



## The All-Party Parliamentary Group on Microfinance

### Activity Update 2010/11

The past year has been an extremely active one for the APPG on Microfinance. The biggest highlight was that we completed our first ever parliamentary inquiry, which was extremely well received and has had a profound impact on the microfinance sector in the UK and internationally.

The inquiry which was titled 'Helping or Hurting: what role for microfinance in the fight against poverty' grew out of a debate hosted by the APPG in the Grand Committee Room in October 2010, which asked whether microfinance is an effective tool to combat poverty. Almost 100 members of the public, including members of the Houses of Parliament, academics, private investors, representatives of international organisations and microfinance institutions, attended making this the biggest event the APPG has hosted in its history. While the debate was decided in favour of the motion with a large majority stating that they believed it is a useful tool for poverty reduction, the debate raised several profound questions which the APPG felt the need to investigate further through an inquiry.

The inquiry process involved conducting desk research, receiving and analysing around 20 written submissions, and convening three oral evidence sessions in the House of Lords with implementers and funders of microfinance, academics and the Department for International Development. The findings were written up into a report which was launched in the House of Commons on 8 June 2011.

The main findings of the report are:

- The microfinance sector is very diverse, populated by very different institutions that are driven by different intentions, and therefore it does not really make sense to ask 'Does microfinance work?' Instead we should ask: '*What* microfinance works?' and '*When and how* does it work?'
- Microfinance services have diversified beyond credit to include insurance, remittances, savings etc. This is an extremely positive development because poor people need a variety of tools to manage their finances.
- Not all microcredit is beneficial to clients, because debt can do harm as well as good. Bad microcredit offers stripped down services with little customer support or choice. This is a particular tendency in the commercial microcredit sector but it is not limited to commercial microfinance. Commercial actors are needed, but they must be regulated appropriately.
- Social Performance Management should be a central concern of all microfinance institutions. This involves studying the impact of initiatives on clients and using the data to drive improvements in performance for social outcomes.
- It is important to integrate support for microfinance into a broader financial sector approach, because support for clients to move out of the microenterprise sector into the small and medium sector, as well as support for finding market linkages to drive improved productivity, are currently weak.

The launch of the report was highly successful, and it was well received across a broad spectrum of the microfinance and development sectors. We had press coverage in six outlets, including the Guardian and Wall Street Journal blogs and four specialist online news sources:

- <http://www.guardian.co.uk/global-development/poverty-matters/2011/jun/10/microfinance-friend-or-foe?INTCMP=SRCH>
- <http://www.microfinancefocus.com/donors-role-commercial-microfinance-needs-overhauling-%E2%80%93-appg-report>
- <http://www.socialenterpriselive.com/section/news/money/20110609/microfinance-failing-democractise-financial-services-says-report>
- <http://www.microcapital.org/microcapital-brief-articles-published-by-the-guardian-the-wall-street-journal-question-impact-of-microfinance-role-of-commercialization/>
- <http://indiamicrofinance.com/helping-hurting-role-microfinance-fight-against-poverty.html>
- <http://blogs.wsj.com/indiarealtime/2011/06/17/does-microfinance-for-profit-hurt-women/>

We have also received a letter from Alan Duncan MP, Minister of State for International Development, welcoming the report and pledging to provide an official response to the recommendations by the end of July.

In addition to the inquiry, we held two further meetings. The first was a joint meeting with the APPGs on Climate Change and Agriculture and Food for Development in November 2010 looking at the potential for microinsurance to protect the poor against weather disasters. Presentations from Richard Leftley at Microensure and Alan Doran at Oxfam offered a compelling look at the possibilities for this area of microfinance. The speakers also acknowledged challenges to the model, such as the difficulties of engaging with the population and the difficulty of assessing damages and risks. However they also spoke about the role that new technologies can play in addressing these issues and helping microinsurance schemes to reach the poor people who could benefit from them.

Secondly, we held a very productive meeting between members of the group and Parliamentary Under-Secretary of State for International Development Stephen O'Brien MP in March 2011. The PUSS was clearly well-briefed and engaged on the issue. Topics covered included DFID's approach to microfinance; the importance of smallholder agriculture and the role that microfinance can play to support it; the evidence base for the effectiveness of microfinance; the situation with Grameen Bank and Muhammad Yunus in Bangladesh; the role of CDC; and the APPG's inquiry. The PUSS welcomed the inquiry and laid down a series of questions that he felt it would be useful for DFID for the inquiry to address. We used these questions to help shape the inquiry, although we were not able to give a full answer to them all.

Members of the group have kept microfinance in a prominent position in debates on poverty reduction and international development throughout the year, with a large number of interventions and parliamentary questions. Microfinance has also featured prominently in the Coalition Government's plans for the Department for International Development, with one of the four central pillars of the Department's approach being 'wealth creation'. It is truly an exciting time for the sector.

A final note on the finances of the group: the group has received no financial support over the past 12 months. RESULTS UK continues to provide a part-time secretariat for the group, but due to the lack of resources the capacity of the group is severely constrained and we will not be able to continue to sustain the level of output seen in the last year without further resources.