Inafi India Info
Microfinance Matters

Contents

1. Defining the Alternative framework of INAFI INDIA 1

2. African microfinance scenario – Insights and trends 3

3. Self-regulation 13

4. Member Profile 16
   - Peoples' Education Development Organisation
   - Urmul Trust
   - Agha Khan Rural Support Programme

5. Events and Activities

MICRO MUSINGS

INAFI INDIA is part of the global network of INAFI. For INAFI members, microfinance means less of finance and more of development. The network sees beyond microfinance and is committed to advance alternative paradigm of microfinance programmes with development focus for poverty reduction. Many stakeholders are asking what is alternative about INAFI. Our alternative frame work has been articulated in this issue.

Africa is very much in the limelight in the world of development. Next only to Aids / Malaria, microfinance programmes are growing larger and spreading across this continent. Interestingly, Africa is increasingly turning the attention to and warming up to the Indian model of microfinance – the community based self help model with the commercial banks in Africa also taking notice of this. We have featured an analytical article by the noted Microfinance Analyst Mr Herman Abels, Netherlands, giving wonderful insights into the African microfinance scenario.

INAFI INDIA launched an initiative on Self-Regulation in 2002 for navigating and managing the microfinance programmes for growth with order and quality. Self regulation initiatives are broader in its objective, coverage, looking at not only financials but also more on institutional and development aspects of the microfinance programmes. This initiative is essentially for the people institutions like SHGs and its federations, cooperatives promoted by the member organisations of the network.

The first phase of the initiative has just been concluded as action research and the experience has clearly brought out how critical the process element is for the self regulation to be effective and to be taken as their own programme.

As INAFI expands its pan Indian presence, we profile our new members in Western parts of the country.

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

1. INAFI INDIA – DEFINING ALTERNATIVES

INTRODUCTION

INAFI, as a global network of microfinance practitioners is committed to poverty reduction through microfinance intervention. It brings together microfinance practitioner NGOs at three levels – international, regional and country levels in Asia context. INAFI INDIA as a chapter of INAFI derives its philosophical underpinning and inspiration from the global vision of INAFI where even the poorest of the poor have been able to attain life of dignity with basic standard of living including access to food security, clothing, shelter and education, health care. INAFI places the poor at the centre of development. It would like to see a world where the poor, particularly the poorest, have the opportunity to participate in their own development by enhancing their own skills and abilities to reduce vulnerability and enhance opportunities through sustainable livelihoods. In realizing this vision, INAFI recognizes the critical role of microfinance interventions as part of the development strategy in eradicating root causes of poverty. These development perspectives for poverty reduction set the alternative premises for INAFI and consequentially for INAFI INDIA.

Defining alternatives of INAFI in India

The uniqueness of INAFI INDIA as a microfinance network, basically stems from being practitioners based. They consider microfinance as a means to larger end of poverty reduction and not an end in itself. The members are development practitioners either in plus credit mode or credit plus mode. Which means they are engaged in addressing poverty - issues of health, education, etc. and thereafter taking to microfinance intervention as a part of the larger agenda or those starting with microfinance and thereafter integrating microfinance with other social and development issues and themes.

It is important to recognize that member practitioners of INAFI INDIA though committed to sustainability of the intervention always put people first before profit. For them, the client sustainability is critical and takes precedence over the financial sustainability and profitability issues.

Alternative in approaches

a) enabling method

The microfinance sector is generally characterized by direct financial intermediation wherein the NGOs/MFIs deliver primarily the credit. The INAFI INDIA network, however believes in enabling mode of delivery rather than directly providing the financial services. The members of the network are primarily involved in social intermediation of organizing the poor preceding the financial intermediation. Which means, the members organize the communities in an institutional framework at the grassroots, build their capacity, skill and awareness for undertaking the financial and other developmental work. This is the distinctly different alternative approach of INAFI INDIA network members. As for instance, SHGs and its federations promoted by the members would undertake / organize microfinance services themselves or avail of these services from mainstream financial system through a linkage process facilitated by the members of network.

The enabling process had several spin off benefits, the paramount being building the local leadership to lead, guide and own the programme by promoting and enhancing the mutuality principle. Another good opportunity in the enabling method is that the process of intensive intervention strategy brings out the needs and the demands of the clients which would make the programme more responsive

to clients. In other words, it would be demand driven rather than supply led.

b) development outcome to direct the financial services

When microfinance intervention is primarily directed at reducing poverty, it is an imperative to look at the outcome and impact of the financial services being delivered to the clients. Mere delivery of financial services without reckoning the development outcome would not serve the objective and there is a danger of financial services getting primacy over the results, - the means becoming larger than the end.

Keeping this in view, INAFI INDIA is keen to pursue the goal of achieving the intended development objective through microfinance services. This calls for identifying and defining the development objectives for the microfinance programmes and thereafter organizes the services to achieve those ends. It is, therefore, important that microfinance services are to be tuned and tailor made to meet the development objectives and INAFI INDIA stands out with this alternative approach in the comity of microfinance practitioners.

Alternative paradigm – Beyond microfinance

The INAFI's single most important guiding principle for microfinance intervention is to address poverty from holistic development perspective.

Which means microfinance is a cog in the larger wheel of development. The network members would be looking beyond microfinance to address the other issues of poverty – social, cultural, etc. In fact, network members are challenged by the microfinance programmes to respond to the location specific development issues and problems which have a debilitating effect on the microfinance programmes such as usury or social exclusion issues, etc.

The alternative paradigm of microfinance gets reinforced with practitioners using the opportunity provided by microfinance to weave social sector and other development programmes around microfinance. This alternative paradigm of INAFI fits in well with the poverty school approach visa-a-vis the minimalistic financial intervention only.

a) The alternative in practice: addressing risks and vulnerabilities and building safety nets

Microfinance practitioners all over the world now recognize that micro credit alone would not be effective and other financial services savings and insurance products are equally critical for poverty reduction. While saving up could insulate to certain extent the clients from the shocks and uncertain happenings, the insurance services provide a comfortable cushion against future emergencies and risks.

INAFI INDIA believes that building social security system through insurance services organized through the linkages with the mainstream companies or on the principle of mutual solutions within the community is quite critical for addressing poverty by providing a safety net.

2. African microfinance scenario – Insights and trends

– By Herman W M Abels

African microfinance is not a recent phenomenon. Although some would argue that its roots go back at least a 100 years to the informal savings and credit schemes that can be found in most African countries. What is fairly new, though, is the involvement of donor agencies and specialised microfinance investment funds. That poses an interesting first question:

How was microfinance capitalised before the donor community became involved?

The answer to that is quite simple: by savings. The typical pattern was that community members got together to save and that some of them used the collected savings by way of a loan from the system. Both informal systems and formalised mutual systems such as cooperatives and societies where essentially built on this pattern: all members saved and just a number of them borrowed as well. That way the system was self-financing.

So why did not all members take a loan from the system? Again the answer is simple: they did not need to. Most of the informal systems were formed along the principles of social cohesion and solidarity. Members of a group or community pooled part of their resources and made those available to members that were in temporary need of additional cash. These needs could be based on life cycles such as burial schemes, on overcoming incidental disasters, on helping a widow after the decease of her husband and so on and so forth. In fact, one might argue that such systems to all intent and purpose functioned as modest social security or community based insurance systems.

Also the mutual or cooperative system operated on savings intake. Cash crop farmers pooled part of their post-harvest sales to finance the agricultural input for the next season, teacher unions collected savings that could be transformed into loan capital, but others collected savings without necessarily offering credit facilities to their members. Instead they invested members' savings in high yielding low risk ventures such as treasury bills. Even today it is not uncommon to see major microfinance cooperatives counting many more saving than borrowing members.

In short, then, traditional microfinance was mostly savings-led or savings-driven.

The only major exception to that pattern of self-financed microfinance were perhaps the government supported and financed credit schemes that came up in the seventies and eighties and were considered part and parcel of rural development strategies. As we know now, quite a few did not do well and these days modern microfinance theory suggests government to get out of the business as a retailer and function, instead, as a regulator and facilitator.

When did the donor agencies appear on the scene?

Probably in the early or mid eighties, Integrated rural development was a popular trend in those days and the emerging NGOs worked with their donor agencies on a wide variety of services: health care, education, sanitation, awareness building, and so on. Almost naturally many of these NGOs started providing financial services as well. Often it took the form of revolving loans funds. The donor granted the loan capital, the NGO

distributed the capital among its beneficiaries, recycled it a few times and when the capital was depleted a fresh revolving loan capital

contribution was made by the donor agency. Such replenishment of capital was needed because of low interest rates, low repayment rates, the effects of inflation and because of financing operational costs out of the capital base.

For quite some time nobody was really concerned about this practice. It was considered unfair to charge high interest rates to poor farmers, donors had no policies or mechanisms to work with debt or equity instruments, and were in fact already pleased if the granted capital revolved a couple of times.

This relaxed attitude started changing in the early nineties and was fed by many factors. Crucial, however, is that development work was not considered the exclusive domain of do-gooders any longer. Specialists were hired and they brought in some basic knowledge of the working of financial markets. In fact, they showed that the relaxed attitude described above was not working out too well in practice. Subsidized loan delivery could distort local markets, could create new dependency patterns, and could undercut a healthy loan culture and what not.

That process of reflection, as it were, gradually created a new common ground: microfinance had to be self-sufficient in order to be effective. Since then practitioners were expected to work towards that goal of self-sufficiency and a wide range of services tools and instruments was developed for that purpose. Moreover, the larger bilateral and multi-lateral donor agencies got together into what would become CGAP and started coordinating their microfinance policies and practices, which lead to the launch of the so-called pink book: a guide of dos and don'ts for donors active in microfinance. In fact the very word microfinance came up in that process. Until then one spoke of savings and credit programmes.

So what did donors do next?

They did a lot of things, but some interesting patterns were the following. Those who had been working with development NGOs often stuck to them and supported them in their struggle towards self-sufficiency. That was not an easy job. It required different mindsets and different corporate cultures, as much on the part of the NGO as on the part of the donor agency. Proclaiming new policies, targets and objectives is one thing; implementing and realising them with the same people is something else. In fact, this was an uphill battle and in many cases the towel was thrown after some years. The NGO gave up credit delivery and went back to its core business, or spun it off to more professional actors, or the donor lost patience with the NGO and walked away from it; some actually got out of microfinance altogether. Yet, a considerable number of NGOs emerged from this struggle and today are considered rather professional microfinance outfits.

As the popularity of microfinance kept growing in the nineties, more donors came in. Some focussed on existing NGOs and helped them on their way to self-sufficiency; others took a more direct course of action. They took over a then popular concept from the construction industry and applied it to microfinance, the BOT concept; build, Operate, Transfer. Typically the donor brought in the capital, the managers, the tools and instruments as well as the subsidies and established its own microfinance operations. The general idea was to turn such a start-up into a self-sufficient MFI in a year of two, withdraw the expert managers and let trained local staff run the outfit afterwards; that was often the time when the TA subsidies had dried up as well. The donor would then move its infrastructure to a new place to set up shop there and repeat the cycle. Though not all of these BOT projects

were successful at the end of the day, quite a few nonetheless also have turned into professional MFIs over time.

A third trend was to work with already existing microfinance practitioners, the old mutual savings-led organisations, and help them improving their systems and training their staff to gradually increase their handling capacity. In actual fact, however not too many donor agencies got involved in this line of action. The basic reason is that most of these savings-led practitioners had little need for outside capital.. They were used to growing organically and did not wish to accelerate. However, accepting donor support and investments also implied the acceptance of the whole range of new insights, conditions, report requirements; in short all the nuts and bolts that became associated with 'best practices'. Why go through all that trouble if we are doing fine already, many of these practitioners must have thought.

From a macro perspective, the more lasting effect of renewed donor involvement in the nineties must have been the introduction of the concept of credit-led microfinance in Africa. Unlike in the traditional systems, the new MFIs worked on the premise that all clients borrow. And as they borrow substaintially more than they save (if they save at all), capital from outside their communities has to come in to finance the new loan portfolios. And donor agencies had such capital in abundance, at least initially. So they developed investment policies and procedures, they hired investment professionals, and turned themselves from development workers into development bankers. And in that process of bringing more capital to Africa, a whole new infrastructure emerged; consultants, rating agencies, technical advisors, evaluators, analysts, auditors, etc; they all were hired to make sure that the capital was well invested.

For sure, this has provided a considerable input into the professionalisation of the microfinance industry and it also helped increasing the collective handling capacity. Many more people can now access financial services than, say, twenty years ago.

But was there a downswing in all this?

To start with, technical assistance was often tied to capital provision. If a MFI did not take a donor loan or capital grant, it could also not access the lavishly available resources for technical assistance. That effectively left out savings-led microfinance operations, many of whom had been in existence for decades. That in a way created disparities in the sector at large. Some MFIs were pampered copiously; others could not access funds for the smallest necessary investments.

Second, the better part of TA was provided by Northern companies, often related in one way or another to donor agencies. Much of what was formality reported as spent on African microfinance actually never left the donor countries. Tied aid, in other words. And even if one argues that it is up to the donor agencies themselves to decide where to buy their support and consulting services, the lasting effect is that it simply did not allow for building a thriving African support industry.

Third downswing is that somehow a twisted public picture emerged as to African microfinance. Not able to willing to strengthen what was already in place for so long, the donor community concentrated on supporting new outfits in which they often had a firm say. This, somehow, created the image that microfinance in Africa was something new, in fact driven and pioneered by donor agencies. One was so bold as to run a banner on its website, after it had decided to become operational in Africa; the banner read: ACCION Brings Microfinance to Africa.

This image has psychological effects down the line. Famous is a donor project that aimed to strengthen the

capacity of local consultants. Effectively, however, it put itself in a different position and claimed authority to quality and rate local consultants; none of whom had even invited the project staff to set up shop in their midst. Likewise, we have all seen instances where donor agencies or experts in their TA projects progressively positioned themselves as if they were representing the microfinance community, with occasionally astonishing disregard of practitioners themselves.

Yet, despite these little downswings it would be fair to suggest that the involvement of donor agencies as of the mid-nineties has seriously given a boost to develop the microfinance sector; perhaps not balanced at al times, perhaps with rather odd stakeholder and ownership concepts at times, perhaps too much driven by their own institutional interest at times; but a boost nonetheless

And where do we stand right now?

At crossroads, I would say. Let us first look at achievements and prospects. Particularly in the last two years a lot of changes have occurred and new developments have been set in motion. Let me just mention four of the more significant ones.

In a growing number of African countries governments have come to accept microfinance as an industry in its own right. It is different from traditional banking or development work, and needs to be regulated and governed by its own set of rules and regulations. Governments are in the process of reformulating their own role in this and this tends to move in the direction of facilitating the industry. This shows in two ways. First, in many countries specific regulation is on its way for the microfinance sector; in some it is already operational. This creates confidence in the sector and allows for new flows of capital investments. Second, in a more limited number of countries governments establish discount funding facilities for their own MFIs, often by borrowing from multilaterals and on-lending to MFIs at affordable rates through some apex body. Apart from the low interest rates, these facilities take away the currency risk from the MFIs.

Second, in quite a few countries the formal banking industry is down streaming into microfinance. That brings new players to the sector with considerable financial back-up and handling capacity. Whether this new involvement is due to government pressure or to find a way to deal with excess liquidity or by genuine interest does not necessarily matter so much. These banks bring in fresh capital and increase shopping options for borrowers. In crowded markets it also leads to lower interest rates for clients.

Third, both donor involvement in all kinds of research and development projects throughout the continent and the involvement of the traditional banking sector have given a firm incentive to product development. Beyond the traditional loans MFIs have taken up new products as remittances, insurance, overdraft, account management, pension schemes, credit and debit cards, etc. Before long a much wider range of products and services will become available to much larger numbers of low-income Africans.

Fourth, this process is facilitated by, but also a stimulant to technological innovation. Incredible breakthroughs are expected on fairly short notice, ranging from electronic banking in the most remote areas of the continent to automated data processing through satellite connections. This will further increase outreach but also bring down operational costs over time, hence makes service delivery more affordable.

All of this requires more capital. In some countries accessing public savings may do the trick, but to do that in

a responsible way, a bit more may need to be done, for instance in terms of government protection schemes for accumulated savings in case of breakdown of a MFI. That is standard practice in many developed economies and there is no reason why it should not be introduced in Africa; again the facilitating role of the government.

A next line of capitalization is through capital markets, particularly African capital markets. Some MFIs already attract capital from venture capital funds and most recently a Kenyan MFI managed to successfully float a bond through the Nairobi Stock Exchange

A third option is one where donor agencies still play a role. There appears to be a trend slowly moving away from direct retail lending to MFIs and, instead, accumulating resources in specialized investments funds who do the actual investments. There are tens of those these days; highly professional investment vehicles with hundreds of millions to invest. Those MFIs that can handle their rate of return expectations and are willing to gamble a bit with the exchange risk, should have no problem accessing their capital.

In fact, there is no lack of capital whatsoever.

So if the capital is there, why can't I get it?

Indeed, if capitalization is not a problem in its own right given the abundance of capital available, then why do so many MFIs find it so utterly difficult to get some? It looks like a contradiction in terms, but is it?

Actually it is not at all. Indeed, microfinance practitioners in Africa face serious problems in raising capital. The capital may be there, but they can't get it. And there is a multitude of reasons.

- The particular funding agency is not active in a region or in a country
- They would love to lend but they are over-committed already.
- Or they offer money for things you do not think you need, but which may be need by them.
- The specialized microfinance investment company you approach is not impressed by your performance and thinks you are a high-risk preposition which they can't get passed by their investment committee.
- Or they charge interest rates and fees you can not handle.
- Or they impose other conditionalities you can not submit to, such as mergers or accepting interim management.
- Or they propose elaborate TA facilities with their investments that effectively renders control to them.
- Or they only invest in outfits they run and control themselves in the first place.
- And you can not access public savings because you can't get the required status.
- And you can't get that status because you have insufficient equity.

In short, you are trapped. You hear about all these facilities but they do not appear to be there for you. And that experience seems to contrast with the public image about microfinance that is spread by the funding community. The messages brought forward in their press releases and on their websites is almost cynically over-optimistic: another breakthrough initiative launched, another cutting-edge intervention pioneered; it seems that all are pushing envelopes and thinking out of boxes without relent. The core message is: all is well in microfinance; just given us more money and we will make it perfect.

Partly that over-optimistic tone in communication is understandable: in order to

keep their own institutions alive and in business and to raise ever more funds, most donor agencies need to report positive results to their own constituencies and back donors, mostly bilaterals. So a certain level of self-promotion comes with the job and it actually helped raising public support for microfinance.

But it also created a trend of moving away from the harsh realities on the ground faced by many MFIs and lifting a couple of best practice MFIs to icon status and proclaiming them to be the norm in the industry. But then, if their exceptional performance level becomes the norm, the rank and file of MFIs by default perform below that norm; hence are sub-standard.

Let me illustrate this process by pointing at a major problem faced by the many specialized microfinance investment funds that aim to operate in Africa. Nearly all fund managers face the greatest difficulties in finding appropriate investment opportunities in Africa. There is sufficient demand alright but it does not seem to match supply criteria. The average pricing of debit finance by these funds is minimally 9-12%, on the dollar, the MFI bearing the exchange risk. As African economies are volatile and their currencies are generally not pegged to the dollar or euro, this constitutes a serious risk. The interest rate is manageable for may African MFIs but the currency risk isn't.

And whereas the solution would be rather simple, charge interest rates in local currency, most funds are not willing to consider this option because they can not get away with that vis-à-vis their own investors. And that is because the fund managers themselves promised investors returns of atleast 9-10%, against the dollar. They can not achieve those returns if they would have to assume the exchange risk themselves. So whereas many African MFIs are trapped, so are many fund managers as well if it comes to Africa. I fail to see why we should call that progress; I call that stagnation.

Then what is the core problem of this mismatch?

To me the root problem we are facing now is exemplified by the concept of commercialization of microfinance that is currently promoted. To a certain extent, the concept makes sense; there is little doubt about that. The concept essentially follows this reasoning: if we want to reach the hundreds of millions of poor that presently can not access financial services, we have to realize that this can only be done by commercially driven service providers. We can seriously expect NGO stile MFIs to accomplish that task. We need, in fact, the traditional banking industry to become involved. So MFIs are expected to gear up to that task by transforming themselves into such profitable institutions.

As I said, there is some sense and logic in this reasoning and in all fairness it must be acknowledged that commercial style MFIs are doing well in many countries. They reach ever more clients and they bring ever more products to their clients.

But there are serious flaws in this reasoning as well. First, the vast majority of microfinance clients today on a global scale are not serviced by such commercial MFIs but by NGO style MFIs. Look at Africa, the biggest players in the industry today, in terms of outreach, are some of the Ethiopian poverty focused MFIs and quite a handful of West African village bank style MFIs. And probably the single fastest growing type of MFIs today in the world is the self-help group system in India. None of these types of MFIs would like to be characterized as commercially-driven as they are not. So you could argue that it is slightly silly to not take into account or simply ignore their potential in realizing these ambitious outreach targets for the industry at large.

The other basic flaw in the commercialization concept is the lack of understanding of the core principles of commercial banking in the first place. Commercial banks become involved in microfinance for a reason: profit. And they only become involved if microfinance offers a better investment proposition than other investment areas. Some banks in emerging economies are dealing with serious excess liquidity problems. As T-bill rates may have collapsed and as other investment areas are temporarily not interesting because of stagnation of the economy, microfinance might become an interesting alternative. But that is calculated from the principles of opportunity costs. In a different setting, that is T-bill rates are high again or if the economy is catching up again, the same opportunity cost calculation may drive the same banks out of microfinance again. So the question is: are they here to stay? As long as we don't know the answer to that question, it might be rather frivolous to base a growth strategy for the sector on increased involvement of the commercial banking sector.

The third and perhaps most fundamental reservation I have with the commercialization concept is the blunt ignorance of the fact that many poor clients can not possibly be reached and serviced on a truly commercial basis: it is too expensive and too risky. Fortunately there are many MFIs that are willing to go the extra mile to service risky clients in remote areas, and they do so because they are driven by a social rather than a commercial motive. But if they would be expected to become truly commercial, they would have to give that up, simple as that.

A last reservation comes from the high level of conceptual inflation. In Nigeria both the government and a range of multilateral and bilateral institutions are gearing up to invest tens of millions in the microfinance sector. All these agencies are busy carving out their own niche and are establishing very comprehensive support and investment initiatives. However, when one studies all these new initiatives it becomes clear that most are not about microfinance at all; they are about small and medium business development. There is nothing wrong with that, but it is deceptive to use the catchword microfinance for getting subsidies and low cost capital to finance activities that have little to do with microfinance.

Protagonists of the commercialization theory these days point to socially driven MFIs that generate some profits to underscore their point: commercial and social viability can be achieved at the same time. But I even do not agree with that. If it comes to such win-win prepositions there is always some one to pick up a bill somewhere; in this case the MFI staff. Since they are not paid commercial salaries, there are socially driven after all, the MFI can afford to break even or generate a small profit. Were it to pay private sector salaries it would accumulate operating losses.

If not commercialization, then what is the solution?

To me that is rather simple: segmentation of the market and applying different rules and regulation to distinct market segments. Microfinance is not a one a one size fits all game. It is like the Olympics: so many different manifestations of top sport displayed at the same time, but all individual sports are governed by their own rules and regulations.

Some of you work in the higher brackets of the market: small and medium entrepreneurs with established low risk business, clients with steady jobs and incomes allowing for risk-free pay roll lending. And there is nothing wrong with that because these clients need to be serviced as well. But this kind of microfinance can be supplied on a pretty commercial basis and your

institutions should be able to source capital from capital markets, and that is what you increasingly do.

But there are quite different types of microfinance as well. What about MFI trying to reach subsistence farmers and their families, or refugees or internally displayed persons, or families living with AIDS, or illiterate farmer-workers, or school drop-outs? Or MFIs that operate in non-functioning markets, in areas destroyed by man-made or natural disasters? Should we apply the same rules and regulations, should we argue in favour of similarly high cost of capital fur such MFIs, or should we perhaps given them a break in return of the added social or humanitarian value their services may represent? I believe we all wuld be inclined to think so.

But the donor community, who actually is supposed to work on these premises, appears to be thinking in a different direction, the one size fits all preposition. In fact, the issue got further confused by suggesting that both social and commercial objectives can and therefore should be realized simultaneously: this is the famous double bottom line concept. Reaching the poorest; that is the bottom half of all people living below poverty line and making good money in the process.

Though admitting that some MFIs actually have gone quite far and have been fairly successful with this approach, I am not sure this will work across the board. There are too many inconsistencies here and rather than pretending they are not there, or should not be there, we'd better address them. Perhaps we can do that another time in more detail; for now it may suffice to apply some basic common sense: one can not have it both ways. A MFI is either socially or commercially driven; both are fine with me but it is not the same thing. Socially driven means catering to the needs of specific under-privileged groups of clients whilst trying to make ends meet and break even; commercially driven means focusing on financial returns whilst doing a good job.

Donor agencies as much as other stakeholder should perhaps better realize these basic differences and accept the principle of market segmentation.

So what should donor do then?

To me this question goes beyond donors and addresses a more fundamental problem: the appropriate allocation of private and public capital.

Public capital is what we bring together through our tax payments. We do that happily because we feel that the government will take care of a couple of facilities that serve us all: power plants, roads, hospitals, etc. And crucial in tax payments is the built-in solidarity principles: the more money we have, the more tax we pay. In short, we pay taxes that are converted into public facilities that benefit all, even those that do not pay taxes themselves because they don't make enough money to contribute.

Now let us look at microfinance. Contrary to public image, most capital that went into microfinance investment funds is originated from public capital sources, not from private ones. Main investors are so-called DFIs, development finance institutions or development banks. These include the major multilateral ones: IFC, EDB, ABD and IDB. But also major bilateral ones: FMO, Norfund, BIO, KFW and tens of others. Countries that do not have such banks join these funds through their bilateral donor agencies such as DFID and USAID. Even though private sector investors may join these funds as well, typically the public sector investors take a large share of the risk of the fund by taking so-called first and second cushion positions.

Once the fund is established, some sort of interesting conversion process starts. The fund, mostly capitalized with public funds, starts acting as if it was in fact a truly private sector fund. It adopts private

sector investment criteria, adopts private sector return expectations and adopts private sector behavior and attitudes at the level of the fund management company: tough talk, seen it all, done it all; that kind of thing.

As a result of all this, these funds essentially limit their operational space to the commercially driven segment of the microfinance sector. That is the segment they feel comfortable with and where they hope to be able to generate the optimistic returns presented in their prospectuses and bid books to get the investors aboard.

Some of these funds are doing quite fine, others less so; especially those making an effort to off-load their funds in Africa as demand is quite limited. Globally operating funds can work around that problem: for every risky investment in Africa they have five or more secure investments in Latin America or Eastern Europe which balances the risk. But even if most funds are doing fine, there are two core questions that as of yet go unanswered.

First, why should scare public funds be invested in commercially driven investment funds? The consequences of the concept of commercialization would suggest that the private sector would be able to do so. Then why doesn't it?

Second, if public capital moves into the high-end segments of microfinance, the commercially driven MFIs, what kind of capital is left to invest in the low-end segments of the market, the socially driven MFIs? Wouldn't it make sense to reserve public capital for that?

If so, then why is this not the case and what can be done about it?

As I argued before, first the rigorous drive towards self-sufficiency and then the drive towards commercialisation have created distorted concepts about what microfinance is or should be and how it is best supported.

The major conference paper puts quite some blame on CGAP for this distortion. And indeed this donor coordination body has managed to position itself most vocally as the know-it-all in the industry. It increasingly operates as a one-stop shopping centre able to entertain every single issue in microfinance with authority. And to give credit where it is due, CGAP does a professional job in this.

But as I see it, CGAP is just as important as you make it. There are two strategies to deal with that part of donor coordination that you don't appreciate. The first is rather simple; ignore it and go your own way. That seems to be the attitude developed in two major microfinance countries: India and Bangladesh. Whatever comes out of CGAP seems to have little bearing on the industry in those countries. NGOs and governments there have established their own concepts of sensible microfinance with a strong emphasis on poverty reduction and with the state playing a most useful facilitating role by make available long term affordable public capital to MFIs, either through government banks or through apex bodies.

In Africa the Ethiopians have done the same thing. The government defined the operational space for MFIs by insisting that they should have a non-profit, rural and pro-[poor focus and then made available low cost capital through an apex construction with IFAD. There was some criticism about distortion of markets and all that, but basically the Ethioipians institutionalised a concept of microfinance that suited their own developmental priorities. And there is no reason why other African countries could not have their own respective concepts of microfinance institutionalized.

The second way to deal with unwelcome results of donor coordination is by joining the debate, bringing in your

concerns and alternatives and creating support for that. In fact, that was what INAFI set out to do, amongst others, but unfortunately it has not gotten very far on that tract. As I see it, you may disagree with CGAP but you can not blame it for being successful, that would be rather odd. You can blame yourselves as practitioners though for not having been able to put up some countervailing power house to challenge CGAP.

In fact I have been working with INAFI during the last ten years or so and I have witnessed how difficult it is to establish such a countervailing power house. The odds work against you in many ways.

The main reason is obvious; donors control many resources and projects run by themselves are very well financed, allowing for hiring many capable staff, for high level political leverage, for high quality research and documentation; in fact for building the industry. For MFIs it is fairly impossible to match that. They need money from the same donors and find that the level of generosity applied to their own projects is rarely extended to others. However, would they be truly interested in funding opposition to their own policies and practices? Than you have to deal with the nity-gritty of project funding and there always are convenient reasons to not support you. INAFI has come across about all of those in its history.

At the same time, however, I do not see the need to match the institutional capacities of CGAP in order to make your voice heard. You do not need brute force to do that. You just need high quality strategic interventions at the right time and the right place and backed up with proper documentation. It doesn't require a lot of money to do that but rather a concerted and continued effort.

And the money you need you can generate yourself by way of priority. If you find it important to make your voice heard, you have to set aside some resources to do so. And then it will be not so extremely difficult to find a donor that will match your own contribution.

It may be good to realise that the vast majority of donor agencies are not a member of CGAP and that quite a few among them struggle with the same conceptual issues as you do. So it is in fact not very appropriate to talk about the donor community in microfinance as if it were a monolithic bloc as much as it would be wrong to assume that all MFIs would share the same priorities; they don't.

Also have some form of segmentation may be needed; link some practitioners and donor agencies around specific issues of mutual concern and establish initiatives to research those issues, bringing in experiences from various countries, perhaps collectively pioneer alternative products or approaches, have these well monitored and then try to mainstream those among all MFIs that are interested in dealing with that particular issue. It requires a bit of organisation but it can be done.

Likewise, tell your governments and central banks what microfinance in your country is suppo0sed to look like from a development or inclusive perspective as it is known today. In some countries national networks work quite well already, and are impacting government regulation plans. Next step is to start that debate on appropriate allocation of public resources in the industry; domestic public resources that is. Most likely not through government retail lending; that has not worked in the past but the Indian, Bangladeshi and Ethiopian experiences have shown credible alternatives and I would not be surprised to learn that other options could be worked out, suitable for a particular context.

Lastly, what ever happened to these traditional savings-driven MFIs in Africa?

The good news is that they are still alive and kicking, growing and servicing ever more clients. There was quite a dip in some countries as the cooperative movement got into bad weather due to government interference and what not, but that seems to be recovering. We do not hear too much of them, simply because they do not feature prominently in the international debate. As they do not take a lot of outside capital or subsidy, they are often ignored by the international microfinance community.

But that is perhaps for the better as they are also not deeply bothered by commercialisation considerations. They do not what they are supposed to do; focusing on their clients and developing products and services that are to their satisfaction. They may have occasional problems in making ends meet and in strengthening their handling capacity to service more clients, but by and large they are doing fine and there is growing interest in their achievements from a social perspective.

That leads to an interesting observation; while many MFIs supported by donor agencies find it difficult to become or remain self-financing or may be struggling in finding the best way to deal with African realities on the ground or preventing mission drift in the process fo commercialisation, those that never got any subsidy in the first place appear to be doing fine and have little problems striving to their mission. Is there perhaps a lesson to be learned in this?

3. SELF – REGULATION

Introduction

INAFI INDIA has launched its initiative for self-regulation to guide the growth of the microfinance intervention of its member organisations. The member organisations of INAFI – INDIA who are largely part of enabling stream (promoting institutions) have recognized the potential of this method to direct the growth and development of the people institutions. In a development sense, it ensures the focus on increasing the outreach and depth of micro finance towards achieving the larger goal of poverty reduction. As such, self-regulation is not just supervision but an enabling and guiding tool for the micro finance sector. It goes beyond rating or assessment and appraisal.

The INAFI – INDIA Network took the first step in the self-regulatory journey at New Delhi in the year 2001. The forum was an Asia International workshop on self-regulation for micro finance sector on August 29-30, 2001 at New Delhi where INAFI network members from India, Bangladesh, Sri Lanka, Nepal, Philippines have decided to adopt this as INAFI method. The workshop has enabled the members of the INAFI – INDIA network to have better conceptual understanding, clarity and also helped draw an operational road map for practice. The important part of the action plan chalked out in the workshop was identification of processes and steps for enabling the people institutions promoted by the members for practicing self-regulation.

The member organisations pledged that as promotional stream of micro finance sector, they would enable the people organisations such as SHGs, federations, Cooperatives etc. to evolve a self-regulation framework for them and enable them to practice.

The workshop set the tone and step-by-step process as under:

- Awareness / Appreciation – Sensitising the member organisations involving the stakeholders in developing standards
- Practicing of standards
- Counselling and review
- Sharing the experiences and learning, documentation of the code of conduct / standards framework for wider practice in the sector

Indicative standards of framework with broad parameters for the three major indicators of performance namely, development, institutional, financial have been developed in the workshop. Sequel to the New Delhi workshop the members of the INAFI – INDIA network organised inception workshops during 2001 and early part of 2002 to sensitise the professional / operational staff of its member organisations and also leaders of people's institutions for greater appreciation of the concept and to identify development / institutional parameters for benchmarking besides the financial standards.

Evolving the Standards Framework

Against this backdrop, a network level workshop was organised by INAFI – INDIA at Lucknow on 26-27, September 2002, which focussed on the following

a. Sharing the experience of member organisations 'since the New Delhi workshop in understanding and internalising the concept within the organisations and also the process of initiation in the people institutions.

b. Sharing of member's context of work, the people institutions' model, its structure, etc.

c. Evolving a shared understanding of the parameters of the three performance indicators namely, development, institutional, financial and framework of indicative standards for the people's institutions to practice self-regulation

d. Developing a framework for Self-Regulatory Organisation (SRO) for the people's institutions to direct and monitor the self-regulation practices.

The participating member organisations have shared their framework of standards in the three indicators. The workshop has also evolved the following guiding principles for the self-regulation practices.

Outreach of poor

1. Micro finance as a means to poverty alleviation rather than end by itself
2. Building community Institutions through enabling process
3. Developing objectives / outcome to guide financial services
4. Monitoring development impact of financial services
5. Practice of transparent and high quality financial services
6. Common methodologies and indicators for financial services

It has also been decided that keeping the guiding principles, the standards framework can be refined further by the member organisations before taking to the people's organisations

Toolkit for process

In order to enable the member organisations (MOs) to take the self-regulation process to the people organisations (POs) promoted by them with a view to internalise the self-regulation not only as a part of their system more importantly as a culture, a toolkit has been framed for facilitations. The toolkit has guided

the process at member as well as at the people institutions level. As it is contemplated to introduce the self-regulation practices in the second phase for the new members, the timeline has been set for the year 2006 for adopting the processes as per toolkit which would give better clarity and understanding.

Progress in the First Phase

In the first phase of 2003-05, following seven member organisations have introduced and practiced self-regulation, which means, they have enabled the people organisations to look at the quality processes of the microfinance programmes from the developmental, institutional and financial perspectives and to set their standards relevant for their context.

1. DHAN Foundation
2. BAIF Research Development Foundation
3. People's Rural Education Movement
4. South Indian Federation of Fishermen Societies
5. Grameen Development Services
6. Manavodaya
7. Kutch Mahila Vikas Sangathan

Given the model and structure of the people institutions promoted by network members, the form and nature of Self Regulatory Organisations (SROs) have been diverse. Moreover, as an action research project of the network, self-regulation practices have been adopted on a pilot basis by the participants in the first phase in a few select people institutions.

Feedback received from the member organisations clearly point to the mixed and diverse experiences and lessons learnt in the process. What is clearly coming out is that the intensity of the process is the key to the effectiveness of the self-regulation practices. The more intense and more regular the process as per the tool kit greater is the internalisation at the people institution level. In other words, this goes to reinforce in the importance of process for development focussed work in the people institution level at the grassroots. The feedback also pointed to the fact that programme ownership of the clients is expressed and getting enhanced.

As far as framework of standards is concerned, it reflects true diversity of the network and the member context particularly with reference to development indicator. Evolving of standards framework at the people institution level has been facilitated by the self-regulatory organisations and also the member NGOs. It is also expected that the MOs of the phase-I would advance the self-regulation practices in the people institutions on both horizontal and vertical plane and it is a matter of satisfaction that the self-regulation practices would provide an effective alternative touchtone for the microfinance programmes and direct its growth with order and quality.

The member organisations of the phase-I have shared their experiences learnt in enabling their people institutions in the practice of self-regulation - the process, the contextualised standards framework and also lessons learnt in this workshop.

Moving to Phase II

Encouraged by the response at the members / people institutions level for the practice of self-regulation in the phase-I, INAFI INDIA has organised network level of workshop at Chennai during November 2005 involving the member organisations phase-I and MOS identified for phase-2. This Workshop has enabled the Chief Executives of the MOs of the second phase to appreciate the concept, experiences and the lessons learnt to take it to their people institutions.

Following this National workshop for the Chief Executives of the Mos of the second phase, INAFI INDIA will organise induction workshop for the programme heads / designated nodal persons for self-regulation to familiarise with the concept and process with the tool kit for practice.

The following MOs are participating in the second phase.

a) People's Education Development Organisation – Mr Devilal Vyas, Director

b) Nav Bharat Jagriti Kendra – Mr Satish Girija, Secretary

c) Agakhan Rural Support Programme – Mr Apoorva Oza, Chief Executive Officer

d) Modern Architects for Rural India -Mr R Murali, Secretary

e) Sri Kshetra Dharmasthala Rural Development Project – Dr L H Manjunath, Executive Director

f) Urmul Trust – Mr Arvind Ojha, Secretary

g) Shramik Bharti–Mr Rakesh Kumar Pandey, Senior Manager-Program

4. MEMBERS' PROFILE

4.1 AGA KHAN RURAL SUPPORT PROGRAMME

The Aga Khan Rural Support Programme (India), AKRSP (I), is a non-denominational, non-government development organisation. AKRSP(I) started its activities in 1984 in the State of Gujarat. More recently in 2004, AKRSP (I) expanded its operations to Madhya Pradesh. AKRSP(I) is currently functioning in five different ecological areas in Gujarat and Madhya Pradesh encompassing 15 blocks and more than 500 villages.

AKRSP(I)'s approach is to build viable and self-sustaining institutions by organising rural people, promoting developmental activities with local people in a participatory manner and working with other external agencies (Government, Bankers, Donors, etc) wherever possible, in collaborative manner. All planned programmes are tailored to fit to the local conditions. AKRSP is a professional organisation, committed to transparency, excellence and effectiveness.

Outreach and Institutional Building

Coverage	Achievement as at 2005
Village owned	770
Households Covered (years 2002-2005)	59,369
Village Institution functioning	1,470
Total Membership in village institutions	41,482
Women's village institution functioning	661
Membership of Women in village institutions	19,931

Micro finance intervention

AKRSP's microfinance intervention focuses on inculcating savings habit among the rural and tribal societies and it has holistic approach with accent on enhancing the sustainable livelihood options. The programme covers both men and women.

Microfinance at a glance

Total No. of Groups	1470
No.of women's groups	661
No.of men's groups	258
No. of mixed groups	551
Total No. of federations	19
Total community savings	Rs.100 lakhs
Total credit portfolio	Rs.250 lakhs

Microfinance and Micro enterprise development

Micro enterprise development has been given much importance by the women Self Help Groups for their livelihood particularly in rural areas and farm related enterprises. Women groups are actively involved in organic compost manufacturing and working collectively towards their economic empowerment. The concept of collective marketing has gained a greater momentum with the intervention of federations where the village institutions access the formal markets easily. Also with the initiative of federations, decentralised trading came in to operation to overcome the exploitation of poor by local traders.

4.2 PEOPLE'S EDUCATION DEVELOPMENT ORGANISATION

People's Education Development Organisation (PEDO) was established in the year 1986. It works with the main objective of enabling self reliant rural communities with value based development orientation.

Mission

To promote value based people's institutions to utilise existing resources for poverty alleviation and environmental up graduation

The main activities are:

- Consumption
- Income Generation
- Housing
- Medical
- Social

Microfinance Model – SAKHI

PEDO has started its microfinance activities in the year 1988. A women savings and credit institution has been formed separately under the name of 'SAKHI'. SAKHI is a self functioning

financial services institutions working with the focus of Gender and Development. Apart from the economic enhancement SAKHI mainly facilitates women to achieve their strategic gender needs i.e. equity and equality. The microfinance operations of PEDO are geared up towards the following:

Financial viability at operational level for village groups and clusters

&

Social sustainability

Financial Viability

Financial viability requires the Primary groups to generate sufficient profits from interest and contributions to meet the operational expenses at group level and for the cluster level as well to meet the cluster group expenses. For this to happen.

1. Number of groups has to cross a viability threshold, which PEDO estimates at 200 groups. This requires the formation of new groups while ensuring that the old groups continue to function.
2. primary group credit operations must generate sufficient profits. i.e. the quantum and quantity of loans has to be high as well as the rate of repayment.
3. the cluster level must generate its own funds either from profits on leveraged loans or from contributions from the primary groups.
4. the accounts have to be decentralised to the cluster level so individual cluster viability can be established and demonstrated.

Social Sustainability

The primary groups must be totally self managed i.e. both day to day operations as well as monitoring and troubleshooting must be from and by the groups themselves. To achieve this there has to be:

- Mass base support. This in turn requires that the groups share the vision of PEDO and are committed to its vision
- A dedicated leadership cadre at primary group level as well as at cluster group level
- An effective support system which provides back up for self reliance in spite of the loan literacy and commercial competence levels of the members. This includes support for training in managerial skills as well as user friendly information systems to keep member knowledgeable of the financial status of members and groups
- An effective facilitation network as PEDO staff move from implementing to facilitating roles.

Credit Operations

There are totally 1129 Self Help Groups and the total outstanding laon amount as on March 2006 is Rs.610 lakhs. Each group is assisted with the average loan amount of around Rs.69000 and the recovery rate is nearly 95%. The total community savings under SAKHI comes around Rs.271 lakhs. There are totally 2800 members assisted with life insurance coverage.

4.3. URMUL TRUST

Urmul Trust represents a family of organisations working towards social and economic change in the lives of the people in the harsh, inhospitable and interior regions of western Rajasthan. What keeps these different organisations and the TRUST together are a set of shared feelings, values and commitment about development work and processes. These include honesty, equality, secularism, gender sensitivity. The core of the development premise of the URMUL TRUST is the intrinsic faith in the capacity of the rural people to devise and manage and sustain development programs.

The Mission of the URMUL TRUST is to lead the poor towards self reliance by making available to them a package of development services that they themselves decide on design, implement, and eventually finance.

Development interventions in URMUL Trust family revolve around a core of strategic sectors like collective mobilisation, access to health and education services, empowering people on food, fodder and watersecurity, supporting livelihoods, relevant and action oriented research, trainings in skill enhancement and confidence and promoting issues of human rights and public advocacy. The strategic features of each sector are decided by a community planning process that starts from the beneficiary family and community and flows to the top from below up. At the core of these development processes are community based organisations (CBOs) like men and women sangathans, prerak dols, navyuvok mandals, village education committees, chak samities.

Although fairly autonomous the interventions under the different sectors cut across, and supplement each other in pursuance of the final goal of improving the quality of life of the vulnerable communities in the Thar desert.

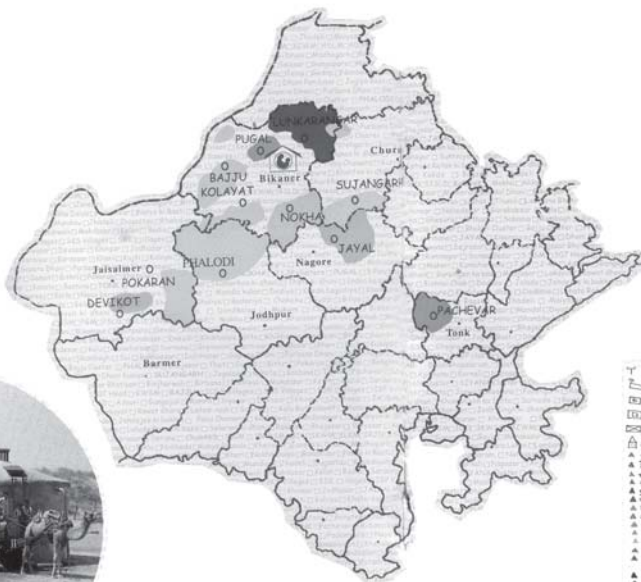
The following are the URMUL Family Units

Organisations	Villages	Intervention areas
1.Urmul Setu, Lunkaransar	120	Health (Immunization, T B control and eye care), Education, livelihood, security, micro finance
2. Urmul Seemant, B Lajju	260	ICDS, Education through Desert schools, health, Income generation programme
3. Urmul Samiti, Phaladi	90	Education, women's health, income generating programme, microfinance
4. Urmul Jyoti, Nokha	43	Education, Nutrition, Drinking water and Tree Plantation
5. Maru Shakti, Sujangarh	8	Microfinance, education, food, fodder and water security programme
6.Urmul Khejari, Jayal	8	Microfinance, water and food security, common property water resources
7. Srajamyaham, Devikot	4	Desert crafts and microfinance
8. Shanti Maitri Mission, Pugal	16	Panchayats (micro planning), Capacity Building
9. GVST, Malpura	5	Microfinance, education
10. Asundhara, Lunkaransar	7	Livelihood with focus on spinning and weaving

Villages & Communities in the URMUL family project areas

Communities in the URMUL project areas

Meghwal	Gopera
Nayak	Parihar
Sansi	Mehtar
Raigar	Rajpurohit
Jat	Kohri
Brahmin	Bhil
Swami	Suthar
Sadh	Nai
Rajput	Johiya
Charan	Malana
Bishnoi	Mali
Bhat	Nath
Banjara	Gawaria
Odh	Jogi
Dhadi	Jaluka
Mors	Baloch
Mirasi	Sikh



Microfinance Programme

With a view to mobilise the savings as a measure of local capital for economic activities and also to support the economic activities of Urmul family of institutions, microfinance has been introduced in some of the organisations of Urmul family. More than 1000 groups have been promoted by five of the organisations of Urmul Trust. They emphasis on promoting bank linkage for the SHGs promoted by the Urmul Trust.

Events and Activities

Events	When and Where	Synopsis
Microfinance Road show	February 6-11, 2006 South India	Microfinance road show is an initiative of INAFI INDIA to expose the professional staff members of its member organisations and other stakeholders in the microfinance sector to the excellence in microfinance intervention in various parts of the country. The road show organised during February 2006 provided an opportunity to participants to see and learn from successful microfinance programmes in South India.
INAFI INDIA participation in the International Exposure Programme in Microfinance and Micro Enterprises in China organised by Reserve Bank of India	February 28 to March 5, 2006 Beijing, China	An International Exposure Programme on Microfinance and Micro Enterprises in China has been organised by Reserve Bank of India (in collaboration with China International Centre for Economic and technical Exchanges, CICETE, Beijing, China from February 24 to March 5, 2006. Senior Bank executives and microfinance practitioners and stakeholders participated in the programme. The exposure programme has been quite useful for INAFI INDIA network not only from the perspective of learning about the microfinance intervention in China also provided an opportunity for networking with Chinese counterparts. The experiences of microfinance programmes in Indian contexts have been shared with the Chinese policy makers and regulatory authorities.

Book - Post

For Private Circulation Only

INAFI India Info

Newsletter

New No.65, 1st Floor, 3rd Street
Harvey Nagar
Madurai - 625 016. Tamil Nadu, INDIA
TeL.: + 91 - 452 - 2300490
Telefax: + 91 - 452 - 4358490
Email: indiainafi@airtelbroadband.in

To

____

____

____

____