Concept Paper
AusAID Regional Microfinance Support Facility

Summary

The goal of the Australian aid program is to 'advance the national interest by helping developing countries reduce poverty and achieve sustainable development'. With two-third's of the world's poorest people[1] living in the Asia-Pacific region, an Australian aid program that is effective at reducing poverty in the region is of great humanitarian and strategic importance, and supports Australia's commitment to the Millennium Development Goals.

In most developing countries, small-scale private sector activity (including the informal sector) is the basis on which the livelihoods of the poor, and overall economic growth, depend. The World Bank and other major donors have identified **microfinance** as one of the key instruments in encouraging such private sector development.

Microfinance – the provision of appropriate savings, credit, insurance and fund transfer services to low-income families - can assist these families to increase their incomes and reduce vulnerability to economic and other shocks. It offers a mechanism for the poor to climb out of poverty, engage in their local economy and invest in their future. Support to the development of inclusive financial services should accordingly become an integral strategy within the Australian aid program, which would benefit from greater resourcing of microfinance than is presently the case.

Whilst the capital requirements to foster small-scale private sector development are relatively small compared with many other development interventions, microfinance activities have been shown to result in excellent 'rates of return' from both financial and developmental perspectives. As microfinance needs vary between countries in the region, a comprehensive approach by the Australian aid program to supporting inclusive financial systems would need to address a range of factors, including: the policy and regulatory environment; requirements for loan capital; capacity building and institutional strengthening; research into the differing needs of communities and regions and into potential application of new technologies, methodologies and business models; and evaluation of impacts. The funds required and the level of donor support are relatively small and low-risk compared to the likely returns.

This Concept Paper proposes a **microfinance support facility** that would provide a central method for AusAID to expand the outreach of poverty-targeted financial services in the Asia-Pacific region. The proposed facility provides targeted support to emerging and expanding microfinance institutions (MFIs) that have potential for growth and sustainability. Further investigation, commencing with a feasibility study, is recommended as a first step in establishing such a facility.

[1] The World Bank estimates that 1.1 billion people live on less that US $1 per day, with 700 million of these in the Asia Pacific region. For the purposes of this paper "poor" refers to those living on less than US $2 per day (adjusted for purchasing power parity), "very poor" refers to those living on less than US $1 per day (adjusted for PPP), and "poorest" are those living in the bottom 50% below their country's poverty line.

1. ANALYSIS OF NEEDS

1.1 Access to financial services – a critical tool for poverty reduction

The goal of the Australian aid program is to 'advance the national interest by helping developing countries reduce poverty and achieve sustainable development'.[2] Reducing poverty is also at the heart of the eight Millennium Development Goals agreed to by Australia and all other UN member states in 2000. The first and arguably most critical of these goals is to 'Halve the proportion of people living on less than a dollar a day and those who suffer from hunger' by 2015.[3] Five years on, progress towards this goal has been slow. This in some part is due to the fact that, despite microfinance being widely recognised as one of the key drivers for achieving this goal[4], worldwide there is still an estimated 400-500 million poor who lack access to financial services.[5]

A recent World Bank report that conducted research across 99 countries (low, middle and high income) demonstrated a strong correlation between low incomes and lack of access to financial services, and highlighted 'the importance of a well developed financial system for economic development and poverty alleviation.'[6] The provision of such financial services to the poorest in our region is best undertaken by dedicated financial institutions known as microfinance institutions. These institutions comprise a wide range of institutional types including credit unions, non-governmental agencies, for-profit and not-for-profit non-bank financial institutions, national and international commercial banks, community banks, village banks, loan guarantee programs, insurance companies, and wholesale funds.

1.2 Microfinance - an effective tool for meeting the financial needs of poor households

Microfinance refers to financial services such as credit, savings, insurances (e.g. health, life, livestock, natural disaster insurance) and money transfer services (e.g. remittances). These services are provided to low-income clients who otherwise lack access (through exclusion or unavailability) to such services from mainstream financial institutions. Over the past two decades microfinance programs have demonstrated effective, efficient and sustainable methods of providing essential financial services to poor households. Microfinance offers a means of engaging poor households as active participants in market-based systems, in which they have their own demands and obligations, and which enable them to integrate into and contribute to the broader economy. They are then viewed as clients rather than as beneficiaries.

Effective and appropriate financial services can have multiple flow-on benefits for the poor, with impacts on health, education, housing, skills, confidence, status and well-being. It is

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[2] AusAID website: www.ausaid.gov.au
[3] For details refer to the UNDP website: www.undp.org/mdg
[4] See: www.yearofmicrocredit.org/docs/MF_MDGs.pdf
[5] Speech given by Under-Secretary General for Economic and Social Affairs at the launch of the International Year of Microcredit on 18 November 2004.
[6] T Beck, A Demirguc-Kunt and SMM Peria,"Reaching out: Access to and use of banking services across countries", World Bank, September 2005 draft

these flow-on effects that enable once-poor households to reduce their vulnerability and to lift themselves out of poverty[7].

When low-income families do not have access to appropriate financial services, anticipated economic stresses (such as weddings and schools fees) and unanticipated ones (such as sickness, crop failure, adverse weather, or the death of a breadwinner) become significantly more difficult to manage. Important resources in these times include accumulated savings, access to credit, insurances and remittances by family members. A lack of access to such resources can lead to indebtedness to moneylenders that charge crippling interest rates, or a reduced ability to purchase essential items such as medicines, food, school fees, clothing or much-needed household improvements. Each of these can in turn lead families deeper into the devastating cycle of poverty. Ongoing lack of access to savings and credit further limits the ability of the family to reverse its worsening situation by taking advantage of economic opportunities - such as investment in next season's crops, a micro-enterprise, or transport and accommodation fees to take up a job opportunity.

The global microfinance industry has developed substantially in recent years, progressively moving from being an innovative niche dominated by non-profit organisations toward being a more integral part of countries´ financial systems[8]. With this change has come greater attention from central banks and formal financial institutions; a wider range of financial products being offered to a broader client base by more diverse institutions; and increasing domination of the market by efficient and rapidly growing microfinance providers with a strong commercial orientation. New technologies which reduce transaction costs, and further innovations in business models, including partnerships between formal and informal institutions, are now showing the potential to drive a "quantum leap" in access to financial services in developing countries over the next decade. While this trend will be primarily market driven, support by donors to critical bottlenecks could prove to be decisive in releasing this potential, and ensuring that its benefits reach the poor.

1.3 Microfinance in the Australian Aid Program

With two-thirds of the world's poorest people living in the Asia-Pacific region, it is both a strategic and humanitarian imperative for Australia to provide significant resources to address the problem of lack of access to appropriate financial services[9]. AusAID currently spends substantially less than one percent of its aid budget on microfinance, with microfinance expenditure of $14.3 million in FY03/04 and $13.5 million in FY04/05[10].

This paper argues that a significant increase in this figure would return substantial benefits to the aid program and its clients. The need for resources in the sector is clear - while further investigation is required, the resourcing needs of microfinance institutions in the

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[7] For studies on the impacts of microfinance refer to the library section of the Microfinance Gateway: www.microfinancegateway.org

[8] See for example, Asian Development Bank, The Changing Face of the Microfinance Industry: Building financial systems for the poor; Theme Paper 14. 2005

[9] 'Appropriate' here means services that are accessible, affordable and meet the needs of clients.

[10] $13.5m of $2.251bn equates to 0.60% of ODA for 2004/05. The figure for 2005/06 is estimated at $14.5m of $2.491bn or 0.58%. This is sourced from 2005 correspondence with AusAID and with The Hon Bruce Billson, MP, Parliamentary Secretary for Foreign Affairs and Trade.

Asia-Pacific region has been estimated to be in the order of $2.5 to $3 billion per annum[11]. It is acknowledged that AusAID resources directed to microfinance have increased significantly since the early 1990's. However, in the light of the advances made by the microfinance industry, research available on its contribution to poverty reduction and the large number of poor families in the region still without access to appropriate financial services, this paper argues that the level of investment by AusAID in microfinance remains inadequate.

Microfinance is essentially a private sector activity and it is acknowledged that the current government-to-government bilateral funding mechanisms are not well suited to direct support for the private sector[12]. This may well be one of the reasons for the relatively low levels of support to microfinance in the Australian aid program - Australia's bilateral country programs are essentially designed to support governments, and partner government agencies responsible for aid coordination tend to propose programs that finance their sister agencies rather than those that finance private sector initiatives. Direct provision of financial services is not the role of the governments that these programs support.

However, bilateral programs can play an important role in supporting governments to provide an enabling environment for inclusive financial services that support economic growth. This includes support for financial sector policies, regulation, supervision, and supporting policies and programs that help promote local economic activity (including market-friendly reforms, support to agricultural production and marketing, rural infrastructure, and communications). Furthermore, the aid program can work in partnership with the private sector and civil society, both in Australia and in the developing countries with which AusAID works, to provide more direct support to microfinance providers. To do this will require flexibility in the mechanisms that AusAID develops for this purpose.

There are an estimated 10,000 microfinance institutions currently operating worldwide[13]. Only a small fraction of these are operating at a financially sustainable level, and few if any operate at a level which meets the local demand for their services. In order to identify appropriate microfinance institutions and activities to support, AusAID needs to actively seek out new and emerging microfinance institutions with real potential to benefit from proposed funding, and to stay abreast of the rapidly changing nature of the sector and with international best practices in the field. This function was previously fulfilled by AusAID's specialist microfinance unit. Since the unit's closure in 2003, new and significant multi-year funding initiatives and targeted smaller grants to emerging MFIs have reduced significantly. The most effective means of addressing this situation would be to re-establish a unit responsible for championing microfinance within the agency and seeking out new opportunities[14]. AusAID has, however, indicated that its preference is to outsource these functions[15]. While the provision of technical assistance has indeed been outsourced, the

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[11] According to Dr John Hatch, founder of FINCA, in a speech at the UNAA International Year of Microcredit conference held in Melbourne on 29 August 2005.
[12] Support for CEP in Vietnam presents an exception due to the pervasive role of the state in that country.
[13] See www.cgap.org
[14] CGAP, the World Bank donor consortium that is partially funded by AusAID, identifies trained and dedicated donor agency staff as being one of the four essential pillars of promoting sustainable microfinance: www.cgap.org/donorguidelines
[15] Based on numerous instances of correspondence between AusAID staff and members of the Australian National Committee for the UN International Year of Microcredit.

essential function of identifying new opportunities has been largely neglected. Without the existence of this function internally, there exists a need to develop an external facility that can identify and pursue microfinance opportunities in the region and work towards fulfilling the huge unmet need for financial services that persists.

2. APPROPRIATE AREAS FOR AUSAID SUPPORT TO MICROFINANCE IN THE REGION

The current status of the microfinance industry varies considerably between countries in the Asia and Pacific regions. In some countries, such as Bangladesh, the Philippines, and, to a lesser extent, Indonesia and Cambodia, the microfinance sector is relatively well developed. In others, including all of the Pacific and some parts of South-East and South Asia, the industry is at an earlier stage of development. Needs for support therefore vary from country to country but include a mix of the following types of donor support . These areas overlap and interact with each other, and it is important to achieve a balance between them based on a professional assessment of local country and institutional conditions.

2.1 Supporting the enabling environment for inclusive financial services and micro-economic development

As indicated in section 1.3, AusAID support may be appropriate to assist governments in the region to provide a stronger enabling environment for private sector provision of inclusive financial and local economic development services. This could include support to:

- The overall policy environment for economic development, both specific to the financial sector and in ancillary areas of relevance to economic growth. This would include market-friendly reforms, reduction in “red tape”, and policies that promote local value addition.
- The regulatory and supervisory environment for microfinance. In many developing countries, only formal financial institutions serving the top end of the market fall under formal regulation and supervision. While in some cases this is appropriate, there is also much that can be done in the regulatory environment both to provide incentives for professionalisation of microfinance and to protect consumers, especially poor people’s savings.
- Support for local economic infrastructure, including rural roads and communications, electricity, local markets etc that stimulate economic activity.
- Support to the “demand side” for financial services, including small business development, market development, agriculture and rural development, and support to literacy and social services in poor areas that build the capacity of people to engage in economic activities.

Such support can appropriately be provided (and indeed is already being provided to some extent) through existing country program mechanisms in AusAID, and would not necessarily require any new funding mechanisms. However, it is argued in this paper that support to the enabling environment is not sufficient on its own, and should be integrated with other, more specific, support to the microfinance sector such as that outlined below.

2.2 Providing young or expanding MFIs with access to capital

A significant feature of microfinance is that once a microfinance institution achieves the required scale and efficiency levels, it no longer requires external subsidies in order to operate. Its financial sustainability then translates into sustainability of its social benefits in a way that few (if any) other development interventions can match. Conversely, the greatest challenge for microfinance institutions is achieving these levels of scale and efficiency while providing appropriate pro-poor financial services.

A major constraint to achievement of scale is not a lack of demand but a lack of access to funds for on-lending. Although ultimately such loan capital would need to be accessed from market sources, or through financial intermediation, judicious use of grants for this purpose can be strategic in the early stages of growth of a microfinance institution.

It usually takes several years for an institution to build up the deposit and equity base required to access funds that would satisfy its long-term demand for loan capital. Without external support these institutions find it difficult to remain viable through this start-up period. In their formative stages such institutions usually require grants to "jump-start" their lending operations and build a small equity base. The next stage of institutional development requires a funding mechanism that guides them towards commercial sustainability but is not as costly or difficult to access as commercial lending. Microfinance institutions in this stage benefit tremendously from access to concessional (subsidised or 'soft') loan financing. The final stage in the evolution of the institution is commercial viability, access to commercial funding sources and liberation from donors.

2.3 Capacity building and technical support

Another major constraint for young and emerging MFIs is lack of knowledge of international good practices in providing appropriate, efficient and cost-effective financial services, and lack of institutional and human capacity in the MFI. This is especially true in areas such as the Pacific, where the microfinance sector is nascent. In order to benefit from the wealth of global experience in making microfinance effective and sustainable, these institutions require access to a range of support mechanisms such as:

- Training in the basic principles of microfinance.
- Institutional and organisational development support to build appropriate institutional structures, systems and products.
- Technical support in specific operational areas such as developing appropriate internal control systems, risk management systems, improving governance and ensuring statutory compliance, and with designing and implementing appropriate MIS systems.
- Support to develop transparent financial accounting and reporting practices, and links to national or international reporting databases or microfinance rating agencies, which can assist MFIs in attracting commercial capital and partners.
- Networks and linkages to enable emerging MFIs to learn from other, successful, ones, and to build a "community of practice" in the region.
- Action research into emerging areas of practice in the field with potential to greatly increase the quality and outreach of services (for example into the use of new technologies and business models).

- Support to social performance monitoring and impact assessment. As AusAID funds are being provided, the ultimate goal should be that of poverty reduction and the achievement of positive economic and/or social impacts.

All of the above contribute to the building of viable and ultimately sustainable institutions, but are areas in which a young or small institution is normally unable to invest until it reaches a stage of greater scale and financial viability. Donor support to these areas can therefore help to accelerate this process.

2.4 Supporting National Microfinance Apex Institutions

Some countries have already established national microfinance apex funds for their mainstream microfinance sector. Such funds often have the legal mandate to capitalise the microfinance sector and to monitor microfinance activities in the country of its jurisdiction.

In some countries, for example Bangladesh, the National microfinance apex agency is a separate institution, while in others this function is performed by a department or a specialised group within the Central Bank.

The former can provide a more conducive environment for the growth of the microfinance sector in a country. For example by December 2002 the National Microfinance Apex in Bangladesh, called PKSF, had capitalised some 200 microfinance institutions with funding over US$ 262 million, and through regulations, monitoring and targeted capacity-building grants had ensured a high quality of the relevant loan portfolio.

However, in many countries, national level institutions are either absent or weak. Investing in establishing or building the capacity of such institutions, or using existing apex institutions as a conduit for loan capital, could be an effective strategy for AusAID in a number of countries. Australia can support partner countries in expanding the capital base of their existing national microfinance apex agencies, and where appropriate assist to fund the separation of the national microfinance apex function from the Central Bank in others. Once a need has been appropriately identified, since many of these are national institutions, they could be supported through existing government-to-government bilateral aid mechanisms. A significant counterpart contribution from the partner country should be expected in all instances of support for such apex institutions.

Other international and national wholesale funding institutions from the public, private and non-profit sectors have also become an established feature of the sector, providing a variety of debt, equity and other capitalitalisation-related support to microfinance institutions. In some cases these institutions also provide capacity building and technical support, and have, together with the national apex institutions, been influential in the positive development of the sector.

While overall net demand for capital support remains huge, there is a clear need and opportunity for AusAID to complement such support with targeted institutional strengthening and capacity building support to these wholesalers. Such support requires a detailed understanding of the availability, nature and type of existing microfinance infrastructure in the region, and therefore should be based on research and investigation.

This is likely to be best achieved through a dedicated technical facility of the type proposed in this paper.

2.5 Other considerations for effective support to microfinance

2.5.1 Microfinance: a stand-alone activity vs integration into other development interventions.

A long history of donor-funded integrated development projects and government-led directed credit programs has shown that these are not effective means of supporting the development of inclusive financial services[16], and indeed can be damaging to the long-term sustainability of the sector. When regarded as a component of a broader project, microfinance tends to be poorly designed, poorly resourced and poorly implemented, with a resulting lack of sustainability. An example is savings and credit groups that cease to exist once the project ends due to a lack of attention to institutional sustainability. Effective and sustainable microfinance is best delivered through dedicated programs implemented by professional organisations and individuals. This may however be delivered in partnership with other institutions and programs that address complementary aspects of economic development.

2.5.2 Microfinance and enterprise development

Microfinance and micro-enterprise are different. Microfinance is a powerful tool and necessary input for the development of small and micro-enterprises, yet it is only one of many tools required to support the development of the micro and small enterprise sector. Enterprise development support services include: access to markets and technical skills; business product and service ideas; training and mentoring; better resource management; building collaborating networks and distribution channels; and creating an appropriately enabling environment. These services are of course essential to economic development and to raising employment levels, and are an important poverty reduction tool. In many cases, therefore, it is important that enterprise development programs be used to complement microfinance. But people (both poor and non-poor) need access to financial services for a variety of reasons, and investment in business activities is only one of these. For example, a family that wants to save money for next year's school fees does not need business training. Effective financial service providers are not business or marketing trainers, they are dedicated financial institutions. This principle applies to developing country contexts as well as to developed ones[17].

2.5.3 Effective microfinance support requires a commercial orientation combined with a flexible approach

Microfinance is a private sector activity. While it need not be pursued for profit, it is essential that microfinance be approached from a commercial perspective if it is to become

[16] CGAP provides ample evidence of this; see www.cgap.org

[17] CEP in Vietnam is an example of a highly successful microfinance institution (which has benefited significantly from AusAID support). It has achieved this success through a focus on providing only financial services. Most world-class MFIs share this feature.

financially and institutionally sustainable, and therefore benefit the greatest number of people possible.

One approach for a government agency such as AusAID to foster a commercial orientation in its activities is to involve private sector partners. Such partnerships are becoming more common, and have worked well particularly where mutuality of interests are to be found[18]. For financial sector activities the obvious candidates are Australian banks, investment funds and other financial sector agencies that have both a commercial and social interest in developing, promoting and extending financial services throughout the region. In addition to their expertise, such agencies can bring to the partnership resources in the form of concessional finance and commercial guarantees, and the systems to administer such financing mechanisms[19]. It is believed that Australian banks and other agencies would respond positively to an opportunity to work with AusAID in this regard[20].

For any microfinance support facility to be effective it must have the flexibility to expand gradually and finance activities based on identified need – that is to be demand driven rather than supply driven. Funding decisions must be based on appropriateness and capacity and not on disbursement requirements. Such a facility should start with an identified and proven need, and is therefore likely to commence with small activities and gradually build over time. Scoping studies and ongoing research should be used to develop, monitor and refine the strategy for support. This is likely to require a medium-term to long-term (7-10 years) timeframe. Due to the wide nature of demands across institutions, countries and with the changing requirement of the facility, it will be essential to have access to a wide range of expertise from a variety of sources, rather than a limited team of consultants. Finally but importantly, the performance and impact of the facility must be evaluated, preferably by independent partners to ensure the facility retains a strong focus on the overarching goal of poverty reduction.

3. THE PROPOSED MICROFINANCE SUPPORT FACILITY

The overarching goal: To reduce poverty in the Asia-Pacific region by providing the poor with access to appropriate and sustainable financial services.

The primary purpose: To provide a flexible mechanism to assist new, emerging and expanding microfinance institutions (MFIs) in the Asia-Pacific region to achieve sustainability in their operations through access to appropriate capital and capacity building support.

Secondary purposes: Enable AusAID to:

- Strategically plan investments in developing appropriate financial systems and access to financial services;

[18] The announcement by USAID on 7 November 2005 of support for a US$75 million multi-tiered fund in partnership with a group of private and public international agencies to support microfinance institutions is an example of such partnerships. For further information see www.usaid.gov/press/releases/2005/pr051103.html

[19] This would also obviate AusAID of the responsibility to manage and account for such funds once AusAID support for the facility ends.

[20] Contact the Australian National Committee for the United Nations Year of Microcredit for details of specific opportunities: international_year_of_microcredit_australia@yahoogroups.com

- Ensure greater consistency in the application of funds in a technically challenging sector;
- Supplement efforts by other agencies, donors and programs, improve coordination and reduce overlap to increase leverage;
- Complement and support efforts of existing microfinance-related programs and funding windows within the overall AusAID program, including bilateral, multi-lateral and ANCP funding, and small scale country-level grant programs;
- Coordinate financial services with related developmental efforts such as in the agriculture, rural and community development spheres; and
- Ensure focussed expertise is applied to the microfinance sector

Geographic coverage: The facility will operate in any country in the Asia-Pacific region in which AusAID operates, with a focus on those countries and contexts in which AusAID support can be strategically significant.

Who the facility will work with: The facility will work with MFIs, networks of MFIs and support organisations that target the poor. These may be for-profit or not-for-profit organisations. Government and quasi-government agencies in partner countries would generally not be eligible for support but may be identified and referred to AusAID's bilateral country programs for potential support.

3.1 Examples of types of support available through the facility:

3.1.1 Capacity building support to partners

Technical assistance will be provided to MFIs and networks of MFIs to promote sustainability and expand outreach of financial services to the poor. Needs assessments and the design of capacity building support programs will be conducted jointly with partner MFI staff. Funding support might also be provided to cover initial operating losses for those new and emerging microfinance institutions that are able to clearly illustrate plans for financial and institutional sustainability and which have strong potential to achieve these goals. The provision of all support would be staged so that access to subsequent stages of support is contingent upon achievement of specified performance targets. A limited portion of these capacity building funds could be used to finance the establishment of new systems (such as the purchase of management information system software and cash management tools). All capacity building work would be put out to public tender.

Other examples of capacity building support would include:
- joint institutional needs assessments
- improvement of portfolio and risk management systems
- development of costing and pricing tools
- development of social performance monitoring systems
- asset-liability management support, such as improved treasury functions

3.1.2 Concessional loans and/or guarantees for on-lending

Concessional (or so-called 'soft') loans would be available for young MFIs that have achieved a minimum level of scale and efficiency that is sufficient for them to meet

repayment obligations but insufficient to access commercial financing. Loans (and indeed grants) would be disbursed in tranches, with provision of the following tranche conditional upon achievement of minimum standards of performance and cooperation. It should also be possible for the facility to provide guarantees to encourage commercial banks in the MFIs' home countries to lend to these institutions. This would help integrate the MFIs into the formal banking sector. Guarantee and concessional loan funds could be administered by either the facility's banking sector partner(s) or by the facility manager.

3.1.3 Grants for on-lending

New or emerging MFIs for whom access to capital for on-lending is a constraint to growth and sustainability, and who do not meet the eligibility requirements of the concessional loan component, will be eligible to apply for a grant for on-lending purposes. These MFIs will be required to meet a range of conditions such as a pro-poor project design and poverty reduction focus, adherence to good governance principles, implementation of an appropriate risk management strategy, realistic plans for financial and institutional sustainability, and an inability to access commercial financing. For those MFIs that are assessed as being close to or eligible to access commercial loans, capacity building support may be used to assist them to access such loan funding. These funds would be administered by the facility manager. Grants would generally convert into MFI equity. It is also possible that an equity investment could be made through third parties should this be considered appropriate.

3.1.4 Research, information dissemination and policy advice

The facility will conduct or support research and scoping studies to enable it to effectively target its programs based on actual demand. While the bulk of this investigative work is anticipated to be undertaken in the initial period to guide subsequent implementation, this component will also include ongoing performance and impact monitoring and reviews. The facility is a responsive and flexible mechanism based on action research principles, enabling lessons learned to be fed back into the design and operation of the facility. This will: facilitate the documentation of lessons learned; assist in streamlining and improving the efficiency of the microfinance facility; and help develop consistent assessment criteria for the selection of partner MFIs to support. All research and investigation work would also be put out to public tender.

Examples of activities under this component would include:

- scoping and design studies
- identification of partners
- performance monitoring and evaluation
- poverty targeting and impact monitoring
- evaluation, reviews and documentation of lessons learned
- microfinance research into key areas of innovation
- dissemination of lessons learned and international best practice

3.2 Management & Governance

The facility would be administered by an Australian Managing Contractor (AMC). This contractor would manage the program and administer all public tenders of capacity building and research and investigation sub-contracts. This would enable the facility to draw upon a range of specialist expertise as required, including academia, NGOs and private sector firms of varying sizes, banks and individual consultants. The managing AMC would not be eligible to conduct this work.

All major technical and funding decisions would be made by an advisory group to the AMC. This advisory group would comprise representatives of appropriate Australian bodies. Potential organisations in this regard would be identified during the initial feasibility study. The advisory group would specify the criteria for awarding grant and concessional loan funding, approve sub-contracts valued above a predetermined level, sign off on completion of contracted outputs and milestones, and make decisions regarding proposed changes to the design.

3.3 Linkages to other programs

The facility could link with other elements of the Australian aid program – for example the Australian Youth Ambassadors for Development program to draw upon young Australian volunteers to conduct poverty targeting and impact monitoring. This model has been applied by FINCA[21] and found to be effective. FINCA has indicated its willingness to share experiences in this regard.

In cases where AusAID and other donors perceive a need for microfinance support to complement their other program activities (such as micro-enterprise development activities) they would request that the facility investigate opportunities to provide complementary support. This would enable AusAID and other donors to avoid the pitfalls of implementing integrated projects with microcredit components, and be able to call upon specialist, targeted microfinance support to complement their other initiatives, thereby leveraging each other's support and promoting donor coordination and effectiveness.

The facility would promote transparency by requiring all partner microfinance institutions to publish financial and social performance data on the facility's website as well as the Microfinance Information Exchange[22].

3.4 Feasibility study

A first step in the implementation of the proposed microfinance support facility would be to undertake a feasibility study. Such a feasibility study would need to:

- investigate and confirm the need for a regional microfinance funding facility against other possible options;

[21] FINCA is the Foundation for International Community Assistance, a US-based network of microfinance institutions that pioneered the village banking model and is one of the world's largest provider of microfinance services.

[22] The MIX is a global microfinance reporting mechanism dedicated to promoting and facilitating transparent reporting among MFIs: www.themix.org

- develop a long-term costing plan;
- outline the principles under which such a facility would be established and operate;
- determine the geographical focus and the appropriate size, internal weighting, and timing of each component within the facility;
- expand and further investigate the options outlined in this concept proposal, including outlining the advantages and disadvantages, costs and risks of each option with accompanying recommendations.

The organisations supporting this concept proposal are:

- **Credit Union Foundation Australia (CUSCAL)**
- **Foundation for Development Cooperation**
- **Grameen Foundation Australia**
- **Opportunity International**
- **RESULTS Australia**
- **World Education Australia**
- **World Vision Australia**