CHAPTER 6

"Microfinance 3.0" – Perspectives for Sustainable Financial Service Delivery

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1 Introduction

Over the last three decades, microfinance has matured into a sustainable and scalable development finance approach. By the end of the last decade, microfinance had developed towards full financial self-sufficiency, which was considered a breakthrough for mainly NGO-type institutions, serving millions of clients already at that time.

The real take-off, however, was observed in the 1990s and the first ten years of this century when commercialization played an increasingly decisive role. We see unprecedented growth of client outreach and microcredit organizations transforming into full-fledged and licensed microfinance institutions (MFIs), with Latin American institutions such as Banco Sol or Mibanco leading the way. Over the last ten years, a dynamic proliferation of microfinance in Eastern Europe and the former Soviet Union could be observed, as well as the emergence of young MFIs, albeit at a significantly lower level, in Sub-Saharan-Africa. More specifically, the last five years were characterized by an increased integration of microfinance into financial markets and the emergence of private commercial lenders and professional networks with some of them being under the institutional umbrella of microfinance groups, such as ProCredit Holding. Apart from this, equity capital providers and a growing number of microfinance investment vehicles entered the sector. As some of them were successful structured funds, the crowding in of risk-averse but socially-oriented private investors was made possible.

And yet, a history of impressive growth in client outreach and a success story of an industry building process based on a social rationale had never been seen before, which clashed with the bad news on irresponsible practices, overheating competition, lack of adequate control systems, and inappropriate regulatory environments, all of which fuelled by research results denying microfinance to have had any tangible poverty impact. It seems that microfinance could not meet the high expectations from many believers that it would be a silver bullet for the way

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out of poverty. Many voices that had praised microfinance so high have now condemned it as "another" failure of development ideas. Consequently, at this point in time, the question arises whether microfinance stands (again) at a crossroads.

Mindful of helping to shape the future of microfinance against the backdrop of increased risks, sustainability doubts, and, of course, the nearly 3 billion people hitherto not having access to reliable and affordable financial services, KfW organised at the end of 2012 a symposium on the future of microfinance. This event aimed at revisiting the successes of microfinance, addressing bad practices and doubts about its impact potential, and raising the question of how the next generation of microfinance – called "Microfinance 3.0" could look. "Microfinance 3.0" should demonstrate that it is not only possible to reconcile financial and social goals but that the two are intertwined in the sense that financial viability is a precondition to permanently delivering the development mission. Both goals, however, need to be balanced in a fair and responsible way.

This paper reflects some of the discussions held at the KfW symposium and tries to raise some of the important questions that undoubtedly need further discussions as the microfinance landscape continues to develop. After a short look at the achievements and challenges of today's microfinance landscape, this paper will depict a new vision for the industry called "Microfinance 3.0." This vision consists of professional, sustainable, deposit-taking institutions (3.1), good corporate governance (3.2), financial services diversity (3.3), fairness and transparency (3.4), sound financial infrastructure and conducive regulation (3.5) as well as responsible funders (3.6). In a fourth part, we will illustrate the role of funders by summarising KfW's microfinance strategy which tries to respond to the "Microfinance 3.0" elements.

2 A Look at Microfinance Today

After nearly four decades of impressive expansion, today 150 million poor clients have been reached, with a current outstanding aggregate loan portfolio of approximately 45–60 billion USD. Microfinance works in more than 100 countries in the developing world, and among several development finance models it has proven to be one of the most effective and sustainable.

It has not only reached out to this impressive number of clients and their family members, but it has also strengthened the ownership and capacities of institutions to make changes happen for the benefit of their clients. Fifteen years ago, there were strong debates on financial versus social sustainability, and over the years, a number of institutions showed that it is actually possible to reconcile the two. Part of the success story is the evidence that financial sustainability is needed in order to serve more clients with better products now and in the foreseeable future. Without the commercialization of microfinance, this outreach would not have been even thinkable. So there is a clear promise for a further scale-up of microfinance in the future:

- Efficiency is improving, albeit modestly translating into a gradual lowering of microfinance interest rates. This has been achieved as well by a growing yet overall sound competition in the market;
- Asset quality is still quite high which is an indicator of microfinance markets' overall robustness, even in stormy times;
- At aggregate level, there was no major justification to speak about a universal crisis of microfinance. Besides overall healthy loan portfolio quality, there were no signs of large-scale mission drift, neither in terms of client outreach nor in terms of "exploitative" interest rates, not in terms of irresponsible returns. The part of MFI yields that went to profits has rather moved slightly downwards[1];
- The microfinance "world" is not just an MFI serving clients but has developed, in some countries, into an ecosystem encompassing, inter alia, non-financial service providers, such as telecommunication platforms;
- Technology innovations have permitted lower transaction costs and reaching out to the rural population, so far lagging behind with access to finance. Branchless banking has been one of the top issues of new delivery models, allowing the overcoming of time and geographical barriers thus helping to reduce transaction costs for clients. While promising, these innovations still raise a number of questions that need to be discussed (inter alia, sustainable business models and regulatory issues);
- On the funding side, we see an ongoing interest of private sector actors for microfinance, understanding how MFIs "tick" and what they need. There is room to believe that private sources of funding will rather grow than decrease. Given the financing needs, this is at the same time necessary but also highly desirable.

And yet, there are a number of challenges, suggesting that microfinance, while just having reached its cruising altitude, still has a long way to go:

1. The core values of microfinance need further strengthening. The impressive achievements of microfinance take place at a time of an unprecedented allegation of failure and lack of impact, expressed by some media and academia. Symptoms of manifest reputation and repayment crises in some particular markets in very different regions, culminating in the late 2010 Andhra Pradesh events, have triggered a debate on core values of microfinance. This also raised concerns about its complete future altogether. "The party is over," "Suicide of a great idea" and the like were the headlines in the press, and some of the critics have had a great time selling their books.

[1] See Rosenberg et al, (2013): Microcredit Interest Rates and Their Determinants: 2004-2011, Washington D.C.

The notion of failure was predominant, yet the question of too high expectations was not raised as much. The old question of whether it is good to make profits with poor people's money is re-emerging on the surface. The 2012 Banana Skins report highlighted the rise of the (perceived) over-indebtedness risk for clients and providers. The challenge is to restore confidence and to ensure good practice standards are being observed in the industry. Sustainable microfinance in this context requires both transparent and fair treatment to clients and a strong commitment from microfinance funders of the public and private sector. While all evidence suggests there is no worldwide microfinance crisis, the critics are right to point at some of those bad practices we have seen, and these need not only to be taken seriously but also to be firmly addressed.

2. Different kinds of clients – from smallholder farmers to small businesses – are yet to be served. There are still many people in need of financial services; according to CGAP estimates, more than 2.7 billion people living on less than 2 USD per day lack access to finance. And these people have tangible yet different needs to improve their living conditions. This raises the question of how these needs translate into an effective demand for financial services, and how this demand can be served by adequate financial products in an appropriate way. The challenge is to go beyond the classical microcredit and offer other credit services as well as non-credit financial services. Other credit products include loans tailored to the needs of small businesses that sometimes have been graduating out of the "microenterprise world." Many of them have proven to attract the attention of a growing number of MFIs, partly to tap an important business and development impact potential (employment generation) but also as a response strategy to overheated "classical" microcredit markets. On the other hand, the need for social and financial protection translates into different financial services, including credit, savings, and insurance. This must be accompanied by sound regulation (see more in detail in section 3.5), which has seen progress but is far from being accomplished.

3. We need to get clear about what microfinance can achieve and what impact and outreach it can have for promoting development and poverty reduction. Related to this is the allegation that microfinance has not delivered on the widespread promise to lift people out of poverty. However, we know many stories which prove that millions of people have been better off with microfinance services. Yet, the questions of "how do we know" and "what impact are we talking about" are legitimate. The challenge is to find a consensus on the appropriate methodology to measure impact, while stripping off the "panacea myth," and to be clear about the dimensions of impact. "Knowing your client" and understanding the "poor economics" are promising paths to get a balanced view on microfinance impact. Rather than asking to what degree clients have been lifted out of poverty the question should be how

well an institution serves its clients and how well poor clients can benefit from access to financial services in order to improve their living conditions.

4. The vision of sound, local financial systems is still valid and, consequently, so is financial systems development. It is a sound financial system that not only provides stability but also, and in many developing countries even more importantly, provides more access to finance and more diversified and better services to a growing part of the population. In short, in contrast to recent perceptions that financial sectors are at best not harmful to people, the financial system development claim remains that it has a development function so that also the population including poor people should and can benefit from it. The validity of the financial systems development paradigm rests on the ground that access to financial services is essential to improve the lives of people in developing countries (and elsewhere as well, of course).

Given the high promise, there remains much to do and many challenges to address. Putting the recent hefty critics into the context of a success story of microfinance, the industry may indeed well be, in some way, at a crossroads. Taking microfinance to the next generation, making full – and responsible – use of technology, the outreach and the sustainability promise will be a key success factor for this emerging phase. This would be the ambition of "Microfinance 3.0."

3 Key Elements of "Microfinance 3.0"

The discussions have shown so far that more focus should be put on clients and their needs. This is something only sustainable institutions and a sound, conducive financial system are able to provide. In order to approach this topic more in depth, let's try to distil some lessons learnt about what could be a vision to move towards an ideal "Microfinance 3.0" world.

A Vision for "Microfinance 3.0"

"Microfinance 3.0" is a system where professionally managed, well governed, and financially sustainable financial institutions offer as part of a sound financial ecosystem a broad array of financial services beyond the classical microcredit that are tailored to clients needs, including the use of technology as a means to serve clients. They treat their clients in a fair and transparent way, are relentless on mobilizing local funding sources, ensure adequate staff training, and reduce transaction costs while maintaining a close relationship with their clients. Regulators are rigorous promoters, and funders help to foster good standards and innovation.

Let's look at some of the details of this vision:

3.1 Professional, Sustainable, Deposit-Taking Institutions

There are different client segments with different needs. In order to serve these (better), strong institutions are needed. They should be professionally managed because this is a key prerequisite for strong performance in terms of outreach and financial sustainability. They should be sustainable in order to meet the demand of growing, more diverse populations. Further, they should be deposit taking because financial intermediation is vital in a sound financial system that is to serve poor people; deposits benefit poor people in numerous ways, e.g. for "predictable" shocks such as schooling, marriage, or old age.

Professional institutions need some kind of license but also the appropriate equity capital to get this license, sound internal control systems, and good management and staff quality. These institutions require a lot of good quality staff; therefore, training and professional human resource management is crucial since in many countries, a number of challenges are associated with staff recruitment, training, and retention. Regarding internal controls, professional institutions need adequate IT and management information (MIS) systems. These include sound risk management and internal audit and should be integrated into the product manuals, particularly the credit approval mechanism.

3.2 Good Corporate Governance

Good corporate governance is key for the promotion of responsible practices, professional performance, and ultimately the accomplishment of the development mission. Important prerequisites are well functioning boards providing clear strategic oversight in accordance with the mission, support management delivering its duties, and always acting in the best interest of the MFI. Good corporate governance draws a clear line of responsibilities between shareholders, board, and management. In a broader sense, it includes the right internal control systems in order to guide management's work towards achieving its goals in a transparent, responsible way.

Not surprisingly, good corporate governance is far from being achieved at broad scale[2], and much work is yet to be done. This will also help ensure a sound expectation management, e.g. regarding growth and return expectations of the board in order to drive the institution away from what is responsibly achievable. In a growingly diversifying investor landscape, good corporate governance practices help to create a level playing field among investors – it is the common denominator of behaviour among quite different types of funders.

[2] In the 2012 Banana Skins Report, (lack of) good corporate governance was ranked as the second most important risk the MFI industry is facing. It was ranked 2 notches higher than in the 2011 report.

3.3 Diversity of Financial Services Offered

"Microfinance 3.0" does not imply a complete change in business models. For instance, serving existing clients with new products such as education finance services can be a promising shift. When it is true that the classical microcredit should not be the only service offered because of the fact that for a number of financial needs, it is not the best answer, this does not mean to renounce or to scale down credit products altogether. The challenge is rather to innovate credit products aiming at specific client needs:

- **Agriculture loans:** There is growing attention to support the income generation through access to loans for smallholder households. The new CGAP strategy is explicitly focusing on this target group, representing a large share of the world's population without access to finance.
- **Small business loans:** For many MFIs it makes sense to offer credit also to small businesses. Some of them – although limited in number[3] – are former micro-entrepreneurs who now are able and willing to take larger loans. They would simply drop out as clients if the MFI strictly capped the loan size at the usual microloan average. Why should a good MFI want to lose these good clients? But there is also a potential to get new clients. This does not necessarily mean a mission drift since small businesses can hire staff such as unskilled workers and hence include the very poor in the economic and financial system. Moreover, small business loans increase the MFIs' efficiency which would balance the higher transaction cost of reaching out to clients in poorer segments or more remote areas. Furthermore, small business loans can play the role of a transmission belt to the formal economy, due to the importance of small businesses for the local labour market.
- **Energy efficiency loans:** Much has been said and written about "green microfinance," and its potential is great. In the meantime, there is a growing number of approaches to either fund the use of renewable energy directly through microloans or provide energy efficiency loans for micro and small enterprises, but also for private households, such as the exchange of window panes (many examples in South East Europe) or biogas schemes for private households in Asia[4].
- **Education loans:** There is a particularly high demand for education loans in developing countries, i.e. in Africa, where even the poorer segments of the population are making a lot of sacrifices to pay school fees for their children

[3] Recent estimates published by CGAP are in the range of 10–20 % of micro-entrepreneurs qualifying for small business loans for further business expansion due to their track record, their dynamics, and the development of their business.

[4] See the biogas "window" (subcomponent) of the Microfinance (Debt) Fund for Asia (MIFA), a joint initiative by KfW and IFC.

> and are particularly lacking financial resources during the time of the beginning of the new school year in August/September. Access to financial services can smoothen severe financial constraints for many households and give a perspective for human development through access to professional/higher education. Of course, adequate savings products are needed as well. Education loans can also mean loans to education institutions which a number of African MFIs are already serving as clients. Education finance is one of the most innovative fields of financial services; the development is only starting off and experiences are not manifold. However, it is an area which merits a lot of support from DFIs or institutional investors.

Among non-credit innovations, of course the most pressing demand is for *savings*. The challenge is to continue to support enough strong MFIs that are not only licensed to mobilize deposits but also capable of doing so at a large scale. It is good news that a large part of MFIs' funding already comes form local savings, but still too many MFIs still do not have a deposit-taking license. So clearly the 3.0 microfinance landscape would have to be one with microcredit-only institutions diminishing or fading out over time.

Along with the outreach dimension, also called financial deepening and broadening, it has been part of the new development finance paradigm that MFI funding does not have to be necessarily cross-border funding but rather should, to a growing extent, come from local sources. Deposits are not only important to serve clients (better), but for the MFI itself it is of vital interest to become more independent from foreign (currency) funding sources. So the question is how the industry can succeed in bringing more and more local funding on the liabilities side of MFIs' balance sheets, the most prominent of them being local savings but also, as a future perspective, bond holders and other sources of private capital. Where this is not yet feasible, external funders are increasingly thinking of providing at least part of their cross-border funding in local currency through initiatives such as the TCX Fund.

Concerning *branchless banking*, expectations are very high that financial services, particularly money transactions provided through mobile phone devices, could revolutionize client outreach especially in rural areas. It is true that one of the challenges MFIs are facing is high transaction costs compared to banks, leading to higher microcredit interest rates than banks would charge. If this transaction could be lowered to a significant degree, payment services could be offered much more cheaply and/or people in remote areas could be reached. There is also a potential for linking government payments, both social transfers and payments to civil servants through "access to finance channels," which can be helpful to integrate large parts of the unbanked population.

However, the service providers often are not financial institutions but mobile phone operators and the like. Which role can they play in financial system development, and how should the system adapt to them? Here again, a level playing field is needed which includes adequate regulation. Payment service innovations

based on technology are not only relevant in terms of reducing transaction costs from an MFI perspective. They can become extremely important when their potential to reduce clients' transaction costs is factored in, a dimension that is often given too little attention. Transaction costs from a client's perspective, for example, consist of visiting a financial institution in the next district capital just for making loan repayments or withdrawing money from a savings account – this cost can be quite substantial. For many people, this also includes the opportunity costs of income foregone during the time of visiting the MFI.

Micro-insurance has also attracted a lot of attention, yet many services still refer to one single type of insurance, the life insurance, of which the bulk of insurance schemes are compulsory when taking a loan. Only part of these insurance contracts – albeit a growing part – are made on a voluntary basis to get insured against a sudden loss of the family earner and its financial consequences. In turn, compulsory life insurance should rather be seen as part of the credit technology and is used by MFIs as a means to reduce the credit risk. The demand is rising in the more difficult fields of insurance for the bottom of the pyramid segments of the population: livestock insurance, weather insurance, and, ultimately, health insurance. However, many dimensions in the life of poor people such as natural disasters would require insurance services rather than other financial services.

3.4 Fair and Transparent Client Treatment, Including Pricing

Responsible practices are the basis of any MFI-client relationship: fair and transparent treatment, avoiding over-indebtedness, sound collection practices, and promoting financial literacy. When institutions act in a professional way, there should not be necessarily a trade-off between a good financial performance and responsible service delivery. In turn, irresponsible practices are not conducive to a sustainable development of the institution. In "Microfinance 3.0," practices such as flat interest rate charges and other intransparent standards would gradually disappear, whereas responsible credit approval schemes, accompanied by good incentive systems for MFI staff, would become a mainstream development. Overall, responsible finance goes beyond consumer protection and also beyond microfinance; it is an integral part of sound financial systems development.

3.5 Sound Financial Infrastructure and Conducive Regulation

A healthy environment remains vital for good MFI performance although the bulk of what can go wrong seems to lie within the institutions themselves, as the 2012 Banana Skins report has shown[5]. "Microfinance 3.0" is a "marketplace" with ef-

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[5] Out of the top 12 risks mentioned, about two-thirds are related to MFI management/governance and about one-third to rather exogenous factors such as political interference and inappropriate regulation.

fective credit bureaus and a microfinance regulation in place that is adapted to MFIs' needs, i.e. that is conducive to their development. Sometimes there may be a tension between the macroeconomic goal of stable financial sectors and the objective to increase access to finance for the lower income segments of the population, but this tension seems to be overestimated in many countries. On the contrary, some regulators also begin to see the risks of financial exclusion for the well-being of the financial sector.

As some of the indebtedness patterns have shown, responsible regulation has been among the deficits in some markets. Perhaps you can call this the forgotten – or at least neglected – half of responsible finance. While the overall regulatory environment seems to be improving, there have been a number of inappropriate regulatory moves which gave raise to concerns. It is unclear if there is necessarily a causal relationship between the events of the overheating of the microfinance market and client over-indebtedness, but at least there is a clear time context. Do regulators yield to political pressure generated by those crises and throw the baby out with the bath water by imposing, with good intentions to contain bad practices, inadequate regulatory constraints? Some problematic issues include:

- Inadequate, sometimes prohibitive minimum capital requirements;
- (Re)introduction of interest rate caps that can endanger MFI sustainability;
- Poor over-indebtedness avoidance and debt crisis management;
- Restrictive loans to deposits ratios, i.e. restricting the lending activities by linking the loan portfolio to the volume of savings mobilized which can be counter-productive for newly deposit-taking institutions if no waivers are being granted.

These tendencies clearly show that much more dialogue with regulators is needed. Regulators should take a view of helping to build an industry rather than slowing it down. Besides an industry-promoting, level playing field oriented regulation, the priority should go to setting up effective credit bureaus. Effective credit bureaus are characterized, inter alia, by the following:

- It is compulsory for all financial institutions to report to the credit bureau;
- The credit bureau provides consistent, reliable, and comprehensive information in a timely manner;
- The credit bureau provides not only negative but also positive information (i.e. a positive track record of the client).

3.6 The Role of Funders

Microfinance funders need to be complementary, integrative, and additional to the rest of the industry. The funding landscape is rapidly changing. Starting with do-

nor grants, one of the main funding sources has come from Development Finance Institutions (DFIs) who actually account for 60 % of overall cross-border funding. DFIs have paved the way for commercial funders to join in. DFIs have set up MFI greenfield banks as reference models for good practices and funds that also supported the emergence of 100–200 top performing, fully licensed MFIs that actually account for the bulk of the client outreach in developing countries. They were active in countries where private sector actors would not have gone and showed that microfinance can work sustainably even in difficult countries.

And yet, DFIs, while playing a role as long-term, patient investors, face the challenge of “responsible exits.” Will they succeed in bringing in new investors that stick to good standards and will not drop out in stormy times? Will debt funders understand the risk of overheating in some markets, and will equity funders understand the need to adopt a buy and hold attitude rather than (just) expecting (quick) returns? And finally, how do all these questions relate to the issue of future microfinance Initial Public Offerings (IPOs)?

4 The Funder Perspective – KfW’s Approach

KfW has been supporting microfinance almost since its inception. It is today one of the most important funders, along with other DFIs. With a portfolio of more than 2 billion euros of outstanding commitments, KfW has been playing an active role not only as a funder in microfinance but also with regard to a conducive market environment. It has been promoting responsible microfinance since 2007, long before the outbreak of the financial crisis. KfW’s vision is to develop a healthy microfinance sector including a number of full-fledged regulated, deposit-taking MFIs.

KfW’s vision is to create and enhance the sustainable access of un(der)served groups of the population to credit, savings, and other financial services (e.g. payment services or money transfers, and microinsurance). In order to achieve this goal, KfW has steadily invested in its growing microfinance portfolio for more than ten years.

4.1 KfW’s Microfinance Strategy

Based on KfW’s long and extensive experiences in the sector, its microfinance strategy consists of six main elements:

1. **Responsible selectivity and sound institution building:** KfW focuses on the selection of professional and responsible partner institutions operating in a favourable environment and promoting institution building. For a sound market development, the successful institutions are most needed to make changes happen. Although a growing number of institutions have achieved an impressive track record, much is to be done to further strengthen these

institutions and also support the next tier of high potential but not yet mature institutions.

2. **Network approach:** This approach means promoting best practices through investments in microfinance funds and holdings and the use of KfW's large know-how regarding (structured) funds/Microfinance Investment Vehicles (MIVs). Networks often have standardized systems and procedures which makes institution building even more efficient. Working with networks implies the support of global and regional initiatives instead of just focusing on single country projects.
3. **Focus on income generating loans for MSME clients:** Micro, small and medium enterprises (MSMEs) have been the primary target group. They contribute significantly to employment and income creation in developing countries – especially for the low-income groups of the population. These enterprises lack access to financial services which excludes them from many economic opportunities. However, KfW would not support pure consumer lenders.
4. **"Microfinance plus": Extension to other credit products (e.g. rural finance, "small business loans," energy efficiency, education finance) and also savings:** KfW promotes the diversification of credit products as well as the development of financial services other than credit. The former includes energy efficiency, agriculture, and education loans. The latter consists of savings, but also money transaction and insurance products.
5. **Promotion of responsible finance:** KfW stands for responsible finance. This includes, in a narrow sense, the way a financial institution treats its clients, and it should do so in a fair and transparent way, including an effective credit technology. In a broader sense, it also includes "good quality funding" and sound regulation and supervision.
6. **Diversity of instruments:** KfW has a broad array of different instruments adapted to the respective sectoral environment and the funding needs of its professional partner institutions. KfW mainly provides its partners with mezzanine and senior loans, guarantees, and TA grants, and holds equity participations (funds, holdings) as well as direct participations (MFI networks).

4.2 KfW's Microfinance Portfolio

In 2012, the microfinance portfolio amounted to 2.1 billion euros and hence represented the biggest share (39 %) of the total financial sector portfolio. The majority of this volume came from KfW funds (62 %) while 31 % were provided through German federal budget funds and 7 % by other investors. As part of the German budget funds, 2 % of the microfinance portfolio was allocated for technical assis-

tance measures. KfW promotes microfinance in five different approaches: greenfielding, upgrading, downscaling, linking, and structured funds.

New (*greenfield*) MFIs need equity capital and capacity building. KfW has supported the foundation of various MFIs, usually belonging to network holdings such as ProCredit, ACCESS, ADVANS, and Finca Microfinance Holdings.

In a similar way, KfW accompanies small non-governmental financial organizations and unlicensed microfinance institutions in transforming into licensed, deposit-taking financial institutions (*upgrading*). An impressive example is the Cambodian ACLEDA Bank, which was established as a national NGO for micro and small enterprise development and credit in January of 1993. Ten years later, ACLEDA Bank became licensed as a commercial bank after having tripled its capital to 13 million USD. Today, another decade later, the issued and paid-up capital amounts to more than 100 million USD, and ACLEDA Bank itself is establishing own affiliates in Laos and Myanmar.

KfW also promotes *downscaling* approaches by assisting commercial banks in offering microfinance products. Long established partners include the Small Industries Development Bank of India (SIDBI) or Corporación Financiera de Desarrollo (COFIDE) in Peru, or Seker Bank in Turkey.

Finally, KfW has promoted initiatives in *structured finance* helping to stabilize and enhance good performing MFIs' access to private sector capital. Among these are some flagship initiatives such as the European Fund for Southeast Europe (EFSE) or the Microfinance Enhancement Facility (MEF).

5 Conclusions

The global financial crisis did not stop at microfinance institutions and their customers. As the effects of the crisis have begun to affect customers directly, credit risks have increased. In this environment, many MFIs have proven to be able to manage the crisis period reasonably well. There was evidence that the industry has been robust and there is trust that it would emerge from the crisis (even) stronger. On the other hand, there were signs of "unhealthy" competition and over-indebtedness in a number of countries. Against this backdrop, the following conclusions can be drawn from the ongoing debate:

1. The current challenge is to strengthen MFI and build a sound market environment. Institution building is not only relevant with regard to their financial and social performance but also with a view to making them (more) resilient to crisis impact and unhealthy competition. Crisis resilience will be a decisive factor to further attract private capital for MFIs and ensure sustainable access to finance for the un(der)served population in developing and transition countries. Without such strong institutions, there can be no sound market development.

2. Responsible finance and commercial microfinance are not necessarily contradictory to each other. It is true that some practices went badly wrong, and criticism has to be taken seriously. There is a lot to be learned from unfair client treatment, wrong incentives, and lack of oversight. And having a good value compass is a prerequisite to do microfinance business.
3. Clients' needs matter, and sound, professionally managed – and governed – institutions remain at the center, because only these can deliver on the financial inclusion claim. In this context, a lot still needs to be done to promote savings. A good infrastructure is key as well. Technology can be seen as an important element but is not an end in itself.
4. DFIs should be clear about their roles, and these are manifold: standard setter for good corporate governance, promoters of funding structures attractive to private investors, product innovator and financier of a sound financial infrastructure.
5. On the impact of microfinance, there is consensus about the impressive achievements in terms of industry building. Regarding the well-being of clients, the need for better impact measurement tools is however highlighted. A closer look should be taken at how well an MFI serves its clients, rather than looking at personal "success stories."
6. The end-game is still to push the financial frontier to underserved regions, people, and markets. The underlying rationale should be two-fold:
    - People in developing countries need – and can make good use of – financial services to improve their living conditions;
    - Financial services do benefit people so financial institutions can deliver on this claim.

Overall, there is room to believe that the next generation of microfinance, highlighted as "Microfinance 3.0," will see more financial inclusion, guided by strong institutional professionalism, a strong commitment to offer innovative products tailored to clients' needs, a conducive regulation, and a set of values ensuring that responsible finance practices become more sustainably anchored in the microfinance industry.

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