AFRICA MULTI-STAKEHOLDER CONSULTATION ON
"BUILDING INCLUSIVE FINANCIAL SECTORS FOR DEVELOPMENT"

Bamako, Mali, 6-8 December 2004

Report of the Consultation

As part of the Fourth Annual Conference of the African Microfinance Network (AFMIN), held in Bamako, Mali, 6-10 December 2004, the Financing for Development Office of the United Nations Department of Economic and Social Affairs (DESA) and the United Nations Capital Development Fund (UNCDF) joined with AFMIN to carry out a multi-stakeholder consultation for the African region on "Building Inclusive Financial Sectors for Development."

A total of 124 individuals participated in the meeting, 100 of them coming from African countries and 17 from developed countries, the latter mostly microfinance specialists in non-governmental organizations (NGOs) that provide services and research to the industry. Seven participants came from international organizations, including the Consultative Group to Assist the Poor (CGAP, at the World Bank), the International Labour Organization, the International Monetary Fund and the United Nations (DESA, UNCDF, and United Nations Development Programme). The African participants came from microfinance institutions and networks, government ministries and central banks, and the private sector (Microrate Africa).

The conference was formally opened on 6 December by Ms. Oumou Sidibé, President of APIM/Mali (Association Professionelle des Institutions de la Microfinance of Mali), the AFMIN host organization in Mali, and by Dr. Wolday Amha, President of AFMIN. The Hon. Ousmane Thiam, Minister for the Promotion of Investment and Small and Medium Enterprises of Mali, delivered a welcoming address. Opportunities were then offered to visit one of three Malian microfinance institutions (MFIs) in Bamako: Miselini ("La Caisse des Femmes", an institution that offers "group lending" to more than 13,000 underprivileged women), Jemeni (a network of savings and credit cooperatives that mobilizes savings from shareholders for local lending), and Nyèsigiso (a large union of savings and credit schemes, with 46 branches in 5 regions of Mali plus Bamako district, serving over 115,000 active members and providing a variety of services tailored to the very poor, and to producers, small entrepreneurs and the business sector). These visits provided a concrete underpinning for the discussions the following two days.

Panel presentations

The meeting continued on 7 December with several sets of technical and policy-oriented panel presentations, preceded by an introductory session. In that session, **Kathryn Imboden** of UNCDF explained how the Bamako meeting would help in preparation of the "Blue Book on Building Inclusive Financial Sectors" that the UN was preparing. She also put the meeting into the context of the yearlong series of activities of the International Year of Microcredit, 2005. **Barry Herman** of DESA related the meeting discussions to the inter-governmental follow-up to the 2002 International Conference on Financing for Development and the Monterrey Consensus that it had adopted. He posed questions on some emerging international challenges and opportunities for microfinance in developing countries, such as in the burgeoning flow of workers' remittances and the new and growing interest of some global commercial banks in microfinance. **Abdoul Anziz Said Attoumane**, Director-General of AFMIN, then outlined the work that participants would undertake over the next two days.

Demand for financial services by the poor

In the first presentation, **Ali Cisse** of CVECA-Mali (Caisses Villageoises d'Epargne et de Credit Autogerees) spoke about problems facing rural microfinance in Mali. He described "village banks", which are not-for-profit saving and loan associations at village level where social solidarity tends to be strongest. Loans, as for fertilizer or other uses, are repaid in cash or goods (rice). A particular constraint they have faced in recent years has been agricultural market instability, owing to low-price imports, draught, and political instability in neighbouring Côte d'Ivoire, an export market.

Yasmina McCarty of Women's World Banking (WWB) described consumer survey research that WWB had undertaken on client satisfaction in different cultural settings, focusing on the Grameen style of group lending. She reported less satisfaction with group lending in Uganda than in Bangladesh. It appears as well that satisfaction with the group guarantee drops off in successive loan cycles in both countries, as clients feel more secure. However, there was general satisfaction with group meetings, another part of the Grameen process, which was seen to have a social and networking benefit to the women who participated, although there were also complaints that they took too much time. Uganda's compulsory savings requirement (30 per cent of the loan amount) was accepted, as clients understood they could offer no collateral for loans. Finally, clients were price sensitive (fees, interest rates) and wanted larger loans and faster turn-around times.

Patrick McAllister of the SEEP Network (Small Enterprise Education and Promotion) discussed SEEP's Consumer Protection Working Group, which is a response to some high-profile cases of abuse of clients in microfinance. Besides advocating for microfinance consumers through publications and training courses, SEEP has developed pro-consumer codes of conduct for institutions and networks, which have been adopted at national and international level. These are, however, voluntary pledges and he reported how the Bolivia code fell apart because of non-enforcement. Discussion followed on industry codes versus government regulation and recourse for clients. It was also observed that MFIs needed to be protected from clients who abuse their access, and members (shareholders) of MFIs needed to be protected from other members who steal.

Lisa Parrott of MicroSave discussed a marketing strategy for expanding the demand for microfinance products. While there are fundamental life-cycle needs that can be the basis for the demand for household savings and credit services (birth, education, marriage expense, etc), it is also necessary to study the market, calculate costs and revenues of a prospective product, run pilot tests, and so on. She also discussed developing a trademark and a client-service strategy, including staff incentives, on all of which MicroSave can provide assistance.

On the impact of microfinance on the poor

Carolijn Gommans of Hivos (Humanist Institute for Cooperation with Developing Countries) discussed their efforts over the past five years to assess the impact of microfinance on the poor and on women in particular. Based on studies in Bolivia, Ecuador, El Salvador, Uganda and Zimbabwe, she was able to draw some conclusions. In general, clients of MFIs have had increased income from business, increased ownership of household and enterprise assets and improved education, nutrition and health. Economic impact was stronger in households with more resources. The impact in poorer households related more to empowerment and reduced vulnerability, which is rational as crises can rapidly erode hard-won gains. Also, self-esteem and recognition in households increased for women, albeit to a degree limited by social relationships, while HIV/AIDS had reduced the positive impact of microfinance. The assessments underlined the importance of product diversification and improvement for the future growth of microfinance, confirming the importance of savings services and the potential role for micro-insurance.

Godfrey Chitambo of Zamfi (Zimbabwe Association of Microfinance Institutions) reported on the Hivos-supported study of 14 MFIs in his country. That study, which sought to focus on enterprises owned by women and the poor, concluded that gender empowerment was not the main concern in MFI operations (he called for a gender mainstreaming policy). It also found that 60 per cent of MFI clients were 30-49 years old, which was consistent with the finding that the MFIs preferred lending to older enterprises. Indeed, MFI clients were found to have kept better business records than non-clients. However, only 33 per cent of client enterprises employed staff, the rest being fully owner operated, and thus MFIs were not a significant source of employment (one recommendation was to increase the maximum size of loans, e.g., for small factories, which required expanding the capital base). Also, MFIs preferred lending to continuing and returning clients for risk-reduction reasons, whereas they also needed to expand their focus (another recommendation was to improve communication with their client base and also outreach to reach a wider market). Women reported increased control over resources, and income increases of women were immediately translated into consumption and purchase of household assets. One question put to the speaker was whether the greater female contribution to the household was met by smaller male contributions. This had not been tested, but it was found that men wanted to invest in more housing.

Oumou Sidibé of Nyèsigiso in Mali spoke about the growth of the Nyèsigiso network in Mali and the impact of its services on poverty, based on a study done from 1999 to 2003. The study found the network helped raise economic activity and living conditions overall, but with greater improvements in urban and semi-urban than in rural areas. It also found greater improvement for men than women, and for the less poor than the poorest. Women were found to spend more of their additional income than men on the household. She saw the study as useful in helping to further analyze client needs and correct weaknesses in the products offered. Finally, while the study validated the vision of the network and of its donors, she was concerned that microfinance not be perceived as the sole weapon in the fight against poverty. It is just one tool.

Tools for assessing MFI operations

Anne-Lucie Lafourcade of the MIX (Microfinance Information Exchange) described her organization's efforts to assemble large amounts of comparable data on individual MFIs by region and size of institution (e.g., gross size of loan portfolio, return on assets, debt/equity ratio, etc), in order to work towards establishing benchmarks for performance of MFIs. This effort promoted transparency and encouraged MFIs to work toward harmonizing reporting standards, as they were needed for comparability. She reported that the MIX and CGAP were undertaking a study to benchmark African MFIs, but that more information on participating MFIs and information on more MFIs were needed. AFMIN and its country-level networks could help in this effort to compile and regularly update the relevant information. In response to a question on the willingness of MFIs to give information to the MIX, she acknowledged that there were indeed differences in degrees of cooperation. In addition to individual MFIs, she noted that the MIX also worked with central banks and national networks; e.g., it had software to help prepare a standardized database for sending the information to MIX offices in Washington, D.C.

Patrick Kerr of the South African office of MicroRate, the oldest rating agency specializing in MFIs, discussed different lessons from ratings of 16 African MFIs and 32 Latin American ones. While the sample size was small, he found that the African MFIs had lower shares of their portfolios at risk than the Latin American ones, although the African average was rising while that in Latin America was falling. By the same token, the Latin American MFIs had larger write offs. The African MFIs had higher operating expense ratios and considerably smaller average loan balances (although borrowers per loan officer or per staff person were not very different). As might be expected in this light, the African MFIs had lower debt/equity ratios, albeit rising ones. They also had a lower cost of funds than the Latin American MFIs, although the African cost of funds was rising while that of the Latin American group was falling (consistent with cleaning bad debt from their books). Return on equity of the African sample had only turned positive in 2003, reaching almost 10 per cent (the Latin American sample's return had risen to almost 20 per cent in 2002 and 2003). In the light of aid funds becoming increasingly scarce relative to the growing size of the industry, he concluded that MFIs needed to become formal financial institutions rather than remain informal NGOs, and they should build a history of ratings. Even if initial ratings were weak, it would lay the foundation for improvement, which counts significantly with potential creditors. He added that ratings are paid for by the MFIs themselves ($15,000 for the first and $10,000 for subsequent ones), although donors such as CGAP may help absorb the cost. It was later noted that ratings also could give management useful feedback on where improvements were needed.

Didier Djoi of PlaNet Finance described the methodology that PlaNet Rating used for grading MFI performance, summarized as "giraffe" to represent (g)overance and decision making, (i)nformation and equipment, identification and control of (r)isks, (a)ctivities (products and services), (f)inance and liquidity, and (e)fficiency and profitability. Based on detailed assessments of individual MFIs, he saw various challenges to microfinance in Africa, including expanding access in rural areas at reasonable cost, having good quality governance, and balancing sound finance and poverty reduction obligations (as he said, the impact on poverty is not signalled by the profits of the MFI). He also emphasized the importance of a favourable macroeconomic and regulatory environment. He noted that MFIs requested assistance from PlaNet Finance in particular on how to deal with late payment and how to control costs, and he described a new initiative in Benin, a pilot effort to involve MFIs in isolated areas in the delivery of health-related information and services. The idea for the health link was not only the social imperative, but also that HIV/AIDS and other sickness hurt microfinance, and that with rising incomes from microfinance could come better health and sanitary conditions.

Wolday Amha of AEMFI (Association of Ethiopian Microfinance Institutions) described research completed, in progress and to be undertaken on the microfinance industry in Ethiopia. This research is provided as a service of AEMFI for the Ethiopian MFIs, with topics chosen by them during network meetings. Their research agenda thus reflects the Ethiopian industry's concerns and has included questions of the regulatory and supervisory framework, impact on poor women, governance, training needs, benchmarking and performance assessment, informal finance (defining it and measuring its extent), risk assessment, accounting and information systems, and other topics. He expressed concern about future research, as donors would not support it forever, and it was in any case hard to identify consultants with the proper background to undertake such specialized research. He called for working with other research institutions and industry/practitioner groupings. As others noted later, the research function was important for strengthening the effectiveness of the industry as a whole.

Alison Brody of Imp-Act (a research programme at the Institute of Development Studies of the University of Sussex) focused on how to strengthen the social performance of MFIs, which required information on more than quantitative financial indicators (e.g., client repayment of a loan does not indicate how difficult it was to repay). She suggested in this spirit monitoring and assessing such questions as how many and why clients leave an MFI, and also who uses the MFI and who is excluded from use. Some of the information could be collected as part of ongoing operations, e.g., by adding some questions to loan applications, as well as through ad hoc surveys. The questions should be geared to "social performance management," although tailored to the individual MFI. Answers to the questions could be integrated into the MFI's management information system and thus allow tracking reports to be produced regularly. For example, increases in overall dropout rates could signal to management that a problem had arisen.

Toward more supportive national policy environments

Mariama Ashcroft of Women's World Banking, led off the discussion of national policies by noting that countries needed a full complement of financial institutions to meet the savings, credit and insurance needs of the poor and other population groups. This meant considering policy as a whole toward commercial banks, regulated MFIs, microfinance NGOs, finance companies, cooperatives and credit unions, and grassroots organizations, as well as rating agencies, appropriate regulatory capacity, etc. She noted that considerable innovation was occurring and that commercial banks were showing newfound interest in moving downscale directly and through wholesale finance to community institutions. She said that policy had to be designed to meet the special situation of the poor. For example, the microcredit loan class had to be assessed differently than regular bank loans because the clients lacked conventional collateral (i.e., MFI supervision should focus on portfolio quality and lending methods for risk mitigation). She also argued against interest rate ceilings, but called on governments to facilitate competition to bring down interest rates. They should be high enough to cover costs but not inefficiencies. It was also important to force all financial institutions to reveal all charges so customers could see the full costs of their loans and make better comparative judgements. Finally, she advocated multi-stakeholder discussion, as in Uganda, where MFIs, donors and government came together in the Microfinance Forum.

Issa Fati Moussa of ANIP-MF (Association Nigérienne des Institutions Professionelles de la Microfinance) described the recently adopted national microfinance strategy of Niger. She explained that the strategy was developed during 2000-2002 under the broad appreciation that microfinance was a young sector in Niger, growing but with important weaknesses, including insufficient professionalism and inadequate regulation. As community-based financial services were needed and the few banks were in the capital, the country needed a new policy framework. The four-year action plan included better regulations of the MFI sector, which should be developed in a participative and constructive way and then be respected. It also included developing appropriate community-based services for vulnerable people, listening better to customer complaints, diversifying savings and credit products, strengthening internal controls of MFIs and external audits, etc. It specified as well responsibilities of the Government, donors, the banking sector and civil society, and, of course, ANIP and the MFIs themselves. Responsibilities were specified for different ministries and institutions, including legislation requested of the National Assembly and financial regulation at the level of the UEMOA (Union Economique et Monétaire Ouest Africaine) through the BCEAO (Banque Centrale des États de l'Afrique de l'Ouest).

Kasuama Pakinzi Wa S'Hako of RIFIDEC (Regroupement des Institutions du Système de Financement Décentralisé du Congo) explained the process that the Government of the Democratic Republic of Congo had recently begun in concert with the microfinance sector to create a national microfinance policy. The policy would involve particular roles for the State, the central bank, commercial and development banks, MFIs and other ("decentralized") financial institutions, donors and international NGOs. It would aim to strengthen the micro and other small-scale finance institutions through capacity building, more effective supervision and risk-mitigation, as through an insurance fund. It would seek to rebuild savers' confidence in the institutions and promote savings through incentive schemes (e.g., saving for credit), promotion and education.

Wolday Amha of AEMFI described a consultant's study of the effectiveness of the Ethiopian network, which is both a service organization for the 23 licensed MFIs in the AEMFI network and an intermediary with the Government of Ethiopia on policy matters. In addition to the improvements in the operation of MFIs that could be linked to AEMFI training and research, the study found it contributed to the development of a national Rural Financial Intermediation Programme that is supplying financial, technical and capacity-building support to MFIs and cooperatives. It had also reduced antagonism between government and NGO supported MFIs and created a sense of partnership. An important open question was how to fund AEMFI in the future. Although donors and the Ethiopian Government are willing to continue support in the medium term, foreign donors prefer to fund particular projects rather than the network per se and additional revenue sources were needed. One potential answer lay in more of a business orientation and a new law covering NGOs that permits them to engage in income-generating activities to help cover their costs, which could include the services provided by AEMFI (including a training centre it is planning to build that would generate income). It is also planning to attract savings and credit cooperatives to broaden its membership.

Toward more effective international donor policy

Sharyn Tenn of the SEEP Network described recommendations that emerged from the SEEP Donor Guidelines Working Group for microfinance associations (MFAs). The Working Group was composed of regional and national microfinance networks, international and regional technical service providers, and multilateral, regional and foundation donors. It endorsed supporting MFAs that helped members improve performance through technical assistance, training, building industry capacity, promoting transparency (to build confidence), serving as a forum for the industry and representing its interests. It called for support of networks that avoid duplication, do not compete with members, start small and were efficient. The networks should also have strategic plans, have members cover the cost of the MFA core services, seek long-term institutional support, and provide services that can ultimately be supported by members. The Group endorsed performance-based grant funding (with tranched disbursements), but also funding of administrative costs, long-term support for public goods functions, and endowment grants. It urged donors to develop performance indicators in cooperation with MFAs and systems to monitor performance (e.g., percentage of MFI members that are up-to-date on their dues; percentage that participate in activities, etc). Jennifer Isern (see below) reported that the German technical cooperation agency that sponsored the guidelines (GTZ) briefed CGAP members on them and she expected that donors would now use them.

Jennifer Isern of CGAP discussed the ongoing international donor effort to improve aid effectiveness and its application to microfinance through CGAP as a test case. The effort included peer reviews of the inner workings of 17 bilateral and multilateral donor agencies. Overall, she reported, donors are continuing to move to bigger projects and broader funding (e.g., funding MFAs instead of individual MFIs), greater use of general government budget support and sector-wide assistance programmes instead of detailed projects, fewer specialists on donor staffs and greater interest in identifying comparative donor expertise and collaborating on assistance programmes. She also described the new "country level effectiveness and accountability reviews" (CLEAR), that CGAP began to undertake in October 2004. In these exercises, the review team would ask which donors were doing a good job and which not and why. Expected elements of effectiveness included donor influence in the country, responsiveness to local stakeholders, and commitment to collaborate with other donors. In the discussion, one country representative noted that donors assisted his government with separate finance programmes for agriculture, women, small and medium enterprises and microcredit. Another noted that some donors work through financial intermediaries, like MFIs, and others disburse directly to final users. It was also observed that different departments of the World Bank had even designed different financial components into programmes in different sectors of a country (now, however, any credit component in a specialized World Bank programme has to be reviewed by a financial specialist). There was thus much to harmonize, although some concern was expressed about thereby giving donors a more powerful voice with the aid-receiving governments, and one that was likely to include less diversity than might be heard from individual agencies with separate preferences. Ms. Isern answered that the proposal was not for control but donor consultation and information sharing, which should help reduce unintended effects.

Roundtable discussions

As the preceding presentations were many and rich, they allowed only limited time for discussion. This was made up the following day, which began with five simultaneous roundtables on three topic areas. Two roundtables, one each in English and French, were organized on the question of needs and demand of the poor for financial services that could be provided in effective and sustainable ways. Two other roundtables, again one each in English and French, were organized on questions concerning the "supply side" of microfinance. Finally, a fifth roundtable, with English/French interpretation, was organized on policy issues affecting microfinance.

Issues in the demand for financial services

One roundtable on demand issues focused on aspects of clients that affect demand and the other focused on the aspects of the MFIs that deter demand. In the first discussion, concerns of women were highlighted, centred on a fear of not being able to repay loans, owing to weak incomes, high interest rates, no insurance, and aggressive loan recovery methods of MFIs. Discussants also cited women's fear of problems with their husbands and indeed that men discouraged them from taking loans. Another issue was lack of confidentiality in relationships with MFIs.

Participants also emphasized constraints on growth of demand for microfinance in rural areas. These included long distances to the MFI and lack of information about them, as well as religious factors, including prohibition of interest in Moslem communities. Lack of a financial culture was also mentioned, along with concern about the security of savings and the low rate of remuneration on savings deposits. Again, fear was seen as a constraint, especially by the extremely poor, and thus was a factor that kept them from approaching MFIs.

The other roundtable emphasized that MFIs have themselves to blame in many cases. At the extreme, as noted in the first group, the fact that some microfinance clients had bad experiences at MFIs owing to embezzlement or bankruptcy put a damper on demand in the whole community. However, there was a more general problem in the view of the second group, as MFIs could be more "inward looking" than ask what the client needed. Discussants also criticized MFIs for not promoting themselves enough to potential clients. Indeed, it was said that management of MFIs were more focused on pleasing their donors as opposed to searching out what clients might demand.

Another issue was that entrepreneurs needed business development services as well as finance. Sometimes they needed something as basic as a place to do business. MFIs could be more involved in this side of entrepreneurship. More generally, some of the participants saw the MFIs as being too risk-averse. In this regard, it was said they would rather continue working with an existing customer than a new start up. Some participants saw this as a consequence of donors giving MFIs a deadline for becoming self-sustaining, which deterred their willingness to take on risks. It was suggested that donors should not be overbearing in this regard. Indeed, working with donors and other stakeholders to develop some means for sharing the risk with the clients would boost demand, as through guarantees or insurance of the MFIs. It was also suggested that an African loan guarantee fund could encourage more MFI risk taking.

One of the groups summarized the demand-side problem as: information deficit, no proximate services, services that are maladapted to needs, and lack of professionalism in MFI management. Both groups called for better monitoring of client satisfaction and more market research, which should lead to more effective marketing and product innovation. One group called for a greater focus on savings services. The other called for a code of conduct for MFI management and staff to help improve their image with clients, complemented with better training in governance.

Issues in the supply of microfinance services

Two roundtables examined issues in the operation of MFIs. Some participants in one of the roundtables saw an excessive number of steps needed to get a loan from MFIs and called for simplification (as a participant in the other roundtable put it, make it "simple, short and to the point"). They also needed to make sure clients understood the obligations they were undertaking when borrowing. This was put forward as an example of transparency needed from MFIs themselves.

MFIs needed to better understand their clients, as their needs differed and "one size did not fit all" as far as product design went. The savings culture was not well spread in Africa and needed to be promoted. In addition, MFIs needed to have more information on their borrowing clients. What one MFI knew about a client was not shared with others. One problem that made this especially salient was said to be a poor "repayment culture" in many countries. Controlling delinquencies was a problem that required attention.

Human resources problems were a concern to several speakers, not least because of the cost of staff lost to HIV/AIDS. They also cited the need for better procedures manuals and training. As one participant said, "capacity building is still a challenge." But the issue is more than training per se, as the trained people also need to have the appropriate tools to use, such as in the area of management information systems. To some degree, this is a matter that is beyond what an individual MFI can deal with. That is, it may not be possible to overcome inadequate management information systems when economic infrastructure is poor, like telephone lines. There is also the matter of appropriate software and hardware, and technical service providers needed to appreciate the operating realities in many countries.

One salient issue is how MFIs should relate to other financial institutions. Some people saw MFIs and banks competing (albeit not in rural areas in which even MFIs found it very expensive to operate). Strategic alliances were seen as providing a way to expand services, such as connecting to automated teller machines or being able to tie into mobile payment systems. It was noted that commercial banks were stringent partners at first, but eventually opened up to doing business with MFIs, including in providing funds at wholesale level to MFIs. Other potential partners included insurance companies, consumer protection groups, trade promotion groups, chambers of commerce and banking associations. As an example of what is possible, one speaker noted that in Mexico, Citibank opened a centre for training microfinance clients.

Making financial policy work for the poor

Several participants in the fifth roundtable voiced concern that African governments and international donors had sometimes *adversely* affected access of the poor to financial services, the opposite of what they intended. This was ascribed in part to the psychological as well as physical distance of some policy makers from the situation on the ground, as well as to chaotic management of some States. A participatory approach to policy development was advocated, which would more intensively involve directly affected stakeholders. It was also thought that national microfinance networks and international cooperation of these networks, as through AFMIN, could help bolster the capacity of stakeholders to contribute technically to policy development and to be heard better politically. Indeed, it was felt that the "AFMIN Consensus Statement on Financial Policies and Systems for Microfinance," adopted in 2002, remained a relevant set of principles to use with all key stakeholders. With agreement on the "oughts", the discussion focused on the politics of the actions actually taken.

Among the comments about specific countries, a participant from a central bank acknowledged that financial sector regulation in his country did not reach beyond the urban areas; finance in the rural areas remained informal and out of reach of national policy. Another national participant complained that in her country, the legal framework that regulates the financial sector did not apply to microfinance, which thus operated at the informal level. She called for extending the regulatory framework to microfinance. Another participant reported that in his country, there was no consistency in how financial institutions were treated. "Everyone interprets the rules as he wants." A further participant emphasized difficulties that he ascribed to one ministry in his country promoting microfinance and another one regulating it. An additional participant complained about the politicization of financial policy for the poor in his country, as when politicians set up credit unions before elections, which lay outside the regulated financial sector, and the president used government funds for his political campaign, distorting the financial landscape. A participant from yet another country observed that despite a general policy in her country to remove the government from direct lending or intervening in the market, when elections approached, the president visited villages, listened to complaints about high interest rates, and sought to address that.

A particularly salient theme of discussion was that African governments needed to have a comprehensive financial sector development strategy, which included microfinance as an integral part. The strategy should be credible (e.g., be backed by relevant people in the finance ministry) and transparent, and should include short, medium and long-term considerations. Microfinance had been seen as part of social policy for poverty reduction, when its essence lay in financial sector development. A speaker from an international NGO observed that this was "our own fault, as we looked for allies", but it needed to change. An advisor from an international organization said it was important for African countries to develop their own vision of pro-poor finance, as some donors brought a social agenda and others a business agenda and, as a result, policy was fragmented.

Indeed, several complaints were made about international donors. An academic expert from an African country noted that donors offer subsidized loans in his country, which distorts the market. Another speaker complained that international donors were sometimes more concerned with their own agendas ("they want to plant their flags") than in fostering access to financial services in the country they were aiding. An additional participant noted that in his experience, out of 100 microfinance institutions established by NGO or official donors, perhaps 10 were professionally run and would be sustainable. Another speaker called for a code of ethics for donors. An additional participant called attention to the recommendations that had come out of recent CGAP reviews of microfinance donors.

Fleshing out the “bottom up” approach to policy development in contrast to “top down”, it was argued that the microfinance sector in African countries had to organize and effectively advocate for appropriate policies and for their full and fair implementation. The staff of government ministries would not necessarily act fully on the views of their authorities. It was necessary for the microfinance industry to “cultivate relationships” and generally raise consciousness, as through national forums. One speaker detailed how the microfinance sector in his country had to overcome sceptical technocrats in the government and central bank in order to forge a policy framework for small-scale finance. International donors had given $400 million for financial sector development in his country, but it did not include microfinance. It took pressure through lobbying of the government by organized local groups to raise the visibility of the problem. Another participant commenting on that case emphasized that those groups had credibility in the country and were locally driven, not external (“not fronting for some other player”), and had strong leaders. Those were all important ingredients for its success.

While actions such as these would primarily be at national level, it was argued that a regional approach could sometimes be helpful in mobilizing effectively for reform. This was being demonstrated in West Africa, where a participant reported that the BCEAO was drafting regulations that could apply across the UEMOA region. It was said that BCEAO engagement helped to sensitize national authorities to the need for policy reform. Organized lobbying and ensuing political commitment in one country could now more easily spill over into another country in the same region.

On the other hand, a seemingly stalled regional initiative in UEMOA underlined the problem when initiatives are “top-down” and seem driven by a political need to take an initiative. That is, eight countries proposed establishing a “regional solidarity bank” to support microfinance in the region, including refinancing microfinance institutions. A major criticism of this proposal was that it did not take account of existing structures, nor give voice to what the microfinance institutions themselves felt they needed. It also appeared that no international donors had yet accepted to take part and the project had not gone far.