



## Economic Development and Employment

# Microfinance

### The challenge

A financial system which meets the needs of both the population and business community is the basis of every efficient economic order. In many developing and transition countries, however, the financial systems are not sufficiently developed. As a result, poorer sections of the population and small enterprises have inadequate access to financial services such as loans, savings and payment and insurance services. This in turn hampers them in their efforts to pursue business initiatives, make investments and develop economically – in other words, to escape poverty for the long term.

### Our approach

The services offered by GIZ focus on providing and improving access for poor, yet economically active target groups to microfinance services in various country contexts and in problematic development situations. They aim to bring about an overall improvement in the microfinance system by taking coordinated action at three levels. At micro level, GIZ enables (micro)finance institutions to offer an improved range of financial services. At meso level, financial sector service providers are given support in developing or expanding their range of services for (micro)finance institutions. At macro level, higher financial-sector authorities (central banks, banking supervision) receive support for the more targeted and professional execution of their duties.

### Our services

We implement our microfinance strategy by providing the following services:

- **Strengthening of financial institutions offering microfinance**  
Financial institutions are assisted in helping poorer sections of the population and small enterprises to access financial services on a sustainable basis. To this end, we offer advice on organisation, strategy, human resources, business planning, product development, market expansion, accounting and governance. Our partners include private and public sector banks, microfinance institutions, cooperatives and non-governmental organisations.
- **Strengthening of financial sector service providers**  
Financial institutions require the support of a range of service providers. This is particularly true wherever there is a demand for innovative solutions, as the range of products needs to be adapted and geared towards new client groups. GIZ therefore supports the foundation and establishment of training institutions, associations, credit reference agencies and other service providers by means of comprehensive advisory services.
- **Strengthening of central banks, regulators, ministries**  
Many developing countries lack a conducive environment for the development of a stable (micro)finance sector. We therefore provide institutions such as central banks and ministries with support in drawing up and implementing statutory reforms. Our services also strengthen banking supervisory capacity for regulating and monitoring banks and microfinance institutions.



GIZ works together closely with the consulting sector and KfW to provide the advisory services. A network of specialist independent experts is also available at regional level and can assist with any specific technical aspects.

## The benefits

- The advisory services provided by GIZ are aimed in equal measure at microfinance institutions, sectoral tasks, and the microfinance framework at policy level (financial systems approach). This helps to strengthen the microfinance sector as a whole.
- Close cooperation between GIZ and institutions which are setting standards for international cooperation in the microfinance sector (Consultative Group to Assist the Poor - CGAP, donor committee for financial sector development).
- Working contacts between GIZ and Germany's central bank, the Bundesbank, as well as with German lending associations (German Cooperative and Raiffeisen Confederation - DGRV, Savings Banks Foundation) for the provision of specialist advisory services and for the support of international knowledge transfer.
- GIZ microfinance instruments and strategies are drawn up for the provision of advice to microfinance institutions of all legal forms and all forms of ownership (co-operative, joint-stock company, NGO) as well as for advising commercial banks on issues relating to microfinance (downscaling).

## An example from the field

The microfinance system in Sri Lanka has its weaknesses: there are high levels of loan default, information on target groups is poor, cost efficiency is low and, above all, the terms and conditions offered are unattractive. Consequent-

ly, small and microenterprises lack financial resources. The aim of GIZ is to improve and expand the range of products and services of key microfinance institutions.

On behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ), GIZ is strengthening the microfinance system in Sri Lanka at all levels. It is helping national institutions to develop a microfinance policy while at the same time supporting service providers of the microfinance industry and microfinance institutions with measures designed to improve the quality of, and expand the range of services they offer for poor households.

In order to achieve this, GIZ uses experts for short and long-term assignments, conducts seminars and workshops, carries out studies and organises training measures and study trips. At the same time, it provides financial inputs and subsidies.

These measures have helped to significantly improve the central bank's expertise with regard to regulation and supervision. Using the advisory services provided by GIZ, four service providers have tailored their products and services to the microfinance sector. Around 20 microfinance institutions are supported directly and the development of a microfinance network, together with competence and service centres for banking software, is being driven forward. Thanks to its good reputation, the programme was granted the role of donor coordination in the microfinance sector.

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