

# MICROFINANCE MARKET OUTLOOK

Developments, forecasts, trends

2016



“The responsAbility Microfinance Market  
Outlook 2016 aims to provide an in-depth and  
concise overview of the expected develop-  
ments in the industry over the next year.”

# 10 – 15 % GROWTH

is expected for the global microfinance market in 2016. While this represents a relative deceleration compared to last year, microfinance remains resilient due to solid fundamentals.

## 4 %

average GDP growth is expected by the International Monetary Fund for the [15 main microfinance markets in 2016](#). Developed countries are expected to only expand at half the pace with 2.2 % GDP growth in 2016.

*Opportunities and challenges vary substantially across regions. Prospects are stronger for markets in Asia Pacific and Sub-Saharan Africa, which are expected to register above-average growth this year.*

## 36 experts

were interviewed. They are global practitioners, such as decision-makers at MFIs, rating agencies, as well as investors and advisors. The [Microfinance Market Outlook 2016](#) is based on their consolidated opinions.

## 40 %

of experts believe the regulatory and supervisory environment in their market is “[clearly improving](#)”. Sound and prudent regulation is a key enabler for financial sector development.

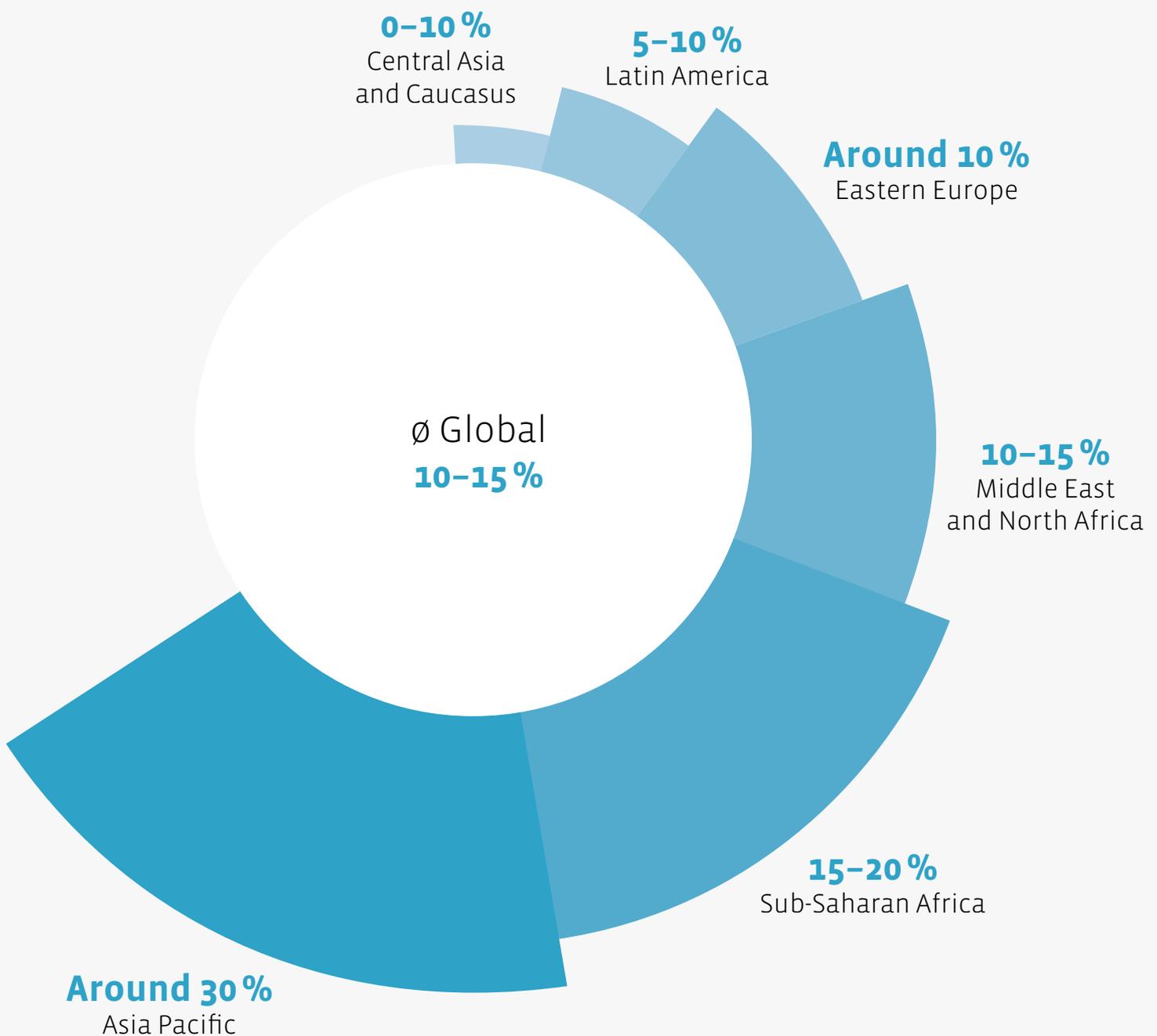
## 50 %

of experts interviewed indicated that [international microfinance investment vehicles](#) will remain amongst the most important sources of funding for at least the next three years.

## 71 %

of experts interviewed consider [technology](#) to be very important for the microfinance sector.

## DEVELOPMENT AND GROWTH TRENDS ACROSS THE WORLD'S MAIN MICROFINANCE MARKETS IN 2016



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# ACCESS

## 700 MN

The number of adults who have obtained access to the formal financial sector over the last three years, according to a World Bank study that compared the number of people who had a savings account in 2011 and 2014. The vast majority of these newly banked adults lives in developing countries.<sup>1</sup>

## 31.8 MN

The number of borrowers served by the 100 institutions included in responsAbility's model portfolio.



"Clients' needs are evolving rapidly and, with them, the services that MFIs need to offer. In addition to access to credit, MFI clients want to be able to place deposits, to obtain insurance or to take out a lease." p. 19

### \*MICROFINANCE =

Microfinance is a source of financial services for people lacking access or without full access to the financial sector. Microfinance enables them to take out loans to build or expand businesses and to make savings deposits.

<sup>1</sup> World Bank (2015): The Global Findex Database

# VIEWPOINT

Welcome to the sixth edition of the *Microfinance Market Outlook* and to the sixth chapter in a success story. When research specialists at responsAbility began searching for reliable data about the global microfinance industry back in 2010, they encountered a gap in the market: Countless countries had microfinance institutions, many of which were operating successfully but others less so. However, there was no study to indicate how the global market as a whole was performing.

This is precisely where the *Microfinance Market Outlook* comes in. Since it was first published in 2010, the study has been providing insights into global developments in the microfinance sector and presenting forecasts for the next 12 to 14 months. In this context, the *Microfinance Market Outlook* draws on input from a host of industry experts across all key markets and it combines their views with macroeconomic indicators and the extensive body of data from responsAbility's own activities. The sound approach adopted by our research specialists is demonstrated by the high degree of accuracy of our forecasts.

Why is responsAbility qualified to produce this standard reference work for the industry? With a track record of 12 years of successful investing and around USD 3 billion of assets under management – including USD 1.8 billion of investments<sup>1</sup> in [349 financial institutions in 77 countries](#) – responsAbility is the clear market leader in the area of private sector investments in microfinance.<sup>2</sup> We also benefit from a broad international network thanks, in particular, to our local offices across four continents. This network – together with our extensive collection of data – allows our specialists to identify global and regional trends based on a wealth of information and to present their findings in this report.

We believe that our strong market position also gives rise to responsibilities: We want to help drive the further development of the microfinance sector and we make active use of our knowledge and expertise to achieve this. During my

discussions with both market participants and journalists at numerous events, they have repeatedly expressed their considerable interest in the *Microfinance Market Outlook*, thus confirming the value of this publication.

Consequently, it is no coincidence that in 2014, the *Microfinance Market Outlook* ranked as the second most popular publication in the field of microfinance.<sup>3</sup> It is now regarded as essential reading by experts and participants within the industry, as well as being read by countless investors and investment specialists. [Globally, the private sector alone invests an estimated USD 10 billion in microfinance.](#)<sup>4</sup> responsAbility has, for years, been recording double-digit growth rates in invested assets – with an increasing volume of assets originating from institutional investors, who have very high expectations. All of these investors are interested in finding out how the market is developing.

Last but not least, the *Microfinance Market Outlook* gives microfinance institutions around the world the opportunity to consider their own development against the backdrop of global market trends. This encourages many market participants to switch from an aggressive growth path to a more balanced expansion – thus also helping to counter trends such as overindebtedness among borrowers.

This sixth edition of the *Microfinance Market Outlook* once again includes certain new features. For example, the study itself is accompanied by a market assessment by Rochus Mommartz, a member of our Management Board and probably one of the most renowned experts in the field of microfinance and financial sector development. The *Microfinance Market Outlook* also contains a chart that provides an overview of the industry and the different roles played by market participants.

I hope you enjoy reading the publication.

**KLAUS TISCHHAUSER**

Co-Founder & CEO

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<sup>1</sup> All investments are made through investment vehicles managed by responsAbility

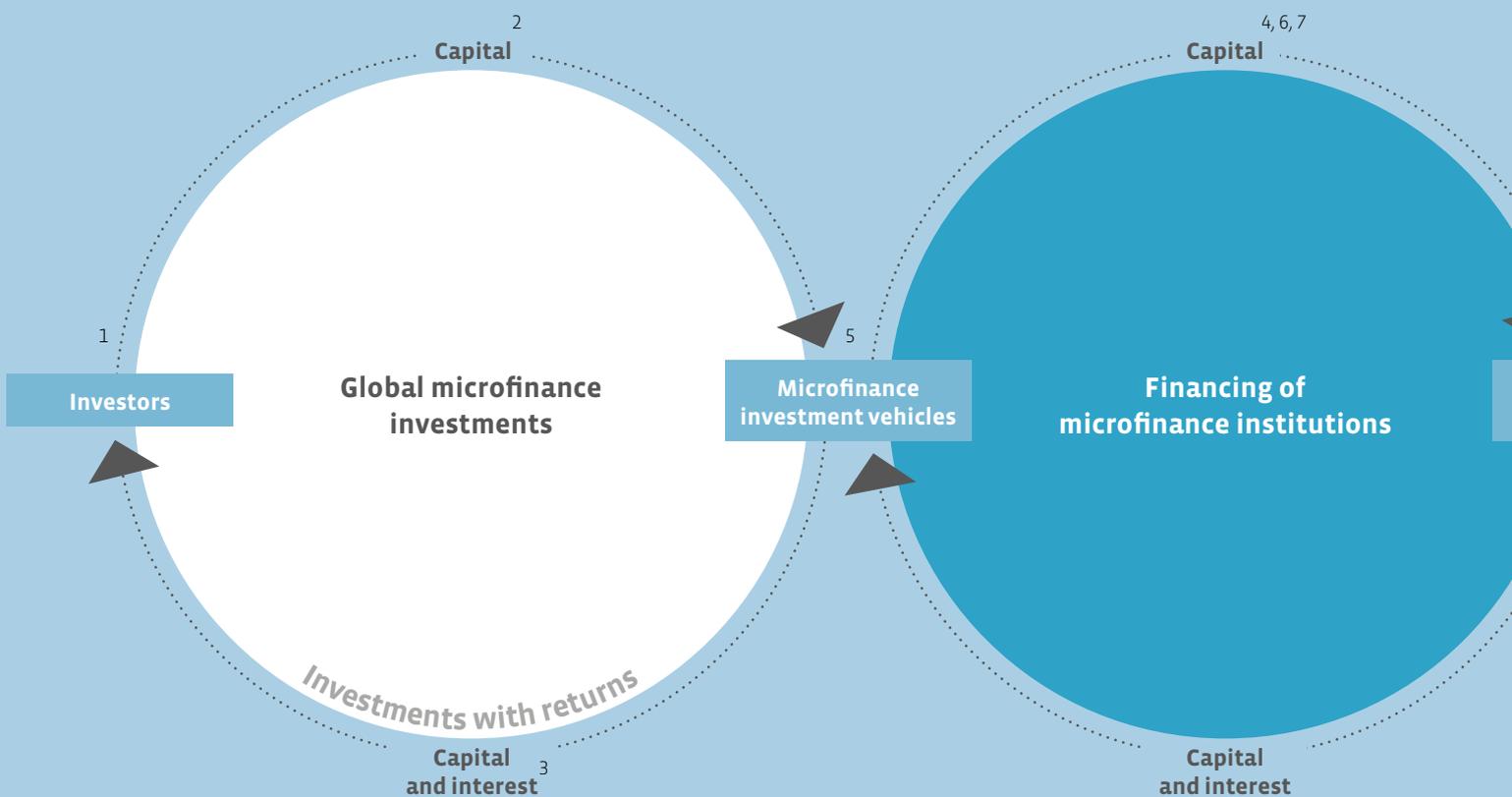
<sup>2</sup> Symbiotics, 2015 Microfinance Investment Vehicles Survey. Market Data & Peer Group Analysis. September 2015

<sup>3</sup> Comparisons: [microfinancegateway.org/library/top-10-most-popular-publications-2014](http://microfinancegateway.org/library/top-10-most-popular-publications-2014)

<sup>4</sup> Symbiotics, 2015 Microfinance Investment Vehicles Survey. Market Data & Peer Group Analysis. September 2015

# MICROFINANCE – HOW IT WORKS

In the area of microfinance, capital and interest flow in three different circles. To serve their clients, microfinance institutions require financing, which they obtain from microfinance investment vehicles. The managers of these vehicles mobilise private capital for microfinance investments, thus forming the link between investors and microfinance institutions. The investment vehicles managed by responsAbility – which have a market share of 17% of the global private microfinance investment market – work with 349 carefully selected microfinance institutions.



## 1. Investor mix

Institutional investors account for 42% of responsAbility's assets under management, while 40% comes from private investors and 18% from public investors.

## 2. Global microfinance investments

Globally, private investments in microfinance totalled USD 10 billion (in 2014). USD 1.8 billion or 17% of these investments were made through responsAbility investment vehicles.

## 3. Performance

The microfinance funds managed by responsAbility generated returns in USD of between 2.9% and 4.5% in 2014. The cumulative return since the inception of the largest microfinance funds in 2003 is 50%.

## 4. The world's largest microfinance markets

India, Cambodia, Kenya, Bolivia, Azerbaijan, Ghana, Mongolia, Paraguay, Costa Rica, Tajikistan, Armenia, Peru, Kyrgyzstan, Georgia, Ecuador.

## 5. Asset classes

The microfinance investment universe encompasses fixed income, mixed and equity investment vehicles.

## 6. Financing of microfinance vehicles

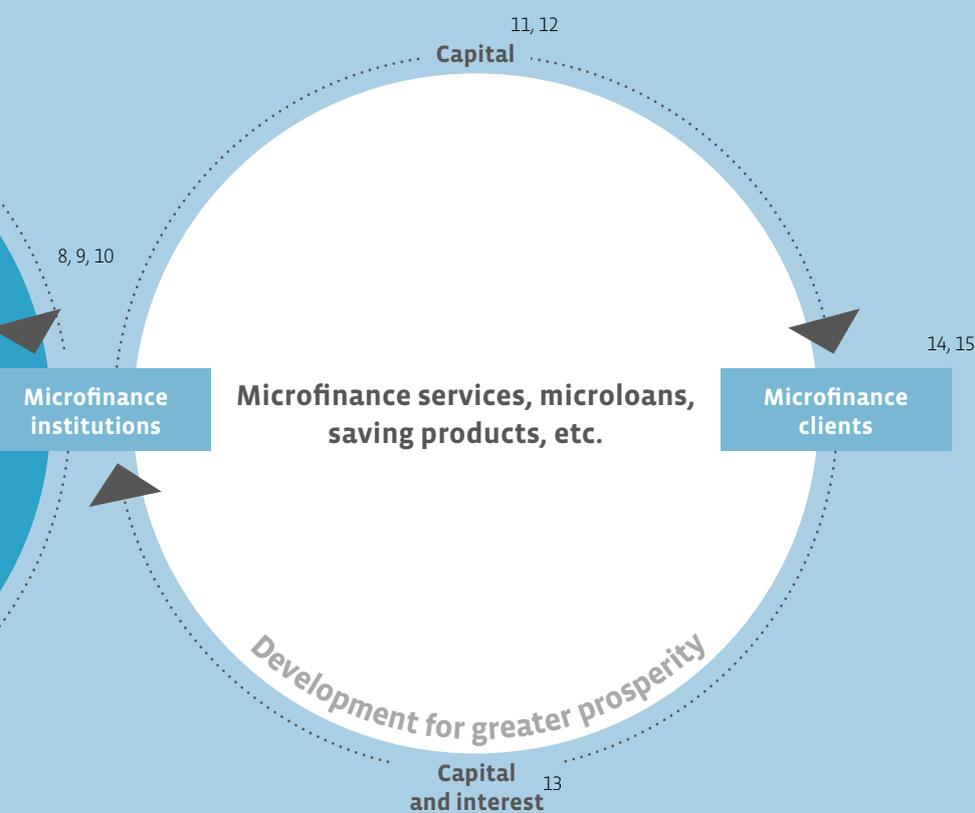
responsAbility in 2014: USD 1.8 billion, 77 countries, 349 financial institutions; Financing in USD, EUR and 36 local currencies

## 7. Investable microfinance market

The around 10,000 microfinance institutions worldwide have reached various stages of maturity – from non-government organizations to fully certified banks. Only around 500 of these institutions meet our quality criteria and are therefore classed as investable by responsAbility.

## 8. Development opportunities for microfinance institutions

Most microfinance institutions mature and develop on a continual basis. They grow by entering new regions, offering clients additional services such as saving products and /or expanding their client base to include SMEs.



**9. Portfolio quality**

responsAbility operates very professionally and has an extremely high-quality portfolio with write-offs of less than 2% per year.

**10. Essential access to financing**

Debt and equity financing form the basis for the operation, portfolio expansion and growth of microfinance institutions. This enables them to serve more clients more efficiently.

**11. Microfinance services in the markets**

Microfinance institutions that received direct financing from responsAbility serve 32.4 million borrowers, 32.4 million of savings, 49% of clients in rural areas and 77% of female clients.

**12. Regulatory frameworks**

In order for microfinance to achieve sustained success, an appropriate legislative framework and a functioning regulatory authority are needed. It is also important to ensure that all market participants make active use of credit information bureaus.

**13. Interest on microloans**

On average, micro-borrowers pay interest of 29%. This largely reflects the high operating costs of microfinance institutions (17%) and decreases as the institution becomes more efficient. Compared to other available forms of financing such as loans from informal money lenders, where interest rates total around 120% or more, microfinance interest rates are very reasonable.

**14. Preventing overindebtedness**

Professional and responsible lending practices that also make use of credit information form the basis for the prevention of overindebtedness.

**15. Microfinance = financial sector development**

With their offering, microfinance institutions reach sections of the population that are unable to access banking services. In this way, they provide an important basic infrastructure and contribute to the expansion of the local financial sector.

# GROWTH

**10–15%**

The average growth rate which the experts interviewed by responsAbility project for the global microfinance market.

**ASIA PACIFIC**

is set to remain the world's fastest-growing microfinance market with projected growth of 30 % in 2016.

“From a structural perspective, the potential for growth across most microfinance markets is vast as financial exclusion remains widespread. Even though the rate of financial inclusion has progressed rapidly in recent years, there is still a large gap between developing and developed countries.” p. 18

**\*MICROFINANCE CUSTOMERS =**

People and businesses with regular income, frequently from self-employment activities, who do not have conventional collateral for bank loans. They include smallholder farmers, small traders and artisans.

# THE BACKBONE OF THE PUBLICATION INTRODUCTION AND METHODOLOGY

The responsAbility *Microfinance Market Outlook 2016* aims to provide an in-depth and concise overview of the expected developments in the industry over the next year. It is estimated that about 10,000 microfinance institutions (MFIs) exist worldwide. However, only around 500 MFIs would potentially satisfy responsAbility's eligibility standards in terms of sustainability of their business model, thoroughness of their analytics and overall impact on sector development. For those 500 MFIs this publication intends to draw valid conclusions.

An important indicator is the growth of the industry, i.e. the overall progress and expansion of financial inclusion worldwide. However, incorporating only growth figures often tells an incomplete or even wrong story. Therefore, a suite of other topics were also included such as portfolio quality of MFIs, the overall health of the regulatory environment, technological trends, new frontiers in the sector and impact of the macroeconomic and political environment.

The study is divided into three main parts which complement each other and together produce a comprehensive qualitative and quantitative picture of the microfinance market in 2016.



## MACROECONOMIC FORECAST (PAGES 12–15)

The quantitative economic growth forecast of the International Monetary Fund (IMF) is published every year in October and serves as a foundation for the assessment. Even though the microfinance market is still relatively protected against swings in the overall economy, broad growth patterns can be seen as a proxy for changing customer demand for loans and other market dynamics.



## QUALITATIVE INTERVIEWS (PAGES 16–31)

Based on our extensive network of microfinance experts, we were able to hold 36 interviews with practitioners worldwide, such as decision-makers at MFIs, rating agencies, as well as investors and advisors. The interview guideline included 28 questions on eight topics (such as growth of the market, regulatory environment, etc.).



## QUANTITATIVE EXTRAPOLATION (PAGES 32–35)

responsAbility can draw on regularly reported data of 349 MFIs to detect market trends. Out of those 349 MFIs, we constructed a constant subset of 100 MFIs which we regard as a “model portfolio” representative of the overall market. Based on this microfinance market tracker as well as the data compiled in the interviews, we estimate the development of key industry indicators, such as growth, portfolio quality and profitability, for 2016.

# MICROFINANCE MARKETS REMAIN RESILIENT AND ROBUST

This year has seen several troubling headlines: China's stock market turbulence and the correction in commodity prices are just two of the stories that have led investors to retreat from developing markets. Yet while these events are important, they do not come close to telling the whole story: for instance, movements in listed equity and bond markets tend to have limited impact on a country's real economy, and for every commodity exporter that loses revenue due to lower energy prices there is a commodity importer that benefits from higher revenues. This nuanced view underlies an important divergence: while advanced economies are expected to grow only slowly in the near term, the economies with the

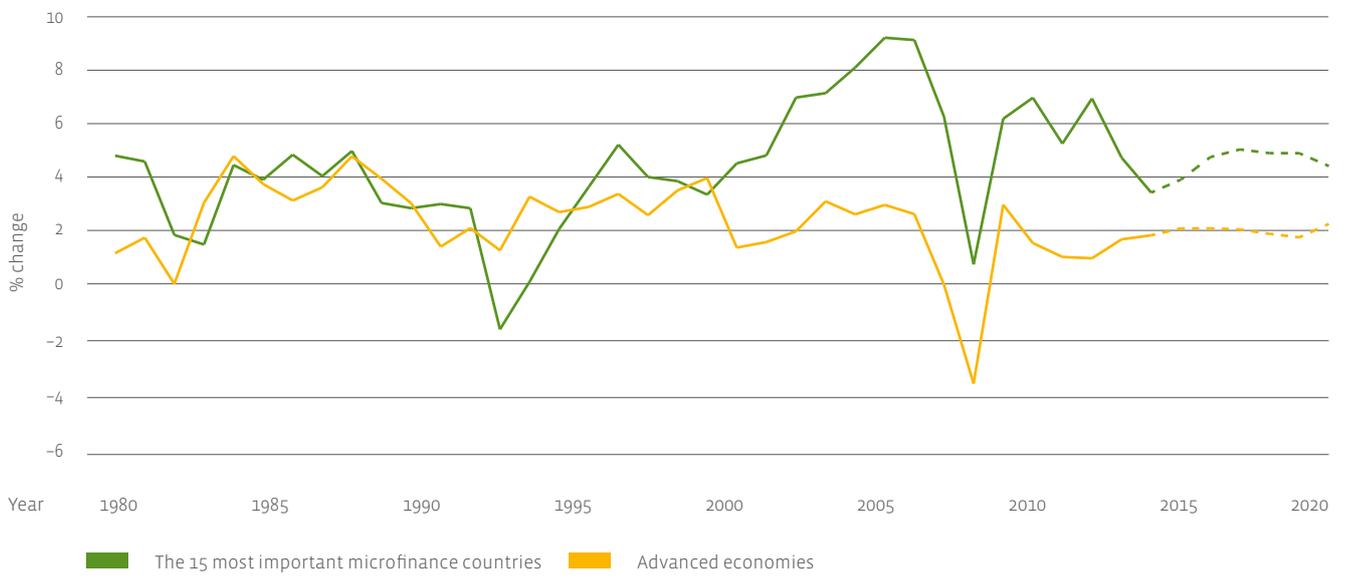
largest microfinance markets will see relatively robust GDP growth this year and next, expanding at more than double the rate projected for the developed world (see Figure 1). In addition, the developing economies with the bleakest economic outlooks – Venezuela, Brazil and Russia – do not have large microfinance markets. That said, even if countries do not have large microfinance markets of their own, their economic slowdown may spill over into neighbouring economies that do, as has been the case with Russia. To make sense of these varying trends, this section discusses the macroeconomic fundamentals of the microfinance markets in which responsibility is most active.

**“While advanced economies are expected to grow only slowly in the near term, the economies with the largest microfinance markets will see relatively robust GDP growth this year and next.”**

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**Figure 1: Real GDP growth over time**

GDP growth rates of advanced economies and those with the most significant microfinance markets continue to diverge



Source: IMF, responsAbility Research

- **Fortunes turn for commodity exporters.** This year, a country's economic forecast depends largely on whether it is a commodity exporter or not. Whereas in recent years net commodity exporters registered persistently higher growth rates than net commodity importers, this trend is set to reverse: oil prices are at record lows and are not expected to recover any time soon, and prices for metals and minerals will remain sluggish as the Chinese economy slows and reorients. While the end of the commodity super-cycle will entail structural adjustment and lower growth for several countries – including some with large microfinance markets – it will also benefit those that are heavily reliant on imports to fuel their growth. The section “diverging trends” explores in more detail how these dynamics could affect the microfinance sector.
- **Russia, a case in point.** The sharp fall in oil prices exacerbated the imbalances in Russia's already pressured economy and pushed it into crisis. Russia's beleaguered economy is expected to contract by nearly 4% this year and stagnate thereafter. Although Russia is not a major microfinance market, its economic contraction is affecting microfinance markets in the Caucasus and Central Asia. Exchange rates across the region have weakened significantly against the USD, and lower exports and transfer payments from Russian migrants working abroad will lead to slower growth. Conditions are expected to improve in 2016 as Russia stages a modest recovery, bringing greater stability to the region's currencies.
- **Generally, however, developing-market fundamentals are robust.** Given the backdrop of slower growth and weaker exchange rates, it is important to emphasise that developing markets have never been as prepared to weather global economic turmoil as they are today. In recent decades, they have strengthened their balance sheets, implemented flexible exchange rate regimes and increased their foreign exchange reserves. Additionally, they are generally far less indebted than developed countries, and their debt is increasingly denominated in local currency, which is vital in times of high volatility.

“Given the backdrop of slower growth and weaker exchange rates, it is important to emphasise that developing markets have never been as prepared to weather global economic turmoil as they are today.”

- **This will help mitigate the impact from external crises.** Bolstered by these fundamentals, developing economies are expected to continue expanding, albeit at lower rates than in previous years. The average<sup>2</sup> GDP growth rates of the 15 main microfinance markets will be 3.5% in 2015 and 4.0% in 2016 (see Figure 2)<sup>3</sup>. These headline numbers mask significant disparities, however: India – a net oil importer – will benefit as lower oil prices boost domestic demand, pushing growth rates to 7.3% and 7.5% respectively. On the other hand, Ecuador – a net oil exporter – will experience a moderate contraction.
- **Growth rates will increasingly outpace those of developed economies.** Developed economies are expected to grow at an average of 2.0% in 2015 and 2.2% in 2016, respectively. Over the medium to long term, growth differentials between developing and developed countries will widen further: the IMF forecasts that by 2020, annual GDP growth in developed countries will be 1.9%, less than half the rate of 5.0% predicted for economies with the largest microfinance markets.

<sup>1</sup> IMF (October 2015): World Economic Outlook

<sup>2</sup> The taking of simple averages for purposes of aggregation deviates from IMF methodology. The IMF weighs growth figures according to their absolute purchasing power, adjusted to GDP. We decided not to do this as the result would have been too heavily influenced by India (combined, the 14 other markets account for only 20% of India's GDP (at purchasing power parity)). If we follow the IMF's methodology, the average GDP growth rate of our 15 main markets would be 6.6% for 2015 and 6.9% for 2016.

<sup>3</sup> IMF (October 2015): World Economic Outlook

**Figure 2: Forecasts for real GDP growth in the 15 main microfinance markets<sup>1</sup>**

	<b>2015</b>	<b>2016</b>
India	7.3%	7.5%
Cambodia	7.0%	7.2%
Kenya	6.5%	6.8%
Bolivia*	4.1%	3.5%
Azerbaijan*	4.0%	2.5%
Ghana*	3.5%	5.7%
Mongolia*	3.5%	3.6%
Paraguay	3.0%	3.8%
Costa Rica	3.0%	4.0%
Tajikistan	3.0%	3.4%
Armenia	2.5%	2.2%
Peru*	2.4%	3.3%
Kyrgyz Republic*	2.0%	3.6%
Georgia	2.0%	3.0%
Ecuador*	-0.6%	0.1%
<b>Average</b>	<b>3.5%</b>	<b>4.0%</b>

\* Commodity exporters

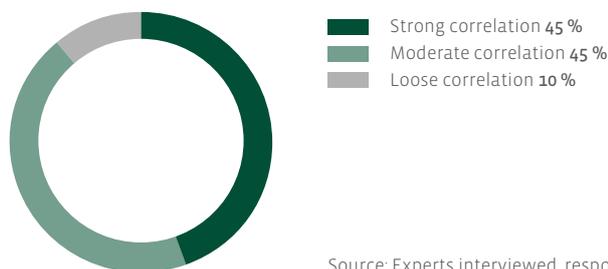
Source: IMF, responsAbility Research

# MICROFINANCE AND ECONOMIC CYCLES: HOW ARE THEY RELATED?

Previous editions of the *Microfinance Market Outlook* argued that global financial events – such as stock market crashes or the tightening of monetary policy in the United States – have a limited impact on microfinance clients as they are more affected by what happens in their countries’ “real” economies.

However, certain global or regional events – such as the sharp decline in commodity prices or the recent turmoil in Russia – often have a direct impact on microfinance clients. Indeed, over 90% of the 36 experts interviewed for this study find the correlation between a country’s macroeconomic environment and its microfinance market to be at least of “moderate” strength.

**Figure 3: Correlation between the macroeconomic environment and microfinance**



Source: Experts interviewed, responsAbility Research

## WHY DO THESE NARRATIVES DEVIATE?

It all comes down to the nature, and therefore consequences, of the crisis at hand: for instance, an external event that alters the value of a country’s currency vis-à-vis the USD or that dampens demand for domestic goods and services will likely impact microfinance clients. External events with a limited impact on the real economy, however – such as heightened volatility on mature financial markets – will not.

As an example of the former, consider the effects of currency depreciation. As currencies weaken against the USD, the cost of living increases for every borrower in the country. This leads to a drop in their consumption of goods

and services, including those offered by micro-entrepreneurs. On top of that, for clients that have their loans denominated in a foreign currency, the effects are especially pernicious as a weaker currency translates into higher repayment costs. This reduces a borrower’s income even further and limits his or her demand for additional loans.

Or consider the political and economic turmoil currently engulfing Russia. Russia employs a large number of migrants from neighbouring countries that regularly send portions of their income back home. These transfers – known as remittances – constitute an important cash source for micro-entrepreneurs

in the workers' home countries. The Russian contraction has caused many of these migrants to lose their jobs, however. In addition, any income that is sent back is now worth less due to the sharp depreciation of the ruble. As a result, even though the crisis is taking place in Russia, the real incomes of micro-entrepreneurs in several neighbouring economies will fall.



#### **WHAT DOES THIS MEAN FOR MICROFINANCE INSTITUTIONS?**

Microfinance institutions (MFIs) in markets exposed to these types of headwinds could be impacted in myriad ways. First, they could experience a decrease in aggregate loan demand as micro-entrepreneurs adjust to their new environment by, for instance, postponing expansion plans. Second, their profitability could suffer as non-performing loans increase or their expenses outweigh their income. Lastly, they may need to absorb higher funding costs, especially if the loans they receive are denominated in foreign currency and need to be hedged against the local currency.

Yet while these challenges are significant, MFIs are well-equipped to absorb their impact and continue operating sustainably. Their lean business models allow them to spot troubles early on; their thorough risk assessment processes help ensure that borrowers most likely to struggle are not on their

books; and their diversified client and investor bases mitigate concentration risks. Therefore, while microfinance markets are affected by certain global or regional events, responsibility remains comfortable that the mitigants far outweigh the risks.

#### **IT ALSO WORKS THE OTHER WAY AROUND!**

Furthermore, it should go without saying that microfinance markets can also benefit from external developments. For instance, the economic recovery in the United States and strong appreciation of the USD have boosted demand for goods and services across Mexico and Central American markets and increased the value (in local currency terms) of the remittances being transferred home. This is generating additional market opportunities for micro-entrepreneurs and the institutions that serve them. As challenges develop in one region, then, opportunities emerge in another.

Street scene in Nairobi: Net commodity importers such as Kenya will be less affected by global headwinds. As a consequence, their microfinance markets are expected to expand robustly. (see p. 18)

# DIVERGING TRENDS

## GENERAL SURVEY RESULTS

More than merely forecasting the growth potential of microfinance markets, the *Microfinance Market Outlook* seeks to uncover underlying drivers and trends. In order to have an accurate and comprehensive view, responsAbility interviewed 36 leading industry experts spread across all major microfinance regions.

The global microfinance market is expected to grow by 10% to 15% in 2016. While positive and reflective of the resilience of microfinance markets, this constitutes a slower pace than has been observed in previous years. In addition, it is difficult to qualify the global market in a single phrase as the challenges and opportunities vary substantially across regions. For instance, while markets in Latin America and Central Asia drove industry growth in the past, they are expected to slow this year. Prospects are stronger for markets in Asia Pacific and Sub-Saharan Africa, however, as they are expected to register above-average rates of growth this year.

The general deceleration is in part due to a series of challenging macroeconomic events that, while temporary, have spilled over into the real economy. In some countries, this has led to weaker currencies and lower remittance inflows, which has in turn impacted local borrowers' demand for funds and repayment capacity. The fall in remittances has been particularly hard on micro-entrepreneurs as it has curtailed an important source of supplementary income.

From a structural perspective, however, the potential for growth across most microfinance markets is vast as financial exclusion remains widespread. Even though the rate of financial inclusion has progressed rapidly in recent years,

there is still a large gap between developing and developed countries: for instance, while the ratio of private credit to GDP in countries with large microfinance markets hovers around 40%, in developed countries this indicator lies well above 100%.<sup>1</sup> This gap implies that the microfinance sector still has plenty of room to “catch up”, allowing it to outpace growth levels in more mature segments of the economy for the foreseeable future.

Yet this is not true for all microfinance markets. In some countries – for instance, Peru – financial markets have expanded at an impressive pace and access to basic financial services is now relatively extensive. While the interviewed experts expect these microfinance markets to register lower growth rates going forward, this by no means implies that demand for financial services is now fully met. Rather, it means that demand has shifted to new, more advanced segments, such as SME financing or leasing, which remain thoroughly underserved.

The following pages summarise the key trends and growth dynamics seen across the various regions responsAbility invests in. They build on the 36 in-depth interviews with industry experts to provide a qualitative snapshot that describes different markets' growth potential, the quality of the regulatory environment, developments in terms of funding sources, and any other relevant future trends.

## MAJOR TRENDS: TECHNOLOGY IN THE DRIVER'S SEAT

What is the value of technological progress? According to the majority of experts interviewed the answer is clear: technology has the power to revolutionise how microfinance markets operate. From allowing MFIs to access micro-entrepreneurs in hard-to-reach areas to enabling the implementation of more robust ICT and risk assessment tools, technology represents a huge opportunity for microfinance institutions across the world.

<sup>1</sup> World Bank (2015): World Development Indicators

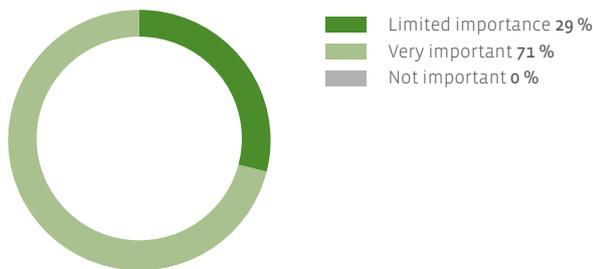
**“Advancements in mobile technology are groundbreaking. Going forward, everyone’s mobile phone will be a small ATM.”**

Eric Savage (Unitus Capital, India)

From a market development perspective, technological breakthroughs such as mobile money and branchless banking enable the microfinance industry to leap over phases that it would have otherwise had to go through (for more, see the responsAbility Research Insight<sup>2</sup> on this topic). In addition, they allow MFIs to adapt their products to the unique environments and business cycles of their clients. This explains why, when asked what the major innovation in microfinance will be going forward, four out of five experts

named “branchless banking” and “mobile money”. Interestingly this was mentioned by experts across all regions, not only those active in East Africa’s “Silicon Savannah”. In discussing mature markets in South America and Central Asia, for example, experts said that technological advances will boost institutions’ efficiency and outreach capacity, allowing them to provide better services to their clients at lower costs. In increasingly competitive markets, efficiency gains are crucial to gaining market share.

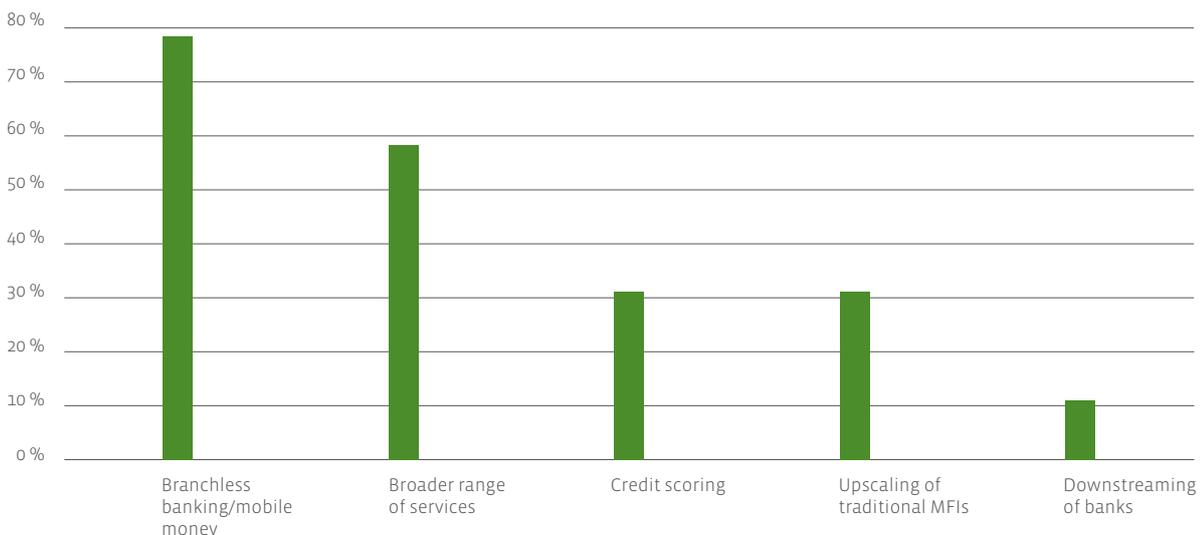
**Figure 4: The importance of technology for the microfinance sector**



Source: Experts interviewed, responsAbility Research

After mobile money and branchless banking, experts named “a broader spectrum of services offered” as the second most important trend within the microfinance sector. Clients’ needs are evolving rapidly and, with them, the services that MFIs need to offer. In addition to access to credit, MFI clients want to be able to place deposits, to obtain insurance or to take out a lease. New technologies will allow MFIs to design products that provide this broader spectrum of services efficiently and sustainably.

**Figure 5: Which trends will transform the microfinance market**



Source: Experts interviewed, responsAbility Research

<sup>2</sup> responsAbility (2013): The Microfinance Revolution in East Africa (2013)

# DEVELOPMENT AND GROWTH TRENDS ACROSS THE WORLD'S MAIN MICROFINANCE MARKETS IN 2016



## Latin America | 5–10%

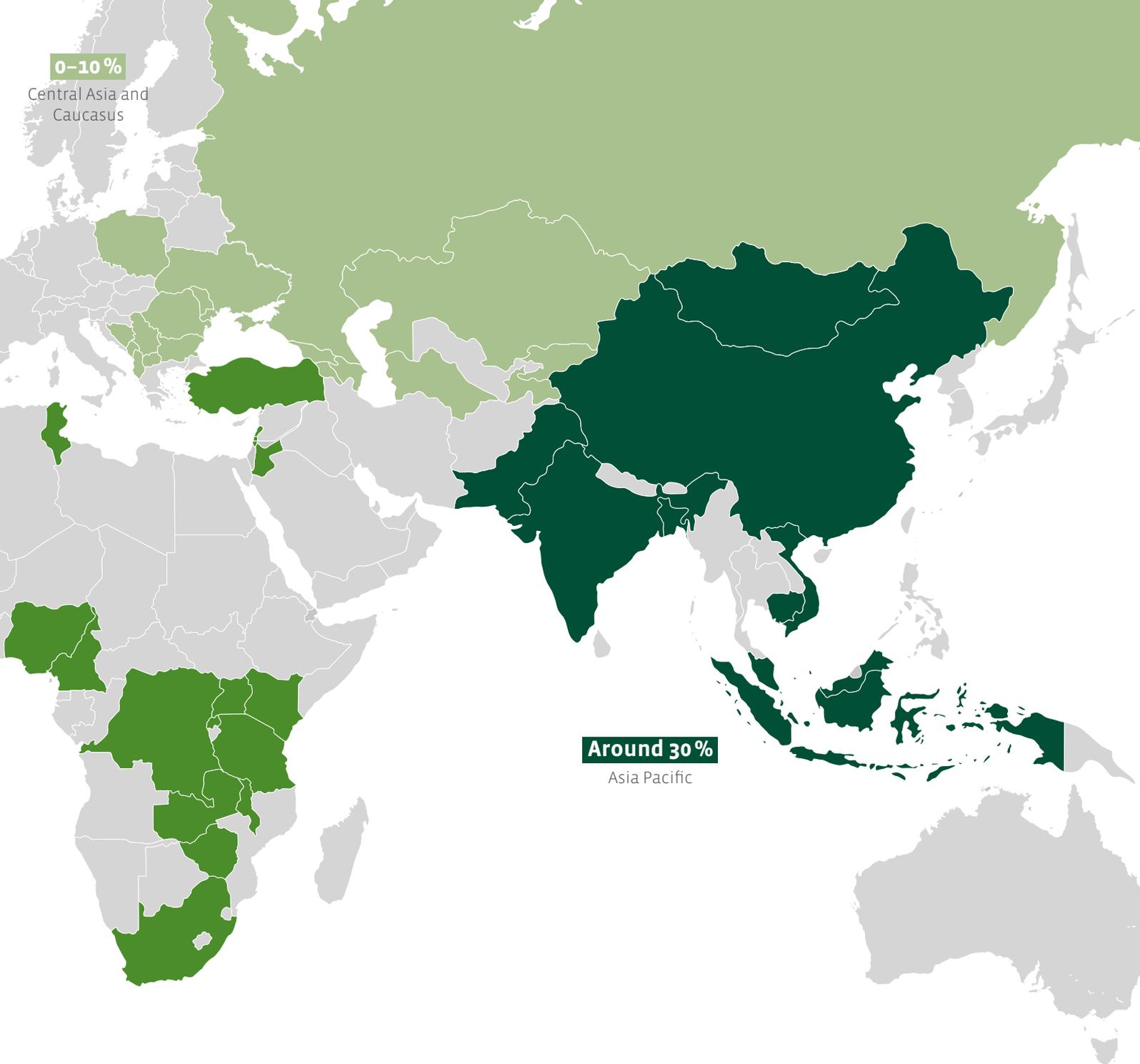
After years of strong expansion, South American markets have become increasingly mature, which is limiting growth opportunities in the traditional microfinance segment. In addition, the macroeconomic adjustment that commodity exporters are experiencing due to the decline in prices will also lead to slower lending growth. The trends in Central American economies are different, however: most are benefitting from the current fall in oil prices as they are net energy importers, and the recovery of the US economy is providing a strong boost via increased trade and remittances. The adverse weather phenomenon known as El Niño represents a key risk for most microfinance markets, however, due to its strong impact on agricultural output. Considering the above, the Latin American region is expected to grow by 5–10%.

## Sub-Saharan Africa | 15–20%

Sub-Saharan microfinance markets are expected to continue expanding as penetration remains relatively low. Markets of net commodity exporters like Ghana and Nigeria, will, however, experience slower growth as a partial consequence of decreasing exports and subsequent currency volatility. On the other hand, net commodity importers like Kenya and Tanzania will be less affected by global headwinds and their microfinance markets will expand robustly. The expansion of technology-driven solutions will further support the development of the microfinance markets in the region, especially in Eastern Africa. Microfinance markets in Sub-Saharan Africa are on average expected to register growth of 15–20%.

## Middle East and North Africa | 10–15%

While the ongoing Syrian civil war and growing security risks posed by groups such as ISIS have been a source of uncertainty and instability, the Middle East's most exposed microfinance markets – Lebanon and Jordan – have remained resilient. The Turkish microfinance market will experience muted growth, however, due to a series of political and economic challenges that will impact the real economy. As for North Africa, Morocco and Egypt are expected to be the main drivers of growth as their economies recover and more favourable regulatory environments are put in place. Altogether, the MENA region is expected to grow at 10–15%.



**Eastern Europe | Around 10%**

Eastern European economies that are not closely interconnected with Russia will register their highest growth rates since the financial crisis of 2008. This is driven by low commodity prices, improving labour markets and higher demand for exports. The legacy of the financial crisis can, however, still be felt in the banking sector. While the microfinance market in most countries remains relatively small, it is expected to grow at a healthy 10%. Exceptions are countries like Moldova, where the Russian crisis will have a significant impact on growth.

**Central Asia and Caucasus | 0-10%**

Due to links with an economically stagnant Russia, growth rates for the region are expected to be relatively low for much of 2016. Oil exporters such as Azerbaijan and Kazakhstan will also be affected by the low commodity prices. This mainly affects the microfinance sector via depreciating currencies, slower GDP growth and a sharp decline in transfer payments from emigrants working in Russia. Due to this context, regulators in some countries have started to tighten regulation via prudency requirements or other restrictions (see also the paragraph on business environment on page 22). The impact has already been felt this year, but 2016 also promises to be a challenging year for the region. Although most institutions are well equipped to deal with the difficulties ahead, growth is expected to slow to 0-10% for the market, with a recovery kicking in at the end of the year.

**Asia Pacific | Around 30%**

Growth fundamentals in the main microfinance markets in Asia Pacific are relatively solid, with the exception of Mongolia, which will be strongly affected by the end of the commodity super-cycle and the downturn in China. Microfinance markets in India and Cambodia are expected to expand at their current pace; India in particular can benefit from higher growth potential as well as a more favourable regulatory environment. The deceleration in Mongolia will weigh slightly on the overall growth outlook; nevertheless, Asia Pacific is expected to grow by around 30% in 2016.

**Global | 10 - 15%**

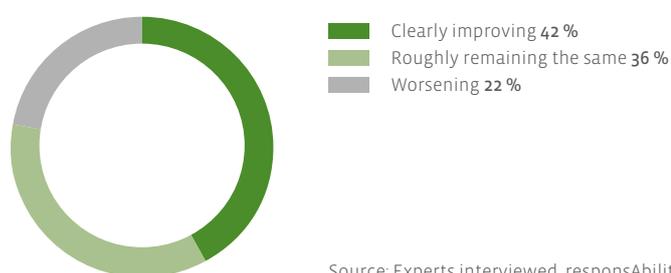
## BUSINESS ENVIRONMENT: SOUND REGULATION IS KEY

In addition to technological advancements, sound and prudent regulation is a key enabler for the development of a comprehensive financial sector. For instance, as the case study on India (page 28) illustrates, the sector's new and improved regulatory framework allows microfinance institutions to become specialised banks, thereby expanding the services they are able to offer. For many clients the broader range of products and services – which includes savings and online payment services – is unprecedented and probably would not have been possible without the strong commitment from the regulator.

**“By granting eight out of 10 Small Finance Bank licenses to MFIs, the Reserve Bank of India (RBI) has shown faith in what microfinance can achieve for financial inclusion. This is a big responsibility and an opportunity for the sector.”**

Mona Kachhwaha (Caspian Impact Investment Advisers, India)

Figure 6: Changes in the general business environment



Source: Experts interviewed, responsAbility Research

Although transformative regulatory frameworks that thrust financial sectors forward are rare, a general positive trend is visible: over 40% of experts believe the regulatory and supervisory environment in their market is “clearly improving”. This was most notably the case for experts located in Sub-Saharan Africa and Asia Pacific, which are – perhaps not coincidentally – the two regions expected to experience the strongest growth in 2016.

Yet although prudent regulation can bring clarity and order to a market, regulation driven by populist or misguided motives often has the opposite effect, distorting incentives and damaging the business environment. Over 20% of experts interviewed considered regulatory changes to have been a drag on their markets, with Central Asia – and especially Azerbaijan – singled out as an example of where regulatory interventions had gone wrong.

Interest rate caps are a classic example of distortionary interventions. Their rationale is understandable: as microfinance institutions provide services to vulnerable low-income populations, consumer protection is paramount. Interest rate caps present authorities with a seemingly quick and effective way to ensure that micro-entrepreneurs are not exploited. Unfortunately, however, interest rate caps often have unintended side effects that limit an MFI's ability to provide any services at all. For instance, a cap on interest rates could force an MFI to reduce or cease activities involving small loan sizes or high operational costs as these may no longer be financially viable (for more, see the responsAbility Research Insight<sup>3</sup> on this topic).

<sup>3</sup> responsAbility (2014): Efficiency is key to lower interest rates in microfinance

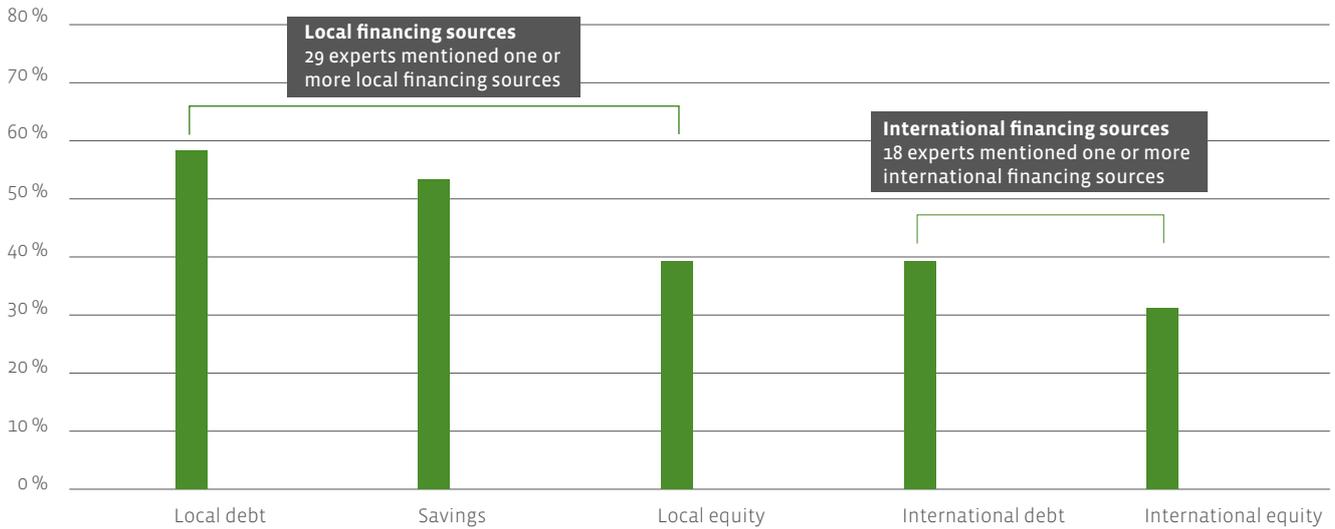
## MFI FUNDING: SEEKING DIVERSIFIED SOURCES

In terms of the overall funding mix of microfinance institutions, the trend towards local funding sources is set to continue. As the preceding two [Microfinance Market Outlooks](#) have highlighted, client deposits and local debt have gained in importance, with the former being particularly sought after. In addition to allowing an institution to diversify its local currency funding sources, deposits represent an additional service offered to the MFIs' clients. The high demand for savings solutions is reflected in their rapid growth: they have grown by over 20% in the last two years alone<sup>4</sup> and, according to a majority of experts polled, will become an even more important source of funding for microfinance institutions in the future. Yet while attractive to both clients and institutions, the expansion of savings is constrained by prudent requirements that require deposit-taking institutions to undergo more stringent regulation. In fact, in some countries, MFIs are not allowed to accept deposits at all. Yet as has been seen most recently in India, a growing recognition of microfinance's role in promoting financial inclusion can catalyse a sector's transformation and broaden the services MFIs can provide.

When asked to explain why microfinance institutions were shifting towards local sources of funding, experts cited "increased availability" and "better pricing" as the two main reasons. Access to local funding sources is especially important for countries whose currencies have weakened substantially against the USD. During these times, local debt providers have a clear advantage in terms of pricing as they do not need to hedge their funding.

<sup>4</sup> As of Q2/2015, according to the responsAbility model portfolio (see the section entitled "responsAbility's model portfolio" for more details).

Figure 7: Types of funding that will play a more important role over the next three years



Source: Experts interviewed, responsAbility Research

International funding sources will remain important going forward, however, as these provide institutions with special expertise and a means to diversify their funding structures. And although local funding sources are “catching up” with international ones, they are not growing fast enough to meet the sector’s growing needs. This explains why 50% of experts interviewed indicated that international micro-finance investment vehicles will remain amongst the most important sources of funding for at least the next three years. This is good news as it means that asset managers like responsAbility are well positioned to continue providing both debt and equity funding to microfinance institutions across the world.

**“Efficiency will be very important next year. Institutions that manage to reduce costs intelligently will do well; others will struggle.”**

Roberto Andrade (Banco Solidario and PUCE, Ecuador)

## THE NEXT FIVE YEARS: WHERE ARE WE HEADING?

When looking back, the overwhelming majority of experts said that in the last few years the microfinance industry had been placed on a sounder footing. When asked what the next big development in their markets would be, however, the answers were more varied. Some mentioned the transitions in mature markets such as Peru where the focus will be on improving efficiencies and reducing costs. Others focused on technological advancements and their ability to promote efficiency gains and expand outreach.

The latter was viewed as most often cited in younger markets, namely those in Sub-Saharan Africa or Asia Pacific, where technological innovations are the principal means to gaining market share. In addition, experts from these regions emphasised the transformation of microfinance institutions into fully-fledged banks as high on their list of priorities.

# FINANCIAL SECTOR DEVELOPMENT

**133**

transformations of institutions within responsAbility's portfolio have been seen over the last 15 years. These transformations enable microfinance institutions to mature and offer a wider range of services such as savings deposits. In this way, they play a key role in financial sector development.

"From a market development perspective, technological breakthroughs such as mobile money and branchless banking enable the microfinance industry to leap over phases that it would have otherwise had to go through." p. 19

**30-40%**

The ratio of domestic private sector loans to GDP in the 15 major microfinance markets in 2014. The fact that this figure had been at least 10 percentage points lower in most countries in 2010 highlights the increasing depth of the financial sector in microfinance countries over the past five years.

**\*MICROFINANCE MARKETS =**

Mostly developing and emerging countries in which the financial sector remains under-developed. India, Cambodia and Kenya are some of the world's major microfinance markets.

# MICROFINANCE INVESTMENTS: WHAT HAPPENS NEXT?

Microfinance has become established as an attractive investment theme in recent years. How will the developments described in this study impact microfinance investments? Rochus Mommartz, a member of the Management Board of responsAbility, answers five questions on this topic.

## What do the forecasts in the Microfinance Market Outlook mean for microfinance investments?

In the case of fixed income investments, which represent by far the largest proportion of global microfinance investments, the core message is: The market will continue to grow, albeit with strong regional differences. Anticipated global growth of 10–15% means, however, that the demand for financing will continue to rise.

## Does the same apply to equity investments?

Equity investments are less affected by current macro-economic factors. The way in which the demand for services from financial institutions evolves over the coming years will be a much more decisive factor. Most microfinance markets are still far from achieving the level of financial coverage seen in industrialised nations (see pages 20–21). Catch-up growth is therefore also set to continue over the next few years.

.....  
“Most microfinance markets are still far from achieving the level of financial coverage seen in industrialised nations. This means the market will continue to grow.”  
.....

## How does the macroeconomic environment influence the valuation of these investments?

Even if financial institutions are not listed on the stock market, they are not immune to market developments. The valuation of similar listed companies can influence their valuation, as can increased currency volatility. Generally speaking, what we can say is that microfinance institutions in developing countries create long-term value by achieving growth. This value should adequately compensate investors for the risks they take. Short-term macroeconomic cycles tend to be more relevant when it comes to deciding whether it is an attractive time to invest.

## What role do private equity investments play in mature microfinance markets?

In an early phase, many microfinance institutions are typically owned by development finance institutions or non-government organizations – i.e. entities without a commercial focus. As soon as the financial institutions are

able to operate sustainably, these owners often believe that their original role has come to an end. New owners are then needed for the next phase in the development of the financial institutions – often their transformation into banks. In many countries, the capital market does not yet represent an adequate solution. This opens up long-term investment opportunities for the private sector, such as those offered by private equity investments in the area of microfinance.

## What impact do regulatory developments have on equity investments?

Allow me to explain using a concrete example. In India, investment deals almost came to a standstill in 2015 after a change of regulations was announced. This regulatory uncertainty was eliminated when new bank licenses were granted – and this will result in a series of changes to the ownership structure of the financial institutions. To be exact, various microfinance institutions will seek to transform themselves into banks. This process will take several years to complete and the institutions will need investors with a long-term investment horizon to support them during this period. These investors will subsequently be able to participate in the value that is created.

.....  
“Microfinance institutions in developing countries create long-term value by achieving growth. This value should adequately compensate investors for the risks they take.”  
.....



**ROCHUS MOMMARTZ**  
member of the Management Board  
of responsAbility

# INDIA'S FINANCIAL SECTOR – **BIG STEPS TOWARDS FINANCIAL INCLUSION**

Over the last six years, India's micro-finance sector has experienced a rollercoaster ride with remarkable results. In 2010, a promising growth story was abruptly interrupted by one of the biggest crises microfinance has experienced to date. The government of Andhra Pradesh, then governing a population the size of Germany, shut down the local microfinance sector, with drastic consequences. The state government's move led to a complete halt of microfinance across the state, triggering an identity crisis and serious funding shortages throughout India's microfinance sector.

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*The story of India highlights the importance of sound regulation, working industry bodies as well as an open-minded political environment.*

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A giant on the rise: The World Bank expects the Indian economy to grow by 7.5% in 2016.

Since then regulators, politicians and practitioners have gone over their books and transformed the financial sector in India. responsAbility tracked and summarised those developments in a dedicated Research Insight<sup>1</sup> as well as in a series of dedicated reports in every annual Microfinance Market Outlook since 2011. The collected impressions tell the story of one of today's most important global microfinance markets and hold a number of lessons learned.

A typical financing example: a small taxi business.



### HOW TO ACCESS 400 MILLION ADULTS?

Today, financial inclusion ranks high on the priority list of India's government and central bank (Reserve Bank of India, RBI). In August 2014, Prime Minister Modi formally launched his financial inclusion programme, which envisages nothing less than a bank account for every Indian. The uptake has been impressive. Across the country, 15 million bank accounts were added on the first day alone. According to the World Bank, only 35% of India's adult population had an account at a financial institution in 2011. By 2014, this proportion had increased to 53%.<sup>2</sup> However, many of these were zero balance accounts. While the political backing has clearly raised awareness, the financial sector now has to translate this push into a sustainable result and activate the dormant accounts.

The increased attention is reflected by the fact that Bandhan, a microfinance institution focused on the rural population, was awarded one of just two general banking licenses which the RBI issued in 2014. This is especially remarkable as these were the first general banking licenses issued within a decade. Bandhan Bank, inaugurated in 2015 after successfully completing its probation period, caters specifically to micro, small and medium enterprises (MSME) and is now also authorised to offer deposit solutions to its clients.

<sup>1</sup> responsAbility 2014, The rise, fall and dynamic revival of the Indian microfinance market

<sup>2</sup> World Bank 2015, Global Financial Inclusion Database (FINDEX)

>>



A sense of a new era on the subcontinent: ever larger sections of the population seek access to financial services.



Any type of business activity requires financing.

### **BANDHAN LEADS THE WAY**

*Microfinance plays a central role in those efforts. It seems that for the first time, India's central bank truly recognises the importance of the industry for financial inclusion.*

However, the general banking license for Bandhan has not remained an isolated event in the RBI's aspiration to expand further the range of financial services available to a broad set of the population. In autumn 2015, India's central bank also granted specific banking licenses to 11 payment banks and 10 small finance banks (see box). This

put the microfinance sector into the spotlight again as eight of the 10 newly licensed small finance banks are MFIs.

At the same time, the RBI recognised that there is no "one size fits all" solution in financial service provision in a country as large and federalist as India.<sup>3</sup> On the contrary, a comprehensive set of different service providers have to be included to achieve the financial inclusion targets set for the sector. As such, privately run institutions can offer an attractive alternative to the mostly state-dominated banking sector. The RBI implemented these lessons learned by issuing new general banking licenses as well as creating new licenses to cater specifically to the more than 400 million adults who are still unbanked.<sup>4</sup>

#### **DEFINITION – SMALL FINANCE BANKS**

Institutions with a so-called "small finance bank" license can provide the basic banking services of collecting deposits and lending money. The purpose of these banks is to provide better services to regions and people with inadequate access to the financial system. Therefore, the banks focus on rural areas and/or micro and small businesses or small farmers. Additionally, the RBI granted in-principle licenses to 11 payment banks to also provide improved access to savings or facilitate transactions (e.g. remittances). The selected institutions must transform their operations as specified within the next 18 months to obtain the final licenses.

<sup>3</sup> Reserve Bank of India 2015, Committee on Comprehensive Financial Services for Small Businesses and Low Income Households report

<sup>4</sup> World Bank 2015, Global Financial Inclusion Database (FINDEX)



In 2014, 53% of India's adult population had a bank account – but many of them are never used.

### 18 MONTHS TO SET UP THE PROCESSES

*The RBI has prepared the transformational ground for the microfinance industry and the entire financial sector to achieve ambitious political targets.*

However, the main work is not done yet. The recipients of the in-principle licenses now have 18 months' time to prove their ability to comply with the increased requirements for banking operations. They have to further professionalise their processes, set up a

deposit-taking unit and adapt their underwriting techniques away from simple group lending towards individual credit solutions. In parallel, the whole sector is forecast to experience strong end-consumer demand over the same period, which the transforming industry also has to handle in a sustainable manner.

Therefore, the story of microfinance in India is neither finished nor free from challenges and uncertainties going forward. But the long-awaited political and regulatory backing has handed the sector a high-quality pen to write its next chapter.

# QUALITY

**18%**

Increase in savings deposits managed by the 100 financial institutions included in responsAbility's model portfolio over the past two years. Savings deposits at soundly regulated financial institutions represent an important complement to micro-loans - and an attractive source of financing for microfinance institutions.

"In addition to technological advancements, sound and prudent regulation is a key enabler for the development of a comprehensive financial sector." p. 22



**86%**

of interviewed experts pointed to a broad or strongly expanding reach of credit bureaus in their microfinance markets. A functioning regulatory framework and sector-specific organisations such as credit bureaus are an important foundation of sustained high-quality microfinance institutions.

## \*PROFESSIONAL MICROFINANCE INSTITUTIONS =

About 500 of a total of 10,000 global microfinance institutions have the necessary processes in place to operate professionally and economically. Only these institutions are eligible for private investments.

SERVICE

# THE RESPONSABILITY MODEL PORTFOLIO QUANTIFYING THE RESULTS

The interviews with 36 leading industry experts summarised in “Diverging Trends” are the core of responsAbility’s qualitative assessment of the microfinance sector. Their insights, drawn from years of active immersion in the field, provide a comprehensive snapshot of where microfinance is today, and provide reliable guidance as to where it will be tomorrow.

In this section, the qualitative assessment is compared with and complemented by a series of quantitative indicators. The basis for responsAbility’s quantitative analysis is a model portfolio of 100 key institutions (unchanged over time) that are deemed to be representative of the investable microfinance universe. These MFIs, recognised as key providers in their respective markets, manage a cumulative loan portfolio of USD 43.1 billion. The analysis is presented below.

## Portfolio growth slows, in line with expert views.

In line with the general qualitative assessment, loan growth in the responsAbility model portfolio slowed in the first half of 2015, settling at a rate of 12% (year-on-year) in Q2 2015 (see Figure 8). A slight deterioration in portfolio quality – described later – has also contributed to slower lending growth as institutions have become more conservative in their lending strategies. Going forward, according to the experts surveyed, growth will accelerate slightly in the remaining half of the year and remain on a muted but ascending path throughout 2016. Given that these growth rates are based on USD figures, they mask the strong currency depreciations that were seen in 2015 and may continue into 2016. Accordingly, the USD growth rates are significantly lower than the equivalent growth rates in local currencies. The modest recovery in loan portfolio growth will be supported by above-average growth in Asia Pacific and Sub-Saharan Africa and a gradually improving outlook in Russia.

Figure 8: Gross loan portfolio of the responsAbility model portfolio



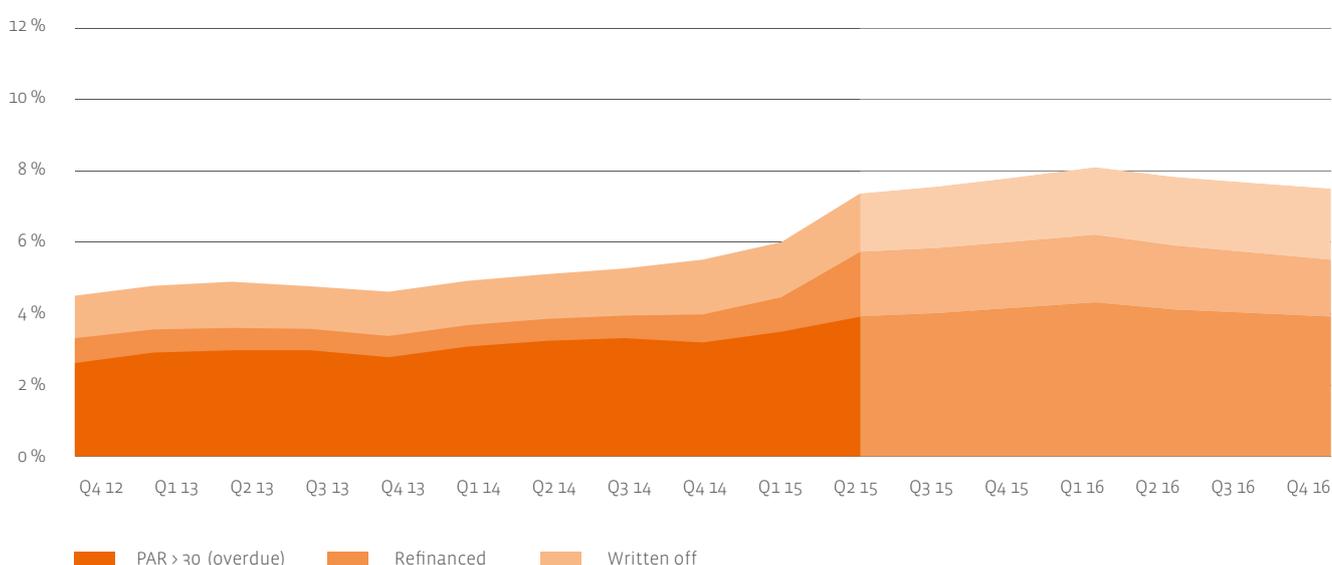
Source: responsAbility Research

### Portfolio quality reflects a modest deterioration as well.

As expected, the slowdown in portfolio growth and the substantial exchange rate depreciations seen across several regions also impacted the representative portfolio quality. As of Q2 2015, PAR 30<sup>3</sup>, refinanced loans and write-offs increased to 7.4%, from 5.1% one year earlier. According to the experts surveyed, portfolio quality will continue this trend through the end of 2015 and the beginning of 2016 as the impact of a slowing economy and exchange rate depreciations continue to filter through. Nevertheless, the trend is expected to reverse later in 2016 as economic outlooks improve, exchange rates stabilise and a substantial share of loans restructured to accommodate currency depreciations is serviced.

Three important points warrant mentioning here: first, while a ratio of 7.4% (for PAR 30, refinanced loans and write-offs) is slightly above the norm for microfinance, it remains far below the levels observed in the banking sectors of several microfinance markets, or even those of certain advanced European economies. Second, the deterioration is largely due to loans being restructured or partially repaid, and not to clients stopping repayments completely. This reflects microfinance institutions' willingness and ability to adapt to a challenging environment and increases the likelihood that non-performing loans will be fully serviced. Finally, in microfinance, portfolio quality is measured very conservatively: the baseline measure is portfolio at risk over 30 days (PAR30), which means that if a client payment is delayed by more than 30 days, the loan is already flagged as portfolio at risk.

Figure 9: Portfolio quality of the responsAbility model portfolio



Source: responsAbility Research

### Risk assessment structures are adequate or rapidly improving, limiting systemic risk.

Finally, while portfolio at risk ratios have risen, systemic risk remains low as microfinance markets benefit from improved credit collection services. The ability of microfinance institutions to reliably verify a potential client's credit history is crucial to preventing multiple borrowing and over-indebtedness. Today, the majority of microfinance markets benefit from adequate or rapidly improving credit bureaus, as attested by over 90% of the experts polled. This increasingly robust and reliable coverage will help sustain positive sector-wide credit quality going forward.

<sup>3</sup> Portfolio at risk (PAR 30) are the share of loans overdue more than 30 days.

# TAKING STOCK

## HOW GOOD WERE THE GROWTH PROJECTIONS?

A regular *Microfinance Outlook* reader might wonder how accurate the publication's previous growth projections have been. Indeed, after five years of publishing this report, it makes sense to take stock and look back. The chart below compares the actual<sup>1</sup> and forecasted growth rates registered in the five years since *responsAbility* started publishing this report. As these averages mask regional differences, they should be viewed only as indicative of the whole.

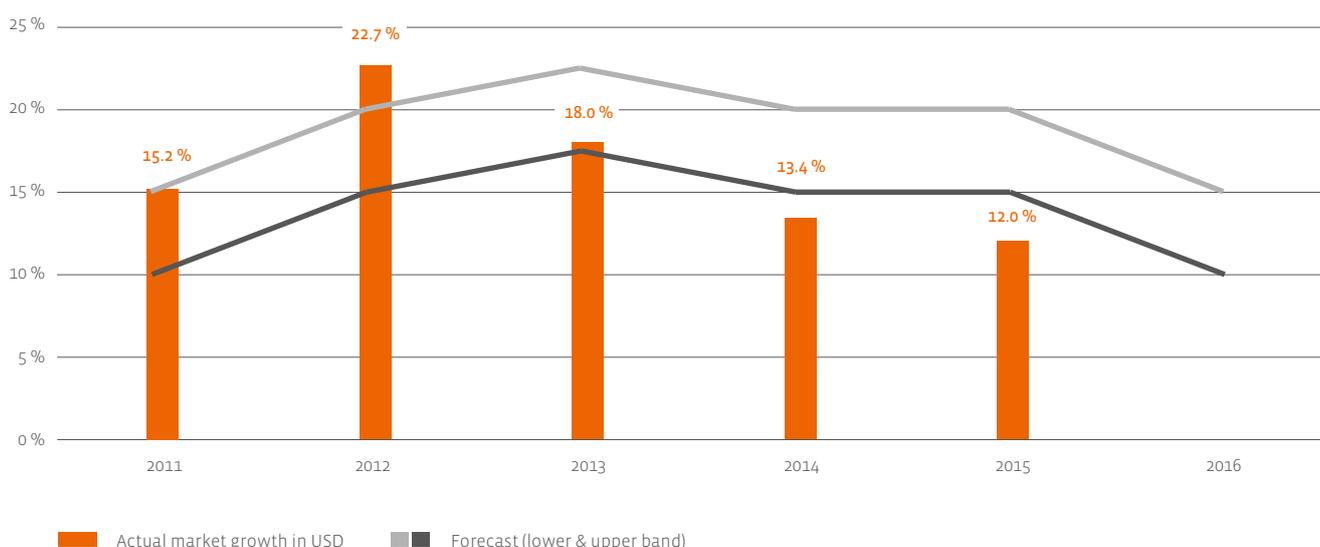
Predicting the growth of microfinance markets is difficult for a variety of reasons. First, historic reference points are only scarcely available, limiting one's ability to base future projections on past trends. Second, markets are influenced by a variety of factors – from economic performance and business sentiment to regulatory changes and political imperatives. Finally, it is an especially dynamic segment of the financial universe.

Against this backdrop, then, we seem to have done a reasonable job. In the aftermath of the 2008–09 financial crisis, the underlying belief was that a “new normal” had set in and lower rates of growth were to be expected. This led us to be overly conservative in 2012 as microfinance markets proved

far more resilient than expected. The projections were more in line in 2013, as the actual growth rates fell within the forecasted band. As for 2014, while portfolio growth stood above 15% in the first three quarters of the year, it slowed substantially in the final quarter, reflecting the outbreak of the Russian crisis and the resulting exchange rate depreciation in neighbouring economies (see [Figure 8: Gross loan portfolio of the responsAbility model portfolio](#)). Additionally, during times of substantial currency depreciations in key markets, estimates are likely to exceed real rates as experts tend to make projections in local currency while we record them in USD.

Our quantitative and qualitative analyses support the view that microfinance markets will grow by 10–15% in 2016. Although the 2016 forecast is below those made in previous years, microfinance markets around the globe remain robust and resilient, and we expect that in the long term the sector will grow sustainably at a rate of 15–20%.<sup>2</sup> A year of slower growth can be used to address weaknesses, adapt business models, improve efficiencies and, by doing so, lay the foundation for a promising future.

Figure 10: Actual and forecasted microfinance market growth rates



Source: *responsAbility* Research

<sup>1</sup> The “actual” growth rates are derived from the *responsAbility* model portfolio (explained before).

<sup>2</sup> This relies on a medium term capacity study *responsAbility* conducted and explained in the *Microfinance Market Outlook 2015*.

# PROSPERITY

**EMERGING EVIDENCE INDICATES** that access to financial services through formal accounts can enable individuals and firms to smooth consumption, manage risk, and invest in education, health and enterprises. (World Bank)

**AROUND 2 BILLION PEOPLE** do not use formal financial services and more than 50% of adults in the poorest households are unbanked. Financial inclusion is a key enabler to reducing poverty and boosting prosperity. (World Bank)

WELCOME

“In some countries – for instance, Peru – financial markets have expanded at an impressive pace and access to basic financial services is now relatively extensive.” p. 18

## \*THE DEVELOPMENT IMPACT OF MICROFINANCE

Microfinance contributes to the development of a functioning financial sector. Access to financing enables microfinance customers to expand their businesses, which, in turn, contributes to economic growth, a larger product and services offering and job creation. All of these factors support the development of the local economy.

# RESPONSABILITY INVESTMENTS AG

responsAbility Investments AG is one of the world's leading asset managers in the field of development investments and offers professionally-managed investment solutions to both private and institutional investors. The company's investment vehicles supply debt and equity financing to non-listed firms in emerging economies and developing countries. Through their activities, these firms help to meet the basic needs of broad sections of the population and to drive economic development – leading to greater prosperity in the long term.

responsAbility currently has USD 2.9 billion of assets under management that is invested in around 530 companies in more than 93 countries. Founded in 2003, the company is headquartered in Zurich and has local offices in Hong Kong, Bangkok, Lima, Luxembourg, Mumbai, Nairobi, Oslo and Paris. Its shareholders include a number of reputable institutions in the Swiss financial market as well as its own employees. responsAbility is registered with the Swiss Financial Market Supervisory Authority FINMA.

# RESPONSABILITY'S EXPERTS

The composition of the Research Team that is responsible for the contents of this publication on microfinance reflects the high complexity of this topic. With its specialist expertise, the team captures new trends in research, finance and development investment. The broad global network of authors forms the basis for the quality of this report.

## CAROLA HUG

*Research Analyst within the responsAbility Research Department and author of this study*



### PROFESSIONAL BACKGROUND

- Holds a Master in Management & Economics and a Bachelor in Communications from the University of Zurich
- More than six years of work experience in the microfinance industry

## HENRY GONZÁLEZ

*Heads the Research & Advisory Team, member of the Senior Management*



### PROFESSIONAL BACKGROUND

- MBA (Oxford University), MPA (Harvard University) and BA in Political Science (University of Costa Rica)
- More than 18 years of professional experience across emerging markets finance (responsAbility and Morgan Stanley), international development (World Bank and UNDP) and public policy (Government of Costa Rica)
- Substantial investing and research experience in sustainable finance as a founding member of the Microfinance Institutions Group at Morgan Stanley, and a Senior Consultant to CGAP's Donors and Investors Group
- Associate Fellow at Oxford University's Saïd Business School, Board Trustee and Investment Committee Member of the Wenner-Gren Foundation (USA)

## ROCHUS MOMMARTZ

*Member of the Management Board, oversees the departments Financial Institutions Equity, Ventures Equity, Research and Legal & Compliance*



### PROFESSIONAL BACKGROUND

- Studied economics and mathematics in Frankfurt and Berlin
- More than 20 years' experience in financial sector development and microfinance
- Played a key supporting role in the expansion of ProCredit Holding in Latin America
- Consulting topics included financial-sector-specific issues in more than 40 countries, designing legal and regulatory frameworks and supervisory practices for microfinance in eight countries
- Board member at various microfinance banks during the last 10 years

**WE WISH TO THANK THE FOLLOWING INDUSTRY EXPERTS  
FOR THEIR VALUABLE CONTRIBUTION:**

Roberto Andrade  
(Banco Solidario)

Pedro Arriola  
(Consultant)

Yohan Assous  
(SA Taxi)

Carlos Avalos  
(Visión Banco)

Jean-Gabriel Dayre  
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Nikólas Drude  
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Mejra Juzbasic  
(Finance in Motion)

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Texts: Carola Hug, Ulli Janett

Pictures: Jerry Riley (p. 17; 28–31)

Concept, design: Liebchen+Liebchen GmbH,  
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