INAFI

Inafi India Info

Microfinance Matters

Contents

Opening Notes

The most important event in the INAFI Calendar – Global Assembly has been organised at Mombassa, Kenya on March 18-20, 2002. The members of the network across the globe – continents of Asia, Africa, Latin America and also from Eastern Europe have participated. Mr.F.H.Abed, the legend from BRAC and Chairperson INAFI articulates his vision. The Global conference focused on the theme *"Charting the Future of Microfinance"* and came out with a road map for INAFI to travel into the future with well defined goals and strategies.

Whither microfinance? The world of microfinance is growing larger and larger in several parts of the world not to speak of mega markets like India where poverty preponderate in millions. We take a look at the experiences, concerns / challenges of microfinance sector in India in this issue. In the Indian context, microfinance interventions have emerged as a strong complementary system of financial services to the vast network of formal financial institutions comprising of commercial banks, RRBs, Cooperative banks. This issue seeks to provoke and promote an envisioning dialogue from all the partners and stakeholders of microfinance in a substantive and forward-looking way.

We welcome our new member KMVS to INAFI network and feature its profile. And the self-regulation juggernaut rolls on in the INAFI-INDIA network.

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

International Network of Alternative Financial Institutions - India

INAFI GLOBAL ASSEMBLY – AN OVERVIEW

Introduction

The most important event in the INAFI calendar which brings together all the members of network was organised at Mombassa, Kenya on March 18-20, 2002. The event got up every two years was organised by Regional Secretariats of Asia, Africa and Latin America in rotation. The last global assembly, incidentally, was hosted by DHAN Foundation, India as the host of Asia Secretariat in November 1998. The Global Assembly which constitutes the general body of the network elect the global and regional governance structure which are independent subscribing to the objectives and goals of the INAFI-International - reducing poverty with gender focus through microfinance interventions.

The network since its establishment in 1995 has expanded the membership to around 90 NGOs/ microfinance practitioners operating in around 30 countries in Asia, Africa and Latin America and Eastern Europe serving about 15 million clients.

The Global Assembly, with a view to play a pivotal role in the future of global microfinance, has redefined the Charters of INAFI and also its programmes and activities which are outlined below:

INAFI Charters

The assembly provided an excellent opportunity for all the members of the network to deliberate upon the future of microfinance and the INAFI's role in that future. The global conference helped the members to keep focussed on the purpose of the network – contributing to poverty reduction, to redefine / refine, set new charters for INAFI.

1. Micro-finance will focus on large-scale poverty, reaching the "Poorest of the Poor"
2. Micro-finance will be demand-driven, no longer supply –driven, and clients will be prime stakeholders who will create the demand systems.
3. Micro-finance will strive and reach financial efficiency / sustainability with full cost coverage.
4. Diverse models of micro-finance will be nurtured and promoted.
5. Micro-finance will build vibrant local economies
6. Micro-finance will tap all avenue of savings of the poor in innovative ways and channel it back for their own development
7. New frontiers in micro-financing will be opened facilitated by research and development in such areas as:
   - Social security in the form of micro-insurance and pension products (life, health)
   - Debt swaps
   - Managing crisis and calamities (such as HIV/AIDs, fire, flood, others)
8. Micro-finance practitioners will set and operate by standards in the areas of :
   - Development work
   - Institutional
   - Financial
9. Expanding the reach of credit for poverty eradication through skill and market development and asset creation.
10. Micro-finance institutions will nurture networks and alliances.
11. Active and purposeful development of human resources will result in the creation of a new stream of micro-finance professionals
12. Micro-finance will move into social development after establishing its poverty alleviation agenda.
13. Linkages with formal market, government, social institutions will be promoted

INAFI's Core Activities

1. Needs based capacity building or human resource development and career development (recruitment and succession plan)
2. Setting standards by practice
   - Develop benchmarks for self-regulation
   - Rating of MF players

3. Documentation and dissemination
   - building data base and management of the data base
   - documenting and disseminating best practice among its members (utilising exchange visits)
   - Presentation of abstracts of different MF related studies
4. Research and development for new micro-finance technologies including policy research studies
   - Sustainability and growth issues: pricing
   - Market research / Client research
   - Expansion of MF services to rural areas
   - Access to capital funds
   - Technology development, Credit Savings, Insurance, Micro housing, Health financing, Business to business linkages
5. Lobbying and policy advocacy at the national, regional and international levels.

Road map for the future

The Global Assembly has drawn the following Road map for moving forward

Areas	Present	Future
Market share	Minimum threshold level	Large scale quality coverage
Competition	Unclear Seen as a threat from government and banks	Map out the competition and strategize for action
Commercialisation	Imperfect (mixed)	Complimentarity with bank and financial institutions
Donor dependency	donor driven	Member driven
Resources	Savings Soft loans	Internally generated Resources with commercial loans
Products	Single product(credit) Weekly savings Little insurance	Full fledged savings, credit and insurance products
Sustainability	Subsidized	Self sufficient
Hard core poor	Marginally covered	Special strategy to cover all
Linkage with social sector	Mixed and weak	Stronger links with health, education, community services
Capacity building	Very limited	Concrete process for comprehensive HRD and need based support
Regulation	Mostly left open	Self regulation / prudential regulation by government
Standards	"In the process"	MIS, FIS, Audit A/C, ratio analysis
Networking	National, Regional, International	More effective inter-linked networking
Interest rate	Varied (flat rate, etc.,)	Context specific standards
Governance & ownership	Weak ownership	Stakeholders ownership and management
Globalization	Externally driven	Local management with international linkages

ABED SPEAK
in INAFI GLOBAL ASSEMBLY

F.H. Abed, *Founder and Executive Director, BRAC, Bangladesh & Chairperson INAFI*

I am honoured to have been asked to present the keynote address to the 4th INAFI International General Assembly. What I intend to do in this brief presentation is to raise a few big picture questions which may be useful to help us concretise our thinking and actions towards charting the future of microfinance -the main theme of this assembly.

Let me start with a general overview of the microfinance in recent times to locate my questions. During the last decade microfinance has captured prominence as, "the tool to eradicate poverty throughout the world". It has proven itself as a cost-effective tool to fight against many dimensions of the poverty challenge. Microfinance institutions have proved that it is possible to develop sustainable institutional arrangements to serve a large number of poor clients despite difficult market conditions. The successful implementation of group based credit delivery model encouraged many other NGOs to introduce similar programs.

The first ever micro-credit summit held in Washington D.C. in February 1997 accelerated the growth of micro credit, throughout the world. Many NGOs and other institutions that did not have sufficient previous experiences in managing Micro Finance have come forward. At the same time, NGOs who were involved in small-scale micro credit program have scaled up their programs both in terms of increasing number of clients and portfolio size. A total of an estimated 15 million people are served through Micro Finance Institutions around the world and out of this 12 million is in Asia, 1.5 million in Latin America, 1 million in Africa and .5 million in Eastern Europe. Still there is a huge market for micro-finance. It is estimated that there is a potential market for 100 million Micro Finance clients in the world.

We witnessed an unparalleled growth of financial service providers as well as an exponential growth in the number of clients they reached. A range of support groups spawned, from specialized donor and investment organizations to evaluating, assessment, rating and co-ordination agencies and academic research institutions -all non-practitioners that are increasingly influencing the agenda and practice of microfinance worldwide. There is now the recognition that such widening and deepening of Micro Financial services have both a social and commercial implications. The struggle for increased portfolio and outreach, while maintaining a poverty focus is a challenging one. More specifically, the challenge can be broken down into three:

- How to reach more poor people through the micro-finance particularly, the hard core poor
- How to deliver micro-finance services in a sustainable way while serving the poor
- How to balance the social objectives with the financial objectives of micro-finance.

Indeed, these challenges have been raised before. We had answers and ideas but the demands and the agenda of other players in the industry distracted us. There was pressure from our suppliers of funds that our balance sheet must be positive, that we must be efficient to be successful. We certainly believe in those goals of profitability and efficiency but not at the expense of compromising our larger goals. Our commitment to the mission of INAFI -to contribute to the eradication of the root causes of poverty and to empower the disadvantaged in the societies where we work -is unflinching is what we will communicate clearly to our social investors and other industry support groups.

We believe that sustainability of Micro Finance Institutions and the clients are complement to each other. Therefore, building *up* the capacities of the micro finance institutions and their primary stakeholders are pre conditions to the delivery of flexible, client responsive and innovative micro finance services to the poor and for its success. Creation of such an environment will enable the poor to take control of their lives leading to sustainability of both the Micro finance institutions and their clients without compromising social development objectives.

There is an urgency to ask the core questions in micro finance set within a broad developmental canvass. This is because of the sheer scale of human lives having to live under chronic hopelessness and un-freedom. This is because the goal set by the Millennium Summit in September 2000 to halve, by the year 2015, the proportion of the world’s poor is an important and bold target that will not be attained without microfinance and also with microfinance alone. Especially by microfinance that sets its parameters and visions just within good delivery of financial services. We need to imagine our role and interconnectedness within the bigger developmental challenge. Why this current poverty of imagination surrounding microfinance possibilities? What are the constraints in the current structures of the microfinance discourse that breeds such lack of imagination? What implications do such narrow canvass thinking has on charting the future of microfinance? We need to explore and ask these difficult questions to ourselves.

The knowledge on designing supply side structures has been an iterative one and codifying that process within a set of strictures of best practices should not be unquestioned. There is certainly a core set of lessons that we need to mirror in our practice but we also need to develop a critical understanding of these strictures and increasingly so for two reasons. First, the balance of power that underlies the development of these codes is increasingly becoming asymmetrical and removed from the real world where we practitioners dream and act. And second, because of this, there is a danger that we get caught in a trap of providing uncritical legitimacy to the power centres that claim to voice, influence and shape the discourse on our behalf. What are we doing to redraw the balance of power to ensure that we shape the contours of the microfinance discourses?

Innovations are clearly important. That has been at the heart of the microfinance revolution. It is important however to avoid limiting our imaginations within a very narrow financial product-centric understanding of innovations. We need also to imagine innovations of social intermediation, of strategic linkages and new deals centred on the overall livelihood pulse of the poor. Without this broader canvass to imagine innovations, mere financial product reengineering may not be enough to include those being missed and left out or even add real value to those currently being served. Are we being bold enough to push the frontier of innovation to capture these ideas?

Standards that claim to be able to separate the wheat from the chaffe need to be critically examined. These are not only standards of intent but often end up having far reaching influences on the ways in which micro finance is to be supported and who is deemed worthy of support. These shape discourses, thinking and action in complex ways. More often than not, they end up trapping our imaginations. What are we doing to keep alive the probing of the grand narratives, its myths and smoke-screens? Are we constantly ensuring that we relate the grand narrative rulings to our contextual reality, praxis and our vision? The core behind the success of microfinance is the faith in the agency of the poor, their resilience and sheer determination to struggle for a better tomorrow-for them and their children. It is this capital that the supply structures of all development initiatives need to give shape and expression to and strive ceaselessly to leverage-to create ever-expanding circles of enabling spaces. This, I feel is the core question: How focussed is the current microfinance discourse in delivering on this challenge?

Hope that we will challenge ourselves to face up to these questions during this 4th INAFI Global Assembly, because, if we fail, we fail in the mission and imagination that drew us to microfinance in the first place. With this it is my great pleasure to declare the 4th INAFI GLOBAL ASSEMBLY open.

CHARTING THE FUTURE OF MICROFINANCE - INAFI WAY*

1. Introduction

Being a practitioner led network, the International Network of Alternative Financial Institutions – INDIA (INAFI-INDIA), which held its fourth global assembly in Mombassa, Kenya, sees the imperative of playing a greater role globally in charting out the future of microfinance. The global assembly has provided the opportunity to take stock of what has been done by the network and in prospect what it needs to do in charting out the future for microfinance.

The meeting was characterised by a general awareness that the microfinance sector has arrived at a crucial junction in its long history and that INAFI, as the leading network of microfinance practitioners, had to reformulate its vision, mission, objectives and programmes in order to play the pivotal role its members want it to play in charting out the future of global microfinance.

Prior to the conference, a document explaining the state of affairs in microfinance as viewed by us – practitioners was circulated which outlines the following:

- The industry tends to move away from client-responsiveness in favour of institutional considerations such as reaching self-sufficiency, at all cost.
- The industry has become too heavily influenced by concerns of funding agencie / other stakeholders other than practitioners.
- The industry is burdened by over-enthusiastic efforts towards streamlining microfinance at the expense of the appreciation of diversity and innovation.
- The industry is hampered by unfair competition and rivalry due to the large inflow of unequally distributed grant monies.
- Major industry-wide threats and risk are insufficiently dealt with.

The conference reiterated that many of these concerns are not new, as these have been raised before. Hence, we asked ourselves why the network has not been able to address these concerns and influence the international policy agenda and practice. We resolved that henceforth INAFI will play a more pro-active role in shaping the direction of the industry by taking up the issues and concerns head-on and initiate the changes needed. For sure, INAFI needs to embark on a road of professionalisation that will enable it to become the pro-active player we want it to be.

This new road for our network will be typified by some major changes. The most important ones are:

- The network's various secretariats will be staffed on a professional rather than voluntary basis.

** Synthesis of Resolutions of the 4th INAFI Global Assembly, Mombassa, Kenya, March 2002*

- INAFI will gradually become a strong coalition or alliance-based organisation to strengthen its handling capacity.
- It will start or facilitate its own programme to pioneer the new approaches, products and activities that are urgently needed.
- In doing so, we will invite all stakeholders to come aboard and to co-operate with us, but we will set our agenda and design our programme ourselves.

Our core consideration behind all these changes is that we insist that microfinance be regarded not as a stand-alone intervention strategy but as a tool or instrument to help alleviate poverty, empower the poor and create equity in financial service delivery.

2. Changes INAFI want to achieve

A host of major changes in policy and practice that INAFI want to achieve is listed below.

a. Markets and penetration

It has been estimated that the microfinance industry is presently reaching 15 million clients per annum on a global scale, the large majority of which are living in Asia. The number looks encouraging but a closer scrutiny indicates that those having no access to financial services remain left out. Moreover, the most vulnerable clients, the poorest-of-the-poor only constitute a relatively insignificant percentage of these 15 million clients. In other words, though the industry is growing and reaching more clients, it has achieved little in terms of deep social penetration.

It is felt that the industry at large has not yet been able to generate methodologies, facilities, capital and approaches to dramatically scale up and achieve deeper social penetration. INAFI member organisations are convinced that their collective experience justifies the claim that this double scaling up can be achieved. INAFI will facilitate this growth by embarking on this collective experience.

b. Product development

Poor people have a right to access affordable and appropriate financial services. In many countries they can only access credit products and have difficulties in accessing savings possibilities, even though it is generally recognised that most poor people have a greater need to save than to borrow. Moreover, many (potential) clients need financial services other than savings and loans. There is growing demand for a variety of insurance products: health, life, livestock, molest, calamity and other insurance products are needed.

Some INAFI member organisations have pioneered the introduction of micro-insurance. That information will be shared among the membership and INAFI would facilitate in scaling up the provision of insurance products as well.

In addition, the network would help design financial products to assist people living with Aids/HIV. Many families face structural loss of income and income generating capacity due to care and costs of medicine. Long-term soft bridging loans may help these families cope with their financial situation.

c. Quality standards and performance verification

Members of INAFI Network are serious service providers and are committed to work effectively and efficiently as much as we are committed to prudent financial management. However, there is no single set of quality standards that can govern the industry at large. Microfinance programmes show a great variety in terms of approaches, methodologies, systems, target markets and clients, and even objectives. It is agreed that all microfinance practitioners and institutions, if it comes to performance measurement, must be judged against standards that take into consideration our particular context and not by a blueprint set of standards.

Therefore, INAFI's executive committee would endeavour to design appropriate sets of quality standards to guide us in improving our work. These standards must be designed in line with our respective market niches, client profiles and institutional objectives. We do not mind being measured, evaluated, assessed or rated as long as we agree with the standards applied and as long as we believe that the process is transparent and the raters, evaluators and assessors are accountable, first and foremost towards us as these are our programmes that are being scrutinised.

Henceforward, the INAFI will design and establish collective ratings and evaluation facilities where we, as a network, can buy services in bulk to meet our verification and learning needs and where we can be assured of high quality, transparent and accountable services.

d. Regulation

We appreciate that money is a most valuable commodity. When we take in grants, loans, savings or deposits to finance our financial services, we also appreciate that the grant and capital providers need guarantees that their monies are prudently managed and effectively put to use. Consequently, we welcome central or reserve bank efforts to regulate the microfinance industry in their and our respective countries. We do insist, nonetheless, that regulation efforts take into account the dynamics and characteristics of the microfinance industry. Supervision is fine, as long as it applies standards and regulations that make sense in view of what we are doing, does not lead to overwhelming bureaucratic requirements and is geared towards helping us to improve and scale up our service provision.

And INAFI should play a role in the regulation debate by linking and disseminating the various experiences to date and by helping country-based networks of MFIs in their dealings with their respective supervisory institutions.

In a number of countries encouraging inroads have been made toward industry-wide patterns of self-regulation. INAFI would bring these experiences to the fore of the industry at large, as we believe that there is a lot to say in favour of self-regulation.

e. Capacity building

As practitioners we have a fair assessment of the obstacles preventing us to scale up the microfinance industry. We realised that not capital but human resources development is the single biggest obstacle we have to overcome. We have skills that are marketable; often our best people are lured away to work in the formal banking sector. At the same time, the opposite career move is a difficult one: not many experienced bankers are attracted to join us and help strengthen our institutions. For that reason we need to train our own staff at all levels.

Remarkably, donor agencies spend huge amounts on capacity building and technical assistance. Unfortunately, the results and impact have not been impressive, as our staffing problem remains a formidable one. For that reason INAFI would design need-based capacity building programmes for its member organisations. Similar to the verification issue, the time has come that we offer grant makers our own facilities. We will design the programmes, based on our real needs, to smooth the progress of an appropriate match between supply and demand.

f. Capital provision

To dramatically scale up our collective outreach and performance we will need to access significantly more capital than we do today. Some of us have developed the capacity to access additional capital ourselves; others have not been able to do so. To make the industry at large a more equitable one, we believe that collectively we have to play a role in matching supply of and demand for capital. We happen to think that we know of competent organisations in our own countries that could use some more capital. We believe we know where the overlooked niches are to be spotted. We feel that together, as a network, we can help solve the mismatch between supply and demand. Therefore, INAFI would take up the challenge and play a pivotal facilitating role in this respect.

At the same time we feel that many potential but hidden capital sources are there to be tapped. Individually we might not be able to access these sources but collectively we might be able to do so. Our market intelligence allies have informed us that ample supply of additional capital is potentially available from ethical or socially responsible investment funds in the North. In order to attract this capital base we need to build so-called lubricant mechanisms to reduce or minimise risks, especially currency risk. Hence, we want INAFI to pioneer building such mechanisms to make the match between supply and demand possible because we need those resources.

Lastly, we must realise that our clients themselves bring up the bulk of our loan capital resources. It is their savings and deposits that constitute the vast majority of the capital we work with. Moreover, they provide the capital that suits us best: there is no foreign currency risk and the cost of capital is affordable to us. Unfortunately, in many countries we face serious problems in attracting more local savings. Sometimes this has to do with supervisory regulations, in other countries it is largely due to lack of consumer confidence in the MFI's prudent management of their assets.

Yet, we want to capture the savings and deposit market as the most appropriate and affordable source for the large-scale growth of our capital intake. And INAFI needs to design innovative and challenging approaches for capturing this market

g. Industry-wide co-operation

We are ambitious; we subscribe to the challenges put forward by the first Micro Credit Summit. We are convinced that the microfinance industry has to grow considerably in order to meet present and future demand. And we will go all the way to meet that challenge. And we cannot do it all by ourselves. Therefore we appreciate and welcome the efforts made by the various networks, co-ordinating bodies, support institutions and alliances in the industry as we basically share the same agenda.

Yet, we strongly sense that at the level of international co-operation and solidarity, a new common platform needs to be built. In the past decade we too often experienced that well-intended efforts to move the industry forward were planned and executed without consultation / dialogue process. Since we shared the same agenda, we nevertheless went along and we participated in the networks and discussion forums offered. We developed a wait-and-see attitude, hoping for the best but increasingly somewhat disappointed with the outcomes. Agendas, concerns and priorities appeared to diverge. We found ourselves moving forward on different tracks. We, as practitioners, have to deal with the realities we face every single day: how to reach the poorest-of-the-poor, how to deal with natural and man-made disasters, how to get our clients insured against their enormous risks, how to empower them, how to deal with the inhuman poverty they are faced to deal with every single day of their lives.

Progressively, we experienced that these fundamental concerns became sidelined in the international debate on quality standards in favour of an ever-growing list of institutional concerns such as self-sufficiency and profitability. As much as we accept the need to be prudent and efficient, we'd like to spell out that prudence and efficiency is not our major drive; beating poverty, injustice and lack of equal opportunities is our drive. That is what we are in the business for in the first place and we need to ally with organisations and coalitions that share this drive and motivation and we need to influence those that are not as well.

Given our concern with the course the international debate on quality standards has taken, we have little options available but to take a leading role ourselves. So the most important resolution of our meeting is that INAFI would take up this specific challenge, to tell and show the world how microfinance needs to be done in the context of development. *Microfinance for development*, nothing more, nothing less. That is our thrust and that is what INAFI wants to promote and support. And we have asked them to develop an inclusive strategy. In charting out a new future for microfinance, INAFI will need many allies and a lot of support and we invite all organisations to join us in meeting this enormous challenge.

3. How INAFI is going to realise these changes

Obviously our ambitious plans require revised strategies / approaches in the way INAFI operates. To realise our goals, our network needs to be transformed from a debate and reflection platform to a highly professional working body. We want it to be the locomotive of change. Hence, the global assembly adopted a number of resolutions to make that change.

a. Professional management and supervision

When we started the network in 1995 in Cuzco, Peru, we were all convinced that a discussion platform was all we needed. So we designed INAFI as a network that would be run on a voluntary basis with strong member involvement in the implementation of its relatively small programmes. Now we need to change all this. Practice has showed us that this voluntary approach increasingly falls out of line with the size and scope of our programmes. We, as member organisations, want INAFI more for us and that means that management needs to be strengthened.

The first decision we took is to professionalise our management. All current three regional secretariats will appoint managing directors to oversee programme implementation. At the same time in all three continents we will separate management from governance to create the necessary checks and balances. Where so required INAFI chapters (regional or national) will be locally registered to sustain proper governance and facilitate management.

b. Research and development

Being a network of close to a hundred microfinance practitioners, INAFI represent a huge body of experiences. INAFI needs to share these experiences among members and with other stakeholders in a systematic way. Interestingly, the recent credit rating drive undertaken by INAFI Africa has made us aware that each individual member agency has something unique to offer to the industry, ranging from methodologies to product development, from management information systems to linkages with the formal industry.

We took the cue and it has been decided to set up our own INAFI R&D facility to disseminate our experiences and make these available to others. In the past we have been trying to do these on a voluntary basis but we feel we have to scale up and strengthen our efforts in this field. We aim to set up this facility with a strong regional focus.

c. Capacity building

Members need to further improve the skills and performances and to achieve that they have to further build our capacities. We were impressed with the way INAFI Africa has been able to conduct a lateral learning and capacity building programme that suited the needs of the African member organisations. At the same time many of us have participated in capacity building programmes offered by others and as much as we have learned from such programmes, we feel that more needs to be done to meet our particular needs. Too often such programmes are supply-driven. We participate but have little to say on the design or curriculum offered.

INAFI would follow-up on the Africa experience and design need-driven capacity building programmes for its members. It is realised that INAFI management itself probably is not best placed to conduct programmes of this nature, so INAFI would not itself do the capacity building but organise the facilities members need. That is to take stock of our requirements and facilitate in matching those with the supply available. All INAFI regions will therefore develop their respective capacity building facilities.

d. Product innovation

There is a growing need to diversify our products and services to meet the demand in the field. Many of the members are already individually engaged in pioneering new products and approaches, yet we know surprisingly little of what our fellow members are doing in this field. INAFI R&D need to facilitate the learning amongst us. But that will not be enough. INAFI would promote the need to diversify products and to help members link up with third parties interested to support our efforts in terms of technical assistance, risk sharing and seed capital to finance pilot projects.

Therefore, INAFI would play an enabling role in this respect by making an inventory of our individual plans and help us scout those third parties.

e. Evaluation and credit rating

Similar to INAFI's capacity building programme in Africa, we were also impressed by the initiative of our African colleagues to establish the INAFI Africa Rating Fund, aimed to achieve the goals of buying credit rating services in bulk and making service providers primarily accountable to us rather than to funding agencies or capital providers. We, as Microfinance Practitioners / Institutions, above all, look at credit rating and so-called performance evaluations as managerial tools to improve our performance and not as assessments to attract additional external capital. This implies different rules of the game in rating and evaluation. We want service providers to meet our needs on our terms. To achieve that we will continue and expand the Africa experience of buying services in bulk in a centralised way. That creates equity in the process. To date, mostly MFIs connected to funding agencies have been able to avail of rating services. INAFI Africa has made those services available as well to non-connected MFIs by financing the services based on genuine practitioner demand. INAFI would establish rating funds in Latin America and Asia as well.

Moreover INAFI would play a pioneering role in developing regional and sector-based benchmarking. As stated earlier, members would not like to be measured and judged by a single set of standards that is supposed to be of universal validity. We do not believe in such a concept. At the same time, we do not mind being measured and judged, as we believe in public accountability. As much as INAFI Africa has been able to help in developing a first African benchmarking system that takes note of the African microfinance realities, we want the network to pioneer more benchmarking systems in line with the variety of practices we represent.

INAFI would play a role in the regulation debate by linking and disseminating the various experiences to date and by helping country-based networks of MFPs/ MFIs in their dealings with their respective supervisory institutions.

In a number of countries in ASIA, encouraging inroads have been made toward industry-wide patterns of self-regulation. INAFI would bring these experiences to the fore of the industry at large, as the network believes that there is a lot to say in favour of self-regulation.

f.Advocacy and alliance building

As a network we have been expressing our appreciation for as well as dissatisfaction with a number of current developments in microfinance. We appreciate the efforts of so many organisations to support the microfinance industry. At the same time we are not altogether happy with the way these organisations implement their programmes and policies as these are often designed without due consultation with INAFI network members. Facilities are being created without consulting us properly, without asking what really we need or require. Our needs are often assumed, frequently not verified. As a result, we see a lot of well-intended efforts fail or at least not generating the impact expected, which, ultimately, will backfire on the willingness to pour in more resources into the sector.

Members have been asking why they feel somewhat overlooked as practitioners and our answer is a simple one: we have not been able to make ourselves more effective. For that reason we aim for INAFI to increase our collective advocacy and lobby capacity. INAFI will seek to build international advocacy capacity in order that our voice be heard where it matters in the global arena. At the same time we need to strengthen the same capacity at regional and national level.

The advocacy capacity also will strengthen our position in our funding drive. If we want all our intentions as spelt out in this document realised, INAFI needs substantial financial resources. And although part of it will be generated from the membership, larger contributions from the international funding community will be needed. That is why INAFI will establish a fund raising capacity as well. Most likely this will also mean that INAFI will have to set up liaison offices in the North to communicate our concerns better to the donor community and multilateral agencies.

MICRO FINANCE in INDIA – CHALLENGES*

M. Kalyanasundaram*
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Introduction

Microfinance has emerged as an effective instrument to address the causes of poverty. That the potential for microfinance in INDIA is quite enormous in relation to poverty is to state the obvious. With a little over 300 million poor the demand for microfinance services is so huge that it appears a daunting task. The sheer prepondendrance of poverty sets up the first issue – **of reaching the poor,** more importantly reaching the poorest. Further it is not the issue of upscaling alone with all out reach to all poor but the depth and quality of reach to make a significant impact on poverty.

Well, there have been quite a lot of attempts which are still in the continuum to reach the poor even before the microfinance interventions from development sector have started emerging near about late eighties in India. In deed, the vast network of formal financial institutions comprising of commercial banks, regional rural banks and the cooperative banking system have been mandated by the government to undertake micro lending for poverty alleviation under the banner of priority sector credit. This instrumentality of directed credit which preempted lendable resources for poverty lending did reach out to the poor. But this approach has floundered sooner into a moribund state owing to the structural rigidities organisational culture and the vitiated credit culture externally. Thus the clients were virtually back to square one position of not having facile access to the formal financial sources. The formal financial system thus in the Indian context, in a manner of speaking, has not even touched the proverbial tip of iceberg. If at all, the reach seems to be just a token touch!!.

Microfinance Sector

The microfinance in INDIA has three distinct stream of actors:

a) Demand stream : Self – help Groups, Federations of Self-help Groups of poor and the individual clients.

b) Supply stream : Micro Finance Institutions, Commercial Banks, co-operative banks, Regional Rural Banks, and other NBFCs involved in delivering of credit to the poor.

c) Enabling stream : NGOs / Development institutions involved in promotion of groups and Federations through social inter-mediation. The regulatory and government bodies, institutions also form part of the enabling stream as they play critical role in providing favourable policy framework and supportive environment, which enables the growth and development of the micro finance sector.

The concern of the demand stream of poor is about getting the microfinance services which are timely, easy to access, affordable with simple flexible terms and adequate.

** Presented in the 4th INAFI Global Assembly, Mombassa, Kenya, March 2002*

From the supply side, the development finance has been there for long in the Indian context. The much-vaunted Indian advantage of vast delivery network could not acquit well with little innovation, improvisation and involvement. They are confronted with issues such as:

a) Upscaling the reach
b) Cost effectiveness of delivery
c) Simple responsive products and packages
d) Problems of poor repayment owing to vitiated recovery culture
e) Structural weaknesses – Organisation culture, policies etc.,
f) Commitment to microfinance as means to address poverty
g) Positioning microfinance as commercial business proportion
h) Rewards / incentives for staff engaged in microfinance in rural milieu

The other spectrum of supply side - NGO MFIs and NGO promoted community financial institutions are concerned with different set of issues as under:

a) Sustained resource mobilisation
b) Appropriate legal / regulatory framework
c) Skilled manpower / Professionals to manage finance functionality
d) Capacity building of the staff
e) Cost coverage for the peoples institutions
f) Upscaling and attaining scale of operation
g) Evolving systems and MIS for handling microfinance operations

The issue before enabling stream involving the government and regulatory bodies i.e., Reserve Bank of India (RBI) is one of how to facilitate microfinance intervention with appropriate user friendly and institution friendly measures and provide freedom of operation and how to nudge the mainstream financial institutions to look at microfinance as commercial proposition and provide necessary incentives which include tax sops.

Enabling / promoting NGOs are concerned about the cost of creating social capital of peoples organisations, the issue of reducing dependence on donor funds and attracting mainstream financial institutions towards investing in the local context not only for promoting people's institutions but also providing credit is also a spot of bother.

Challenges

1) Organising the poor and creating social capital for upscaling

Building local financial institutions to shape the development finance (read microfinance) and nurture these institutions guided by new value framework, which can be defined as:

- Focusing on Poor and impacting poverty through development finance.
- Developing appropriate institutions and services controlled by clients.
- Going beyond microfinance

The emphasis is on developing suitable institutions and financial services controlled by the users. For centuries the poor and socially disadvantaged have remained alienated from the mainstream of the society and existing financial institutions have been contributing to this process. To reverse this process, the members, poor, who are serviced by these institutions needs to be organised. Community financial institutions provides a mechanism to organise poor and initiate a process of developing and managing of these institutions by poor. Sustainability can be achieved only when poor are able to manage their problems through self - reliance and mutual cooperation.

2) Mainstreaming Microfinance

The demand stream clients have multiple needs of finance to address the poverty. The internal resources generated by their own savings have severe limitations to address their need. Perforce, then, microfinance calls for mainstreaming for reaching the vast multitude of poor in the country. The Indian advantages of banking network afford this opportunity. The challenge is to create a win-win situation of sustainable linkage on a long haul between the mainstream institutions and the poor, their SHGs/Community based financial institutions.

3) Promotional cost of social capital

Microfinance intervention to be more effective requires building local community based financial institutions of poor women. This is becoming clear in the light of experiences gained so far in the Indian context.

Building social capital requires organising the unorganized poor and build their capacity to manage their microfinance intervention effectively and to build linkages with formal financial institutions.

Obviously, this requires good amount of investment. Interventions happened so far in the country have been backed by philanthropic funds from within and without the country. This cannot be a permanent arrangement. Which means from long term perspective of upscaling this arrangement is neither sustainable nor practical. The promotional cost of building social capital needs to be met by the mainstream – financial institutions and government.

4) Multiple needs for microfinance

The causes and solutions to poverty are more complex than often assumed. The poor value financial services not only to help them with their investment projects, but also to smooth consumption, bear risk and reduce their vulnerability. Understanding the behaviour and complex financial management strategies of the poor is essential to provide them with multiple services which could meet varied savings and credit needs.

5) Mitigation of risk

This is quite crucial to reduce the vulnerability of poor so as to stabilize the income. Even traditional activities / avocations such as diary which are rooted in local context, and, by and large insulated from market forces are exposed and the clients vulnerability thereby increased. This would mean that the economic opportunities available towards viability of clients are dwindling. A case in point is the decimation of small broiler / layer poultry units operated by poor clients as IGP. These are smothered by big units with high competitive advantage in cost, price and marketing. How do we do that?. A huge challenge?

6) Microfinance and Agriculture

The agriculture continues to remain as a highly relevant economic activity and how the microfinance would evolve innovative applications and methodologies in agriculture lending to agriculture households poses a great challenge to the practitioners.

7) Business development services

This matters a lot and bears relation to how well the clients use the microfinance for the chosen micro enterprises. Infact, the experience has shown that constraints for business development infact limit the demand for credit. There has also been demonstration that even the very low end of micro-entrepreneurs will acquire BDS on a commercial basis if it meets immediate needs such as improved market access that translate into higher earnings.

8) Support system to address natural calamities

These eventualities aggravate the misery and thereby vulnerability. How do we meet this challenge? atleast partly. The need for social security system is felt for long. Insurance and pension products would be crucial in such a system.

9) Financial sustainability and usury

There is an increasing tendency to ignore the affordability of the poor to avail microfinance services in the name of viability and sustainability. It is not the question of access alone. In the altar of sustainability, poor should not be exposed to usury.

10) Enabling Legal / Regulatory framework

The enabling stream of NGOs and development institutions are doing microfinance interventions with diverse approaches and models and some of the NGOs are morphing as a financial intermediatory. There is a need to create the enabling legal / regulatory framework for handling microfinance interventions by these development organisations.

11) Development of sound financial Systems and Practices

In the Indian context, Self help group of poor women and their federations have emerged as a community based financial institutions.

They need to evolve as an independent financial institution for sustainable financial intermediation and also for linkage with banks. The enabling stream of NGOs which promote such community based institutions need to develop sound financial and management systems at group / institutions level and build their capacities to manage independently. For this the capacity building of enabling stream is an important desideratum.

12) Self-regulation

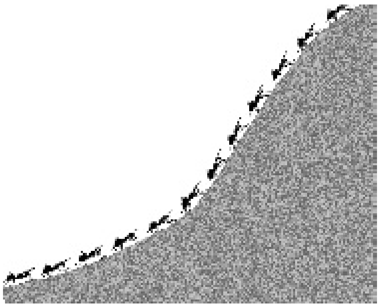
As the community based financial institutions – SHGs and its federations, bid fair to be a sustainable microfinance intervention with self-management and self-regulation, the challenge is to build this practice across the sector for healthy growth.

13) Social capital to Social collateral

The local community based people's organisation for the microfinance services would build enormous amount of social capital. The challenge is then to convert them to social collaterals to attract the mainstream financial institutions for greater and longer involvement in extending microfinance services to the poor.

To conclude, microfinance as an effective instrument to address poverty has come to stay with the growth of the sector on the fast lane now. Which means it has moved from a development proposition to a new development paradigm for poverty alleviation. If microfinance is to make wider and deeper dent on the poverty in the Indian context, the mainstream financial institutions with its vast branch network in the rural and semi urban areas needs to step up its supportive role. The experience gained so far has already set a tone. It is a matter of two track approach. On the one hand it requires to reach out to SHGs and its federations for linkage with credit facilities and on the other, it needs to support the enabling stream of NGOs to promote the SHGs and federations to create the necessary social capital for better and quality linkage with excellent credit culture. In other words, the formal financial sector should seek to collaborate with NGOs of repute and proven track record as development partners for lending to poor with funding support for the promotion of SHGs and the like social capital.

EVOLVING SELF-REGULATION in INAFI-INDIA NETWORK



Self-Regulation has been recognised and acknowledged as an effective instrument to guide the growth of microfinance interventions / programmes of the member organisations with order, quality and equity. It has been accepted and adopted as a INAFI method and the member organisations of the INAFI-INDIA network have pledged to enable the people organisations / SHGs promoted by them to evolve and practice self-regulation in the Asia international workshop organised at New Delhi on August 29-30, 2001.

Sequel to the workshop and with a view to introduce self-regulation in the INAFI-INDIA network, inception workshops were organised by the member organisations under the aegis of INAFI-INDIA network to sensitise, create awareness and to generate appreciation for the concept. These inception workshops were organised during 2001 and early part of 2002 and the professionals / field staff of the members of the network had participated. It has been agreed by member organisations that self-regulation would be taken up to promote the three performance standards – Institutional, Development and Financial.

Each of the member organisations have chosen a broad set of standards relevant to their context of working although there have been common grounds under institutional and financial standards. In other words developmental standards will have to be evolved by the members with specific relevance to the context.

Self-regulation now moves to the next phase, with member organisations, with better understanding / appreciation of the concept, will, now, senstitise peoples organisations, SHGs and its federations to adopt this method for focus on poverty reduction and development with discipline. During the month of May 2002, members PREM, Orissa, Manavodaya, Lucknow, Grameen Development Services (GDS), Lucknow have taken the step forward in this exercise. Follow-up workshops have been organised by the above organisation with the support of INAFI-INDIA. The leaders of the people institutions, SHGs and federations also participated in the workshop along with the professionals of the above three member organisations.

Way forward

1. The self-regulation method for the people's institutions would be developed in four phases
   a) Awareness / sensitising b) Evolving c) Practicing d) Advancing
2. The process would begin with identifying the respective SROs from within the people organisations as per the model promoted by the member organisations. Memberwise (PREM, Manavodaya and Grameen Development Services) SRO structure has been identified as under:

   PREM : The people organisations have SHGs, its federations and a state apex body called Utkal Mahila Sanchya Bikas. Typically, 100 SHGs form a federation in this model. UMSB would be SRO for federations which would in turn play the SRO for SHGs.

   Grameen Development Services (GDS): GDS has two models of people institutions. The one at Lucknow location has joint liability groups (7 members), Sanghs (7 JLGs - 49 members) and Mahasanghs (a total of 500 members). Mahasanghs would be SRO for sanghs which will in turn assume the role of SRO for JLGs.

   The other at Eastern Uttar Pradesh has SHG and its federations. The federation will be SRO for SHGs and an SRO for federations needs to be evolved.

Manavodaya: The SHG model with its federations form the people institutions promoted by Manavodaya. The first federation of SHGs is being organised. As such till such time federation is formed Manavodaya would enable the process of SRO.

3. The member organisations would begin the process of sensitising the respective SROs and also the grassroot structure (SHGs and JLGs) and build the capacity of the leaders, the governance structure and also the leaders to adopt and practice the self-regulation. This phase of sensitisation followed by evolving the standards framework for all these structures would be completed by March 2003.
4. A common standards framework under institutional and financial indicators is getting evolved as captured here under:

Institutional Standards

Standard	Bench Marking
Group size Membership not less than 15-20	All groups (100%)
Regularity of Meetings / monthly meeting (100%)	All groups / federations should hold fortnightly
Attendance of members	100%
Rotation of leadership	All groups should adopt this standard (100%)
Evolving consensus and inclusiveness in decision making and not by voting	100% by all groups / federations, etc.,
All Financial Transactions in fortnightly / monthly meeting	100% by all groups / federations, etc.,
Conducting Annual general body meetings and demonstrating transparency and accountability through sharing of audited accounts, future plans etc.,	100% by all groups / federations, etc.,

Financial Standards (for base structure SHGs / JLGs, etc.,)

Standard	Bench Marking
Regularity of saving	100% by all groups
Loan Graduation	100% by all groups
Portfolio at risk	2% or less
Repayment	100%
System	
a) Accounting / Records	
The minimum Financial records- members passbook, cash book, general ledger, Bank passbook, DCB etc.,	To be maintained uptodate and complete in all respects
b) ***Audit / Monitoring***	
Internal / External	Internal – Once in six months External - Annual

Mutatis mutandis, the standards framework would undergo recasting specific to the member context as well as the institutions model promoted by the member organisations of the network.

Development standards

Obviously, the member organisations will be enabling the people's institutions promoted by them to evolve suitable development standards keeping in view the context specific needs and requirements.

The network and member organisations would monitor and review the progress in follow up workshops to be organised in 3-4 months frequency.

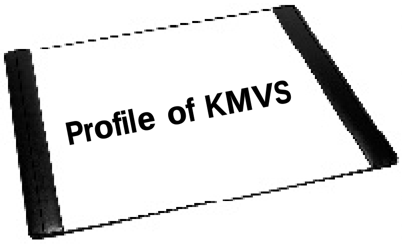
MICROFINANCE SCENARIO in LATIN AMERICA

Microfinance had its background in Latin America in the seventies of last century. Bolivia and Peru are the two Latin America countries where the microfinance has made rapid strides. The market penetration is well above 100% in Bolivia and 60% in Peru where typically the microfinance Institutions came up for supporting micro and small enterprises (EDPYMES). The continental picture is in the table.

Countries	Population 2002	Potential clients	Active clients	Penetration of market (%)
Bolivia	83,29,000	2,32,353	3,12,400	134.50
EIS alvador	62,78,000	1,36,311	58,500	42.90
Paraguay	54,96,000	82,984	30,203	36.40
Honduras	64,17,000	1,43,310	50,750	35.40
Peru	2,56,62,000	6,18,288	1,94,938	31.50
Nicaragua	50,71,000	1,16,375	32,600	28.00
Chile	1,52,11,000	3,07,832	83,000	27.00
Guatemala	1,13,85,000	2,23,125	51,500	23.00
Costa Rica	40,24,000	79,201	11,500	14.00
Colomba	4,21,05,000	8,18,505	1,13,250	13.90
Rep. Dominicana	83,73,000	1,85,720	23,278	12.50
Ecuador	1,26,46,000	2,67,537	21,000	7.80
Panama	28,56,000	48,790	3,000	6.10
Brasil	17,04,06,000	32,93,428	59,215	1.80
Mexico	9,88,72,000	22,55,025	40,000	1.80
Uruguay	33,37,000	3,00,000	1,500	0.50
Argentina	3,70,32,000	19,00,000	5,700	0.30
Venezuela	2,41,70,000	5,22,945	1,000	020

** Adopted from the paper presented by Ms.Susana Pinilla Cisneros, IDESI, Peru*

KUTCH MAHILA VIKAS SANGETHAN (KMVS), GUJARAT



Introduction

KMVS is the latest addition to INAFI-INDIA fold being a new member working exclusively with rural women in the Kutch District of Gujarat State. It is a unique non-government organisation co-sponsored by Government and NGO bodies. Jan vikas (An Ahemdabad based NGO and a support organisation) and State Government bodies - Gujarat State Handicraft Development Corporation, and District Rural Development Agency promoted the KMVS.

KMVS is a registered trust with a membership of 9500 rural women organised into collective throughout 5 taluks of Kutch district spanning 150 villages. The women members of the KMVS have come together initially, for addressing a variety of issues including Drinking water, Health, Literacy, Land development, Legal Rights, Craft production and training of women in Panchayati Raj.

Aims and objectives

KMVS aims to create awareness and to initiate programmes and process which serves to empower the rural women of Kutch by increasing their capabilities to....

- Question various forms of socio economic and political oppression.
- Comprehend the basis of these forms of suppression and oppression.
- Act upon information, training, knowledge and their skills accessed by them to both establish their position as active change agents in their communities with the objective of improving their socio economic situation.
- Establish, access, and control over resources as well as decisions regarding themselves, their families, work and environment.
- Increased capabilities to make informed choice with self-esteem and dignity.

In this way education and awareness training form the foundation of all KMVS activities effecting small changes in their own villages. (For e.g. sangathan members can be seen extending support to other women). Thus capacity building is top priority for KMVS in its promotion of substantive and sustainable development.

Structure

The basic structure of KMVS at the village level is the Mahila Mandals with 30-40 members. Every mandal elects a leader called Agewan who is supported by core team with some members taking on specific responsibilities – health, handicraft, savings, environment, water etc.,

At taluk level, the Mahila Mandals form Sangathans with membership of 1000-2000 women. This is akin to our kalanjiam federations. The core groups of the different mandals constitute the lead group of the Sangathan and it is their role to provide necessary leadership and initiative to the Sangathan activities.

A Taluka Samiti of 8-10 women in turn supports the lead group. They are selected by Sangathan members and operate from an office at the Taluka headquarters. Samiti members have designated roles according to their area of interest and expertise. The Taluka Sangathans have now begun to access independent grants and manage their finances (with technical help from KMVS), including income-generating schemes.

The taluk sangethans are integrated into KMVS which acts as a resource centre for the sangethan activities. The KMVS organisational structure consists of the apex level governing, executive, and administrative body. Apart from the executive team, KMVS consists of 7 in-house resource units – education, health, savings / credit, legal support, craft production, natural resource management, and panchayat – that are independently co-ordinated by KMVS members.

The uniqueness of the governance structure of the KMVS lies in the fact that this promoting body also has representation from the four taluk sangathans – one elected trustee each from sangathans to ensure shareholder participation, representation, and provide a space to achieve accountability.

Microfinance programme

Education and awareness training on the above issues form the bedrock of all KMVS activities to bring about changes for the benefit of the women members. The microfinance operations have followed the initial interventions for health literacy etc., and now is an emerging as a fulcrum of development strategies. The programme reaches all the members of the KMVS around 9500.

The savings mobilisation from the members is of the order of the Rs 40 lakhs and the loan generated from within and also from banks amounts to Rs 81 lakhs.

- Every village mahila mandal collects the monthly savings and brings it to the Sangathan office for depositing it in a common pool on a fixed banking day.
- Each group consist of 30-35 members and sometimes more. When the # exceeds 60-75 women, this splits into two groups under the same Mahila Mandals.
- The Sangathan bank is managed by Taluka Samiti which again is comprised of women nominated by Mahila Mandals.
- Each village decides their own saving norms
- Women earn 6% interest on deposits. The landing rate is 24% annually as opposed to 120-200% being charged by local money lenders.
- Interests on productive loans are reduced to 18%. The repayment schedule for loans is 6 months.

EVENTS AND ACTIVITIES

Events	When and Where	Remarks
INAFI Global Assembly	Mombassa, Kenya March 18-20, 2002	More than 70 member practitioners from across the globe participated and deliberated upon the main theme of the conference Charting the Future of Microfinance
Inception workshop on self-regulation	KMVS, Gujarat May 25, 2002	In order to introduce self-regulation practices in the Mahila Mandals and Sangathans promoted by Kutch Mahila Vikas Sangathan, as a first step, the professional staff of KMVS has been introduce to the concept and sensitised about the imperatives of self-regulation for people institutions involved in microfinance operations
Review / follow up workshops on self-regulation in the member institutions	PREM, Orissa May 21, 2002 Manavodaya, Lucknow May 28, 2002 Grameen Development Services (GDS) May 31, 2002	Follow up / review workshops organised on self-regulation practices involving the leaders of the people institutions promoted by the institutions along with professionals for sensitising the leaders of people institutions, to draw action plan for building the capacity of the members of the people institutions and to evolve location specific standards framework for practicing self-regulation.

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