



Conference Report

Investing Private Capital in Micro & Small Business Finance
Organized by CASIN and the Geneva Financial Centre

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Attendees:

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Summary

In the context of the United Nations International Year of Microcredit, this first conference on micro-finance was in many ways a learning forum: various players in the financial industry (private asset management, global banks, banking institutions, etc.) as well as some grant-making funds (mostly corporate foundations and some Swiss government agencies) were joined by micro-finance entities (institutions, funds, rating services, etc.) to share information, best practices and results.

Many at this conference see micro-credit as a real financial opportunity, as a new service to be brought to market, as an investment sector that is growing at a rate of 50% by some accounts. As noted by economist Stanley Fischer, former VC of Citibank and former Chief Economist of the World Bank, micro-credit can remain protected by fluctuations in macro-economic environments and international economic disasters, another compelling aspect. Despite the business opportunity, the focus on the end user – the world's poorest people – was not forgotten at this conference, opened by UN Secretary-General Kofi Annan. The best argument for micro-finance is the independence that can come from personal financial freedom, such as having access to the basic banking services of credit, savings, transfer payments, and insurance – a particular focus is given to women and empowerment. The fact that many of the world's poorest are also the most entrepreneurial, as we often see near waste dump sites for example, is another clear argument for enabling these people through financial support. There is a distinction between micro-finance for poverty alleviation and micro-finance for micro-enterprise development, and more research is needed to understand how it affects either of these objectives.

A few notes on the development of this sector as a whole (modern microfinance, as the act of lending small amounts of money has existed for centuries): In the past decade we have seen the creation of Micro Finance Institutions (MFIs) that either partner with banks or act as funnels through which micro financing can reach populations that are far removed from traditional retail banking. Banks interested in reaching the poor and expanding their reach find working with MFIs the most viable option, and caution against being too aggressive in wanting to “make money off of the world's poorest.” The role of MFIs is therefore not solely to facilitate loans and assure repayment, but to help their clients build the skills necessary to carry-through their investments. This is the “people” focus that I think we can most appreciate. As opposed to check-writing charity, there is a responsibility implied in gaining access to a loan. It helps people achieve a higher potential and increase their standard of living through a relatively small investment.

SUSTAINABLE PROJECT MANAGEMENT

INNOVATIVE PARTNERSHIPS FOR SUSTAINABLE DEVELOPMENT



There are well-established micro-finance institutions and funds, as well as agencies that have begun to rank the biggest players. However, there is much “supply” in terms of interest and funding from the financial community or too much money running after too few prospects. We can expect to see more and more local MFI’s pop up and gain traction, as well as perhaps some disappointments on money not allocated in a responsible manner. Bankers are seeing this as a real return-on-investment opportunity and are all rushing to invest, so I think it’s important to work with the right MFI with capacity-building objectives and to not over-promise the financial return, but stay focused on skill-building as the end result.

India – Share Microfin Limited Benchmark

Once called a sleeping giant, it would seem that micro-finance is now awake and growing in certain regions of India. In a break out session chaired by Caitlin Barron of the Michael and Susan Dell Foundation (note: they have a relatively new focus on microfinance and education in India, and Mrs. Barron will be moving to India in the next month), the MFI Share (1 million customers in India) gave a rather compelling overview of their creative approach to micro-finance. Founded in 1993, Share has a capital of USD 22 million largely contributed to poor women entrepreneurs in India. Overall, there are an estimated 741 million poor people living in India today.

Initially, Share gained seed investment money from the Grameen Foundation in the Washington, D.C., also present at the conference. They have now achieved a new model for partnership with the ICICI bank in India (with 1 billion customers) whereby the bank assumes the credit risk by placing the loan directly on their balance sheets, while Share delivers the services. At their 5,780 branches, each of the eight employees manage 400 clients, with very close monitoring of how the loan is utilized and the mission of enabling people to repay their loan. For Share, the goal of MFIs is skill identification so that their clients are not dependants on aid or charity.