Research Outline
Microenterprise & Sustainable Urban Development

Introduction

- UN Millennium Goals are to halve the number of people in poverty. The development community has yet to develop a coherent message on how this will be achieved.
- Dr. Mohammed Yunus of Grameen Bank (and others) have argued microfinance is a fundamental human right, as economic opportunity enables other rights.
- Microfinance has proven itself as a valuable in the development context as a vehicle for poverty alleviation.
- Microfinance Institutions are highly effective in urban environments, where population density provides cost effective markets in which to operate.

Unifying Themes of Study

- The microfinance industry receives $5 billion a year in new capital inflows.[1]
- Microfinance has reached 80% of urban Latin American market penetration[2]
- There is extensive movement towards commercialization in Latin American microfinance, as institutions are increasingly moving into the formal sector. 40% of ACCION International's affiliates are now regulated.

Lens of Analysis

- Sustainable urban development in this context carries a double meaning – the health of the small businesses microfinance serves and the continuation of the microfinance institutions themselves.
- The two proxy indicators to measure sustainable urban development are
  - *Minimizing market driven costs to borrowers* – the lower the cost to poor people, the more money they save and more money they have. This must be done at a market level, as subsidized programs have overwhelming been documented to have failed.[3]
  - *Maximizing institutional 'safe and soundness'* – microfinance institutions need to keep their doors open to serve customers and inspire confidence in the public as valuable community institutions.

---

[1] Reported by Michael Rauenhorst, Deutsche Bank Microcredit Development Fund.
[2] CGAP data, 2003.
[3] See Churchill, Hatch, Gonzalez-Vega, Christen, and others on development finance efforts in the 1960s and 1970s.

and thereby what consequences that holds for the microfinance industry as a continued tool for sustainable urban poverty alleviation. Based on interviews with industry specialists, a core list of 'best practices' for national actors considering regulation will be established.

Based on this investigation, we will attempt to answer the following questions.

- What do positive regulations look like?
- What do negative regulations look like?
- What is the impact of regulation on the industry?
- How does regulation impact the two indicators?

Paper #2: How Bi-Lateral Donors Affect Microfinance: Patterns of Giving

Total microfinance donor funding is unknown. It is estimated by industry pundits to range from $500 million to $1 billion a year in combined funding. As the industry continues to mature, donor funding is evolving, although there is fear that it will decrease as funders move on to other initiatives.

Major donors will be investigated to determine their current funding agendas and how microfinance fits into their planning processes. This includes bi-laterals and multi-lateral donors from the industrialized world with emphasis on Latin America. Institutions will be examined to quantify the number of projects they have involving microfinance and the amount of money dedicated to it. Where possible, the institution's goals for the industry will be documented, as well as specific 'cutting edge' project examples.

Based on this investigation, we will attempt to answer the following questions.

- What role do donors play in this industry?
- What is their value add?
- What impact are they trying to achieve?
- What similarities and differences are there in donor behavior?
- Are there shifts in the current giving patterns?
- How do donors impact the two indicators?

Policy Paper: What national actors and donors should be doing to ensure Microfinance's success as a sustainable urban poverty alleviation mechanism

Nations as stakeholders and actors in microfinance:
- How nations impact the two indicators for microfinance's success
- 'Best practices' to maximize sustainability
  - Address macro national issues
  - Foster more transparent markets
  - Regulate prudently: for the right reasons in an appropriate matter
  - Regulate for a stated purpose to achieve a stated goal
  - Reduce financing costs for MFIs
- What they need to NOT do:
  - Regulate at will
  - Politicize the process
  - Establish more red tape
  - Add transaction costs

Donors as stakeholders and actors in microfinance:
- How donors impact the two indicators for microfinance's success
- 'Best practices' to maximize sustainability
  - Leverage funding from private sector
  - Address industry wide issues like credit bureaus
  - Mitigate risk: guarantee funds, currency hedges, insurance, research.
  - Develop industry wide metrics to measure progress (i.e. social impacts and social return)
- What they need to NOT do:
  - No subsidized funds, no free money, no new MFIs started
  - No more Fund. The existing ones are too small, not efficient, install one more step in the process that siphon off resources from the poor, and make it that much harder for investment to be lucrative.
  - The contentious nature of equity investments must be faced. National actors own MFIs. Ie. BancoSol equity structure.

Broad based conclusions for potential future consideration:
- How does this impact the trend in Latin American MFI market towards commercialization?
- What will it take to 'massify' microfinance in Latin America
- What are the implications for MFIs moving into the formal sector, particularly for their customers, stereotypically people operating in the informal economy?
- Given a parallel growth of remittances and their use among the same target populations, what might be done to link it to microfinance?
- What are other solutions for sustainable urban poverty alleviation and how can they complement augment this effort?

-- Research results due in 2003