How Microfinance Associations add value - 2 Observations with references from the Association of MFIs of Uganda (AMFIU)

Schmidt, Oliver

18 January 2008

How Microfinance Associations add value - 2 Observations with references from the Association of MFIs of Uganda (AMFIU)

by Oliver Schmidt, Sa-Dhan, Manager-Regional Office Hyderabad

List of Acronyms

AMFIU	Association of Microfinance Institutions of Uganda
DFID	(British) Department for International Development
FSDU	Financial Sector Deepening Project Uganda
GoU	Government of Uganda
GTZ	German Society for technical cooperation
HIVOS	International Humanist Institute for Cooperation with Developing Countries (Netherlands)
IFAD	International Fund for Agricultural Development
MDI	Microfinance Deposit-taking Institution
MF	Microfinance
MFI	Microfinance Institution
MIS	Management Information System
MoFPED	Ministry of Finance, Planning and Economic Development
NCAT	Network Capacity Assessment Tool
NGO	Non-Governmental Organisation
SACCO	Savings and Credit Cooperative
SEEP-Network	The Small Enterprise Education and Promotion Network
SMART	Specific, Measurable, Achievable, Realistic, Time-bound
SNV	Netherland's Development Organisation
UCSCU	Uganda Credit and Savings Cooperative Union
UNDP	United Nations Development Programme

1 In a nutshell

Since the 1990ties, international development agencies have been supporting the formation and running of microfinance associations throughout Sub-Saharan Africa. Leading development partners are among others GTZ, HIVOS, World Women Banking, UNDP, IFAD and DFID. Their contributions to MF umbrella budgets rank from 45% in Ivory Coast to over 80% e. g. in Ethiopia and Uganda (*SEEP* 2004).

There are manifold reasons for microfinance association; the most common ones are advocacy, information, capacity building. However, the one unifying rationale of this organisational type appears to be wanting. The following paper makes two cases about the rationale of MF associations:

1. MF associations should NOT be regulatory bodies. In Uganda and elsewhere, there is a tendency to transform associations into apexes, to use them for regulation tasks. This is based on two motives: On the one hand, due to under-conceptualisation of associations, their promoters tend to see a promising opportunity in some regulatory role; its impact is often not well understood or neglected. On the other hand, some government agencies that lack resources and reliable systems for fulfilling regulatory tasks tend to see apexes as a convenient "quick fix."
2. The competitive edge of MF associations lies in improving informational efficiency of the Microfinance sector. MF associations are uniquely positioned to compile data for creation of information – e. g. performance monitoring – that are barred to any other organisation. MF associations should be built around that objective and judged by it. Many interventions oscillate around partial issues of informational efficiency, e. g. credit reference and rating services. Yet, its conceptualisation has been curiously neglected by development partners. Consequently appreciation has been insufficient regarding the specific, impressive management demands faced by MF associations.

These are the conclusions of over 2 years working with AMFIU.[1] AMFIU, the microfinance association of Uganda, has been commended as one of the leading MF associations of Africa. AMFIU grew its membership and expanded its operations impressively. In its 12th year of existence, AMFIU membership represents about three quarter of the Ugandan microfinance sector in terms of portfolio and client outreach.

The remainder of the paper organises as follows: Section two provides definitions of associations and apexes respectively. Section three outlines the regulation debate from Uganda 2005-2007 and draws the emerging lessons for MF associations. Section four

---

[1] The author worked as AMFIU's Technical Advisor from Feb. 2005 to Aug. 2007, seconded by German Development Cooperation (http://uganda.ded.de).

introduces the concept of informational efficiency and discusses how MF associations can provide for it; with examples from AMFIU/Uganda. Section five concludes.

2 Associations and Apexes: Definitions

Umbrella organisations are best characterised by the relationship between umbrella and member. Although there are different roles and tasks, in the long run the most vibrant and resourceful umbrellas are those which are member-based, member-owned and member-driven. Voluntary membership is a core characteristic of such umbrellas.

Hinterhuber/Levin (1994) differentiate between horizontal and vertical networks. In vertical networks, the centre commands more authority, members are less independent, e. g. economically. This also implies that in vertical networks the interaction between members is less intensive than in horizontal networks. A quasi-vertical relationship between centre and de-facto independent members and low interaction between members is an indicator of a weak umbrella. Such a weakness can be over-come by two strategies: On the one hand, transforming the quasi-vertical into a real vertical network, i. e. availing the centre with "real" authority, e. g. legally mandated monitoring. On the other hand, removing the quasi-vertical properties and strengthening horizontality, e. g. interaction between members. Obviously, the centre is biased towards the former, while members are not organised (that is one cause for quasi-verticality) to demand for the latter. Unfortunately, development partners (funders), though verbally supporting the latter strategy, de facto drive towards the former, as their interventions regularly expand the scope of the centre.

Membership means restricting independence or sovereignty. In a horizontal network this restriction is controlled by the member, i. e. it is self-restriction by (hopefully) conscious decision to commit to the membership. Economically, that implies paying membership-fees; operationally, it might imply aligning to codes of conduct. Economic theory states that membership should always offer benefits exceeding costs, however the calculation of that depends heavily on the time horizon covered. Regularly, umbrellas have to mitigate short-term costs and long-term benefits. One important instrument is to offer short-term benefits to motivate members to bear short-term costs of long-term benefits. Membership is a package. The package may become un-manageable if membership is very heterogeneous and the mitigation task grows over-complex.

Associations are formalised networks with a permanent, constituted structure. Regularly, associations develop into vertical networks, as permanent structures tend to harden and seek for expansion, following for instance the pattern discussed in the previous paragraph. However, formation of an association does not automatically imply that the concept of horizontal network is abandoned. On the contrary, merging permanent, constituted structures with horizontality offers an attractive blend of identity or common bond and operationality. This blend may sustain a positive feedback-circle, i. e. growth of the association.

Apexes are associations with legally constituted roles, e. g. in monitoring of their members. Such roles regularly come with compulsory membership. Whereas associations are voluntary and there can be more than one association targeting the same task, apexes are usually monopolies which members are legally obliged to join. Apexes are member-organisations as opposed to branch networks. However, they are not really member-based but law-based.

"There is an underlying role conflict when a member-based organization regulates its members, but the deficiency of state control calls for self-regulation.… Taking over [supervisory power] transforms a self-regulator on behalf of members into a mandated regulator on behalf of government and consequently destroys the property of being member-based." *(AMFIU* 2005, p. 59)

An apex may establish a strong bond among their members, and that is the intention of their constitution. But more often they become bureaucratic, rely on their compulsory authority and loose member-orientation.

Member-drive demands a high level of horizontal interaction between centre and members and between members among themselves. The objectives, tasks and course of the umbrella shall be determined by these interactions, i. e. the centre is at service of and focusing on the members. The first management task of the umbrella, therefore, is to sustain the high level of interaction itself.

3 The confusion about regulatory roles and public goods

3.1 Case study: Which role for apexes in Ugandan MF regulation?

After intensive political debate and a concerted advocacy campaign, the Ugandan parliament passed a Microfinance Deposit-taking Institutions (MDI) bill in 2003. This bill created a niche ("tier 3") of regulated MFIs under the purview of the central bank. AMFIU's strongest profiling activity was to give platform and voice to the advocacy for the MDI-bill. There was a strong commercial motivation, as NGOs recognised that the transformation process would be a viable enterprise[2], and it would provide a legal basis for their mobilising savings. Eventually, four NGO-MFIs, three of them with international roots, acquired a MDI-licence. They represent about 2 out of 6 Microfinance clients; 3 out of 6 Microfinance clients are accounted for by other regulated financial service providers ("tier 1 and 2"; mainly Centenary Bank). All regulated MFIs are AMFIU members. The "remaining" 1 out of 6 MF clients is serviced by about 90% of the

2 Indeed, it has been for the first round, judging by the huge amounts of financial resources channelled into it by various development partners (see e. g. *Goodwin-Groen/Bruett/Latortue* 2004).

MFIs, the ultimate majority of them co-operatives, which remained unregulated ("tier 4"). Parliamentarians have been pressing for expanding the regulatory framework. After the general elections of 2005, with a new minister of state of microfinance in charge, the debate has been intensified and concretised. A Microfinance bill is being prepared, cabinet papers have been drafted.

One of the issues of the debate is the role of umbrella organisations in the future regulatory framework. AMFIU and two cooperative umbrellas are considered for one role or another. GoU has pushed for a strong role of UCSCU – one of the two cooperative umbrellas – to be the exclusive apex of all SACCOs (savings and credit cooperatives) of Uganda, i. e. compulsory membership. Along the same lines, it has repeatedly proposed that non-cooperative MFIs and MDIs should be directed to affiliate with AMFIU. However, AMFIU and the two cooperative produced a statement that calls for strictly voluntary and thus non-exclusive membership (note that currently 41% of AMFIU MFI-members are SACCOs). Naturally, that would restrict the role in regulation towards supportive, monitoring functions. Although AMFIU condensed these effects in a working paper (*Baguma* 2006), the ideas did not hold strongly among policy makers, neither development partners nor MoFPED.

The discussion is still going on, but it has been noted that the voluntary nature of affiliation with umbrellas has very weak advocacy throughout the players. The drive is rather towards apexes, which GoU prefers to pass through their regulatory agenda, and umbrellas prefer (despite their statement) because it sustains their position without much effort towards their membership.

3.2 Differentiating between Self-regulation and Mandated Regulation

Even among development partners the differentiation between apex and umbrella and the arising issues are often not clear, and there is a tendency to see a regulatory role for them beyond limited monitoring (see e. g. *Staschen* 2006). Gross/Brüntrup (2003) identify norm setting as one of the main tasks of umbrella organisations. It transpires through rules, codes of conduct and self-regulation. *Gross/Brüntrop* (p. 52) clearly differentiate between adoption of rules by the umbrella and its members and the adoption of rules by government and its regulatory agencies.

For self-adopted rules, the umbrella is mandated by the members to promote and monitor them through publishing standards such as codes of conducts, through awards for best practice, through performance tracking and benchmarking, which can be internal (individual performance monitoring report) and public (industry-wide consolidated performance monitoring report).

For third-party-rules, namely government, the umbrella may be mandated by the third party to play a role in their implementation. This role can be limited, e. g. monitoring and compliance support, it can be chosen upon pre-defined requirements, e. g. an umbrella could build auditing capacities, and it can be exclusive, e. g. supervision powers appointed to the umbrella. The latter is regularly reflected in compulsory membership. However, mandated supervision comes with a fundamental transformation of character of an umbrella which is oftentimes overlooked (e. g. *Staschen* 2006). Mandated supervision turns the umbrella into a quasi-agency of government and shifts its allegiance from members to government (*AMFIU* 2005, see section 2). Mandated supervision makes an apex, where the ultimate decision lies with the mandating agency. Self-regulation and limited regulatory support roles make an association, where the last decision remains with the members, and if they feel the balance is not met, they can dispose of it.

3.3 Do MF associations provide "public goods"?

Tasks performed by MF umbrellas throughout Sub-Sahara-Africa are broadly categorised into service provision, norm setting and interest mediation. *Gross/Brüntrup* (pp. 65) reason that MF umbrellas deliver "public goods", for which regulatory tasks are taken to be a case in point. They even justify a financial sustainability concept for umbrellas that does not cover their full operational and financial costs by client-generated income but only cover their "core costs." However, *Gross/Brüntrup* remain surprisingly shadowy about what core activities and corresponding core costs are. *De Boer* (2007) has scrutinised the concept and defined three levels of core costs. While activity-related costs are subject to further discussion, probably everybody would agree that "the cost of keeping the office open" is at the core of core costs.

The case for public goods is flawed. It rests on unsound concepts of regulatory roles – which have been straightened in the previous section. Otherwise, public goods are characterised by (i) variable costs near to zero, and (ii) high costs of excluding somebody from using the good in question (*Schmidt* 2005a). In as far as negligible variable costs are the concern, membership fees are the efficient pricing model of choice. As far as “free riding” is the concern, i. e. organisations profiting without contributing, it is the task of the association to create attractive packages of services which appeal to potential members.

Surely, MF associations do have two, not one, important clientele. The first and foremost are naturally their member-MFIs. By joining (or not joining) the association and buying its "products", they signal if those "products" are packaged well. By participation in the packaging process, e. g. through AGM discussions or other horizontal exchange, client-drive of the MF association's products should be ensured.

The second important clientele are development partners, and maybe sometimes government agencies. If MF associations deliver on this market, they can close the gap between their aspirations and the resources wrought out of MFI-members. Moreover, development partner may be willing to finance some services to MFIs fully or partly, thus giving the association space of manoeuvre for attractive package pricing. On the same token, taking over a "job" from government, e. g. carrying out some monitoring, should be based on cost-covering remuneration.

Summing up, it is strongly hold here that associations' development partners should not operate on fuzzy "public-good-core-cost" approaches. Instead, they should enable umbrellas to be business partners that deliver defined products; and are paid upon delivery. By the nature of associations everywhere, they access public money. That does not make them unsustainable. The decisive factor should be the quality of product delivered for that money. An umbrella organisation has two major groups of clients: MFIs – as potential members – and development partners. It is from serving those clients that it should generate income to cover its costs.

4 MF associations' competitive edge: Creating information

4.1 Case Study: AMFIU - "information hub" of Ugandan Microfinance Industry?[3]

AMFIU works to establish itself as a significant information broker for the Microfinance Industry. At the core of this role is a grand performance monitoring project. With a specific tool and corresponding database, performance data from MFIs shall be collected quarterly and consolidated into industry-reports on portfolio volumes, qualities and outreach. After the project has been going on for years (*Schmidt* 2005b), it is supposed to become operational in 2007. Also, it was found that consumers' informational needs are not met appropriately i. e. there is a great need for consumer education and transparency standards of MFIs. AMFIU has advocated for these among others through developing a Consumer Code of Practice which was signed by 40 MFIs including most bigger ones in 2006 (*AMFIU* 2006). Along these lines, AMFIU also publishes annually a directory that displays contacts and basic business information of its members (*Blatter/Mbabazi/Kumwesiga* 2006).

Experience shows that Ugandan MFIs are particularly weak in their information management. This appears to be the main reason for weak information sharing cultures. Whereas the element of concern about competition-relevant data may be there, the Ugandan rating project indicates that it is not too strong (see the information shared publicly under *www.ratingfund.or.ug*). Rather, it reflects weak MIS.

Also, because AMFIU is permanent – as opposed to time-bound projects many development partners use – its database will eventually allow for time-series analysis. Furthermore, drawing on the trust-based relationship with their members combined with a peer-mechanism ("branding" of AMFIU-membership towards certain properties) allows

---

3 This section draws excerpts from *Blatter/Schmidt* (2007).

convincing MFIs to implement certain levels of transparency which not only improve the systemic efficiency of the microfinance industry as a whole, but also allow AMFIU collecting further data.

The latter argument has been a pretext to perceive "information dissemination" through the famous "public-goods"-lenses. Thus, the drive to understand and package it from a product/demand-perspective has been low; development partners have also rarely emphasised it, let alone provided active capacity building towards it. Instead, information is broadly subsidised, based on input-indicators such as books bought or printed.

Therefore, although AMFIU has established competency in information provision to a certain degree, it is still to embrace fully the tasks entailed and to build the corresponding systems and capabilities. But AMFIU, and members and development partners alike, has not fully embraced yet what the informational role demands in terms of data collection systems, in terms of (mainly) electronic systems to store and process data, and in terms of "packaging" them to attract / reach the right stakeholder group. It is ultimately the last step that turns data into information. Of course it remains vain without the other two.

4.2 Informational Efficiency of the MF sector

Information is data turned into relevant input for decision-making. Data collection and processing is costly and demands specialised functions and systems. These can and should apply both on the demand and on the supply side. Suppliers depend on generating management information to be successful – i. e. to know sales trends, main customer characteristics, product qualities, production cycles and time frames, supply chain properties. Consumers may buy products without much querying. Indeed low quality-segments exist for probably every product one may think of. However, in a balanced assessment of consumer interest, they at least want to know the qualities to choose from, and which difference they make to them. In a market with high informational efficiency, an array of product properties will be displayed and be compared by consumers, giving rise to support facilities, e. g. specialised magazines (e. g. about buying a kitchen or organising a weeding) and consumer protection organisations.

With regard to microfinance, MFIs have ever been struggling to set up and eventually computerise[4] MIS for data collection, storage and analysis. The main focus of development support – "capacity building" – has been here. Comparably little efforts have been made to improve consumers capacity to access data. The Consumer Education programme of AMFIU, DFID and FSDU in Uganda is one exception (*Schmidt* 2006). Recently, the interest in the demand side of microfinance appears to be on the rise among development partners.

---

4 Many MFI-representatives belief that computerisation equals setting up of systems. However, that is not the case, as the well-known GiGa-adage regarding computers shows (GiGa = garbage in, garbage out).

Yet, data collection is only one side of it. Turning it into information by competently storing and processing it and by disseminating it in relevant formats to the right stakeholders is another task of its own. This is very obvious for consumers, as they usually do not refer to "raw data" but are provided with "information", i. e. data packaged in a way that relates to their choices. Examples are displays of effective interest rates and/or total costs which consolidate data on nominal interest rates and the various fees applicable. Check lists how to identify a sound MFI are another information package that condenses data analysis done by experts.

Even if MIS capacity is given, MFIs will be very careful in giving out what they have, because they may regard it as competitively significant or damaging if shared with regulatory authorities or the public. A membership organisation appears to be ideally positioned as it has an idiosyncratic trust-based relationship to its members. That allows creating an atmosphere whereby even competitively significant data is shared as the association will render it anonymous and yet be able to present consolidated information that each of the MFIs alone would not be able to access. Thus, umbrella associations have a great potential as producers and providers of information. It is here that they have a competitive edge over all other organisations.

4.3 Conceptualising Informational Efficiency of the MF sector

Like any statement about efficiency, informational efficiency is a judgement against a chosen benchmark. This benchmark should establish baseline indicators that answer the five questions:

1) Which information should *reasonably* be available in a given rhythm to senior managers, to board members, to policy makers, to staff and to customers?
2) Which information should *minimally* be available in a given rhythm to senior managers, to board members, to policy makers to staff and to customers?
3) Which data is necessary to generate the minimum and the reasonable level of information?
4) How systematically is that data generated, collected, stored and processed?
5) What costs does each target groups incur to access the minimum information?

Information is a different thing to different people. However, for board and management of MFIs, a basic set of information can be thought off that looks at a scorecard of profitability, clients/members, staff and systems. **Table 1** proposes the reasonable and the minimal information levels for these four perspectives. Though drawing on usual sound practices, this is by no means a dogmatic selection – surely various practitioners would follow different priorities. The life cycle of the MF sector in question and practical considerations – there are usually budget restrictions to the scope of indicators – will come into play as well. Consequently, they may formulate the goal for informational efficiency differently, and assess corresponding activities differently. Note however that this selection concentrates on board and management. Assumingly, for policy makers, consumers and even staff, the range of information considered relevant will be more diverse, depending on the philosophical approaches held to be true.

Information depends on data available and the knowledge to relate the data (analyse). Knowledge is not easy to track and even harder to influence, hardly at all in the short run. While overall knowledge levels should be a serious concern of policy makers, in particular with regard to educational system and training capacities available, development agencies and umbrella organisations are well advised to concentrate on the measurable and operational targets. I. e., they should set-up and run systems to collect relevant data and provide it in a meaningful manner.

Table 1: Information efficiency for board and management

	Profitability	**Clients/ Members**	**Staff**	**Systems**
Reasonable Information level	How profitable are my products? How profitable are my branches?	How are my clients/members satisfied; which needs are not yet met? *How is my relative (with regard to peers) growth performance?*	How do my staff's skills meet the needs, where are gaps? *How is my staff paid relative to competitors?*	How is the security standard of my systems? How do my systems impact on my profitability?
Minimum Information level	Is my quarterly surplus positive? Are my profits growing?	Is the number of active clients/ members growing? *Does a client/member wait for disbursement of a loan / withdrawal of savings longer or shorter than at my competitors'?*	Is portfolio quality calculated correctly and regularly? Does field staff pass on all relevant information to clients/members?	Do my procedures ensure sound security of cash and assets? Do I produce an accurate quarterly balance sheet and income/loss statement?

Note that this scorecard cannot be satisfied by one MFI on its own. Rather it needs a collaborative effort to compile meaningful benchmarks. In table 1, the obviously comparative indicators are put in italics; but comparative perspectives will enrich most of the others as well.

With regard to the information benchmarks proposed in table 1, the arising data needs can be established as given in **table 2**. Based on these or comparable lists of information benchmarks and corresponding data to be collected, the current level of information efficiency can be quantified. Critical is that the assessment is oriented on actual generation, not on intentions or other declaratory statements. It may be found that pre-defined standards exist as off-the-shelf-documents, and consequently they are on-the-

Table 2: Data necessary to establish information levels as of table one

	Profitability	Clients/ Members	Staff	Systems
Data necessary for reasonable Information level	Sales (no. of clients, volume of loans/ savings) per product for a given period (month, quarter) Variable product cost Fixed product and other overhead cost Sales (no. of clients, volume of loans/savings) per branch for a given period (month, quarter) Variable branch cost Fixed branch cost	Ratio of client retention (per product) No of products per client Client drop-out after successfully serving a loan product Demand for products other than the one's at offer Variance of product range towards peers	Level of staff skills, based on standardised assessment Change of level of staff skills Ratio of staff costs to variable and fixed costs (per product, per branch) Average salary for branch managers, loans officers throughout the industry Ratio salary to average rent at the location of deployment	Pre-defined standards for electronic systems, lending to board and staff members No of working hours lost per month because of computer constraints Pre-defined quality of reports (balance sheet, income/loss statement, portfolio report, salary processing) No of complaints from clients about products (e. g. wrong postings etc)
Data necessary for minimum Information level	Pre-defined standard to calculate income and loss Quarterly income/loss statement Trend-chart of quarterly profits	Trend chart of no of active loan clients Trend chart of new members (paid up) quarterly Trend chart of active savings clients Date of loan application, date of loan disbursement, Average Period between application and disbursement (quarterly)	Pre-defined standard of portfolio reporting Trend chart of PAR30 quarterly Pre-defined standard of information to be communicated to clients No of clients/members found to be falling short of standard (upon checking groups by supervisors)	Pre-defined standard of cash handling Pre-defined standard of liability and asset handling Pre-defined monitoring procedures to ensure those standards Chart of accounts Quarterly balancing

Shelf-documents but do not drive daily operations. Furthermore, small institutions regularly have managers that are really only first secretaries. A manager should actively watch out for some of the issues touched on in tables one and two. That is often not the case, rather the staff do not take responsibility (i. e. do not seek information) and often are not aware of the basic data needs or data generation standards. Yet, the staff perspective is regularly neglected in Microfinance Institutions, and therefore insufficient attempts to assess or develop staff capacities are made. If the reason given is that the institution is too small to employ quality staff, then an attempt by board-members to close that gap should be recognisable. Assessing the information costs that target groups incur, it is important not only to look at monetary payments, but also at time necessary to generate information, and at risk they take by neglecting information.

4.4 Building organisational capacity of the umbrella

Informational Efficiency is a property of the sector. It is in the best interest of sound-practice MFIs to improve it steadily, but none of them can do it alone. A MF association is potentially ideally positioned to look after it. Its success will depend on setting up adequate systems. These systems are principally different from MFIs where MF association managers have usually earned their merits. MF associations need a membership management system, a product development system which links all activities to the long term goals. Eventually, standard business processes for MF associations need to be laid down.

Membership management

The basic indicator is naturally membership. Members are the main client group of umbrellas – the other one being development partners. The umbrella should as a minimum have a system in place that in a given rhythm – at least twice a year – establishes number of members and proportion paid-up, number of members recruited in reporting period, number of members dropped out (and for what reason). To the background of understanding of umbrellas in Europe, development agencies tend to take such information for granted. But it is not. Thus, development agencies are regularly working with umbrellas that have only a rough picture of their membership – most importantly, only a rough picture of the membership trends. The indicator needs to be tracked seriously by both board and management of the umbrella, and development partners need to identify and address the capacity building necessary to do so. Once a membership database is established and managed well, it will allow tracking of interaction of the members with the secretariat, e. g. which publications members took, which activities they participated in, which data they submitted.

Product portfolio: Information first

Associations get engaged in a wide range of services. It is hold here that the first and foremost engagement should be data and information brokerage. In any case, the range of services should be looked at regularly, and it should be kept narrow. It must be clearly understood that this is only possible if development partners are deliberately cautious with suggesting new tasks to the association. Otherwise, the association is unlikely to develop a culture of cautiously tapping into new areas. Whenever they do so, it should *always* be to the background of a firm standing in the areas it is already active in. New areas should not dilute but build on reputation and strengths gained in the current area. From this transpires the call for clear priorities in the association's service (product) port-

Figure 1: Indicator System for Microfinance associations

1 Recommended to be "Information Collection and Dissemination".

2 Demands building the corresponding database and capacity of staff and board to apply it.

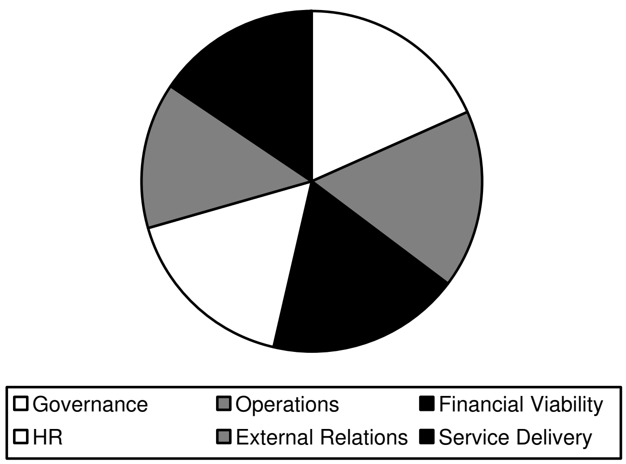
3 For each activity area, SMART objectives are to be defined. Examples for the area "informational efficiency of the microfinance market" are given in chapter 7.1. These can be measured applying a scale, e. g. 0 to 10. This allows assessing feasibility of expanding main activity areas. The product manual could regulate thresholds for each main activity area to be pre-requisite of expanding into new ones.

folio. However, because umbrellas are relatively unknown types of organisations, and draw their staff from organisations of different type – usually members or other stakeholders – the product portfolio is regularly poorly defined. Just as an umbrella has to have a robust membership database, it has to have a manual on product development (including roles of management, board and general assembly in that process), costing and pricing as the basis for delivering products to its own members and other target groups (usually development partners).

Linking MF association's performance to informational efficiency of the sector

From the point of view taken throughout this paper, products of a microfinance association should evolve around informational efficiency of their microfinance industry. I. e., the quality of service delivery should be tracked through the indicators of informational efficiency discussed in the previous chapter. **Figure 1** consolidates these considerations in one tool.

Figure 2: 6 Main Assessment Areas of SEEP Network's NCAT



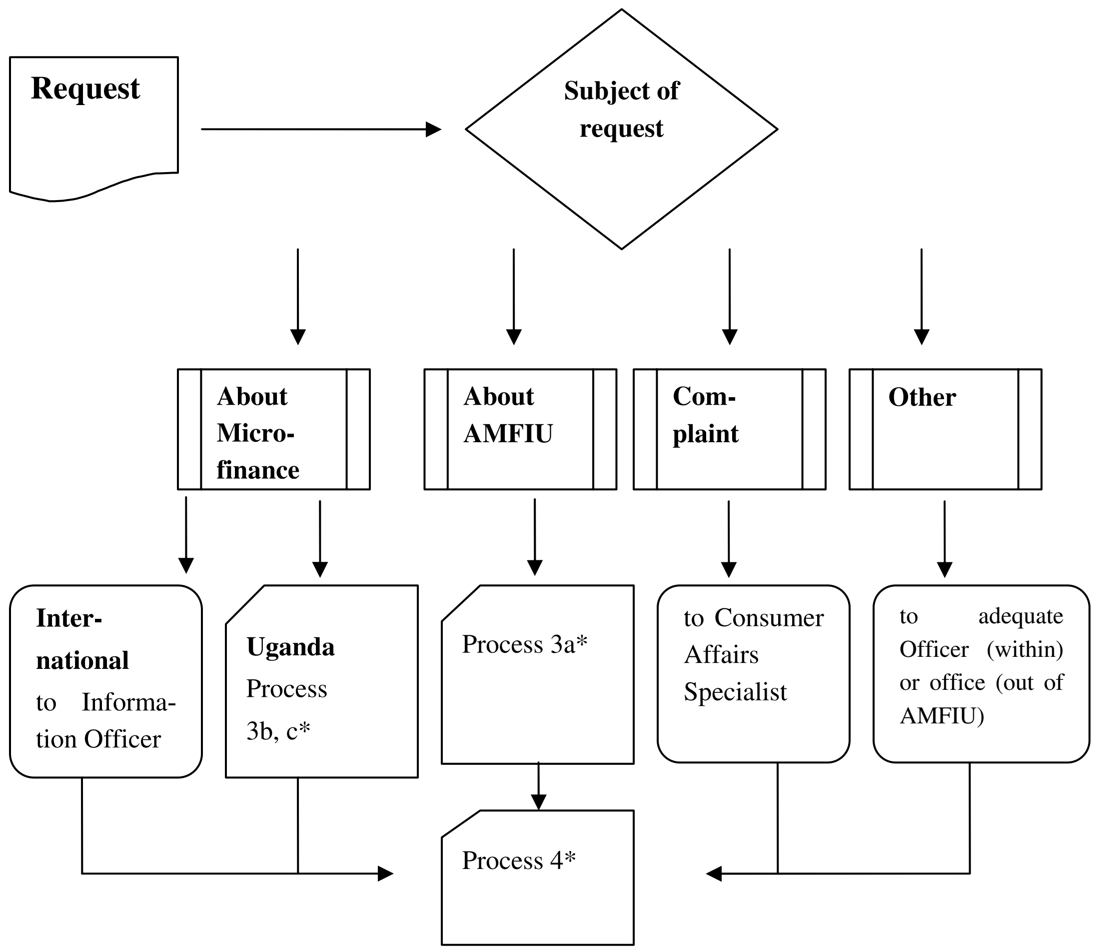
Source: SEEP (2006), own presentation.

Besides focussing the association on its economically defined relevancy, rather than "NGOing", this concept also gives advocacy and lobbying its place without referring to "public good" reasoning. Informational efficiency of a market will always depend on the institutional setting that is highly though by no means exclusively shaped by government agencies. Informational efficiency will be influenced by the way government

- demands standards of accounting and staffing,
- sets (other) transparency requirements, starting with the legal statutes applicable to MFIs,
- intervenes in price setting and service delivery processes,
- encourages long term investment and growth strategies.

Some or all of these will reflect in the previously discussed indicators (table 1, 2). For example, government may or may not determine the chart of accounts, and related to that the auditing standards for MFIs. Government may or may not demand MFIs to report various figures, among others effective costs of products. Obviously, the more governments make such claims, and the more effective governments implement them, the more will MFIs be willing to invest accordingly, and thus to join and collaborate with associations who implement such. Thus, as informational efficiency of a microfinance market is tracked, the effectiveness of advocacy activities is measured as well.

Figure 3: AMFIU-process "Processing of incoming requests"



* Referred processes (3 – Provide Information, 4 – Document Front Desk Interactions) are documented in *AMFIU* (2007).

Source *AMFIU* (2007).

Excurse: Standard Business Processes for MF associations

The challenges of ensuring basic functionality stem from the lack of conceptualisations of business processes for umbrella organisations. Consequently, umbrella organisation managers have practically no benchmarks for the internal organisation of their staff and workflow. In that regard, managing an umbrella organisation is a more demanding job than managing a NGO or MFI. The latter can be easily assessed against their peers and against the own experience background. Apparently, many development agencies are hardly aware of this gap, rather take such standard business processes for granted, on the same note as they assume the existence of reliable membership management systems. One of the few tools available is the The SEEP Network's „Network Capacity Assessment Tool (NCAT)". It was conceptualised in a broad participatory process and is applied in its fourth version all around the world (*SEEP* 2006). It defines standards of network effectiveness in the areas governance, operations, financial viability, HR, External Relations and Service Delivery. SEEP Members assess each other using a detailed list of weighted criteria which fall in the six areas (**figure 2**). The NCAT emphasises business processes in that operations and service delivery take 32% of the score. However, the process perspective is not explicitly addressed. A comprehensive concept for that has not been popularised so far. AMFIU has started to develop it for some areas; an example is presented in **figure 3**.

Another scarcely operationalised perspective is that of the organisational life cycle. Yet, it would provide an important point of reference for capacity building. Not last, it helps in comparing different networks. Again, SEEP-Network's NCAT stands out in that its rating has an inbuilt reference to four stages of the organisational life cycle, namely nascence, emergence, expansion and maturity (*SEEP* 2006). Also, the Dutch Development Organisation SNV in Uganda used to refer to the life cycle perspective in supporting its local partner organisations (many of which are umbrellas). Documentation of any organisation's history is surely a good starting point. Ideally, a regular gap analysis based on a life cycle model should be applied. Also, manuals of umbrella organisations should refer to the stage of its life cycle, processes be expected to work more sophisticatedly, and management be assessed more demandingly to that end.

However, altogether both the business process and the life cycle perspective of umbrellas remain to be studied more and transformed into management applications.

5 Concluding Remarks

Throughout Sub-Sahara-Africa, MF associations have been nurtured by development partners; including since 2000 an association of associations (*www.afmin.org*). *Gross/Brüntrop* (p. 56) stress that the variety of services catered by umbrella organisations are "extremely diverse in nature". This is accounted to the low development level of the microfinance sectors and corresponding lack of providers to meet various microfinance-service-related demands from MFIs and/or consumers (p. 6/7).

It is argued here that it is high time to tighten the conceptual and ultimately the programmatic grip of development agencies intervening into MF associations. More so as practically all umbrellas are heavily supported by (the same) donors (*Gross/Brüntrup* p. 18-21, also pp. 71). Henceforth, development partners should base their support to MF associations on their outstanding economic edge which is informational efficiency. Development partners are challenged to build specific skills – advocacy, electronic data management, public relations and communication – and corresponding systems of associations. This has hardly been the case in the past. Development partners and MF association practitioners alike are challenged to abstain from "dumping" a diverse array of tasks onto the umbrellas. Moreover, they are to withstand seduction of regulatory roles – a seduction which sometimes comes with a promise of government funding and staffing. But be aware: Government is just using the association as a shortcut, diverting attention from its own responsibilities; at the end of the day, the promises will turn out to be without substance, but prior substance of the association will have been destroyed.

AMFIU and other MF associations throughout Africa deserve support. They carry the potential to contribute significantly to vibrant MF sectors in particular and strong private markets in general. If this potential is unleashed, the decade-odd experience of development support to MF associations will pay off.

References

AMFIU (2005): Sound Practices in Microfinance – A Compilation of International and Ugandan Good Practices for Microfinance Stakeholders, Kampala.

AMFIU (2006): On course for Transparency: 40 MFIs commit themselves, in: The Microfinance Banker, 2/2006, p. 24/25.

AMFIU (2007): Manual Front Desk Processes (draft), Kampala (internal document).

Baguma, David T. (2006): Self-regulation of Tier 4 Microfinance Institutions: AMFIU’s Perspective, AMFIU Working Paper No. 3, Kampala.

Blatter, Robert / Mbabazi, Jacqueline / Kumwesiga, Carol T. (2006): The State of Microfinance in Uganda - Analysing AMFIU members, AMFIU Working Paper No. 5, Kampala.

Blatter, Robert / Schmidt, Oliver (2007): Do associations impact on growth? – The case of the Association of Microfinance Institutions of Uganda (AMFIU), in: Africa Yearbook 2007, Bremen.

De Boer, Hasse (2007): Evaluation of AMFIU – Final Report, funded by GoU/EU’s SUFFICE-programme, Kampala (unpublished).

Goodwin-Gren, R. / Bruett, T. / Latortue, A. (2004): Uganda Microfinance Sector Effectiveness Review, CGAP, Wasshington D. C.

Gross, Roland / Brüntrup, Michael (2003): Microfinance Associations (MFA) – Their Role in Developing the Microfinance Sector, GTZ – Division 41, Eschborn.

Hinterhuber, H. H. / Levin, B. M. (1994): Strategic Networks – The Organisation of the Future, in: Long Range Planning, 27, 3, S. 43-53.

Schmidt, Oliver (2005a): Ein Leuchtturm für die Wirtschaftswissenschaften, in: Wirtschaftsdienst, 85. Jahrgang, Februar 2005, S. 126ff.

Schmidt, Oliver (2005b): Employing AMFIU's PMT: Experiences and expectations – Analysis of the results of the PMT-survey carried out in March 2005, AMFIU Working Paper No. 1,Kampala.

Schmidt, Oliver (2006): Do Microfinance Development Strategies care about the consumer? – Assessing Microfinance trends and drivers upon the case of Uganda, in: Info-CD "Microfinance", ded Fachreferat P12, September 2006, Bonn.

SEEP (2004): Global Directory of Regional and Country Level Microfinance Networks, Washington D. C.

SEEP (2006): Network Capacity Assessment Tool (NCAT) - Assessing the Organizational Capacities of Microenterprise Development Networks, Version 4.0 (January 2006), Washington D. C.

Staschen, Stefan (2006): Possible Mechanisms to Regulate Tier 4 MFIs in Uganda, with Michael Akumpiria, in: AMFIU (2006): Regulating and Strengthening Tier 4 Microfinance Institutions in Uganda: Background Studies, compiled by the Tier 4 Technical Working Subcommittee, Microfinance Forum, Kampala, p. 62-97.