

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?

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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.

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

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

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

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

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.

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