



# Promoting Commercially Sustainable Microfinance for the Underserved

Summary of Issues Raised at APEC Workshop on Microfinance Best Practices, 7–8 April 2011, Ha Noi, Viet Nam

APEC Small and Medium Enterprises Working Group  
APEC Gender Focal Point Network

June 2011

This report was prepared for the Asia-Pacific Economic Cooperation (APEC) organization by the US-funded APEC Technical Assistance and Training Facility. The contents of this report are the sole responsibility of the authors and do not necessarily reflect the views of USAID, the United States government or APEC member economies.

For more information about this summary or the APEC Workshop on Microfinance Best Practices (GFPN 03/09A), contact Nimesh Modak, APEC Technical Assistance and Training Facility ([nm@apec.org](mailto:nm@apec.org) or [nmodak@nathaninc.com](mailto:nmodak@nathaninc.com)).

APEC Project No: GFPN 03/2009

Prepared by  
APEC Technical Assistance and Training Facility

For  
APEC Secretariat  
35 Heng Mui Keng Terrace Singapore 119616  
Tel: (65) 68919 600 Fax: (65) 68919 690  
Email: [info@apec.org](mailto:info@apec.org) Website: [www.apec.org](http://www.apec.org)

© 2011 APEC Secretariat

APEC#211-SO-01.3

# Contents

<b>Introduction</b>	<b>5</b>
For-profit Microfinance Institutions and Financial Inclusion	5
Lessons Learned from Recent Market Failure in India and Elsewhere	6
Effective Regulation of Microfinance	7
<b>1. Supply-side Issues for Microfinance Institutions</b>	<b>9</b>
Comprehensive Diversification	9
Financial Transparency and Performance Reporting	9
Corporate Governance and Management	10
Microfinance Institutions and Client Relationship	10
Human Resource Development in MFIs	11
Peru's Enterprise Risk Management System	11
<b>2. Consumer Protection and Credit Bureaus</b>	<b>12</b>
<b>3. Mobile Banking</b>	<b>14</b>
Principles of an Appropriate Regulatory Framework	14
Lessons from Philippines Regulatory Framework	15
Lessons from a Philippines Mobile Network Operator	15
<b>4. APEC's Potential Role in Capacity Building and Technical Assistance</b>	<b>17</b>
Financial Education and Literacy	17
Comprehensive Technical Assistance Framework	18
Best Practices in Reporting Standards and Transparency	19
Capacity Building to Help MFIs Benefit from Mobile Banking	19
State-led Capacity Building and Technical Assistance	19
Promoting Access for Women	20
Measure Impact	22
<b>References</b>	<b>23</b>



# Introduction

The purpose of this report is to provide a summary of the issues raised at the APEC Workshop on Microfinance Best Practices held in Hanoi, Vietnam, April 7–8, 2011.

This introductory chapter presents a general summary of the role of market-based microfinance. Chapter 1 shares recommendations to improve the effectiveness and sustainability of microfinance institutions (MFIs). Chapter 2 and 3 then summarizes workshop discussions on two key policy areas for APEC member economies, namely consumer protection and mobile banking. Finally, chapter 4 provides recommendations for future capacity building, technical assistance and collaboration among APEC economies to promote financial inclusion. Additional references are provided at the end of report, including a link to all workshop materials.

This workshop was part of a strategic SMEWG/GFPN project showcasing microfinance best practices, with a focus on women entrepreneurs. The workshop examined ways to improve access to finance in both transitional APEC economies and APEC economies with market-based microfinance sectors.

The APEC workshop had the following objectives:

- Promote a policy and regulatory enabling environment for commercially sustainable microfinance
- Inform an audience from around the region of trends in commercially sustainable microfinance
- Build capacity among policymakers and practitioners and strengthen the relationship between the two by sharing best practices from APEC and non-APEC economies
- Identify areas for capacity building and cooperation between member economies, stakeholders, and the private sector.

## **FOR-PROFIT MICROFINANCE INSTITUTIONS AND FINANCIAL INCLUSION**

By providing a range of financial services for the underserved and entrepreneurial poor, microfinance is an entry point for financial inclusion. An inclusive financial system is characterized by both for-profit and non-profit institutions that use multiple channels to deliver a wide range of financial services.

Workshop participants discussed the role of for-profit microfinance and agreed that market-based microfinance solutions are feasible and can be achieved and sustained through a comprehensive and flexible regulatory framework. The following conclusions were drawn:

- For-profit microfinance can be compatible with a double bottom line—that is, measured by both financial performance and social impact—although achieving a balance between the two is not easy.
- Demand for microfinance products and services is widespread (and remains largely untapped in many APEC economies), and this demand can be met only by for-profit providers because only they can attract the capital required.
- For-profit microfinance providers have the flexibility and nimbleness necessary to reach new markets, including remote rural and other underserved areas that the public sector cannot reach.
- Market-based microfinance promotes competition, which spurs innovation. Also, as demonstrated in some APEC economies (i.e., Peru), increased competition, when managed prudently, can drive down interest rates.
- Market-based microfinance provides funding for needed capacity building and training (i.e., professionalization of staff, financial literacy and education for clients).
- For-profit microfinance providers can integrate cutting-edge, technology-based solutions, thus paving the way for adoption of technology by other actors in the sector.
- Market-based microfinance offers greater diversification of products and services through a variety of channels, which equals greater responsiveness to clients' needs.

## **LESSONS LEARNED FROM RECENT MARKET FAILURE IN INDIA AND ELSEWHERE**

Lessons can be learned from the recent microfinance crises in India and elsewhere. Workshop participants identified risk management and consumer protection as critical issues that APEC economies must address. Participants agreed that APEC economies must implement flexible and well-crafted regulatory measures to enforce social norms discouraging indiscriminate lending by microfinance providers that puts clients into over-indebtedness. Key lessons learned for Microfinance Institutions (MFIs), and APEC economies more broadly, have been identified below.

- Systemic fraud and unethical practices infiltrated MFIs at all levels, from senior managers to loan officers in the field.
- MFIs incentivized high, uncontrolled growth by applying unadapted, traditional consumer credit methods in environments with weak credit control mechanisms.
- MFIs relaxed internal controls for the sake of short-term growth, leading to dependence on relatively unskilled staff.

- MFIs failed to customize and lost focus.
  - MFIs pursued products and strategies outside their core competencies and capital restraints.
  - MFIs deployed products and services without due diligence, market research, and planning.
- Government must play a more constructive role in microfinance regulation.
  - Regulators must encourage MFIs through regulatory measures to follow social norms while recognizing that excessive regulation and intervention can distort market forces.
  - Poorly crafted government policies create preferential pricing and distort the market.
  - Excess government funding creates disincentives for strong credit control and stewardship of resources.
- Governments and practitioners must redirect efforts to improve risk management systems.
  - Growth of MFIs must be supported with proportional capacity and risk mitigation systems.
  - Foreign currency risk must be managed by regulators. Otherwise, MFIs may be inclined to pass on the associated cost to customers by increasing interest rates and other fees.
  - A comprehensive enforcement mechanism must be put in place to control unsustainable multiple lending practices by clients.
  - Consultation process between MFIs, and government, and other banking stakeholders must be robust and sustained.
- India's Microfinance Institutions Network responded to the crisis with the establishment of a help line to assist borrowers and adopted a Code of Conduct for promoting responsible lending and client protection among members.

## **EFFECTIVE REGULATION OF MICROFINANCE**

Regulation of microfinance is important to protect the financial system from unsound practices by deposit-taking institutions and promote a reliable and transparent enabling policy environment for the unbanked and underbanked. Workshop participants agreed on a few broad principles for APEC economies to improve the regulatory environment for market-based microfinance.

- Regulation design and application should be guided by a comprehensive national microfinance strategy
  - A national microfinance strategy facilitates consistent and effective policymaking and helps to reconcile the competing needs of stakeholders.
  - APEC can provide a forum to encourage dialogue between stakeholders, particularly to take into account different positions vis-à-vis regulation of mobile banking.

- Regulation should be responsive to market needs.
- Regulation should be adapted to local context.
- Regulation should be proportionate with the risks and benefits associated with different microfinance products and services.
- Regulation of microfinance is needed for all deposit-taking institutions.
- A sound regulatory framework must allow banks to upgrade or downscale.
- Regulation should not discourage financial innovation.
- Regulation should follow the *Do no harm* principle to ensure that MFIs accurately assess clients' loan commitments and ability to pay back loans.
- Money laundering is a cross-cutting regulatory concern.
- Direct and regular interaction with consumers and underserved communities is central to successful policy and regulatory design and implementation.



# 1. Supply-side Issues for Microfinance Institutions

Best practices drawn from experiences in APEC and non-APEC economies do not offer a prescriptive list of recommendations to secure financial inclusion for the underserved. Local context is critical in determining the appropriate policies. Workshop participants did agree, however, on features of MFIs that can contribute to the design and implementation of sustainable and commercially viable microfinance programs. These issues are highlighted below.

## **COMPREHENSIVE DIVERSIFICATION**

- MFIs need to apply a range of methodologies for microfinance delivery according to the local context, including community organizing, self-help groups, village banking, and the Grameen bank model.
- MFIs need to deliver a variety of specialized products and services to different markets and be responsive to clients' needs.
  - MFIs should consider specialized terms of payment and maturity of loans and savings schemes; marketing to ensure personalization of products and services; and integrating technology into all levels of program design and delivery
- MFIs need to integrate business development services and training into microfinance lending schemes.
- MFIs need to identify funding sources – other than clients' savings, such as credit lines and equity.

## **FINANCIAL TRANSPARENCY AND PERFORMANCE REPORTING**

- MFIs should encourage external auditing with management information systems (MIS) and accounting systems and efficiency ratio analysis.
- MFIs should report overhead and interest rates.
- MFIs should coordinate with international and national rating agencies and regulators on data gathering and analysis to monitor social and financial performance.

- MFIs should exercise prudent credit and risk management and foster closer working relationships between the credit analyst or loan officer and clients throughout the microfinance lending process.

## **CORPORATE GOVERNANCE AND MANAGEMENT**

- MFIs require a solid corporate governance structure—competent senior managers and an independent board—to function effectively.
- MFIs require the following operational systems and controls:
  - Internal and external auditing and a comprehensive supervisory and internal control mechanism extending from management in headquarters to field activities.
  - Well-designed IT systems because poorly designed and funded systems contribute to waste and inefficiency.
  - A comprehensive, responsive reporting system for effective communication between the field and headquarters.
- MFIs require a solid risk-management and loan-underwriting process.
- MFIs should be encouraged to follow the Smart Campaign's Client Protection Principles<sup>1</sup>

## **MFI AND CLIENT RELATIONSHIP**

- MFIs need to assess potential clients' capacity and willingness to pay through sound underwriting.
- MFIs will benefit from deepening the relationship with consumers by providing savings services.
- MFIs can respond more effectively to clients' needs by investing in staff training, strengthening client support services and designing incentive packages to align the interests of clients and loan officers.
- MFIs need to reinforce the principle of strong (but fair and ethical) discipline by monitoring the progress of clients through frequent and effectively designed loan utilization monitoring schemes.

---

<sup>1</sup> *The Client Protection Principles* - 1) Avoidance of Over-Indebtedness; 2) Transparent and Responsible Pricing; 3) Appropriate Collections Practices; 4) Ethical Staff Behavior; 5) Mechanisms for Redress of Grievances; 6) Privacy of Client Data. For more information see: <http://www.smartcampaign.org/about-the-campaign/smart-microfinance-and-the-client-protection-principles>

- When MFIs use the Grameen model for microfinance delivery, 100 percent weekly meeting attendance has been identified as a contributing factor for 100 percent repayment. This was shared by MBK Ventura, a leading MFI serving poor, rural clients in Indonesia.
- MFIs should improve collection practices. They should give staff specialized training in collecting bad loans and use trained teams for this purpose.
- Regulation can promote MFI-client relationships by addressing disclosure and uniform competition issues. The Philippines' Truth in Lending Act addresses disclosure and uniform competition by ensuring that clients understand precisely what a particular loan entails. The regulator has agreed to assist microfinance providers by funding this. This kind of regulation complements financial education and literacy programs.

## **HUMAN RESOURCE DEVELOPMENT IN MFIS**

MFI staff need comprehensive training in microfinance principles, marketing, management skills and microfinance products and services. A dedicated agency or office in an MFI may provide this service if resources are available. CARD Bank, a Philippines MFI, provides this service, including providing funding for higher-education opportunities for staff.

Other initiatives implemented by MFIs to promote human resource development include on-the-job training and mentoring, transparent promotion tracks, operational manual, and advocacy and awareness socialization schemes to ensure loan officers in the field understand the organization's social objectives.

## **PERU'S ENTERPRISE RISK MANAGEMENT SYSTEM**

Peru's flexible approach to risk management allows enterprises to manage risk in a proportional way to size and complexity, target market, products and services, and objectives. Risk management in Peru is implemented in an integrated way by examining different kinds of risks (i.e., credit risk, reputational risk, liquidity risk, operational risk) collectively. This integrated approach accounts for risk management regulations addressing issues controlling the operation of MFIs.

For effective implementation of risk management, MFIs in Peru observe transparent compliance and reporting requirements. MFI board members sign a compliance statement every year to ensure that they understand risk management regulations. MFI board members are also asked to produce a report and identify gaps every year. Deviation from risk management goals must be reported, a plan of action to rectify problems prepared, and timely monitoring reports presented throughout the lending and collection process. Other issues include training a multidisciplinary team.

## 2. Consumer Protection and Credit Bureaus

Workshop participants agreed that given challenges faced by APEC economies and recent market failures in India and elsewhere, consumer protection, and the design and development of credit bureaus in particular, is a critical element in strengthening financial sector governance and the promotion of sustainable and commercially viable microfinance for the underserved. Below are issues drawn from workshop discussions on the subject.

- APEC economies should adhere to the Smart Campaign's Client Protection Principles. This includes avoidance of over-indebtedness, transparent pricing, appropriate collection practices, ethical staff behavior, mechanisms for redress of grievances, and privacy of client data.
- Financial education and counseling targeting practitioners and clients are critical in strengthening consumer protection.
- MFI ratings help to secure outside funds, benchmark practices against industry standards, and encourage improvement in management. MFI rating is offered by a number of reputed international and national sources in APEC economies. While national reporting sources may sometimes be cheaper, they may also be less internationally credible.
- Credit bureaus can be valuable resources for strengthening credit analysis and information capabilities to avoid over-indebtedness. Workshop participants expressed reservations about credit bureaus, however, for the following reasons:
  - Credit bureaus are only as good as the quality and quantity of data that they use.
  - Specialized credit bureaus may be easier to set up but are less comprehensive in terms of technical ability and scope.
  - Credit bureaus are unable to control informal lending. In many APEC economies, such as Indonesia, the vast majority of lending occurs in the informal sector.
  - Credit bureaus can serve as a starting point even if it is only addressing the issue of multiple lending in the formal sector, and over time as credit bureaus develop, governments can look at ways to integrate oversight capabilities for the informal sector.
- Cooperation and sharing of credit information is critical.

- A pilot project is underway in the Philippines in which eight to ten MFIs are sharing credit information. This pilot is supported by government regulation (Credit Information Systems Act) to facilitate the development of a credit data repository.
- MFIs can take immediate steps to strengthen credit information collection and analysis by simply talking to neighbors of clients—conducting market research on the ground. This is particularly important for APEC economies where informal lending is common and other resources are not available.
- In Peru, a comprehensive and responsive credit methodology is complemented by credit analysts who interact with clients throughout the entire lending process. This promotes a relationship with the client and allows microfinance providers to understand clients' needs better.

# 3. Mobile Banking

The banking model in most APEC economies does not meet the needs of the poor and unbanked. Although the level of adoption of mobile banking varies among APEC economies, mobile banking can provide new ways to deliver financial services, particularly for remote, underserved areas. Mobile banking also has the potential of fostering innovation in microfinance products and services, faster and better service, and cost reduction over the long-term. Workshop participants discussed what elements make up an appropriate regulatory regime for mobile banking and how individual MFIs can benefit more from mobile banking. Drawing from experiences from a wide range of APEC and non-APEC economies, participants agreed on common features of a flexible and proportional regulatory framework to support the development of mobile banking. The Philippines was presented as a case study from the perspectives of both regulators and practitioners.

## **PRINCIPLES OF AN APPROPRIATE REGULATORY FRAMEWORK**

- Regulations determine what type of mobile banking and mobile payment services that mobile network operators (MNOs) can offer and how they can offer them, who MNOs can partner with, and cost and investment viability of services.
- Regulators must be flexible because there is no specific order in which m-banking/m-payments products and services will appear in the market. Also, bank-centric and MNO-centric models have different requirements.
- Regulations must account for the fact that technical standards determine interoperability—including network connectivity, acceptability of the service or service provider, and merchant equipment costs.
- Banks and mobile operators need to coordinate effectively and build partnerships with several actors (including remittance firms, merchants, mobile money platform providers and operators).
- Regulators must distinguish between banking laws and electronic money/currency regulation
  - How should e-money be defined in a regulatory framework? Should mobile operators that provide e-money also be able to make loans, or is lending purely a banking function?

- Regulation must address money-laundering and other kinds of fraud and assist APEC economies in securing agent networks. Most transactions—except remittances, which are governed by other arrangements—are national and therefore national regulatory measures should address this issue.
- International cooperation is needed to regulate overseas remittances.
- Regulation should facilitate effective electronic switching services for banks.
- “Know your customer” (KYC) rules must be strengthened through regulation. In the Philippines, the Central Bank issued legislation allowing clients to use any one of 20 forms of ID because many in rural areas do not have official government-recognized IDs.

## **LESSONS FROM PHILIPPINES REGULATORY FRAMEWORK**

In the Philippines, a comprehensive national strategy set the foundation for what is now one of the most developed regulatory frameworks for mobile banking in the APEC region. The government encouraged competing interests to participate in an interagency process at the outset. The following lessons were learned:

- Philippines defined e-money and e-money issuers and then developed a clear and proportionate regulatory framework that accommodated two models: a bank-centric model and a non-bank-centric model. A bank-centric model is implemented by linking a mobile network operator with a commercial bank. A non-bank-centric model is implemented directly by the mobile operator.
- Philippines distinguished deposit taking from fund transfer. As a result, deposit-taking remains firmly with banks.
- Philippines invested in risk management. The Philippines is creating an information technology specialist group in the Central Bank to serve as a risk examiner and provide supervisory capacity.
- Recently (January 2011), the Philippines implemented regulations allowing a third-party electronic network service provider to perform the KYC authentication, provided that it has been certified by the government. Previously, KYC authentication existed only in Manila, but now can be outsourced to certified providers in the provinces.
- A coordinating committee under the direction of the central bank would be useful, particularly in APEC economies where there is no mobile banking or mobile payments network.

## **LESSONS FROM A PHILIPPINES MOBILE NETWORK OPERATOR**

A Philippines mobile network operator, Smart Communications, shared lessons learned with workshop participants from the perspective of a successful mobile banking practitioner. Smart implemented the Islands Activation Program, which worked with microfinance institutions and community cooperatives to bring mobile payments and transfer services to 48 remote islands with little or no access to banking services. Key to Smart’s success in reaching these remote, underserved areas was its ability to build partnerships with commercial banks and cooperative

networks. Although the product is owned by Smart, the issuer of the account is a commercial bank. To expand the product to remote, underserved areas, Smart identified the reputable SEED Finance network of cooperatives. SEED Finance demonstrated an understanding of how to use the technology, so the cooperatives were a capable and cost-effective agent and marketing network for remote communities.

- SEED Finance had a personal stake in community development and therefore a stake in the success of the program.
- Workshop participants agreed that another network possibility in APEC economies is post office networks.
- Branding and marketing can contribute to making bottom-of-the-pyramid consumers, such as those in the Islands Activation Program, commercially attractive for MNOs to establish similar pilot programs in other APEC economies.
- MNOs can leverage third-party providers to develop effective KYC practices. Cooperatives are a valuable resource to help MNOs identify suitable clients, communicating with those individuals and raising awareness about the MNO's plans to enter the market.
- Smart shared a successful plan for handling cash:
  - First, identify a commercially viable partner—an institution that can maintain cash float and e-money float
  - Give the partners prudential guidelines so when they provide services, they follow clearly identified steps. In Smart's program, the network of cooperatives manages the float for all branches and functions as a capacity developer for smaller branches.
  - Background checks of third-party providers are imperative and in support of this effort it is important to coordinate with the Central Bank on the process.
- Smart shared other technological considerations for a successful program:
  - Smart SIM cards have built-in mobile money capability. When someone sends electronic cash to a recipient by mobile phone, this action triggers the activation of the mobile phone's virtual Smart Money account. The user then receives notification.
  - Smart made it easier to convert mobile money into cash through a network of money-in-money-out centers, now numbering over 4,000 throughout the country.
  - Smart is now considering ways to apply its technology and network strategies beyond banking and financial services to prepaid utility services.



## 4. APEC's Potential Role in Capacity Building and Technical Assistance

In support of APEC's financial inclusion policy agenda, workshop participants identified areas for APEC capacity building activities, opportunities to develop specific tools, and areas where sharing information and experiences among APEC economies can be strengthened. In support of market-based microfinance, workshop participants agreed that technical assistance and sharing of experiences should focus on APEC economies interested in removing or phasing out subsidy programs. Key issues have been identified below.

### **FINANCIAL EDUCATION AND LITERACY**

Financial education and literacy programming was identified as a high priority for technical assistance and capacity building among APEC economies. This cross-cutting issue was raised in different contexts during the workshop, including in sessions on mobile banking for remote areas, promoting access to finance for women, and addressing limited capacity among loan officers and a lack of understanding about rights and procedures among clients. Workshop participants agreed that financial education is necessary for the underserved. Many potential clients do not understand the benefits of financial inclusion or the purpose and scope of specific products and services offered to them by MFIs. Workshop participants also agreed that some APEC economies may need to identify or leverage external funding sources from the public sector to ensure that the cost of training is not passed to the client by MFIs through increased interest rates or additional fees. The following issues were identified.

- With support from major rural banks, the Central Bank of the Philippines issued a circular that would allow clients to open no-frills bank accounts with no administrative or maintenance fees. A comprehensive awareness and advocacy campaign will follow to ensure that potential consumers fully understand the product.
- Specialized training and expertise should be required for those collecting on bad loans to avoid irresponsible and coercive collection practices.
- Financial education and literacy should be integrated into the primary and secondary education curricula.

- Entrepreneurship training and support for MFI customers and potential customers are needed. Vietnam Women's Union (VWU) has good vocational training for underserved, rural communities that is subsidized by the government. But VWU also provides training for a fee that is market driven and based on the needs of the trainees.

## COMPREHENSIVE TECHNICAL ASSISTANCE FRAMEWORK

BASIX India shared with workshop participants its framework for technical assistance targeting MFIs and the principles guiding the development of this framework:

- Technical assistance should improve the MFI's governance and strategic positioning. This includes ensuring MFI management and staff understand regulatory measures, ensuring the MFI is formalized in compliance with all legal requirements, assistance with establishing a social performance management system, and ICT development at all operational levels.
- Technical assistance should address structural issues with organization and management. This includes recruitment, induction and training of MFI staff, developing business processes (i.e., appraisal techniques, transaction processes and monitoring mechanisms), business mapping, and expansion plan development.
- Technical assistance should also address operational issues underpinning financial performance. This includes delinquency management, fundraising strategies, and accounting and cash flow management and systems.
- Technical assistance is provided on the following products and services:
  - *Microsavings*. Tracking and monitoring systems should be strengthened to eliminate fraud; assistance in deploying technology for this purpose will be needed.
  - *Microinsurance*. Insurance companies are experienced in dealing with large clients and complex products so technical assistance to MFIs may be needed in modifying products and processes to become more user-friendly. Education and awareness are important in this effort so clients understand the purpose and scope of insurance products and services and confirm that clients' concerns and needs are met. Technical assistance to MFIs in customizing and delivering products for different clients may also be needed. Technical assistance can also help MFIs in simplifying claim and support services.
  - *Micropension*. Customer education and awareness are critical.
  - *Microremittances*. Tracking and monitoring systems should be strengthened. Technical assistance and expertise can also ensure MFIs use technology effectively. Improving claim and support services is also important.
  - *Microcredit*. Technical assistance for MFIs in customizing microcredit products and delivery processes to fit the local context is needed. MFIs will also benefit from assistance in understanding governance and legal aspects, designing internal control and risk mitigation system, and maintaining appropriate linkages with funding agencies.

- These efforts should be completed by other technical assistance programs including financial literacy, community organization, health, vocational training, input for supplies as a cost-saving measure, output linkages to buyers, and technology-based services.

## **BEST PRACTICES IN REPORTING STANDARDS AND TRANSPARENCY**

Microfinance Financial Reporting Standards (MFRS)<sup>2</sup> is a tool to measure and promote transparency of microfinance financial performance data. Training and capacity building can assist APEC economies and MFIs in understanding and implementing MFRS.

MFRS provides a solution to four challenges to effective reporting and transparency: (1) the “credit crunch,” (2) duplicate reporting, (3) new products; (4) performance evaluation. MFRS looks to provide better capital adequacy and liquidity information for decision makers, provides a standard set of required indicators for reporting to stakeholders, and provides new indicators to help MFIs understand their clients.

## **CAPACITY BUILDING TO HELP MFIs BENEFIT FROM MOBILE BANKING**

Capacity building and technical assistance in initiating pilot mobile and branchless programs and establishing agent networks in remote, underserved areas are needed for APEC economies. MFIs across the APEC region can learn from these programs by sharing results. Workshop participants agreed that public intervention may be needed to assist at the outset.

## **STATE-LED CAPACITY BUILDING AND TECHNICAL ASSISTANCE IN MEXICO**

Mexico’s State Development Funds (SDFs) are trust funds created by state governments to trigger access to finance for underserved microenterprises. SDFs primarily grant microcredit but some also provide business development services.

Some SDFs compete with commercial banks and others provide local nonbank financial intermediaries with second-tier funding. There is now at least one SDF in each of Mexico’s 32 states.

SDFs are entitled to technical assistance and capacity building. The following has been provided since 2007:

---

<sup>2</sup> For more information see SEEP Network:

<http://www.seepnetwork.org/Pages/Initiatives/FinancialReportingStandardInitiative>AboutMFRS.aspx>

- Support for infrastructure, including software and furniture
- Training for SDF staff, including certification on financial intermediation
- Consulting services to assist staff in developing business plans and standardized manuals, and in establishing new SDFs
- Assistance in linking with development banks to increase NBFIs access to their funds

## **PROMOTING ACCESS FOR WOMEN**

A list of best practices on promoting women-owned microenterprises was endorsed by GFPN in 2009. The list covers the entire range of support interventions—enabling policy and regulatory issues, business development services and training, and project monitoring and evaluation. Workshop participants discussed this list, particularly best practices in improving access to finance, and how they could be applied in Vietnam, Philippines, Indonesia, and other APEC economies. The discussion resulted in the following findings:

- One-size-fits-all does not apply. The needs of women are diverse and change over time. VWU, for example, has successfully classified women for different interventions based on specific needs.
- More data and analysis are needed on the double-burden issue (i.e., financial responsibilities on one hand and household and social responsibilities on the other) and how analysis and awareness can inform policymaking.
- Studies on the impact of loans on the growth of women-operated businesses are needed.
  - In addition to identifying social indicators to measure the impact of microfinance policies on men and women, APEC economies also should develop national or regional sex-disaggregated databases and improve monitoring.
  - Capacity building in gender impact analysis is needed to facilitate responsive planning and program design.
- APEC economies should collaborate on sharing data and assessments examining rural-urban differences in types of loans for women borrowers.
- Customization of products and support services is needed to address the double-burden issue
  - Healthcare and health education are relevant to addressing gaps in income and meeting the needs of the family.
  - Social factors need to be considered (to find appropriate time for meetings, financial literacy classes etc) in the design of programs and microfinance delivery methods, microfinance products and services and non-financial support activities.
  - MFIs can assist women entrepreneurs by providing non-cash lending services. For example, VWU provides fertilizer for production, mobilizes social support for building a house, and supports other sustainable, income-generating activities. Cooperatives operating at the grassroots level are a powerful tool for this purpose.

- Women entrepreneurs in APEC need to upgrade their technology.
- VWU provides a good example of vocational training and entrepreneurship promotion in the following areas:
  - Training on product techniques—about 80 percent of VWU borrowers attend this training
  - Linking customers with other entrepreneurs to help them better understand market demands
  - Linking women borrowers that graduate from microfinance programs to Agribank, which offers bigger loans
  - Hosting websites where women can post information about their products and interact with suppliers, buyers, and other entrepreneurs
  - Personalizing business development activities
    - Comprehensive needs assessments in which women are encouraged to participate and design of activities that address women’s needs
    - Coordination of design and implementation of programs with local enterprise promotion programs
    - Cost sharing for business development activities—free services for the poorest consumers and contributions from providers, local authorities, and the borrower for other consumers
    - Establishment of entrepreneur clubs to create business linkages and peer-to-peer exchange and consultation.
- Suggested interventions shared from Philippines and Indonesia experience
  - APEC economies should supplement credit services with value-adding social products (health and life insurance), network with local government units, NGOs, in communities to render social assistance, provide social protection services to women clients
  - APEC economies should promote community advocacy and awareness on gender-related issues and encourage consultation with women entrepreneurs in designing the activities.
  - APEC economies should examine sustainable ways to offer larger loans to women to scale up enterprises
  - APEC economies should encourage savings among women
  - APEC economies should promote training on packaging, branding, quality control and product management, including through trade fairs supported by government and private sector. One way to do this is to share market information among women cooperatives.
  - APEC economies should continue to introduce the use of technology and information such as computer and access to Internet

- APEC economies should continue to encourage international conferences on women's issues to exchange information, learn about common challenges and build networks.
- APEC economies should conduct an evaluation of regulations for gender bias. Indonesia is currently implementing such an evaluation across government ministries.

## **MEASURE IMPACT**

Monitoring and evaluation programs and analytical tools are needed to assess the social impact of market-based microfinance and monitor the outcomes of policies and programs. Workshop participants encouraged the sharing of results of these programs among APEC economies.

# References

*APEC Small Medium Enterprise Working Group Strategic Plan 2009-2012*: [http://www.apec.org/Home/Groups/SOM-Steering-Committee-on-Economic-and-Technical-Cooperation/Working-Groups/~media/Files/Groups/SMEWG/08\\_SMEMM\\_StrategicPlan.ashx](http://www.apec.org/Home/Groups/SOM-Steering-Committee-on-Economic-and-Technical-Cooperation/Working-Groups/~media/Files/Groups/SMEWG/08_SMEMM_StrategicPlan.ashx)).

*APEC Leaders' Growth Strategy*: [http://www.apec.org/Meeting-Papers/Leaders-Declarations/2010/2010\\_aelm/growth-strategy.aspx](http://www.apec.org/Meeting-Papers/Leaders-Declarations/2010/2010_aelm/growth-strategy.aspx).

G20 Key Principles for “Innovative Financial Inclusion”: <http://www.cgap.org/p/site/c/template.rc/1.26.13722/>

Alliance for Financial Inclusion 2010 Survey of Developing Countries: <http://www.microfinancegateway.org/gm/document-1.9.47827/afi%20survey%20report%202010-EN.pdf>).

*APEC WLN Microfinance Workshop: Good Practices to Promote Women-Owned Micro-Enterprises – Recommendations for Policy Makers and Funders*: [http://aimp.apec.org/Documents/2009/GFPN/GFPN1/09\\_gfpn1\\_028.doc](http://aimp.apec.org/Documents/2009/GFPN/GFPN1/09_gfpn1_028.doc)

All April 2011 workshop materials: <http://aimp.apec.org/MDDDB/Pages/search.aspx?setting=ListMeeting&DateRange=2011/04/01%2C2011/04/end&Name=Workshop%20on%20Microfinance%20Best%20Practices%202011>

This includes all workshop presentation slides and reference material, workshop agenda, participant list and contact details, a case study on Vietnam entitled, “Promoting Sustainable, Market-based Microfinance: Vietnam Case Study and Lessons Learned for APEC Economies.”