



What Is Needed to Have Wholesale/Autonomous Microfinance Funds Work In Africa and the Middle East?

On the morning of April 8, **Praful Patel**, President, Centennial Africa and Middle East, chaired the workshop on “What is Needed to Have Wholesale/Autonomous Microfinance Funds Work in Africa and the Middle East,” which focused primarily on the evolving role of APEX organizations in support of the microfinance sector. The four leading expert practitioners working for or with APEX institutions who participated in this workshop were **Eric Ekué**, Former Secretary-General of the Banking Supervision Commission for Senegal; **Dr. Quazi Mesbahuddin Ahmed**, Managing Director, Palli Karma-Sahayak Foundation; **David Ferrand**, Director, Financial Sector Deepening (FSD Kenya); and **Marilou Uy**, Sector Director, World Bank, USA¹.

Throughout the discourse on apex institutions among the panelists and during the Q&A with Summit attendees, a number of key themes surfaced that led to a very lively discussion and debate. These themes included whether apex institutions should play a temporary role in support of the sector, or if they should establish themselves as key stakeholders over the long-term; whether apex institutions should be focused solely on providing MFIs with credit or if they should support capacity building activities as well; apex institutions’ roles as advocates for metrics and evaluation of MFIs; the need for a regional apex organization in Africa; best practices in governing apex organizations; and whether MFIs should shift their focus from serving larger MFIs to smaller or rural MFIs that have greater challenges accessing commercial capital. Each panelist shared a slightly different perspective on the role that apex institutions should play. Following are highlights from their remarks which capture their unique points of view.

In advance of the workshop, **Praful Patel**, President of Centennial Africa and Middle East, had posed three key questions to the panelists which set the stage for the lively discussion that took place: 1) What role would wholesale microfinance funds play in the scaling up of microfinance in Africa and the Middle East?; 2) There is a view that apexes are useful in settings where microfinance is not there, or is nascent. What is the view of the panel on this issue? and 3) What will be guiding principles for the next generation of apexes?

Mr. Patel launched the panel discussion with the following overview of funding sources for MFIs. “There are a number of vehicles through which microfinance is

¹ CGAP defines a national microfinance apex institution as a local wholesale funding facility that is most often set up by governments and international funders. Its main purpose is to channel funds in the form of debt or grants to MFIs in order to increase financial inclusion for the poor. Some apexes also provide technical assistance to MFIs, and they may have different types of governance and legal structures.

Wednesday, April 8, 2010

10:45 AM – 12:15 PM

Aberdare Hall

Panel:

*Chair: Mr. Praful Patel,
President, Centennial
Africa and Middle
East, USA*

*Mr. Eric Ekué, Former
Secretary-General of
the Banking
Supervision
Commission (BCEAO),
Senegal*

*Dr. Quazi Mesbahuddin
Ahmed, Managing
Director, Palli Karma-
Sahayak Foundation
(PKSF), Bangladesh*

*Mr. David Ferrand,
Director, Financial
Sector Deepening (FSD
Kenya), Kenya*

*Ms. Marilou Uy, Sector
Director, World Bank,
USA*

funded,” he commented. “Private funding of MFIs is one source and public and donor funding is another important source. Delivery of funds has been done through several means; wholesale apex institutions are one channel of public donor financing to microfinance institutions.”

Eric Ekué, Former Secretary-General of the Banking Supervision Commission for Senegal and expert on economic issues for Africa, commented on the lack of quality funding resources that are available to MFIs, especially in West Africa, and the need to ensure that if funds are invested, they are invested with serious consideration given to local MFI needs and client demands. Mr. Ekué also expressed concerns about the long-term need for diversified and flexible funding structures that respond to local needs on a country-by-country basis, rather than a regional basis throughout West Africa.

Dr. Quazi Mesbahuddin Ahmed, Managing Director, Palli Karma-Sahayak Foundation (PKSF) in Bangladesh, continued the discussion and took a strong stand on the supportive role that of apex institutions could play to help MFIs in Africa develop the cost effective models required to scale up their client outreach. In his remarks, he pointed out that apex organizations for MFIs need to be established as permanent institutions from their inception. Dr. Ahmed explained, “[The role of the apex is] creating a conducive environment for the emergence of sustainable [MFIs from] both a financial and institutional ... [perspective], promoting the concept of development microcredit. So I would like the audience to kindly note that I am advocating [for] ‘development microcredit’, working as a key institutional development [mechanism] for MFIs, serving as a catalyst in integrating development programs with microfinance programs, with the goal of making an effective dent in poverty reduction.” [Through] those roles, the strategies of apex funds should take an institution-building approach ... government-based financing, [or] socially-motivated financing approach in place of commercial financing.”

The panel discussion continued with remarks from **David Ferrand**, Director of FSD Kenya, who views apex institutions as “change agents,” explaining that, “The apex ... should be run on business-like lines from the beginning, and sponsors of the apexes should also avoid seeking to dominate the market, they should seek to be actors within the market...”

“[For example], smaller MFIs very often struggle to act as wholesale commercial financiers and even the larger MFIs may face a struggle to achieve the level of leverage needed for efficient operation when they are not subject to prudent regulation. Furthermore, there’s are gaps between government, donors, and the markets that MFIs are seeking to reach [in regard to their understanding of the market risks and liabilities inherent in microfinance]. I see apexes as playing a critical role in bridging those gaps, Mr. Ferrand suggested.

Mr. Ferrand also pointed out that “Weakly-developed wholesale financial markets fail to allocate resources efficiently due to their inability to assess MFI liability effectively. ... [Apexes can address this situation by] developing the capacity to assess MFI risk more effectively, by specializing in that particular market. They can invest in upfront costs and build a market for MFI debt and possibly equity, and they can bear risk in the context of unquantifiable uncertainty ... [particularly in] markets

that are so nascent that it's actually very hard to put a figure on what the level of risk is.

Mr. Ferrand further explained, “We need to look at the risks that [apexes] present from a market development perspective. They can become a source of long-term subsidy, which reduces the incentive for market development. He suggested, “In terms of interest rates to MFI clients, these should never be below the appropriate cost of risk free money in the market, typically that would be the rate at which a government is able to borrow through the market through treasury instruments. The risk assessments of MFI clients should be made public domain so that private sector players interested in getting into the wholesale market are able to benefit from those risk assessments. There is also a role for encouraging syndication with other sources of commercial wholesale finance, possibly offering limited term enhancement to those commercial providers using the apex facility, again in the interest of long-term wholesale market development. I think there is also a case for providing poverty innovation windows—allowing early stage MFIs with low credit ratings but greater poverty outreach to access funds in order to develop the low end of the market.”

The final panelist was **Marilou Uy**, Sector Director for the World Bank, who has worked with a number of apex institutions in her role at the World Bank and focused her remarks the roles they could play to support MFIs but also the need for them to focus on their own institutional challenges in order to achieve their goals.

Ms. Uy noted that, “MFIs in Africa reach about 5.2 million borrowers and 9 million savers. ... But there is still a substantial scope for much greater scale-up of financial access in Africa. ... One of the top risks among the microfinance institutions in Africa is still on the institutional side. An institutional weakness normally covers management, governance, and staffing. For further scale up it's quite important to address this particular risk so that microfinance institutions ... continue to grow ... sustainably and healthfully and are able to perform their function in the microfinance sector.”

She also pointed out that when the World Bank surveyed donor support to the microfinance sector in sub-Saharan Africa, they learned that very few donors provide funding for capacity building. “So that clearly is a gap in the market ... and perhaps an area to really focus on would be capacity building—and apexes can be part of the solution in addressing institutional weaknesses in microfinance institutions. ... [Also] in sub-Saharan Africa where you do have a lot of small countries, the possibility of a regional capacity building apex institution or a regional apex institution should probably be considered.

Further, Ms. Uy shared her views on the need for apex institutions to have good governance structure. “Why that is important,” she explained, “[is] because as apexes review their strategies going forward, they do need a board or an oversight committee ... who would be able to think about the future ... [and] think about the strategy of the apex, and management that would be able to implement such a strategy. ... Apexes need to take a long-term approach to their investment in the microfinance sector ... particularly if they're large, [as] they stand to shape the future of the ... sector. “

Ms. Uy concluded with a call for apex institutions to recognize and embrace the need to monitor and evaluate their broad impact. “Apexes need to ensure that there are performance metrics for the retailers [MFIs] they support ... but the apex itself needs performance metrics [as well]. So it’s quite important to focus on monitoring and evaluation, especially as apexes do tend to be there [supporting the marketplace] for long periods of time; and [they] need to know the results that they are having on the ground.”

Following are a few key comments from the Q&A session:

Comments from Dr. Ahmed: “On the question of capacity building, I want to emphasize that I do think it’s incredibly important that there is capacity building. It’s a question of how it’s delivered, whether it should be delivered through the same apex whose primary business is providing wholesale debt finance and possible equity or not. I would argue strongly in favor of having a specialist entity, which would focus solely on capacity building. Part of the reason I would argue in favor of that is because an awful lot gets slung into the bucket called capacity building. It covers a multitude of sins and can be used as an indirect mechanism for subsidy in quite strange and unaccountable ways, and so I think it’s very important to have a very clear focus on what you’re doing in capacity building, hence the argument in favor of a specialist fund.

“I also think it’s very important that we don’t think of capacity building as being a one-off special activity which only happens at the beginning of an institution’s history. Capacity building rapidly transforms into regular business services that all sustainable businesses will need. Most businesses don’t have in-house consulting capacity on [developing] strategy, or on implementation of new information systems, and so forth. They have to get that from the outside, and so you need a market for that as well. And so I think it’s very important that when we are thinking about capacity building, we think about the market development aspects of that as well because in the long run, those business service markets, which is what we’re really talking about, have to be sustainable. So my argument here in terms of apexes is that they should stick to their knitting.”

Question: “My name is Jeff Enjagi. I work for an apex organization here in Kenya, and I want to begin by agreeing with Dr. Quazi, and then I will pose a question. I believe, having worked in this apex organization for the last 7 years, that what Dr. Quazi has said is really true ... [that MFIs have a permanent need for] our financial services. In our experience here in this region, we have an informal network of apex organizations, mainly made up of apexes in Kenya and Uganda, and our experience is that we are effectively competing with banks. ... What I would like to ask any member of the panel to help us with is how can we ensure that apexes are able to attract more private equity with the help of donors and governments like you have at PKSF; how can we attract more private equity to be able to grow this business?”

Answer from Mr. Ferrand: “I think an interesting piece that Jeff Enjagi raised is whether apexes can become part of the market in the longer term. I would say the critical piece is: Can they become a real player on fully commercial terms?—and to my mind the jury is very out on that. We did some analysis on it, and it looked like in the Kenyan market it was very hard to get to the scale needed. As pricing comes down, because obviously [there are] benefits as these markets develop, pricing

becomes keen and nearly not as keen as I'm sure all the MFIs retailers here would like to see. But inevitably it is becoming tougher and I know from talking to a number of the apexes ... that the markets are becoming tighter. And so the long-term case for whether a specialist retailer can survive or not isn't clear because you've got banks which have got access to big wholesale funds, and they can start pricing pretty aggressively. I would say that looking for an example of this sort of role going on, it's very interesting to look at the case of SACCOs (saving and credit cooperatives) or credit unions in this market. The cooperative bank has actually been wholesaling to that market for many years, on a fully commercial basis, so it's not a fantasy to suppose that this can happen. It has been happening here in Kenya for years."

Answers from Ms. Uy: "One question was, What is the World Bank doing in some of these areas of the microfinance sector? The IFC has really occupied a prominent space in providing funding and investing in microfinance institutions. ... From the bank's side, we have what we call the micro-medium and micro, small, and medium-scale enterprise initiative, which we are now working on in about seven countries in Sub-Saharan Africa, and here it's not directed at credit lines, but more on building the financial infrastructure, such as credit information disclosure, etc. that would help MFIs become much more sustainable financial institutions."

"[Another initiative] is money transfer, since the cost of money transfer in some corridors in Africa is quite expensive. Here we are working on the various issues that might need to be addressed to lower the cost of money transfer. Lastly, we are beginning to talk about a potential capacity building fund for Sub-Saharan Africa for microfinance. It's in early stages but we hope that this will actually develop into something much more concrete in the near future."

"[Regarding] the question on smaller MFIs and access to funding for smaller MFIs – that's actually a debate that needs to be fostered with apexes. ... Will apexes move from supporting much more established players towards supporting the new players in the market and the smaller players in the market? And that, I'm afraid, is the only way that we can actually begin to broaden the access to wholesale funding for the smaller MFIs."

Concluding comments from Mr. Patel: "If an apex body is to be successful in any corner of the world, it should not be a fair-weather craft. It should be a craft designed in such a way that it can withstand the rough financial market. ... If you do not succeed in building the financial capacity, as well as the institutional capacity of the MFIs, you as an apex cannot succeed. In order to do that, the critical mass within the MFI is of paramount importance."



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