlashes and outside regulation against the option of self-regulation, and to restore confidence and stability in the financial sector.

Client protection is needed to prevent consumer abuse/deception, to encourage trust/confidence in the whole financial system and to promote competition, efficiency and improvements in products and service quality. It is based on six principles; ability to repay and appropriateness of products, transparency, appropriate collections, staff ethics, access to recourses and data privacy and security. Although this shows a strong link to SPM indicators, SPM is more encompassing.

Global initiatives towards client protection in microfinance are the Pocantico Declaration of Microfinance Leaders, the Global Campaign for Client Protection, the CGAP initiative for investors & donors' endorsement of CPPs and Social Performance Indicators (SPTF). For the translation of customer protection principles into practice in microfinance important questions remaining are how to balance regulation by the state and industry self-regulation and the role of consumer awareness and education.

L. de CANNIERE shared that in Incofin's experience just investing in microfinance is not sufficient to be a socially responsible investor. Such investors need to integrate social responsibility into their CSR policy to respond to their own investors' expectations. Incofin incorporates social responsibility by including MFI social performance measurement into its due diligence process, by including principles of responsible finance in its investment agreements and by reporting social returns to its investors. Although inspired by tools developed by Cerise and Accion Social, it deviates from these by using a tailor-made approach for an investment company and by integrating it in its due diligence processes, while balancing a pragmatic with a comprehensive and holistic approach.

Incofin's SP tool approaches social performance through five dimensions: mission and vision, customer services and responsible finance, outreach and scale, human resources, and environmental risks and support to communities. Based on weighted indicators, this scoring system is used in decision making processes. Below certain levels MFIs can be refused, above these levels MFIs are urged towards improvement through such scoring systems. In conclusion, social performance should be included in the investment assessment process of social investors, including a commitment to report on social performance of investment portfolios.

M. ADLER remarked that there exists growing attention for ethical standards in microfinance, due to examples of irresponsible finance, an increasing understanding of risks, an increasing demand for ethical standards from ethical investors and the financial crisis. Mr. Adler focused on the subject of responsible finance from a development finance perspective. Responsible finance had different dimensions of relevance to players such as KfW. Next to support at the regulatory, retail and consumer level, donors also need to commit themselves. KfW's work is guided by the principle that "promoting responsi-

ble finance cannot be separated from commitment to build inclusive financial systems". As such, KfW is also engaged in raising awareness on a local and international level.

It is important to support responsible finance practices through an active dialogue with partner institutions. MFIs should not be outrightly excluded if they fail to meet standards but should be assisted through long term involvement, if needed focusing on full transformation processes. Mainstreaming responsible finance in development finance can be done by integrating responsible finance standards in due diligences, including ethical standards at board meetings of MFIs, staying clear of pure consumer finance and integrating MFIs' social competency and ethical orientation in selection processes.

The question of consumer lending is an especially important issue; how to balance the actual demand that exists with dangers of over-indebtedness? The development of clear indicators of irresponsible finance, sound credit selection processes, a focus on building assets and a reasonable product mix are preliminary points of attention.

MINH HUY LAI made the point that as a rating company, Planet Finance is able to provide a MFI perspective on social responsibility. In Europe we often consider social responsibility from a donor perspective, while for MFIs, the definition is often not fully clear.

Social performance issues originate at different levels. At a regulatory level there exists limited regulation and awareness and weak enforcement. Moreover, shareholders often do not give social responsibility much priority. As such it is given little attention in agreements, statutes and boards meetings. At an operational level, incorporation of social responsibility aspects is often vague or nonexistent in business or management plans, and is not integrated in employment contracts, personal objectives and remuneration schemes. The same holds for processes such as reporting, where social responsibility is often insufficiently defined and in financing, where social responsibility is not a pre-condition of financing. Nor is it a criterion in most rating schemes, expect for some new social rating schemes.

With multiple causes, solutions should also be covering different levels. At a regulatory level awareness is most important, next to the introduction of customer protection. Shareholders need to incorporate social performance in shareholders' agreements. Awareness-raising is also important for boards and management of MFIs. Furthermore, at the operational level social performance needs to be incorporated in business plans and human resource policies. With more standardized processes, including social performance measurement, improvements can also be made. This includes integrating social ratings in rating processes and incorporating social performance in reporting and management information systems.

DISCUSSION: the principal point of discussion was how to go beyond declarations of social performance and social responsibility. Actual implementation of these principles is often lacking or not shared throughout organizations and reflected at the management level, in operations and practices and in internal processes. Also important is who should be shouldering the costs of social responsibility.

There was a call for more focus on social rating and moving to an inclusive rating process. As many donors and MFIs do not have the resources and/or the experience to create these by themselves, there is a need for such products from rating agencies. A further thought for consideration was the client's view of social responsibility in microfinance practice. Is client satisfaction included by investors and MFIs? Are auxiliary services offered by MFIs (for example NGOs also offering health services) included in such measurements?

2.3. REACHING THE VULNERABLE, PART 1

Moderator	**H.D. Seibel, KGFE/e-MFP**
Speakers	**C. S. Reddy, APMAS** Self Help Groups (SHGs) in India: Reaching the Vulnerable with Microfinancial Services
	K. Nurcahya, ProFI Lembage Perkreditan Desa in Bali - a Sustainable System of Village Credit Institutions
	A. Riès and G. Chauvière le Drian, AFD Microfinance Interventions in Fragile States? Good Practices and Difficulties. Experience of the Agence Française de Développement

C.S. REDDY took the audience through the bewildering growth of the Indian SHG Bank Linkage Program. Currently, the Self-Help Group system has 50 million members whereas the target for the coming years is 150 million. That would mean that most of the 750 million Indians (150 million families) that until recently had no access to microfinance would have been reached.

Whereas SHGs can be found in most developing countries, the Indian Bank Linkage Program is different in that it pro-actively aims to link mature SHGs to banks in order to leverage their own savings capital with wholesale loans. In order to facilitate this process three actors play a critical role. Firstly, SHGs cluster and federate in order to increase their collective bargaining capacity. Secondly the Indian Government designed its policies in such a way as to be conducive to banks extending wholesale loans, which in the meantime has resulted in broad bank interest to do so as their SHG portfolios are usually their best performing ones. Thirdly, NGOs help SHGs being formed, trained and linked.

When SHG are up and running, they usually build social capacity to address non-financial development issues in their localities, such as health and education. Increasingly local government is receptive to work with SHGs or their clusters. At the same time the SHGs accumulate capital. Bank loans are lowly priced whereas member loans at group level are rather expensive. The differential is used to provision for bad debt on the part of members as well as to build a corpus fund. This can be used for either financing social activities or hiring the services of NGOs for business development activities such as marketing support.

Today there are 5 million SHGs in the country, coming together in 200,000 federations; 3.5 million SHGs are linked to the formal financial sector. Together they have accumulated savings in bank accounts to the tune of USD 1 billion whereas the banking sector has USD 3 billion outstanding with the SHGs.

Despite its success, the system is not without challenges: a more concerted effort is required to reach the rural poor in the Northern and North-Eastern part of the country, debate is ongoing as to the most appropriate way to regulate and supervise the program, various initiatives have been set in motion to rate and grade performance, and research is being conducted to maximize and measure social impact.

PAK KETUT NURCAHYA captured the audience by explaining the workings of another unique grassroots initiative in microfinance: the Lembaga Perkreditan Desa (LPD, Village Credit Institution). The LPD emerged in the Indonesian island of Bali and is unique in that it is integrated in the traditional village institution of *Desa Adat*. These are self-governed and self-managed village institutions that traditionally play a dominant role, based on customary law, in village management, ranging from maintenance of the village temple and the village infrastructure to social mediation and conflict resolution. The Governor of Bali in 1986 issued a regulation to entrust these institutions with asset management licenses to compensate for the fact that most villages were not served by banks or other financial institutions. Since then every Desa Adat could establish its own LPD, which has to be managed by a committee elected from villagers. It is governed by its members, and is supervised by the Regional Development Bank of Bali, a local government-owned bank.

LPDs were not only established to provide financial service to community members; they also played a critical role in abolishing the practice of farmers being forced to sell their produce before harvest time *('ijon')*, as well as other socially undesirable practices such as black market pawning. Overall LPDs have a strong focus on protecting and stimulating the village economy. Positive returns from LPD operations are destined as follows: 60% is retained, 20% goes to the village development fund, 10% is reserved for production fees, 5% for supervision and support and the remaining 5% for a social fund.

The main advantages of the system are direct and easy access to finance for the villagers, the individualized service approach, rapid service delivery, low transactions costs and the benefits rendered to the community at large. Challenges are mainly in the areas of weak external controls, lack of feasibility examination when

starting a new LPD and geographical limitations preventing scale of operations and staff development at the level of individual LPDs.

ALAIN RIÈS of AFD presented his organization's approach as regards building microfinance opportunities in fragile states. The basic point of departure is a strong emphasis on crisis prevention and management and a rather quick and concerted effort in post-conflict situations to help victims rebuild their lives and livelihoods.

Since 1988, AFD has committed more than EUR 300 million to 130 microfinance projects to MFIs and start-ups in 25 countries, which are predominantly characterized as fragile or post-conflict. The strategy aims to help MFIs become autonomous and sustainable as soon as possible, to provide technical assistance to that end, and to work with monetary authorities to design favourable regulatory frameworks. From start-up to consolidation phase, support usually moves from start-up subsidies and capacity building via soft loans in euro to guarantees for borrowing in domestic capital markets or issuing local currency bonds. In countries where various MFIs are supported, AFD also plays a stimulating role in forming national networks, such as in Cambodia, Cameroon, Congo, Comoros, Haiti, Mozambique and Togo.

To deal with the vulnerable environments, the AFD approach places great emphasis on building reliable, trustworthy and politically independent organizations. This translates in strong governance, limiting operations to areas of financial competency and strong dependence on procedures and systems. In addition, financial operations are strongly savings-driven and have a keen eye to include the more vulnerable segments of the population.

In general, operating in fragile and post-conflict states drives up operational costs; this is more so the case when efforts are undertaken to reach displaced persons and refugees. AFD and its partners have been struggling with that and have recently embarked on a pilot program in Chad. A related issue is to convert from a war economy, which is extremely profitable for a limited number of people, to a more regular economy.

Overall, the AFD lesson is that microfinance in fragile states can work reasonably well, but does require substantial donor input to start-off and consolidate. Given that private sector investors will usually shy away from such high-risk environments, donors perhaps ought to consider doing more.

DISCUSSION: contrary to popular belief perhaps, it is not impossible to start microfinance operations in extremely difficult environments but it requires high levels of dedication, low cost inputs for a considerable time and an overall long-term support and investment horizon.

As regards the Indian and Indonesian experiences, it is remarkable to see how fairly indigenous and home-grown service systems manage to reach the rural poor whereas modern microfinance institutions often face considerable obstacles in doing so. This might call for a re-appreciation of some popular growth strategies in the industry at large.

2.4. FRONTIER ISSUES IN MICROFINANCE FUNDING

Moderator	**F. Bakx, Rabobank Foundation**
Speakers	**E. Karrer and Y. Lüscher, Credit Suisse** Regulation (Basel 2) and Microfinance Funding
	P. van Hedel, Rabobank Funding for Microfinance Housing - The Case of Rabobank
	A. Kravchenko, Finca Navigating in a Jungle of MIVs - The Perspective of an MFI

E. KARRER and **Y. LÜSCHER** from Credit Suisse explained how the Basel 2 regulatory framework can impact the microfinance industry. Basel 2 is based on three pillars: market discipline (public disclosure, transparency); supervisory review process (analysing capital position in relation to risks); and minimal capital requirements. The presenters suggest that MFIs that can implement these rules would have more access to funding, because of their transparency level. However, for unregulated MFIs the implementation will be difficult, since they have higher capital requirements and operational costs. To become regulated, MFIs would have to increase their equity capital, get rated by rating agencies and become a deposit taking institute. The Basel 2 regulation is not compulsory for MFIs in emerging markets.

PIERRE VAN HEDEL addressed the issue of financing low-cost housing, which is a lowly developed microfinance product. Only 20% of housing market is formally financed because credit provision is considered a higher risk proposition. Also, interest rates in domestic market are unaffordable and mortgages require long-term commitments which are difficult to pursue in unstable countries. At the same time it is important to provide low cost housing, because this stimulates safety, improves the quality of life, is a personal investment, businesses can be started and through this the local economy is stimulated. Economic development stimulates banking activity and mortgage procurement. It creates an upward development spiral. The Rabobank Foundation can pass on their expertise to local governments, banks and corporations, lend money to local cooperatives, stimulate economic development and specific products and services can be sponsored by local Rabobank branch offices in the Netherlands.

A. KRAVCHENKO gave a presentation on the funding options for a MFI. FINCA is one of the largest microfinance networks in the world and is the sole owner and operator of 22 MFIs, which have an asset base of USD 451 million and a loan portfolio of 319 million. Its MFIs are initially funded through grants and donations, then attract equity and debt finance and, after being licensed, move into savings intake. However external finance remains important, which may explain the tremendous growth of MIVs and FINCA's ability to tap into that market.

It is difficult to raise money on a large scale: nowadays there are more risks, there is more competition for funds than ever, and there is market uncertainty because of the credit crunch. The solution is to have sound liquidity, capital and risk management planning. It is important to diversify the portfolio and pursue innovative capital structures. In the future FINCA will focus on raising equity, establishing a holding company structure, pulling funding vehicles, broadening the pool of investors, deepening the relationship with IFIs and educating about microfinance.

DISCUSSION this focused mostly on the consequences of Basel 2 for MFIs. FINCA explained that 50% of its MFIs are now regulated and that it makes an effort to align with the transparency pillar of Basel 2, if only because that is in line with FINCA's own vision. Compliance with the other pillars is something to pursue as a long term perspective. On the one hand it is not required in the countries of operation; on the other it surely strengthens capital raising efforts.

A problematic area is that full endorsement with Basel 2 may have a negative effect on MFIs abilities to provide small loans. If Basel and potential investors would insist on going for larger collateralized loans for reasons of risk management, it may push poorer clients out of the market and, consequently, push genuine MFIs out of the formal financial sector as well. Moreover, larger loan sizes may mitigate some risks but create new ones such as over-indebtedness. That is why the panelists agreed that a careful approach is called for: taking one Basel pillar at the time and balancing various interests.

2.5. THE CREDIT CRUNCH INFLUENCE ON MICROFINANCE

Moderator	**K. Hay, Luxflag**
Speakers	**J.-P. Klumpp, Blue Orchard** Financial Crisis - Credit Crunch; Impact on Microfinance
	E. Schröder, Invest in Visions The Impact of the Credit Crunch on the Global Microfinance Sector
	R. Dominicé, Symbiotics Regulatory Challenges for Microfinance Investors

J.-P. KLUMPP suggested the following possible impacts. Firstly, the overall environment will become more difficult: MFIs may expect an increase in the costs of funds and lack of access to funds in order to finance further growth. Secondly, they may face liquidity problems: in affected countries savers and depositors may withdraw their money, short term credit facilities with local banks may be cancelled or shortened, maturing debt might not be renewed and foreign debt in hard currencies represent a risk if the local currency devaluates. To mitigate these risks, MFIs are advised to diversify their funding base, to keep their open currency positions to a minimum and hope that IFIs develop short term support packages if required.

Investors so far see little sign of their investments going sour on the ground but surely become more anxious about their exposure, if only because their own capital intake strategies become jeopardized. Most, however, will stay put and remain committed although they will monitor their investments and investees more intensively. Some already work on diminishing the hard currency exposure of their MFI clients through new hedging and other instruments. Some are in dialogue with the larger multilateral investors to think about private-public cooperation schemes. Overall, there is growing interest among investors in what MFIs actually do on the ground; not only to understand better their own risk exposure but also to get more tangible evidence on social impact realized.

Microfinance clients to a certain extent appear to be immune to direct negative impacts because of the autarchic character of their enterprises and limited exposure to inflation. They may face difficulties though in renewing their loans or in accessing larger loans. They may also face problems due to diminished remittances and increased food prices.

All parties may take some relief in knowing that the international investor community most likely will not tolerate that the credit crunch will crush that which just has emerged: the global microfinance industry.

EDDA SCHRÖDER made an interesting point by identifying investor motives in microfinance and linking these motives to the likelihood of responses to the credit crunch. In fact these motives can be placed on a scale with financial performance and financial performance at its extreme ends. Effectively this translates in financial versus social return expectations and the position on that return scale defines satisfaction and commitment standards.

Another key issue is that some investors are at liberty or are forced, to compare investments in microfinance with investment in other sectors. Microfinance performance thus becomes relative to performance of other asset classes and has to compete with those to maintain investor interests. Other investors, particularly dedicated investment funds, by mandate are obliged to invest in microfinance only and MFIs thus have to compete with one-another to generate and maintain investor interest. That competition is driven by the individual investor's particular mix of financial and social return expectations. In that sense the potential impact of the credit crunch is strongly related to the precise blend of motives on the investor side.

ROLAND DOMINICÉ looked at the overall investor landscape with a particular focus on the foreign direct investment regulatory frameworks in microfinance countries, as discussed under section 1.4 of this conference report.

2.6. FOOD CRISIS AND ITS IMPACT ON MICROFINANCE

Moderator	**B. Armendariz, Harvard University**
Speakers	**J.-H. Fraslin, FERT/ICAR** Financing Family Farming: a Tool to Reduce the Impact of Food Crisis; Examples from Madagascar
	S. Gishyan, ACBA Bank- Credit Agricole Unique Experience of Universal Bank ACBA - Credit Agricole in Microfinance
	E. Duflos, CGAP Impact and Implications of the Food Crisis on Microfinance
	B. Wampfler, CERISE/Suprago Crises Alimentaire: 'Quels Enjeux pour la Microfinance?'

J.-H. FRASLIN presented a case study on rice in Madagascar and how microfinance (the financing of family farming) can reduce the impact of the food crises. Rice is a very important product for the population. The last 25 years there has been a lack of availability of rice. In the past, rice was exported, now it has to be imported. However, the effect of the rice prices has been limited. The factors contributing to this were the fact that domestic production was in constant growth, the good climate, the harvest of 2007 was good, there was stock available, reinforced change due to the mining industry, the government cleared the VAT on imported rice, improved infrastructure which eased transportation of goods, and improvement of the financing of agriculture and storage, mostly due to microfinance.

However rural areas are poorly covered by MFIs. Financing of farm production is insufficient but improving. Banks mainly finance agricultural trade, which only marginally benefits farming families but at the same time appears to have some indirect positive effect. Microfinance has a deeper impact: about 80.000 farming households benefit from agricultural production loans (APLs). A way to stabilize local markets is to finance storage through the village common granary. Producers bring part of their produce into a commonly owned granary building which entitles them to access loans. The granary packages their rice in standardized bags of 50 kg and the farmers receive a loan of 75% of the value of the packaged rice. At present 65.000 tons are stored. The system stimulates local price regulations and generates additional revenues for producers. However, on a global scale it is clear that there is insufficient outreach of microfinance in rural areas. Too much attention is given to urban MFIs. MFIs in rural areas need to double their outreach and credit volumes.

S. GISHYAN elaborated the case of ACBA bank, a good example of agricultural finance. ACBA was the first cooperative bank in the former USSR and formed in response to the unwillingness or incapacity of commercial banks to lend to farmers. The bank is structured in three levels: Mutual Village Associations, Agricultural Regional Unions and the bank level. The portfolio of the bank has grown substantially and now consists of agricultural loans (32%), non-agriculture SME loans (33%), consumer loans (30%) and mortgage loans (5%). ACBA has developed international partnerships with various players, some of which provided technical assistance whereas Credit Agricole has become a shareholder in the bank.

The bank currently has a leading market position with 31 branch offices, 11% of overall market capitalization, 74% of the agricultural market and 16% of overall volume of profit. Key success factors were the successful cooperation with international financial organizations; the rich experience of the bank in microfinance, particularly as regards agri-finance; the rapidly expanding branch network and ATM network; competence of board, management and staff; and strong risk management instruments.

ERIC DUFLOS reminded the audience that the food crisis is still out there and should not be over-shadowed by the credit crunch. CGAP has conducted research among 45 leading MFIs: all said that their clients have experienced price increases, although in different intensities. In fact, many face a double burden since food and fuel prices have both increased. MFIs managers are afraid the worst has

yet to come because seeds and fertilizers could not be bought. Portfolio-at-risk levels have increased and more than 70% of the MFIs are said to face increased operational costs as it has become harder to collect savings. They also experience liquidity problems, which may come to jeopardize growth strategies.

To deal with the problems related to the food crises the microfinance sector at last should stimulate agriculture production; adjust loan methodologies (have more flexible loan policies, think of case-to-case solutions, increase the loan size); expand access to finance and not take up relief activities which would blur the role of MFIs. Therefore MFIs should focus on their core business and take time for their clients; only support relief efforts that are appropriate for MFIs and develop better risk management systems (diversify, deal with liquidity issues, tie loans to inflation, and put more emphasis on savings). Governments can work on macro-economic stability, strengthen social safety nets, promote agricultural production and play the role of wholesaler. Donors and investors can prepare MFIs for the consequences of the food crisis by, stimulating better risk management, providing long term funding and adjusting to the needs of farmers.

BETTY WAMPFLER relayed the challenges that the rise in food prices bring for the microfinance sector. The cause of the food crises is complex but it is clear, however, that vulnerable people are hit hardest. The question is whether it is a risk or an opportunity for the microfinance sector. It can be a risk in that it can cause failure of loan repayment, withdrawal of savings etc. On the other hand it can reduce vulnerability (if more focus is put on the agricultural sector) and create new economic activities. To deal with these challenges, CERISE is building knowledge out of different sources such as a main study conducted in Mali showing that MFIs only have limited capacity to make an accurate analysis of the situation. Three types of impact could be noticed on the ground. First, low negative impact in rural areas where MFI clients are not over-dependent on food imports; second, high negative impact in urban settings where clients indeed are dependent on food imports; and third, in intermediate settings where MFIs often have to deal with other overarching issues, such as war and drought.

The microfinance sector can decrease vulnerability by providing access to storage and increasing access to credit (emergency loans, longer term investment capital). Above all, a more robust focus on developing economic opportunities in the agricultural sector is urgently required. For example, developing domestic dairy chains and products can counter price increases of imported products. The major obstacle to be addressed is that agri-finance is still regarded a high-risk investment proposition for MFIs and their investors and not without reason. Therefore, MFIs alone will not be able to develop rural areas; there is a need for building broad partnerships with other players, such as pioneered by BASIX in India through its livelihood finance approach which combines a broad range of financial services, agricultural support services and institutional support.

DISCUSSION: this focussed on the paradox of MFIs seeing the need to invest more in agriculture and their institutional obstacles to do so at scale. Participants appreciate this paradox but at the same time there are many examples of successful engagement in agricultural credit provision. Moreover, the challenge is not so much in strengthening agriculture per se but rather in doing so in a commercially viable manner, which essentially requires some minimum level of commercialization of agriculture itself. That requires the overall rural infrastructure to be upgraded: training, warehousing, processing, packaging, power and water supply, marketing, transportation, etc.

Within this upgrading framework, it is possible for many MFIs to come in and tailor-make their products to specific needs and preferences of farmers and other actors in rural value chains. Until then, however, farmers will largely depend on MFIs that have restricted themselves by mandate to work with farmers, and that are mostly cooperative and other member-based institutions.

2.7. MICROINSURANCE AND SOCIAL PROTECTION

Moderator	**V. Faber, ADA**
Speakers	**J. Pott, The Aga Khan Agency for Microfinance** The Role of Commercial Private Sector Microinsurance in Social Protection
	H. Oostingh, Oxfam-Novib The Contribution of Microinsurance to Social Protection: A Critical Rights Based View
	V. Kalavakonda, World Bank World Bank's Experience with Microinsurance

J. POTT talked about the role of private sector insurance firms in providing social protection through microinsurance, particularly as regards health insurance. In many emerging economies health provision has stopped being a public sector priority and what is left in place in the area of public sector clinics and hospitals is often poorly staffed, managed, equipped and stocked. This creates a vacuum where private sector players can come in.

To ultimately achieve the goal of universal health care four inter-related developments have to be set in motion. First, selected groups of low-income families need to be offered basic health insurance packages. Second, private sector insurers need a large network of agents to sell these packages. This could be MFIs, NGOs and cooperatives that have a string affinity with adding insurance to other financial products and services to their clients and families. Third, a robust private sector-style administrative capacity needs to be developed to make insurance effective and functioning. Fourth, and perhaps most critical, quality care providers such as clinics and hospitals need to be established, as close to insured clients as possible.

These processes take time and the goal of universal health care surely is a longer term one, but much has been set in motion already. Pott elaborated two pilot projects started by Aga Khan in Pakistan that now have a combined client base of 32,000. These pilots have developed two core products. First a product to cover low-frequency high-cost events covering claims of USD 100 upwards and, second, a high-frequency low-cost event product covering claims up to USD 100. The first usually is for in-patients; the second for out-patients. Close monitoring of clients and financial performance allow the pilots to constantly review their products and, if need be, make adjustments.

HARRIE OOSTINGH also addressed the obstacles and opportunities on the road to achieve universal health care. The rationale to achieve this is quite obvious: 5.6 billion people are unprotected against the costs and consequences of illness, half of which represent the poorest; 100 million people annually fall into poverty because of health care costs and poor people in general prioritize health when asked about risks they are most concerned about.

In the 80s community-based health insurance schemes came into being and around the turn of the century microinsurance became a popular concept, among other factors because of a major ILO campaign to that effect. More recent efforts to develop insurance markets for the poor are initiatives bringing in private sector players and often tapping into product and systems development funds made available by bilateral and multilateral funding agencies. As per 2007, approximately 35 million people had access to microinsurance in some form.

Current major challenges are that the potential of microfinance in poverty eradication is widely appreciated but that constraints remain in place as regards comprehensive coverage, efficiency and scale of operations. Moreover, in many cases efforts for scaling up are limited to make current facilities more efficient, which is good, but too little effort is put into increasing professional care capacity on the ground. That requires a different capital investment strategy than the one that finances insurance.

VIJAYASEKAR KALAVAKONDA of the World Bank informed the participants that currently nearly 80 million people in developing countries, mostly in Asia, enjoy life insurance out of an overall population of four billion. The WB target is to get to 1 billion covered lives by 2015 and it plans to do so through developing business models and promoting market development programs. How this works out in practice was shown by a pilot case in Andhra Pradesh, India.

The DISCUSSION focused mostly on the role of micro insurance as a tool for social protection. It is important to consider that social protection is in principle more a role of national governments. However, as many governments in developing countries cannot, or will not, take up this role, micro insurance can fill this service gap. As such micro insurance can be seen as a supplementary tool while basic coverage needs to be provided by other actors. The main burden of closing the healthcare gap cannot fall on micro insurance institutions. Similar to microfinance, it can only include those who are able to pay for health care insurance packages. If not, the package offered will be so limited in its extent to lose its value as a tool for social protection.

2.8. REACHING THE VULNERABLE, PART 2

Moderator	**T. Defense, SOS Faim**
Speakers	**I. Ignatieva, Concern Worldwide** Microfinance and the Poorest: Building the Link
	A. Woitzik, Consultant Graduating Beggars via Microloans – a Case Study from Bangladesh
	F. Bwire, Amfiu Integrating Disabled People in Mainstream MFIs – a Case Study from Uganda

IRINA IGNATIEVA discussed Concern's approach and experience in building the link between the extreme poor and national MFIs through two case studies. Concern uses a holistic approach; accounting for different levels of poverty, focusing on different asset types, and taking into account inequality, insecurity and vulnerability of the extreme poor.

Building sustainable linkages between the extreme poor and MFIs is risky, as local contexts and the availability and capacity of partners and MFIs make every situation unique. Furthermore, adverse economic conditions, participant mindsets and limited income generation possibilities for the extreme poor make these programs very problematic. Therefore a thorough context analysis and program adaptation phase is conducted, encompassing a target group, economic, stakeholder and local capacity analysis.

Building the actual link involves capacity building of local partners, ensuring the capacity of the Concern team, and implementation at the participant side – including asset creation and development, and at the MFI side – microfinance product development and integration.

From the case studies, several lessons learned were identified. Important was to adapt every program aspect, especially appropriate products and marketing, to local circumstances. Moreover, only through a concerted, long-term effort of program partners can sustainable linking of the extreme poor to MFIs take place. Especially graduating clients are difficult as they become risk averse and many are just not very entrepreneurial. Moreover, considerable investment will be needed and these programs need to be further developed to make them more cost-efficient. Confidence among the poorest in dealing with MFIs is vital in this respect as they were previously excluded from financial systems.

F. BWIRE took her audience through a 2005 survey conducted in Uganda showing a high number of people with disabilities (PWD) but a low percentage being served by MFIs. Based on these results, NUPIDU (the National Union of Disabled Persons of Uganda), and AMFIU (the Association of Microfinance Institutions of Uganda) starting focusing on this aspect. Along with working on improving self-esteem in general, NUPIDU raises awareness of operations of MFIs and the importance of saving among PWD as well as improving their business management skills. AMFIU in contrast focuses on awareness-raising among MFIs about disability issues, services to PWD and their market potential.

Up to now MFIs have rarely served this market. Exclusion mechanisms exist at the staff level, in product design, through other clients, through low self-esteem and through physical and informational inaccessibility. In contrast, as most PWD are self employed and they and their family represent a large part of the Ugandan population, their potential is substantial. Cost-efficient methods to improve inclusion are hiring disabled staff, improving physical access, use existing PWD clients for contacting new clients and publicize success stories and services. It will be necessary to take chances here, and not to get disappointed after a first try. Moreover, contrary to popular believes, it is often not necessary to design specific products.

Initial results of NUPIDU and AMFIU are positive, allowing for some recommendations. The most important is that providing financial services to PWD needs to be presented as a win-win situation. The MFI gains market share, enters new markets and improves its reputation, while disabled persons are economically empowered.

A. WOITZIK explained that in Bangladesh, a country with one of the highest penetration rates for microfinance, Grameen Bank has initiated a microfinance project specifically focused on beggars.

Through its 'struggling members program', beggars can get a micro-loan of around EUR 6.00, at no interest. As such, this could be seen as a new segment in microfinance, focusing only on the ultra-poor. Some important features are that it concerns collateral-free credit and that it is not required to form a microcredit group. Participants are not obliged to attend weekly meetings and are not called beggars in the program. They are actually assigned regular members as mentors. A further interesting feature is that they receive identity badges with Grameen's logo.

Of course, such a program comes at considerable costs. However, it shows that some can graduate out of this program, and some just improve their situation somewhat. Grameen especially sees potential for graduation from one generation to the next. According to Grameen, this is worth the higher default rate and high transaction costs. It shows that in the Bangladesh case pure charity is not the solution, although this program does require some form of subsidy to be able to function.

2.9. INNOVATIONS IN LOCAL CURRENCY RISK MANAGEMENT

Moderator	**E. Bumsteinas, EIB/e-MFP**
Speakers	**A. Avedisian, CYGMA** Cygma: A Comprehensive Solution to Emerging Markets Foreign Exchange Risk Management
	B. Cox, MFX Solutions Managing Currency Risk in Volatile Times: A Microfinance Industry Approach
	J. Zuidberg, TCX The Currency Exchange Fund: Cutting the Gordian Knot of Currency Hedging
	C. Parant, Microfix Microfix: the Foreign Exchange Hedging Tool Available to All MFIs

CYRILLE PARANT presented the Microfix, a currency exchange hedging fund initiated by the Planet Finance Group. The rationale for establishing the Fix is that MFIs can insufficiently tap into domestic capital market in order to finance their growth and thus rely on international capital markets. However in these markets loans are denominated in hard currencies such as dollars and euros whereas MFIs' income is nearly exclusively in local currencies. This creates foreign currency risks for MFIs operating in countries where the local currency is not pegged to, or substituted with, hard currencies. This mismatch is one of the major risks faced by MFIs.

In international capital markets there are common instruments to mitigate this risk, such as through currency swaps, but these instruments until recently have been unavailable to MFIs. The reasons are twofold: most MFIs needs are too small to be considered and swapping and hedging funds shy away from the institutional risks of MFIs; they specialize in market risk, not in counterpart risk.

The Fix is positioning itself between the demand and supply side in the hedging market by creating a comfort zone for hedging institutions by way of filtering, qualifying and packaging demand. At the same time it will work with eligible MFIs to reduce their credit risk. In order to perform its intermediate role, the Fix needs substantial capital volumes to underwrite its offerings. These have been secured through cooperation with FMO, BNP Paribas and TCX.

BRIAN COX also presented a currency risk mitigation initiative in the form of MFX. Essentially it works in similar ways as Microfix, but it has been capitalized and supported by a different line-up of investors and sponsors.

A. AVEDISIAN presented the third facility in this area: Cygma. As the other two facilities, Cygma augments hedging capacity with advisory and education services; the first to help MFIs reduce counterpart risk and the second to raise awareness on the importance to create hedging capacity for the sector at large. Also Cygma has its own line-up of investors and supporters.

JOOST ZUIDBERG presented TCX which functions more as the technical intermediary between supply and demand in the currency hedging market for MFIs and is partnering with Microfix and MFX. Like the other players, it accumulated substantial capital volumes to underwrite its dealings in the capital market and like the other facilities the TCX is managed by separate management company that has been engaged on performance-based contracts by the investors in the facilities.

DISCUSSION: the various facilities clearly are most welcome additions to the array of support vehicles required to allow aspiring MFIs to tap into international capital markets whilst reducing their risk exposure. However, given the complexity of currency hedging mechanism, many MFIs would benefit from accurate and transparent information and education in this area in order to be able to fully appreciate and calculate their options; and that is what all the facilities aim to do in the coming years.

2.10. JOINT INITIATIVES OF EUROPEAN MICROFINANCE ACTORS, PART 1

Parallel Session 1

Moderator	**C. Pausch, e-MFP**
Speakers	**H. Abels, Blue Rhino Consult** Conclusions from the European Microfinance Directory
	C. Lapenu, CERISE/e-MFP The e-MFP Social Performance WG and the Making of 'European Dialogue'
	D. Quien, ADA The GRASS Rating Fund Initiative
	C. Schmitz, SIDI FEFISOL
	N. Kerdougli, Risk Manager Sans Frontière (RMSF) Risk Management

HERMAN ABELS presented the major findings from the update of the 2005 Directory of European Microfinance Actors published by the e-MFP. The update was conducted in 2008 and 74 e-MFP members participated therein: most were NGOs and others (mainly service providers), followed by financial institutions, networks, universities and other research institutions and public sector entities. Half of all respondents employ less than 20 staff and only a third are fully engaged in microfinance activities. These activities are fairly equally spread over the continents whereas 40% of all actors apply a global investment or support strategy. At the same time, this continental balance cannot conceal that actors seem to over-concentrate on a selected number of relatively smaller countries and are only limitedly engaged in the larger continental markets such as Russia, Brazil, Nigeria and China. Most actors support a wide range of activities, possibly indicating a broad orientation and limited institutional specialization, with the exception of financial institutions.

Growth of investment and support capital in the microfinance industry comes from various resources: commercial investors, socially responsible investors, high net-worth individuals and increasingly from savers and members. Two major debates have come to the fore during the last years among investors and donors. The first concerns the potential crowding out of investment markets for commercial investors due to prolonged involvement of development finance institutions. The second concerns the possible jeopardizing of the origins and principle of microfinance by the growing influence of commercial investors.

At practitioner level various trends can be witnessed: the continued growth of commercial MFIs, growth and re-appreciation of member and community-based systems and the rapid expansion of Southern MFIs overseas. This may indicate multi-polarity: the simultaneous growth of various and distinct mainstreams in the industry. At client level there is a strong pattern of horizontal expansion: ever-more clients around the poverty line are being served. But there also is an influential vertical expansion: upwards to accommodate the needs of the not-so-poor and downwards to include the hardcore poor.

Overall, the European actors together provide a very broad array of products and services, constituting a most comprehensive supply side offer. A possible downside is the inequitable pattern of access to these products and services: some MFIs have very good access; many have reasonable access but most have no access.

As regards future hot topics in microfinance, European actors appear to be most concerned about three issues: continued growth of the microfinance sector at large, special attention to reach the poorest clients, especially the rural poor, and a strong determination to match financial with social performance. Concerning a particular European conceptual

angle to microfinance, if any, this is likely to be defined in terms of a deep affinity with self-organization formats and a broad appreciation of a stakeholder as opposed to an exclusive shareholder value proposition.[2]

CÉCILE LAPENU reported on the proceedings of the Working Group on Social Performance and how this has resulted in the production of a 'European Dialogue' in this area.

DAVID QUIEN presented the Grass initiative, a Public Private Partnership to promote ratings and transparency in microfinance. e-MFP played a facilitative role in getting these partners together.

Quien discussed that several markets are underserviced in respect to ratings, especially Africa, and Asian countries (apart from Indonesia and India). The Grass initiative co-funds first and second ratings to counter these regional gaps and increase the availability of transparent information. It also supports the establishment of a social rating market. Through co-funding, awareness raising and rating market information the initiative aims to encourage at least 800 new MFIs to have entered the rating process around the globe in 4 years.

Their first results showed that offering two rounds of co-funding is sufficient for the MFI to understand the benefits of regular ratings as well as the rating process itself. However, important to note is that such good intentions are not always supported by concrete action.

C. SCHMITZ presented the initiative to launch a European Solidarity Finance Fund for Africa, FEFISOL-SA. Three European investors, Alterfin, Etimos and Sidi, joined forces with two TA providers, Fundacion Un Sol Mon and SOS Faim, to support development of the microfinance industry. It focuses on improving the financial services on offer in African countries, on improving rural access and on spreading risks by also working in local currencies.

Its activities are spread across Africa, with Mali accounting for around a tenth of activities by itself. The partners collaborate through a structure where the partner organization identifying a prospective investee is also responsible for monitoring of investments, while an Investee Commission which includes the different partner organizations is responsible for approval of investments.

N. KERDOUGLI introduced Risk Manager Sans Frontière (RMSF), which is a non-profit initiative providing elaborate risk management support and advice for MFIs, NGOs and government progams serving vulnerable populations. It started in 2004 and brings together approximately 100 professionals such as risk managers, lawyers, consultants and insurance experts. It organizes master classes, advises individual MFIs and brings expertise to targeted sectors.

In 2007 the RMSF initiators entered an agreement with Pamiga, a French NGO specialized in African microfinance. Since then, its products became specified for MFIs, particularly focusing on strategic, credit and operational risks. Field missions were active in Madagascar, Benin and Ethiopia and as of 2009 the program will go global whereby MFIs will focus on self-assessment of risks and investor on portfolio analysis. The international program will follow an open space approach that also allows for participation or regulators. As of 2010 interested parties expectedly will be able to access a software toolkit on the program's website.[3]

[2] A first draft of the Directory was distributed during the conference with a final version to be available Spring 2009. Two additional directories will also be published: the first on capacity building and the second on research in microfinance.

[3] Which is www.rmsf.fr.

Parallel Session 2

Moderator	**N. Jaspers, TRIAS/e-MFP**
Speakers	**R. Hogervorst, Blue Rhino Consult** Conclusions from the European Microfinance Directory
	F. Bakx, NPM The Netherlands Microfinance Platform
	K. Moors, BRS Microfinance and Microinsurance Toolkits and the Collaboration between BRS, ADA and Incofin
	S. Cornacchia, SIDI FOPEPRO

ROBBIE HOGERVORST delivered the same presentation in this session as Herman Abels in the parallel session (see page 30).

FRANK BAKX introduced the Netherlands Microfinance Platform, which he currently chairs. In 2003 four Dutch funding agencies participated in CGAP's peer review and later the same year this resulted in the forming of the semi-formal platform. Together with these NGOs (Cordaid, ICCO, HIVOS and Oxfam-Novib); social investors such as Oikocredit and Triodos Bank; banks and insurance companies such as Rabobank and FMO, all enlisted as platform members. A main purpose of the platform is to disseminate overall portfolio data in order to create more transparency and avoid duplication.

Each year the aggregated portfolio data are published on the platform's website.

A second platform function is to present the collective 'Dutch Offer' in microfinance and to undertake related activities in the areas of representation and visibility. A third function is lateral learning and coordination as regards policy and investment priorities as well as functioning as a sounding board for the Netherlands government. The platform is not directly engaged in investment or support initiatives in microfinance; that remains the operational responsibilities of the individual platform members.

KURT MOORS presented the toolkit developed by BRS in cooperation with Incofin and ADA. The kit contains microfinance and microinsurance as well as a microfinance compiler fact sheet. These are aimed at supporting training programs and performance analyses for MFIs, microinsurance institutions, with the production of training manuals for trainers as well as a specific module for students.

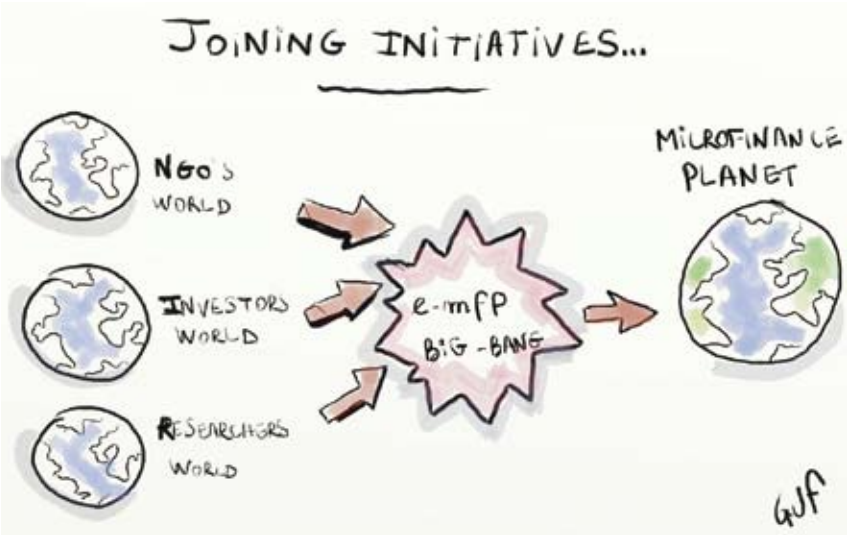
The toolkit was developed to help various parties speaking the 'same language' when it comes to reporting on critical management information data. It is now used by more than 100 MFIs. In fact it works as a communication-focused management information system. The next step of the program aims to produce a social performance fact sheet as well. More information is to be obtained from the program's website. [4]

S. CORNACCHIA presented a joint initiative of Alterfin and SIDI named FOPEPRO, the Small Rural Producers Fund in Latin America. The Fund will start in 2009 with EUR 10 million for equity and another 10 million for debt finance. The aim of the project is to help the rural smallholder sector in four Andean and four Central American countries. Smallholders are assisted in finding niches in the value addition market and acquiring legal status. FOPEPRO is an open initiative and welcomes new partners participating.

The motivation for the three partners to launch the Fund as a joint venture was the anticipated leverage potential: availability of more resources, tapping into one-another's knowledge and expertise base and achieving scale of operations. Underlying the joint venture is a commonly shared value system, mutual acquaintance and European background.

DISCUSSION: with respect to the Netherlands Platform, Bakx explained the funding modalities and reiterated that the members are not in competition with each other at operational level. In various cases they work together by syndicating their investments. As to FOPEPRO, it was elaborated that the Fund had to go its own way as very few commercial and social investors are eager to invest in rural smallholders.

[4] Which is www.microfacts.org.



Moreover, larger partnerships frequently experience a clash of corporate cultures. The task of this Fund is difficult enough as it is and the work will not benefit from such inter-partners clashes, hence the preference for working with like-minded institutions.

The moderator concluded that joint initiatives are important to gain new insights and exchange information. New knowledge and tools can be developed. Leverage problems can be solved by partnerships. All microfinance actors have different kinds of value to add and partnerships make the different talents of different actors visible. In this way we can complement each other; which is what the sector needs.

PART 3
PEER DAY - 14 NOVEMBER 2008

Peer group sessions

Researchers

Moderator **M. Hudon, CERMI**

Speakers **Susan Johnson, Bath University and Isabelle Guerin, IRD/IFP**

Several presentations were held during the peer review session for researchers, discussing both research methodologies for microfinance as well as the relationship and possible synergies with practitioners and other groups.

After these presentations the unique opportunities available for research were discussed; they are the only actors with resources (mainly in time) to do in-depth investigations into the microfinance sector. As such, researchers can play an important facilitative role to other peer groups. However, on the other hand, it is also important that researchers remain largely independent from other microfinance actors.

In European microfinance research funding comes less often from micro-finance donors than in the US. Therefore, research agendas are not always in line with the needs of practitioners. However, this does not exclude the importance of closer cooperation between NGOs and researchers, which could especially be helpful in certain areas that are of great interest to both, such as rural micro-finance, client–led microfinance and social responsibility.

Banks and Financial Institutions / Government Agencies

Moderators **E. Bumsteinas, EIB/e-MFP and Antonique Koning, EU/ACP- CGAP**

Two issues were discussed in this session. The first was the funding of the MFIs; CGAP carried out a survey among 54 funding agencies to find out who funds what and where. The second was client protection principles. What can funding agencies and financial institutions do to stimulate client protection at the level of the MFIs.

1. CGAP presented results of the first ever global survey of funding to microfinance. Fifty four of the world's largest funders reported commitments of 11,7 billion dollars as of December 2007 in close to 3000 active projects and investments. CGAP estimates that no less than $2,5 billion was disbursed in 2007. For more information see:

www.cgap.org/p/site/c/template.rc/1.26.1426

Participants appreciated the wealth of information and several of them commented on the results. Suggestions that came up included expanding the survey to include private investors (MIVs and institutional investors); collect information on the performance of funding; make links between funding and country poverty levels or level of advancement of the microfinance industry.

2. CGAP presented the responsible finance spectrum from "doing no harm" to clients to "doing good" and perform socially. The discussion focussed in on the consumer protection aspect and more particularly the Six Client Protection Principles:

- Avoiding over indebtedness (make sure that borrowers have adequate capacity to repay and non credit products are appropriate to the costumers).
- Transparency (pricing policy, terms and conditions should be clear and understandable).
- Collection practises should not be abusive.
- Anti corruption processes should be in place and personnel should have a high ethical standard.
- Clients should have the opportunity to raise complaints.
- Data privacy and security. Clients data privacy should be well respected.

The discussion focused on the following questions: 1. What do funders and governments currently do to ensure client protection at the MFI level and 2. what more can be done?

A representative of the government of Turkey suggested the Government could develop legislation. Others commented that the implementation of the Client Protection Principles was a matter for MFIs to take up voluntarily. They suggested funders and governments may provide positive incentives, but should not make them compulsory. Microfinance associations can play an important role in a particular country on this. A representative of Alterfin commented that a group of MFIs was already committed to report on social performance, including client protection measures. Another investor, Triple Jump asked whether it should be the role of an investor to monitor MFI compliance with the CPPs. During short due diligence visits it may be hard to verify all.

The clear message from the participants, including some MFIs, is that the CPPs are only meaningful if the MFIs believe in them. Implementation and enforcement is likely a combination of self regulation (of the MFIs) and regulation (from governments) and also of raising awareness of clients. The role of funders can be to pay attention to how practitioners apply client protection measures and to identify ways in which funders can assist the MFIs in the process of adaptation and implementation.

NGOs

Moderator **C. Lapenu, CERISE/e-MFP**

NGOs

The purpose of this peer group session was sharing experiences of NGOs and determining on which frontier issues they are focusing. What is commonly shared is that NGOs have an important role to play in frontier issues as front-runners. To remain relevant NGOs need to innovate in terms of areas of intervention and products. Moreover, their mandate and mission allow them to do so. The main frontier issues focused in the discussion round, where NGOs elaborated on their activities, social performance, micro insurance, rural finance, reaching the vulnerable, technology.

The members of Microned, the network of Dutch Development Finance Organizations active in microfinance, are all working on frontier issues. At the Microned level, the focus is mostly on client protection principles. ICCO is very active in the field of rural finance, while Hivos has a focus on social and environmental performance and tools development, rural finance and linking HIV aids affected households with microfinance. Oxfam Novib is looking again at microinsurance and new developments in this area such as drought and crop insurance as well as savings. In this field, Oxfam Novib is looking a pastoralist communities and innovations to allow bringing financial services to non-sedentary groups.

DanChurchAid works towards linking microfinance activities with its poverty focused projects, such as food security. As they work in areas where there is a severe lack of financial infrastructure they are innovation focused and are looking for linkages with other donors and NGOs with similar programs.

Aquadev (Belgium) is also focusing on linking microfinance and food security programs, although they approach these issues more from a meso-level to promote a sector-wide approach.

Several IDDC[5] representatives were present. This new member of the e-MFP is working towards linking persons with disabilities to microfinance and other financial services. They are approaching this broadly, looking at how MFIs can reach vulnerable households, be sensitized to disability, how disability can be mainstreamed and products can be adapted to these groups.

Trias (Belgium) is working on two frontier issues, the development of flexible models for social performance assessment in the different contexts of their partners and secondly value chain finance and working towards common policies for this subject.

SOS Faim (Belgium) is also working in rural finance but focuses more on how to reach remote populations next to value chain finance and bridging the gap between financial institutions and producer organizations, by looking at the inequalities between the two.

Terrafina (The Netherlands) is interested in issues of long-term economic performance in rural areas, trade finance such as overdraft facilities, reaching out to remote populations (through self-help groups or endogenous groups), gender issues and improving the use of new technology in rural areas.

ICAR (France/Madagascar) is working mostly in technical assistance, with main topic areas such as outreach in remote rural areas and mid-term financial products.

ADA (Luxembourg) is focusing mostly on product innovations. Examples are youth inclusion programs, making better use of micro-savings, remittances, microinsurance, with a focus on life insurance and long-term financial products. ADA is also working with MFIs professional associations/ networks to strengthen their technical capacities. BRS (Belgium) is also working in the field of microinsurance.

[5] IDDC : International Disability and Development Consortium

CERISE (France) is looking at governance in microfinance and the integration of social performance management. What tools are already available, and how to move from assessment to implementation are questions CERISE is looking at. CERISE is striving for responsible microfinance chains which need to include European investors as well.

Conclusions

The main issues that European NGOs are working on are; rural finance, focusing on value chains and how to reach remote and vulnerable populations; food security and livelihood finance. Along with this NGOs are working on product development, also in terms of partnerships. Social performance management and how to go from assessment to changes of practices and innovations for better impact is also an important field for some NGOs. One frontier issue, renewable energy was not discussed during the peer group session.

Improved contact with research organizations in the network is important for product and program innovation. However, in many countries research programs are not very broad. The cooperation between NGOs and research institutes needs to improve.

NGOs are dependent on other peer groups to take things up-to-scale. NGOs can serve as innovators/initiators but need other organizations to step in at a later stage when programs show a certain (commercial) viability. This also shows a need for further cooperation between NGOs.

Ideas were proposed for example to set up working groups/joint initiatives to develop guidelines for MFIs for integrating people with disabilities in their clientele or to work on the issue of food security and livelihood finance.

Consultants

Moderator **M. Johansson/S. Siebenbrock, FSFM/e-MFP**

The peer group for Consultants was the smallest of the conference peer groups, but nevertheless had an intensive discussion about the role of consultants in advancing issues on the market frontier. After an introductory presentation from Frankfurt School of Finance & Management on how they have approached recent frontier issues, the discussion started with outlining different frontiers; be it physical frontiers when pushing on further outreach, regulatory frontier issues for a more inclusive financial system, or institutional frontiers, where MFIs work on ensuring and improving sustainable access of service to their clients.

Looking at the role of the consultant in addressing frontier issues, the group pointed at several important tasks for consultants to support the microfinance sector. These included strengthening microfinance institutions to reach their goals and targets according to their mission, but also supporting the end client, for example through financial literacy training, and supporting the financing and donor community in finding new ways to provide access to finance in an even larger outreach. The group concluded that consultants can function as a link and think-tank between different actors in the microfinance sector.

Peer group recommendations to other peer groups and debate

Moderator **A-F. Lefèvre, WSBI/e-MFP**

From this discussion six key frontier issues can be identified where the peer groups agree that cooperation is necessary or could improve the affectivity of assistance to the South. Some were supported by all peer groups whereas others had the interest of a more narrow group of European actors. These six frontier issues are:

- Consumer protection – client protection principles, client literacy, client information are a focus issue for many e-MFP members.
- Vulnerability – Issues of vulnerability, be it extreme poverty, remoteness, handicap, climate etc. are of great interest of peer groups.
- Social Responsibility – the peer groups agree that this issue needs to remain on agendas across the board, which is also shown by the clear interest in these subject during the microfinance week.
- Crises – the peer groups agree that both the food and the financial crisis is putting into question (financial) markets. The influence of both crises on (micro)finance and support for the microfinance sector in the south and local support needs to be a focus for all. The peer groups also need to be open towards sharing insights and information on this.

- Working together on product innovation and complexity - the peer groups saw a role for NGOs in the identification of relevant trends or developments either in products or requiring new products. Consultant companies can play a role in developing concepts and solutions, while research can further investigate their applicability, affectivity and efficiency. Donors and financial institutions can offer incentives to stimulate the use of appropriate products or integrate them in their own portfolio.
- Regulatory issues – especially banks and government agencies were interested in microfinance investment vehicles.

LIST OF PARTICIPANTS

FIRST NAME	LAST NAME	ORGANISATION	COUNTRY
Stepan	Gishyan	ACBA Bank – Crédit Agricole	Armenia
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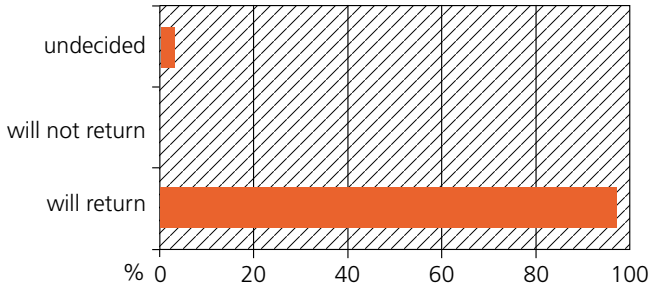
Hugues	Kamewe Tsafack	WSBI-ESBG	Belgium
Anne-Françoise	Lefèvre	WSBI-ESBG/e-MFP	Belgium
Bonnie	Brusky		France

e-MFP MICROFINANCE WEEK 2008
FEEDBACK

Following European Microfinance Week 2008 participants were invited to take part in a satisfaction survey. e-MFP were delighted with the positive feedback received from the 68 respondents, 75% of whom were e-MFP members. The most encouraging response was that 97% of respondents will return for European Microfinance Week 2009!

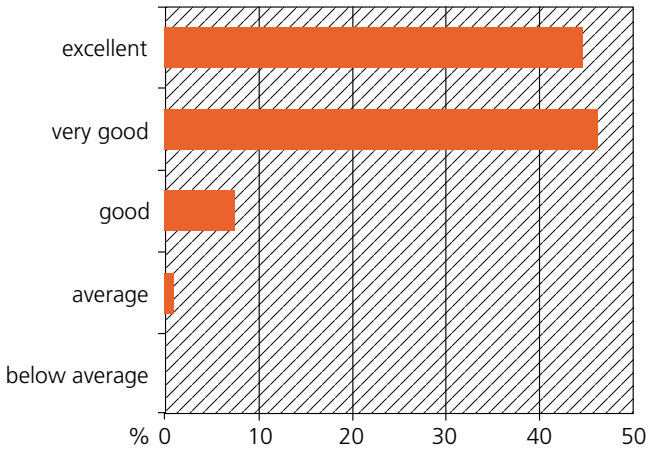
% Participation next year

97.05 percent of respondents will return next year
0 percent of respondents will not return next year
2.94 percent of respondents were undecided



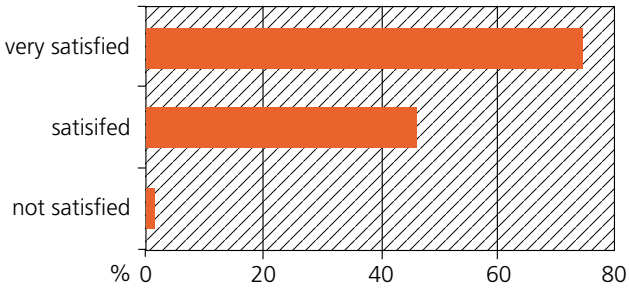
Quality of the conference organisation

45.58 percent of survey respondents thought the conference organisation was excellent
45.58 percent of survey respondents thought the conference organisation was very good
7.35 percent of survey respondents thought the conference organisation was good



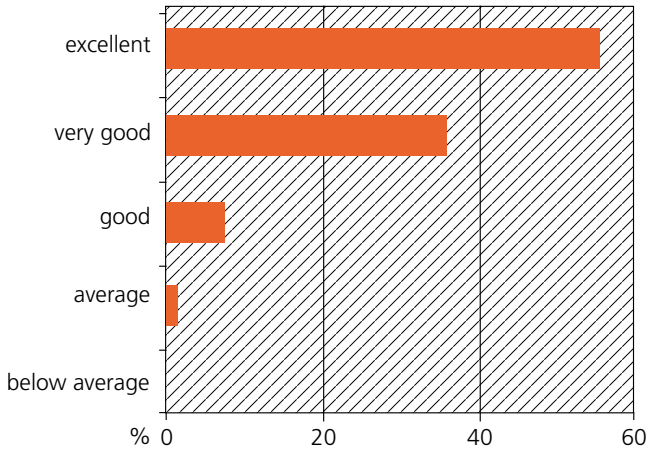
Satisfaction with the conference materials

52.94 percent of survey respondents were very satisfied with the conference materials
45.58 percent of survey respondents were satisfied with the conference materials
1.47 percent of survey respondents were not satisfied with the conference materials



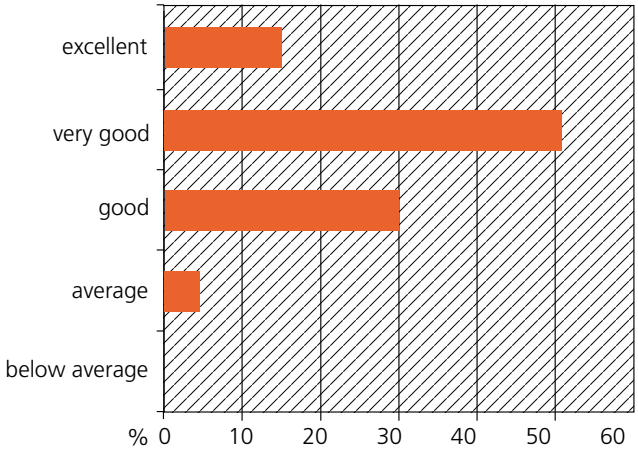
Impression of conference facilities

55.88 percent of survey respondents impression of conference facilities was excellent
35.29 percent of survey respondents impression of conference facilities was very good
7.35 percent of survey respondents impression of conference facilities was good



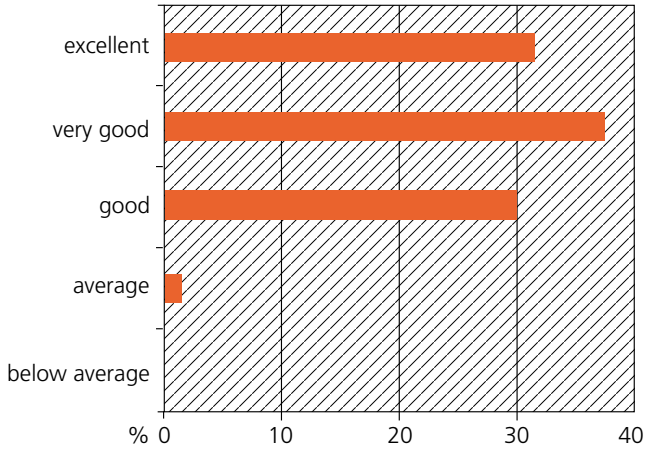
Impression of conference speakers

14.70 percent of survey respondents impression of conference speakers was excellent
51.47 percent of survey respondents impression of conference speakers was very good
29.41 percent of survey respondents impression of conference speakers was good



Impression of the organisation of conference sessions

30.88 percent of respondents judged the organisation of the conference sessions as excellent
38.23 percent of respondents judged the organisation of the conference sessions as very good
29.41 percent of respondents judged the organisation of the conference sessions as good



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

"Practical info and case studies rather than theoretical speeches"

"Excellent networking opportunity for people working in the sector"

"Very professional attitude"

"Great networking opportunity, opportunity to find out who is doing what"

"Many new topics of interest"

"Interaction between research and practice"

"Facility of exchange among participants"

"The opportunity to exchange information (update) with professionals from different areas"

"Networking opportunities"

"Meeting colleagues from all over Europe"

"Pluralism and diversity of views and participants"

"Sharing experience between MFIs and NGOs in Europe"

"The diversity of participants"

"The quality of the debates"

"Updates on 'hot issues', new issues, networking"

"Possibility of exchanging information, new knowledge and contacts"

"Speakers with expertise"

"The variety of EU actors present at the conference"

"Variety of topics"

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

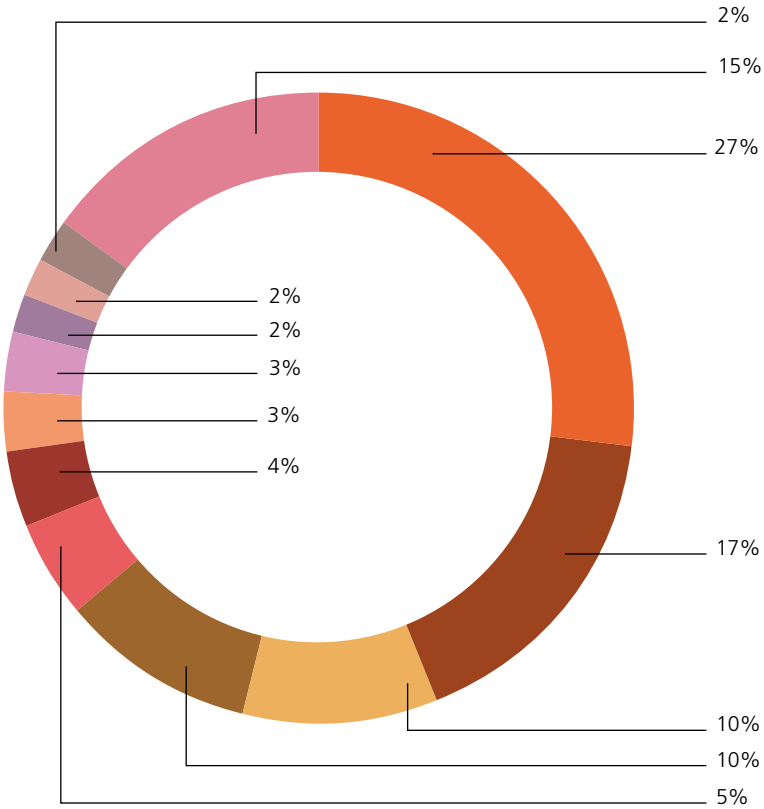
STATISTICS

COUNTRIES

Number of registered participants	269
Number of countries represented	37

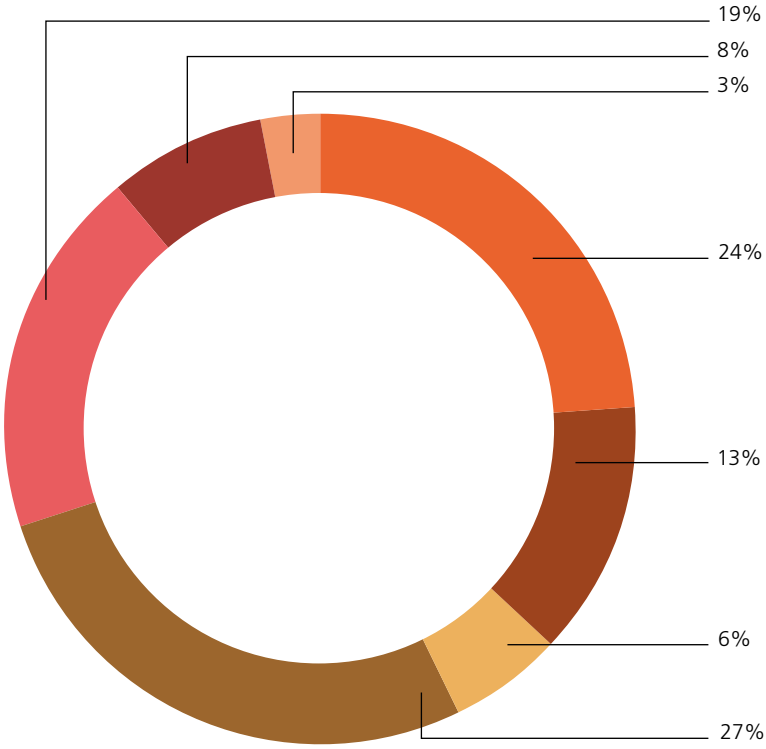
- Luxembourg
- France
- Belgium
- The Netherlands
- Germany
- Switzerland
- USA
- Italy
- Albania
- United Kingdom
- Norway
- Others

Armenia	Ethiopia	Moldova	Spain
Austria	India	Monaco	Sweden
Azerbaijan	Indonesia	Other	Thailand
Bolivia	Ireland	Russian	Tunisia
Cambodia	Kenya	Federation	Uganda
Denmark	Liechtenstein	Rwanda	Uzbekistan
Ecuador	Madagascar	Senegal	



NUMBER OF ORGANISATIONS REPRESENTED 146
CATEGORIES OF PARTICIPANTS

- Bank or financial institution
- Consulting firm
- Government agency
- NGO
- Other
- Research institution or university
- Student



EUROPEAN MICROFINANCE PLATFORM [e-MFP]

The European Microfinance Platform [e-MFP] was founded formally in 2006. e-MFP is a growing network of over 110 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 members share the vision that everyone should have access to financial services and that microfinance can contribute significantly to the development of this vision.

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