ESSENTIALS

A Synthesis of Lessons Learned

Evaluation office
No. 3. December 1999

Microfinance

Background

The majority of the world's population is poor, subsisting on $2-3 per day. Over 500 million of the world's poor are economically active. They earn their livelihoods by being self-employed or by working in *microenterprises* (very small businesses which may employ up to 5 people). These *microentrepreneurs* make a wide range of goods in small workshops; engage in small trading and retail activities; make pots, pans and furniture; or sell fruits and vegetables.

Yet these poor households often fail to secure the capital they need and miss opportunities for growth because they do not have access to financial resources – loans or a safe place to hold savings. Over 80 per cent of all households in developing countries do not have access to institutional banking services. This includes nearly all the poor people in the developing world. When there are no financial institutions to serve them, poor enterprises and households rely largely on informal sources such as family, friends, suppliers or moneylenders for their financial needs.

Concept

Microfinance has emerged as a growing industry to provide financial services to very poor people. Until recently, microfinance focused primarily on providing microcredit (small loans of about $50-$500) for microenterprises. Now, however, there is a recognition that poor people need a variety of financial services, not just credit. Current microfinance has therefore moved towards providing a range of financial services, including credit, savings and insurance, to poor enterprises and households.

The field of microfinance was pioneered by specialized non-governmental organizations (NGOs) and banks such as Bank Rakyat Indonesia (BRI) Unit Desa (Indonesia), Grameen Bank (Bangladesh), Kenyan Rural Enterprise Programme (K-Rep) (Kenya), Fundación para la Promoción y Desarrollo de la Microempresa (PRODEM), Banco Solidario (BancoSol) (Boliva), and others. They challenged the conventional wisdom of the 1970s and discovered that with new lending methods, the rural poor repaid loans on time. These new methods included providing very small loans without collateral at full-cost interest rates that were repayable in frequent instalments. They demonstrated that the poor majority, who are generally excluded from the formal financial sector, can, in fact, be a market niche for innovative banking services that are commercially sustainable.

As a result, current microfinance has made a major shift from subsidized microfinance projects of the past, which ended up serving few people, to the development of sustainable financial institutions specialized in serving the low-income market.

This note on entrepreneurship development complements reviews of evaluation-based lessons that appear in two other issues of Essentials: one on small and medium enterprise development (No. 1), the other on entrepreneurship development (No. 2).

Today there are a growing number of successful microfinance institutions (MFIs) worldwide. These are primarily local institutions that are reaching a significant number of poor people and that are becoming commercially viable.

This issue of *Essentials* aims to capture some of the important lessons learned about providing quality financial services for the poor on a sustained basis.

Lessons Learned

Role of Microfinance Services

1. Do not restrict loan use.

Access to financial services provides the poor with the opportunity to accumulate assets, to reduce their vulnerability to shocks (such as illness or death in the household, crop failure, theft, dramatic price fluctuations, the payment of dowries) and to invest in income-generation activities. It also enables them to improve the quality of their lives through better education, health and housing.

One of the most important roles of access to credit is that it enables the poor to diversify their incomes. Most poor households do not have one source of income or livelihood. Instead they pursue a mix of activities, depending on the season, prices, their health and other contingencies. This may include growing their own food, working for others, running small production or trading businesses, hunting and gathering, and accessing loans.

What to do?

Microfinance organizations should allow for the fact that microentrepreneurs have a variety of uses for funds, not only for the activity for which a loan is formally given but also for household operations and other family enterprises. It would be too risky for the poor, particularly the poorest of the poor, to invest all their income in a single activity. If the single activity or enterprise failed, the consequences of this would be much greater than if they had several sources of income.

Providers of quality financial services recognize this and place relatively few restrictions on loan use. Most microfinance organizations do *not* monitor client loans to ensure that the loan is being used for its stated purpose because they recognize that it is part of the survival strategy of poor clients to make an ongoing stream of economic choices and decisions. The clients themselves know how best to manage their funds.

Example: *Kamala Rani's diversified activities (Bangladesh). Kamala Rani is an experienced borrower. She has taken loans three times. She invested her small, first loan (1,000 taka) in her husband's business. He trades in bamboo and sells bamboo products in his shop. Kamala also provides labour to make bamboo mats. When she obtained her second loan (2,000 taka), she used it to make large containers for storing crops and other products, which she sells from home to wholesalers and villagers. Next she borrowed another 4,000 taka, primarily to buy a cow. She can repay her loan from her profits from selling milk and from her investment in her husband's business. She still makes mats and other bamboo products, which she plans to sell at the end of the year, when the price of the mats will go up. She can take advantage of this increase in the price of the mats because she has other sources of income to make her weekly loan instalment payments. Like other low- income clients, Kamala Rani's diversified activities enable her to maximize returns from investment.* (Source: adapted from Rahman, "Impact of Credit for Rural Poor: an Evaluation of Palli Karma-Sahak Foundation's Credit Programme", Bangladesh Institute of Development Studies, 1996, in Wright, "The Impact of Microfinance Services: Increasing Income or Reducing Poverty", 1999.)

2. Provide access to financial services, not subsidies.

For microenterprises, the most common

constraint is the lack of access to working capital to grow their business. Low-income entrepreneurs want *rapid* and *continued* access to financial services rather than subsidies, and they are able – and willing – to pay for these services from their profits. Most microentrepreneurs borrow small amounts for short-term working capital needs. The returns from their economic activities are normally sufficient to pay high interest rates for loans and still make a profit.

Microentrepreneurs value the opportunity to borrow and save with MFIs since they provide services that are *cheaper* than those that would normally be available to poor clients or that would be entirely unavailable to them. Moneylenders charge very high interest rates, often many times the rate charged by MFIs, and the moneylenders' terms may not be suited to the borrower. Microentrepreneurs have consistently demonstrated that they will pay the full interest cost to have continued access to financial services from MFIs.

What to do?

MFIs cannot afford to subsidize loans. If the organization is to provide loans on an on-going basis, it must charge interest rates that allow it to cover its costs. These costs tend to be high because providing unsecured, small loans costs significantly more than loans in traditional banking. The costs to the institution include operating costs, the cost of obtaining the funds for loans, and the cost of inflation.

MFIs cannot rely on governments and donors as long-term sources of funding. They must be able to generate their own income from revenues, including interest and other fees. Since the poor seek continued and reliable access to financial services and are able and willing to pay for it, it is advantageous to both the institution and the clients to charge interest rates that cover the cost of the services. (For a fuller discussion on setting interest rates, see *Resources: Financial Sustainability*, p.11.)

Examples: Client demand as an indicator.
*If clients repay their loans, pay full-cost interest rates and remain in a programme as borrowers or savers, it is a very good indication that they value these services. A detailed, independent review of the microfinance activities of the United Nations Capital Development Fund (UNCDF) in Africa, Asia and Latin America found evidence that poor clients were willing to pay the interest rates necessary to provide these services. "Even when they have to pay the full cost of those services, they use them and come back to use them again and again." (*Source: UNCDF, *Independent Review of UNCDF Microfinance Activities*, by Rosenberg, 1998.)

Continued and reliable access to credit and savings services is what is most needed. "Subsidized lending programs provide a limited volume of cheap loans. When these are scarce and desirable, the loans tend to be allocated predominantly to a local elite with the influence to obtain them, bypassing those who need smaller loans … In addition, there is substantial evidence from developing countries worldwide that subsidized rural credit programs result in high arrears, generate losses both for the financial institution administering the programs and for the government or donor agencies, and depress institutional saving and, consequently, the development of profitable, viable rural financial institutions." (Source: Robinson, *"Savings Mobilization and Microenterprise Finance: the Indonesian Experience*" in *The New World of Microenterprise Finance: Building Healthy Financial Institutions for the Poor*, Otero and Rhyne, eds., 1994.)

3. Financial services contribute to women's empowerment.

Women entrepreneurs have attracted special interest from MFIs because they almost always make up the poorest segments of society, they have fewer economic opportunities, and they are generally responsible for child-rearing, including education, health and nutrition. Given their particularly vulnerable position, many MFIs seek to empower women by increasing their economic position in society. Experience shows that providing financial services directly to women aids in this process. Women clients are also seen as beneficial to the institution because they are seen as creditworthy. Women have generally demonstrated high repayment and savings rates.

What to do?

MFIs interested in serving women should understand the specific needs of women clients and attract women as customers. Women often have fewer economic opportunities than men. Women also face cultural barriers that often restrict them to the home (for example, the institution of the veil, or *purdah*), making it difficult for them to access finance services. Women have more traditional roles in the economy and may be less able to operate a business outside of their homes. Women also tend to have disproportionally large household obligations.

Loan sizes may need to be smaller, given that women's businesses tend to be smaller than men's. They tend to focus on trade, services and light manufacturing. Women's businesses are often based in the home and frequently use family labour. Loans to women should allow women to balance their household and business activities, for example, by not requiring that too much time be spent in meetings and holding meetings in convenient locations. The gender of loan officers may also affect the level of female participation in financial services, depending on the social context.

Examples: Women and empowerment.
Regardless of culture or national context, impact assessments have found positive results for women with access to financial services. For instance, a study on the impact of microfinance on poverty alleviation in East Africa, conducted by the UNDP MicroSave-Africa programme, found that participation in a microfinance institution "typically strengthens the position of the woman in her family. Not only does access to credit give the woman the opportunity to make a larger contribution to the family business, but she can also deploy it to assist the husband's business and act as the family's banker - all of which increase her prestige and influence within the household." (Source: Wright and others, *Vulnerability, Risks, Assets and Empowerment: the Impact of Microfinance on Poverty Alleviation*, March 1999.)

Attracting women borrowers.
In a United States Agency for International Development (USAID) study of 11 successful MFIs, findings indicate that the organizations studied do in fact reach large numbers of women either because of direct policy decisions (Grameen Bank; Asociación Dominicana para el Desarrollo de la Mujer, or ADOPEM) *or because of a commonly held belief that women demonstrate stronger repayment performance and are more willing to form groups (K-Rep, Kenya).* (Source: Christen and others, 1995, in Ledgerwood, *Microfinance Handbook*, 1997.)

Developing Sustainable Institutions

4. Support institutions, not projects.

Microfinance has made a clear shift away from the limited-duration projects of the 1970s and 1980s when donors usually subsidized the credit to the borrowers. Providing credit at subsidized rates through the project approach was problematic for a number of reasons. It turned out to be costly and unsustainable because loans were viewed as charity and were rarely paid back. The funds were quickly depleted before they could reach many people. Another shortcoming was that donors often specified target groups related to geographical location, gender, poverty level or economic activity. These externally imposed objectives were difficult to accomplish and often resulted in failure. Finally, training for health, education, social empowerment or business skills was also often provided along with the credit. Training, too, proved to be costly, patronizing and a waste of clients' time.

Because of the problems inherent in the project approach, a new viable alternative was needed. This resulted in a move towards a financial-systems approach, which stresses the creation of institutions rather than projects to meet the financial needs of the poor on a sustained basis. There is widespread consensus among microfinance practitioners and donors, including UNDP, that developing institutions is critical both for sustainability and because there is a vast unmet need for MFIs. Currently the single most important constraints to expanding low-income clients' access to financial services are the limited number and capacity of institutions to serve them. Although the number of MFIs worldwide is growing, calculations indicate that currently they reach only 2-5 per cent of the total market for microfinance services. Many more institutions are needed for the hundreds of millions who are still without access to financial services.

What to do?

Donors can promote the development of MFIs by identifying and supporting promising local initiatives to develop as institutions. Donors should:

(a) identify promising local organizations;
Donors should look for promising MFIs whose objectives and operations they can support rather than having to try to change them. Donors should not mandate the organization's target groups or geographic areas of operation. (For tools to appraise potential institutions, see *Microfinance Tools: Appraising Microfinance Institutions, p.10.)*

(b) identify a technical implementer;
One of the greatest areas of donor support should be to help to identify a strong technical implementer who should have the primary responsibility for building the capacity of a promising local organization or local initiative. The technical implementer may be an existing local MFI that has a proven track record in microfinance or a credible international institution. Where there are no promising local initiatives to receive technical support, the technical implementer can develop a start-up organization.

(c) provide technical assistance for institutional capacity-building;
The identified technical implementer should provide technical assistance to the local organizations to develop their institutional and human capacity. Technical assistance can include a focus on: business planning, financial management systems, loan and savings methods, reporting standards, accountability structures, and other institution-specific managerial and governance requirements.

(d) have a credible work plan and strategy for reaching sustainability.
The objective of the technical assistance is to build the local institutional capacity with a view to fostering the independent, long-term growth of the institution. After the initial assessment of the organization's needs, the technical implementer should have a work plan with a clear strategy for developing the institution's client outreach, portfolio management, and financial sustainability.

(For a fuller discussion on donor investments in microfinance, see: *annex 1: Donor Support for Financial Independence* on http://intra.undp.org/eo *or* www.UNDP.org/eo under *Lessons learned* and *Resources: Developing Sustainable Institutions*, page 11.)

Example: *Support to institutional capacity-building. Within UNDP, the Special Unit for Microfinance (SUM) provides support to build the institutional capacity of MFIs through the MicroStart Programme and through other technical support. In order to reach poor people with financial services on a sustainable basis, MicroStart aims to build MFIs that have transparent track records and solid institutional and financial performance. Another objective of MicroStart is to improve the practice of microfinance within UNDP by establishing guidelines, providing technical assistance, and promoting training and learning opportunities that incorporate best practices in the field. A key feature of the MicroStart Programme is the technical service component, whereby a Technical Service Provider works with promising local initiatives to develop their institutional performance. The Technical Service Providers are a range of organizations from the North and the South. (MicroStart is currently operating Bahrain, Benin, Côte d'Ivoire, Egypt, Ghana, Haiti, Kenya, Madagascar, Mongolia, Morocco, Nigeria, the Philippines, Togo, Yemen, and Zimbabwe).*

5. Successful microfinance institutions must reach large numbers of clients and become financially self-sufficient.

Outreach refers to the central purpose of microfinance: to provide large numbers of very poor people with access to quality financial services. Attention to outreach is critical because there are millions of households and enterprises that lack access to financial services. If these millions are to be reached, MFIs must have the capacity that allows for significant expansion. The most successful examples of large-scale outreach have been accomplished through specialized financial institutions.

Financial self-sufficiency is the point at which an organization can fully cover its operational costs as well as the cost of its funds (including the cost of borrowing from banks and the cost of inflation) from its interest and fees. Once an organization is financially self-sufficient, it can fund its growth with capital from commercial banks, making it independent of donor or government subsidies. Being financially self-sufficient is the only way for financial institutions to grow.

What to do?

MFIs are able to have significant outreach and be efficient in a range of settings and with diverse clientele by adopting the following principles.

Understand clients' needs and design appropriate products. Key to reaching large numbers of clients is understanding their needs. Microfinance views clients as customers – not beneficiaries or objects of charity. Programmes that see their borrowers as customers seek to match their services with what the customer wants. Products tailored to meet client demand might include shorter loan terms, quick turnaround of loan applications, and highly liquid savings services.

Manage risk for the institution and enhance value to the client. Successful institutions reduce risk not by analysing loans more thoroughly or by requiring more collateral but by giving clients strong motivation to repay. Two of the most important motivating techniques are peer group lending, in which several people guarantee one another's loans, and the promise of ongoing – and increasing – access to credit for borrowers who repay on time. Delinquency (late payment of loan instalment) and default (non-payment of loan) are very expensive for the institution. MFIs must keep the delinquency rate below 10 per cent and the default rate below 5 per cent for the operation to be viable.

Keep administrative costs low. For clients, the cost to obtain the loan is often higher than the cost of interest and fees. Costs for obtaining the loan include bus fares, time away from their businesses for meetings, the cost to fill out applications and the cost of the legal documents. Successful MFIs keep their costs low through efficient operations such as highly simplified and decentralized loan application, approval and collection processes.

Charge market-based interest rates. To achieve scale (significant outreach) and financial self-sufficiency, institutions must cover the higher costs they incur in providing small-scale financial services. Fully self-sufficient programmes charge an effective real interest rate that is high enough to cover all their costs. (see *annex 2: Anatomy of a Successful Microfinance Institution on the Evaluation Office Webpage* ***http://intra.undp.org/eo*** or ***www.UNDP.org/eo*** *under* Lessons learned).

Example: *Significant outreach by MFIs.* *Several institutions, notably in Bangladesh and Indonesia, have achieved major coverage on a national scale. The Grameen Bank covers almost half of the villages in Bangladesh, reaching more than 2 million very poor clients. In Indonesia, the BRI Unit Desa System has more than 2 million borrowers and over 12 million savers, and the Baden Kredit Desa (BKD) systems cover 20 per cent of the villages in East Java with small loans. In Bolivia, BancoSol has reached 80,000 clients, about one third of all the clients in the Bolivian banking system market. Dramatic annual growth in the number of borrowers, the loan portfolio and, in some cases, savings deposits is evidence of strong client demand and overall satisfaction with the services received.* (Source: adapted from the Consultative Group to Assist the

Poorest (CGAP), *Maximizing the Outreach of Microenterprise Finance: the Emerging Lessons of Successful Programs*, CGAP, *FOCUS Note,* No. 2, 1995.)

6. Sustainability and serving the poor are not conflicting objectives.

Because the objective of many MFIs is poverty alleviation, they often wish to focus on the poorest segments of the population. A study of MFIs around the world by CGAP demonstrated that among the high-performing programmes, there is no clear trade-off between reaching the very poor and financial viability. (Source: *Maximizing the Outreach of Microenterprise Finance: the Emerging Lessons of Successful Programs*, CGAP, *FOCUS Note,* No. 2, October 1995.) Findings suggest that although it is possible to serve the extremely poor in a financially sustainable way, it is likely to take longer for the institution to become sustainable.

What to do?

Significant work remains to be done on developing financial services for the poorest of the poor. Most microfinance programmes do not reach the poorest of the poor or the destitute. In addition to adopting best practice design features, MFIs interested in serving very poor people must tailor the loans for this particular segment. This may include, for instance, small emergency loans for consumption and savings accounts with no minimum requirements. In cases of extreme poverty where people have no existing means of making a living, interventions other than microfinance may be more appropriate.

Example: *Sustainability and very poor clients.* *There are a number of examples of organizations that serve the very poor and that have become sustainable.* Compartamos *in Mexico achieved full sustainablity in four years, serving rural women with an average loan size around $50 (about 1 per cent of per capita gross domestic product (GDP). The million-client BKD village banking programme in Indonesia is fully profitable with an average loan size of about $40. ASA in Bangladesh and SHARE in India are dealing with extremely poor clients, have mapped out a clear path to full financial sustainability and are well along their way to achieving it. A substantial number of West African credit unions are profitable while including significant numbers of quite poor clients among their membership.* (Source: UNCDF, *Independent Review of UNCDF Activities*, by Rosenberg, 1998.)

Savings Mobilization

7. Savings services are important in microfinance.

Extensive evidence from around the world shows that the poor do save and that they need secure places where they can build usefully large sums of money. Indeed, there is greater demand for secure savings services than credit on the part of the very poor. Most very poor people can – and do – save. They must save for emergencies, weddings, funerals, cyclical expenses such as the start of the school year, and financial opportunities such as establishing an enterprise. When there is no institution available, the poor use informal methods to save. They save in livestock, grain and jewelry and they save cash with savings clubs, rotating savings and credit associations (RoSCAS), money guards, supplier credit, pawnbrokers and safe places in the home. These informal savings services are limited, the transaction costs high and often risky. Poor people also regularly lose their savings to dishonest "friends," frivolous spending, illness of livestock, destruction of grain, theft and the like. As a result, there is a vast unmet demand for savings services. Effective savings services can enhance the financial management of the poor and increase their assets. For the MFIs, savings can be beneficial because they are potentially the largest and most immediately available source of capital.

What to do?

To mobilize voluntary savings, the institution must meet the following conditions.

Preconditions for Savings Mobilization
The institution must be licensed by the country's

central bank for the protection of its clients, especially depositors. (For a fuller discussion on the regulation of institutions mobilizing savings, see *Policy Environment*, page 9). The institution should also have an established record of consistently good management of its funds, with an excellent rate of recovery on its loans. It must develop the specialized financial management systems necessary to mobilize savings efficiently.

Provide Quality Financial Services
Evidence shows that the poor will hold savings accounts with financial institutions if the savings facilities meet their needs. To encourage deposits, institutions must have the characteristics that clients value. They must:

- demonstrate that the institution is a safe place to store deposits;
- provide clients with quick access to deposits;
- provide a range of services (e.g., clients also value longer-term accounts, for example, for old age or widowhood);
- have low transaction costs. The cost of making a deposit and of liquidating it should not be higher than the benefit;
- provide a real interest rate on savings.

Example: *Why the poor prefer not to use banks (Uganda). A MicroSave-Africa survey on microfinance services asked some "bike boys" (*boda boda*), who provide a taxi-like transportation service to people in cities and rural areas, why they used deposit collectors and money guards instead of the banks that are very close to where they collect fares. The bike boys said, "Banks are for people who have `learnt properly' - who can speak good English and look smart and well-dressed. The manager does not allow us into that bank. Also the policeman might want to know why we have come to the bank with small money. You see, we do not have much money to deposit. The banks are for `serious' people with bundles of money, not for people who have only 1,000 or 2,000 [shillings] ($1 or so) … That is why we prefer to place our money with the shopkeeper for safekeeping. He keeps money for many of the bike boys and a lot of the market women … We prefer the shopkeeper because [unlike the bank] he [speaks our dialect - not English], gives you your money anytime you need it and very quickly." (*Source: MicroSave-Africa, *Savings and the Poor: the Methods, Use and Impact of Savings by the Poor of East Africa,* May 1999.)

MicroSave-Africa is a joint initiative of UNDP and the Department for International Development (DFID), United Kingdom. For more information on MicroSave-Africa, see http://www.undp.org/sum.

Buro-Tangail's innovation in savings (Bangladesh). Buro-Tangail, an organization that specializes in providing innovative financial services, especially in savings, was founded in 1989 in rural Tangail. In December 1996, it had 12,684 clients with an outstanding loan portfolio of $728,856. Unlike many MFIs, Buro-Tangail places few restrictions on savings accounts; savers can deposit or withdraw their savings at any time. Its greater access and convenience suit the unpredictability of the lives of the poor, and the organization has seen a rise in the number of savers. As of June 1997, Buro had twice as many savings accounts (40,830) as loans (19,692). Buro also provides other services, for instance, time deposits that require clients to deposit up to $5 a week. These accounts mature after five years and earn higher returns than other savings options. Clients may withdraw funds before the five-year term but will receive a lower interest rate. By providing such innovative services that meet clients' needs, Buro-Tangail intends to reach 100,000 active clients by 2001 and become financially self-sufficient. (Source: adapted from CGAP, "Three Innovative Institutions in Bangladesh: BRAC, ASA and Buro-Tangail", CGAP, *Newsletter*, No. 5, 1997.)

Policy Environment

8. Governments should facilitate, not overregulate, microfinance operations.

Governments have an important role in ensuring an *enabling* environment for microfinance. This includes maintaining a reasonable level of political stability, a stable macroeconomic environment, low inflation rates and no ceilings on interest rates. These conditions enable both microcredit and microsaving operations. The government should understand microfinance to be able to supervise MFIs effectively. Most countries have not yet established an approach to regulating MFIs and MFIs operate on the fringes of the regulatory environment.

What to do?

Governments and policy-makers must ensure that financial regulation does not result in financial repression, which makes it difficult for MFIs to operate. Examples of financial repression are imposed interest rate ceilings, subsidized credit, and tax structures that discourage investment in microfinance.

In many cases, MFIs are qualified and ready to start mobilizing voluntary savings, but the country in which they operate does not have the appropriate legal, regulatory and supervisory structures. In this case, MFIs and donors should concentrate on bringing these issues as well as the lessons of international experience in microfinance to the attention of the regulatory authorities.

9. Understand the limitations of microfinance.

Microfinance is a highly attractive intervention for donors because it offers the possibility of sustainable intervention with long-term impact on key economic and social indicators. Microfinance can be delivered in an institutional and financially sustainable manner that permits donors to withdraw after making relatively modest investments. However, microfinance is not a panacea or cure-all for all problems of development. Key areas where microfinance cannot make a contribution include: assisting the poorest through income transfers or subsidies or serving as a vehicle to provide health and education services. Microfinance also cannot be used as a substitute for investments in the infrastructure that is necessary to link more remote areas to markets. These areas necessarily require separate, specially designed interventions. (Source: Wright, *Microfinance: the Solution or a Problem*?, 1999.)

RESOURCES

Evaluations

UNDP Evaluations Consulted in the Central Evaluation database (CEDAB)

CMB/92/010, INS/88/005, INS/88/034, MLW/92/018, NEP/88/050, PAK/88/072, SRL/91/005, SUD/91/004, UGA/87/029, URT/89/019.

Other Evaluations Consulted

Independent Review of UNCDF Activities (1998)
Microfinance in Post-Conflict Situations: ACLEDA (1998)
Mid-Term Evaluation of the MicroStart Programme (1999)
Savings and the Poor: the Methods, Use and Impact of Savings by the Poor of East Africa (May 1999)
South Asia Poverty Alleviation Programme: Microfinance Review (1998)
UNDP-Supported Credit Activities, Ethiopia (1998)

Microfinance Tools

Reporting Formats for UNDP's Microfinance Activities

As noted in the Programming Manual, standardized reporting is required for all UNDP microfinance activities. The required reporting formats are available from:
http://intra.undp.org/osg/pm/ (see chapter 6: Operations of Programmes and Projects, 6.4.6, 4).

Appraising Microfinance Institutions

The Appraisal Format, designed by CGAP, facilitates a complete diagnosis of a microfinance institution's operations from governance to funding methodology to financial performance (available from: http://www.cgap.org/tools/tools.htm#FORMAT).

Managing Microfinance Programmes

UNDP, *MicroStart: a Guide for Planning, Starting and Managing Microfinance Programmes*, Version 1.0, January 1997 (available from SUM and Pact Publications).

Selected Readings

For addresses from which to obtain selected readings, see *Contact Institutions, p. 13*.

Microfinance Overview

- **Committee of Donor Agencies for Small Enterprise Development** and Donor's Working Group on Financial Sector Development, *Small and Microenterprise Finance: Guiding Principles for Selecting and Supporting Intermediaries*, June 1995 (available from the SUM web site, *forthcoming*).
- **Christen,** Robert, Rhyne, Elisabeth and Vogel, Robert, *Maximizing the Outreach of Microenterprise Finance: an Analysis of Successful Microfinance Programs, August 1995* (available from USAID).
- **UNCDF**, *Independent Review of UNCDF Microfinance Activities*, by Richard Rosenberg, May 1998 (available from http://www.undp.org/uncdf/reports/cgap.pdf).
- **CGAP**, "*How CGAP Member Donors Fund Microfinance Institutions"*, CGAP, *FOCUS Note*, No. 11, December 1997 (available from the CGAP web site).

Developing Sustainable Institutions

Clients and Markets

- **CGAP**, "Financial Sustainability, Targeting the Poorest, and Income Impact: Are There Trade-offs for Microfinance Institutions*?"*, CGAP, *FOCUS Note,* No. 5, December 1996 (available from the CGAP web site).
- **Ledgerwood**, Joanna, "The Target Market and Impact Analysis*"*. In *Microfinance Handbook*, World Bank, Sustainable Banking with the Poor, 1997 (available from the World Bank Bookstore).
- **MicroFinance Network**, "Institutional Metamorphosis: Transformation of Microfinance NGOs into Regulated Financial Institutions", *Occasional Paper*, No. 4, by Anita Campion and Victoria White, 1999 (available from Pact Publications).

Effective Governance

- **CGAP**, "Effective Governance for Microfinance Institutions", CGAP, *FOCUS Note*, No. 7, March 1997 (available from the CGAP web site).

Financial Sustainability

- **CGAP.** "Maximizing the Outreach of Microenterprise Finance: the Emerging Lessons of Successful Programmes", CGAP, *FOCUS Note,* No. 2, October 1995 (available from the CGAP web site).
- **CGAP**, "Microcredit Interest Rates", CGAP, *Occasional Paper*, No. 1, August 1996 (available from the CGAP web site).

Meeting the Needs of Women

- **Mohamed**, Shaheen, *Microfinance Initiatives for Equitable and Sustainable Development: Who Gains*? 1999 (available from the SUM web site, *forthcoming*).
- **USAID**, "How Do Women Fare in the Microenterprise Sector", USAID, *Microenterprise Development Office Brief,* No. 24, September 1995 (available from the USAID web site).

Organizational Structure

- **ACCION**, "What makes them Tick: Exploring the Anatomy of Microenterprise Finance Organizations", by Elisabeth Rhyne and Linda S. Rotblatt, *Monograph Series*, No. 9, 1997 (available from ACCION Publications).
- **CGAP**, "Anatomy of a Micro-finance Deal: the New Approach to Investing in Microfinance Institutions", CGAP, *FOCUS Note*, No. 9, August 1997 (available from the CGAP web site).
- **Ledgerwood**, Joanna. "The Institution". In *Microfinance Handbook*, World Bank, Sustainable Banking with the Poor, 1997 (available from the World Bank Bookstore).

Regulation and Supervision

- **CGAP,** "*Regulation and Supervision of Microfinance Institutions: Stabilizing a New Financial Market"*, CGAP, *FOCUS Note,* No. 4, August 1996 (available from the CGAP web site).
- **Chavez,** Rodrigo and Gonzalez-Vega**,** Claudio, "Principles of Regulation and Prudential Supervision and Their Relevance for Microenterprise Finance Organizations". In *The New World of Microenterprise Finance: Building Healthy Financial Institutions for the Poor*, María Otero and Elisabeth Rhyne, eds. (available from Pact Publications).

Savings Mobilization

- **CGAP,** "Introducing Savings in Microcredit Institutions: When and How?", CGAP, *Focus Note*, No. 8, 1997 (available from the CGAP web site).
- **MicroSave-Africa,** *Savings and the Poor: the Methods, Use and Impact of Savings by the Poor of East Africa,* drafted by Stuart Rutherford, May 1999 (available from the SUM web site: see MicroSave, then Studies).

Development Impact of Microfinance

- **MicroSave-Africa** and Uganda Women's Finance Trust, "Vulnerability, Risks, Assets and Empowerment: the Impact of Microfinance on Poverty Alleviation, *World Development Report 2001*, by Graham Wright and others, March 1999.
- **USAID**, "Micro-Credit Benefits the Client: Evidence from Control Group Studies", USAID, *Microenterprise Development Office Brief*, No. 36, January 1997 (available from the USAID web site).
- **Wright**, Graham, *Microfinance: the Solution or a Problem*?, 1999 (available through SUM).
- **Wright**, Graham, *The Impact of Microfinance Services: Increasing Income or Reducing Poverty*, 1999 (available through SUM).

Contact Institutions

ACCION International, http://www.accion.org/

Consultative Group to Assist the Poorest (CGAP), The World Bank, **http://www.cgap.org/**

Microenterprise Innovation Project (MIP), USAID Development Experience Clearinghouse, http://www.mip.org/

MicroFinance Network, http://www.bellanet.org/partners/mfn

Pact Publications, books@pactpub.org/

The World Bank Bookstore, http://www.worldbank.org/ or **books@worldbank.org**

UNDP, Special Unit for MicroFinance (SUM), http://www.undp.org/sum or **sum@undp.org**

Evaluation Office (EO) United Nations Development Programme (UNDP) One United Nations Plaza New York, NY 10017	Telephone: (212) 906 5095 Fax: (212) 906 6008 Intranet: intra.undp.org/eo Intranet: www.undp.org/eo