INAFI

Inafi India Info

Microfinance Matters

Contents

Opening Notes

The primary concern of micro finance practitioners is not only the reach but also the quality of the reach. The MF intervention is not a touch and go affair but touch with depth to enable the poor to come out of poverty. This has spurred credit plus plus approach with empowerment of the poor women as an important underpinning. Socio-economic empowerment is but one facet of empowerment, which is sought to be achieved through building of assets and rights. While they are mutually reinforcing, building assets would help restore, defend or enhance their rights.

INAFI, the Network of MFPs (Micro Finance Practitioners) has its task cut out. It enjoins on the network to advance this agenda of building assets for poor among the members of INDIA network, nay, to focus attention of all stakeholders in the micro finance sector on this critical issue. INAFI-INDIA has taken upon this as a major programme of action. BAIF being a pioneer, it is apt that Mr. Girish Sohani sets the tone with a lead article.

True to its character, INAFI as a network, constantly endeavours to build the capacity of its members and enable graduation. Mr. Vasimalai makes a lucid outline on this objective.

We conclude the profiles of the members by featuring SERP in this issue.

- ***M. Kalyanasundaram***, *Chief Executive, INAFI-INDIA*

International Network of Alternative Financial Institutions - India

Productive Assets Creation / Building through Microfinance

M.P. Vasimalai, *Executive Director, DHAN Foundation, Madurai, India*

Many worldwide microcredit initiatives revolve around credit that too, 'Working capital loan' for vending or trading activities, because of short- term, higher rate of return on capital and to meet higher flat rate of interest of lending institutions. Even after a decade of micro-credit operations, poor families remain poor or little better but the difference is that the money lenders are replaced by micro-credit institutions. Assets creation was rarely attempted because of high investment and not so high return on assets. But the Indian experience is primarily on assets creation for poor, transforming the poor from wage labourer to self-employed with livestock or land or skill based livelihoods.

Microfinance operations in urban, rural and tribal areas demand different approaches. Urban areas provide amble opportunities for trading and services and the intervention simply requires credit access and control. Whereas in rural and tribal areas, microfinance has to build on natural resources, livestock and on non-farm activities. Microfinance for assets creation would be a sound practice to address poverty. Productive assets worth of Rs 10000 to 20000 would liberate a poor family out of existing exploitative livelihood system. Microfinance assumes investment finance character of development finance to acquire land, water, equipments for sustainable livelihoods. It would also change the basket of seasonal activities of poor into a primary family occupation.

Besides lending, microfinance operations in India create wealth through their savings. Each member of community based microfinance institutions accumulates their savings and lend the same among themselves. It provides a social security and a range of securities including food, health, education and income. Productive assets including housing serve as a hedge against any calamities and emergencies. Hence microfinance institutions have to be equipped with capacities to build sustainable assets which generate sustainable incremental income to the members. Lending policies have to be in favour of creating assets.

Graduation of clients' status from survival to self-employed through assets creation would be the founding philosophy of any microfinance institution to address poverty. Caution has to be exercised, not to push new activities with members which does not have local market and not yet integrated with local economy, so also with group activities. Upgradation of assets for weavers and artisans; improving marginal assets to viable assets, acquisition of new assets for their existing skills; converting leased assets into ownership and sustainable assets based on livestock are some of the strategies for asset building through microfinance. Human resource development including skill building should also be a part of asset building strategies through microfinance.

INAFI, India could take up asset creation as one of their core agenda along with self-regulation.

Society for Elimination of Rural Poverty (SERP)

Introduction

The Society for Elimination of Rural Poverty (SERP) is an independent, autonomous society registered under the Societies Act to implement the project. The Andhra Pradesh District Poverty Initiatives Project - APDPIP is being implemented by SERP in 180 backward mandals in the six districts of Adilabad, Mahbubnagar, Anantapur, Chittoor, Srikakulam and Vizianagaram in the state. The APDPIP is a Rs 600 crore World Bank supported 5-year (2000-2005) poverty elimination project.

Vision

"The disadvantaged communities shall be empowered to overcome all social, economic, cultural and psychological barriers through self managed organisations. They will attain higher productivity with improved skills and asset base and utilise resource to full potential and gain full access to services".

Objectives of SERP

- Implementing the District Poverty Initiatives Project
- Assisting elimination of child labor and school dropping-out
- Building capacities of local bodies to address the needs of the poor
- Evolving strategies for empowerment of poor through social mobilisation and institution building for the poor
- Serving as Resource center for research, analysis, studies on social situations, economic conditions of the poor and training in social mobilisation and community participation.
- Providing platform for advocacy of the causes of the poor.

I.	**OUTREACH**	
1	No. of mandals covered in DPIP	141
2	Mo. of Habitations covered	3779
3	No. of poor organised into groups	125141
II.	**ORGANISING THE POOR**	
1	No. of SHGs formed / strengthened	10000
2	No. of Village Organisations / federations formed	821
3	No. of Mandal Samakhyas Formed	29
III.	**SOCIAL CAPITAL**	
1	No. of Community Activists / Paraprofessionals trained	3300

Micro Finance and Institution Building

Micro Finance is the overarching functionally which binds the Institutional and Human Capacity Building components in the project. It is through formation and operationalising of women's /youth groups that the fulcrum of the project is established, which in turn creates the entry point for other activities and interventions.

The main objective of micro-finance operations is to establish an alternative and sustainable credit system for the poor. It also enables women to participate in decision making in domestic as well as developmental arena. It empowers the poor, especially women to play a dynamic role in social, economic, political and cultural activities in their communities as well as in the larger society.

Asset- Building for the Poor: the Opportunity and the Challenge

Girish G. Sohani1, Exec. Vice-President,
BAIF Development Research Foundation, Pune, India

Backdrop

Various policy initiatives and measures have been taken at different points of time to impact on poverty. The nature of anti-poverty programs have, as a result, evolved over the last fifty years from being Relief programs to becoming more of reconstruction programs. Yet, in spite of this shift, the policy changes often deal with narrowly focussed areas, trying to relax the constraints in one dimension, while leaving the larger situation unchanged. The resulting impacts are bound to be limited. One such recent policy changes in the offing is making available credit funds to finance the acquisition of land by the poor. This opens up opportunities for microfinance agencies to source bulk credit for onlending to the poor. Such opportunities should be availed with caution and only after an enquiry into the nature of poverty and the process of asset-building by the poor.

The Dynamics of Poverty

It is important to understand the interlocked nature of poverty. Poverty can be better understood as a syndrome — absence of capital assets, low access to finance, lack of market access, distortions in the market, inadequate knowledge/ skill for a 'new' activity, and so on. And all these factors are interlocked. The combined effect of these factors weighs down on the confidence levels and the entrepreneurial abilities of the poor. Any policy initiatives which tackle just one of these factors is bound to be pulled down to the dust by the combined weight of all others. Not surprisingly, I have heard the poor describe their state more as a 'lack of choice' (to do things differently), rather than as a 'lack of this asset' or a 'lack of that input'.

Assets for the Poor

Any development initiative that aims to build up the assets of the poor hopes to build these up as productive assets or 'capital goods'. They are expected to generate a revenue stream by virtue of their use for various productive purposes. However considering the wide range of other interlocking factors that decide the outcome of such an enterprise, the 'direct' creation of an asset through an anti-poverty program does not necessarily guarantee the anticipated income-stream.

The poor therefore tend to look upon the assets not just as 'capital goods' but also as - or rather, more predominantly as - insurance or as a saving. It is for this reason that there is often a greater preference for more easily disposable units such as goats, birds and (harvestable) trees. Assets created under various anti-poverty programs such as the IRDP, were very often disposed off in times of need or are kept unutilized as a fall-back saving, rather than being used for regular livelihood activities. Even when they have been used for the planned purpose often times gradual erosion of the assets is observed as a result of a gradual eating away of the capital. This can be seen very often in case of livestock where the distributed animals serve initially as an income stream and subsequently erode in productive capacity as a result of lack of continuing investment - an eating away of the capital, in a way. The role of land as a productive asset is even more complicated because its interlocking with other factors is probably the strongest and it is relatively more difficult to divide (for small parcels) and dispose off.

When this is the situation of assets of the poor in general, even when given as grants, it is not difficult to understand the predicament if asset formation is solely through credit - whether mainstream or through microfinance.

Creating capital assets with the poor and ensuring that they remain 'performing assets' for them cannot happen unless the interlocked nature of poverty is taken head-on.

A Holistic Approach for a Holistic Problem

Against the gloom of the above experiences, there are equally bright experiences where more holistic interventions help in more effective tackling of the interlocked problems. Such efforts have departed from the generally adopted approach in two important ways:

- They grapple with a wide range of interlocking factors.

  Particularly, balancing inputs required, access to markets, forward and backward linkages, etc. and putting in place the appropriate Business Development Services.

- They strongly engage various factors 'internal' to the mindset of the poor.

  Not just imparting knowledge and skills (which is very crucial indeed), but also building up confidence through incremental development efforts, establishing role models and building a vision.

- They go beyond conventional measures of economic feasibility analysis and assess 'feasibility for the poor'.

  Particularly looking at not just Benefit-Cost ratios or IRR but looking at viable units of operation, the cash flows accruing for daily sustenance, the gestation period, the return to labor and the size of investments required.

These are the experiences drawn from some effective programs being implemented by BAIF with some of the poorest communities in India:

- The comprehensive 'WADI' program for tribal development which helps poor families to develop gradually, with their own efforts, a highly productive farming system including horticulture, agroforestry, small scale irrigation, improved agriculture as well as processing and marketing of farm produce.
- The comprehensive livestock development program which helps poor farmers to develop at their doorstep a highly productive cross-bred cow starting with non-descript low yielders.
- The Janotthan program with its methodology of mapping each family's resource base, identify the right intervention through a participatory micro-planning process, and build-up a series of interventions through an iterative process.

It is thus certain that the challenge of asset building with the poor is not insurmountable, but it is not simplistic either. Microfinance agencies therefore need to tackle it in a very well-thought and mature way rather than jump on to the bandwagon of policy initiatives which need to be made more complete.

Graduation of Members in INAFI

***M.P. Vasimalai**, CHAIR, INAFI, India*

1. Introduction:

Capacity building of member institutions was/ is/ would be the core business of INAFI in all countries. It is not a static concept but a dynamic process to respond and to adopt to the changing environment with the prime purpose of poverty reduction, then eradication. Primary goal of INAFI is to graduate it's member institutions to a 'learning institution' in the field of microfinance as a development finance institution, not merely a financial institution. A micro finance institution has to build the capacity of its different constituency (rather its 'publics' in NGO's context - A Public is a distinct group of people and/or organisations that has an actual or a potential interest and or impact on an organisation (Philip Kotler, 1985) which are outlined below:

FIGURE 1 : The Main Publics of a Microfinance Institution

Input publics		**Internal Publics**		**Consuming Publics**
Donor/ funder Publics Supplier Publics Regulatory Publics	→	Board Management Staff Volunteers	→	Clients Local Publics General Publics Media Publics Competition Publics

(Adopted from Philip Kolter's book on 'Marketing for Non-Profit Organisation'', 1985)

In short, Capacity building of a microfinance institution includes capacity building of target community, Staff and Board and regulatory and policy bodies for effective and efficient functioning for better performance of it's mission.

Effectiveness relates to the purpose of Microfinance primarily to address poverty and empowerment of poor. The question of effectiveness leads to the following questions:

? What is the **core business** of INAFI members?

? Who is our **customer / target community** ?

? What is **' the value'** to target community?

? What **will** our business be?

? What **should** our business be?

It would measure institution's focus-the kind of target community served and the kind of services, offered to reduce / eradicate poverty and to build sustainable civil society.

Efficiency relates to the way of doing the development intervention. It includes means of doing the business of development. It has a direct relationship with effectiveness. There may be many ways of doing development finance with efficiency. Cost effectiveness, timely service and flexibility are the key elements of efficient systems. Capacity building of member institutions entitles effectiveness and efficiency for high Quality performance.

2. Concept of graduation:

Capacity Building is not external driven but internal driven. It could be equated to teaching (external driven) and learning (internal driven). A ' learning Institution" would ensure high standard of institution building which is defined as" the process of **building the internal capacity** of an organisation as a total system involving the development of values and norms relevant to

- Achieving its goals
- Playing its role effectively with emphasis on quality and excellence

In addition, "building development institution involves the process of transforming a development organisation in to an integrated and organic part of a community in a way that will help the organisation to play a pro active role in promoting new values and become an agent of catalysing change in the community " Further " this transformation process will take time. May be a couple of decades, perhaps more, in many cases never; the transformation process involves atleast three specific process and a set of related sub process and action" (Prof.Ranjit Gupta, 2001)

Table 1. Building a learning development institution		
Process	**Sub process**	**Action**
1. Development process	* Culture creation * Boundary Management	a) Recruitment b) Inculturation c) Decision making d) Structure e) Leadership a) Identify building b) Maintenance c) Enlargement
2. Institutionalization proces	* Relavance Building	a) Research / Resourcing b) Dialogue c) Dissemination d) Transfer/Extension
3. Renewal process	* Change in leadership * Regeneration * Exit/Reinforcement * Redefinition of Mission * Integration	a) Leadership b) Decision making c) Structural Adjustments d) Dialogue e) Research /resourcing f) Dissemination/Extension

The concept of learning as defined by Prof.Udai Pareek (1980) is "the process of acquiring, assimilating and internalizing cognitive, motor, or behavioral inputs for their effective and varied use when required, and leading to enhanced capacity of further self-monitored learning". **Propositions of learning** as advocated by Udai Pareck are listed here for capacity building of INAFI members.

2.1. Enabling Environment for learning:

- Learning is much faster when an organisation's culture encourages flexibility, experimentation and participation
- Learning is faster in a non-threatening climate. Network provides such environment
- Learning is effective and satisfying if the learner achieves something which is challenging
- If a learner is helped to succeed on a challenging job, and each time the challenge increases a little bit, learning can become very effective.

2.2. Mechanics of learning:

- Feedback is a necessary condition for stabilizing learning. If the learner knows how much she has learned, what portions she could not learn, and why, learning would be quite effective. Feedback is important not only for cognitive learning and the learning of technical skills, but also for the learning of behavioral skills and behavioral change.
- For effective learning it is necessary that the learner is able to practice what she has learned both technical and behavioral skills. For practice specific periods are required, clearly prepared effective methods of assessment and feed back are needed, and group support along with a non-threatening climate are necessary.

- Learning is of no use unless it leads to action. The application of learning implies the development of insight in the learner, and his ability to respond to a situation effectively. Proper sequence, for example, various mechanics of application need to be properly planned in a several graduated exercises on demonstration, followed by several graduated exercises in actual application, testing the ability to apply, and learning from review of such exercises.
- Self-learning needs to be stressed as a necessary component in all learning situations. Enough time should be given to participants to read, consult the library, and select their own material for learning. Assignments requiring self-study and search of relevant materials may promote self-learning. It would help in stabilizing what has been learned.

2.3. Learning Process:

- Learning can effectively develop the individual if he "discovers" knowledge and other important dimensions rather than "getting" it from the teacher / trainer. Discovery also emphasises the use of experience in learning and the experience of the learner.
- In all learning situations enough opportunities should be provided to learners to experiment, to try new ways, and learn from such efforts. Experimentation is very important in the learning of behavioral skills.
- Learners should be encouraged to review the effectiveness of their "auto-system" and know about their mechanics available so that they can finally choose their own system and develop it.
- Collaborative learning produces mutual support and mutual reinforcement, which are favorable for effective learning. Collaborative learning is a very important dimension of growth, and skills to help and receive help.

2.4. Nurturing and coaching for learning:

- Network provides ideal learning situation for co-learning. Nurturing the above processes is important for learning of members. It is a kind of open university.
- Experienced institutions and local networks could take-up "coaching role" for effective learning with the consent of the learner.

3. Process of Graduation:

Any learning goes through a graduation process. Members have to be exposed to entire range of learning so that they know different levels. If not, the network has to define the levels collectively so that it would serve as a standard for capacity building. Network would also develop framework for self-appraisal for different models with the active participation of members. Further, each member organisation would undertake self-appraisal with the help of experts or experienced institution. Member institution would also evolve 'milestones' for their graduation for a definite period, say there to five years. Goals for each phase of graduation would be developed with concrete action plan. Network would provide support for the graduation based on each members' distinctiveness without intruding in to their identify. There is an enabling relationship between self regulation and capacity building.

4. Role of INAFI:

INAFI would facilitate 'management of learning' to ensure that learning is quick, sustained, internalized and effectively used, leads to development of creativity to achieve the purpose, and results in enhanced capacity for self-learning. It would play the following role in graduation process.

- Facilitator of Exposure visits: Exposure visits provides opportunity for 'discovery' and to know different levels of practitioners. Structured exposure visits would be designed for learner members with cost coverage concept.

- Promoter of Practice groups: Graduated practice groups would be formed by the members for their growth and help others. It could be within the country and across countries and continents.
- Enabler of favourable learning environment: It would enable members to nurture 'learning culture' by throwing graduated challenge in a non-threatening way.
- Coacher of members: By facilitating periodical feed backs among members, and also coaching individual members through an elaborated process over a period of time for self-learning would ensure effective mechanic of learning among members.
- Experimenter: INAFI would promote experimentation among members for creative learning. It is through experimenting that the learner understands that there are various ways of doing things, and s/he discovers alternatives, which make the learner more effective in being able to choose from a variety of such available alternatives. Without experimentation learning cannot help in the development of a field.
- Collaborator: Learning is a function of a group. The process of collaborative learning - mutually helping one another in learning, and facilitating this process - is very important.

5. Framework for Action:

Continent networks would play a active role in translating all the above concepts in to action. It would organise series of workshops or labs for evolving terms of reference for graduation, from practice groups, experimentation and nurturing and coaching the members on their selected areas of learning. Member institutions would contribute the cost for their advanced learning process by raising resources on their our and INAFI would raise resources for promotion of the graduation and a core group would work on the graduation process to develop a manual for action.

6. Challenges:

6.1. Preserving the identity of members: Each member has a distinct identify and their way of contributing to development. The challenges to work out safeguards to preserve the identify of members.

6.2. Pre-condition for graduation: Member institution has to categorise themselves in to a learning category - beginners, performers, and advanced performers - and their willingness to go through graduation process.

6.3. Developing different graduation for different member categories: Diversity of members institution creates a challenge for INAFI network to develop 'graduation' for different categories of members.

6.4. Management of graduation: Being a network, the difficulty would be to manage the graduation in a qualitative way. Adequate mechanisms and framework have to be evolved to ensure quality graduation.

6.5. Long - term Investment: Graduation requires a long-term investment on members and it would be a great challenge to keep the interest of members vibrant over a long period.

Predatory Lending

Mr. Kimberly Johnston, *Marketing Specialist, World Council of Credit Unions Inc. Madison, USA*

Usury has been a universal and ubiquitous phenomenon which aggravates poverty. We have recently came across a graphic account of this phenomenon across the globe, thanks to the Word Council of Credit Unions, Inc (WOCCU). We have reproduced the excerpts from an article appeared in their magazine **Credit Union World.**

Just when you thought it was safe

Loan sharks, shylocks, predatory lenders - no matter what the name have been around for centuries and still exist in developing and developed countries alike. With loan sharks, people are used to paying rates up to and exceeding 150-200% interest per year, spiraling many into a never-ending cycle of debt.

For millions of people, credit unions offer a way out of usurious lending cycles. Credit unions are serving in markets once served only by the moneylenders in developing countries - places where access to affordable financial savings and credit services still seems like a dream instead of reality.

In the issue, credit union world takes a look at how credit unions are fighting for their members and against the loan sharks of the industry... making the financial waters safe with access to affordable financial services.

Philippines project takes on the "5 and 6ers"

The Philippines is a country where 60% of the population lives below the poverty level; family income is less than US$100 per month; basic healthcare is scarce and unaffordable. The source of credit for many people are the "5 and 6ers" - loan sharks. They earned the name, because people have to pay back six Philippine pesos for every five borrowed. Loan terms are monthly or weekly with interest rates averaging approximately 20% per month of 240% per annum. For Filipinos living where there are no credit unions known as cooperatives, this is their only access to credit, others turn to the 5 and 6ers, because there are few requirements to obtain credit.

The World Council Philippines Credit Union Empowerment and Strengthening (CUES) project on the island of Mindanao is working to overcome this type of lending scheme. Eighteen local cooperatives, representing nearly 170,000 members (including 38,000 youth members) are involved in the CUES program. CUES implemented WOCCU's model credit union methodology, along with Freedom from Hunger's village banking methodology of Savings and Credit with Education (SCWE). Through the SCWE portion - which focuses on mobilising savings and providing affordable credit to female microentepreneurs - the members receive education on how to run better businesses.

WOCCU - Philippines is trying to reach out to the poorest of the poor. "In this project, women are able to join a credit union as a solidarity group of 25 members, initially sharing a credit union membership account and then graduating - as they become able and desire - to individual memberships. This program empowers poor women to take control of their family's income generating needs," explained Lois Kitsch, WOCCU- Philippines project director.

The project has helped credit unions realise their potential, serving greater numbers of poor people on the island of Mindanao by developing new policies, products and services to be more responsive to members' needs. In its first four years, CUES has impacted nearly 840,000 people, including SCWE participants and family members, mobilising US$22.9 million in savings and financing $20.3 million in loans. By providing the poor with access to financial services, conducting educational sessions on small business practices, expanding services and changing average interest rates of 30-45% per annum which are much cheaper than the competition, the credit unions have opened the door to new members and strengthened the community in the process - replacing the 5 and 6ers as the number one financial service provider in the communities of Mindanao.

Kenyan SACCOs Adopt New Services

Loan sharks provide a service, but at what cost? In Africa, their services are sought out for emergencies like hospital and burials expenses. But that's beginning to change as credit unions modernize their services to meet not only the planned lending needs of members, but also their emergency borrowing needs, business needs and saving for the future.

Originally, Kenyan credit unions only offered loans secured by a non-withdrawable share account. Members could borrow two or three times the amount in their account. Eventually, if the members left the SACCO, the money in the share account was refunded. While this type of "back office" operation once served unions are recognizing the importance of providing "front office" operations with competitively priced withdrawable savings and convenient lending products.

To better serve members and improve fiscal soundness, 14 of 16 credit unions in the WOCCU-Kenya project have opened front office services, Roger Mukasa, WOCCU-Kenya project director explained, "By making front office services available, SACCOS are able to mobilise savings, improve liquidity and make it easier and faster for members to receive loans. " Project credit unions have also appointed marketing officers to promote new SACCO products and services to current and potential members.

For example, the Kipsigist Teachers SACCO offers instant advances at 20% per month; members obtain an advance for 50% of their net monthly salary, advances are available from the 15th through the 28th of each month. Others, like the Mungania and Nyeri Tea Growers SACCOs, offer crop advances at 5%-10% per month, payable at the end of the same month. Some project SACCOs are lending to groups and others have introduced interest bearing Christmas accounts, in which members save January to November and withdraw for the Christmas holiday.

"The short-term interest rates may seem high to those in developed movements, but compared to the 30-60% per month charged by loan sharks, these rates are quite affordable". Mukasa continued , "In short the project is combating predatory lending by helping credit unions modernize to meet a variety of their members' financial needs - ultimately leading to the sustainable growth of members and their SACCOs."

Bulgarian Pawn Shops Target the Desperate

Pawnshops serve primarily the most desperate in Bulgaria. In Sofia, and to some extent in other larger cities, there are one or two pawnshops every 100 to 200 meters in the main commercial streets of the poorer sections. In towns with populations up to 100,000 there are typically one or two pawnshops. Desperate people are forced to pay six or seven times the prime rate for a pawnshop loan.

The rates pawnshops charge average 75% or more annually, Pawnshops currently have a competitive advantage in that they can provide larger loans than kasas (credit unions), but the loan stipulations and rates are manipulative and usurious. To obtain a pawnshop loan, a person needs to transfer ownership of the "collateral" to the pawnshop before it will disburse the loan. Apartment homes are the most widely used source of collateral.

John Keane, WOCCU- Bulgaria project direct explained, "For example, if you have an apartment worth US$ 20,000, you sign the title over to the pawnshop. In turn, the shop will give you a loan for a percentage of the apartment's value and charge you 100% annual rate for the term of the loan. If you pay it back, they return your apartment title. If you don't pay it back, they keep your apartment".

In contrast, the community credit unions, called popular kasas, offer loans at an average effective rate of 30%. The select employee group credit unions, referred to as mutual kasas are offering loans at 11% effective rates.

How are the 14 WOCCU - Bulgaria project kasas getting the word out about the options of credit union membership? Keane said, "To combat manipulative lending, we are aggressively trying to educate consumers on the benefits of credit unions, safely of deposits and the availability of affordable, short-term loans".

Moneylenders Part of the Romanian Landscape

Credit unions, called CARs (Pronounced char-ays) face direct competition from loan sharks and moneylenders who legally operate at members' work places. In fact, loan sharks are quite common in the big factories. However, some CARs have succeeded in halting the activities of these lenders by offering better interest rates, sound and safe operations and written lending contracts.

Usually, there are two types of Romanian moneylenders: independent and gypsy banks. With the independent moneylenders, one or two individuals grant loans to fellow employees working in the same factory. With gypsy banks, several people contribute a certain amount of money at the beginning of each year to lend to co-workers. During the year, this money is used for grating loans, so that in December the capital and earned interest is divided amongst the founders according to their initial share. Gypsy loans are granted with out any written contract, do not require any form of guarantee and the interest rate varies from 5 or 10% per month to 20% per month when there is a high demand for loans, such as Easter or Christmas. People who use these services are mainly low-income workers borrowing small amounts of money until their next paycheck.

The reason for borrowing money from the loan sharks? - Access to easy loans. Banks require a lot of paperwork, usually make only large loans and primarily lend to individuals with larger salaries. CARs that are not in the WOCCU-Romania project provide only traditional forms of services. They do not mobilise withdrawable savings and only grant loans at below market interest rates for an average of two to five months. This compromises their long-term sustainability and makes it difficult to fulfill members' borrowing needs.

However, this traditional method of providing services, which was previously prescribed by Communist- era-mandates, is losing popularity since the start of the WOCCU-Romania credit union development project. The 20 CARs in the WOCCU-Romania project market to members explaining the advantages offered by the CAR: better interest rates, written contracts with convenient terms, financial consulting, friendly office environments and flexible hours.

Some CAR managers have even confronted these lenders shaming them into ceasing their activities and instead joining the credit unions as members. What better way to beat the competition than turning foe into friend?

Reducing the Need for Loan Sharks in Nicaragua

Predatory lending is a problem for many poor Nicaraguans. "Access to affordable financial services is limited since the formal financial sector generally demands collateral which is sometimes hard to come by for the poor Nicaraguan, especially the farmer and the small business owners, " explained Chris McHugh, WOCCU-Nicaragua project director.

For many lending institutions, property is the preferred collateral requirement. In Nicaragua, especially in the rural areas, many farmers do not have land titles, even if the land does belong to them. This is due to problems associated with past land reform initiatives and to the fact that many unscrupulous real estate dealers have taken advantage of the uneducated poor when making land sales.

McHugh continued, "Farmers are finding it difficult to gain access to credit due to the risky nature of their business - having been affected by natural disasters in the last several years and the low international prices of coffee. Farmers are often obligated to enter into unfavourable contracts related to the sale of their harvest, leaving them with scant profits and reduced capacity to improve their production equipment or techniques".

Similarly displaced, small business owners naturally solicit small amounts for lending, which have high overhead costs for disbursement. In short, it is unprofitable for the banking sector to provide this type of loan due to thin margins. In addition, the informal nature of small businesses in Nicaragua makes it difficult to perform a proper loan analysis since reliable financial statements are unavailable. This further closes the door for these proprietors. As a result, small business owners and low-salaried employees lack sufficient options for financing.

Credit unions in Nicaragua address this problem by creating solid financial institutions that have grown through savings mobilisation from their local communities. This has made more funds available for lending to the farmers and small business owners in those same communities. And while loan rates are high by developed movement standards, economies of scale have played a role in being able to gradually reduce rates.

Of course, credit unions reach out a diverse mix of other members. They have utilised ties with local business and government offices to establish lending opportunities for their workers - reducing reliance on loan sharks for medical and other types of emergencies. Credit unions also offer protection plans. In case of a member's death, his or her loan balance is covered and up to three times the savings balance is paid to family members to help resolve funeral or burial costs.

"Simply put" said McHugh, "credit unions are opening doors for Nicaraguans by providing access to affordable financial services."

Check Casher is Part of the Solution in New York

Although some check cashers are seen as a menace to unsuspecting members, in New York one community development credit union is partnering to provide better member service. Bethex Federal Credit Union (FCU) in Bronx, New York and check casher, Rite Check Cashing formed a unique and unusual relationship last year to better serve credit union members and staff. Bethex FCU members can now make deposits, with drawals via debit card and cash checks for a reduced fee at Rite Check Cashing locations. Joy Cousminer, Bethex CEO noted, "The federal and state regulators had to approve the deal. Initially, it seemed the authorization of the partnership was held up more because of negative perceptions of check cashers than any real worry about safety and soundness," She said.

Today Bethex members can cash checks for 1.1% of the check's face value - down from the 1.4% non-credit union customers must pay. Rite check cashing waives all fees for credit union employees when they deposit their paychecks at one of many storefronts. Bethex FCU's members can also withdraw their money for US$1.50, which the credit union reimburses.

Cousminer said, "this agreement is beneficial to both parties, because they serve the same population. "Most of Bethex employees were welfare to work recipients and many members receive public assistance. The check cashing outlets offer an inexpensive way for the US$7.7 million asset credit union - small by U.S. standards - to provide extended access to financial services in the areas members live.

Florida Credit Unions Changing a Cycle

For the last three years, Edgallagly, president of Florida Central Credit Union has been focused on predatory lending in his service area. Two years ago, his US$169 million asset credit union partnered with Tampa Hillsborough Action Plan, a not-for profit community based organisation, to deliver financial services. The two organisations held focus groups to do research on predatory lending in the area. "The findings were alarming, six out of 10 people who were using payday lenders were not using them for an emergency. Rather, people in the focus groups were using the payday lenders for discretionary spending - taking out US$300 for a new television, vacation to the beach or new school clothes and being charged exorbitant percentage rates for the short-term loan".

Gallagly explained, "Payday loans are the number one problem, because people lack general financial knowledge. The number one thing to combat predatory lending is education for members and nonmembers. Payday lenders are serving a perceived need. The real danger is not just the exorbitant rates charged to hold a check; it is also the deferred payment option". One Florida Central CU member started with an original loan of US$300 and ended up paying US$1,110 in fees to five different payday loan companies, plus the US$300 of the original loan. When asked why she didn't come to the credit union sooner, the member responded by saying 'I didn't think the credit union would do small loans'.

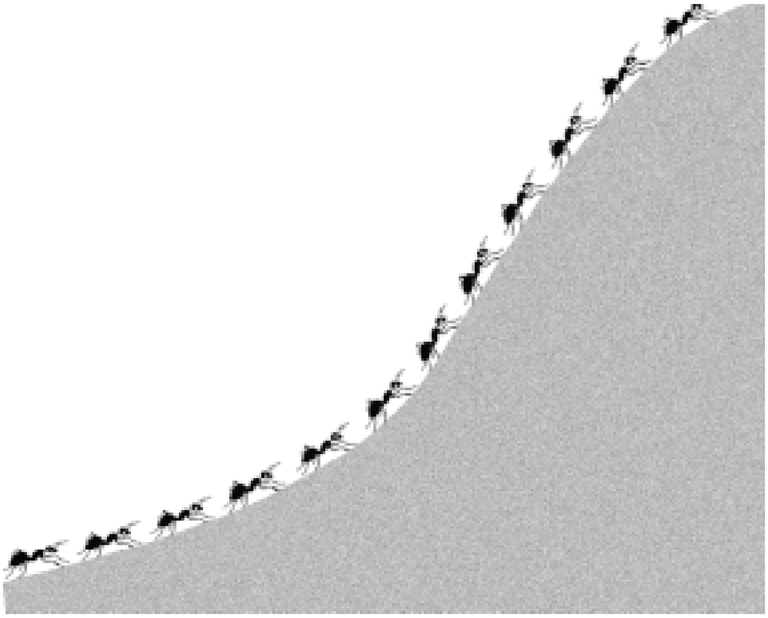
Florida Central CU now cashes checks for non-members and educates people on credit union services. To combat the 24 hour check cashing service, all members receive ATM cards, giving them access to their funds 24 hours a day, seven days a week. Florida Central's marketing department also actively pursues new membership and works with human resources departments to sign up credit union members for payroll deduction savings accounts, making it easier for members who have never saved before to do so. Further combating predatory lending, Florida Central offers short-term loans in three, six and 12 month loan increments. "We are making headway, but it is tough. Trying to change peoples' habits requires one-on-one counseling", noted Gallagly. Florida Central has actively gone into churches and other groups speaking on the basics of savings, borrowing and annual percentage rates CAPRO in a noncommercial effort to educate the community.

"In 1999, there were 8,000 pay day lenders in the United Sates, by 2003 that number is expected to exceed 20,000, which is twice the number of credit unions in the U.S. Breaking the cycle of what seems to be the quick fix of check cashers and payday lenders is essential for the future financial health of our country and credit union members", said Gallagly.

Still Fighting for Safer Financial Waters

Credit unions were originally formed because many individuals and groups lacked access to financial services. Credit unions around the globe are still fighting for the basic human right of all consumers everywhere, to gain access to fair credit and savings products. Through education and services that are unique to their markets, credit unions can continue to assist members in achieving their financial goals. They can make the financial waters safe and achieve the vision of "Quality Credit Unions for everyone", enabling millions of people to grow by providing access to affordable financial services.

Evolving self-regulation in INAFI INDIA Network



MANAVODAYA

Continuing with the series of Inception workshops for self-regulation, Manavodaya organised on such workshop in association with INAFI-INDIA Chapter on 4.1.2002. The professionals as well as the governing body members of the organisation have participated in the workshop. Dr. Shyam Shankar Sahay, Professor, Indian Institute of Management, Lucknow and Mr. Varun Vidyarthi, Director were among the participants.

Following the resource lecture presentation by the Chief Executive of INAFI-INDIA, a few important indicators have been identified and bench marked under institutional, developmental and financial standards for practicing self-regulation setting the timeframe for achieving the standards from the present baseline. The inception workshop would be followed by capacity building of SHGs promoted by Manavodaya for adapting and practicing self-regulation.

It has been decided to have the follow-up review workshops after 3-4 months.

GRAMEEN DEVELOPMENT SERVICES (GDS)

INAFI-INDIA Chapter has organised inception workshop and self-regulation jointly with GDS on 5.1.2002 at Lucknow. Besides the professionals and staff of Grameen Kosh (A separate division of GDS handling microfinance intervention). Mr. R. K. Mukerjee, Programme Director and Mr. Amitab Mishra have participated. The same methodology has been adopted for conduct the workshop.

The Workshop has identified a few important indicators and bench marked them under institutional, financial and development standards for practicing self-regulation and also set the time frame for achieving the standards from the present baseline. The inception workshop would be followed by capacity building of SHGs promoted by GDS for adopting and practicing self-regulation.

It has been decided to have the follow-up review workshop in April 2002.

Way Forward

The Inception workshop set the tone to take the self-regulation exercise to the people's organisation. It has been decided that professionals of Manavodaya and GDS would sensitise and prepare the people's organisations - its members and leaders for self-regulation, build their capacity for evolving and practicing self-regulation.

Microfinance Rating Fund of INAFI-Africa

Member organisations of the African Chapter of the global INAFI network of microfinance institutions have launched the first practitioner driven microfinance rating fund for Africa.

INAFI-Africa is a network of over 30 microfinance practitioners servicing approximately one million clients with a combined loan portfolio of US$122 million with US$ 67 million in savings on an annual basis. It is part of the global INAFI movement operated from Dhaka, Bangladesh. INAFI aims to enhance the capacity of its members to professionally provide demand driven financial services.

The one million-dollar fund aims to financially support African microfinance institutions to hire the services of independent microfinance credit rating agencies to rate their performance on an on-going basis. This is believed to be a crucial tool in enhancing performance and strengthening institutional capacity to provide financial services to micro-enterpreneurs and low-income groups across the continent. Moreover, it is expected that the rating exercises will contribute to industry-wide regional performance benchmarks based on the African context in which microfinance is practiced. The results of the ratings will assist INAFI-Africa in sharpening the focus of its two million-dollar capacity building, training and advocacy programme.

The rating fund will be established as an independent trust fund in Nairobi, Kenya, seat of INAFI-Africa, and be operated by a board of trustees of seasoned African microfinance specialists. The rating fund, incidentally, is also the first one established by the INAFI network.

INAFI-Africa introduced microfinance rating in Africa in September 1999 in Mombassa, Kenya, by entering into a partnership with Washington, D.C., based Microrate. since then 11 ratings have been executed under this partnership with 15 additional ratings planned for 2002. Based on the positive experiences of its rated member organisations, INAFI Africa has now decided to institutionalise the provision of rating services in order to meet growing demand of its current and prospective members for independent and objective ratings. The Fund is being financially supported through a progressive partnership of African MFI's and donors endorsing principles of practitioner led microfinance development and sustainability.

Events / Activities

I. INAFI-ASIA Regional Conference

INAFI-ASIA Regional Conference cum workshop on Capacity building has been organised by the INAFI-ASIA Secretariat on January 16-18, 2002 at Bangkok, Thailand. Members of the ASIA Network from INDIA, Bangladesh, Philippines, Srilanka, Nepal, Pakistan have attended the conference. Mr. Stephen Mirero, Chair INAFI-Africa Secretariat and Dr. Rodrigo Madellin, Coordinator General, INAFI-Latin America have also partcipated. NOVIB was represented by Mr. Mark Van Doesburgh, Senior Officer, Financial Services Unit.

The host country was represented by Asia Indigenous Peoples Center for Research and Development (AIPCRD), Agro Development Foundation (ADF), Asian Resource Foundation (ARF)

The Conference came out with a declaration known as Bangkok Declaration 2002 setting out the goals and directions for INAFI-ASIA.

Bangkok Declaration 2002

Preamble

In view of the collective review and the common frame of understanding to carry forward the mission of INAFI, we the members of INAFI Asia affirm this statement on this day of January 18, 2002, to be known as the "Bangkok Declaration"

Strategic Goals

1. Social Development: INAFI recognizes Social development agenda as the central theme. As such, INAFI should advance this agenda through Micro finance with focused action and allocation of resources
2. Business Development Services: INAFI upholds importance of improving the viability of the micro finance program participants through micro finance services and micro enterprise promotion by making available context specific business development services
3. Self-Regulation: This core principle of INAFI would be put into operation by institutionalizing high standards for good governance, sound and transparent financial performance and effective social development.
4. Institutional Rating: INAFI puts strong emphasis to build capacity of microfinance institutions and NGOs through financial and social rating for continuous improvement of management and governance
5. INAFI policy framework: shall embrace interventions for social security, research for innovation, diversification and dissemination towards the end of sustainable poverty alleviation.
6. Policy advocacy: INAFI would take up strong policy advocacy for creating an enabling environment for microfinance sector and establish strong linkage with the government, private sector financial institutions, donors and other stake holders for achieving quality outreach and sustained access to adequate financial and other resources.

Strategic Directions

The above mentioned strategic goals will be put into operation through an action agenda comprising of;

- Framing an annual action plan by INAFI Global,INAFI Asia, the country networks and each member organization
- Formation of specific Working Groups for each Strategic Goal/ Purpose
- Member level plans for development intervention, MIS, local resource mobilization and dovetailing microfinance with Business Development Services.
- Involving capable local institutions in rating of MFI performance
- Providing opportunities to members for training and guided exposure visits through national networks.

Whither Goes Micro Finance - New Frontiers

The conference has also deliberated upon the emerging issues and challenges and has identified new frontiers for micro finance practitioners.

1. Poverty focus and reaching the hard core poor - poverty focus not to be compromised at the altar of financial sustainability
2. Social Security System - Pension, Insurance products
3. Addressing vulnerability of the poor to prevent relapse to status quo ante - risk sharing methods to address droughts and floods
4. Policy advocacy for enabling environment for the sector (Legal/ Regulatory)
5. Business Development Services
6. Support for infrastructure and networking for this purpose
7. Best practices and dissemination
8. Capacity building and graduation of members through handholding mechanism
9. High standards of performance under the institutional, development and financial indicators through self -regulation / credit rating by practitioners for orderly growth of sector
10. INAFI Fund / Bank with support from World Bank / Other multi lateral agencies

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INAFI India Info

Newsletter

59/28, Ponmeni Narayanan Street
S.S.Colony, Madurai - 625 010
Tamil Nadu, India
Ph: 91-452-302056
Fax: 91-452-602247
Email: indiainafi@eth.net

To

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