All Party Parliamentary Group on Microfinance/Microcredit
Minutes of meeting: 23 January 2007

'Microfinance in the context of globalisation: Making change work for the poor'

Opening remarks and introduction of speakers by Sheila Davie (SD), Director, RESULTS UK.

SD welcomed those in attendance and noted that the period since the last APPG on Microfinance/Microcredit (October 2006) had been one of dynamism and progress. Firstly, Muhammad Yunus and Grameen Bank had been awarded the Nobel Peace Prize and secondly, the Global Microcredit Summit had taken place, launching two new goals for 2015.

Helen Marsh (HM), APPG co-ordinator, gave thanks to Roger Witcomb, Brian and Kate Peace and Clifford Chance for their generous donations to the running of the APPG. She also highlighted that the APPG is looking to launch a website and would welcome any offers of technical or financial support for this, and/or other activities for 2007 and beyond. Attention was drawn to the upcoming Microfinance Club of London meeting on 6 February at Morgan Stanley, Canary Wharf.

SD introduced the session speakers: Alex Singleton (AS) and Tom Clougherty (TC) of the Globalisation Institute (GI) and Doug Pearce (DP) of the Financial Sector team at the Department for International Development (DfID).

GI presentation

AS began by explaining the focus of the GI; on trade, development and the environment and how enterprise can be harnessed can help to deliver real progress in these areas.

TC reflected on the aim of their report to highlight the 'human face' of microfinance through case-studies and link 'microfinance in action' with 'microfinance in theory'.

Using a variety of case studies and statistics TC posited that microfinance is not a panacea, but represents a significant step in the right direction. He undermined the 'Band-aid critique' (which accuses microfinance of covering rather than tackling poverty alleviation) and instead argued that microfinance can have a positive impact on promoting good governance, by empowering and educating clients to become more active in the democratic process. This was exemplified using the example of property rights and how access to financial services can encourage individuals to create pressure from below, for the formalisation of property rights.

Noting the disparity between demand and supply TC suggested that Microfinance Institutions must diversify their operations, in order to become more profitable and scale-up their level of outreach. TC noted that donors alone cannot bridge the capacity gap and therefore welcomed the involvement of the private sector, whether driven by corporate social responsibility or profit.

AS highlighted that DfID had taken two different approaches to spending in recent years; firstly through a conditionality based approach and latterly through direct budgetary support (conditionality free/reduced). He voiced a concern that DfID's budget may be being less well spent now than when conditionality was attached.

AS suggested a number of recommendations for DfID to take onboard; 1) increasing the percentage of its budget dedicated to microfinance 2) creating a larger and more specialist team on microfinance within the Department 3) monthly reporting on microfinance to the Secretary of State.

Given DfID's focus on promoting good governance AS noted that microfinance was a well suited development tool and suggested that DfID's significant increase in total budget (to 0.7 GDP) provided the opportunity to spend more on start-up funding for Microfinance Institutions and technical assistance in-country.

AS also asked how many staff within DfID are focused solely on microfinance.

DfID presentation

DP began by echoing the need for a quantum leap, to scale up access to financial services from the current 200 million to the 2 billion people who lack access.

He noted that DfID's most recent White Paper made concrete objectives for Microfinance, focusing on; tackling barriers to financial services, promoting microfinance initiatives and working with the EU on a wide-scale remittances programme.

DP posited that the role of government is not as service provider but as creator of an enabling environment. To produce the 10 fold scale-up required DP asserted that the private sector has a critical role to play. The challenge for Microfinance Institutions is how to expand capacity. As aid budgets are comparatively small, compared with the finance that banks can mobilise, there is an ever-increasing role for private sector.

DP highlighted key areas in which governments can create impact:

1) Regulating and enabling a positive framework (examples of DfID supported initiatives include; the Financial Deepening Challenge Fund, Bangladesh PROSPER programme and the FIRST initiative).
2) Bridging the lack of information barrier – helping to understand and meet the financial needs of the unserved.
3) Promoting technical innovation – to help lower the cost of microfinance and expand outreach. (examples of DfID supported initiatives include; GSM mobile phone banking and the 'sendmoneyhome.org' website).

In conclusion DP illustrated that we all share the same challenge of scaling-up microfinance, and of ensuring that – in line with the Microcredit Summit Campaign goals – the poorest are also reached.

In response to the previous presentation DP noted that there are 6 members of the 'Financial Sector' team at DfID London, which focuses on a variety of issues including microfinance. Globally there are 12 staff which focus on microfinance, with a number focusing on private sector development. These numbers are provisionally and will be confirmed subsequently.

DP reiterated that DfID supports a country-led approach to development and that microfinance can be congruous with this (through, for example, Poverty Reduction Strategy Papers).

AB thanked the speakers for their valuable contributions and asked for questions from the floor.

Gareth Evans, Maxwell Stamp: question on the ways in which DfID will engage and scale-up activity of existing MFI's, particularly in the African context.

DP responded that the majority of the largest poor and unreached populations are in Asia but a number are in Africa, such as Ethiopia and DRC. He noted that capacity issues are a particular constraint in Africa, but that 6 of the 8 DFID microfinance programmes are in Africa, working towards overcoming capacity, policy and procedural barriers. DFID also supports microfinance through the World Bank and IFC, both of which support microfinance in Africa. Africa itself recognises that investment in Africa is lacking.

Tom Hall, Microloan Foundation: question on whether there is a fit between sustainability and reaching the poorest. Where does microfinance sit as a poverty reduction strategy as opposed to a profit making mechanism?

AS asserted that the diversity of microfinance options meant that serving the 'elite poor' was not necessarily problematic. By serving whoever is reachable, some of the benefits are likely to 'trickle down' to poorer people within the community.

TC added that the GI doesn't prioritise profit-making but that it does enable Microfinance Institutions to dig deeper and reach more clients.

William Derban – Barclays bank: Comment on the lack of focus on informal financial systems that have served many communities in developing countries for many years. He went on to explain a project by Barclays in Ghana, where they are working very closely with susu collectors – informal savings collectors in market areas. This programme has helped to mobilise over £1.7m in less than a year, proving that there is a lot of money within the informal sector. The question was whether the research by the Globalisation Institute looked at this sector at all.

AS answered that the research had not looked at it, but agreed that it was an important area that needed looking into.

Gareth Evans, Maxwell Stamp: question on DfID's openness to providing loans to achieve scale and enable access to mainstream credit – there is a small gap to reaching a sustainable level.

DP noted that microfinance can either be combined or kept separate from business development services. He noted that the trick is to bring costs down through increasing scale and using technology; the bigger the Microfinance Institution the lower the cost to the client. DP agreed that there may still be a place for structural subsidy – internal cross-subsidising can be effective.

Mosleh Ahmed, Microfinance Club of London: question on how the poor's collateral of 'credit-worthiness' can be capitalised upon so clients can graduate to commercial banking.

AS noted the relevance of credit reference agencies but thought that transferring ratings might be problematic.

DP highlighted that both FIRST and IFC support credit references, with the caveat that reporting and monitoring is often an issue. Building closer links between bank and non-bank institutions would be a positive step.

Peter Ryan, Microloan Foundation: question on whether or not DfID will support smaller scale operations, as they are likely to have greater impact on raising the profile of microfinance.

DP responded that DfID are experiencing an increase in resources and an, at best, static head count. Therefore the country-led approach, which often funds 'umbrella proposals' is the best route through which small scale capacity can be improved.

Tom Sanderson, Five Talents: question on the compelling case of microfinance in meeting the Millennium Development Goals and how this had been absent from today's discussions.

TC noted that the most potent criticism of development is that it doesn't focus enough on outcomes. Microfinance should be acknowledged for giving real 'bang for the buck'.

AS returned to the issue of DfID staffing and personnel dedicated to microfinance.

DP agreed to share figures on staffing but emphasized that it is not always efficient to have people devoting all their time to one agenda.

DP agreed that there is a strong fit between microfinance and all the Millennium Development Goals, from education to gender parity and extreme poverty. He stressed that microfinance is an effective approach to poverty alleviation within a wider portfolio.

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