



Milano 24 ottobre 2011

Present and Future of Microfinance
*Transparency, Client Protection and Social Impact for a
Sustainable Growth*

Social Impact of
microfinance

Aldo Moauro
MicroFinanza Rating

CREDIT RATING

An evaluation of the solvency of a financial institution. It can be applied to an institution or to the debt emitted by an institution.

It is often expressed through a scale of grades which summarizes the definition of the level of credit risk.

RATING IN MICROFINANCE

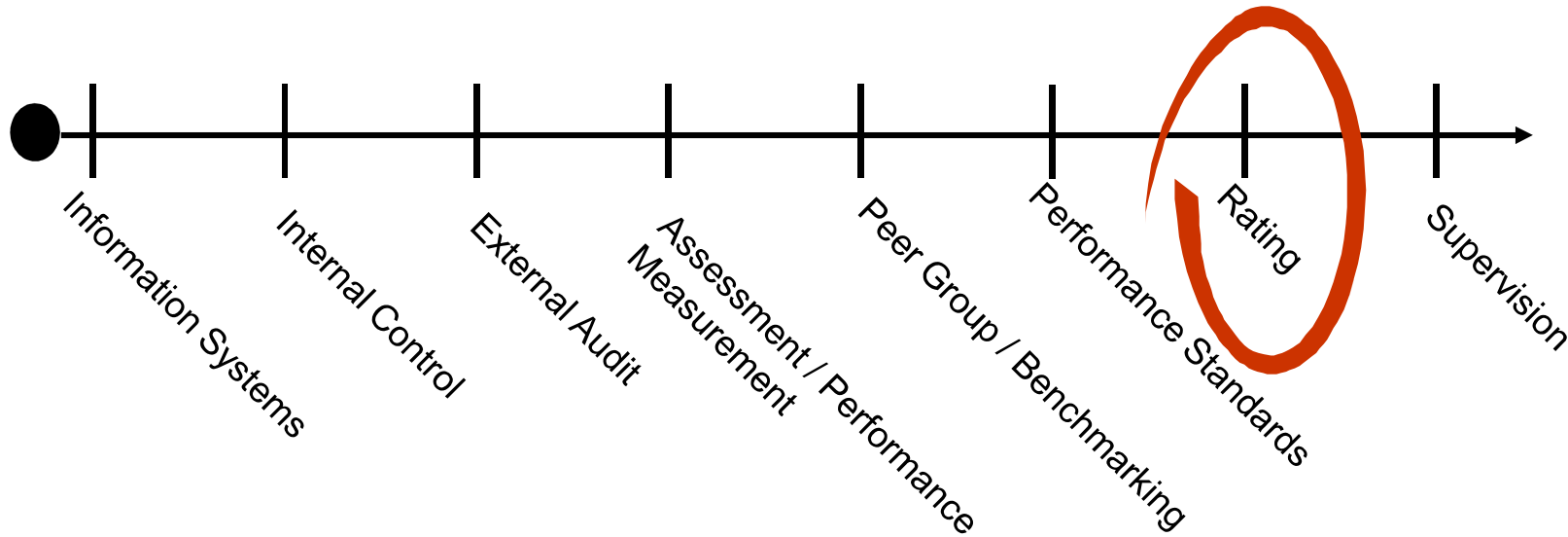
An evaluation of the risk profile and the performance of a financial institution specialized in microfinance.

It is often expressed through a scale of grades which summarizes the definition of the level of risk and performance

RATING is not:

- ✓ An audit
- ✓ A consulting or technical assistance
- ✓ A due-diligence for an investment decision

Global microfinance



Specific sector which requires specialized skills and experience

It is important to mention that in MICROFINANZA RATING we explain in detail the RISK FACTORS and the TRENDS ...

Behind the CRISIS

(India, Morocco, Pakistan, Nicaragua, Bosnia & H.)

- Commercialization:
 - Uncontrolled growth
 - Degeneration of lending/collecting practices
 - Unjustified remuneration of K and top mgmt.
 - Excessive interest rates
- Over-indebtedness:
 - Credit risk

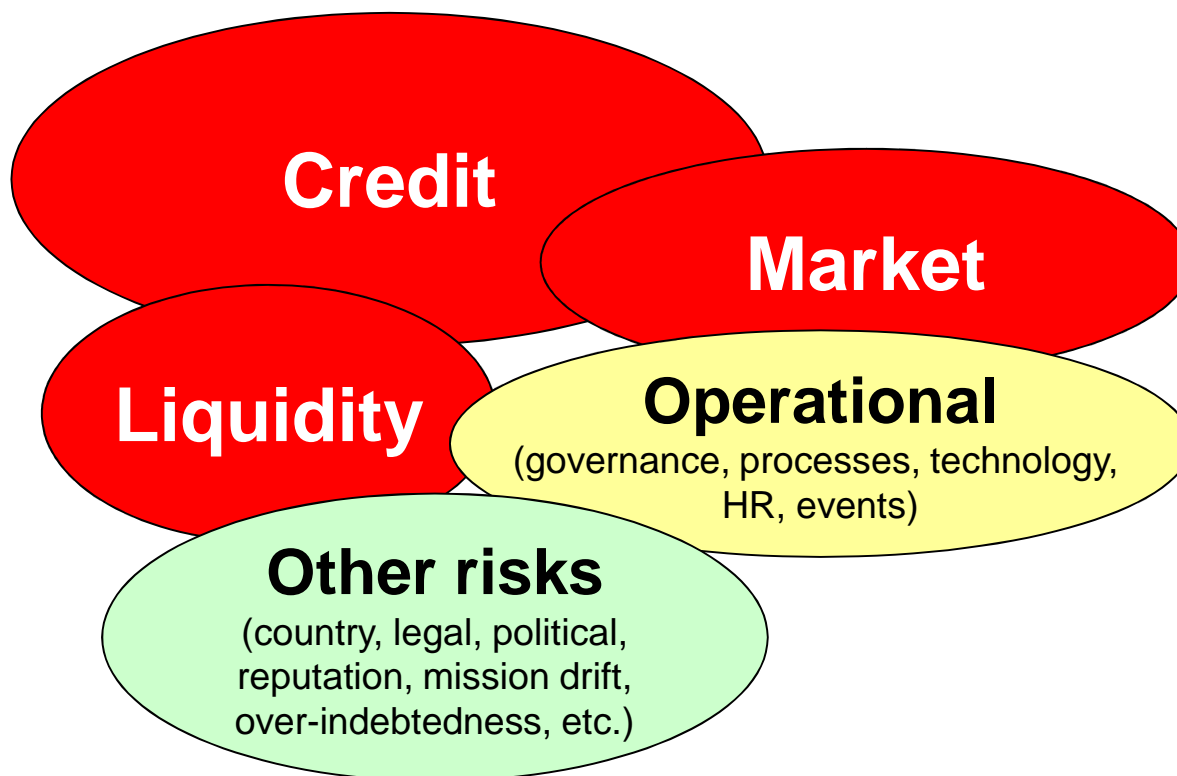
New...but old risks

- ✓ Reputation risk
- ✓ Mission drift risk
- ✓ Political risk
- ✓ Governance risk
- ✓ Consumer protection risk
- ✓ Over-indebtedness risk



Fast raising risks and
top 10 risks in the Mf
Banana Skins 2011
report

Main risk categories



FINANCIAL RISKS in RED

REPUTATION RISK*

The risk for the MFIs of not being able to demonstrate their nature of responsible financial institutions

Expectations on MFIs are **higher** than other financial service providers

MISSION DRIFT RISK*

The risk that MFIs will be deflected from their stated social missions

Typically as MFIs go for **commercial sources of funding**, with the concomitant drive to push for profitability/high returns.

OVER-INDEBTEDNESS RISK*

The risk for an MFI to adopt ineffective up to irresponsible lending policies and practices due to strong competition and lack of adequate infrastructure

Typically the lack of **credit bureau** drives this risk

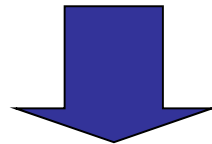
POLITICAL RISK*

The additional external risk that MFIs could deal with by becoming a target of local politicians

Typically because «*they finance the poor at higher than market interest rates*»

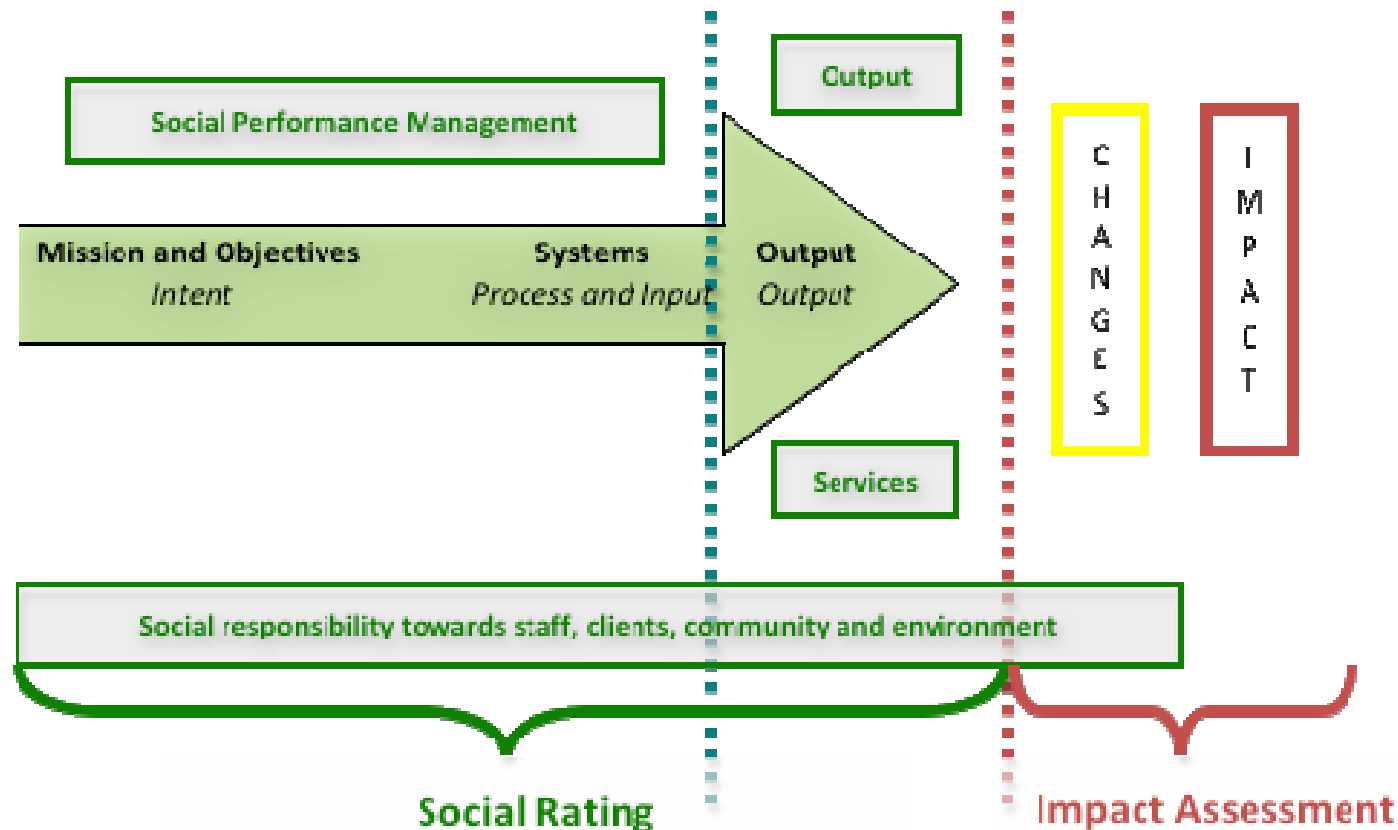
From Social Impact to Social Performance...

- Impact studies too complicated and costly
- Cause-to-effect relationship difficult to demonstrate
- Difficult to be used by institutions: cannot be translated into management tools that can bring about improvements in operations (never translated in recommendations on the how to enhance impact)



- Change in the approach: “from **proving** impact to **improving impact**”
- Great importance given to the concept of **Social Performance Management**

Common framework for social performance measurement



Social Rating vs. Impact Study

SOCIAL RATING

Social rating does not measure impact; rather, it analyzes the *objectives, systems* and *results* of the MFI, before the impact that these may have on clients.

IMPACT STUDY

An impact study measures the change in the living conditions of one population due to the action of an MFI.

SOCIAL RATING and IMPACT STUDY are:

- ✓ complementary tools
- ✓ designed to respond to different needs.

Thank you!!!

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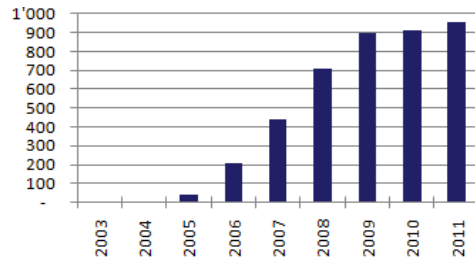


Who we are

A world leading social investor

responsAbility

leading social investments



- Founded in 2003
- 1 billion USD AuM
- 8 products investing in microfinance, fair trade and SME financing in developing countries, debt and equity investments
- 70 people
- 8 offices, in Switzerland, France, Peru, Kenya, India, Hong Kong, Lebanon, Melbourne
- FINMA-regulated asset manager
- Focus on risk management, transparent reporting and Corporate Governance
- **6 Social Performance Reports since 2003**

Social Performance Reporting

A long track record of accountability

responsAbility

leading social investments

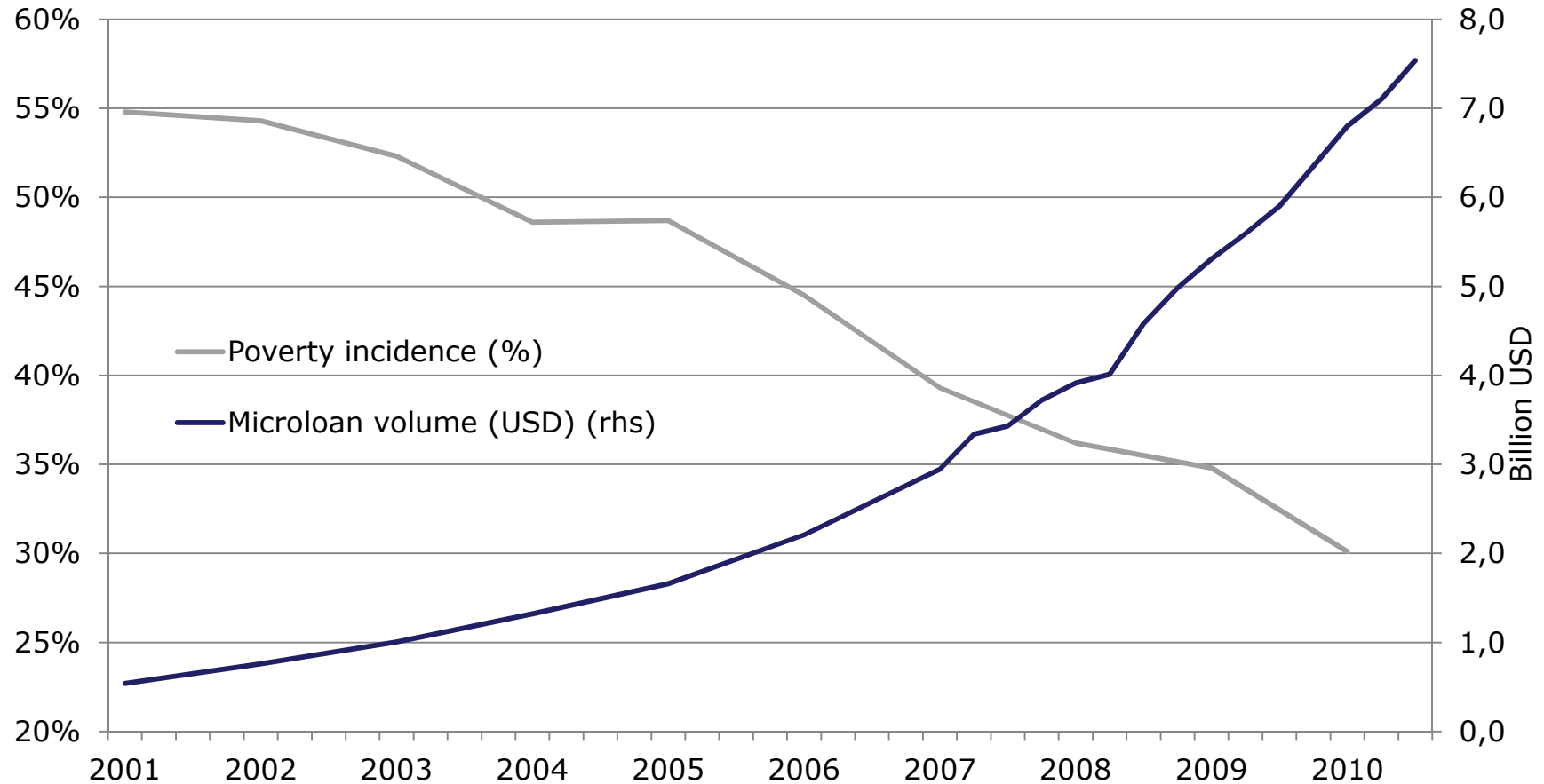


- Social Performance Reports since 2003
- Discussion Papers on Microfinance topics:
 - Interest Rates
 - Corruption and financial crime
 - Consumer Credit
 - Social Impact
- Studies on Over-indebtedness and markets



The rise of microfinance and the fall of poverty (2001-2011)

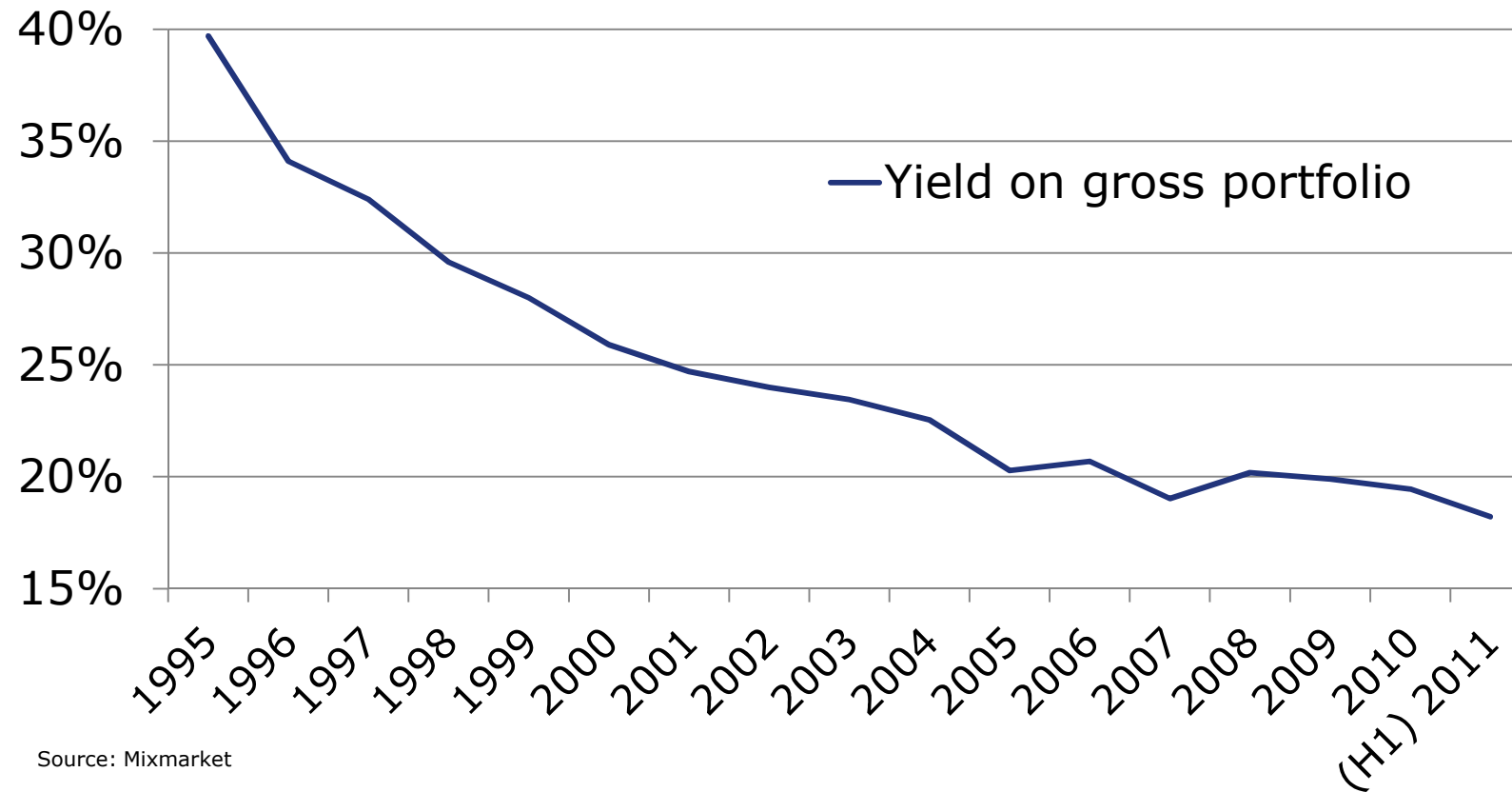
Two stylized facts of economic development in Peru



Source: INE, SBS

Interest rates: the dynamic view

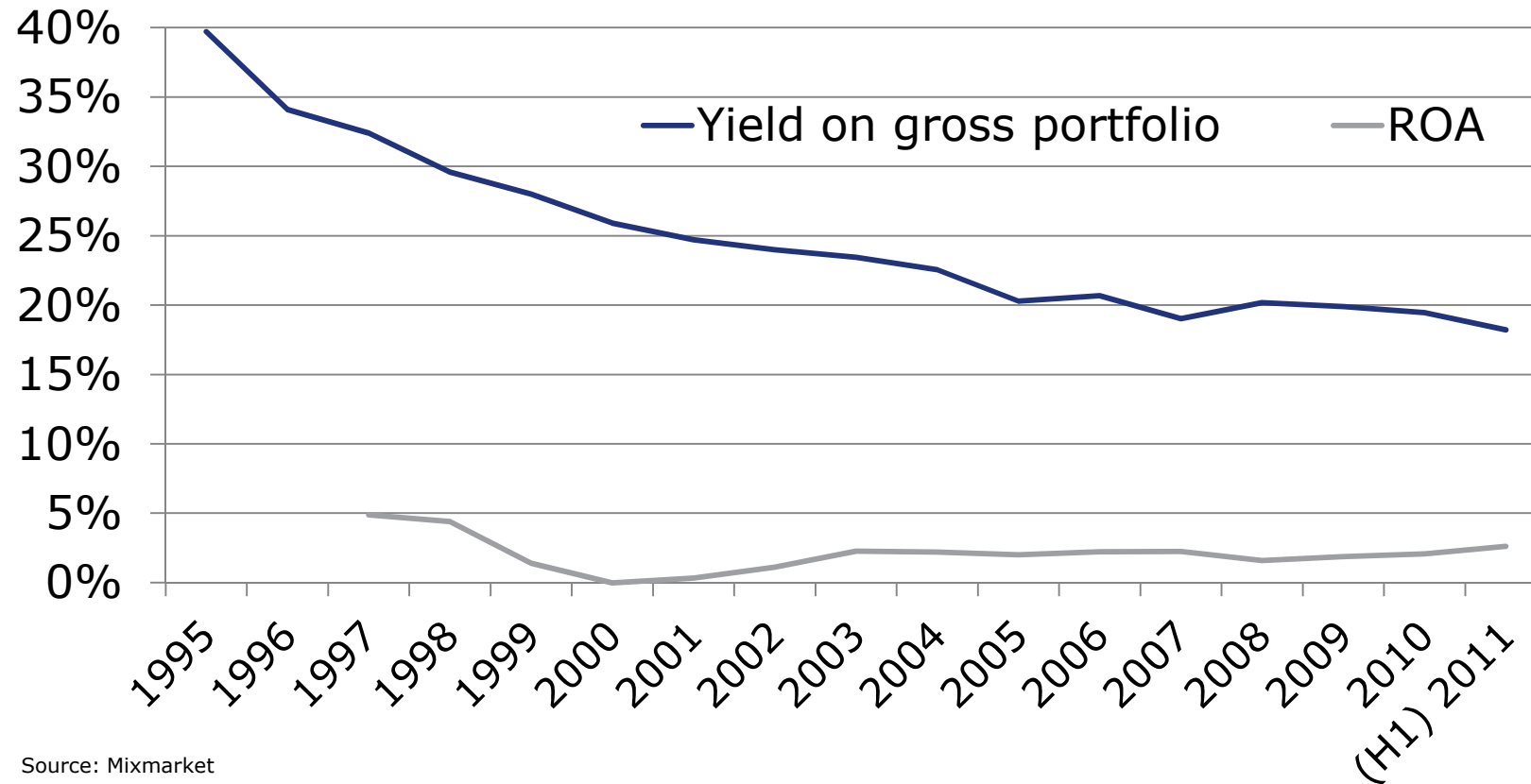
Nominal yield on gross loan portfolio, Bolivia



Source: Mixmarket

Interest rates sunk, profitability stayed

Portfolio yield and profitability (rhs)



Source: Mixmarket

Microfinance = Financial Sector Development

Access to finance is critical for economic development. Economic development is key to promote development and to reduce poverty.

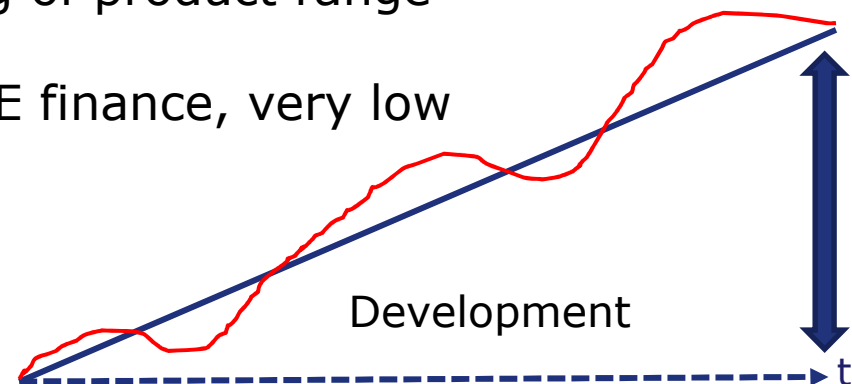
Financial systems provide vital services: they evaluate, screen and allocate capital, monitor the use of that capital, and facilitate transactions and risk management.

At the BoP, financial sectors are severely limited in breadth and depth.

The goal: Financial Sector Development

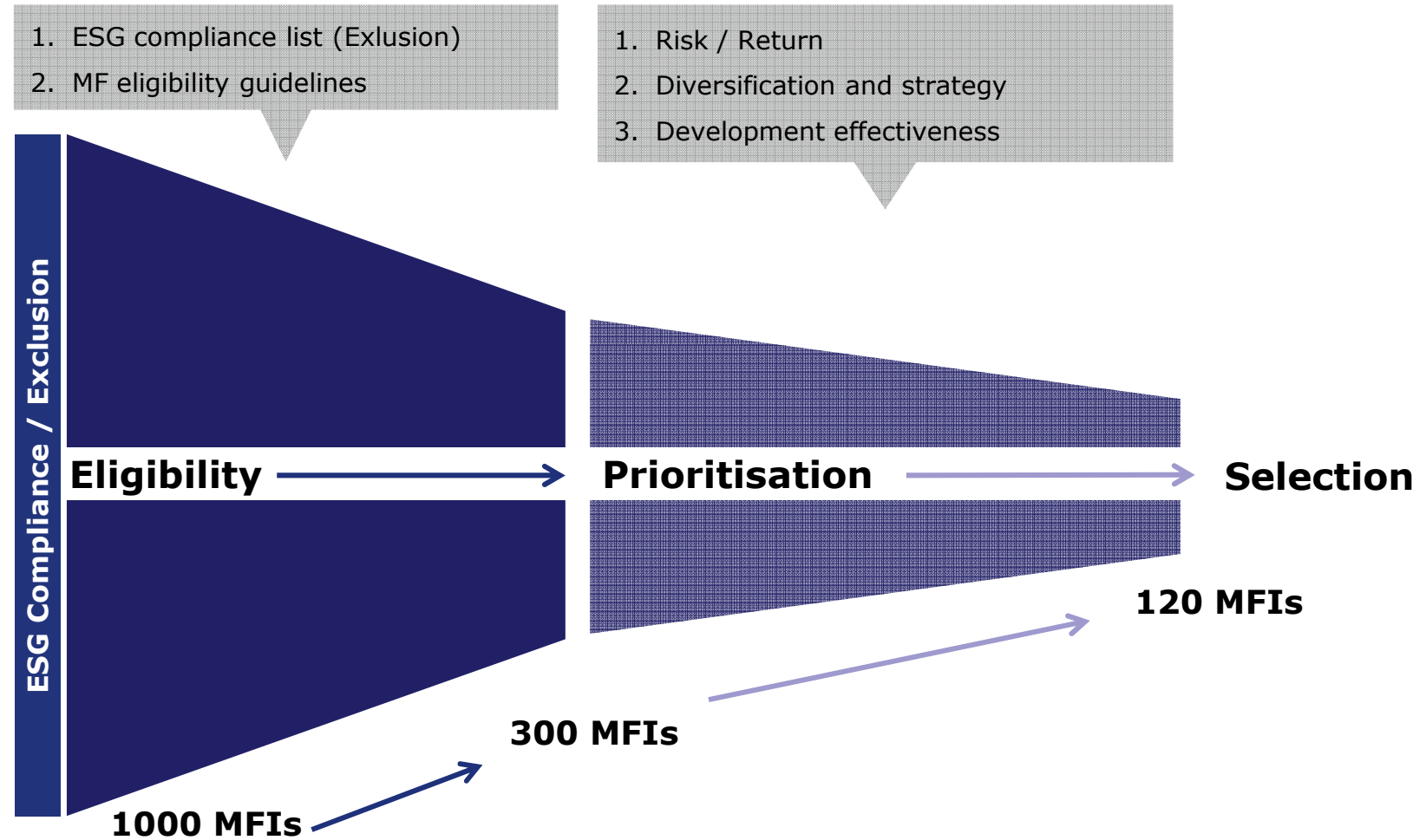
Key elements of a developed financial sector

- Healthy **competition**: choice, customers know best
- Sound **regulation**: clear rules, transparency, sanctions
- **Sustainable** business models: undistorted price signals
- **Formalization**: allows broadening of product range
- **Specialization**: rural finance, SME finance, very low income segment, etc.
- **AND**: market **swings**
(over-indebtedness, undersupply, over-indebtedness, unersupply,)



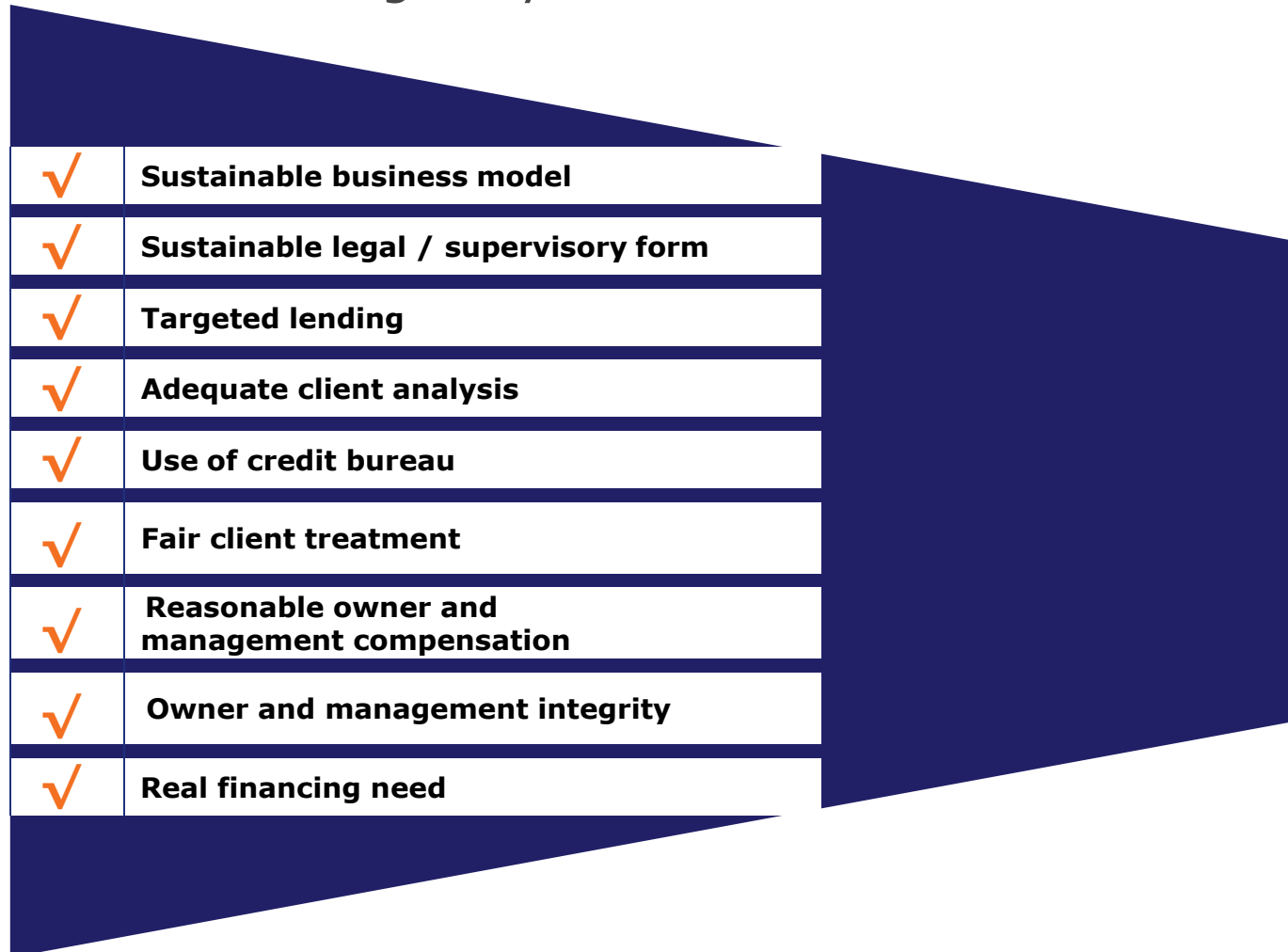
No trade-off social vs. financial

responsAbility Development Effectiveness Rating (rADER) How we select investments



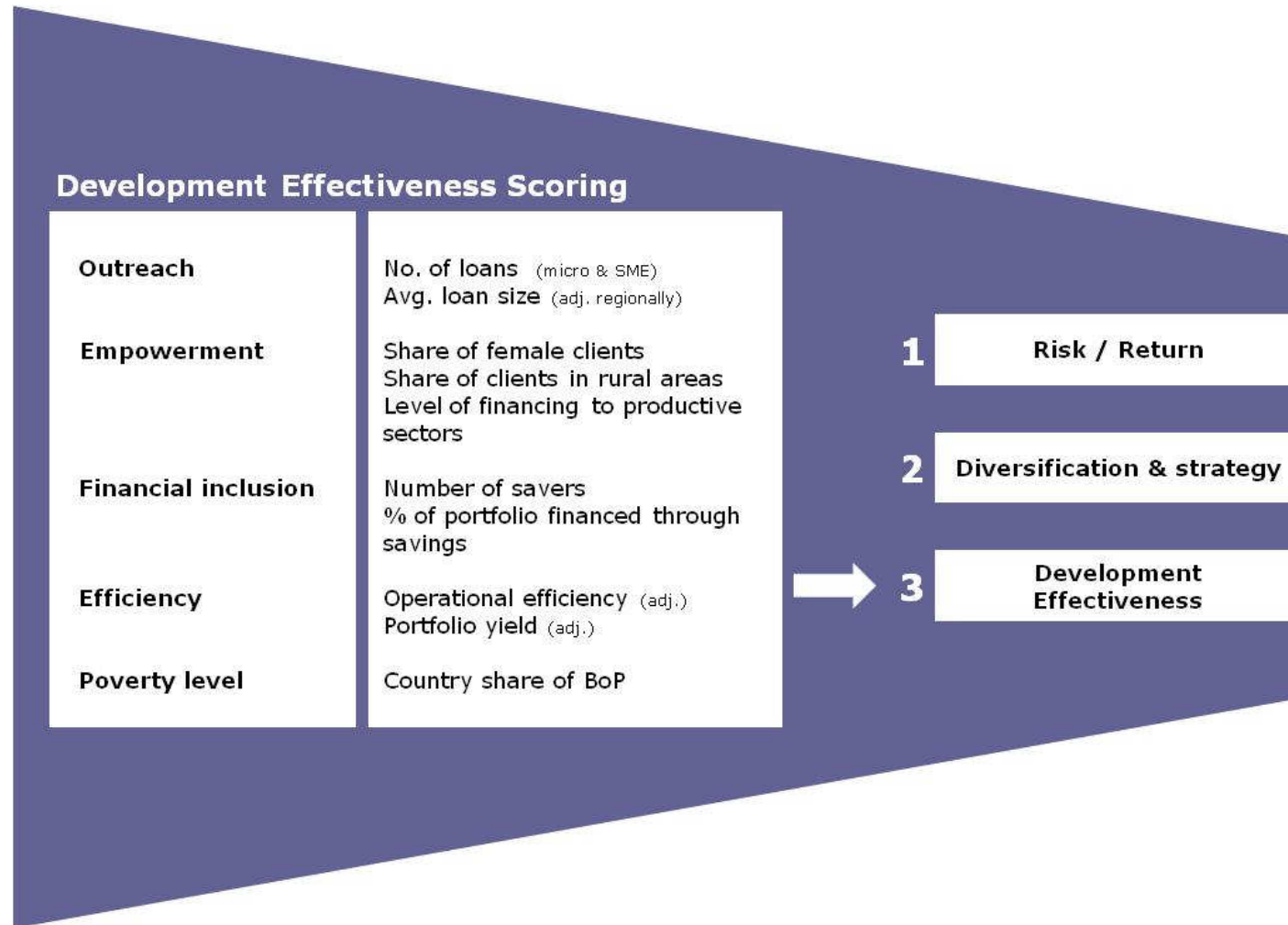
responsAbility Development Effectiveness Rating (rADER)

First Phase: Eligibility



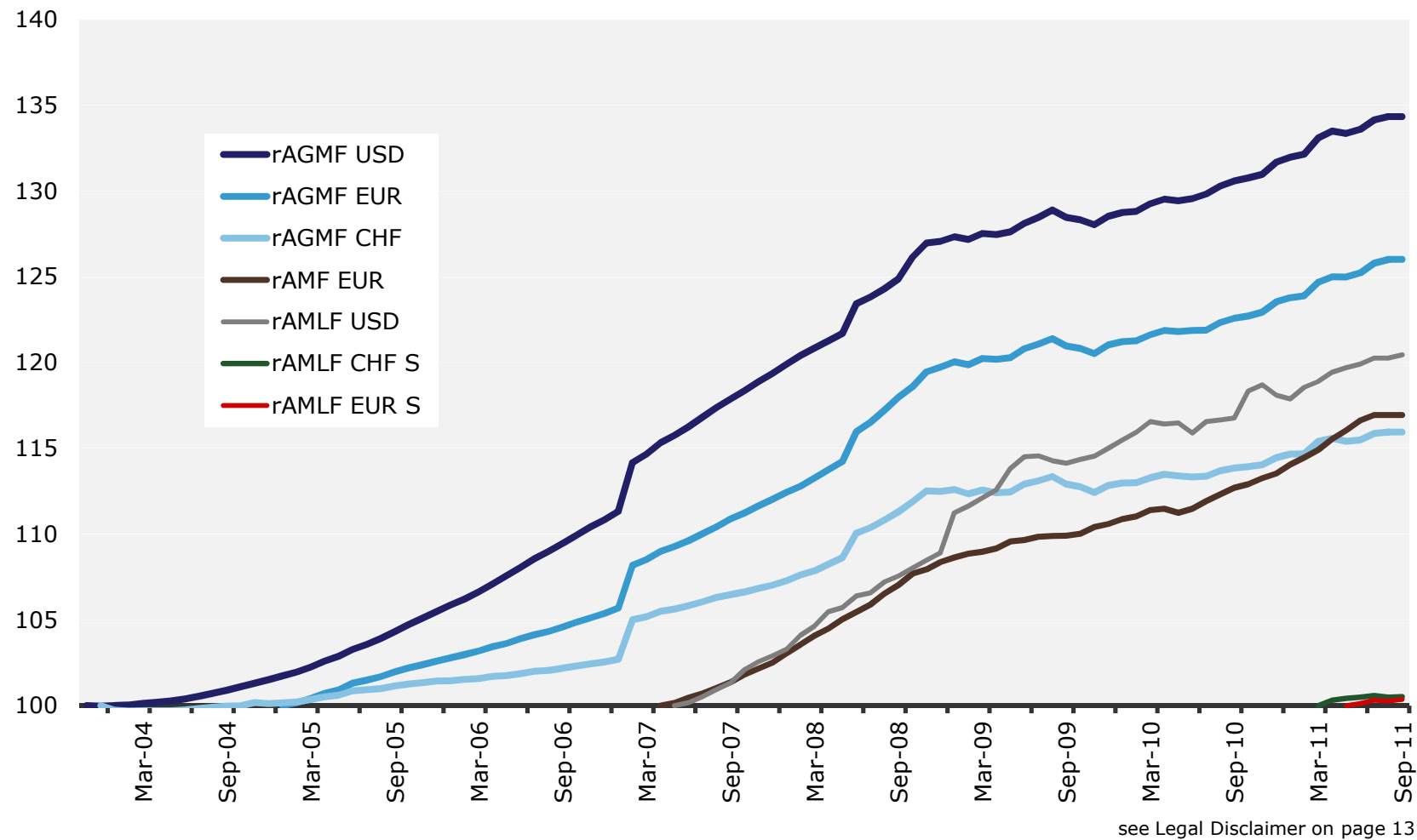
✓	Sustainable business model
✓	Sustainable legal / supervisory form
✓	Targeted lending
✓	Adequate client analysis
✓	Use of credit bureau
✓	Fair client treatment
✓	Reasonable owner and management compensation
✓	Owner and management integrity
✓	Real financing need

responsAbility Development Effectiveness Rating (rADER) Second Phase: Prioritisation



Long-term investment success

What does this tell about Impact?



see Legal Disclaimer on page 13

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At its foundation, an Italian institution was criticized by an Italian NGO for taking interest rates from the poor.

That institution has been offering financial services for 539 years now.

Take the long view.



Thank you for your Attention!



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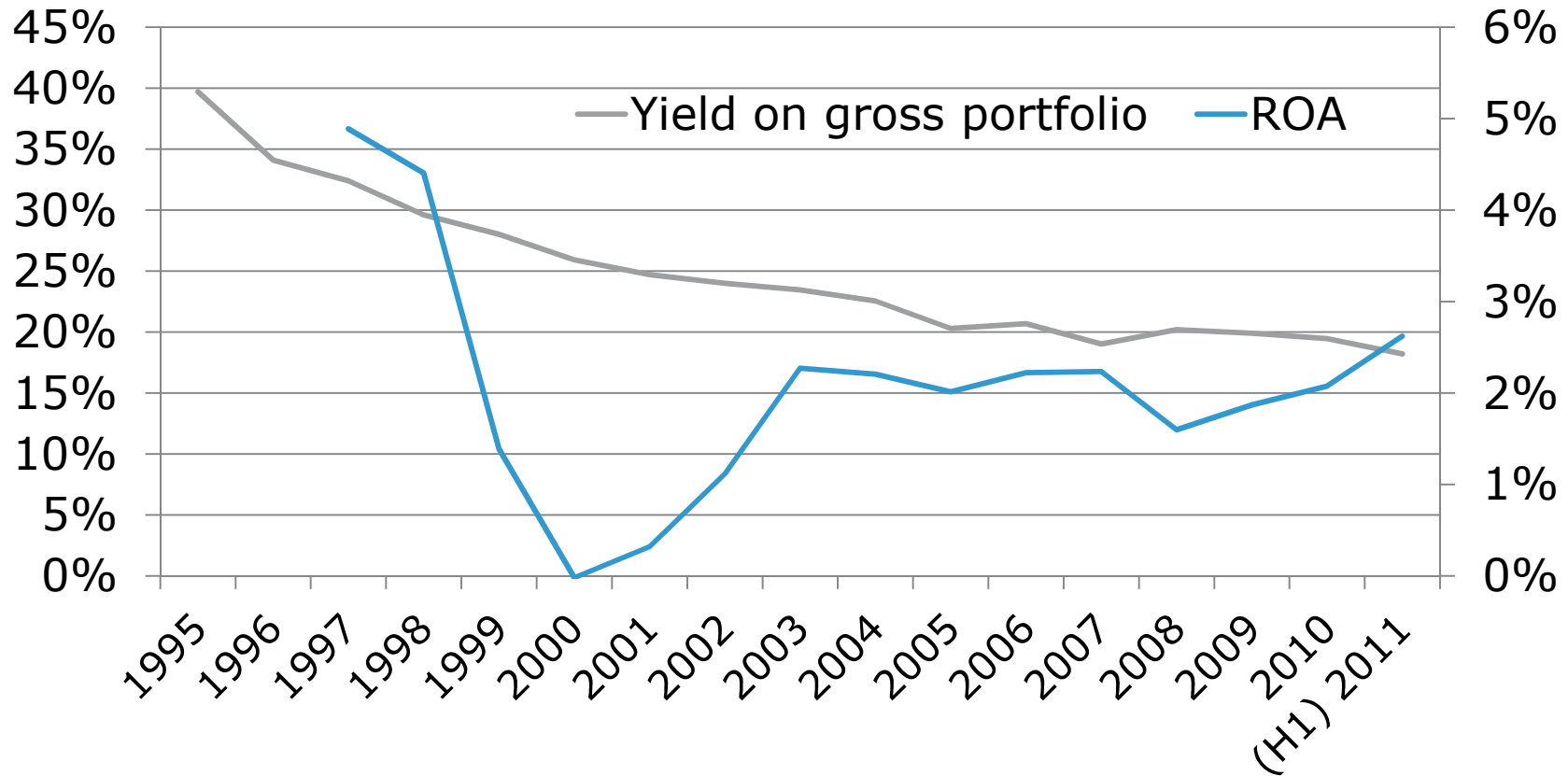
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Contacts

Annex

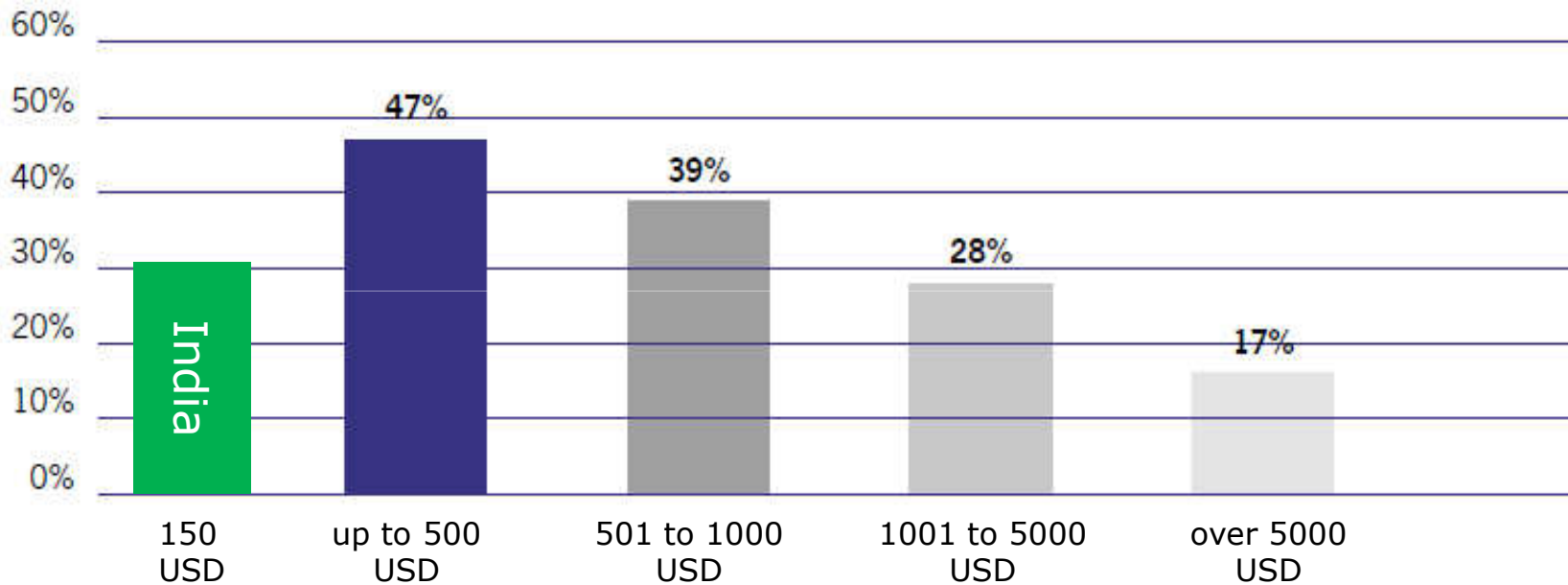
Financial sector development: Bolivia

Portfolio yield and profitability (rhs)



Interest rates are dependent on loan size

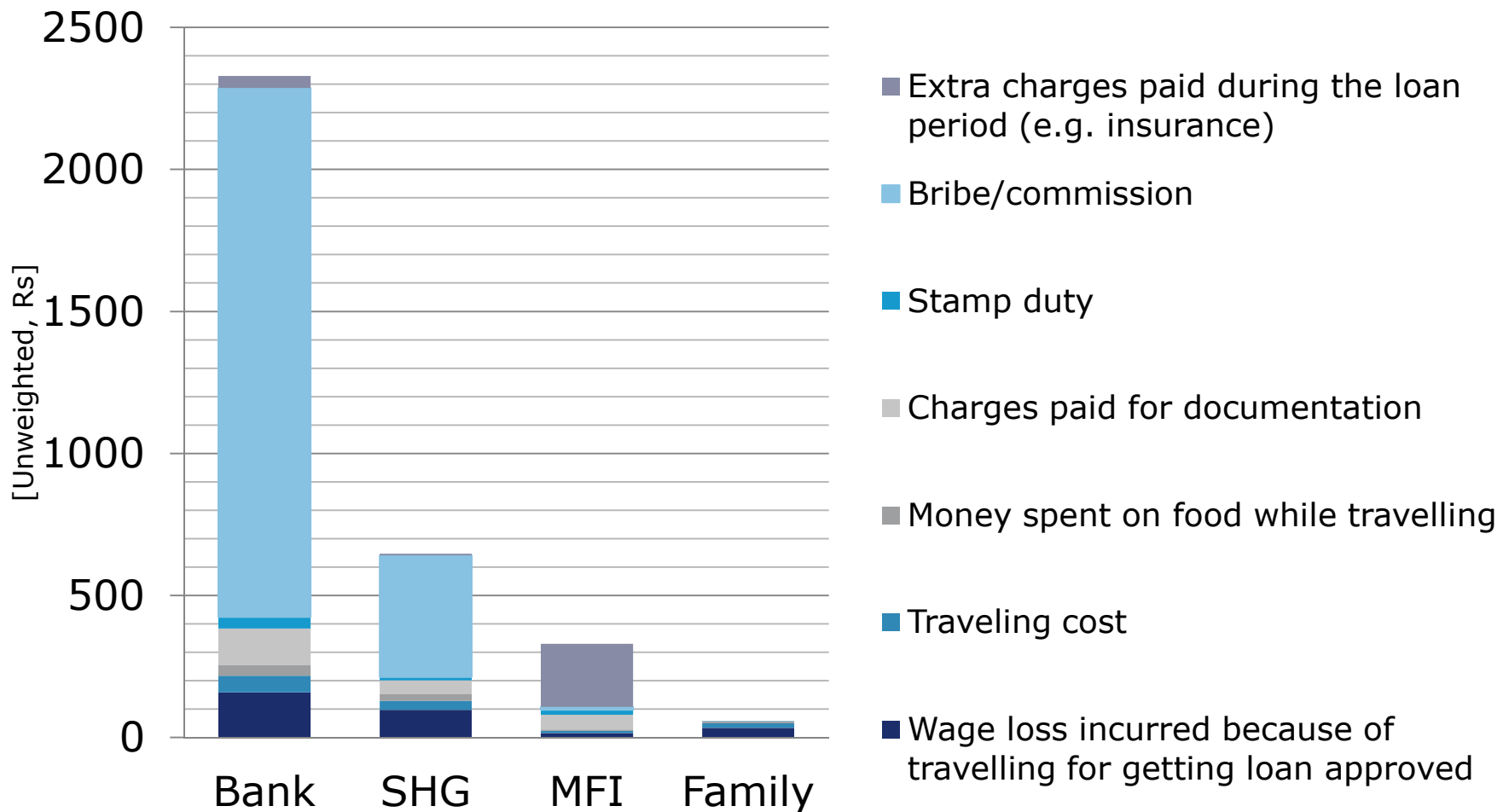
Interest rate levels in India are not sustainable



Source: responsAbility, Average interest rates of MFIs in responsAbility portfolios by June 2008

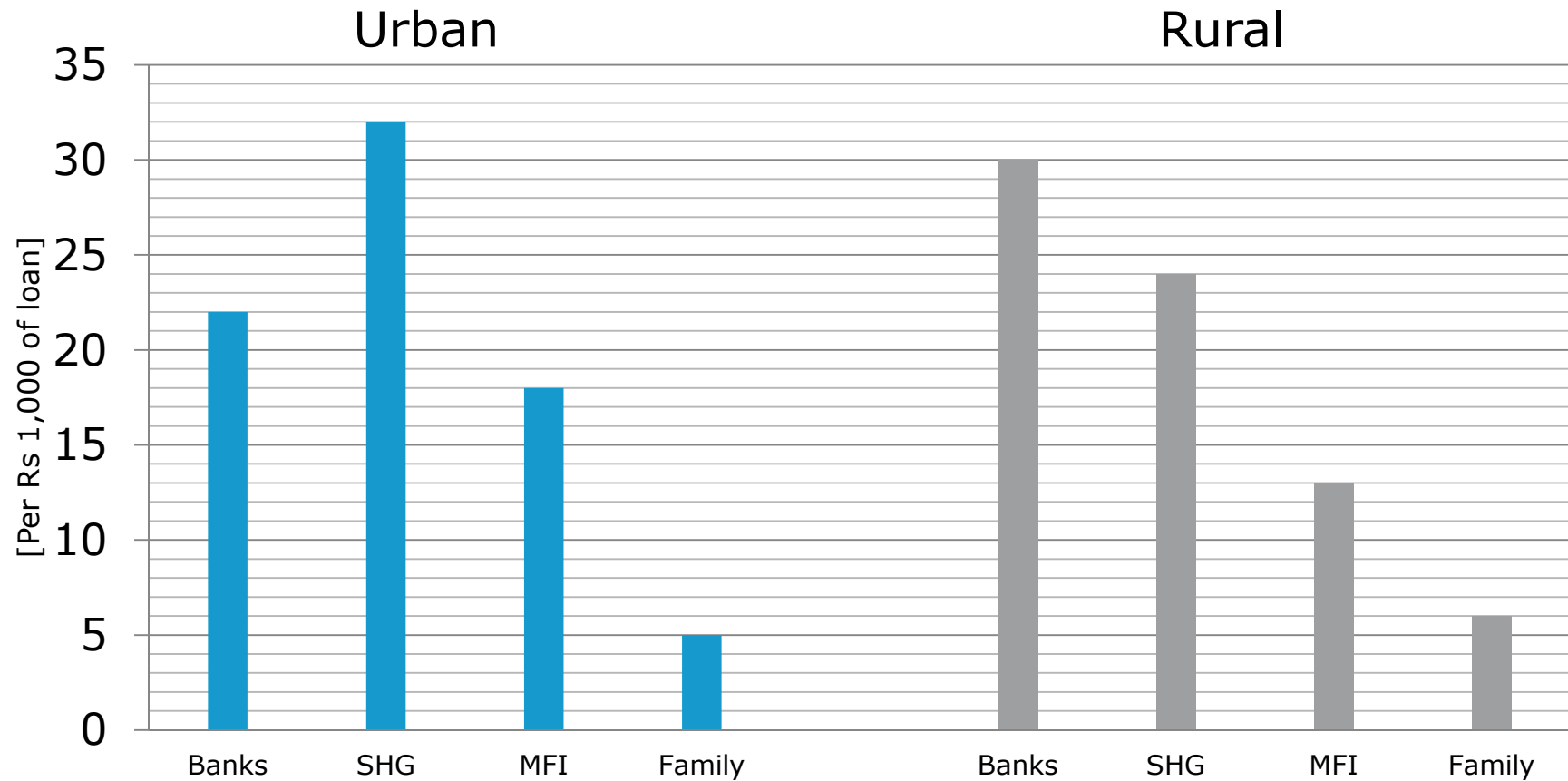
Interests rates are not the only cost

Non-interest costs of borrowing (India)



MFIs are most cost effective

Non-interest rate costs, normalized credit size





Buusaa Gonofaa MFI: Organization Profile

Fondazione Giordano Dell'Amore

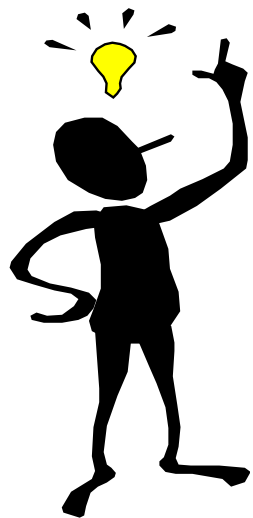
24 October 2011, Milano

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Buusaa Gonofaa MFI: Background

- Established in 1999, as NBF, licensed by central bank
- Provides group and individual loans through network of 23 branches (276 staff)
- To provide **flexible & efficient** microfinance service on a **sustainable** basis to **improve the** livelihood of the **poor**, particularly women, landless & smallholder farmers



Flexible & efficient

Sustainable/profitable

Outreach to target group
– the poor

Improved livelihood



Client satisfaction

Financial performance

Client profile, poverty level

Progress overtime



No of Active borrowers

31.150 38.823 38.392 38.315 48.908

Ave. O/standing loan per borrower (USD)

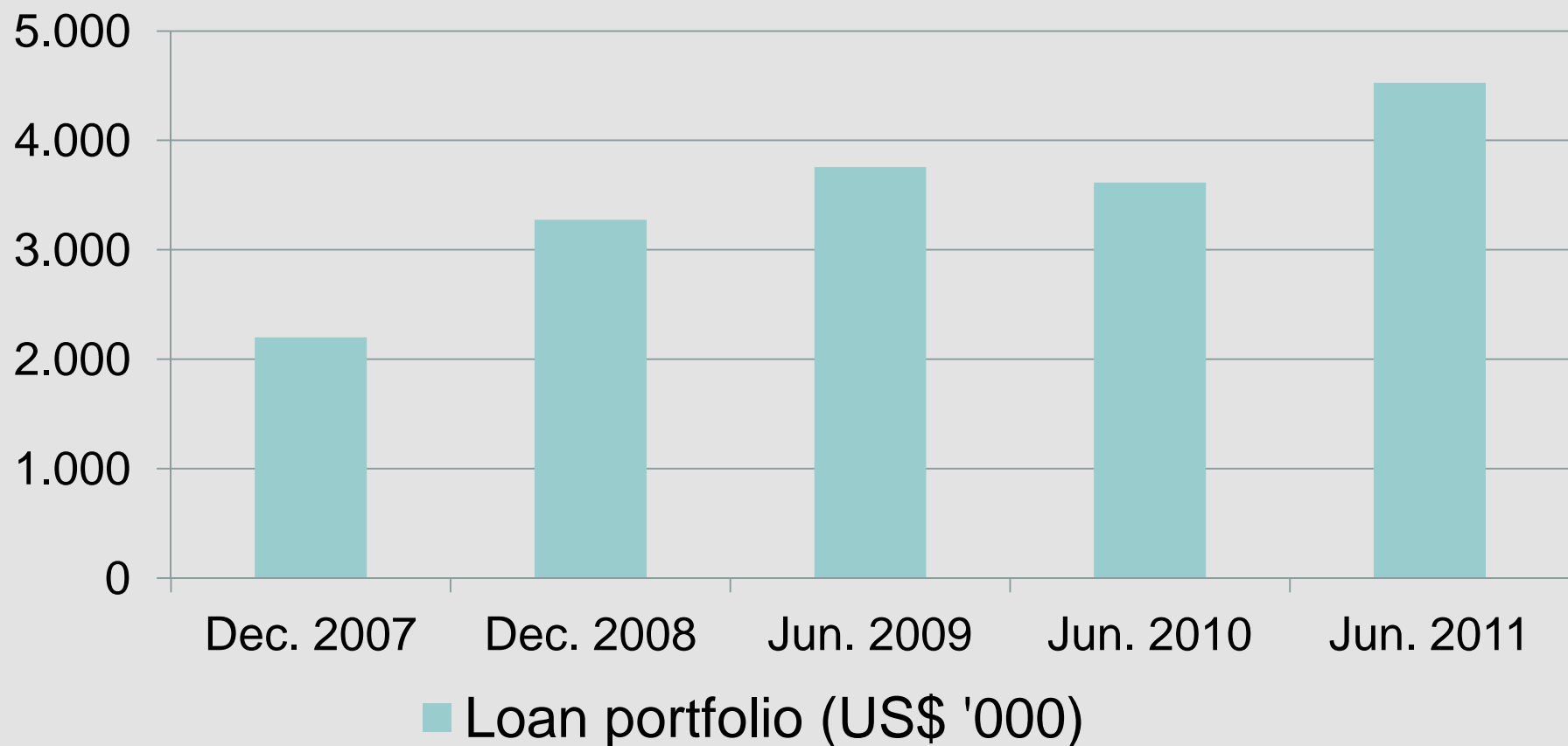
71

84

98

94

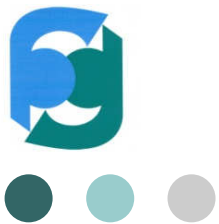
93





Why BG Introduced Client Assessment Poverty Scorecard (or '*Social Ledger*')?

- Double-bottom line: not just financial measures or '**self-congratulatory**' stories; but we wanted also data '*evidence*' to describe what is or is not happening at client level.
- With financial maturity, we wanted a more systematic way to understanding what is happening out there
 - Whom do we reach? How **poor** are they?
 - Is there a **change** (+ve, -ve) in clients' livelihoods; and if so, where do we **succeed**, where do we **fail**? Why?
 - **Who benefits** from BG's service most? Does our loan better helps the survivalists (the very poor) or the entrepreneurial poor? Or both?



BG's 'Social Ledger': Poverty Indicators, Score Weight, and Scores per Loan Cycle

Scoring Cycle (month/year)	Weight	m1/yr	m2/yr	m3/yr	m4/yr	m5/yr
Roofing material:- T=thatch; I=iron; P=plastic, O=other	--	T	T	T	I	I
Number of rooms/huts	--	4	2	3	3	3
Housing/improvement	--	0	5	10	4	9
# Oxen	18	0	1	3	3	2
# Cows	16	1	1	1	3	2
# Sheep/goats (shoats)	2	0	1	4	1	1
# Bed type – Metal	2	2	2	2	2	2
# Bed type - Wood/Mosvold	4	1	1	2	2	2
# Tape recorder	2	0	1	1	1	1
# TV	24	1	1	1	1	1
Total Score of HH Assets:	--	48	70	116	142	108
% Change in Asset score	--	--	46%	66%	22%	-24%

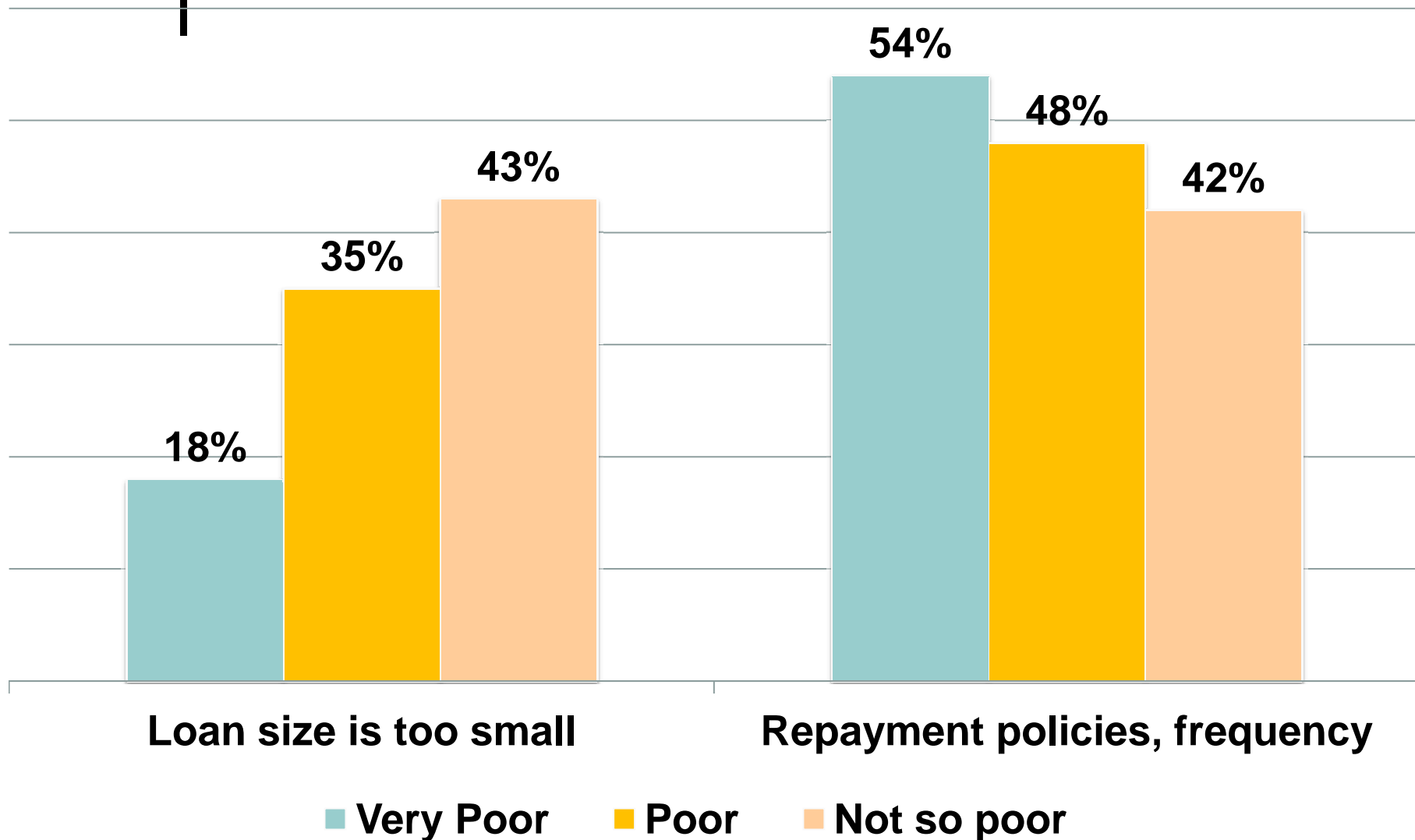


Clients Poverty Category & Cut-off Points

Poverty Category	Score Range	Approximate Income range
Very poor	0 – 29	≤ \$1/day
Poor	30 – 60	\$1 – \$2/day
Not so poor	>60	≥ \$2/day

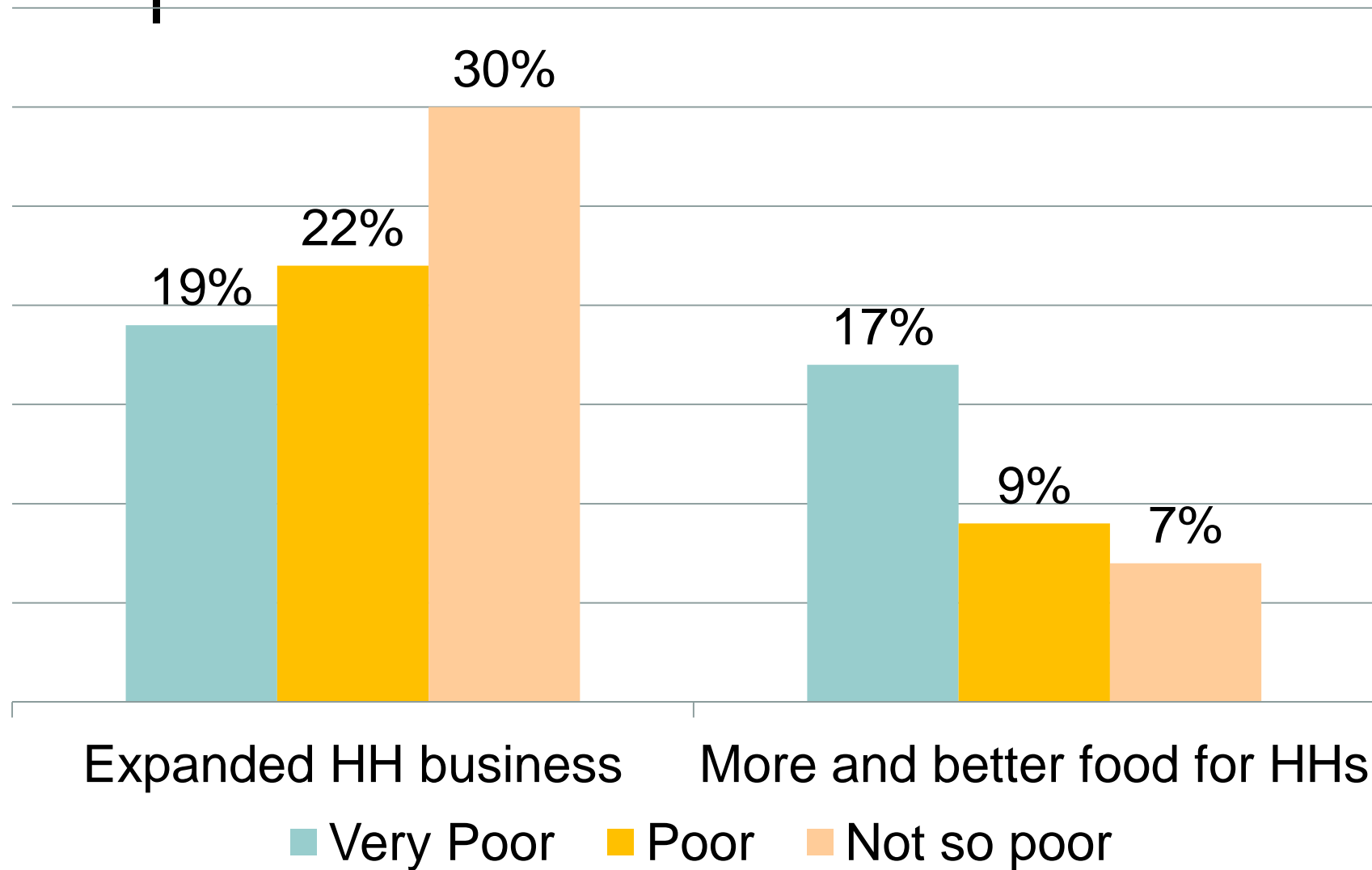
- A person with total score of 5 is poorer than a person with score of 15, and vice versa
- Collection of data (scoring) from each client is done by LO as part of routine loan application on every cycle – baseline at ***Intake***, wealth **Scoring** on each loan cycle

What clients dislike about BG services?



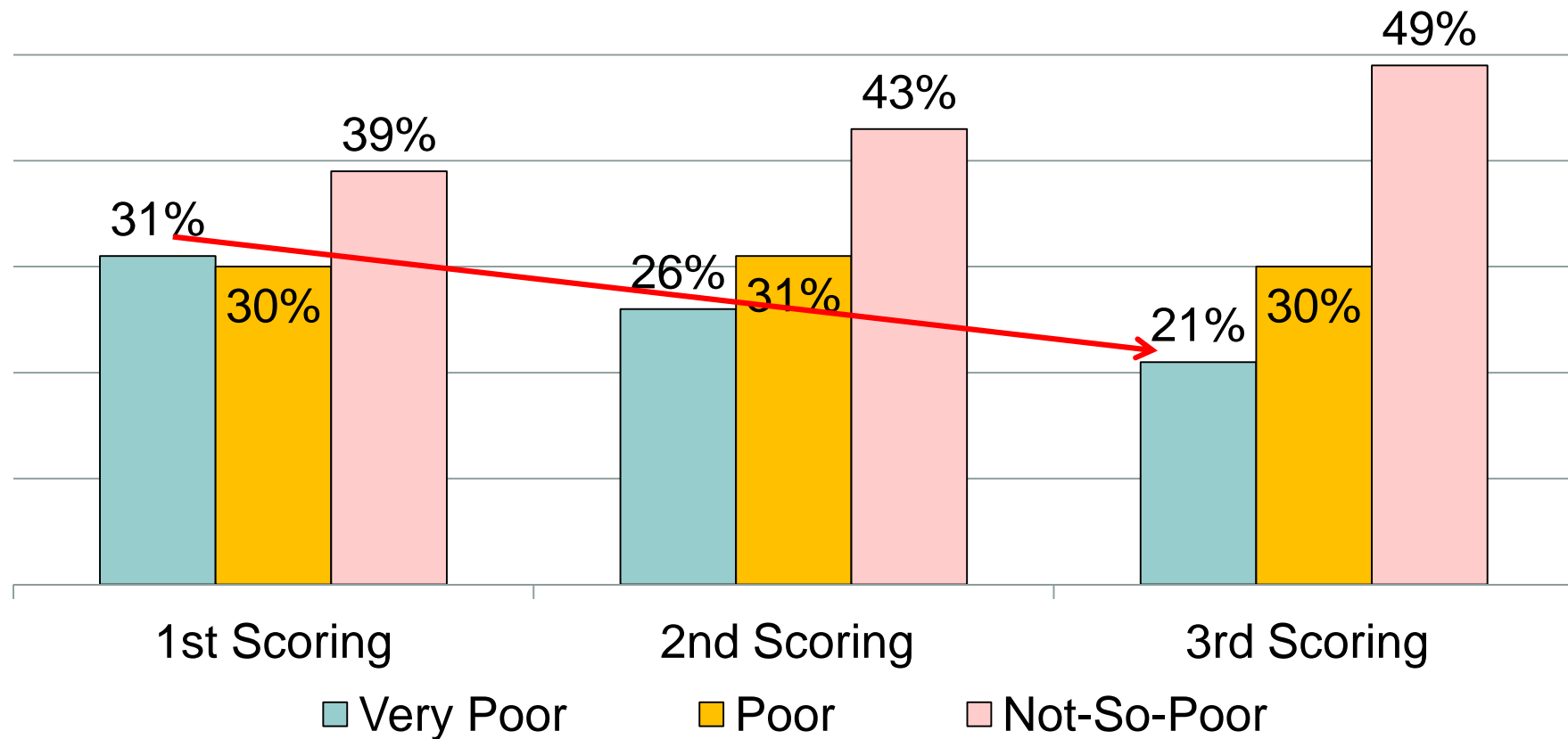


How did the loan help clients?





Clients' graduation from lower poverty category to a better one in ≈ 30 months (N=2,113)



Very poor decreased



32%

Not-so-Poor increased



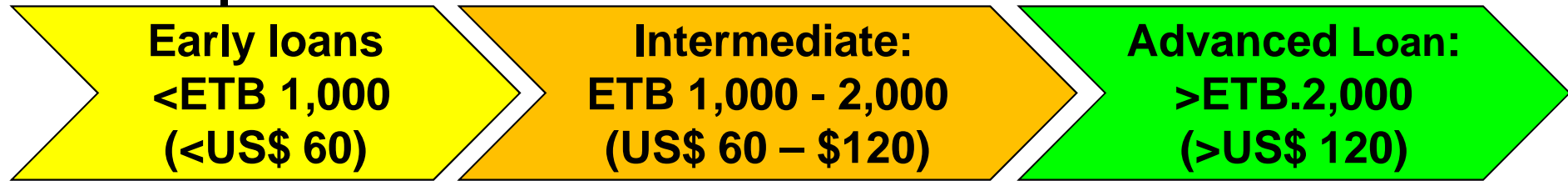
26%



Mean score growth (N=2,113)	Very Poor	Poor	Not so poor
Asset score - 1 st scoring	2	35	83
Asset score - 3 rd scoring	27	38	72
Asset Score ▲ %	1,005%	8%	-14%
Biz score - 1 st scoring	33	46	36
Biz score - 3 rd scoring	41	53	49
Biz Score ▲ %	24%	15%	35%
Total wealth - 1 st scoring	37	78	120
Total wealth - 3 rd scoring	64	88	125
Total Wealth Score ▲ %	71%	12% ¹¹	4%



Patterns of Investment on Assets & IGA/MEs Overtime by loan cycles



Chicken, sheep	Chicken, sheep	1 st Ox	2 nd Ox	Housing improvement
WC (IGA)	WC (IGA)	WC (ME)	WC (ME)	WC (ME)
Reclaim land -moneylender	Agri input (fertilizer, seed)	Agri input (fertilizer, seed)	Agri input (fertilizer, seed)	Milk cow
Food for HH consumption		Rent-in more land	Rent-in more land	



Some Lessons and Conclusion

- It is very important to understand target group's conception of poverty, what matters most – bottom up indicators
- The tool provides rich insight about what is happening 'out there' – '*evidence*' to focus on livelihood improvements
- It does not tell us the mix of financial services that help the poor walk out of poverty; but to learn how the poor might progress overtime towards their ideals of dignified living
- Our intention is to improve livelihoods; but we serve diverse groups with diverse priorities and no single indicator to measure success. The tool strongly complements our judgments and decision and helps us to be mindful of our promises: "*improving the livelihood of the poor*".

Thank You!

