

Microfinance and commercialization

Microfinance has grown from its humble beginnings in the 1980s to a full-fledged industry attracting in its growth an ever larger and wider range of practitioners, investors and supporters. The increasing sector has proven to be capable to provide financial services to more poor and low-income people.

With the growth of the industry and the demand for investment capital, the availability of commercial and semi-commercial external funding has increased. Social as well as institutional investors have started to support Microfinance Institutions (MFI's), attracted by the relatively low volatility of this investment. MFI's have become an "asset class". The prospect of an adequate financial return for microfinance industry makes investors search for "winners" and, from the financial perspective, well managed microfinance institutions. These, commercially oriented microfinance institutions are targeting client segments that have not been served by commercial banks and are challenging these banks through developing uncollateralized loan products.

At a global scale, supply of finance for the poorest population is far less than demand. New institutions continuously emerge that play a critical role in the innovation of the microfinance markets. They have the ambition to challenge existing approaches and service clients that are not yet reached by other institutions. They try to design new methods of delivery of access to finance to poorer target segments, in vulnerable areas (conflict or disaster areas).

By doing so, they represent a valuable segment of the microfinance industry and have the potential to improve earlier microfinance delivery methods and reach out for the bottom half of the people living below the poverty line. However they cannot be easily funded through commercial instruments.

Social Microfinance

The concept of Socially Oriented Microfinance addresses access to finance from a different perspective. Its distinct character takes it to promote microfinance institutions that take the social-environmental context of clients as a starting point. Design and delivery of financial services explicitly integrate social, environmental and financial dimensions of livelihood improvement. Socially oriented microfinance institutions stimulate the active involvement and participation of clients (groups and communities) so as to develop multiple and flexible products in keeping with their needs and their contextual situations. Through this, they are integrating and balancing financial as well as social returns.

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Social Microfinance TA Facility

In 2009, a group of 12 international organizations have decided to work together in promoting socially oriented microfinance through the Social Microfinance Facility. This Facility supports microfinance institutions that actively target the lower poverty segments of the population and is initially promoted by:

- Ayani Inclusive Financial Sector Consultants BV
- Association of Microfinance Institutions Uganda (AMFIU)
- Asian Confederation of Credit Unions (ACCU)
- Centre for Agricultural and Rural Development (CARD) Philippines
- Cordaid
- EDA Rural Systems India
- Friends of Women's World Banking India (FWWBI)
- MAIN Ethiopia
- Microsave Africa
- Microsave India
- Micra Indonesia
- Peace and Equity Foundation, Philippines

The Social Microfinance Facility will be registered in January 2010 as a Foundation in The Netherlands, with an international Board of Directors including representatives from Africa and Asia.

Scope of Technical Assistance

The Social Microfinance Facility will provide Technical Assistance *with a difference*, where the Financial Institution is in the driver's seat throughout the entire process of technical assistance delivery.

This concept translates in Microfinance Institutions taking responsibility for:

- Requesting technical assistance, facilitated through a Social Microfinance Scan;
- Getting assistance to clarify their needs through a professional TA Needs Assessor;
- Choosing their TA Providers;
- Designing a TA Plan of Implementation, including time-frame and budget;
- Implementing the TA Plan in-house with the professional assistance from the TA Provider;
- Communicating to the Facility the results as compared to original expectations.

The Social Microfinance Facility aims to reach its goal through co-financing costs of technical assistance to microfinance institutions per year with an average contribution of € 20-30,000 per contract. Technical Assistance is delivered initially in 12 countries: DR Congo, Ethiopia,

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Ghana, Malawi, Sierra Leone, Uganda, Zambia, Cambodia, India, Indonesia, The Philippines and Vietnam. TA projects are focused on the following areas of development of MFI's:

- Governance issues:
 - Develop and (re)definition of social mission of the microfinance initiative and its role as an agent of change;
 - Integration of community ownership and client value concept in the development strategy and operational features of FI's
- Activities related to client value proposition and service delivery such as client-based design of financial products and their delivery, portfolio management and community development;
- Management issues such as operations, Human Resource Development, portfolio management, financial management, risk management, reporting and compliance;
- Activities related to internal operations such as data processing, MIS, Social Performance Management, integration of Corporate Social Responsibility principles as well as social auditing.

Eligibility criteria

Applying MFI's are eligible if they agree to the following criteria:

Strategic relevance

The TA project should be of strategic relevance to the MFI. This will be context specific. The main challenge of TA projects should be to contribute to offering of products and services that more directly contribute to the objectives of affordability, accessibility and appropriateness.

Sustainability

High financial performance (measured in returns on assets and profitability) may not be reached easily if high social performance (reaching the right clients with the right products at an affordable price) is pursued simultaneously. Yet, FIs with a social mission also have to be able to reach adequate financial performance levels.

Innovation

MFI's should apply innovative approaches that allow for sustainable services to high-risk, high-cost and low-yielding clients. Making service delivery to more demanding clients cost-effective is possible by introducing innovative business models and service methodologies that aim at operational efficiency in combination with low transaction costs.

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Critical need

The Facility will become involved on the basis of an analysis of an MFI's needs. The Facility's support should be critical for the MFI to achieve its double aim of effectively servicing its priority, under-privileged clients and reaching financial sustainability.

Institutional commitment

The Facility will only support MFIs that are institutionally committed to optimally utilize the technical assistance provided. Both management and the board of the MFI should fully commit their institution to an institutional development plan or business plan of which technical assistance is an integral part.

Cost-sharing

The Facility will only support MFIs that cannot reasonably shoulder the full costs of technical assistance for which a critical need has been established. At all times, however, the MFIs will need to make a contribution to the costs of TA provided.

Progress monitoring

Contracts concluded between the Facility, the MFI and the service provider will include clauses concerning the obligations of all parties to keep track clearly of the progress made and results achieved. At the end of the contract, the benefits for the MFI will have to be accounted for to justify the TA that was provided.

Social Performance Management (SPM)

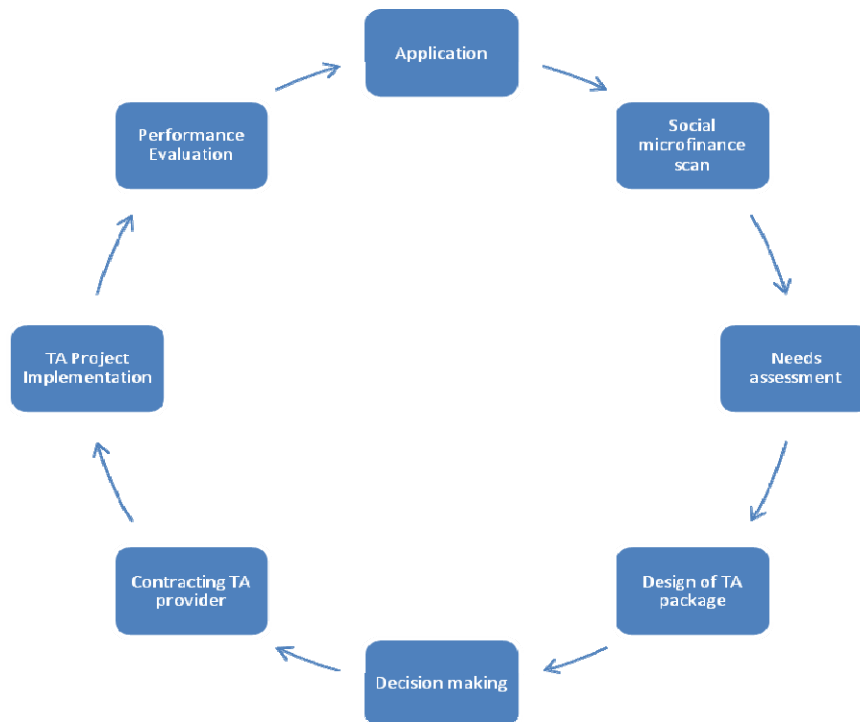
For MFIs with a social mission to stay true to their vision and mission, it is important to be able to show the results of their operations in terms of social performance. Wherever applicable, TA provision may include a component to assist MFIs to design and introduce so-called SPM information systems.

Procedure

The Social Microfinance TA project cycle for a social microfinance initiative can be visualized in the following scheme.

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Application

The Facility announces application criteria and procedures, to MFI's in the selected countries. Interested eligible entities can submit a request providing the required information. The request will be reviewed by the Manager of the Facility based on the SMF eligibility criteria and completeness.

Social Microfinance Scan

Each applying MFI will undertake a self-assessment through a Social Microfinance Scan, analyzing its own operations from a triple bottom-line perspective. The tool is easy to use and will result in a spider diagram indicating possible fields where improvement can be procured.

Needs assessment

Upon receipt of the scan and a TA request formulated by the MFI, a two/three day's needs assessment may be needed by a selected needs assessor. This assessment will analyze triple bottom-line performance and prioritize the formulated request, together with the MFI governance and management. The final result from this exercise will be a detailed TA request.

Design of TA Package

Upon finalization of the Needs Assessment, a TA package will be composed including:

- Proposed Terms of Reference
- Timing, project implementation planning

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- Expected results and performance measurement indicators
- Financial proposal (including MFI's expected financial contribution)
- Three names of proposed TA providers.

Decision making

The TA Package will be submitted to an external project advisory committee that will analyze the proposal on its relevance as a social microfinance initiative. This will entail an analysis of:

- poverty alleviation impact and social change potential;
- financial sustainability of the microfinance operations;
- client value proposal;
- expected performance;

Contracting

Upon approval, contracts will be signed between the Facility, the MFI and the TA Provider. Specific social performance indicators will be determined per project as well as the means of their verification.

Implementation

On average, TA project implementation time cycles will be between 3 months and 24 months.

Performance evaluation

After project implementation, one of the needs assessment consultants (not the same as the needs assessor), will analyze the results through a monitoring exercise, that will be included in the budget. It is the intention to design a monitoring and evaluation tool that is easy and can be implemented at the client level, eg. through an online feedback form focusing on the social change potential of the initiative.

More information

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