INAFI
International Network
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Financial Institutions

INAFI Africa Global Conference; Towards a general theory of successful microfinance development in Africa

Keynote background paper for the Conference on capitalizing on the gains: a fresh look at microfinance and poverty eradication in Africa

29th Aug – 2nd Sep, 2005, Holiday Inn Hotel, Johannesburg, South Africa

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… The cold war ended in victory for market oriented societies. A global economy developed for the first time in history. The ubiquitous profit motive unleashed globalization and technological revolution, two twin forces so powerful that we are still trying to comprehend their impact. But, meanwhile poverty persists. Indeed, according to Carly Fiorina (formerly CEO Hewlett Packard), there were 54 countries which were poorer in 2004 than there were 16 years ago. So, where are the promises of market economics touted fervently by the World Bank at the time of launching its macroeconomic structural adjustments programmes in the early 1980's? Has the admission by James A. Harmon (World Resource Institute), that "we had a very simplistic view" of the developing world throughout the 60's, 70's and 80's, changed? Richard Sandbrook (formerly UNDP) rues the fact that most development aid is administered through large foreign contractors who come into a country and leave behind only "decaying infrastructure" after their contracts expire.

BACKGROUND AND CONTEXT

As a practice, microfinance has a long history in Africa, going back to the days of the struggle for independence in the late 1950's. However, in its present form, microfinance has roots in the many poor people's own self-help initiatives to overcome poverty in the mid 1980's when the first 30 years of independence had failed to improve the lives of the masses in the region.

So far, if there is one unqualified achievement in microfinance over the last two decades, it is that poor households around the world have demonstrated their ability to use and pay for financial services if appropriately designed and conveniently delivered. This is why a regional network like INAFI, which has over 50 members and a presence in over 30 countries, reaching nearly 3.5 million poor clients as of 31 December 2004, should be worried that much of the industry's current development is increasingly becoming a victim of global politics and the new ideology of market economics. The forthcoming INAFI conference on Capitalizing the Gains: A Fresh look at Microfinance and Poverty Eradication in Africa, seeks to reexamine the recent efforts towards expanding and deepening outreach of microfinance in the region, but which revolve almost exclusively around creating capital markets and appropriate regulatory and legal frameworks for microfinance, thereby neglecting the equally important institutional development needs of primary service providers and clients alike.

It is the pursuit of this market philosophy, which made the international aid community cut off grants and subsidies to microfinance in the mid 1990's, understandably because of 'donor fatigue', which has led to the current undercapitalization and slowed growth of the region's microfinance industry. Ironically, this same effort has facilitated and enabled a capital market for investments in microfinance to develop, as evidenced by the numerous rating companies, private equity funds, and socially responsible investors that have sprung up lately, but has to date failed in relieving Africa of the strangling capital constraint. If it is too risky and too costly for these private and socially responsible investors to put their money in any of the region's microfinance institutions now, as they claim, what then is the practical value of the international aid community supporting and heavily subsidizing the development of these funds? Paradoxically, the publicly owned apex funds, like South Africa's Khula Enterprise Fund; which are homegrown, are widely discredited and derided by industry leaders, and hence support at all in the same way as similar funds established outside the region. Consequently, hardly any publicly owned apex fund exists in the region, despite the resources and ability to create them. In Asia, the PKSF fund based in Dhaka, Bangladesh, is widely embraced and well supported by the same aid community, which creates doubt about how much of the industry leadership Africa should cede to the international development community.

Given that the international aid community is totally opposed to subsidizing or dealing directly with the microfinance institutions on the ground, however efficient and committed they are to expanding and deepening outreach, does the region see an urgent challenge to rethink and strategize a fresh for the future of its microfinance industry? Secondly, how can the public sector in Africa develop more suitable or more effective apex funds like Khula Finance to fill the void created during the last 12 years of experimentation with market-influenced strategies?

While it seemed a sensible idea to regulate and bring microfinance institutions under the supervision of central banks so that they can mobilize and intermediate public deposits, and therefore resolve the lack of capital which has severely constrained their growth and

expansion in the past, there is little evidence so far that this is likely to be a meaningful solution. With the exception of Ethiopia, which was the first country to legalize microfinance as a bona fide financial services sector, the establishment of legal, regulatory, and supervisory frameworks for microfinance in the rest of Africa has failed to bring forth transformation. Clearly, Africa needs to examine the reasons why hardly any of the existing microfinance institutions are leaping at the chance to transform into regulated entities, able to access and intermediate widely available public deposits. Similarly, with the exception of Equity bank based in Kenya, none of the microfinance institutions that have since transformed into regulated entities, such as K-Rep Bank (also based in Kenya), seem to have expanded and deepened their outreach significantly. Instead, there is increasingly convincing evidence that such transformed institutions rapidly lose touch with their base, and begin to behave more and more like the other conventional banks and mainstream financial institutions. In view of this fact, should Africa continue to peg its hope of expanding and deepening outreach on transformation and commercialization of microfinance, as argued by leading industry think tanks?

If it is precisely where the market should have been the most effective in mobilizing and allocating resources, where it seems to have been the least effective so far, how does Africa plan to address the equally important public goods, such as institutional capacity and attitudes, which are more difficult to distribute through the forces of demand and supply? Indeed, there is real danger that this long running enthusiasm for commercializing and mainstreaming microfinance could blind governments and practitioners to the real obstacles in building an all-inclusive financial system for the poor people in Africa.

This keynote background paper aims to highlight the emergent contradictions and unexplored opportunities inherent in the ruling 'financial systems approach to microfinance' promoted for the first time in 1993. The paper also explores alternatives to the present paradigm, hoping to have these examined careful during the INAFI conference in Pretoria, South Africa.

While the title of this paper may sound pretentious, the logic it presents is nonetheless clear and simple enough to sustain its main thesis that:

> The successful development of microfinance in Africa will depend, not so much on its commercialization and integration into the mainstream financial sector, as is presently believed, but on a deeper and better understanding and appreciation of the financial needs of the low-income population. In addition, it will depend on a greater commitment to opening economic opportunities to the poor people by all concerned, and this means putting their interests first before any other concerns while making difficult choices. The paper argues that both outreach and impact of microfinance remain small in Africa because of confusion and general misunderstanding about the priorities, as well as lack of commitment in engaging the poor to build sustainable livelihoods for themselves. In this neglect, the failure of African governments to provide leadership is especially conspicuous, just as much as the inconsistency and ignorance of the international development community about the real needs and priorities are outstanding.

The theory for a successful development of microfinance in Africa developed in this keynote paper rests upon some self-evident truths, for instance, the sad reality that however commercialized or developed a financial system is, it always tends to ostracize the less endowed population (and sometimes-entire communities). This is the case everywhere globally, whether this is in the United States of America, Asia, Africa, or Latin America. Consequently, it is naïve to believe that commercializing and mainstreaming of

microfinance on its own will automatically open access to financial services for the majority of poor people in Africa, as is currently widely held in the industry.

The second self-evident truth is that, for microfinance to blossom, it must be client-centred. And this paper contends that microfinance is client-centred only to the extent that the range of products and services offered to the market are: (a) suitable to the needs of its current or would-be customers, (b) affordable or fairly priced, and (c) satisfy the needs for which they are designed. Secondly, because microfinance is by its very nature for individuals, enterprises, or households of limited means, it is client-centred if and only if it is micro. Hence, this theory holds that any financial service that burdens or impoverishes an already resource-disadvantaged people in anyway is not client-centred.

For the client-centeredness' to prevail, it is essential and necessary that the public at large is well informed about and fully understands the legal status of microfinance as a bona fide economic and social activity. Secondly, that where there are certain risks or threats to individuals or the society at large associated with microfinance, these are fully anticipated and incorporated into various measures of control and prevention of harm by the governments.

The third thesis upon which the theory rests is that, microfinance can only develop successfully in Africa if and only if there are specialized, mission-driven institutions, which are as dynamic as they are efficient in delivering services. By definition, an activity is only institutionalized if and only if it has a life of its own beyond the sum total of its individual parts put together, i.e., that the society at large stands to lose more if it fails than what any single group of its stakeholders stand to loose individually. In this regard, therefore, whether a formal sector financial institution—such as a commercial bank, succeeds in downscaling or a financial non-government organization succeeds in transforming into a regulated financial entity, depends on the motivating force for its pursuit. What matters for it to succeed or fail in its endeavour is the strength of its commitment to serve the low-income population, and the extent to which it eventually builds the competence, resources, and specialization necessary for microfinance.

Consequently, given the public good that such an institution is committed to serve, it does not matter how these resources are mobilized, provided that the institution is efficient in delivering the services, is accountable and transparent, and is effective in its mission. Otherwise, those who argue against subsidies of any kind, regardless of the purpose and net gains from an activity, must surely ignore the basic philosophy of international aid and development.

This paper challenges several widely held beliefs and philosophies about microfinance based on concrete examples and facts, including the following:

1. That Africa can rely on the invisible hand of the market alone to allocate adequate resources in support of microfinance, and specially achieving the goal of building an all-inclusive financial system for poor people.
2. That the international aid community has provided more than adequate support to microfinance in Africa and is, therefore, too fatigued to continue any further.

BASIS FOR ARGUMENTS AND THEORY

Size, Growth, and Contribution to Poverty Eradication[1]

This is a brief based on the detailed analysis of the results of the 1999 IFPRI survey of microfinance institutions (MFIs) in Asia, Africa and Latin America. The detailed analysis covers the distribution, growth, and performance of MFIs supported by donor organizations.

MFIs covered by the sample reach 54 million clients, with an outstanding loan portfolio of $18 billion and $13 billion in savings. Cooperatives make up the largest proportion of the credit volume and savings transactions. Solidarity groups provide the majority of the borrowers while village banks and other linkage models have higher staff productivity with a better depth of outreach than other MFIs.

More than 95% of the volume of microfinance transactions passes through regulated institution (bank or cooperative), while less than 2% of the volume of savings mobilized and savings disbursed are by unregulated MFIs, which make up 60% of the total number of MFIs.

According to the survey, Asia accounts for the largest volume of savings and loans, employs the largest number of staff. Asia's MFIs have lower personnel costs than those in Africa and Latin America. Due to poor infrastructure, undiversified economies, high transaction costs; and poor and illiterate microfinance clients, Africa has low staff productivity. As a percentage of GNP per capita, Africa has relatively larger loan sizes. The survey showed that the outreach in Rural Africa is still very limited calling for an improvement in rural and agricultural finance.

Latin America, which has a similarly poor rural outreach, has on the whole many more MFIs covering it, recording a large volume per transaction, compared to Africa. Irrigated or fertile areas in Asia are more densely populated, hence the relatively high rural outreach.

The regions that receive most international support and that have the majority of microfinance clients and larger portfolios are South and Southeast Asia, Latin America, and East and West Africa.

Losing at the verge of victory

It has taken more than 40 years for microfinance, a distinct system of financial services able to meet the needs of poor people worldwide, to evolve successfully into an art. Much of this evolution rode on the very poor people's own ingenuity and drive for self-reliance. But that was only until 1993, when the ideology of free market economics wafted into microfinance.

Until now, few have reflected upon the deeper meaning of adopting a financial systems approach to microfinance in terms of reaching the majority of poor people with financial services on sustainable terms. Still fewer have thought deeply about the future of a commercialized and mainstreamed microfinance and whether it translates into both a sustainable and wider access. Yet, from the little evidence of a commercialized and mainstreamed microfinance, if there is any one threat to its future, it is the thinking that

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[1] Lapenu, C. and Zeller, M, 2001. Distribution, Growth, and Performance of Microfinance Institutions in Africa, Asia, and Latin America. IFPRI Discussion Paper Series, Brief No. 114, IFPRI (The International Food Policy Research Institute). http://www.microfinancegateway.org/files/2963_file_02963.pdf

Adam Smith's invisible hand of the market can actually open access to financial services to millions of the aspiring poor people. In this regard, the world should consider the recent calls to commercialize and mainstream microfinance a tragedy. Firstly, is it a wonder that the industry is fast polarizing between those who see microfinance as a business opportunity and those still seeing it in its original sense, i.e., as a service towards uplifting poor people out of poverty? For instance, in both South Africa and Kenya, this split is already deep enough to account for the presence of two parallel national networks of microfinance institutions.

Witness the warden turn poacher overnight[2]

Globally, the whiff of potential profits from the sector quickly mutated the relationships between long-term development partners. Presently, there are stronger ties amongst aid agencies than between aid agencies and their development partners in the south, thanks to CGAP for hatching a donor peer review in 2002 to herd the development agencies towards the market-based solutions to global problems. In fact, the relationship between private investors and aid agencies in the north is seemingly the warmest, as evidenced by the amount of funds that the former has succeeded in mobilizing from the latter. Does this explain the sharp assessment of CGAP by Abel (2003) as being 'conceptually bankrupt' for failing to lead on to wider developmental aspects of microfinance and institutional development? Known widely for its awesome capacity and lots of money, why was AFCAP, the CGAP's answer to Africa's capacity building needs, fail so badly designed?

One particular author has published an alternative experience showing that CGAP's dominant perspective on microfinance that promotes large-scale sustainable microfinance institutions (MFIs) for the purpose of increasing access to financial services by an increased number of poor people, is unsuitable in Africa, where the majority of the poor live in rural areas and where population is dispersed. CGAP's focus on efficiency and profitability, the author asserts is 'top-down' and pressurises MFIs to achieve 'ideal' industry standards compelling them to pursue the not-so-poor clients living in urban and densely populated areas.

The author makes reference to Ophavela, Mozambique and Mata Masu Dubara (MMD), Niger, both of which are CARE programmes, preferring CARE's model as a more 'bottom-up' institutional approach that builds on indigenous savings and credit groups. According to the author, the groups, initiated by the rural poor as Rotating Savings and Credit Associations (ROSCAs) or Accumulated Savings and Credit Associations (ASCAs) serve to reduce poor people's vulnerability to economic shocks. CARE provides 8-month initial training to a 'critical mass' of such groups as well as to community trainers in a given area and leaves. Thereafter, the savings and credit activities of these groups continue independently and other groups are replicated without CARE's additional input.

After outlining CGAP's objectives and activities and a description of CARE's alternative approach in Mozambique and Niger in the first and second chapters,

[2] Gabrielle Athmer (2002). Challenging the CGAP Microfinance Discourse: an alternative institutional approach in rural Africa2. Paper presented at the Third Annual International Conference on Finance for Growth and Poverty Reduction: *experience and policy*, university of Manchester, U.K 10 – 12 April 2002. http://www.oneworldaction.org/download/MicroFinPps/alternativeafrica.doc

respectively, the author dedicates a third chapter to analysing the following components of CGAP's microfinance discourse against CARE's alternative institutional approach:

Critics of the subsequent developments in microfinance like Abels (2002:1) praise the CGAP for leadership in technical aspects of microfinance, but sharply rebuke it for failing to lead on wider developmental and conceptual issues.

The author seeks to show that CGAP's dominant perspective on microfinance that promotes large-scale sustainable microfinance institutions (MFIs) for the purpose of increasing access to financial services by an increased number of poor people, is unsuitable in Africa, where the majority of the poor live in rural areas and where population is dispersed. CGAP's focus on efficiency and profitability, the author asserts is 'top-down' and pressurises MFIs to achieve 'ideal' industry standards compelling them to pursue the not-so-poor clients living in urban and densely populated areas.

The emphasis on financial sustainability was either dishonest or parochial

Given the failure of many credit schemes in the past, the author described CGAP's priority on financial sustainability of MFIs as positive in that it highlighted, on the one hand, poor people's willingness and ability to pay for financial services, and on the other it encouraged MFIs to pursue organisational efficiency, quality financial services and improved portfolio management.

CGAP's preoccupation with institutional capacity for sustainability backed by the development of sophisticated tools, the author felt has been done at the expense of understanding the developmental context of the institutions. As a result, CGAP's evaluators[3] confirmed that sustainability as a primary objective has been elusive yet rarely questioned. According to these evaluators, a significant number of the 400 MFIs included in USAID programmes were unlikely to reach sustainability and even though the MFIs themselves harboured serious doubts about their capacity to reach this goal, this fact was concealed for fear of loosing access to donor funds.

The author shows that the problem is not with the focus on sustainability, but rather the preoccupation on it without regard to the specific context and to other factors, which may justify a certain level of subsidy. The importance of establishing pursuing microfinance objectives while giving due consideration to local cultures, capacities, traditions and preferences is highlighted as a critical success factor in microfinance.

An evaluation of the project in Niger carried out after five years of operation, confirmed that nearly all the groups were still in operation long after CARE had pulled out. This was attributed to the thorough training that also prepared the groups for a gradual process of independence.

The author points out that emphasis should be not be on narrow concept of financial sustainability but the more holistic organisational sustainability that includes:

[3] Fox, W. James; HAVERS, Mark; and MAURER, Klaus (2002). "Evaluation and Strategic Review of the Consultative Group to Assist the Poorest (CGAP)", Draft February.

'genuine vision and mission, a strong sense of local ownership, quality of services, efficient management and community engagement and embedded-ness'.

Apart from not requiring sophisticated technical tools and systems the alternative institutional approach has a significant rural and grassroots appeal and a potential for reaching a large number of people.

If you do not aim to reach the poorest, you cannot make a difference

Despite CGAP's stated objective of assisting the poorest, particularly during the 1998-2003 phase, the author point out CGAP's own oblique recognition, in 2000 status report, that this goal was potentially conflicting with its push for financial sustainability. When CGAP decided to drop its 'assisting the poorest' surname, this event was left to be discovered only by its keenest opponents, the debate of the mid 1990s pitting NGOs and the Grameen Bank on one side and primarily CGAP and its allies on the other on what the most important goal for MFIs should be, left unappeased by the conquered. Should MFIs aim to reach the very poor or should financial sustainability be the most important goal?

Despite the general recognition that both goals are important, the wealth of evidence points to the fact that most microfinance clients include the poor and non-poor and very few MFI clients can be classified as very poor. As a matter of fact, CGAP evaluators reportedly suggested the changing of CGAP's name to the "Consultative Group to Assist the Poor" as opposed to 'the Poorest' pointing out that the organisation's focus has never really been the very poor, primarily because of the skewed attention given to financial sustainability.

According to the author, the alternative institutional approach fits in well with the concerns poor people have in managing risk, which includes reducing their vulnerability to seasonal and unpredictable shocks, increasing levels of household and productive assets and engaging in or expanding their income generating activities. In addition to the assertion that the alternative approach reaches the very poor, providing them with certain economic benefits, the approach also addresses other dimensions of poverty, unlike CGAP's narrow focus of financial sustainability. The opportunity afforded by CARE's approach for investment in group members' social capital means that poverty dimensions such as isolation, sense of inferiority and powerlessness are also addressed.

Flirting with banks to downscale is a classical trickle down fallacy

The paper criticises CGAP's promotion of 'blueprint type MFIs', i.e. their focus on NGO/MFIs also known as Financial NGOs as one strategy that has not yielded impressive results. Citing the World Bank's 'Worldwide Inventory of Microfinance Institutions', which lists 206 such MFIs, the author states that Financial NGOs are the most common institutional type of MFIs. According to the inventory study these institutions reach very poor people but their scope is relatively minimal. In contrast, credit unions and commercial banks in microfinance serve a larger number of poorer clients than NGOs. Overall, NGO rating as far as outreach to the poor and financial sustainability (CGAP's

two objectives for MFIs) is disappointing. As a matter of fact, CGAP's evaluation of its second phase recommended that the institution adjusts its mission to include commercial and state banks, savings and credit unions, and Self-Help Group linkage banking that has been popularised in India.[4]

CARE's approach in Niger and Mozambique is hailed as inherently bottom-up and demand-driven, capitalising on local practices of savings and credit. Group members are owners of their operations and are empowered to make policy decisions. Ironically, these grass root operations are more in line with the mission of most NGOs that started off with a commitment to serving the poor and the very poor while promoting participatory development only to have these ideals compromised by an uncompromising push towards financial sustainability.

Focus on credit instead of savings

CGAP is also faulted for giving skewed attention to credit and little emphasis on savings despite the latter being 'the ultimate risk management tool.'[5] In contrast the CARE projects are designed such that members can choose to save only, or for both savings and credit.

Focus on access to women, not on women's empowerment

The requirement that CGAP programmes target women by ensuring that at least 50% of the clients are women is criticised in that it does not necessarily translate to the empowerment of women. The fact that women have access to financial services does not mean that they have control over household incomes. Neither does this practice necessarily result in increased household incomes as male partners may tend to reduce the amount of money or keep the entire amount they used to channel household once their wives' gain access to finances. Additionally, the requirement of high percentages of female participation in certain contexts such as Northern Mozambique, which has a low concentration of female entrepreneurs, provides occasion for dishonesty. In such cases male participants may provide names of their spouses to meet the requirement.

MMD in Niger is cited as a good example of a project that uses microfinance in its wider strategy for the economic and socio-political empowerment of women. Project activities include literacy training, legal-rights education and technical assistance in rearing small livestock.

Best Practice arrogance

According to the author, CGAP's narrow perspective is further compounded by its insistence on their being such a thing as 'best practices'. This vision, the author contends, relates primarily to financial sustainability and much less to poverty alleviation. 'Best practice' implies an absolute standard, whereas microfinance practices are context and time specific, depending on a number of factors such as the level of knowledge and experience. According to one source (Seibel, citing Smets, 2002); in this regard, CGAP and its followers have contradicted the principles of organizational science. 'Good practice' has been suggested as a better term (Fox et al, 2002). At any rate, CGAP own

[4] FOX et al, 2002:42 (see also the review on Fisher & Sriram below).

[5](Ditcher 1999:18)

staff members reportedly have different understanding of what is meant by best practice.

The author makes a sensible recommendation on the need to promote a wider range of 'good practices' that reflect comparative advantages of different institutional approaches for varied market segments. Furthermore; 'good practice' should include organisational sustainability, demand-driven product and services, gender and empowerment, among others.

Generally, therefore, the author blames the CGAP for not only failing to provide wholesome leadership but also for causing damage to the development of microfinance that is responsive to the situation on the ground, which include the needs of the very poor. As a practical example, being a consortium of donor organisations, CGAP's counterproductive policies has meant that some worthy microfinance models end up being marginalised and unable to access donor funding so long as they do not conform to 'best practices.'

The world's dominant microfinance school of thought blinds many to other approaches like CARE's MMD and Ophavela projects in Niger and Mozambique, respectfully, which are programmes that have either proven successful or have shown signs of some potential for reaching and impacting the poor, particularly in rural areas.

Putting development back into microfinance[6]

According to the authors, the microfinance industry would be making a mistake if it locks itself up in a simplistic resolution of the two dominant schools of thought, namely the finance (financial systems or commercialisation) school and the poverty (pro-poor or outreach) school. In a bid to resolve the tension[7] between reaching the largest number of poor people (outreach) and financial sustainability, the industry is losing the development impetus which first gave rise to microfinance. Fisher and Sriram challenge a narrow focus on the technical 'solutions' as the industry gets dominated by 'a techno-managerial perspective' with a proliferation of technical manuals and courses promoting financial sustainability and outreach, such as those promoted by CGAP, the Micro Banking Bulletin, Ledgerwood (1999) and those cited in Rutherford (2000:121). 'Technical experts in microfinance need to realise that there is more to the provision of microfinance services than technical and managerial inputs to enhance performance and efficiency' (Fisher & Sriram, 2003:20-22). The authors assert that a development approach, except in the narrowest sense of outreach to poor people, is often lost in much of microfinance practice.

With admiration for the microfinance scenario in India, the authors articulate their primary theme of 'putting development back into microfinance', which they claim goes beyond the inclusion of a range of services such as savings, insurance and consumption loans. They explore the practice in India of using microfinance to address development objectives such as 'livelihood promotion, developing the local economy, empowerment, building democratic people's organisations, and changing wider systems or institutions

6 Fisher, T, Sriram, M, 2002, Beyond Micro-Credit: Putting Development Back into Micro-finance. New Delhi: Vistaar Publications. Oxford: Oxfam UK. London: New Economics Foundation-

7 Despite this tension, Murdoch (2002:4) says that 'although there are no rigorous econometric models to substantiate it, there is ample evidence that MFIs targeting the poorest can fare as well financially as those that don't.'

within society.' In the process, the authors question whether, even the best financially managed microfinance organisations (MFOs) in the world are 'developmental' (Fisher & Sriram, 2003:21).

Pointing out that there is much more to development than the provision of financial services, the authors highlight the limitations of microfinance, which, they claim, should be seen as a 'complementary tool within a broader strategy to reduce poverty' (p.21).

The authors also criticise the poverty school for its narrow focus on financial services for poor people, which may work against the development of effective local people's (democratic) organisations. According to the book, the key challenge for the microfinance industry is how microfinance can be used to practically address a range of developmental needs. To this end, the authors add, organisations that seek to combine microfinance services with clear development missions are the only ones that will succeed. The terms 'development enterprises' or 'social enterprises' are used to describe such organisations.

At the heart of the book is the organisation of microfinance in India, beginning at the grass root level with saving and credit groups to the development of an entire microfinance sector. The authors state that India is fast becoming one of the largest microfinance markets in the world, especially with the growth of women's saving and credit groups, [known in the country as self-help groups (SHGs)] and projected to reach 17 million women by 2008.

A key theme of the book's analysis is the organisational challenges of combining broad developmental concepts and goals with the technical delivery of financial services. 'Organisational sustainability ... is as challenging as achieving financial sustainability' (p.23).

The authors mention a paper entitled 'Beyond micro-credit: Structures that increase the economic power of the poor' prepared for the first Micro-credit Summit by a working group chaired by Ela Bhatt, India's microfinance pioneer, which confirmed that that in India, an exclusive focus on micro-credit for micro-enterprise is the exception rather than the rule. (1996 cited Bhatt, Fisher and Sriram, 2003:23). The fact that the link between micro-credit and poverty reduction has not been proven is emphasised highlighting the inadequate attention given by micro-credit in reducing the risk of poor households. The authors mention a study that provided evidence that, in fact, some micro-enterprises have become worse off after accessing micro loans (1996 cited Hulme and Mosley, Fisher and Sriram, 2003:26). Reduction of risk is highlighted as crucial citing (Mahajan 1997) who stated that 'many poor people would prefer regular wage labour than managing their own micro-enterprise, if only such opportunities were available (Fisher and Sriram, 2003:27).

Microfinance clients have been known to utilise micro-credit loans for 'consumption-smoothing' in the absence of more appropriate products such as savings, insurance and loans. The authors point out that where such products are available, clients are enabled to better manage their risks and stabilise poor households. Nonetheless, such products cannot bring them out of poverty.

Fisher and Sriram reveal that for over 25 years, Indian MFOs like SEWA have developed a range of innovative products and services[8]: insurance services; linking savings to credit groups and banks; integrating microfinance into agendas for women's empowerment and local democratic organisation. The Indian experience has proven that microfinance is a strategic tool around which to organise cooperative initiatives. The SEWA Bank is in fact, a part of family of SEWA organisations: the union; the bank; a range of over 80 cooperatives, mostly organised around economic trade, but some providing health and child care; producer groups; rural and savings credit groups; federations of these cooperatives and groups; a housing trust and an academy for research and capacity building (Fisher & Sriram, 2003:24, 51).

Ela Bhatt founded the Self-employed Women's Association (SEWA) Bank in 1974, an organisation that provides an excellent case study for India's microfinance, which has been hailed as one that combines developmental objectives with financial sustainability. SEWA Bank, the oldest MFO in India, has reportedly been sustainable throughout its history because it is based on savings while focusing its mission on the empowerment of women slum-dwellers.

A cooperative movement that began with 4,000 (and grew to over 200,000 members in Ahmedabad, rural Gujarat and elsewhere in India), the SEWA Bank membership (ownership) is made up of hawkers and vendors; home-based workers, such as weavers, carpenters and other artisans; agricultural and other labourers and service providers. Lacking capital and ownership of assets, members of SEWA decided to address these problems in order to free themselves from a vicious cycle of debt. In a meeting in December 1973, the women met and thought of a solution:

> 'A bank of their own', where they would be accepted in their own right and not to be made feel inferior. 'We may be poor', they said 'but we are so many', and indeed 4,000 women contributed share capital of Rs.10/- each to establish the MAHILA SEWA CO-OPERATIVE BANK (SEWABANK).

> This is undoubtedly the most attractive feature of SEWA - a bank that has been sustainable throughout its history is owned by the poor slum dwellers! The call for 'commercial microfinance' has often been accompanied by the promotion of heavily capitalised microfinance banks, which inevitably call for wealthy investors, some of them made up of local elites and overseas 'social investors'. SEWA Bank and many other member-based organisations are providing an alternative and attractive model that promise local empowerment and the creation of indigenous wealth, in the hands of the poor [my own comment]

Thus in India, the authors assert that collective endeavours are proving to be successful measures for overcoming the challenges that bedevil individual person or enterprise isolation. Related to this is the issue of collective ownership of MFOs, which the book stresses is a fundamental issue warranting more consideration than is often the case in the industry for the simple reason that 'unequal access to and ownership of assets often underpins the unequal distribution of power' (Fisher and Sriram, 2003:28).

The book mentions India's diversity, its ability to embrace and integrate new ideas and methods, its long tradition and attention to entrepreneurship and organisational development, as well as the country's reputation as the world's largest

[8] SEWA Bank has about 20 products and services, which include 6 insurance products (life, health, pension, disability, house, and natural disaster protection)

democracy. These features, the authors claim are reflected in India's microfinance practice.

The book reviews the organisational challenges faced by MFOs from an organisational rather than from 'technical perspective that sees them purely as functional financial intermediaries' (p.25).

The book is, in fact, the result of a four-year organisational development project by the New Economic Foundation (NEF) in London initiated to examine four major MFOs in India.[9]

According to the authors, Indian microfinance practice has taught them to appreciate the complexities faced by poor people and the complex daily realities of most microfinance practitioners. As such, they suggest that the industry ought not to decide, for instance, between 'pursuing financial sustainability or development impact, between offering credit or savings and insurance, between addressing poverty and building democratic organisations'. Rather:

> The point is to recognise and understand the complexity of the developmental challenges within that context or community, to see how a range of appropriate strategies, and how the tensions likely to arise within an organisation (or a group of organisations) embracing different strategies may be managed effectively (Fisher & Sriram, 2003: 26).

The book devotes a chapter on the role of MFOs in influencing system-wide or institutional change and how microfinance can impact the local economy, detailing the practical strategies of BASIX and the Indian association of MFOs (Sa-Dhan), in influencing the policy and regulatory environment for microfinance. In the same vein the chapter outlines SEWA's broad strategy to promote the recognition and rights of poor self-employed women and CDF's attempts at changing the legal environment for cooperatives throughout India.

In the same chapter, the authors draw on economic theory to make a careful distinction between institutions and organisations. Throughout the book the authors refer to microfinance organisations as opposed to microfinance institutions insisting that 'institutions are not formal organisations of some significance, but the rules of the game that shape human interaction by providing the structure for transactions and incentives' (p.30).

Having devoted Part 1 (40% of the book) on the overview of its primary theme – that of microfinance and development - the rest of the book focuses on in greater depth on the organisational and institutional issues facing microfinance. Over 40% of Part 2 (three chapters) is dedicated to analysing SHGs - the fastest growing aspect of India's microfinance movement - in detail, one of the chapters comparing and contrasting Grameen Bank groups to the more autonomous and democratic SHGs both in rural and urban India. The last of these chapters examines the development stages of SHGs, their tasks, processes, leadership and social entrepreneurship within them and not merely as conduits for financial services.

[9] The project, which was funded by the Ford Foundation (1996-2002), involved the following organisations: BASIX, Cooperative Development Foundation (CDF), PRADAN and SEWA Bank. (Fisher & Sriram, 2003:361)

The fourth chapter in this part examines the financial and organisational performance of microfinance while paying detailed attention to developmental outcomes, while the fifth examines the microfinance environment, looking at what measures are needed in the promotion of microfinance and the distinctive roles of the different stakeholders in the sector.

The book concludes with five emerging lessons and five challenges of microfinance as an instrument of development:

Microfinance is a means, not an end of development

The provision of microfinance must be adapted to the context

NGOs have a crucial roles to play such as providing useful and more flexible transitional organisational forms than companies or banks; in the promotion of value-based community level initiatives; and in facilitating advocacy and other interventions in wider systems and institutions that influence the microfinance sector,

The need to go beyond individual organisations to influencing the creation of systems and institutions favourable to the industry

The need for system-wide mechanisms for SHGs for providing them with support services, sharing innovation and good practice, for protecting them from external capture and other functions is crucial if the SHGs and other community-based initiatives are to achieve their true potential in delivering microfinance services to a growing number of poor people.

The challenges of microfinance outlined in this concluding chapter are further heightened by the worthwhile attempt of incorporating a range of development goals for microfinance. Following are the five challenges examined by the authors:

Balancing between keeping financial standards and maintaining the development mission

Putting development practice[10] at the heart of the organisation against the demand for quantitative reporting

The need to facilitate learning by doing and reflection in action while adopting good practice

Moving towards resolving the issue of ownership and control in terms of promoting mutual ownership structures while at the same time building more experience on managing equity and other investments[11]

Developing the art of capacity-building and process consulting[12]

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[10] "Where a shift in relationship becomes the aim of practice, and its measure, neat deliverables and packages cease to occupy centre stage. Instead measurement comes to be seen as beginning with the ability to make development assessment. .... A central component of this assessment includes qualitative and descriptive pictures of the formative relationships surrounding the subject of intervention. ... As development practitioners develop the art of describing relationships before and after their intervention, as they learn to tell the stories of change, so their ability to do so with greater precision grows" (2000 cited CDRA, Fisher and Sriram 2003:348, 9).

11 "... given that micro-finance is ultimately about development, and that must mean of people, structures that give additional control and empowerment to people deserve attention" (Fisher & Sriram, 2003:355)

[12] "Professionals must develop an artistry or craftsmanship in their practice which allows them to work constructively and reflectively with the uncertainty, conflicts and unique situations they often face (2000 cited Hardin and Chapman, Fisher and Sriram 2003:357)

HIV/AIDS Uproots what Microfinance Sows[13]

Any discussion on microfinance in Africa will of necessity include a discussion on HIV/AIDS. Parker introduces his paper by stating that 'the reality of HIV/AIDS has cast a shadow over nearly all development efforts in Africa, including microfinance.' The over 22 million HIV positive persons in Africa are mostly poor, productive individuals, and increasingly women who work in urban centers - a state of affairs, which Parker says, fits the microfinance profile, frighteningly.

Overwhelming stigma, discrimination, lack of information and the general state of poverty in Africa denies people living with HIV/AIDS (PLWHA) access to services that could slow down the progression of the disease, which decreases their productivity.

Parker mentions UNAIDS data that shows Ivory Coast's average household incomes plummeting by 40% due to HIV/AIDS. This is caused partly by the fact that attention and time diverted away from managing businesses or income generating activities in order to care for the infected. Reduced incomes means demand for goods and services also decrease, which affects the informal sector enterprises and hence microfinance clients.

The author adds that direct effects of HIV/AIDS on microfinance are multiple ranging from clients infected by the virus or taking time and resources away from their enterprises to taking care of the sick or orphaned, skipping group meetings, and defaulting on loan repayments. Increased client illness translates to increased MFI client exit rates, higher operational costs including loan loss provisions and rising costs of new clients' intake. Additionally, Parker mentions a recent USAID survey in which many MFIs reported that their staff are dealing with HIV/AIDS in their homes, or are falling sick themselves. The same MFIs reported decreased work productivity due to sickness and absenteeism as well as increased staffing and benefit costs due to HIV/AIDS.

In this paper, Parker argues that many expectations held by microfinance organizations have been severely affected by the reality of HIV/AIDS. MFIs expect that existing clientele would maintain their productivity in the medium term as they access additional micro loans, for instance, which over time translate to higher interest incomes for the MFIs. Programs designed to include compulsory savings do not expect that the capacity of their clients to save will be drastically or even gradually reduced.

Rather than the dwelling on the potential HIV/AIDS has in dampening the spirit of microfinance Parker recognizes that the challenge posed by the pandemic could actually reinforce the direction and goals of microfinance. The realization that microfinance is just but a development tool among others could be further strengthened by the need to combine microfinance with other services such as skill development, mentoring, health information and services. Additionally, HIV/AIDS provides opportunity for strategic alliances with other service providers.

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[13] **Joan Parker (2003). What will HIV/AIDS do to microfinance in Africa? It will demand our best, http://www.microfinancegateway.org/files/13571_file_13571.pdf**

The microfinance industry is already striving to pursue goals in new product development, greater service efficiencies, increased flexibility in methodology, and deepening outreach. Parker mentions a number of innovative challenges that HIV/AIDS is calling for in the industry. These include: exploring new products in health insurance; including group schemes, financing anti-retroviral; incentives for groups to find solutions for group members infected; how services can be delivered to infected or affected clients; flexibility in repayment schedules; opportunities for building youth entrepreneurial and business management skills to replace ailing parents and linking youths to microfinance; using MFIs and client groups as conduits for HIV/AIDS information.

According to Parker, the HIV/AIDS challenge for microfinance in Africa is an opportunity for the industry to respond in a way that will build its strength and resilience, which will make it a 'more flexible instrument in all environments'.

Old wine in new sheep's skin[14]

This is a report that describes a strategy for the fight against poverty using a microfinance model adapted to Africa's specific needs. The model is based on a combination of indigenous financial and social practices and modern microfinance approaches that are designed to enhance organizational efficiency.

In the introduction, the authors underscore the potential for microfinance to register economic and non-material benefits beyond the household level to the growth of communities.

At the root of economic growth of nations over decades, the authors assert, are private savings and investments. In fact, South-Saharan Africa's (SSA) slow economic growth has been linked to the continent's inability to accumulate adequate capital. Africa's gross domestic savings in the 1980s, for instance, averaged 8 percent compared to South East Asia's 23 percent and 35 percent for the Newly Industrialized Countries (South Korea, Taiwan and Singapore). Additionally, SSA's inadequate investment-savings gap, which averaged 11 percent of GDP in the 1970-95 period, has had to be bridged by foreign savings, and in particular development aid. Given the binding lending constraints at the international capital markets and the external balance conditionality imposed by bilateral and external donors, promotion of national savings and investments could enhance SSA's prospects of sustained growth and reduce dependence on foreign aid.

The authors suggest that in addition to providing credit, microfinance could play a crucial role in strengthening the culture of savings among the majority poor, by designing appropriate and secure savings instruments that also help the poor accumulate interest for their deposits. The results contained in the report emanated out of a study project that was overseen by the United Nations Office of the Special

14 Microfinance in Africa: Combining the best practices of traditional and modern microfinance approaches toward poverty eradication http://www.un.org/esa/africa/microfinanceinafrica.pdf

Coordinator for Africa and the Least Developed Countries (UN/OSCAL). The proposed model was to be tested for six months starting in November 2001 at the Department of Economics, University of the Western Cape (UWC) in South Africa with the support of UNDP-Africa. UNIFEM was also to help in the field-testing of the model in one francophone African country from January 2002.

The UN/OSCAL study project was carried out in three phases. The first phase involved the compilation of over 85 microfinance fact sheets that examined successful and unsuccessful microfinance initiatives both in Africa and elsewhere. The emphasis in this phase was to identify strategies for a microfinance model that responds to Africa's realities. The results of this research were presented in UN/OSCAL's publication entitled: Microfinance and Poverty Eradication: Strengthening Africa's Microfinance Institutions.

The second phase of the project involved one-week observation missions in 1999-2000 aimed at studying initiatives in three different African sub-region differing in language, population distribution and management skills. The phase was also a direct follow-up of the Asia/Africa Forum on the Economic Empowerment of Women held in Bangkok in July 1997. The phase was entitled: Women, Micro-credit and Poverty Eradication and the observation exercises were conducted in Ethiopia, Cameroon and Nigeria.

The third and final phase was the 'Expert-Group Meeting on Microfinance and Poverty Eradication in Africa', which provided a forum for African microfinance practitioners to exchange lessons and experiences. The meeting took place on 25-29 September in Addis Ababa, Ethiopia, where the microfinance model for Africa was also adopted.

Thus drawing on lessons from African as well as non-African examples, OSCAL developed a Microfinance model out of two approaches: (1) Identifying key principles for an African model of microfinance, and (2) applying a 'systems perspective' that utilizes the participation of national, regional and international partners, in recognition of the fact that poverty reduction is a complex, multi-dimensional phenomenon requiring commitment, cooperation and cohesion at all levels.

There were four key principles proposed in the report to guide African microfinance practice:

Prioritizing Group Formation and Networking

Prioritizing Local Knowledge and Participatory Planning

Reinforcing Microfinance to Advance the African Private Sector

Prioritizing Operational Efficiency

A qualification and disclaimer

The report recognizes that microfinance is not a panacea for poverty and development challenges but rather an important tool that can be harnessed to 'scale-up beyond the micro-level' and 'with the potential to enhance community development, as well as local and national polity making' (Page 4).

Further more, the report states that the model proposed should not be seen as a blueprint for microfinance initiatives but that any microfinance intervention should be

context specific and the model adjusted to fit the respective cultural, political and economic setting.

Principles to Success

Prioritizing Group Formation and Networking

"Group formation … is a pre-existing 'homogeneous' mode of organization in Africa that already operates in traditional financial schemes", state the authors (page 6). The authors mention the indigenous 'Yum' philosophy in Cameroon, which simply states that 'you can't wrap a gift box with just one hand'.

Advantages cited in capitalizing on African's propensity to mobilize themselves into groups to meet social and financial objectives include the following:

Group formation provides opportunities to pool together both human and material resources

Group mechanisms reinforce group solidarity, discipline, and consistent saving commitment and loan repayment

Groups provide forums for effective information sharing, networking, education and training

Groups an excellent participatory tool that are open to opportunities to reduce administration costs as people share responsibilities

Group involvement enhances community consciousness

Opportunity for bulk purchasing, collective bargaining, infrastructure development (water pumps, health care, education schemes)

Groups provide opportunities for additional financial support, emotional support especially during crises.

The benefits of group dynamics are not limited at the local level but can extend to networking for MFIs for coordination, monitoring, advocacy and outreach.

Prioritizing Local Knowledge and Participatory Planning

Following the first principle above, the report adds that traditional and informal African savings and loan schemes include:

Ekub in Ethiopia
Tontines in Cameroon and Niger
Esusu in Nigeria
Susu in Ghana
Gameya in Egypt, and
Sanduk in Tunisia

While these traditional methods need to be adapted to the modern context and be rendered more efficient through modern innovation, the authors are emphatic that they should not be replaced. This is because they are based on traditional knowledge and values and microfinance initiatives that build on them 'can count on legitimacy, accountability and self-enforcement' (page 8).

Reinforcing Microfinance to advance the African Private Sector

The report states that 'microfinance and microenterprises are critically linked' and that microfinance has the potential of formalizing the informal sector empowering micro-entrepreneurs to participate in the formal sector. The strategy could include exposing microenterprises to larger firms encouraging forward and backward linkages with established firms.

This potential, the authors add, is contingent upon an enabling and supportive environment at all levels ranging from encouraging start-ups, business incubation and expansion; regulation and standards for MFIs and micro enterprise clients; Networking among MFIs can provide advocacy opportunities for enterprises seeking to enter the formal sector; MFIs can work together to encourage governments and donors desist from undermining the market by subsidizing loans.

At the national and international level stakeholders should encourage legislation, business services and infrastructure that will increase market opportunities for micro-entrepreneurs and producers as well as build their technical and managerial capacity. Government policies which are often biased toward the formal and urban sectors of the economy should increasingly be encouraged to open up space for informal and micro-entrepreneurial initiatives.

Prioritize Operational Efficiency

According to the report, leaders in the Microfinance industry are convinced that without commitment to building efficient, financially viable institutions, there would be no sustainable impact on poverty eradication.

Interestingly, the first principle mentioned on achieving operational efficiency was targeting the poorest of the poor. The report underscores the premise that microfinance is a means to poverty reduction and not an end in itself; hence, microfinance initiatives should not allow a mission drift in the pursuit of financial sustainability. This principle should be maintained while microfinance operations seek organizational efficiency through the following additional principles:

Mobilizing savings
Charging interest rates that cover operational costs
Market research for appropriate and innovative products and services
Streamlining and decentralizing operations
Utilizing volunteer staff
Targeting women (as this would complement the first principle of targeting the poorest as well as strengthening programs with more reliable clients)
Developing monitoring and assessment tools
Investing in training
Confronting problems through setting performance standards, developing monitoring mechanisms and enforcing institutional integrity
Utilizing pre-existing support organizations
Avoiding external dependency

The authors reserve a section in the report for the role of national, regional and international development stakeholders and partners. These should be encouraged and challenged to use empowering approaches to supporting African microfinance initiatives. Specifically, 'outside experts' should:

Acknowledge and empower African people by avoiding paternalistic and distrustful attitudes and encouraging bottom-up participatory approaches. 'Microfinance should be built around people rather than people around them' (page 14).

Establish realistic expectations. According to the report, institutionalizing sustainability takes between 8-12 years in Africa

Conduct market and environment research as well as institutional assessments

Adopt and lobby for policies that support microfinance infrastructure and support the creation of a supportive and legal environment.

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