EUROPEAN
MICROFINANCE
PLATFORM

NETWORKING WITH THE SOUTH

NEXT EUROPEAN MICROFINANCE WEEK
12th – 14th NOVEMBER 2014

spring 2014

EDITORIAL

Welcome to e-MFP's Spring 2014 newsletter,

It's a great pleasure to start this newsletter with the announcement of the 5th European Microfinance Award. Following the successes of the previous Awards which promoted innovation for outreach (2006); socially responsible microfinance (2008); value chain finance (2010) and microfinance for food security (2012); this year the objective of the 5th European Microfinance Award 'Microfinance and the Environment' is to highlight opportunities for microfinance to improve environmental issues and encourage the industry to find innovative solutions for global environmental concerns in developing countries. More information can be found on page 2 and on our website www.e-mfp.eu. I invite you to encourage your partners to apply for this most prestigious European award worth €100,000; the deadline for applications is 15th June 2014.

In addition, we are very excited to have launched our new website which will enable us to serve you even better than before. Do visit us at www.e-mfp.eu and check out all the new and improved features.

I hope you enjoy reading this edition of our newsletter, visiting our new website and I look forward to receiving your reactions and contributions.

Kind regards

Christoph Pausch
Executive Secretary

EUROPEAN MICROFINANCE AWARD

5th European Microfinance Award
Microfinance and the Environment

EUROPEAN MICROFINANCE AWARD

The European Microfinance Award was launched in October 2005 by the Luxembourg Ministry of Foreign Affairs - Directorate for Development Cooperation, to support innovative thinking in the microfinance sector. Awarded for the first time in 2006, it is jointly organised by the Luxembourg Development Cooperation, the Luxembourg Ministry of Finance, the European Microfinance Platform (e-MFP) and the Inclusive Finance Network Luxembourg in cooperation with the European Investment Bank (EIB).

In its fifth edition, the Award is devoted to 'Microfinance and the Environment'. Its aim is to highlight opportunities for microfinance to improve environmental issues and encourage the industry to find innovative solutions for global environmental concerns. The prize of € 100,000 will be awarded on November 13th during the European Microfinance Week to an institution based in the South, active in the financial services sector and judged to be tackling significant environmental challenges.

Natural resources, which include air, water, soil, flora and fauna, are essential for human survival. However, this natural resource base on which we depend is becoming increasingly strained as a result of unsustainable use, pollution and mismanagement. The consequence of this is that we are rapidly reaching, and in some cases, exceeding our planets' environmental boundaries[1]. Unsustainable management of local environmental systems can also have serious repercussions elsewhere. In recognition of the importance of these environmental assets, there is a growing body of research on, and examples of, successful interventions. Broadly speaking, these efforts have focused on the acquisition, use, disposal and regeneration of these resources:

1. 'Acquisition' addresses how natural resources are obtained, including sustainable use of non replenishable resources, non-invasive methods for using these resources, and using more environmentally sustainable alternatives when possible.
2. 'Use' addresses how natural resources are used. This considers issues such as improved efficiency of use and better consideration of the value of environmental resources (i.e. internalisation of environmental externalities).
3. 'Disposal' addresses concerns surrounding waste, including the recycling or up cycling of used products as well as the safe disposal of products that cannot be reused.
4. 'Regeneration' addresses how the environment regenerates itself following human activities and includes issues such as reforestation, or restoration of degraded soils.

Businesses and other organisations can have significant impact on the environment as a result of their reliance on these natural resources through their day-to-day operations. There is mounting pressure on business to improve corporate governance, including with respect to environmental issues. Awareness of the

environment as a business risk and opportunity is also growing amongst microfinance institutions, which are increasingly being called on to improve their environmental governance practices.[2]

Many low-income communities rely on natural resources, and environmental changes have been shown to disproportionately affect the poorest people in developing countries. By supporting environmentally sustainable interventions for people who depend on vital natural resources, microfinance institutions can improve the livelihoods of their clients, help build more resilient communities, and contribute to a more sustainable environment.[3]

The Award focuses on initiatives that have both local and global benefits, and that help catalyze development within planetary boundaries. In particular, emphasis will be placed on initiatives that, on the one hand, improve the acquisition, use, disposal and regeneration of vital natural resources including air, water, vegetation, and soil amongst others and, on the other, meet clients' needs and are promoted in a socially and financially sustainable manner. It is aimed at institutions that are integrating environmental governance into the DNA of their business, e.g. by screening for environment-related risks or ensuring compliance with best practice, and that are promoting initiative(s) that go above-and-beyond business as usual to incorporate environmental sustainability issues.

Eligible institutions have to be active in the financial services sector. Various types of financial institutions are eligible: MFIs, Cooperatives, MFI Networks, Investments Funds, Commercial Banks, Development Banks, Leasing firms, Insurance Companies, etc. Institutions have to be based in a Least Developed Country, Low Income Country, Lower Middle Income Countries or Upper Middle Income Country as defined by the Development Assistance Committee (DAC) for ODA Recipients.

Joint initiatives from a financial service provider in a developing country and a European partner are encouraged in order to strengthen the links with Europe. However, the Award money would be given to the partner based in the developing country.

All applications must be supported in writing by an e-MFP member. Application forms (in English, French and Spanish) and more detailed information are available on our website, www.e-mfp.eu. The deadline for applications is 15th June 2014.

e-MFP wishes all its members and their partners best of luck with their applications!

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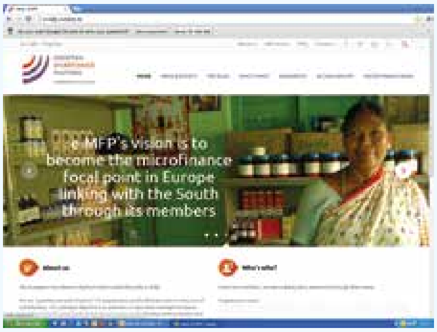
1 *For more information on Planetary Boundaries, please refer to the Stockholm Resilience Centre: http://www.stockholmresilience.org/21/research/research-programmes/planetary-boundaries.html*

2 *See for example "The Missing Bottom Line: Microfinance and the Environment" by Joan C. Hall, L. Collins, E. Israel, and M. Wenner (2008) or "Why do microfinance institutions go green?" by M. Allet (2012).*

3 *See for example "Influence of Environmental and Governance Factors on Sustainability of Microfinance Institutions in Ghana" by F. Aveh, R. Krah, and P. Dadzie (2013).*

NEWS FROM THE SECRETARIAT

New look e-MFP website



We are delighted to announce the release of our new website designed with a fresh new look, user-friendly navigation, smart phone compatible and updated with the latest information about our activities, services and resources.

We have completely redesigned our layout with simplicity, ease of use, and a strong focus on content delivery in mind. In addition to the changed design and layout of the pages, new functions have also been implemented in this version.

We truly hope you enjoy exploring our new website at www.e-mfp.eu and please feel free to send us any comments or feedback you may have, **contact@e-mfp.eu**

e-MFP on the Portail de la Microfinance

At the end of March, the Portail de la Microfinance, www.lamicrofinance.org (the French version of the Microfinance Gateway), published a very interesting report on the last European Microfinance Week. e-MFP welcomed this opportunity to further reach out to the French speaking microfinance community.

Re-visit European Microfinance Week with the publication of our 2013 conference report

European Microfinance Week is the annual meeting place for microfinance professionals and through its recently published detailed Conference Report, e-MFP is delighted to share the discussions and debate which took place during the dynamic three day event.

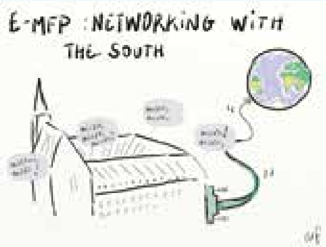
To view the report visit www.e-mfp.eu or request a paper copy from the Secretariat, ***contact@e-mfp.eu***

e-MFP Blog - stay connected

Since the last e-MFP newsletter, e-MFP published several extremely thought-provoking blog posts on microfinance's current hot topics. In the last two months the following diverse subjects were covered in our Blog: 'Microenterprise Economics: High Returns, Low Incomes' by e-MFP's Daniel Rozas; two Blogs on 'Microfinance, Debt and Over-indebtedness: Juggling with Money' co-written by Isabelle Guérin (Senior Research Fellow at the Institute of Research Development/Paris I Sorbonne University) and Solene Morvant-Roux (Microfinance Project Leader at Farm Foundation and Post-doctoral Research Fellow at the Institut de Recherches pour le Dévelоppement, France). The Dutch Platform for Inclusive Finance (NpM) presented their report 'Paying Taxes to Assist the Poor? Balancing Social and Financial Interest'. A post by e-MFP shared the results of the survey conducted among European Microfinance Week 2013 participants on the key trends affecting the sector and its level of preparedness to address them. And in addition, the findings of the e-MFP research paper 'Microfinance and Savings Outreach: What Are We Measuring' by Daniel Rozas and Gabriela Erice were also presented.

All posts can be found on the e-MFP website **www.e-mfp.eu**, and your comments and reactions are more than welcome to further stimulate discussion on the sector's current key issues. Do register on our website to receive the latest Blog updates.

European Microfinance Week 2014



Save the date for European Microfinance Week 2014 which will take place at the Abbaye de Neumünster, Luxembourg, 12th – 14th November 2014. European Microfinance Week is a superb opportunity to network, be kept informed about important sector developments and make those vital new contacts. The theme of this year's event is 'Developing Better Markets'.

European Microfinance Week is unique as the content is decided by you, as e-MFP members and reflects your current interests, activities and concerns regarding the microfinance sector. A request for proposals for sessions was sent to all members and the deadline for submission is 2nd May. We look forward to receiving your proposals and to welcoming back our members and friends in November for another dynamic event.

Interested in sponsoring this year's event and positioning your organisation at the forefront of the microfinance sector? The e-MFP Secretariat would be happy to discuss the opportunities available, **contact@e-mfp.eu**

ALFI Impact & Microfinance Conference 2014

"Is a good project a good investment?" is the central question at the Impact & Microfinance Conference organized by the Association of the Luxembourg Fund Industry (ALFI) in partnership with the European Microfinance Platform (e-MFP) and the Global Impact Investing Network (GIIN). The one-day event that will be held on **May 27th, 2014** in Luxembourg addresses asset managers and investors as well as the microfinance and impact investing community at large.

Participants will experience in-depth analyses of the current state and perspectives of the microfinance and impact investment markets as well as high level panel discussions. Industry experts will amongst others debate the questions if double bottom line is equivalent to double risk, if the market for impact financing is too small to succeed and if impact investing is a must have or a nice to have. Further to this, asset managers and project managers will investigate how to effectively measure the effectiveness of investments that are deemed to have a social and/or ecological impact.

e-MFP is very pleased to announce that through the partnership agreement supporting the upcoming ALFI conference, e-MFP members can benefit from a reduced registration fee For more detailed information and registration, please visit the dedicated ALFI website *www.alfi.lu/node/2618*.

e-MFP participation

Masterclass in Microinsurance

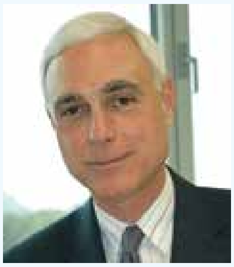
Gabriela Erice participated in several meetings of the Convergences Microfinance Working Group, 'Microfinance, réduction de la pauvreté et finance responsable dans les pays du Nord et du Sud'.

On Tuesday, 18th March e-MFP attended a workshop held in Luxembourg by the MicroInsurance Centre and MILK (MicroInsurance Centre's Microinsurance Learning & Knowledge Project) entitled 'Masterclass in Microinsurance - The Magical Balance: Client Value and Business Case'.

On 26th March Christoph Pausch met with ADA to discuss the collaboration between e-MFP and ADA in the organisation of the African Microfinance Week 2014 to be held at the beginning of December in French-speaking Africa.

On 27th March the e-MFP Secretariat participated in the Midi de la Finance Inclusive organized by ADA. Oliver Gajda, the co-founder and chairman of the European Crowdfunding Network AISBL and Executive Committee member of CF50 Inc., the global think tank on crowdfunding, spoke about the challenges and opportunities of crowdfunding.

FORUM



Bob Bragar

Microfinance governance: New strategies for an emerging entity

Bob Bragar, Strategies for Impact Investors [1]

"I don't see why we have to reinvent the wheel. Good governance practices for microfinance institutions are just the same as for any other business. Why should we spend so much time talking about 'MFI governance' in particular when there is already so much information available about good governance in general?"

This question surprised me. It was raised during a recent meeting of the Center for Financial Inclusion's Governance Working Group, of which I am a member. Did my peers really fail to see the qualities that distinguish the governance of MFIs from other businesses? True, good governance practices tend to be the same from sector to sector, irrespective of the product or services produced. Yet microfinance differs from other businesses in key ways.

Of course, any institution can suffer if risks are not managed, if boards function badly, or if management lacks transparency. But the double or triple bottom line that MFIs are asked to achieve makes success, and therefore governance, very complex. Moreover, microfinance's particular history of migration from NGOs to semi-regulated financial institutions to formal banks, coupled with the multicultural perspectives of international investors and board members, add additional complexity to the equation.

Perhaps there's no better way to illuminate the challenges specific to the governance of MFIs than through some of the memorable stories I heard in the governance workshop I moderated during European Microfinance Week in November 2013.

[1] Bob Bragar, a member of e-MFP, is an independent consultant and Principal of Strategies for Impact Investors, www.strategiesforimpactinvestors.com

From NGO to bank

The floor went first to Tamar Lebanidze, who presented an important MFI's perspective on our panel. Her institution, Constanta Bank, has had a voyage that in some ways tracks the development of microfinance globally. After the NGO she had founded, Constanta Foundation, became one of the largest MFIs in Georgia, it then transformed into a bank and Ms. Lebanidze was elected as the chairwoman of the board of the newly formed Constanta Bank.

Ms. Lebanidze talked about the very different governance challenges facing NGOs and regulated entities. According to her, NGO boards place much more faith in management than bank boards do. NGO board members might be people who are close to a dynamic leader of the NGO. They might have been selected because they are trusted for their local prestige and the credibility they give the NGO vis-à-vis investors and regulators. But they might also be less engaged in the supervisory process, and essential

Session at European Microfinance Week

supervisory skills might even be missing. In those cases, outside help can be very valuable to bolster skills and heighten supervisory engagement. International investors can play an essential role in achieving this.

Governance challenges change when an MFI moves from being an NGO to being a regulated bank. Generally, bank boards are more likely to have the necessary skills to supervise management. Since banks are subject to regulatory oversight, their board members must have professional qualifications. They have legal obligations and even potential liabilities if they don't do their jobs correctly.

But bank boards might be farther from the original social mission of the MFI and more subject to pressure to produce profits for the (commercial) investors that they might represent. The burden then falls on management to keep an eye on the social mission of the MFI, if they can. In those cases, board training on social mission might be valuable.

As MFIs transform into banks, key people from the NGO often stay involved on the board, a scenario that can create other challenges. In the case of Constanta Foundation, the foundation's CEO became the chairwoman of the board. In order to be truly supervisory, she had to take special care to avoid even the appearance of engaging in management functions. In the case of Constanta Bank, the board completely replaced its members from those of the NGO, a change that fueled much of its later success.

Role of investors

Institutional microfinance investors also have a special role to play in maintaining good governance in an MFI, a point driven home by Matthias Adler, Principal Economist at KfW, a major German public sector investor. Legally, KfW is required to have (board) representation at the institutions in which it invests. As a result, KfW has developed special practices to strengthen the quality of their widespread board participation.

KfW realizes the potential for conflicts of interests between a board member's duty to look (only and foremost) after the interests of the MFI, and the interests of individual investors. So they have developed rules to create strict "Chinese walls" (information barriers) between their board members and the investment staff at KfW. They make sure that a KfW board member will not return to headquarters and report on an MFI board meeting to his colleagues. In KfW's view, this practice increases transparency and reduces the potential for distrust on the part of the MFI's management.

While this concern is not exclusive to MFI investors, in the small world of microfinance, with its limited number of players, the concerns are all the greater. KfW, as a leading microfinance investor, also wants to ensure that boards of directors have all of the skills they need. So KfW helps boards with needed training.

Independent board members

Mr. N. Srinivasan, an independent board member of Equitas Bank in India, pointed to the special contribution that results from independence. Independent board members, beholden to no one, can ensure that MFIs are mindful of the balance between the interests of shareholders and other stakeholders, especially MFI clients. He said MFI boards cannot just stop at compliance with regulatory minimums on governance, but should guarantee that vulnerable customers are well served.

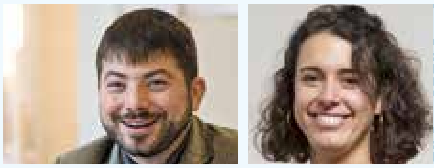
In particular, this can be accomplished by giving robust oversight to the MFI's audit and customer grievance mechanisms and by seeing to it that MFIs charge interest rates appropriate to their mission. The role of independent board members in overseeing these areas is critical, given the unique perspective afforded by their impartiality and their ability to instill caution and prudence.

Mr. Srinivasan also called attention to things that can weaken the board's added value, such as the transfer of certain board oversight functions to select shareholders by means of shareholder agreements. Typically, such agreements can affect the board's authority to decide such key items as corporate budgets, selection of senior executives, opening or closing branches or other important strategic decisions. This reduction of board oversight could create problems and raise conflicts of interest.

The microfinance industry brings new and special challenges to achieving good governance, complicated by its fascinating history. Like the wheel, it doesn't need reinvention. Just some fresh air.

Microfinance and savings outreach: What are we measuring?

Daniel Rozas & Gabriela Erice, e-MFP



Daniel Rozas & Gabriela Erice

For years, credit was the driving force behind microfinance. But times have changed. Instead of credit, we now speak of financial inclusion and expanding access to savings stands as one of the topmost objectives for the sector.

We also live in the age where it's no longer acceptable to claim success without reliable metrics to back it. And on that front, the metrics applied to savings are woefully inadequate. According to the paper recently published by e-MFP 'Microfinance and Savings Outreach: What Are We Measuring?', 50 - 75% of the savings accounts reported by MFIs stand empty. Like shadows cast by an evening light, the majority of savings clients are but illusions that obscure the real savers. We are thus doubly tricked – led to believe that more clients are saving than is the case, and that the clients who save are poorer than they really are. This is both a problem and a symptom of a larger challenge. The problem is simply that we know surprisingly little about savings outreach. Reporting the gross number of bank accounts and total deposits, whether for a single institution or an entire market, is a poor reflection of reality.

In 2008, the microfinance sector in Bolivia, one of the case studies in our paper, reported 1.4 million savings accounts, with an average balance of $309. Bolivia is often regarded as one of the most mature microfinance markets, and the success of its savings outreach is one of the reasons why. However, our analysis shows that after excluding empty accounts, the actual outreach drops to some 366,000 active savers, with an average balance of $1,225. Instead of reaching millions of poor savers, Bolivian MFIs are serving a substantially smaller number of individuals, many of whom probably earn more than the MFIs' traditional clients. Similar patterns show up at banks and credit unions. That's the problematic outcome of how savings outreach is currently reported.

The large number of empty savings accounts is also a symptom of the challenges of serving poor savers. As several recent studies have shown, low-income customers often let their accounts go unused after opening, whether due to poor product design or inaccessibility. While almost all poor households save informally, developing formal savings products requires deep understanding of customers and their needs.

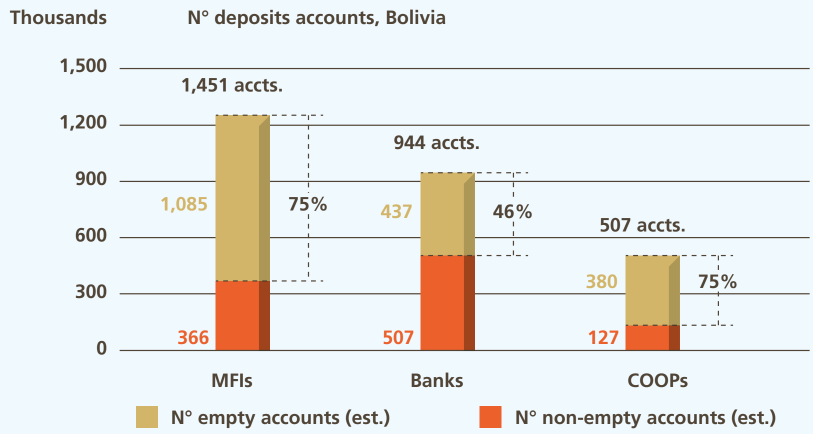
Of course, not all empty accounts are necessarily dormant nor are dormant accounts inherently a problem in itself. Clients may use accounts as a means to receive payments rather than as vehicles for saving – an important financial service in its own right. In other cases, such accounts may facilitate transactions between the institution and the client. And finally, keeping inactive accounts open may help maintain a customer relationship that could be reactivated at a later time.

However, one cannot distinguish between such diverse account usage by relying on traditional reporting methodology. Reporting on savings, whether by MFIs, country associations, investors and others should move to a new set of standards that can separate empty accounts from those with balances, and inactive ones from those that are used regularly.

Such additional reporting may incur marginally higher costs and administrative burdens. However, it is essential for MFIs that want to strengthen their client relationships. If we as a sector are to reach the objectives we set out for financial inclusion, we must abandon the illusory shadows of traditional savings reporting and face the full complexity of real savings outreach.

To read the full research paper visit www.e-mfp.eu

Empty accounts exaggerate outreach to the poor



Source: Annual Report 2008, ASFI, Autoridad de Supervisión del Sistema Financiero, Bolivia

NEWS FROM OUR ACTION GROUPS

4th European Microfinance Research Conference

The 4th European Microfinance Research Conference will be held from 1st – 3rd June 2015 at the University of Geneva. This biannual conference organized by the European Microfinance Platform is the largest meeting of its kind. The very successful previous conferences took place in Brussels (2009), Groningen (2011) and Kristiansand/Agder[5] (2013).

The 2015 event will be hosted by the University of Geneva (Geneva Finance Research Institute) in association with the Graduate Institute, the University of Fribourg and the University of Zürich. The call for papers will be issued in May this year.

[5] *See 3rd European Microfinance Research Conference Report at www.e-mfp.eu*

Microfinance & Environment Action Group

The Microfinance & Environment Action Group is pleased to announce our next meeting and participation at the University Meets Microfinance (UMM) conference on Value Chains in Agricultural and Green Microfinance at the Frankfurt School of Finance & Management, 3rd - 4th July. We would like to invite all Action Group Members as well as any of the e-MFP community interested in Environment and Microfinance to join us to discuss current trends in green microfinance, future plans for the Action Group and the progress of the group's work in developing a Green Index for MFIs. The Green Index under development is a tool that can be used to assess, at an organizational level, a set of specific indicators to identify a financial institution's commitment to the environment, and possibilities to foster green opportunities. As environmental and green portfolios are becoming an increasingly relevant topic addressed by microfinance, a way of measuring the internal and external environmental risks for MFIs and FIs is needed. Therefore, further input and feedback on the first round of practical application of the tool will be discussed. In addition, in collaboration with the UMM, a call for papers is in the pipeline, to be reviewed by the Action Group.

If you are interested in joining us, please contact: hadley.taylor@microenergy-international.com

UNIVERSITY MEETS MICROFINANCE

Agricultural finance for smallholder farmers: Rethinking traditional microfinance risk and cost management approaches - with evidence from microfinance institutions in Kenya, Uganda, Benin and Cameroon

Daniela Röttger

Daniela Röttger, under the direction of
Prof. Dr. sc. Pol. Tobias Debiel and Roger Peltzer

Daniela Röttger won the 2013 University Meets Microfinance (UMM) Award for an outstanding master thesis. Her research focuses on agricultural microfinance for smallholder farmers in Sub-Saharan Africa. She holds a master degree in international relations and development policy from the University of Duisburg-Essen and currently works as an independent consultant for microfinance and monitoring & evaluation, amongst others for the Competitive African Cotton Initiative (COMPACI). Her article summarizes and highlights the major findings of her research. Her findings were also presented at the European Microfinance Week 2013 in Luxembourg and the publication of her thesis with UMM is expected during the course of 2014.

For further requests please contact daniela.roettger@posteo.de

Even though traditional microfinance has successfully paved the way for offering financial services to low-income populations without traditional collateral, many microfinance institutions (MFIs) are still reluctant to move into rural areas and agricultural finance, due to the perceived high risks and costs. Additionally, lending to smallholder farmers requires MFIs to move away from or adapt the very criteria that have proven successful in mitigating credit risk, as some of the successful microfinance lending techniques are not suited for agricultural investments (e.g., quick and frequent repayments or staggered loan disbursements within joint liability groups).

The research analyzes how MFIs in Sub-Sahara Africa, who offer financial services to smallholder farmers, have managed

UNIVERSITY MEETS MICROFINANCE

these challenges by using a combination of proven traditional microfinance mechanisms while adapting specific loan features and lending mechanisms to the particularities of smallholder agriculture. Several qualitative expert interviews as well as interviews with eight MFIs in four Eastern and Western African countries (Uganda, Kenya, Benin, Cameroon) were conducted in 2011 for this purpose.

The findings show that most MFIs in the study increased their loan terms to cover one agricultural (crop) cycle and introduced flexible repayment schedules, allowing for grace periods and lump sum repayments. MFIs mitigated associated risks by analyzing overall household income and using farmers' non-harvest related income streams for monthly interest payments or regular, small principal repayments. Most MFIs introduced partial loan disbursements according to the agricultural investment schedule (e.g. sowing, fertilizer application, harvesting) to circumvent loan diversion and to reduce the risk of a total loan default. Many MFIs also attached an insurance product to their agricultural loans and/or cooperated with other value chain actors to reduce the risks and costs of lending.

No clear picture was found among interviewed MFIs regarding appropriate interest rate levels. Quoted interest rates spanned a wide range from 10% to 46% p.a. As the level of interest rates for smallholder farmers is often a topic of emotional debate among development practitioners, the study examines the effect of different interest rate levels on a "typical" cotton smallholder farmer's income. The analysis indicates that a change in farm-gate prices can have a substantially higher impact on farmers' income than a corresponding change in interest rates. Careful analysis regarding the respective value chain and crop in question is therefore suggested to assess whether in fact it is high interest rates or rather other factors that are the main challenge for farmers' profitability.

Employing qualified staff with an agricultural (economics) background was crucial for all surveyed MFIs both with respect to loan officers as well as staff at headquarters responsible for loan development. Lending to smallholder farmers requires a thorough loan assessment via physical visits to the farmers' fields to collect information on farmers' agricultural performance. Having the right attitude as well as sound agricultural knowledge was of highest importance for successfully choosing the "right" farmer (group), effective monitoring of his/her performance and hence achieving solid repayment rates.

MFIs stated that agricultural microfinance has a distinct advantage vis-à-vis traditional microfinance: farmers' integration in value chains can be used to significantly reduce lending risks and costs. Examples included the collaboration of MFIs with agricultural extension staff to reduce monitoring costs; an input voucher system to reduce loan diversion or cooperation with a buyer who pays farmers' revenues onto the MFI's account so that farmers' loan repayments could directly be deducted thereof.

The establishment of such value chain collaborations as well as the intensive assessment and monitoring procedures described above imply high additional costs. These costs could be partly offset by meeting with smallholders in groups and retaining successful farmers as clients. Technical innovations such as mobile phone banking, agency banking or mobile bank branches also reduced costs for MFIs and for smallholders, where available.

In summary, the research demonstrates that smallholder farmers in rural areas can be successfully served by MFIs that adapt their loan features and lending techniques. Given the extent of adaptations required, pursuit of agricultural microfinance deserves careful consideration. A strong commitment combined with a well thought out business strategy and market analysis is needed to develop and sustain a successful agricultural microfinance business.

Financial inclusion and microfinance in Latin America

Yasmin Olteanu and Fernando Rodríguez

This article presents the main concepts of financial inclusion and microfinance and is the introductory article of the thematic paper produced after the 9th UMM workshop on 'Financial Inclusion and Microfinance in Latin America'. The thematic paper was the result of discussions and presentations at the UMM workshop organized in Salamanca, Spain on 30th – 31st May 2013 in collaboration with the University of Salamanca. It features interviews, articles and research contributions from workshop participants.

The entire publication will soon be available on the e-MFP, www.e-mfp.eu and UMM (www.universitymeetsmicrofinance.eu) websites.

Financial inclusion aims at creating "a state in which all people who can use them have access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients. Financial services are delivered by a range of providers, most of them private, and reach everyone who can use them, including disabled, poor, rural, and other excluded populations" (Center for Financial Inclusion, 2011). In the past, the measurement of financial inclusion in different countries was challenging, with data for a cross-country comparison being very rare. Among the most quoted approaches are the FinMark Trust's FinScope initiative, a household survey initiated in 2002 in fourteen African countries and Pakistan, and the European Bank for Reconstruction and Development's Life in Transition Survey (LITS), a broader survey that has been conducted since 2006 on thirty-five countries in Europe and Central Asia including a number of relevant financial questions. In addition to this demand side related data, CGAP and the IMF collect data for the supply side. In 2011 a valuable complementary initiative to these collection efforts emerged: the World Bank's Global Financial Inclusion (Global Findex) database, which provides cross-country, time-series data on how individuals use financial services. The Global Findex data show that there are some tendencies that hold worldwide: the female, the young, the less educated, the poor and the rural populations run a higher risk of being financially excluded. Two thirds of all adults in developing countries do not have an account at a financial institution and a fifth of the adult population earns less than US$2 a day. Reasons are not only the involved costs but also the expected paper work and other transaction costs like travel time (Demirgüç-Kunt & Klapper, 2012).

How close or diverse financial inclusion is from microfinance depends on how microfinance is defined. A decade ago the definition of microfinance mostly centred around the provision of financial means to the poor and very poor self-employed populations with the objective of enabling them to start or increase a business activity and by this improve their living conditions (e.g. Otero, 1999). With the rapid development and maturing of the sector worldwide, this definition changed. The Microfinance Gateway today defines it as "a movement that envisions a world in which low-income households have permanent access to a range of high quality and affordable financial services offered by a range of retail providers to finance income-producing activities, build assets, stabilize consumption, and protect against risks. These services include savings, credit, insurance, remittances, payments, and others" (Microfinance Gateway, 2013). While the original definition included an end objective, today's overlaps substantially with the financial inclusion agenda. The main difference between the concepts is that microfinance focusses on certain services and providers, while financial inclusion has a broader approach (Reed, 2013). Microfinance can hence be understood as one major, but not the only element of the global financial inclusion movement.

The first steps of microfinance in Latin America date back to the 1970s, when simultaneously to the beginnings of Grameen Bank, several attempts were made across the region to provide credit to poor microentrepreneurs. Today the region's microfinance sector has some distinguishing characteristics compared to the other regions. One of them is the higher level of commercialization, leading to a high degree of formality among MFIs (downgraded banking and upgraded NGOs) and less dependency on donations and subsidized funding. Another one is the high number of different but (compared to other regions) small MFIs serving the market (Berger, Goldmark, & Miller-Sanabria, 2006). According to Mix Market data, Latin American MFIs over the last decade have been among the fastest growing across all regions.

Numerous Latin American countries have established financial inclusion agendas with some countries focusing more on its implementation than others. While funding as such is not lacking in the region, the broadening and deepening of financial participation is still a challenge. The four main types of operating MFIs are banks, non-bank financial institutions, cooperatives and NGOs and the general trend is towards formalization and becoming regulated. Indicators suggest that the access to payment and saving services is comparable to peers. Costs for these financial services are however still comparatively high and distribution of access to credit is still uneven (Torre, Ize, & Schmukler, 2011).

The topics of financial inclusion and microfinance are commonly associated with developing and emerging economies. Financial exclusion however does not restrict to these countries (European Commission, 2008). Taking an exemplary look at Spain, it can also be said that the effects of the global financial crisis have led to a deterioration of the grade of financial inclusion (Fernandez Olit, 2012). Research shows that financial exclusion is often linked to social exclusion as being financially excluded speeds up the process of being socially excluded (Carbo, Gardener, & Molyneux, 2005).

The thematic paper[6] brings together articles from experts on the above introduced topics, which are being discussed from three perspectives: Financial Inclusion generalities, Financial Inclusion in Latin America and Financial Inclusion in Spain.

[6] *The bibliography can be consulted in the thematic paper posted at www.universitymeetsmicrofinance.eu and www.e-mfp.eu*

News from the e-MFP University Meets Microfinance Action Group

Created in 2010, the e-MFP University Meets Microfinance (UMM) Action Group aims to foster cooperation between students, academics and practitioners and to further improve education and research in the fields of microfinance and financial inclusion.

This year, as part of an initiative to transfer more UMM responsibilities to e-MFP UMM Action Group members, e-MFP has taken the lead on and manage the 1^{st} call for Scholarship applications in 2014. The 2014 application deadlines can be found below.

UMM Scholarships and Awards program

The UMM Action Group invites students enrolled in or having completed a Bachelor, Master or PhD on a financial inclusion-related topic to participate in the UMM Scholarships & Awards Program.

Scholarships: The UMM Scholarships Program offers scholarships to support student field experiences on topics related to financial inclusion. Scholarships of up to €1500 are granted to Bachelor and Master Students enrolled at universities in the European Union who plan to conduct internships and / or field research in developing countries. The scholarships are granted to cover travel and / or accommodation expenses during the field experience.

Awards: The UMM Awards program recognizes outstanding Master theses and PhD articles on topics related to financial inclusion. The winning candidates will be recognized at a public ceremony and will receive prize money of €500. The winning thesis and PhD article can also be published in print and online in the frame of the University Meets Microfinance Program.

Scholarships & Awards Application Deadlines for 2014:

- April 15^{th}, 2014: 1^{st} Call for Scholarships (Bachelor & Master)
- June 15^{th}, 2014: 2^{nd} Call for Scholarships (PhD)
- October 31^{st}, 2014: 3^{rd} Call for Scholarships (Bachelor & Master)
- September 1^{st}, 2014: Call for Awards (Master & PhD)

For more information on the Scholarships & Awards program and UMM visit:
www.universitymeetsmicrofinance.eu,
www.facebook.com/universitymeetsmicrofinance,
umm@planetfinance.org

NEWS FROM OUR MEMBERS

First EIB Rural Impulse Fund II Symposium in Africa: Report

Incofin Investment Management and Frankfurt School of Finance & Management present the Report of the first EIB Rural Impulse Fund II Symposium in Africa. Through this publication, which provides insights and best cases about microfinance in the African, Caribbean and Pacific region, they wish to encourage future initiatives promoting peer-to peer-learning and financial inclusion in rural areas.

The Report summarises the contributions made by the participants during the Symposium, a five-day workshop held in Mombasa, Kenya, and showcases best practices and lessons learnt through four focused themes: institutional transformation, micro, small and medium enterprises (MSME) lending, agri-lending and social performance management. A diverse set of actors including donors, consultants, and twenty microfinance institutions (MFIs) coming from Sub-Saharan African countries and the Pacific (Timor Leste), attended the event. The Report has been funded by the European Investment Bank (EIB) under the non-repayable aid granted by the European Commission within the Cotonou Agreement.

- To access and download the Report, go to: *www.incofin.com/en/EIB_RIFII_Symposium_Report*
- To access and download all keynote presentations given by the main speakers, go to: *https://drive.google.com/folderview?id=0BxeHvBV6Mu6ESmREbG5hblB4SHc&usp=sharing*

Impact measured

In 2013 Triple Jump and Oxfam Novib jointly developed a robust, but affordable and scalable method to assess social impact of financial services to micro and small entrepreneurs. Positive impact on a number of livelihood indicators was confirmed. This new method may help impact investors to improve investment strategies and sustain claims of social impact.
A new cost-effective impact study illustrates positive impact of microfinance. Income and savings have increased more significantly for clients than for non-clients, according to respondents.

Pilot Study

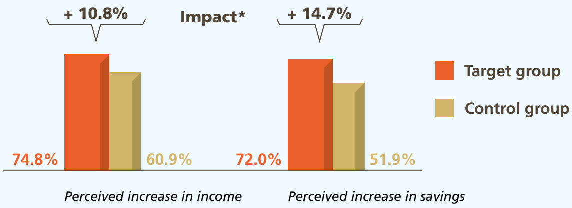
Oxfam Novib designed a cost-efficient pilot - with methodological support from Wageningen University - to measure impact by comparing the perception of change of a sample of clients with a control group. In both cases, a randomised sample of around 250 clients and 250 non-clients (the control group) were interviewed. Data was automatically uploaded from the survey app into a central database. Sampling and data analyses were done independently from the financial intermediaries. Propensity score matching was used to ensure comparability of the client group with the control group.

The approach has been tested with two microfinance institutions in Africa – Attadamoune (aka AMSSF) in Morocco and VisionFund (aka APED) in Ghana. In both cases, evidence was found that the services of these financial intermediaries have had a positive impact on a number of livelihood indicators.

Results

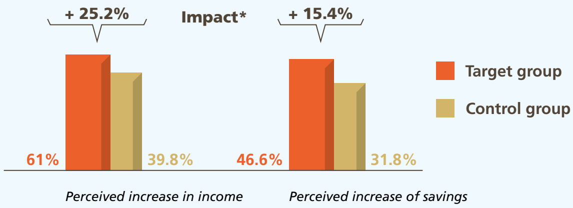
The results are encouraging. For example, more clients have perceived an increase in income and savings, compared to the control group (composed of future clients). Other (indirect) impact domains included in the assessment are living standards, access to food, education and health social participation, education and health, where mixed impact was shown. The potential use of this cost-efficient approach is positive, due to its scalability and low costs. It puts the end client at the forefront. It may help impact investors and financial institutions to improve investment strategies and sustain claims of social impact with evidence at reasonable costs. Based on the results, financial intermediaries can define and implement follow–up actions to improve their products, or theycan start a more qualitative analysis to get a more in-depth understanding of the impact findings.

VFG Livelihood indicators: Income and Savings



*The IMPACT statistic is calculated in STATA using Propensity Score Matching Methods

Attadamoune Livelihood indicators: Income and Savings



*The IMPACT statistic is calculated in STATA using Propensity Score Matching Methods

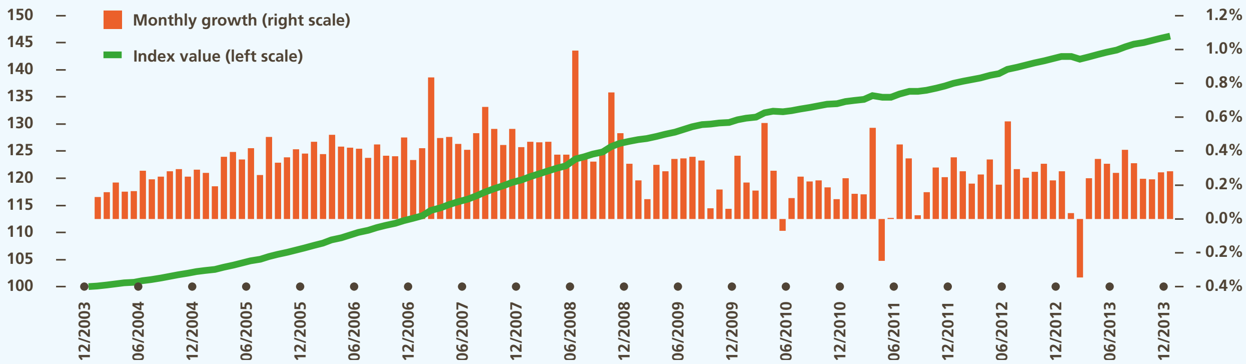
Symbiotics Microfinance Index (SMX): A 10-Year Track Record

With over ten years of existence, the Symbiotics Microfinance Index (SMX) has been serving as an industry benchmark aggregating the main global fixed income funds* which target microfinance institutions in developing countries. The index is namely used by microfinance fund managers to compare their funds' performance and by private institutional investors wishing to position their microfinance investments within their global portfolios.

Overall, the SMX has served as a testimony and measurement of the financial profile of the asset class: stable and predictable absolute returns, with low volatility and low correlation to mainstream markets. Accessing these funds allows for portfolio diversification and enables investors to access a broad and new market range along with value creation opportunities in high growth frontier economies.

** These funds have the majority of their assets invested in microfinance debt instruments and offer shares to private investors with an open-ended duration, reasonable liquidity and at least monthly independent valuations.*

The SMX-MIV Debt USD 10-year Performance



Over 120 monthly periods, the SMX-MIV Debt index has had only three negative months. www.syminvest.com

NATIONAL PLATFORMS

remEX – Red española de microfinanzas en el exterior Spanish Microfinance Network

The Spanish Microfinance Network (remEX) was established on July 2, 2012, when the founding members signed the Deed of Constitution. It was at the Fifth Global Microcredit Summit held in Valladolid in November 2011 that the imminent creation of the Spanish Microfinance Network was officially endorsed, with the support of the Spanish Agency for International Development Cooperation (AECID).

Aware of the importance and positive impact that the ability to share experiences, knowledge and lessons learned can have on our daily work, the search for and use of synergies between agents was one of the main reasons for creating this meeting point for the sector in Spain. Our country has been and continues to be very active in the promotion of microfinance in emerging and developing countries. In fact, it has been for many years the world's second largest bilateral donor.

The Spanish Microfinance Network (remEX) is a national platform which brings together the most relevant Spanish players in the world of microfinance in developing and emerging countries in order to improve the efficiency and effectiveness of our actions and make them more visible in Spain and abroad.

remEX members (public and private entities, third sector organizations and academia) are convinced that:

- Microfinance is an appropriate tool for improving living conditions in emerging and developing countries by providing access to financial services to an important segment of the population that is poor, vulnerable and marginalized.
- We have accumulated ample experience supporting the development of microfinance in emerging and developing countries, and it is reasonable and appropriate to share that experience with all agents.
- Spain has been one of the world's leading bilateral donors in recent years and this should be used to increase the visibility and impact of our actions at the international level.
- There are opportunities for taking advantage of the synergies among agents and actions that can contribute to bolstering the impact on development, collaboration opportunities, visibility of agents and their actions, generation of talent and international presence and impact.
- Spanish society should be made aware of the challenges and obstacles that prevent people in underprivileged environments from obtaining the financing they need. It is essential to raise the awareness and understanding of the situation.

We want remEX to remain a space for dialogue, shared experiences, analysis and integration, envisioned as a place for disseminating knowledge and experiences, for coordinating actions, for increasing the quantity and quality of actions, for identifying comparative advantages and collaboration opportunities, for attracting, motivating and training talent in the microfinance sector and for improving the national and international visibility of Spain's activities in the foreign microfinance sector.

A large part of the Network's internal activities are concentrated in four working groups:

- Research and evaluation of social impact
- Innovation
- Financial education, training and non-financial services
- Visibility, synergies and talent

We will soon publish the main conclusions from our work which will be available on our website. For now, both remEX blog and remEX twitter account are the channels that more actively have allowed us to communicate and share experiences with the world.

For more information, please visit www.remexspain.org or contact remEX Technical Secretariat hosted by Fundación Afi (remex.spain@gmail.com).

Members: Analistas Financieros Internacionales, CECA, Foro Microfinanzas, Fundación Afi, Fundación Codespa, Fundación Habitáfrica, Fundación Iberoamericana para el Desarrollo (FIDE), Fundación Microfinanzas BBVA, Fundación Nantik Lum, Fundació Privada Servei Solidari per la Inclusió Social, Fundación Xaley, Gawa Capital Partners, Marcelo Abbad Consultoría Social, Máster Internacional en Microfinanzas para el Emprendimiento, 1x1 Microcredit, Oikocredit Catalunya, Oikocredit Euskadi, Oikocredit Sevilla, Pademobile, Sotermun, Treball Solidari.

remEX is also supported by a robust group of observers who are welcome to participate in the Network's activities and who show their support and interest in the initiative by making its existence and objectives known to others.

Observers: Agencia Española de Cooperación Internacional para el Desarrollo, Banco de España, Entidad Estatal de Seguros Agrarios, Fundación ADRA, Fundación CIDEAL, Fundación Inversión y Cooperación, Fundación ISIS, Ministerio de Economía y Competitividad

ANNOUNCEMENTS

The **Center for Microfinance at the University of Zurich** will offer two executive courses in 2014. The microfinance course covers the basics of microfinance in emerging and developing economies. The course on socially responsible investments (SRI) provides theoretical foundations and a practical overview on strategies, products, performance management and investor profiles of SRI.

For more information please visit
http://www.cmf.uzh.ch/teaching.html

CERISE has released a universal social performance assessment tool that integrates latest sector social performance standards. This newest version - SPI4 - enables its users to evaluate the level of implementation of the Universal Standards for Social Performance Management, including the Smart Campaign Client Protection Principles. SPI4 also offers users with a specific mission focus—green, poverty, rural, gender— the possibility to assess their practices thanks to optional indicators that reflect the latest industry thinking in these areas. The testing phase of this version is open until **May 2014**.

For more information visit
http://spi4wiki.pbworks.com

The **International Training Center** of the ILO has a new 'Making Microfinance Work for YOUTH: Managing Product Diversification' training course which is designed for middle and senior managers in microfinance institutions. The course focuses on deeper analysis of the youth market segment, defining the target markets, exploration of opportunities and challenges inherent to it, addressing specific risks, selecting and designing a relevant product mix and designing a coherence outreach strategy to efficiently serve young people with microfinance services.

For more information please visit
http://www.itcilo.org/calendar/17762?elenco=Description

The Centre for Development Finance and Impact Assessment (CIBIF) of the **University of Groningen**, the Netherlands, will organise a summer school on 'Microfinance Experiments: Methods and Applications', **17th - 23rd August 2014**.

For more information please visit
www.rug.nl/summerschools; or contact a.beerta@rug.nl

African Microfinance Week
www.microfinance-africa.org

Save the date! The second edition of the **African Microfinance Week** will take place **1st – 5th December 2014**, in Ouagadougou, Burkina Faso. This edition will focus on agricultural and rural financial innovation in Africa. A call for proposals on innovative business models and new inclusive finance instruments for rural agricultural development will be launched soon.

For more information, contact info@microfinance-afrique.org

CALENDAR OF e-MFP EVENTS

J	F	M
A	M	J
J	A	S
O	N	D

16th May 2014
e-MFP Board meeting

27th May 2014
ALFI Impact & Microfinance Conference

12th – 14th November
European Microfinance Week

13th November
European Microfinance Award Ceremony

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