

Together We Learn

INFO-MF

A newsletter on update microfinance news and development

November -2006

Volume -1, Number-4



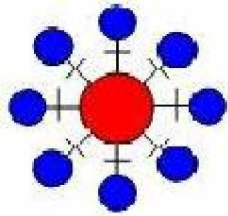
Congratulations!!!
From INFO-MF Team and
Readers to
Prof Md Yunus...
Nobel Peace prize winner
2006
..We salute you for your
great innovation....
Which continually

Bringing ...smiling on million of faces.



And continually
...hope for millions





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Regulation and
microfinance

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About The Issue

It is our pleasure to issued fourth issue of our newsletter which is solely dedicated for microfinance and micro enterprise sector. We got overwhelming response and immense support of organizations, practitioner, consultants and individuals across the world.

It is very contemporary and contextual to discuss microfinance regulation because government of India is going to bring a microfinance bill in the next session of parliament.

Thus we are trying to focus on different aspects of regulation in this edition. However we are also trying to get expose about the learning experiences regarding microfinance across the world, thus we are incorporating one article which is based on assessing supply and demand constraints in microfinance in Ethiopia. We are also including one article regarding financial education, in this article; readers can explore that how financial education can help to efficient and effective delivery of financial services.

Apart from that we have put all very important recent development in microfinance. We have put effort make it more interesting and a good platform for sharing of learning. We wish to have you comments, suggestions and feedbacks for further improvement.

Please mail us to - microfinanceexpose@yahoo.com

FROM OUR DESK:

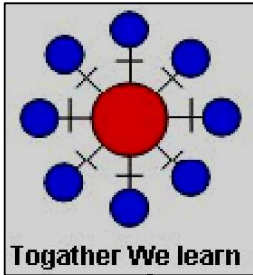
Microfinance industry patiently looking for propose microfinance bill which will be tabled just coming session of parliament. With lots of speculation and debate about the likely framework is also going simultaneously. But meanwhile, microfinance sector got remarkable recognition that Professor Md yunus got Nobel Prize for peace. This prize is one more addition of recognition of microfinance work. After this award Indian government has come up with soft voice.

Microfinance industry has a big challenge to reach to all low income low household which is still very far behind of this target. Despite many hurdles Indian microfinance industry is performing well and it is very important to have state policy support that can enable them to strengthen financial system that work for the majority. A standard regulatory framework might help microfinance organization to work in less uncertainty thus they can able to concentrate on operation and able to attract investment opportunity. We hope to have a sound policy support thus microfinance industry continuing with its noble mission to reach poor households

Acknowledgement

We wish to pay our heartiest thanks to all the writers of the column for this newsletter .we would like to thanks to all, from we collected news and other information.

Disclaimer: views expressed in the articles are author's own views.



Special features: INFO-MQ

LET US COME TOGETHER, UNDERSTAND EACH OTHER AND WORK TOGETHER TO MAKE THE FRUIT OF DEVELOPMENT REACH THE MASSES.”

About Info-MQ [Information –microfinance query]

We would like to make a platform where one can ask and put queries regarding

microfinance and microenterprise development. Our objective is to providing solution and suggestions to those organization and individuals, who are working for microfinance and allied sector.

We would like to make this platform for imparting better management and impetus for right perspective toward developmental role of microfinance.

This is absolutely your platform thus we would like to make appeal to you, you join this platform.

We invite reader to put their query and we will forward to you for your suggestions and advice.

We are looking forward for your membership under these major aspects of microfinance sector.

01. small and medium enterprise development
02. capacity building and training
03. microfinance research
04. Micro insurance
05. livelihood finance
06. Advocacy
07. Technical assistance

This is absolutely a not-for profit initiative, aiming to promote better operation and providing solution.

Thus once again, we wish to invite you to become a member of this initiative. We would like your suggestions in this respect.

For better operation we are going to start a discussion group, please join this yahoo group and Share your views.

Group link: <http://finance.groups.yahoo.com/group/microfinanceconsultancy>

- [Go to cover page](#)

Article: 01-

Small is beautiful in microfinance

[N.Jeyaseelan, Senior Manager (Agri),
Indian Bank, Usilampatti, Tamilnadu, India]

In India, the micro finance movement is growing at an exponential rate in the last few years and the NGOs play a vital role in the development of micro finance sector. Some of the NGOs are transforming themselves into a regulated entity of a suitable form such as NBFC (Non Banking Finance Company) or Section 25 Company. Even though, the section 25 company has other advantages of leveraging debt through equity, simple reporting to registrar of companies and exemption from RBI's prudential guidelines, being a not-for-profit form, it does not attract attention from the investors. Whereas, NBFC is a 'for profit' legal form, more suitable for micro finance operations (advantages like leveraging equity to raise debt, when gets investment grade rating and after three years, can tap savings, which is a low cost funding source and subjected to prudential guidelines of RBI), the small NGOs face an entry barrier, as they have to bring in a capital of Rs20 million to get a license from the RBI for starting a NBFC. That is why, a very few Big NGOs in India has chosen to register their MFIs as NBFCs. The small NGOs are discriminated on the other aspects also in the micro finance field.

The government officials and bankers often forget the fact that the today's big NGOs like MYRADA, DHAN foundation, PRADHAN and ASSEFA were all once a 'small NGO', when they started their operations. Even though the big NGOs have the advantage of economy of scale, the small NGO has the biggest advantage of being very close to the people they serve. When I worked as a Project Manager in IBSUM (Indian Bank's Special Unit for Micro finance) at Paramakudi and Usilampatti branches, I deliberately focused on small NGOs as our working partners and included them even though some resistance came from our executives at the top, as they were not having skilled manpower and good MIS in place. I selected the small NGOs on the basis of their promoters being committed to the cause, transparent in operations, willing to learn new things, closeness to the target people and the integrity in financial dealings. DDM (District Development Manager) of NABARD of Ramanathapuram and Madurai districts also extended their support to those small NGOs by assisting them with SHG promotion grants. Apart from funding, we have guided them on documentation, reporting and presenting the cases. Now, after 3 to 5 years, those small NGOs have become stabilized and even being recognized by many government departments for routing out their extension programmes.

As the new bill for micro finance regulations is going to be tabled in Parliament shortly, it is the need of the hour is to ensure an enabling atmosphere for the growth of the small NGOs by prescribing lesser capital (Rs2.5 to Rs3 million for NBFCs) and more non-financial support for small NGOs on management aspects. This will pave way for the 'Small NGOs' offering quality micro financial services to the target groups and enable them to grow along with their clients. Small is really beautiful too.

ARTICLE-02

Regulatory bottleneck for microfinance institutions

[DebaduttaK.Panda, Director Operations, MPAssociates
(A Development Consulting & Research Company)]

Acts of Apex Refinancing Institutions

The apex refinancing institutions like NABARD and SIDBI have less to do to Microfinance Institutions. The NABARD Act restricts it to direct finance or refinance private sector MFIs.

SIDBI Acts also restrict it to the Agriculture and allied sector. When Microfinance movement was initiated and strengthened by SHG Movement and more than 60 % SHGs are engaged in Agriculture and allied sector, there SIDBI has less to do.

Microfinance Institutions

The penetration of microfinance products to rural India could speed up by Non-Govt. Organizations (Societies/Trusts/Foundations etc.) due to their location specific intervention and better understanding of people and their Socio-psycho behaviors.

But if an NGO earns a substantial part of its total earnings from microfinance activity, than it is assumed that the main activity of the NGO is microfinance rather than charitable (lending to poor is not defined as charitable).

Registration Complexities

If MFIs registered under companies act, it should again register under NBFC under RBI Act, 1934 and under the RBI Guidelines, a new MFI must have minimum start up capital of Rs. 20 Million.

Monopoly

The Regional Rural Banks(RRBs) Act dose not permit any private shareholding in any RRBs similarly the Cooperative Act of all states do not permit dist. Level co operative banks to be set up , except by the state Govt.

Restrictive Regulations of Banks

The rural operations of Banks needs high statutory liquidity and cash reserve requirements, low interest rates for priority sector lending, rural-urban bank ratio maintance and branch location licensing. This lead to less profitable and less viable.i

1 Reference:

A framework for building a sustainable Rural Financial System (RFIs) for India, Vijay Mahajan
Building Sustainable Microfinance Institutions in India, Vijay Mahajan and G Nagasri

ARTICLE-03 [letter from Africa]

"Livelihood through micro enterprise services? Assessing supply and demand constraints for microfinance in Ethiopia"

**Getaneh Gobezie, Amhara Credit & Saving Institution (ACSI)
Head, Planning & Monitoring Dept.]**

"Rural financial intermediation currently constitutes a key development intervention in many poor countries. Yet, the success achieved particularly in countries who implemented such programmes a couple of decades ago notwithstanding, there remain many constraints limiting both the supply and demand in very poor countries like Ethiopia. Experience from over ten years of financial intermediation reveals that good intentions for expansion of supply are having difficulties due to poorly designed regulations and policies, organizational behaviors, the incentive problem, as well as weak capacity of institutions implementing it. Where poverty alleviation constitutes the main development agenda, rural financial regulations and policies tend to have an in-built rationing mechanism, targeting primarily the poorest and the disadvantaged, thus often missing others who might also have the demand for it. While more efforts are still needed to rectify the restrictive effects of some regulations and policies on pricing and competition, in a situation where there is no strict supervision and monitoring of the effective implementation of the well-intended ones, there are organizations, working without any hard budget constraints and mixing microfinance business with Charity, thus crowding out the operations of more sustainable rural financial intermediaries. For those who are intent on implementing the rules of strict financial intermediation, their methodologies are largely replications of those implemented elsewhere, primarily under Grameen, with little capacity to customize it to local realities. No less challenge also remains on the demand side. For the majority poor, the communication system in rural areas, particularly the road network, bars them from accessing the service. Where the access is granted, clients low skill achievement in business development dictates their business' absorptive capacity to remain weak. Many are risk averse, or don't like (for cultural reasons) to venture into non-traditional activities, while others have a very low income perspective and simply don't have the demand for such income-improving services. Such problems manifest themselves more profoundly on women, whose very access and benefit from the service is further limited because of Problems emanating from a male-dominated patriarchal societal system prevailing in the country. Closing the supply and demand gap is a daunting task, but not impossible, and should involve microfinance Practitioners, government, non-government organizations, donors, etc., -- for failure to do so would stifle efforts aimed at poverty alleviation and development at large."

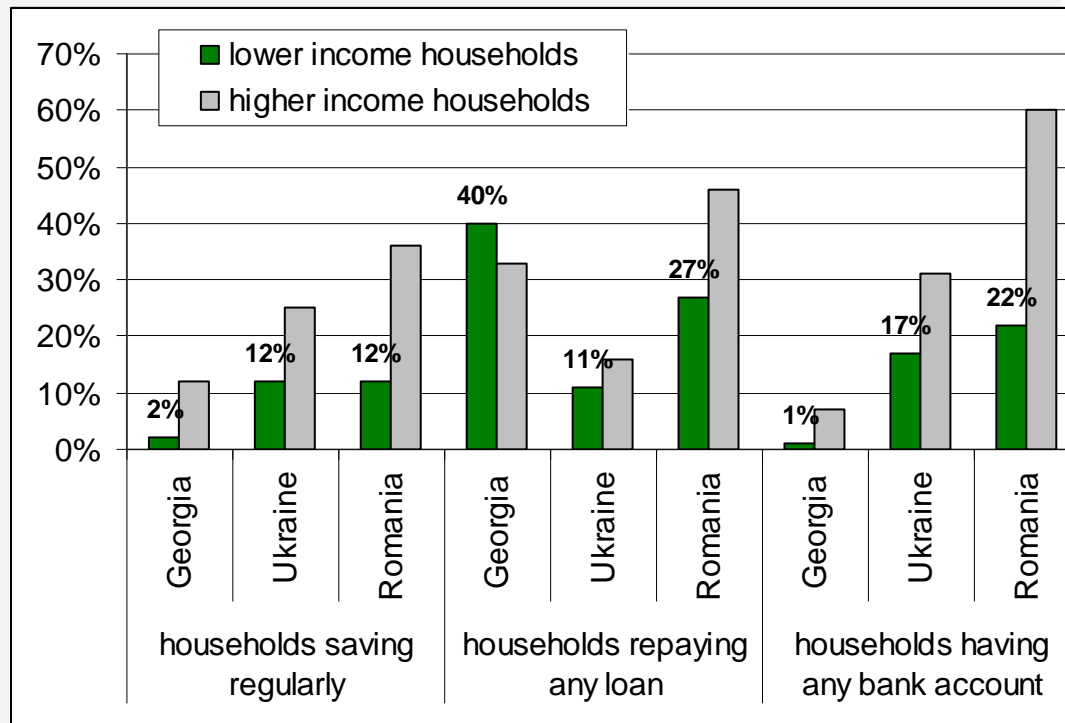
Financial education for Low-Income households: Linking Needs to products

[Michal Matul, Researcher, MFC]

In transition settings of Eastern Europe and Central Asia (EE&CA), financial literacy levels of low-income households are low. This reflects the ingrained practices of communist times, when people were discouraged from managing their finances. Most low-income households still do not prepare long-term financial plans and rarely save in a regular way. In addition, the majority of the low-income population is still unbanked. Confronted with crises and lacking in financial reserves, these people are forced to borrow extensively from MFIs, other financial providers as well as family and friends to respond to life and emergency risks.

The findings below suggest why the inclusion of low-income households in the market economy remains difficult. For the more than 250 million low-income households in EE&CA, responses to crises are reactive. Borrowing, a first course of action, results in high rates of indebtedness and thus can make for a bumpy road out of poverty.

Saving, borrowing and using bank accounts in selected countries of Eastern Europe



Source: Representative national surveys (n=1000) conducted by MFC for Microinsurance Centre and KfW. Lower income households are those living below 200% of the national poverty line in each country. Households saving regularly are those who declare the fact of regular savings. Regarding debt the question is about repaying any (formal or informal) loan. Bank accounts refer to all types of bank accounts (current, term, etc.).

In response to substantial needs, MFC plans to promote the financial education agenda in EE&CA (see more at www.mfc.org.pl/finedu). This focus is in line with MFC's mission to facilitate the development of socially oriented and sustainable microfinance. MFC plans to raise the financial literacy levels of low-income households by:

- raising awareness of local stakeholders through organizing workshops in EE&CA countries
- adapting and developing tools to enhance financial education in a unique transition context
- facilitating the development of diverse and cost-effective models to deliver financial education services
- training local stakeholders in delivering financial education
- supporting creation of local organizations specialized in enhancing financial education

Financial education is about teaching the knowledge, skills and attitudes required to adopt good money management practices for earning, spending, saving, borrowing and investing. It combines economic education with the promotion of entrepreneurial attitudes. Financial education creates an awareness of the benefits of financial planning and builds the capacity of the low-income households to gain control of their financial resources and better manage their scarce capital. In this way financial education enables people to combine information and resources to enhance their economic security and more effectively use financial services.

The social and economic benefits of financial education are gaining recognition within the microfinance sector. Earlier this year, Microfinance Opportunities and Freedom from Hunger released the first-ever financial education package targeted at microfinance clients and other low-income households. The package is the result of a three-year action-research project which was undertaken with six partners worldwide. Funded by Citigroup Foundation, the package includes an implementation guide, and ToT and trainers manuals for five generic modules on budgeting, saving, debt-management, banking services, and financial negotiations.

Within this global project MFC has developed a financial education curriculum for transition contexts - "Plan Your Future." Developed and pilot tested in Poland, the "Plan Your Future" package contains materials for trainers to run financial education workshops. A central objective of the curriculum is to change people's negative attitudes toward long-term financial planning and saving as well as broaden savings options. To date, the response to "Plan for the Future" has been very positive and it is currently being implemented on a large scale by a Consortium of diverse institutions (from non-governmental and banking sectors). The Consortium (www.edufin.org.pl), under the direction of MFC, seeks to increase financial literacy of 5 million low-income households in Poland by 2015.

Financial education in EE&CA is timely. There is an increasing recognition that encouraging low-income people to become proactive is vital if these households are to emerge and stay out of poverty. Furthermore, by exposing people to new knowledge, skills and attitudes about effective management of financial resources, financial education increases the likelihood that low-income populations will adopt new and existing financial products and services. The gains for microfinance institutions are considerable. Better informed clients make for better consumers of financial services, which in turn improve bottom lines of financial institutions.

ARTICLE-05

Who's watching the ten year old?

[Rati Tripathi, Center for microfinance research, Chennai]

Parenting runs in phases. We're terrified to let newborns and toddlers out of our sight. The idea of allowing teenagers out of the house are plain ludicrous. But has anyone stopped to think, who's watching the ten year old? A collection of young adults, toddlers and pre-teens make up the microfinance family in India. They don't all live under the same roof and they don't all answer to the same parent. If that sounds just a little bit unfair to you, that's because it is.

The supervision of the microfinance family is a messy business. The non-profit armband is a "get out of jail free" card. To be honest, nobody cares about stepchildren enough to put you in jail in the first place so you're free to conduct your affairs as you see fit. A Section 25 Company bumper sticker goes well on the responsible older son's stodgy 1950s model of the Ambassador. It's the most comfortable vehicle for the Indian roads but doesn't exactly scream of alacrity and flair. Everyone has a soft corner for the loony second cousin - cooperatives. It doesn't matter how many times you land yourself in a soup - somebody will always throw in a few croutons. As the proverbial golden haired firstborn, the SHG-Bank linkage programme is, of course, without a shadow of doubt, perfect in every way.

A microfinance non-banking financial company is the ten year old middle child of the family - the strong silent type; invisible until one day you wake up to find the NBFCs have taken over the earth. Less than ten NBFCs lend out the bulk of the private commercial financing available to the sector. Another fifteen are getting ready to shed armbands and bumper stickers and join the party. The cover charge of Rs.2 crore seems steep at first glance but not to worry, the side door entry is cheaper. It would be nice to recycle the armbands but that might be too much to ask. In this age of trade liberalization and cross-cultural openness, the real party pooper is the restrictive guest list.

Then again, you can't accuse the elders of blatant neglect. I too have heard the rumours about a new parenting council and I must admit their joint manifesto sounds promising. But here's the rub - they forgot the ten year old.

[This article will make more sense once you read "Sharpening the Debate: Assessing the Key Constraints in Indian Micro Credit Regulation" by Daniel Radcliffe and Rati Tripathi (Forthcoming), link. <http://ifmr.ac.in/cmfr/20061102/indian-micro-credit-regulation>

NEWS UPDATE FROM INDIA

NABARD's Pilot Project Uses Post Offices for Issuing Loans to SHGs in India

A pilot project, aiming at making rural post offices into one-stop shops for dispensing loans to self-help groups (SHGs), is being implemented by the National Bank for Agriculture and Rural Development (NABARD) in Sivaganga and Pudukkottai districts.

This is the first time post offices have become enablers and facilitators of rural micro finance.

"We wanted to capitalize on the networking potential of the rural postman who is a friend of the community. We have trained 200 postmen in Pudukkotai and Chengelpattu districts to become points men for appraising and training SHGs. SHGs can now open accounts in post offices and get loans too," says Prakash Bakshi, Chief General Manager, NABARD.

Source: The Hindu

Read more: <http://www.hindu.com/2006/11/19/stories/20061119780400.htm>

ING, PlaNet Finance India Launch 'Micro Insurance Awards 2007'

ING Group and PlaNet Finance India have come together to institute the Micro Insurance Awards (MI Awards) 2007, which aims to build a comprehensive inventory and identify existing best practices in product design and distribution channels implemented by the existing micro insurance schemes in the country. The initiative would also promote the development of new products and delivery models targeted at the rural market. The announcement was made at a ceremony here.

Source: The Hindu

Read more: <http://blonnet.com/2006/10/07/stories/20061007037110600.htm>

India's 'Bankers Conference 2006' Highlights Microfinance & Financial Access

Microcredit, an important initiative aimed at financial inclusion, has proved to be a profitable business proposition both in short and long terms for commercial banks globally with micro-entrepreneurs gradually becoming part of their active clientele. Delivering a special lecture on global experiences of inclusive growth initiatives at the Bancon-2006 here on Friday, Mercedes Benavides, manager, Global Network for Banking Innovation in Microfinance, Women's World Banking, while citing the experiences in Latin America, said more and more commercial banks are now entering the microfinance sector with the benefit of access to lessons learned by microfinance institutions in this area.

She also said the top performing microfinance institutions (MFIs) the world over are achieving high growth and profitability. Stating that long-term commitment and

change in attitudes and organized culture is needed to undertake microfinance activity, Benavides suggested that commercial banks identify champions of microfinance within their organizations and entrust them with the job of developing the new business activity.

Source: BUSINESS STANDARD

Read more

www.business-standard.com/banking/storypage.php?tab=r&autono=263721&subleft=1&leftnm=2

NEWS UPDATE FROM world

Global Micro credit Summit 2006 Unites World Leaders to Slash Poverty

New Campaign Goal Aims to Lift Half a Billion People Out of Extreme Poverty by 2015

World leaders including Queen Sofia of Spain, President Zelaya of Honduras and Nobel Peace Prize winner Professor Muhammad Yunus were joined today by micro credit lenders, international banks, UN agencies and more than 2,300 delegates from around the world, to launch the Global Micro credit Summit 2006, an international conference that aims to contribute to the eradication of worldwide poverty by setting two new, bold measurable goals for global microfinance.

"The goals laid out this weekend in Halifax could potentially lift more than 500 million people out of extreme poverty by 2015," according to Summit organizer Sam Daley-Harris. "Succeeding will require renewed effort and some new players, but if the commitment demonstrated in fulfilling earlier goals is matched, I have every confidence we'll be successful."

Established during this week's Summit, the Micro credit Campaign's two new goals are to: (1) ensure 175 million families have access to credit, and (2) help 100 million of the poorest families move above the \$1/day threshold by 2015.

Source: **Micro credit Campaign**

Read more: <http://www.microcreditsummit.org/press/opening.html>

Winners of Grameen Foundation's Microfinance Awards Announced

Two leading microfinance institutions and a program that develops innovative models to measure how the lives of microfinance clients have changed are the 2006 winners of Grameen Foundation's Microfinance Awards.

LAPO of Nigeria will receive the Excellence in Microfinance Award and Pro Mujer Bolivia will receive the Pioneer in Microfinance Award on November 9, 2006, at Grameen Foundation's annual Microfinance Awards Dinner at the Terrace in the Sky Restaurant in New York City. A third award will be introduced and presented to the Ford Foundation's Asset Building & Community Development Program.

Read more: www.grameenfoundation.org/resource_centre

Source: Grameen foundation

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Resource link of this month

- ✚ Policy (Regulation) related documents by SA-DHAN
Source: SA-DHAN
Link http://www.sa-dhan.org/resource_related_to_policy.asp
- ✚ Microfinance online training classes by ruralfinance.org
Source: Rural finance
Link: <http://www.ruralfinance.org>
- ✚ Grameen foundation software initiative - MIFOS
Grameen Foundation's Technology Center established the Mifos Initiative to address the microfinance industry's information management challenge. The Mifos Initiative delivers an open source information management system for the global microfinance industry via a collaborative development and support community.
Source: Grameen Foundation
Link: http://www.grameenfoundation.org/what_we_do/technology_programs/mifos_software_initiative/

Contact us

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◆ Blog: <http://microfinanceconsultancy.blogspot.com>



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