INTERNATIONAL NETWORK OF ALTERNATIVE FINANCIAL INSTITUTIONS

INAFI ASIA STRATEGY PAPER
2011-2013
Building Foundations for Inclusive Development

Shaping Alternative Paradigm of Microfinance in Asia

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INAFI Asia Strategy 2011-2013

An Overview of INAFI

The International Network of Alternative Financial Institutions (INAFI) is a worldwide network of development practitioners that are committed to improving the lives and livelihoods of the poor in the regions of Africa, Asia and Latin America by offering a range of financial and non-financial services as a means of poverty alleviation. In 1995, twenty-five microfinance practitioners from three continents established the International Network of Alternative Financial Institutions (INAFI) in Peru. Later, INAFI, registered in Holland in 2003, is a global network that brings all regionally organised microfinance practitioners together in a single forum and covers the entire developing world. Since establishment, it has been growing as global network having located globally, regionally by continent and nationally in some countries. The current coverage of INAFI is with about 300 Practitioners NGOs/MFIs in 47 countries.

INAFI operates from three levels, at global level having an international office, currently located in Dakar, Senegal , at continental level having regional offices in each continents and a at national level in some countries having country chapters. Each of INAFI is a autonomous body and has its own regional assembly and executive council, and executive directors but has been operated with broad policy guidelines of INAFI Global. It has single entity globally as "INAFI". The regional offices manage the day-to-day operations in the countries of their region and facilitate the co-ordination among them as well as with the international secretariat. INAFI Asia is the pan-pacific arm of INAFI International network working since 1995. It is registered as a Trust in Bangladesh since April 2003. As the environments surrounding poverty vary in the Asian countries and because the practitioners' methodologies vary correspondingly, the countries in the Asian region have opted to establish national chapters to ensure the proper representation of each country and the needs of the poor. Only the INAFI Asia has national chapters that also have national offices , assemblies, executive councils and executive directors that plan and oversee the implementation of their respective programmes. This structure assures a bottom-up approach for the co-ordination between the INAFIs and for all flows of information that is needed to guarantee that it is always going to be the local practitioners that formulate INAFI's agendas and plans. All the national chapters registered themselves locally. Currently, INAFI Asia is working is 6 different countries including Bangladesh, India, Nepal, Pakistan, Philippines, and Sri Lanka through 72 member organizations. It has planned to expand INAFI Asia network in Afghanistan, Indonesia, Cambodia and Vietnam in the next phase.

The INAFI Asia regional office and its country chapters, in fact, represent the vision and missions of INAFI international network and at the same time ensure that fundraising and promotional activities conducted in the name of INAFI network are utilized in a manner that is advantageous to all members. It also provides provide discrete technical assistance in appropriate areas, including training, research, evaluation, and workshops that generally include presentation of research findings to provide optimum sharing of knowledge and experience. Member institutions[1] serve as resources and active participants at the workshops that help to explore the areas for development. Accepting these realities INAFI Asia, alike INAFI International, has two visions: one is social vision to be perceived looking at the global society where millions of poor

[1] NGOs/MFIs have development programmes along with microfinance and implement either directly as service provider or as promoting NGOs building people organizations (Self-Help Group SHG) are generally enrolled as Members of INAFI, called M.Os.

live under extreme poverty and insecurity and the institutional vision of INAFI Asia network how, it looks like and wants to be.

Vision
INAFI Asia envisions a state of world where the poor are empowered and assured sustainable livelihoods with dignity.

Institutional Vision
INAFI Asia will be recognised in the pan pacific region as a leading network of alternative financial Institutions (NGOs and MFIs) in ten years that are committed to alleviating poverty and empowering the poor.

Mission
The mission of INAFI Asia is to work with Microfinance NGOs and MFIs with diverse methodologies, approaches, products and services, committed to improve the lives of the poor in the Asia region. It believes microfinance a proven strategy to improving lives and livelihood of the millions of poor of the region that has ability to alleviating poverty, reaching the hard-core poor and contributes social and economic impact on the lives of poor by addressing the 'insecurity' issues. INAFI Asia recognises that building up the capacities of the microfinance NGOs/MFIs and their primary stakeholders (clients) are preconditions to deliver flexible, client responsive and innovative microfinance service to the poor. Creation of such an environment will enable the poor to take control of their lives leading to sustainability of both the Microfinance NGOs and MFIs and the clients without compromising social development objectives.

Situational Analysis: Microfinance Sector in Asia:
Micro credit has established itself as a formidable instrument or tool in the development industry both within Asia and globally. There is no doubt that the microfinance institutions of Asia have made a significant contribution to the development of the sector both at the regional and international levels. Asia is home to several of the leading microfinance institutions in the world. Some Asian microfinance institutions have achieved scale and outreach to serve large numbers of poor people with credit and savings services. Yet others have combined scale with a deepening of services, combining microfinance with other non-financial and social development services to improve the lives and livelihoods of the poor. In some cases, microfinance providers have maintained comparatively lower scale and outreach, but have contributed to the sector and served the poor through experimentation, to innovative product development. Three decades since the birth of the microfinance movement in Asia, Asian microfinance institutions continue to command the world's interest, motivate and inspire.
Asia is the hub of divergent microfinance practices, and different microfinance methodologies have been in practice since long in the Asian region. NGOs/MFIs in Asia are as distinct from each other as the countries they work in. They differ in context, outreach, service delivery mechanisms, and structure. Some only provide microfinance services; others have added technical assistance and training programmes, while others still manage integrated social development programmes. Some provide direct financial intermediation while others assume promotional roles and support self-help grass-root groups, mainly women, and are putting them in contact with banks or other lending organisations. A few of the members are still struggling but emerging steadily while a large number are working on scaling up their portfolios and coverage, both in terms of region and clients served. Finally, some members have already

reached scale, are undertaking highly efficacious operations, and not even have become major players in their respective countries but in the world.

INAFI believes that microfinance is effective for a broad group of clients, including those who are living in the 'bottom half' of those below a country's poverty line whom we call the 'poorest' or 'hard-core poor' or 'extreme poor' etc. They make up the group that generally interweave the various definitions of extreme poverty: landlessness, limited access to basic social services, average per capita income of less than $1 a day, and bottom third of a relative poverty ranking. INAFI believes that the very poor can improve their socioeconomic conditions too if the MFIs purposely seeks to serve them through appropriate product design and targeting. Despite of enormous success of microfinance in the Asia region, yet there are scopes of furthering the impact of microfinance on the lives of the poor provided the challenges of microfinance in Asia are taken into consideration in designing product services through financial inclusions and social inclusion services

Key Challenges and Issues:
Today, one of the key challenges Asian nations face while pursuing economic growth and development is how to counter poverty. Poverty is a multifaceted phenomenon that includes, but goes beyond lack of adequate income. The overarching objective of development in many countries has been and continues to be the eradication of all facets of poverty. But it has also multifaceted challenges too.

Access to sustainable financial services and building inclusive Financial System: The stark reality is that most poor people in Asia still lack access to sustainable financial services such as credit, savings, insurance etc and in most developing countries, financial services are available to a minority of the population. The majority has no bank accounts, do not receive credit, do not save, or have an insurance policy or avail payment or transfer mechanisms from any financial institutions. The access to a well functioning financial system can economically and socially empower individuals. It will enable poor people to better integrate themselves into the economy and actively contribute to development by being part of the mainstream economy and at the same time protect themselves against economic shocks, thus improving their lives and of those that depend upon them.
The great challenge before us is to address the constraints that exclude people from full participation in the financial sector. Together we can and must build an inclusive financial sector that helps people improve their lives.

The emergence of microfinance has enabled people living on lower economic thresholds to access financial services and establish their creditworthiness. Evidence suggests that the institutions serving these market segments can be sustainable despite higher cost of transaction and scale of operation.

Building Institutional Capacity and strong governance and management system
Moreover, with the advancement in Information and Computer Technologies (ICT) the differential of serving the lower segments of the market is gradually reducing. Regulated microfinance is relatively a new phenomenon that potentially provides access to affordable financial services such as loans, savings, leasing, insurance, payments and transfers etc across all segments of the population. What it requires is sound retail institutional capacity with strong governance and management systems whilst meeting the industry standards and performance

monitoring by the market. The vision for access to affordable financial services for the poor, i.e. financial inclusion is guided by sound prudential regulations and the commitment to institutional sustainability over a timeline.

Going beyond Microfinance – Inclusive Development: Now, question crops up, what is beyond microfinance? That is 'Inclusive Development,' as some leading economists suggest, and that's more a macro-economic policy and practice concern than 'only microfinance.' Governments and civil societies have an important role to play in building an Inclusive Development framework that is more than building an Inclusive Financial Sector. However, this role has to be supportive as at times government interventions can be regressive and impede financial sector development. There are many questions has to be answered when we talk about Inclusive Development, and the foremost are Food Security, Climate Change issues and scenarios, Environment, and people's Livelihoods Systems, Health and Education, Women's Empowerment by mainstreaming Gender to name a few. Can microfinance cover all these challenges to fix? The answer is both Yes and No. Most of the Asian microfinance institutions are also civil society organisations, and most of them follow holistic development approach. So, microfinance institutions with the arm of their Financial Inclusion, with wide range of products and services, and with a pro-poorest focus, can handle the challenge together with the Governments, through campaign, policy and good practice.

Balancing microfinance with inclusive financial system: The balancing act involves the perfect combination of Profitability, Risk and Incentive structures. Therefore there has to be a right trade-off. It is vital that the objectives of increasing access to the poorest to financial services be included within the regulatory and supervisory guidelines of the micro-credit regulatory authorise or central banks in addition to the traditional responsibility of protecting the members and the stability of the financial system. The inclusive financial sector is by any means a major challenge requiring well thought out action plans. This includes a consultative process at the national levels involving all stakeholders as well learning from best practices and experiences, consultative forums, seminars and conferences so that we come up with a cohesive strategy that addresses the concerns of all stakeholders and has ownership. Efforts to promote microfinance are commendable and have translated into the growth of this sector by leaps and bounds but in spite of this recent surge in microfinancing institutions and clients there still lay a huge untapped market with great potential. Here comes the role of Financial Inclusion, and with this Inclusive Development goals will remain elusive.

Re-branding Microfinance: Microfinance is surely a means to an end and is often considered to be one of the most effective strategies in the fight against poverty. It is sustainable and can be implemented on a scale necessary to respond to the urgent needs of those living on less than $1 a day. It gives the economically less privileged the tools they need to lift themselves out of poverty and presents them with an opportunity to reap the rewards of their own labour. It also helps bring the poor and the poorest at par with the formal work sector where their rights can be recognised and they can contribute to society while being a part of mainstream economy. But this role of microfinance has to be disseminated to the government, investors, civil society, donor to get continuous support from them to play a catalytic role. Investors, civil society institutions and development organisations take advantage of and make their contribution for poverty reduction, in a sustainable manner in cooperation with NGOs/MFIs. Ultimately, the objective of all efforts should be to foster the inclusive development of the financial sector that will increase access, build financial assets and improve the lives of millions of households currently excluded from economic opportunity.

INAFI Asia Policy Strategies -2011-2013

The comprehensive review and analysis microfinance sector of Asia, the challenges/issues and review of programmatic intervention of 2008-2010 have led INAFI to focus on "Inclusive development" through financial and inclusions. Financial inclusions mean to diversify financial services and make it tailor-made to the different groups of poor including hard-core. INAFI Asia has identified its major role how it contributes to the Poverty Alleviation and Millennium Development Goals (MDG) by introducing financial and social inclusions in advancing microfinance. The Strategies for 2011-2013 have been designed reviewing the current discourse of microfinance in the Asia region and the challenges foreseen in the microfinance sector. INAFI's strategic focus and strategic positioning in the past and current vows on inclusive development have led INAFI Asia to think how social and financial inclusions in microfinance to be integrated and practiced addressing poverty alleviation, attaining millennium development and inclusive development of the poor. INAFI Asia has identified following strategies for 2011-2013

<u>Advancing affordable financial inclusions for the Poor:</u>

Access to affordable financial services, especially credit and insurance, enlarges livelihood opportunities and empowers the poor to take charge of their lives. Such empowerment aids social and political stability. Apart from these benefits, financial inclusion imparts formal identity, provides access to the payments system and to the savings safety net, like deposit insurance. Hence, financial inclusion is critical for achieving inclusive development; which itself is required for ensuring sustainable development. Obstruction from access to affordable financial services for the poor or the poorest is stems from exclusion from the payments system, i.e., not having access to a bank account, and exclusion from formal credit markets, requiring the excluded to approach informal and exploitative markets. The focus for this conference, thus, is on establishing the right of every person to have access to affordable basic financial services.

There are a variety of reasons for financial exclusion. In remote, hilly and sparsely populated areas with poor infrastructure, physical access itself acts as a deterrent. From the demand side, lack of awareness, low incomes/assets, social exclusion, illiteracy act as barriers. From the supply side, distance from branch, its timings, cumbersome documentation and procedures, unsuitable products, language, staff attitudes are common reasons. All these result in higher transaction cost apart from procedural hassles. The use of IT solutions for providing banking facilities at the doorstep holds the potential for scalability of this initiative. Pilot projects have been initiated using smart cards for opening bank accounts with biometric identification. Link to mobile or hand-held connectivity devices ensure that the transactions are recorded in the bank's books on real-time basis. Some State Governments are routing social security payments through such smart cards. The same delivery channel can be used to provide other financial services at low cost such as savings and loan products, remittances and insurance. The use of IT also enables MFIs to be able to extend outreach to all. Financial literacy, credit counselling, credit-plus activities for livelihood support and skill-building have to be integral part of plans for financial inclusion

Food Security: Establishing food security is generally considered to be a public responsibility meaning that the state is expected to ensure access to affordable food to its citizens and plays a role in stimulating appropriate utilisation thereof. And in many Asian countries the state indeed made it its business to at least secure availability of food. This often took the form of aiming for self-sufficiency as regards production of staple foods as many countries were usually reluctant to spend scarce export earnings for food imports. In some countries with an interventionist state tradition this may have taken the form of directing farmers to produce minimum quantities of staple foods. This puts the poor and the poorest, who are mostly farm-workers, becomes food insecure because though they grow food but cannot retain their yields for consumption. At macro level, countries can enjoy 'food security' through imports, but people remains insecure because foods are distributed through markets, and poor often lacks buying capacity to ensure their food security.

Here comes the role of NGOs or MFIs who can help poor become food secure through better financial inclusion or by other social programmes. However, few organisations pursue an active food security strategy. Food security, in other words, is not a real issue on their agenda. Those that constitute the exception to this rule usually hail from countries where food security has been identified as a national development target. The programmes for discussion in this conference could be a typical pattern is that the governments and NGOs/MFIs that works with rural communities can work through the provision of food aid if so required, then through food-for-work programmes to work on improving the rural infrastructure, e.g. roads, irrigation schemes, and then to increase and diversify agricultural production. At some point at that third level, we can provide agricultural input loans to pre-finance the purchase of seedlings, fertilizer and tools.

However, if food is available but not affordable or accessible, a food security strategy would aim not for food production as such but for increase of income of the rural population to work on the affordability issue. And that is what most rural focused MFIs can do, helping the rural poor or the poorest to increase their income levels and in the process create the financial capacity to not only buy better food but also access a range of other products and services, viz. housing, education, sanitation, health and what not. Here comes again the Financial Inclusion, which is very much needed for Inclusive Development

Climate Change and Environment: Livelihood Systems: Climate change will just aggravate the present problems of attaining food security that we discussed above. It is just like salting an injured! If atmospheric temperature rises above 2-degree Celsius, food production will decline. Sea-level rise will affect the coastal farmers and fisher folks, and due to salinity, they will also face problem to grow crop. Moreover, many Asian countries including India and Bangladesh will experience frequent flooding that will create problem for high-yielding crop. More alarming, due to temperature rise, our soil will loss carbon content that will make our cultivable land unproductive. In these circumstances, we will have more poverty and unemployment, and climate refugee will increase day-by-day. So, what we can do, because, from the above analysis, we can get that, due to climate change, we will have less food production, and will suffer food insecurity. We have no other way but to increase our food production by any means though our cultivable land in decreasing. We can use better variety, or put importance to invent such variety more and more that are salinity, draught or flood tolerant; we can increase our national agricultural production managements more efficient, we can invest our money more in food production; we can help our governments to take more roles. We have experience that state is more tilted towards trade than achieving sustainable agriculture and rural livelihoods. So, while we should take up more and more the safety-net programmes for the poor, we should put emphasis on more food-storage facility both at micro, meso and macro levels, and good communication network in the areas that are believed to be affected by disasters. Building the South Asian food storage facility is a good proposal, and we should support such an initiative.

Health and Education: Illness is generally the most important crisis for poor families. Deaths in the family, taking time off from work when sick, and healthcare related expenses could deplete a family's incomes and savings. They can lead to selling assets and indebtedness. For microfinance clients' illness is usually the main reason for being unable to repay loans. Because larger and more stable incomes lead to better access to healthcare, sanitation and nutrition, and education, households of microfinance recipients often have better health and sanitation practices and their children going to school than non-recipient households. However, for pursuing Inclusive Development goals, we need improved sanitation and hygiene practices for our clients though access to safe drinking water and a latrine. Several MFIs have taken initiatives to either provide microfinance clients with tube wells and latrines at discounted rates, or provide with them sanitation loans so they can implement these items. If we can invest in tube wells and latrines, this is a positive indication of the strength of microfinance and sanitation.

Our Inclusive Development agenda could well be more intervention through Financial Inclusion on nutrition, use of contraception, combat malaria, diarrhoea and other illnesses increase in maternal and pre-natal care, care for our clients' children's education which is vital in breaking the cross-generational transcendence into poverty. It is widely known that when poor households in Bangladesh attain greater income, one of their first investments is in the education of their children. We should be promoting the education of girl children together with the boys, and school enrolment of children age 15 and higher etc. We know, due to familial and financial constraints, children of poor families often do not enrol in formal schools, but many times engage in informal education. Therefore, a more appropriate measure of a child's comprehension, knowledge, and their ability to secure financial opportunities in the future is their level of literacy.

Aside from children's schooling, another relevant educational development could be the level of literacy of microfinance recipients. Several MFIs have created literacy programmes for their clients, such as mobile libraries, in an attempt to increase their basic level of reading and writing. We realise that the lack of this basic skill makes microfinance clients susceptible to exploitation and keeps them from attaining pertinent information necessary for their survival and advancement. So, these are the issues the conference would discuss how we can do all these better by better financial inclusive programmes.

Empowering Women and mainstreaming Gender: Microfinance programmes have generally targeted women as clients. Women often prove to be more financially responsible with better repayment performance than men. Also it has been shown that women are more likely than men to invest increased income in the household and family well being. Perhaps most importantly, access to financial services can empower women to become more confident, more assertive, more likely to participate in family and community decisions, and better able to confront systemic gender inequities. But such empowerment is by no means automatic. Gender-related issues are complex, and every aspect or indicator of microfinance inherently involves gender. Through appropriate indicators, it is possible to assert whether programme design has in fact established strong, positive effects on women's empowerment, resulting in women owning more assets, and having a more active, equal role in the household as well as the community.

For our Inclusive Development agenda, we can help women more in household decision-making though many studies illustrated that micro-credit members were making decisions on buying and selling property, sending their daughters to school, negotiating their children's marriages, and planning their family, all decisions traditionally made by men. We can work for to ensure that women recipients go geographically to expand their businesses, increased mobility enabled them to take public transportation to go outside of their immediate community to sell their goods, increased physical mobility since joining an MFI enable them greater autonomy in other aspects of their lives, such as going to markets further away to do their shopping, etc.

We can assess their property rights and legal ownership of assets; build self-confidence, though self-confidence is a difficult thing to assess, as there are no concrete indicators to determine its increase or decrease. This needs to be qualitatively analysed through interviews dealing with self-perceptions. There appears to be a strong correlation between microfinance and female political empowerment, in terms of participation in political mobilisation or running for political office. Several MFIs encourage their clients to run for government elections, and there have been several cases in Asian countries where clients were voted in as elected officials. Increased political participation is a strong indicator of increased self-worth, increased political knowledge, and important in increasing social status and overcoming social exclusion. It is therefore an imperative indicator of female and social empowerment, which we can pursue.

Information Communications Technologies for the Microfinance Sector: To address the needs of microfinance clients and also the needs of MFIs, we think we should work more on innovative methods to improve access to affordable financial services, including the use of cell phones and other information communication technologies (ICTs) to reduce costs and overcome other barriers to the provision of sustainable financial services to the excluded. We should explore policy and regulatory approaches aimed at fostering the safe and sound adoption of innovative, low-cost financial service delivery models; helping provide a framework of incentives for the various bank, insurance and non-bank actors involved, while ensuring fair conditions of competition between all financial service players; and fostering affordable financial services that respond to customer's needs in both quality and range.

Increased awareness that financial inclusion is complimentary to financial sector development, economic growth and poverty alleviation has led to a heightened interest, awareness and leadership around the issue by international organisations and policymakers. The leading countries in this matter have developed national visions and strategies in financial inclusion as part of their broader economic development plans. These policymakers have also been willing to explore the use of new tools to enhance access to financial services while maintaining the safety and soundness of financial systems. Keeping this in mind, the conference can discuss and resolve that governments' commitment to financial inclusion to help alleviate poverty is necessary, and the sector should implement policy approaches that promote competition for delivery of sustainable financial access and usage of a broad range of affordable services, viz. savings, credit, payments, transfers, and insurance as well as a diversity of service providers. The sector should encourage technological and institutional innovation as a means to expand financial system access and usage, including by addressing infrastructure weaknesses, and encourage a comprehensive approach to consumer protection that recognises the roles of governments, providers and consumers. The sector should consider developing financial literacy and financial capability of clients, create an institutional environment with clear lines of accountability and co-ordination within governments, and also encourage partnerships and direct consultation across governments, and other stakeholders.

The sector should utilise improved data to make evidence based policy, measure progress, and consider an approach acceptable to both regulators and service providers. It is also a necessity to build policy and a regulatory framework that is proportionate with the risks and benefits involved in such innovative products and services and are based on an understanding of the gaps and barriers in existing regulations, and also consider in the regulatory frameworks, reflecting international standards, national circumstances. The challenge now will be to make these efforts to promote financial inclusion translate from the conference podium to the policymaker and the regulator.