

Microfinance: Further Institutional Support?

***Report From The Meeting Of Microfinance Practitioners
August 26-28, 2001, Victoria, BC, Canada***



University of Victoria Centre for Global Studies
October 5, 2001

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Introduction

The Centre for Global Studies (CFGS), University of Victoria, convened a meeting of microfinance experts and practitioners August 26-28, 2001, at Victoria, British Columbia. The purpose of the meeting was to discuss the idea of a new international agency or initiative for promoting the microfinance sector. The twenty-six participants at the meeting included representatives from a cross-section of microfinance programs and organizations, plus some independent researchers and specialists from the field. Over the course of the two day meeting, the delegates engaged in a number of discussions related to the central question: if we were to establish a new agency for the promotion of microfinance, what would it look like, and what functions would it serve?

Background

The Microfinance Promotion Agency (MPA) meeting comprises one element of a larger project in which the Centre for Global Studies is engaged in developing practical ideas for the reform of the global governance institutions [see *Managing Interdependence*, www.globalcentres.org, Global Governance page]. A recent publication produced through this project, the *Rethinking Governance Handbook*, provides an inventory of good practice strategies for increasing participation, transparency, and accountability in governance at the international level. At a meeting of the Managing Interdependence consortium in January 2001, participants identified ten critical issues in globalization that would benefit from the establishment of new units or agencies with state of the art governance features. Microfinance promotion was one of the ten needs identified. The proceedings recorded in this report represent a first level of investigation to determine from the sector itself what its current needs and priorities are, and whether the CFGS proposal presents a viable course for contributing to their realization.

A further unifying theme of the event relates to Canada's current role as chair of the forthcoming meetings of the G-8 and G-20 ministers. Canadian finance minister Paul Martin has made a direct appeal for innovative policy initiatives to bring to these tables that respond in meaningful ways to the challenges of globalization. CFGS recognizes tremendous potential in the capacity of microfinance services for reducing poverty, and sees here a unique opportunity to gain support for this agenda at the highest level of global decision-making. But action is needed now if the microfinance community is to reach consensus on the ideal format and approach such a strategy should take.

Prior to the August meeting, CFGS prepared and circulated *Options for a New Microfinance Promotion Agency*, a paper explaining the rationale for the proposal, and providing some initial suggestions for the functions a microfinance promotion agency could potentially fulfill. The paper adopted as its starting point many of the core ideas advanced by the Microcredit Summit of 1997: 1) that microfinance is an effective tool for poverty alleviation; 2) that microfinance institutions (MFI's) can achieve financial sustainability without compromising their social

commitments to the poor; 3) that a vast untapped demand for microfinance exists in the developing world that can only be met by a massive scaling up of existing programs and services.

There are now four years left in the Microcredit Summit's campaign to reach 100 million of the poor by 2005. Above all, the purpose of this meeting was to learn from practitioners what tools, supports, and resources will be necessary to achieve this goal.

Topics, Themes, and Recurring Dilemmas

Within the broader framework described above, the format for the meeting mirrored the five main topic areas addressed in the options paper, namely: training; technology; capital mobilization; standards, ratings, and certification; and governance. Under each of these headings, the participants were asked to comment on ideas set out in the paper, to articulate their own perceptions of the key strengths and weakness within these sub-areas of the sector, and to make suggestions for how a new agency or program could help to fill the gaps.

To the extent that the proceedings revisited many of the points already raised in the options paper, the discussions are not repeated here. By the end of the process, however, some new ideas were generated, and some notable points of agreement and disagreement emerged that are worth referencing. But before doing so, it is useful to highlight some of the themes - or philosophical differences - that recurred through each area of the agenda, by way of a caveat to the recommendations that follow.

Inadequate Capacity

There is considerable debate as to whether the microfinance industry has the capacity to absorb further investments within the short timelines proposed, no matter what schemes are promoted. Critics of the MPA proposal fear the integrity of the sector will be harmed by a sudden, top-down infusion of new capital. It was noted that overall, the sector has achieved very poor outcomes relative to the amount of dollars - \$400-500 million over the past 10 years - purportedly being expended by the major donors. Ten thousand MFI's are reaching only 4% of the potential demand, and only 1% of them are financially sustainable. Many donors report they are challenged to identify either where the bottlenecks are located or how to fix them, and are therefore skeptical about whether new monies raised can be effectively utilized. On the other hand, the discussion seemed to reach agreement around some specific capacity needs - local management systems is one example - to which considerable incremental sums could be productively applied.

Financial Sustainability versus Poverty Alleviation

There is divergence of opinion over what the ultimate objective of microfinance investments should be: building long-term sustainable microfinance institutions, or programs that focus on serving the poor. The discussion appeared often to favour the former, with the rationale being that the social benefits of microfinance cannot be fully realized without greater economic rationalization. But some object strongly to this agenda of putting financial targets before social goods. Evidence from a plethora of failed MFI experiments underscores the risks involved in imposing a commercial regime on programs that are essentially humanitarian in their outlook. The view held by many who work most closely with the poor is that subsidized microcredit programs are both necessary and appropriate, given the profound inequities in wealth and opportunity between north and south. The discussion continually came back to the need to

decide which approach an MPA initiative would take, since the two goals of doing for-profit and charitable work are difficult to reconcile.

Standardization or Diversity?

The diversity of MFIs across regions, cultures, and continents poses serious challenges for moving the sector forward. The sector's remarkable ability to reach clients in the smallest and most isolated of niches is often considered one of its greatest strengths. There is a real danger that a "cookie cutter" approach to scaling-up will result in the smaller and less mainstream institutions being shut out. But equally strong is the concern expressed under every one of the topic headings that without greater standardization, the growth necessary for reaching greater numbers of the poor can not be realized.

Most agree there can be no one-size-fits-all approach to growing the sector; but might it be possible to identify five or preferred models for development, that can preserve the best elements of microfinance's client-centred approach, while enabling a basic level of standardization to emerge? Alternatively, it may be useful to consider an approach that balances increased standardization for certain parts of the industry – accounting practices and software are two examples – with a diversity of implementation styles that vary from country to country.

An Inventory of Needs for Microfinance

This section presents a mini needs-identification for the sector, based on ideas expressed during the meeting. The list is not exhaustive, nor does it represent a consensus of views on any given item. It does try to show for the record some of the most notable or frequently echoed points of discussion.

It is important to recognize that the suggestions listed here are not indicative of unmet needs in the industry in any absolute sense – there are numerous programs and initiatives that are making valuable headway on many of these fronts. Overall, though, there was a sense that within several of these areas, the progress is not strong enough to achieve the level of success desired.

Training/ Capacity Building Needs

- Accessible, affordable training for southern-based practitioners
- More customized approaches that meet the needs of individual institutions
- More standardized approaches that maximize economies of scale
- Ensure buy-in from management to support the application of new skills and knowledge across the institution
- Locally delivered, after-hours scheduling of training
- More client-driven approaches; funding must flow to the organizations who are buying the services, and not to suppliers
- Web-based training
- University level curricula
- Basic math and accounting education
- Private sector support for training delivery as part of a corporate social responsibility agenda

Technology Needs

- MIS is needed across the industry
- Infrastructure – electricity; connectivity
- Simplicity
- More awareness by donors about the importance of IT for microfinance
- Technology units staffed with IT professionals for problem-solving and capacity building
- Supports for vendors; developers
- Private investment; too many public subsidies on software put the vendors out of business
- Stronger, more long-term relationship between MFIs and their IT service provider.

Capital Mobilization Needs

- Financial services industry needs to dedicate resources both on a commercial basis and as part of a CSR commitment.
- Guarantee funds
- Foreign exchange insurance
- Venture capital funds
- Social investment funds to support MFIs
- Local as opposed to international sources of capital
- Savings mobilization - learn from credit unions
- Strategies to reduce risk
- Increase transparency and accountability of MFIs
- Tax schemes and legislation to “encourage” private investment
- Decide whether we’re pursuing commercial or social returns
- Educate commercial banks about the potential of this market and how to serve its needs.
- Important to differentiate between funding and equity capital.

Ratings and Certification Needs

- Good data
- Common terminology on performance standards and criteria
- Standardized audits and accounting
- Comparative ratings systems
- Transparent methodologies
- Technical assistance for MFIs
- Training for Raters
- Impact assessment

- Poverty audits
- Publicity for ratings system to raise consumer awareness

Governance Needs

- Transparency at every level
- Participation of southern partners in policy making
- MFI's need training on governance within their own institutions
- The industry must establish incentives that encourage and reward good governance

Other Topics

Some topics did not receive as much attention in the options paper or the agenda as some participants would have liked. These include:

- Asset accumulation
- Apex funds
- Change theories
- Health insurance
- How to create a more attractive business environment for MFIs
- How will an MPA be financed?
- Influencing policy at the national level
- Product development
- Social investment funds

Who is Missing?

Recognizing that participation at the meeting was strongly weighted toward representatives of northern-based microfinance organizations, the question was put to the group of who is missing from the table - who else needs to be consulted on the MPA proposal? The following suggestions were offered.

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| • Angels With Attitude, Seattle | • MicroFinance Network |
| • ASA-- Bangladesh | • Micro Banking Bulletin |
| • Bank of Nova Scotia Enterprise Project in Guyana | • National governments with pro-MFI stance (Mexico, Bangladesh, Philip.) |
| • BANCOSOL-Bolivia | • MicroStart |
| • Bankakademic, Germany | • OMB, Philippines |
| • Banks | • Poverty advocacy groups |
| • BASIC-India | • Prodem-Bolivia |
| • BRAC-Bangladesh | • Proshika Kendra- Bangladesh |
| • BRI-Indonesia | • Social Investment Organization (CAN) |

- CARD-Philippines
- CASH PRO-Philippines
- CASHPOR-Malaysia
- CETZAM, Zambia
- Center for Concern
- Faith Groups
- Freedom From Hunger
- IPC-Germany
- Katalysis
- KREP, Kenya
- MEDA
- Social Investment Forum (US/UK)
- TBF, Bangalore, India
- TECHFARM, Palo Alto, CA
- Those providing consumer and other services to the industry
- Venture capitalists who make large scale donations to microfinance
- Women's World Banking
- WORLD VISION
- WRI

Functions of an MPA

Ultimately, there was no formal vote taken or consensus reached either for against the idea of a new microfinance agency. Notwithstanding this, a couple of observations can be made.

1) The participants were very supportive of the opportunity to have Canada take a lead role in bringing some form of microfinance proposal to the international decision-making arena. Several commented on the fact that Canada is well regarded among countries in the South and the North, and has the credibility necessary to make an impact.

2) Short of reaching a clear consensus, and in light of the general sense of approval for further discussion of the idea, the group did appear overall to signal a green light to the organizers for continuing their work to develop a microfinance initiative.

Based on these two observations, plus our reading of the meeting's major themes, it is likely that an initiative aimed at providing macro-level development and coordination for the sector would be constructive in one or more of the following four areas:

Private sector investment

While recognizing the value of public donor contributions to date, there is almost unanimous recognition that assistance is needed to attract private sector involvement in microfinance. There is not enough capacity in the existing microfinance infrastructure to perform this type of outreach. As part of this effort, particular attention is needed to work with the commercial financial services industry. Commercial financial services are well positioned to provide the financing and the management services that MFI's need. Banks and mutual funds could also develop products to channel retail investments to support microcredit overseas. Participants noted that banks have often shown an interest in microfinance, but don't know how to help. More broadly, the strategy could involve appeals to the social responsibility of corporations for addressing poverty, or it could focus on marketing the commercial potential of microfinance clients. Another idea proposed is for a twin organization model, with different branches managing non-profit and for-profit activities.

Bridging the digital divide in microfinance

Information and communications technologies hold great promise for a rapid expansion of the scale and reach of microfinance. The success of PRIDE Africa's use of virtual technologies for bridging MFI clients with the formal banking sector suggest that the task is not as formidable as it seems – that poor and marginalized people are willing to invest in computer literacy when they see the benefits it can bring. The Grameen Foundation has also had success in increasing access to Internet and cell phone technologies in Bangladesh. A new microfinance technology initiative is needed that can learn from and build on these examples. There is also need for a major thrust at this time to disseminate MIS knowledge and technologies throughout the sector.

Keep the focus on governance

Whatever form the new initiative takes, ensuring the highest standards of transparency and accountability in governance will be a priority. It will certainly be key in anything put before the G-8 and G-20 summits, since the focus at this level will be to offer solutions that respond to the pressing demands for greater democracy in global decision-making. But within the sector itself, many see governance as an area that has been neglected. There is a need for greater transparency, particularly by donors, around how decisions are made and funds allocated. The boards of microfinance institutions need education and support for building legitimacy and accountability within their own organizations. There is a need for infrastructures that incorporate greater participation by southern partners and civil society organizations in all policy decisions of the industry. A related role for the proposed initiative is to lobby the IMF and other IFI's for inclusion on the global economic agenda, possibly helping to reform that agenda in the process.

Marketing and promotion

The average North American citizen does not know what microfinance is. A high profile effort to promote public awareness could support any campaign to expand microfinance services. If the emphasis is to be *non* profit, a promotion effort addressed at all strata of society will facilitate mobilization of volunteers and resources. If the emphasis is to be *for* profit, a campaign to raise public support will encourage private sector investments. .

Several creative ideas for concept promotion were exchanged. These ranged from the adoption by the sector of a fundraising strategy centred on a common brand name or trademark, to the use of media and political lobbying techniques employed by industry associations, to a campaign that focuses on highlighting some of the development success stories that the microfinance movement has enabled. There is a sense that in the current “globalized” environment, citizens are increasingly aware of the harmful impact of economic disparities on the planet as a whole, and are prepared to offer assistance given the right vehicles through which to act. “Economic opportunity for all” was suggested as a marketing theme that could potentially have broad appeal.

Conclusion

Is it necessary to create a new agency to achieve these goals? For some participants, the risks posed by placing additional demands and “top-down” imperatives upon a system that is already quite fragile would seem to outweigh any benefits such a proposal may offer. Others express scepticism around what they perceive as a “quick fix” solution to the complex problems of poverty and underdevelopment. For several others, however, the idea resonates strongly with their work as microfinance practitioners, and the frustration they experience with regard to so

many of the bottlenecks and barriers identified in this report. For the non-government affiliated participants in particular, the proposal was welcomed as a promising opportunity to mobilize much-needed energy, ideas and resources around advancing the sector to a new level of maturity.

On the basis of the proceedings as a whole, then, and subject to a further process of investigation into the proposal's feasibility, we think the answer to the question above is a qualified yes. "Agency" may not be the preferred terminology - it could be a unit, department, coordinating body or a re-engineered CGAP. It need not stand alone, and it must take care to avoid duplication. There is clear convergence though, in the stated needs of the industry for new growth, the necessity for concerted international action on poverty alleviation, and in Canada's interest in being a catalyst for a new era of global governance.

From a political perspective, there needs to be substance to gain attention. There is no future in lobbying for new funds to support the status quo. From the perspective of people involved in microfinance, there is a need to preserve the commitment to poverty alleviation and serving the poor.