



# WOMEN'S WORLD BANKING

## WHAT WORKS



### POLICY CHANGE: EXPERIENCE IN THE WWB NETWORK

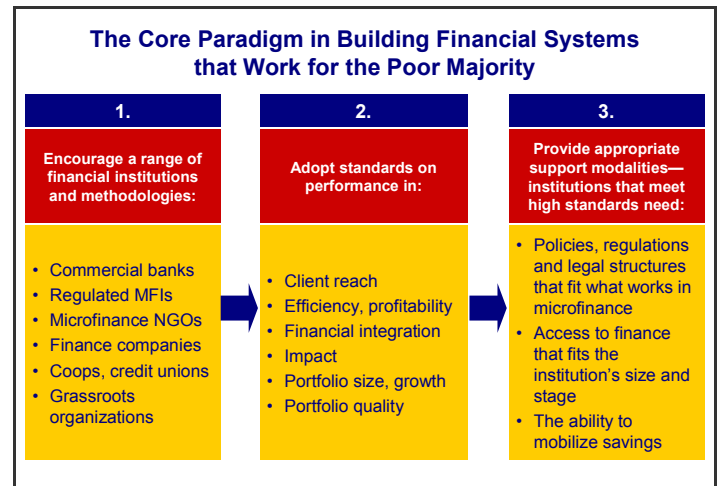
#### INTRODUCTION

Since the early 1990s, Women's World Banking has been a leader in developing new paradigms and consensus on favorable policy environments for microfinance. WWB network members and the global team have engaged with network leaders, country-level microfinance networks, top policymakers and leaders of financial institutions to achieve concrete changes in policies, regulations and legal structures of countries. In all cases, this is bottom-up policy change. WWB network members and other microfinance leaders, backed by the WWB global team, have used their positive track records on the ground and their credibility to achieve policy change for the microfinance industry as a whole.

In 1994, WWB mobilized 40 of the world's microfinance leaders to combine collective experience in determining key success factors in microfinance, core performance standards, needed policy changes, and roles of key actors to build financial systems that work for the majority. WWB facilitated the consensus-building process, helping microfinance leaders from around the world arrive at consensus and explore areas of disagreement. The resulting document—built by leading microfinance practitioners—became the core of the action platform of the 1995 United Nations Conference on Women in Beijing. The recommended performance standards became the core of the Donors Guidelines on Selecting and Supporting Microfinance Institutions, and the basis for CGAP standards.

In 1995, WWB convened 90 finance ministers, central bank governors, leaders of international financial institutions and funders to work with WWB network leaders in building the core elements of financial systems

that work for the majority. The draft document, based on questionnaires completed by policymakers prior to the meeting, was agreed to by all participants. The resulting document, "The Missing Links: Building Financial Systems that Work for the Majority," has been used by WWB network members and other microfinance leaders in countries around the world in work with policymakers.



In most cases, WWB has used consensus-building questionnaires with practitioners and policy makers prior to country policy forums. In 1999, based upon work in several countries, WWB developed the **Country Scorecard on Whether the Financial System Works for the Majority**. This WWB Scorecard was endorsed by heads of microfinance from many bilateral and multilateral donors, top policy makers from ten countries, and WWB network leaders during the WWB Global Meeting in 2000.

This WWB What Works note first provides a set of key features which have emerged as critically important in building financial systems that work for microfinance, across a variety of countries and contexts. The paper uses specific country cases to highlight the processes which have proven

effective in getting appropriate policies, regulations and legal structures introduced for microfinance.

## **BUILDING A FAVORABLE POLICY ENVIRONMENT**

Most of the growth in the microfinance industry over the last ten years has taken place in the absence of specific financial sector policies for microfinance. Increasingly, however, microfinance needs to be treated as a vital part of the financial system, with the special needs and features of microfinance operations and institutions recognized in financial sector policies, legislation and regulations.<sup>1</sup>

WWB's financial systems approach recognizes the important role that different organizational and legal structures can and do play in meeting the evolving financial service needs of increasing numbers of poor households. It recognizes the important roles of both regulated and unregulated institutions in the microfinance system: grassroots savings and credit groups and microfinance NGOs, along with universal commercial banks, finance companies, cooperative banks, regulated microfinance institutions (MFIs), insurance companies, and wholesale financing institutions. We look to remove policy, regulatory and legal barriers to the provision of sound financial services to poor people by each class of institution.

The approach also recognizes that the majority of microlending institutions are likely to remain unregulated, and that building systems to monitor performance using common indicators and definitions is an important part of this financial systems approach. This is not a substitute for prudential regulation, which is vital for those institutions that mobilize savings from the public. Performance monitoring systems are important in building transparency and a common commitment to excellence among the range of microfinance retailers.

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<sup>1</sup> The most recent WWB work on policy is "Policies, Regulations and Systems that Promote Sustainable Financial Services to the Poor and Poorest" in *Pathways out of Poverty*, Kumarian Press, 2002. Available also on the WWB website.

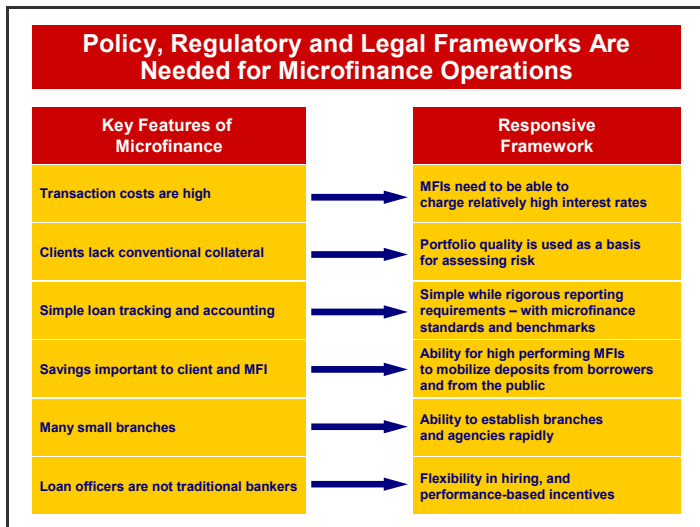
Over the past several years, policy makers and microfinance leaders have built a consensus on the key elements of policy frameworks for microfinance. Some of the best policy environments for microfinance have been created when leaders of finance ministries and central banks engaged deeply and directly with microfinance practitioners in identifying the key features of a policy framework that supports the development of a robust and responsive microfinance industry.

Six key messages frame the parameters of a favorable policy environment:

1. Governments have key roles to play in giving priority to building a sound and responsive microfinance sector. Governments have major roles to play in building solid, responsive policies, regulations and legal structures that work for microfinance. Governments need to stay out of retail microfinance and encourage private institutions to build sustainable services.
2. Interest rates should be liberalized, ideally for the financial sector as a whole. At a minimum, interest rate ceilings should be removed for microfinance, to allow institutions to charge what it costs to provide sustainable access, using competition— not controls— as a means to get interest rates down.
3. Microfinance networks, rating agencies, and wholesale finance institutions all have important roles to play in building performance standards and transparency among unregulated and regulated MFIs.
4. Governments need to recognize the important role that regulated and unregulated institutions can and do play in microlending, with regulations focused on those institutions that seek to mobilize savings from the public.
5. Regulatory and supervisory regimes should address the special features of microfinance, to encourage a range of regulated financial institutions to pursue microfinance. Often, the entity responsible for regulation and supervision needs to build capacities in this area.

- New and modified legal structures are often needed to ensure that such dimensions as minimum capital and reporting requirements are tailored to the relatively small size of many institutions that specialize in microfinance.

The chart below illustrates some of the key areas in which policy changes are often needed to fit what works in microfinance.



## WWB NETWORK APPROACH TO POLICY CHANGE

From Colombia to India to Russia and in several other countries, the WWB network has been successful in making policy change happen. Laying out lessons learned is the backdrop for featuring the policy work in eight countries/regions. Some of these policy engagements have been major undertakings, others more limited. The chart below indicates the WWB network approach to country-level policy change.

Key Ingredients	Country Examples					
	India	Philippines	Dom. Rep.	Colombia	Russia	Pakistan
1. Back local leaders, local initiative	●	●	●	●	●	●
2. Help build consensus, first among practitioners to be a unified voice for change	●	●			●	
3. Have strong organizing and analytical skills, and tools to support consensus-building and to distill findings	●	●	●	●	●	
4. Use local and global leadership to engage top policy makers as champions for change	●	●	●	●	●	●
5. Be perceived as an honest broker and change catalyst	●	●	●	●	●	●
6. Respect the people, the process and the time required	●	●	●	●	●	●
7. Create energy that gets financial sector leaders to use their power for the majority	●		●	●	●	
8. Focus on key, concrete policy changes	●	●	●	●	●	●
9. Build vehicles to ensure a continuous process	●	●	●			
10. Support at key junctures	●		●	●	●	●

### 1. KNOWLEDGE OF ISSUES COMES FIRST

Practitioners seeking to change policies for microfinance need to first develop a solid understanding of the financial sector, the microfinance industry as a whole, relevant policies and regulations, and key constraints that various classes of microfinancing institutions face. It is important that, from within the network organization or among the practitioner leaders, there are those with deep understanding of these aspects. Microfinance leaders need to speak the language of policy makers and bankers, and demonstrate a clear understanding of the context and key issues, to establish credibility and clout.

The India example highlights a consensus-building process based on a program of analytical work with deep involvement of practitioners, leading up to a major policy engagement.

## WWB NETWORK POLICY IMPACT IN INDIA

In 1998, Ela Bhatt, then Chair of WWB globally and FWWB in India, requested that WWB support efforts to change policies that affect microfinance in India. The first step was to convene the top twenty microfinance practitioners in India, to build a shared vision and set of actions to address the need for financial services by the more than 60 million self-employed people living below the poverty line. In August 1998, WWB organized a meeting involving the top microfinance practitioners. Using the WWB consensus-building questionnaires and processes, the leaders with WWB support drafted a **consensus report** on how to build India's leadership in microfinance, and they established Sa-Dhan, a network organization of leading Indian MFIs.

In November 1998, immediately following the WWB Global Meeting, WWB and Sa-Dhan convened a **high-level policy forum** on building India's leadership on microfinance. The meeting was organized in cooperation with the Reserve Bank of India (RBI). Dr. Bimal Jalan, the RBI Governor, inaugurated the meeting and participated in the one-day policy forum. Top management of India's leading commercial and development banks, senior officials from the Finance Ministry, Parliament leadership, and the 20 leading MFIs that were part of Sa-Dhan participated, along with WWB global leaders.

During the meeting participants agreed on a **new vision for microfinance in India**, key roles for each set of actors, and key changes needed in the policy and regulatory regimes for microfinance. Participants also agreed to set up a **High-Level Task Force on Developing a Supportive Policy and Regulatory Framework for Microfinance**. Several concrete policy changes were made as a result of the November meeting, even before the Task force report was finalized in July 1999. In April of 1999, the Reserve Bank of India announced that it had **deregulated interest rates on microfinance** in direct response to the requests by microfinance organizations. In addition, the law on Local Area banks was implemented.

The WWB network has continued to be active in on-going dialogue with the Reserve Bank of India, Sa-Dhan and microfinance practitioners, with consensus-building meetings in February and July 2002, culminating in support for the organization of a **Sa-Dhan-sponsored Policy Forum** in September 2002. WWB is currently working on an initiative, with the support of members of the WWB Global Network for Banking Innovation in microfinance (GNBI), to stimulate more significant **entry of commercial banks into microfinance in India**.

## 2. WORK LOCALLY

WWB policy engagements happen at the request of a network member, who considers that the WWB global team can support local initiatives to build agreement on policy change. WWB relationship managers are expected to review, on a regular basis, the policy context in the countries in which they work to help network members understand the pros and cons of converting to a regulated institution, and key policy constraints faced by the WWB network member and others in the microfinance industry. This regular review helps build relationships with key policy makers, and can help trigger

network member demand for a deeper policy change engagement with WWB.

Policy change is most likely to occur when there is a critical mass of high performing MFIs and banks that are committed to addressing policy constraints together, for the benefit of the entire microfinance industry. Often, WWB network members and other MFIs work for policy change that will increase poor people's access to financial services— and competition. The WWB network does not favor special interest advocacy— policy changes that would favor a particular institution or class of institutions.

National networks can be powerful vehicles for policy change, particularly if the network represents a majority of the serious, major MFIs and if network members are rigorous about doing their homework.

WWB will only undertake policy change work with network members that have a strong track record and credibility in the country. Unlike major multilateral and bilateral donors, WWB cannot and would not use

financial pressure to get policies changed. And experience has demonstrated that by combining forces with credible local actors, the WWB global team can support local initiatives at key junctures, with the bulk of the time and resources needed for follow-through and related actions committed by local MFIs and country-level networks.

**PHILIPPINES—TWO KEY FACTORS:  
A PRO-MICROFINANCE GOVERNMENT STANCE AND A PROACTIVE NATIONAL NETWORK**

Beginning in 1997, the government took a decidedly pro-microfinance stance and enacted legislation that was favorable to the sector. The **National Strategy for Microfinance** has as its principles: (a) a greater role for private sector MFIs in providing financial services; (b) an enabling policy environment; (c) market-oriented financial and credit policies, including interest rates; and (d) non-participation of government in provision of credit. A Central Policy Coordination Office was established at the Ministry of Finance. WWB supported local initiatives by organizing in 1999, jointly with the Philippine Coalition on Microfinance Standards (now the Microfinance Council), a major meeting of Philippine practitioners and policy makers. The consensus-building questionnaires before this meeting, and the consensus report resulted in a united position by policy makers and practitioners, which enabled proposed changes to be enacted.

Since that time, **numerous amendments to banking laws and regulations** (circulars) responsive to microfinance were introduced (minimum capitalization and capital adequacy requirements; liquidity management standards; loan collateral, classification and loss provisioning guidelines). Reporting requirements were simplified.

The regulatory framework is structured so as to provide room for NGO MFIs to establish viable links with the formal financial sector and to become **properly licensed financial institutions at several levels**: cooperative banks, rural banks, thrift banks and “quasi-banks.”

There has been and there continues to be **an open dialogue between policy makers and the microfinance industry**. WWB network members— Center for Agriculture and Rural Development (CARD) and Negros Women for Tomorrow Foundation (NWTF)— have been in the forefront. CARD and NWTF were instrumental in the creation of the Philippine Coalition on Microfinance Standards, now known as **The Microfinance Council**, which has been very active in setting standards for the industry and influencing government policy on microfinance. The leaders of NWTF and CARD have chaired the Coalition and Council at key junctures.

The Philippines represents an opportunity for the WWB network to continue to be proactive in supporting a coherent application of government strategy and removing obstacles to industry development. Current challenges include the consistent application of central bank circulars and the clarification of government involvement in microfinance.

### 3. BUILDING CONSENSUS

Consensus-building exercises, in various forms, help practitioners and policy makers reach agreement on key changes needed in approaches, policies, regulations, legal structures and roles of key actors. The WWB Country Scorecard, developed in 1999 and widely endorsed in 2000, has proven useful as an instrument in consensus-building. The Scorecard enables practitioners to identify common ground quickly, focus on areas of disagreement, and build a shared platform on key messages and actions. The WWB Scorecard was endorsed by heads of microfinance from many bilateral and multilateral donors, top policy makers from ten countries, and WWB network leaders during the WWB Global Meeting in 2000.

In many cases, WWB has used consensus-building questionnaires with practitioners and policy makers prior to country policy forums. These questionnaires usually combine a set of statements with which participants can agree or disagree, and open-ended questions on key constraints. Practitioners need to determine whether to engage policy makers around awareness-building, broad policy parameters, or specific policy changes. Normally, practitioners build consensus on key messages and areas to tackle prior to engaging policy makers. Country-level microfinance networks can be excellent vehicles for building this consensus among practitioners and for interfacing with policy makers.

The WWB network has used this consensus-building method in several very different contexts:

- ADOPEM, the WWB affiliate in the Dominican Republic, used the Scorecard to build awareness among policy makers on key issues and areas for attention in microfinance.

#### DOMINICAN REPUBLIC: USING THE WWB SCORECARD TO BUILD CONSENSUS

With the technical support of WWB global, ADOPEM leaders successfully coordinated the formation of a working group and provided concrete and positive influence in **shaping the vision, paradigms, policies, regulations and legal structures** for microfinance as a unique and integral part of the financial system in the Dominican Republic. The **Consultative Group on Financial Systems that Work for the Majority** first met in April, 2000, using the **WWB Country Scorecard** on whether the financial system works for the majority to build consensus. Participants in the meeting included recognized microfinance practitioners and financial sector leaders from the Dominican Republic, who had strong credibility within the formal financial system and with financial sector policy makers. A significant outcome of this initiative was the agreement reached on changes to be made in the way the Superintendency assesses the risk of microfinance portfolios.

- WWB and the Microfinance Council in the Philippines used a modified version of the scorecard to build agreement among practitioners and policy makers. This consensus contributed to the major policy changes that have been made in the Philippines in the last two years.
- In 1998 in India, WWB convened the 20 leading microfinance practitioners. Using a pre-cursor to the Scorecard and open-ended questions, we were able to build a robust consensus document in a two-day meeting. Sa-Dhan, the India microfinance network, was created out of this meeting. In the subsequent meeting with policy makers, the governor of the central bank fully endorsed the consensus statement, saying that microfinance leaders pointed the finger first at themselves, and then at bankers and policy makers. The plenary and small group sessions resulted in a new vision for microfinance, agreed changes in interest rate policies and legal structures, and roles of key actors. Many concrete policy

changes were made in India on the basis of these recommendations, and Sa-Dhan has become the primary partner of government in making subsequent changes.

- WWB used the scorecard with leaders of the Africa Microfinance Network (AFMIN)— 13 country level networks incorporating over 400 MFIs. AFMIN leaders built their consensus statement on financial systems that work for the majority in Africa, for use at the country level.

#### 4. DEFINING A CONCRETE AGENDA FOR CHANGE

Whether a policy engagement is deep or of a more limited nature, the WWB network team develops objectives, measures of success, a time frame, and determines the roles of key actors. Time is taken to develop an understanding and a position on the specific and concrete issues, including regulation and supervision. This requires a significant amount of analytical work.

While of a limited nature in relation to our work in other countries, policy work in Pakistan has focused on concrete issues and has been linked with work of the national microfinance network.

#### **AFMIN STATEMENT ON BUILDING FINANCIAL SYSTEMS THAT WORK FOR THE MAJORITY**

At the end of a deep process of analysis and dialogue, representatives of the 13 AFMIN member countries adopted a policy **Consensus Statement** at the AFMIN General Assembly in Kampala in July 2002. This document is not a blueprint for policy change, but rather **the basis for dialogue, further analysis, consensus-building and advocacy at the country level** (and sub-regional level in the case of the UMOA countries). This process has already begun in several AFMIN member countries. Used well, it can provide a solid platform for important policy reform.

The Consensus Statement is a valuable tool for building consensus at the national level, for conducting dialogue and for laying the foundation for a financial sector attuned to the needs of the microfinance industry. It is designed to be a support to **the vision and engagement of local leaders**, which are the basis for promoting change in financial systems designed to better serve the needs of the microfinance industry.

WWB played a role by **adapting the WWB Country Scorecard** to this context, catalyzing the consensus-building process and providing support for the key steps in using the Consensus Statement at the national level in the 13 AFMIN countries.

## OPENING OPPORTUNITIES FOR NEW INSTITUTIONS IN PAKISTAN

The microfinance scene in Pakistan has changed dramatically over the past two years with the creation of the Khushhali Bank, the first specialized microfinance bank in Pakistan, and the enactment of legislation providing the **framework for the creation of other microfinance banks**. First Microfinance Bank was created under this legislation in 2001.

**KASHF Foundation**, the WWB affiliate in Pakistan, and the WWB global team have been active in policy dialogue and change in Pakistan. The Managing Director of KASHF has chaired the Board of the **Pakistan Microfinance Network** and is a key advocate for the microfinance sector in Pakistan, both within the country and internationally.

WWB was active in the dialogue regarding the **regulations** issued late in 2002 following the passage of the Microfinance Institutions Ordinance. Vigorous dialogue took place to assure fair and equal treatment for all MFIs. The relationship carefully built with the State Bank of Pakistan allowed in-depth dialogue on the components of the regulations for the new institutions, notably minimum capital requirements, reporting requirements and branching requirements. At the same time as these discussions were occurring in May 2002, WWB was featured at the annual meeting of the Pakistan Microfinance Network as the reference for **international experience in policy, legislation and regulation**. This provided the opportunity to weigh the concerns of the WWB network and to support the adoption of a set of sound microfinance regulations.

## 5. CATALYZING CHAMPIONS FOR CHANGE

Identifying top policy makers who are prepared to champion key changes in microfinance policy is key to success. Microfinance often needs to be brought to the attention of top officials of central banks and finance ministries, who are often concerned with macro-financial and overall banking issues. Experience has shown that combining local credibility and clout with knowledge of

policy regimes in other countries and successful policy change experience elsewhere can be a powerful combination in mobilizing policy makers.

In Russia, the board members of the Russian Women's Microfinance Network (RWMN), the WWB affiliate in that country, were successful in mobilizing policy makers in favor of necessary microfinance sector reforms.

## POLICY IMPACT IN RUSSIA THROUGH LOCAL ACTION

The Russian Women's Microfinance Network (RWMN) members recognized the importance of RWMN as their representative in working with the Russian government and other MFIs to build an enabling policy and legislative environment for microfinance in Russia. The lack of a legal basis and an inadequate tax structure for microfinance activities in Russia for non-banking institutions was a major obstacle for expansion of their own operations and for the development of the sector in general. In early 1999, **RWMN identified the main constraints to microfinance by non-banking institutions in Russia**; subsequently, RWMN identified strategies to address these obstacles. The following results have been achieved to date:

- **Profit Tax on Grants.** On May 6, 1999, President Yeltsin signed a new law on non-taxable grants, which extended this privilege to NGOs involved in "technical support." Microfinance programs fall under the definition of technical support activities and therefore are now free to receive grant funding without being subject to a 35% profit tax on the grant amount. These important changes in the law were incorporated due to the intensive advocacy work of several NGOs, most notably RWMN. RWMN introduced other critical changes to the law that reduce burdensome requirements for foreign institutions as they provide grant support to Russian organizations. The law became effective immediately. After it was signed in May 1999, RWMN disseminated the new law and its implications to both microlending institutions and the broader NGO community.

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*Russia continued*

- **Microfinance as a Main Activity for Non-Banking Institutions.** Due to the effective advocacy efforts of RWMN, official letters from President Putin and Speaker of the Duma, G. Selesnev, were received by RWMN clearly stating that non-banking institutions engaged in microlending do not require any licensing.
- **Value-Added Tax (VAT).** Changes proposed by RWMN to the Law on VAT made it possible for non-banking institutions registered as private funds to be engaged in microlending activities and to be exempt from the value-added tax. The Law was signed by the President in January 2000 and became effective immediately.

RWMN worked in 2000 to ensure that **tax exemptions gained for MFIs** were part of the tax code adopted in November 2000.

Key to the policy successes were the mobilization of **local Russian legal expertise** and the **active policy change efforts by RWMN board members** to ensure favorable results in the Russian Parliament. RWMN is also an active player in the **Russian Microfinance Network** and, supported by WWB, contributes to policy work in this forum.

More recently, WWB has worked with RWMN to **track legislative developments** continually and to ensure that the regulations governing non-bank credit organizations are a viable option for possible formalization. This puts RWMN on the **cutting edge of microfinance development in Russia**.

## **6. USING A VARIETY OF METHODS FOR MOVING FORWARD THE POLICY AGENDA**

Over the last eight years, WWB has worked with network members to pursue a combination of means to secure policy change: major policy forums, technical workshops,

regional workshops, participation in events sponsored by national networks, support in building national working groups where networks did not already exist, support to legal work at the national level, use of questionnaires to draw out experience and positions, sharing of international experience, and work with parliamentary representatives.

### **CREATING A LEGAL FRAMEWORK THAT BENEFITS MICROENTREPRENEURS AND THE INSTITUTIONS THAT SERVE THEM IN COLOMBIA**

The Association of WWB affiliates in Colombia, with support from the WWB global team, has been very active in influencing government policy on microfinance. This work has been undertaken in direct response to the hostile policy environment in the country vis-à-vis microfinance.

The five Colombian affiliates, with the support of WWB, carried out a **series of policy change actions**, which involved:

- the **analysis and assessment** of the best structures for microfinance, working with a Colombian consulting firm,
- a **meeting with the Economic Advisor to the President** of Colombia in February 2000; and
- catalyzing the formation of a **Policy Working Group** in Colombia. Progress has been made in changing the policy and regulatory environment to create a more favorable milieu for microfinance. Highlights are provided below.

**Interest Rates.** In 2000, in response to advocacy efforts by the five Colombian affiliates, the government took a moderately pro-microfinance stance and enacted legislation which promotes micro, small and medium enterprises, thus allowing financial entities specializing in microfinance to charge fees and commissions that are not part of the controlled interest rate. In effect, this gives some benefit to MFIs with respect to interest rates, but does not constitute a fully liberalized interest regime. The law affirms that financial institutions will be supported in promoting microfinance.

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*Colombia continued*

**Understanding of Microfinance—Fairer Evaluation of Risk.** An October 2001 regulation explicitly recognizes and defines microcredit loans. In addition, this circular provides for changes in the way the Superintendency evaluates risk in microfinance, away from loan collateral to portfolio quality and provisioning levels.

Spurred by their interest in potentially converting into a regulated entity that can mobilize savings, the Colombian affiliates have been pushing the government to **revise the Commercial Finance Company structure**. The Colombian WWBs have been in **active dialogue with the government** over proposed changes to the CFC structure that would make it more appealing. They have already succeeded in overturning a provision that prevented CFCs from borrowing from financial institutions, and they are working on extending the rights of CFCs to operate current accounts.

In a painstaking, detailed fashion, the Colombian affiliates have used their position as leaders of the microfinance industry in Colombia to **chip away at the most negative aspects of the policy environment** and have used their influence to improve the situation for all microfinance institutions, both regulated and unregulated, that are operating in Colombia. They have also resisted the pressure to change their legal status until they are convinced that the legislation will not impede their operations and their ability to serve their clients effectively and efficiently.

## **7. POLICY CHANGE AS AN ON-GOING PROCESS**

Policy change requires solid credibility, homework, strong relationships and persistence. WWB policy engagements often yield short term benefits in new attitudes, approaches and alliances among practitioners and policy makers. Occasionally there are quick wins, with a major change in interest rate or collateral policies. More often, the important changes in policy, regulations, legal structures and roles take time. A cadre of policy change champions needs to be built, and if those individuals should change positions, new champions need to be found and cultivated. WWB engagements are not one-shot in-and-out commitments, but rather long

term partnerships built upon shared objectives, solid content, and mutual respect.

The Bangladesh policy engagement was an opportunity to consolidate views on a vision for microfinance in Bangladesh, via a process of research and preliminary consultations leading into the final consensus-building meetings.

### **THE STATUS AND FUTURE OF MICROFINANCE IN BANGLADESH**

Working with the Shakti Foundation and ASA, WWB network members in Bangladesh, the WWB global team launched a **process of analysis and consensus-building** in Bangladesh, bringing together in Dhaka the leaders of large MFIs, PKSF and industry analysts in March 2002, and the leaders of more than 30 microfinance institutions at a separate event in July 2002.

Preparation for this engagement began a year before the consensus meetings in 2002. WWB worked with network leaders, policy makers, and leading Bangladeshi researchers to assess key issues in the market. Previous WWB strategy work with Shakti also contributed to understanding the context and key areas for attention.

These meetings brought together important microfinance institutions and industry analysts to share **assessments on the issues and opportunities in the Bangladesh microfinance market**. In addition to examining the question of microlending outreach to poor clients, participants identified the challenges and opportunities presented by the Bangladesh market and looked more deeply at evolving demand for different lending and savings products in various market segments. Participants dimensioned the market saturation and overlapping issue, agreed on a set of performance indicators and standards to help address transparency issues, and highlighted the importance of new financial products for growth-oriented clients. This work served as an input to work undertaken by Bangladesh Bank, PKSF, and industry leaders on performance indicators and on the future of regulation.

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*Bangladesh continued*

Out of these events came **consensus statements and proposed action plans** from the perspectives of both the largest and the medium-sized microfinance actors. Consensus was built in the following areas:

- a. Statements on shared visions and key features in microfinance.
- b. The extent of evidence of overlapping, the degree to which this represents a danger to the industry, and next steps in analysis.
- c. Reasons for uneven repayment performance, the importance of transparency and key performance indicators.
- d. The main challenges of regulation and the proposed focus and timetable for introducing regulation.
- e. New directions of the Bangladesh microfinance industry, how to best tap market opportunities and put in place the necessary conditions for innovation.

In each case, the Bangladesh Bank (central bank) was briefed on the results. Results of the deliberations were brought into the work of the Bangladesh Bank-sponsored **technical group on microfinance**. CDF has pursued the initiative to continue to build consensus and to tackle the question of **establishing standards in the microfinance industry** in Bangladesh.

The WWB network did deep analytical work, identified issues, stimulated interest in these challenges, and created opportunities for debate and consensus-building. WWB was called upon to help in the development of standards, in support of CDF.

- Vision for the microfinance sector, with a commitment that goes beyond the needs of any one network member;
- Knowledge building and in-country networking;
- Strategic thinking in terms of end-game and how to mobilize both local and global partners to get there;
- Creativity, energy and staying power.

As we move forward, the WWB network sees policy change as possible only on the basis of deep commitment and focus. The principles and processes laid out above remain valid and will be reinforced. WWB policy work in the future will be characterized by:

- Continued commitment to policy work, based on the initiative of WWB network members and other local leaders.
- Use of analytical tools to support policy diagnostic work at the country level, including content and process guidance for policy work.
- Preparation of policy overviews of all countries with WWB affiliates and associates.
- Selective, deeper engagement in a limited number of countries, based on sound analysis, consensus-building, and mobilizing the energy of a range of actors to affect concrete policy change at the country level.

## CONCLUSIONS

WWB as a network has deepened its knowledge of processes and key success factors in policy change in recent years. While country contexts are diverse, a set of elements common to all engagements stands out:

- Strong leadership at the local level;



This note was prepared by Kathryn Imboden, WWB Policy Change Manager and Nancy Barry, WWB President, based upon experience with WWB network members over the past ten years.

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