SEEP Research

Market Outlook 2012: Perspectives of Microfinance Association Leaders

Author: Karla Brom

May 2012

seep Powering connections

Citi Microfinance

citi

Copyright © 2012 The SEEP Network

Sections of this publication may be copied or adapted to meet local needs without the permission of The SEEP Network, provided that the parts copied are distributed for free or at cost—not for profit. Please credit The SEEP Network and "Market Outlook 2012: Perspectives of Microfinance Association Leaders" for those sections excerpted.

The publication of this document is made possible by the generous support from Citi Microfinance. The contents are the responsibility of The SEEP Network and do not necessarily reflect the views of Citi Microfinance. For any commercial reproduction, please obtain permission from:

The SEEP Network
1611 N. Kent St., Suite 610
Arlington, VA 22209

(tel): 202-534-1400 (fax): 202-534-1433

Email: seep@seepnetwork.org

Printed in the United States of America.

To access this publication online, visit www.seepnetwork.org.

Table of Contents

Acronyms

ABSCM	Associação Brasileira de Sociedades de Crédito ao Microempreendedor
AMFI	Association of Microfinance Institutions
ASOMIF	Asociación de Instituciones de Microfinanzas del Perú
CDF	Credit and Development Forum, Bangladesh
COPEME	Consorcio de Organizaciones Privadas de Promoción al Desarrollo de la Micro y Pequeña Empresa
CRB	Credit Reference Bureau, Kenya
EECA	Eastern Europe and Central Asia
KBA	Kenyan Banking Association
LAC	Latin America and the Caribbean
MCPI	Microfinance Council of the Philippines
MENA	Middle East and North Africa
MFA	microfinance association
MFC	Microfinance Center
MFI	microfinance institution
NBKH	National Bureau of Credit Histories, Russia
PAR	portfolio at risk
PMN	Pakistan Microfinance Network
REDCAMIF	Red Centroamericana y del Caribe de Microfinanzas
RMC	Russian Microfinance Center

Acknowledgments

This report was produced by the SEEP Network and funded by Citi Microfinance.

Special appreciation is owed to Mariana Marinho, Diana Dezso, and Sharon D'Onofrio of the SEEP Network for their technical review of this document, as well as Melissa Matlock for her invaluable support in the creation of this report and Deborah Drake and Philip Brown for their thought leadership and guidance throughout the project.

In addition, SEEP gratefully acknowledges the following associations who completed the survey and shared their experiences for this report:

Asociación de Instituciones de Microfinanzas del Perú (ASOMIF)

Asociación Nicaragüense de Instituciones de Microfinanzas (ASOMIF)

Associação Brasileira das Sociedades de Crédito ao Microempreendedor e à Empresa de Pequeno Porte (ABSCM)

Association Nationale des Institutions de Microfinance d'Haïti (ANIMH)

Association of Micro Finance Institutions – Kenya (AMFI - Kenya)

Association of Micro Finance Institutions of Kyrgyzstan (AMFI - Kyrgyzstan)

Association of Microfinance Institutions of Kazakhstan (AMFOK)

Association of Microfinance Institutions of Uganda (AMFIU)

Association of Microfinance Organisations of Tajikistan (AMFOT)

Association Professionnelle des Systèmes Financiers Décentralisés de Côte d'Ivoire (APSFD – CI)

Association Professionnelle des Systèmes Financiers Décentralisés du Mali (APSFD – Mali)

Centre for Micro-Finance (CMF) – Nepal

China Association of Microfinance (CAM)

Consorcio de Organizaciones Privadas de Promoción al Desarrollo de la Micro y Pequeña Empresa (COPEME) – Peru

Consortium ALAFIA – Benin

Credit and Development Forum (CDF) – Bangladesh

EMPRENDER – Colombia

Ghana Microfinance Network (GHAMFIN)

Lanka Microfinance Practitioners Associations (LMFPA)

Laos Microfinance Working Group (MFWG)

Microfinance Centre (MFC)

Microfinance Council of the Philippines, Inc. (MCPI)

MicroFinance Institutions Network (MFIN) – India

Pakistan Microfinance Network (PMN)

ProDesarrollo, Finanzas y Microempresa – Mexico

Red Centroamericana y del Caribe de Microfinanzas (REDCAMIF)

Red de Instituciones de Microfinanzas de Guatamala (REDIMIF)

Red Financiera Rural (RFR) – Ecuador

Red Katalysis

Regroupement des Institutions du Système de Financement Décentralisé du Congo (RIFIDEC)

Republican Microfinance Center – Belarus (BRMC)

Russian Microfinance Center (RMC)

Sa-Dhan – India

Sanabel, The Microfinance Network of Arab Countries

The Association of Development and Support of Microfinance Organizations of Georgia

Yemen Microfinance Network (YMN)

Zimbabwe Association of Microfinance Institutions (ZAMFI)

Foreword

We are pleased to introduce the first *Market Outlook: Perspectives of Microfinance Association Leaders* report. The information is drawn from the collective insights of SEEP association members from around the world. We are grateful not only for their invaluable contributions to this report but for their leadership in building a more responsible financial sector. As member-based organizations, these associations represent the collective efforts and aspirations of over 4,000 service providers working to expand the frontiers of financial services. As a network of networks, SEEP is a strong believer in the power of collaboration. We know information is a central ingredient to exploiting this potential. We view the *Market Outlook* report to be an important step towards enhancing our ability to engender collective action in addressing the industry's most pressing challenges with our members and partners globally.

As microfinance associations have weathered the recent financial and political storms, they have at the same time taken on a more strategically important role. In fact, it is often in the downturns when we are reminded of the nature of our interconnectivity to one another. Associations are serving to build and sustain these connections and utilize them for the mutual gain of their members and the industry as a whole. Their collective efforts in education, advocacy, and strategic communications are serving to gradually rebuild the industry's image, creating more favorable opportunities for investment and growth. At the same time, their renewed focus on social performance, consumer protection, and risk management is helping to ensure this reputation is built on a more solid foundation for the future. The promotion of credit bureaus, the strengthening of self-regulatory systems, and client-focused market research are all tangible examples of association-led initiatives creating positive impacts. We sincerely hope the information presented in this report serves to highlight these efforts as well as garner support for the critical role associations play in addressing the priorities and threats presented.

In closing, we would like to recognize the distinguished efforts of Karla Brom, the report's lead author, along with the important role played by Mariana Marinho, Diana Dezso, and Melissa Matlock of SEEP. Additionally we owe our sincere gratitude to Citi Microfinance. Both Philip Brown, Managing Director Risk at Citi Microfinance and Bob Annibale, Global Director, Citi Community Development and Microfinance were instrumental in establishing the project's vision. Finally, we would like to thank Deborah Drake of the Council of Microfinance Equity Funds and the SEEP Network Board for their invaluable support and guidance.

Warm regards,

Sharon D'Onofrio
Executive Director, SEEP Network

Sponsor's Foreword

Citi Microfinance is pleased to sponsor the SEEP *Market Outlook 2012: Perspectives of Microfinance Association Leaders*. The report, by the SEEP Network with support from the Council of Microfinance Equity Funds (CMEF), provides a snapshot of the rapidly transforming and heterogeneous global microfinance industry. As the industry matures, there is an increased demand for information on the microfinance market and microfinance institutions (MFIs). By harnessing the insight from 4,743 MFIs internationally, the SEEP *Market Outlook 2012* is intended not only to address this demand, but to promote debate and better the understanding of a transforming sector.

The report summarises a field-level perspective on microfinance in different countries for the next 12-18 months. Globally, the report highlights a shift to increase the use of credit bureaus amongst MFIs. Although levels of MFI engagement with credit bureaus differ, they are unanimously viewed as a tool for better risk mitigation and client protection.

Emerging themes also show that the countries view the same issue through different lenses. Political intervention is a top priority for all countries and is seen as an opportunity for much of Central America in the form of subsidised lending; whereas following the Arab Spring, the Middle East sees it as a dominant threat. Competition is reported as the fastest-rising risk; yet some countries consider it a shaping force leading to better products, whereas others see it as a cause for greater indebtedness.

The ways in which MFIs respond to the recognised forces at work impact their growth and survivability: pressures of competition, disruptive entrants such as mobile banking, a need for strengthened corporate governance, and increasing demand for client-centric services. The survey indicates that political interference, followed by competition and corporate governance are the risks that MFIs are least prepared to mitigate and should therefore remain high on the agenda in the short-term.

In following the precedent of the Microfinance Banana Skins surveys, the SEEP *Market Outlook* provides a citeable industry view on issues pertinent to microfinance. The 2012 report documents the differences in MFI perspectives across countries. The report shows that a broad-brush approach to understanding the global microfinance sector is ineffective given the differences in views, contexts and stages of development across countries. By capturing the valuable sector information held in the extensive SEEP network, this report is able to bring greater definition at the country level to enhance our understanding of the evolving global microfinance landscape.

Philip Brown
Managing Director Risk, Citi Microfinance

Introduction

The *Market Outlook 2012: Perspectives of Microfinance Association Leaders* brings together the insights of 37 directors of microfinance associations (MFAs) from around the globe to provide a field-level perspective on the direction of microfinance worldwide over the next 12–18 months. The surveyed associations represent 4,743 microfinance institutions (MFIs) and 70 million clients, with a total collective loan portfolio of approximately US$21 billion.

The research for *Market Outlook 2012* was sponsored by Citi Microfinance and carried out by the SEEP Network, with support from the Council of Microfinance Equity Funds.

Responsible development of microfinance markets depends in large part on the quality, availability, and utilization of information. Microfinance institutions, investors, and policy makers all depend on information in order to make decisions. SEEP has used the present *Market Outlook* as a platform for MFA leaders to share their perceptions of the most important priorities, threats, and risks for the microfinance sector in various countries worldwide.

MFAs have played a vital role in increasing the availability of information in the microfinance industry in the last several years. The 64 associations that are members of the SEEP Network represent over 4,000 MFIs which serve over 100 million clients. The demand for information on the part of markets, institutions, and clients is growing exponentially as the industry matures. Microfinance associations are integral to achieving the vision of a mature microfinance sector which offers transparent access to high-quality information. As member-based organizations, MFAs build the capacity of MFIs, promote consensus in defining industry standards, and serve as local repositories of information and knowledge for a wide spectrum of stakeholders, including policy makers, investors, and new service providers entering the market.

This report is *not* an in-depth study or research report on all issues affecting the microfinance sector—it is a summary of key priority issues identified by microfinance associations across the world (see figure 2 and table 1 for details on respondents). These associations are close to both practitioners and clients—their directors have first-hand experience of the successes and struggles of their member MFIs—and have a clear overview of their overall respective markets. As a result, the information that they provided for this report will be immensely useful for a variety of stakeholders (e.g., investors, donors, and academics), enabling them to understand crucial market changes, trends, risks, and priorities in the microfinance sector worldwide. In particular, the report provides a comparison of viewpoints and microfinance activities across countries and regions. It will serve as an important input for the upcoming Microfinance Banana Skins survey and report.[1] In addition, other global initiatives related to microfinance client protection, financial inclusion, and responsible finance may benefit from the information summarized here.

Box 1. Overview of Survey Topics

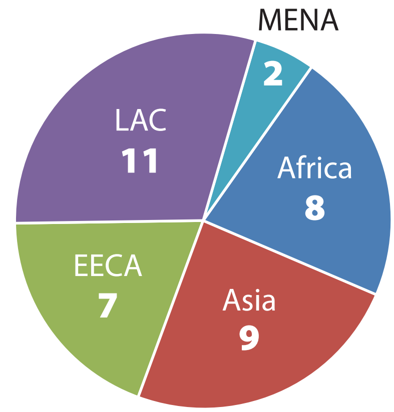
1. **Strategic priorities and threats perceived by the association over the next 18 months**
2. **Outlook for the local microfinance sector over the next 12–18 months**
   - Overall business environment
   - Microfinance context
   - Microfinance Institutions
3. **Outlook for risks in the microfinance sector over the next 12–18 months**
   - Credit risk
   - Reputational risk
   - Competition
   - Corporate governance
   - Political interference
   - Inappropriate regulation
   - Client understanding
4. **Assessment of and outlook for credit bureaus over the next 18–24 months**
   - If and how credit bureaus operate in the country
   - Association role in credit bureau
   - Largest obstacle to promoting greater use of credit bureaus by MFA members

1 The Microfinance Banana Skins, developed by The Centre for the Study of Financial Innovation (CSFI), surveys microfinance industry stakeholders on their perception of risks facing the industry over the medium term (2-3 years).

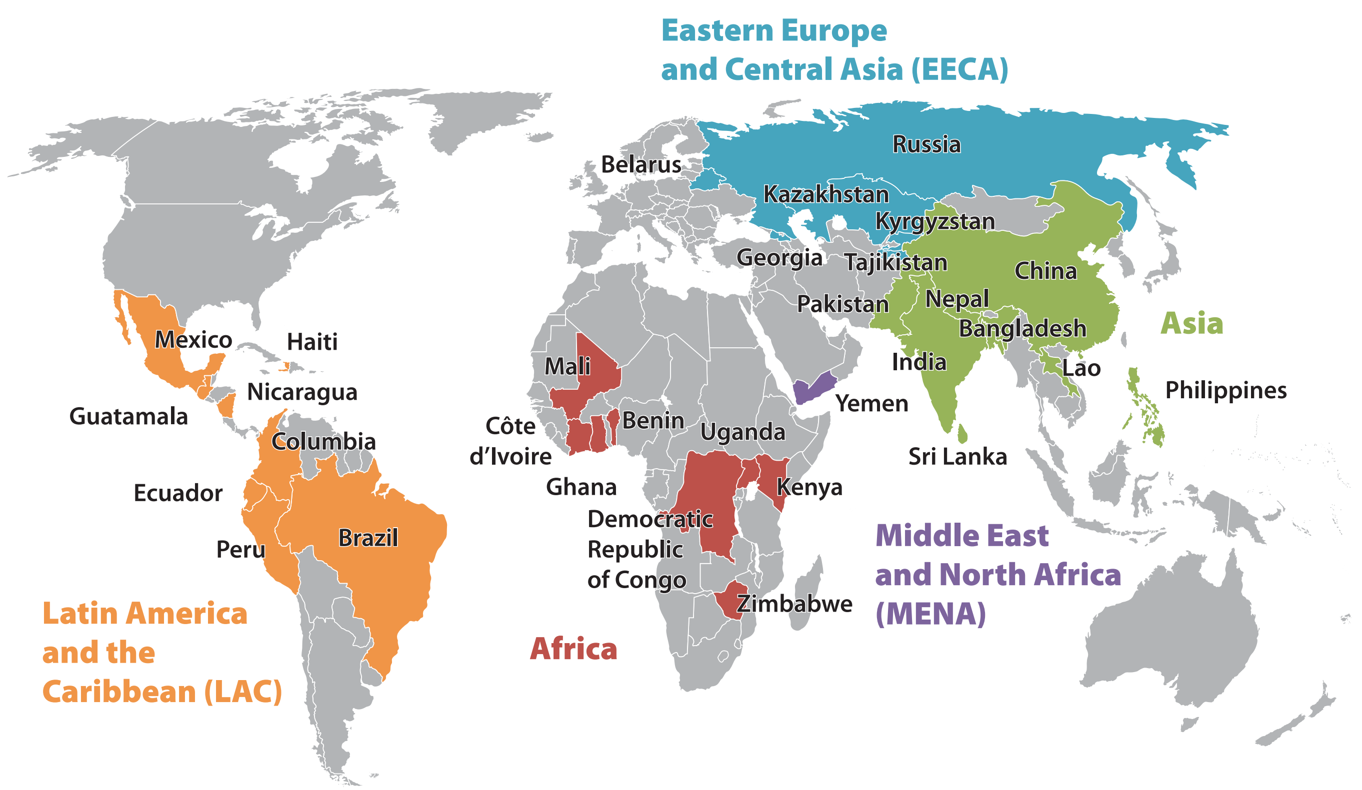
The survey conducted for this *Market Outlook* was largely qualitative (see box 1); answers to survey questions were descriptions, rather than numerical values. This publication extracts common themes and concerns from those answers. Where possible, it compares answers across regions to highlight the ways in which different associations are dealing with similar problems. It should be noted that if this publication does not list an association as providing a specific service or engaging in a specific activity, it may simply mean that the respondent organization did not mention that service or activity, not that the association does not provide it.

Quotes, examples, and descriptions add texture to the report in order enhance readers' understanding of the key issues in a given microfinance sector as perceived by the experts closest to it. Given that the microfinance sector is changing rapidly, this *Market Outlook* also summarizes what associations are doing to manage that change.

Figure 2. MFA Respondents by Region



Location of MFAs Surveyed for Market Outlook, by Region



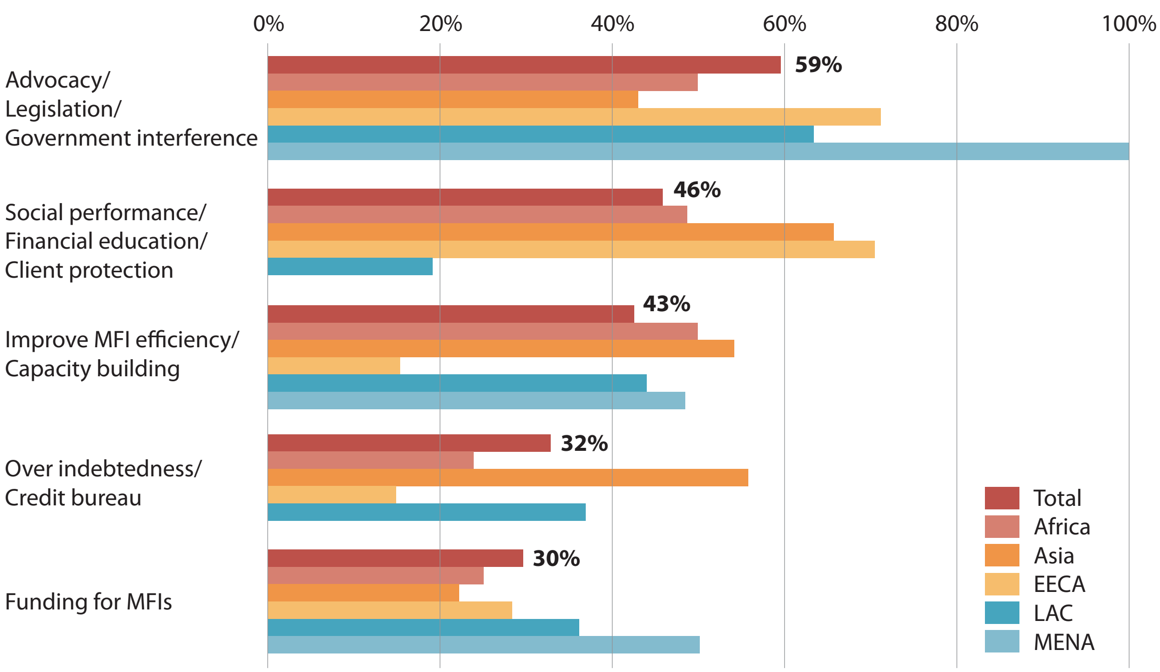
Executive Summary

The Market Outlook survey was administered at the beginning of 2012, following a difficult year for microfinance in many regions. There has been sufficient coverage of the problems in Andhra Pradesh, India, for most readers to be aware of the impact that they have had on the microfinance sector at large. Most people are also very aware of the Arab Spring and the political and economic unrest it has brought to the Middle East, but they may not realize the implications of this unrest for MFIs and their clients in the region.

These were the highest-profile events in 2011, yet other countries and microfinance associations are facing challenges as well. In several African countries, for example, political or economic instability threatens the livelihood of MFI clients and therefore the sustainability of MFIs and microfinance associations. This situation also holds in some Central American countries. In Eastern Europe and Central Asia (EECA) some countries are addressing the aftermath of over-indebtedness, while others are only now starting to grapple with this problem due to saturated markets and high levels of competition.

In parts of Latin America, problems in the European Union have raised concern about the availability and cost of funds, which is also a concern in some EECA countries. Lastly, academics, investors, and development specialists are increasingly challenging the microfinance sector to prove that microfinance has a positive impact on clients and contributes to overall poverty alleviation.

Figure 1. Top 5 Microfinance Priorities and Threats Identified by MFAs, 2012



Given this context, several themes emerge from the survey responses. Priorities and threats are intertwined (see figure 1), although they manifest differently in different regions. **The role of government** is a top priority in all regions, whether this refers to regulation, political interference, subsidized lending, or political and economic instability. Another common theme is **competition and its effects in different countries**—in some countries competition is seen as leading to over-indebtedness, while in others, it is seen as leading to better products and services at better prices. Finally, another very important theme is a **renewed focus on the client,** seen not only in the adoption of codes of conduct and an emphasis on social performance management, but also in market research studies and a focus on new products and services that can reach clients that are still unserved.

Almost all survey participants highlighted the active role of their associations in mitigating credit risk and over-indebtedness by promoting credit bureaus, client protection, financial education initiatives, and/or capacity building in credit risk management. Given the need for industry coordination in the implementation and usage of credit bureaus, the survey also explored how associations are involved with these institutions and the biggest obstacles to promoting their use among MFA members.

Market Outlook

The common market outlook themes of MFA answers to the survey are summarized in box 2. Respondents were asked to describe the business environment and microfinance context of the countries in which they operate, and to give an idea of activities of member MFIs over the next 12–18 months.

Very few associations referred to the global financial crisis as a threat or as a factor in the business or microfinance context of their countries. Specific regions (e.g., the Middle East and North Africa) and countries (e.g., Zimbabwe, Belarus, Uganda, Haiti, Mexico) noted that political or economic uncertainty was having a negative effect on the sector, while the EECA region remains vulnerable to economic weakness in Europe. Most respondents referred to the reputational problems that the sector is facing, which are linked to one of the main priorities for most associations: advocacy on behalf of responsible microfinance.

The majority of respondents referenced regulation (such as microfinance acts, legislation, bills) when describing the microfinance context of their countries. Some were concerned that new or modified microfinance legislation would increase the cost of compliance and affect the sustainability of all but the largest MFIs. A similar issue exists in countries with fragmented microfinance regulation, where one set of providers are regulated and others are either not regulated or regulated less strictly. Almost all surveyed associations are actively involved in consulting with or otherwise educating regulators on microfinance legislation. Table 2 summarizes the status of microfinance regulations in the countries served by MFA respondents.

Box 2. Common Market Outlook Themes of Respondent Answers

Overall macroeconomic environment
- Slower or constant GDP growth rates
- Changes in political regime/regulation/legislation
- Political and economic uncertainties
- Increased availability of foreign investment
- Improved mechanisms for tax collection which, in turn, may reduce the size of informal sector

Microfinance context
- New microfinance bills and increased cost of compliance
- Reputational risk remains a concern
- Increased co-direct funding from banks and government

Microfinance Institutions
- Increased product diversification
- Increased outreach to new market segments (rural, different types of clients)

Table 2. Microfinance Regulation Status by Country

Region	No MFI-specific regulation	New MFI regulation	Fragmented MFI regulation
Africa	Kenya, Zimbabwe	Benin, Cote d'Ivoire, Ghana, Mali	Uganda
Asia	Philippines, Sri Lanka	China, India, Laos	Pakistan
EECA		Kazakhstan, Kyrgyzstan, Tajikistan, Russia	
LAC	Guatemala	Haiti, Nicaragua	Brazil, Guatemala

Growth, which used to be a preoccupation of the sector, was highlighted only a handful of times by associations in different regions and for different reasons:

- In **China**, a "blowout of thousands of new MFIs" is expected due to a new regulation allowing private sector investment banking and nonbank financial institutions.
- In **Georgia**, the number of MFIs has increased by 45 percent in the last two years and MFI assets have doubled in that same time period.
- The **Russian** Microfinance Network reports that the number of registered microfinance organizations has increased to more than 1,155 and the number of registered credit consumer cooperatives, to 1259, in the past six months; this growth is attributed to federal laws on microfinance passed in 2010. Loan portfolio growth of 25–30 percent is expected.
- In **Guatemala,** the sector has experienced growth under a new government following a period of economic crisis. MFIs are still cautious about lending, so growth is expected to come from other types of programs and products.
- The microfinance sector in **Mali** is "characterized by its youth, fragility, and strong growth," though the effects of the recent coup remain to be seen.

The majority of associations indicated that they expect MFIs in their countries to develop new types of products to better meet client needs (see table 3). To support this product development, MFAs are either providing market research studies for their members or have identified such research as an activity that they would like to pursue. Some new products (especially savings) are dependent on the passage of legislation in the pipeline.

Associations are in a key position to help reduce costs and disseminate industry innovation, not only by providing market research and creating an enabling political and regulatory environment, but also by facilitating the transfer of knowledge to and the capacity building of their members.[2]

Table 3. New Product Development by MFA Members, by Country/Region

Product	Country/Region
Savings	India, Laos, Central America
Microinsurance	Bangladesh, Ecuador, Haiti, Kenya, Nicaragua, Yemen, Central America
Micropensions	Nicaragua, Central America
Mobile banking or similar technology	Bangladesh, China, Ecuador, Haiti, Kyrgyzstan, Mexico, Pakistan, Peru, Philippines, Russia
Products related to the environment or renewable energy	Bangladesh, Kenya, Peru, Central America
Agricultural/rural finance	Haiti, Kenya, Mali, Peru, Philippines, Tajikistan, Central America
Agent banking relationships	Kyrgyzstan, Pakistan, Russia

Threats and Risks

The threats discussed in this paper were identified by respondents when describing their outlook for the sector (see box 3). The outlook on specifically defined risks was derived from a combination of numerical rankings and comments. It is important to remember that threats and risks are two different things, the main difference being that a risk is something that can result in a loss, while a threat is something that can result in a risk.

Box 3. Top Threats to Microfinance

The top threats identified by MFAs are:

1. Government regulation, interference, and subsidized loans to the sector
2. Over-indebtedness, competition, high portfolio-at-risk (PAR) rates
3. Funding costs and availability

MFIs are least prepared to mitigate the risks of:

1. Political interference
2. Competition / Corporate governance

Fastest rising risks:

1. Competition
2. Political interference

Government Regulation, Interference, and Subsidized Loans to Sector

This issue was raised by associations in all regions, but the focus of each region was slightly different. In some markets, MFAs are concerned that governments are responding to issues of over-indebtedness by looking more closely at the sector and introducing new regulations or tightening up existing regulations, compliance with which can be costly.

For many associations, this situation leads to a priority of educating, lobbying, or otherwise informing regulators as they draft legislation so that the sector will not be too severely constrained. On the other hand, some associations see the *lack* of regulation, or inconsistent regulations for different types of MFIs, as hampering the development of the sector. For those associations, the priority is to inform regulators and the public at large, academics and the press of the benefits of microfinance and the need for a level playing field for all types of service providers providing the same product or service to the microfinance sector.

In some countries, a government focus on the microfinance sector means subsidized loans or preferential treatment of certain financial institutions over others. This situation was noted in Brazil, Benin, and Central America. The Brazilian Association ABSCM is concerned about the role of the state in the economy, specifically the financial sector, due to the government-created Crescer Program, which will provide US$300 million of grants to federal banks so that the latter can make subsidized loans to microentrepreneurs.

2 For further details on what associations are doing to promote innovation, see Deena Burjorjee, Jenny Morgan, and Sharon D'Onofrio, 2011, "Promoting Innovations in Microfinance: The Role of Associations," The SEEP Network, Washington, DC, http://www.seepnetwork.org/promoting-innovation-in-microfinance--the-role-of-associations-resources-169.php (accessed May 2012).

In countries in the Middle East and North Africa (MENA), Africa (Zimbabwe and Uganda), and Central America, political and/or economic instability was considered a threat to the sector. In Central Asia and Nepal, regulators are increasingly focused on consolidation, which is seen by associations as better initiated from below as a result of competition among MFIs, rather than in a top-down manner.

"For the association it is important to balance possible risks and adequate government regulation. . . On the other hand, acceptance of the new legislation reflected positively on the investment appeal of MFIs, raises the transparency of the sector, and all MFIs become members of the credit bureau."

Anatoliy Glukhov
Association of Microfinance Organizations of Kazakhstan

Over-Indebtedness, Competition, and High PAR Rates

Not surprisingly, the topics of over-indebtedness, competition, and high PAR rates were identified as related threats in countries where many MFIs are competing for the same clients. In other countries, the threat of competition is coming from banks that are downscaling to enter the microfinance sector (see table 4).

Table 4. Source of Growing Competition in Microfinance Identified by MFAs, by Region

Region	Competition from banks (including MFI banks)	Competition from other MFIs
Africa	Kenya, Mali	Cote d'Ivoire, Uganda
Asia	India, Philippines	Bangladesh
LAC	Brazil, Colombia	Ecuador
EECA	Georgia	Georgia, Tajikistan

In most cases, competition is seen as leading to over indebtedness and, eventually, a high PAR rate. Several associations noted that they are completing mapping exercises or, alternatively, would like to map the microfinance sector in their country (see box 4). Many associations are involved in credit information sharing initiatives, discussed in the Priorities and Actions section below.

The Microfinance Council of the Philippines (MCPI) is doing research on the incidence of non-repayment to identify whether it is caused by multiple borrowing or other factors. The association is also doing research on client mapping and poverty outreach; this research will be completed in the next few months and used to direct the Council's strategic planning.

Box 4. Pakistan Microfinance Network:
Mapping the Competitive Environment in the Microfinance Sector—MicroEye

In Pakistan, multiple borrowing by microfinance clients is a hotly debated topic, as it is considered a potential cause of over-indebtedness. The Pakistan Microfinance Network (PMN) decided to address this problem by mapping all branches of its member MFIs. This map shows areas of the country where the microfinance market is already saturated and other areas that are underserved. The hope is that MFIs will expand their outreach to the latter areas and, as a result, the incidence of multiple borrowings will be reduced.

To date, PMN has plotted the branch locations of 1,100 of its members. The next step is to plot locations for service centers and branchless banking centers, including agent service centers. PMN uses Google maps as its base and, via a geographic information system application, plots locations using latitude and longitude information provided by members. In the future, it hopes to work with the Central Bank of Pakistan in order to map the entire financial sector of the country in this way.

One important piece of information included in the PMN mapping tool is the number of total active borrowers and total potential borrowers in each area. This information, combined with market saturation information, means that the mapping tool can also be very useful as the foundation for market research.

The PMN mapping project could be easily replicable in other countries; however, it requires location information inputs from MFIs and other financial institutions. There are also costs associated with the development and hosting of the tool (hosting is an annual cost). In Pakistan the initiative was funded by the Pakistan Poverty Alleviation Fund, an apex organization.

PMN provided training for association members that covered each step of the process, including training on how to map locations using latitude and longitude data, as well as how to use the tool once it was up and running.

Some associations still see competition as a good thing, in that it encourages innovation and efficiency and therefore lowers client costs (Cote d'Ivoire, Georgia, Yemen). The SEEP Network survey did not look at market saturation in different countries, but one can surmise that in countries where competition is seen as having a positive influence, the demand for microfinance products and services still outstrips supply. Figure 3 shows that there are 10 respondents who see both competition and credit risk increasing, which implies a correlation between the two. However, 15 respondents see competition rising without a corresponding increase in credit risk and 4 see credit risk increasing independently of competition.

Some of the associations that identified high PAR rates as a threat are not in areas where over-indebtedness is the primary cause of these rates. In these countries (in the MENA and African regions), associations are concerned about high PAR rates due to political and economic uncertainty, which is having an effect on clients' livelihoods. Actions that MFIs can take to help reduce PAR rates in these circumstances are quite different from actions that they would take to reduce them due to over-indebtedness.

Figure 3. Growing Risks in Microfinance Sector, by Number of MFA Respondents

Concerns about Funding Costs and Availability

While concerns about the availability and cost of funds were not mentioned as a threat by all associations in all regions, it was identified as such by some MFAs in the EECA, LAC, and African regions. In certain cases, as expressed by MFAs in both EECA and LAC, worry about funding costs is linked to concerns about the effect of the Euro crisis on funders—meaning that banks would be less likely to lend or would charge more for funding. In Belarus, the inflation rate in 2011 was 108 percent, leading to a very high cost of funding from local sources, while in Uganda inflation was over 25 percent, causing some commercial banks to stop lending altogether.

A few associations note that less funding is available due to reputational problems in the sector, with banks less willing to lend (see table 5 for a summary of MFA responses on funding problems). In Nicaragua, a number of MFIs plan to form a consortium that can be listed on the stock market as a strategy to reduce dependence on foreign funding. In Ecuador, MFIs are planning to source local funds through bond issues or securitization. Several respondents mentioned that MFIs which can mobilize savings will have an advantage over those which cannot.

Table 5. Cases of Funding Problems Identified by National and Regional Associations

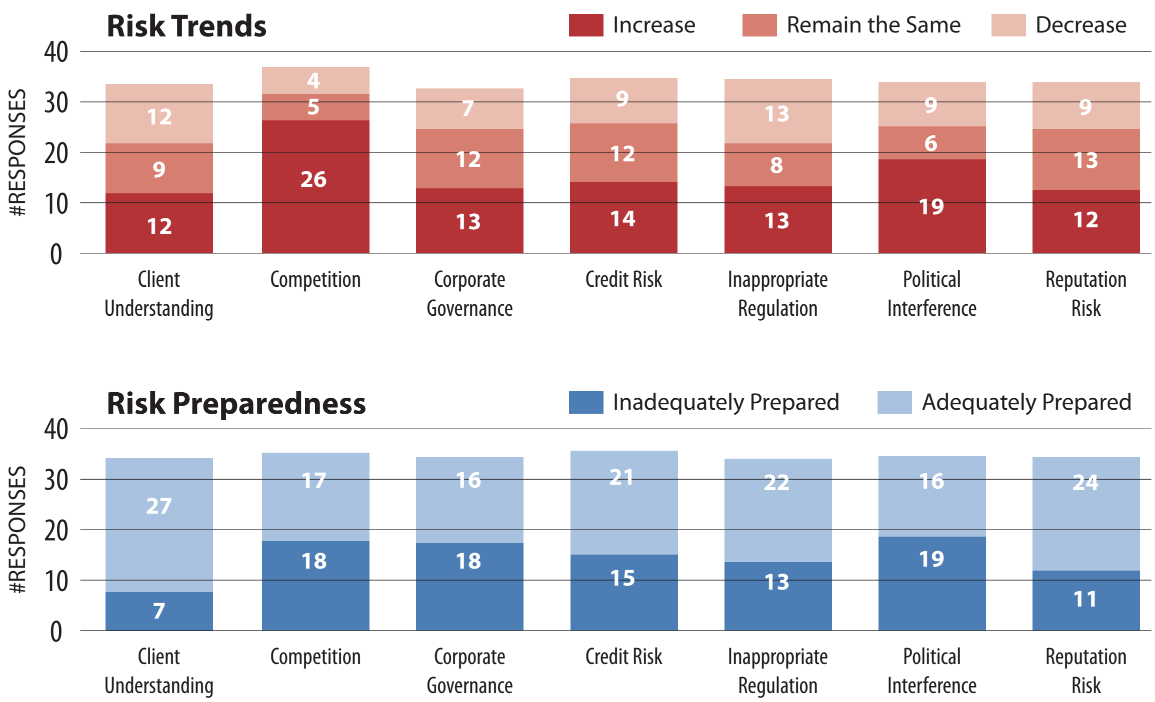
Region	Euro crisis	General (e.g., cost, availability)	Local economic or political instability	Reputational issues in the sector	Subsidized lending
Africa		Mali, Ghana	Uganda, Zimbabwe		
Asia		Laos, Nepal		India	India, Laos
LAC	Peru	Colombia, Ecuador, Haiti, Peru, Nicaragua	Mexico	Nicaragua	Brazil, Guatemala, Mexico
EECA	The region as a whole (MFC)	Kyrgyzstan	Belarus		
MENA			Yemen		

Note: See "Acronyms" section at the outset of this publication for an explanation of the acronyms used here.

Risk Direction and Preparedness

Associations were asked to rate the direction (increasing, decreasing, no change) of seven different risk categories, and then rate (on a scale of 1 to 5, with 5 being most prepared) the preparedness of MFIs to mitigate those risks (see figure 4). Analysis of MFAs' answers shows that associations overall think that **MFIs are least prepared to handle competition** (competitive pressures leading to greater risk taking), **corporate governance, and political interference** (related to interest rates, lending policies, and subsidized competition), and **most prepared to handle evolving client needs** (i.e., understanding client needs) **and reputational risks.** The risk that is seen as increasing the most by far is competition, followed by political interference.

Figure 4. Risk Trends and MFI Preparedness Worldwide



Competition, Corporate Governance, and Political Interference

Associations' responses regarding political interference and competition were discussed above, and are further summarized in the "Priorities and Actions" section below. Corporate governance (defined in the survey as "weaknesses such as low-caliber board members or lack of independence") is a complicated topic, since there are principles that are applicable to all MFIs, but the way they are applied are unique to each one dependent on size, complexity, and board composition. Some associations are providing board training on governance, others identify this as an area of need. Given the amount of transformation happening in the microfinance sector in many regions, the need to educate board members will continue to grow.

"We see a refocusing on the social mission that will translate into more products and services that have an impact on clients' livelihoods."

Tanoe Cyrille
Association Professionnelle
des Systèmes Financiers Décentralisés
du Côte d'Ivoire

Reputation of the Industry and Understanding Client Needs

Associations largely identified reputational issues and understanding client needs as the two risks that MFIs are most prepared to mitigate. This finding is interesting, given the focus on client protection, social performance management, and policy advocacy listed above, and is probably best be interpreted as a recognition by associations that they are doing their job in preparing MFIs to deal with these issues.

Table 6 below shows what different associations are doing to help their members better understand and respond to evolving client needs. In Africa and EECA, this mainly refers to social performance management, financial education, and codes of conduct, while in Asia and Latin America, the emphasis is more on market research and product development. Lalaine Joyas of MCPI summed up the issue brilliantly, saying, "MFIs need to understand that failure to better understand clients and their needs in fact leads to poor risk management."

Table 6. Initiatives to Improve Client Understanding by National and Regional Associations

Region	Social performance, financial education, codes of conduct	Market research and product development
Africa	Benin, Cote d'Ivoire, Ghana, Kenya, Mali, Uganda	
LAC	Haiti, Nicaragua, Central America (REDCAMIF)	Colombia, Ecuador, Guatemala, Central America (REDCAMIF, Red Katalysis),
Asia	India, Pakistan, Philippines	Bangladesh, China, India (Sa-Dhan), Laos, Nepal, Philippines
EECA	Belarus, Georgia, Kazakhstan, Russia, Tajikistan	Russia

Note: See "Acronyms" section at the outset of this publication for an explanation of the acronyms used here.

Priorities And Actions

A summary of the priorities and actions identified by survey respondents can be found in box 5.

Box 5. Priorities and Actions in the Spotlight

- Increase sector sustainability
- Capacity building in risk management, product development and market research capacity building)
- Work with governments and the broader community on appropriate legislation and understanding the benefits of the microfinance sector
- Address over-indebtedness via credit bureaus, client protection, financial education, credit risk management

Increase Sector Sustainability—Capacity Building

Capacity building was identified as a priority in all regions, and was often tied to:

- the need for better risk management in MFIs;
- providing an increased product range to clients; and/or
- encouraging increased outreach to clients who are still underserved, especially in rural areas.

In Central America, REDCAMIF is funding a capacity building project in risk management for 24 MFIs (see box 6). Many of the associations that are not currently providing training named it either as a goal or as something for which they required financial or technical assistance in providing (see table 7).

Table 7. Status of Capacity-Building Initiatives of National and Regional Associations

Activity	Currently providing	External resources needed
Credit risk training	Belarus, Cote d'Ivoire, Kenya, Laos, Nicaragua, Pakistan, Peru, Russia, Tajikistan, Yemen, Central America (REDCAMIF, Red Katalysis)	Ecuador, Georgia, Ghana, Guatemala, India, Laos, Mali, Russia, Sri Lanka, Tajikistan
Corporate governance (board training, exposure visits, codes of corporate governance)	Benin, Brazil, Kenya, Kazakhstan, Laos, Nicaragua, Tajikistan, Central America (REDCAMIF), EECA (MFC)	Colombia, Ecuador, Georgia, Guatemala, India, Mali, Pakistan, Russia, Tajikistan, Uganda, Zimbabwe, EECA (MFC), MENA (Sanabel)
Market research, product development	China, Ecuador, Guatemala, Laos, Nepal, Philippines, Central America (REDCAMIF, Red Katalysis)	Guatemala, India, Laos, Nepal, Pakistan

Source: Market Outlook survey, 2012.
Note: See "Acronyms" section at the outset of this publication for an explanation of the acronyms used here.

Box 6. REDCAMIF's Capacity-Building Project in Risk Management

REDCAMIF, the regional Microfinance Network for Central America and the Caribbean, began offering training in risk management in June 2011 in response to MFI demand following the financial crisis of 2009–10. REDCAMIF is implementing the program through national associations.

Funded partly by MFIs (which pay US$3,500 each) and grants from the Central American Bank for Economic Integration (US$93,000) and the Andean Development Corporation (US$23,000), the program is managed and overseen by REDCAMIF, including promotion, monitoring, and evaluation activities.

The 11 training tools used in the training were developed by Triple Jump of The Netherlands and have been used with 6 other MFIs not based in Central America; thus the tools can be used in other regions as well.

Some 14 consultants—one for each national association in the region—will be trained in the use of the tools. They in turn will work with the Risk Committees of the 24 participating MFIs over a period of 6 months. Two workshops are delivered: the first covers key documents, policies, and procedures; and the second, implementation of early warning systems for managing risk.

To date, REDCAMIF and participating MFIs are satisfied with the program, since it has helped them integrate risk management into their organizations and prepare reports to help them proactively manage risks.

In the Philippines, MCPI is looking at the specific risks involved in agricultural microfinance and the models and approaches that might work best in the country. The latter include value chain development and climate-smart agriculture (i.e., making farming practices resilient to the effects of climate change). MCPI is also exploring the best ways to expand outreach to rural areas. Philippine banks and MFIs realize that demand exists, but that sustainability is an issue—only a few large players can sustainably run operations in poorer and hard-to-reach areas. Some providers have been experimenting with mobile banking to reduce costs, but so far uptake has been low.

"The focus will be on the professionalization of MFIs so they manage better, reassure their clients, and improve their performance. The professionalization will happen with training, information, and communication."

Ibrahim B. Camara
Association Professionnelle
des Systèmes Financiers Décentralisés du Mali

Working with Governments and the Broader Community

The majority of associations consider it a strategic priority to work with governments and the broader community in their regions and countries on appropriate legislation, as well as on understanding the benefits of microfinance, particularly associations in MENA, Latin America, and EECA (see table 8). Since government action and inaction is perceived as a serious threat to the sector, most associations focus on lobbying, informing, or otherwise educating government officials and the public on the benefits of responsible microfinance and the need to regulate it appropriately. Advocacy initiatives include organizing policy forums, tracking legislation, and consulting with regulators as they draft microfinance regulation.

Table 8. Advocacy and Public Relations Efforts of National and Regional Associations

Region	Consult with government on legislation/Advocate for the sector	Educate broader public
Africa	Ghana, Kenya, Mali, Uganda, Zimbabwe	Cote d'Ivoire
Asia	Bangladesh, India, Laos, Nepal, Pakistan, Philippines, Sri Lanka	Bangladesh, Nepal, Pakistan
LAC	Brazil, Colombia, Ecuador, Mexico, Peru (COPEME), Central America (REDCAMIF, Red Katalysis)	Haiti, Mexico, Peru (ASOMIF), Central America (Red Katalysis),
EECA	Georgia, Kazakhstan, Russia, Tajikistan, EECA (MFC)	Georgia, Tajikistan
MENA	MENA (Sanabel)	

Source: Market Outreach survey, 2012.
Note: See "Acronyms" section at the outset of this publication for an explanation of the acronyms used here.

Box 7. Bangladesh Credit and Development Forum Annual Microfinance Congress

The Bangladesh Credit and Development Forum (CDF) was established in 1992 and has 1,600 MFI members. This year it held its first Annual Microfinance Congress. The mission of the Congress was to bring members together to share experiences and concerns, as well as to welcome regulators, funding agencies, academics, and some clients to the forum to share their respective positions and agree on priorities. CDF also hopes that this meeting will enhance its visibility and acceptability.

Topics to be discussed at the first conference will include:

- Over-indebtedness / Overlapping / Multiple borrowing
- Food security
- Climate change
- Technology innovation / Mobile banking
- Remittances

Funding for the Congress will be provided by banks and MFIs both (MFIs fund meetings held at the divisional level each year). CDF expects 800 participants, with the majority being MFI members, as well as important representation (about 25 percent) from banks, donors, regulators, and the academic community. Government invitees include the Finance Minister, the Food and Disaster Management Minister, and the Central Bank Governor.

Addressing Over-Indebtedness via Credit Risk Management and Credit Bureaus

As noted earlier, several associations identified over-indebtedness as a threat to their respective microfinance sectors over the coming year, a trend that has already been a problem for many countries. Over-indebtedness means that a client has borrowed more than their income will allow them to repay. However, **a client who has multiple loans is not automatically over-indebted.**

"All members (or almost all) are using credit bureaus in a basic way, just to see if customers have paid their debts, but not to estimate the size of the debts versus their incomes. . . "

Francisco De Hoyos
ProDesarrollo, Finanzas y Microempresa (Mexico)

Credit bureaus can be powerful tools for helping MFIs make better-informed decisions about lending. Used alone, however, they are not a "solution" to over-indebtedness, credit risk in general, or high rates of portfolio at risk, more specifically. Respondents in different regions are using different approaches to help member MFIs mitigate credit risk, which was defined in the survey as the failure to repay due to:

- over-borrowing;
- poor credit management;
- poor client understanding; or
- difficult economic conditions.

The actions that associations are taking (see table 9) should correspond to what they see as the root cause of credit risk in their country or region (though many associations who are not currently providing risk training noted that they would like to do so).

Table 9. Initiatives to Mitigate Credit Risk by National and Regional Associations

Region	Credit bureau	Client protection/financial education	Capacity building in the form of credit risk training
Africa	Benin, Kenya, Mali, Zimbabwe	Cote d'Ivoire, Uganda	Cote d'Ivoire, Ghana, Kenya
LAC	Ecuador, Mexico	Brazil, Colombia, Ecuador, Mexico, Central America (REDCAMIF)	Guatemala, Nicaragua, Peru, Central America (REDCAMIF, Red Katalysis)
Asia	Bangladesh, China, India (MFIN), Pakistan	India (SaDhan), Nepal, Pakistan	Bangladesh, Laos, Pakistan
EECA	Georgia, Kazakhstan, Kyrgyzstan, Tajikistan	Kyrgyzstan	Belarus, Georgia, Russia, Tajikistan
MENA	MENA (Sanabel)		Yemen

Note: See "Acronyms" section at the outset of this publication for an explanation of the acronyms used here.

Credit bureaus

Over 40 percent of the associations surveyed identified credit bureaus as part of an overall strategy to address over-indebtedness or credit risk more generally. Credit information sharing can help MFIs make better-informed decisions about the extension of credit to clients, but it requires coordination at the country level and can be a long and expensive process. Survey responses show a variety of levels of development of credit information sharing in different countries, as well as several examples of strategic alliances between associations and service providers (see annexes 1–3 for examples).

Respondents were asked to describe:

- how or if credit bureaus operate in the country
- what the association role is in the credit bureau
- what is the largest obstacle to promoting greater use of the credit bureau among members.

"Credit information sharing by itself is not enough. We are currently educating our members on how to deliver loans that can be paid by making sure that the institutions have the right loan products for various borrowers. . . It is also important for MFIs to keep proper and updated information for each client, which should always form the basis for appraising a subsequent loan. . . [M]embers are informed that unless the information shared is correct and on time, the sharing may be of little or no help. We also emphasize that credit bureaus can only provide information to institutions; how the institutions use this information determines how effectively they manage their portfolios."

Ben Nkungi
Association of Micro Finance Institutions - Kenya

Figure 5. Credit Bureau Usage by Region and Number of Countries

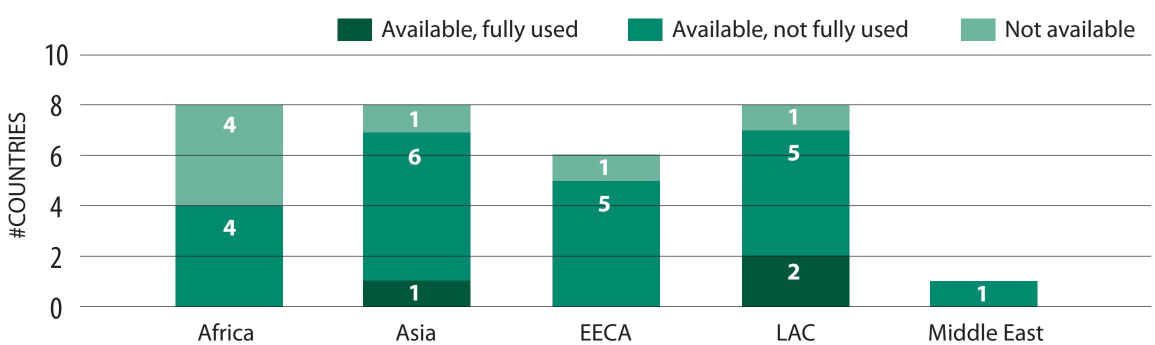
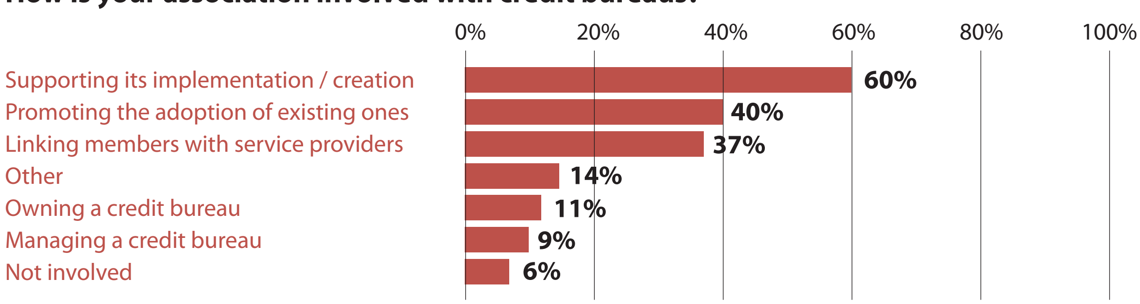


Figure 5 illustrates that some form of credit bureau or credit information system is available in all regions, though half of the African countries in which respondent MFAs work have no credit bureau or formal credit sharing mechanism.

In areas where credit bureaus are "available, but not fully used," this indicates that:

- credit bureaus are available only to regulated entities, including MFI banks (24 percent); or
- credit bureaus are avaialable, but not yet being fully used by MFIs (62 percent); or
- some other kind of information sharing is avaialable (14 percent).

How is your association involved with credit bureaus?



Associations in all regions are involved in credit bureaus in a variety of ways, mainly by supporting their establishment, then training members how to use them and educating them on why credit sharing is important.

Why are credit bureaus good for customers?

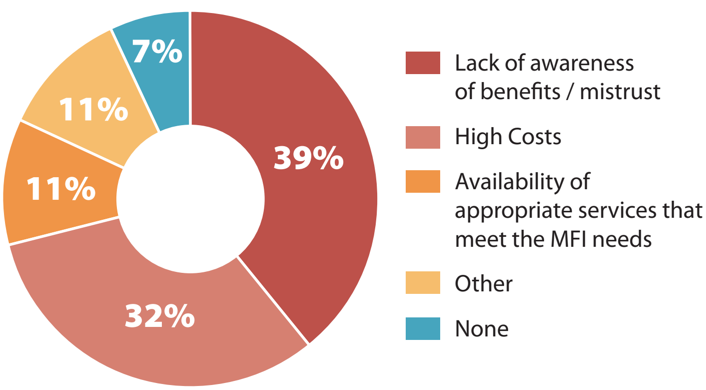
One priority highlighted in survey responses is a renewed focus on microfinance clients. In most discussions about credit bureaus, the focus was on eliminating over-indebtedness or multiple borrowings, an activity that is seen as benefitting MFIs. Associations can play an important role in ensuring better products and services for clients by promoting and supporting some kind of credit sharing mechanism that helps MFIs identify good as well as bad clients. In many countries, microfinance began because clients had no credit history and therefore banks and other formal financial institutions would not lend to them.

With the advent of credit bureaus, clients build a credit history. Once a client has established a good credit history (which may mean that he or she has no negative payment information in the system), he or she should have access to more financial products and services at better prices.

Obstacles to the use of credit bureaus

According to MFA respondents, there are a number of obstacles to the use of credit bureaus (see figure 6). One of the largest obstacles is lack of awareness of their benefits for MFIs. A credit bureau only works well if everyone who is extending credit in a given market shares their information, and if that information is updated frequently. The benefits of more accurate credit decisions—which should lead to continued high repayment rates and better pricing of credit products—should outweigh the fears of losing clients to other institutions.

Figure 6. Obstacles to the Use of Credit Bureaus Identified by MFAs



"I don't think that mistrust of sharing information is a real problem in Russia. . . [S]ome MFIs fear losing good clients. . . because banks may somehow know of those clients from certain credit bureaus and grab them. But, besides such stories, an even bigger fear (for MFIs) is the risk of evaluating a potential borrower incorrectly due to lack of information about his/her credit history—that's why the number of participating MFIs continues to increase."

Mikhail Mamuta
Russian Microfinance Center

The second largest obstacle cited is the high cost of implementing a credit bureau, which cannot be ignored. Ongoing operating costs for a credit bureau are usually covered by membership and service fees (see annex 3). These fees can be a source of revenue for MFI associations that manage the credit information sharing service, and can eventually help recover some of its start-up costs.

However, costs associated with starting a credit bureau, as well as those for price of appropriate technology, can be very high. In some countries, associations have been able to obtain grant or other funding to help them cover these costs. In other countries, an association has initiated a partnership or strategic alliance with an existing credit bureau and worked with them to modify existing software for microfinance purposes (see appendices 1–3).

Regional Analysis

Africa

8 association responses from MFAs representing 1,182 members, approximately 6 million clients, and a combined portfolio of US$1.3 billion in loans outstanding.

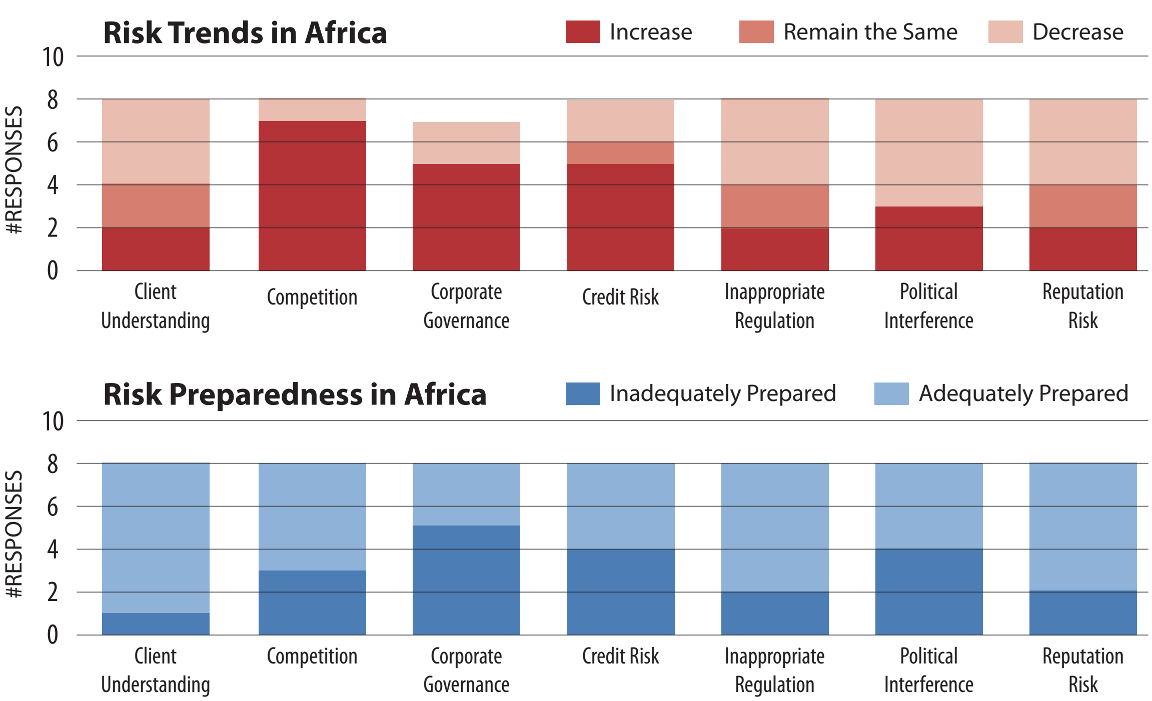
Three national associations in East Africa and 5 national associations in West Africa responded to the Market Outlook survey. The priorities identified by these associations were in line with those identified earlier in this report by all associations, with the additional priority of the sustainability of microfinance associations themselves. Especially in countries experiencing economic and political instability, there is concern that MFI members will be unable to afford membership dues, training fees, and other costs associated with association participation. MFAs may thus need outside sources of funding to continue providing the advocacy and capacity building support that is so important for the sector.

In Kenya, the Associations of Microfinance Institutions (AMFI) is very active in working with the government on appropriate regulation, especially regarding interest rates. It is presently taking a leadership role in a financial literacy initiative, and has also been promoting social performance management standards among its members over the past year. In Cote d'Ivoire, the association is focused on professionalizing the sector, with a view to rebalancing financial and social performance. This association publishes a biannual newsletter; in addition, it has launched a website and has created brochures and other promotional materials that explain savings and loan products. In Benin, the association anticipates increased government intervention this year and MFIs focused on client financial education, with each MFI developing training materials on the subject.

In Mali the recent coup will no doubt pose a challenge for the microfinance sector, which is relatively young and fragile, but growing quickly. Zimbabwe's MFIs are dealing with severe economic hardship, leaving microfinance clients more focused on survival and basic consumption than business growth.

Figure 7 illustrates that African associations see competition, corporate governance, and credit risk increasing and believe that MFIs are least prepared to handle the challenges of corporate governance. In Benin and Kenya, associations are already providing training for board members, but in Mali, Uganda and Zimbabwe, associations identified this activity as an area for which external resources are needed, including a standardized set of tools (or guidelines), trainings, and funding.

Figure 7. Risk Trends and Preparedness of MFIs in Africa



Asia

9 association responses representing 2,238 members, approximately 53 million clients, and a combined portfolio of US$5.6 billion in loans outstanding.

This region includes Southeast Asia, South Asia, and East Asia. It also represents the largest number of MFI clients and the most MFI association members in the survey. Nine country associations participated in the survey.

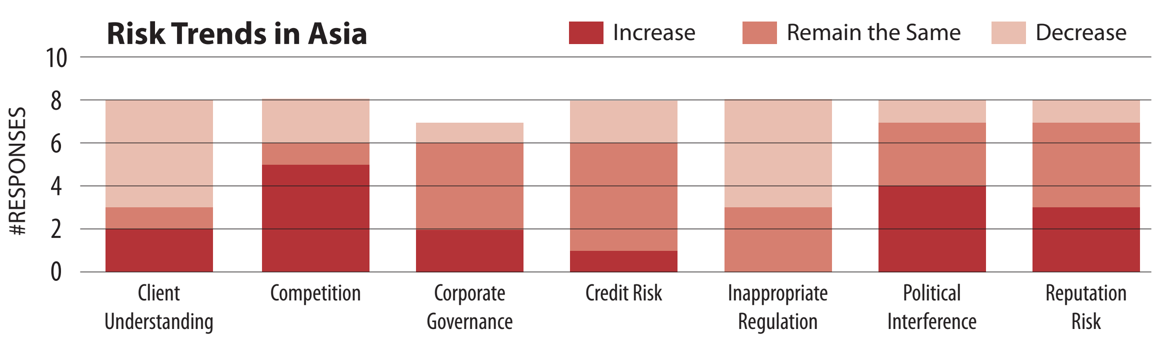
The top priorities and threats in this region mirrored those discussed earlier for all associations. The priorities are improving MFI efficiency and refocusing MFI efforts on social performance and client protection, while threats include government interference, regulation, or subsidies

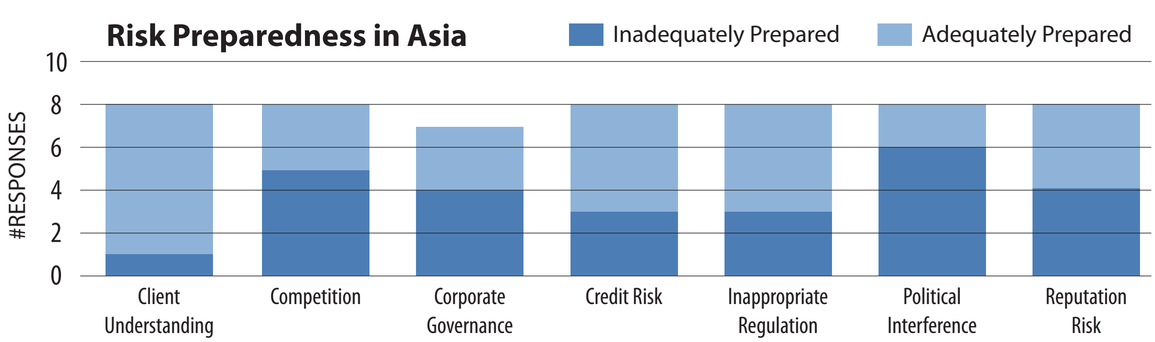
Because of the large size of most of these markets, there is an emphasis on outreach to rural areas, mobile banking, and adoption of other technologies to increase outreach. There is some hope, especially in South Asia, that regulators might allow MFIs to begin deposit-taking activities. In the Philippines, MCPI sees MFIs trying out new business models that aim to reach poorer communities, partly in response to the observations that microfinance is not yet seen as an effective poverty reduction tool.

Associations in East Asia and Southeast Asia are supporting the development of new products by doing market research studies. In Bangladesh, the central bank is directly funding larger MFIs to extend their services to tenant farmers; banks are funding MFIs to lend to small and medium enterprises, as well as businesses linked to solar energy development. In Laos, the association provides training and exposure visits for MFI management and board members.

The majority of associations in the region identified social performance management and monitoring, financial inclusion, financial literacy, and client protection as priorities. These priorities appear to reflect the threats of government intervention to harshly regulate the sector. In India, new microfinance legislation by the central bank restricts interest rates and net interest margins, as well as defines the types of clients to be served. Associations in all countries in the region are working with regulators and the public to inform legislation, mend the sector's reputation, and educate a broader audience on the benefits of microfinance.

Figure 8. Risk Trends and Preparedness of MFIs in Asia





As seen in figure 8, Asian respondents are most concerned with increasing competition and political interference, yet feel their members are not well prepared to handle either risk. Associations in most countries in the region are addressing competition through client mapping and/or supporting credit bureaus; they are addressing political interference through advocacy and education activities.

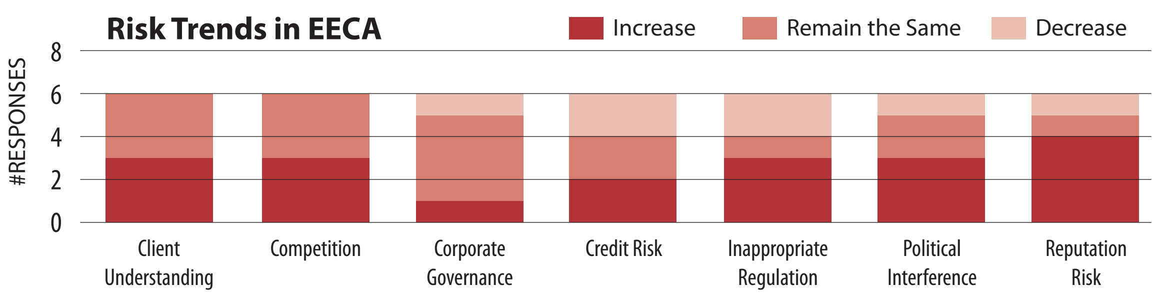
Eastern Europe and Central Asia

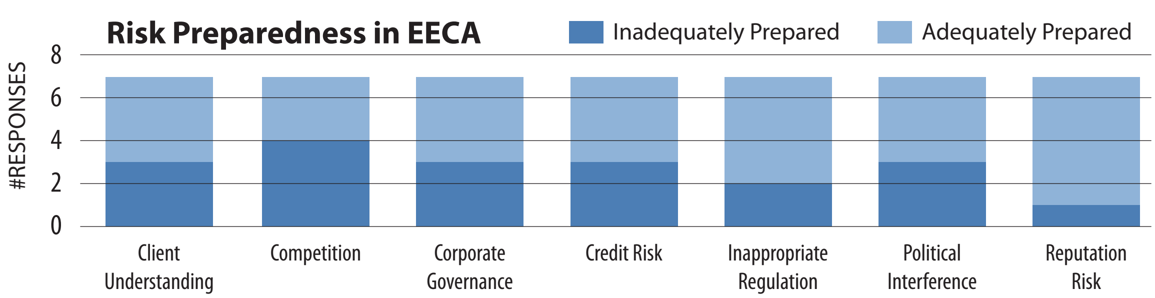
7 association responses representing 865 members, approximately 791,000 clients, and a combined loan portfolio of US$1.4 billion in loans outstanding.

One regional association and 6 national associations responded to the survey. Because this region is quite large and geographically widespread, it is hard to extrapolate overall trends; however, competition and over-indebtedness are frequently cited as issues. Responses from the region indicate an overwhelming focus on government regulation and intervention, followed by social performance and/or responsible microfinance, funding costs, and funding availability).

In Kazakhstan, the association is monitoring the balance between the threat of over-regulation and the benefits that regulation provides the sector, as investors feel more comfortable lending to regulated entities. In Tajikistan, the association sees the positive effects of competition resulting in more and better product choices for clients, as well as more outreach to rural areas. In Belarus, funding costs and availability are a challenge mainly due to macroeconomic factors, but the association projects that the economic environment will improve in 2012.

Figure 9. Risk Trends and Preparedness of MFIs in Eastern Europe and Central Asia





In EECA, reputational risk was most frequently rated as increasing, though associations feel that MFIs are adequately prepared to mitigate this risk. As was the case in other regions, EECA associations consider MFIs least prepared to mitigate the adverse effects of competition.

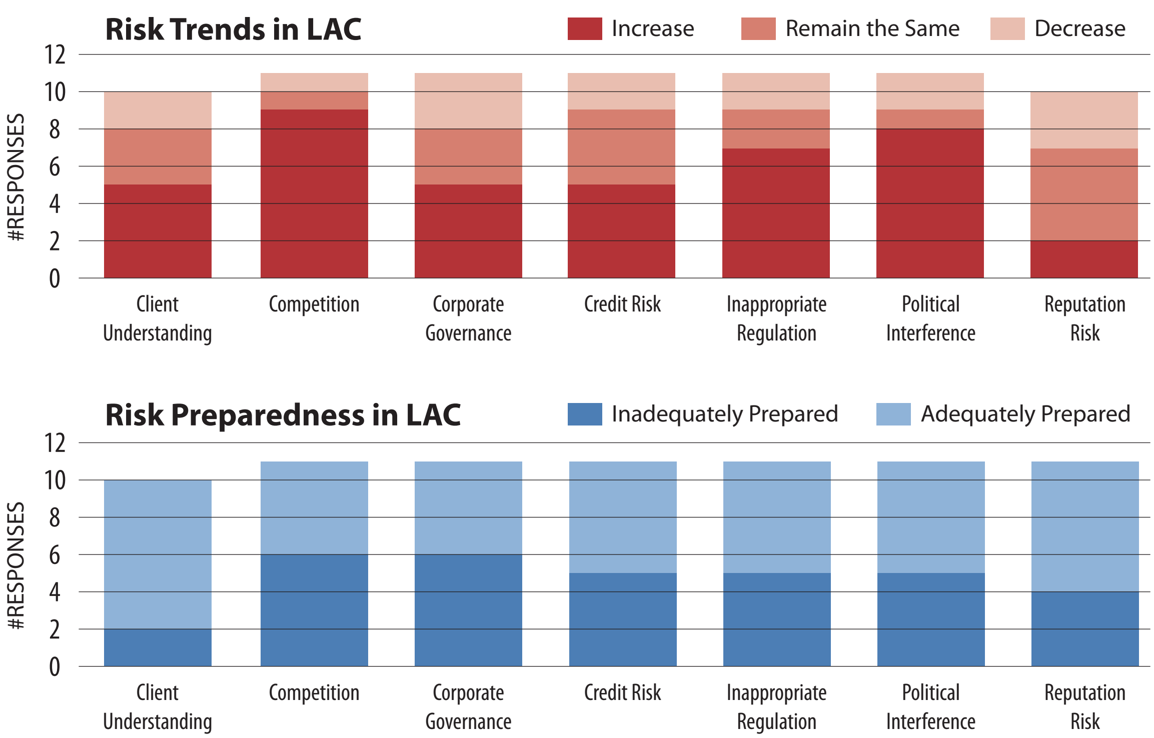
Latin America and the Caribbean

11 association responses representing 375 members, approximately 6.8 million clients, and a combined portfolio of US$ 11 billion in loans outstanding.

Nine national associations and 2 regional associations responded to the survey in this region. While the "region" encompasses very different geographies and MFI experiences, associations voice certain common concerns. The most important threat identified is that of government interference, regulation, or subsidized loans. Other top priorities and threats are improving MFI performance and efficiency, the cost and availability of funding, and the viability of several associations. It is interesting to note that social performance and responsible microfinance did not rate as a top priority for the region, though one or two associations mentioned them as priorities.

Associations in Latin America and the Caribbean are very focused on professionalizing the sector, both to comply with regulatory requirements and to provide clients a broader range of products and services.

Figure 10. Risk Trends and Preparedness of MFIs in Latin America and the Caribbean



In Latin America, as in Asia, competition and political interference are most frequently rated as increasing risks, while competition and corporate governance are rated as risk that MFIs are inadequately prepared to mitigate. National associations in Brazil and Nicaragua, as well as the regional association REDCAMIF, are currently offering capacity building in corporate governance. National associations in Colombia, Ecuador, and Guatemala all identified this as an area where external resources are needed, including governance workshops with board members. One association in Guatemala noted that high-level bodies within MFIs also need to be willing to participate in such trainings.

Middle East and North Africa

2 association responses representing 83 members, approximately 2.6 million clients, and a combined portfolio of US$2 billion in loans outstanding.

One regional and one national association provided responses in the MENA region. Efficiency is the primary priority and government interference, the primary threat in this region, with another important threat being political instability. The latter can have a variety of negative effects, including:

- low turnout of participants at regional events;
- deterioration of economic conditions leading to a deterioration of portfolio quality in some countries; and
- stagnation of regulatory reform in some countries.

Social performance management and responsible microfinance are not highlighted as priorities in this region, perhaps because markets are not yet saturated and therefore they do not have the same problem of over-indebtedness.

Conclusions

The microfinance sector weathered the global financial crisis only to face a crisis of reputation due to highly publicized events in Andhra Pradesh (India), Nicaragua, and a few other countries, as well as increased criticism from academics and development professionals that there is insufficient evidence that microfinance contributes to poverty alleviation.

In response to these circumstances, microfinance associations around the world have identified several priorities for their work over the next 12–18 months, which center around rebuilding the good reputation of the sector, enhancing the sustainability of their members, and improving outreach to clients. MFAs are advocating with governments to provide prudent regulation, and with the public to demonstrate the benefits of microfinance. Many associations are conducting market research or mapping exercises to encourage MFIs to expand responsibly into areas where there is the greatest need for financial services. They are also increasingly providing or facilitating access to credit information sharing systems to help member MFIs combat over-indebtedness.

The microfinance sector continues to grow and change rapidly worldwide. As a result, microfinance associations must anticipate changes in order to support MFIs in their countries. The SEEP Network supports the activities of associations through the exchange of ideas in person and in publications such as this *Market Outlook.* By continuously sharing ideas and experiences, SEEP member associations will be better prepared to proactively manage challenges and insure that more of the world's poor have increased access to finance.

Appendix 1: Amfi Kenya's Credit-Sharing Initiative

The Association of Microfinance Institutions-Kenya (AMFI-Kenya) is one of the 62 percent of microfinance associations surveyed for this report that are supporting the implementation or creation of a credit bureau, to which it has taken an innovative and collaborative approach.

Credit Reference Bureaus (CRBs) were licensed in Kenya in 2010 after CRB legislation was passed; banks have been reporting negative information on client credit histories for the past year. AMFI-Kenya was involved in drafting the legislation, but only banks were initially included as participants in the CRBs since MFIs are not regulated. AMFI-Kenya has therefore created a closed user group initiative for MFIs which it is in the process of implementing—all 35 of its members have signed a memorandum to participate in the group and share client credit information.

Because AMFI-Kenya has a good relationship with the Kenyan Banking Association (KBA), and because both parties recognize that there is overlap in their respective client bases, the two organizations have launched an information-sharing initiative which is still in its early stages. Right now AMFI-Kenya is focused on educating its members, creating reporting templates, and reviewing loan documents in order to get the MFI user group up and running, projected for October 2012. The target is for the CRB and MFI information to be merged into one reporting source by 2014.

To date, AMFI-Kenya has faced some challenges with this initiative, principally amending legislation that prohibits information sharing, but also addressing mistrust or misunderstanding among its members about the benefits of sharing client information. The association has overcome these challenges by maintaining good relationships with all stakeholders and providing intensive training to its members. AMFI-Kenya has very good relationships with the Central Bank of Kenya, sits on a number of Central Bank committees, and is involved in all matters of policy that affect the financial sector. Another potential challenge is funding, since creating and maintaining a credit bureau can be expensive. In Kenya, credit-sharing initiatives for both banks and MFIs are being coordinated and funded by one funding source.

Appendix 2: Copeme Peru's Strategic Alliance With Equifax

Consorcio de Organizaciones Privadas de Promoción al Desarrollo de la Micro y Pequeña Empresa (COPEME), one of the national microfinance associations in Peru, has been working with Equifax since 1998 to provide credit information services to its members. Their strategic alliance was formed after COPEME commissioned a feasibility study to identify potential partners for an alliance. Equifax not only had the greatest amount of financial data in its system, but was willing to charge COPEME members preferential rates and reduced membership fees. Equifax is a U.S. corporation with headquarters in Atlanta, Georgia, and offices in Latin America and Europe. Recently it developed products designed exclusively for the microfinance sector. COPEME markets Equifax's services to its members and Equifax provides the credit database and customizes products for the sector.

Evidence of the success of the Alliance includes increase in:

- usage of Equifax Peru services (e.g., 2.5 million visits in 2010 and 3.3 million in 2011);
- information in the database (for each 100 persons searched for in the system, 98 are found); and
- the number of MFIs affiliated with the system (currently 160 MFIs are using the system, including rural banks, credit unions, and NGOs).

Another indicator of success is the improved portfolio quality of COPEME members. Portfolio at risk rates in the microfinance sector have declined from more than 10 percent (and in some cases, up to 20 or 30 percent) in the 1990s to no more than 5 percent today. This means that MFIs are provisioning less and have more capital to lend to more clients. Improved PAR rates also contribute to MFI financial self-sufficiency and efficiency.

There are still challenges in the system, however. Many MFIs don't have accurate data, and either don't have MIS systems (or departments) or don't want to share their client information with others.

In 2010, COPEME won a bid to implement the use of cell phones for loan evaluation and approval, with the goal of increasing outreach to rural areas. COPEME will be partnering with Equifax in this new project, given their successful partnership on the credit bureau initiative.

Appendix 3: Russian Microfinance Center's Cooperation Agreement With NBKH

The Russian Microfinance Center (RMC) started its work and cooperation with credit bureaus in 2006, when it was involved in the development of the National Credit History Act. Cooperation between RMC and credit bureaus was formalized in 2009 and accelerated significantly in 2011.

RMC had long debated whether it should create a credit bureau for MFIs only or join an existing credit bureau, finally deciding on the latter since the scale would be larger and the cost, smaller. The association chose to negotiate with two credit bureaus from among the six operating in Russia, based on an analysis of the capabilities of each. It finally chose the National Bureau of Credit Histories (NBKH) because of its flexibility and interest in cooperating with RMC. NBKH is also the biggest credit bureau in Russia, including about 1,200 bank and other financial and nonfinancial service providers.

The cooperation agreement was signed in 2009. One of its main features is that any MFI who is a member of RMC qualifies for a discount on the cost of credit reporting software. This software was developed jointly by NBKH and RMC (with funding from NBKH) and customized for nonbank MFIs. The special, agent-based module is installed on an MFI computer and connects it to the NBKH server, enabling MFIs to easily make automatic requests for credit histories. These histories are delivered in the same format as the credit reports that are delivered to NBKH. NBHK also provides training and support to MFIs on using the software and joining the credit bureau. Membership fees are US$300 and each credit request costs from US$0.50–US$0.70 cents; currently about 110 MFI members belong to the credit bureau.

RMC provides special consultancies to MFIs that are interested in joining credit bureaus; it also regularly organizes special training workshops during its annual National Microfinance Conference.

Appendix 4: Market Outlook Of Microfinance Association Leaders Survey

1. Strategic priorities and threats
1.1 What do you consider to be your association's key strategic priorities and key threats for the next 18 months?

2. Outlook for the microfinance sector over the next 12 to 18 months in your local market
2.1 Overall business environment - What material market changes and trends do you anticipate in the overall business environment in your country, such as macroeconomics, political and regulatory reforms, etc.?
2.2 Microfinance context - What material market changes and trends do you anticipate within the microfinance sector in your country, such as changes in types of services available, providers of services, types of clients served, competition, financing strategies, etc.?
2.3 Microfinance institutions - What changes and trends do you anticipate at the level of the microfinance institutions within your country, such as trends in performance, business models, strategy, etc.? Where do you think growth will come from and do you expect growth to be concentrated in a small tier of MFIs?

3. Outlook on microfinance sector risks over the next 12 to 18 months in your country and/or region				
Risk Category	**Indicate if risk will:** (+) increase (=) remain the same (-) decrease	**How well prepared are MFIs to mitigate this risk? (1-5)** (1) Poorly prepared (3) Adequately prepared (5) Very prepared	**What should be done to mitigate the risk and what has your association done?**	**What external resources are needed at this time to address these risks?**
Credit risk Will MFIs be damaged by borrowers failing to repay their loans because of overborrowing, poor credit management, poor client understanding or difficult economic conditions.				
Reputation How severe are the threats to the industry's reputation?				
Competition Will competitive pressures push MFIs to take greater risks in areas such as pricing, product innovation and credit quality?				
Corporate governance Are there weaknesses such as low caliber board members or lack of independence?				
Political interference Will political interference harm MFI businesses, e.g. in the areas of interest rates, lending policy and subsidized competition?				
Inappropriate regulation Could MFI growth and profitability be constrained by poor regulations?				
Client understanding Will MFIs fail to understand and respond to the evolving needs of the client in such areas as product appropriateness, client assessment, monitoring and collection?				

4. Assessment and outlook on credit bureaus in the next 18 to 24 months

4.1 Please describe how your members currently use credit bureaus in their operations?

4.2 How is your association involved with credit bureaus? (You may select multiple answers)

☐ Not involved

☐ Supporting the implementation/creation of a credit bureau

☐ Promotion the adoption of existing credit bureaus

☐ Linking members with service providers

☐ Managing a credit bureau

☐ Owning a credit bureau

☐ Other, specify:

4.3 What is the biggest obstacle to promoting greater use of credit bureaus among your members? (Please select one answer only)

☐ High costs

☐ Lack of awareness of benefits/mistrust

☐ Availability of appropriate services that meet the MFI needs

Other, specify:

4.4 What is your outlook on the use of credit bureaus in your market in the next 18 to 24 months?

5. SEEP and your association

5.1 What specific actions should SEEP take to support your association's efforts in risk mitigation and credit bureaus?

About SEEP

The SEEP Network is a nonprofit network of over 130 international organizations that believe in the power of enterprise to reduce global poverty. SEEP members connect in a global learning community to increase their impact in over 170 countries, where they collectively serve over 89 million microentrepreneurs and their families. Through SEEP's learning initiatives, microenterprise development practitioners co-create and exchange strategies, standards, and tools for building healthy economies with a sustainable income in every household.

The SEEP Network
1611 N. Kent Street, Suite 610
Arlington, VA 22303
Phone: +1 202 534 1400
Fax: +1 703.534.1400
Email: info@seepnetwork.org
Website : www.seepnetwork.org