

THE POCANTICO DECLARATION

Microfinance Leaders Retreat, April 21-23 2008

Coming from a variety of nations, entities and viewpoints, we as a group of leaders in microfinance have gathered at the Pocantico Conference Center (a facility outside of New York City managed by the Rockefeller Brothers Fund¹) at a moment of great opportunity and great risk for the microfinance sector globally: on average, interest rates are declining, efficiency is increasing, provider profits are declining as competition increases; however, indebtedness among clients is also rising, perhaps to unsustainable levels, and the threat of destabilizing state activism is growing. We have come together to seek an honest view of the sector today, especially to explore the differences and similarities among us regarding fundamental purposes and principles. We have enjoyed the opportunity to listen to and learn from one another, and as a result, understand one another better and begin a conversation.

We affirm that microfinance is distinguished by its primary purpose of maximizing long term value to low income clients in a sustainable manner. This can be achieved by the growing diversity of providers and approaches. We affirm our ongoing confidence that microfinance can and should bring increases in income, assets and other benefits to our clients; but we acknowledge that microfinance is not a panacea. We welcome the enlargement of the sector by the entry of new players and investors who share these principles and who work towards maximizing long term value to low income clients.

Looking forward:

- *We find hope* in the continued growth of microfinance and the expansion of services provided to poor and low income people. *We are encouraged* that in many areas an increase in competition and the application of new technologies are bringing down transaction costs leading to lower prices for our clients. *We look forward to* the increased provision of savings services to the poor and the expansion of domestic capital markets. *We support* the expanding connections between microfinance, other sectors of the economy and other development efforts.
- *We are concerned* that over-emphasis on the supply side has moved us away from adequately knowing and understanding our ultimate clients; but *we are excited* by the prospect of moving from the provision of microcredit only to adding additional responsive and responsible products and services.
- *We are concerned* by low standards of transparency in the sector and an emphasis on hype; *we support* greater transparency particularly at the funder and provider level—which involves being more honest about costs, performance, outreach and impact.

¹ This report was written by participants at the Microfinance Leaders Meeting based on materials discussions that took place during the meeting. It reflects the views of the conference participants and not necessarily those of the Rockefeller Brothers Fund.

- *We are concerned* by the rising risk of over indebtedness among clients in many markets.
- *We agree* on the need for a code of conduct which should govern how providers treat their clients, and that microfinance providers should be accountable for operating according to this code.
- *We are pleased* that governments have appreciated the importance of microfinance. *We see* important roles for government in creating an appropriate financial system architecture which works for the poor and low income populations, although *we are concerned* about the growing tendency of governments not to respect the principles of microfinance, and in particular to become directly involved in the retail provision of credit.
- *We are concerned* that extraordinary profits in advance of adequate competition may compromise client benefit and public support of microfinance. While acknowledging the role profits play in promoting scale, sustainability and competition, *we also recognize* that we hold diverse views about the appropriate levels and usage of profit. Further, we believe that those who accept public money should be held to higher standards of accountability for achieving tangible social benefits with their use of public funds.
- *We are committed to* fostering a competitive environment and to improvements in operational efficiency which will enable interest rates to come down over time.

These concerns and affirmations have led us to embark on a process which includes the following action steps:

- *Defining key questions on a customer focused research agenda* such as understanding who is and is not served by microfinance, measuring the extent and variety of impacts due to financial access, investigating how financial services are used and where the greatest unmet needs lie, and understanding the extent and nature of over indebtedness among clients.
- *Developing and promoting common principles and standards* at various levels among existing and new actors including funders and financial service providers, which should address consumer protection, social performance, pricing transparency, and promotion of financial literacy through client education.
- *Investigating the formation of an international task force* which will seek to define public policies at the national level that are consistent with financial inclusion while also addressing the potential to reshape the international financial architecture (such as examining international standards in areas like capital requirements, payment systems, customer due diligence) for the benefit of the poor and low income populations.
- *Discussing and unpacking further areas of apparent disagreement* among industry leaders in a way which includes and respects the range of views in the sector, for example: on the respective roles of consumer finance and microfinance; on the linkage of microfinance to the environment; and on the limits of what microfinance as currently practiced can do and can't do.

We acknowledge our responsibility individually, in our institutions and in the industry to carry these principles, hopes and concerns forward and to implement this agenda.

Final Draft

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