

Capacity Building Fund for Microfinance in Africa: DFID and the World Bank's design



Introduction

The UK Department for International Development (DFID) have recently released a [concept note](#), which outlines the rationale, approaches and activities that are proposed for a new 'Capacity Building Fund for Microfinance in Africa.' In the note, DFID explains that the aim of such a fund is to build the capacity of existing microfinance institutions and to increase the number of microfinance suppliers. DFID briefly mentions an objective of serving 'poorer clients', although unfortunately they do not define what 'poorer clients' means in this context so the commitment to the poor is rather vague.

A brief summary of the concept note is below.

Why are DFID and the World Bank creating a capacity building fund for microfinance?

DFID recognises that access to quality financial services plays a key part in reducing poverty and driving economic growth. However, while microfinance institutions have helped provide access to financial services to a greater amount of people, an incredible 80 percent of the Sub-Saharan African population remain excluded. DFID identify two supply issues that have hindered expansion of services to the poor:

- Limited number of suppliers offering financial services, especially in rural areas;
- Weaknesses in governance among existing suppliers, including poor management and a lack of a skilled workforce.

DFID and the World Bank recognise that due to the aforementioned barriers, demand for the services provided by microfinance institutions currently exceeds supply. A Capacity Building Fund is therefore needed to address 'the pressing need to build capacity among microfinance operators and to increase the supply of quality financial services for poorer populations during this time of global financial instability and tightened credit markets.'

How a microfinance Capacity Building Fund would work

DFID and the World Bank outline four key strategies to support capacity building in the microfinance sector. These include:

- Cost and economies of scale: A regional Capacity Building Fund will be set up to support microfinance institutions and to provide them with capacity building services. The Fund is also intended to reduce costs (for example of providing training) and promote knowledge sharing.
- Increased regionalism: Because many national markets in Africa are too small to sustain national microfinance institutions, financial services will increasingly be provided regionally. Many African nations are also forming regional blocs in an effort to synchronise national policies.
- Importance of cross-border financial products: The Capacity Building Fund will support the development of cross-border products to reduce operating and regulatory costs and to increase regional financial cooperation on payments, skills transfer and the application of international accounting standards.

- Knowledge sharing: The Fund will promote sharing of best practices, will minimise regional disparities and will harmonise effective policies to regulate microfinance.

DFID and the World Bank aim to support diverse national needs and seek to enhance, not duplicate, existing capacity building initiatives. The Fund will operate in 39 Sub-Saharan African countries. Criteria for countries and regions and target size of the fund are still under development.

Current status of the Fund

DFID is currently conducting a feasibility and design study that will assess the capacity building needs of microfinance institutions. It will also look at existing infrastructure for delivering financing from the Fund and capacity for delivering services to microfinance institutions. The study will include field work in 10 sample countries representing both the greatest need for additional financial services and the greatest opportunity for capacity building. The sample countries include conflict and post-conflict countries, varying languages and regional differences. Once an assessment of these countries has been carried out, DFID and the World Bank will begin designing the Capacity Building Fund.

The concept note was drafted in October 2009, and a very limited number of microfinance institutions were consulted during the development of the concept note. There was due to be a wide consultation carried out during the winter, however this has been delayed, and the feasibility studies are still underway at the time of writing this background sheet. There are no details yet about the broad consultation process, when or how this will occur and therefore there are concerns that the consultation is being delayed until very late on in the process of designing the Capacity Building Fund, meaning that the views of civil society and microfinance organisations taking part will not be able to influence the fundamental design of the Fund.

Impact assessment and poverty focus

At RESULTS we believe that the Capacity Building Fund could address some of the keys constraints to reaching the millions of unbanked poor people in Africa. However in order to genuinely assist with reaching the Millennium Development Goals it must be used to support microfinance that has a true impact on the poor. This means putting in place effective social impact and performance monitoring systems, and ensuring that the Fund supports those MFIs that target the poor and measure whether they are moving out of poverty.