

10<sup>TH</sup> ANNUAL

# Microfinance and the Capital Markets Conference Highlights

NEW YORK CITY

OCTOBER  
23-24,  
2012

As Women's World Banking (WWB) approached its 10th Microfinance and the Capital Markets Conference, it became clear that we needed to move beyond the standard set of issues pertaining to access to capital. With encouragement from Citi Microfinance, sponsor of the Conference, WWB considered the broader, more complex set of issues facing all of us who are working to provide financial access to the 2.8 billion people lacking those services.

The issues that were addressed through WWB's Capital Markets Conference over the years, while critical, are no longer sufficient for an understanding of how to optimize financial and social returns to investors and provide a truly inclusive financial model for clients, particularly women. In fact, an investor conducting due diligence on a microfinance institutions (MFI) today who is not looking at that institution's ability to collect, analyze and use data to understand its clients or its capacity to innovate its products and processes would not be doing due diligence at all. Similarly, organizations that are not tailoring products for women are missing a tremendous business and social opportunity. Looking back over the past ten years, it became clear that the industry has matured—many of the topics that were perennial areas of advocacy for this conference are today, to a great degree, accepted ways of doing business. For example, concerns about currency mismatch have been replaced by low exposure to foreign currency risk, and, where [MFIs are exposed], the 2012 Banana Skins report tells us they have learned how to handle it. Similarly most MFIs have integrated the full scope of risk management techniques into their operations and are actively managing an array of financial and other risks. Given this evolution, the conference too needed to evolve to include the most relevant topics for MFIs and investors today.

The two days of the 2012 Conference were an opportunity for practitioners and investors to discuss a range of trends in the performance of investment funds, equity valuations, the implementation of social performance initiatives, and policy approaches to financial inclusion. But the needs of our women clients and our ability as an industry to meet those needs and enable clients to improve their own lives were the unifying themes. At Women's World Banking, we believe the industry is at an important inflection point where financial and social performance are inextricable and should be approached as such.

The conference opened with a keynote address by Andrea Jung, Executive Chairman of Avon Product. Established in 1886, Avon is arguably the "first"



microfinance institution. Avon has extended more than \$1 billion in credit to women enabling them to earn \$4.5 billion. Through its door-to-door business model, Avon is one of the most customer-centric companies in the world and empowering women to achieve economic independence is key to its mission.

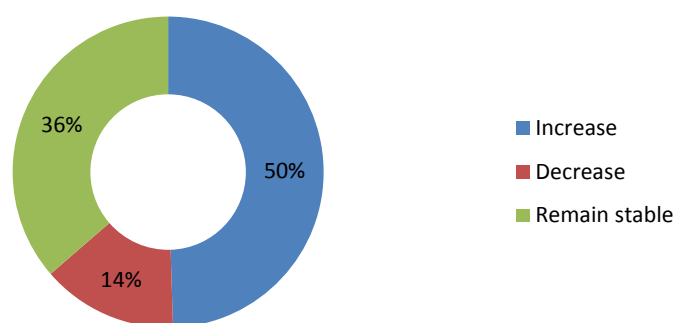
During the conference several common themes emerged all of which have a direct effect on our ability to serve women.

Although there are many new players in the impact investing sector, there is still a need, an interest, and a place for all types of investments in microfinance. Both debt and equity investment activity in the microfinance sector remains healthy. Although panelists acknowledged a “new normal” where microfinance investment vehicles’ (MIVs) asset growth rates are lower than in the past and MFIs’ funding base appear to be slowly diversifying away from MIVs, investment activity in the sector continues to be healthy. In this new environment, equity valuations are more moderate and continue to be revised downward. Furthermore, as the first generation of MIVs reach maturity, investors are starting to exit some of their investments. Exiting, however, continues to be a very challenging process and panelists candidly discussed the difficult emotions involved in finding a new entrant (buyer) to replace a relationship that has been built over the years. Although consolidation in the industry was expected to increase in recent years, panelists do not believe it has played a major role in promoting more exits.

There is a call to align the flow of capital to where it can be used most effectively. Investors have diversified away from microfinance into the broader category of impact investing. Likewise, they are focusing more on underserved and riskier markets. With different kinds of investors moving beyond microfinance, the roles that each may play in catalyzing investments was discussed. The continued need for grant-based technical assistance was raised by several speakers. It was suggested, for instance, that philanthropic investors could play an important part in allocating capital to higher risk projects and in funding research and development. Development finance institutions’ (DFIs) crowding out private players was also discussed but questions emerged about their future role in the industry as some may be under pressure to move away from microfinance into other areas.

There is a call from investors for standardized reporting of both financial and social measures. Many industry players recognize that

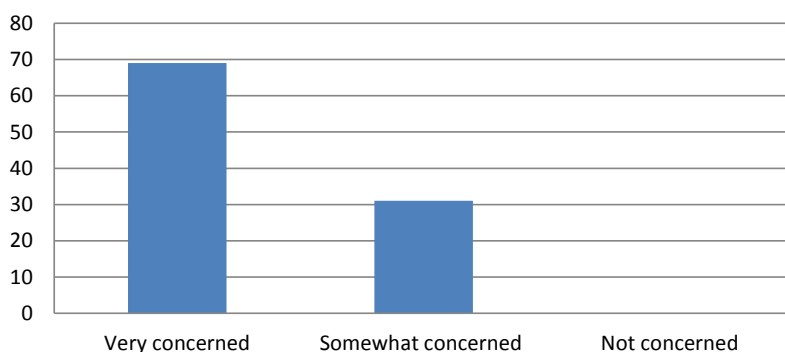
**Interactive Polling: During the next ten years equity valuations and equity fund returns will:**



with the increasing focus on social performance, heavier reporting burdens are being placed on MFIs. Many MFIs spend a significant amount of time reporting to different stakeholders yet the information that is being reported is often not analyzed or used for internal operating purposes. While investors are placing a stronger emphasis on social performance data, they are not yet tracking gender indicators. With more than 80 percent of MFIs claiming to target women as part of their social mission, gender is a key component of measuring both social and financial performance. To this end, WWB presented our Gender Performance Initiative, with the aim of developing a set of universal gender indicators that investors, financial institutions, and other industry players can use to measure how well we are achieving our mission as an industry to serve low-income women clients well.

We have come a long way as an industry from focusing exclusively on financial sustainability to defining social goals and endorsing good social practices. There is a move within the industry to build a common framework and realize the potential of measuring social outcomes, both for institutions and investors. There are still many challenges, including lack of resources, and misalignment between institutional priorities, investor goals, and the universal aim to measure client impact; however the industry has gone through a reflection period after the 2010 crisis and is returning to a dedicated focus on clients.

### Interactive Polling: How concerned are you about data quality?



In order to enhance the understanding of clients' needs and to better serve women, one of the themes that surfaced throughout the conference was the importance of having the right data. This is a very complex issue as MFIs and investors interact in an ever-changing environment. The industry is shifting towards higher quality of data, more timely (on pace with market), more reliable (normalized, validated, tested, transparent), more comprehensive (better coverage) and

more cost effective and therefore sustainable. While there are multiple models for collecting and analyzing data, there is inconsistent reporting. One of the biggest challenges continues to be an institution's ability to go beyond collection and use data to inform their business processes and mission accomplishment. For example, use of Grameen Foundation's Progress out of Poverty Index as a tool has increased by 20 percent year-on-year and there is currently over three years of data on clients' quality of life. But how is this data being used and what can we learn from it? It will be very important to ensure that incentives among different stakeholders are aligned to expand the effective use of the data being collected.

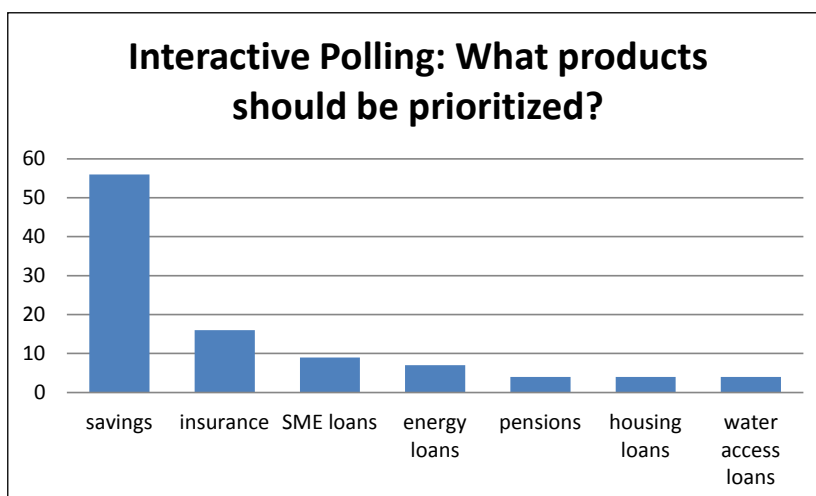
As announced during the conference, we look forward to receiving your feedback on the [“Garbage In, Garbage Out? Data Quality in the Microfinance Sector”](#) paper, which includes many of the points discussed during the conference, as well as potential solutions.


Innovation will be the key to reaching more clients with products and services that meet their needs, but institutions still need assistance in capacity building in these areas.

Investing in innovation will continue to increase as the opportunities to reach scale more cost-effectively enhances our ability to reach the poor. Mobile technology remains one of the most important ways of doing this. Because 87 percent of the world population has access to mobile technology, this represents a huge potential with both political and economic implications. It has been, and will continue to be, transformative for banking and microfinance. Panelists presented new business models in the sector that have successfully leveraged mobile technology. For example, MicroEnsure uses mobile phones as a new channel to provide insurance. It works with 7 mobile partners to provide life insurance based on phone usage. KWFT-DTM, the largest regulated MFI in Kenya, started providing mobile phone banking services in 2009. Some of the benefits include cost efficiency for both MFIs and clients, convenience and safety for women using their mobile phone to access financial services, and improvements in customer care.

There are challenges that still need to be addressed, including the role of government in regulating mobile transactions, infrastructure concerns, and the question of who (the telco or the bank) maintains the customer relationship. However, it was agreed that a move away from cash-based transactions through digital technology can help financial institutions overcome multiple barriers: distance and time constraints, confidence with financial institutions, safety and sustainability of service delivery.

Microfinance continues to move beyond basic financial services to create an ecosystem of products for client well-being. The poor are a very diverse population with varied needs and microfinance has an opportunity to use its distribution system to reach underserved areas and provide access to ancillary services, including housing, water and energy. More than one billion people globally lack access to clean water and a similar number do not have basic sanitation— indeed, more people have cell phones than toilets. This affects women and girls disproportionately as they tend to bear






responsibility for nearly 95 percent of the burden of water collection and related activities. To this end, Water.org has partnered with 24 MFIs to offer water credit in Southeast Asia and East Africa where 85 percent of the clients are women. It provides “catalytic subsidies” (grant-funded innovation projects) for product development and market assessment while MFIs extend the loans. Panelists also discussed financing for energy products, housing, and small and medium enterprises –areas where microfinance has not traditionally served clients at scale. For example, Micro Energy provides credits for clean energy to save money and to offer healthier environments. By installing clean stoves, customers save 45 percent on fuel expense which represent 25 percent of their annual income and reduce the risk of respiratory diseases. In Mongolia, Xac Bank has provided heating stoves and home insulation products to 100,000 households. The business model breaks even in the first year with revenues generated from carbon credit and interest income.

Some of the main challenges discussed in providing ancillary services include:

- MFIs need partners who can provide technical assistance in these areas to increase investment in innovative solutions;
- The capacity of MFIs to absorb training is sometimes limited;
- Lack of access to property title can complicate the offer of ancillary products, particularly for women;
- MFIs may not be able to secure capital with appropriate tenor to offer these products; and
- Corruption may be prevalent in the delivery of certain basic services, which makes the provision of credit even more challenging.

Expanding access to finance for rural populations continues to be a challenge. Information on rural clients is very hard to find; nevertheless, panelists shared some of their approaches in utilizing quantitative and qualitative surveys as well as market research to better understand clients and tailor products. The panel highlighted various integrated approaches to developing new rural-focused products and providing access and technical know-how to rural and agriculture clients.

It became clear throughout the days’ events that institutions will continue to need technical assistance as they expand into new product areas, explore new delivery channels and measure social impact on clients. Institutions also need regulatory environments that support expansion into new markets with new products. As part of the Policy Approaches panel, speakers outlined the ways governments are creating enabling environments for microfinance, through both regulatory frameworks and social and economic development programs. The newly-created Ministry of Development and Social Inclusion in Peru provided an excellent example of how government can take a more comprehensive approach to promoting financial inclusion. It was evident that the next frontier for policymakers is to support innovation in the sector—such as mobile technology—which will truly promote access to finance.



Women's World Banking was privileged to welcome OPIC CEO Elizabeth Littlefield as our keynote speaker on Day 2 of the Conference. She closed her remarks with a vision of the future that we wholeheartedly endorse [in Appendix 1]: we see a future in which there is a plethora of business models competing to serve the poor, and policymakers are educated and creating opportunities for financial institutions and investors to more effectively grow their markets. To reiterate perhaps her most important vision, something that has been our core mission over three decades, we too see a future in which women are an active and valued part of the economy... and we cannot do this without partnering with members of the WWB network and other MFIs, banks, mobile networks operators, investors and policymakers, all of whom believe in the power of financial services to improve the lives of millions more women.

## Appendix 1

### Remarks from Elizabeth Littlefield

President and CEO

Overseas Private Investment Corporation

to the Microfinance and the Capital Markets Conference

October 24, 2012

### FROM MICROCREDIT TO FINANCIAL INCLUSION

If it were not for WWB, I might still be a banker. I might even be rich - the 1%... When I first encountered WWB, I was actually looking for a loan from WWB. I was in the training program at JPM but I was terrified of truly becoming a heartless banker, so I started a program that collected end-of-week food from Wall Street delicatessens to bring it to elderly and shut-in women in Harlem. I needed a loan to buy a van to drive around and deliver the food. WWB sounded like my kind of place. But somehow I emerged from my meeting with Michaela with no loan but having agreed to write WWB's first ever Credit Officer manual with my newly minted credit skills. And that was the beginning of what is now, this very year, a 30 year relationship with WWB. And a great example of the how WWB gets us all to work for the cause. Since then, I have had the privilege of working with fabulous people in the microfinance arena, in the field and in the US, at WWB, then CGAP, and now OPIC. Loren, Bruce, Missy...Did you know that OPIC had quietly built up a portfolio of over \$700 mill, much of it in partnership with Citi? They are a fabulous team - can do, responsive, creative, optimistic and realistic.


When I was asked to join you today to talk about what we have learned over the past decade and what awaits us in the next decade, I was very excited to come to see old friends and also to dip back into to the microfinance world which has meant so much to me.

So, I'd like to offer you 5 things I think we have learned over the past decade and 4 things that I think the next decade will bring.

#### THE PAST

Sustainability: Starting with the basics. It's hard to believe now, but 10 years ago the need for commercial liability was not yet fully embraced and the polemics around poverty vs. sustainability were still at a fever pitch. Slowly, over years, the two sides recognized that sustainability and poverty need not be at odds, and indeed, even among institutions that continue to operate as NGOs, the need to operate in a financially viable basis, in order to grow and maximize impact, became fully accepted. That is no small accomplishment. WWB was a very impor-






tant advocate of sustainability from the outset and many of you showed the way over the years.

Diversity of institution and service: That we need a wide range of institutions, a range of services and service providers, far broader than NGOs and microcredit was the next frontier and it too became fully clear to us all over the past decade. CGAP's strategic focus from 2003-2008 was in fact titled "Diverse Institutions and Services". While micro-finance grew up providing loans, we came to understand that low income people can have even more complex financial lives than rich people do. Erratic incomes are even more problematic for them than absolute low levels of income and they need a broad range of savings and other services to help smooth these inflows and outflows, move money around and reduce risk. In this spirit of diversity, we came to see that partnerships between financial and non-financial institutions can be powerful as each player does what each is best at. That sometimes only together in such partnerships can they effectively provide the services low income households need, whether that be crop insurance, or health services, or finance for a solar panel-powered charging station or clean water. By pulling apart, or disaggregating, the parts of a business model, such as partnerships between telecoms, bank and credit bureaus, we can reach poorer people, more remote communities, all parts of the supply chain, all while reducing costs for both clients and service providers. The exciting range of institutions that are members of Women's World Banking in this very room and the partnerships you have formed is testament to this embrace of diversity of institutions and range of services.

Realism: I hope we have learned over the past decade the dangers of overpromising what microfinance can do. I believe there is now an understanding that microfinance does not solve poverty but it does create the momentum for better lives, especially in subsequent generations, especially when it is accompanied by other needed services. We know that the myth of the women with the sewing machine that expands to a dozen and then a hundred sewing machines and begins to export and get rich, is just that - a myth. More the exception than the rule. But we know that a micro-finance client's family will have better lives than non-clients. Her children will have better health, more consistent education, and especially that her girls will be educated. We know that she will have more options, be more confident, forward-looking and engaged in community leadership and that she will transmit that confidence and empowerment to her children, especially her girls. And, so the next generation, her children, will have higher aspirations, more choices and be better equipped to climb that ladder out of poverty. But thankfully we don't hear anyone saying microfinance alone is THE answer any longer, as we did 10 years ago.

Client welfare: There has been a slow-dawning awareness over the past decade that credit is debt. It can make the poor even more vulnerable if they are over extended and can't pay. For those that did not understand this, or chose to ignore this, a high price has been paid. In ANY dynamic, growing, global new market,



there will be excesses, there will be politics and there will be mistakes made by some few that affect the many. And mistakes from which valuable lessons are drawn. Those lessons are making the industry better and there is today a long-awaited and much-welcome focus on our customers, client welfare and the need for stewardship, protection and appropriateness of product that brings us back to the roots of our social mission.

Government's dawn of enlightenment: A decade ago, the regulators and policy makers would hide when we came knocking at their door. We were always asking them to do things that were hard and unpopular. Like lifting interest rate ceilings or reducing capital requirements or creating other exemptions to their rules. Then came mobile banking and its awe-inspiring success and promise. Suddenly, at CGAP at least, regulators and policy makers were eager for advice on how they could adapt their regulatory environments to allow for this new and exciting collision of telephony, banking and payments systems. Each of which heretofore has its own silo of regulations. With this, and with many years of hard and potent work by WWB and others, policy makers in the vast majority of countries have financial inclusion front and center on their agendas. Micro-finance emerged from being a charming little methodology that worked to a vast and powerful thing that could form the core of the entire financial system in a poor country, one that served the majority of its population! This is a major turnaround and one for which all of you should be very proud; I understand it is a key topic for this afternoon which is great.


So that is five huge accomplishments you all have achieved in the past 10 years - the embrace of sustainability; the need for a wide range of institutions and services, especially savings; the importance of realism and the dangers of over promising; need to focus on customer welfare and the acceptance amongst policy makers of the role of financial systems that work for the majority.

#### VISION FOR THE FUTURE

In the next ten years I see a future that looks like this. Let me close with 4 quick things.

In the next ten years I see us going beyond individual institutions to an Ecosystem of various business models with financial service and other providers both building alliances and also competing - jostling each other, outsmarting each other, all competing ferociously for poor people's custom with ever-better, cheaper and more convenient services. Universal ID systems, combined with globally integrated payments platform extend to every village. Mobile and other electronic payments are transparent, safe and cheap-- allowing rural small-holder farmers to be paid by buyers and shopkeepers to pay for goods using mobile transactions or savings accounts.

Local capital markets, drawing on local savings, provide the vast majority of financing requirements, with complementary and efficient use of inter-



national markets where tenors or size so justifies.

At the policy level, there is a full understanding that role of government is to protect and enable financial inclusion. There is a recognition that low income people are the backbone of economy and any serious financial system must serve them if the country is to prosper.

And finally that WWB has achieved its life-long mission of having the world recognize women as clients, managers and leaders at every level of society. That women's role in every country in the world is seen as being at the core of the economy, and .....as a result the world has become a far more just, fair peaceful and prosperous place

Thank you.

# AGENDA

October 23, 2012

## Opening Remarks

Bob Annibale, Citi Microfinance

Mary Ellen Iskenderian, Women's World Banking

## Keynote Address

Andrea Jung, Avon Products Inc.

## Going Beyond the Rhetoric: Social and Gender Performance

The opening panel will set the stage for in-depth discussions about the ways in which MFIs and MIVs can deepen their double-bottom line objectives, assure more client-focused services, and measure the impact on clients—women in particular—more successfully.

Moderator: Laura Foose, Social Performance Task Force

Carolina Benavides, Mibanco

Rebecca Ruf, Women's World Banking

Emmanuelle Javoy, Planet Rating

Mark Berryman, Deutsche Bank

Sarah Gelfand, Global Impact Investing Network

## Debt and Equity Investments: - Highlights and New Directions

This panel will examine investment fund trends, returns and outlooks. How did MIVs perform in 2011 and what are the prospects for 2012 and 2013? What is the latest on equity valuations? Investor panelists will comment on regional trends and new markets.

Martin Holtmann, International Finance Corporation

Martin Heimes, responsAbility

Deborah Drake, Council of Microfinance Equity Funds

Dirk Elsen, Triodos Investment Management

Patricio Diez de Bonilla, Compartamos Group

## Perspectives from the "Investors behind the Investors"

Microfinance has long been a magnet for both institutional and individual social investors. This panel will explore the ways MIVs must shape their funds to be more responsive to investors' changing priorities. Who are these investors and what returns do they seek? What keeps some interested in microfinance while others may be opting out? How important is social performance?

Moderator: Christina (CJ) Juhasz, Women's World Banking Asset Management

Jonas Ahlén, Storebrand Investments

Lisa Hall, Calvert Foundation

Julia Chu, Credit Suisse

Catherine Muther, Three Guineas Fund

## Garbage In, Garbage Out? Tools for Leveraging Data

Good data is essential in making effective management decisions. However, there is a growing realization that inadequate data may be affecting MFIs' ability to meet their missions. Panelists will present tools and methodologies that increase the value of financial and social data for better decision-making and product design. The tools will help stakeholders improve data quality at the client, institution and investor levels and highlight the risks inherent in bad data quality.

Marten Leijon, MIX Market

Steve Wright, Grameen Foundation

Chuck Olsen, BlueOrchard Finance

Sebastian von Stauffenberg, Luminis

Expert questions from Chuck Waterfield (Microfinance Transparency), Jody Rasch (Moody's) and Nejira Nalic (MI-BOSPO).

## Day 2

### Opening Speakers

Angela Sun, Bloomberg

Elizabeth Littlefield, Overseas Private Investment Corporation

### Reaching Underserved Markets: Progress on Rural and Agricultural Finance

Rural and agricultural finance has its challenges, yet to truly tackle poverty there is a need to support small farmers and rural businesses. Increasingly, various market actors have succeeded in developing financial tools and market opportunities to catalyze this underserved sector. This panel will highlight the integrated approaches of MFIs, MIVs and corporate value chains to provide financial access and technical know-how to rural and agricultural clients.

Nicole Pasricha, Mennonite Economic Development Associates

Carlos Villamayor, Interfisa

Frank Rubio, Oikocredit

David Browning, TechnoServe

### Beyond the Microentrepreneur: New Products for Client Well-Being

Microfinance institutions are delivering more diversified services to meet client needs and remain the "financial service provider of choice" within competitive markets. They provide a valuable distribution channel and financing source for products linked to fundamental needs, such as energy and water. This panel will explore the diversification and "extension" of the MFI product mix to include SME finance, housing, energy, and water access loans.

Moderator: Alexia Latortue, Consultative Group to Assist the Poor

Sandra Prieto Callison, Habitat for Humanity International

April Rinne, Water.org

Tumendemberel Naidorj, XacBank

Hourn Thy, International Finance Corporation

#### Policy Approaches to Financial Inclusion

This panel will explore how governments can promote financial inclusion, through regulatory frameworks that support microfinance, as well as social and economic development programs. Panelists will discuss the critical elements of an enabling environment for microfinance, and how policy-makers can support access to finance.

Moderator: Philip Auerswald, George Mason University

Zulma Espinola, Central Bank of Paraguay

Christian Wessels, Roland Berger Strategy Consultants

Essma Ben Hamida, enda inter-arabe

Jorge E. Arrunátegui, Ministry of Development and Social Inclusion, Peru

#### Mobile Platforms for Innovative Products

Mobile phone technology has propelled new business models that increase outreach and promote product diversification to underserved markets. Yet there are limitations to their application including lagging infrastructure, regulation, and cultural and gender dynamics. This panel will explore ways to leverage mobile platforms in launching new products. What are the lessons learned for implementing this technology and what do investors need to know?

Moderator: Isobel Coleman, Council on Foreign Relations

Jeff Hindle, Scotiabank

Thomas Ko, Citi Global Transaction Services

Millicent Omukaga, Kenya Women Finance Trust DTM

Peter Gross, MicroEnsure

Ruth Goodwin-Groen presents Better Than Cash Alliance.

#### Closing Remarks

Mary Ellen Iskenderian, Women's World Banking

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