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Cambodia illustrated the special challenge of working with group members who were mobile because of work, making group guarantee unfeasible.

- **Not currently economically active or beginners in using financial services** - the aged; extremely poor, children and adolescents. The discussion centered on latent demand by these groups that is not articulated and the need to raise their level of financial literacy. Examples were drawn from high-density rural poor areas in **India** where potential clients have little knowledge of financial services and need to be organized to raise the level of financial knowledge. In **Papua-New Guinea**, eighty percent of the population is rural, who save but do not use banks for saving or credit. When some groups, coffee growers, for example, were helped in organizing cooperatives and finding export markets they began to demand banking services.

- **Crop agriculturalists**. Lending to this group is often constrained by the problem of aligning loan repayment schedules with long crop cycles. The case of small growers of coffee and tea in **Nepal** was a particularly severe problem because of the long gestation period and opportunities for short-term economic activities to generate more immediate cash are not generally available. The problem in **Bangladesh** is also deep-rooted as MFIs traditionally shied away from agricultural lending but are now lending to non-crop sectors such as fishery and livestock. The example of an EU funded agricultural development project in the **Philippines** also illustrated the need for mixed businesses that generate daily/weekly income to meet a weekly repayment schedule. Other country experiences discussed were examples of adjustment of the schedule of repayment to the crop cycle. The BRI in **Indonesia** changed its repayment schedule for loans to crop growers to seasonal payments due after harvest. NPLs were reduced from 8 per cent to 4 per cent as a result, although NPLs remain vulnerable to fluctuation of crop prices at harvest time. In India, lending of MFIs and other rural lenders are sector-neutral and the focus on a particular sector depends on the design of the program.

- **Minorities and persons lacking legal identity**. In countries where the overall legal system is weak, including areas of property rights and collateral law, local authorities have a say in who has access to loans. As a result, some political or ethnic minorities have no access. The situation in **Cambodia** was discussed, where ethnic minority groups with no legal identity or no permanent location are excluded from financial services.

- **Women, and also men.** The continuing gender bias in the provision of financial services was discussed. Some participants noted that as most MFIs serve women, men tend to be excluded from microfinance. Others pointed out that MF loans taken out by women are used for the household, including men and children. On the other hand, most loans from agricultural development banks go to men.

- **Microenterprises scaling up to small enterprises**, seeking larger loans. Participants discussed the situation in the **Philippines** where there is strong demand for larger loans of (US$1000 and above) to scale up microenterprises to small enterprises that need to be met. These credits can empower the poor to become entrepreneurial. As most MFI loans are for consumption or microenterprises there is a role for other financial institutions. It was also pointed out that in some countries, there is a problem of a lack of collateral in getting approval for these larger loans.

The discussions identified a **range of factors affecting client choice and usage of financial services**: availability of choice of products and providerutaelof of human resources in banking, microfinance and development through tertiary education and higher learning for competent MF professionals. Financing support from donors in capacity building for innovations would be an important input.

- Expand and deepen knowledge of microfinance through the establishment of **knowledge and research centers**, including MFI in-house research units. Encourage investments to support a diverse range of knowledge centers to produce new ideas.
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Roundtable 2: Why isn't there A Greater Supply of Financial Services to the Poor?

Roundtable 2, chaired by Gil Lacson of Women's World Banking, focused on the greatest constraints to the supply of financial services.

Participants agreed on the need to address **macro-issues defining the environmental prerequisites** for creating the economic opportunities needed before microfinance can take off. Finance by itself does not build economic growth. In **India**, 80% of successful penetration of microfinance is in southern states. In **China** it's coastal. Economic opportunity needs to be there first. Therefore a nexus is needed to create the economic opportunity. This allows tapping into the market with available financial technology, or adapting to the situation.

In countries like **Pakistan**, illiteracy can be the biggest problem, particularly **financial illiteracy**. Illiteracy can lead to lack of trust between the client and the institution providing financial services. In **Vietnam**, people living in isolated and remote mountainous areas cannot understand what a bank is or does. Many times it is not the interest rate level that worries the client. He wants **reliability and timeliness**. Banks need to build **trust** with the customer.

In numerous country contexts, diverse constraints were identified:

- Among the constraints experienced in the **Philippines** is the difficulty in **striking a balance** between **reaching out** to a large number of members, and maintaining **efficiency**.

- In **Mongolia** and **Pakistan**, acceptable **collateral** is limited to permanent assets (e.g., real estate). There is a need to establish a legal framework for acceptable "social" collateral.

- For non-profit institutions in the **Philippines**, **taxation** is a constraint. Therefore government should exempt non-profit institutions— to avoid a social equity mismatch.

- In some cases, **politicians and vested interests** can hinder the expansion of supply of financial services. In **India**, microfinance is concentrated in certain regions due to political interference in others. Top-level government officials can break the bottlenecks and fix the blockage to developing the microfinance industry. There is a strong need for capacity building of politicians, to educate them about microfinance as a development intervention, not charity. Capacity building of politicians must include other sector players.

must continue to provide seed money in this area, since R&D in microfinance, financed by donors, has been success historically.

Numerous participants expressed the view that to reach remote areas, **coordination** among financial institutions or other service providers such as agriculture institutions was required in order to be more efficient in delivery. Some participants agreed that **mergers and consolidation** across institutions and different sectors should be encouraged. At the same time, small and agile players were still needed to reach out to the niche market segments.

Participants debated issues associated with the **commercialization** of microfinance concerning the **profit vs. social developmental objectives**. Continuous dialogues with the stakeholder groups in the industry – donors, banks, MFIs, NGOs, and clients – and building linkages with MFIs and other development agencies, were seen as necessary to achieve the social/commercial linkage. Some participants strongly emphasized the **social development aspect** in developing competent, trained people who share the same mission. In terms of financing lines to MFIs, creative, socially-driven packages, not commercially-driven packages, were needed. Other felt the need to recognize that the concept of "favorable returns" is outdated as the industry moves toward "commercialization". From the viewpoint of investors, helping provide financial services is by definition acting "socially." Investors in microfinance do not seek profit-maximization, but return on their investments. Since funding from investors is a possible source of financing lines to MFIs and address problems due to lack of funds, institutions must "cater" to the investors.

Participants also saw the need for greater **dialogue between commercial entities and development agencies** (e.g., governments and donors have not found a way to relate to for-profit providers) - as they are "nervous" about each other - and the need for greater acknowledgement of corporate social responsibilities, to build shared strategies. Commercial entities and development agencies haven't yet found a way to work together.

With increased regulatory requirements from the central bank e.g., doubling paid-in capital by 2007, MFIs in **Mongolia** need commercial investors to survive. Whereas donors impose conditionality, commercial investors only require MFIs to pass certain quantitative measures. **Improvement of institutional capacity** was seen as a precondition to attract commercial investors. The necessity of subsidy for strengthening management operations, such as in MIS and capacity building was emphasized. Donor support was still needed for capacity building, standardization, and impact assessments.

Concern was raised about traditional donors slipping away towards excessive privatization – the large number of less successful groups of microfinance institutions could be abandoned. A problem stems from the **'80/20' principle**, where the top 20% of the MFIs get 80% of the funds, and the rest (80%) get the remaining 20% of the funding. Donors are supporting some really bad, bad MFIs. This donor intervention keeps consolidation from happening.

In some areas of **India**, the market penetration rate is only 10%. Market forces should decide which organizations survive. Therefore, who to support is not really an issue because consolidation will happen naturally, according to market forces and competition. In India, the problem is that there are too many organizations, which sometimes cause confusion among clients. Some felt that the operational quality and competitiveness of organizations providing financial services to the poor should be under regulation. In India, some MFIs operate on informal "black" money, which hurts the microfinance process. Currently 25,000 MFIs serve not even 1 million clients and operate under difficult, ineffective regulations. There is definite need for uniform policy, regulated, and monitored by the central bank.

Participants agreed that there was need for **segmented analysis of microfinance industry**, so as to facilitate the development of concrete and objective selection criteria for support and performance indicators. **Mongolia** is planning various stakeholder group meetings to design performance indicators for donors and co

- Building inclusive financial sectors requires an enabling environment—political, social, and financial, with emphasis on women. Success will be achieved when 25% of “hardcore” poor are “better off”.

- An inclusive financial sector would have a conducive environment, and reinforcement of the legal framework for professionalized operations. Government should look at the microfinance sector as a profit making industry by cost and risk.

- An inclusive sector should not only serve the bankable clients, but also integrate the “unbankable” clients by making them “bankable”.

- “Inclusive” means having a wide client base, a broad range of financial services, available at competitive prices.

- The government must help create supply of financial services and facilitate their distribution. Microfinance should also be built into the Millennium Development Goals, giving a jump-start impetus to the supply side. In Pakistan, where four different bodies regulate microfinance, consolidation of regulatory agencies is a priority.

- To convince the commercial side that microfinance is not a matter of charity, a shared prosperity agenda should be developed among the various stakeholder groups. There should also be specific timelines on what needs to be achieved.

In summary, participants agreed that an inclusive financial sector is where **microfinance is mainstreamed and accepted as an industry**. Under an inclusive financial sector, the majority of target clients have access to competitive and broad variety of financial services and products, and microfinance institutions operate under an effective and conducive policy environment, not influenced by political agenda. Stakeholders collaborate under a shared policy agenda, and a common achievable timeline to measure progress.

Roundtable 3: What is the Role of Public Policy?

Participants in the roundtable on the role of public policy, chaired by Joselito Almario of the Philippines National Credit Council, shared the experiences and concerns in their respective county contexts. Questions addressed during the roundtable touched on the country economic environment, policy legal and regulatory environment, financial sector reforms, and linkages between MFIS and larger institutions.

A number of issues were raised by several participants, around which there was apparent consensus in the group:

- **Broader issues of country context** were identified as critical for the sound development of microfinance: physical and spatial constraints of size, population density (sparsely populated areas), and geographic dispersion. To these were added **physical**

infrastructure constraints. Of concern in several countries are questions of **law and order** in rural areas and insurgency.

- Issues around **interest rate ceilings** were termed as "societal issues" as well as policy issues (**India, China**). In addition, government subsidies were cited as distorting the microfinance market (**China**).

- Participants referred to concern about **competition between small rural banks and big (usually urban) commercial banks**, which can offer cheaper services. In **Indonesia**, these smaller institutions have requested the government to limit the expansion of these larger banks.

- An additional problem for regulated specialized and rural institutions is that the **requirements under the legislation** are hard to meet (**Sri Lanka**). In order to comply with regulations, they tend to migrate to larger loan amounts. Regulatory requirements should not discriminate against these specialized and rural institutions.

- Inadequate regulation and supervision of cooperatives was cited as a concern (**Nepal**, **Philippines**). The Philippines is working on new cooperatives legislation.

- Institutions that are not regulated may be disadvantaged in terms of **tax treatment**. Unregulated MFIs in **India** cannot deduct provisions as a cost for tax purposes, whereas the regulated financial institutions are allowed to do so. This is also a problem for institutions in **Nepal** that register as corporations rather than financial institutions.

Two important themes were the subject of **divergent views**. This suggest the need for further analysis and dialogue:

1. Several speakers raised the issue of the **role of government** in the supply of microfinance services in poorer rural area, questioning what the role of government should be in promoting the offering of microfinance services in more difficult market segments.

2. The question of **microfinance legislation and regulation** came up often. The experiences reported regarding the enactment of microfinance legislation were diverse. There appeared to be **a lack of clarity on the question of when to regulate**. A representative of the **ABD** underlined the point that the need to regulate is linked to voluntary savings mobilization and the financial intermediation of these savings. In some country contexts (**Indonesia, India**), there was unwillingness on the part of the public authorities to attempt to regulate the large numbers of MFIs, due to a lack of capacity to supervise so many institutions and due to the concern that they would be eligible for government bailout in the event of difficulties. The **Fiji** Development Bank was not allowed to be licensed in order to take savings.

   Related to this concern is the fact that microfinance institutions that are not regulated do in fact take deposits and should therefore transform into regulated formal financial institutions. In the case of the **Philippines**, the National Credit Council and the Central

Bank are looking for ways to make NGOs more transparent in their reporting; there is a concern that it is difficult to know when MFIs are exceeding deposit limits when they are unregulated, i.e. below the radar screen of the regulatory authorities because they fall below the minimum size for oversight by the central bank.

In **India** and **Bangladesh**, the governments have only recently begun developing microfinance regulatory frameworks. In India, a study of governance issues showed that it was preferable to create a new microfinance law, rather than attempting to amend numerous existing laws covering the range of institutions offering microfinance services in India

The basic issue was how to strike a balance between too little regulation and too much note that significant developments are underway in such large countries as India, China and Bangladesh.

MAIN CONCLUSIONS OF THE ASIA MULTI-STAKEHOLDER D

According to participants' **vision of an inclusive financial sector**, microfinance is mainstreamed and the majority of potential clients have access to a competitive and broad variety of financial services. Moreover, financial institutions operate in a conducive policy environment where stakeholders collaborate under a shared policy agenda and a common measurable schedule of progress.

With regard to **the role of government policy in the supply of financial services to the poor**, participants agreed that interest ceilings and government subsidies both distort the market for microfinance and suppress supply. They also noted that discriminatory regulation and supervision of specialized and rural financial institutions imposes burdensome requirements on them, often forcing them to move out of microfinance to markets of larger loan amounts. At the same time, it was observed that other financial institutions, such as cooperative, were inadequately regulated and supervised.