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Note: In order to fulfil the Microcredit Summit's goal of reaching 100 million families with microcredit by the year 2005, we must ensure not only that more resources are dedicated to promoting microcredit but also that resources are provided to the institutions in cost-effective ways.
Several limitations exist in current methods of fund distribution by donor agencies. One significant limitation is an over-reliance on consultants, many of whom do not have the skills necessary to successfully advise and assist microcredit donors and practitioners. In order to strengthen their capacity to reach the poorest, donor agencies should declare what percentage of funds going to the microfinance sector will be committed to loans to the poorest and require each local office to produce annual reports on its contribution to achieving its country goal.
This paper attempts to outline how funds are currently spent by multilateral and bilateral agencies supporting microcredit. Bearing in mind the limitations of these methods, it also presents suggestions for ways in which these funding mechanisms might be improved so that a greater percentage of resources reach the poorest.

We would like to thank the MicroCredit Summit for use of their publications.

Nota: con el fin de lograr la meta de la Cumbre de Microcrédito de alcanzar a 100 millones de familias con el microcrédito para el año 2005, debemos asegurarnos de que no sólo se dediquen más recursos para promover el microcrédito sino que los recursos sean proveídos a las instituciones en formas efectivas de costos.

Existen muchas limitaciones en los métodos actuales de la distribución de los fondos de parte de las agencias donantes. Una limitación significativa es la de apoyarse demasiado en consultores, muchos de los cuales no tienen los conocimientos necesarios para aconsejar y asistir de forma exitosa a los donantes de microcréditos y a quienes los utilizan. Con el fin de fortalecer su capacidad para cubrir a los más pobres, las agencias donantes deben declarar qué porcentaje de fondos que van al sector del micro-financiamiento se comprometerán hacia préstamos para los más pobres. Además, requieren que cada oficina local produzca informes anuales de sus contribuciones para alcanzar esta meta en su país.

Este artículo intenta delinear cómo los fondos son gastados actualmente por las agencias multilaterales y bilaterales que apoyan al microcrédito. Tomando en cuenta las limitaciones de estos métodos, también presentan sugerencias sobre algunas formas en las que estos mecanismos de financiamiento pueden ser mejorados para que un mayor porcentaje de recursos alcancen a los más pobres.

Quisiéramos agradecer a la Cumbre Mundial de MicroCrédito por el uso de sus publicaciones.

Keywords: Microcredit Summit Campaign, microcredit, funding, microfinance, loans.
Palabras clave: Campaña de la Cumbre Mundial de Microcrédito, financiamiento al microcrédito, microfinanza, préstamos.

Countries: Bangladesh, India, China, Indonesia, the Philippines.
Países: Bangladesh, India, China, Indonesia, Filipinas.

How Donor Funds Could Better Reach and Support Grassroots Microcredit Programs Working Towards the Microcredit Summit's Goal and Core Themes

By

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(This paper was prepared for the Microcredit Summit Meeting of Councils in Abidjan, Côte d'Ivoire, 24-26 June 1999. This paper is intended to further the Microcredit Summit Campaign's learning agenda. The opinions expressed are those of the author.)

EXECUTIVE SUMMARY

In order to fulfil the Microcredit Summit's goal of reaching 100 million families with microcredit by the year 2005, we must ensure not only that more resources are dedicated to promoting microcredit but also that resources are provided to the institutions in cost-effective ways.

Donor agencies generally provide funds as grants or low-interest loans to microcredit programs, often with government involved as a guarantor. The administrative cost of providing these funds is often unacceptably high, and the amount that reaches the poor as loans is probably quite low. Donors should increase the percentage of funds used for microcredit that reaches the poorest to 70%.

Several limitations exist in current methods of fund distribution by donor agencies. One significant limitation is an over-reliance on consultants, many of whom do not have the skills necessary to successfully advise and assist microcredit donors and practitioners. In order to strengthen their capacity to reach the poorest, donor agencies should declare what percentage of funds going to the microfinance sector will be committed to loans to the poorest and require each local office to produce annual reports on its contribution to achieving its country goal. A clear policy should be established to ensure that funds go to the poorest. This information should be circulated to CGAP members and to local microcredit/capital programs (MCPs), microcredit funds (MCFs) and NGOs. Moreover, agencies should create a country-level CGAP mechanism and hold at least one meeting each year to review progress and discuss upcoming plans.

The Microcredit Summit estimated that US$11.6 billion would be needed as grants and soft loans to reach 100 million families. This additional US$11.6 billion could be mobilized by raising the percentage of ODA going to microcredit for the poorest from what is now up to 5%. Initiatives must be taken to build non-governmental, sustainable, wholesaler MCFs at the local level and channel donor funds to these institutions to initiate and support MCPs.

Two examples of effective wholesaler MCFs are PKSF (Palli Karma-Sahayak Foundation), a national-level wholesaler of funds to MCPs in Bangladesh, and Grameen Trust, a funding and technical support provider to MCPs in Asia, Africa, Europe, and the Americas. PKSF and Grameen Trust demonstrate the capacity of in-country wholesaler MCFs to successfully and cost-effectively support microcredit programs.

CGAP has a critical role to play as a catalyst in making the changes that I have outlined in this paper. With its stated commitment to reaching the poorest, and as an agency of which all leading donors are constituted, CGAP is uniquely positioned to assist in making these changes.

How Donor Funds Could Better Reach and Support Grassroots Microcredit Programs Working Towards the Microcredit Summit's Goal and Core Themes

If we are to achieve the Microcredit Summit's goal of reaching 100 million of the world's poorest families, especially the women of those families, with credit for self-employment and other financial and business services by the year 2005, then the resources dedicated to microcredit globally will need to be increased.[2]

It is, however, equally if not more important to ensure that the funding that is directed to microcredit is spent in ways that will provide the most direct benefits to institutions that are committed to achieving the Summit's goal.

In this paper, I attempt to outline how funds are currently spent by multilateral and bilateral agencies supporting microcredit. Bearing in mind the limitations of these methods, I also present suggestions for ways in which these funding mechanisms might be improved so that a greater percentage of resources reach the poorest.

HOW DONOR FUNDS ARE PRESENTLY GIVEN TO MICROCREDIT PROGRAMS

International Financial Institutions (IFIs)

Multilateral IFIs give commercial or soft loans to governments, who in turn pass the money on to governmental microcredit/capital programs (MCPs) or non-governmental MCPs. Governments sign the agreements with the donor institutions.

U.N. Agencies

The United Nations Development Program (UNDP), for example, provides grants through government and UNDP offices to start-up programs. "Contractors" are selected through an international bidding process to help a local non-governmental organization (NGO) to set up an MCP.
U.N. agencies and IFIs, including the World Bank and the International Fund for Agricultural Development (IFAD), are usually required to work through governments, with the exception of the International Finance Corporation. This requirement of working through governments places limitations on their ability to effectively support effective MCPs, and often steers them towards supporting MCPs in which governments play a role.[3]

Consultative Group to Assist the Poorest (CGAP)

CGAP's core fund flows from a global headquarters to individual grassroots institutions as grants. When comparing the administrative cost per dollar that reaches the poorest, it is clear that this process is very costly and inefficient.
The uses of CGAP core funds can be broken down into the following categories:[4]

- a. Consultancies
- b. Conferences
- c. Research Studies
- d. Training
- e. Promoting Best Practices
- f. Institution Building
- g. Administration
- h. Other Expenses
- i. Actual Loans to the Poorest
- j. Actual Loans to the Poor
- k. Actual Loans to the Non-Poor

I have constructed the above categories to make it as detailed as I could. CGAP does not use these categories. In reporting the first three years of investment, CGAP reported on its funding commitments using the following categories:

- a. Support to MFIs
    - i. Funding Through Networks (19.2%)
    - ii. Direct Retail Funding (41.7%)
    - iii. Technical Assistance Support and Business Planning Support (3.2%)
- b. Capacity Building (32.2%)
- c. Policy and Conferences (3.7%)

The point that I am trying to make is that no matter what categories we use, we must have transparent information about how much of the money goes to the poorest in the first cycle. In other words, we should know how much money coming from the donor agencies is going straight to the poorest as loans, and how much of each donor dollar spent on non-loan categories actually leverages loans to the poorest in dollar terms in the subsequent cycles, and how much goes to other activities.

My guess is that the amount of funds from donors going to "actual loans to the poorest" is quite low. I believe it is important, in order to build public backing for donor initiatives to support MCPs and the microcredit field in general, as well as to ensure that funds are benefitting the poorest, that donors annually publish the amounts and percentages of funds going to loans to the poorest. Further, I would advocate that each donor agency raises their amount to at least 70% of all funds being used to promote microcredit/microfinance. The percentage can be shown both as the percentage of overall ODA going for loans to the poorest, and as the overall percentage of funds for microcredit/microfinance. The CGAP Secretariat should take the lead on this and reveal in more detail how it uses and reports on its core fund, and also encourage CGAP member donors to do the same.

Bilateral donors give loans and grants to both governments and NGOs either exclusively for MCPs or as a part of a package of programs.

USAID, for example, provides funding to the MCPs mostly through U.S. NGOs (practitioners) and consulting firms, often to work as partners with Third World NGOs. The bulk of the money is used by the U.S. NGOs and consulting firms for administration, overhead, training, and institution building. Other bilateral donors operate in a similar way. Some rely on Northern NGOs (almost always ones based in the country of the donor agency) even more than USAID relies on U.S.-based NGOs. As a result, the percentage of money going to the poorest as loans will be quite low, probably less than 25%.

I am being deliberately provocative by suggesting a very low percentage. I don't think anybody has any figures. I am insisting that we must keep our records straight if we really mean to reach 100 million of the poorest families with microcredit in the next six-and-a-half years. I also have no source to quote from. I am making it up. I base this on my review of many projects and proposed projects, as well as donor publications that I have reviewed in Bangladesh and on my travels abroad. While I have not done a scientific study of the issue, I am left with the strong impression that the amount of funds going to the poorest as loans in the first cycle is low.

While it is undeniable that in some cases funds used for "institution building" have been helpful, the bulk of the funds have not been used in a cost-effective way in terms of meeting the credit needs of the poorest. It is more a situation where donors deal with institutions they are familiar with (Northern NGOs, Northern consulting firms, Northern universities supposedly specializing in microcredit) rather than breaking new ground to find new partners.

Many donors provide funding to Third World NGOs (either directly or through Northern partner NGOs) as grants in an attempt to piggy-back a microcredit project onto some other program, such as health, education, empowerment, indigenous people, disadvantaged groups, etc. Oftentimes, this is not a very conducive environment for the success of a microcredit program, which requires specialized people and methods that may not be available, or even wanted, by an NGO whose strength is in some other field or sector. When these projects don't turn out as expected, it is sometimes argued that microcredit does not work in that country.

Other Donors

Other donor agencies not included above would be bilateral donors not within CGAP, NGOs in donor countries that mobilize funding for microcredit programs (either their own program or a partner's program) from sources other than official agencies (e.g., the public, philanthropic foundations), foundations, and individuals.

These donors' funds represent a relatively small portion of the funds flowing into the microcredit sector.

LIMITATIONS OF THE CURRENT MECHANISMS

High Cost

The total cost of providing funding directly to MCPs (or "retailers") is usually very high. This is particularly true when the cost of feasibility studies, appraisal missions, monitoring, administration, evaluation, reporting (by both the donor and the MCP), and so on are included. This is even more the case when the funder does not have a permanent office in the country where the MCP is located, where the donor's local office does not have decision-making authority, or where the local office is located in a capital city far from the MCP. The high costs of Northern personnel (head office staff, local staff with all their allowances, and consultants) and the slow-moving nature of aid bureaucracies, which until recently were not familiar with the unique nature and needs of microcredit programs (as compared to more traditional give-away or relief-type programs), make for a costly and slow-moving process.[5]

Reliance on Consultants

Most programs are heavily dependent on donor-country consultants and contractors.
Most often, the consultants hired are the wrong kind. Since they are likely to have a conventional banking background, they get busy setting the MCPs "straight" so that they become "proper" financial institutions (i.e., like the ones that the consultants are familiar with). On the whole, they are reluctant to believe that this is a distinct field that has its own work-style and logic. Even in cases where a consultant is open-minded, it takes time for the MCP staff (who earn a fraction of the consultant's wage) to educate the consultant. Even after a consultant is educated, their report is likely to be shaped by consulting firm colleagues and donor agency officials who do not understand microfinance.

Most consultants have little orientation for targeting the poorest despite the rhetorical commitment given by CGAP-member donors to do so. If the consultants target anything, it is the conclusions desired by the agencies that hire them. Since 40% of multilateral agencies and 45% of bilateral agencies do not currently believe that poverty targeting is important in the context of support to MCPs, and even those agencies that do believe it is important often give it lower priority than other (presumably more important) issues, consultants rarely push the issue.[6]

Worst of all, sometimes consultants try to convince donors to avoid or de-emphasize the poverty issue, since poverty-focused MCPs often appear to be the most different from traditional financial institutions (i.e., the most in need of being set straight) when compared to MCPs not focusing on poverty. Too often they succeed in their arguments, or at least weaken the poverty-targeting focus of a project, to make it meaningless in practice.

If donors are interested in cost-effectively targeting the poorest, they should, in general, rely less on consultants. When they need to use consultants, they should choose individuals who have a track record of providing microcredit to the poorest themselves, or at least a track record of providing user-friendly advice to MCPs that target the poorest. Where available (and they nearly always are), local consultants should be preferred over those who are expatriates.

Little Money Gets into the Hands of the Poorest

As a result of the high costs involved in providing funds directly to MCPs, as well as the high costs (some justifiable, some not) incurred by many MCPs while providing a portion of the funds received as microcredit, a relatively small amount of these funds are actually provided as loans to the poorest. (It should be noted that some funds are provided as loans to the poor, while others are provided as loans to the non-poor.)

My guess is that between 10% and 25% of the funds actually reach the poorest. In the best cases, the funds not only reach the poorest once, but also reach them again and again, as they re-circulate through the loan fund every year, or sometimes as often as every quarter.
Bilateral, as well as multilateral, donor agencies should immediately do the following:

- 1. Declare the amount and percentage of their funds for the microfinance sector that will go towards loans to the poorest.
- 2. Report each year on whether they fell short of, met, or exceeded their target (and by how much).
- 3. Declare what their policy is on ensuring that funds go to the poorest (if they don't already have one), or sharpen their policy if they already have such a policy.
- 4. Circulate this information to CGAP members as well as to local MCPs, microcredit funds (MCFs), and NGOs as widely (and in as many languages) as possible.
- 5. Require each local office to produce a yearly report on its contribution towards reaching its goal for that country.
- 6. Create a country-level CGAP mechanism and hold at least one meeting each year in each country by the CGAP members represented in that country to review progress and discuss future plans.

NEW MECHANISMS THAT ARE MORE EFFECTIVE

Microcredit wholesalers/funds: global, regional, national, sub-national/local

Most often, an MCP is added as a minor piece in a broader credit program. Instead, we should find ways to mainstream MCPs in the donor agenda as an important and distinct category of projects.
International aid is at least a US$50 billion a year activity. At present, support for microcredit does not constitute even 1% of this amount. If the Summit's goal of 100 million of the world's poorest families is to be reached we should find ways to raise the amount of resources going to MCPs to at least 5% of the annual foreign aid money, which is US$2.5 billion.

The only way this can be done is to build local capacity to finance grassroots MCPs. We must take serious initiatives to build non-governmental, sustainable, wholesaler MCFs at the local level and channel donor funds to these institutions to initiate and support MCPs.

Each country should have a number of independent, non-governmental, wholesaler MCFs at the national level, at the provincial or district level, and at the local level. As more and more wholesale MCFs grow and start running their businesses professionally, the faster the expansion of microcredit will become a reality. Donors, practitioners, and governments of the recipient countries should join hands to nurture non-governmental, sustainable, wholesaler MCFs.

In large countries and countries with robust microcredit sectors, such as China, India, Indonesia, Bangladesh, and the Philippines, there should be dozens of MCFs to take care of the microcredit needs of the poor. In regions with a number of small countries, like Central America, MCFs can serve several countries simultaneously. There is also a role for global wholesalers, though their role will diminish as more and more national-level and local-level MCFs spring up. Global wholesalers can provide a bridge between the current system and the desired one in regions where effective MCFs do not exist currently.
MCFs that channel funds exclusively to MCPs targeting the poorest, or at least reserve a large portion of their funds to MCPs targeting the poorest, should receive priority for funding from CGAP-member donors and other donors.

Donors should not, in general, require MCFs to specify in advance exactly which MCPs they will support. Instead, they should negotiate with the MCF regarding what *criteria* it will use in evaluating proposals from MCPs. If the MCF does not in practice use the agreed-upon criteria, then donor funding can be withdrawn or suspended.

I am familiar with the workings of two such wholesaler MCFs, Palli Karma-Sahayak Foundation and Grameen Trust, in Bangladesh

Let me share briefly the experiences of Palli Karma-Sahayak Foundation and Grameen Trust.

Palli Karma-Sahayak Foundation (PKSF): PKSF is a national-level wholesaler of funds to MCPs in Bangladesh. It finances start-ups as well as scaling-up projects of all sizes. More than 1,300 MCPs have applied to it for funding (which is provided on a soft-loan basis, with larger programs paying higher interest rates), and 162 of those applications have been approved. PKSF disbursed US$800,000 in 1990, but its business quickly grew to the point where it was disbursing US$40 million by 1997. The World Bank has provided US$105 million to PKSF, seeing it as a means to reach dozens of small, medium, and large MCPs without all the costly and time-consuming procedures the Bank would need to undergo if it approved all these funding agreements itself. PKSF is now being studied and copied in other countries.
PKSF's selection criteria for choosing retailer organizations are the following: they should target the poor and the landless people; the organizations should be working in the different areas of Bangladesh, they should not be overlapping; and they should have a developed management information system (MIS) and accounting system.
PKSF lends money to 1.2 million borrowers in rural areas. More than 90% of the clients are women. Through October 1998, PKSF had provided about US$91.3 million to retailer organizations who have recycled this money to give loans totaling US$247 million.

Grameen Trust (GT): For the past eight years, GT has been providing funding and technical support to a group of MCPs in Asia, Africa, Europe, and the Americas, which has now grown to 70 projects in 30 countries. Like PKSF, GT provides its partner MCPs with soft loans. These loans are denominated in local currency, so GT bears the foreign exchange risk, not the program. Technical assistance and training for MCP staff is often provided free of cost, or on a cost-sharing basis. GT has received funds from a large number of agencies, such as USAID, the World Bank, the Rockefeller and MacArthur

Foundations, UNCDF, the German Government, Citibank, and others, and it has lent these funds to retail MCPs much more cost-effectively than the traditional donor agencies could have. Since GT is a practitioner itself, it relates very well to its partner MCPs, holding them to high standards, but not being overly bureaucratic or intrusive.

GT provides a package of start-up support/training/technical support from experienced practitioners (almost akin to beginning a franchise in a new country) which is not available elsewhere, as donors are averse to funding start-up organizations with no track record. GT sees its role as that of a catalyst, with a comparative advantage in getting programs started-programs that established funders can provide funding to after the start-up phase is successfully completed.

In-country, wholesaler MCFs reduce overhead costs dramatically. Compared to the cost of delivering US$1 in loans to a very poor woman in a village in a Third World country from a donor headquartered in Europe or North America, and ensuring proper monitoring, the cost of having an MCF based in a Third World country deliver the loan will only be a fraction of the cost. While it will cost several dollars to administer a loan of US$1 in the first case, it will cost only a few pennies in the second case. Through this mechanism, more donor money can go into the hands of the poorest as loans, rather than in the pockets of officials and the consultants as salaries, fees, and international travel. PKSF has demonstrated this very clearly.

Another advantage of MCFs is that they can provide continuous, uninterrupted funding up to institutional viability and beyond for MCPs. Other donors often can only fund part of the organizational development, and frequently leave an MCP in trouble when funding ceases at the end of an arbitrary project period. Another problem is that donor funding often arrives late, because of long approval procedures that are not designed with microcredit programs in mind, which then disrupts the provision of loan programs for the poor. There are few things as disruptive to an MCP than forcing eligible borrowers to wait for the loan for no reason other than a donor's transferring funds behind schedule. We have received feedback from our partners that many of their chief executives spend a great deal of their time mobilizing financial resources for the program rather than on ensuring the quality of the loan program. Multiple reporting procedures to various donors take up a lot of the time of MCPs and their senior staff. An MCF, as a single source of ongoing funding with a standard reporting format, solves this problem.

Moreover, MCFs will lead the MCPs towards sustainability and commercialization with more ease. MCFs will facilitate MCPs moving from grants and soft loans to commercial loans. In the absence of MCFs, many of the MCPs will remain grant and donor funded.

MCFs can help MCPs in mobilizing local and international financing by offering guarantees and other financial intermediations, such as marketing bonds on their behalf.

Not only are MCFs the best way to build local capacity, but over time they can grow into a strong financial reality and create a new financial culture in a national economy.

Of all the available options to ensure reaching 100 million poorest families with microcredit by 2005, the creation of MCFs is the one that offers the most promise. Let us give it a determined and sustained try.

If donors want to finance grassroots MCPs in recipient countries in the present situation, it usually must be done as grants or loans through governments. In the case of a loan, the government has to take the responsibility for repayment. This is because MCPs are usually unable to bear the currency fluctuation risk. If donors continue to focus on giving individual, grassroots MCPs grants, the MCPs will have difficulty becoming sustainable, because there is often no source of loan financing available in the country. Wholesaler MCFs is an answer to this problem. Using local sources of loan capital is a must for the microcredit/capital industry to flourish and become robust.

Providing donor funds for training, research, and the introduction of information technologies for the improvement of management information systems will be easy and effective if it is done through MCFs.

It will be appropriate, and it will cost less in administrative expenses. It is the best way to build local capacity and sustainability.

CGAP is the best-suited microcredit/capital donor forum that can set this donor policy in place and make it effective.

Arguments Against Supporting Microcredit Funds

Many "experts" are arguing that wholesaler organizations (they call them apex organizations) have a consistent record of failures in the past. They cite many examples, mostly government-managed apex funds, many with charity-type orientations. They also cite apex organizations that were set up solely for the benefit of donor organizations and their consultants to move large amounts of grant money.

Obviously, political pressures on governmental apex organizations to disburse funds quickly to a favored group or region, or political pressures on donor-driven apex organizations to disburse funds quickly to a favored Northern NGO, will make MCFs ineffective and counterproductive. I have always argued that if we mix government and microcredit/capital it produces the wrong result. These examples should not confuse anybody.

The bottom line is that wholesaler funds of the new variety can work and are working. They are cost effective. Let us not compare this with something else (i.e., governmental, donor-driven and/or charity-oriented "apex funds") and get everybody confused.

QUANTUM OF RESOURCES

The Microcredit Summit estimated that US$11.6 billion would be needed as grants and soft loans to reach 100 million families. This additional US$11.6 billion could be mobilized by raising the percentage of ODA going to microcredit for the poorest from what it is now up to 5%. (Another way to mobilize funds would be to ensure that a higher percentage of existing funds going into the microfinance sector actually benefit the poorest-as opposed to the poor and the non-poor-and that existing funds are provided in more cost-effective ways.)

I am proposing that at least 5% of the foreign aid money from bilateral and multilateral sources be earmarked for microcredit/capital. I believe there will be considerable public support in donor countries for this, particularly if donors commit to making the bulk of this money available to the poorest people.

My second proposal is that of this amount, 70% of the funds go to the poorest people as loans in the first round (instead of going as capacity building with the assurance that because of this capacity building, more money will flow to the poorest in the future). As that money is repaid by the poor, the bulk of the money coming in should go towards a second round of loans, with the remainder going towards other uses (e.g., capacity building by using local resources, one-time investments in technology that will make the MCP more efficient, etc.). Interest payments by borrowers can be used to finance the operations of the MCP. The interest charged by MCFs to MCPs can be lower for start-up programs, which have higher costs per dollar lent, and higher for established programs. This will help ensure that start-up programs have sufficient operational funds to expand, which will help lower their costs per dollar lent.

It should be possible for the bulk of this additional commitment of funds to go through wholesalers, particularly if global wholesalers are included. In the meantime, funding can be provided to create MCFs where they do not exist.

DONOR ROLE IN CREATING A MICROCREDIT-FRIENDLY REGULATORY FRAMEWORK

Donors, as well as Third World governments, should, first of all, make a solemn commitment not to rush into promoting (much less adopting) any regulatory framework for MCPs or MCFs that discourages the creation of start-up microcredit programs and the scaling-up of existing programs. Many of the proposals I have seen circulating in the microfinance community would do this. Oftentimes, the MCPs that would suffer the most would be those who serve the poorest, since the consultants who draft the proposed regulations have in mind the traditional banks and/or MCPs that are most similar to the traditional financial institutions.

Regulatory frameworks for microcredit programs should not be imposed by the donor consultants or by central banks. In the first phase we should start with self-regulation arising out of the needs of the MCPs and MCFs themselves. The needs of the MCPs or MCFs whose clientele is exclusively or predominantly the poorest should be given the highest importance.

If the regulatory frameworks of the conventional banks are imposed on the newly emerging microcredit/capital industry, it will be disastrous.

THE ROLE OF CGAP

CGAP can play a critical role as a catalyst in making the changes outlined in this paper. The reasons are obvious:

- 1. All of the leading donors are already CGAP members.
- 2. CGAP already has four years of experience.
- 3. CGAP is focused on reaching the poorest (expressed in its name, its adoption of a clear definition of the poor and poorest, etc.).

Individual donors can take the initiative on their own to take the steps suggested in this paper, and then share their experiences with the CGAP members and other members of the donor community.
Now is the time to work with urgency on taking these steps.

Notes

1. The author is immensely indebted to Alex Counts, President, Grameen Foundation USA, without whose total support this paper could not have been written. I am also indebted to the all the commentators who have helped me improve this paper by clarifying and elaborating many issues. This is not an academic paper. This is a paper that presents some of my personal views.
2. The Microcredit Summit and CGAP have defined the poorest as the bottom 50 percent of the group of people living below a country's nationally defined poverty line (the poor being those living below the poverty line).
3. According to a survey conducted by the "CGAP Working Group on Improving Donor Financing Instruments and Arrangements for Microfinance," multilateral agencies are six times more likely to channel microfinance funding to projects implemented by government organizations than bilateral donors.
4. Source: Status of CGAP Investments - Phase I, CGAP, November 1998
5. In all the CGAP-member donor agencies, only 100 staff members have expertise in microcredit, and most of these are concentrated in a few institutions. (Source: "PAG Working Group Report on Responses to Questionnaire," CGAP Working Group on Improving Donor Financing Instruments and Arrangements for Microfinance (Revised June 1998).)
6. Source: CGAP Working Group on Improving Donor Financing Instruments and Arrangements for Microfinance: PAG Working Group Report on Responses to Questionnaire (Revised June 1998), p. 4