



HOUSE OF COMMONS  
LONDON SW1A 0AA

## **The All-Party Parliamentary Group on Microfinance**

### **Notes from APPG Microfinance meeting 6/7/10**

#### **1. Update from the last year**

Louise Holly, coordinator for the group explained that there had been less parliamentary activity than usual last year because of the General Election.

Thanks in part to APPG's work to raise the profile of the role of microfinance in eradicating poverty, microfinance featured prominently in many of the pre-election statements and documents produced by the different political parties demonstrating the fact that microfinance is an issue that has strong cross-party support.

In January this year, members of the APPG spoke in a debate on microfinance. The Minister for International Development and shadow spokespeople on international development were again in consensus about the role and potential of microfinance as a development tool and tribute was played to the APPG and particularly Annette Brooke as its chair for her leadership on this issue.

The main event from last year was a meeting focused on microfinance in Africa where the former Minister for International Development, Gareth Thomas MP, came to talk to the group about DFID's plans to create a new capacity building fund for microfinance in Africa. This fund is still under development and the APPG will be following up with the new government to ensure that progress is accelerated and that the fund has a strong focus on reaching the poorest and measuring its impact.

In September last year, Annette Brooke had the opportunity to visit microfinance programmes in India hosted by the organisation Five Talents.

The APPG also hosted a meeting last year with Sam Daley-Harris, Director of the Microcredit Summit Campaign who briefed us about the then upcoming Microcredit Summit in Kenya and discussed the announcement that over 100 million families have now been reached with microcredit worldwide.

Following the General Election, the immediate priority of the APPG has been recruiting new members following the departure of many of our longstanding members from Parliament. It is a good sign that the APPG has already been able to attract over 30 members to the group from both government and opposition parties.

The APPG has also been conducting a survey of external stakeholders to gather input and ideas into the priorities for the APPG over the next year. The survey has been extended to capture the input of even more people: visit <http://bit.ly/appgmfsurvey2010>



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Finally, the APPG recognised the need to work more closely with other APPGs and has been part of discussions to organise an reception for new MPs on 20 July to introduce them to the range of APPGs focused on international development issues.

The group has received no financial support over the past 12 months. RESULTS UK continues to support of the secretariat of the group by providing a part-time coordinator.

### **2. Election of officers**

The following members were elected as officers of the group:

Chair: Annette Brooke MP (Lib Dem)

Vice Chair: Kerry McCarthy MP (Lab)

Vice Chair: Stephen Lloyd MP (Lib Dem)

Treasurer: Robert Syms MP (Con)

### **3. Presentation from Wilson Moleni, Opportunity International Bank of Malawi (OIBM)**

Wilson was introduced by Edward Fox, Chief Executive of Opportunity International UK. Wilson Moleni is responsible for running the Mzuzu Branch in Northern Malawi. He worked with Malawi's first microfinance service provider as a loan officer and rose to the positions of Supervisor and Manager before joining OIBM in 2003. His varied experience means that he has very good insight and firsthand experience of how microfinance works at the grassroots level.

Wilson showed a short video highlighting OIBM's operations and achievements.

Seven years ago, there were no banks in northern Malawi that were accessible for poor people. Banking was traditionally only for people who are well off. The biggest barrier was the system of ID required by formal banks. This excluded poorer people who typically have no passport or driving licence.

OIBM decided to scale down the banking model and adapt it to meet the needs of poor people. The first branch was set up in Lilongwe in 2003 and was funded by DFID. Now, more than 277,000 people are reached with savings and loan products across Malawi.

To overcome the ID barrier, OIBM lobbied the Malawian government to allow them to develop smart cards that would serve as ID for their clients.

Lack of collateral is another major barrier preventing poor people from accessing credit through traditional banks. To open an account with OIBM, clients do not need to put up any collateral but form small credit groups. These groups are self-selecting so repayment rates are very high.



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Wilson said he was personally very impressed by the progress and transformation of individual clients. He knows that both savings and credit have the power to transform lives. Financial services enable people to grow their businesses and also save for things that support the family such as school fees.

OIBM has also introduced a number of insurance products. In response to the huge HIV epidemic they created insurance to cover funeral expenses. Funeral costs can use up all of a family's capital and cause businesses to fail. Another product is credit life insurance which protects a client's family from being liable to pay back their loans in the event of their death. A newer product is micro crop insurance based on a weather-index. Since Malawi is an agricultural-based economy, this kind of insurance gives farmers confidence to invest in better farming techniques and higher quality (and more expensive) inputs.

The OIBM model is to have physical branches linked to smaller branches, called 'spokes'. Mobile banks also help reach those in communities not reached by fixed branches.

Wilson said he has been moved by many powerful stories such as that of a widow who had her property taken by her husband's family. She had opened a savings account with £35 in the bank. She took out a loan of £140 which she used to fund her shop of electrical items. She has taken out larger loans to expand her business and now owns two shops. She has also been able to send her children to school for the first time.

Wilson told us that "microfinance gives people a hand up, not a hand out". You can see the progress that clients make and they become dependent on no one.

Annette Brooke noted how she had been to Malawi in 2007 when Opportunity International was talking about expanding into Northern Malawi and was therefore pleased to hear how successful they have been.

Question from Tom Sanderson: How can we convince more people here in the UK that microfinance is working and address suspicion and criticisms of microfinance?

Wilson: Microfinance may not work if it is not implemented properly. The reason that some MFIs do not progress is that they forget the most important component – training. Many poor people are illiterate and need support to understand how loans work and when it is appropriate for them to take out loans or to save.

Annette Brooke added that the APPG was planning to organise a debate on the issue of whether microfinance works in order to get many of these issues out into the open.

Question from Sarah Livingstone: Do the businesses supported by OIBM grow to become small or medium sized businesses?



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Wilson: Many of the customers who joined OIBM in 2003 are asking for cheque books which is a sign that they are ready to graduate to more formal banking.

Question from Arif Islam: What interest rate is charged on the loans?

Wilson: Microfinance is expensive because of the cost of training is high. You also need to have a good client / loan officer ratio. Some MFIs charge around 60% interest on a loan. OMBI charges 30% which covers the cost of operations and enables resources to be recycled into new loans. Commercial banks charge less – around 5%.

Question from Annette Brooke: When she was in Malawi there was a very high savings to loans ratio, is that still the case?

Wilson: Demand for loans has increased dramatically so now the ratio has changed. If it were not for regulation which prevents organisations giving out more loans than savings, the ratio would be the other way around due to such high demand for credit.

### **4. Presentation by Aaron Oxley, RESULTS UK**

Aaron Oxley was appointed Executive Director of RESULTS UK, a non-profit advocacy organisation in September 2009. Prior to joining RESULTS, Aaron worked for many years in the field of microfinance with Opportunity International and MicroEnsure.

In his presentation, Aaron summarised some of the key challenges and opportunities faced by the microfinance community. Many of the points, he said, had been illustrated by Wilson in his presentation.

Microfinance has become big business: there are now over 10,000 MFIs serving more than 150 million customers of which 100 million are the poorest families. Global demand is estimated at 500 million families so there is still a long way to go.

Organisations have proven that it is possible to serve the poor successfully whilst being sustainable. Profit is sometimes a problematic word for the microfinance industry – the microfinance industry comes under criticism for becoming like big business. Examples of MFIs such as SKS in India and Compartamos in Mexico on a trajectory away from pro-poor development microfinance.

The industry is also facing tough questions about the impact of microfinance in alleviating poverty. Aaron suggested that we should welcome open debates about the impact of microfinance but should always remember that microfinance alone is not intended to end poverty but it part of a set of tools.

Aaron summarised some of the initial findings of the APPG stakeholder survey. The survey is designed to find out what others see as the key issues facing microfinance today and what would be useful for the APPG to focus on. There was a large amount of consensus in the responses collected so far.



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The universal response was that while the microfinance industry can now proceed purely on a market basis, this is insufficient for microfinance as a development intervention. There must be a greater focus on targeting the poorest with more innovations in product, service delivery and regulation. Respondents seemed clear that technology was the key to reaching even greater numbers of people.

More public-private partnerships are needed to build on the relative strengths of the different sectors.

Aaron highlighted the three waves of microfinance: firstly microcredit, then microsavings and finally microinsurance. Respondents to the survey reiterated the need to look beyond credit and the growing importance role of savings-led models and insurance. Agricultural microinsurance has the potential to play a key role in adaptation to climate change.

In conclusion, Aaron stated that we need to acknowledge that the profit motive is firmly imbedded in the microfinance industry and the APPG must press to ensure there is still an adequate focus on providing financial services to the poor as a tool to assist them in their escape from poverty. He also proposed that the APPG could look at how it can support innovation around technology and new product lines in microsavings and insurance.

Annette Brooke added at the end of the presentation that the APPG would like to produce a report to present to government and welcomes ideas on what the first report should focus on.

Question from Edward Fox: How can we address the dilemma about new technologies – the negative consequence of reaching more people and lowering costs could be that relationships with clients could be diluted?

Aaron: The design of technologies is very important – they need to be appropriate for the market and require minimal training. M-Pesa is an example of something that obviously met a huge need.

Xavier Lecacheur opened up a discussion about the role of the APPG.

It was suggested that much more could be done to challenge policy makers and technocrats – for example those involved with the G20 Financial Inclusion group – to be more inclusive and transparent. The APPG can help to ensure that the voices of civil society are heard.

It was noted that the new coalition government is looking at value for money. As a sector, we need to be better able to demonstrate that microfinance has impact.

Many respondents to the APPG's survey believed that the APPG could help by providing greater oversight of the UK's activities in microfinance and ensure that the interests of the poor are protected over the interests of the banks. The APPG could help to monitor ongoing initiatives such as the DFID-World Bank capacity building fund for Africa.



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The meeting came to an end before many participants had an opportunity to comment. More responses to the APPG's survey (<http://bit.ly/appgmfsurvey2010>) were encouraged. A thorough analysis of the survey and other inputs will be conducted over the Summer parliamentary recess as will the development of the APPG's workplan for the next Parliamentary year.

### Meeting participants:

Annette Brooke MP	Rowena Ironside, Microloan Foundation
Therese Coffey MP	Diana Isac, RESULTS UK
Andrew George MP	Arif Islam, Muslim Aid
Andrea Leadsom MP	Michaela Kelly, Plan International
Stephen Lloyd MP	Cornell Jackson, Planet Finance
	Xavier Lecacheur, Abercorn Frontier Consultancy
Senake Atureliya, Pie Finance	Sarah Livingstone, Oxford Innovations
Anna Bachmann, Five Talents	Casey Lord
Ian Boyd-Livingstone, Microfinance Works	Maude Massu, Care UK
Jenna Eastlake, Plan International	Michael McGrath, Microloan Foundation
Edward Fox, Opportunity International	Wilson Moleni, OIBM
Deborah Foy, Opportunity International	Aaron Oxley, RESULTS UK
Antonio Garcia, RESULTS UK	Tom Sanderson, Five Talents
Louise Holly, RESULTS UK	