

Microfinance moves into the mainstream

In the 30 years since its inception, the microfinance industry has received mixed reviews. There have been inspirational stories of households and even entire villages that have lifted themselves from the depths of poverty with the help of Microcredit loans. However, there have also been disappointing accounts of the inability of microfinance institutions (MFIs) to sustain their operations or to reach the hundreds of millions of poor who still lack access to basic financial services.

The world of microfinance, including that in Asia, is undergoing a major shift. Once the realm of donor-supported, grassroots non-profit organisations, the microfinance sector is forming partnerships with other stakeholders to create a broad-based approach to the provision of financial services to the poor. By joining forces with governments and commercial banks, the microfinance sector is gaining recognition as a key part of the world's mainstream financial system. This shift is enhancing the sector's ability to reach out to larger numbers of clients with increased efficiency.

The Asia Microfinance Forum, held in Beijing on March 21-24, reflected the movement of microfinance into the mainstream. The forum attracted over 280 participants from more than 20 countries and representing both large and small MFIs, central banks, commercial banks and private investors, as well as a significant number of microfinance experts, consultants, academics and practitioners. Organised by the Banking With The Poor (BWTP) Network and the Foundation for Development Cooperation (FDC), with lead sponsorship from the Citigroup Foundation, the forum focused on how partnerships between MFIs, governments and commercial financial institutions can create a better environment for microfinance services. Closer collaboration between stakeholders encourages innovations such as new product development and the use of information technology, and galvanises resources for capacity building, including financial education training for MFI staff and their clients.

The forum showcased many examples of partnerships and innovations in Asia that are contributing to international best practice in the microfinance field. In the Philippines, a telecom company has transformed mobile phones into electronic wallets that allow lower income Filipinos to handle remittances, donations, loan settlements, disbursement of salaries and payment of bills through simple text messaging. Hatton National Bank in Sri Lanka has formed a partnership with the postal service so that post offices can provide electronic banking services for microfinance clients in remote areas.

The forum also increased awareness among microfinance stakeholders of the strengths each brings to the table and the different perspectives that need to be taken into account. Central to discussions was the need for non-profit organisations that provide microfinance services to conduct operations on a more business-like basis, and for commercial banks to recognise the expertise that MFIs bring to the table in working closely with very poor clients in inner-city slums or scattered across vast rural areas.

With regard to the tensions between social mission and sustainability, there was general agreement at the Asia Microfinance Forum that the sector needs to achieve both these purposes. However, some Asian MFIs expressed concern that commercialisation might lead to 'mission drift' – a dilution of the commitment to poverty reduction. Commercial-style

competition for resources could also disadvantage MFIs working in poor and more remote areas by diverting scarce resources to bigger MFIs that can show more stellar achievements in less challenging environments.

In response, several participants at the forum pointed to the activities of some larger and more established MFIs to support smaller and less developed organisations, especially in countries where microfinance is not so advanced.

Other participants underlined the need for the private sector's role in microfinance to move beyond philanthropy and work with MFIs as partners to accommodate small-scale savings, lending and insurance coverage, and to overcome the limitations that conventional banks have regarding access to poor and remote areas.

'At Citigroup, we support the industry through a combination of philanthropy and commercial initiatives,' says Robert Morse, CEO, corporate and investment banking, Citigroup Asia Pacific. 'In addition to Citigroup Foundation grants worth nearly \$27 million that increase the capacity of large numbers of MFIs around the world, Citigroup businesses have commercial relationships with many MFIs, microfinance networks and investors to develop products and services that promote greater financial inclusion.'

Further discussions at the forum reinforced the vital role played by government in creating a flourishing microfinance environment, but expressed caution about the over-regulation of MFI activities, pointing to interest-rate caps, inappropriate subsidies and political interference that hinder MFI efficiency and expansion.

'The microfinance industry has suffered from the tendency of its advocates to talk up its successes and of its detractors to sell it short,' says Beris Gwynne, executive director of FDC. 'Only through rigorous information gathering and evaluation can we truly appreciate the potential of microfinance to reduce poverty and accelerate sustainable development.'

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