

Guidelines and Criteria for Microfinance

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1. Introduction

A. Purpose of the document

Through this document SMC hopes to provide SMC desk officers with relevant criteria for assessing microfinance projects/components and to provide a meaningful tool for accompanied learning with member organisations.

It also seeks to provide SMC member organisations and their partners with clear criteria/guidelines for applications and with a tool for engaging in dialogue on microfinance.

The document will also be used as a resource for dialogue with Sida.

In addition to identifying and explaining SMC's proposed criteria for funding microfinance work, the document clarifies SMC's understanding of microfinance and of the respective roles played by SMC, member organisations and partners in microfinance.

B. Background

The document is the result of a process of discussion within SMC and between SMC and its member organisations. The process was initiated for three reasons - SMC desk officers needed to improve their capacity to assess microfinance projects/ components in projects, a recognition of the importance of microfinance as a potential tool for development and the realisation that significant critique has been directed against grant based support for loan funds and against the 'microfinance component' model commonly used by NGOs.

The process began with the training of desk officers and the development of some proposed criteria using an external resource person from a church linked microfinance organisation. A resource group then discussed these criteria/guidelines in November 2006. As a result of this meeting it was felt that SMC needed to revisit the criteria, grounding its choice of criteria more firmly in SMC's objectives and the context of its members and their partners.

Following this SMC held an internal meeting at which desk officers used the current reality of support and capacity, together with learning from the training to clarify our understanding of the issue and to make choices in relation to criteria. A draft of this document was then produced. The draft was presented to member organisations at 'Members Days' (medlemsdag) in January 2007 and discussed at a 'dialogue forum' attended by 11 member organisations in April 2007. Following these discussions both the background paper and funding criteria given have been revised. The Board of SMR subsequently approved the funding criteria on 5 May 2007.

The background paper is an evolving document that can be updated with new learning as required and is to be seen as a tool for learning and dialogue.

The funding criteria will be applied to applications for funding from 2007 onwards. In defining the criteria for support of microfinance interventions SMC seeks to bring together expertise on microfinance, the real context of members' and partners' work and current ways of working and the capacity of SMC staff. As a result some work currently funded may no longer fall within the criteria. As with all of SMCs criteria for funding they will be open to review as necessary.

C. SMC's approach to microfinance

SMCs approach to microfinance is grounded in SMCs understanding of mission and of development.

The overall objective for SMCs work is for the Swedish Mission Council and its member organisations to be powerful forces of change for a just and reconciled world. SMC believes that churches and other civil society organisations have an important role to play in changing oppressive political, social and economic systems. This is a key element of the mission of the Church.

Ensuring justice and reconciliation involves working to transform existing political systems, market actors and service providers where they are oppressive, for example through local, national or international advocacy. It also involves recognising that the knowledge and competencies held by other actors (such as market actors like banks and businesses) can empower poor people. Links between churches/CSOs and other responsible actors are therefore to be encouraged. It is also appropriate for civil society organisations to build up systems themselves, for example in a rural context where other actors are absent. All of these ways of working – advocacy, links to external actors and service delivery – are appropriate responses to the Church’s call to mission and, in different contexts, all can be applied to microfinance.

SMC views development as a continual, unending process of change. All development projects are thus interventions in existing processes of development. It is therefore crucial to understand the context in which the project will take place when embarking upon development initiatives. This is true for microfinance projects where project activities impact upon other actors in local financial markets – whether formal or informal.

SMC considers microfinance to be an important means by which poor people can bring about positive change in their lives. In supporting work with microfinance SMC and SMC member organisations therefore seek to be catalysts of such change. The immediate objective of support for microfinance is to create opportunities for poor people to improve their own circumstances. Promoting long-term access to financial services and integration into local financial markets is one way to do this, amongst many others.

In this context SMC values models for microfinance activities that place value on reaching the poorest, whilst recognising that linking groups of different economic status together in microfinance activities can both improve the financial sustainability of microfinance (MF) programmes and create dynamic effects for livelihoods development.

The organising/mobilising of groups of people (for example in Savings and Credit Cooperatives -SACCO’s, self help groups etc) is a commonly used model for microfinance that fits well with SMC’s focus on civil society.

Given SMC’s focus on strengthening civil society and on organisational learning, SMC will focus particularly on supporting organisational development/technical assistance for those running microfinance programmes (eg networks of self help groups) and on supporting livelihood and empowerment training for the MF target group (eg business skills, gender /HIV & Aids training). SMC also provides support for other models of livelihood development.

Finally, in channelling Sida/SEKA funding to microfinance projects/components SMC applies the criteria for Sida/SEKA funding (which SMC considers to be in line with SMC’s own objectives). SEKA funding aims to promote the development of a strong and democratic civil society that strengthens the ability of poor people

to improve their own circumstances. As stated in Sida's proposed new guidelines, there can be a number of foci for this support: strengthening civil society, reaching the poorest, building capacity, organising/ mobilising, lobbying/campaigning, organisational learning.

D. SMCs operative role

SMC considers its operative role in microfinance to be the same as that for other areas of development cooperation:

- **Coaching:** Supporting member organisations (and via them partners) as they seek to deepen their understanding of MF and to respond to learning in project/programme design, implementation and evaluation and
- **Quality Assurance:** Ensuring quality in programmes and projects funded (through the process of assessment and approval of applications and reports).
- **Networking:** enabling members to meet to exchange experience and learning.

SMC is committed to attaining sufficient understanding of MF approaches so that all desk officers will be able to support and coach member organisations in their work with microfinance and to competently assess microfinance applications.

However microfinance is a specialist area that can require a high level of branch specific expertise. It is not possible for SMC to have this specialist competence internally. SMC will therefore gather information on resource people and organisations that are able to provide more specialist guidance/training on microfinance to members where necessary. In more complicated cases external consultants may be used to assess applications.

Given that SMC does not normally provide support for loan funds, SMC will seek to increase its knowledge of how partner organisations can access loans for microfinance work.

SMC will also seek to enable members to meet (either as SMC members or in a wider context) to exchange experience and learning and receive training.

2. What is microfinance?

In developed economies the vast majority of people can access financial services through the formal sector financial markets – through banks, insurance companies, investment companies etc regulated by central banks and financial inspectorates. However in developing economies the majority of the population lack access to this formalised part of the financial market. Thus informal solutions have developed for example in the form of informal savings clubs or more organised cooperatives and of course in the form of the moneylender.

In recent years many NGOs have become involved in supporting/providing microfinance services to the poor. Microfinance is the provision of small-scale

financial services to people with low or no financial resources. Microfinance products include savings, loans, insurance, transfers, payment services etc. Typically microfinance involves small amounts, short credit periods, high transaction costs and high rates of interest.

(For the purpose of this document microfinance refers only to monetary transactions and not to in-kind transactions (e.g. cow loan schemes). This distinction is perhaps somewhat artificial and some of the learning from monetary schemes recorded below may be applicable to in-kind schemes. In-kind schemes are eligible for funding from SMC, with SMC's normal funding criteria being used to assess applications.)

Why is microfinance important?

Poverty is characterised by vulnerability. The ability to save protects poor people in the event of shocks such as income fluctuations (eg caused by drought or illness) or expenditure peaks (eg funerals). This is perhaps particularly true in a rural, agricultural context. The ability to borrow enables poor people to invest in their own micro-businesses creating opportunities for them to increase their income. Providing people with long term access to financial services through microfinance is one means by which poor people can be enabled to protect themselves and lift themselves out of poverty.

In the field of microfinance there is often an overemphasis on access to credit. This is partly reflected in the microfinance work currently supported by SMC. However evidence suggests that the poorest prioritise access to financial services in the following way: firstly access to secure means of saving, secondly insurance, thirdly credit i.

How is microfinance run?

Microfinance can be organised in many ways and by many kinds of organisations – formal, semi-formal and informal. Typically the target group is organised into groups who secure each other's loans (group pressure helps ensure repayment) and often save together. Some of the forms for microfinance are explored briefly in section 3. For a more detailed description of forms for microfinance (in Swedish) see the Former/Organisation section on the following website:
<http://www.mikrofinans.nu/ommikrofinans.htm> 5 (16)

3. Lessons learnt from experience

The following lessons are drawn from collected experience and acknowledged good practice in the field of microfinance. SMC wishes to highlight these particular lessons from the wealth of experience and knowledge available on microfinance as SMC considers them to be of particular relevance to the work of SMC, SMC members and partners.

LESSON 1. Why it is important to get it right!

People sometimes wonder why more stringent criteria and higher levels of capacity are required for funding microfinance work than for other kinds of development assistance. This is why:

- A poorly designed scheme can result in increased indebtedness without increased income for the target group, adding to their vulnerabilities. You can end up making the poor poorer.
- Failure of the scheme can negatively affect the relationship between the development agency and the target group, compromising the organisation's wider ongoing work.
- Failure of the scheme can result in a loss of confidence in microfinance as a methodology, compromising the potential for future/other providers to enter the local market and thus compromising future development potential for the target group.
- A microfinance scheme that is not aligned to the local market in terms of interest rates etc. can undermine existing local microfinance providers, reducing long-term access to financial services for the target group.

SMC therefore considers it of great importance to ensure sustainability and alignment with local market conditions in microfinance work.

LESSON 2. Think first - is MF the most appropriate tool?

Microfinance is currently a high profile and popular way of working. Sometimes development organisations assume that MF is automatically an appropriate tool for their work with the target group. This is however not always the case, particularly in relation to microcredit. It is therefore very important to analyse the relevance and appropriateness of microfinance activities, particularly when considering engaging in lending activities.

The following text drawn from Christian Aid's guidelines for working with microcredits illustrate some of the questions which should be looked at before engaging in microcredit activities in particular and microfinance activities more generally.

Text from Christian Aid's Guidelines:

Is microcredit what's required?

Before starting to design a microcredit scheme it is necessary to ask if microcredit is in fact an appropriate response to the needs of the people to be assisted. The common and primary purpose of microcredit schemes is to provide loans to the poor for investment in productive activities in order to increase their income. However:

- **Are profitable, productive activities possible in the local context?** Successful use of loans for income generation depends on a range of external factors, the presence of which needs to be established:
 - Are markets for possible products or services available or accessible? Is demand sufficient for the proposed numbers of clients to succeed? Is there sufficient variety in the activities proposed so as not to flood the market for any particular product or service? Is there sufficient cash in the local economy? Is inflation at a reasonable rate and is it likely to remain so? Can materials be obtained?
- **Do the people to be assisted have the necessary skills?** Even if the local context is suitable, the potential clients may lack the necessary skills:
 - Do the people have the capacities and skills to engage successfully in income-generating activities? It may be that sufficient income-generating opportunities are available using existing domestic, craft or other skills. However, it may be that new skills are needed, in which case plans may have to be made to provide appropriate training.
- **Do the people to be assisted need credit for investment in income-generating activities?** Poverty is characterised by vulnerability. When income is obtained on a day-to-day basis, or when income fluctuates, for example with the agricultural seasons, the primary need may not be for an increase in income but rather for security of access to an income when it is required. People may need to be able to buy food when there is no work, or when illness strikes, or to spend a relatively substantial amount when social obligations such as weddings and funerals occur. For the poorest, the need for this security is likely to be greater than for credit for income generation. Furthermore, without a basic financial security, any credit provided is likely to be used - quite rightly - for these basic survival needs before being invested in income-generating activities. If this security is the primary need of the people concerned, then microcredit for income generation may not be the appropriate response at this time.
- Furthermore, it should always be remembered that the provision of credit is also the creation of debt. Proponents of a microcredit scheme have a responsibility to the people they plan to assist to ensure that the debts they encourage are likely to be repayable. ii

In addition to the issues raised by Christian Aid, one should consider whether microfinance, in particular microcredit, is the most appropriate tool for working with particular target groups (eg groups with a high level of mobility, child headed households etc). If it is appropriate methodologies used may need to be adapted to respond to the groups' particular needs (e.g. communities with high levels of HIV infection). However microfinance may be inappropriate or less effective than other tools for livelihoods development. There are other related ways to assist people to work together to build up their assets and income. For example, a common approach involves providing (usually) small livestock (such

as a goat) to members of the community under the condition that the offspring of the animal is passed on to other members.

SMC therefore considers it of importance that an analysis be carried out of the appropriateness and effectiveness of microfinance as one methodology in comparison with others, before engaging in microfinance work.

LESSON 3. The traditional Microfinance Institution (MFI) approach

Microfinance Institutions (MFIs), also known as Microfinance Organisations (MFOs), are organisations whose primary aim is to provide microfinance services. They can have a wide variety of organisational forms ranging from commercial microfinance companies and banks to NGO-run microfinance organisations or networks of self help groups. MFIs often begin as small-scale cooperative or NGO run operations that grow to become registered commercial providers of financial services.

MFIs are very important actors in the development process. They provide financial services to poor people and play a key role in the development of economies. However, experience has shown that commercial MFIs often fail to reach the very poor and tend to have difficulty expanding into rural areas due to the high number of clients required per staff member in order for the company to be financially viable.

LESSON 4: The SACCO/self-help group approach

One model for microfinance work is for self-help groups to engage in simple forms of saving and lending together through for example Rotating Savings and Credit Associations (ROSCAs) or Accumulated Savings and Credit Associations (ASCAs). When such groups are formalised into cooperatives they are sometimes referred to as Savings and Credit Cooperatives (SACCOs).

A common approach for development NGOs is to work to support the formation of such groups and to provide them with capacity building support. The groups are intended to be self-sustaining, but are often linked in a network. A number of organisations have developed methodology handbooks for organisations wishing to use this approach – for example Care International, which has worked intensively with the ACSA approach in Africa. A number of useful documents (training manuals, best practice guides etc) can be found on the internet, for example via the following websites:

www.vsla.net

<http://edu.care.org/vsl/Shared%20Documents/Forms/AllItems.aspx>

The self-help group approach fits well with SMCs focus on strengthening civil society and on capacity building but of course has advantages and disadvantages.

Advantages include that it is more straightforward for such an approach to be sustainable in a rural context. Groups are self-owned and self-run which promotes the capacity of members. Disadvantages include that the limited scale of members savings create a natural ceiling to the size of loans that can be taken. The potential for micro-businesses to grow into small or medium sized enterprises is therefore limited unless the groups are subsequently linked (perhaps via a network organisation) to larger MFIs for bigger loans. If business development is a key part of the development intervention it is therefore important to have a strategy for how this will take place. In addition small organisations often lack oversight and external controls and face challenges in providing physical security for cash held, thus members bear a higher risk.

The Lutheran World Federation/Church of Sweden recently carried out an evaluation of SACCOs in Southern Africa, resulting in the following recommendations:

- SACCOs should continue to be nurtured in order to facilitate sustainable financial services to low income communities
- Partnerships and networks should be promoted to facilitate growth of SACCOs
- SACCOs should be proactive and innovative to continue to meet members' financial needs
- Policies and procedures manuals should developed/reviewed and updated and consistently adhered to
- Savings should be emphasised as the main business of SACCOs in order to promote a culture of saving among communities
- Country programmes should deploy specific staff and allocate other resources to SACCO/MF activities
- Development agencies should announce their exit strategies in the initial stages of support

SMC is positive towards the self help group approach but considers it vital that a thorough, tested methodology is used and that an analysis of how this approach can link to wider provision of financial services is carried out.

Access to secure means of saving is the financial service most highly prioritised by the poor. One advantage of the SACCO approach is that saving within SACCOs is usually legal even in countries where MFIs are not permitted to receive savings.

LESSON 5. The component approach

A popular approach for development organisations has been to integrate a limited microfinance operation into their wider programme of work, often in the form of a small revolving loan fund (often financed with a grant) that is operated and owned by the NGO itself. This appeals to many NGOs, as access to financial services enables the target group to better make use of the skills and resources

provided by the NGO through other aspects of the project, e.g. agricultural development activities.

However, the MF component approach has been heavily criticised and often shown to be financially unsustainable and ineffective in evaluations. The approach often fails to create sustainable access to MF services for the target group, either because the scheme is financially/organisationally unsustainable or because the NGO running the project concludes its operations. The component approach is considered by Sida to be a 'design feature to be careful of'.

Here are a few of the potential pitfalls of the approach:

- Lack of expertise in designing and running microfinance programmes often results in the setting of unrealistically low interest rates, unsustainably low repayment rates etc. The scheme either fails or is artificially sustained by subsidies, with the resultant risks identified under lesson 1.
- Mixed roles for the organisation and staff: staff are required to be both the understanding community development worker and the hard nosed microfinance provider requiring poor people to repay their loans. These roles are incompatible resulting in either the relationship between the organisation/staff and the target group or the schemes' financial sustainability being compromised.
- Mixed accounts: when the accounts of the scheme are not held separately from that of the wider work it becomes almost impossible to ensure financial sustainability.
- The NGO operates and owns the MF component itself and access to financial services is limited to the period in which the NGO chooses to operate in the area.

SMC is therefore cautious in relation to funding MF components. Instead SMC encourages member organisations and their partners to focus primarily on partnership with existing microfinance providers. By linking to an existing MFI, NGOs can enable their target group to access sustainable financial services and benefit from the MFI's expertise.

However SMC recognises that there are situations where no MFIs are present and where linking is not possible. In this situation SMC wishes to encourage member organisations to use a thoroughly planned methodology that focuses on planning for financial sustainability, separating staff roles and separating accounts. SMC also wishes to encourage methods that create local ownership and management of the scheme - the NGOs role being to strengthen the groups (e.g. the SACCO approach).

LESSON 6: The advantages of linking

SMC believes that MFIs and NGOs have complementary skills and expertise and can add value to each other's work through forming partnerships.

Current research shows that, whilst improving economic indicators, microfinance on its own has little to no effect on empowerment indicators eg levels of gender-based violenceⁱⁱⁱ. However when gender training is provided within the context of the microfinance intervention, there is a strong impact on gender empowerment indicators. The impact of microfinance on people's lives is thus greatly enhanced by the integration of empowerment training in the operations of MFIs. Whilst some MFI's provide training in business skills they often lack both the funds and the expertise to provide empowerment training. Many NGOs have expertise in providing such training, along with experience of establishing groups and of providing livelihoods training. Partnership with an NGO can therefore add significant value to the work of the MFI and their target group.

Experience also indicates the impact of empowerment training eg HIV & Aids training is limited unless the training is directly coupled with a long-term, regular activity relevant to the daily lives of the participants, such as microfinance. Thus the impact of NGO training can be improved by linking training to the long-term provision of MF or to other livelihoods related activities. Connecting education/empowerment work to the provision of sustainable microfinance services can enhance the impact of NGO development programmes aiming to improve livelihoods. However, microfinance is a complex field that requires significant expertise and capacity if lasting access to financial services is to be achieved for the target group. The majority of NGOs do not have this expertise.

Therefore, from both an empowerment and a sustainability perspective SMC wishes to encourage linking between specialist MFIs and development oriented NGOs.

LESSON 7: The importance of financial sustainability and of aligning schemes to local market conditions

It is vital that microfinance schemes are aligned to local market conditions. If this is not done, expectations are created amongst the target group that can only be met through external involvement (subsidies), resulting in the creation of dependence. A microfinance scheme that is not aligned to the local market can also undermine existing local microfinance providers, reducing long-term access to financial services for the target group.

The planning of MF activities should therefore always include a mapping of the local market. This mapping should analyse existing provision of MF services (formal and informal) including an analysis of how saving happens within the target group and the wider community. It should also identify national legislation of relevance to the work.

The methodology used must be financially sustainable. This means that the MF work must cover all of its own costs. This is often a question of volume – i.e. staff of MFIs must handle a large number of clients/members each. With a low

number of clients per staff member the costs become too high in relation to income from interest and fees.

In addition the work must be operated with the aim of protecting and if possible growing the capital base slightly through profitable operation. This demands effective organisation, good systems for following the loan portfolio, clear and adequate policy for covering loan defaults and a clear strategy for ensuring that debts are paid on time.

An important precondition for the success of MF operations is that confidence is created around the work. Here the board, leadership and staff play a vital role. Personal integrity and a clear policy for how board members and personnel are dealt with as customers is necessary.

It is important that there is a clearly defined organisation set up to run the MF operations, partly to ensure that staff focus on MF activities (with competence and integrity) and partly so that it is possible to calculate running costs.

The systems and controls required will of course vary greatly according to the model used – a complex MFI with thousands of customers requires a completely different system to a small scale SACCO.

All MF activities must be operated in accordance with national legislation for the financial/NGO sector.

LESSON 8. The financing of loan funds

In principle the establishment and expansion of loan funds should be financed using group members savings or loans. Whilst training and capacity building can be funded with grant monies, the actual loan fund should not be subsidised using grant money. Grant subsidies can distort the operation of a loan fund in such a way as to undermine long-term financial sustainability.

By financing loan funds with loans/savings the requirement for all parties to operate the loan fund in a professional and effective manner is made clear. By entering into a loan agreement the partner also enters into a relationship with a party (such as a bank) that has a clear interest in maintaining a high quality of work, and potentially has knowledge and competence that can add value to the work. A loan fund should aim to be self financing i.e. the interest rates and charges should be set at a level that can cover the cost of capital required and of the operating costs of the organisation.

In addition SMC does not have the level of expertise required to ensure a sufficient standard of quality in the assessment of applications for the financing of loan funds, as this is a specialist area requiring specific training and expertise.

For these reasons SMC does not, in principle, provide capital grants or loans for the establishment, recapitalisation or expansion of loan funds although in limited, well-motivated cases some exceptions to the above may be granted.

Instead, SMC's role in relation to loan funds is to advise members/partners of possible sources of capital financing. SMC needs to build up its knowledge in this area.

Taking out a loan does involve risks to the partner. The partner will probably be required to provide security against the loan. This is positive in that it provides added incentive for the partner to fully investigate whether the planned microfinance activities are viable. SMC member organisations may or may not wish to provide a security fund to guarantee partner's loans. SMC (Sida) funding may not be used for this purpose for legal reasons.

4. Organisations and activities eligible for support

The following types of organisations and activities can be supported by SMC:

(The specific information required for applications for the various sorts of activities is subsequently outlined in section 5.)

A. What kind of microfinance organisations does SMC support?

SMC can provide support for civil society organisations i.e. participatory, democratically run non-governmental organisations.

Such organisations could for example be networks of self-help groups, NGOs working to establish self-help groups/networks, NGOs with MF components in broader development programmes (this way of working is however considered risky) or microfinance organisations set up and owned by NGOs with clear participatory, democratic structures.

SMC does not provide support for the following types of organisation:

- Privately owned microfinance companies profiting individuals or private shareholders
- Commercial banks running microfinance programmes

B. What kind of microfinance activities can SMC provide grant support to?

Capacity building¹

The core of SMC's support for microfinance providers and target groups is in the area of capacity building: technical assistance, training/awareness raising and organisational development.

¹ Care International Village Savings and Loan presentation

TECHNICAL ASSISTANCE FOR MFIs

Technical assistance should aim to increase the sustainability of MF operations run by a new or existing MFI/NGO. Assistance could for example involve training for NGO staff in setting up sustainable self-help groups/networks or for MFI staff in the efficient running of MF operations

TRAINING/AWARENESS RAISING FOR TARGET GROUP

SMC can provide support for the following kinds of training:

- Microfinance training: eg training for self help group members in how to manage savings and credit activities, promotion of savings
- Livelihoods related training: for example business and financial management skills, farming/vocational skills, literacy etc.
- Empowerment training: eg gender training, HIV & Aids training

ORGANISATIONAL DEVELOPMENT

SMC can provide support for organisational development processes, for example:

- for NGOs currently running MF activities that are seeking to clarify organisational structures (for example seeking to separate MF activities from the other functions of the organisation)
- OD for network/umbrella organisations of self-help groups/SACCOs etc.

Linking²

SMC can provide support for NGOs for example:

- to commission/carry out pre-studies to try to identify potential MF partners
- to engage in a process of negotiation to establish a partnership with an MF provider

Financial activities³

In principle, SMC does not provide support for the following:

- Capital grants or loans for the establishment of loan funds
- Capital grants or loans to recapitalise loss making loan funds
- Capital grants or loans for the expansion of loan fund capital
- Grants to cover the operating costs of microfinance work for existing MF operations (n.b. operating costs here refers to the costs of running the

² Christian Aid: Microcredit – planning and appraisal guidelines Kevan Bundell 06/98, www.christian-aid.org

³ Effect of a structural intervention for the prevention of intimate-partner violence and HIV in rural South Africa: a cluster randomised trial, Paul M Pronk, The Lancet, Vol 368, 2 December 2006.

financial aspects of a microfinance programme, not for example education for the target group/technical assistance)

- Security funds to guarantee loans taken out by partners in order to establish loan funds

SMC does not support these activities for the reasons identified under Section 3, lesson 8 above. However in limited, well-motivated cases some exceptions to the above may be granted. Member organisations seeking flexibility in the application of the above principle should contact SMC before applying (subject to Sida's confirmation of the legality of using SEKA funds for loan funds).

Where appropriate SMC may consider provide funding for the following financial activities:

- Providing limited grants to subsidise running costs for a maximum period of three years for a new MFI being set up by an NGO. (Costs may for example include office costs, salaries, transportation, and must be specified in a separate budget).

SMC is willing to consider supporting this in recognition that running costs may not be able to be covered from income in the initial start up phase.

In-kind schemes

For the purposes of this document microfinance refers only to monetary microfinance schemes. In-kind schemes (eg cow loan schemes) may apply for funding under SMCs normal criteria.

5. Criteria for funding

In order for an application to be approved the following minimum criteria must be fulfilled:

The planned microfinance activities must

- Be clearly linked to the overall development objective and immediate objectives of the programme/project
- Be relevant and appropriate to the local context, the target group and the programme/project of the partner organisation
- Use clear, appropriate methodologies
- Reflect local market conditions and national legislation
- Be planned in a financially sustainable manner
- Be planned on a long term basis with a clear strategy for integration of the target group into local financial markets
- Be operated by a partner organisation with the relevant competence and capacity

In addition, the partner organisation and its staff members (and any MF provider to which they are linked) must have clear appropriate roles. In particular there must be separate staff, accounts and management structures for the operation of microfinance 'components'.

Partners are also required to have a thorough understanding of MF approaches including specific methodologies relevant to their context. Furthermore, the applying Swedish organisation must have personnel of its own, or access to personnel resources, with sufficient knowledge and understanding of MF approaches.

The level of information/degree of detail required to evidence the above differs depending upon the support being sought:

- A basic outline of the above is sufficient for applications for training (empowerment training, livelihoods training).
- A fuller description is required for applications for technical assistance and organisational development.
- A very detailed description is required for applications for running costs/capital grants.

The application form (to be developed) will give more guidance about the kind of information required for different kinds of support.