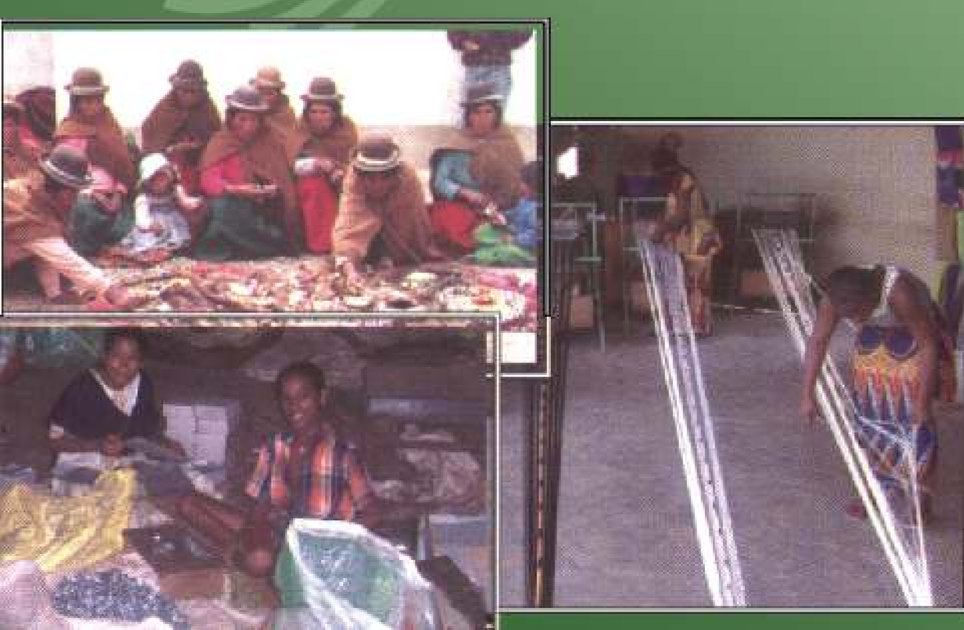
INAFI

the Alternative principles of Microfinance

Towards Equitable Service Delivery and Resource Allocation



INTRODUCTION

At the occasion of its tenth anniversary in 2005, the Consultative Group to Assist the Poor (CGAP), a consortium of 33 established donor agencies and investment banks active in microfinance, introduced its Principles of Microfinance. These can be considered to capture predominant conceptual thinking on microfinance in the Group. They address key issues that should guide not only these agencies and banks in formulating their respective policies and practices, but are clearly meant to guide other investing stakeholders in microfinance: non-member international funding agencies and investors as well as domestic public and private sector players. The principles aim to influence all resource allocation in microfinance.

The underlying strategic consideration is that through control of the flow of resources in the sector the predominant conceptual framework will be accepted by default by those at the receiving end of this flow. These are the tens of thousands of microfinance practitioners all over the world. This is an effective strategy because it saves the trouble of convincing these practitioners of the superiority of this particular conceptual framework over others.

A tactical innovation to this end was to present and market this framework as the only one around. Promoting their own principles as the principles of microfinance, international donors and investors created the impression that these are based on a sector-wide consensus built through an elaborate and careful process of consultation, study and review.

At INAFI we have reservations about these principles. Not only because practitioners have had no organized input in their design, but more so because this lack of input becomes manifest in the outcome: these are not our principles of microfinance. In this paper we will explain what these reservations are and we will also present our alternative principles. But before going into that, let us make some observations on how the sector has developed over the last decade and where this all has led to.

GLOBALIZATION, COMMERCIALIZATION AND PRIVATIZATION

The major funding agencies and development banks active in microfinance are powerful for two reasons. The first is an obvious one: they control impressive resources and hold a virtual monopoly over the most precious and delicate investment instrument: the grant. These grants were strategically applied to acquire a commanding position in the conceptual arena of microfinance and establish predominance of one group of stakeholders over many others. The second is that these international agencies and banks do not operate in a void. The larger bilateral funding agencies are instruments of foreign policy of their respective countries and the involvement of international development banks is difficult to be disassociated from their position as the main architects and drivers of globalization, a process that is perceived by many as working against the poor in the world.

The ideology of globalization has arrived at microfinance. It comes in the form of commercialization of the sector or in a donor euphemism: building inclusive financial systems. And it translates into the practice of privatization of non-profit microfinance institutions, a process named transformation in dressed-up donor terminology.

Privatization means that the social or developmental motive in microfinance is exchanged for a profit motive. It means that positive returns from microfinance operations do not flow back to clients and their communities but are re-directed to external investors. It means that the poor and the poorest are cut off from financial service delivery. It means that service delivery comes to focus on the not-so-poor and the nonpoor. And it means that the costs of service delivery are deliberately kept unnecessarily high.

Commercialization and privatization are not dire developments per sé. In fact, there is a lot to say for it in many cases, also in microfinance. What we see, however, is that in microfinance the basics principles of commercialization and privatization do not work. The international public capital sector is not paving the way for genuine private capital sector involvement but assumes the role of private capital itself. In the process it drifts away from its own mandate and responsibilities; looses grip of the very meaning of the public good it is supposed to support. We will illustrate this by first, showing the workings of the process of commercialization as it came down on microfinance practitioners over the last decade, and then explain how it failed to deliver on its promise.

THE PHASED BUILD-UP TO PRIVATIZATION

Privatization and commercialization did not come to microfinance overnight. It was introduced in a gradual process. Our point of reference to elucidate this process starts in 1995, the year in which INAFI were established. By then microfinance outside the public sector was only practiced by civil society, mutual, cooperative and communal systems. There was not a single private sector actor involved. The mutual, cooperative and communal systems were largely immune for external interference as they were savings-driven and did not take in external capital. Non-profit civil society actors (NGOs), however, were largely credit-driven and depended on external capital provision. This came from non-profit public and private funding agencies.

INAFI was established by a group of such NGOs active in microfinance. This story is their real life story. Most of these NGOs were not specialized in financial service delivery. They applied a holistic approach to poverty eradication. This meant that they supported the poor through a range of interventions in various dimensions of poverty simultaneously: health, education, sanitation, awareness raising, business development services, etc.

Step 1: Sustainability of Programs:

In the mid nineties public donors came to promote the financial systems theory. This theory insists that microfinance can be sustainable and therefore has to be sustainable. The first step therefore was to turn the financial services programs of these NGOs into sustainable programs.

This by and large worked successfully and it is the only step that can meet with appreciation from all stakeholders in the sector.

Step 2: Sustainability of Institutions

Step two was to insist that not only service delivery had to be sustainable but that also the institutions offering these services had to become sustainable. This implied that they had to be turned into specialized financial service NGOs, had to become microfinance institutions or MFIs and abandon non-financial services. This strategy was only partially successful. One group of NGOs dropped financial service delivery because it prioritized other services when pushed to the choice. A second group did the opposite and dropped non-financial services as requested. The third group, however, simply ignored the call to specialize; partly because they had become too strong to be influenced by donor advice, partly because they had reduced donor dependency already, for instance because of access to discounted public sector capital in their countries.

At this junction first major collateral damage can be identified: MFIs became separated from development NGOs. One category of institutions working with the poor became disconnected from another category doing the same albeit differently. Over time strongly diverging corporate cultures emerged. Development NGOs came to de-appreciate the potential of microfinance for the poor and MFIs came to forget the many dimensions of poverty.

Second collateral damage presented itself in the form of this growing divergence being carried over to funding agencies where microfinance and development specialists came to relate to one another as fundis and realos respectively.

Step 3: Withdrawal of Low-cost Capital.

When institutions had become sustainable and specialized, they were told that they did not need any access to low-cost capital any longer. Efficiency gains to be realized through scale of operations from then on could not be ploughed back to clients in the form of lower interest rates, but had to be handed over to funding agencies in the form of higher costs of capital.

Further collateral damage followed. The alternative investment product offered, the high-cost Western currency loan, was not any longer offered directly by the funding agencies and development banks. They had started outsourcing their investment function. Their capital is now locked into specialized investment funds where MFIs have to apply for loans. This has introduced three new issues of concern. First, it created a new and unnecessary intermediate layer, the considerable costs of which are ultimately financed by microfinance clients. Second, quite a few of these funds or their management companies operate from tax heavens which will undercut public confidence in microfinance once fully exposed. Third, these funds introduced extreme regional investment disparities: 85% of their portfolios is outstanding in two regions that together represent only 8% of all microfinance clients in the world.

Step 4: Introduction of the Profit Motive

MFIs not only had to be directed, they also had to be controlled: regulation became the new fashion. Financial authorities in developing countries were pushed by donors to regulate microfinance, usually over the heads of MFIs under the pretext of protecting savers' interests. As a result, MFIs had to transform into shareholding companies to trade their social for a profit motive. This stick was sold to MFIs against the carrot of future access to low-cost capital in the form of public savings.

The transformation process required the entry of equity investors in the industry. These could not be found in the private sector. Instead the funding agencies and development banks stepped in; either directly or through their investment fund proxies. They have started taking over these institutions by buying shares. Initial NGO stock in these shareholding companies is strongly advised to be de-invested under the excuse that non-profit organizations have no business in holding equity in for-profit MFIs, not even in their own.

Best Practice Mantras

All these steps have been pushed through the sector as unavoidable consequences of adhering to best practice standards. The process of identifying best practices, however, was based on a careful selection of practices that fitted in with the objectives of commercialization and privatization. Commanding control over the grant instruments was used to exclusively promote fitting best practices and denounce or ignore others. Three of the five super-sized MFIs in the world today, all serving millions of borrowing clients each, are non-profit NGOs driven by social motive, two of which moreover are non-specialized general development NGOs. The two other ones are not regulated NBFIs or commercial banks but state-owned-banks driven by a public service mandate. None of the five is driven by a profit motive, yet best practice ideology relentlessly demanded to embrace the profit motive to allow for reaching scale against all empirical evidence on the ground.

The grant instrument was used to build an impressive support industry that was well resourced and equipped to exclusively cater to the overall objectives of promoting commercialization and, by default rather than intention, marginalizing of all that stood in its way. Collateral damage achieved in this process was the intellectual and moral mendacity of this support industry: it became donor dependent as much as MFIs had been ten years earlier. It parroted the voice of those who fed it.

Practitioner Perspective and Industry Leadership

These are the results of ten years of donor coordination from the perspective of INAFI member-MFIs. This is not a small vanguard group of activist non-practitioners. These well over 200 MFIs from three continents actively service approximately 20 million borrowing clients and know what they talk about. Each single one of them has more hands-on experience in service delivery on the ground than any single funding agency or development bank or any single actor in the colluding support industry. That is why they are called practitioners.

But donor coordination has led to disenfranchising practitioners as key stakeholders in the microfinance sector. As a stakeholding community they are kept out of the board rooms where the future of microfinance is discussed and where public resources are allocated because they are considered to be an inconvenience towards the realization of commercialization as they keep taking about poverty and people instead of profits and systems. As individual MFIs they may occasionally be promoted as best practice MFIs or parade in funding and marketing drives to serve the many vested interests in the sector and justify those in the public eye. But as a community of stakeholders they have become a quantité negligeable.

The process that facilitated the disenfranchising of MFIs is that of donor coordination evolving into industry leadership. Donors step-by-step broadened their mandate and stakeholder position in microfinance, culminating in a claim of industry leadership. Such leadership position does not require balancing one's own position and views with those of others.

THE EMPTY PROMISE OF PRIVATE SECTOR CAPITAL ENTRY

Collateral damage is generally seen as an unfortunate yet unavoidable price that needs to be paid for the benefit of achieving something of a higher value. In the drive towards commercialization the target of higher value is the entry of genuine private sector capital. This has been the single mantra of donor coordination all along. Unfortunately this promise has not been realized; neither will it be realized in the years to come. What has been presented to us as the first signs of it, at a closer look appear to be mere token signs of an empty promise.

The Specialized Investment Funds

The rapidly proliferating investment funds are often presented as such a first sign; wrong try. These funds are predominantly capitalized by none other than the funding agencies and development banks. To them these funds merely represent a convenient channel to sit back and relax whilst somebody else does their work. This usually is a private sector investment company that gets handsomely rewarded for its services and is usually owned and managed by institutions of close social and professional proximity to the managers of the funding agencies and development banks. A significant pattern of executive transfers back and forth in these circles can be observed as well as some remarkable geographic concentration.

As far as genuine private sector capital is invested in these funds, it is offered a risk-free investment environment because the public capital providers capture first risk positions. On top of that, such private capital usually originates from the sponsor of the fund which through a subsidiary or affiliate company holds the management contract and sees an interesting revenue stream coming its way that may compensate for the few investment risks left.

A real issue, however, is that zero cost public capital through these funds is offered at private capital terms and conditions. Public sector capital awards itself a return on investment that is far beyond the very purpose of the application of such capital in microfinance and directly contributes to excessive interests to be paid by microfinance clients.

A second is that quite of few of these funds are awarded considerable slush funds in the form of so-called technical assistance facilities. Besides generating a second revenue stream for the sponsor of the fund through a second management contract, it makes a mockery of the very notion of an investment fund if it can use public grants to lubricate its commercial priced investments.

And the third is that these subsidized funds have come to sit in the way of a quite different type of investment fund: those capitalized by socially responsible investors who can not avail of such slush funds. Socially responsible capital is not to be confused with genuine private sector capital even if it has the same private origin. This responsible capital has foregone opportunity cost calculations: it accepts lower financial against higher social returns and taps into a growing market of companies and individuals prepared to invest under such equitable terms. Its market entry can therefore not be seen as proof of genuine private sector capital.

Down-scaling Commercial Banks

The second sign of the market coming to maturity is to point at downscaling banks; wrong again. That is to say: many commercial banks are becoming involved in microfinance indeed, but not because the market has come to commercial maturity.

In some countries their involvement is the result not of free choice but by public sector pressure. In such countries governments require commercial banks to invest part of their capital in under-developed economic sectors at the risk of severe penalties. Microfinance is usually the highest yielding or lowest risk option in this respect.

Commercial banks often limit their involvement to wholesale lending to MFIs at commercial rates. In countries with a higher currency risk for MFIs this often is a second-best lending option after low-cost loans. Domestic capital markets work out better than borrowing from specialized international investment funds as they take out the treacherous currency risk, the existence of which is generally flatly denied by public donors and investors.

Banks in some developing countries, commercial as well as state-owned, sometimes face an excessive liquidity surplus resulting from high savings intake against limited investment opportunities in real markets. In such cases they may temporarily channel that surplus to the microfinance sector in order to get at least some return, high enough to allow for paying interest over mobilized savings.

In all these cases commercial banking involvement is inspired by opportunity cost considerations. The test of this approach in the long run still needs to be awaited though. It remains to be seen if the capital will stay involved in microfinance once alternative higher yielding investment opportunities will present themselves. In the case of genuine private sector investors this is a rhetorical question.

Up-scaling MFIs and Up-scaling the Definition of Microfinance

The third sign of the promise fulfilled is the story of MFIs that have turned into full commercial banks; also wrong.

The observation is correct though: some MFIs have transformed from NGO to NBFI to fully licensed commercial bank. Many of those have become true private sector players themselves. Even if they are still owned and financed by international public sector capital, they have built the capacity to take in private sector capital at private sector terms and conditions. Here the private sector can come in not because of opportunity costs considerations but for reasons of profit maximization.

Still, the promise is an empty on. At this level we are not talking about microfinance any longer the way we all understood its meaning a decade ago. This is in fact quite a different market: it is the market of SME lending, consumer lending, mortgage lending, pay-roll deduction lending, international money transfers, etc.

Moreover, this market is not a new one. It was there ten years ago and it was served, as it is today, by finance companies, building societies, pawn shops, international money transfer companies and commercial banks. It has been a fully commercial market all along. But we never associated this market with microfinance. What we see today is that a growing number of MFIs is entering this market and because of that we now include it our definition of microfinance.

Conceptual integrity, however, dictates us to conclude that these MFIs have left microfinance behind. That is fine and well because this market is growing and needs to be served. But what is immoral from a poverty perspective is to redirect public financial resources earmarked for microfinance to financial institutions that are not in microfinance any longer.

A DECADE OF INTERNATIONAL PUBLIC SECTOR INVOLVEMENT

Creating Momentum

Coordination of international public sector involvement has helped creating international momentum for microfinance to grow and prosper. Not in terms of the actual popularization of microfinance which was largely left to individual donors and their odd coalitions with international corporate business groups, but by uniting them all under the same banner of commercialization which helped sending a single massage to the general public: microfinance works for poor people.

In the process this essentially correct message became quite vulgarized though. The public at large was made to believe that poverty can be eradicated by a mere 100 dollars loan. It was also made to believe that Northern support agencies were actually doing the service delivery on the ground by themselves by way of consolidation the achievements of independent Southern MFIs in their own annual reports and marketing strategies. It was made to believe that poor people did not need access to grant facilities which thereupon could be appropriated to create and finance vested interests at intermediate level. The general public was kept away from stories of failures, of the collapse of once iconized best practice MFIs, of malpractice in the industry, of usurious interest rates charged to poor people to accommodate public sector returns; in short of all the bad news in the industry. Microfinance had to be pimped to keep the self-created publicity hype going.

Before long this balloon of microfinance evangelism will burst. It is a matter of time only before some investigative journalists will expose the bad news. This process has started already in a number of developing countries where cases of usury have been exposed, where cases of loan predation have been identified, where MFIs now face serious public image problems. It is a matter of time for these local journalists to align with their international peers and together expose the dark side of the workings of international agencies: the slush funds, the redirection of resource allocation from the poor to the not-so-poor, themselves and the support industry, the tax heaven status of investment funds, etc.

Public confidence in the sector, both domestically and internationally, stands to erode before our eyes. When that happens the international players will once more invest considerable resources earmarked for the poor to finance eloquent damage control campaigns that will be based on the defense line that they are not to be blamed as they are not practitioners after all. We as practitioners will be at the receiving end once more; reason to rock the boat now.

The Poverty Debate

All development NGOs can identify the poor in their countries of operation and usually do so by grading levels of poverty following a pyramid model: from vulnerable and not-so-poor to economically active poor to hardcore poor to destitute poor. In countries where microfinance has not become totally detached from civil society, MFI work along the same analytical lines.

They know that it is more complicated to eradicate poverty further down the pyramid because it gets more obstinate and goes hand-in-hand with rapidly diminishing capabilities and skills on the part of the poor. They also know that poverty can perhaps not be eradicated at the lower brackets of the pyramid but that with tremendous efforts and resources it is able, first, to prevent people sinking lower in the pyramid and, second, to gradually reverse the process so that hardcore poor can get some future again. International funding agencies know that equally well as they support many non-financial programs to support the poor.

Intoxicated by the commercialization ideology, however, if it comes to microfinance they have turned their backs on the poor in the lowest brackets of the pyramid. The quest for building sustainable MFIs and systems caused them to sacrifice service delivery to poorest clients on the altar of commercialization. But that was not enough.

Rather than cutting off MFIs working at these levels from international resource allocation and leave them alone, they started to actively work against these MFIs. By speaking out against the application of domestic public support in microfinance on which these MFIs depended. By coercing the governments of these MFIs and their clients to ban savings collection to non-regulated MFIs. By actively recommending private funding agencies not outside the realm of donor coordination to cut their remaining ties with these MFIs.

If it comes to service delivery at the bottom of the pyramid the message of the international public sector donor and investment community to the poor living at the bottom of the pyramid has been consistently the same:

In order to build systems for all, microfinance cannot serve you.

The MDGs

Then the Millennium Development Goals gained prominence. All major public donors and investors came to pledge alliance to the goal that aims to reduce by half the number of people living in the bottom half below poverty line by 2015. These, by and large, are the clients that had been sacrificed on the altar of commercialization.

Rather then reiterating their core message and staying their ground by suggestion that microfinance could not possible form part of that effort, they submitted to the pressure to do something for these people. This resulted in the double bottom line theory which states that it is very well possible to excel in the financial and social arena simultaneously. Out of a sudden it had become possible to reach the poorest sustainably. The theory bluntly denies the working of the trade-off between both objectives on the ground and allows donors and investors to continue their practice of non-support to MFIs working at the bottom whilst covering their backs ideologically.

For good measures, however, these MFIs now are included in the international microfinance community as true lost sons, they are paraded in the international microfinance jet-set and small awards are distributed to them. They remain, however, cut off from the bulk of resource allocation that continues to be redirected to the top of the pyramid.

On Balance

The relentless drive for commercialization over the last ten years has indeed resulted in the building of many sustainable MFIs but this was achieved at the detriment of the poorest.

It has led to a major disconnection between microfinance and civil society. It has turned our understanding of poverty and its causes into a mockery driven by ideological and marketing concerns. It has led to a massive reallocation of resources away from the bottom of the pyramid to the top. It has created an intermediate level of mostly profit driven go-betweens that have come to further the distance between funding agencies and practitioners. This intermediate level has usurped a stakeholder position it is not entitled to and which has slowly but steadily come to substitute for the stakeholder positions of both practitioners and domestic capital providers such as savers and local governments in the international arena.

All-in-all, the promotion of commercialization had worked out badly for the poorest and their institutions. It has led funding agencies and developments banks to trade their public service duties and responsibilities for accommodating private sector interests. It has driven the concept of public service astray from its very nature.

THE ALTERNATIVE PRINCIPLES OF MICROFINANCE

The Principles

At INAFI we do not need a dozen of principles. We only need one to capture all our concerns:

The poor and the poorest have a right to be serviced affordably, appropriately and accessibly.

That is all that it takes to get things done the right way. It may be useful, however, to elaborate this principle to make it well understood and appreciated.

The Purpose of Microfinance

In our view microfinance is not about building sustainable institutions or building sustainable or commercial markets. We are not against those objectives per sé, but insist that these are enabling objectives at best that may be pursued with some rigor but should never be allowed to take supremacy over the objective of serving people.

This is essentially where international public sector involved in microfinance has drifted away from its mandate in favor of pursuing commercial sector objectives and all the vested interests that came in its slipstream. Building a solid people focus should redress this.

The Rights Based Approach

Civil society has extended basic rights to poor people as a necessary condition for attending to their needs. Public sector funding agencies have broadly adopted the same approach and are now obliged to live up to it. The rights based approach is to prevent development strategies and practices avoiding conceptual and practical inconveniences and catering to interests other than those for which development and its resources are supposed to work.

To make it work, public capital has to account for its investments and adherence to the rights approach not only to its own capital providers but also to civil society. Public capital has no mandate to force civil society MFIs into privatization and in the process conveniently escape from its accountability to that sector.

Targeting the Poor and the Poorest

All development professionals, including those working for international public sector facilities, know very well that development efforts will not reach the poor unless they are specifically targeted to reach them. For the hardcore poor this is only more urgently the case.

Public capital therefore has the responsibility to specifically target the poor and the poorest to substantiate its allegiance to the MDGs. This includes negative targeting of the not-poor in order to prevent resources for the poor being siphoned away from them.

These crucial public sector responsibilities can not be sourced out to investment funds and management companies and certainly not to those registered in tax heavens if the public sector is to maintain its public credibility.

Affordability

Affordability is not compatible with current service rates charged in lager parts of the microfinance sector. As a rule of thumb in the lower brackets of the pyramid clients should not be forced to pay more than 20% over loans in real money for exercising their right to be served.

System inefficiencies, affluent MFI live styles, poor portfolio quality, high costs of capital, exuberant costs of technical assistance and other factors driving up interest rates should be no concern of clients as it infringes on their rights.

Clients are not supposed to work for the system; the system is to work for them. If the system cannot do that, it needs to be changed or replaced instead of the clients being deprived of their rights. In other parts of the microfinance sector the system has proven to be able to work this way, albeit under different terms and conditions than those promoted under the commercialization drive. A public sector responsibility therefore is to ensure that it will work elsewhere as well and that is what public resource allocation should be made instrumental to.

Appropriateness

Microfinance essentially is about providing simple financial services to poor people. In order to do so effectively, two traditional banking conventions had to be done away with: the collateral demand and the cost structure. Social control came to replace collateral and low cost capital and low salary levels brought the cost structure down. This is what made service delivery work for poor people.

The commercialization drive, however, rapidly makes these innovations undone. At the higher brackets of the market conventional collateral demands have been re-introduced and the costs of service delivery have once more become prohibitive for the poor. At that level microfinance has made a full circle.

This is not appropriate as it stands to exclude the poor and poorest of service delivery once more.

Accessibility

Most of the world's poor and poorest live in rural areas and are subsistence and small farmers. Their productive margins are low which demands microfinance to offer low-cost products to farmers in order to be effective. Commercialization, however, drives microfinance away from rural to urban service delivery and away from agricultural finance to higher yielding commerce and services.

As a result, poor farmers, constituting the bulk of the world's poor are largely cut off from service delivery. Considering agricultural finance as a frontier area instead of the core business of microfinance will not make service delivery accessible to these farmers.

A NEW MICROFINANCE ARCHITECTURE

The Nature of Public Capital

The quintessential nature of public capital is to compensate for the inadequacies of private capital if it comes to building facilities and institutions of a public good. Tax payers mandate their respective governments to pool resources to build those facilities and institutions. And these governments mandate international public sector capital organizations to do the same overseas. They have not mandated these international organizations to build facilities and institutions that do not, or not any longer, meet the definition of a public good; that is the turf of private sector capital.

Private sector capital, however, has no appetite for microfinance. That is the reason microfinance came into being in the first place. Investment returns and risk profiles in microfinance simply do not meet private sector criteria.

The concept of building inclusive financial systems ignores these realities on the ground. It is gearing up microfinance to meet private sector investment criteria and spending immense public recourses to do so. What it accomplishes with this is the sell-out of microfinance to the private sector. As of that moment, however, it essentially stops being microfinance and has transformed into a quite different financial sector that has been there all along and which has been driven by the private sector all along.

The private sector has always been able to move around in this different sector and does not need public capital to be encouraged to do so. Public capital should remain reserved for financial intermediation that is of no interest to the private sector; that is what it is all about. And that is the mandate is has to return to in order to fulfill its pledge of allegiance to the MDGs.

The Approaching Microfinance Schism

Microfinance is about to face a schism: a growing and unstoppable discrepancy between microfinance as a sector and microfinance as an industry. In the industry all evolves around building commercially viable institutions that essentially serve clients in the higher brackets of the poverty pyramid. The industry is well-capitalized by international public capital and well-resourced as regards access to public sector grants; all under the banner of including many more millions in service delivery in the future.

In contrast, the sector has become under-capitalized and under-resourced. At the same time, however, it continues serving the vast majority of microfinance clients in the world, has a more pronounced poverty focus and shows much larger growth potential than the industry. Its achievements are gladly incorporated by the industry to show impressive global outreach numbers, but its needs and prospects are widely ignored.

The sector has come to look for other sources of capital to survive. It has come to rely on client savings and domestic public capital and is occasionally supported by non-coordinated funding agencies. In the process a quite sustainable alternative capital and support system has been built. The drive towards commercialization is now undercutting this alternative support system. First, the MFIs in the sector were cut off from international resource allocation, and now the industry is attempting to cut them off from domestic resource allocation as well.

In doing so the industry is not only jeopardizing current handling capacity on the ground, but also endangering future prospects of microfinance at large. The MDGs are not to be realized in microfinance markets where the industry has become prominent; these markets simply do no represent the numbers of potential clients needed for reaching the MDGs. For delivering on its promise, microfinance has to prosper in countries such as China and India and other countries with at least a 100 million population base. It is difficult to see the industry accomplishing that.

Rather it is the sector that has the potential capacity to do so. It requires a civic or public service motive to further unlock that potential. And it are non-profit, public, cooperative or mutual MFIs that appear to hold that potential in most of these larger countries.

It would be wise then, to redirect international public resources to the sector and leave the industry as the playing ground for the private sector.

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International Network
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