



NEW APPROACHES TO MICROFINANCE FOR DEVELOPMENT: PUBLIC-PRIVATE PARTNERSHIPS

Moderator's Summary from the 6 February 2007 Roundtable Discussion at the Second Plenary Meeting of the Leading Group in Oslo

On 6 January 2007 members of the Leading Group, representatives of international institutions, experts and NGOs gathered in Oslo to take stock of the worldwide progress made in implementing solidarity levies to fund development and other forms of innovative finance. While not necessarily fully reflecting the rich discussion, these are some of the main points that were made in the Roundtable session on Microfinance:

The rationale of mobilizing private capital for microfinance

- Mobilizing private capital into microfinance through Public-Private Partnership could dramatically increase poor people's access to necessary financial services, including credit for productive activities.

Huge demand for financial resources

- Potential microfinance markets are primarily India, China, South-East Asia and Africa. The attention today is focused more on ECA and Latin-America.
- International Financial Institutions` (IFIs) investments in microfinance grew by 48% in 2006. Today they have an outstanding portfolio of USD 2.6 billion.
- There is a tendency that the IFIs invest in the largest and most well-established microfinance institutions, the so-called 1st tier institutions. Nevertheless, the IFIs are also the main investors in microfinance institutions in Africa.
- The industry of microfinance has changed rapidly, from being a sector primarily dominated by donors and public funding it has transformed into a sector where IFIs and private capital are at the front.
- A lot of new Microfinance Investments Vehicles (MIVs) (facilitating the involvement of private capital) have been established. Today 60 of them have an outstanding portfolio of USD 2 billion.
- MIVs are mostly designed with a public high-risk component as a buffer for low-risk private capital.
- MIVs have criticized IFIs for mostly funding 1st tier microfinance institutions, partly with lower than market interest rates thus crowding out MIVs.

Sufficient financial resources available for 1st tier microfinance institutions

- The challenge is to attract private capital to second tier microfinance institutions.

New private-public partnerships

- It is important that the different roles of the different actors are clearly defined in a public-private partnership.

- The public funding in such a partnership should focus on three different aspects:
 - Firstly, provide high-risk components (guarantees) in MIVs as means to mobilize private capital.
 - Secondly, offer technical assistance to 2nd and 3rd tiers microfinance institutions to make them able to get access to domestic and international capital.
 - Thirdly, provide technical assistance for building up a general framework for microfinance institutions at country level.
- However, private investors need to understand that they also have to take part of the risk.
- Rating of micro finance institutions (MFIs) is important both for the MFIs and for the investors. MFIs generally receive loans on lower interest (0.5-1% lower) if rated, and investors can feel more secure about the risk calculation they make. Donors will also need rating, to see which MFIs which may benefit most from technical assistance.
- The numbers of MFI rating firms have increased, and should now be commercially viable. The cost of rating should be carried by investors and/or the MFIs, especially in the case of 1st tier MFIs. However, some MFIs, primarily in Africa, may still need to have their rating subsidized.

Public-private partnerships can also work for the very poor not able to benefit from microfinance

- Financial services are not what the poorest need most. They need food, employment, grants and security. Microfinance does not meet these needs, but safety nets do.
- New public-private partnerships should try to link safety nets and microfinance by graduating the poorest from extreme poverty into a situation where they can take advantage of financial services. In these kinds of projects, which include the poorest, public funding is needed.

Suggested next steps for policy-makers

- Public funds and IFIs should stop financing 1st tier microfinance institutions at subsidized interest rates.
- Public-private partnerships should aim at reaching microfinance institutions and geographical areas that are not attracting investments today.
- Public-private partnerships should ideally aim at facilitating the microfinance institutions to tap into domestic savings/capital. The second best should be to mobilize international investors to provide financial resources in local currency (without the microfinance institutions carrying the currency exchange risk).
- A possible design of a public-private partnership may be to provide technical assistance (funded by a donor) to 2nd tier microfinance institutions, with loan/investment and at the same time provide financial resources from a MIV.
- Public-private partnerships should try to find a better way to link those working with social safety nets for the poorest and those who work with traditional microfinance.

THE PANEL:

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Xavier REILLE, Consultative Group to Assist the Poorest (CGAP) (*Lead speaker*)

Sebastian DUQUET, PlaNet Finance (*Commentator*)

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