

Options for a New Microfinance Promotion Agency

Table of Contents

Preface.....	3
Introduction	4
Part One: Possible Roles for a New Microfinance Promotion Agency.....	6
1.1 Technological Development	6
1.2 Training Support and Development for Microfinance	14
1.3 Raising Capital For The Microfinance Industry.....	21
1.4 Rating Standards and Certification.....	29
Part Two: Parentage and Governance of a “New Agency”	32
2.1 Parentage of the “New Agency”	32
2.2 Good Governance Features	33
Annex 1: Impact Assessment Rating.....	35
References	37

Preface

The idea of a Microfinance Promotion Agency (MPA) is not new. As the Microcredit Summit pointed out, “in industrialized countries, there is discussion among funders, policy makers, and practitioners that an organizing entity to manage microfinance funds would be greatly

(CARD), Credito con Educacion Rural (CRECER) and the Foundation for International Community Assistance (FINCA Uganda), prove that self-sufficiency is possible. Case studies of the MFIs, provide empirical evidence that “there is no necessary trade-off between serving large numbers of the poorest households and the attainment of [institutional self-sufficiency] by an MFI.” Gibbons and Meehan make the case that if the microfinance community wants to reach large numbers of the poorest, they must become self-sustainable. “We believe that only by pursuing commercially motivated, for-profit strategies will MFIs, particularly those working with the poorest, achieve our primary goal of reducing poverty among truly large numbers of the poor and poorest.” Their studies of CARD, CRECER and FINCA Uganda argue that MFIs need to expand their vision for the microfinance industry, moving away from public subsidies, and adopting good banking practices. However, the Asian Development Bank contends that the less-established MFIs lack capacity to leverage funds in commercial markets; are unable to provide a range of products and services compatible with the potential clients’ characteristics; do not have an adequate network and delivery mechanism to cost-effectively reach the poorest of the poor, particularly those concentrated in resource-poor areas and areas with low population density.

Part One: Possible Roles for a New Microfinance Promotion Agency

1.1 Technological Development

Case example: The CARD Bank

The experience of the CARD Bank in the Philippines illustrates the interdependence of technology and institutional performance. CARD was established as a non-profit lending program in 1986. It began with a manual information system “supported by an old typewriter and a battery-operated calculator”, and later adopted a computerised spreadsheet program to monitor quarterly results. In 1996, with a client-base of 6,800, CARD made a commitment to reach one half million rural poor. A computerised information system was developed over a two-year period that significantly reduced the burden on staff of manual data recording, processing and reporting. Following the implementation of its new information system, CARD realized rapid growth, reaching 30,000 clients in 2000, with close to 600 new clients being added each month. Since the expansion, it has also achieved financial self-sufficiency. CARD’s innovative program technology is now being adopted by other MFIs technology

The most challenging characteristic of MFIs for systems and software developers is that though simple in structure, MFIs are individually idiosyncratic. The sector has spawned a range of irregular institutional models without standardised norms or procedures, and has adopted methods of interest and payment calculation that vary widely from village to village or region to region. Many of these variations occur often within the same organisation. There are also differences in currencies, languages, and reporting requirements in different countries, diverse political, economic, and legal operating environments of MFIs.

For all of these reasons, there is no one-size-fits-all approach to automation. Instead, MFIs seeking to upgrade their information systems must choose among three basic options: purchase an off-the-shelf system; modify an existing system; or develop a custom in-house system. A fourth option is to select an off-the-shelf accounting package, but design an in-house portfolio system. This approach has been used quite widely since many accounting packages - ACPAC and General Ledger software are two examples - conform to international standards of accounting, and most portfolio systems, by contrast, have no standards and are unique to the institutions that support them.

Options for system development

Off-the-Shelf systems

The last ten years has seen the emergence of dozens of software applications tailored directly to the unique methodologies of the Microfinance sector. Several of these were developed as in-house MFI systems before appearing for sale on the software market. Examples include MicroBanker, developed558 433.2013 Tm(s)

Additional costs and constraints

However the institution decides to proceed, there remain a number of additional decisions to be made that will determine the final cost and performance capabilities of an information system. Some of these depend on factors that are external to the MFI.

- The main choices include: a stand-alone computer; peer-to-peer networks; multiple computers in a server-based local area network (LAN); and a wide area network that connects computers in various locations.
- This refers to the quality of electrical systems at the head office and branch offices; the quality of phone service; availability of affordable Internet access for systems that don't have their own server; building security; ability to control for temperature, humidity, and dust.
- MFIs must take into account the expenses involved in upgrades to the work site, i.e. wiring, hardware accessories, security, furnishings, etc.; the cost of insurance and higher utility bills; software licensing fees and maintenance contracts, and extra staff time during the development phase and for training. On average, an MFI is looking at a time frame of 12-24 months for implementation, at a cost of \$100,000 or more to modify or develop a new system.
- The broader policy environment regulating the supply of information and communication technologies is an additional constraint. There are many factors – from international tariffs, to investment climates, to bandwidth capacities, to the ideological orientation of national governments - that determine what degree of connectivity is possible.

Programs and initiatives to support ICT development in Microfinance

Given the current demands for a rapid scaling up of the microfinance industry, several organisations have begun initiatives to help MFIs acquire ICT resources. These initiatives are primarily being delivered in the form of information and research, technical consultants, and financial assistance. Though modest in scale, together they represent a good first effort at charting a common language of standards and good practise for this new field of development. The following summary of initiatives is based on a relatively superficial scan of the literature, and is not intended to be comprehensive.

Consultative Group to Assist the Poorest (CGAP) Information Systems Services

The CGAP/ World Bank consortium of donor agencies has pioneered some of the most comprehensive services to date for promoting IT development in micro finance. In 1998, CGAP sponsored the publication of (Waterfield and Ramsing), an excellent resource combining practical information for lay people, along with detailed specifications for database programmers on the unique information components of MFIs. The CGAP Handbook has been successfully used by many MFIs and remains a hallmark document for the field.

CGAP has also established the CGAP Information Systems Services on the its Web site, “a service to assist MFI managers in the process of selecting an IS application that best suits their organisation's needs.” The site contains consumer reports on commercially available software applications, a ten-step guide for selecting and implementing software; and a glossary of common information technology term

currently offers evaluations of only three products, however the plan for the future is to continue to add new reports as new products become available.

USAID Micro enterprise Innovation Project

USAID has produced some valuable research and capacity building initiatives for IT development. Most significant was its 1999 publication of *Micro Enterprise Information Systems: A Guide to Quality Assessment*, by Andrew Mainhart of Development Alternatives, Inc. The *Micro Enterprise Information Systems: A Guide to Quality Assessment* is another excellent tool for assessing the quality of commercial and internally developed information systems. It is widely in use among MFIs, donors, and systems developers, and has been adopted as the primary methodology for CGAP's Consumer Report and Ratings Service.

Coinciding with the publication of the *Micro Enterprise Information Systems: A Guide to Quality Assessment* in March 1999, the Micro enterprises Best Practices Project hosted the first seminar ever on information systems for micro finance, in Washington. The meeting attracted 40 participants from the sector, and provided a benchmark for future networking and co-ordination of knowledge and resources.

UN Capital Development Fund/ UN Development Program – Special Unit on Microfinance (SUM)

The UN Special Unit on Microfinance (SUM) was established in 1997 to coordinate the micro finance activities of the UN. MicroStart, a SUM pilot project developed to support start-up costs of promising micro finance operations, is helping to disseminate best practise knowledge on ICT and other aspects of institutional development through an innovative combination of funding and technical support.

MicroStart aims to build organisational capacity and efficiency during the early planning stages of fledgling institutions, including through the financing of computerised information systems. MicroStart grants consist of two main components:

- A technical services component in which an international best practitioner, preferably southern-based, will provide consultation and technical services to the local recipient organisations;

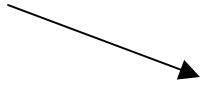
- A “micro capital” grant of up to \$150,000 for investment in fixed assets such as computers and MIS systems, and other overhead costs.

In January 1999, MicroStart had country programs underway in 12 countries with plans to establish 25 in all by the end of that year. Unfortunately, the Web site does not offer any current information on the status of the MicroStart micro capital projects since then.

Ssit inform

**Levels of Management
Information Systems**

Manual/ paper – based



PlaNet Finance

PlaNet Finance is a virtual institution that uses the Internet as a medium for promoting all aspects of the Microfinance industry. Its PlaNet Systems program offers free web site development and hosting for Microfinance institutions. This appears to be a popular and very effective communications tool for MFIs to present their programs to one another and to a global audience. PlaNet Systems also offers grants of computer equipment to assist its members in getting connected to the Internet.

Grameen Foundation USA

Plans for the launch of a new Technology Centre in 2001 will aim at providing some practical solutions to the problems experienced by MFIs in applying new technologies. It plans to launch new programmes that focus on delivering wireless information technology, such as cell-phones, handheld computers and Internet access. Some of the technologies explored will include

Wireless Management Information Systems (cell phones, palm pilots) that cut the time needed to process the paperwork of a loan-officer by half

Cyber Kiosks in rural areas, which will ultimately be administered and maintained by the poor

Establish joint ventures between MFIs, microfinance programs and major IT companies.

Pride Africa - DrumNet

DrumNet is a recent initiative of Pride Africa, which is helping to facilitate greater access to computerized information networks by small and micro enterprises in Africa. It operates through the use of Info Kiosks located throughout the branch network, which clients can log on to with the use of swipe cards. DrumNet is exemplary of the many innovative ICT applications emerging from the MFI sector that are rapidly building up the technological capacities of developing countries.

Initiatives to Bridge the Digital Divide

A final category of initiatives is worth highlighting. These are the organisations and programs that are assisting developing countries to gain access to information and communications technologies for use in promoting sustainable development. These include International Institute for Communications and Development (IICD); the Network Start-up Resource Centre; the World Bank InfoDev; the USAID Leland Initiative; and the UNDP Sustainable Development Networking Program; all engaged in activities to extend connectivity to the poorest and most isolated regions of the world.

Functions of a new Microfinance Promotion Agency

The preceding overview of technological issues in microfinance suggests an immediate need for research, infrastructure, and expertise in excess of what is currently available. This report's brief scan of the field turned up a total of four publications on computerisation in microfinance, one donor-sponsored Website (CGAP), and two targeted grant programs reaching at most 20-30 organisations over the past two years. There is room for innovation in Microfinance; as such some general suggestions for expediting the development and application of appropriate information technologies and expertise in the microfinance sector are listed below.

Research

The sector would benefit from the creation of a comprehensive database documenting the status of information technologies in microfinance. How many MFIs have adopted technologies and how many are still using manual methods? Where are they? Which institutions, regions and countries are most progressive in facilitating computerisation? What has been the experience of front-line practitioners in developing countries in adapting to new technologies, and what can we learn from them? How do MFIs finance their information systems? What strategies have been successful for attracting funding from donors or investors for IT development? What is the impact on performance of different technological interventions? The MPA could create the foundation for a state-of-the-art knowledge base of the different dimensions of technological development in microfinance.

Communications

The MPA could build upon the communications resources created by CGAP and PlaNet Finance by coordinating the expansion of Internet space for housing new data and analysis as it emerges, and for facilitating broad information-sharing among practitioners. The ideal site would include practical tools and resources, access to publ2n8202 0.040707 Tm(nsions ofeTj06t toi 0 t47 Tj292.73 54u4334a ofeTj06t toi 0 t47 T

1.2 Training Support and Development for Microfinance

Reputable microfinance training programs are currently being offered by several organizations. It is important to build on these program

Simple-to-read, practical technical material that help practitioners understand how to implement methods, perform financial analysis, structure and manage portfolios, deliver business development services, and reach the very poor in a cost-effective manner; and

the use of electronic means of communication for on-line seminars, problem solving, and the rapid exchange of materials.

These considerations focus on the extent of training rather than the training itself, but will be necessary to determine the client-base. The diversity of training needs is considered, and it is recognized that training must be distinct for social entrepreneurs, business executives, field staff and managers. Also, training must be structured to meet the needs of the region in which the training is offered.

USAID w/ SEEP Network

Two Kenyan programs were evaluated by USAID and the SEEP Network and profiled in publications.

Advancing Kenyan Industry through Local Innovation (AKILI) is an organization dedicated to technology 8 0 0 10.98 124.9145 505.49.3518 255.7792 593.098(8488 175c.98 0 0 10.o Tc 0 10.98 107.9 107Ing is s

Bank Rakyat Indonesia (BRI) – Visitor Training

USAID and BRI established the International Visitor Program (IVP) in 1996 with a 2-year partnership agreement; in 1999, CGAP signed a partnership agreement. The program is a micro banking

Developing MFIs to reach the Poor -what factors most affect the achievement of financial sustainability

Regulation and Supervision - many countries are actively pursuing the creation of specialized MFIs that will have access to funds from the general public and governments through the financial sector

Microfinance and Public Policy -learn how to use the public arena to advance their institutional interests – roles of major players, politicians, donors, government agencies, and MFIs

Voluntary Savings Mobilization - collecting voluntary savings from the public etc.,

Targeting Services to the Very Poor - failure of MFIs to target hard-core poor and identifies the need to focus on risk responsive flexible financial products

Understanding clients - responding to client demand

Intro to Microfinance Accounting -basic skills necessary for setting up and understanding accounting systems for MF

Tuition for the 2001 three-week program was US\$3700. Participants were responsible for all travel, accommodation and food expenses for the duration of the course.

Faculty includes staff from prominent NGOs. For instance, Consultative Group to Assist the Poorest (CGAP), United States Agency for International Development (USAID), ACCION International, United Nations Capital Development Programme (UNCDP), Save the Children, and Bread for the World. The success of this program is apparent; it is currently in its seventh year of operation. Facilities at Naropa University appear to be excellent.

ccess to Microfinance & Improved Implementation of Policy Reform (AMIR) Program

The AMIR Program is a four-year economic opportunities project funded by the U.S. Agency for International Development, implemented in partnership with the Jordanian private sector and various ministries and departments of the Government of Jordan. Its Sustainable Microfinance Training Program (SMTP) is targeted at microfinance practitioners in the Middle East, North Africa region (MENA) and offers participants a basic understanding of microfinance, and supplies students with tools to create and operate a lending program. This program was developed in response to the increased demand for practitioners in Jordan and the MENA region, and seeks to advance the skills of people who are already in the microfinance field. Students include microfinance practitioners, lending institutions, bankers and loan officers, NGO executives and staff, government regulators, economists, and journalists and anyone interested in learning more about the principles of microfinance. Successful students receive certification, which is granted by the Institute of Banking Studies, and recognized by the Jordan Council of Higher Education. Courses run for 8 weeks, with classes 2 or 3 times per week. Courses cost approximately US\$700. Course topics include

basics of microfinance

identifying, marketing to, and qualifying borrowers

performance measures

managing credit risk

developing Management Information Systems (MIS)

All courses are taught in Arabic. The AMIR curriculum is based on internationally accepted microfinance best practices but is tailored to meet regional needs. Adult learning techniques are employed and involve active discussions, case studies and extensive class participation. All trainers are internationally certified with backgrounds in banking, finance and micro enterprise development. Trainers are native Arabic speakers and have completed intensive training programs.

Microfinance Capacity Building Programme in Africa (AFCAP)

non-government organizations
credit unions
banks or other specialized financial institutions
business associations including chambers of commerce
micro enterprise networks and
training institutes.

The exchange program covered the costs of transportation and lodging, but applicant organizations were responsible for the cost of participant's salaries, meals and incidental expenses.

Grant recipients were required to track their progress towards original goals and objectives. They provided information to the exchange program in periodic technical reports. Participants were monitored by telephone and site visits.

Participants designed their own exchange topics and selected a mentor or host. Topics included institutional transformation, ownership and governance, lending methodologies, sub sector technology and micro enterprise recycling services.

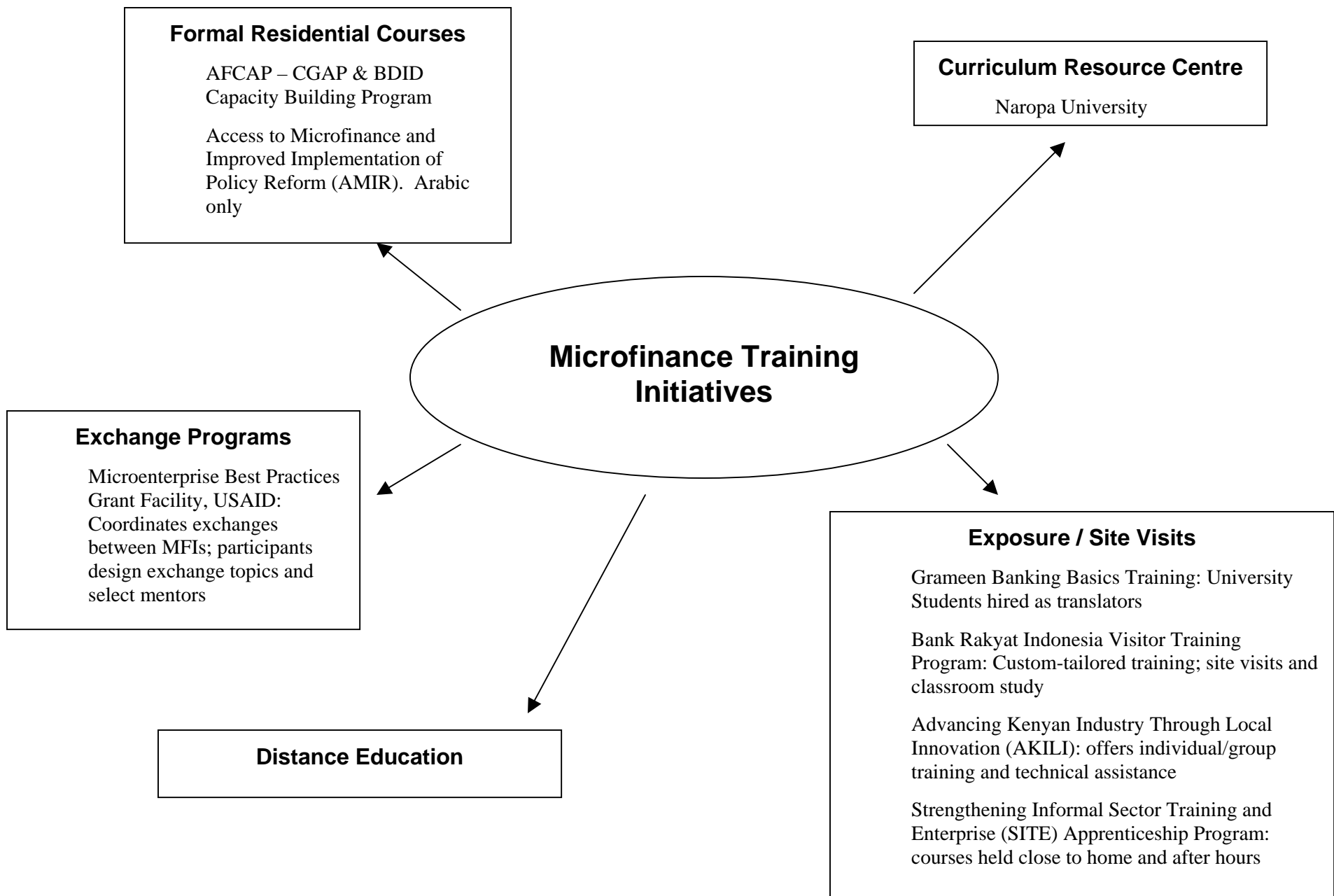


Diagram 2 -

1.3 Raising Capital For The Microfinance Industry

Introduction

To achieve the goal of 100 million microfinance users by 2005 the microfinance industry will require significant incremental investments from both traditional and non-traditional sources. The private sector - citizens and corporations – can become donors and sources of financing. Private sector investments must either make economic sense, providing adequate return for risks taken and opportunity foregone, or “social sense,” promoting corporate responsibility or a greater good. The MPA could perform any of several functions: Concept Promoter, Lobbyist for Tax Concessions, Donor Information Broker, Retail Promoter, Financial Intermediary, Provider of Private Sector Incentives, Certifier of MNE Sponsorship of MFIs and/or god-parent of APEX Funds. Capital itself will not accomplish the summit goals. Capacity is essential. Some argue it is not possible for the industry to raise the necessary amounts needed for on-lending from the donors and the commercial banks alone. Still others believe capital is not the main constraint to expanding the frontier of microfinance. To the extent that capital is the perceived “bottleneck”, the following proposals may be applicable.

Concept promotion

The success of individual MFIs in raising awareness with private donors has been limited; microfinance remains relatively unfamiliar in developed regions.

The MPA could establish itself as a united voice of the industry with a brand name and trademark individuals will recognize and trust. Everyone is familiar with UNICEF: the UNICEF donation box is recognized providing confidence that a donation will support a worthy cause. The MPA could operate as a central contact point for accessing and donating to microfinance. It could undertake large-scale advertising campaigns to educate the public about microfinance and provide centralized fundraising mechanisms. The MPA could undertake large-scale multinational fundraising programs similar to World Vision’s Child Sponsorship and 30 Hour Famine programs. The MPA could lend its trademarks to the fundraising activities of approved wholesale organizations as a means of legitimizing individual fundraising efforts. It could publish the benefits of microfinance. The Foundation for International Community Assistance (FINCA) posts the benefit of donations; for example, a donor to FINCA knows that for \$75 they will provide a first loan to a micro-entrepreneur. The MPA could be a central information center. In addition, the MPA could promote regions of special need. When a natural disaster strikes and MFIs are at risk of collapse, donors could be notified and capital for this region can be solicited. The MPA could link banks and existing MFIs to encourage the development of new services. Commercial banks are experts in this field and can assist NGOs with micro lending activities to advance into full service financial institutions for the poor. Standard Bank of South Africa’s E-Plan is an example of a commercial bank successfully servicing the poor.

Lobbying governments re tax treatment

The MPA could project a united voice lobbying governments to reform regulations to improve the microfinance industry. There is some debate about the “appropriateness” of intergovernmental organizations addressing national tax policies. The MPA could lobby governments for policy change at the request of individual MFIs and represent the industry within intergovernmental organizations. Some examples follow.

donated; in exchange the organization provides the donor with periodic hand written letters from the child that the donation has helped. The donor feels a personal involvement in the donation and receives a sense of fulfillment that obligates them to the continued support. The MPA could assume the role of disseminating information to contributors about how their contribution has helped a village or a specific person. Opportunities International Trust Bank shareholder program issues each donor a personalized Shareholders Portfolio that includes photographs of the Trust Bank, the neighborhood and the family being helped. New reports, photos and stories are mailed four times a year.

Unconventional retail promotion

On line marketplace

The MPA could support online marketplaces where MFIs raise money

bank's arrangement where residents of the UK can deposit or transfer savings to their ISA through any financial institution. The banks have the right to charge for the transfers but rarely do. MFIs could have access to large quantities of low interest funds where the financial costs and inconvenience to the donor is minimal. The MPA could create an MFI deposit insurance mechanism or subsidize an existing insurance scheme.

Savings mobilization

Access to savings services can play a critical role in sustainable development by buffering users from crises enabling them to meet basic needs, and by

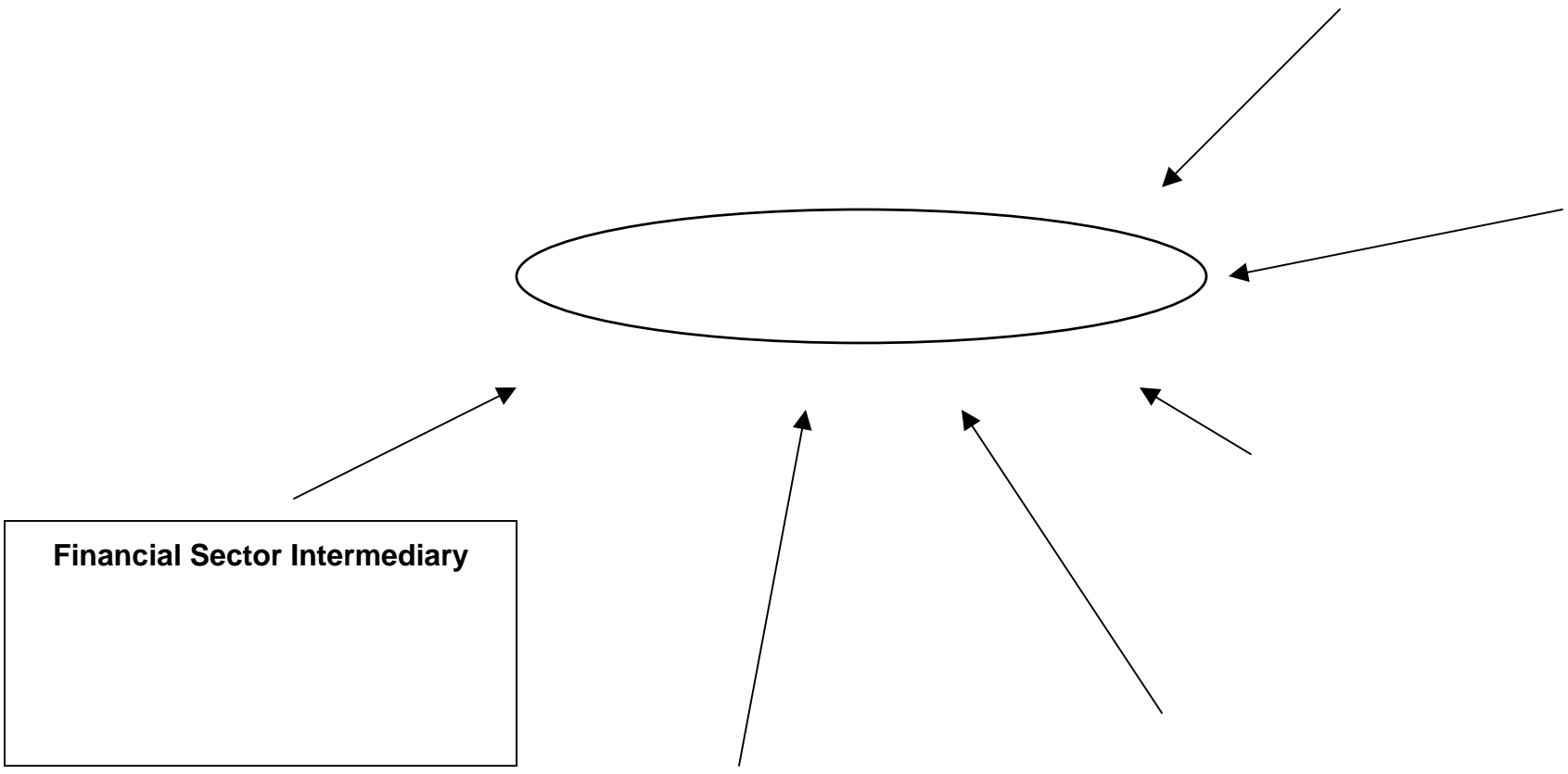


Diagram 3 -

The infrastructure of existing commercial institutions could be well suited to reaching the poor but the poorest are rarely prioritized in banking. MFIs work directly with the poorest but often are not legally enabled to mobilize deposits. MFIs can provide clients with voluntary savings services without intermediating savings by depositing mobilized savings in a regulated institution, organizing self-help groups, or facilitating linkages between clients and formal financial institutions.

positive exchange rate changes. The MPA could play the role of a deposit intermediary. When an individual deposits funds into a foreign MFI, the intermediary issues the account and deposits the funds in the MFIs local currency. The intermediary bears the burden of exchange rate fluctuations. A diversified intermediary could insulate both the MFI and the individual.

Financial guarantees

The Asian Development Bank's (ADB) Private Sectors Group is an important catalyst for serving the poor. The presence of an established multilateral institution provides a certain level of comfort to the private sectors looking to invest in a developing nation. ADB support of a project is a stamp of approval valued by both government and investors. In addition, the ADB provides a variety of services with regards to the investment. The MPA could emulate several successful ADB programs. The ADB enters Complimentary Financing Schemes where the ADB acts as a "lender of record" on behalf of commercial co-financiers. The ADB arranges for a private sector financier to lend to the developer. The banks cannot turn to the ADB for debt servicing but do enjoy the ADB exemption from withholding taxes, and preferred creditor status in other words, enhanced protection from sovereign risk.

The ADB also offers two guarantee products to private investors for fees charged to either the borrow or the lender:

1. Political Risk Guarantees.

Union and the Colorado-based NGO Friendship Bridge to also include workers who lost jobs. To date, more than 2,300 rural women and former workers have created small businesses in Vietnam. The Nike website reports investigating a microfinance program in Pakistan, but to date has not come to a resolution as to a partner or program.

The MPA could play a vital role in the endorsement of corporate based projects. An MPA corporate relations department could inform corporations about the microfinance industry, train corporate officers about how to become involved with MFIs, what they should look for in a partner or program and how the corporation will benefit from the activity. The MPA could play a lobbyist role, seek out and propose alliances with corporations on behalf of individual MFIs. The MPA could advise on financial, cultural or language barriers, which inhibit the formation of alliances.

Apex funds

“It is very important that global a Microcredit Wholesale Fund be created to support and work through ONLY the local Wholesale Microcredit Funds.”

The global promotion of microfinance through a central institution may risk too much uniformity of approach, at the expense of local adaptation and institutional autonomy. To ensure priority of the poorest, local capacity must be built to support grassroots microfinance programs. Dr. Muhammad Yunus advocates the creation of regional, national, provincial or district level non-governmental wholesalers of microcredit funds (MCFs).

In his paper for the Microcredit Summit Campaign, Dr. S. Ahmed advocates the creation of apex funds as the preferred mechanism for channeling funds to microfinance institutions. Current efforts to deliver funds have proven inefficient; some estimate that about 10% to 25% of donor funds actually reach the poorest, while the rest is spent on administration, overhead, training, institution building and consultants. In contrast, the Palli Karma Sahayak Foundation (PKSF) mobilized US \$522.4 million through its partner MFIs at an overhead cost of only 5.47%. One goal of the MPA could be to create apex funds that remain close to the grass roots while delivering funding to the poor and poorest without substantial leakage.

Benedict Kanu, Senior Economist at the African Development Bank supports further expansion of apex funds, stating “..it would be necessary for a micro credit fund to support the establishment of a network of local and field offices through which the fund would operate.... [T]he branches should be decentralized to branch managers with regards to project appraisal, grant, and application assistance to entrepreneurs.”

Apex organizations have been criticized for a poor success rate. The PKSF is cited as the exception. However, Dr. Ahmed argues that the PKSF is different because it was created with the intention of becoming an apex and designed to be self-sustainable, with several pre-conditions identified as critical to success.

The MPA could work to ensure the existence of these pre-conditions and create a network of apex funds to distribute financial resources. The MPA could encourage the creation of new funds or support the expansion of existing ones. The MPA could ensure each fund is free from political interference and bureaucracy through a standardization and accreditation process. The MPA could promote the involvement of government, civil society and private sectors while taking steps to ensure the autonomy of the funds. The apex funds could become the primary vehicle to disseminate best practices and new technologies.

1.4 Rating Standards and Certification

Rating standards and certification

MFIs face a distinct challenge when trying to encourage prospective donors and financial markets to back their activities. Although evaluations and assessments are available to MFIs from credible agencies, these tend to be expensive, and lack a common standard that can be applied to the entire industry. Most of the evaluations have not been made public, leaving the methodology and/or results unknown to other potentially interested parties. What is required is a credit rating system that takes into account the nuances of the field, and sends a clear signal to donors and investors of their sustainability. This section discusses the elements that are required for the operation of an effective credit rating standard, and also identifies the best practices related to MFIs.

Ratings, common performance standards, and benchmarking in the microfinance industry, will become increasingly important. First, performance standards contribute to raising the quality and efficiency of MFIs and provide confidence and security for private investors. Second, in competitive environments where there is pressure to commercialize microfinance, regulators view ratings and standards as a way to separate 'mediocre' from 'star' performing institutions. Third, donors are interested in setting performance standards to provide clear benchmarks and guidelines to determine future funding for MFIs. In this context, performance standards can be useful in prom 4057Tm1.60210.000 0 0 10.98 257.1092 499.9278 0m1.602

The MPA could help shape the microfinance industry by reaching consensus on performance standards and launching a Certification program for MFIs. It would seek agreement on common terminology on performance standards and criteria so that they can be uniformly understood and applied. The MPA would need to minimize the burden of collection and evaluation of data. Collecting, compiling, and analyzing outcomes would require a specific set of skills that are generally not one of the core competencies of an MFI; these activities are also time-consuming and costly. There would be a need to encourage MFIs to maintain and continually adapt complex Management Information Systems. The MPA could provide training to MFIs to enhance their ability to collect and manage performance indicators. The MPA could provide technical assistance for MFIs that do not qualify for certification.

Legitimacy has several dimensions:

Credibility – given the dissimilarity of MCIs, and the wide variation in target groups and the economic and cultural contexts in which they operate, experience and credentials that are widely respected.

Accountability – they have effective regimes monitoring and evaluating leadership and staff performance. Representativeness – widely based constituencies.

Transparency – clear and accessible tombstone information.

Some options for parents, i.e. major shareholders, of a new MPA include:

1. Sole parentage – located in the World Bank or UNDP
2. the GEF Model – a new agency reporting jointly to the World Bank and the UN.
3. The UN NetAid model.
4. The Innovative model – something analogous to a partnership of four parties with equal votes – including i) a consortium of international organization; ii) a consortium of national governments; iii) a consortium of NGOs; and iv) one or more private multi-national enterprises.

2.2 Good Governance Features

The support for any new agency will be increased to the extent that it incorporates progressive, state-of-the-art governance features. Whatever the eventual determination of its function and mandate, enhancing participation, transparency and accountability are worthy objectives. Obviously, the governance mechanisms or approaches adopted must be appropriate for tasks set for the agencies. Recommended features would vary with possible functions - researcher, service provider, advocate, central banker.

There are many governance best practices in the international system which may be applicable. Focusing on the goal of participation, we commend the UN's NGO Liaison Service as a model of a dedicated unit to promote partnerships with NGOs. The UNAIDS Program Coordinating Board exemplifies how an inclusive committee of representatives of co-sponsoring organizations can provide for a diverse array of inputs into strategy. Internet Working Groups, based on the example of "UN Women Watch/Beijing +5 Global Forum," can expand and diversify the discussion of key issues and mobilize support. Web pages constructed by the agency officials and governing board members, can provide a focal point for information exchanges about the agency activities and allow for more informal and personal ways for the public and the constituency to interact with the Industry.

With respect to a precondition for transparency, we are impressed by the UN's ECOSOC database on NGOs. To effectively consult, a directory of names and organization contacts must be maintained. The challenge is to create a useful database that will serve for consultation purposes, allowing identification of institutions and individuals by interest area.

Secrets and the appearance of secrecy are anathema. Documents of various kinds can be posted on a Website to allow for public viewing and commentary. The IMF is a best practice example for documents prepared by member countries that present policy intentions regarding the use of IMF resources or staff-monitored programs.

One apparently elementary tool is a comprehensive contact list allowing informed access to staff. The World Bank has a well-organized contact list of its experts and senior staff as well as its regional, country, and media contacts, all available to the public on their web site. Their example could be emulated for an MPA and the relevant representatives of its sponsors and shareholders.

To widen the net in gathering information and views in the policy formulation process, Internet on-line dialogues provide good promise. An excellent example is the Discussion with Scholars and Trade Experts,

Annex 1: Impact Assessment Rating

Impact Assessment Rating

The twin objectives of any microfinance institution are to be financially viable, and to maximize the access of its services to the poor. While it is a difficult juggling act to be able to reach the poorest of the poor and remain financially sustainable, it is, nonetheless, the poor that make up the clientele and provide for the successes of the industry. Therefore, those MFIs that can plan for and maintain a high level of access while applying sound financial and managerial practices are likely to succeed. What is required is a means of showing how effective their operations are at raising the living standards of their customers, especially among the most impoverished.

The information required for such a task would need to take into account how well the MFI contributes to their clientele's ability to:

- Increase, stabilize and diversify their revenues;
- Ensure basic goods and services, foods and medicines among others for their households;
- Improve household living conditions, in particular those of women;
- Increase household wealth; and
- Increase participation in economic and social life as well as fostering autonomy among various population groups.

The methodology would need to be centred around a socio-economic data gathering system on households. A control group would be acknowledged, both qualitative and quantitative indicators would be drawn from the data collected from interviews and/or questionnaires, and follow-up visits/questionnaires would be established.

There are a number of important questions to be answered about the practicality and efficacy of an Impact Assessment Rating system:

It is taken as a given that an MFI must be financially viable before it can improve access to the poor. Thus, it is important that the MFI become financially sustainable; then it can offer whatever level of services it wishes to its customers. However, with the sudden proliferation of MFIs and the multitude of different business practices they employ, it is difficult to predict which ones will be ultimately successful. It is in this respect that one ought to look at what has driven the microfinance industry-the resourcefulness of the poor. The growth of the industry is based on the tapping of a resource that was previously deemed to be unprofitable. Indeed, it is the ability of MFIs to increase the living standards of the poor that is an indicator of their success. If an MFI can be acknowledged for improving the lot of its clients as a result of its level of access, it is a good indication that the MFI will be sustainable in the long term.

This question revolves around the issue of what standards, performance indicators, or benchmarks are most appropriate for an assessment rating. These would, as mentioned, either be formed by the MPA or decided by those organizations tapping into an MPA Rating Fund, led by certain minimum guidelines. The acceptance of such measures can be seen in how many MFIs and evaluation agencies voluntarily involve themselves in the system, and what kind of reaction it is given by donors, investors and banking institutions.

The answer would have to be determined from the accuracy of the methodology used, but would also depend on taking a deep look into all the factors involved in poverty alleviation. MFIs e Ah9 0 0 .37ixalleviation. 8 39

References

- 2001 http://www.adb.org/Documents/Brochures/Private_Sector/2001/default.asp, March
- “Access to Microfinance & Improved Implementation of Policy Reform (AMIR Program.”
http://www.amir-jordan.org/smi/ibs_trainingprogram.htm and <http://www.amir-jordan.org/index.html>
- ACCION International Website www.accion.org
- AFCAP Website. <http://www.afcap.or.ke/>
- Ahmed, Salehuddin. . Palli Karma-
Sahayak Foundation, Dhaka, Bangladesh.
<http://www.microcreditsummit.org/papers/fundspaperfinal.htm>
- Barton, Clifton and Marshall Bear. www.mip.org/pubs/mbp-res.htm
- . <http://www.triodos.co.uk>
- The Consultative Group to Assist the Poorest (CGAP) Management Information System Services.
www.cgap.org
- CGAP’s Donor Guidelines on Savings.
http://www.cgap.org/html/ds_technical%20guides_Savings%20Services.htm
- CGAP Microfinance Rating and Assessment Fund.
http://www.cgap.org/html/microfinance_industry.html.
- Chao Beroff, Renee. . United Nations Capital Development
Fund (UNCDF), March 1999.
- Ferand, David, Mark Havers. . Durham, UK: The
Springfield Centre for Business in Development, 1997.
- Gibbons, David S., and Jennifer W. Meehan.
- Micro Summit Challenge Papers, June 20, 2000. www.microcreditsummit.org/papers/challenge.htm
- Girafe Methodology. <http://www.planetfinance.org/en/rating/GIRAFE/Methodologie.htm>.
- Grameen Banking Website. www.grameen.com
- ‘Green investments granted tax-free status in Holland’, , Victoria, Canada. e-mail:
gdauncey@islandnet.com.
- Inter-American Development Bank, Microfinance 2001 Program. www.iadb.org
- International Institute for Communications and Development (IICD) Website. www.iicd.org
- Mainhart, Andrew. . Bethesda,
Maryland: MBP Project/ Development Alternatives, Inc./ USAID, 1999. www.mbp.org/pubs/mbp-res.htm

Committee of Donor Agencies for Small Enterprise Development; Donors Working Group on Financial Sector Development, 1995. www.ilo.org

MicroBanking Bulletin http://www.calmeadow.com/mbb2_index.html.

The MicroBanking Standards Project. <http://www.microbankingmbb.org>.

Microcredit Summit. <http://www.microcreditsummit.org/declaration.htm#Dramatic>

The Microcredit Summit, Oxfam UK and Ireland. <http://www.worldhunger.org/articles/oxfam.htm>

Microenterprises Innovation Project (USAID) Website. www.mip.org

Microfinance Network. <http://www.bellanet.org/partners/mfn/whoswho399.htm>.

2001 Microfinance Training Program brochure. <http://www.naropa.edu/mft2001/>

MicroRate. <http://www.microrate.com/>.

Ministry of Finance of the Netherlands, <http://www.minfin.nl/uk/taxation/taxneth/taxneth.htm>

Nelson, Candice, The SEEP Network, "Training Goes To Market: A Comparative Study of Two Kenyan Training Programs." December, 1997. <http://www.mip.org/pubs/mbp/kenyan.htm>

New York: Small Enterprise Education and Promotion Network, Fall 2000. www.seepnetwork.org

Network Startup Resource Centre Website. www.nsrc.org

Nike Website, <http://nikebiz.com/labor/micro.shtml>

Opportunity International Canada Website, <http://www.opportunity-canada.ca>

Painter, Judith. "Village Banking Performance: A Comparative Review 1994-1998".
New York: Small Enterprise Education and Promotion Network, Summer 2000.

Paulson, Jo Ann, James McAndrews,
<http://www.worldbank.org/afr/findings/english/find134.htm>

The Philippine Coalition for Microfinance Standards. <http://www.gdrc.org/icm/network/phil-cover.html>.

Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ)
. Eschborn, Germany:
http://www.gtz.de/fachabteilungen/publikationen/FINANZSYSTEME_Proceedings_of_the_Africa_Conference_1998e.pdf

PlaNet Finance Systems, www.planetfinance.org/en/system

Simanowitz, Anton, Ben Nkuna, Sukor Kasim, "Overcoming the Obstacles of Identifying the Poorest Families". Paper prepared for the Microcredit Summit Meeting of Councils in Abidjan, June 24-26 1999; <http://www.microcreditsummit.org/papers/povertypaper.htm>.

United Nations Capital Development Fund,
UNCDF Institutional Perform