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Building Microfinance Associations: Goals, Implementation and Policy Implications

Kristen Hudak

Abstract

With increasing emphasis being placed on professionalism and a self-sustaining financial model, microfinance institutions are joining forces in national associations. This research explores the stated goals of these associations and the challenges they face in implementation, through content analysis and case studies of Sri Lanka and Nepal. It finds that microfinance associations are not focused solely on representing and advocating for the interests of their members. Rather, this function is often combined or even overshadowed by important capacity building services. In some cases, associations are even filling gaps in formal regulatory oversight. At the same time, they face challenges of institutionalization and heterogeneous membership.

KEYWORDS: microfinance, business associations, advocacy, collective action, poverty, financial access, capacity building

Microfinance Associations (MFAs) are increasingly playing an important role in promoting and monitoring microfinance initiatives to expand financial access and alleviate poverty in developing countries. This paper seeks to explore the nature of these associations, how they are representing the interests of their members, and the larger policy implications of their efforts. Reports from the microfinance industry suggest that beyond the advocacy or lobbying role typically played by business associations, these MFAs can also provide capacity building, training and information dissemination services for their members. The question explored here is two-fold: First, what is the relative emphasis being placed on advocacy verses a more supportive, service-based role? Second, how successfully is this being implemented? The empirical analysis considers these two questions through content analysis of their own self-descriptions and case studies of associations in Sri Lanka and Nepal. It finds that most microfinance associations are actually emphasizing capacity building services and in some cases are even filling gaps in formal regulatory oversight. At the same time they face challenges to the realization of these goals in terms of institutionalization and heterogeneous membership.

Microfinance institutions (MFIs) are in the unique position of being both grassroots development organizations and financial service providers. This dual role places them as much in the financial industry as it does in the development services and poverty-alleviation area. The term microfinance generally refers to small scale financial services offered to the poorest populations, often in areas where banking options may be limited or not available at all. Typically, micro-*credit* services aim to provide working capital which can help the recipient to start or improve a small-scale business and thus improve the livelihood of themselves and their family. It is based on the premise that providing small loans to those living in poverty can provide them with the capital they need to become self-sufficient. More broadly, microfinance can include a range of financial services, with some MFIs also offering savings and insurance (Helms 2006). The microfinance model tends to be characterized by a focus on women borrowers, group lending, and mobile and decentralized management structures. These institutional features are designed to address some of the fundamental difficulties of lending to the poor – namely that there is no documentation to assess credit-worthiness or likelihood of default and that very poor clients lack the typical kinds of collateral which can be used to insure the loan.

MFIs may include banks, cooperatives, credit unions, non-governmental organizations (NGOs), or non-bank financial institutions (NBFIs). While banks may dominate in terms of assets, the microfinance industry is primarily composed of NBFIs and NGOs, which by at least one count make up over 70 percent of MFIs worldwide (MIX Market 2009). About 60 percent of MFIs are non-profit (MIX Market 2009). Whether non-profit or for-profit, MFIs are notable for their self-sustaining models. Despite some early pessimism (Adams and VonPischke 1992), MFIs have generally flourished and studies more often than not report how these institutions have maintained their financial self-sufficiency (for example Mosley 1996; Rashid 1997; Schreiner 1997, 2003; Seibel and Torres 1999).

Given the emphasis being placed on this self-sustaining financial model, as well as increased professionalism, MFIs are increasingly joining forces in national associations. These Microfinance Associations are member-controlled organizations that seek to promote the interests of MFIs in terms of professional advancement and an enabling environment for microfinance (McAllister and Tenn 2004). Still in their nascent stages, they are estimated to be operating in over sixty countries (Chen and Rasmussen 2005). In addition to national-level associations, there are also networks and associations which exist at the regional and international levels. While membership at any level may have overlapping benefits, international associations, such as the Small Enterprise Education Promotion (SEEP) Network based in the United States, tend to be more concerned with learning, best practices, and linking MFIs with one another and with international donors. In contrast, national associations often act, and are accepted by national authorities, as the official representative of MFIs in that country (Gross and Brüntrup 2003).

While the primary purpose of these associations is to represent the interests of their member MFIs, they also play a more complex role in their indirect relationship to the clients of their members. There is a real concern on the part of MFAs in regards to their members' efforts to alleviate poverty and create opportunities for poor entrepreneurs. Thus a better understanding of the role of these institutions has multi-faceted policy implications. Specifically, how can these associations be better incorporated into the policy making process? Might they be instrumental in the establishment of microfinance policy and regulation – or even promoted as an alternative to regulation? Can they serve as effective liaisons and dissemination mechanisms to ensure that the needs of poor entrepreneurs are being served by MFIs? This paper will argue that MFAs can serve a critical role in the development of policies for the microfinance sector and for improving the extent and quality of financial access more generally. At the same time, they can provide oversight and legitimacy to microfinance operations where regulatory and legal frameworks are lacking.

Collective Action that Supports and Complements the Market

The framework for this analysis draws from a positive view of business associations where advocacy or collective action need not be problematic, but may instead mean positive changes and better policies. Mancur Olson's Logic of

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Collective Action has formed the basis for much of the literature available on interest groups and business associations in general (for example Coleman and Grant 1984; Hansen et al. 2004). However, this classic view presents a negative interpretation of organized interests. The emphasis from this perspective is that special-interest groups have a tendency to engage in rent-seeking behavior. That is, these groups lobby the government for special benefits for their members, at the expense of tax payers and consumers. Olson's argument is that by doing this, such groups reduce efficiency, slowing down the adoption of new technologies and resource allocation, and thus reducing the overall rate of economic growth (Olson 1965, 1982).

Critics have found several faults with this approach. Haggard et al (1997) point out that empirically, associations have not always been found to seek rents. Jones (2004) argues that collective action can be a response to collective concerns, rather than individual incentives; that there are indeed incentives to identify with a common cause when the collective action is deemed "non-profit" and the common goal is non-rival. Shandlen (2002) has proposed that in addition to understanding labor and big business interests, a "third logic of collective action" is required to account for small businesses, which tend to be underrepresented. He argues that these small businesses rely more heavily on associations to promote common interests. This last criticism is of particular relevance to the topic under discussion here, as many microfinance operations are small-scale and would not individually possess the ability to promote their interests at the national level.

Additionally, Olson's framework does not fit well in the developing country context. As Haggard (1997) has pointed out, in the context of new democracies for example, economies are not necessarily efficient to begin with, and that "In such a setting, an interest group that seeks a larger share of the social pie for itself does not necessarily reduce efficiency" (125). Likewise, Doner and Schneider (2000) suggest that "Distributional objectives may coexist or even alternate with more productive goals" (262). Studies like these suggest that business associations in developing countries can actually help to compensate for the political and economic failings of that environment. It is this alternative model of collective action in the developing world which best applies to microfinance associations, and which will be utilized here.

To frame this alternative model, this paper uses the helpful typology developed by Doner and Schneider (2000). They argue that associations may engage in 'market-supporting' or 'market-complementing' activities. They define market-supporting activities as those that place pressure on states to provide public goods such as property rights, and effective and non-corrupt public administration and infrastructure. In the microfinance context, this could mean better regulation, policies, and improvements in the financial sector more generally. Thus even the most self-serving of lobbying may have positive consequences. As the authors point out "under certain conditions business associations have contributed to economic development without intending anything more than defense of their members' interests" (278). Other studies have indeed found that collective action can have a positive influence on macroeconomic policy reform (Schneider 1997; Silva 1997, 1998; Thorp and Durand 1997; Tirado 1998; Moore 2001). In addition, several authors have confirmed a positive effect from associations in reducing corruption and increasing transparency (Heilman and Lucas 1997; Lucas 1997; Nugent and Sukiassyan 2009). It has also been found that the presence of interest groups can have a positive effect on physical investment (Coates and Heckelman 2003). In this way, business associations have an important role to play in terms of "the ability to demand a more responsive and effective government" (Heilman and Lucas 1997, 67).

In a more everyday sense, business associations help by not only lobbying for policy change, but by becoming a part of the policymaking *process*. In the case of Bangladesh, Kochanek (1996) has suggested that previous lack of involvement meant an isolated government, shallow levels of policy support and problems of implementation. In contrast, Indian business associations have proven to be important sources of ideas for regulations (Athreye and Chaturvedi 2007). Indeed, state officials increasingly prefer to deal with an aggregated voice. Thus good relations between a business association and the government can not only provide legitimacy, but also saves the government from having to canvas individual firms and sectors (Moore 2001). This requires that both the government and the association must recognize the mutual gains to be had from incorporating the association into the policymaking process (Garrity and Picard 1991).

Market-complementing activities, on the other hand, help to overcome various market failures through mechanisms such as lowering the costs of information, setting standards and quality upgrading. In fact, it has been suggested that these previously neglected functions may in fact be more important than lobbying in determining firm behavior (Nugent and Sukiassyan 2009). Perez-Aleman (2003), for example, suggests a learning-centered view of business associations. She argues that business associations have a valuable role to play in encouraging collective learning among firms in developing economies. This coordination of knowledge, skills and information can help build competitive capacities. These information and coordination roles often help to compensate for inadequacies in the business environment of developing countries (Athreye and Chaturvedi 2007). Furthermore, associations provide an institution that can not only set agendas for collective action, but can formalize norms and expectations for its members (Lucas 1997). Moreover, as Ostrom and coauthors have

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suggested, collective action can be achieved through self-monitoring and sanctions without an external enforcer (Ostrom et al. 1992). Indeed, it has been suggested that associations can also provide a mechanism for collective self-governance, particularly in the absence of effective state interventions or regulations (Haggard et al. 1997; for examples see Biddle and Milor 1997; Doner and Ramsay 1997; Schneider 1997; Athreye and Chaturvedi 2007; Palmer 2007).

This paper follows this more optimistic view of business associations in a developing country context. Through market-supporting activities, they put pressure on governments to protect property rights, reduce corruption and develop infrastructure – public goods that benefit not only association members. Through market-complementing activities, they serve informational and self-monitoring roles that can fill in gaps in state capacity. Can this sort of collective action assist microfinance institutions in their efforts to bring financial access to the poor? This framework is first used to explore the existing literature on microfinance institutions and then tested in an empirical analysis of MFAs.

Microfinance Associations – A brief review of the available literature

National Microfinance Associations represent for the members an organization of likeminded institutions all operating within the same governmental framework and financial sector conditions. As pointed out earlier, these “likeminded institutions” may in fact include a variety of institutional types. MFA membership may include an odd mix of small grassroots NGOs and established national banks. Still, heterogeneity need not always be problematic for collective action. Rather, it presents different challenges and opportunities for the institutional design (Poteete and Ostrom 2004). Despite differences in size, lending methods, or even profit motive, MFIs do share both the internal goal of providing financial services to the poor and external concerns about the state of their national financial system. In fact, due to these common concerns, there have been several cases of mergers between associations operating within the same country, for example in Nigeria and Tanzania (Naaraayana 2009; Brown 2010). Thus national-level associations in particular seek to provide not only services to individual members (such as training), but more importantly, public goods that benefit the whole sector (such as improvements in financial regulation) (Al-Bagdadi and Brüntrup 2002; Gross and Brüntrup 2003). Additionally, to the extent that microfinance is expected to integrate with the broader financial sector, there may be opportunities for partnerships with other bankers’ associations in pursuit of mutually beneficial goals (Chen and Rasmussen 2005).

Based on industry reports, there is evidence to support that microfinance associations are pursuing both market-supporting and market-complementing activities, as outlined in the framework above. It has been widely acknowledged that these associations have a supportive role to play in terms of political lobbying and advocating for the sector. However, because the development of these organizations is relatively new, emphasis has been less on direct pressure for policy changes and more on starting to get involved in the policy process itself. As one report pointed out, advocacy takes time, "requiring consistent effort over several years to build relationships and credibility." It emphasizes the importance of being persistent and avoiding "on-again off-again efforts" (Chen and Rasmussen 2005). As part of a recent "Suite of Tools for Microfinance Association Professionals" released by the SEEP Network, its "toolkit" on policy advocacy suggested there was a range of advocacy roles for MFAs:

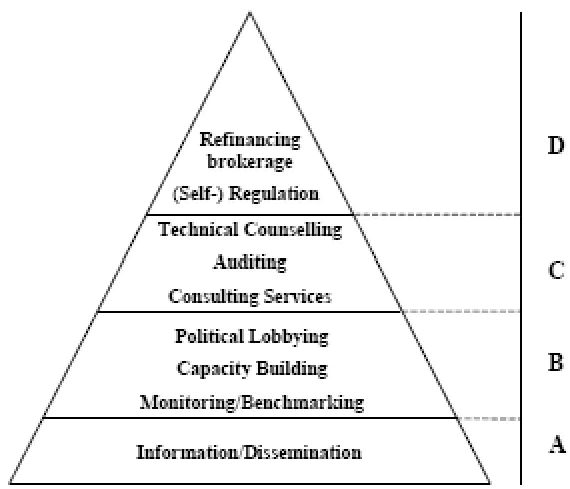
Figure 1:
Roles of Associations in Policy Advocacy

Source: D'Onofrio, Sharon. 2010. "Policy Advocacy: A Toolkit for Microfinance Associations." Washington, DC: SEEP Network.

Based on these recommendations, the role of MFAs as representatives for the sector can be as simple as building relationships and facilitating connections between MFIs and government officials, other financial sector stakeholders, and even the media. More directly, there is the active promotion of specific reforms and new legislation, but also consultation at critical stages of policy development (D'Onofrio 2010). Given that much microfinance-related legislation is still being developed, this consultation role may in fact be more important. Moreover, the kind of legislation that is being promoted can contribute to the overall development of the financial sector and the expansion of access by previously "un-banked" groups. Case studies conducted by the German Technical Co-operation (GTZ) provide examples of political lobbying and advocacy by MFAs. In Ethiopia, while recent propositions were not accepted, strong links to government bodies had been developed and MFI leaders felt that they could influence government decisions, though the term "lobbying" was rarely used in the Association's rhetoric and documentation (Al-Bagdadi and Brüntrup 2002). In Ghana, the national association GHAMFIN has developed an "intensive dialogue" with the government's ministries that have resulted in a Memorandum of Understanding, advocated on behalf of the Credit Union Association in efforts to pass a separate credit union law, and had (at that time) just started discussions on an appropriate legal framework for MFIs (Al-Bagdadi and Gross 2002). In both cases, it was concluded that the associations under study had been generally accepted as representative of MFIs and microfinance concerns.

To the extent that MFAs are engaging in policy development with the goal of developing the financial sector as a whole, they most certainly have the potential to play the 'market-supporting' role which Doner and Schneider outline. However, the 'market-complementing' may be even more important. Indeed, lobbying has been considered just a part of a larger hierarchy of MFA services that range from basic (A) to most complex (D):

Figure 2:
Service Pyramid of Microfinance Associations



Source: Al-Bagdadi, Hayder, and Michael Brüntrup. 2002. "Microfinance Associations: The case of the Association of Microfinance Institutions Ethiopia (AEMFI)." Eschborn: German Technical Co-operation (GTZ).

Echoing the general literature on associations in developing countries, it has been pointed out that due to the "many deficits in the nascent support sectors of [microfinance] in developing countries" MFAs play important roles normally assumed by business service providers or public services. These include education, training, technical support, consulting – even regulation (Gross and Brüntrup 2003). Thus beyond the promotion of interests, MFAs play a market-complementing role in terms of service provision as well as norm setting and self-regulation.

At the most basic level, MFAs provide simply a network or forum for practitioners to discuss experiences and share information, along the lines of Perez-Aleman's (2003) learning-centered view of business associations. GHAMFIN for example maintains a library and inventory of Ghanaian MFIs, distributes a quarterly newsletter and organizes discussion forums (Al-Bagdadi and Gross 2002). Other important means of information dissemination can include organizing experience sharing visits, publishing research, and organizing conferences (Al-Bagdadi and Brüntrup 2002). Increasingly MFAs are also offering fee-based services such as training, credit ratings, credit bureau information and technical assistance. Some even act as funding agencies which direct funds to individual MFIs (Chen and Rasmussen 2005).

In some cases – particularly in the absence of national level microfinance policy or standards – MFAs can play an important role in establishing best practices or even self-regulating the industry. In countries where microfinance is most common, these functions may be weak or non-existent. As such, MFAs may be tempted to "fill the void" acting as standard-setters proactively promoting transparency and codes of conduct (Chen and Rasmussen 2005). For those that promote these associations, the hope is that they can contribute to standardizing practices and enhancing professionalism through such standard setting activities as:

- establishing a code of conduct
- performance standards and benchmarking
- awards for best practice, publication of performance lists
- norms of competition
- supervision of member MFIs
- supervision of member MFIs on behalf of supervising authorities
- supervision of members and non-members
- obligatory membership of MFIs in MFAs (Gross and Brüntrup 2003)

One of the most complex roles that MFAs may take on is the notion of self-regulation or direct supervision of members in the absence of formal regulatory bodies. This was the case in Ghana, where GHAMFIN was seeking to establish performance indicators for the industry (Al-Bagdadi and Gross 2002). Another example is MFIN in India, which enforces a code of conduct among its 35 non-bank financial corporation members and just implemented its own credit bureau (Mahajan 2010; Microfinance Institutions Network announces launch of Credit Bureau" 2011). However, some observers have questioned whether the associations *should* be taking on this additional regulatory role. It has been suggested that they may be seen as simply a convenient "quick fix" by governments lacking resources and reliable regulatory systems (Schmidt 2008).

As described in the industry literature, these microfinance associations appear to fit the theoretical framework outlined in the previous section, with evidence of both market-complementing and market-supporting activities being promoted. There are two unique features however that should be mentioned. The first is the formation of the institutions. While some MFAs are self-initiated by the microfinance community, others are initiatives of outside donors (AFMIN 2004). In fact, they have often been promoted as a constructive use of donor funds (for example, see McAllister and Tenn 2006; SEEP Network 2004). On one hand, seed money has been an important, though not sufficient condition for formalizing networks (Gross and Brüntrup 2003). It has been found to accelerate their formation and has been important for achieving sustainability of the organization (Al-Bagdadi and Brüntrup 2002). Out of 50 organizations included in a 2005 SEEP Directory of Microfinance Networks, 39 (78 percent) rely on foreign donors (SEEP Network 2005). Self-generated funds averaged 36 percent of budgets, and only 3 reported being 100 percent reliant on self-generated funds. On the other hand, it was found in the case of Ethiopia for example that external donor support was less important for the development of a national association than internal coherence amongst the member MFIs (Al-Bagdadi and Brüntrup 2002). Who is supporting these associations? According to the SEEP Directory, the World Bank was reportedly funding 9 of these networks, while various UN agencies were listed as funding sources for 10. USAID was the most common donor, funding 20 of the networks – or 40 percent. Germany's GTZ was the second most common, funding 12 (24 percent). The fact that these associations are influenced by international donors is worth keeping in mind, as these influences could be shaping the direction and activities of the association. This is not sufficiently addressed in the available research, and while beyond the scope of this paper, warrants further consideration in future research.

The second unique feature lies in the social mission of the MFI membership. While MFAs may be classified as professional associations defending the interests of their members, their goals also reflect the fact that their members are pursuing public welfare interests (Gross and Brüntrup 2003). MFIs, whether profit or non-profit, at least claim to focus on the expansion of financial services, poverty alleviation, even gender empowerment. This then affects the approach of the MFA. For example, a case study of the Association of Microfinance Institutions Ethiopia (AEMFI) highlighted that its vision and mission "reflect the fact that Ethiopian MFIs are strongly devoted to poverty alleviation" (Al-Bagdadi and Brüntrup 2002). In an address to training conference participants, the Executive Director of the Africa Microfinance Network (AFMIN) emphasized that "MFIs need to leverage their expertise through country level networks in order to achieve the intended result on poverty reduction and improve the livelihood of their poor clients" (AFMIN 2004). By providing a support network and collective voice to their microfinance members, MFAs have an important indirect role to play in this larger social mission.

Methodology

In order to identify goals and assess their successful implementation, this paper presents a two-part analysis of microfinance associations. The first considered a snapshot of how microfinance associations around the world present themselves. This was done through a content analysis of descriptions posted by organizations in the Microfinance Gateway's database as of September 2010. This database allows microfinance institutions and related stakeholders to list their information on the website for networking and funding purposes. It is recognized of course that an assessment of how these associations *self*-identify may not be truly reflective of what they do in practice. However, the primary goal was to identify the main roles these organizations promote themselves as playing.

The content analysis catalogued basic information and key words from the self-descriptions posted by every organization categorized under "associations and networks."[1] Six roles were considered using the key words and themes in Table 1. Unfortunately, the Microfinance Gateway profiles do not provide information on the current number of members or the concentration of resources into each activity. However, we can consider the number of activity areas each organization is involved. Additionally, geographic scope of operations provides us some indicator of scale. International and regional organizations are considered separately from national-level networks and associations which are more of interest here. Chi-square statistics indicate whether there are significant differences across the three types.

[1] Both types of organizations were included because they were not easily distinguishable based on the information on the website.

Table 1
Content Analysis Methodology

Role	Key Words / Themes
Market-Supporting	
Advocacy	▪ Enabling environment ▪ Policy advocacy ▪ Represents interests ▪ Joint action
Market-Complementing	
Conducts and/or disseminates research	▪ Product development ▪ Research ▪ Knowledge management ▪ Dissemination
Promotes cooperation, networking among members	▪ Cooperation ▪ Information sharing ▪ Facilitates Meetings, workshops, or forums ▪ Networking
Technical assistance or consulting services	▪ Capacity-building ▪ Technical assistance ▪ Training ▪ Professional development ▪ Technology ▪ Governance ▪ Consulting ▪ Start-up assistance ▪ Transition assistance
Industry monitoring or regulation	▪ Best practices ▪ Performance standards ▪ Transparency ▪ Ratings ▪ Credit Reporting ▪ Certification
Other	
Direct or indirect financial assistance	▪ Financial assistance ▪ Donor assistance ▪ Wholesale lending

Within this international context, the analysis then considers detailed qualitative case studies of microfinance associations in Sri Lanka and Nepal. Information on these cases was gathered through interviews conducted with key stakeholders and association leaders during field research conducted in these two countries in 2009. The South Asian region as a whole is notable for spearheading the microfinance movement, thanks in part to Muhammad Yunus' efforts in Bangladesh. Countries like Bangladesh and India are certainly exceptional, Bangladesh because of exceptionally large and notable institutions like BRAC, ASA and the Grameen Bank, and India for its sheer size. Nepal and Sri Lanka, on the other hand, serve as more typical examples. Moreover, they allow for a "most similar" approach because of the similarities in not only their South Asian location, but also varied cultural makeup, population size, and even their experiences with violent and lengthy internal conflicts. However, it should be noted that there are important differences in both poverty levels and in microfinance outreach (Hudak 2010).

More importantly, the case studies provide a more contextualized understanding of the ongoing development of these institutions, how their goals are being realized and how they are perceived by members. While the content analysis provides a broad look at the stated goals of MFAs throughout the world, these case studies allow for a closer look at the interaction with government institutions and members; at their successes and weaknesses. Together with the content analysis, they provide a fuller picture of the potential policy lessons that can be drawn.

Analysis

International Patterns

The content analysis considered 117 microfinance networks and associations worldwide. These organizations are headquartered in all regions of the world and vary by scope of operations as well as membership. While the vast majority of organizations included in the analysis dealt directly with a microfinance or microenterprise member base, 18 (about 15 percent) were more indirectly related – focusing on topics such as micro-insurance, investors, services or humanitarian efforts. The geographic scope of operations was also significantly related to where the organization is headquartered (Chi-Square = 48.052, $p = 0.001$). Specifically, 54.5% of North American-based networks are international in scope. The majority in other areas tend to be regional or national in scope.

Content analysis of these organizations' self-descriptions reveals a picture of the relative importance placed on market-supporting and market-complementing roles. The following table reports the number and percent of institutions which addressed each of the different roles in their descriptions. The highlighted column indicates the figures for MFAs operating at the national level. Chi-Square statistics indicate that the differences between national, regional and international levels of operation are significant in all areas except financial assistance.

Table 2
Associations and Networks Describing Involvement

		Geographic Scope of Operations					
		intl.	regional	**national**	not specified	Total	Chi-Square
Market-Supporting Plays advocacy role	Count %	4 12.1%	8 40.0%	19 38.0%	1 7.1%	32 27.4%	11.193*
Market-Complementing Plays research / dissemination role	Count %	13 39.4%	14 70.0%	15 30.0%	1 7.1%	43 36.8%	15.871**
Promotes cooperation, networking among members	Count %	12 36.4%	16 80.0%	16 32.0%	0 .0%	44 37.6%	24.449***
Provides technical assistance or consulting services	Count %	11 33.3%	15 75.0%	30 60.0%	3 21.4%	59 50.4%	15.231**
Plays industry monitoring or regulatory role	Count %	3 9.1%	10 50.0%	8 16.0%	1 7.1%	22 18.8%	16.292**
Other Provides direct or indirect financial assistance	Count %	4 12.1%	4 20.0%	10 20.0%	2 14.3%	20 17.1%	1.071
Total Counts		33	20	50	14	117	

* asymp. sig. < .05, ** asymp. sig. < .01, *** asymp. sig. < .001

Based on this information, we see that the national-level associations and networks are claiming to engage in policy advocacy. However, there is also a substantial number engaged in the more 'market-complementing' activities. In fact, the most common practices mentioned by all of the MFAs under consideration were technical assistance, networking, and information sharing. Only 27 percent indicated that they were engaged in some advocacy role. When we break it down by geographical scope of operations however, we can see that the national associations have a different character. International organizations primarily promote the more basic roles of information dissemination and networking, with only 4 out of 33 indicating any kind of interest representation.

In contrast, 19 out of 50 (38 percent) national organizations mentioned playing some kind of advocacy role in their self-descriptions. Interestingly, a similar proportion of the regional associations also spoke of being involved in this area.

What is clear, however, is that lobbying is not the priority here. At least not insomuch as the MFAs consider it enough of a priority to include in their own description. In fact, none of the MFAs under review referenced advocacy only; all were engaged in at least one of the market-complementing activities as well. As the literature review suggests, however, these activities may actually be more important. The emphasis placed on these other services certainly seems to support this. Large percentages of both national and regional organizations (60 and 75 percent, respectively) report that they are involved in the more complex area of technical assistance and consulting. Small percentages at each level of operation also report playing some role in the establishment and monitoring of performance indicators, even providing financial assistance. These findings echo the earlier evidence found in SEEP's Global Directory, which included fewer MFAs (SEEP Network 2005).

If these are the priorities MFAs wish to emphasize, what does the implementation on the ground look like? For a more detailed, contextual look, we turn to case studies of microfinance associations in Sri Lanka and Nepal.

Sri Lanka

Initiated in 2006, the Lanka Microfinance Association is emerging as a means of articulating and representing the interests of MFIs in Sri Lanka. Starting with just seven members, it promotes membership among all microfinance institutions throughout Sri Lanka, and now has over 80 microfinance and associate members. Its mission is "To build the capacity of institutions engaged in microfinance to serve poor communities in a viable and sustainable manner." It is interesting to note that this mission is directed more at the market-complementing activities than the classic view of associations as representing interests. Advocacy is included however, as one of its stated objectives, which are as follows:

- To promote membership among microfinance institutions in all parts of Sri Lanka who provide financial services to the poor for alleviation of poverty.
- To advocate for a policy environment that is conducive to the growth and development of the micro finance sector through collective action by micro finance institutions and other stake holders.
- To promote an adoption and installation of internationally accepted performance standards for Microfinance Institutions.

- To develop and strengthen systems for information collection, analysis and dissemination through electronic and print media.
- To promote the expansion of the formal financial markets as micro finance services.
- To protect and strengthen the capacity of micro finance institutions to deliver appropriate and sustainable micro finance services to the economically active poor through co-ordination and organization of lateral learning workshops, theoretic debates and linkages with other organizations.
- To develop and operationalize an independent performance monitoring system for MFIs that will set standards and increase professionalism in the Microfinance Industry.
- To mobilize resources and to network with Government, Donors, Funding Agencies, Investors and Commercial Loan Providers in order to enhance the development of the Microfinance Sector. (Lanka Microfinance Association 2009b).

When asked about the primary role of the association, practitioner responses emphasized the advocacy role as well as capacity building. Comments included that the "main goal is to represent the members," "to lobby for the [Microfinance] Act" and "to be a voice to the industry." Capacity building was frequently mentioned, as well as occasional references to professionalism, technical support, information dissemination, networking, funding, and best practices. It was even suggested that the association was for, "the promotion of microfinance and to eradicate poverty." The variety of responses seems to reflect that there was some awareness of the multi-faceted goals of the organization.

Prior to the Lanka Microfinance Association, lobbying by individual institutions and small groups was reportedly not as successful. As one practitioner pointed out, in 100 years of microfinance, while some were "singing their own song," there was no common voice until the association. Since its establishment, the association has certainly made progress in terms of building relationships with relevant government officials and offices. Representatives from the association as well as the Central Bank pointed to positive interaction between the two institutions. They reported meetings and appeals to particular government departments, with the association playing a particularly helpful role in facilitating an industry-wide survey of MFIs. This provides a good example of the more basic advocacy roles of information and facilitation. In addition, the Association has been particularly involved in promoting the passage of the Microfinance Act, seeking to improve the image of microfinance by ensuring it is properly legalized. It contributed to drafting the Act, seeking to ensure it is "friendly for all stakeholders." Practitioners interviewed were generally happy that the Association was able to provide input, though the Act has yet to pass. More generally, the Association has been able to establish itself as the sector's representative in the country, and therefore as one practitioner put it, has a "big role to play policy wise at national level." In the short period it has been in operation, this was cited as an important achievement. It has established "cordial relations" with legislators, developed "trust and friendship" among practitioners, and its presence is according to some "strongly felt now."

On the other hand, some were more critical. For example, some have reported that the industry has not done enough to keep the government well-informed and that disagreements among different segments of the industry were to blame for the Act stalling. Generally, the Central Bank did not appear to face much pressure from the Association. One practitioner even suggested that Sri Lankans are generally very passive and therefore "aggressively lobbying for things is not in our nature." One expert argued that the Association was "not yet recognized as the body of the microfinance industry." Indeed, at the branch level and in more remote areas, there is less familiarity with the association at all. It was also suggested that variety of institutions involved in microfinance and a lack of common ground has made it difficult to speak with one voice. Some MFIs remain excluded from the association (namely large commercial banks and smaller NGOs).[2] While the Lanka Microfinance Association is playing an important role in providing a voice to the industry and facilitating discussions with the government, it appears to still be establishing itself.

Still, there is much optimism. As it was expressed in one interview, the Association "has a long way to go and a strong role to play." In particular, they do still have an important role to play in increasing capacity: "to get members to a level where they can be ready for regulations… [it] won't help if we're not ready." Thus practitioners see the association as providing important technical support and capacity building services. At the most basic level it serves as a networking body and means of exchanging views and ideas, facilitating relations with international bodies and maintaining a database of members. The association has facilitated training programs and helped produce a legal study on microfinance in conjunction with ProMis, a collaboration between the Sri Lankan Ministry of Finance and the German Technical Cooperation (GTZ) which also promotes training, best practices and capacity building, policy advocacy, research,

[2] While the exclusion of smaller NGOs seems to be a result of promotion or distance, commercial banks are excluded from membership based on definition. Ordinary members are "retailing practitioners with Microfinance as a core business" (Lanka Microfinance Association 2009a). However, there are other categories of membership (associate, affiliate and honorary) and commercial bank practitioners did indicate at least an informal relationship and interactions with the association.

and networking (ProMiS 2009a). Some even see it as potentially serving an important monitoring or even self-regulating role; one that might develop a uniform and standardized system for the industry in Sri Lanka. Another practitioner suggested that the “Vision is to see a governing body of MFIs in the country,” one that could develop governing principles, best practices and good governance. Another suggested that it might also serve the role of credit information bureau.

While some of these remain to be seen, the Sri Lanka case does illustrate an association which seeks to complement the goal of interest promotion with other important services for members. It also demonstrates some of the challenges of establishing this kind of association. It takes time to build relationships with government bodies, and even among the members themselves. There is also the additional challenge of designing an institution to meet the needs of a heterogeneous membership. Nepal offers a contrasting lesson.

Nepal

In the case of Nepal the interests of microfinance organizations are represented by a range of networks that align the different types of institutions, including the Microfinance Development Bank Association, the Microfinance Association of Nepal (MIFAN, which represents the Financial Institution NGOs, or FINGOs), the Nepalese Federation of Savings and Credit Unions (NEFSCUN), and the Grameen Network Nepal which sought to bring together all those MFIs which were based on the Grameen model. Unlike the Lanka Microfinance Association, practitioners and other stakeholders who were interviewed were much more likely to focus on the advocacy or lobbying role of these associations. Comments included that the “association is for lobbying, to protect the interest of the microfinance banks,” that the “main objective is to safeguard the welfare of the development banks.” While there were some mentions of providing sector support, capacity building, and networking, these were more infrequent.

Practitioners generally saw the associations as facilitating more effective policy dialogue with Nepal’s Central Bank, the Nepal Rastra Bank (NRB). As one expert put it, “If I go alone, they will not listen to me – if we go as group they will listen.” This also provides a more central contact point for the Central Bank and makes it easier to disseminate information to the industry as well. Lobbying efforts have focused on the issue of fair tax rates for nonprofit MFIs,[3] incentives

[3] MFIs in Nepal were often required to pay the same tax rates as larger companies and banks, even despite cases of nonprofit status. Because of their small scale and social agenda, this was viewed by practitioners as not only unfair but with consequences for sustainability as it adds to operational costs. It should be noted that Nepal’s recently passed Microfinance Policy includes an intention to “adopt flexible policy in the income tax earned by the microfinance agencies and the tax rates on the interests earned by the disadvantaged groups from their deposits” (Nepal Rastra Bank 2007).

for expansion to rural, hilly areas, and clarifying public deposit issues. In some cases, practitioners reported that the government had been conducive to proposals, listening to demands and adjusting laws. According to some, the Central Bank was reportedly more responsive than the government and specifically the Ministry of Finance.

However, some were more negative. One complained that on the tax issue in particular, change was promised by multiple administrations with no results. Another suggested that the main goal of the associations is simply “carteling,” seeking to control the market and interest rates rather than protecting clients and developing businesses. “It’s not their fault” he explained, “This is the environment in Nepal, how all professional associations work.” Another still held that the focus should be less on lobbying the government and more on joint consultations on important issues, something he suggested may have helped in developing Nepal’s Microfinance Policy.

Despite criticism, most seemed to agree that advocacy could potentially result in positive changes in policy. However, the representation of microfinance interests in Nepal actually appears to be even less institutionalized than in Sri Lanka. This presents a serious challenge to implementing the stated goals of the associations. One problem seems to be the variety of associations that exist. Criticisms included that with the range of associations, each tries to promote itself as an apex or umbrella organization while failing to cover all MFIs. One stakeholder interviewed commented: “In this country, there's an association for almost everything.” Moreover, at different times, a number of these associations have been inactive. It was not clear at the time of this research, for example, whether the Grameen Network Nepal was still operational. Some MFIs were reportedly discouraged by member fees, particularly without sufficient perceived benefits. Another major problem is capacity and resources. Practitioners reported lack of resources and staff as a problem for the relevant associations. One development bank operating outside of the Kathmandu valley pointed out that it is often difficult for members too. Those operating in the far eastern and western areas of the country have difficulty attending meetings and actively participating in associations.

Another implementation problem here lay in the lack of awareness of these associations providing any additional, more ‘market-complementing’ services. It was commented that in the case of the Microfinance Development Banks, the association had “created a forum for microfinance banks to meet in one place and share problems and solutions.” Yet in spite of some mentions of training, practitioners in general seemed to be less aware of other services that might be offered by these associations. NEFSCUN was an exception, seemingly more actively engaged in the sector, even involved in some research and development to develop new operational methods and products.

As in Sri Lanka, these associations are a relatively new development, but the outlook in Nepal is somewhat less optimistic. In fact, one practitioner predicted that MIFAN, the association for FINGOs "is likely to die," though this may have more to do with the fact that many FINGOs have been switching their registration to Microfinance Development Banks. Still, another pointed out that they are still young, and "there is hope that they will do something to benefit MFIs and play some advocacy role." Despite the challenges of a heterogeneous membership, it appears that trying to maintain different associations is not an effective solution. Perhaps a new emphasis on market-complementing activities in terms of information dissemination, networking and technical support would bring renewed interest in joining forces under a national level association.

Conclusions

Governments in the developing world often see microfinance as a viable tool for development, entrepreneurship and poverty-alleviation. However, there is increasing concern regarding best practices and client protections, particularly in light of the well-publicized case of suicides by microfinance clients in the Andhra Pradesh region of India. Thus there is a strong impetus for microfinance specific policies. These need input from the industry itself. By taking on an advocacy role, whether through simple engagement with government officials or direct promotion of policies, Microfinance Associations provide a helpful conduit for dialogue between policymakers and the microfinance industry.

How then can these associations be better incorporated into the policy making process? The first lesson that can be drawn from this analysis is the importance of institutionalization. Though a substantial number of national level MFAs claim to play some kind of advocacy role, we see in the case studies that the organizations themselves may still be struggling to develop. To become a significant part of the policy making process, MFAs need to be consistently and continuously developing relationships with policymakers and governing bodies. It also requires building awareness and stronger ties among members as well as potential members. While the Lanka Microfinance Association seemed to be making progress, in Nepal we see periods of inactivity and inconsistent provision of services. One interviewee in Nepal pointed out, "something is better than nothing – at least their voice has been raised." While some dialogue is certainly better than none, more effective involvement in the policymaking process requires institutionalization.

In addition to institutionalization, there is strength in unity. It has already been noted that MFIs are often an odd assortment of institutions ranging from NGOs to Credit Unions to Commercial Banks. In Sri Lanka's case, one of the challenges noted was in trying to get these different types of organizations to speak with one voice. However, the alternative illustrated in Nepal's case is not necessarily more effective. In fact, the presence of multiple organizations meant competition to be the true voice of microfinance interests. From the government's perspective, this also complicates things by creating multiple contact points to go through. The policy challenge then is to promote institutions that address the issue of heterogeneous membership in a way that is most appropriate to the national context.

Promotion of microfinance specific policies and regulation is difficult however in developing countries that lack the capacity for additional oversight. Yet here too, microfinance associations have an important role to play. A small percentage did claim to play some kind of industry monitoring or regulatory role. Where there is a lack of formal regulation and official policy, MFAs can serve to develop codes of conduct and perhaps even directly monitoring members. Filling this gap can lend MFI members greater legitimacy and demonstrate a certain set of standards – at least as a temporary fix. The danger would be to allow governments to abandon more lasting solutions. Thus these activities do not diminish the importance of continuously advocating on behalf of the industry for improvements in financial regulation and access.

According to the analysis here of course, the majority of MFAs are more focused on the more basic services of information dissemination and capacity building. This is no less significant however. Associations are sharing best practices, new techniques, developing new applications for technology, and facilitating training. In serving their members in this way, they are providing the tools and skills for their MFI members to pursue their own mission of poverty-alleviation and financial access.

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