4th EMN Annual Conference, 2007
“Microfinance in a Banking Environment: Models, experiences, the way forward”
Minutes of the conference
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Introduction

Willkommen in Berlin, Welcome to Berlin!

This year the conference focused on delivering microcredit in an environment where there is a density of banks offering a range of financial services. During the conference we examined the role of different actors, particularly banks. Participants came away from the conference with an improved knowledge of bank involvement in microcredit, with whom and for whom they provide microcredit services, and their future plans in the sector. In addition, as in the past, 13 workshops and 4 fringe meetings gave us the opportunity to explore other topics related to serving financially excluded persons and building sustainable organisations.

We would like to extend our appreciation to our two German members, EVERS&JUNG and DMI that helped us in the organisation of this event. In addition, this conference would not have been possible without the support of the European Commission within the framework of the Community Action Programme to Combat Social Exclusion and without the main sponsorship from KfW Bankengruppe. We would like to thank our other sponsors, Crédit Coopératif and the Compagnia Di San Paolo. And lastly, thanks to the financial contributions of the Levi Strauss Foundation, BNP Paribas and the Aga Khan Agency for Microfinance.

This conference remains a unique opportunity to share experience, to compare practices, to learn together and to network. With almost 300 participants, microfinance experts, policy makers, researchers, donors and investors we are sure that we all gain a lot from our exchanges.

Philippe Guichandut
Executive Director
First plenary debate: “Banks and microfinance in Europe: forced marriage or the best alliance?”

The development of microfinance in Western Europe is strongly linked to the existence of a dense banking sector. In some cases this has proven to provide good opportunities, but in other cases it has been a limitation. How have mainstream banks and microfinance programmes been able to work together? Do microfinance’ programmes have a choice or is linking with banks the only and best way forward?

**Moderator:** Jan Evers - EVERS & JUNG (Germany)
**Speakers:** Norbert Irsch, KfW Bankengruppe (Germany), Angel Font - Fundació Un Sol Mon de Caixa Catalunya (Spain), Krzysztof Jaczewski - Funduszmikro (Poland), Peter Kelly – Barclays Bank (UK)

The subject of the plenary session is indicated in the subtitle of the event – microfinance (MF) in a banking environment. It could be said that it is difficult to implement microlending in a strong banking environment because of competition for loans, but the real question is whether MF can attain the efficiency of the banking sector and whether efficiency can be increased by adding actors such as microfinance organisations. These are the issues that will be addressed in this plenary session.

There are three topics to be considered:
1. Do banks reach all clients?
2. What is the role of microfinance programmes?
3. What kinds of cooperation models between banks and MF organisations work?

Jan Evers stated that MF portrays how to combine social and economic objectives. Moreover, efficient promotional techniques that can be used to reach small clients are important for all retail banks. The question is how to reach small clients.

Jenna Eastlake was asked to describe the situation in the UK banking market. She said that it had changed since the 1990s and that there had been a considerable improvement in access to loans for small and micro-enterprises (SME). However, there is still a gap in demand in the specialist areas but it is not as pronounced as was previously the case. It depends on how “micro” is defined, but there is still a need for extra support in the field of very small loans.

Jan Evers asked in what areas specialist support is needed in the UK, and Jenna Eastlake responded that those areas were social enterprises targeting women, and people wary of banks or who do not understand the financial system. Jan Evers asked if Barclays supported community development financial institutions (CDFI), and Jenna Eastlake replied that it had been supporting CDFIs for the past six or seven years. Evers asked if the CDFI provided a hand-holding service and could later become clients of Barclays. Jenna Eastlake responded that that kind of service was
provided to enable people who wanted to access credit and to help them develop. **Jan Evers** asked how CDFIs operated. Eastlake responded that CDFIs are still a new sector, consisting of about 76 CDFIs, and that coverage is still patchy; some areas are without support, but they are developing and becoming increasingly professional. **Jan Evers** stated that, in summary, banks in the UK extend microloans down to GBP 5,000, but for specialist areas there appears to be a need for specialist intermediaries, CDFIs, whose task is to help clients make the journey to become banking clients. **Jenna Eastlake** answered that there is a need for CDFIs in the UK. **Jan Evers** asks how this model could be improved from the perspective of a UK citizen. **Jenna Eastlake** responded that Barclays supports a social basis, providing donations, etc, to build capacity. There is a role for banks and CDFIs to work together and improve capital flow, and, at the local level, a better referral process could be used.

Turning to Norbert **Irsch**, **Jan Evers** observed that for decades Germany had been seen as the role model for SME finance but has experienced criticism in recent years. He asked **Norbert Irsch** what the situation looks like in 2007, whether Germany still is the role model. **Norbert Irsch** responded that in Germany the situation has not deteriorated below the European average, and that he would assume that the situation in Germany is a little better than in the UK, although the two countries appear to be experiencing the same difficulties in financing start-ups and middle-level businesses. The complaints from small and medium-sized firms were that they did not have access to loans, but this has changed to some extent, at least since 2006, when the economic situation in Germany improved. Financing problems have decreased, but they have primarily decreased in favour of medium-sized companies. Thus, financing conditions for small companies have not so improved to the same extent. Microfinance is a specific issue – if all financing up to EUR 25,000 is included, it could be said that a major part is covered by savings and cooperative banks and the private banks without difficulty, but that those banks are not serving the high demand from so-called “problem groups” including the long-term unemployed, who are without decent training and often without collateral. The MF programmes in Germany must target those groups.

**Norbert Irsch** went on to say that some loans will be financed by banks, at least the successful ones. Less successful people, “non-bankables”, however, are not taken on by banks, and this is the microfinance initiative target group. In fact, a special government support initiative has been set up to follow up on those loans. KfW has several programmes for those target groups; they include small credits on-lent through commercial banks, in which 80% of the credit risk is assumed by KfW; KfW pays banks a fixed amount per loan and a margin on top of the interest rate. There is possibly a demand for 80,000-100,000 microloans per year, but actual lending is smaller. In 2006, loans granted in explicit microfinance programmes – of the KfW, the support initiatives of the Landesbanken (owned by the 16 Bundesländer in Germany) and small local Microfinance Institutions (MFIs), which are sometimes privately financed as well as sometimes owned by local public institutions – together accounted for 6,000 loans.

**Jan Evers** asked how this could be improved. Could the solution for microfinance be for KfW to lend directly? **Norbert Irsch** replied that KfW is trying out a variety of microfinance approaches. First, KfW intends to further optimise its above-mentioned “traditional” programmes distributed by the commercial banks. Second, a specific project which is a current focus is a guarantee fund (Microfinancefund Germany) supported by the German federal government, KfW and the private GLS-Bank. Actually, at the contractual level, the loans are still handled by banks, which is necessary
because of the regulative environment in the German financial system, but banks have only a function as servicers. They do not have to bear any credit risk and they receive a servicing fee from the Microfinance fund. Major operating tasks concerning immediate interaction with borrowers within the guarantee fund model, such as checking creditworthiness and monitoring, are carried out by local microfinance institutions (MFIs). The crucial idea behind this division of tasks is that there is a small but growing number of locally based institutions in Germany which have extensive experience in consulting small and start-up entrepreneurs. Thus, if they add lending to their “service programme”, a group of lenders can emerge with quite good information about their borrowers’ concerns, which differ from that of “usual” entrepreneurs with better creditworthiness and resource endowment. MFIs could therefore develop good skills in managing borrower-specific risks in the special target group while the Fund, which takes over guarantees for the loans throughout Germany, has greater potential for diversification. A central point of the risk-absorbing function of the Fund is that it provides an opportunity for local MFIs to overcome difficulties in getting started. However, to establish an effective incentive structure at the MFIs’ level, the Microfinance fund Germany does not assume the entire credit risk. MFIs have to take over the first loss piece of 20% of default risk for all the loans that they decide to grant. Thus, despite a certain risk reduction function of the Fund, MFIs have the incentive to choose high effort levels as regards their creditworthiness checks and monitoring actions. Currently, the Microfinance fund Germany is being piloted with EUR 2 million in capital, taking over guarantees for about 200 credits. If the model proves to be successful, it will be extended throughout Germany.

To sum up, Norbert Irsch stated that the market is bigger than KfW, banks and MFIs can reach in the sector at the moment. There also seem to be strategies to do better. First, additional incentive devices could be established for the banks to provide more loans to SMEs by diminishing their risk. Second, in particular to address the target group of non-bankables, further development of the cooperation between local MFIs, central risk-assuming vehicles, such as the Microfinance fund Germany, and Institutions like the German Microfinance Institute which, for example, coordinates the interests of MFIs could establish a stronger momentum for microfinance.

After that, Jan Evers turned to Angel Angel Font saying that a rush into microfinance has been noted at Spanish savings banks, and he asked Angel Font why this rush was taking place. Is it because of business or social objectives? Angel Font replied that microcredit is being used as a means of alleviating poverty. The target group is therefore poor people. This sometimes includes “non-bankables” with small and medium-sized enterprises, but the situation can vary quite considerably. Saving funds have a real social orientation. The clients for whom a microloan is pursued are not “good” clients in terms of efficiency and profitability; hence no business objective is included in the rush into MF. They may become efficient and profitable clients in 10 years, but that is a long period of time. Microcredit is built in to the genetic code of savings funds. It is a long-term opportunity for growth but not really for short-term business.

Jan Evers asked whether savings banks in Spain use different techniques in this “inclusion lending” and whether Angel Font could explain the different techniques. According to Jan Evers, Caixa Cataluña has a separate microcredit unit, whereas La Caixa maintains microcredit in all of the branches; thus two models exist.

Angel Font replied that there are more than two models, and Jan Evers then asked if they all need a specialist unit to work with these specific clients. Angel Font replied that potential clients often have no collateral and other difficulties, so they need extra support to become clients, which cannot be achieved at a normal branch, no matter which model is considered. This approach taken by specialised banking branches is successful but can be improved further still; in May 2007 a further step will be taken in this model because, with the support of NGOs and local governments, select non-profit institutions can become MFIs. As a result, the banks now operating in the sector will become less operational and more strategic because they will delegate and train the newly created MFIs. He
used the word “franchise” because it keeps together procedures, but the operation is based on the reality of each city and each MFI in a city can cater to the specific, real circumstances of a given location. Having acquired two franchisees so far, Angel Font’s organisation will try to expand the procedure to other non-profit institutions, and hopes to open a third franchise in Valencia soon.

Jan Evers then asked the fourth speaker, Krzysztof Jaczewski, to describe the Polish environment for financing SMEs. Krzysztof Jaczewski said that from 1945 to 1999 Poland had only three state-owned banks. Since 1999, 70 new, different networks of MF banks have been established. In the 1990s in Poland, mainstream banks were focused on large and medium-sized companies with no interest in microlending. There are 38 million citizens in Poland, and at present MF has 1.5 million clients. Regular banks have no idea how to enter this market. The MFIs mostly operate at a local level and most of them are subsidised by donors or international organisations. Funduszmikro was set up in 1994 and received USD 20 million in aid. Its main purpose was to support microlending companies. In addition, Funduszmikro gives support in setting up business plans and the like. It is starting to prepare to be market-oriented and self-sufficient, although it previously operated as a non-profit institution.

Jan Evers said that in 2006, Funduszmikro handled 14,000 loans. What type of lending was involved? Krzysztof Jaczewski replied that start-ups comprise only about 1%, as their loans are very risky. There are many special programmes financed to support and assist start-up businesses that are more attractive than Funduszmikro. Therefore, 99% of their clients are active businesses. Their initial requirement is that the business should operate in the market for a minimum of three months, and their typical business has already been operating in the market for more than one year.

Jan Evers stated that while for Angel Font microcredit is focused on inclusion lending, Funduszmikro carries out more corporate lending to help in the growing process. He asked about the nature of its relationship to the Polish banks. Krzysztof Jaczewski replied that it does not really compete; its credit portfolio is merely EUR 28 million. However, with regard to self-sustainability Funduszmikro grants the maximum amount of loans possible, tries to find products for mature clients, and is in cooperation with banks to offer clients some credit lines and some sophisticated services.

Jan Evers summarised the first model – in Poland, Funduszmikro has developed a business making profit with micro-enterprise lending, while in the other countries, at the moment MF is not very profitable. In Angel Font’s view, for saving banks in Spain, it is good for business, but not for the short term. Poland has developed a model that is profitable even in the short term, possibly because it began in the 1990s, when banks were not very sophisticated. There is a model which concentrates on a target group or on a product, and the next step is to build a bank to retain clients longer. That is a model for upgrading microfinance organisations.

Jan Evers then ended the interview session and gave delegates the opportunity to ask questions from the floor.

The first person said that in the USA one of the new markets is the immigrant market, and asked if panellists could discuss immigrant participation in their countries. Another member of the audience asked for an elaboration of the guarantee funds’ (supported by KfW) 100% risk cover. A third delegate stated that microfinance in Europe could learn from the South – in Peru the interest rate for sustainable microfinance is 40% – and asked how MF could possibly be profitable in Germany at a level of about 23%.

The speakers took turns to answer the questions.

First, Norbert Irsch said that, generally, KfW cooperates with commercial banks “utilising them as a branch network”. This is because KfW has only three branch offices of its own in Germany; to reach a
large number of clients KfW must therefore rely on the commercial banks (and also has to do so because of regulatory requirements). With regard to the pilot project Microfinance fund Germany, the Fund assumes a large portion of the credit risk, to enable MFIs to go into the market. Thus, one part of the strategy is to increase loan engagements by existing MFIs as well as to encourage the establishment of new MFIs by providing risk coverage. Ultimately, MFIs should become more professional so that they can bring costs down. In responding to the third question, Norbert Irsch began by saying that in Germany it has been estimated that about 23% would be necessary to cover costs. He said that a profitable market for microfinance for non-bankables does not exist in Germany. If this “disadvantaged” target group is addressed, it cannot be done profitably in commercial terms, so that one solution could be to subsidise the advisory element and split it off from the credit process cost, whereas lending costs could be covered by charging interest. Jan Evers added that inclusion lending will always be non-profitable.

Second, Angel Font answered the first delegate’s question by saying that 50% of European migrants arrive in Spain, resulting in a substantial integration effort; 70-75% of loans go directly to first generation migrants. He expected this to continue. Concerning interest rates, he agreed with the philosophy of pushing down interest rates but, in fact, experience has shown that people are less interested in the rate of interest than in how to obtain money fast. Spain has a good financial system to provide support to include more people, so why not take advantage of it? This is not paternalistic; he agreed that interest rates would ideally be close to 10% to allow MFIs to become self-sufficient, but rates are currently closer to 6% and subsidised.

Next, Krzysztof Jaczewski said that in their portfolio, there are very few immigrants – below 1% – but that this is an interesting process. In recent years, 1.5 million Polish citizens have moved to Western countries, and when Poland joined the EU (in 2004), it became more attractive to former Soviet republics and now has immigrant citizens from different countries. Funduszmikro is going to begin to offer opportunities to immigrants. Responding to the question about interest rates, Krzysztof Jaczewski said that inflation rates are at 1.5%, interest rates are about 5-6%, and the interest rate charged by Funduszmikro is 18%. Funduszmikro’s main aim is to be self-sufficient, and it offers a range of interest rates. The greatest drawback is the government’s ceiling on interest rates.

Lastly, Jenna Eastlake responded that migrants are a new and growing market in the UK. In terms of the banking sector, this is a new market; 60% of Barclays’ new accounts are for migrants in the UK. Many migrants are entrepreneurial. Responding to the question about interest rates, she said that for mainstream banks to charge high interest rates would not be appropriate for general public awareness. Account needs to be taken of the question of where people would go if not to CDFIs. To be sustainable, CDFIs need to charge high rates. Credit unions were capped at 12% until recently; this has now increased to 24% to help their growth.

Jan Evers said that Europe is very diverse and incorporates a plethora of MF models, which will turn out to be an advantage because it provides an opportunity to observe which models work best, and they can then be applied widely.
Workshop 1: “Microfinance: A New Way for Savings Banks to Fulfil Their Mission?”

Most saving banks have a clear social mission and invest part of their profits in social programmes. In the banking sector they have been among the first to take interest in the development of microfinance and some are very pro-active. Is this interest new or does it find its origin in the core mission of the Savings banks? Representatives from savings banks in Spain, France and Germany will share their views. What are their strategies? What are their successes? What are their recommendations for the future? How do they work with other entities?

Moderator: Mark Bienstman - World Savings Banks Institute/European Savings Banks Group (Belgium)
Speakers: Pierre Dutrieu - Caisse d’epargne (France), Marcel Abbad – Obra Social »la Caixa» (Spain), Patrick Steinpass – DSGV (Germany)

Mark Bienstman opened the session with an introduction to savings banks, which were created to achieve the goals in mind when speaking of microfinance. Savings banks are older than the name and have existed for over 150 years to help those that are not serviced in traditional banks. Hence the term microfinance, which represents more than just micro-credit; credit is part of it, but savings, payment services, insurance etc are just as important.

Marcel Abbad then explained the importance of the savings sector in Spain, which is at the same level as other bank sectors. In fact, savings banks in Spain were created with social objectives behind them; this is true for all 57 of the saving banks in Spain. These banks were giving loans to people with no collateral; there is a difference between a foundation and a bank. However when acting on behalf of a social mission, they must act with their own money.

Although Spain has a rich history of social programs through savings banks, the micro-credits are concentrated in certain areas and their systems are no longer up to date. Statistics also show that immigrant work has no effect as broadcast in the media. The next step in this field would be to create a bank that will be in charge of the micro-credit sector in Spain, thus taking them further.

Pierre Dutrieu, of “Parcours Confiance” in France stated that there was a large social interest and in 2005, they realized the need to work with social inclusion. As a result, funds to bring guarantees in two different directions - micro-credit for individuals and micro-credit for entrepreneurs - were launched in 2006. This saw the beginning of the project “Parcours Confiance”, which aims to fight against financial exclusion.

At each regional savings bank (28 in France), the project aims to help fragile populations find financial and social wellbeing. There is a tailored service, for individuals, which provides customers with micro-credit loans, averaging 2,000 euros, at low interest rates, and along with a savings account. Services to support individuals include a family budget, analysis of former debts, a recovery plan (ultimately decided by the beneficiary), account follow-up, adaptation of payments, and lower prices on banking services.

Training and education with “Finances and Pedagogic” allow people to understand and control their family budget, with 2-3 mornings proposed for best attendance. The people received include those with a temporary job, those unemployed, those affected by life issues, disabled, and youth. 767 people have been reached at this point, with 200 social micro-credits offered. The aim is to have 5,000 people and credits per year.
The second direction, relating to entrepreneurs, involves partnerships with companies. Micro-entrepreneurs reach unemployed people, beneficiaries of social help, inactive people, and youth. From experience, they have learned what the necessities are; a project team, new process implementations, an action plan, a budget (including education in order to promote access to finance) and a minimum local budget between 100,000 to 1.5 million euros. In order to modernize social involvement it is essential to think locally, as opposed to traditional top-down structures.

Patrick Steinpass heads the economics financial market of the German Savings Bank in Berlin. He explored savings banks in Germany - there are 650 companies and 457 independent savings banks spread over the country. Most of these are public banks, and a large majority of savings banks in Germany work within their own region. However, as savings banks are relatively small, in order to reach cost effectiveness, they bind activities together. They thus have special responsibilities for their regions.

In Germany, there are micro-finance organizations like KfW, and savings banks are involved in these programs, they do not have a special program for microfinance within their organizations. However, KfW does provide access to finance in 480 countries and independent cities in Germany. One tenth of all counties do not have a German Banking branch and in Eastern Germany one sixth.

Patrick Steinpass further discussed that they have a program for financial education within schools, but not a special microfinance program for the decentralized structure. He explores the idea that the best approach to microfinance is not to separate it from general business, but to hold it within general banking business. He reasoned that an artificial world should not be built up for microfinance but that it must be brought into the already existing world.

The discussion led to the differentiation of microfinance in Spain and France as compared with Germany. In Spain and France, there exist separate programs for microfinance where as in Germany microfinance services are incorporated into general banking systems. The European Commission defines microfinance as that with a ceiling of 25,000 Euros. The question posed to the panel was concerning limits, "Does microfinance require more than 25,000 Euros?"

The speakers responses were varied, Pierre Dutrieu stated that it depends in general while Patrick Steinpass responded that it varies completely based on the type of business. On the contrary, Marcel Abbad replied that the average in his region was 12,000 Euros, which is the perfect amount to cover most needs, but can sometimes go up to 25,000 for certain cases.

The next question was directed at Marcel Abbad, what is the bank’s strategical background for funding microcredit? His response to the question was that micro-credit offers a completely different "product" from that of mainstream banks. He stated that the bank is composed of three parts:

1. Social microcredit
2. A different public, those with less extreme problems but who are in the grey without access to mainstream banking.
3. Work with partners, creation of an internet network, as well as staff training and volunteer work.

Questions and Comments:

*What is the interaction between the global north and south, and if they could discuss financing microcredit to the Ivory Coast (as an example).*

Pierre Dutrieu’s response to this was that his project is locally based. However, that other things can be done in microfinance and in fact advancements in microfinance funds for African countries have already been made.

*Is there in fact any cooperation between the North and the South? Like Citibank that opens microfinance programs in the US but refuses to do so in Africa? And why are these programmes that are supposedly focused on the poor, focused on rich countries?*

Pierre Dutrieu replied that he was there speaking about one single project, but that the problem is real, and rates practices do not permit projects in the global south to develop. When banks do launch programs, such as
WSBI World savings banks, they focus on mobilizing domestic savings, as international markets are losing. Therefore by focusing on domestic, there is no loss on exchange rates. In relation to including people in the financial system, it is necessary to include them in all aspects and include of their needs, not just micro-credit. They are helping Africa and Latin America with capacity building, but in the local, domestic financial market as opposed to international dependence. It is working within a domestic financial market that is in fact sustainable.

In response to the same question, Patrick Steinpass stated that in Mexico they are building a cooperative system in order to create a decentralized system. He mentioned that the problem stems from the fact that American banks exist in the big cities while the rest of the country lacks any type of banking system. He also discussed the creation of a microcredit fund as a recovery process in Indonesia after the tsunami.

What is the top level loan? What organizations do you work with? Do these organizations turn to other savings banks for help? And what is the percentage of people that come directly from the savings bank?

Marcel Abbad responded to all of these questions simultaneously, first of all, he replied that they had signed 240 conventions with these organizations. He affirmed that there is no exclusivity, that the principal goal is to do it right and to ensure that the market stays free. The established loan limit is at 25,000 and there are no exact figures on the last question, but they can say that the percentage of people who come from other organizations is about 10%.

If the sector is divided into three, what about the people in the grey zone that face problems with banking access?

Marcel Abbad responded that on the condition that people do not have access to banks, whichever area that they might be in, they will be given access.

Now that the legal status of your bank has changed, will you be different to all the other banks of Spain? (Directed to Marcel Abbad)

Marcel Abbad replied that this is a completely new actor and that the banking scene must understand that they will give banking credits without any guarantee. He also affirmed that for the moment they have not had any problems.

Where does your money come from?

Marcel Abbad responded that taking money to create programs from inside the microfinance world could lead to problems. Therefore, the savings made will go to "la Caixa", while the money for loans comes from his organization.

Is it possible to finance these countries directly through banking, without the need to pass through MFI’s? And are banks wing to establish credit directly?

Pierre Dutrieu responded that there are debates on this issue because more banks are lending money to networks and associations. However, as savings banks they have taken a very different position; to be in direct contact with customers, not just to finance an organization but to maintain direct contact.
Workshop 2: “Financing your development: what is possible?”

As sustainability remains a somewhat distant goal in Europe, microfinance programmes have to find ways to finance their development and more specifically their operational costs. The recent study conducted by EMN on the overview of the sector shows that 42% of the organizations in the EU 15 get 75% to 100% of their operational funding from public sources. Only banking institutions in the survey cover all of their operational costs from earned income. It’s a real challenge for the growth of the sector. If sustainability remains a goal for most of the actors, it will take some years before reaching it. If in-between organizations don’t find financial support, most of the programmes will close or remain as they are, without any perspective of development and sustainability. The workshop will explore the support provided by the European Commission and especially through the European Investment Fund and the Jeremie Programme. It will also cover what type of specific partnership has been put in place in Germany to develop the sector with various stakeholders.

Moderator: Klaas Molenaar - Facet (The Netherlands)
Speakers: Marc Schublin - Jeremie (Luxembourg), Falk Zientz - GLS Gemeinschaftbank (Germany)

Joint European Resources for Micro and Medium Enterprises (Jeremie)

Jeremie in general aims at improving SME’s access to finance, being more efficient and more effective as compared with former financial instruments applied by the EU. The second largest EU budget is devoted to supporting regional development, for instance by investing in infrastructure, in order to decrease disparities between different regions. Part of this budget is spent on the enhancement of SME’s access to finance. The reason for this investment is to contribute to growth and employment.

As far as the technical side of the Jeremie initiative is concerned, the initiative was established by the European Commission, the European Investment Bank and the European Investment Fund (EIF). Procedures have been simplified former more fragmented system. This former system was less efficient, because its procedures were complicated and time-consuming, based on case-by-case decision-making. The Jeremie initiative is not based on additional funding but is instead a system to distribute the funding in a new way.

Jeremie’s fund is organized by the EU member states. Its flows are organized by the EIF, national or regional institutions acting as “managers” on behalf of the member states. These managers also select the financial institutions that profit from the funding on the national or regional level. The way the managers define and implement the conditions of financial support is meant to function both efficiently and transparently. Financial support is accessible to public and private actors, not only to banks but also to MFIs. Among Jeremie’s financial instruments there exist equity and venture capital, technical advice and assistance and guarantees for SME clients. Jeremie can be combined with already existing
funding. In the EU 15, there have been funding schemes running for many years, the challenge now is to ensure that existing systems also profit from the new approach.

A major concern that Marc Schublin emphasized when presenting the Jeremie programme was that the implementation of Jeremie may differ in member States. The participation in the Jeremie programme is decided upon individually and voluntarily by the member States. A rather conservative approach by certain States could be to continue utilizing the old system of case-by-case decision-making. As a result, Jeremie can not be introduced as a general system throughout the EU.

The member states add money to the EU funding and it is their decision which programmes are to be supported, however negotiations between the European Commission and individual countries continue to take place. For example, the case of Romania was stressed in the discussion. There 15% of the financial means are distributed nationally, at the same time the commission is pushing for the support of the Roma community for political reasons.

In conclusion, Jeremie can be taken as evidence that microfinance concepts have been recognized by the EU as being a serious priority, representing a new and increasingly recognized industry.

The German Network - In support of the Microfinance sector (DMI)

Changing perspectives from the global European view to the national one of Germany, in the second part of the workshop Falk Zientz gave insight into the specific German network established in order to support the sector of microfinance. Falk Zientz explained that the microfinance sector in Germany is still developing, in the process of creating a supply of funds. The network supporting access to microfinance in Germany, however, was not completely new, but was based on existing structures, such as the labour market agency and business development agencies ("Wirtschaftsförderungsgesellschaften"). The situation at present is that microfinance procedures are still at the beginning of a learning-curve. Financial means are needed in order to make institution-building and market access possible. Thus, the German model is only relevant for institutions that are already established and in the position to ensure self-finance.

The structure of the DMI is split into four components.
1. The borrowers - consisting of mainly young business owners in their post-start-up phase when they are often in need of external financial means.
2. 11 microfinance organizations - of which 5 to 6 actively deliver credits to their respective regions.
3. A fund supplies risk-bearing capital - consisting of private actors, the Federal Ministry of Labour and Social Affairs, the Federal Ministry of Economics and Technology, GLS Bank and KfW Bankengruppe.
4. The network is supported by the European Social Fund, the BBR, and the labour market agency amongst others. The DMI itself has about 50 members. It provides services to MFIs, by offering advice, training and accreditation as well as developing projects.

Once a year, the cooperating partners agree upon a contract defining the framework for the year to follow.

As part of the cooperation model, the DMI gives the accreditation of the MFI, while the Fund donates a guarantee deposit to the bank. At the beginning of the procedure, the MFI cooperating with DMI analyses the credit application. The MFI then gives a recommendation to the bank involved. The bank offers a loan under standardized conditions, while the MFI continues to assist the borrower. In the case that total refunding does not happen, the bank charges the missing amount to the fund. For this loan loss coverage, the bank gives part of the interest to the fund. When loan loss is under 10%, the MFI is paid a bonus by the fund; otherwise, however if loss is above 10%, the DMI has to bear part of the risk with a maximum of 20% of its credit portfolio.
When Klaas Molenaar asked the rather provocative question of whether the audience would support this German system, some doubts were expressed. The audience was concerned with why the banks do not bear a higher proportion of the risk and whether the MFI can sustain their operational freedom. Moreover, the complexity of the loan lending procedure was criticized.

Falk Zientz responded to these doubts by arguing that the borrowers have to deal directly with the MFIs and are in no way confronted with the complexity of the lending process. He argued that the cooperation model offers the possibility of handling micro-lending without much effort from the borrower, for whom the process is quickly and easily implemented. Moreover, the network does not have to agree upon each individual credit, as the partners meet once a year and most parts of the loan-lending process function automatically. As far as the interest rate of 10% is concerned, Falk Zientz emphasised that the key-motivation for the clients would be to gain access to capital, and hence in most cases the interest rate would not be considered the major concern.

Finally, the situation in Germany differs from that in France for example, because German laws prohibit MFIs from offering loans. This particular German characteristic explains why a specific solution in form of the network presented by Falk Zientz is considered necessary in Germany.

To conclude, the European microfinance sector is still facing the challenge of involving both MFIs and banks in the process of loan-lending to microentrepreneurs and in ensuring that both share the burden of effort and financial risk. This is a basic requirement to develop the industry further and to remain focused on the goal to reach future sustainability.
Workshop 3: "Research in European Microfinance"

This year’s research strand workshop will examine gaps in European microfinance research. Two recent studies that address these gaps will be presented. Niamh Goggin of the Small Change Research Partnership (Experian, Small Change, cdfa and Freiss Ldt) presents a pioneering methodology for measuring and mapping financial exclusion in the South-East of England. Simone di Castri presents his ongoing research on how microfinance challenges classical financial services regulation. Legal constraints and incentives to provide effective financial services to poor people are outlined.

**Moderator:** Silvia Rico - Foro Nantik Lum (Spain)

**Speakers:** Niamh Goggin – Small Change Research Partnership (UK), Simone di Castri – University of Bologna (Italy)

The workshop began with an introduction to the topic by Silvia Rico. She stated that last year EMN began data collection (country based, etc.), mostly project applied research because relatively little research had been taking place and hence concluding in research gaps. There are very few national level surveys of the MF sector, no up-to-date research on their impact, very little work on migrants and only two studies on sustainability. Most of the work is focused on program quality, but not on impact and so far there are only three studies on financial exclusion. This gap in research poses a problem, and therefore this workshop was aimed at discussing ways and ideas for more research to be conducted.

**Niamh Goggin – Small change Research Partnership (UK)**

Niamh Goggin represents Small Change Partnership (UK) an organization that conducts financial exclusion services research. The presentation looked at research from both the supply and demand side but focused more on the supply side.

Niamh Goggin began with an introduction to the topic, by answering the question, Why this research? She gave numerous reasons for this: they are responsible for the sustainable economic development regeneration of the South East of England - the driving force of the UK's economy, the central government transferred the responsibility for CDFI's (Community Development Financial Institutions) to the Regions and because it is tied in with the Sustainable Prosperity Objective (the stimulation of enterprise, support for locally-focused community-based businesses and the importance of micro-business and home-based businesses.)

As mentioned earlier, there were two sides to the study. The study of the demand side included evaluating the demographic characteristics of those who are financially excluded within South-East of England. They then measured financial exclusion and constructed a financial exclusion index and finally mapped financial exclusion in the South-East.

Niamh Goggin then went on to highlight the supply side of the research. The terms of references are the availability of services for financially excluded in the region, this includes the assessment of gaps in provisions and the sustainability of community development institutions; and finance organisation. The Methodology is the compilation of primary and secondary sources. This includes access through CDFA to performance data from CDFI's. Questionnaires on coverage and sustainability with focus Groups and follow up analysis are the second form.

Niamh Goggin then summarized their main findings, separating them into subgroups. The first was facts about the MF industry in the south east. There are Seven MF providers operating in SE (Princes trust: 241 clients;
Frederick's foundation; 145 clients; South Coast money line: 64 clients, etc.) Of these, there are two national, one regional and four sub-regional providers that provided a total of 518 loans. The estimated demand from start-ups and existing micro-businesses is 9,089 loans per year and current providers meet 5.7% of this demand. Finally, that there is no coverage for over-30's in deprived areas including Slough, Dover, Milton Keynes, and Oxford.

Next were the findings of facts Micro/ Small Business Lending. The average loan size is £3,555 and it ranges from £910 to £7,500. However, the SE Community Loan Fund ranges from £15,000 to £50,000. There are small market gaps for borderline micro/ small business loans averaging £15,000 and there is an estimated demand for almost 300 loans/ year. This was followed by a Gap analysis which found that there were four principal types of gaps. There is a coverage gap for those that are borderline micro and small business lending. Secondly, there is a geographical gap, with areas such as Slough, Dover, Milton, Keynes and Oxford and many more not getting coverage. Next they found that there is a product gap due to little access to large loans. Finally they found that there is a group or community gap through marketing targeting women, ethnic minorities, recent migrants and people with disabilities.

The next question that the findings were able to answer was: what is sustainability? The findings divided it into three different types of sustainability. Firstly, Operational Sustainability which is defined as the extent to which the organisation can pay for its operating costs out of earned income (for example from interest income). Mission-Driven Sustainability, which is the extent to which the organisation can raise money from government or other stakeholders by demonstrating social impact. Finally, Structural Sustainability, which is the extent to which the organisation can raise money to pay for the cost of operations because of its structure (e.g. through fund raising or cross subsidy from a more profitable venture).

Each type of sustainability was further investigated, to give the following results. No MF organisation came close to operational sustainability. Fredericks Foundation came the closest (58.3%) but most of their income earned is through non-lending activities. There is a clear relationship between average loan size and term, portfolio outstanding and sustainability. Portfolio outstanding is less than £300k and operational sustainability less than 20% (most MFI's are below 20% of operational sustainability). In relation to Mission-driven Sustainability, the indicator used was Average loan size as % of Gross Values Added per head in the region. The range was from 4.9% to 40.33%. They also found that some MFI's work with the most financially excluded clients, with rations of 5% but that few of them have adequate performance information to demonstrate impacts to funders. Finally, in relation to Structural Sustainability and how it can be attained, they found that MFI's must be part of larger organisations; they must find a prince to head their fund raising efforts; take the form of a charity with commercial subsidiary; use innovative fund raising methods and reach a wider network of Enterprise Agencies.

Niamh Goggin then highlighted some of the implications of the findings. The implications for the microcredit providers are, firstly that standalone MFI's will not survive in the UK (they need to be part of grassroots, local CDFI's, or larger institution, offering loans from £5,000 up to £50,000, or part of larger economic development agency) and that services with focus on financially excluded will struggle to survive. The problems for MFI's that were highlighted in the findings are that government attention is already moving away, CDFI's are not seen as having delivered and their outreach is poor with low numbers and high write-offs. This implies that MFI's must focus on outreach and performance and they need to balance working with the poorest with attaining sustainability.

Implications of the findings for the government include financial exclusion being a problem even in the most successful regional economies, the need for a holistic approach to microfinance. This involves access to credit, financial literacy and bank disclosure of its performance. Also that organisations working in the MF sector need to present a united front to the government in order to convey a clear message and finally; the government needs to take a long-term, strategic approach to this issue.

Niamh Goggin concluded by summarizing the concepts from the findings and discussing some of the future prospects of the MF industry in this region. The MF industry in the UK is in the lower section of the market and the loan sizes are small. Therefore in order to attain a level of sustainability the MFI must be in the market for several years to gain more knowledge and experience to be able to handle more clients. There is also the need to develop a more realistic model.
QUESTIONS & COMMENTS:

Q: How many clients does Smallchange have?
A: A very small numbers of clients and agencies, for people who do not have mainstream problems;

Q: Is it difficult for European MFI's to reach sustainability?
A: The target group is not the really poor and the framework in Europe is different.

Q: Would it be possible to replicate the presented analysis?
A: The difference between the UK and other countries is that the UK has a nation wide data collecting system as transparency is very important. Access to more information is seen as the biggest problem for research.

Questions from audience

Q: Is it worth spending money on MF?
A: Definitely, even if it is not 100% successful, it still helps people out of poverty and gives them a realistic chance to become self-employed.

Q: How can you measure impact?
A: The best approach is on an individual country basis with annual service, etc. as it is more detailed for each country.

Q: Are MFI's more business orientated than microlending orientated?
A: Business is easier than microfinance part.

Simone di Castri - University of Bologna (Italy)

Simone di Castri presented the work in progress of the PhD dissertation, Regulating Microfinance through a social and economic analysis.

He began by giving an overview of the thesis of the dissertation. By reflecting on the theoretical basis on which microfinance rests and through a comparative analysis of poverty, inequalities and the supply and demand of financial services for low income people among several developed and developing countries, this research seeks to investigate the interconnections occurring between microfinance effectiveness and the regulation of financial services.

Collected data are used to analyze the following main topics: legal constraints and incentives to provide financial services for poor people effectively; microfinance challenges to classical financial services regulation; the relations between microfinance and some public policies, in order to improve social welfare and economic democracy.

Finally, the outcome of the research is to design a legal model to be applied in Italy to contribute to financial and social inclusion by implementing the access to financial services for those people who are currently excluded from them. Regulatory issues are underscored and distinguished, with particular emphasis on the differences between countries with different levels of economic and financial market development and structure.

Simone di Castri then highlighted the importance of understanding how microfinance influences social relations and the sweating of workers and how it transforms some of the structural causes of poverty and social exclusion. In particular, some remarks on the relation between microfinance and social welfare policies (is microfinance a social welfare tool? how could it work among the other welfare measures?), as well as several considerations on self-employment and the role of microfinance for improving the economic democracy (the transition from informal sector to formal sector, the empowerment of marginalized people and minorities, etc.) are given in the research.

Next, he highlighted the reasons for this particular research and why it is of relevance. His explanation included that so far there have only been country-based studies but not enough studies through the economic analysis of
microfinance regulation. Also because microfinance in Italy is underdeveloped and there are a number of regulation matters. Finally, law-makers’ approaches can not be addressed without a policy analysis that looks at microfinance in the range of the other social welfare/workfare tools.

He went on to explain that the comparative study looks at the different experiences with the aim of knowing the social and economic matters that form the background of microfinance spreading and diversification. In fact, the different ways to provide financial services for the poor are investigated, the characteristics of their demand and their own impact. Finally, the regulatory framework is considered in each country, with the aim of understanding its connection with microfinance effectiveness.

Next, he presented the above diagram and explained that she is collecting data from several countries that employ microfinance, looking at microfinance and mainstream financial services markets, as well as those social and economic matters that form the background of microfinance spreading and diversification. The taxonomy of the different ways to provide financial services for the poor reveals the characteristics of demand, supply and impact of these services. Crossing those data with demographic and income data allows, moreover, to underscore the microfinance sector’s social impact, precisely its potential to generate positive social externalities (such as gender empowerment, children education, reduction of social exclusion).

Demand and supply

![Diagram with labels: poor, poorest, characteristics of the demand, different providers for different targets and needs, regulation is a main factor affecting the supply side.]

This was followed by an explanation to why regulation is a main factor affecting supply. This is because the actors/providers are enabled to participate in the market, they are allowed to provide sustainability, outreach and impact, which are instruments used to raise capital and for governance. Similarly, regulation can affect the demand indirectly, with providers being able to offer more and better services, and directly in a number of ways. These include:

- Managing costs and incentives that improve the environment for entrepreneurship
- Comparative analysis to understand markets’ structure
  - Demand
  - Supply
- Analysis of the regulations to understand how regulation affects the market
• Cross analysis to see how regulation can be amended to maximize the efficiency of the existing infrastructures or to push in the market new actors to reach the unserved.

He is examining the regulatory framework in the considered countries, in order to understand its connection with microfinance effectiveness. In fact, financial services regulation differs among countries and many states have already amended their rules on the basis of improving effectiveness and outreach. Those recent regulatory changes reveal different legal approaches in the use of both prudential and non-prudential regulation.

In France, the microfinance market is led by ADIE, which is growing in scale, has reached operative efficiency, is moving toward sustainability, has a relevant role in lobbying for pro-effectiveness legal and tax amendments and is called as advisor on social matters by public authorities. ADIE and the others MFIs have been supported by Loi 2001-420 on “Nouvelles Régulations Economiques”, which allows them to lend directly to their borrowers. This improves operational flexibility and increase responsiveness of MFIs management. Furthermore, since 2005 the “Borloo” law on social cohesion supports microcredit development and constitutes the Fonds de cohésion sociale (73 millions of euros) to promote microcredit by guaranteeing business and consumer loans to unemployed people and low-income households. Tax exemptions for new micro entrepreneurs are also previewed and interest caps on loans to individuals have been removed. French lawmakers believe in microfinance and in assisting its enlargement through regulation and public policies.

In Spain, the microfinance sector has grown exponentially since 2001, especially by the commitment of saving banks in partnerships with social institutions. There are also two distinct public programs, one involving the government with women’s organizations and la Caixa, and the other driven by the Instituto de Crédito Oficial (ICO) in collaboration with private financial institutions, social work institutions and the European Investment Fund (EIF). Microfinance as a tool to promote self-employment has also been mentioned by the 11 National Plan on Social Inclusion. A particular role in the development of the industry is played by the Entidades Sociales de Apoyo al Microcrédito (ESAM), which is various public or private entities that assist by helping financial providers and prospective clients to meet, introducing feasible projects to the banks, and mentoring people before and after they borrow.

Spanish law includes three types of credit institutions: banks, credit cooperatives and savings banks, which are organized as private foundations and are allowed to lend. Savings banks account for close to 50 per cent of the total assets of the Spanish financial sector. A specific legal framework for microfinance does not exist yet.

In Germany, Kreditwesengesetz, (KWG), the German Banking Act, allows lending only by institutions with a bank status. Market entrance is costly. Microcredit is provided mainly by banks linked to Grunderzentren (non-profit organizations that incubate business), which are accredited (and trained) by the Deutsche Mikrofinanz Institut (DMI). A microfinance investment fund of three million euros is provided by both the Gemeinschaftsbank für Leihen und Schenken (GLS), a cooperative bank, and by the Federal government. The fund entirely covers the banks’ possible loss. The public Kreditanstalt für Wiederauf-bau (KfW) Bank is also an important actor. Even though there is no direct regulatory intervention on microfinance, German government has given an incentive to the microfinance mission by creating a new entrepreneurial entity, the Ich-AG, which has been created to allow individual workers to step out from the informal sector. New Ich-AG entrepreneurs receive public subsidies for three years (600 euros monthly the first, 360 the second, and 240 the third) and a favourable tax treatment; or until their businesses earn 25,000 euros per year.

In the United Kingdom, the microfinance industry is somewhat different with respect to continental Europe. English government has strongly encouraged the action of community development financial institutions (CDFIs), which are increasing their relevance in lending and investing in deprived areas and markets underserved by mainstream finance. CDFIs act in a more complex policy environment, with a plurality of activities, products and missions that are beyond the provision of only microfinance services. Incentives to invest in CDFIs are supported by tax breaks. Without a ceiling on interest caps, CDFIs can structure their products looking at sustainability, people’s needs and their capacity to pay back loans.

Partnerships with commercial banks are common, and the latter have special instruments for financially marginalized people thanks to Government collaboration. The Small Firms Loan Guarantee Scheme (SFLGS) enables uncollateralized small entrepreneurs with a viable business plan to borrow money. The Department of Trade and Industry provides 75% of the security to the bank, which takes the risk on the remaining 25% of the
loan. On savings, the Basic Bank Account has been designed for low-income people. English public policy clearly cares about the financial and social inclusion of marginalized people, and the regulatory framework is helpful, primarily through consumer credit legislation.

In the Netherlands, the Government promotes Public-Private Partnerships (PPP) for financing MFIs.

In Italy, microfinance industry is small and molecular, fragmented in nearly a hundred various projects active on very local scale. And yet, in Italy 14% of households do not have access to financial services, immigration is constantly increasing, wages are low, and financial services are expensive. 7.5 million People, 13.2% of the population, live under the relative poverty line. In the south, usury is still extensively practiced and working in the informal sector is widespread.

Under the present Italian legal framework, lending is prohibited to non-authorized intermediaries, and requirements to enter the market are strict and costly. Only Banca Etica, Mutue di Auto Gestione (MAGs) and a few credit cooperatives are financial intermediaries with their own microcredit projects. The sector involves mainly small public and private institutions, mostly non-profit associations, which negotiate loans through a bank. The underdevelopment of these projects increases transactional and monitoring costs. All non-banks projects are entirely subsidized.

Although there is a wide demand for financial services by people who do not have access to the mainstream system, and the microfinance sector is underdeveloped compared to many other EU countries, amendments to banking regulation that would facilitate microfinance have not yet been considered by Italian regulators. Italy is a clear example of how regulation can constrain microfinance growth if it is not tailored to actual social needs. Furthermore, there are no signs of forthcoming public policies to encourage microfinance or micro-entrepreneurship.

After giving some examples of the constraints and incentives of the regulation and public policy of certain EMN countries, Simone di Castri went on to highlight different approaches and evidence. These included, the role of social intermediaries and business incubators; the application of or the exemption from the mainstream banking legal requirements to micro finance intermediaries; public programs to provide capital to lend to MFIs and share the risk with them; the interest caps issue; valorisation of governance requirements; improving mainstream financial intermediaries’ role in the sector, even through some coercive methods that take into account their accountability towards stakeholders and communities; emphasizing the potential of savings banks, cooperative banks and foundations through their inclusion in public programs (establishing public funds to share risks); the maximization of public subsidies and the incentive for private donors; the role of the EU and the capacity of European policy to spur microfinance provision in Western EU countries; implementation of public credit registries; implementation of evaluation methods for microfinance transparency; and the effects of Basel II.

Finally, Simone di Castri concluded with limitations of his study and research, which included the lack of studies on outreach, impact and sustainability, the lack of a systematic procedure for studying the implementation of regulation, difficulties in reaching legal data globally and a lack of homogenous and comparable information for a holistic study.
Workshop 4: “The measurement of the financial and social performance of European microfinance organisations; which benchmarks?”

Measuring the performance of microfinance programs is crucial to increase efficiency, transparency and communicate about the sector. But it requires agreeing on a common set of indicators to be used on a regular basis by microfinance providers. So far in Europe it has been difficult to succeed in getting basic information and to agree on such common indicators. Three networks in Europe, the MFC, EMN and cdf have been involved in a joint project to exchange good practices thanks to the support of the European Commission DG Employment. One of the outputs of this project has been a report on benchmark and performance measurement that could be used as a start in Europe. Financial and social indicators have been identified and will be shared among participants in order to start benchmarking the sector.

Moderator: Agatha Szoteck - MFC (Poland)
Speakers: Micol Guarneri - Microfinanza (Italy), Maria Doicu – Project Enterprise (Romania), Katarzyna Pawlak – MFC (Poland)

Agatha Szoteck began the workshop with an introduction to recent efforts in benchmarking both financial and social performance of MFIs (Microfinance Institutions). A report pertaining to this issue was compiled by a workgroup of the above mentioned institutions. The report was titled, "From Exclusion to Inclusion through Microfinance: Learning East-West". The goal of said workgroup was to develop a unique basket of key financial and social factors in order to evaluate and compare MFIs in the East and West of Europe. The group selected the most meaningful and most widely applicable indicators and recommended governments to train people on using and understanding the indicators developed, so that MFIs could be measured appropriately and financial support could be granted on clear grounds.

Agatha Szoteck then established that it is performance that must be measured. She defined the desired performance of MFIs as "providing long-term, accessible financial and non-financial services to micro-entrepreneurs, particularly women, in order to improve their businesses and families' well being." She went on to discuss the essential aspects of this performance which must be measured:

- Maintenance of sustainability and loyalty to clients.
- Improvement and maintenance of fast service, affordable prices, proximity and low requirements.
- Extension of range of services (loans, savings, BDS etc.)
- Increased and sustainability of outreach to females and other micro businesses of 1-8 employees.
- Improvement and sustainability of client’s families well being as referred to meeting basic needs (food, clothing, education, health) through sustainable business that provides income to cover these expenses.

The reasons that Agatha Szoteck listed for developing financial and social measurements of MFI performance are as follow:

- Internal (managerial purposes):
  - Derived from the mission.
  - Key to management of an MFI.
  - Linked to strategy and operations.
  - Focused on both results and mean.

- External (for performance evaluation):

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Monitoring performance to improve results

- External (segmentation of the industry):
  - Specific to reflect the MFI goals & strategy.
  - Quick and easy to analyze to make timely decisions (management cockpit).
  - Integrated into strategic and operational management and control processes.
  - Cascaded across organization to align all functions and levels to the mission.
  - Supported by modern performance management methodologies (Balanced Scorecard)

Agatha Szoteck then highlighted some of the main performance indicators as well as secondary indicators in measuring the performance of a MFI.

### MAIN PERFORMANCE INDICATORS

<table>
<thead>
<tr>
<th>I. Scale and Outreach</th>
<th>Number of Active Borrowers</th>
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<tbody>
<tr>
<td></td>
<td>Gross loan Portfolio</td>
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<td></td>
<td>% of Targeted Borrowers</td>
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<tr>
<td>II. Profitability and Sustainability</td>
<td>Operational Self-Sufficiency</td>
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<tr>
<td>IV. Efficiency and Productivity</td>
<td>Cost per Borrower</td>
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<tr>
<td>V. Portfolio Quality</td>
<td>Portfolio at Risk (30 and 90 days)</td>
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<td></td>
<td>Write-off ratio</td>
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<tr>
<td>IV. Efficiency and Productivity</td>
<td>Cost per Borrower</td>
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### SECONDARY INDICATORS

<table>
<thead>
<tr>
<th>I. Scale and Outreach</th>
<th>Number of Active loans</th>
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<tr>
<td></td>
<td>Number of Active savers</td>
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<tr>
<td></td>
<td>Average disbursed loan amount</td>
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<tr>
<td></td>
<td>Average loan amount/GNI/person</td>
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<tr>
<td></td>
<td>% of Women Borrowers</td>
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<td></td>
<td>% Start-up Borrowers</td>
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<td></td>
<td>Minority Borrowers</td>
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<td></td>
<td>Loans with non physical collaterals</td>
</tr>
<tr>
<td>Mission and Systems</td>
<td>Quality of services provided 1- grace period, collateral.</td>
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The floor was then opened to the speakers to share their experience and expertise on measuring microfinance performance.

**Katarzyna Pawlak - MFC (Poland)**

**Katarzyna Pawlak** shared her experiences with MFC in the measurement of performance for internal or managerial purposes. MFC’s process of developing measurements spawned from their search for tools to give their managers a better overview of how the MFI performed.

**Katarzyna Pawlak** emphasized that this measurement differs from that of a profit maximizing company in that MFC strives to achieve its mission which is defined by their financial and social goals. She highlighted that, in fact, in Poland MFIs have no trouble reaching their financial goals (breaking even) but often struggle to reach their social goals as well. Consequently, MFC developed tools to measure their social performance.

In order to achieve this, MFC had to determine which social indicators were most meaningful to the organization, as different groups have differing social objectives (workers, families or entrepreneurs). MFC therefore took a model previously used for different types of analyses and adapted it to social measurement.

An example of this model is the balanced scorecard. It identifies the main social objectives that the MFI already follows and analyses whether these are the right ones for its cliental profile. In this manner, MFC was able to determine which indicators were most relevant to their social goals and mission.

Hence, MFC built their performance measurement, paying close attention to their social goals. Their measurements are based on the following indicators:

- Quick and easy to analyze to make timely decisions (management cockpit)
- Specific to reflect the MFI goals & strategy
- Integrated into strategic and operational management and control processes
- Cascaded across organization to align all functions and levels to the mission
- Supported by modern performance management methodologies (Balanced Scorecard)

**Micol Guarneri - Microfinanza (Italy):**

**Micol Guarneri** from Microfinanza discussed performance evaluation from an external point of view, from the perspective of a credit rating agency. She affirmed that evaluation of performance is important for the stakeholders of an MFI, as it provides them with reliable and regular information on how the MFI is doing. Performance evaluation provides an in-depth qualitative and quantitative analysis of the performance and of the risks linked to the MFIs operation. The performance of the MFI is benchmarked against industry standards based on the performance of peer institutions and the quantitative analysis rests on a common set of standard indicators.

**Micol Guarneri** then continued by highlighting the main beneficiaries of performance evaluation:

1. Capital stakeholders - as they have the chance to take sound decisions about capital allocation, and to avoid exaggerated diligence when taking these decisions. It also reduces information asymmetries evading perceived risks.
2. MFIs - in order to attract new sources of funding and appear more transparent to external stakeholders, thereby increasing visibility, credibility and trust. It also enables them to see their own weaknesses.
3. The industry as a whole profits from rating through increased transparency and industry-wide performance standards which increases capital flow to the microfinance sector.

Micol Guarneri went on to narrate the achievements in developing evaluation methods in the last ten years. These include a common set of standard indicators, a consensus of terms and definitions within the microfinance industry, an increasing number of MFIs using the common set of indicators and reporting them. However, she remarked that the rating market is still geographically limited and the measurements of social performance are yet to be mainstreamed.

Moreover, at European level, the Eastern European performance rating is far more developed than that of Western Europe. It is now necessary to set benchmarks for Europe, taking into consideration that microfinance in Eastern and Western European countries is very different.

She concludes by mentioning that several initiatives for rating social performance are under way and by highlighting the following goals for social performance measurement in MFIs:

- To establish social performance as equally important as financial sustainability in microfinance
- To provide potential donors and investors with the most appropriate tools and information when they take decisions concerning allocation of resources
- To increase the transparency on the double bottom line
- To provide a clear picture to the management of microfinance institutions about their social performance
- To contribute to generalize the adoption of social performance criteria for managing microfinance institutions
- To benchmark social performance across MFIs (need time)

Maria Doiciu—Project Enterprise (Romania)

Finally, Maria Doiciu from Project Enterprise presented a case study of benchmarking the Romanian MF sector, the only MF sector to be benchmarked in Europe so far.

Project Enterprise undertook benchmarking the Romanian MF sector. Project Enterprise selected the important indicators and then for a better overview of the sector, segmented the industry into large, medium and small MFIs.

The indicators and results for the years 2004, 2005 and 2006 were as follows:

1. Evolution of number of active borrowers.

The number of active borrowers stayed approximately the same over the three year period. However, large MFIs could tripled their number of clients between 2004 and 2005, while medium MFIs lost four fifth of their clients during this period.
2. Evolution of gross loan portfolio:

The average loan size almost doubled over the three years.

3. Operational self-sufficiency:

All Romanian MFIs regardless of size are self-sufficient.
4. Cost per borrower:

[Bar chart showing cost per borrower for different categories of Romanias MFI's]

The cost per loan ranges from € 337 (medium MFI) to € 491 (small MFI). Large MFIs had a higher cost per loan because they were in process of expanding and therefore had few loans in their recently developed areas. The most costly aspect of lending is by far the monitoring cost.

5. Portfolio at risk for more than 90 days:

[Line chart showing portfolio at risk for more than 90 days for all Romanian MFIs]

2003 2004 2005 2006
The portfolio at risk fell to 1.01% in 2006. This proves that lending is less risky than as propagated by the media.

6. **Write off rate in 2006:**

Similarly, the write-off ratio of Romanian MFIs is 0.17% on average. This efficiency is attracting new funds and enables swift growth of the sector. Growth is advantageous as another € 700 million of unsatisfied demand for loans exists in the Romanian small and micro enterprise sector.

In conclusion, these findings suggest that benchmarking as a tool can prove very useful, making the developments in the sector more transparent for above mentioned stakeholders of the MFIs. It also enables the industry to be positioned with the EU.
QUESTIONS & COMMENTS:

Q: How does social assessment in Romania occur?
A: Maria Doiciu responded that social indices are difficult to measure, in order for MFIs to collect the needed data, subsidies are required.

Q: How can Western Europe develop financial indicator measurements, like they exist in Eastern Europe?
A: It is people from Western Europe that set measurement standards in Eastern Europe, so they will be able to do the same in Western Europe. However it is also important to ensure that indicators are adapted to every country in order to draw meaningful conclusions.
Workshop 5: “Banks and Microfinance: For Business or just for CSR?”

More and more banks in Europe are entering the microfinance sector. It’s not only true for savings or development banks, but also for a growing number of commercial banks. They often have their own strategy, their own methodologies; some do it directly, others through partnership with other financial institutions, or NGOs. But what are their real interests? Do they see their involvement as a way to improve their image, fulfil their Corporate Social Responsibility requirements or do they see the microfinance market as a real business opportunity, a way to gain new clients? The workshop should be able to give a broad overview of the different approaches and give concrete examples of what has been achieved so far and what are the perspectives.

**Moderator:** Peter Ramsden - Inclusion (UK)
**Speakers:** Gera Voorrips - ING (The Netherlands), Franck Lierman - Dexia (Belgium)

The workshop was focused around a few core questions:
- Is banking involvement just about Corporate Social Responsibility?
- Is bank involvement in microfinance really about window dressing?
- Is it just to "sugarcoat the pill"?
- Why should banks get involved in micro-finance, what can they gain?
- What can the MF sector gain from bank involvement?

Peter Ramsden opened the workshop by stating that there are high levels of cooperation between banks and the MF sector in certain situations.

Gera Voorrips, of ING, a global financial institution, explained that microfinance is a minor activity within ING. Their aim is to educate employees on microfinance, who pass the information along to clients. Their acts are non-commercial. ING has been lending to MFI’s, and a business line in India loans to clients. With low barriers to entry, their microfinance is just starting within European countries, such as the Netherlands. Microfinance is an activity with two sides to it; it is attractive from the corporate responsibility point of view but also offers commercial profitability.

Within the MF sector, banks are minor players, who serve about 4% of clients worldwide, mostly indirectly. There are a number of banks that offer non-financial services through technical assistance. For example, an ING product manager worked for an MFI in Malawi, on a promotion plan to attract more savings for clients of the MFI. This was an excellent attempt to exchange knowledge and resulted in a greatly successful campaign.

In response to the questions of why banks get involved, CSR is often an important factor as global enterprises are always interested in the environment in which they work. They are aware of the problems found in the market and hence MF is logical as it relates to their usual business. However there is another motive for bank involvement, the opportunity for future markets and future possibilities. Reports show that banks follow a dual strategy;
combining both motives, ensuring the CSR option and thus lowering the risks they face without ignoring the profit motive in the long-term.

There are complementaries or partnerships involved. In order to do successful microfinance, local distribution networks are necessary. Complementary banks have a global network, and funds to invest, but MFIs offer specialized distribution to those that are not easy to reach, and the ability to understand client's needs. The momentum is such that international banks play a small role in microfinance, but one has to realize that the position they have built up has been done relatively quickly.

The goal is to increase access, banks can and should pay a role in the process but this must also be apart from CSR. They must see commercial opportunities because, as said before, there is "no such thing as a free lunch."

Peter Ramsden summarized these ideas by discussing the idea of momentum. Although banks have just started to engage in MF, they show considerable momentum. It is also important to focus on the idea of complementaries and links to innovation. Banks can learn about their new market through MFI's, particularly in developing countries. For example, Kenya's first money transfer through mobile phones was achieved with a grassroots base. The idea that banks may benefit from the MF sector and from involving themselves in MF is interesting.

Franck Lierman went on to explain that there is a growing need which has to be met, and in Dexia Bank in Belgium, they are ready to deliver and to take the opportunity. The Dexia Foundation is a socially driven instrument in microfinance. It is a 10 year old group, with two principal activities: traditional activities, such as public/project finance (including the non-profit sector), and personal financial services. They have a core shareholder structure, and are therefore relatively well-protected. The foundation is structured such that the bank and 7 sister companies are involved, all focusing on a social area. Major projects include credit to those without access to traditional bank credits, help to artists, services in hospital, and micro-credit in Belgium. They also have a partner organization, Crédal, a cooperation offering alternative credit.

Franck Lierman gave a brief history of microfinance in Belgium before moving on to the issue of banks and microfinance. In 1995, the concept of micro-credit was initiated in Belgium. Today, there are three major players: Brusoc, Crédal, and the Participation Fund. However, the other products offered by these organizations are not taken into account. They all have the same goal, to stimulate people to become independent. The duration of a microcredit transaction on average is four years.

Banks are more than just profit-making companies; they do have a social responsibility aspect as well, including socially responsible investments, which Dexia leads the way in. It is in within this sector of a bank that micro-credit and social integration (getting a driver's license, housing) are included. The structure of the partnership works such that Crédal is the credit supplier. Crédal-plus is the sister partnership and carries out the daily business of supplying credits. The Dexia Foundation Belgium participates in decision committees, hiring and financing volunteers, etc.

When evaluating this structure at the end of 2006, they received 700 new requests for credit. However, due to severe selection only 70 dossiers were presented, and 50 accepted. So although they are a profit making bank, they prove that there is a place for financial institutions to participate in social matters. By working exclusively with Crédal, Dexia hope to develop experience in other countries as well. Franck Lierman affirmed that for 1 Euro invested, there is a 3-5 euros return to Belgium as a society due to a decrease in government expenditure and increase in the number of tax payers.

Peter Ramsden explained that this is a specific example of a bank with a strong history in social responsibility, especially with the partnership with Crédal. He also mentioned that the two speakers had confirmed that there is a possible win-win situation for banks involved in microfinance. It is the idea of innovation that banks can learn from the microcredit sector. It is a small amount of lending, and yet it changes the way that the bank thinks, it forces the bank to enter a new market.
QUESTIONS & COMMENTS:

Q: Why is Dexia going into this? What convinced Dexia to go into this business?

Franck Lierman responded to the question by stating that it is not marketing, CSR is an important aspect of the bank, and is a long-term tradition of the bank. There is a close link between Dexia's business mannerisms and the functioning of the microfinance sector. Also, traditional banking excludes an entire sector of the population. Finally, their major shareholder is a financial institution but one that has been set up by social organizations in Belgium.

Peter Ramsden added that Franck Lierman had just made a key point in this discussion, that microfinance by Dexia is not being done for profit, but in reality for a social mission from within the bank.

However Gera Voorrips pointed out that microfinance, although a social mission at the moment is also motivation for future business. She added that microfinance as CSR is very limited, however once it becomes a business, it no longer depends on your marketing budget.

This brought an audience member to comment, saying that microfinance as a CSR status could be based on three different ideas:

1. Denial
2. Defence
3. Strategic

Whichever the reason, for it to become profitable for the bank, it must be internalized. The challenge however for banks, is that when CSR is internalized, mainstreaming becomes an issue, as CSR is often seen as a side business, something for the public, engagement in presentation.

Q: How do banks engage with MFI’s, and actually find them, even in developing countries?

Gera Voorips replied that there are many MFIs, about 20,000, so they choose to work with partners who have relationships with MFIs that are developing themselves with good future possibilities (such as Opportunity International, Women’s World Banking, etc).

Q: Is it possible to have simple criteria in order to distinguish between microfinance and other services? Can you give us an evaluation of the importance of microfinance in the overall operation of the banks?

Gera Voorips responded that microfinance is access to financial services for people who cannot traditionally access these financial services. The size of microfinance is invisible compared to the rest of the bank.

Franck Lierman stated that only people not able to participate are taken into account, and thus it’s a small activity.

An audience member from Deutsche Bank commented that things are not as simplistic as they are often made out to be. The difference between CSR and business is not that great in the microfinance area, because it lies somewhere in-between. The audience member affirmed that every major bank that he knows of does not generate enough income out of this activity to make it a business. There is not enough volume to make it a business. This is not a marketing campaign for them; the idea is that if serve their community and use their expertise as financiers to create vehicles for people to invest, they accept the profit and marketing that comes out of it. However is not applied just as a marketing scheme, for in this way nothing is achieved for people recognize it as marketing.
Workshop 6: "Women microentrepreneurs and access to finance, where is the deadlock?"

Women microentrepreneurs still represent too small a proportion of entrepreneurs in Europe. Recent studies show that access to finance still remains a burden. The workshop will explore the best practice initiatives to support female entrepreneurs’ access to finance.

**Moderator:** Sue Lawton - Prowess (UK)
**Speakers:** Sara Carter - University of Stirling (UK), Beatriz Araneta – MITA ONG (Spain), Ana Cárcamo – MITA ONG (Spain)

It is a fact that women are underrepresented among microentrepreneurs in Europe. The main reason for this exclusion is the lack of access to adequate finance. Traditionally, women under-fund their businesses, starting with only one third of the capital used by men and showing an aversion towards dept-taking. Consequentially, women-owned businesses are smaller and less efficient in terms of economic success. While of course not all women can be defined as one homogenous group, there does exist a tendency for women to present themselves with less confidence than male microentrepreneurs in comparable situations.

Professor Carter from the Centre for Microentrepreneurship at the University of Stirling in Scotland and Araneta, technical director of the Spanish non-governmental organization MITA ONG, explored gender-specific behaviour in the area of microentrepreneurship. They discussed reasons for the unequal capitalization of businesses owned by men and women and focused on possible solutions to “break the deadlock”. The workshop was moderated by Lawton, Director of Development for the British organization Prowess.

The workshop began with Carter's insight into her research projects in the United Kingdom. Analysing interdependencies between gender, entrepreneurship and finance, Carter's research reveals interesting results not only on the performance of female microentrepreneurs but also on gender-specific behaviour on the supply side, that of the bank lending staff.

Influenced by research done by Fay and Williams from New Zealand in 1993 and their thesis that no evidence exists that banks discriminate against female lenders, Carter made three assumptions in advance for her case study. To begin with, the unequal access to finance could be a result of structural dissimilarities of the businesses (1). Women often start up businesses in the service sector, work part-time or base their offices in their private homes. Thus, one could argue that structural differences determine different financial circumstances. However, even if one controls for the structural factors, it remains a fact that women start their businesses with one third of the capital that men do. Another assumption was that the loan lending process privileges men, therefore preventing women from access to equal opportunities (2). Yet, no evidence exists in favour of this second assumption. There may be doubt whether banks would show such discriminating behaviour against women and why it would be in their interest to do so. On the contrary, banks do employ female lending staff. Finally, it could be the female entrepreneurs themselves causing the unequal distribution of financial means (3). Women tend to avoid dept; they are traditionally poorer than men and more conservative regarding how they deal with finance.
With the aim to explore in how far these assumptions make an impact on the reality of women having less access to financial means, Carter’s research focused on the supply side of the banks and on the demand side of the business owners.

The lending criteria and processes of the bank officers were explored with the same fictional business plan being distributed to the staff, once as the plan of a man and the second time as that of a female. Moreover, the bank lending staff was interviewed in groups and individually, simultaneously using Kelly’s Repertory Grid technique. The results obtained from this research proved that male and female applicants are generally confronted with different lending criteria. Male loan takers are questioned upon the characteristics of their business plans, while women have to prove that they have undertaken sufficient research in putting up business plans.

Besides, female and male lending staff show some gender-specific behaviour in the criteria they apply. When being confronted with a female applicant, the male staff draws the attention towards the personal commitment of the entrepreneur. Female bank lending staff intends to figure out the trustworthiness of a male applicant by looking at the marital status.

Internalized constructs of gender depend on the personality of the bank officers and cover a wide range of different concepts. 20 out of 325 officers showed statistically significant gender differences in the first round of the test, in the second and smaller round 13 out of 35 treated men and women unsystematically different on some constructs. Female officers are just as likely to show discriminating attitudes as male officers, while none of them are aware of their unconscious concepts of gender.

Also, male loan officers use huge networks and negotiate inside the banks in order to ensure that their deals are processed at a faster rate. On the contrary, female loan officers act very much in accordance with the rules they have been given with the effect that they have difficulty in accessing good deals. A surprising finding of the research conducted was that banks are in fact loosing female staff, because these officers are not considered to be performing effectively and/or suitably. Thus, the research had a large impact on the human resource policies of the banks.

Regarding the demand side of the topic in relation to the business owners, the research looked at businesses in the sector of business service that were less than three years old. Telephone interviews with 100 business owners were carried out; 30 in depth interviews were used to analyse access to financial means and post interviews gave insight into the individuals’ personal constructs.

The social and human capital of male and female business owners seemed to be identical at first. The level of education between the male and female was identical as was the gross household income. Female business owners were, however, on average 10 years younger than the men (41 and 51), had less years of work experience and had earned lower incomes in their previous jobs. Moreover, women were more dependent on family relations, while men had local industrial networks.

A clear under-capitalization of the female business owners was identified. More women had to use external finance than men. The amount of money women used on average revealed low-level finance and indicated a population that was very poor. Their amount of debt was often small and unnecessary for their business plans. Furthermore, men presented themselves more confidently as “managers”, while women characterized their businesses as “service”. The result is that men are in general more successful with their businesses.

In summary of Carter’s presentation about her research, it proved that female business owners are clearly under-capitalized but also under-performing. While banks show no deliberately intended gender-discrimination, Carter’s research was in fact very useful to banks. Firstly, the market potential of female entrepreneurs can be recognized and secondly, the banking sector has the opportunity to better understand the impacts of their human resource policies, as well as the opportunity to re-think them.
Next, Araneta presented the situation of microentrepreneurs in Spain with more specific focus on the circumstances for women starting their own businesses. MITA ONG, the NGO that Araneta works for, provides technical assistance, training and support to entrepreneurs. In fact, MITA ONG supports both men and women microentrepreneurs equally, but takes advantage of any positive discrimination. Araneta gave interesting insight into the challenges that female business owners are facing. As MITA ONG works mostly with immigrants, Araneta drew comparisons between the situation of immigrant and native Spanish female microentrepreneurs.

Among possible barriers such as an unwilling economic climate, uncertain information and the complexity of administrative processes, women and men in Spain show an almost equal perception of the barriers they are facing. Once again, the key-exclusion factor for women is a lack of financial support, which is recognized by around 15% more women than men. However, Spanish banks act differently in the area of business start-ups compared with the usual banking procedures in other countries. At this present time, the only requirement to open a bank account is a passport which automatically grants Spanish women universal access to being banked.

Distinguishing between the groups of business women, immigrants achieve significantly higher economic success compared to Spanish women, are presenting themselves more self-confident and struggle less in dealing with the complexity of administration procedures.

Araneta explained these differences by showing that immigrants are entrepreneurial in their daily life. Leaving their countries of origin and starting anew in a yet unknown cultural, social and economic surroundings trains them in being flexible, creative and hard-working. In this context, families often select the one family member being considered most suitable to immigrate to Spain, while the other family members stay in their home country and sometimes follow gradually. Women in these situations are highly-motivated to improve their living-conditions and that of their family. They do not rely on governmental aid such as welfare, but on the contrary take on self-responsibility and search for individual solutions. In addition, they are well aware of the fact that they can use even less financial means as they send money back to their home countries. As a result, female immigrant entrepreneurs succeed more often than Spanish women. Between 25 and 30% of Spanish women experience failure in the total number of loans, while only between 15 and 20% of the female immigrants experience this. This rate of failure for immigrant females is in fact even lower than that of Spanish male entrepreneurs (between 20 and 25%).

Araneta, then affirmed that some major problems are faced by all business women regardless of their socio-cultural background. To begin with, banks are traditionally managed by men. When searching for loans, women are looked at differently and have to overcome greater obstacles. Furthermore, Spanish women on average earn less and are more often in danger of unemployment. They also have less experience in the labour market as compared to men. Another difference is the fact that women are more restricted by family obligations. As women dedicate more time to their families than men, these ties are in reality a disadvantage when trying to start up a new business or even for success in the labour market. Although both might have the same qualifications, often it is the man who is employed, because of the potential “risk” of pregnancy. Women still face internalised restrictions and hence the salary gap in Spain remains a significant 26% between men and women.

Once again, comparing the situation of female immigrants and Spanish women, it is a specific characteristic of the immigrants supported by Araneta’s organization that enables some of them to work without proper contracts and work permissions. When searching for information, immigrants are more determined and successful.

At the same time, the Spanish show more respect for institutional regulations. Araneta illustrated this point by giving the example of the Spanish woman María Angeles and the immigrant woman Esperanza, both women she had encountered at MITA ONG. María Angeles lost her portfolio of clients, because she was waiting for the landlord to accept her establishing an office in her private flat. After nine months of funding, she had to start over. On the contrary, Esperanza involved her son in working at the office, while she met her clients. Esperanza even managed to juggle several jobs. She never asked her landlord for permission.

A major problem that MITA ONG has faced is that the public regard them as targeting only the immigrants. In reality, they aim to support underprivileged Spanish women as well. Araneta stated that it is necessary for them to implement marketing activities focusing on public awareness.
When responding to the specific situation of women, MITA ONG cannot overcome and find solutions for all forms of discrimination. However, there are measures taken by MITA ONG in order to meet the clients’ individual needs. Therefore, customer services and processes are flexible, responding to the situation of women who care for their children or have jobs. In order to encourage the entrepreneurs, MITA ONG is managed by immigrant women symbolizing women’s capabilities. Moreover, the organization is involved in a movement to prove to banks that women have more experience than what is merely shown in their curriculum vitae.

To conclude, both Carter and Araneta emphasized that female microentrepreneurship is still faced with a large amount of challenges and obstacles. These challenges refer to the structural components as well as to the business owners themselves. As Lawton mentioned, "Women want to achieve 80% of the skills required before they apply for a job and men only 60%".
Workshop 7: “How to respond to market needs for Business Development Services?”

The creation of successful and sustainable microenterprises in Europe requires providing a variety of services. The creation of successful and sustainable microenterprises in Europe requires providing a variety of services that will help microentrepreneurs set up and develop their enterprise. Since their emergence, European Microfinance Institutions have provided Business Development Services (BDS) to their clients along with the provision of microloans. However, in order to respond properly to the specific needs of microentrepreneurs, microfinance providers need to design and implement appropriate BDS. The workshop will discuss various initiatives taken to design services, to implement them and to market them based on a market approach. It will also question the sustainability of such services and the relevance of a market-based approach in the European context.

**Moderator:** Gerrit Ribbink – Facet Bv (The Netherlands)
**Speakers:** Amélie Benais - Adie (France), Christian Baron - Gret (France), Ana Gorostegui - Transformando (Spain)

The workshop was a forum for the variety of speakers to present the concrete actions of business development services (BDS) taken by their respective organisations. There was a special focus on the cost factor and the possible sustainability of BDS. ADIE and Transformando provide examples of BDS in Europe while GRET operates in developing countries. The audience also had the opportunity to pose questions and contribute to the subject with their own experiences.

**Introduction by Gerrit Ribbink – Facet Bv (The Netherlands)**

Gerrit Ribbink introduced the workshop by giving an overview of the link between microfinance (MF) and Business Development Services (BDS). Microfinance (MF) without BDS is less effective, because BDS combined with MF has the potential to be a strong tool to assist microenterprises to develop into small enterprises (and eventually into medium-sized enterprises) by activating and enhancing untapped potential and schooling the microentrepreneurs. Thus BDS is essential to achieve growth in microenterprises and in doing so contribute to sustainability in MF by diversifying the credit portfolio.

This raises the question of how to provide for BDS if it is incorporated in MF, as it must either be subsidised or priced higher for the clients.

This is what in fact happens; BDS is either paid for by the clients or subsidised. There is no country in the world today where micro and small enterprises (MSE) pay the full price of BDS, except for a few very specific types of services, such as legal, accounting or tax advisory services.

If services were completely subsidised, clients would not value them highly, whereas deferring the entire cost to the clients would mean reliance on volunteers who would be willing to carry out such services for little
remuneration. Thus, a middle way must be found, and the three organisations present at the workshop present their attempts at making BDS work efficiently and yet at a price that is still affordable.

**Amélie Benais - Adie (France)**

Amélie Benais began by giving a brief introduction to the organization she represents. Adie is an MFI operating in France that manages a portfolio of 9,000 loans at present. ADIE’s strategy to implement BDS parallel to and supporting their MF-activities includes a five-step action plan as follows:

1. Introduction to the BDS i.e. raising awareness of their existence
2. Group and individual coaching
3. Follow-up of ongoing micro credit activities by regular phone calls
4. Services such as consulting, legal services and establishing a micro entrepreneur network
5. Evaluation of ADIE’s work so as to improve the BDS continuously

This strategy was established after attempting individual coaching by volunteers for all the clients.

This development is based predominantly on ADIE’s experience with BDS since 1989, when it first introduced them into MF activities. Key learnings include the importance of BDS being applied before the micro entrepreneur starts his business, the relatively small benefits of individual coaching (which has now been amended through above mentioned five activities) and that the following up via phone is vital, since it enables ADIE to find out which services are needed by their micro entrepreneurs and can thus provide them.

Amélie Benais then proceeded to highlight the limits of their BDS. Both finding and being able to recruit suitable volunteers in sufficient numbers is difficult. This results in some services not being delivered as competencies of the trainers (the volunteers) are not given. Furthermore, it poses a challenge to measure the real impact of the BDS on MF activities; therefore it is hard to say in how far, the BDS has contributed to success of MF activities facilitated by ADIE. In addition the question of how to finance BDS always arises.

In conclusion, Amélie Benais discussed the possible solutions to the above mentioned problems. In order to acquire volunteers with the suitable skills, partnerships with companies are possible as well as the establishment of a volunteer network. In this way knowledge can pass from one generation of volunteers to the next. In terms of financing, the most feasible option appears to be to share the costs with the micro entrepreneurs. For this to happen, the BDS must be market oriented.

**Ana Gorostegui - Transformando (Spain)**

Next, Ana Gorostegui presented the framework of Transformando’s approach to BDS. Transformando is a Spanish organisation operating in Spain founded in 1998 to promote self-employment and remove obstacles in the path of those wishing to utilize this form of employment. As 80% of their clients are immigrants, they have adapted their methodology to the needs of immigrants. This is portrayed through the use of the lacer project, an itinerary to become self-employed.

The lacer project developed between 2003 and 2006, and was initiated into practical use in September 2006. It is based on the belief that by helping immigrants understand the legal and commercial situation of Spain and giving them staunch support during the first phase of their business, the need for establishing a money generating business shortly after arriving in Spain can be satisfied. For this to occur successfully; the lacer project not only gives advice on legal matters but also introduced the practical lanzadera de empresas (business launcher), a hands-on BDS.

The Lanzadera functions as follows: an immigrant who does not yet possess the permission to start his/her own business is “employed” by lanzadera to open up a business (having obtained micro credit). Once the business is running, whenever a client buys goods or services, she pays lanzadera. The business launcher pays taxes on the service and the social security expenses to the government, however transmits the gross profit to the entrepreneur. Likewise, an order to a supplier goes via lanzadera. Thus, the lacer project provides a secure
start for an immigrant business which otherwise would be very likely to succumb to the difficulties generated by the thicket of regulations and restrictions imposed on business activities.

Ana Gorostegui added that the \textit{lanzadera} is usually provided for a period of one year, after which the immigrant business should be capable of managing the procedures of business transaction on its own. So far, the model has proved very successful. Nevertheless, it remains to be seen whether this could be made a market based approach. In the case that is realised, the micro entrepreneurs would have to pay for the \textit{lanzadera} service. However, Ana Gorostegui commented that if the \textit{lanzadera} has a positive social impact, the government might be likely to finance it.

\textbf{Christian Baron - GRET (France)}

The final speaker, Christian Baron from GRET presents his organisation’s experiences and learnings from facilitating BDS. His presentation was divided into three sections: an introduction to his organisation, a description of BDS with a brief history, the application of this concept into GRET;

GRET is a French development organisation that supports MF-activities in over 40 developing countries. GRET focuses on project implementation, short term expertise, public policy and diffusion of references. With its 90 employees and volunteers in France and 400 local employees it has 6 thematic departments, one of which is dedicated to MF and BDS activities. So far, BDS activities have been carried out in Senegal, Madagascar, Mauritania and Vietnam. In these countries, emphasis was placed on guiding the micro entrepreneurs to the markets, making it possible for them to access it especially in rural areas.

Christian Baron then gave a brief introduction and history of BDS. Before the 1990s no one even considered BDS. At that time, BDS and Credit were often provided by the same institution. Then, recommendations were voiced to separate Financial and Non Financial Services because of the different skills needed, and confusion in the identification of costs and revenues for each activity may arise.

So MFIs focused on financial services and NGOs overtook BDS services. However, they often tackled them with a supply driven approach (focus on accountancy for instance) and, most importantly, without clear sustainability objectives (no payment required, no clear vision of the way to institutionalize the BDS supply). This led to bureaucratic, inadequate and inefficient BDS for SME, and support for them had waned by the end of the 90s. To make BDS a wanted factor in SME development, however, it needed to endorse the following: take on a demand driven approach, thus assessing the needs of SME. Furthermore, anyone wanting to establish BDS should support existing BDS providers rather than build new BDS supply. Services should cost the SME to create a BDS market. Therefore NGOs should limit their role as a facilitator to a defined period of time.

Christian Baron then explained how GRET embraced these recommendations and built its support for BDS activities, as well as what they have learned from these activities so far.

GRET started with an assessment of the needs of SMEs and formed a typology of them. Their findings included that non-financial services were not needed by all SMEs and that GRET needed to clarify the needs of SMEs and MFIs i.e. whether SMEs really requires what is offered by BDS or whether this should rather be taught to the MFI sector that services the entrepreneur.

Next, GRET tried to establish priorities of services needed by different microentrepreneurs. The list of possible services is long, ranging from business registration to access to technology and equipment, but the prioritizing helped GRET provide only those services to the SMEs that were the most crucial.
Finally, it needed to be decided how to respond to the prioritized needs. Should experts do the teaching or non-experts? Should the advice be given in groups or to one person only? Summarizing, the choice depends on the nature of the service to be delivered, the resources available and the preference of the SME.

Having done all of this, attention should be paid to capacity building of the providers of the service. And, above all, the question of who pays for the service demands attention: On the one hand, SMEs must bear a part of the costs so that they value the service more, and also to make the service provider responsible for his offers. On the other hand, the level of cost sharing should depend on what type of BDS is being used. Permanent services or actual outsourcing should be charged fully to the entrepreneur for instance, whereas one-time help should receive subsidies.

Gerrit Ribbnik then concluded that while in developing countries it is clear that BDS should be separated from MFIs, it is questionable in Western Europe.

QUESTIONS & COMMENTS:

1. It was asked whether empirical evidence exists that BDS become better if clients are charged for them. Christian Baron answered that this is indeed not proven, but that two solutions to bring about good services exist: payments could only be made if the client was satisfied or all SMEs could pay a common fund which would then pay for their expenses when consuming BDS.

2. This question was about the background of immigrants in Spain and who are the trainers that provide the services to them. Ana Gorostegui answered that skills of immigrants are assessed by finding out about their previous occupations. The trainers are a team made up of both immigrants and Spanish natives. Christian Baron added that GRET does not employ trainers themselves but rather “trains the trainers”. Amélie Benais asserted that they both train their volunteers to be able to give BDS and also hire external trainers for more specialised services.

3. Someone commented that in the UK it is extremely difficult to motivate volunteers, and would like to know how ADIE handles this problem. Amélie Benais explained that the volunteers must commit themselves to 2 years of service and be available for at least half a day per week. She admitted that it is often hard to find people willing to commit to this.

4. Another person inquired, how long an entrepreneur can remain in the Lanzadera cycle and how the organizations cope with people who want credit without recognizing that they should get help from BDS. Amélie Benais answered that while people can profit from lanzadera for one year, it also takes a symbolic fee, so that entrepreneurs have an incentive to leave as well. Loans are only given to persons that have not attended BDS if they can persuade the MFI that they are skilled and knowledgeable enough to start their business without further support. Otherwise, the loan is simply not granted.
Workshop 8: "From needs assessment to market based approach"

The development of microfinance in Europe faces two challenges; one is to assess the demand and the second is to reach those clients. There have been very few in depth analyses of the potential demand for microcredit. However two recent studies made interesting findings. In Poland a survey carried out on low-income households and microentrepreneurs estimated the potential demand for microcredit at around two million clients, of which 14% comprised existing and 86% new enterprises. In Germany a survey showed that 65% of microenterprises interviewed had no bank loan during their first three years of existence and that 15% of them needed recurrent financing. The workshop will present the finding of the study in Germany and will explore further research on how to evaluate the demand. The second part of the workshop will describe potential strategies that could be developed to reach clients, based on international and European experiences.

Moderator: Niamh Goggin - Smallchange (UK)
Speakers: Alexander Kritikos - GFA (Germany), Pancho Otero – IPM Projects (Bolivia)

Alexander Kritikos - GFA (Germany): "Microlending in Germany, Who are the Clients?"

Alexander Kritikos began with a brief retrospect on the development of microlending in Germany. At the end of the 90s, self-employment became a popular mean of employment, but banks were not willing to readily give loans. The loan offers from banks, such as "Deutsche Bank Stiftung", did not meet the needs of the market. Therefore the task at hand was to research the potential clients for microlending.

Alexander Kritikos then went on to explain the survey methodology used in order to carry out this research:
- Pre-test (Face-to-face interviews with 35 former participants of the "garage" project using standardised questionnaires.)
- Focus group (Identification of most important topics which were then included into the questionnaire.)
- Telephone interviews (with 2123 former clients of German start-up centres KIZ and BIE)

This was followed by an analysis of the results. The responses to the questions on the survey enabled them to draw conclusions on numerous issues. Firstly, that most people were not in fact excluded from finances, but had access to alternative forms of financing. Secondly, that those with higher funding needs were more likely to need outside finance.

The second step of the analysis involved the question of priorities. It was noted that there were distinct differences between priorities with free naming of most important criteria than those with predetermined criteria. Priorities with free naming of most important criteria included long maturities, low interest rates and flexibility as the top three. However, with pre-determined criteria, the top three priorities were individual support, grace periods and flexibility.

The next step of the analysis was related to those that were surveyed and their contact to banks. The questions were centred on contact quality, quantity and success rate. The analysis of the data shows that there is no discernible difference in priorities in this area, but instead in credit history.
This led to an answer to the original question, who is interested in microloans? From the survey methodology used, the results highlighted a few potential target groups, immigrants, trade business and post-foundation finance. However master craftsmen did not show much interest in the potential microloans. This led Alexander Kritikos to conclude that the potential target group are all those who were rejected by banks.

To conclude his presentation, Alexander Kritikos highlighted some problems faced while developing the microfinance sector. Firstly, developing a system that reacts on the needs of people takes a long time and is cost intensive. Secondly, the size of the market is much smaller and it is not necessarily start-up phases that require loans but instead post-founding.

Pancho Otero – IPM Projects (Bolivia): "Microlending in Bolivia"

Pancho Otero began by differentiating microlending in Bolivia to that in Germany or Europe in general. The difference is that there are only empirical surveys without in depth analysis of the theoretical structure of the microlending sector. Pancho Otero then went on to follow the same presentation structure as Alexander Kritikos.

Pancho Otero first tackled the question, how difficult is it to do needs’ assessment surveys?

The answer to this was that it is extremely different in Bolivia as needs have been underestimated in the past. Also within the MF sector it is difficult to find all the needed information and relevant businesses are often illegal. Therefore hardly anyone is willing to talk and reliable information is hard to get, often not documented and thus very subjective. This makes research very difficult to carry out. The mentality of MF in Bolivia is very hard to get into as the cultural gap is very wide. This becomes an obstacle for co-operation and often understanding of involved classes is missing. However, she mentioned that MF in Bolivia is focused on the micro-sector, where people are excluded from services and lack access.

The lack of reliable information and data led to the more important question of who is meant to conduct this research. Otero affirmed that field-workers are closest to impact analysis, but constant client-officer would be needed due to trust and commitment, thus MF needs a long-term approach. Otero added that key information is missing from statistics and the question really is about how the gain knowledge.

The way forward for MF in Bolivia is to approach it through understanding as statistics are not everything. The sector requires a clear definition of aim and focus which will thus lead to scale. Otero concluded with the idea that the main obstacle is one's own attitude and mentality.

Questions & comments:

Q: How was the research conducted? Was there a separation between the socially excluded and socially included?

A: Alexander Kritikos:
In Germany, the governmental approach for a group of people in micro business who were formerly unemployed is very specific; due to a new law, there is a new group of people, who are unemployed for longer than 12 months that will be excluded due to lack of access to the regular market. Finding a target group depends on the status of the country. Analysis had certain expectations of a target group and found out that the expected target group was not as much in need of foreign capital as expected.

Niamh Goggin:
Understanding of expected target groups does not follow a regular classical research system and methodology, one needs to establish direct contact.
Pancho Otero:
The size of the market is not in focus, a target group is in general difficult to find or to get information about.

Feedback from Anneli Soppi (Finnvera Plc, Finland):

Anneli Soppi emphasised the differences in target groups in different countries. In industrialized countries, it is difficult to find targeted people and to get access to them. For example, Finland published statistics, according to which there 600000 poor people in country, which appears to be a very high number; however the image of poverty may not comply with the reality of the situation.

Q: How are borderline cases of financial exclusion dealt with? (e.g. Ill people, criminals etc)

Niamh Goggin:
Clarified that the question is related to experiences in dealing with needs.

Maria Nowak (EMN):
The major reason for exclusion in France is the laws, as people would have to pay social security fees. EMN tried to change these laws, but the problem is that there are no statistics of the informal sector. As a result, this clientele is excluded from the labour market and would thus be a possible target group for the MF sector as they have the need to be enabled to work officially and not through an illegal sector.

Q: How can one try to map and get indications about informal economy? And how could that be done in rural areas?

Alexander Kritikos:
There are only suggestions to answer this question; calculations are attempted via a labour approach. In Germany for example, there was an estimated one million workers in the black market. 'ICH-AG' was a program to prevent black market work. 100.000 people showed up and applied for this programme. This indicated two types of 'unemployed schemes'

a. formerly employed
b. formerly not employed but state financed, and additionally working on black market

The session was concluded with a discussion of field experiences and exchange of ideas to solve problems.
Workshop 9: "Banks and microfinance institutions: graduating financial support for business starters coming out of unemployment"

The creation of very small businesses by the unemployed is increasingly recognized as an efficient instrument for social inclusion and economic development. Provision of microcredit for self-employment by unemployed has been a key application of microfinance in Western Europe. In Central and Eastern Europe, on the other hand, microfinance has developed so far more with a general emphasis on reaching out to a variety of unbanked and excluded categories of the population and without a specific focus on job seekers. At the same time banks in Central and Eastern Europe are emerging as important players in the market of small scale financial transactions. Their involvement hinges to a large extent on the performance of intermediary institutions that make up an efficient financial infrastructure: guarantee funds, funds for start ups, development funds.

The workshop will focus on good practices based on experiences in the promotion and financing of business starters coming out of unemployment in Western and Central and Eastern Europe.

**Moderator:** Bernd Balkenhol – ILO (Switzerland)

**Speakers:** Klaus Mark – KfW Bankengruppe (Germany); Igor Brkanovic - SME expert (Serbia); Dan Orodan - Express Finance Institute Financiara Nebancara SA (Romania)

Bernd Balkenhol from the ILO opened this session with a brief introduction to present the speakers and to outline the structure of the session. Bernd Balkenhol suggested that this workshop could be used to extract information about what works, rather than extracting a long list of problems. He also suggested that the session be used to look at what we can transfer from one part of Europe to another. The emphasis of this workshop was on what is working in different countries and what aspects of these models are transferable across borders.

The first presentation was given by Dan Orodan from the Express Finance Institute Financiara Nebancara SA on “Transformation from NGO to a Regulated NBFI in Romania”. The mission of Express Finance is to service microentrepreneurs at the beginning of their process in order to help them develop their businesses. Microentrepreneurs are the main engine of the economy in Romania, so even if the unemployed are not specifically targeted, regional economic development is being targeted through the support of microentrepreneurs.

Express Finance was started with a USAID grant and also receives some funding from the World Bank and other commercial funds. The organization helps microfinance institutions identify new entrepreneurs. They target the very poor, specific regions, and areas that have been affected by the closing of the mines in Romania. Communities that have been affected by the closing of the mines have unemployment rates that are three times greater then the rest of the country.

Dan Orodan then shared some quick facts about Express Finance and the microfinance industry in Romania:

1) There are 0.5 million SMEs in Romania with a market of over 700 million Euros.
2) The EUR 8 developed NBFIs (Non-Bank Financial Institutes), 13 new NBFIs and 8 Banks are serving SMEs.

3) CHF started in 1996 with microfinance operations within a USAID project.

4) Further funds coming from Worldbank programs for rural and former mining regions include OIKOCREDIT, OPIC and BlueOrchard.

5) There are funding possibilities in 2007 with EBRD, CitiGroup, Symbiotic.

6) In 2005/06 Express Finance (EF) was set up, which was converted in 08-2006 into a Non-Bank Financial Institution.

The collective portfolio growth of the Romanian Microfinance Market has been significant. The collective portfolio has grown from 23.2 million Euros in 2003 to 71 million Euros in 2006, with a decrease in PAR from 4% to 3%. For large Romanian microfinance institutions the average gross loan portfolio is approximately 30 million Euros. The average gross loan portfolio is 5 million for medium sized institutions and 2 million for small institutions. Since the inception of Express Finance more than 12,500 loans have been disbursed totalling 48 million USD. 154K USD have been written off and 107K USD have been recovered for a 70% return rate. As of March 31, 2007, Express Finance had 17 site-offices, 32 loan officers, a PAR > 30 days: 1.13% and a portfolio of 11, 979, 519 CHF/EF up from 43,316 CHF/EF in 1996.

Express Finance faces a series of challenges, the first of which is a volatile legal environment. The legal framework for microfinance has been modified three times within the last 12 months, forcing organizations to change their bi-laws many times. The final change of NBFI law forced microfinance institutions and CHF Romania to register. The National Bank of Romania is delaying the registry of NBFIs due to the large number of applications. However, Express Finance is currently authorized to operate microcredits due to the registration of the company before the National Bank of Romania issued the NBFI law.

Dan Orodan provided a brief historical overview of the Romanian legal environment. From 1993 to June 2005, the microfinance sector worked under the umbrella of NGO Laws. In January 2000, Government Ordinance no. 40 came into effect which provides for the licensing of Non-Bank Credit Organizations (NBCO) to administer public funds. Then in June 2005, the Law of Microfinance Companies no. 240 was passed. This new law established Express Finance as a corporation/joint-stock company. In July 2006, Government Ordinance no. 28 was passed for Non-Banking Financial Institutions (NBFI), including leasing, microfinance, credit cooperatives and NGOs. All are regulated according to National Bank of Romania rules. Also, in July 2006, new norms for NBFIs were created, and reforms were made to the company law, the fiscal code, and other laws due to EU integration.

The second challenge facing Express Finance is step-by-step conversions. The concrete challenges that arise from step-by-step conversions include: (1) negotiations to transfer the “public” funding (i.e. Worldbank/GOR programs). This is the main reason for not transferring all financial assets and HR at one date from CHF to EF. (2) Communication with clients within the debt assignment agreement. The formal letter is not sufficient because clients tend to be confused; especially those who have loans in both institutions. (3) Working with staff under pressure and changing the institutional environment. There are increased staff promotions due to new corporate structure but there is also increased staff turnover. (4) the most significant consequence of the step-by-step conversion is slowed portfolio growth.

The third challenge that Express Finance faces is the institutional set-up of the organization. The institutional structure resulted in an accumulation of corporate matters that needed to be solved within a short period of 5 months. The interactions with the Trade Registry influenced business development as 17 site-offices had to be re-registered. Lastly, with 55% of the staff in EF and 45% of staff in CHF influencing operations, new issues arose as to who represents which institution.
The fourth and final challenge faced by Express Finance was the additional projects that arose. From February to October 2006, Express Finance diverted a significant amount of attention to the implementation of Web-Abacus, a new IT system.

The lessons learned by Express Finance through their transfer process included the following: to define a strategy of the transfer and a detailed timeline plan, define roles, key staff responsibilities and resources needed, follow up weekly, monitor operations more carefully, organize more meetings in the field, evaluate work for specific legal issues with a very good team of lawyers (even if it is more expensive), evaluate plan B or even C, inform and involve the entire team on the issues surrounding the transfer as maximum support is necessary. The opportunities and challenges that arose from this experience for Express Finance were EU accession, increasing competition, formalization of the Microfinance Coalition, unbalanced economic growth, increased flexibility (passing from donor driven products to the market driven products), increased recognition and stability in the market, increased legal regulatory environment for NBFIs which results in increased alternatives for funds.

In conclusion, Dan Orodan reiterated that the mission of Express Finance is not to directly reach unemployed populations. Rather, they contribute to the solution of the unemployment problem in Romania by supporting microentrepreneurs who have the potential to expand their businesses and eventually hire more employees. In this way, Express Finance seeks to contribute to the alleviation of poverty and lower unemployment rates in Romania.

The second presentation was by Igor Brkanovic, who provided an overview of the microfinance situation in Serbia. The Microeconomic environment in Serbia in 2005 was characterized by a large population of over 7 million inhabitants, a GDP growth rate of 6.3%, inflation at 17.7%, an unemployment rated of 20.8%, and a long-term unemployment rate of 16.5%. The export to import ratio was 1 to 2 respectively and foreign direct investment totalled 1.4 billion USD. SMEs accounted for 60% of employment, 65.5% in the total turnover and almost 55% in creating gross value added to the Serbian economy. Large and medium size enterprises comprise just 1% of the Serbian economy with entrepreneurs and small enterprises constituting the remaining 99%.

With unemployment at 20.6%, it is viewed as one of the Serbian economy’s key problems. The SME sector is looking at how it can contribute to the reduction of this high unemployment rate and considers itself the “New Pillar of Development” for Serbia. The challenge comes in determining who will pay the price of development for the creation of start-up SMEs. Ninety percent of Serbian SME start-ups have been financed by family and friends. Banks view SMEs as too risky and believe that there is a lack of good projects being designed. Start-ups are not viewed as a desirable market for banks and they are not creating partnerships with SMEs to share the loan risk.

The one exception to this is the Procredit Bank; their average loan size is 3,000 Euros. The Procredit Bank is cash flow based, provides on site analysis and has very flexible collateralization. Additionally, the Procredit Bank has qualified and specialized loan officers, and close and long-term relationships with loan clients. SMEs are accepted as possible clients three months after business registration.

From the legal perspective, problems arise as regulations allow for different kinds of microfinance organizations to operate in Serbia. The Serbian government recognizes the demand from the unemployed sector and provides support for up to 5% of start-ups in the country. However, Serbia still has significant gaps from the supply side including a legal framework, institutional infrastructure, lack of available loans in rural areas, and differing types of microcredit schemes. In conclusion, the SME Council has been established and a working group of start-ups has begun to address these issues.

The final presentation was by Klaus Mark from KfW Bankengruppe and he focused on a new pilot project that KfW is undertaking and why it is expected to be efficient.
In Germany, start-up activity has been decreasing slightly in recent years. However, there are still approximately 1 million start-ups in Germany every year. A distinction must be made, however, between start-ups and start-ups by the formerly unemployed. There have been increasing efforts from the federal government to promote and support start-up entrepreneurs to fight unemployment. The promotion of start-ups by the formerly unemployed peaked in 2004 as a result of job market reform. The question then arose as to what entrepreneurs need to sustain their businesses in addition to the initial promotional support from the government? A simple model including human capital and monetary capital as basic input factors was designed in response.

The social welfare system in Germany is well functioning and quite extensive. It is possible to survive on unemployment which decreases incentive for seeking employment and drives up unemployment rates. The expense of the welfare system is also responsible for causing high non-wage labour costs.

The capital market in Germany has a bank-dominated financial and corporate governance system. There is a three pillar structure with commercial banks, public-sector banks (savings and landesbanks) and cooperative banks (cooperatives and their central banks) constructing their respective pillars. The banking market is highly regulated which creates many barriers to business. The German banking market is also characterized by a low but growing bank to people ratio or "market concentration". However, branch density is very high all over the country resulting in many banks that are too small to be efficient. Further, there is not a special microlending – law in Germany which makes it very difficult for microlending banks since they have to comply with the same laws as the commercial banks in Germany.

The demand for microlending in Germany is covered primarily by “usual banks” (loans, overdraft facilities and credit cards). Approximately 30 institutions are explicitly active in microlending, which is a young market. KfW programs are active on the federal state level, Landesfoerderinstitute on the Laender level and a number of small microfinance institutions on the local level. The German banking market is also characterized by a low but growing market concentration. In addition, branch density is very high all over the country. All in all, currently a lot of banks are too small to be highly profitable. Break even interest rates would be in a range 20% - 25% in Germany which is simply not an option. On the one hand, this is due to the "immoral legal transaction"-rule of the German Civil Code. On the other hand, high interest rates also boost adverse selection and moral hazard when there is limited liability. Due to adverse selection and moral hazard, increasing interest rates above a certain threshold is actually not economically advantageous from the banks’ point of view, because this would lead to severe detrimental behaviour effects on the borrowers’ side. As a consequence, increasing interest rates charged would in fact decrease expected interest returns – because of additional “behaviour-induced” defaults. (This is the well known result of the paper of Stiglitz, J. E. and Weiss, A (1981): Credit Rationing in Markets with Imperfect Information, American Economic Review, 71, 339-410.)

Klaus Mark presented the two proposed solutions to the problem stated above; the first solution targets the reduction of risk costs through intensive monitoring and coaching which assumes a certain tolerance of relatively high operating costs. These operating costs can be minimized, however, by involving local microfinance institutions such as Microfinance Fund Germany. This first solution also targets strengthening the monetary and human capital of entrepreneurs. The second solution is a long run option that targets reducing operating costs and risk costs by increasing the degree of automation in the credit process.

The Microfinance Fund Germany is a pilot program that, if successful, will act as a model within Germany.

Theoretically, this pilot project should be successful because it addresses the identified problems within the German microfinance system (especially as regards formerly unemployed start-up entrepreneurs as borrowers) and combines funding and advisory services. The fund assumes default risk for microcredits, and provides a structure for cooperation between banks, microfinance institutions, the German Microfinance Institute (DMI), and the fund itself. The banks will be responsible for loan decisions and the legal framework of the lending. The microfinance institutions will be responsible for supporting borrowers, preparing the loan decisions, handling the loan processing and assuming part of the liability. DMI will handle accreditation and monitoring of microlenders and perform all central control functions. The strategy and incentive structure for the Microfinance Fund Germany include: combining financing and advisory by well informed local microfinance institutions; including banks because of regulatory restrictions, and to get them in the business as a first step; microfinance institutions have to work efficiently, if they want to make profits and assume 20% of the first loss; the players responsible for credit decision and monitoring are (to some extent) residual claimant on the margin; DMI
ensures the know how of the microfinance institutions, the quality of the processes, and stops business when risks are getting too high. The fund investors' objectives are to do without yield on capital, but no losses on the portfolio level; revolving nature of public money invested for promotional purposes with no single-payment subsidies.

With regards to the German market, Klaus Mark currently does not see the possibility to do the microfinance business in an economically profitable way in the next time. This is because of high process and (individual borrowers') risk costs lending service for "typical" microfinance customers in Germany involves: people with economic or social difficulties. Since concerning the raising of interest rates to cover these costs there is a "natural" threshold in Germany – as it is generally the case on highly developed capital markets with asymmetric information and limited liability –, there is a typical (micro-) credit rationing problem in Germany. Thus, the job which has to be done in the next time is to reduce, at least, public aids necessary for microlending by enhancing efficiency. At first, the strategy of KfW certainly will be to monitor the development of operations of the Microfinance Funds Germany to see how the interlocking of financing and advisory helps to reduce risk costs and how local microfinance initiatives can go on in professionalizing their business. Secondly, as an option in the long run, it might be possible to do microlending similar to the consumer credit business with strongly automated screening and monitoring processes without incurring too much risk. The critical prerequisite here is to be able to establish a highly selective automated rating system for this specific group of borrowers.
Workshop 10: “Development banks: SME financing or microfinance?”

Development banks have played a key role in financing SMEs by providing various means of financial support (debt and equity but also export facilities, technical support etc.). Lately some have developed specific programmes to meet microentreprises’ financing needs and have been also pro-active in the development of the sector in Eastern Europe. To work more precisely for micro enterprise development with micro credit requires different approaches, strategies. There is a need to adapt products, services, to be more innovative. Experiences will be shared in this workshop on how development banks in Europe have tried to respond to the financial needs of micro enterprises, how they have adapted their strategies and what their recommendations are for the development of the sector.

Moderator: Martin Jung - EVERS&JUNG (Germany)
Speakers: Thomas Hüttich - Investitionsbank Berlin (Germany), Mark Schwiete - KfW Bankengruppe (Germany), Maria Teresa Zappia - EBRD (UK)

Martin Jung introduced the workshop by introducing the variety of speakers on the panel for the workshop. The panel was representative of three different levels of banking, the European (Maria Teresa Zappia), the national (Mark Schwiete) and the regional (Thomas Hüttich). Similarly, development banks exist at three different levels as well: multilateral, national and regional. The area of activity of development banks include support for developing countries and transition economies and SME, housing and regional development within Europe.

Although the specific functions of a development bank may vary, the general functions are as follows:

- **Refinancing/leverage of funds**: Due to their equity capital and public guarantees, development banks are able to borrow from the capital market (at excellent rates), and lend to final beneficiaries.
- **Financial Engineering**: To make most out of public funds revolving financial instruments are set up to provide equity, mezzanine or loan capital and guarantees.
- **Professional manager of public support schemes**: Specialised skills in handling public loan and grant schemes.
- **Technical Assistance/Financial Sector Development**: TA in the development of financial institutions (e.g. ProCredit Bank)

The principal objective of a development bank is to avoid distorting the market by focusing on areas with market failure, co-operating with private sectors and following all state-aid rules.

Maria Teresa Zappia - EBRD - European Bank for Reconstruction and Development - (UK)

Maria Teresa Zappia represents the EBRD, a development bank at the multilateral level. EBRD includes 61 member states and operates in Eastern Europe and Asia. They target market economies and democracy, offering services including loans, equity, guarantees, and leasing.

Maria Teresa Zappia works mostly in Eastern Europe and shared her experiences in development banks and microcredit from this region. The ProCredit Bank Model, from Romania and Bulgaria, works directly with specialised MFIs and downscaling with local commercial banks.
In Romania, for example, they started microfinance for 82 million euros, co-financed by the EU, specifically working within the microfinance sector to support start-ups. One of the main strategies they used was to have a risk-sharing facility.

Lessons learned from the experiences in Romania include the necessity of subsidies in order to attract more commercial banks to enter the microfinance market, but these should be ring-fenced; the demonstration effect (one bank's involvement in the market can trigger the involvement of others); the essentiality of long-term commitment and significant start-up investments.

Maria Teresa Zappia also made recommendations for the future, which include facilitating close cooperation with private sector actors to ensure long-term sustainability (via syndications and equity partnerships); facilitating the integration of different types of financial intermediaries (e.g. guarantees for local currency financing); and reducing subsidies distorting the market.

Mark Schwiete - KfW Bankengruppe (Germany)

Mark Schwiete of KfW promotes micro-finance on a global level. His goal is to work towards promoting microfinance in both emerging markets and developing countries. KfW is a global enterprise, active in over 100 countries, with an outstanding portfolio of 2.4 billion euros. Micro-finance makes up 25% of this profile, while 43% is made up by SME lending. Traditionally, their microfinance portfolio is strong in Eastern Europe, followed by Latin America. As for the financing instruments of KfW's microfinance portfolio, almost of the portfolio is made up by FC promotional loans and equity participation. Budget funding retains its high significance – especially in high risk countries - for start-up financing and for technical assistance.

Next, Mark Schwiete highlighted the reasons that KfW finances microfinance. The principal reason for their interest in microfinance is the poverty dimension, the fact that the development of a financial sector in this manner can improve lives globally. KfW tackles six of eight of the United Nations Millennium Development Goals; the targets they set for themselves are as follows:

1. Half the number of people living under $1/day by 2015
2. Primary education for all children
3. Gender Equality
4. 4, 5 & 6 HEALTH

Although microfinance is a good way to achieve these goals, it is not a panacea. With microfinance alone it is not possible to achieve all the Millennium Development Goals.

Mark Schwiete also emphasised that microfinance is targeted at economically active people, people who can make productive use of an increase in capital. Traditional microfinance (such as Grameen or ProCredit) is not about financing TV-sets for low-income households, about start-ups or bridge-financing for the unemployed. Although KfW aims at aiding every segment of the poor population, they strongly believe that microfinance is a method aimed only at the working poor. The pyramid better describes the group that microfinance targets in a developing country.
Mark Schwiete explained that there are four approaches to establishing microfinance services, which are adapted to the specific financial sector deficiencies:

1. "Down-scaling" - Supporting commercial banks to serve the micro segment.
3. "Up-grading" - Transforming of a credit NGO into a full-fledged micro bank.
4. "Linking" - Connecting Microfinance Institutions with the national or international capital market.

Another reason that development banks are financing microfinance is because they have the ability to bring in their know-how as prior financial institutions. Also, microfinance is building sound financial systems which provide not just sustainable aid, but are capable of arriving at a level of coverage within the market. In the development corporations in fact, microfinance is not just credit, but includes money transfers as well. The welfare level between developed and developing countries is completely different; hence it is important to remember that the impact of services such as microfinance is also different.

In conclusion, Mark Schwiete highlighted three lessons that KfW has learned which must be applied in the future: financial sector development has to bring financial services to the masses in order to contribute to poverty reduction; professional microfinance institutions can succeed in imperfect markets; and sound local financial markets require bottom-up development.

Thomas Hüttich - Investitionsbank Berlin (Germany)

Thomas Hüttich represents Investitionsbank Berlin in the FinNetSME network, a network of 20 regional public finance institutions/development banks that are co-financed by the EU. The network's objectives include exchanging know-how and Best Practice in order to improve access to finance. Investitionsbank Berlin (IBB) is the regional development bank of the Federal Land of Berlin offering financial instruments for economic growth, job creation and housing.

Barriers for the involvement of banks in microcredit are common in all regions and include: high administration and credit assessment costs; high risk associated with the start up phase and risk aversion of banks; weak collateral position of micro-enterprises and start-ups lack of sound business and management experience; and a high number of unsuitable business proposals.

Thomas Hüttich then went on to answer the question of why development banks do engage in microcredit. He mentioned numerous reasons, including that a major focus for regional economic and social policies has been access to finance for business start-ups; it is an important source for jobs, growth and local development in the EU; in order to fill market gaps left by the private sector; prior engagement in successful microcredit schemes; and the necessity for some sort of public subsidies.

Strategies of FinNetSME cover the forwarding of refinancing advantages, public-private risk-sharing with public guarantee schemes to substitutes the collateral, and setting up revolving regional micro-credit funds. The local "house bank" acts as a delivery channel for credit lines under favourable conditions combined with a public guarantee.

Recommendations include that the most important task will be to solve the conflict between supporting weak entrepreneurs, and the need to build financial sustainability by lending to strong entrepreneurs. In order to achieve this, coordination between public BDS’s, NGOs, and financing institutions must be strengthened; opportunity costs must be minimized; and the EU and public national incentives to boost micro-credit must be coherent with regional policies.

QUESTIONS & COMMENTS:

Q: Securitization appears to remain unknown, could you please go into more detail?

Mark Schwiete responded that markets can be brought further by setting high target and achieving them. He added that securitization is the next step for microfinance. Currently, securitization is focused on the top-tier of
the market; however it is the future of the market as a whole. He also gave the example of Bulgaria, affirming that it was not by accident that this was the first, because it has a big bank and risks are lower than in a place like Serbia. The deal in Bulgaria was also welcomed by the central bank of Bulgaria.

**Q: From your experience in developing countries, where do you see the future of microfinance in Western Europe? Should it be a specialized sector or should there be financial schemes through forma financial sectors?**

Maria Teresa Zappia responded with bringing in the issue of outsourcing.

Mark Schwiete replied that one of the steps being pioneered for MFIs is separating microfinance activities and reaching sustainability for the credit component, which is essential because of the necessity for assistance capacity building for entrepreneurs. In developing countries; it is important to accept that it may not break even, but must always remain transparent.

Thomas Hüttich replied that it is not necessary to set up regional banks just for microfinance purposes. He mentioned that the new offer of the EU to provide holding funds for financial engineering possibilities should be applied. However, he added that this should only be done where there are already working regional funds in place, so as not to create competition.

Maria Teresa Zappia commented that Romania has just entered the EU, and their government does want to set up a facility for the microfinance sector. The Romanian Government is using money from existing revolving schemes and European investment banks.

**Q: With the availability of EU funds, is there a risk of harming MFI operations by crowding out their work? (Directed at Maria Teresa Zappia)**

In the early 90’s, in Romania, all of the EU funds were grants for the SME sector which resulted in destroying the credit culture. The MFIs in Romania have been able to rebuild the credit culture in micro and small enterprises, using grants to subsidize half the costs of the development services.

**Q: Is microfinance is profitable in Europe given the social costs associated with it?**

Maria Teresa Zappia replied that in Romania, the social costs are actually higher than in Western Europe, however that the direct labour costs are possibly lower. In terms of welfare, it is true that some of the new EU countries do have high social costs.

Mark Schweite replied with the example of Peru, where interest rates are at 40%. There is no single answer to the question, but there is also not a single developing country that is promoting microfinance where interest rates on the micro level are below 2% monthly. The question therefore is by looking at financial costs, is microfinance acceptable or considered usury?

Thomas Hüttich responded by posing further questions, how do we reach the entrepreneurs? How can we get un-bankable people into the sector?

There’s not just a need for networking, but a need for strong coordination. For example, a mentor or a coach needs to know how a loan officer thinks, and there one can develop the access to finance.
Workshop 11: “Improving the EU policy environment for microentreprises and microfinance: the eScorecard”

Regulation is an important component in the development of the microfinance sector worldwide. In Europe one of the key players is the European Union. They started recently to recognize that microfinance can be a powerful tool to develop micro enterprises and fight social exclusion. Two representatives from the European commission will provide the latest information on how microfinance has been included in European policies for the 2007-2013 period. A second part of the workshop will present a specific tool, “the eScorecard” that has been developed to measure policy changes. This tool has been developed within the framework of the project “From exclusion to inclusion through microfinance” lead by the MFC and with the cdfa and EMN as partners. The workshop will be an opportunity to discuss ways to implement the scorecard and to identify improvements.

Moderator: Philippe Guichandut – EMN (France)
Speakers: Stefanie Lahn – EVERS&JUNG (Germany), Antoine Saint-Denis - EU DG Employment (Belgium), Cindy Fökehrer - EU DG Enterprise (Belgium)

The first intervention presented the main actions conducted by the DG Enterprise, with regard to microfinance. Cindy Fökehrer recalled that the action of DG Enterprise has been done in two main sectors:

- **Policy-making**
  - Publication of a report “Microcredit for small businesses and business creation: bridging a market gap” November 2003
  - Organisation of the “Microcredit European Conference”, September 2004 (for details report visit EMN website at:....)

- **Financing**
  - Ongoing financial instrument with special focus on promoting micro finance: microcredit window of SME Guarantee Facility

The following chart describes the main features of the two DG Enterprise programmes; the Map for the period 2000-2006 and the new CIP for the period 2007-2013. In the new CIP, the European Investment Fund will still play a crucial role by providing a guarantee (up to 75%) to microcredit providers, on behalf of the Commission and the Commission will provide also a lump sum grant of EUR 200 for each microloan to partially offset the transaction costs.
It’s clear that the DG enterprise has fully integrated microfinance as part of its strategy to support the development of micro enterprise in Europe.

The second presentation presented how microfinance is perceived with DG Employment as an effective tool for social inclusion. Antoine de Saint Denis mentioned the common objectives for the revised open method of coordination in the field of social protection and inclusion (2006).

A decisive impact on the eradication of poverty and social exclusion by ensuring:
- access for all to the resources, rights and services needed for participation in society, preventing and addressing exclusion, and fighting all forms of discrimination leading to exclusion;
- the active social inclusion of all, both by promoting participation in the labour market and by fighting poverty and exclusion;
- that social inclusion policies are well-coordinated and involve all levels of government and relevant actors, including people experiencing poverty, that they are efficient and effective and mainstreamed into all relevant public policies, including economic, budgetary, education and training policies and structural fund (notably ESF) programmes.”

In that context microcredit is perceived as
- providing a positive contribution against poverty
- increasing excluded people’s economic and social participation
- giving a chance to disadvantaged people (women, migrants and ethnic minorities) who want to develop their own business

through
- reinforcing the links between the welfare system, the employment system and the financial system
- and combining specific financial products with services (mentoring, advice)

The Community action programme to combat social exclusion 2002-2006 supported microfinance in various ways:
- Support to the European Microfinance Network
- Study on policy measures to promote the use of microcredit (Facet, EVERS&JUNG and nef)
- 2 pending studies are interesting for microfinance:
  - Financial Services Provision and Prevention of Financial Exclusion
  - Common operational European definition of Overindebtedness
The impact evaluation underlined there is a need for:

• further research on the employment effects and on adequate self-employment indicators
• benchmarking of support schemes and cost/effectiveness analyses of different support packages (including comparative assessments of grants vs. loans based schemes)

The lessons drawn from the past support of the Commission are:

• Complementary mentoring, advice and support are essential
• Financial and business support services need to be adapted to particular target groups
• Effective partnerships constitute an important mechanism to bring together lending institutions, micro-credit intermediaries and organisations providing business support required by hard-to-reach and disadvantaged groups
• Training of business advisors themselves in diversity issues so that their advisory services will be credible and suitable

For the new period 2007-2013 the DG Employment will be involved with a general programme called "PROGRESS". This programme will have a budget of 743,25 M€ - 23 % for employment and 30 % for inclusion and social protection. It will be dedicated to analytical activities, mutual learning, awareness and dissemination, and support to main actors. For 2007 the Commission is about to publish 2 calls for proposals likely to be relevant for microfinance sector:

• mutual Learning on Social Inclusion and Social Protection : Up to 10 Projects - Max of 2 years / 800.000€
• transnational networks : lasting partnerships (3 years) - Co-finance up to 86 %

The last presentation was made by Stefanie Lahn from EVERS&JUNG introducing the “eScorecard” project. The multidimensional eScorecard is a tool to assess the extent to which the environment in each country is favourable for micro-credit as a tool in creating inclusive economic growth. It tries to initiate a regular benchmarking exercise of European countries with the aim of positioning the eScorecard as a lasting tool for mutual learning and exchange of experiences and good practices among policy-makers. The results are presented through easy-to-interpret radar plots that show the relevant policy areas also called dimensions. Improvement in these policy areas result in a more conducive environment favourable for microfinance. It also shows policy-makers which countries have already designed and implemented policy measures for the promotion of microfinance. In using the eScorecard policy makers share and build their know-how and experience with their peers in other Member States, which ultimately influences and triggers policy change in the countries involved.

The “eScorecard” is the name given to the tool developed for this project. "e" stands for Europe and symbolizes the internet interactivity of the instrument. It is presented as a questionnaire and the expected outputs will be diagrams comparing countries and various dimensions. Simple visuals are believed to be powerful instrument for analysis and innovation.

The eScorecard consists of the following 5 dimensions:

1. **Micro-Entrepreneurial context** - How entrepreneurial is the society and how much does it support its microentrepreneurs? (Pull factors)
2. **Welfare Bridge** - How developed is the system for taking people from unemployment to self employment? (Push factors)
3. **Legal framework for microfinance activity** - Is there a supportive legal framework for microfinance services?
4. **Financial bridge for micro enterprises and socially excluded persons** - Are financial services available for excluded groups and self-employed/micro-enterprises?
5. **Funding and support for micro credit providers** - Are MFIs supported through direct funding? Is this funding going to be sustained in the medium to long term?
Each dimension is divided into several sub-dimensions with their respective indicators. The respective indicators are coupled to a scoring. The overall scoring per dimension of a country is represented in a radar diagram as illustrated above.

The development of an online interactivity model is the next step with the aim to

1) allow a regular updating and development process of the eScorecard data and structure
2) to give policy-makers the possibility to inform themselves about the state and the development of the framework for microcredit in different countries, draw comparisons (recent and over time) and provide them with best practice examples of policy measures to improve the situation in their countries.

Building on such a website, the central interactivity aspects related to using the eScorecard as a regular updated tool for knowledge and policy exchange in the EU can be divided in two basic objectives:
1) Input of the latest available indicator data into the eScorecard and rate the dimensions accordingly (Mode of Interactivity: regular update cycle)

Figure 1 Interactivity Model

1. Updating Data
2. Comments on Data
3. Rating

Input Interactivity

Scorecard with old data

Output Interactivity

Comparing
Charting
Disseminating

Country with highest score
Country with lowest score
Good practice examples

Scorecard with latest data and rating

Country A
Country B
2) Output of eScorecard ratings in a transparent way that allows comparisons and charts and disseminates good practice examples (Mode of interactivity: on demand)
At this stage the project has developed a demo website www.escorecard.eu, as presented in the figure below. During the workshop a demonstration was made on how it could be used and what type of documents it could produce.

The next step is to develop a business plan, in order to look for extra funding to support the full development of the project and its implementation.

After these three presentations the discussion with the audience focussed on the eScorecard project. The representatives of the Commission expressed their interest in the instrument and its capacity to provide them with updated information and to monitor policy environment development for microfinance. Practitioners mentioned also the relevance of the tool for their lobbying activities at the national level. Practical questions were raised on how certain indicators were chosen and how the rating is done. Peter Ramsdson from Inclusion UK, one of the founders of the concept, gave some clarifications and pointed out how this instrument could be used for other purpose, mentioning what is currently done for micro-entrepreneurship development.
Workshop 12: "Reducing cost, increasing revenue - the impossible dream?"

In order to improve their sustainability, microfinance organisations have no choice but to decrease their costs and find ways to increase their revenues. Compare to other programmes worldwide microfinance providers in Europe have rather high costs in delivering micro credit. How can such costs be decreased? Are new technologies an option? How? Most microfinance providers also offer Business Development Services increasing their costs substantially. Is it possible to separate the different types of costs? Revenues from activities come mainly from interest rates’ revenues. In most of the countries in Europe such interest rates are regulated and low. How is it possible to increase them? What are the usual reactions of various stakeholders? Are there other strategies for increasing revenue? Experiences from micro credit organisations in France and the US will try to answer such questions and explain how they are meeting these challenges.

Moderator: Faisel Rahman - Fair Finance (UK)
Speakers: Sébastien L’Aot - Adie (France), Bill Burrus - Accion Usa (USA)

Through the presentations of two Micro Finance Institutions, ACCION USA and ADIE, the workshop aimed to present and discuss new ways of reducing cost and increasing revenue in Micro finance in order to improve sustainability.

In order to get a clear picture of the topic being discussed, Rahman highlighted a few questions that needed to be answered:
- What are the costs?
- How can we define them?
- How are the costs related to the mission of a MFI?
- How can we decrease the costs and what strategic and political challenges exist in order to increase income?

Bill Burrus - ACCION USA

Bill Burrus presented the actions and goals of ACCION USA in order to explain their approach to reducing cost and increasing revenue. It is based mainly on Loans via the Internet.

The main aim of ACCION USA is to provide economic opportunities for low and moderate income families in the USA, regardless of where they are located. Their goal is to provide access to fair-priced financial services to under and un-banked families. The parent company, ACCION International was created in 1991 and then in 2000 ACCION USA was created in order to fulfil their mission by leading ACCION’s efforts in the USA.

ACCIÓN USA has branches in Massachusetts, Rhode Island, Atlanta and Miami, and they also license independent organizations in Chicago, New Mexico, New York, San Diego and Texas. However, their main channel to reach customers is the internet. Currently, they provide loans through the web in approximately 25 states.

The service that ACCION USA provides includes micro loans from $500 - $25,000 over up to 48 months. They also provide lines of credits for clients with whom they have worked over a longer period of time and Credit Builder Loan which are designed especially to meet the needs of immigrants. Bill Burrus stressed the fact that
people need to have a credit score as companies use credit scores for all sorts of predictable activities, for example car insurance. They additionally offer the financial literacy program “Your money and you” to help potential clients understand the financial system in the United States.

The Results that ACCION USA managed to achieve by the end of the year 2006 are as follows:
- $179,000,000 loaned to 18,167 clients in 29,000 loans
- Average loan: $7,400
- An outstanding loan portfolio of $45,000,000 to 6,021 clients
- Historical Loss rate: 7.3%
- Financial self – sufficiency varying from 30 % to 80% (depending on the various branches and licensees)
- 325 loans approved per month

The clients of ACCION USA are people who have difficulties in accessing financial resources. 45 % of their clients are women, 90 % are members of minorities, mostly Latin American and African American minorities, of which not all of them are legal habitants in the USA. However, they do not need a legal residence in order to obtain a loan; the most important element in the request for a loan is a feasible business idea. Yet, none of the ACCION groups in the US are self sufficient.

Bill Burrus explained that the traditional approach to micro finance, that most institutions like ACCION USA are following, is facing some challenges which must be overcome in order to reduce cost, increase revenues and become more sustainable in the longer term.

Bill Burrus then emphasized the following; the licensees and branches have high fixed costs, which result in the maintenance of the offices and the salaries of the staff. Additionally, expansion to new cities is very labour intensive. Traditionally, there is a large amount of contact with the client which increases the cost of each loan realized, as the time the staff has to work on each case increases. The average cost per Dollar loaned was $0.48 during this situation.

Interest rates are regulated by the consumer interest rate and financial margins are consequently low (about 8-10%). Therefore it is not possible to cover cost by increasing the rate. Yet, the aim is to be self – sufficient. Hence, it was necessary to find new ways in order to improve the cost-income ratio.

ACCION USA therefore began to analyze how much contact with the clients was really necessary and whether it was possible to reduce the time dedicated to each client in order to reduce labour costs and increase the number of clients served simultaneously. Bill Burrus added that the fact that business start-ups do in fact need a lot of time and advising but he also highlighted that there are many clients that do no require the same amount of supervision as had been given in the past, and that these processes could be sped up.

Hence in order to solve the problems that they were facing, the solution that ACCION USA’s found was Lending via the Internet. The advantages are huge: potential clients can be reached everywhere in the United States, without the need to open up new stores and hire new staff. The staff can work from the main office and communicate with the clients electronically. Processing new clients becomes easier and more efficient as the applications are divided immediately into 3 groups: immediate loans, immediate denials and the cases where additional analysis is required.

The client completes the loan application online. The application is then reviewed by a loan officer in the service centre. If there is additional information or clarification needed, the officer calls the client. The loan is then declined or approved and disbursed and the follow up survey is sent to the client. There is an automatic payment debit, i.e. the repayments are automatically withdrawn from the account of the client. If there is not sufficient money in the account, the officer immediately calls the client to inquire.
The program commenced in March 2006. Up till today; ACCION USA has seen positive results, as follow:

- 234 loans for a total of $ 1,600,000
- Average amount: $ 6,791
- 251 Loans outstanding for total of $ 1,060,000
- Loans made in 35 states
- Portfolio at risk: 6% (same as all loans)
- Cost per Dollar loaned: $ 0.37

Investments in this new approach had to be made and new questions had to be answered. There is the necessity to rethink old truths. Some of the major lessons learned from this new approach and adaptations made for it were, the board of directors, the stakeholders and overall the staff members have to be educated on the new approach. The website of the Institution needed to be dedicated more to donors and then provided visitors with some general information. It had to be transformed to be consumer orientated, providing all information necessary about the loaning process and conditions of ACCION USA in English and in Spanish (to give credit to the high percentage of Latin American applicants). Additionally, software had to be developed in order to make the lending process actually feasible via electronic documents (application forms, electronic signature etc). Opening a new channel meant adapting marketing strategies to ensure that people get to know the possibilities and become interested in the offer. A process had to be developed to actually transfer the money. It is now sent to the client’s account, meaning also that having one is a precondition for receiving the loan.

Last but no least it is important to think about how to build loyalty and confidence as the whole process is more anonymous. In the lending process as a whole there is no longer any personal contact. ACCION tries to achieve loyalty through a membership concept, promoting a message to the clients, “You are a member of ACCION!”.

All in all, ACCION USA invested about $300,000 in the new technology. The project was financed completely through donors who approved of the new approach to micro loans. Interestingly, the demand for Loans increased significantly in the past year. The cost of the loan decreased as there was only one staff member involved in the back office.

When asked whether the target market has changed, Bill Burrus affirmed that the clientele had in fact shifted. Providing loans via the internet requires demanders with basic IT – knowledge who feel comfortable with using the new technologies for business actions. There is also the trend that even clients that live near an office prefer the online process because it saves time, and can be comfortably done at home.

Bill Burrus confirmed that they focus more on clients that do not require much advice. They provide the client with their literacy “Your money and you” and there is a service line for questions, but the capacity is limited. ACCION USA does not provide business trainings. Bill Burrus added that the market is and will stay diverse and there are other organizations who do offer additional training courses.

The main objective of the internet lending is to fasten and ease lending processes in order to reduce costs and serve more clients. The driving interest is to reach sustainability. The organization focuses on lending transactions. It does not offer a huge range of BDS and additional advice. Bill Burrus said that they do not finance complete start-ups, no vague ideas but people who are already in business, for example a person who is selling his products successfully at the weekends or at markets and want to make a regular business out of it. There are other institutions that support start-ups and provide additional trainings.

Bill Burrus states that in the long run there is no point in being in the market if the institution does not reach scale. Currently there are about 600 organizations who are involved in microfinance and it is not possible for the current donors to finance them all. Therefore, there will be mergers of MFIs and organizations will have to work more efficiently.

ACCION chose to focus on people who do not need much BDS as the costs for the services are high and clients are not ready to pay for them. Reducing the costs offers new possibilities. The cost of the services provided will stay the same for the customer. There are no possibilities to cut fees for the customers as sustainability is still
an objective that has not yet been achieved. However, the main benefit for the client is the access to financial resources.

**Sébastien L’Aot: L’Association pour le Droit à l’Initiative Economique (ADIE)**

ADIE was created in 1988 by three volunteers without their own start-up capital. They gained the support of a group of private foundations, the government and a European anti-poverty program. Adie is active throughout France. Apart from their 310 staff members, there are also around 1,000 volunteers working for the association.

The objectives of Adie are as follows: to finance the unemployed and people on welfare in creating and developing their own jobs and, possibly, jobs for others; to provide business development services for the new enterprises in order to help them succeed and to use their activity as a social laboratory to help identify the obstacles to the development of economic initiative. In reality, 2/3 of Adie’s clients either earn a minimum wage or are unemployed.

**Sébastien L’Aot then presented the following facts about Adie’s loan program:**

- The maximal loan amount is 5,500 € with a max time of 24 months
- Interest rate: 7.3 % plus 5% commission
- Average loan: 2,800 €, average term: 18 months
- Number of loans disbursed since 1989: 45 000
- Number of micro loans in 2006: 7 500 (average: 3000 €)
- Number of active clients: 15 000
- Default rate in 2006: 6,7% 
- Historical loss rate: 3,2%

Since the amendment of the banking law in 2003, allowing associations financing and serving unemployed and welfare recipients to borrow in order to lend, loan funds come essentially from banks which provide Adie with lines of credit that it redistributes to its clients. This direct control allows for greater effectiveness than the system used at Adie’s outset, when control was duplicated by Adie and the banks, which at that time had the sole authorization to make loans. The extra cost of credit and accompanying services are financed by a variety of partners: the government, the European Social Fund, local authorities and socially responsible companies.

In order to become more sustainable, it is necessary to decrease the percentage of portfolio at risk (which had been at 15%) and increase income, Adie had to rethink its approach to micro loans. Less than 40 loans were actually realized per year. Experience has led the Association towards a revision of the credit cycle, stressing risk analysis and simplification of procedures. It decreased cost through increased efficiency, as for example modifying the organizational structure of the association by making up two separate cost centres for micro credits and BDS. They started to select projects more strictly and to train their officers. They also raised the interest rate charged in order to become sustainable. Additionally, Adie installed call centres for the clients in order to reduce the working time per customer.

The officials were worried that if the loan becomes too expensive they would lose clients or possibly because of the reduced time they spend personally with them. However, it resulted in the number of loans disbursed rising. They discovered that staff members had often spent time with people that did not really need their help. The most important aspect to the client was the fast and easy access to finance. Obviously, the important fact is not the interest rate, but to provide access to financial resources for the un-banked people.

**Asked whether the type of clients Adie serves has changed, Sébastien L’Aot answered that their target sector remains the same; i.e. providing access to financial services to under or un-banked families. Their objective is not to offer a lower interest rate than the banks, but to provide loans to people who cannot get credit from a bank.**

Adie focused on speeding up their processes, improving productivity by rearranging the organizational structure and increasing income through increased interests in order to reach sustainability. Sébastien L’Aot also stressed the fact that BDS are very expensive and the customers are not ready to pay for these services.
The members of Adie learned that efficiency can be improved without hurting the relationship with the client or downgrading the services offered. If there are doubts, just ask the client. By the end of 2006, Adie had disbursed a total of about 44,000 loans since its set-up, a number increasing regularly each year.

Although both ACCION USA and Adie remain dependent on subsidies, they are both trying to find new ways to improve efficiency and thus become more independent from donors, more self-sufficient and sustainable.
Workshop 13: “From small credit to microfinance or how to develop financial diversity”

Western Europe's "microfinance" landscape is quite naturally dominated by business development agencies, public loan programmes and bank partnerships that tend to offer microcredit like ordinary loans with the only difference that these are smaller, riskier and more expensive to manage. Consequently these programmes tend to suffer from a combination of symptoms: low selection rates, high management and training costs and/or high loss rates. Yet micro-loans are much more about different loan methodologies as such. What attempts have been made in Europe to introduce different loan paradigms, for example based on "social capital" (proximity, mutuality, trust) allowing to enter a more virtuous circle involving lower costs, lower risks and better outreach towards the excluded?

Moderator: Christophe Guene - Sofi (Belgium)
Speakers: Birgitte Maas - DMI (Germany), Udo Bauer - City of Dortmund (Germany), Christian Baier - Socius (Germany)

Christophe Guene opened the session with a brief introduction to the workshop. He mentioned that social capital was the core of the workshop which aimed to open a discussion and bring in new ideas on how to create a social capital within microfinance projects. The workshop revolved mainly around the case study of the NORDHAND microfinance project in Nordstadt (Dortmund, Germany). The three speakers were in fact three of the main stakeholders of the project and shared their experiences and impressions.

Udo Bauer was the first speaker to present, she opened by sharing an idea relative to the MF industry - "Not only money is needed, but ideas and money can be one of them"

Udo Bauer then went on to give an introduction to the background and history of the project. Norderstadt the location of the project, was a traditionally heavy industry area (mountain, steel, coal) consisting of 60-70% immigrant populations and high unemployment rates (30%). The region has 55,000 inhabitants and is densely populated. The area also had no tradition of small companies, but there were 3,500 small enterprises with mainly 1 to 3 employees. There were also public investments programs without significant impact on the region. Money in the region was not sticky, as inhabits moved away. Thus "money did not work in the way it should". The gap of culture in the area was detected as a reason for information asymmetry and low participation rates.

Since 2000, as part of the URBAN II project of the European Union to support local economies, the following have been founded and developed in the area:
- Foundation of FUNDo a circle of local entrepreneurs
- NORDSTERN - competition to motivate corporate foundations
- NORDHAND – a microcredit project

In more detail NORDHAND is a project that aims to bridge short-term gaps in liquidity where there is no access to bank loans because of missing securities. It also aims to be an intermediary for micro credits on a solidarity based approach. In order to become a new member it is necessary to become a member of a peer group and save money for 6 months, which can then be tipped then as credit. They also offer loan guarantees by savings trough members.
Next, Birgitte Maas gave further insight into the project. The DMI provides a cooperation framework for microfinanciers, banks and funds as well as accreditation of microfinanciers and knowledge transfer. There is also a commitment of members to fulfil reporting requirements and build up monitoring systems.

Finally Udo Bauer compared the vision of the project with that of the reality. The vision for the project is for 41% of minorities to be integrated and share public life. Also for local associations to be strong local players, and for people to resume public responsibility for a change. The reality however, is that there is little communication between different cultures, there is a lot more than just financial support necessary and that the challenge is to create a framework to build social capital.

This led to the discussion of the following questions by each one of the speakers:
- How can they support enhanced dialogue between different parties?
- How can they strengthen trust?
- How can they get local actors to play a more active role?
- Where is the social capital?
- How do they plan to empower social capital in practice?

Christian Baier responded that it was necessary to establish a system and design with an incentives alignment. Increasing security is in the interest of the local community. Also, some entrepreneurs that do not need loans themselves, where ready to save money could provide loan access to others.

Also that entrepreneurs have been coming to NORDSTADT because of the market for the last two years, and microfinance can select people that want to stay in the area and will invest further.

Udo Bauer gave a brief response, "knocking on every door you can reach a day", implying the importance of Udo Bauer.

Birgitte Maas simply added that "Goldrausch" is an example of woman entrepreneurs with a high repayment rate. However later on they are faced with increasing default rates from supporting “outsiders” and have to go back to individuals to build peer groups.

In conclusion, Christophe Guene summarized the session by adding that the main challenge is to build peer groups to empower social capital and that social capital is currently a “black box”, further discussion and definition is needed.
Closing Debate: “The way forward: what are the perspectives for the sector: with or without banks?”

What will the microfinance sector look like in ten years time? Will there be only big players with a strong involvement of banks or will there always be smaller structures? Will microfinance programmes become banks?

**Moderator:** Peter Ramsden - (UK)

**Speakers:** Emmanuel De Lutzel - BNP (France), Pawel Grzesik – SKOK Credit Union (Poland), Maria Nowak - EMN (France), Asad Mahmood – Deutsche Bank (USA)

Peter Ramsden began the closing session by presenting brief biographies of each of the speakers. He stated that the purpose of the closing session was to bring together everything that had been “kicked-off” in other plenary sessions and workshops throughout the conference and to look at “the way forward”. Peter Ramsden then addressed the first discussion question to the speakers: “What is your institution’s engagement with microfinance?”

Emmanuel De Lutzel from BNP in France was the first to respond, stating that BNP has 2 types of engagement in microfinance: domestic and international. Domestically, BNP supports ADIE. However, five years ago BNP began to develop microfinance abroad and to promote corporate social responsibility abroad. Today, BNP is present in 85 other territories.

Pawel Grzesik from the Central Credit Union in Poland explained that his organization acts as an advisory board for microcredit groups. With the average loan in Poland being 1,000 Euro or less, microfinance has been utilized for the less affluent parts of society. There is a network of 1,600 microcredit unions in Poland. However, these unions are limited by law to only serving individual people. The microcredit unions in Poland cannot provide start-up loans, mortgages, or any kind of financing for SMEs.

Asad Mahmood from Deutsche Bank explained that they invest in social funds around the world in addition to creating them. Deutsche Bank wants to create a banking niche for social capital so that investors can invest in ways that bring benefits directly to the poor. The interesting aspect to the Deutsche Bank program is that while it is part of their corporate social responsibility activities it generates enough to be self-sustainable.

Peter Ramsden’s second question was directed at Nowak from EMN & ADIE in France: “from Adie’s point of view, what’s been your experience with the banks?” Nowak responded by stating that they had no choice but to work with the banks. ADIE was founded in 1988 without any capital and hence had to find funds from all around. “Today, my experience is that you cannot develop microcredit in Europe without changing the legal environment. And to change the laws, you need the support of the banks because no one will take a small organization seriously. You also need the banks for funding. So for me, microcredit in Europe can develop only with aid from the banks or in partnership with them”.

The third question posed by Peter Ramsden was "what kind of relationship can there be between banks and MFIs?" Emmanuel De Lutzel stated that banks bring two things: money and know-how. MFIs need know-how for both the people they finance and for themselves. MFI clients have limited education and need support services for their microentreprises. These support services are something that the MFIs can offer that the banks cannot. Lastly, MFIs are not created from a banking perspective and can benefit from the bank’s know-how in regards to marketing and packaging products.
Asad Mahmood limited his comments to addressing issues in Western Europe and developed economies. He commented that there are two major issues: inclusion and the framework for social businesses. The majority of the microfinance sector in Europe is focused on inclusion (meaning people who do not have businesses, etc.). In regards to inclusion, banks can provide resources. However, Asad Mahmood does not believe that the banks have much to offer in other capacities because microfinance is such a specialized field. While in other countries, interest rates are allowed to remain high for microloans, in Europe they are capped. Thus there is a need for a perceptual shift on behalf of the banks from being profit driven to thinking about social responsibility. There is also a challenge in identifying where the markets for microfinance exist.

Peter Ramsden then posed a question to Pawel Grzesik, if microfinance exists because banks do not exist in this market as a result of clients being more expensive, harder to manage and harder to reach- what would you like the banks to be doing? Pawel Grzesik responded by stating that the sector is in its initial stages of development but that there are alliances between banks and credit unions that are being built at the local level.

"What else could we be asking of the banks?" Peter Ramsden asked Maria Nowak. She stated that in Europe, microfinance has been defined as a loan less than 25,000 Euro. This is not a sufficient definition. Not all needs under 25,000 Euro can be provided for by microfinance institutions. Typical start-ups are bankable clients should be financed by the banking sector. Non-banking intermediaries such as MFIs would then be free to focus their services on low income individuals without any collateral.

Peter Ramsden posed a follow-up question to Maria Nowak, "With the risk that banks will retreat from areas of risks, are there other methods for encouraging banks in this market? Maria Nowak stated that there is a lot of motivation for banks to get into this market. First, there is motivation for boosting corporate image through acts of social responsibility. Second, because banks have an interest in finding more clients, they should support microfinance which will eventually provide them with a larger client base.

With banks liberally based on economies of scale, what will be the motivation for banks to enter the market for microfinance? Peter Ramsden directed this question to Emmanuel De Lutzel and Asad Mahmood. Emmanuel De Lutzel responded that banks simply do not have the time to mentor microentrepreneurs and to teach financial literacy. Therefore, microfinance institutions should be used to make people financially literate. Only once people have gained a certain level of financial literacy should they approach banks.

Asad Mahmood responded to the same question by stating that with so many different types of banks, the question is too simple. What we need is for institutions to focus on a business like approach. This means covering your own costs. Therefore, it does not make sense to be focused only on the lower sections of the economy, who will graduate out of your program fairly quickly and turn over to the big banks (if you are successful). Therefore it makes much more sense to have one bank that is serving a diverse section of the population. It is the only way to be self-sustainable.

Peter Ramsden then asked the panellists about the future. "What will we be discussing in 2027? What will the relationship be between banks and microfinance institution in 2027?" Pawel Grzesik responded that microfinance organizations should not be perceived as banks for the poor with limited services. With this paradigm, microfinance organizations will have to continue to deal with clients leaving their bank to join bigger banks that can provide all of the services they need. Poland can offer a good model where duel membership is common. In this model, the rich and the poor bank together, which provides the poor with the same access to services as the rich. As a result, financial illiteracy is not as much of a problem. Local credit unions provide free counselling to assist in this effort. Polish credit unions currently serve 5
million beneficiaries which constitutes 7-8% of the total population. The target is to service 20-30% of the population through the credit union system. Additionally, the retail banking sector is moving more and more into microfinance which means that the two types of organizations will be stuck together for years to come.

Emmanuel De Lutzel responded by saying that there is both good news and bad news as we look ahead to the future. He does not believe that there will be much downsampling and that a crisis, such as what happened in Uttar Pradesh in India, may shake the sector. Thus we must be very cautious and understand that microfinance in not a magical tool. While Mohammed Yunus talks about the total eradication of poverty, Emmanuel De Lutzel does not believe that this will ever be possible, even in Western Europe. The good news, however, is that cost will decrease in the microfinance industry making it increasingly attractive for banks to support this industry. The political environment is also very important and governments need to support microfinance. Governments need to support microfinance as a tool for social policy but not as the only tool for social policy.

Asad Mahmood responded to Peter Ramsden’s question by reminding the audience that our future is a reflection of our past. The Medicis and the Rothschild did not lend to the poor, they lent to the rich. With this new movement, the unbanked are finally getting financed and this need is getting filled. The vacuum will be filled and it simply does not matter who does it. Asad Mahmood truly believes that the future is bright and one without poverty.

Maria Nowak added her speculations for the future by giving two possible scenarios. First, microfinance institutions say we cannot cooperate with banks and we cannot become sustainable. Governments will not understand what microfinance is about and will keep it limited by definition to loans less than 25,000 Euro. Banks will only continue to use microfinance as a publicity tool for improving social image. If banks conduct their business in this way, it will destroy the market through low interest rates and low recovery rates and it will become impossible for microfinance to survive. The second scenario is that microfinance organizations will change their attitude and look at the market as it is and not as it is defined by the legal framework. You can always change laws. In this second scenario the banks will recognize the new market as the basis of the pyramid and respond accordingly.

Peter Ramsden concluded the panellist’s discussion by thanking the group for their four very different perspectives on development. He then emphasized Maria Nowak’s reminder that the laws can always be changed, and thus the possibilities are plenty.