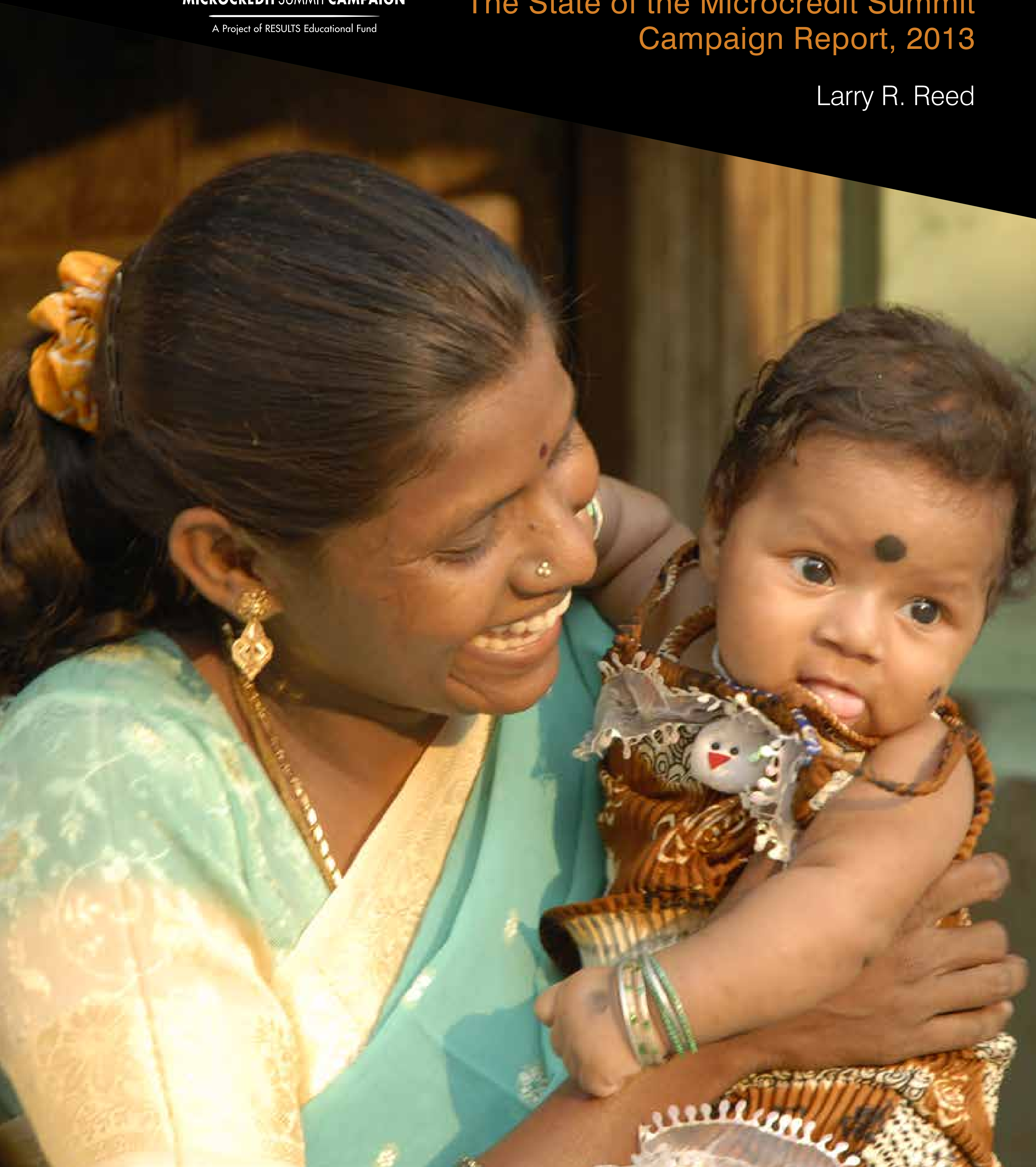
MICROCREDIT SUMMIT CAMPAIGN

A Project of RESULTS Educational Fund

Vulnerability

The State of the Microcredit Summit Campaign Report, 2013

Larry R. Reed



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Vulnerability

THE STATE OF THE MICROCREDIT SUMMIT CAMPAIGN REPORT, 2013

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Vulnerability

Conchita Quintero remains haunted by memories of one of her worst days as a mother. "I brought my 14-year-old first-born son to the hospital with a fever," she says. "He was brought back to me in a coffin."[1]

As a child growing up in Central Luzon, Philippines, Conchita was not able to complete her schooling. "My parents couldn't afford to send me to school because they didn't have enough money,"[2] she says. Instead, she worked all day at home doing laundry. Conchita vowed that she would help her children enjoy more opportunities than she had, but without an education, she has had difficulty finding a secure job. Currently, she makes money selling fish in a local market. Her love for her children and her hard work, however, could not prevent the tragedies that befell her: she lost her eldest son to fever and a younger son to the bite of a rabid dog.

> In 2011, microfinance providers reached fewer people living in extreme poverty than they did in 2010.

When Conchita first met with employees of Alalay Sa Kaunlaran, Inc. (ASKI), a Filipino microfinance provider, she and her children were living on less than US$ 1.25 a day. She received loans from ASKI but also received much more: a place to save and build assets for the future, training in business and in how to access markets with higher value, and membership in a microinsurance association that reimburses her for healthcare expenses for her and her family. Nine years later, she owns a variety store, 2.5 hectares of land, a rice thresher, a buffalo, 3 pigs, 140 chickens, and 1,200 ducks. She is proud that she can send her children to school, but also proud of the legacy of hard work that she has given them.

Not all microfinance clients achieve the same level of success as Conchita, and Conchita herself might not have progressed as much in her business performance had she not worked with a microfinance provider that took the time to understand her needs and provide products and services that helped her address both her vulnerabilities and her opportunities.

The Microcredit[3] Summit Campaign was started to make sure that the 1.4 billion people in the world living on less than US$ 1.25 a day have the same opportunities that Conchita and her children have: the chance to access financial tools and other services they need to lift themselves out of poverty. Every year since 1998 we have collected Institutional Action Plans from microfinance providers around the world to see how many of the world's poorest families have access to these services. And every year those numbers have grown—until this year (see **Figure 1**). In 2011, microfinance providers reached fewer people living in extreme poverty than they did in 2010. In this report, we look at why this occurred and what the microfinance community can do to improve the products and services it provides to those struggling to manage their vulnerability on limited incomes.

[1] Opportunity International Australia, 2012, "Conchita's story," YouTube video, posted by Opportunity International Australia, March 12, 2012, http://bit.ly/ConchitaQuintero.

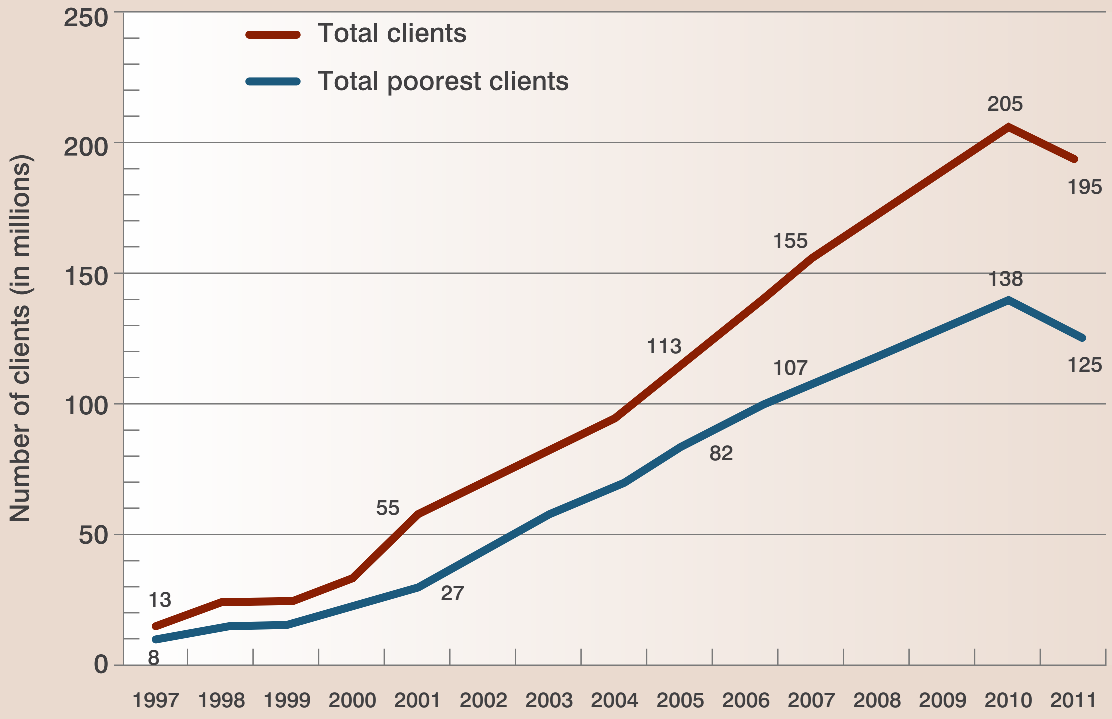
[2] Ibid.

[3] For the purpose of this report and the Summit's 19-year fulfillment campaign, any mention of "microcredit" refers to programs that provide credit for self-employment and other financial and business services (including savings and technical assistance) to very poor persons.

Reaching Fewer

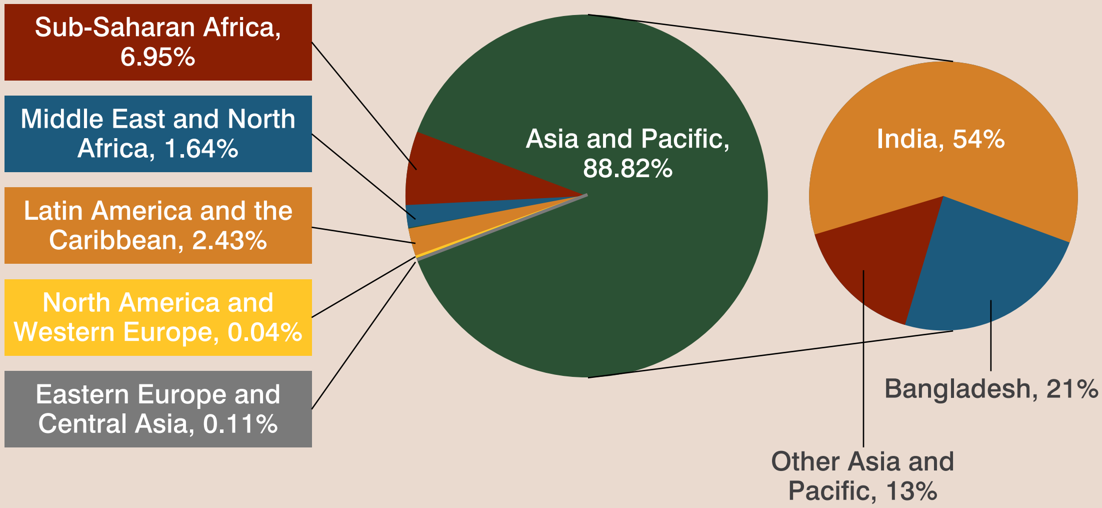
Figure 1: Growth of Total Clients and Total Poorest Clients

(December 31, 1997, to December 31, 2011)



At the end of 2011, fewer of the world's poorest families received access to microcredit and other financial services than in 2010. This marks the first time since the Campaign started recording Institutional Action Plans in 1998 that both the total number of clients and the number of poorest families reached declined from one year to the next.

Figure 2: Poorest Clients by Region



Most of the reduction in clients happened in India, in the aftermath of a microfinance lending crisis in the state of Andhra Pradesh in 2010. Rapid growth by many microfinance institutions (MFIs) in the state led to overlending—multiple loans to the same borrowers—and, in some cases, harsh collection practices. Allegations of client suicides spurred the state government to enact legislation that severely restricted the ability of MFIs to make and collect loans. Many MFIs shut down lending operations in Andhra Pradesh, where a majority of their clients lived. In addition, banks and international investors stopped making investments in Indian MFIs, so the flow of funding to MFIs dried up. The slowdown also affected lending to self-help groups (SHGs), which are self-managed savings and lending groups of 10–20 people, mostly women. The National Bank for Agricultural and Rural Development (NABARD) operates a program that encourages Indian banks to lend to SHGs, and it reported more than 10 million fewer clients for this SHG program, as of March 31, 2012, than in 2010.

A recent report by the Microfinance Institutions Network in India summarized the impact of the crisis.

> *During the year 2011–12, for the most part, the industry continued to struggle with the devastating effects of the Andhra Pradesh Microfinance Institutions (regulation of money lending) Ordinance/Law, 2010. Funding constraints and negative perceptions combined with higher operating costs remained all too real challenges to the growth of the industry. On a pan-India basis, all indicators…deteriorated. Not surprisingly, the decline was directly attributable to nonperforming portfolios in Andhra Pradesh (AP) and performance of AP-based MFIs.*[4]

[4]Microfinance Institutions Network, 2012, "The MicroScape 2012" (New Delhi, India: MFIN).

We Are as Vulnerable as Our Clients

Excerpted from an interview with Vijayalakshmi Das, managing director and promoter director of Ananya Finance for Inclusive Growth (Pvt.) Ltd. in India*

For additional interview highlights, please visit http://bit.ly/boxVDas

Commercialization of the microfinance sector has driven the growth much faster than the sector could absorb. The growth was 200%, 300% growth, amazing. Then there were lots of other pressures that came with growth and everybody's interest had to be taken care of. Maybe in the priority list, client interest became the least important one.

Somehow we distanced ourselves from our clients.

What intrigued me was why the clients were not coming out and saying that these are the institutions which are critical for our economic being. Somehow they were very silent. The people were not there with us. That is one of the horrible things that had happened in the crisis, and it is also a truth that hit us on the face. It shows how we haven't done things properly. So it is important for us to do something differently now.

[An estimated] 60% to 70% of [Ananya Finance's] partners are institutions that are in the non-profit sector, which are doing the much deeper work of poverty alleviation. To them, credit is only one activity. Many of them combined lots of other activities—healthcare, insurance, income generation, business training, children's education. These institutions are also not very big, you know; they have 20% to 30% growth rate every year. They do very intense work in a specific area.

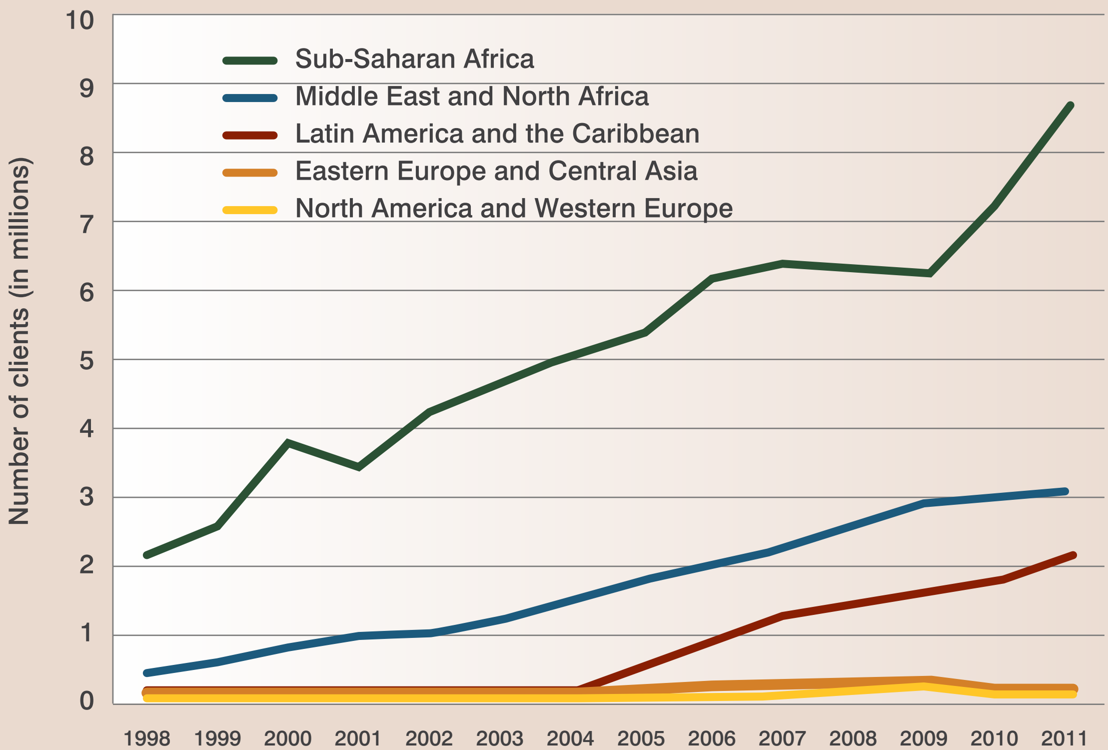
The clients we serve are very vulnerable, all of us know. We have to work with them to help them to come out of this. Today we need to recognize that we are as vulnerable as our clients. The crisis has told us that it is time for us to invest more time in understanding our clients and their needs and then respond accordingly. That is very important.

* Interview excerpts and direct quotes not cited in the text are from interviews by the Microcredit Summit Campaign.

India was not the only country to see a reduction in clients. MFIs in Bangladesh responded to political uncertainty and fears of an over-saturated market by lending to some 600,000 fewer clients in 2011 (and reached even fewer clients living on less than US$ 1.25 per day). Reductions in these two countries had a major impact on worldwide totals: together the two account for 62% of the world's microfinance clients and 76% of those living in extreme poverty.

Other regions of the world showed different growth patterns. The number of poorest clients served slowed in Asia, Eastern Europe and Central Asia, and Latin America and the Caribbean; rebounded from slow growth in 2010 in the Middle East and North Africa; and accelerated in sub-Saharan Africa, mostly owing to the growth in savings groups promoted by CARE, Save the Children, and Oxfam America.

Figure 3: Growth Rates of Poorest Clients, excluding Asia and Pacific **(December 31, 1998, to December 31, 2011)**



Top 10 Reasons That Fewer Loans Are Going to the Poorest

What has caused a reduction in microfinance clients worldwide? And why have all of those reductions been from the poorest clients? Here are our top 10 reasons.

10. **Andhra Pradesh crisis in India**—Our reports show that India accounts for almost all of the reduction in clients worldwide. Most of these reductions come from Andhra Pradesh, where fast growth led to overlending, cases of harsh collection practices, and heavy regulation from the state government. Many MFIs and banks stopped lending to microfinance clients and self-help groups as a result.

9. **Maturing markets**—Some of the fastest growing markets in the world, including Bangladesh and parts of Latin America, have reached a point where a large proportion of the people most easily reached have become clients, and MFIs' growth is slowing as they seek ways to lower costs and reach more remote and more difficult markets.

8. **Global economic crisis**—Microentrepreneurs and the financial institutions that serve them could not remain insulated from the worldwide economic crisis. Less economic activity in the developed world meant less tax revenue and greater focus on domestic spending by Western governments. It also led to a drop in donations to international charities. Remittance flows dwindled, which negatively affected economic activities in towns and villages dependent on income from family members in other countries.

7. **Investor wariness**—Banks and other investors in India and other countries curtailed their investments in microfinance, while international microfinance investment vehicles continued to invest almost three-quarters of their funds in Eastern Europe and Latin America, regions with less outreach to the poorest.*

6. **Donor fatigue**—Many bilateral donors have reacted to growing commercialization and negative press by reducing their support for microfinance. This means less funding is coming in for groups that may need subsidies to build sustainable programs to reach poorer and more remote clients.

5. **Herd mentality**—MFIs find it easier to operate in locations where other MFIs have already developed the market. Investors find it easier to invest in MFIs where other investors have already done the due diligence. The result is a piling-on effect that eventually leads to bad debts and a retreat from the microfinance market.

— continued on page 11

Top 10 Reasons, *continued*

4. **Patchy information**—Global reporting on microfinance activity (including our own in this report) shows data by country. This disguises the fact that, within a country, some locations may have more than enough microfinance services available while others have very little. Without accurate and timely maps that localize activity, it can be hard to see which markets are overheating until it is too late.

3. **Better measurement**—In the past few years, many MFIs have more widely adapted poverty measurement tools, such as the Progress out of Poverty Index®, Poverty Assessment Tool, and the Food Security Survey. The MFIs that employ these tools often find that the number of the poorest that they are serving is less than they originally estimated. This means that some of the reduction in numbers of the poorest being served reported to us is due to more accurate reporting on the number of poorest clients.

2. **Misaligned incentives**—The market provides few rewards to those MFIs that reach poorer and more remote clients because reaching these clients usually entails higher costs and smaller margins. Without ways of recognizing those that reach the poorest, MFIs will have few incentives to extend to this market and will find it difficult to attract funding to do so.

1. **Myopic focus**—For many years, the indicators used to measure microfinance performance have focused on numbers of clients and the sustainability or profitability of the institutions that reach them. These indicators tell us little about whether we are achieving the real aim of microfinance—helping people lift themselves out of poverty. Without tools to measure our ultimate ends, we satisfy ourselves by measuring our means instead.

* Symbiotics, 2012, "2012 Symbiotics MIV Survey: Market Data & Peer Group Analysis," (Geneva, Switzerland: Symbiotics), http://bit.ly/MIV_survey.

The microfinance industry remained highly concentrated in 2011, with 20 institutions accounting for 76%, or 95 million, of all clients. **Table 1** on the following page shows the top 20 microfinance providers that reported to the Campaign in 2012. Of the top 20, 17 are located in Asia (including 9 in India and 5 in Bangladesh), 2 in Africa (both in Ethiopia), and 1 in Latin America.

Table 1: Top 20 Institutions Reporting in 2012

(December 31, 2011)

Rank	Organization	No. of poorest clients	% of global total	Country
1.	National Bank for Agriculture and Rural Development	45,286,197	36.43%	India
2.	Grameen Bank	8,370,000	6.73%	Bangladesh
3.	Association of Asian Confederation of Credit Unions	8,235,000	6.63%	Thailand
4.	Bangladesh Rural Development Board	5,400,000	4.34%	Bangladesh
5.	SKS Microfinance Ltd	5,311,294	4.27%	India
6.	ASA Bangladesh	3,705,335	2.98%	Bangladesh
7.	Vietnam Bank for Social Policies	3,434,262	2.76%	Vietnam
8.	BRAC	2,930,000	2.36%	Bangladesh
9.	Bandhan Financial Services (Pvt.) Ltd.	2,458,563	1.98%	India
10.	Sri Kshetra Dharmasthala Rural Development Project	1,588,512	1.28%	India
11.	Share Microfin Ltd.	1,550,690	1.25%	India
12.	Equitas Micro Finance India (Pvt.) Ltd.	1,355,044	1.09%	India
13.	Asmitha Microfin Ltd.	865,838	0.70%	India
14.	Mahila Arthik Vikas Mahamandal Ltd.	788,965	0.63%	India
15.	AgroAmigo-Banco do Nordeste do Brasil S/A	735,809	0.59%	Brazil
16.	Central People's Credit Fund of Vietnam	716,000	0.58%	Vietnam
17.	Amhara Credit and Savings Institution	687,516	0.55%	Ethiopia
18.	Ananya Finance for Inclusive Growth (Pvt.) Ltd.	635,709	0.51%	India
19.	Oromia Credit and Saving Share Company	502,540	0.40%	Ethiopia
20.	BURO Bangladesh	417,416	0.34%	Bangladesh
	TOTAL	**94,974,690**	**76.41%**	

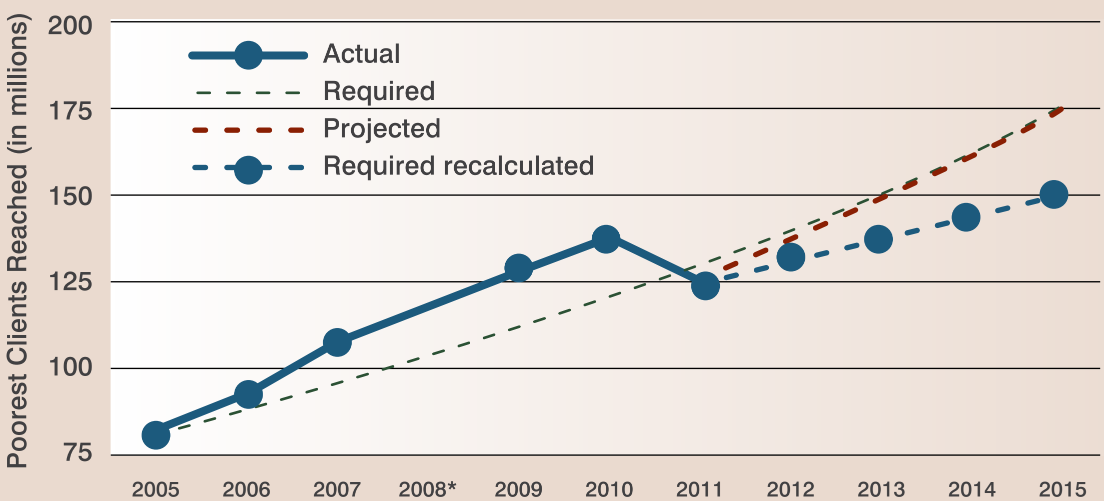
The Microcredit Summit Campaign has two goals:

1. Working to ensure that 175 million of the world's poorest families, especially the women of those families, are receiving credit for self-employment and other financial and business services by the end of 2015
2. Working to ensure that 100 million families rise above the US$ 1.25 a day threshold, adjusted for purchasing power parity, between 1990 and 2015

Last year we reported, "We are on track for achieving the first goal by the 2015 deadline, although the setbacks in such places as Andhra Pradesh put our steady growth at risk." This year we see in the data reported to us that the risk has been realized, and we are no longer on course to achieve our first objective.

Figure 4 gives the trajectory of growth by the microfinance industry since 2005 in reaching the poorest and the year-to-year growth required in order to meet our 2015 deadline for goal 1. Average growth between December 31, 2009, and December 31, 2011, has been 4.8%. If we continue on this path, we will be shy of the goal by nearly 25 million clients.

Figure 4: Growth Trajectory of Poorest Clients Reached
(2005–2015)



NOTE: *Did not collect in 2009 for December 31, 2008 figures.

Achieving our goals of reaching the world's poorest families and providing them with tools to aid their climb out of poverty will require more than a focus on growth. It will require a new understanding of our clients' needs, preferences, and aspirations, as well as new tools for delivering products and services to them at lower costs.

Excerpts from "Microfinance in India: A Way Forward"

Grameen Foundation President and CEO Alex Counts reflected on the recent crises affecting microfinance by thinking, reading, writing, and interviewing people. He presented some of his findings in a talk given at the Sa-Dhan/FICCA Annual Conference in New Delhi, India, in August 2012. These edited excerpts highlight the experiences of two institutions working in challenging, saturated environments and how they overcame the difficulties.

First, let's turn to Bolivia. If India's microfinance sector was at its heyday in 2009, Bolivia's was at a similar place 10 years earlier, in 1999. Well, within months of this moment in time, things went badly. A political movement against microfinance that included some dissatisfied clients, opportunistic politicians, and professional organizers accused MFIs of exploiting the poor by charging high interest rates and using coercive collection practices. Blockades were set up in front of MFIs' offices, repayments plunged, and there was a general loss of support for microfinance in civil society.

One Bolivian organization was able to navigate the 1999–2001 crisis better than most: a non-governmental organization (NGO) called Crecer. During the crisis, their portfolio-at-risk rose, but not by much. Their staff and clients were often allowed to pass the blockades that were set up. The question is, why? My research has so far focused on four aspects of Crecer's approach that enabled it to weather the crisis relatively unscathed:

1. Once Crecer was consistently profitable, it began progressively reducing its interest rates and providing free life and accident insurance to its clients.
2. Crecer promoted a client-centric culture that [ranged from] providing free nutrition and health education to calling its borrowers "members."
3. Crecer's leaders resisted the encouragement of many to convert into a for-profit finance company because they did not feel it was consistent with their organizational purpose.
4. They were active in FINRURAL, the [national] association of NGO-MFIs, and its work advocating for supportive policies. Crecer's CEO often chaired FINRURAL's board.

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Microfinance in India, *continued*

Let us now turn to Bangladesh. How was Grameen [Bank] able to thrive for decades in the face of stiff competition, unstable governments, and periodic bursts of religious fundamentalism? I see seven basic reasons that are relevant to the context in India:

1. Constant tinkering with its products to create more value for clients
2. Including active roles for clients in ownership and governance
3. Promoting savings from its inception
4. Placing strict limits on [compensation] for its executives
5. Customiz[ing] credit products to fit the cash flow needs of clients (This was done despite the fact that it created major problems for the bank's IT systems, as well as the need to retrain its staff.)
6. Rather than "zero tolerance" [for missed loan payments], practicing what you might call "infinite tolerance" for legitimate cases of clients unable to pay according to the original schedule
7. Creating a "balanced scorecard" for evaluating staff and branches, in the form of a five-star system, that included three measures of financial performance and two of social performance

[These are my reflections on] what might guide us from experiences abroad and what I think we should do going forward.

To read Alex Counts' full speech, please visit http://bit.ly/AWayForward.

The Promise of Mobile Technology

Will mobile technology provide the delivery system that allows us to ramp up access to financial services and realize universal financial inclusion? Will it allow us to reach the poorest and rural populations in greater numbers with more cost-efficiency? Will it enable other countries and regions to catch up to India's and Bangladesh's outreach? Will it help us make up ground lost this last year?

Rodger Voorhies, director of Financial Services for the Poor at the Bill & Melinda Gates Foundation, explains how digital technology can overcome barriers to expanding financial services to those living in poverty.

One of the barriers that stands out really dramatically is that there is a real economic cost to transactions that poor people do. Unless you can overcome that in a sustainable way, we can't imagine that you will actually reach down with financial services to poor people. The costs of these transactions are just too expensive unless you can get them in some sort of digital format…

Digital transactions solve two problems. One, they fundamentally lower the cost of transactions over cash and even over some of the best IT systems…Once you move a transaction to be digital, it…drops the cost structure dramatically. The second thing it does is that it begins to shift from a variable cost structure to a fixed cost structure, so you're paying for the overall cost of the infrastructure required, but you can distribute that over thousands and millions of transactions.

The problem with seeing someone in a banking environment is that every time you see them it costs you money. And when I look back on my experience of running a bank for low-income people, we were constantly overwhelmed by the number of people that were in the branches. Now you can do that if you're offering credit because the margins are big enough that it's worth all that face time you have with the customer, but when you're talking about savings services or payment services or other kinds of services, the margins aren't the same and the income streams are not the same, and it becomes really, really difficult to overcome those transaction costs.[5]

(For more from Rodger Voorhies, please visit http://bit.ly/boxRVoorhies .)

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[5]All interview excerpts and direct quotes not cited in the text are from interviews carried out by the Microcredit Summit Campaign.

The Bill & Melinda Gates Foundation, together with Citi, the Ford Foundation, the Omidyar Network, USAID, UNCDF, and Visa recently formed the Better Than Cash Alliance in order to "empower people by accelerating the shift to electronic payments." This alliance seeks to bring together "governments, the development community, and the private sector [that] make billions of dollars in cash payments to the poor" in order to achieve "improved economic security for millions of low-income and poor people, many of whom were previously unbanked, enabling them to use bank or electronic accounts to build savings and assets via innovative payment technologies."[6]

So far, though, digital technology has provided more promises than results. The biggest success to date has not been in building savings and assets, but in transferring money between friends and family and making payments. M-PESA, a mobile payment system started in 2003 and provided in Kenya and other African countries by Safaricom, now reaches over 70% of Kenyan households. Tavneet Suri of Massachusetts Institute of Technology and William Jack of Georgetown University found that 50% of M-PESA users are unbanked and 41% live in rural areas. Microfinance Opportunities (MFO) studied how Kenyans use M-PESA by tracking the daily cash flows of a large number of M-PESA users. Those they surveyed used the service primarily to transfer money from urban areas to family members in rural areas.[7] "Our data do not support the idea that people use M-PESA for savings," the study concludes. "The average daily balance of our median respondent was about US$ 3.70. Our data show that almost 70% of the money going into an M-PESA account leaves that account before any new money is put in, and in 88% of those cases, the e-money is cleared out of the account on the same day it is received."[8] On the other hand, the MFO study also found that M-PESA played an important role in helping clients manage financial emergencies, such as hospital bills.[9]

M-PESA plays an important role in helping clients manage financial emergencies, such as hospital bills.

MicroSave conducted another study of how financial institutions in Kenya are adapting to the M-PESA phenomenon. More than 75 financial institutions in Kenya now work with Safaricom to provide mobile banking to their customers, but the customers have found the services difficult to use and filled with processing delays and errors. Further, getting the banks' software systems to interface with Safaricom's in a way that ensures that payments are deposited quickly with the correct account has proved to be an ongoing challenge.[10]

[6]http://betterthancash.org/about/our-vision-and-goals/.

[7]William Jack and Tavneet Suri, 2010, "The Economics of M-PESA: An Update" (Chicago, IL, USA: Consortium on Financial Systems and Poverty, University of Chicago), http://bit.ly/Jack-Suri2010.

[8]Guy Stuart and Monique Cohen, 2011, "Cash In, Cash Out Kenya: The Role of M-PESA in the Lives of Low-Income People" (College Park, MD, USA: Financial Services Assessment Project, University of Maryland), 10, http://bit.ly/Stuart-Cohen2011.

[9]Ibid, 66.

[10]Mukesh Sadana et al., 2011, "Analysis of Financial Institutions Riding the M-PESA Rails" (Lucknow, India: MicroSave), 3, http://bit.ly/Sadana-etal2011.

Better Than Cash?

Edited excerpts from an interview with Robert Annibale, director of microfinance at Citi in the United Kingdom

For additional interview highlights, please visit http://bit.ly/boxRAnnibale .

The Better Than Cash Alliance is the coming together of a range of stakeholders that are looking at how to promote the digitalization of what are often cash payments today. Clearly, moving from cash to electronic payments leads to an efficiency and a transparency at lower cost, but it also offers a much greater potential outreach to many people at a much lower transaction cost. Payments are often a beginning point for a trajectory of other financial services. And that's where financial inclusion comes in.

Perhaps what's most exciting to many of us, who are thinking beyond the payments platform and integrating mobile platforms into today's banking system, is the opportunity to perhaps have a first contact where a person has the ability to store some value. It may be a starting point for many people to have what could be the appropriate-for-them type of transaction account.

Electronic payments may free MFIs up to spend more time with people, both [for] understanding their needs and developing the products that address those needs and add value, rather than on carrying and collecting cash. A lot of time is currently wasted on the mechanics.

By the very nature of it, there will be new types and models of partnerships in most countries. But as most governments ultimately expect there to be competition, you're going to have proprietary systems. When you go back to things like debit cards and credit cards, originally they were proprietary. Today you can use them anywhere. All those networks are incredibly linked to a vast array of bank platforms and clearing systems. So the more we link this, the more governments can make payments or we can make payments and small producers can get paid by all kinds of counterparties, and NGOs can make payments out or receive repayments back. Whether you're initiating it on a phone or from a bank account or not, the important thing is the interconnectivity.

In terms of uptake, I imagine it's going to be answered by who's got the most efficient and effective system for clients, so they [clients] have confidence and go back. For most of us, it's like going to a website or anywhere where the functionality is poor: we very rarely go back. If you think of the alternative of the old bank payments and check clearing system, all this looks a lot more efficient than what even many, many middle-class people [had] available from their banks for a very long time in these markets.

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Better Than Cash?, *continued*

Once you have more confidence, whether in a bank account or in an electronic form—that it is actually something you can always get when you need it—you may be more apt to store some money there and leave some on the card and take it out as needed, which I think may just help many people to manage spending or using money differently.

Digital transactions and mobile payment systems may be a tool leading to fuller financial inclusion. Yet there's no silver bullet there. Nobody is pitching it like that, but we do think it's going to allow governments and NGOs and individuals and businesses to interact a lot more efficiently with each other and much more directly.

And I really think that's a big difference for small producers in rural areas or buyers of products or anyone receiving a small remittance. What a difference not to have to go through a middle man. And we know in Kenya, people use it now, for example, to pay school fees. They don't have to send the children with cash to school; they don't have to hope somebody up-country in their family is really going to use the money for what they sent it for. So I think it's very empowering for people to be able to just have more control, just as we all do.

What has been very interesting is how quickly technology has been picked up by the poor. In the end, they may be moving faster than you are. And it may be seen as an asset because it may liberate them from some of the processes that our own inefficiencies have resulted in clients having to bear. Our own inability to deliver cash meant they had to go find it. And so I think it's about how does this become useful in our own institutions, but also for our clients. And the thing is, sometimes microfinance will embrace it very quickly and other times, maybe not. The clients will be the ones who really judge ultimately whether you add value in the process.

Digital transactions can contribute significantly to achieving the goal of full financial inclusion, but there is much work left to be done. Mobile technologies make it possible to provide the very poor and the most remote clients with financial services at an appropriate price. So far, though, we do not have breakthroughs in asset-building financial services that match the rapid growth of payment services. To do that, we will need to go far beyond using mobile technologies for processing payments. Rather, we will need to use this technology to re-engineer financial services for the poorest so that we can provide more relevant services at lower costs—services that are informed by a much better understanding of clients' cash flows, needs, aspirations, and preferences.

The Psychology of Scarcity

Give a group of well-educated college students a game to play in which they experience scarcity and how do they behave? Much like people who live in poverty of one form or another, it turns out. They borrow more than they should, economically speaking, and they are willing to pay a high price to borrow. That is what Eldar Shafir, William Stewart Tod Professor of Psychology and Public Affairs at Princeton University, found in his experiments with Princeton students. Shafir, along with Sendhil Mullainathan, professor of economics at Harvard University, developed a concept they call the "psychology of scarcity." They compare living with scarcity to packing a suitcase. If you have a small suitcase, you have to think a lot about what you put in and how much space it will take up. For every new thing you put in, you have to decide what you will take out to create space. On the other hand, people packing large suitcases spend very little time thinking about what they put in, since there is plenty of space for all that they might need.

Scarce resources lead to a high demand for borrowing and a willingness to pay a high price for doing so.

Shafir and Mullainathan describe three effects of living with scarcity:

1. **Tunneling:** Time horizons shorten as people focus on managing the next imminent crisis or need, which also causes them to neglect other needs or crises.
2. **Borrowing:** People will borrow from the future to take care of immediate needs, sometimes at very high rates, even if this makes them less well off in the long term.
3. **Distraction:** Scarcity creates stress, which causes people to perform less well in decision-making tasks.[11]

This research helps explain some of the psychology that can lead to an over-indebtedness crisis, such as happened in Andhra Pradesh. Scarce resources lead to a high demand for borrowing and a willingness to pay a high price for doing so, allowing microcredit to grow rapidly. If a lending institution focuses on its own growth and not the well-being of its clients, it can make loans that may make their clients worse off financially in the long term.

[11]Eldar Shafir and Sendhil Mullainathan, 2012, "On the Psychology of Scarcity," presentation to the 2012 Social Enterprise Leadership Forum, Columbia Business School, New York, NY, May 18, 2012, http://bit.ly/Shafir-Mullainathan2012.

On the Psychology of Scarcity

Edited excerpts from an interview with Eldar Shafir, William Stewart Tod Professor of Psychology and Public Affairs at Princeton University, and co-founder and scientific director at ideas42, a social science research and development lab

For additional interview highlights, please visit http://bit.ly/boxEShafir .

We have an analysis of vendors in a market in India where they take a loan every day to buy their produce. It's very hard to call them procrastinators or myopic. They work extremely hard, yet they were borrowing at 5% a day—and you could see that if they rearranged their loans and payments, they could take a loan every 3 days, but instead they kept borrowing every day at 5%—and something looked very extreme there. Examples like that have led us to what we now call the "psychology of scarcity," and the general argument is that not having enough creates particular psychologies that yield particular behaviors that are endemic to focusing on how to make ends meet.

And the next step we're talking about is the scarcity trap. Once you end up there, it's often very hard to get out because now you owe interest, so you're poorer next month. So it's the moment that gets you into the trap that makes it hard to exit. Scarcity leads you to borrow in ways that are not insightful; the same person would do much better had they just been a little bit less poor. And, of course the implication of all this is that people like you [have] a real role to play because if you do the right things to diminish the stress of scarcity, you can really make a big difference.

So when you're dealing with scarcity, the tendency to overborrow and be myopic is one of the features. Another one is you're just doing less well in divided attention and cognitive control. Your fluid intelligence is significantly lowered; in some metrics it compares to roughly 12 points on the IQ scale. We need a renewed awareness of the challenges that come with living under scarcity. And, what that means is your bandwidth, your ability to attend to things, is severely diminished, and whatever I can do to help you on that could make a big difference. We tend to be very blind to all that.

If you take somebody [dealing with scarcity], the last thing you want to do is impose more demands on them of the kind that require cognitive control and attention. So any financial institution, any policy maker needs to be super aware: what can I do to facilitate those issues? It could be getting payments weekly, rather than monthly, that might facilitate to some extent your management of everyday scarcity. It could be defaulting you [the client] into the right thing, as opposed to requiring you to remember to apply and do it.

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On the Psychology of Scarcity, *continued*

The general microfinance pride in being very rigid is a question here. Is it your job to educate the person or help them deal with their bandwidth? If it's the latter, it may very well be [that] being flexible and giving me two extra days can make a big difference. It could really alter a bit how beneficial we think it is to be rigid if we take seriously the difficulties you have dealing with scarcity as opposed to negligence or personality issues.

It's very clear: it doesn't have to take a psychologist or economist to agree. You really have to understand the nuances before you can come up with solutions. The idea that you can do just a standard formula is passé.

Monique Cohen, founder and president of Microfinance Opportunities, says that the key to designing appropriate products for clients is a much better understanding of how they use money. "If you understand the temporal flow of money and spatial flow and the networks in which these transactions are made," she says, "then you can understand how you can develop a financial product that will support them and the behaviors with which they feel most comfortable and which will serve their greatest interest." She also warns that clients may need clear explanations of how new products and services can bring increased value.

> *I think we make a lot of assumptions about what clients know and don't know about products and services. We assume that if you present the product, the person will use it, will know how to use it, and will figure out why it is good value for them. And we offer very limited explanations. We tend to tell people how the product is going to be delivered rather than the attributes [of the product] and why it would add value to them. Most people learn how to use a product by trial and error, and frequently, because they have limited information, they make wrong judgments or they make judgments that don't serve their own personal self-interest. But in the absence of any appropriate information, it is trial and error.*

> We make a lot of assumptions about what clients know and don't know about products and services. We assume that if you present the product, the person will use it, will know how to use it, and will figure out why it is good value for them.

Luisa Brunori, professor and director of the International Microfinance Observatory at the University of Bologna, points to the psychological importance of group meetings as a

The Psychology of the Group

Excerpts from an interview with Luisa Brunori, professor and director of the International Microfinance Observatory at the Bologna University in Italy

For additional interview highlights, please visit http://bit.ly/boxLBrunori .

Wherever you create circumstances [that] can help the vicious circle [of extreme poverty] become virtuous, there is where you can help these people come out from poverty.

About 10 years ago, I was talking about "the economy of the group." One of my colleagues told me, "You speak a lot about the economy of the group. Do you know that in Bangladesh there is a mad man who is lending money on trust to people all together, put together in a group?" So from there, I [began] to follow this research and understand the psychological development that people have through these tools—which are the group, which are trust, which are all the relational settings—that have been created around the microcredit story.

When Professor Yunus came here [to Bologna] the first time, I asked him, "Why the group?" And he told me, "If you are afraid to do something new, suppose you ask a friend to come with you. You ask a friend to go with you and both of you are afraid, you ask a third one. And so when you have a good enough group, then you have courage to go there." And I thought it was a fantastic metaphor because I think this is what happens for those women that start this very, very important experience and adventure.

The person who is in charge of the [microfinance client] group should be a person who is able to develop from the group and from each individual in the group the conditions for each of them to come out or to transform this vicious [cycle] into a virtuous cycle. [Further], if we want to help the borrowers develop their own knowledge and their own possibilities, I think for the officers [too] there should be an attitude to help them in always doing their work better and better.

If we focus on the idea that the group is the tool, then we have to give value to the group, to empower the group. Empower the group means to give back to the group the power to manage the whole situation. The practitioner should be the one who helps the members of the group find win-win solutions. The research of the solution that helps each other win [is] because each needs the other and they have to find a way to create this atmosphere based on dynamism: reciprocity, altruism, resonance, mirroring, and similar aspects.

So, when you are in this situation of the group, when you see your friend who is able to do something, this can enhance the mirroring process. So, if Anna is able, I might be able as

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The Psychology of the Group, *continued*

well. I may not, but she may help me. If she helps me a little bit, I may be able—and so on, creating a reciprocal system of mutual help, of reciprocal respect, of understanding of the difficulties. So, if Anna shows me that she is in difficulty, I can feel a little bit relieved because I also am into a difficult situation. So, all these [aspects] of mirroring, of resonance, of mutual respect and support are something that gives back to these individuals the courage to make this kind of transformation.

place to gain confidence and learn new behaviors. Saving and borrowing groups, she says, provide a place of "mirroring, of resonance, of mutual respect and support…[They] give back to these individuals the courage to make this kind of transformation." In other words, groups can provide positive role models and a vision of a different future for their members that get reinforced as often as the groups meets.

Paul Zak, professor and director of the Center for Neuroeconomics at Claremont University, also emphasizes trust as a key part of economic development for individuals and for nations. "[Studies we did] at the World Bank," he says, "showed that measures of interpersonal trust were among the strongest predictors we ever found of telling which countries will be rich and which countries will be poor." The type of trust that Zak refers to goes beyond "trust, which is based on long-standing social relationships or marriages or clans…When generalized trust goes outside that clan, then the opportunities for mutually beneficial transactions are larger and therefore wealth actually increases at a faster rate." Zak points to microfinance groups as a place where these relationships of trust can grow and "where you can take a group and help everybody in the group potentially be more successful, be healthier, have higher incomes." The relationship between the staff of an MFI and its clients, whether they are served in groups or as individuals, creates a place where those living in poverty can build relationships of trust with people who have connections outside their own community.

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Zak's research on trust led him to observe what happens to chemicals in the brain when we experience economic transactions that demonstrate trust. "In the last 10 years, we have discovered this molecule called oxytocin that lives in the human brain and is particularly potent in making us care about the outcomes of others. When someone trusts you with their money intentionally, the brain releases this molecule." Zak highlights three values that microfinance providers need to display in order to initiate this virtuous circle of reciprocal trust.

> *First, we need transparency, so come in and be very transparent about the cost and the benefits, about the things that you will be doing. Show them the books. Let them interact with other people who have gotten microfinance loans. Make sure they really understand what is going on and they can see you as a real human being. The second is to treat each individual with equal amount of respect and dignity. [Third] is accountability…I think both sides in the relationship have to be accountable. What I like about microfinance is that it is not a gift, it's a loan, so both sides need to be accountable…Once you have developed this sense of accountability, then you empower individuals to make their own decisions.*

Developing Products That Address Vulnerability

This fuller understanding of how clients think about and use money can help financial service providers develop a set of products and services that meet the needs of their clients and help them manage the many vulnerabilities they face. Many microfinance providers who track the poverty level of their clients and their progress over time have developed creative ways of using the infrastructure for delivering financial services to provide other needed services as well.

This fuller understanding of how clients think about and use money can help financial service providers develop a set of products and services that meet the needs of their clients and help them manage the many vulnerabilities they face.

Building a Pathway: Fonkoze and Bandhan

Gauthier Dieudonne knows a lot about building relationships of transparency, respect, and accountability with clients living in extreme poverty. Dieudonne heads the Chemen Lavi Miyò (Road to a Better Life) program of Fonkoze, one of the leading microfinance institutions in Haiti. This program targets people living in extreme poverty and provides them with a set of financial and nonfinancial services to ease their journey out of poverty. To date, more than 1,000 clients of this program have graduated from extreme poverty.

Dieudonne describes some of what happens to members' self-image as they move through the program.

Imagine you are lost; no one cares about you. When [someone enters] the program, the first thing I tell them is, "You're not alone. We are going to be with you to help you solve your problem." We tell them [they] have to prepare for the future. At the beginning, they're skeptical since no one cares for them—until they realize you're there for real. We teach them how to solve their problems. They begin to realize they're human beings.

When people don't care about you, you don't care about yourself. We change that. We teach them, "You're worthwhile. You can learn something for yourself." Each time they do something, they begin to realize they can do something. They begin to think about their kids. Each thing they accomplish in the program is a plus. They keep pushing forward and forward. They're looking toward tomorrow. They begin making plans…they're hopeful that there's a future. This is the thing, hope is restored. This is the most important. Now people are coming to them for advice and to borrow things from them.

Chemen Lavi Miyò, a Pathway to a Better Life

Edited excerpts from an interview with Gauthier Dieudonne, director of Chemen Lavi Miyò (CLM), Fonkoze's ultra poor program in Haiti

For more interview highlights, please visit http://bit.ly/boxGDieudonne .

People living in the most severe forms of poverty need everything to be addressed, starting with their most basic needs. Can you imagine somebody who is completely isolated, lost, shunned by the community? Those people live day-by-day just to get the meal for the day. Nothing else matters. There are other things they could do for themselves, but they don't see them because they are focused only on getting the meal for the day.

So, CLM case managers have to learn a whole lot of things because we don't have any government programs to accompany the ultra poor. We have to look at every aspect of their lives because you can't leave anything out…They don't have any confidence in themselves. They believe that whatever they say doesn't matter. So, they just hide themselves and people abuse them, too, because they cannot defend themselves. They survive as day laborers sometimes. Sometimes they work, but don't get paid. Sometimes all they get is a bushel of something and they take it home so they can feed their kids.

The most important thing is to try to get them to believe in themselves, to build confidence, so they can begin to move out of poverty. If not, they're not going to succeed. This is the most difficult part of the program: to have them start thinking differently. They've been living this kind of condition for so long, it's second nature to them. So, to get them out and show them that they can live differently takes a lot of work. But we do get them out!

We start the program by transferring some basic assets to them to help them generate revenue. We ask them to choose two assets from the list we have. A lot of times they will reply, "Choose for me." They can't make up their mind, so we help them to choose, based on the environment they are in. Before we hand them the assets, they have three training days for each before the transfer.

Once the training is over, we start with the case manager's visit, once a week. At that time, the case manager will go to their house and continue with the training, with the accompaniment and problem solving. The case manager is a key in getting them out of the situation they are in and will work closely with them until they start moving forward. You begin to see some changes around six months into the program.

At six months, we do a "Fast and Slow Climber Evaluation," so we can see the people that

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Chemen Lavi Miyò, *continued*

are responding quickly and the ones that are lagging. You can separate them, so you can see where you can concentrate your efforts because some people do move faster than others. One thing we realized is that you have people that fall into extreme poverty because of shocks in the family—somebody has been sick for a while, they had to sell everything, they lost everything. Those are the people who move faster because they are in the habit of having things before they fell into extreme poverty. Other people have been in extreme poverty for so long, for generations, [that] it takes them longer to adapt and to accept the fact that we are there to help them move forward.

In the CLM program, we organize it so the clients can send their kids to school. For many of those kids—10, 11, 12 years old—this is the first time they're going to school. There's a particular case: this kid was 15 years old and he always wanted to go to school. He used to hang around to watch the kids go into school, but he himself couldn't. But, once his mother got into the program, we had this guy going to school and that was one of the most exciting things for him. So, he became everybody's friend. It really did something for him. Kids adapt to their environment. They are molded into it, but they change quickly. They are ready to go do new things because they realize, automatically, it's better for them.

There is a definite lasting change in the mentality of CLM clients. During the first three months, they are somewhat skeptical since nobody ever did anything for them. So, now you're telling them you are there for them, you're going to help them—but they're a little skeptical until they realize that you are there for real. And, then, they start spilling all their problems on you, for you to solve it. But, we are helping them solve [their problems] by teaching them how to solve their problems. And they begin to realize they are human beings and people do care about them. So, they begin to care about themselves.

When people don't care about you, you don't care about yourself. So, we make them think that "you are something. You are worthwhile. You are somebody. You can accomplish anything like anybody else." That begins to make them think, "I can do this." And, once they do something positive and you reinforce that, they realize, "Oh, I did this." And, each time they do something, they realize that they can do more. And they begin to think they can move forward. They begin to look at the future and that puts hope in them. They realize that their children don't have to follow the same path they did. They begin thinking, "Yes, my kids can do better." Hope is restored where people were hopeless, and they tell you how other people are coming to them for advice. That's really tremendous.

The Chemen Lavi Miyò (CLM) program is centered around clients setting and reaching 10 specific targets, including developing a plan for the future, accumulating a minimum level of accumulated assets needed to withstand shocks, putting children in school, and developing an ability to manage money and generate income. Ninety-eight percent of program participants graduate from extreme poverty. Dieudonne says he still works with the remaining 2%. "We're talking about people's lives," he says, "and we can't play with that."

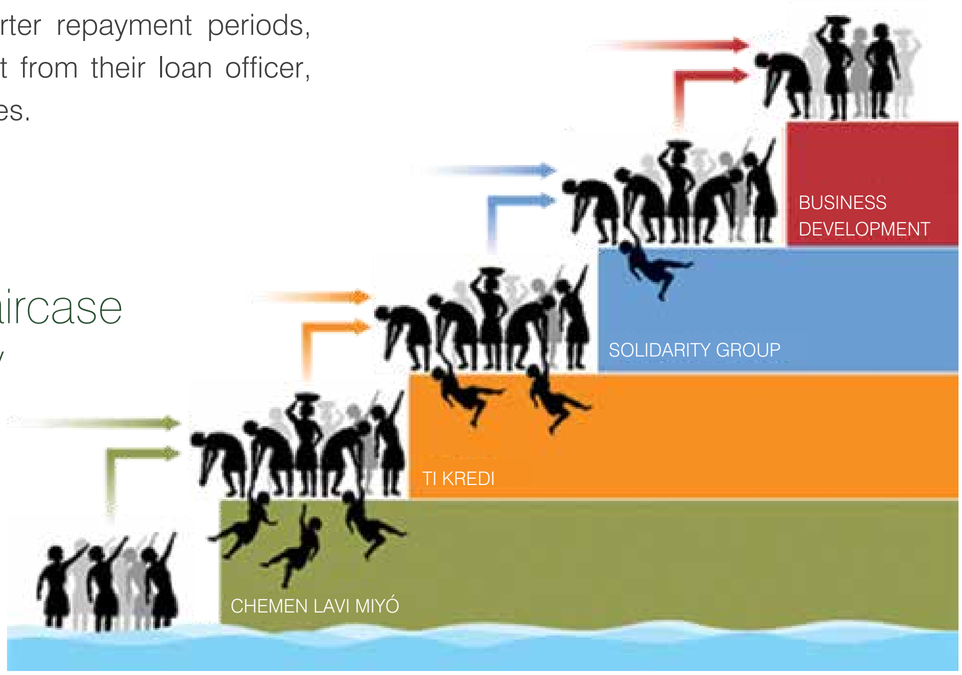
CLM forms the first step of Fonkoze's staircase out of poverty, an approach Fonkoze uses to segment the various types of clients it serves and develop appropriate products for each segment. There are three other steps in the staircase:

1. **Ti Kredi,** or Little Credit, reaches out to families that are not ready to manage a loan as large as US$ 75, the first loan in Fonkoze's core solidarity-group credit program. Ti Kredi offers an initial loan of just US$ 25 with shorter repayment periods, additional support from their loan officer, and literacy classes.

2. **Solidarity group** credit is Fonkoze's core program. Groups of five close friends organize themselves into solidarity groups that take out their loans together. These groups are organized in turn into credit centers of 30–40 women that become long-term associations of women devoted to individual and community economic and social development. Starting with three-month loans of US$ 75, women can grow within this program until they are borrowing sums as large as US$ 1,300 for six months. The groups meet together regularly for literacy, business training, and other educational programs.

3. **Business development** provides yearlong loans that start at US$ 1,300 and can be increased without limit. It currently has clients borrowing US$ 25,000 and more. This program helps clients become part of the formal economy and create jobs in rural areas where there is very little employment.[12]

Fonkoze's Staircase Out of Poverty



[12]http://fonkoze.org/aboutfonkoze/whoweare/howworks.

Chandra Shekhar Ghosh, founder and CEO of Bandhan, one of India's largest microfinance providers (more than 3 million clients), runs a similar graduation program for people who are too poor to benefit from traditional microfinance loans. For those living in extreme poverty, Bandhan's program provides a weekly stipend, as well as training and assistance in starting a livelihood project (livestock, agriculture, trading, or petty manufacturing). Participants graduate when they can meet 12 criteria, including having two or more sources of income; eating at least two meals a day; and having at least two fruit or vegetable trees, secure housing, a savings account, children in school, and access to healthcare. After graduation, participants have access to the full range of products that Bandhan provides all its clients, including group and individual loans; social loans for health, sanitation, and education; and access to health education and services.

It is possible to develop a set of products and services that make this journey less treacherous for clients and provide the tools they need to improve their nutrition, income, assets, and hope for the future.

Bandhan's pilot graduation program had 300 participants, 98% of whom graduated after 24 months. Bandhan has now expanded the program to include 10,000 people and hopes to expand to 50,000 within three years.

"My objective is to alleviate poverty," says Ghosh. "If I invest in the mothers and provide them with opportunities, they will invest in their children, giving them better food and education. Those children will graduate and be able to get better jobs, and, automatically, poverty will come down."

Fonkoze and Bandhan show us how long and arduous the journey out of poverty can be, especially for those living at the bottom end of the economy. But they also show us that with careful market segmentation and the development of appropriate products for each segment, it is possible to develop a set of products and services that make this journey less treacherous for their clients and that provide the tools needed for clients to improve their nutrition, income, assets, and hope for the future.

The CGAP-Ford Graduation Program commissioned research using randomized control trials on eight graduation programs (Bandhan and SKS in India, Pakistan Poverty Alleviation Fund, Plan International and Organización de Desarrollo Empresarial Femenino Social together in Honduras, Plan International and Asociación Arariwa in Peru, REST in Ethiopia, Social Welfare Fund and Social Fund for Development in Yemen, and Presbyterian Agricultural Services and Innovations for Poverty Action in Ghana). So far, the tests in India, Pakistan, and Honduras, together with research at BRAC in Bangladesh, showed positive results in four of the five studies, with significant increases in food security, income, assets, mental health, and hope. "These are very, very good results," said Esther Duflo, director of the Abdul Latif Jameel Poverty Action Lab (J-PAL) at Massachusetts Institute of Technology. "I don't think you could have expected anything much better."[13]

[13]http://bit.ly/Montesquiou-Hashemi-blog.

The Microcredit Summit Campaign has joined with the Pro-Poor Seal of Excellence initiative to help promote industry-wide learning from institutions like Bandhan and Fonkoze that can demonstrate that they reach people living in poverty and are helping their clients achieve positive results in their lives.

The Pro-Poor Seal of Excellence

The goal for the Pro-Poor Seal of Excellence is to set a vision for the microfinance sector that prioritizes effective poverty outreach and quality data collection and analysis. Through its focus on successful models, the Seal will define pathways to better outcomes. Reaching this goal will be a long-term commitment.

Started in 2010, the Seal is a global initiative to focus on outcomes in microfinance. The Seal recognizes those practitioner institutions which are doing the most to reach people living in poverty and to create positive and enduring change in their lives. The Seal will collect and share effective practices of these practitioners and, in so doing, will promote a learning community of microfinance practitioners, networks, donors, investors, policymakers, regulators, researchers, and others who want to see measurable progress for poor families. All stakeholders stand to benefit by being able to clearly identify those who are acting in the service of poor clients.

The Seal builds upon and reinforces the work of the Smart Campaign for Client Protection and the Social Performance Task Force (SPTF), both of which are represented on the Steering Committee. The Seal focuses a lens of poverty on these initiatives and, by collecting and sharing rigorous, objective, and concrete evidence of success, reinvigorates the role of financial services as a powerful tool and platform in the fight against poverty. Further, the Seal represents the first major initiative to focus on client outcomes and is complementary to and creates a simple focal point for the efforts of Smart Campaign, SPTF, the Microfinance Information Exchange, and others working on accountability in the industry.

Today, the Seal has completed its alpha testing and evaluated seven diverse MFIs during its beta testing. The Steering and Technical Committees have made significant progress in building both the evaluation methodology and strategy for the Seal. The Seal assessment is expected to be rolled out in the second quarter of 2013, including a public launch at the SPTF annual meeting in Panama.

For more information, visit http://sealofexcellence.wordpress.com .

Creating Support Ecosystems: Equitas and CARD

PN Vasudevan (more widely known as Vasu), managing director of Equitas in India, takes a different approach. He does not target the poorest clients, but rather all those who are excluded from the financial system. He locates his branches in urban and rural areas with the largest concentrations of poverty, and then seeks to provide a range of services in a financially viable way that helps build an ecosystem that increases the chances for clients to succeed.

> Equitas has developed 50 training centers, 4 full schools for the children of clients, 20 grocery stores that sell basic goods at lower costs, a skills development program that serves 360,000 clients, and a healthcare program that benefits 1 million clients and family members.

Vasu stresses efficiency, centralization of all credit decisions, and data entry. "Any decision that does not have a client at the other end should not be done at the branch," he says. After each group meeting, credit officers update the records of client attendance and payments by sending a text message to the head office. Equitas also employs one social responsibility officer (SRO) for every 10 branches, whose job is to develop a deep understanding of the needs of the clients in the area and, based on that understanding, help devise programs that help clients succeed. Through this, Equitas has developed 50 training centers, 4 full schools for the children of clients, 20 grocery stores that sell basic goods at lower costs to clients, a skills development program that serves 360,000 clients, and a healthcare program that benefits 1 million clients and family members. Equitas recently entered into an agreement with Apollo Hospitals in India to provide telemedicine to its clients through a computer with a webcam and medical testing equipment in each office. For the cost of 50 rupees (US$ 1), a client can receive an assessment from a highly qualified doctor who can also prescribe medicine, with the electronic records of the visit stored on the hospital's system.

Vasu suggests that a focus on the client's success as the ultimate objective helps an MFI stick to its mission. He states that when clients

have a desperate need and are not in a position to bargain with me, I am in a superior position, so can I use the position for my authority? Is it fair on my part to do that? That's the whole question: not that I am not helping others, but, in the process of helping others, can I be unfair to [them]? That is the question and I think people are not looking at this from the right perspective. They keep on saying again and again, "I am helping," without any concern whether they are doing it in a fair and justifiable manner or not. And I think that's where all these problems have come from. If I am meeting a need by giving a loan to [a client], no problem. But, am I being fair in the process? I need to be sure I am not misusing the strength

[14]http://cardbankph.com/wp_cardbankph/?page_id=37.

I have in relation to the position of the client. That's the question I don't think people are really looking at.

This is a question that Aris Alip, managing director of CARD MRI in the Philippines, has been looking at for a long time. He helped found the Center for Agriculture and Rural Development in 1986 with a vision to eventually create a bank for landless women. "Only by creating a vehicle for asset ownership, can we ensure that the poor will gain control over their own resources and over their own destiny," he said at the time.[14]

CARD began testing a Grameen-style lending program in 1989 and quickly expanded to seven provinces of the Philippines. In 1995, CARD the NGO created CARD Bank, which provides credit and savings services. The CARD NGO and Bank now reach 1.5 million borrowers and 1.6 million savers. As it has expanded its outreach, CARD has also increased the services that it provides in the communities where it operates. With its focus on helping rural women move out of poverty, CARD has developed ways to address the other developmental challenges its clients face. This has led them to provide access to healthcare, education, business training, microinsurance, and marketing assistance.

CARD sets up a separate, financially independent institution to address each of these challenges. These include an insurance agency and a mutual benefit association (which cover more than 7 million people with microinsurance), a development institute that provides bachelor and master degrees in microfinance management, and a business development service foundation with over 20,000 marketing outlets across the Philippines. CARD calls these agencies "mutually reinforcing institutions" (MRI), which operate autonomously, yet are coordinated to promote movement out of poverty in the communities where CARD operates.

SMEs that grew out of microbusinesses were the ones that were employing the poorest members of the community. This is the second generation impact of microfinance.

CARD's latest MRI is a bank for small and medium enterprises (SMEs). "We never had any intention of starting an SME Bank," says Alip.

But, our data shows us that 3%–5% of our clients grow to become [owners of] SMEs even though we do not focus on that. And we saw that this was really good, that these SMEs that grew out of microbusinesses were building assets and creating jobs. They were the ones that were employing the poorest members of the community. This is the second generation impact of microfinance. And, we thought that if we could provide more support and training, and provide the right kind of loan and savings products, maybe we could increase the number who become SMEs to 10% or 20%.

Equitas and CARD show us how entrepreneurial leaders who focus on improvement in the lives of their clients can develop creative ways to address needs beyond the need for access to finance. Both CARD and Equitas see access to healthcare as an essential element in helping clients deal with a key area of vulnerability. The Microcredit Summit Campaign has also been working with Freedom from Hunger and others in the Health and Microfinance Alliance to increase the number of MFIs that can effectively deliver health education, health financing, and health products and services through their lending infrastructure.

The Health and Microfinance Alliance

People living in extreme poverty are often one illness away from losing everything, and better provision of basic health education and services, clean water, and sanitation can make the greatest difference to health outcomes.

In the absence of more systemic, government-led provision of such services in such countries as India, a number of MFIs have been building on their existing financial services delivery system to also provide low-cost health protection services.

As of December 2012, the Alliance is working with 32 MFIs, self-help group promoting institutions (SHPIs), and networks in India, which are reaching some 470,000 clients and more than 2.4 million family members with microfinance and health protection services. This number continues to grow every month as our Alliance partners scale up their operations and new partners join.

In India alone, the Alliance has set a goal to reach 3.5 million of the country's poorest households in the next three years and has elaborated the following global vision for 2020:

- In India, 50 million MFI and SHG clients will benefit from improved access to health education, services, and products, and the Alliance will develop local capacity to support or grow health and microfinance products and services.
- Health and microfinance programs will have been started in at least three regions of the world other than India that reach at least 10 million people.
- Models, training tools, and case studies on health and microfinance will be widely disseminated and used wherever microfinance is taught, and the Alliance will establish a global learning network to support growth and innovation in health and microfinance products and services.

The Alliance has published two reports that explore integrated health and microfinance in India and the Andes region (Bolivia, Ecuador, and Peru). They demonstrate how microfinance is being leveraged in these countries to provide a powerful tool to address ill health caused by lack of access to health services.

Both of these reports are available at www.microcreditsummit.org.

Conclusion and Recommendations

The advent of mobile technologies provides the opportunity to lower transaction costs and provide services on a sustainable basis to ever-lower levels of poverty. To be effective, the products and services we develop using this technology must address the high levels of vulnerability faced by people living in extreme poverty and must take into account the pressures and challenges these people face as they seek to manage their lives and care for their families with limited and irregular incomes. That is what we learn from the microfinance providers who track the well-being of their clients over time. Once they reach scale, these organizations begin to develop ways to help their clients deal with other areas of vulnerability: healthcare, education, access to broader markets, and safe places to store their assets. In so doing, these organizations also reduce their own vulnerability. Their knowledge of their client's needs, preferences, and aspirations allows them to adapt to changing circumstances, identify potential problems, and build a more secure portfolio as they help their clients build more secure assets.

> Vulnerability is a major obstacle to social and economic development. Poor people are especially vulnerable, as they have few buffers or resources to cope with hazards or shocks. They are also significantly more likely to be affected by ill health, unemployment, trade shocks, famine, or conflict. If we are to achieve sustainable poverty reduction, we must improve our understanding of vulnerability.[15]
>
> — The Institute of Development Studies

Microfinance only succeeds when its clients grow and prosper. And for our clients to prosper, we need to find ways to help them address the many areas of vulnerability in their lives. In this report, we highlighted a few of the many creative ways of addressing vulnerability developed by microfinance leaders that are focused on the well-being of their clients.

When microfinance clients remain vulnerable, so do the institutions that serve them. Addressing this vulnerability requires a change of focus. We need to focus less on the growth of our institutions and more on what is happening in the lives of our clients. For the Microcredit Summit Campaign, this means putting much more emphasis on our second goal, helping 100 million families lift themselves out of extreme poverty, because this is the goal that

[15]http://www.ids.ac.uk/idsteam/vulnerability-and-poverty-reduction.

measures whether or not we are succeeding with the original mission of microfinance.

Changing the focus to client outcomes will require action by many other actors involved in promoting and providing financial services to those living in poverty:

- Microfinance providers should track and report to their investors and donors on client outcomes.
- Governments should require that those who receive government support for microfinance clearly articulate the mission that they seek to achieve and the levels of poverty that they seek to serve, and then utilize measurement tools to track whether they are succeeding at what they set out to do. (A recent study by Canada's Standing Committee on Foreign Affairs and International Development on Public-Private Partnerships made this point by concluding that government investments in microfinance and other development activities that combine public and private actors should include "a process to monitor each project, which would assess its outcomes against the project's established objectives and its broader contribution to poverty reduction through inclusive economic growth."[16])
- Social investors and donors should use client outcome information to decide how to invest their resources in a way that reflects their social goals.
- Those who invest in microfinance funds and donate to microfinance providers should request information on client level outcomes so that they can know whether the resources they provide are achieving the results they desire.

> We need to provide products and services that help people living in poverty to address the many areas of vulnerability that they face, so that their hard-earned gained are not taken away by disaster and disease.

Marianne Williamson, a popular U.S. author and lecturer, encourages us to carefully consider how we approach and serve poor clients. She says, "Any distrust comes from perhaps well-meaning people who don't deliver on their promises…You gain the trust of the poor people the way you gain the trust of anyone else: you're true to your word."

True accountability means being accountable for achieving the results that we set out to achieve. For those of us who want to see people in poverty using financial services as a tool for moving out of poverty, that means we need to keep track of what is happening to the poverty levels of our clients. Without that information, we do not know how vulnerable our clients remain, and how vulnerable our institutions are that serve them.

That is what Conchita Quintero teaches us. After losing two children, she still pressed on and, with the help of ASKI and others, was able to learn how to deal with some of the vul-

[16]Dean Allison, M.P., 2012, "Driving Inclusive Economic Growth: The Role of the Private Sector in International Development," report of the Standing Committee on Foreign Affairs and International Development, November 2012, 41st Parliament, 1st Session, Ottawa, Canada, http://bit.ly/DeanAllison.

[17]Opportunity International Australia, 2012, "Conchita's story."

nerabilities she faced. “Riches can be stolen,” she says, “but what you learn cannot be stolen by people. It’s up to you, how you’re going to benefit from your learning.”[17]

If we want to provide financial services in a way that helps people move out of poverty, then we need to provide things that cannot be stolen. We need to provide products and services that help people living in poverty to address the many areas of vulnerability that they face, so that their hard-earned gains are not taken away by disaster and disease.

Conchita looks out over her land, her livestock, and her small store. “I will say to my children, ‘Love this because I built it with my hard work.’”[18]

[18]*Ibid.*

Acknowledgements

This year, more than 900 people and institutions contributed to the production of this report. Nearly 700 institutions and individuals submitted an action plan in 2012, and they are listed online in Appendix IV. The Microcredit Summit Campaign recognizes that without these institutions and the individuals within them, especially the practitioners, there would be no report.

As always, network institutions have played a crucial role in facilitating data collection from their members and affiliates. Given the number of networks that have provided support, we have listed them online in Appendix V. Another activity that is critical to this report is the verification of data. More than 150 individuals and institutions have responded to our request for verification; they are listed in Appendix III. Their assistance gives us confidence to report the data found in this report.

We are grateful to Sabina Rogers and Camille Rivera for their invaluable support, through multiple rounds of interviews, conducting a number of the interviews and making sure that we accurately represent the vision of the Campaign and the progress that has been made toward the Campaign's goals and core themes.

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Microcredit Summit Campaign staff and interns have spent enormous amounts of time collecting, entering, and tabulating the data; calling practitioners and verifiers around the world; and reviewing drafts of the report. We would like to thank Campaign staff members Anna Awimbo, J.D. Bergeron, Sue Casey, Fabiola Diaz, Bridget Dougherty, Jesse Marsden, D.S.K. Rao, Sheila Rao, and Xochitl Sanchez for their contribution to this work. Interns played a key role in the call campaign, so we would like to thank Mathilde Burnouf, Ana de Paiva, Virgilia Kasbarian, Megan Montgomery, Cecilia Nicolich, Ombeline Picquet, Andrés Quinche, Asha Rao, and Jill Van Howe.

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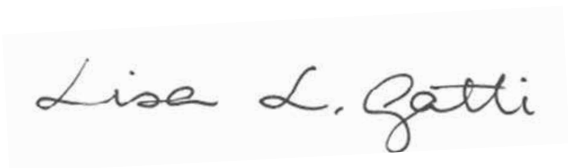
The Microcredit Summit Campaign is grateful to those individuals and organizations listed inside the back cover of this report; without their financial commitment, reaching our audacious goals would not be possible. Citi Foundation provided the support necessary to bring this document to life. We are truly grateful for their support.

This report is the result of the contributions and experiences of many people who shared them generously. The decisions about what got put in and what got left out were ours, and we take full responsibility for any errors that are found in this report.

Larry Reed, Director

December 21, 2012



Lisa Laegreid Gatti, Deputy Director

Appendix:
Data and Collection Methodology

The Microcredit Summit Campaign has collected data for the *State of the Microcredit Summit Campaign Report* for 15 years and began verifying that data in 2000. The data provided comes from questions such as 1) what is the total number of active clients (clients with a current loan)? And 2) what is the total number of active clients who were among the poorest when they received their first loan? We requested answers to these and other questions for the actual time period as of December 31, 2011.

Table 2: Figures as of December 31, 2011

Data Point	Findings
Number of MFIs Reporting (data from 12/31/97–12/31/11)	3,703
Number of MFIs Reporting in 2011 (data from 12/31/11)	637
Percent Poorest Clients Represented by MFIs Reporting in 2012	89.0%
Total Number of Clients (as of 12/31/11)	195,014,970
Total Number of Women (as of 12/31/11)	146,770,213
Total Number of Poorest Clients (as of 12/31/11)	124,293,727
Total Number of Poorest Women (as of 12/31/11)	102,749,643
Number of Poorest Family Members Affected (as of 12/31/11)*	621,468,635
*Calculated based on an average family of five	

The process of compiling the data for this report consists of 1) the circulation of Institutional Action Plans (IAPs) to thousands of practitioners, requesting their most recent data; 2) a phone campaign to more than 500 of the largest MFIs in the world to encourage submission; 3) a verification process seeking third-party corroboration of the data submitted by the largest MFIs; 4) data compilation and analysis; and 5) the writing and publication of the report.

Table 3: Fewer Reached in 2011 than 2010

Global Change of Total Number of Poorest Clients	-13,253,714	decrease
By Region	**Change of Poorest Clients**	
India	-14,204,717	
Bangladesh	-859,646	
Other Asia and Pacific	-66,566	
Asia and Pacific	**-15,130,929**	**decrease**
Eastern Europe and Central Asia	14,225	
North America and Western Europe	11,324	
Latin America and the Caribbean	105,834	
Middle East and North Africa	356,710	
Sub-Saharan Africa	1,389,122	
Sub-total of Non Asia-Pacific Regions	**1,877,215**	**growth**

Breakdown by Institution Size

In most cases, the data presented in this report is submitted by individual institutions. Some data, however, comes from network or umbrella institutions. To prevent double counting, the Campaign analyzes the data from these institutions to identify any potential duplication from their partners.

Table 4: Reporting Institutions by Size

Size of Institution (in terms of poorest)	Number of Institutions	Combined Number of Poorest Clients	Percentage of Total Poorest
1 million or more	10	34,892,355	28.07
100,000 - 999,999	77	18,984,551	15.27
10,000 - 99,999	367	10,684,668	8.60
2,500 - 9,999	525	2,571,802	2.07
Fewer than 2,500	2,717	1,505,731	1.21
Networks*	7	55,654,620	44.78

*Networks include umbrella organizations providing financial support (Ananya Finance for Inclusive Growth and Foundation for a Sustainable Society, Inc.), technical support (Association of Asian Confederation of Credit Unions, All India Association for Micro Enterprise Development, and Foundation for a Sustainable Society, Inc.), promotion and development support (NABARD), and large Government-sponsored programs (Bangladesh Rural Development Board and Mahila Arthik Vikas Mahamandal).

Regional Breakdown of Microfinance Data

The data is heavily represented by outreach in Asia and the Pacific (89%), and in particular, in India (54%) and Bangladesh (21%).

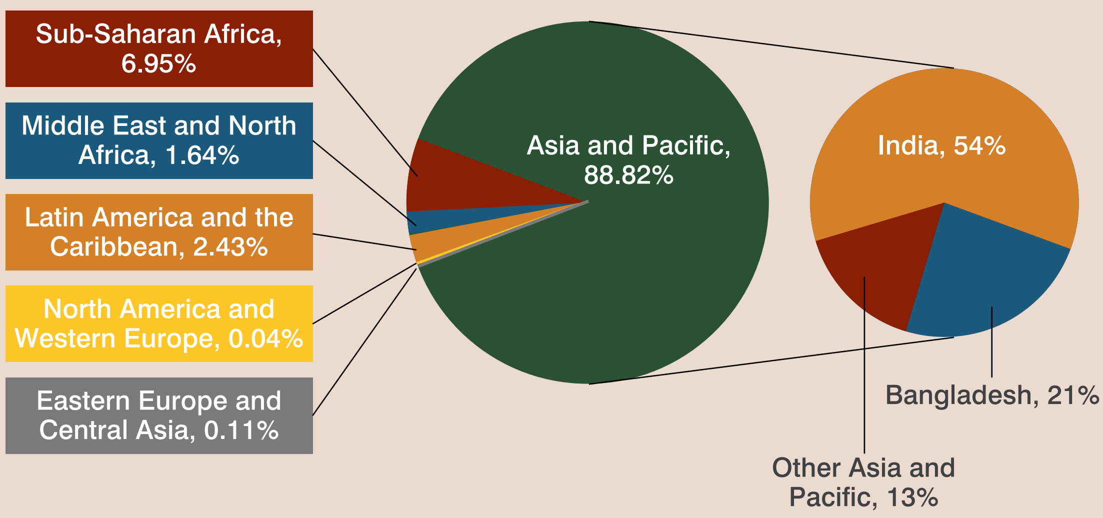


Table 5: Data Reported by Region

Region	No. MFIs	No. Total Clients	No. Total Women Clients	No. Poorest Clients	No. Poorest Women Clients
Sub-Saharan Africa	1,028	14,293,171	8,016,454	8,637,854	5,887,337
Asia & Pacific	1,751	154,606,358	125,623,062	110,399,508	93,483,172
Latin America & Caribbean	668	15,702,740	10,152,799	3,025,480	1,958,889
Middle East & North Africa	92	4,899,474	2,663,866	2,036,891	1,301,704
Developing World Totals	**3,539**	**189,501,743**	**146,456,181**	**124,099,733**	**102,631,102**
North America & Western Europe	89	169,309	61,711	53,133	23,124
Eastern Europe & Central Asia	75	5,343,918	252,321	140,861	95,417
Industrialized World Totals	**164**	**5,513,227**	**314,032**	**193,994**	**118,541**
Global Totals	3,703	195,014,970	146,770,213	124,293,727	102,749,643

Notes

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WE ARE GRATEFUL FOR THE GENEROUS SUPPORT OF
THE MICROCREDIT SUMMIT CAMPAIGN SPONSORS AND DONORS:

Citi Foundation

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Goals for 2015

- Reaching 175 million poorest families with microfinance
- Helping 100 million families lift themselves above the US$ 1.25 a day threshold

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