

Request for written evidence to the All Party (U.K.) Parliamentary Group on Microfinance (APPG)

Background

The purpose of the APPG is to raise awareness of microfinance and the role it can play in reducing poverty, particularly in the developing world. As such, the APPG also provides a Parliamentary forum for discussion on new developments and current debates in the field of microfinance.

The APPG has more than 30 members from both the House of Commons and the House of Lords, representing all of the main political parties. As of early December 2010 the APPG has launched an inquiry into how the UK Government and Donors should contribute to the microfinance field.

Subject: Re: Response to request for evidence

Dear Kevin,

Thank you so much for your submission it has been really very helpful. We are currently in the process of bringing the inquiry together and I was just wondering whether you would be able to provide me with a little more information on the role of SME financing. I'm aware that you have some expertise in this area. I was wondering whether you would be able to write a short response to the following questions:

1. Do you think that SME financing is something that needs more attention if microfinancing is going to really flourish or do you think that it is a distraction?
 2. How do you see the relationship between microfinance and SME financing and which do you think is most useful (if that can be said) at reducing poverty?
-

Response: Re: Response to request for evidence

Thank you for the opportunity to provide further input. I am actually writing this from Uganda where I am advising on putting this into practice with the Rural Energy foundation, last years Africa winners of the Ashden Awards.

1. SME financing is a key part of the strengthening and deepening of microfinance gains from the last 25 years. There are two aspects to this.
 - a. First, microfinance is going through a painful realisation that its consumer lending has become a bubble which is damaging its social impact and business model. The original concept was clearly aimed at helping individuals to create income or overcome temporary cash flow issues *without* adding over borrowing to its customers burdens. The success in identifying the right mechanisms to assess and scale credit for its customer base have been exploited to push lending for consumption. SME or microenterprise lending both helps return microfinance to its core economic role – creating income.
 - b. Second, as microfinance achieves scale and needs to engage with the global capital markets, it needs to present a more diversified risk profile. A

product mix of consumer loans, SME and microenterprise financing, home loans and insurance achieves this. SME and microenterprise financing are strategically and operationally the clear next step for large MFIs, making excellent use of already established distribution networks, trained personnel, risk expertise, systems and management.

2. SME Financing, Microfinance and Poverty Reduction. The creative engine of microfinance is and has been the determination to re-interpret the lives of those in poverty to demonstrate their suitability and reliability as customer for credit products, which in turn can reduce that poverty. It took 20 years to prove beyond doubt the validity of this thesis. It is unfortunate that the creative engine then stalled, and energy went into excessive lending using the knowledge gained, rather than into the next generation of products. SME financing is for me, the very next product in the spectrum of financial services designed specifically for those with very low incomes. It sits firmly in the school of BoP financial services where credit is designed as an empowerment, frequently to support the raising of income levels. As mentioned above, it could not play a role on its own without the distribution networks, trained personnel, risk expertise, systems and management that now characterise large MFIs. Now that these are in place, the step to integrating large scale SME financing is actually a small one operationally, albeit one that requires leadership.

I hope these comments are relevant and useful. Let me know if I can contribute in any other way.

Kevin Kennedy, Clearcape Ltd, March 12, 2011