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Financing for Development

UNCDF

SUMMARY REPORT

E-CONFERENCE ON:

Building Inclusive Financial Sectors for Development:

Widening Access, Enhancing Growth, Alleviating Poverty

March 28th – April 13th, 2005

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BACKGROUND INFORMATION ON THE BLUEBOOK PROJECT

The vast majority of “bankable” people in the world do not yet have access to financial services. In many countries, the financial sector reaches only a small fraction of the population, as various constraints hamper or block the inclusion of different population groups needing access to financial services, notably women. Access to well functioning and efficient financial services can empower individuals economically and socially, allowing them to better integrate into the country’s economic activity and actively contribute to economic growth.

The “Blue Book on Building Inclusive Financial Sectors for Development” is based on the commitment of Secretary General Kofi Annan to the goal of "addressing the constraints that exclude people from full participation in the financial sector", under the UN International Year of Microcredit 2005 in order to "build inclusive financial sectors that help people improve their lives," and the global commitment to collective action following the 2002 International Conference on Financing for Development in Monterrey. Lead by the United Nations Capital Development Fund (UNCDF) and the Financing for Development Office of the UN Department of Economic and Social Affairs, this consultative process brings together national governments, central banks and other financial institution supervisory bodies, multilateral institutions, civil society, the private sector and stakeholders in the microfinance industry.

The centrepiece of this exercise is to identify the constraints in the development and effective functioning of financial institutions and markets serving the wide-ranging needs of households and businesses and lay out avenues of opportunity to address these constraints. The dialogue and debate take place around a set of key questions built around the issue: “Why are so many bankable people unbanked?” The consultations have taken place from October 2004 to May 2005, and offered stakeholders a platform to express concerns based on concrete experience and their own particular context and identify new possibilities for building inclusive financial sectors in the future. This culminated with a Global Meeting organized in Geneva on May 4th-5th 2005 with the participation of Member States and other stakeholders.

The process is to be inclusive in its openness to stakeholders, yet rigorous in assuring a solid foundation by respecting all the work that already has been done, and by mobilizing the knowledge and experience of stakeholders most likely to contribute significantly to the exercise.

The results of the consultations, including the output of this e-conference, will lead to the preparation of a "Blue Book on Building Inclusive Financial Sectors for Development” designed to be a compelling analysis capturing the experiences of constituencies worldwide in the effort to develop inclusive finance sectors. It will be presented to the UN General Assembly for consideration by Member States in October 2005 and will then be broadly disseminated as a collaborative effort between UNCDF and the Financing for Development Office of UN DESA.

EXECUTIVE SUMMARY

As part of the consultative process that serves as input to the Blue Book, the Financing for Development Office of the Department of Economic and Social Affairs, the United Nations Capital Development Fund and the World Bank Institute joined together to organize an e-conference on "Building Inclusive Financial Sectors for Development: Widening Access, Enhancing Growth, Alleviating Poverty" from March 28th to April 13th. The three main objectives of this e-conference were:

1. Engage a wide range of constituencies from various professional and geographical backgrounds and solicit their expertise and opinions
2. Contribute to the Blue Book project by proposing innovative ideas and workable solutions to building inclusive financial sectors for development
3. Provide an introduction to the Global Meeting on Building Inclusive Financial Sectors for Development that will be held in Geneva May 4th - 5th 2005.

The e-conference was structured around a two-and-a-half-week discussion, moderated by two experts from the microfinance field, Deborah Burand (a law and finance specialist, most recently the Director of the Capital Markets Team of FINCA) and Bikram Duggal (previously with the ICICI Bank in India, currently working as a microfinance consultant). They provided guiding questions on the weekly topics and provoked a consistently high level of discussion.

During the first week, contributions focused on improving our understanding of the demand and supply barriers to increasing access of the bankable poor to financial services and products, both formal and informal. The discussion in the second week concentrated on integrating financial services for the poor into broader financial markets and creating an enabling policy environment for microfinance, focusing on the role of regulation and governments. The final half week allowed participants to share their vision of an inclusive financial sector and their views on required actions for achieving this vision.

With roughly 800 participants from 111 countries, encompassing microfinance practitioners, representatives from commercial banks, academics, members of non-governmental organizations, students, corporate executives, government representatives and staff from multilateral institutions, the e-conference provided a platform for a truly broad-based, constructive dialogue (see table 1). The broad participation in the e-conference drew a variety of perspectives and priorities.

TABLE 1: REGIONAL DISTRIBUTION OF PARTICIPANTS IN E-CONFERENCE

Region	# participants	% of total
Europe	210	26.1
Central Asia	23	2.9
South and Middle America	47	5.8
Africa	130	16.1
North America	187	23.2
Middle East and Nothern Africa	24	3.0
East Asia	49	6.1
South Asia	70	8.7
Not specified	66	8.2
Total	**806**	**100.0**

Using the moderators guiding questions as a starting point, the following points came out of the debate as being particularly relevant in the process of building an inclusive financial sector.

WEEK 1 : EFFICIENT FINANCIAL INSTITUTIONS POSITIONED TO MEET CLIENTS NEEDS

Both demand and supply barriers to increased access of the bankable poor to financial services were considered. It was questioned why the range of financial institutions engaged in finance for the poor is not able to expand the offer of such services more rapidly.

1. DEMAND SIDE BARRIERS

Five issues were highlighted in the debate on demand constraints and opportunities.

Cultural factors - The importance of cultural factors with respect to gender, religion and age was frequently mentioned. Women are often disadvantaged by credit requirements such as collateral since often property is registered under their husband's name. They also generally have less formal education and financial literacy. A participant from Iran specifically noted women's lack of access to formal financial services, but also that this has triggered creative, informal microfinance schemes. Due to women's changing role in a post-conflict society, the female demand for microfinance services also has a tendency to increase. Religion or other cultural norms may attach stigma to non-traditional income-generating activities, which would otherwise be good business opportunities. A participant mentioned that in Ethiopia, handicrafts are a non-traditional activity and therefore less popular to engage in than agriculture. Also, youth tend to have lower access to microfinance services in spite of their education, due to lack of collateral or other credit backing. Older participants on the other hand seem to be more reluctant to use microfinance services, preferring to invest in traditional manners (e.g. in livestock).

Mistrust of financial institutions – This demand side barrier was commonly mentioned, in particular as regards financial institutions involved in microfinance. Reluctance to put money in the formal system due to experience with hyperinflation, financial crises and corruption needs to be counteracted by government and financial institutions by "depoliticizing" microfinance and cultivating trust as a public good. Informal credit or saving schemes are often preferred by low-income clients looking for financial services. Views on this "shadow economy" were mixed: while some argued that the informal sector puts extra pressure on entrepreneurs (sometimes through criminal networks, as a participant from Russia mentioned), others believed that informal institutions are exemplary in meeting existing demand.

Transaction costs - The role of transaction costs to the client (financial, time, etc.) as a demand barrier to financial services was debated. In spite of the recognition of the need for sustainability of microfinance institutions (MFIs), many felt that costly prudential requirements should be relaxed, considering the generally high repayment rates. A participant observed that transaction costs for the poor in Bulgaria are very high and the minimum requirements are a burden, however they are difficult to lower due to fixed costs involved for the bank. She observed that "even the socially engaged institutions cannot work below cost". Examples of too-stringent requirements were collateral, licensing requirements, high interest rates, bureaucratic procedures, and co-signers on loans. Two creative solutions to this were allowing work equipment to serve as collateral and including informal sources of income in the credit analysis. Overall however, the feeling was that the availability and consistency of access to credit are relatively more important than the transaction costs involved in facilitating access and use of microcredit.

Financial literacy and skills capacity – Developing financial literacy and skills capacity of the bankable poor is another factor that would build demand and lower the real and perceived risk of micro-lending. Some participants agreed that this would also make participants more price-sensitive. A Chinese participant stressed that financial literacy training needs to take into account the lack of a for-profit mentality in former communist countries.

Access to basic infrastructure – Lack of access to infrastructure, including roads, equipment and supplies, was mentioned as a demand barrier also. A participant from Haiti mentioned that the lack of infrastructure available for energy access (specifically electricity) deters business development. An Ethiopian microfinance practitioner mentioned that where infrastructure is poor, credit tends to increase the scale of existing activities rather than moving clients into higher value added activities. A solution mentioned by some would be provision of subsidized or targeted loans for improving this infrastructure.

2. SUPPLY SIDE BARRIERS

Four main issues were addressed as important in providing an adequate supply of financial services to the currently unbanked.

Financial viability of MFIs – Several MFI practitioners mentioned the difficulty in having a "double bottom line": at the same time aiming to be profitable and stimulating local economic development. Constraints include lack of steady capital, weak human resources capacity, lack of infrastructure, donor dependency and sometimes security concerns in servicing markets. Concerns were varied: some disproved of the profit-driven mentality of MFIs when they should be alleviating poverty; others worried about too much focus on repayment rates instead of on effectiveness in contribution to sustainable activities. Concerns were also raised about a tendency of MFIs to shift away from low-income clients to more profitable, commercial ventures (e.g. in Kenya and the Russian Federation). The opposite trend was also noted however: MFIs may be pushed "down market" by bank competitors moving into lower income segments, leaving MFIs to target the rural and urban poor.

Real and perceived risk in micro-lending – The perceived risk of lending to the poor is higher than the real risk, creating a supply barrier by triggering higher than necessary transactions costs due to stricter than needed prudential requirements. The perceived risk is increased by lack of transparency of small enterprises, which are often informal. Participants noted different risk groups within the broad category of "bankable poor", which need to be addressed by different microfinance product designs. A professor from India made a distinction between "entrepreneurial poor," who are often engaged in small businesses already and could be scaled up to participate more in the financial sector, and the "chronically poor," who are much more vulnerable to volatility in income flows, less able to engage in income generating activities and thus more in need of services in addition to micro-finance. One MFI practitioner suggested bundling insurance in with loans to hedge against risk from shocks (for example natural disasters or family health problems).

Institutions and linkage with the formal sector – It was pointed out repeatedly that the lack of linkages between MFIs and the overall banking sector limits access to additional capital to serve their clients' business, thereby hampering capacity growth. It also impedes clients' transition to larger banks. A participant explained that in Azerbaijan access to government funds for MFIs is only granted if they subsidize microfinance for clients, which he thought "unacceptable … and against best microfinance practices". Participants called for a stronger government role in creating an enabling policy environment and supporting microfinance. A participant from the Palestinian territories pointed out that most Palestinian capital is being invested abroad due to the unstable political and economic situation, which severely hinders the advance of micro and small business. Government efforts in combating corruption and ensuring political and economic stability were viewed as essential to expand microfinance, as well as actions to strengthen policy guidance, regulatory procedures and monitoring and enforcement institutions to deal with the microfinance sector.

Approaches and products – Supply of products by MFIs needs to be better adapted to meet diverse client demands, was the opinion of various participants. An important improvement would be for institutions to offer proximity services, especially in rural areas. In many countries financial services tend to be concentrated in urban areas, allowing rural clients little access to services and information for making well grounded decisions. One innovation that was mentioned was the “credit mobile” service to rural areas. Development and use of new technology was also discussed. The use of management information systems was mentioned as useful for expanding microfinance, as well as free tools like MicroFin. K-REP bank in Kenya was mentioned as an example where improving the management information system has increased their customer base and has expanded their clientele beyond the traditional MF sector. Group-based approaches received many supporting comments, and regular contact with communities was mentioned as a crucial aspect in successful lending. Many organizations reached out to clients through community leaders, who assisted in follow up and monitoring of loans. Others have direct regular meetings with clients, coaching them when problems arise and building trust levels in the process. Using cluster approaches to target rural communities was associated with lower transaction costs and marketing expenses.

WEEK 2: FINANCE FOR THE POOR ACROSS FINANCIAL MARKETS, WITHIN AN ENABLING POLICY ENVIRONMENT

Both different sources of capital for microfinance and possible improvements in the policy environment were discussed.

1. SOURCES OF CAPITAL FOR MICROFINANCE

There was a wide-ranging discussion on the various sources of funding for microfinance institutions and the costs and benefits of each. Some thought a reliance on private capital might lead to MFIs compromising their mission to provide services to the poor, while others thought accessing capital markets was the most useful vehicle to expand these services, and that avoiding private markets would further marginalize the microfinance sector. Several different sources of capital for MFIs were discussed.

Private domestic capital – Some participants felt that rather than relying on international private or donor funding, the microfinance sector should instead focus on creating and supporting cottage industries that can create surpluses to be reinvested in productive activities. This would require a supportive infrastructure for the microfinance sector to link it to the rest of the economy. Longer repayment periods would be needed, as investing in cottage industries would take more time to generate returns than other, standard investments. A participant from Central and Eastern Europe noted an increase in the availability of high-cost capital for microfinance from private microcredit funds. However, the high interest rates are passed on to clients, sometimes compromising social objectives by excluding the poorer end of the spectrum of microfinance clients.

International capital - Others advocated for linkages between microfinance and international financial markets. One participant wrote that his credit union in Ireland has accepted a share in the international Dexia Microcredit Fund in the name of credit union members, which he considers a promising experiment in mainstream banks linking with microfinance. It was suggested that developed country governments could create incentives for banks to invest in microfinance by offering preferential tax treatment, including a tax-free return and a tax-deductible investment. This method could be coupled with investor insurance to bring new actors (the public) and capital (from a diverse base) into microfinance.

Donor governments – Some argued that in line with their social objectives, MFIs should rely on low-cost government funding, e.g. funding programmes of the European Union. Another suggested model involved a global insurance vehicle, in which developed country governments could deduct a percentage of the return: “A reverse form of Tobin-tax, with beneficiaries paying from profit, not exchange.” Using a consortium model, funds from several countries could be pooled in a common insurance fund, subject to independent monitoring. Yet another model would be government-to-government bonds issued on terms that would reflect financial stability, regulatory environment, and existence of national credit bureaux.

Donor organizations - The reliance of many MFIs on donor funding was debated. Some participants noted difficulties in securing consistent funding from donors, especially when MFIs must wait for rating agencies to release ratings before being considered for funds. In addition, donor agencies can be reluctant to provide a large percentage of the MFI borrowings, which can lead to MFIs keeping high idle cash balances to hedge against risk. Some felt that donor funding should be used primarily for training and marketing assistance to MFIs, rather than for extending credit. Developed country civil society could invest in human capital development through training and technical assistance, giving them a greater stake in development of poorer countries.

2. BUILDING AN ENABLING POLICY ENVIRONMENT

Many ideas were put forward on how to improve upon current financial systems and services to expand financial access to the poor. Focus was on managing and decreasing risk in microfinance, integration of microfinance with the mainstream financial sector, regulation for MFIs and the role of government and donors. Some other recommendations were mentioned also.

Managing risk in microfinance - Various participants felt the government has an important role in reducing risks of microcredit. Some policies mentioned to facilitate decreased overall risk include: deregulation of the microfinance market, offering loan guarantees to the poor, public-private partnerships, providing public services to reduce the cost of microfinance and identifying intermediate MFIs to serve as links between the larger commercial sector and the microfinance sector. Many participants noted the need for a solid and well-functioning legal system to enforce contracts and protect private property rights.

Participants discussed how MFIs can better manage foreign exchange risk to deliver consistent service to clients. One participant pointed out that some levels of foreign exchange risk are tolerable, but the focus should be on maintaining standards for managing risk and disseminating information about institutions that do not manage risk prudently. Since there are few strategies aimed at managing foreign exchange risks in unregulated institutions, it was suggested that donors could help monitor liabilities and assets of the institutions receiving their funds, encourage best practices and be more careful about the currencies they lend in. Risk raters could also play a role in disseminating information about performance of different MFIs. Others noted that for many MFIs, the cost of instruments to hedge risk eclipses the cost of the risk being mitigated and their access to hedging instruments is often limited. It was suggested that these risks could be better spread among different players with operational support from multilateral institutions such as the International Finance Corporation of the World Bank and regional development banks.

Integrating microfinance with the mainstream financial sector - Several themes were discussed on this topic. Some consensus existed that the integration of microfinance into the financial sector should take a different form depending on the financial landscape in a given country. In a market-based financial system, such as the United States, MFIs may access resources from capital markets and insurance funds. In a bank-based system like those found in Continental Europe and Japan, MFIs may be able to tap bank resources more easily. The need to formalize microfinance was a common theme, helping MFIs to be taken more seriously and get more capital access. The opportunity for the microfinance sector to serve as a link between the broader financial sector and low-income clients was also reiterated. Banks may be more willing to lend to MFIs than to the poor, and MFIs may deliver better services to low-income clients due to factors like proximity and knowledge of local context. In South Africa, banks have been mandated by the government to provide lower cost savings accounts for low-income clients; low interest rates may provide opportunities for coordination between commercial banks and MFIs. A legal consultant noted that in Ecuador, legislation is needed that provides incentives for financial institutions to offer services to the poor.

One opportunity to expand microfinance services that was mentioned was the increasing flow of remittance transfers. Using pension funds to raise capital for scaling up MFIs was also suggested, based on the experience of the United States and Peru. Furthermore, it was pointed out that the bankable poor have a strong demand for a safe place to deposit their savings, and do not just demand credit. Therefore this savings market should be attended to. Because of high reserve requirements and operation standards that limit access to these products, MFIs could partner with licensed deposit-taking institutions and simultaneously increase linkages with the broader financial sector. Finally, capacity building of MFI staff was noted by many as an important measure to scale up the microfinance sector; university degree programmes for microfinance practitioners in Sri Lanka and Kenya were mentioned.

Regulation for microfinance institutions - Several strategies for regulating the microfinance industry were debated. Successful examples were given of MFIs that proactively address issues of consumer protection and pro-client policies to increase accountability. Organizations such as the MicroFinance Network and the Action Network signed pro-consumer statements addressing issues of service quality, transparent and fair pricing, avoiding over-indebtedness, appropriate debt collection practices, respecting the privacy of customer information, ethical behaviour of staff, feedback mechanisms, and integrating of pro-consumer policies into operations.

Some of the discussion centred on the kind of institutions appropriate for regulating MFIs. Some believed that self-regulation would be the preferred option, since central bank regulation or involvement of other institutions would politicize and possibly harm the relationship that MFIs have built up with their clients over time. Codes of conducts could be effective mechanisms to encourage transparency, efficiency and good performance. Examples were given from the Association of Microfinance Institutions in Uganda and the Association of Microfinance Institutions in East-Timor, where codes of conduct and performance monitoring systems were set up. The Council of Microfinance Equity Funds, a group of private funds investing in MFIs, is in the process of establishing governance guidelines for its members and the microfinance institutions in which they invest. However, self-monitoring is not without drawbacks, the largest being the lack of enforcement mechanisms. Some suggested that the market would discipline MFIs not following prudent standards; others advocated a state credit agency driven by for-profit logic to provide credit to unbanked small businesses and households. One participant noted that the role of the government in promoting access to microfinance was important, but it should not "mandate the business" by controlling interest rate offerings of MFIs.

Further policy suggestions - Various other policy suggestions were put forward. It was noted that governments should design a national financial sector strategy in which to place microfinance, possibly positioning it as a full-fledged economic sector. A regulatory and supervisory framework is necessary as a tool to ensure compliance with basic rules. Alliances across MFIs and policymakers and other sectors of society are needed to develop these strategies.

Other policy suggestions to expand microfinance included: building capital markets capable of arranging and issuing corporate bonds, education of capital market regulators in microfinance and its development role, local guarantee opportunities including tax incentives to institutions that guarantee MFI investments, pension funds as incentives to invest in MFI bonds, investment by wholesale funders in MFI bonds, a secondary stock market for MFI bonds and a regulatory framework that supports MFIs working together to set up special purpose vehicles to achieve economies of scale. Several participants shared information about legislation in their respective countries regarding microfinance. From India, we heard that the government has announced development of a MFI rating system by banks to improve information efficiency, the creation of a Microfinance Development and Equity Fund and the opening of an external commercial borrowing window for MFIs to assist them in tapping non-bank funds. In Kenya, the parliament is currently considering legislation that aims to establish a regulatory mechanism for MFIs and to give MFIs appropriate legal status.

Donor policies were also mentioned. Although donors can support local processes, they should not intervene as this can frustrate local efforts. Consortium-type arrangements among donors to ensure minimum standards and reporting requirements were perceived as an effective strategy to ensure good governance of MFIs, giving them an economic incentive to comply). Membership of national associations can include mandatory adoption of a code of conduct, regular reporting and an annual review of performance. If the information from these associations is well distributed, well-performing MFIs are rewarded by donors and clients.

Breakdown of E-Conference Participation

Europe

Austria	1
Belgium	6
Bosnia-Herzegovina	1
Bulgaria	33
Croatia	3
France	9
Georgia	2
Germany	11
Ireland	1
Italy	11
Latvia	1
Luxembourg	1
Macedonia	6
Poland	1
Portugal	1
Romania	15
Serbia	18
Slovakia	1
Spain	1
Sweden	3
Switzerland	17
The Netherlands	12
Turkey	18
UK	35
Ukraine	2
Subtotal	***210***

Central Asia

Albania	3
Azerbaijan	3
Kazakhstan	1
Russia	9
Tajikistan	2
Turkmenistan	1
Uzbekistan	4
Subtotal	***23***

Central and South America

Argentina	2
Barbados	1
Bolivia	2
Brazil	15
Chile	1
Colombia	1
Costa Rica	1
El Salvador	1
Ecuador	3
Guatemala	1
Haiti	2
Honduras	2
Jamaica	1
Mexico	3
Panama	1
Peru	8
Venezuela	2
Subtotal	***47***

Africa

Angola	1
Botswana	2
Burundi	1
Cameroon	4
Congo	2
Eritrea	1
Ethiopia	3
Gabon	1
Gambia	1
Ghana	7
Guinea	1
Ivory Coast	2
Kenya	24
Lesotho	2
Madagascar	1
Malawi	1
Mali	1
Mauritius	1
Mozambique	1
Namibia	1
Niger	1
Nigeria	37
Sierra Leone	1
South Africa	8
Tanzania	3
Togo	2
Uganda	18
Zambia	1
Africa (not specified)	1
Subtotal	***130***

North America

Canada	7
USA	180
Subtotal	***187***

Middle East and North Africa

Bahrain	1
Bhutan	1
Egypt	3
Iran	4
Iraq	1
Israel	1
Jordan	3
Lebanon	1
Palestine	1
Syria	1
Tunisia	1
United Arab Emirates	3
West Bank	2
Yemen	1
Subtotal	***24***

East Asia and Australia

Australia	13
China	4
Hong Kong	1
Indonesia	4
Japan	4
Korea	1
Mongolia	1
New Zeeland	2
Papua New Guinea	1
Philippines	17
Vietnam	1
Subtotal	***49***

South Asia

Bangladesh	3
India	48
Nepal	4
Pakistan	10
Sri Lanka	5
Subtotal	***70***

Not specified	***66***
Total	**806**

E- CONFERENCE PROCEEDINGS PER WEEK

Week I: Efficient Financial Institutions Positioned to Meet Clients Needs

Moderator: Deborah Burand

Key Questions Asked of Participants

1. With respect to demand barriers, how much do cultural factors keep otherwise bankable households and enterprises from accessing financial services? What is the nature of these factors - societal, gender, religious, concerns over possible governmental interference, other? Do you have any specific examples of these kinds of barriers?

2. How do these barriers shape the relationship of the microfinance providers to their customers? Are there specific examples that you can give?

3. How price sensitive are the bankable poor? Put differently, to what extent do the interest charges and other fees charged in respect of financial services limit the bankable poor's demand for such services?

4. How do customers manage the transaction costs of access to financial services?

5. What methodologies and mechanisms have best addressed customers' needs for proximity services?

6. How have financial products or distribution mechanisms been shaped to respond to the economic activity of target customers? Are there types of economic activity being undertaken by the bankable poor that are not amenable to traditional microfinance products? Are there any types of economic activity undertaken by target customers that are 'unbankable'?

Moderator's Opening Remarks

Welcome to the first week of this e-conference on "Building Inclusive Financial Sectors for Development: Widening Access, Enhancing Growth, Alleviating Poverty." This e-conference will span two weeks.

During this first week, I will moderate our discussion to make sure that we stay "on topic" and have a lively and informative exchange of views and experiences. Each day I will review the discussions that have taken place and I will then put forward new questions or observations for discussion as appropriate. This discussion, however, will be driven by you, the participants. It is your contributions that will make this a valuable and informative dialogue.

Before we start, let me introduce myself. I am relatively new to microfinance, having spent only four years in this industry. Before coming to microfinance, I spent nearly half my career in the private sector (at a large, international law firm based in New York City) and half in the public sector (as a senior international banking attorney at the US Central Bank and as the senior policy advisor on international financial matters at the US Treasury Department).

During the last four years, I worked at FINCA International, a microfinance network that provides microfinance services in 22 countries around the world. At FINCA, my responsibilities focused on assisting in the transformation of select FINCA affiliates (in Ecuador, Uganda and Kyrgyzstan) into financial intermediaries, legally authorized to offer deposit-taking services to the public. I also headed the Capital Markets Group at FINCA, a group that functions as FINCA's investment banking arm, helping commercially viable affiliates within the FINCA network to tap external sources of financing to fund their loan capital needs. I recently left FINCA, but I have not left the microfinance arena, as I am now working as an independent consultant on a variety of issues related to the challenge of scaling up microfinance. I also continue to be actively involved as a founding member and past President of WAM (Women Advancing Microfinance), and I sit on the Board of Microfinance Opportunities.

(The lawyer in me requires me to add one last disclaimer in this introduction. Although many of my opinions about microfinance have been shaped by my last four years at FINCA, I want to make sure that everyone participating in this e-conference understands that the views I express over the next week do not necessarily reflect the views of my past employer, FINCA.)

My aim in this first posting is to briefly introduce the theme of the first week of this e-conference. During this first week we will focus on bettering our understanding of the demand and supply barriers to increased access of the bankable poor to financial services. Within this discussion, we will look at why institutions now offering financial services to the poor have not expanded these services more rapidly. To give our discussion a focus, I suggest that we spend the first half of our week together discussing the demand barriers that appear to be limiting the bankable poor's access to financial services. Then we can turn, in the second half of the week, to examining supply barriers as we probe the question of why existing providers of financial services have not expanded more rapidly the amount and range of such services to the poor.

To kick off our discussion, let me ask you to consider and respond to the following questions over the next two days. Note that the more specific we can be in relating real life experiences that inform our views on these questions, the richer our dialogue will be.

[See questions above]

I hope you have found this first introduction to this first week useful in framing our discussion. I very much look forward to reading your contributions to this dialogue.

Cheers, Deborah

Week 2: Finance for the Poor across Financial Markets, Within an Enabling Policy Environment

Moderator: Bikram Duggal

Key Questions Asked of Participants

1. What have been your observations of the mainstream financial institutions establishing linkages with the microfinance sector? Please relate your observation to experiences that you have had or witnessed in a specific country context.

2. If this process of integration has been effective in your context, what are the key conditions that have made it work? Would you relate it to:
   a. Enabling policy frameworks
   b. Innovations in models for establishing linkages
   c. Any other factors?

   Please explain.

3. In some countries, commercial banks actively seek and reach out to new markets of low-income urban and rural markets due to high levels of competition in their traditional corporate and SME markets. Do you also have similar observations? How have these banks innovated their products and/or their own distribution strategy for reaching these new niche markets profitably?

4. On the other hand, if this integration (and access to capital through it) has not been apparent, what do you think are the key constraints that keep mainstream financial institutions from engaging in microfinance?

5. What specific measures and incentives can be put into place to encourage private sector institutions to expand access to small and poor entrepreneurs?

6. What and how, in your opinion, will be the benefits of greater integration of the microfinance market and its actors with the mainstream financial markets?

7. What benefits do you see in terms of risk and liquidity management of the MFI?

Moderator’s Opening Remarks

Welcome to the second week of the e-conference on the Blue Book project. The agenda for this week is titled "Finance for the Poor - Across Financial Markets and Within an Enabling Policy Environment".

At the outset, I would like to thank Ms. Kathryn Imboden and her team at the UN and the World Bank for organizing this e-conference and enabling a large global microfinance community to actively participate in suggesting recommendations for the development of the microfinance sector. I would also like to thank her for giving me the opportunity to moderate the second week of the discussion.

Before we begin, please allow me to introduce myself. I am Bikram Duggal, a microfinance professional with the experience of working in the 'supply side' of microfinance. I am currently working with BHP - Brugger and Partners Ltd. in Zurich, Switzerland, as an Associate Advisor on microfinance issues, especially on projects aimed at promoting investments in microfinance from the mainstream finance markets. Prior to joining BHP, I had the good fortune of working with a very progressive and large private sector bank in India, ICICI Bank. At ICICI, I was involved in developing models for linking the microfinance markets with the mainstream financial markets. One of my key innovations was the development and implementation of the Partnership Model where ICICI lends to microfinance clients 'directly' in partnership with professional MFIs working across the country. I also undertook the world's first microfinance securitization deals where ICICI bought out the microfinance portfolios from MFIs like BASIX and Share in India.

Ms. Deborah Burand, our moderator for the first week of the e-conference, has very ably guided the discussions with a large number of the participants actively contributing. I would like to invite Deborah to participate in the discussion as a microfinance expert and provide us her thoughts and comments on the issues that we shall be discussing.

Our agenda for this second week is to look into the broader financial markets (especially the integration of microfinance in these markets) and the policy environment affecting microfinance. Discussions for developing recommendations on these topics are extremely critical now with the increasing integration of microfinance with the mainstream financial markets. The emergence of a number of microfinance investment funds and mainstream banks downscaling to tap the microfinance market bears witness to this upcoming trend. However, this integration necessarily requires an enabling policy environment with framework conditions acting as catalysts for such integration. Thus, I propose that our discussions on these issues be structured in two key sections:

1. Access to Capital: Issues impacting microfinance's access to capital and capital markets (for the first 2 days)
2. Policy level issues including reforms in the regulation and supervision of microfinance (for the next 3 days)

To start our discussions, I suggest that we begin our deliberations by considering the following issue with the related questions:

Microfinance has traditionally depended on funding from donor agencies for its capital needs. However, given the sheer size of the demand for microfinance, the integration of microfinance with the mainstream financial sector is critical. There have been many positive developments in this regard but still a large number of MFIs continue to face capital constraints. It is likely that the integration and linkages with the mainstream financial sector have worked effectively in certain contexts while they have not shown signs of progress in others. Let us consider the following questions in this regard:

[See questions above]

Relating your answers to specific country-contexts would be very useful in analyzing suitable policy recommendations.

I look forward to building further on the supply side issues, perhaps, by looking at specific actors in the capital markets and models that are being currently experimented in different contexts.

Looking forward to a fruitful discussion.

With best regards,
Bikram.

BIOGRAPHIES OF MODERATORS

DEBORAH BURAND – Week 1

Ms. Burand has spent nearly half of her career in the public sector (where she held senior positions at the US Treasury Department and US Federal Reserve Board) and half in the private sector. In the private sector she has divided her time between the for-profit and not-for-profit world. In all of her positions, Ms. Burand has worked on matters of international finance in emerging economies. Ms. Burand worked for nearly seven years as a corporate attorney with the global law firm, Shearman & Sterling, where her practice focused on negotiating and documenting cross-border financing and sovereign debt restructuring. Among her not-for-profit activities, Ms. Burand assisted Conservation International in implementing the world's first debt-for-nature swap. She now works in the arena of microfinance. Until recently, she was the Director of the Capital Markets Team of FINCA International, a global microfinance provider that operates in 22 countries. At FINCA, she assisted with the transformation of select FINCA affiliates into for-profit, regulated, deposit-taking institutions, and assisted those FINCA affiliates that are commercially viable to secure commercial sources of finance to support the expansion of their loan portfolios. Ms. Burand and her team at FINCA provided policy and advocacy support on bank regulatory and tax issues throughout the FINCA network, while developing training tools and leading workshops at FINCA and within the microfinance industry on topics such as tax planning, corporate governance, consumer protection, and commercial loan negotiations. Ms. Burand helped to found, and was elected the first President of, the first professional association in microfinance, WAM (Women Advancing Microfinance). She also is a member of the Board of Directors of Microfinance Opportunities, a not-for-profit organization that, among other things, spearheads innovations in advancing financial literacy among microfinance borrowers. Ms. Burand is also an adjunct law professor at Georgetown University where she teaches a class on “Transacting International Finance."

BIKRAM DUGGAL - Week 2

Bikram Duggal is a micro-finance professional with experience of building models that provide attractive propositions for mainstream banks to provide financial services to low-income markets including working with Micro-finance Institutions (MFIs), MF related NGOs and the use of modern technology. He completed his MBA in Rural Development in 1999 from the Institute of Rural management at Anand (IRMA), India. Prior to his MBA, he graduated from St. Stephen’s College, Delhi with a Bachelor of Science in Computer Science degree. He is currently working as a micro-finance expert with a consulting firm in Zurich, BHP – Brugger and Partners Ltd. At BHP, he is working on designing and implementing assignments aimed at promoting investments from mainstream financial markets in micro-finance. Prior to this, Bikram was working in India with ICICI Bank. At ICICI, he innovated new models for linking the micro-finance markets to the mainstream markets. One of his key innovations was the ‘Partnership Model’ under which ICICI lends directly to the micro-finance clients in partnership with professional MFIs working across the country. The Partnership Model has become the basis of ICICI Bank's work in microfinance, making it India's leading investor in microfinance. He also undertook the world’s first microfinance securitization deal with ICICI Bank buying out microcredit portfolio from BASIX. Given his interest in information technology, he developed a model for banks to use rural Internet kiosks for delivering financial services and thus gaining access to a large, untapped market without making additional investments in infrastructure. The model is being piloted by ICICI Bank with successful outcomes.

He has authored papers on the role of micro-finance in enhancing the ability of the poor to participate in the larger economy, practical yet significant indicators for assessing the impact of micro-finance and regulatory reforms to extend banking to the poor in India. He has, also, recently co-authored a paper on the upcoming Micro-finance Investment Funds and the important issues they must bear in mind, going ahead.

BACKGROUND READINGS

General Overview

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Related Links and Websites

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www.cgap.org

The Microfinance Gateway
www.microfinancegateway.org

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