CGAP

BRIEF

National Microfinance Strategies

An increasing number of countries are developing national microfinance strategies, bringing the topic to the forefront of national development priorities. Over 30 countries, most in Africa, now have such strategies. This trend appears to be fueled by microfinance's heightened visibility and new development modalities that favor sector-wide approaches and policy work.

After reviewing 29 national microfinance strategy/policy documents, CGAP identified common elements, early benefits, and challenges.[1] While the jury is still out on whether national microfinance strategies contribute to expanding poor people's access to finance, this Brief offers suggestions on how donors can avoid some pitfalls when developing these strategies.

WHAT ARE NATIONAL MICROFINANCE STRATEGIES? WHO IS DRIVING THEM?

Typically, national microfinance strategies are publicly approved documents, developed through a consultative process, aimed at increasing poor people's access to finance. These strategy documents usually include an overview of microfinance, a vision for the sector, strategic objectives, and an action plan for implementation.

Developing a national microfinance strategy usually involves four stages: (*i*) conducting a diagnostic/gap analysis of the microfinance sector; (*ii*) consulting with stakeholders (more or less extensively); (*iii*) drafting a document, usually by a consultant in cooperation with government; and (*iv*) adopting and implementing the strategy, including approval by a governmental body and, in some cases, defining action steps to put the strategy into practice.

Donors almost always initiated this process through a national or regional project. UNCDF is the donor most often associated with national microfinance strategies, followed by the World Bank, AsDB, IFAD, KfW, GTZ, and USAID.[2] In some cases, donors provided funding to help implementation.

Countries with national microfinance strategies/policies

Africa
Benin
Burkina Faso
DRC Congo
Congo
Brazzaville
Côte d'Ivoire
Ethiopia
Gambia
Ghana
Liberia
Madagascar
Mali
Malawi
Mauritania
Mozambique
Niger
Nigeria
Rwanda
Sierra Leone
Senegal
Tanzania
Togo
Uganda
Zimbabwe

Asia
Cambodia
Indonesia
Lao PDR
Nepal
Pakistan
Philippines

Europe and Central Asia
Kyrgyz Republic
Russia
Uzbekistan

MENA
Egypt
Jordan
Yemen

National governments are mostly involved as co-pilots and indeed are the official owners of these strategies. In some countries, such as Mali and Pakistan, national microfinance associations played a significant role.

1 This research also included consultations with more than 50 stakeholders and a funder roundtable in October 2007.
2 The range of donors and donor-funded organizations involved is much broader, including CGAP.

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LESSONS LEARNED

Benefits

Improved dialogue. The broad consultative process that often accompanies the development of a national microfinance strategy has fostered improved communication among practitioners, donors, and policy makers. In Egypt, for example, the process lasted for 18 months and included over 300 stakeholders. The consultative process helped rally the government and other stakeholders around common goals for the sector (e.g., encouraging commercial banks to be more involved and exploring opportunities to partner with the National Postal Authority).

Increased knowledge of the sector. The diagnostic—always the first stage of developing a national microfinance strategy—has sometimes led to a deeper understanding of the opportunities and constraints for increasing financial access. In Ethiopia, an in-depth diagnostic revealed that the heretofore omitted Savings and Credit Cooperatives (SACCOs) held great potential for delivering financial services. Once their importance was revealed, SACCOs were invited to play a more prominent role in the policy dialogue.

Commitment to good practices. In some cases, national microfinance strategies have gotten governments and other stakeholders on the record to adopt good practice principles and abandon unsound policies. In essence, they can serve to establish the rules by which all actors must abide. For example, in the Philippines, practitioners and donors used the national microfinance strategy to lobby the government against its intention to deliver credit directly.

Challenges

Weak diagnostics. Diagnostics of the sector too often lack breadth and depth. They omit key actors (such as commercial banks) or do not assess their performance. The diagnostics often neglect the financial infrastructure or the political economy altogether. As the foundation of a national microfinance strategy, a flawed or shaky diagnostic will have negative effects throughout all subsequent stages. An incomplete picture of the sector may lead to plans that are not achievable. For example, shallow analysis of the regulatory framework may lead to inappropriate regulatory reforms.

Isolation from broader financial sector. With their focus on microfinance, many strategies do not properly take into account (or create links to) the broader financial sector. This omission may create barriers to mainstreaming microfinance across diverse institutional types and may exclude important financial sector actors. As a result, opportunities to have a broad array of actors that can offer diverse services (e.g., insurance companies, commercial banks) are missed.

Inadequate government leadership and capacity. Many different government stakeholders need to be on board to implement a strategy. However, the responsibility for national microfinance strategies is often placed with a government body that lacks technical capacity and/or the political or legal power to successfully champion and implement the strategy. As a result, some stakeholders may not "buy in" and may continue with (bad) practices that are not in line with the strategy.

Unrealistic and "template" action plans. About half of the national microfinance strategies include action plans for reform, many of which have unrealistic targets. Moreover, there have been instances where action plans developed for one country were simply reused with little adaptation to the local reality. Finally, action plans are often not fully funded. This can create disillusionment if expectations are not met.

RECOMMENDATIONS FOR DONORS

The following recommendations should be considered before (or while) developing a national microfinance strategy.

Invest in comprehensive sector diagnostics. A thorough diagnostic is key to the success of a national microfinance strategy. Diagnostics should include the full breadth of the financial sector and a high-quality analysis, with information on the financial health of institutions. A diagnostic also should be forward looking. A range of experts with diverse technical skills in financial systems development should be engaged. It is unlikely that a single consultant can conduct a sufficiently robust diagnostic, as is often the case in practice.

Analyze the political climate. The political dimension of national microfinance strategies cannot be ignored, especially with governments' growing interest in microfinance. Understanding and addressing the political undercurrents and context within which national microfinance strategies develop is important. Donors should have both the financial sector expertise and skills to communicate and negotiate complex processes. They should fully assess the capacity, interest, mandate, and power of all types of government actors to champion and implement the strategy (e.g., different ministries, federal vs. local authorities).

Ensure local ownership. Donors should ensure that all the right actors, such as the private sector, all types of donors and investors, relevant government bodies, but also ministries that may have different perspectives and approaches to access to finance issues, are involved in the consultative process. Whenever required, donors also should help build the capacity of the local policy makers involved in developing, coordinating, and implementing the strategy. Anchoring the strategy in a powerful and relevant entity (e.g., ministry of finance and/or central bank) may be a crucial element to its success.

Evaluate results. Donors should measure the performance and results of the national microfinance strategies they fund, including weighing the costs and benefits of taking this approach.

Be open to changing course. With the rapid emergence of new public and private actors in microfinance, donors should introduce more flexibility in how national microfinance strategies are initiated, formulated, and managed. Even a well-designed national microfinance strategy can quickly become outdated and irrelevant. Donors should beware of template approaches and overambitious action plans that are not backed with firm funding commitments. No assumptions should be made at any stage of the process—even with regard to whether an action plan or even a national microfinance strategy is needed at all.

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