

**Small is Beautiful, Big is Necessary; Canada's Commercial and
Cooperative Answers to the Global Challenge of Microfinance Access**

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Achieving Access for All – Canada's two main pathways

In the 1980s, Dr. Salehuddin Ahmed, of the Bangladesh Rural Advancement Committee (BRAC), declared that “small is beautiful” but “big is necessary.” He was referring to the beauty of the smallest of enterprises as an essential means for many of the world's poor, particularly women, to make a living. At the same time he was challenging those concerned with poverty eradication to think big in terms of the enormous challenge of ensuring “Access for All” those who need microfinance services. “Big is necessary” is also the underlying mantra of the Global Microcredit Summit as its participating members, including Canada, strive to meet the goal¹ of reaching 175 million of the world's poorest families with microcredit by the end of 2015.

Dr. Salehuddin also spoke of one of the other important challenges facing the global microfinance community. He said “if you walk with your hand in someone else's pocket, you must go where they go.” This is a warning about the importance of self-reliance and sustainability. If microfinance institutions need to rely on having their “hand in the pocket” of donors for the long term, that could leave the organization vulnerable to the whims of the donor community. It has also been shown recently that there are other larger and more suitable sources of capital for growth. Although donors have an important role to play, they do not have enough in their pockets to satisfy the worldwide demand for microfinance.

The “Big is necessary” theme drives today's diverse community of Canadian organizations working internationally. Canadian organizations, with their very early roots (1939) in international microfinance, have, for the most part been following two main pathways in their efforts to respond to the global challenge of microfinance access.

The oldest and some of Canada's most successful partnerships throughout the world are with and through cooperative or community finance institutions. It is not necessarily “big” institutions that are required to meet the challenge but rather a “big” response. They have demonstrated that reaching scale can be achieved through federations or networks of small and medium-sized financial organizations. Canada's cooperative and *caisse populaire* movements are certainly responding in a “big” way to the challenge. .

The other pathway to “Access for all” pioneered by Canadian organizations is the commercial one. In this case, the model most often promoted is large-scale and centralized. Creating commercially viable microfinance banks, attracting commercial investments, setting up commercial investment funds and getting the existing commercial banks into the business are all innovations with Canadian leadership.

Canada's cooperative and commercial microfinance innovators have been driven by the desire to reach large numbers of poor people, especially women, with appropriate and sustainable financial services. Their innovations have been fueled by the quest for sustainable sources of capital and the need to develop or identify efficient and effective delivery vehicles.

Canada has a number of strategic advantages as it establishes international microfinance partnerships. It is a bilingual country (French and English). It is a member of

¹ The original Microcredit Summit goal was to reach 100 million of the world's poorest families with Microcredit by 2005, the International Year of Microcredit.

the Commonwealth, the Francophonie, NAFTA and APEC. It has a strong domestic financial community. It has strong NGO's and the Canadian government has a stated commitment to the sector.

The Canadian International Development Agency (CIDA) identifies microfinance as a “component of its Private Sector Development Strategy which supports growth that actively engages and directly benefits the poor. Microfinance refers to the provision of a wide range of financial services to poor women and men to enable them to increase their incomes, build assets and reduce their vulnerability to unforeseen events or external shocks. Microfinance includes Microcredit, savings, micro-insurance, transfers, and other basic financial services.”

On the domestic front, again Canada was an early pioneer in microfinance, from the founding in 1900, of the first *caisse populaire* in Levis, Quebec by the Alphonse Desjardins to Moses Coady and the Antigonish movement promoting credit unions in English speaking Canada starting in the 1930's. Commercial banks, finance companies, community loan funds, government lending schemes and informal savings and credit operations all complete the microfinance landscape in Canada. Although the domestic efforts to create commercially viable micro lending schemes have not achieved the goal of sustainability, they have achieved a number of other objectives and are therefore important to highlight. Credit has been the major preoccupation of Canada's small domestic microfinance community, but savings and building assets have emerged recently as key areas of innovation.

The Canadian take on poverty also bears mentioning here as the province of Quebec is at the forefront from a policy perspective. In 2002 Quebec adopted a law – Bill 112 – to “combat poverty and social exclusion”. What is interesting is how Bill 112 defines poverty as much more than simply a lack of income. “Poverty,” it states, “is the condition of a human being who is deprived of the resources, means, choices and power necessary to acquire and maintain economic self-sufficiency and participation in society”.

This “Canadian” take on poverty influences a number of the domestic and international microfinance efforts outlined in this paper. Some are straightforward and single-minded in their focus on providing large scale, sustainable access to financial services. Others, in particular the member-owned models, are also designed to directly address issues of power and human capacity building.

This paper is intended to illustrate and highlight the key Canadian contributions to the field of microfinance at home and abroad. It identifies unique Canadian approaches and recognizes Canadian leadership in microfinance innovation. Although it mentions some important historical considerations it is not meant to be a comprehensive history nor is it a compendium of all Canadian international and domestic microfinance experience. A list of websites of Canadian organizations involved in microfinance is provided in Appendix II.

Interviews with key Canadian and international microfinance experts, a literature review and the authors' own knowledge and experience form the basis for this paper.

The main emphasis of the paper is on Canada's international contributions, but there are also important stories to tell from our domestic experience as well as interesting and important connections between the two. It describes the roles organizations play – promoter, technical assistance provider, investor, capacity builder, trainer, researcher, networker, etc.

It identifies the levels and locations Canadian organizations operate. It delves into the types of partners Canadian organizations work with and also attempts to answer the question of whether there is an identifiable “Canadian” approach to partnership. The paper focuses on the main commercial and cooperative contributions that Canada has made to the

field of microfinance. That is where we have had the greatest impact and that is where we have lead the innovation agenda.

Jennifer Isern and Tamara Cook of CGAP confirmed this conclusion when asked about Canadian impact. They stated, In terms of quantity and breadth of involvement globally, DID has had the largest and broadest impact of all the Canadian organizations. DID has worked widely in Francophone Africa, and has helped create or worked with the largest credit union networks in those countries. DID also has a significant presence with its partner institutions in Latin America, Eastern Europe and Asia. In terms of quality, Calmeadow has had the greatest impact, as it has acted as a global leader, often involved in cutting edge issues.”

While some may argue about this precise conclusion in terms of the specific organizations named, it is clear that Canada’s pioneering efforts in both cooperative and commercial microfinance are what have put Canada on the microfinance map. They are the efforts which have most aggressively and creatively embraced the “big is necessary” imperative in the global challenge of microfinance access.

Canada in the World – Big is Necessary

The Microfinance Field Emerges

Although microfinance has been practiced around the world for hundreds of years on an informal basis, its contemporary origin lies in Europe, where formal savings and credit arrangements began to appear in the eighteenth century. By the early nineteenth century, Fredrich Wilhelm Raiffeisen had begun establishing community-owned financial cooperatives in Germany. His aim was to improve the welfare of the rural population and sever its dependence on moneylenders by providing an alternative source of financial services. From the 1860s onward, the financial cooperative model spread rapidly across Europe, North America and the developing world, expanding access to financial services for the world’s urban and rural poor.

In the first half of the 1900s, providing financial services to the poor largely meant providing credit to poor farmers to modernize agriculture. This trend continued through the 1950s and 1960s. State-owned institutions and banks throughout the developing world, subsidized by national governments and donor countries, targeted poor and marginalized farmers with credit to increase agricultural productivity. But by the 1970s, many had become disillusioned with this system of subsidized rural credit. The recovery rate on loans was poor, administration costs were excessively high, and the credit was often misdirected to wealthy farmers, not reaching its intended recipients.

In the late 1970s and early 1980s, several different organizations in different parts of the developing world began experimenting with the provision of small-scale savings and credit to poor and predominantly female entrepreneurs. The focus here was largely on credit for the development of income generating activities. Grameen Bank in Bangladesh, ACCION in Latin America and the Self Employed Women’s Association (SEWA) Bank in India were all early pioneers in the provision of financial services to the poor.

Despite the promising success of these and other institutions involved in microcredit, in many cases the need for subsidies continued. It was around this time that several institutions started demonstrating that financial services could be offered to the poor

on a commercial basis. These institutions were able to meet the ‘double bottom line’ of reaching the poor without subsidy and earning a profit, thus ensuring the financial sustainability of the institution. In 1992, BancoSol was created in Bolivia as the world’s first commercial bank dedicated solely to providing financial services to the poor. Also by this time, a more nuanced understanding of the financial needs of the poor had developed. Microcredit accordingly became but one of a number of financial services offered to the poor – such as savings, insurance and money transfer – referred to under the umbrella of ‘microfinance.’

Towards the end of the 1990s, microfinance had become increasingly popular with international development agencies, which were excited by its potential to lift people out of poverty, especially if that could be accomplished without subsidy. The number of microfinance programs throughout the developing world multiplied exponentially, accompanied by the launch of several major international initiatives. In 1995, Canada joined other leading donors and practitioners to establish CGAP – the Consultative Group to Assist the Poor – in order to expand access to financial services for the poor in developing countries. Two years later, the Microcredit Summit Campaign was initiated, again with Canada’s participation, with the goal of reaching 100 million of the world’s poorest entrepreneurs, especially women, with financial services by 2005. Microfinance also came to occupy a pivotal role in the global effort to achieve the Millennium Development Goals, particularly reducing by half the number of people living in extreme poverty by 2015.

There is now a host of public and private, commercial and cooperative institutions around the world working to expand access to financial services for the world’s poor. The field of microfinance is increasingly professionalized, with rating systems, national networks, regulatory innovations, credit bureaus and equity funds. Even mainstream commercial banks have begun to see the promise of microfinance, moving ‘downstream’ to reach poorer clientele. Much has been accomplished, but much more remains to be done if the estimated one billion people worldwide lacking access to financial services are to be reached.

Canada’s Cooperative Answer to Achieving Scale and Sustainability

“A credit union is not an ordinary financial concern, seeking to enrich its members at the expense of the general public. Neither is it a loan company, seeking to make a profit at the expense of the unfortunate.... The Credit Union is nothing of the kind; it is an expression, in the field of economics, of a high social ideal.”

Alphonse Desjardins

In the late summer of 1939, an American missionary landed in Jamaica. Father John Sullivan arrived in the wake of political upheaval on the small Caribbean island, at the end of mass riots against poor wages and inhumane living conditions. He set about organizing study groups for the population to learn about cooperative organization as a way to improve their lives. Two years later, along with local colleagues, he established the first Jamaican financial cooperative, the Sodality Credit Union. In the following years, Father Sullivan helped spread credit unions across Jamaica and virtually the entire Caribbean. Interestingly enough, this represents one of Canada’s first forays into microfinance in the developing world.

The model employed by Father Sullivan in Jamaica and the rest of the Caribbean to set up credit unions had been developed almost over a decade earlier, in the small town of Antigonish, on Canada's east coast. There, in the late 1920s and early 1930s, a group of dedicated individuals led by Father Moses Coady began organizing study groups for the population to learn about the social and economic power of cooperative organizations. These groups were formed into credit unions, providing savings and credit services to those who had previously lacked access to financial services. The 'Antigonish Movement,' as it came to be known, provided the inspiration and practical model for the development of credit unions across English Canada, and around the world. Indeed, the same educational material first used in Antigonish was later used by Father Sullivan in Jamaica and elsewhere in the Caribbean. Though they did not conceive of it as such at the time, these credit unions were practicing microfinance.

Around the same time that Father Sullivan was spreading credit unions from Jamaica to the rest of the Caribbean, Canadian credit unions were becoming more interested in the promotion of credit unions overseas. In 1954, the Credit Union National Association (CUNA) – based in the United States but with numerous Canadian members – established the World Extension Department to actively contribute to the development of credit unions throughout the world. Also at that time, increasing numbers of cooperative and community development activists from the developing world flowed into Antigonish to learn the principles and operations of the Antigonish Movement. So great did these numbers become, that St. Francis Xavier University opened a dedicated professional leadership education facility in 1959, the Coady International Institute.

In the 1960s, international interest in the expansion of financial cooperatives in the developing world gained even more momentum. The government of the United States became an active supporter through the newly established United States Agency for International Development (USAID), and the United Nations declared 1964 the 'International Year of Cooperatives.' In Canada, the Cooperative Union of Canada (CUC), through its Cooperative Development Foundation, launched the 'Cooperatives Everywhere' program in 1962 to foster cooperatives at home and abroad, including credit unions. Its first international credit union activity began in the British West Indies and British Guyana, and grew with the support of the Canadian International Development Agency (CIDA), which was formed in 1968. Throughout the 1970s and into the 1980s, the Canadian Cooperative Association (CCA) – as the CUC later became known – undertook more and more international activity, eventually becoming the sole channel for the international development activity of English-Canadian credit unions, under the direction of a specialized unit.

The distinction of the CCA as the sole channel for the international development activity of English-Canadian credit unions is an important one, for French Canadian credit unions had developed separately within Canada and later created their own international development arm. In fact, the first credit unions in Canada were established in Quebec, beginning in December 1900 at the behest of Alphonse Desjardins as a response to the difficulty French Canadians had in accessing financial services. In the early 1950s, cooperative activists from around the world were traveling to Quebec in addition to Antigonish to learn about the principles and operations of cooperative organizations. In 1963, the 'Mouvement Desjardins' formalized its training activity by creating the Institut Coopératif Desjardins (ICD) to train senior personnel from financial cooperatives in Asia, Africa and Latin America, and share the success of Quebec's financial cooperative movement with the world. In 1970, the ICD was transformed into the Compagnie

Internationale de Développement Regionale, continuing to provide training along with direct technical assistance to and investment in financial cooperatives in the developing world, later becoming Développement Internationale Desjardins (DID).

The international development activity of Canada's English and French credit union movements continues to be one of this country's principle contributions to the development of microfinance. While credit unions are not explicitly nor exclusively microfinance institutions, they have proven themselves to be incredibly successful microfinance providers. Credit unions provide formal financial services to the poor and other communities neglected by most banks – they reach beyond concentrated urban and rural population centres. With strong and capable leadership, they can achieve operational and financial sustainability on a local scale. Unlike the large majority of microfinance NGOs, credit unions are legally entitled to take savings deposits, providing an important financial service to clients and accessing a low-cost and important source of funds which can be turned around as credit. Canada's credit unions have encouraged and assisted in the development of credit unions throughout the world, connecting millions with basic and reliable financial services.

Développement International Desjardins

Développement International Desjardins (DID) is one of Canada's most robust players in the microfinance field. With over one hundred years of experience in Canada and thirty-five years abroad, DID has amassed a wealth of knowledge and expertise on community-based finance. Active in twenty countries in Africa, Latin America, Asia, and Central and Eastern Europe, DID provides two types of inputs – technical assistance and financial investment. It partners with 34 cooperatives, networks and community finance institutions which serve more than 3 million members and clients and manage assets of nearly \$1 billion.² With approximately 40% of DID's partner's clients being women, they reach 1.2 million women.

Although DID's goals are aligned with the Millennium Development Goals and those of the Microcredit Summit Campaign, they are not narrowly constrained by them. In their 2005 Policy Statement on Community Finance, DID confirms their position that “in terms of development DID firmly believes that savings deposits are the path to freedom and independence.”³ They also confirm their fundamental orientation of making financial services available by developing financial institutions whose main resources would come from the communities served, in contrast to single purpose microcredit projects or funds dispensing capital obtained through external sources. DID-style institutions are financial cooperatives and other forms of community-based financial institutions which are open to the whole community, including the poor. They are committed to reaching the poor on a sustainable basis, by creating a solid federated network of institutions which provide a range of different loan, savings and insurance products tailored to the poorest as well as those less poor in the community served.

For DID, serving the poor is accomplished in a more sustainable and accelerated way by taking a broader financial systems approach. DID is contributing in a very significant way to CGAP's “Access for All” agenda. Developing, supporting and financing inclusive

² Anne Gaboury, “Why we can no longer afford to ignore financial cooperatives in the effort to increase access to financial services”. (DID, 2006).

³ DID Policy Statement.

financial systems is DID's raison d'être. They have a strong track record, particularly in West Africa, to demonstrate their impact. In a recent interview, Anne Gaboury, Chief Executive Officer of DID, described the multi-level approach taken by DID in West Africa: "We worked on the financial cooperatives law at the regional central bank level. We worked on financial supervision with each country's finance ministry. We developed new coops and we consolidated existing coops creating federated networks in each country. In West Africa, approximately 80% of micro financial services are provided through financial cooperatives. Développement International Desjardins has worked with 60-70% of them."⁴

Successful at home and successful overseas, by pursuing Alphonse Desjardin's "high social ideal", Canada's Desjardins movement is a global leader and key innovator in the world of micro and community finance.

The Canadian Cooperative Association

Like its Francophone counterpart, Développement International Desjardins, the Canadian Cooperative Association (CCA) is a significant architect of Canada's cooperative response to the challenge of "Access for All".

According to microfinance specialist Brett Matthews, central to the CCA's approach to credit union development "is a conviction that helping the world's poorest families to secure reliable access to microfinance services means helping them build and govern their own financial institutions."

The CCA has been instrumental in the development and strengthening of national credit union movements throughout the world. Supported by CIDA and a number of International Finance Institutions, CCA distinguishes itself by connecting community finance to agriculture, rural development, health, etc. CCA provides technical assistance, training, institutional development services, and in some cases loan capital to partner institutions in Africa, Asia, Central America, and Eastern Europe. Technical assistance may be provided to credit unions or to governments where assistance is required to establish an appropriate regulatory environment. CCA often engages volunteer cooperants from Canadian credit unions in the overseas partnerships. Since 2002, CCA has been involved in 40 financial sector projects reaching over 2 million individuals. They also expect to provide access to financial services to a further 1 million people in Ukraine on a new initiative.

CCA and the Credit Union Association of Ghana

In line with its mission to promote cooperatives in the developing world as a means to alleviate poverty and human suffering, CCA has worked with the Credit Union Association of Ghana (CUAG) and its members since 1988. For the past two years, CCA has been operating a coaching program through which volunteers from Canadian credit unions are sent to Ghana to provide practical assistance to credit unions there.

CCA is also supporting CUAG to raise awareness about HIV/AIDS among credit union members through funding and technical support. For more than a decade CCA has worked with Ghanaian credit unions to provide financial services and education to women, and to involve more women in credit union decision-making. This work provides an ideal foundation to base an HIV/AIDS education program. CGAP specialists singled out CCA's capacity building work with CUAG as an example of a Canadian organization doing exceptional work in the developing world. CUAG's 240 credit unions reach more than 110,000 members across Ghana.

⁴ Interview Anne Gaboury (10 August 2006).

Ranjith Hettiarachichi, the CEO of the Asian Confederation of Credit Unions (ACCU) described in positive terms the multi-faceted, 27 year partnership ACCU has enjoyed with the CCA. The ACCU represents over 48,000 credit unions, comprising 34 million members, with over \$50 billion in assets across Asia.

The Canadian Cooperative Association is well-placed to lever its partnerships with large regional and national networks of credit unions worldwide to aggressively pursue the “Access for All” agenda which Canada has committed to.

The Coady International Institute

“If we are wise we will help the people everywhere enjoy the good and abundant life...become Masters of Their Own Destiny.”

Moses M. Coady

The Coady International Institute (Coady) at St. Francis Xavier University is located just a short distance away from Halifax, site of the third Global Microcredit Summit. From its first point of international influence in Jamaica in 1939 to its current partnership with the new Indian School of Microfinance for Women, Coady has been a key Canadian microfinance player in the areas of leadership education, knowledge generation and dissemination, institution building, and technical assistance.

With its roots in the Antigonish Movement, Coady has been instrumental in establishing and strengthening the worldwide credit union movement. The Coady International Institute, in partnership with CIDA, USAID, CUSO, CECI, CCA, CGAP, the Asian Development Bank, and the Ford Foundation has worked to build the knowledge and capacity of the microfinance sector and its leaders in every region of the world. As a prominent historian of the international credit union movement has written, “the impact of these [Coady] trained leaders within African, Asian and Latin American credit union movements was considerable, in some national movements even pervasive, especially in the 1960s.”⁵ In fact, Ranjith Hettiarachichi, the Chief Executive Officer of the Asian Confederation of Credit Unions mentioned earlier, studied at the Coady International Institute in the late 1970s.

Today, the Coady continues to teach, learn and write about effective community-based microfinance models. In the 1930’s Moses Coady was busy building “the Good Society” based on economic democracy and characterized by strong, inclusive, people’s economic institutions. That focus on assisting people to create well-governed, effectively managed, financially sound member-based institutions is the Coady Institute’s microfinance niche today. Community leaders and microfinance professionals from around the world participate in Coady’s residential microfinance certificate program, as well as the new internet-based distance education offering. In addition to its educational programs, Coady is engaged in a variety of partnerships and research initiatives. Building on its recent partnership with SEWA Bank, Coady has joined the Bank and Friends of Women’s World Banking India to create the new CitiBank-financed Indian School of Microfinance for Women. The Coady International Institute, as a partner in founding this new capacity building institution for the microfinance sector, is involved in its governance and provides curriculum development, management and research support.

⁵ Ian MacPherson, *Hands Around the Globe*, p.57.

On Coady's practice-based micro-finance research agenda is the recently initiated Ford Foundation funded study on "Member-owned Institutions Offering Financial Services in Remote Rural Areas." Uncovering, creating and promoting innovative ways of reaching people in remote locations is of critical importance to the "Access for All" agenda.

Building capable leaders and organizations equipped with the latest best-practice knowledge and skills is Coady's niche and one through which Canada has had and will continue to have a considerable impact.

DID, CCA and the Coady International Institute have been singled out because of their history in promoting cooperative, community-based finance and because they repeatedly surfaced in interviews for this study. By no means do they complete the picture of Canada's cooperative contribution to microfinance in the developing world. The Société de coopération pour le développement international (SOCODEVI) and the Centre d'étude et de coopération internationale (CECI) were also cited by interviewees as Canadian organizations making important contributions. Like CCA, SOCODEVI is the international development arm of a variety of cooperative organizations in the province of Quebec. It has been supporting credit union development since 1989, particular those working exclusively with women. SOCODEVI also has extensive experience in microinsurance in Latin America, a fact which distinguishes it from other Canadian organizations. As part of its economic development activities, CECI develops financial products for the poor and others lacking access to traditional credit structures. Several interviewees, including the former director of the USAID Office for Microenterprise Development, commended CECI for its role in creating the Centre for Microfinance in Nepal, a leading microfinance organization in Asia.

From its first influence on the development of credit unions in Jamaica and the rest of the Caribbean to the present, the international activity of Canada's cooperative organizations is this country's first and most widespread and enduring contribution to the development of microfinance. DID, CCA, the Coady International Institute, SOCODEVI and CECI are Canada's key actors in advancing cooperative, community-based finance in the developing world. Collectively they facilitate the provision of reliable financial services to millions. Unfortunately, arriving at an accurate aggregated numerical picture of Canadian impact is not possible within the confines of this study, given that all of the organizations discussed in this section with the exception of DID do not maintain consolidated statistics. However, the combined reach of DID's and CCA's partners, at approximately 5 million clients, is an indication of Canada's significant contribution to the 'Big is Necessary' agenda.

Canada's Commercial Answer to Achieving Scale and Sustainability

Canadian involvement in microfinance in the developing world has certainly not been limited solely to financial cooperatives. Canada has also played an important role in the emergence and legitimation of the commercial approach to microfinance, principally through a Toronto-based organization, Calmeadow. Founded in 1983 by Martin Connell and Linda Haynes with the goal of supporting small entrepreneurs in the developing world, Calmeadow contributed to the development of commercial microfinance in Latin America and around the world over the following twenty plus years. Mennonite Economic Development Associates (MEDA) has in recent years taken up the baton and is emerging on the global

scene as a leader and innovator in commercial microfinance. MEDA's partnership with Scotiabank in Jamaica is breaking new ground in Canadian bank/NGO partnerships. It is also important to identify the Canadian partners of World Vision, Opportunity International and the Aga Khan Foundation for their role in commercial microfinance. Their collective worldwide networks are projected to reach 2.5 to 3 million microfinance clients by 2010.

Calmeadow

On January 24, 1992, BancoSol (Banco Solidario, S.A.), the world's first commercial bank created to serve the needs of the self-employed poor, celebrated its opening in La Paz, Bolivia and the rest, as they say, is history. It was a heady and satisfying moment for all present at the celebration, but it was a particularly sweet moment for Martin Connell, President of Calmeadow, and visionary behind the idea and Doug Salloum, Calmeadow's senior staff member who led the bank's feasibility study and transition plan.

The *first* paradigm shift in microfinance had occurred a few years before this. Microfinance promoters and providers such as ACCION International, Grameen Bank, SEWA Bank, and many others had demonstrated that the poor could save and the poor could use credit well and repay their loans. Put simply, *the poor are bankable*. Many Canadian institutions were partnering with those demonstrating the capabilities of the poor.

In the Economist's November 5th 2005 special "Survey of Micro Finance", the following was stated:

"A good test of whether microfinance customers are truly bankable is whether microfinance banks are bankable themselves."⁶

"By establishing BancoSol, which was the 'lightning rod' for expansion of commercial microfinance in Latin America, Calmeadow attracted a lot of attention with its success."⁷

Calmeadow's BancoSol partnership with ACCION, FUNDES and the local team of Fernando Romero, Pancho Otero and Miguel Taborga, caused the *second* microfinance paradigm shift to occur. Now not only were the poor bankable but banks for the poor were also bankable. Demonstrating that *micro financial services could be provided to the poor on a profitable basis* was a breakthrough which very quickly gave rise to the third paradigm shift in microfinance.

Recognizing the tremendous imminent demand for micro financial services and at the same time realizing the limitations of the donor capital pool to satiate that demand, again Calmeadow, with its US, European and Latin American partners pushed the envelope by creating ProFund. Like BancoSol before it, with its launch in 1995, ProFund created another new mold. This time it was a commercial investment fund that would identify and invest in promising micro-finance institutions thus creating more BancoSols, more access to capital opportunities for millions of micro entrepreneurs and new investment opportunities for investors. By demonstrating that *investing in microfinance institutions could provide a commercial rate of return*, ProFund caused the *third* microfinance paradigm shift.

"ProFund proved to be very catalytic and influential. Many copy cats emerged."⁸ Calmeadow, a Canadian organization, with a relatively small equity stake in ProFund was

⁶ *The Economist*, November 5, 2005.

⁷ Stefan Harpe – interview (August 31, 2006).

⁸ Martin Connell interview (August 2006).

able to have a tremendous relative impact. Subsequently MEDA, CARE, Desjardins and other Canadian organizations, have established new development capital pools. Calmeadow also moved forward, with the creation of AfriCap, a fund for Africa.

Always pushing and looking for that next breakthrough in meeting the “Access for All” challenge, Canada’s Calmeadow is working on a *fourth* paradigm shift. Having been instrumental in creating specialized commercial microfinance institutions, Calmeadow is now working on the existing mainstream banks.

“Calmeadow is currently putting a lot of effort into holding seminars for commercial banks, attempting to move them downstream into microfinance. We are demonstrating that much smaller institutions are making microfinance profitable, as well as a few major commercial banks. A major part of Calmeadow’s current agenda is to lubricate the wheels of this process, speeding things up. The goal is to *get commercial banks to realize the potential of microfinance and normalize it within their operations*.”⁹

“From the beginning Calmeadow linked the immediate goal of improving people’s lives by providing small-scale credit with the larger systemic change of engaging mainstream financial institutions. One result of this unique dual focus is that its influence has far outstripped its limited operational capacity. It has shaped the field so that after 20 years, its borrowers number in the millions rather than thousands and its vision of unblocking people’s potential has become a reality of improved livelihoods for families around the world.”¹⁰

Starting out as a granting foundation in 1983, Calmeadow transformed itself into an entrepreneurial NGO leading the charge on developing and promoting commercial microfinance models, eventually added an investor role and today with its headquarters in Costa Rica is largely focused on the Emergency Liquidity Fund (ELF) and promoting microfinance to the commercial sector. In April 2005, Calmeadow reached the dual goal set for itself 20 years earlier. It had become fully self-sustaining as an organization while helping to create a model of microfinance service delivery that is also fully sustainable. In 2000, Calmeadow took the bold step of stopping to accept donor money. Martin Connell would describe Calmeadow’s current role as “investor, advocate, promoter and educator”¹¹. “As a business person, I have my own biases, I like concepts that have a good chance of working, of being sustainable, replicable and potentially cheap, and in relative terms can be leveraged with little additional support.”¹²

For years Calmeadow played a significant role in providing technical assistance to emerging or transforming microfinance institutions throughout Latin America, Africa and South Asia. Calmeadow played a critical knowledge role by disseminating best practice information widely. For a number of years it was secretariat to the Microfinance Network, a forum to exchange ideas and practices among the world’s leading microcredit organizations.

CIDA provided core program support to Calmeadow during its early to middle years and some important special project funds to do feasibility work on BancoSol, ProFund and AfriCap.

With millions of people served, many microfinance institutions established, investors and donors influenced, Calmeadow, a small Canadian NGO, has really put Canada at the microfinance map. Jennifer Isern and Tamara Cook of CGAP stated in a recent interview

⁹ Alex Silva interview (August 2006).

¹⁰ Tim Broadhead, President, McConnell Foundation in “Calmeadow at 20”.

¹¹ Martin Connell, interview (August 2006).

¹² Martin Connell, 1985 quote in “Calmeadow at 20”.

that “Martin Connell is a real leader in microfinance, and his vision has helped move the industry forward. Calmeadow has been the Canadian organization with the most impact internationally; it is a shining star of quality and cutting edge operations, a pillar of Canada’s international impact in the field of microfinance.”¹³

There is no doubt that Calmeadow achieved tremendous success through its partnerships with BancoSol, ProFund and AfriCap. More importantly, however, has been the impact these projects have had on how people perceive microfinance. By proving that poverty alleviation and profitability were not mutually exclusive goals, and that microfinance institutions could be financially sustainable and reach scale, Calmeadow helped demonstrate that the commercial approach to microfinance was feasible and had tremendous potential to reach greater and greater numbers of poor women and men in the developing world. It has since spurred many others the world over to pursue the commercial approach to microfinance.

Scotiabank – Good Corporate Citizen

An important aspect of the commercialization of microfinance is the engagement of existing full service commercial banks in the sector. As CGAP’s lead microfinance specialist has written, “with their extensive branch infrastructure, [and] capacity to invest in innovative technology solutions to lower the costs of reaching large numbers of people – many of whom are currently excluded from accessing financial services – banks will undoubtedly play an enormous role in building inclusive financial systems.” Mainstream commercial banks, in other words, possess infrastructure, human and financial resources far beyond other microfinance providers, and therefore have the potential to vastly expand access to financial services. While more and more commercial banks are moving into microfinance, there are few examples of major international banks based in developed countries moving ‘downstream’ into microfinance.

Among Canada’s four major chartered banks, only the Bank of Nova Scotia (Scotiabank) has been directly engaged in microfinance work in the developing world. Scotiabank’s international operations date to 1885, and it has a significant presence in the Caribbean, Latin America and Asia. In a select few countries, as part of its Corporate Social Responsibility (CSR) mandate, Scotiabank has been involved in microfinance projects. Scotiabank’s senior manager for CSR, Kim Brand, explained her company’s motivation: “Scotiabank sees microfinance as a way to give back to the communities we work in. Large segments of communities are unbanked and microfinance provides loans and other financial services that can lead to a sustainable source of income. Microfinance is a specialized product that requires intensive infrastructure and organization, and brings higher costs and risks. For these reasons, integrating microfinance into the Bank’s normal activities requires a different approach.” In the past, Scotiabank has been involved in microfinance projects in Guyana and Barbados, and has future plans to become active in El Salvador.

Scotiabank’s largest microfinance project is currently a partnership in Jamaica. In 2002, its Jamaican subsidiary, joined forces with MEDA, CIDA and the Kingston Restoration Company to form Micro Enterprise Financing Limited (MEFL) with the goal of strengthening the economic base of entrepreneurs – particularly women – by providing reliable and sustainable financial services in Jamaica’s capital, Kingston. Scotiabank Jamaica

¹³ Interview Jennifer Isern and Tamara Cook, CGAP (September 5, 2006).

provided the initial loan capital as a loan and back office support, and CIDA provides a portion of annual capital and operational costs, as well as funding for technical assistance through MEDA. By the end of 2005, MEFL had 1365 active clients, 79% of which were women, loaned approximately CAN\$1.2 million, with a repayment rate of 97%. The partnership of a Canadian commercial bank, a Canadian NGO and the Canadian government is unique in Canada's international microfinance experience.

It will be interesting to see if Canada's other banks or financial enterprises such as insurance companies will follow Scotiabank's lead in exploring microfinance partnerships as a number of them expand their international operations.

Mennonite Economic Development Associates (MEDA)

Katherine McKee of CGAP describes MEDA as "a very strong contributor to microfinance. It is known for a number of innovations – investing in microfinance institutions, rural and agricultural finance, examining the connections between microfinance and value chains, gender and youth". Based out of Waterloo, Ontario with a predominantly Canadian staff, MEDA also has an office in the United States. Allan Sauder describes the MEDA approach as an investment-based one. MEDA's specialized investment funds are highlighted in detail, in the next section. MEDA assists organizations through standardized products and technical assistance modules to become commercial financial institutions, which are locally owned with international investors. MEDA's goal with its partnership in Jamaica with Scotiabank is to help Scotiabank see the commercial potential in microfinance. MEDA's key partnerships are in Mozambique, Nicaragua, Jamaica, Peru, Egypt, Afghanistan, Tanzania, Haiti, Romania and Tajikistan. Ambitious to achieve scale, MEDA's most recent annual report indicates they have reached 2.6 million clients.

Financing the Microfinance Institutions Through New Private Investment Funds

The majority of international investment in microfinance institutions in the developing world comes from bilateral and multilateral development agencies, in the form of grants or highly subsidized loans. A 2005 CGAP study found that the nine investment arms of major bilateral and multilateral donors, such as the International Finance Corporation, contribute US\$0.5-1 billion annually in such investment. Since the mid-1990s, this investment has been complemented by a growing number of privately-run, commercially-oriented investment funds. By 2004, these funds had invested approximately US\$1.2 billion in approximately 500 microfinance institutions around the world, predominantly in Latin America, Eastern Europe and Central Asia by purchasing equity, providing direct loans, or providing guarantees for loans taken from local financial institutions.

Canada has played a pioneering role in creating and investing in these innovative new investment vehicles. It is no surprise that Canada's dominant commercial and cooperative microfinance players are also leaders in this fast growing industry.

On the financial cooperative side, DID offers several investment funds to assist its partner institutions – cooperatives, mutuals and social economy organizations – in strengthening their capital base to facilitate growth and competitiveness. The idea is to link technical assistance with investment "to create a flexible and integrated services offer." The Investment Fund for International Development (FONIDI), established in 2000, provides a

capital injection or loan ranging from CAN\$500,000 to 1,500,000. DID's other two investment vehicles, the Partnership Fund (est.1997) and the Guarantee Fund (est.1999), provide capital or loan guarantees ranging from CAN\$50,000 to 750,000. Together, DID's investment funds total CAN\$19 million, with capital contributions coming jointly from DID and CIDA.

Also on the financial cooperative side, albeit in a different capacity, is English Canada's largest credit union, Vancity. Through its Shared World Fixed Term Deposits, formerly known as the International Community Investment Deposit, Vancity connects its clients with microfinance institutions in the developing world. The program is billed as "a way for you to help address poverty in developing regions and earn a competitive return on your investment." A minimum investment of CAN\$100 is required, and up to CAN\$100,000 is guaranteed by the Credit Union Deposit Insurance Corporation of British Columbia. All deposited funds are pooled together and invested at below market rates in international community loan funds. Contributions are RRSP eligible and after one year currently return 3.05%. Shared World presently has investments in 15 organizations, such as the ACCION Global Bridge Fund, BancoSol, FINCA, Oikocredit and the Russian Women's Microfinance Network, totaling CAN\$2.25 million. It is important to note that Shared World invests in all types of microfinance institutions, and not just financial cooperatives.

First out of the blocks of Canada's commercial microfinance players is Calmeadow with its role in ProFund, AfriCap and the Emergency Liquidity Facility (ELF). Although Calmeadow owned only a modest 2.2 percent of the shares in ProFund, it was one of the original five sponsors, it took the lead role in conducting the feasibility study and crafting the business plan and Calmeadow's President, Martin Connell, served as chair and board member. According to Alex Silva, Manager of ProFund, "Martin Connell really was the driving force behind ProFund".¹⁴ ProFund ended up with investments in 10 significant microfinance banks in Latin America and the Caribbean. The aggregate portfolio grew from 167,058 clients at the time of investment (first investment made in 1995) to 940,425 clients by June 2005 with the loan portfolio growing from \$86,216,000 to \$825,378,000 in the same period. ProFund was the first commercial investment fund specialized in taking equity positions in microfinance institutions in the region. "Its aim was to demonstrate in ten years that investing in microfinance can be profitable"¹⁵. And prove this it did. Despite economic crises and local currency depreciations in some countries of the region, ProFund was able to provide a 6% annual return to its investors. "By liquidating its portfolio and turning it into real cash, (ProFund) became a yardstick for the investment performance of a microfinance institution."¹⁶

The Emergency Liquidity Facility (ELF) was established after the shock of Hurricane Mitch to help microfinance institutions in the region cope with emergencies. Calmeadow joined many of ProFund's investors in creating this new facility in 2004.

Emboldened by the early successes with ProFund, and its expanding partnerships throughout Africa, in 1999 Calmeadow, with CIDA support, embarked on plans to create another "demonstration model" AfriCap. With the exception of the large scale successes of DID in West Africa, Canada had really not had any other large scale microfinance breakthrough in Africa. Unlike the case of ProFund where there was so much pent up demand for capital investment in the rapidly expanding microfinance sector institutions,

¹⁴ Interview with Alex Silva.

¹⁵ Silva, Alex – Investing in Microfinance – ProFund's story.

¹⁶ The Economist.

according to Stefan Harpe, former AfriCap Manager, “AfriCap was built before the market”¹⁷. Kate McKee, formerly of USAID and now of CGAP said that “Calmeadow is the driving force behind AfriCap – AfriCap was premature, but Calmeadow forged ahead and dragged the commercial microfinance market with it”¹⁸.

AfriCap is locally-based, run out of Africa, by Africans. It provides an integrated package of capital, (\$13 million fund) governance support, management support, technical support, institutional development and training. Now based in South Africa, it has made six investments. Martin Connell describes AfriCap’s investment in Kenya as a home run – AfriCap quadrupled its money.

In recent years, MEDA has emerged as a lead Canadian organization promoting microfinance investment funds. Like DID and Calmeadow, MEDA also sees the importance of connecting technical assistance with investment in the support of fledgling microfinance institutions. According to MEDA’s president Allan Sauder, “technical assistance is important, but new institutions need equity to get over the hump.” Furthermore, “most funds that exist for microfinance are still quite conservative. There is a need to put money into smaller and riskier institutions.” Indeed, MEDA was founded in 1953 as a venture capital fund to invest in businesses run by or for the poor. Its first investment was in the Saron Dairy in Paraguay, and from there it drew the name for its Saron Global Investment Fund. The idea behind the fund was to connect private sector capital from North America with capital demand in Latin America. By 2004, the Saron Global Investment Fund had invested a little over US\$2 million in businesses and microfinance institutions in Latin America.

In 2003, along with CARE, MEDA created MicroVest a \$20 million commercial investment fund which provides capital to small but profitable microfinance institutions. The Saron Global Investment Fund was dissolved, and the majority of investors rolled over into MicroVest. To date, MicroVest has placed approximately US\$14.5 million in debt and equity investments with 21 microfinance institutions in 13 countries. MEDA also continues to provide low cost risk capital to promising, well-managed microfinance institutions that are in a position to grow but have trouble accessing commercial capital or investments with its Saron Risk Capital Fund. “There is a key stage in a business’ life when it needs high risk capital to give it the chance to prove itself, attract other capital, and begin to move to profitability,” stated MEDA’s president. Through the Saron Risk Capital Fund, MEDA is reaching over 500,000 clients and farmers throughout the developing world.

These early Canadian pioneers in microfinance investment funds have had a significant impact on the lives of the people who were able to gain access to financial services and, on the institutions who serve them. At another level they have also had an important impact on the microfinance sector, the commercial finance industry and the donor community. These early experiments are leveraging more than money. They are leveraging influence.

¹⁷ Interview with Stefan Harpe.

¹⁸ Interview with Kate McKee.

Partner, Promoter, Funder, Technical Expert? – The Role of the Canadian International Development Agency in Promoting Microfinance Access for All

Behind almost every microfinance success story recounted thus far has been some level of support from the Canadian International Development Agency (CIDA), the federal agency charged with coordinating and implementing Canada's international development activity. CIDA supports microfinance activities through its geographic branches (Africa, Americas, Asia, Central and Eastern Europe), its Multilateral Branch, and its Canadian Partnership Branch. In recent years, the geographic focus of CIDA's microfinance activities has shifted away from the Americas and Central and Eastern Europe to Africa and Asia, in line with the agency's narrowing of bilateral development partners. In the Multilateral Branch, CIDA supports microfinance through its support to the International Financial Institutions (World Bank, International Monetary Fund, and regional development banks) and the United Nations. Its principle commitments are to the Consultative Group to Assist the Poor (CGAP) and the United Nations Capital Development Fund (UNCDF), at approximately CDN\$500,000 each per year. The Canadian Partnership Branch, through which CIDA supports Canadian institutions involved in international development, represents the core of CIDA's microfinance activity, accounting for over one-third of total microfinance spending and almost two-thirds of total projects in 2004-2005. Overall, in 2004-2005, CIDA's total microfinance spending was CDN\$40 million. This is down, in real terms, from CIDA's earlier levels of funding for the sector which peaked in the 1990's.

CIDA has long been a supporter of microfinance. During the first wave of microfinance – before it was even conceived of as microfinance – CIDA supported the early efforts of Mouvement Desjardins, CCA and the Coady International Institute in building and strengthening community-based, cooperative financial institutions overseas. In the late 1970s and early 1980s, at the beginning of the second wave of microfinance, CIDA was an early financial supporter of the pioneering work of the large Bangladeshi microfinance institutions, including Grameen Bank, BRAC, PROSHIKA and RDII. Into the 1990s, CIDA continued to be a supporter of innovation in microfinance by partnering with Calmeadow as it worked with ACCION International and PRODEM to create BancoSol in Bolivia. At present, CIDA supports the microfinance work of a number of Canadian institutions, such as DID, CCA, CECI, SOCODEVI, the Coady International Institute, MEDA, World Vision Canada, CARE, the Aga Khan Foundation Canada, Opportunity International Canada, and many more.

Allan Sauder of MEDA summarized CIDA's contribution to microfinance, past and present: "In the early years of microfinance support, CIDA was a leader in the development of best practices. A series of CIDA-supported workshops in the early '90s opened the world of best practices in microfinance to new players in Bolivia, Tanzania and Canada. Today, Canadian microfinance practitioners are at work in some of the toughest post-conflict settings and are providing leadership in investment-based microfinance developments."

Indeed, partnership is the key component of CIDA's contribution to the development of microfinance. CIDA does not directly implement microfinance projects. Rather, it provides financial support to partner organizations, either in Canada or the developing world, which then implement projects. As the former director of the USAID Office of Microenterprise Development, Katherine McKee, stated: "CIDA's main contribution has been long-term, core support for key Canadian executing agencies that have made an impact in microfinance, such as DID and MEDA. CIDA's contribution has come

through strong partners.” Partnership, as shall be seen in the following section, is not only a strength of CIDA, but also of Canadian organizations working in the developing world.

The Microfinance Investment Support Facility for Afghanistan (MISFA)

In June 2003, the Government of Afghanistan launched the Microfinance Investment Support Facility (MISFA) to strengthen and expand the country’s small microfinance sector. Years of protracted conflict had left Afghanistan with little by way of functioning financial institutions, particularly in rural areas. Those microfinance institutions that did exist had not been able to keep abreast of the rapid advances made in microfinance in recent years.

MISFA currently funds 12 microfinance institutions providing a range of credit and savings services to poor and vulnerable Afghans through grants, loans, technical assistance, networking and advocacy. In supporting the development of microfinance, the Government of Afghanistan is promoting sustainable economic development and alternative sources of livelihood, especially for the country’s numerous poppy farmers. As of May 2006, MISFA-partner institutions had approximately 193,000 clients with an outstanding loan portfolio of US\$28,809,028.

Afghanistan is Canada’s largest bilateral development partner, receiving CAN\$100 million per year since 2002. CIDA is currently the lead donor supporting MISFA, contributing CAN\$13 million in the first year, and CAN\$5 million in the second year. In September 2006, CIDA announced another grant of CAN\$12 million to MISFA, bringing Canada’s total contribution to CAN\$40 million.

Although CIDA has been a long-term financial supporter of microfinance and has supported many Canadian leaders in the field, a number of those interviewed for this study were critical of the agency as it stands today. In 2003, CIDA underwent a CGAP Peer Review of its microfinance programming, and was rated as relatively weak, particularly regarding the technical capacity of staff to effectively design and monitor microfinance projects. There are currently fewer dedicated microfinance staff at CIDA than in the past, but there is now a microfinance focal point within the policy branch, which aids in the coordination and cohesion of microfinance programming.

Promised some three years earlier, CIDA’s new microfinance strategy has yet to be released. Many people see this as indicative of CIDA’s waning commitment to microfinance. Allan Sauder of MEDA succinctly described this sentiment: “In the early days of microfinance, CIDA was quite bold and flexible in its funding of microfinance. And there were some real successes. But CIDA has recently been skittish about microfinance. Microfinance has been included in the private sector development policy, but it hasn’t been engaged yet.” Alain Plouffe of SOCODEVI echoed this concern: “CIDA’s contribution to microfinance has been through its partners. It needs to keep funding them. In recent years funding has been decreasing, which means that the Canadian contribution to microfinance is decreasing. Even one of CIDA’s few microfinance specialists admitted that “since 1998 there has been a clear trend at CIDA of moving away from microfinance. This agency is still committed formally, but has informally drifted away.” For Canadian institutions engaged in microfinance in the developing world, this is a worrisome trend.

To be fair, many of these issues are not unique to CIDA. Many bilateral aid agencies face similar problems and challenges, such as recruiting and retaining specialists, and managing competing and changing priorities. Klaus Fischer, a microfinance specialist at Laval University, thinks that “CIDA might feel that the challenges facing microfinance are too much; it may begin to suffer from donor fatigue and retreat from microfinance.” Gerard Robard, a microfinance specialist in CIDA’s Africa branch, concurred. Donors may lose patience and refocus on other more ‘fashionable’ sectors. This challenge is one facing the entire microfinance industry. According to Allan Sauder, “Some major bilateral donors

appear to be tiring of microfinance. It has been around a long time and may no longer be seen as cutting edge. However, it is still a very effective poverty reduction tool that brings immediate impact, and should be a significant part of bilateral aid strategies." This, and other such challenges, are not specific to CIDA alone, but are common to bilateral aid agencies as a whole.

With large swaths of the world's poorest and most remote populations still lacking access to basic and reliable financial services, it is crucial that CIDA reinvigorate its commitment to microfinance. It has demonstrated leadership in microfinance in the past, and should build on that legacy into the future. The rapid development of the field of microfinance in recent years, especially the growing importance of commercial initiatives, has called into question the role of bilateral aid agencies in microfinance, and CIDA needs to develop a coherent strategy to guide its microfinance programming. Canada's official development assistance for microfinance is decreasing, and CIDA needs to answer why. Is it because the promise of microfinance as a poverty reduction tool has been oversold? Is it because partner governments are not identifying microfinance as a priority in their Poverty Reduction Strategy Papers (PRSPs)? Is the trend towards providing Direct Budgetary support to partner governments leaving CIDA without an appropriate mechanism to support private sector/formal sector development? Is it because CIDA believes that the growing commercial involvement in microfinance decreases the need for bilateral aid agencies to support microfinance institutions? Is it because CIDA has a limited number of funding instruments it can use – largely grants with no regulatory ability to provide loans or take equity positions? These questions need to be answered formally in the microfinance strategy. What exactly that strategy should entail is still to be determined, but a number of recommendations can be found in the next section. The basic principle guiding any future microfinance strategy for CIDA should build on Canada's strengths. Canada has demonstrated leadership and impact through its commercial and cooperative pathways to global access. With Canada hosting the Global Micro Credit Summit this year, CIDA has an opportunity to reestablish its leadership role. When looking to the future, CIDA should employ its best assets: the top performing Canadian partners.

Canadian Approach to Partnerships

When asked to comment about how, according to their experience, Canadian organizations formed partnerships with microfinance institutions in the developing world, many of those interviewed for this study spoke of a particular Canadian approach. For example, Arelis Medina-Recio of CIDA said that Canadians support a soft approach to development. This Canadian approach to partnership is founded upon a deep-seated respect for the local context and culture within which each partner institution works. Canadian institutions are flexible in their approach, ready to adapt a core set of principles to the local environment, and incorporate local ideas. There is no imposition of a 'universal' model based upon domestic experience or some best practice model from elsewhere. Canadian institutions have respect for the principle of local ownership, and concentrate on technical training and the transfer of knowledge to strengthen local capacity.

Interviewees contrasted the Canadian approach to partnerships in the developing world against the approach of microfinance institutions from some other donor countries. In their opinions, these countries have a tendency to view their own domestic experience as a universal model applicable in all contexts. To cite one example, the head of

Développement International Desjardins recounted that, on many occasions, partner institutions in the developing world differentiated between her institution and institutions from other countries they had worked with. Canadian partners recognized the local leadership, and worked with them to develop the local vision, sharing knowledge and tools in the process. “The Canadian attitude is highly appreciated,” she concluded.

DID and PAMÉCAS

In July 1994, with financial support from CIDA, DID started a support project for savings and credit mutuals in Senegal, the Partnership to Mobilize Savings and Credit in Senegal (PAMÉCAS). This project began at a time when the microfinance sector was weak in Senegal compared to other countries in the West African sub-region, and was carried out over a period of 10 years ending in December 2004.

Today, PAMÉCAS has matured into a dynamic and effective financial institution. The network, comprised of 30 savings and credit mutuals in the Dakar area, has some 280,000 client-members. It is run entirely by Senegalese women and men. They occupy all executive and technical positions and account for all volunteer directors. Thanks to excellent management, the institution makes a profit and has financial and operational self-sufficiency of approximately 150%.

In all, 700,000 Senegalese women and men currently benefit, directly or indirectly, from the PAMÉCAS's services. It has over CAN\$30 million in savings and assets of over CAN\$43 million. These figures are all the more impressive considering that the average loan in Africa is around \$700. This is an excellent example of how, over the course of ten years, a partnership between a Canadian and Senegalese institution evolved into a locally-owned and fully sustainable financial institution.

Not everyone, however, agrees with this view of the Canadian approach to partnership. The president of MEDA, Allan Sauder, feels that the approach of Canadian microfinance institutions ranges across a full spectrum, from the ‘cookie-cutter’ approach at the one end, to the ‘contextual’ approach at the other. Anthony Scoggins of Oxfam Canada argues that statements of Canada’s uniqueness are prone to over-generalization. Many Canadians would like to believe that the ‘respect for local context’ approach is part of the Canadian national character, thereby differentiating Canada from other countries, but that may not be the truth. Respect for local context and emphasis on the strengthening of local capacity is also an integral part of the cooperative approach to development, and this approach guides a large number of Canadian organizations contributing to the development of microfinance. A basic premise of the cooperative movement is that all the human and financial resources needed for development are present in each and every community. As Brett Matthews phrased it, the credit union movement is guided by the belief that “everyone can be their own banker...and develop a functional bank. All that is needed is the capacity to catalyze those resources, and that is how external assistance can be most valuable.” Seen in this light, perhaps the Canadian approach to partnership is actually the cooperative approach to partnership.

And yet, even on the commercial side of microfinance, there is evidence of a participatory and contextual Canadian approach to partnership. On the occasion of its twentieth anniversary, celebrated in 2005, Calmeadow reflected on its partnership style: “We had no pretested models or technologies to offer [the Bolivian NGO] Prodem. Instead, we provided open-minded support to its own search for a strategy – the so-called participatory model of technical assistance. This is riskier, more time-consuming and more expensive than providing off-the-shelf solutions, but it leaves the recipient much richer, by giving it the means to deal with future challenges on its own.” With both cooperative and commercial microfinance proponents claiming to take a participatory and contextual approach to partnership, there seems to be some common characteristics one might call ‘Canadian.’ One

thing is clear, the concept of partnership is central to the *modus operandi* of Canadian organizations contributing to the development of microfinance.

Canada in the World – Building on Strengths to Turn Challenges into Opportunities

“Nothing inspires like the knowledge we’re onto something”.

- Martin Connell

It is clearly time for Canada to step back and take stock of its accomplishments and strengths. We are, and have been for a number of years, in fact “on to something”. We need to collectively take inspiration and direction from the significant Canadian contribution to the field of international microfinance and most importantly from the impact we have had on the lives of millions of people in every region of the world.

Canada has a rich experience base, strong expertise and a solid core of dedicated organizations working to achieve the “Access for All” agenda. We have made significant inroads in supporting the development of inclusive financial systems in Latin America, the Caribbean, Bangladesh, Francophone West Africa, and are poised to focus more attention on the rest of Sub Saharan Africa and Eastern Europe. We have developed innovative ways of reaching out to rural and remote populations and have been unrelenting in our efforts to provide critical financial services to poor women.

Our cooperative, community finance work is “rooted in lived experience in Canada and that gives enormous credibility internationally.”¹⁹ DID, CCA, SOCODEVI, CECI and Coady are forging new and improved locally-owned, member-based solutions to the global access challenge.

In terms of our commercially-oriented strengths, Stefan Harpe describes Canada’s impact. “The impact of Calmeadow is greater than just people and numbers. Its impact is more profound. It changed peoples’ thinking about microfinance through institutional innovation.”²⁰

Like Calmeadow, MEDA and others are forging ahead to provide large scale, sustainable commercial solutions to microfinance success. With leadership contributions in the cooperative and commercial spheres we are indeed ‘onto something’. As we build Canada’s agenda for the future let’s not lose sight of that.

However, resting on our laurels will not get us anywhere and not acknowledging that Canada’s reputation in the field of microfinance has slipped in recent years would be dishonest. As we identify and explore the challenges and opportunities in front of us and develop Canada’s agenda for the future, given the strengths we have, we should be striving for a more robust role and position of leadership in the microfinance community.

Like their counterparts elsewhere, Canadian microfinance organizations and their overseas partners face a number of common challenges related to outreach – reaching the poorest, reaching women, reaching people in rural and remote areas, challenges related to scale – developing systems for growth, capable leadership, accessing sufficient capital to fuel growth, and challenges related to sustainability – market distortions caused by some MFI’s offering subsidized credit, reaching sufficient critical mass etc.

¹⁹ Anthony Scoggins, Interview (4 August 2006).

²⁰ Stefan Harpe, Interview (31 August 2006).

In addition to experiencing the general challenges above, the interviewees also identified challenges specific to the Canadian international microfinance community. These could be categorized as microfinance sector related, CIDA-related and those related to the link between CIDA and the sector. As for Canada's microfinance sector the other main challenges are related to knowledge and expertise. Many felt there was an inadequate level of Canadian expertise and insufficient attention paid to knowledge creation and sharing. There is also a big knowledge gap between the two sets of solitudes – the commercial and cooperative players as well as between francophone and anglophone organizations. As for CIDA, the overall challenges appear to be a lack of a clear microfinance strategy, unsure leadership and declining funding. While many Canadian organizations benefit tremendously from their participation in the North American SEEP – Small Enterprise Education and Promotion Network, there is no Canadian forum for a unified interface and dialogue with CIDA.

Future opportunities for Canada emerge as a response to these challenges, changes in the global and domestic context and the priority of building on our strengths. There is clearly an opportunity to “back the winners”.

CIDA needs to play a stronger financial role and a more robust “industry leader” role. It needs to find and assert its niche in the shifting world of commercial and philanthropic investment in the sector. Consultation with CIDA's successful long term Canadian and overseas partners could help to shape that niche.

Martin Connell believes there is more money than deals for strong microfinance institutions. There is also an explosion of private philanthropic capital available (Gates, etc.). Canadian organizations need to look to CIDA and beyond for financing our best practice ventures.

On the learning agenda, there is a real opportunity to invest in more research and dissemination on innovations, best practices and lessons learned. This could feed into SEEP and the dialogue with CIDA. This could serve to bridge the learning gap between the “two sets of solitudes” – the commercial and cooperative and the anglophone and francophone. It could also fuel important research and development in emerging priorities such as remittances, loan insurance, financial literacy, market linkages, crop insurance, financial service technologies, mortgage products etc. Taking stock of and documenting Canadian experience in the macro policy realm is another key item for the learning agenda.

With our strong educational institutions, Canada could play a significant role in helping to build the capacity of the next generation of microfinance leaders.

Geographically, Canada has a large advantage and opportunity to strengthen its support for African microfinance institutions. With our membership in the Francophonie and the Commonwealth, the benefit of not having a negative colonial history and our decades of partnership on the continent, we are well positioned to grow our African involvement.

Experience in rural and agricultural finance is another strength we can build on. The rural sector is still severely underserved. There is a tremendous opportunity for breakthrough model development there. There is no reason why Canada couldn't be at the forefront of innovations in rural microfinance.

Choosing to support, in significant ways, the key organizations with successful track records, with the capacity for innovation and the capacity for impact at a significant scale is the right route for Canada.

The Canadian Microfinance Experience at Home

Canadian interest and experience in “microfinance” as a concept and tool for Canadian community economic development in general and for addressing the needs of specific economically and social disadvantaged groups at home is recent. As mentioned earlier, there is a long tradition of community finance in Canada and, although there is little documented, there are many informal savings and loans schemes practiced primarily among Canada’s many immigrant communities. In Canada, microfinance largely means microcredit. It is primarily targeted at small entrepreneurs who need credit to develop or expand their businesses, but who have difficulty accessing that credit because the required sums are too small for conventional financial institutions, they have poor credit histories, or they are poor and lack the necessary collateral. Different microcredit initiatives focus on different subsets of entrepreneurs, such as women, the disabled, social assistance recipients and aboriginal people.

There is no up-to-date comprehensive data available on the domestic microfinance sector. The 1999 State of Micro Credit in Canada study published by Calmeadow defines Microcredit as business loans below \$25,000. The study identified 425,000 Canadian microfinance clients with most being served by private cooperative and commercial financial institutions and smaller numbers served by government programs and micro or community loan funds. Microcredit is provided on a relatively significant scale and on a sustainable basis by financial institutions, which either blend the costs with other products and services or which charge high rates of interest through credit cards or other financing options. The label of microfinance really only emerged in the mid to late 80’s in Canada.

Just as Canada’s first international forays into microfinance were lead and heavily influenced by Canadian domestic experience, Canada’s first explicit microfinance experiments at home, were influenced and shaped by international models. Mohammed Yunus of Grameen Bank and Pancho Otero of Prodem were both consulted when Calmeadow launched North America’s first group-based lending scheme on Wikwemikong Reserve in Ontario. In an interesting reverse of the traditional North/South technical transfer, a South/North transfer of expertise emerged during the start up phase of Canadian microcredit funds.

At the same time as this was happening in Canada, loan funds were springing up all over the United States. Out of these a close-knit informal “trade association” formed that included Calmeadow, ACCION, Working Capital based in Boston, The Women’s Self Employment Project in Chicago, the Good Faith Fund in Arkansas, The Lakota Fund on the Pine Ridge Reservation, Nebraska Micro-enterprise, and the North Carolina Rural Centre. With the support of the Ford Foundation, the group assembled in 1993 at the Couchwood Centre in Arkansas, with their Bangladeshi counter parts from BRAC, Proshika and Grameen.

Introducing Microcredit into Canada, as a stand alone venture, was not easy. The three goals of impact, scale and sustainability were elusive and much more difficult to achieve in the Canadian context.

Today, many of the early experimental micro-loan funds have disappeared or been taken over by formal financial institutions. Some have survived and others have emerged in their image. Cooperative financial institutions are initiating new micro lending initiatives. Commercial banks and other financial businesses are developing new products for the

sector. The federal and provincial governments continue with their support for community lending and loan guarantee schemes.

Like their international counterparts, Canadian domestic institutions are innovating in areas such as savings, insurance, housing loans, etc. and many are designing their products with the goal of reaching underserved populations such as women, immigrants, aboriginal people, and the poor. Poverty of access and poverty of opportunity are conditions driving many domestic microfinance providers. Ensuring “access for all” is key to the Canadian microfinance response.

Expanding Access to Financial Services: Canada’s Financial Cooperatives

The success of Canada’s financial cooperatives in expanding access to financial services overseas is rooted in a rich domestic experience. Canada developed as a frontier economy, with a comparatively small population dispersed across the second largest land base in the world. Scattered communities based on the exploitation of natural resources – agriculture, minerals, forest fibers, fish, petroleum – were located far from larger urban centres. Often, these geographically isolated communities were dependent on a single resource and therefore subject to the vicissitudes of commodity markets. Geographic isolation and economic marginalization went hand-in-hand. Furthermore, the physical distance between communities was compounded by differences in language and culture. With its Aboriginal, English and French ‘founding’ peoples and later waves of immigrants, Canada developed a complex social tapestry. Communities were distinguished not only by geography and economic base, but also ethnicity and language.

This physical, economic and social context challenged the establishment of a conventional financial sector in Canada. Although federally and provincially chartered banks developed national networks of retail branches, the sheer size of Canada and the dispersion of its population meant that many rural and remote communities had little access to financial services compared to their urban counterparts. Rural communities were also distrustful of chartered banks and trust companies based in the distant cities in central Canada, which were believed to be out of touch with realities of local communities.

The development of financial cooperatives was a response to the lack of access caused by geographic, economic and social isolation. To recap briefly, the first financial cooperative in Canada was established in December 1900 in Quebec by Alphonse Desjardins to overcome the difficulty French Canadians had in accessing financial services. With the onset of the Great Depression and resulting contraction of the conventional financial sector, financial cooperatives spread rapidly across the country. First in Quebec, followed by Nova Scotia in the early 1930s, and westward to Ontario, British Columbia and then Saskatchewan by 1937. The success of financial cooperatives in Canada is evidenced by the fact that as of 2002 Canada had proportionally more *caisse populaire* and credit union members per capita than any other country – 10.4 million out of a total population of 33 million. In Quebec, 7 out of every ten people belong to a *caisse populaire*. In Saskatchewan, six out of ten people belong to a credit union. At the end of 2002, the financial cooperative sector reported combined total assets of CAN\$131 billion, or 10% of the total domestic assets of Canada’s deposit taking institutions. Over the course of a century, financial cooperatives have transformed from a peripheral to an integral part of Canada’s financial sector.

Financial Cooperatives and Formal Microfinance Programs

As Canada's financial cooperatives matured, amalgamating and creating federations, they tended to become more conservative. Although some continued to provide small-scale credit to members of the community on an informal basis, they largely came to resemble their counterparts in the traditional banking sector. In the early 1990s, however, a few major urban credit unions began to specifically target socially and economically disadvantaged groups with formal microfinance services. When asked to comment on their institutions' motivation for undertaking formal microfinance programs, representatives of the four financial cooperatives interviewed for this study – Vancity Credit Union in Vancouver, Assiniboine Credit Union in Winnipeg, Alterna Savings in Toronto, and the Desjardins Group in Quebec – all responded that providing credit and other financial services to those who lack access is simply part of their mandate, and part of their commitment to community economic development. Commitment to the wellbeing of the local community is part of the credit union business model. Elisabeth Geller, Manager of Community and Environment Programs at Vancity, even went as far as to call community engagement and microfinance a part of her institution's branding, differentiating it from other Canadian banks and financial institutions. On a more strategic level, microfinance is also seen as a way to cultivate new customers, starting them off with microfinance services and eventually graduating them to more standard financial services, such as mortgages.

The strong commitment to community development enables financial cooperatives to undertake formal microfinance programs, which experience has shown to be difficult to be self sufficient as a stand-alone business activity in Canada.

Financial Cooperatives: Hidden Microcredit Providers

Many credit unions are engaged in "microcredit" without realizing it.

The Bergengren Credit Union in Antigonish Nova Scotia recently applied to participate in a pilot initiative for building community-based microcredit programs around Nova Scotia and Newfoundland credit unions in rural areas. The initiative is sponsored by the Canadian government's Rural Secretariat, the Nova Scotia Credit Union Central, and the Nova Scotia Co-operative Council.

In preparing its expression of interest, the commercial loans officer, Sally van der Wiel, broke out all Bergengren's commercial loans under \$10,000 as of May 2006. She was surprised to find a portfolio of 55 loans to individuals or community organizations who have no other financing from Bergengren besides the microloan. The value of the loans totals \$132,000. Many are under \$5,000. Many are to women operating part-time and home-based enterprises such as catering services and hair salons. A significant number are to artisans and crafts vendors at the Saturday farmers market in Antigonish as well as to produce vendors. Some of the loans are not backed by security. For the credit union it is a matter of access to productive credit for its members. At the extreme end of the access spectrum is an individual with a \$1,000 loan for a part-time home-based business selling safety equipment on the internet. That individual had previously undergone a personal bankruptcy as the result of his investment in his former beef cattle operation during the boycott on Canadian beef shipments to the United States because of the B.S.E. scare. His credit rating had meant no access to credit even for income generating activity that would help him recover from his economic debacle.

In reacting to the needs of the community and to a segment of its membership the credit union had already been running a micro credit program without explicitly designing one and labeling it as such. It is unlikely that Bergengren is unique among credit unions.

Vancity and Alterna were willing to take on Calmeadow's microcredit loan funds, despite their inability to become financially sustainable, because of their commitment to community development and the welfare of their members. In the case of Vancity, an assessment of its microcredit program three years later showed that individual microcredit loans were covering their costs while the peer group lending was sustainable through cross-subsidization from other credit union activities. Many other financial cooperatives in Canada

currently have formal microcredit programs, although all require some form of subsidy. Vancity leads the way, loaning over CAN\$13 million to more than 800 businesses since the program's inception, followed by Assiniboine Credit Union, Alterna, and numerous other urban credit unions across the country. Credit unions serving rural areas are also moving into formal microcredit with the assistance of provincial credit union networks, such as a recent initiative in Nova Scotia. In Quebec, the Desjardins Group has recently initiated two microcredit pilot projects in cooperation with the Quebec Community Credit Network. Though they are currently small-scale, especially given the size and reach of Desjardins in Quebec, it plans to expand across the province in the future. In sum, Canada's financial cooperatives are committed to making microcredit financial sustainable, but are willing in the meantime to absorb the costs involved to advance their community development agenda.

Commercial Microfinance – The Challenge of Adapting Successful International Models to the Canada Context

Encouraged by the early success of its international microfinance partnerships, Calmeadow decided to experiment with the development of sustainable scaleable models of Microcredit provision at home. This was more than four years before BancoSol was created in Bolivia. In 1987, Calmeadow launched the Native Self Employment Program in three aboriginal communities in Ontario, based upon the peer group lending methodology pioneered in Latin America and Asia. It's initial success led to the creation of the First People's Fund in 1990. That was followed by the launch of similar peer group and individual microcredit programs in rural Nova Scotia, Toronto and Vancouver in the early 1990s. The goal of these programs was twofold: to support self employment and small business creation among those who would otherwise be unable to do so due to their inability to secure small amounts of business credit; and to do so on a financially sustainable or commercially viable basis. During the 1990s, in partnership with Royal Bank of Canada, these funds would disburse approximately CAN\$4.6 million in 2,558 loans across the country. But by the mid-1990s Calmeadow had begun to conclude that microcredit was not commercially viable on a stand alone basis in the Canadian context. Calmeadow gradually sold off or wound down its loan portfolios. Its Vancouver program was sold to Vancity in 1996, and its Toronto operations to Metro Credit Union (the predecessor to Alterna) in 2000.

What Calmeadow and others learned from this important experiment was that reaching scale and achieving self-sufficiency in an industrialized country context is much more difficult than in a developing country context.

Factors Effecting Micro Finance Initiative Sustainability in Canada*

Relative to developing country contexts the following factors have impeded the development of a robust, fully financially sustainable microfinance model in Canada;

External Factors:

1. The micro-enterprise market is much smaller and not necessarily poor or low income. The market is better educated but less experienced in business. Enterprises are often home based and are therefore invisible. The market is not well understood.
2. Demand for credit is not as great. People may have other options. Both micro-enterprise and micro-credit are relatively new concepts (20 years).
3. Market demand is both latent and suppressed because there is a regulatory environment which discourages micro and in particular home-based businesses and there are often disincentives built into the social assistance system.
4. Businesses are often more complex and operating in a more complex marketplace – needs for some may be greater than for credit.
5. In spite of the almost 20 years of micro-lending experience in North America, there are no relevant, fully self-sufficient models to look to.
6. Delivery costs are higher due to human resource expense – high transaction costs.
7. More limited latitude on interest rates due to usury laws and public attitudes.
8. Most focus exclusively on small scale credit because of restrictions on savings mobilization.

In addition to these external factors there are also a number of internal factors which have impeded self-sufficiency of Canadian micro-finance initiatives;

Internal Factors:

1. Vision – many were not and still are not striving for self-sufficiency.
2. Many, like early overseas initiatives, take a short-term project or program approach instead of a more long-term institutional approach.
3. Many suffer from a confusion or lack of clarity on who the client is. Does one use a broader definition of credit-disadvantaged or a more strict low income definition of the client group?

The Role of Canadian Government in Microfinance

Direct government involvement in microfinance in Canada is concentrated in ensuring access to capital for rural community economic development. A network of 260 Community Business Development Corporations (CBDCs), (known as Community Futures Development Corporations in western Canada) stretching across rural Canada provide credit to start-up and existing small businesses. The federal government provided the original capital for the loan funds, and through its regional development agencies such as the Atlantic Canada Opportunity Agency (ACOA), continues to provide financing for annual operational costs. Although CBDCs are under the nominal authority of the federal regional development agencies, they are community controlled and focused. They are run by autonomous boards comprised of community members, and revenues generated from interest on lending activity go to increasing available loan capital, and are a form of community asset accumulation.

* Adapted from Mary Coyle, “Moving Towards Institutional Sustainability in Industrialized Countries,” 1997 Global MicroCredit Summit.

CBDCs share this community-centric approach in common with Canada's numerous credit unions and *caisses populaire*.

As with credit unions and *caisses populaire*, CBDCs do not focus exclusively on very small enterprises or economically and socially marginalized communities. They can currently loan up to CAN\$150,000. But they can also loan as little as CAN\$200, 500, 1,000, 5,000 and upwards. A few CBDCs even have a designated microloan fund which allows the executive director to provide small loans of CAN\$1,000-2,000 to owners of home-based or seasonal enterprises. CBDCs lend on character without collateral to applicants typically lacking financial wherewithal, and who cannot access conventional sources of capital. They also offer business counseling and other related non-financial services. Cumulatively, since 1986, the 41 CBDCs in Atlantic Canada have provided over 18,000 loans worth CAN\$520 million.

Various other municipal, provincial and federal government departments and agencies support microfinance in Canada. For example, Western Economic Diversification Canada (WED), the federal development agency responsible for all the provinces west of Ontario, supports small business microloan programs in Vancouver, Victoria, Edmonton, Regina, Saskatoon and Winnipeg through a loan loss reserve program which helps financial institutions offset some of the risk involved in lending to small businesses. Elisabeth Geller, Manager of Community and Environment Programs at Vancity, stated that WED's loan loss reserve is crucial in providing her institution with the breathing space it needs to operate formal microfinance programs.

Governments at all levels also support numerous community loan funds and non-governmental social service organizations across the country, two other key institutional features on Canada's microfinance landscape. The Montreal Community Loan Association (ACEM) is an illustrative example. Founded in 1987, it is one of Canada's oldest community loan funds, providing credit to individuals and community organizations which otherwise lack access to credit, particularly immigrants in the Montreal area. ACEM has a CAN\$500,000 loan fund, all from private investors. The federal and provincial government both contribute funds to help cover a portion of operational costs on an annual basis. According to ACEM's executive director, Anne Kettenbeil, such public-private partnerships are the only way microcredit programs can be financially sustainable in Canada. Without government support, community loan funds would have great difficulty remaining financially viable.

However, as several interviewees explained, government involvement in microfinance in Canada is not wholly beneficial. Across Canada, there are systemic biases built into provincial welfare legislation which hinder the effectiveness of microfinance programs. Those who enroll in a microcredit program, for example, many risk having that credit counted as income or an asset, which then results in a clawback of social assistance benefits. Although there are notable programs in place in several provinces which exempt social assistance recipients from restrictive asset limits, allowing them to participate in microfinance programs, clawbacks remain a serious barrier to individuals actively seeking to improve their wellbeing through microfinance.

Seen in this light, Canadian governments can both facilitate and encourage microfinance with one hand, and inhibit its effectiveness with the other. According to David Pell, this 'frustrating contradiction' shows that governments lack a clear understanding of microfinance, how it fits into, is affected by, and affects the whole social welfare system: "Microfinance is seen as a completely different silo, and not as a component of the social welfare system; not as a mechanism which can help reform and strengthen the whole

system.” Canada’s social safety net has shortcomings, and people can and do fall through the cracks. Microfinance should be integrated into the social security system.

Beyond Microenterprise Credit: Diversifying Canada’s Microfinance Response

With good reason, this examination of microfinance in Canada so far has focused on microcredit for business purposes.

More recently, several new microcredit initiatives focusing on immigrants and housing have emerged across the country. In Toronto, Alterna Savings and the MayTree Foundation have partnered to provide small education loans to recent immigrants to retrain/recertify in their area of expertise to match Canadian standards. Momentum in Calgary and the Ottawa Community Loan Fund are two other notable examples, and this area of microcredit is sure to grow in the coming years as immigrants and foreign-trained professionals become an increasingly important part of the Canadian workforce. Regarding housing, the St. John Community Loan Fund operates a shelter loan program which provides credit for low income individuals towards rent and utility deposits, and arrears. It has issued 32 such loans since the program’s inception. With waiting lists for social housing expanding rapidly across Canada, this is another area of microcredit with the potential to grow into the foreseeable future.

Although microcredit is the dominant component of microfinance in Canada, there is movement in new and exciting directions. On the savings side of microfinance, Social and Enterprise Development Innovations (SEDI) and the Social Research and Demonstration Corporation have undertaken a nine year, CAN\$35 million Individual Development Account (IDA) project funded by Human Resources and Social Development Canada, known as Learn\$ave. The basic premise behind IDAs is to build small financial assets which can be used to build human capital and better enable participants to improve their social and economic wellbeing. Through Learn\$ave, over the period of one year, low income and low asset individuals have their savings, up to a maximum of CAN\$1500, matched at a predetermined ratio by the project. While saving, participants are also enrolled in financial literacy classes. The accumulated savings are then put towards an educational program or the participant’s business. According to Barbara Gosse, Director of Asset-Building Initiatives at SEDI, to date, over 3600 participants have saved CAN\$3.5 million, matched by CAN\$10 million from Learn\$ave, currently making it the largest IDA program in the world. Several credit unions and other organizations offer similar asset building projects across the country.

Credit and savings services, with associated training programs, complete the picture of microfinance in Canada. In the near future, Vancity has indicated it will start a pay cash lending service, up to CAN\$1000, as an alternative to other private services and to help prevent people from getting caught up in unproductive credit. Vancity is also looking to roll out a micro-insurance program in the future, most likely for secondary healthcare coverage, such as prescription eyewear and drugs, dental care, etc. This program would be targeted at people coming off social assistance and who as a result lose secondary healthcare benefits. It is for such initiatives that Vancity has earned accolades from its colleagues as the lead institution in the field of microfinance within Canada.

Canada at Home: The Future Rests with the Cooperative and Commercial Sectors

While innovative community loan funds will continue to experiment with and demonstrate exciting new microfinance products and services and while governments will partner with others to subsidize the delivery costs and offset the risks of microfinance, Canada's credit unions, caisses populaires, and commercial financial institutions will continue to meet the bulk of the growing demand for microfinance. In some cases it will be specifically targeted at the income poor but it will also need to capture those experiencing poverty of access and poverty of opportunity.

Canada in the World and at Home: Responding to the “Big is Necessary” Imperative

Around the world, there are many who lack access to simple and reliable financial services, such as credit, insurance and savings accounts. This is a problem, United Nations Secretary General Kofi Annan has stated, because financial services can help “alleviate poverty by generating income, creating jobs, allowing children to go to school, enabling families to obtain health care, and empowering people to make the choices that best serve their needs...” Access to financial services, in other words, is an important part of human development. In developing countries, the number of people who lack access to financial services reaches into the billions, particularly in rural and remote areas. In developed countries, a different version of the problem exists. While the majority of the population has access to financial services, there nonetheless remains a minority of people who are excluded from the financial system. In short, in developing and developed countries alike, there exists a ‘financial frontier,’ beyond which many are excluded from the financial services that can help them improve their lives.

At home and abroad, Canada has responded to this exclusion by working to expand access to financial services through microfinance, creating more inclusive financial systems. Domestically, the response has been led by financial cooperatives. Alphonse Desjardins established Canada's first *caisse populaire* in 1900 in the small town of Levis, Quebec. Some 30 years later, Moses Coady and the Antigonish Movement started the first credit unions in English-speaking Canada. From these inauspicious beginnings grew one of the most robust financial cooperative movements in the world. Though they went by different names, in different parts of the country, their goal was the same: to provide accessible financial services and promote economic empowerment. Beginning in the late 1930s and continuing to the present, Canadian financial cooperatives have promoted the financial cooperative model in the developing world through training, technical assistance and investment. The strong domestic roots of Canadian financial cooperatives, spanning English and French Canada, thus act as a platform for international engagement. Domestically and internationally, *caisses populaire* and credit unions represent the oldest and in many situations the most successful contribution to Canada's efforts to push back financial frontiers.

In addition to financial cooperatives, the other key component of Canada's response to the challenge of building inclusive financial systems at home and abroad has been the development of commercial microfinance. Of key importance here is the small Toronto-based non-governmental organization, Calmeadow. On the domestic side, Calmeadow initiated a series of micro-lending funds across Canada in the 1990s for those who could not secure credit from traditional sources. Although they proved to be financially unsustainable,

due in large part to the difficult operating environment in Canada, several were taken on by major Canadian credit unions and continue to be an important part of domestic efforts to expand access to financial services. On the international side, Calmeadow and more recently MEDA have been pioneers in the development of commercially viable microfinance banks and investment funds, demonstrating that poverty alleviation and profitability are not mutually exclusive goals. By encouraging existing commercial banks to move ‘downstream’ and offer microfinance services, Calmeadow has helped bring financial services to millions of people throughout the developing world.

Together, the Canadian cooperative and commercial responses to the challenge of building inclusive financial systems form the core of this country’s contribution to the development of microfinance. Within these two streams, there are a host of organizations working at home and abroad to expand access to financial services, not to mention a multitude of individual Canadians working as consultants or in multilateral and other organizations around the world. At home, commercial banks, finance corporations, community loan funds, government lending programs, and informal savings and credit operations complete the microfinance landscape. Abroad, the activities of the Canadian branches of major international development networks – such as Care Canada, Opportunity Canada and World Vision Canada – round out Canadian involvement in microfinance in the developing world.

Whether at home or abroad, Canada’s provincial and federal governments play an important role in microfinance, first and foremost by providing financing for microfinance initiatives. Municipal, provincial and federal governments provide financial and regulatory support to Canada’s relatively small microfinance community, particularly microcredit programs, and particularly in rural and traditionally under-developed areas of the country. Also, in recent years, savings and asset building programs have emerged as a new and innovative piece of microfinance in Canada receiving government support. In the developing world, CIDA deserves particular attention for its long-term commitment to microfinance by partnering with Canadian organizations, the Canadian branches of international development networks, and multilateral organizations to implement microfinance projects in the developing world, and by providing funding to important multilateral initiatives, such as the Consultative Group to Assist the Poor (CGAP) and the Global Microcredit Summit Campaign. CIDA has demonstrated this country’s sustained commitment to breaking down financial frontiers around the globe.

Looking to the future, with 3 billion people in the world living on less than 2 dollars per day and the majority yet excluded from having access to financial services, Canada is compelled and is well-positioned to respond to the urgency of the global situation.

At home, Canada has an opportunity to build on its credit union, community-finance, asset-building experience and the lessons from its innovative, but abandoned attempts at commercial loan funds to ensure that the financial system is stretched and shaped to include those still lacking access.

Canada’s major strength is in its international capacity to contribute. The most successful of the microfinance players from both ends of the commercial and cooperative spectrum should be supported in their efforts to expand and innovate. New models of achieving scale and sustainability while deepening impact must be pursued. Identifying new sources of sustainable capital and building new financial intermediaries will be key. Developing new financial and complementary non-financial products and services which accelerate, enhance and sustain the transition from poverty to prosperity needs to be central to the Canadian agenda. Organizations should be supported to focus on reaching the

hardest to reach – the most remote, the socially excluded – women and others, with sustainable access to financial services.

With new resources and a renewed commitment to the “Big is Necessary” imperative, the key Canadian microfinance institutions can commercially and cooperatively pave the way to achieving the goal of access for all.

Appendix I

List of Resource Persons Interviewed		
Name	Organization	Position
Arias, Martha	Opportunity Canada	Program Director
Barlow, Jayne	Aga Khan Foundation Canada	Senior Program Manager
Barrineau, Christina	Consultant	Consultant
Boucher, Priscilla	Assiniboine Credit Union	Vice-President, Corporate Social Responsibility
Brand, Kim	Scotiabank	Senior Manager, Corporate Social Responsibility
Cameron, Susannah	Canadian Community Investment Network Cooperative	Executive Director
Chapparo, JJ	World Vision Canada	Senior Sector Specialist, Economic Development and Canadian Programs
Connell, Martin	Calmeadow	Cofounder
Cook, Tamara	CGAP	Microfinance Analyst, Financial Institutions Team
Cunningham, Gord	Coady International Institute	Senior Program Staff – Asset-based Community Development
Dhaniram, Vida	Gems of Hope	Executive Director
Fischer, Klaus	Centre for Research in Economy and Applied Finance, University of Laval	Associate Professor
Furany, Kadry	Care Canada	Program Director, Small Economic Activities Development
Gaboury, Anne	Développement International Desjardins (DID)	President
Geller, Elisabeth	Vancity	Manager, Community Programs
Gosse, Barbara	Social and Enterprise Innovations (SEDI)	Director, Asset-building Programs
Gosselin, Francoise	Desjardins	Economic Development Officer
Harpe, Stephan	Oikocredit	Manager, Equity Investments
Hayes, Michael	ACOA	Community Business Development Officer
Hendricks, Larry	Consultant	Consultant
Henry, Susan	Alterna	Community Economic Development Specialist

Hettiarachichi, Ranjith	Asian Confederation of Credit Unions	Chief Executive Officer
Isern, Jennifer	Consultative Group to Assist the Poor (CGAP)	Lead Microfinance Specialist
Kettenbeil, Anne	Montreal Community Loan Fund (ACEM)	Executive Director
Lamy, Etienne	Centre d'étude et de coopération internationale (CECI)	Economist/Director – Trade, Agribusiness and Management Unit
Lee, Nanci	Coady International Institute	Senior Program Staff – Microfinance
MacPherson, Ian	BC Institute for Cooperative Studies	Director
Matthews, Brett	Mathwood Consulting	Consultant
McKee, Katherine	Office of Microenterprise Development, United States Agency for International Development	Director
Medina-Recio, Arelis	Canadian International Development Agency (CIDA)	Senior Enterprise Specialist – Asia Branch
Pell, David	Street Kids International	Executive Director
Plouffe, Alain	Société de coopération pour le développement international (SOOCODEVI)	Africa-Asia Director
Poirrier, Jean-Guy	Atlantic Canada Opportunities Agency (ACOA)	Policy Coordinator, Access to Capital
Rothschild, Jonathan	CIDA	Senior Economist
Sauder, Allan	Mennonite Economic Development Associates (MEDA)	President
Scoggins, Anthony	Oxfam Canada	Manager, Overseas Programs
Silva, Alex	Calmeadow	Executive Director
Speake, Kathleen	Canadian Cooperative Association (CCA)	Director, Asia and Eastern Europe
Syvret, Bruce	World Relief Canada	Program Director, Microfinance
van Gils, Pieter	Ecotrust Canada	Director, Economic Development
Wright, Robert	United Way Halifax	Program Manager, Community Impact

Appendix II

Websites of Organizations Consulted for this Study

ACOA: www.acoa.ca
Aga Khan Foundation Canada: www.akfc.ca
Alterna Savings: www.alterna.ca
Asian Confederation of Credit Unions: www.aaccu.coop
Assiniboine Credit Union: www.assiniboine.mb.ca
Atlantic Association of CBDCs: www.cbdc.ca
BC Institute for Cooperative Studies: www.web.uvic.ca/bcics
Calmeadow: www.calmeadow.com
Canadian Community Investment Network Cooperative: www.communityinvestment.ca
Canadian Gateway to Microfinance: www.microfinance.ca
CCA: www.coopscanada.coop
CECI: www.ceci.ca
Centre for Research in Economy and Applied Finance, University of Laval: www.crefa.ecn.ulaval.ca
CGAP: www.cgap.org
CIDA: www.adic-cida.gc.ca
Coady International Institute: www.coady.stfx.ca
DID: www.did.qc.ca
Ecotrust Canada: www.ecotrustcan.org
Gems of Hope: www.gemsofhope.org
Global Microcredit Summit 2006: www.globalmicrocreditsummit2006.org
International Year of Microcredit 2005: www.yearofmicrocredit.org
MEDA: www.meda.org
Momentum: www.momentum.org
Montreal Community Loan Fund : www.acemcreditcommunautaire.qc.ca
Oikocredit: www.oikocredit.org
Opportunity International: www.opportunityinternational.ca
Ottawa Community Loan Fund: www.oclf.org
Oxfam Canada: www.oxfam.ca
Pan Canadian Community Futures Group: www.communityfutures.ca
Scotiabank: www.scotiabank.com
SEDI: www.sedi.org
SOCODEVI: www.socodevi.org
St John Community Loan Fund: www.loanfund.ca
Street Kids International: www.streetkids.org
The Microfinance Gateway: www.microfinancegateway.org
United Nations Capital Development Fund: www.unccdf.org
United Way Halifax: www.unitedwayhalifax.ca
Vancity: www.vancity.com
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