**Call for written evidence**

**About the inquiry and call for written evidence**

Over the past 30 years, the microfinance sector has grown and diversified significantly. There are now many different actors providing financial services to the poor. Some microfinance institutions have remained focused on the original mission of microfinance, seeing it as a tool to help the poor work their way out of poverty, whereas others have recognised the potential to make profit through expanding financial services to those who have been traditionally excluded. The majority of microfinance institutions fall within the spectrum and attempt to reach the poor whilst remaining profitable.

The APPG on Microfinance is launching an inquiry in November 2010 to tackle questions around the role of microfinance in tackling extreme poverty and in particular, whether microfinance institutions need to be intentional about improving the welfare of their clients in order to have an impact on poverty alleviation. The findings of this inquiry will form the basis of a report to be published in the Spring of 2011.

The APPG will use the evidence collated from a range of international microfinance practitioners and experts to produce a set of recommendations to the UK Department for International Development (DFID) and other donors concerned with eradicating extreme poverty on how they should target future support to microfinance in order to have the greatest possible impact.

**Responding to the call for evidence**

Deadline for submissions is 14 January 2011. Your submission should include the name and contact details of the person or organisation submitting the evidence. You may also include a short introduction to the submitter, perhaps explaining your area of expertise.

The APPG is particularly keen to receive evidence and examples based on research and on the ground activities. Please include comprehensive references to any supplementary material (e.g. articles, reports or studies) that you would like to draw the APPG’s attention to.

If your submission is more than six pages long, please include an executive summary.

Please note that you do not need to answer every question. Please feel free to only answer the questions that are relevant to your area of expertise.

Written evidence may be referenced in the final report. If you wish for your evidence to be anonymous please make this clear in your submission.

All responses should be either emailed to the APPG’s Coordinator at [microfinance@results.org.uk](mailto:microfinance@results.org.uk) or posted to 2nd Floor, 13 Maddox Street, London, W1S 2QG.

**Your details**

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*Questions:*

1. Of all the various products and interventions that fall under the broad heading of 'microfinance', can you be specific about which of these you will focus on in regard of the remaining questions and provide a brief definition of the same?
2. How important do you think microfinance is for achieving the Millennium Development Goals and eradicating extreme poverty in the developing world? Microfinance is one important factor in helping in the eradication of extreme poverty in the developing world. It enables people to build livelihoods. Microfinance should, however, not be seen as the panacea that will solve all development problems and it will not be the single driver to “ban poverty to the museum”.
3. Should the reduction of poverty be the primary goal of *all* microfinance programmes? Enabling people to build livelihoods by becoming economically active should be the key objective. This, in turn, will gradually contribute to a reduction in poverty.
4. How can we measure whether microfinance reduces poverty? Social Performance Measurement and Management, which many MFIs nowadays focus on, deals primarily with factors like outreach. Despite the existence of microfinance for such a long time, few reliable longer term statistical data series exist that could prove that microfinance has indeed been the main factor contributing to the reduction of poverty. (In order to do such impact studies, one would, theoretically, and over a number of years, have to provide one area with microfinance services and cordon off another similar area from microfinance in order to have a “control group” – which is not feasible.) Research has been done by a number of MFIs showing that client household incomes and wealth have improved, leading inter alia to a reduction of the time client families have suffered from hunger. MFIs thus have plenty of direct evidence from the field that microfinance has contributed to the reduction of poverty of their clients.
5. What factors make microfinance successful in alleviating poverty? Microfinance is a means to many ends. Finance enables clients to start businesses. (i) Appropriate, client centred products and services, delivered efficiently and therefore at as low a cost as possible, are key factors. (ii) A legal and regulatory framework enabling MFIs to operate efficiently is important. (iii) Investors providing equity financing to the MFIs without excessive demands in terms of financial returns on their investments are another key factor.
6. Is microfinance still valuable even if it doesn’t reduce poverty directly (or if causality can’t be proved)? Yes.

Should we be concerned about the financial sustainability of microfinance models? Is achieving financial sustainability compatible with the social goal of alleviating poverty? Achieving financial sustainability is absolutely compatible with the goal of alleviating poverty. What is, however, not compatible with the goal of alleviating poverty is the goal of profit maximisation.

1. Which groups should or should not be targeted by microfinance programmes and why? (For example: the economically active poor, the poorest, etc). Generally, one should not speak in terms of “microfinance programmes”. Microfinance is an economic activity that is generally sustainable and therefore should only require “programmes” in special instances, like the creation of start-up MFIs in difficult areas.

No groups should be excluded. There will be MFIs specialising on the very bottom of the pyramid whilst other MFIs may focus on those who are already economically active. What is however important is the following:

* clients should chose the economic activity they whish to pursue; the activity should not be dictated by a “programme”
* only economic activity that is viable should be financed – i.e. economic activity should produce a return that enables the borrower to repay the loan
* MFIs must ensure that borrowers do not become over-indebted, ending up bankrupt;

1. How can governments and donors contribute to the poverty reducing capabilities of microfinance programmes?
   * + 1. Governments should continue investing in microfinance through bilateral and multilateral agencies like EIB, IFC, CDC, etc; Governments should ensure that these agencies do not force the microfinance organisations (MFIs or microfinance funds) they invest in to maximise profits;
       2. Donors should provide financing primarily for technical assistance, research – including impact studies – and also for investments in those areas, where commercial investors do not “dare” to invest, like in start-ups in areas of high poverty or regions coming out of conflict;
       3. Governments could help put in place the right kind of regulatory frameworks for MFIs to grow and reach out to the poorest with the most cost effective financial products. (Lack of proper regulation, often stands in the way of MFIs setting up greenfields to reach the poorest but rarely stands in the way of those MFIs maximising profits).
2. What form should the UK’s support for microfinance take; how should the effectiveness of UK interventions be measured?

See (h) above. The UK should invest in microfinance institutions through microfinance investment funds, stressing that money also be used for Greenfield operations in difficult areas. Whilst no clients should be excluded, the UK should insist on comprehensive social performance measurement to see that also clients at the bottom of the pyramid are reached.