

SPTF Social Investor Working Group Webinar
 Collaborating on an Innovations Lab for Microfinance
 July 25, 2018

1. Overview

At the SPTF [Social Investor Working Group \(SIWG\)](#) meeting in June 2018, Anup Singh of MicroSave proposed an Innovations Lab for Microfinance. The Lab would support microfinance institutions (MFIs) in their digital transformations as well as nurture FinTechs that aim to solve problems in the financial inclusion sector. Members of the SIWG overwhelmingly supported this concept, particularly noting they liked how it would partner MFIs with FinTechs. The group held a webinar in July 2018 to further discuss how the Lab should be structured.

II. Webinar summary

- Concept of Innovations Lab for Microfinance. Anup started the webinar by outlining the concept for the Lab, building on the discussion at the SIWG meeting. The lab would serve three purposes:
 - **Support microfinance institutions' digital transformation**
 - Provide experts, products/solutions, policies, processes, practices, risk management, and partnerships to MFIs to transform.
 - Use a cascaded-approach as an efficient and effective method to transfer skills to build capacities to transform.
 - Provide initial support to a select number of promising MFIs to transform.
 - Select staff from the MFI to provide expert services as Transformation Advisors (thoroughly trained, with hands-on experience, and certified).
 - **Nurture FinTechs to support digital transformation of MFIs**
 - Select promising FinTech ideas with the potential to resolve constraints to the digital transformation of MFIs.
 - Incubate such ideas to develop scalable solutions to support MFIs' transformation.
 - Drive social and responsible design of financial solutions by FinTechs.
 - **Share best practices and lessons learnt in a Community of Practice**
 - Objectives
 - Common identity, purpose and value for digital transformation
 - Learning, knowledge management and continuous improvement
 - Leveraging partnerships to reinforce MFIs and FinTechs
 - Approach
 - Catalogue and share best practices with a focus on approach and process
 - Provide opportunities for peer-to-peer learning and information exchange
 - Support change management in MFIs
 - Launch webinars for MFIs' staff members on digital transformation
- Operationalizing the Lab
 - This will be a physical and digital Lab, with two hubs and four spokes in sub-Saharan Africa and South/Southeast Asia. In the first year, the lab will work with two spokes; in years 2, 3, and 4, it will have four spokes.
 - By the end of the four-year project, MicroSave anticipates the transformation of 42 MFIs and incubation of 42 FinTechs.
 - How will the MFIs and FinTechs be *selected*?
 - In each of the locations, the Lab will identify MFIs based on the digital readiness assessment (DRA). The DRA focuses on:
 - Landscape and context in which the MFI operates
 - Strategic direction of the institution, its current and anticipated customer base
 - Knowledge of the Board and executive regarding digital transformation

- Existing information technology infrastructure and any challenges with it
 - Degree of digitization of channels, processes, customer experience
 - Digital ecosystem existing in the country, the regulatory environment, interoperability
 - Resource allocation for transformation
 - The FinTechs will be selected on a competitive basis and on whether they address constraints identified in the DRAs of MFIs.
- How will the MFIs and FinTechs be *supported*?
 - The lab will provide MFIs with market insights, knowledge, and practical skills to develop, test, and launch digital transformation. Incubating FinTech solutions to address constraints will also help lay the foundation for their digital transformation.
 - The lab will support FinTechs operationally (market insights and solutions related to the needs of MFIs; partnerships, product development); technically (design sprints); and financially (funding and capital structuring, financial projections and budgeting, investment).
- Discussion
 - *Question:* How much does the digital readiness assessment cost? How will the Lab select MFIs for assessment?
 - Anup said each DRA costs about USD \$15,000 to \$20,000. However, the Lab could provide economies of scale and help MicroSave more efficiently identify which institutions are ready for digital transformation. This could lower the cost per DRA.
 - Anup said in the past 4-5 years that MicroSave has been working with financial institutions on digital transformation, it has found the most critical aspects to be motivation, focus, and commitment to transform.
 - Tim Crijns of Triodos said it will be a challenge to narrow down which MFIs to undergo the DRA. It's expensive, so they won't be able to assess everyone. Triodos is considering starting with a rough selection based on 10-20 criteria that can easily be measured. From there, it could select a few institutions to fully assess.
 - Laura said the Responsible Inclusive Finance Facilities (RIFFs) that SPTF manages could help provide 50% co-funding for the assessments. The facilities cover 1) [Africa and the Middle East](#); 2) [Central America and the Caribbean](#); and 3) [Southeast Asia](#).
 - *Question:* How long does the digital transformation process take?
 - Anup said it will take approximately one year to get everything in place. The digital assessment would be followed by digital strategy development. The Lab will provide the first set of support for the MFI to convert the strategy into an operational plan. Once the Lab thinks the MFI could sustain the transformation on its own, it will move on to the next MFI. He anticipates that it will spend about 9-12 months on each MFI.
 - The Lab will aim to get MFIs on the pathway; full digital transformation will take much longer. For example, Equity Bank in Kenya took six years to fully transform.
 - *Question:* Could MFIs be matched with in-house technical assistance teams, such as those at FINCA or Accion?
 - Anup said it is important to understand the full landscape. Collaborating on resources includes resources like technical assistance. There's a role for other institutions to complement.
 - *Question:* Will the Lab incubate FinTechs from the ground up or will it use existing technologies?
 - Anup said the Lab could nurture FinTechs in two ways: 1) Incubate FinTechs that have an idea that would support MFIs in digital transformation; and 2) Identify mature FinTechs that have an existing solution we think will help MFIs in digital transformation, and then help those FinTechs with rollout. One of the challenges many of the latter category are facing is a lack of willingness of the sector to test a solution.

- *Question:* How would you pick which FinTechs would get this kind of investment? Would it be more rigorous due diligence if it's a financial investment and not TA?
 - Anup said the Lab will provide TA to the FinTechs. Once a FinTech has been incubated, the investors that are part of the Innovation Lab could decide if they want to invest. It would be up to them to do their own due diligence tools.
 - Such FinTechs could be good potential investments, given they have a readily available client base (MFIs) and have been built from the ground-up with investors' support (Thus investors have innate knowledge of the promise of these FinTechs).
 - This also will be a good way for investors to learn the characteristics of a *responsible* FinTech, which was a key priority identified at the SIWG meeting.
- *Question:* What does it mean for a FinTech to have responsible and social design?
 - Anup said FinTechs that are part of the Lab will have to have a solution that aligns with certain principles. It has to keep the user at the center, not overcharge them, analyze capacity to repay, etc.
 - Jurgen Hammer of Grameen Credit Agricole Foundation emphasized that the Lab should utilize existing standards (the Client Protection Principles and USSPM). It should not start from scratch.
 - Alex Rizzi noted that the Client Protection Principles are being adapted for mobile credit providers, so the Smart Campaign will soon have specific examples of practice.

II. Next steps

- Investors on the call said digital transformation is a priority, and they are willing to collaborate on the topic. However, they identified the following challenges related to the Lab:
 - *Ensure the Lab will emphasize responsible digital transformation*, in coordination with the Client Protection Principles and Universal Standards.
 - *Determine the right level of investor partnership*. For example, Tim said Triodos may be willing to share pre-selection criteria for digital readiness or other knowledge resources, but it may not be ready to provide financial resources. What is the right level of collaboration?
 - *Provide clearer guidance on how to select MFIs*. Investors want more guidance from MicroSave on how to select MFIs for the digital readiness assessment.
- In August, SPTF will work with investors who have stated an interest in having their investees involved - Triodos, Nordic Microfinance Initiative, and Oikocredit - to map any overlapping investees in Africa. Once this mapping is completed, it will work with the investors and MicroSave to see if any of the overlapping MFIs would be good candidates for a digital readiness assessment. **Contact Katie Hoffmann at katiehoffmann@sptf.info if you are interested in participating in this mapping.**
- A webinar will be held the **week of September 16** to further discuss the Lab and the mapping.
- MicroSave will then conduct a feasibility study on the following topics:
 - Current initiatives related to digital transformation of MFIs
 - Role played by FinTechs to support the digital transformation of MFIs
 - Need and business case for the Lab
 - Project design, governance structure, and the operating model of the lab
 - Gathering resources (technical assistance and financial) for the Lab
- If you are interested in joining the webinar or learning more about this project, please email Katie Hoffmann at katiehoffmann@sptf.info.