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Promoting Innovation in Microfinance: The Role of Associations

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Red Centroamericana y del Caribe de Microfinanzas (REDCAMIF)

Red Financiera Rural (RFR)

Russian Microfinance Center (RMC)

Introduction

The provision of financial services to poor and low-income clients who have little or no collateral or credit history is itself an important innovation in financial services. Through modified lending procedures and delivery channels (e.g., the use of collateral substitutes, social mobilization and awareness raising, character-based lending, pre-loan savings requirements, a graduated lending approach), a range of local institutions have successfully developed a model for promoting financial inclusion around the globe.

Despite rapid growth, however, access to financial services among poor people continues to be a challenge and remains a key priority for the governments of the world's major economies. At the same time, the microfinance industry remains dominated by traditional models of service delivery that focus largely on credit provision, with products such as savings, leasing, insurance, and remittances much less readily available.

In order to keep pace with the changing needs of poor and low-income clients, continued innovation within the microfinance industry is a necessity (figure 1). Service providers must be prepared to introduce new products, test revised systems, and, overall, increase outreach with products that can help poor people enlarge and diversify their income sources while reducing the transaction costs of accessing financial services.

Microfinance associations have a vital role to play in meeting these challenges. As facilitators, trainers, and knowledge centers, associations can assist their members to identify and overcome the barriers (e.g., legal and regulatory obstacles, insufficient information) that have slowed innovation in the industry. Furthermore, as market leaders, associations can leverage their interactions with peers in other associations, as well as with other regional and global actors, to adapt new ideas to local contexts. Additionally, associations are positioned to evaluate lessons learned from new initiatives and experimentations in other markets, sharing both negative and positive experiences with their members.

Figure 1. Why Innovate?

This technical note looks at some of the areas for potential innovation in the microfinance sector, existing barriers to innovation at both the policy and operational levels, and the evolving role of associations in promoting innovation while supporting the capacity development needs of individual institutions. The note includes detailed case studies of three associations that have successfully promoted the adoption of high-impact innovations in the markets that they serve. These innovations include support to branchless banking services, micropensions, and microinsurance products. Their experiences illustrate the comparative advantages of associations, which can be applied to a broad array of product and service improvements, resulting in valuable services for both members and microfinance clients.

Why Product and Service Innovation Is Important

Innovation in microfinance is important for improving the quality, scale, and efficiency of financial services for poor and low-income people. Innovations involve changes to products, service delivery, and/or processes that open up new opportunities for increasing the productivity of both microfinance institutions (MFIs) and the clients whom they serve.

In the area of product development, innovation involves moving beyond access to working capital loans to providing a diverse range of financial products (e.g., savings, insurance, remittances, money transfers) that allow poor households to respond to life-cycle events, better manage risk, and accumulate needed assets. It also means a commitment to fair commercial practices that protect consumer rights by avoiding over indebtedness and hyper-collateralization, inadequate disclosure of interest rates and terms, and abusive debt collection practices.

Box 1. Comparative Advantages of Associations in Fostering Innovations for Financial Inclusion

- Broad vision of the market
- Collaboration and coordination across and within institutions and funders
- Capacity to detect gaps in products and services
- Ability to leverage scarce resources to reach economies of scale
- Improved responsiveness through knowledge management and promotion of information exchange
- Ability to leverage change through peer learning
- Capacity to negotiate with private sector providers
- Direct links with MFIs
- Access to external financing and international expertise
- Ability to promote large-scale industry uptake

In addition to product diversification, innovation involves improvements to service delivery, such as the use of new technologies and organizational approaches, in order to expand into new markets and reduce transaction costs. Automated teller machines (ATMs), smart cards, credit scoring, mobile phones, and biometrics technology are all innovative uses of technology that can facilitate and increase access to finance for low-income clients around the globe.

Barriers to Innovation

In the microfinance industry there are a number of barriers to innovation that are both internal to an MFI and part of the external operating environment:

1. ***Limited information.*** In many cases, individual MFIs do not have the resources to undertake in-depth studies of market characteristics; client satisfaction; or demand, trends, and opportunities in the market. Instead, they must rely on imprecise industry data to inform management decisions. In addition, information about potential solutions to market needs may be localized and not shared widely. This can limit management creativity and reinforce tendencies toward risk avoidance inherent in any organization.
2. ***Restrictive policy environment.*** Complex restrictions on financial products intended to protect consumers, particularly in the area of deposit mobilization and agent banking, often work to limit the range of products available on the market. And while policy makers and regulators try to ensure financial sector security, there is a balance that must be reached between achieving this goal and increasing levels of financial access.
3. ***High costs.*** The costs associated with delivering new and improved services are a major obstacle for institutions and clients alike. Mobilizing resources for a product or service innovation often means taking resources away from existing programs or waiting for uncertain donor funding cycles in order to finance emerging opportunities in the market. In addition, innovation often needs funding to cover initial operating costs until a product or service reaches sustainability. In the microfinance industry overall, it is a priority to find better, faster, and more efficient means to reach new, existing, and underserved markets.

How Microfinance Associations Can Support Innovation

Member-based associations have an important role to play in promoting innovation through the transfer of knowledge and the capacity-building of their members. As collaborative structures, associations can be effective mechanisms for pooling scarce resources for a common purpose and overcoming the capacity constraints of individual members—particularly smaller ones for whom the cost of innovation is simply too great.

At the same time, associations can provide their members the necessary skills, knowledge, and incentives to adopt innovations more efficiently and effectively, as well as promote greater uptake of new products and services by the industry at large. Through collaboration and coordination, associations can leverage change by diffusing knowledge that spurs creativity and promotes change.

1. Knowledge Creation and Information Dissemination

Facilitating collaborative information sharing

Through collaborative exchanges, associations can provide their members valuable information on cutting-edge technologies and strategic partners, particularly private sector partners that can contribute to developing and expanding a diversified portfolio of innovative financial products. These types of exchanges offer an environment for participants to engage in knowledgeable, action-oriented discussions and share thoughts and ideas about research, tested options, and existing enterprise strategies.

Industry research

Associations can provide substantial value to their members by conducting rigorous studies that fill knowledge gaps and address critical development needs of the sector. This research may include broad demand studies, legal or regulatory feasibility studies, technical topics, and/or social performance studies that allow for broader, more in-depth investigation in a cost-effective manner. Associations can also contribute additional analysis related to existing research published by governments, universities, and other actors in the local microfinance sector. This value-added service helps members contextualize the potential implications of recent research for new products and services.

REDCAMIF: Understanding the Demand for Micropensions in Central America

REDCAMIF, the Microfinance Network for Central America and the Caribbean, signed a technical cooperation agreement with the InterAmerican Development Bank (IDB) for a joint research project on the viability of micropension products in Central America.[a] Three studies were undertaken in all. The first determined the market demand for micropension products; the second, the financial viability of specific micropension products; and the third, a set of pilot countries for micropension products, based on an analysis of the regulatory environment in Central America. REDCAMIF, in partnership with the IDB and the Government of the Grand Duchy of Luxembourg, designed the terms of reference of the respective studies and hired consulting firms to conduct each one.

The results of the market study, conducted in 2007, indicated that potential demand for micropensions in the region exceeded 8.5 million individuals. That study recommended MFIs as the appropriate distribution channel for micropension products and identified a target market of over 600,000 clients among the 1.27 million borrowers currently served by REDCAMIF's associated MFIs. Eventually, ten MFIs—three from Guatemala, three from Honduras, and four from Nicaragua—were selected to pilot the project. These MFIs were selected on the basis of the suitability of their respective national legal frameworks, client bases, and strength and transparency (both of the institutions themselves and the associations of which they were members). The first phase of the project—market research and feasibility testing—ended in 2010.

The second phase of the project involved product development. This was followed by the pilot testing of the microinsurance products in the 10 selected MFIs with the goal of reaching 25,000 clients. Following the pilot, REDCAMIF hired the Pension and Development (P&D) Network to externally evaluate both the design of the product, as well as its information technology requirements and administrative cost structure.[b] The final phase—implementation, evaluation, and dissemination—has the goal of reaching 400,000 clients.

Because of its position within the microfinance industry in Central America, REDCAMIF is able to act as both a promoter and facilitator of innovation. Its expanded view of the market allowed the organization to see trends in demand and identify opportunities for new financial products, such as micropensions.

With its network of donors and investors, REDCAMIF was well positioned to raise funds to reduce the financial risks and costs of exploring new product and service innovations on the part of individual MFIs. For example, REDCAMIF, the IDB, and the Grand Duchy of

Luxembourg, along with the participating MFIs, shared the costs of pilot testing the micropension products.

Source: Authors; REDCAMIF.

Notes: [a] The IDB supports economic and social development in Latin America and is the main source of multilateral funding in the Latin America and Caribbean region.

[b] P&D Network, 2011, "Mission Report: Micro Pension Project in Central America," P&D Network, Amsterdam, The Netherlands, http://www.pensiondevelopment.org/539/mission-report-micro-pension-project.htm (accessed October 11, 2011).

2. Creating Enabling Political and Regulatory Environments

The analysis that comes out of industry research can contribute significantly to the creation of legal and regulatory frameworks that encourage business development while protecting the security of financial transactions, particularly those pertaining to such evolving product models as agent and mobile banking solutions. For example, associations can support industry stakeholders by analyzing the consumer protections applicable to new types of technologies, such as prepaid card accounts or alternative payment mechanisms, and make recommendations on how to apply existing consumer protections to these technologies. Associations can also play an important role in promoting a comprehensive approach to consumer protection by supporting financial services contracts that are more protective of poor clients, establishing new dispute resolution procedures, and advocating the improvement of relevant legal and/or regulatory systems.

In addition, associations can support the creation of credit information–sharing mechanisms in their markets in order to help prevent over-indebtedness and ensure that the financial industry acts responsibly to protect consumer rights. Through insights gained from first-hand research and cross-sectoral collaboration, associations can help inform evolving policy frameworks that support inclusive finance, including guidance on the establishment of credit bureaus.

Russian Microfinance Center: Advocating for Branchless Banking and Consumer Protection in Russia

In 2007, the Russian Microfinance Center (RMC) decided to leverage the growing national awareness of the inadequate access to financial services by the majority of the Russian population. It accordingly explored opportunities for nonbank institutions (e.g., MFIs, rural credit cooperatives, mobile phone companies, and point-of-service providers) to better utilize their respective positions in the Russian financial market.[a] RMC also began researching the regulatory feasibility of offering alternative financial services in Russia, as a means to facilitate the expansion of microfinance and ensure consumer protection at the same time.

RMC was able to use its international ties to start a dialogue with the Consultative Group to Assist the Poor (CGAP) on branchless banking innovations in different regions of the world.[b] Shortly after these discussions began, the two organizations signed a technical agreement that led to an in-depth study of existing banking policies in Russia. Completed in May 2007, the research made a series of policy recommendations designed to protect consumers from potential negative externalities associated with the rapidly expanding branchless banking sector, as well as resolve ambiguities in the current regulatory framework that hindered the participation of MFIs in the sector.

In 2009, largely as a result of the research conducted by RMC, the Russian government updated the regulatory framework to define "payment agents;" "sub agents;" the legal relationship between sellers, banks (principals), agents (nonbank institutions), and consumers; in addition to elaborating consumer protection rules and requirements for the receipt of funds.

RMC was able to use its strong institutional knowledge of the financial services marketplace, in-house legal and technical expertise, and access to international experts to promote much-needed reform of the Russian regulatory framework for branchless banking. Its work in this area was based on a solid understanding of the needs of consumers, branchless banking service providers, and the mobile phone industry, Based on their strong understanding of the technical side of electronic payments, RMC staff provided valuable support to the organization during the research phase.

RMC's evaluation of the initial branchless banking pilot in Russia provided it many important insights. However, the adoption of stored payment and value cards remained minimal during the pilot phase due to the global financial crisis, which led individuals and institutions to become more cautious and return to making cash transactions. Consumers' weariness, coupled with a lack of knowledge about stored payment and value cards, hindered more widespread adoption of the cards. RMC's solution was to hire MFI staff to respond to technical requests and educate consumers on how to use the cards. RMC also found that cooperatives needed more extensive technical support when initiating the stored-value card process than their respective staffs were equipped to provide. This led RMC to outsource the majority of the project's technical support to the Center for Financial Innovations, a cost-effective solution that allowed participating credit cooperatives to receive comprehensive technical assistance.

A range of opportunities and partnerships resulted from the new regulatory framework, which now permits banks to hire MFIs as agents. RMC has partnered with the Golden Crown Payment System and the Center for Payment Innovations in a new agent banking system that allows MFIs to collect savings, payments, and remittances for banks and clients to open bank accounts through nonbank agents.

Source: Authors; RMC.

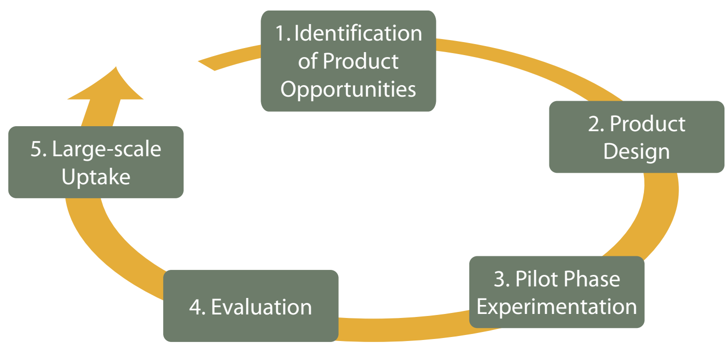
Notes: [a] In 2006, Russian President Vladimir Putin announced in a nationwide address that only 25 percent of the Russian population had a bank account and approximately 45 million Russians were without access to adequate financial services.

[b] CGAP is an independent policy and research center dedicated to advancing financial access for the world's poor. CGAP is supported by over 30 development agencies and private foundations that share a common mission to alleviate poverty.

3. Reducing Costs by Supporting the Product Innovation Cycle

From identifying product opportunities through product design, testing, and launch, adopting innovations can involve substantial resources— in terms of both time and money. Associations can facilitate these processes through active participation in any of the stages of product development. Their involvement will result in faster and more efficient adoption of innovations by association members, as well as greater uptake of new products and services by the industry at large.

Figure 2. Product Innovation Cycle



Source: The SEEP Network, 2010. "How to Promote Industry Innovation: A Technical Note for Microfinance Associations." Washington, DC: The SEEP Network, pp. 2-3.

Step 1. Identification of product opportunities

Through regular industry assessments and ongoing communication with their members and other major industry stakeholders, associations can provide useful perspectives on opportunities for innovation based on gaps observed in the market, anticipated industry changes, and lessons from other parts of the world. These opportunities may include lack of affordable insurance options, the inability of MFIs to accept savings deposits, overabundance of certain types of loan products, and introduction of a new technology by a member institution that has significant potential for replication. Associations can help MFIs and other stakeholders identify these opportunities by building awareness through conferences, workshops, widespread dissemination of relevant research, and policy advocacy efforts.

Step 2. Product design

The design of a new product involves moving from an idea to a tangible product or service with formal specifications, terms, and conditions. The process requires systematic evaluation of alternative products and services and a clear definition of operating processes and procedures. In many cases, product design is carried out directly by MFIs prior to testing a new product. However, associations can play a useful role by sharing knowledge on different types of designs, including costs and benefits, and systematically documenting the experience of other MFIs that are implementing similar systems. By doing so, they can dramatically reduce the learning curve for their members, thus reducing both costs and risk.

Step 3. Pilot phase experimentation

Pilot testing allows an institution to test its most critical assumptions associated with a new product or service. These assumptions may include any number of factors associated with cost, client demand, and/or necessary processes and procedures required for service delivery. By testing a new product on a controlled scale, the institution can mitigate risks. Associations are in an excellent position to contribute to pilot phase experimentation by providing technical support and creating financial incentives for select member institutions. Some associations, for example, have been able to attract donor funds that provide financial support to MFIs so that they can test and evaluate new ideas, while ensuring that lessons learned are shared with the broader industry.

Step 4. Evaluation

One of the most important value-added activities of associations is evaluation, which implies systematic, critical assessment of member and client experiences. In the case of product and service innovations, associations need to be prepared to answer difficult questions on behalf of MFIs and the microfinance sector as a whole. Has the service reached its potential scale? Were the intended benefits realized for the institution and the client? What were the costs? What were the impacts? Through this type of analysis, associations can promote continual improvement in products and services and drive more innovation in the future.

Step 5. Large-scale uptake

For associations, a product launch has implications that go beyond the introduction of a new product or service by an individual MFI. Once a product has been thoroughly tested, associations aim to support its uptake on a sector wide scale. As industry representatives, associations ultimately need to measure the success of an innovation by the number of clients who access a new or improved product or service. Large-scale uptake, however, requires a large number of implementing institutions to replicate the product. The role of the associations is to understand the necessary steps required for a successful product launch and make this knowledge available to other interested members.

Red Financiera Rural: Support for New Product Development in Ecuador

Red Financiera Rural (RFR) is an Ecuadorian microfinance association established in June 2000. In September 2008, based on member feedback, RFR decided to pursue two market studies to better understand the current supply of and demand for microinsurance in Ecuador. The market studies were financed with a combination of funding from HIVOS and RFR, with technical support provided by the International Labour Organization (ILO).[a]

RFR's market research and analysis concluded that although insurance policies were available in Ecuador, the complexity of the policies, along with certain exclusion rules, made them too expensive for microentrepreneurs to purchase. RFR decided to commission the development of a simplified insurance product that would be distributed through the same MFI channels as more traditional microsavings and microcredit products. RFR planned to use the pilot phase to develop the infrastructure necessary to manage a large number of policyholders, while simultaneously improving the product for the consumer. The association expected to achieve a 90 percent satisfaction rate among consumers of the product.

RFR worked with a private sector insurance provider to develop the initial product, using a bidding process to select its partner. The winner of the bid was the one with the simplest system for membership and claims, a vast network of claims offices, few exclusions, an affordable premium price for clients, and a demonstrated understanding of the market that RFR sought to serve.

While the new insurance product helps MFIs reduce risk, it also helps RFR's members diversify their products, offer a quality service to clients, and attract new clients. Each member institution can customize the insurance product, choosing to make it available beyond their group of active borrowers. Savers and former borrowers, as well as their families, can also purchase a policy, with benefits extended to an entire family.

After the insurance company and basic product were determined, RFR solicited invitations from all members interested in piloting the microinsurance product. Initially, four MFIs expressed interest in the product. RFR planned to add one additional MFI per month during the first year of the pilot, with the goal of reaching 58,500 borrowers after one year. The association needed to reach this target by the end of 2010 in order to maintain the favorable rates that it negotiated with the insurance company.

Over a year after the initial pilot of the microinsurance project, RFR has seen a medium-scale uptake of the product and is still working towards its initial goals of the product design phase. RFR met its goal of a five-day turnaround time for processing claims, except for institutions outside of the insurer's province, in which case turnaround time is 8 days (due to the time required to mail claims). The network is also very close to reaching its consumer satisfaction target, with an 87 percent satisfaction rate among product consumers. As of March 2011, RFR was steadily approaching its goal of having 13 MFIs provide microinsurance to 58,000 clients and is continuing its partnership with HIVOS to ensure that it reaches this goal. The program currently includes 10 MFIs that are reaching 51,000 clients. RFR plans to use sponsorships funds from HIVOS for educational and promotional materials to expand the program.

After having evaluated the initial pilot phase, RFR has identified many strengths and opportunities for market growth. One of the project's key strengths was the complementary relationship between the product's social focus and the training and educational material for MFI clientele. Furthermore, compliance with quality standards and response time objectives allowed RFR to position itself within the market and increase the number of insured clients. However, the complexity of marketing was identified as a weakness of the product, one that caused a delay in launching the pilot and led to revenues that were less than initially projected. The lack of a regulatory framework for microinsurance and the overabundance of microinsurance products for large MFIs were identified as additional challenges by the network. RFR has shared its findings and experiences with the ILO, which published the information in their May 2010 news bulletin. The ILO also invited the network to share its experiences at a meeting on microinsurance held in Medellin, Colombia, in March 2011.

While much has been learned and achieved already, RFR plans to continue promoting, developing, and implementing its microinsurance product, with a focus on training and educating more vulnerable clients. By the end of 2011, RFR hopes to have at least 80,000 customers of microinsurance among 12 microfinance institutions. The network also plans to use the lessons learned from this project in its research and development of health and accident microinsurance products, which are the focus of its next pilot project.

RFR has played an indispensable role in identifying and developing market opportunities for its members in the area of microinsurance. It participated in a tangible way in nearly every stage of the development process of an initial insurance product for microentrepreneurs, reducing important barriers to market entry for its members. In particular, by facilitating linkages with the private sector, RFR was able to ensure lower-cost options for all parties involved, including clients, RFR members, and insurance providers. RFR was particularly successful in identifying opportunities for revenue generation that will both sustain its involvement and support its long-term sustainability strategy.

Source: Authors; RFR.

Notes: [a] HIVOS (Humanist Institute for Development Cooperation) is a Netherlands-based humanitarian organization that offers financial support and advice, networking, advocacy education, and knowledge exchange to partner organizations. The ILO is a U.N. agency that brings together governments, employers, and workers of its member states in common action to promote decent work throughout the world.

Future Challenges: Association Business Models

There is a great deal of learning and discovery yet to be realized by associations in the area of product and service innovation. While experimentation to date indicates significant potential in this area, challenges remain. Which types of association interventions will have the greatest impact on the market remains an important consideration. Associations must be extremely adept at responding to market signals and matching their activities to these opportunities. However, even with this information, associations are commonly restrained by cost considerations. Pilot projects, feasibility studies, and technical support for members all have significant resource implications. The key to ensuring a role for associations in product and service innovation lies principally in sustainability. Can associations find a means to recover the costs of these activities? Are there means to generate new revenue? What business models can support the sustainability concerns of an association while delivering valuable services to the market?

In the case of RFR, the association negotiated with an insurance company in order to receive 15 percent of the price of each policy premium for their role as developer and broker of the insurance product. Based on this figure, RFR estimated that it would generate a positive return on the product after 30 months of operation and the sale of the insurance product to 100,000 borrowers. In addition to its own potential for revenue generation, RFR offered member MFIs the option of collecting a commission of up to 20 percent of the premium price in order to offset the costs (e.g., staff time, computer use, etc.) of selling the insurance product and collecting the premiums. This commission, while providing an incentive to MFIs, would, raise the cost to clients by the same amount. Alternatively, MFIs could choose to offer the service at cost in order to attract new clients.

Product and service innovation will continue to be a priority for the microfinance industry for the foreseeable future. Moving forward, associations will need to analyze the potential, not only of covering their costs, but of generating revenue as well. In some cases associations may partner with other technical service provides to carry out innovation stages and find ways capitalize on their greatest contributions to the process. This may be receiving commissions to carry out industry research, advocating the introduction of new products, or creating partnerships that enable them to receive a sales income, usage fee, or share in product profits.

Whether an association projects revenue generation from the outset of a project, as was the case of RFR, uses donor funding to explore a new service area for themselves—that of product innovation, as in the case of REDCAMIF—or creates new partnerships using its reputation as an advocate and promoter of innovations, as did RMC, associations should always consider the financial ramifications of engaging in product and service innovation.

Box 2. G20 Principles for Innovative Financial Inclusion

Innovative financial inclusion means improving access to financial services for poor people through the safe and sound implementation of new approaches. The following principles aim to create an enabling policy and regulatory environment for innovative financial inclusion. The enabling environment will critically determine the speed at which the financial services access gap will close for the more than two billion people currently excluded from their respective national financial systems. These principles are derived from the experiences and lessons learned of policy makers throughout the world, especially leaders from developing countries.

1. ***Leadership:*** Cultivate a broad-based government commitment to financial inclusion in order to help alleviate poverty.

2. ***Diversity:*** Implement policy approaches that promote competition and provide market-based incentives for the delivery of sustainable financial access and use of a broad range of affordable services (e.g., savings, credit, payments and transfers, insurance), as well as a diversity of service providers.

3. ***Innovation:*** Promote technical and institutional innovation as a means to expand financial system access and usage, including by addressing infrastructure weaknesses.

4. ***Protection:*** Encourage a comprehensive approach to consumer protection that recognizes the roles of government, service providers, and consumers.

5. ***Empowerment:*** Develop the financial literacy and financial capability of poor people.

6. ***Cooperation:*** Create an institutional environment with clear lines of accountability and coordination within government; and encourage partnerships and direct consultation among government, businesses, and other stakeholders.

7. ***Knowledge:*** Utilize improved data to formulate evidence-based policy, measure progress, and consider an incremental "test-and-learn" approach acceptable to both regulators and service providers.

8. ***Proportionality:*** Build a policy and regulatory framework that is proportionate to the risks and benefits involved in innovative products and services and based on an understanding of the gaps and barriers in existing regulation.

9. ***Framework:*** Consider having the regulatory framework reflect international standards, national circumstances, and support for a competitive landscape by adopting an appropriate, flexible, risk-based Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regime; as well as conditions for the use of agents as a customer interface; a clear regulatory regime for electronically stored value; and market-based incentives to achieve the long-term goal of broad interoperability and interconnection.

These principles are a reflection of the conditions conducive to spurring innovation for financial inclusion, yet they also protect financial stability and consumers. They are not a rigid set of requirements; rather, they are designed to help guide policy makers in the decision-making process. The principles are thus flexible enough to be adapted to different country contexts.

Source: Access Through Innovation Sub-Group (ATISG), 25 May 2010, *Innovative Financial Inclusion: Principles and Report on Innovative Financial Inclusion from the Access through Innovation Sub-Group of the G20 Financial Inclusion Experts Group. p. VIII.*

Table 1. Innovation at a Glance

ROLE OF ASSOCIATIONS	EXAMPLES
Knowledge Creation and Dissemination	
1. Survey members and maintain regular communications in order to understand customer needs. 2. Collect and monitor industry information; compile financial and social performance data to identify gaps in the market. 3. Build awareness in the sector through conferences and publications that highlight market gaps. 4. Network with other associations and industry players to learn about successful products and services in other parts of the world. 5. Carry out supply and demand studies. 6. Collaborate with research centers and universities to conduct impact studies.	RFR surveys its members in person twice a year to ask which financial products or services are most in demand among clients. The industry research conducted by REDCAMIF showed that of the 14 million inhabitants of Central America eligible to work, approximately 8.4 million are employed in the informal economy.
Enabling Legal and Regulatory Environments	
1. Conduct legal and regulatory studies. 2. When needed, advocate regulatory changes to accommodate new products, services, and means of delivery.	RMC commissioned an in-depth study of existing banking policies in Russia to define policy recommendations for the rapidly expanding service of branchless banking.
Reducing Costs by Supporting the Product Innovation Cycle	
Product Design	
1. Pool funds or obtain funding to support research at the more efficient industry level. 2. Conduct feasibility studies 3. Help evaluate design options. 4. Contract topic experts for design support. 5. Document lessons learned and share them within and beyond the association.	REDCAMIF, as a regional network, obtained funds to carry out three market studies to determine the feasibility of a micropension product in Central America. The studies indicated potential demand in the region exceeding 8.5 million customers. RFR conducted two market studies in Ecuador to evaluate the supply of and demand for microinsurance. REDCAMIF's first market study recommended MFIs as the appropriate distribution channel for a micropension product and identified a target market of over 600,000 clients.
Pilot Phase Experimentation	
1. Provide training and support throughout. 2. Create financial incentives for participation in the pilot. 3. Establish criteria for participation in pilot to ensure all variables and conditions are tested. 4. Document lessons learned and share them within and beyond the association.	RMC launched a subsidiary to provide billing and consultancy support to banks and MFIs on the stored value and payment card pilot project. REDCAMIF identified 10 MFIs—3 from Guatemala, 3 from Honduras, and 4 from Nicaragua—to pilot the micropension project. Selection of MFIs was based on the suitability of their respective legal frameworks, client bases, and institutional strength and transparency. RFR selected 4 MFI members to pilot a microinsurance project that chose to offer the product as a benefit or an extension of another product.
Evaluation	
1. Document the development process to understand what worked well. 2. Make adjustments to a product prior to rolling it out on a mass scale. 3. Set up systems to measure the product's impact on clients.	REDCAMIF presents its pilot project results at national and regional conferences and workshops.
Launch / Scaling Up	
1. Invest in marketing and education campaigns. 2. Provide ongoing support for large-scale implementation. 3. Set short- and long-term targets for scaling up the product or service.	The RFR plans to add one additional MFI per month during the first year of the pilot project to reach a target of 58,500 borrowers after one year. The association must reach their target by year-end 2011 is to reach 80,000 customers.

About REDCAMIF

REDCAMIF, the Microfinance Network for Central America and the Caribbean, was established in 1999. It is a regional association made up of the national microfinance associations of Panama, Guatemala, Honduras, Costa Rica, El Salvador, Nicaragua and the Dominican Republic. The MFI members of these seven national associations provide services to over one million microfinance clients. REDCAMIF's principal services include the financial and social performance monitoring of MFIs, capacity building for national microfinance associations, advocacy of a suitable policy environment for microfinance, and the organization of industry-wide conferences and events.

About the Russian Microfinance Center

The Russian Microfinance Center (RMC) was established in July 2002. It serves as a resource center for Russia's microfinance industry and a national forum for its interaction with the government, public, and investors. RMC advocates an enabling legal environment for microfinance, offers training and professional consulting services to microfinance institutions, and promotes national microfinance standards and technical solutions for the financial inclusion of poor people.

About Red Financiera Rural

Red Financiera Rural (RFR) is a microfinance association established in June 2000 in Ecuador. It currently has 40 members who collectively serve close to 700,000 microfinance clients. Members of the association include commercial banks, NGOs, and financial cooperatives. RFR's principal services include technical assistance and capacity building, financial and social performance monitoring, policy advocacy, facilitating access to funding, and product development.

About The SEEP Network

The SEEP Network (www.seepnetwork.org), founded in 1985 and headquartered in Washington, DC, is an association of 120 international organizations that support micro and small enterprise development programs in 171 countries around the world. SEEP works towards a vision of sustainable income in every household by connecting microenterprise practitioners in a global learning community. SEEP plays a unique role by connecting these practitioners so that they may access, co-create, and exchange the tools and experience needed to strengthen their respective organizations and programs, and, ultimately, their impact.

Powering connections

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