

Spotlight on Financial Inclusion Leaders



Citi Microfinance



MICROFINANCE ASSOCIATIONS

Roles and new leadership opportunities



This article summarizes the **Spotlight on Financial Inclusion Leaders** series of case studies developed by the SEEP Network with support from Citi Microfinance. The series profiles four microfinance associations, showcasing the ways in which they are supporting their members and meeting the challenges of value-added growth in financial inclusion. These associations are leaders in implementing innovative and locally-responsive approaches to financial inclusion. Their work is having a clear and measured impact on the lives of their clients, and their experiences bring valuable new knowledge to the industry at large.

Microfinance Associations: Roles and new leadership opportunities

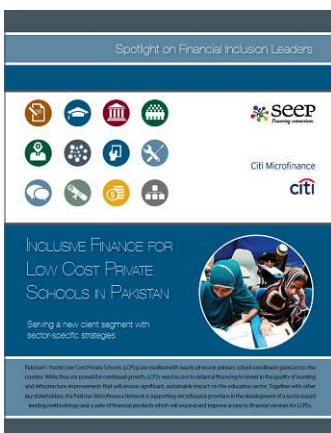
Microfinance Associations (MFAs) are membership-based organizations comprised of financial institutions serving the base of the pyramid. MFAs are critical market actors and are well-positioned to fill a range of gaps in the financial inclusion and responsible finance arena. The traditional role of MFAs has been to support retail microfinance institutions (MFIs) with services that improve their institutional performance and increase the supply of sustainable services. As the microfinance industry matures, networks around the world are actively driving policy initiatives, from the development of microfinance laws in Uganda and Azerbaijan to the establishment of national Codes of Conduct and self-regulatory regimes in India and Pakistan. In addition, associations are increasingly serving as hubs for market data in their respective countries. They are entering into strategic partnerships with international data platforms, increasing the visibility of their profiles at home and at the international level. At present, much of the knowledge being generated around responsible finance in the areas of social performance monitoring and consumer protection is coming from regional microfinance networks in Europe and Latin America. These network actors are representing their markets at the forefront of the industry.

In addition, MFAs are capitalizing on new opportunities to provide critical services to their members and support the overall market in the areas of product innovation and technology solutions. A 2013 study¹ conducted by the SEEP Network analyzed key trends in the microfinance industry affecting the ability of MFIs to execute their strategies, achieve their business objectives, and build and protect their value. An overwhelming 85% of associations indicated that their members' clients were demanding a wider range of financial services, presenting a significant challenge to MFIs' relevancy in their market contexts. This study also revealed only a 38% utilization of new technologies, suggesting that many MFIs were not taking advantage of the potential of technology to improve service delivery and scope of product offerings. While association leaders mentioned a number of strategies already employed by MFIs to address these challenges, such as client-centric approaches (client segmentation, product diversification, expansion into new geographic areas), innovative partnerships, and development and implementation of supportive internal infrastructure, over half of the associations found that their members were not adequately prepared in either the area of diverse client needs or new technologies.

In this same SEEP study, approximately a third of responding associations indicated that they provide activities to build the capacity of members, enabling them to appropriately respond to the needs of their clients. A quarter of respondents also indicated that they help their member MFIs to identify and implement new technologies. In order to learn more about how associations are supporting their members in these two critical areas, SEEP, with support from Citi Microfinance, developed the Spotlight on Financial Inclusion Leaders series. This series showcases and highlights the ways in which four microfinance associations are supporting their members in product innovation and new technology solutions in order to meet the challenges of value-added growth in financial inclusion.

The four associations profiled in this series are leaders in implementing innovative and locally-responsive approaches to financial inclusion. Regardless of their business model—whether by direct implementation and service provision, market facilitation, or a combination of both approaches—their work is having a clear and measured impact in the lives of their members' clients, and their experiences bring valuable new knowledge to the industry at large. Meet them now!

1. Sengupta, Urmi and Diana Dezso. (2013). 'Keeping an Edge: What will it take in the current microfinance context?' Retrieved from: <http://www.seepnetwork.org/keepinganedge>.



The Advance of Mobile Banking in Ecuador: Leveraging shared, industry-wide infrastructure for rural financial inclusion

Red Financiera Rural (RFR), an association of 47 diverse financial institutions in Ecuador, has been implementing an innovative mobile banking project to facilitate wider and better access to financial services for rural and peri-urban populations. RFR's initiative brings transactional kiosks to remote communities and deploys loan officers to visit rural areas with digital devices, all powered by a secure, cloud-based digital infrastructure. As a result, rural Ecuadorians can easily make payments, receive loans, and deposit savings regardless of geography.

With the support of USAID, RFR's mobile banking initiative engaged over 30 institutions nationwide, among them credit and savings cooperatives, credit and savings associations, and NGOs. RFR's key roles in the initiative included:

1. Opportunity identification, proposal development, resource mobilization

Based on strong member and market demand for solutions to improve financial access in rural areas, coupled with previous expertise in the development of mobile banking solutions, RFR developed a comprehensive project proposal and secured funding from USAID for a 2.5 year mobile banking project (Feb 2012 – July 2014). The funds covered most of the costs associated with program design and initial implementation.

2. Identification and coordination of market linkages

This ambitious project required the management of complex technologies and multiple vendors. RFR assumed the role of main coordinator during the initial roll-out. It researched and defined product specifications, then recruited, selected, and contracted partners (core banking provider, information administration and communications provider, datacenter provider and others) that aligned with the project's vision and were willing to provide services that benefited the most vulnerable populations.

3. Member capacity building

The implementation of this program required significant changes to the operations of participating financial institutions. RFR provided thorough capacity building, training, and support to ensure that institutions were adequately equipped to bring mobile banking services to their clients.

By serving as an aggregator of services, RFR has been able to substantially reduce barriers to entry into the mobile services market for its members. Financial institutions are now able to offer basic services such as deposits, payments, loans, and transfers to clients at substantial savings, thereby meeting client demand, enhancing financial inclusion, and optimizing their own sustainability.

Read the full article at <http://www.seepnetwork.org/RFR>.



MICROFINANCE ASSOCIATIONS AS LEADERS IN FINANCIAL INCLUSION



Expanding Islamic Microfinance in Azerbaijan: The case for industry coordination to serve new client segments



In an effort to meet increasing client demand for Islamic microfinance products, the **Azerbaijan Microfinance Association (AMFA)** has been playing a key role in promoting the expansion and availability of these financial products in Azerbaijan. AMFA's members, representing some of the largest MFIs in Azerbaijan, began to notice an increase in client drop-outs. Client exit surveys conducted by these MFIs revealed that after a pilgrimage to Mecca, many clients felt that they could not continue taking traditional loans, as these were inconsistent with their religious beliefs. Other AMFA members confirmed similar findings across other regions of the country considered to be particularly devout. The MFIs brought this issue to AMFA and collectively decided that the association would dedicate resources to support the development and expansion of Sharia-compliant financial offerings.

AMFA began actively working to support the introduction of Islamic Microfinance in Azerbaijan in 2010. AMFA has endeavored to raise awareness of Islamic microfinance within the sector via conferences and publications, to build knowledge and capacity of financial service providers via specialized workshops, and to collaborate with a broad group of diverse stakeholders to enact appropriate legislation. It is expected that by mid-2015, both the legal framework and the requisite support services will be in place to enable wide access to Islamic microfinance, thereby enhancing overall financial inclusion in Azerbaijan.

AMFA is currently funding these efforts from its membership fees, as it believes investment in these services will be crucial to member retention and satisfaction. It has created a promising opportunity to develop a new fee-based service line—technical assistance in Islamic microfinance— that is not presently supplied by other actors in the market.

Read the full article at <http://www.seepnetwork.org/AMFA>.

Expanding E-Money Services in Peru: Reaching unbanked clients and advancing financial inclusion



In January of 2013, the Congress of Peru passed an Electronic Money Law, the first of its kind in Latin America. This legislation enables the development and expansion of electronically-based, mobile financial services for low-income and rural populations. Peru's legislation is distinctive and innovative in permitting both traditional banks and nonbank financial institutions to serve as e-money issuers, to create their own networks of agents, and to utilize existing networks of other competitors or banks. The microfinance sector is in the position to play a major role in the deployment of e-money as a financial inclusion tool. **ASOMIF Perú** (the association of regulated, non-bank financial institutions in Peru) is leading the implementation process within the microfinance sector, ensuring that the needs and perspectives of its members and their clients are captured in the rollout of the legislation.

ASOMIF has taken a leading role in guiding its members' understanding of and transition to the new e-money regulatory and operational requirements. As a member-based organization, ASOMIF is well-positioned to facilitate communication between users in the field and government agencies. The Executive Director of ASOMIF serves as the microfinance representative to the national E-Money Committee, the cross-coordination body set up by the Superintendencia de Banca, Seguros y Administradoras Privadas de Fondos de Pensiones del Perú (SBS) to guide the implementation of the law. ASOMIF advocated on behalf of its members during the legislative process, facilitated the selection of the technology platform, negotiated successfully for its members to pay a lower fee for using the platform, and hired a technical expert to help pilot the platform. ASOMIF will offer additional training and support to members to enhance their understanding of e-money, how it works, and its potential to improve and augment service delivery.

It is expected that 1 million Peruvians will have an e-wallet during the first year of implementation, with an additional 4 million served after 5 years.

Read the full article at <http://www.seepnetwork.org/ASOMIF>.

También
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Inclusive Finance for Low Cost Private Schools in Pakistan: Serving a new client segment with sector-specific strategies

In partnership with other key stakeholders, the **Pakistan Microfinance Network (PMN)** is supporting microfinance providers to implement a sector-based lending methodology and suite of financial products to meet the access-to-finance needs of the country's 70,000 Low Cost Private Schools (LCPS).

These schools have the potential to successfully fill the quality and capacity gap of the public education in a country that has the second highest number of out-of-school children in the world. They are expanding exponentially, credited with nearly all recent primary school enrollment gains nationwide. Though they are poised for growth, they need access to external finance in order to make significant investment in improving the quality of learning and in their infrastructure. Providing access to finance for Low Cost Private Schools in Pakistan represents an opportunity that lies at the intersection of the growing LCPS sector, as a small enterprise segment, and the increased maturity and ability of the microfinance sector to expand their enterprise lending activities.

PMN, along with Khushali Bank, Kashf Foundation, First Microfinance Bank, Sindh Education Foundation, and Punjab Education Foundation, contributed to a research study examining the overall market for LCPSs in Pakistan and their financing needs. This study, which was one phase of a project funded by the UK Department for International Development (DFID), revealed high demand and potentially significant scale for financial services and products for LCPSs, estimating that the sector's funding appetite exceeds PKR 77billion (750 million USD). The next step of the project worked to develop a sector-based lending methodology for financial providers interested in offering products to LCPSs.

As a credible representative of the microfinance sector in Pakistan, PMN was entrusted as a key member of the steering committee that guided the market feasibility study. Upon the completion of the study, PMN cohosted a launch event to disseminate the results within the financial inclusion community. The network was actively involved in the selection and recruitment for the follow-on pilot study, and the four microfinance providers currently engaged in the pilot are all PMN members. Additionally, PMN has had a major role in monitoring and documenting progress and challenges during the pilot phase. Once the pilot is completed, PMN plans to leverage its available platforms to widely disseminate its results, building confidence in this methodology and encouraging other financial service providers to engage in serving the LCPS sector.

Read the full article at <http://www.seepnetwork.org/PMN>.



"At PMN, remaining at the cutting edge of market development is our job. We can never sit back and think that everything that needed to be done has been done."

-Syed Mohsin Ahmed,
CEO, PMN

"We are glad to be part of this important effort to bank more Peruvians. We all have the right to a place in the financial model. The fact that some Peruvians live in isolated areas is no reason to be financially excluded. This effort has been useful to redirect MFIs to their social mission."

-Jorge Arias,
Executive Director, ASOMIF Perú



Lessons for microfinance associations



Keep an eye on client related trends

- ✓ Successful associations know that it is crucial to stay informed on what is happening in their markets with respect to client needs and preferences. Additionally, associations need to understand what products are currently available in the marketplace, along with what their members' competitors are offering. This knowledge enables an association to assist its member financial institutions in the development of new products, to enter new markets, and to remain competitive, all while furthering goals of financial inclusion. In Ecuador, RFR used its deep knowledge of the needs and challenges faced by rural and remote clients to position itself as a leader in the implementation of technology-based solutions that facilitate greater access to financial services for rural Ecuadorians.

One specific way that associations can keep current on client needs is to establish spaces in which their members can discuss and analyze observations within their own portfolios and identify common trends. In Azerbaijan, this ability to dialogue and exchange information enabled AMFA members to realize that client drop-out due to religious preference was not an isolated occurrence, which prompted the association to engage in the expansion of Islamic microfinance.



Take a seat at the table

- ✓ Leading associations strive to attain a reputation as influential and trusted market stakeholders. This sets the stage for their involvement in top-level sector and national initiatives, ensuring their members' interests are represented in decision-making processes and also enabling the association to bring prime opportunities to members. In Azerbaijan, the AMFA-led Working Group on Islamic Microfinance and AMFA's promotional activities in this area afforded the incorporation of practitioner voices in the development of legislation. In Peru, ASOMIF's Executive Director represented the microfinance sector on the national E-Money Committee, ensuring that the interests and needs of members would be represented during the implementation stage of the e-money legislation. As a result of this engagement and advocacy, regulated microfinance institutions are able to participate. In Pakistan, PMN was invited to partner in the initiative to develop a sector-based lending methodology and financial products for Low Cost Private Schools, owing to its wide recognition and reputation as a market builder.



Invest in innovation and think long-term

- ✓ Associations that remain committed to innovative, complex projects and continue to support member interests can have make a greater impact on financial inclusion. In Pakistan, PMN saw a clear opportunity to encourage its members to take a sector-specific approach to product development. This was an innovative departure from the general practice of first developing generic product features and later applying them to various sectors, but it is also a long term investment in understanding, developing suitable products for and serving a completely new client segment.

Likewise, ASOMIF has positioned itself in Peru to leverage technological innovations and increase the scale and depth of its members' outreach. While there is no guarantee that the implementation of e-money will work perfectly, and it is also likely that sustainability will be achieved in the longer term, ASOMIF nevertheless recognized an exciting opportunity to promote the development of new products that could contribute to large-scale financial inclusion agendas.

Lessons for microfinance associations

Think strategically to ensure sustainability



- ✓ Associations need to strive for sustainability of service offerings, even when funding for pilot projects and/or initial implementation is provided by donor organizations. Identifying and providing services on the basis of member demand will ensure that services are aligned with the market in a way that will support their long-term financial viability. RFR's approach to the development of new technology products stems directly from the expressed needs of its members. Given that this is both responsive to members and in its own financial interest, this reinforces the long-term sustainability of its offerings. Likewise, AMFA recognized that investing its resources in supporting the expansion of Islamic microfinance would satisfy member demands, and simultaneously create a source of future revenue once it begins offering training and consulting in this area.

Create linkages, coordinate market actors, and help build partnerships in the market



- ✓ Associations can play a key role in creating linkages, particularly in sector-specific approaches to funding where microfinance practitioners might not have sufficient experience to engage with other sectors. In PMN's case, for example, while MFPs are able to conduct financial assessments of the schools they want to fund/continue to fund, they may not be the best stakeholders to conduct assessments or monitoring of outcomes related to education quality. MFPs need to be able to effectively engage other stakeholders already working or possessing expertise in this area. In Pakistan, PMN has been effective in linking MFPs and other stakeholders in the LCPS sector, including donors and research institutions, in order to optimize the use of skills and resources across the sector. In the case of highly specialized initiatives, such as the mobile banking project in Ecuador, RFR also served as key coordinator of market actors during the initial roll-out. The time, knowledge, and resources required to form and manage partnerships with technology providers can prove prohibitive to individual institutions, and may leave them unable to develop and expand services for which there is high client demand. RFR researched and defined product specifications, then recruited, selected and contracted partners that aligned with the project's vision and were willing to provide services that benefited the most vulnerable populations.



The SEEP Network convenes the largest global community of regional and in-country microfinance associations, representing over 4,000 financial service providers and reaching 90,000,000 households around the world. To learn more about these associations and the ways in which they are working with SEEP and each other, please visit <http://www.seepnetwork.org/SEEP-MFAs>.



About SEEP

SEEP is a global learning network. We explore strategies that create new and better opportunities for vulnerable populations, especially women and the rural poor, to participate in markets and improve the quality of their lives.

Founded in 1985, SEEP was a pioneer in the microcredit movement and helped build the foundation of the financial inclusion efforts of today. In the last three decades our members have continued to serve as a testing ground for innovative strategies that promote inclusion, develop competitive markets, and enhance the livelihood potential of the world's poor.

SEEP members work together and with other stakeholders to mobilize knowledge and foster innovation, creating opportunities for meaningful collaboration and—above all—for scaling impact.

About Citi Microfinance

Working across Citi's businesses, product groups and geographies, Citi Microfinance serves more than 150 microfinance institutions (MFIs), networks and investors as clients and partners in nearly 50 countries, with products and services spanning the financial spectrum - from financing, access to capital markets, transaction services and hedging foreign exchange risk, to credit, savings, remittances and insurance products - to expand access to financial services for the underserved. For more, please visit <http://www.citi.com/citi/microfinance/>

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