

Road Map for the Microfinance Industry: Focusing on Responsible and Client-Centered Microfinance

From the Microfinance CEO Working Group
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In less than 40 years, microfinance has spread around the world, today providing access to credit and other financial services to more than 205 million poor clients,¹ most of whom were previously ignored by mainstream financial institutions. From modest roots, microfinance has built a global network of institutions dedicated to serving low-income people. It has transformed our understanding about the power of opportunity.

In early 2011, a group of CEOs from microfinance organizations that work globally began to have regular, informal conversations about the future of the microfinance sector as it matures and faces new challenges. We found that we shared many of the same values and concerns, including a desire to work together to help improve our organizations and advance the industry. From these conversations emerged the Microfinance CEO Working Group (described further below).

Those values and concerns have led the Working Group to adopt a shared approach to the future of microfinance, which this paper outlines, and to urge others to endorse this approach.

The Challenges: Client Focus and Responsible Finance

As leaders in the microfinance industry, we applaud the achievements of microfinance practitioners around the world. Every day, legions of committed, passionate individuals rededicate themselves to their work in support of helping millions (and ultimately billions) of people gain access to financial services. We believe deeply that microfinance is a powerful tool for improving the lives of the poor and that the field has not yet reached its full potential. The number of poor people who could benefit from financial services is staggering: by some estimates, as many as 2.7 billion people in developing countries are unbanked.² The microfinance industry has much more work to do. However, in order for the industry to continue to serve as a vital and creative force in the world, it must recognize and actively address several issues that are crucial to its continued success.

¹ Jan P. Maes and Larry R. Reed, "State of the Microcredit Summit Campaign Report 2012," Microcredit Summit Campaign, 2012, www.microcreditsummit.org/pubs/reports/socr/2012/WEB_SOCR-2012_English.pdf.

² CGAP, "Financial Access 2009: Measuring Access to Financial Services around the World," September 2009, www.cgap.org/gm/document-1.9.38735/FA2009.pdf.

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First, the microfinance industry must raise its standards of responsibility to clients. For many years, microfinance organizations emphasized the twin objectives of achieving scale and financial sustainability. At times, in the focus on growth and institutional development, client interests were subordinated to the achievement of financial objectives. Furthermore, new forces were introduced as the industry grew, such as increased competition for clients in some saturated markets and the entry of players that lacked a genuine social-mission orientation. Problems of client over-indebtedness in a number of markets (India, Bosnia, Nicaragua, and Morocco, among others) have received substantial media, political, and in some cases regulatory attention, with repercussions for the larger microfinance community. To ensure greater focus on client benefit and prevent future problems, microfinance needs to develop robust practices to protect, effectively serve, and support clients. The industry needs high-quality and standardized principles and procedures that ensure ethical, transparent business and client safety.

Second, the sector must create real, measureable, social and economic value for clients. For too long, many microfinance organizations have relied on credit as their primary product offering. Recent research demonstrates that the poor live far more complex financial lives than previously assumed. While microcredit is a compelling tool that has helped millions grow their businesses and establish more stable lives, it is clear that clients need a range of services, such as savings and insurance. To effectively support people as they work to improve their lives, microfinance institutions (MFIs) should aspire to offer a broader array of products and services that are tailored to meet client needs. And they need to actively manage their social performance in order to hold themselves accountable for achieving the results they seek.

We envision a microfinance industry that protects its clients, is transparent, and measures and achieves social outcomes and impact.

Advancing Industry Standards Inside and Out: The Three Key Initiatives

We believe that careful, systematic efforts to improve our performance are vital. These efforts must span numerous fronts, including developing strong consumer protection practices and meaningful measures of transparency, and establishing industry standards for social performance. In this vein, we have focused our initial efforts on promoting and supporting three existing initiatives working to raise standards across the microfinance industry: the Smart Campaign, MicroFinance Transparency, and the Social Performance Task Force's Universal Standards for Social Performance Management (SPM).

All three of these initiatives are working to put in place an architecture that will assist the industry to reach and maintain its highest goals and standards. Each has made important initial accomplishments, and each will need full industry support in order to achieve its potential.

- **The Smart Campaign** is an unprecedented effort to make client protection part of the DNA of microfinance. Declaring that “protecting clients is not only the right thing to do; it’s the smart thing to do,” the Campaign supports institutions as they ensure that they treat clients fairly and respectfully, and avoid the harm that improper use of financial products can sometimes cause.³ The Smart Campaign assists the industry to integrate the widely endorsed Client Protection Principles thoroughly into practices at all levels. This year, the Smart Campaign will be piloting its certification program, through which institutions can

³ The Smart Campaign, www.smartcampaign.org.

demonstrate their adherence to the Client Protection Principles via third-party verification. The Smart Campaign has been endorsed by more than 2,400 microfinance organizations, investors, and individuals in 130 countries – reaching organizations that serve more than 40 million people.

- **MicroFinance Transparency** focuses on moving microfinance to full pricing transparency. It has published detailed information on pricing by 317 microfinance institutions in 12 countries, representing more than 36 million client loans in all, with 14 additional countries forthcoming.⁴ *MFTransparency* provides a public forum for MFIs to demonstrate their commitment to transparency and integrity, and serves as an important resource for comparative information for investors, regulators, and eventually, clients. *MFTransparency* also provides training and advice to ensure that disclosure strengthens the microfinance industry overall. Since 2008, nearly 900 industry leaders have endorsed *MFTransparency's* work.
- The **Social Performance Task Force (SPTF)** is a collective effort by more than 1,000 industry stakeholders to develop common tools for measuring social performance and mission fulfillment.⁵ Subscribing to the belief that you can only manage what you measure, the SPTF aims to support microfinance organizations to effectively translate their social missions into reality. This ambitious initiative is in the process of developing Universal Standards for SPM and will ultimately establish benchmarks for performance measurement and management.

Over the past several months, the Microfinance CEO Working Group has worked to engage with each of these initiatives. We have urged the three initiatives to work more actively with each other in a smoother, more coordinated fashion. We have provided detailed feedback to the SPTF Steering Committee on the proposed Universal Standards for SPM and on the strategic direction of the SPTF going forward. We have met with Smart Campaign representatives for an in-depth discussion on the Campaign's proposed certification program, in order to provide feedback and learn how our own organizations and affiliates can become involved. We are tracking our organizations' participation in each initiative, as a challenge to one another to deliver on our word.

While we believe that these initiatives hold significant potential for the industry, we also continue to seek out and encourage exciting new ideas that hold power for the future. We note that there are other promising industry-wide initiatives under development, and we will comment on, endorse, and urge others to support some of them in due course. We also recognize that other networks of microfinance advocates and practitioners are proposing new standards and actions that are constructive steps, such as the Paris Appeal for responsible microfinance,⁶ and the Seal of Excellence for Poverty Outreach and Transformation in Microfinance.⁷

As members of the Microfinance CEO Working Group, we commit to embed the principles and practices of the three initiatives into our own networks. But while our organizations' networks collectively serve tens of millions of clients on five continents, we by no means represent microfinance as a whole. We call on our valued peers and colleagues throughout the industry to endorse these three initiatives and to accelerate their adoption within their own organizations.

⁴ MicroFinance Transparency, www.mftransparency.org.

⁵ Social Performance Task Force, www.sptf.info.

⁶ Convergences 2015, "The Paris Appeal for responsible microfinance," 2011, www.appeldeparis.org.

⁷ Microcredit Summit Campaign, www.microcreditsummit.org.

At this moment, microfinance has an opportunity to build on past successes, learn from, and respond to the challenges it faces in order to be a more responsive, responsible, and transformative industry. By taking sincere and systematic action, we can build more successful financial institutions that help change the lives of the people we serve.

We welcome comment and feedback from the greater microfinance community and beyond.

Signed,

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FINCA International

Steve Hollingworth, President
Freedom from Hunger

Alex Counts, President and CEO
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About the Microfinance CEO Working Group

The members of the Microfinance CEO Working Group believe that strengthening microfinance requires a unified voice and systematic change. Currently, members include ACCION, FINCA International, Freedom from Hunger, Grameen Foundation USA, Opportunity International, Pro Mujer, VisionFund International (World Vision's microfinance arm), and Women's World Banking. Initially convened by Asad Mahmood of Deutsche Bank, we have found inspiration in talking with each other about the obstacles facing the industry and each organization's response. The group meets monthly, either in person or via phone, to discuss major issues and opportunities facing our organizations. The group has selected Rupert Scofield, CEO of FINCA International, and Mary Ellen Iskenderian, CEO of Women's World Banking, as co-chairs. The Working Group is currently housed at the Center for Financial Inclusion at ACCION.

Though our approaches to microfinance vary in their implementation, all our organizations share the common goal of bringing financial and related services to those who have been traditionally excluded, helping them create new opportunities and better livelihoods for themselves and their families. These central tenets guide our thinking:

- *Collaboration is powerful.* Working together, we are able to share concerns, find commonalities, and develop collective responses. We seek to speak with a cohesive voice, offering potent support to the most important solutions. We believe that drawing together with other microfinance industry groups to jointly advocate for responsible microfinance practices will strengthen the quality and impact of client services.
- *We must translate language into practice.* Microfinance organizations need to go beyond declarations of commitment and develop the processes and procedures that transform those words into reality. This starts with us: Working Group members are committed to raising the standards of our networks and becoming an example to others.

The group has come together to respond swiftly to microfinance issues as they arise, providing a coordinated response to pressing challenges. We serve as a network of peers, sharing concerns and successes. We aim to learn from one another and continually identify ways to strengthen our organizations. We seek to identify and celebrate inventive ideas that offer the potential to improve microfinance's reach and impact. And we support the dissemination of industry-wide standards and practices, focused on client needs, which will lay the groundwork for years to come.

If you have any questions or comments, please contact Meghan Greene, manager of the Microfinance CEO Working Group, at mgreene@accion.org.

