Centre Emile Bernheim
Research Institute in Management Sciences

Solvay
Business School

Norms and Values of the Various Microfinance Institutions

M. Hudon

This article studies the role of norms and values in the microfinance sector. Microfinance projects implemented in India use a wide range of different organizational structures. A classification of the sector is proposed, mapping the institutions along two axes: the profit motive (profit vs. not-for-profit) and the decision making style (centralized vs. un-centralized). Some Microfinance Institutions (MFIs) base their interactions on rigid norms or rules; while others are based on values. We argue that the private sector will tend to produce the operating rules of the microfinance system while the not-for-profit institutions that are using an inclusive decision-making process are more likely to influence the ethical norms in the sector. Nevertheless, this classification is not static as recent events in South-India shows that norms, such as the interest rates, can be politically and emotionally invested to the point that they are about to become values in the sector.

JEL Classifications:
Keywords: microfinance, norms, values, India, inclusive

CEB Working Paper N° 08/006
February 2008

Université Libre de Bruxelles – Solvay Business School – Centre Emile Bernheim
ULB CP 145/01 50, avenue F.D. Roosevelt 1050 Brussels – BELGIUM
e-mail: ceb@admin.ulb.ac.be Tel. : +32 (0)2/650.48.64 Fax : +32 (0)2/650.41.88

ULB

Norms and Values of the Various Microfinance Institutions[1]

Marek Hudon

FNRS Research Fellow

Centre Emile Bernheim – Solvay Business School - Université Libre de Bruxelles (U.L.B.)

Abstract: This article studies the role of norms and values in the microfinance sector. Microfinance projects implemented in India use a wide range of different organizational structures. A classification of the sector is proposed, mapping the institutions along two axes: the profit motive (profit vs. not-for-profit) and the decision making style (centralized vs. un-centralized). Some Microfinance Institutions (MFIs) base their interactions on rigid norms or rules; while others are based on values. We argue that the private sector will tend to produce the operating rules of the microfinance system while the not-for-profit institutions that are using an inclusive decision-making process are more likely to influence the ethical norms in the sector. Nevertheless, this classification is not static as recent events in South-India shows that norms, such as the interest rates, can be politically and emotionally invested to the point that they are about to become values in the sector.

Keywords: microfinance, norms, values, India, inclusive

Acknowledgments: A later version of this article has been published in International Journal of Social-Economics, 35, 1/2, pp. 35 – 48, 2008.

[1] The author is grateful for discussions or comments on earlier versions from Faska Khrouz, Loic Sadoulet and Michel Sylin. Thanks also to R. Srinivasan at the Indian Institute of Management, Bangalore. The author also thanks the Marie-Christine Adam Funds for financial support..

INTRODUCTION

Microfinance has established itself as an integral part of financial sector policies of emerging and developing countries in the past decade. In the field of international finance, it is renowned for its bottom-up approach, because of the main role of NGOs in the launching and the development of the sector, with the financial support of donors. This article approaches the microfinance institutions (MFIs) through their internal workings and studies the role of norms and values in the microfinance sector. Building on Gentil et al. (1999), a classification of the sector is proposed, mapping the institutions in two axes: the profit motive (profit *vs.* not-for-profit) and the decision making style (centralized *vs.* un-centralized). We will apply the classification to the Indian microfinance sector. After a classification of the MFIs, we stress that the complexity and diversity of the social and economic realities is such that it would be naïve to believe that any one type of organization structure would be capable of dealing with all of them.

Four types of group interactions are identified. We find that some MFIs base their interactions on rigid rules; while others are based on values. This differentiation is useful for three reasons: First, following a new “regulation *vs.* norm” analysis, the private sector will tend to shape the operating rules of the microfinance system (such as interest rates). But it is the not-for-profit sector that will be the key influencer for establishing ethical norms and values for this field. Nevertheless, recent events in South-India shows that norms, such as the interest rates, can be politically and emotionally invested to the point that they are about to become values for some actors.

Second, it points to the importance for MFIs to move towards the most efficient type of interaction: namely the "Partners" type of interactions. It honours six different levels of collaboration. Few MFIs have achieved this type of interaction.

Third, we can logically suppose that MFIs influence (consciously or unconsciously) the kind of self-help groups (SHGs) [2]they will support or more certainly their internal working process.

HOW TO MAP ORGANIZATIONAL STRUCTURE OF MFI IN INDIA?

The Task Force on Microfinance in India defined microfinance as the provision of thrift, credit and other financial services and products of very small amounts to the poor (mostly women) to enable them to raise their income and improve their living standards. Microfinance promise is that if well-designed, microfinance institutions can help develop the financial sectors in various continents (Morduch, 1999; Kaoma Mwenda and Nkombo Muuka, 2004).

Microfinance services may be provided by any type of institution, large or small, be it a formal bank or an informal self-help group. At the beginning, Indian MFIs were completely de-regulated, some didn't even have a legal existence. To gain in transparency and credibility, such informal MFIs opted for an official legal status only as an afterthought. As a consequence, most MFIs evolved without a common status,

[2] SHGs are the dominant form of microfinance in India. An SHG exists traditionally out of a group of 15-20 persons. See reference! Kim Wilson, K. (2002), The New Microfinance: An Essay on the Self-Help Group Movement in India, *Journal of Microfinance*, vol. 4, no. 2, pp. 217-245.

particularly given that India did not have specific legislation for microfinance activities either. This is the case in many countries as institutional frameworks have almost always come after the development of the microfinance sector.

A variety of organizations have started to deliver or support microfinance products in India. These structures include: the non governmental organizations (NGOs), private commercial banks and the non-banking financial institutions, the regional rural banks, the cooperatives, the public commercial banks, and the dual structure organizations.

Before assessing the influence of norms and values in the sector, we must analyse the organizational structures of the various MFIS. We can map them through a classification in two axes. The mapping is built on Gentil et al. (1999, pp. 38-40), who categorizes the institutions according to a “banker vs. developmental norms” on the horizontal axis and the “user’s involvement” on the vertical axis. Their analysis will be expanded and adapted to the Indian context.

The horizontal axis focuses on the emphasis on ***profitability*** that the organization is delivering. Profitability, often proxied by the operational or financial self-sufficiency, is an increasing concern in microfinance and is now widely studied (Stephens, 2005; Hudon and Traca, 2006). At one end is *profit maximization*, on the other a *not-for-profit* purpose. Notice that one can “overshoot” the not-for-profit on the negative side and fall into the trap of unsustainable losses which is the unfortunate case for some non-profits in Southern India.

On the vertical axis is the ***decision making style*** of the organization. At one end is *strict hierarchical decision making* (strictly pyramidal structures where all significant decisions are made at the very top. Examples of such structures include old-style military organizations); at the other end one will find *inclusive decision making* (where the decisions include as many as possible of the people affected by the decision).

All organizational structures have their strengths and weaknesses, and the “ideal” organizational structure will depend on which strength is the most important for success in the environment in which it is operating.

Let us explore in more detail first the horizontal axis of ***Profitability,*** and some of its implications. *For-profit organizations* are supposed to be more efficient to get profits, as their objective is more easily measured and controlled with financial ratios. The inefficient ones as a rule should go bankrupt and disappear over time. Their downside is that they may be tempted to become too insensitive to the social or environmental effects of their activities, as such “soft” objectives are often considered “externalities” to their profit-maximization objective. Such “externalities” may end up being simply perceived as obstacles limiting their profit maximization objectives.

Not-for-profits normally should be able to be more sensitive to the social, environmental, developmental and educational effects of their activities, as such effects are typically the very purpose for their creation. Their downside is that such objectives are more difficult to measure and control (Copestake, 2006), and that the discipline for efficiency in delivering them may also be suffering.

As a consequence, it can be very tempting to gradually slide from a not-for-profit status to become a systematic-loss-making organization, which may turn out to be unsustainable in the long run. Whenever donor fatigue sets in, or if the losses keep cumulatively growing over time, such organizations tend to get into a financial crisis and even disappear independently of the usefulness of their intentions.

The vertical axis focuses on the ***decision making style*** of the organization. At one end is the *hierarchical decision making* style, typified by a pyramidal organization structure which at the extreme means that all decision making power is concentrated at the top of that structure. The strength of such a command and control structures is that they are very familiar today, that they are scalable to large groups of people, and that the line of responsibilities is a clear one. This structure seems to be the best suited for private commercial banks values and activities.

Recent years have seen the rise of for-profit actors in the Indian microfinance sector. For-profit institutions include private commercial banks and non-banking financial companies. These institutions are funded through local capital or seed money coming from international donor (e.g. IFC), investment funds or philanthropists. We can predict that they will play a growing role in microfinance in India.

Private commercial banks have been slow to enter the market of microfinance in India, whether as promoter or lender. In general, they have long considered that promoting group lending was not part of their field, and therefore they let it to other institutions to initiate such activities. They also felt that the state-owned MFIs were undermining a strong commercial culture and repayment habits. Nevertheless, the recent development of ICICI in the microfinance sector showed that microfinance could be an interesting and profitable sector for for-profit institutions.

Private commercial banks now have some inherent advantages for microfinance schemes. First, they dispose of the necessary outlets, security, and technical equipment relevant for such activities. From a human resource perspective, they regularly dispose of efficient administrative systems, and a competent staff to manage savings and lending operations.

Another advantage of the private banks and the non-banking financial companies (NBFC) is a favourable legal structure. Section 45 (S) of the RBI Act, 1936 prohibits any institution to accept deposits, except those specifically allowed by the RBI. The NBFCs can accepts deposits if and only if they have the minimum capital amount of Rs 20 million, and obtained an “A” rating or better. Banks have therefore theoretically a built-in advantage for developing microfinance schemes.

However, there are also specific factors that have inhibited private institutions from investing massively in microfinance schemes in India. Historically, private institutions experience difficulties in supervising or servicing borrowers for microcredit loans because their branches are usually not set up for the poor communities that microcredit deals with. Moreover, salaries in banks are often high in comparison with the Indian average, and staff numbers are inadequate to identify and appraise tiny loans. The need for additional staff was always thought to render small loans non-viable. Bank staff is often not specifically trained to work with microfinance products. Finally, the work involved is sometimes disproportional with the money invested (Karmakar, 1999). As a consequence, many private institutions have long considered microfinance as an unattractive proposition in view of the high costs of delivering this product. This trend is however clearly changing during the last years.

The Reserve Bank of India decided in February 2000 that microcredit will now also become part of priority sector lending, and must develop into an official component of corporate credit plans. This notification has increased the private banks' investment in microfinance. The repayment rate on priority sector lending used to be low, ranging typically between 60 and 65% (McGuire *et al*., 1998). In contrast, the more than 95% repayment rate that microfinance schemes enjoy provided a major incentive to shift more resources in that direction. The RBI has also decided in 2002 to make it mandatory for all commercial banks to disclose their maximum and minimum lending rates, including sub-prime lending rates, on a fortnightly basis (Menon, 2002). Finally, microfinance activities can be profitable if well-managed, certainly in comparison with other primary lending investments. As a consequence of all the above, some private Banks and NBFCs have recently begun to invest more systematically in microfinance.

The weakness of the *hierarchical decision making* style is that it tends to ignore input from the rank-and-file people who are closer to the field and therefore may perceive solutions better adapted to the local circumstances; and that it tends to be less effective at fully developing the human potentials and capabilities of the majority of its membership.

At the other end one of the axis, we will find organizations with *inclusive decision making style*, in which the parties affected by a decision have influence over a significant decision. At the extreme, one finds consensus decision making where all participants have veto power over all decisions. Such organization structures exist in its purest form for small groups only, as they are not easily scalable. That is why pure forms of such a structures tend to exist only for relatively small intentional communities for example, because the more people need to be involved the harder it becomes to reach a decision. The strength of this decision making style is that it better captures valuable input from all levels of the organization, and that once a decision is made it tends to be implemented more rapidly and enthusiastically than in hierarchical structures. This approach also encourages the development of human capital to all levels of the organization. Its weakness is that reaching a decision can be a slow and laborious process, and at the extreme could paralyze decision making altogether.

The key insight that this graph provides is the importance of the positioning of cooperatives. They have a relatively high inclusive decision-making process, and could provide a counterweight to the centralised regulation-driven private for-profit sector. There could also theoretically be a role for the RRBs in this balancing effort, as they were specifically created to be active in the void between the private sector and the non-profits (shown as a void in our “regulation vs. norm” axis). However, as long at they will be subject to political interference that distorts their priorities, it is unlikely that they will be able to fulfil that role.

The Public Trust organizations in India that are involved in microfinance are in fact consensus decision-makers, and exhibit both the negative and positive effects of this structure. Finally, there is a logical correlation between the hierarchical decision making and centralized development processes; while inclusive decision making supports more un-centralized development models.

For example, increasingly people come to the conclusion that a corporation that blindly optimizes its immediate for-profit objectives regardless of any social or environmental factors, is in fact not optimizing long-term stockholders wealth. Such narrow for-profit attitudes will tend to create in the long-run a political and/or social backlash that puts new regulations and constraints in place. Similarly, a non-profit organization that ignores completely the constraints of economic sustainability may fall into the trap of a systematic “loss-making organization” and disappear in the long run, if it does not manage to be continuously subsidised.

On the other axis – the one of organization decision-making style - the real challenge for most organizations is to find the right balance between centralized decisions and inclusion of input in the decisions from the rank-and-file members. The ideal may be an appropriate mix of the two: efficient decision making combined with input and stimulation of the motivation from the people in the field. However, real-life organizations often tilt decisively towards one or the other mode of operation, and can therefore be mapped as such.

They are clearly established and managed under a wide range of values and also have demonstrated varying degrees of success. Some of these organizational structures (Public Trusts and Regional Rural Banks) are more particular to the Indian context; while the others can be found in many other countries.

Graph 1 provides a classification of the different types of Indian MFIs based on the above framework. Next, we will identify the key characteristics of an emerging actor in India: the for-profit actors.

Take in Figure1

This classification is clearly not static. Many organisations constantly evolve. For instance, while some microfinance managers are keen to keep the NGO status, the transformation to commercial bank is increasingly promoted by donors or the CGAP. Nevertheless, registration as commercial bank does not automatically materialize into organisational changes. Former NGOs now registered as banks may evolve and change their decision making while others don’t change their working process. Despite the constant evolution of the sector, nobody seems to have been able to determine yet the ideal structure to deliver microfinance services. Microfinance provides are established under different organizational structures. In the case of India, three of the most successful institutions are incorporated under a different status. Respectively, SEWA is a cooperative; MYRADA is structured as a NGO in cooperation related to a financial institution, Sanghamitra; and BASIX as a non-banking financial company.

IS THERE A BEST ORGANIZATIONAL STRUCTURE?

Lapenu (2000) substantiates that complementary “hard” and “soft” infrastructures strongly influence the positive impact on household income of access to financial services. In theory, both such infrastructures are supposed to exist already: the “hard” private sector for-profit institutions are presumably balanced by “soft” social purpose and redistributive governmental initiatives. State and private sectors should therefore be complementary. According to this model, the state should initiate or subsidize the introduction of microfinance innovations (for instance, microfinance services to agriculture, or grass-root insurance services) until profitability becomes proven as possible; and then these innovations should be generalized by both private and public sectors. In some countries that model has actually worked[3]. However, we have seen that in India, public institutions like the Regional Rural Banks sometimes turned out

[3] Indonesia provides an interesting example of this model of complementarity, for instance with the bank BRI pioneering new microfinance products, and the private sector generalizing them afterwards.

to be the worst at innovating or demonstrating sustainable microfinance projects. This policy should thus be carefully implemented.
The solution could be to find a new balance of power between the state, the local authorities and the financial institutions, so that political intrusion is avoided while ensuring a dynamic adoption of innovation and sound financial practices (Lapenu, 2000). More realistically for the case of India, this role of social innovator in microfinance by the non-profit sector is going to be played by some NGOs or, in some cases, by commercial players subsidized by donors. But Lapenu's key point remains valid: there is clearly a complementary role to be played for both the "soft" non-profit and the "hard" for-profit sectors in Indian microfinance.

Next, we will use the same argument for the decision making structures of organizations – i.e. the vertical axis of our institutional classification model of Graph 1. The vast majority of organizations today use hierarchical decision making, and financial institutions in particular are typically strongly pyramidal decision makers, where very few people at the top make most important decisions. But we believe it would be inappropriate to conclude from such evidence that only "hard" hierarchical decision making is correct, and that "soft" inclusive decision making is irrelevant. Particularly when the topic at hand is how microfinance impacts "soft" issues like development.

That is why we recommend that different organisations should each specialize in what they are best at, and adopt the corresponding organisation structure. The "hard" for-profit structures will in any case continue to use their well-established hierarchical decision-making structures. But some of the "soft" non-profits may want to consider strengthening their inclusive decision processes. A more equilibrated development process in Southern India might be helped by occupying the full range of organisational niches.

From those analyses, we can conclude that all the organisational structures dispose of some advantages that could enable them to survive and contribute to the country's development.

For-profit institutions have important financial know-how and are able to mobilize important sums. The **state owned institutions** understand the local markets and benefit from a strong reputation among the poor. Their social knowledge could become essential to complement the financial knowledge of for-profit institutions. **Cooperatives** have the deepest penetration in the market for small deposits. **NGOs** also can play a key role by helping to create experiments with new frameworks to develop the microfinance schemes. They also provide training and managerial capacity building in order to stabilize and sustain the growth in this field[4].

But we can not infer from this observation that all organisation structures are equivalent or that they can be used indifferently for microfinance. Some significant changes should occur in some of these entities if successful outreach is to be optimized. For-profit institutions - though clearly contributing to the extension of the offer of financial services to the poor – tend to rely on a "trickle down" model. And such an approach will not be sufficient to alleviate poverty at the speed necessary to meet the dire poverty in which millions in India live today.

[4] Some NGOs are also providing training programmes and capacity building to commercial banks wishing to downscale their activities.

We shouldn’t expect that RRBs will be able to go as far as the cooperatives towards inclusive, un-centralised decision making. Similarly, public commercial banks are likely to keep a kind of centralised and hierarchical decision making process.

Questions remain on the interaction between the different types of institutions. One may wonder if the interaction of institutions based on different working process in a same sector affects their evolution. The next chapter will thus discuss the interaction between the various actors through the norms and values of the sector.

INTERACTIONS: BETWEEN NORMS AND VALUES

Another reason why a complementary approach is a valid one in microfinance can be found in the type of group interactions operating within different institutions. Our starting point to assess the institutions’ interactions is the classification of human interactions developed by Merckelbach and Dupas (2001). This new model provided an additional insight about the internal workings of the institutions. Instead of the centralization of decisions, the key criterion becomes the type of group interactions that are used to reach a decision. In short, it provides another way of slicing through the human fabric of the different MFIs.

To analyze the group interactions, the concepts of norms, rules and values must first be introduced. We will define as “norms” standards of behaviour on which individuals adjust themselves more or less voluntarily. It suggests a standard of conduct which people believe they ought to follow lest they should expose themselves to some way of sanctioning (Coleman, 1987).

Different organisational structures easily lead to different norms. For instance, a norm in the Grameen-style institutions is the weekly meetings which are supervised by a

MFI worker. The worker also maintains the records, while the savings and repayments are collected by the members and given to the worker (Harper, 2003). Some norms by the self-help groups are for instance the fact that the interest rate level that is decided by the group themselves. The SHG carries out all the same functions as required by the Grameen system, but they do this on their own behalf.

Moral norms act as a substitute for, or a reinforcement of, state-engineered rules or control mechanisms, with the result that enforcement and punishment institutions become of secondary importance (Platteau and Balland, 1996). They can be seen as cultural beliefs that have the effect of truncating the players' space or modifying their preference or payoffs. However, moral norms are never completely compelling and decision outcomes cannot be considered to be mechanically determined. *Social or community norms* are stable expectations shared among repeatedly interacting players concerning each other behaviour in default contingencies that would make a certain standard of behaviour self-enforcing (Aoki, 2001).

"Rules" are crystallized norms, stiffening into a hard code of conduct, and are therefore less flexible than norms. "Values" are norms emotionally invested.

Are there moral norms in microfinance? Very few. Keeping interest rates low is not (no more?) *per se* a moral norm in microfinance (Hudon, 2006). Nevertheless, example of MFI with high ROA and FSS, high operation costs, and high interest rates charge to their clients can be a case of moral norms. For instance, Compartamos, a member of ACCION international network based in Mexico, charges borrowers an effective interest rate above 110 percent per year, above the moneylender interest rates, with a relatively inefficient administrative structure. Nevertheless, this has enabled the MFI to get a A+ rating by the Standard and Poor's rating agency and get extra funds for instance through a 100 million-peso bond (approximately $10 million) (Armendariz de Aghion and Morduch, 2005, p. 21) and maybe to expand their activities and serve additional clients. Many actors in the sector criticize this financing strategy and operating process. It is the addition of the factors that can lead to a moral norm.

Some old norms can evolve while others simply disappear. Group lending was a norm in the 70s, 80s. Later on, many institutions have offered individual loans, some even fully switching to individual lending. One can however estimate that the microfinance sector's values remain the same, with the global poverty alleviation as common leitmotiv. This does not mean that they all share the exact same mission. For instance, the President of *Accion*, a major explained that "BancoSol is not mission-driven it is segment-driven. Just as McDonalds is not likely to start serving haute cuisine, BancoSol is not likely to move away from the segment of market it serves best[5]". Nevertheless, the value of poverty reduction is present in most MFI's mission and communication.

To classify different types of relations inside a group, Merckelbach and Dupas (2001) use a matrix with on the horizontal axis the common action; and on the vertical axis the values and ambitions shared by the members. This matrix identifies thereby four types of group interactions. They have been nicknamed as follows: the "Council", the "Circle", the "Band" and the "Partners" (See Graph 2).

Take in Figure 2

[5] Rhyne, E. (2001), *How lending to the poor began, grew, and came of age in Bolivia*: , p. 162.

The **Council**'s (for instance, the academic council) particularity is the individualism of the members. They have in common some narrow interests such as the defence of the profession or the university. However, those common stakes or values are often overtaken by individual concerns and priorities. They rely mostly on the establishment of norms to regulate their interactions.

The **Circle**'s particularities are its shared ideals and values. The very reason for the existence of such groups is their shared convictions more than their actions. They organize multiple activities but those aim mostly to maintain stronger links between the members. The collaboration process is not really formalized, while spontaneity and emotion are crucial. The risk is that we might fall in a kind of angelism, far away from the reality in the field, or efficiency.

The **Band** is directly related to the actions and objectives of the group, *without* a real *group feeling*. They also have values but those are related to their actions. The internal communication is principally centred on the possible common objectives. The rules are strict and the formalization important. Relations between members are dependent and some members can find their place in opposition to the majority. Those groups often end with discord.

The last group - the **Partners** - is the most efficient and sustainable one. In this group, members are invited to spend time, resources and competence without expecting direct benefit. There is often a benefit that manifests over time, but not always in the expected form. There is more spontaneity than rules or norms, because members share the same values and stakes. The main downside risk is that members grow too easily, self-satisfied by the groups' achievements, and "rest on their laurels". The success of this type of relation comes from its inclusion of all the different levels of collaboration. Merckelbach and Dupas (2001) distinguish six levels of collaboration: the delivery of services, the coordination of services, the quality of services, the sharing of values, the sharing of ambitions and the sharing of a sense of mission.

There are several reasons why this classification of different types of group interactions to our topic of MFIs in India is relevant.

The first reason is that there is clear evidence that MFIs influence (consciously or unconsciously) the kind of SHGs they will support or more certainly their internal working process. Even if individual lending has clearly expanded in microfinance during the last years (Armendariz de Aghion and Morduch, 2005), group lending remains a key methodology in microfinance. Our personal experience suggest that some MFIs are more regulative, at the bottom-right of Merckelbach and Dupas's matrix; while others are based on norms, at the bottom-left of that matrix.

A second relevance of Merckelbach and Dupas's model is that it points to the importance for MFIs to move towards the partnership model, i.e. move towards the top right of the relationship matrix. This is clearly not yet the current status of MFIs in India.

The third and final reason for introducing Merckelbach and Dupas's approach is that it provides a strong additional argument on the usefulness of complementarity in the domain of organisation structures for MFIs. Indeed, the decision-making process of the institution strongly influences its workings and impact. If the institution is based on a hierarchical decision-making and focused on making profits (e.g. the private banks), the process will be typically based on rules. They are also constantly producing refinements on existing rules, or new rules. On the other hand, not-for-profit institutions that are using an inclusive decision-making process - where most actors have participated in the process of decision - are mostly based on ethical norms, values. They obviously also use rules sometimes, but these remain ultimately subservient to the ethical norms and values that its members share.

This has important implications. On one hand, the private sector will tend to produce the operating rules of the microfinance system: for instance, they will have the biggest impact on the fixation of interest rates. Similarly, the increasing emphasis on financial self-sufficiency can also be analyzed as the emergence of private sector norms.

This emphasis is reinforced by enforcement procedures. Classic enforcement procedures, such as described by Platteau and Balland (1996), aim at finding way to put enough pressure to sanction them. For instance, if you want to join Sanabel's network, the main network of MFIs in the Arab region, you need to "commit yourself to achieve full operational and financial sustainability[6]" (Sanabel, 2006).

On the other hand, one can estimate that it is, until now, the not-for-profit and the inclusive decision-makers that have the biggest impact on the ethical norms and values in the sector. They thereby shape what is different in the practices of microfinance compared to conventional finance. Some norms can be emotionally invested, through political or social actions. Recently, South-India has seen social movement where borrowers would refuse to repay after the publication of articles arguing that microfinance institutions are exploiting their clients (Fouillet, 2006). District authorities then decided to close 50 branches of two main MFIs following allegations that they were charging usurious rates (Shylendra, 2006). Interest rate ceilings established to limit the level of interest rate on the basis of their potential effect on the poor are examples of emotional investment of norms.

[6] http://www.sanabelnetwork.org/about/join.htm consulted on 15 October, 2006

In summary, even if all institutions follow the same rules (“how to perform microfinance”), it does not imply that they all follow the same norms in their work (why they provide the service, with whom they work, and how they interface with them). This distribution of tasks provides one more evidence that complementarity in MFIs is crucial. This complementarity will hopefully shape a microfinance domain where efficient groups can also share common actions and values.

Take in Figure3

We will conclude this section by overlaying on our organisation map the insights provided by Merckelbach and Dupas’s approach (see Graph 3). A new “regulation *vs.* norm” axis links the upper left to the lower right of that map. It is interesting to notice that the organisational structures could be almost proportionally distributed along that axis.

CONCLUSION

In this paper, we used a classification in two axes, the profitability and the inclusion of the decision making process, to show that the various strengths of the organizational structures can be combined within an effective overall microfinance framework. The final objective of microfinance is not just to reach all the poor, but also to provide a way for them to systematically improve their long-term income.

Norms have strongly involved in microfinance since the start of the sector at the end of the 70s. Some norms, such as the group lending methodology, are no more overwhelming while others have emerged, such as the financial self-sufficiency. The sector is increasingly shaped by norms, such as the financial independence from donors, and incentives to reach these norms.

Specifically for the case of the Southern Indian development, the complexity and diversity of the social and economic realities is such that it would be naïve to believe that one single type of organization structure would be perfect to deal with all of them. Exploiting the full range of the possibilities of those different structures may be valuable for a fully successful development in India.

We find that one of the described organisational structure, the private commercial banking one, base his working process on rigid rules; while other types of institutions are still much based on values.

The private sector will tend to shape the operating rules of the microfinance system (such as interest rates). But it is the not-for-profit sector that will be the key influencer for establishing ethical norms and values for this field.

BIBLIOGRAPHY

Aoki, M. (2001) ‘Community Norms and Embeddedness: A Game-Theoretic Approach’ in M. Aoki and Y. Hayami (eds), Communities and Markets in Economic Development, Oxford: Oxford University Press.

Armendariz de Aghion, Beatriz (1999). “On the Design of a Credit Agreement With Peer Monitoring”, Journal of Development Economics, 60, pp. 79-104.

Coleman, James S. (1987). “Norms as Social Capital." In Economic Imperialism. The Economic Approach Applied Outside the Field of Economics”, G. Radnitzky and P. Bernholz eds. New York: Paragon House.

Copestake, J. (2006), “Mainstreaming microfinance: social performance management or mission drift?”, Bath University Working Paper.

Fouillet, C. (2006), « La Microfinance Serait-Elle Devenue Folle ? Crise en Andhra Pradesh (Inde) », BIM, 26 April 2006.

Gentil D., Nieuwkerk, M., Fournier Y. and Doligez F., (2000), Microfinance, Methodological Orientations, 2nd Edition, European Commission, Brussels, 162 p.

Guérin, I., Marius-Gnanou, K., Pairault, T. and J.-M. Servet (2005), La microfinance en Asie : Entre traditions et innovations, Khartala.

Hudon, M. (2006), “Fair interest rates when lending to the poor. Are fair prices derived from basic principles of justice?”, Working Paper, Solvay Business School, Université Libre de Bruxelles.

Hudon, M. and D. Traca (2006), “Subsidies and Sustainability in Microfinance”, Working Paper, Solvay Business School, Université Libre de Bruxelles.

Hulme, D. and P. Mosley (1996), Finance against poverty, London: Routledge

Kaoma Mwenda, K. and G. Nkombo Muuka (2004), **“**Towards best practices for micro-finance institutional engagement in African rural areas: Selected cases and agenda for action”**,** International Journal of Social Economics, 31, pp. 143-158.

Karmakar, KG (1999), Rural Credit and Self Help Groups: Microfinance needs and. concepts in India, Sage Publications, New Delhi.

Lapenu, C. (2000), “The Role of the State in Promoting Microfinance Institutions”, Working Paper, International Food Policy Research Institute, Washington D.C.

Merckelbach, S. and P. Dupas (2001), “Quatre Regards sur les Réseaux d'Entreprise 2001”, L'Agefi. Guide 2001 des PME, No 233.

Meyer, R. and G. Nagarajan. (2000), Rural Financial Markets in Asia: Policies, Paradigms, and Performance. New York: Oxford University Press.

McGuire, P., Conroy, J. and G. Thapa (1998), Getting the Framework Right: Policy and Regulation for Microfinance in Asia, Foundation for Development Cooperation, Brisbane, Australia.

Menon, R. (2002), “RBI Gets Tough with Banks — Lending Rate Disclosure to be Made Mandatory”, The Business Line, 13/7/2002.

Morduch, J. (1999), “The Microfinance Promise”, Journal of Economic Literature, 37, pp. 1569-1614.

Morduch, J. (1999), “The role of subsidies in microfinance: evidence from the Grameen Bank”, Journal of Development Economics, 60, pp .229–248.

Platteau, J.-P and J.M. Baland (1996), Halting Degradation of Natural Resources: Is There a Role for Rural Communities?, Clarendon Press, Oxford

Schreiner, M. (2000), “Ways donors can help the evolution of sustainable microfinance organisations”, Savings and Development, 24, 4, pp. 423–437.

Shylendra, H. (2006), "Microfinance Institutions in Andra Pradesh. Crisis and Diagnostic", Economical and Political Weekly, May, 20, 2006.

Siebel, H. and H. Dave (2002), "Commercial Aspects of SHG Banking in India", Working Paper, NABARD, Mumbai, India.

Sriram, M. and T. Fisher (2002), Beyond Micro-credit: Putting Development Back into Micro-Finance, Sage Publications, New Delhi.

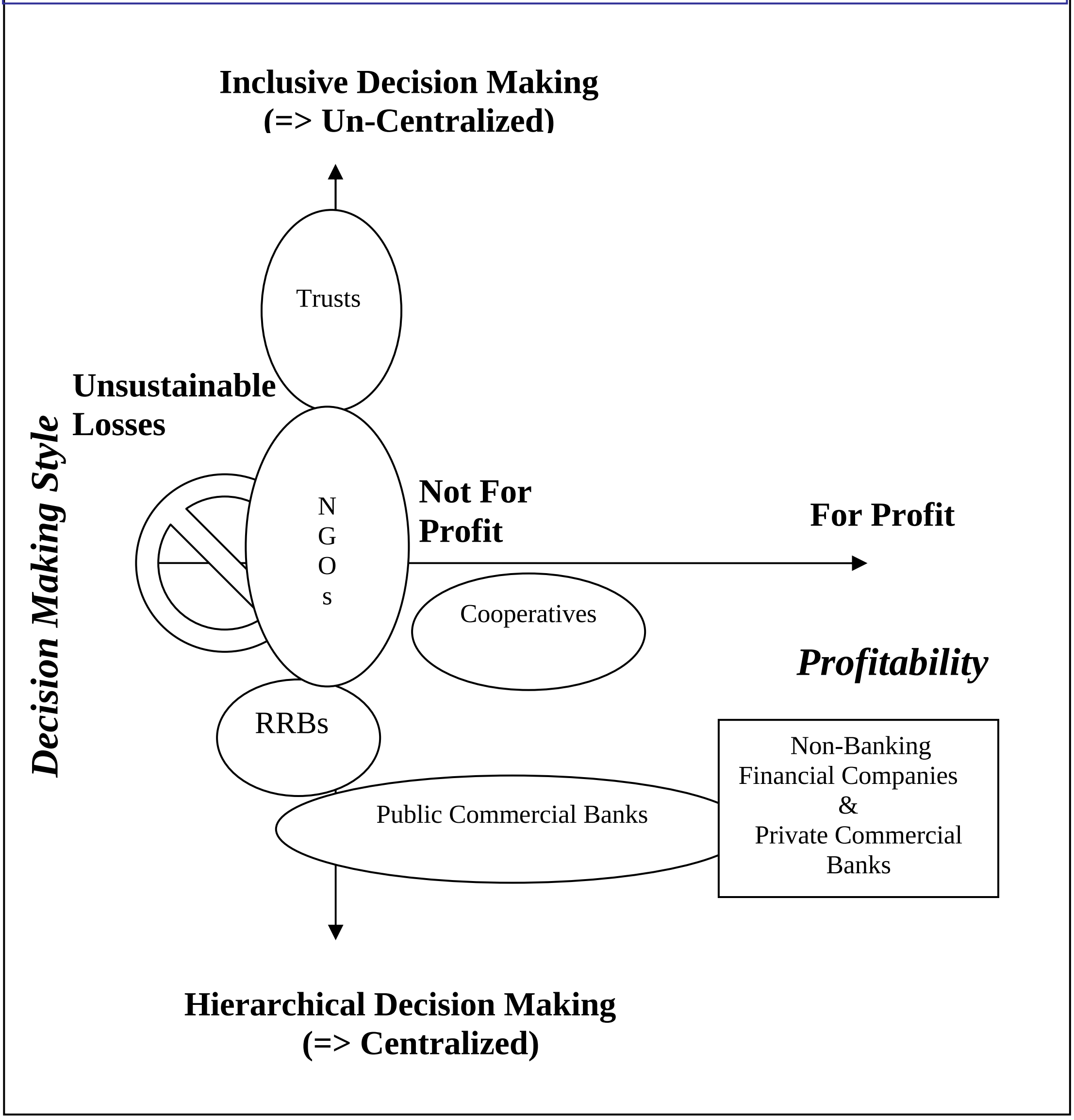
Stephens, B., 2005, "Sustainability in sight: An analysis of MFIs that become sustainable", MicroBanking Bulletin, 10, pp. 23-29.

Zeller, M., Meyer, R. (2002), The triangle of Microfinance: Financial Sustainability, Outreach, and Impact, Johns Hopkins University Press, Baltimore.

APPENDIX

GRAPH 1:

Graph 1: Classification of MFIs



GRAPH 2:

Graph 2: Types of Group Interactions

Shared Values			
	+	**« Circle »** *Principle:* Idealism *Risk:* Angelism	**« Partners »** *Principle:* Abundance *Risk:* Complacency
	-	**«Council»** *Principle:* Individualism *Risk:* Disinterest	**« Band »** *Principle:* Opportunism *Risk:* Discord
		-	+

Common Actions

Source: Merckelbach and Dupas (2001), (own translation from French).

GRAPH 3:

Graph 3: Classification of MFIs: Norms and Values