

University Meets Microfinance - Letter of recommendation

To whom it may concern:

Social equity and economic growth in a market economy are the typical twin goals of institutions which receive national as well as international donor support, such as many microfinance institutions (MFIs).

Normal commercial banks would scarcely have any interest in the micro business. Because of asymmetrical information, even in a completely liberalized world, small borrowers would remain excluded from formal bank loans, although they would be able and prepared to bear cost-covering terms. That is the essence of one of the most famous results of market failure research in economics.

Therefore, in microeconomic terms, the idea behind the establishment of specialized MFIs is rather well-founded. However, the design of the institutional structure, including governance structure, requires a fine balancing of their banking and social functions in order to reconcile efficiency, cost-covering and growth incentives, i.e. financial sustainability on the one hand side, and the social promotion mission on the other.

In the past 30 years, many efforts have been made to find suitable institutional settings, be it through the downscaling of commercial banks, the foundation of special greenfield banks, the upgrading of NGOs or linking them to banks, and last but not least, the promotion of local self-help organizations, such as credit cooperatives. In the last few years, technological innovations of financial services – point-of-sale services, mobile banking, microinsurance and transfer services for remittances, just to name a few - have been pushed forward, and many organizations have tried to link microfinance services with the provision of public goods such as health, education and energy security, or even of private goods such as solar power, telecommunications and agricultural inputs.

A lot of empirical studies exist, and conference volumes abound in the literature. However, there is little transparency, because universities usually have only few contacts with the donor community, organized in the Consultative Group to Assist the Poor (CGAP), led by the World Bank, and research from the practitioners' side rarely exceeds individual case studies or market studies about supply and demand, with little or no theoretically founded analysis of the institutions or products offered. In addition, if any, there is a wide array of theoretical ap-

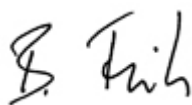
proaches from various disciplines to be reckoned with in those case studies, ranging from anthropology, sociology and political science to economics, business administration and informatics.

At the Freie Universitaet Berlin, our team at the Department of Economics and Business Administration and at the interdisciplinary University Center Lateinamerika-Institut has been realizing research and teaching on what is now called “microfinance” for more than 30 years. We started with critical evaluations of international cooperation experiences for the German Ministry of Economic Cooperation and Development almost at the same time, when Yunus rediscovered the principles of modern microfinance in Bangladesh. Since then, a great number of former students have been active in the field as professionals at all levels and in all kinds of institutions, feeding back their experience. As a co-founder and member of the Supervisory Council (1998-2001) of the Internationale Micro Invest AG (IMI), later renamed ProCredit AG, Manfred Nitsch himself participated in the practical transfer of knowledge not only between theory and practice, but also between the developing countries and the transition economies of Eastern Europe and the Far East.

In academic research and teaching, microfinance has always provided a fruitful field of cooperation with specialists in poverty reduction, community development and gender studies on the one hand side, and with banking, monetary theory, financial systems and crises specialists on the other. That is why these courses have turned out to be a welcomed qualification for future employers in the fields of development cooperation as well as banking.

Our cooperation with PlaNet Finance within the project “University Meets Microfinance” opens the new challenge of microfinance in Western capitalist countries, presently driven by the Microcredit Initiative of the European Union. Theoretically sound academic education and training should meet with practioners on the ground and practice-oriented researchers establishing sustainable links between the scientific and the practical world. Through the different activities – seminars, mentorships for students realizing on-the-field research for their final thesis, conferences to discuss results of student research with practitioners and finally the publication of students’ theses – the project “University Meets Microfinance” aims at raising awareness among European students (as future decision makers) and bringing the work of academics and students to microfinance practitioners, donors and promoters. Finally, beyond the educational and awareness-raising effects, the project should also foster the further development of the low-income target groups of the microfinance sector.

With the academic experience of the Freie Universitaet Berlin and the practical experience of PlaNet Finance as a worldwide active organization specialized in microfinance, two competent partners have come together in order to make the project successful: “University Meets Microfinance”.



Prof. Dr. Barbara Fritz



Prof. em. Dr. Manfred Nitsch